



6 February 2009

Housing vs other investments

You don't have to be an economic genius to work out that investments across the board have been falling like a stone over the last couple of years.

Values of shares, commodities, sterling and property are all plummeting and plumbing new depths.

But a new report by the Young Group suggests that despite the falls house prices have stood up better than most to the melt down in capital markets.

We all know that house prices out perform most other investments during the good times. But what about the hard times? How do they fair then?

Over the last year

House price data for December 2008 issued by the Land Registry indicates that UK house prices fell by 13.5% during 2008.

The value of the FTSE 100 fell by 30.1% during 2008 whilst the value of UK Pension funds were estimated to have fallen by 31.7% during 2008, commercial property fell 27.1% , read article.

Either way, despite the falls in house prices residential investment in this context could be seen as a much safer bet.

Income dimension

More interestingly, most serious investors know that much of the returns earned though any investments have come historically through income. In the case of shares this is from dividends whilst in the case of residential property it's rent. The recent down turn has seen many companies cut or suspend their dividend payments altogether.

In contrast many landlords have been experiencing record rental profits as interest rates across the globe have been slashed to historically low levels. This means that sensibly leveraged landlords have been able to sit back philosophically and watch portfolio values slide knowing in the long run they will recover whilst in the short term they can claw some of this loss back in big rental profits.

Vital difference in investments

The vital difference for a landlord compared to investors in stocks and shares and even commercial property where lenders often insist on strict loan covenants is that an investor potential could loose all their capital as the company or investment goes bust or is taken over by the lender. In the case of a landlord investing in residential property, they will always have the ownership and control

of the underlying asset. Even in the worst case scenario where a landlord is propelled into negative equity, they are, providing they keep the property rented and continue to pay the rent, able to retain their investment and wait for capital values to recover. In this sense they never have to realise their loss even if this becomes significant.

History.

We know that property investment is a long-term game, so let's delve a little deeper into the longer term stats:

- Residential property has only fallen 5 times in the last 55 years
- Residential property has a 100% record of price recovery
- Historically residential property prices have doubled every 7-10 years (DCLG)

This compares to stock markets that have consistently crashed by over 50% four times in the last 100 years: between 1937 and 1940, with the threat and beginning of war; in the depression era of 1928 to 1932; in the post-war crisis of 1920; and in the crash of 1972-74, brought on by rising inflation, the end of the world economic boom and the first world oil crisis following the Arab-Israeli war of 1973.

Recently in 2002 there was a 25% decline in the FTSE 100 in the midst of the dotcom crash. The biggest annual slide of all time, was the 55.3% fall for the FTSE All-Share seen in 1974.

The Bounce

So whilst housing is clearly on a downer and further falls are predicted this year, the loss in value is not as dramatic, severe or as total as with other investments such as shares and even commercial property.

Just as prices that go up dramatically, tend to crash equally as spectacularly, as we now know all too well. After the crash there is a bounce as bargain hunters enter the market. The bounce in the residential market is likely to be less dramatic than in some more liquid markets, but it will happen. In the future, once the spectre of deflation has disappeared, probably some time next year, the wall of liquidity currently being thrown at the world economy by governments is likely to result in raging inflation as economies over heat. Then what next?

The best hedges against inflation are gold and wait for it..... property.

The long-term figures show that residential property holds its' own against other investments and is a relatively safe bet.

The next decade could yet be the decade for residential property investment.