28 March 2017

The Great Railway Bazaar

The Massive Projects Happening Worldwide As the Boom Rolls On

By Phil Anderson and Callum Newman

ALSO IN THIS ISSUE

- The Melbourne Metro...Times Three!
- A Looming Economic Boom
- What's Behind Australia's Property 'Hotspots'?

In 1975, an unknown and poor writer called Paul Theroux published a book called *The Great Railway Bazaar*.

It told of his journey from London, across Europe and the Middle East, and on to India and Southeast Asia. He went back along the Trans-Siberian Railway. He travelled by train all the way. Most of these train lines were left over from European colonisation.

The book's romantic notions and exotic locations proved a winner. It went on to sell 1.5 million copies upon release.

Within 10 years from today, the next young traveller setting out on such a journey will be able to travel on train tracks all over the world... But this time, *China* will have built and funded the majority of them. We've told you about this before: the New Silk Road.

And like the railroad boom of the 19th century in the USA, these railways and other infrastructure will open up new trade routes, markets and access to raw materials. That's especially true in a key frontier with a notorious infrastructure deficit: Africa.

Think of it as the Great Railway Bazaar of the 21st century.

'The First Electric, Transnational Railway in Africa'

In February, *The New York Times* reported on the opening of Africa's first electric, transnational railway between the capitals of Ethiopia and Djibouti.

This new line overlays one that the French originally finished in 1917. It was still operating until now.

It took six years to plan and build this new link between the capitals. China supplied the engineers, the system design and the trains. Chinese banks funded most of the US$4 billion cost.

One estimate says Chinese companies are earning US$50 billion a year from constructing new ports, highways and airports across Africa.

They're planning on building more. Here's why: China is Africa's largest trading partner. Also, Beijing is no doubt keen to secure supplies of raw materials, and keep Chinese companies gainfully employed.

China Fortune Land Development has secured the project to help Egypt build a new industrial city, which will be the country's new administrative capital. Investment in this project could total $45 billion.

Chinese banks have enormous resources to finance these productive projects. Chinese banks are now the largest by assets.

The China State Construction Engineering Corporation was recently awarded the contract to build Africa's tallest tower in Nairobi, Kenya. It's due for completion in 2020.

It will eclipse Africa's current tallest tower (completed in 1973) by 67 metres.

As you know, these infrastructure projects will take global land values higher when they're built.

Speaking of which...

Take the Scale of the Melbourne Metro...and Triple It!

The $10.9 billion Melbourne Metro Rail Project will result in five new railway stations and an additional nine kilometres of underground line.

It looks pretty tame compared to what the French have planned for Paris. They're going to spend 25 billion euros to add 205 kilometres of tracks and 68 new stations to service the city. It will attract two million passengers a day.

On the home front, Australia has already budgeted for a $50 billion infrastructure rollout. A number of politicians are jostling for control of the monies, and, in turn, control over what might get built, and where.

There are now substantial calls for upgrades to all regional Victorian rail lines. Victoria's second largest town, Geelong, wants new rail carparks and line upgrades. The Gippsland line does as well.

Meanwhile, in Sydney, construction starts this year for the new metro line between Chatswood and Sydenham, including new twin rail tunnels under Sydney Harbour and through the CBD.

It means a new metro train every two minutes in each direction under the Sydney CBD, and 31 metro stations from Rouse Hill to Bankstown. 66 kilometres of new railway for the city.

Consider the Boom When the US Joins This Party...

The new US president has promised to 'rebuild' America. You've well and truly heard that by now.

People ask immediately: Where's the money going to come from to do that?

'America has spent approximately $US6 trillion in the Middle East; all this while our infrastructure at home is crumbling. With this $US6 trillion we could have rebuilt our country — twice.'

President Trump in his recent address to the US Congress

The US is way behind the rest of the world on this one. Most of the world's governments have already sold off their assets to build the sort of infrastructure the US wants to rebuild — as a way to pay for the construction of the infrastructure in the first place.

Think ports, railways, toll roads, powerlines, postal services and much, much more. Many of these assets are still in the hands of the US government.

There is vast scope for the US to start privatising assets to kick-start the rebuilding. It's way overdue.

And it could last a generation — easily — as it has in Australia.

