



"The Insider"

Growing together

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Mortgage News and Tips for you

Very strong demand ensures big rental returns

Perth's property investors could be in for some brilliant years to come thanks to a seemingly insatiable demand for rental properties and a very tight supply.

Perth is currently experiencing its lowest rental vacancy rate in 21 years, a mere 0.8% in March - the lowest in Australia.

So it's not surprising that Perth property investors have enjoyed the largest rental increase in the country - 12% to the June quarter this year. The good news for property investors is that more is definitely on the way.

The median weekly rent has climbed to \$300, yet Perth is still the third cheapest city to rent a house in.

And Perth's rental yield of 3.19% is still the lowest of any housing market in Australia.

This booming demand for rentals, extremely tight supply and relative cheapness ensures that rents will continue to increase significantly for some time to come.

The property newsletter, *Domain* has quoted economic forecaster, BIS Shrapnel predicting rents will increase spectacularly over the next five years due to a housing shortage across the country.

They predict housing starts to fall because of land release shortages in all capital cities. Perth is no exception.

This shortage will only inflame an already tight rental market, with demand



continuing to outstrip supply for the foreseeable future.

Increased housing prices also mean that potential home buyers find themselves renting for longer periods, a boon for landlords.

A great time to buy a rental property



Welcome to the spring edition of "The Insider" The footy season is done and dusted so summer must be just around the corner!

The sun is certainly shining on Perth's property investors at the moment with record low rental vacancies and rentals on the up and up.

With home prices taking "a bit of a breather" and the huge demand for rentals,

there's never been a better time to buy an investment property.

If you're thinking of taking advantage of the market and purchasing a rental property then it's crucial to get the finance right.

We have a wealth of experience that will guarantee that you get the advice and the finance that best suits your needs.

One thing that has not been going right are sub prime mortgages in the US. They've been in the news a lot lately, with some alarming claims about its likely impact on Australians.

We take a look at comments from Dr Keith Suter and Saul Eslake and conclude that, happily, it is unlikely to have much of an effect on us.

We'll also have a look at how you might be able to gain from the tax benefits of negative gearing right now, rather than waiting for the end of the financial year.

You may have heard about interest-only loans and wondered what they are and what advantages they might offer. We'll look at why they may suit certain investors, but may not be the right option for ordinary home buyers.

And finally we'll tell you about our great Christmas offer, where you can enjoy a very merry Christmas on us just for referring someone to Accrete Financial Solutions.

We hope you enjoy this edition of "The Insider".

Regards,

Should you take an *Interest Only* loan?

Interest-only home loans can offer an attractive option for investors planning to own a property over the short term for profit.

For the ordinary home-buyer, however, the risks may outweigh the benefits and they are not recommended.

With interest only loans, the investor only pays the interest on the principal during the term of the loan, leaving the principal intact.

Their usual term is one to five years, at which time the principal must be repaid as a lump sum. Repayments are lower than a standard principal and interest loan.

The advantage of the interest only loan is that the lower repayments free up money to renovate or improve the property. Over the short term it reduces the cost of buying a residential investment property.

Hence they can offer a very effective way of controlling cash flow and can be a very good option in a rapidly rising market.

It is an investment strategy based on capital growth.

However they can be risky. Remember, what goes up might come down.

If the market falls, you could be stuck with the property or forced to sell it at a loss.

Another disadvantage is that you don't build equity in the property, and of course if you decide to keep it, you have to repay the principal in full at the end of the loan.



Negative geared investors can ask for next year's refund today

Are you negative geared? If you own an investment property with a loan and your annual net rental income is less than the annual loan interest and deductible expenses combined, then your property is negatively geared.

Deductible expenses include loan interest, property management fees, loan costs and repairs.

The good news is that you don't have to wait until the end of the tax year to benefit from negative gearing.

Investors who are negatively geared and know their expenses will be higher than their rental income can request a "withhold variation" on their personal income tax.

For example: Bruce is an insurance salesperson who is paid by commission with an annual gross income of \$45,000.

He owns a rental property. He estimates that his rental property loss will be \$15,000.

Therefore, his estimated taxable income will be \$30,000 (\$45,000 - \$15,000).

Bruce can apply for a variation to have his withholding rate calculated based on his estimated taxable income of \$30,000. This could cut his weekly tax payments by about \$85.

So if you can reliably estimate your income and expenses for this year, you can have less tax deducted from your pay now in lieu of getting a refund at the end of the financial year.



If you want to vary your withholding amount downwards, you need to lodge a PAYG income tax withholding variation (ITWV) application with the Australian Tax Office (ATO).

By granting you a variation, it does not mean the ATO has accepted the tax treatment of the income and deductions in your application.

Your actual tax liability will be determined when you lodge your income tax return. The variation must be applied for each year.

Strata property owners: It pays to be involved

If you own a unit in a strata complex either as an owner-occupier or investor you should take an interest in your development's Strata Company.

The Strata Company will have a secretary to manage the complex, or if it's a large development will have appointed a strata management service.

A strata management service is the most likely to be able to provide a person with good property management skills.

However the owners should find out whether the service has property management expertise or is solely equipped to provide a clerical service.

If the service is just collecting strata fees and paying bills such as rates and insurance,

the Strata Company should get someone with building maintenance knowledge to occasionally inspect the development.

