

Property Primetime

The newsletter for informed property investors

September 2008

September Feature Article

It's a Buyer's Market ... But Not For Long

Scott Caddaye

For the last 20 years, the housing sector has reliably built sufficient quantities of new properties to match the gentle and predictable demand from our growing population and shrinking household sizes.

However, the end of the last boom saw new housing starts reduce drastically. This reduction means that right now we have an undersupply of around 40,000 properties – and this is expected to worsen to around 50,000 in the next 1-2 years.

So what does undersupply of housing have to do with a buyer's market? Turn to page 2 for all the answers ...

continued on page 2

Special Announcement

New Property Investment Book hits the shelves
As director of SNAP Property Buying Support I am fortunate in that I have been able to turn my passion (for property investment) into a full time occupation. I am now doubly fortunate to be able to share that passion with, not just my clients, but with readers all around Australia.

This month sees the release of my new book – “The First Timer's Guide to Australian Property Investment”. This book is a simple step-by-step guide showing the estimated 150,000 intending first time property investors how to find, purchase, manage and profit from Australian residential property investment. It is a practical and chronological guide detailing everything a first time investor needs to understand in a single easy-to-read title.



The book is available in all good book stores for just \$19.95 (RRP)

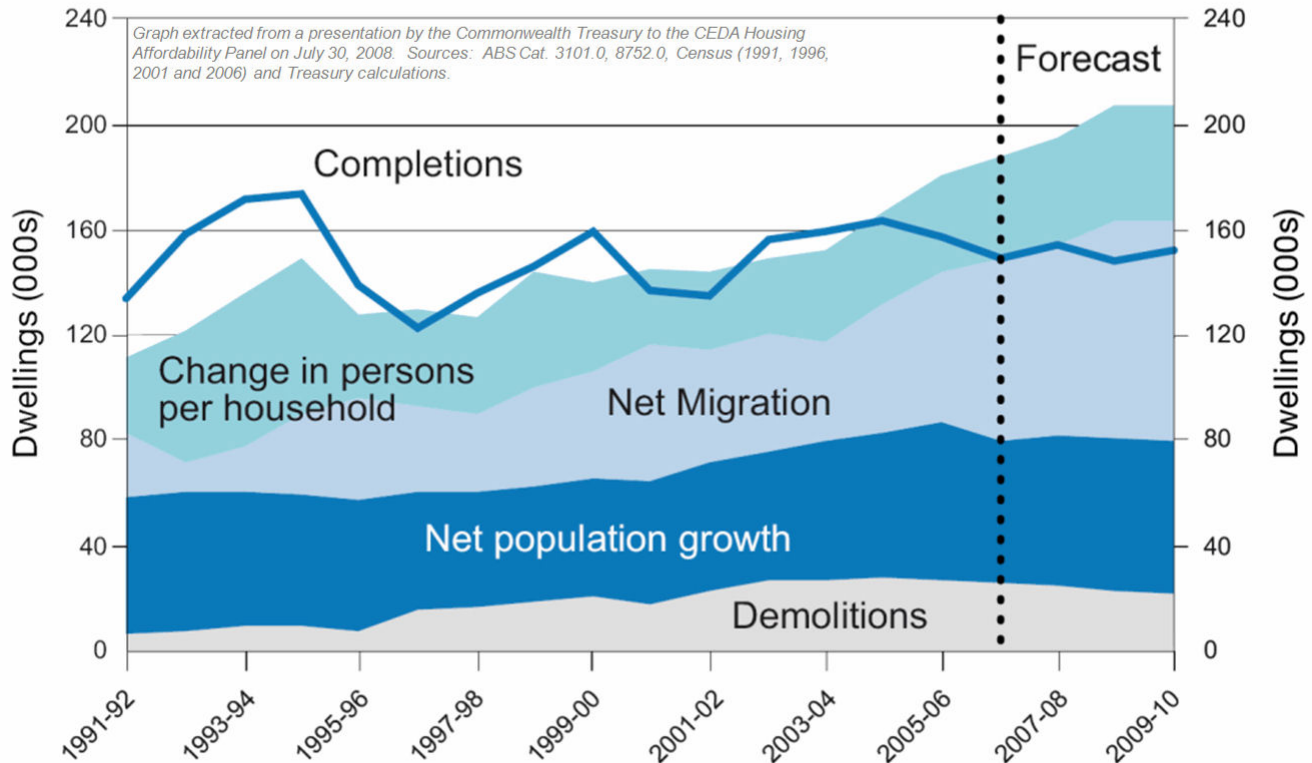
INSIDE THIS ISSUE

- 1, 2 **It's a Buyer's Market ... But Not For Long**
- 3 **Initial Signs of Recovery and Growth**
- 4, 5 **News Headlines**
- 6 **This months "Top 5"**

It's a Buyer's Market ... But Not For Long (continued)

The slide below captures the essence of the underlying reason why property prices (and also rents) MUST increase in Australia over the next couple of years. It was put together by RPDATA – using Australian Bureau of Statistics data – and basically it shows that three key factors (natural population growth, migration population growth, shrinking household sizes) are combining to push Australia into territory not seen in the last 20 years.

Underlying demand and supply of dwellings



The interesting thing about all of this is that the only factor that the government can control (overseas migration) – they have in fact increased by 30% in the 2008/2009 year.

So,

- we have a massive increase in immigration in 2008/2009
- we have a steadily increasing natural increase in population (eg. due to people living longer and the baby bonus inspiring folks to have more kids)
