Foreign homebuyer tax will hasten price decline

ROGER MONTGOMERY

Welcome to NSW, a province of Canada.

In August 2016, fed up with a glut of apartments sitting vacant because overseas owners weren't renting them out, the city of Vancouver, in the province of British Columbia, implemented a 15 per cent foreign investor tax rate. The law added almost $300,000 to the price of a $2 million property. Toronto has since also joined Vancouver by imposing a 15 per cent tax on foreign investors.

In the four months after the August 2016 impost, foreign investment in British Columbia fell from 13 per cent of transactions to just 4 per cent and the number of sales of detached houses, condos and townhomes fell 39.5 per cent from a year earlier. Unsurprisingly, Vancouver house prices have declined 18.9 per cent from January 2016 to January 2017.

I bring Canada's recent experience to your attention because it's about to happen right here. And for investors in listed retail companies — think JB Hi-Fi, Harvey Norman and the Good Guys — this is bigger than the arrival of Amazon, which will also take massive market share from retailers forcing their margins to slump as lower sales volumes collide head-on with their high fixed costs, such as operating leases on stores.

You see, NSW has just doubled the stamp duty tax rate from 4 per cent to 8 per cent for foreign investors as part of a housing package designed to improve affordability.

But according to the Foreign Investment Review Board, the number of foreign investment applications for residential housing in Australia is already declining from 40,000 last year, to an expected 15,000 this year — a 62.5 per cent decline. And in NSW a quarter of purchases are made by foreigners, with 70 per cent of those from China. So the impost of a 100 per cent stamp duty increase must drive the nail deeper into the coffin for residential activity and prices by keeping foreign investors on the ropes.

Belated warning

Former RBA governor Glenn Stevens commented on the NSW package by warning "one area for caution might be demand-size measures like taxing foreigners. If foreign purchasers are slowing down anyway, we may not want to push them down further".

Meanwhile, in Victoria — the other state where house prices have been rising fast — the Victorian foreign purchaser additional duty was raised from 3 per cent to 7 per cent on July 1 last year. But it was only applied to the land value — which on a high-rise apartment is negligible. From July 1 this year, the FPAD in Victoria will be applied to the entire value of the property, not just the land. For many foreign apartment buyers that's an increase from next to zero to 7 per cent. Furthermore, on January 1 this year the foreign land tax surcharge in Victoria was increased from 0.5 per cent to 1 per cent.

> Canada's recent experience is about to happen right here

The house price falls in Sydney of 1.3 per cent, and Melbourne by 1.7 per cent, in May and the fall of 4.8 per cent in Hobart during the same month are, according to groups with vested interests in property, not a sign of an imminent sell-off.

SQM research reckons the fundamentals such as population growth are still "very strong". Nonetheless, a quick look through history shows populations have always grown, but property prices don't always go up. Strike one for the weight-of-money argument.

Another researcher, Corelogic, says the "jury is still out" on whether property prices have peaked. Perhaps they'd rather you wait to put that highly leveraged apartment on the market until after prices have fallen a bit more? Maybe by then the AMP and NAB will have lifted their ban on lending to nearly 200 suburbs?

I'm afraid Glenn Stevens's warning may have come too late.

I mentioned recently that the population of real estate agents in Australia has been growing at more than five times population growth. Expect that to soon reverse too!

If you are a real estate agent reading this, don't believe for a second that the next cycle won't be like all the others. Do you really think that a population growing at 1.6 per cent a year really needs the number of real estate agents to grow so quickly? Do you really think it is normal and sustainable that an individual with a few weeks' training can walk into an industry, sell a house, and make $50,000?

Roger Montgomery is founder and chief investment officer of the Montgomery Fund. www.montinvest.com

Say it with flowers to sell to China

MY WAY

Foreign buyers are investing in a lifestyle as much as a house

GLENDA KORPORAAL

Sydney real estate agent Robert Page, 27, works at Black Diamondz, a real estate group that specialises in selling luxury property to locals and overseas residents.