US airports say they need US$100 billion over the next five years alone to bring their ailing infrastructure back up to standard.

And all these airports could be sold off, too.

The rest of the world did it without too many problems arising from the selloffs. In fact, it's arguably one of the better things all the respective governments have done.

Is there any reason today why a port has to be owned by the government?

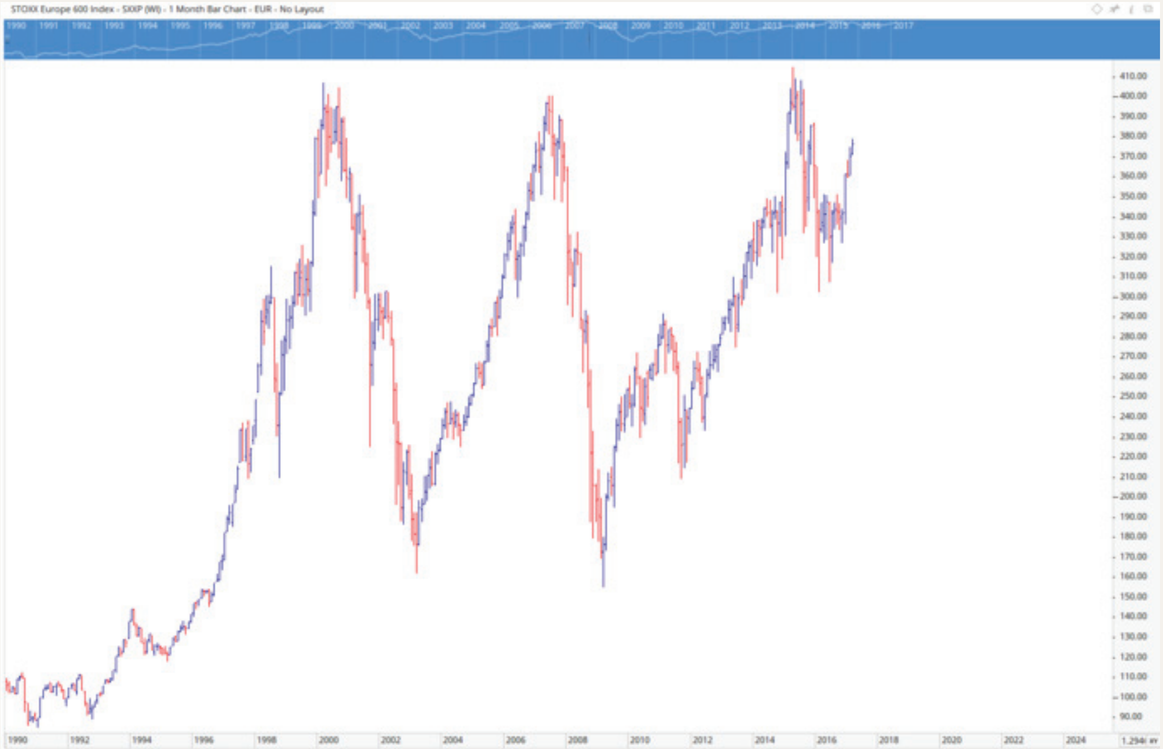
This ongoing boom is exactly what we forecast you to see.

France's largest bank by assets is BNP Paribas. The bank is planning to invest three billion euros in digital technology over the next three years. It's hoping this will give the bank a similar amount in terms of cost savings. BNP is also closing hundreds of traditional branches as part of this move.

British bank Lloyds is on track to do a 1.3 billion pound contract with IBM to transfer 1,900 jobs and its computer systems to the IT services provider. It's designed to save the bank 760 million pounds in costs.

In Europe, the STOXX Europe 600 Index companies have recorded an 11% rise in profits from a year earlier. This is the strongest move in two years. This compares to a 5% growth in S&P 500 companies in the US, according to data from JPMorgan Chase & Co.

Here’s a monthly chart of the STOXX Europe 600 Index...



Source: Optuma

Does the chart suggest Europe is in big trouble?

You can see it’s getting close, once again, to a breakout into all-time new highs. We’ve highlighted (and proved) for you before what an index going into all-time new highs infers once it happens: A looming economic boom.

Europe is coming back.

How to Take Advantage of All This?

The first port of call is easy, and should be obvious to anyone: **Own some land value**.

