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NEWSLETTER

FORT KNOX home loans

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Rental occupancy rates at all time high

There's no doubt it's a great time to be a property investor when it comes to rental returns.

Rental occupancy rates are at an all time high of close to 99% across Australia making it the tightest rental market in decades. According to the Real Estate Institute of New South Wales, Sydney's vacancy rate was just 1.2% in early 2008.

Demand is clearly outstripping supply with prospective tenants willing to do and pay just about anything. Some are prepared to pay more than the price being asked, pay months in advance or sign long leases.

With queues of people turning up for an open house and a long list of applicants, there have even been 'bidding wars' between the applicants with the property auctioned off to the highest bidder.

Renters already in place have been experiencing rent increases of at least eight percent although increases of between 15% and 30% are also commonplace, particularly in Sydney's inner city market over the last 12 months.

This kind of rental security for an investor is worth its weight in gold, especially with the pressure of 12-straight interest rate rises and banks often adding their own increases on top of the Reserve Bank hikes.

Forecaster and analyst BIS Shrapnel predicts significant rent rises, with Sydney unit rents expected to increase by up to 40 per cent over the next five years.

For anyone considering entering the rental market, there's a big tick for the rental occupancy component of your investment decision. However, it's still vital that you do your research and buy in a location which not only has strong rental demand but also offers strong capital growth. Afterall, a majority of your returns from a residential investment property will come from capital gains rather than rent.

A good investment will have some or all of the following:

- close to water or with views;
- close to amenities like shops, public transport, schools etc; and
- is a sought after suburb ie location, location, location.

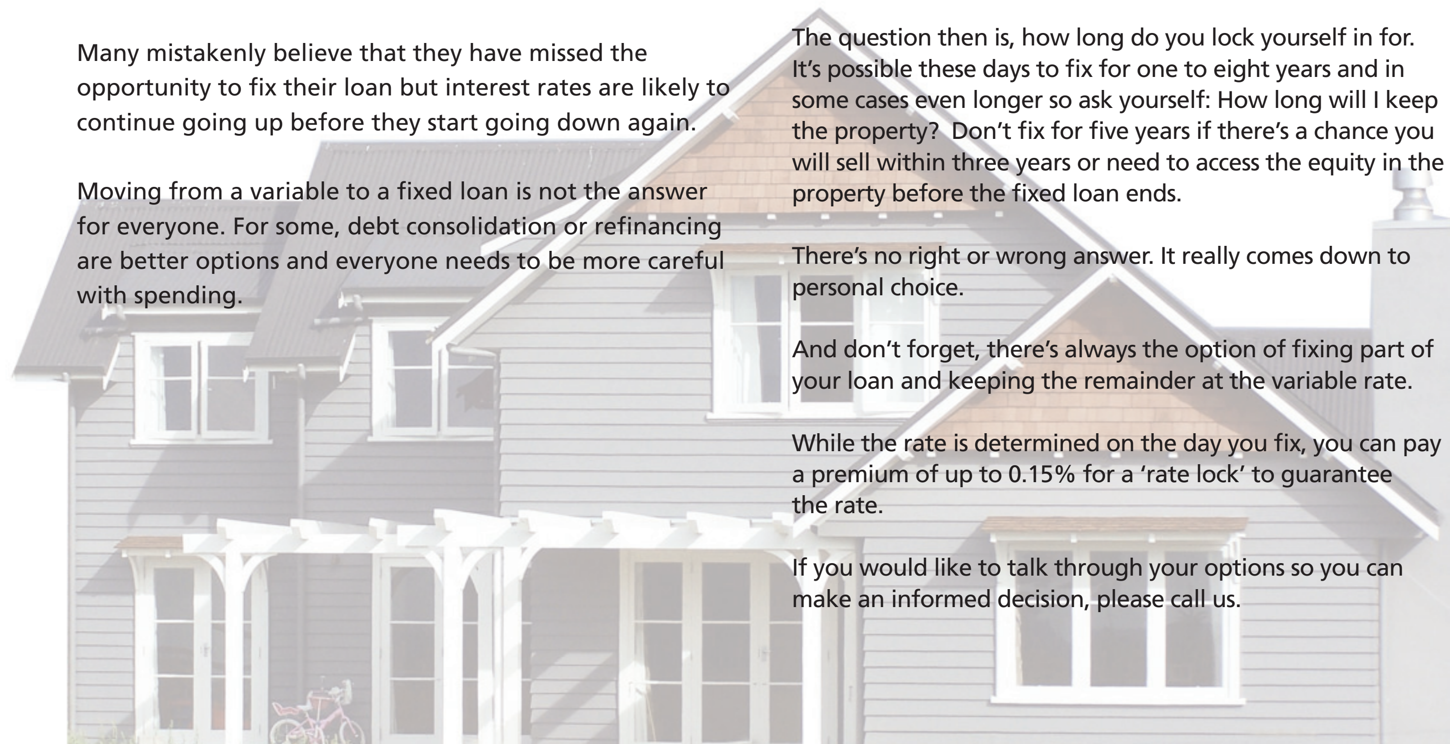
Many investors have turned an interstate holiday into a search for an investment property with rental demand in the neighbouring cities of Brisbane and Melbourne, for example, also close to 99% but with lower property prices making it easier to buy into the market.

