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the final word - **JOHN JOHNSTON** CEO

BACK TO THE FUTURE... 'AGAIN'!

SHAREMARKET CRASH

As I write this, the US benchmark Dow Jones industrial share average has in the space of just one hour lost a staggering 5% of its value. It is down 7% on the day and a full 40% off where it was at this time last year. History indeed does repeat itself, this is 1987 all over again.

World-wide countless trillions of dollars have been wiped off the values of equities markets. These unfortunately include the retirement nest eggs of many not so young anymore people who had been led to believe that investing in shares was as safe as property or bonds.

A global share 'bear market' has now set in following a glory bull run that lasted almost two decades and which took the local All Ordinaries index from 1000 points in 1987 to last years peak approaching 7000 points.

The market has since come off here by more than 40% and history would support that it can go lower yet, particularly given the growing concerns of a substantial global downturn driven easing in demand for Australia's commodities. This has sent the local currency into an unprecedented tailspin, dumping 30% of it's value since August.

Equities markets aside, the prognosis for Australia's economy remains among the best of all OECD countries. Despite the downturn, Australia's growth is still predicted to exceed 2% next year. Most other countries are expected to languish at around zero levels of growth or even to dip into negative territory.

INVESTMENT SECURITY

In response to the current global financial turmoil, the world is aggressively moving away from all forms of speculative investment. Given the current upheaval in financial markets, world-wide investors looking for short term security are locking in on short to mid term dated bonds, particularly in Japanese Yen and US Dollars. The run on bonds has been such that the returns offered have diminished greatly.

HOUSING AFFORDABILITY BOOST

The fallout from a combination of the global sharemarket rout and the global financial crisis has provided an unexpected boost for residential property markets here at home with the RBA recently taking the almost unprecedented step of instituting a landmark 1% interest rate cut to the benchmark lending rate. And there is a high likelihood that more rate cuts may come to stave off recession.

This bold move represents the largest singular interest rate cut in Australia's history, not because of it's magnitude, but because of the percentage value of the shift. The drop from 7% to 6% represents more than a 15% reduction which we have never seen in our history, very different to previous 1% drops which occurred when rates were much higher.

Whilst this is obviously great news for all borrowers, what has not been mentioned anywhere is the consequence of housing affordability improving in Australia by almost 15% with the rate cut. As interest rates drop, each successive cut of a similar amount has a greater effect than the previous. For example, the current cut from 7% to 6% represents a drop of 14.3%. A further 1% cut to 5% would be a drop of 16.7% (and therefore a 16.7% improvement in affordability). From 5% to 4%, that becomes 20%, and so on..

Affordability and population growth drive property markets. Considering this and the following points, a strong turnaround in property markets may be a lot closer than many may think:

- The last four corrections in global sharemarkets have all triggered property booms of some significance in Australia. The last crash of 1987 caused the memorable 1988/89 boom
- The rapid fall in the value of our dollar makes Australia and it's real estate far more attractive for intending migrants or foreign investors, many of whom have been frustrated over recent years with increasing property prices and a strengthening currency. We are now again particularly attractive to migrants from South Africa, the UK and New Zealand who represent a significant proportion of our skilled migrant intake normally and who are all presently faced with diminishing economic conditions at home
- A combination of today's rapidly rising rents with lower interest rates make the returns on investment property increasingly attractive as an investment both domestically and from abroad
- Brisbane and many other parts of South-East Queensland have a growing deficit between current population inflows and the number of new dwellings able to come on stream

There will be more 'bull runs' in the sharemarket in the future as history repeats itself. Until then, given it's security and incomparable track record of reliable capital growth, it will be residential property's turn to shine.