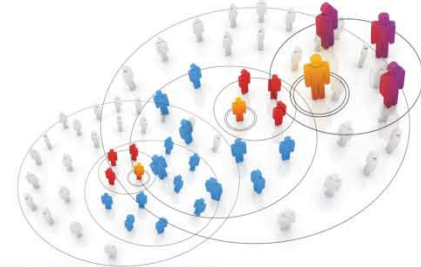




Institute of Actuaries of Australia

BIENNIAL CONVENTION 2011

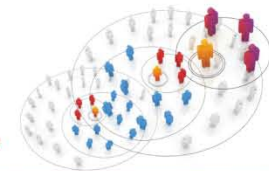
BEYOND THE MANDATE



10 – 13 APRIL 2011 • HILTON SYDNEY

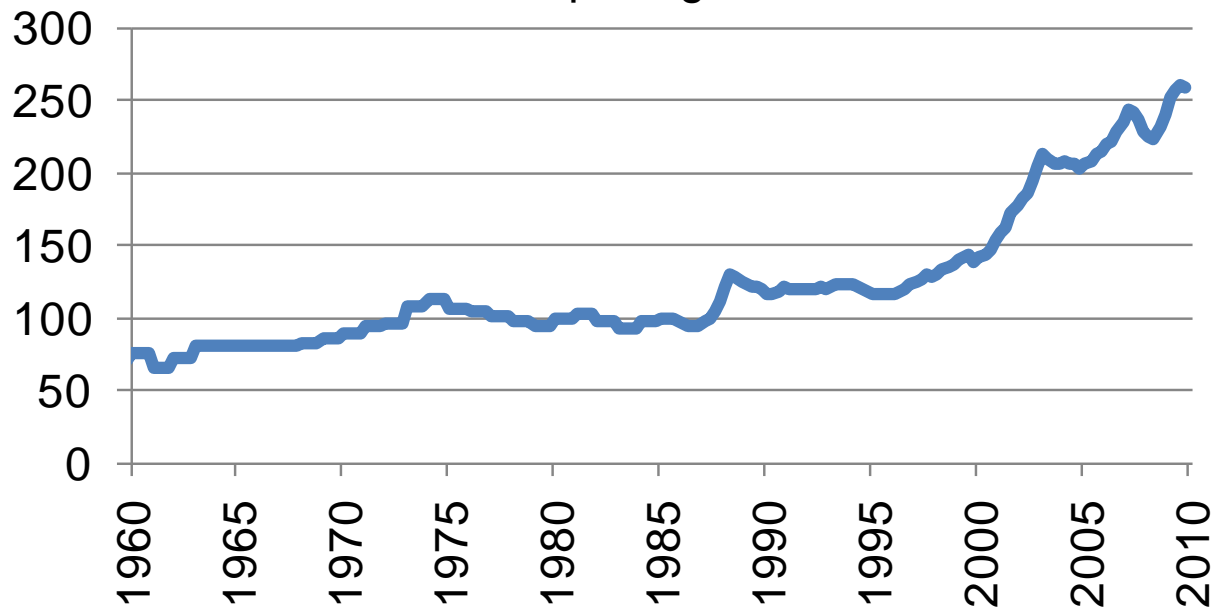
A house or a home? Finding value in Australian residential property

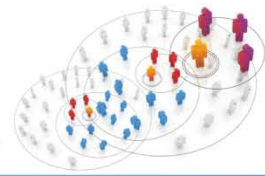
Anthony Street



Real house price index

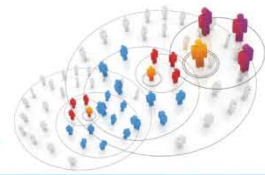
Real house price growth in Australia





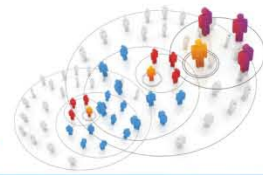
Is it a bubble?

- “If we think about property prices you wonder how they are going to be afforded because these prices are getting quite high” *Glenn Stevens, RBA, (on Sunrise March 2010)*



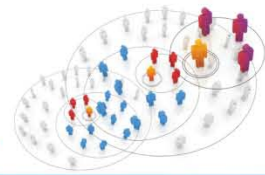
Is it a bubble?

- “The price of housing typically trades about 3.5 times family income and in bubble it goes to 6 or 7.5. [Australia is] 7.5 times. . . which suggests you are twice the size that you should be” *Jeremy Grantham, GMO, June 2010*



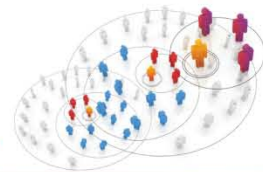
Is it a bubble?

- “Australian house prices are expensive on every value metric. They are expensive relative to history, and expensive relative to houses in comparable countries” *Gerard Minack, Morgan Stanley, August 2010*



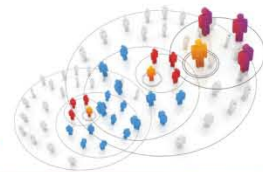
Is it a bubble?

- “The relationship between house prices and incomes in Australia is uncomfortably high versus the rest of the world By any normal set of measures, house prices in Australia are high” *David Murray, Future Fund Chairman, March 2011*



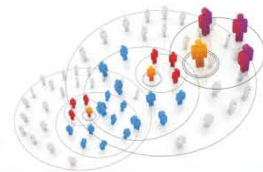
Is it a bubble?

- “Taking into account geographic differences, the ratio of house prices to income in Australia is not that much different to most other comparable countries” *CBA, September 2010*



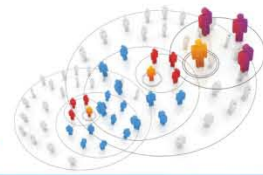
Is it a bubble?

- “Australian housing affordability is not as stretched as some measures suggest House prices and affordability issues reflect a structural imbalance between supply and demand” *Westpac, October 2010*



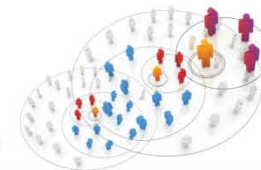
Is it a bubble?

