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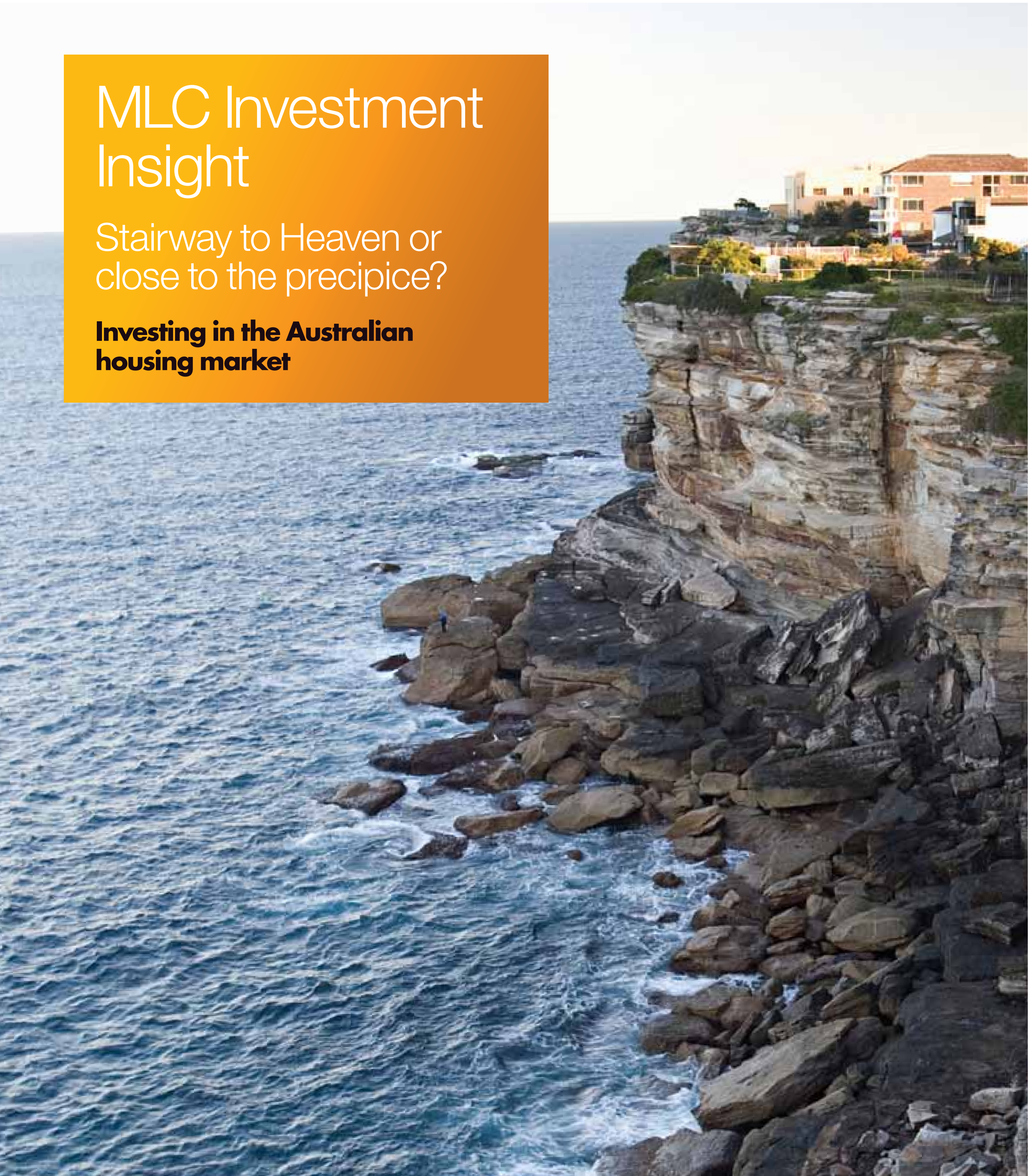

MLC Investment Insight

Stairway to Heaven or close to the precipice?

Investing in the Australian housing market

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Stairway to Heaven or close to the precipice?

Investing in the Australian housing market

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Stairway to Heaven or close to the precipice?

Investing in the Australian housing market

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Executive summary

The Australian housing market appears expensive on a number of international and historical comparisons, following virtually continuous appreciation over the past decade or more. A combination of poor affordability, overvaluation and rising mortgage interest rates are likely to undermine the outlook for house prices in Australia over coming years.

There are some 'special factors' which are likely to prevent the same catastrophic declines in house prices observed in the US over recent years. However, these are unlikely to prevent Australian house prices from experiencing a decline of perhaps 10–15% on average over the next 1–2 years. There could be significant variations around this expected decline across Australia. Longer term, Australian housing could deliver modest returns for the next five to ten years as prices stagnate.

Housing has delivered apparently superior returns with lower risk compared with many other investments over the past 20–25 years. Housing currently makes up around 60–65% of gross household wealth in Australia, the same as 20 years ago. Based on a more cautious view of housing returns in the future, the exposure of Australian households to housing appears excessive.

Whilst the ideal exposure will necessarily vary depending on a household's individual circumstance, an exposure to housing of below 50% of gross household wealth on average would be preferable given lower expected returns.

Is the Australian housing market significantly overvalued?

The quick answer to this is that on a number of metrics and looking at historical and international comparisons, the Australian housing market does appear to be significantly overvalued.

This view may not be surprising to a large number of young people trying to get an initial foothold into the Australian housing market. However, it is a view that may not be good news to many who are already well established in the housing market and have a large portion of wealth tied up in residential property assets.

There are a number of independent studies which look at the current valuation of Australian residential property. On the whole, these show the Australian market to be significantly overvalued. Some of these studies are discussed below.

House price to rent ratio at extreme levels

'The Economist' magazine publishes a quarterly update on residential housing markets in major economies around the world. It looks at the house price to rent ratio for individual markets.

The latest report (shown right), published in March 2011, suggests the Australian housing market is extremely expensive (around 56% overvalued). The extent of overvaluation exceeds even the Hong Kong property market (around 53% overvalued).

'The Economist' survey did provide an early warning signal for many economies which have seen severe housing price deflation since the Global Financial Crisis (GFC).

'The Economist' house price indicators

(% change)	Latest	Q4 2009	1997–2011[1]	Under (–) / over (+) valued [2]
	on a year earlier			
Hong Kong	20.1	23.1	–1	53.7
Singapore	17.6	1.8	21	18.1
France	8.6	–4.4	152	48.0
China	6.4	5.8	n/a	12.9
Belgium	6.0	1.0	164	23.7
Australia	5.8	13.9	215	56.4
Sweden	5.2	7.1	175	39.5
Switzerland	4.2	6.2	37	5.5
South Africa	2.9	4.9	421	n/a
Denmark	2.7	– 5.1	98	17.6
Germany	2.6	–3.7	n/a	–12.2
Canada	2.4	–1.2	69	21.0
Netherlands	1.7	–1.6	90	20.8
New Zealand	0.9	5.2	111	20.6
Britain	–1.1	3.5	178	29.6
United States (Case – Shiller ten-city index)	–1.2	–4.5	95	3.0
United States (FHFA)	–1.3	–4.3	70	10.2
Italy	–1.6	–4.1	93	8.7
Spain	–3.5	–6.3	157	43.7
Japan	–3.6	–4.0	–38	–35.2
United States (Case – Shiller national index)	–4.1	–2.4	56	–7.7
Ireland	–10.8	–18.5	118	19.9

1 Or most recent available figure

2 Against long run average of price to rents ratio

Source: ABSA; ESRI: Hypoport; Japan Real Estate Institute; Nationwide; Nomisma; NVM; FHFA; Quotable value; Stadim; Swiss National Bank; Standard & Poor's; Thomson Reuters; Government offices. 'The Economist', March 2011

Is the Australian housing market significantly overvalued?

