



# THE MORTGAGE BULLETIN



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## NEWS FROM BRETT LUCAS

It was less than a year ago many of us waited for news from the Reserve Bank of Australia (RBA) of another interest rate hike. Jump to March 2009 and the RBA has become a shining light with help to ease pressure and deliver major returns on personal lending conditions.

So how can you take advantage of current interest rates? Call for a no obligation quote to make sure you are benefiting from current lending conditions.

## Is your loan due for a check up?

Some questions to consider:

- How long is left on the life of your loan?
- What are the associated costs of changing loan types?
- What are the advantages of a fixed term loan while interest rates are low?
- Have you researched competitor interest rates to see how you compare?
- Are you planning to pay more off your loan than the basic repayments?

If you are seeking answers to these questions or would like to explore different loan options then contact your local mortgage broker for an appointment.

## The Home Owner Challenge - Fixed or Variable?



CONFRONTED WITH THE biggest interest rate swing in the nation's history, home owners have been left speculating the best way to approach and manage personal lending.

The question for many mortgage holders or those about to invest is whether to look at changing loan types to capitalise on rate conditions or to keep the status quo.

Debate is varied in regard to how much lower interest rates may fall however many also believe we are nearing the bottom of the cycle.

### Mixed fortunes for the fixed

The popularity of fixed loans has taken a not so poetic tumble in the last eight months and now holds a record low share of the mortgage market.

Between March and August last year more than 43,600 people locked in fixed-rate mortgages at approximately nine per cent for protection against escalating rate rises. These lenders now find themselves on the other end of the spectrum, outpouring funds well above those with variable loan agreements.

For example, on an average \$250,000 loan, repayments under a current standard variable rate of 5.74 per cent are approximately \$1,435 per month. Compare this to a fixed loan agreement where an additional \$400 per month is paid (based on a fixed rate of nine per cent).

However, the decision to move from a fixed to variable rate to take advantage of low rates is not always a viable option.

### Contemplating the switch?

In considering switching loan types, home owners need to realise it is not a straightforward case of interest rate comparison.

For example, an average standard fixed term loan of \$250,000 currently carries approximately \$20,000 worth of exit fees counteracting any savings to be gained from lower variable rates offered. In fact, break fees (as they are called) for fixed-rate loans rise as interest levels fall to allow banks to meet interest payment obligations to term deposit customers. A point many personal lenders may not realise.

On the flipside, many investors with standard variable rates are pondering the security of a fixed-rate mortgage. Banks are currently offering around five per cent making this an attractive option considering the volatile nature of the current economic climate. Yet again, exit fees do apply.

The most important consideration for consumers is to seek advice. Why not call your local broker for a no obligation quote on options that may be most beneficial to you?

# Rental Yields Drive Investor Confidence



IN ANOTHER TIME and place, falling interest rates, a stimulus package of \$42 billion from the Federal Government and falling house prices would be a sure kick start for many of us to acquire that much dreamed about investment property.

However, the realities of an impending recession, low consumer confidence and job uncertainty have somewhat curbed the audacity of even the boldest investor.

On a positive note, current economic conditions have also driven a slight fall in property prices along with a housing shortage to tempt potential investors back into the property game.

The property market has quickly reversed its forecasts with the timing now right for many to capitalize on favourable conditions in an investor buyers market.

While many experts are predicting property values to remain relatively flat, rental yields are expected to strengthen delivering substantial returns for those prepared to invest.

According to Cameron Kusher, senior research analyst with RP Data, on a rolling six-month average basis, construction of new investment houses dropped by 7.9% in November 2008 compared to the month earlier. Over the year to November, the value of investment housing sank 17.9%, with volumes currently sitting at levels equivalent to those seen in mid-2007.

“The implication of fewer dwellings being built for investment and fewer existing

properties being purchased is that the shortage of rental properties is likely to continue,” he said.

## ... rental yields are expected to strengthen ...

Kusher said this trend would be particularly evident in capital city areas where rental vacancy rates are already below two per cent in Sydney, Melbourne and Adelaide and just above two per cent in Canberra and Hobart.

“With underlying demand increasing due to rising population growth, the housing shortage and the rental shortage situation is likely to become exacerbated,” he said.

“For those who own or are thinking of purchasing investment properties, it’s anticipated that rents will continue to rise as property values remain flat. The by-product of these rental increases will be continuing improvements to gross rental yields. These improvements in yields may also be enough to encourage investors back into the market in mid to late 2009, particularly those investors that are driven by yield rather than short-term capital growth.”

According to RP Data, rental yields have bounced back in all capital cities (see below).

The combination of well performing rental yields, a national rental squeeze and falling property prices make this an appealing investment option for buyers.

RENTAL YIELDS							
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Darwin	Canberra
Oct 05	4.02%	4.20%	4.60%	4.59%	3.68%	5.93%	5.11%
Oct 06	4.29%	4.21%	4.69%	4.95%	3.05%	5.38%	5.20%
Oct 07	4.35%	3.99%	4.36%	4.42%	3.84%	5.66%	4.95%
Oct 08	4.93%	4.29%	4.59%	4.35%	4.23%	6.47%	5.26%

SOURCE: RP Data

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## FIRST HOME BUYERS RUSH IN

Australians have responded in force to bonus cash incentives from the Federal Government coupled with low interest rates and falling house prices to take the leap and purchase their first home.

The much applauded cash injection has allowed many to finally procure the hard-saved home loan deposit to make their home ownership dream a reality.

Designed to act as a catalyst to encourage first home buyers to purchase in the short term, bonus payments have served their purpose and provided a timely improvement for a stalling property market.

The immediacy of the reaction in the first home buyers sector has delivered renewed enthusiasm and provided a much needed stimulus for the housing market. ABS data showed first-home buyers made up 25.4 per cent of home loans granted in December 2008 – the highest proportion since December 2001 and the last housing boom.

Cashed up with grants between \$14,000 (established homes) and \$21,000 (new homes), those eligible have capitalised on additional savings and the advantages of current market conditions.

However, new home owners must act quickly to take advantage of the bonus conditions with the grant returning to the base of \$7,000 on the 30 June 2009.

To find out more about the First Home Buyers Grant or to discuss lending options to make your dream a reality, contact your local mortgage broker today.



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