Labor's negative gearing could crimp capital gains

Su-Lin Tan

Labor's proposed negative gearing changes will not only hurt housing supply but dent capital gains for investors at the end of the life of their investments, the Urban Development Institute of Australia (UDIA) warns.

As the property industry focuses mainly on the immediate impact of the policies on the quantity of rental housing and rents, UDIA National President Darren Cooper says there is another aspect that has not been considered, that is, when the time comes for investors to sell their investments, there would be a limited market for secondary homes. "Currently, investors accept modest rental returns because they expect to realise a capital gain in the future, when they sell their investment property," he said.

"However, this will not happen if there are fewer investors out there and they are relying on owner-occupiers to eventually buy their investment property. This will make people unwilling to invest in the first place, further exacerbating the problem."

Labor's proposals to limit negative gearing to new housing purchases and halve the capital gains tax deduction to 25 per cent are being debated before the federal election in May.

Last week, SQM Research forecast the grandfathering of negative gearing to new dwellings would, in the first instance, turn off investor demand pushing down prices further by 12 per cent over the next three years, and jacking up rents.

While the new policy will deter those who want to apply negative gearing to both new and secondary home acquisitions, UDIA says even investors who will consider only new home investments – the whole purpose of Labor's policy – will come to realise they only have owner-occupiers to sell to down the track.

The smaller market will reduce demand for homes and, correspondingly, prices.

"A new property is only new when it is initially purchased by an investor. Thereafter, it becomes an established property," Mr Cooper said.

"The original investor is unlikely to on-sell it to another investor as the property is 'established' and they will not be able to claim negative gearing or capital gains tax benefits."

While UDIA is not for or against negative gearing, it says it would be best not to "touch" the policy until the Australian government develops a better planning and infrastructure national scheme that would allow the supply and demand of housing to interact better.

UDIA argues that poor infrastructure blocks the supply of housing in growth areas, driving up the price of homes in more accessible inner city areas.

The current tax settings, through helping investors secure their financial independence, is the delicate wedge that holds up the market, and should not be tampered with unless meaningful wholesale changes to the market can be made, Mr Cooper said.


Bill Shorten's negative gearing proposal is causing quite a debate. PHOTO: AAP

Cheap credit 'fruitless' for housing market

Ingrid Fuary-Wagner and Michael Bleby

Recent signs that give borrowers confidence interest rates will remain at record lows will boost investment in commercial property but won't be enough to kick-start the residential market, industry experts say.

After lifting interest rates seven times across 2017 and 2018, the US central bank last week abandoned plans to push rates higher in 2019, keeping them at 2.25 to 2.5 per cent. The change in sentiment and pause on US interest rates will make it harder for the RBA to lift rates in Australia.

While the availability of cheap money in most scenarios would boost a lacklustre property market, there are other hurdles preventing an immediate turnaround.

"Lower interest rates from the Reserve Bank will be fruitless unless the assessment lending rate is reduced by APRA," Property Investment Professionals of Australia chairman Ben Kingsley said.

In 2014, APRA announced that as well as an interest rate buffer of at least 2 per cent more than the actual interest rate of a loan, banks had to assess a borrower's ability to repay a loan based on a minimum mortgage rate of 7 per cent.

"[The current market] has everything to do with the regulator, not demand – it has been manufactured first with a cap on interest-only lending, but most importantly what really took demand completely out of the market was their strict interpretation of assessment lending rates and leaving them at 7 per cent. That's killed borrowing power," Mr Kingsley said.

He argued that with a low interest rate environment expected for the next decade, dropping the serviceability rate to 6.5 per cent would be a fair measure without creating systemic risk.

However APRA, in its January review of prudential measures targeting mortgage lending risks, maintained the 7 per cent floor rate was introduced "to permanently strengthen lending standards". "These buffers help ensure that borrowers are able to service their loan even if interest-rates were to rise to more historically normal levels."

