HEART Financial Advisers

Wealth Adviser

ISSUE 107 MARCH 2025

AUSTRALIAN HOME PRICES TURNING BACK UP AGAIN

BY DR SHANE OLIVER
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INSIDE

KEY POINTS

- CoreLogic data shows average home prices rose 0.3% in February, after a brief three-month downturn of just 0.4%.
- The upswing came in anticipation of, and then confirmation of, an RBA rate cut which boosted buyer confidence.
- Annual growth in rents slowed to 4.1%yoy, the slowest since 2021. Poor rental affordability leading to rising average household sizes and easing student arrivals are weighing on demand for rental property.
- Australia continues to have a chronic shortage of homes, estimated to be around 200,000 dwellings and possibly as high as 300,000. This partly explains the resilience of home prices despite the rise in mortgage rates since May 2022.
- RBA rate cuts are expected to drive a modest upswing in average prices this year. However, while there is still a big housing shortfall in Australia, the upswing will be starting from a point of still poor affordability, interest rates are only likely to fall modestly, and population growth is slowing.
- After 4.9% growth last year, we expect average property prices to rise around 3% this year.

Home prices turned back up again in February

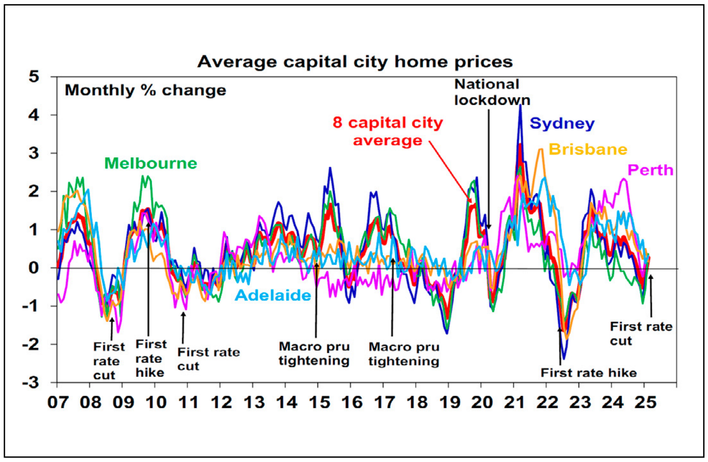
After a brief downswing, national average property prices hooked back up in February, reflecting the anticipation and then reality of the RBA starting to cut rates. Most cities saw gains between 0.2%mom to 0.4%mom with the recent losers of Melbourne, Hobart, Canberra and Sydney picking up as the booming cities of the last two years - Brisbane, Adelaide and Perth - continue to slow as poor affordability impacts them.

Australian dwelling price growth

	February, % change	Annual % change	% change from peak	Median value
Sydney	0.3	1.1	-1.6	$1,186,459
Melbourne	0.4	-3.2	-6.4	$772,561
Brisbane	0.2	9.7	New high	$894,425
Adelaide	0.3	11.9	New high	$822,201
Perth	0.3	14.3	New high	$807,933
Hobart	0.4	-0.3	-11.9	$661,544
Darwin	-0.1	1.5	-5.9	$506,591
Canberra	0.2	-0.9	-7.1	$846,955
Capital avg	**0.3**	**3.2**	**-0.6**	**$896,613**
Regional avg	**0.4**	**5.5**	**New high**	**$661,966**
National avg	**0.3**	**3.8**	**-0.1**	**$815,912**

Source: CoreLogic

The downswing just saw a 0.4% fall in national average prices spread over 3 months, with falls in Hobart, Canberra, Melbourne, Darwin and Sydney partly offset by continued gains in Brisbane, Adelaide, Perth and regional areas.



Source: CoreLogic, AMP

Expect further gains in average property prices

Further gains are likely as interest rates fall further and the shortage of property remains, provided unemployment doesn't rise too far. The upswing is likely to be more apparent through the second half as we see more rate cuts.

