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WINTER 2018

Flexibility through refinancing ■ Mortgages & breakups ■ Simple ideas to add value to your home ■ 2018 Budget breakdown

Welcome

Welcome to our Winter issue.

In this issue, we discuss the options available to you if you're looking to buy property with others, whether it's with a partner, spouse or a group of friends.

We also talk you through the benefits of refinancing your property, for greater flexibility and a reduction in unnecessary costs.

Break-ups are difficult enough, so we've put together some tips on how to make the financial aspects a little more straightforward. And lastly, we take a look at the ways in which the 2018 Federal Budget will affect the national property market and what this means for buyers and sellers.

BUYING PROPERTY WITH OTHER PEOPLE: MINE, YOURS OR OURS?

When people buy property together, particularly if it's with a partner or spouse, they often register the title in both people's names – especially if they're going to live in the property.

But other arrangements are possible, several friends might opt to own individual shares in a property, for example, or a couple might choose to have only one of their names on an investment property title. The following information provides you with a good starting point to help you on your way. Also tax legislation and other Australian laws governing property ownership and investment are complex, so seek proper legal and financial advice before entering into any arrangement.

Joint-ownership titles

The two main types of joint-ownership titles in Australia are joint tenancy and tenancy in common.

Joint tenants own the whole property together. If one of them dies, ownership passes to the surviving tenant or tenants, you can't sell or transfer your 'share' in a joint tenancy. This is the most common arrangement when a couple owns a family home.

Tenants in common own individual shares in a property, and those shares do not have to be equal. Shares in a common tenancy can be transferred to someone else. When one tenant dies, their shares pass to their heirs if they have a will.

Legal liabilities

Tenancy in common is a useful arrangement when a group of people want to buy property together. Each tenant can own a share proportionate to how much money they've contributed, and can sell or otherwise dispose of their share as they wish (unless the tenants have entered into a prior agreement that prohibits this).

Tenants in common can take out individual loans to finance the purchase of their share of a property, with each tenant repaying their own loan. However, tenants in common are "jointly and severally" responsible for all the loans – if one tenant falls behind in their payments, the other tenants are responsible for those payments. You should also be aware that a lender could force the sale of the property to recover money owed by one tenant.

One person's name on the title

When you're buying an investment property with a spouse or partner, there could be tax and other advantages to putting the title in only one person's name.

Capital gains tax is payable when you sell a property that is not your family home, such as an investment property. Tax on capital gains is calculated as part of your annual income in the year the gain is realised. If the property is in the name of the partner who has low or no income, less tax could be payable than if the income from the capital gain was shared with the partner with a higher income.

Future borrowing

If you already have an investment property, a lender will take into account both the income from the property and the loan you've taken out to buy it when assessing how much they can lend you.

If you own a share in a property as tenant in common, a lender will count the whole debt on the property as your liability – not just your share of it. This could in turn decrease the amount of money they're willing to lend you.

REFINANCING COULD SAVE YOU THOUSANDS – AND GIVE YOU GREATER FLEXIBILITY

Reducing the interest you pay on your mortgage could help you save thousands of dollars in interest over the period of your loan. As there's plenty of competition in the home loan sector, it could be worth looking around for a lower rate.

What is refinancing?

Refinancing is the process of replacing an existing loan with a new one. When it comes to home loans, it means your existing home loan is paid off and replaced with a new one. This is different from a second mortgage, where you draw on the equity you have built up in your home.

How can it help me save?

If you were paying 5.37per cent interest on a principal and interest home loan of $600,000 for a 25 year term. Your monthly principal and interest payments per month will total $3,648.00. If you swapped to a mortgage at a lesser rate of 5.24 per cent, however, you'd pay just $3,602 a month. Over 25 years, that saving each month would add up to $13,800 in total savings.[1]

Another savings option when refinancing is to choose a loan with a lower interest rate but continue with the same monthly payments as you were making on the higher rate. This approach will see you pay less interest and pay your mortgage off faster.

