MCG QUANTITY SURVEYORS

# 1000 ASSETS 2020

A Four-year study of
Australian Investor Behaviour

# WELCOME
## TO THE
# MCG 1000 ASSETS STUDY

MCG QUANTITY SURVEYORS

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# 01 INTRODUCTION

**Welcome to the MCG 1000 Assets Study: 2020.**

The concept of property ownership is firmly embedded in the Australian DNA. We are, after all a 'wide brown land' where real estate is so significant, home ownership is described as The Great Australian Dream.

Of course, this has led to property becoming a key pillar for wealth building among Aussies as well, and spawned not only a raft of financially self-sufficient citizens, but a multi-billion-dollar industry too.

The scope of the Australia's residential property sector is impressive to say the least.

Data analysis by the Property Investment Professionals of Australia (PIPA) revealed Australian residential real estate is a $6.7 trillion (that's trillion with a 'T') industry as at October 2019.

That's almost $1 trillion dollars more than the combined value of Australian Superannuation ($2.9 trillion), listed stocks ($2 Trillion) and commercial real estate ($1 trillion).

Best of all, residential real estate is robust.

Over 51 per cent of the nation's household wealth is held in the nation's 10.3

Australian residential real estate is a **$6.7 trillion** (that's trillion with a 'T') industry.

million dwellings, while Australians trade almost 400,000 properties each year with a total value nearing $250 billion.

The property industry is all about people too. In round figures, approximately 2.2 million Australians own an investment property – which is less than 10 per cent of the population.

Of these investor figures, the vast majority own just one holding (over 70 per cent). Those with two assets make up another 20 per cent of the cohort. In addition, our research indicated as many as one in four become investors simply because they retain one home when it comes time to move to another.

This means property investment isn't dominated by the nation's upper echelon of wealth holders – far from it. Most are typical Australians, many of whom could even be classed as 'accidental investors'.

These head-spinning figures show just how entrenched as a nation we are in the real estate sphere.

At MCG, our stock-in-trade is to help property investors maximise their post-tax income each year through the preparation of comprehensive reports identifying depreciation allowances for their investment properties.

Completing these reports entails detailed analysis of properties and client circumstances, and over the years, we've collated an impressive bank of information that reveals some of Australia's most interesting and dramatic property-market shifts.

Our 1000 Assets study is unlike any document yet published. Nuanced, measurable information on real-life property investors and their holdings across both location and sector. The report is relevant and in-depth in a way that big data sometimes struggles to be.

Best of all, this research provides a sign post on where we're heading as an investing nation – a lead indicator revealing what might be expected in the coming years in Australia.

Please enjoy our 1000 Assets study for 2020.

Mike Morttock

**Managing director MCG Quantity Surveyors**

# 02 ABOUT THE **1000 ASSETS STUDY**

**The 1000 assets study is a unique analysis of property investment data collated by MCG Quantity Surveyors in the course of preparing depreciation schedules across its national client base.**

Our 2020 report covers four datasets from schedules commissioned between January 2016 and December 2019. The data was also analysed chronologically with each dataset comprising 1000 investment properties, meaning trends are assessed using equal sample sizes over the time period rather than by defined date ranges. This approach reduces anomalies that can occur by comparing unequal sample sizes which can arise when defining data sets by time period only.

While the information is collated from depreciation reports nationally, the analysis also breaks figures down into subsets such as location, property type and investment type (e.g. renovation, new construction, existing home etc.) This has enabled MCG to observe trends in investor sentiment from quantitative analysis, and then draw conclusions based on our qualitative experience as well as information derived through our networks in the property market. Also of note, while the data does describe trends across an approximate four-year period, each 1000 asset dataset is an interesting frieze of Australia's property investment market at a given moment. Of particular interest is the latest 1000-asset dataset which describes the sector from April 2019 to December 2019.

While the entire report reflects the culmination of five year's work, progressive analysis since 2011 has allowed MCG to deliver compelling commentary to both their client base and across a range of media. For instance, much of MCG's information around negative gearing and property ownership provided the foundation for news reports in the Australian Financial Review and News Corp outlets in the lead up to the Federal Election in 2019.

The aim of the 1000 Assets report is to present a comprehensive study of nuanced information collected directly from real life investment property case studies, with a view to removing the somewhat 'insulated' nature of algorithmically based, big-data analysis..

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The data was also analysed chronologically with each dataset comprising **1000 investment properties**, meaning trends are assessed using equal sample sizes over the time period rather than by defined date ranges.

# 03 OVERVIEW OF **FINDINGS**

While the 1000 Assets report has produced a range of observations, some of the most striking national trends include:

## Most recent 1000 houses (April 2019 to December 2019)

**1 in 4 investors**

lived in their asset before renting it out.

