Mortgage News

Your guide to mortgages, finance and property

WINTER 2014

Welcome to our new-look newsletter! There's no time of year quite like spring for a bit of a refresh, so it seems timely to reveal our recharged newsletter now. Everything you enjoyed in the past is still here, but we've got a new design and a bigger, broader range of interesting reads.

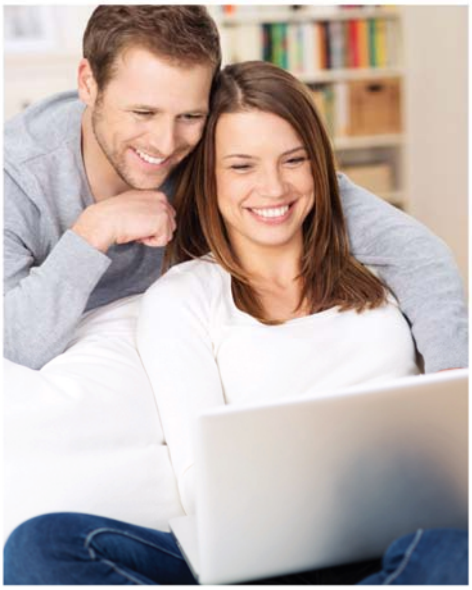
For many of us spring marks the onset of horse racing season, but it's also traditionally the busiest time of year for property, the warmer months spurring the market into action.

There's also something about the arrival of spring that kicks us into gear, driving us to spruce up our homes and our lives and get ahead of the pack!

Sincerely,

Daniel O'Brien

No deposit? Three ways to invest in property now



You may find it difficult to get your property portfolio off the ground if you have trouble saving for a deposit. But don't despair; if you're not able to generate your deposit through cash savings there are still ways to speed up the process of getting into your next property

A lack of cash doesn't have to keep you out of the property market. There are various options that can enable you to bypass the need to save up tens of thousands of dollars, giving experienced investors and first-time buyers the opportunity to act now.

Get a guarantor

A guarantor loan enables an existing Australian homeowner, such as your parents, to provide a limited guarantee for your mortgage. The guarantor uses equity in their own property as security for the borrower's deposit. The primary security for the loan is still the borrower's new property. Lenders offering these loans also put a mortgage over the guarantor's property, which supports the guarantee.

These loans are generally used by people who can afford the loan repayments but have an insufficient deposit. It's important for guarantors to be aware of significant responsibility and obligations they take on, for the borrower to service their loan. If repayments fall behind, the guarantor's property could be at risk, so it's essential all parties are aware of and comfortable with the loan requirements before entering into this kind of arrangement.

Existing equity

If you're a homeowner or investor, you could have a deposit under your nose. You could already be sitting on a substantial amount of equity that could negate the need to save a deposit for your next purchase.

This is particularly powerful in markets where property prices have grown in recent years. Buyers should remember that you won't usually be able to borrow the full amount of equity that has been created. Boosting the value of your property can be as simple as making some key aesthetic improvements or renovations, and having a number of lenders appraise the property's value – some may value it more highly than others.

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Superannuation

Some people who consider themselves cash poor may have thousands of dollars stashed away in superannuation – and under the right circumstances this can be unlocked for property investment.

Depending on your situation you might be in a position to establish a self-managed super fund (SMSF), which could open up the opportunity to invest into property without having to save for a deposit.

If you are considering an SMSF property investment, it is important to seek independent legal and financial advice based on your circumstances.

If you set up an SMSF then you can generally borrow up to 80 per cent of the property value and your super fund | covers the rest.

Instant equity

Adding value to your property does not have to break the bank. We reveal how to get a high-end makeover on a shoestring budget

Stick to the plan

Over spending is one of the biggest dangers in renovating. A savvy home owner will set an ironclad budget and see it through to the end, which some would estimate at 10 per cent of the property's purchase price. These amounts can then be broken down room by room. As a general rule, some experts suggest spending around 1.8 per cent of the purchase price on the kitchen, 1.5 per cent on each bathroom, one per cent on floor coverings, and 1.5 per cent on interior and exterior painting. If renovators have limited funds, it may be worth staggering the work over an extended period of time.

Look for alternative sources for materials

While nipping down to the hardware store for supplies is an easy solution, investors may get better deals by looking further afield. Renovation experts suggest sourcing suppliers online. Online importers frequently offer similar designs, including the same warranty, at more affordable prices.

Work with what you already have

Superficial touch-ups can often transform key rooms with little outlay. For example, in the kitchen the original cabinetry is usually made to last for decades and salvaging these built-ins can save owners a substantial sum of money. From a cosmetic standpoint, the bench top will make the biggest impact on the overall aesthetic of the kitchen, so a new finish can renew a tired bench top at a low cost. In the bathroom, new shower curtains or even a frameless shower screen are cheap but change the room's entire feel. Larger mirrors can also enhance the feeling of space in the bathroom.

Fix up the walls

As well as being fairly affordable and easy to do yourself, painting can have the greatest impact on the feel and appearance of a property. A neutral, modern colour scheme is likely to appeal to a broad range of people – shades of grey are particularly popular at the moment. If you have limited money or time you could just repaint the trims, like skirting boards, doors and window frames.

Don't neglect the exterior

The outside of the property is the first thing buyers and tenants see. Landscaping, trimming plants, adding mulch to garden beds and painting pavers and driveways are some simple ways to bolster the look of a property. Exterior painting can also be valuable.

