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NATIONAL DWELLING VALUES DROPPED TO START 2018

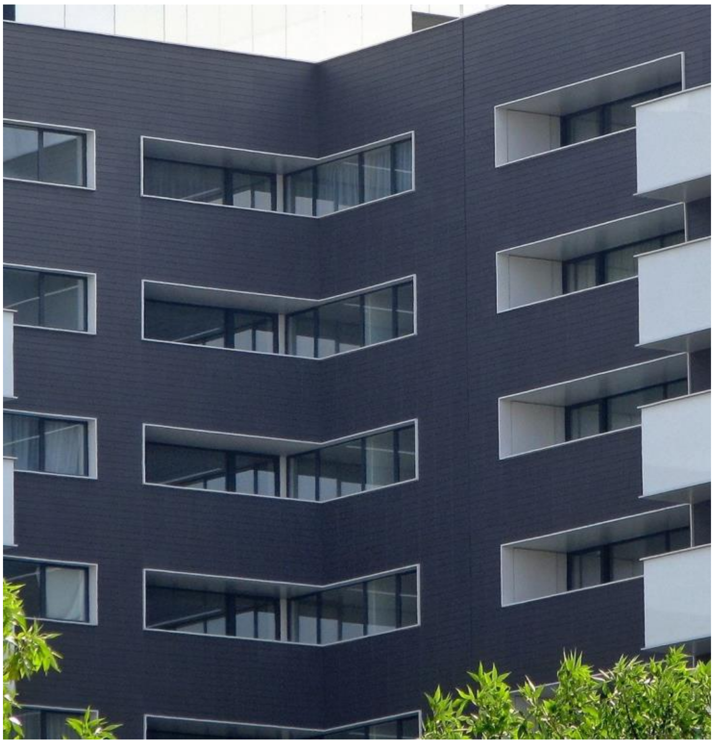
According to CoreLogic's February Hedonic Home Value Index, dwelling values across Australia dropped by 0.1% in February. This takes housing values lower by 0.8% since they peaked in September 2017. These recent declines mark the fifth consecutive month of housing value declines since March 2016.

The report stated, “there continues to be a divergence between capital city and regional markets, with the combined capital city index falling by -0.3% over the month, compared to a 0.4% increase in combined regional values."

Throughout February dwelling values dropped in every capital city except for Hobart and Adelaide. Dwelling values grew by 0.7% in Hobart and remained unchanged in Adelaide. The largest declines in dwelling values occurred in Darwin and Sydney, recording -0.9% and -0.6% respectively. Dwelling values dropped by -0.1% in Melbourne, -0.1% in Brisbane, -0.2% in Perth, and -0.3% in Canberra.

From an annual perspective over the 12 months to February, dwelling values increased by 2.2%. This is the slowest annual growth rate since August 2016.

While dwelling values have softened, rental rates have risen over the same period. Rental rates have been higheracross all the capital cities, except Perth and Darwin.



According to CoreLogic's report, “the markets experiencing the greatest increases in rents over the past year have been Hobart (10.2%) which has recorded double-digit annual rental growth for the first time since August 2009 and regional Tasmania (7.6%) which is experiencing the strongest rental growth since the end of 2008.”

These softening dwelling values in conjunction with increasing rental rates, demonstrate that 2018 could be a good year to continue growing your portfolio. As always, you should undertake your own research and due diligence when expanding or making changes to your investment portfolio.

A LOOK AT THIS ISSUE:

BUYING PROPERTY WITH YOUR SMSF.

The number of self-managed super funds (SMSF) has grown across Australia in recent years. Property investment through SMSFs has grown in popularity as it became possible for SMSFs to borrow money to fund a direct property purchase.

Setting up an SMSF and buying property through the SMSF takes considerable research and preparation. It's not for everyone and you need to have a full understanding of your administration and tax obligations before you establish an SMSF. We've listed the key details of investing in property through an SMSF to provide you with an overview of how investing with an SMSF works.

Residential property investing with an SMSF

Any residential property purchased with an SMSF must remain an investment property and cannot be lived in by you, any trustee, or anyone related to the trustees. The property cannot be rented by you, any other trustee, or anyone related to the trustees. This means, for example, you can't buy a holiday home with your SMSF and live there in the summer months.

Commercial property investing with an SMSF

One of the most popular ways people invest in property with an SMSF is in commercial property. 'Business Real Property' can be purchased by an SMSF and the space can be used by its members and related parties. This is provided that it's done at an arm's length basis.

For example, many small business owners use their SMSF to buy their business premises and then pay rent directly into their SMSF. This process is important to get right and the rent must be paid at market rates. The property will also need to meet the sole purpose test meaning that the overarching function of the property is to provide retirement benefits for its members.

Your tax obligations

If you purchase a property through your SMSF, the fund will be required to pay 15% tax on any rental income from the property. For properties held longer than 12 months, the fund receives a one third discount on any capital gains made upon the sale of the property. This brings any capital gains tax liability down to 10%.

It's also important to note that, if you make a loss on a property, tax losses cannot be offset against your personal taxable income outside the SMSF.

Using an SMSF to purchase property has a number of administrative and accounting steps that need to be taken. As always, you should do your own research to see if investing in property through an SMSF is suitable for you.

ACCESSING YOUR PROPERTY EQUITY TO GROW YOUR PORTFOLIO

Accessing the equity in your investment properties is essential for growing your portfolio and staying nimble as the property market goes through cycles of change. As the mortgage market continues to undergo changes, understanding how to access your equity is key if you come across investment opportunities.

As a property investor, equity is likely something that's always on your mind. Recent changes in Australia's economy including low household income growth, property price growth, and an increase in investor loans have all impacted the mortgage market. In response to these changes, the big four banks have increased interest rates for investors and lowered the number of interest-only loans that can be administered.

Like any investment strategy, staying nimble and knowing your options in the face of market changes and challenges is key. For this reason, equity is top of mind for many property investors.

To tap into your equity, refinancing of your mortgage will be required to reflect the increased value of the mortgage while making equity available for other investments. Using this strategy to continue building your property portfolio can help you build the amount of properties you hold quicker than if you waited to pay off the full mortgage on one property, while saving a deposit for the next property.

That being said, cash buffers and contingencies that will keep you secure in the face of any market shocks or financial challenges are paramount as you expand your investments.

Calculating your available equity will involve having your property valued. Most banks will allow you to have debt equating to 80% of the value of your property. Anything higher than this will incur lenders mortgage insurance. To ensure you have a buffer available for unexpected maintenance, vacancies or changes in your personal circumstances, you should avoid using all of your available equity at one time.

When you've worked out how much equity you have available to take out and reinvest, you will need to talk to your bank about securing an equity loan. The bank will take into consideration factors such as your age, number of dependents, other debts, your living expenses, income, and rental income.

From here, you can explore your options for an equity loan option that suits you. Ensure you do thorough research and due diligence with the help of a finance professional to secure an equity loan that suits your personal situation.

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