The US housing market appreciated around 70–80% in the period from 2000 to 2006. This resulted in the house price to rent ratio for the US jumping almost 40% through this period, after remaining relatively stable from the mid 1970s to the late 1990s.

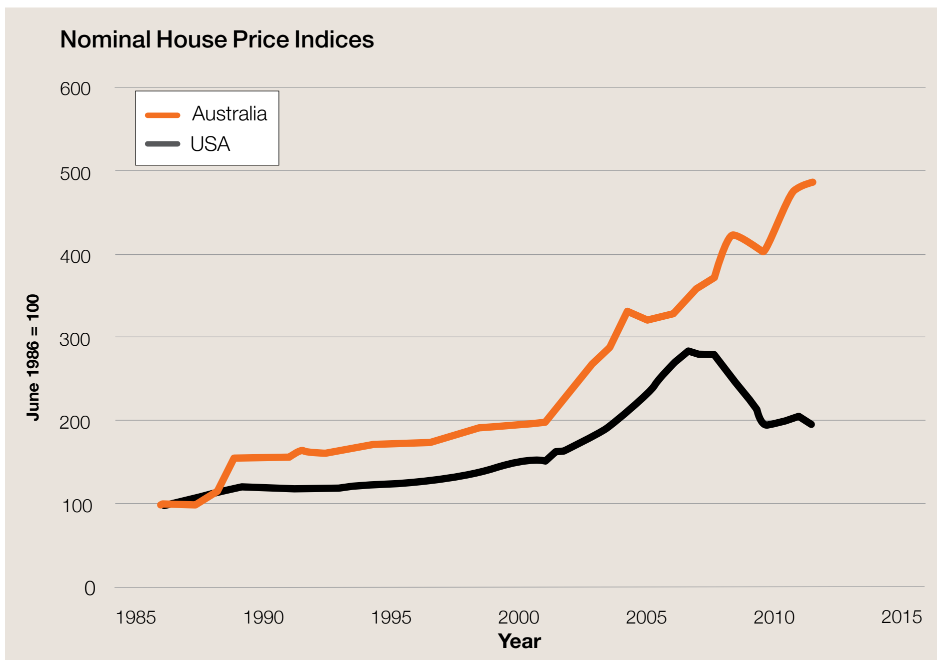
The average 30–35% correction in US house prices since 2007 has restored this ratio back to the 'normal' levels prevailing, prior to the housing bubble.

The Irish observation is even more extreme. Between 1996 and 2006, the Irish house price to rent ratio rose by almost 80% driven by a massive increase in house prices (more than 300%). This ratio had unwound much (but not all) of this rise by the end of 2010 with prices down around 40% on average. Further price declines may well be likely before house prices finally stabilise in Ireland.

Australian house prices have outperformed other markets

Compared with the US and many other markets, the appreciation of the Australian housing market appears quite excessive over recent years. Australian house prices have risen by more than 150% on average in the past decade and more than 250% in 20 years. By comparison the US market is up less than 50% over the past 10 years and 100% over 20 years. The widening gap in market performance has been particularly noticeable in the past 3–4 years. The US has seen a dramatic fall in house prices, yet the Australian housing market has appreciated further.

Australian house prices have outperformed the US housing market



Source: Reserve Bank of Australia

Whilst the Australian housing market has appreciated on average, there has been a wide disparity in price moves within the market. Most Australian capital cities and certain regional areas have seen strong housing price inflation whilst other regional areas have seen prices decline sharply.

Land to house price ratio elevated

Another indicator of potential housing overvaluation is the land to house price ratio. This is an interesting measure of potential overvaluation, comparing the cost of acquiring the land versus the total cost of the house. It has often been a reliable indicator of market bubbles in many global housing markets.

This measure has risen sharply in Sydney over the past 10–15 years. The land to house price ratio in Sydney now stands around 60–65% on average. This is the highest level since the early 1970s when the ratio last peaked above 60%, having fallen below 40% in the early 1990s.

Whilst not as extreme outside of Sydney, the land to house price ratio has generally been rising across all Australian cities compared with history, suggesting land price inflation is a major driver of rising house prices.

The Organization for Economic Cooperation and Development (OECD), has recognised the role that high land costs and restrictive planning regulations have in the cost of housing development. In a recent review, the OECD recommended member nations "increase responsiveness of new housing supply to housing demand. Countries should reassess licensing procedures that limit new housing starts and reconsider land use regulations that unduly prevent development. More responsive supply can limit price volatility, excessive price increases...".

The report noted that Australian cities are generally subjected to more restrictive land use regulations which have helped to drive up land and house prices. It recommended Australia should ease its housing supply constraints.

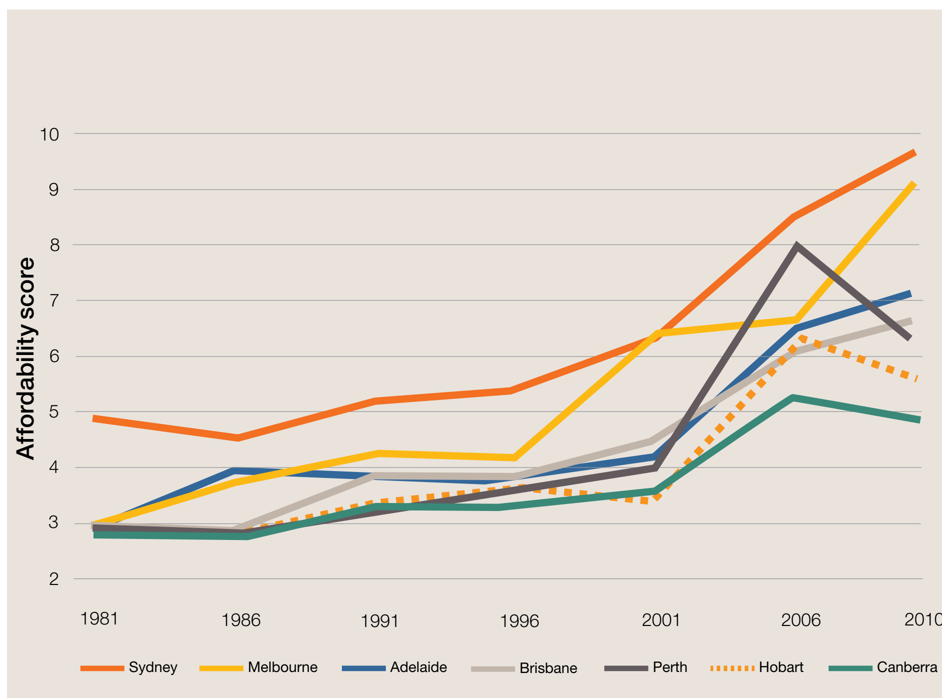
House price to income ratio at an extreme high

Yet another measure of Australian housing valuations, the house price to household income ratio is now almost double the level observed in 1990. (A similar observation can be made for the ratio of house prices to nominal GDP—this has almost doubled over the last 20 years).