There has been a lot of talk about Chinese buyers in Australian real estate. What are Chinese buyers like? Are they different from Australian buyers?

Australia is one of the top four destinations for Chinese property buyers worldwide. Properties in Melbourne are the most searched for in Australia by would-be buyers from China followed by those in Sydney.

Foreign Chinese buying requirements are quite similar to those of Australians. They are not just buying a house, they are investing in a lifestyle.

It is important for their home to be near good schools, public transport and the CBD. To some foreign investors feng shui is very important when buying a property. The aim of feng shui is to assure prosperity, good health and well-being.

If you want your property to attract foreign Chinese buyers, a great tip is to make your home as inviting as possible. You should consider introducing a symbol of prosperity like fresh flowers.

What do you see the state of the market is like in your area? There has been much talk that the crazy boom in Sydney is now over ...

Statistically speaking May 2017 has performed better than May 2016. I have yet to see the market to be over in any way. Last month's auction clearance rates of 76 per cent in the Sydney metro market is a testament to this, with over 70 per cent of properties selling over reserve and close to 40 per cent selling before auction.

The first-home buyers' market in NSW will be hotter than ever considering the state government's recent move to apply discounts for homes up to $800,000 on stamp duty.

The NSW government has announced measures to cut back on foreign buyers. How do you think its recent policy changes will affect the market?

Yes, the government has introduced an 8 per cent surcharge on stamp duty for overseas buyers but I feel this will do little to curb interest from foreign buyers.

What tips would you give people looking to buy a house in Sydney at the moment?

Attend local auctions, get a feel for how the auction runs and how buyers make bids.

If you want to buy a property that is for sale by private treaty, don't just make your offer verbally.

Present your offer on a signed contract along with a 10 per cent deposit cheque and 66W certificate. An owner will be more inclined to accept it quickly if you do it this way.

Look for properties which have a high rental yield, and are close to public transport, schools, shops and the CBD.

What are some of the top properties you have sold?

I sold an apartment on Campbell Parade on Bondi Beach for $10.25 million and a house in Wharf Road, Gladesville, for $9.5m.

What is one of the most interesting real estate deals you have done recently?

It was the house I recently sold in New South Head Road, Rose Bay, for $7.5m. It went for more than $3.25m more than when I sold it less than 12 months prior.

The new owner did nothing physically to the property. But he had obtained a development approval for the property with plans for five luxury apartments which resulted in a huge increase in value to the property.

You are in your 20s selling some of the most expensive real estate in the country. How do you feel about property investing yourself?

There is no doubt that Sydney is Australia's fastest and strongest growing residential real estate market.

Someone in their 20s may feel intimidated to enter the market, but in 10 years' time they will look back and wish they had entered the market sooner as prices will continue to rise.

What are you doing (or not doing) to "invest" for your future?

I have cut back on unnecessary spending, such as going out to dinner every night and am saving for a deposit for a property for myself which I will more than likely rent out.

What made you get into real estate?

My grandfather was a real estate agent. My father is in hotels.

Some of my earliest memories as a child are attending open inspections with my parents in Vaucluse. I guess you could say I have always had an interest in luxury property.

You were very sick some years ago with both heart and lung issues. How did that affect your attitude to life?

I was in hospital on and off for almost a year. I actually also sold a property from my hospital bed. But it gave me a wake-up call.

I now spend most of my free time at any one of Sydney's harbour beaches such as Campcove or Parsely Bay swimming, appreciating all that Sydney has to offer and reflecting on my reality of what could have been.

Any reflections on your own investments or attitude to investments?

With my health so up in the air for so long, I spent a lot of money on my other passion — collecting cars. Looking back, the sensible thing to do would have been to buy a property many years ago before the recent boom, but at the time I was living day to day.

