The Real Estate Wrap
With Leanne Pilkington

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The wealthy investor myth

It's a fallacy to suggest everyone who invests in property is wealthy. Many investors simply seek the security they need, that their job alone is unable to provide.

Investors assume risk when they purchase a property. The best investors do all they can to minimise that risk before they buy.

This means not looking at negative gearing as a property investment strategy. An investor hanging their hat on this alone will quickly find themselves in trouble.

Yes, legitimate deductions are among the numbers investors must crunch. This applies to all investments - shares, business ventures and property. Side note: why is property being singled out?

But there are other potentially more important numbers investors must allow for. Repayments over time, rate shifts, likely returns, strategies for vacancy, insurance costs and more.

It doesn't stop there. For many people, retirement looms and even by the most conservative calculations, many are afraid of coming up short. Property investment in this case is not a luxury but a strategy for survival.

ATO data debunks the myth that negative gearing is for wealthy investors. It shows almost 80% of taxpayers claiming a deduction for property earn less than $80,000 per annum. In nobody's book does that equate to being wealthy. It also shows the majority of investors own one property. Less than 4% of investors have more than three.

No-one knows what the full impact of Labor's removal of negative gearing for established properties will be. Certainly, fewer investors means fewer rental properties, so rents can be expected to rise. A smaller buying market for certain properties means prices will likely fall. But only time will reveal all.

And with the polls hinting towards a Labor victory, those with a vested interest in real estate – that is, everyone with a roof over their head, and also those without – should question what the removal of negative gearing really means for investors who are not simply buying property because they can.

They are doing it because they feel they must.

Clearance rates: rates steady but activity wanes

The number of homes being taken to auction in recent times is well down compared to this time last year. The election is a major reason for this so on that score, there's cause for optimism that activity will pick up once votes have been counted.

CoreLogic data shows Sydney was host to 535 auctions last week, returning a preliminary clearance rate of 66.6%. This was the best result across the capital city markets, though the number of auctions nationally was down. This time last year, 63.1% of the 797 Sydney homes offered under the hammer sold.

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Domain had this to say on the weekend: "The results saw some properties sell well above their reserve, while others struggled to attract bids, or at least bids big enough for the property to sell."

It's somewhat of a mixed bag and will remain so for the next few weeks. No surprises there.

Final thought

For the Reserve Bank, at the risk of over-simplifying the factors at play, it's a case of jobs versus inflation. This is the balance on which the rate decision on Tuesday largely rests. Unemployment remains low and job growth is apparent. On the flipside, inflation is underperforming against the target range, leading to some to call for a re-think on what that range should be.

Either way, if not tomorrow, a rate cut does seem on the cards at some point this year and this will further reduce the cost of borrowing for those in the market to buy.

Borrowers are in a stronger position now than they have been in the modern era. Yes, there are some caveats. They must be in secure employment, for one. But few thought the cost of finance could get lower. Now it seems a matter of time before it will. And any turnaround in the form of rate increases are a way off.

Those seeking finance are currently holding aces and this is a real rarity when it comes to talking to the banks.

For property owners, it means there's a market for your home which is feeling empowered. It's up to you to implement a strategy to tap into that market. Or more correctly, it's up to you to choose the right agent who can present your property in the best way to reach that market at a time.