



# Fisher Funds

## Investor Education Centre

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### Take emotion out of property

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Two of my colleagues attended house auctions in Auckland last weekend, each hoping to buy a nice family home at a good price. They had reason to be optimistic because we all know that the property market is weak, houses are taking longer to sell and fewer people can afford to buy houses these days.

However, both missed out and both were surprised that the bidding was strong and that the final bids were well ahead of registered valuations. While disappointed, neither has given up his search for 'the right property' and I'm sure they will ultimately find one because they are emotionally engaged in the decision and ready to buy.

Property is an emotional asset. Few people consider their house in the traditional financial sense. Rather than thinking about what it is actually worth, they think about what utility their home gives them – a roof over their heads, warmth in winter, a place for the kids to grow up etc.

It is therefore understandable that when a commentator proclaimed the Australian property market 'a bubble ready to burst', there was an enormous response, on both sides of the argument, and the debate rages still.

Jeremy Grantham is a well respected British money manager and something of an expert on bubbles. His organisation, GMO, has identified multiple bubbles over the past fifty years or so, and each one has subsequently burst. In a recent Financial Times interview, Grantham said that "the two bubbles that are currently outstanding are the UK and Australian housing bubbles."

Grantham then went on to explain that there is a long-term trend line that plots house prices against family income, and house prices are now hugely out of kilter with this long-term measure. He says that if house prices don't fall, it will be the first time in history that such a bubble has not broken, and "that's not something I would want to bet on."

Those who love property argue that there are logical reasons for Australian property prices to go up, and those factors will continue to support prices. Australians have the same love affair with bricks and mortar as we do. Add to that the generosity of bankers, high immigration, first home owners' grants and a relaxation of foreign ownership restrictions by the government, and it is clear why property prices have risen.

I'm not sure which way property prices will go and only history will tell. But one of the more optimistic contributions to the discussion which tickled my fancy was a prediction from Melbourne demographer and KPMG partner Bernard Salt. After considering current demographics and long-term trends, Salt predicted that by 2050 the median Melbourne house price will be \$9,000,000. He arrived at this figure by extrapolating the 7.4% growth rate of the past two decades out into the next 40 years. However, for this to happen, wages will also need to follow historical trends and grow by 4%pa, resulting in a median Melbourne wage in 2050 of \$291,768.

Now those are the sort of numbers that we can all get emotional about!

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