

Mortgage News

Your guide to mortgages, finance & property

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Should you purchase off-the-plan?

Buying a property off-the-plan has been a popular strategy for many years however there are a number of issues that need to be considered.

Upsides

One of the main benefits of purchasing a property off-the-plan is that you can secure a new property at today's prices, even though it might not be ready to move into for six months or more into the future.

In a market that has bottomed out and is on the rise, the property may have increased in value once it has been completed – giving you plenty of scope for price growth. In addition, you typically don't need to commit too much upfront in terms of finance.

Developers usually require a 10 per cent deposit to secure a property off-the-plan, with the balance payable once the property is complete. You can therefore use this period – which might range from a few months to a number of years – to save, thereby reducing the mortgage required to secure the property.

This strategy can be very effective for first home buyers seeking to minimise their mortgage commitments or possibly purchase a larger house – or one in a more desirable suburb. It can also be a sound option for those that want to live in a new home but don't really want to handle the stress of building one themselves.

Purchasing off-the-plan can be a prudent option for investors as well, particularly those that are looking to maximise their

cash flow to inject funds into other investments – be it shares, managed funds or other asset classes. Investors can also benefit from tax incentives when purchasing new properties.

Downsides

While there are numerous benefits of buying a property off-the-plan, it does come with certain pitfalls that you need to be aware of.

Most importantly, should the value of the property decrease during the period between placing your deposit and final settlement, you may struggle to secure the valuation required to secure a mortgage – leaving you out of pocket.

For this reason it's essential to do your research on the area where you're buying as well as its long term prospects. For example, should there be a building surge in the area – and a subsequent oversupply of property – investors may struggle to attract tenants. It may also reduce possible rental returns.

Also, do your due diligence on the developer – there have been numerous cases where developers have run out of funds and unable to complete construction. A developer with a good track record – and even better, one that has been referred by a satisfied customer – is always worth considering.

If you'd like to chat through strategies for purchasing off-the-plan, or need details on financing an off-the-plan property, please give us a call.

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Help your children purchase their property

Rising property prices are making it increasingly difficult for first home buyers to save the deposit required by banks to secure a mortgage.

Coupled with rising property prices, it's becoming more and more difficult for budding buyers to step onto the property ladder.

There are some solutions – including being a guarantor on your children's property.

Early last year, the Commonwealth Bank conducted a survey which found 87 per cent of parents would like to help their children purchase a home.

Through a parental guarantee on a mortgage, first home buyers can buy their property sooner as well as avoid extra costs like lenders' mortgage insurance (LMI).

Lenders' mortgage insurance is usually required when you borrow more than 80 per cent of the value of a home. To avoid paying this sum, many parents are willing to be a guarantor for their children for 20 per cent of the value of their property.

Consider all issues

Others may choose to be a guarantor for the whole amount of the mortgage. However while this option may benefit your child, there are various associated pitfalls.

No matter how it is marketed, acting as a guarantor is considerably more than a mere formality. It essentially means you become responsible for the loan if your adult child cannot make the repayments.

In this respect, if you're concerned about your personal financial circumstances, or are yourself leveraged on your mortgage, it may be prudent to investigate other options.

One alternative is to help your child raise the deposit for their home.

Have you thought about co-ownership?

Conversely, you might choose to purchase a property with your child, which would not only give them a leg-up into the housing market but also provide you with an investment property.

In this scenario, you can choose to be tenants-in-common rather than joint tenants, as this will change the way you structure the mortgage (i.e. two individual mortgages for one property). The split also does not have to be 50:50, however the percentage difference of ownership would be reflected in the final payout should you sell the property.

If you do choose this strategy, documentation is a must. While you may not be squabbling with your child now, for example, who knows what's around the corner?

Of course, there are some drawbacks to this option as well.

First, your child may not qualify for the first home owners' grant. Second, you may be liable for capital gains tax when you sell your part of the property, as it is not your primary residence.

Whatever route you decide to take, remember it is essential to document everything and leave nothing to chance.

If you would like to find out more about being a guarantor, or other options available to you as a parent, please don't hesitate to give us a call.



Finding a great loan

If you don't want to buy a property together with your child, another strategy that can prove effective is to help cover some of the expenses associated with their home purchase.

While first home buyers can receive some government concessions to help cover costs – for example stamp duty waivers under \$500K in NSW – there are other costs, including legal fees, conveyancing costs, building inspections, or even furnishing a new home, you can assist with.

New or old – which investment is suitable for you?

Property investment is not just about whether you decide to buy a unit or a house, you also have the option of new or old.

There are advantages for both styles of properties, and it really comes down to your short and long term objectives. Where you intend to purchase the property will also influence what type of properties are available in a particular geographic location.

