7 key Market Indicators Every Property Investor Should Understand

This Issue:
May 2, 2017

TRILOGY news
"the property investor's mortgage broker"

To be a successful property investor doesn't require a PhD. What you do need to know is how to look at certain key indicators and from there, create a big picture view that recognises not all housing markets are one and the same.

Residential property is a unique commodity and behaves in a unique way here in Australia, because we have a very emotional response to real estate. We love being homeowners almost more than any other collective nation of people.

We love it so much that our relationship with housing is a key factor in the ebbs and flows of our economic tidings, supporting other industries in its wake of consistent reliability, like retail, transport and infrastructure development.

Just think about the resource boom in some of our outback towns, where the existing housing supply was too prohibitive to establish a mining operation.

Suddenly a flurry of development started and new infrastructure was built to support the community that grew overnight, driven largely by a swell of investor demand that spurred new housing construction activity.

Now, almost as quickly, we're seeing some of these resource boomtowns become shadows of their former selves. And landlords, who were enjoying double-digit returns, are at risk of going down with a sinking ship.

Property investment has its fair share of victim statistics; people who harboured visions of grandeur when it came to making millions, buying and selling houses.

Many start dabbling without understanding what keeps our perpetual property clock ticking away.

So following on from last month's reality check around 'big picture' market fundamentals, here are seven statistical indicators that smart property investors keep a close eye on when reviewing, assessing and growing their portfolio.

1. People

I sometimes wonder if you need to be a little bit of a 'voyeur' to be a great property investor. I don't mean you have to get all up in other people's business, but chances are you find people interesting to observe.

Understanding how and why the general population does what it does at any given time should be part of your asset selection process, because 'behavioural bias' tells a story about our changing lifestyle and accommodation preferences.

An example that comes to mind is more of us choosing to marry later in life, in favour of climbing the corporate ladder. The flow on effect has been city-centric employment growth and in turn, above average long-term value growth within select inner city property markets.

2. Vendor activity

Are sellers confident in the potential to move their home or investment property? Or are lots of vendors being forced to reduce their expectations and prices to accommodate a slower moving market?

This type of vendor activity is always a good one to test the current property waters, so to speak. You can usually tell if temperatures are boiling, tepid or cold by vendor behaviour.

Of course not all lulls are indicative of a changing market. Some are just reminders that a footy final or major holiday event is approaching, or that it's getting colder outside.

But if you can spot any reliable signs of vendors adjusting prices down, it could represent an opportunity to secure your next investment at below market value.

3. Stock Levels

Because house prices tend to fluctuate according to supply and demand, the ratio of available accommodation to purchasers in any given area can tell you a lot about the property market.

Logically, the more housing you have that people don't seem to want anymore – think mining 'ghost towns' – the more likely it is that prices will stagnate indefinitely.

On the flipside, in areas where new stock is difficult to come by (think tightly held land across inner city regions) and resident demand is high due to amenity and employment opportunities, you'll usually see steady price growth.

4. Time on market

Lots of houses for sale, vendors taking time to adjust their lofty expectations in line with prevailing market conditions and diminished buyer demand, all equate to properties languishing on the market for months at a time.

The longer motivated vendors have to wait for a potential buyer to bite – those who have a compelling reason to offload their house – the more likely they'll be to accept a lower offer as the weeks roll by.

5. Vacancy rates

High vacancy rates can be indicative of a number of things, so when you see them, it's worth digging a little deeper.

Generally you'll find a glut of new stock or a slowdown in tenant demand, or perhaps both happening simultaneously.

Vacancy rates often shoot up in places like Melbourne when hundreds of new OTP apartments come on line all at once. As always though, seasonal influences can impact this type of data.

6. Rental Yields

If median house prices are steady, but yields start to decline, it's safe to assume that tenants are not paying as much for rental properties. Are there too many investors buying into the area, creating an accommodation oversupply?

What if the rental yield suddenly increases? Could this mean more owner-occupiers are snapping up stock, leaving little for potential landlords?

Noting what rental yields have done over time in any given area can provide a valuable insight into what kind of market make-up you're buying into.

7. Median prices

While they might be confusing at times, and not always consistent across different agencies, median prices can provide valuable insight into market changes.

But they're not to be taken at face value. A suburb's median price might suddenly shoot up overnight. So should you assume that every property in that postcode has suddenly enjoyed a 26 per cent price rise in the last 12 months?

