

The Wise Times

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SEPTEMBER 2006

EDITORIAL

For those of you who follow our seminars, have purchased property through Wise, or just keep an eye on our web site to see the type of properties that wise is offering for sale, will have noticed one common theme. That is that Wise favours three bedroom town houses, three bedroom units or three to four bedroom houses as the best investment for our current and future market. There is of course a reason for this, as there is a reason for everything that Wise does or advocates our clients to do. Rents are currently rising rapidly. Over the last twelve months rents have risen across the board by 10%. We have now had two interest rate rises in recent months, with the possibility of one other before the end of the year. This has had the effect of slowing property investment, which is now exacerbating an already tight supply of properties available for rent. Indeed Michael Matusik is anticipating a 10-15% increase in rents this financial year, with possibly the same increases occurring over the next year as well. Now as this occurs, obviously the affordability factor now raises its ugly head. Will tenants be squeezed out of the rental market as well as the buying market? The answer is of course that over the next few years, and into the foreseeable future, more and more properties will be rented on a "share" basis. So your three bedroom 2.5 bathroom town house will really come into its own. The third or "spare" bedroom will revert from its present use as a study or computer room to use a true bedroom. Three bedrooms, three toilets, four tenants sharing paying \$125 each per week, \$500 a week will not be impossible to obtain.

So there is our reasoning for the three bedroom investment.

To hear more little gems of knowledge like this, and to find out where you should be investing for the future, attend one of our Wise seminars, or speak to your local Area Manager.

Remember, the best time to invest is when no-one else is doing it.

Lionel Morris LREA DipFP

*Lionel Morris LREA, DipFP
Wise Director*



WISE Property of the Month



Carina Heights is a well established eastern suburb. It is located between Camp Hill and Carindale where Westfield has located one of Brisbane largest shopping complexes.

This huge shopping centre houses Myer, David Jones, Woolworths, Action, numerous speciality shops and restaurants, a hotel and movie theatres. It is less than one kilometre from this development.

CARINA HEIGHTS

- ◆ Price \$370,000
- ◆ Rent \$340 - \$350pw
- ◆ Block of five
- ◆ 3 bedroom townhouse
- ◆ 2.5 bathrooms
- ◆ Single lockup garage
- ◆ Double story
- ◆ Air Conditioning to living area
- ◆ Security screens
- ◆ Vertical drapes
- ◆ Dishwasher
- ◆ Great location
- ◆ Quiet street located 7 km from CBD

Disclaimer
The information contained in this Property Listing has been provided by the vendor, or by authorities, or third party providers and, as such is deemed to be accurate at the time of producing this publication. The author makes no claim as to the accuracy of the information within and does not intend it to be legally binding. The information contained is subject to the final contract, and interested parties must make their own separate enquires to verify and ensure the accuracy of the information herein.

www.wiseinvestment.com.au

www.wiserealty.com.au

The Australian and Queensland Economy With

Dr Ken Henry, secretary of the Australian Treasury, said in a speech to an Australian Business Economists seminar that he delivered in Sydney recently, "that if Australia's terms of trade remained permanently high, then this would lead to a shift away from manufacturing and labouring states like New South Wales and Victoria and towards resources and capital and regions like Queensland and Western Australia. Workers would migrate to resource rich parts of the country and property prices in those parts would raise while property owners in resource poor areas would suffer capital losses". To some extent this is already happening in Australia. Dr Henry, of course, was speaking hypothetically but nevertheless Australia with its huge resources, stable political environment and reputation as a reliable supplier has the potential to enter a golden age of growth, stability and prosperity and it will bring with it rewards for every Australian. In the latest Australian Stock Exchange (ASX) long term investment report to December 2005, both residential property and Australian shares showed solid gross returns.



From an investment point of view, the preference of Australians for equities (shares) or residential property has been well rewarded over the medium to long term. In the latest Australian Stock Exchange (ASX) long term investment report to December 2005, both residential property and Australian shares showed solid gross returns. The annual report produced by the Russell group which compares the 10 and 20 year performance of various investments showed that the 10 year residential investment property return to 31st December 2005 was 12.1% p.a. whilst share returns for the same period were 11.8% p.a. The 20 year residential investment property return to 31st December 2005 was 12.1% p.a. whilst the return for Australian shares was 12.2% p.a. All income and expenditure including buying and selling costs, maintenance and management costs for residential investment properties and provision for franking credits for shares are included in the calculations. The aim of the report is to provide individual investors with a reasonable insight into how different investments have performed over the medium to long term - in real terms. To provide for their future many Australians have borrowed for their investments. Given the propensity of Australians to expand their asset base by gearing (borrowing) for their investments, the report also provides a comparison of residential property and shares based on a 50% gearing of the initial investment cost. What this December 2005 Russell Report shows is that, despite the Australian property market taking a hammering in the media over the last few years, residential property has, at worst, kept pace with Australian shares over the 10 and 20 year periods researched and significantly it has achieved those returns with much less risk and volatility. Con-

