

mortgage

watch

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Welcome to our final issue of the Mortgage Watch Newsletter for 2006.

This month we introduce a new column called "The Insider" with the first of many insights into the workings of the mortgage industry. A little bit of inside knowledge could help you get the best deal.

Our first major article tries to pinpoint where we are in the property cycle. We look at the major economic influences and see whether they match industry predictions for the coming year.

The second article shows you how to use our exclusive Homekit software to calculate the effect an investment property will have on your wallet and taxes.

Wishing you a festive new year and all the best for 2007.

Eugene Buchner



2007: Property Predictions

Looking to buy or sell property in 2007? With the New Year break around the corner many of us will spend some time planning for the year ahead. This article looks at the current economic indicators and what some of the experts are saying about interest rates, property prices and opportunities for growth.

Understanding Indicators

Australians now have an international reputation for being obsessed with the economy. Every news report comes with an update on the latest economic results and share market moves.

But with high levels of share market involvement, home ownership and property investments it is with good reason that we are keen to understand what influences the value of our assets.

The economy tends to move through cycles of growth and slow down. Interestingly not all assets experience growth at the same time. For example: shares and residential

property tend to experience growth at different stages in the economic cycle.

Let's take a look at the latest eco-



economic indicators, focusing on implications for property prices.

Good News or Bad News?

According to the Sydney Morning Herald on December 5th; "a slew of economic data release on the eve of the [RBA] meeting shows company profit growth has slowed, firms have cut inventories, new home approvals have plummeted and job ads have slowed."

ABN Amro economist Kieran Davies was quoted as saying "It is hard to see anything that is positive in the numbers".

However if you currently have a mortgage or are looking to purchase property you may view the figures in a

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ALSO IN THIS ISSUE:

Investment Property Cashflow Analysis

Information included in our newsletters is for general information purposes only and must not be considered financial advice. You should seek independent professional advice in relation to financial, taxation and legal matters relevant to your individual circumstances.

Loan Spot
...The Best Spot
for the Right Loan



2007: Property Predictions (cont)

different light.

Have Rates Peaked?

The Reserve Bank of Australia manages the country's inflation by changing the underlying cash interest rate.

In 2006 the RBA has increased the cash rate three times as they were concerned that prices were growing too fast and demand was too strong.

As usual there is some disagreement as to the likelihood of interest rates being increased a fourth time, however with these recent figures suggesting that growth has stalled, the RBA must be thinking that the interest rate hikes have had the desired effect.

Macquarie Bank economists have suggested that based on the recent figures there is little justification for a further rate rise and that the interest rates have now hit their peak.

That's good news for borrowers.

Even the OECD (Organisation for economic Co-operation and Development) waded into the interest rate debate recently with its latest economic outlook for Australia.

They suggested that "interest rates are close to a level that should ensure inflation returns to the target over the coming year. Modest interest rate cuts from late 2007 should not jeopardise inflation stabilizing around the mid-point of the target."

So if the rates have peaked then will they fall away rapidly next year? Most commentators are not expecting downward changes to the interest rates until late 2007 or possibly early 2008.

Not all of the states of Australia are at the same stage in the property or economic cycle. This is because the local economies are influenced by significantly different factors.

Let's examine the largest states one at a time.

Western Australia

Western Australia is towards the end of a mining boom that has resulted in amazing growth in property values over the last 2-3 years. People who bought only a couple of years ago are sitting on capital gains of 50% or more.

But Western Australia may soon join the rest of Australia in the economic tightening phase as there is evidence of a slow down in commodity prices and housing is now too expensive for many buyers.

The fact that investors are starting to sell their properties to crystallise their capital gains indicates that they share the view that there is little room for further short term growth.

Northern Territory has also been riding the resource boom with growth at odds to the rest of the country.

Property prices across the rest of Australia have generally been in decline for several years although in all states there are still pockets experiencing growth.

This slowdown started sometime in 2002, depending on the State. Given that the property and economic cycles are usually around



7 years in length this makes it a fairly long downturn though certainly not a severe one in terms of price reductions.

New South Wales

NSW remains the most expensive place to buy property, though Perth prices are fast approaching the Sydney average prices.

In NSW first home buyers have stayed active in the market due to the First Home Buyer incentives, however investors have been scarce for a few years. According to an economist at the Commonwealth Bank, investors have instead been active in the share market due to its relatively high returns.

Property however will become more attractive again as soon as investors are confident that interest rates have hit their peak and rental returns have improved.

Vacancy rates at 1.5% are now well below the long-term average and as there are few new dwellings due to a drop-off in construction, supply is likely to remain restricted.

