



Welcome

In this issue we look at the current financial crisis and the impact it is having on the South Australian property and finance markets. While the National outlook has been bleak it is not all doom and gloom in SA. Interest rates have been significantly reduced and the First Home Owners Grant has been increased, which has resulted in the improvement of housing affordability.

In the last few months the World's economic situation has been turbulent to say the least. This edition focuses on our local markets and the opportunities available in South Australia.

MARK LEWIS . Managing Director . Bernie Lewis Home Loans

LATEST NEWS...

Interest rates cut again

Last week the Reserve Bank of Australia cut the official cash rate by 100 basis points to 4.25 per cent. Over the past 4 months Australia has experienced a 3 percent decrease to its official cash rate, providing major relief to the monetary policy.

As a result of this month's rate cut, the cash rate will be at its previous cyclical low point. Given trends in money market yields, most lending rates should fall significantly and will also reach below-average levels.

In recent times the Australian economy has been more resilient than other advanced economies, but recent data nonetheless indicates that a significant moderation in demand and activity has been occurring.

With confidence affected by the financial turbulence and a decline in the terms of trade now under way, more cautious behaviour by both households and businesses is likely to see private demand remain subdued in the near term.

"This latest rate cut will have a positive impact to the Australian economy and property market," said Mark Lewis, Managing Director of Bernie Lewis Home Loans.

"With interest rates dropping, affordability is improving and for those people capable of borrowing money for property or investment purposes, now is a great time to consider such a strategy," Mr Lewis said.

Rate cuts typically result in more investors and owner occupiers coming back into the market. This means an increase in buyer confidence.

Traditionally, SA property prices have experienced fairly steady annual growth. With interest rates declining and plenty of properties on the market, there are opportunities to invest in our state's real estate currently.

This latest rate cut should offer further financial relief to Australian households; just in time for Christmas.

First Home Buyer Assistance

The Federal Government recently introduced a new initiative to assist first home buyers to enter the property market. The First Home Owners Boost (FHOB) was launched on 14 October 2008 as a direct response to the global financial crisis. This boost provides an extra \$7000 for buying an established home, or an additional \$14,000 for buying or building a new home.

This grant is in addition to the current \$7000 First Home Owners Grant (FHOG) and \$4000 First Home Bonus Grant¹, meaning that an eligible first home buyer purchasing an established home will receive \$18,000 in grants. For eligible first home buyers building or purchasing a newly constructed home, they will receive \$25,000 in Government grants.

The First Home Owners Boost is only for contracts entered into between 14 October 2008 and 30 June 2009. All existing FHOG eligibility criteria applies. However there is additional criteria for the FHOB, including an avoidance provision for contracts that replace a rescinded contract made prior to the 14 October 2008 to purchase the same property or to build the same, or a substantially similar home.

¹This applies to purchases in South Australia valued up to \$400,000.

SUMMARY OF CONTENT

In this edition you will find three main sections and three sub-sections:

MAIN SECTIONS

- Latest news ...
- Housing market update...
- Finance options worth considering...

SUB-SECTIONS

- Managing your wealth
- Company activity
- Current rates

MANAGING YOUR WEALTH

BUILD WEALTH VIA DEBT RECYCLING

Many people wait until their home loan is repaid before starting to invest. Unfortunately, this means they invest later in life, limiting the growth potential of their investments. There is, however a strategy that lets you invest now and continue to pay-off your home loan reasonably quickly.

South Australian market stays strong

According to the Real Estate Institute of South Australia (REISA) the state's property market has shown resilience amidst the financial crisis that has plagued other investment markets.

"The September quarter is traditionally quieter. The numbers for all transactions declined for this period as high interest rates impacted the market. However, the 12 month growth recorded for both sales and rentals predict good long-term prospects for the property market," said the REISA President.

In recent times the growth in median house price in South Australia has in fact slowed. However, there are still key factors that should see South Australia's house prices resume their gains in the medium to long term.

The South Australian market should withstand a slowdown due to the large scale mining expansions within the state, limited land releases, the increases to the First Home Owners Grant, steady demand and a high demand for rental properties.

