5 Tips To Consolidate Your Property Investment Portfolio And Cashflow Position

This Issue:
June 6, 2017

TRILOGY news
"the property investor's mortgage broker"

Whenever the banks starts to make changes to credit score and loan calculator algorithms it's time to really consider the solidity of your financial position, from a lender's perspective.

Of course, lender's perspectives are all slightly skewed by fear right now, as they endure multiple attacks on internal policymaking, not to mention profit margins, from government and regulators.

As a result, they're hurriedly seeking defensive positions and starting to pull back on so-called 'high risk' loan types, including Interest Only mortgage products, and investor loans with higher Loan to Value Ratios.

From within, we're seeing a lot of transitions in what banks will accept as evidence of your cashflow position and what they won't. There's even talk that some lenders are going to reduce the portion of rental income they'll consider in your loan application to 60%.

So with multiple changes suddenly making credit much harder to come by, now is the time that investors must start to really be strategic, and recognise that cashflow is just as critical as capital growth if you hope to grow a sustainable portfolio.

Here are five ways you can boost your cashflow quickly…

1. Get rid of anything dragging you down.

This includes superfluous properties and superfluous finance structures, packages or product add on's that you really don't need.

2. Make sure you're claiming every possible tax deduction.

The raft of legitimate tax deductions you can claim as a property investor is going to become slightly smaller as federal budget measures are rolled out to curb certain depreciation and travel expense claims.

3. Raise the rent whenever you reasonably can.

This really isn't the time to feel a sense of generosity toward your tenants. Wherever reasonably warranted, consider ways you can ask for more rent from your tenants. Remember, this is particularly important given talk of banks reducing the percentage of rental income considered in your credit application.

4. Upgrade with a granny flat or some other fast track to increased cashflow.

A great way to boost cashflow through increased rent is to expand your potential to ask for more rent. Consider renovating or updating a tired investment property to give it broader market appeal.

Even better, where space and planning parameters permit, why not have a simple granny flat constructed in the backyard of an existing property? Many investors have had immense success with this approach, consolidating a massive cashflow win within just weeks of the build starting.

5. Consider your credit score & make changes.

What might be negatively impacting on your credit score and dragging it down in any way, that you have the potential to change? This might include things like credit card limits and other personal loans that you could consider getting rid of.

When all is said and done, it's a very good time to seek the guidance of someone who has lived through this type of experience before. A good mortgage broker is your best ally in this increasingly confusing and chaotic banking battleground. It will literally pay to have them on your side!

A Broker's Take On The Banking Sector Shake-Up, As We Ask… What Would De Do?

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Strange days indeed…yes, they are most peculiar, with the only real certainty in life, aside from death and taxes obviously, being constant change. This is particularly true for the world of high finance…our banking sector.

Last week, Trilogy Funding's award winning broker Deanna Ezzy posted an article to Facebook with the comment, "For all my investor friends and clients…Interest Only loans may soon be a thing of the past…best to start working out repayments/cost to hold etc, based on P&I repayments just in case."

Now, when a broker who spends the majority of her downtime researching loan structures and financing principles makes such a recommendation, it's worth heeding her advice.

So we wanted to delve a little deeper into the mind of said broker, imparting De's valuable knowledge of all things housing credit to give you a little more clarity, amidst the current chaotic clamour of media click bait around our banks.

So De, what's been happening in the world of banking?

"I was talking to a BDM (Business Development Manager) yesterday who actually predicted all of this was going to happen about 18 months ago," says De.

"He told me the regulators have swooped on all the majors, and Macquarie Bank, recommending that they drop the LVR on Interest Only loans to 70%. That hasn't been rolled out yet. But I'd be surprised if it doesn't happen."

While the banks will likely keep IO loans around in favour of scrapping them entirely, as happened a few years back now with no doc loans, De says you'd need to be in a super strong position, with a 60 to 70% LVR, to be approved for one.

She adds that serviceability buffers on lenders' home loan calculators will also be increased if you happen to be applying for an IO loan.

"I think they'll only offer it to the rich basically," says De.

Awww…Freak Out!

If a bank was to have a meltdown, this is what it would look like. Banks are freaking out right now. De reports that she's had three declines in the past month! Which is insane, given her track record of maybe two declines in an entire year!

"Another broker told me the same thing. He's had three declines in the last month. And someone else I was talking to said he had a decline out of the blue last week.