Purchasing a property off-the-plan – which allows you to lock in today's prices for a property that may be finished in a year or two in the future – can be an effective investment strategy as you will not have to make any mortgage repayments until the property is ready for habitation. The only cost will be the deposit.

The key potential pitfall with an off-the-plan purchase is that there is no guarantee that the property you buy today will have grown or even maintained its value. The downside of this is that your lender may not be willing to fund the entire purchase price, which will leave you with a shortfall.

There are also pros and cons associated with the purchase of an existing property.

One of the key benefits is that during a slower market you might have greater scope to negotiate on price. In addition, you may be able to add value through renovation – which will modernise the property and possibly help you achieve higher rental return.

On the flip side, existing properties may require more maintenance or have serious structural defaults – which can be expensive to fix. It might also be more difficult to attract tenants to older properties.

Feel free to give us a call to chat through your options as well as investment property financing strategies.



Tax considerations

A dwelling – unlike the land on which it is situated – is a depreciating asset, under Australia tax law. While land values generally increase over time, dwelling values (including their fixtures and fittings) decrease.

What this means for you is that you can claim as a tax deduction the depreciation of your investment dwelling and its inclusions. New homes tend to depreciate faster than old ones in the first ten years so this might be a consideration when you're making an investment.

But your first move should be to speak to a professional adviser, such as your accountant, who can walk you through your options.

Add value through renovation



Top tips for maximising value on a budget

- Replace the fixtures in your bathroom
- Paint, paint, paint. A light cream or off-white can make your house seem more spacious
- If first impressions count, a nice front door is a must. For a couple of hundred dollars you can spruce up the entryway to your house
- Place fresh flowers throughout your house to help brighten even the ugliest room
- Make the beds. Always keep your house spick and span for the illusion of space

Regardless of whether you plan to sell your property now or years into the future, some simple home improvements will not only add value to your property, they will also increase the quality of your day-to-day home life.

The first and perhaps most important method for increasing your property's value is to de-clutter – which will instantly give the impression of a bigger, more spacious property.

And the best aspect of this strategy is that you can do it yourself for free, or you can spend less than \$500 and a professional will do it for you.

Another hip-pocket friendly value-adding strategy is to install a sky light.

A home awash with natural light looks bigger than one with artificial lighting. Moreover, a skylight or solar tube will also lower your energy bills.

Also focus on the exterior of your home.

First impressions can make or break the sale of a house. If your garden is unkempt, or if you have a wonky front gate or slippery pavers, your property's value can decrease significantly.

So make sure everything outside the house is working, serviceable and as liveable as the inside. A new mailbox or welcome mat can be purchased for under \$30, for instance.

Colourful flower beds or pot plants beside the front door can also give your property a much needed lift while bringing a sense of personality to your home.

Economic wrap



The Reserve Bank of Australia (RBA) pushed the official cash rate up 25 basis points to 4.00 per cent in March.

The hike to the cash rate was by no means a foregone conclusion with economists split over how the RBA would act in March. But an improving economy and a strengthening housing market – as well as growing retail sales over the earlier part of this year – were enough to prompt the RBA Board to bump rates up for the first time this year.

According to the Australian Bureau of Statistics, retail sales rose a higher-than-expected 1.2 per cent to a seasonally adjusted \$20.14 billion in January from \$19.91 billion in December, offsetting the 0.9 per cent fall in December.

Rates have now risen four times over the last five RBA Board meetings, and it would appear that the surging strength of our economy, the falling unemployment rate and rising home prices will prompt further rises as the year wears on.

Indeed, most major bank economists expect the official cash rate to settle around the 4.5-5.0 per cent mark by year's end.

In his comments to the market following the March rate rise, RBA governor Glenn Stevens said the Australian economy continued to show signs that it was in "good shape" and "stronger than expected, after a mild downturn a year ago".

"Investment in the resources sector is very strong. Credit for housing has been expanding at a solid pace, and dwelling prices have risen significantly over the past year," Mr Stevens said.

While borrowers might be disappointed with the rate increase, at 4 per cent the cash rate is still well below its historical average and a long way off the 7.25 per cent it hit in March 2007.

There is also increasing competition in the mortgage rates offered by lenders with a considerable gap remaining between the standard variable rates of the major banks – so borrowers would be wise to explore whether their current mortgage is still the most competitive in the market and suitable for their needs.

If you'd like to run through your options, or discuss how the most recent rate rise will impact your mortgage and repayments, please feel free to give us a call.

"NEWSFLASH"
As this newsletter goes to print today - the RBA have just increased the cash rate by 0.25% (April meeting). Cash rate is now 4.25%.



Tony Cottam, Karen Bashford and Clint Hawthorne (PLAN Australia NSW State Manager). Tony and Karen receiving their 'Sales Master' Awards at the PLAN Australia Conference - Cairns. These individual awards are given to the 'Top 200 Mortgage Brokers' in Australia.

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