



# Mortgage Insights

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January 2010

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## Welcome to our January newsletter

2010 is shaping up to be a year of opportunity for Australian homebuyers despite the possibility of additional hikes to the Reserve Bank of Australia's (RBA) cash rate.

While we are now firmly in an upward rate cycle, interest rates are still at historically low levels – translating into solid buying opportunities for homebuyers as well as investors, who have been waiting patiently on the sidelines for the end of the increased first home buyer grant.

Strong prospects for international trade, stable inflation levels and lower unemployment point to more positive economic conditions in the year ahead compared to the year just past.

According to the Australian Bureau of Statistics, the national unemployment rate fell 0.1 per cent to 5.5 per cent in December, its lowest level since April 2009.

The surprise fall in the unemployment rate will undoubtedly put pressure on the RBA to lift rates for the fourth consecutive month when it meets again on 2 February. Nevertheless, the drop in unemployment bodes well for consumer confidence: greater job security will buoy retail spending as well as borrowing for property.

Despite improving economic conditions, the potential threat of increased interest rates means borrowers looking to enter the market need to carefully consider their borrowing options. Alternatively, if you currently have a mortgage, it's wise to review your current loan product to determine whether there might be a more suitable one on the market.

There's currently a spread of 27 basis points on the standard variable rate of the major banks – a significant gap. When reviewing your mortgage, keep in mind that some of the non-bank lenders are now offering interest rates that are more than half a percent cheaper than the major banks.

If you are interested in finding out more about current products, rates and what deals are on offer, or perhaps you just want to run through your current financial position, please give us a call.

I hope you enjoyed the Christmas break and best wishes for 2010.

Sincerely,

**Pat Cranshaw**



## Safeguarding your home

### How would you meet your mortgage repayments if your income stopped tomorrow?

Your family home is often the biggest asset you will own, not to mention a fundamental and often sentimental part of any family unit – so it makes sense to protect it.

Life insurance and income protection insurance can not only help you safeguard your home, they can also help protect your family if your income is threatened by illness, disability or death.

If you're buying a new home, now is the perfect time to consider your insurance options. If you don't already have insurance cover over your current property then perhaps it's time to reconsider. If you need a motivator, think about what would happen to your loved ones should the unforeseen happen.

#### The options

There are several insurance options available for homeowners, with many designed to protect your income, your family, your home, or all of these.

- **Life insurance** – Life insurance provides protection for your family in the unfortunate case of your death or if you are diagnosed with a terminal illness or develop a permanent disability that prevents you from working. It usually comes in the form of a lump sum payment which can help loved ones hold on to the family home.
- **Income / mortgage protection insurance** – This type of insurance offers you an ongoing income stream in the case that you are unable to work due to temporary illness or injury; it can also consist of a lump-sum payment in the event of death or total permanent disability. This means peace of mind for you and your family during difficult times, so you can concentrate on recovering safe in the knowledge that your mortgage repayments will continue to be met.

#### The cost

Premiums for life insurance products will depend on your provider as well as factors including your assets, your age, your gender and whether or not you are a smoker. At the bottom end you could pay as little as \$30 a month – not a whole lot when you consider the advantages.

Do note however that premiums will increase with your age and you can be too old to take a policy out, so if you're approaching your mid 50s it's time to act!

As with any financial product, shop around to find the policy that is best for you. If you're unsure give us a call and we'll run through your options.



## Timing your market move

### With an understanding of how the property cycle works you'll be better positioned to pick your moment to buy or sell.

While Australian property prices typically track upwards in the long run – on average Australian home prices double in value every eight to 12 years – every property market runs in cycles.

Through understanding exactly what influences the ebb and flow of property prices, not only can you help secure a family home that will deliver good capital growth, you may also tap into market opportunities other buyers may not be aware of.

#### Supply

Property prices are influenced by the very simple concept of supply and demand – just like fruit and vegetables. The stronger the demand, the greater the propensity for a rise in prices and vice versa.

Supply is a simple concept, influenced by the availability of land and housing in the area and the current level of construction activity. Tight supply can push prices higher while oversupply can lead to a slump.

### **Demand**

Demand is driven by a range of economic factors. Interest rates are perhaps one of the biggest influences on housing market activity and consequently on house prices.

When interest rates are lower, for example, buyers are more likely to purchase property as the cost of borrowing is lower – driving stronger demand and possibly pushing up house prices. In contrast higher interest rates can take the heat out of the property market substantially.

