

# THE MORTGAGE BULLETIN



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### NEWS FROM JOHN CITIZEN

With the silly season in full swing it is timely to take a well-earned break and spend some quality time with family.

The New Year is also a good time to review household budgets and future investments or an opportunity to search for that elusive property in your favourite holiday spot!

On behalf of our entire team we wish you a Merry Christmas and we look forward to hearing from you for all your future investment and home lending needs.

### GREENING UP

Westpac is the first of the big four banks to introduce interest-free 'green loans' for homeowners to make their home more sustainable.

Loans of up to \$10,000 (Federal Government's Green Loans Program) are available as an incentive to implement energy efficient measures. Previously building societies and credit unions were the only lenders to embrace green loans.

Westpac's Green Loan includes no monthly service fees, establishment fee or prepayment fees to be repaid over a maximum of four years.

You also receive a free home assessment to evaluate energy consumption and recommendations to be more energy efficient.

For more information about how you may qualify contact us today.



## INTEREST RATE RISING



IT IS NOW official. The interest rate bubble has finally burst.

In the space of a few short months Australian homeowners have witnessed a jump of 75 percentage points with the official cash rate currently at 3.75 per cent with further increases expected in 2010.

The major banks have already made this impact felt with many passing on rises above what Reserve Bank of Australia (RBA) has set.

### Confidence returned

As the Australian economy rebounds and confidence returns, you don't need to be a finance expert to realise it was only a matter of time before interest rates started to climb and most predict the RBA will act further with the average home loan expected to reach around 6.5 per cent in 2010.

However the flow on effects for Australia's real estate market is not expected to be too dramatic.

Fortunately, the expected rise is not a surprise with many lenders bracing themselves and budgeting accordingly. Furthermore, more stringent lending practices by most banks over the course of

the last year in response to market conditions should also ensure most new lenders can meet higher repayments.

### Market performance

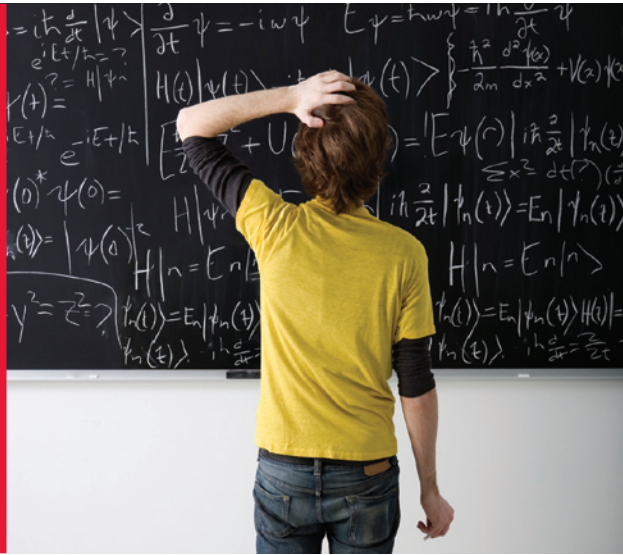
Although first home buyers responded with a last minute dash to the bonus Federal Government Grant (14.5% increase from August to September 2009) this sector is expected to drop dramatically. However demand is cushioned by the return of investors to the market, demonstrated by housing commitments for investors up 7.6 per cent in August 2009.

In fact, latest figures released by the ABS show that the market is continuing to perform well with loans for the purchase of new dwellings up 57.5 per cent up on the same time last year and the number of loans for the purchase of established dwellings also rising to be up 20.4 per cent on the same time last year.

Although the response to the latest rise will not be visible in real market conditions for some time there are expectations that the sector can tolerate further rises. However, if rates continue to escalate above 8% then we are likely to see a direct affect on demand.

Regardless of the statistics interest rates will continue to be a 'watch this space' item.

# Gearing up for growth



TO THE QUIET observer the language used by real estate professionals can leave your head spinning.

Whilst the average punter has some general understanding about capital gains, rental yields and interest rate calculations, the jargon and the complex nature of the property market can be a minefield for the novice.

In this issue we look at gearing and cashflow and what option may suit best for your investment.

## 'Gearing'

This term is used when describing when money is borrowed for an investment property i.e. a property that will deliver a return for your money.

Dependent on whether the income derived from this property falls above or below the general interest repayment level determines whether it is positive or negatively geared:

- **Negative gearing** – more money being paid in interest than rent received
- **Positive gearing** – more money being paid in rent than interest repayments
- **Neutral** – same amount being paid in rent and interest.

Gearing refers specifically to only rent and interest expenses.

## 'Cashflow'

Cashflow on the other hand is a more accurate indicator of actual investment costs as it includes interest versus rent plus all the associated costs involved in property ownership such as rates, insurance and maintenance. On the flipside you can factor in tax benefits such as depreciation and capital allowances.

Whether you opt for a negative, neutral or positive geared or cashflow property depends

entirely on your investment purpose.

If you intend to manage a portfolio of properties a positive cashflow property is essential so your investment takes care of itself.

Neutral cashflow properties are popular and more readily available in the current market with low interest rate levels and increasing rental yields. These properties in time will move into positive cashflow as rents increase at a greater rate than home expenses.

If you intend to eventually live in the property then negative cashflow may be the right option as you contribute the balance between expenses and income received.

## Do your sums

Do your sums – in calculating your cashflow you need to aim for a total return of approximately 7 per cent on the property purchased if aiming for a neutral cashflow position.

This is why the current market is currently so attractive to investors with a large number of neutral and positive cashflow properties in the market that are self sufficient.

For more advice on investment options contact our team today.

# HOME OWNERSHIP

In previous issues we have talked about the advantages of buying your own home versus renting.

The latest comparisons come from Property Professor Peter Koulizos who has calculated the savings of buying your own home in comparison to renting.

The findings are staggering with Professor Koulizos estimating that the average homeowner saves up to \$13 million over the course of a lifetime.

An example of a \$300,000 unit is used to highlight the increase to personal net wealth from buying.

Across a lifespan of 50 years it is estimated \$5,655,000 is paid in rent and your net worth is still \$0. However if you buy the unit your mortgage repayments total \$649,000 (30 years) and \$1,131,000 in home ownership expenses meaning you come out \$3,875,000 in front (see Table 1).

With rentals and capital growth increasing over time (both calculated at increases of 7% per annum) the gap continues to widen.

The final outcome is \$13,475,000 difference. The home owner has \$9,600,000 million in equity plus is \$3,875,000 better off because they made the decision to buy rather than rent.

So whilst initially renting may look like a cheaper option there are significant savings and differences to your net wealth over a lifetime.

YEAR	2010	2020	2030	2040	2050	2060	TOTAL
<b>Renting</b>							
Cost to you	\$15K *	\$30K*	\$60K*	\$120K*	\$240K*	\$480K*	\$5.6M
Net Worth	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Buying</b>							
Cost to you	\$24.6K*	\$27K*	\$31.8K*	\$41.6K*	\$38.5K*	\$75.8K*	\$1.7M
House Value	\$300K	\$600K	\$1.2M	\$2.4M	\$4.8M	\$9.6M	
Mortgage	\$300K	\$241.6K	\$158.6K	\$0	\$0	\$0	
Net Worth	\$0	\$359.4K	\$1.04M	\$2.4M	\$4.8M	\$9.6M	\$9.6M

\* per annum