Generally these extremes are more likely to signal perhaps two or three high-end homes being sold within the same month. While rapid price dips could be caused by a surge of lower priced stock flooding the market and dragging the local median down with it for that particular period.

For this reason, it's best to rely on more long-term median statistics when researching an investment location. The short term ones can be very misleading indeed!

Are You Allowing Abundance As A Property Investor?

This Issue:
May 2, 2017

Trilogy news

"the property investor's mortgage broker"

Money. I'll say it again. Money. When you hear the word "money" or indeed, read it on a page or screen in front of you, what type of feeling does it evoke?

Do you get a tingle of pleasure, with a surety in your financial freedom, or do you shrink away from the notion with a sense of impending doom?

The reason I ask is because your relationship with money is very telling when it comes to how much you'll stand to accumulate in your lifetime. Why? Because, how you think about money will determine whether you'll be open to attracting it in abundance, or whether you'll avoid it out of a misplaced sense of fear and a scarcity mindset.

Woo Woo

A lot of people consider things like mindset theory to be some type of 'hippie woo woo'. Often these people don't themselves, have a lot of money mind you.

But if you look at successful people, one of the main character traits that differentiates them from those who live on Struggle Street is their 'tude. That's short for attitude of course.

It all goes back to the old adage of 'money begets money'. While that statement seems far too simple to be true, it's actually a fairly accurate sentiment.

Not all the time I might add. Some of those who 'luck' into money (the 0.001% of the world's population I'm guessing) will never know how to hang onto a windfall, let alone attract more.

But by and large, when you have money and are not afraid of losing it, because you know you can always make more, because you're worthy of it – as you've already affirmed by making so much of it – and because you're not living in a scarcity mindset, you're far more likely to continue on a path of prosperity.

In giving is the act of receiving

A lot of people consider things like mindset The other intriguing thing about abundance versus scarcity mindset is the person's capacity and willingness to give freely of themselves for the betterment of others, and the world around them.

How many people living on the poverty line and fearful of their financial situation do you see making donations of time, energy or money to enhance their community? The answer is of course, few and far between.

And that's not a reflection on their character; rather it's an issue of pragmatism. When you yourself have little resource at hand, it's difficult to divide up nothing among others.

On the flipside, when you feel you have more than enough for your needs and wants in life, you should be happy to share that good fortune with your friends, family and broader community.

Think of it as an investment. For one, you're sending a clear message to the Universe (woo woo I know!), that you believe you're worthy of greater abundance. That you understand you're only limited by your beliefs about where your limitations lie and that you can always replenish your stores.

Furthermore, you're creating a more abundant mindset in others, which is a sure-fire way that we can make our world a better place for future generations.

So let me ask you…what's not to love about an abundance mindset? Do you hold an abundance mindset in truth, or could your perceptions of money and your worthiness use a bit of gentle work?

Are you ready to open yourself up fully to the limitless possibilities of allowing and accepting abundance into your life? Yes? Then let's explore 7 ways you can kick-start the process today!

1. Take a chance

People who live in scarcity and fear are often unwilling to put themselves out there or put something on the line to potentially improve their lot in life. They'll trot out hundreds of reasons why they can't do something, procrastinating on a decision or action that requires their attention as fear keeps them hostage in their head.

Don't get stuck here! Push through the pain barrier and recognise that truly incredible moments await right beyond that wall of fear!

2. Face your fears

On a similar note, you need to challenge yourself and face your fears in order to overcome them. When you feel a level of discomfort around a large financial decision, and you allow that feeling to influence your decision making process, you're coming from a scarcity mindset.

You're also allowing that fear to fester in the background, until it eventually becomes a part of your limiting beliefs that keep you feeling unworthy of abundance.

When you face the fear however, and see the rewards that lie beyond, you'll start to address more of your concerns head on and see your life shift in interesting ways.

3. Invest in yourself!

This is a massive game changer! People often talk about mentors, accepting that they need to follow in the successful footsteps of a predecessor who's achieved the kind of greatness they themselves aspire to.
But if you suggest they need to pay that mentor for their very valuable advice on how to emulate their journey and achieve personal financial freedom in the same vein, they'll shirk away mumbling complaints about people trying to rip them off!

The fact is, your idols didn't get rich by giving away their value offering…and neither should you! When you're prepared to invest in yourself, it demonstrates your own degree of self worth and how much importance you place on your personal success.

