Property Consulting—Development—Resource Management

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Newsletter 12

Why is this property boom different to property booms in years past?

There has been much written and said about this property boom, and a lot of the experts have predicted a soft landing rather than a bust. In some quarters this would be hard to comprehend given the level of growth that property has seen in this particular cycle. The level of growth has been equivalent to, if not exceeding growth seen in the late 80's and early 90's prior to the previous boom and bust cycle. Then why is this property market different? Impero has some theories on this question, many of which have been also espoused by other people. However these are our thoughts:-

1. **Inflation**—Inflationary pressures have predominately driven previous booms except for the property boom in the post world war II period, which was driven by population growth and movement of people. What makes this property boom unusual, is that whilst there has been excellent growth in property values, inflation still remains below 3%. This means that the risk of interest rate rises are reduced significantly, and that growth in property values is far more "real" growth rather than inflationary driven growth.
2. **A Low Base**—at the start of this property cycle some 5 to 6 years ago the property market particularly in places like North Queensland was at a very low base. Price growth for several years prior to that had been low and in some regions negative. On that basis, if you look at the low base that property has come from , and you take the current values of property today, work that back over a 30 to 40 year period, we start to see a flattening out of the growth cycle and when we look at the macro economy of property, we realise that we have been more in a correction cycle of pricing rather than enormous growth.
3. **Education of Investors**—to Impero this is a major issue that has changed over the last 10 years. In the previous property boom, negative gearing was all the rage. The problem with negative gearing is that when there is the slightest movement in interest rates or the economy in general softens and wage growth slows, there is added pressure on the ability of the investor to maintain negatively geared property. This time around inflationary growth and interest rates are low. However this is not what we believe will mitigate the risk the time round. The major issue is the education of the investor. Every property magazine and countless property books espouse the philosophy of positive cash flow and holding property for the long term. Given low interest rates and given a move towards more positively geared investment, this will allow investors to hold property during any property recession. This will then ensure that we don't have problems of the same magnitude as was experienced in the past, where a glut of property hits the market as soon as there was a 1% rise in interest rates. The education of buyers has seen investors look on property more as people look on the share market. This means the focus has shifted from capital gain in property to long term cash flow income, which is a real positive for property investment leading into the future.

And as for Townsville??

Townsville has always been a town of slow steady growth. I believe this is in the throws of major change. As I have mentioned in past newsletters, you cannot underestimate the impact of the likes the Cowboys and the Crocs have had on the Southern Markets interpretation of Townsville, and when they physically arrive, the impact of the Strand and Magnetic Island is significant. Townsville is now seen as a major investment opportunity by Southern Markets. This is another significant change from previous property cycles where regional areas were seen as a "no go" investment zone.
If you look at Townsville over the next 10 years and the amount of infrastructure to be built in this town over that period of time, with the increased capacity of Korea Zinc and the Yabulu Nickel refinery, combined with major infrastructure such as gas pipelines and base load power stations, Impero believes that Townsville will see continued strong growth. Of course there will be periods of ups and downs within that property cycle, however looking at the market over a broad 10 year horizon, we believe that if property developments are carefully analysed, full due diligence analysis is adhered to, and gut feeling speculative spending in developments is kept to a minimum, then growth and property development profits are assured.

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