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Jonathan and Michael welcome you to the latest edition of Global Watch. The aim of our newsletter is to provide clients of Global Future Investments with information on what is happening in the home loan and residential property market. We hope you find the contents of Global Watch both informative and helpful. Please feel free to share our newsletter with your friends, relatives and work colleagues. If you have any lending questions or need assistance with a lending matter please call us.

RBA MORE RELAXED ON BORROWING



The Reserve Bank of Australia has provided some good news for home borrowers in its latest assessment of the Australian economy.

In a so called *Financial Stability Review* issued in late September, the RBA appeared to be much more relaxed about the housing market and the level of household borrowings. The Reserve Bank pointed out that the strong performance of the Australian banking sector over the past decade or so had been "owed to a business strategy focused on lending to households".

"Since 1996, bank lending to households has grown at an average rate of 13% per year and housing loans now account for more than half of banks loans," the bank's assessment said. "As has been well documented, the rapid expansion of household credit—reflecting lower and more stable interest rates as well as financial innovation—has been associated with significant increases in house prices, with prices more than doubling between 1996 and the end of 2003.

The bank said that over the past year and a half however, there had been a significant change in housing markets and household borrowing.

"In particular, house prices at the na-

tional level have stabilised over this period after they increased by almost 20% in 2003," the RBA said. In addition, growth in household credit has slowed, as turnover in the housing market has declined and households have taken a more cautious approach to their finances."

It said that, to date, these adjustments had occurred smoothly, without damaging either the economy or the financial system.

"From the standpoint of financial stability they are a welcome development since they reduce the chance of a potentially costly correction at some point in the future," the RBA said. It said that as the housing market had softened and the growth in household credit had slowed, evidence had emerged that competition in lending markets had increased as banks sought to bolster, or simply maintain, market share.

"While this increase in competition is to be welcomed—so long as the underlying risk is appropriately priced—it will bear careful monitoring in the period ahead, given that historical experience may not be a good guide to future developments," the RBA said.



REGIONS PERFORM WHILE SYDNEY SLUMBERS



Regional Centres appear to be driving the solid increases in new home sales which have been registered in NSW according to the latest data compiled by the Housing Industry Association.

The data, released in late September, showed that new home sales figures had risen by 5.6% during August with the real strength exhibited in NSW and Western Australia.

The figures showed that while the sale of new homes had risen by 5.6% on a national basis during August, the real driver had been the sale of new houses which had risen by 8.5% while the sale of multi-units had fallen by 16%.

Western Australia had been up by 29%, NSW by 16.7% South Australia by 5.6% and Victoria by 0.9%. It said sales in Queensland had fallen by 16%.

Commenting on the figures, the HIA's Chief Economist, Simon Tennant, said that the strong performance in Western Australia had been driven by the availability of affordable land and lower aver-

age new home prices.

"This was also the case in South Australia and Victoria, with sales nudging up over the month," he said. However, Mr Tennant said that for NSW, the strength of the figures had been concentrated in regional areas, with the mood within Sydney among builders and developers remaining sombre.

"Aside from councils continually blocking apartment developments, for Greenfield developers, rising land acquisition costs, holding costs and mounting development levies and charges, has led to many offering land to the market at below break even price," Mr Tennant said.

"The Federal Government should demonstrate some leadership through the Council of Australian Governments, to support new approaches to residential development, especially in Sydney," he said.

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INVESTORS ENCOURAGED TO DIVERSIFY

In a recent assessment of the Australian residential property market, the Chief Investment Officer—Asia Pacific for Russell Investment Group, Peter Gunning, warned that people are wrong to assume that property values never actually fall.

Gunning said people need to take a long view with respect to property investment, especially in circumstances where the texture of the market has been changing in Australia.

"Fifteen years ago, lending to property investors (as opposed to owner-occupiers) accounted for about 9% of total household lending," he said. "Today it's around 29%."

"This suggests a larger proportion of Australia's property owners are more likely to sell when the market is weak. The

more properties on the market, the more detrimental the impact on prices." Gunning said Australia's latest residential property boom had been the sharpest in recorded history.

"In September 1995, the beginning of the cycle, the median Australian house price was \$158,000. By the end of 2003 (widely regarded as the top of the market), it was \$388,000, a rise of 245% in eight years, or more than 30% a year."

However, he said that by March this year, the story had changed with Australian Bureau of Statistics figures showing that established house prices in Australia rose just 0.4% for the year, their lowest annual gain in nine years.

If we look at how each capital city performed over the same period, the results differ widely. House prices fell in Sydney (-3.4%), Melbourne (-1.7%) and Canberra (-1.3%), while prices rose in Perth (+9.9%), Darwin (+9.6%), Adelaide (+8.0%), Hobart (+3.2%) and Brisbane (+2.5%). Some economists predict that overall process could fall by up to 10% this year.

Explaining what this meant, Gunning said many people believed property produced the safest and best gains and rarely falls.

"However, property rises and falls in value just like any other asset. It is not immune to volatility and we're seeing that now as the boom runs out of puff," he said.

Gunning said that one of the

main reasons that people believed property did not fall in value was that properties were bought and sold irregularly and were usually held for long periods. "But most assets held for long periods deliver a positive return. Some assets, like shares, may experience more volatility along the way, but even Australian shares, if bought and held for a long period, produce solid gains. Over periods of 10 years or more, shares and housing have recorded similar returns," he said.

Gunning said it was for this reason that investors needed to ensure that they were diversified.

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