Alternatively, refinancing can help save money by consolidating debt from high-interest credit cards or personal loans into a single home loan with a lower rate of interest.[2]

Features to consider

Most mortgages offer a number of features and benefits. If you're considering refinancing, it's a good idea to think about which features are important to you before starting a search for a lower interest rate.

- Variable rate or fixed rate. A fixed rate gives you more certainty over the longer term. A variable rate fluctuates with the market, so you'll save when it's down but there's always a risk it will rise. (In January 1990, for example, the Australian home loan interest rate reached an all-time high of 17.5 per cent.)
- Offset account. Cash in hand can be offset against your loan balance until you need to spend it, potentially saving interest.
- A line of credit. If you have a lot of equity in your home, a lender might be prepared to offer you a relatively inexpensive line of credit secured against the property.
- Repayment flexibility. Repaying a loan fortnightly rather than monthly can make it easier to fit in your budgeting plans.
- Early pay out. You may want the option of paying a loan out early with minimal penalty.

Weighing up the costs

There can be costs associated with refinancing and it's important to factor these in to your decision-making. For example, if you took out your loan before 30 June 2011, the lender might be able to charge you an exit fee for terminating the loan ahead of schedule. If yours is a fixed-rate mortgage, you might have to pay a break fee.

For a new mortgage, you may have to pay an establishment fee and the ongoing administration fees could be higher than you're currently paying. And if your loan has redraw facilities, there may be a charge each time you take money out of your account.

Do the maths

You can use an online mortgage calculator to work out what repayments will be for different loan amounts at different interest rates.

You can also compare fees and charges to ensure they won't offset any savings in interest over the life of a loan. The Australian Security & Investment Commission's *MoneySmart* website has a useful mortgage switching calculator that can help you assess overall costs.

A broker can help

Refinancing can be a serious financial decision with a number of variables to consider. A good broker can help establish the type of loan that may work best for you, how much you can borrow and any extra features you want. They can then gather information from many different lenders and help assess the costs and benefits associated with each loan.

As well as doing the legwork for you, they can guide you through the refinancing process and apply their knowledge and understanding of mortgages to help you achieve the best outcome if you decide to go ahead.

Sources:

[1] Rates from: www.nab.com.au/personal/interest-rates-fees-and-charges/interest-rates-for-home-lending

Calculated via: www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mortgage-calculator#!how-much-will-my-repayments-be

[2] www.fool.com/mortgages/2016/10/30/how-much-could-you-save-by-refinancing-your-mortga.aspx

Helpful tools & calculators

www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mortgage-switching-calculator

BREAKING UP IS HARD TO DO

On top of the emotional impact, there are practical ramifications as well. We look at how to make the transition a little less stressful.

When there's a separation or divorce, debts you've accrued during the relationship unfortunately don't go away. The longer a couple is together, the harder it can be to unravel all the financial connections.

Here we outline some of the issues facing both de facto and married couples when dealing with what is usually their most significant debt: the mortgage. Used alongside professional legal and financial advice, it's possible to make this difficult transition a little less stressful.

Get advice from the experts

The end of a relationship is one of life's most stressful events. You don't have to handle it alone – there's emotional, legal and financial support out there.

Counselling: Visit a counsellor to work through the emotional weight of breaking up – it's hard to make decisions when you're angry or sad. You may want to access a Family Dispute Resolution (FDR)[1] mediator to assess whether both parties are emotionally ready to negotiate on money matters, and to help resolve disputes.

Legal advice: Lawyers who specialise in family law can provide legal advice. Initially, they can advise whether you're eligible for legal aid, and help with timelines and deadlines for your property settlement. Importantly, they should help you to set realistic expectations.

Financial advice: Talk to your lender or broker to understand the current state of your mortgage, and to learn what options are available regarding mortgage repayments. You may be able to defer payments, giving you time to get back on your feet. Your lender or broker can also help you review your finances before you decide whether you can refinance and take on the mortgage yourself. It's a sad fact, but they've probably dealt with this situation before.

