

## Property or private school?

Survivor of World War II, Anne Frank once wrote "parents can only give good advice or put them on the right paths, but the final forming of a person's character lies in their own hands". It begs the question, how much influence does parenting and schooling really have? The decision of whether to send your children to a public or private school is sometimes a difficult one for many parents. I'm about to make it even more difficult!

It is important to be very clear right from the start. The sole aim for this article is to be thought provoking. I am not passing judgment or telling you what is right or wrong. I simply want to get you thinking.

### Cost of education

A private school education can cost over \$20,000 per year (for years 7 to 12) per student. Primary school fees often range from \$7,000 to \$10,000. These fees are paid from after tax dollars so a parent on the highest marginal rate needs to earn an extra \$37,000 pre-tax to pay for one child's secondary education. A complete private school education can cost more than \$180,000 (or \$336,000 in pre-tax earnings). I am sure you'll agree that this is quite a commitment.

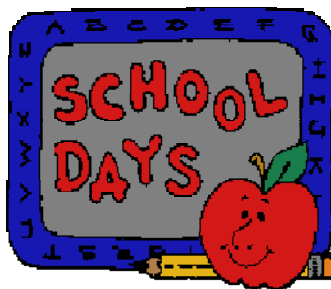
### The comparison

So what else could you do with this education money? Invest of course. I believe that it's critical for every child to receive a comprehensive financial education. Now more than ever this is necessary. These days' young adults need to be more financial savvy than they have ever been because consumerism and debt have joined forces. You can go to Harvey Norman and furnish your whole house with "nothing to pay for 24 months!" No one is necessarily going to tell you if it's a good idea or not. Part of a child's education is to teach them how to manage money, make money work for them and teach them to invest. Perhaps another opportunity would be to instead invest the money (on behalf of your child) you would have otherwise spent on private education. Incentivise them to contribute more into their investments. That is, the more they put in the more you'll put in.

I compared two scenarios. The first scenario involved sending a child to a private school from year 1 to year 12. The second scenario involved sending the child to a public school (and incurring a lower cost of say \$2,000) and diverting the income otherwise spent on private school into property investments. I have tried to match after tax income in both scenarios (i.e. so that the parents are left with the same amount of after tax income in each scenario). To come up with a meaningful answer I assumed that all properties are sold when the child finished year 12 and Capital Gain Tax is paid. The end result is that the child would end up with \$837,000 of cash in their bank account when they finish school. That's a whopping \$623,000 in today's dollars which is certainly enough money to buy their

first home and a new car without any debt. In addition, you have hopefully given your child a very valuable bit of financial education along the way. That is a head start that I'd bet many of us would have appreciated.

I have been very conservative with the assumptions used in this analysis. For example, I used a long term interest rate of 7% (which is 2% higher than the current rate). I have used a rental yield of 3.5%. However, based on where we are now with very low interest rates and higher rental yields, you can get a lot more bang for your buck (as investment properties don't drain much income from your pockets).



Even more interesting would be to encourage your child to continue their financial education and hold onto the investment properties. My forecasts show that the portfolio still produces a small cash flow loss in years 13 and 14. However, from years 15 and onwards (i.e. while they are probably at uni), the

portfolio produces a positive cash flow which is going to supplement income. If they hold onto these investments for a total of 30 years (i.e. until they are approximately 35 years of age), and then sell them, they will be left with over \$4 million of cash in the bank in today's dollars. That is more than enough money to retire on. Imagine getting your child in a position where they can retire when they are 35! Importantly, maybe they wouldn't retire but instead they would have the flexibility to not work if they didn't want to. What an amazing outcome!

However, is helping your children retire at 35 years of age a good thing or do Gen Y and Gen Z (i.e. children born after 2001) already have it too easy? I think the answer to this one lies in the financial education you provide. If they are educated about investing and sacrifices (i.e. they need to contribute their income or do jobs around the house) they hopefully won't take it for granted. They need to earn the right to the benefits arising from investing.

### But...

Some people have said that an education is priceless. There are many social benefits of a formal and robust education. How we act, our thoughts and beliefs are all influenced by our education. Can you put a price on these things? Probably not!

