ACCRUE

REAL ESTATE

# HOW PROPERTY AND FINANCE WORK HAND IN HAND

# contents

welcome

# A message from our managing director

The first quarter of 2021 is done – and what an education it's been on the importance of real estate to Australians.

The confidence that began pervading markets toward the end of 2020 was a mild precursor of what was to come.

Frankly, in my 27 years in the industry, I've never seen so much excitement in the market.

Real estate has gone from strength-to-strength across the nation. The bullish growth forecasts we made in our previous issue of Accrue magazine just three short months ago look incredibly conservative based on the numbers we've seen so far this year. The spike in activity and values has been dizzying – and if analysts' predictions hold true, there's plenty more to come. High auction clearance rates and anticipated double-digit value gains are all being underpinned by growing rental demand.

Those who can get their affairs in order and quickly take advantage are certain to profit.

It's with this in mind that I discuss, in this issue of Accrue magazine, the importance of finance. There are some great tips on how to prepare for a loan application, plus advice on the dos and don'ts of borrowing.

In addition, we meet Lynne – an Accrue investor who rebuilt her financial future after devastating stock market losses left her broke at 50-years of age. Her story will be an inspiration to all readers.

We also cover off on another hot property location where Accrue members are staking their claims.

If you're thinking of investing, now is the time. Those who fail to take advantage of today's market will look back in six months and regret their decision not to act quickly.

The key is to utilise the guidance of an experienced advisor with the resources and know how to identify great opportunities, and help you secure the right assets.

At Accrue, we've built relationships to ensure our members receive priority access to excellent investment opportunities under the best possible terms in owner-occupier dominated markets.

Please enjoy our latest edition of Accrue magazine – and don't hesitate to contact our team for any assistance with your real estate investment needs.

**JASON NEVINS**
Managing Director

# Why finance matters matter most

## There is an undeniable link between finance and the property market.

**JASON NEVINS**
Managing Director

When credit is flowing, and buyers are able to access loans at reasonable interest rates, real estate is the beneficiary.

Improved borrowing conditions allow homebuyers and investors to increase their limits, which broadens their options and, invariably, helps drive up prices.

Conversely, if lending is too restrictive – either funds are scarce or getting a loan approval is tough – then the property market consolidates.

Staying abreast of ever-changing banking and finance conditions provides valuable information to property investors about the direction of the market and their ability to ride out the challenges.

You see, in large part, property investment is a game of finance. Access to funds determines what and when you buy, so it's critical to understand the world of lending.

And here's an interesting thought – the financial landscape in 2021 offers an excellent opportunity for investors looking to optimise their lending and build a property portfolio that will deliver impressive future rewards.

## A MODERN HISTORY OF FINANCE

The past decade has been tumultuous in the finance world. Here are some of the most significant recent events.

### BANKING ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ran from early 2017 to late 2019. Its final report highlighted issues around weak regulation, inappropriate rewards structures and a lack of focus on client interests. There were also 24 referrals for misconduct involving potential civil and criminal penalties for big-name lenders, including the Commonwealth Bank, NAB, AMP and ANZ.

Somewhat ironically, many of the recommendations were not implemented. Fortunately, this includes those which would have been devastating to the mortgage broking industry.

### 'WAGYU & SHIRAZ' COURT ACTION

One of the most colourful recent events in finance has been tagged the 'Wagyu and Shiraz' court case.

In 2018, Westpac admitted to breaches of responsible lending obligations under the National Credit Act, agreeing to pay a $35-million civil penalty. It was in regard to a series of home loans approved under Westpac's automated decision system. ASIC claimed Westpac failed to use, or incorrectly applied, applicant information. ASIC said this resulted in around 10,000 loan approvals that shouldn't have seen the light of day.

But when ASIC and Westpac approached the Federal Court seeking orders around the matter, the court was not convinced Westpac had breached its obligations.

In reviewing the case, Justice Perram said borrower's current living expenses were not necessarily indicative of their future spending behaviour. Perram said many would tighten their belts after taking out a home loan. It led to this now famous commentary from the Justice:

"I may eat Wagyu beef every day, washed down with the finest shiraz, but if I really want my new home, I can make do on much more modest fare."

This finding certainly put a dent in ASIC's aggressive approach to finance and endorsed the ability of lenders to be able to properly assess a borrower's capacity to service a loan.

### RESPONSIBLE LENDING LEGISLATION

In the wake of the 2008 GFC, the federal government introduced Responsible Lending Legislation under the National Consumer Credit Protection Act. It was designed to ensure lenders and mortgage brokers only promoted lending product to consumers which they could afford to repay.

The laws resulted in much higher levels of scrutiny around each loan applicant's finances.

But many argued the laws were an overreach and shut out reasonable borrowers from getting a loan approval.

In September 2020, the federal treasurer announced plans to repeal the laws, which means borrowers would be responsible for assessing their suitability to take on debt, rather than being subject to extraordinary lender oversight.

Assuming there's a majority support in the parliament, the laws could be removed as soon as May this year.

### APRA GUIDELINES

The Australian Prudential Regulation Authority (APRA) is charged with setting guidelines for lending institutions. In March 2017, APRA introduced guidelines restricting interest-only home loans to 30 per cent of banks' new mortgages. This was in addition to an already imposed 10 per cent annual growth cap on lending to property investors. The moves were designed to slow the runaway property market.

For investors, the outcome was a swift reduction in available credit and the results were a sharp downturn in property values.