- We expect three more RBA 0.25% rate cuts by early next year - in May, August and February. Lower rates are positive for property because they take pressure off existing homeowners who may have been struggling with their mortgages leading to less distressed listings and as they increase the amount a borrower can borrow from a bank and hence pay for a property which supports demand. Buyers know this and so rate cuts also provide a boost to buyer sentiment and that is what we have mostly seen in improved auction clearances and now higher prices so far this year. Roughly speaking the 0.25% rate cut when passed on to variable mortgage rates will add about $9000 to how much a buyer on average earnings can borrow which along with three further rate cuts into early next year will drive a significant increase in the capacity of buyers to pay for a property. See the next chart which also allows for wages growth over the year ahead.

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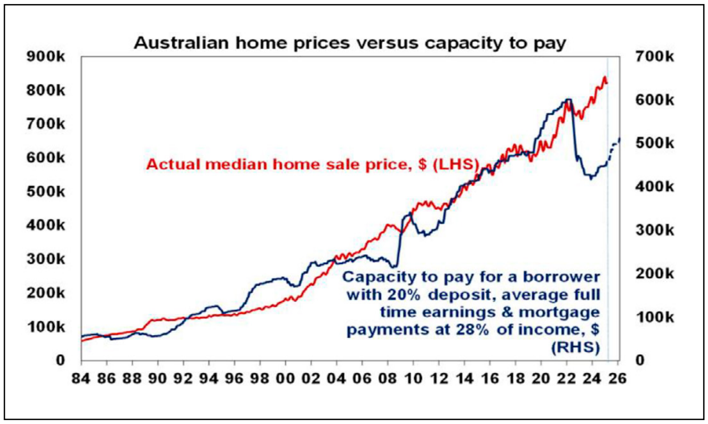
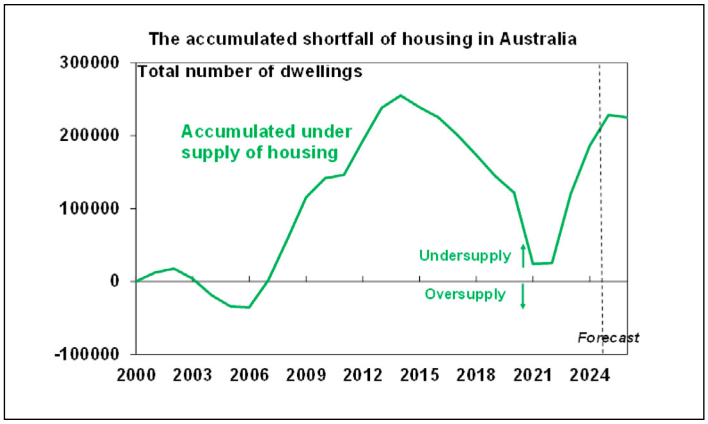


Source: RBA, CoreLogic, AMP

- The rate cuts are also occurring against a backdrop of an ongoing housing shortage which we have seen over the last few years provides a source of support for prices. We estimate the accumulated housing shortfall to be around 200,000 dwellings at least, and possibly as high as 300,000 dwellings. It is likely to remain significant for a while yet as building approvals running just above 180,000 dwellings a year indicate that housing completions are likely to run below government objectives for

Just as the downswing was mild the upswing is likely to be too. This is because it's starting from a point of still poor affordability, interest rates are only likely to fall modestly, and population growth is slowing.

240,000 homes a year (or 1.2 million over five years) for some time to come and may never reach that objective.