Consequently rents in Sydney are expected to increase by up to 10% in 2007 which will go a long way to making property investment attractive again. Rental demand is expected to be strongest in Sydney's inner city and beach-side suburbs.

Victoria

Victoria has experienced a similar stagnation in property prices. The Age reported on 8th December that houses dropped in value over the July to September quarter, wiping off gains made in the previous 12 months. This was attributed to the rate increases making purchasers more wary of over-borrowing.

Seaside towns however experienced growth with Lorne, Torquay and Inverloch showing double digit growth for units and houses.

Real Estate Institute of Victoria chief executive Enzo Raimondo suggested that traditional blue-chip, prestige and inner bayside suburbs were also strong.

With good news for investors, valuation firm Herron Todd White recently reported their view that Melbourne was at the start of a recovery cycle.

Queensland

Queensland has been insulated from the recent falls in property prices by internal migration and strong investment.

Australian Residential Property Planners suggest that areas of South East Queensland, from the Gold Coast to Brisbane, represent good buying opportunities due to continued strong population growth and economic migration.

Urban renewal projects in Brisbane inner city are also making that area attractive to home buyers. ARPP suggest that more than a quarter of the country's population growth over the next 25 years will be in the region from Noosa to Coolangatta which can only lead to positive conditions for property investment.

Timing Isn't Everything But...

Investing in property is all about investing for the long-term. Buying a property with the view to making gains within a year or two is best left to the professionals, however gains can certainly be maximised by choosing the best time to enter the market.

The best time would have to be when property prices are about to rise and demand for rental accommodation is strong. In many states of Australia, the experts are suggesting that this time is fast approaching.



Rates & News

In this column we highlight some of the recent changes in loan products and the latest fixed rates from our panel of lenders.



Low Doc LMI

Lenders Mortgage Insurance (LMI) is an issue for most low-doc borrowers as it can be charged at lower loan-to-value ratios (LVR).

Whereas with full documentation loans the LMI is generally only payable above 80% LVR, most Low-Doc loans are mortgage insured regardless of the LVR.

Some lenders are passing this cost to the borrower regardless of the LVR, however others only start charging the insurance premium above 60%.

Balancing low interest rates against insurance costs is key to getting the best deal with this type of loan.

Current* fixed rates as offered by our lender panel

- 1 Year Fixed 6.69% pa
- 2 Year Fixed 7.09% pa
- 3 Year Fixed 7.09% pa
- 4 Year Fixed 7.19% pa
- 5 Year Fixed 6.99% pa
- 7 Year Fixed 7.39% pa
- 9 Year Fixed 7.39% pa
- 10 Year Fixed 7.39% pa
- 15 Year Fixed 7.44% pa

*Indicative rates at newsletter issue date. Any listed specials may or may not apply to your circumstances. Please contact me for more information about any of the offers mentioned in the Newsletter.

All rates are quoted as indicative variable unless stated otherwise.

Please call me for the relevant comparison rate schedules.

Homekit Tools

Investment Property Cashflow Analysis

Homekit is the exclusive software we provide free to our customers to help them with budgeting, managing their home loan and property investment analysis. In this issue we put the spotlight on the "Analyse A Rental" tool. This calculator is great way of determining the effect an investment property will have on your cashflow as well as on your tax – two very different factors to consider when assessing an investment property.

Login to Homekit to get started

You will find the Analyse A Rental tool in the Find Out: tab at the top right hand side of Homekit. This is one of the great tools that Homekit provides to help you manage your homeloans, budget and property investments.

(If you're not sure how to access Homekit please see the "About Homekit" box below.)

Firstly you will need to enter the purchase price of the property and the state. Homekit will calculate

your circumstances it is a good place to start.

Depreciation Addbacks

One of the benefits of owning an investment property is the possibility of claiming depreciation on the building costs as well as the fixtures and fittings. This depreciation is treated like an expense when calculating your annual tax bill even though you are not paying money out of your pocket.

To determine the exact amount of depreciation claimable for a particular investment property you



the costs of the purchase based on these two entries. It will assume that you are borrowing this amount and calculate the interest payable on the loan using a budget-style interest rate. You may prefer to borrow less than this and use some savings to fund the purchase.

The repayments are assumed to be interest only rather than principal and interest as this is the most popular option chosen by investors. Whilst this may not be an appropriate rate or repayment option for

will need to employ a Quantity Surveyor. They will assess your property and provide you with a schedule of allowable depreciation amounts to be used when completing your annual tax return.

Over the years the ATO has had different rules relating to allowable depreciation so Homekit asks you to select which period the purchase was made in.

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About Homekit

Homekit is internet-based software, provided free to all of our clients. It is filled with tools for home-loan borrowers and investors alike.

To start Homekit open an internet browser session and go to www.homekit.com.au.

