Once in a Lifetime

Thoughts and Opinions by Dr. Tony Hayek

Most often, when people are thinking about investing, they generally over-complicate the process. More often than I'd like, I read research reports on different asset classes and am completely confused by what I've read. I've been in and around the investment industry for a long time and it is fair to say that I know a little more than the average investor. So if I'm confused, where does that leave most investors?

If I look back into the past and think about the best decisions I've made, they have been based on very simple and clear information. I have a very basic rule; I don't invest in things I don't understand, which is why the share market crash of 2008 had absolutely no bearing on my life. It still amazes me how some of the oldest, most experienced and wealthiest research organisations in the world were still bullish about share markets just days before they began their catastrophic slide. One thing I do understand is the way property markets work and in my opinion the market we are currently in is providing us with a once in a lifetime opportunity.

I often get asked, 'what is the real key to creating wealth?' For me it is very simple. Creating wealth is about building as big an asset base as possible and holding it for as long as possible. The growth of that asset base is what will make you wealthy. Don't get distracted by other ideas – asset growth is the key to wealth creation not income (from employment or otherwise).

Your ability to hold an asset base as long as possible is determined by the cash flow of the assets. The cash flow is for the most part determined by two things - interest rates and rent.

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It's fair to say that it's difficult to see the interest rate environment being any better than it is at the moment. The last time variable interest rates were at these levels was in the 1960s, and although it appears that rates are rising, rates are well below long term averages, and only a year ago we were paying almost 9% on a variable loan. It is probably safe to assume that most of you who are reading this, if you were born, didn't have any debt in the 1960s, which means that the debt that you currently have or might be thinking of taking out is at the lowest interest rate in your life time.

Rents are the other major cash flow factor. Rental increases are impacted by the old rule of supply and demand. At the moment there is obviously more demand than supply. The supply of new property coming onto the market has slowed and in cities like Sydney building approval rates are at fifty year lows. As a result of all this, vacancy rates are below the critical 2% level in most capital cities. With supply at such critically low levels, the rental market will show no relief in the short term, and in my opinion will get a lot worse before it gets better.

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BLUEWEALTH PROPERTY

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Rents in every capital city in the country are on a rapid rise. Rents in Brisbane, Perth and Darwin all grew by more than 10% in the year to September 2008, Sydney topped the list with annual growth of 14.7% . Despite the fact that I live and breathe property research, I never again thought I would see natural yields in Sydney pushing through the 6% barrier.

At the moment, our research is leading us to Greater Sydney as the key place to invest in property as a result of the decreasing interest rates and increasing rents. Most of the properties that we are recommending clients invest in are cash flow positive after tax. Some of them are cash flow positive before tax.

What you are witnessing as a result of the combination of rapidly falling interest rates and rapidly rising rents is a once in a lifetime opportunity to add a big chunk to your asset base for a very small holding cost. For example, if someone earning $100,000 per annum was paying off a $1,000,000 investment property that he collected $1,000 per week from (5.2% yield). The weekly after tax cash flow in June 2008 would have been a payment of $479 per week, after tax at today's rate, this property is now cash flow positive ($87 per week). It will be a long time, if ever before we see this combination as powerfully as it exists today.

Throw into the mix the First Home Owners Grant and the Government's stimulus package and you get a cocktail of factors that will drive capital growth in the short to medium-term. The key is to block out the garbage that we hear from the press and our sceptical friends and relatives and make decisions based on clear simple information. We are entering a period of wealth transference, where the wealth will transfer from the hands of the many, to the hands of the few. The questions you need to ask yourself are 'on which side of the ledger do I want to be, and do I have the courage to defy the pattern followed by the masses?'

Courage always comes easier when you have clear, simple information. Know your numbers, do your research and take action.

For more information feel free to attend one of our free educational seminars or contact us.

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