- we have an ongoing reduction in the average number of people per property

What all of this means is simple – anyone who gets into property BEFORE the rest of the crowd flocks to do it, is going to do much better on their investment simply because they bought in a Buyer's market where sellers had to drop their prices to offload their property (as opposed to purchasing in a Seller's market – where prices are driven up by buyer competition).

The trick is that you have to have the income and assets to allow you to borrow at a time when other people might struggle to come up with the finance (due to higher interest rates). The other trick is getting in BEFORE the headlines are filled with news of multiple interest rate cuts. Interest rate cuts (like the one we have just seen in all the newspapers) are the key trigger that will see the "buying herd" return to the market (resulting in price increases due to competition).

Initial Signs of Recovery and Growth

Scott Caddaye

A recurring theme in my discussions with clients is around the opportunity to jump into property investment before Joe Public realises that the time is “right” and jumps in too (pushing prices up). The trigger for Joe Public is often media reports about interest rate drops, rent increases, rental vacancies at record lows, immigration pushing up demand and housing price increases on the horizon.

The trick is to get in when those signs are just starting to drip feed out to the market (and before the landslide of buyers re-enter the market). You’ll know when it is too late – as you will be reading about it in the Herald Sun and seeing it on A Current Affair and Today Tonight. Right now – the initial signs are already sneaking out in the media – but the sustained high interest rates have helped keep the buying demand levels low. This is all about to change – with the Reserve Bank cut in official interest rate of 0.25% on September 2nd, providing a catalyst that will boost the property market into a new growth phase.

WHEN IS IT THE RIGHT TIME TO BUY?

When most people ask me “when is the right time to buy?” – I generally answer “now”. My logic is this: in history, the average annual median house price in Melbourne has gone backwards just once! That means that – in all likelihood – waiting to buy means paying a higher price (not a sensible investment strategy).

WHEN WILL IT BE TOO LATE TO BUY?

The near future is a great time to buy. When will it be too late? Nobody really knows. For now though, enough people are staying out of the market to make it a good time to buy right now. The same may not be true in a months time (especially if we see further cuts to interest rates).

