



### A Lot has Changed in a Year

I was trolling through some old commentary on one of the finance industry updates we received back in Jan 2010 and the headline reads—Melbourne Properties Skyrocket - It's not a big article so I thought I'd include the whole article to see what was being reported a year ago—

*House prices increased in Melbourne by \$75,000 in three months - a record high, reports the AAP.*

*According to the Real Estate Institute of Victoria's December update, the median house price hit \$540,500 at the end of 2009 - 15% higher than the \$470,000 average in September.*

*Demand has outstripped supply as more than 1,700 new residents move to the city every week.*

*Melbourne's eastern suburbs recorded the largest increases. Burwood house prices increased more than 23% from \$658,000 to \$810,000, while Ringwood increased by 16%.*

*On the other end of the scale, houses in Melbourne's far west came in at \$275,000 in Werribee and \$239,750 in Melton.—Source: Australian Brokernews 25/1/10.*



I wanted to highlight this piece for a couple of reasons.

Firstly, it shows just how much can change within a year. Fast forward to today and it's fair to say the market is not as hot as it was back then which will potentially show when the REIV reports the December 2010 results shortly.

The news certainly won't be as rosy overall and then as you break down into the different suburb levels, it's fairly

predictable to expect that some suburbs would have come back off those median values highs.

Secondly, it highlights just how quickly the market can gain a sense of hype and urgency—pushing values high very quickly as heightened sensed buyers compete for very limited assets.

It's interesting to see the change in the market between then and now, because technically we still have a growing population and the housing shortage is still present.

So what it highlights to me is picking short term upswings and downswings is extremely difficult and if the so-called experts get it wrong, how is the average person on the street going to know?

The solution is simple - buy when you can afford to and hold the asset for the long term, preferably forever.

Cameron Morgan—Finance Advisor

### Tenancy Laws are Changing in NSW

After an extensive review of the tenancy laws in NSW changes are set to be made:

The Residential Tenancies Act 2010 was passed by NSW Parliament on 10 June 2010. The Act and its associated Regulation will commence on **31 January 2011**. Until then, the existing laws continue to apply.

There are more than 100 areas of reform in the new Act.

Some of the changes include:

- the time to evict a tenant who has stopped paying rent will be cut by up to 18 days
- tenants will be able to make reasonable requests to make minor changes to premises

- landlords will gain the right to show premises to prospective tenants or buyers at least twice a week

For the full list of changes which come into effect later this month are available for download from the NSW fair-trading website:

[www.fairtrading.nsw.gov.au](http://www.fairtrading.nsw.gov.au)

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#### Market Measures: Auction Clearance Rates\*

**Sydney**  
# Auct: 2221  
# Sold: 1034  
Adj Clearance: 56%

**Melbourne**  
# Auct: 3241  
# Sold: 1045  
Adj Clearance: 72%

**Brisbane**  
# Auct: 479  
# Sold: 68  
Adj Clearance: 30%

**ACT**  
# Auct: 128  
# Sold: 69  
Adj Clearance: 74%

**Perth**  
# Auct: 77  
# Sold: 2  
Adj Clearance: 3%

**Adelaide**  
# Auct: 334  
# Sold: 84  
Adj Clearance: 58%

Source: APM.

\* Withdrawn from Sales  
Figures Not Shown

## Can we Predict the Future?

It's crazy to think that anyone can predict the future, but plenty of people are paid good money to try: Economists, Weather Forecasters, Fortune tellers, Treasury, Technology companies, etc.

Even though no one can predict the road ahead, it's absolutely vital that we pay attention to what lies ahead of us. If we look at the future from a personal perspective, we think about our own health and maybe the family history that has gone before us. We also need to think about our financial future too, as the money we accumulate is going to determine the quality of life and standard of living we enjoy. If we think it back to our health its also going to pay for the level of health care we receive in later life.....

When one looks at investing, the predictability of the investment is extremely important. The only problem is the level of predictably also usually impacts on the returns, because if you have a predictable return then risk level is traditionally low. If you have an unpredictable investment the risks are usually very high, so the returns on the investment would need to match or exceed the risk, otherwise

you wouldn't get investors investing.

When it comes to direct residential property investment, history is usually an extremely reliable measure for predicting the future performance, with the exception of one major variable— economic performance of the location/ city/town.

Let me share an example: During the gold rush, many towns such as Ballarat and even you could argue a city (Melbourne), were born out of an economy driven by gold.

When the gold dried up, the economic impact to the towns (some now don't even exist) to the city were severe, having huge impacts on land and housing values.

Fast forward to today, where Melbourne has become the second largest city in Australia and its overall economy is a mix of multiple industries and services, it's no longer a one industry town.

So it's fairly easy to argue that the long term trend in values since the Second World War and then recently in the 70's & 80's, when women started to join the workforce, creating greater household

income and discretionary spending, that this historical value trend should continue, so long as Melbourne maintains a robust and diverse economy.

Sure we are going to see ups and downs along the way, like the example in Cameron's article in this newsletter, but the long term trend data is relatively predictable.

In Melbourne's case the long term capital growth rate is around 8.3% since 1974, when the Valuer General stated to collate this data.

And here's the magic of a predictable asset like property, the risk is relatively low, but when you leverage (borrow to control a greater valued asset) you magnify the returns.

Lets use an example: Say we had \$50,000 in equity or savings, this amount could be leveraged to secure a \$500,000 asset. If the asset performs to its predictable return, then in 10 years that asset will be worth \$ 1,109,825. That's an amazing return on your \$50,000 isn't it!

I need to remind you, that loan interest, stamp duty, maintenance costs etc, are going to have to come out of this gain, but still one relatively 'predictable' property investment will make a sustainable impact on your future wealth, if executed and managed correctly.

And its this sort of predictability that wins over my mind as a superior investment class for me and my clients.

Ben Kingsley

Qualified Property Investment Advisor

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a mathematical  
confirmation of your  
suspicions.”**

— A.A. Latimer