4. Take imperfect action!

When you're not as afraid of what's around the corner because you believe in your capacity to continue moving toward greater abundance, you're more likely to take decisive action.

Action is what distinguishes the do-ers from the dreamers. Don't get me wrong, you need the dream to fuel the action, but the dream without action is just something that might have been…

When you're no longer fearful, you're more likely to leap into action! And action is the enemy of fear!

5. Show gratitude

You can never come from an abundance mindset in truth when you feel like you haven't got enough right at this very moment. Most of us walk around thinking about all the things we can't or don't have, instead of counting our blessings for what we do.

The fact is, those of us who can provide a relative level of comfort to our families in the form of shelter, clothing and food generally live like royalty. We have so much already, yet we're taught to always want more.

When you begin to acknowledge how much you already have, and how abundantly full your life is right at this moment, that gratitude changes your attitude! And is a sure way to shift from thinking about what you don't have, to what you do have.

6. Be you!

Often we see others achieving what we aspire to and become bitter about it. Why them? What do they have that I don't? Why are they breaking through to success and I'm still stuck in this job/relationship/situation I hate?

Then the comparisons begin in earnest and you suddenly lose your own direction entirely.

Being consciously aware of the world you create for yourself and assuming full responsibility to shine as bright as you can in your own life, rather than wondering what others are doing to eclipse your star, makes all the difference to success.

7. Say it aloud!

Affirmations are amazing! If you're not telling yourself what you want and keeping those hopes and dreams alive, whilst taking decisive action, then how do you know where you're heading?

Start with the basics, something like, "I am worthy of extreme wealth and abundance in my life. I am deserving of happiness and love."

And then get really specific about visualising the life you want for yourself and your loved ones and how you aim to get there!

Finally, if you feel a bit uncomfortable about getting all 'woo woo' with me on this one, perhaps you need to ask yourself why…are you fully open to your personal abundance and success? Or is that little niggling 'fear gremlin' holding you back?

Everyone's An Armchair Expert, But What's Really The Answer To Housing Market Stability?

This Issue:
May 2, 2017

Trilogy news
"the property investor's mortgage broker"

As we approach another federal budget eve, the gloves have well and truly come off in Canberra, with both sides of the political fence throwing down the gauntlet on housing affordability issues.

It's definitely one of the most contentious and talked about topics at present. The state of our property markets. More specifically, the masses of young, first time buyers trying to find any sign of a crack they can squeeze through to penetrate what's fast becoming an impassable door to inner city and suburban housing.

Recently, Treasurer Scott Morrison and his esteemed leader had a bit of a falling out, when the PM disagreed with vague proposals to address housing affordability by raiding the future funds of young Aussies. Idea being they draw on their (infantile) Superannuation funds to furnish a housing deposit.

The many flaws in that idea soon became obvious, including the lack of sufficient retirement savings most young people have to make up a housing deposit until they hit their thirties.

Other ideas have been tabled…see related commentary from this week…with about as much forethought seemingly. Before being shuffled around the table awkwardly while everyone digests the realities of what a prolonged price slowdown for the property sector could mean to our overall economic tidings right now.

Or just as dangerous…further fanning the fires of a few, already well-fuelled sectors of the market by giving people more financial assistance to enter the fray.

At one point last week, after coming out, guns blazing with proposed pitches to wow the electorate on budget night, Morrison seemed to threw his hands up, tossing the hot potato right back to the hands of regulators.

"I have been concerned over the last couple of months that the measures that were put in place a few years ago have worn off and it is now for the council of financial regulators to determine what the next step is," declared Morrison.

Errr…wasn't that one of the things you were working on in this federal budget? Perhaps some overhaul of government policy or the creation of new, meaningful, long-sighted solutions to the housing issues for young Australians?

Nope, too hard apparently!

Enter the opposition

Of course if you listen to Labor representatives, the opposition has discovered the Holy Grail of housing affordability. Why didn't someone think of it sooner? It's staring us all right. In. The. Face!

What is it? Tax concessions! Of course! Just peel back the legislation you created to invite a raft of investors into the housing market to keep activity chugging along a few decades ago, and suddenly put the brakes on at lightning speed.

While the Libs tinkered with the idea of changes to capital gains tax concessions, they've since all but ruled that idea out, alongside any notion of removing negative gearing entitlements for investors, or the option to borrow for housing assets within a self managed super fund.

Of course that's made Labor dig its heels in harder on this highly contentious issue.