"I managed to get one of those declines overturned. But it's just the system now."

In other words, more often than not these days, "Computer says No!"

"You hit submit and ten seconds later you get a decline," says De. "Pretty sure no one's even glanced at it."

With regulators and internal policymakers who are being leaned on themselves (by those higher up the food chain) breathing down their necks, assessors are seemingly scared to approve anything right now, unless they're 200% sure it would pass regulatory scrutiny.

"It's bizarre," observes De. "And timeframes are blowing out with various lenders too, which I think is due to assessors taking their time a lot more than what they used to and picking apart deals to make sure they're 100% squeaky clean."

Winter is coming…

If you were hoping for a glass half full breakdown from Deanna, you'd better prepare for the bitter taste of disappointment.

"I don't see it getting any easier any time soon," she says.

And it doesn't help that many of the banks' own BDMs feel like they're as much in the dark as the rest of us when it comes to the ever shifting, credit processing goalposts.

As information trickles down to the coalface at an increasingly slow pace from up on high, De says, "It's making their job really hard. They tell brokers one thing and then a loan gets knocked back, surprising everyone. So it's also the reputation of the BDM on the line and it's directly impacting their performance."

At an internal level, it's obvious that the banks are really looking for anything they can pick on and scrutinise in loan applications at this point in time.

Loans that Deanna and the team once had approved through exception to policy channels are now being knocked back as well.

"We took one application that was knocked back right up to the head of credit who told me, 'While we would normally approve these on an exception to policy, we're not doing exceptions to policy anymore, particularly with investment loans.'"

In other words, if an application doesn't fit within the policy parameters 100%, it's no deal.

"There used to be some sort of common sense and wiggle room in the process," says De. "So if someone was earning a million dollars and the loan amount was below 60% LVR, they'd accept that as a really strong deal. Whereas now if it doesn't tick one box, they're rejecting it."

It's really a wait and see what happens scenario in the wash up of all this, once we move beyond the current chaotic spin the banking sector seems to be in. And by the time you read this, since I wrote it on the weekend, everything could have shifted once more. It's that cray-cray right now!

So what would De do?

Take off your rose coloured glasses folks, as Deanna delivers up a harsh dose of reality; “Prepare for the worst, because it's not going to get any easier.”

For homeowners with a mortgage that's currently set to interest only payments – because you'd be on Struggle Street with principal and interest repayments – De says, “Really consider your position and the next best move.

“Maybe something happened personally for you and disrupted your income. Your circumstances changed. Whatever it is, if you're at that point, it might make more sense to cut your losses and sell your home, downsizing into something more affordable until you're back on your feet.

“Normally we could roll that IO loan over for a few more years, and when your family is functioning at full financial capacity again we could switch it back over to principal and interest and you'd have that bit of flexibility.

“Whereas now, I don't know if we can switch a loan over to interest only at all. So if you can't afford it right now, then it could be worth selling the home and downsizing. That's an extreme thing to suggest, but it's probably what I would do in that situation, if things were already tight.”

De says she sees this scenario with clients when the wife becomes pregnant and has to stop working, foregoing some or all of her income for a lengthy period of time.

“Maybe they've gone overseas, wracked up a bit of credit card debt, and because the wife's not going to be working, they want to switch their loan over to interest only for a year or two, giving them some breathing room on repayments.

“But I feel like that's not going to be an option for much longer. Especially on owner-occupier loans, I think interest only will be a thing of the past.”

De says as far as investors go, if you've got a few years left on an IO loan, the best option right now is to fix the rate, which is almost 1% higher than the average owner occupier, P & I rate.

“I think you need to fix it in and then seriously consider what's going to happen in two to three years, if you can't roll it over to IO again,” says De.

“Can you afford these repayments as P & I? I'd probably be working to a 6.5 per cent principal and interest repayment over a 25 years term. If you cannot afford that in the next two to three years, you need to start figuring out what your options are.”

Possible options, according to De would be:

1. Bank heaps of cash and have a good solid buffer to help ride it out.

2. Get the wheels in motion in your own mind and start to really analyse the possibility that you may need to offload one or two properties at some point.

3. Look at how you can create more cashflow, for instance by putting a granny flat in the backyard of an existing investment, to make yourself more appealing to lenders.

How brokers are adjusting

“We're focusing a lot more on making sure the application is going to credit score as best we can,” says De. “Because we think they've turned up their credit scoring risk parameters.

