

# Property Primetime

The newsletter for informed property investors

January / February 2009

## Jan/Feb Feature Article

2009 – The Year of the Positive Cashflow Property

### Scott Caddaye

With the Reserve Bank giving investors an early Christmas present (a fourth quarter 2008 cut to cash rates of 2.75%) – and then another 1% in February 2009 – the stage is set for a return of that elusive but prized creature – a positive cashflow suburban investment property.

Many years ago – it seemed that positive cashflow properties almost grew on trees. Popular authors wrote books on the subject and encouraged everyone to go out and buy them by the truckload. The only problem was – when interest rates started climbing and depreciation allowances tapered off – many positive cashflow properties turned negative. In 2009 – we are about to see a reversal of that trend ...

*continued on page 2*

## Special Announcement

Discounted Buyers' Advocate Services



To kick-off 2009 - I have reduced all of my Buyers' Advocate purchase fees by 10%. This discount applies to both my engagement fee and any services fees related to the purchase of both investment properties and owner occupied homes for all my new clients.

For a \$500,000 property – this represents a saving of over \$1,000.

There is no alteration to the scope of services provided or the attention your purchase will receive. As always, I am fully committed to exceeding all client expectations and finding you the right property, at the right time, for the optimum price.

If you would like to know more – or want to take advantage of a free / no obligation appointment to discuss your particular needs – contact Scott Caddaye on (03) 9779-4884 or by email [property@snaponline.com.au](mailto:property@snaponline.com.au) .

## INSIDE THIS ISSUE

- 1, 2, 3 **2009 – The Year of the Positive Cashflow Property**
- 4 **Invest Now or Wait?**
- 5 **News Headlines**
- 6 **This months "Top 5"**

## 2009 – The Year of the Positive Cashflow Property

It's hard to believe it now – but just 6 months ago the standard variable interest rate was around 9.6%. It had been carried to these lofty heights over a 6 year period – as a result of a record 12 consecutive upward movements by the Reserve Bank. Now in February 2009 - with variable interest rates up to 3.9% lower - a huge chunk has been cut away from property investors' outgoings.

### Consider the following hypothetical example:

An investor bought a house using a \$400,000 interest only loan in August 2008 when the variable interest rate was around 9.6%. At that point, they would have allowed \$38,400 for their expected annual interest bill. With the standard variable rate now as low as 5.74% - that same investor now only needs to budget \$22,960 for their annual interest bill (a drop of around 40% or \$15,400). Add to this that the investor is likely to still be experiencing increases in their rental income – and you can see how quickly the tide has turned in favour of positive cashflow opportunities.

### Now for a real life example

This real example uses a property bought for one of my clients in late 2008. It is a four bedroom house in a Melbourne suburb – purchased for \$320,000 and currently tenanted at \$370 per week. It is approximately 7 years old. As with most investor purchases, the loan (approx \$341,000) covered all up front costs such as stamp duty and various professional fees – the investor did not contribute any of their own cash to the purchase.

Here are the key cashflow items for this property for the upcoming 2008/2009 tax year.

Rental income (assumes a 1.5% vacancy rate and a mid-year rent increase of 7.5%)	\$19,707
Less Loan Interest costs (professional package rate of 4.94%)	-\$16,860
Less Council Rates	-\$ 1,155
Less Property Management fees (negotiated rate of 5.5% of rental income)	-\$ 1,084
Less Landlord Insurance	-\$ 476
Less Water Rates	-\$ 389
Less Annual Bank Fee for Professional Package	-\$ 375
<b>EQUALS Total Pre Tax Cashflow (REAL out of pocket cost before any tax benefit)</b>	<b>-\$ 631</b>

So – even though the rent is great, the interest rates are low and the property management costs are well below market averages – the property appears slightly negative cashflow to the tune of \$631 across the full 2008/2009 tax year. However, this investor was smart enough to buy a younger property that is eligible for depreciation deductions. The depreciation allowance (building and “contents” – as assessed by a qualified Quantity Surveyor) is \$5,626 for the 2008/2009 tax year. This means that the investor can claim a negative gearing LOSS on the property of \$631 + \$5,626 = \$6,259 loss. So even though the property only cost them a real out of pocket amount of \$631 – the government allows them to claim a loss of \$6,259. Given that they are in the 40% tax bracket (and also paying Medicare at 1.5%) – they are therefore entitled to a tax refund of \$6,259 x 41.5% = \$2,597.

