

# HOME LOANS NEWS NOW

A smart read.

June 2005 Issue 2

## In this issue...

Welcome to our second issue of Home Loans News Now. This issue, we've explored the truth behind the statement "property prices double every seven years."

We've also included some tips for tax time for those of you who have investment properties. And we've shared the story of a couple of clients who consolidated their debts and improved their cash flow by using the equity in their home.

Happy reading, and don't forget to refer your friends to us so you can make some cash – for details see page 2.

**Best wishes from the team at Home Loans Now.**

## Property prices – a historical perspective

**It's often said that property prices tend to double every seven years – although some experts argue that it is more like every eight to ten years.**

Recently the well respected property publication, the *Midwood Queensland Investment Report*, put this theory to the test. The report looked at average house and unit prices for Brisbane and the Gold Coast since 1980. It concluded that in South East Queensland, property prices have gone through a 'boom' roughly every seven years.

Midwood detected boom periods in 1981 (especially in the Gold Coast), 1988-89, 1994 and 2001-03.

"The strength of the boom in each location and for each product varied for each boom, but the 2001-03 boom was by far the most robust in terms of sustainability," the report said.

It explained that there is no obvious reason for the seven-year cycle: "This seems to be the 'inertia' within the

property cycle which reflects the time it takes for a property market to move out of post-boom oversupply, run through a period of stalled sales, low demand, and then back into bargain buys, increasing demand, stock shortages, rising prices and boom time again.

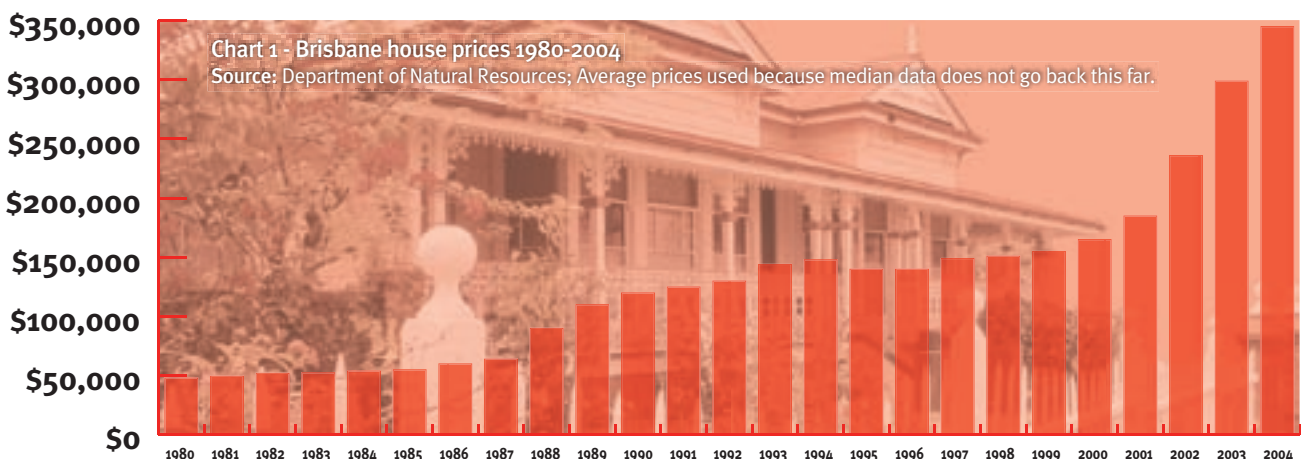
"But why seven years? Who knows, but the phenomenon occurs in most other Western free market economies as well," the report said.

Looking at the figures in Chart 1, you can see that house prices in Brisbane did roughly double between 1983 and 1990. However, there was not as much growth in the seven-year period between 1990 and 1997.

Then in the seven years leading up to 2004 the average house prices in Brisbane more than doubled.

So the data does back up the theory that house prices have roughly doubled every seven years in South East Queensland over the past couple of decades.

Keep in mind that some suburbs and some properties tend to always outperform others. Even properties in the same street can differ vastly in their performance, so smart property selection is the real key to future capital growth – it's not as simple as just waiting seven years.



## Who's saying what?

**Commonwealth Bank general manager retail products Geoff Austin, April 2005:**

"Queensland's median house price rose 0.7 per cent and Western Australia's rose 5.7 per cent this (March) quarter, with ACT house prices dropping 2.5 per cent. The rest of Australia remained unchanged from the December 2004 quarter, confirming the housing market has reached a plateau."

**Business director of L.J. Hooker Michael Davoren, May 2005:**

"Although traditionally the summer period over December and January is slow, the market seems to have bounced back with some strength in February and March. We are not seeing the huge rate of growth of the 2003/04 period but there still seems to be room for price increases in Brisbane."