The 7th Annual Demographia International Housing Affordability Survey: 2011, uses median house prices to median household incomes as measure of housing affordability. This is the valuation measure recommended by the World Bank and the UN for assessing urban housing markets. It's one of the most comprehensive reviews of housing affordability done on a periodic basis. This survey is also interesting because it looks at regional as well as capital cities in Australia and ranks them against international cities.

The latest survey ranked all major Australian cities as being severely unaffordable (the poorest ranking) with median house prices between 5.3 times and 9.7 times the annual median income. All Australian cities and towns surveyed ranked as either seriously or severely unaffordable. Collectively these were the highest reading for any country outside of China (Hong Kong) and well above the 'affordable rating' of 3.0 times or less.

Housing affordability score has deteriorated in Australia. Now among the poorest in the world



Source: 7th Annual Demographia International Housing Affordability Survey: 2011
Housing affordability = median house price divided by gross annual median household income

Out of 325 markets, Sydney was ranked second last in affordability, only beating Hong Kong (scoring 11.4). By way of comparison London was ranked 311th (scoring 7.2) and New York 289th (scoring 6.1) in the survey. During the 1980s, Sydney's affordability rating was within the 3.0 'affordable' rating.

Around regional Australia, Mildura, Launceston, Bunbury, Albury-Wodonga and Shepparton were the more affordable housing markets surveyed although they still had serious unaffordable scores. Coffs Harbour, the Sunshine Coast and the Gold Coast were the least affordable regional housing markets surveyed in Australia.

Is the Australian housing market significantly overvalued?

Demographia International Housing Affordability Rankings

Australian city	International affordability ranking	Median house to median income score
Mildura	218 (out of 325)	4.2
Albury-Wodonga	228	4.5
Bunbury	228	4.5
Launceston	228	4.5
Shepparton	242	4.9
Toowoomba	257	5.2
Ballarat	263	5.3
Hobart	263	5.3
Rockhampton	265	5.4
Townsville	265	5.4
Canberra	275	5.6
Mackay	275	5.6
Cairns	280	5.7
Tamworth	280	5.7
Wagga Wagga	282	5.8
Bendigo	283	5.9
Alice Springs	291	6.3
Devonport-Bernie	291	6.3
Perth	291	6.3
Darwin	294	6.4
Brisbane	303	6.6
Bundaberg	303	6.6
Mandurah	303	6.6
Newcastle-Maitland	308	7.0
Adelaide	309	7.1
Wollongong	311	7.2
Geelong	315	7.4
Gold Coast	317	7.7
Sunshine Coast	318	8.4
Melbourne	321	9.0
Coffs Harbour	322	9.1
Sydney	324	9.6

Source: 7th Annual Demographia International Housing Affordability Survey: 2011. As at September quarter 2010.

The lower the ranking (out of total survey of 325 markets) the poorer housing affordability (eg a ranking of 325 represents the poorest affordability of all markets surveyed).

Median score between 4.1 and 5.0 is seriously unaffordable. Score above 5.1 is severely unaffordable.

Mortgage affordability has deteriorated significantly

The Demographia housing affordability survey has the benefit of international comparability. However, it doesn't include mortgage interest rate levels within the computation. Mortgage affordability is affected by the size of mortgages (reflecting house prices), household disposable incomes and the prevailing level of mortgage interest rates.

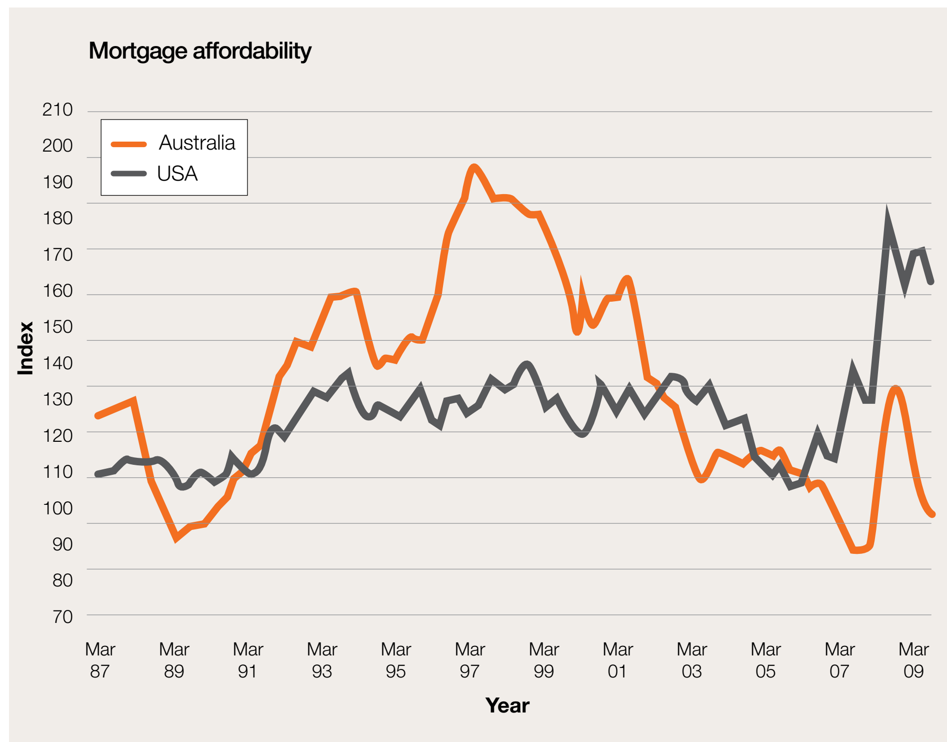
In an environment of steadily falling interest rates, as has been apparent in Australia through much of the past 20 years, there has been a dramatic change to the structure of mortgage affordability. Lower interest rates have allowed households to dramatically increase mortgage balances whilst maintaining similar mortgage repayment costs.

This greater scope to increase household debt levels has translated directly into an increased capacity to pay higher prices for housing. In fact, the majority of the dramatic price appreciation of Australian houses over the past 20 years can likely be attributed to the impact of lower mortgage interest rates.

The period of declining interest rates was most noticeable in the period through to 2002. Affordability improved through to 1997 but subsequently deteriorated as the increase in debt outpaced the decline in mortgage interest rates. Since 2002 mortgage interest rates in Australia have generally trended sideways (apart from the sharp decline immediately following the GFC). Mortgage affordability has continued to deteriorate since then as households have continued to increase debt for house purchases.

The effect of this ongoing accumulation of mortgage debt is that affordability has now deteriorated to as poor a position as at any previous time in the past 25 years. In the absence of renewed declines in interest rates or a sharp jump in household incomes, poor affordability is likely to undermine the scope to further increase debt levels. This could undermine the potential for further dramatic housing price rises.

Australian affordability poorest since the late 1980s US affordability best for decades



Source: Goldman Sachs, as at end 2010.

Are Australian house prices likely to fall?

A decline of 10–15% in house prices is possible

On a number of differing independent measures referred to in this paper the Australian residential property market appears significantly overvalued. Given the magnitude of overvaluation suggested, the Australian housing market could be viewed as a bubble by some analysts. If it is indeed experiencing a price bubble does this mean that the Australian market is destined to experience catastrophic house price corrections as observed in countries such as the US, Ireland, Spain, Japan and Greece over recent years (ie the order of 30–50% price declines)?

