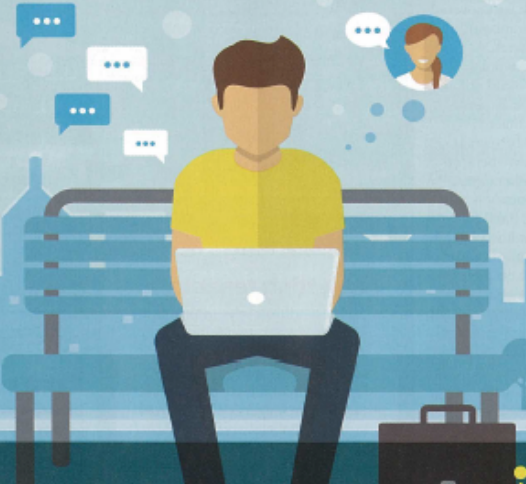
120 YEARS OF PROPERTY 2000-2010

THE NOVEL NOUGHTIES



The first decade of the new millennium saw some huge changes that completely transformed the way we lived and invested in property.

VANESSA DE GROOT

Can you remember a time when our lives weren't ruled by the internet? By the latest iPhones, iPads, iPods?

It was only last decade that many of these now technological necessities came into existence – or, in the case of the internet, experienced huge growth.

And with it came the rise of social media, with the inception of networking sites such as Facebook, Twitter and LinkedIn, all of which completely – and quickly – transformed our lives forever.

The noughties, the term used to describe the years from 2000 to 2010, was an interesting decade, with not only huge changes in technology but also in the property market.

We started the new millennium having survived the threat of Y2K – the year 2000 software problem – and hit a high with the Sydney 2000 Olympic Games.

Things got a bit tricky when the global financial crisis (GFC) hit towards the end of the decade, but all in all Australia emerged fairly unscathed.

When it comes to property, many would say the decade from 2000 to 2010 was the one in which investing became more mainstream, more popular and more talked about, with increased media coverage, more government attention and a proliferation of data.

This was largely due to the rise of the internet, the inception of social media, the 24-hour news cycle and the growing popularity of publications such as *Australian Property Investor*.

We started tuning in to television renovation shows such as *The Block* and hardware chain Bunnings became more of a household name – and increasingly we started searching for property online.

In short, people were talking about property everywhere we turned.

And they weren't just talking – people were buying, focusing on the asset class as an investment and as part of their superannuation portfolio, rather than just to own and occupy.

DRIVING INVESTMENT

What were the catalysts that prompted a greater interest in investing?

The recession of the 1990s had led to a lot of inactivity in the property market, property lecturer and author Peter Koulizos notes, but a few events occurred towards the end of that decade and into the early 2000s to turn that around and get investors interested again.

FUN FACT

The number of households with internet access more than doubled between 2000 and 2010, rising from 32 per cent to 72 per cent.

The first of those was the change to capital gains tax (CGT) rules just before the noughties began, in late 1999.

The rule change resulted in a 50 per cent discount on the capital gain if the asset was held for more than a year.

Therefore effectively, if you sold an investment property for a $200,000 profit, you would only have to pay CGT on $100,000 of that profit explains Cameron Kusher, CoreLogic's senior research analyst.

"This coincided with a significant increase in the usage of negative gearing

BIG EVENTS IN THE 2000s

2000

- The GST was introduced in Australia.
- Sydney hosted the Olympic Games.

2001

- September 11 terrorist attacks in the US.
- Australian David Hicks captured whilst allegedly fighting with the Taliban in Afghanistan.

2002

- Bali bombings
- Large parts of NSW and Queensland declared drought-affected.

2003

- Australia pledged defence personnel to US-led attack on Iraq.
- Severe national drought continued, with water restrictions implemented.

2004

- Tasmanian Mary Donaldson married Crown Prince Frederik of Denmark.
- Up to 300 islanders destroyed buildings on Palm Island after Cameron Doomadgee died in custody.

