



World Comparisons Irrelevant

You're sitting down about to read the paper or watch the nightly news or one of those incredibly intellectually stimulating current affairs programs and the headline grab is something along the lines of:

Australian Property - some of the most expensive in the world!

Melbourne / Sydney - in the top 10 most expensive cities in the world to live!

Rents are some of the most expensive of anywhere in the world!

Cost of Living - in 'X' city in Australia is in the top 10 in the world!

These types of stories make for good press and they talk to a lot of the population base who do think that Australia is an expensive country to live in.

However, in these press articles or TV segments ,it's clear that a 'balanced view' is lacking.

The reality of the situation is that compared to other countries and cities,our costs and prices might seem high, but if you were to compare apples with apples, then the comparisons are very much misplaced.

The reason why most things seem expensive compared to other countries and cities is because our incomes are significantly more than most countries on the planet. That income is a direct link to the measure of affordability and the resulting standard of living we enjoy.

Those of you who have travelled extensively know that many countries have a very low to moderate standard of living as this is a direct result of the incomes they earn, as their countries develop. Of the developed countries the correlation to income and values still rings true.

Let's compare the minimum wage of the 'Home of Capitalism - America' against ours;

America = \$7.25p/h
Australia = \$15.51p/h
We're over double their minimum hourly rate!

Also if we add to the incomes argument the fact that over 80% of our land mass is very uninhabitable or not developed, causing the vast majority of our population to live within 2hrs of a major capital city, this adds the 'demand' element to the value equation and hence you get high values and cost bases.

There are so many other factors at play as well, but I think my point is made - compare countries with the same income and same land conditions and try to argue these points - You can't. So don't get drawn into this argument yourself when it's a completely irrelevant comparison.

Ben Kingsley (QPIA)
Founder Empower Wealth

Interest Rate Movements - No Real Concern

The RBA left interest rates on hold this month, yet there is continued debate about which way interest rates will move in the future.

If interest rates move up, then the 'great' buying season that we are experiencing in the market will continue, and astute investors will cherry pick quality properties that will perform well over the long term.

The worry for rates going up are for those who have or who are selecting property assets within new estates or the mortgage belt, as they will be affected by owners who cannot service their increased outgoings, forcing a 'distressed' sale.

If interest rates go down, those who are the wise ones and have got into the market, could very

well enjoy a quick gain in capital values, if they have chosen the right property in the right locations.

As long term investors understand, interest rate movements are just part of the landscape we operate in and should be factored into our cashflow planning.

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World Comparisons - N/A	1
Interest Rate Movements	1
Market Measures	1
Property is a 'Business'	2

Market Measures:
Top Ranked Suburb from Top 100 List in Your Investment Property Magazine - August Edition (On Sale Now)

NSW

Alexandria (Sydney)
Ranking # 1

Victoria
Carlton (Melbourne)
Ranking # 45

Queensland
Gladstone
Ranking # 2

ACT
Bruce
Ranking # 15

Western Australia
South Hedland
Ranking # 3

South Australia
Dulwich
Ranking # 53

Northern Territory
Stuart Park
Ranking # 73

Source: Your Investment Property Magazine

Reasons Why Property Investing is a ‘Business’

My favourite BBQ Property Investment conversation is the one about buying a holiday house. Well, it's not *really* my favourite, I actually loathe these types of social conversations. At some stage, someone at the party remembers that I work in the industry and they suggest “Why don't you talk to Cate about your investment property”, and then I either burst their bubble (for those who haven't executed their grand idea) or I watch their face pale as they realise that their recent purchase wasn't a well thought out one. Now, for any purchasers who actually have surplus cashflow in their domestic economy, I don't think that the idea of buying a holiday home is necessarily a bad one – but the key criteria is that the holiday house is easily afforded when taking the repayments, rates, maintenance and all other outgoings into account, and most importantly – this particular purchase is not hampering the buyers' retirement plans and proposed retirement incomes. Unfortunately, it is rare for holiday house purchases to be a sound strategic purchase though, and here are some of the reasons why:

- The property is not generating any income as long as it isn't tenanted
- The property is not enabling any tax deductions from interest, depreciation or maintenance
- The location is most likely not going to have tight vacancy rates all year round
- The area is potentially subject to fluctuations in value based on other holiday houses in the area being sold off in distress at every market downturn.

BBQ conversationalists will obviously defend their strategy or their action with “But Sunshine Sands (*not a real location*) had phenomenal growth last year” and while many of these coastal regions do experience attractive capital growth, I ask “but what would have your investment done for you if you'd purchased in a closely held inner city area, enjoyed 10% capital growth AND the benefits of negative gearing, good paying tenants, and imminent passive income?”

Buying a holiday house is just one of many emotional mistakes I see early investors make. Another famous mistake is electing to buy an investment property which is ‘close by’ so the investor(s) can ‘see it’. I am not necessarily endorsing buying interstate properties every time, however if the decision to buy in a particular location is based on being able to see the property regularly, the investor is then hampering their chances of finding the right property in the rest of the city (and country for that matter). Aside from having a restrictive search, it is vital to note that where *we* like to live is not necessarily a good place for *investing*. An investment decision should be driven by criteria such as capital growth prospects, rental yields, rental vacancy rates, household income trends, infrastructure upgrades and surrounding suburb performance. One final note on this topic to investors – if you *can* drive by and see your property, what good does this do? A good property manager will be making sure your tenant keeps the property as it was, and ensures that your rent is paid on time. If you feel the need to take on this task,

then you need to ask yourself whether you have the right property manager. Personally, I don't have the time or the inclination to manage my own properties. I like to leave it to the professionals and stick to doing what I do best – selecting the right property asset.

The third emotional mistake I like to share with fellow investors is the mistake of selecting an asset based on what styles and features *you* like, rather than what the prospective tenants in the area like. There is little point cringing about a daggy kitchen if the area is a mining town catering for young single males who are flying in from a mine site to a share house. Likewise, a cute English garden is of no interest to a young gen Y who wants to rent an inner city unit – perhaps they'd prefer a deck for their weekend BBQ's...which takes us back to BBQ's. Whatever your strategy and whatever your focus, don't be swayed by BBQ property experts. Have a robust strategy, adopt your own checklists and stay focused on your end goals. If you feel that you are too emotional, think of your investment portfolio as wealth building and ultimately an income generating business and try to throw away your preconceived ideas for pragmatic ones.

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