The short answer is that a moderate decline of around 10–15% in Australian house prices, on average, is quite possible in the current environment over the next 1–2 years. The magnitude of over–valuation, current poor affordability and rising interest rates, certainly support the case for housing price declines. However, there are likely a number of factors at work to prevent a catastrophic collapse in Australian house prices as a whole. These special factors are discussed in more detail later in this paper.

Potentially an anaemic price move for 5–10 years

Perhaps more significantly longer term, without markedly lower interest rates or a major boost to household incomes generally, the Australian housing market is unlikely to see a quick return to strong price rises. Rather it's possible we could see a period of weaker house prices followed by a subsequent period of perhaps 5–10 years where the housing market on average experiences anaemic price performance.

Housing price performance likely to vary significantly across Australia

The outlook for Australian house prices in unlikely to be uniform across the market. There is likely to be a wide disparity around the average with some regions and areas showing better price performance whilst other regions experience more painful price deflation. Anecdotally, towns like Gladstone for instance, are seeing strong house price appreciation associated with buoyant mining incomes.

However, we are seeing significant price declines in other parts of the Queensland housing market, most notably the Gold Coast, far North Queensland and the Sunshine Coast markets. Sharp price declines are also being seen in Mandurah and around the mid-north coast of NSW. This is not surprising. These have been some of the most over priced regional housing markets in Australia.

A number of factors could have an impact on future house prices. However, the single most important factor affecting the future direction of Australian house prices is likely to be affordability.

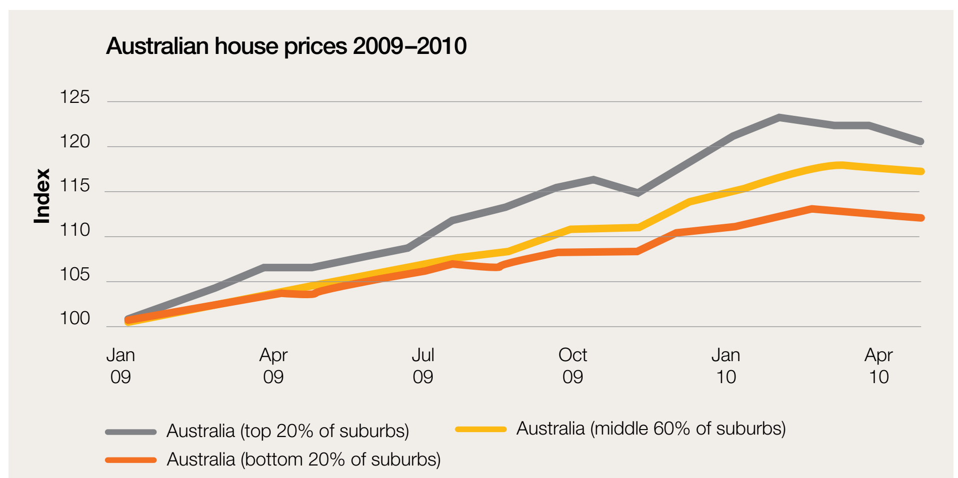
Affordability – the key driver of future house prices

As discussed previously, looking back over the past 20 years, the primary driver of the price appreciation observed in the Australian housing market is likely to have been affordability. Why? Two of the primary drivers of affordability are mortgage interest rates and mortgage debt levels.

Having peaked around 17% in 1989, mortgage rates in Australia have been driven steadily lower since that time reflecting the steady decline of inflation. Declining mortgage rates have provided households with the scope to undertake a massive expansion in household debt, principally devoted to housing.

Mortgage rates reached their lowest ebb immediately following the GFC in 2009 when the standard variable rate fell to 5.75%. This was the lowest level in Australia for variable mortgage rates recorded since the late 1960s.
The effect of this decline in mortgage rates has been that household debt as a percentage of disposable income has virtually quadrupled in Australia over

A diverse housing price performance across Australia



Source: Goldman Sachs

the past 20 years. Net debt held by Australian households has quadrupled as a percentage of GDP over the same period whilst in the US it has less than doubled.

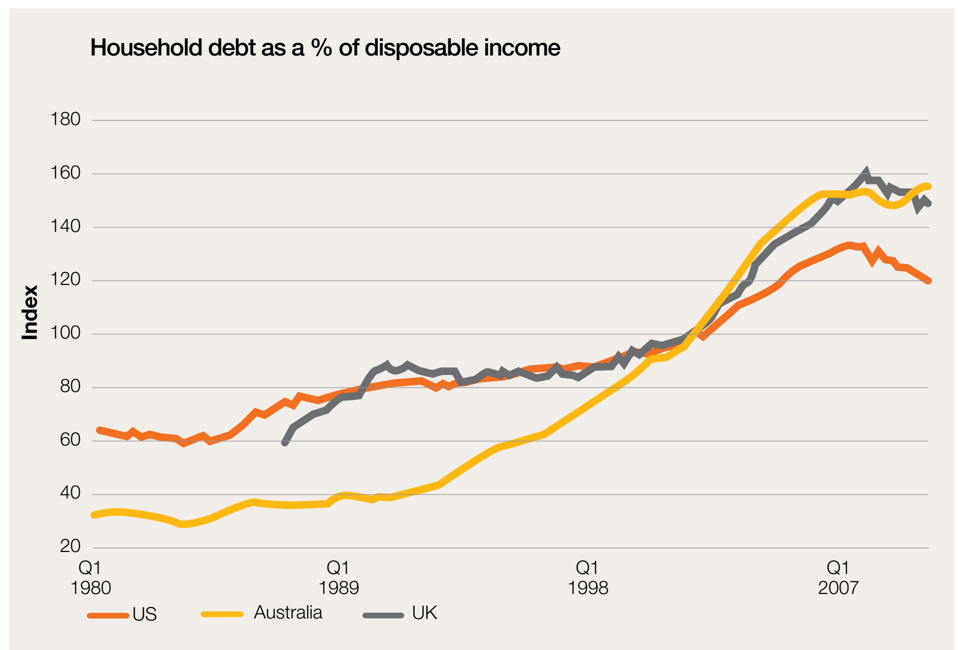
The rise in household debt mirrors the appreciation in house prices over the same period. This is not coincidental. Falling interest rates have helped boost house prices as households have used declining mortgage rates to increase debt levels, in the process driving house prices higher. This effect, more than any other, explains the tremendous appreciation in house prices over this period.

The other factor which also has an impact on affordability is household incomes. In an environment of rising incomes, households are able to fund larger mortgage repayments and debt levels. The period since the early 1990s recession has represented one of the longest periods of continuous economic expansion in Australia's history with a sharp drop in the unemployment rate from above 11% in 1992 to below 5% currently. Average wages have grown by around 70% over the same period. The mining boom of the past few years has contributed to rising household incomes.

In short, Australian households have had the ability to borrow more by virtue of both declining interest rates and rising incomes in the past 20 years. And haven't they taken advantage of the situation!

Debt accumulation has progressed at such a pace that it has outstripped the combined effect of low interest rates and improving incomes. As a result, mortgage affordability in Australia is poorer now than at any stage in history apart from the late 1980s (and briefly in 1997). However, unlike 20 years ago, poor affordability is now a function of significantly lower mortgage rates applied to dramatically larger mortgages.

Australian household debt ratio now higher than in the US or UK



Source: MLC Investment Management and Australian Bureau of Statistics

The higher household debt exposure now evident makes households sensitive to relatively minor mortgage rate movements, much more than at any previous stage in history. As a consequence, barring a major shock to household disposable incomes (such as a recession), the future direction of interest rates in Australia is likely to remain the dominant driver of future housing price movements. For the foreseeable future many households are likely to struggle under the weight of poor housing affordability.

