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info@ckpropertymanagement.com.au
www.ckpropertymanagement.com.au
0401 834 045

INVESTOR LOANS AT THEIR LOWEST RATES SINCE 2009.

Private sector credit data released by the Reserve Bank of Australia (RBA) in late-July indicates that property investors are starting to move away from the Australian market. Housing credit in Australia increased by 0.3% in June, a slight decrease from 0.4% in May. At the same time, annual investor- loan growth dropped to 1.6% in June. Owner- occupier loans increased by 0.6% in June.

With credit growth to housing investors dropping to -0.1% in June, it shows recent developments in the Australian housing market is affecting investors. According to the Commonwealth Bank's Economist Belinda Allen, changes in market conditions are thought to be the key drivers of recent declines in investor loans.

The key market changes behind the decrease in investor loans are:

- low auction clearance rates;
- declining house prices; and
- tightened lending criteria for investors.

This follows news from Westpac in July that it was discontinuing lending to self-managed superannuation funds (SMSFs). According to a spokesman from Westpac, the bank discontinued the sale of SMSF loan products and business lending to SMSFs to simplify and streamline SMSF products.

The move by Westpac was thought to be a result of tightened lending criteria for investors and increases in property speculation triggered by investing in property through SMSFs.

In 2014, the financial system inquiry led by former Commonwealth Bank Chief David Murray recommended that the Government ban lending to SMSFs for property investment. The Government rejected this recommendation in 2014.

Loans to SMSFs for property investment aren't offered by ANZ. The National Australia Bank (NAB) stopped property investment loans for SMSFs in 2015. The Commonwealth Bank of Australia remains the only "Big Four" bank to offer property investment loans to SMSFs.

A LOOK AT THIS ISSUE:

THE RISE OF MICRO-APARTMENTS.

With the rapid increases in property prices in cities like Sydney and Melbourne in recent years, the need for affordable property is higher than ever before. Although property prices have softened in recent months, high density living, and the rise of micro-apartments is a potential answer to securing affordable property that's close to all of the amenities people want and need.

Given the smaller property size, the sale price of micro-apartments presents a much lower entry point for property investors to gain exposure to the property market. Are micro-apartments a good investment though or are investors better off focusing on more traditional property types?

One of the biggest challenges investors may face if they're interested in purchasing a micro-apartment is securing finance. Analysis by property research company, RiskWise found that banks enforce strict lending criteria for properties with floor plans under 50 square metres. To secure a loan for a micro-apartment, the loan-to-value ratio would likely need to be less than 80 per cent, meaning you may be asked to pay a deposit of more than 20 per cent.

The key reason why lenders are reluctant to provide loans for micro-apartments is the issue of resale. With micro-apartments there's a potential risk of oversupply. For that reason, some banks have postcode blacklists detailing where there is a current oversupply. This means you'll likely have to pay a large deposit to secure a loan for a micro-apartment or have your loan application rejected entirely.

According to RiskWise, buying micro-apartments off the plan is one of the riskiest ways to purchase a micro-apartment. This is due to the limited demographic that micro-apartments are suitable for and the potential for the property market to change dramatically before the development is complete.

For investors who have a micro-apartment in their portfolio, turnover also becomes a key risk especially for couples who may realise the space is too small.

While micro-apartments could be a risky investment, supporters of this dwelling type have said that with intelligent design and mandated liveability requirements, micro-apartments could be the solution for people who want to live in affordable homes close to major cities. The only design standard for small properties mandated in Australia currently is the New South Wales Government's regulation that studio apartments must be at least 35 square metres.

Before investing in property, make sure you seek the advice of a legal and finance professional to assess your individual situation and investing needs.

SHOULD YOU BUY AN ESTABLISHED OR OFF-THE-PLAN INVESTMENT PROPERTY?

Deciding whether to buy an established or off-the-plan property as an investment takes a lot of consideration. Like any investment, there are upsides and downsides to both options. We're taking a look at some of the factors to consider when deciding between established or off the plan investment properties.

With established properties, investors can value-add by making changes to the property and often have strong equity building potential compared to new properties. In contrast, off-the-plan properties can offer higher tax incentives and could attract better quality tenants.

Buying off-the-plan

There are several benefits of buying an investment property off the plan. These benefits include depreciation benefits, attracting quality tenants, building protection, lower maintenance and tax incentives. Here's an overview of the benefits:

Depreciation benefits - the newer the investment property, the higher amount of depreciation you can claim in the financial year. Investors can deduct 2.5% of the property value for 40 years, providing attractive tax deductions.

Attracting quality tenants - new properties are typically in mint condition and include modern features such as reverse cycle air conditioning and new appliances. These features often attract quality tenants.

Building protection - developers who build new properties have to take out home warranty insurance. This will protect investors in the event of major building defects.

Low maintenance - given the property is new, many of the typical maintenance and repair needs associated with established properties aren't necessary in new properties.

Tax incentives - Governments around Australia allow incentives such as stamp duty concessions on new properties which could reduce the cost of the property.

The downsides of buying an off-the-plan investment property are that these properties can be less affordable than established properties, have limited value-adding potential for capital growth and carry the risk of declining value following construction.

Buying an established property

The benefits of buying an established property include its renovation potential, affordability, the ability to negotiate and capital growth. Here's an overview of these benefits:

Renovation potential - with established properties, there is more freedom to add to and change the property to add value and attract specific demographics.

Affordability - established properties are generally more affordable than off-the-plan properties. This could also make it easier to finance the investment.

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