

Property Primetime

The newsletter for informed property investors

March / April 2009

Mar/Apr Feature Article

First Home Buyers versus Investors

Scott Caddaye

Over the last six months, an interesting battle has been playing out between arch rivals – First Home Buyers and Investors. The First Home Buyers are armed with government cash handouts and face a looming deadline – but the property investors have something which the First Home Buyers lack ... patience. There is no ticking clock driving the property investors to buy before June 30 – so many are choosing to bide their time and wait for the First Home Buyers to ... well ... to go home!

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Special Announcement

Buyers' Advocate Discount Extended



Due to popular demand, I have extended my offer of discounted Buyers' Advocate fees.

This offer will now run until June 30th 2009.

This discount applies to both my engagement fee and any services fees related to the purchase of 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 .

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First Home Buyers versus Investors



First home buyer activity is now at record levels. Since record keeping began in 1991, first home buyers have never accounted for such a high proportion of total loans (now at almost 27% of total loans as at February 2009). Not surprisingly – my first home buyer client base has doubled in recent months too.

Clearly the fast approaching end date for the First Home Owners Boost is a significant incentive, not to mention the record drops in interest rates over the last 6 months (plunging us to levels last seen in the sixties). What will be interesting to see is how the government is going to respond. Their “boost” payment has done exactly what was intended ... it has managed to boost market activity and underpin house prices (especially at the lower end of the market). With top end property sales still weak – some may fear for what might happen to our overall housing market if the bottom end boost disappears.

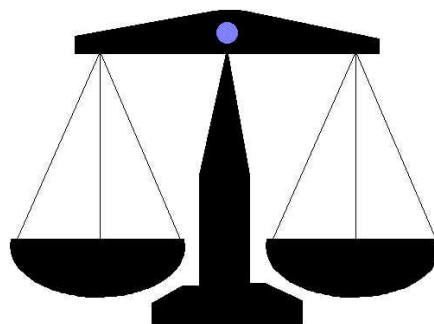
Fear not however – as there are two possible scenarios that I see as likely. The first is that the government removes the current boost – but replaces it with some alternate subsidy / rebate / tax reduction that will have a similar effect for first home buyers. The second – is that the government recognises the marked reduction in investor activity in recent months and executes a strategy aimed at increasing activity in that component of the market. Even if the government just passively lets the boost end – the underlying first home owners grant remains and (combined with seductively low interest rates) will ensure that first home buyers are still substantially better off than they would have been 12 months earlier when buying into a rising interest rate environment.

One way or another – we are likely to see the next month or two as a sustained peak for first home buyer activity. No matter what the government does – this level of activity is likely to abate as of July 1 (even if they extended the boost – what would be the rush for first home buyers to quickly lock in a purchase?).

So – what will happen to house prices when the first home buyer activity calms down? In my opinion, little or nothing. Many investors have been staying out of the market for some time now – seeing the top end as too risky and the bottom end as having too many first home buyers to compete with. With first home buyer competition diminished, any smart investor will seek to take advantage of all the positive attributes of our current market including:

- Record low interest rates
- Record low vacancy rates
- Record low housing shortfall versus demand
- Record high rent returns