sider the wild ride the stockmarket has taken us on in May, June and July of this year (2006). The report also says "When taking gearing into account, Australian shares underperformed residential investment property at the lowest marginal tax rate (20 years to December 2005), but matched the return at the highest marginal tax rate." The 10 year return to December 2005 after tax and the lowest marginal tax rate based on a fifty percent gearing for residential investment property was 14.5%. The comparative return for Australian shares was 14.3%. The return after tax on the top marginal tax rate for property and shares was 12% at the 50% gearing. It is worth noting here that the tax rates for all Australians have been lowered as of the 1st of July 2006 and many more Australians will be on the lowest marginal tax rate now. The new lower tax scales will also trigger lower capital gains tax liabilities for investors selling their assets, further improving overall returns. In addition to this, the Russell Report results are based on a gearing of only fifty percent. Anyone who understands finance knows that, providing all risks are considered and investors are not overextending themselves, the higher the gearing the higher the return on your money. Banks lend a bigger percentage of the value of property than for shares. All lending institutions are prepared to lend a much greater amount or percentage of the value of a residential property investment than they will for shares, the reasons being quite obvious, the risks are much higher for shares than they are for property. Most residential property investors gear their investments at well above the fifty percent gearing used in the Russell Report comparative examples. At the much higher level of gearing used by many property investors the resultant returns for residential property would be far higher and produce a much better result than that achieved by shares. This of course is not to suggest that investors should buy only one category of investment. It is always prudent to spread your risk through the various asset classes.

Now rents are rising and the concern is too little investment and too few new homes. In an article titled "The Great House Hunt" written by Robert Harley - and published in the weekend Australian Financial Review 15-16 July 2006 - it is reported that rents are soaring everywhere as demand exceeds supply. The article goes on to say, that in three years the housing market has turned 180 degrees and that in 2003, property prices were surging and the fear was too much investment and too many apartments. Now rents are rising and the concern is too little investment and too few new homes. State housing ministers, who are due to meet in October this year, have acknowledged the looming crisis. It was also reported in the article that the number of properties available for rent is at the lowest level in more than a decade. And the housing crisis is going to get worse. Robert Mellor, a director with economic research company BIS Shrapnel, says "You cannot improve supply within three to four years and I cannot see any slowdown in rental growth till 2010". **He predicts that rents could rise 40 to 45 percent in Sydney, 25 percent in Melbourne, 35 percent in Brisbane and to a lesser extent in the other states.** There is a genuine undersupply of property in Australia. In terms of supply, Harley Dale - senior economist of the Housing Industry Authority - says that underlying demand is 160,000 new properties a year. With some research that we have undertaken using changing demographic models we actually think that these

figures are considerably short of the mark. But even if we accept these figures as correct, there is already a serious problem with supply and a far greater problem looming. Mr Dale says that home construction fell below 160,000 in 2004-05 and is likely, with current projections, to be below underlying demand as far into the future as 2007-08. This will be four consecutive years of general supply falling below demand and this does not take account of those marketplaces such as Sydney, and Brisbane in particular, which according to BIS Shrapnel are already experiencing substantial shortages of property. The combination of rapidly rising rents and supply well below underlying demand is going to set the scene for the next round of property price rises.

Now to the Queensland economy and for the implications for the residential property market.

The Queensland economy has outperformed the overall Australian market for some years now and is



expected to do so for the foreseeable future. There are many reasons for this. The state of Queensland has been well managed from a financial point of view for decades by governments of both political persuasions. Queensland in contrast to most of the other Australian states has no net debt and has made provision to fully fund its public service liabilities. This has resulted in Queensland providing one of the lowest tax environments in the country and a place which encourages doing business. It was reported in the Australian Financial Review, on Friday 14th of July 2006 that just this last financial year alone the Beattie government had continued its aggressive policy of luring business to the Sunshine State by spending more than \$52 million on incentives. In December 2005, major projects worth a total of \$75.6 billion were either under construction or in various stages of planning in Queensland. Despite these good economic conditions, in a situation symptomatic of most governments in Australia, both state and federal, the Queensland government has under funded an upgrading of its ageing infrastructure. In addition it has not been providing the new infrastructure required to cater for the massive population growth that is occurring in the state. The recent 2005 \$55 billion South East Queensland Regional Plan and South East Queensland Infrastructure Plan announced by the Beattie government to tackle the infrastructure requirements as a result of this booming population growth is finally an acknowledgement of the work that must be done. These plans have already been upgraded this year to \$66 billion (\$11 billion more) and that still will not be enough. In December 2005, major projects worth a total of \$75.6 billion were either under construction or in various stages of planning in Queen-