The most recent data set showed **25.7 per cent** of landlords used to live in their asset, many of whom are now 'accidental investors' who retained their home as an investment when moving on. The average length of pre-rental habitation was four years, two-and-a-half months.

Almost **half** of all investments are renovated after purchase, with an average spend of approximately:

**$37,500**

The **average size** of a detached house investment is almost **double** that of a unit.

The average construction cost of a newly-built, detached house investment is:

**$353,473**

# Four-year trends (January 2016 to December 2019)

We've observed a dramatic increase in investors with new assets among the analysis. The trend since January 2016 indicates investors are increasingly moving toward new/off -the-plan units and townhouses, and new/house-and-land package holdings rather than investing in existing homes.

**Units have become less popular as investments**
There's been a fall in unit assessments under the analysis with a material move toward townhouses and detached homes over the last four years.

**The average "units per development" has risen**
Across the four-years of the study, the average number of units per development included in the survey has risen by over **17.5%** nationally.

**Investors are becoming savvier**
Investors are looking for tax breaks, with many ordering their depreciation schedules much sooner after purchasing. Despite this, Australian investors who've delayed ordering a schedule have potentially missed out on **$2.9 billion** in deductions.

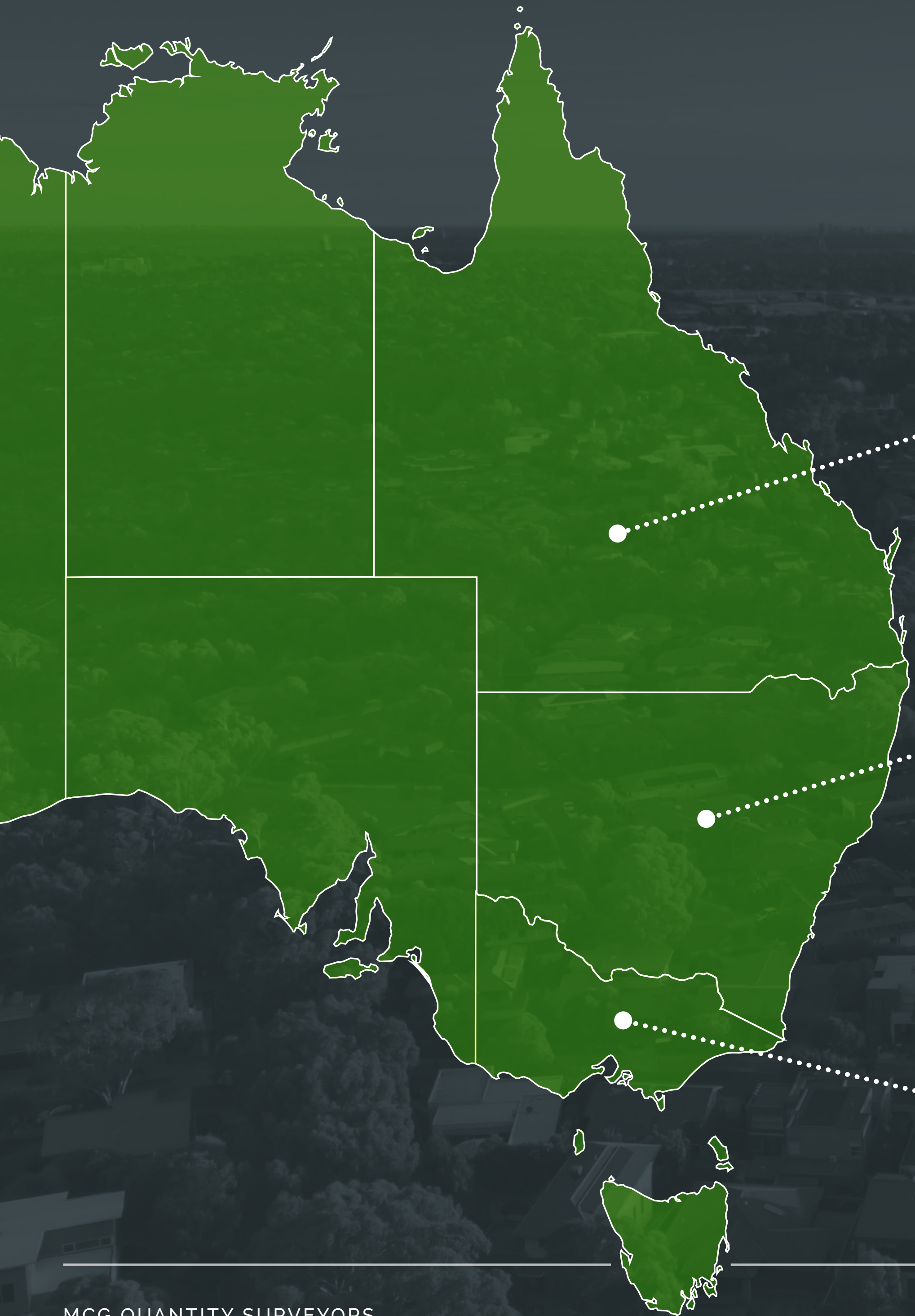
**The level of property tax deductions is rising nationally.**
Across the analysis, average total depreciation deductions have gone up **23.72%** over the last four years, most likely reflecting the rise in average floor areas, fitout quality and improved investor awareness of depreciation allowances.

