REIANEWS

ISSUE 54: MARCH 2016

DEBUNKING THE NEGATIVE GEARING MYTHS

ALSO IN THIS ISSUE

Mr Neville Sanders
REIA President

PRESIDENT'S REPORT

WELCOME
FROM REIA'S PRESIDENT

There has been considerable public debate about negative gearing in recent times.

The boom in residential property market in Sydney and Melbourne put the spotlight on negative gearing and the so called 50 per cent discount on capital gains for residential property investment with some commentators blaming the consequences of the property boom, including housing affordability, in those two cities on the tax treatment.

It seems everyone has a "solution" with many commentators advocating changes of one sort or another to the current taxation arrangements.

There is no doubt that the taxation of housing will continue to be a top issue for debate as we head into an election this year. We have seen the Opposition propose changes to the current arrangements. The Government has rejected the Opposition's policy and pointed out a number of adverse consequences of the policy proposal including lower housing prices and higher rents.

The REIA's view is that the Opposition's policy if implemented would only add a distortion that reduces investment in housing, erode housing affordability and put upward pressure on rents.

It is interesting to observe the impact on rents over the last few years particularly in both Sydney and Melbourne, where the greatest investment activity has occurred. From the end of 2011, when investment in housing started to pick up, the rate of increase in rents has plummeted. For Australia, rents increased by 1.2% for the year ending December 2015 which is the lowest annual increase since March 1995. In Sydney the increase was 2.3 per cent and in Melbourne 1.7 per cent. At the same time there has been a steady increase in population in both cities.

Any repeal of the current arrangements would shrink savings and investment and see increases in the need for greater government investment in social housing.

The indications from the Government are that it will not change the existing arrangements.

It is against this background that this edition of REIA News features two articles on negative gearing.

The matter of taxation of housing and the related issue of housing affordability have been priorities for the REIA's advocacy work and will continue to be so in the lead up to the 2016 election which, with the announcement to recall Parliament on 18 April and to bring forward the Budget to 3 May, may be as soon as 2 July.

Mr Neville Sanders

REIA PRESIDENT

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DEBUNKING THE NEGATIVE GEARING MYTHS

This article is brought to you by REIA Acting Chief Executive Officer Jock Kreitals
Jock can be contacted at jock.kreitals@reia.com.au

With the aim of bringing some objectivity and robust analysis to the debate on negative gearing the Real Estate Institute of Australia (REIA), together with the Property Council of Australia, engaged economic consultants ACIL Allen Consulting to undertake an economic assessment on the impact of any change to the current arrangements for negative gearing and the CGT treatment of property investment.

The first thing to note is that negative gearing is not a special concession for property. It is a legitimate deduction of expenses in the course of earning income from investments in all asset classes (including shares, other investments and business ventures) until the investment generates a positive income stream in the future. The ability of investors to gear and use debt is a crucial part of investing and fostering economic growth. The ability to deduct the cost of debt and losses against income is necessary to ensure that investments are not taxed punitively.

Similarly the 50 per cent discount on capital gains replaces the previous indexation of capital gains which was put in place to ensure that only real capital gains are taxed – the change being made for administrative ease – and is also applicable to all asset classes.

Dispelling the myths that have gained currency the ACIL report shows that negative gearing and the capital gains arrangements are helping to boost the supply of new homes, put downward pressure on prices, keep rents lower and give ordinary Australians a better chance of entering the property market which in many cases supplements savings for retirement purposes.

ACIL found that the provision of negative gearing in conjunction with the CGT arrangements promote investment in rental properties and increases the supply of new housing. Around a third of all new dwellings construction is financed by investors every year and the absolute amount of investor loans committed to new housing has increased by more than seven-fold since 1986. Thus refuting the popular arguments that negative gearing makes renting less affordable and does little to improve the supply of housing.

ACIL added that an increase in rental supply means higher rental vacancies and lower rents than would otherwise be the case. The benefit to renters from improved rental affordability was directly recognised by the Henry Tax Review (2010) which noted that “the current tax advantages available to highly geared investment can operate as a subsidy to renters by placing downward pressure on rents”.

The report found that negative gearing provides all individuals with an opportunity to invest in property, not just those in higher income brackets. Seven out of ten property investors who benefit from negative gearing earn a taxable income of less than $80,001 a year. Furthermore, while individuals with incomes higher than $80,001 claim around 40 per cent of losses on investment property, those earning less than $80,001 a year claim the majority of rental losses (above 60 per cent of all losses).The data also shows that the majority of investors own only one property and this has not significantly changed over time.

Further, the report shows that property is not the investment class that benefits the most from the CGT arrangements. The majority (around 60 per cent) of the capital gains are sourced from shares, while capital gains from real estate investments (which include residential and other types of property) represent approximately 26 per cent of the total capital gains of taxable individuals.

The latest statistics from the ATO released last week show that based on 2013-14 tax returns the amount claimed

» *article continues*

in interest deductions by Australia's two million property investors declined by 9 per cent, while earnings from rents were flat. With that, the "cost" to the federal budget of negatively geared rental property deductions has fallen 12.5 per cent to the lowest level in four years. The proportion of property investors showing net losses has declined to 62 per cent.

ACIL also analyse some of the "solutions" that have been proposed by various commentators including quarantining of expense deductions from other income such as wages, removing negative gearing and the CGT arrangements for investment in existing residential property and having it apply to only newly constructed housing and limiting negative gearing to a maximum number of properties per taxpayer.

On these the report concludes that:

- Quarantining of expense deductions against corresponding income would primarily only affect the timing of tax payments, and as such would not result in a large tax collection increase for the Government
- A policy of removing negative gearing and the 50 per cent discount on CGT for investment in existing residential property would probably increase investor demand for new dwellings, displace owner occupier buyers and induce capital flight from investment in established dwellings
- Limiting negative gearing to a maximum number of properties per taxpayer would be highly distortionary, notwithstanding the practicality of determining an acceptable upper limit.

Whilst the ACIL research does not specifically analyse the Opposition's policy to limit negative gearing to newly constructed investment properties to improve both the supply of housing and housing affordability some pointers are nevertheless there.

The proposal fails the general principle of good taxation policy that it should not favour particular investment classes. Limiting negative gearing to new dwellings will add a distortion.

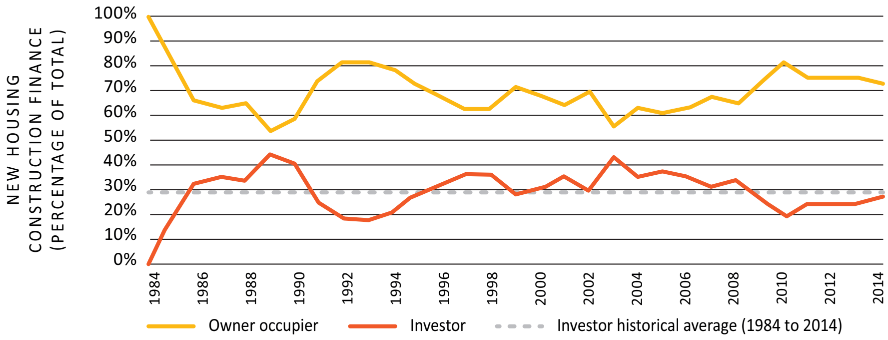
Whilst supply is acknowledged by all as critical in resolving the affordability problem the proposed changes will do nothing to address it. Supply is constrained by a number of longstanding challenges including regulatory and zoning constraints. These factors are not addressed in the policy.

