Louise: Hello everyone and welcome to this week's Flash Friday Finance Update. I am really excited, absolutely thrilled, in fact, to introduce you to the wonderful John Lindeman. John, welcome!

John: Thank you very much, Louise. It's great to be here.

Louise: I'm really thrilled. John has been researching the Australian property market for over 20 years and he has a really interesting background in stats. So John, would you mind sharing your insights and where you came from for us? That would be awesome!

John: I'd love to. I've been around a long time in terms of property. I bought my first house in Hawthorn. I was very young and I was able to buy this property in Hawthorn, a rundown townhouse and I did it up and after about four years, we decided to sell it and it had doubled in value and I thought, wow, this is fantastic and property investing is the way to go. So I then bought a house out in Mentone. Because I come from Sydney and so I wanted to live near the beach and I thought this is going to go gangbusters just like the first one. And then after four years, we had to move when I had to relocate because of work. And we sold that property for less than what I bought it for. And then I thought I really don't understand what's going on. I thought it was stress money. Turns out it's not and so I went to boot camps and workshops and webinars and seminars and everything I could to try and figure out how the property market actually worked and how you could benefit.

John: And in the end, after going to hundreds of these different events, I realized that no one was going to tell me that, they didn't know. And so I decided I had to find out for myself so it became sort of a life quest. I joined the Bureau of Statistics and I was lucky enough to be introduced to experts in trend analysis, which is looking at numbers in a way to predict what's likely to happen. And people were making fortunes, you know, by using trend analysis with shares and gold and commodities and I thought, why can't you do that with housing? It's a commodity like anything else is. So I started studying trend analysis and how to apply that to the property market. And then I was lucky enough to become head of Research at Residex, one of the major data providers. I was there for five years and furthered my knowledge and the ability to be able to predict, and so that's how it all came about.

Louise: Oh, that's fantastic! We were just talking about the RBA keeping rates on hold for July, which is sort of welcome relief. Did you expect that? What were you thinking?

John: I thought they would probably put them up because it's almost like deliberately thumbing their noses at the federal government. There's not a lot of love lost there, but I'm glad they didn't because I really think it's starting to have a negative impact, especially on younger people buying their first home. We went through a period of really high-interest rates going up 13%. And you know, it's just horrible when you've got to have a second job and keep chooks and raise veggies just to sort of pay the mortgage and I'm glad that the RBA is hopefully seeing the last of the rate rises for some time.

Louise: Oh, that would be lovely, wouldn't it? So how in fact do you see that happening? Because you are very positive, aren't you John, about the expectations for the market and you would be like a soul voice but of course, it's not one market. There are different markets across Australia. Do you want to say, in your assessment, how have you found the different markets reacting? How do you assess the market like that?

John: I think the number of rate rises, firstly, the fact that the RBA said they weren't going to do it for some time. They blatantly told a falsehood and then they started raising them once a month for 12 months in a row. I think the effect that that had was it really knocked the stuffing and the confidence out of the property market. And we've seen that the number of sales is falling but also the number of listings which is usually a sign that people are holding back. They just don't want to take action. So I think it created a lot of uncertainty and it affected parts of the market that it normally wouldn't. I mean when you look at the property market, 1/3 of homes are without any mortgage at all, and you think well it shouldn't really have any effect on those people. Most of them are older people who are thinking about downsizing, but it did have an effect because they didn't want to sell their homes because they thought the prices were falling and no one would want to buy them so they just held off. So it's sort of affected areas of the market that normally it wouldn't do, and it's because of the number and the severity of these rate rises, and that's why I'm glad that we've got a bit of a breathing space once again.

Louise: When you're doing loans for people and they're raising every month, you can barely have coped with the last one because every lender changes their rates on a different day and you're sort of scrambling to do comparisons. It's like, this is crazy. Now that you know all about the market and you've done all this great research and you've also been really successful in your investing yourself, what would you tell your younger self after Mentone, what would you have done straight up?

