

Mortgage News

Your guide to mortgages, finance & property

WINTER 2010



Buying at auction

Auctions are a fast, practical and effective way to make a home purchase or investment. If you're considering buying at auction, here are a few pointers to give you a head start over the competition:

- **Have pre-arranged finance:** It's a good idea not to place a bid on a property until you have pre-approved finance. It will cost you an enormous amount of money to break the contract if you do not have the finance to complete it. In addition, by having pre-approved finance you'll have a good indicator of how much you can spend, allowing you to bid within your means.
- **Read the contract:** Source a copy of the sales contract as soon as you can or at least before the property goes to auction. The estate agent should be able to send a copy through. Ensure that you receive some legal advice on the contract to ensure it's suitable. If you're serious about bidding on the property, you can also negotiate on some of the terms of the contract before it goes to auction.
- **Do your research:** Research the area, property prices and past and current

sales to give you a good idea on what the property is worth. While you might have formed an emotional connection with the property, ensure that the investment stacks up financially and that there are good prospects for capital growth.

- **Inspect thoroughly:** Inspect the property inside and out before the auction and take note of all its defects. Also arrange a pest and building inspection before it goes to auction. What may first seem like a bargain may not be the case if you need to spend money redoing the plumbing, electrical/structural work, or demolishing an illegal structure on the land under Council order.
- **Treat it as a business deal:** Considering the bidding process as a business deal will help you to remain objective and make clear decisions. If you are an impulse buyer or have an emotional attachment to the property, ask a trusted family member or friend to bid on your behalf. They will have no emotional attachment and will help you to make clear decisions on the big day.

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Size does matter

A unit can be a sound investment, but with so many styles of units available, it can be hard to determine which will provide the greatest return for you.

There are pros and cons associated with each purchasing decision. Ultimately, one of the most important factors to consider before purchasing a unit is its location.

A well positioned unit does present many advantages and often provides very attractive returns. If you need assistance researching the market, as brokers we can help you access property reports and other related information.

Moreover, investors should make sure they buy in a block that is well positioned, desirable and well-maintained.

With these key points in mind you can start to consider the style of unit that best suits your needs. Here are some of the pros and cons with each:

STUDIO APARTMENTS

• Pros

A new demand is emerging for accommodation that services career oriented, single people and independent retirees. Escalating levels of divorce and separation are also fuelling demand for trouble-free affordable accommodation, and studios are becoming increasingly attractive to both young and older Australians. This can help ensure strong interest from tenants and potential rental returns.

• Cons

The main disadvantage of a studio flat – other than its size – is that it may not rise as quickly in price as one and two bedroom units. Moreover, mortgage lenders' acceptance of studio apartments as security has traditionally not been as strong as one and two bedroom units, potentially making securing financing more difficult.

ONE BEDROOM APARTMENTS

• Pros

Investors should expect to see a high rental return and should not have too much of a problem sourcing tenants for the



property, provided it is close to the inner city. A one bedroom unit is generally larger than a studio apartment and can therefore command a greater rental fee from the occupant/s.

• Cons

Data from Residex has found that many young professionals today are looking for a unit that has two or more bedrooms, so that they can use the second one as a study or work studio. In addition, renters sometimes seek a property that can fit into any future lifestyle changes, e.g. having a child, which may result in the ending of their tenancy.

TWO BEDROOM APARTMENTS

• Pros

Two bedroom units usually achieve the highest rental return for investors. And provided they are located near water, close to the city, or in an overall good location near transport, shops and schools, finding occupants is generally easy. Additionally, two bedroom units usually have a greater resale value.

• Cons

Two bedroom apartments are traditionally more expensive than one bedroom or studio apartments; the entry level price is therefore higher and can be a barrier for some buyers.

Remember, while there are differences to each type of unit, your investment selection will most probably be dictated by how much you're able to comfortably borrow and service. If you'd like to explore your investment options and borrowing capacity give us a call.

Loans for the self-employed

The credit crunch and resulting squeeze on liquidity, coupled with the Australian government's recent crackdown on responsible lending, has made it harder for the self-employed to secure a home loan.

But with one in 10 Australians now self-employed, there is still a strong industry servicing this sector and opportunities are still available for self-employed borrowers – they just need to know where to look.

