

PROPERTY

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INTRODUCTION

By Adrian Vorbach

This bulletin will reward careful reading.

Michael Yardney, well known property author and educator, debunks the biggest property myth in 2010 that, according to many leading economists, Australia was in a property bubble that was about to burst.

Lisa Martin, in a very topical article, in the Domain newsletter, following the recent widespread flooding in southern Queensland, predicts that housing rents are likely to soar and many house prices may well plummet.

Colleen Coyne, Director of Colleen Coyne Property Research, reviews the Gold Coast property market outlook. She is optimistic that in the medium term, property prices will recover.

Three AIA members reviewed property books.

"Profit from Property" by Philip Thomas, reviewed by Sara Buckler, details a clear understanding of property development.

"Property rich: Secure your financial freedom" by Melissa Opie was reviewed by Averil Scott who is somewhat sceptical of some of the claims made in this book.

"The real deal" by Brendan Kelly & Simon Buckingham, reviewed by Peter Keys, illustrates examples of real life investing in residential real estate.

Adrian Vorbach is an AIA Councillor and Coordinator of the AIA SA Committee.

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THE BIGGEST PROPERTY MYTH OF 2010

By Michael Yardney

Probably the biggest property myth of 2010 was the claim that Australia was in a “property bubble” that was about to burst.

It all started a few years ago when “doomsday economist” Steve Keen predicted Australian house prices would plummet. Awkwardly for him, average house prices went up rather than down 40 per cent, after Dr. Keen made a very public statement selling his Sydney home in late 2008, just before the Sydney market rebounded and values in his suburb skyrocketed. Oops!

The Economist Magazine also said Australian property was overvalued. It has come to the same conclusion for the last few years, but this time they suggested our property markets were overvalued by 61% based on the current ratio of house prices-to-rents and historic ratios.

Then investment legend Jeremy Grantham, who based on his calculation on the premise that housing trades near 7.5 times family income today versus about 3.5 times in earlier times, also saw a bubble. And of course the International Monetary Fund warned our property values were overpriced.

Interestingly both Grantham and the IMF have since downgraded their warnings.

So is our property market really so overpriced and is there a bubble waiting to burst?

Interestingly, I've read similar commentary from *The Economist* magazine year after year, and heard doomsday economists make similar predictions over the years and in the meantime property values have just kept increasing.

I guess their argument could be: *"Yes the bubble is just getting bigger and bigger which means Australia is heading for a bigger property crash just like overseas."*

Why don't I think houses in Australia will drop in value like they did overseas?

Well in some areas property values have been falling and are likely to fall a little further, especially as interest rates rise again later in the year. This is happening in some of the outer suburbs and lower socio-economic suburbs, as well as in regional Australia and on the Gold Coast.

But our overall market is unlikely to collapse because the current property fundamentals, including our strong economy, rising wages, increasing population, rising building costs and the shortage of housing in our inner and middle ring suburbs, will insulate Australia from a property crash.

The problem is that these economists keep analysing Australian properties as if they were shares – it's like comparing apples with oranges.

Remember in Australia 70% of properties are bought by owner-occupiers. And one of the things that keeps pushing our property prices up is that, by and large, these property owners all want to live in the same areas. If you think about it, 70% of our population lives in one of eight big capital cities and most of these people want to live in the inner and middle ring suburbs, near the city, near amenities and near their jobs.

Secondly Australia doesn't have suburbs full of empty houses awaiting mortgagee sales like the US. Instead we are not building enough houses. And despite our population growth falling lately, it is still growing at a rate faster than most developed nations.

Sure, some Australians currently have issues with housing affordability and are putting off their home buying decisions. But people still need a roof over their heads. People are still

getting married and people are still getting divorced, some are having babies and others have to move house for their jobs.

If they can't afford to buy a house they rent one, hence vacancy rates are at unprecedented lows and pushing up rentals.

However price growth is levelling off.

Our property markets have changed – don't expect the type of capital growth in 2011 that many of us enjoyed in the last year or two.

The Reserve Bank has deliberately put speed bumps on the road. They have increased interest rates to slow our booming property markets, and to an extent the general economy, on purpose.

What this means is that buying any property and hoping it will make a good investment just won't work in this new era in property. Now is the time to buy well in areas that will outperform the averages and add properties to which you can add value.

In fact we have a two-speed property market, with properties rising in some areas and not in others. Values will keep increasing in the inner, more affluent suburbs and not as much in outer, working class areas and in regional Australia.

