

# The Wise Times

Volume 3, Edition 52

June/July 2009

## EDITORIAL

I was taught one great adage by the manager of a Stock and Station Agency that I worked for very early in my working life, and that is, "**Never invest in anything that you have to grow or feed.**" Having spent some thirty years involved in the fruit and produce industry in New Zealand, I can only reiterate this to Wise investors. I have seen first hand the heart break that occurs when the best stone fruit crop that anyone has ever seen, gets wiped out by a hail storm the night before picking starts, when disease or other forms of pestilence overtake a farming community, and bring it to its knees. We have only to think of mad cow disease which recently ravaged the UK, or the citrus cancer that affected North Queensland citrus crops that caused many orchards to be destroyed. The recent multi million demises of managed (mismanaged?) agriculture investment schemes (MIS's) such as Timbercorp and Great Southern only add credence to the adage. The great tax incentives that were offered to join these agricultural schemes made them seem very attractive, but an investment is only worthwhile if the product or scheme can make money on it's own without having to rely on tax benefits. The current down turn in the world's share markets has also hurt a lot of investors, particularly those who borrowed heavily to invest in shares, where again the tax benefits of borrowing to invest are enormously attractive. With any MIS or share market purchase, the subsequent performance of the investment, be it good or bad, is beyond the investor's control. You pay your money and hope that all will be well.

Amidst all this gloom, the Australian Property Market has stood like a shining beacon. There has been much negative press written about the property market, a lot of it from people who should know better, and a lot of it from people who are misinformed and ignorant and just love grabbing the headlines for their own self gratification. So much has been made

of the **median** price of property in certain areas having fallen dramatically, leading to the erroneous conclusions that property prices have fallen. Great headlines, but not true. There is a big difference in median prices across the board, and actual property values. The median price has been skewed by the type of property that is predominantly selling in the current market. First Home buyers are making



up a huge portion of the current sales, and they are not buying million dollar properties! The investor market, and the 2nd and 3rd homebuyers are also very light on the ground. A quick look at the Brisbane market shows that in 2008 75% of all sales were under \$500,000. Indeed in the whole of Australia 68% of all sales were less than \$500,000. Now let's look at actual **sale prices**. In Brisbane if you had bought and sold a house during 2008 for under \$350k you would have made a gain of 11.9%. 6.8% gain for properties in the \$350k-\$500k range, and 2.9% gain in the \$500k-\$750k range. It is only when we look at houses in the \$1million mark and above, that we see some losses occurring. The majority of property investors buy in the \$350k-\$500k range, and these properties are **still showing healthy gains!** So before you start reading, and worse believing, all the current media hype, please look behind the headlines, and find out what is **really happening**.

Property is an investment that **you** have control of. Property does not require feeding or growing, it does attract tax incentives, but these are not the main reason to invest in property, they are there to help pay the mortgage in the early years. It is **the capital growth, rent return, and the investor's control of the investment that makes property so attractive**.

Lionel Morris LREA, DipFP.

