More prosperity

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Concerned about rising interest rates?

With interest rates rising many people are asking me if they should fix their interest rate now. There are several factors to consider when making this decision. My advice to clients is always to carefully consider these factors before committing to a loan you will be paying for the next 15 to 30 years.

The principle benefit for many people is the fact that their monthly payments remain constant: You know exactly how much money you will need each month to fulfil your mortgage. The second key benefit is that you would be protected from interest rate increases. These benefits are useful to those clients who need budgeting stability. Investors often utilise fixed loans because they prefer to know what their expenses are up front and they don't require any special features.

The principle disadvantage of a fixed rate is if interest rates fall. It is often possible to discharge a fixed rate loan early but only by paying a significant penalty. It pays to understand these costs before you take out the loan.

Readers wanting more information on whether to fix or stay variable or what strategy best fits their needs can either call **Suzy on 0411 528 440 or email me at suzy@bestfitfinance.com.au.**

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Rents are on the rise again

Job security, income growth and reduced first home buyer incentives are all applying upward pressure on the rental market. This pressure will cause rents to increase strongly through 2010 and beyond.

Five interest rate rises and improving economic conditions point to a year of rising rents, according to **Australian Property Monitors'** Rental Price Series Quarterly Report.

After a stagnant 12 months that saw flat rental growth in many markets across the country, the average rental growth across capital cities in the March 2010 quarter rebounded to 1.5 per cent.

This is compared with a total average of just below two per cent for the whole of 2009, as the table below illustrates.

Changes in rents for houses

Median Weekly Asking Rents – Houses					
City	Mar 2010	Dec 2009	Mar 2009	Quarter Change	Annual Change
Sydney	460	460	450	0.00%	2.20%
Melbourne	370	360	365	2.80%	1.40%
Brisbane	365	360	340	1.40%	4.30%
Adelaide	330	320	310	3.10%	6.50%
Perth	370	360	360	2.80%	2.80%
Hobart	300	300	300	0.00%	0.00%
Darwin	550	500	480	10.00%	14.60%
Canberra	440	440	420	0.00%	4.80%

Sydney recorded no increase in median rental prices for houses in the March quarter.

Melbourne, however, has experienced the first quarter of rental growth in 18 months, with a rise of nearly three per cent.

Brisbane aligned with the national average, experiencing 1.4 per cent growth in houses.

Adelaide saw strong growth at 3.1 per cent in the quarter and 6.5 per cent over the year, the second highest of any capital city.

Perth, like Melbourne, experienced a quarterly rise of 2.8 per cent.

Hobart was flat over the quarter and the year, with no increase.

Darwin saw the most dramatic increase, with rents growing 10 per cent in the quarter for houses and nearly 15 per cent for the year.

Canberra was flat over the quarter, whilst experiencing 4.8 per cent over the last 12 months.

Looking ahead

As landlords begin to feel the pinch of recent interest rate rises, with the prospect of more to come throughout the year, landlords are more prepared to pass these costs on to renters in 2010.

According to Matthew Bell, Economist for Australia Property Monitors:

"Considering national rents rose by more in the March quarter than in any quarter in 2009, it is clear that the factors that kept a lid on rents in most cities during the last 12 months are no longer apparent.

Over the last five years, rental growth for most of the major capitals averaged six to seven per cent for houses and seven to 10 per cent for units.

As the year progresses and the economy continues to improve, rents are expected to exceed these levels of long-term annual growth."

This growth is being fuelled by the success of Australia in ensuring job security over the recent past, plus income growth has returned.

In addition, the historically low interest rates and the First Home Owner Boost that made moving from renting to ownership so attractive in 2009 are now gone.

This means that demand for rental properties is on the increase. This, along with the increasing interest rate costs being faced by landlords, means strong rental growth is expected over the year and beyond.

Buying property – research your market

For those considering entering the real estate market, there are many factors to consider. One of the keys to success is research. You need to research the area, research the property and research the financing.

If you are looking to buy a property in which to live or as an investment, where should you begin? Quite simply, you need to do lots of preparation – after all, this is a major financial decision.

Do the research

You need to look at a variety of properties, find out sale prices, understand where the market is going, how much property is available, and how quickly property is selling.

This information can be gleaned from attending auction sales, looking at the published sales results in newspapers, talking to real estate agents and attending open inspections.

Some agents' websites also show sales results, plus for a small price you can get pricing data from various online property data websites.

It's easier to be more analytical and less emotional when buying investment property. Look at recent sales and rents. Do you homework on income potential, understand what your holding costs are and make allowance for some routine maintenance over the years. Local agents can provide estimates of rental value and steer you to similar properties to compare.

Be cautious about buying an investment property that requires a lot of upfront initial expenditure: similarly, be careful about choosing a property that will have future maintenance concerns.

Look at the funding you will require and make allowance for at least a couple of week's vacancy each year.

Are inspections worthwhile?

Should prospective buyers always obtain a building inspection? That's a definite yes, although sometimes you have a clean bill of health on a new strata building for instance, and so an inspection may not be essential for that type of property.

It's especially important to get a building and pest inspection for an old building. This type of inspection can pick up building defects and potential pest infestation such as termites or woodworm, and inspectors can access tricky areas under floors or on roofs.

Archicentre, the building advisory serves of the Royal Australian Institute of Architects, writes about 25,000 building inspection reports a year nationally. They report that common problems are cracking in the house structure, termites, damp, plumbing defects and electrical faults.

If you're still keen on the property after receiving the report, you can use it as a bargaining tool to negotiate the price down.

Sometimes inspectors advise not to buy a house at all. For units, check common areas too, as you may be levied with additional fees if there are problems there.

When viewing a property, you should have realistic expectations. Make a list of essentials. If a major one is missing, perhaps you can make alterations. You may be able to install a skylight or a bigger window, for instance.

Buyers' Agents

For people who don't have market knowledge or enough time, buyers' agents perform a good service. They can often deliver the required property within a short period of time.

Different scales of fees apply and all will be quoted: a success fee, an up-front fee plus a percentage for success and a fixed fee. Buyers' agents do not list or manage properties for sale.

Buying at auction

Buyers' Agents can also bid for you at an auction, but of course many people don't use a Buyers' Agent and so must attend the auctions themselves, which can be a daunting prospect.

When buying at an auction you must register and prove your identity. You will be given a number, which you display when bidding. To understand how the process works, attend several auctions you are not interested in so you can watch dispassionately.

The auction price does not always reflect the valuation. If three or four people want a property, the potential sale price can be affected. So when buying at an auction ensure you have a good understanding of the market.

Research the home loans

Making sure that you have the right home loan is also key. The interest rate, the flexibility, features, etc are all important. That's where our expertise comes in – we can help you to shortcut the research and effort to getting the best loan for you.

You must do the research

In other words it comes back to research. To purchase well you need to get to know the area well, see which types of homes are popular and sell easily, understand any potential building developments or rezoning, and inspect plenty of properties.

You also need to research the best home loan for your needs.

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