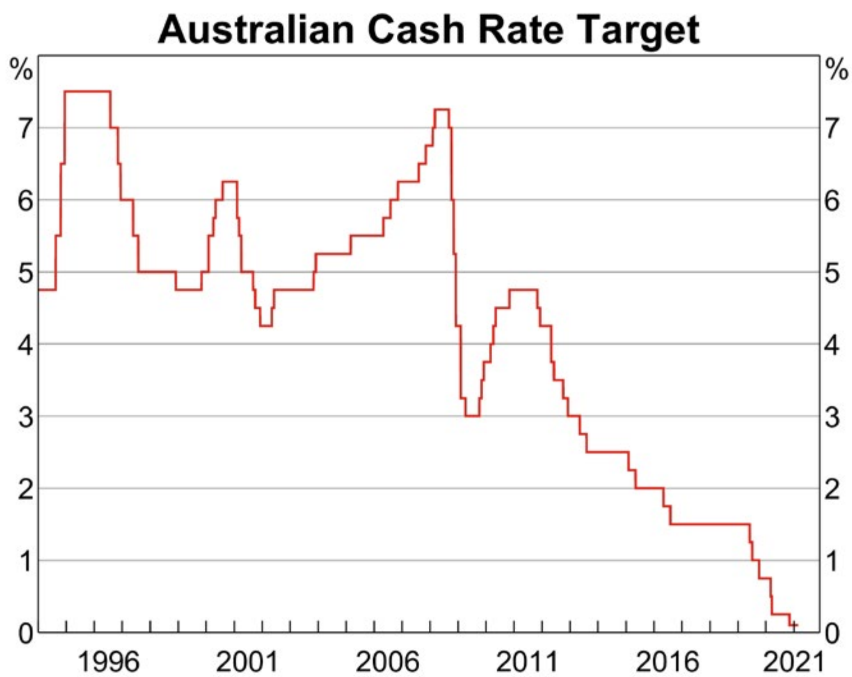
In April 2018, APRA removed the cap on investor lending and then by December of the same year, it ended the interest-only restrictions.

The property market rebounded almost immediately.

## WHY 2021 IS A GOOD TIME TO BORROW?

So – given the direct link between lending and property prices, why is 2021 a good time for investors to get their finances in order and look to borrow?

Firstly – we are in the lowest interest rate environment in modern history.




Source: RBA

The current RBA target cash rate sits at just 0.1 per cent and borrowers are, in some instances, accessing funds at sub-2.0 per cent interest rates.

Money has never been cheaper to borrow. That means you can potentially leverage your way into a loan where the cost of borrowing for an investment is easily covered by its rental return. The average mortgage size in Australia is around $500,000 according to the ABS. This means for the average borrower, every one percent interest saving delivers an additional $5000 a year that can be devoted to either the household income, or servicing a larger loan.

Next, we are entering a post-pandemic era where there will be an emphasis on cranking up the economy. Government is keen to look beyond the pandemic wage subsidies and find better ways to get Aussies working and spending again. For example, we've already seen plans for large scale infrastructure projects to help boost employment and the free flow of dollars. Political leaders at all levels will be very pro-investment in the next twelve months, so expect legislation and new programs in line with this thinking.

Finally, financiers are getting competitive for your business. While there are other challenges for lenders in terms of loan-approval turnaround times, there's no doubt they want to lend.

This puts you at an advantage, particularly if you use a mortgage broker to shop around for the best finance deal.

## FOUR WAYS TO OPTIMISE YOUR BORROWING

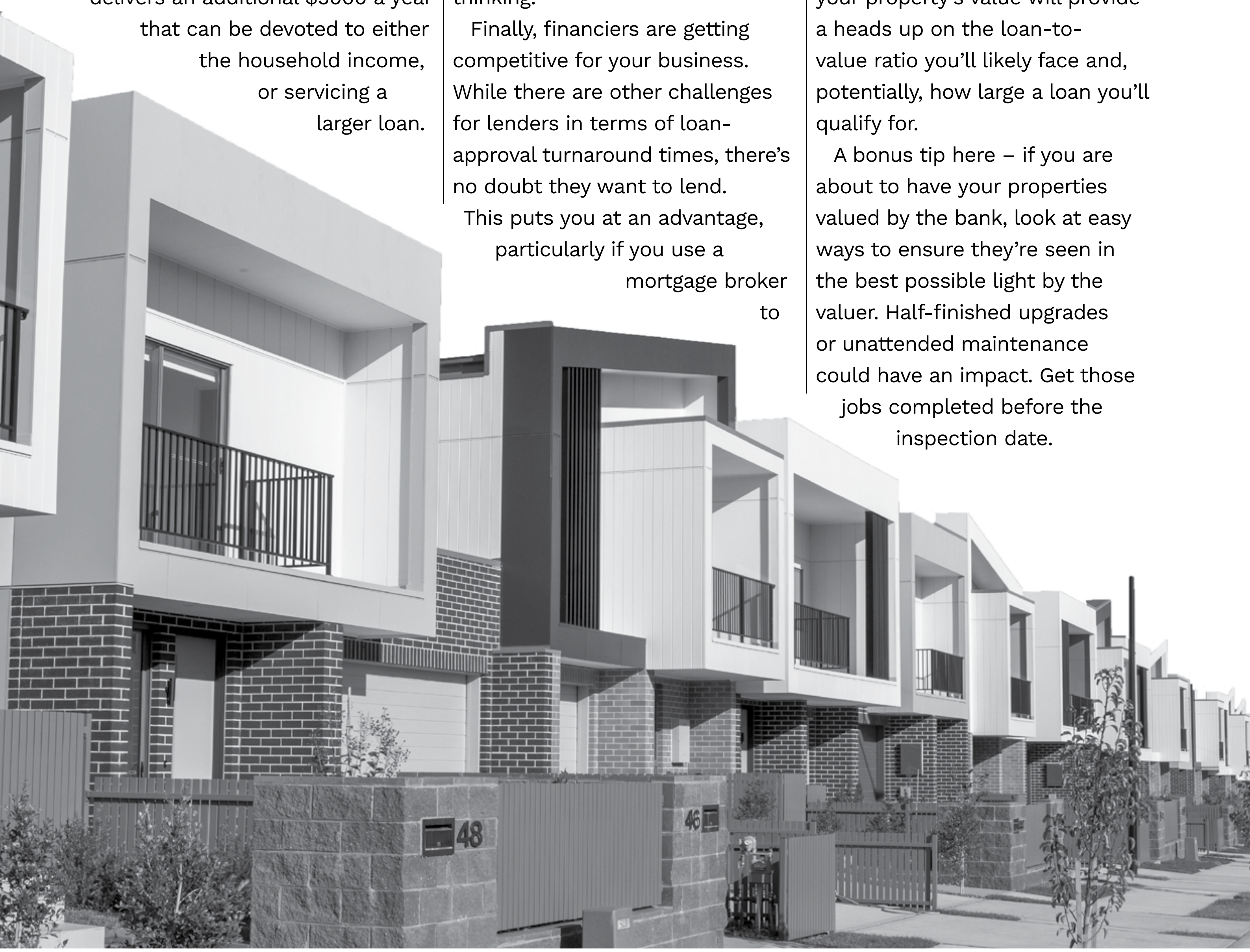
Here are some moves you can make to ensure you're optimising your investment borrowing in 2021.

