The Buyers Advocate

Connecting People and Property

PETER ROGOZIK Property Consulting

Issue 15 > February 2011

Editorial

Hello and welcome to Peter Rogozik Property Consulting six monthly newsletter.

Although the second half of 2010 proved to be subdued and the outlook for 2011 will only bring modest price increases we were still able to put some significant scores on the board for our clients. An example of this was the purchase of a 1 bedroom apartment in a blue chip location in Prahran. This particular apartment ticked all the boxes of our strict criteria and was purchased for an investor client in September of 2010 for $464,000. A few months later in December a similar apartment in the same complex sold for $501,500. This result, a capital increase of $37,500 was astounding given the fact that the Melbourne 2010 spring market actually declined in value according to statisticians.

In this edition I include an article which discusses the merits of buying property in close proximity to a railway station. According to a survey that was conducted in London this attribute will result in substantially greater capital growth. I believe that this is an emerging trend in Melbourne especially as our population continues to increase. The rules regarding real estate agents buying their own listings has been amended. The changes are a recipe for disaster and put unsuspecting sellers at risk of

In this issue:

Market Snapshot

The last six months of 2010 have played out as expected in the Melbourne property market. Prices and activity platued in May of 2010. Previous to this there was a sharp increase in prices especially in the quality segment. Taking this into account the recent spring market was always going to be a more difficult time for sellers as the market had reached its maximum price point. This resulted in less buyer demand combined with a greater supply through vendors looking to take advantage of the recent price increases. As usual quality stock was in short supply however with clearance rates hovering around 60% buyers were able to snap up property that would provide some genuine high performance at reasonable prices. The Melbourne rental market tightened slightly in the September quarter 2010 with a vacancy rate of 1.4% compared to 1.9% for the August quarter.

The outlook for the Melbourne property market in 2011 can best be described as moderate however we will still see increases in the quality segment of between 7% and 10%. There is sufficient positive economic indicators i.e. high net migration, low inflation and falling unemployment to guarantee this outcome. Lesser property will really struggle with no prices increase or only slight increases in capital value. Rental markets will also remain tight with vacancy rates hovering around the 2% mark.

TOP

All Aboard the Capital Growth Express

Being within short walking distance to a tram stop or railway station in Australia equates to substantial extra capital growth underselling their homes. It is amazing how out of touch the legislators can be.

Self managed super funds have emerged as a popular structure to accumulate assets for retirement. Some investors can become obsessed with trying to save tax and lose focus on the real reason for investing namely to accumulate quality assets that will increase in value in the shortest possible time frame. I don't recommend self managed super funds as a structure to buy residential investment property, especially if the investor is in the accumulation phase. In this edition I explain why. The home savers deposit account was an innovation introduced by the federal government to encourage first home buyers to save for a deposit. Although a good idea it has not been administered properly. Instead the government now has to rely on massive handouts to first home buyers that do more harm than good. In this edition I explain more about this debacle.

We have definite points of difference compared to other buyer's advocates. We only accept remuneration from our clients so when we source property the entire marketplace is examined and only properties that match our client's criteria are recommended. We will never favour a third party based on a financial kick back. Also, we only represent the buyer, this defies a trend in the industry where most buyers' advocates now offer services to both buyers and sellers. This situation could result in a conflict of interest. In this edition I go into more detail about how we continue to be passionate about the buyer. As usual in this edition we include our regular article, Market Snapshot. Market Snapshot outlines the recent past performance of the property market. We also present our opinion on future trends in the Melbourne Market.

Feel free to contact us if you have any questions in relation to real estate or building matters. Also, if

in the medium to long term. As our roads become more congested this is a feature that rates at the top of the wish list of both buyers and renters.

A study was completed in London which found similar conclusions to what I believe is a growing trend in Australia. A major British lender found that Londoners pay an average premium of 20,300 pounds for a home within easy reach of a subway or railway station. Properties within 500 metres of a stop will cost on average 7.2 per cent more than an identical home 1500 metres away. The report went on to say that although home buyers would prefer to live close to a station, it becomes less important once outside easy walking distance. The premium falls the further away a property is. Those located 750 metres from a Tube station commanded a 5.2 per cent premium and those 1000 metres away a 3.4 per cent premium.

As the population of Australia's major cities increases this scarce and unique feature of being located within easy walking distance to a railway station or tram stop will only increase in demand from buyers and renters.

TOP

Recipe for Disaster

There have been amendments to the Estate Agents Act effective from 1 January 2011 regarding real estate agents, their employees and family members buying homes directly from their vendor client. These changes could result in unscrupulous agents buying properties at below market price. The proposed legislation enables agents to buy property from clients with the written consent of the seller and a legal practitioner, conveyancer or accountant representing the vendor. The agent will be required to notify Consumer Affairs within seven days of receiving consent.

The proposed changes once again demonstrate how out of touch the law makers are on real estate matters. Over the last few years there have been several real estate agents prosecuted in regards to substantially underselling a property to themselves or an associate. The critical issue in regards to a transaction between a real estate agent and his client is that fair market value is paid by the real estate agent. The new legislation gives no protection to the vendor because legal practitioners, conveyances' and accountants are in no way qualified to ascertain fair market value of a property. Clearly the legislators should have insisted on an independent valuation by a qualified valuer be undertaken before such a transaction be approved. This requirement would give the vendor protection against the property being undersold. Also, legal practitioners, conveyancers and accountants often work together with real estate agents through cross referrals. This further exposes a vendor to the possibility of their property being undersold.

The requirement of undertaking a valuation before a transaction proceeds was part of the previous legislation, there is a specific topic you would like covered in our next newsletter we would like to hear from you.

Regards,

Peter

strangely this safeguard has been removed. It is astounding that the legislators have changed the rules for no apparent reason.

