

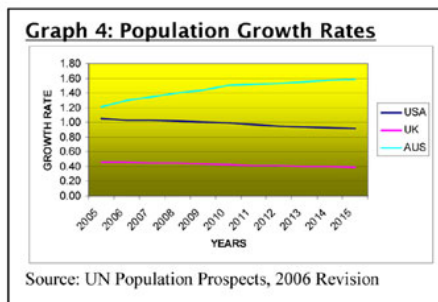
The Market as a Whole

OUR HOUSING MARKET IS DIFFERENT

What the merchants of gloom also overlook is that there are three fundamental differences between our housing markets and those of the USA and UK with which they seek to compare us.

POPULATION GROWTH

Population growth directly creates housing demand and we are experiencing our fastest population growth in two decades, quickly moving towards 22 million residents with an annual growth rate of 1.5%, compared to a world average of 1.2%.



In complete contrast to this as **Graph 4** shows, population growth rates in the USA and UK are lower than in Australia and while theirs are predicted to slow further, ours are forecast to rise more quickly.

DEMOGRAPHIC CHANGE

Unlike the housing markets of the USA and UK, where the population is ageing and baby boomers are approaching retirement, our population is rejuvenated by the arrival of 180,000 mostly young and skilled overseas migrants each year. In addition, our fertility rate of 1.85 births per woman is the highest in 15 years. These new residents offset the effects of the baby boom retirees, keeping our median age younger than either the USA or UK. They fill new employment opportunities and are creating the highest demand for new housing in our history. This is estimated by the Housing Industry Association to be in excess of 170,000 new dwellings in 2007/08, while the current annual rate of completions is just over 150,000 and not likely to increase significantly in the near future.

HOUSING AFFORDABILITY

In the current mood of uncertainty, official cash rates may not go much higher even though the March CPI reached 4.2% and they are certainly not at "crisis" levels. The limits on credit are likely to keep investment in housing at current levels rather than reduce them. Our major trading banks seem to have adopted a path, in this period of credit tightness of increasing lending rates instead of limiting credit supply. They are simply taking up the slack caused by the reduction in available funds from the non-bank lenders. Yes, there are less funds available but at this stage it does not seem to be having an impact on property sales. The government's promised tax cuts will also remove some of the recent interest rate pain and other assistance for first home buyers is foreshadowed in the Rudd Government's first budget.

WHAT'S OUR VIEW?

Apart from possible further interest rate rises and some global uncertainty, it is difficult to see where the problems may come from in the near term. Our economy is sound and showing good growth, the population is expanding and there is a housing shortage. There is also an additional significant fact – we have never had larger amounts of "real" money flowing into the coffers of governments and institutional investors as a result of the last few years of economic good times.

Once the gate keepers shake off their cautious outlook and regain some confidence, there is every likelihood that these funds will be unlocked and find their way in even larger quantities into the housing investments and finance markets than before the sub prime market crises, with good growth to come for investors in the medium term who will have picked their time well.