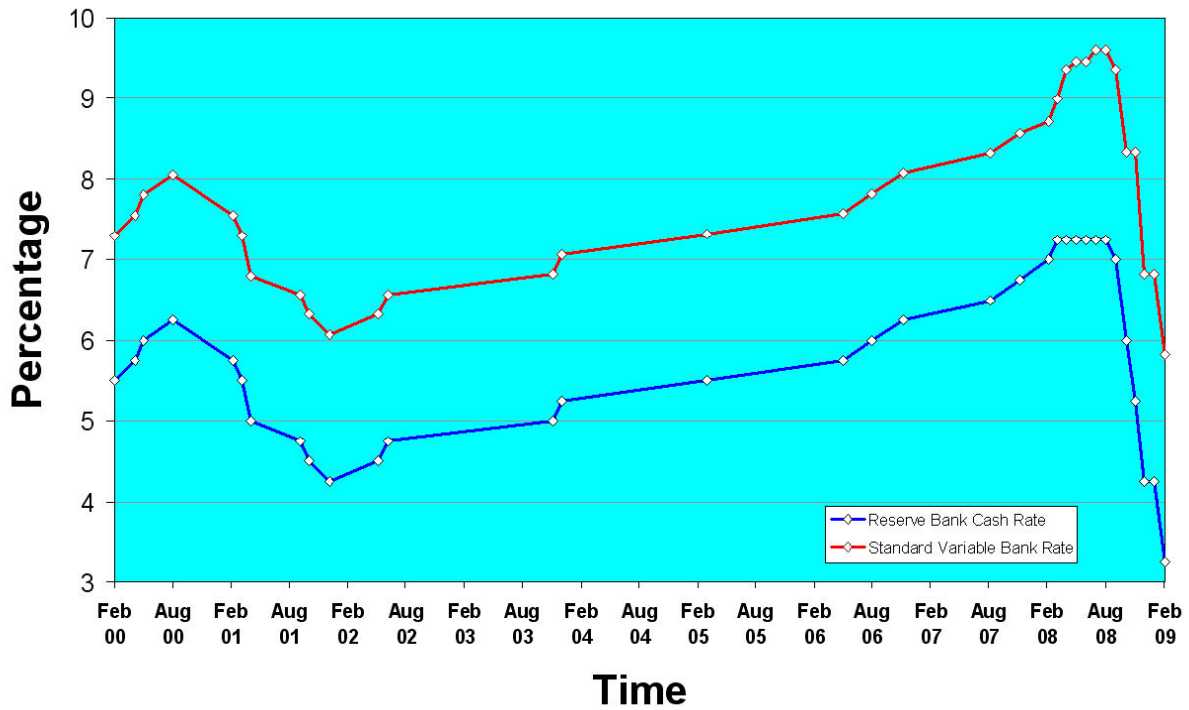
Total Pre Tax “LOSS”	<b>-\$ 631</b>
Plus Tax Return (based on \$6,259 x 41.5%)	<b>+\$ 2,597</b>
<b>EQUALS Total POSITIVE Cashflow</b>	<b>+\$ 1,966</b>

In summary – this “negatively geared” property, that has COST the investor \$631 to hold for 12 months – has actually returned a positive cashflow of \$1,966 (ie. -\$631 + \$2,597).

