

## PROPERTY

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### COORDINATOR'S MESSAGE

**By Adrian Vorbach**

Peter Koulizos, well known author and lecturer, otherwise known as the "Property Professor", in his excellent article "Outlook for the Australian Residential Real Estate market", shows his clear insights into what he believes will happen in the next year and beyond - compulsory reading!

Monique Wakelin, another well known author, in her article "Seven signs of a Property recovery" looks at the big picture and also suggests that sentiment for residential property is increasing.

*Adrian Vorbach is a Councillor of the AIA.*

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# OUTLOOK FOR THE AUSTRALIAN RESIDENTIAL REAL ESTATE MARKET

By Peter Koulizos

In this article I discuss the future of the residential real estate market in Australia over the next 12 months and then consider the outlook for the longer term.

**The next 12 months** – First Home Owners Boost (FHOB), First Home Owners Grant (FHOG), Investors, Federal election

In the forthcoming 12 months, there will not be much activity in the property market. Don't be surprised if you see a drop in the level of sales and possibly a drop in median house price during this period. Let me explain why.

At the time of writing this article, the full benefit of the First Home Owners Boost (FHOB) is about to come to an end. By October 1<sup>st</sup>, the extra money towards an established house (\$7,000) or new house (\$14,000) will be halved. By the 1<sup>st</sup> January 2010, the FHOB will expire and the only benefit to first home buyers is the \$7,000 First Home Owners Grant (FHOG) that is made available, whether you are buying a new or established property as your first home.

With the FHOB coming to an end, you would think that there is a frenzy of first home buyers looking to purchase a property before the end of this month. This is not the case. Even though first home buyers have access to \$21,000 in Federal government money plus additional state government incentives, the number of first home buyers is actually dropping. Why you ask?

First home buyers are finding it very difficult to borrow money from the banks as they do not have enough genuine savings to put towards a deposit. Gone are the days of low and no doc loans. If you are looking to buy a property, you need at least 5% deposit and in most cases, the bank will not consider you unless you have a 10% deposit. As many first home buyers are quite young and haven't had much time in the paid workforce so as to build a large deposit, they are sitting on the sidelines, watching the FHOB slip away.

Early in the year, my property investment students were complaining that they couldn't get into open inspections on a weekend as there were so many first home buyers, accompanied by their parents, eager to buy. They are not complaining anymore.

Now that the number of first home buyers (and competition) is dwindling, you would think that property investors would be very keen to buy. Add to this, historically low interest rates, there hasn't been a better time to buy property since 2001. So what is holding back investors? Unemployment.

The threat of unemployment is curbing consumer confidence. Property investors are no different to other consumers. They do not wish to commit to a mortgage if they feel that there is a chance they will either lose their job or be asked to cut back their hours. People who are looking to purchase their next home, called "upgraders," are also in the same position. Investors and owner occupiers are both sitting on their hands, waiting for the worst of the unemployment situation to end. Once the threat of increasing unemployment is over, then we will see much more action in the property market.

Traditionally in the period leading up to an election, especially a federal election, consumers are hesitant to spend money, especially large sums of money to purchase property and commit to a long term debt such as a mortgage. Once the federal election is over, certainty will return to the market and a wide range of consumers, including property investors and owner occupiers will be active once again.

**The Long Term Outlook** – Unemployment, Resources

Even though the 12 month outlook for property is not rosy due to a lack of first home buyers and consumer confidence, the longer term outlook is very good.

Unemployment is a lagging economic indicator. In other words, economic activity drops first and then approximately six months later, unemployment starts to rise. A sign that the economy is improving is when respected economic commentators start reporting that unemployment is about to peak. In theory, this will be six months after the economy has already started to improve. Once people perceive that the employment situation is getting better and the level of unemployment starts to drop, confidence will return to both the economy and the property market.

The biggest driver of the Australian residential property market in the long term will be our economic prosperity, driven in no small way by our resources. The demand for our resources, especially from China, will be of great benefit to the whole country. Demand for our resources will increase sharply once the major negative impacts of the Global Financial Crisis are over.

## Conclusion

If you were looking to buy some investment property, I think you have a window of approximately 12 to 15 months. After this time, you will see property prices start to rise.

If you are wondering where you should buy, I would first consider purchasing in an area where you have some local property knowledge. This generally means that you will be investing in the same city, region or state in which you reside. However, if you want to fully capitalise on the next property boom and are open to investing anywhere in Australia, then seriously consider South Australia. It currently has the lowest median property prices on the Australian mainland and it also has arguably the richest mine in the world, Olympic Dam. South Australia is about to enter "The Golden Age" so far as property is concerned.

Finally, I would encourage you to do your research now and if you want to be a part of the next property boom, act soon.

