Harsh reality is that history ever repeats

Noel Whittaker

A KNOWLEDGE of history is essential to understanding what is happening today, and the finance industry is no exception.

Addressing young advisers at the annual conference of the Financial Planning Association recently, I harked back to 1973 when the Whitlam Labor government was in power. Retirees, who enjoyed a return of 9 per cent on debentures, were devastated when inflation hit 19.2 per cent in the September 1974 quarter and interest rates reached 15 per cent.

Share investors didn't fare any better – 1974 produced the greatest stockmarket crash since 1929.

In 1976, the Fraser government gave in to pressure from the National Party and watered down the means test for aged pensions by replacing it with an income test only.

As there was no capital gains tax, retirees sought assets that would produce low income but substantial capital gain to maximise their pensions.

Property trusts seemed the obvious solution and they boomed.

At least until 1986, when the Balanced Property Trust group collapsed, taking with it the life savings of many thousands of pensioners who had relied on "advisers" from that group who were merely product floggers.

The industry really got going in 1983 when the Hawke-Keating government introduced an exit tax on superannuation payouts. Until then they had been hardly taxed at all.

But there was a loophole. If you rolled the money over into an approved deposit fund or deferred annuity, the tax could be deferred until funds were withdrawn.

They quickly became the retirees' favourite investment. By now the superannuation rules were becoming increasingly complicated.

Retirees found themselves needing advice on the best way to structure their superannuation, and the best mix of assets for them.

Employees also needed advice about the best way to build a retirement portfolio in a tax-effective manner.

To this heady mix add capital gains tax, introduced in September 1985, and dividend imputation in July 1987.

While all this was happening we had another stockmarket boom.

Market force: In 1983, the Hawke-Keating Labor government introduced an exit tax on superannuation payouts.

The public were confused by a never-ending stream of new laws, together with a multitude of associated products designed to cater for them. Many were stockmarket-based and, thanks to roaring markets, produced extraordinary returns. Big financial institutions began placing full-page advertisements trumpeting returns of 40 per cent-plus, but few investors noticed the fine print that said "future returns may bear no relation to the ones quoted above".

In 1986, Treasurer Paul Keating made his famous "banana republic" statement and our dollar collapsed further boosting the returns of managed funds with an offshore component. The world changed with a thud when the October 1987 stockmarket crash hit.

By 1989, home loan interest rates had gone to 18 per cent and a national pilots strike had brought Australia to its knees.

Hooker, Girvan, Bond and Qintex went to the wall, and both Pyramid Building Society and Estate Mortgage collapsed. The knock-on effect hit the major unlisted property trusts, which had no option but to freeze investors' funds.

By the end of July 1990 almost half a million Australian households had at least part of their funds frozen.

All this took place more than 20 years ago, but the pattern has continued since – markets rising and falling, laws continually changing and investment products evolving to fill the need this change creates.

The financial advice industry has grown at the same time. As I pointed out to the young advisers, rising life expectancies, pressure on state and federal budgets and an increasing tendency by governments to churn out new regulations will ensure they have a lifetime career. All they need to do is keep their skills up to date and put their clients first at all times.

Noel Whittaker is a co-founder of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek professional advice before making financial decisions. Email noelwhit@gmail.com or follow him on Twitter @NoelWhittaker

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Landlords profit from drop in homebuilding

Cameron Kusher
RP Data Analyst

CAPITAL city rents are either increasing or flat.

In the first case, vacancy rates are low while rental demand is high; in the second, vacancy rates and rental demand aren't as tight, creating little in the way of upwards pressure on rents.

The good news for Brisbane landlords, but not tenants, of course, is that rents are heading north. In the last year, Brisbane rents rose by 4.8 per cent for houses and 8.4 per cent for units. That means the weekly rent for a typical Brisbane house is $405 and for a unit $367.

The other cities experiencing solid rental growth are Sydney (houses up 5.9 per cent, units 5.4 per cent) and Perth (houses up 10.1 per cent, units 6.8 per cent).

Contrast that with a city like Melbourne where rental rates are falling in real terms. The weekly rent on a Melbourne house has increased by only 1.9 per cent in the last year and unit rents not at all.

The common denominator in Sydney, Brisbane and Perth is new housing supply has been lacking relative to population growth.

To illustrate the point, the number of dwellings in Queensland on which construction began in the June quarter was only 6005.

Compare that with Victoria where the raw level of population growth (housing demand) was only slightly greater than Queensland's. In Victoria there were 15,168 dwelling starts.

In fact, annual dwelling starts were 35 per cent lower than the decade average in Queensland. The number of new homes on which construction began in June was 26 per cent below the long-term average in NSW and 9 per cent down in Western Australia. Conversely in Victoria, new home starts were 34 per cent higher than the long-term average.

With the Brisbane housing market clearly undersupplied, rental vacancy rates are falling and the upwards pressure on rents is likely to persist. And upwards pressure on rents is compounded by the fact that first-home buyers presently represent a fairly small proportion of the overall market.

Fewer first-home buyers roughly translates to higher rental demand (if you aren't buying a home you are generally renting or staying at home with mum and dad longer).

As rents rise at a faster pace than home values – Brisbane home values were down 6.1 per cent in the 12 months to September – rental yields are also improving. The typical Brisbane house is now returning 4.8 per cent gross while units are returning a gross yield of 5.4 per cent; both are well above the combined capital city average.

It's above average, but most investors would want higher yields, particularly as capital gains is likely to stay flat to negative for a while.

Investors seeking to maximise their yield are best advised to buy where rental demand is likely to be the highest and supply constraints are evident.

Suburbs close to major working hubs are usually a safe bet, as are suburbs close to universities and public transport hubs.