Wealth Adviser

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FINANCIAL PATHWAYS TO BUYING A HOME REQUIRE PLANNING

BY GRAHAM HAND

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INSIDE

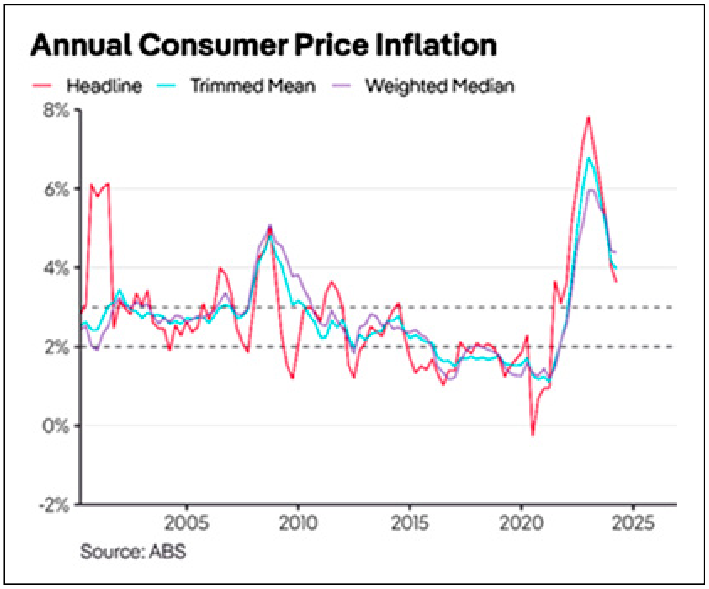
In the six months of my ongoing battle with brain cancer, one part of financial markets has fascinated me whenever I find time to read. It's probably not what you think. Sure, the Reserve Bank's ongoing debate about inflation and interest rates has filled economists with anticipation, and global wars have horrified us, making the conflicts almost unwatchable. But one subject that has led the pages of my reading is real estate, especially residential.

The question that hits me every day is: where is all the residential money coming from? Whether it's $4 million in the inner west, $20 million for a penthouse on the north shore or a $50 million mansion in the east, it's a continuous surprise to see how much money people have access to.

Real estate is not even my specialty, but the last six months have been both bemusing and fascinating. It's often difficult to believe that the numbers are true. For example, according to Domain, the average house price in the 2024 March quarter for Sydney is $1.628 million dollars, up from $1.465 million a year ago and up 11.1% in that time. Perth, Adelaide and Brisbane are up even more. Rents have risen almost 8% across Australia, the biggest increases in 15 years. In one year, Sydney's median house price has risen over $160,000.

It would not have seemed possible a couple of years ago in the face of interest rate increases, of which there were eight in 2022 alone. During COVID, with lending rates falling as low as 2%, a rise of 1% to 2% seemed likely. Homebuyers were doing their numbers as high as 4%, locking in rates for a couple of years where possible. But inflation drove 13 rate increases since April 2022 and have taken cash rates to 4.35%, where rates have stayed since November 2023. Plenty of lenders are now charging 6% or more and cash rates are not forecast to reach below 4% until the end of 2025.

The latest data for 2024 shows the dramatic increase in inflation for the period 2022 and 2023, and the stubborn refusal to fall as much as anticipated this year. Many economists expect only one or two reductions by the end of the year, but some are at zero. The return of inflation to the central bank target range is a long way off.



