



Will real estate fall over?

Destiny Financial Solutions founder and *Moneymakers* host **Margaret Lomas** believes rumours of the death of real estate are greatly exaggerated

“The cycle of recession, depression, housing bust is one which has occurred before and may occur again

Ask a group of economists for their predictions on what will happen with interest rates, and half will say they are going up, while half say they are going down. In other words 50% of them will get it right and 50% won't. Talk to them about the coming property crash and half again will say it's coming and half will say it's not.

Economists make their forecasts using two main criteria: current economic data and historical facts, or patterns. And this is all very well when the economy is clipping away nicely with no major influences – largely the economy will follow a pattern if left undisturbed and will respond to external stimulus in predictable ways.

But when a global economic meltdown of the magnitude of this latest one occurs, facts, figures and historical data go out the window and become useless in the predictions of what will happen next. Some may liken this current situation with the Great Depression – it's the most recent major financial catastrophe available to use as a benchmark. But to do so is madness – comparing a time when the telegraphic transfer was the only method of world-wide communication with our fast paced world of instantaneous global reactions, the internet and highly sophisticated, developed – world economies is like comparing the performance of a super car to that of a Penny Farthing bicycle. There is no comparison, because the mechanics are not even in the same stratosphere.

'They' (being the economists) are saying that property is about to burst. That it will come crashing down like a house of cards. And, if we were relying purely on an economic pattern to predict this, then they may be right. The cycle of recession,

depression, housing bust is one which has occurred before and may occur again.

What this prognosis ignores, however, is the very important shift that our markets are currently experiencing. While we have always had many different property markets in Australia, all behaving differently from each other and at different times to each other, the most recent phenomena to occur is a splitting of these individual markets. Within areas, towns and sometimes even suburbs, the lower end of the market is increasing, while the upper end is falling.

Of course the economists don't take such a micro view. Their figures rely on gathering mass data and analysing what is going on in a more general sense. And when that approach is used to assess the current health of a property market, which is moving in many different directions, the reading may just be a negative one.

The sharemarket crash has brought about an increase to the disposal of high value property, as those who hold it largely make up the employees and CEOs of companies impacted by the crash.

Equally, aspiring young professionals who display their recent successes through the purchase of overpriced property have been shying away from the market, in fear of their own jobs being lost and worried about the economy as a whole. This has, of course, meant that demand is less than supply in that market and market conditions such as those will always trigger a value slip.

While this has all gone on, the lowering of interest rates, combined with the fact that more people are now looking for lower priced property, has placed a pressure on the lower end of the market, creating a 'demand more than supply' effect.

Values in this market are going up, at the same time that the higher end is coming down.

Take a reading of the Australian property market at this time and it will show a negative growth pattern. The size of the falls in the higher markets, at 10-15%, are great enough to wipe out any growth in the lower markets and so we have a diagnosis of widespread property falls. A 10% fall of a \$1 million property at \$100,000 easily outweighs a 15% increase of a \$300,000 property at \$45,000, causing the overall economic outlook to remain gloomy and justifying the predictions of further falls.

Will the bough break? I don't think so. Our banks are still lending with as much prudence as they ever have. Capital adequacy ratios imposed by the government have kept them strong while overseas institutions are floundering. The demand for lower end housing exceeds its supply, a situation that will grow worse as less stock is provided in the coming five years or so.

And with the lower rates comes a return to affordability, which is hard to resist while Australians begin to again chase the great dream of home ownership. Investors too are returning to the market, chasing the strong yields that buying into the lower end of the market can so easily provide. Economics is one thing, but providing it as a benchmark to measure a market which has always had strong investor sentiment and which has a significant emotional factor is a mistake.

It's too early to call it just yet, but I am quietly confident that, as long as you stay within the safety of lower end markets, do your research to uncover areas with the greatest number of growth drivers and don't overcommit yourself or be attracted by high end property, you should remain within safe harbour and even see growth in the coming few years. **W**