**Townhouse have become dramatically more common among the analysis over the past four years.**
Over the period, townhouses as a purchase type grew by **115.87%**, where houses grew by only **9.95%** and units declined by **28.6%** in the analysis.

**Investors are building bigger, more expensive houses** while unit sizes have reduced and seen substantially less price growth among the cohort.

**The amount paid for a detached house investment in the data has grown by around double that paid for a unit over the past four years.**

**Townhouses have provided the most tax-effective investment type**
Townhouses have provided, on average, the highest total deductions as compared to detached houses and units. This appears to be due to the increased level of fit out and finish in townhouse investments.



# State comparisons

Across Australia's most populous states of New South Wales, Victoria and Queensland, some significant moves across the analysed information over the past four years included:

## QUEENSLAND

- A strong rise in investment properties that were lived-in by their owners first **(up 21.34%)**
- A substantial drop in post-purchase renovations above $35,000 **(down 63.2%)**
- A substantial drop in the average number of units per unit development project **(down 17.32%)**

## NEW SOUTH WALES

- A large rise in investment properties that were lived-in by their owners first **(up 16.5% compared to four years ago)**
- A significant increase in the average spend on post-purchase renovations **(up 102%)**
- A substantial rise in the average number of units per unit development project **(up 44.46%)**

## VICTORIA

- A substantial rise in overall post-purchase renovations occurred **(up 22.32%)** but owners are spending less with the incidence of post-purchase renovation above $35,000 down 21.94% over the four years.
- Bucking the national trend, a decrease in the number of units within a development, **(down -18.04%)**
- A strong rise in the average unit purchase price **(up 11.09%)**

# 04 BUILD **COSTS**

**New house construction is a popular option for investors seeking tax deductions as it provides substantial deprecation opportunities.**

Because new-house investors are among the most avid users of depreciation schedules, a large sample of this property type was able to be collected within our data.

Anecdotal discussions from market observers indicated rising materials prices and locational effects have seen the cost of building a new property increase – and our study supported this, with the average cost of building an investment having risen 32.51 per cent compared to four years ago in the analysis.

The average build cost of houses nationally rose from $266,747 four years ago, to reach $353,473 in the latest data set.

The data revealed building prices that had increased substantially more than national GDP over the same period which reflected a cumulative growth of around 10 per cent since January 2016.

It seems ongoing demand for both materials and labour is being reflected in these gains and indicates the residential construction sector appears strong.

Across the three primary states, the average cost per square metre of building an investment house from most to least expensive was:

| STATE | $/SQM APR 2019 - DEC 2019 | 4 YEAR CHANGE JAN 2016 - DEC 2019 |
|---|---|---|
| NSW | $2,281 | +12.28% |
| VIC | $2,068 | +6.94% |
| QLD | $2,011 | +4.43 |

This outcome indicates location comes into play when considering construction costs.

The modest rise in construction costs in Queensland and Victoria are in stark contrast to NSW with its substantial gain.