### 1. Know your property values

Staying abreast of your property values will help you make better decisions around when and how much to borrow.

A realistic understanding of your property's value will provide a heads up on the loan-to-value ratio you'll likely face and, potentially, how large a loan you'll qualify for.

A bonus tip here – if you are about to have your properties valued by the bank, look at easy ways to ensure they're seen in the best possible light by the valuer. Half-finished upgrades or unattended maintenance could have an impact. Get those jobs completed before the inspection date.






ACCRUE REAL ESTATE

## 2. Maximising rental returns

Work with your property manager to make sure your rents are regularly reviewed to market. Sometimes in the process of retaining long-term tenants, a property owner will allow the rent to progressively slip lower than market. While keeping a secure tenant is important, don't discount your financial position by allowing the income to drift too low. Regular 'health-checks' of your rental return in conjunction with your property manager's advice can improve your income position. This might be just the thing to get your loan approval over the line.

## 3. Get finances in order early

Can you do without the streaming TV services and five-night-a-week takeout dinners? A full and frank assessment of your household budget will help reconcile your cashflow to maximise your available funds each month.

Once you have a budget you will need to stick with it and establish a spending pattern the lender can rely upon. A six-month runway of staying to your budget demonstrates your commitment to making the necessary changes needed to service a loan.

## 4. Select the right assets

Asset selection is always important for investment performance, but choosing the right property is key to making finance work as well.

Select a holding that matches your needs in terms of cashflow and capital growth. If you buy a great high-growth property, but can't afford the repayments, it will do you little good once the bank begins foreclosure proceedings.

## TOP TIPS ON FINANCING

When applying for loan, there are couple of important things to keep in mind.

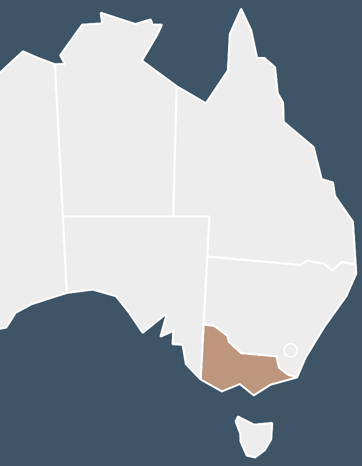
▶ **Seek advice** – Be sure to use a qualified, experienced mortgage broker when seeking a loan. They will identify the lending product that will best suit your particular circumstances. In addition, a mortgage broker will help prepare your loan application. Best of all, they're on hand to provide advice – a safety net for you in the complex world of financing.

▶ **Don't overextend** – There is always a risk in borrowing too much when buying an investment property. Make certain you borrow within your limits. The road to riches is littered with investors who borrowed too much to buy an excellent asset, only to lose the lot when they couldn't service their loan. Your mortgage broker can help ensure you borrow a manageable amount based on your resources.

▶ **Understand fixed vs. variable interest rate conditions** – It may be tempting to fix your interest rate, given they're generally lower than variable rates at present, but this can also lead to trouble. Fixed rates lock you in for a set loan period. If circumstances change and you have to alter your loan arrangements, it can be costly extricating yourself from a fixed-interest loan.

▶ **Understand break-free costs** – This leads on from the point above. Many loan products include exorbitant fees and charges if you choose to pay out the principal early or look to move your lending to another financial institution. You must be across what those charges are before deciding to alter your arrangements. Again, this is where a mortgage broker's advice is invaluable.

The information discussed is of general nature and has been prepared without taking into account personal objectives, financial situation or needs. This is used for illustrative purposes only and we recommended you seek advice from a financial professional to consider the appropriateness of the material with regards to your objective, financial situation and needs.



# Sunbury

The pros and cons around housing choice have changed over the past 12 months. Prior to 2020, most people would compromise on accommodation for the sake of location. But last year delivered a short, sharp uppercut to this. Owners and tenants discovered being close to work was no longer essential, and that homes needed to be more comfortable and functional. So, balance became crucial. Locations that offer enviable lifestyle and space to roam, but which are also a short commute to city centres, have seen a surge of interest. You can get more bang from your buck in terms of house and land sizes, and essential services are still within reach. This is why Sunbury in Victoria is an exceptional investment opportunity.

## REGION

Sunbury is positioned 35 kilometres directly north west of Melbourne's CBD in the City of Hume which is known for its rapid pace of residential and commercial growth.

That said, it's a community founded in agriculture, and the region's rural charms – particularly around Sunbury – are part of the attraction.

With an abundance of open land, plus easy access to the hustle and bustle of Melbourne, the City of Hume has become a key Victorian growth corridor.