“So we're suggesting to clients if they have say $50,000 worth of savings, break it all down across different bank accounts, because that actually helps with your credit score. It's all those small things, the tiny details, to make sure we can prop the application up as best as possible.

“Even if that means reducing credit card limits, whether they might usually need to or not for serviceability, just to make the application look even better and avoid that credit score decline.”

The take home message really, is now more than ever, it's wise to have an experienced mortgage broker on side when negotiating with the banks.

“Things are changing every week!” says De. “We have to double check policies and interest rates all the time. If someone walked into a bank and enquired about lodging an application, then proceeded to do so a month later based on what they were told at that time, everything would likely have changed.”

Yes…strange days indeed.

Riding The Bumpy Banking Sector Roller Coaster...Again!

This Issue:
June 6, 2017

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So now you're back...from outta space...we humans are an interesting bunch. We feel like a surprise attack has been launched at us when some gargantuan change happens in our lives, but if we're honest with ourselves, we would generally see it coming long before it arrives. Because chances are, we've "Been there, done that and got the T-shirt" a few times before.

Let me explain. We incessantly repeat various patterns throughout history. Often, these patterns are destructive and negative because that's how our subconscious mind has been programmed in this lifetime.

Everything feels like it's speeding up and becoming more chaotic! Stop the ride, I want to get off! We're bombarded by a world full of misfortune, hatred and violence and so much political unrest it's not even funny. Well, aside from some of those hair memes on social media.

If only we would learn from our mistakes, rather than keep repeating them. But alas, it seems quite a tricky thing for most people to do...as well as most so-called leaders and corporate enterprises for that matter.

Take the banking industry for instance. Do you recall a little incident a few years back? Actually almost a decade ago now...

It happened in 2008 and it was called the Global Financial Crisis. It crippled the entire American economy to the point of collapse. Think an aging man with increasingly brittle bones trying to carry a load the size of an elephant. He starts to feel some discomfort, then downright pain, before his knees buckle underneath him and down he goes! Boom! With that almighty elephant on top of him!

The old man being a tired American economy and the elephant being the massive debt burden the government was carrying at the time.

Fast forward almost ten years later and now GFC is a SEO term, peppered throughout property and finance articles...yes, much like this one! The irony isn't lost on me!

The point I make is that the cataclysmic new world-order the GFC rang in – with destruction comes creation – has changed the entire global economic stage. Vastly! But now it's all become a bit "whatevs"!

This was the moment that China took that final foot into the door of global domination as a fiscal juggernaut; with far more might than the crippled 'old man' of America had demonstrated for quite some time.

It was the moment when a subprime mortgage market that the country had 'banked' on to keep its economy afloat, despite the growing number of holes in its hull, took down the entire ship as it all went very pear shaped.

All just a little bit of history repeating...

Post GFC of course, the fallout was far reaching and saw substantial change around property financing practices.

In Australia, low doc and no doc loans became the targets of regulators who decided to put their foot down on 'higher risk' lending practices, lest our real estate sector nose-dive off the back of a banking collapse, as had happened elsewhere in the world (including the UK and US).

Higher LVR's, including 100 per cent, or even 110 per cent loans, where applicants were asking for borrowing costs to boot, were quickly ushered off the playing field, as the goalposts were moved on internal credit scoring policies.

Everything shifted. And with that shift, came a prolonged uplifting of the property markets within a long-term, low interest rate environment. We all adapted to the changes. Well, some investors who knew to anticipate the ups and downs of the roller coaster ride did anyway. But there were an awful lot of casualties too.

People lost their life savings and retirement funds in the fallout. It was by no means a matter to just forget about, without taking a good hard look at what got the world to that point in the first place.

Did we do that though, as a collective? Did we all get together and discuss where we went wrong and where we could do better?

Of course not...because humanity is largely dominated by power hungry people, who want to wield that power for the sake of ego, rather than the betterment of our civilisation. They're not interested in cooperative leadership. Not really.

So now...where do we find ourselves?

The banks are a little on edge

Let me tell you that right now, when you talk to anyone in a bank, even those in higher positions that come with a nice hefty salary, you can almost hear them sweating on the other end of the phone.

The fear in our financial services sector is palpable right now, as lenders stare down the barrel of a less certain future after the federal budget announcement of that media click bait – the new banking levy. Right at the same the Australian Prudential and Regulatory Authority were forming a posse of 'policy and procedure' regulators to ride on in, gunnin' for serious change.

