

December 2004 Newsletter

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Trading Places – How to buy and sell your house safely

At one time or another most people upgrade their home. Gone are the days where a newly married couple would buy a house and live in it for their whole life. We work more, we earn more and consequently we want more which means most people dream about the “perfect” home. But how do you go about trading places... safely!

Have you heard about the horror stories of someone buying a new home without selling their home first? Then they find out that they can't get finance and now they are under pressure to sell their home in 30 days (so they have the money to pay for the new property). This results in a motivated seller... every purchasers' dream. These situations end up costing people tens of thousands of dollars.

Here are three safe ways to go about trading places.

1. Buy first and sell later

This is by far the smoothest and easiest way to upgrade your house. However, it is only available to people who have a reasonable amount of equity in their property and surplus borrowing capacity.

What you do is apply for a loan amount that will cover the total purchase price, plus costs. Then you purchase your new property and move in. Once you have done that, you can sell your old place at leisure. Here is an example.

Assume your existing property is worth \$500,000 and you have a loan for \$150,000. You would like to upgrade your home and you have found a nice property for \$750,000. What you would do is apply for a loan for \$785,000, which is enough to pay for the full purchase price plus stamp duties (therefore your total lending would be \$785k + \$150k = \$935k). The new loan would be secured by the old and new property (therefore total

security value would be \$1.25 million yielding a loan to value ratio of 75% - under 80% to avoid mortgage insurance). Once you have sold your old home, you could then reduce your total lending.

The major hurdle with this method of upgrading is that the borrowers need to be able to have a sufficient borrowing capacity to qualify for the peak debt (i.e. \$935,000 in the example above). Lenders will take into account the expected rental income that you would get from your old property if you rented it out.

2. Sell long and buy short

The next method of upgrading is to sell your existing home with a long settlement period – say 90 days. You then purchase your new property on a shorter settlement period – say 30 days. Therefore, you can move from your old property straight into your new property. However, since you need to pay for your new home first, you will need bridging finance. Bridging finance allows you to pay for a new home before you have received the cash from the sale of your existing home. Bridging finance is only available once you have sold your existing home (i.e. unconditional contract of sale). This is a very important point. A lender will not approve a bridging loan until you have sold your home.

Perhaps this is best illustrated by an example. I will use the same figures as in the previous example. Let's assume you sell your existing home for \$500,000 on a 90 day settlement and the settlement date is 28 February 2005. You then purchase your new home with a settlement date of 15 January 2005. You will therefore need bridging finance of \$785,000 for the period from 15 January until 28 February 2005.

The advantage of bridging finance is that you do not need to qualify for the peak debt of \$935,000. The lender will only need to be satisfied that you can afford the end debt amount of \$435,000 (i.e. \$785k + \$150k - \$500k = \$435k).

Some bridging finance facilities will not require repayments during the bridging period. The interest is just added to the loan.

The downside of this method is that you have to find a new home pretty quickly once you have sold your existing home, otherwise you will be homeless.

3. Sell, settle, and then buy

This method of upgrading your home is more inconvenient because once you sell your home and settle, you have to move into temporary accommodation (e.g. with family, friends or short term letting) until you find a new home. This is a method of last resort for most people. However, it is the safest and easiest way from a finance perspective



to upgrade your home. Whatever method you use make sure that you consider your downside. Consider situations like it taking longer than expected to sell your home or selling for less than you expected. Remember the last thing you want to do is put yourself in a situation where you must sell your existing home by a certain date. If any purchasers get wind of

your deadline you can be sure that they will use it as a negotiating tool. If you are ever in doubt – seek advice before signing anything.

Any questions? If you have any questions or a scenario you would like us to consider just [email us](#).

Income Protection Insurance Is Often Overlooked!

'Most of us would not dare to drive our brand new car out of the showroom uninsured.....if your car is comprehensively insured.....why aren't you?'

Your greatest financial asset is, most likely, your ability to earn an income. Your income allows you to cover daily living expenses and service your debts. It is also the savings stream that you use to generate your wealth, fund your lifestyle and achieve your financial goals. Considering this, the overwhelming majority of people insure their homes, their cars and their valuable possessions, however few consider protecting their income through an income protection policy.

Recent statistics show that:

- Every working Australian has a 1 in 3 chance of becoming disabled for more than 3 months before turning 65 (Institute of Actuaries of Australia 2000);
- More than half of all serious accidents happen outside of work, so workers compensation does not apply (Australian Bureau of Statistics, National Survey 1995).



For some people the answer could be simple – they may have enough income earning assets or savings to continue to support their needs. But for how long if the illness or injury is long term?

For many of us in the midst of servicing mortgages on our homes and investments, if we do not work and earn this could have a serious impact on our serviceability of our debt, and certainly to our ongoing lifestyle and family commitments. You may be eligible for social security benefits – but will this be enough to meet your needs and that of your families? and continue to fund your wealth accumulation plans?