Particular Reference to the Property Investment Market

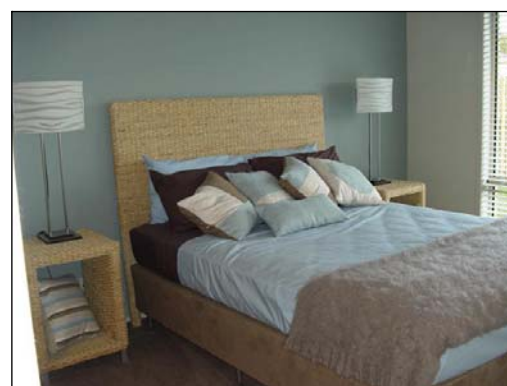
island - and this figure does not include the many smaller projects being undertaken by private enterprise and local governments who themselves must cater for the growth that is occurring. It was reported recently, according to Access Economics, that infrastructure projects underway in Queensland indicate that Queensland has now overtaken New South Wales in terms of its share of the value of major investment projects recorded in Australia. This is despite the fact that the state of New South Wales accommodates almost twice the population of Queensland. Queensland is also blessed with an abundance of natural resources and apart from Western Australia is gaining the most from the current resources boom. An example of this is the Queensland coal industry which is continuing to grow and currently represents 56% of total Australian coal exports. These figures will in all likelihood be boosted when the \$1.8 billion Wiggins Island coal terminal is completed in 2010 making the port of Gladstone the largest coal exporting facility in the world. In addition the Queensland Government has recently approved a 700 kilometre \$1 billion rail line which will open up the Surat Basin to coal production. Xstrata Coal chief executive Peter Coates was reported in a Courier Mail article titled "Coal's missing link" and published on Saturday 29th July, 2006 to have said "It's a very very large resource (in the Surat Basin), bigger than the Hunter Valley of New South Wales". These are just some of the developments which are the reason for a strong Queensland economy that is continuing to attract high interstate and overseas migration and jobs growth much higher than that which is currently being experienced in most other parts of Australia. One of Queensland's better known sons Greg Norman recently announced that he had invested in a beef venture to supply Queensland beef to the US. The deal with Brisbane based Australian Agricultural Company, the world's largest beef producer is worth many millions of dollars. The red meat market is worth in excess of \$7 billion a year to the Australian economy and in a little known fact, of the 28 million cattle in Australia today, 11.5 million are in Queensland. This places Queensland in a favourable position to become one of the dominant beef exporters to the rapidly expanding US market. Queensland has a large trade surplus. According to



official Queensland Government figures, merchandise exports rose 30.2 percent in the period 2004-05 to reach a record \$26.2 Billion. This record is set to be broken again with published figures for the 9 months to March 2006 showing Queensland exports had already reached \$26 Billion with a full quarter still to be reported. The significance of this is that whilst Australia has a substantial trade deficit, (that is more goods coming into the country than

