

How to navigate the current market

Margaret Lomas explains which section of the market you should be targeting now and which you should avoid

The year 2008 may just go down as the year during which the most roller-coaster rides were experienced by a population which had been on an 'investing high' for far too long. After some 10 years of exceptionally advantageous investing, during which any investment in any kind of asset performed anywhere from good to fantastically, the chickens came home to roost.

The collective greed of so many of our high-flying CEOs, combined with the carelessness of the people who made decisions for the US financial markets, resulted in spectacular losses across international share markets and a black cloud lingering over property markets in many countries.

Australia wasn't immune and, contrary to popular belief, we won't necessarily stay protected in all of this. Having said that, there are many features of our economy that have nothing to do with geography and will help us weather the storm better than many.

Our banking system, for one, is stronger and more regulated, meaning that the problems stemming from the lax lending practices of the US shouldn't be felt here. In addition to this, our superannuation system guarantees a constant flow of money into our markets, as superannuation funds still seek to invest their capital prudently.

While unemployment remains our biggest threat, the sheer numbers of people approaching retirement should mean that more positions are vacated in the coming 10 years than we've ever seen, allowing more room for the smaller influx of workers who are leaving school now.

We still have a long road to travel, however, and investing well in the coming months and years is going to take time, patience and a whole lot of expertise. Property will be no exception,

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and now is the time for you as a property investor to take a moment to consider the potential and then establish the right way to invest during this crisis.

Our property crash

Experts are divided, but a small group of analysts are forecasting a crash of up to 40% of the value of our property market. This prediction isn't only flawed, but is based on the presumption that we have only one property market in Australia.

During the good times, property everywhere rose in value. Our monetary system was flush with cash, with people earning as they never had before and so spending as they never had. The feeling that the good times were going to last was rampant and too many people lived beyond their financial capacity. The results were an unprecedented number of people buying property in the higher price ranges as they strove to keep up with each other.

When the meltdown occurred, many of these people, whose wealth was largely linked to the share market, were forced to sell. Property in the higher price ranges flooded the market, and fewer buyers were available as Australians collectively tightened their belts and lost confidence in all markets.

The chance that properties in these high price ranges will fall by up to 40% is certainly a likely one. However, as we have hundreds of markets, investors should be aware that property in the

rent than buy, which forces rental yields up and makes lower end property a more attractive proposition to investors.

Investors must continue to seek out property in the lower price ranges and understand that the hold period will need to be, as a minimum, seven years before values begin to hit their straps again. Expectations of quick rises in values and extreme capital gain are unrealistic, so beware of marketers who are using this as a selling technique.

Buy with the right motivation

For years, property investors have raged a debate about whether investing for gain is better or worse than investing for cash flow. The belief that growth investors forgo cash flow and vice versa has led to two camps of property investors. If you're going to buy property in the coming few years, then you can do so with only one possible motivation – cash flow. Growth will be severely limited, and in some areas may go backwards for a time.

This is okay as long as you accept that property investing is, and has always been, a long-term prospect. Just because the past 10 years have brought exceptional growth across so many areas doesn't mean that this is the norm. The norm is that you buy property, keep it for 15 years or so and then reap the benefits.

Luckily for us, in the short term, many areas will experience good rental yield growth, and with interest rates

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lower end of the market is affected by a different range of factors that should, in the main, act as a buffer – or at least a floor – to prevent big value losses.

These circumstances include the fact that we have a housing shortage in Australia, and that we have more demand for housing in the lower end, as consumers tighten the purse strings and begin to reduce their expectations of what they can afford. In addition, rental demand will increase as more people

decreasing, cash flows should be positive in many areas. This means you probably can afford to buy property and hold it for the long term, since your commitment will be limited, or perhaps nothing at all.

Choose your market carefully

While the coming years will bring a change in how we invest, where we invest is also going to be important. You'll no longer be able to buy anywhere and be confident it will work out for you.

What to avoid during 2009

- ✗ Anything off the plan – the future is too uncertain to buy at a future price
- ✗ Marketers who are forecasting anything more than about 3% growth in any area
- ✗ Properties in the higher price brackets – they'll fall in value
- ✗ Properties without a proven tenant demand
- ✗ Locking in long-term leases – rents are moving too fast for you to lock in a rent for too long
- ✗ Promises of continuing low rates – the Reserve Bank of Australia hasn't ruled out increases
- ✗ Property marketers with no qualifications – only take advice from qualified property advisors
- ✗ Overcommitting yourself – be very sure that you can afford to invest before doing so

You must research like never before, and know how to establish the economic growth drivers that ensure your property will grow once the crisis is over – including factors such as the demographic makeup, the economic vibrancy and the potential of the population to grow and prosper in the area. Property investing can work, but only for committed people willing to put in the time and effort.

For investors prepared to take care, tread carefully and do the research, now is certainly an advantageous time to be buying. Rely only on information you can independently qualify, take the time to get educated and be prepared to be in the game for the long term. ■

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