As a consequence it is highly unlikely that there would be the supply response anticipated by the Opposition and instead many investors would exit the rental property market resulting in higher rents.

The policy is built on the popular perception of the amount of investor loans committed to new housing construction being relatively small.

ACIL's research shows that around 27 per cent of all loans for the construction of new housing in 2014 were to investors and that this proportion has remained relatively constant over the last 30 years (refer to the graph below). The absolute amount of investor loans committed to the construction of new housing has increased by more than seven-fold since 1986.

FIGURE 1 *Historical housing finance commitments for the construction of new dwellings*



Source: ACIL Allen Consulting based on ABS cat.5609.11

The ACIL report, *Australian Housing Investment: Analysis of Negative Gearing and CGT Discount for Residential Property*, is available here.

This article is brought to you by
Grant Harrod CEO of LJ Hooker

MARKET IMPACTS OF NEGATIVE GEARING CHANGES

As a company with a clear interest in property, it will surprise no one that LJ Hooker has concerns that negative gearing has become an election platform.

But it's more telling to hear from those whom will be affected on the ground as to the real ramifications of the proposals.

A poll of 1700 investors with properties managed by LJ Hooker showed 37% of investors earned a combined household income under $100,000, while 67% had a household income of $150,000 or less. The perception that investors are well-to-do is overblown, especially in the major business hubs of Sydney and Melbourne.

The poll also found 31% of investors would sell some or all their portfolio if negative gearing was abolished or restricted. This tells us that property investment is central to an individual's, couple's or family's wealth accumulation, helping to fund major milestones in life. As we've seen recently, property is a very solid investment option.

The residential real estate market – including construction, sales and rentals and related services – is one of the Australian economy's largest sectors both in value and employment. Changing negative gearing legislation will lead to a structural change of the real estate market.

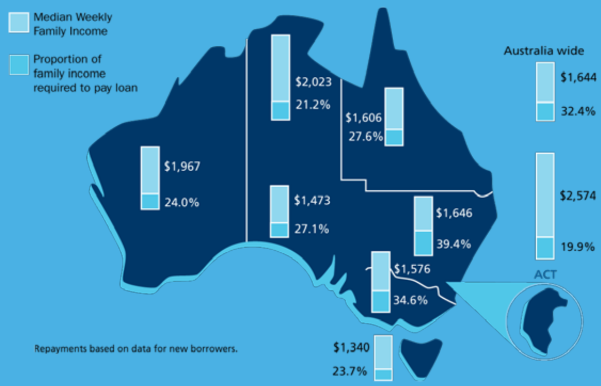
The Opposition's proposed legislative changes suggest existing properties bought before 1 July 2017 would be grandfathered. This would likely create panic purchasing with a rush of investors buying up existing properties in the six-months before implementation. It would create a build-up of demand followed by a drop-off in sales and, as we know, a sudden spike is never good for markets. Such activity hurts everyone from investors to first home buyers and even retirees planning to sell to fund what should be the best years of life.

In addition, we would also expect to see both an initial and long term increase in rents as investors look to cover their costs or sell-off property, reducing the available pool of rental properties. The suggestion this would be offset by a focus on new constructions overlooks the substantial time lag in approvals, funding and the delivery of new developments. Plus, these new developments are more likely to be high density apartment living, suggesting families who would previously have rented a free standing home with a backyard would now no longer be able to do so.

From an employment perspective, abolishing negative gearing for established properties could reduce employment in a number of sectors. The real estate sector would require fewer strata and property managers and as rental properties require regular maintenance and renovations to meet regulations, a fall in demand would impact trades people, handymen and other service providers.

It is important to remember investors play an important role in the evolution and shaping of the Australian property market; they boost stock and provide much needed rental accommodation, with a reasonable portion of stock addressing social housing needs. Therefore, changes to negative gearing arrangements could see a significant demand on both state and federal governments to fund increased public housing requirements.

Negative gearing, asset depreciation, repairs and maintenance have long been allowable tax deductions and a key feature of the Australia taxation system, to support investments and maintenance of assets across all industry sectors. To specifically target housing as an asset class no longer entitled to these deductions makes no sense; especially to justify this on the basis it is singularly contributing to 'affordability' issues in the housing market. It is a successive lack of vision and government policy around regionalised employment opportunities, poor infrastructure and development planning delays that has led to this concentration of demand in a small number markets that has led to increases in house prices and questions around affordability.



NATIONAL MARKET SNAPSHOT

DECEMBER QUARTER 2015 REIA REAL ESTATE MARKET FACTS

- *Quarterly Australian weighted average median house price is **$695,788***
- *Quarterly Australian weighted average median other dwellings price is **$543,468***

Median house prices up:

Brisbane 3.2% to $490,000
Perth 0.4% to $535,000
Hobart 9.8% to $392,000
Darwin 0.5% to $608,750
Canberra 3.7% to $593,000

Median house prices down:

Sydney 2.5% to $1,025,478
Melbourne 0.1% to $718,000

Median house prices unchanged:

Adelaide at $430,000

Median other dwelling prices up:

Melbourne 1.6% to $537,500
Perth 1.2% to $435,000
Hobart 2.2% to $295,500
Canberra 2.5% to $415,000

Median other dwelling prices down:

Sydney 2.1% to $662,770
Brisbane 1.2% to $405,000
Adelaide 1.5% to $322,000
Darwin 0.9% to $490,000

Vacancy rates

Sydney 2.1%
Melbourne 3.1%
Brisbane 3.1%
Adelaide n/a
Perth 6.0%
Hobart 3.1%
Darwin 8.9%
Canberra 2.8%

NATIONAL AFFORDABILITY SNAPSHOT

ADELAIDE BANK / REIA HOUSING AFFORDABILITY REPORT, DECEMBER QTR, 2016

NSW

NSW is the least affordable state or territory in which to buy or rent.

Victoria

Is one of two states where the average loan size exceeds $400,000.

Queensland

Queensland recorded no change in housing affordability over the last quarter of 2015.

South Australia

Of all Australian first home buyers, 6.0% were from South Australia.

Western Australia

Western Australia was the only state or territory to record a decrease in the number of loans to first home buyers over the quarter.

Tasmania

Tasmania recorded the largest jump in the number of first home buyers across the country.

Northern Territory

The NT recorded the best improvement in housing affordability across all jurisdictions.

Australian Capital Territory

The ACT remains the most affordable state or territory in which to buy or rent a home.

This article is brought to you by Tim MacKenzie National Head of Strata Macquarie Business Banking

STRATA MANAGERS BENEFITING FROM A BUOYANT MARKET

Macquarie's 2016 Strata Management Benchmarking Results has revealed a drive towards specialisation, evolving business models and a strong outlook as the three factors shaping the industry's future.