going out) Queensland is actually running a large trade surplus. But this is nothing new. In a government report :- "International merchandise exports and imports, Queensland and Australia, 1988-89 to 2004-05", it is revealed that in that 17 year period Australia had experienced 6 annual trade surpluses and 11 trade deficits. In that same period Queensland has experienced 17 trade surpluses. Is it any wonder the Queensland economy is buoyant and still growing rapidly, attracting capital and experiencing huge population and jobs growth? This dynamic environment has encouraged businesses which would previously have chosen Sydney or Melbourne as their head office to set up their head offices in Brisbane. Included in this growing list is Virgin Blue; IBM; Boeing; DHL; Bechtel; Volvo; Oracle and BHP Billiton Cannington just to name a few. All of this growth has triggered substantial population and jobs growth in Queensland and in particular in the south east corner of the state. Population growth projected by the ABS for Queensland and in particular SEQ is expected to account for more than 37% of all Australian population growth between now and 2051. Three quarters of the overall population growth for Queensland is expected to occur in South East Queensland and almost half of the Queensland growth is expected to occur in the statistical district of Brisbane. In an April 2006 Queensland Government information sheet it is reported that Queensland's population had reached 4 million people by December 2005. Queensland is expected to continue to grow faster than the rest of Australia and overtake Victoria as the second largest state by 2041. According to the ABS, Queensland's population is projected to increase by 3 million people between 2004 and 2051, an increase of 77%, to reach 6.9 million people. And in a further indication of the strength of the Queensland economy, despite the huge surge in population, Queensland unemployment levels have fallen from over 8 percent to one of the lowest rates in Australia of 4.6 percent. Punching well above its weight with currently less than 20 percent of Australia's population and out of a total of 915,400 jobs created in Australia over the last 4 years Queensland achieved a staggering 335,100 jobs representing 33.9 percent of all jobs created in Australia in this period. So what does all of this mean for the property market in Queensland and in particular the most densely populated south east corner of the state? Huge expenditure on infrastructure, coming on top of a booming commercial marketplace, and a residential market, that whilst soft, is heavily under supplied and at the very bottom of its periodic cycle means that residential property is going to perform very strongly in the future and perhaps sooner than most people think. Vacancy rates are at historic lows, well below 2 percent and falling. Rents, particularly in the inner city and near city areas, are beginning to surge, not the least as a result of poor infrastructure which will not be remedied for years and creating a need for people who live in the outer suburbs to spend perhaps three to four hours a day travelling to and from work. The best time to buy is when it appears that no one else wants to and all of the so called specialists say that the market is going nowhere. For all my years in real estate people have been asking me when is it a good time to buy and where should I buy? The best time to buy is when it appears that no one else wants to and all of the so called specialists say that the market is going

nowhere. Where to buy is where it is most difficult for new stock to be brought to the market any time soon and demand for accommodation is highest. But always remember design is the ultimate arbiter - big dollars or little dollars don't necessarily make a property cheap or expensive or good value for money. *I remember distinctly listening intently at a property and investment show in Sydney in the early 2000s to Paul Clitheroe founder of financial planners Ipac and John Edwards of Residex both tell their audiences that whatever they did, not to buy property in Queensland.* We all know what happened over the next few years - massive capital growth. Now that growth occurred because the market was undersupplied and property represented excellent value for money in comparison to property elsewhere in Australia. Brisbane's median price is still approximately \$325,000. This is considerably lower than each of those other three capitals noted in the article A similar situation in Queensland with respect to value and supply is emerging once again



and particularly in South East Queensland where population growth continues unabated and housing shortages are becoming more apparent. In an article titled "Perth could be most expensive city in two years" written by Marsha Jacobs and published in The Australian Financial Review on Tuesday 25th July 2006 it was reported that Perth's median price was officially \$406,500. Melbourne's median price was \$379,000 and Sydney's still the highest at \$545,000. Brisbane's median price is not mentioned in this article but we believe on authoritative sources that Brisbane's median price is still approximately \$325,000. This is considerably lower than each of the other three capitals noted in the article. Other than Adelaide and Hobart, Brisbane has the lowest median price of all other capital cities in Australia. Given the current population projections it is an indication of just how well valued Brisbane is right now. We expect that the coming interest rate rises will slow the market even further, despite the prevailing shortage of property. Building starts are well below underlying demand and are still falling. Building materials and labour costs will not fall and in fact are rising and in a population growth area, land for development will not get any cheaper. If inflation rears its head, things will, as is always the case in an inflationary cycle, just get dearer again. BIS Shrapnel is reported to have said have said that in the longer term Queensland might lead Australia into the next upturn in the residential property market as growth in Queensland's population appeared to exceed the rate of residential construction. In an article titled "Travelling north ... or anywhere but Sydney" published in the Australian Financial review on Friday 24th February 2006 it was reported that Chris Richardson, a director of Access Economics, said "there was no reason why Brisbane would not become the national sweet spot for economic growth". We agree with both of them.

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Wise Free Seminar Dates

ACT

Canberra

Tuesday 12 September
at 7.15 for 7.30pm
KNOWLEDGE NIGHT
booking is essential

Topic:
CANBERRA Property V's
BRISBANE Property
Why do WISE investors
confidently buy in Brisbane
rather than in
Canberra?

Come along and find out.
VENUE 24 Dalabon Cres
Waramanga
Host: Jeanette Kelly
Bookings: Canberra Office
02 6288 5524, or Email:
office.act@wiseinvestment.com.au

Thursday 14 September
PERSONAL APPOINTMENTS
in Canberra

with Brad Oliver, Director
First Choice Home Loans
Discuss your personal & IP
finance requirements/options
in private
Phone the Canberra Office
02 6288 5524 to arrange an
appointment or Email:
office.act@wiseinvestment.com.au

Tuesday 26 September at
7.15 for 7.30pm

KNOWLEDGE NIGHT
booking is essential
Topic: The WISE Steps
to Successful
Property Investing
Have you concluded that
you need to invest in
property to create a secure
asset base for your
medium and long term
future?