## SUNBURY

You only need scratch the surface to discover just why Sunbury provides an extraordinary set of fundamental drivers for future value and rental growth for savvy property investors. First up, there's accessibility. While work-from-home is now commonplace, there's still a need to easily access the CBD and other suburbs.

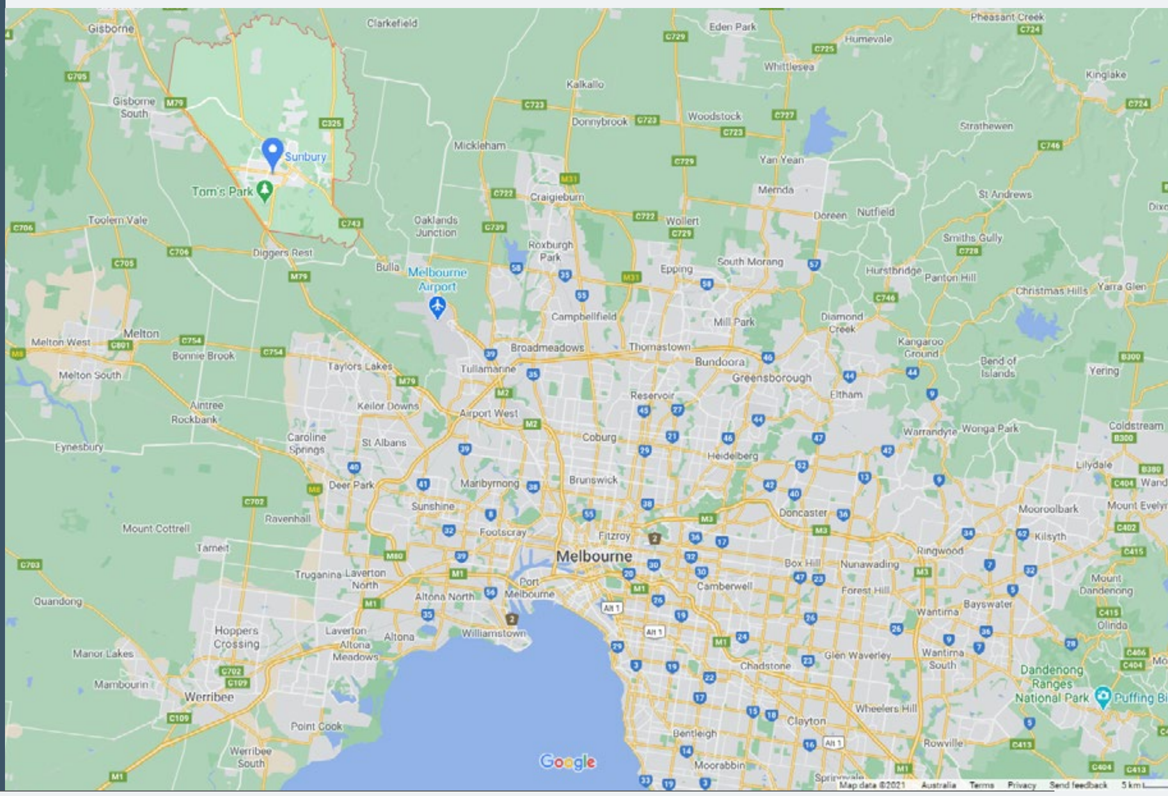
The Calder Freeway which runs adjacent to Sunbury, allows for a 30-minute drive to the heart of the city.

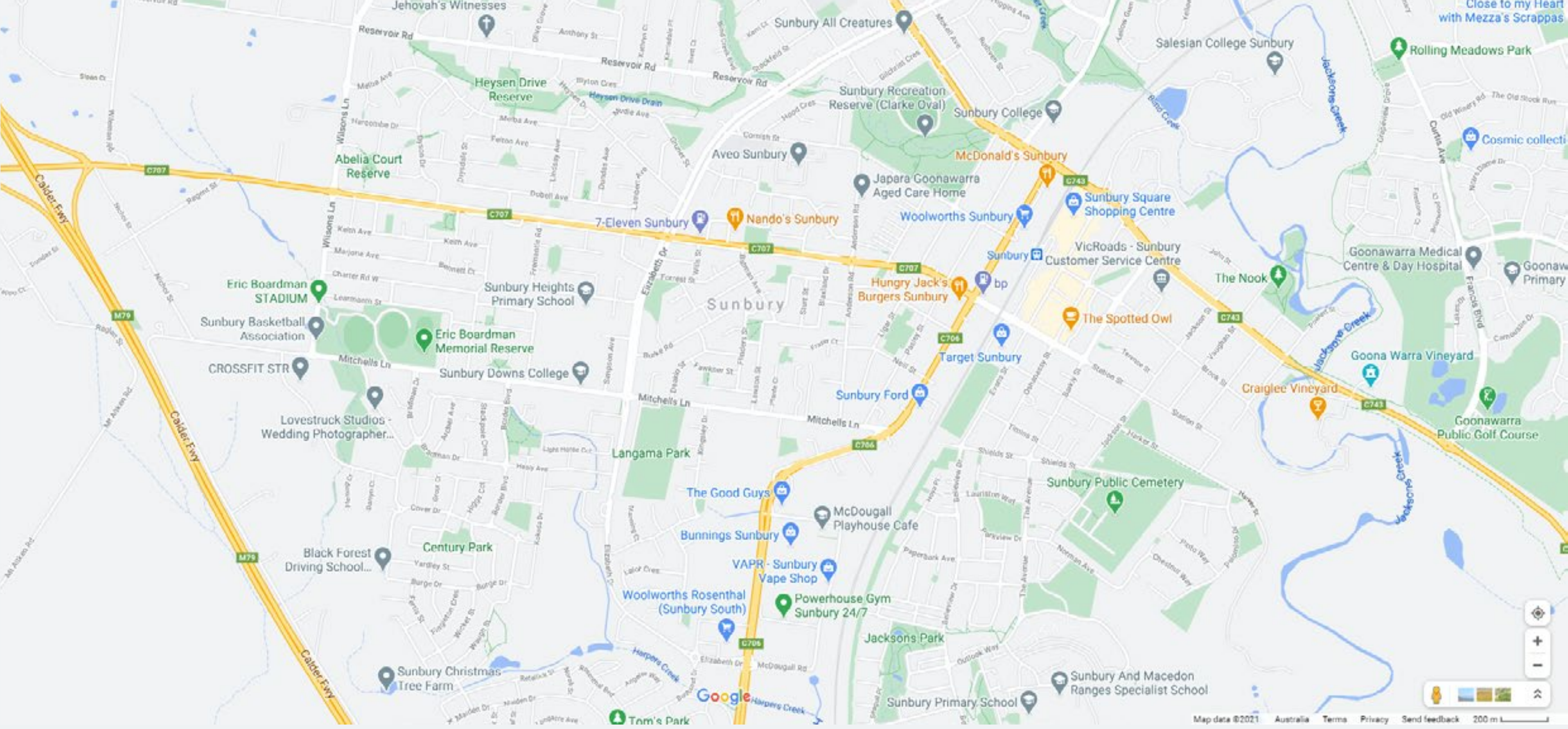
In addition, Sunbury Train Station is just three stops from Southern Cross Station on the Bendigo line. A 30-minute train trip and you are in the heart of Melbourne.

