

FINANCE MATTERS

Autumn Issue, 2011

2011
property outlook

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PROPER FINANCE SOLUTIONS

Level 1, 530 Little Collins Street
Melbourne VIC 3000

T: (03) 9909 7494

F: (03) 9909 7788

E: enquiries@properfinance.com.au

RP Data 2011 national property outlook



Tim Lawless is the National Research Director of www.rpdata.com and is one of the most quoted commentators on the property market today. Tim is regularly called upon for his knowledge of the Australian property market to advise major clients across property, banking and finance organisations.

Australia's housing market changed direction in July 2010 with capital growth grinding to a halt after 17 months of consecutive growth. Moving into 2011 it is likely that vendor expectations will need to adjust to the new market conditions. Homes are going to take longer to sell and buyers will be negotiating harder in 2011 than they were in 2009 and the first half of 2010.

"this down turn is not likely to result in any material declines in home values."

Buyers' market

Indicators now suggest that market conditions will continue to transition in favour of buyers. Both the average time it took to sell a house across the capital cities and the average level of vendor discounting increased from third quarter 2009 to third quarter 2010. These two factors provide the best indicator that buyers are becoming more empowered and vendors are losing some of their leverage in the market.

Despite the fact that the Australian housing market has moved out of the growth phase, this down turn is not likely to result in any material declines in home values as the base level fundamentals remain very strong.

Continued demand for housing

The good news is that Australia continues to record strong population growth. Overseas migration to Australia appears to have peaked, however total population growth remains well above average and the rate of population growth (1.8% per annum) is amongst the highest of any OECD nation.

Such a high rate of population growth will continue to create a high level of demand for Australian housing. Coupled with the fact that, as a nation, Australia is building too few dwellings, the undersupply of housing is not likely to be corrected any time soon despite the recent peak in population growth.

Strong economic conditions and consumer confidence are also likely to underpin the Australian housing market. The unemployment rate (at 5.1% in September 2010), is trending downwards towards 'full' employment and Australia's economy is projected to grow by more than 3% during 2011. Both factors will be a strong influence on consumer confidence which is likely to remain high during 2011.

Rental growth

While capital growth is trending out of the housing market, rental rates are starting to show some upwards pressure. Weekly rents softened during 2009 as a large number of renters decided to take advantage of the historically low interest rates and Government incentives and purchase a home rather than rent. Since peaking in mid 2009, first home buyers have fallen back to about 15% of the overall owner/occupier market. The fall away in first time buyer numbers is now being reflected in increased rental demand, which in turn has caused an upward turn in rents once more.

Over 2011 it is likely that rental growth will at least move back to the historic average of 6% and 8% year on year. That's great news for investors, but not so great for renters.

The improving rental market is also likely to see rental yields improving for investors. As capital gains outpaced rental markets in 2009 and the first half of 2010, rental yields were sharply eroded. We are now seeing the first signs of yield improvement which is anticipated to provide further encouragement for investors looking to strategically position themselves in the market.

Positive outlook

In summary, the Australian housing market is likely to remain reasonably steady over the coming year. Factors such as higher interest rates and housing affordability will continue to dampen market conditions. In balance the Australian economy, which is characterised by robust economic growth and a labour market approaching capacity, will fuel wages growth and continue to underpin demand for housing both from a rental and purchase perspective.

Remember to enter our fabulous competition
A trip for 2 to Daydream Island Resort & Spa



RBA - friend or foe?

The Reserve Bank of Australia (RBA) plays a key role in the management of our economy and regularly makes headlines in the press. Have you ever wondered exactly what its role is and how it makes decisions which impact all Australians and significantly mortgage holders?

Reserve Bank of Australia (RBA)

The RBA is Australia's central bank and is accountable to the Australian Parliament for the stability of Australia's financial system. The bank is an active participant in financial markets, manages Australia's foreign reserves, issues Australian currency notes and serves as banker to the Australian Government.

The primary responsibility of the RBA is to maintain a strong financial system by monitoring the supply, availability and cost of money (ie monetary policy).

The RBA's charter states that decisions must be made that will best contribute to:

- the stability of the currency of Australia,
- the maintenance of full employment in Australia, and
- the economic prosperity and welfare of the people of Australia.

How does the RBA meet its charter?

Since 1993, the RBA has had the objective of keeping the inflation rate between 2% and 3%. The key benefit of low inflation over the long term to Australia's economy is to:

- assist businesses in making sound investment decisions,
- underpin the creation of jobs,
- protect the savings of Australians, and
- preserve the value of the currency.

The RBA's target inflation rate is defined as a medium term average rather than a set rate that must be held at all times. This recognises that there are always uncertainties in forecasting and also takes into account any lags in the effects of monetary policy on the economy.