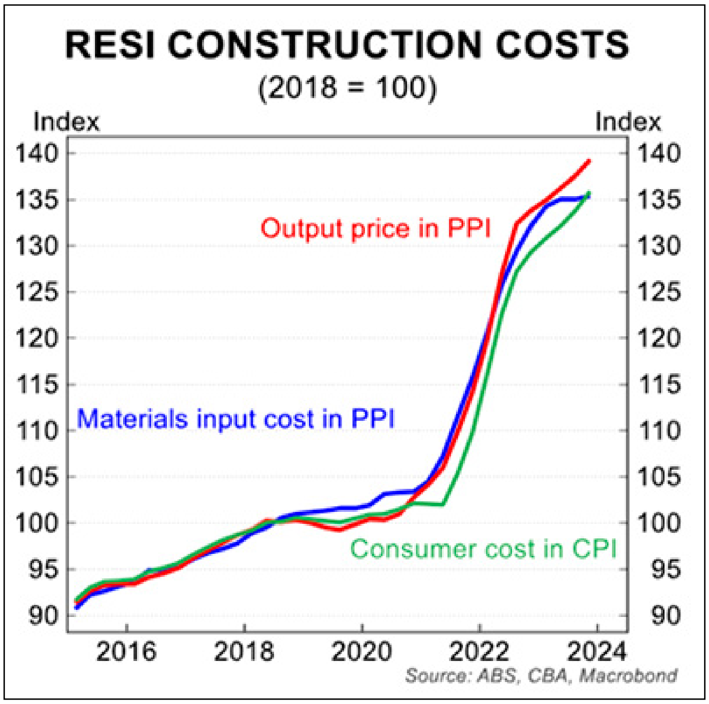
As a sign how much the market has reassessed its interest rate expectations, the ASX 30 day Interbank Cash Rate forecasts little movement by even the middle of 2025, perhaps a full year with no changes. Reserve Bank Governor Michele Bullock expects not to tighten again, but nor does she see easing conditions yet. Let's hope the new structure of the Reserve Bank board does not push her to act before she needs to.

New building is at decade lows, with many trades attracted to the certainty of long-term government contracts rather than the unpredictability of housing. The Albanese Government's promise of 240,000 dwellings a year looks impossible, even with banks keen to lend. The shortage of materials and inflation on supplies does not help.

Yet there is no shortage of home demand despite supply problems, and home prices, especially for houses, have continued to rise rapidly. This is where new solutions are surfacing.

Borrowers access increasing amounts

First, borrowers are willing to increase their loans with the bank, almost to whatever limit is allowed to secure a home. Whereas 20 or 30 years ago, borrowers relied on accessing three to four times as much of their income, the house price now represents as much as seven to eight times earnings (and it used to be more when rates were lower). Many borrowers will be paying off their principal for decades. The biggest shock for new home buyers has come in construction costs, requiring renegotiation of terms to prevent builders going broke.



There's more to come. Oxford Economics estimates that between 2025 and 2027, median home prices will hit $1.3 million with Sydney at $1.9 million. Home units will exceed $1 million on average. Thousands of people will need to make the 'rent versus buy' trade-off, with a move to new apartments likely given many old houses are in bad condition.

A similar trade-off decision will come from the payoff of student loans, as a debt of $100,000 will go a long way to paying off a home loan. Australia covers three million former students with loans of almost $80 billion. It's a massive burden to carry (and I come from an era of free university education, which was a major bonus).

Major population growth depends on home and infrastructure building (toilets, roads, sewerage, etc). The Housing Industry Association advised recently that the cost of labour, concrete and materials will delay any increase in the amount of high-rise development for at least another year.

So, borrowers will increasingly look beyond their own financial resources, and with rents at new record highs, people will want to buy rather than face the terrible hassles, short leases and scarcity of renting.

Bank of Mum and Dad

Second, the increase in the role of the Bank of Mum and Dad has changed the market. In prior years, as recently as five to 10 years ago, parents might provide some money to help with extra needs, and maybe as much as a deposit. Now, it is not uncommon to hear a group of people bidding to buy a house and each couple has their parents with them with significant support.

It is becoming so common that parents are now more sophisticated in the ways they lend or give money to their children. Increasingly, terms are negotiated to ensure money is retained if a family breaks up. Parents don't want to give their children $250,000 only to see it disappear in a marriage split.

Such documentation may upset one of the children. Terms and conditions are written down with clear definitions of obligations each way. A gift to the son or daughter might be split in the event of a divorce. Except for the wealthiest of families, parents should check their eligibility for pensions and income streams is not affected, and their will should be checked and amended. These agreements often require documentation to cover issues such as capital gains tax, and not simply an assumption that the marriage will last forever.