Income Protection Insurance

Income protection insurance will provide you with a cash flow when you are unable to work due to sickness or injury. It replaces up to 75% of your usual earnings for a given period of time whilst you are recovering. The income paid while you are on claim will assist you to meet your ongoing commitments and contribute to maintaining a similar ongoing lifestyle as you did prior to the event.

Premiums paid for income protection are fully tax deductible from your gross income, based on the continuance of present taxation laws.

In circumstances where you cannot work due to sickness or injury, even temporarily, it makes sense to have a financial contingency to keep the wheels spinning. It means your family's day-to-day expenses and your wealth accumulation plans can be maintained without major financial upheaval. By helping to meet your financial commitments in such a situation, income protection insurance protects your ability to earn an income and helps provide financial security for you and your family.

10 handy bits of information on Income Protection:

- Premiums are based on age, gender, occupation and whether you smoke;
- Stepped premiums rise as you get older, level premiums are more expensive to start but have no age based increases in the premium;
- Women tend to pay more in premium because of a higher incidence of disability;
- Premiums are lower for white collar workers and professional occupations because of the lower risk of injury;
- Know the difference between 'agreed value' and 'indemnity' policies;
- Savings can be made by taking a longer waiting period;
- It is important to have a policy that is 'guaranteed renewable';
- Consider a policy that has a broad definition of disability and a benefit period to age 65. Most salary continuance policies inside superannuation only have a 2 year benefit period;
- Ensure the benefit amount is indexed for inflation and indexed while on claim;
- Premiums are tax deductible but benefits are taxable as income.

Income protection insurance continued...

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Disclaimer: Any advice contained in the information in this insurance article is general advice and has been prepared without taking into account your objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. You may wish to consult a licensed financial adviser when doing this and you should obtain a copy of the relevant Product Disclosure Statement which applies to your circumstances. The Product Disclosure Statement should be considered when making any decision about whether to acquire the product or to continue to hold the product.

Sydney Property Market Update

Sydney is home to over 4 million people. A sprawling city with beautiful harbours, clean beaches, local bushland, congested roads and iconic Opera House, Sydney presents a myriad of property buying opportunities.

Answering the question about where and what type of property to buy can be daunting at first. However, there are several criteria that are essential for both home buyers and investors.

For the investor, it is important to focus your investment in areas that have limited supply of quality property and high rental demand. Investors must take a long-term view and not be swayed by the latest fad in investment strategy or location. Independent research and investment analysis is essential to identifying which areas are likely to provide the best long term capital growth.

For home buyers it is important to consider proximity to services, transport, schools and other lifestyle benefits. Before buying your next home, consider how easy it would be to sell before making the decision to purchase.

The Sydney market is plodding along with the most active interest from first home buyers under \$500k and upper end buyers not influenced by interest rates. Astute investors are starting to come back into the market looking for under market value buying. Many commentators thought there would be a considerable resurgence in buyer interest following the election however this has failed to materialise. Thanks to the introduction of Mr Egan's ill-conceived vendor duty in June this year (exit tax of 2.25% on sale of investment property) the majority of the investor market has headed out of NSW to avoid the tax. The vendor tax has failed to meet the expected revenue targets by a long way. However, by the

same token this has opened up good opportunities for investors and home buyers keen to secure a property for well below market value (up to 15% below). Many are accepting the vendor tax as just a part of doing business in NSW and if you keep your property and never sell, you can avoid the tax indefinitely.

Vacancy rates in Sydney are also on the decline. Latest figures from the Real Estate Institute show that the residential vacancy rate for Sydney in November was 2.8 percent, the lowest since December 2000. In July this year the vacancy rate was 3.8 percent. Vacancy rates have been ranging between 3.5 and 4.5 percent over the last 2 years. Falling vacancy rates usually precede rising rents which is good news for property investors.

One of the best ways to buy a home or investment property in the best locations and avoid paying too much is to engage a buyer's agent that understands the local market. They will save thousands of dollars, countless hours of research and effort and provide you with the confidence of buying well.

As a special bonus to all subscribers with Pro-Solution, Rich Harvey has agreed to provide a free copy of his report on the "Top 20 criteria for home buyers and investors." Email rich@propertybuyer.com.au to request your copy today.

Rich Harvey is Principal of *propertybuyer*, specialising in sourcing and negotiating property for investors, home buyers and developers. If you are considering buying a home or investment property call Rich on 02 9954 7177 or mobile 0402 267 703 for an initial chat. With my experience and contacts I can guarantee to save you considerable money, time and stress. Further information available at www.propertybuyer.com.au



Red Cross thanks you for your survey feedback...

We would like to thank everyone that provided us with feedback through the latest ad survey that we conducted in late November. We promised to donate \$2 to the Red Cross for every person that responded to the survey. We had just under 300 responses which means that we are very pleased to confirm that we have donated **\$600 to the 2004 Red Cross Christmas Appeal.**



Office Closure — Christmas



ProSolution's offices will be closed from Wednesday 22 December 2004 and will reopen on Monday 17 January 2005.

We wish everyone an enjoyable and safe Christmas break!