Here are a few steps that will help self-employed applicants find a home loan to suit their needs:

- **Talk to a broker:** A mortgage broker can assess your financial situation and help find a loan that suits your needs. They're a good starting point for self-employed borrowers as they can also give you a range of other information to help make the process of securing financing more simple, and importantly, less stressful.
- **Keep record:** Ensure all your business records are up-to-date, simple to review and well structured – and this is not just for tax purposes. If you can highlight a savings history, regular income and a functional, well structured business that turns a profit for at least a two year period, you will significantly broaden your borrowing opportunities.



- **Look beyond the banks:** Non-bank lenders, including credit unions and building societies, may offer low doc and other loan products not offered by the banks. They may also have different requirements, so it pays to see what the alternative lenders are offering.
- **Serviceability:** Self-employed borrowers can be attractive to lenders if they can demonstrate ability to service a loan, regardless of business/cash flow fluctuations. Highlight other commitments you've been able to service on a regular basis. Again, your broker can help package up a good case for securing finance.

The breaks are failing

The Reserve Bank is trying to put the brakes on our major housing markets by increasing the cost of borrowing. John Lindeman, Head of Research at Residex – Australia's oldest and leading provider of residential property data – explains why this policy can't work.

"In the last thirty years, house prices rose fastest during 2001 to 2007, even as the RBA was aggressively raising interest rates. Raising interest rates failed then and the strategy will fail now, because interest rates hit first home buyers far more than existing owners.

First home buyer loans fell by nearly 50% in the March quarter compared to a year ago. It appears that the RBA's policies are working with respect to first home buyers. Our figures confirm that house prices are falling in the first home buyer markets of Sydney, Brisbane, Adelaide and Perth.

Yet house prices in million dollar suburbs have soared and the RBA brakes have no effect at all. Sydney suburbs such as Naremburn,

Lane Cove North, Chatswood, Willoughby and Vacluse rose by more than 8% in value during the last three months, while Melbourne's Elwood, Sandringham, Camberwell, Hawthorn, Balwyn and Kew went up even more by an amazing 10%.

Increased equity is the key. Owners are playing leap frog as each seller buys again further along the line, but they use the equity that growth in the market has given them. In the last twelve months, the median value of a Melbourne or Sydney home has grown by around \$100,000.

Now is the time to seriously consider using your increased equity to invest in the housing market. Such an opportunity to take advantage of market growth comes rarely and should not be missed.

Speak to your mortgage broker to find out how much your property could be worth, how you could unlock equity and explore some of your refinance options," comments Lindeman.

BEST PERFORMING SUBURBS 01/02/2010 to 30/04/2010

AREA SUBURB/POSTCODE	MEDIAN VALUE	CAPITAL GROWTH LAST 3 MONTHS
SYDNEY		
NAREMBURN 2065	\$1,211,500	9.44%
LANE COVE NORTH 2066	\$1,072,500	8.76%
COUNTRY NSW		
GLEN AYR 2850	\$342,000	5.89%
QUEANBEYAN 2620	\$445,500	5.89%
BRISBANE		
CLAYFIELD 4011	\$915,000	5.18%
GREENSLOPES 4120	\$611,000	4.91%
COUNTRY QLD		
DALBY 4405	\$285,000	6.46%
CHARLEVILLE 4470	\$158,000	5.27%
MELBOURNE		
ELWOOD 3184	\$1,314,000	10.69%
SANDRINGHAM 3191	\$1,221,000	10.23%
COUNTRY VIC		
YARRA JUNCTION 3797	\$327,000	5.23%
HEALESVILLE 3777	\$351,000	5.22%
PERTH		
KENWICK 6107	\$372,500	9.22%
WATTLE GROVE 6107	\$519,500	9.19%
COUNTRY WA		
SOUTH HEDLAND 6722	\$609,500	3.62%
COLLIE 6225	\$243,500	2.39%
ADELAIDE		
ELIZABETH PARK 5113	\$222,000	4.92%
ELIZABETH GROVE 5112	\$222,000	4.87%
COUNTRY SA		
GOOLWA 5214	\$287,000	3.73%
BALHANNAH 5242	\$424,500	3.70%
HOBART		
NEW TOWN 7008	\$435,500	5.07%
CLARENDON VALE 7019	\$168,500	5.06%
COUNTRY TAS		
LAUNCESTON 7250	\$356,500	3.94%
HUONVILLE 7109	\$282,000	3.81%
COUNTRY ACT		
NARRABUNDAH 2604	\$655,000	5.14%
RIVETT 2611	\$482,500	5.00%
DARWIN		
ROSEBERY 0832	\$353,500	5.80%
FARRAR 0830	\$300,000	4.98%
COUNTRY NT		
LARAPINTA 0870	\$364,500	3.35%
ARALUEN 0870	\$438,000	3.28%