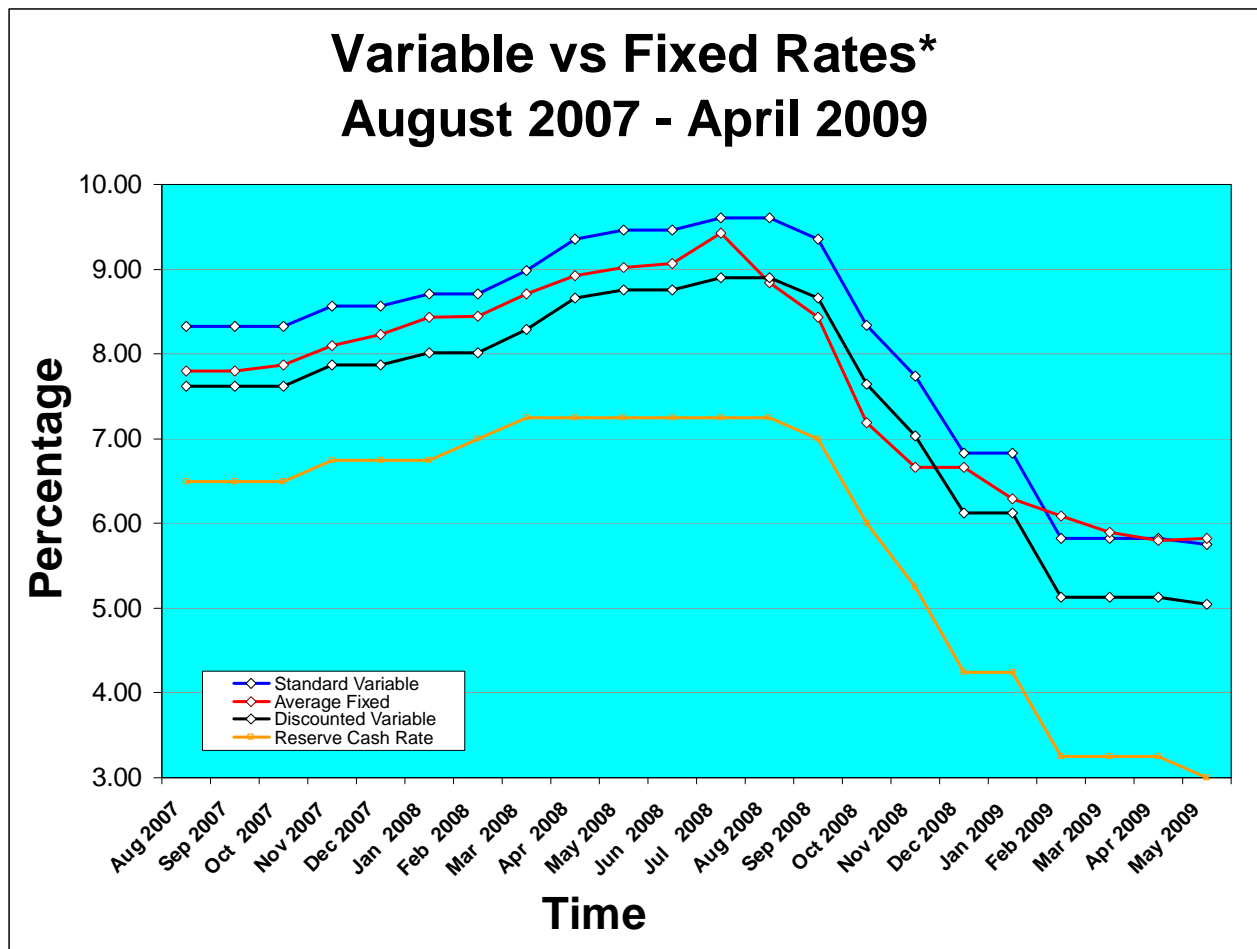
As you can see – regardless of whether the government intervenes or not – the natural laws of supply and demand will keep us nicely in balance. Put simply - investors will pick up where First Home Buyers leave off.



Reading the Rates – Time to Fix?

Like you, I have no crystal ball and realise that there is no certainty as to how interest rates might change over the coming months. However, my close analysis of fixed rate changes across major lenders over the last two years, has led me to some surprising findings. These findings may provide an indication of what the future has in store for all of us property investors and home owners.

