NEWSLETTER

FORT KNOX
home loans

ROBERT KNOX

WINTER 2008

The financial year has ended and although a better one lies ahead, I think we will have some dramatic moments before good sense and fundamentals prevail. The credit crunch followed by the oil price spike could not have come at a worse time but, to me, there is something perverse about the whole conflict.

Important question

In a nutshell, I ask, if the credit crunch is bad enough to threaten recession on the US and possibly the world economy, then why is the oil price rising? The answer is two-fold. Firstly, China, India, Brazil and Russia — countries often called the BRICs — are expected to keep on growing at fast rates, despite a US slump.
Secondly, Europe is more worried about inflation than an economic slump, and the central bank for the EC is more likely to raise interest rates than cut them. (That was the position before my deadline but it indicates that there isn't a worldwide panic about a global recession.)

Movement to the positive

There are reasons for the terrible performance of share prices and the failure of credit markets since the 'crunch' is critical. Recently, I saw that Ralph Norris of the CBA said this money market seizure could last into 2010. I hope that he is wrong.
Certainly, it will take time to sort out and, as the signs improve, the consensus will move from negative to positive.
At the moment we're hearing influential commentators talk about their well-connected contacts who say this and that and no one well-connected is saying anything positive on the rumour mill.

Keep in mind

Remember this: there are a lot of hedge funds and investment banks out of the money that can spook and influence market sentiment. If they're successful, they can make a lot of money and improve their poor, money-losing positions.
My attitude when things get tough is to go back to what my attitudes are to investment and wealth building. I am a long-term investor, accumulating great quality assets that have a history of doing very well over the long-term.

US taking action

I don't believe the US will stand by and let the current malaise continue. Bill Gross, who is the bond and interest rate expert par excellence in the USA, recently wrote a letter to Senator Obama, as though he was already president, bagging his predecessor recommending a $500 billion fiscal spending program to get the USA going again.
He also noted that the US bond yields were at the bottom and would start to rise, which is a more positive sign for an economy heading towards slightly better times.
This past financial year saw soaring commodity prices – especially oil. On top of that, the US sub-prime rocked financial markets. The Australian stock market recorded its worst annual decline in 26 years. Before that, we had four years of gains of more than 20 per cent – the strongest sustained period of gains in 20 years.

History repeats

Craig James recently made the point that the share market falls on average once every four years.
For the record, he noted that the resources sector became the largest share market sector, passing financials for the first time in 21 years.

In times like these...

Residential property was the best performing asset class in 2007/08, ahead of cash and bonds, with shares having a shocker.
But all of this happened with the worst credit crunch in my lifetime, the US housing sector in its own personal recession and our Reserve Bank lifting interest rates on four occasions during 2007/08, which meant our economy has slowed in response.
I think a lot of these negatives will be less prevalent going forward. Bad company reports and company write downs will be made and, gradually, the blue sky will make breaks in the black to grey clouds that dominate.

Sitting pretty

That's when I want to be holding great pieces of Australian industry — solid banks, retailers we all use, and resource stocks that will cash in on the new era of the BRICs.
If you are doing things right — and that's what we aim to do at Switzer — the long-term trend will be your friend. And in troubled times for some asset markets, that's when you should be glad that we always push diversification of assets.
Let's hope that positive news starts making a dent into the negatives that are a little too numerous for my liking.

