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RATIO OF HOUSEHOLD DEBT TO DISPOSABLE INCOME RISES.

The Reserve Bank of Australia (RBA) recently released its latest household finance ratios. The latest release of these figures indicates that the “ratio of household and housing debt to disposable income continued to climb over the December 2017 quarter, reaching a new record high,” according to CoreLogic’s most recent Property Pulse.

“The ratio of household debt to disposable income was recorded at 188.6% and the ratio of housing debt to disposable income was 138.9%. Over the past 12 months, the ratios have increased by 4.4% and 4.3% respectively,” CoreLogic said.

As the ratio of household and housing debt to disposable income grew, the ratio of household assets to disposable income has also gown. At the end of the December 2017 quarter, the ratio of household assets to disposable income was 961.5%, while the ratio of housing assets to disposable income was 525.3%.

These figures indicate that the value of household and housing assets are significantly greater than the value of household debt. The ratios for household debt to assets at the end of 2017 was 19.6%, while the ratio of housing debt to housing assets was 26.4%. These figures remain unchanged from the December 2016 ratios.

“It is important to recognize a few things about this data. Firstly, it is a macro view so there are households in a significantly weaker position (marginal buyers, recent buyers and owners in markets where values have fallen substantially) as well as households in a much stronger position (households that have held their properties for many years),” CoreLogic said.

The data also takes into account households that don't carry any housing debt. This is estimated to be around 40% of households.

With the value of household assets rising at a faster rate than debt in recent years, a shift is now starting to occur. As a slowdown in the value of household assets occurred in the last year, household debt continued to expand.

A LOOK AT THIS ISSUE:

IS THIS THE END FOR INTEREST-ONLY LOANS?

As the regulatory environment for lending shifts to maintain stability in the economy, the amount if interest-only loans approved has dramatically decreased. Regulatory changes have made interest-only loans costly for property investors, making principal and interest loans a more popular route. This, however, hasn't always been the case.

The trend about 10 years ago was for advisers and brokers to recommend interest-only investor loans as only the interest is tax deductible. At the time it was viable to go down this path as a means to free up cash flow and maximise tax deductions.

With the shifts that have occurred in the economy since then, however, more investors are securing property with a principal and interest loan.

With a principal and interest loan, borrowers usually benefit from a lower interest rate compared to interest-only loans. The borrower also reduces the amount they owe immediately through making principal repayments. These factors, coupled with today's lending environment, are making principal and interest loans the most viable financing option, saving them money from the first year of their loan.

Here's an example (Adapted from API Magazine: Why Interest Only Loans No Longer Make Sense):

Sally earns a salary of $118,000 per year and she wants a loan of $544,000 to purchase an investment property worth $680,000. She plans to rent out the property at $300 per week.

Sally is considering her options — an interest-only loan at a rate of 4.3 per cent or a principal and interest loan at 3.89 per cent.

If Sally picks an interest-only loan:
• Sally would have an additional $937 tax benefit from an interest-only loan.
• The monthly mortgage repayments would be lower.
• In the first year, however, Sally would pay an extra $2,403 in interest.

If Sally picks a principal and interest loan:
• Sally will pay $9,764 off her investment property home loan in the first year.
• This equates to a net benefit of $3,865 in the first year compared to the interest-only loan.
• Over five years, this equates to an additional $25,803 paid off the loan principal.

The choice to save on interest and fees, while paying down the loan principal as shown in the example above is becoming an increasingly popular option for property investors as the interest-only lending environment for investors continues to shift.

Remember, the example above is for information purposes only. You should consult a finance professional to discuss your specific circumstances before making financial decisions.

WINTER MAINTENANCE TIPS FOR YOUR INVESTMENT PROPERTY

As the winter months approach, it's essential for landlords and property managers to keep their properties in peak condition throughout the seasonal change. Taking the steps now to prevent any potential damage or costly repairs to your property in the winter months will save you money in the long-term and keep your property in excellent condition. Follow the steps below to make sure your investment properties are winter ready.

Inspect rain gutters

Clogged gutters can cause severe leaking and water damage. Make sure your rain gutters are clear from leaves, twigs, and other debris to prevent water damage in the event of heavy rain and storms.

Check for loose roof panels and tiles

If roof panels and tiles aren't properly maintained, leaking and water damage could occur. This can quickly spread to other parts of your investment property making it a costly problem to repair. A clear indication that you may have loose roof panels or tiles is if the eaves at your investment property are showing signs of rotting or water damage.

Keep trees and gardens tidy

Hanging branches and unruly gardens could injure a tenant or damage your property in a severe storm. If any trees or plants at your investment property overhang the property, consider pruning the plant. With the height and skill involved in this maintenance, it's best to call in a professional for this one.

Inspect for and get rid of condensation and mould

Mould can be a major health risk if left untreated. Monitor your property for constantly wet areas and act quickly if mould is forming. With the cold of the winter months, mould can often be worse. Mould is commonly caused by heated roofs with poor ventilation, water leakage, and water damage. If you find mould at your investment property, consult a professional to have the cause of the mould repaired and the area thoroughly cleaned.

Check windows and doors

Inspect all windows and doors at the property to ensure everything is properly sealed. This will keep cold air and water outside to keep the temperature of the property consistent and prevent water damage.

Just like preparing for the other seasonal changes in the year, inspecting and being proactive about any potential maintenance hazards at your investment property will save you time and money on expensive repairs down the track.

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