- “...the major reason for [Australia’s higher house price to income ratio over the past 10 years] has been a structural (read permanent) reduction in interest rates”
ANZ, May 2010

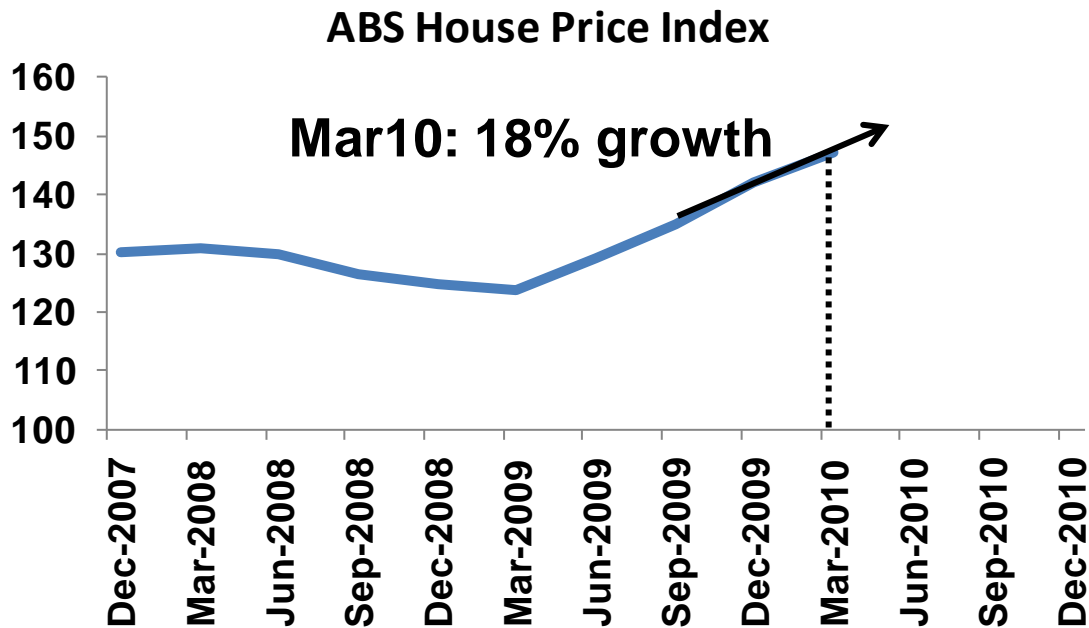


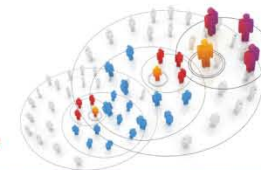
Is it a bubble?

- “... the [house price to income] ratio ... is higher than it used to be, but it’s actually not exceptional by a global standard”
Glenn Stevens, RBA, March 2011