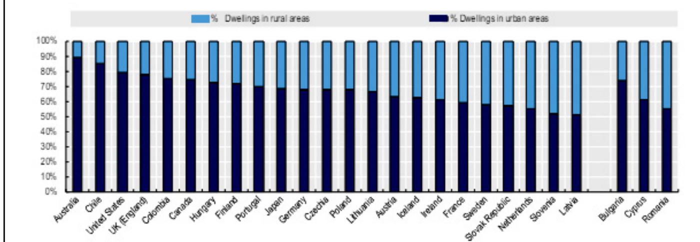
Multigenerational families

Third, it is becoming more common for mutigenerational families to buy and live together. A large house worth say $5 million might not normally be considered by one family. But where they are looking to care for grandparents, cover the long hours that a parent works while also allowing for the needs of the children, homes with three generations living together are becoming more popular.

Of course, they might be living close to family rather than in the same house. Australia is unique with a high proportion of dwellings for people who live in urban areas rather than rural and is at the top of the world at over 90% urban, often due to people wanting to live near or with parents.

Figure HM1.1.3. Dwelling stock in urban and rural areas

Percentage of dwellings located in urban and rural areas, 2021 or latest year available[1,2]



Note: 1. Data are for 2021, except for Colombia (2023), the Netherlands and the United Kingdom (England) (2022), France, Hungary, Iceland, Japan, and Lithuania (2018), Chile, Finland, and Latvia (2017), Ireland (2016), Sweden (2013).
Source: OECD Questionnaire on Affordable and Social Housing (2023, 2021 & 2019).

More people working longer

Fourth is the other side of the generosity of the grandparents. They may delay retirement beyond 60 or 65 by one of them working longer, perhaps while the other looks after the grandchildren. They may now owe more on their house as they borrow for their children, with a third still servicing loans where once they thought it might be time to relax.

Warren Buffett at the age of 93, and before him, Charlie Munger at the age of 99, show that it is possible mixing work and play well into retirement. Many people work beyond 70 (with brain cancer's permission) with a few days mixing it up. It should be part of the funding discussion with a spouse on financial intentions, even if there is 20 years left to live.

Lots of choices

The days are long gone when the only alternative for a couple saving for their first house was to scrimp for 20 years and then live further away than they want to when they buy a home. Many families now accept that if they want their children and perhaps even more importantly, their grandchildren, to have a good life, the older people will need to make a decent contribution. Where once it was common for grandparents to pay for school fees, the same now applies for homes.

It means a lot more planning. Parents may be approached by their children for financial assistance, and a big step is required on legal documentation. Living with multiple generations on one piece of suburban land will come with its challenges but will suit many.

With property increasingly scarce and demand outstripping supply, more people will need to face up to the decisions about living alternatives.

Firstlinks is a publishing service providing content written by financial market professionals with experience in wealth management, superannuation, banking, academia and financial advice.

Super and tax - what's changing on 1 July 2024

Here's a quick rundown of the latest law changes

Republished from amp.com.au

They say nothing is certain in life except two things – death and taxes.

Australians can probably add a third – the knowledge that come the end of financial year, the rules around superannuation and taxation will inevitably change.

It can be hard keeping up with all the latest super and tax rule tweaks so here's a quick guide to everything you need to know about what's changing on 1 July 2024.

First, some good news.

Your employer will contribute more towards your super...

If you're a PAYG employee, your compulsory super guarantee (SG) payment will go up by half a percentage point to 11.5%.

...and you can tip more in as well

There are annual caps - or limits - on how much money you can contribute towards super, both in terms of pre-tax 'concessional' contributions and after-tax 'non-concessional' contributions.

Both these caps are going up, so if you have any spare funds, you'll be able to move more of your money into super's low-tax environment.

- The concessional cap is increasing from $27,500 to $30,000 a year.
- The non-concessional cap is increasing from $110,000 to $120,000 a year.

This means if you have less than $1.66m in your super on 30 June 2024, you might be able to bring forward three years of non-concessional contributions (NCC) up to $360,000.

If you're lucky enough to have more than $1.66m in your super, these bring-forward rules change – see the table below.

