all finance matters

AUTUMN 2018

ARE YOU YOUR BANKER'S BEST FRIEND?

When it comes to our finance providers, we are a loyal lot.

According to research more than half of us never investigate the possibility of refinancing, resulting in many people paying more on their home loans than they need to.

For banks, the very best customers are the people who don't bother to look for a better deal.

We strongly recommend mortgage holders have their loan reviewed because banks, building societies, credit unions, private financiers and so on are constantly creating new packages to suit particular situations.

They're creating opportunities for people to make the most of – all that's needed is the motivation to see if you could be one to benefit.

Many people view the purpose of refinancing as simply to gain a better deal on interest rates. While it can be for this purpose – and it is worth remembering that a reduced home loan could shave years off the life of your loan - a good reason for a review is to see if you can slot into one of the new loan packages.

If you've had the same loan for a while, your package may have features no longer needed that you're paying for, or you may simply benefit from a new package.

A review is definitely needed when a fixed term loan nears expiry but also when a car loan is completed, or you've become empty nesters, or a two income family again.

These can be opportunities to put more money into paying off your home loan to save a massive amount of interest. Alternatively, you might be interested in a property investment, gaining another appreciating asset rather than one on a spiral of depreciation!

So all up, may we urge you – if you haven't had a review for a few years, to contact us.

AT THE TIME OF GOING TO PRINT, BEST VARIABLE RATE ON OUR PANEL:

3.59% PA
VARIABLE RATE

3.59% PA
***COMPARISON RATE**

welcome

Welcome to the first All Finance Matters for 2018, one in which we have to say, that times are a touch uncertain at present.

Though the West Australian economy is picking up, especially with the recovering mining industry, it is difficult to know in which direction the all- important property market is going.

While the market has improved since September last year, forecasters (including Commsec) believe interest rates will be raised late this year. Traditionally an interest rate rise brings a temporary slow-down.

Others however, believe the RBA will leave interest rates where they are, till at least mid-way through 2019.

In the meantime, worry warts have another cause for consternation: the Royal Commission into banks.

With the Commission's interim report due September 30 and a final report due February 1 2019, the extra scrutiny on the banks may lead to less flexibility in loan approvals.

There is reason for concern because industry bodies imposing regulations invariably lead to over-regulation. This can impact on the end user by way of restrictions to lending and increases in costs (interest rates).

An example already occurring is with interest only loans. Previously, simple to organise a rollover at term end - now a full re-assessment is needed that invariably increases costs to the borrower.

It will be an interesting year for WA, with an economy waiting to burst forth, but with a few issues that could dampen things a little.

Referrals received with thanks

As a client of ours, the greatest compliment you can give us is to recommend our services. If you refer family, friends or colleagues to IMFS during 2018, you will receive two complimentary movie vouchers for each referral.

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IT'S WORTH KNOWING THE VALUE OF YOUR HOME

Do you have a good idea of what your property would fetch in today's market?

Knowing your property's value and the equity you have can be useful for three reasons.

1) The information is vital if you're planning to sell, since it will assist in deciding what to buy and where you will make your next purchase.

2) Being aware of your equity is critical to decisions on using your property as security for an investment in property or for some other purpose.

3) It is useful to have an idea of the property's worth when making out a will.

It is important to remember that a market appraisal from a real estate agent is a guide to a possible asking price should you decide to list your home for sale. An appraisal is not a valuation, even though they can arrive at the same figure.

A valuation by a licensed valuer is deemed to be more conservative, being focused on the various qualities that a property possesses, coupled with a market analysis designed to provide an accurate assessment of the market value of the property.

If you are requiring a valuation as part of a finance enquiry, we can often have the valuation fees waived. Otherwise to obtain a valuation you have to pay the valuer a fee.

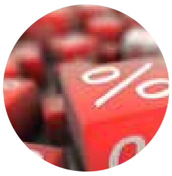
Valuations are mainly used for purposes such as mortgages, insurance, probate and family estate disputes and compensation where land is compulsorily acquired by governments.

Rental market rises

After having been in the region of 6.7% for a considerable period of time in 2016-17, Perth's rental market vacancy rate is now down to 5.5%.