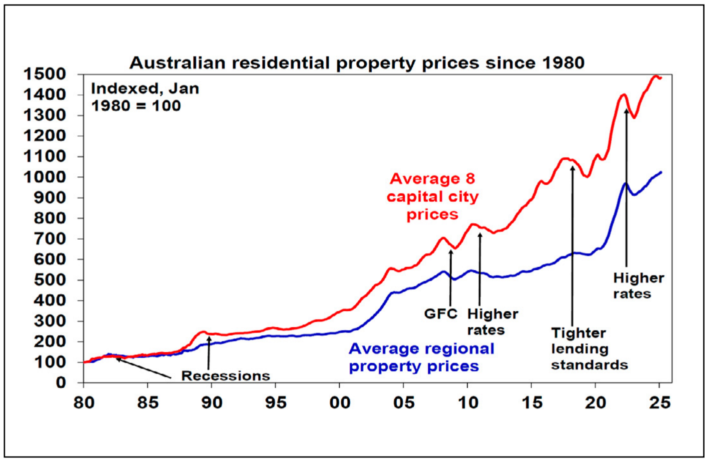


Source: ABS, AMP

Modest downswing = likely modest upswing

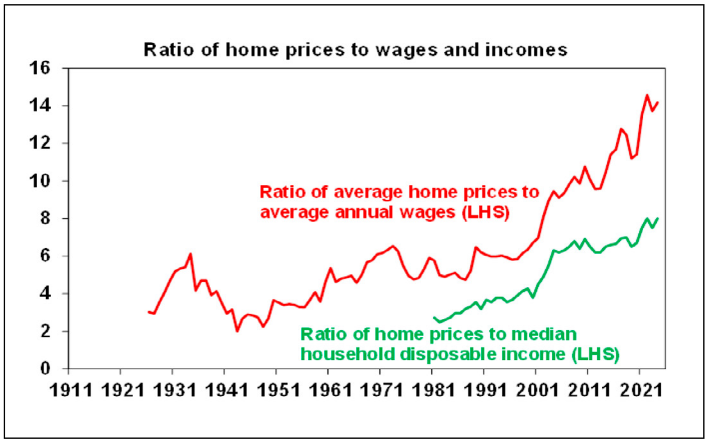
Just as the downswing was mild the upswing is likely to be too. This is because it's starting from a point of still poor affordability, interest rates are only likely to fall modestly, and population growth is slowing.

- Despite the 13 rate hikes between May 2022 and November 2023 average home prices just had a flick of the top into their January low.



Source: CoreLogic, AMP

- This means housing affordability remains very poor without the usual improvement rate cuts can drive via lower prices. This is evident in the ratio of home prices to wages & incomes being around record levels.

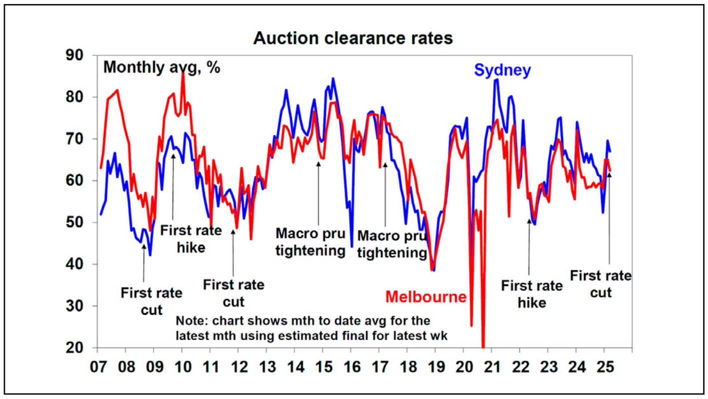


Source: ABS, CoreLogic, AMP

- While interest rates are likely to fall further, in the absence of recession and much higher unemployment we only expect about 4 or maybe 5 rate cuts in total, taking the cash rate back to a low of around 3.1 to 3.35% next year and mortgage rates to around 5%. This will only partially reverse the 13 rate hikes between May 2022 to November 2023 and leave mortgage rates well above their record lows of around 2 to 3%. As such, the buying capacity of home buyers is expected to improve but remain well below the levels seen in 2021-22. See the second chart above. This will limit the upside in property prices. And with a large gap likely to remain between average prices and the capacity of borrowers to pay for a new home leaves a downside risk hanging over the market if something goes wrong – like a sharp rise in unemployment.
- Slower population growth, reflecting a crackdown on student visas and increasing departures as the post pandemic surge in long term visas expires, will likely lead to a further easing in the rental market which will help take some pressure off the home buyer market.
- Divergence in the property market is likely to remain, but in a reversal of the last year with the recent strong cities (Perth, Adelaide and Brisbane) slowing further on the back of poor affordability as they are now more expensive than Melbourne, partly offsetting a further recovery in Melbourne, Hobart, Canberra and Sydney.

