



ScopeCo Financial Solutions & Management Newsletter

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ACCUMULATE

PROTECT

MANAGE

PROPERTY INVESTMENT OPPORTUNITY

We have received many enquiries of late in relation to sourcing quality investment opportunities.

Many options are presented to us however there are only a select few that we would recommend that our clients invest in.

A quality opportunity has arisen in the inner suburb of Footscray which is only 6 kms from the CBD, the development comprises One & Two bedroom apartments which are at a very affordable price point with strong rental yield, stamp duty savings and capital growth upside.

Our clients have a unique opportunity to secure the

National property hotspots



For many Australians, purchasing a property is one of the most important decisions they will make in their lives.

A recent report highlights some factors to consider, and identifies some hotspots.

With the recent volatility in the share markets, many people are again showing interest in property as an investment class.

Here are some interesting statistics:

- **Price changes.** The share market dropped by 54% from its peak in late 2007 to its trough in March 2009 while dwelling values recorded a decline of 3.9% from their February 2008 peak to the bottom of the market in December 2008.
- **Housing recovery.** Since December 2008, Australian median dwelling values have rebounded and, as at the end of June, they sit at their highest ever level of \$471,800. During the last 12 months all mainland Australian capital city markets have recorded increases in their median dwelling values.
- **Share price recovery.** The share market has also recovered from its trough but remains more than 30% off its peak.
- **Owner occupied loans.** Housing finance commitments to owner occupiers has been recovering strongly. The number of loans extended for owner occupied housing has risen in nine of the last ten months and stands 25% higher than a year ago.
- **Investor loans.** Investor finance commitments remain at much lower levels and account for around a quarter of all housing finance commitments. The two most recent months have seen finance commitments for investment housing retreat.
- **Population growth.** In raw number terms, population growth has never been greater with Australia's population growing by more than 406,000 persons for the year to December 2008. An increasing population fuels demand for housing.

Key features

Important factors to consider when deciding where to buy a home include:

1. **Price of the property.** Buyers should look to purchase in areas within their budget and those that provide a quality/value proposition.
2. **Understand an area** and take into consideration important items such as road infrastructure, public transport options, shopping facilities, health care and schooling. All of these aspects will impact on the level of capital growth the suburb experiences.
3. **Demographic mix** of a prospective area. Is the population of the area increasing or decreasing, what income levels most households fall within, are there many children in the area, etc.

investments prior to release, if you would like more information please do not hesitate to contact our office on 03 9596 0600 or 0414 357 142

Regards,

Martyn

4. **Housing characteristics** of the area. Is the housing stock mainly units or detached houses or a mix of both? Further, what is the amount of housing supply both now and in the future?

24 property hotspots

The National Hotspots Report, compiled by RP Data and released in September 2009, has identified 24 "better value" suburbs around Australia that are likely to provide a strong value proposition. The suburbs identified should suit both buyers looking to live in the home and investors seeking capital growth over the medium to long term.

The hotspots chosen on a region by region basis are:

- **Sydney:** Granville, Rockdale, Lidcombe, Riverwood, Waterloo
- **Melbourne:** Brunswick, Ashburton, Chadstone, Flemington, Fawkner
- **Brisbane:** Margate, Keperra, Cannon Hill, Fairfield, Kedron
- **Adelaide:** Thebarton, Glanville
- **Perth:** Bassendean, Thornlie
- **Hobart:** North Hobart
- **Darwin:** Rapid Creek
- **Canberra:** Dickson
- **Regional Australia:** Gulliver (Qld), Redan (Vic)

According to the Report, the strong common thread amongst the majority of picks was strong relative pricing; renovation potential; and close proximity to retail and transport amenity.

These features, along with all of those previously detailed, are extremely important to consider prior to any purchase decision, especially when the owner is seeking future capital appreciation.

The Report confirms that many opportunities still exist to buy well located, affordable properties in capital cities and regional areas. The hotspots identified above are some of the better opportunities, but not the only ones.

Fight the rate rise(s)



The RBA has just increased the cash rate by 0.25% to 3.25%.

This is the first increase since March 2008, and is likely to be the start of an upward trend in the coming months.

With the improved economic outlook and the threat of a major recession now seemingly behind us, the RBA has started a cycle of increasing rates. Economists are forecasting that the official cash rate could rise to as high as 4% to 5% over the next 12-18 months.

With the current rise, the average standard variable rate of the big banks is sitting around 6% - although many borrowers can access rates in the "low to middle fives" through discounts, professional packages, no frill loans or non-bank lenders.

Right time to fix?

Whenever variable interest rates increase, however, borrowers understandably review their options. Therefore there is a trend towards fixed rate home loans.

According to the Fairfax publication Money, currently only about 8% of home loan borrowers are taking out fixed rates.

This is due to the sizeable gap between variable and fixed rates. For example the average three year fixed rate is about 2% higher than the variable rate, although the shorter fixed term rates are not so high.

This means that variable interest rates would need to rise steeply in order for a borrower to be better off fixing.

Of course, the main benefit of a fixed rate home loan is the peace of mind that the certainty brings – the amount of the regular repayment will not vary for the period that the loan is fixed.

This can be important for first home buyers; couples starting a family; people concerned about potential changes to their job or income level; and property investors may also be seeking certainty on the costs of their investment.

So, whilst the current sizeable gap between variable and fixed rates may discourage people from fixing today, this gap is worth watching as it can reduce in a matter of a few weeks.

Here are some other ways to fight the rate increases:

1. Talk or walk

It is worth remembering that the lenders are keen for your business if you're a good bet. Although the financial crisis saw lenders being more careful, they are in business to lend money and will put up a good fight to gain or retain good customers.

For example, some lenders offer professional packages with up to 0.7% off their standard rate – but don't always advertise the fact. Good knowledge of the market can help here, as can simply asking your current lender.

But some lenders won't respond in which case, it's time to shop around. The easiest way to negotiate is through a mortgage broker. We can sometimes be privy to special deals they don't even know about in the branches, or aren't allowed to offer you.

2. Consolidate – or not?

Lenders are keen for you to consolidate your debts with them and, in many circumstances; this can pay off by reducing the interest rates on certain borrowings (e.g. personal loans) by transferring the debt into a lower interest product such as your home loan.

3. Pay more often

Many loans will let you pay fortnightly or even weekly. Putting money in a bit earlier than a straight monthly payment will help reduce interest owed, which is normally calculated on a daily basis. However, the main gain comes if you do some "fuzzy maths".

For example, if you divide your monthly payment by two and pay fortnightly then over a year you'll end up paying 26 fortnights, or the equivalent of 13 months of repayments. Repaying this extra month each year will cut years off your loan.

4. Redraw and offset

There's a lot to be said for a redraw facility and its close relation, an offset account.

They do help to cut the cost of your mortgage of course, especially if you have your salary paid directly into them and then withdraw gradually over the following days and weeks as you need to. But despite the fact that you're making an extra repayment for a short period, the savings only run into the hundreds – not thousands.

Another benefit, however, is the tax break. By saving your money in your home loan or an offset account, then you are avoiding paying tax on the interest. This is a nice bonus from the Tax Office, so take advantage of it for any savings you're making – holidays, car purchase, education, renovation, etc.

Conclusion

Now could be a good time to consider your options for financing or refinancing your home loan. If you'd like to discuss these options, please get in touch.

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