

WENDY PRIESTLY PMC PRESIDENT AND AUSTRALIA'S MOST SUCCESSFUL FEMALE INVESTOR

Is there a property bubble, or is Australian property too expensive?

COMPARED TO WHAT, YOU MAY ASK. BEFORE WE STUDY THIS MATTER, WE SHOULD CONSIDER ANOTHER COMPARISON – THE BIG MAC INDEX.

The Economist newspaper devised an index for comparing Big Mac prices worldwide. It was started as a joke in 1986, and attempted to act as an entertaining proxy for measuring the purchasing power of currencies around the world.

The problem is, the index assumes the Big Mac is a homogeneous good that is sold worldwide, which makes it a plausible candidate for such a comparison. However, even with this "humble" hamburger, believable comparisons of the same type of product sold through McDonald's outlets worldwide are still plagued by false comparisons.

The 2014 Big Mac Index (in USD), shows the top five most expensive countries to be Norway, the most expensive at \$7.20, followed by Switzerland (\$6.19), Brazil (\$4.91), Euro area (\$4.33) and Canada (\$4.00). Australia is ranked seventh (\$3.84) while Hong Kong is the cheapest (\$1.99).

What the index or comparison of cost cannot take into account at any time is the different costs of doing business in the various countries. In countries from Norway to Australia, America and Hong Kong, there are great differences: These country differences relate to, different labour, land, raw material, and transportation costs. In some countries all the ingredients have to be imported; in others, they are readily available. There are different legal frameworks, security costs, and tax structures. And there are different consumers, willing to pay different prices for the same burger – in some countries McDonald's is considered an upmarket Western taste, while in other countries it's considered downmarket junk food. In some countries, it's not even the same burger. In India their Big Mac (the Maharaja Mac) is made out of chicken, not beef, to cater to India's Hindu majority that sees cows as holy and not for eating.

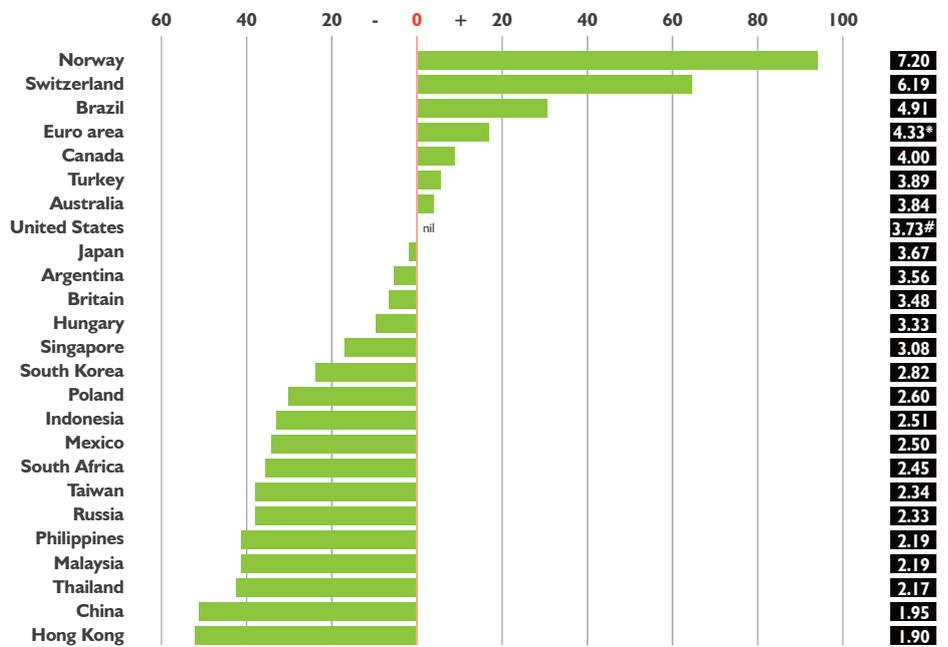
From this simple worldwide product comparison it shows there are often comparisons made between counties, but they can often be of little value to our understanding.

Interesting that this is a similar view expressed by the Governor of the RBA, Glenn



BUNS FOR YOUR BUCK

Big Mac index, local currency under(-) / over(+) valuation against the dollar, %



Source: McDonald's; The Economist

Big Mac Price ^ \$
 #Average of four cities. ^At market exchange rate (July 21st)

Stevens, in July 2012 when he was speaking about international comparisons of Australian housing prices and "bubbles".

But you may now ask, how does this comparison of Big Macs assist in thinking about Australian property prices? For the last few months the media have run many articles about the so-called boom, saying:

"The sound of pop: or when to bail out" (Australian Financial Review, 30 August 2014); "Australia's housing boom leaves others behind" (Australian Financial Review, 3 September

2014); and "House price boom must end sooner or later, warns Gonski" (Australian Financial Review, 3 September 2014).