But our markets are not going to crash and hopefully we will hear a lot less about 'bubbles' in 2011.

Michael Yardney is a published property author and educator. Subscribe to his e-magazine at www.PropertyUpdate.com.au.

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QUEENSLAND: RENT TO SOAR, HOUSE PRICES TO PLUMMET

By Lisa Martin

House prices are likely to plummet in flood-hit Queensland communities, and some will be "unsellable" for more than a decade, a real estate agent says.

The news is also bad for tenants, with rents expected to soar in line with the surge in demand from displaced residents needing temporary homes.

Tens of thousands of homes have flooded across Queensland's metropolitan and regional centres.

The Real Estate Institute of Queensland (REIQ) has reviewed the way the property market behaved after the devastating 1974 floods, and the news for home owners after the latest disaster is not great.

"In 1974, across all of Brisbane there was some downward pressure on house prices," REIQ managing director Dan Molloy said on Monday. "It also coincided with a credit squeeze around that time." But he added: "The market overall ... had some level of recovery within 12 months."

Mr Molloy said despite the scale of the latest flood he couldn't imagine Brisbane residents giving up their infatuation with the city's river.

"Although the next few months will be difficult, at the end of the day there still will be that overall attraction of being close to the river because of the key role it plays in Brisbane's economy," he said.

"People still want to be close to the CBD, people have gotten used to the CityCat ferry network, a lot of the city's activities are based around the river now, which wasn't so much the case in 1974.

"If you look at areas like Chelmer, Yeronga, Sherwood, you'll find the attraction of those areas and the properties that are there will be still quite strong.

"It will be on a case-by-case basis, but in some people's minds (the river) will be a negative factor."

He said agents were expecting huge prices for rental properties across flood-affected Brisbane and regional centres.

"The demand will put upward pressure on rental rates," he said.

"How quickly that manifests itself, I tend to think that the demand pressure will be there quite quickly because of the fact that so many people need to find alternative accommodation."

LJ Hooker Indooroopilly principal real estate agent Scott Gemmell said it could be 10 to 15 years before some flooded suburbs regain their popularity.

"In the short period it probably scares me a little; what the flood will do to house prices," he said.

"In some cases, houses will be unsellable." As we've seen before, with 1974, time goes on and the concern will decrease but again that could take 10 or 15 years to occur.

"After 1974's floods, it took the next generation to forget or not see it as a concern."

He said he expected a surge in property for sale listings later this month.

Mr Gemmell said his office had been inundated with rental inquiries and had compiled a priority list for those affected.

Meanwhile the rental market across Lockyer Valley townships such as Gatton will tighten as residents from areas such as nearby Grantham look for temporary homes.

University students attending the University of Queensland veterinary science Gatton campus could struggle to find rental properties as flood victims increase demand.

Allison Graham from Gatton Real Estate said agents were focused on ensuring that flood victims were not exploited.

"Our property managers will try to keep everything as fair as they possibly can, for owners and tenants. It's not fair to capitalise on people's extenuating circumstances," she said.

"We haven't had circumstances of people taking advantage of the situation ... we'll try to avoid it with a little bit of negotiation between people, and goodwill."

The generosity has been incredible, she said.

"We've had some very generous offers from people, who obviously can afford it, willing to rent their properties out for free for up to 12 months," she said.

"One gentleman said, he'd rent his unit out rent-free for 12 months, another lady said three to six months rent-free and another university student has offered her fully furnished house until she starts back at uni in March.

"Other people are discounting rent to help out."

This article first appeared in the Domain newsletter www.domain.com.au on 17 January 2011 provided courtesy of Australian Associated Press.

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GOLD COAST PROPERTY MARKET OUTLOOK

By Colleen Coyne

The Gold Coast property market is expected to experience another challenging year in 2011. Soft market conditions will continue to provide opportunities for counter-cyclical investors. Over the medium term, the outlook is positive, underwritten by the diversified economy, major infrastructure spending and expectations that new construction will be constrained by funding restrictions.

With a total population (including visitors) of around 650,000 people, the Gold Coast-Tweed region has experienced consistently high growth for many decades. Over the eight years to 2009, the region had an average increase of 17,500 residents per annum (with 85% of growth derived from net migration).

As Australia's leading tourism destination outside of the capital cities, the Gold Coast-Tweed attracted eight million international visitor nights and 13.9 million domestic visitor nights in 2009/10. Expansion of Gold Coast Airport has enabled the region to maintain, and for some international markets, increase its visitation levels since the Global Financial Crisis (GFC). Since 2003/04, passenger movements doubled to 5.17 million in 2009/10.