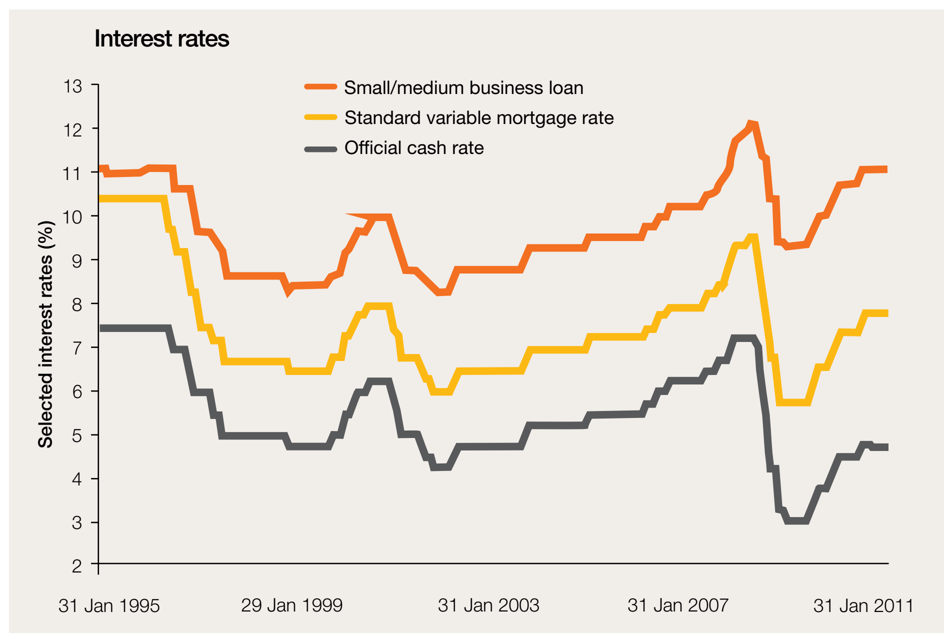
The direction of interest rates likely the key to the outlook for house prices

There is already evidence of genuine mortgage distress where there exists low income levels in combination with high mortgage debt. Affordability for these households is now extremely poor. This may be the case, particularly where properties were acquired following the GFC, at a time when mortgage interest rates were significantly below current levels.

Should the Reserve Bank of Australia (RBA) raise interest rates further (by another 25–50 basis points), then mortgage distress will likely intensify for those more exposed households and perhaps spread to other household segments. This was indeed the picture emerging in 2007 when the RBA was last raising interest rates.

Are Australian house prices likely to fall?

Australian mortgage rates reached an historic low following the GFC. Outlook is for potentially higher rates in the next year



Source: Reserve Bank of Australia

The period of rising interest rates in 2006 and 2007 saw an escalation in mortgage distress and pockets of housing price deflation emerged. Perversely, the onset of the GFC in 2008 saved many Australian households from financial pain and the housing market from more dramatic price declines. The onset of the GFC saw the RBA aggressively reduce interest rates to historically low levels by early 2009. This helped propel house prices to new highs through 2009 and 2010.

This time however, property prices and mortgage levels are higher than was the case in 2007, particularly for first home buyers and low income households. This makes these households more exposed to the impact of rising interest rates on their ability to meet repayments.

Without a GFC Mark 2, or a sudden end to the mining boom, there is no easy escape this time from rising interest rates and deteriorating affordability.

Even if interest rates remain unchanged, at current levels, affordability is sufficiently poor already to cause problems.

Looking forward, the focus of housing price declines could fall heavily on those lower income households which have borrowed large mortgages to buy a home in the past 2–3 years as well as other highly levered parts of the housing market.

There could be other pockets of more severe housing price adjustment. Where there is an oversupply of housing or an area of economic underperformance (higher than average unemployment or lower than average incomes) there could be greater housing market stress.

Whilst a severe price correction across the broader housing market may not be probable, the current level of mortgage rates is high enough to cause major problems for an increasing number of more exposed home owners. And it will likely spread further over the coming year if interest rates rise again.

If we're correct that overall the Australian housing market could experience a moderate price correction followed by relatively stagnant prices over the next few years, this environment will challenge the widely held belief that the Australian housing market 'always appreciates' and that 'you can't go wrong with bricks and mortar'.

Nonetheless a period of price deflation and stagnation would be perfectly in keeping with the long term history of the Australian housing market.

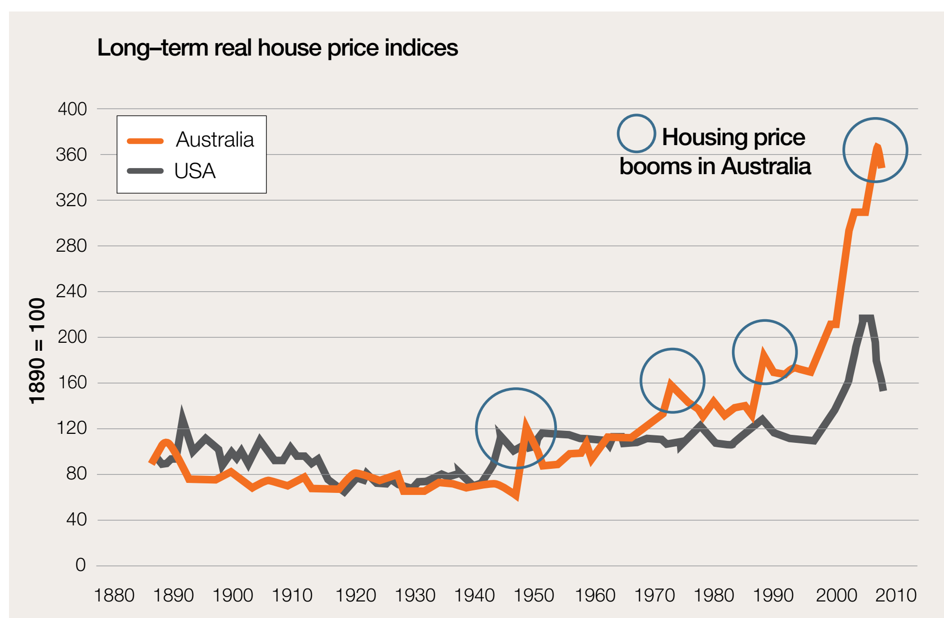
The history of house prices in Australia

Relative to the US housing market, Australian housing has enjoyed a spectacular and, to date, relatively uninterrupted price appreciation over the past 15 years.

In real terms, after adjusting for the effects of inflation, the Australian housing market has risen by around 110% in the past 15 years, compared with a real appreciation of the US market over the same period of around 30% to the end of 2010. Over the past decade alone, the Australian market has seen a real appreciation of around 80%.

The gap in real house prices which has opened up between the Australian and US markets over the past 15 years is dramatic, having been virtually level pegging for the prior 110 years.

The gap between Australian and US real house prices has never been so wide



Source: Steven Keen's Debtwatch

However, whilst the appreciation in real Australian house prices has been spectacular in recent history, it is interesting to note that, over a much longer period of observed history, Australia has not always experienced continuously strong house price appreciation.

The pre World War 2 experience – gentle deflation and stagnation in house prices

In fact the Australian housing market experienced a long and gentle stagnation from the early 1890s until the late 1940s with real house prices declining throughout that period. A succession of shocks: the Depression of the early 1890s, World War 1, the Great Depression of the 1930s followed by World War 2, saw real residential property prices in Australia generally declining through to the late 1940s. On the whole, the first half of the 20th century was not kind to the Australian housing market.