It is laughable for anyone to be suggesting recession in Australia at this time.

It is also laughable for anyone to cite reasons why the US has to go into recession soon. We’re not aware of any decent indicator, anywhere, that is signalling the US is about to go into recession. It’s exactly the opposite, in fact.

And the best indicators for this are the US yield curve and what is happening to US corporate earnings. Neither set of statistics is bearish — not even remotely bearish.

Our second suggestion follows on from the first: **Subdivide your real estate** where you can. We have dealt with this topic in past issues.

Our third suggestion is via the stock market: **Stocks that benefit from rising land values will do well over time**. Think banks, REITs (real estate investment trusts) and infrastructure stocks.

Our beat is closer to the real estate cycle here at *Cycles, Trends and Forecasts*.

We asked our real estate expert, Catherine Cashmore, to tell you about a new global trend in property that could deliver you BOTH income and capital gains.

Over to Catherine...

Best wishes,

Phillip J Anderson
Editor

Callum Newman
Associate Editor

The Global Force Behind Australian Property 'Hotspots'

How Select Landlords Are Cashing in On Soaring Rents...and Defying the Property Bears...and How You Can Join Them!

By Catherine Cashmore

There is one big technical revolution happening in the current real estate cycle. We've become so accustomed to it that we're already taking it for granted.

What am I talking about?

The answer is the sharing economy. Sharing assets and services with strangers via the internet is cheaper and easier than ever before.

And it's happening on a massive scale.

You name it and you can get it. Think cars, bikes, tools and cleaning services...to name a few. The companies flourishing in this 'new' economy include Lyft, TaskRabbit, Lending Club, DogVacay...the list goes on.

The Wall Street Journal reported this month on global vehicle giant General Motors, which is offering a Netflix-style, on-demand membership for its vehicles.

Drivers can rotate through different car models for a monthly fee. The 'ownership' economy is changing.

This sharing economy can be full of grey areas that are not easy for the government to regulate — or, more importantly for them, tax.

Governments worldwide have done everything in their power to prevent or slow the rise. Australia is no exception.

Take Uber as an example.

Taxi companies and governments have subjected Uber to ongoing protests and legal action around the world since it launched in 2010.

The loudest protests are from the taxi licence holders who are trying everything they can to preserve the value of their government-granted licences.

Uber is destroying the value of these licences through competition.

In 2012, the average cost of a taxi licence in Melbourne was $500,000. That's the same price as an inner-city apartment, and double the price paid in 2002.

Yet 80% of the taxi licence holders in Melbourne choose not to drive taxis.

Actual taxi *drivers* typically pay the licence holder up to 50% of each taxi fare. As a result of this, some drivers earn as little as $8 per hour.

The government's restriction on the number of taxi licences held by each licence holder was totally unnecessary. It created large windfalls for the licence holders. Customers paid high prices for a poor service, and drivers were unable to afford their own licences.

When Victoria legalised Uber in 2016, the rules of the game had to change.

The Victorian government is now introducing a single registration for all taxi and ridesharing services.

Taxi licence holders have been compensated $100,000 for a first licence and $50,000 for a second.

The outrage from licence holders has been tremendous, including taxi convoys holding up Melbourne's traffic during peak hour.

> *'"Lets cause some disruption," the group wrote on Facebook.*
>
> *'"The government can dismantle the industry if they choose, but we as licence holders should not have to pay the price for industry reform," the group's spokeswoman, Linda De Melis, told ABC 774.'*

A change in government policy has all but wiped away the value of taxi licences.

The largest government-granted licence of all is the right to collect the economic rent of land.

Yep, real estate.

This is another area where the sharing economy is having profound influence...and yet most of the commentators in the mainstream press don't even see it, let alone understand it.

It's called Airbnb...and it's making some landlords prodigious profits, and changing property markets worldwide.

This Backlash Can't Prevent Sharing Boom

I'm travelling to Berlin later this year on business. Normally I'd book accommodation through Airbnb. However, in May 2016, Berlin authorities banned residents renting to tourists through Airbnb.

A particular German law allowed them to do this. It's called — deep breath — Zweckentfremdung von Wohnraum, or ZwVbG for short. It translates as 'the prevention of the elimination of housing'.

The law is intended to stop people turning long-term rental accommodation into short-term holiday lets.