There's another attraction for long-distance commuters. Melbourne Airport is a 19-minute drive from Sunbury, making it the ideal location for professionals who need to jump on a plane for destinations around the nation.

Then there's lifestyle. Sunbury's rural appeal and community village feel are bringing new residents to the area in droves.

According to ABS statistics, 48.8 per cent of Sunbury households comprise families with children, with the average number of kids across all family households being 1.9. This is testament to mums and dads wanting to escape the city and provide room for their youngsters to roam. It's therefore unsurprising that a range of public and private schools catering to all ages are on offer within Sunbury, including Sunbury College and Salesian College.






Sunbury also has a vibrant commercial centre, particularly around Brook Street and Evans Street. There are comprehensive retail, convenience and entrainment outlets including the Sunbury Square Shopping Centre.

## DEMOGRAPHICS

There are excellent demographic stats boosting Sunbury's investment credentials.

Areas dominated by owner occupiers tend to experience more capital gains, tighter vacancies and regular rent increases. Available rental stock is limited, and there is often more gentrification. In addition, when it comes time to sell, both homeowners and investors are competing for your asset.

Our research showed renters make up just 20 per cent of the population. In addition, ABS data revealed 42 per cent on Sunbury's labour force is employed fulltime, with 27 per cent of all employed persons being professionals or in the managerial field. Again, these results bode well for gentrification and price growth.

## STRONG PROPERTY NUMBERS

Of course, at Accrue, we're always keen to make sure the real estate numbers stack up– and Sunbury is delivering in spades.

For starters, with a median house price of $570,000, Sunbury has an affordability attraction for those wanting more house for less dollars in Melbourne.

But its capital gains story is also compelling. Since 2003, the median house price has seen an average annual growth rate of 6.7 per cent – well in excess of other localities with less fundamental advantages. What makes this even more persuasive, is that in 2019, the Sunbury market softened mildly by 1.8 per cent before recording a 5.6 per cent increase in 2020.

Expectations are there is a lot of catching up to do, and those who purchase in 2021 will be rewarded.

Another excellent result for Sunbury is the 3.9 per cent median rental yield for houses. Given interest rates are now around the 2.0 to 2.5 per cent level, your rent would cover most loan repayments, managements fees, maintenance and council charges, making property here an excellent set-and-forget option.

We believe new builds offer the best potential for investors. There is limited supply of new stock in the area, and recently constructed homes always appeal to tenants. In addition, there are excellent depreciation benefits on offer while maintenance costs for new product are normally low.

SUNBURY HAS ALL THE

**right ingredients**

FOR PROPERTY INVESTING WITH NOW BEING A PRIME TIME TO ACT.

# How one female investor rose from the ashes of financial ruin at 50

## Can you imagine losing most of your life savings at 50 and having to start all over again?

Well, that was the reality for Melbourne-based Lynne, who had bought properties in her peak earning years, even when lending for single females was not easy to obtain to start off with.

"A long time ago, back in the '80s I think, there was a lot of resistance (lending to single females)," she says.

"I couldn't even get money to buy my first property, even though I had a substantial deposit.

"I actually had to get a personal loan because they wouldn't give me a housing loan – because I was a single female – and then when I went to buy my second one, the bank said to me, "You've got one property. Why do you want two?"

But even after overcoming such gender-biased hurdles, the future had some unpleasant surprises in store for her.

Lynne decided to spend some time overseas about 15 years ago after selling the investment property and her home and investing the money in shares – just before the stock market crashed.

"I was overseas on an island off the coast of Malaysia and there was no internet," she recalls.

"Anyway, I came back, and the stock market crashed, and so I lost the majority of my money.

"So, all of my hard work between 20 to 50 had just disappeared."

Showing a clear determination not to be defeated, Lynne dusted herself off and decided to start over at the age of 50.

She bought a property in Ascot Vale, then sold that to buy a unit in Southbank, but with time marching on by, she knew she needed to do more to help her have a comfortable retirement.

Lynne, who works as an account manager in the finance industry, was recommended Accrue by a work colleague and she soon met with the team.

Lynne says she was happy for the team to guide her on which locations would potentially provide the best returns for her over the short- to medium-term.

"For convenience and time, it was easier to go to Accrue and pay the fee for them to do all of the sourcing for me," she says.