Macquarie Business Banking recently conducted a survey of 202 businesses nationally, building on the insights from previous reports in 2011 and 2013, to identify the trends shaping the rapidly growing Australian strata management industry.

The survey revealed that strata businesses across the country have benefited from buoyant market conditions, with 86 per cent increasing revenues in the 2015 financial year, reflecting ongoing growth across the industry.

Tim MacKenzie, National Head of Strata for Macquarie Business Banking, said strata managers are driving higher growth by operating more efficiently. "Strong systems are allowing businesses to scale up while also keeping costs under control," Mr MacKenzie said.

"We're seeing high profit businesses investing in productivity, including staff training, technology and systems to support client service. These businesses are evolving their business models and seeking to streamline their systems to provide a more responsive service at a lower cost.

"Firms are supporting their strata managers with higher numbers of administration staff, allowing managers to focus on relationship management rather than day to day service delivery, leading to improved productivity."

Mr MacKenzie said high performing businesses tend to focus on facilities management, property management and utilities, with 44 per cent of businesses planning to add new services over the next three years.

"It's important for businesses to position themselves for future opportunities, with new developments already in the pipeline set to underpin growth over the coming years," he said.

"The research has also highlighted the benefits of specialisation, with high profit businesses more likely to create a specialised value proposition and focus on either a large or small scheme, rather than trying to cover both.

"More sophisticated developments have created new scope for specialist providers catering to large, high-value schemes. At the same time, small scheme specialists are carving a profitable niche by providing a highly efficient, standardised service."

The vast majority of businesses are optimistic about the year ahead, with 85 per cent forecasting higher revenues in the 2016 financial year.

"High profit businesses said staff retention, quality service and strong client relationships will help them to underpin future growth. Almost one in two businesses (49 per cent) will look to hire as they scale up to keep pace with an expanding market," Mr MacKenzie concluded.

This article is brought to you by John Prendergast
Commercial Director, Rockend

IS AIRBNB A THREAT TO AUSTRALIAN PROPERTY MANAGERS?

It has been interesting to watch the rise of Airbnb in the Australian rental market over the past couple of years. This new rental model has signaled many changes in the short term rental industry, revolutionising the budget holiday sector and creating a new paradigm for property owners. But how do such technological advances affect traditional property managers, and should they be worried?

Airbnb's clientele is broad but limited

Typically, Airbnb's market is broad, but generally limited to the budget end of the property rental market. My observations of Airbnb have noted that you will rarely see high-end, high value properties on the platform. Rather, such properties remain with property managers, with owners requiring a long list of services to be provided for them. When looking at the Airbnb business model it is important to remember that it grew out of a young, backpacking community looking to find places to sleep in foreign countries. That mindset still pervades the Airbnb culture and as a result, it is focused towards the lower end of the market, firstly by design and now by its limitation in its range of services. It is important to remember that property managers and Airbnb cater to two different markets.

High end properties demand more than what Airbnb can provide

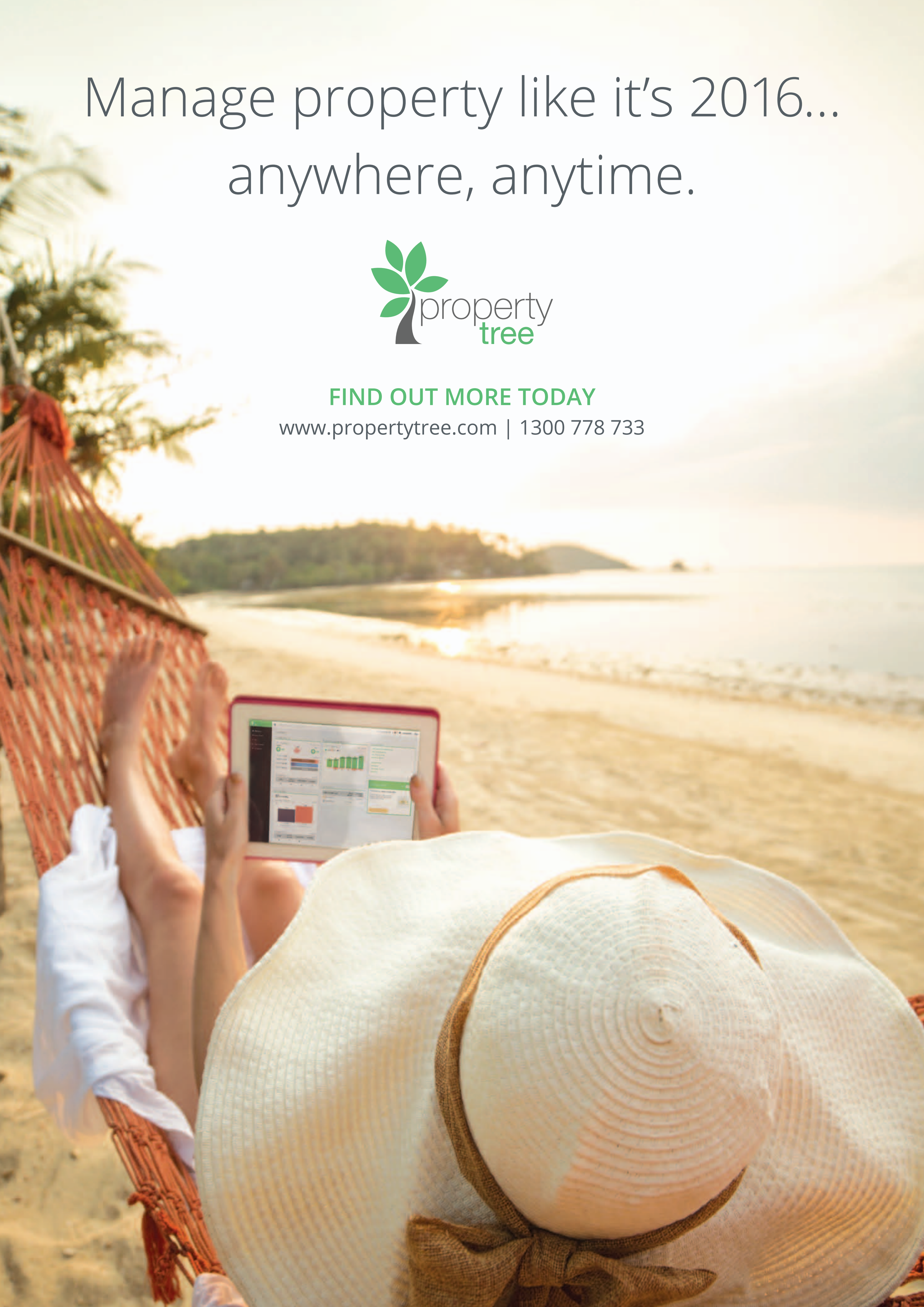
Fundamentally, the clientele who seek middle to high-end properties also expect a certain level of customer service that Airbnb cannot provide: contract management, payments, insurance, cleaning, resident screening, showings, maintenance and key swap. Property managers can provide a premium service that, as it currently stands, cannot be replicated through the internet model of Airbnb.

