

# Chairman's Opinion Australian Housing Market



## “We don't have a Bubble!”

The very proposition of a bubble, is that the market has expanded to a point where it is not sustainable and that it will burst followed by a significant downward correction. The circumstances for a “bubble” to exist means continued high pressure from the market feeding upon itself, rapidly expanding to a point where the tension is so great that it either pops as a result of its own internal pressure or for reasons of its tension becomes very vulnerable to external factors and is pricked (externally) rather than popping (internally).

We could all think of a highly inflated balloon. Left alone with no more internal pressure it will not burst but if pricked by something external it will explode.

Conditions are subsiding and the market has recently just drifted off a peak and there is certainly the expectation that moving forward the rate of growth will be slower. We think that it is unlikely that there will be a significant increase in commercial interest rates or unemployment and thus these

internal factors are not a danger. Left alone there seems to be no internal or domestic pending or immediate threat that would cause a major correction. The markets are however certainly inflated perhaps not fully inflated to the extreme but certainly inflated and thus would be vulnerable to a major external (international event) if that were likely to occur for example economic drama in China or another GFC and this of course would affect all asset classes not just property individually. So, in summary, does Charter think that there is a bubble which infers an event that is about to collapse our answer is NO. We view the markets as being fully priced and at high levels which left alone will stabilise and drift, responding to marginal changes in income growth and employment but none of which will be dramatic. Supporting the sustainability of the current markets at their levels of value particularly in the residential sector are the major influences of continued strong population growth and the lack of a vulnerable category of over-supply in residential housing nationally.

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