



THE GREAT AUSTRALIAN URBAN EXODUS HOW HOUSING COSTS ARE RESHAPING OUR CITIES AND REGIONS

BY WEALTH ADVISER

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Australia's cities have long been viewed as engines of economic growth and opportunity, drawing people from across the nation and around the world with the promise of higher wages and enhanced career prospects. However, a dramatic shift is underway that's fundamentally altering this dynamic, driven by an unprecedented housing affordability crisis that's forcing many to reconsider the traditional benefits of urban living.

The Scale of the Crisis

Recent data from ANZ and CoreLogic reveals a startling picture of housing affordability in Australia. As of September 2024, only 10% of the housing market remains genuinely affordable for median-income households—defined as requiring less than 30% of income to

BEFORE YOU GET STARTED

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service a loan. This represents a dramatic deterioration from just two and a half years ago, when 40% of the market was considered affordable.

The statistics paint a sobering picture. The median dwelling value to income ratio has reached 8 times income, nearly 20% above the average of the past two decades. For the average Australian household, saving a 20% deposit now requires 10.6 years of dedicated saving at a 15% annual rate. Even more concerning, for those on lower incomes, the percentage of affordable housing has effectively dropped to zero.

The Urban Premium Paradox

At the heart of this transformation lies what economists call the “urban premium paradox.” Historically, cities offered a wage premium that offset their higher housing costs, making urban living economically advantageous despite the expense. However, recent analysis using the Household, Income and Labour Dynamics in Australia (HILDA) Survey shows this equation has fundamentally shifted.

The urban wage premium—the higher wages available in cities compared to regional areas—is no longer sufficient to offset the urban housing cost premium. This change has been particularly pronounced in Sydney and Melbourne, where housing costs have risen dramatically faster than wages across all occupational categories.

This shift isn’t uniform across all worker categories. Industrial workers were the first to experience this imbalance, with their urban housing cost premium exceeding their wage premium since the early 2000s. Care and service workers followed, and most strikingly, even knowledge workers—who traditionally enjoyed the highest urban wage premiums—are now finding their wage advantages eroded by housing costs.

The Millennial Exodus

The most visible manifestation of this changing dynamic is the exodus of younger Australians, particularly those in their 30s, from major cities. Sydney has experienced the most pronounced effect, with data showing the strongest outflows among this age group. Melbourne follows a similar pattern, though with slightly less intensity.

This demographic shift is particularly significant because it represents a departure from historical patterns. These are often young professionals in their prime working years,

precisely the demographic that cities traditionally attracted and retained. The exodus is most pronounced among those in industrial, care, and service jobs, but it’s increasingly affecting knowledge workers as well.

Where Are They Going?

The patterns of relocation reveal interesting trends about how Australians are adapting to these new economic realities. For Melbourne residents, the primary movement is toward outer suburbs, suggesting a preference to maintain connection with the metropolitan area while seeking more affordable housing. Sydney’s pattern is different,

with residents more likely to make decisive breaks—either moving to coastal regions like the Central Coast and Wollongong or leaving New South Wales entirely.

The data shows a clear age-based pattern in these movements. Those aged 30 and above are consistently moving from high-cost housing areas to more affordable locations, suggesting a strong connection between housing affordability and relocation decisions. In contrast, people in their 20s—who are more likely to be renters—continue to move toward areas with more expensive housing, potentially prioritizing career opportunities and lifestyle factors over housing costs.

Economic and Social Implications

This urban exodus carries significant implications for Australia’s economic and social fabric. Three major concerns emerge:

1. **Risk of Labour Misallocation:** The housing cost premium in cities may be forcing workers away from areas of high productivity and wages, potentially leading to a misallocation of Australia’s workforce that could impact overall economic efficiency.
2. **Occupational Segregation:** There’s a growing risk of cities becoming less occupationally diverse. With industrial and care workers facing the strongest incentives to relocate, cities could increasingly become enclaves of knowledge workers, while other occupations concentrate in regional areas.
3. **Regional Opportunities:** The movement of city workers to regional areas presents both challenges and opportunities. While these workers often bring higher skills and earning power to their new communities, it’s crucial that regional housing supply can expand to accommodate increased demand without creating new affordability pressures.

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Looking Forward

The latest ANZ-CoreLogic report suggests that while housing demand has softened in recent months due to higher interest rates and cost of living pressures, any improvement in affordability may be temporary. Even with projected interest rate cuts—ANZ forecasts 75 basis points of easing starting February 2025—the fundamental challenges of housing affordability are likely to persist.

