



FOREVER FLIGHTY

In early January I read an article in the Financial Review entitled 'Volatility is home to roost', written by Professor Robert Shiller, author of the book *The Sub-prime Solution: How Today's Global Financial Crisis Happened, and What to Do About It*.

The general gist of the article was that volatility has long been a factor of the housing market, but the fact that it's been evident in markets around the world at the same time is previously unheard of. I've been fascinated to keep tabs on what has been happening in property in the US, Europe and the UK, and compare them with what's been occurring in Australia. Certainly shows that we've been faring pretty well compared with these other markets!

Confidence has now returned to a number of countries including Australia, the UK, Hong Kong, Korea, Singapore and Sweden. I recently spoke with a colleague whose brother is in real estate in the UK, and he said the market has really started to pick up. A lot of that is due to the fact that the industry went through a major correction, with many redundancies and a lot of agencies going out of business – which means there are fewer agents to cover the market –

plus property prices plunged so greatly that the only way now is up. In his words, it's reached rock bottom and has now started to turn the corner.

Another contact in Seattle said that his phone has started to ring again and he now has many contracts out, which is in stark comparison to the 'dark times' when he was considering changing career.

The Financial Review article highlighted that there's been a shift in peoples' attitudes with regards to homes as an asset. I'm not sure how much this relates to Australia, but Professor Shiller states that people used to think homes were in the same category as cars, whereby they were assets that depreciated and grew obsolete, were costly to maintain, went out of style and were then replaced. He goes on to say that homes are now thought of as claims on increasingly scarce resources with the potential for prices to skyrocket soon.

Professor Shiller's article stated that the percentage of land value in home value has been boosted by the recent speculative bubbles. Generally, we tend to think of homes as land rather than the structures, and the rule of thumb for economists in computing urban land value is to subtract the estimated

construction cost from the home price.

There's a school of thought that rising home prices reflects the increasing scarcity of land in a world impacted by rapid economic growth and limited resources – and that the recent bursting of the housing bubble is the effect of the financial crisis. As Professor Shiller pointed out, in many countries governments responded to the collapse of housing bubbles with policies aimed at supporting the speculative markets.

As he said, there's one oft-forgotten fact – the construction industry has the ability to build vast numbers of homes, including high-rise apartments, at far below the cost of homes in many urban areas today. And the result is that it should put a brake on the long-run escalation of home prices.

Professor Shiller finishes his tome by saying speculators often seem to be on the political equilibrium that restricts housing supply. "But in a newly global economy it is very hard for governments to restrict supply in the long run. That is why it appears safer to predict high volatility for housing markets in 2010 than that home prices will rise," he writes.

Hear hear.

RETURN OF THE INVESTORS

After many many months of sitting on the fence, investors are starting to make their move back into residential property. You only have to look at December last year, when property investors in NSW spent a massive \$180 million purchasing property, compared with \$153 million the previous year. That's a 17% increase year on year, and it came at a time when the overall mortgage market was in decline.

Recent data from the Australian Bureau of Statistics showed that the total value of loans taken for investment purposes climbed by 2.1%, and over the last year investment loans increased by 26.1%, the best result in more than two years.

According to data from the Australian Finance Group, two out of every five mortgages arranged in NSW during December were for property investment. In many cases that's because investors realise that by buying right and for a good price they'll be able to ride a new upwards cycle in property values.

And investors' confidence in the market has been further buoyed by media reports on rental increases in 2010. A report by Australian Property Monitors states the NSW property investors are set to double their rental income this year, with houses set to fetch \$500 a week in median rent.

APM says the strongest growth in rents is set to occur in both Brisbane and Perth, as they play catch up to Sydney and Melbourne markets.

The rental market is also hotting up as first home buyers come off the boil, and more people opt to rent, given the extra incentives have come to an end. Add to the pot the continuing low vacancy rates and population growth at historically high levels, it's a great recipe for investors.



ALL SYSTEMS GO AT ALTA !

2010 has started well for Anka Group's new development at Surry Hills – Alta. Since the display suite opened late last year, we've had great interest, and since the New Year began, we've made 15 sales. The demand has been from investors and owner occupiers alike, who see the benefits of the building and its location.

Construction of the 14-level Alta has now commenced and is expected to be completed by the end of 2011. When it's finished there will be 114 one, two and three bedroom apartments.

We invite you to come and view the display suite located at 168 Goulburn Street, Surry Hills which is open on Saturday from 1pm till 3pm or by appointment.

WWW.ALTA.NET.AU



ANDREW VERON
PRINCIPAL