Role of the cash rate

The Reserve Bank fulfils its role of maintaining a stable financial system by setting the cash rate. The RBA's measure of the cash rate is the interest rate which banks pay or charge to borrow funds from, or lend funds to, other banks on an overnight unsecured basis. This measure is also known as the interbank overnight rate. The cash rate is the primary influence over other interest rates.

How does the RBA set the cash rate?

The RBA Board meets each month (with the exception of January) to look at a number of economic indicators in order to determine if a change to the cash rate is required. Some of the indicators it looks at are:

- current inflation rate,
- current level of unemployment,
- Consumer Price Index,
- health of the retail sector, and
- world economy.

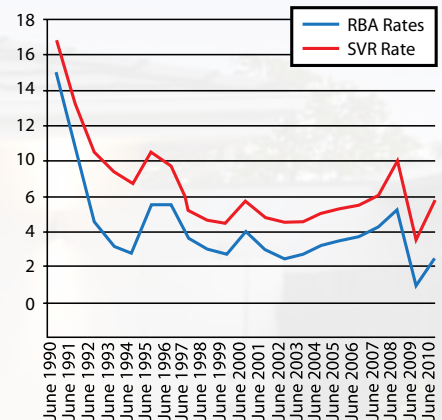
If required, the cash rate is then adjusted according to the forecasted inflation rate. If the inflation rate is forecast to rise, the cash rate is likely to be increased to slow the economy. If the inflation forecast is low then the cash rate is likely to either hold or be reduced to provide short term stimulus to the economy.

Link between the cash rate and mortgage interest rates

As the cash rate forms a baseline for the rates that are paid by borrowers across the market, it is crucial to home loans and consumer credit because a change in the cash rate is typically transmitted directly and immediately to variable rate loans.

Variable rate loans are the most common group of loans written for home mortgages in Australia. Fixed rate home loans and personal loan interest rates are also impacted by changes in the cash rate, although to a lesser extent.

RBA cash rate vs standard variable rate



Source: Reserve Bank of Australia

So as much as we never like to hear that the RBA has increased the cash rate again (because we know that this will hit all mortgage holders directly in the hip pocket), it is taking the necessary steps to ensure a strong, stable economy in Australia for the long term.





**It's tax
time soon!**

Now is the time to start planning for the end of the financial year. This article looks at some lesser known tax and savings tips to get you thinking!

Some general savings tips

1 Offset accounts save interest on your mortgage. Interest on your home loan is a non-taxable item. However, as the interest on your loan is calculated daily, the savings by using an offset account can be substantial.

2 Make extra repayments on your mortgage. Simply by changing your repayments from monthly to fortnightly can save you thousands in interest repayments over the life of your loan.

Tax tips for individuals

1 As already mentioned, offset accounts can save you thousands. However, if you use an offset account against an investment loan to save interest, do not complicate the account with private transactions as you could be in danger of losing the interest deductions for the investment.

2 Salary sacrificing some of your pay into superannuation attracts lower tax rates, resulting in higher available investment funds on retirement. These funds can then be drawn down (tax free) to pay out your mortgage on retirement.

3 In the case of divorce or separation, providing one partner remains in the residence (as it is considered to be the primary residence for both partners), capital gains tax **main residence exemption** may be claimed.

4 Consider harbouring family assets in a family discretionary trust. This can help protect your family's assets from tax and other creditor seizures. Under certain circumstances, and provided you have an independent appointer, the assets contained in the trust may be protected from seizure by a trustee in bankruptcy.

Tips for businesses

1 When an employer acquires an item to give to an employee (this particularly applies to computers, subscriptions, conference costs and briefcases) and that item is exempt from fringe benefits tax, the employer is still entitled to claim the input tax credit (with no GST payable) for that purchase if the employee salary sacrifices. If the employee had bought the item themselves, it would have cost them an additional 10%.

2 Before paying suppliers, it is the employer's responsibility to check that the supplier has a registered ABN, otherwise the employer is obliged to withhold a large proportion as PAYG tax.

3 'Black hole expenses' for:

- establishing a business,
- converting equity,
- raising equity,
- liquidation and
- documentation costs (including registration)

may be claimed either outright or over a five year period.

4 The entrepreneurs tax offset (ETO) is a tax offset equal to 25% of the income tax payable on your business income if you have an aggregated

turnover of \$50,000 or less. If your aggregated turnover is more than \$50,000, the ETO is phased out so that the tax offset stops once your turnover reaches \$75,000.

You may be eligible to receive the ETO if your aggregated turnover is less than \$75,000 and you are a sole trader conducting sole trader businesses, a partner in a partnership or a beneficiary of a trust.

