



Empower WEALTH Advisory

THE ADVISORY—PROPERTY

Property Outlook for 2012

Wow, first month back into the new year and I give myself a topic to write about that's SO macro / big picture. And I only have about 450 words to say it in, yet it's a topic that so many of us have an interest in. Before we start, one little bit of property investment gold. You are only buying one investment property at a time, so irrespective of what has or will happen within the overall Australian market or each state markets or capital city market for that matter, there are always wise investment opportunities at any time and in any market. The science is in knowing what's a great, good, or bad property to buy. So to the outlook.....

We enter into the new year with a different forecast on interest rates than what we entered 2011 with. Rates have come off 50 basis points from their high of the last up cycle. Cheaper money to stimulate personal and business spending has a positive impact on GDP. From a housing perspective, cheaper rates means incomes allow for higher borrowing power and improved

affordability. In short, improved access to the amount of borrowing one can do is quite simply the bigger demand driver for property. So this has to be a real positive for price growth.

Unlike the last boom period following the GFC, when interest rates were also at below long term average rates, this time around I don't expect the price growth levels accelerating at nose bleeding speed like they did then. The reason for me is three fold -

1. Stock on market. This time round most capitals have a lot more stock available for sale
2. Immigration numbers driving housing demand to purchase and/or to rent are a lot lower than the peaks seen in previous years
3. Global economic outlook - Yes Europe etc. The flow on effect is poor business investment activity, poor share market returns resulting in the lack of financial confidence of consumers , which gives rise to consumers remaining cautious.

My Predictions for the Cities

Sydney - Long term average price growth with upside in some suburbs

Melbourne - Long term average price growth with upside in some suburbs

Perth - Above average price growth

Brisbane - Above average price growth

Adelaide - Long term average price growth

Canberra - Above average price growth

Darwin - Watch this space double digit price growth

Hobart: Slightly below long term average price growth

All in all a solid year to 18 months ahead for property values and if the share market and Europe sort themselves out I think even better results may materialise.

Will this year be the year you share in this wealth building opportunity?

Ben Kingsley (QPIA)
Empower Wealth Founder

Reflection a Powerful Learning tool

Wouldn't it be great if we could go back in time.....We'd all be wiser and wealthier for the experience, especially if we could take back those lotto numbers with us!

Of course the reality is that we can't. So what can we do? You need to learn from past events and be wiser from that experience moving forward.

When it comes to property and building wealth and a passive income stream, it's exactly the same.

So let's take a quick look back into the history of house prices sourced from the Victorian Valuer General's Office: Melbourne Median House Prices
1974:(Data first Collected) \$25,500
1980: \$40,000
1990: \$131,000

2000: \$190,000
2010: \$495,000
2020: \$???????

The question you need to ask yourself is, over the next 10,20,30 years is there something that will stop this from happening or will I take action to share in some of this, so I can look back in time and say 'I'm glad I did!'

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Market Measures:

Stock on Market: November 2011

Sydney

Units - 2010: 11,953
Houses - 2010: 20,088
Units- 2011: 14,097
Houses - 2011: 23,075

Melbourne

Units - 2010: 9,556
Houses - 2010: 26,251
Units- 2011: 12,082
Houses - 2011: 40,628

Brisbane

Units - 2010: 5,552
Houses - 2010: 24,135
Units- 2011: 5,849
Houses - 2011: 24,356

Canberra

Units - 2010: 421
Houses - 2010: 1,317
Units- 2011: 642
Houses - 2011: 1,470

Perth

Units - 2010: 3,824
Houses - 2010: 16,393
Units- 2011: 3,643
Houses - 2011: 16,407

Adelaide

Units - 2010: 2,119
Houses - 2010: 12,774
Units- 2011: 2,490
Houses - 2011: 15,569

Darwin

Units - 2010: 604
Houses - 2010: 944
Units- 2011: 620
Houses - 2011: 955

Source: SQM Research

The Thing about Holiday Houses

I am often asked about holiday houses. The conversation invariably starts with "Cate, we want to talk to you about investing. We love *Blairgowrie*/ *Lorne*/*Philip Island* and we think it would make a great investment." This conversation also invariably occurs in late Jan, early Feb. This is prime time for questions from my budding holiday house investors.

I need to explain why I might roll my eyes or shake my head in opposition. This action usually follows with a crash course in what actually constitutes an investment.

An investment is defined as an asset or nest egg which provides a return. When it comes to property, there are two types of returns. The first and obvious one is the capital growth return. Many people focus on this return when they set their sights on a holiday house and they forget the other return and the positive implications associated with it offered by our Australian taxation system.

This other important return is rental return, and the positive implications can include negative gearing benefits and depreciation. In addition though, the follow on benefit of all of these combined is that for many investors, they can potentially purchase the next property without the first investment property becoming a financial road block to move.

Of course, the common argument for the viability of the holiday house purchase is that the buyer can use it themselves for holiday.

I field creative ideas around personal use of the property during peak season and then holiday-let over the low season, short term fixed tenancy options... the list goes on.

The bottom line is that the plan is generally not very well thought through and the ideas are knee-jerk reactions to justify the purchase. After all, if the primary motivation is for personal and immediate use, I challenge the buyer to convince me that it's truly an investment decision.

Once they have argued that it will grow in value and remain in the family for regular holidays, I ask them different variants of the same question. "Is it the best investment property for your money? Or in other words, will this asset outperform any other property in the same price band?" The answer is usually "no" or "I don't know, we haven't really looked at other markets."

I had this same very conversation with my own parents. My Dad toys with the idea of buying a beachfront unit in Queensland every January after he has gone up north for a getaway with Mum. I felt like I was banging my head against a brick wall every time I talked to Dad about how well his money could work

for him if he chose an investment that was suited to their cash-flow and retirement strategy.

Finally I planted a seed of rational argument when I asked Dad (who is an accountant) to provide me a cash-flow forecast of his outgoings for two separate strategies - the purchase of the unit in Queensland vs two return business class trips a year for he and Mum to travel to Queensland, stay in a five star hotel, eat out every day and night and have their laundry done for them.

The answer was compelling and Dad hasn't mentioned a unit for over a year now and I'm tempted to think that I might have an investment-free conversation with Dad this Feb.

The bottom line is that you will more than likely achieve better capital growth and rental income returns when buying outside of holiday locations .

Enjoy our fabulous summer season and remember to keep emotion out of investment decision-making and you will no doubt have an exciting time when you do start the process of investment property acquisition with your business hat fixed firmly in place.

Till next time...

Cate Bakos - Buyers Advocate & Property Investment Advisor



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Ben Kingsley

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