John: I think these days we're very lucky because there are a lot of people out there who are good researchers and experts on the property market. We've got the internet and there's a whole wealth of information. So I'd say the best thing you can do is become as informed as you possibly can, listen to and hear what the experts are saying about the market and there's plenty of us but also do it with a grain of salt, like always check people's credibility. So when you hear somebody saying something about the market, put their name into Google and just see what pops up because you might be very surprised that they're being investigated by ASIC or something like that. So there's a lot of information out there and my advice would be to make as much use of that as you possibly can.

Louise: Yes, I find sometimes people, particularly younger people, get onto Google, and then they're just overwhelmed with the amount of information and I know you have a special offer for my clients later. But you are right about it - they've got to check sources too. It is a real problem because if someone's gaining from the sale of information to you, its sometimes not selling information, they're selling properties often and that's often an issue for people. They're buying something that loses value very quickly. What have you found? There are often marketers selling properties off the plan. What's your view on those?

John: I'd say steer away clear of them because nearly always there's a built-in profit margin which goes to the project marketers could be as much as $100,000. And I see this again and again. I've actually been approached by people who say, "Look, when you're writing about the market, can you give a little special promotion to this area because we've got a development going?" And they promise to make it worth your while, and I just simply won't deal with anything like that.

John: But even free events, you might find you go to a free event, and as soon as they start talking about properties that are found in off-market specials or whatever, I always say to leave because all they're doing is making money out of trying to sell you a property and they're nearly always off-the-plan units or house and land packages which have got this sort of profit buffer built into them. So you're at a disadvantage straight away pretty much because firstly you don't really know what they are worth because they are brand new, but you can be sure that somebody's making a lot of money out of trying to sell them to you.

Louise: Yes, that's an interesting point. In fact, we've found that numerous times when clients come to us that bought these (off the plan), they then have, say, four weeks or less to settle, and we do the valuation and it doesn't stack up. And they are scrounging to get the money together to settle. It can really make a very big dent in your life having to recover from one of those. What strategies can investors employ, do you believe, to maximize their returns? Particularly when, like there's been fewer houses on the market, there's big pressures from particularly the Queensland and Victorian government's negatively towards investors, it appears, but you've got to view that the market you know, there's plenty of great investment opportunities out there. What would you suggest that they can do to maximize their returns?

John: I mean, property is such a great investment because there are so many different ways that you can generate wealth from it. When you start off you can buy a very cheap property like I did, or I wouldn't say cheap, it wasn't that cheap, but it's affordable. And the idea is to leverage as much as you can safely do, which means you borrow as much as you can from the bank. And if you're paying the bank, say at the moment, 6.57% interest, and that property is going up more than that, let's say it goes up by 10 to 12 percent per annum, you're actually making money on the borrowed money. That's what I call good debt. So I think the first thing is to realize that it's all about capital growth. When you start, you haven't got a lot and you want to get as much equity into that property as you possibly can. And the second thing, which is the lesson I learned after that when I bought the third house, is that you can increase the value of a property yourself by doing renovation. And so that means if you can do that cleverly, you can make a lot of money just by increasing the value of a property. And the rule there and the one that I got wrong was that I bought a three-bedroom house and converted it into a four-bedroom in an area where there was no real demand for four-bedroom properties. Always renovate to the greatest demand, not away from it. So you buy a house that's pretty much below par in an area that's had a lot of different types of housing, and then you renovate towards the one that's the most popular type of property.

Louise: Great, and how would you suggest people find that out? Well, how do they know what's the most popular property in an area?

John: Well, like when I worked at the ABS, the Bureau of Statistics, I helped devise an online tool called QuickStats, and I insisted this be made free so it's something anyone can use. And if you go to QuickStats and go to the Bureau Statistics site, look up QuickStats, you can look up any suburb and it will tell you just how many units there are, how many houses, how many duplexes, how many bedrooms, numbers of bedrooms there are in each property, so you can see straight away what is really popular in that area and what isn't. So that's a very simple tool to use and I'd suggest you make a note of that. (Link: QuickStats)

Louise: We'll put a link to it. No question. We'll put the link in there because I've certainly used it myself. It's great and fun, actually.

