

The Advisory—Property Investing

Empower
WEALTH Advisory

August 2010 Newsletter

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Property

Supply Adding to Cooling Melb. Market

Supply and demand are the primary forces in an 'open' marketplace that determine the value of a good/service. This is fundamental economics.

The property market is no different. Earlier this year we saw property values move higher on increased demand. Demand that has since softened as interest rate increases have pushed out some buyers due to their inability to borrow a sufficient amount of money to secure a property within a desired area and price range.

On the supply side of the equation we have seen sellers in the form of 'upsizers', 'downsizers' and some investors looking to sell whilst they believe the market is hot to maximize their returns, whether to cash in or to use as equity to get back into the market.

Traditionally this time of the year would see less properties on the market, as the winter chill usually keeps us indoors and less keen on stepping out every Saturday to look at properties.

Advisory Ben Kingsley Features on Sky Business

At the recent Home Buyers and Investment Expo held at Jeff's Shed, Ben Kingsley was invited to be a panel expert on the live taping of Your Money, Your Call hosted by Margaret Lomas.

Margaret Lomas, along with the panel of experts, including Ben, answered property buyers and investors questions at the show and via email sent into

Statistics indicate the volumes of stock, especially in the auction zone suburbs have increased substantially during the past month or two.

This is actually good news for the market, as long as demand doesn't fall away too quickly.

Why is it good news?

Our market recorded around 30% value growth in the past 12 months, yet historically properties in the auction zone regions record annualized growth average out over the years at around 9% to 12% compounding growth per annum. So roughly speaking this level of growth is almost the same you would get in three average years.

This high level of growth is certainly unsustainable over the longer term of a few years and if it does occur then the famous 'property bubble' would form and values would have to fail, because at some point demand would drop

the show.

Furthermore, the three experts featured on the show are Qualified Property Investment Adviser, under the Not for Profit Peak Body of Property Investment Professionals of Australia (PIPA).

www.pipa.agn.com.au

This association is lobbying government to make property investment advice licensed

significantly and supply would be overdone.

The good news is that there is still an adequate level of demand at this point rather than fall away.

Instead of 5 or more active buyers at any auction we are now seeing 1 or maybe 2, so the frantic demand is no longer in play and therefore not pushing values to high to quickly.

So importantly if we are returning to a more balanced market, what we are going to see is in my opinion a new base level of value for now, and not so much of a fall in values within the auction zone regions.

Once again buying opportunities will present themselves to astute buyers, as the market potentially shifts back to a 'buyers' market as demand softens.

*Cameron Morgan
Empower Wealth*

advice under ASIC, just like Financial Planning and now Mortgage Broking.

To watch Ben's appearance on the show visit Empower Wealth's website.

Ben is also appearing in future shows on Sky in September & October as an expert property advisor.

Market

Measures:

Median Prices

REIV—July '10

Sydney

Houses:\$609,474

Units/Other: \$418,864

Melbourne

Houses:\$524,500

Units/Other:\$450,000

Brisbane

Houses: \$455,000

Units/Other:\$375,000

ACT

Houses:\$490,000

Units/Other:\$420,000

Perth

Houses:\$500,000

Units/Other:\$410,000

Adelaide

Houses:\$405,000

Units/Other:\$310,000

Darwin

Houses: \$547,000

Units/Other:\$440,000

Hobart

Houses:\$380,500

Units/Other:\$275,500

Independent Property Investment Advice

Selecting a property for investment is a huge decision on so many levels.

Firstly there is the large financial outlay, which usually involves high levels of debt, plus the expensive entry costs in the form of stamp duty etc, which are going to add around 5% to the purchase price.

Added to the mix is the underlying fundamentals as to why you may be seeking to purchase property for investment. I.e.—looking for it to deliver income in retirement or income now or maybe your chasing capital growth to grow your wealth base.

Some tax advantages, such as negative gearing may be in the mix also, as your accountant might have said to you, your paying too much tax!

Whatever the reason or motivation, it is highly advisable to seek professionally qualified advice.

The only problem is that when it comes to property investing, unfortunately there is no regulation governing anyone giving advice on what property you should purchase.

That simply means that anyone employed as a Real Estate Agent representative; someone simply working as a sales agent for a property developer; or home building organisation can and do provide advice about whether the property they are selling you is going to be a good investment or not.

Such advice is riddled with bias and is a

conflict of interest as they are effectively profiteering from selling you a product that they make money on.

Furthermore, other professionals get involved such as accountants and financial advisers, as these property sellers woo these professionals to refer them clients on the promise of kick backs, spotters fees, and commission from the sale. That's without the accountants or financial planners really understanding direct residential property as an investment class (you can almost certainly add the sales agent here as well!).

Such a conflict should be outlawed within the industry as I would to have as a guess, 70% of these investments are going to underperform in terms of investment returns, but I just wonder how many 'professional advisors, like the accountants are declaring to their clients they are getting financial rewards in promoting these investment offerings?

Does West Point, Storm Financial ring a bell to anyone? - You bet it does. Seriously, the amount of times people have approached our business to access our clients and offer huge monetary incentives for referrals - I would be a very wealthy person if I had of referred my clients to these operators, yet my clients wouldn't be as wealthy as they are today! I simply won't stand for it.

So what are your options?

Firstly, you need to understand that investment advice needs to be separate from the selling of a good (in this case a direct residential property).

You should approach investing in direct property the same as you do with an other investment.

- 1/ Establish the reason why you are choosing to investment in residential Property
- 2/ Establish the investment returns you are seeking—Capital Growth or Income or both
- 3/ Understand your investment time horizon
- 4/ Establish a level of surplus income you have available to make this investment work
- 5/ Establish how much borrowing power you have available to meet the shortfall and interest repayments

Sitting down with an independent advisor, who only charges for the advice they offer and doesn't have a conflict of interest nor any incentive in selling you any property is the best way forward, and their independent advice will be truly in your best interest, not the advisors!

Then based in the advice offered, such as your circumstances allow you to purchase a property to the value of \$450,000 and your focus on capital growth returns of 9% and rental returns of 4%, then the selection process becomes clearer, so you may choose to select the asset yourself or maybe engage the services of a Buyers Advocate who will be briefed on your clear instructions of what you are seeking.

Ben Kingsley—Empower Wealth

Upcoming Educational Workshops:

**eSearch Superior
Performing Property
Tuesday 31st August**

**Don't leave your property purchase to chance—it could cost you hundreds of thousand of dollars in lost wealth.
Research, Research, Research—
Learn from a qualified specialist.**

For more information and to book visit:

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advice from
those not in
the know, take
advice from
those practicing
what they
preach"**

Ben Kingsley



Property Investment Advice

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