

Now is the time for hesitant property investors to make a move

November 26, 2012 By [Ken Raiss](#) [Leave a Comment](#)

After a sluggish winter, spring brings hope of fresh movement in Australian property sales. According to the nation's leading property, accounting and wealth financial advisory group, Chan & Naylor, this is a great time for those with investments in housing, but anybody hoping to join the property ladder down the line now has a conundrum to face: Australian property is high in demand and supply is low.

Despite recent figures from The Economist stating the Australian housing market is overvalued by 36%, and reports locally and abroad concerned over an apparent property bubble in Australia, now is the time for hesitant property investors, including first-time buyers, to make their move if they want in on the Australian dream.

Moreover, if Australia is to avoid the boomerang effect taking place around the world, whereby millions of adult children are returning home to reside with parents into their 30s, it is crucial that first-time buyers start considering property investment as a way into the market rather than focusing initially on home dwelling options.

Potential investors sitting tight for a bubble to pop could be waiting a long time.

According to a recent study by KPMG, 60 years ago house values in Australia stood at roughly seven times the yearly household income and today that figure stands at a very close 6.9%.

Property values have remained on an upward trend with modest corrections within a cycle, and there are no signs to suggest we are heading for a major downward turn.

High living standards, low and controlled interest rates, relatively high population growth, undersupply and a healthy banking system are only a few reasons why buying property in Australia is an attractive option for personal occupancy or investment. In fact, demand is undeniably set to grow.”

Some of the key drivers contributing to the rise in housing demand include:

- Retirement of the baby boomer generation and the widening skills gap left behind require further skilled talent to replenish skills and the tax base, which will inevitably come from abroad;
- The wealth and opportunity offered by Australia, which attracts skilled migrants from neighbouring countries each year;
- The steady entry of five million Generation Ys into the market, which, according to projections by the Australian Bureau of Statistics, will raise the demand for housing by 15% on the previous generation, as more attempt to edge away from the family home;

- A diminishing amount of available land for new housing, as people flock to city hubs;
- A lack of government initiatives to ensure Australia has an adequate housing supply; and

The sum of these things will keep the value and cost of existing housing high.

Given growing demand, smart buyers will invest now, but too many assume the first property they buy is going to be the one in which they live and grow old and so they hold out for the Australian dream to come along and potentially either miss the boat or pay a higher entry price.

In the current landscape, investors – particularly those buying for the first time – become more strategic in their approach. For example, a first property could be used for rental purposes as opposed to becoming a buyer's first home.

This would not only generate income, but allows investors to use that property as a security for funds to buy a more desirable home down the line. These investors must do the numbers as the ability to purchase a more strategic property may outweigh any grants available. The tail should not wag the dog.

Property acquisition should be treated as a business process as opposed to an act of the heart and realise that it can be a stepping-stone towards acquiring the perfect home later in life.

Property is the biggest asset most people will own, and so they need to surround themselves with professionals who can offer advice in making considered and informed decisions, such as buying in the right market and property cycle or choosing a property with the opportunity to create equity through renovation or improvement, boosting both capital value as well as rental yield.

Parental support may be an option for adult children lacking sufficient funds to get on the property ladder, but this requires caution. A simple and formal loan agreement to help with a deposit is considered safer than becoming co-guarantor – 100% liability for the debt and no assets can lead to a negative equity trap in cases of bankruptcy or where the child splits from a partner the guarantor could be left holding the debt with no asset.

While for the likes of the UK, the rise of the 'boomerang generation' is driven predominantly by high levels of unemployment and a poor economy, Australia could find itself experiencing a similar effect, not because our economy is weak, but because not enough is being done by the government to prevent a housing shortage.

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