- Despite the aggressive variable rate drops of recent months, the 10 year fixed rate at most major banks has not dropped since December (and one bank actually put theirs up during March). 10 year rates are always slow to change – but movements (especially upward) give a hint as to where the banks see 1-5 year rates going in the near future.
- The 1, 2 and 3 year fixed rates are still dropping at most lenders (currently 4.99% to 5.19%) – but reductions are now smaller and occurring at a much slower pace.
- Some banks (eg. ANZ) have not changed their 1 or 2 year fixed rates for over 6 months now. Given the radical drops 6-9 months ago – this represents a level of stability we have not seen for some time.
- In late March, the press predicted that April would be another possible month with no further interest rate cuts (very different to February when the papers were full of talk regarding a half percent drop in March and more in April – June). As we now all know – there was a modest cut in April (0.25%) – but the banks managed to negate that by passing on either 0% or a measly 0.1%
- In April, not one but two of the larger banks have INCREASED their 1, 2, 3, 4 and 5 year fixed rates. That's right – contrary to the still dropping variable, fixed rates just might be back on the way up.
- The share market has (even if only temporarily) put on a bit of a burst in the last month, which (if sustained) could lead to improved consumer confidence and spending increases (and less pressure on the RBA to drop interest rates further).



I always like to consider the extremes of something before making a decision. With interest rates – the extreme at one end of the spectrum is the possibility that rates will drop by a further 1-2% (with bigger drops possible – but highly unlikely). Even a 1-2% drop is looking less and less likely however, given that we are already sitting at lows not seen in over 40 years. You have to ask yourself – how much lower can they go? At the other end of the spectrum is the opposite extreme – high interest rates. Anyone who held a mortgage in the late eighties will know that rates can actually get to 17% and beyond. With these two extremes in mind – it could be argued that waiting for rates to drop a bit lower (maybe) is a big gamble when the possibility of missing that drop and catching them on the way back up could mean paying a substantially higher rate. I am definitely not saying that rates are going to sky rocket anytime soon – but the fact remains that they could go up by a lot more than they could drop. My logic is simple – why gamble on the possibility of a 1% lower rate when the alternative is to risk a rate many percent higher? By fixing your rate now (with a good 3 year fixed rate being currently equivalent to a good discounted variable rate) – you might just look back in a year and see that you locked in at or near the bottom of the market.

There is no way to predict the future. Rates could drop much lower (as was being popularly predicted just a few weeks ago), could stay in their current (relative) holding pattern for months, or could even start to rise (as has happened in a couple of recent cases).

I guess the message is this – at some stage in the future there will be risk-averse people who have been enjoying low variable interest rates – that kick themselves for not having locked in at the 4.99%-6% rates on offer for 1-5 year fixed terms. I know that my own properties (a mixture of fixed and variable) are currently neutral to positive in their cashflow (as are the majority of my clients) – but I also know that it can't last forever and that eventually the variable will climb and try to take my positive cashflow with it.

If you are the type of person that is happy to ride the variable wave – then there is nothing to be done (other than rejoice in the current low rates – and pray for even more drops). However, if you are more cautious, then keep your eyes and ears open for signs/news of the economic recovery that is bound to ultimately result in increased interest rates. When that news starts getting traction – speak to your financial advisor, bank or mortgage broker nice and early (even if only to find out what options might exist for you at that time).

For now – enjoy the cashflow! As for me - I'm off to lock one of my variable loans in for 3 years fixed at 5.19%.



NEWS HEADLINES

15/2/09

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.

For more details on Positive Cashflow Properties (and a fully worked recent real life example) - read the full article in my [Jan/Feb Newsletter](#).


15/2/09

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 or premium investors).

For more details on Property Investment timing (including a table comparing positives and negatives) - read the full article in my [Jan/Feb Newsletter](#).



With Borders stores virtually sold out, Dymocks and the larger Myer stores are the best places to find good stocks of my book right now. Both continue to retail it at \$19.95 (although you should keep an eye out for Myer “percentage off all books” sales).

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>

TOP 5 REASONS NOT TO BUY AT AUCTION

1. THERE IS NO COOLING OFF PERIOD – SO FINANCE PRE-APPROVAL IS MANDATORY
2. YOU HAVE TO DO YOUR PEST / BUILDING INSPECTIONS BEFORE BUYING
3. YOU ARE IN A COMPETITIVE SITUATION THAT IS DESIGNED TO DRIVE THE PRICE UP
4. PRICE RANGES ARE OFTEN UNDER-QUOTED / MISLEADING
5. IMMENSE PUBLIC SCRUTINY AND ADDED STRESS



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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