Running with the market

Fixed-rate home loans get few takers here, writes **SOPHIE ELSWORTH**

THE big banks have dropped their five-year fixed home loan rates to record lows but Australians still remain reluctant to lock in.

The Commonwealth Bank started the fixed loan rate war in July by dropping its five-year rate to 4.99 per cent, resulting in the other majors quickly following suit.

But the nation's largest mortgage broking group, Australian Finance Group, found that in June only 24 per cent of new home loan customers fixed their loans. Countries including the US and UK offer much longer fixed-rate loan periods with some spanning up to 30 years, but these long fixed-rate loan terms are yet to arrive in Australia.

Research from comparison website Finder shows there are six lenders that offer more than 48 fixed home loans for periods of 10 years or above.

This includes all of the big four banks and Newcastle Permanent and RAMS.

The Mortgage and Finance Association of Australia's chief executive officer, Phil Naylor, says despite many competitive fixed-rate deals, Australians remain hesitant about locking in their loans.

"Australia just isn't a fixed-rate loan country," he says.

"Certainly the US, UK and even New Zealand are more of fixed-rate loan countries than Australia is, but it is very rare for fixed-rate loans to go beyond five years.

"Australians have always opted to run with the market."

Naylor warns there are downsides with locking in fixed rates, including the costs involved to exit the loan early or missing out on rate falls.

Finder.com.au spokeswoman Michelle Hutchison says some overseas countries have been offering extended fixed-rate loan periods for years and it's "common to see borrowers locking in a fixed rate for 20 or 30 years". This is vastly different from Australia.

"Most borrowers in Australia who fix, choose a three-year term – and longer-term fixed rates above this are not popular," Hutchison says.

"Lenders in Australia have generally priced longer-term fixed rates very high, making them unattractive to most borrowers.

"For instance, Commonwealth Bank's 15-year discounted package fixed rate is currently advertised for 7.59 per cent.

"That would cost $2116 in repayments per month for a $300,000 home loan – over $500 more per month than a rate of 5 per cent."

Compare mortgage rates
moneysaverhq.com.au

HOW TO BOOST YOUR RENTAL INCOME

- Buy in an area with low vacancies.
- Advertise with minimum of six photos and a floor plan.
- Freshly paint the property.
- Add heating, cooling and a dishwasher.
- Allow pets.

Source: Muirhead Property Management

HOUSE RULES: Prue Muirhead, in front of one of her properties, runs a management company for investors Picture: ROY VAN DER VEGT

Vacancies put freeze on rents

Property

ANTHONY KEANE

RENTAL vacancies are rising in most capital cities, putting pressure on property investors to take a closer look at rent rises.

The question of when to increase rents is a tough one that affects Australia's 1.3 million landlords and millions more tenants, and experts are divided about the answer.

New data from SQM Research shows there were 69,258 vacancies nationally in June, up from 65,075 in May, and the current vacancy rate sits at 2.3 per cent.

SQM Research managing director Louis Christopher says the rise reflects an increase in completed dwellings, more renters becoming first home buyers, and more people occupying each dwelling.

RISING RENTAL VACANCIES

	May vacancies	Vacancy rate	June vacancies	Vacancy rate
Adelaide	2545	1.6%	2645	1.6%
Brisbane	6833	2.3%	7159	2.4%
Canberra	1224	2.3%	1216	2.3%
Darwin	382	1.4%	424	1.6%
Hobart	484	1.8%	472	1.6%
Melbourne	10,997	2.4%	12,073	2.7%
Perth	4476	2.3%	4716	2.5%
Sydney	9781	1.7%	11,022	1.9%
National	**65,075**	**2.2%**	**69,258**	**2.3%**

Source: SQM Research

"In the 2011 Census the number of occupiers per dwelling increased for the first time in about 70 years," he says.

"The market is increasingly favouring tenants."

"Rental growth is slowing. Potential property investors have to ask themselves what are they buying into – they will not be able to lift rent immediately."

University lecturer, author and investor Peter Koulizos says landlords should not raise rents just because the lease has come up for renewal.

"If you have a good tenant, they are worth their weight in gold," he says. "I wouldn't always jump at the chance to increase rent – I would prefer to have my rental property tenanted by a good tenant."

Koulizos says investors should do their research to work out a fair rent.

"Look at what other people are renting similar properties for. In the end, the tenant looks at what's best for them."

Muirhead Property Management director Prue Muirhead recommends landlords lift their rent by $5 a year, to avoid hitting them with a larger rise in a few year's time that may prompt them to leave.

"They won't move out for $5. Generally speaking, it's going to cost a tenant a lot more to move out than to stay there," she says.

"However, if the property is vacant, you have to go back to market rates."

SMALL CREDIT CARD MISTAKES CAN BE COSTLY

NOEL WHITTAKER
YOUR ADVICE

MY son missed paying $262.03 out of a total of $16,456.21 on his credit card in March and we didn't realise it until the April statement came. We thought he would get charged interest on the late payment of $262.03 only, but he was charged on the full amount for that month. Is that the usual way it is done?

Unfortunately a missed payment of only a few dollars can result in heavy interest penalties, and the unfairness of this has been the topic of many articles in recent years. If he has been a good payer in the past, I suggest he contact his bank and ask them to waive the payment in this case.

WE have bought a block of land and hope to build our dream home in future, but still have a mortgage on our family home. We borrowed the entire purchase price of $350,000 with an interest-only loan. Is the interest paid on this loan tax deductible?

For the interest on a loan to be tax deductible, the purpose of that loan must be to buy income-producing property. Based on the information supplied you do not qualify.

I UNDERSTAND that funeral bonds qualify for exemption from the Centrelink assets test. If my wife and I have funeral bonds, is the exemption worth $11,750 each?

It is $11,750 a person, but it must be in two separate bonds.

I AM 28 and have $40,000 in super. I am moving overseas at the end of the year and do not plan on working. How can I maintain my current super balance while making no contributions, without it being eaten away by administration and insurance fees? Are there any other options for retaining my super balance?

You could look at a retirement savings account, which has very low fees, but the returns are likely to be low as well. My preference would be to speak to an adviser about a low-fee super fund that is wholly invested in growth assets.

After all, you're only 28 and can take a long-term view. Hopefully, such a fund could do better than 9 per cent per annum over the long term, which would more than compensate for the fees.

> A missed credit card payment of only a few dollars can result in heavy interest penalties

IF a self-managed super fund in pension mode transfers an asset in-specie to the member in pension mode as a withdrawal of capital, what are the capital gains issues? Is it distributed at original cost and the pensioner becomes responsible for all the capital gains, or does it get valued at the date of distribution and the pensioner adopts that valuation as his cost base?

It gets taken out of the fund at market value and the recipient takes that market value as their cost base.

Noel Whittaker is the author of *Making Money Made Simple* and other finance books. His advice is general in nature and readers should seek professional advice before making any financial decisions. Email: noelwhit@gmail.com