Technology goes hand in hand with property managers

Property Managers are far from becoming obsolete with the advances in technology, they have much to gain in terms of making processes faster, cheaper and more efficient. Technology can actually help property management businesses become more viable. Effective property management software allows businesses to operate in a more efficient and customer oriented manner. Technology enables Property Managers to:

- *Conduct Resident Screening*: Software can provide criminal checks, rental history and credit checks on potential tenants, helping to identify higher quality tenants and secure rental income.
- *Manage finances*: Software allows for Property Managers to manage rental payments, maintenance and arrears in a systematic manner.
- *Automation*: Premium software automates mundane and time consuming tasks, such as bank reconciliation and inspections scheduling. Utilizing software automation frees up a property managers day, providing them with more time to spend with clients and managing your property.

From my observations, although Airbnb may be making waves in the Australian market, it appears that it is not a direct threat to the Australian property management industry.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This article is brought to you by Hayden Groves President REIWA

STATE BUDGET SHOULD ENCOURAGE HOME BUYER ACTIVITY

The Real Estate Institute of Western Australia has called on the State Government to encourage buyer activity in the local property market over the next financial year.

In its submission to the annual budget process, REIWA warned the Treasurer against increasing the costs involved with buying a property at this time.

REIWA President Hayden Groves said that the property market has always been an easy target for tax revenues, particularly as the Government battles to improve its budget position.

"The property market provides a regular, albeit fickle source of income for the State through property taxes but that's by no means a reason to further increase the costs involved in buying property to make up any shortfall," Mr Groves said.

"Increasing the costs, especially for first home buyers, will deter West Australians from entering the market.

"Keeping first home buyers active is crucial to bolstering the broader market and something the Government should prioritise when setting policy for the coming year.

"With the First Home Owner Grant already abolished on established homes, it's important that the existing transfer duty exemption for first home buyers remains to encourage this sector of the market."

REIWA's submission also recommends the Government introduce rebates on transfer duty for seniors to encourage downsizing activity, ensuring appropriate housing diversity and choice.

"By making it more appealing to downsize, the market would be in a better position in terms of offering the right mix of housing options to meet the changing needs of the community," Mr Groves said.

"Again, it's about the State Government looking at ways to encourage activity in the market and by making it easier to downsize it ensures that, where possible, appropriate and affordable housing options exist for all West Australians."

Other recommendations in REIWA's submission include transfer duty relief for off-the-plan developments and house and land projects. Also, that no further changes are made to rates or thresholds for land tax and that the State Government undertake a state tax review as a commitment in the upcoming 2017 State election.

"REIWA represents the WA property market as a whole and we feel that it's in the best interests for the Government, the public and our members that the market environment remains enticing for those looking to enter and trade up."

REIWA's recommendations for the State Budget:

- No increase to transfer duty or thresholds.
- Maintain the existing transfer duty exemption for first home buyers at $430,000.
- Rebates on transfer duty for seniors to encourage appropriate downsizing.
- Transfer duty relief for off-the-plan developments and house and land projects.
- No changes to rates or thresholds for land tax.
- Remove land tax aggregation rules.
- State tax review.

FUNDING GRANTS FOR WOMEN IN REAL ESTATE

Women & Leadership Australia is a national initiative committed to supporting the presence of women in business and community leadership roles. WLA is based on the belief that women represent an enormously under-utilised national resource. Through supporting a greater percentage of talented women to step up into leadership positions, tremendous cultural and economic benefits will follow.

The WLA initiative comprises a range of professional development programs, advisory services, networking channels, and on-going research. Since its inaugural forum in 2003, over 50,000 women have participated, making Women & Leadership Australia the largest gender-focused leadership initiative in Australia.

With over ten years' experience in developing Australia's female leaders, WLA is ideally positioned to respond to the ever changing needs of the contemporary female employee. Each year, thousands of women continue to benefit, ensuring the initiative is widely accepted by business leaders as critical to the development of Australian leadership.

The scope and quality of WLA's services are the result of the dedicated work of the Australian School of Applied Management. ASAM is a leading provider of leadership and management development services to organisations across Australia. ASAM's long standing involvement in WLA demonstrates its commitment to enhancing leadership excellence and equality throughout the Australian workforce.

In 2016 Women & Leadership Australia is administering a national initiative to support the development of female leaders across the real estate sector.

From 10 February 2016 the initiative will provide women in the real estate sector with grants for leadership development. More specifically, grant applications are open to women employed in the real estate sector at two levels.

- Senior Management and Executive level Women Leaders can apply for $12,000 Individual Grants to undertake the Advanced Leadership Program.
- Women Managers can apply for $5,000 Individual Grants to undertake the Accelerated Leadership Performance Program.

The deadline for expressing your interest for this funding is 29 April 2016. For more information, please contact Ian Johnson at the office of the National Industry Scholarship Program, Australian School of Applied Management on 03 9270 9016 or via ijohnson@wla.edu.au

This article is brought to you by Brad Fillipino Director, boxbrownie.com

IMAGE ENHANCEMENT GUIDANCE FOR REAL ESTATE AGENTS

What is fair and reasonable for an agent to do when taking property photos? This is a very important question, especially considering the recent debate about a property in Penshurst, Sydney, where a water tank appeared to have been removed from the image. In actual fact, it was shown that the image was not doctored. One picture was taken from further away and the other from close to the front wall of the house, so obscuring the sloping roof and water tank behind.

Still, it raised the very real perception in the media about the role of image enhancement or Photoshopping an image. With recent advances in digital technology, it is now possible to enhance images for just a few dollars. Even shots taken with smart phones can be given a substantial lift.

Most agents however understand the ethical perspective and the need to balance the desire to portray a property in the best possible way whilst at the same time ensuring they do not mislead a prospective buyer.

All Australian company **boxbrownie.com** provides image enhancement services to a wide range of business in Australia and around the world. In fact, they have over 1,100 real estate agents on their client list. As a trusted source of digital imagery, they have provided some advice about the way they see the industry and what they believe constitutes acceptable enhancement or otherwise. One of the founders and Director Brad Filliponi has been a real estate photographer for 15 years and has an excellent understanding of the industry.

Original as shot

"There are literally dozens of examples of what is acceptable and what is not. Items of a movable or temporary nature can and probably should be removed" Filliponi says. A car may be blocking the frontage of the property when the agent takes the picture. By removing this, it allows a potential buyer to see the full extent of the property. Similarly, Cluttered bench tops in kitchens and bathrooms can be digitally de-cluttered. Pool cleaners fall into the same category and can be digitally removed as they often get overlooked when taking shots around the outside.

Enhanced- acceptable

A lot of external images can be dark, due to bright sky in the background. It is perfectly fine to lighten the shadow area so that the property can be seen properly. Similarly, internal shots with a bright window can cause the rest of the room to be in the dark. Once again, it is acceptable to lighten the room so that the buyer can see clearly. Other generally acceptable changes include making the grass greener or adding a blue sky to an image. After all, depending on the time of year a photo is taken, those could be normal.