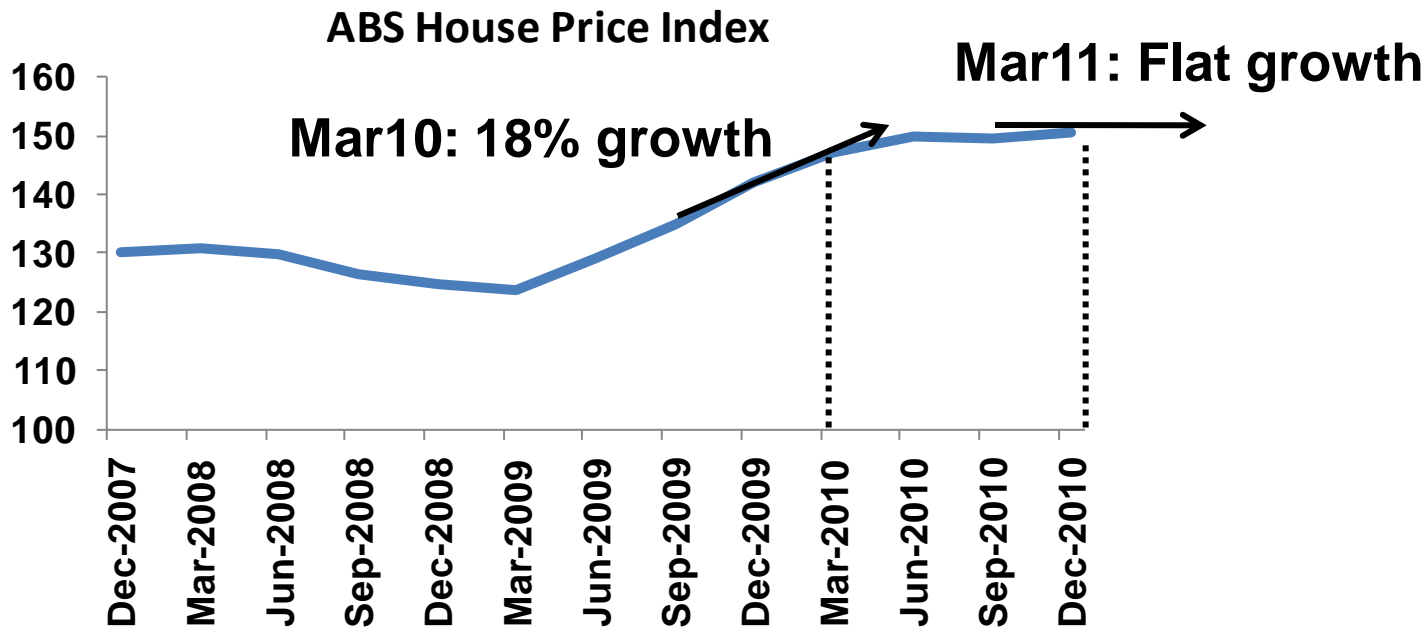


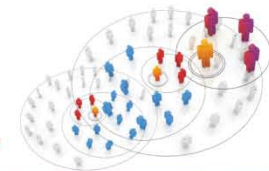
Interpreting the R B A





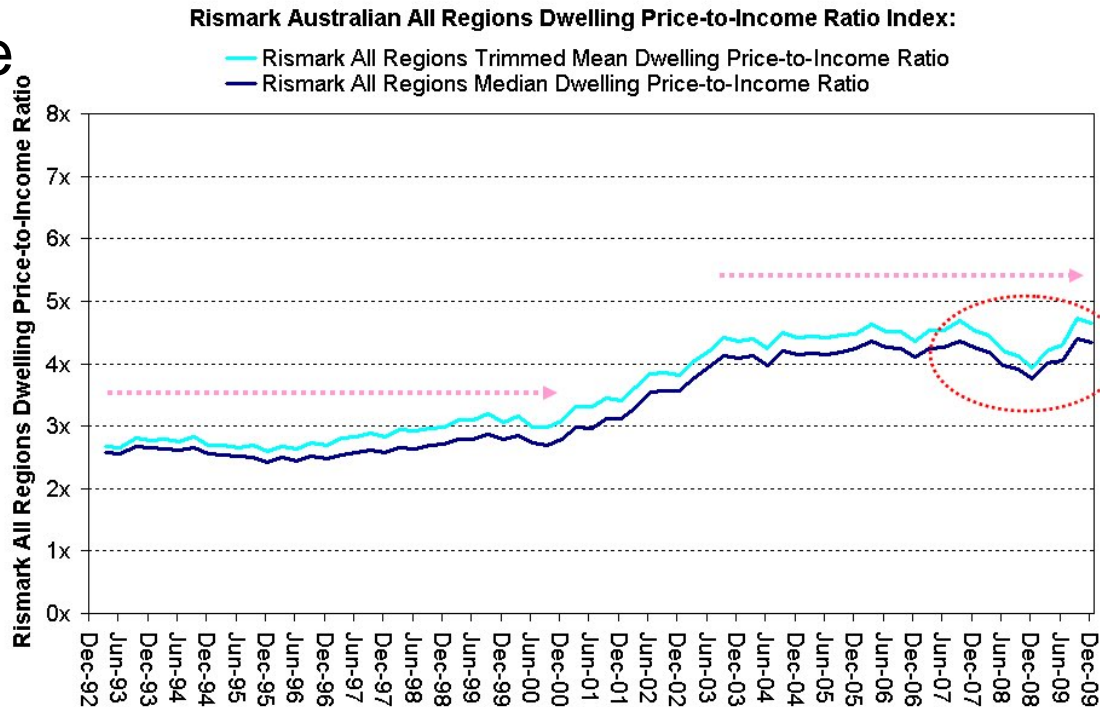
Interpreting the R B A

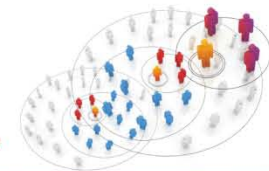




What is the house price to income ratio?

- Median dwelling price to average income ratio
=> 4 to 4.5x



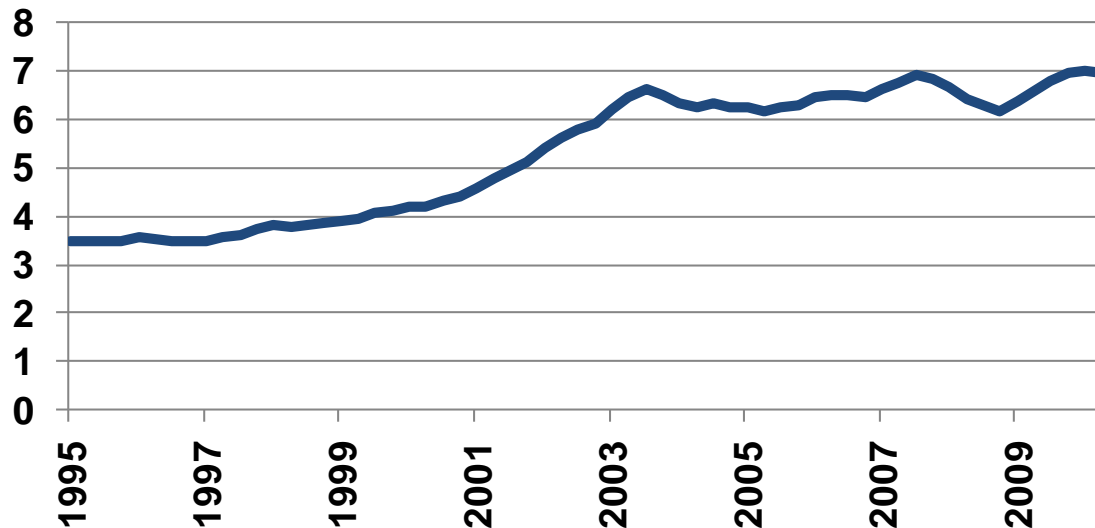


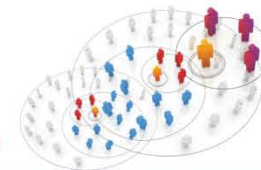
What is the house price to income ratio?

- Median capital city house price to median income ratio

=> 6 to 7x

Median house price to median household income





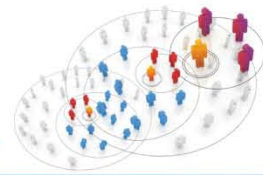
What is the house price to income ratio?

• CBA's view

(from Australian Residential Housing investor presentation, Sept 2010)

House price to income		Demographia
Sydney	6.2	9.1
Melbourne	5.7	8.0
Brisbane	4.7	6.7
San Francisco	7.0	7.0
Los Angeles	5.7	5.7
New York	7.0	7.0
Vancouver	9.3	9.3
Bristol-Bath	6.1	6.1
Auckland	6.7	6.7
Wellington	5.8	5.8

Source: Demographia, UBS

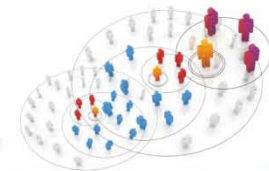


What is the house price to income ratio?

