TRILOGY news
"the property investor's mortgage broker"
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7 WAYS TO MAKE YOUR HOME MORE SELLABLE IN A SOFTER MARKET

All signs in our housing markets currently point to a softening of buyer activity and transaction levels, which is a sure sign that we're entering a slower phase of the property cycle.

Whether this is a long-term transition or a slight seasonal glitch in the housing matrix is really still uncertain, but what we do know is the rate of things like 'days on market' are starting to rise.

So as we seemingly find ourselves in a period that's more favourable for buyers, where more stock means less competition, what can vendors do in order to accommodate the changing conditions and make your home stand out from the crowd?

1. KEEP IT REAL

One of the biggest blunders we see sellers make in a market that's slowing off the back of a significant frothy phase, is to set unreasonably high expectations when it comes to the asking price.

They might do a bit of research, see that things were going gangbusters for the last few quarters, and mistakenly think this will continue.

Don't alienate your market by asking a price that in no way reflects the current conditions or owner-occupier opinion. The best way to accurately ascertain the most appropriate asking price for your property is to…

2. SEEK ADVICE FROM MULTIPLE AGENTS

But don't be tempted to engage the one who 'blows smoke' you know where.

Have at least three agents visit the premises to provide their expert opinion as to where your house sits in the market of the day.

Be wary though, as some agents will attempt to secure your listing by quoting an unreasonably inflated asking price and then gradually conditioning you to accept a lower offer.

Ask to see the data their valuation is based on, in order to get a clearer understanding as to how they came to the figure suggested.

3. DO YOUR OWN RESEARCH AND BE PREPARED

Don't be tempted to just sign a sales authority that binds you to one particular agent without first undertaking some of your own research into the local market.

This is arguably one of your largest and most important assets after all, so you need to take the process of selling it very seriously.

Agents are less likely to tell you what they think you want to hear if you can demonstrate that you're not entirely ignorant when it comes to the property game.

Here's where a little bit of knowledge can go a long way and with so much market data literally at your fingertips, it's never been easier to get a sense of how a particular location is performing.

4. PRESENT YOUR HOME TO PERFECTION

First impressions count. The initial introduction potential buyers have to your property is via your chosen agent's online marketing campaign.

Professional photographers can generally make anything look good, but they can't Photoshop out-of-control clutter or signs of neglect from a picture.

It's critical that you maintain the property in a clean and tidy order for the duration of the marketing campaign, paying particular attention to readying it for the big photo shoot and creating that all-important 'kerb appeal'.

One of the best ways to de-clutter and keep your property picture perfect is to pack away any personal belongings you don't need to access, stowing away boxes in an offsite storage unit.

Keep lawns maintained, garden beds weeded and the exterior looking its best. By minimising any potential for mess, you'll have less cleaning to do at the drop of a hat and be able to...

5. MAKE YOUR HOME AVAILABLE FOR VIEWING AT OPTIMAL TIMES

Potential buyers can't always make it to a pre-scheduled OFI, particularly if it's at a time where people tend to have prior commitments. Consider Saturday mornings for instance, where many parents are ferrying kids to and from sporting events.

It's important that you're flexible in when you'll allow the agent to bring someone through. Ideally, provide them with a key under the strict proviso that they accompany anyone to the premises. This means they can show people through during the days when you might be at work.

If you make arrangements for your agent to conduct inspections at your property when you're not contactable to confirm arrangements beforehand, they should let you know about the prospect's feedback in a timely manner.

Of course if you're selling an investment that's currently under a lease agreement, you'll be required to provide plenty of notice to your tenants when it comes to arranging inspections.

6. THINK ABOUT UPDATES

A coat of paint, new light fittings or drapes and even some cosmetic updates to the kitchen and bathroom(s) can make the world of difference when it comes to giving your property that extra competitive edge.

Importantly, try not to overcapitalise on any refurbishment works, thereby eating into your potential profits, and make sure you renovate according to your market rather than your own personal tastes.

For more advice on renovation costs, click here.

7. CONSIDER ALL REASONABLE OFFERS

Don't be one of those vendors who receives a reasonable offer, reflective of current market conditions, only to stubbornly dig your heels in and 'wait for more money'.