2005

- Nine Australians were arrested in Bali for trying to smuggle heroin.
- Schapelle Corby was convicted of smuggling marijuana into Indonesia and sentenced to 20 years in prison.

2006

- Commonwealth Games held in Melbourne.
- Peter Brock died in a motor racing accident.

2007

- The global financial crisis began with the credit crunch in the US, fuelled by sub-prime mortgages.
- Kevin Rudd elected as prime minister.

2008

- Quentin Bryce became the first female governor-general.
- An apology was officially offered to the Stolen Generation.

2009

- Michael Jackson died.
- Black Saturday bushfires swept across Victoria, killing 173.

from investors over the coming years," he adds.

Another notable event was the introduction of the goods and services tax (GST) in Australia on July 1, 2000.

Deakin University chair in property and real estate Professor Richard Reed says there was a "construction rush" in the months immediately preceding the introduction of the GST to avoid the additional 10 per cent tax.

Koulizos adds that the pending introduction of the GST sparked a "mini property boom".

When its introduction was announced in the middle of 1999, he explains, everyone thought housing would magically be 10 per cent more expensive the following year so they started buying, though that stopped almost as soon as it came into being.

Demand for property throughout the decade was also stimulated by government grants. In particular, the First Home Owners Grant (FHOG) – a $7000 one-off payment designed to offset the cost of the GST – was introduced on July 1, 2000.

Koulizos says the CGT discount and introduction of the GST and first homebuyer grants collectively fuelled the property boom that occurred between 2001 and 2004.

"The other thing that happened is that the economic times were pretty good – unemployment was good, people were happy because property was going up in price and they could afford to buy," he says.

AND THE WINNER IS...

Sydney 2000: Did the Olympics affect the property market?

Australia hosted the Olympic Games for the second time ever in the year 2000.

Sydney hosted the event for two weeks, from September 15 to October 1, and Australia performed well, coming in at fourth on the medal tally.

But did this major event have any impact on the property market?

Reed says it had little direct influence, with the exception of Homebush in Sydney's inner west, which gentrified after the Olympics.

Koulizos notes that the Olympics helped the New South Wales capital in the lead-up, with greater infrastructure and development, but the Sydney market actually suffered later in the decade.

Reed says the noughties was an era when households became more affluent, due in part to the property boom.

The mining boom, which started around 2003, when prices for commodities such as iron ore and coal began rising, also contributed.

Reed notes that it was commonplace to have a two-income household in the noughties, with single-income households less common, and a lower fertility rate after the baby boom meant many families had few or no children.

"The result was a household which was increasingly more affluent than previous generations with less daily expenses," he says.

Essentially, there was more money flying around in the early noughties and people weren't afraid to spend it.

Property isn't the only thing they were buying – in the first half of this decade fashion went upmarket.

Labels such as Jimmy Choo and Manolo Blahnik became commonplace, inspired by *Sex and the City*, and it was nothing to buy handbags worth thousands.

Later in the decade it was a different story, however; as belts tightened our fashions followed suit, with the noughties ending with ripped T-shirts and jeans.

ALMOST BULLETPROOF

Koulizos dubs the decade "the golden age of investing", because, he says, "you could buy almost anything and it would go up in value, especially in the early part of that decade".

While not everything increased in value, it's certainly true that property prices across the board rose significantly during the noughties, with a national boom occurring between 2001 and 2004.

Prices rose on average by almost 15 per cent from 2001 to 2003 (Fig 1).

Kusher says this was followed by a period of generally moderate growth, then another surge in values in 2007, followed by the GFC, when capital city home values fell by 6.1 per cent in the space of nine months, from March to December 2008.

Over the decade ranging from December 1999 to December 2009, home values across the combined capital cities increased by 141.1 per cent, according to CoreLogic figures.

Across the capital cities, however, price increases varied significantly, Kusher notes.