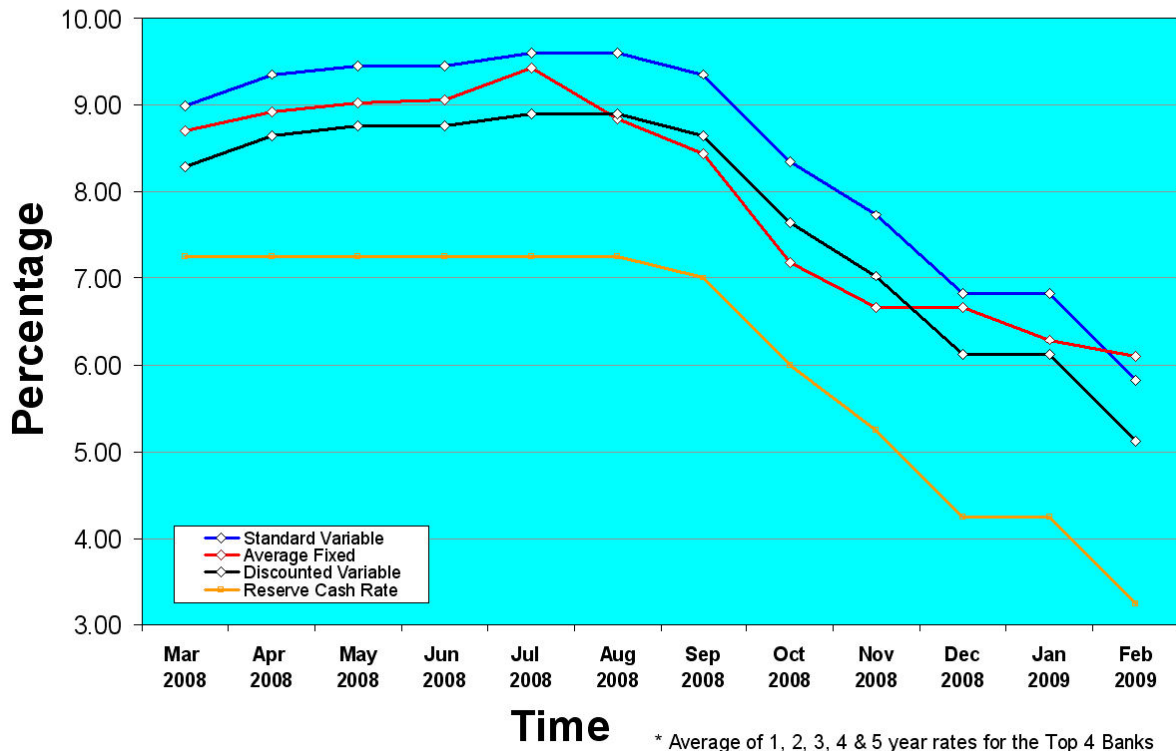
At the end of 12 months – even if the property has not gone up in value at all – they will still have made a profit of almost \$2,000 (perhaps a little less if they have to attend to any unexpected repairs). So without using a single cent of their own money – they have generated a profit of almost \$2,000. Now, if you consider that the average annual increase in house prices in Melbourne is close to 10%, they may even find that at the end of 12 months they own a property now worth \$352,000 (ie. \$320,000 x 110%) PLUS have had the bonus of making a profit of \$2,000 paid to them whilst holding the property for that year.

As I have written in my book – “THAT is the power of property investment”. Where else can you invest \$0 of your own money and yet make a profit?

## Interest Rate Movements 2000 - 2009



## Variable vs Fixed Rates\* 12 months to Feb 2009



\* Average of 1, 2, 3, 4 & 5 year rates for the Top 4 Banks

## Invest Now or Wait?



Despite a constant bombardment in the media – with opinions divided about whether to buy now or wait – my short answer and personal philosophy is simple. My personal investment strategy is governed by a cliché – “it is not TIMING the market that counts – it is TIME IN the market that is important”. As far as I am concerned – the best time to buy an investment property is as soon as you can afford to. Get into the market and hold property – it is as simple as that. I know that there are some times and places where this will not always apply (eg. the NSW market has always been a lot more volatile – forcing investors there to pay closer attention to timing) – but in Melbourne where we experience a much more even year on year shift in property prices (and with few exceptions – an upward shift) – it really comes down to time in the market. Melbourne’s only recent exception to this rule has been particularly evident in premium properties (however, with most investors holding more modestly priced properties, 2008’s pain at the top end has been most acutely felt by owner occupiers).

But, it is easy to say one thing and yet do another – so do I practice what I preach? When I decided back in 2005 that I wanted to build my personal portfolio up through the purchase of another 6 properties – I bought them as quickly as I was able to raise finance and find appropriate properties in my selected suburbs (it took me 18 months – but since then I have been able to watch them appreciating each year whilst costing me little or nothing to hold).