John: Ignore all the things about health issues and everything. I mean, there's so much data in there, but just go for that thing about properties or types of properties and you'll quickly get the hang of that. And you could even do some clever things like you can go back to the previous census and you can trend from one census year to the other, and you can actually work out are people converting three bedders to four bedders or just what are they doing? So there are a lot of ways you can use it and make the right decisions as a result.

Louise: Is this the sort of data you use in the background for the reports that you offer for suburbs?

John: For some of them, it is. We use a wealth of data like sales listings, rental vacancies, asking prices, and so on. And we developed a database when I left Residex back in 2010 and set up my own company. We've built this database to track these sorts of indicators for every suburb around Australia, and we were awarded an innovation patent in 2016.

Louise: That's fabulous!

John: It was quite a fillip, and it means that no one else can legally do it. But I explained how in my books. I've written a number of books published by Wiley on the property market. So anyone can do this simple tracking, but when you actually look at what type of property, it gets a little bit more complicated because our database can say, well, Brighton units are about to boom, or Leichhardt houses are about to tank, or whatever. But you still need to know what type of property and that's where we use that sort of analysis in some of our reports, especially for people doing renovation, to tell them what types of property are the most popular in that area, what's trending in that area and what isn't.

Louise: Oh, fabulous. So what report would you request if you wanted to know in an area what type of property we should renovate?

John: That's called the What to Build or Renovate report. Your people can buy them online, but I'm not here to sell reports.

Louise: That's great! No, but I think it's sensible because if you want the right information, you might as well go to the source.
John: You can do a lot of that yourself but ultimately you want to be sure that it's being done in the right way, not making the wrong decision.

Louise: What types of properties do you recommend for investment in the current market? Is it you're going back to just what's required in that area or what are you seeing, where are you seeing the best growth opportunities for people, that maximum capital growth that they can get?

John: Well, I think when you break the property market down, there's a number of different types of markets, and at the moment, I think one market that's got huge potential is the interurban rental market and the reason for that is that we're getting about four or 500,000 people coming in each year from overseas. They're nearly all renters, and so rent demand is escalating. If you're looking at houses in places like North Adelaide, or the northern suburbs of Adelaide and all of Perth, pretty much there's no rental vacancies at all and rent swings are going up, rents yields are climbing as well. It's quite extraordinary the amount of increases that are occurring, but if you're interested in units, then the same thing applies to the inner urban areas of Sydney, Melbourne, and Brisbane, where these people are renting. Now, why they are good investments, it's not just about cash flow. It's because once the yields get up to 6, 7, or 8 percent, then investors start buying properties and that creates price growth potential. So get into those areas early, and I'm predicting that some of those areas could double in price over the next few years purely because of the amount of buyer demand that the yield will generate

Louise: Oh, that's great to hear. So as the rents are going up, then people will finally turn to buying, you believe.

John: Yes, they will. And then at the other end of the scale completely, Louise, are the older downsizes, and 1/3 of our population is aged 55 and over, the government's given them a huge incentive in that they can sell a family home and put up to $600,000 as a couple into their super fund so that secures their financial freedom, but they have to sell the home to do it. So these people are starting to move to smaller homes in capital cities. It might be sort of duplexes or villas by the Bayside or the seaside or harborside areas or it could be that they've moved to regional markets as well, so nice holiday tourist areas along the coast, especially the eastern seaboard. They are finding that that demand will escalate dramatically over the next few years, so you could buy a property there now and rent it out as a short-term rental, Airbnb-type rental and make good cash flow, and then in a few years' time sell it to an older couple who are downsizing.

Louise: So that's the market to be targeting. That's a great idea. That's me, really. But I just can't retire just yet. Can you give us some examples, John, of success stories or case studies where investors have achieved substantial returns through their strategic investing? What would you suggest?

John: Well, examples of those, I guess the best one I ever came across was we were looking at a database and what the database does is it picks up trends that shouldn't occur. So it says hang on, sales have picked up in this area, but there's no real reason for it.
Louise: Okay, that's clever.