The ETO can only reduce your tax payable. You cannot refund any unused tax offset, defer it to reduce your tax in a later income year or transfer it to another taxpayer to reduce their tax.

5 Extensions of time may be obtained for paying tax where there are insufficient funds for the full payment to be made. However the general interest charge will still apply except in exceptional circumstances.

6 Deductions are allowed for gifts or prizes to customers or employees of the business. However, gifts or prizes valued at less than \$300 for employees could attract fringe benefits tax.



This information is general in nature. It is important that you seek advice specific to your individual circumstances. Please contact the office for assistance with finding a specialised adviser to help with your tax needs.

BOOST your borrowing power



Why take this...



when you could have this?!

Are you interested in entering the property market as an investor or owner/occupier but just can't seem to get the figures to add up?

Well, did you know that your credit card **limit** directly impacts on the amount you can borrow for your mortgage?

What many borrowers don't realise is that lenders don't just look at the outstanding balances of your credit cards and what your monthly repayments are on those balances, but in fact they look at what your total repayments would be if you took your debt to the credit card limits. Their rationale is that you have the capacity to incur the total amount of that limit, so they must take this into account when determining your repayment serviceability.

How much could that impact your borrowing capacity if you are trying to purchase a property?

Let's look at the following scenario.

Credit Card	Current Balance	Card Limit	Monthly Repayment* Balance	Monthly Repayment* Limit
Card 1	\$2,500	\$10,000	\$75	\$300
Card 2	\$2,000	\$7,500	\$60	\$225
Total	\$4,500	\$17,500	\$135	\$525

* The minimum monthly repayment amount required can vary between 1.5% and 5% of the overall limit on the card (depending on the financial institution and card type). A middle ground of 3% has been used to calculate minimum repayments in this scenario.

The lender will calculate your minimum monthly repayments on the maximum \$17,500 credit limit, equating to \$525 per month, NOT the \$4,500 balance, which only equates to monthly repayments of \$135 per month. This is a difference of \$390 per month that could be used as borrowing capacity towards the repayment of your new property loan.

Of course, the greater number of cards you have and the higher the total credit card limit you have, the greater this will impact on your borrowing capacity.

This could be the difference between achieving or not achieving your property dreams.

What can you do?

1 Consolidate your credit card debt and cancel unnecessary credit cards. This will reduce your monthly interest repayments and free up your income for other repayments. *Do you really need more than one credit card if it is directly impacting your borrowing capacity?*

2 Reduce the limit of your cards to the minimum practical amount for your personal situation.

The impact of reducing your credit card limit

This table shows the impact on your monthly repayments by reducing your credit card limit.

Reduce credit card by	Increase in monthly available income	
	3% min repayments	5% min repayments
\$5,000	\$150	\$250
\$10,000	\$300	\$500
\$15,000	\$450	\$750
\$20,000	\$600	\$1,000
\$30,000	\$900	\$1,500

This income can now be considered by lenders as available income that can be applied to your mortgage repayments, thus boosting your borrowing power and taking you one step closer to fulfilling your property dreams.



Call the office for a consultation on how we can help you **BOOST** your borrowing power and turn your property dreams into reality.



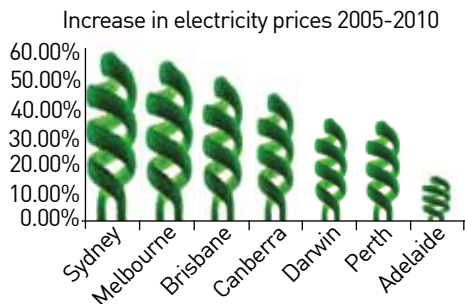
THE PRICE OF POWER

The cost of electricity continues to be front page news and is placing stress on household budgets. If you are feeling the heat, you are not alone. We'd like to help you identify a few key areas related to your household's energy bill including:

- how much costs have risen,
- the main areas of energy consumption in households across Australia, and
- the appliances that are costing you the most to run.

Increasing costs

It is no wonder we are feeling the squeeze. According to the Australian Bureau of Statistics, over the last five years electricity costs have risen from 16% in Adelaide to a massive 60% in Sydney – between 5 to 21 times the inflation rate!



Source: ABS, Catalogue number 6401.0

Reasons for rise

- Old energy infrastructure across the country needs to be upgraded due to neglect from a lack of funds over the past few decades.
- The introduction of renewable energy initiatives.

Main areas of energy consumption

As energy costs continue to rise throughout Australia, we should all be looking for ways to reduce our usage and therefore our bills. By understanding the areas of your household that consume the most energy, you can begin to take positive action to reduce the impact these bills have on your household budget.