- CBA's view

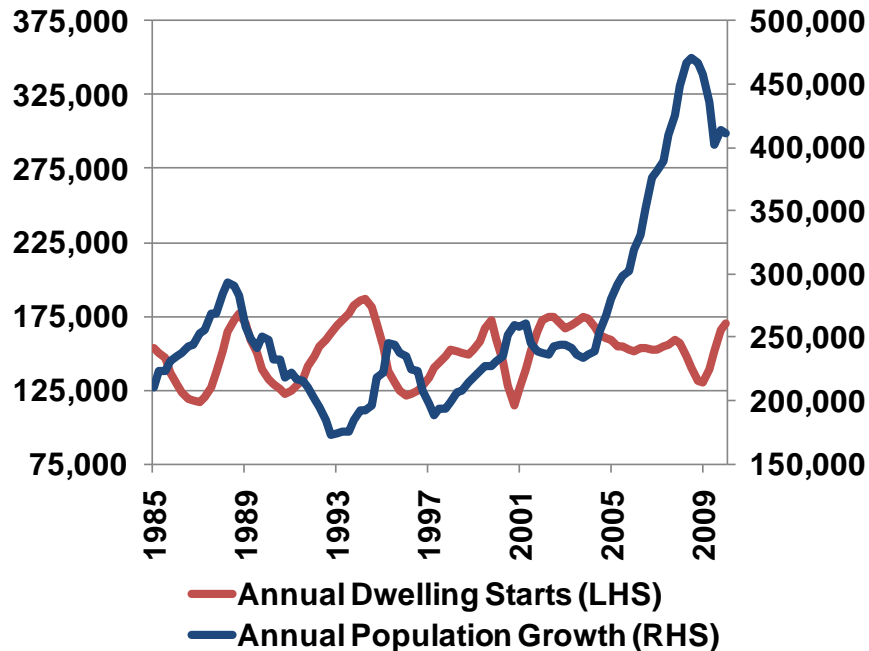
House price to income		Demographia
Australia	4.3	6.8
Canada	4.1	3.7
UK	5.6	5.1
US	3.3	2.9

Source: RP Data/CBA/ABS; UBS

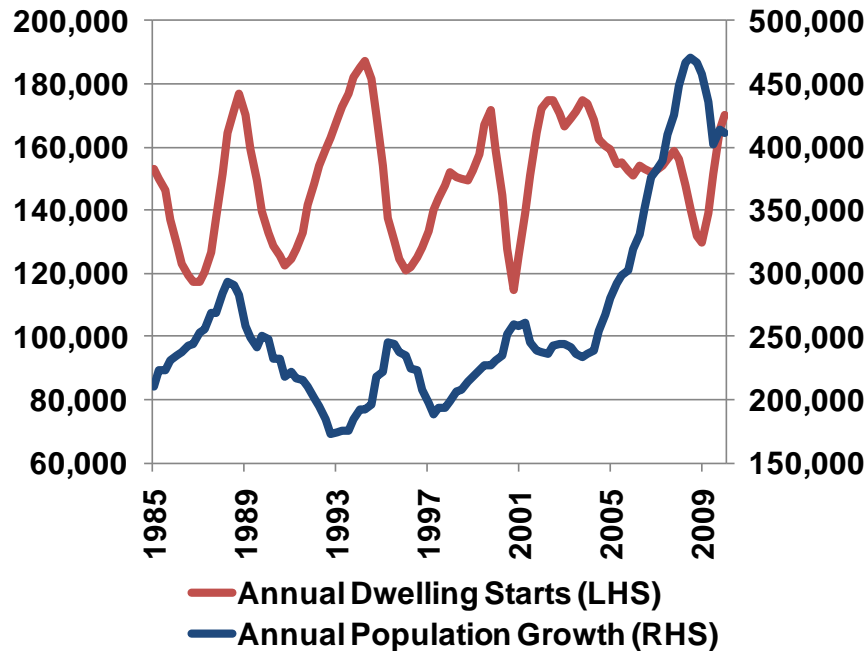


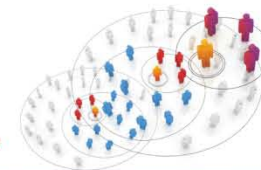
Supply: every picture paints a story

Dwelling starts versus population growth

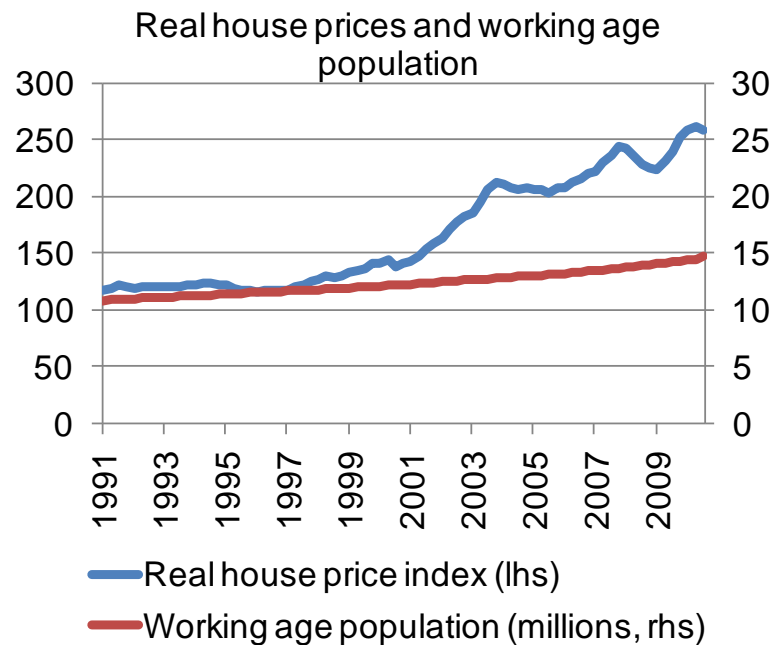
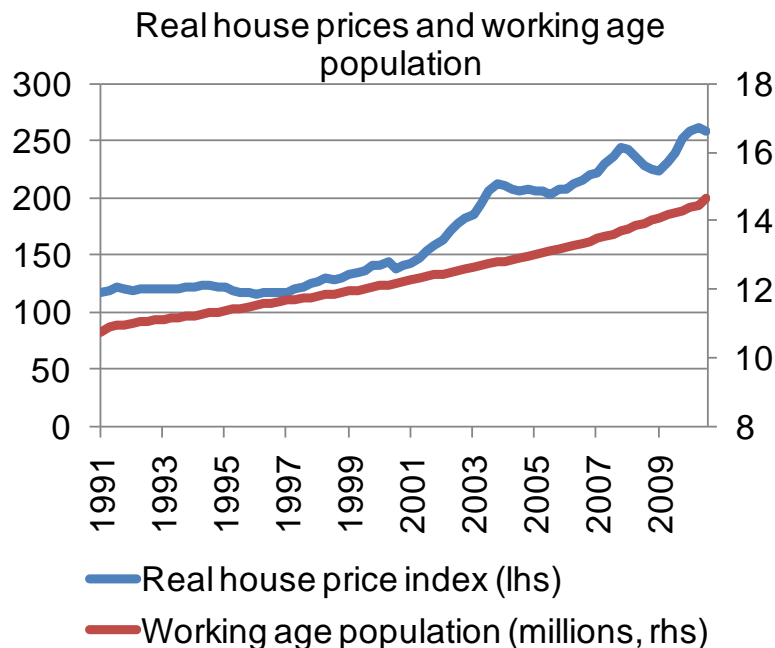