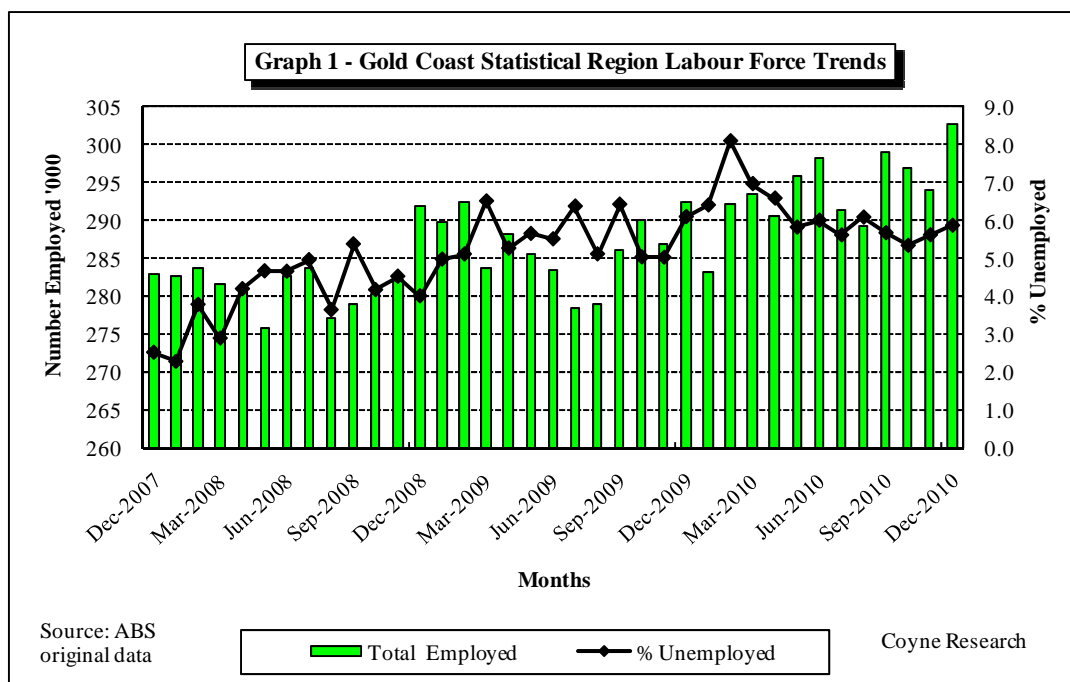
Since the GFC, Gold Coast property markets have seen downwards price adjustments, as a result of weaker demand, over-gearing by investors and speculators in the previous three years and an oversupply of prestige and apartment properties. Queensland's net interstate migration fell to its lowest level in 25 years in 2009/10 (9,526 migrants), although natural increase and net overseas migration (particularly from New Zealand) have remained at relatively high levels.

Over the medium term, the outlook for the Gold Coast property market is positive. Completion of Stage One of the Gold Coast Rapid Transit System, scheduled for 2014, may trigger resurgence in demand. Retirement of the baby boomer generation is also expected to contribute to population growth over the next few years.

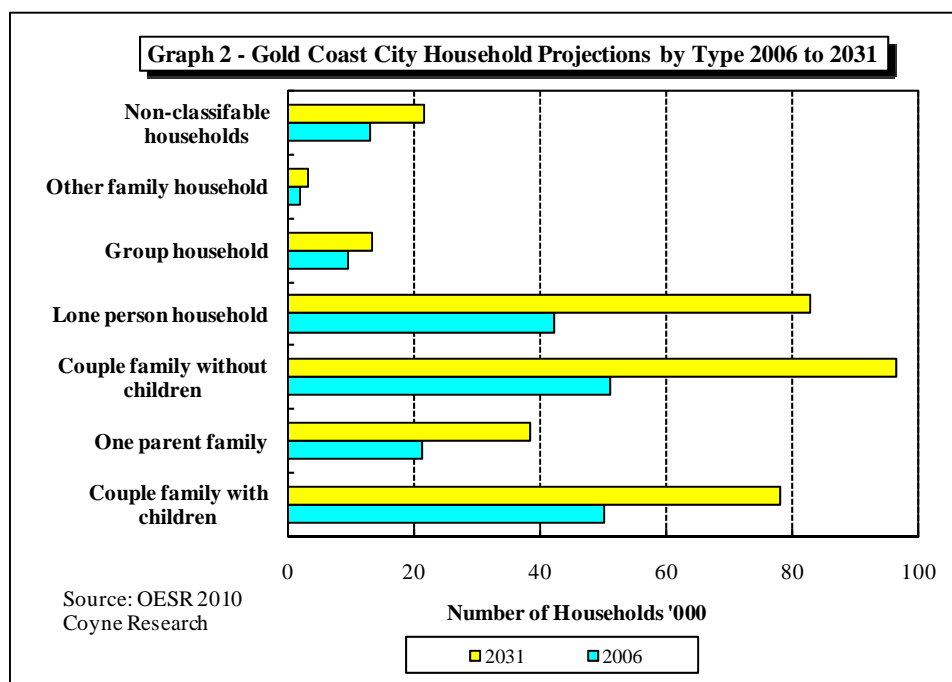
Young adults and families have represented the majority of the region's population increase over recent years. This highlights the critical role of job creation.