MORE SIGNS THAT THE TIME IS RIGHT TO BUY:

The signs I am seeing that indicate a return to greater growth (and competition) in property prices:

- All the major banks significantly slashed their fixed loan rates last month, with further large cuts taking place in early September ... a sign that they believe the time for a big drop in the variable rate is starting to come closer
- Demand for fixed rate loans has fallen to it’s lowest level in over 2 years and is almost half what it was a year ago (a sign that most people believe that the variable rate will start to drop soon and so don’t want to be locked into a fixed rate)
- After a record number of consecutive interest rate rises ... history tells us that this will ALWAYS ultimately correct downward (September 2nd being the first of many future interest rate cuts). Those that buy now take advantage of temporarily subdued property prices and reap the benefit of a dropping interest rate.
- The vacancy rate in Melbourne is lower than it has ever been in history (leading to higher rents and more profitable investment property ownership)
- Immigration and population growth is phenomenal – higher than any time in the last 20 years (and Victoria is the second most popular destination after Queensland). Overseas immigration at it’s highest level in history (and all these people will ultimately either compete with you on the purchase price of a home – pushing prices up, or rent from you in an already very tight rental market).
- Auction clearance rates have dropped by around 30% since earlier this year (meaning there are disappointed vendors out there that need to drop prices to get a sale). Note that the first 2 weekends in September have already seen this trend turnaround with a significant 9% INCREASE in clearance rates.

IS IT OK TO GO AGAINST THE HERD?

One thing I’d like to leave you with is the concept of being “counter-intuitive” (ie. NOT doing what the herd is doing). Right now the herd is NOT buying property in great numbers ... yet.

I like this quote from Warren Buffet – the world’s richest man – about the buyers market (which we are still in):

“Be wary when others are greedy, and greedy when others are wary”.

NEWS HEADLINES

31/08/08

Wizard pre-empts the reserve with an early rate cut

In a surprise move - Wizard Home Loans have cut 0.25% off their standard variable rate ... two days before the Reserve Bank meeting. This takes their variable rate down to a bank-beating 9.29% - and will put even more pressure on the big banks to pass on the expected Reserve Bank cut in full next Tuesday.

