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TRILOGY & news

"the property investor's mortgage broker"

THE REAL CONCERN AROUND OUR HOUSING SLOWDOWN

What do you do when Australia's house prices across our major, eastern seaboard cities make the acquisition of your 'dream home' way beyond reach? Why, you go out and self medicate with a touch of retail therapy…preferably in the form of the latest luxury sports car or 'Toorak taxi'.

It's known as the 'lipstick phenomena', where in the face of some economic calamity – like the current much maligned housing affordability crises here in Australia – you refuse to entirely forego all luxury purchases.

Currently, the 'lipstick' seems to be a new car with a high price tag to 'tart up' the driveway. Rather than upgrading the family home and purchasing property, people are opting to update their driving experience with fancy designer wheels.

Just as our housing markets started on a notable downward trend late last year, as APRA's regulatory fist clenched ever tighter on the banks' borrowing practices, the new car sector posted a record-breaking twelve months worth of sales data, moving some 1,155,408 vehicles across 2015.

Demand for SUVs surged by 15.9 per cent. But we didn't just want a bigger drive. We also wanted to better the Jones's with some automotive bling.

According to data from drive.com.au, Audi recorded a rise of 20 per cent in new car sales, while BMWs were up by 10 per cent and 14 per cent more virgin Mercs were driven out of dealerships.

CONSUMER CREDIT BECOMES LESS PRODUCTIVE

What's slightly concerning about this trend toward spending a sizeable chunk of money on a new car in favour of say, renovating or upgrading the family home or entering the housing market as a newbie, is that it's causing a sharp rise in less desirable forms of consumer credit.

Essentially, we're still taking on household debt, just not literally in (the relatively reliable) house itself.

Although mortgage applications have been slowing since mid-last year, personal loan applications have jumped by 11.9 per cent. While 7.5 per cent more people were applying for credit cards, and auto finance applications were up by 6 per cent for the year to November 2015.

This means we're flirting with a bit of debt danger. Instead of harnessing the power of leveraging for financial betterment with well-purchased property acquisitions, more people are opting to make the hefty interest repayments applied to consumer credit.

Moreover, they're spending this more 'expensive' credit on products that are proven to lose value over time. Ergo, we're collectively taking on more non-productive debt.

This is where the danger truly lies if (and when) the wheels happen to fall off and interest rates start to move upwards again. How do you juggle rising mortgage repayments when you've maxed out personal lines of credit buying goods that will never provide a return, but rather be a burden on your cashflow?

SO WHO IS DISHING IT OUT?

Interestingly, a lot of this rise in consumer credit seems to be linked with an evolving incidence of peer-to-peer lending practices.

What's more, Veda Credit's consumer risk chief Angus Luffman says alternative financiers are seemingly becoming more mainstream.

"The average age of borrowers using alternative lenders is creeping up as these lenders shift from being primarily a channel for young consumers. It's still early but, if this trend continues, it may be an indication that alternative lenders are becoming a more mainstream option for borrowers."

NOT ALL OF US ARE FEELING IT

Although many Aussies are apparently sufficiently at ease with their financial lot in life to part with a hefty chunk of income toward the monthly car repayments, there's been a considerable fall in consumer sentiment of late.

Not since Turnbull initially tackled Tony and came out victor, have we seen such lackluster figures from the widely watched Westpac-Melbourne Institute Index of Consumer Sentiment, which fell 3.5 per cent last month to 97.3.

We've officially entered the economic pessimist's paradise, with many feeling decidedly less optimistic about their fiscal future.

Westpac chief Bill Evans points to a hiatus in local news reporting over the 'silly season' as the motivator for the most negative consumer outlook since September.
"With limited domestic news during the holiday season consumers appear to have been mainly impacted by the state of negative news on the international front and the spill over effect on financial markets," he noted in reference to the figures.

Further, lower spending power due to the weakening Aussie dollar and headline grabbing reports of falls across the local sharemarket, as well as for world economic powerhouses China and America, have left many feeling a tad uncertain.

As always, I would encourage Trilogy Funding readers to proceed with caution in what is essentially a global environment churning with financial ambiguity.

Further, I'd suggest avoiding the 'lipstick phenomena' in favour of something that will prove a lot kinder to your own personal purse strings in the long term – residential property investment.

The size of the loan required might be bigger sure. But remember, well-selected real estate assets will rise in value over time, providing returns that could free you financially as retirement looms ahead. Plus you'll have tenants helping to repay the associated debt.

On the other hand...well...you can't live in your car, or rent it out! No matter how large or fancy it might be. Think carefully about whether any credit you're considering will put you ahead of the game, or leave you struggling in a sea of damaging debt.

IS NOW THE TIME TO INVEST? AND IF SO, WHERE?