Heating and cooling	36%
Water heating	24%
Other appliances	20%
Fridge and freezer	7%
Lighting	7%
Cooking	6%

Source: Energy Australia

The above chart gives you a good idea of the general areas that are responsible for the greatest percentage of energy use, helping to identify the areas that we need to look at. Some general tips to reduce costs for these areas are:

- Reduce length of showers. Many newer electric hot water services have a 'booster' system, which means even if they are on an off peak service, the booster cuts in throughout the peak period topping up the system and increasing your bill.
- Wash clothes using cold water.
- Choose appropriate thermostat settings on your reverse cycle air conditioning (20°C for winter heating and 25°C for summer cooling). Varying the thermostat by as little as 1°C can have up to 10% impact on costs.

Which appliances cost the most?

To really drive home the impact energy costs have on your household budget it is useful to look at how much your appliances are costing you in real terms:

Appliance	\$ Cost per quarter
Pool heater (heat pump)	434
Ducted air conditioning	268
Wall mounted air conditioning	166
Electric storage hot water unit	150
Pool pump	95
Pool heater (solar)	48
New refrigerator 500 litre	30
400 litre freezer	30
Salt water chlorinator	26
Plasma TV	20
Bar fridge	15
Large LCD TV	10

Model, age and use can influence running costs. Estimated costs are based on Energy Australia's domestic all time tariff for 2010-2011 for NSW.

In short, there is not much you can do to avoid these rises, however being able to identify where your major costs are likely to come from may help reduce them! Save money on your energy bill by choosing a cheaper gas or electricity provider or ask your existing provider for a better deal. There are plenty of free comparison websites available to help you compare costs for providers in your area.



Please call the office if you need

some help with your household budgeting. We have some great tools that can help you get your finances on track.

WIN A HOLIDAY

DAYDREAM ISLAND RESORT & SPA

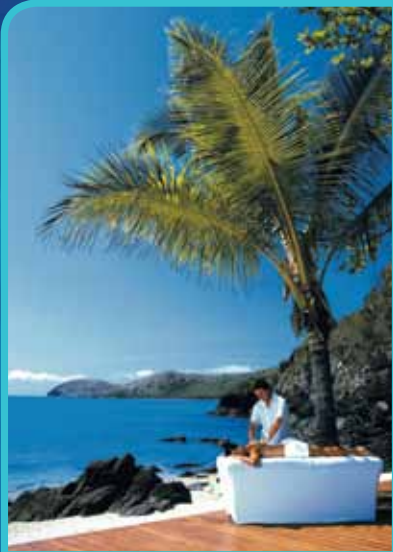
Valued at
\$9,500



Prize Includes:

- 7 nights for 2 adults in a Daydreamer Suite
- Full buffet breakfast daily
- Return luxury catamaran transfers
- Daydream Island delight spa treatment
- Chocolates and sparkling wine on arrival
- A Great Barrier Reef trip with Cruise Whitsundays
- 60 minute massage at the Rejuvenation Spa per adult per stay
- A Stingray Splash experience at Daydream's Living Reef outdoor aquarium
- A helicopter flight to Whitehaven Beach with a one hour stopover & gourmet picnic basket
- A \$300 food and beverage voucher to be used at any one of Daydream Island's restaurants or bars
- Up to \$2,000 toward travel costs from your closest capital city*
- Also includes over 20 FREE guest activities including kayaks, catamarans, open air cinema (Mon, Wed, Fri), fish feeding show, gym, rainforest walk and much more!

* Terms and conditions apply



By the way... please feel comfortable about entering the competition because we do not and will not rent or sell any of your details to any third party. Promise!

Competition Entry

Your details:

Your name: _____

Phone: _____

Email: _____

- Please contact me to discuss my situation.
 Please contact me for a no obligation consultation.

The greatest compliment any business can receive is a referral from an existing client. We don't take your referrals for granted and if you would like to pass this competition entry form (or a copy of it!) to someone you know, please write your name and contact email address in the "Referred by" area, and when we receive their entry we will provide YOU with another entry into the competition.

Referred by: _____

Email: _____

Increase your chance to win! Tick the topics you are interested in below if you would like some information emailed to you (make sure you let us know your email address in this competition entry).

- Buying an investment as your first property.
 Things to consider when switching loan products.
 Strategies to reduce loan repayments.
 Investing in property to boost your retirement.

Post this entry form to the address located overleaf or contact the office for your own unique website link to enter online and gain another entry into our fantastic competition.

This competition commences at 9am AEDT on Tuesday 1 March 2011 and closes at 5pm AEST on Friday 22 July 2011. Authorised under NSW Permit LTPS/10/12092; ACT TP 10/05482.3; VIC Permit No: 10/4446; SA license No: T10/3013. Please contact the office if you would like a copy of the terms and conditions* of this competition.