For Australia's cities to maintain their economic dynamism and social diversity, policymakers will need to address both housing supply constraints and the growing disparity between wages and housing costs. Meanwhile, regional areas must prepare for continued population growth while preserving the affordability advantage that makes them attractive to city emigrants.

The great Australian urban exodus represents more than just a demographic shift—it's a fundamental restructuring of the relationship between where Australians live and work. As this transformation continues, it will reshape not just our cities and regions, but the very nature of Australian society and its economy.

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BY WEALTH ADVISER

Introduction and Market Context

The global financial landscape stands at a pivotal moment following Donald Trump's return to the White House. His victory, secured with a 1.7% margin in the popular vote and notably expanded support across demographic groups, has triggered significant market reactions and raised important questions about the future of global investments. This electoral outcome reflects a clear prioritization of economic concerns over other issues among American voters, with cost of living emerging as the dominant factor in voting decisions.

The immediate market response to Trump's victory has been notably more nuanced than during his first election. U.S. bond yields have experienced an 0.8% increase since mid-September, partly driven by concerns about potential inflationary pressures and expanding budget deficits. The U.S. dollar has surged to its highest level in more than a year, while cryptocurrency markets have shown remarkable strength, particularly evident in Bitcoin's break from its March downtrend.

The global equity market response has been mixed, with U.S. shares demonstrating initial volatility and non-U.S. markets showing relative underperformance due to

concerns about potential trade restrictions. This market behaviour suggests a more complex and mature investor response compared to 2016, reflecting both learned experiences from Trump's first term and the significantly different economic environment of 2024.

Key Policy Shifts and Economic Implications

The proposed policy framework under Trump's second administration presents several significant shifts that could reshape the global investment landscape. At the forefront is his trade policy, with proposed tariffs of up to 60% on Chinese imports and 20% on goods from other countries. As Cameron Mitchell of ANZ notes, these policies emerge in an era of increasing convergence between geopolitics and business, where corporate decisions increasingly reflect political realities rather than purely economic considerations.

The fiscal landscape presents particular challenges. Unlike 2017, when Trump first took office, the current economic environment features:

- Higher underlying inflation (3% versus 2% in 2017)
- A tighter labour market with unemployment at 4% compared to 5% previously
- A significantly larger budget deficit at 7% of GDP versus 3% in 2017
- Bond yields at 4.4% compared to 1.8% in 2016

These baseline conditions suggest that implementing aggressive fiscal policies could face greater market constraints than during Trump's first term.

The 'UNTIDI' framework, highlighted in the market analysis, provides a useful structure for understanding the broader implications:

- Uneven energy transition: Creating potential opportunities in both traditional and renewable energy sectors
- New trading patterns: Suggesting a shift toward onshoring and regional trade blocks
- Trusted technologies: Indicating a deepening technology divide between the U.S. and China
- Industrial policy: Reflecting increased government intervention in key sectors
- Defence: Pointing to increased global demand for defense capabilities
- Ideology: Suggesting more ideologically driven foreign policy decisions

Market Constraints and Balancing Forces

The implementation of Trump's policy agenda faces several significant constraints that may moderate its more extreme elements. These constraints present important considerations for investors developing long-term strategies.

The first and perhaps most powerful constraint comes from what Dr. Shane Oliver terms "the bond vigilantes." With U.S. government debt interest expenses now pushing 10.5% of spending (compared to 6% in 2017), the bond market's reaction to expansionary fiscal policies could be severe. As noted in the analysis, "A further sharp rise in yields would threaten US economic growth (with the housing market already back under pressure) and lead to intense political pressure on the Trump Administration to curtail the tax cuts."

The stock market itself represents another significant constraining force. Historical evidence from Trump's first term suggests his sensitivity to market performance, particularly during the 2018 market correction. As Russell Investments notes, "Trump is still likely to regard the share market as a barometer of his success and would prefer to see it go up." This dynamic was evident when the 19.8% market decline in late 2018 influenced a pivot toward the Phase One trade deal with China.

Political constraints also play a crucial role. The Republican's razor-thin majority in the House means that budget-conscious Republican members could effectively

block or modify aggressive fiscal expansion. As the 2026 mid-term elections approach, political pressure could intensify if policies begin to negatively impact voters through higher inflation or reduced federal services.

Perhaps most significantly, Trump's mandate centres primarily on improving cost of living conditions. This focus may actually constrain the implementation of aggressive tariff policies, as these would likely increase consumer prices. Survey data indicates that concerns about globalization and trade ranked relatively low among voter priorities, suggesting limited public appetite for policies that could increase living costs.

