Are investors COMING OUT OF HIDING?

After a flat couple of years, the investor market experienced a boost in activity in the first quarter of 2012. Given tightening rental markets and recent positive economic news, could momentum be lifting... or is this just a blip on the radar? API investigates. **SHANNON MOLLOY**

Last year was fairly grim for the property market as a whole. Sales slowed, values slid and investors took whatever cash they had left and ran. Then, in the first three months of 2012, something changed. Investor activity suddenly lifted.

Australian Property Monitors senior economist Andrew Wilson says investors typically come out of hiding when there's potential for capital gains, and that hasn't been the case of late. Could it be now?

Does the lift in investor lending in all but three capital cities point to a return of the good times?

A PROMISING START TO THE YEAR

Paul Braddick, head of property research at ANZ, describes the lift in investor lending in the March quarter as "modest to moderate". After a flat 2011, he says there were signs late last year that a pick up was imminent.

"So far this year, things have gradually picked up. We're starting to see early signs of gains… we've had the view for a while that this segment was likely to be the strongest going forward."

The Northern Territory, Western Australia and New South Wales led the way in investor lending gains, up 51.5 per cent, 15.5 per cent and 6.3 per cent respectively, Wilson says.

Queensland also saw an impressive 35.8 per cent increase, but he says the result is a bit skewed. Of course, in the first three months of 2011 the vast majority of the state was cleaning up following the devastating floods and Cyclone Yasi.

"There were signs at the end of 2011 that the Brisbane market was going to pick up and we're starting to see what you'd consider to be reasonably normal levels there."

Forecaster BIS Shrapnel predicts Sydney is on the cusp of an accommodation shortage, blaming a post-GFC (global financial crisis) construction slump, demographic changes and slower planning approvals.

Supply won't be sufficient to meet growing demand and the group forecasts average annual rent growth between five and six per cent for the next two years.

"The continued tight rental market and rising rents (in Sydney) is expected to support further demand from investors and

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consequently price growth over the next two to three years," BIS Shrapnel's senior manager Angie Zigomanis says.

According to CommSec's *Economic Insights* report, investors seem to be venturing out of hiding.

The latest survey shows 25 per cent of those questioned would put their money in property before savings, paying down debt or investing in the sharemarket.

That's a sharp turnaround in faith, up from 18 per cent in the previous quarter.

Lenders look to be regaining a bit of confidence too. In recent months, many have started to relax their lending criteria, according to Smartline Personal Mortgage Advisers broker Scott McCray. It's nothing like the pre-GFC climate, but it's a start, McCray says.

"Every bank looks very closely at an annual market report by insurer QBE, which is a lender of mortgage insurance, and the latest three-year forecast of the property market points to reasonable medium-term price growth.

"The moment that report came out late last year, banks started relaxing some of their lending policies almost immediately."

Many have since increased their loan-to-value ratios (LVR) for both owner-occupiers and investors, he says.

"They're all getting on the bandwagon with self-managed superannuation fund lending too. Not long ago, only a few would touch it and they made it really difficult – you could only borrow 70 per cent LVR, whereas now it's up to 80 per cent."

McCray believes investors are comfortable with property, albeit a little slower to act than usual, and will still spend in the right areas at the right time.

"I'm seeing a lot of young executives who are keen to get ahead, as well as people 45-plus who are perhaps a bit concerned about their retirement planning.

"Investors are still looking at property, they're just looking at all the factors. They'll jump at a good opportunity."

ARE DEVELOPERS GEARING UP?

There are signs developers could be banking on a shift in investor sentiment. One Sydney project proponent scrapped plans for a predominantly owner-occupier apartment complex in trendy Double Bay and resubmitted plans for one and two-bedroom dwellings aimed at the investor market.

Off-the-plan developments released in May and June boasted bumper sales. One inner-west project sold almost half its first stage stock in one week, reporting keen interest from investors.

> "So far this year, things have gradually picked up. We're starting to see early signs of gains..."

It's a different story in Melbourne, proving project timing is critical. There was a burst of developer activity in Melbourne's CBD two to three years ago. Fast forward and the city is on the brink of a major oversupply.