You may end up having to accept an offer below your initial expectations after months (or even years!) of waiting anyway, as often occurs in instances where vendors fail to heed the advice of an agent suggesting they should sell.

While you wait for bigger returns, the next property you could have been buying will likely have increased in price, thereby cancelling out any extra little cream you might manage to get on top of the deal you could've already done.

Be prepared to entertain all reasonable proposals. If someone is dangling on the end of your hook but isn't quite there yet with a decent price, have your agent do some work to reel them in with a counter-offer.

THE FICKLE BUSINESS OF MORTGAGE MARKETING

A lot can happen in a year. Just twelve short months ago lenders were starting to reconsider whether they should be tripping over themselves to offer investors discounted mortgage products, as APRA began making regulatory waves.

Now there's no doubting that those looking to profit from residential property have fallen out of favour, as owner-occupier borrowers so obviously become the financial services sector's latest pet.

Kicking off February with the release of their Statement on Monetary Policy, the Reserve Bank of Australia revealed that average advertised standard variable mortgage rates for owner-occupiers are now 30-basis points lower than they were a year ago.

Overall, the RBA says there's been "a dispersion of housing interest rates across lenders over recent months, with the major banks raising housing interest rates by more than the mid-size lenders and smaller lenders.

"In the second half of 2015, most lenders increased their standard variable housing interest rates by 15 to 20 basis points, after raising rates for housing investors in the middle of the year."

Investors have been hit by a double whammy; being forced to jump through increasingly complex serviceability hoops and having our leveraging power diminished with the application of higher rates on investment based borrowings.

UNLESS YOU HAVE SOME INSIDE HELP...

When it comes to the banks' interest rate agenda, the bottom line is pretty clear – they're in it for the profits. Sure, lenders appear to simply be appeasing the regulatory gods, but what their interest rate decisions are actually guided by is a need to keep shareholders happy.

These days, it can literally pay (sometimes thousands) for you to have an experienced and knowledgable mortgage broker on side who can cut through the BS (Bank Speak!).

Now more than ever it's critical to pay particular attention to how you structure and finance each new acquisition and consider whether refinancing might free up your current equity position further, to provide greater leveraging power.

NOT ALL ABOUT INTEREST

While it might seem as though the interest rate tide has turned against investor borrowers, it's crucial to remember that loan structuring shouldn't be based on the cheapest possible mortgage, but the best one for your individual circumstances, as well as your investment objectives and strategy.

Lower rates for owner-occupiers will often come with the proviso that they borrow at a lesser LVR for instance, of 80 per cent or under.

Consider how your buying capacity could be inhibited if you were forced to forego the option of paying a once off LMI fee and leveraging at a higher LVR of say 90 per cent, just to save a few bucks during the honeymoon phase of your loan.

If you could rustle up a $50,000 deposit from your existing equity base (plus costs), this would mean the difference of being able to purchase a potentially higher yielding asset for $500,000, as opposed to a lesser property for $250,000.

Over time, you'd obviously stand to make a lot more back in capital gains and average returns than you could possibly hope to save on a slightly lower interest rate, by borrowing at a higher LVR.

In fact, if we apply some figures to this example and say the more expensive investment attracts per annum growth of 10 per cent, whereas the $250,000 asset achieves an average 7 per cent, you're looking at an additional $720,000 for your retirement portfolio.

That half a million dollar purchase will have more than doubled in value over the decade to around $1,179,000, while the $250,000 dwelling failed to even match the initial purchase price of the more expensive asset.

Not to mention the extra interest you would have paid over time means a bigger claim at tax time!

SO HOW DO YOU WORK OUT WHAT'S BEST?

A good broker can easily demonstrate these types of comparisons and show you how the different decisions made around your loan portfolio can either positively or negatively impact your future fund.

Importantly, we know that the best rate doesn't always equate to the best deal, and have sufficient inside understanding to know how certain products and lenders would best align with your current situation, as well as your short and long-term goals.

If you would like to know more about how one of Trilogy's experienced brokers can help you to implement advanced structuring strategies and make the most of your leveraging power, why not connect with us today?

Click here now and one of our team will arrange an initial phone consultation to explain how we can help your debt portfolio work harder for you.

ARE YOU PAYING TOO MUCH FOR RENOVATIONS?