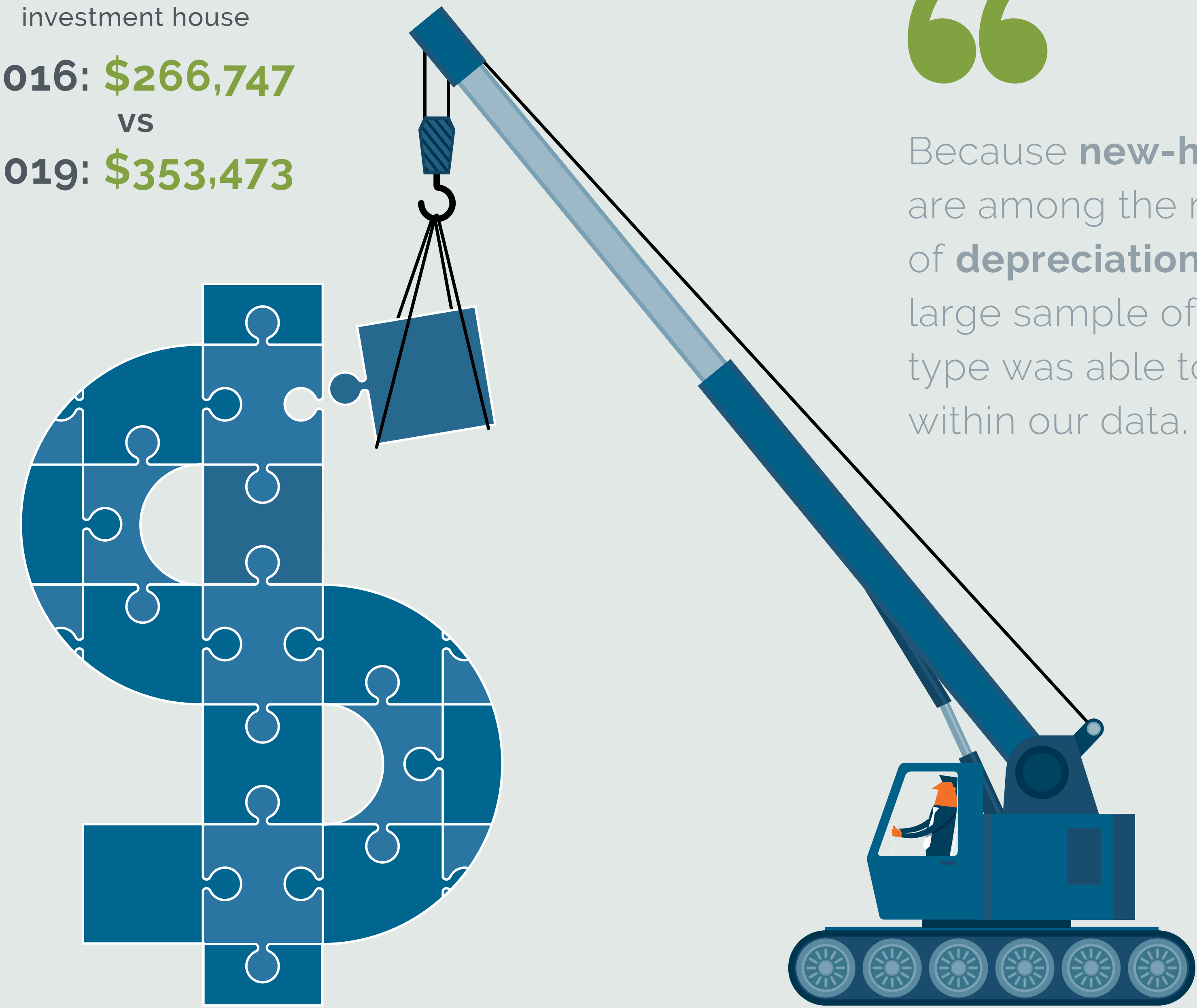
This result seems to reflect a greater overall demand for labour and materials, and an increase in the standard of new-property fitout and finish in Sydney as opposed to the more subdued performance of Brisbane.

Average build cost of an investment house

**2016: $266,747**

**vs**

**2019: $353,473**



> Because **new-house investors** are among the most avid user of **depreciation schedules**, a large sample of this property type was able to be collected within our data.

# 05 INVESTMENT **TYPES**

**As part of preparing depreciation schedules, MCG gathered data on the types of properties investors are acquiring i.e. houses, townhouses, units, duplexes and granny flats.**

In addition, metrics gathered for each type included purchase prices, gross floor areas (GFA) and deductible allowances.

The number of newly built investments for all property types among the analysed cohort rose nationally over the past four years. The level of investment in new property went up 107.53 per cent compared to the dataset from four years ago.

In addition, there appears to have been a shift in property-type buying habits with investors turning away from houses and units and gaining interest in townhouses among the anlysis.

This is, in part, driven by affordability as investors seek holdings within high-growth, blue-chip locations at accessible price points. Townhouses offer a balance with a yield that tends to exceed that of a detached home while including a larger land component than a unit – a fundamental which improves capital growth opportunity.

There was also a rise in investors seeking property based on the level of available deductions according to the analysis.

The research has revealed investors were spending more to purchase investment properties across all property types. The study showed a substantially greater rise in house purchase prices (21.33 per cent) as compared to units (10.3 per cent) among the analysis over the past four years.

In addition, suspicions that investment properties are getting larger appear true. Gross floor area (GFA) is a key measure analysed in the preparation of depreciation schedules and this analytic rose nationally for houses and granny flats over the period among the assets assessed.

GFA for houses rose 12.61 per cent while the figure for granny flats rose 5.98 per cent. By comparison, GFA for units was down 0.36 per cent and the townhouse GFA was 3.57 per cent lower.

Interestingly, the average buildings cost per square metres rose 3.94 per cent nationally over the four-year period, after being negative 3.73 per cent on the three-year measure.

