SMARTLIFE

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11

Six ways to strengthen your social connections this summer season

Is there a silver lining to falling property prices?

How to upsize your super with a downsizer contribution

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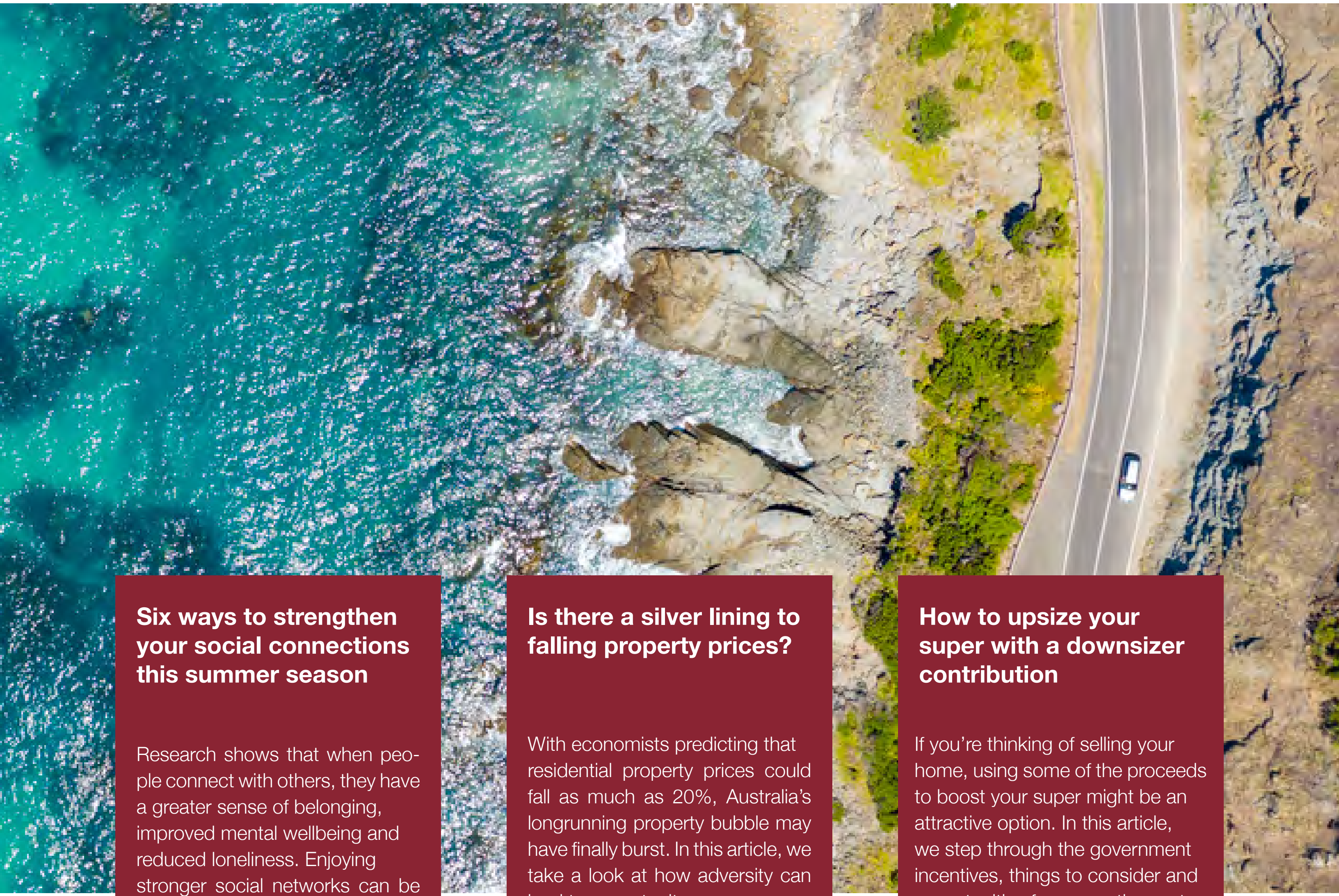
PRIVATE WEALTH

Welcome to the Summer 2023 edition of SMART Life.