Numerous barriers (whether real or perceived to be real by the general public) are apparently proving effective at slowing housing market activity right now. At least this is the case if you believe all the recent media reporting. And let's face it, many people do.

But one of the problems with the type of microanalysis we're seeing in a market very much impacted by a raft of local and global fundamentals, including seasonal supply and demand fluctuations, is that it's far too one-dimensional to paint an accurate image of what's really going on.

You see...property is a big picture proposition. It requires the capacity to avoid getting lost in the details, where the devil lies, but also to see how your strategy and structure will unfold in order to reach your end objective(s).

As such, one or two changes in how the fundamentals intersect at any given time to create the good, the indifferent or the bad tidings of the day, should mean little more than a bit of interesting reading for the savvy, strategic property investor.

Unlike the majority of people transacting in our housing markets, investors read about seasonal type slowdowns and think 'opportunity'.

But much like the reports they take their market information from, most Australians think in the short term, not necessarily considering how well some of our better-loved locations have performed historically.

They hear nit picking around affordability barriers and read into a relatively overdue general market slowdown as the demise of house values, now and forever.

So for the investor who knows better, how is the current market genuinely looking in terms of opportunities to acquire further housing assets and grow your portfolio?

Well, if you've got your strategies and structures in place, and sought sound advice from a specialist mortgage broker regarding how to overcome the increasing serviceability barriers of a new look lending landscape, 2016 could prove favourable for your next property acquisition.

WHERE DO THE EXPERTS SAY MAKES FOR GOOD BUYING?

Given short-term cashflow is now recognised to be as critical to the sustainability of your portfolio as long-term capital growth, many experts suggest regional buying opportunities could be a good way to shore up additional yields in 2016, particularly as inner city rent returns start to come off the boil.

A rising tide of reinvented tree and sea changers – essentially Gen Xers and Ys who've been priced out of the inner suburbs – have begun looking for affordable first time buying opportunities further afield.

As such, it's anticipated that so-called satellite towns, such as Bendigo and Geelong in Victoria and Liverpool in NSW, will continue to generate interest among those seeking an attainable foothold on the property ladder.

These regional towns, which often boast a multi-faceted employment base around a number of different industries, always tend to benefit off the back of inner city booms. And it seems this time is no exception.

Advice from industry insiders is that regional locations, within easy commuting distance to the CBD, where jobs are being created due to private and public infrastructure spending, could prove profitable for risk adverse buyers wanting the surety of strong rent returns.

PIN DROP

In a bid to pin point specific locations that represent value buying, thenewdaily.com.au spoke to a number of different industry advisers. Here's what they had to say...

CoreLogic RP Data senior research analyst Cameron Kusher says those focused primarily on rent returns should look beyond Sydney and Melbourne.

He notes Canberra's property market is starting to perk up and down south, Hobart could be one to watch. While prices in Perth and Darwin will likely continue to decline.

Property expert at financial comparison site Mozo, Steve Jovcevski, says Liverpool in Sydney's west and neighbouring suburbs such as Casula represent great investment prospects.

"Current low clearance rates in Western Sydney compared to the CBD could potentially amount to big cash savings for property investors even in the face of tighter investing borrowing guidelines," says Jovcevski.

While Ben Handler, CEO of buyer's agency Cohen Handler, says investors can snap up a very good entry level apartment investment in Sydney's Mt Druitt, Blacktown and St Mary's for around $320,000.

Smarter Property Investing principal Christine Williams claims the western suburbs of Melbourne, much like Sydney, are where some of the best investment prospects lie for Victorian investors this year.

She says for beginning investors whose strategy is to buy and hold for the long term – anywhere beyond ten to fifteen years – Werribee is the place to secure a quality, well-priced, entry level detached house for approximately $320,000.

And Handler is steering Melbourne clients towards houses in Preston, Coburg and South Kingsville.

If you've been considering the expansion of your property investment portfolio over the next twelve months, it's definitely advisable to keep in mind the current changes occurring around lender serviceability. Not to mention the potential for interest rates to start rising again before the year's end.

While you're ultimate goal as a serious investor should always be long-term capital growth, it's perhaps more important now than it's ever been to maintain a strong cashflow position too.

With this in mind, diversifying into regional locations that have the potential to offer the best of both worlds, with consistently good average price growth and very strong rent returns, is certainly an approach well worth considering.

5 'WHAT IFS' THAT STOP PROPERTY INVESTORS IN THEIR TRACKS

If Johnny jumped off a cliff, would you? It's a question I'm sure your incredulous parents asked of you, as I was asked of mine, at some stage in your childhood.

Of course what's implied by this absurd interrogation is that you shouldn't blindly follow the masses (because sometimes the 'm' is silent – thanks Facebook!). After all, who knows where you might end up?

Humans are an interesting species, however. Despite this apparent early encouragement to 'be your own person' via such parenting pearls of wisdom, we seemingly still prefer to follow the herd.