TOP

Beware Self Managed Super Funds

Residential property investors should be extremely wary if contemplating buying real estate using a self managed superannuation fund structure (SMSF). This structure which has created a lot of media attention lately may prove to be a fad that burns many a property investor. At the time of writing more than 400,000 investors are running their own do it yourself super fund, holding total assets worth more than 400 billion dollars.

The goal of most residential property investors is to achieve the optimum capital growth in the medium to long term. If property selections are correct this will result in the capacity to purchase multiple properties by borrowing against equity that has been accumulated provided there is sufficient cash flow to meet loan requirements. This is a long term strategy used by many experienced property investors that can lead to a self funded retirement.

The current rules governing self managed super funds do not allow a residential property investor to use this strategy. Firstly the current rules do not allow an investor to borrow against any equity that has been gained. Borrowing against equity is the cornerstone of the abovementioned strategy and is extremely important for most property investors as it allows for multiple purchases over a period of time. Secondly, financial institutions will generally only allow the investor to borrow 70% of the property's value. This constraint results in the investor having to provide more of his own cash funds to purchase the property. The loan to value ratio of a property purchased outside of a SMSF can be as high as 90% therefore allowing the investor to hold on to a greater proportion of his own funds for future purchases. Thirdly the SMSF rules state that the investor is not permitted to improve the property only maintain it. This constraint robs the investor of an opportunity to add substantial value through improvements.

There is no doubt that buying real estate through a SMSF structure offers investors generous taxation benefits. Super funds pay 15 per cent tax on rental income and zero when the fund is paying a pension to members over 60. Also properties in super funds attract no capital gains tax when retirees over the age of 60 sell the assets. However a common error made by investors is to choose an investment purely for tax saving benefits. Saving a relatively small amount of money on tax while forgoing hundreds of thousands of dollars in lost capital growth due to a poor property selection is a common error amongst inexperienced investors.

It may be appropriate to purchase a residential property in a SMSF in certain circumstances e.g. if the investor is nearing retirement or a SMSF can solve the problem of funding business premises. When the business owner retires he can sell the property to help fund retirement. However I don't recommend purchasing residential investment property via a SMSF if the investor is in the accumulation stage.

Important Note: It is extremely important to seek financial advice from an accountant/financial planner as to the correct entity to use before purchasing any form of real estate. Having to transfer real estate to a different entity could result in a massive stamp duty and capital gains tax liability. Investors should also seek advice from a qualified independent buyers advocate as an inferior property selection will result in substantial lost capital growth.

TOP

Too Little Too Late

Handouts rarely achieve anything and that is certainly the case when it comes to grants to first home buyers. These grants have been handed out on mass and have resulted in no real benefit to first home buyers or the economy. In certain circumstances a grant can be as much as $26,500.These handouts have only succeeded in increasing house prices by the amount of the grant therefore adding fuel to inflation. Also, it's relatively easy to rort the system. I certainly believe first home buyers should be given assistance, however this should be done through the first home savers account which was introduced by the federal government to encourage first home buyers to save for a deposit. The first home saver account rules as they stand at the moment do not give enough incentive for first home buyers to save for a deposit.

At the moment you are required to make contributions of at least $1,000 for each of four financial years before you can withdraw your money. The government will make a contribution equal to 17% of your personal contributions for the financial year, up to a maximum of $935 for the 2010-11 year. You can contribute as little or as much as you like every year, up to a maximum account balance cap over the life of the account. The account balance cap includes any earnings over the years, and contributions the government has made. The cap is $80,000 for the 2010-11 financial year and will be indexed periodically in $5,000 increments. Earnings in the account are taxed at only 15% although the account provider usually pays this tax.

The 17% interest rate combined with the maximum yearly government contribution of only $935 gives little incentive for first home buyers to save for a deposit. I recommend that the first home buyer grants be scrapped and changes be made to the first home savers account. These changes should include a substantial increase in the interest rate and government contribution cap. Giving first home buyers real incentive to save for a deposit rather than offering large handouts will not only benefit the economy but also teach young first home buyers the discipline of making sacrifices to save for a home deposit.

TOP

Passionate About the Buyer

As Buyers Advocates we have always prided ourselves on being totally independent. We have never and will never accept any form of remuneration from a third party. We are not aligned to any particular selling agent, property developer or any other organization where a conflict of interest could arise. When we search for properties on behalf of our clients the whole marketplace is examined without favour to anyone. The optimum property selection is made that best fits our client's criteria.

Unfortunately there is a growing trend amongst other buyer's advocates to offer services to vendors. In my view, as a real estate professional you can only represent a buyer or seller, not both. The buyer's advocates who are offering services to both buyers and sellers are setting themselves up for a conflict of interest. A likely scenario would be a situation where a buyer's advocate advises a seller on the best way to market their property. Subsequent to this a property buyer engages the services of that particular buyer's advocate to find and negotiate a property. It would be a clear conflict of interest if the buyer's criteria matched a property where the buyers advocate had given marketing advice to the vendor. In this situation the buyers advocate would have acted for both parties, this is clearly unacceptable.

At Peter Rogozik Property Consulting we will never offer services to sellers of property nor will we ever accept commissions, kick backs or any other form of financial reward for recommending one property over another. If you employ our services you can be assured of 100% independence.

TOP

Peter Rogozik Property Consulting
Licensed Estate Agents
Registered Building Practitioners

L 27, 525 Collins Street
Rialto South Tower
Melbourne Vic 3000 Australia

PO Box 23406
Docklands, Victoria. 8012
Australia

T + 61 3 9689 9080
F + 61 3 9689 2560
E info@yourbuyersadvocate.com.au
ACN 103 128 678

PETER ROGOZIK
Property Consulting