*Peter Koulizos is a property lecturer and author of "The Property Professor's Top Australian Suburbs".*

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# SEVEN SIGNS OF A PROPERTY RECOVERY

**By Monique Wakelin**

*Although this article was originally written in June 2009 for Eureka Report, and there have been signs of movement in the property sector, many points raised in this article are still relevant.*

For 15 years I've had a close-up view of all the ebbs and flows of the property market. The most satisfying times for a market-watcher have been in spotting the clues, sometimes subtle, that better times are emerging.

Some of the signs are straight out of the economic textbooks; others are not so obvious. Buyer activity and composition are influenced by the wider market dynamics, with different buyers responding discreetly to different factors. There are widely acknowledged indicators that the market is about to move. Although a general recovery is still some way off, several of these indicators are already in play.

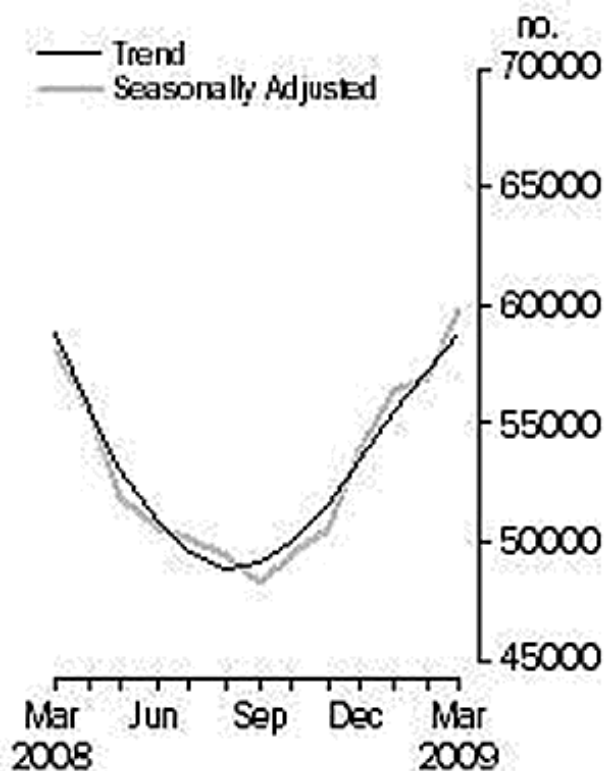
## So what are the seven signs?

**Sign 1: A big fall in the share or bond market** usually predates investors returning to residential property. After the stockmarket's 40% fall in 2008, many investors who lost money will have been through a period of introspection and are likely to be now searching for investment returns that offer greater stability. It can take six to 12 months for many to regain enough confidence to turn to investing in residential property, but we are now observing the beginnings of a resurgence.

**Sign 2: Interest rates close to their cyclical low** is another likely sign of a residential property revival. Lower interest rates mean investors have greater capacity to borrow for a property purchase. Many purchasers try and pick the bottom of the interest rate cycle, but the number of investors often increases once interest rates have hit their lowest point.

**Sign 3: The economic situation stabilises.** While economic growth is falling, property buyers avoid extending their debt. The Reserve Bank's recent decisions to hold interest rates may be a tentative early sign for investors that economic confidence is about to return. If it does, purchasers are more likely to borrow more to buy property. There was indeed an upturn in housing finance commitments late last year, encouraging some buyers to emerge, but to date the momentum has been chiefly from owner-occupiers.