Your total super balance (TSB) at 30 June 2024	NCC cap in 24/25	Bring-forward period
<$1.66 million	$360,000	3 years
$1.66m-$1.78m	$240,000	2 years
$1.78m-$1.9m	$120,000	Standard NCC cap
>$1.9m	Nil	N/A

What this means for your super strategies

While the higher concessional cap will allow you to sacrifice more salary into super, the increased SG rate will reduce some of your extra capacity. So, it could be a good time to review any existing salary sacrifice arrangements you have with your employer.

Turning 60 in 2024/25? Here's what you need to know

Your preservation age is the age you can start to access your super. It's between 55 and 60, depending on when you were born.

So, if you're born after 1 July 1964 and you're turning 60 in the 2024/25 financial year, you'll be able to access your super for the first time. It's been a long haul, but you've finally made it...congratulations!

You'll be able to withdraw larger lump sums if you're retired without worrying about the low-rate cap of $235,000.

You'll enjoy tax-free pension income payments, regardless of whether you have a transition to retirement (TTR) or retirement income stream.

If you're still working, you won't have full access to your super until you reach 65. But you can start accessing your super with a TTR strategy which allows you to draw regular income up to 10% but doesn't allow lump sum withdrawals.

You'll pay less income tax

The Government's long-awaited 'stage 3' tax cuts are coming into effect on 1 July 2024. While there have been well-publicised changes – lower income earners will receive a higher cut than originally proposed, while higher income earners will receive a lower cut – the bottom line is that all personal income taxpayers will pay less tax.

Your tax cuts from 1 July 2024

Taxable income	Tax payable 2023/24	Tax payable 2024/25	Tax cut
$40,000	$4,367	$3,713	$654
$60,000	$11,067	$9,888	$1,179
$80,000	$18,067	$16,388	$1,679
$100,000	$24,967	$22,788	$2,179
$120,000	$31,867	$29,188	$2,679
$140,000	$39,667	$35,938	$3,729
$150,000	$43,567	$39,838	$3,729
$160,000	$47,467	$43,738	$3,729
$180,000	$55,267	$51,538	$3,729
$190,000	$59,967	$55,438	$4,529
$200,000	$64,667	$60,138	$4,529

Source: https://treasury.gov.au/tax-cuts/calculator

> "If you're still working, you won't have full access to your super until you reach 65. But you can start accessing your super with a TTR strategy which allows you to draw regular income up to 10% but doesn't allow lump sum withdrawals."

What this means for your EOFY tax strategies

Before 1 July 2024 you'll still be paying a higher rate of tax. So, you might like to think about bringing forward any tax deductions by:

- making personal deductible contributions to your super using any unused amounts from 2018/19
- prepaying any deductible expenses such as income protection premiums and investment loan interest where possible.

After 1 July 2024 you'll be paying a lower rate of tax. So, you might like to think about deferring any taxable income from:

- selling an asset that generates a capital gain
- receiving an employment termination payment or leave entitlement
- applying for a First Home Super Saver Scheme release
- making a taxable super withdrawal, such as total and permanent disability under age 60.

AMP Limited provides banking, super, retirement and advice services in Australia and New Zealand, supporting over one million customers and employing approximately 3,000 people.

3 facts you should know about the Nasdaq 100

BY PATRICK POKE

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The Nasdaq 100 has grown to be one of the most widely recognised indices in the world. Measuring the performance of the 100 largest non-financial companies listed on the Nasdaq exchange, the index has become synonymous with the world's largest technology companies including Apple, Microsoft, and Google.

