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## Small signs point to positive growth

AS the year gets going, we can expect different predictions from various commentators about the prospects of the residential property markets. Usually, real estate agents claim there's a buzz in the auctions and the buyers are back, while economists claim that Australian property is still over-valued.

What is actually happening with residential property? In the past five years, prices paid for Australian property have looked like a sideways 'S' snaking along the graph. According to RP Data-Rismark research released two weeks ago, property peaked in May 2007 when it was growing at 4 per cent a year, but by early 2008 property value growth had hit zero and was heading south to minus 15 per cent, where it stayed in negative territory for a year.

Prices recovered in 2009, and from mid-09 to mid-2010 prices growth was almost back to where it had been in May 2007 — not quite 4 per cent but over 3.5 per cent.

However, since the end of 2009, Australian property has dipped and in the year to November 2011, prices were negative again.

It hasn't been a happy or predictable time, but I believe 2012 will see a comeback from property.

One reason is that the RP Data-Rismark release showed a sign of recovery in residential property during November 2011. Capital city sales posted a gain of 0.1 per cent and regional and non-capital city sales rose by 0.3 per cent.

“ There has not been a decade since World War II when property values have not risen



The gains might be small, but they are the first rises in a year and it's a good sign that property is heading in the right direction.

Second, interest rates were cut twice in two months at the end of 2011, bringing the official cash rate to 4.25 per cent. This means that those 90 per cent of home borrowers who use a variable rate mortgage should be paying between 6.5 and 7.5 per cent. It's not cheap, as such, but it's a comfort zone for most borrowers.

Third, property has a market value where the price is set by buyers and sellers. Currently, buyers are in control, either saving their cash, shying from debt, waiting for a cheaper market or making offers lower than the seller wants.

But these situations are dynamic, and when the dust settles after the holidays there could be sufficient people wanting to take advantage of two interest-rate cuts to kick-start the auctions. Moreover, property is an asset measured in 10-year cycles and there has not been a decade since the end of World War II when property values have not risen.

Modest asset growth will return when you measure it decade by decade — we just won't see the asset inflation we had in the 2000s. I've always told people who seek my advice that the worst thing you can do is delay

buying property, or stay out of it too long. Property will increase in value over a decade, even if it doesn't rise one year from now.

As long as you don't overpay for property, it's a safe, steady investment that you can live in and use to provide security for your family.

Property prices turned upwards in November 2011, so now could be a good time to be in the market. Even if you can't afford to buy where you want to live, you can buy an investment property and continue to rent in the suburb of your choice.

This newspaper recently reported on the top-performing suburbs for houses under \$500,000 — which were Pitt Town, Warwick Farm, South Granville, Canley Vale, Oxley Park and Hoxton Park — so take a look at what's out there.

There's also an opportunity, if you're handy, to buy a place needing work and get into the market that way.

Some people go shares with a friend, or with a parent, so there are many different ways to take that first step.

The important thing with property: don't over-pay; make sure you can service the loan repayments; and buy on the basics of schools, hospitals, public transport routes, recreation grounds and parks. These are the things that will keep an area's value for the long term.

There are no guarantees, but if you buy on the basics, don't overpay and only commit to what you can afford, property is usually a good bet.

## Ask Mark

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Advice is intended for guidance only

### Don't get burnt twice

**DURING** the GFC I was burnt in the property market, when I had to kick in about \$50,000 to settle the debt with the banks. I am 33, with savings of nearly \$350,000 and contributing \$1000 to my super each month as a salary sacrifice, but with the current uncertainty I'm not sure if I should invest in bricks and mortar again or put money in shares (which I have never done before). My train of thought is that share market has dropped and is low compared to what it was before the GFC. I put about \$3000 to \$4000 a month in a Netbank saver. — S.D.

**Mark says:** Generally, property investment is for people interested in stability and long-term growth. Property offers good leverage and strong capital gains. It is also something that many find easier to understand than share investment, as less technical understanding is required.

Property is more tangible, as you will be able to see where your money is going. Property investors have complete control over the investment, whereas share investors have only the influence of their voting power. On the other hand, shares offer high liquidity and good cash flow prospects, as profits can be seen in the short term. Shares are also much more divisible, as you can sell down portions of your portfolio.