#### Dwelling commitments, owner-occupied housing

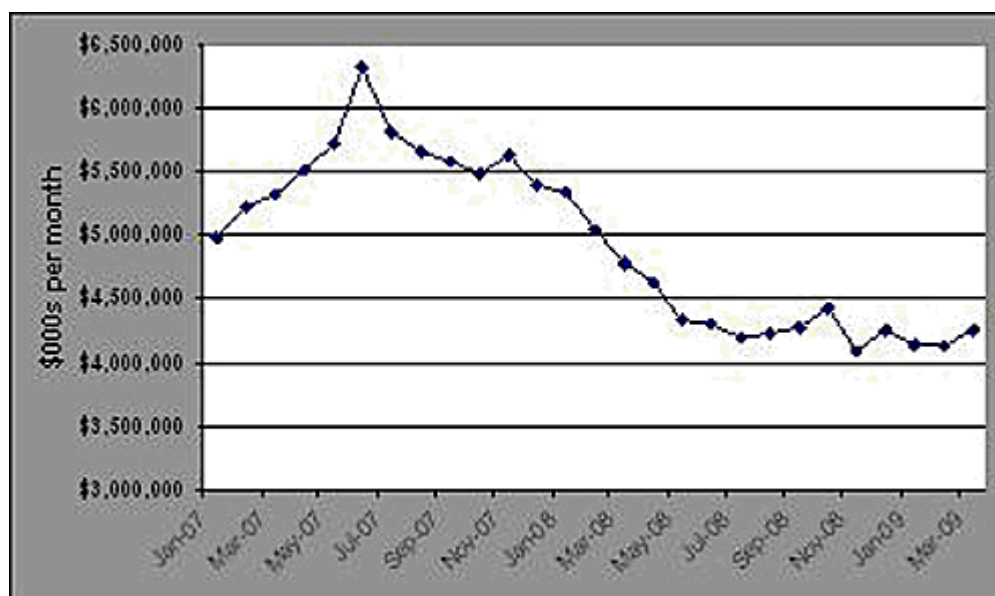


Source ABS

#### Sign 4: More first-home buyers and investors start appearing at 'Open For Inspections'.

Property investors and first-time buyers need the backdrop of a healthy market to feel confident enough to borrow and buy. As economic conditions begin to stabilise and improve, investors or first-home buyers return to the market and lead the reinvigoration of activity and property prices. Over the past two years, investors have decreased their housing finance commitments, as the chart below from the ABS demonstrates, but grants have brought first home buyers back into the market in sufficiently large numbers to create a strong entry level market. If this continues, it's likely that price and activity momentum could flow into the middle-priced sector next. Investors should be aware that when both investors and first-home buyers are present in the market buyer competition increases, pushing up prices and sale activity.

## Investment housing, seasonally adjusted



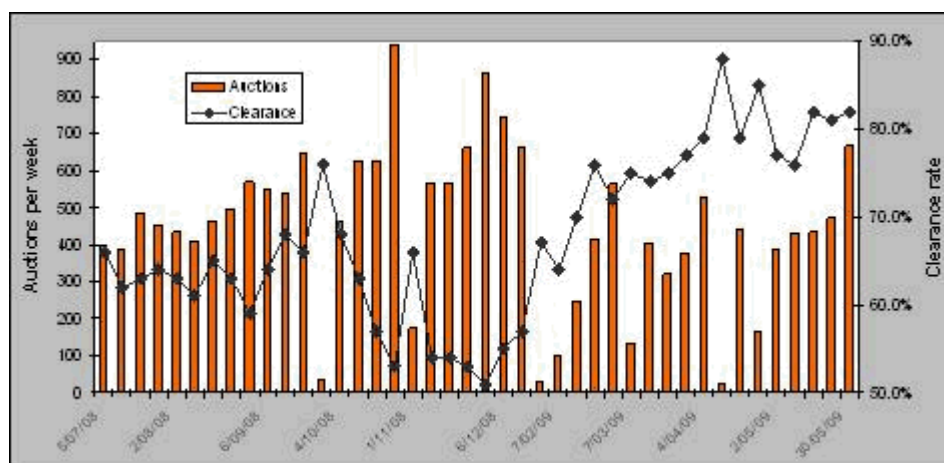
Source: ABS

**Sign 5: 'Property spruikers' start offering tantalising property schemes.** Recently we have seen the number of these promoters increasing. These spruikers often hail from outside property, but sensing the market is recovering, they devise scientific-sounding, get-rich-quick schemes designed to make them money. Investors can distinguish these promoters from independent, qualified advisers by the tone of their advertisements. The language is loaded with such terms as "guaranteed to perform" and "no-risk investing" when in reality there are no such guarantees in any investment option.

The other clue is that their ads focus extensively on the personal success of the spruiker, who has "revolutionised her life" or "made himself a millionaire in just three years". Investors are invited to attend an "exclusive investor's course" and pay thousand of dollars to hear poorly researched generalities packaged up with self-improvement homilies and visit "exclusive properties". If these spruikers are good at anything, it's picking up on what investors are talking about and leveraging off their hopes and fears. Their emergence is a solid indicator that many investors are thinking of buying property.

**Sign 6: Clearance rates for auctions and sales remain high** even when the number of properties listed for sale starts to increase. High clearance rates are often interpreted as a sign that all is buoyant in the real estate world, yet clearance rates often remain high when the volume of property for sale falls and vendors are forced to meet a falling market. The chart compiled from REIV figures below shows Melbourne auction numbers falling at the start of this year, yet interestingly, as the number of auctions steadily increased, so did the clearance rate, to a high 82%. If the number of auctions continue to rise and clearance rates remain high, that is a sign of a strengthening market.

## Melbourne auctions



Source: REIV weekly reports

**Sign 7: People introduce themselves at social occasions as recently becoming “property developers”.** Small developers find it difficult to get finance during a downturn. But when entrepreneurial investors become sufficiently confident to borrow and banks become confident enough to lend for a project on the basis of stable and rising values, finance flows back to these investors. I haven't seen this sign emerge yet, but when people are more willing to describe themselves publicly as property developers it's a reliable if perhaps not scientific indicator, that a broad recovery is in the wings.

By my calculations, signs 1, 2, 5 and 6 have already emerged. Sign 4 is possibly emerging now but it's still quite tentative. This is great news for investors who own well-located property, but it will only remain good news if our economic fortunes show definite signs of stabilisation and I expect that to be some time off yet.

And it's important to note a recovery across the residential property market as a whole doesn't make any residential property a good investment any more than a rising ASX 200 make all shares a great investment. Being selective is always the safety net.

*Monique Wakelin is a regular contributor to the Eureka Report where this article first appeared on 10 June 2009.*

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