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## Welcome to our May newsletter

**The official cash rate held steady at 3 per cent in May, an indication of the Reserve Bank of Australia's (RBA) confidence in the economy.**

The decision to pause on rates followed a small 0.25 per cent reduction in April and all indications now are that the RBA wants to sit and see just how current policy measures play out.

"Much of the effect of these changes [to lending rates] is yet to be observed," RBA governor Glenn Stevens said of May's policy outcome.

While the RBA continues to express utmost confidence in the fundamentals of the Australian economy there is no question we are now in the midst of a recession – along with the vast majority of international economies.

According to the International Monetary Fund economic growth will contract by 1.4 per cent this year.

Unemployment forecasts for Australia have also been downgraded off the back of the deteriorating economic outlook; more than 8 per cent, and even more than 10 per cent, of the workforce could be out of a job come the end of next year according to most forecasts.

On the upside, the majority of Australians will remain in jobs and the cost of servicing debt is likely to remain low as long as the economy continues in its current pattern.

With this in mind, 2009 is offering Australians excellent opportunities in the property market – whether it's snapping up your first home, upgrading or investing, the cost to finance property is markedly less than it was one year ago.

With house prices having softened buyers can also now get more bang for their buck. According to Australian Bureau of Statistics (ABS) figures released in May the average national weighted house price fell 6.7 per cent in the year ending March.

If you're looking to capitalise on current market opportunities give me a call. We can run through all the scenarios available to you, including the type of finance to meet your property needs as well as how you can better manage your overall debt commitments.

Sincerely,

**Marc Barlow**



# Is it time to fix your mortgage's interest rate?

**Fixing your mortgage interest rate can offer certainty around repayments, but it can come with some restrictions.**

Interest rates began to fall sharply in September 2008 as the Reserve Bank of Australia (RBA) moved to tackle the worsening economic crisis. The official cash rate now sits at just 3 per cent.

While there are forecasts that the cash rate could fall as low as 2 per cent by the end of the year the RBA has put further cuts on hold over the last couple of months while it assesses the economic situation.

The question is, with the cash rate nearing the end of its downward cycle should borrowers fix their interest now or hold out for a lower rate; on the other hand should they just stick with a variable rate?

It is notoriously hard to pick the absolute bottom of any market cycle and borrowers considering fixing their rate should first weigh up the pros and cons of locking in a fixed rate.

A fixed rate essentially gives borrowers the security of knowing exactly what their monthly repayments will be for a set period of time. Fixed rate terms are typically between one and five years with the rule of thumb that the longer the period, the higher the rate.

The key benefit of a fixed rate mortgage is that should interest rates start to climb fixed rate borrowers are shielded from any increases for the duration of their fixed rate term.

However fixed rate loans do have some restrictions and are less flexible than variable rate mortgages – for example, if you sold your house within the agreed fixed rate period you may be liable for a penalty for breaking the fixed rate term.

Remember that while a fixed rate will protect you from any rate increases, should rates fall further you'll be stuck paying a higher rate. What's more, breaking a fixed rate term can prove very expensive so consider the term that you agree to with your lender carefully.

For borrowers who'd like the best of both worlds it is possible to split your loan between fixed and variable. You can decide what proportion you'd like to fix depending on how confident you feel about future rate movements.

There's no right or wrong when it comes to choosing between fixed or variable rates – it's really down to whether you want to have certainty over your repayments. Before making any decision it is well worth considering your short- to medium-term plans; give us a call and we can discuss the pros and cons of a fixed rate loan and which option is right for you.



## Managing your investment property

**Should you trust the management of your investment property to an agent or do it yourself?**

Seldom has the property market looked so ripe for investment returns. Soaring rental values, rock bottom interest rates and a shortage of supply have created a prime market for investors.

But locating and buying the perfect rental property is only half of the equation – the next challenge is to find and manage your tenants.

The good news is that landlords have the option of taking the job on themselves or outsourcing to professionals, and there are certainly pros and cons with both.

Professional property management services come at a premium, which can range from around five to 10 per cent of the gross rental. While this will certainly put a dent into your rental income there are some distinct benefits to using an agent.

For starters you won't be called on day and night to fix leaking taps and broken

fences. The agent will take care of managing all maintenance issues associated with the property, which can be a big advantage – especially if you don't live near to your property.

There's also the advantage of tapping into a broader network of prospective tenants should your property become vacant; what's more the agency will help assess and select the best tenants as well as organising the collection of rent.

The main downside of using an agency is the reduction in income, which may mean all the difference between a cash positive or negative investment.

Self-managing your property essentially gives you more control over your investment. You can pick and choose your own tenants, and as long as you're handy with a hammer you'll be able to reduce the cost of maintenance by taking care of small jobs yourself.

At the end of the day you need to consider how hands-on you're prepared to be with your investment before making a call on whether to bring in an agent or not. If the property is out of your local area, and you're not much of a handyman, it may be best left to an expert.



## Nice neighbourhood

**Buying a home is a significant investment, so it's important you find the right location.**

So you've decided that low interest rates and softer prices make it the perfect time to purchase your first home or upgrade to something a little bigger.

Before you embark on your house search it's essential that you take the time to consider where you want to live. Why? Because your home is a big investment and location can make all the difference between finding a dream home that will give you years of enjoyment or a lemon.

Here are some key considerations to help you determine the right neighbourhood for you:

- **Pace of life:** If you're young and looking for proximity to entertainment you may want to choose inner city. If the quieter life is more your cup of tea, look for city fringe suburbs or find out where some quieter pockets can be found in the city. Don't be tempted into believing an acre block or inner city apartment will work for you if you know it does not suit the lifestyle you lead.
- **Family plans:** If you've got family, or are expecting to soon, it's important to think about proximity to schools, child care and sporting facilities as well as transportation.
- **Employment:** Find out what job opportunities exist in different locations and be sure to choose a location where the economy is growing and employment won't be a problem. If you're currently in work, make sure the commute in each day is not too draining or time consuming.
- **To stay or sell:** If you're buying with intentions of settling in be sure to choose an area you really like that fits your lifestyle for the here and now but will also cater in the years ahead as your circumstances change. If on the other hand capital growth and re-sell are part of your plan you may be better off going head over heart and choosing a location that offers strong growth potential.

Remember, no neighbourhood selection should come without a lot of research. Look into crime rates and be sure to find out if any big developments are in the pipeline in your area.

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## Wine review

Lerida Estate Lake George Pinot Gris 2008 (NSW)

## Book review

The Gamble

Hailing from the Lake George ranges in New South Wales, this rich, complex Pinot Gris is perfectly matched to fresh fish or chicken. Featuring aromas of apple, spice, citrus and florals with savoury and vanilla overtones, this white is rich and textured with a crisp, balanced finish.



RRP \$28  
[www.leridaestate.com](http://www.leridaestate.com)

Thomas E. Ricks, a Pulitzer Prize winning journalist and senior Pentagon correspondent for *The Washington Post*, brings us the inside story on the Iraq war in his latest literary effort. Drawing upon on-the-ground reportage and hours of exclusive interviews with top military officials, Ricks' book suggests the war is far from over.



Author: Thomas E. Ricks  
Publisher: Penguin, 2009  
RRP: \$35

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## Contact us



**Marc Barlow, Mortgage Consultant**

You can contact Marc on the following:

A: 1557 Burwood Hwy, Tecoma, Victoria, 3160  
P: 03 9754 7755  
M: 0425 784 352  
F: 03 9754 2189  
E: [marc@mortgagebrokermelbourne.net.au](mailto:marc@mortgagebrokermelbourne.net.au)

24 hour voicemail: (03) 9754 7755

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