As loans start getting a little harder to come by and the banks erect increasing serviceability barriers, many property investors are reflecting on other ways to keep their portfolio's cash flowing.

And let's not forget vendors looking to sell their homes in a slower market, suddenly having to get a bit more creative in a bid to increase the chance of a quick and profitable transaction.

One of the obvious ways you can raise the stakes of a successful property deal or shore up yields as an investor, whilst at the same time manufacturing additional equity, is through renovations to an existing asset.

Not only will this provide an opportunity to increase your asking rent and thereby your income (good for future serviceability), it will also see you gain extra depreciation benefits at tax time and of course, further leveraging power with lenders.

Unfortunately, the nature of the property and construction sector is such that where opportunity presents, so the profiteers follow.
Now I'm all for making a profit. But not when unscrupulous means are employed to have people throw unnecessarily large wads of cashflow at overpriced goods and services.

So I was interested to come across research from ServiceSeeking.com.au, which revealed how much renovations should cost, on average, depending on where your investment property is located.

NO SURPRISES FOR SYDNEY!

The record breaking residential property juggernaut that is inner city Sydney continues to reign as the most expensive place in which to do anything. Including home improvements it would seem.

According to the research, based on over 52,000 quotes obtained from local tradespeople, Harbour City homeowners are paying an average $64.09 per hour for renovations, reflecting a cost increase of 8.11 per cent in twelve months.

On the other hand, Brisbane and Melbourne are apparently the cheapest locations to get your hands dirty with some DIY, at $57.58 and $58.91 respectively. These figures represent an increase of just 0.10 per cent and 0.63 per cent since the same time last year.

As with everything else to do with the ups and downs of our property markets, ServiceSeeking.com.au CEO Jeremy Levitt told TheNewDaily that trade prices are driven by supply and demand.

"NSW had a tradie surge because we're still seeing high property prices. While they've dropped a little bit, it is still pretty strong so there is still a bubble even though it's cooling."

On the flipside Victoria, where it's relatively easy to source a builder, sparky, plumber and painter, has always been one of the cheapest places in which to undertake a reno project for profit.

Another reason Sydneysiders are paying more for property improvements is that it's impossible to secure a residence within cooee of the CBD for less than a cool million...unless it's a renovator's delight!

And by renovator's delight, I mean virtually condemnable. A weekend article in The Daily Telegraph revealed that only 35 houses are for sale in this price range within 10 kilometres of the city centre.

Most of them are boarded up, collapsing and require up to $400,000 in repairs to make them livable again.

KEEP AN EYE ON COSTS

You can see the full list of average costs to employ various trades across Sydney, Melbourne, Brisbane and Perth here.

The take home message for investors in particular though, is to make sure you conduct thorough research into the types of works that will increase your property's worth, and before picking up a hammer...

1. Consult industry experts (agents and/or property managers) to gauge what will sell to your intended market.

2. Draw up a schedule of works and cost it accordingly by obtaining quotes from local tradespeople.

3. Have a clear contingency, timeline and budget in place based on your carefully undertaken calculations.

If you're contemplating a renovation project, why not speak with the team here at Trilogy Funding? We can assist in freeing up your existing equity or structuring any necessary finance to successfully transform your property.

Click here now to arrange a chat with one of our experienced mortgage brokers and find out how we can put you ahead of the property game.

CAUGHT BETWEEN AN INTEREST RATE ROCK AND A HARD PLACE

Last week the Bank of Japan was sounding some serious alarm bells, suggesting a race of sorts is on to take monetary policy into the largely unchartered waters of negative interest rates.

The warning from Japan's version of the RBA is a further indicator that this is a significant time in human, industrialised history; a time of major, world scale transition in a new economic era.

Never before have we all been so economically intertwined, with technology making it possible to tip market balances one way or another at (sometimes literally) the stroke of a computer keyboard.

Talk about a steep learning curve for those who attempt to regulate and influence monetary policy, in order to keep their respective countries on something vaguely resembling an even fiscal keel.

SO, WHAT'S A CENTRAL BANK TO DO?

Last month BoJ governor Haruhiko Kuroda caused quite a stir among the nation's interest-rate setting committee, forcing through a vote to approve negative rates. In a following summary of opinions from the committee, many expressed doubt around the acumen applied in reaching the decision.

