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PropertyInvesting.com 'Insider'

Discover proven tips, strategies and techniques to dramatically increase your property investing profits

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Hi,

Welcome to your May edition of Insider. The topics on offer this month are:

- Hype or Hooray? What was in the Federal Budget for property investors?
- Coming soon... a redevelopment of a grand scale!
- Your opportunity to register for the first ever 'Advanced MasterClass'

There's lots to talk about so let's get started...

Hype or Hooray? What was in the Federal Budget for property investors?

Two of the headline issues outlined in Peter Costello's Federal Budget, delivered on May 10, were substantial income tax cuts and increased obligations in terms of working for welfare. While these changes will have a direct impact on those with and without jobs, what will be the potential consequences for property investors?

In terms of theory, property prices are stimulated or stifled based on the strength of consumer demand for housing. What a consumer thinks, or how he or she feels is then influenced by financial reality (i.e. affordability of housing) and also emotion (either greed or fear).

It makes sense then that a budget which increases affordability or improves consumer sentiment will have a constructive flow-on effect to real estate prices.

Income Tax Cuts

The announced income tax cuts arise from the government adjusting the marginal income tax rates meaning the biggest benefits will go to those who already pay the most income tax. For example, once fully implemented in 2006, a highly paid executive on $125,000 is expected to have an extra $86 per week in his or her pocket, whereas someone earning $60,000 will receive a tax saving of $11 per week.

As Australian's are notoriously poor savers, it's reasonable to expect the income tax savings received will be spent rather than invested. Indeed, I suspect that the basis for forecasting 3% economic growth is that consumers will undertake some 'retail therapy' thereby stimulating the economy and jobs.

Yet it's not all beer and skittles. Unions and employees will be keen to share in the spoils of economic abundance, and this poses a substantial risk - namely inflation (i.e. rising prices).
The danger comes from the existence of a false assumption that there will be higher after-tax profits and therefore more to go around for all. This may seem the case, but the reality is that the increased profits have not arisen as a result of increased output or efficiency.

If you're confused then look at it this way... the profit pie isn't any larger, it's just that the government is now taking a smaller slice. If employees ask for a bigger piece without increasing productivity (i.e. baking a bigger pie) then suppliers will be forced to increase prices to protect their profit margins, and this is what can lead to inflation.

The Reserve Bank

Inflation is certainly one of the hot topics discussed as the tea and scones are passed around the meetings of the executive of the Reserve Bank of Australia (RBA). Clearly worried by the potential impact of rising prices, they have openly foreshadowed swift increases in interest rates to control a rampant economy and bypass naturally occurring boom and bust economic cycles.

How likely is a further rise in interest rates? One could never say certain, but you'd have to be quite confident based on noises coming from the RBA where they mentioned that, based on previous economic cycles, they'd be surprised if rates didn't rise.

If - or when - the RBA increases interest rates then it may be a case of the left-hand giveth and the right-hand taketh away on the basis that the income tax cuts announced in the budget will be swallowed up by higher interest costs.

Property Investors

It makes sense that the tax cuts will put more money in people's pockets thereby making housing more affordable. This is because consumers can afford higher loan repayments arising from bigger mortgages, and, as buyers have more to spend, house prices will rise.

Yet there isn't any plausible guarantee that consumers will allocate their extra cash on real estate debt because the current climate sees investors cautious, if not sceptical, towards real estate. Therefore, despite the increased affordability, the current negative sentiment may be strong enough to negate the pressure on property prices.

Furthermore, given the recent boom in prices, owning a home is now out of reach for many first homebuyers, and given most are on low incomes, the income tax cuts they will receive will be more incidental than significant for them.

As for higher income earners, should they spend extra cash on luxuries rather than investing then there's a real risk that the RBA will increase interest rates thereby not only negating the tax savings but actually driving property prices lower on the back of less affordability and more fear.

In summary then, the budget offers a 'steady as she goes' approach for property investors. While there were no nasty surprises, the proposed income tax cuts are unlikely to breathe new life into an already stagnant property market.

As investors we can't directly influence real estate prices, however we can carefully monitor market movements in order to adopt a proactive rather than reactive approach to maximising our returns. In the meantime, if you want to follow my lead, I have already considered the impact of an interest rate rise on my portfolio and have identified weaker performing assets that need attention. Furthermore, when the tax cuts come through, I'll be using them to repay debt in order to build a stronger financial position.

If you'd like to discuss this issue then please visit http://www.propertyinvesting.com/forum/topic/17726.html on the PropertyInvesting.com forums.