"Also, you don't have the emotional attachment by going to a third party and outsourcing that, so they can provide areas that you may not have considered."

The first property Lynne purchased with the guidance of Accrue was a townhouse in Epping in 2017.

"It was a new build, but it was nearly finished, so, it meant that I could go and look at it, see exactly what I was buying, and go ahead with that. It was just in the final stages of being finished," she says.

"It's been tenanted the whole time. I had tenants in there pretty much a week after we settled."

Lynne's successful experience working with the team meant that she engaged their services again in 2020 to purchase a second investment property – this time in a development in a northern suburb of Adelaide.

"I've made massive, massive errors of judgment that's cost me financially, but with Accrue's support, I believe they've guided me – with Adelaide, you actually get growth and yield," Lynne says.

"The rent I get on the house, because that's a three-bedroom, two-bathroom house, provides excellent yield."

As well as advice on the locations around the nation for Lynne to consider investing, she says working with Accrue also provided a plethora of other valuable services.

"Working with Accrue has been very easy. That one-off fee that you pay gives you so much," she says.

"Because they cover conveyancing, the depreciation schedule, the first year's landlord insurance, so you get so much more, along with the service, which is excellent.

"Going out and doing the research for you, providing you with some options, working with you on your budget, putting you in touch with financial planners to assist you with the finance side of it, the value that you get out of it is more than that one-off fee that you pay."

From the outside, it's hard to fathom working hard for the majority of your life to lose nearly all of it as you approach your twilight years.

However, rather than be financially derailed permanently, Lynne pulled herself up by her bootstraps and tried again – but this time she made sure she had a team of experts helping her to make the most of her financial second chance.

"I felt that one investment property wasn't really going to set me up well enough," she says.

"It's created a much more comfortable piece of mind moving towards retirement, and I don't have to worry so much about being able to finance myself through that."

# Income Tax Know How - Investment Properties

Are you new to owning an investment property and wondering how it will impact on your income taxes each year?

**NEIL BROOMHALL**
ASSOCIATE DIRECTOR
4orward

At 4orward we certainly know how the Australian tax system can be complex and difficult to understand at times. Here are few tips to assist you.

## RENTAL INCOME

Income from your investment property is generally assessable to you in proportion to your ownership of the property. If you own a property jointly with your spouse or partner, then you will include equal shares of the income in your individual tax returns each year.

## RENTAL EXPENSES

Investment property costs broadly fall into three main categories – costs you can deduct straight away, costs that are deductible over time, and costs that are not deductible or are added to the cost of the asset.

Where an investment property is rented or genuinely available for rent, costs associated with holding and renting the property are generally deductible straight away. These can include council and other rates, body corporate fees, land tax, insurance, interest on loans, agent renting fees, and repairs and maintenance just to name a few.

Costs that are generally deductible over time include borrowing costs, depreciation of assets and capital allowances. The Australian Taxation Office releases guidance each year on the period certain assets are to be deducted over, which is very comprehensive.

The final group of costs are those that are not deductible at all or are allocated to the cost of the asset to be included in the event the property is sold. Examples of costs that are allocated to the cost of the asset include stamp duty, real estate agent commissions, legal conveyancing costs and land titles office costs. An example of a cost that is not deductible for an individual owning a residential investment property is travel costs relating to the property.

This is not intended to be a comprehensive list. We could be talking about it all day! The best advice is to speak to your tax agent so you can get the right advice for your specific circumstances and maximise every opportunity.

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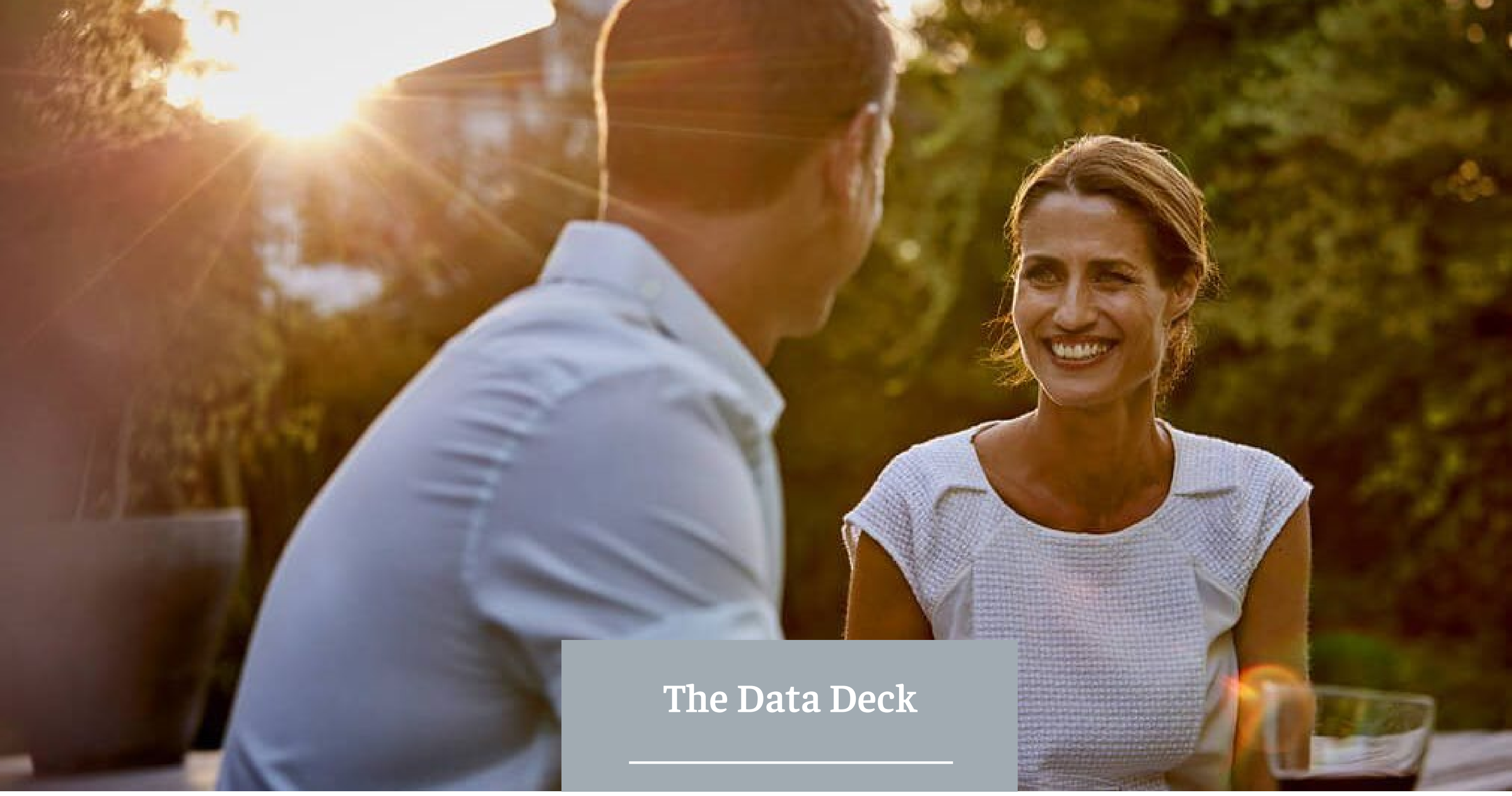
Southbank VIC 3006
Phone: (03) 9690 3455