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This appears to be part of the affordability drive, as investors seek holdings within **high-growth, blue-chip locations** at accessible price points.

Four-year increase in the percentage of investors buying new property

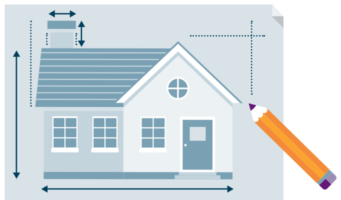
**107.53%**

Increase in purchase price **2016 – 2019**

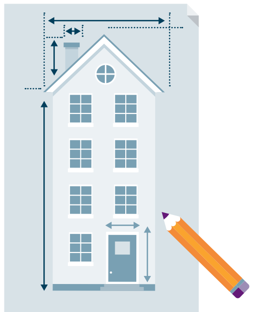
**21.33%**
Houses

**10.3%**
Units

Four-year change in floor areas

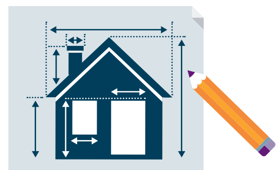


**+12.61%**
Houses

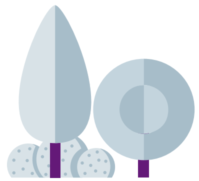


**−0.36%**
Units

**−3.57%**
Townhouses



**+5.98%**
Granny flats



# 06 OCCUPYING & **INVESTOR BEHAVIOUR**

**A 2018 analysis by MCG revealed almost one-in-four investors (23 per cent) had once lived in their investment property as a principal place of residence, with owners living in their former home for four years and 11 months on average before moving out and instead retaining their property as an investment.**

So it's possible that the majority of these 'accidental investors' became landlords by circumstance, rather than planning.

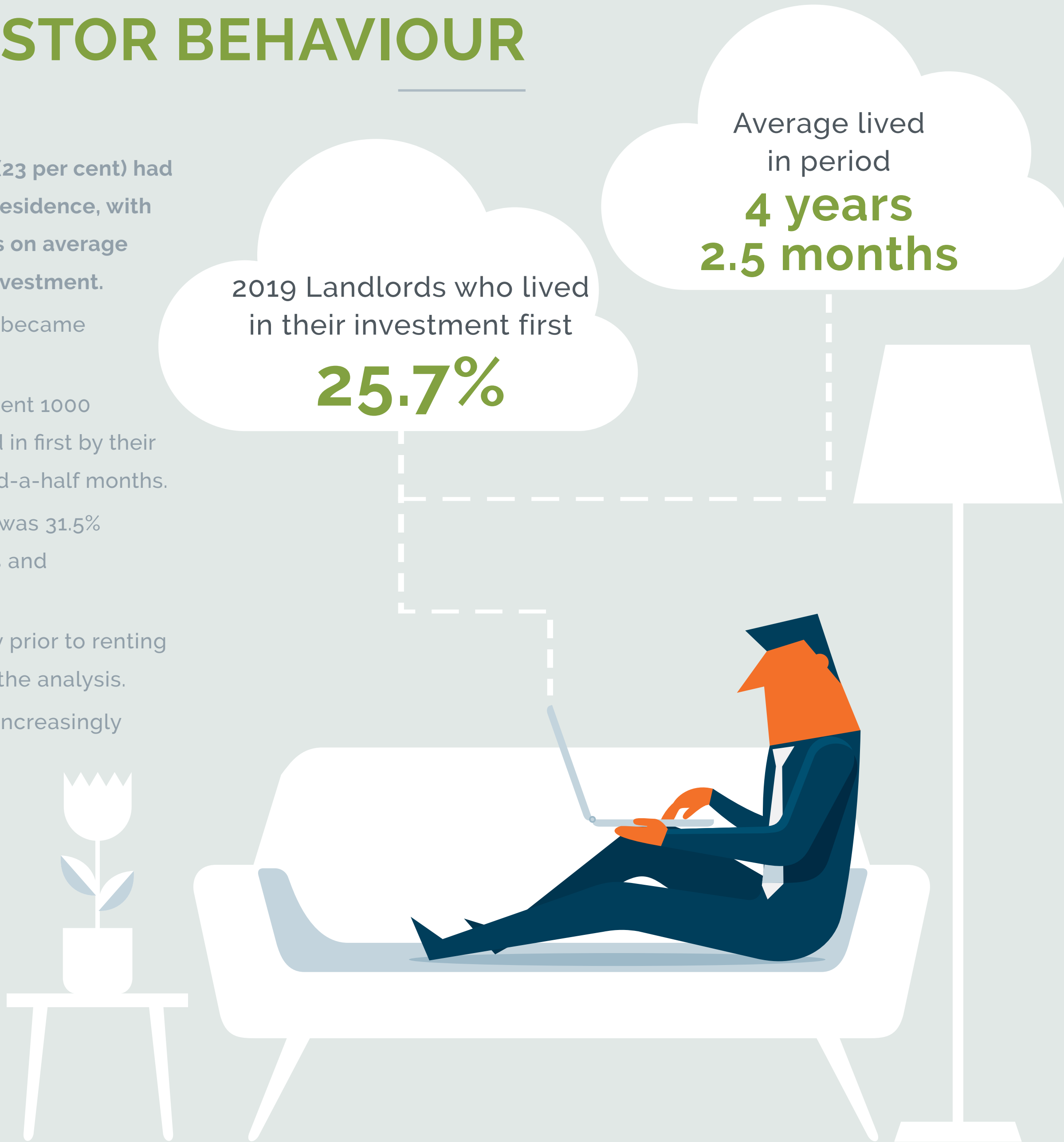
Our current study re-enforces this percentage with the most recent 1000 assets data set revealing 25.7 per cent of investments were lived in first by their landlords, with the average occupancy being four years, two-and-a-half months.