This is particularly evident when you consider the psychology of investing.

Most people fall victim to their own self-limiting internal dialogue when it comes to planning, strategising and creating financial freedom.

Not necessarily because they've had a bad experience with investing, but because they know someone who has or have just seen those dreadful 'scam' stories on TV where people lose their life savings.

Culturally, we tend to run with the pack we best associate with. So it's no surprise that given the majority are middle class, middle-income earners who'll probably retire reliant on traditional superannuation schemes and a government pension, only a relative handful of investors ever achieve the wealth they aspire to.

Let's face it…none of us consciously set off for a future of financial destitution. But the fact is, when we decide to 'go with the flow' and fail to undertake our own personal goal setting and planning, we risk falling into that 'mass' mindset of money mediocrity.

Have you been there? Are you there right now? Might you end up there if you stay your current course?

Moreover, how do you know when you've fallen into the mind trap that will invariably convince you NOT to be a pro-active participant in your own financial future?

A good indicator is the 'what if' syndrome, where you essentially live in a state of perpetual fear that comes from the unknown (and entirely unplanned) future you're heading into.

Here are 5 common 'what ifs' that can trick you into not investing, and the answers that will get you over these self made hurdles…

1. WHAT IF I BUY THE WRONG PROPERTY?

While you can certainly end up with a dud investment weighing down your entire portfolio down, what's really the worst that can happen? You sell for a bit of a loss.

Property is a far more forgiving commodity than most, because it's an essential asset that everyone needs – shelter. As such, it will always be in a varying degree of demand.

To what degree demand exists for a particular property or location determines the ultimate value movements of residential housing markets over time.

As such, with some well-rounded research into historical price movements and the market you're contemplating purchasing in can entirely eliminate the question as to optimal asset selection. It's a case of knowing the tenants and owner-occupiers you're catering to and investing accordingly.

Of course these days you can also engage any one of the many professional buyer's advocates to advise you on the right property for your needs, thereby removing the guesswork.

2. WHAT IF I CAN'T AFFORD THE REPAYMENTS?

Overcoming this little mental obstacle is as simple as getting your financial ducks in a neat little row before you begin.

Ensure you have sufficient income and/or equity to cover future repayments, as well as establishing a decent cashflow buffer in case of emergencies.

Importantly, seek professional advice from a mortgage broker who specialises in property investment finance and can assist with optimal debt structuring, as well as an adviser who can help you establish the best possible ownership structures to boost your tax savings and cashflow, while minimising your risk exposure.

3. WHAT IF I END UP WITH PROBLEM TENANTS? OR NONE AT ALL?

There are no certainties in life aside from death, taxes and the occasional terrible tenant.

Okay...so some investors luck out and never encounter the latter. But it's always best to expect the best from your tenants, whilst preparing for the worst.

Landlord insurance is a must have for property investors and will protect you financially should something go awry with your rental residents.

Ensure your policy covers you for things like loss of rent and the cost to repair any damage that might be done – either accidental or intentional.

Finally, prevention in the form of an excellent, professional property manager who can qualify good tenants and manage the asset on your behalf is the best way to quell this 'what if'.

4. WHAT IF I LOSE MONEY?

It can and most likely will happen when starting out on your investment career. One of the best ways we learn is through the mistakes we make. The idea is, you get back on the horse, learn from the experience and regain what you lost, with interest.

Plus the unique beauty of real estate is that you can add value to an underperforming property and at the same time boost cashflow through things like renovations.

Property allows even novice investors to take control of your asset, rather than simply leaving it to lady luck and market forces. Unlike shares in a company that relies on the management of others, you are the director of your own fate when it comes to housing assets.

5. WHAT IF IT'S A SCAM?

Once again, effective research can entirely eradicate the possibility of you falling victim to the latest and greatest investment fad or scam.

When seeking advice, make sure the source is independent and doesn't have a product to push.

Of course once you identify and determine concrete investment goals and a strategy to reach them, many of these 'what ifs' become entirely irrelevant.

The more planning you put into your financial future, the less you'll face the fear of such unknowns and have the power to progress on your wealth creation journey with confidence. With nary a cliff in sight!

Still need help alleviating some of your fears around property investment? Why not connect with the team here at Trilogy Funding?

We have the answers you need around optimal finance structuring, so you don't have to worry about the 'what-ifs' when it comes to your borrowing power. Click here now to contact us.

8 TIPS TO HELP PLAN FOR YOUR FUTURE FUND

Most baby boomers are well on their way, if not already well into, their golden years.

This is a generation that virtually patented the ideal of 'greed is good'. But it hasn't all been financial smooth sailing for every Aussie born between 1946 and 1964.

Baby boomers have, arguably more than most, lived through some of the most rapid and radical changes in human history. They're the children of post war parents, who witnessed first hand an unprecedented industrial and technological revolution.

