

“What’s Happening to the Property Economy?”

There is much conjecture about the direction that property will take in the next 1-2 years. Is it Boom & Bust, is it a “Soft Landing”, or will it simply keep growing? For what’s it worth here is *Impero Management Groups* 20 cents worth!

Impero Management Group utilizes a set of criteria it refers to as the “**8 Directional Factors**”. A quick synopsis of how we utilize and view those criteria is as follows.

1. **Employment** - Are people employed? Is there earning capacity? If people are earning and producing in the private sector then growth will follow. Watch for low unemployment that is a factor of government spending and not incoming producing activities. This provides a false growth and can lead to market stagnation.
2. **Population Growth** – In simple terms, is the population growing and by how much? Allow 2.5 persons per household and you have an estimate of the number of dwellings required. Compare this to existing new or unoccupied stock and a net housing demand can be determined.
3. **Population demographics** – The population may be growing substantially but is it employed population or unskilled migration? This is a qualifying factor on item 2 above.
4. **The socio-economic fingerprint of the population** – Further to item 3 this delves more into the income levels of the community. Can they sustain mid range house loans? This will indicate a preferred product type in the community either tending towards rental or owner occupier.
5. **Interest rates** – The media love this one! Although a very important factor....in our opinion certainly not the most important.
6. **Construction costs** – The current construction cost rises are linked to a shortage of skilled labour rather than inflationary pressures. The problem though is that rising costs push the bounds of affordability for buyers and make them more sensitive to interest rate movement.

7. **Inflation** – Has effect on investor's long term growth motivations. High inflation brings perceived capital gain but is a short term approach. Property should be viewed as a long term investment for the average buyer.
8. **Perception** – In my opinion this is the most influential factor of all. The old saying "Perception becomes Reality" is never truer than in the peak of a property cycle. Media hype about falling markets and rising interest rates can spook the broad investor base without any of the other 7 factors having to fall into line. The federal government has used negative publicity to try and slow the market in lieu of interest rate hikes (which are bad for politicians' popularity), and in the past share fund managers have also been quick to point out negatives in the market that would present equities as better investments than bricks and mortar.

So How Does Townsville Fare?

As far as Townsville and generally Queensland are concerned, of the 8 critical directional factors above, 1,2,3,4 & 7 are well contained and primed for continued property growth.

Item 5 Interest Rates have risen 25 basis points recently and has been cause for great concern. The realism of this rise is that it is an educated rise designed to take the heat from some issues such as rising construction cost but will do little to dampen investor confidence because items 1 & 2 are strong.

Item 6 Construction costs are of concern. They continue to rise at unprecedented rates yet whilst employment remains high, affordability has room to grow. However this cannot continue indefinitely and Impero believes that a slowing in the rate of new home construction starts during 2005 would be a desirable outcome and would maintain property as a sound long term investment in the minds of investors rather than edging towards a perceived Boom and Bust situation.

And finally Perception. Of all the factors this will be the greatest fight over the coming 2 years. Property has had a good run so therefore it must crash.....correct? These sentiments, fuelled by media latching onto interest rate rises and poor balance of payment figures, can create a negative investment environment despite all the other "Directional Factors" being more positive than they have been for years.

Summary

Everyone has opinions or fool proof guidelines on where we might be in 2 years. It is open to serious debate on many fronts. The guides above are simply that, guides that Impero utilizes when assessing future trends.



John Rosel
Managing Director
Impero Management Group