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Housing undersupply and Self Funding Properties

Investors
I thought I'd send a couple of recent articles that should be of interest as well as a spreadsheet to play with to see for yourselves.

The first is an assessment of projected Housing Shortages from an Article published yesterday headed - **Housing undersupply to hit 431,000 by 2028** and the second an extract of an Article by Monica Wakelin, again touching on the issue of housing shortage but more on **Self Funded Investment Properties**

A government assessment of housing supply has confirmed that Australia is suffering a severe housing shortage that will worsen noticeably should current construction activity not improve. The National Housing Supply Council's State of Supply Report released yesterday estimates that Australian housing suffered an undersupply of 85,000 dwellings in 2008. The Council estimates this figure to rise to 203,000 by 2013 and 431,000 by 2028, which would put extreme pressure on house prices already under strain by the current undersupply.

Master Builders Australia CEO Wilhelm Harnisch said reducing taxes such as stamp duties and developer charges, speeding up development applications and increasing land supply would all be critical measures needed to address this shortage.

Monique Wakelin is co-founder of Wakelin Property Advisory, a Melbourne-based independent property acquisition and advisory company, and co-author of *Streets Ahead: How to Make Money from Residential Property*, and she recently wrote an interesting article on investing in Australian residential property. Here is an extract.

"A window of opportunity looks set to open for property investors during 2009, created by an unusual combination of factors not seen since 1996. Interest rates are falling rapidly with the cash rate down to 3.25% p.a. and likely to fall further, perhaps by 1% by mid-year. At the same time, rent yields are strong, rental vacancies are low and property prices are in for a flat year. As a consequence, the gap between loan repayments and rental income is narrowing, ushering in a time when investors will be able to buy prime inner-urban investment property, which will be close to self-funding. In 1996, the window opened for about nine months; and if current conditions persist, that's how long it's likely to be open for in 2009.

What's created this opportunity? First, there has been a fall in new dwelling construction, down 36% across the board, while demand for housing from a growing population continues to rise. The supply/demand balance is now working in favour of investors, not against them.

The spreadsheet is showing a Net Return model, based on assumptions. It is a simple model so do not base your decisions on this specifically, for example lenders mortgage insurance (LMI) costs varies enormously between lenders so all I have done is attempt to give a broad picture of what is possible.

There is an instruction page so please follow these in case you need to. The Green highlighted cells are able to be changed to suit your circumstances.

Using a median priced property of $400k, borrowing at 80% LVR (loan to value ratio) could return a Cash After Tax Cost of just $40 a week. Using advanced strategies, we fund this shortfall using debt so it will not affect your day to day income and expenses. If property only grows 2% next year, you would still be $6k better off than you are now. If it grows at 5%, you would have $18k greater Net Worth.

Is residential property worth considering, **absolutely!**

Our Service to You

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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.

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