So just as the downswing in property prices was modest, the upswing is likely to be modest too. After 4.9% growth last year, we expect average property prices to rise around 3% this year with the upswing becoming more noticeable in the second half.

Auction clearance rates are up from their lows late last year but are running around average levels or a bit below consistent with a gradual recovery in the property market.



Source: Domain, AMP

What to watch?

The key things to watch will be interest rates, unemployment and population growth. For example, a return to RBA rate hikes or less cuts than we are forecasting, a sharply rising trend in unemployment and a sharp slowing in net migration could result in a resumption of property price falls reflecting the divergence between home buyers' capacity to pay and current home price levels. On the flipside a faster fall in rates on the back of weaker than expected inflation could drive a stronger upswing in property prices. And of course, Australian home prices have had a tendency to surprise economists (like me) and many others on the upside over the last few decades.

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The Evolution of Retirement Planning: How New Super Rules and Investment Strategies Are Reshaping Financial Futures

Depositphotos.com

BY WEALTH ADVISER

Introduction: The Changing Landscape of Retirement Planning

As we navigate through 2025, retirement planning in Australia is undergoing significant transformations. Recent changes in superannuation rules and investment strategies are reshaping how Australians approach their financial futures. These changes, particularly the 2025-26 super thresholds and evolving retirement income strategies, are creating both challenges and opportunities for individuals and financial advisers alike.

The Australian superannuation system, long regarded as one of the world's leading retirement savings frameworks, is adapting to meet the changing needs of an ageing population and a dynamic economic environment. As noted by the Australian Government's Retirement Income Review, "The Australian retirement income system is effective, sound and its costs are broadly sustainable. But it can be improved." (Treasury.gov.au, 2020)

This article will explore the key changes in superannuation thresholds, delve into the complexities of investment risk in superannuation, and examine emerging retirement income strategies. By understanding these evolving aspects, Australians can better position themselves for a secure and comfortable retirement.

Understanding the 2025-26 Superannuation Thresholds

The 2025-26 financial year brings significant changes to superannuation thresholds, which will have far-reaching implications for retirement planning. According to the FirstLinks article, "The ATO has announced the key superannuation thresholds for 2025-26, with increases across the board due to indexation." (FirstLinks, 2025)

Concessional and Non-Concessional Contribution Caps

One of the most notable changes is the increase in contribution caps. The concessional contributions cap has risen to $30,000, up from $27,500 in the previous year. This increase allows individuals to contribute more to their superannuation on a pre-tax basis, potentially reducing their overall tax liability while boosting their retirement savings.

Similarly, the non-concessional contributions cap has increased to $120,000, up from $110,000. This change is particularly significant for those looking to make larger after-tax contributions to their super. As the FirstLinks article states, "The bring-forward amount will increase to $360,000 allowing eligible members under 75 to contribute up to three years of non-concessional contributions in a single year."

(FirstLinks, 2025)

Transfer Balance Cap and Its Impact

Another crucial change is the increase in the transfer balance cap to $2.05 million. This cap limits the total amount that can be transferred into the tax-free retirement phase of superannuation. The FirstLinks article highlights the importance of this change: "For some retirees, this increase in the general transfer balance cap creates an opportunity to transfer up to an extra $200,000 into pension phase." (FirstLinks, 2025)

This increase in the transfer balance cap can have significant tax implications for retirees. Those who can take advantage of this change may be able to reduce their overall tax burden in retirement, as earnings on assets in the retirement phase are tax-free.