Shadow treasurer Chris Bowen says they'll be taking affirmative action if given the chance, arguing that our country's generous tax concessions are encouraging a hyperactive investor portion of the market to drive up property values.

"Any so-called housing policy which doesn't deal with that is a sham," says Bowen.

The same applies to borrowing within SMSF structures to acquire housing investments…a topic that's been notably lacking in the media of late, but nevertheless is relevant to purchaser activity.

According to the Murray review, which recommended the abolition of SMSF borrowing, this practice has grown by 860% since 2012.

Bowen argues that these entitlements, exclusive to investors, make property more inaccessible for first homebuyers. As well as that, they pose an increased risk to the Australian financial system by allowing households to borrow more than they can afford to maintain, in the event of some economic shock.

"Over the last few years, housing affordability, rapid house price growth and record leverage has increasingly become an issue not only of fairness and equity, but also one of financial stability," says Bowen.

"If Australia faced the unfortunate scenario of an economic shock down the track a responsible government would be able to tell the Australian people they did everything in their power to prevent a situation being worse than it could otherwise have been. The current government would simply be unable to do this."

Like I said…everyone's an expert.

But what about...

The Reserve Bank seems to like the idea of clawing back negative gearing entitlements, as supporting government policy that could assist with better regulating the finance sector, suggesting "particular features of the tax system" could use an overhaul.

But would such measures really create a more balanced playing field, or just tip the scale too far in a direction that sees investors attempting to sell up assets they can no longer sustain, in a less financially viable portfolio?

What then becomes of property prices in high investment markets, such as the inner city apartment sector? And what of rental prices, when everyone suddenly needs more money as a landlord to retain the same investment property?

With only a raft of uncertainty as to what might be the fallout from changing policy around our housing markets, which are really the backbone of Australia's economic wellbeing at this point in time, we again seem to be at the mercy of industry regulators.

When we're having the same 'Groundhog Day' discussions that were floating around two years ago however, how seriously is all of this being taken?

Is the ltest intervention working?

As regular readers of the Trilogy Report know, recent regulatory moves saw APRA set its sights once more on investor based borrowing trends and in particular, criteria around Interest Only (IO) loan products.

Both were cause for concern, with worries around higher risk borrowing in a climate of lingering uncertainty, and banks engaging in a heck of a lot of business that could be deemed 'dicey'.

Recent data indicates that most IO and investor loans from the Big Four banks are cheaper now than they were a year ago however, despite a series of rate hikes from lenders and this latest regulatory crackdown.

Canstar figures show Commonwealth Bank's standard variable interest rate for customers taking out an IO loan as an owner-occupier now is 5.22% for instance, 0.38% lower than in April last year.

Meanwhile, National Australia Bank's one year fixed, IO rate for owner-occupiers is 3.99% at present, a whole 0.60% lower than in April 2016.

Economist Saul Eslake said the data illustrates the weakness of macroprudential measures intended to cool the market, compared with changes to government policy (such as a review of negative gearing entitlements) or adjustments to the official cash rate.

"The impact of recent supervisory measures has been overwhelmed by the impact of the two rate cuts in May and August last year," he said.

"But doing the third best thing is better than doing nothing at all."

Ouch! That unspoken accusation, of inaction on the part of government, has to smart as Morrison and his crew walk into yet another federal budget armed with very few answers for future Aussie homebuyers.

The Housing Market Upset No One Wants To Talk About

This Issue:
May 2, 2017

TRILOGY news

"the property investor's mortgage broker"

As Sydney's housing market shows signs of slowing to a gentle simmer, rather than the boiling cauldron of turmoil it's been for some time, a collective sigh of relief has rippled through the markets.

Some experts suggest recent, heavy-handed regulatory intervention from the Australian Prudential and Regulatory Authority (APRA) has worked its magic. Thank goodness the boom has been contained!

Others however, are not so certain we should be celebrating what might be a shallow victory, before the impending storm on the housing market horizon.

Sales fall...but does the sky?

Usually, when a market is overheated and being blamed for a major affordability crisis, a slow down in sales activity and easing in price inflation comes as welcome news.

So when media outlets proclaimed an impending fall in Sydney house prices for the first time in 18 months this weekend, owner-occupiers should surely be pleased to read these good tidings! Not to mention the Turnbull government!