Enhanced – unacceptable (power poles removed)

Unacceptable changes to a property would be to remove a tree or perhaps an adjacent building. There are often power lines running close to or across the outside of a property. If a photo can be taken that avoids these, then that is fine. They should not however be digitally removed as this could potentially mislead a buyer. "Good pictures sell property, there is no doubt about that". Says Filliponi. For more examples of acceptably enhanced images, visit **boxbrownie.com**

INCREASE YOUR SALES FROM JUST $3

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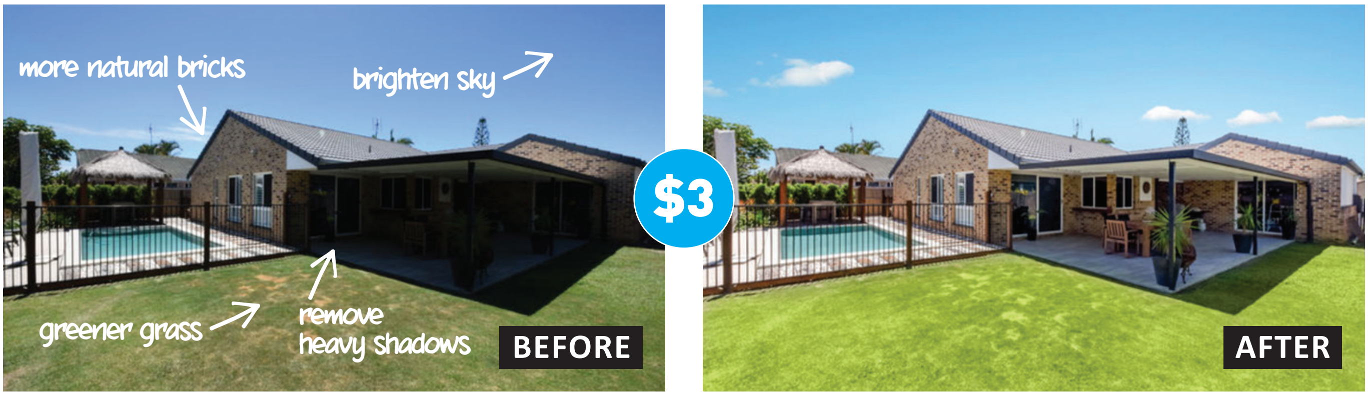
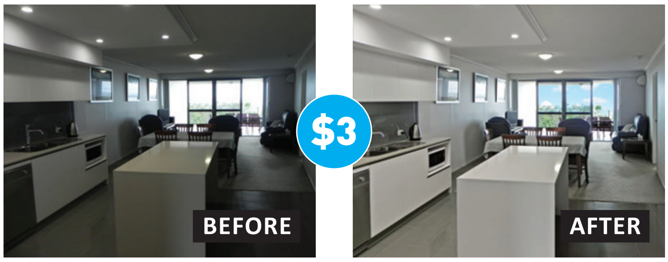
Now you can turn your property photos into studio style images. Join over 1,100 real estate agents that already benefit from our fast, cost-effective service. Obligation free trial for REIA readers 3 free image enhancements or 2 free day to dusk images. Go to Boxbrownie.com or call 1300 334 833 today.



Real picures of actual properties. Before and after image enhancement just $3

Good quality pictures sell property. Getting good quality pictures can however prove difficult. An all Australian company, Boxbrownie.com has harnessed the power of the internet to develop an on line service that turns ordinary images into high class images that sell. All from just $3. Outdoor shots can have heavy shadows or may have obstructions in front of the property. These can easily be dealt with by Boxbrownie.com. Indoor shots can be hard to shoot, especially against a bright window. They can enhance the image and lighten the photo. In addition, Boxbrownie.com can straighten vertical lines and even remove clutter from kitchens or other rooms.

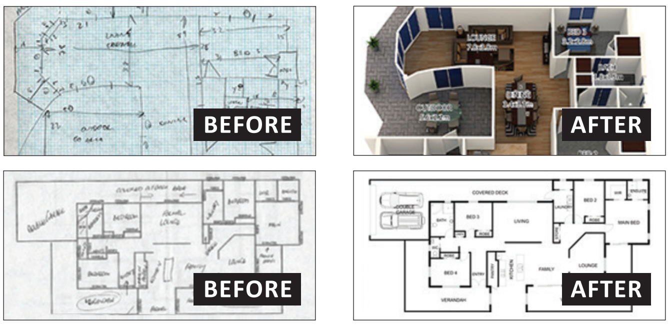


Internal image enhancement just $3.
Lighter & brighter showcases the kitchen.

Day to Dusk only $5

A nice property shot taken at dusk creates mood and atmosphere. Taking such a shot can prove difficult, even for a professional. Boxbrownie.com has developed a way of turning daytime shots into evocative dusk shots. Windows give off a soft glow and external lights bathe the exterior with a gentle glimmer to add to the atmosphere. The sky has a hint of colour added. For only $5 per image, you can give your shots that touch of glamour that really sells.

Floor plans increase sales. A floor plan can also help pre-qualify a buyer and save the agent and buyer time. In response to agents' requests, we have developed a system of converting cluttered builders floor plans into clean, easy to understand plans. From just $30. These can even be created from rough sketches made on site by the agent. You can have 2 dimensional plans or even 3 dimensional full colour plans or site plans prepared. We can even make photo style 3D renders of new developments for advertising. Both external and internal renders are available.



3 Dimension full colour floor plan $40

2 Dimension black and white floor plan just $30

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- Remove pool cleaner
- Lighten images
- Remove agents sign boards
- Remove cars blocking the frontage
- Green the grass
- 3D rendered exterior images from plans for new property
- 3D internal rendered images for new property

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TO FIX OR NOT TO FIX

This article is brought to you by
Fons Caminiti National Manager
Broker Sales & Distribution at
Adelaide Bank

Today's low fixed rates are swaying more borrowers towards locking in their loans.

A fixed rate loan is a great option for borrowers who take comfort in knowing exactly what their repayments will be over time. No matter what happens in the market, the interest rate is locked in for the fixed period. So it really is a case of setting and forgetting.

But while the low fixed rate route may appear to be an ideal option, it's important that borrowers do their homework before locking in. Because some fixed loans can have downsides for homeowners who don't take the time to understand what they're signing up for.

A good fixed loan should work hard in a homeowner's favour, delivering benefits well beyond that of a low rate.

A fixed loan with 100% offset does exactly that by providing the potential to make a big dent in the amount owing. Here's how it works.

Say you have a $300 000 loan and savings of $20 000 in your offset account. With 100% offset, you'll only pay interest on $280 000. Based on a 5% interest rate over 30 years, that could save more than $60 000 and years off a loan.

That's $60K to spend on anything, other than interest.

Another loan feature to search for is additional repayments without penalty. This benefit typically comes with a relatively generous limit on the fee-free additional payments allowed (usually around $20 000 per year.)