Unpacking Investment Risk in Superannuation

While understanding the new superannuation thresholds is crucial, it's equally important to consider the investment risks associated with superannuation. As the FirstLinks article on investment risk in superannuation points out, "Investment risk is the possibility that the value of your investments may fall or rise. This can happen due to various factors such as market fluctuations, economic conditions, or specific events affecting particular companies or industries." (FirstLinks, 2025)

Types of Investment Risk in Super Funds

Superannuation funds are exposed to various types of investment risk, including:

1. **Market risk:** The risk of losses due to overall market movements.
2. **Interest rate risk:** The risk associated with changes in interest rates affecting investment values.
3. **Currency risk:** The risk of losses due to fluctuations in foreign exchange rates.
4. **Liquidity risk:** The risk of not being able to sell an investment quickly without incurring a loss.

Understanding these risks is crucial for making informed decisions about superannuation investments. As noted in the article, "Different investment options within super funds carry different levels of risk. Generally, higher-risk investments have the potential for higher returns over the long term, but they also come with a greater chance of short-term losses." (FirstLinks, 2025)

The Importance of Risk Profiling and Asset Allocation

Given the various types of investment risk, it's crucial for individuals to understand their risk profile and ensure their superannuation investments align with their risk tolerance and retirement goals. Risk profiling involves assessing an individual's ability and willingness to take on investment risk.

Asset allocation, the process of dividing investments among different asset categories such as stocks, bonds, and cash, plays a crucial role in managing investment risk. As the Australian Securities and Investments Commission (ASIC) states, "Asset allocation is one of the most important decisions you can make as an investor. It has a big impact on your investment risk and returns."

(Moneysmart.gov.au, 2025)

Developing Effective Retirement Income Strategies

With the introduction of the retirement income covenant in July 2022, superannuation trustees are now required to have a strategy to assist their members in achieving and balancing three key objectives in retirement:

1. Maximising expected retirement income
2. Managing expected risks to the sustainability and stability of retirement income
3. Having flexible access to expected funds during retirement

This covenant has significant implications for how superannuation funds approach retirement income strategies. As the AdviserVoice article notes, "The retirement income covenant requires trustees to assist their members to achieve and balance three key objectives in retirement."

(AdviserVoice, 2025)

Retirement Income Products and Strategies

In response to the retirement income covenant and changing retiree needs, a range of retirement income products and strategies have emerged. These include:

1. **Account-based pensions:** Flexible products that allow retirees to draw down their superannuation savings as needed.
2. **Annuities:** Products that provide a guaranteed income stream for life or a fixed term.
3. **Bucketing strategies:** Dividing retirement savings into different 'buckets' for short-term, medium-term, and long-term needs.

The AdviserVoice article highlights the importance of these strategies: "Effective retirement income strategies should consider factors such as longevity risk, investment risk, and the need for flexibility in accessing funds."

(AdviserVoice, 2025)

Conclusion: Adapting to the New Retirement Planning Paradigm

The evolution of retirement planning in Australia, driven by new superannuation rules and investment strategies, is reshaping how individuals approach their financial futures. The increased superannuation thresholds for 2025-26 offer new opportunities for Australians to boost their retirement savings, while the focus on investment risk and retirement income strategies highlights the need for a more nuanced approach to retirement planning.

As we navigate this new paradigm, it's crucial for individuals to:

1. Stay informed about changes to superannuation rules and thresholds
2. Understand their risk profile and ensure their investments align with their goals
3. Consider a range of retirement income strategies to meet their specific needs

The future of retirement planning in Australia is likely to see continued evolution, with a growing emphasis on personalised strategies that balance income, risk management, and flexibility. As the Productivity Commission noted in its report on superannuation, "The superannuation system is not delivering the best outcomes for all members. There is much to do to make it work better." (Pc.gov.au, 2023)

By staying informed and seeking professional advice when needed, Australians can navigate these changes and work towards a more secure and comfortable retirement.

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SEIZING OPPORTUNITIES
How Advisers Can Guide Clients Through the 2025 Australian Commercial Property Landscape

BY WEALTH ADVISER

1. Introduction: The Evolving Commercial Property Market

The Australian commercial property market is undergoing a critical transition. After several years of uncertainty due to fluctuating interest rates, evolving work habits, and economic headwinds, 2025 presents new opportunities for investors, business owners, and corporate decision-makers alike.

