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THE ROLE OF FOREIGN INVESTMENT IN AUSTRALIA'S REAL ESTATE

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WELCOME FROM REIA'S PRESIDENT

Hello and welcome to the September edition of REIA News. It has been a busy month for REIA and for the broader sector with significant media attention turned towards the Foreign Investment Inquiry and the recent increase in house prices in Melbourne and Sydney.

REIA Board member and CEO of First National Real Estate, Ray Ellis, recently spoke at the House of Representatives Standing Committee of Economics Inquiry into Foreign Investment in Australian Real Estate. During the public hearing, Mr Ellis said that foreign investment would benefit from greater scrutiny by Government. REIA strongly supports foreign investment in Australia but believes there needs to be more monitoring of existing regulation rather than new measures that would unfairly burden the sector.

I was also in Canberra recently to meet with various politicians, Government representatives and industry leaders including Ken Nichols, acting National Operations Director of the Australian Property Institute and Peter Howman from our newest members, Defence Housing Australia. Accompanied by REIA CEO, Amanda Lynch, and as part of our ongoing conversation with Government and the industry, we also raised various matters including our campaign to retain negative gearing in its current form. We believe negative gearing plays an important role in Australia's real estate sector and helps keeps downward pressure on rents.

Whilst in Canberra I was also able to attend the launch of the Parliamentary Friendship Group for Better Cities. This is an exciting new development and I am proud that REIA is one of the founding members of the group. The group will provide a new forum for diverse stakeholders to come together and identify ways that we can create better cities.

This month REIA also released its Housing Affordability Report which showed a concerning trend with first home buyers still staying away from the market in large numbers. It would seem the removal of first home buyer grants in many states and territories is having a negative impact by lessening their confidence to enter the sector. For further information about the report, click here.

Mr Peter Bushby

REIA PRESIDENT

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This article is brought to you by REIA Chief Executive Officer, Amanda Lynch

THE ROLE OF FOREIGN INVESTMENT IN AUSTRALIA'S REAL ESTATE

With all the recent media attention on foreign investment in Australia, it timely to step back and access whether foreign investment is a helpful driver or hindrance to Australia's real estate sector. And if there are problems, then what changes can be implemented to ensure it does yield benefits.

Some media articles have even suggested that foreign investment levels are influencing Australian property prices. These media claims coincided with the recent public hearings as part of the House of Representatives Standing Committee on Economics Inquiry into Foreign Investment in Australian residential real estate which saw REIA represented by board member, Ray Ellis.

The 2012-13 Foreign Investment Review Board Annual Report noted that 94 per cent of proposals receiving foreign investment approval were for real estate at a total value of $51.9 billion out of a total foreign investment level of $135.7 billion.

Discussing foreign investment in Australian real estate, REIA Board member and First National CEO Ray Ellis speaks with Chair of the Foreign Investment Inquiry, Kelly O'Dwyer MP

Around half of the approved applications related to vacant land development, new dwellings, off-the-plan dwellings and property redevelopments. The remaining approvals related to existing residential property and these are the properties that are attracting significant media attention with claims that foreign nationals are pricing Australians out of the market.

However, the current foreign investment regulations stipulate that temporary Australian residents can acquire property only for their residence. The regulations also state that they cannot buy established dwellings as an investment and when they leave Australia, they must sell the property within three months. This measure was established for the very reason of mitigating any risk of foreign nationals negatively impacting on the ability of Australians to purchase an existing home.

REIA strongly supports foreign investment in Australia as it has been demonstrated to increase housing supply at a time when Australia is suffering from a chronic under

» article continues

THE ROLE OF FOREIGN INVESTMENT IN AUSTRALIA'S REAL ESTATE

supply of housing. Yet REIA also wants to ensure that Australian real estate remains affordable with the express aim of seeing an increase in home ownership.

We believe the current foreign investment regulations strike the right balance between allowing for much needed foreign investment in Australia while ensuring appropriate checks and balances are established.

So why is the media filled with claims that the system is not working? The question needs to be asked, are the regulations being properly enforced? In REIA's recent submission to the Inquiry into Foreign Investment we called on the Government to better monitor and regulate foreign investment in Australian real estate and have also spoken directly to the Government about utilising the emergence of e-Conveyancing as an existing mechanism that could facilitate this.

At the hearing Ray Ellis said that the problem with foreign investment in Australian residential real estate is not that it occurs, but that it requires greater scrutiny by Government.

Mr Ellis stated that he believed this issue requires regulatory attention and that the Australian Bureau of Statistics, Foreign Investment Review Board and Reserve Bank need comprehensive data to better understand the extent of non-compliance.

There is currently an $85,000 fine for breaching the regulations but the Foreign Investment Review Board has apparently not prosecuted a single foreign buyer for breaching foreign ownership rules. This fact alone should highlight the fact that the regulations don't need to be strengthened but better enforced.

REIA believes the introduction of e-Conveyancing could improve this much-needed monitoring and is encouraging the Government to explore the possibility of using the new online platform to improve compliance through greater inter-departmental and agency communication, such as with the Department of Immigration.

While it is important to stress that the new online platform is heavily regulated with a keen focus on protecting the privacy of individuals, it will be capturing a rich set of data including identification where the transaction involves foreign nationals. Lawyers and conveyancers will have to verify the identity of the clients they represent and reflect the client's foreign residency status while filling in the form in an online workspace.