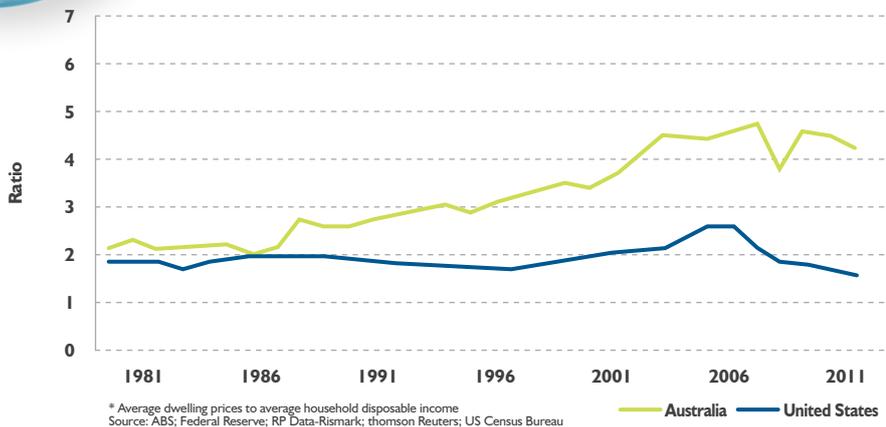
Sounds to me they got together and decided to write about the weekly topic without looking too deeply into the real figures and understanding of what drives the Australian property market – supply and demand and the price of debt to fund these purchases.

The RBA, in its ongoing analysis of Australian housing prices, seem to take a different direction on this topic, and is

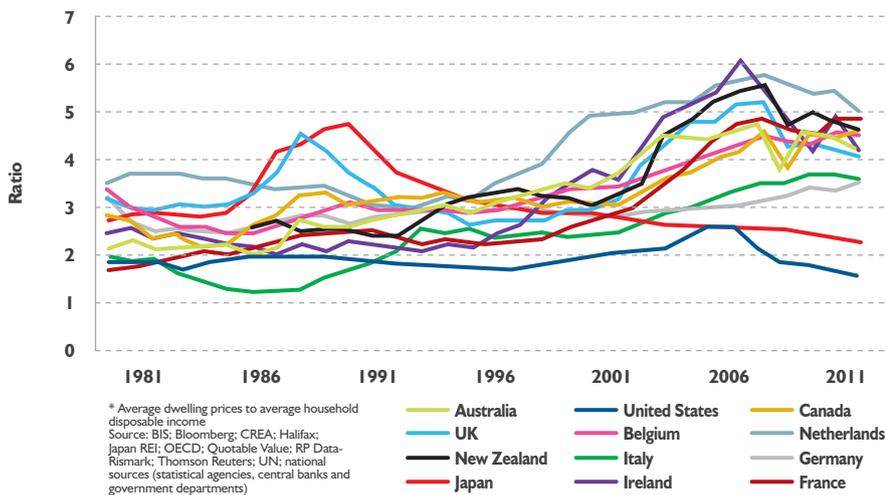


THESE COUNTRY DIFFERENCES RELATE TO, DIFFERENT LABOUR, LAND, RAW MATERIAL, AND TRANSPORTATION COSTS

DWELLING PRICE TO INCOME RATIOS*



DWELLING PRICE TO INCOME RATIOS*



comfortable in the figures as it understands the underlying principles or property price drivers and international comparisons.

The Governor of the RBA gave an address on the price of Australian property compared to the rest of the world in a speech in July 2012, which I suggest is still relevant to consideration in 2014 and much similar to the Big Mac Index comparisons.

The Governor indicated that Australian house prices compared to US were larger and increasing – that was true.

He stated, “Simply comparing Australia and the United States, it is hard to avoid the impression that gravity will inevitably exert its influence on Australian dwelling prices. But if we put these two lines on a chart with a number of other countries with which we might want to make comparisons, the picture is much less clear. To the extent that we can make any meaningful statements about international relativities, the main conclusion would be that Australian dwelling prices, relative to income, are in the pack of comparable countries. In this comparison, the United States seems the outlier.”

He also went on to say that in the wider world picture making conclusions of Australian over priced housing stock was “simply that historical or international comparisons, to the extent they can be made, do not constitute definitive evidence of an imminent slump. At the very least, the complexity of making these comparisons suggests we ought to look at some other metrics in thinking about the housing market.”



➤ One would be the performance of the associated mortgages. Here, the main story is that not much has changed. Arrears remain low and if anything have been edging down over the past year. That, in turn, is not altogether surprising given that debt-servicing burdens have declined."

Confirming this view of being comfortable with housing debt, the RBA Governor, speaking in July 2014, indicated that housing loans lending had grown 20 per cent in the last year, but from a much lower level. He stated again, as in 2012, that he did not see this as a problem, saying "the percentage of housing credit outstanding was still at a very low level, compared to trend over the last 10 years or so" and "it was hard to mount the soapbox to complain about that pace".

So, it would appear that Australia has had growth in the level of house prices, but this does not mean, compared to other countries they are over inflated. What it means is that we are different.

