



## Property Market Outlook Source: RP Data



**The RP Data-Rismark Home Value Index results for July showed that home values across the combined capital cities fell by -1.5% over the three months to July. The month-to-month index results show an increase in value declines with a fall of -0.6% in July compared to a downwardly revised fall of -0.4% in June and -0.4% in May. Over the year to July 2011, capital city home values fell by -2.9%.**

The slowdown in market conditions was brought about by a number of factors, with the most significant dampener being higher interest rates. The Reserve Bank of Australia embarked on an interest rate tightening cycle in October 2009, lifting rates by 175 basis points between October 2009 and November 2010. National transaction volumes started falling after the first rate hike, and as at June 2011 the number of home sales were running about 17% below the five year average.

Additionally, the general wind down in the market cycle was at play. The high rates of capital growth between January 2009 and June 2010 could not have been sustained. As interest rates rose, affordability constraints became a greater barrier and buyer demand began to fall.

Even though headline inflation is outside the RBA's target range of 2-3% and core inflation is at the upper end of the range, the experts are predicting an interest rate rise is now

off the cards. Low retail spending, falling home values, weak credit growth, high rates of household saving together with a downwardly revised forecast for Australian economic growth are leading some to speculate that interest rates may start to fall once again. If the financial markets are anything to go by, rates are set to fall by close to 125 basis points by April next year.

Looking ahead, Australia's housing markets are likely to remain fairly flat with regards to capital gains over the coming year. Recent falls in property values together with an increase in selling times and vendor discounting suggest that market conditions at this point are unlikely to improve significantly. ■

### Melbourne Housing Market Key Statistics

June 2011 statistics	Houses	Units
Median sale price	\$500,000	\$428,944
Change in median sale price (12 months)	7.5%	5.1%
Change in median sale price (3 years)	28.2%	20.8%
Change in median sale price (5 years)	50.8%	46.6%
Median asking rent	\$360	\$350

Source: RP Data Suburb Scorecard Report (June 2011). All figures are current and based on data available at the time the report is published. Figures are indicative only and subject to revision.

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### Congratulations

Congratulations to Brad and Megan Rogers who were the lucky winners of the Mortgage Choice 'Chance to win \$5,000 cash' competition.

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## Q&A

### OFFSET ACCOUNTS

**Q:** What is an offset account?

**A:** Many lenders offer a 100% offset account as a feature with standard variable home loans. Regular repayments are made to the loan as required, however the borrower has a separate transaction account with the same financial institution. The borrower deposits their income into the transaction account and uses it for day-to-day expenses. Any money in this account is then offset against the amount owing on the home loan and interest is calculated on the loan balance less funds held in the offset account. ■



## Negotiate your way to a bargain

**When you're on the hunt for a property, it's tempting to rush in when you find one you're interested in. However some good negotiation skills could go a long way in helping you snare a property bargain.**

### Research

Research the prices being achieved in the suburb of the property you're considering. This will give you an idea of market values and what you should expect to pay. Websites like Home Price Guide ([www.homepriceguide.com.au](http://www.homepriceguide.com.au)) and RP Data ([www.myrp.com.au](http://www.myrp.com.au)) offer details of recent sales at no charge.

### Fish around for information

Some of the best bargains are available on properties listed for some time. Quiz the selling agent about how long the home has been listed - and why it hasn't sold. The longer a property lingers, the better the odds of securing a discounted price.

Small talk can reveal plenty. Listen to the agent for hints on whether the vendor has purchased elsewhere, is moving due to a job transfer or is experiencing a divorce. These all provide scope to negotiate. Try to get a feel from the agent if the property has generated much interest among other buyers.

### Check the property thoroughly

Inspect the property several times and at varying times of day to avoid nasty surprises later on. Review the contract for a clear idea of what comes with the property - some appliances may not be included. Always arrange a pest and building inspection on a property you're seriously considering. Building advisory service Archicentre estimate that one in three homes have hidden defects. If the inspection does show up problems, the cost of repairs can be used as a bargaining tool.

### Bargain hard

If you're still keen on a property, ask the agent for the lowest price the vendor will accept and work towards this. Never give away your own price limit. Think about how much time you need for settlement. A buyer who can settle promptly will appeal to a vendor who has purchased elsewhere.

Finally, no matter how appealing the property, stick to your home buying budget. There's no joy in owning a home you can't comfortably afford. ■

## NEWS FROM

### Your Mortgage Choice Team

Mortgage Choice has demonstrated its continued resilience in an ever changing market, as we were recognised by two of the industry's biggest awards in 2011.

The first accolade was ranking number one on The Adviser magazine's *Top 25 Brokerages* list for the third consecutive year. The second was being awarded *Major Brokerage of the Year - Franchise* at the inaugural 2011 Australian Broking Awards.

We are thrilled to have won these two important industry awards. We are continually striving to provide a high level of service to our customers and these awards solidify our position as an industry leader. ■



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**Investing in property is a proven wealth creation strategy that has been employed by many Australians. But as with any property decision, it always pays to do your homework.**

Firstly, you need to know what you are getting in return for your investment. There are substantial costs in owning a property, including upfront costs such as stamp duty and legal fees; and selling costs such as real estate agent's commission, capital gains tax and advertising costs.

