

## 2014 Q1 - Update



March 2014

A pretty good start to the year with plenty of confidence present in the market. Interest rates remain static and will continue to do so well into 2014, barring any major financial catastrophe in the wider international community. We have been moving along at a good pace, with plenty of enquiry to attend to most weeks. My Client Service Manager Rachel has settled in very well – it's rather scary that the feedback I'm receiving already is about how good she is... <hope she's not reading this bit haha!>

The new Credit Reporting Legislation has now become effective. It is still a little confusing as to the definitive outcomes of this legislation and a major implication is who and to what level will Credit providers participate in this new reporting regime. We are currently lining our ducks up and once we have the full montage, we'll issue a Bulletin specific to this and how it will affect you. For now, please continue to pay your bills on time... ☺

The Property market is motoring along nicely with available stock at its lowest level in circa 7 years. Reports continue to flow in about seeing a property tonight and under Contract tomorrow... This month's feature centres on the 'Lick & Flick' and No!, it is not R rated (just in case you're wondering 'lick' refers to a lick of paint... of course! Sorry for the spike in your heart monitor Logan ☺)! Please see Page 2.

On a personal front, #2 has now started Prep and she is demonstrating to be the model student – 'a pleasure to teach' I think was the precise comment... thankfully, we have at least 1 in this category! Fishing continues to elude me – every attempt since getting the all clear on the Hernia has been thwarted by either work, weather or just plain tiredness – I know Lochie, I need to harden up!! Thankfully though, Soccer season has recommenced (and went through the pre-season undefeated... ☺).

### Interest Rates

***BREAKING NEWS:** RBA leaves Cash Rate unchanged at 2.50%*  
*At its meeting today, the Board decided to leave the cash rate unchanged at 2.5 per cent.*

This is what you can expect to continue well into 2014. In my personal opinion, there was no need for the Cash Rate to be this low in the first instance, so don't see (& haven't seen for some time) the need to cut further. I've said for a while now that the next move will be up, and I haven't seen anything to change that prediction.

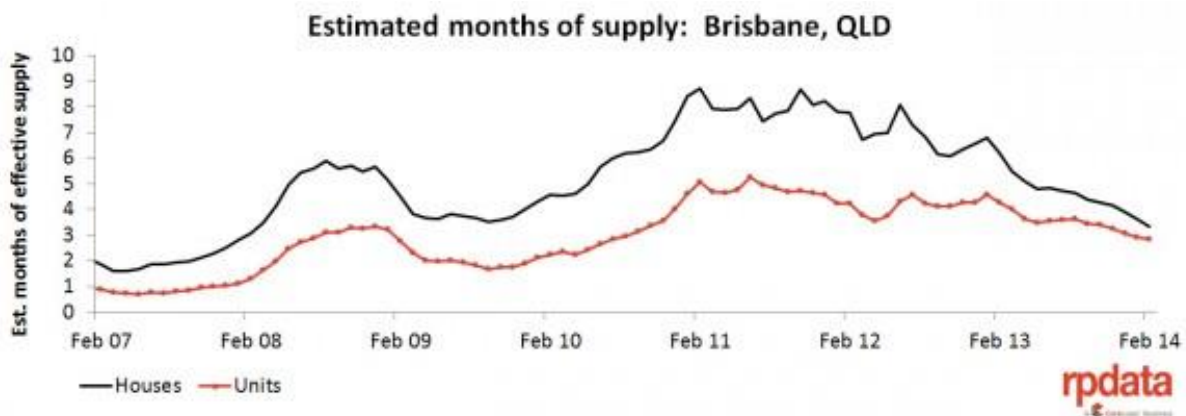
Most Standard Variable Rates continue to sit around the 5.90% mark but once you take into account the various discounting in the market place, you can expect to be paying a final rate of somewhere between 4.90% - 5.40%. The higher the loan, the greater the equity (ie LVR <80%), the lower the rate. Discounts/concessions are changing on a weekly basis so what may appear to be the 'best' today... will be 2<sup>nd</sup> best next week! Don't get caught out by the 'number' – while 5.05% even to 'blind Freddy' looks cheaper than 5.20%, I can prove to you that it's not for certain loan amounts when you consider the whole package.