***Peter Switzer** is the founder of Switzer Financial Services*

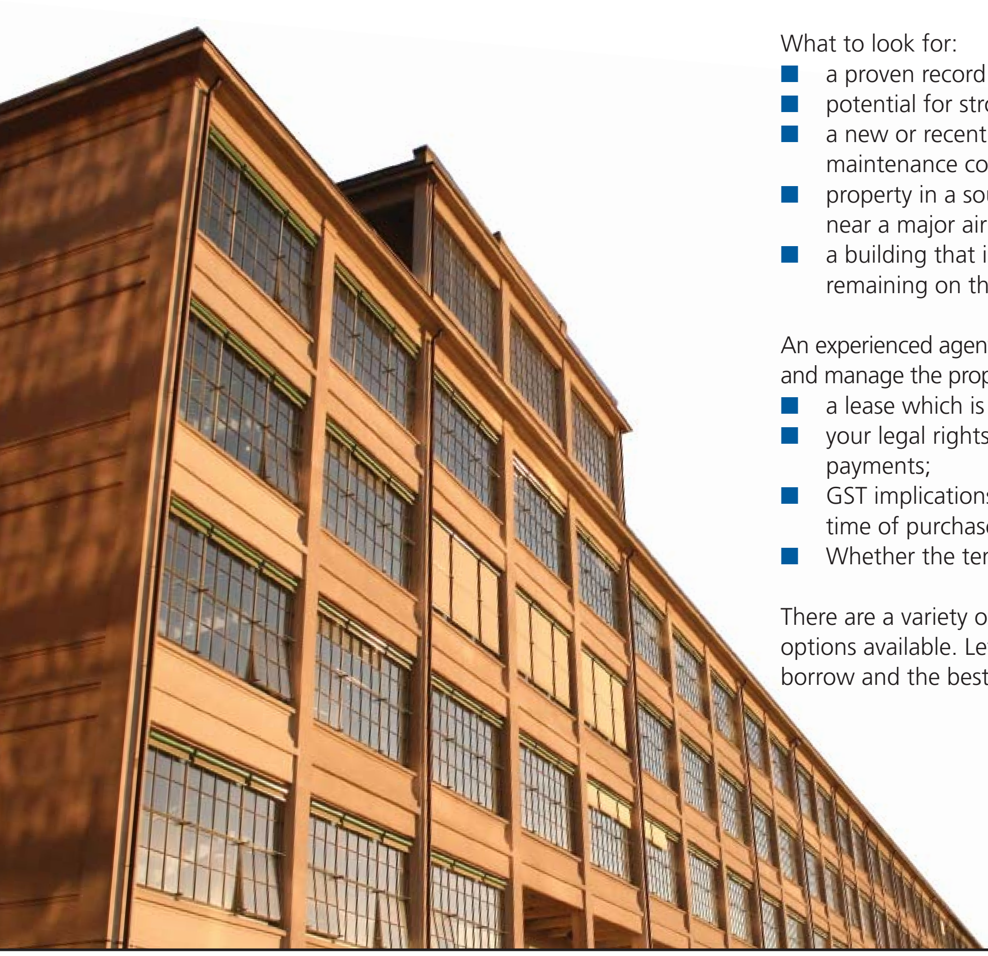
Investing in commercial property

Whether you're an investor or a small business owner, purchasing commercial property may be an option worth considering.

Commercial property doesn't have to be a multi-million dollar investment – there are small industrial strata properties or suburban shop-fronts which are available for the price of a residential unit or house.

The biggest challenge for any investor in commercial property is how much they can borrow. Unlike residential property, where it is possible to borrow 100% or even more with no deposit, a commercial or business loan will require a larger deposit (about 30%) or equity in property.

It is also widely accepted that there is a greater risk in buying commercial property but there are also greater opportunities and potential benefits.



Advantages include:
- return on investment is higher than residential by several percent as long as you have a tenant;
- leases are for a minimum of three years and have clauses relating to maintenance;
- rent is reviewed annually and is usually increased by at least CPI;
- current low vacancy rates and higher rental returns: and
- interest on your loan is tax deductible, as are maintenance charges, and there are higher depreciation rates.

Disadvantages include:
- stricter borrowing criteria and a larger deposit;
- higher rates of interest for a commercial loan and additional security may be required;
- harder to let – it can take months to find a commercial tenant and you may have to offer incentives such as fit-outs or rent free periods;
- the commercial viability of your tenant's business can impact on your investment; and
- it takes longer to sell and the sale value is often linked to its return. A history of consistent tenancy will influence the sale price.

Investing in a commercial property is a very different proposition to purchasing residential property. Do your research and get professional financial and legal advice.

What to look for:
- a proven record of good rental income;
- potential for strong capital growth;
- a new or recently refurbished building or property with low maintenance costs;
- property in a sought-after area, which might be a capital city or near a major airport; and
- a building that is already leased ideally with at least 12 months remaining on the agreement.

An experienced agent is a must to find tenants, help negotiate leases and manage the property. It is worth asking about:
- a lease which is secured with a bank guarantee;
- your legal rights to enforce maintenance, damage and rent payments;
- GST implications of buying a property which is not let at the time of purchase; and
- Whether the tenant will pay for outgoings such as council rates.

There are a variety of commercial property and business loan options available. Let us help you work out how much you can borrow and the best loan for you.

Mortgage brokers do it best

When it comes to borrowing money, people want guidance from someone they can trust.

They also like to know that the person they are dealing with will be around for the long-haul.

Expert service and a familiar face are two things that a professional mortgage broker is able to offer.

Unlike bank staff, who can take on a new portfolio of clients or move to another lending institution, a mortgage broker is usually a small business owner with a vested interest in establishing a long-term client base.

You can also have peace of mind if your broker is accredited through the peak industry body, the Mortgage and Finance Association of Australia (MFAA), as we are. All MFAA members – of which there are 13,000 – must meet strict accreditation standards on education, experience and ethics.

A recent MFAA campaign highlighted the benefits of using a mortgage broker.

- Mortgage brokers can save time. Mortgage brokers can do the leg work for you and sift through the seemingly limitless choices now available in the mortgage market.
- Mortgage brokers give you choice. Mortgage brokers have a panel of lenders from which they recommend a loan. They have to become accredited with the lender to offer their product and are required to keep up-to-date with their latest offers.
- Mortgage brokers can help find the right loan. The best deal is not necessarily the cheapest rate. A good mortgage broker will examine your circumstances and future plans to recommend a loan that is right for you.
- Mortgage brokers don't charge you. Mortgage brokers don't charge a fee for their service as the lenders pay them a commission for the loans they write.
- Mortgage brokers can help you avoid pitfalls. Many products seem to offer a great deal but they could have penalties, fees and charges you may not be aware of. Or, they may not offer the flexibility you require in the future. A mortgage broker can help you avoid taking out a loan you might later regret.

