WENDY PRIESTLY PMC President

What drives property growth determines where I should buy

I know our TIC investors are buying their investment properties with a long-term view of added capital growth and increasing rental returns. However, do you know where these growth drivers come from? When you are buying your investment properties are you aware of the strength of your growth drivers? Do you have confidence there are strong pressures that will continue into the future and not just a passing one-cycle event?

Like Economics 101, the strongest growth driver is increasing and continual demand for your product over the very long term, which cannot be satisfied by the current supply. The strongest growth driver for property values, in my opinion, is the growing demand for this product both as owner-occupiers and for rental purposes. This demand comes from a continually growing population over the long term and a shortage of supply to provide the product.

From Economics 101, the strength of demand will be dependent on the amount of product provided to the market. With more supply, the demand (values drop), with less supply the demand becomes more pronounced (values rise).

As a first question for property investors in Australia, we need to ask whether there is an increasing demand for our product (i.e. investment property for rental and where is this strong demand for this product centred). The ABS estimates that with a birth every one minute and 44 seconds, a new migrant arriving every two minutes and 19 seconds, and a death every three minutes and 32 seconds, the 23 million mark was reached just after 10pm (AEST) on April 23, 2013. The ABS estimates that if current migration and birth rates do not change, Australia's population will be 35 million in 2056, and 44 million in 2101.

But demographer Mark McCrindle says the growth in the population is being driven by net migration and he says the 40 million milestones will come earlier than the ABS estimates.

"When you compare us to comparable developed nations, we really are ahead of the comparisons," he said.

And he says the population is on track to hit 40 million by the middle of the century.

"If the growth slows down a little bit, that might be in the 2050s ... but certainly that figure of 40 million is what we're headed towards," he said.

"It's inevitable that we will hit that number."

Another source researching Australian population growth is Queensland Centre for Population Research (QCPR). Their demographers have developed a new generation population forecasting model that incorporates uncertainty about the future.

A QCPR spokesperson, Dr Tom Wilson has said that their modelling indicates there is a 95 per cent chance that by mid-century Australia's population will be between 29 and 43 million. The Intergenerational Report's projection of 36 million, dubbed a "big Australia" by Prime Minister Kevin Rudd, lies in the middle of this range. He also said our model tells us there is a 50 per cent chance the nation's population will be greater than 36 million by 2051, so we could have an "even bigger" Australia.

Living in Australia we may believe that other countries have growing populations, however, this is not the case. Developed countries such as Japan and Ireland are well known to have significant projected population declines.

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Knowing the demand for accommodation and property will be growing into the future, the question is where will this demand be across the whole of Australia and the second question, which, in my opinion, is the premier question, is where is supply restricted and limited and hard to produce?

Director of QCPR Professor Martin Bell said in April 2012 the majority of this growth is going to occur in mainland capital cities and it is surprising that government strategy has little to say about this burgeoning growth along Australia's east coast.

As an example of population demand being greater than supply, BIS Shrapnel says NSW dwelling construction has lagged population needs by a resulting 40,000 dwellings this year. Rental vacancies are low and new demand is outpacing supply.

But as an east coast capital city, Sydney, as an example, is short of residential properties. This is not the only aspect that is driving the shortage and therefore the increase in values at the current time. The problem is a shortage of developable land. The NSW State Government's Budget delivered on June 18, 2013 allocated billions of funds for road, electricity and water infrastructure to support the construction of another 120,000 new homes in the next three to 10 years. This infrastructure is both along existing transport lines as well as identified growth corridors in south-west and north-west Sydney. This means growth in supply will be in medium density along transport corridors and the growth areas on the outer ring where the new infrastructure is being developed. The State Government also has acknowledged this assistance to supply will not reduce the strong demand for new homes in the foreseeable future.

Similar levels of expenditure were provided in the other states' budgets to provide for more developable land around the capital cities for residential construction.

What benefits can a property investor glean from this information? In my opinion it leads to the following actions or understandings for property investors:

- Mainland capital cities are where property growth will occur due to growing populations.
- Mainland capital cities are short of developable land for residential purposes.
- Should be looking to build their portfolios in areas within capital cities and around infrastructure builds to achieve their long-term growth outcomes.