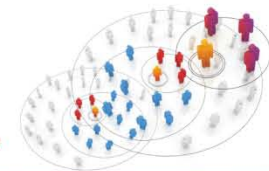
Dwelling starts versus population growth





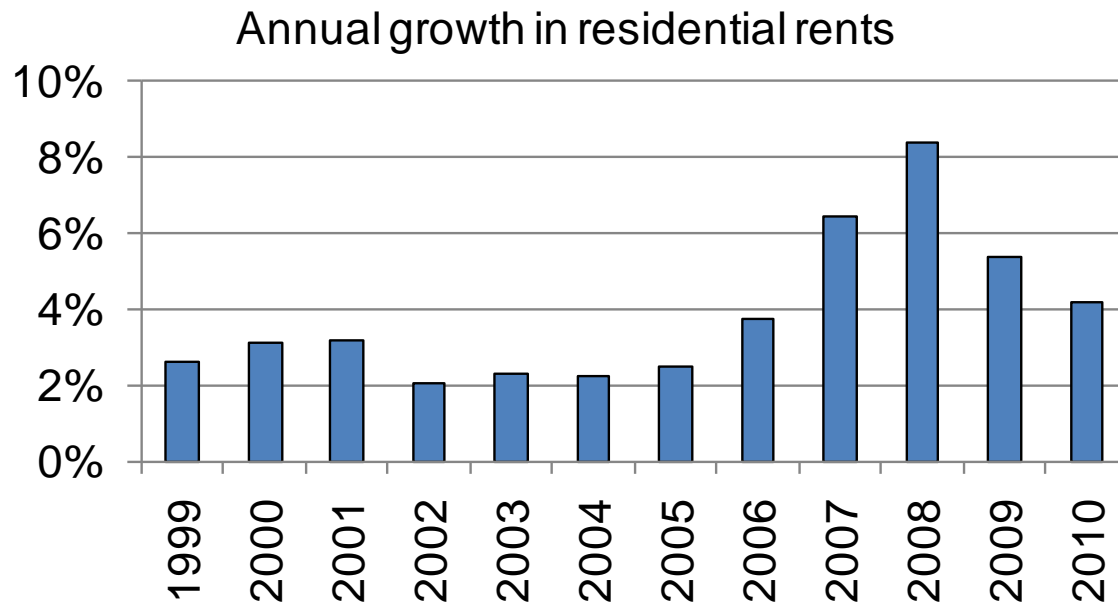
IMF takes the same approach

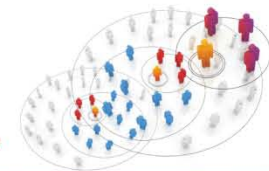




Rental growth

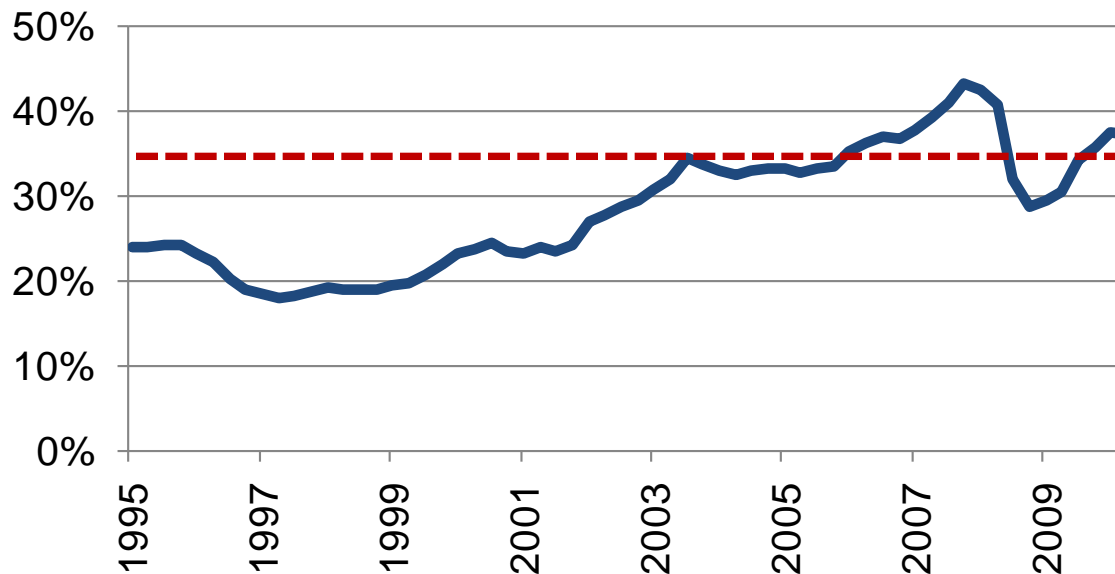
Rental growth
modest compared
to price growth