If you can't remember your user id or password please give me a call or just click on the [forgotten your password link](#).

Homekit uses encryption technology to protect the data as it is transmits over the internet so you may see a message regarding a 'certificate'. We recommend that you follow the instructions and install the certificate, then the message will not appear again.



It will then assume that Depreciation on Building Works is calculated at 2.5% or 4% depending on the period chosen.

Depreciation on Fittings is assumed to be 5% per annum however you will notice when you read the report from your Quantity Surveyor that different items have different rates of depreciation.

addition of an investment property. Homekit will add your rental estimate to your income before taking into account the estimated depreciation, expenses and interest deductions.

This will change your assessable income and in most cases give you a tax benefit.

Because Analyse A Rental assumes that you are borrowing 100% of the purchase price plus costs, you will probably be eligible to claim deductions in excess of the rental income. This is called negative gearing and

Check the Cash Flow and Tax Effects from an Investment Property			
Property: <input type="text" value="Unit at Pyrmont"/>	State: <input type="text" value="NSW"/>	Rental (per week): <input type="text" value="\$440"/> per week	
Purchase Price: <input type="text" value="\$450000"/>	Value of Fittings: <input type="text" value="\$20000"/> <small>To help determine depreciation claimable</small>	Construction Cost: <input type="text" value="\$200000"/> <small>To help determine depreciation on Building claimable - put in 0 if not depreciable</small>	
Outgoings: <input type="text" value="\$4000"/> per annum <small>Eg: Strata, Rates, Water Board, Repairs. NOT rental agent management fees</small>	Management Fee: <input type="text" value="5"/> % <small>Generally between 5 and 7% DO NOT ENTER the % symbol - simply enter 5 for 5%</small>	Construction Date: <input type="text" value="On/After 16 Sep 1987"/> <small>Date determines if it is eligible for depreciation deduction</small>	
Annual Taxable Income <input type="text" value="\$55000"/>	<input type="button" value="Go >>"/>		
Cashflow on Unit at Pyrmont, NSW			
Rental	+ Tax Refund -	Running Costs =	Cash OUT of Pocket
\$22,880	\$6,970	\$39,008	\$-9,157 p.a.
Purchase Costs			
Total Costs	Purchase Price	Purchase Costs	Funds Required
	\$450,000	\$17,731	\$467,731
Loan Details			
Loan: \$467,731	Rate: 7.240 %pa indicative variable(interest-only)		
Monthly Repayment: \$2,822			
Income			
Rental per week: \$440		Rental per annum: \$22,880	
Running Costs			
Interest	Outgoings	Management Fee	Running Costs
\$33,864	\$4,000	\$1,144	\$39,008
Depreciation			
	Building	Fittings	Total
	\$5,000	\$1,000	\$6,000
New Taxable Income			
Current Taxable +	Rental -	Depreciation + Running Costs =	New Taxable
\$55,000	\$22,880	\$45,008	\$32,872
Tax Effect			
Taxable		Current Tax	New Tax
		\$55,000	\$32,872
Tax + Medicare		\$12,675	\$5,704
Tax Refund			\$6,970

Other expenses such as management fees, strata, council, water rates also need to be estimated in order for Homekit to calculate the effect on your wallet. You can get these figures from the real estate agent selling the property although you will need to estimate the cost of general maintenance yourself.

CashFlow and Tax

The final piece in the puzzle is to enter your assessable income as it will be before the

is very attractive to investors as it results in a tax reduction or refund.

If you are thinking of buying an investment property, use Homekit to analyse each of them first. It will help identify the one that is going to have the best cashflow and tax effect for you.

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The Insider
Tips from inside the Mortgage Market

Mortgage Insurance Lowdown

Did you know that when a lender seeks mortgage insurance they are probably speaking to one of only two mortgage insurers operating in the Australian market? Whilst a couple of the big banks have their own in-house mortgage insurance, the vast majority of loans are insured by either PMI or Gemworth Financial.

So the rates of mortgage insurance should be pretty consistent across all the lenders?

Not so.

Quite often there are significant differences from one lender to another as they manage to negotiate different rates with the insurer.

Because the two insurers have slightly different rules about which properties they will insure and how they assess borrower income, some lenders strike a deal with both of the insurers.

What does this mean to you the borrower?

Firstly, you can save thousands of dollars on mortgage insurance by selecting the lender with the best deal.

Secondly, be aware of the fact that if the mortgage insurer rejects your application for finance there is a good chance that all the other lenders who use the same mortgage insurer will also reject your application.

The best way to prevent this from happening is in dealing with an experienced mortgage broker who can make sure that your application for finance is well-presented to the mortgage insurer in the first instance.