FIG 1: ANNUAL CHANGE IN INDIVIDUAL CAPITAL CITY HOME VALUES

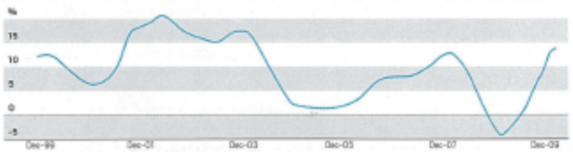
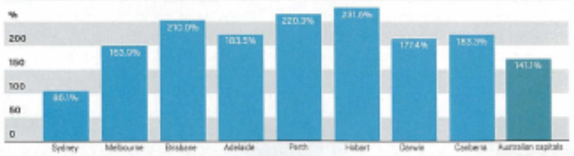


FIG 2: PROPERTY PRICE GROWTH DEC 1999 TO DEC 2009



Source: CoreLogic

RISE OF THE MCMANSION

Size matters

The prosperity of the 2000s, especially early on in the decade, led to "McMansions" becoming the dominant housing type.

Property lecturer and author Peter Koulizos says: "This is the time that people build as big a house as they can. Why? Because they can."

Koulizos says in one way style went out the window and size was really important.

"This was unlike, say, in the early 20th Century when we had what I think were architecturally beautiful homes, that were perhaps stone fronted and had lovely features.

"In the 2000s it was just big. They were impressive because they were big, not because they looked better."

McMansions were mass produced, and Professor Richard Reed, chair in property and real estate at Deakin University, says they had wooden framework that was pre-fabricated offsite and delivered onsite in a partly constructed format, which sped up the building process.

Koulizos says McMansions had slab walls, typically in mustard or cream, and plenty of rooms and garage space.

He adds that this is the era that the rumpus room went out of vogue and the theatre room came into fashion, as well as the butler's pantry.

It was also the advent of the blending of outdoor and indoor living, with the outdoor kitchen built into the pergola becoming more popular.

"The Jacuzzi of the '90s was replaced by the outdoor kitchen and the conversation pit, along with the outdoor gas heater," Koulizos says.

A typical McMansion

Hobart saw the greatest increase of more than 230 per cent, followed by Perth at 220 per cent and Brisbane at 210 per cent (see Fig 2).

Sydney dramatically underperformed all the capital cities, he adds, experiencing a five-year market correction from the middle of 2004.

Perth was a standout capital city during the decade due to the resources boom, and Reed says many mining-related towns in Western Australia and Queensland also experienced exceptionally strong growth in house prices for the same reason.

Koulizos adds that Perth was "basking in sunshine in the middle of the decade" due to the hunger for iron ore from overseas.

"There was so much demand property prices went up, and that's when we also saw a lot of investment in mining towns, with people attracted by the high rental returns and huge appreciation in property prices."

Reed says the inner city and outskirts of capital cities experienced the largest change due to supply and demand adjustments, but in other regions there was a general surge in house prices.

Kusher explains that whether an individual property increased in value during the noughties was dependent on timing – i.e. when it was bought and sold.

"For example, if you bought a unit on the Gold Coast in 2007, that unit is quite possibly still worth less than what you paid for it.

"Similarly, if you bought a Sydney house in the western suburbs in late 2003 and sold in 2008, it would've still been worth much less than what you paid for it.

"Generally investors did well over the decade but they still needed to ensure they bought the right type of property at the right time."

The significant price growth in the booming property market during the noughties largely saw the end of positive gearing, according to Koulizos.

> "You could buy almost anything and it would go up in value."
>
> PETER KOULIZOS

In the 1990s, he recalls, positively geared properties weren't hard to find, and returns of 12 per cent weren't uncommon, but in the 2000s higher prices led to lower returns.

Substantial price growth in the early part of the decade also led to housing affordability becoming a bigger – or perhaps more talked-about – issue in Australia.

Koulizos recalls that around 2001 to 2003 there was no talk of a "housing bubble", with the media full of boom, rather than gloom, stories.

