INVESTMENT 101

The Theory Of Property Prices

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One of the most common reasons that I have heard from clients looking to invest in overseas properties is that these properties are so cheap compared to where they come from.

It is then no surprise that many of the most active international investors are from some of the most expensive property markets such as Hong Kong, China and Singapore where the push factor of expensive housing has driven many of them to markets where they can get more bang for their bucks. Often a better lifestyle, friendlier policies and lower cost of entry are pull factors that makes these markets much more attractive.

But what is expensive or cheap? Are they relative positions or is there some way that investors can somewhat sensibly pinpoint the prices to determine the levels that they are playing to and therefore the kind of risks associated.

At RunningStream, we practice a property price theory that helps us correlate price stages to the driving factors and therefore the risks. Something which many investors should and would benefit from understanding. At

Price Growth

Price Stages	Drivers	Details	Risks
Foreign Investor	Location push and pull factors, price points, yields and growth potential, foreign buyer friendliness	Locations with strong appeals whether as a lifestyle, economy or price point will attract foreign investors from places with significantly higher property prices to participate in the market and again push up the prices.	Government policies, foreign buyer tax and duties, foreign lending, immigration, , capital inflow/outflow regulations, foreign economies
Investors	Returns, yields, growth potential	Once the banks lend, especially at a lower interest rate and higher lending ratio, investors will be interested to leverage and pick up more properties kicking prices to yet another level.	Interest rates, rental market, investor lending volume, taxes and duties
Mortgage	Lending and mortgages.	When the banks start to provide mortgages, prices will kick to another level as it facilitates homebuyers with liquidity thus pushing up prices.	Banks, interest rates, national debt policies
Fundamentals	Jobs, incomes, population growth.	At this point, it is totally about local income, savings and jobs. Prices are all about basic demand and supply.	Domestic economics

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different price stages, investors must recognise that they are dealing with different price drivers that are controlled or influenced by different parties often beyond their control. These drivers and parties will then bring along their different risk elements that investors should pay attention to.

For example, the Australian market (particularly Melbourne and Sydney) was significantly participated by China-based investors. The subsequent curb on Australian banks lending to foreigners and China restricting capital outflow for property purchase caused quite a stir. Despite the fact that the markets are well supported by strong domestic demand, it nevertheless caused significant distress to developers with products targeting foreign investors specifically.

In Singapore, heavy dependence on borrowing advocated by "investment gurus" was a key cause for the market softening when policies were taken to restrict debt servicing ratio (DSR). In addition, foreign investors were a key price driver and political decisions to restrict foreign population resulted in a significant rental correction that led to price deterioration.

Understand the price stages and drivers of your preferred market will help you understand and monitor the right risk elements to protect your investments.

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