HOLLIE ADAMS

Robert Page, 27, says a health scare was a wake-up call that helps him appreciate 'all that Sydney has to offer'

> 'Some of my earliest memories as a child are attending open inspections with my parents in Vaucluse'
>
> ROBERT PAGE
> BLACK DIAMONDZ

Last-minute chance to optimise super plans before changes kick in

JAMES GERRARD

It's only a few short weeks until July 1 and the looming arrival of a raft of superannuation changes. The good news is that there are strategies to help mitigate the impacts of these changes, but you better move quickly.

The prospect of June 30 looming for investors has a different meaning than usual this year. Mostly, this month is a scramble to optimise personal tax affairs, but this year it's all about the changes coming in from July 1 when the new super reforms unleashed by Treasurer Scott Morrison kick in.

One great opportunity in the next few weeks is the so-called "equalisation strategy".

- The equalisation strategy aims to average out superannuation account balances between spouses so that the impact of limit based taxes or restrictions are reduced. In other words, if one spouse has $800,000 in their super and the other spouse has $200,000, the equalisation strategy would take $300,000 from the spouse with $800,000 in super and bump up the lower spouse with $200,000 so that each spouse had a super account balance of $500,000 each.
- An extension of this strategy is that money taken from a spouse who has over $1.6 million in super and reduces their super account balance below $1.6m restores their ability to contribute into super in the following financial year, subject to contribution caps.

There are several factors to consider before going ahead with this type of strategy. Sydney-based financial planner Xavier Lo says: "If you are under the age of 60 you may be subject to tax on the withdrawal. The first $195,000 withdrawn from the taxable component of super accumulation accounts tax free. However, additional withdrawals above this are taxed at 15 per cent plus Medicare levy". So watch out for nasty taxes if you are under 60 and want to implement this strategy on a large scale.

Newcastle Financial Planner Chris Kourmpatsos adds: "Not only does potential tax on withdrawals need to be considered for those under 60, when contributing the money back into super, contribution caps also need to be kept in mind".

Until July 1, those under the age of 65 can contribute up to $540,000 (under the three-year bring forward strategy) into super and those over the age of 65 can contribute up to $180,000 if they meet the work test. Exceeding these caps results in hefty excess contribution tax of 47 per cent, so do not go over the caps as you could lose almost half of your super contribution to tax.

What's more, Sydney Financial Planner Daniel Corbett warns caution when withdrawing superannuation funds from a spouse over the age of 60 if the receiving spouse is under the age of 60.

"By doing this, the couple are reducing their ability to access a tax-free pension from the older spouse". For someone who starts a super pension under the age of 60, the taxable component of the pension payments are taxed at marginal tax rates less a 15 per cent tax offset. Whereas from age 60, this is not a concern as any super pension drawings are received tax-free.

Recontribution

The recontribution strategy is similar in mechanics to the equalisation strategy where money is withdrawn from super and contributed back again. However, the rationale is different. The recontribution strategy is usually employed by two groups of people:

First, those under the age of 60 who wish to increase their tax-free pensions. People under the age of 60 are taxed on the taxable component of their super pension. However, by withdrawing money from super and putting it straight back in again, it may have the effect of reducing tax paid on super pension drawings. But why? The answer is, due to the fact that the money taken out of super may contain a taxable component and when it is put back in, it is treated as 100 per cent tax-free. Thus one can bump up the tax-free component and reduce the taxable component of the super account and resulting tax on pension payments.

Second, those wishing to reduce "inheritance tax" on their children who will be beneficiary to their super accounts in the future.

This group will look to employ the recontribution strategy wishing to reduce inheritance tax for their children. Currently tax is paid on the taxable component of super at a rate of 16.5 per cent when non-financial dependent children receive their parents super accounts. So by reducing the taxable component, it has the impact of reducing the 16.5 per cent inheritance tax down the track. As anti-detriment payments are being abolished from July 1, concerns over loss of this benefit from the recontribution strategy are also diminished.

With all the risks considered, the equalisation and recontributions strategies can be valid tools to help manoeuvre around some of the incoming super changes. However, given the technical nature of this methods, expert accounting and financial advice is strongly recommended.

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