"Then in 2004 things changed," he says. "The property boom ended and that's when people started talking about a property bubble."

According to Kusher, housing affordability has always been an issue, but he says the rise of the 24-hour news cycle and social media saw it feature more in the national conversation.

"Furthermore, following the boom in the early part of the decade and forecasts of 40 per cent falls in property prices in the lead-up to the GFC, I believe that when this didn't come to fruition, this created more outrage and publicity around the fact that Australian home properties were high and some people couldn't afford to own a home."

Reed says the 2000s was the first decade in which investors began to squeeze out homebuyers, with many getting into the market due to both the large capital gains to be made from buying residential property and the benefits of negative gearing.

"The group most affected by having lower housing affordability was the traditional family with children, where one parent worked and the other parent worked part-time or not at all.

"When factoring in the additional cost of childcare for this household, the level of housing affordability (i.e. ratio of median house price to household income) had become unsustainable.

"In addition this was the first decade where it was socially acceptable to rent rather than buy, which was a huge cultural shift for most Australians.

"People were happy because property was going up in price and they could afford to buy."

PETER KOULIZOS

SNAPSHOT

What will property in the noughties be remembered for?

- The price boom early in the decade
- Exceptional growth in mining towns due to the resources boom
- Generous first homebuyer grants
- The lowest interest rates seen since the 1960s
- The proliferation of McMansions, favouring size over style
- The resilience of the property market in the face of the global financial crisis.

"Previously, renting was viewed as a short-term solution and buying was always the final objective for every household."

Housing affordability issues can usually be attributed to a disparity between supply and demand, with an undersupply pushing prices up, and it appears this was the case during the noughties.

Kusher says if you compare dwelling completions with population growth it's clear there was a "pretty big disconnect" throughout the noughties.

"Over the decade there were 1,517,078 dwellings built compared to a population increase of 2,946,413 persons," he explains.

"This indicates there were almost half as many dwellings built as population increase.

"Of course, not every new resident needs a home, with most homes having 2.5 residents, however it was more about where the supply was delivered and the type of properties built.

"A lot of new supply was built in sea change and tree change locations, and in areas where new supply was badly needed – Sydney, Melbourne, Brisbane and Perth – there was not enough new housing delivered throughout the decade."

First homebuyer grants were available during the noughties to assist with affordability and, despite price rises leading to persisting issues with affordability, it actually improved somewhat towards the end of the decade, when we experienced the lowest interest rates seen since the 1960s.

The cash rate fell from September 2008 following the GFC, reaching a low of three per cent in September 2009.

BIGGER, NOT BETTER

Size seems to have taken precedence over architectural style during the noughties, with the decade being marked largely by the proliferation of "McMansions".

FUN FACT

Australia's fertility rate reached a low of 1.74 babies per woman in 2001, before increasing to a 30-year high of 2.02 babies per woman in 2008.

The average floor area of new Australian homes hit a record high of 214.6 square metres in the 2008/09 financial year, with the average floor area of new freestanding houses also hitting a record high of 245.3 square metres.

The increase in floor space meant Australia overtook the United States – where home sizes shrunk – to have the world's largest homes.

Reed says it was an "era of mass construction" that resulted in an observed decrease in architectural style compared with previous decades.

He notes the strong buyer demand led to new housing developments in outer-lying suburbs, and it was the houses in these areas that became larger and garnered the name.

"In new satellite suburbs there was a degree of generic design observed, largely driven by the increased pressure to construct housing as fast as possible," he elaborates.

"This included the use of pre-fabricated timber frames and trusses with minor modifications between each house.

"The total construction time had reduced to as little as six weeks in some cases… a substantial reduction from many months for previous decades."

For established housing, Reed explains, the noughties was the decade when the renovation boom started, resulting in the expansion of major hardware outlet Bunnings.

"Interestingly, this was also driven by the appetite for television reality renovation shows such as *The Block*."

