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key mortgage solutions
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money matters

Are holiday rentals worth the investment?

While residential property continues to appreciate in value, with reasonably stable rents, there appears to be growing value investing in tourist and holiday areas. If you have taken some time out during the holiday season to have some 'fun in the sun', you could therefore be forgiven for being tempted to invest in a holiday house!

It's a win win - you may be thinking you can use it yourself for a part of the year - while renting it in other times. And - there can be great capital growth depending on the type of property and location.

However, as with any investment, there are pro's and con's of investing in holiday rentals. If you have been tempted over the holiday season, here are some things to think about:

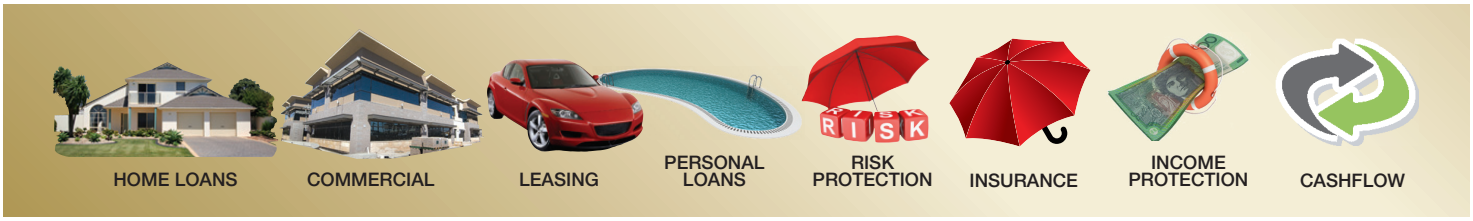
1 Location, Location, Location. In warmer locations, proximity to the beach and a view of the ocean can command better rental prices, and will usually result in better occupancy. It may also make a very big difference to your capital growth, which is usually strongest in towns that are well known tourist attractions.

2 Decide whether it is really going to be a rental property, or whether you will be using it. Trying to do both means you will need to consult your financial advisor on the tax implications of both scenarios. On the positive side, holiday rentals do attract higher rates of depreciation. But you need to be honest about your reasons for investing: if you want to occupy the holiday rental at prime renting time, you may not realise the net gains in cash flow you were hoping for.

3 Holiday rental occupancy can fluctuate. The average period of occupancy can be as low as eight to 10 weeks per year, with demand slowing further through winter. You need to build adequate returns into your rental price to cater for this, ensure you have an adequate cash flow plan so you can be sure you can service your repayments. And don't forget to include an allowance for maintenance of the property in your budget!

4 Who is going to manage your investment? If you choose not to have your property professionally managed, you will need to factor in time in managing it yourself, which needs to be included in your budget. Will the premises are serviced (and how often)? What furniture and appliances will be provided? How will you market the property for Lease? To find out more about this side of things there is a wealth of information on various statutory websites such as Fair Trading, and we also recommend looking at sites like homeaway.com.au, stayz.com.au and Airbnb.com.

5 Consider permanent tenants. There is still strong demand for permanent tenants in holiday-type towns. If your property is not right on the beach, even a few streets back, this may be a better option!



Further rate cuts – now unlikely?

The Consumer Price Index (CPI) figures for the December 2013 quarter last week showed an increase of 0.8 per cent for an annual increase of 2.7 per cent. Some economists were a little surprised at this, having predicted only a 0.5 per cent increase for the quarter, and around 2.5% for the year. The reason for the jump? A larger than expected increase in the price of fresh fruit and vegetables!

What does this mean for your mortgage, and interest rates in general?

In short, it's hard to predict as there are so many other factors in play. Some leading analysts have said that this means that further rates cuts from the Reserve Bank of Australia are probably "off the table". Others have said that rate cuts may still be likely while unemployment is on the increase and other sectors of the economy remain weak. Additionally, the jump in the price of the vegetables has largely been due to bad weather patterns, and this is easily reversed given the right conditions in quarter one of this year.

Senior Housing Industry Association (HIA) Economist Shane Garrett said, "These figures add further fuel to the notion that interest rates will remain at all-time lows for a considerable amount of time to come. There is no justification to depart from current settings while inflation is under control and economic growth continues to be below trend".

'Safely spend' with Pocketbook

If you love your technology and need some help achieving your savings goals, there is a relatively new app you can try called Pocketbook (www.getpocketbook.com).

Pocketbook allows you to track and manage your money and your budget all in one place, so you can see instantly where you're spending, and where you can save.

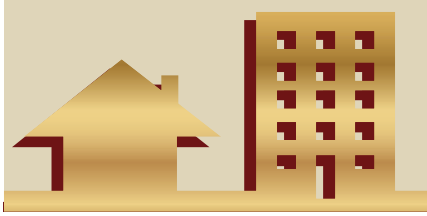
Once you have set up your accounts, Pocketbook automatically updates your transaction data each day, and then helps you categorise your transactions. The charts pocketbook gives you to analyse your finances and spending are stunning in their simplicity and clarity.

Some of the things that pocketbook can do:

- Show all your financial transactions in the one place
- Help you stay on top of your bills
- Help you minimise bank fees and late payment penalties
- Helps keep you on track of your budgets and savings goals

One of the features that we like is the "Safely Spend" feature. This automatically analyses your regular bill spending and suggests a 'discretionary' spend, giving you a weekly goal to focus on. The app then sends alerts to let you know as your 'Safely Spend' limit decreases over the period of a week.

Lastly, unlike other apps, this one has been created by Australian's for the Australian Market, is free, and definitely worth a look!



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Our business is built on referrals and we would welcome the opportunity to assist any of your family or friends, also with their finance.