Transaction costs are lower for shares, too. The only costs required are brokerage on acquisition and disposal. On the other hand, property will have a number of extra costs such as the cost of maintaining it.

Consider seeking a financial planner who can provide professional advice around the concept of diversification.

### A snag in rolling over

**AFTER** working for a federal government agency for three years, I'm now with a state government agency. I tried to consolidate all my super into my current fund, but when I tried to roll over my other super I was told I couldn't, as that's not available with this fund. How bizarre that the federal government put into law the ability to consolidate super accounts into one but doesn't allow people who no longer work for them to roll over to another fund. I have about \$50,000 in super with the original account, with 35 years until retirement. Will I need to keep two funds forever? — G.S.

**Mark says:** Without more detailed information it is difficult to ascertain the exact reason as to why your government agency superannuation fund does not allow you to consolidate funds.

Generally, you should be able to consolidate your super funds, as the 'portability' legislation enables you to withdraw your accumulation benefit and move that money between super funds. However, trustees of super funds may also specify additional rules applicable to portability transfers.

Seek a financial planner who will be able to assist and provide advice referring your circumstance.

## DIRECTORS' DEALINGS

### Iron miner needs a tight grip on costs

CEO Neville Power has bought 117,000 shares in Fortescue Metals Group (FMG), on which Morningstar has a Hold recommendation.

Fortescue quickly emerged from concept in July 2003 to become the third-largest iron ore miner in Australia behind BHP and RIO.

It owns a railway and ship loader with 55 megatonne capacity and is in the process of expanding to 155Mt a year.

The goal of being a low-cost producer needs work, with Fortescue in the top half of the cost curve. Buoyant demand and strong prices have papered over product discounts and cost overruns. The balance sheet is sound with net debt

less than \$US1 billion at end of financial year 2011, but debt is rising with expansions. Exploration acreage is extensive and resources have grown quickly.

The investment is suitable for risk-tolerant investors seeking a pure iron ore exposure with exploration and expansion upside. High costs and single-commodity exposure make Fortescue lower quality than BHP and RIO.

The iron ore price firmed a little late last year, but Morningstar is less bullish on the long-term price and does not expect the highly favourable conditions to continue. Ultimately, high-cost production, much of which is in China, will be pushed off the



end of the cost curve as lower-cost capacity is built in the Pilbara, Brazil and, perhaps later in the decade, West Africa.

We expect a gradual decline in the iron ore fines price to Morningstar's long-term average of \$81 a tonne in about five years. Recent production was slightly lower than expected, up from 11.5Mt in the last quarter of 2011 to

12.2Mt in IQ12. The annualised rate of 48.8Mt is still shy of the 55Mt target rate.

### Food producer loses flavour

SUBSTANTIAL shareholder Lazard Asset Management has bought about 20 million shares in Goodman Fielder

### Chief executive Neville Power has bought more shares in Fortescue

(code GFF), which produces staple foods such as bread, milk, flour, margarine, salad dressings and cooking oils.

The food industry is mature and prone to price wars. Supermarket chains have far more bargaining power than food manufacturers.

Margins are vulnerable to agricultural commodity and fuel price rises, as well as consumer drift away from higher-margin branded products when household budgets are under pressure.

Australian dollar appreciation is another risk. The stock does not suit conservative investors.

There is a need for strategic review, and Morningstar applauds CEO Chris Delaney for initiating one. Clearly,

improved efficiencies are required, particularly in manufacturing and in the supply chain. But the plan is still a work in progress, many of the savings are yet to be firmed up, and the outcomes of the product portfolio review may not be known for some time.

Morningstar expects Mr Delaney will succeed in lowering costs and optimising the product portfolio. This will help GFF compete more effectively in a tough industry. But given the power of the supermarket chains, their relentless drive to offer competitive prices and growth in house brands, supplier margins will remain under constant pressure.

Morningstar sees no reason to change its **Avoid** recommendation, as GFF remains in a tough industry with structural issues and we see better investment opportunities elsewhere.