Peter Costello speaking to the Property Council of Australia's forum in Sydney in

September 2014, said, "The economics of demand and supply of residential housing were the reason for high prices, not speculation arising from excessive debt used in house purchases. We have to factor in the fact housing supply is not meeting demand". He went on to say, "Building a house is comparatively cheap....What is expensive in Australia is land. We have increasing demand but quite a restrictive supply of land and so prices are high."

To add explanation what drives land prices, Bloomberg Growth Challenge Summit in Sydney in September 2014 heard from developer, JLL Head of Research, David Rees that research showed that 44 per cent of Australian house prices was actually state, local and federal-charged taxes. No wonder Australians have expensive housing prices.

If I reflect on the Big Mac Index, it too is troubled with various product differences in the varying countries that are compared.

What I do see that enables Australian house prices to grow is the of cost of buying which

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5000th PMC member



The 2014 annual conference marked many important milestones including the announcement of our 4000th Property Millionaires Club Members. With the 2015 conference only a few months away we have our sights set on creating our 5000th PMC member. The most important thing about goals is having one. It's what keeps us motivated and striving to be the best we can be. So watch this space for further updates on our progress.

Will you be our 5000th PMC Member?

to some degree is assisted by the level of interest rates. However, in any market it is not the cost of credit that drives a demand for a product, but that there is a strong demand for the product in the first place.

The underlying drivers for Australian house price growth now and in the future will be:

1. Our growing and expected on-going growth of population – both natural and through immigration.
2. Our undersupply of available housing stock and the growth of prices through limited supply due to infrastructure constraints and cost of bringing land lot to market.
3. Our interest and capacity to live on a limited area of coast line that has limited capacity for expanding availability.
4. Our desire as Australians to live in the largest, on average homes in the world, with average house size more than doubling over the last 40 years.

I do not see these above growth drivers (supply and demand factors) changing dramatically into the near future or over the longer term of time. This being the case and not seeing much value in making international comparisons of Australian housing prices being more expensive than other countries where:

- Labour prices are lower
- House sizes are smaller
- Land values are lower
- House construction is of cheaper materials
- Building standards are less.

I see Australian house prices as being pretty much where they should be and a reflection of the basic economics of limited supply against growing demand. ◀



PMC TRAVEL CLUB TRAVEL EVENTS for 2015

PMC European White Christmas and New Year – 2014-15

This trip has certainly been on many PMC members' list for some years. Maybe this year is the year to take a most memorable trip to celebrate Christmas and see in the New Year in a European white winter. The itinerary is to include the famous Christmas markets in Vienna,

PMC Ski Japan – January 2015 (one week touring/one week skiing)

To all the PMC ski enthusiasts who have always dreamt of skiing the powder white ski slopes in Japan... well, it is going to happen! PMC members and their families/friends are invited to enjoy this wonderful opportunity experience of skiing on some of the best snow slopes in the world in Niseko, Japan. For those family members who don't ski, well, let me tell you, there will be plenty of other options for you!

PMC Retreat – 20-26 February 2015

After the Club's National Conference join the PMC group for a Noosa experience. Many have already booked as they don't want to miss out on a fun week with friends.

PMC Turkey to Piraeus Silverseas Cruise – 19-26 June 2015

Discover the beauty of the Greek Islands aboard the Silver Spirit from Silverseas. Indulge yourself for seven nights aboard this amazing ship. Everything is included – all you need to do is relax and soak it all up. Take the opportunity as the ship stops in ports to explore the islands of Santorini, Rhodes and Mykonos, and enjoy the Greek culture. Space is held exclusively for PMC members.

PMC Santorini Island – 29 June-6 July 2015

Is it on your bucket list to stay in a villa on a majestic Greek island and relax for seven days? This is an amazing island on which to unwind and perhaps even find time to enjoy the local sights and attractions.

PMC Turkey, Gallipoli and the Ottomans – 6-20 July 2015 (Four spaces still available)

Experience Gallipoli and explore Turkey and see its amazing sights. The anniversary celebration for Anzac day was always going to be a huge event and extremely inundated by thousands of people, we have decided to still offer PMC members the opportunity of travelling to and exploring a large area of Turkey at a later time without the hassle of crowds. The group will still visit Gallipoli for a private remembrance.

PMC Scenic River Cruise – 3-17 August 2015 (discounts available)

SCENIC RIVER CRUISE for PMC members and friends for 2015. If you are interested in having a totally relaxing holiday for 15 days whilst enjoying European cities and river scenery, cuisine and experiences, then this is for you. This Budapest to Amsterdam has a group allocation of space reserved exclusively for PMC.

PMC Scenic Coach Tours Territory Experience – 12-22 August 2015

Visit Central Australia, experience the wonders of Ayers Rock, Kings Canyon and Alice Springs travelling the length of the Northern Territory up through Katherine to Darwin.

For more information please contact:

**PMC travel director Sharyn Bojczenko mobile 0407 551 567
or email sharyn.bojczenko@bigpond.com.**