In order for you to make a profit, the value of your investment property needs to grow by more than the value of these costs

the construction of a new shopping centre could make an area even more appealing in the future. Also check for new infrastructure such as rail lines and roads.

It is also wise to have an eye to the future. An increasing population usually points to increasing property demand. The Australian Bureau of Statistics is a good source of information on population growth and changes in the demographics in each state or territory.

#### Appeal to your market

You may also be able to derive an income from the rent that you collect from your

principal loan amount) outweighs the rental income you receive. The difference is a loss that can be claimed as a tax deduction. This deduction reduces the tax payable on other types of income including your regular wage or salary.

Also, if you hold onto your property for over 12 months before you sell, the capital gains tax payable will be calculated on 50% of the profit rather than the total profit.

#### Get the help of a professional

Seek professional advice about the type of investment property that will maximise your returns. Buyers' agents know the



## Investment strategies for long term growth

and the after tax costs associated with holding onto the property. Here we discuss some key factors that can help you ensure that your investment will be a profitable one.

#### Look to location

Location plays a key role in the success of an investment property, not just helping to attract quality tenants but also giving you a better opportunity to enjoy long term capital growth.

Look for locations offering good transport links and local amenities like schools, hospitals, shopping and leisure facilities. These features generally indicate an area with strong growth prospects. Speak to the local council and check out relevant Government websites to see if there are any development plans in place, for example

tenants. To achieve a strong rental income, look for properties that will appeal to tenants. Clean, secure homes with easy access, low maintenance outdoor areas, good light and airflow and plenty of storage space are key things to look for.

For many tenants, their car is often their most expensive asset so a property with off-street parking, preferably in a garage or carport, is likely to attract more tenant interest than one without.

#### Property is a tax effective investment

Property investment can also be a very tax friendly investment. You may be able to achieve tax savings through negative gearing, where the cost of owning and maintaining the property (including interest on the loan but not repayments on the

market better than most and are a valuable resource for advice or for negotiating with property sellers and their agents.

Your accountant can help you assess the viability of an investment relevant to your financial position. You need to make sure that your financial situation is improved by an investment property and that you can afford the repayments without stretching the budget uncomfortably.

Lastly, your mortgage broker can help you ensure the loan you select is in harmony with your investment goals and risk management requirements.

The way you fund your investment property will impact on the returns you receive, so the type of loan used to buy the property should be chosen carefully. ■

## How healthy is your cover?



#### Trimming the fat from private health cover is good for your wealth... and your health.

Private health cover is one of life's must-haves, but if you're paying too much in premiums, you're wasting money.

There are good reasons to have health insurance. It lets you sidestep lengthy waiting lists for elective surgery, and

provides the reassurance of treatment by your own doctor in the hospital of your choice.

#### Private cover can be a money-saver

If you don't have health insurance, and you're a single earning over \$80,000 or a family earning over \$160,000, you'll be asked to pay the Medicare Levy Surcharge (MLS). Set at 1% of taxable income, the cost of MLS could be more than you'll pay

for some basic health insurance policies.

Around 50% of health insurers also support wellness programs, covering the cost of gym membership plus weight loss and quit smoking programs.

Nonetheless, it's important to only pay for cover you need. Scratching unnecessary options from your policy can reduce premiums. Increasing the agreed excess or opting to make daily co-payments for hospital treatment will further trim monthly premiums. Just be sure you could meet the cost if you need to make a claim.

#### Shop around to save

Premiums for private cover vary widely, and you could save around \$130 per month on basic family hospital policies just by shopping around.

Comparison websites such as Help Me Choose ([www.helpmechoose.com.au](http://www.helpmechoose.com.au)) offer a quick and easy way to compare policies and premiums. Help Me Choose will even assist in the search for a more suitable product - at no cost to you. As long as you choose the same level of cover with a different fund, you shouldn't have to re-serve a waiting period before being able to make a claim. ■

## REVIEW YOUR WAY TO A BETTER MORTGAGE

**Increased competition between lenders means there could be advantages in reviewing your mortgage on a regular basis. Your mortgage broker can help you compare packages across lenders to find one with an interest rate and features to help save you money and pay off the loan sooner.**

A mortgage review is not just about finding a cheaper interest rate. Many lenders offer both fixed and variable rate loans, and your broker can show how a fixed rate may benefit you in times of uncertainty by locking in payments to give you greater cash flow stability.

However, having a fixed rate may work against you should interest rates drop, so your broker can also show how a split rate mortgage lets you fix the rate on part of the loan while the rest is variable.

#### Faster payoffs

Your broker can also advise you on how making lump sum payments or even small additional contributions above your monthly minimum can make a big difference when it comes to paying off your loan sooner. Many mortgages come with features such as low-rate credit cards or redraw facilities, which can help you through unexpected financial hurdles. But these features can push up the fees or interest rate, so if you are not using them, it might be worth swapping to a simpler and cheaper mortgage.



#### Flexible options

Your broker can also show you the benefits of an offset account, whereby your savings are offset against the amount owing on the mortgage when your interest is calculated. This option lets you keep some cash in reserve.

It's a good idea to review your mortgage every 12 months to capture any changes in the market or your personal circumstances. Although there may be costs associated with swapping mortgages, savings over time may outweigh these costs. Your broker can help you with these calculations. With access to a wide range of lenders and mortgage products, your mortgage broker can advise you on selecting a product to save you money and help you pay off your loan sooner. ■