The percentage of NSW investments lived in first by landlords was 31.5% between April 2019 and December 2019. In Victoria it was 21.3% and Queensland 16% for the same period.

As an addendum, the instance of people living in their property prior to renting it out increased nationally by 14.73% over the last four years of the analysis.

In the unit investment sector, we've also noted a trend toward increasingly larger unit developments too, with the concept of vertical communities becoming entrenched.

The average number of units per development rose 17.63 per cent across the years analysed. This reflects an increase from an average of 61.53 units per project in 2016, to 72.38 units in 2019. Couple this with the slight fall in average unit GFA of 0.36 per cent and it appears there's a concerted effort by developers to yield more investments per project, normally in an effort to improve profit margins.



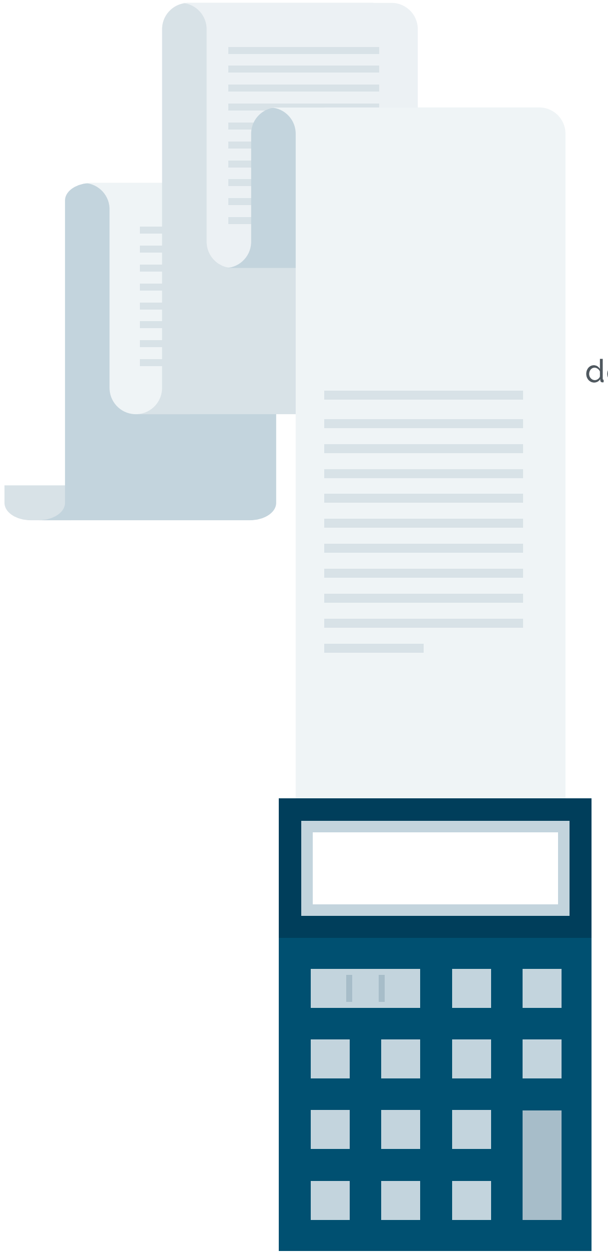
# 07 TAX **DEPRECIATION**

**Missed tax deductions due to inaction were at epidemic proportions.**

By our assessment, investors who've delayed commissioning a depreciation report have, on average, lost around $20,537 in depreciable benefits.

If this were extrapolated across the nation's total investor numbers, then Aussie landlords have missed out on approximately $2.9 billion in deductions by failing to employ depreciation schedules as part of their tax plan.