Sort out your living arrangements

Some separating couples are able to continue living in the same house, while for others that simply isn't possible. If one of you needs to move, sort that out first, before turning your attention to the mortgage. Again, financial advisors, lawyers and brokers can help you plan a budget and figure out how your mortgage will be paid until you sell or settle.

Settle your finances

When you divorce or separate, your assets will be divided. To help you understand your financial situation, have all your documentation at hand – bank statements, tax returns, superannuation, and so on. With professional advice, you can figure out your assets and liabilities, what each person is entitled to, and whether one of you can afford to take on the mortgage alone, or if you have to sell.

One option: Sell the property

You might decide to sell your property, divide any assets and move on. The first step is to have your property appraised so you know the market value. From there you can figure out your total equity. For example, if your house is appraised at $800,000 and you owe $200,000 on the mortgage, your equity is $600,000.

Things can become complicated if there's a disagreement about how and when to split your assets and liabilities. Legal expertise or a mediator may be needed.

Another option: Sell to your partner, or buy them out

If one of you wants to remain in the house, it might be possible for that person to refinance the mortgage and take it on alone, depending on their income and other assets. This is sometimes the preferred option if there are children involved.

Again, agreement must be reached on the value of the property and whether it's a 50-50 split. Professional property valuers, financial advisors and lawyers are all able to provide advice and information.

It's difficult figuring out who gets what and when, but getting the right legal and financial advice can help you both break up the mortgage and move on with your lives.

Relationships Australia's A Fair Share provides a good summary of your options and of the Family Dispute Resolution process. You can also get great information on the legal process from the Family Court of Australia.

Sources:

[1] www.ag.gov.au/FamiliesAndMarriage/Families/FamilyDisputeResolution/Pages/default.aspx

[2] www.relationships.org.au/relationship-advice/publications/a_fair_share

[3] www.familycourt.gov.au/wps/wcm/connect/fcoaweb/home

Simple ideas to boost your home's value

Taking care of basic maintenance tasks before you sell your home is a no-brainer, but a quick and not-too-costly renovation can add a lot of appeal for potential buyers, and may boost the final sale price.

Basics first

Fix those little faults that you no longer notice – leaky taps, rusty gutters, broken window catches. They can make a huge difference to a buyer's perception of value.

Landscape the garden

A well-kept garden can create a low-maintenance feel before buyers even step inside.

Bring the outside in

Opening living areas to the garden can be as simple as adding big bi-fold doors that create an inviting sense of flexibility.

Take the inside out

A barbecue area, deck, pergola or even a plunge pool all invite buyers to imagine their future lifestyle in your home.

Light and bright

Brightening dark areas boosts a home's appeal; you can install skylights quite economically, and swap solid doors in dark areas for glass-panelled ones.

Fresh paint makes a home look ready to live in. Think carefully about colours, and maybe seek some interior design advice – although neutral colours present some people with a blank canvas, to others those spaces just seem bland.

A solid footing

New carpets make a home feel new. Again, think carefully about colour. Look under the carpet – those timber floors will be lovely when sanded and sealed.

Green it

Installing solar panels or a solar hot water system can add value for potential buyers, who will see future energy cost savings.

Bathroom fix

A brand-new bathroom can cost a lot. Instead, think of replacing shower curtains with clear glass screens and installing new taps, a water-saving cistern and even a new toilet seat. Replace small tiles with big ones, and clean/renew the grout.

Add storage

Buyers are looking for places to store their stuff – cupboards in the garage and in neutral spaces such as hallways, or a butler's pantry in the kitchen is great too.

Some simple and affordable renovation moves can make your home more desirable to buyers, potentially adding to the final sale price.

BUDGET BREAKDOWN: IMPLICATIONS FOR PROPERTY BUYERS AND SELLERS

How will 2018's Budget affect the national property market? For buyers and sellers alike, we take a look at what you need to know.

