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**The red flags of high-risk properties**

**When it comes to buying property, the current climate means it is very much a case of buyer beware.**

[RiskWise Property Research](http://www.riskwiseproperty.com.au) CEO Doron Peleg said the second half of 2018 saw the major risks associated with the residential property market increase significantly and this would continue well into 2019 and beyond.

Tighter lending standards, the results of the Royal Commission, the fear of the potential changes to negative gearing and capital gains tax, political uncertainty and unit oversupply, in conjunction with a sharp drop in dwelling commencements, will shape the entire landscape of residential property into 2020.

“And this means it is more important than ever to identify the red flags when it comes to buying property,” Mr Peleg said.

“There’s every chance the ALP will win this year’s Federal election and implement changes to negative gearing and capital gains tax. In fact, we have already seen an impact on the market due to uncertainty and fear about these changes, with price reductions accelerating following the Liberal leadership spill of Malcom Turnbull by Scott Morrison. In addition, auction clearance rates have dropped below 50 per cent in both Sydney and Melbourne.

“The risk of price reductions are likely to remain very high at least until the second half of 2020. This adds uncertainty and impacts buyer sentiment.”

Mr Peleg said [RiskWise](http://www.riskwiseproperty.com.au) had identified the red flags for high-risk dwellings that property investors should avoid and these included oversupply, poor economic growth, as seen in Perth and South Australia, high unit-to-house ratios, high vacancy rates and units unsuitable for families.

He said areas with a large number of dwellings and building approvals in the pipeline were highly likely to underperform the market and faced the trifecta of risk – settlement, equity and cashflow.

“There is a high possibility the value of an off-the-plan property may decrease between the original contract date and settlement. This will result in capital loss, as the equity in the home could be reduced,” he said.

“The risk is further increased if a pre-settlement valuation for a mortgage loan is less than the original value, as there could be a shortfall in funds to complete the sale. If these funds are unavailable, the buyer might lose the deposit paid for the property.”

This has been demonstrated in inner-city Brisbane where weakness in the market has led to lower valuations, rising defaults on settlements, major discounting, falling rents and considerable incentives to get buyers across the line.

Brisbane City, Fortitude Valley and South Brisbane were all been named in the Top 10 of the RiskWise 2018 list of the 100 Worst Off-The-Plan Suburbs in Australia, as have Zetland and Epping in Sydney and Southbank in Melbourne, where oversupply of units is a huge issue.

In fact, Mr Peleg said the potential changes to negative gearing and capital gains tax put off-the-plan units at their highest risk ever.

In addition, areas which had poor or unsustainable economic growth were also highly likely to underperform the national benchmark.

The RiskWise and WargentAdvisory’s report **Impact Analysis: Negative Gearing, CGT & Australia’s Residential Property Markets** in June last year clearly demonstrated the impact the proposed changes would have on weaker economies if a blanket approach across Australia was taken to their implementation.

In Western Australia the property market remains weak with negative capital growth for both houses and units thanks to a combination of unit oversupply, lending restrictions and low demand, particularly in central Perth, following the end of the mining boom which resulted in low economic growth and therefore poor population growth.

In South Australian the economy has shown some improvement however it still has a high-effective unemployment rate which has led to low population growth and soft housing demand while in the Northern Territory below-average economic indicators means the state still carries a high level of risk.

Mr Peleg said when buying property it was important to look for dwellings suitable for families with three bedrooms, parking, close to schools and transport hubs, and avoid those in high vacancy rate areas, high unit-to-house ratios and low median prices.

“Our research clearly shows units in suburbs with a lower median price generally underperform those suburbs with a higher median price and if a unit costs more than 60 per cent of the median house price of the suburb, the capital growth is generally lower than units in suburbs where the median price is less than 50 per cent of the house price,” he said.

“Also, the greater the ratio between units to houses, the greater the preference is for houses over units, and therefore, the risk associated with units in higher.

“Generally, it is understood there is a preference for houses over units to deliver solid capital growth. However, the risk associated with a unit or other property type depends on the specific suburb, which is why they should be assessed on a case-by-case basis.”

RiskWise research shows high-rise buildings generally carry higher risk than small unit blocks from both a capital growth and cashflow perspective, although Mr Peleg said this risk depended on the specific suburb and other factors such as strata payment and specific property features, all of which should be assessed on a case-by-case basis.

He said when it came to purchasing property and avoiding the potential risks it was essential to perform independent research and avoid taking advice from so-called “property professionals or wealth creators” who were not paid for their services.

“No one works for free in the housing industry. If you are not paying, you are not the client, and someone else is, for example a property developer, and that means there is an agenda to get you to buy whether it is for your benefit or not. In other words, you will pay in the long run,” he said.

Visit [www.riskwiseproperty.com.au](http://www.riskwiseproperty.com.au)

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***About RiskWise:***

RiskWise Property Research was formed in 2016 with the goal of providing property risk advise and research services to help its clients make informed purchasing decisions.

Its goal is to provide private investors, home buyers, property professionals and institutional clients with detailed risk information to support smarter decision making. Its vision is to be a global leader in property risk rating and research helping its clients to achieve deeper risk insights so they can make smarter property investment decisions.

Visit [www.riskwiseproperty.com.au](http://www.riskwiseproperty.com.au)

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