This combined attack is seemingly forcing banks to reconsider their battle strategy in the war for profits (for them) and revenue (for the government). Interestingly, lenders have had the upper hand for some time now in the battle. Playing around with internal policy and interest rates as they please, with the appearance of toeing a largely ineffective regulatory line.

And why wouldn't you have the hand when you're making massive profits, while the government is continually wallowing in debt? Business has been booming in property finance and that business has largely been sustaining Australia's post GFC economy, even as others have sunk around us.

Now though, the government has picked up a sizeable battering ram, and is barging its way into the inner sanctum of the big banks, demanding tighter lending practices and more accountability. And of course, a share in those lucrative profits won't hurt government coffers either!

Now it might be happy coincidence. Or perhaps not so happy for Trump and Co…that reports have recently emerged indicating that US household debt has climbed to a higher level than at the peak of the GFC credit bubble, to $US12.7 trillion.

Some analysts are playing it down, suggesting this level of debt demonstrates that the millions of Americans who struggled post GFC have repaired their credit, and are back in the qualifying stakes for loans once more! Go forth and borrow!

However, one of the big drivers of this debt has been student loans, car loans and consumer credit. Things that make you go hmmm…

"This is not a marker we should be super excited to get back to," said Heather Boushey, executive director and chief economist at the Washington Centre for Equitable Growth, a liberal think tank.

"In the abstract, more debt signals optimism. But in reality, families are using debt as a mechanism to pay for things their incomes don't support."

Do you see the pattern here?

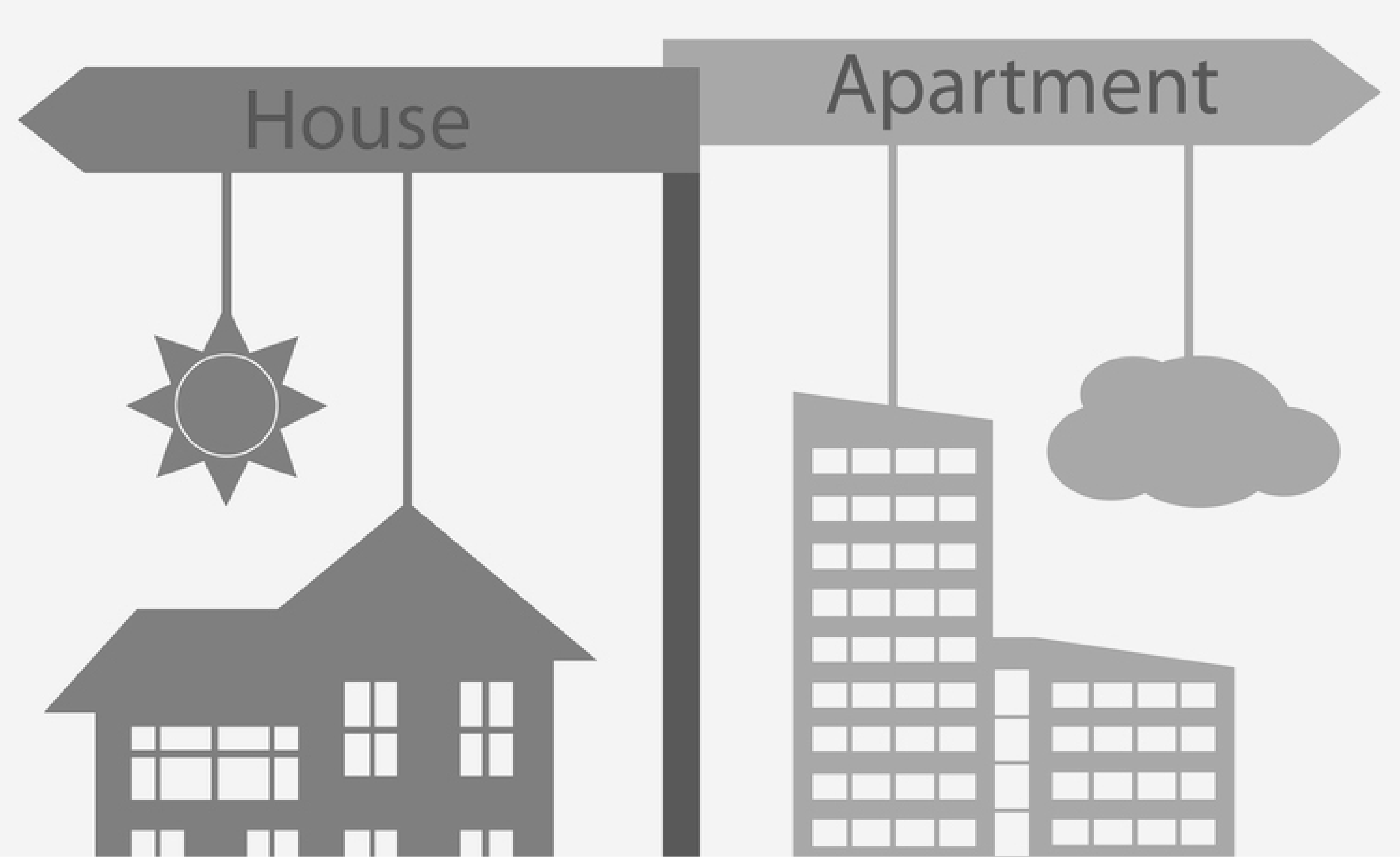
Ultimately these 'ups and downs', where industry regulations are shaken up to reveal major 'risk' concerns and banks start to get all kinds of shady with their internal policies, are to be anticipated in today's world.