Six ways to strengthen your social connections this summer season

Research shows that when people connect with others, they have a greater sense of belonging, improved mental wellbeing and reduced loneliness. Enjoying stronger social networks can be easy – in this article, we show you how.

Is there a silver lining to falling property prices?

With economists predicting that residential property prices could fall as much as 20%, Australia's longrunning property bubble may have finally burst. In this article, we take a look at how adversity can lead to opportunity.

How to upsize your super with a downsizer contribution

If you're thinking of selling your home, using some of the proceeds to boost your super might be an attractive option. In this article, we step through the government incentives, things to consider and opportunities for your retirement planning.

Six ways to strengthen
your social connections this summer season.

Research shows that when people connect with others, they have a greater sense of belonging, improved mental wellbeing and reduced loneliness[1] Enjoying stronger social networks can be easy – we show you how.

One of the best things about the summer season is that it's a tradition to connect with others at this time of year. And the spirit of cheer and generosity gives us more creative freedom in how we share goodwill with friends, family and neighbours. Here are six ways you can tap into the festive mood to dial-up your social connections.

Make merry with your neighbours

The season provides a reason to be more neighbourly. Drop off a note offering to help out while they're on holidays. Perhaps you could look out for their deliveries or water their plants. And if cooking is your thing, gift a baked treat.
Invite your neighbours or friends for a catch up over a meal or a drink.

Take part in community events

Check out your local council or local church event pages for summer gatherings. Most communities will have summer concerts or festivals in a local park and these gatherings can provide a sense of belonging. Perhaps invite a friend, family member or neighbour to join you.

Help get the party going

If you spend festive celebrations with family or friends, make more of the occasion by offering to help with the preparations such as shopping, tidying up, decorating or cooking. Even distracting the dogs or the children so that others can get things ready is a big help and builds connection around a common purpose.

Reconnect with family & friends

Send a message to say you're thinking of them together with an invitation to catch up over drinks, a coffee or lunch. And if you're part of a team or group, offer to organise a New Year gathering for your group.

Keep it simple and be present

If you find things start to get too busy, look for opportunities to catch up with others in the new year. It's a chance to share stories about noisy neighbours, crazy relatives and excessive food.
And in keeping with the generosity of the season, focus on how you can benefit others. Be compassionate and consider people you know who'd value an invitation or a helping hand. And decide to not be offended if you don't get the response you were expecting.
Whatever you choose to do, remember to keep things simple. It's not about all the stuff – the trimmings and the fussiness. It's about being present with people, having a generous conversation, offering a listening ear and having fun.

