

property perspective



Milk, Bread, Spiderman, & Property Markets

I've been getting a lot of really good questions from clients and referral sources such as accountants lately. *"Simon, I'm confused about the market at the moment because I've heard about a 'property bubble' which has been contradicted by other predictions of a 'property boom' resulting from Australia's robust economy. What's actually happening?"*

The term **"safe as houses"** evolved as a result of the very stable nature of investing in residential property. After all, housing is an essential commodity (unlike shares /stocks or superannuation).

Divided Opinions

Property is a topic that we can all relate to because we all live in one somewhere. Herein lies the root of the single biggest frustration that I face on a daily basis. Almost everyone seems to be an "expert" on property. So many people seem to delight in taking centre stage to give their 2-bobs worth on property. The thing is, an overwhelming majority of people who comment on property make broad-brush comments, have no formal qualifications, and express opinions which are not supported by any substance.

This isn't America or Europe! Australia is one of the best economies in the world. Moreover, the resources boom which Qld & WA is about to enter has been touted as a 'once in a generation' economic opportunity.

The doomsayers of the world take great delight in looking in to a glass and seeing it half-empty all the time. They are the ones who can't stand seeing champion sportspeople continuing on their winning way, the ones who predict interest rates to go through the roof, they can't see the forest for the trees, and they are the ones talking of a property bubble. They are also the ones who never invest in anything and are forever jealous of others.

Message to doomsayers: "The sun is shining, the world is full of opportunities, get back to your Spiderman comics!"

What Is The Market Currently Doing?

The latest RP Data-Rismack Home Index reported that, on average, Australian properties have increased by 8% over the last 12 months. Did you know that if a property increased in value by 8% every year it will have doubled in value in less than 9 years? It's called mathematics. So, if you were to buy a property today worth \$500k and it achieved 8% capital growth each year what would it be worth 9 years from now? Hardly doom-and-gloom!

Property price variation (Aug 2010)

	Brisbane	Sydney	Melbourne
12 months	6.4%	9.1%	13.2%
Last Qt	-2.7%	0.2%	-1.1%
Last decade	11.2%pa	6.3%pa	6.7%pa

Source: RP Data

The broader Australian property market has been described as "flat". For the most part of the country, including most of Brisbane, I would agree with that description.

Having said that, the property market is a conglomerate of dozens of smaller markets all doing different things. Property values don't all move in unison. Most reports that you will read reflect stats on a large community - a capital city, a state, or the entire country. However, at any given time there will always be some areas where property values are experiencing substantial growth and others which are not.

Every single property that we have helped a client to invest in has outperformed the market - fact! Generally speaking, the properties which we've found for investors outside of Brisbane have performed the best over the last 12 months. This is the main reason for investors to diversify locations within their property portfolio.

So, the answer to the question "what is the market doing" is "which market are you talking about?" I take property market reports with a grain salt. My focus is on analysing the fundamentals which have the most impact on future capital growth. Property investment is a long-term strategy. This asset class is not designed for buying one day and selling the next.

Which property will give good, long-term capital growth? Some of the locations which we are currently helping clients invest in at the moment are currently flat. The outlook however, is very promising. Buying in a flat market means that there is less competition and so I often am able to negotiate better price discounts for investors.

Milk, bread, postage stamps, and family homes...

Can you ever hear the Australian Government uttering the words, "We have decided we don't want the economy to grow and our policies are focused on causing deflation in prices because we want a recession?" If you are like me and you can't ever imagine an Australian Government saying 'economic growth is bad' then you are acknowledging that there is a fundamental principle that underpins long-term growth in property markets.

Residential property is a real product made up of timber, bricks, cement and metal put together with a relatively fixed amount of labour. There is also a fairly consistent profit margin that builders and developers have to put on top of these costs to determine the final price of the property. If the economy grows, population maintains a consistent upward trend, and inflation and wages are consistently rising then there will tend to be long-term upward pressure on property prices.

This underlying pressure is what helps ensure property values are more stable than shares. Shares will rise and fall based on the sheer number of variables that affect company profits.

Remember when a postage stamp used to cost 30 cents? Could you imagine the price of a litre of milk reducing? Do you think that people will stop breeding? Or, that modern science will suddenly stop us from living longer? Property provides a roof over our head. As sure as the cost of a loaf of bread will rise with inflation, property values will also continue to rise.

To achieve above average returns from property is where the skill comes into property selection. Defining which areas have economic and social drivers for growth and have the right supply and demand characteristics is what will allow you to achieve growth and profits above and beyond normal long-term growth.

So next time you hear the politicians proudly sprouting economic growth statistics and the RBA is talking about controlling growth remember that the positive to come out of this is that there is underlying pressure building that is helping your investment property portfolio to grow. And the earlier you can get into the market, and the longer you can afford to stay there, the closer it will bring you to getting out of the rat race for good!



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