While e-Conveyancing will reflect the paper versions of the transfer of land in each state and territory and the data fields completed by conveyancers will be the same, the platform will store data electronically. With 85 per cent of all property transactions over the next two years expected to be completed electronically, e-Conveyancing has a capacity to reflect the number of transactions involving foreign buyers and, therefore, may help improve monitoring and compliance activity.

One last point to remember as part of this issue is that the 2012-13 Foreign Investment Review Board Annual Report also details the origin of foreign investment in Australia. The largest source countries of proposed investment in real estate, by value are China, Canada and the USA, accounting for 11.4 per cent, 9.5 per cent and 8.5 per cent respectively of all approvals.

This is a particularly interesting fact to note as media articles on foreign investment are frequently dominated by stories highlighting only one particular source country, China.

THE CARBON TAX REPEAL – HOW IT WILL IMPACT SMALL BUSINESS

The Hon Bruce Billson MP
Minister for Small Business

On 17 July 2014, legislation repealing the carbon tax was passed into law and applies retrospectively from 1 July 2014.

The Government believes the repeal of this legislation will reduce cost of living pressures on households and cost pressures on businesses, including small businesses. Companies that were subject to the carbon tax typically will have passed on part or all of this cost to their customers, smaller businesses and households, which experienced higher prices as a result of the tax. The Government further believes that the repeal will reduce the administrative and compliance burden on business.

Where should I see cost reductions?

Abolition of the carbon tax should place downward pressure on electricity and natural gas prices. Treasury has estimated that, on average, retail electricity prices should be around 9 per cent lower in 2014-15 than they would otherwise have been with a $25.40 tax on carbon. Similarly, retail natural gas prices should, on average be around 7 per cent lower in 2014-15 than they would have been under a carbon tax.

How will the Government ensure that price reductions are passed on?

In addition to its existing powers, the Australian Competition and Consumer Commission (ACCC) has been given new powers to monitor prices and enforce the pass through of cost savings in regulated sectors, namely the electricity, natural gas and synthetic greenhouse gas (SGG) sectors.

Companies that supply electricity, natural gas and SGGs are required to pass on all cost savings associated with the repeal of the carbon tax. Electricity producers and retailers and natural gas retailers, as well as bulk importers of SGGs are required to substantiate their pricing to the ACCC to demonstrate whether carbon tax cost savings have been passed through. In addition, the ACCC has broad enforcement powers to take action against all businesses in the economy that make false or misleading representations about the effect of the carbon tax repeal on their prices or engage in misleading or deceptive or anti-competitive conduct.

Businesses and other entities that made claims about price impacts at the time the previous Government introduced the carbon tax should ensure that these impacts are reversed with the repeal of the carbon tax.

What can I do if a supplier does not pass on cost savings from the carbon tax repeal?

The Government expects all businesses should endeavour to pass on the savings they have received from the carbon tax repeal to other businesses down the supply chain.

In the first instance, you should ask your supplier about the prices they are charging you and how they are passing on any cost savings from the repeal. Businesses that remain concerned can contact the ACCC via its website at www.accc.gov.au/contact-us.

In relation to energy prices, businesses can also shop around for an energy market contract that sets the price and conditions most suited to their needs.

Need more information?

Information on the carbon tax repeal, including fact sheets, is available on the Department of the Environment's website www.environment.gov.au/carbon-tax-repeal.

Information about the role of the ACCC as part of the carbon tax repeal is available from www.accc.gov.au/business/carbon-tax-repeal.

Businesses can also contact the Australian Government via business.gov.au by calling 13 28 46.

» *Sourced from the office of the Hon Bruce Billson MP, Minister for Small Business*

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BREAKING NEWS

MINING TAX REPEAL IMPACTS SMALL BUSINESS

The Federal Government has repealed the Mineral Resource Rent Tax (MRRT) following a deal reached with the Palmer United Party. However as part of the deal, several other measures were also axed and these measures will adversely impact small businesses.

These measures include the abolition of the loss-carry back provisions for small business, reducing the instant asset write-off threshold from $6,500 to $1,000, and axing accelerated vehicle depreciation.

Small businesses can call the ATO for advice about the changes on 13 28 66. The ATO will be working closely with tax practitioners and industry on the administrative changes so they can provide assistance and advice to their clients.

As a result the following dates may affect taxpayers:

- Abolition of the company loss carry-back from 1 July 2013;
- Reduction of the instant asset write-off from 1 January 2014;
- Abolition of accelerated depreciation for motor vehicles from 1 January 2014.

The repeal of the MRRT will be prospective. This means that entities will not accrue further MRRT liabilities from 1 October 2014. The ATO will be consulting with industry to implement the administrative approach. For further information call 13 28 66.

PROPERTY INVESTORS WARNED ABOUT ATO CRACKDOWN

The Australian Taxation Office (ATO) had issued a warning that they will be paying particular attention to tax returns by owners of rental properties for the 2013-2014 financial year.

From 1 July, thousands of Australian property investors will be submitting their tax returns and it is really important that they ensure everything is in proper order.

The ATO has highlighted a number of common errors made by rental property owners that include:

- Claiming rental deductions for properties not genuinely available for rent
- Incorrectly claiming deductions for properties only available for rent part of the year such as a holiday home
- Incorrectly claiming structural improvement costs as repairs when they are capital works deductions, such as remodelling a bathroom or building a pergola, and overstating deduction claims for the interest on loans taken out to purchase, renovate or maintain a rental property.

Building a successful property portfolio is a key objective of most mum and dad property investors when they purchase their first investment property and it is very important that taxation issues are properly addressed right from the start.

