



THE MORTGAGE BULLETIN



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NEWS FROM BRETT LUCAS

Welcome to my last bulletin for 2011. Looking back on the year Australia again appears to be avoiding the problems Europe and North America are experiencing. Locally inflation is down and unemployment remains low. Retail and manufacturing appears to be soft however, it's hoped with the latest interest rate decrease (and maybe another one for good measure) that the economy will continue to improve. Again a big thank you for your business and referrals in 2011 and I look forward to assisting you again in the New Year. Wishing you and your family a very merry Christmas and a prosperous 2012.

7 BILLION AND RISING

The world population recently topped seven billion people (and counting).

With five people born every second and life expectancy on the rise we - as a global nation - are forecasted to climb to 9 billion within 25 years.

So where is everyone going to live?

After Mongolia, Australia is the world's least densely populated country with just 6.4 people living per square mile. That's a lot of room to fit new residents however we are facing our own housing shortage and are struggling to keep up with our own demand.

This is certainly food for thought and may just inspire you to secure that dream home in the near future before the competition really starts to heat up.

INTEREST RATE STIMULUS



FORECASTERS, BUOYED by the latest interest rate cut, are hoping the decision will trigger renewed interest and activity back into Australia's property market.

Amid a long list of key market indicators that have witnessed falls, the Reserve Bank of Australia (RBA) acted to cut the cash rate to 4.5 per cent in November 2011, the first movement in interest rates for more than a year.

Rise in lenders

The cut is expected to entice some people back into the market with the major lenders expected to bring borrowing rates back more towards average and more favourable levels.

This is warmly welcomed by homeowners and investors on the back of rising numbers of home loans for the sixth straight month in September 2011 at 2.2 per cent with this expected to continue on the back of the RBA announcement.

However, the national housing market continues to struggle with house prices reporting falls for nine consecutive months along with declines in new building approvals (fell 9 per cent in year to August 2011). Clearance auction rates have also hovered around the 50 per cent level in Melbourne and Sydney.

Major indicators all point to further market decline with construction of new dwellings and the purchase of new homes also

experiencing drops in the month of September.

These widespread decreases are possibly the result of uncertainty around future interest rate levels and the scaling back of subsidies to cheaper house prices. It is also a signal of cautious investor confidence from smaller investors to large scale corporations with many preferring to 'wait and see'.

Cautious optimism

On the flipside, conditions favour investors looking to capitalise on cheaper houses. This certainly hasn't presented an investor rush with many remaining somewhat cautious amongst turbulent economic conditions and uncertainty about where markets are heading or how they are likely to perform.

Underlying the current indicators there is a quiet optimism.

People remain genuinely optimistic that with subtle stimulus via interest rate cuts, stable household finances and the appeal of lucrative investment properties within the current property climate, that Australia's property sector will continue to be propped up and hopefully rebound marginally.

Let our team help evaluate what the interest rate cut might mean for your lending position. Contact us today to find out more.

CAPITAL GROWTH – PROPERTY VS SHARES

CAPITAL GROWTH – its something we all aim for, strive for and hope delivers a strong return for our preferred investment options.

It has also been an age-old debate about whether your best investment strategy is in equities/shares or to run the gauntlet of the property market.

So how does property stack up in today's investment market?

Given the turbulent nature and uncertainty of global economies and their inclusion in managed funds and share investment portfolios the spotlight has again turned to property and its dividends in providing the most profitable return for your money.

Property gains

According to new research by the Australian Property Research team at ANZ, residential property has been labeled as the highest returning asset over the past 24 years.

The report shows that even when costs and taxes were factored in, owner-occupied housing generated the highest average annual total returns (12.0 per cent), followed by investor housing (9.6 per cent) and equities (8.9 per cent).

Both owner-occupied and investor housing indexes generated higher returns at a lower risk than equities. Residential property had a much lower Value at Risk (VaR) and higher Sharpe ratio (measuring reward-to-risk) than equities or commercial property.



This is further substantiated by a report by Russell Investments commissioned by the Australian Securities Exchange that studied asset class performance over 10 and 20 year periods.

The 2010 Report (year ending December 2009) identified that residential property achieved the highest return (before tax, after costs) of 10.4 per cent a year for a 10-year period while Australian shares returned 8.4 per cent a year. Residential investment property also beat shares over 20 years, at 9.8 per cent a year versus 9.7 per cent a year. Property also outperformed shares in after tax performance.

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Safer investing

Furthermore, with consideration given to risk, property is also considered the safer bet being less volatile than the sharemarket environment.

Generally, well located properties follow the premise of doubling every 10 years. Shares also have the ability to perform at similar levels but you also run the risk of more immediate and volatile shifts in the market (i.e. GFC).

Property, therefore according to the most recent analysis, is your safest investment to maximize your capital growth. The challenge is to determine how to put this into practice and find the best property option that will bring this goal to fruition.

Talk to our team today about making property part of your investment strategy.

RENOVATIONS SURGE

The softening of Australia's homeowner market has prompted a renewed surge in renovations across the country.

Homeowners are favouring renovation rather than relocation amid falling house prices and market uncertainty.

The Housing Industry Association released their Spring Outlook that highlights a continuing deterioration in new home building conditions in 2011/12.

Following a 5.8 per cent fall in 2010/11, the Association is forecasting a 10.3 per cent decline in new housing starts in 2011/12 to a level of just over 140,000, which would realise the sixth decline in eight years.

In contrast to the new home building sector, renovations activity is growing. The report shows that the total investment in renovations increased in both the March and June quarters of 2011, driven by both small and large renovation jobs.

Following a bare easing of 0.3 per cent in 2010/11, total renovations investment is forecast to grow by 2.3 per cent to \$31.6 billion in 2011/12 and to increase by a further 4.6 per cent to \$33 billion in 2012/13, which would be approaching a record high.

The figures are an indication people are choosing to add value to their homes rather than tackle a trying buyers market where they may not currently be able to get the best return for their money.

Locality is an influencing factor with those happy with their position likely to favour renovating to maximize costs compared to a move in current property conditions.

