

## PROPERTY – THE FUNDAMENTALS ARE STRONGER THAN THE SENTIMENT

By Gavin Hegney, Executive Chairman, Hegney Property Group, Perth, Western Australia

Perth residential property seems to always be making headlines. The current issues seem to focus mostly on the affordability issue and concern over rising rental levels. There are predictions of significant increases in rents over the next 12 months, with estimates of an increase of up to \$100 per week for some properties.

This increase in rents is the result of Perth's strong underlying demand for residences. With a decrease in home purchase affordability, demand is now turning to the rental market as a cheaper and more affordable option rather than buying a home.

For owners of investment properties, now is an important time to focus on the following factors:

- Analyse local market rental levels and if appropriate increase the rent on your investment properties to keep pace with current levels.
- Look at refinancing your borrowings.
- Assess your portfolio and identify non-performing properties - sell properties you consider to be under-performing.
- Watch the market for future opportunities that will offer stronger returns.
- Make improvements to the property that will increase capital value and allow you to maximise rental income.

In looking ahead for the Perth market, infrastructure projects will continue to have a significant impact on the market and provide a flow on effect in delivering greater yields to property investors, particularly as Perth grows into a major city. The unique combination of infrastructure projects and understanding where people want to live is the key to recognising investment opportunities. We believe the following projects will deliver strong returns to investors over the medium to long term:

- \* Mandurah train line
- \* Port Coogee Marina
- \* Perth-Bunbury Highway/Peel Deviation
- \* Alkimos-Eglinton/Marmion Avenue Extension
- \* Northbridge Link (now deferred)
- \* Claremont Redevelopment
- \* Scarborough Beachfront
- \* Leighton Redevelopment

Over the next 10 to 20 years, the residential market will be impacted by demographic influences, low unemployment, population growth and resource sector activity. It is therefore very important to understand the affect that these factors are having on specific areas of the market, prior to purchasing a home or investment property. The best advice to those looking to purchase property is to "buy selectively" - you can no longer just buy any property and expect that it will deliver a strong return.



## TEAM BRIEF

Tim Edwards  
Account Manager

Tim has been part of the Pacific Finance team for 14 months. He started his role at Pacific Finance after working as the Finance Manager for WA Fork Trucks. His qualifications include obtaining a Bachelor

of Commerce and becoming a Licensed Finance Broker.

Tim's role at Pacific Finance includes him overseeing deals belonging to two of the companies Directors, as well looking after his own customers and working on growing his own client base.

"What I enjoy most about working for Pacific Finance is that it's an experienced company with experienced staff for support," says Tim.

The support Tim receives from his work environment is enabling him to become more confident in his day to day role of dealing with a range of clients. He also enjoys the relaxed and casual atmosphere of the office and its employees.

"The experience and knowledge the older guys have in the industry, that I have learnt from and will continue to learn from, is priceless," adds Tim.

As well as trying to get to Rottneest as much as possible, outside of work Tim plays football for dual premiership winners West Coast Amateurs. This is much to the dismay of his older office colleagues who are keen supporters of Wembley.

"They all still think that Wembley is the greatest club of all, even though they have lost the grand final the last two years. I enjoy having that over them," boasts Tim.

## THANKYOU

Thank you to everyone who replied to our survey – the three prize winners were:

Alisha Taddei Ted Folkes Dean Dinsdale

## PERTH HOMES NOW LOOK 'OVER-VALUED' BUT WILL THEY FALL?



*Excerpt from a presentation to commercial finance brokers "Global financial market turbulence and the outlook for the Australian economy" by Saul Estlake Chief Economist ANZ Bank – Perth October 2007.*

Housing market pessimists have for some time pointed to the fact that based on long term averages for prices, interest rates and disposable income, Australian house prices look 'over-valued', especially in Perth.

This fact is then used to argue that, just as falls in share prices are often preceded by periods in which price-earning ratios have been unusually high, high ratios of house prices to incomes or rents means that house prices must 'inevitably' fall.

This line of reasoning ignores a fundamental difference between the share and residential property markets. No-one has a 'natural long' position in the share market. However in cultures where home ownership is strongly preferred (such as Australia) the house sector does in fact have a 'natural long' position in the residential property market.

This means if interest rates remain at reasonable levels – so that current marginal owners do not become forced sellers – home owners won't become forced sellers simply because their investment seems 'over-valued'. Expect instead, a decline in the turnover of property sales rather than property prices.

