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Buying Decisions at Different Stages in Life

There are different real estate choices in life as one's life progresses. The first one is when to move from a rented premises to an owner-occupied one. The next is upgrading or downsizing and, finally, investing.

From Renting to Buying

This is the most critical transition because it sets the foundation for every subsequent investment choice. Here are three important criteria to consider.

The first one is job security. In order to get a loan, you'll have a lot easier time if you're permanently employed in a full-time position. Banks are less impressed if you're a contract worker or have casual work. Sometimes even the industry you're in is a consideration. You might have a permanent job, but is your industry permanent? With all the shifting of manufacturing facilities to China, many jobs have been affected. And economic instability affects some industries more than others.

Then there's the matter of being a first-home buyer without extra properties. You represent a greater risk than returning home buyers or investors. That's because if you lose your employment and can't meet your loan repayments, you won't be able to draw on equity in the property to stay afloat. So if you are worried about job security with your present job, you might wish to delay purchasing a home until your situation becomes more definite.

The second consideration is affordability. Once you have determined that your job situation is secure and you've duly saved up for all the purchasing costs including the deposit and stamp duties, then you will need to make the jump as soon as you can. This is because property always moves upwards over the long term. So don't make the mistake of waiting for things to become more affordable. More often than not, they don't.

Now comes the third consideration—choosing the right location. You want to set the right investment foundation by choosing wisely. This will set you up for the future because you will watch your investment grow in capital value as land values rise. And location is a critical factor, simply because while all properties grow in value over time, some will grow faster than others.

And here's a valuable tip. If your budget is limited, go for a smaller property in a high capital-growth area as opposed to a larger one in a lower capital-growth area. Then, when you've accumulated enough equity, you can always choose to move to a larger home.

Upgrading or Downgrading

Life changes naturally occur in the family when additions are made to it or when children fly the coop. When the decision to have children is made or the mother-in-law is moving in, things can get suddenly cramped. That's the time you'll be thinking of upgrading to a larger and more expensive home. Now location considerations also change. In this case being near a school, parks, shops and even a hospital may suddenly become important criteria.

But, once again, the longer you delay in making the change, the harder it becomes because the market will have climbed in the meantime. So moving sooner rather than later enables you to buy in at a more favourable price, giving you more opportunity for capital growth.

Now let's look at the opposite situation—down-sizing. In this case maybe the children are moving into their own pads and suddenly the house seems too big. Oddly enough, the situation reverses itself and you have the luxury of waiting to purchase until the market is in a strong growth phase.

The reason for this is that you can maximise the capital growth on your current property when you go to sell and minimise the mortgage (if any) on your next home or maximise any left-over funds for you to utilise in your life of retirement.

Investing

In this phase you find yourself with extra monies and you already have your own home. It's time to consider what to do with the funds and property investment is one of the most secure choices you can make.

However, you'll want to take a look at your current situation first to assess whether or not you might plan to upgrade over the next seven to 10 years (which happens to be the average duration of a property cycle).

It wouldn't make sense to buy an investment property when in just a year or two you'll be wanting to upgrade the family home. That's because very few people can afford to do both simultaneously. If your current home is fast becoming out-dated due to an expanding family, for instance, then it's better to upgrade to another home first, then buy an investment property later.

In conclusion, first home buyers should remember to first consider their job security, affordability and location. Then when moving, consider both timing and lifestyle choices. And, finally, avoid buying an investment property unless you plan to stay in your current home for the long term.

Source: "At the Crossroads", *The Parramatta Sun*, 11 November 2009

Renovators are Returning to the Market

It's a strange world out there. Australia seems to be the one place in the Western world where the only housing crisis is finding a place to live while prices are rising. While our prices dipped a mere 5 per cent in the recent recession, they have since recovered and are moving skywards. And one sure sign of this is the return of renovators.

When property prices fall, renovating is as risky as buying, since you can't be sure the renovation will hold its value. The trouble is one person's tasteful renovation is another's overcapitalisation. And as to whether the renovation will hold its value often depends on the location.

Of course, if you bring things to a place where you want them and you intend to stay living there, then overcapitalising is not a consideration. Instead, it's a lifestyle decision. And, the good news is that time heals all. Because as land values grow, you can recover your costs anyway.

“If you plan to live in a property for 10 years or more, it's difficult to imagine that you could overcapitalise as the value will have risen due to rising land values and demand in the market,” says Victoria Rollison of Property Presentation Professionals.

Here's the nine best renovation ideas for capital growth according to Victoria's research:

- Add an extra bathroom
- Put in an en suite
- Install a new kitchen with more bench space, new appliances and neutral designs. Spend no more than \$40,000.
- Create an open plan living area with doors opening onto an outdoor entertaining area.
- Add built-in storage in bedrooms, laundries and even living rooms
- Install larger windows or glass doors for small houses.
- Add an extra bedroom in a loft space or a second storey
- Add off-street parking
- Put ducted air conditioning throughout the house.

Source: “Time to Feather the Nest”, *The Sun Herald*, 15 November 2009.