Valuations firm Charter Keck Cramer says about 31,000 new dwellings are set to commence construction or be completed between now and the end of 2014.

Historically, an average of about 4000 new apartments are built annually.

Demand is very low and the rush of new stock will see vacancy rates climb and rents fall, according to Michael Yardney of Metropole Property Investment Strategists.

BIS Shrapnel agrees, forecasting a drop in inner-city apartment prices and rents because of the amount of dwellings about to come online.

At the moment, investors account for just 20 per cent of Melbourne's market – below the historical trend of 30 per cent.

The difficulty with development is timing a project perfectly. The time between planning and completion is usually three to four years, so the market could be in a completely different stage of the cycle when a build is coming online, Yardney says.

"That's what we're seeing now in Melbourne with an estimated 14,000 new apartments being completed in 2013 alone and very few buyers."

STILL A MIXED BAG

A range of other external pressures, including higher than average unemployment, also contribute to Melbourne's disappointing quarter, Wilson says. Investor lending in the March quarter fell three per cent in Victoria. The market isn't entirely flat, with one segment seeing some promising activity.

"In Victoria, it's really only been the top

European debt crisis in a nutshell

Why would the economic woes of a country thousands of miles away pose a risk to Australia? It's a fair question, given the complexities of what's happening in Greece. So just how big is the problem?

Despite its dominance in the headlines, Greece is just one of several European countries drowning in a sea of debt, according to Professor John Quiggin from the University of Queensland's School of Economics.

Prior to the global financial crisis (GFC), much of western Europe was enjoying economic prosperity, strong financial markets, treasury surpluses and booming housing markets.

Then in 2008, all that changed when the GFC swept across the continent. Economies slowed, property bubbles burst and banks started to falter. Governments splashed around bailout cash in a desperate bid to keep financial institutions from collapsing.

The situation isn't unique, Quiggin says. Similar scenarios played out in the United Kingdom and United States. The difference in this case is the European Central Bank's unwillingness to buy government bonds.

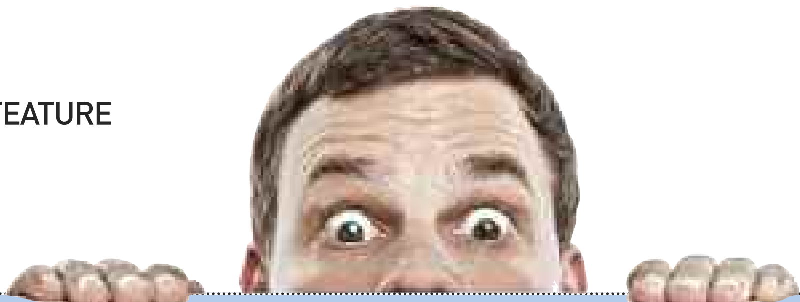
"A number of European countries are heavily in debt, having bailed out financial institutions, and those banks still have major issues because the wider economy is contracting.

"We've seen a combination of continued bailouts and government austerity measures, or cutbacks in public spending. That's only worsened the downturn so those policies have essentially failed."

To make matters worse for Greece, it was already in significant debt prior to the GFC.

It's hard to say what will happen in Europe, and what (if any) impact it'll have in Australia. The picture here for now remains vastly different to the rest of the world.

"If you weren't looking at what's happening overseas, you'd feel reasonably comfortable. We're in a relatively sound position at the moment."



CASE STUDY Brave when others are fearful

Her friends thought she was crazy. They parroted dire warnings about the European debt crisis, the economy and predictions of tumbling house prices.

Amelia Pereira ignored the naysayers, stuck to her guns and bought two properties sight unseen, several hundred kilometres away, in two months.

The 49-year-old public servant from Sydney is a seasoned investor but took her time finding these most recent purchases. Together with her husband, Leonard, she began searching close to home.

"We started looking in November last year, mostly in Sydney's western suburbs, but properties there were being snapped up in seconds and they didn't really have the yields we were hoping for," Amelia says.