MasterClass Update

The recent series of MasterClasses have produced some of the best feedback I have ever received. The reason for this is because the information on offer is considered to be some of the most practical and effective real estate training available at the moment.

For example:

> "The concepts were explained in an easy to understand manner, and in a language that everyone understands... an absolute goldmine of information..."
>
> **- A. Von Zinner**

> "I now have a new perspective on my investing. It has radically

altered my thinking - and I can see my way out of being 'stuck' and can now move forward."

- E. Angus

"This seminar is like nothing that is out there. I have been to many but this one gets the nuts and bolts with no bull."

- M. Malnios

I guess word of mouth gets around, which is why I continue to receive many emails inquiring about availability of MasterClass spots. With seats filling quickly, I thought it wise to take this opportunity to let you know the exact number of 2005 MasterClasses seats remaining at the time of writing:

- **Perth** - 12th June 2005: 5 Seats
- **Melbourne** - 13th August 2005: 44 Seats
- **Sydney** - 23rd October 2005: 95 Seats

Note: These are not 'marketing' figures designed to prompt you to order quickly. These are actually figures, and once the seats are gone then that will be it. As such, if you're contemplating attending a MasterClass then I urge you to book your seat as soon as possible to avoid disappointment. Yes, I know the Melbourne and Sydney events are some way off, but they will sell out quickly so some forward planning on your part will ensure you don't miss out.

Also, for those that qualify, if you book prior to 30 June 2005 then (unless your accountant advises otherwise) you should be able to claim a tax deduction in your 2005 income tax return rather than having to wait until June 2006.

There is also a May 'Birthday Special' on offer whereby the normal price of attending is further reduced by $100 (down to $595). If you'd like to find out more information about the MasterClass then please visit http://www.propertyinvesting.com/sima/click.php?id=69

Coming soon... a redevelopment of a grand scale!

Other than the upcoming MasterClasses, there's another project I'm working on that is providing plenty of excitement... it's the pending redevelopment of PropertyInvesting.com

PropertyInvesting.com began in 2001 and has since gone through two major redevelopments, each time adding more features and benefits for members.

In its third incarnation, the site aims to significantly 'lift the bar' in terms of both functionality and community services on offer. As you might expect, membership of the site will be free of charge.

Some of the features that will soon be released include:

- **New look and feel that increases readability and navigation around the site.**
- Better information layout with more current articles and expert comments.
- **A chat room environment that is unlike anything I've seen before, allowing us to run web-based seminars with your questions asked and answered in real time.**
- Regular Cosmo-style quizzes for you to test and improve your knowledge.
- **Superior help facilities, including an assistant to help you select the best product or resource for your needs**
- And much more.

The expected release date for the new site is in August, so between now and then, I invite you to submit your wish-list of features via the forum. To make your valued contribution, please post at http://www.propertyinvesting.com/forum/topic/17727.html.

And stay tuned... with your help PropertyInvesting.com will be able to cement its place as the leading community of real estate investors throughout Australasia.

Summary

While the ideas outlined in the Federal Budget remain opinion rather than fact until enacted in law, the Australian economy is poised for interesting times ahead given the uncertain impact of how tax savings will impact spending.

Certainly, any initiative that puts more money in the hands of consumers should ordinarily cause property values to increase, however, should interest rates rise to compensate, then there is a real risk the real estate market will slump further.

As property investors, we can't influence the market with our activities, but we definitely need to tailor our strategies for the prevailing conditions. I'm certainly looking to the RBA for hints about their monetary policy, and am being very selective rather than speculative about the property deals that Dave and I are currently entering into.

Don't forget about the ever-decreasing number of remaining 2005 Property MasterClass seats. With only three events left, I'd be surprised if they weren't all complete sell outs, which is why I encourage you to book now to avoid missing out. You can find out more information by visiting http://www.propertyinvesting.com/sima/click.php?id=69.

Finally, stay tuned for more information about the redevelopment of PropertyInvesting.com It's an exciting time as we play around with new features in the background... we're like kids with a new PlayStation. Anyway, the possibilities are endless and they are certain to help you with your investing.

That said, we've come to the end of this edition of Insider. I sincerely hope you've been able to profit from the insights outlined in this resource. Until next month remember - success comes from doing things differently!

Sincerely,

Steve McKnight

P.S. Ready to secure your MasterClass seats? The best way to do so is to book online now at: http://www.propertyinvesting.com/sima/click.php?id=69