This article is brought to you by
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THE FINANCIAL SYSTEM INQUIRY:

RAISING SMALL BUSINESS AND HOUSING AFFORDABILITY CONCERNS

REIA recently submitted its response to the Interim Report on the Financial System Inquiry, also known as the Murray Report. REIA feels this inquiry provides an important opportunity for the real estate sector to highlight how Australia's financial sector can be strengthened to benefit small business as well as potentially improve housing affordability.

The inquiry, established by the Treasurer Joe Hockey in December last year, is charged with examining how the financial system can be enhanced to best meet Australia's evolving needs and support Australia's economic growth.

Australia has held only two previous financial system inquiries, including the Campbell Report in 1981 and Wallis Report in 1997; both of which were catalysts for major economic reforms with the Campbell Report leading to the floating of the Australian dollar and the deregulation of the financial sector while the Wallis Inquiry led to streamlined financial services regulation. These reforms underpinned Australia's economic stability and growth over the past thirty years.

In the sixteen years since the last financial system inquiry, the financial sector has been transformed by a range of factors including domestic and international economic and financial crises, a substantial regulatory reform agenda, the growth in superannuation and broader macroeconomic trends.

Given the importance of this inquiry, REIA has and continues to be fully engaged with the inquiry process. Our most recent submission to the Interim Report made the following recommendations: reduced risk weights for insured loans; the retention of negative gearing; the development of a database to reduce information asymmetries between lenders and borrowers; and that the current arrangements regarding leveraging by superannuation funds remain unchanged.

The Interim Report raised the question as to whether the risk weights for insured loans should be decreased as this could improve the competitive position of authorised deposit–taking institutions (ADIs) and non-bank lenders, maintain broad access to mortgage loans and provide more capital in the system.

Overall, more than one-quarter of Australian housing loans are covered by mortgage insurance with this figure nearly three times as high for first home buyers. The additional mortgage repayments resulting from mortgage insurance are around $16k for a 30 year mortgage of $500k with a loan to value ratio of 90 per cent.

According to Genworth, nearly three-quarters of first home buyers in the 6 month period to March 2014 had less than 20 per cent deposit. With first home buyers finding it increasingly difficult to enter the housing market and home ownership in Australia declining after four

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decades of stable levels, any measure that improves housing affordability is fully supported by the REIA. To the extent that reducing the risk weights for insured loans achieves this, this approach is supported by the REIA.

There has recently been much speculation as to whether negative gearing for property investment should be abolished. The Interim Report noted that the asymmetric treatment of interest costs and other expenses (which are fully tax deductable) and capital gains tax (which is taxed at a concessional rate) encourages leveraged investment, particularly in housing. This has implications for lender risk which in turn creates a systemic risk for the financial system which should be considered.

While REIA recognises that this inquiry is focused on the financial system, in our submission we noted that it was disappointing that this focus prevented the inquiry from more broadly examining the benefits of negative gearing and whether the arrangements are equitable across all asset classes.

REIA firmly believes that negative gearing increases the supply of rental accommodation with almost 1.9 million of Australians investing in the residential property and, as highlighted in the Henry Tax Review, these arrangements place downward pressure on rents. Importantly, the majority of property investors are ordinary 'mums and dads' who have only one investment property, often as part of a retirement plan, which is complementary to superannuation.

The current negative gearing arrangements therefore are complementary to the goals of Government in addressing the supply of rental accommodation. REIA further believes that the removal of negative gearing would increase demand on social housing, an area that governments have been struggling to address.

REIA also noted in its submission that it believes any changes to negative gearing arrangements will not improve housing affordability due to a supply side response. This in turn would further exacerbate the current imbalance between the supply and the demand for housing. Given this, REIA believes that the benefits of negative gearing far outweigh the negligible risk to the financial system.

The Interim Report also highlighted the structural impediments for small-to-medium sized enterprises to access finance and that the cost of that finance is higher than for larger enterprises. The most significant impediment is identified as being information asymmetries where lenders have only a limited knowledge about a new borrower's financial position, the financial performance of the business and the financial behaviour of the business owner.

REIA fully concurs with that finding and in its submission highlighted a further information asymmetry in that lenders have limited knowledge about the industry sector of specific small businesses and that there are quite large geographic differences. This lack of understanding was most noticeable in the finance sectors response to the global financial crisis.

The Interim Report suggested the development of a database to reduce information asymmetries between lenders and borrowers and REIA believes this would go some way towards alleviating this problem.

Given the significance of the outcomes of this report on the real estate sector, REIA will continue to fully engage with the inquiry and ensure our voice is well heard.

This article is brought to you by REIA Chief Executive Officer, Amanda Lynch

REIA HELPS FORM PARLIAMENTARY GROUP TO FOCUS ON BETTER CITIES

REIA recently helped launch a new Parliamentary Friendship Group focusing on creating better cities. The invitation-only launch at Parliament House was attended by around 75 members of Parliament and industry leaders at Parliament House on Wednesday 27 August 2014.

The forum was co-convened by Jane Prentice MP, Member for Ryan, Andrew Giles MP, Member for Scullin and Adam Bandt MP, Member for Melbourne.

The group brings together key political and industry figures in a forum setting where ideas and thought-provoking discussions can be explored with the aim of making Australian capital and major cities more liveable, more resilient and more productive.

REIA is a founding member of the group with other industry members including the Australasian Railway Association, Bus Industry Confederation of Australia, the Property Council of Australia, Cycling Promotion Fund, International Association of Public Transport Australia and New Zealand, National Heart Foundation of Australia and the Australian Institute of Landscape Architects.

