

In The Know.....

July 2009

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Finance

To Fix or Not To Fix?

With Australia missing out on a 'technical' recession, given the positive March quarter of GDP, most mortgage holders are now focusing their attention on interest rates. Have we reached the bottom of this cash cycle and if so, should we be looking at locking in a low fixed rate, before rates start moving up?

The possible answer to this debate centres around the following questions, that are never easy to answer:

Is our domestic and global economy out of the woods?

Will employment pick up?

How quickly will variable interest rates increase?

All very difficult questions to answer and many professional opinions vary on the

answer to these questions.

In late June, the OECD and the World Bank both downgraded their forecast on the global economic recovery, indicating they believe it will take longer than first forecast for overall growth to rise and economic conditions to improve across developed countries.

On the domestic front, our economy is holding up, however there are signs that small to medium size enterprises are starting to feel the pinch, which could impact on unemployment in the coming months as forecast.

Unemployment is a key lever when it comes to the cash rate, as higher unemployment usually results in lower rates.

Therefore your financial decision to fix or remain variable is a decision based on the interest cost difference between the two current interest rates and your estimation as to when you believe the variable rate will move above the fixed rate and how long this takes, as this will determine where you will be financially better off to fix.

The finance team at Empower Wealth will be happy to review your current situation to assist you in comparing your options, to you can make a more informed decision

(Contact details over the page).
[Download our Special Report on Fixed Rates](#)
www.empowerwealth.com.au/research

Property

House Prices Up!

So much for the prediction of House prices dropping by up to 40%!!.

Figures released from RP Data and Rismark show a 2.8% increase in property across Australia. Every Capital city except Perth showed price increases, with Melbourne house prices up 4.4% and Units up 4.5%.

'Be careful in investing out wide, as if demand drops off too much, values will be sure to decline in the shorter term'

Driving the market is the lower to middle markets, driven by the stimulus offers to first home buyers. Whereby the top end of the market is still soft and prices were down in the top 20% of suburbs.

The concern is that values in the outer areas will fall, once the government stimulus drops off and interest rates increase to levels where lower income earners cannot sustain the repayments, so be careful in investing out wide, as if demand drops off too much, value will be sure to decline in the shorter term.

Market Measures:

GDP growth in March 09 Quarter: 0.4%

Investor finance jumped 8.9% after a 5.7% increase in March

% of First Home Buyers in March 04: 12.6%

% of First Home Buyers in March 09: 27.3%

(Source: RP Data)

Average variance in interest rate between discount Variable (5.13%) and 5 Year fixed rate(7.17%) is: 2.04%

(Source: Empower Wealth's— Fixed Rate Special Report)

Tax

Negative Gearing—Worth Keeping

It has been well documented that currently the federal government is conducting a full review of the taxation system, tagged as the 'Henry Review'.

As part of this review the government has called on public submissions to assist in this review.

These submissions provide State Governments, Community Groups,

Business Interest groups etc the opportunity to pass their opinion on what should happen with our taxes.

In last month's issue of 'In the Know' I made mention of the Victorian State government calling for Stamp Duty to be removed in place of greater access to Federal Government tax revenues.

Recently, there is been renewed interest in looking at negative gearing and its impact on property.

Back in 1985 the Keating Government took measures to ban negative gearing, which resulted in a huge spike in rental cost to tenants, as investors sort to recoup the financial difference (loss) from this government action. Needless to say it didn't take long for negative gearing to be re-instated.

Yet it's on the radar once again by some community and other special interest groups.

To me the positives to why Negative gearing should be kept are:

1. Private investors provide accommodation for those requiring it, and given the housing / accommodation shortage now, the government would need to invest billions into housing, and we all know the failures of high density social housing.

2. Negative gearing is not a tax benefit for the rich. 70% of all landlords have an income of less than \$65,000 per year. Only 10% of investors earn over \$100,000 a year. By removing this benefit, you are saying to average Australian's trying to build a retirement nest egg, that your only option is superannuation, mostly via the share market. Now for a fair portion of investors, the ups and downs, especially the latest 'big' correction in this marketplace is too much for them, yet removing negative gearing offer direct investors no real alternative options to shares.

3. Investment properties don't remain negatively geared forever. At some point in time in the future the income received through rent will exceed the cost (Interest on borrowings), so this income will be taxed at your indicative PAYG income tax rate for the year the investment had a positive return. Furthermore in the event the property is sold, the government receives tax on the capital gain. So they always get their share of income from allowing an investor to invest in residential property

4. Any form of investing should not be discouraged, if it's adding to the investors overall wealth position. Our Government already has a future issue with retiring baby boomers unable to fund their retirements, so the government has to step in with Pensions, that cost us tens of billions a year to fund. The more people putting themselves into a position to self fund the majority of their retirement with income or capital gains they have generated from their own investment activities, should be rewarded by the government, as they are less reliant on the 'system' for hand outs.

The Henry review is expected to release findings and recommendations in the



final report in December 2009. This report will then be considered by the Government in terms of what action they will or may take moving forward regarding our current tax system. It will be very interesting reading and I hope we all, as Property Investors, ensure our voice is heard in the event we become disadvantaged. I'll keep you posted....

Ben Kingsley—Empower Wealth

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Empower
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68 Munster Terrace
North Melbourne VIC 3051
T: 03 9326 8900

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Quote of the Month:

"The 3 most important variables in Property are;
Lack of Supply of land,
Consistent Demand,
and
Income to Afford it"

Ben Kingsley
Founding Director
Empower Wealth

Upcoming Education Workshops Events:

**Residential Property Investing—
Tuesday 21st July**

**First Home Buyer Information Night—
Wed 22nd July or 3rd August**

**Money, Investing & Finance—
Tuesday 11th August**

For more information and to Book—Visit:

www.empowerwealth.com.au