Mortgage News

Your guide to mortgages, finance and property

SPRING 2013

Welcome to the spring edition of Mortgage News.

With spring blossoming, home improvements and renovations are on every homeowners mind. It is widely thought that purchasing a rundown property and undertaking extensive renovations will automatically add value to a property, but this may not always be the case. In this issue of Mortgage News, we look at some of the most common pitfalls keen buyers make when trying to get rich quick by undertaking a 'fixer upper'.

Planning for retirement is one of those things we all know we should do, but very few of us spend the time needed to make the most of our hard-earned super dollars. So, we have put together an article that will help you get your super sorted and ensure there is a nice little nest egg available for when you retire.

We hope you enjoy this issue of Mortgage News and as always, if you'd like to discuss any of your home loan options or other financial needs, please don't hesitate to get in touch.

Kind Regards

Daniel O'Brien

Failings of a 'fixer upper'

With over 75 per cent of property owners having attempted their own repair or renovation according to Gumtree Tradie Trends Report, one in five has messed up a DIY job – with $380 million in repairs as a consequence.

Here we look at the three most common failings of new buyers looking for properties requiring renovation, and how you can avoid them.

Taking on too much

A significant new buyer pitfall is the habit of biting off more than you can chew. If the property is marketed as a 'great fixer upper' or a 'renovator's delight', be on guard – especially if you don't have any renovation experience.

Cost, busy lifestyles and pressure on relationships are the main reasons for putting off repairs. And if you jump into a renovation without a plan, it is more likely that the renovation will fail.

Before any purchases are made or construction begins, it is important to sit down and plan out your project.

Make a wish list of all the tasks you would like to undertake if money wasn't an issue. Then consider each one, the impact it will have on the overall project and how much it will cost.

Once you have worked out how much you are willing to spend, it should become clear which tasks you will be able to afford and at what stage.

By setting up a schedule and sticking to a predetermined budget you should be able to complete your project without breaking the bank – and without too much stress.

Tradie troubles

If you decide your renovations are beyond the realm of DIY, be aware that all tradies are not made equal.

If you don't choose wisely you could be left with an inflated bill at the end of your renovations, or dodgy work that will need to be repaired in the future.

Time delays can also occur if timelines and expectations aren't set up front.

To ensure a happy working relationship, meet with your tradie beforehand to set clear guidelines for the tasks that are required, the timeframes and approximate bills.

Regular meetings and updates along the way should ensure there are no nasty surprises at the end of the project.

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Failings of a 'fixer upper' continued

Overcapitalising

The final and most common problem for new renovators and investors is overcapitalising on a project. Particularly if the project is your home, it's easy to spend more than you will ever get back as a long-term return, and so extensive renovations need to be looked at carefully.

Step back from the project and have a look at what the market is doing and what similar renovated properties in the area are receiving.

Also consider the use of the property. If you plan to rent it out for the next five years before moving in, the renovation required to have it 'rent ready' could be significantly different to the renovation required if you are moving in.

At the end of it all, renovations are there to fulfil a personal and often financial objective. Enter into the project with your eyes open and an awareness of how much it will cost and how much it will return. If you need to work out your current financial situation, do feel free to contact me.

Making the most of your super

Over the next few years, superannuation benefits will gradually increase to 12 per cent. To ensure there is a nice nest egg available for when you retire, there are a number of preparations you need to make now.

Working out how much money you'll need to access in retirement is ultimately a personal decision. But once you decide how much you need, you can put a strategy in place to achieve your goal.

The first way to ensure you are making the most of your super is to track down any old accounts. It may surprise you that one in two Australians will lose track of their super during the course of their working life. Statistics released by the federal government indicate that approximately 3.4 million superannuation accounts, with a total estimated value of over $16 billion, have been 'lost' by fund members.

Losing some of your super can have a drastic impact on your financial freedom and lifestyle during those golden years of retirement. Thankfully, there are a few cost-effective ways to help you locate and retrieve any lost super funds that are rightfully yours.

The Australian Taxation Office (ATO) has established a simple and cost-effective way to locate your super by using an online program. The program, known as SuperSeeker, is free to use and available online 24 hours a day, seven days a week.

To access the service, visit the ATO website at www.ato.gov.au and click on the 'Super Funds' tab near the top of the page.

You can use SuperSeeker to check all super accounts to which you have made a contribution and to track down all lost super accounts in your name that have been reported to the ATO – as well as any super money the ATO currently holds for you.

Once you have tracked down any old super accounts, it's time to think about how you are going to make up any gap between the actual balance of your super account and the amount you hope to have at the time of retirement.

Have you considered voluntary contributions?

Even small contributions into your super can make a big difference. For example, adding a voluntary contribution of just $20 a fortnight over a period of 30 years could mean an extra $30,000 by the time you retire.

While giving your superannuation accounts a health check may not be the most fun way to spend an hour, it will pay dividends in the future and will ensure you can live the retirement you want, without financial stress.

SMSF considerations

Self-managed super funds (SMSFs) are a hot topic at the moment, but are they really an option for everybody?

It is important to consider the following factors before setting up your SMSF.

As a trustee, you have total control over investment strategies and your money. You also have greater choice in regards to the investment opportunities and the flexibility surrounding your fund.