As you take positive steps to improve your wellbeing, why not consider improving your financial wellbeing as well? Ask us about opportunities to optimise your financial health – both for now and to prepare for the future.
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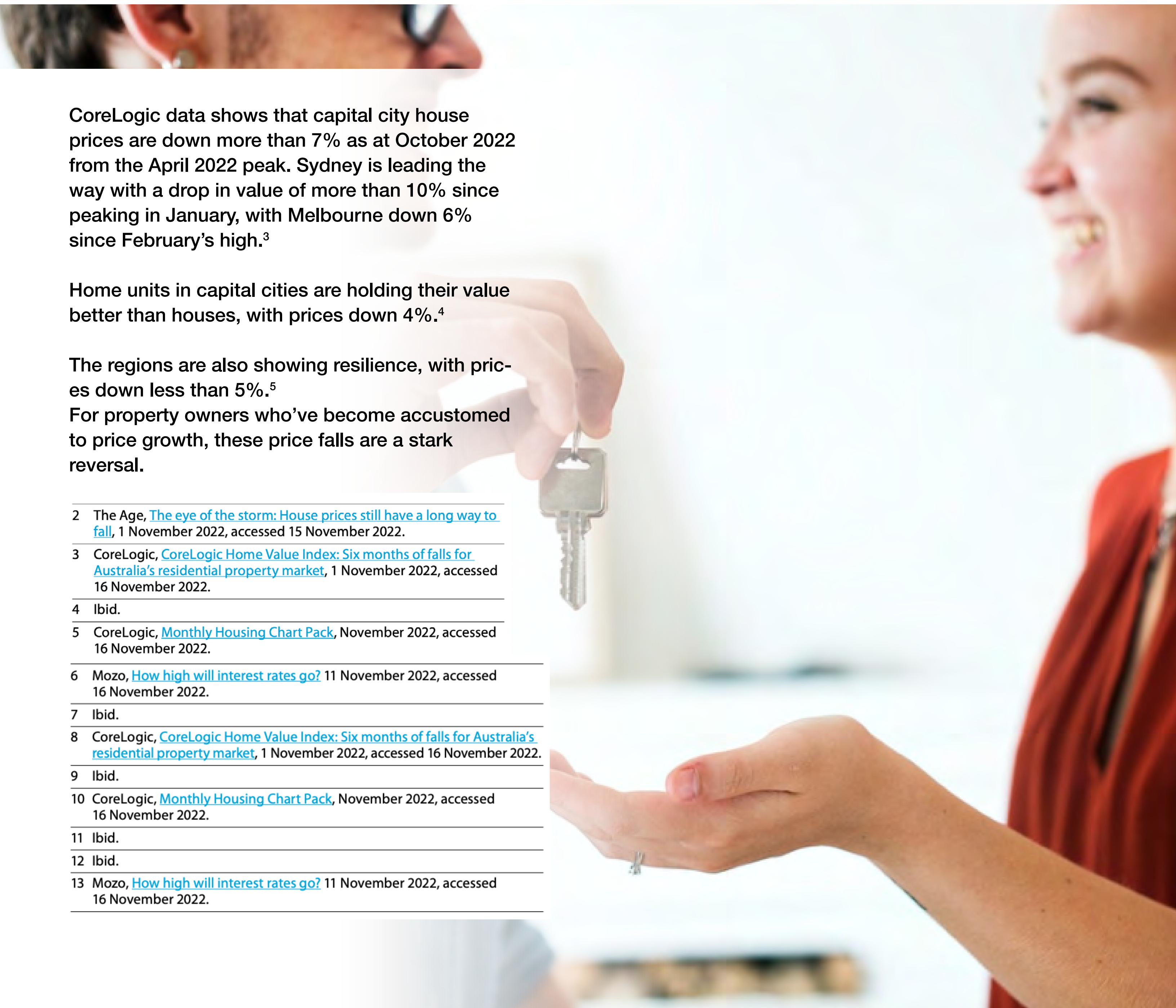
Is there a silver lining
to falling property prices?

With economists predicting that residential property prices could fall as much as 20%[2], Australia's long-running property bubble may have finally burst. But with adversity comes opportunity.



CoreLogic data shows that capital city house prices are down more than 7% as at October 2022 from the April 2022 peak. Sydney is leading the way with a drop in value of more than 10% since peaking in January, with Melbourne down 6% since February's high.[3]

Home units in capital cities are holding their value better than houses, with prices down 4%.[4]

The regions are also showing resilience, with prices down less than 5%.[5]
For property owners who've become accustomed to price growth, these price falls are a stark reversal.

2 The Age, The eye of the storm: House prices still have a long way to fall, 1 November 2022, accessed 15 November 2022.

3 CoreLogic, CoreLogic Home Value Index: Six months of falls for Australia's residential property market, 1 November 2022, accessed 16 November 2022.

4 Ibid.

5 CoreLogic, Monthly Housing Chart Pack, November 2022, accessed 16 November 2022.

6 Mozo, How high will interest rates go? 11 November 2022, accessed 16 November 2022.

7 Ibid.

8 CoreLogic, CoreLogic Home Value Index: Six months of falls for Australia's residential property market, 1 November 2022, accessed 16 November 2022.