CoreLogic data indicates that for the first 27 days of April, house prices in the Harbour City have dipped by 0.1 per cent for the first time since December 2015. While in Melbourne, property prices have risen by 0.5 per cent, which is half as much as the previous month.

The elephant in the room however, is the preferred property sector for speculators...the new apartment market.

As usual, when things slow down, this is the niche housing market that feels the pain. While the reported 2 per cent dip in average asking prices for Sydney's new apartment stock this month might seem relatively harmless, developers are getting a little nervous.

And when you hear the type of unprecedented happenings arising from the coalface right now, it's hardly surprising.

Giant developer Meriton recently confirmed that one in four local and overseas Chinese buyers who pay a deposit on an apartment, ultimately exercise their right to 'return' the product and have their deposit refunded in full a couple of days later.

Making matters worse, three major Sydney sites earmarked for high-rise construction that were purchased by Chinese developers, are now back on the market.

Of course the bigger picture problem with this latest occurrence around foreign investment is that it suggests the Chinese are not quite so sure they want to keep pouring their money into Aussie property.

Given the overseas investor cohort has constituted the most active buyer demographic in both the Sydney and Melbourne apartment markets, you can see why developers are starting to doubt their continued good fortune.

The conundrum here is very apparent. For the last couple of years, the government has been accused of allowing a flood of foreign money into our property markets and contributing to the affordability crisis for young first homebuyers.

Now, in a bid to address the investor/owner-occupier imbalance and let's face it, what's kind of become a bit of a mess for our property markets, the government is clamping down on foreign buyers.

At the same time, local banks have pulled funding from Chinese OTP purchasers and it's becoming increasingly difficult for Chinese nationals to move money out of their own country.

Meanwhile, banks are being coerced yet again into curbing investor based borrowing and interest rates are on the rise if you're purchasing property as an asset.

The federal treasurer and his cohort are talking ways to make housing more affordable (even though they don't quite seem to know how to go about it) and the opposition is promising to limit negative gearing entitlements for the purchase of new dwellings only if they assume power.

It's almost as though these politicians cannot see the wood for the trees!

Their attempts to hack away at a very large affordability problem, created by them in the first instance to reinforce our economy through housing, is driving away buyers who can see a very bumpy road ahead if some of these plans come to fruition.

Making housing more affordable by taking action to cause a major property market correction of 10 to 20 per cent would be catastrophic for Australia's banking sector.

And our government would be foolish not to learn from the lessons of others, such as Vancouver, where taxes applied to foreign real estate purchases dramatically reduced prices last year in the wake of plummeting sales volumes.

How much difference does $100 make?

Another consideration for government bureaucrats and finance sector regulators right now is of course, interest rates!

Many suggest an interest rate rise is the only means by which we'll see any balance return to some of our overly frothy housing markets.

But according to recent research from finder.com.au, a staggering 57 per cent of all mortgage holders would flounder with their monthly housing repayments in light of a monthly increase of just $100.

While $100 extra each month might seem like a stretch from where we currently sit in the interest rate landscape, this really only represents a rate rise of just 0.45 per cent, based on the average national mortgage of $360,600.

In other words, the average standard variable rate would only have to increase from 4.83 per cent to 5.28 per cent, which is still well under the industry accepted, repayment capacity interest rate buffer for a home loan of around 7 percent.

Money expert at finder.com.au, Bessie Hassan says, "The typical mortgage holder will begin to struggle once interest rates reach around 5.28% – that's a pretty small window before borrowing costs start to hurt.

"The reality is borrowers have over-extended themselves if it only takes a $100 leap in repayments for more than half of homeowners to reach their tipping point."

The calm before the storm?

It's not yet clear how all of these ongoing and unanswered elements will influence the future of Australia's housing markets.

As I've repeatedly said for some time now, the only certainty in any of this is a continuing air of uncertainty.

And what of the government's pitch to address the ensuing chaos around housing affordability and market activity in the impending federal budget?

Well, they've certainly scaled back initial proposals somewhat. Plans to raid homebuyers' super funds have been all but scrapped, even though there's still no viable solution to young people accessing financial assistance to pay for a deposit. And talk of adjustments to the capital gains tax concession and negative gearing has seemingly gone by the wayside.

Labor's finance spokesman said on Sky News last week, "any policy on housing affordability which doesn't make important and considered changes to capital gains and negative gearing has a hole in the middle of it."

Seems they're suggesting the Libs are baking up doughnut policies…Here's hoping the housing gods continue to smile on us.