Combating interest rate rises and inflation

It's no longer just speculation; interest rates are on the rise. For the first time in 12 months the *Reserve Bank* has increased interest rates by a quarter of a percent and for real estate investors or home-owners with mortgages that means higher repayments. There's no guarantee that there may not be more rate rises in the year ahead. So now is the time to review and improve your money management to ensure you don't fall short if the going gets tough.

The property market

So why did the *RBA* increase interest rates? This time it had much less to do with what the property market is doing. It was more to do with the CPI and strong consumer spending.

While the *RBA* would like to increase rates to help put the brakes on some Australian property markets, the increase may actually affect markets in which rates need to remain stable.

The property market is at different stages of the cycle around the country. However one thing in common among property investors, is we have loans against our investment properties and any interest rate rise means we have to find more money to meet repayments and interest costs.

If that means tightening your belt a little to make sure you can cover your investment loans, do so and make changes in other areas of your spending rather than sell. Following are five strategies to consider to assist you in coping with the recent and any future interest rate increases.

1. Refinance the mortgage

It's worth having a look around to see if you can make some significant savings simply by refinancing your loan at a lower rate.

When rates rise, lenders become more competitive. They see it as a marketing opportunity and bring out better loan products. Some hold rates, others pass on the increase, so shop around.

2. Fix your interest rate

If you're concerned that there will be another interest rate rise consider fixing your mortgage. At the moment, there is opportunity to secure fixed interest rates at lower levels than the standard variable rate as lenders fight for business and more market share. Serious long-term investors should not overlook these options.

The fact that you can get fixed rates that are lower than the standard variable indicates to me that although interest rates may rise further they are not likely to move up too much.

A word of warning when shopping around for the cheapest rate – make sure you take into consideration all add on charges, application fees etc., and ensure they aren't too excessive. Sometimes a cheap rate loan can end up costing you more than others without the extra fees and charges.

3. Increase rental returns

Investors should take a look at their rental returns. It makes sense that if you are now paying more money for your investment properties, some of that should be passed onto the tenant .The vacancy rates in most parts of Australia, in particular the capital cities, are at very low levels. Wages are up, property values have risen meaning interest rates have also increased. So should rent. As a rule you should review the rental rates on your investment properties every 12 months and adjust them to market conditions.

4. Simple changes

Following are some other simple changes you could consider to help save a few dollars. Take the time to check your bank and credit card statements to make sure you aren't being overcharged. Take the bus, train, ferry or carpool to work on occasion in order to reduce the cost of travel. You could even work from home one day a week and save the cost of travel altogether. Take your lunch to work or buy only one coffee per day. That alone will save you around $1,500 a year.

5. Buying now

There are and will always be good deals to be found in all markets at all times. It's important, however, to do your homework and research before committing to any purchase. Good research should ensure that you have selected a property that will meet your long-term investment needs. It also means that should interest rates rise, you can afford to pay the increase. I suggest to my clients that you should work out the cost of repayments at an interest rate 2% above what you are being offered today. If you can't afford to buy at the increased repayment amount borrow less. If you're really smart you'll pay the 2% above amount budgeted for, then if rates increase, your lifestyle and stress levels won't be affected. wcm

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