



# Empower WEALTH Advisory

## THE ADVISORY—PROPERTY INVESTING

### Population Growth = Value Growth? - NOT ALWAYS

At our final Property Wealth Forum event for 2011, Cate Bakos and I busted a dozen myths about what drives property values. One of the biggest myths we busted centred around the view that if you get population growth you will naturally get growth in property prices. Not entirely true - let me explain.

Population is seen as a demand driver of value, in the sense that you usually see the value of a good increase, if there is strong demand. Well that's not completely true.

In basic economics just having a demand driver won't guarantee the value to rise. You also need to have another critical component and that is the ability to purchase or afford to buy that item.

If a good is not affordable within the marketplace, then its value will hit an 'affordability ceiling'. Sure, many people might still want to buy the good, but if it's out of their price

range, the demand driver of wanting the item cannot be satisfied.

Property is no different. Let's assume that we have thousands of people all keen to move to one location - we certainly tick the demand box, but what if all those people can't afford to buy property in that location. In other words, they can't secure a loan to purchase the property based on the incomes they earn?

Property prices would not be able to increase unless new people moving to the area had greater incomes to drive up the values. Otherwise values will only increase inline with the increases of the wages of the population within that market.

Population does play a role in values from a supply sense - if the population is growing then supply needs to continue to meet the increasing population, otherwise a supply shortage will put pressure on stocks. So population or more

importantly people to fill the properties being built need to keep arriving.

Smart investors place their money in locations and properties where income growth is tipped to grow quickly, where if people had a choice and they could afford it, they would want to live in this location, where supply of quality property is scarce, where job prospects to earn stronger incomes is greatest, just to name a few.....

So don't be sold on a population story alone, the real art to selecting high performing property lies deeper than a general macro driver like population. Population alone is a con sell job and you may live to regret it, when your investment turns out to be a dud over the long term.

**Ben Kingsley (QPIA)**  
Empower Wealth Founder

### Maintenance Reminder For Landlords

The sun's coming up sooner, the daylight hours are becoming longer - Spring is in the air.

It's that time of the year that we remind landlords that the gutters are not going to get any fuller, so it might be time to organise a cleanout so the odd spring and summer downpour doesn't do any additional internal damage through flooding your property.

It's also time to get the air-conditioner filters cleaned and a once over done on the unit to ensure smooth operations before the weather warms up and it's impossible to book in a tradesman as we enter summer

These types of events are a huge inconvenience for your tenants and can be time consuming for you, if you have to lodge an in-

surance claim. And then there's the potential delay in getting the repairs sorted.

So the message is 'Prevention is the best Cure' in these cases. In any case, regular maintenance is far better than the consequences that occur, in the event that something happens with your property.

#### September 2011

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#### Market Measures: 12 month Top Suburb Price Growth 12mth until 31 May

##### NSW

H - Mulgoa = 84%  
U - Stockton = 108.7%

##### Victoria

H - Shoreham = 71.3%  
U - Bacchus Marsh = 36.1%

##### Queensland

H - Mulambin = 174.1%  
U - Craiglie = 77.3%

##### ACT

H - Braddon = 28.7%  
U - Lyons = 67.9%

##### Western Australia

H - Northbridge = 40.2%  
U - Bunbury = 52.9%

##### South Australia

H - Cowell = 40.0%  
U - Walkerville = 40.5%

##### Tasmania

H - Stanley = 32.7%  
U - Battery Point = 23.0%

##### Northern Territory

H - Humpty Doo 79.1%  
U - Gray = 25.8%

Source: APM  
H = Houses

# Reducing the 'Fear Factor' in property investing

Without a doubt, one of the biggest reasons people hold back from investing in property is fear of risk. This fear shows up in many different ways, from well thought out objections to procrastination itself.

There are books on the shelves, magazines on the racks, shows about investing and presenters advertising the merits of investing. There are prospective investors out there who buy the books, read the articles, attend the seminars and *dream* about property investing yet find themselves in the same situation year after year. So *why* does the fear paralyse prospective investors into total inaction? Most likely because they don't face all of the fundamental fearful aspects head on. Let's discuss some of these fears and how we can mitigate the risks involved in each.

The first objection is the obvious one—fear of making a bad location decision and losing everything. A well located property can make the difference between fabulous double digit capital growth and mediocre growth. Now before I continue, let's put it into perspective. If we consider Melbourne property over the past 35 years, median house price growth has been at 8%pa. Even if we focus on a fringe outer suburb, the median house price growth has been better than 6%pa over the long term. So as long as the property purchased is in a major capital city, even for those whose purchase selections could be considered bad selections, the upside for a long term hold is still better than investing in cash. The bonus is that with leveraging, the gains are magnified, albeit a 'bad' property selection. The risks of 'losing everything' when it comes to selecting a bad location in a capital city still exist—however a long term hold strategy can reduce or eliminate losses if the decision on location was not a great one.

When it comes to regional property—many investors focus on an area for speculative reasons. Perhaps the area is about to undergo a transformation; or perhaps there is talk of a mine contract in the area. Whatever the reason, I always say to investors that a regional area has to have other fundamental reasons to support growth. If the area is reliant on one industry or one contract, the result can be disastrous for the investor if and when the industry or contract finishes up. Some guidelines I work within are population size and growth, local employment diversity, rental reliance of the township, infrastructure/amenities and level of ongoing government funding. If this type of research is not something an investor is prepared to do, I suggest that regional investing is maybe not a good idea for them.

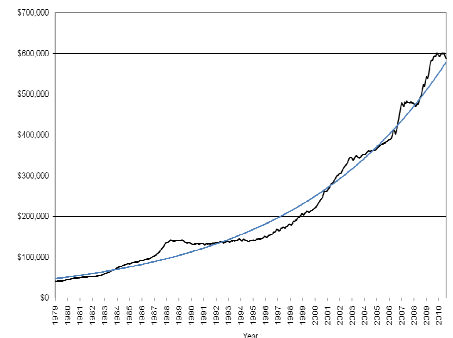
The second objection is often affordability. The answer is simple—a thorough cashflow analysis of the investor's household income and expenditure can demystify the affordability question. A good cashflow analysis will take into account current spending, future plans and spending, changes to incomes, tax benefits from negative gearing and depreciation and total costs of property ownership. If your lender or broker is unable to provide this help, find one who can. A well thought out purchase enables the investor to hold for the long term, in the face of expenses and changes to incomes over the years. One imperative detail that can't be overlooked is *vacancy rate*. Investors need to understand what the vacancy rates are in the areas which they are looking to invest in. Without this information on hand, the cashflow analysis is not reliable and the investor could find themselves in a situation where the costs of ownership are higher than they anticipated based on having periods without rental income.

The third objection I often deal with is in relation to a 'bad' tenant. Bad tenant situations do some-

times occur but in most cases they are preventable. A good property manager who follows due processes from the prospective tenant interview stage right through to property inspections and rent collection will be able to provide their landlord a level of confidence in the state of the property and the character of the tenant. The Residential Tenancies Database enables property managers to flag 'bad' tenants, and likewise, all diligent property managers will carry out a reference check with past property managers on shortlisted applicants. In the rare and unfortunate cases where a tenant has done the wrong thing, a landlord insurance policy can make a valuable difference.

The last objection I will discuss is reserved for those procrastinators out there who believe that the right time to buy is when property prices collapse. The graph below speaks for itself—Don't wait until values outstrip your budget.

Melbourne Median Property Price Growth Trend Line



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