As the key national body collectively representing around 80% of Australian real estate firms and licensed agents, REIA sees the future of our cities as a critical investment. We recognise that Australians have an intrinsic connection to their homes but also understand that homes are greatly influenced by the cities they are part of. Residents will obviously enjoy their homes more if the city that they reside in is well designed. If people think about the times that they have viewed potential property purchases, they will probably recall not only thinking about the style of the home but access to transport options and green spaces as well as the close proximity to schools and other amenities such as restaurants and employment options.

REIA also sees its involvement in this parliamentary group as an excellent avenue through which it can further

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Launching the new Parliamentary Friendship Group for Better Cities, Member for Ryan Andrew Giles MP, Member for Scullin Jane Prentice MP, Member for Melbourne Adam Bandt MP and REIA President Peter Bushby

reach out to politicians and decision makers on key issues affecting the real estate sector. As our members would be aware, in many of our submissions to Government on policy matters, the recurring issue of housing supply emerges. There is currently a chronic under supply of housing in Australia and there has been for some time. This supply-side issue impacts on affordability and REIA has been very concerned in recent years by the sharp decline in first home buyers entering the market. New housing stock also needs to be considered in the context of infrastructure needs, which can greatly shape the character of a neighbourhood.

REIA is very excited to be part of the friendship group and help inform decisions about creating better cities. It was great to see so many diverse interests coming together at the launch in support of the concept of better cities. It will be interesting to see how the friendship group progresses as there is no shortage of significant issues to be worked through with the next function to focus on housing affordability. But by coming together and sharing ideas, concerns and solutions, I do believe we can collectively work with all levels of Government to spearhead a renaissance in our cities.

REAL ESTATE SECTOR FORMALLY OPPOSES REA TRADEMARK GRAB

REIA has joined eight other groups in sending a clear signal to the REA Group that it will oppose any attempt to trademark generic terms widely used by many Australian real estate businesses.

The opposition period to REA Group's trademark application, which closed late last month saw nine real estate businesses and member organisations lodge their objection with IP Australia.

These groups included ABCRealEstate.com.au, Martin Morris & Jones, First National Group of Independent Real Estate Agents, Professionals Global, both the Real Estate Institutes of Victoria and WA, Fairfax Digital and Realestateview.com.au.

The REA Group, which owns the website realestate.com.au, recently lodged a trademark application for the term 'realestate.com' in relation to the REA web portal.

REIA believe that if granted, the trademark application will preclude others in similar businesses from using a name or mark that contains the phrase 'real estate' in relation to the advertising of real estate property services provided through a web portal.

REIA CEO, Amanda Lynch has called on REA Group to withdraw the trademark application and said "that everyone deserves the right to accurately identify the type of goods or services it sells. To allow a single company to claim trademark rights to a generic term would impoverish the language and unfairly hamper competition."

Data from the Australian Bureau of Statistics shows that as at June 2013 there were 35,019 real estate services businesses operating in Australia. A substantial proportion of those businesses use the phrase "real estate" as part of their branding to assist consumers identify the industry and range of services that those businesses provide.

"REIA encourages competition through quality service delivery. REA once again appears to be making a technical grab for control of those things that belong to the industry at large. It has in the past tried to prohibit others from using the words "real estate" in their domain names," said Ms Lynch.

"It is very simple to see why many businesses are concerned by the actions of a large corporation over such a generic term," said Ms Lynch. "If this trademark is approved then it could harm or negatively impact on many small businesses."

Ms Lynch went on to add: "It is a totally unnecessary move by REA Group that not only does nothing to instil sector confidence in the REA Group but also results in businesses having to waste time on lodgement fees with IP Australia as well as lawyers."

"Our members already feel they are being squeezed by this company's tactics."

This article is brought to you by REIA Research Officer, Evgeniya Hawthorne
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SOCIAL HOUSING AND NEGATIVE GEARING

WILL SOCIAL HOUSING BE ABLE TO COPE IF THE CURRENT ARRANGEMENTS FOR NEGATIVE GEARING OF PROPERTY INVESTMENT ARE CHANGED OR ABOLISHED?

The issue of social housing has been a challenging policy area for Australian governments. Those who cannot rent privately are forced to stay on long waiting lists with the number of applicants mounting. Demand for social housing in Australia exceeds supply. In Victoria, particularly, demand exceeds supply by 30 per cent. However, the system does not offer the type of housing that many tenants need as the public sector is generally less efficient in managing rental property than the private sector with a large proportion of stock in disrepair yet on valuable land. Overall, financially social housing is unsustainable for government.

From the late 1970s, public housing was redirected towards households such as single parent families, the long-term unemployed and those with health issues. The most recent Census in 2011 found that 4.1 per cent of occupied housing stock was rented from State or Territory Housing Authorities providing accommodation for 3.9 per cent of Australian households. Demographic changes are expected to result in further growing demand for public rental accommodation with the research by McDonald and Temple projecting a 28 per cent increase between 2008 and 2023 from 337,888 to 431,277.

Australian Housing and Urban Research Institute notes "It is increasingly evident that governments are unwilling and/or unable to inject adequate equity into maintaining and expanding conventional public housing to meet the growing need for affordable housing in Australia."

Provision of social housing is expensive and those who call for removal of negative gearing arrangements should consider the potential negative impact it will have on an already strained social housing system.