Recent insights from Firstlinks suggest that the market may have reached its lowest point, setting the stage for a potential rebound (*"Has Australian Commercial Property Bottomed?"*). Meanwhile, the Property Council of Australia reports steady office vacancy rates and sustained demand in key areas, indicating growing confidence in the sector (*"Office Vacancy Rate Remains Steady as Demand Stays Positive"*).

For those looking to enter or expand within commercial property, understanding these trends is crucial. Making informed investment decisions requires a balance of strategic foresight, risk mitigation, and capitalising on emerging opportunities. This article explores the factors shaping the commercial property market in 2025 and provides actionable strategies to help investors navigate this evolving landscape.

2. Market Stability and Key Investment Trends

Has the Market Bottomed Out?

The Australian commercial property sector has faced significant pricing adjustments over the past few years. However, multiple indicators suggest that prices are stabilising. According to Firstlinks, there is growing optimism that 2025 will mark a turning point, particularly in prime asset classes.

Premium Commercial Properties on the Rise

A report by CBRE forecasts a surge in premium commercial property demand in 2025, particularly in high-end office and industrial spaces ("Premium Commercial Property Set to Surge in 2025"). Factors contributing to this trend include:

- A return to office work, albeit in hybrid formats.
- Institutional investors shifting back into the commercial real estate space.
- Australia's continued population growth driving demand for logistics and retail properties.

Sector-Specific Insights

Different sectors within commercial property are experiencing varied levels of growth:

- **Industrial and logistics:** Strongest growth due to increased e-commerce activity.
- **Office spaces:** Stabilising vacancy rates, but quality and location remain key.
- **Retail:** Selective resurgence in premium shopping precincts.

For clients exploring investment options, it is essential to assess the long-term viability of different asset classes and align them with their financial objectives and risk tolerance.

3. Investment Strategies for Different Types of Investors

Not all commercial property investors have the same objectives. Business owners, individual investors, and institutional entities approach the market with different priorities.

Small Business Owners

For small business owners looking to purchase office or retail space, the following factors are crucial:

- **Location:** Proximity to clients and accessibility for employees.
- **Lease vs. Buy Analysis:** Weighing long-term savings against upfront capital requirements.
- **Zoning Laws and Future Development Plans:** Ensuring the investment aligns with business expansion goals.

High-Net-Worth Individuals and Private Investors

Those investing in commercial property for wealth-building purposes should focus on:

- **Capital Growth Potential:** Identifying high-growth areas with strong rental yields.
- **Tenant Stability:** Properties with long-term, high-quality tenants reduce investment risk.
- **Diversification:** Spreading investments across different sectors to mitigate volatility.

Institutional Investors and Corporations

Larger organisations typically focus on:

- **Portfolio Diversification:** Balancing risk with other asset classes such as equities and bonds.
- **Sustainability and ESG Factors:** Environmental considerations are increasingly influencing corporate real estate strategies.
- **Long-Term Lease Agreements:** Stability in rental income remains a priority.

By understanding these distinctions, investors can tailor their approach based on their financial objectives and risk tolerance.

4. The Role of Demand and Vacancy Rates in Investment Decisions

Steady Demand and Shifting Work Habits

The hybrid work model has transformed office space requirements. While demand for traditional office spaces has softened, well-located premium offices continue to attract tenants. The Property Council reports that vacancy rates have remained stable in key markets, a sign that the worst of the downturn may be over.

Implications of Vacancy Rates

Vacancy rates are a key indicator for investors. High vacancy rates can signal risk, while low or stabilising rates indicate market confidence. According to the Property Council:

- Sydney and Melbourne CBDs are showing signs of recovery.
- Brisbane and Perth continue to experience growth due to economic expansion.
- Secondary office spaces still face leasing challenges.