The post World War 2 experience – periodic booms, busts and recoveries in house prices

Things have been different post World War 2. In the past 60 years, sharp gains in Australian house prices have been periodically observed and the general trend in house prices has been upwards. However, this price movement has not been continuous. Rather there have been episodes of strong housing price appreciation generally followed by price deflation and stagnation. These cyclical patterns have occurred with a rough frequency of 20 years or so, with previous housing price booms in the early 1950s, early 1970s and again in the late 1980s.

In each of these cycles, sharp housing price inflation has been associated with a boost to real household incomes driven by commodity booms or other factors. These periods of housing inflation subsequently gave way to a period of declining real and nominal house prices followed by an extended period of stagnation before an eventual price recovery. Overall, the observed recovery period from a housing price peak to the market regaining that price level in real terms, has varied between 8 and 18 years.

The 1950s housing boom

The longest recovery period, of 18 years, followed the early 1950s housing bubble. The early 1950s saw booming demand for wool exports (related to the Korean War). This produced a short period of spectacular housing inflation—Australian prices more than doubled in the early 1950s. This followed the ending of housing price controls in 1949, so it can be argued that house prices were significantly undervalued ahead of this period. Real house prices subsequently dropped by around 30% in the aftermath of that price bubble (coinciding with the end of the Korean War) and didn't recover to their previous peak in real terms until around 1970.

Parallels to the current housing market

The early 1950s boom is an interesting period to observe for the housing market. There are certain parallels to the current environment. The early 1950s saw a net shortage of housing as well as a major terms of trade surge associated with the Korean War. Prior to the latest mining boom, the terms of trade boom in the early 1950s was the most significant to hit Australia in the past 60 years.

Are Australian house prices likely to fall?

The appreciation in house prices at that time, whilst spectacular, was relatively short lived. The magnitude of the subsequent decline in house prices, once the Korean War and related commodity boom ended, was dramatic. Having doubled in 1950/51, house prices fell by around 30% on average across Australia by 1953. The extent of price inflation followed by the sharp acceleration in new housing construction, which took place in the early 1950s, undoubtedly contributed to the magnitude of the price downturn.

The 1970s housing boom

The period from 1969 to around 1974 saw another major property boom in Australia, this time associated with a mining boom. House prices rose by approximately 50% on average in real terms through this period. The ending of the early 1970s mining boom saw a subsequent decline in real house prices of around 20–25% by the late 1970s. It was a further 10 years before prices had recovered back to their 1970s peak in real terms.

The 1980s housing boom

The late 1980s property boom saw a sharp rise of around 35% in real house prices on average. This was a flow on from the 1987 sharemarket crash which saw a sharp decline in interest rates and a new found disillusionment with share investing. Capital flowed from shares into the perceived safety of property. This ended with the severe recession of the early 1990s and a resultant slump in average house prices of around 10% in real terms. This proved to be the most modest of the observed post war housing price corrections, partly due to the sharp decline in mortgage rates during the recession.

Another long stagnation in house prices occurred through to 1996 before we saw the start of the current housing price upswing which has continued almost uninterrupted to date.

Price deflation and stagnation – part of the Australian housing experience

Looking back at this post War history, it can be said that periods of house price deflation and stagnation are as much a part of the longer term Australian experience as is house price inflation. It is certainly not true to say that 'Australian house prices always go up' either in real or nominal terms.

However, because we have not observed a bout of significant price deflation or even stagnation across the entire housing market since the early to mid 1990s, our memories of a more difficult housing market have now faded with time. There are a large number of home owners now who have either not lived through, or are too young to recall, anything other than rising house prices.

This lack of a longer–term perspective is dangerous. Currently, the Australian housing market, having experienced a long period of virtually continuous price appreciation is expensive on a number of relative and absolute measures. This, taken with poor affordability, would suggest at face value, that some degree of price deflation is likely.

Are there special factors making the Australian housing market less susceptible to a more dramatic price correction at present?

Special factors supporting Australian house prices

Much has been said about the 'special factors' which have assisted the most recent period of Australian housing price rises. These special factors include the net shortage of available housing in Australia. We view these factors as helping to explain the exceptional housing price appreciation over recent years and also potentially helping to limit the downside dangers that may exist for the Australian housing market looking forward.

Special factors could limit house price declines but are unlikely to prevent them

There is a tendency to view these special factors as supporting the case for continuing housing price appreciation in any environment. We believe that this is a dangerous perception to hold, particularly when these factors are at odds with very powerful housing market drivers such as affordability.

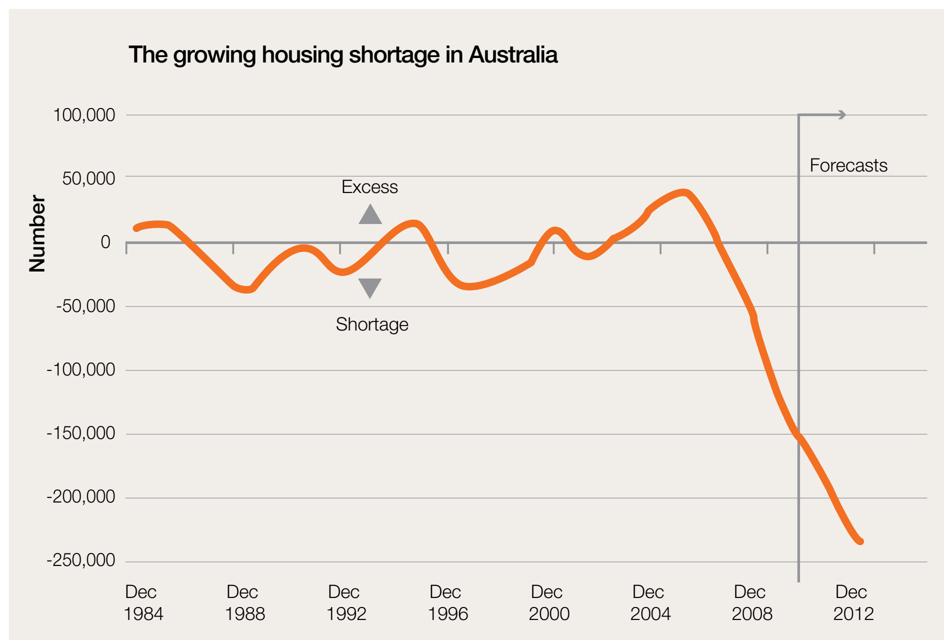
We see these factors working to reduce the magnitude of any potential decline in house prices rather than avoiding them altogether.

An Australian housing shortage

One of the most commonly noted special factors is the chronic undersupply of new housing over recent years versus the natural pace of demand. That this shortfall exists is quite correct. It is particularly evident in Australian capital cities, with extremely low rental vacancy rates evident in most cities.

There are two principle factors at work to produce this housing shortfall at present. Supply is principally affected by the rate of new housing completions adding to the housing stock. Demand for new housing is affected by new household formation—this is in turn influence by

A housing shortage can reduce the magnitude of house price declines.



Source: Goldman Sachs estimates and forecasts

natural factors such as young people leaving the family home and net immigration into Australia.

Since 2005 there has been a growing imbalance in the housing market with growth in housing demand outstripping growth in new housing supply.

