

ISSUE
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THE INVESTOR

ATO CRACKDOWN

ATO REPORTS THAT 90% OF RENTAL PROPERTY TAX RETURNS ARE INCORRECT

According to the ATO *Random Enquiry Program*, nine out of 10 rental returns have errors, even when lodged by a registered tax agent.

The ATO urges all rental property owners to review their records before declaring income or claiming deductions.

The ATO automatically receives and cross-references property owner rental data from various sources such as sharing economy platforms, rental bond authorities, property management software programs, state and territory revenue and land title authorities.

When lodging your tax return, you must declare all rental-related income, including the below that may sometimes be missed:

- Rent bond refunds
- Insurance payouts
- Letting & booking fees
- Short-term rental income
- Income from renting part of a property
- Tenant payments for repairs & utilities

In addition to rental income, it is equally important to ensure you get your expenses right. Not all expenses are the same. Some can be claimed immediately, such as management fees, council rates, repairs, interest on loans and insurance premiums. Other expenses such as borrowing costs, capital works, and depreciating assets must be deducted over time.

You must also be mindful of withdrawing personal funds from your investment loan redraw facility.



THE PROPERTY CYCLE REVISITED

While property prices and interest rates may fluctuate, the *property cycle* theory (illustrated over) generally and historically has been consistent. However, with so many unprecedented variables such as Covid and the global economic shift affecting the supply of goods & services, inflation, and the cost of living, it can make reading the future property market conditions difficult with varied outcomes to the traditional cycle.

You will often read that a property cycle will last 7-10 years. However, this is not entirely true, as different property cycles are happening around Australia. Each state can fluctuate differently in accordance with house price movements, rents, days on the market for sale timeframes and vacancy rates, followed by other micro market sectors, suburbs, and regions also varying.

The main factors driving property cycles are rate cuts or hikes, supply and demand for property, job security, living costs and unemployment. While our current economic times are challenging, research and data show that property values have consistently increased over time, despite short-term drops and slumps.

Where we are in the current property cycle and what will happen to property prices are unknown. However, we can better understand the market and future predictions by studying past and present property trends.

We know that interest rates are rising, and the cost of living is increasing. Research also indicates that lending commitments and investor loans are falling, and property prices vary and fluctuate in different areas.

If you are concerned about your financial affordability, now is the time to consider fixing your interest rate. Fixing your rate will give you certainty with your monthly mortgage repayments for the next one to five years (depending on the length of time you fix your rate). This will allow you to budget for your living expenses more effectively.

If you are considering buying an investment property, then now could be the time to buy if you do your research, negotiate, and know your numbers.

With current rental property shortages, weekly rents increasing, housing affordability rising, and vacancy rates declining, there is a need for more affordable investment properties right now in certain areas.

THE PROPERTY INVESTMENT CYCLE | REVISITED

You can look at the overall market and property investment cycle and conclude that now is not the time to buy because property prices 'could' go down. Or, if you have accumulated equity from past property price increases, you can utilise this money to expand your property portfolio. You will need to search for areas with a high demand for rental properties (low vacancy rate) that produce an overall good *Return on Investment (ROI)*.



ROI is a metric that helps investors evaluate and compare one investment property with another. ROI (Yield) Calculation:

$$\text{Net Rental Income/Property Value} \times 100$$

$$(\$850\text{pw} \times 52 \text{ weeks}) = \$44,200 / \$700,000 \times 100 = 6.3\% \text{ ROI}$$

\$700,000 loan @ 5.5% interest over 30 years = approx. \$917pw loan + expenses. Knowing your purchase price range versus rent achievable and your affordability to service a loan can help you to target and fast-track your property search. To achieve a good short-term ROI, you may need to expand your online search outside of your current market area.

ROI should not be your only metric. You need to research and factor in supply & demand, fluctuating rents, and average sales growth in the area and compare the property's potential for long-term capital growth. Your initial numbers may reflect a high short-term ROI but produce a lower long-term capital growth return compared to another area. The fluctuation of capital growth between one area and another can be the difference of tens or hundreds of thousands in dollars. Cheaper properties can produce higher ROI but lower capital gains. Therefore, you should factor in multiple metrics when purchasing an investment.

During uncertain markets, there is reduced competition, which is leverage for buyers to negotiate. Investing should be a long-term commitment to hold property during drops and slumps to realise the overall returns and increased capital value.

CAT CURFEWS COULD OVERRIDE AN AGREEMENT

Did you know that many local councils across Australia recently tightened their laws for cat owners, stating that they must be kept indoors? The decision was made to protect native wildlife, reduce infectious diseases and general cat injuries.

Some residents will face up to \$1600 fines if their cat is found roaming outside. Cat curfews significantly differ from state to state, with each local council setting their own rules and fines. Some councils have a firm 'no cats allowed outside'. In contrast, other councils stipulate no cats outside from 8 pm to 7 am, no cats in public areas or cats must be on a lead to walk outside the premises.

As the rules are very diverse across Australia, we recommend that you contact your council to find out your local by-laws on cat curfews.

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PROPERTY MARKET

Keeping you updated.

FOR RENT

- 319 Duke Road, Doonan - \$2,500 pw – fully furnished
- 112 Grays Road, Doonan – \$1,300 pw
- 43 Lorilet Street, Peregian Beach - \$1,400 pw – fully furnished

RENTED

- 4/18 Tristania Drive, Marcus Beach
- 21 Sleepy Hollow Drive, Noosa Heads

PM NEWS UPDATE

It's been nice to see the sun shining in the Noosa shire over the last couple of weeks, although that hasn't stopped the gift that keeps giving being COVID, from continuing to raise its ugly head.

Routine inspections each week are being re-scheduled at the last minute due to tenants reporting the virus affecting themselves and families. As elsewhere, many businesses in the region are also suffering with staff shortages. Leanne and I are doing our level best to continue supporting local and we had a great 6 year anniversary lunch at the Noosa Long lunch.

SUDOKU COFFEE BREAK

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