

THE RATES & REAL ESTATE WHAT DOES IT ALL MEAN?

Now that the Reserve Bank has cut interest rates even further this year, some analysts are predicting that the property market is set to be a great place to invest once more. Margaret Lomas looks at the current state of the real estate market, and why keeping an eye on it may prove to be beneficial in the long run.

The latest property statistics show what many analysts have been predicting – that the lowering of interest rates, the shortage of construction and the increase in rental demand have all combined to result in an improvement in the figures for housing growth. While no one area is really showing an increase in housing values, the big 40 per cent losses predicted by some economists late in 2008 seem to have been halted, for now at least.

As unemployment rises and the country

skirts the edge of another recession, concerns for the value of our country's tangible assets will also reign. During a recession people have less disposable income available, and so the first thing that suffers is investment back into the country. As unemployment ramps up, home ownership usually falls, and so the values of property become immediately affected.

While the dynamics of this economic theory cannot really be challenged, and plenty of empirical evidence exists to suggest that, in fact, our property markets will be greatly impacted by a recession, falling property

prices should not be seen as a reason not to invest. As long as you can also look ahead to see the natural result of such a cycle, savvy investors can continue to do so with some feeling of comfort.

The main issue becomes one of motivation, as well as the time available for your investment to prosper and deliver suitable returns to you. If your motivation for investing is to get in, make a profit from values growth and get out within, say, a five-year time frame, then now is most certainly not the time for you to be buying property. While it is indeed true that some areas will grow marginally in the

coming five years or so, and a few of these areas will also deliver rental yields strong enough to ensure that your actual weekly financial contribution to such an investment is minimal, it becomes a nil-sum game if you reach the end of your investment period with an asset that hasn't grown at all. Worse still, if the time period you have available in which you need to see a return is too short, and you are ready to disinvest while the market is still in correction mode, you will lose money.

If on the other hand, you are an investor with a longer time period in which to invest, say 10 years or more, and you are prepared for the fact that a property you buy today may fall further in value before it begins to rise again, then the fact that rental yields are continuing to increase can mean that, while you wait for the cycle to begin its upswing, you can hold an asset which will care for itself financially (by giving you sufficient rent to cover your outgoings) while you wait for growth to start again. Having said this, not all property will grow again quickly, and not all property will have sufficient rental yield to ensure you are not losing money along the way.

Recent data suggests that rental yields are increasing at the rate of around 8 per cent per quarter across the nation. This will most certainly slow during 2009, but while interest rates also continue to be cut, the natural effect of these two occurrences is that the gap between rent and expenses, especially after your tax cuts are taken into account, will continue to grow on many properties. During our last recession, when unemployment tipped over the 10 per cent mark, the country saw one of its greatest increases in rental yields, as more people were forced out of the buyer's market and into the rental one. Put simply this means that, for those willing to buy property now, the chance exists to wait for the next growth phase without suffering financially in the mean time.

This is not to say that property everywhere will magically return to normal within an acceptable time frame, nor does it suggest that any property will do. Now, more than ever, investors must understand what drives growth, and how to recognise the areas which have the greatest capacity to recover in the shortest time.

Great risk still exists in property of a luxury nature. High priced property is impacted most significantly during stock market turmoil, as owners of these types of property are often exposed to investment losses requiring them to sell down assets. Since, at the same time, the economy is also in slow-down mode and unemployment is rising, fewer buyers for this type of property exist, and so prices tumble as the owners become desperate to liquidate. The falls can be so substantial that it takes many years, more than most people have available in which to invest, for them to recover.

While property in lower price ranges is not without risk of its own, the dynamics of price movements for low value property are impacted by interest rate movements. As interest rates fall, more people become able to buy, and while the threat of a recession still impacts heavily on the property market in general, the pressure is eased and fewer people are forced to sell. While this will not result in any spectacular growth, it certainly provides a buffer against too sharp a fall in values. Add to this the fact that in any economic crisis more people begin to rent, we have a situation of rising yields and stable property values.

To work out where to buy, investors must be able to establish both the economic vibrancy of an area and the intrinsic growth drivers that may be in existence. An increasing population in areas where little opportunity exists for new construction will place pressure on existing housing, both in the rental and the buyer's markets. Where

council is meeting its population growth with planned infrastructure to improve the lifestyle of those living within the area, the growth in resident numbers will continue. In areas where new business is thriving and services are all freely available within town, people will spend their money and work within the area, which adds further fuel to the economic engine. Where an area contains plenty of housing in an affordable price range, families will be attracted and subsequently grow with the area, laying down the foundations for a solid economic future.

Investing well is not about buying property with some quirky feature, such as those with sea views, in gated communities or offering marvellous holiday lifestyles. It also no longer follows that properties in CBDs are the only ones that have any chance at good growth, and contrary to this belief, regional properties have consistently outperformed their city sisters in all states over the past 5 years.

To invest successfully in 2009 and beyond investors must get back to grass roots. They must change their motivation from growth to cash flow, and extend their investing time frames to allow the recovery to commence and the economy to once again thrive. They must proceed with caution and accept that property is no longer the magic carpet ride that it has been for the past decade, and that not all property will perform well in the coming one. But most importantly, investors need to become better educated, tread warily and be sure that financially they can afford both interest rate movements and tight financial circumstances. It is at times like these that investors who are prepared to commit can do very well indeed. **W**

Margaret Lomas is a commentator, author and host of Moneymakers, a property show on SKYNews Business Channel. Her latest book 20 Must-Ask Questions For Every Property Investor is out now.