Source: Residex Pty Ltd

WORST PERFORMING SUBURBS 01/02/2010 to 30/04/2010

AREA SUBURB/POSTCODE	MEDIAN VALUE	CAPITAL GROWTH LAST 3 MONTHS
SYDNEY		
OAKHURST 2761	\$340,500	-3.56%
MENAI 2234	\$634,000	-3.44%
COUNTRY NSW		
TUROSS HEAD 2537	\$339,500	-3.53%
MALUA BAY 2536	\$415,500	-3.49%
BRISBANE		
DURACK 4077	\$340,000	-4.28%
CARINDALE 4152	\$655,500	-3.76%
COUNTRY QLD		
TAMBORINE MOUNTAIN 4272	\$499,000	-4.33%
JIMBOOMBA 4280	\$452,500	-4.07%
MELBOURNE		
YALLAMBIE 3085	\$483,500	0.63%
WILLIAMS LANDING 3027	\$366,000	0.65%
COUNTRY VIC		
LOCH SPORT 3851	\$177,500	-3.22%
MORWELL 3840	\$160,000	-2.94%
PERTH		
HALLS HEAD 6210	\$430,000	-9.04%
DAWESVILLE 6211	\$470,500	-6.51%
COUNTRY WA		
WANDINA 6530	\$543,500	-5.84%
BOULDER 6432	\$279,000	-5.71%
ADELAIDE		
CHRISTIES BEACH 5165	\$327,000	-2.06%
HACKHAM WEST 5163	\$258,500	-1.90%
COUNTRY SA		
ROXBY DOWNS 5725	\$407,500	-4.50%
PORT AUGUSTA 5700	\$212,000	-3.13%
HOBART		
MOONAH 7009	\$284,000	0.77%
HOWRAH 7018	\$396,500	0.97%
COUNTRY TAS		
EAST DEVONPORT 7310	\$215,000	-1.34%
DODGES FERRY 7173	\$241,000	-1.17%
COUNTRY ACT		
FADDEN 2904	\$604,000	0.81%
GUNGAHLIN 2912	\$512,000	0.82%
DARWIN		
WOODROFFE 0830	\$488,000	-1.87%
PARAP 0820	\$791,000	-1.43%
COUNTRY NT		
TENNANT CREEK 0860	\$153,500	2.12%
EAST SIDE 0870	\$442,500	2.49%

Source: Residex Pty Ltd

Economic wrap



After three consecutive rate rises, the Reserve Bank of Australia (RBA) left the official cash rate on hold in June.

The RBA has raised the official interest rate six times since last October, pushing it from the historic low of 3 per cent last year to a more neutral setting of 4.5 per cent.

Renewed signs of global economic weakness have brought the RBA's spate of rate hikes to a grinding halt however.

Escalating debt problems in Europe have had a significant flow on effect on global markets and the RBA is still trying to establish the potential impact on domestic inflation pressures.

While the European Union has worked hard to contain the Greek sovereign debt crisis, the RBA said in its June board meeting that it would take a 'wait and see approach' to the actions of European nations to bring budget deficits under control.

As such, economists are speculating that the RBA will keep interest rates on hold for the foreseeable future.

AMP chief economist Shane Oliver says the problems in Europe as well as softening housing demand will push the RBA to keep the official cash rate at 4.5 per cent until at least August.

The latest statistics from Residex show that while demand for housing has weakened compared to earlier this decade, the house market still grew in value by 1.9 per cent in the last few months while the unit market increased by 3.4 per cent.

In the two dearest markets, Melbourne's house median value grew by 7.7 per cent and Sydney's by 3.5 per cent. Overall, all capital city house markets except Perth increased in value in the last twelve months.

Although rates have remained stable, borrowers should consider reviewing their home loan to ensure it's still the most appropriate for their needs. If your situation has recently changed – for example you have a new job or a child on the way – your current mortgage may not be the best for you.

Please give us a call and we can discuss your situation and current opportunities.



Tony and Karen, pictured with the other Medical and Professional Centre Businesses, got together to host "Australia's Biggest Morning Tea" with all proceeds to the Cancer Council. Thankyou to all those who came to have a 'cuppa' with us on the day.

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