Berlin was the Airbnb capital of Germany prior to this law being implemented. In 2015, 20,000 Berliners let out their apartments through Airbnb.

11,700 units were uploaded onto the website daily.

Most of these lets were approximately 55 euros per night. That offered a considerable saving compared to hotel accommodation, and was an outright win for tourists and travellers.

Locals have now been instructed to anonymously report any suspected lawbreakers. Offenders can be fined up to 100,000 euros.

Whether the ban will last or not is questionable.

A German court recently ruled that Berliners could rent out their second home when they're living in their primary residence.

Also, there are already reports of hundreds of Airbnb landlords flouting the law.

Berlin is not the only city to attempt to restrict the use of Airbnb.

In October 2016, New York made it illegal to advertise an apartment for rent for less than 30 days.

Airbnb listings dropped only marginally, despite the prospect of increased fines.

Most hosts found loopholes that allowed them to skirt around the restrictions. Regulating the industry is an expensive and time-consuming business for city authorities.

Here's the catch when it comes to property in the sharing economy...

You and I, as consumers, benefit from increased competition, while monopolies are prevented.

However, unlike taxis, tools or services, land is fixed in location and fixed in supply.

Airbnb has drastically reduced the cost of holiday accommodation for consumers...but there's a price.

Homes previously available for long-term tenants are disappearing from the market.

That's why government attempts to restrict services such as Airbnb usually fall under the banner of 'housing affordability'.

However, Airbnb is not the reason housing is unaffordable.

To create affordable housing, land prices would have to be reduced.

Why You Can't Trust the Government on This

Prime Minister Malcolm Turnbull recently stated that his priority is to ensure '*more Australians can afford to buy a home*'. He warned there were '*no quick fixes or silver bullets*'.

Yes there are.

The best way to do this is with a land tax, along with the removal of all other taxes elsewhere to compensate.

If you tax the land, supply will immediately increase while the price of land will decrease. If you've been reading *Cycles, Trends and Forecasts* for some time, you will be very familiar with this concept by now.

Here's the political reality. If the government were to implement a broad-based land tax, it would not be fighting against a handful of taxi licence holders.

Australia's home-owning middle class would revolt with staunch opposition. After all, we've been told to use rising land values to fund our retirement.

And of course, the finance, insurance and real estate (FIRE) sector would use its powerful lobbying pressure to prevent this from happening, even if taxpayers wanted it anyway — which they don't.

The real winners of the property boom-and-bust cycle are the companies within this sector.

This is a major reason why government has repeatedly refused to implement a land tax — and why the cycle will continue into 2026.

The 'False Signal' from Rental Yields

Australia's tax policy has sent land prices in Melbourne, Sydney and Brisbane to record highs. That means yields are at record lows.

They're less than 3% in Melbourne, and not much higher in Sydney.

Australia is seeing the softest wage growth on record. This is coupled with historically high levels of new dwelling construction. This ensures these low yields won't change anytime soon.

A gross rental yield of 3% implies a net rental yield of around 1%.

Investment in residential housing has an average price to earnings (P/E) ratio of more than 100.

That's high...very high. In theory, your capital is much better served elsewhere.

Obviously, investors are not in the property market for rental income. They're in it for capital gains.

However, mainstream economists cite low rental yields to define a 'bubble' in real estate prices. Following on from this, investors will no longer be able to afford their debt repayments if interest rates rise...and the market will collapse.

What the 'Bubble Crowd' Doesn't See

However, Airbnb and other flat-sharing services are upending the dynamic behind this theory. Here's why.

Property owners can achieve three times the rent from short-term tenants compared to long-term lets.

Rents are soaring in some of Sydney's Airbnb hotspots — by up to five times as much as long-term city rentals. The bayside suburbs of Tamarama and Bronte are good examples.

One in five homes in Tamarama is listed on Airbnb. Bondi Beach comes a close second.

In Bondi, studio apartments can fetch $300 per night on Airbnb, and rarely see any periods of vacancy. They'd rent for $480 per week on long-term leases.

Other popular suburbs include Coogee, Clovelly, Darlinghurst, Surry Hills, Manly, Sydney, Paddington, Redfern, Potts Point, Newtown, Mosman, Maroubra, Bondi Junction, Pyrmont, Waterloo and Avalon.