John: So there was a town in Southern New South Wales called Hay, and we noticed that the number of sales had picked up dramatically. And we thought, Well, why would that be? And then on the ABC News that night, there was a story about all the farmers in Hay starting to grow cotton because it was far more profitable. And so Auscott, which is the cotton cooperative, decided to build a cotton gin in Hay and they needed 160 workers to come in and build this thing. So you think well, that's not a lot of people really, but then I had a look at how many rental vacancies there are in Hay and there were about two, how many properties for sale now, there were only two left. So that meant that when these workers all moved in, of course, the rents were going to escalate dramatically. And that's exactly what happened, the yields went up over 10 to 12%, and very quickly investors got wind of this and started buying properties. And so the end result within only seven months property prices doubled in Hay. So I made that prediction that this is likely to happen on Facebook. We had a sort of monthly insider insights type feature. And so I've told everyone to buy in Hay. A few people did and they couldn't believe it because prices doubled in less than a year.

Louise: That was a good quick win and cheap too to get in I'm sure and no one would have thought you would have a reason for that.

John: No, it was $100,000, you could buy a house full, and in the end, it would be $200,000.

Louise: Then you make a hundred in 12 months. That's a pretty good deal, isn't it?

John: Yes, but in general we look for the best results so when things change and like look at the end of the Millennium drought. Then suddenly these areas that have been sort of stricken by drought for many years suddenly start to recover. And places in the river land in South Australia, the same thing happened to Berri in Renmark, prices doubled in just over a year. So we've told people about those reforms so they can get into and sort of participate in the recovery of the area.

Louise: That's really interesting. I've only made that sort of money when I've renovated something and it's usually in a city for sure, close to the city. But you can certainly get that sort of return but you've got to do the work. It's not just sitting there and planting your money, which it sounds like you've been advising people to do, which would be a nice win, actually, I think. Those are pretty great stories.

John: Yes, I mean, these sorts of things don't occur all the time. You just have to be aware that we're sort of watching all the time for different projects that are going on around Australia, like highway duplications and power stations, sort of solar power stations and wind generation plants being built, because they're the sorts of things that can lead to that sort of price growth.

Louise: Great, and what happened to Hay after the cotton gin had been built? Did it all just fall back again? What happened?
John: It did come back a bit. But surprisingly, a lot of the people who worked in the cotton gin, the families, some made friends, the kids went to school and a lot of them didn't want to leave.

Louise: That's great. Well, I gather these whole regions of New South Wales in the country where there are new smart coffee shops after COVID and all things that were never available before. I've got a question that says, let's play a game of rental roulette. Which areas in Australia are spinning the wheel of fortune with high rental yields and an insatiable appetite from tenants for that?

John: I think the main areas which I touched on before, are the interurban rental unit markets of Melbourne, Sydney, and Brisbane. I think Melbourne in particular. That city was hit so hard by the lockdowns.

John: It was the most lockdowned city in the world during the pandemic. Sydney was not far behind, but what that did was it knocked the rental market for six because all the people left and you know, about 80% of the units were empty. A lot of people bought them with the intention of making money from short-term Airbnb-type rentals didn't happen. That market is now starting to recover and as people come back into Melbourne, as far as you can see, the rent demand is increasing dramatically. It's already gone up by over $100 a week in just the last six months. And investors will start pouring into Melbourne buying units in the CBD. And that's also likely to happen not to that extent, but it will have quite a major effect on rents in Sydney and Brisbane. And then we're talking here about the actual Central Business District areas. So that's where the real demand is really escalating dramatically, gaining a lot of interest from investors.

Louise: Oh, that's interesting. But often people say, well in units or apartments, you're not getting any land value, so where's the increase? Do you actually think there will be an equivalent increase in units over houses? Is that what you're suggesting?