9 Ibid.

10 CoreLogic, Monthly Housing Chart Pack, November 2022, accessed 16 November 2022.

11 Ibid.

12 Ibid.

13 Mozo, How high will interest rates go? 11 November 2022, accessed 16 November 2022.

Increasing gross rental yields. Falling property prices combined with rent hikes means the average income earned from residential property, as a percentage of property values, has risen.

Rising interest rates - the driving factor

In response to soaring inflation, the Reserve Bank of Australia (RBA) raised interest rates in May 2022. Since then, interest rates have continued to rise, reaching 2.85% as at November 2022.[6] Now that debt costs a lot more to service, homebuyers aren't borrowing as much as they did before. Compounding the challenge, homebuyers are also absorbing an inflated cost of living.

And although borrowers are factoring in rising interest rates, there's still more downside pressure on property prices to play out, particularly since the RBA is planning further interest rate rises.[7]
So, when will housing prices finally reach the bottom? Likely not until after interest rates stabilise and buyers know how much it will cost them to service their loans.

The upside of the residential property downturn

Increasing gross rental yields. Falling property prices combined with rent hikes means the average income earned from residential property, as a percentage of property values, has risen. According to CoreLogic, across Australia's capital cities, average gross rental yields have risen 0.47% since February 2022 to 3.43%. Breaking this down, the average gross rental yield for units increased by 0.57% versus houses at 0.43%.[8]

Gross rental yields in regional areas are on average higher than in capital cities at 4.4% for houses and 3.4% for units.[9]

And increasing international migration will further boost the demand for rental properties.

Lower auction clearance rates. When more properties get passed in at auction, this dials up the pressure on sellers to negotiate on price and terms. Clearance rates dropped to an average of 59.5% over the four weeks to 6 November 2022, from 78.5% for the same period a year ago.[10]

Longer time on the market. Properties now take longer to sell which means investors have more time to negotiate on price, terms and to complete due diligence. In the three months to October 2022, the time the average property was on the market stretched out to 36 days, up from 20 days in the three months to November 2021[11].

Regional markets are holding up better than capital cities.
Regional markets are benefiting from lower price points versus capital cities and increased demand driven by the exodus of people from capital cities. Areas within commuting distance are benefiting the most. This interest in the regions is a trend that appears to be here to stay as workers take advantage of formalised work-from-home employment arrangements.[12]

The threat to residential property investors

Loan servicing costs are high and rising. Some economists are predicting that the RBA will continue to raise interest rates over the next year, possibly another full percentage point to 3.85%.[13] And there's no limit to how high interest rates could go.

Harsh penalties for those unable to stay invested for the long term. The weakening residential property market is putting some investors into a negative equity position. So, if the unexpected happens and you need to cash out your investment in a hurry, selling a property can take months and carries the risk of significant capital loss.

Economic uncertainty. Rising inflation and rocky consumer confidence, among other adverse economic pressures, could make it hard for some tenants to pay their rent.

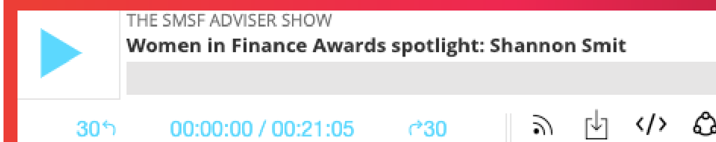
Complex legal obligations. Becoming a landlord comes with shifting legal exposure together with tax and reporting obligations.

Unexpected maintenance costs. While there's always a cost to maintain property, significant, unexpected damage, such as from excessive rainfall or mould, can mean financial pressure.

Other ways to invest in property

Because of the large up-front costs, interest rate risks and longer time horizon, residential property investing isn't for everyone.
The good news is that investing through your super or a managed fund can provide growth and yield opportunities from investments in commercial, industrial or retail property.

Listen: SMSF Adviser Podcast feat. Shannon Smit, CEO of Smart Private Wealth



Getting advice

After decades of steady growth, we may be returning to a cycle of property market volatility. This makes scenario planning, cash flow modelling and risk-buffering an essential part of residential property investment. We can help you look at your options and determine if residential property investing is a suitable option for you.

