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Is it the Right Time..

In the current economic climate I am often asked " is it the right time to buy Management Rights"... should you have spoken to your Industry Specialist Broker or Banker six months ago and if you have resigned from your employment and sold the family home and have a truck full of furniture sitting outside with the motor running it may well be the right time to start a new career in management rights. However I would expect research, homework and ongoing contact with your Broker or Banker would have been attended by the time you have reached this point.

Should you have done your sums six months ago then you would need to revisit them in light of increased Interest rates in that period. Should you have done your sums in recent weeks and built in a further buffer of say 1% for a rise in interest rates and come up with a number that you can live comfortably on then you should be safe enough to proceed. Banks will add a 1 to 1.5% margin when calculating your repayment capacity as part of their assessment process anyway.

A glance at the current fixed rates from one to five years reveals that they are less than the current variable rate, which is an indicator that interest rates should begin to fall in the next twelve to eighteen months. Therefore any calculation on today's rates with an added buffer will have you well placed when rates do eventually fall.

The industry does have built in safety barriers against rate rises and inflation in general. The Body Corporate salary and or Caretaking Income are generally CPI adjusted and the Letting Income will also be increased in line with inflation. Also to a lesser extent the interest you are charged by the Bank becomes an expense on your Profit and Loss, which brings income down for taxation purposes. (Bank interest is not included as an expense when calculating income for sale verification purposes).

At a recent seminar I attended it was suggested that in permanent complexes owners would soon be looking for longer tenancy agreements, which should give some comfort to Managers with some consistency in future income. This together with the fact that with recent rate rises there would be less first home buyers in the market which would reduce the owner-occupiers and retain or increase those seeking rental accommodation. For the Holiday Managers the increased interest rates would mean that mum and dad have less to spend so the local holiday and the odd weekend away will be high on the agenda rather than the extended overseas holidays. Also for the Holiday Manager the ancillary charges remain constant and do not reduce regardless of any price war to attract holidaymakers.

It would be remiss of me not to include a plug for PCS Finance. While we are Finance Brokers and will look after any of your finance needs we do specialize in Management Rights. We will discuss with you, in general, what the Banks will provide and suggest a scenario suitable to your position. The initial information we seek from you to ascertain your position i.e. personal history, asset and liability position etc is passed directly to the Bank and is confirmed at a later date. Upon execution of a contract we will seek two or three indicative quotations from Banks so that you may compare apples with apples.

When we seek an indicative quotation from a Bank they will be aware that they are not the only institution providing a quote and we generally get their best offer. This may not be the case when you do your own legwork.

Our income is paid by the Bank not by the client. Some people will say a Broker will only approach the Bank that pays them the most income. At PCS Finance, we will approach at least two or three lenders and present these quotes to the client. Our role is to help the client make a decision however by presenting it this way, they can see for themselves what the Banks are offering. This is one of the advantages of using a Finance Broker, the client receives various options and is not limited to one Bank and or one product. The client's satisfaction and repeat business ensures our place in the industry. This is why we have been helping people with finance for thirteen years.

Is it the right time...the sale price is dictated by the market. The rest is up to you and what your professional advisors convey to you and what the lenders will provide. Do your homework and tell the truckie to put it in gear or cool the motor for a bit.

Mark Harvey
PCS Finance.