We are very much living in a global period of adjustment – economically, socially and politically – and hence, we have to expect the various ebbs and flows that change brings.

But we must also not lose sight of the big picture and the fact that we humans are a relatively malleable bunch. We may have memories that are too short for our own good. But we also have ways of surviving and rebounding from setbacks that mean we adapt. And some of us even evolve.

So as we delve into our new 'What Would De Do?' advice column – for all those lonely hearts who long for greater cashflow and flexibility with their investment finance – it pays to remember (as the goalposts are hurriedly shuffled here, there and everywhere once again), "this too shall pass".

Rest assured that this hair raising ride into the dark, unknown tunnel will end, and we will once again emerge into the light of a new day, enjoying a smoother ride in the business of banking as happened when we all put that nasty GFC behind us. What GFC? Exactly!



Should I Invest In A House Or Apartment?

This Issue:
June 6, 2017

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When people start out as property investors, there are generally a few common questions they have regarding direction. One of them is, to buy a house or an apartment?

Ask the vast majority of beginning investors who are on the precipice of their first acquisition, and they'll most likely believe that a detached dwelling offers more scope for profitability.

Often, they're under the false impression that bigger is better, particularly if they've heard somewhere that it's the land component of a property that increases in value, while the actual building depreciates over time.

While this statement is true, it must be understood in context. The context being…not all land is created equal.

Hence, acreage out in a remote, rural location with a large detached home won't necessarily be worth as much as a two bedroom flat in a popular inner urban neighbourhood nestled among twenty other dwellings.

Why? Well, because more people want the land that there is less of. More of us aspire to live close to city hubs where employment is bountiful, yet developable land is scarce.

Conversely, less of us want to live remotely, in towns with less industry, less employment opportunities and far more available land.

Start at the beginning
Before you ask house or apartment, you really need to work out the location in which you'll be buying.

Going by historical data, there are clear patterns of greater than average growth rates achieved far more consistently across inner city suburbs over the longer term.

Hence, these and neighbouring postcodes are often the most abundant with opportunity for an investment portfolio that relies on both significant growth and good, sustainable cashflow.

And the reason these areas are so reliable? Because of consistent demand from both tenants and owner-occupiers.

As such, when it comes to location, whether a house or apartment will make the better investment option largely depends on the market you're buying into and the dominant demographic of buyer and tenant you need to cater for.

This is demonstrated by data collated by CoreLogic from the five years between February 2010 and February 2015, which shows clear distinctions between the gains made in Australia's capital city housing markets, compared with our capital city unit markets.