The Data Deck

# Australian Property Clock

APRIL 2021

## Our research and acquisition team use data and analytics to identify the nation's next property hotspots, keeping our members ahead of the market.

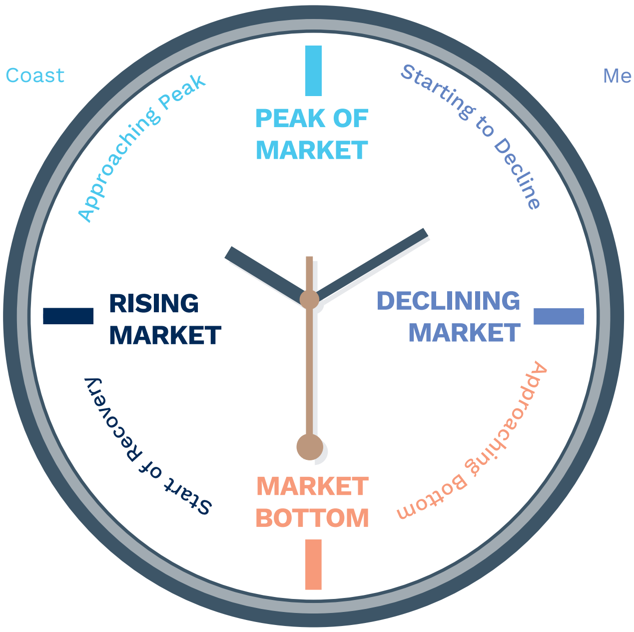
Investing is a science and by using the latest data we are able to predict market trends and growth suburbs. Here's just some of the analytics we're tracking at Accrue.

Hobart
Launceston

Canberra
Geelong
Ballarat
Sunshine Coast
Canberra

Melbourne CBD
Melbourne Southbank
Sydney CBD
Brisbane CBD
Perth CBD

Outer West Brisbane
South Brisbane
Gold Coast
Bendigo
Gippsland
Shepparton
Outer West Melbourne
Coffs Harbour
Newcastle
Adelaide - North West
Perth - South West
Albury




Townsville
Cairns
Darwin

Melbourne
- Outer South East
& Northern

Sydney
- Outer West
& South West

Please note: Property Clock positions are based on the subjective opinion of our highly informed Accrue team. They are not based on a defined algorithm or specific data points.

## CORELOGIC HEDONIC HOME VALUE INDEX

CoreLogic's analysis to 31st March 2021 highlighted the extraordinary run of capital gains being experienced across both metro and regional markets. In fact, the national home value index of 2.8% rise in March is the fastest monthly rate of appreciation since October 1988.

### Index results as at March 31, 2021

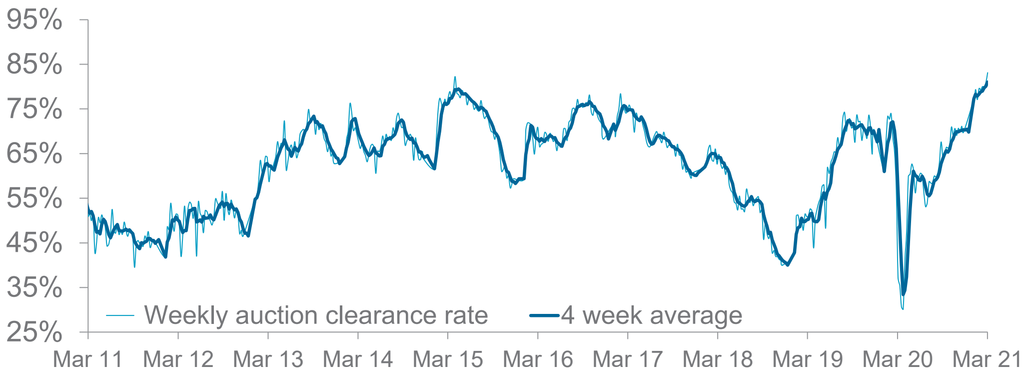
| | Change in dwelling values | | | | |
|---|---|---|---|---|---|
| | Month | Quarter | Annual | Total return | Median value |
| **Sydney** | 3.7% | 6.7% | 5.4% | 7.9% | $928,028 |
| **Melbourne** | 2.4% | 4.9% | 0.7% | 3.6% | $736,620 |
| **Brisbane** | 2.4% | 4.8% | 6.8% | 11.3% | $548,260 |
| **Adelaide** | 1.5% | 3.2% | 8.6% | 13.1% | $486,555 |
| **Perth** | 1.8% | 5.0% | 6.0% | 10.8% | $505,850 |
| **Hobart** | 3.3% | 7.6% | 12.5% | 18.0% | $548,686 |
| **Darwin** | 2.3% | 5.4% | 14.2% | 19.9% | $451,408 |
| **Canberra** | 2.8% | 6.0% | 12.1% | 16.7% | $727,032 |
| **Combined capitals** | 2.8% | 5.6% | 4.8% | 8.1% | $693,936 |
| **Combined regional** | 2.5% | 6.3% | 11.4% | 16.6% | $448,819 |
| **National** | 2.8% | 5.8% | 6.2% | 9.7% | $614,768 |

