

# November 2005 Newsletter

## In this issue:

1. Aussie John Says Property Values are Going to Fall!
2. Market Update

## Aussie John Says Property Values are Going to Fall!

By now, you have probably heard or read about the comments that Mr John Symond, Managing Director of Aussie Home Loans, made on Channels Nine's Sunday program. To refresh your memory, Mr Symond said, "Blind Freddy can see that the housing market is coming off and will continue to come off, and anyone that thinks that this softening of the real estate market is about to turn around quickly, I think they're in for a shock because this gradual decline, I believe, will go for several years." Mr Symond went further to say that investors should sell their properties now and home buyers should think about deferring purchasing a property. He said that the only time he would buy a property in the current market is if he was an owner-occupier and "I can tick all the boxes - proximity to work, education [and] transport". [Click here](#) to read about the full story.

This story, and specifically John's comments, has created quite a lot of discussion in the media. People correctly observe that his comments could not be good for his home loan business. The banks, not surprisingly, have disagreed with Aussie John's comments and have indicated that they don't think the property market is going to fall any further (article titled 'Banks say house prices won't tumble' published in the Sydney Morning Herald on Sunday 6/11/05).

The problem with property experts commenting in the media is that everyone is generally very sceptical and look for hidden reasons why a person may make such comments. For example, if I was going to assert that I disagreed with John's comments, then people would probably think "Stuart's not going to agree that the market is going to fall further, because it would be bad for business". Therefore, I will leave my opinion out of it. Instead, I will make some comments about my observations about some fundamental errors with John's advice or assertions. I won't critique his opinions but the advice arising from his opinions. I will then interview some clients (long time investors and first time purchasers) for their opinion about John's comments. They will surely provide independent views.

## Two fundamental issues

### *Now is a bad time to buy*

OK, let's assume that the market is going to fall further. Does that mean that we shouldn't purchase now? I would agree that the immediate answer would be yes. Why buy an asset today for \$10 when you could buy it tomorrow for \$8? That is common sense. No one wants to pay any more for an asset than they have to. However, the problem is how do you know when the market is at the bottom? Some properties will hit their lowest value before the "average" and some will continue to fall after the "average" price stabilises.



I think this "bad time to buy" advice should be considered in concert with your likely ownership terms. That is, if you only plan to hold the property for two or three years, then the time when you purchase the property is critical. However, if your plan to own the property for 10 or more years, then timing the market is not as critical. As the old adage goes, "its time in the market, not timing the market". As with any asset, its value will rise and fall during the ownership term. However, you would hope that in the long run, the property's value would rise overall. There is a property (unit) in Melbourne's inner-city suburb of Armadale that has benefited from an average growth rate of 10% per year since it was built 30 years ago. During this ownership period, the property market has endured recessions and high interest rate periods. However, the property has still performed well over the long term.

I am in the process of buying an investment property right now, so I'm putting my money where my mouth is. I realise that the "average" price might still fall. However, there are two things that I rely on:

1. That I purchase a good quality property, so that it will not be as susceptible to devaluation as the "average" property.
2. I am going to hold the property for the long term, so any movements in the short term value are probably not that material.

Therefore, I think that timing the market is not that critical. It is asset selection that will be the most critical factor.

### Sell your investment properties

If you know that the value of your investment property/s might fall, should you sell them? Probably not! Why?

1. Because any reduction in value is likely to be short lived (say the next 1 to 4 years). If you plan to hold the property for the long term, then that's not material.
2. The exit and re-entry costs for property are high. It costs approximately 3% to sell a property (agent fees and marketing costs). It costs 5% to 6% to purchase a property (stamp duty and legal fees). Shares are easy to buy and sell. Property is different.
3. You may crystallise a capital gain. Not selling and therefore deferring any tax is a wise move. It's not the sole or dominant reason not to sell, but it adds weight to the 'hold property as long as you can' strategy.

The only way I would agree with Aussie John is if an investor was planning to sell their investment property within the next one to three years, Selling now might be a good option if you think there's a significant risk of your property devaluing in the short term.

### So what do our experienced property purchasers say?

I have taken the opportunity to speak with our more experienced clients that have been buying, selling and holding property for many years. I have asked them what they think of Aussie John's comments. For me, their views hold a lot of weight, because I feel they have been successful wealth creators over the long term. Conversely, would you take financial advice from a financial planner that has zero wealth – you just wouldn't listen to them.

All investors said that they would not listen to Aussie John's advice to sell their investment properties. Greg has been investing in property in Melbourne and Geelong for over ten years. Greg said that he's not concerned if property prices fall within the short term. "If anything, it will present some good buying opportunities" he said. Jeff (who has been investing in Sydney for over ten years) says that Sydney, and every capital city for that matter, has a number of market segments. "I find it difficult to agree with a blanket prediction that all property will decrease in value" Jeff says. He believes that some sectors of the market will continue to perform well. John, who has been investing in residential and commercial property for over 30 years, agrees that there will be some good buying opportunities in the market in the short term. In fact, he plans to buy a property within the next year.

Interestingly, none of the investors said that they are influenced by media reports. "Media reports are always very sensationalised" says Jeff. Greg suggested that sometimes you can use the negative media reports to your advantage when negotiating to buy a property. He also confirmed that short sighted media reports do not influence his long term investment strategy. John recognises the difficulty with forecasting the market direction and says he takes the forecasts with a grain of salt. "No one can really forecast with a significant amount of accuracy. At the end of the day, its only one person's opinion" says John.

I find it really useful to speak with seasoned and successful investors. They will be your best source of information and comfort. I suggest anyone looking to buy property should speak with colleagues, family and friends who have travelled that road before.

### My two cents

I was tempted to share my opinion in the article but then I thought – what's the point? It is only one person's opinion. Aussie John is only one person. For every negative opinion, you will find someone with a positive one. Doom and gloom sells newspapers. That's why negative opinions are so widely publicised. Don't be too influenced by them.

I would suggest speaking with as many credible people as possible and gain their opinions. Remember, when September 11 happened, the market plummeted and people thought that the financial world would change for ever. It didn't. The market eventually rebounded, but I know that it is easy to get spooked. I remember seeing NAB's share price at \$24 but I didn't have the guts to buy it! Property hasn't changed. Property is just as good a long term investment today as it was three years ago (and everyone though property was the one and only investment three years ago). It's just that today we're being influenced by short term views. It is people who see the bigger picture and don't follow the masses, who generally prosper.

## Market Update

- ◆ Adelaide Bank – new 5 years fixed rate of 6.55% which is the lowest of any lender on our panel.
- ◆ ANZ – will now match St George, Westpac and CBA to offer an interest rate discount of 0.70% for customer that borrow more than \$250,000 in NSW & ACT (and other States subject to individual approval).

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