The number of Sydney Airbnb advertisements has exploded. There were around 8,000 in 2015, compared to a current total of 23,615.

And it's not just upmarket bayside properties in demand.

Airbnb has three types of property listings: entire homes, private rooms and shared rooms.

39% of Sydney's Airbnb listings are rooms in shared accommodation. The average price per night is $211.

Sydney is the Airbnb capital of Australia. Melbourne is also one of the top 10 cities for global travellers on Airbnb.

Melbourne has 12,174 Airbnb listings. 44% are rooms in shared accommodation, with an average price per night of $138.

In Melbourne, the boom in high-density development in the CBD has resulted in an oversupply of poor quality accommodation. The apartments are small — around 60 square metres for a two-bedroom apartment. Rooms often lack natural light and storage facilities.

This supply does not appeal to long-term tenants. It is attractive to itinerant tenants seeking affordable inner-city accommodation.

Melbourne's QV1 Apartments has a number of two-bedroom units operating as dormitories, sleeping four people to a room, for example.

Little has changed since the 19th century, when Jacob Riis shocked readers with factual descriptions of slum conditions in New York City. His book, How the Other Half Lives, was published in 1890.

He wrote...

> *'Closets became bedrooms for multiple people. Small houses built for one family often became the residence for ten or more families, all of which were paying high rents.'*

Here's a shot of that...

Source: How the Other Half Lives

Now compare that to Melbourne 2017...

Source: The Age

No Australian Property Investor Has Seen This in Decades

Airbnb is giving you, as an investor, the chance to achieve something that has not been possible for decades.

That is, the windfall benefits of capital growth in Australian property, *as well as a positive rental income*.

It's transforming the real estate market and spurring property prices even higher.

One in six Australians has an Airbnb account.

Even retirees are supplementing their income by renting out spare rooms.

In fact, 60-year-old hosts are the fastest growing demographic on Airbnb. They have grown at a rate of 20% in the past year alone.

50- to 90-year-olds now make up a third of Airbnb hosts — earning just under $6,000 a year from renting out spare rooms.

Sixty-year-old hosts are also the most likely to get the maximum five-star reviews from guests, followed by 50- to 59-year-olds.

In Melbourne, 4.7% of all rental properties have been removed from the rental market and placed on the Airbnb registry.

That's really significant.

The government can't monitor the Airbnb market unless it has figures on how many units are being used exclusively as Airbnb short-term lets.

I've given them a head start for Melbourne.

The following table shows the local government areas in Melbourne where Airbnb is most popular.

Municipality	Total Rentals	Total Airbnb Properties	Airbnb Dedicated Rentals	% of Rental Market Removed by Airbnb
Melbourne	43,858	3,217	2,081	4.7
Maribyrnong	12,032	306	121	1.0
Frankston	12,928	115	57	0.44
Yarra	16,642	1,355	800	4.8
Moreland	21,906	653	275	1.3
Darebin	17,802	419	191	1.1
Stonnington	21,749	953	622	2.9
Glen Eira	19,854	365	164	0.8
Monash	15,819	232	62	0.4
Greater Melbourne	438,497*	12,174	6,890	1.6

The second column shows the total number of investor-owned properties.

The third column shows the total number of Airbnb properties.

The fourth column shows the total number of units and houses solely dedicated to Airbnb rentals.

The final column is the percentage of units within the total number of investor-owned properties.

As you can see, the percentages are still small. There's plenty of room for Airbnb to increase its capacity in Melbourne, assuming government policy does not interfere.

There are risks here, too.

Only recently, the State Revenue Office slapped an elderly couple with a huge fine for renting their home on Airbnb for a short period of time — something they do every year while visiting family in Tasmania.

According to the State Revenue Office, the couple rented the house out for a year because they were away on 1 July, when the new financial year ticked over. Therefore, it was claimed they should have been paying land tax.

The same laws apply to people who purchase a property and rent out the spare bedroom to help pay the mortgage. However, unless it's self-reported, auditing people who rent rooms through Airbnb is not an easy task.

Like everything in the sharing economy, laws need to be adapted to accommodate new innovations. Over time, this will happen.

Regardless, Airbnb continues to be a massive game-changer in the property market.