The 2017 Budget had a strong focus on housing supply and affordability. This year, housing took a back seat with no new, direct measures for first homebuyers or renters. However, some of the changes will likely have an indirect effect on both the residential and commercial sectors.

Stable interest rates

Homebuyers can take comfort from the fact that the Budget isn't likely to put immediate pressure on interest rates. President of the Real Estate Institute of Australia Malcolm Gunning says: "This expected interest rate stability comes at a time when housing prices in some of our major cities are showing signs of easing, leading to improved affordability for first homebuyers."[1]

No change to negative gearing

The government's decision to leave negative gearing alone brought sighs of relief from the real estate and development industries. Gunning described this as an ideal outcome for the housing market[1], considering the stringent changes introduced last year to quell investor demand.

"[It was] pleasing to see that the government recognises the important role the current taxation arrangements for negative gearing and capital gains tax play in increasing supply, keeping rents affordable and easing the burden on social housing by leaving these unchanged," he said.

More land for home building

The budget did commit to establishing a $1 billion National Housing Finance and Investment Corporation and to release more land suitable for housing.[2]

As well as unlocking some Commonwealth land for development, the government has taken steps to discourage investors from holding on to land[3] that could be used for new homes. From July 2019, investors will no longer be able to claim expenses such as council rates and maintenance costs for vacant land that could be used for housing or other development. The aim is to reduce so-called 'land banking', a process that allows investors to hold on to land in the hope that its value will rise while simultaneously enjoying tax benefits granted on the basis that the land would be used for homes or commercial buildings. Under the new rules, the deductions will only apply once a property has been constructed on the land and is available for rent.

Easier access to cheaper housing

Housing is cheaper outside the major cities but lack of access can make it an unrealistic option, particularly for those who work in commercial centres. The government's allocation of billions of dollars in transport infrastructure upgrades[3] could help resolve this problem over the longer term.

Projects designed to attract homebuyers into less expensive areas include upgrades to roads on the Gold Coast, the North South Rail Link in Western Sydney, the Melbourne Airport Rail Link and continuing upgrades to the Bruce Highway in Queensland. Nationally, there are also plans to reduce the congestion[4] that can make a daily commute from the suburbs so frustrating.

Helping Australians age at home

In last year's Budget, the government introduced the Downsizer Contribution so that, from July 1 this year, homeowners over 65 will be able to invest up to $300,000 from the proceeds of the sale of their family home into their superannuation fund[5]. Along with a higher income in retirement, the move could also be seen as encouragement for singles and couples to sell, freeing up more family homes.

There was some speculation that in this year's Budget the government would use changes to capital gains charges for sellers as further motivation to downsize but, instead, it introduced a measure designed to help retirees stay where they are[6].

Now every homeowner over the age of 65 has the option of taking out a reverse mortgage worth up to $11,799 a year for the rest of their lives. A reverse mortgage is effectively a loan that allows homeowners to access the equity they have built up in their home without selling their property. The loan is usually repaid when the house is eventually sold and there are limits in place to prevent people from owing more than their property is worth.

More information

If you're thinking about buying, selling or taking out a reverse mortgage in 2018 or 2019, you might want to talk to your mortgage broker about the recent Budget and how it could affect you personally.

Sources:

1 https://reia.asn.au/wp-content/uploads/2018/05/Media-Release-8-May-2018-Budget-2018.pdf

2 www.realestate.com.au/news/budget-to-rein-in-property-prices-with-measures-to-increase-housing-supply/

3 https://budget.gov.au/2018-19/content/bp2/download/bp2_combined.pdf

4 http://minister.infrastructure.gov.au/mcveigh/releases/2018/may/budget-infra_01-2018.aspx

5 www.ato.gov.au/Individuals/Super/Super-housing-measures/Downsizing-contributions-into-superannuation/

6 www.australianageingagenda.com.au/2018/05/10/budget-treasurer-expands-governments-reverse-mortgage-scheme-to-full-pensioners/