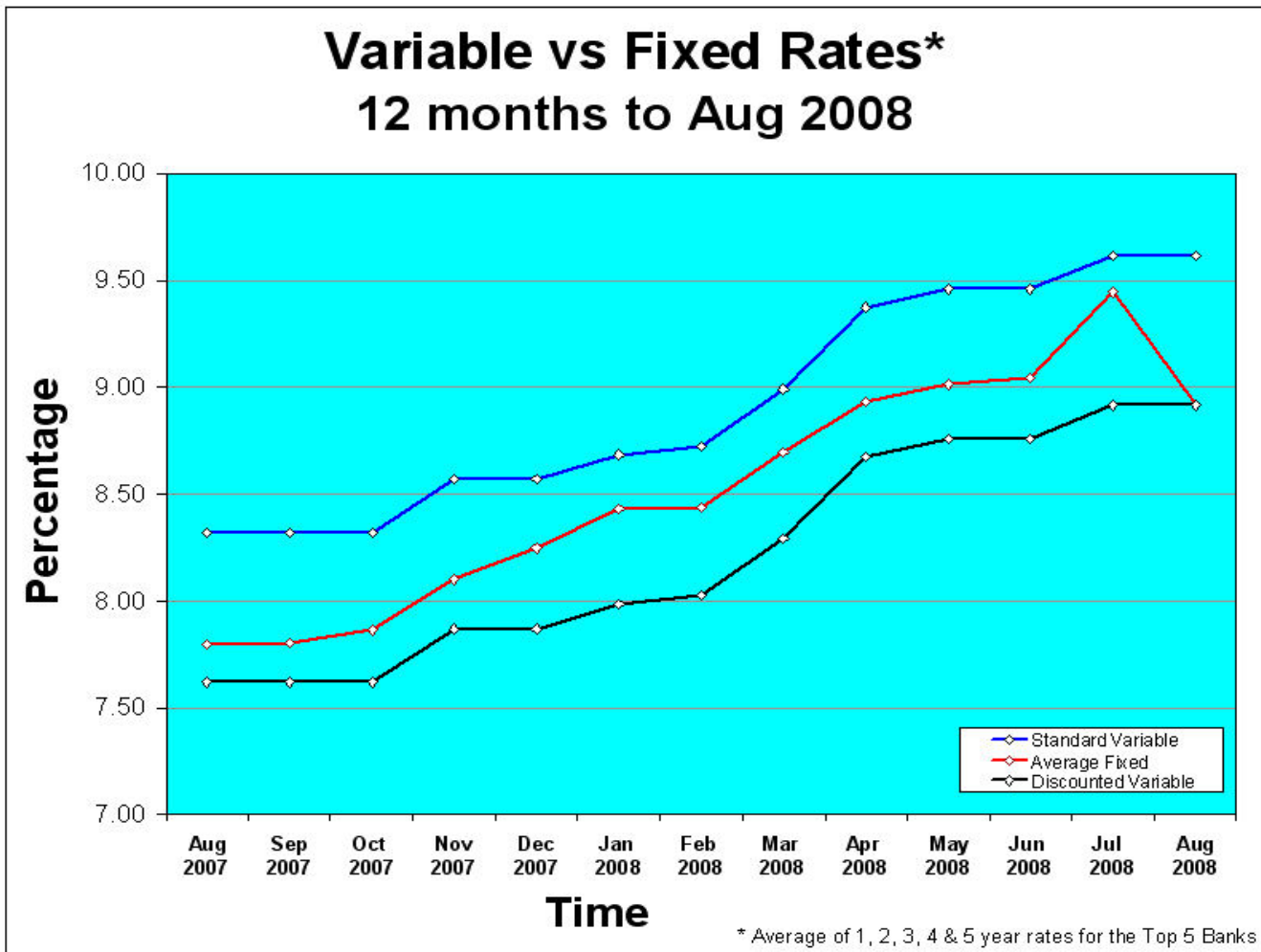
31/08/08

Fixed rates now on par with the discounted variable

All the major banks have dropped their fixed rates - DRAMATICALLY - during August.

With cuts of up to 1.1% the banks have all sent a clear signal - that they expect the variable rate to drop, and drop considerably, over the coming months.

These cuts have altered a long term trend - where fixed rates have tracked consistently above the discounted variable. Now - the average fixed rate is identical to the average discounted variable rate.

