# Uncertainty moves in as rich ditch houses

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**Ben Hurley**

Australia's wealthiest investors have lost interest in residential property, sparking a sell-down that could keep property markets weak for years to come.

Global uncertainty and fears that property is overvalued is driving investors to seek other asset classes, particularly as bank term deposits are offering safe, long-term returns.

Property-keen baby boomers are also seeking more liquid assets as they move towards retirement, especially after predictions that the property market could be weak for years to come, making their investment properties slow to sell.

The dollar value of property sold by Australia's largest real estate franchise Ray White Group was 16 per cent lower in March this year than in March 2010.

Chairman Brian White said the fall was almost entirely due to lack of investor interest. Demand from owner occupiers was as strong as ever. "The feature over the last six months has been the somewhat disenchantment of investors buying residential property," Mr White said. "The reduction of sales to investors in our analysis has been the strongest factor in those transaction numbers."

Research group Investment Trends recently surveyed almost 2000 wealthy individuals with more than $1 million in funds to invest outside the family home. The survey found that growing concern over the possibility of a double-dip financial crisis was leading to deleveraging across this demographic, mostly by diluting property exposure.

In December 2009, 25 per cent of the assets of survey participants were allocated to residential property, excluding their own home. But by December 2010, this had fallen to 21 per cent, replaced by a growing proportion invested in direct shares, cash and term deposits.

Survey participants also said they would "ideally" like to get their residential property exposure down to an average of 17 per cent, suggesting the process is continuing.

Investment Trends chief operating officer Tim Cobb said it would take "two or three years" for investors to get their portfolios to that position.

"It stands to reason that if you have got the high net-worth investors doing a gradual switch away from property, it makes it likely that prices will be soft and it makes it extremely unlikely that there will be capital growth," Mr Cobb said. "Because any rise in the market will be seen as an opportunity to sell."

The findings fit with statistics by property data companies that show record numbers of houses for sale around the country, leading to greater levels of discounting and longer periods on the market.

Investment Trends also found the proportion of wealthy investors using borrowings to support their investments was declining steeply, from 72 per cent in 2008 to 50 per cent in 2010. The average age of survey participants was 58.

Ageing investors were concerned about cash flow and liquidity, Mr Cobb said. "There's all this chat about whether property is over-valued, and if people are going to sell that takes a period of time and they have to plan ahead," he said.

The number of property investors claiming tax deductions on rental properties fell for the first time in the 2008-09 financial year, and the average number of rental properties held also fell, the Australian Taxation Office's recently published statistics for that year show.

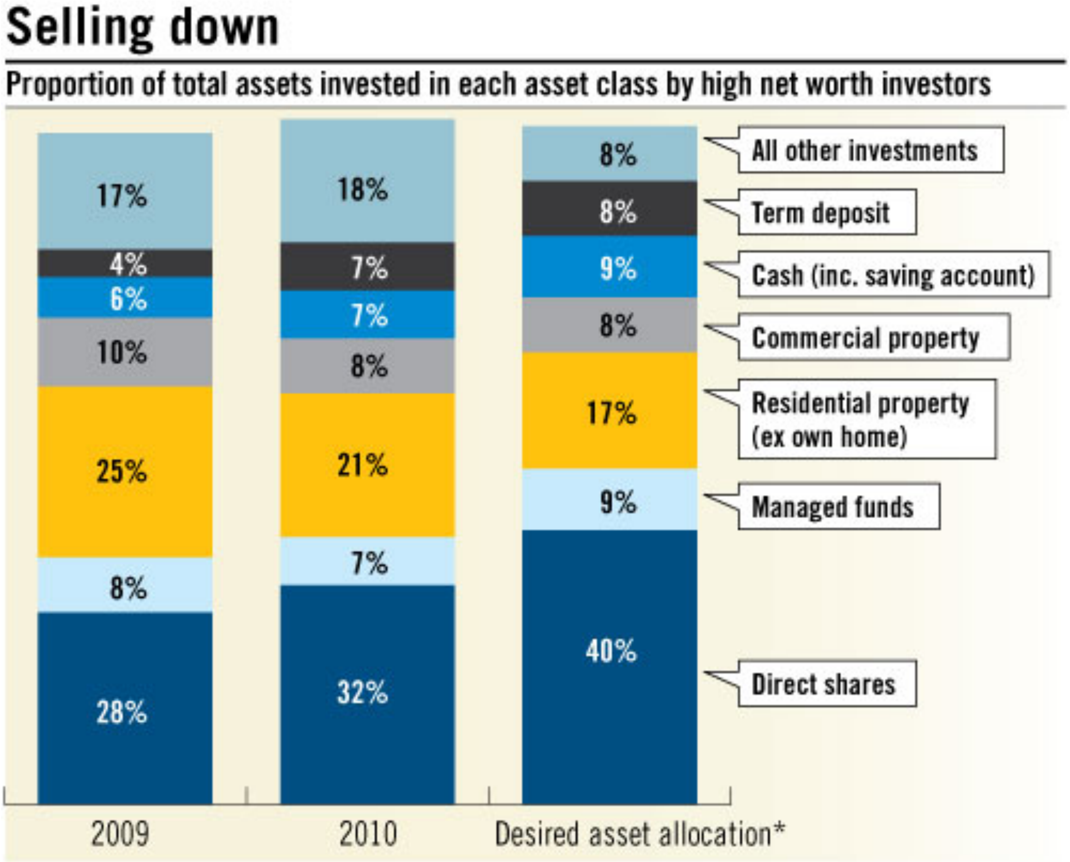
Time will tell whether this is a broader trend or just a knee-jerk reaction to the financial crisis.