Fixed Rates are also changing regularly with most of the competitiveness occurring in the 2 & 3 year space. 2 year Rates can be nabbed somewhere in the 4.79% - 4.99% range while 3 years can be locked for 4.98% - 5.24%.

If you wish to explore Fixing or Switching, please contact me for a prelim discussion... ☺

## Property Market

How's the Property market travelling? Across the capital cities effective supply levels are generally very low. The trend in effective supply levels is important to monitor. As effective supply moves higher it suggests stock levels are outweighing market demand and vice versa. The capital city graphs show that effective supply levels are typically moving lower across most capital cities as transaction numbers rise on high buyer demand. Brisbane is at its lowest level of stock on the market for over 4 years!



One of my favourite indicators is the level of Vendor Discounting. Currently this sits at 5.1% - the best I've seen it for a few years! This tells us that the Seller and Buyer are pretty close in discussions more often than not. No doubt the level of supply above is also assisting...

### **Feature - Property flipping: Is it really worth your time, effort and, most importantly, your money?**

For as long as I can remember, 'Investors' talk about a giving property a lick & flick, aka 'property flicking'. This scenario has its time and place, but in my opinion, not in recent years. With confidence in the market again, this scenario keeps presenting itself when in discussion with Clients and Investors. Eerily, I read an article about a month ago specific to this topic. Please read below (please note that I have altered some of the content to 'Queensland-ify' it).

Investors always seem to want just a little bit more and as house prices move, many investors will start to think of ways to maximise their returns.

One of the strategies that will raise its head is property flipping. That is buying a residential investment property, renovating it, then selling it to make a profit. It's a common strategy, but unless you plan carefully it may not bring the kind of return you were hoping for.

When you buy a residential property, the State Government asks you to pay Stamp Duty - typically around \$12000 for a \$400000 property, \$16000 for a \$500000 property.

If you've borrowed to purchase the property and undertake the renovations, you are paying interest on the loan without receiving any rental income during the renovation period to offset the loan repayments.

When you sell the property, you'll lose circa 2.5% (+GST) of the sale price in the commission you pay the real estate agent, plus any advertising costs.

In short, not only are you paying interest on an investment loan out of your own pocket, but you are losing close to 6.5% of the property's value merely by entering and leaving the market. And, when you actively add value to a property, you are taking a gamble that the sale price will equal the price of the renovations plus your profit margin. Most property grows in value over time, but not all sectors of the market grow at the same rate.

If there isn't sufficient demand for your style and location of property, you may not make enough money to cover the entry and exit costs, outstanding loan balance and renovation costs, let alone make a profit. If you do make money on the transaction and you sell the property, you will also be liable for Capital Gains Tax. It's like taking two steps forward and one back. <CGT <12 months = 100% of the Profits. CGT >12 months - 50% of the Profits added to your Taxable Income for that Financial Year.>

I am not saying that buying to renovate and sell is a poor strategy in itself. It can be highly successful, but only if the capital growth outstrips the buying, holding and selling costs. Even in locations where capital growth is strongest, this may take several years. And capital growth compounds, so the longer you hold the asset, the greater the amount of growth. If you sell the property as soon as the renovations are complete, you may not have allowed enough time for capital growth to take full effect — substantially reducing your potential profit.

In other words, the substantial entry, exit and holding costs mean residential property should not be traded like shares, but held for the long-term (at least seven to 10 years) to ensure the capital growth justifies all the expenses you've incurred along the way.