How to upsize your super
with a downsizer contribution

If you're thinking of selling your home, using some of the proceeds to boost your super mightbe an attractive option. We step through the government incentives, things to consider and opportunities for your retirement planning.

If you're like many people, you've likely built-up equity in your family home. The good news is that you may be able to use some of your home equity to boost your super and help fund your life in retirement.

Government concessions make it easier and more tax effective to add to your super in this way.

> **If eligible, you can make a downsizer contribution to your super of up to $300,000 if you're single or $600,000 between you if you're a couple.**

How do downsizer contributions to super work?

Currently anyone aged 60 or older can make a downsizer contribution when they sell their primary residence. And soon people aged 55 and over will also be eligible to benefit, as announced in the October 2022 Federal Budget.

If eligible, you can make a downsizer contribution to your super of up to $300,000 if you're single or $600,000 between you if you're a couple.

Why consider a downsizer contribution?

Money earned in super gets favourable tax treatment. You don't pay any tax on your investment earnings when you draw an income from an account-based superannuation pension.

The usual contribution caps don't apply to downsizer contributions. This means you can make a downsizer contribution in addition to any other contribution you're making to your super.

It's a way to significantly boost to your retirement savings. And the good news is that you don't need to meet a work test to make a downsizer contribution. Normally, if you want to make additional contributions after you've reached your preservation age, or the age at which you can draw on your super, you must satisfy a work test.

What's more, even though it's called a downsizer contribution, you don't need to buy another home.

What properties are eligible for the downsizer contribution?

The property you sell needs to have been your (or your spouse's) main place of residence at some point in time. And you or your spouse need to have owned the home for at least 10 years. It doesn't need to be your current home as long as you've owned it for more than 10 years and lived in it at some point.

An investment property that you've not lived in isn't eligible. The property doesn't have to be owned by both you and your spouse for you each to make a downsizer contribution.

Also, it must be a house or home unit. Caravans, mobile homes and houseboats can't be used.

Things to consider

Selling your home is a major decision and getting financial advice can help reassure you that you're doing the right thing. The Centrelink Assets Test takes into account your super balance to determine your eligibility for the Age Pension. Currently, your family home is exempt from that test.

So, if you sell it and put some of the proceeds into your super, your Age Pension could be affected. And in turn, your eligibility for government-funded aged care and home care services. It's also important to note that the transfer balance cap still applies to downsizer contributions. This is the maximum amount you can have across all your superannuation funds – currently $1.7 million.

If you think that a downsizer contribution could tip you over that amount, it's important to talk to your financial adviser.

Finding the best option for your circumstances is something your Count financial adviser can work through. We can assess the costs and benefits to help you make the right decision.

Next steps to take advantage of the downsizer contribution?

Give your super fund a filled-out Australian Tax Office (ATO) Downsizer contribution into super form either before or at the time you make your downsizer contribution. The timing is important, otherwise your fund won't know how to categorise your contribution.

You have 90 days from when you receive the proceeds from the sale of your property to make your downsizer contribution. The downsizer contribution is something you can only take advantage of once. If you decide to sell your home and put $150,000 into your super account, you won't be able to come back a year later and add another $150,000 downsizer contribution.

If you're thinking of selling your home and contributing some of the proceeds to your super, it's important to speak with us to weigh up your options and ensure you're making the right decision for you.

The median weekly hours worked for employed Australians has been

38 hours

since 2006[14]

In 2021, older Australias (65 years and over) represented

4.9%

of the employed population compared with 2.4% in 1971.[15]

Gross Domestic Product increased

0.9%

in the June 2022 quarter.[17]

Consumer Price Index rose

7.3%

over the 12 months to September 2022[16]

Unemployment rate is

3.4%

at October 2022.[16]

14 2021 Census Snapshot

15 2021 Census Snapshot

16 Australian Bureau of Statistics

17 Australian Bureau of Statistics

18 Australian Bureau of Statistics

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