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## CLIENT Q&A

**Q: When can I claim the GST input credit on an asset financed by hire purchase? Are chattel mortgages the same?**

**A:** For assets financed by a hire purchase agreement if the borrowing entity accounts for GST on a **non-cash (accruals)** basis, the GST credit can be claimed in the period the invoice is issued however if the borrower accounts for GST on a **cash basis** the GST credit is claimed pro rata over the life of the hire purchase agreement. For assets financed by a chattel mortgage the GST credit can be claimed in the period the invoice was issued irrespective of the method of GST accounting.

**Example** – Jim purchases a new forklift for \$33,000, including GST. If Jim finances the forklift using a hire purchase facility and he uses the accruals method for GST he can claim a credit of \$3,000 in the period the invoice is issued, but if he uses the cash method for GST he can only claim 1/11th of the principal component of each monthly payment over the life of the facility. For a chattel mortgage Jim can claim a credit of \$3,000 in the period the invoice is issued.

Always **speak to your tax adviser** to confirm your GST accounting method and your eligibility to claim input credits.



## TALKING TAX BUSINESS AND ASSET OWNERSHIP STRUCTURING – INVEST THE TIME TO CONSIDER YOUR OPTIONS

By Guy Brandon, Principal

Nissen Kestel Harford –  
Accountants & Business Advisors

You may be requesting funds from Pacific Finance to acquire an interest in a business structure (e.g. a share in a company; unit in a unit trust) or a business/investment asset.

Often, little consideration (at the right time) is given to the correct structure in which to acquire the interest or business asset.

### Common structures include:

- Sole Trader
- Partnership
- Discretionary Trust (generally not preferable when more than one family group is involved)
- Unit Trust
- Company

### Correct structuring is important for a number of reasons, including (but not limited to):

- Ability to obtain finance by the structure – discuss with Pacific Finance.
- Taxation

Whilst determining the most appropriate structure should not be based solely on taxation considerations, it does have a



significant bearing on the overall outcome. The general nature of this overview limits the ability to comment on taxation consequences for the various structures. Suffice to say there are significant differences

- What asset type is to be acquired by the structure:
  - Passive Asset – e.g. commercial property leased to a business or shares in company.
  - Business Asset – e.g. sales representative's motor vehicle.
- Ability to carry forward and use tax losses e.g. in respect of a start-up business
- Liability of participants (refer to your legal advisor) e.g. compare individual partners in a partnership to shareholders in a company
- Other legal aspects – similarly refer to your legal advisor.
- Succession Planning.
- Estate Planning.
- Cash flow considerations e.g. implications

of providing money to, or taking money out of the structure; ability to retain working capital.

- Compliance costs
- What restrictions are placed by regulatory authorities on the use of certain structures to provide specific goods or services?
- Flexibility – not all future changes may be accommodated.
- Limit complexity where practicable.

Time (and money) spent now determining the appropriate structure may save you money if it is determined at a later time another structure is, or would have been, preferable (e.g. prior to bringing in a new investor or selling the asset).

So as part of the finance process, it is strongly recommended you seek professional advice (e.g. from your accountant or legal advisor) on the appropriate structure to acquire the asset and / or borrow the funds.

Importantly, understand the structure(s) you have or intend to have. If not, ask.

## CLIENT INTERVIEW – JEFF KLOPPER A PERSONAL PROPERTY FINANCE SUCCESS STORY

Jeff Klopper has been a Pacific Finance client for over five years. After being introduced by his accountant to Pacific Finance Director, Jeff Doig, Jeff's relationship with PFA has grown to become financially successful and highly respected.

Jeff approached Pacific Finance with the intentions to grow his personal wealth and show him where he should be spending his money. Over the last five years PFA's role with Jeff has grown to involve strategic direction as well as finance and banking advice.

"Using Pacific Finance has hugely benefited my personal finance. They have liaised with my accountants on a quarterly plan and undertaken strategic planning to grow my personal wealth," says Jeff.

Jeff is currently based in Perth working as the Regional Director of the Retail Bulky Goods department for CB Richard Ellis. On a local level, he is predominantly responsible for the leasing and sale of Bulky Goods sites in Perth. On a national basis, he oversees and manages the Bulky Goods teams and drives business nationally, maintaining key relationships with retailers and developers.

Prior to joining CB Richard Ellis, the world's leading integrated real estate services company, Jeff completed an Architectural Drafting and Design degree as well as post-graduate studies in Property Services and a certificate in Commercial & Industrial Sales

and Leasing. Jeff is also a registered Real Estate and Business Sales Representative.

As for the future, Jeff has some big plans, "Over the next twelve months I'm looking to consolidate on my current assets," he says.

