



Pathways to Success

The informative private newsletter for those who have decided to take control of their life through education and the application of success habits.



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NOWS THE TIME..

In this issue, we examine the impact of falling interest rates on the costs of holding onto an investment property. The falling interest rate environment is providing property investors an affordability level that goes back some 4 to 5 years in terms of out of pocket expenses for negatively geared property.

In our October newsletter, we released an ANZ publication written by ANZ Chief Economist - Saul Eslake – titled “Australian House Prices Unlikely to Fall”. The reasoning provided in that report is in general still valid.

In a very recent BIS Shrapnel Media Release dated 3rd November 2008 titled “Residential Property Markets to Revive in 2009 Despite Global Conditions”, leading economic forecaster and industry analyst, BIS Shrapnel expects that residential property prices will rise over the course of 2009, following a weak performance in 2008. The company says it is likely that residential property prices declined in most cities in the September quarter of 2008, following on from a marginal fall in the previous quarter.

BIS Shrapnel believes the global credit crunch will actually support Australian residential property prices in 2009, as financing constraints are reducing the pipeline of new rental developments. Overall, residential property prices are expected to gradually recover in 2009, with growth of between zero and three per cent across the capital cities of Australia as the market strengthens in the second half of calendar year 2009.

Given that growth may have slowed over the last quarter or even fallen slightly in some areas, it's at times like these that carefully selected properties (i.e. property at the right price, in the right location, with the right rental income) in Australian Capital Cities can be expected to hold their own.

Remember...as a long term investor - and that's the only way to look at property as an investor - you can buy a property at any time in the property cycle as long as the fundamentals of the deal are sound. The economic clock is a reminder that construction activity, property prices, share prices etc are all cyclic and what we are experiencing now is simply part of that cycle. It's the volatility of this cyclic market that is an unpredictable quantity. Having said that, please do understand that it is an essential part of market forces otherwise there would be no market!

Talking about long term, if you don't invest, you will always be a product of “active” income. Understanding the difference between “Active” and “Passive” income is an essential component of any wealth creation strategy. The capacity of property – for long term investors - to generate passive income in retirement is a well proven strategy.

The change in value of housing – in the current market conditions - that has occurred has been far less dramatic than that of the share market. Fortunately, most houses have retained their values at or near what they were 12 months ago – a far superior performance to that of the share market which has changed many people's retirement plans and strategies.

Whilst market sentiment is more negative than positive, it will continue to provide some great buying opportunities. Add to that the current interest rates (predicted to fall by a further 1% in Dec) and both, first home buyers and property investors will be exposed to some unique buying opportunities. Here are some examples using current interest rates.

Example 1

Brisbane (Nundah) Negatively Geared Property

Total Purchase Price	\$ 650,000	
Salary	\$ 85,000	
Income		
	Rent	<u>\$ 563 p/week</u>
	TOTAL	\$ 29,276 p/a
		\$ 29,276 p/a
Outgoing		
	Interest @7.10%(I/O)	\$ 48,633 p/a
	Property Costs	<u>\$ 6,994 p/a</u>
	TOTAL	\$ 55,627 p/a
		\$ 55,627 p/a
Before Tax Costs	- \$ 506.75 p/ week	-\$ 26,351 p/a
After Tax Cost to keep		
@ 7.1% (I/O) Interest rate	- \$ 199.00 p/week	-\$ 10,348 p/a
@ 6.6% (I/O) Interest rate	- \$ 154.00 p/week	-\$ 8,008 p/a
@ 6.1% (I/O) Interest rate	- \$ 109.00 p/week	-\$ 5,668 p/a

Why Nundah: Nundah Village in Brisbane's north has undergone a face lift in recent years, moving away from the somewhat daggy image with the development of new apartment blocks and the creation of a café culture. It also is one of the closest suburbs to the Brisbane Airport precinct which is experiencing massive employment growth.

Example 2

Central Coast (Wyoming) Negatively Geared Property

Total Purchase Price	\$ 365,000	
Salary	\$ 85,000	
Income		
	Rent	<u>\$ 320 p/week</u>
	TOTAL	\$ 16,640 p/a
		\$ 16,640 p/a
Outgoing		
	Interest @7.10%(I/O)	\$ 27,352 p/a
	Property Costs	<u>\$ 5,954 p/a</u>
	TOTAL	\$ 33,306 p/a
		\$ 33,306 p/a
Before Tax Costs	- \$ 320.50 p/week	-\$ 16,666 p/a
After Tax Cost to keep		
@ 7.1% (I/O) Interest rate	-\$ 68.00 p/week	-\$ 3,536 p/a
@ 6.6% (I/O) Interest rate	- \$ 43.00 p/week	-\$ 2,236 p/a
@ 6.1% (I/O) Interest rate	- \$ 20.00 p/week	-\$ 1,040 p/a

Why Wyoming: Whether investing or residing, the Mayfield Townhomes provides the very best of the Central Coast in terms of location, facilities and value. Situated at the heart of the region's growth area, this development has been designed to appeal to a wide tenant base, from students, singles and families to retirees, ensuring continued rental income and future capital gain.

Example 3

Sydney (Pymble) Negatively Geared Property

Total Purchase Price	\$ 685,000	
Salary	\$ 85,000	
Income		
	Rent \$ <u>685 p/week</u>	
	TOTAL \$ 35,620 p/a	\$ 35,620 p/a
Outgoing		
Interest @7.10%(I/O)	\$ 51,405 p/a	
Property Costs	\$ <u>7,605 p/a</u>	
TOTAL	\$ 59,010 p/a	\$ 59,010 p/a
Before Tax Costs	- \$ 449.81 p/week	-\$ 23,390 p/a
After Tax Cost to keep		
@ 7.1% (I/O) Interest rate	- \$ 187.00 p/week	-\$ 9,724 p/a
@ 6.6% (I/O) Interest rate	- \$ 139.00 p/week	-\$ 7,228 p/a
@ 6.1% (I/O) Interest rate	- \$ 92.00 p/week	-\$ 4,784 p/a

Why Pymble: The Avondale is your opportunity to enjoy the best that Pymble and the North Shore has to offer. Conveniently located, a short stroll to Pymble train station, buses and major roads, visiting the city and the rest of Sydney couldn't be easier. Enjoy the nearby cinemas as well as many fine local North Shore restaurants. Pymble is also convenient to some of Sydney's premier schools including Pymble Ladies College, Abbotsleigh, Roseville College, Knox Grammar, Barker College and Ravenswood School. It is also close to many golf clubs such as Pymble Golf Club and The Avondale Golf Club.

(The figures above are for illustrative purposes only.)

Would you like to know more on how to use the equity in your home to purchase an investment property and why such a strategy is an essential component of YOUR wealth creation plans? Now is the time to diversify and make that shift into property.



*For more information on Property Investment,
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Your Trusted Financial Fittne\$\$ Coach*

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