The Productivity Commission's *Report on Government Services 2014* shows considerable expenditures on public housing from the governments. In 2012-13, the Federal Government provided $1.7 billion to State and Territory governments for housing and homelessness services and in 2011-12, Australian, State and Territory Governments' total expenditure on social housing and homelessness services was $3.9 billion. According to Master Builders Australia (MBA), over the three financial years up to and including 2011-12, Federal, State and Territory Governments

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spent more than $23.6 billion on social housing. For comparison, Moody's Analytics estimates that negative gearing cost the Federal Government around $4 billion a year.

Furthermore, MBA notes that over the past decade, the average cost of providing public housing dwellings increased by around 25 per cent in real terms while 21 per cent of the public housing stock was being used inefficiently in 2012.

History suggests that rents will increase if negative gearing is removed and this in turn will place an even greater strain on social housing. It is highly anticipated that changes to negative gearing will lead to investors leaving the residential property market.

The Australia's Future Tax System Review, informally known as the Henry Tax Review, acknowledged that negative gearing applies downward pressure on rents. It warns that amendments to the taxation of rental housing should only be adopted following reforms to the supply of housing.

A comparison of rental markets in Australia and the UK clearly shows the importance of negative gearing for investors. While the share of the rental market is similar and is around 30 per cent in both countries, the proportion of dwellings rented from the UK Government is considerably higher – 17 per cent for England compared to 4 per cent in Australia.

Given that governments have not detailed a clear strategy to address the chronic under-funding of social housing, it would seem imprudent to remove the incentive that helps keep rents lower and prevents a further swelling of social housing waiting lists.

TAX AND MARRIAGE

» *Edited extract from the Cleland McFarlane Selth Beans and Business Newsletter*
Cleland McFarlane Selth – Charter Accountant/Business Advisers Ph: (08) 8407 1300

There are many things to think about preparing for that special day, but taxation matters are probably not high on the list. When a couple become married or de facto spouses, their taxation status can change in a number of areas. Understanding those changes upfront can avoid any unwelcome surprises at tax time.

Ownership of assets held prior to marriage does not change after marriage. Income from bank accounts, shares and other investments such as a rental property will continue to be assessable to the legal owner as before, as would any capital gain from their disposal. Ownership of assets between spouses can either be as joint tenants, which is more common, where both spouses are taken to own the asset equally, without a separate identifiable interest.

In the event of the death of one member of the couple, the asset passes to the surviving spouse directly. Where an asset is held as tenants in common, each ownership interest is separately recognised and can be disposed of independently of the other owners.

Income, (or losses), from investment assets acquired in joint names after marriage is allocated to each spouse in accordance with their relative ownership share, which in the absence of any specific evidence would normally be half each as joint tenants. This can sometimes lead to unintended consequences, where an asset may be purchased in joint names, but the cost of the asset is met mainly by one spouse.

An example of this is with a jointly held rental property. It is common to acquire a rental property using borrowed funds, therefore the interest charged on the loan can be significant, and often contributes to the rental property generating a tax loss. However it is the ownership interest of the property, and not the loan that determines the allocation of the income or loss.

If spouses have significantly different incomes, such that one spouse is paying tax at the highest marginal rate, whilst the other is at the other end of the scale, the tax benefit of that tax loss will also vary significantly. An exception to this is where one spouse borrows to fund their share of the acquisition of the property; provided the loan amount is commensurate with their share of the property, the interest on their loan would be deductible to them solely. This could be a tax planning opportunity if the property will be partly funded by existing cash and partly by debt.

If one spouse is on a high marginal rate they could borrow to fund their share of the property whether as joint tenant, or tenant in common, and claim the interest solely against their share of rental income.
The ownership interest will also determine what share of a capital gain each spouse will be liable for, so this should be considered also, as circumstances can change over time.

One asset that couples generally purchase as joint tenants is their principal place of residence. Any gain or loss on sale of the family home is usually not subject to capital gains tax if it has been the couples main residence for the ownership period. There is no actual definition of "main residence" in the legislation, but is based on such factors as time of occupancy, use as an address for correspondence, connection of utilities and the like.

The main residence exemption from capital gains tax becomes less straightforward when there is more than one property involved. It may be that one or both of the spouses already owned a property that has

» *article continues*

been their main residence, and either one spouse moves into the other's property and move a tenant into their property, or the couple purchase a new home together.

The main residence exemption is modified to take account of these situations and allows a choice to be made depending on the extent of the ownership interest.

Generally speaking if one spouse's ownership interest is 50 per cent or less, they may nominate the dwelling to be their main residence for the whole ownership period. If it is more than 50 per cent, the property is deemed to be their main residence for half the ownership period. It is interesting to note that a taxpayer can choose to nominate their spouse's property as their main residence even though they may not have an ownership interest in it. Factors such as these mean there can be a number of possible combinations when the property is sold some giving a better tax outcome than others. If you think you may be affected by this, or are contemplating purchasing or selling a property with your spouse, give us a call, it may make all the difference.

SAVE TIME ONLINE WITH PRE-FILL TAX DATA

The October deadline for last financial year's tax returns is fast approaching however lodging a tax return will be easier for millions of Australians this year with the ATO pre-filling more taxpayer information in myTax and e-tax.

The ATO has now received taxpayer information from banks, employers, government agencies, share registries and other parties meaning people will be able to lodge their return faster.

Using the pre-fill option not only saves time and but enables people to lodge without making errors that could delay the processing of their tax return.

Since 1 July more than 1.5 million people have already lodged online with the ATO's e-tax or myTax services. Most individual returns are processed within 12 business days.