If you're interested in this, approach a good buyer's advocate and see if they're tracking this development in your area of interest.

It's going to be a doozy of a cycle into 2026.

What New Victorian Laws Mean for Property

Over the Labour Day weekend, the Victorian government announced changes to the state's existing planning and zoning laws.

Some media outlets picked up on the story. However, because of the public holiday, it has flown under the radar somewhat, and I'm still coming across sales agents who are not aware of the implications.

To give some background, Melbourne's zoning laws came under sweeping changes roughly two to three years ago.

Melbourne now has four major zones — the most restrictive being the Neighbourhood Residential Zone.

In most suburbs, properties in a Neighbourhood Residential Zone could only be subdivided into a maximum of two lots.

However, the new laws override these changes.

There is now no limit to how many properties can be constructed on a lot — including Neighbourhood Residential Zones — providing each subdivision has a certain percentage of its land set aside as a permeable garden area.

Note that this does not include the driveway.

If the block being subdivided is between 400 and 500 square metres, 25% of each subdivision must be a permeable garden area.

If it's between 501 and 650 square metres, the figure is 30%. If it's over 650 square metres, it's 35%.

The changes are intended to 'save the backyard'. However, it's likely they will also spur an increased number of apartment blocks as developers attempt to maximise the number of units they can construct on a site without falling under the 'backyard' regulations.

Additionally, local councils cannot override the new laws.

Whether you agree with the changes or not, one side of the story yet to be covered is how the changes will affect land prices.

For example, some blocks that could previously accommodate three or four dwellings quite comfortably are now restricted to two dwellings only. There is not enough room to dedicate a percentage of garden area to each subdivision, and, therefore, the site is not as valuable.

On the other hand, blocks that can comfortably accommodate three dwellings, but were restricted to two under the old laws, are now worth far more than they had been previously.

Depending on the site, the change in density affects the land price (negatively or positively) to the tune of 5–10%.

As an example, a week before the changes, I purchased a block of land for a buyer in a Neighbourhood Residential Zone north of Melbourne's CBD for $625,000.

It was this price because the zoning would only allow for a dual subdivision.

However, under the new laws, it's now possible to construct three units on the site. Therefore, it's now worth closer to $750,000 — an overnight windfall gain.

The planning laws are due to come into effect in a few days. Albeit, considering the uproar from developers and town planners who are still unclear on the specifics, it will not be without staunch protest.

Ultimately, government policy in all capitals is to increase density. Therefore, land still remains the best option for investment. It is the only thing that is reducing in supply, as the population explodes.

The Transition From Stamp Duty to Land Tax?

Over the last few days, the Parliamentary Budget Office has costed a proposal to abolish stamp duty and replace it with a broad-based land tax. Parliament is expected to debate the proposal over the coming weeks as part of its discussions on housing affordability.

This is not the first time the proposal has been debated at a federal level. State governments periodically discuss it as well.

There are many benefits to the proposal.

Stamp duty is a powerful incentive to 'stay put'. It is a volatile source of revenue, discouraging owners from upsizing or downsizing into accommodation best suited to their needs.

The more often a homeowner sells one property and purchases another, the more tax they will pay.

Only a very small percentage of the total housing stock transfers annually. Therefore, under current policy, tax revenue for community services is collected by penalising a small proportion of homebuyers who want to either upsize or downsize into accommodation better suited to their needs.

In an age where job mobility is essential to long-term employment, stamp duty should have been abolished years ago.

Every Australian state and federal tax review in memory has recommended abolishing stamp duty and replacing it with a land tax.

In 2010, the Henry Tax review stated: '...there is no place for stamp duty in a modern tax system.' Yet so far, the ACT has been the only state or territory to act on the recommendations by phasing out stamp duty over a 20-year period. The results of that transition have been extremely positive:

- Increasing land tax rates has deterred housing speculation.
- Future land tax obligations are already capitalised into lower land prices.
- Because of this, new homebuyers are saving between $1,000 and $2,000 per year on mortgage costs.
- New housing construction has remained strong throughout the tax transition period.
- Residential rental growth is at historical lows, benefitting renting households.

You can read the report here.

Victoria has the highest rate of stamp duty, at almost 5% of the purchase price.

The average family buying a $660,000 home in Melbourne would need to spend around a third of their annual household disposable income on stamp duty.

