

# Property Primetime

The newsletter for informed property investors

November 2008

## November Feature Article

Spotlight on Interest Rates

**Scott Caddaye**

As more and more of the smaller lenders drift into the background – the big 5 (now big 4) seem determined to knock them down and make sure that they stay down.

In the last month, Westpac and NAB have at various times shared the crown as the cheapest fixed rate lenders on the market. Their dominance is so complete, that even the online lenders can't compete – with Homepath no longer in the home loan market at all, and "one direct" rates lagging behind both Westpac and NAB ...

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## Special Announcement

A suburban Melbourne investment property for as little as \$20/week & no cash upfront?

In today's market? I'd like to see that!



In the last month I have bought several properties for investors where their cash input has been zero (all money borrowed against the investment property and against equity in their own principal place of residence) and their total out of pocket cost per year has been around \$1,000 to \$1,300 (or around \$20 - \$25 per week). This is all courtesy of rising rents and falling interest rates.

The most common properties which I am currently buying for these investors have the following features:

- range from \$300,000 to \$350,000
- have a rent yield of approximately 5.7%
- have 3 or 4 bedrooms and 2 bathrooms
- are on a 550m<sup>2</sup> to 700m<sup>2</sup> block
- are less than 10 years old (and often less than 5 years old)
- are in suburbs with very low rental vacancy rates and a healthy proportion of renters
- are in suburbs with growth potential of approximately 10-12% per annum

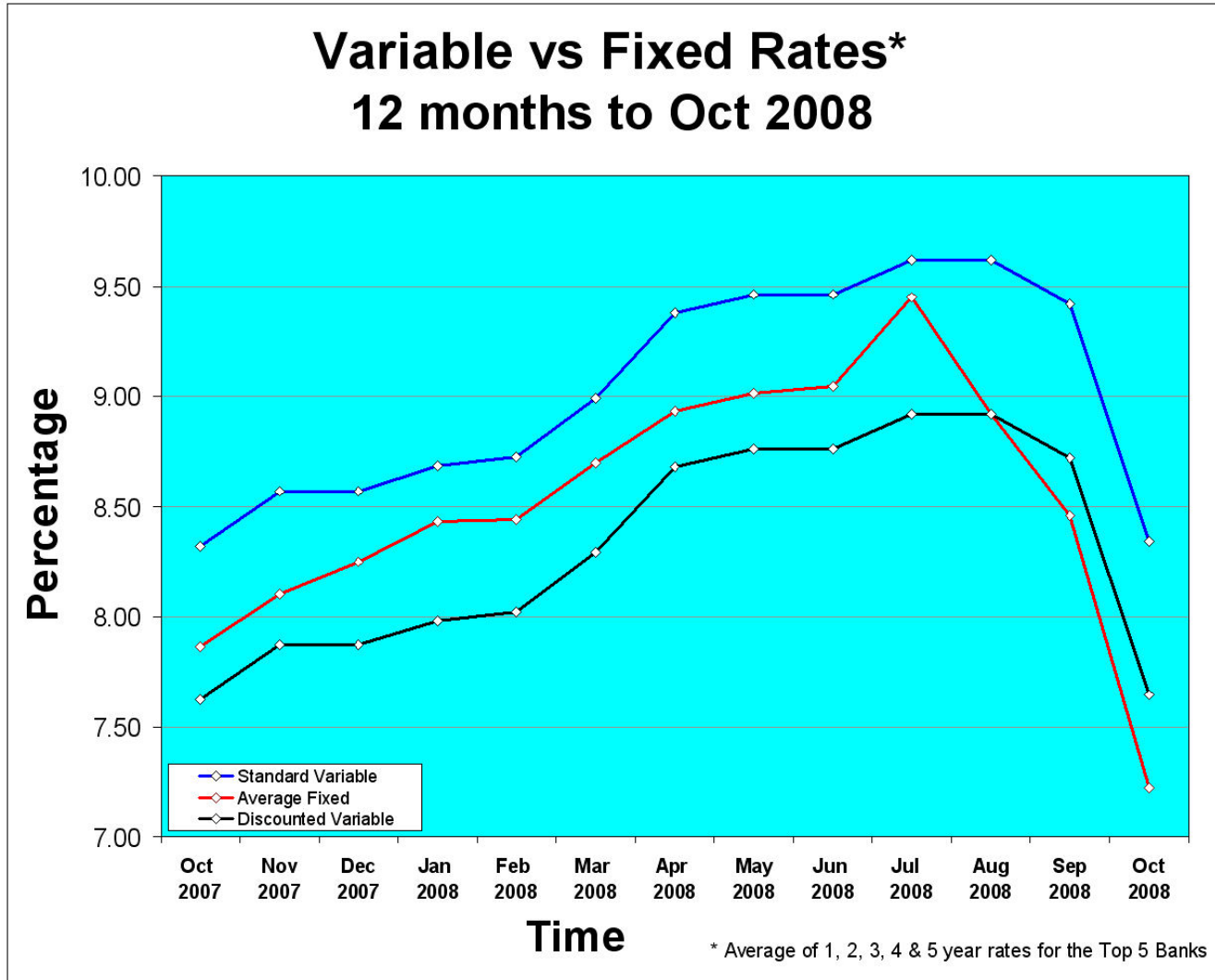
If you would like to know more – and perhaps have me buy one of these properties for you – contact Scott Caddaye on (03) 9779-4884 or by email [property@snaponline.com.au](mailto:property@snaponline.com.au).