Free redraw and the choice to pay either principal and interest or interest only are other features worth holding out for.

The ability to split your loan is great feature too. It caters to those who are keen on fixing, but also like to hedge their bets on variable rates going down. This type of loan essentially splits the account in half; one portion is on a fixed rate while the other is on variable.

Finding a fixed rate loan that offers a low interest rate, practical benefits and the flexibility you need can take some leg work. Having a good broker by your side can make all the difference.

FIABCI CAMPAIGN: THE CITY WE NEED IS AFFORDABLE

FIABCI, the International Real Estate Federation, recognizes that in most markets around the world, there is a severe shortage of moderately priced housing.

According to UN reports, the world is undergoing a large wave of urban growth. Global population will increase to 2.5 billion people within the next 30 years and many of these people will become urban dwellers. The world's shortage of housing will become more acute in the coming decades and the housing problem will become more concentrated locally because it is expected that, due to massive migrations to urban centers, over 75% of the world population will be living in cities mid-century.

FIABCI, a global network of real estate professionals (architects, builders, developers, urban planners, brokers, real estate lawyers, etc.), is uniquely positioned to bring together all of the major global stakeholders in the real estate industry to propose solutions to meet the increasing demand for affordable housing within the world's cities and to encourage the private sector to become involved by expanding activities and projects focused on affordable housing.

Considering these perspectives, we decided to launch our 2016 World Urban Campaign in Dubai on January 10 of this year, with the slogan "The City We Need is Affordable". We will focus on sharing best formulas and practices from around the world. We hope that it will contribute to increase the supply of moderately-priced housing for rent and for sale for people working and living in cities. The UN has designed the banners below, in the six official languages of the United Nations.

Our goal is to find various ways to reduce, as quickly as possible, the current imbalance between the low supply and huge demand for moderately-priced housing units.

Through this campaign, FIABCI plans to:

- Pinpoint solutions to quickly reduce the current imbalance between the low supply and high demand for housing units.
- Identify beneficial financing formulas which will encourage investors and developers to embrace the campaign and to take an active role in planning the cities of tomorrow equipped with affordable housing – today.
- Share new construction methods, materials, design and innovations which will reduce the time and cost of construction without sacrificing quality.
- Facilitate the sharing of knowledge and experiences in construction methods, technology, materials, design and innovations which will not sacrifice quality and which will be beneficial to all stakeholders.

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FIABCI CAMPAIGN: THE CITY WE NEED IS AFFORDABLE

» *continued*

- Publicize smartly planned communities practical for the urban workforce.
- Showcase successful affordable developments with creative new components such as urban farming, work/live environments, etc.
- Detail best public/private partnership formulas.

Up to now, initiatives have been mainly undertaken by governments and urban authorities through subsidies, tax incentives, rezoning and allocation of extra air-rights. Our objective is to get the private sector involved, and if, as we hope, we are successful in this endeavor, it should be possible to significantly expand activities and projects in this field.

Our campaign timetable is as follows:

15 MARCH – 1 MAY

Open International contest to find the best solutions for financing, construction, architecture, design, urban planning, etc.

Ask our Chapters and Members around the world to send us the best success stories and initiatives on affordable housing.

15-18 MARCH

Use our FIABCI booth at MIPIM Cannes to interest developers and investors exhibiting there to join our campaign.

1-21 MAY

Selection of the best ideas, initiatives and practices by an international panel of experts.

26 MAY

Presentation of the winning solutions at FIABCI's 67th World Congress in Panama.

16-19 OCTOBER

Showcase the best ideas and formulas gathered during our Urban Campaign in Quito, Ecuador, during the Habitat III Conference.

UPCOMING FIABCI EVENTS

This article is brought to you by Rachel Ong and Alan Duncan at The Conversation

THE CONVERSATION

IT WILL TAKE MORE THAN PIECEMEAL REFORMS TO CONVINCE OLDER AUSTRALIANS TO DOWNSIZE

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Originally published at The Conversation

Many older Australians are living in larger dwellings than they need after their adult children leave the family home. The 2011-12 ABS Survey of Income and Housing shows households aged 55 and over are more than twice as likely to have three or more spare bedrooms in their home than those aged under 55.

However a report released by the Productivity Commission found most people are happy staying in their family home, despite a common perception that such homes are too big for them.

For some older home owners, this may well represent a positive choice driven by lifestyle reasons or because of an attachment to the family home. But for others, the decision to remain in place may be forced by barriers that prevent them from downsizing into a smaller or cheaper property.

The Productivity Commission says there is a general lack of affordable downsizing options for older Australians, due in large part to the red tape and inconsistencies within state and territory land planning regimes. Older people who wish to downsize also face financial barriers inherent in the tax-transfer system.

There is an opportunity to promote more efficient use of housing stock by relaxing the disincentives to downsizing among seniors, and to reap something of a “double dividend” from so doing. This would free up housing space for younger families. And older home owners would be able to release some equity from their home by downsizing into a cheaper property. This would in turn help supplement incomes in retirement.

A recent report on population ageing by the Bankwest Curtin Economics Centre found downsizing activity to be quite limited among older Australian home owners. During 2001-13, the incidence of moves among home owners aged 45 and over was just 5%. Among those who did sell their family home only to buy a new one, less than half moved into cheaper dwellings.

Financial barriers to downsizing

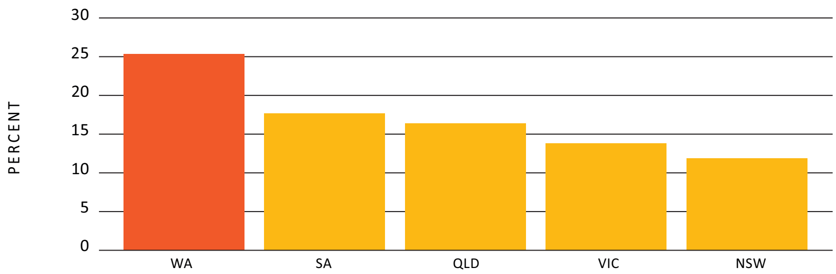
There is general consensus that the tax-transfer treatment of downsizing proceeds blunts incentives for seniors to downsize. Firstly, net proceeds from downsizing are subject to means tests. Secondly, stamp duty has to be paid on new home purchases.

A comparison across the five most populous states in Australia show the impact stamp duty has on the decision to downsize.

From 2001 to 2013, downsizing accounted for 28% of all property moves in Western Australia by homeowners aged 45 and over. Equivalent downsizing rates were substantially higher in other states - 36% in Victoria and more than 40% in NSW. At the same time, the average incidence of stamp duty on housing equity released through downsizing was highest in WA at 25%. This compares to just 15% in Victoria and 12% in NSW.

» *article continues*

FIGURE 1



Note: The stamp duty percentage for each state is calculated as median stamp duty divided by median housing equity released through downsizing

Source: Bankwest Curtin Economics Centre. Authors' estimates based on HILDA Survey data

Median stamp duty as a percentage of median housing equity released through downsizing by owners aged 45 years and over, by State, 2001-2013

However, a closer look reveals that jurisdictional differences in stamp duty parameters are not the cause of the relatively high stamp duty burden in WA. The fact is that older West Australians tend to downsize into homes of higher value than older home owners in other states. This finding is not surprising given the year-on-year spike in house prices that occurred in WA during the last decade's resource boom. A growing lack of affordability in local housing markets is eating into expected returns from downsizing.