Source: CoreLogic

## AUCTION CLEARANCE RATES

Auction clearance rates across capital cities to 31st March 2021 revealed the swift turnaround in confidence with Sydney and Melbourne regularly tracking between 80 per cent and 90 per cent clearance.

Weekly clearance rate, combined capital cities

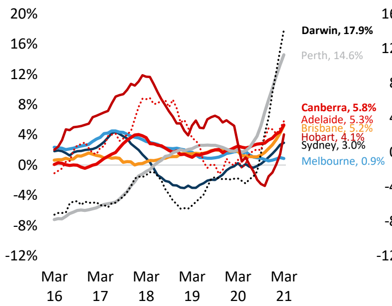



Source: CoreLogic

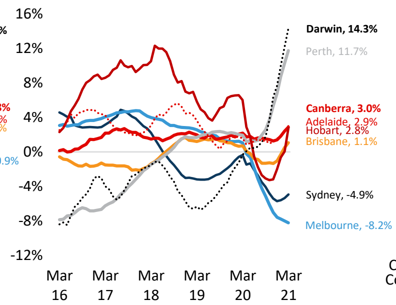
## RENTAL MARKET PERFORMANCE

Changes in rents and gross yields have a direct impact on investor cash flow. The latest data from CoreLogic revealed a continued strong post-pandemic rebound in detached housing rents.

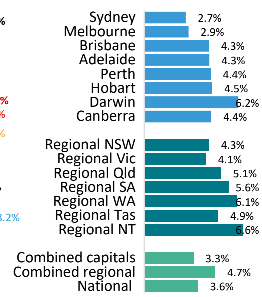
Annual change in rents, Houses




Annual change in rents, Units




Gross rental yields, dwellings




Source: CoreLogic

## PROPERTY LISTINGS

Listing numbers are a measure of supply within a given market. Melbourne's city region is seeing a rebound in listings back toward historic averages, as prices improve and sellers get active.

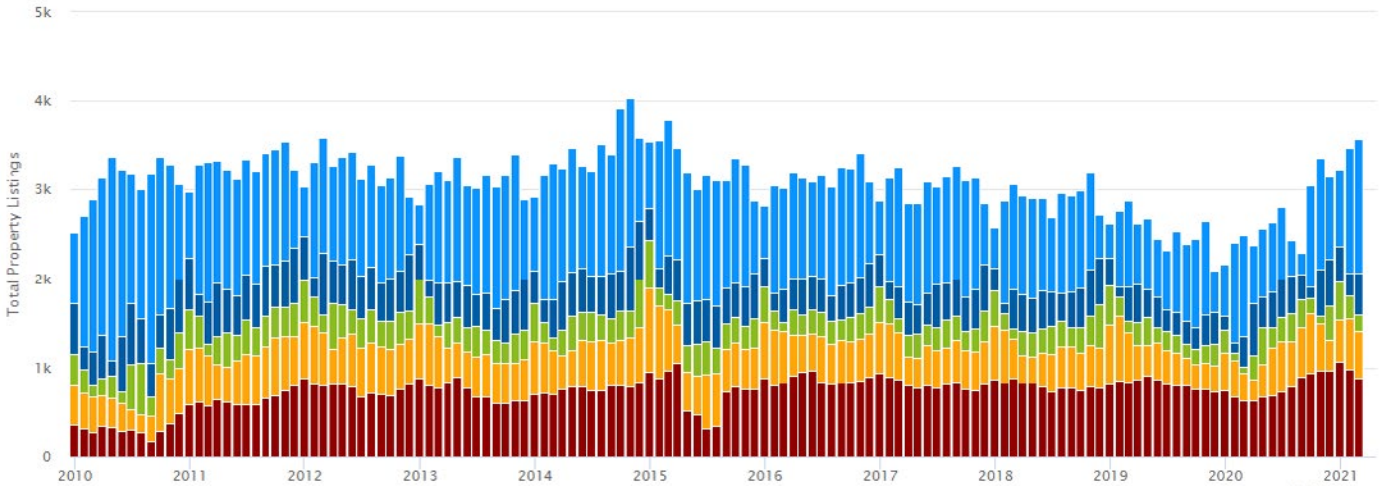
**TOTAL PROPERTY LISTINGS**

**REGION: MELBOURNE CITY**

Total Property Listings

Source: SQM Research

Under 30 days · 30–60 days · 60–90 days · 90–180 days · Over 180 days




ACCRUE

REAL ESTATE

Buy like a professional by taking advantage of our experience.

Our investment property acquisitions services expand Australia wide.

## Refer a friend and be rewarded!

Referrals are the foundation of our business, and we love helping family and friends.

If you know of anyone who could benefit from Accrue's services, tell us. We'll arrange a no-obligation meeting to discuss their options.

Simply send us their details and we'll take care of the rest.

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