Come along and learn how
to do it the WISE way.
VENUE 24 Dalabon Cres
Waramanga

Host: Jeanette Kelly
Bookings: Canberra Office
02 6288 5524, or Email:
office.act@wiseinvestment.com.au

NT

Darwin

PROPERTY INVESTMENT
Course

7pm to 9pm Monday
evenings from
11th to 25th September
This 6 hour course runs over 3
evenings providing a compre-
hensive understanding of what
is required to become a suc-
cessful property investor. Num-
bers are strictly limited. To find
out more please call David
on 0424 102 799.

PERSONAL APPOINTMENTS

If you would like a personal appoint-
ment to discuss property invest-
ment and how it can benefit you,
please call David on 0424 102 799
or a/h on 08 8942 2720.

QLD

Brisbane

Friday 15 September
Not to be missed!

Topic: Your money – the
best way to borrow.

Special Guest: Mr Brad Oliver
– First Choice Home Loans
Venue: 25 Pirramurra St
Bracken Ridge commencing at
6:15pm with a Sausage Sizzle
followed by the forum com-
mencing at 7:15pm.
Bookings essential.
Limited numbers.
Phone Keith on 07 3261 1545
or 0410 426 115

If you cannot attend our meeting
but would like a private meeting
with us to discuss what Wise can
do for YOU, please do not hesitate
to contact Keith on 3261 1545 or
0410 426 115. We will come to you
at a time that is convenient to all.

VIC

Melbourne

PERSONAL
APPOINTMENTS

If you would like a personal
appointment to discuss property
investment and how it can
benefit you, please call Michael
03 9744 7144

PETE'S TIPS Should I Sell?



Many times lately I have been asked
by Wise investors "Should I sell?"
Generally speaking my advice is
"Unless you absolutely have to sell,
don't sell." I will explain my reason-
ing behind my advice.

Firstly I guess we should look at two
different scenarios as no two invest-
ments are the same – just as no two
investors are the same. This month I
will explain my theory as it applies to
a good investment. The following advice applies equally to
other forms of investment, not just real estate.

First let's look at a good investment. Let's say for the sake
of simplicity that an investor has bought an investment
property that cost \$150,000 and it is now worth \$300,000.
The big temptation here is to "cash in" on the good invest-
ment and take the \$150,000 profit. But is this a WISE
move, I would say not.

Properties that give good /spectacular capital appreciation
are obviously in big demand by the market. From my
experience good real estate only keeps getting better,
Why? Real estate is a commodity just like any other and
it's price is determined by supply and demand. The market
forces that have produced good capital appreciation in the
past few years show no signs of abating. If you have a
property that is well designed, well built, well positioned
close to shops and transport and in the inner ring suburbs
recommended by Wise the chances are that your capital
appreciation will continue to grow. If you sold would your
property would be difficult to replace at its' sale price. If the
answer is "yes" the chances are it will become even more
difficult to replace in the future.

The next matter to consider is the financial consideration.
You have already paid around 3% of the initial purchase
price in stamp duty and legal fees to purchase the prop-
erty - \$4,500 in the above example. If you sell you will be
up for agent's fees and legals again. This will be around
3% of selling price - \$9,000 in the above example. So you
have immediately written off \$13,500 in "in and out costs"
by selling your property. Next we have to look at the tax
considerations. You will almost certainly be up for capital
gains tax on your profit.

So what are you left with? You have just sold a great
investment property and you have a huge tax bill to pay.
Now you are out of the market and prices are continuing to
escalate. It could take a decade or more to be able to
afford to get back into the market and replace your invest-
ment with a comparable property. And you will have a lot
bigger bank mortgage when you do.

The above advice is based on my own cold hard personal
experience from several years ago. I sold an excellent
investment property and had a big smile on my face –
thought I was pretty smart. I now sit back and wonder why
the hell I was so silly. My good investment is now making
even better profit for the next buyer and I have no idea
what ever happened to the cash profit I had sitting in the
bank!

There may be exceptional circumstances in which you
have no option but to sell. But make sure you carefully
weigh up all the alternatives and speak to your banker and
accountant before you rush into any ill conceived moves. It
is too easy to make a decision in haste and regret at your
leisure.

Next month we will look at my theory as it applies to a bad
investment. Hope you enjoyed my article.

Regards, **Peter McDonald**,
WISE Property Listing Manager