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Is it yet time to fix and the property market?

Investors

This e-mail touches on three issues, fixing interest rates, holding period for an investment property and positive cash flow properties.

1. There has been some publicity recently whether it is a good time to fix or lock in interest rates for your loans. With the recent falls in interest rates where mortgage variable and fixed rates have dropped (if the banks ever get around to actually passing this on rather than just announcing they will!) down to anywhere between high 6%'s to low 7%'s range for variable (then volume discounts apply above that, from 0.5 to 0.7%) and high 5%'s to low 7%'s for fixed rates depending on the number of years.

   The last time I recommended to clients to consider fixing rates was back in December 2005. My (conservative) view is that the time to fix, particularly for owner occupier loans, is after the rates have started moving higher. The reason is that you will have more certainty that they will continue to move up in a cycle rather than going down again. You may miss out on a small margin or a couple of months but better that than missing out by getting in too early. For investment loans where you are on a strategy to revalue and refinance every year (or possibly two years in today's climate) you do not want to fix for a long period as it may significantly reduce your ability to refinance. Owner occupiers need to structure their loans so they have an ability to pay more off, so take care you keep that flexibility as some lenders do not allow additional payments to be made on fixed loans. Call me if you need assistance for this.

   One lender sent some information I thought may be useful to consider.

   > Thought you may also find this interesting….predictions as to how low rates MAY go!
   >
   > Reaction:
   >
   > 1. AUD rallies to above 0.6400 vs 0.6369 prior to announcement. Currently 0.6385.
   >
   > 30-day futures contracts:

   > · Jan 09: 4.13% (RBA does not meet and market not currently anticipating a cut in Jan)
   >
   > · Feb 09: 3.38% (currently chances a further 0.75% rate cut in Feb 09)
   >
   > · Mar 09: 3.06% (currently chances a further 0.25% rate cut in Mar 09)
   >
   > · Apr 09: 2.92%
   >
   > · May 09: 2.82% (currently chances a further 0.25% rate cut in May 09)

   You may want to hold off a little longer before you decide to fix. In any cycle, rates will go up again. Inflation has not yet been slain.

2. The research done over a long period as to where in the cycle of holding an investment property does the capital growth occur shows 33% in the first 5 years then 67% in the next 5 years. For a long term buy and hold strategy, you need to realise that if a property doubles its value in 10 years, most of that occurs after the 5th year. This is partly why we suggest you need to acquire 3 to 5 investment properties as a base over time, so you will benefit from compounding growth as well as time in the market. There are always exceptions, like the 2007 year in Melbourne where extraordinary growth occurred across the market.

3. Positive cash flow properties where the vogue ten years ago when many property investor guru's/speakers made their purchases. Rural properties were cheap, interest rates reasonable and marginal tax rates were higher then than now because of the tax brackets. In the last 5 years, positive cash flow properties have been harder to locate and almost impossible in metropolitan areas unless you actively manage and rent out rooms etc. Partly due to the increased housing prices, higher interest rates and the tax brackets significantly increasing moving many people down from the 40%+ range.

   With the new falls in interest rates and higher rental yields, there are now opportunities out there for higher income earners on the 40% tax bracket, to purchase investment properties that are very close to cash flow neutral. This is after depreciation add-backs and tax benefits. Where as a year ago, a median priced 2 bedroom apartment of $400k would generally show a cash flow loss of around $200 to $250 per week, this may now be as low as $20 to $50 a week cash short. So for a 'cost' of $2k a year, a $400k property increasing on average 8% per annum ($32k growth) you have increased net wealth by $30k per annum.

   Is it worth investing? Damn right it is!

Our Service to You

We provide a specialised service for investors wanting to create long term wealth for themselves and their families. We are finance strategists, credit advisers and mortgage brokers, helping you achieve your goals. Give us a call when you think it's time to consider your options.

As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you.

If you have any questions about any of these topics, give me a call.

Helping People through Finance