

Investment Property Investment Finance Education

The Advisory—Property Investing



October 2010 Newsletter

Inside this issue:

Rates on the Rise	1
Smoke Detectors	1
Market Measures	1
What is NRAS	2

Finance

Rates on the Rise....?

I can understand why we are referred to as the 'Lucky Country'. Great climate, enough fertile land to produce food to support our population & provide a great quality of life and standard of living, stable government (well sort of) and the most important thing from an investors view point - an economy that has grown over the last 20 years.

Furthermore, we find ourselves incredibly well positioned geographically, as our Asian neighbours move through a period of huge economic upturn, needing our raw materials and primary production to assist in their journey.

What does all this mean for the average Australian? Well, such growth has pushed our country up the list of the 20 developed countries and created enormous wealth for its citizens, especially over this last 20 year period.

The Reserve Bank of Australia and the role they play with monetary policy, needs to be congratulated in ensuring the economy has not overheated during this long term upswing.

They have also become quite media savvy in providing regular commentary on their thoughts on where the economy is positioned and where monetary policy needs to be.

These early warning signals are helpful for allowing for the markets to prepare and manage their way through these events.

We have seen what happens when monetary policies and financial markets get highly volatile—its called a Global Financial Crisis.

So how does higher rates, play out for us property investors? Firstly, higher rates

impact on borrowing power and affordability so we usually see an increase in rental demand.

Given there is already a very high supply shortage of housing, it's a good bet to think rents are also going to increase as landlords pass on some of their increased costs in managing their property returns. High rates also reduce competition for us investors in the market as it takes out some first home buyers and those looking to upsize.

So interesting times ahead and for those on variable interest rates, it might be a time to talk to our team about fixing some of your mortgage, as it a pretty good bet rise will rise moving forward, the question is when?

Ben Kingsley-
Empower Wealth

Property

Smoke Detectors

Under Victorian Regulations smoke detectors must be fitted to any property that is made available to occupy and in charging rent.

The question we often get asked around this time of the year, when we are reminded to change the batteries in battery operated detectors, is who is responsible

for the operation and ongoing working use of the detector. Under the Standard Lease agreement contract with the REIV— clause 35 The tenant must:

- (a) check the detector weekly to confirm its fully operational, and
- (b) replace the battery in each smoke detector on or about 1 January each year, (or earlier if

this becomes necessary) (c) immediately notify the landlord/agent of any faulty smoke detector (and confirm this advise to the landlord / agent in writing the same day)

As a good landlord you should always ensure your are helpful to your tenants, by ensuring your managing agent or you remind your tenants.

Market Measures: Capital City Vacancy Rates

Sydney

of Vacancies: 8268
Vacancy Rate: 2.0%

Melbourne

of Vacancies: 8854
Vacancy Rate: 2.0%

Brisbane

of Vacancies: 5466
Vacancy Rate: 2.0%

ACT

of Vacancies: 287
Vacancy Rate: 1%

Perth

of Vacancies: 2597
Vacancy Rate: 2.0%

Adelaide

of Vacancies: 1393
Vacancy Rate: 1.0%

Source:

SQM Research—Jun 2010

What is NRAS

The National Rental Affordability Scheme (NRAS) is a long term commitment by the Australian Government to invest in affordable rental housing.

The Scheme seeks to address the shortage of affordable rental housing by offering financial incentives to the business sector and community organisations to build and rent dwellings to low and moderate income households at 20 per cent below-market rates for 10 years. NRAS aims to:

- increase the supply of new affordable rental housing;
- reduce rental costs for low and moderate income households; and
- encourage large scale investment and innovative delivery of affordable housing.

The Australian Government has committed \$1 billion to the Scheme over four years to stimulate construction of up to 50,000 high quality homes and apartments, providing affordable private rental properties for Australians and their families.

So what does NRAS mean for Property Investors?

Because NRAS aims to encourage large-scale investment in affordable housing, NRAS Incentives cannot be

applied for by small-scale, individual investors.

Instead, individuals who are interested in purchasing just one or two NRAS properties as an investment can become involved by approaching entities who are applying or already have a larger allocation of NRAS Incentives.

Entities operating as investment vehicles for small-scale investors might be superannuation funds, property trusts or consortiums with many individual investors taking part.

NRAS applicants include institutional investors, individual investors, private developers and not for profit housing providers that build, own and manage NRAS dwellings.

Source :www.fahcsia.gov.au

The idea behind the scheme is a good one, as it is trying to address the housing shortage and provide quality accommodation for low to middle income earning people. The tax offset incentives are designed to encourage larger investment institutions etc, but what has happened is developers and property promoters are also now in the game and are promoting these investments to individuals via Joint Venture or Lease Agreement Arrangements.

The challenge for the investor is three fold:

1 -They need to determine who of these promoters are legitimate and have your best interest in mind in making these recommendations to buy these properties (especially given they profit from selling them to you—so there is a direct conflict of interest in recommending them as an investment)

2—Under the contract of sales what rights of ownership do you actually have?

3—The Tax office is still working on a decision regarding if the tax offset are applicable to the individual purchaser

4- Bank and lenders are not happy with the Contrast in terms of it all going pear shaped and them getting their money back.

Finally, they need to deliver on capital growth and to do that they need to be located in high income areas, so its important to get independent advice if you are thinking this might be for you. Ben Kingsley (QPIA)



Property Investment

Financial Planning

Mortgage Broking

Money & Wealth Planning

www.empowerwealth.com.au

"Wealth is what you and your professional team are prepared to make it"

Ben Kingsley

Upcoming Educational Workshops:

Wednesday 10th November

Want to buy great performing property like the professionals— This workshop is of you

For more information and to book visit:

www.empowerwealth.com.au

eSearch Superior Property Workshop