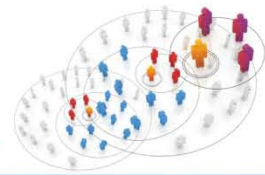




Mortgage affordability

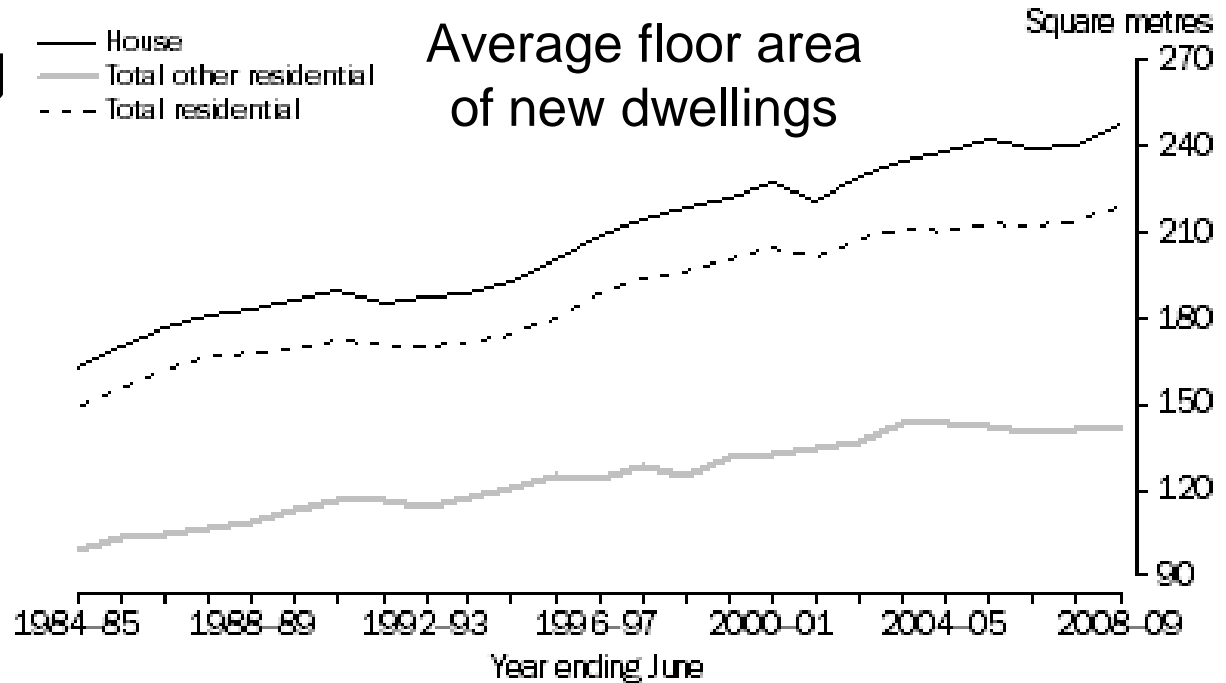
Mortgage repayments as % of household income

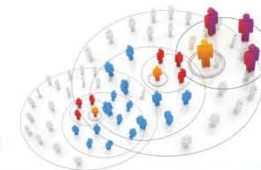




Dwelling size

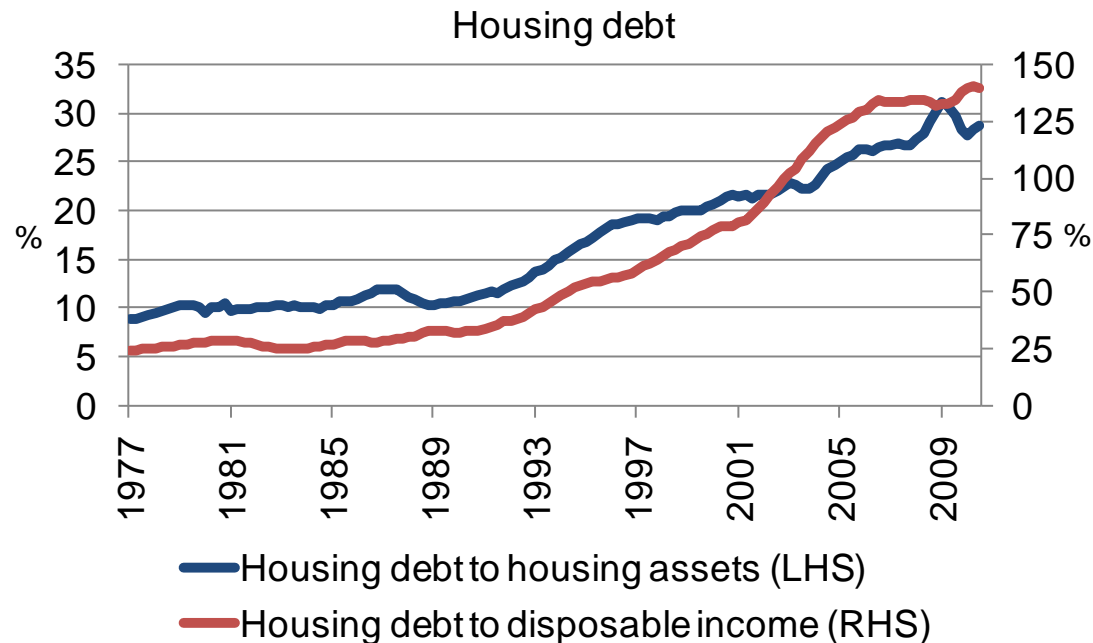
Increased dwelling size accounts for small component of house price increases

