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Property window of opportunity before Labor comes to power

By **STUART WEMYSS**
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I think we are very close to the bottom of the property market — if not already there.

In fact, I believe that price growth next year will be neutral or positive.

I appreciate that this prediction is contrary to most predictions in the marketplace — most notably AMP Capital's chief economist, Shane Oliver, who predicted last week that property will fall by a further 15 per cent.

And yes I am in the property market — unlike Dr Oliver — but there are several entirely rational economic and political reasons for my view.

First, I was very interested to read the Reserve Bank of Australia governor, Philip Lowe's comments: "A few years ago, credit standards were way too loose," he wrote. "There has been a correction of that, but I am starting to be a bit concerned the pendulum might be swinging a bit too far the other way."

This is the first signal from the central bank that it is worried that credit is too tight. And this issue is receiving an increased amount of attention.

In my mind, there is no doubt that it is way too tight and it needs to be loosened. If it is not addressed, there will be significant negative impact to not only the property markets but the wider economy.

There is already some pressure to cut — rather than lift — official interest rates.

But the more likely scenario in the coming months will be a move by both the RBA and the Australian Prudential Regulation Authority to take measures throughout 2019 to loosen credit.

Political pressure is already surfacing. This week, Treasurer Josh Frydenberg remarked after the RBA yet again left interest rates unchanged that "the Australian economy does not run on autopilot". Such pressure on the RBA will accelerate, especially given 2019 is an election year.

An increased flow of credit availability will no doubt assist in underpinning property prices — and ultimately lead to price appreciation in some areas.

Second, based on the recent Victorian state election result, most people believe the ALP is overwhelming favourite to win the federal election next year.

The ALP has proposed to ban negative gearing on established property and increase the capital gains tax (CGT) rate by 50 per cent (or to be precise, to cut the discount on CGT from 50 per cent to 25 per cent if an asset is held for more than one year).

These changes apply after a yet-to-be-determined date, so there will obviously be a period of time between the ALP winning (or people forming the view that it will definitely win) and these new rules coming into force.

To put that another way, there will be a clear window of opportunity for people to invest in property and avoid being caught by these new rules.

Make no mistake, this window of opportunity will come to the forefront of more people's minds in early 2019.

As such, I think the property market will be somewhat artificially stimulated by demand from investors who are motivated to get into the market before the new ALP policies come into force.

Long term, this concerns me for two reasons. Any artificial stimulation distorts market prices (as was the case when the Rudd government doubled the first- home owner's grants after the GFC). Second, I am always worried when investors are driven by short-term concerns or opportunities to make a long-term investment commitment.

The best thing the ALP can do for the property market's sake is make the "yet-to-be-determined date" as January 1, 2019 (thereby closing this window).

Of course, if the government doesn't facilitate a loosening in credit or the ALP backs down on these controversial policies, my prediction may no longer be valid.

I’m not alone in these views. The chairman of the Ray White group, Brian White, told The Australian earlier this week “the market will reach the bottom next year; it could be in the next few months”.

For the ambitious investor, if you are concerned by the abolition of negative gearing and increase in CGT rate (which, by the way, is just as costly as negative gearing in the long run), then you should consider purchasing an investment property sooner rather than later to minimise the risk of being caught by these changes. If you choose to do this, make sure it’s a decision that fits within a holistic, long-term investment strategy — not an ad hoc decision motivated by short-term tax savings.

Some investors might be waiting until after the ALP tax changes are implemented in the hope (prediction) that property prices will fall as a result.

However, the fall in value is almost certainly going to be temporary for investment-grade assets — but maybe longer for lesser-quality assets.

Therefore, you need to decide which is more valuable, a one-off saving in purchase price, or a lower ongoing tax liability (negative gearing and lower CGT). The lower tax liability wins in almost every case in my view.

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