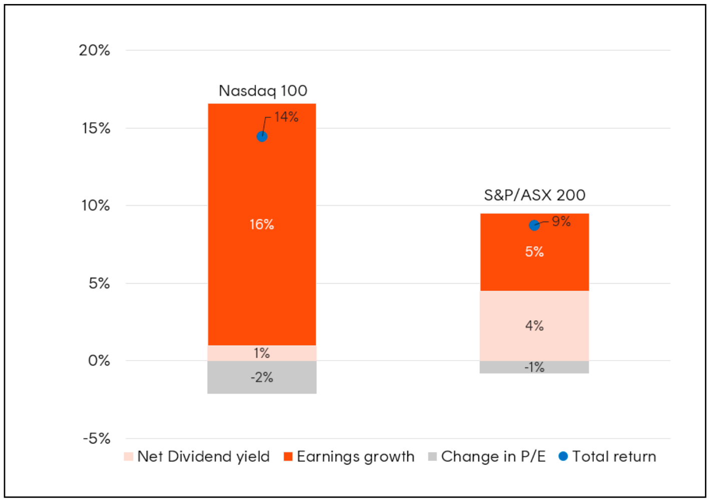
While its early notoriety came in the late 1990's during the dot-com bubble, which was characterised by unjustified valuations for unprofitable technology companies, the Nasdaq has since evolved into an index comprising global businesses with strong fundamental growth supporting their impressive returns.

We delve into three facts about the Nasdaq 100 that might surprise you.

1. Fundamentals have driven the long term performance of the Nasdaq

While the Nasdaq 100 Index is trading at all-time highs, returns have been driven by strong growth in underlying earnings.

The below decomposition of the Nasdaq 100's return over the past 20 years shows that on average the annual earnings growth of the underlying companies has been 16% p.a. Over the same period the Nasdaq index returned on average 14% p.a. This means the price to earnings ratio actually fell by 2% p.a. on average over this period.

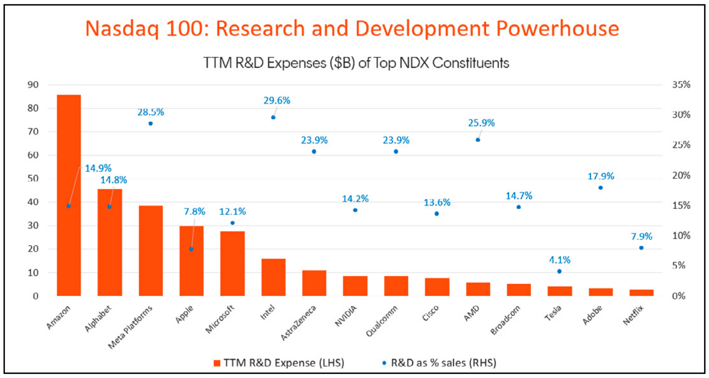


Source: Bloomberg. 20 years to 31 December 2023. P/E is trailing 12-month P/E. You cannot invest directly in an index. Past performance is not an indicator of future performance.

2. The largest Nasdaq constituents are the biggest R&D spenders

In order for companies to innovate and grow in the 21st century, investment in research and development (R&D) is crucial.

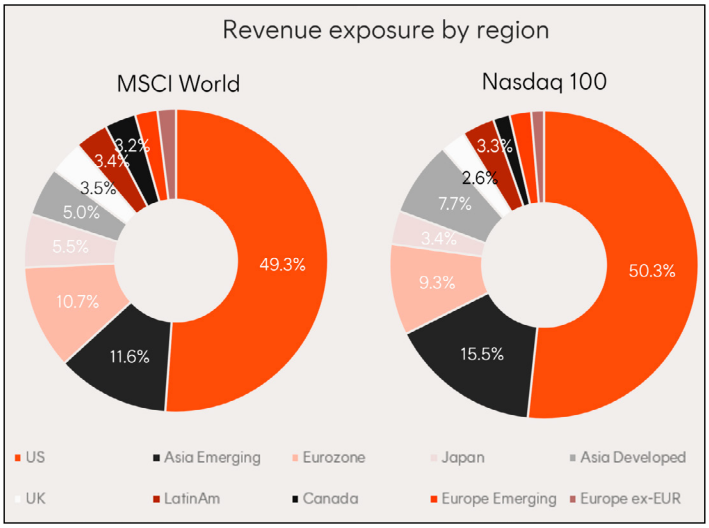
The largest 15 companies on the Nasdaq are the biggest R&D spenders, allocating an average of 16.9% of their revenues to R&D over the past 12 months[1]. It has been this spending on innovation in areas like enterprise, cloud computing, cybersecurity, and more recently AI that has ultimately led to underlying growth.



