Home Financing

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I thought I'd start the year by giving some tips on saving for a home. Firstly, write down your annual budget, include all daily, weekly, monthly and yearly costs. Then work through the budget and see if there are any areas you can cut back on. Once you have your finished budget, including your savings plan, open a savings account. Then ask your employer to pay the specific savings amount into this account with the balance of funds into your normal transaction account. This concept should work equally as well if you have a mortgage. However, use your loan as your savings account.

Additionally, first home buyers starting out on a savings plan should consider the government's first home saver account. In essence for every $1000 you save the government pays a bonus of $170 up to $850 / year. Plus any interest you earn is only taxed at 15%. But the money must be used to buy your first home & you must keep the money in this account for at least 4 years.

Strong Market in 2010?

Some of the current property indicators are pointing towards a stronger property market in the next twelve months. The question is, how resilient is the market to further interest rate rises?

Despite all the gloom and doom, 2009 has actually been a reasonably good year for property.

In terms of prices the value of homes in Australia defied all odds in 2009, rising more than 10% over the year, according to the latest figures released by RP Data and Rismark International.

Another positive statistic comes from the **Australian Bureau of Statistics (ABS)**, which has just reported that building approvals rose 5.9% to 13,724 units from October to November. The rise exceeded market expectations of a 3% rise.

Looking forward

The surge in building approvals in November, along with still-low interest rates and an improving job market, points to a buoyant property sector in the next 12 months.

Also, a recent survey shows consumers are feeling more confident about 2010 property prices.

The January **Westpac Consumer Sentiment survey** asked consumers about their expectations for house prices over the next 12 months. It shows a strengthening in the belief that house prices will continue to rise.

> *"84% of consumers expect prices to increase over the next 12 months"*

A massive majority of respondents, 84%, expect prices to increase over the next 12 months – with 21% expecting gains of over 10%.

Remarkably, just 3% of respondents now expect prices to fall. This compares to a third expecting falls when the survey was conducted in mid-2009.

Interest rates

Given the economy's continuing recovery, it seems likely that interest rates will continue to increase back towards *"normal"* levels during 2010.

The RBA's stated *"normal"* or *"neutral"* interest rate (cash rate) falls into the 4.5% to 5.0% range.

Still fragile

Several economists and commentators are cautioning against tightening interest rates any further, saying that the recovery is still fragile.

For example the Master Builders Australia chief economist Peter Jones said that while the big boost in the number of apartments approved was encouraging, the lift was coming off *"a disastrously low base"*.

"Investor-driven building of units and apartments continues to be affected by the credit crunch with approvals running at an annualised 35,000 – still 40% below the peak."

"A housing recovery is by no means a foregone conclusion, particularly as the First Home Owner 'boost' scheme has been phased out."

Until December 2009 first homeowners were eligible for the First Home Buyers boost of $10,500 for existing homes and $14,000 for new homes.

The federal government scheme was scaled back at the end of calendar 2009 to $7,000 for existing homes and $10,000 for new homes.

Summary

Assuming the economy continues to recover then property should perform well in 2010.

The major short-term concern is the likely increases in interest rates. For those seeking to buy property, it would be sensible to factor in 0.5% to 1% rate increases into calculations on home loan repayments.

National property hotspots

For many Australians, purchasing a property is one of the most important decisions they will make in their lives. A recent report highlights some factors to consider, and identifies some hotspots.

With the recent volatility in the share markets, many people are again showing interest in property as an investment class.

Here are some interesting statistics:

- **Price changes.** The share market dropped by 54% from its peak in late 2007 to its trough in March 2009 while dwelling values recorded a decline of 3.9% from their February 2008 peak to the bottom of the market in December 2008.
- **Housing recovery.** Since December 2008, Australian housing prices have rebounded strongly. RP Data and Rismark International report that over the past 12 months prices have increased by more than 10%.
- **Share price recovery.** The share market has also recovered from its trough but remains more than 30% off its peak.
- **Owner occupied loans.** Housing finance commitments to owner occupiers has been recovering strongly. The number of loans extended for owner occupied housing has risen in nine of the last ten months and stands 25% higher than a year ago.
- **Investor loans.** Investor finance commitments remain at much lower levels and account for around a quarter of all housing finance commitments. The two most recent months have seen finance commitments for investment housing retreat.
- **Population growth.** In raw number terms, population growth has never been greater with Australia's population growing by more than 406,000 persons over the past 12 months. An increasing population fuels demand for housing.

"Many opportunities still exist to buy well located, affordable properties"

Key features

Important factors to consider when deciding where to buy a home include:

1. **Price of the property.** Buyers should look to purchase in areas within their budget and those that provide a quality/value proposition.
2. **Understand an area** and take into consideration important items such as road infrastructure, public transport options, shopping facilities, health care and schooling. All of these aspects will impact on the level of capital growth the suburb experiences.
3. **Demographic mix** of a prospective area. Is the population of the area increasing or decreasing, what income levels most households fall within, are there many children in the area, etc.
4. **Housing characteristics** of the area. Is the housing stock mainly units or detached houses or a mix of both? Further, what is the amount of housing supply both now and in the future?

24 Property hotspots

The National Hotspots Report, compiled by RP Data and released in late 2009, has identified 24 *"better value"* suburbs around Australia that are likely to provide a strong value proposition. The suburbs identified should suit both buyers looking to live in the home and investors seeking capital growth over the medium to long term.

The hotspots chosen on a region by region basis are:

- **Sydney:** Granville, Rockdale, Lidcombe, Riverwood and Waterloo
- **Melbourne:** Brunswick, Ashburton, Chadstone, Flemington and Fawkner
- **Brisbane:** Margate, Keperra, Cannon Hill, Fairfield and Kedron
- **Adelaide:** Thebarton and Glanville
- **Perth:** Bassendean, andThornlie
- **Hobart:** North Hobart
- **Darwin:** Rapid Creek
- **Canberra:** Dickson
- **Regional Australia:** Gulliver (Qld) and Redan (Vic)

According to the Report, the strong common thread amongst the majority of picks was strong relative pricing; renovation potential; and close proximity to retail and transport amenity.

These features, along with all of those previously detailed, are extremely important to consider prior to any purchase decision, especially when the owner is seeking future capital appreciation.

The Report confirms that many opportunities still exist to buy well located, affordable properties in capital cities and regional areas. The hotspots identified above are some of the better opportunities, but not the only ones.