Median price comparisons

Sydney	Feb-10	Feb-15	% change over 5 years
Houses	$587,500	$850,000	Houses 44.7%
Units	$455,000	$630,000	Units 38.5%
All housing	$511,000	$732,500	All housing 43.4%
Melbourne	**Feb-10**	**Feb-15**	**% change over 5 years**
Houses	$482,500	$605,000	Houses 25.4%
Units	$435,000	$470,000	Units 8.0%
All housing	$460,000	$555,000	All housing 20.7%
Brisbane	**10-Feb**	**15-Feb**	**% change over 5 years**
Houses	$472,000	$480,000	Houses 1.7%
Units	$382,900	$388,000	Units 1.3%
All housing	$445,000	$452,000	All housing 1.6%
Adelaide	**Feb-10**	**Feb-15**	**% change over 5 years**
Houses	$399,500	$420,000	Houses 5.1%
Units	$330,500	$342,500	Units 3.6%
All housing	$380,000	$400,000	All housing 5.3%
Perth	**10-Feb**	**15-Feb**	**% change over 5 years**
Houses	$495,000	$540,000	Houses 9.1%
Units	$425,000	$433,000	Units 1.9%
All housing	$480,000	$520,000	All housing 8.3%
Hobart	**10-Feb**	**Feb-15**	**% change over 5 years**
Houses	$359,000	$350,000	Houses -2.5%
Units	$285,000	$269,000	Units -5.6%
All housing	$336,000	$320,000	All housing -4.8%
Darwin	**Feb-10**	**Feb-15**	**% change over 5 years**
Houses	$535,000	$600,000	Houses 12.1%
Units	$420,000	$470,000	Units 11.9%
All housing	$480,000	$540,000	All housing 12.5%
Canberra	**Feb- 2010**	**Feb-15**	**% change over 5 years**
Houses	$550,000	$590,000	Houses 7.3%
Units	$410,000	$400,000	Units -2.4%
All housing	$458,900	$530,000	All housing 15.5%

In Sydney, Melbourne, Perth and Canberra, houses significantly outperformed units when it came to median price growth over the five-year period. While in Brisbane, Adelaide, Hobart and Darwin, the gains for both dwelling types were relatively comparable.

Of course when you drill down further, you start to uncover why different markets have demonstrated different patterns of growth between houses and apartments.

In Sydney and Melbourne for instance, apartment prices have been somewhat subdued by an ongoing high-density construction boom that's seen an increase in stock supplies.

On the flipside, houses are becoming an increasingly rare commodity due to all of the development activity. Now though, the problem is less purchasers have the capacity to buy an inner city detached dwelling.

So could we see the reverse start to occur in Sydney and Melbourne, as more units are taken up by tenants and owner-occupiers attracted to comparably affordable, entry-level prices in the apartment sector?

Really, this is the only logical solution to the affordability issues faced by today's purchasers in the property game…unless you look at heading further afield to buy, where price growth is traditionally lower and hence, not ideal for long term wealth creation.

Give me land, a slice of land…

…As long as it's somewhere with a high degree of scarcity, compared to the ratio of buyers sniffing around. This is a common sense approach to determining a housing asset's potential future performance.

Compare the developer's paradise…land to be cut up and built on as far as the eye can see in outer suburban greenbelts, to a small inner city block where tight development restrictions make any patch of land a more valuable proposition.

Even divvied up between 12 apartments, the latter opportunity is a far better prospect for stronger capital growth and consistent yields.

This scarcity and inability to manufacture additional land, coupled with ongoing demand from homebuyers and tenants seeking a crash pad close to infrastructure and employment, underpins property values.

Apartment living…so hot right now!

Traditionally, Australians have aspired to a large block of land with a suburban McMansion proudly declaring one's middle-income status.

Times are changing as a significant generational shift occurs however, with more baby boomer downsizers and young, career oriented Gen Y's and Millennials seeking the convenience and affordability of smaller digs, closer to the action.

Inner city apartment living has come into its own in the last twenty or so years, as more people embrace what was once perceived as a lifestyle for the 'under-classes'.

Now a greater number of residents are looking for 'walkable' destinations, where the car can be left at home in favour of catching a bus, tram or train, or even biking or walking to all of the leisure, shopping and work opportunities on your doorstep.

For most buyers however, detached dwellings in these sought after inner city enclaves are simply unattainable, commanding million dollar plus price tags.

Be selective

Of course, as with anything to do with property, you always need to be considered in the type of house or apartment you decide to invest in. First and foremost, it should have broad appeal and again, you want something that ideally, isn't easily replicable but is highly desired.

Little boxes made of ticky-tacky that claim ownership of maybe 0.5 per cent of the land that the residential tower in which they're located looms forth from, are best avoided. These generally come as OTP propositions and can take many years to yield decent growth.

Whereas well positioned, established apartments in boutique complexes offer an affordable opportunity to add a good all-rounder to your portfolio…when you can't afford the million-dollar house with the million dollar views!