

Brian Hastings

Finance and Management

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Brian Hastings welcomes you to the latest edition of Wisdom Watch. The aim of our newsletter is to provide clients of Mortgage Wisdom with information on what is happening in the home loan and residential property market. We hope you find the contents of Wisdom 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.

HOUSING DRIVES FUNDAMENTAL ECONOMIC CHANGE

The Governor of the Reserve Bank, Greg Stevens has pointed to increasing levels of housing investment as having been one of the key economic changes in the past two decades.

Addressing a major industry group in December, Stevens claimed that Australians might have been moved to invest more heavily in housing earlier had they not been constrained by two decades of chronically high inflation and higher interest rates.

"The most prominent financial development of the past decade has, of course, been the change in the structure of the balance sheets of households," he said. The essence of the story is that in the early 1990s, two decades of chronically high inflation in Australia ended. Interest rates declined as a result. In fact, they returned to levels last seen in the low-inflation period in the 1960s"

"But in the intervening period, of course, the Australian financial system had changed out of all recognition, a result of liberalisation, competition and innovation. No longer was the potential borrower for housing on bended knee to a stern-faced bank manager, the way they had been in earlier periods of low rates," Stevens said.

"Now, lenders were under more competitive pressure to grow their balance sheets. Having pursued the corporate borrowers in the 1980s, with rather mixed success, they were now looking to households as a source of growth."

He said that by the mid 1990s, Australia had a household sector more able and more inclined to demand housing finance, and financial institutions more willing to supply it

"It is hardly surprising that this should ultimately result in households carrying much more debt, as well as higher levels of assets, than they had before," Stevens said. "It might have happened earlier had the course of inflation and interest rates been different."

He said it was also not surprising that such an expansion in finance over a relatively short period of years had been associated with higher prices for dwellings.

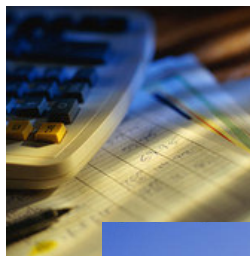
"I find persuasive the arguments that changes to planning and development regulations have raised the cost of new building – that is, the cost of adding to the dwelling stock," Stevens said. "It is plausible that this, in turn, adds to the price of those existing dwellings that could reasonably be substitutes for new dwellings. But if we are seeking an explanation for why the prices of the 8 million existing dwellings across the country have increased so much, we surely have to give a very prominent role to the halving of the cost of debt and its easier availability."

He said these trends had also added to aggregate demand in the economy, via additional construction and renovation spending, and the generally expansionary impact of rising asset values on broader household spending.

Stevens said that whereas dwelling investment averaged around 5 per cent of GDP through the 1970s and 80s, it reached a peak of nearly 7 per cent of GDP in 2003/04.

He said households also expanded their consumption faster than their income.

"For a time, these trends were helpful in periods when adverse shocks from abroad were having their impact," Stevens said.



Brian Hastings Finance & Management wishes you and your family a happy and prosperous 2007

BUILDING APPROVAL DATA DEFY RATE RISES

The Australian home building industry appears to have finished 2006 in good shape, defying the interest rate rises imposed by the Reserve Bank.

The latest Australian Bureau of Statistics building approvals figures for November, 2006, revealed a 4.1 per cent seasonally adjusted increase which was described by the Master Builders Association as heartening in circumstances where the two latest interest rate rises had been expected to generate a down-turn.

What was particularly interesting about the building figures was that they suggested strength both in terms of both private sector dwellings and investment housing.

The impact of the interest rate increases was probably best demonstrated by the year on year figures, which revealed a 0.4 per cent decline between November 2005 and the same month last year.

Not surprisingly, Western Australia and South



Australia emerged as the driving forces behind the increase in the building approvals figures,

more than offsetting downturns recorded in NSW and Queensland. Building approvals increased by a seasonally adjusted 18.5 per cent and 17.2 per cent in Western Australia and South Australia respectively, while NSW suffered a 10.6 per cent decline and Queensland suffered a 4.1 per cent decline.

The growth in building approvals in Western Australia and South Australia was strongly influenced by on-going demand for accommodation in the resources sector.

The Master Builders Association has cautioned against reading too much into the November building approvals figures in circumstances where the home building sector closes down through the Christmas/New Year period.

A spokesman said that much would depend on consumer sentiment in the opening weeks of 2007.

AUSTRALIANS REMAIN FAITHFUL TO PROPERTY

Australians have renewed faith in the residential property market according to a recently conducted national survey.

The survey found that 46 per cent of respondents expected residential property prices to increase in their state over the next 12 months - compared to 18 per cent a year earlier.

The survey also showed that residential property in general remained in favour with investors, with 61 per cent naming it as their preferred investment option over all other asset classes.

Australian shares and managed funds were a distant second and third favourite, with 18 per cent and 9 per cent respectively, choosing them as their preferred investment class.

Asked where they would chose to invest in residential property, the majority chose capital city suburbs (47 per cent), followed by coastal areas (26 per cent) and the inner city (17 per cent).

This echoed sentiments in the previous survey where 58 per cent chose metropolitan suburbs as their area of choice for residential property

investment.

While residential property is a popular investment choice, just 30 per cent plan to actually purchase an investment property in the next 12 months.

However, 73 per cent intend to invest in it as part of a retirement plan.

"Houses remained the preferred dwelling type for investors and this increased by 5 per cent from the previous survey to 77 per cent of respondents opting to invest in houses rather than apartments.

On the subject of mortgages,

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most investors are happy with their current mortgage product and lending institution - with 80 per cent indicating they are either satisfied or very satisfied. The increasing utilisation of mortgage brokers was thought to have had a positive impact on borrowers satisfaction in finding the most suitable loan for their individual lending requirements.

HOW MUCH IS ENOUGH FOR RETIREMENT?

Australians need to move away from the on-going debate over the level of the superannuation guarantee when considering the adequacy of retirement incomes.

Watson Wyatt's managing director, Andrew Boal claims there has been an over emphasis on the level of the superannuation guarantee and this had tended to side-track the debate on retirement funding adequacy.

Boal claims there is no one size fits all ideal with respect to the super guarantee because everyone has different needs, lifestyle expectations and risk



tolerance which means that the "adequacy" of retirement savings is a highly individual concept.

"Individuals need to define what their needs actually are before they can understand whether their projected level of savings might be adequate for their retirement," he said. "When it is put to us that a super guarantee of nine per cent is not enough, we think the

question needs to be asked: "not enough to do what?"

Boal said that Watson Wyatt's research

revealed that the age of retirement had an enormous impact on retirement income.

He said that Australians also needed to understand that if they wanted to retire with higher living standards than previously they needed to save more for themselves.

"Australians may have to reassess what they believe is the ideal retirement age," Boal said. "The demographic changes that lie ahead with an ageing workforce will be critical factors in this debate, because there should be enough work available in Australia to support people working to 70 and beyond - if they want to."