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Budget 2016: Super changes and RBA rate cut to drive property

by **Michael Bleby**

The Reserve Bank of Australia's decision on Tuesday to cut interest rates to a new record low won't fire up the real estate market to its levels of last year, but it will keep activity ticking along, real estate agents say.

"I like the interest rate cut," agency CBRE's managing director for residential David Milton.

"This isn't going to spur buyers on, but it is going to give them further confidence we're in a lower interest rate environment."

Raine & Horne executive chairman Angus Raine agreed.

Property pulse: Budget changes to super may prompt wealthier investors to buy smaller offices. **Chris Hyde**

"Yesterday's rate cut is pleasing news for owner-occupiers and investors, especially with most of the lenders passing on the cuts in full," Mr Raine said.

"Rates are now at historic lows and, it's fair to expect that we'll start to see more first-time buyers at open homes over the next few months."

The 25-basis-point cut in the RBA's cash rate to a new record low of 1.75 per cent would sustain the strength of a market that gave Ray White, the country's largest real estate agency, an April sales revenue of $3.7 billion, 5 per cent above the same month last year, chairman Brian White said.

"The bigger impact is reinforcing the unlikelihood of interest rate increases," he said. "The sustainability has been one of the key features of what's been happening in recent times."

Could spark a move to cheaper offices: Paul Osborne, left and Bin Rong of buyers' agency Secret Agent say tax changes to super could shift buying behaviour. **Jesse Marlow**

Not everyone thought the cut was a good thing, however. Century 21 chairman Charles Tarbey said it was a mistake.

"Too much demand in a market for a sustained period can sometimes heighten downturn risks, and as such, we would have preferred a stable interest rate environment which can often encourage longer and more sustainable growth cycles," he said.

The cut in interest rates, along with the failure of yesterday's federal budget to alter the tax concessions for negative gearing and capital gains on property sales - ruled out before the budget - suggest the residential property market, which enjoyed a boost in prices in April even as new housing approvals ease lower, is likely to keep ticking along.

But while the housing market is likely to undergo little change from Tuesday's monetary policy and budgetary changes, commercial property will.

The introduction of the so-called $1.6 million balance transfer cap will make it more costly for wealthy investors to buy office properties with their super funds that they then lease from their funds to operate their businesses.

With super balances over the new threshold subject to a 15 per cent tax - less than the new 27.5 per cent company tax rate for small businesses but still more than before - fewer people would look to follow that route, said Bin Rong, a property advisor with the Secret Agent buyers' agency in Melbourne. A pension balance above $1.6 million would be subjected to tax as it would have to be shifted back into the accumulation phase.

"There's less incentive, but still something in there," Mr Rong said. "There's still a 12.5 percentage point incentive to encourage people to invest their super fund to buy property."

It would likely push more buyers to purchasers of cheaper property that they could buy through their super funds and stay below the $1.6 million threshold, his colleague Paul Osborne said.

"Wealthy investors may make smaller commercial investments to fit in with these new rules," Mr Osborne said. "This could add further competition to the lower end of the commercial market and slow down competition for larger commercial assets as the incentives are not as good as they used to be."

Mr Raine said the super rules would have an effect on wealthy super fund owners.

"It's probably too early to tell what impact the changes to the super contributions will have, although it's fair to expect new caps will compel people to readjust how they buy investment assets, whether it's within a super framework or not."

Ken Atchison, an asset consultant who advises financial institutions, said Tuesday's super changes would cause high net worth super fund owners to hold off on property purchases in the short term.

"There's going to be a hesitation," he said. "Then alternatives will be developed that are less favourable in tax terms than super and alternatives will be developed over time."

One likely alternative for high net worth individuals who sought to invest in property but would be limited by the new $1.6 million threshold and the $500,000 lifetime cap on non-concessional contributions to their super was investment bonds offered by friendly societies such as Australian Unity and IOOF, Mr Atchison said.

The investment bonds with a 10-year term had a tax rate capped at 30 per cent, which now made them more attractive than the 48 per cent top marginal rate of income tax, he said.

"If I can set up a property syndicate that's an investment bond that will appeal to that segment of the community," he said.