From piecemeal to meaningful tax reforms

Some recent attempts have been made to improve downsizing incentives, but the measures have been rather piecemeal. For instance, the 2013 downsizing pilot program proposed by the Federal government attracted criticism for its restrictive eligibility conditions. Stamp duty concessions for downsizing have been implemented in some states and territories. But they simply do not go far enough to overcome the combined financial and emotional costs of moving out of a home in which families have been raised, and memories built.

Economists have long argued for the total abolition of stamp duty. It is often recommended that this should be accompanied by the levying of a broad-based land tax. This two-pronged reform would not only cushion revenue incomes for the State but also promote affordability as land tax is capitalised into lower land prices. Such reform measures are of course feasible. But they are conditional on both tiers of government being willing to share the cost of transitional arrangements for existing home owners.

However, what is often overlooked are the structural problems inherent in the general tax-transfer treatment of housing assets. The exclusion of the primary home from welfare means tests has encouraged extensive accumulation of wealth in housing assets by home owners. Not only is the entire value of the family home exempt from assets testing, home owners enjoy a wider range and higher levels of housing subsidies than renters, including but not limited to the First Home Owner Grant, land tax exemption, capital gains tax exemption and non-taxation of imputed rent. Put bluntly, current tax-transfer settings simply do not offer any financial incentives for seniors to divest their housing wealth through downsizing or any other means.

The preferential tax-transfer treatment of home ownership has also helped fuel house prices to historically high levels, making it difficult for seniors to find affordable properties to downsize into in their local area. If tax reform is to be successful in encouraging downsizing among seniors, it will have to deal with an entrenched structural problem that has contributed to a long-run inflationary bias in housing markets.

INDUSTRY UPDATE

Industry news from around Australia

LJ Hooker represented on industry stage

LJ Hooker's Head of Real Estate, Christopher Mourd has been appointed the independent board member on the Real Estate Institute of Australia's (REIA) board, giving the network representation at the highest level of the industry.

Mr Mourd was recently announced as the eighth board member on the institutions panel, which is led by directors who guide the strategic direction and policy goals of the organisation. The board works with the CEO and an experienced management team to achieve outcomes for the institute and its members.

The board consists of one representative from each state or territory, nominated by the respective state or territory Real Estate Institute.

"It is a great honour to be included on the REIA board as the only independent director," Mr Mourd said.

"REIA work to represent the real estate sector on a range of varied and important issues liaising with key representatives from Federal Government, the opposition, as well as professional members of the real estate sector, media and the public."

Mr Mourd's placement on the REIA board means LJ Hooker will have unprecedented representation on the strategic direction and policy objectives of the institute.

"There is a great opportunity for LJ Hooker to be at the forefront of the industry on a range of issues affecting the property market like the negative gearing debate," he said.

NSW property valuers no longer require registration

The repeal of the *Valuers Act 2003* has meant that from 1 March 2016 NSW valuers are no longer required to be registered.

This follows the recommendation of the Independent Pricing and Regulatory Tribunal report – Reforming licensing in NSW. The change brings NSW in line with most other Australian states and territories. It also supports NSW Government initiatives to remove unnecessary business regulation, helping to lift productivity and drive down costs for businesses and consumers.

Housing finance figures for January

In trend terms the number of commitments for owner occupied housing finance rose 0.4 per cent in January. The number of commitments for the purchase of new dwellings rose 1.2 per cent, the number of commitments for the construction of dwellings rose 0.5 per cent, and the number of commitments for the purchase of established dwellings rose 0.3 per cent. Investment housing commitments fell 1.6 per cent continuing the easing after the strong growth in the last few years. The decline in the total value of lending to investors was driven by a fall in lending to those purchasing established dwellings.

Dwelling approvals continue to decline in January

ABS building approvals show that the number of dwellings approved fell 1.0 per cent in January 2016, in trend terms, continuing a 10 month decline.

Dwelling approvals decreased in January in the Australian Capital Territory (11.3 per cent), Northern Territory (9.5 per cent), New South Wales (3.5 per cent), Western Australia (1.8 per cent) and Tasmania (1.7 per cent), but increased in Victoria (1.3 per cent), South Australia (0.3 per cent) and Queensland (0.1 per cent) in trend terms.

Also in trend terms, approvals for private sector houses rose 0.1 per cent in January, while approvals for private sector dwellings excluding houses fell 2.3 per cent.

Photo electric smoke alarms

The Queensland government is taking steps to mandate the installation of smoke alarms in the bedrooms of all Queensland homes following the findings of the Coronial Inquest into the 2011 house fire in Logan, south of Brisbane. Fire and Emergency Services Minister Bill Byrne introduced a bill to State Parliament which would require photoelectric smoke alarms to be installed in the bedrooms and connecting areas of all homes. The planned changes will be phased in over a ten year period. The laws will be debated in the Parliament later this year.

MAKING NEWS

General national news

Combating misleading price advertising

Victorian Minister for Consumer Affairs Jane Garrett has announced plans to reform the *Estate Agents Act 1980* to combat misleading price advertising on residential properties and provide certainty for buyers.

Under the new laws, real estate agents will have to provide prospective buyers and Consumer Affairs Victoria with evidence about how they arrived at a property's advertised price.

Agents will be required to give prospective buyers a new information statement with the details of:

- three comparable properties sold recently
- the agent's estimated selling price
- the median sale price of properties for that suburb.

New rules will aim to reduce misleading advertising practices and increase transparency:

- Phrases in the advertised price, such as 'starting from', 'over', and '+', will be outlawed
- Advertised price ranges will be restricted to no more than 10 per cent
- Advertising will have to remain accurate through the sales campaign, and agents must revise the advertised price if a seller rejects an offer to buy that is above the advertised price.

Estate agents who fail to comply with the proposed underquoting laws risk fines of more than $30,000 and may also lose sales commissions and other fees. This represents an additional penalty of around $14,000 on an average home and much more on blue chip properties.

The Victorian Government intends to introduce these reforms into Parliament in the middle of the year, to commence in late 2016, and will continue to consult with the real estate industry.

Make claiming deductions easier

The ATO has designed myDeductions (in the ATO app) to make it as easy as possible for people to make claims and keep good records. myDeductions can record work-related expenses (including car trips) and other common deductions such as gifts and donations, and the cost of a tax agent.

Using myDeductions, expenses can be recorded using your smart phone or tablet, and then the information uploaded when completing your tax return.

The tool was launched last year, which means Tax Time 2016 is the first time people will be able to use myDeductions to complete their return. Find full details here.

Equipping small business with the tools of the trade

NSW Fair Trading Commissioner Rod Stowe launched a toolkit to assist small businesses in handling consumer complaints. The Complaints Toolkit has been developed by the Society of Consumer Affairs Professionals Australia (SOCAP) and Monash University's Australian Centre for Justice Innovation.