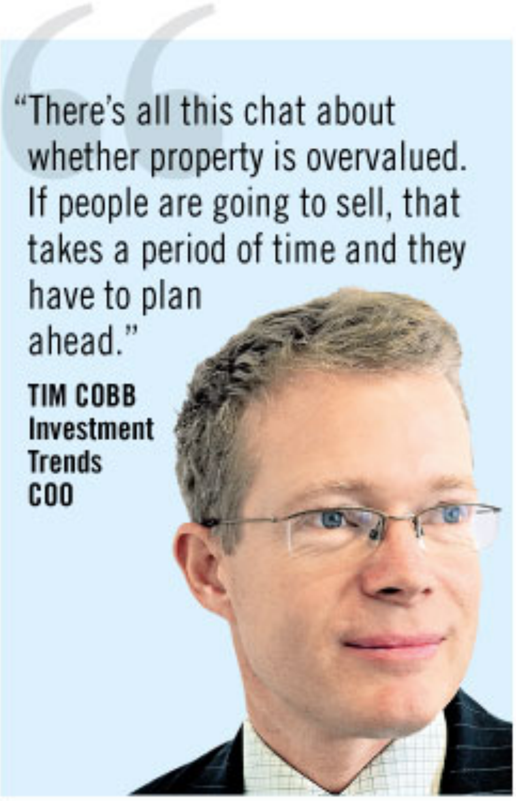
Dixon Advisory managing director Alan Dixon said his clients had delayed property purchases in response to global uncertainty over European debt and Japan's economy, as well as hawkish predictions on interest rates by some analysts. During the financial crisis their portfolios may also have become overweight in residential property, which held its value better than other assets.

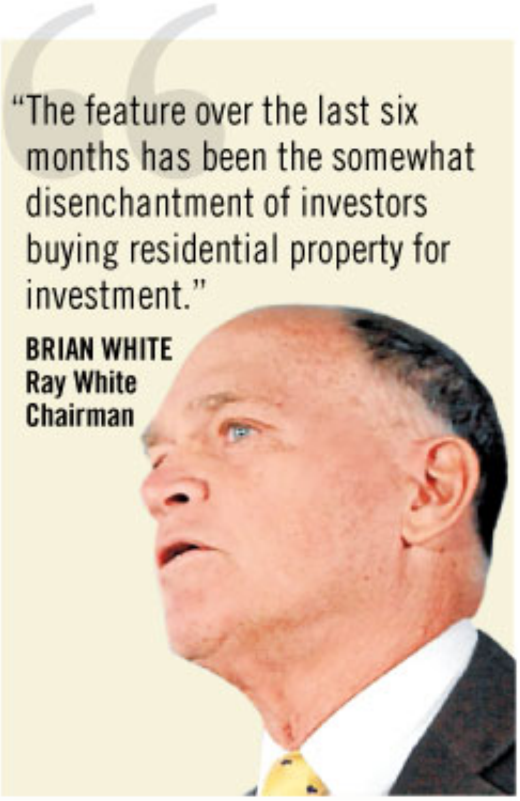
Property investment adviser Margaret Lomas said younger generations were more open to renting than baby boomers, but this wasn't stopping generation Y from investing further afield in growth areas that would outperform the broader market.

“The great Australian dream of owning your own home is dying a slow and natural death, but that doesn’t mean people aren’t trying to buy property,” Ms Lomas said.

“They’re just doing it in more creative ways, and they’re doing it more intelligently than before.”




*based on ideally what % of your total investment portfolio you think should be invested in each class SOURCE: INVESTMENT TRENDS

The Australian Financial Review

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