These days almost half of all mortgages through banks are arranged by a mortgage broker.

Mortgage pressures and what you can do

A recent study revealed that almost one in 10 households in Australia is suffering from mortgage stress.

NSW – which has the highest mortgages of any state – not surprisingly also has the highest rates of mortgage stress.

There is a steady stream of stories in the media about people defaulting on loans or not being able to meet their monthly repayments by the due date. NSW, particularly Sydney, also has the dubious honour of having the highest rates of defaults and 'delinquencies' as well.

Every quarter there are more than a thousand court-ordered home repossessions in NSW alone.

And it's not just those affected by rising interest rates – there have been 12 interest rate rises since mid 2002 – and increases in petrol and groceries prices. The downturn in the stockmarket means those who rely on income from investments are also affected.

Due to economic pressures or overborrowing, or a combination of both, the number of people seeking help in relation to mortgage and financial stress has increased dramatically over the past three years.

The most important piece of advice I can offer is: Don't let yourself get to a situation where you default on your loan. If times are tough, there are things you can do if you have temporary trouble paying your mortgage.

Once you realise you are having, or going to have, difficulty paying your home loan you must act immediately. Get legal advice and talk to your mortgage broker.

What steps you can take will depend on your individual circumstances and whether the reason you can't make the loan repayment is temporary or long-term.

This might include:
- Postponing repayments;
- Requesting a variation or reduction in the amount of each repayment;
- Restructuring your loan; or
- Extending your loan term.

If you delay, the lender can take action to repossess and sell your home.

The NSW Legal Aid Commission and the Consumer Credit Legal Centre have developed an online resource to help homeowners manage their mortgages.

The Mortgage Kit provides helpful information for people in trouble with their mortgage, from those having difficulty meeting their mortgage payments to those in the process of being evicted from their homes. For a copy of the kit call LawAccess NSW on 1300 888 529.

Suite 4/168 Forest Road
Hurstville NSW 2220
Phone 1300 FORT KNOX
Fax 02 9585 1807
Mobile 0412 206 837
robert@fortknox.com.au
www.fortknox.com.au

Preparing your property for rent...

In order to attract the best quality tenant, you will need to spend some time and some money preparing your property for rent.

The amount of time and money will very much depend on the condition of the property – whether you have been living in it or there have been tenants – and how well you have maintained it.

It is a lessor's market when it comes to rental properties, however, first impressions are still important. The condition of the property when the tenant signs the lease is how they are required to leave it – so a property in good condition will assist in ensuring it is left in a similar condition at the end of the tenancy.

There are some simple things you can do which could make a difference to the amount of rent you charge and the type of tenant you attract.

- Paint – a fresh coat of paint makes a property more attractive to prospective tenants. Old wallpaper or wood paneling on walls may turn off a good tenant so it is worth removing it and painting. Owners should budget to paint inside a property at least every five years. A light neutral colour is recommended.
- Lawn and gardens – easy to maintain, neat and tidy lawns and gardens create a good first impression. Ensure any large trees on the property are healthy and strong (so they won't fall down in the next storm) and that those with dangerous root systems (like fig trees) are not causing damage to the property.
- Floor coverings – carpets should be professionally cleaned (by outgoing occupant) and in good condition. Matted old carpet will be a turn off for some prospective tenants.
- Curtains or blinds – these are essential to provide the tenant with privacy. Curtains are cheaper and easier to install, maintain and repair than blinds. It is recommended you choose neutral or plain colours.
- Kitchen and bathroom – ensure they are in good working order and re-grout tiles to freshen the appearance. Ensure tiles around stoves, kitchen sinks, laundry tubs, basins, showers and baths are adequate to prevent damage from water and other substances.
- Odour free – if the outgoing occupant had pets it is a good idea to deodorise the property as prospective tenants who don't own pets will notice the smell and may be turned off the property.

Other things to consider include:

- Make the property water efficient – have a plumber replace toilet units, showerheads, taps etc with water efficient models. This can reduce the amount you pay in water rates by up to 30 per cent. If your property has water which is separately metered, you may be able to have the tenant pay for all the water they use – check with your real estate agent;
- Whether you will allow pets and if so how many – there's a big difference between having tenants with one dog versus a tenant with two dogs and two cats. When the property is advertised you can say 'pets will be considered' and then assess each prospective applicant; and
- Finding a property manager – rates can be negotiable so ask for a discounted rate. Also ensure you are aware of the amount of notice that you are required to give, should you wish to terminate the arrangement with the agent as some stipulate three months.