Each year the ATO notices a number of common errors that can delay the processing of a return:

- supplying incorrect bank account details
- spelling errors in a name
- providing a year of birth rather than a full date of birth
- not fully completing spouse details.

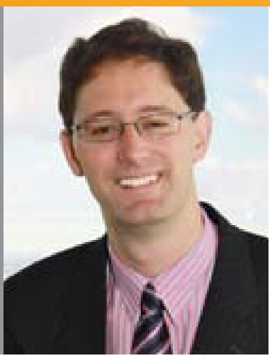
To check the progress of a return, taxpayers can log onto myGov and click through to the ATO online services; use the ATO app, the ATO's online progress of return tool or ring our automated phone service on 13 28 61 between 8 am to 10 pm local time Monday to Friday or between 10 am to 5 pm on weekends.

To find out more on

- MyTax and other online lodgment options visit www.ato.gov.au/lodgeonline
- MyGov and how to create an account and link it to the ATO, visit www.ato.gov.au/online

INDUSTRY ARTICLE

DIGITAL TOOLS
FOR THE ONLINE BOOM



Will Irving
GROUP MANAGING DIRECTOR
OF TELSTRA BUSINESS

Technology and globalisation have forever changed the way businesses operate, and the real estate industry is no exception. There are four key areas real estate businesses should focus on to ensure that they don't miss out on the opportunities.

Firstly, you have to know your clients. Keeping spreadsheets of client details are a thing of the past. Instead, it is essential that small businesses upgrade to Customer Relationship Management (CRM) software. CRM software allows you to manage your customer data and lets you segregate your customers by product, geography and different demographics. The better you know your clients, the more you can effectively target them with personalised marketing for properties they are likely to be interested in.

Secondly, interacting with clients has gone way beyond traditional methods; nowadays clients want to talk to businesses using the channel they prefer at a time that suits them. Email, social media and SMS are great tools that can help you build a digital relationship with your clients and market directly to individuals – and by using the method(s) that they opt-in to, you maximise the chances of success.

Thirdly, it's very important for real estate businesses to build a social brand presence, so customers can connect at a deeper level with your agency. Social media is a simple and cheap way to build direct links with your clients and the wider local community.

Social media shouldn't be daunting, fundamentally, it's about having genuine conversations with your clients, just as you would at a property or in the office. Consider the conversations you'd have in person and encourage those conversations in social media: put effort into providing the best possible answers to clients' questions and keep people up to date with what's happening in your business.

Last but certainly not least, is making sure you have a client orientated online presence through your website and social media page(s). Your businesses' online presence needs to be designed for your audience, and include easily updatable content so that content remains fresh and can reflect your latest properties.

A huge number of consumers are now using their smartphones to look for real estate – often to do comparisons while they are commuting or visiting properties, so it's crucial to have a website that is optimised for mobile and tablet devices, that also has a 'click to call' link.

These simple digital tools let you cast the net beyond your local area, and to keep pace with what's happening in your industry. As we see in the Telstra Business Awards, the most successful businesses are already busy taking advantage of the great opportunities available, both now, and to fuel their success into the future.

REIA PUBLICATIONS

REIA has published property market data and analysis for several decades. It has an excellent reputation as a highly credible source of information and considered opinion on the residential and commercial property markets in Australia.

REIA publications use information collated from a wide variety of sources including real estate agencies, industry and government. Both raw data and analysis are published in REIA reports.

The Adelaide Bank/REIA Housing Affordability Report and the Bendigo Bank/REIA Real Estate Market Facts may be purchased as single copies or by subscription. For more about the Adelaide Bank/ REIA Housing Affordability Report, click here. For more about the Bendigo Bank/REIA Real Estate Market Facts publication, click here.

Also, “datacube” spreadsheets provide key information on quarterly median values, dating from the beginning of REIA data collection through to the current quarter, for all capital cities where data is available.
For more information on REIA datacubes, please call 02 6282 4277.

INDUSTRY UPDATE

Industry news from around Australia

Shopping centres morphing into hotels, apartments

The GPT Group has announced that it is planning to develop the air rights above its malls, starting with Melbourne Central. While residential development near to a centre is not new, the use of air rights is gaining traction and popularity.

The owners of Chadstone shopping centre in Melbourne has apartments and plans for a hotel and offices nearby, as has Westfield at Doncaster. GPT also has its mixed use Rouse Hill mall, while Stockland is revamping the Wetherill Park shopping centre and also has its Cammeray and Balgowlah centres. But having apartments incorporated into a centre is the next step.

In London, Westfield is developing apartments near its Stratford City mall, while a preliminary development application has been lodged in Sydney to develop the air rights on the David Jones's Market Street site.

In 1990, Lend Lease, through its projects division, looked at building hotels in a number of shopping centres in a concept similar to its Woden Plaza Hotel in Canberra.

Source: Sydney Morning Herald

Home lending increasingly competitive, says RBA

The Reserve Bank has noted how low funding costs have led Australian banks to compete for home lending more actively than in previous years. The Reserve Bank Governor, Glenn Stevens spoke recently at the House of Representatives Standing Committee on Economics. In his opening remarks, he pointed to historically low interest rates as 'the most remarkable feature' of the global economy, which has led to cheaper home loans for Australian borrowers.

Mr Stevens commented that the most remarkable feature of the international scene at present is the exceptionally low volatility of financial prices – the lowest observed over the past 25 years for sovereign bonds, equities and foreign exchange.