"This toolkit is a comprehensive, easy-to-understand guide to help businesses effectively deal with complaints," Mr Stowe said.

Mr Stowe said the toolkit included practical advice and tips and a simple clarification of a business's obligations under the Australian Consumer Law. Issues such as the responsible use of social media and identifying and assisting vulnerable consumers are included in the toolkit.

"Small businesses will find a wealth of practical tools to help them deliver better service, including samples of complaints handling letters that can be used as templates and quick links to further reading and information," Mr Stowe said.

The Small Business Complaints Toolkit is available from the SOCAP website.

POLITICAL WATCH

Information and news from government

Ministerial changes

The changes to the Ministerial line up announced in February included two of direct relevance to REIA: following the resignation of Jamie Briggs the Cities portfolio has gone to Angus Taylor as Assistant Minister to the Prime Minister for Cities and Digital Transformation; and Luke Hartsuyker was replaced by Senator Scott Ryan as Minister for Vocational Education and Skills.

Monetary policy

The RBA released the Minutes of its March Board meeting when it left interest rates unchanged. The Board noted that data suggested that the domestic economy had continued to grow but at a pace slightly below trend. It was judged that there were reasonable prospects for continued growth in the economy and that continued low inflation would provide scope to ease monetary policy further. In regards to housing the Board noted that conditions in the established housing market had eased since late 2015. Housing price growth in Sydney and Melbourne was lower than in September last year. Housing credit growth overall had remained around 7½ per cent, after having risen through to the middle of 2015. Growth in lending to investors in housing had slowed significantly reflecting the effect of supervisory measures implemented and, more recently, housing loan approvals overall had declined a little.

Northern Australia insurance premiums

The Northern Australia Insurance Premiums Taskforce released its final report on the feasibility of options to lower insurance premiums in northern Australia, where the risk of cyclones has caused affordability concerns. The Taskforce formed the view that mitigation is the only sustainable way of lowering premiums and the options covered involve a coordinated response from insurers, governments and property owners. Options to encourage mitigation include: strengthening building standards; better retrofits for older homes; Government public works for water management and flood protection infrastructure; making insurance premiums more responsive to mitigation; better access to resilience rating tools; and a mitigation awareness campaign. The Taskforce also considered options to more directly reduce premiums, such as the establishment of a mutual insurer or the creation of a cyclone reinsurance pool. It found that both options could possibly reduce premiums, but involved significant fiscal risk and any effect on premiums could not be considered sustainable. Government will now consider the options and intends to provide a response by 30 June 2016.

Progress report on the Australian Consumer Law

The fifth progress report on Australian Consumer Law (ACL) was released last month. The ACL commenced on 1 January 2011 and replaced 20 different acts across jurisdictions. It now provides one single, comprehensive law covering:

- unfair contract terms in standard form consumer and small business contracts;
- consumer guarantees when buying goods and services;
- product safety standards;
- unsolicited consumer agreements including door-to-door sales and telephone sales; and
- penalties, enforcement powers and consumer redress options.

The progress report outlines the work being done by consumer protection regulators across the country and provides case studies showing how effective agencies had been in administering the law. It also highlights the extent of consumer agency cooperation and collaboration in administering the ACL for the benefit of the Australian consumers, business and the broader community.

NSW Fair Trading Commissioner Stowe said "There is a really important story to tell about the success of the multiple regulator model established under the ACL.

"This report shows the strength of the cooperative model and how it reduces duplication and improves consistency in the use of resources, cutting costs for government and taxpayers. There are numerous case studies that show how regulators are now more responsive to marketplace issues.

"Whether it's dealing with product safety, property spruikers, travelling conmen or training providers, consumer protection agencies have united through the ACL to build a better framework to benefit all Australians," concluded Mr Stowe.

The report can be found here.

THE WORLD

Property news from around the world

New analysis reveals impact of real estate as an asset around the world

The total value of developed real estate worldwide reached US$217 trillion in 2015, making up some 60% of mainstream global assets, a new analysis shows.

The value of global property in 2015, including commercial, residential, forestry and agricultural land amounted to 2.7 times the world's GDP, according to calculations by international real estate adviser Savills.

It means that real estate represents an important store of national, corporate and individual wealth with residential property accounting for 75% of the total value of global property.

The value of global real estate exceeds by almost a third the total value of all globally traded equities and securitised debt instruments put together and this highlights the important role that real estate plays in economies worldwide.

Real estate is the pre-eminent asset class which will be most impacted by global monetary conditions and investment activity and which, in turn, has the power to most impact national and international economies. The report explains that in recent years, quantitative easing and resulting low interest rates have suppressed real estate yields and fuelled high levels of asset appreciation globally. Investment activity and capital growth has swept around the major real estate markets of the world and led to asset price inflation in many instances.

Overall, the biggest and most important component of global real estate value is the homes that people live in, totalling US$162 trillion. The sector has the largest spread of ownership with approximately 2.5 billion households and is most closely tied with the fortunes of ordinary people.

Residential real estate value is broadly distributed in line with the size of affluent populations and China accounts for nearly a quarter of the total value, containing nearly a fifth of the world's population. Yet the weight of value lies with the West. Some 21% of the world's total residential asset value is in North America despite the fact that only 5% of the population lives there.

The analysis reveals that the trend for western nations to dominate real estate is most pronounced in commercial markets, where nearly half of the total asset value resides in North America. Europe makes up over a quarter while Asia and Australasia contain 22%, leaving just 5% for South America, the Middle East and Africa.

Not included in the global calculation is the value of informal neighbourhood commercial properties: workshops, workspaces, shops and small business premises which are not part of the high quality commercial real estate universe that constitutes global property markets, but which are important components of economic growth and prosperity, especially in emerging markets.

The report explains that they are almost impossible to value at a global level but have huge potential for future investment as economies mature and real estate markets develop within them, adding to the global stock.

Global housing markets saw prices rise in 2015, led by Australasia

The real estate price index covering key property markets around the globe increased by 3% in 2015, up from 2.3% in 2014.

Concerns over the global economy have failed to dent buyer confidence and instead the lingering low interest rate environment influenced sentiment, the index report from Knight Frank says.

Turkey leads the rankings with prices rising 18% during 2015. Although Hong Kong's prices increased in 2015, the rate of growth has slowed significantly from 17% in the year to September to 7% in the 12 months to December 2015.

China's house prices rose marginally in 2015 by 0.4% having reached their peak in the first quarter of 2014 before falling 6% over the next 12 months.

Australasia was the strongest performing world region in 2015, buoyed by the strong performance of New Zealand and Australia, both of which saw annual price growth in excess of 10%.

Belgium and New Zealand are currently the world's least affordable markets when house prices are compared with incomes whilst home ownership is most accessible in South Korea and Japan. Ukraine and Greece were the weakest housing markets in 2015, recording price falls of 12% and 5% respectively.

Articles courtesy of propertywire.com.au
http://www.propertywire.com/

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