

# Why invest in property before the federal election?

There has been so much happening in the last 12 months, it's no wonder that investors are hesitant in making decisions about buying their next property

**WE** have seen a slowdown in lending driven by APRA, which in turned cooled the property market mainly in Sydney and Melbourne. Then the banking royal commission threw a spanner in the works by largely letting the banks off the hook and severely undermining the mortgage broking industry, not to mention curbing competition in the process. To cap it off, Labor has promised to change negative gearing rules and increase capital gains tax for investors.

In such a swirl of regulatory and lending changes, as well as political uncertainty, no wonder many investors are sitting on the fence. However, being a contrarian in the current environment may pay off big time.

Let's assume that Labor wins the upcoming federal election. There are many reasons for looking at property now, rather than waiting.

Firstly, an incoming Labor government would deny negative gearing on second-hand properties and increase capital gains tax on property sales. However, it will grandfather all current tax provisions, meaning that existing investors will not be affected by tax changes after the election. So, getting into the

**OUR EXPERT**

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market now would preserve your tax benefits.

Secondly, if your strategy involves renovations and selling (also known as flipping) after 12 months of ownership, you will still enjoy negative gearing provisions as well as the current capital gains discount. An incoming Labor government

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would put a stop to this, and buying to renovate/sell would become a lot less attractive.

Thirdly, prices are subdued in some locations, such as Sydney and Melbourne, which currently offer some buying opportunities. When the dust settles in, say, about six to 12 months after the federal election and subsequent legislation changes, property prices are likely to pick up again. So, acting now may be a shrewd move.

Fourthly, the royal commission report recommends that mortgage brokers should be stripped of trail commissions and charge a fee to consumers. Labor

has announced that they will implement all recommendations in the Hayne report.

Brokers play a vital role in keeping competition alive, and if these recommendations are implemented it will pretty much be the end of mortgage broking as well as smaller lenders (who rely on mortgage brokers for distribution of their products). It will give effective control of the market to the big four banks. The discount on rates that we enjoy in the current competitive landscape will probably vanish. Discount rates offered by large banks are a percentage off their standard rates. These discount rates are valid for the life of the loan, so it makes sense to get your loans now while the lenders' mood is still accommodating.

In summary, the above may appear to be a dramatic view of what is to come if Labor wins the election. Of course, the devil is in the details of the legislative changes to come, but the above bears in mind the intention of

a Labor government after the federal election.

If Labor does not win the election, then optimism should quickly return to the property market and prices will rise again.

Whichever way the federal election goes, sitting on the fence may not be the best move for savvy investors. **YIP**

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