"Yields on sovereign debt of the major countries are also very low, the lowest on record in some cases," Mr Stevens said. "Spreads on investment grade and financial corporate bonds have reached multi-year lows and in Europe yields on so-called 'peripheral' sovereign bonds have in some cases fallen below previous historic lows," he said.

Mortgage fraud on the rise

Brokers are being blamed for mortgage fraud following an increase in fraudulent credit applications.

According to Veda, credit application fraud is now at its highest level since 2009 with a 27 per cent increase in total credit application fraud last year. Veda's general manager of fraud & identity solutions Imelda Newton said there has been a trend among brokers to act in collusion with others to defraud lenders.

Among the four segments of credit application fraud – false personal details, fabrication of identity, identity takeover and undisclosed debts – identity takeover grew fastest – increasing 103 per cent from 2012 to 2013.

ASIC has banned at least nine mortgage brokers for fraud since December last year.

Melbourne-based Ms Shilpa Karandikar was the latest broker to be banned on 23 July after an ASIC investigation found she submitted false documents to secure a home loan worth $243,000. The loan application contained false payslips, false employment documents and false bank statements.

Broadband in strata: do your homework – NSW

NSW Fair Trading Minister Matthew Mason-Cox is encouraging strata owners, residents and managing agents to do their homework before choosing a service provider to install broadband in their strata schemes. This follows advice from the Commonwealth Department of Communications regarding issues affecting strata owners in NSW over the National Broadband Network rollout. Mr Mason-Cox said the agreement you sign is legally binding and can have significant implications for owners and residents of your strata scheme. Service providers may request that an entire strata scheme sign up to them and if this occurs the contract may prohibit individual unit owners from signing up to their preferred provider, he said.

MAKING NEWS

General national news

Strong residential building results

Recent preliminary ABS figures show residential building work done continued to strengthen in the June 2014 quarter, following healthy growth in March. In the June 2014 quarter, there was $13.40 billion of residential building work done, a level of activity that is 2.2 per cent higher than in the previous quarter and 9.6 per cent higher than in the June 2013 quarter.

A closer look at these preliminary results shows that the detached house segment was the key driver of growth in residential building during the June 2014 quarter. In the June 2014 quarter, new house building work contributed 1.6 percentage points to the 2.2 per cent growth in total residential building work done.

Regional banks call for more level playing field

Four leading regional banks have responded to the Financial System Inquiry's (FSI) Interim Report by highlighting areas they believe would improve financial services and level the playing field. The response was issued by Bendigo and Adelaide Bank, BOQ, ME Bank and Suncorp.

The regional bank submission highlights five specific issues they believe will foster a healthy, multi-tiered banking system, which in turn, will benefit customers by enabling fairer competition between major banks and the rest of the banking sector:

1. A more risk-reflective system of setting regulatory capital for housing loan assets through the simple extension of the current 'standardised' system of risk weight tiers to include one additional 20 per cent tier for lower risk loans. This relatively small change to the current approach would deliver material benefits in terms of competition without additional risk;
2. Establishing a more efficient and staged process to assist regional banks achieve accreditation under the 'advanced' capital framework, particularly in relation to housing;
3. Addressing the funding cost advantage for banks deemed 'too big to fail' (TBTF);
4. Improving the disclosure arrangement for mortgage brokers to ensure customers of brokers are fully aware of a broker's ownership structure and potential conflicts of interest; and
5. Lowering information asymmetries through an improved system of collecting important financial data relating to credit histories of bank customers (known as Comprehensive Credit Reporting).

Choice calls for financial services fee ban

In its submission to the Financial System Inquiry *Choice* is calling for the banning of all fees, commissions and remuneration that create a risk of conflict of interest for financial advisers. The consumer advocate group argues these poor practices are at the heart of the steady stream of financial planning disasters including Storm Financial, TimberCorp, Commonwealth Bank and most recently Macquarie Bank, which have cost consumers over $5.7 billion.

Choice says the problem is not just about commissions but any kind of payment that can influence a financial adviser to recommend one product over another. This can be a bonus linked to sales targets or asset-based fees, which are still common across the industry.

Asset-based fees are paid by a client to an adviser as a percentage of the total funds under advice.

New appointments to the Takeovers Panel

The Government has announced the appointment of four new members to the Takeovers Panel.

The Takeovers Panel is a mechanism for peer review of takeovers activity and facilitates expeditious and less formal process of regulating takeovers in Australia. Mr Lee Dewhirst, Mr Byron Koster, Mr Andrew Lumsden and Mr Robert McKenzie have been appointed as new members of the Takeovers Panel.

These four appointees will boost the number of Takeovers Panel members to 41. All members have been appointed for three years up to and including 20 August 2017.

POLITICAL WATCH

Information and news from government

Framework to safeguard airports

A new framework has been developed by the Federal Government to provides guidance on planning requirements for development that affects aviation operations. The National Airports Safeguarding Framework was developed by the National Airports Safeguarding Advisory Group, which includes representatives from Commonwealth Infrastructure and Defence departments and aviation agencies; state and territory planning and transport departments, and the Australian Local Government Association. It includes building activity around airports that might penetrate operational airspace and/or affect navigational procedures for aircraft.

The Government has formulated the framework in recognition that responsibility for land use planning rests primarily with state, territory and local governments, but that a national approach can assist in improving planning outcomes on and near airports and under flight paths.

The aim of the Framework is to: improve safety outcomes by ensuring aviation safety requirements are recognised in land use planning decisions; improve community amenity by minimising noise sensitive developments near airports, including through the use of additional noise metrics; and improve aircraft noise disclosure mechanisms.