It is estimated by Goldman Sachs that the net housing **under supply** was approximately 157,000 housing units as at mid 2010, compared with an estimated **oversupply** of almost 50,000 units as at end 2005. They estimate that this undersupply will grow further over the next few years unless decisive measures are taken to either reduce demand or boost new supply.

Not surprising, this current shortfall in housing has led to depressed rental vacancy rates, rising rents and, in turn, rising house prices. However, this shortage of housing is not evenly spread across the country. There are areas of oversupply. In many cases these coincide with areas of poor price performance recently.

A few factors may have contributed to this shortfall.

On the demand side the adult population growth rate has accelerated over the past 5 years or more, reflecting both natural growth and net immigration inflows.

The slowing in the growth rate of new housing supply may relate to the increased difficulty of developers getting sufficient financing for new development projects. It may also relate to the complexity of planning and approvals processes for new development projects as well as the lack of necessary social and transport infrastructure to support new developments in green-field areas.

Unlike the early 1950s housing shortage, and the resulting boom in house prices, this time around there seems to be only a muted improvement in new housing supply in response to housing price rises over recent years. This suggests a major collapse in house prices is less likely.

Housing shortages don't always cause prices to rise

A shortage of housing can certainly fuel housing price inflation. However, a shortage of housing may not completely insulate a housing market from potential price corrections. There are many other factors at work which can have an impact on house prices. Take for example, Hong Kong during the 1997 Asian crisis, where despite an apparent undersupply of housing, it experienced savage house price deflation. Overvaluation was a major factor at work undermining the market.

Certainly demographic factors such as natural household formation can affect house prices long term. However, household formation can itself be influenced by cyclical factors which can temporarily reduce housing demand.

Consider young people moving out of the family home, a key driver of long term household formation. This will add to the aggregate demand for housing and reduce available housing supply. However, in the instance where mortgage rates have risen to adversely affect affordability, or unemployment has increased as economic conditions deteriorate, many young people may be compelled to sell or may give up renting their property and move back in with their family or friends to reduce costs.

The prevailing economic environment has the ability, at least for a period, to impact on the net balance of housing supply and demand.

Are Australian house prices likely to fall?

Similarly net migration can be significantly affected by economic conditions. The rising Australian dollar has increased the cost of living in Australia for new migrants. Student migration to Australia for education purposes has slowed as the cost of an Australian education has risen sharply with the appreciation of the Australian dollar.

There have been other contributory factors which have also helped boost Australian house prices over the longer term.

Favorable tax treatment of housing

A major long term positive for property prices has been the systematically favorable tax treatment of residential property in Australia where owner occupied property is excluded from welfare asset means testing, capital gains and in most cases, land tax assessment. Investors in residential properties are allowed negative gearing deductibility against any income, 50% deductibility for capital gains and 100% expense deductibility and depreciation allowances.

First owner schemes

Government policy has further exacerbated housing price rises through such mechanisms as First Home Owner Grant schemes which, whilst overtly designed to provide funds for first home owners to enter the property market, have had the effect of generally boosting house prices by an amount equivalent to the grant provided.

The increase in the First Home Owners' Grant in 2008 had such a price effect. This increase was subsequently reversed in 2010 but the damage was done. First home owner schemes are almost invariably a poor way to improve affordability for first home buyers.

Foreign investment

The relaxation of Foreign Investment Review Board (FIRB) rules in 2008 also worked to boost house prices, particularly in capital cities with high foreign student entry. They encouraged foreign students to increase their ownership of Australian residential property, at least for the period of residence in Australia.

These rules were re-tightened again in 2010.

Borrowing within self managed super fund schemes (SMSFs)

An issue worth mentioning is the recent changes to the rules allowing self managed superannuation funds to borrow for the purposes of investment. This has made property investing significantly easier to undertake within super funds. It has the potential to unlock significant additional capital which could be potentially directed into investment in residential properties.

Apart from the potential risk of reduced investment diversification flowing from this decision, this move could do more to boost house prices than alleviate the shortage or affordability of available housing.

The Henry Tax Review and housing

The Henry Tax Review in 2010 made a number of key recommendations focused on improving affordability and accessibility to the housing market. These recommendations included subjecting the family home to means testing and land tax, the removal of transfer taxes on property, improved incentives for institutional investment in residential property and reduced tax deductibility for investment properties.

None of these recommendations have been implemented to date. Indeed it may be a brave move for any government in Australia to even contemplate these changes, despite the positive impact they would likely have on housing affordability.

Government policy has helped to boost house prices, not improve housing affordability

A succession of Federal and State governments have failed to adequately address the issue of deteriorating housing availability and affordability. In many cases government policies have in fact had a detrimental impact, creating shortages and driving house prices higher.

This outcome may be applauded by many for boosting the apparent wealth of Australian households but it has served to deny new and future generations access to affordable housing and has raised the risks to the broader economy, should housing prices suffer a sharp decline in the future.

The mining boom, agricultural prices, interest rates and house prices

Longer term the outlook for interest rates, by virtue of their impact on housing affordability, is likely to be a key driver of the direction of house prices.

In this light the impact of the mining boom must be considered. The mining boom is expected to produce a strongly positive wealth effect over the medium term for certain parts of the Australian economy.

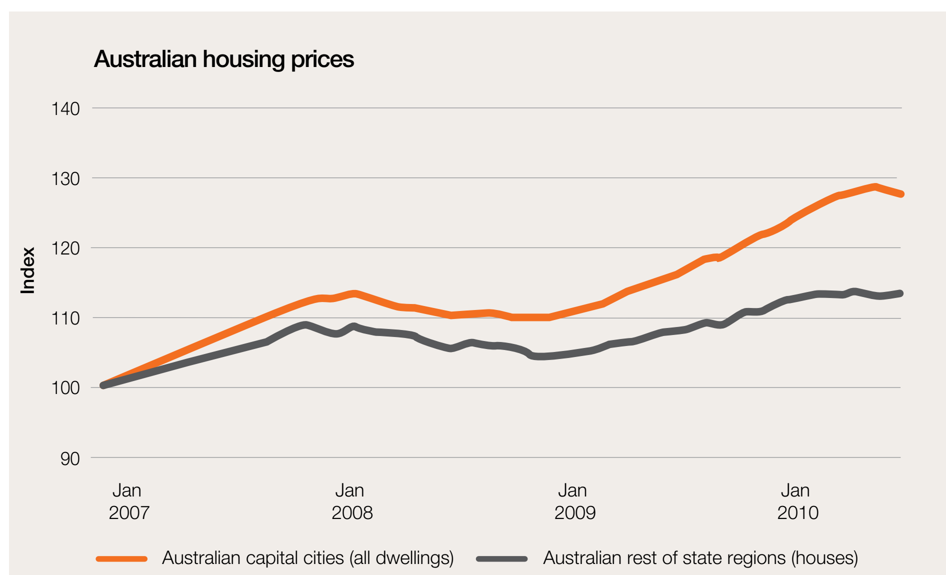
That positive wealth effect, by virtue of its positive impact on household employment and income growth, is working to boost house prices at least for those regional parts of the Australian housing market more directly linked to the mining boom.

Whilst regional housing price data outside of capital cities is not particularly well reported in Australian statistics, there is ample anecdotal evidence to suggest that in specific regional areas with a strong direct link to mining activities, there has been a positive impact on regional property prices over recent years. This is linked to the associated boost to income levels and extreme property shortages. (It is an obvious point to make that those parts of the housing market benefiting most from the mining wealth are likely to experience the most painful price deflation at some stage in the future when the mining boom ultimately ends).