According to REIWA, as at the end of February there were 18.5% fewer vacancies than at the same time last year.

Unfortunately for investors the median rent remains at $350/ week, however some suburbs have recently experienced small rent rises.



AT THE TIME OF GOING TO PRINT, BEST FIXED RATE ON OUR PANEL:

3.69% PA
2 YEAR FIXED

4.02% PA
* COMPARISON RATE

TIMING – A KEY FACTOR TO MAKING THE MOST OF MARKET CYCLE OPPORTUNITIES

If you're thinking of making an investment in property, one of the key things to be aware of is the market trend – ie. where the market is in the property market cycle.

Firstly, it needs to be understood that the market fluctuates in cycles, governed by such factors as population growth, the state of the economy, public confidence, interest rate levels, the tempo of buyer purchasing, housing affordability and so on.

Obviously the ideal time to purchase is when the cycle is at its bottom point or when it is just starting to gain momentum so there is a capital growth to be had when you sell– hopefully at the peak of a cycle.

There's a saying that timing is everything in markets, and of course, the challenge is in choosing the correct time to purchase and to sell.

It is virtually impossible to tell when the market has actually struck bottom until it has passed and the same goes for the peak.

It pays to remember though, that despite prices falling for a few years every decade, well located real estate increases in value. Imagine if you could buy the house your parents bought at the price they paid 30-40 years ago.

There is not one property market:

While many people generalise about 'the' property market, in reality there are many submarkets.

Each state is at a different stage of its cycle and within each state, the markets are segmented by geography, price points, the type of property, population growth and economic drivers.

For example, the top end will perform differently to the new homebuyers' market or the investor segment or the median priced established property sector.

The cycle is described in terms as Boom, Downturn, Bottom, Stabilisation and Upturn. The strength and length of time in any of these stages depends on the factors mentioned above.

So where are we in the West Australian property market cycle at present?

Most real estate agents believe it bottomed in November (some areas September), it has now stabilised and is likely to gradually ease its way upwards before returning to where it was in 2014/15 in about 2020. And after 2020? Maybe higher peaks!

KEY FACTORS TO CONSIDER WHEN BUYING AN INVESTMENT PROPERTY

If you're thinking of buying an investment property there are a number of key factors that help make the investment a success.

The following three are the absolute essentials while the remaining pointers are well worth investigating:

1) Market trend: You need to be aware of the market trend so you know whether you're buying at the peak of a property market cycle or near the bottom

2) Its potential for capital growth in the long term

3) Its appeal to tenants and the likely rent that it can realistically achieve

These other often over-looked factors will have an impact as to whether your investment will be a success or a disappointment. Many people neglect them.

POPULATION GROWTH

Population growth is a key driver of demand hence major cities are generally a safer bet than a regional centre or country town. Sometimes rentals and land prices in a regional centre will fly for a while when such events as a mining boom occur. While great profits can be made by those in the action at the right time, it pays to be aware that values can collapse just as quickly if the boom dies.

THE NEIGHBOURHOOD

You're not only buying a property but also a neighbourhood, so evaluate it, as it will have a bearing on capital growth potential and achievable rent. Are other homes in the area attractive and are the streets well maintained?

Are there amenities close by, such as shopping and medical facilities, schools, a park and public transport?

Is the neighbourhood adequately lit at night? Does it have poor statistics around crime rates? Are there limitation factors such as noise and unpleasant odours from factories, airports, highways, sewers, poultry sheds etc.?

SUPPLY

Generally, the best areas to invest in are those where demand is always likely to be strong, such as in an area accessible to a major employment node, but where further development in the area is likely to be limited because of it being fully developed or there are restrictions on high rise building.

TARGET MARKET

When considering a locality you need to consider the type of prospective tenant and what they will pay to rent your property. Ideally, an investment should appeal to a broad range of the people comprising the area's rental market. Choosing a property that's both affordable and good quality is often a better choice than picking up a "cheapie" or a property priced well above the area's median price. Buying at the top end can make it difficult to achieve a rent that will give adequate return on investment whereas a 'cheapie' may require costly repairs or only appeal to a certain type of tenant.