A little maintenance can prevent a lot of repairs.

An expert may also pick out problems that could become safety issues if left unattended.

Unit owners need to be aware that neglected items in a strata development could become major issues if an accident happens and insurance claim are made.

In some cases insurance cover could become void, leaving the unit owners very exposed to being collectively liable.

It pays to take an interest!

US mortgage crisis will have minimal impact on Australians

First the bad news: Many economists reckon the US sub prime mortgage crisis is going to get a lot worse before it gets better.

Across the US millions of home owners are about to default on their loans as their low introductory “teaser” rates are replaced with much higher rates.

Now for the good news: While the experts are divided, most think it will probably have little impact on Australians.

Dr Keith Suter points out that the main reason borrowers can't pay their mortgages is because they lose their job.

While there could be an increase in mortgage defaults as American interest rates rise, he argues that US unemployment is still at a record low, inflation is in check and the economy is “ticking over”, though the level of personal debt is worryingly high.

ANZ chief economist Saul Eslake has noted that the number of Australians defaulting on their loans is much lower than the American rate.

Where 15% of American sub prime loans went into default, the Australian rate of mortgage defaults was a mere 0.4%. In WA it is half that.

And where Australia's sub prime market is less than 1%, in the US it peaked at 22%.



Australian sub prime lenders also charge higher interest rates to cover the risk than their American counterparts.

Australia's big four banks are unlikely to raise interest rates as a result of the crisis as they are less exposed to US capital markets than the non bank lenders.

The Reserve Bank has said that Australian banks remain highly profitable and well capitalised and the financial system is very stable.

RAMS Home Loans, however, found itself exposed to the US sub prime market and has raised the rates on its low doc loans and full doc loans. Its board has also agreed to a takeover by Westpac.

If you have a RAMS loan we strongly recommend that you contact us as soon as possible to review your situation to make sure you're still getting the best deal possible.

We've never had it so good



In its latest review of Australian financial stability, the Reserve Bank remains very upbeat about the Australian economy.

It reports that the outlook for the world economy is positive despite the US sub-prime mortgage problem.

The domestic economic and financial environment supports financial stability, Australia's economy is continuing to grow at a strong pace, with household and business balance sheets, overall, being in good shape.

The share of households experiencing financial difficulties remains low, although it has increased in recent years, largely reflecting the much wider availability of credit over the past decade.

Strong income growth and low unemployment are benefiting households, with household wealth rising solidly.

The bank said that while there are some pockets of stress, particularly in western Sydney, most households are

reasonably positive about their personal finances.

Business balance sheets also remain in good shape overall, with debt-servicing ratios and arrears rates remaining low.

The ANZ reflects this confidence, saying that Australians have never had it so good, noting that “slightly higher interest rates are the price we will pay for the longest period of prosperity in our history - the new Golden Age”.

Business profitability is strong, it reports, and business conditions and confidence are high.

We are enjoying the lowest unemployment in 32 years and jobs are being created “at a ferocious pace.”

STAFF STUFF

Narelle Williams has joined us after a career break to start a family and is looking forward to assisting Lorrelle with the top class customer service our clients have come to expect.

Her career in the finance industry has spanned 19 years with 12 of those spent with Bankwest. This has given her a broad knowledge of the industry and valuable skills for staff and clients.

Narelle prides herself on her attention to detail and taking care of the customer.



Our Kylie is a high achiever!

Congratulations to Kylie Symonds who was runner-up for the Choice Aggregation Services' State Award for Year-on-Year Percentage Growth Increase for an Individual.

Kylie was one of two runners-up out of a field of 300 - no mean achievement!



Enjoy a Merry Christmas on us

Refer a friend, colleague, family member or even your neighbour to us, and you could be in for a very Merry Christmas on us this year.

This Christmas we're giving away a grand prize of a \$300 fuel voucher, a \$300 supermarket voucher, a \$200 Coles/Myer gift voucher and a \$200 LiquorLand voucher.

Entering is easy. All you have to do is refer someone to us, and if they proceed with a finance application and it goes to settlement on or before 4pm on December 14, you receive a free entry voucher to go into the draw.

It's sure to get your Christmas celebrations off to a great start!

See your Accrete Financial Services loans broker for further details

Super idea for first home buyers

The Real Estate Institute of Australia (REIA) thinks it has come up with a solution to the problems young Australians face saving up for their first home.

While it's only an idea at the moment, they'd like both sides of politics to sit up and take notice of it.

It wants to see a scheme where young people can make voluntary contributions to their superannuation which they could later withdraw and use as the deposit on their first home.

If 5% of average annual gross income is voluntarily contributed to superannuation from the age of 18, then a 5% deposit for a median priced home (5% of \$418,870 = \$20,994) could be raised by the age of 25 with a government co-contribution.

The same deposit could be raised by the age of 29 without the government co-contribution.

REIA argues that while it might cost the government money, the cost would be the same if the contributions were made voluntarily whether early access was allowed or not.

Because the superannuation system is already in place and well established the scheme would be cheap to administer.

REIA thinks access should be limited to voluntary post tax super contributions and the money should only be used for a median priced first home.

As we said, it's only an idea at the moment, but if the government decides to put this idea into practice we'll be sure to keep you informed.



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