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30th Nov 2010

USA, NRAS, Property Markets and Interest Rates

Investors,

As the Chinese saying goes, interesting times we are living (or something like that).

Property market

There has been much speculation of a housing bubble in Australia and we are heading for a US style crash.

Dr Stephen Keen widely predicted a 40% crash about 2 years ago or so and it has not eventuated.

I read the financial ‘commentators’ who are usually share market focused, talk about bubbles in property yet do not substantiate with any specific data that supports their case for a widespread fall in prices. We have decades of history of relatively steady growth, some periods of mad growth followed by periods of little or no growth before the next cycle begins again. The extremes of the property market, the ultra $ mansions, the waterfront properties, the outer suburbs where there is massive amounts of land, these do have price volatility but the properties investors should be focusing on for growth have far more consistent growth over time and less fluctuations.

Unless there is an economic driver that will cause a lot of people to sell their homes or investment properties, so supply exceeds demand, why should prices drop? That question has not been adequately answered to support a case for a wholesale fall in prices across the board. Unemployment is not an issue, interest rates are still about average, population demographic change and net migration is still driving the demand side of the equation, so I just do not see that reason for a massive fall any time soon.

An article in today’s Herald Sun gave some data of Melbourne prices, 145% growth in 4 years. They are big numbers. It is not in every suburb or in every street but locating good properties that tick the boxes will mean there will be a demand for that property, from owner-occupiers, from investor5s and from tenants.

Interest Rates

The RBA for all its good work does not always get it right. Monetary policy is a very blunt force instrument and unfortunately for investors and home owners, when they move upwards we bear the brunt. The absolute cynicism from the Banks to further increase rates is shameful and just illustrates how low the competition there is in Australia for lending. They are making huge profits and will continue to do so. They blame international markets, they blame having to pay higher to attract deposits but the reality is they are just further increasing their profits and from my perspective, it is about management group driving profits for personal reasons like bonuses and ego.

I do not remember Banks dropping rates below RBA when the money was very cheap on international markets.

Banks move in and out of competitiveness against each other. 2 years ago St George and Bankwest were aggressive, ANZ was competing, then CBA and Westpac. Most have pulled back due to market share targets being met, perhaps lack of funds to lend, perhaps overall product mix equations. NAB came back into the market at the start of 2010 after a long hiatus but have pulled back a little after their last rise. The spread of discounted rates for loans > $250k from the main lenders range from 6.96% to about 7.16%. This excludes the introductory rates that you need to be careful of.

If you are paying much more than these rates, give me a call and see what you could achieve.

USA Properties

A basic tenet for many is – if it sounds too good, it probably is.

I have read the stories of investors buying properties in USA for $12k, 2 bedroom apartments and then rent for $200 a week. Sounds good – absolutely. If it is that easy, why are not Americans buying these left, right and centre?

Perhaps some of you read a recent article by Scott Pape – Barefoot Investor, of an investor who purchased 3 properties in the US, spent about $350k, properties trashed about 9 times, repairs of about $95k and she just decide to get out of her pain. She is selling them all and will only recoup about $37k. A good deal - not by my reckoning.

Some of you may receive the Real Wealth Australia newsletters by Helen Collier-Kogtevs. Her recent newsletter also talks about the risks of investing in the US and it seems to me that while intelligent investments can be made, it is for the professional investor who already has a secure portfolio in Australia and can afford to speculate or take that additional risk on without causing massive loss if it does not work.

You can hear her talk about this market on the link below.

http://www.realwealthaustralia.com.au/warning_about_investing_in_the_us_market

NRAS

National Rent Assistance Scheme introduced by the Rudd government to boost housing and attract workers to areas they cannot afford to buy or rent in otherwise.

The National Rental Affordability Scheme (NRAS) is a long term commitment by the Australian Government to invest in affordable rental housing.

The Scheme seeks to address the shortage of affordable rental housing by offering financial incentives to the business sector and community organisations to build and rent dwellings to low and moderate income households at 20 per cent below-market rates for 10 years. NRAS aims to:

- increase the supply of new affordable rental housing;
- reduce rental costs for low and moderate income households; and
- encourage large scale investment and innovative delivery of affordable housing.

The Australian Government has committed $1 billion to the Scheme over four years to stimulate construction of up to 50,000 high quality homes and apartments, providing affordable private rental properties for Australians and their families.

It was designed for the business sector and community organisations to be involved in but there are opportunities for individual investors. In a nut shell, you purchase a new house and land package or off the plan apartment in designated areas and approved dwellings, you pay for it. It is then managed for 10 years for you, at a property management fee of about 10%, you rent the property at between 75% to 80% of the market rent in return for which the federal and start governments will pay you about $9k per annum indexed at each year end for those 10 years as long as you are meeting the criteria.

- Is it a good deal? - maybe.

- Can you afford the cash shortfall as it is highly negatively geared?
- The areas they tend to build, will there be capital growth?
- The tenants they will require, will they look after your property?
- If the property manager does not do their job, you are stuck for 10 years.

Like any investment, do the numbers to see if it will work for you

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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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