Investment Opportunities and Sector Analysis

The evolving policy landscape creates distinct investment opportunities across various sectors and geographical regions. Several key areas warrant particular attention:

Equal-Weight U.S. Exposure The potential shift toward an 'America First' agenda could benefit a broader range of U.S. sectors beyond technology. The S&P 500 Equal Weight Index currently trades at a 20% discount to the market cap weighted index on a forward price-to-earnings basis, while maintaining strong earnings growth projections. This suggests potential opportunities in domestically-focused U.S. companies that have more to gain and less to lose from potential trade restrictions.

Services-Based Economies Countries with significant service-based export sectors, particularly India and the UK, may prove relatively resilient to increased tariffs on manufactured goods.

As noted in the Betashares analysis, "Countries like India and the UK may be net beneficiaries from increased tariffs and protectionism, given a large proportion of their exports are services-based."

Defense and Security Sector NATO data shows a clear trend toward increased defense spending, particularly among European nations. This trajectory could accelerate under a second Trump administration, potentially benefiting global defense contractors. The sector may see additional support from U.S. efforts to reduce its current account deficit through international defense deals.

Commodities and Energy Security The geopolitical environment suggests strong potential for certain commodity exposures:

- Gold continues to serve as a traditional safe-haven asset during periods of geopolitical tension

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- Uranium presents opportunities as countries prioritize energy security and decarbonization
- Traditional energy resources maintain strategic importance in the context of energy security concerns

Strategic Investment Framework and Conclusion

In developing a strategic framework for investing under Trump's second term, it's crucial to recognize that the starting conditions are markedly different from 2017. Current market valuations and economic indicators suggest a more constrained environment for investment returns, requiring a more nuanced approach to portfolio construction.

The earnings yield gap between U.S. shares and bonds has moved into negative territory, a stark contrast to the positive 3% spread that existed in 2016. As Dr. Oliver notes, "This means that the upside in share markets is potentially far more constrained than it was in 2016." This valuation context suggests investors should maintain realistic return expectations and perhaps consider a more defensive positioning than during Trump's first term.

Several key strategic considerations emerge for portfolio construction:

1. **Geographic Diversification** While U.S. markets may benefit from certain domestic policies, the higher starting valuations suggest careful consideration of international exposure. Markets with strong service sectors and domestic demand, particularly India and the UK, may offer valuable diversification benefits. As noted in the analysis, these markets may prove more resilient to trade tensions due to their service-oriented export profiles.
2. **Sector Allocation** The potential policy mix suggests strategic sector positioning:
 - Defense sector exposure through global contractors
 - Equal-weight U.S. market exposure to benefit from potential broader market participation
 - Strategic commodity allocations, particularly in gold and uranium
 - Careful evaluation of multinational technology exposure given potential trade restrictions
3. **Risk Management** The higher interest rate environment and increased geopolitical tensions suggest several risk management priorities:
 - Maintain adequate portfolio liquidity given potential market volatility
 - Consider inflation protection strategies given the potential impact of tariffs and immigration restrictions

- Monitor bond duration exposure in light of fiscal policy risks
- Implement clear position sizing limits given elevated market valuations

Looking ahead, several key signposts warrant monitoring. The sequencing of policy implementation could provide important signals for portfolio adjustment. As Russell Investments notes, "An early focus on tax cuts and deregulation would be well-received by equity investors. However, investors might take fright if the first major policy moves are on tariffs and immigration."

The interaction between policy implementation and market constraints will likely create periods of volatility, potentially offering tactical opportunities for well-positioned investors. However, the fundamental constraints identified - from bond market vigilance to political realities - suggest that the most extreme policy proposals may ultimately be moderated.

For Australian investors, the implications extend beyond direct market impacts to currency considerations and regional trade dynamics. The potential for increased volatility in the U.S. dollar and regional trade relationships suggests maintaining appropriate currency hedging strategies and careful evaluation of Asia-Pacific exposure.

In conclusion, while Trump's return to the White House presents both challenges and opportunities for investors, the environment differs significantly from 2017. The combination of higher starting valuations, elevated interest rates, and increased geopolitical complexity suggests adopting a more measured approach to risk-taking while maintaining focus on specific opportunities in sectors and regions best positioned to benefit from the evolving policy landscape.

Success will likely come from maintaining strategic discipline while remaining flexible enough to adapt to policy developments and market responses. As always, careful attention to valuation, diversification, and risk management principles remains crucial for navigating this new phase in global markets.