That said, the benefits of depreciation schedules are starting to gain awareness with landlords. Our data shows the amount of time between settlement and ordering a schedule has fallen over the past four years by 24.16 per cent.



Deduction lost through delaying a depreciation schedule

**$2.9 billion**

> The benefits of **depreciation schedules** are starting to gain awareness with landlords.

# 08 RENOVATING/**IMPROVEMENTS**

**The rise in property prices from 2012 to 2017 in Sydney and Melbourne prompted many in the latter phase of the cycle to choose renovation as a way to gain equity. As such, there's been notable increase in investors who sought relatively affordable homes of modest quality in good locations, and then carried out renovations to improve both equity and rental income.**

There's also a realisation that comprehensive renovation work is beneficial to investment return – including the added advantage of increased deprecation benefits.

The most recent 1000 assets dataset revealed that almost half (45.3 per cent) of all investments receive some form of post-purchase improvement.

Our analysis also demonstrated the average amount property owners spent on renovations nationally rose – up 62.88 per cent across the four years of the information gathered.

By state, NSW property owners spend more on post-purchase renovation work than landlords in Victoria and Queensland. NSW has seen the most substantial growth in spending, while Queensland's average renovation spend has fallen.

| AVERAGE RENOVATION SPEND AFTER PURCHASE | | |
|---|---|---|
| | AVERAGE SPEND APR 19 - DEC 19 | 4 YEAR CHANGE JAN 16 - DEC 19 |
| NSW | $50,513.51 | +102.09 |
| VIC | $24,964.54 | +22.32 |
| QLD | $22,584.84 | -2.19% |
| **NATIONAL** | **$35,552.61** | **+62.88** |

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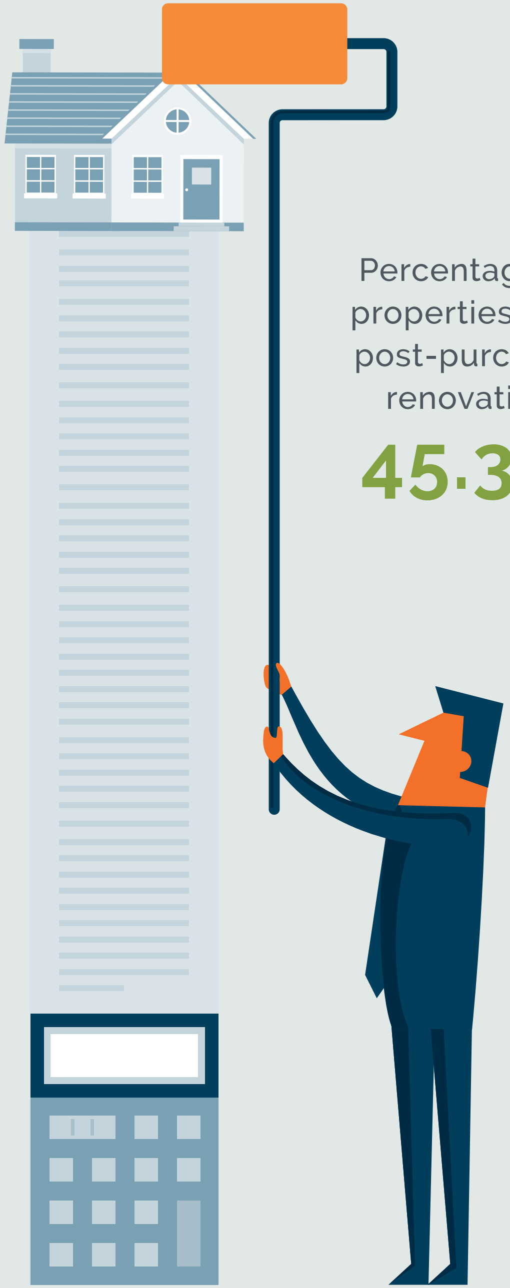
By state, **NSW property owners** spend more on post-purchase renovation work than landlords in Victoria and Queensland.