My philosophy wasn’t just randomly plucked from thin air – it was based on research, analysis and careful property selection to help make it work. For those that would like to dig a bit deeper than the cliché above – here are the key points for the affirmative and the negative – so that you can make up your own mind:

INVEST NOW	WAIT
☺ Price growth is flat / slow right now – but predicted to improve throughout the second half of 2009	☹ Property prices are predicted to drop by up to 40% in 2009 - wait until after this has happened and THEN jump in
☺ Australia’s population is increasing at a record rate – with immigration booming and an average of at least 1/3 of immigrants becoming tenants	☹ No response
☺ Melbourne’s population is increasing at record rates – with predictions saying that Melbourne will ultimately overtake Sydney as Australia’s most populous city	
☺ A sustained lack of new housing construction has led to a massive short supply – contributing to increasing rents and reduced vacancy rates	
☺ Rental property vacancy rates are at an all time low	☹ As interest rates fall – the appeal of buying over renting improves. This will result in more tenants buying – and therefore vacancy rates increasing, and rent rises slowing considerably
☺ Rents increased at record rates during 2007/2008	
☺ Interest rates are at record low levels and tipped to drop further	
☺ Quality applicants have little trouble securing low rate property investment loans	☹ Banks have lowered LVRs, removed Low DOC loans and generally tightened lending criteria due to the global financial crisis. Wait a while & it will become easier to get a loan

## NEWS HEADLINES

1/1/09

### **A BIG THANKYOU to all my Buyers Advocate Clients in 2008**

As we get ready to welcome the new year - I would like to say a sincere thank you to all my clients from 2008. I have met some absolutely delightful people this year (you all know who you are) and you have each helped me continue to grow my passion for property and property investing. I am grateful to you all.

In 2009 I look forward to optimising your investment property returns (through Total Care) and - for some - expanding your portfolios via further property purchases.

Please take time over the holiday period to celebrate what you have achieved in 2008. To my clients who bought their first investment property - you have become one of just 6.5% of Australians who own investment property. For those that bought their second and third properties - you are now among a group of less than 2% of Australians who own two or more investment properties.

Congratulations to each and every one of you.

1/1/09

### **What was the BIGGEST Property Investor News Item for 2008?**

By far the biggest news item for property investors in 2008 was interest rates. The biggest cost for an investor is interest - so when the Reserve Bank reduces that cost by over 40% in just 4 months it is cause for celebration.

For anyone that braved the negativity of the global credit crisis and took the leap into property investment in 2008 - congratulations. Your counter-cyclical investing places you securely in on the ground floor of the next property recovery and boom cycles. Even better - with the Reserve Bank gift that keeps on giving - your holding costs in 2009 will be far lower than any analysts dreamed would be possible back in mid 2008.

For those existing property investors who held their nerve (and their properties) throughout the high interest rates and plateauing prices of 2008 - congratulations to you too. You have weathered the storm and come out the other side into a bright world of low interest rates, high immigration, low vacancy rates and fast-rising rent returns.



This month I would also like to say thank you to the people who have purchased my book – and then gone on to become clients of my Buyers' Advocacy. My book was born from a passion for property – but it has now also given me the opportunity to meet and work with some delightful (and sometimes very funny – you know who you are) people.

My favourite online retailer continues to be TheBusinessMall – who are selling my book for \$22.95 (inclusive of postage Australia-wide – which is a great deal).

<http://www.businessmall.com.au/cad-1.html>

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

## TOP 5 NEGOTIABLE ITEMS WHEN BUYING AN INVESTMENT PROPERTY

1. PRICE
2. PERCENTAGE DEPOSIT
3. SETTLEMENT DATE
4. CONDITIONS (PEST, BUILDING, FINANCE ETC)
5. TIME LIMIT ON OFFER



### 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 Lame Ave, BAYSWATER VIC 3153  
Email: [info@snaponline.com.au](mailto:info@snaponline.com.au)  
Web: [www.snaponline.com.au](http://www.snaponline.com.au)



# SNAP Property Buying Support

*We make buying property a SNAP*