## The Matusik Snapshot "DASHBOARD"

### *The easiest commentary is not always the right one.*

Let's consider two examples: first-home buyer activity and house prices. Amidst all the excitement about the surge in first-home buyer activity, there is little attention being paid to the lack of activity amongst other participants. A 4.25% fall in the cash rate has done little to spur activity amongst existing borrowers. Since late 2008, the number of loans to existing owner-occupiers has risen a paltry 1.2%, compared to the 65% surge in first-home buyer loans. One is tempted to ask that, alongside the significant reduction in borrowing costs, strong population growth, under building, low vacancy rates and rising rents, what else is required to tempt investors back into the housing market? Investor loans have fallen 11% since August last year. In previous interest rate cut cycles, lending to investors and existing home buyers increased alongside first home buyers. Our recent website poll of just over 500 residential investors found that unemployment concerns and fears about how the economy will evolve over the course of 2009 are key reasons why investors are not yet entering the market. One in five are still waiting for prices to fall. Half of those surveyed believe that calendar 2010 will be a better time to invest. The current chatter about rising rents attracting more investors in the future does not appear to be a major factor in an investor's decision to purchase. When it comes to where an investor might choose to purchase, our survey found that around one third believe that residential property across Brisbane is likely to show the most price growth over the next 12 months. Interestingly, this is followed by Sydney, with 22% of our respondents thinking that Sydney is set for an upswing in coming months. Traditionally, Sydney is the first urban area to recover, with price growth taking place there before moving northwards (to South East Queensland), and soon thereafter taking place in Melbourne. However, only 10% of investors think that Melbourne presents the best prospects for residential price growth during 2009/10. It is somewhat surprising that the Gold Coast is ranked higher in terms of price growth potential than most other large urban areas across Australia. Close to 15% of our respondents think that the residential values across the Gold Coast will rise the most over the next 12 months. Unfortunately, too many investors wait for the comfort of the masses before they buy. The relevant fundamentals are stronger now than they were in 2003 – the last time we saw a surge in investment activity. Could history repeat? Now, when it comes to house prices you have the right to be confused, what with three different measures of price growth released within a few days of each other and each claiming a different result. The truth is that they are all wrong...well, misleading anyway. The media reporting was also all over the shop, what with headlines like, "House prices tank" and "Fastest fall in 25 years," on one hand to, "Housing holds up" and "Prices beat the odds," on the other. In short, the three data sets in question measure what type of property is selling rather than actual price growth or otherwise. Too few in the industry (and especially the media) question the actual results. In short, sales volumes are down and it's the cheaper properties that are selling. The bell curve has moved "south", resulting in lower median house prices but still actual price growth -especially at the bottom end of the market. The middle market (\$500,000 to about \$750,000) is generally OK and the upper markets (over \$750,000 and especially over \$1m) are doing it hard, with 10% plus falls in value -when a buyer can be found. In summary, it is rare to find two properties the same. Housing stock is not homogeneous and hence the broad measures of price growth are seriously flawed. It is best to rely on individual resale analysis; and a relevant, yet often small sample, is more accurate than the current broader takes on the market.



## INTEREST IN ADVANCE LOANS

Hard to believe, but it's nearly tax time again!!!

Once again, interest in advance loans are very popular around this time of year, particularly for borrowers looking to gain a tax deduction for the financial year that is about to end.

As the name implies, it is a loan where you will pay all of next year's interest now (before 30<sup>th</sup> June).

These loans MUST be taken as a fixed rate loan – this is the only way for the bank to calculate the exact amount of interest that is required.

Because you are paying the Bank all of the interest in advance, they usually give you a small discount (generally 0.20% to 0.30%) off the rate.

Current rates for these types of loans are around the low 5.00% mark (as at 18/5/09).

These loans can be taken for new purchases happening now (settling on or before 30<sup>th</sup> June), or for existing loans.

For existing loans, there may be a switching fee.

By paying next years interest before 30<sup>th</sup> June, you can claim this as a full deduction for the 2009 financial year.

For more information on your Bank's interest in advance facilities, simply give our office a call.

### UPDATE ON INTEREST RATES AND CREDIT CRUNCH

Variable rates have steadied at around 4.96% to 5.20% pa. Fixed rates, whilst higher than this, still offer reasonable value. Many 3 year rates are around 5.59% with best 5 year rate around 5.99%

Banks have tightened their lending policies a little, although mainly to first home buyers, who will now find it a lot harder to get their loan approved. Most Banks are now asking for a 10% cash deposit and want to see at least half of this in genuine savings.

Should you know anyone who is looking to finance their first home, please refer them to our office so we can help them navigate the "maze".

As always, don't hesitate to call us should you need any advice on your current situation.