"I am concerned that the bank's introduction of a negative interest rate could lead to a competition with central banks in other countries…to lower interest rates deeper into negative territory," one member of the policy board wrote.

Another noted, "Looking ahead, I am concerned that financial markets would expect further cuts in the interest rate into negative territory, leading to confusion and anxiety among financial institutions and depositors."

Japan has adopted a similar framework to the one applied by the Swiss National Bank, which considers the implications of negative rates being introduced with growing frequency across Europe in its Global Economic Prospects 2015 report.

"The main motivation for these decisions was to further ease the already accommodative monetary policy stance to fight the growing threat of deflation amid downward pressures to inflation expectations in the second half of last year (2014) and into early 2015," the report states.

Shedding further light on the negative rate agenda, it reveals, "The implementation of these negative policy interest rates have a common element. Commercial banks normally hold deposits at their central bank as settlement balances for clearing payments, or to meet legal minimum reserve requirements.

"Central banks normally pay interest – a "deposit rate" – on commercial banks' excess reserves (ie. above the minimum level)."

The problem being, since the GFC came along to shake up the global lending landscape and with interest rates holding at all time lows, some banks are choosing to stash extra cash reserves with the central banks.

"That is, some of them have been holding excess reserves because of heightened risk aversion, and because the opportunity costs of hoarding reserves – in terms of profitable lending opportunities – have been quite low, given the low returns on assets and the sluggishness of economic activity."

Europe's central banks began charging financial institutions for parking more money with them in a bid to encourage them to buy alternative assets, thereby putting upward pressure on the prices of such assets and further downward pressure on yields and borrowing costs.

The theory according to report authors is that, "This would be transmitted through the economy by a general easing of credit conditions."

The report does concede however, "negative policy rates have distinct implications… crucially, for financial stability."

ROCKING THE RATE BOAT

The introduction of negative interest rates began in 2009, when Sweden's Risbank started heading below 0.0 per cent (currently at -0.5 per cent).

Academics are torn as to whether it's a good or bad move however, suggesting it wreaks of desperation and growing uncertainty as to how policymakers can possibly resuscitate comatose consumer and business sentiment.

MIT's Sloan School of Management Charles Kane said, "What I do worry about is they're running out of ways in which to get an economy going. I honestly don't know what another step could be other than negative interest rates."

The question of course, is whether it's an effective ploy. Kane says commercial banks in Sweden and Japan will start to feel the pressure soon as negative interest is applied to their reserves.

In theory, they should choose to forego paying a fee to keep their excess cash buffers (just as you or I would), and instead lend more to consumers and businesses, thus fueling inflation and spurring economic growth.

"A tenth of a percent on billions of dollars adds up," noted Kane. "And it could be the difference of profit or loss in a major commercial bank."

A NICE THEORY...BUT WILL IT WORK?

The danger is, such unorthodox policymaking could go very pear shaped, with many economists warning negative rates should be avoided entirely.

What if banks decide to pass the cost on to consumers for instance? Rather than minimising their deposit base, they could conceivably start charging everyday customers like you and I for keeping savings in our accounts.

No doubt many would turn to 'The bank of mattress' in such an event, thereby draining the financial system of its lifeblood. Likewise, if banks absorbed the cost it would no doubt damage their precious profit margins and possibly destabilise the entire sector.

Negative interest rates could also escalate the risk of a currency war among export dependent countries, should it cause the devaluation of local currency prices as investors seek out higher yielding assets.

Then there are issues like the potential to create asset bubbles, such as the one APRA has been trying to deflate with its regulatory imposition.

Sweden is a perfect case in point, where negative interest rates have driven up house prices and raised concerns around an allegedly growing housing bubble. Unfortunately, they haven't been so successful at boosting inflation though.

HSBC economist James Pomeroy told Bloomberg, "Inflation remains close to zero, the currency has strengthened and although growth has improved, this has come at the cost of a housing bubble."

Thankfully Australia's central bank remains in the enviable position of having a fair amount of room to move when it comes to interest rate policy, and many believe this will continue to be the case over the coming year.

It will be interesting though to see what happens if (or when?) the fortunes of these more beleaguered developed economies start to feel some less than positive fallout from this latest negative interest rate saga.