According to Kusher, the areas in which there was the greatest demand for housing varied dramatically during the noughties.

"Initially it was Sydney and Melbourne and then it was the other capital cities," he says.

"We then saw the rise of sea change and tree change locations and mining towns, then post-GFC it was Sydney and Melbourne again, along with mining towns."

Koulizos says the decade saw the sea change or tree change movement really take off, with people retiring or semi-retiring in areas such as the Gold Coast or Sunshine Coast for lifestyle.

He adds that with greater confidence and increased household wealth, the other market that took off was the holiday home market, with people buying houses in areas such as the Mornington Peninsula in Victoria and Mandurah, south of Perth.

This trend, he says, was also sparked by the Bali bombings in 2002, which encouraged people to holiday at home instead of overseas.

While houses were generally getting bigger during the noughties, it was also the decade in which apartments became more popular and density started increasing.

Reed says mass construction of these developments started in the 2000s, and there was broad acceptance of this type of accommodation, whereas previously there was substantial cultural resistance for anything other than a detached house.

Importantly, Reed adds, the 2000s was also the decade in which many cities refocused their attention on their bodies of water, such as rivers and harbours, which had previously been largely ignored.

Many apartment developments were focused around the water, he says.

Some of the more well-known developments built during this time were Docklands and Southbank in Melbourne, Koulizos adds, as well as Pyrmont and Ultimo in Sydney.

"That was the era of apartments," he says. "Sydney had had apartments for a while but that's when the rest of Australia literally grew up, when we really started to build up."

According to Kusher, new dwelling approvals were dominated by high-density developments in Sydney, Darwin and Canberra through most of the decade. He adds that there was also increasing demand for inner-city units in Melbourne and Brisbane.

There were efforts to limit the amount of urban sprawl that was occurring through the noughties, Reed says, with one example being Melbourne, with the city introducing an Urban Growth Boundary, which is still in existence.

"Many of the newer suburbs developed during this decade can be easily identified today and often are operating as satellite areas being fully self-contained."

THE CRISIS

The GFC, which started around July 2007 and worsened by September 2008, with stockmarkets around the world crashing, was the biggest event of the decade, according to Koulizos.

Property prices fell, but nowhere near some of the predictions of 40 per cent touted by doomsayers, and they rebounded in time.

While demand for property dropped off following the GFC, the market largely held up because people were still buying.

That was partly thanks to the continuing mining boom and a stimulus measure – homebuyer grants and, specifically, the boost to the FHOG, announced by the government in October 2008, which Kusher says pulled demand forward.

Reed adds that there was a marked upswing in property investment during 2007 and 2008, due to the GFC and the associated instability in the sharemarket.

Koulizos says the GFC wasn't as bad as the recession of the '90s, but there was "a line drawn in the sand", with a lot of things changing in September 2008.

For one, he says, it was much harder to borrow money – lending restrictions became more stringent and there were no longer any no-doc or low-doc loans.

He adds that the GFC was essentially the beginning of the end for the McMansion era.

People were still buying, but they were more conservative due to the uncertain economic climate.

"When you lose your job or you're scared of losing your job, you're less likely to build as big a house as you can," he says.

WRONG BET

The negatives of the noughties

Spruikers came out in force during the noughties, seeking to take advantage of the confidence in the property market due to the early boom, according to property lecturer and author Peter Koulizos.

But he says doomsayers were also a mark of the decade, with one of the most well known being Steve Keen, who in 2008 said property prices would drop by 40 per cent.

Keen was proved wrong and, after losing a bet with Macquarie Bank analyst Rory Robertson, had to walk 224 kilometres from Canberra to the top of Mount Kosciuszko.

"The doomsayers have been around for a long time, but they came to be better known in the early 2000s and reached their peak in 2008/'09/'10 and '11, when the property market hit the bottom," Koulizos says.

"Since then the doomsayers have crawled back into their cupboards because prices are back up again."