HD **Fundamentals for 2014 are solid but I'm not predicting a boom: Simon Pressley**

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I am as bullish about the outlook for property markets in Australia now as I have been at any time over the last five years. I won't go as far as forecasting a boom however the fundamentals are solid. The 2013 year-end looks like this:

- 60-year low interest rates

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- An increase in home loan activity

- Strong population growth (housing demand)

- Tight housing supply due to building approval levels failing to keep pace with demand for 5 years

- Low residential vacancy rates

- Falling stock on market figures across most capitals

- An increase in buyer activity

- A relaxation of credit policy

History is also on our side. According to longest period of data available from REIA, the average Australian capital city property grew by an average of 7.6% per year since 1997. There were three periods of significant interest rate reductions over this period: 2001, 2009, and right now. As this graph shows, booms followed 2001 and 2009.

Significantly for today's property outlook, interest rates and unemployment rates are both lower now than they were for the booms of 2001 and 2009 – no wonder we are already starting to see a surge in property values.

Key Influences In 2014

According to surveys by Westpac and Genworth, confidence levels increased after the September 2013 federal election. Improved government efficiencies for project approvals plus continued improvement in confidence generally will **lead** to an increase in business investment and employment growth towards the back end of 2014.

The jazz word over the next few years will be "infrastructure", especially transport-related. Funding of such projects is likely to include controversial measures such as government asset sales, industry / retail superannuation funds, private and foreign investment.

Of course, the Asian Century will continue to reshape Australian property markets. The extra 2.5 **million** Asian people entering middle class between 2010 and 2030 will increase demand for Australia's agricultural land (watch northern Australia), universities, and new hotels.

The industry which I expect to have the most positive impact on property markets for some years is tourism. **Billionaires** from all around the world are already looking to build new world class casinos, resorts, hotels and theme parks. 'Integrated project' is a term for property investors to get familiar with.

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Mining investment is trending down although it will re-emerge before too long. The **Chinese** economy continues to power along and India will head down a similar industrialisation period before too long. 2014 is likely to yield important project milestones for Indian billionaires, Adani and GVK, in central Queensland's Galilee (coal) Basin. Meanwhile, increased mining production will add much needed revenue to government purses.

Don't be surprised if changes to coal seam gas legislation in NSW are announced during 2014. NSW is fast running out of gas and it is only a matter of time before they follow Queensland's lead in to CSG.

High wage costs and the $AUD will continue to plague the manufacturing sector. Property markets which will be affected most by this include Adelaide (Holden), Melbourne (Holden, Toyota and Qantas), and Geelong (Ford).

Relaxed immigration policy (refer above) has boosted housing demand over the past two years. Australia has returned to the 400,000 annual population growth levels which we saw during the boom years. Housing supply has been steadily falling behind (refer below).

An influx of Asian investors for off-the-plan apartments is already gaining steam in Sydney and Melbourne. Chinese interest in Australian property is as a result of its government trying to curb their over-heated market by capping property investment ownership in their country at two properties and loan-to-value ratios at 60%. Australian FIRB laws prevent foreigners from investing in established property and there's no shortage of Australian developers trying to lure the Chinese in. I expect this trend to continue, especially in locations where there is already an established Chinese community. Sustainability concerns me.

First home buyer activity should be watched with interest. We know that increases in sale volumes at entry-level price-points drives property prices higher. FHB grants have declined from the 2000-2013 monthly average of 10,952 to an average of 7,676 per month since the turn of the decade. This is because government incentives have been targeted at stimulating the construction industry (new property) as opposed to what FHB's really want (choice). If initiatives such as FHBs being permitted to draw on superannuation to purchase property or government grants which include established property were introduced we would see greater price growth than otherwise expected.

With the US economy improving, Australian banks have recently increased fixed interest rates. If home loan approvals continue to trend upward the RBA will find it hard not to increase variable rates during 2014, although they will be reluctant to put any pressure on the AUD$.

A review of Australia's banking sector will take place during 2014. Some of the recommendations which come out of this review will no doubt be important to property investors. We will no doubt be drip-fed information during 2014 before release of a final report in November 2014.

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