Source: Nasdaq Global Indexes, Bloomberg. Data as of 27 February 2024.

3. The Nasdaq 100 is not just a US index

Six Nasdaq stocks now boast market caps well over US$1T, raising questions whether US economic activity can support the ongoing growth of such giants. However, Nasdaq companies should not be seen as US centric businesses. With scalable platforms that transcend national borders, Nasdaq companies generate revenue from a globally diverse customer base.



Source: Morningstar, data as at 31 January 2024.

"Six Nasdaq stocks now boast market caps well over US$1T, raising questions whether US economic activity can support the ongoing growth of such giants. However, Nasdaq companies should not be seen as US centric businesses."

This is evident looking at the revenue source by country of the Nasdaq 100 (on the left) with a very similar split to global equities (as shown for the MSCI World benchmark on the right). This proportion of non-US revenue share has increased over time for the Nasdaq 100, and is now far greater than the S&P500 non-US revenue share of only 40%.

How to gain exposure to the Nasdaq

You can get access to NDQ Nasdaq 100 ETF in a single trade on the ASX.

QNDQ Nasdaq 100 Equal Weight ETF now offers Australian investors more ways to access the innovative companies on the Nasdaq exchange.

QNDQ Nasdaq 100 Equal Weight ETF aims to track the performance of the Nasdaq 100 Equal Weighted Index (before fees and expenses), providing exposure to 100 of the largest non-financial companies listed on the Nasdaq, with each holding in the Index weighted equally.

Source: 1. Nasdaq. As at 27 February 2024.

Q&A: Ask a Question

Question 1

The kids have moved out and our house is too big for us. I've heard recently that I can downsize by selling my house and putting more money into super by using a downsizer contribution. What is it and what do I need to do to make sure I can use it?

The downsizer contribution program allows you to put the proceeds from the sale of your primary residence into your super fund without impacting any of your contribution limits You do however need to be very aware of some of the rules involved before doing so. For example, you must be 55 years of age and have owned the property for at least ten years. You can only contribute up to $300,000 each or $600,000 for couples combined. If you make any contributions, you must ensure they are made within 90 days from receiving property sale proceeds.

It's a useful scheme to add more funds into super but remember, it only applies to your primary residence and not investment properties or prior contributions from the sale of properties. Whilst the scheme does not impact the age pension test, it may affect your eligibility for aged care means testing. As always, we recommend you consult with your financial adviser who can provide careful consideration to your specific needs and help you navigate your way through the scheme effectively.

Question 2

I'm looking to update my Will but heard from a friend of mine recently that I should investigate having a testamentary trust. What are they?

A testamentary trust is a trust established through instructions within your will and is activated upon your death. If you have children under the age of 18 or someone who isn't financially responsible yet, you can dictate how the assets you've left them are to be managed and when income distributions occur long after you're passing. If you are worried about any of your beneficiaries, this is a great way of protecting their interests through a more structured framework. Testamentary trusts will help you have a tighter control over the inheritance process and protect your hard earnt assets from potential risks. They also offer some great potential tax efficiencies as well.

Question 3

I've recently inherited some money and I'm looking to buy some shares and I am unsure whether to do this via a stockbroker or managed fund. What are the pros and cons of buying shares through a stockbroker verse investing in a managed fund?

If you are going to consider buying shares through a stockbroker then you have to be aware of the time and effort that's required in managing your own portfolio in terms of monitoring, researching and making quick decisions. This can be really hard if you have a busy schedule or if you haven't had experience doing this before. Having said that, it's a great way to learn and you can react and adapt quickly to opportunities in the market.

Alternatively, you can buy exposure to shares through a managed fund. This requires a lot less time and effort as you have a fund manager handling the day-to-day operations and decision making for you. Managed funds typically invest in a diversified portfolio of assets reducing the risk of poor performance of a single stock. You do need to be aware that the fees are higher and there are no guarantees in terms of performance. Ultimately the decision is yours and it really depends on time, expertise, risk and what you are trying to achieve but always consult with your financial adviser before making any decisions.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**