By pooling your super with family members or business partners in an SMSF you may be able to save money to invest more quickly, potentially reaching your investment goals sooner.

Although SMSFs allow for greater control of your money, there are extra costs associated with this kind of super fund. As a trustee, you will have added responsibilities and legal obligations that you don't need to worry about when someone else is managing your super fund.

You will need to weigh up the costs of having your fund professionally audited each year, plus ongoing administration costs. You should consider whether the benefits outweigh these additional costs.

Most financial experts suggest that to make the most of your SMSF, you should have at least $200,000 in savings and some financial experience.

It is important to consult an SMSF specialist before making any decisions.

Pre-purchase inspections you can conduct yourself

Before you sign on the dotted line, take a closer look at your prospective dream home because things are not always as they seem.

Major problems with a property you might be eyeing could cost you thousands of dollars to fix, not to mention the stress of watching your perfect purchase turn into a disaster.

Avoid the heartache and financial stress of hidden problems by keeping an eye on these potential danger areas when conducting your pre-purchase inspections.

Structure

Beware structural damage in your potential purchase. This is especially important in older properties. If the property you are considering has structural damage, it would be wise to stay clear as this is by far the largest cash guzzler.

Check for signs of damage by looking at the interior walls for cracks or breaks, and don't forget to inspect the brickwork on the outside of the house.

Plumbing

Test the water pressure by checking the taps in the kitchen, bathroom and laundry. Inspect the pipes outside the house for rust or leaks. Finally, be sure to ask about the age of the hot water system and when it was last serviced.

Electrical

Electrical or wiring problems are some of the most dangerous issues due to the increased risk of fire. Older properties are more susceptible to problems, especially when DIY maintenance or renovations have been undertaken.

Blackened areas around power points are a tell-tale sign of faulty wiring.

While these tips are a handy starting point for spotting basic signs, it is always important to call in the professionals if you are concerned about any of the above factors. Be sure to also have a professional building and pest inspection completed before signing any contracts.

Selling mistakes to avoid

Selling an investment property is not like selling your home. There are a number of extra considerations investors must make when selling their property to ensure the best result is achieved.

Don't forget the tenants

Your tenants are the ones paying your mortgage or supplying you with an income every month. While you might be selling the property because of your personal circumstances, it is important to remember that legally your tenants still have rights and this may affect your ability to put the property on the market.

If your tenants are fulfilling the tenancy contract, it is only fair that they enjoy their lives without being driven mad by open houses, inspections and so forth. To ensure the sale goes through smoothly, be open with your tenants about your plans and help keep them on side by offering a variety of incentives. These could include reduced rent, a free week once the sale is agreed, or $10 every time there is an inspection.

Remember: your tenants will be a key part of what potential buyers see when they inspect the property, so keeping your tenants on your side will mean your best foot is put forward when it comes to open homes.

Not consulting the right experts

When it comes to selling an investment property, it is important to consult your team of experts to ensure the sale is in the best interest of your portfolio and long-term investment goals.

Timing is everything as the sale is all about selling at the right time for you. If you need to sell to reduce your outgoings or due to financial stress, be informed first. Consult your accountant or mortgage broker to see if there is another solution to your problem, as a rushed sale could be a costly mistake.

The decision to sell an investment property should not be done lightly and success is all about timing, getting the market right and, when it comes to tenants, respect and courtesy.

Market Update

There is little doubt the market is in upswing as we head into spring, with interest rates at record lows and a resurgence of investors returning to the market.

According to RE/MAX WA managing director Geoff Baldwin, increased sales and upward price pressure are expected over the next few months.

"Historically, the spring period sees the market improve and there is little doubt this annual cycle will repeat again. However, there are several other influences that are likely to create extra pressure this year," he said.

He urged those seeking to upgrade or purchase their home to look at the market prior to this upswing if they wish to avoid paying more.

"Most informed projectionists are in agreement that Australian property prices are as low as they are likely to get and although nobody is predicting boom conditions, people who buy now will almost certainly benefit from significant gains over the next few years," Mr Baldwin said.

Signs are also looking positive for homeowners, with the latest RP Data-Rismark Home Value Index finding dwelling values across Australia's capital cities have increased over the past five years.

Borrowers seem to be more comfortable with their mortgages than ever before, with consumer confidence reaching its highest level since the beginning of the global financial crisis.

According to Genworth's Homebuyer Confidence Index, sentiment jumped from a record low of 93.4 in March 2013 to 100.1 at the end of July 2013.

According to Bridget Sakr, Genworth's chief commercial officer, "It appears consumers are becoming more confident about making repayments, with the index showing that 29 per cent of homeowners expected interest rates to decrease over the next 12 months – compared to 12 per cent who held this expectation in March.

"The spike in consumer confidence recorded since March was also driven by a 37 per cent decrease in the proportion of surveyed borrowers who expected to experience mortgage stress over the next 12 months."

"The latest Genworth Homebuyer Confidence Index suggests homeowners realise that current market conditions – particularly historically low interest rates – make buying property and servicing a mortgage a more attractive proposition than it has been for a number of years," Ms Sakr said.

So whether you are looking to refinance an existing loan, make the leap into property investment or just consider your options, now is the perfect time to get a mortgage health check to ensure you are on the right track.

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