

In The Know.....

April 2010 Newsletter

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Property Prices— Where to from here.....?

Those of us in the Melbourne and Sydney markets are seeing property values grow at an astonishing rate. So much so that at a very near point in time, they may be overvalued.

I know the first question that's coming to mind—"when will this be?" As those of you looking to get into the markets are thinking, I'll just wait until the right time hits and then get in when the values go down right? Well the only problem with this strategy is that no one is really sure if and when this will be and the most important question, how much these values may fall. Currently we have perfect conditions for property values to skyrocket. Growing economy, low unemployment, lower than average interest rates, shortage of property for sale and high

rent. So good capital and yield returns = exploding prices. Prices may retreat from these peaks, but I doubt very much they will retreat too far back. If values rise another 10% in the next 12 months for well located properties they may only come back 5% for the short term, so there should still be buying opportunities in every city market currently, research is the key. For those of you buying investment properties, especially in newer areas, I'm sorry but your values are going to come back a lot more than 5% in my view, as interest rates start hitting 7-7.50% in this correction phase. That's because low demand for these locations will occur due to short term affordability issues constraining demand. Timing the market is near impossible, so take this idea

on as a more sensible strategy. Melbourne median house prices have grown on average by 8.5%p.a over the past 35 years, so if you have a long term hold strategy, then sure, some years will perform better than others, like last year and this year, and some will not, but an 8.5% or greater for the better performing locations will make you very wealthy over the long term—that's for sure!

So get in when you can afford it for the long term and enjoy the ride without the worry about what's going to happen today or tomorrow—it's the compounding and rental returns performance of the next 10-35 years, that will make you retire a lot wealthier than those still waiting for the right time!
Ben Kingsley-Empower Wealth

Property Prices?

Know Your Insurance Policy

The recent wild "1 in a 100 year storm" caused widespread damage to cars and property in Melbourne and Perth recently.

It's events like these that are a stark reminder to all landlords that when it comes to making a claim on your insurance policy you better understand what you are

actually insured for and what you are not covered on.

A few of my clients who had storm damage recently had a rude shock of learning that some of the contents in the properties were not covered under their building insurance policy.

In my observations those who

used an insurance broker to organise their insurance are all fine, so it might pay to engage the services of a professional insurance broker to help you understand the minefield that is insurance, to ensure you have adequate cover, when it comes to making a claim.

**Simone Bullen,
Simone Bullen Real Estate**

Market

Measures:

Feb Indicators

Sydney—Houses

Price Stage of Cycle:

Rising Market

Rental Vacancy:

Shortage of Stock to Demand

Sydney—Unit

Price Stage of Cycle:

Rising market

Rental Vacancy:

Shortage of Stock to Demand

Melbourne—Houses

Price Stage of Cycle:

Rising market

Rental Vacancy:

Shortage of Stock to Demand & Tightening

Melbourne—Units

Price Stage of Cycle:

Rising market

Rental Vacancy:

Shortage of Stock to Demand & Tightening

(Source: Herron Todd White Valuers

Monthly Newsletter)

Wealth Creation

Why Property Over Salary Sacrifice

Most of you who have been following my monthly commentary and newsletters over the years understand I have a bias towards investing in residential property, because I have been successful at building a multi million dollar property portfolio over the past 16 years of investing, yet my compulsory superannuation has grown to only a few hundred thousand over the same period.

Superannuation is a good idea for the mass population, because it's a forced savings scheme that currently has some tax incentives to encourage us to put more of our pre tax earnings into this vehicle to help us amass a wealth base sufficient to accommodate our income needs in retirement, and therefore not rely on government handouts such as the pension and health care system.

If you read any Superannuation peak body's commentary, and they are very clear on their calls to increase the compulsory super contributions from 9% to as much as 15%, because we are forecast to be severely underfunded for future retirement needs.

Naturally I expect this type of rhetoric coming from these bodies as they represent the financial planners and financial and investment houses who are chasing your money to invest.

These same planners and businesses

earn their entire profits and their income from YOUR Money, so the more that comes in, the more they hope to make you in returns and also the more they profit themselves.

Back to Super being a good idea for the masses—I stand by this belief as many people fail to manage and control their money adequately and have nothing when it comes to their later years, so they are forced to work longer, because they cannot afford to retire or they retire on a measly pension, as the government cannot afford to pay them more. Now to the wise few, who understand what's going on and who are interested in providing more wealth for themselves and their families in the future. They have worked out a couple of factors that have the ability to change the level of wealth one can create through alternative options like property.

They understand a very critical element about super and property—super funds invest the majority of their clients funds in shares, and shares can be very volatile which can wipe out huge wealth levels very quickly, as we have seen with the recent events of the GFC, whereby the marketplace lost over 50% of its value in a year. Australian Property on the other hand is far less volatile and has rarely, if ever lost 20% of its value at any point in time.

In understanding this, smart investors

educate themselves in finding the least volatile properties they can find, usually in blue ribbon locations, and the magnify their investment returns through borrowing to acquire a bigger asset value. This is often referred to as leverage. Bearing in mind you need to ensure you can manage your cashflow, as this is where the novice or uneducated investor fails. The smart investors have advisors to help them measure their cashflow needs for today, tomorrow and into the future to ensure they can hold and build on this wealth base.

So those people salary sacrificing get a return on the money they put in, yet property investors use the same amount, but through leveraging get to invest in something worth a lot more that compounds into far greater amounts of wealth over time, far surpassing any returns gained in super and any short term tax benefits. Do the math yourselves, smart investors have and are enjoying superior levels of wealth.

If you want to learn more about greater wealth through property give Empower Wealth a call.

*(Those new to these newsletters can visit our website to locate old newsletters, in both the finance and property areas—
www.empowerwealth.com.au/newsletters.)*

**Ben Kingsley, Founder
Empower Wealth**

Upcoming Educational Workshops:

**eSearch Superior Property
Thursday 20th May**

**How to Build a Property Portfolio
Tuesday 18th May (Free)**

For more information and to Book—Visit:

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*"Property
has been a
terrific long
term
investment
returner for
my
clients"*

**Cameron
Morgan**

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