Jeff is planning to undertake a commercial development and build a house down South. Recently Jeff has purchased investment properties in Subiaco and Western Suburbs hotspot, Shenton Park, which he has now moved into.

"I certainly wouldn't be able to grow my personal wealth through property investment and developments without the help of Pacific Finance," adds Jeff.

Jeff work's together with Pacific Finance on forward planning to reduce taxes and increase wealth. After building a successful relationship, Jeff felt confident enough to recommend Pacific Finance's services to his business colleagues.

"Pacific Finance's one-on-one service is not something you get from other finance broking companies. It is very personalised and they definitely take the time to meet with their clients which I think is invaluable and quite rare in today's business environment," says Jeff.

Although Jeff has been very successful in growing his wealth, he remains modest about his accomplishments.

"Pacific Finance has given me direction. They haven't told me what to spend my money on, but they have directed me on how to maximise the return on my funds by using the right finance and I wouldn't have accumulated my wealth without that support and insight."



## PRODUCT FOCUS

### Insurance Premium Funding

Insurance Premium Funding (IPF) is a specialised product for financing commercial insurance premiums and will assist all business with managing cash flow and use of capital.

- IPF allows the borrower to spread the insurance premiums over the period to which the cover relates i.e. insurance typically is for 12 months – premium funding is repaid over 10 to 12 months – the finance matching principal.
- IPF can be arranged very quickly without providing detailed financial statements and other financial information (for most transactions).
- IPF does not require additional security such as charges over the entity's assets or directors personal guarantees.
- IPF is an additional source of capital for a business therefore reducing reliance on either overdrafts or cash reserves.

## THE FORUM

What trends do you expect to see in the Perth residential housing market in 2008?



Rob Fitzgerald  
Director

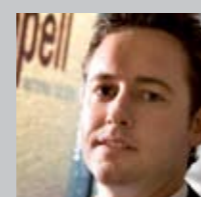
Sullivans Valuation  
Services

"It is no secret that with a strong resource sector, continued strong economic growth, drought affected regional areas, the sub prime crisis in America and the strong Australian dollar we will see pressures on interest rates over the next 6-12 months.

2008 should bring continued pressure on the first home buyer market that may require further stamp duty incentives and possible reduction in construction prices to help promote. However, the strong rental market may see the return of the investor to the market after a clear loss of confidence in 2007. Other market drivers will include further population growth and lifestyle property preferences including inner city.

Solid normal growth is predicted to continue along the preferred coastal strip areas and especially in areas undergoing redevelopment and rezoning whilst the executive markets will continue to perform well.

It is expected to see a widening gap between the first home buyer bottom end sector and the executive top end market sector in our wealthy state.



Travis Coleman  
Valuation Manager  
WA Propell National  
Valuers

The top end of the market is still flourishing with record sales and developments occurring almost on a fortnightly basis. Propell believes this trend will continue and will be further assisted by the buoyant resources boom currently being experienced in WA. More mining and engineering executives will be relocating to Perth and will seek family and executive housing in established suburbs. With so many owners/investors gaining considerable capital from their properties over the last 3/4 years, the available capital to further invest and perhaps upgrade has never been more prevalent.

The middle and lower sector of the market seems to have slowed over the last 3-6 months and with the threat of further interest rate rises on the horizon, a further steady would seem inevitable. Some areas on the outer fringe of Perth and Mandurah have and will continue to experience up to a 5 to 10 per cent correction with investors selling to look for property interests on the eastern suburbs. This can be seen by the numerous properties for sale in some of these outer-lying areas.

Home improvements, renovations and additions will become a more cost efficient solution for people wishing to upgrade their family home and lifestyle because the 'in and out' costs associated with upgrading are high. This will further add to the growing demand for labour and materials putting more pressure on the building industry.



Simon Moore  
Head of Research  
Hegney Property  
Group

2008 may well end up being a similar story to 2007: namely rental increases, small price drops in some outer lying areas and good buying opportunities for the astute investor.

There is still significant demand for housing in Perth, mainly from workers moving over from the eastern states. This demand is currently being reflected in strong rental increases. We expect that by the end of 2008, some of this demand may be flowing back into the residential housing market and we will see some more growth in house prices.

2008 will again see some areas show strong growth in property values and other areas, reasonable price drops. The key to this will be supply. Areas with a significant number of homes on the market for sale will be at risk of a drop in values, whereas at the same time we will see older, established suburbs with only a few homes for sale steadily increase in value.

Activity will be strong in some areas as we see major infrastructure projects coming online. Watch out for price growth in Spearwood, Scarborough and North Fremantle.

As always, the strategy for 2008 will be: "buy selectively".