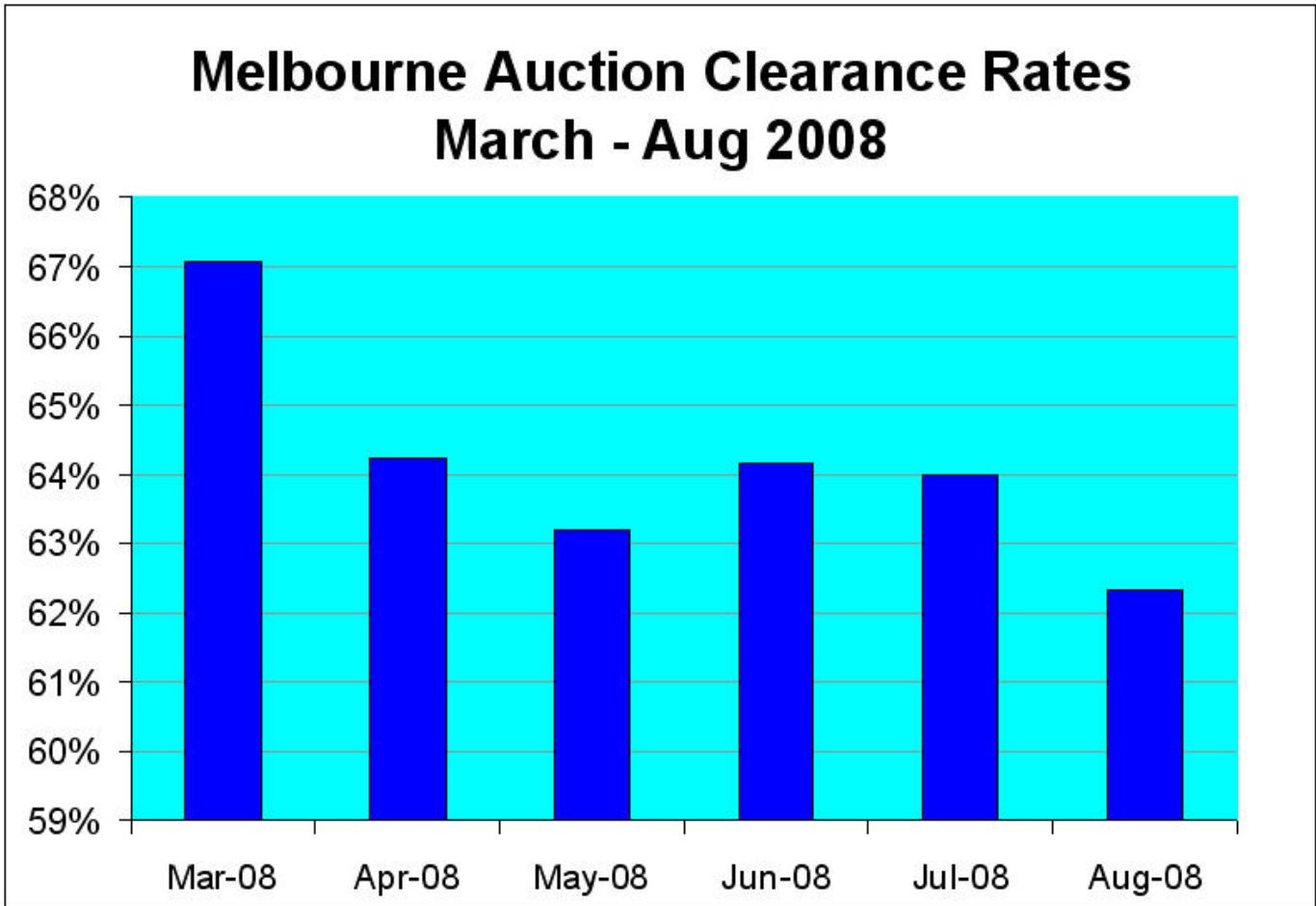


31/08/08

Auction Clearance Rates drop below 60%

At first glance, you would be forgiven for thinking that we are on yet another downhill ride, with yesterday's Melbourne auction clearance rates dropping to a new low for 2008. But - a one off clearance rate of 59% is just that - a one off. It is not a trend (at least not yet anyway).

When we take a step back and look at April to August clearance rates (on a monthly - not weekly - basis) we can see that the difference between the highest and lowest month is actually less than 2%.



With an interest rate cut due any day, perhaps we will look back on August 2008 as the low point in clearance rates. I am certainly encouraging my clients to take advantage of this low while it lasts and get into the property market before the recovery firms up and everyone else jumps in too.

TOP 5 REASONS TO USE A PROFESSIONAL PROPERTY MANAGER

1. THEY WILL FIND A QUALITY TENANT FAR MORE EASILY AND QUICKLY THAN YOU ARE LIKELY TO BE ABLE TO
2. THERE IS NO EMOTION INVOLVED IN THE COLLECTION AND PERIODIC INCREASE OF THE RENT
3. REGULAR INSPECTIONS AND REPAIRS ARE TIME CONSUMING TO PERFORM AND REQUIRE ACCESS TO A POOL OF SKILLED AND PROVEN CONTRACTORS – THEY HAVE THE TIME AND THE CONTACTS TO GET THIS DONE RIGHT
4. THEY WILL SHIELD YOU FROM NEEDING TO BE PERSONALLY INVOLVED IN MINOR MATTERS OR NEIGHBOURHOOD DISPUTES
5. A PROPERTY MANAGER'S KNOWLEDGE OF THE LAW (ESPECIALLY IF IT COMES TIME TO EVICT A TENANT) IS INVALUABLE AND SAVES YOU FROM POTENTIAL LEGAL COMPLICATIONS



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

Telephone: (03) 9779 4884

Facsimile: (03) 9779 4774

Address: 14 Larne Ave, BAYSWATER VIC 3153

Email: info@snaponline.com.au

Web: www.snaponline.com.au



SNAP Property Buying Support

We make buying property a SNAP