If a real estate agent is advertising a property as perfect for adding value, ask yourself whose interests they are promoting — yours or theirs? Remember, they stand to make a commission on selling the property for the previous owner, followed quickly by another commission on selling the property for you after it has been renovated. <True, but I don't feel that anyone (of our Clients anyway) is gullible enough to buy and re-sell that quickly at a loss>

If you still believe that buying to renovate and selling quickly is the right strategy for you, make sure you calculate all the likely holding and transaction costs.

Then, research the local market to determine the property's likely selling price. Look at other properties in the area that have been renovated to the same standards as yours and sold in the last three months.

It's also important to factor in the cost of your time. How much you would have earned from your normal job if you weren't at the property supervising or undertaking the renovations? And what about your leisure time? How much time will you spend away from your family and friends?

For example, if the project is going to take up six months of your evenings and weekends when you would otherwise have spending time with loved ones, will the expected financial profit make that lost time worthwhile?

If the holding, transaction and time costs add up to more than the property's likely sale price, you may need to reconsider whether it's worthwhile undertaking the project.

The table below is an example of 3 price points. It assumes that we are spending \$20000 on renovations and that we are selling each property to at least cover our costs. All numbers assume we are in Queensland.

PURCHASE PRICE	<b>\$400000</b>	<b>\$450000</b>	<b>\$500000</b>
GOVT FEES (Stamp Duties etc)	\$13395	\$15294	\$17193
RENOVATION COSTS	\$20000	\$20000	\$20000
INTEREST (3mths @5.20% I/O)	\$5199	\$5850	\$6498
COMMISSION ON SALE (inc GST)	\$13007	\$14382	\$15985
<b>TOTAL COSTS</b>	<b>\$51601</b>	<b>\$54151</b>	<b>\$59586</b>
<b>SALE PRICE</b>	<b>\$455000</b>	<b>\$505000</b>	<b>\$560000</b>

How much more would you have to add to the sale price to make a justifiable profit? And remember, you will have CGT on the full profit too...

## Home Sweet Loans

79 Tippers are battling it out in the 2014 HSL Tipping Comp – thanks to everyone who entered! While it's too early to gauge a pattern, one thing is for sure... I'm a very ordinary tipper! I could tip the Hare to beat the Tortoise and I guarantee the Tortoise will come through! Nonetheless, it should make for a very interesting Season of Footy.

An initiative we are looking at for 2014 is conducted some Home Buyers Nights. This will not be limited to anyone looking to buy a home for the first time, but for anyone considering upgrading or investing too. We will be conducting a Survey shortly to gauge everyone's thoughts on the topics that should be included in these nights – you don't have to be attending, but if you were, what would you like to see covered? We would appreciate everyone's input.

## Home Sweet Loans - Housekeeping

On our website is our '**Budget Organiser**' Template. This Organiser has been designed to assist you in implementing a budget or simply tracking your expenses. It's amazing where your money goes once you decipher it on paper! You can download this for FREE! I'm also open to any suggestions on how we can improve it too!

**Home Buyer Guides** - The Home Buying Essentials and Property Investment Essentials. These 24 page colour booklets are packed with information for those who haven't purchased a home (ever or in a long while), or anyone considering dipping their toes in the Investment pool. If you would like a FREE copy, or know anyone that could benefit from them, please email me or request from the HSL website...



**PLEASE NOTE** that we are here to assist during the Application process, and post Settlement. If you require any assistance whatsoever once you have your loan in place, please call us at anytime. This alleviates any issues that you will encounter dealing directly with your respective Lender, especially when it comes to Product switches and Discharges/Releases.

**We Value Your Thoughts!**

Gift Vouchers, Movie Tickets, a night at the Footy, lunch/dinner at sumptuous Restaurants – the more of your family & friends you refer, the greater your rewards! We also conduct a regular competition through our Quarterly Magazine. Throughout the year, we conduct several competitions that are exclusive to our 'Email Alert' members & Facebook 'Likers'.

Take Care  
Tarek