On the other hand, with rents now creeping closer to mortgage repayment levels, home ownership – despite the rate rises – is starting to look more attractive. For some, this may mean an interstate move to get into the home ownership market while others will be stuck renting for a while longer as they struggle to save a deposit while they pay higher rents.

And, just as some home owners are wrestling with the pressures of 'mortgage stress', those who rent are increasingly experiencing 'rental stress' as they are forced to part with more of their weekly income in rent than they can comfortably afford.

Fixing your home loan: It's never too late

The number of home owners and investors inquiring about fixing part or all of their home loans has increased dramatically.



With both the Reserve Bank increases and now major banks independently lifting their interest rates, or exceeding the Reserve Bank's increases, everyone is reassessing their financial situation.

There have been 12 rate rises in the past five years and interest rates are now at their highest in 10 years with predictions of up to another four this year.

Many mistakenly believe that they have missed the opportunity to fix their loan but interest rates are likely to continue going up before they start going down again.

Moving from a variable to a fixed loan is not the answer for everyone. For some, debt consolidation or refinancing are better options and everyone needs to be more careful with spending.

Fixing makes the most sense for those who:

- Want to know exactly how much they will have to pay every repayment and not have to find the extra money if rates go up. If you're considering having a child or working part time then a fixed loan reduces the risk of not being able to meet repayments if rates rise;
- Don't want to change lenders or sell for at least the length of their fixed loan term. If you want to get out early there may be thousands of dollars in exit fees to pay; and
- Investors who are interested in capital gains and don't want to make additional payments to reduce the principle. Most banks have a limit to the amount that can be paid off the loan above the repayments.

The question then is, how long do you lock yourself in for. It's possible these days to fix for one to eight years and in some cases even longer so ask yourself: How long will I keep the property? Don't fix for five years if there's a chance you will sell within three years or need to access the equity in the property before the fixed loan ends.

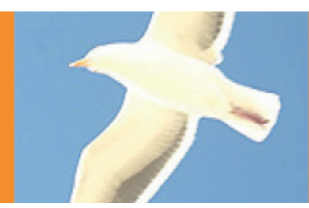
There's no right or wrong answer. It really comes down to personal choice.

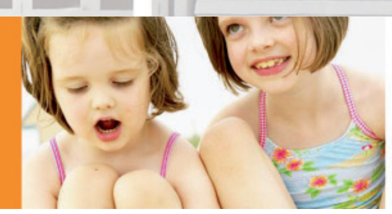
And don't forget, there's always the option of fixing part of your loan and keeping the remainder at the variable rate.

While the rate is determined on the day you fix, you can pay a premium of up to 0.15% for a 'rate lock' to guarantee the rate.

If you would like to talk through your options so you can make an informed decision, please call us.






It’s share-buying time

By Peter Switzer

The line I have picked up, which I will never forget, came from my favourite investment guru – Warren Buffet. He recently uttered the best summary of himself and his attitude to making money in shares. It runs something like this: “Try to be fearful when others are greedy and greedy only when others are fearful.”