I am not for a second suggesting that a private school education is a waste of money. Part of my schooling was undertaken at a well-respected private school so I have seen the benefits first hand. However, what you should think about is the opportunity cost. What opportunity are you giving up by sending your child to a private school (like investing) and is it worthwhile? I'm not sure there's a right or wrong answer.

## Is the property market changing?

Will the Australian property market go south like the UK and US markets? Many experts don't think so and I would agree. If the bottom was going to fall out of the market, it would have happened by now. Over the past few months, I think we have seen some anecdotal signs that we may have seen the bottom of the property market. However, we won't know for sure. March will be a very telling month. However, some signs we have seen include:

- Improved auction clearance rates. Melbourne's clearance rates have been 70% to 75% over the past few weeks which is a vast improvement to 2008. Interestingly, clearance rates have improved at the lower and upper (price) end of the market. Sydney's clearance rates are also up (but not as high as Melbourne) with the most recent weekend reaching 66% - still much better than 2008.
- Lending approvals have been increasing. I know that we had two record months at the end of 2008 which means people were getting ready. Enquiry level has also been stronger in the first 2 months of this year.
- Real estate agents are reporting higher traffic at open for inspections.
- We run an investment property seminar each month in Melbourne. The number of attendees at the February seminar was at boom-time levels. I know this sounds silly but its often a good barometer of the market's appetite for property. (for more information about these seminars [click here](#))

However, there are two things we need to keep in mind. Firstly, stock levels are very low. Therefore, its easier for there to be more buyers than there are sellers. It will be interesting to see if there's any change in clearance rates as more properties come onto the market. Vendors might be encouraged to put their property on the market given higher clearance rates. Secondly, I expect there is more bad news on the unemployment front. I think there's more large redundancies to be made - and the government knows it - that's why they are talking so negatively (to prepare the public for more pain). Therefore, the unemployment rate will inevitably rise. In addition, a recession in Australia is nearly as certain as Pauline Hanson embarrassing herself on the political stage again. The economy contracted by 0.50% in December and I think it will contract further this quarter... hence a recession.

What does this mean for the property market? Well I think Australia's recession will be very shallow and that unemploy-

ment will not necessarily be as widespread as in other countries. Therefore, the effects of these economic changes should affect certain sectors of the market rather than the market as a whole (i.e. the so-called mortgage belt).

The two things that will mitigate these factors (to some extent), are; the increase in the First Home Owners Grant and investors and renters being attracted to the market.

I think its likely that the Government will extend the First Home Boost beyond the current expiry date of 30 June 2009 .

In some cases, given historically low interest rates, its cheaper for some renters to buy a property rather than rent. Also, affordability for investors has also been improved with rental yields in the range of 4% to 5% and interest rates at 5%. Therefore, some investment properties would be cash flow neutral. These conditions will inevitably (sooner or later) attract more investors back into the market.

Remember, a boom follows every bust cycle! Long term property owners may benefit from buying in this market.

## Might be time to fix

If you have been waiting for the best time to fix your rate, now might be the time to do it. The reason I say that is that we haven't really seen 5 year fixed rates reduce for some time (except for St George). Given we are approaching the end of variable rate cuts, we would expect that current fixed rates would already factor in all expected cuts. It's likely that the credit crunch has alleviated the banks cost of fixed rates. Therefore, fixed rates are probably artificially higher. St George's fixed rate of 5.79% is, in our opinion, good value. If you are interested in finding out more about this fixed rate, please don't hesitate to contact us. The second best fixed rate (from major lender) is 0.50% higher than St George's. Based on a \$400,000 loan, a **borrower would save \$10,000** by refinancing to St George. Read our [Interest Rate Advisory](#)

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Offset (> \$700k)	4.94% (0.80% disc.)
Offset (> \$1 million)	4.89% (0.85% disc.)
Offset (> \$1.5 million)	4.84% (0.90% disc.)
2 years fixed	5.25%
3 years fixed	5.19%
<b>5 years fixed</b>	<b>5.79%</b>
10 years fixed	6.79%

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