Brad Oliver

Shop 11, Wishart Square  
296 Newnham Rd (Cnr Wishart Rd)

**Brad will be in Canberra for the Seminar on Sunday 21 June, and will be available for personal appointments on Monday 22 June. Call 073420 0044 or email [brad@firstchoicehomeloans.com.au](mailto:brad@firstchoicehomeloans.com.au) to book your appointment time.**



## Where Should We Be Buying? by Peter McDonald, Wise Listing Manager

Many times our clients have decided that they should invest in residential property but then get hung up on the various options. New or old? House, townhouse or unit? Inner City or suburbs? etc etc.

Several times in past columns I have indicated that investing is a very personal thing and it is difficult to come up with a "one plan suits all" strategy. This applies to those who may be investing for either capital growth or income. To go to the next step we need to look at what type of investment property will produce the desired result.

As I have just warned about the dangers of generalization I will now make a bold attempt to generalize about the pros and cons of the various types of investment property. So here goes :-

	HOUSES	TOWNHOUSES	UNITS
RENTAL RETURN	Lower.	Medium.	Best.
MAINTENANCE	Highest. (Very high on old houses)	Low.	Very low.
OUTGOINGS Rates, Body Corp, Ins.	Medium.	Medium with On Site Managers. Low in small blocks.	Medium with On Site Managers. Low in small blocks.
DEPRECIATION DEDUCTIONS	Lower.	Medium.	Highest.
HOLDING COST	Highest.	Medium.	Lowest.
POTENTIAL CAPITAL GAIN	Highest in good areas.	Medium.	Medium.
INITIAL COST	Medium.	Medium.	Lowest.
AVAILABILITY	Difficult in middle ring suburbs.	Medium in middle ring.	Abundant in CBD. Medium in middle ring.
LOCATION	Usually in outer areas past 16 klms.	Middle ring suburbs.	CBD Highrise. Inner and middle ring suburbs.
TENANT PROFILE	Families.	Couples or several singles.	One or two singles or couple.

As I said there are grave dangers in generalization but these statements have come from my observations of property performance over the past twenty years. Now let me add a couple of other comments to confuse the issue and give me an escape clause.

In the past few years there has been tremendous capital growth in older style "timber and tin Queenslander" style dwellings in the inner ring suburbs. Generally speaking these homes are very high maintenance and low rent. Not what you want as an investment property unless you like hard work every weekend.

There has also been great capital gain in waterfront properties (incl units) in the past two years associated with the "sea change" phenomenon. These were expensive two years ago and are now even more expensive. Holding costs are generally very high.

"Executive style" rental properties at the upper end of the market give a lower rental return than cheaper properties. At over \$500 pw the number of tenants who can afford high rents really drops off.

The bulk of tenants are in the \$350 pw to \$500 pw range. The type of residence they are looking for should be modern style with ensuites, built-in wardrobes etc, low maintenance, well presented and close to transport and shopping centres.

The reason that houses have lower depreciation deductions, higher holding cost but better capital gain potential is because of the higher land content.

Wise Realty has a range of investment products for your selection. I hope these comments help in the decision making process. But remember YOU must still make the decision.

### Helpers Required

Are you a successful property investor? Isn't it great having your property working for you? Haven't Capital gains you've experienced increased your wealth dramatically? If you are a happy and successful Property Investor, then Wise has opportunities for you to work with our Area Managers in Melbourne, Canberra, Brisbane and Darwin. I am sure that you have friends or family that would benefit enormously from being shown the correct way to invest, just as Wise showed you. Talk to your Area Manager or the team at Wise Kelvin Grove today and find out how working with a Wise Area Manager can help you to help others, and to earn you an income to go towards your next purchase too.

## WISE

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## Life Insurance—Inside Super?

### Chris Appleyard, MD, Custom Wealth Solutions

Recent events in the economic climate have resulted in a major re-focus of our priorities as investors. No longer are we leveraging into, well, whatever we can, our concerns have certainly shifted towards protecting that which we have worked so hard to achieve.