John: Yes, it's all about supply and demand. And that was when I figured that out, land really doesn't have any intrinsic value if nobody wants to buy it. And the unit, yes, you can say, well, it's really only a piece of air in the sky, but it's a real building. It's something that can be let out and sold and bought and so on. So that means that it has its own value and at the moment, the rent domain is such that we've got record rental vacancies, low rental vacancies at the moment, down at only 1%. That's unheard of, we've never had that much shortage of rental properties. So I think rents will rise dramatically, no matter what governments do. Now in Queensland, we've got some properties in Queensland and the government is saying you can only increase rents once a year. So I've been talking to people I know that have properties and say, well, what are you going to do? And they said, well, as soon as the rent comes up for a year, we're going to bump it up as much as we possibly can, because we can only do it once. So it's actually having the opposite effect of what the government would want.

Louise: It seems like you get a big major jump, which might be harder to take for a tenant, you know.

John: Yes, and then the tenant says I will go somewhere else but if they're going to get hit with the same thing, no matter where they go. I mean, the real solution, of course, is to provide more accommodation, and we're not doing that. The governments are letting us down because they're not doing what they should do, and that is to provide affordable housing.

Louise: Yes, and how do you suggest they go about that?

John: That's a very good question, Louise. There's no easy answer. You can't reduce the size of houses to the point where they are micro units. Not everybody wants to live in that sort of accommodation. Really, the only answer is to try and regionalize Australia, sort of get away from living in the big capital cities and live more in regional markets that are big enough, like anything that more than 100,000 people is a sustainable area. And we've got lots of areas with potential in Victoria, Ballarat, Bendigo, Geelong. That's the sort of thing that the government should be fostering.

Louise: And putting work there. So they could move their offices to these places, is what you are saying?

John: Yes, provide incentives, and the same in New South Wales and Queensland, exactly the same thing, because we've got plenty of land available. It's just that everybody wants to live in the same crowded cities.

Louise: Yes, totally. What's the stupidest thing you've done in property investment or have seen done by someone else?

John: I'd rather talk about what I've seen.

Louise: Oh, I could write that book too, though. Mainly selling. That's the trick I find if you have to sell, then that's the problem.

John: I think the silliest thing I ever saw was, and it was in North Sydney, a unit block was built.

John: And it was right near the Harbour Bridge and it was called the AquaValel. It was a big unit development. And these two-bedroom units there had a view of the Harbour Bridge. You could just take a ferry over the harbour to go to work or work in North Sydney itself. And they were going for million dollars each and that was back in 2003. And what's going to happen with these? They were sold off pretty much very quickly. 2003 was also the end of a big housing boom that occurred in Sydney and Melbourne. It was sort of the Gen X's buying their homes, and there was a big property market boom. And it all came to an end at that time. And that property is set, the one I watched was the property being bought for a million dollars and I'm just going to wait and see when this goes back on the market, and it took 10 years. It was 10 long years until 2013, and that same person still owned the property and it has gone down by about 20% in value. And then finally they said right, we've had enough of this, we're selling. It came on the market, and it went for $900,000. And of course, at that time I was able to do my predictions. And I thought, what's happened here, it's actually predicting that this market is going to boom, and of course, that unit doubled in value over the next year - 1.8 million, so it proves that the worst mistake you can make off pretty much I think the very worst one is to sell at the wrong time. When you get fed up with it and you say, right that's it, I'm getting rid of it, without doing any sort of research and we provide simple little reports called performance predictors, and they are under $100 and that will tell you.

Louise: I've used them myself. Thank you! It's useful because it gives you some sort of peace of mind for something that you say, well, three years into the future, you think there's going to be some strong growth. Well, gosh, I'll hang on.

John: At this point, I swear that they would never have thought that was going to happen.

Louise: The poor things, they would hate that forever. You know, that's one of those evil sins, isn't it? From a property investment point of view.

John: Whereas the other person bought the property and a year later doubled in value.

Louise: And they thought they were probably clever. Are there any government initiatives or tax benefits or hidden incentives that the savviest investors should know about? That's giving them an unfair advantage that you might be aware of.

John: Well, I think there are probably no big secrets because good advisors will tell you about these things. But I think when you start, remember that you can leverage, you can use borrowed money to make more money. I think that's good. But the main thing about all of that is that all the costs that you incur when you hold a property as investment property are tax deductible. So it means that even the cost of interest can be claimed against your other income, which is called gearing. And that's a great advantage that an investor has over somebody who's buying their own home and paying it off. They can't claim any of the expenses. They can't claim the interest repayments but an investor can. So my first tip would be if you're thinking about buying a property, think carefully about whether that first property should be an investment property because it's probably going to be making you a lot richer a lot quicker than if you bought your own home.

