

Property cycles

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Property cycles what causes them and how do they work?

Property has always been a favourite investment vehicle for Australians and you often hear the quote " Australia's love affair with property".

This is subconsciously because property is a basic human need i.e. shelter and it is something tangible that people can touch and see. This is why it is called "Real" estate.

It is also considered to be a safe secure investment and while residential real estate provides somewhat lesser returns than other forms of investment it is because of this safety factor.

In the investment housing market it is this "return" factor that tends to underpin the property cycle as follows;

Residential property traditionally returns around 5% gross in rental income but this tends to be affected by the number of properties available at any given time. For example during the recent housing boom everybody wanted residential property and of course supply and demand saw prices rising dramatically, so fast in fact that rentals had no chance of keeping up. This caused returns to drop to as low as 2% which of course saw the investor slowly pull out of the market causing prices to stabilise and then fall away slowly to a more acceptable level.

This naturally causes a shortfall in available rental properties and over time we have seen rental returns start to increase to the point where we are now seeing a shortfall of available properties Australia wide and of course rentals or "returns" are starting to increase. Property is once again starting to look a little more attractive as an investment vehicle.

As an attractive investment always attracts investors the demand for quality investment properties will start to increase and along with this demand/supply situation it is logical to assume that prices will move accordingly.

The question you need to ask yourself is "Do I wait like a sheep following the flock or do I get in now and reap the rewards?"

With any investment there is a level of risk but with residential property, the right finance package and the right

management the risk is minimized. Provided you hold the property long term you are very unlikely to lose any money.

If you do the numbers on your own property/ies you would be aware that roughly speaking property, over the last 40, years has doubled in value every 8 years in Australia.

Where will you be in 8 years? Reaping the rewards or bemoaning missed opportunities.