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STRAIGHT TALK

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What's Making News at KHRE This Month?

At Last! - Some Helpful Stuff About 'Hot Spots'!

I get annoyed when I read the property investment magazines that are touting the latest *'Hot Spot'* for investing. My biggest problem is that they don't seem to take local knowledge into consideration, but rely on computer modelling.

For example, when looking at South Australia, the computer often picks on small country towns where prices have no doubt risen, but the number of properties and available tenants are very small.

This month's *Money Magazine* had big headlines about the *"Top Fifty Share Buys and Property Hotspots".* I was pleasantly surprised to find that they were promoting the northern council districts of Salisbury and Playford! I've been doing the same thing myself for years!

Here's what they had to say:

"The municipality of Salisbury emerged in the second half of 2014 as the precinct most likely to deliver price growth in the coming year. Most suburbs in this LGA have median prices in the $200,000's so affordability is the key driver. Another standout is Playford LGA. It's another place that thrives on affordability – Playford has several suburbs with median prices less than $200,000."

My suggestion: If you are looking for a good investment property, look at Salisbury and Playford.

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More About ‘Hot Spots!

The term *‘Hot Spots’* can imply rapid capital growth, however, my belief is that we are in a season where we are not going to see significant increases in prices in the Northern suburbs of Adelaide.

It looks and feels very much like the 90’s when we had the infamous *“recession we had to have”*. During those years, we not only saw prices go down, but even rents slipped back in many cases.

So, does that mean we don’t invest in property? - Not at all. We are in a season where there are many excellent buys and the key thing to look for is the actual return on the investment.

Many suburbs in the Northern areas of Adelaide are showing 6-7% returns, well above inflation and interest rates.

It’s a season to do homework very thoroughly before jumping in. Take the long view and enjoy the cash-flow while waiting for the next season of capital growth.

A Case Study in Patience!

Back in 1990 (my grandkids call that *‘the olden days’*!) I purchased an investment property with a business partner. We were thrilled with the great deal we got from our bank - a fixed rate loan at 15% interest for two years! Normal interest rates were around 17% at the time. The property cost $65,500.

We rented it out for many years but then the recession came along. The rent went down along with the value of the property.

We hung on year after year without much change.

Eventually I purchased my partner’s share in 2000 and assumed full ownership of the property.

I held on for another four years (a total of 14 years in all) and sold it for $150,000. The profit was there, but it took a long time to achieve.

With the proceeds, I was able to re-invest in a commercial property that continues to bring in good returns.

The point of my story is to encourage readers to take the long view on property investment (and any investment for that matter). Booms come along infrequently and whilst they are great times, they are not the norm, and quite hard to pick!

Is now the time to refinance – and avoid the mistakes investors make?

With interest rates remaining at historic lows, now is the time to research what lending institutions have on offer for your investment property loan. In refinancing, many investors accept the reduced offer from their lending institution - however it is wise to shop around. Get all rate offers in writing including any terms or special conditions -this way you can make an informed of comparison of the deals on offer. You will be amazed at the variances once you put the offers side by side.

Investors often make the mistake of not taking into account additional or hidden fees that may negate the interest rate being offered. Ensure that all associated costs such as establishment fees and stamp duty are taken into account when making your decision.

It is wise to review your financial position annually rather than leaving it to your lender or broker who may not be in a position to take your personal situation into account. Don’t forget to take into account that once the *honeymoon* deal is over, the rate may revert to the original rate or even a higher rate! Before you make the choice to refinance or move lenders, always check if any exit fees apply. Sometimes exit fees may apply even if you remain with the same lender!

Finally, be wary of taking money from your home loan line of credit to pay off other debt. This may assist in reducing short term financial issues but this also reduces the equity that you have in your own home.

As you can see, there are many things to take into account when considering the refinance of your property investment loan. Follow some of the steps above, be analytical in your approach and take the time to check all fees and costs in making an informed decision to refinance.