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BY WEALTH ADVISER

Introduction and Overview

The landscape of wealth management and estate planning in Australia is increasingly dominated by trust structures, with the Australian Taxation Office estimating “well over 800,000 Family Trusts in Australia, controlling more than \$3 trillion of assets.” This striking statistic underscores the significant role that trusts play in modern financial planning and wealth transfer strategies.

Trust structures represent a sophisticated approach to asset management and estate planning, offering a range of benefits from tax efficiency to asset protection. However, understanding the distinction between family trusts and testamentary trusts is crucial for effective estate planning.

Family trusts, created during one’s lifetime, and testamentary trusts, which come into effect upon death, operate within the same broad legal framework but serve distinct purposes and offer unique advantages. While family trusts provide immediate benefits for wealth management and tax planning, testamentary trusts offer a mechanism for

extending control over assets beyond death, ensuring that a legacy is managed according to specific wishes and requirements.

This comprehensive guide explores both trust types, their structures, benefits, and practical applications, providing a framework for understanding when and how each might be appropriate in your estate planning strategy.

Understanding Family Trusts: Structure and Benefits

The Rockefeller Principle

The fundamental principle underlying family trusts was famously articulated by John D. Rockefeller: “own nothing, but control everything.” This sentiment captures the essence of trust structures, which create a legal separation between control and beneficial ownership of assets.

Legal Framework and Structure

A trust is not a legal person like a company but rather a relationship between parties regarding property. As defined in legal precedent, “a trust exists when the owner of a legal

or equitable interest in property is bound by an obligation recognised by and enforced in equity to hold that interest for the benefit of others, or for some object or purpose permitted by law.”

The key components of a family trust include:

1. The Trustee
 - Administers the trust day-to-day
 - Manages trust assets
 - Makes distribution decisions
 - Exercises broad powers according to the trust deed
2. The Appointor/Principal/Guardian
 - Holds ultimate control through power to remove and appoint trustees
 - May have additional powers specified in the trust deed
 - Often requires consent for certain trust actions
3. Beneficiaries
 - Can include individuals, companies, other trusts, or charities
 - Usually encompasses the wider family of the trust controller
 - Rights and entitlements defined by the trust deed

Tax Benefits

Family trusts offer significant taxation advantages through income splitting. Under Division 6 of Part III of the Income Tax Assessment Act 1936 (Cth), beneficiaries pay tax on their share of trust income at their marginal rates. This flexibility allows for tax-efficient distribution strategies among family members.

Asset Protection

One of the most valuable aspects of family trusts is their asset protection capability:

- Trust property held by a bankrupt trustee is not divisible amongst creditors
- Appointor powers typically don't vest in a trustee in bankruptcy
- Trust assets may be protected from claims against individual beneficiaries

Testamentary Trusts: Planning Beyond Life

The Concept of Post-Death Control

Testamentary trusts provide a unique opportunity for “post-death control” - the ability to influence how assets are managed and distributed after death. These trusts are

A significant advantage of testamentary trusts is their special tax treatment for minor beneficiaries. Unlike family trusts, where minor beneficiaries face punitive tax rates on distributions over \$500, testamentary trusts allow distributions to minors to be taxed at adult marginal rates, including the tax-free threshold.

created by will and only activate upon the will-maker's death, effectively functioning as a “will plus trust.”

Protective Structures

Testamentary trusts can be designed with various protective mechanisms:

1. All Needs Protective Trusts
 - Designate a principal beneficiary
 - Elevate specific beneficiary interests
 - Impose consultation requirements
 - Protect vulnerable beneficiaries through independent trustee control
2. Beneficiary Controlled Trusts
 - Offer beneficiaries effective control
 - Provide asset protection and tax planning benefits
 - Can be optional for beneficiaries

Special Tax Treatment

A significant advantage of testamentary trusts is their special tax treatment for minor beneficiaries. Unlike family trusts, where minor beneficiaries face punitive tax rates on distributions over \$500, testamentary trusts allow distributions to minors to be taxed at adult marginal rates, including the tax-free threshold.