**REIQ managing director Don McKenzie, April 2005:**

"The economy and people's hip pockets are already being adversely affected by the rising cost of fuel, so we don't believe there is any need for further interest rate rises in the near future."

**Chief executive of Residex John Edwards, April 2005:**

"Should there be any increase in interest rates during the next three months we would be inclined to a view that rates would be moved back to stimulate the economy late this year or early next year."

**Premier Peter Beattie, April 2005 (on the release of Queensland's Infrastructure Plan):**

"Using the best available population growth data, we have set out to insure future generations against road gridlock, parching water shortages, public transport stress and overstretched electricity networks."



## Need some quick cash?

### Idea no. 1

If you know anyone who is selling their property, let them know that they can earn \$20 per week if they display a Home Loans Now sign. Contact us on 1300 135 137 for more information.

### Idea no. 2

Do you have any family or friends who are looking for a home or investment loan? Until 30 June 2005, for any loan referred by you which proceeds to settlement through Home Loans Now, we will send you a cheque for \$100! Just make sure your friend or family member mentions that you told them about our service.

## Tax tips

**The Institute of Chartered Accountants says that the Tax Office will be placing rental properties under its radar this year. It offers the following tips for owners of rental properties:**

### 1. Personal use

"Make sure you have receipts to justify the deductions you are claiming, and can justify the connection between the expense and deriving the rental income (for example, it wasn't also for a private purpose)."

### 2. Below market rent

"If the property is rented to family or friends for below market rent, the ATO may treat this as a 'private' arrangement and only allow you to claim sufficient deductions to offset the rent, but not to make a tax loss."

### 3. Renovate and sell

"If your intention was to renovate and sell at a profit, rather than a long-term income producing investment, you may be taxed on the entire profit as a 'profit-making scheme'. It falls outside the capital gains tax (CGT) rules so you will not be eligible for the 50% CGT concession..."

### 4. Selling the property

"Make sure you declare in your tax return any capital gain when you sell the property. If you owned it for more than 12 months (and it wasn't a 'profit making scheme' as mentioned above), you are only taxed on 50% of the capital gain (after first offsetting it against any capital losses). If you lived in the property at some stage as your main residence, speak to a Chartered Accountant about whether you qualify for the main residence CGT exemption (the rules can be complex)."

### 5. Mortgage with redraw facility

"If the mortgage to purchase the property has a redraw facility, think carefully before redrawing to fund something private such as buying a car or a holiday. The interest expense must be apportioned between the 'deductible' and the 'private' portion of the total borrowings, and the calculations can be complicated."

**Note:** While all care has been taken in preparing accurate information, the ICAA and Home Loans Now cannot be held responsible for actions and/or decisions based on information contained above. Seek professional advice in relation to your own circumstances.



Having consolidated all their debts, they now only need to worry about one monthly repayment amount of \$1179. This is \$1671 less than their previous monthly commitment – so they can now breathe a lot more easily.

## Case study – debt troubles

Our senior loans consultant Tricia Green recently helped a couple to save \$1671 in monthly expenses. She did this by consolidating their debts, using the equity in their home.

Before seeing Tricia, the couple had significant debts on three credit cards. They were also paying off a large lay-by item, a car loan, a debt to a friend, a debt to the tax office and a child support debt. They were frequently in arrears with their home loan repayments.

Their monthly financial commitment to cover all of their debts was \$2850. They were struggling to pay this amount on their current incomes.

So Tricia helped the couple to refinance their home loan with a lender called Bluestone – one of many lenders on the Home Loans Now panel.

The outstanding debt on the couple's home loan was \$89,000, but the property was worth \$190,000. They were able to

borrow up to 80% of the value of their home. In other words, they could make use of their equity.

So the new home loan amount was \$152,000. The difference between this loan amount and their previous home loan amount was \$63,000. With these funds they were able to pay off all of their existing debts. And there were actually enough funds left over for a home renovation.

The new loan came with an interest rate of 8.59%. This is obviously higher than the standard variable rate. The couple were unable to refinance with a traditional loan given their debts and their history of home loan arrears.

However, having consolidated all their debts, they now only need to worry about one monthly repayment amount of \$1179. This is \$1671 less than their previous monthly commitment – so they can now breathe a lot more easily.



# Looking for a Home Loan?

- Home Loans
- Investment Loans
- Refinance
- Debt Consolidation
- Credit Impaired

- 
- Servicing All Suburbs
  - Access to over 25 Lending Institutions
  - Experienced Loan Managers
  - MIAA Full Member

**HOME LOANS NOW**

**A smart call.**

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**Established since January 2000**

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