The health of the overall economy also has a major influence on property prices. A strong economy where consumers are confident, have strong incomes and access to credit, can all foster strong property market activity.

Unemployment is also a very good indicator of the state of the property cycle. Rising unemployment usually has a dampening effect on the market as consumers become cautious against taking on debt in case of job losses.

However a declining unemployment rate can be a good indication that the property cycle could be heading for an upswing. Consumers become more confident about their job security and demand therefore starts to improve.

### **Pick your timing**

There is no easy way to put a timeframe on the property cycle; it is just a matter of monitoring the economic environment and market conditions as they fluctuate.

While certain fundamentals, such as those mentioned above, can influence the property cycle, there are also exceptions that can shift supply or demand. These can include one-off government incentives such as the boost to the first home owner grant, incentives for builders and investors, or the overall availability of credit.

But by having a general understanding of the major forces, plus keeping a regular eye on news reports, you will be in a strong position to make the most of the fruits the property market can offer. Give us a call if you'd like to chat through current local property market conditions and your borrowing options.

## **AT A GLANCE – PHASES OF THE PROPERTY CYCLE**

- **Upturn** – Astute investors start to recognise and act on opportunities in the market.
- **Boom** – More buyers rush to market to take advantage of prime conditions pushing prices upwards.
- **Downturn** – Oversupply of new properties to meet demand or rising interest rates eventually put a halt on activity and stop price growth. The bigger the boom, the greater the likelihood of negative price growth during the downturn.
- **Stabilisation** – A period of time between the downturn and the beginning of the next upturn.



## **Valuing your most important asset**

**A professional assessment of your property every few years can be a worthwhile investment.**

Whether it's your investment property or the family home, keeping tabs on its value can be a smart move – and there's a number of very good reasons why.

### **Knowledge is power**

Through understanding the value of your property – or properties if you've managed to build a healthy property portfolio – you'll be in a much better position to improve your overall personal wealth.

You may find out, for example, that your property has significantly increased in value

over the course of a few years. This will give you scope to capitalise on the equity you've built up in your property – i.e. what your property is worth compared to how much you owe on your mortgage – and possibly purchase an investment property or diversify into other investments.

On the other hand, if your house has decreased in value, you will be aware that you are facing a depreciating asset or have negative equity – in other words the mortgage underlying the property is greater than its current market value. If this is the case, you'll be in a better position if you take action and restructure your finances.

#### **How to arrange a valuation**

While a real estate agent will be able to offer you a ball park figure on what your home is worth, engaging an independent valuer is usually the best option.

An independent valuer's assessment should be completely unbiased as they have no financial interest in determining the value of your home.

#### **How much will it cost?**

The cost of a valuation will vary depending on the type of valuation you select. Some websites offer free valuations online while others offer appraisal reports for less than \$100. These valuations predominately rely on data from recent home sale prices, usually a few months old, combined with consideration of current market conditions.

The most accurate option is a personalised assessment where the valuer visits your home. This will typically cost around the \$300-\$400 mark but will vary from city to city and valuer to valuer.

Not only will this type of valuation take into account recent home sales data and current market conditions, it will closely analyse the value of your home based on a range of factors such as the location, land size, materials used to construct the property and car spaces – giving a more precise estimate.

If you'd like help tracking down a valuer, please feel free to give us a call.

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## Wine review

### **Champagne Nicolas Feuillatte**

If you prefer your champagne to be the real thing, you can't beat France's number one selling non-vintage drop, Nicolas Feuillatte Brut NV. As a relatively new Champagne House, Nicolas Feuillatte has forgone an old house style in favour of unique, contemporary, modern champagne full of youthful fresh aromas and rich complex clean flavours. Nicolas Feuillatte Brut NV also boasts an unpretentious "friendly" style that reflects the natural fruit character of the vineyards.



RRP \$60

[www.feuilleatte.com](http://www.feuilleatte.com)

## Book review

### **Keep it classic**

There is a brief moment as summer overlaps with autumn when the beautiful Borlotti beans are fully ripe in their pods, the huge, wonderfully-flavoured Porcini mushrooms are beginning to appear in the markets, and the tomatoes are so ripe and sweet they are almost bursting. *The River Café Italian Cookbook* is a celebration of the real, classic food of Italy. In twelve chapters the authors sample an array of tastes that comprise the traditional Italian menu – from antipasti to sweet dishes for special occasions – with accompanying stories and anecdotes.



**Author:** Rose Gray and Ruth Rogers

**Publisher:** Penguin Australia

**RRP:** \$59.95

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