

In this issue, I will bring you the forecasts for 2017 and whether houses or apartments are better for investment and next issue will bring you breaking news on why you simply must NOT sell in Melbourne if you have a good property suitable for owner occupiers. Big changes are coming.

Newsletter #04/17:

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1. HOUSES OR APARTMENTS FOR INVESTMENT?

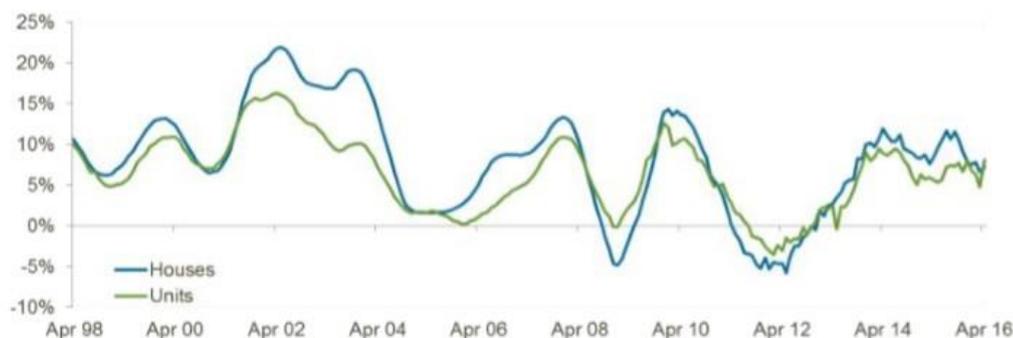
There are benefits and negatives on both when investing. There is no right or wrong answer. Houses offer a good land component, but prices for houses close in are very expensive, so it comes down to whether it is better to get a smaller apartment closer in, or a larger house perhaps 30 or 40 kms from the city centre. There was a time when investing in apartments was considered to be a far inferior choice to buying a house.

The value of real estate is in the land. A house and land package in an outer area that sells for say \$400,000 could have a land value of around \$100,000.

So the part of the asset that appreciates is only a small portion anyway.

Buy if you buy an apartment in a prime inner area, the land has a higher value, with the site value maybe in the millions of dollars: your land-to-asset ratio is a lot higher, and that's what drives the price up.

Annual change houses vs units, combined capital cities



As can be seen, up until the GFC houses were better. But with a new type of migrant coming in, demand for apartments shot up and has been tracking house price growth ever since. Apartments will continue to make good investments, because of supply and demand.

More about that in future issues as there remains a perception that there is an oversupply of apartments: however, changes now being implemented to planning and taxes may well see rents shoot up and we may actually be facing a major shortage soon. But here is the secret: make sure your apartment is suitable to be resold to potential owner occupiers, not investors. This is the key. More in future issues.

Apartments are more affordable than houses in prime areas, and rising property prices mean that more people are looking for apartments as opposed to houses. There are more single and two-person households today than there's even been, and it these people who want live close to the CBD, close to work and entertainment.

The Australian Bureau of Statistics (ABS) projects that the number of lone-person households will swell significantly in the next decade or two, up from 1.8m in 2001, to between 2.8m and 3.7m by 2026.

And finally, if you are a foreign investor, there are simply no loans available for house and land construction. Which means apartments are easier to buy, and have a higher rental return, and will be in even higher demand from investors.

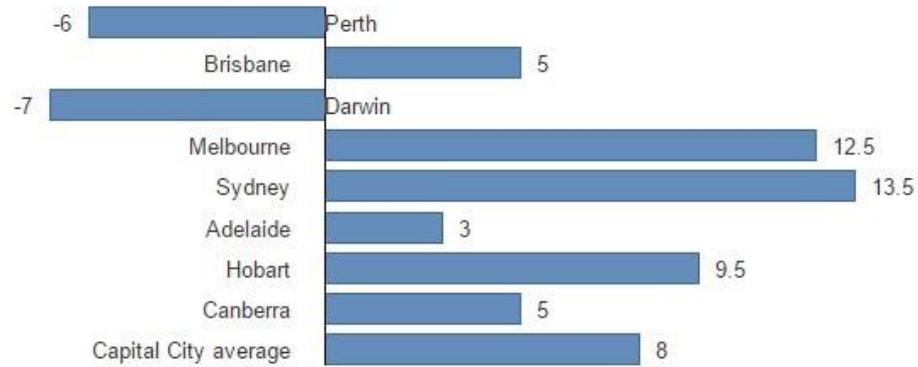
2. FORECASTS 2017

Each year leading research house SQM release three models of forecast for the market: if interest rates remain the same, if they fall, or if they rise.

Here they are: The first is interest rates stay as they are, the second interest rates fall, third interest rates rise.

SQM Research 2017 property price forecasts

Scenario 1 (base case)

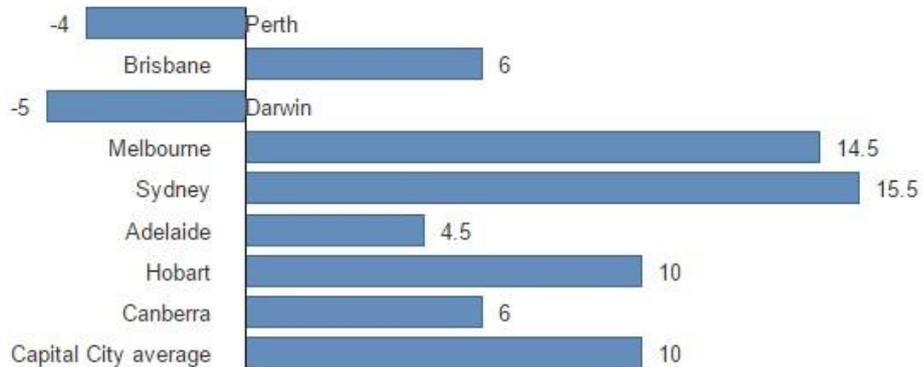


Midpoint of SQM's forecast range

Source: SQM Research

SQM Research 2017 property price forecasts

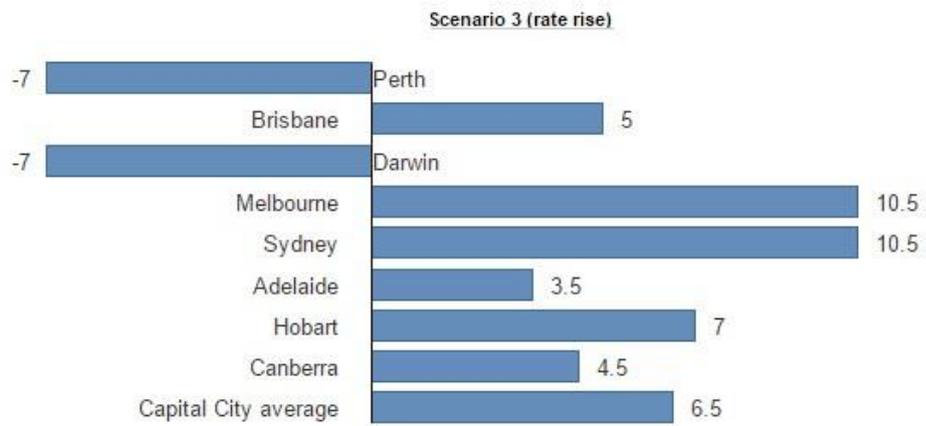
Scenario 2 (rate cut)



Midpoint of SQM's forecast range

Source: SQM Research

SQM Research 2017 property price forecasts



Midpoint of SQM's forecast range

Source: SQM Research