Rates drop a win

ACCOUNTING North managing director Matt Richards was pleasantly surprised by last week's interest rates drop, and especially about the opportunities the 1% slashing can provide business.

"I was a little bit surprised by it," he said. "They had been tipping a quarter or a half of a per cent, so 1% was definitely out of the blue.

"It's seemingly a reflection of (the Reserve Bank's) concern at the worldwide economy. And the other factor is that it had been heralded that the banks weren't going to pass all of what they did on to customers, so if they had dropped it by a quarter of a per cent, there may be even less passed on."

The big four banks announced they would drop their rates by 0.8% on the same day as the momentous news broke.

"It's almost like one bank put in 0.8 and the others said, 'we'll all put in 0.8' ... and there's a fair bit of public relations around it all too. I would say it's about 50% costing and 50% PR.

"The banks are there to make money for their shareholders and there's no doubt there are some real supply issues with money overseas, and when it dries up, the price goes up, and banks have to factor that in.

"I was talking to a client with extensive borrowings who asked me if he should sell up. I asked him if he was getting less rent from his investment properties than he was six months ago, and he was getting more.

"So with the cost of borrowing going down, notionally speaking, your house or rental property might not be worth as much, but at the end of the day it's generating the same income and that's not in jeopardy.

"And the actual cost of ownership in terms of interest will start dropping, so there's no real reason to sell up and get rid of everything."

Mr Richards said businesses should use last week's rates announcement as a good excuse to take stock and revisit their financial position.

"If they are carrying significant debt levels, they should make sure they reassess their own position to make sure they're not missing out on those base rates dropping," he said.

"Businesses that are interest rate-sensitive, like real estate, construction, retail and mortgage broking, need to make sure they take advantage of those opportunities.

"I knew of a real estate company whose growth model was based on waiting for smaller competitors to struggle and then it would buy them out at a discount.

"Mortgage brokers should be looking at being proactive in talking to their clients, and now's the time to get back into promoting themselves.

"And even if banks are reducing their rates, they have become a lot tighter with their lending policies in the last six to 12 months."

Mr Richards also said businesses should avoid fixing any loans immediately, with speculation of another drop, this time by half a per cent, before Christmas.

Meanwhile Ray White agent Lloyd Edwards was confident the rates announcement would bring about a real estate market up-turn.

"A massive drop in interest rates coupled with new reduced stamp duty charges should provide all the impetus that buyers need to realise their time has come," he wrote in his weekly newsletter.

"Increased rental demand will mean rental increases in the future and a shortage of homes in the next few years should mean sales prices will be on the rise again."