Yet, in contrast to stamp duty, land tax does not discriminate between long or short holding periods — enhancing the efficiency of market turnover.

Additionally, land tax is a very efficient and stable source of revenue for state governments compared to stamp duty. It provides far greater control over public finances.

All of the above sounds very positive. For those without vested interests, changing the policy is effectively a no-brainer.

However, land tax also has the effect of lowering land prices — which is never popular.

For those struggling to understand how land tax can reduce land values, a similar concept is recognised by owners of apartments.

When buyers purchase a unit, they expect to pay a yearly corporation fee for maintenance and improvement of the site's services.

In doing so, **it reduces the upfront price** consumers are willing to pay as they configure the fee into their budget. Yet it is also recognised as an investment, as the benefits and any subsequent improvements help attract future purchasers.

A broad-based land value tax is essentially no different.

In other words, other than the owner of land at the time of implementation, land value taxation is not an economic burden. A well-administered, broad-based, flat-rate land tax, levied on the unproved value of land, has no negative impact to productivity or economic activity.

Despite this, there is little education in the mainstream media to convince owners — who have been encouraged to speculate on land to fund their retirement — to embrace the policy change.

The Age was among the media outlets that covered this story. A quick look at the comments section under this article demonstrates the outrage.

For this reason, it is highly unlikely that the changes will take place.

We have another two years of good growth prior to the mid-cycle lull. It isn't time for a slowdown in house/land prices just yet.

What Will Happen Instead to Assist Affordability?

The government will pump the demand side of the equation. Removal of stamp duty for first homebuyers, shared equity schemes, homebuyer saving accounts — all of which are on the table for discussion, and some of which have already been implemented by various state governments.

All of the above will keep the cycle rocking along into 2026.

A Vacancy Tax

The Victorian government has proposed a vacancy tax aimed at preventing investors from purchasing for financial gain only, without renting their accommodation to a long-term tenant. Other state governments are threatening to follow suit.

The reforms have been spurred in part by my annual 'Speculative Vacancies' report, which highlights the thousands of empty properties in the greater metropolitan area of Melbourne that are vacant for 12 months or more.

Administration of the laws will be based on self-reporting.

To keep owners honest, a certain number of investors will be audited each year. They'll be required to show rental receipts and leasing documents to prove there is a long-term tenant renting the property.

It remains to be seen how successful the reforms will be. However, I'll be monitoring them each year, with updates to the 'Speculative Vacancies' report.

Why do vendors keep their properties vacant?

Aside from the fact that yields are at record lows, there is already a vast supply of apartments on the rental market that struggle to attract a tenant.

This means that, in order to abide by the laws, rents must be dropped to a level that will accommodate very low-income individuals.

New apartments are like new cars — it is easier to maintain their value if they remain in pristine condition. Therefore, attracting a tenant at any cost is not a favourable prospect for many investors, and could have a significant downward impact on rents.

Ultimately, in most Australian cities (perhaps barring Sydney, which is far more geographically constrained), apartments remain a poor investment for this cycle.

The supply over the next 10 years will increase substantially. Therefore, while comparatively affordable land is still available, it should be the first option. By the time the next cycle rolls around, land within 20 kilometres of Melbourne's and Brisbane's CBDs will have escalated in price considerably.

An old, rentable house on a block of land with good development potential is still the golden egg in terms of attracting capital growth.

More importantly, the older houses on unbroken blocks of land are in shorter supply than apartments. Therefore, attracting a long-term tenant is rarely an issue. House yields are unlikely to be negatively affected by the vacancy tax.

As for the effect of the tax on property prices, demand is unlikely to drop at this stage of the cycle.

The Victorian government recently removed stamp duty for first homebuyers purchasing property up to $600,000. It has also introduced a shared equity scheme to assist people getting into the market. These policies will likely more than override any depression in prices.

Best of luck with your investing!

Catherine Cashmore,

Buyer Advocate and President of Prosper Australia

cc.cashmore@gmail.com
0458 143 089
www.catherinecashmore.com.au
www.prosper.org.au

Port Phillip Publishing Attn: PHILLIP J ANDERSON PO Box 713 South Melbourne VIC 3205 Tel: 1300 667 481 Fax: (03) 9558 2219