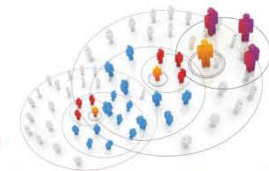




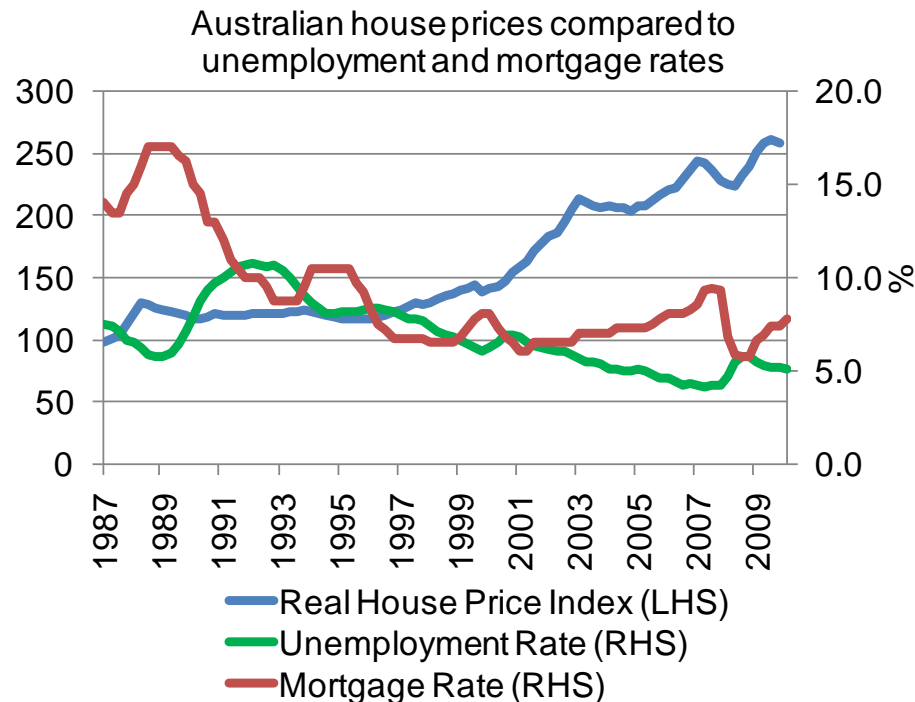
Household debt

Households have used increasing levels of debt to fund house purchases

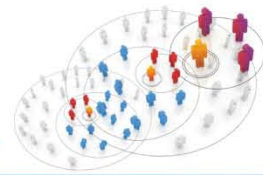




Unemployment and interest rates

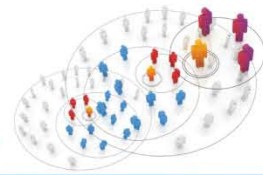


“When you have ... a strong, ideally nearly perfect economy and generous money – you are nearly certain to have a bubble form”
Jeremy Grantham



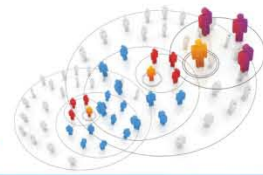
Residential property as an investment

- “Did you know that eight out of ten millionaires made their fortunes in real estate? ... actively investing in real estate projects is the best way to build wealth and help secure your financial future” *Property developer*



Residential property as an investment

- “Why you should invest in property
Greater leverage on your money - banks lend up to 95% on property and only 60% on shares” *Investment property consultants and finance brokers*



Residential property as an investment

- “Housing Shortage Leaves High Demand for Rentals Invest Now!”
Real Estate University

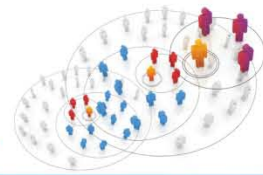
*“A lot of people think my business is Real Estate Property and Investing...
But, in fact, my business is People and Education.”*

Mark Rolton
Australia's #1 Property Options Expert

TOTALLY OBLIGATION FREE
INTRODUCTORY
DVD

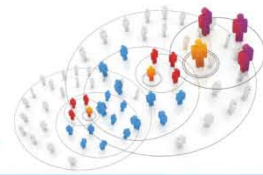
MARK ROLTON'S
Real Estate University

massland



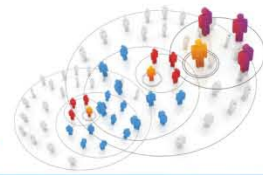
Residential property as an investment

- “If ... the resources story unwinds ... the RBA is likely to reduce interest rates ... The housing market is therefore a powerful hedge against Australia’s resources boom running off the rails.” Rismark, Feb 2011



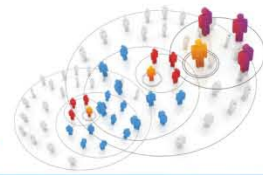
Residential investment returns

- Current gross rental yields 4.1% (houses) to 4.9% (apartments)
- Net yield 2-3%
- Investors (even ungeared) are betting on continued 5%pa+ house price growth



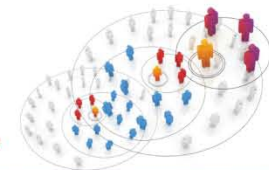
Rental growth furphy

- If price growth falls to 3%pa, rent growth of 13%pa needed for geared taxpayer to break even after 10 years



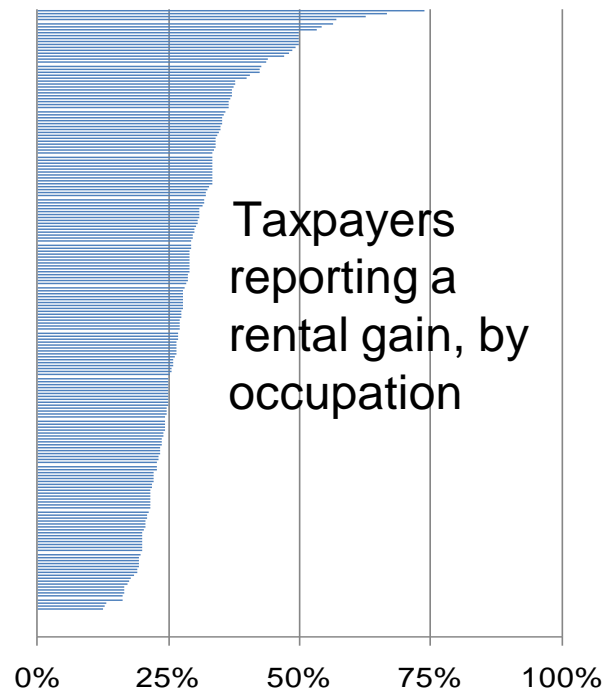
Actual investor experience

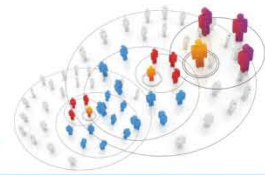
- 83% of wage earners with an investment property reported an income loss (over 600,000 taxpayers)
- 91% of these investors used gearing