Whilst the median house price for the Adelaide market may have slowed, it certainly has not been affected to the same degree as the other states. As the tables below show Adelaide had a 0.4% increase in median price for both houses and units whilst Sydney, Melbourne, Brisbane, Canberra and Perth had a decline in median price for both dwelling types. Adelaide was the only capital city to have an increase for both houses and units for the June quarter.

| CAPITAL CITY Houses | JUNE 08(\$) | MARCH 08(\$) | 3 MONTH CHANGE (%) |
|---------------------|-------------|--------------|--------------------|
| Sydney | 542,488 | 553,902 | -2.1 |
| Melbourne | 449,888 | 452,671 | -0.6 |
| Brisbane | 437,379 | 443,315 | -1.3 |
| Adelaide | 415,701 | 414,220 | 0.4 |
| Canberra | 497,754 | 500,944 | -0.6 |
| Perth | 496,111 | 510,387 | -2.8 |
| Hobart | 286,716 | 286,205 | 0.2 |
| Darwin | 466,675 | 462,592 | 0.9 |

| CAPITAL CITY Units | JUNE 08(\$) | MARCH 08(\$) | 3 MONTH CHANGE (%) |
|--------------------|-------------|--------------|--------------------|
| Sydney | 366,622 | 367,115 | -0.1 |
| Melbourne | 333,870 | 333,580 | 0.1 |
| Brisbane | 327,382 | 337,588 | -3.0 |
| Adelaide | 266,403 | 265,270 | 0.4 |
| Canberra | 361,231 | 356,289 | 1.4 |
| Perth | 362,584 | 364,901 | -0.6 |
| Hobart | 207,568 | 215,663 | -3.8 |
| Darwin | 324,454 | 330,217 | -1.7 |

Even with the flattening out of property prices in South Australia over the last few months the future is looking good. With dramatic cuts in the official interest rate since September, investor confidence is sure to lift which will help to stabilise property prices and activity.

"These recent rate cuts will stimulate the South Australian property market. It will help to draw investors back from other growth assets such as the share market that is so volatile at present. The increase in buyer confidence will see more housing developments, higher sales volumes and rising house prices," says Mark Lewis.

In a buyers market the current conditions are ideal for savvy investors who appreciate the strong fundamentals of the current market and opportunities that present themselves.

Article sourced from Propell National Valuers, 2008, 'Adelaide Property Market Monitor Report'.

What is the house price forecast?

There are two different views on where house prices are heading. The Australian Bureau of Statistics, Australian Property Monitors and other experts say Australian house prices are in a state of flux and downward adjustment. While other property experts, including RP Data, Terry Ryder and BIS Shrapnel, insist prices are simply stagnating or have shown and will show improvements.

Mark Lewis said, "The market is not on cue for any drastic price falls but rather it will be a slow adjustment to changing conditions."

Over the past 8 years we have seen tremendous growth to property prices, particularly in the early years of this century. A typical property cycle is experienced every 7-9 years with an upturn, boom and slump occurring during this period.

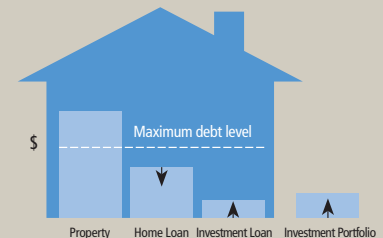
Adelaide hasn't experienced the typical property cycle since the 1990s, but most other Australian capital cities have and are currently either in the slump or beginning the upturn.

As like everything, supply and demand dictates the property market and prices. The Australian population continues to grow, with Adelaide's population predicted to grow to 1.8 million by 2050. There is a housing shortage in Australia. As demand exceeds supply, house prices are still fairly expensive, even though our economy is in a state of turbulence with the global markets.

What is debt recycling?

The debt recycling strategy involves three key steps:

1. Use your home equity as security for a separate investment loan.
2. Use the investment income and any tax savings you receive from your investments (as well as your surplus cash flow) to help reduce your outstanding home loan balance.
3. At the end of each year, re-borrow from your investment loan the amount you have paid off your home loan to purchase additional investments.



Above: The investment loan is increased by the amount repaid off the home loan which is then directed into the investment portfolio.

Benefits of using debt recycling

- Replace inefficient (non tax-deductible) debt with efficient (tax-deductible) debt
- Establish an investment portfolio sooner
- Reach your lifestyle goals faster.

Recycling your debt is just one of many strategies designed to build your wealth and reduce your debt. To find out if this strategy is appropriate for you speak with one of our financial advisers. They can also show you a number of alternative strategies that may prove to be more suitable for both your lifestyle and financial needs.

Our financial advisers and Bernie Lewis Wealth Management Pty Ltd, ACN 124 080 682 are authorised representatives of GWM Adviser Services Ltd, ACN 002 071 749, an Australian Financial Services Licensee.

