mikephippsfinance

Mike Phipps. **0448 813 090**
mike@mikephippsfinance.com.au

Paul Grant. **0448 417 754**
paul@mikephippsfinance.com.au

Cameron Wicking. **0477 776 859**
cameron@mikephippsfinance.com.au

Client Manager
Geoff Baudinette. **07 5470 2194**
geoff@mikephippsfinance.com.au

Operations Manager
Simone Cuthbertson. **07 5470 2194**
simone@mikephippsfinance.com.au

Head Office
4/31 Mary Street
NOOSAVILLE QLD 4566

Office. 07 5470 2194
Fax. 07 5455 6626
www.mikephippsfinance.com.au
MIKE PHIPPS FINANCE ACL (364 314)

fresh ideas...

Don't Worry

Before you read any further it's important that you take the time to dial up Bobby McFerrin on You Tube and get into the reggae groove. The following will simply not work otherwise!

Here's a little song I wrote
You might want to sing it note for note
Don't worry, be happy

Some say credit crunch
I say bugger that, let's do a long lunch
Don't worry, be happy

In your loan application, there is some trouble
Royal Commission might make it double
Don't Worry, Be Happy

Ain't got no cash or equity
You can always call on me
Don't worry, be happy.

With apologies to Bobby McFerrin "Don't Worry Be Happy" (released 1988)

Interestingly enough, the Indian mystic Maher Baba (1894-1969) often used the expression Don't Worry, Be Happy. The expression has a certain simplicity and charm that resonates, particularly in these interesting times.

We move on. I've had a bit of writers block this month and the deadline looms. Given my predicament I reached out to my colleagues here at Mike Phipps Finance for inspiration. They replied as if with one voice……for god's sake Mike, say something positive for once! Hmmm, have I really been that negative of late. A quick review of past pronouncements suggests perhaps I have. Depressing really.

I've always felt that as a finance observer my job is to be the lighthouse, warning of impending danger and possible wreckage. It's a pretty easy gig given the challenges that we all face on a daily basis but it's also a bit of a trap. The fact is that things are actually going Ok and could be a hell of lot worse. If your job is primarily to warn of the danger of being dashed on the rocks it's easy to miss the calm seas, beautiful sunsets and bracing morning breezes. Jeez, I am in danger of lapsing into poetic cliché but you get the drift.

Anyway, I have decided to try and find a few positives to talk about this month. To quote one of my favourite musicians Mr Ian Dury, I am going to look for reasons to be cheerful. Never heard of him? Look him up on You Tube, a dead set genius! A warning though, not for the faint of heart lyrically.

Let's start with the Banking Royal Commission. After a very gloomy few days post presentation of the final report it is now becoming clear that the politicians and policy makers have woken up to the possible catastrophic consequences of some of the report's recommendations. Obviously as a finance broker I am delighted that both sides of the political divide have signalled that recommendations to kill the finance broking model and give all the power back to the banks will not be implemented. I also note that the more savvy politicians have realized that making credit compliance too difficult will simply lead to a credit crunch we don't need to have. Already we are seeing signs that the knee jerk reactions to the royal commission report are being tempered by reasoned common sense. Nobody wants the housing market to tank, least of all those who rely on the votes of those same home owners and aspirational buyers. It's also very clear that while a certain sort of person begrudges bank profits those same profits make a substantial contribution to super fund returns, employment and taxation contributions. I suspect the broader population will start to appreciate a robust banking sector as the industry is better understood through the current public discussions. I've always had a concern that the average punter simply does not understand banking and finance. Certainly, we spend a significant amount of time educating clients. The current discussions around financial literacy and consumer education are very welcome if long overdue. Wouldn't it be great to get to a day where no one said "The bank shouldn't have lent me that money, they should have known I couldn't repay it" because the borrower could work it out for themselves.

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Don't Worry

In the commercial and business finance space the review of the banking sector looks to have shone a much-needed light on the availability of credit to small business. The current discussion around bank support for small business, credit conditions and interest rates is good news for the accommodation sector. Remember, the definition of a small business in Australia is generally accepted as being a business with less than 15 employees and a turnover of less that $2M. That's the vast majority of management rights, motel and caravan park operators.
It is true that finance is taking longer but here's the thing. The time frames have little to do with the banks credit appetites which remain strong. The greatest impact on finance time frames seems to be a lack of supporting staff for specialists within the banks. The commercial reality is that we gravitate toward bankers who know what they are doing. As a result, they get snowed under and time frames blow out. Banks are notoriously slow to increase support in these instances and no surprise where we end up. I think it's important not to interpret slower credit approval time frames with diminished credit appetites. In fact, sometimes the inverse is actually the case.

Our experience is that properly qualified buyers are getting finance approved, simple as that.
On the political front I think we can also find some silver linings in apparent unhappy news. Let's take negative gearing and CGT as an example. It seems that there is a chance that tax benefits relating to interest costs and capital gains may be reduced depending on who gets in at the next election. I expect that one of the outcomes of such changes may well be increased incentives for investors to retain their investment units and not sell until retirement benefits can be accessed. Certainly, if negative gearing and CGT are grandfathered I can't see a rush to sell the assets that accrue these benefits. If you've got a stack of investors in your letting pool maybe good news indeed.

There's also talk of a relaunch of some form of social housing, maybe NRAS MK2. From a permanent letting viewpoint I would argue that potentially the safest and most profitable unit in any letting pool is an NRAS unit. With any luck a relaunch of such a scheme will drive investment and assist management rights operators to ensure higher occupancies and very low loss of unit risk. Watch this space, I am certain it's coming.

While on the subject of unit investment, current signs suggest that the predicted catastrophic oversupply of new units in Brisbane has failed to eventuate. To be sure some values are down a bit and there's certainly some developer stock overhang, but the supply cycle appears to have experienced a pretty soft landing. It's true that the outcomes of some limits on interest only lending and foreign purchaser finance are yet to fully play out but I think it's fair to say we don't have blood in the streets. I suspect population increases, demand by young adults leaving home (do they ever leave?) and a slowdown in new developments will contribute to reasonable uptake and the afore mentioned soft landing.

In the accommodation sector I think our shared regimented processes and tight industry professionals' groups have contributed to a steady ship and ongoing confidence from banks and buyers. We don't have too many cowboys (or girls) in our industry, and we enjoy the support of a very robust industry body in ARAMA.

Finally, and unlike most industries, when we all see a problem emerging, we discuss it and resolve to ensure it doesn't blow up. That's a sign of an engaged, mature and professional industry.
Don't worry, be happy.

PS : Most of you will know how much I love quoting Winston Churchill. Here's Winston on happiness:
"The way to achieve happiness is to try for perfection that is impossible to achieve, and spend the rest of your life trying to achieve it."

Sorry Winston, sounds like a good way to send yourself insane!

Mike Phipps F Fin
Director | Phippsfin Pty Ltd | ACN 139 124 673

Mike Phipps. **0448 813 090**
mike@mikephippsfinance.com.au
Paul Grant. **0448 417 754**
paul@mikephippsfinance.com.au
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