Louise: What I often find is when we get first homebuyers but you get such a lot of advantages with borrowing as a first home buyer for yourself but after 12 months, all things have been good, you can actually move it out, move out and make it an investment property. Suffer the 12 months.

John: Precisely, I think that's a big tip, too. And I think the other thing is people don't realize that they can claim things like depreciation, which is a big thing if you've got a property that's fairly new. So the saying is that houses depreciate in value, but land increases. It's actually the property that increases in value, but the house component does, through fair wear and tear and so on, it depreciates and you can claim that as a tax deduction.

Louise: Fabulous, thank you. Any final tips for first home buyers particularly because I feel for them the most. Often they are getting scared, all the people are putting them off, and the media is so relentlessly negative. Where do you see things are heading and why should people buy now?

John: I think now's a good time to buy because, and I've mentioned this before, I think we're heading for a huge property market boom.

Louise; Hang on, let's just repeat that. What did you just say, John?

John: We're heading for a huge property market boom. All the signs are lining up and I've studied the market for a long time and actually, when I wrote my first book, “Mastering the Australian Housing Market”, I researched the market right back to 1901. I looked at all -- when did the big booms occur, and then we've only had five of them where property prices went up by more than 15% in one year. And each of those was accompanied by a huge increase in the arrival of overseas migrants. So that's the first thing. If you've got a lot of people pouring into Australia, then you could be hitting the housing market boom.

John: The second thing you look at, well, what about the state of the property market at the moment and what we've got is a huge shortage of property. So that means we haven't got enough properties, we're not building and we're not developing enough. So two boxes are being ticked.

John: The third one is that interest rates, although they're comparatively high and are taking a lot of people by surprise that the cash rate is now over 4%,that is still historically quite low and people can cope with that. It's harder for first home buyers, but it gets easier as time goes on. So I think the answer to your question is you should get in and buy something whether it be your first home or investment property as soon as you possibly can, because prices are going to increase dramatically. And I've been saying this publicly now for a few months so I think we're on the cusp of a huge property market boom because that's the way that the market has always operated in Australia, and we're heading that way right now.

Louise: Wow! Well, that's great to know for anyone. We're going to put that in lights for you. And I know you've got a special offer to help our clients. Would you like to tell us what that is?

John: Well, what I'd like to do is to offer everyone who's interested a free telephone consultation, 30 minutes of my time, no obligation, I'm not selling anything. I'm just going to answer your most pressing questions, I'm sure you must have some, about the property market. It could be about your own property or whether you should buy, where you should buy. I'm here to answer them. I can use the database to work out the research areas and we can do that together and have a look to see what the best potential and what the right course of action is for you. So if you'd like to take advantage of that, you can book a free telephone consultation on my website www.lindemanreports.com.au, and I'm sure that a lot of people will take advantage of this, so you need to be quick and book a time that suits you and suits me. It's quite easy. There's just a calendar and you just tick one of them.

Louise: We'll put that in, for sure.

John: Thanks, Louise. So obviously, it's only for people who haven't taken advantage of this before.

Louise: That's enormously generous of you. I really appreciate it because I know that's one of the things that people get really conflicted about, and they're getting all this input from parents and friends and the butcher and the baker, and everyone's got their two cents worth on where to buy, but then they've got no real data. They just got their gut and that's not a way to invest. It's far better to do it on a bit of actual information.

John: Yes, and especially, completely independent and widely acknowledged as an expert in what I do, so, it's good to get that little bit of information that isn't biased. I'm not trying to sell a property. I'm just there to share what I know and what I've learned about the market.

Louise: I really appreciate your generosity, John. That's just awesome. So thank you so much for giving us your time. It's been wonderful and I really feel people should be much happier and more inspired about property having heard from you today. So thank you again for your time.

John: Thanks, Louise. It's been a pleasure.