COMPANY ACTIVITY

On November 10 at the Piccadilly Cinema Mark Lewis and Anthony Toop presented the "inside story" on the property and finance markets. The response from the SA public was very positive and illustrated the demand for information about the SA economy during this period of global economic turbulence.

The main question on everyone's mind for this night was: What is the future diagnosis of our local economy?

continued on page 3

The fundamentals of investing in property

Property investment has been a popular route to wealth for many years and even in the tough economic climate we're currently experiencing, Australians are still striving to invest. To be successful it is important now more than ever, that investors plan and research their investments extensively.

"Firstly, before making any decisions it is important that investors define their goals," said Mark Lewis. These can be anything from supplementing your current income, giving up your day job or retiring wealthier. Once this is established you can then work towards choosing the right investments to match your goals.

So why are so many Australians choosing to invest in property over other growth assets? The reasons are outlined below:

- Capital growth
- Rental income
- Hedge against inflation
- Tax benefits
- Greater degree of control
- Lower volatility
- High demand

Rental Income - with investment properties you have the potential to gain an income almost straight away rather than wait until your dividends are due.

Tax Benefits - such as claiming interest, expenses and depreciation. It is important to remember however, that these should not be the sole reason for purchase but an added bonus.

Lower volatility – The property market is not as volatile as other assets such as the share market. In some instances property prices will go down, yet generally won't plummet overnight.

High Demand – Property will always be in demand as everyone needs a place to live. With an increasing population and high rates of immigration set to continue, demand has been steadily increasing and supply has been unable to keep up. If this trend continues in the future, which it is forecast to in South Australia, it will drive up prices.

Once making the decision to invest in property there are a number of factors to take into account to ensure that your investment is a success. These are particularly important in today's climate.

"In times like these it is smart to invest in low risk areas. These have the greatest demand, with a growing population and a strong infrastructure. They should hold, and in some cases gain a little in value," said Mark Lewis.

Rather than purchasing a flashy property, now is the time to buy a basic home in the lower third of the market as these usually retain a buffer in their values.

According to Mr Lewis, "As the cost of buying rises & during periods of unstable interest rates, more people fall into the lower third of the market, helping to protect property prices".

Broadening the number of areas to search and the number of properties considered can also be of benefit as it will allow you to negotiate without emotion.

"A commercial approach to buying is going to separate successful investors from the unsuccessful ones," said Mr Lewis.

He also adds that, "whilst careful planning is important in the selection of the right investment property so too is finding the right finance."

It's important that you plan and structure your investment finance correctly as this will help you keep your costs down and manage your risk accordingly.

To be successful with planning your investment finance you should consider the following:

- Planning for interest rate rises, even though we are experiencing cuts;
- rather than buying property solely for capital growth, in today's market buy property that has the greatest chance of a high rental yield and short term increases in rental returns; and
- be patient with the market and don't panic. The world has gone through similar economic downturns before and it will recover again.

For Australia the chance of a recession is minimal, with the Reserve Bank of Australia (RBA) decreasing interest rates at a historically high pace and remaining confident despite the CPI being at 5%. We believe that unemployment will increase but not by much, while the lower \$AUD will aid exports. The good news is the RBA has indicated that further rate cuts are likely and that our banks still have good liquidity despite the tight global credit markets and failure of some non bank lenders.

In South Australia we continue to have the second to lowest median house price in the nation and we're receiving boosts to our economy through mining and defence, causing interest from a growing number of interstate investors. It also appears that while consumer sentiment has recently been at recessionary levels, feelings towards the economic climate are currently improving.

CURRENT RATES

| | Normal Rate (%pa) | Comparison Rate (%pa) |
|--------------------------|----------------------|--------------------------|
| Variable | 5.94 | 6.28 |
| 6 Month Fixed | 6.25 | 8.12 |
| 1 Year Discount Variable | 5.71 | 6.76 |
| 1 Year Fixed | 4.26 | 7.44 |
| 2 Year Fixed | 5.59 | 6.57 |
| 3 Year Discount Variable | 6.06 | 6.18 |
| 3 Year Fixed | 5.19 | 6.55 |
| 4 Year Fixed | 6.29 | 7.38 |
| 5 Year Fixed | 6.29 | 6.65 |

*Comparison rates are based on a secured loan of \$150,000 over a 25 year term & only apply to the example or examples given. Different amounts & terms will result in different comparison rates. Costs such as redraw fees or early repayment fees, & cost savings such as fee waivers, are not included in the comparison rate but may influence the cost of the loan. Information is correct as at 8/12/2008. Interest rates are subject to change without notice. Lenders' terms, conditions, fees & charges apply.

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