Protection of our current share and property portfolios, and perhaps more importantly, protection of our family, homes and our incomes have moved to forefront of our minds. The question is then asked, 'How can we adequately insure ourselves when money is tight?' and 'Where should we start?' The good news is that the life insurance industry has undergone a paradigm shift in as much as how insurances can be structured. To keep a long story short, many of the very comprehensive and longstanding retail insurances, can now be incorporated within our Superannuation Funds.

To explain, your current superannuation provider will also have an insurance offering that is available to members. The benefit to members is that this insurance offering is available at a group rate, or group discount resulting in more competitive premiums. You may already have an element of Life Insurance within your super, but were you aware that you can also structure and include your Total and Permanent Disability Insurance and Income Protection Insurances within your super? Placing your cover with the 1 provider will not only reduce your admin, but will often result in a significant saving on your premium. In the current environment, improving cash flow is paramount.

For those of us with Self Managed Superannuation funds, did you know that your fund can own your life insurance policies, and therefore pay the premiums for your cover also? Again, this strategy can significantly ease cash flow pressures and ensure that you maintain a suitable level of insurance through such uncertain economic times.

The above strategy is not without its critics. The premiums have to come from somewhere, and this of course is coming from your Superannuation balances. As our balances have currently experienced some less than favourable returns, taking more from the fund to cover our insurances will only add to the problem. A valid point, however, stop for a moment to consider that if you increase your Superannuation contributions to cover the premium, there are possible taxation advantages not to mention the government co-contribution. \$1000 (previously \$1500) towards your insurance premium each year will go a long way!

**In summary, structuring your Life Insurance, TPD and Income protection within your superannuation can ease the pressures on cash flow, consolidate your administration, attract a group rate for your premiums, and possibly carry tax advantages. There are obvious negatives to consider, which you MUST discuss with your financial advisor, however in these times, protecting your assets, your family and your income is paramount.**

Should you wish to review your current situation, please do not hesitate to contact Custom Wealth Solutions on (07) 3103 0330 or [contactus@customwealth.com.au](mailto:contactus@customwealth.com.au) for a free, no obligation report on how to improve your current levels of cover.

## Wise Free Seminar Dates

### Canberra

Sunday 21st June  
1.45pm for a 2pm start  
Come and meet the

### Mayor of Ipswich, Paul Pisasale

Ipswich is the fastest growing city in Australia, and the Mayor, Paul Pisasale, has by his own enthusiasm been responsible for much of this growth. The Mayor will talk on the infrastructure of Ipswich, both present and future, the job creation in the area, and how Ipswich has progressed from a country town to a vibrant city, becoming in the process a Mecca for property investors looking for sustained capital growth backed up by fantastic population growth and job creation. This promises to be an interesting and fact filled seminar, not to be missed at all costs. There will be a supporting cast consisting of Damon Banks, Wise Area Manager, Lionel Morris, Wise Sales Director and Brad Oliver of First Choice Home Loans.

Bookings are essential to:  
Damon Banks 0414 247 716  
[damon.banks@wiseinvestment.com.au](mailto:damon.banks@wiseinvestment.com.au)  
The Brindabella Room  
Clifton Suites on Northbourne

### Brisbane

Friday June 12th.

For a barbeque at 6.15pm and 7.15pm for the meeting

If you wish to learn about the latest changes to superannuation and what deductions an investor can make at tax time, then this is the meeting to attend.

25 Pirramurra St Bracken Ridge .

Our special guest will be:

Colin Walker CPA CFP from Contador Pty Ltd.

Phone Keith on 07 3261 1545 or 0410 426 115

### Darwin

#### PROPERTY INVESTMENT Course

8<sup>th</sup>, 15<sup>th</sup> & 22<sup>nd</sup> June  
7pm to 9pm Monday evenings

*This 6 hour course runs over 3 evenings providing a comprehensive understanding of what is required to become a successful property investor. Numbers are strictly limited.*

*To find out more, or for a personal appointment to discuss property investing please contact David on:  
[david.bradley@wiseinvestment.com.au](mailto:david.bradley@wiseinvestment.com.au)  
or 0424 102 799.*