Trustee Selection

- The choice of trustee is critical in testamentary trusts:
- Independent trustees may be expensive but offer objectivity
 - Family members as trustees require careful consideration of dynamics
 - Succession planning for trustees must be addressed

Practical Applications: Case Studies

Case Study 1: The Blended Family Scenario

Consider Simone's situation:

- Second marriage to Leonard
- Three adult children from previous relationship
- \$1 million in family trust assets
- Jointly owned home with Leonard
- Goal: Separate inheritance streams for spouse and children

Solution implemented:

- Children appointed as successor controllers of family trust
- Will directs bank accounts and home to Leonard
- Minimal ongoing interaction required between parties

Case Study 2: Business Succession

Leonard's case demonstrates complex business succession:

- Single father with two adult children
- Substantial business assets in corporate entity
- Personal assets
- Goal: Equal provision for children with controlled inheritance

Solution implemented:

- Testamentary trust created for all assets
- Joint appointment of children and accountant as appointors
- Restrictions on asset sales until youngest reaches 30
- Unanimous decision-making requirements

Limitations, Challenges, and Best Practices

Administrative Considerations

- Ongoing costs must be justified by benefits
- Complex taxation requirements
- Need for professional management and advice

Duration Limitations

- South Australia: Trusts can exist in perpetuity
- Other states: Generally 80 years (125 years in Queensland)
- Perpetuity periods affect long-term planning

Taxation Uncertainties

- Complex legislative framework

- Limited judicial guidance
- Conservative approach recommended
- Need for specific advice on minor beneficiary distributions

Conclusion

Trust structures represent powerful tools in estate planning, offering significant benefits in tax efficiency, asset protection, and control over wealth transfer. However, their effectiveness depends on careful planning, professional advice, and clear understanding of their limitations and requirements.

Whether opting for a family trust during lifetime or incorporating testamentary trusts in estate planning, success lies in matching the structure to specific circumstances and objectives. The complexity of trust administration and taxation demands ongoing professional support to ensure compliance and optimal outcomes.

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Disclaimer: This guide provides general information only and should not be relied upon as legal, financial, or taxation advice. Specific professional advice should be sought for individual circumstances.

Q&A: Ask a Question

Question 1:

My insurance premiums have become very expensive. What are some ways I can reduce my premiums?

Reducing the cost of personal risk insurance often involves tailoring your policy to suit your needs without compromising coverage. One of the most common ways is ensuring to adjust your level of coverage to reflect your current financial commitments. For example, if your mortgage has decreased or your children are financially independent, you may no longer need the same level of cover.

For income protection policies, increasing your waiting period before benefits start (e.g., from 30 to 90 days) or reducing the benefit period can lower premiums, however, they will reduce the benefits you receive in a claim. Consolidating policies with one insurer might also offer discounts, particularly if you have multiple types of coverage, such as life and trauma insurance.

Your health and lifestyle can also play a role. If your health has improved since you initially took out your policy, it may be worth requesting a reassessment from your insurer to reflect your current status.

Lastly, reviewing your policy's additional features and removing unnecessary add-ons can help you strike the right balance between adequate coverage and affordability. Your financial adviser can guide you in tailoring your insurance to your specific needs, and a regular review can ensure cost-effectiveness without compromising protection.

Question 2:

I'm looking for a tax-effective way to invest for the long term. I heard that this could be done via an investment bond. What are the benefits of an investment bond?

Investment bonds can be a tax-effective investment option, particularly for individuals with a higher marginal tax rate. These bonds, offered by life insurance companies, allow you to invest with after-tax contributions. Earnings

within the bond are taxed at a maximum tax rate of 30%, which is managed by the bond provider. This can be advantageous for investors in higher tax brackets, as no additional tax is payable on the earnings if the bond is held for at least 10 years before withdrawing.

Another benefit is that investment bonds offer flexibility in terms of access and estate planning. They allow you to nominate beneficiaries directly, bypassing probate in the event of your passing.

Investment bonds can be suited to individuals seeking a simple, tax-efficient investment structure, particularly for long-term savings. To determine whether insurance bonds align with your financial strategy, it's best to discuss with your financial adviser who can provide guidance on how to best utilise them to achieve your goals.

Question 3:

I am considering reducing my work hours as I near retirement. How does a transition to retirement work with regards to super?

A transition to retirement (TTR) strategy allows individuals who have reached their preservation age (currently 60) but have not yet retired to access their superannuation through a TTR income stream. This strategy can help supplement income if you reduce work hours or boost super savings by leveraging tax efficiencies.

With a TTR strategy, you can draw between 4% and 10% of your account balance annually as an income stream. If you're still working, your salary can be sacrificed into super, taking advantage of the concessional tax rate of 15% on super contributions instead of your marginal tax rate. This approach can create significant tax savings while keeping your total income stable.

This strategy requires careful planning, together with your financial adviser, to ensure it aligns with your retirement goals and doesn't erode your superannuation balance prematurely.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to centraladvice@wtfglimited.com.

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