They were the first generation to start being made redundant by an increasingly mechanised workforce. And many boomers experienced one or more fiscal misfortunes during the 'recession we had to have' back in the early 1990s, or the more recent 2008 GFC.

With regard to the latter, a number of unfortunate baby boomers were stripped bare of super funds and life savings during their all-important prime investment years.

At a time when they were meant to be considering an exit strategy from the paid workforce, many remained tethered to an office job in order to rebuild completely shattered family nest eggs.

Some timely pearls of wisdom...

For those who still have the luxury of a little extra time up their sleeve before transitioning into a life of leisure, here's some food for thought that can help to optimise your future financial planning as a later blooming boomer.

1. EXPECT TO LIVE A LONG AND HEALTHY LIFE

As modern science makes advances in treating and preventing disease, people in the western world are starting to live longer. Today's average 65-year-old male can expect to live until the ripe old age of 87 years, while his female counterpart will almost reach 90.

Keep in mind that, with these being the averages, many can anticipate receiving a 100th birthday letter from the Queen.

This means, depending on how and when you choose to retire, you may conceivably need to fund another two to three decades of post-work life. How much investment income will be sufficient to sustain your ideal retirement lifestyle for twenty years or more?

2. ACCOUNT FOR INFLATION WHEN CRUNCHING THE NUMBERS

Many people undertake financial modeling based on today's figures, neglecting to consider the impact inflation will have on things like cost of living. Ideally, your investments need to be returning dividends well above the average rate of inflation, in order to ensure you'll have enough in your future fund to pay more tomorrow for the life you plan today.

3. PLAN AHEAD FOR YOUR RETIREMENT

Speaking of planning...will you one day wake up and decide it's time to just dump work, or gradually ease yourself into a life of leisure?

These are important considerations. Whether you propose to phase your retirement and slowly reduce your hourly commitment to the boss or just get it done with one quick exit, essentially determines how pro-active you should be in your asset accumulation phase, and how large your fund must be to wind down from work.

4. WHAT LIFESTYLE DO YOU ASPIRE TO?

Start with the basics. How much does it already cost you just to live comfortably? Perhaps you like going out for dinner once or twice a week and taking an annual family holiday. Do you intend to continue these habits into retirement, when you no longer have that reliable working income?

And let's not forget all that extra time you'll have at hand to do the things you've only dreamt of being free to do.

Budget for the life you want in retirement and plan accordingly to get there.

5. KNOW YOUR RIGHTS

With various governments attempting to address the economic issues caused by our rapidly ageing population, legislation around retirement ages, superannuation access and things like forced redundancy are becoming somewhat blurred.

The bottom line? You cannot be forced out of a job just because you turn 65.

It's critical that you seek independent counsel if you feel you're being unfairly pressured into early retirement, from someone who can adequately guide you when it comes to your employer's responsibilities and your rights.

6. SEEK ADVICE

Don't just sit on your employer established super fund as a reliable means to fund your ideal retirement lifestyle, because chances are it won't be anywhere near enough.

Instead, ask for assistance in establishing a well rounded, high returning, low risk investment portfolio that reflects where you are right now and where you plan to be in the future.

7. USE WHAT YOU HAVE AT HAND

One of the most powerful weapons baby boomers unknowingly have to wield when planning for their financial future is equity. This generation has lived through some of the most phenomenal residential housing value growth in our relatively short history as a settled nation.

As such, many are sitting on veritable goldmines in the form of the family home which was purchased thirty years ago, paid off ten years ago and has realised capital growth to the tune of 100 to 300 plus per cent, depending on location.

Just be aware that if you do intend to draw down on your equity, you need to do so in a way that will be low risk and not jeopardise your financial stability.

7. SAFEGUARD YOURSELF

If the GFC taught us one very valuable lesson, it was to have protection...just in case. Any circumstance can eventuate to impact your financial stability – now and in the future – and generally it will be beyond your control.

Think natural disasters that can cause the value of an area to plummet or some global economic upheaval that sends ripple effects across the rest of the world, including here in Australia.

Not only do you need to safeguard your future fund with appropriate insurance coverage, and by ensuring you legally bequeath your fortune to its rightful heirs (your family) through a proper will.

It's also essential to maintain a decent cashflow buffer – preferably in an offset account linked to any outstanding non-tax deductible debt – for those 'just in case' events you might encounter on your investment journey.

Remember, plan ahead and think strategically when it comes to how, when, where and what housing asset(s) you acquire as an addition to your investment portfolio.

Basing your 'bricks and mortar' moves around clearly formulated optimal outcomes, and from here, working backwards to give your actions as an investor purpose, will give you the edge when it comes to securing a financial future worth working towards.

If you would like further information on how to plan your ideal future fund with the best possible finance structuring, click here now to connect with the team at Trilogy Funding.