

The Advisory—Property Investing

June 2010 Newsletter

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Property Income

The recent interest rate rises are doing what the RBA had hoped in terms of slowing down the demand in the property market in a general sense.

By increasing the cash rate the flow on effect is felt across all facets of the residential market.

The first impact is the reduction in borrowing power, as the banks move their lending assessment rates higher, which means borrowers are offered less. By offering less, some potential buyers cannot secure the lending they require to buy in the location they want to live.

Borrowing power is also linked in with Affordability. With potential buyers not having the ability to afford the lending required to secure a property in their chosen location, they increase the demand for rental properties within that localised

area.

RP Data 's Property Pulse reports - "Weekly rental rates in Australia's capital cities climbed \$133 for houses and \$132 for units between August 2005 and February 2010.

Current capital city rentals rates are currently recorded at \$440 per week for houses and \$417 a week for units.

Landlords have enjoyed excellent capital growth increases over the past 12 months, but we cannot crystallise these increases, so they currently sit as paper profits.

As an active property investor, the recent increases in interest rates have resulted in an increase of my cost base for the business of running rental property accommodation. Like other business

faced with increases in costs, it's a realistic expectation to pass on some or all of these increases to ensure these investments remain viable.

Before making such a decision, you need to ensure the market can accommodate your next increase and you also need to weigh up the increase and balance it against the quality of tenant you currently have renting your property/ies.

Those of you with investment properties and those seeking to purchase their first property need to do adequate research in the area of rental returns. The best place to start is with the local property management real estate agency, as they have the latest knowledge on a particular market rates.

Ben Kingsley

Rents On the Up

Market

Measures:

APM—March '10

Vacancy Rates

Sydney

No: 6,345
1.2%

Melbourne

No: 7,952
2.2%

Brisbane

No: 4,793
1.9%

ACT

No: 166
0.4%

Perth

No: 2,405
1.5%

Adelaide

No: 1,300
0.9%

Darwin

No: 302
1.3%

Hobart

No: 218

Tax

Interest In Advance

As a property investor coming up to the end of the financial year you have a window of opportunity to get a better tax outcome for this year or next year depending on your circumstances.

Firstly interest in advance is paying 12 months interest upfront, which in effect will increase your tax loss for this financial year. This is a great

outcome for someone who's had an exceptional income year, as it will increase the loss to offset the gain for this year. The other type of benefit it can provide is for someone who's income next year is going to be reduced heavily, like someone going on maternity leave, as it effectively helps them pay less tax in both years.

If you are considering this as an option, you must ensure it's structured correctly, so firstly speak to your tax accountant to ensure it's a good idea and then talk to the Empower Wealth Team about getting this set up, with many lender options available it's best to get good strategic advice.

Property Values

Market Softening a Good Thing

It's with some relief that I report early signs of a softening in the Melbourne Housing market after a rapid run, where the median house prices grew by as much as 30% in the past 12 months.

Increases of such magnitude are unsustainable over an extended period of time, which can lead to bubbles forming and we all know that eventually happens to bubbles.....

Over the past couple of weeks the clearance rates have fallen below 80%, which had pretty much been the norm over the first half of this year and in the later part of last year.

Part of the reasoning can be placed around the 'affordability' issues as a result of the recent increases in interest rates.

As I predicted, these increases are having a direct effect on the outer ring of the metro area and there are signs of increased mortgage stress at the bottom end of the market. Expect to see increase Mortgagee Sales in some of these locations and a decrease in values, if further rates rises continue.

Real estate agents are reporting the heat coming out of the market. Whereas earlier this year they had

reported up to 10 buyers fighting out the purchase of some properties, they are seeing less heated activity in the last couple of weeks.

Another reason behind this slow-down, and its 'speculative' opinion, is the decision by the government to re-introduce a tightening of the Foreign Investment laws. Last year the Federal Government relaxed laws around the purchase of existing properties, which was being speculated as artificially increasing prices due to limited stock available.

On the flip side of the argument is the volumes levels we are seeing being introduced to the market, which could be a reason for a softening of the clearance rates.

So it's not all bad news, and its certainly not going to be gloom and doom that we will see appearing in the media.

Given the timely slowdown, my view is that we are not going to see a correction in values for well located inner city and middle ring properties, with the exception of high rise, high density apartments, this market could see a downturn in the near term.

My argument for a stabilisation is supported by several core fundamentals that are still present in the market going forward.

We still have an undersupply of accommodation. This under supply is forecast to continue into 2012 and beyond.

Combine this with continuing positive population growth for the greater Melbourne area and you have underlying demand to support values.

Areas that also show balanced affordability to income will see values continue to grow at 'more normal' levels in the near term. Its inevitable that once affordability moves outside of normal range in these areas, prices will stagnate for a period of time, 'consolidation time', but then history tells us that they will usually provide returns consistent with their long term average growth rates.

The ebbs and flows of any market cycle are influenced by the simplicity of the supply and demand dynamics in the market. Fortunately, some rationale has returned to the market and this provides me with confidence that we will see more stable and consistent levels of growth for the foreseeable future for quality areas within the overall market.

Ben Kingsley

REMINDER:

PRIVATE CIRCLE WEALTH FORUM

Thursday 24th June

To book visit:

www.empowerwealth.com.au/privatecircle

"Volatility has caused many a sleepless night for 'no property' investors, yet I sleep well as a residential property investor"
Ben Kingsley

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