



### Property Values - Where to from Here?

Avid readers of my commentary will know that I am a buy & hold investor, opting for long term passive income and capital growth. Its this methodology that suits most of the strategies we design for our clients at Empower Wealth.

Furthermore our investment analysis has overweighting towards incomes as a core growth driver for property values.

This overweighting has materialised based on historical analysis, referencing long term property value growth from the early 1970's until today.

Its this period in history that is different from previous periods as household went from single incomes to 1 full time, one part time, then to today were most household have two full time workers.

This change had a significant impact on disposable income and from a property point of view on the ability for households to bor-

row a greater home loan amount, ensuring values increased as they did. For the record based on Valuer General Data from 1974 until December 2010, the Melbourne Median house price has increase at 8.7% p.a (\$25,500 to \$515,000)

At our last Property Investment Forum, we modeled the expected growth of a property value, as part of a wealth creation projection we demonstrated on the night. This example used the illustration of a continuing trend of 7% p.a in compounding growth, which given the power of compound would mean that these property values will eventually reach a multi-million dollar price tag over the next 20 years. This result naturally prompted a question from the audience about the likelihood of this outcome continuing.

The reply I gave related to the historical reference of growth since double household incomes

became the 'normal'. In this years federal budget, treasury forecasted wage growth of 4%. Now that is half of the long term growth rates of property values, so with affordability now at most mortgage belt holders limits, its fair to say that values in locations where mortgage holders are the majority of the market - price/value pressure will force values lower. In other areas where incomes grow higher than the average and demand remains high - these locations will actually buck the trend and will increase in value. The question is which locations?

Fortunately for our clients we are confident we know these locations!

**Ben Kingsley**  
Founder Empower Wealth  
Qualified Property Investment Advisor (QPIA)  
PIPA Board Member

### The Facts on Property Tax Revenue

In 2009-10 property related tax revenues for State and Local governments amounted to \$32 billion, coming from property transactions for the same period of \$247 billion. The taxes that make up this amount included stamp duty, land tax, rates, government registration fees on mortgages etc.

This research also highlighted that this tax revenue amounted to

48% of total tax revenues to state and local governments.

These are critical revenues for governments to provide infrastructures and services for their population, that is why you will not see significant reductions in these taxes, as governments don't have the answer to replacing this revenue from other revenue generating sources, and the

federal government is also not in any position to supplement this revenue. (Maybe we missed an opportunity with the resources tax?).

On the flipside, governments understand the important of keeping property values robust - as its critical revenue they can't do without .

#### June 2011

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#### Market Measures:

##### City Vacancy Rates

###### Sydney

# 6,448

1.2%

###### Melbourne

# 8,763

2.4%

###### Brisbane

# 4,289

1.7%

###### Canberra

# 257

0.6%

###### Perth

# 1,462

0.9%

###### Adelaide

# 1,689

1.2%

###### Hobart\*

# 328

1.4%

###### Darwin

# 470

2.0%

#: No. of Vacancies

%: Vacancy Rate

Source: SQM Research

## Buying Property in your Self Managed Super Fund (SMSF)

There are many barriers for potential property investors to actually get started on their investing journey. Reasons why people hold back include fear of the unknown, misconceptions about tenants and rental properties, bad money management, and lack of capital. If the first three obstacles can be overcome, the latter reason may not be the deal-breaker you once thought it was.

In late 2007, some important legislative changes were introduced around regulated funds (Self Managed Super Funds) which enabled leveraged property investments to be purchased via Property Installment Warrants under certain, very specific circumstances. Prior to this amendment, Super Funds were prohibited from borrowing funds or maintaining any borrowings.

What this means for some investors is that they can consider property investment via their SMSF if their fund meets certain criteria; namely if the strategy they would like to adopt meets to their Financial Planner's satisfaction.

Before embarking on a property investing course of action, it is vital that you speak to your Financial Planner about the viability of investing in property, your fund's level of diversification, and mostly; what you want out of your fund, (and when).

These essential elements will enable your Financial Planner to give you sound advice and a clear roadmap to how you could achieve your property goals. If a SMSF is feasible for you, it is important to know

that the process of setting up a new Self Managed Super Fund can potentially be both time consuming and an expensive exercise, so ensuring that it is a viable long-term option is important.

The type of investment properties that are targeted for SMSF clients can vary. Every client's strategy is unique and every proposed property solution is specifically tailored to the returns and capital contribution - as dictated by my client's Financial Planner. As I say to my clients, "my job is very black and white when I am working on a SMSF property purchase. I have numbers to adhere to and there are no grey areas."

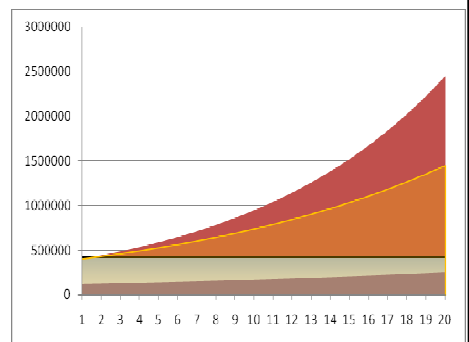
My job starts with understanding the capital contribution that the client is making alongside the funds that are being borrowed. Knowing the designated minimum return that the investment property has to deliver to the fund, I take into account property outgoings, rental management costs, vacancy rates, maintenance costs and overall rental yield to isolate specific localities and properties that meet the criteria.

In many cases, the type of investment property that might make the grade won't necessarily be the type of property you would select yourself. There are five key aspects to getting it right, and without experience and impartiality it is difficult for most people to do on their own.

- Understanding the full cost (capital contribution, loan amount, additional costs associated with the purchase such as set up and legal's, ongoing management fees, maintenance, tax benefits and fund related

costs)

- Finding an area which offers optimum returns based on your purchase amount (return)
- Selecting an area that will outperform the majority of the market (capital growth)
- Factoring in vacancy rates, demographics and infrastructure changes to ensure selection of a stable asset
- Being up to date with what types of properties are not permitted under a SMSF, the adverse effects of a bad purchase decision, and knowing who to talk to when questions arise about specific



properties.

*Chart demonstrating 5% returns on \$120,000 (brown) vs. 70% LVR purchase using \$120,000 and leveraging the principal balance into property returning 7% year on year (orange), and 10% year on year (red). The sand coloured base line represents the interest only debt balance against the property.*

A leverage property investment as demonstrated above has some real wealth creation appeal & the best the property the greater the wealth outcome.

**Cate Bakos** - Property Advisor & Mentor



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