Over the past decade, the region has achieved job creation of around 9,000 to 10,000 resident jobs per annum. Graph 1 shows that unemployment peaked at 8.1% in February 2010, falling to 5.9% in December 2010. In 2010, jobs were created mainly in the health, education and administrative sectors. The high Australian dollar, rising interest rates and cautious consumer behaviour saw job losses in 2010 in the manufacturing, retail and hospitality industries.

As the economy continues to diversify, reducing dependence on tourism, retail and construction, the following industries will continue to expand: education, health, environment, sport, information technology, and the creative industries.



In deciding on a residential property investment, one consideration might be the nature of future demand. For Gold Coast City, the highest projected increases are for couple families without children and lone person households (refer to Graph 2).



While the impact of Queensland's flood crisis will certainly see a short-term downturn in economic growth, one of the Gold Coast's key sectors, construction, is likely to benefit. The recovery effort is expected to create significant construction employment, to the extent of contributing to a national shortage of certain trades and engineering jobs. This is likely to place pressure on interest rates and the ongoing problem of affordability for new housing in the Gold Coast market.

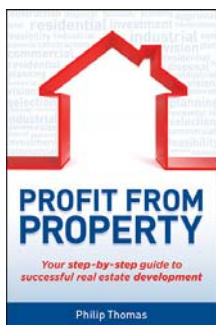
For many investors, a well-located, established residential property will represent the best opportunity for a higher yield and prospect for capital gain, although taxation benefits may be less attractive. Others may prefer commercial property, with well-covenanted, long-term leases in place (preferably Government tenant, minimum five-year lease).

Purchasers buying in the current market in the Gold Coast-Tweed region are usually achieving good value, in some cases buying below replacement cost. Another positive indicator for the medium term is the possibility that the Gold Coast may be awarded the Commonwealth Games for 2018. This would see increased infrastructure spending, concentrated in the central precinct between the proposed athletes' village at Parklands and the main stadium at Carrara.

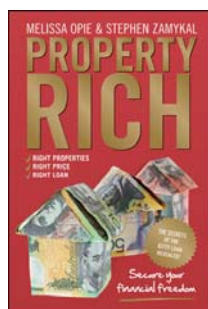
Colleen Coyne is the Director of Colleen Coyne Property Research Pty Limited, a company specialising in strategic advice to developers. Refer to www.colleencoyne.com.au.

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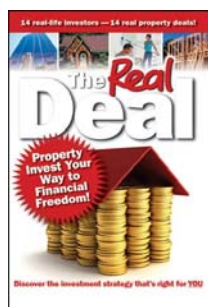
BOOK REVIEWS



Title: ***Profit from property***
Author: Philip Thomas
Publisher: Wrightbooks, Brisbane, Australia, 2010
ISBN: 9781 7424 69546
RRP: \$34.95
Reviewer: Sarah Buckler
Website: <http://www.investors.asn.au/reviews/books/?bid=300>



Title: ***Property rich: secure your financial freedom***
Author: Melissa Opie and contributor Stephen Zamykal
Publisher: Wrightbooks, Brisbane, Australia, 2011
ISBN: 9781 7424 68051
RRP: \$32.95
Reviewer: Averil Scott
Website: <http://www.investors.asn.au/reviews/books/?bid=301>



Title: ***The real deal***
Authors: Brendan Kelly & Simon Buckingham
Publisher: Wrightbooks, Brisbane, Australia, 2010
ISBN: 9781 7424 69836
RRP: \$29.95
Reviewer: Peter Keys
Website: <http://www.investors.asn.au/reviews/books/?bid=302>

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