Economists are expecting the next RBA move to be a rate cut. PHOTO: ANTHEA RUSSO

While an interest rate cut would have a positive effect on consumer sentiment, Stockland chief executive Mark Steinert said it was the availability of credit and the loan approval process that remained the most critical factors.

"With reducing vacancy rates and slower building activity over the coming year, with not enough houses being built to meet underlying demand, credit availability and buyer confidence will play an important role in driving necessary supply in the housing market to avoid undue rental and price pressure," Mr Steinert said.

Credit is the lifeblood of the Australian economy.
Mark Steinert, Stockland chief executive

"Credit is the lifeblood of the Australian economy, and policymakers and financial institutions must ensure responsible access to credit for first home buyers, owner occupiers and investors – who contribute to the supply of rental properties – to help ensure the resilience of our housing market."

Economists are increasingly expecting the next move by the RBA to be a rate cut, after rates have remained on hold at a record low of 1.5 per cent since August 2016, but Steve Mickenbecker, group executive, financial services at Canstar, agreed it would not be enough to suddenly quash the pervasive negative sentiment in the market.

"Demand is off. Capital outflow restrictions for Chinese really hurt the market a lot and once the expectation was for prices to go down, investors start deserting the market. So why would you buy this year when in a year you think you can buy for 10 or 15 per cent less?"

"Interest rates are at historic lows and the RBA won't want to move below 0.5 per cent this year – so a point 0.5 per cent decrease isn't enough to drive demand," he said.

According to Mr Mickenbecker, there are about 1000 loans on the comparison website with a rate below 4 per cent. "It just goes to show how cheap loans are right now. Low interest rates are no incentive at the moment," he said.

Adam Murchie, director at property fund manager Forza Capital, said it was investors in commercial property, not residential, who would be the real winners in a low interest rate environment.

"Arguably it's going to give commercial assets another shot of adrenaline, because people can afford to pay more for the same profit margins," Mr Murchie said.

"The commercial property market has already been pretty bullish for a while, but at the back end of last year, with the bank margins increasing and 3 and 5-year bond rates increasing, that was going to start to put pressure on asset pricing.

"But since then it's gone the other way ... they are almost in free fall, so it's saving investors that are drawing debt at the moment probably 50 basis points off their interest costs."

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Homemaker retail lease dispute heads for court

hoping to fill a gaping hole in its portfolio, struck a 6000 sq m leasing deal – worth about $1.5 million in annual rent – with furniture retailer Amart to sublease part of the vacant Masters building, a free-standing building within the homemaker centre precinct.

Under the lease, Home Consortium required the consent of Aventus to sublease and make alterations to the former Masters store to accommodate Amart.

However, when 11 weeks had passed and the Aventus board had not made a decision, and with the original April 1 leasing completion date with Amart approaching, Home Consortium took its dispute to the Supreme Court seeking declarations that Aventus breached a clause in the lease agreement not to have "unreasonably withheld or delayed its consent" to the alterations" and an order that it provide its consent to the sublease and pay any damages "by reason of its refusal".



David Di Pilla's (left) Home Consortium is in a dispute with its landlord, Brett Blundy's Aventus Group.

An affidavit filed by Andrew Selim, general counsel for Home Consortium, states that on February 8 lawyers representing Aventus wrote to Home Consortium to say they were not prepared to consent to the sublease "at this time". The Aventus lawyers set out a number of issues with the proposed sublease and requesting further information.

One of the issues related to opening hours. The Amart sublease agreement included opening hours from 10am to 4pm instead of 9am to 5pm under the head lease.

In its affidavit, Home Consortium highlights a number of retailers in the centre operate between the hours of 10am and 4pm.

Aventus said there were also issues with the proposed signage, which would "distract from the previous quality and visual amenity of the building".

A further series of letters were exchanged between the warring parties' lawyers with Home Consortium saying there was "reasonable basis on which to withhold or delay consent" (after providing additional information) and Aventus' lawyers denying this claim.

In a March 13 ASX statement, after Home Consortium filed its origination motion, Aventus said it would be "opposing the tenant's attempts to obtain the declarations".

A spokesman for Home Consortium declined to comment.