5 steps to maximising your property's valuation

If you want to extract existing equity from your home, you will need to get a favourable valuation

1. First impressions count

Make sure your property is well maintained, and make small aesthetic improvements if necessary

2. Street appeal is important

A freshly mowed lawn, free of weeds and neat hedges will improve the overall appearance of your property

3. Keep a list of all the updates

It's important to maintain records of all the changes you've made to the property – even small items – since the valuer may not notice them

4. Keep an eye on nearby sales

Have comparable sales data ready for the valuer so you can show your expectations match nearby realities

5. Ensure the valuer is comfortable

An excessively warm property, or a pet that constantly gets in the way might not impact on your property's value, but it will affect the valuer's mood

Becoming an auction pro

With a cool head and a firm plan first-time buyers can make sure they don't get swept away in the excitement of an auction

Auctions can be daunting for novices, but they can also be an effective way to snag an investment at a fair price.

Once you have identified a property worth bidding on, it's important to remember the sales contract is unconditional. Reviewing the contract, along with any building and pest inspections, needs to be conducted before the auction, and buyers must obtain the seller's agreement to any contract variations in writing ahead of the auction day because it can't be changed afterwards.

When you've found a property you'd like to buy, you need to set a price limit before you arrive at the auction – and if you are concerned your heart might overrule your head, you may want to consider giving authorisation to a friend or agent to bid on your behalf. Various states and territories have different rules when it comes to registering to bid at auctions, so it is important to ask the real estate agent about the process in your state, if you intend to bid.

First-time auction bidders need to be aware of the threat of underquoting. This is a tactic whereby some agents post an unrealistically low price in their advertisements to lure more buyers to the auction – don't get swept up in adrenalin-charged bidding.

Have a clear strategy for buying at auction. One common tactic is to bid aggressively up to your ceiling to intimidate other bidders. For example, you could try to start the bidding within $20,000 or $30,000 of the perceived fair value to cut down on the length of the auction.

Make sure you also keep an eye out for unethical practices at auctions. Dummy bidding has become less common, with Fair Trading authorities cracking down over the past few years, but some agents may still plant people in the crowd. These fake bidders drive up the price with no intention of purchasing the property.

Auctions can be intimidating environments for first-time buyers. However, if you plan ahead and set boundaries you should have nothing to fear on auction day.

Buying a bargain from the bank

Repossessed properties can be the bargains investors are looking for

Repossessed properties (or mortgagee sales) can present a prime opportunity for people to buy into high-growth markets at a lower price.

When a homeowner stops making mortgage payments, the bank or lender has the power to take possession of that property – and they generally want a quick sale to recoup the outstanding monies.

The lender will almost always choose to sell at auction in order to keep the process as fair as possible for all parties involved. From the buyer's perspective, purchasing a repossessed property works in the same way as any other property sale, but there can be some restrictions.

In some cases the bank may remove certain rights buyers have under a standard contract, such as the builder's guarantee. Buyers may also be required to put down a minimum deposit of 10 per cent, and there may be no negotiation on the terms of the sale, either.

Investors who want to buy a property at a mortgagee sale may have to do a little groundwork beforehand. One way to identify these properties is to visit one of the websites listing mortgagee sales across Australia. Alternatively, a search for 'mortgagee sale' on a property portal is likely to return listings in this category. Another alternative is to talk to a buyer's agent.

Prospective buyers should, however, be aware that properties that have been neglected for some time may require renovations. Another downside of distressed sales is that as more people understand the possibilities presented by this type of investment, competition for these properties has become fiercer.

Market Update

Australians' appetite for mortgages shows no sign of abating, with the Veda Quarterly Consumer Credit Demand Index revealing a 10.8 per cent on-year increase in applications for mortgages in the March quarter.

NSW led the way in terms of demand for new mortgages in the March quarter, with a massive 19 per cent growth year on year. Tasmania followed (with 13.9 per cent), while Queensland (10.5 per cent) and Victoria (10.4 per cent) also showed double-digit growth.

Not surprisingly, property values have continued to increase in recent months across the country, with dwelling values rising by 3.5 per cent since the beginning of 2014, according to the RP Data-Rismark Home Value Index for the March quarter.

Sydney property values are now almost 16 per cent higher than their previous peak. All capitals except Perth recorded a rise in values during the past three months, with Melbourne up 5.4 per cent, Hobart up 4.7 per cent and Sydney up 4.4 per cent.

Values have risen by 15.8 per cent since June 2012 – and by 12.9 per cent since June 2013.

RP Data research director Tim Lawless said half of Australia's capital cities now showed record dwelling values. Sydney is 15.8 per cent higher than the previous peak, Melbourne is up 4.7 per cent, Perth is up 2.9 per cent and Canberra is up 1.2 per cent.

"Over the long term, I don't believe such a strong pace of growth can be sustained. We expect housing market conditions to cool down as the year progresses," Mr Lawless said.

The boom in dwelling values hasn't as yet undermined housing affordability, according to the most recent Housing Affordability Index. Produced by the Housing Industry Association (HIA) and Commonwealth Bank, it recorded a fall of 0.5 per cent from the September 2013 quarter to the December 2013 quarter.

HIA chief economist Harley Dale said the improvement had been driven by low interest rates.

"Those in the housing market – or who have been on its cusp and then entered in recent years – have experienced a considerable improvement in affordability," he said.

Rates remained on hold again in April, marking the seventh consecutive meeting where the board has kept rates steady at 2.5 per cent. LJ Hooker deputy chairman L Janusz Hooker said the Reserve Banks of Australia's decision to leave rates on hold is good news for the property market.

"From all indications, we are anticipating a very busy Easter and a strong market heading into winter," he said.

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