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## Spotlight on Interest Rates

NABs' current 1 and 2 year rates are at a level reminiscent of 2005 – at just 6.59%. Both Westpac and NAB are also offering an appealing 3 year rate of just 6.89%. These rates are between 1.0% and 1.3% cheaper than some of the smaller banks (such as Bankwest and Citibank) who are clearly struggling to generate sufficient low cost funds for lending.



With fixed rates dropping as fast as they are, we are bound to see a recovery in their popularity in coming months as smart (and also cautious) buyers seek to lock in the low rates for 5 year periods and beyond. For now – the best deals are in the shorter term rates, but it will not be long before we see similar aggressive downward movement in the longer 5 year rates too.

## Beware the Median – all is not as it seems!



We have all heard stories of the flat property market in Melbourne at the moment – and worse news of the median falling slightly backwards in the September quarter. However, these stories obscure the real truth, that many parts of Melbourne are experiencing healthy positive price growth right now.

The gains in the middle and outer suburbs are eclipsed by the “top end of town” – where median house prices have dropped by hundreds of thousands of dollars in the September quarter

Consider these last-quarter drops in the medians at the top end of town:

Suburb	Median Price Sept 08	Median Price June 08	\$ Change	% Change
Albert Park	\$929,000	\$1,525,000	-\$596,000	-39.1%
Armadale	\$1,005,000	\$1,477,500	-\$472,500	-32.0%
Brighton	\$1,445,000	\$1,812,500	-\$367,500	-20.3%
Canterbury	\$1,250,000	\$1,622,500	-\$372,500	-23%
Elwood	\$1,004,000	\$1,275,000	-\$271,000	-21.3%
Kew	\$1,200,000	\$1,485,000	-\$285,000	-19.2%
Toorak	\$2,200,800	\$2,565,000	-\$364,200	-14.2%

Imagine being an investor in Albert Park and watching almost \$600,000 of your investment disappear.

Now instead – imagine that you (like several of my investor clients) had recently bought in the Narre Warren area and instead experienced the following POSITIVE property appreciation:

Suburb	Median Price Sept 08	Median Price June 08	\$ Change	% Change
Narre Warren	\$329,250	\$291,000	+\$38,250	+13.1%

If you have read my October article on Hybrid investors – you will know that Narre Warren is an example of an area where carefully selected properties can provide that perfect blend of high yield and also the promise of above average growth. It is no coincidence that I have personal investment in this area and buy more properties for investor clients here than anywhere else in Victoria. But – as with any suburb – you can't just buy any house in any part of town (and it is a BIG town). Instead, you have to study the market closely and patiently until you have identified the optimal properties, and then act swiftly and decisively to purchase them.

Many people only pay attention to the high level figures – and when they hear about the overall median price dropping they use that as a reason to hold back from investing. These same people though are missing out on the growth that is always going on in carefully selected middle and outer ring suburbs.

Having said all of this – the median for one quarter is of little consequence to most long term investors. It's nice to know that you have bought at or near the bottom of the market, and terrific when the market begins recovering AFTER you have bought, but it is what happens consistently over the next 10 years that makes the real difference to your wealth as a property investor.

## NEWS HEADLINES

14/11/08

### **After months of non-competitive interest rates, Homepath has finally been put out of its misery.**

Commonwealth's brave venture into the world of online loan provision is at an end. After being completely uncompetitive across all of 2008 - Homepath has ceased offering home loans completely. Their web site advises customers "we are not taking any new applications" and "we've appointed Commonwealth Bank, our parent company, to be our agent and to provide loan maintenance services to all our HomePath customers. So going forward, you will need to contact the Commonwealth Bank for all your enquiries and transactions on your home loan."

That leaves just one major online lender - "one direct" - and even they seem to be struggling to compete with the big four on fixed rates.

31/10/08

### **Comm Bank and HSBC carve up to 1.84% off 1 & 2 yr fixed rates**

Fixed rates are plunging faster than the value of the Aussie dollar - with the last fortnight seeing Comm Bank cut their 1 & 2 year rates by 1.7%, and HSBC slicing 1.84% off their own 1 & 2 year rates.

One strange exception to this rate cutting frenzy is online lender Home Path who have fixed rates that are up to 2.6% HIGHER than our traditional bricks and mortar banks. For example, Home Path's 2 year fixed rate is a lofty 9.49% - Westpac is offering 6.89% for that same duration.



After a series of radio interviews and associated promotions, I am pleased to say that "The First Timer's Guide to Australian Property Investment" has been launched and is now widely available from both online and shop-based book retailers Australia-wide.

This month's feature online retailer is TheBusinessMall – who are selling my book for \$22.95 (inclusive of postage Australia-wide).

<http://www.businessmall.com.au/store/viewItem.shop?idProduct=378>

Dymocks and Borders are also stocking the book at its recommended retail of \$19.95.

## TOP 5 REASONS WHY NOW IS A GREAT TIME TO BUY PROPERTY

1. PROPERTY PRICE GROWTH HAS TEMPORARILY SLOWED DOWN
2. INTEREST RATES ARE DROPPING FASTER THAN EVER BEFORE
3. POPULATION IS INCREASING AT THE GREATEST RATE IN 20 YEARS (MEANS MORE TENANTS NEEDING HOUSING)
4. RENTS ARE INCREASING AT A DRAMATIC RATE
5. RENTAL VACANCIES ARE AT RECORD LOWS



### CONTACT US

At SNAP, we pride ourselves on always being accessible and responsive to our clients.

Please feel free to email or call and we will respond quickly and courteously.

Don't forget to take advantage of our FREE initial consultation and needs assessment - just call or email to set up a time and place that suits your needs.

### SNAP Property Buying Support

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