SPECIAL FEATURES

Properties with unique, desirable features are always going to be of value because they add to the appeal for prospective tenants and it is likely to be easier to sell when the time comes to part with them. There's a good argument for avoiding a totally generic property because in times of high rental vacancies the only way to attract a tenant is by offering a lower price. Location can often offset this. For instance a bland property could be well compensated for if it was in proximity to desirable schools, public transport, a café strip or amenities.

Generally speaking, it pays to find a property that stands out from others for some particular reason, be it features or locality.

DAYS ON MARKET

Being on the market for a lengthy period may indicate it has been over-priced or it could be that some aspect simply does not appeal to people. This needs to be considered. Being on the market for a long time can offer a buyer an excellent negotiating opportunity on price, but be wary, if there is some reason for it failing to appeal – such as being under powerlines or too close to a railway line.

You're likely to suffer the same fate when you eventually sell as well as it possibly being shunned by tenants.

RENTAL APPEAL

Ultimately an investment property needs to be tenanted hence it must offer what most prospective tenants of the area would want. Once again, location can be a key factor. One aspect to consider in relation to rental appeal is facilities. Obviously air conditioning, off street parking, gas fittings and security windows and doors are positive factors to have, but expensive to repair items such as a swimming pool may warrant a second thought.

2%

INFLATION FORECASTED FOR 2018 AND 2019 BY COMMSEC

AUTUMN – THE TIME OF YEAR WHEN SOME FINGERS START TO TWITCH

Autumn is the time when the fingers of keen pruners - those who love to get into their gardens with a pair of secateurs - start to twitch.

Not everyone is as keen, or as knowledgeable as the enthusiast. So in case you don't know but feel you should, here are some rules about pruning.

Firstly, pruning is a vital part of keeping the trees and shrubs in your landscape healthy and attractive.

But when is the right time to do it?

When to prune comes down to whether your plants bloom on old or new growth.

Roses. Most roses produce flowers on new growth formed in the same year. They should be pruned when dormant, just before the leaf buds begin to swell. **Flowering shrubs**. Shrubs that bloom early spring to early summer, flower on old wood and should be pruned in summer, once the flowers have faded. Shrubs that flower in summer to early autumn are best pruned in late winter to early spring.

Deciduous trees. Prune when they are leafless and dormant. This will be in winter or spring, before the trees begin to leaf out. Pruning at this time allows you to see their branch structure more clearly, making it easier to determine where to prune and enabling the pruning cuts to heal more quickly with the flush of spring growth. This includes fruit trees like apple, cherry, peach and plum.

Flowering trees. Early blooming trees, should be pruned in summer, once the flowers have faded. These trees produce their blooms on growth from the previous year. Trees that bloom in summer develop flowers on new growth that has occurred in the same year, and they can be pruned in late autumn through early spring.

0.9%

GROWTH IN WA ECONOMY 2017/18;

3%

IN 2018/19

2.7%

FOR 2019/20

FORECASTED BY WA CHAMBER COMMERCE & INDUSTRY

Thinking of a fixed loan? A few points to consider…

1) Are you likely to sell the property during the fixed loan period? If so, there could be a penalty that you need to factor in.

2) Are you likely to want to make extra payments to reduce interest and speed up paying the loan off? You need to let us know as some lenders will restrict how much extra can be repaid on a fixed loan. This is one reason to have a split loan - some of the mortgage being a variable loan.

3) Will you want to access the equity in your property during the fixed period? This may not be possible or may come with a cost.

4) Operating with an offset account where the credit balance is offset against the loan balance thereby reducing interest payable is unlikely to be possible with a fixed loan.

5) The length of period for the fixed loan: If you're confident that the only direction for interest rates to go is up – then fixing for as a long as possible is often the best way to go.

*The comparison rate quoted in this publication is based on a secured loan of $150,000 over a term of 25 years. This comparison rate is only true in this example given, and may not include all fees and charges.
Different terms, fees or other loan amounts may result in a different comparison rate.

HAVE YOU MET THE IMFS TEAM?

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