Rental income gains by occupation

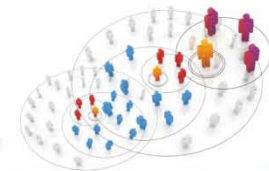
	% reporting rental gains	% using gearing
1. Investment income recipients	74%	(42%)
2. Superannuation funds	67%	(50%)
3. Property operators	57%	(59%)
5. Financial asset investing	56%	(60%)
6. Sheep, cattle and grain farming	53%	(55%)
7. Dairy farming	53%	(56%)
14. Mushroom and vegetable growing	48%	(67%)
27. Gambling activities	37%	(76%)
.....		
192. Salary & wage earners	17%	(91%)





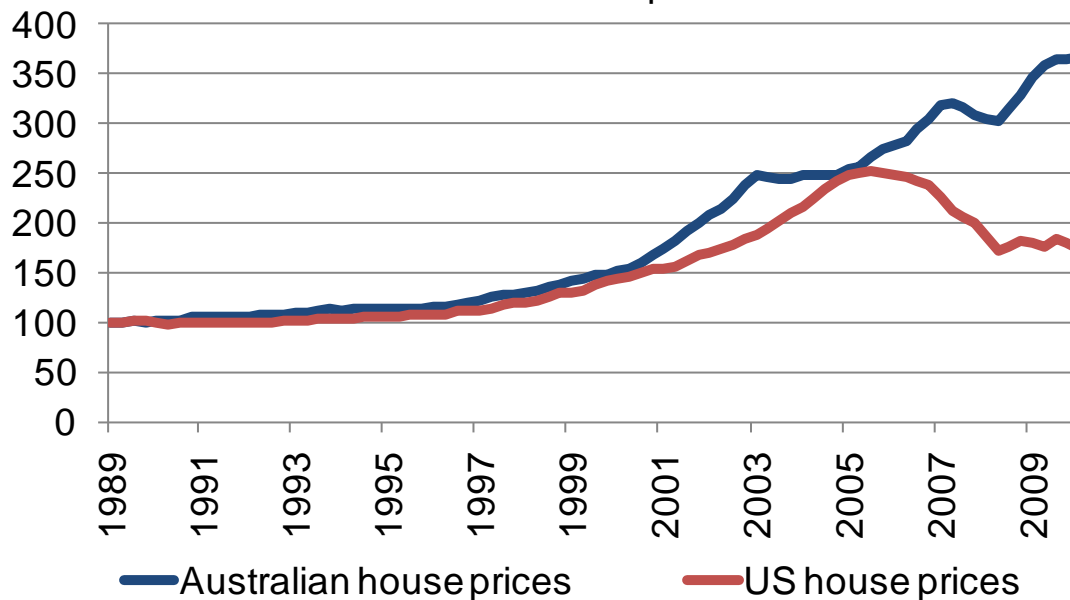
Owner-occupiers: a house or a home?

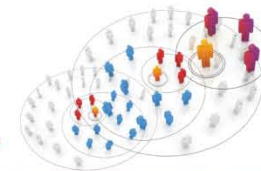
- 70% of dwellings owned by owner-occupiers
- Decision to buy not solely financial: “economics of happiness”
- Leads to an inefficient market from a purely investment perspective



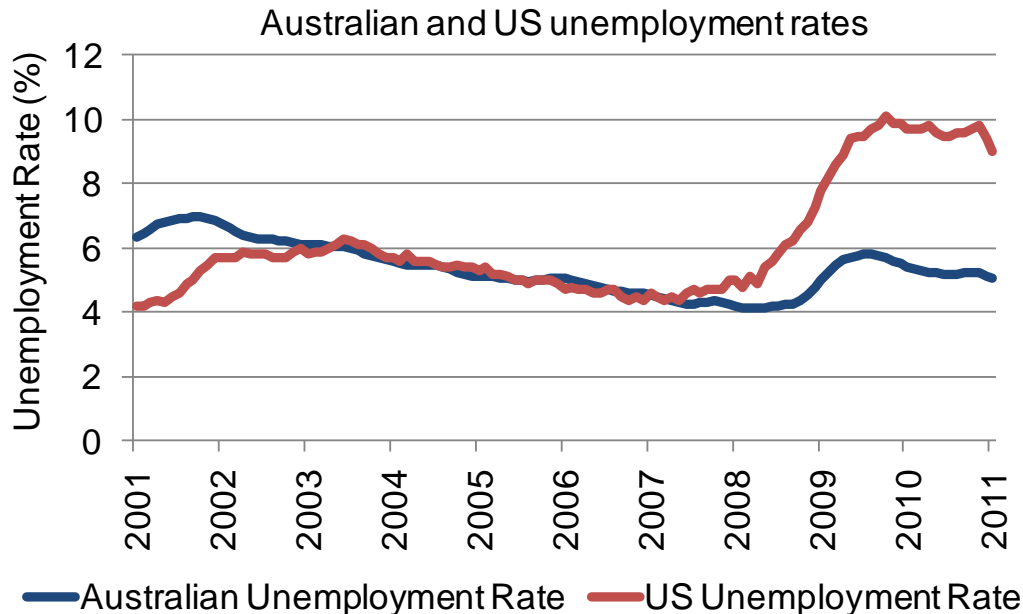
The US experience

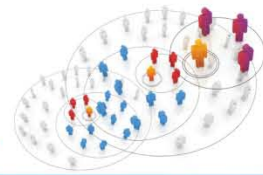
Australian and US house prices since Dec '89





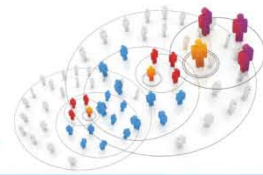
Strong labour market supporting Australian house prices





Summary

- Interest rates and unemployment are key to Australian residential market
- These cyclical factors will far outweigh any structural issues, such as undersupply



... one final quote

From Oct 2006 at peak of US housing market:

“The U.S. housing market largely reflects a strong U.S. economy ... the U.S. housing market has never declined.”

Ben Bernanke, Chairman US Federal Reserve