So the pair turned their attention north to Brisbane. She'd heard from other investors that the Queensland capital looked to be at the bottom of the cycle.

"The rental returns in many parts of Brisbane are pretty good and prices have clawed back a bit in the last few years," she says.

"Even if it takes another four or five years for prices to really pick up, these properties aren't costing anything to hold."

In February, she snapped up a bargain five-bedroom house in Woodridge, south of the city, for $275,000. It rented immediately for $425.

"There's a possibility to increase our return on this one even more – by an estimated $125 per week – by splitting it into dual occupancy. There's already a bathroom and a kitchen on each level."

Just a month later, they bought a three-bedroom house in nearby Logan Central for $231,000 that rents for $345.

"We're close to closing a third deal in Brisbane. It's a lowset three-bedroom house on a 600-square-metre block in Woodridge. I'm hopeful we can get it for about $185,000."

Their short-term strategy is geared around cash flow, but Amelia is confident the Brisbane market will see healthy growth again.

"Even if it takes another four or five years for prices to really pick up, these properties aren't costing anything to hold.

"I'm not an economist and I don't have a crystal ball, but Warren Buffet (one of the world's most successful investors) says to buy when people are fearful.

"Who knows what will happen with Europe. There's a lot of hype about the crisis in Greece, and it could become an issue (here), but we're comfortable with our position.

"In the short term I'm not expecting major capital gains, but long term I'm pretty confident."

THE NUMBERS

Property	Purchase price	Purchase date	Purchase costs	Loan-to-value ratio	Weekly rent	Yield
Woodridge, Qld – 5-bedroom house	$275,000	February 2012	$8,650	90%	$425	7.8%
Logan Central, Qld – 3-bedroom house	$231,000	March 2012	$7,110	95%	$345	7.5%

end of the Melbourne market that's had any positivity so far this year," he says.

"The bottom and middle segments have been particularly quiet and I'm not sure we've reached the bottom of the price cycle just yet."

Braddick says the Tasmanian market continues to be the "weakest by a country mile" with no major signs of imminent recovery.

Lending approvals for investors fell by 3.5 per cent in the first quarter.

"Tasmania is seriously struggling at the moment in all respects," he says.

Wilson says the signs of positivity aren't universal and markets are likely to continue performing to the beat of their own drum.

"Across Australia, the March quarter has been a mixed bag in terms of investor activity – it's positive in a number of centres, but there are some that still remain relatively flat."

TIME TO CELEBRATE YET?

Affordability, downward pressure on interest rates, a competitive finance market and volatility in the sharemarket are all encouraging signs for investors, Wilson says.

"In recent years, Australian investors have become much more conservative in nature and moved away from a spending attitude to more of a saving one.

"The conditions at the moment are ripe for a re-emergence of investors," he says.

He also predicts continued growth throughout 2012 in the self-managed superannuation fund model of property investing.

"Given the volatility of the sharemarket, a lot of people are exposed to losses through their traditional super funds.

"I think there will be an escape by many investors to the long-term security of bricks and mortar."

Economic instability in Europe and the possible implications here at home still have buyers from all corners of the property market spooked.

Professor John Quiggin from the University of Queensland's School of Economics says the pessimism is understandable.

"I'm not saying any of the predicted worst-case scenarios are bound to happen," he says. "Authorities reassure us everything is fine. But people are nervous about the situation in Europe."

Braddick believes Europe's woes will keep some investors – not to mention owner-occupiers – out of the market for a while.

"I doubt the European situation will go away overnight," he says. "There's still so much uncertainty and (that) will probably overhang homebuyer and investor sentiment for some time.

"I wouldn't be surprised if (investor lending gains) backed off in the next quarter."

Yardney believes it'll be some time before Australians once again feel good about the future and are more willing to spend their hard-earned money.

The more negativity and bad news people are exposed to, the longer it will take for strong sentiment to return, he says.

"The way psychology works is people always remember the last events the longest. The memories of the good times are now so far gone that we really need a long period of positivity to see a shift in sentiment of any significance." api

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