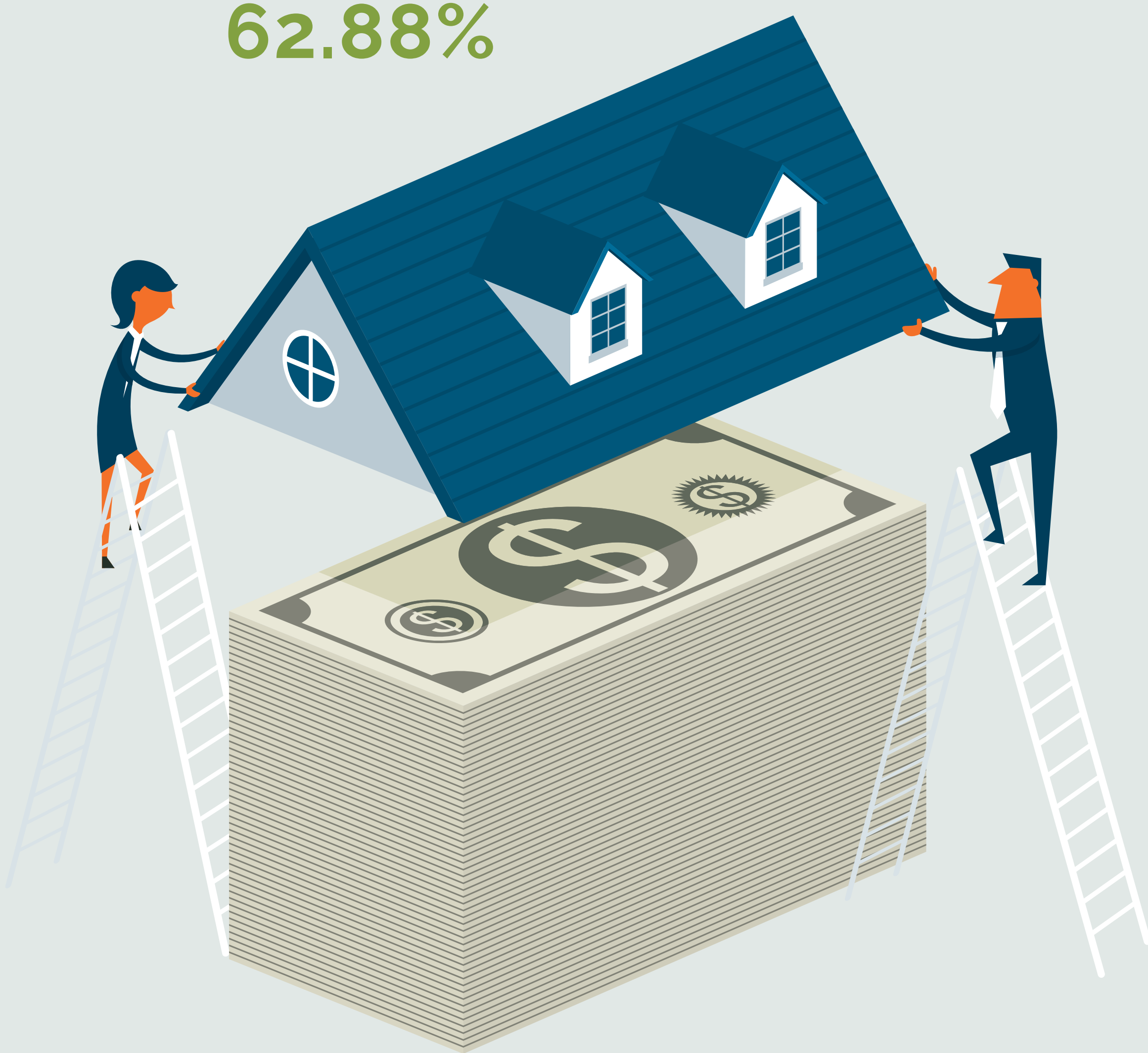


Percentage of properties with post-purchase renovation

**45.3%**

Rise in average renovation spend

**62.88%**



# 09 IN **CLOSING**

**There is no doubt the property investor population is better informed than ever about the benefits and risks associated with real estate ownership.**

This year's report has revealed a progression of intelligence among the cohort, an ability to flex their strategies to allow for market and economic forces, and a continued drive to build portfolios for long-term financial security.

Among the many tools at the investors disposal is the ability to minimise tax through professionally prepared depreciation schedules. Fortunately, awareness of this vital utility is growing, so savvy investors can keep more of their hard-won gains and bring the dream of retirement a little closer than might have been the case half a decade ago.

**MCG Quantity Surveyors** is a national firm founded in 2011 that specialises in construction cost estimating and property depreciation schedules. We place a strong emphasis on industry leading education and data releases shared across our website, social media and major Australian property and investing websites and traditional media.

MCG Quantity Surveyors was a 2018 Australian Financial Review (AFR Fast 100 Company) and was the only quantity surveying firm to appear.

**Mike Mortlock** is the managing director and cofounder of MCG Quantity Surveyors and is an industry leader in tax depreciation. Mike is also a prominent property market commentator and the host of the *Geared for Growth* property investing podcast.

Mike has worked as an expert depreciation consultant with several major firms such as McDonalds, CMC Markets, ANZ, PwC and more. He has completed thousands of depreciation schedules for commercial and residential property and is in demand as a public speaker and property commentator.

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