

## February 2009 Newsletter

### INTEREST RATES SLASHED!

Following its first board meeting of the year, the Reserve Bank has slashed interest rates by 1 full basis point bringing the cash rate down to just 3.25%

This is the 4<sup>th</sup> consecutive cut since September last year bringing the cash rate down a total of 3.75 basis points in just 5 months – the most dramatic drop in history.

Let's wait and see what each bank/lender does in passing on the full cut or not?

### A SUMMARY OF THE ANZ HOUSING SNAPSHOT

The global economic outlook has deteriorated sharply and Australia's GDP growth has been downgraded. This lower growth will lead to an increase in unemployment.

Despite marked downturns in the International markets, Australian house prices have to date remained resilient. To Sept 08 house prices are up 2.8% over 12 months and from a peak in March are down 2.1%

There are a range of factors which will provide support to Australian house prices:

- Interest rate cuts which are improving affordability and the increase to the first home owner's grants.
- Unprecedented housing shortage in Australia! Housing demand is strong due to increased population growth and supply is restricted by land availability, excessive infra structure charges. Therefore Australia is facing a chronic undersupply of dwellings over the coming decade.
- Rental market is tightening, with vacancy rates at record lows. This is placing pressure for rental increases and improving investor yields.
- Australian lending is conservative and sub-prime loans remain less than 1% of the market

There are however risks. Unemployment is rising, mortgage defaults are on the increase, leading to an increase in forced sales and tightening credit conditions could restrict actual housing demand.

The Melbourne market has experienced a slowdown in auction clearance rates. This does not necessarily reflect a fall in prices but rather a stand off between buyers and sellers. The ABS has suggested that there has been a softening of between 1-2% in the Melbourne market in the Sept Quarter.

The report can be viewed in full at <http://www.anz.com.au/aus/corporate/Economic-Research-And-Publications/Economic-Research/Australian-Property-Outlook/default.asp>

## **UPCOMING EMPOWER WEALTH WORKSHOPS**

**eSearch Superior Property** – Wednesday 11<sup>th</sup> February

**NEW Money, Investing & Finance** – Wednesday 18<sup>th</sup> February

**NEW Introduction to Property Investing** - Monday 23<sup>rd</sup> February

For more information or to book online please visit our website

[www.empowerwealth.com.au/workshops](http://www.empowerwealth.com.au/workshops)

## **DIRECTORS COMMENT**

The year ahead.....

February is the start of the mid-year reporting season for Publically Listed Companies, so it promises to be an interesting month regarding stock price movements and overall market sentiment for 2009.

It's fair to say that given the market has retreated by around 40% from its highs of 2007, some analysts have been quoted that they believe the retreat in share prices in 2008 and to date in '09, has already been factored in a poor reporting season. Yet as with every year, there will be some that surprise on the up side and then there will be a few more that will surprise on the down side, causing some further volatility over the next few months. So has the market reached bottom? - No one really knows and any smart and truthful analyst will tell you, it will only be known after the fact, not when it actually happens.

As with shares some areas of the property market are also in the spotlight. The Residential market will also be under the stoplight in 2009, with plenty of negative sentiment, or 'Noise' as I call it, flowing through our media channels. As expected the top end of the market will retract due to a decline in demand. This is typical in a slowdown phase because bonuses go, high investment returns disappear due to the stock market correction and wage grow stalls. Further exacerbating the problem for the top-end market is those who leveraged themselves too highly, relying on the bonus and investment income to help them service debt, and are having to sell up quickly to avoid possible further losses.

At the bottom-end sector, we have the least expensive property properties, usually located in the outer suburbs and regional areas, which traditionally house lower income & skilled workers, plus first home buyers trying to get themselves into the market. During these tougher times, unskilled or low skilled workers find it harder to keep down permanent full time work, as manufacturing and industry struggle to secure enough work to keep them employed so they can keep paying the mortgage and all the bills (As noted in the ANZ property report within this newsletter). An example of this has been seen in recent times in the outer suburbs of Sydney's West, when demand drops, due to a poor NSW state economy, so too does the price of the housing in that location.

The Government is doing their bit to put a floor under the value of homes, through their increasing the First Home Owners Incentives. The idea behind this is an attempt to hold up demand and try to get increased new construction underway to support more jobs in the construction space.

Furthermore, new houses require new household goods, so the idea is to then have them increase household spending to hopefully support the retail sector and the jobs in this sector i.e. the flow on effect! Early indications are showing signs of increased activity in the first home owner sector as lower interest rates are also adding to their belief it's a good time to buy.

As for the middle value of the market - quality homes with continued demand for their location (usually within 5 - 7km from a major city) and well located in great & liveable neighbourhoods, will hold up well against the top and bottom ends of the market, because they usually house higher skilled people with stable incomes, ensuring demand holds up well.

Now putting my investment hat on here - (although it would also apply for first home buyers and those looking to upsize)

For those that can sensibly afford to invest wisely during 2009, will in my belief, look back on this year of uncertainty with a positive view. Furthermore this should also reconfirm to themselves that buying during a 'value' period such as 2009 with a long term investment outlook will have made a huge difference to their overall wealth when they look back in 5 to 10 years from now. The trick is to get in before the greater population also thinks times have turned back for the better, because history tells us they will!

As for residential property, well those who have read my previous newsletter comments will know my theory I call the "Power of One" (Dec 08 issue), which in this context technically means, you have a real shot in 2009 to secure a well priced investment property in a superior location. Think about it - record low vacancy levels and about 4% + rental yields, a huge undersupply of available housing, as per ANZ report, record low interest rates, and possible tax benefits for your investment all point to a positive long term result.

Yes there are always risks, yes there will continue to be negative commentary, yes there will be knockers and doomsayers saying don't - Those that cut through the "noise" and do their research and educate themselves will, in my opinion enjoy the fruits of their efforts in future time to come, as they had the courage to stay true to a sensible and well planned strategy.

I know one thing, 2009 will be a year that I certainly add to our portfolio of properties, with my usual detailed and methodical approach and I will enjoy looking back in years to come to see the result!

Remember knowledge is not only power, its empowerment and when used, is empowering - Happy Investing

Ben Kingsley