The Framework applies at all airports in Australia and affects planning and development around airports, including development activity that might penetrate operational airspace and/or affect navigational procedures for aircraft. The Framework can be downloaded from the Department of Infrastructure and Regional Development website here.

ACT government reviews rights of tenants and landlords

The ACT government is reviewing the rights of landlords as part of a sweeping review of rules covering rentals as part of a discussion paper.

It is considering making smoke alarms compulsory in rented houses and is seeking views on who should be responsible for maintaining them, such as changing the batteries and whether tenants are properly protected from wrongful or "retaliatory" evictions.

It is looking at how landlords recoup money owing in shared houses when, for example, one tenant moves out and another takes their place without signing a lease and how to solve arguments over bonds. It asks whether the ACT needs new rules for dealing with anti-social tenants who disturb the neighbourhood, pointing out that other jurisdictions require tenants to sign acceptable behaviour agreements. It is seeking views on these and other questions by 12 September.

Gender pay gap workshops

Many organisations wrongly assume they don't have a gender pay gap and are surprised by the results once they've actually crunched the numbers.

From October 2014, the Australian Government's Workplace Gender Equality Agency will be conducting a national pay equity workshop series, to help organisations manage and improve equal remuneration between women and men in the workplace. Places are limited to 15 people per workshop. Fee: $330 inclusive of GST Registrations are now open.

New strata manager legislation in Vic

The Victorian Government has introduced a new bill that makes various amendments to several acts, including amending the *Owners Corporations Act 2006* with the aim of better regulating the managers of owners corporations. The amendments follow a public review of the regulation of owners corporation managers. In summary, the bill will improve the regulation of owners corporation managers by:

- preventing unsuitable persons becoming or remaining owners corporation managers;
- removing unreasonable restrictions on the ability of owners corporations to terminate management contracts;
- require managers to disclose conflicts of interest;
- protect owners corporation's funds by prohibiting managers from pooling the funds of separate owners corporations in one bank account;
- by allowing owners corporations to request copies of statements for bank accounts that contain trust money; and
- by making particular provisions for retirement villages with owners corporations.

THE WORLD

Property news from around the world

Melbourne crowned world's most liveable city

Melbourne has been named the world's most liveable city for the fourth year in a row, by the Economist Intelligence Unit's liveability survey of 140 cities. The survey rated cities out of 100 in the areas of healthcare, education, stability, culture and environment and infrastructure. Melbourne received an overall score of 97.5 out of 100, scoring a perfect rating for healthcare, education and infrastructure.

Adelaide, Sydney and Perth also made it to the top 10 of the list, with ratings of 96.6, 96.1 and 95.9 respectively. Australia's largest city, Sydney, achieved a perfect score in most areas, but was let down in the category of stability (90) and culture and environment (90.4).

Around the world, Melbourne narrowly beat Vienna, in Austria, which scored 97.4 per cent, and Vancouver in Canada, which rated 97.3 for the top spot. Damascus in Syria was the lowest scoring city in the survey, with an overall score of 30.5.Also at the bottom end of the table was Dhaka in Bangladesh with 38.7 and Port Moresby, in Papua New Guinea and Lagos in Nigeria, both scoring 38.9.

Foreign investors set sights on India's property market

International property investors are capitalising on India's new government policies to pursue real estate ventures in the country.

American billionaire and real estate icon Donald Trump, who announced plans to invest in India's hospitality and property sectors, recently visited the country to attend the launch of the Trump Tower development in Mumbai, which is being built in partnership with local developer Lodha Group. The Trump Organization is also involved in another luxury project in Pune, a city in Western India. The property tycoon disclosed intentions to also make "substantial investments" in the country's hotel industry, Reuters reported.

International auction house Sotheby's also recently announced that it would be selling some 40 luxury properties in India, including private residences in historic Rajasthan, through an exclusive licensing agreement with Delhi-based real estate advisory firm Real Pro Infra Pvt Ltd. Sotheby's and Real Pro Infra had signed a 25-year franchising agreement, according to the Times of India.

The Indian government has also allowed the market listing of real estate investment trusts in order to help developers to get more financing, as well as to promote foreign investment in the property sector.

Developer attention shifts from Sydney to Malaysia

Australian billionaire and property developer Lang Walker has reportedly said that home prices in Sydney and Melbourne have climbed too much, and he is turning his focus to his investment in Malaysia.

Dwelling prices in Sydney jumped 14.8 percent in July from a year earlier, the fastest growth among all Australian state and territory capitals, according to the RP Data-Rismark Home Value Index. Melbourne prices rose 11 per cent, the second-fastest increase, and Brisbane increased 6.9 per cent.

Walker, with $12 billion of planned property projects, said he is looking to increase investments in the Johor region in southern Malaysia which has been tipped to see an increase in demand from neighbouring Singapore. Residents of Singapore are crossing over to Malaysia's Iskandar region, as they seek property, often at significantly less cost.

US home builders more confident in August

US home builders grew more optimistic in August as an improving job market and falling mortgage rates boosted the outlook for home sales.

An index of builder confidence in the market for single-family homes rose two points to 55 this month according to the National Association of Home Builders. It was the gauge's second consecutive month over 50, a level that indicates more builders generally see conditions as good rather than bad.

A regional breakdown of the data showed the gains were unevenly distributed with builders feeling more confident in the Northeast and Midwest but less so in the South and the West.

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