GOING WITH THE FLOW DOWN UNDER

DAN TOH, CEO of RunningStream, gives the low down on investing in the Australian property market.

RunningStream has great experience in various international markets and has fingers on the pulse of their conditions, allowing it to make sound judgment calls for their investors. Focusing on the Australian market, its CEO, Dan Toh, talks to **ROSHAN KAUR SANDHU** about what works, what's hot and what is the climate like for foreign investors.

GIVE US A GENERAL OVERVIEW OF INVESTMENT RULES IN AUSTRALIA.

Australia has one of the best policies and regulations in the world when it comes to property investing. While the world might not necessary align with them, their policies have seen its property market sustained a stable, inflation-aligned growth for the last 40 years or more. However, there is a lot of misunderstanding regarding their policies. For instance, some regard the rule that refrains foreigners from buying resale properties therefore only being able to sell to citizens and PRs. That is actually a rule which I wish more countries would implement. If Singapore had that rule, it would not need eight rounds of cooling measures as it will align prices with local affordability.

It is also misnomer. Foreigners can buy resale provided it creates jobs. You can buy an old house and rebuilt it (but not old apartments for obvious reasons). The beauty of that is when you create jobs, the local population are enriched and hence able to rent your properties making you a happy landlord.

So when you are looking to invest in a property there, ask yourself - if it is something the locals would want to buy or rent? It is a very pertinent question which too few ask and that is why so many end up with properties with rental/growth challenges.

We have always been impressed with the way that the Australian property market is regulated. When new policies are stipulated they are to solve problems, not penalise investors unnecessarily. The housing market has seen over 40 years of consistent growth and loans are relatively easy to obtain because of the stability - which we attribute back to the rule and regulations in place. Not to mention the strength of the Reserved Bank of Australia being one of the few 'AAA' rated central banks and a strong culture of social responsibility.

GIVE US AN OVERVIEW OF INVESTMENT IN THESE STATES: VICTORIA, NEW SOUTH WALES, QUEENSLAND, PERTH, SOUTH AUSTRALIA AND ACT.

Australia today is in a state of flux. The government wants a growing population (targeting 40 million by 2050) without disrupting the social fabric of the nation nor causing distress due to unaffordable house price. It is therefore a tough balancing act.

Victoria is a technically due for a price uplift as it traditionally does after Sydney. Unfortunately, due to overbuilding the up-cycle is hampered especially in the

inner city area. Price growth will be muted while the city waits for the existing stocks to be consumed. The market is a positive in the long term given its continual population growth but in the short term investors will face a lot of headwinds in terms of valuation and rental challenging their holding power.

Outside the city market, popular suburban markets where the locals are staying and where gentrification is happening is certainly looking at a boom. In my opinion, the south eastern part of Melbourne will do very well based on what we are seeing in terms of wage growth and affordability.

In ***New South Wales***, Sydney had a great run over the last three years. Seasoned investors will know that prior to that it plateau for a long period of 7-8 years. New South Wales has done well and, barring any policy changes and we expect above average performance to continue for another year-and-a-half before it flats out. When the yield falls below 4%, you know that prices are well above affordability. The only unknown factor is foreign demand that might keep prices escalating as money continues to seek safety in a tumultuous global economy. Such will certainly attract greater policing by the government.

Queensland is the next market that we feel will gather momentum. Inter-state migration is a big factor here due to the weather and the 30-50% price gap with Sydney and Melbourne is making it look extremely affordable. As Brisbane continues to grow as an international city gaining significance we do expect it to be the next performer in terms of house price growth.

However, due to the weaker economy (which is picking up its pace quickly), picking the right location in Brisbane is very important as we will not likely see a “high tide rises all boat” condition in its property market.

Western Australia is in doldrums at the moment. With the commodity slowdown globally, WA was badly hit as its economy almost solely depended on commodity export. Sad to say, the state should have developed its economy much further than what it is today but it did not. The market is at a low, with several apartment projects being put on hold or cancelled. This certainly provides a buyer market opportunity, however, you will need to choose carefully and drive a hard bargain.

South Australia is a bit depressed at this point as well. Factories are closing and moving out. Most would buy in South Australia because of the lifestyle. It is much more relaxed and has some of the best wineries in Australia. It is not a strong candidate for investment, but excellent for your own stay.

ACT is a very simple market. One can almost predict its price trend depending on whether the government is hiring or firing, given that it is a city created for mainly government service.

HAVE THERE BEEN ANY CHANGES IN POLICIES OR LEGISLATION RECENTLY?

There haven’t been any significant changes in legislation. But there have been practices and regulations placed by the government to control borrowing as well as increases of foreign levies. Victoria has kicked in with a 7% levy and 1.5% land tax while NSW has slapped a 4% levy and 0.75% land tax on foreign buyers. Queensland is also looking at a 3% foreigner levy kicking in by 1st Oct 2016.

Depending on which party wins the next election, there might be a removal of the Capital Gains Tax. Previously, locals paid 50% while foreigners had to pay 100%. This may disappear altogether in the next election which will have an impact on the local market. Negative gearing might be removed as well, something which Australians have enjoyed for years.

One of the common fallacies is that income tax in Australia is very high when the reality is that most investors are able to claim significant deductions. Statistics according to the Australian Tax Office have shown the 2 million or so property investors reporting an income of about AUD38 billion while claiming over AUD 42 billion worth of deductions. The ATO is effectively seeing a nett rental income of -AUD4 billion.

WHAT ARE THE OTHER HELPFUL RESOURCES TO LEARN MORE ABOUT INVESTING IN AUSTRALIA?

There is a lot of information and data out there. Australia is one of the most transparent markets in the world. You can find data from council websites on future plans, population statistics and earning power. Look for statistics with The Australian Bureau of Statistics (ABS). Portals such as realestate.com.au and sqmresearch.com.au provides ample information for investors to research on prices and demographics. With heaps developers and marketeers selling overpriced properties in questionable locations, investors will need all the information they can get to invest intelligently and profitably.

Dan Toh, CEO of RunningStream and have been involved in various projects across Asia, Australia, Europe and the UK for over a decade. He has coached many investors across Asia and leads a team of highly qualified professionals helping investors with their global real estate portfolios.