Practical Strategies for Investors

- **Assess location and tenant stability:** Premium locations with long-term lease agreements offer lower risk.
- **Evaluate the market cycle:** Understanding whether an asset is priced near its long-term value is essential.
- **Guide clients on lease structures:** Long-term, inflation-adjusted leases provide a hedge against market fluctuations.

5. Alternative Ways to Gain Exposure to Commercial Property

For those who do not want direct property ownership, several alternative investment options exist:

Real Estate Investment Trusts (REITs)

- REITs offer exposure to commercial property without the complexities of direct ownership.

- They provide liquidity and diversification across multiple assets.

Property Syndicates

- Groups of investors pool resources to invest in commercial properties.
- Provides access to higher-value assets with lower individual capital requirements.

Exchange-Traded Funds (ETFs) Focused on Real Estate

- Real estate ETFs track the performance of property-related stocks and REITs.
- They offer a passive, lower-risk approach to commercial property investment.

6. Risk Management and Due Diligence for Clients

Key Risks to Consider

- **Economic Conditions:** Interest rates, inflation, and broader economic cycles impact property values.
- **Liquidity Constraints:** Unlike stocks, selling a commercial property can take time.
- **Tenant Risk:** The financial stability of tenants directly affects rental income.

Due Diligence Strategies

- **Market Research:** Analyse trends and future demand in specific locations.
- **Financial Assessment:** Ensure investment aligns with financial capacity and risk tolerance.
- **Legal Review:** Check lease terms, zoning laws, and potential liabilities before purchase.

7. Conclusion: The Path Forward for Clients in 2025

The Australian commercial property market in 2025 presents both challenges and opportunities. While some areas of the market are still adjusting, emerging trends suggest renewed growth, particularly in premium commercial assets.

For investors and business owners, the key takeaways include:

- U**nderstanding market cycles:** Recognising when and where to invest based on data-driven insights.
- **Assessing risk vs. reward:** Ensuring a balanced approach between opportunity and risk mitigation.
- E**xploring alternative investment options:** Considering REITs and syndicates for diversified exposure.

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Q&A: Ask a Question

Question 1

I've heard that once I start drawing my pension, I can't add further funds to it. Is this true?

It's a common misconception that you can't boost your income stream after you start receiving a pension. While pension accounts don't directly accept additional contributions, there are strategies to "refresh" your pension. For example, you might keep new contributions in your accumulation account and when you retire, you can do a 'pension refresh' allowing you to combine your super or excess funds you contribute to super in the future, with your existing pension balance.

However, these options are subject to specific rules and limits, so it's important to consider factors such as your age, transfer balance cap, and overall retirement plan. Consulting a financial adviser can help determine the best approach to ensure your retirement income meets your needs.

Question 2

I recently sold my home and have received a lump sum. I'm planning to buy another home very soon, but don't need the funds in the meantime. Should I invest these funds alongside my other investments?

If your intention is to buy a new home in the near future, locking your funds into long-term investments might not be ideal. Long-term investment options, such as shares or property, come with higher volatility and reduced accessibility, which may not suit short-term liquidity needs. It can expose you to significant market risk. Instead, keeping the funds in low-risk, easily accessible options—like a high-yield savings account or a short-term term deposit—can help preserve your capital while still earning some return. This way, you maintain flexibility and are better positioned to take advantage of the market when you're ready to purchase your next home.

A financial adviser can help you weigh the benefits and risks based on your timeline and financial objectives.

Question 3

I'm self-employed. What's the best way to save for retirement when I don't have my employer making super contributions like many others do?

As a self-employed individual, you're responsible for building your own retirement savings, which means planning carefully to ensure your future income is secure. You should aim to make contributions to super on your own behalf. Making voluntary concessional contributions (before-tax) can reduce your taxable income while boosting your super balance. Additionally, if you have extra funds, non-concessional (after-tax) contributions may further enhance your retirement savings. Each option comes with its own rules and potential tax implications, so it's important to tailor your strategy to your cash flow and long-term financial goals.

A financial adviser can provide guidance to design a retirement plan that works for your situation.