In case his words of wisdom are a little abstract, times are fearful. So, if he is right, it must be time to be greedy – it’s share-buying time! That could be a stretch because we probably have some time to go before we hit the bottom, but my guess is most of the fall has happened.

The Yanks have fallen four months straight and the Dow Jones has shed 13.4% while we have collapsed 20% since our all-time high of 6680 on 11 December 2007.

The stock market is always seen as a forward indicator of what is likely to happen to an economy and the profits of a company. Given that all of the influential economists say we are no longer heavily linked to the American economy and more to Asia, this sell off looks overdone.

Of course, there are some negatives that are affecting individual sectors on the Aussie stock market. The rising inflation and interest rates scenario, which has surprised most economists, is set to nail lots of families and consumer discretionary product suppliers such as Harvey Norman and JB HiFi will feel the pinch. The likes of Woolworths will be more insulated as they sell stuff we buy in boom or downturns – food and grog!

Sensitive stocks will be affected by the higher dollar and that means tourism in particular. However mining stocks have the benefit of the insatiable demand of Asian fast growing economies, such as China and India.

The banks have copped it because of rising interest rates and the sub-prime mess (See breakout box for why the US sub-prime mortgage crisis is hurting us) and the credit crunch is starting to hit customers such as Allco, ABC Learning Centres and Centro. This will hurt forward profit projections.

I think the bank sell off is way over the top, but the bears are in control and so they having a lot of fun at the expense of optimists. However, the words of Buffett come back to comfort me – “be greedy when others are fearful”.

We don’t know where it will bottom, but between now and mid-year, there will be good opportunities for the long-term investor, which all of my clients are.

In a recent column of mine in *The Australian’s Wealth* section, I showed a chart that convinces me about the wisdom of being a long-termer. The chart looked at share trading between 1979 and 2006, which had lots of bear and bull markets. If you had a portfolio that was a good approximation of the All Ords Index including dividends and you were in the whole time, you made 11.4%. Now get this, if you missed the 10 best days of big rises, your return drops to about 8.7%! Miss 40 days and you end up with 5.3%!

Clearly it is great to buy in low market times if you can pick it and then stay invested for a long, long time. As long as you are hooked on good companies that will be there for the long-term, you are positioned well to make money out of shares.

That is our strategy, so even if these good companies are copping a caning now, we have confidence that they will rebound.

It is one of the great things about investing in property and that is you only get a few stories a year telling you whether your house’s value is rising or falling. And generally, it is positive news with houses, though some rises can be pretty weak at times.

I believe the US economy will be pointing to improvements by June or July and the stock market there will start heading up again and this will trigger rises here, especially as we are likely to benefit from Asian demand.

Without doubt, the Reserve Bank’s desire to slow the economy down to KO inflation has hit investor sentiment but the smarties in hedge funds and other institutions are making the bad news on the markets a lot worse than it needs to be.

If the economic outlook was weakening I would be far more negative, but simply, it isn’t.

Good luck and always think quality over time – it’s a winning formula.

Peter Switzer is the founder of Switzer Financial Services — *www.switzer.com.au*

Why the sub-prime mortgage crisis hurts us

The US housing bubble burst in 2006. This lead to an increase in home repossessions in 2006, 2007 and now into 2008.

The majority of these borrowers were sub-prime which means they did not qualify for the usual home loan because of poor credit history, therefore they were charged higher interest rates.

The US Reserve Bank increased rates and people started walking away from homes. During 2007, 1.3 million homes were repossessed, an increase over 2006 of 79%. There are a further one million loans in default by more than 90 days.

Through a system called securitisation, these mortgages were sold to overseas investors such as our Australian banks. The losses from these defaults passed on to overseas banks, hence they are now paying the price.

The repossessed properties were sold well below the original purchase price and the lending institutions carried the losses as there was no insurance in place. Also, US lenders cannot take action against the defaulting borrowers after the sale of the property. All losses are borne by the institution.

Australian banks can take action after the sale to recover any losses. However, only a small percentage of the losses are actually recovered.

Major banks and other financial institutions around the world have reported losses of US$140 billion to January 2008.