Mining boom likely to keep Australian interest rates higher than otherwise

The mining boom is also causing interest rates in Australia to be higher than otherwise, as the RBA attempts to manage the impact of that mining wealth on the economy and inflation in particular. This suggests that, at least as long as the mining boom persists, the trend decline in interest rates witnessed over the past two decades is at an end.

Australian regional house prices have underperformed long term



Source: Goldman Sachs, 2010.

The tendency for interest rates to be boosted by the mining boom suggests that poor housing affordability is likely to be an increasing headache for the housing market until such time as the mining boom ends.

Agriculture also having an impact

A further element affecting property and house values in regional areas, often ignored, is the impact of agricultural yields and prices. This can also produce price patterns in rural and regional Australia that can move counter to the trend in capital cities.

It is hard to generalise about the impact of the agricultural sector on regional property prices as there seems to be a diverse pattern apparent across regional Australia. However, the buoyancy of global grain and wool prices, as well as the improved growing conditions in many parts of Australia have produced a significant income benefit for many rural and regional areas.

There are some notable exceptions to this. Flooding in parts of Australia as well as continuing drought elsewhere, has undermined crop yields and hence incomes for some rural areas which, in turn, has likely hurt local property values. At an industry level, wine producers for instance are experiencing a perfect storm—over-capacity, a high Australian dollar and poor recent growing conditions in some areas, all of which can negatively impact incomes in this industry. This is likely not good news for property values in some wine producing regions.

Are Australian house prices likely to fall?

Australian housing performance varies by capital city

Whilst the diversity of property markets in rural and regional areas of Australia suggests that they can 'march to their own beat' by virtue of specific factors affecting local incomes, the majority of the Australian housing market is focused on the capital cities. In the capital cities, barring major income shocks (eg rising unemployment), affordability is likely to remain the dominant longer-term driver of house prices and will dominate factors such as mining wealth. However, even here we are seeing a mixed pattern of price performance.

The Perth housing market is currently showing amongst the weakest price moves of any capital city having had the strongest price performance through to mid 2007—see chart below. Despite the relatively greater exposure of Western Australia to the mining sector and a significant undersupply of housing in Perth at present, overvaluation and poor affordability have seemingly undermined prices.

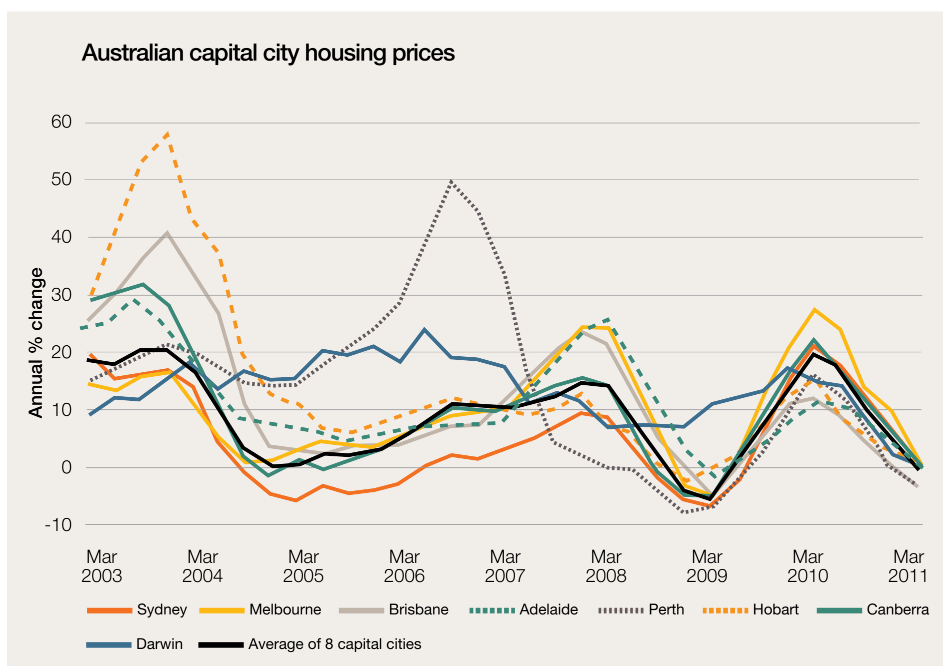
By contrast the Adelaide housing market, despite being the only major capital city with a net excess supply of housing at present, is currently showing greater price resilience than most cities.

Clearly housing supply is not the only factor driving house prices.

Given the high sensitivity of the Australian housing market to relatively minor interest rate adjustments now, the positive impact of the mining (and agricultural) boom on the terms of trade, could perversely have an increasingly depressing effect on house prices, particularly in capital cities.

In such an environment, an extended stagnation or even deflation in Australian capital city house prices could occur lasting as long as the mining boom continues. At the very least we should expect an extended period of very anaemic house price moves compared with the past 15 years.

Strong housing price appreciation post GFC is now giving way to price declines and possible stagnation



Source: Australian Bureau of Statistics

Residential property as an investment?

Housing as the preferred investment

Housing in Australia is conventionally viewed as a non-investment asset; the primary purpose being to provide a residence. It would be fair to say that for many, housing has served a dual purpose; also acting as a key store of wealth. Notwithstanding the rise in other forms of household investment (eg superannuation), housing remains the largest store of wealth within household balance sheets by a sizeable margin.

Over a long period of time, housing for many Australians has come to represent the preferred investment. For many people approaching or now in retirement, it is an asset that can not only be passed on to future generations, but also may be drawn down on to fund a comfortable standard of living in retirement.

Why has housing assumed this pre-eminent role? There is undoubtedly an emotional 'bricks and mortar' aspect to this issue, with the tangibility and durability of housing giving investors more comfort than many other investments.

However, it should not be underestimated that there is some investment rationale to the role housing occupies. The relatively favorable view of housing as an investment asset is likely embedded in the following:

- the favorable tax treatment of housing compared to many other investments
- the long period of apparently superior real and nominal returns from property, and
- the perception of housing as a low risk investment.

Is the investment case for housing as strong as generally perceived?

Taken together these factors are a fairly powerful mix. However, when we consider each of these arguments in turn, the investment case for housing may not be as strong a perceived.

The favorable tax status of owner-occupied housing in Australia is well understood. Its exclusion from most forms of taxation and also welfare means testing stands it apart from the general range of investments. However, one of the largest failings of owner-occupied housing as an investment proposition is its lack of a delivered yield. This presents a conundrum which undermines the benefits of owner-occupied housing as a long term investment.

You receive no explicit income from owning your own property (unless of course you charge your children rent!) Barring that, the only way to realise any actual return from owner-occupied housing is to either sell the house or to reduce your capital investment in it (eg taking out a home equity or reverse mortgage).

This may be a problem for retirees seeking to achieve a better income return on their assets to live on in retirement.

The tax treatment for investment properties is less favorable, being subject to capital gains tax. On the positive side, there is tax deductability available including negative gearing as well as depreciation benefits. And you're able to earn a rental yield on an investment property.

However, residential property investment offers little advantage in tax treatment versus other investments and has less attractive tax treatment compared with the franked tax treatment of Australian share dividends. It is also generally subject to significantly higher transaction costs and ongoing costs (stamp duties, agents and management fees and capital maintenance costs) than other forms of investment.

In reality whilst the gross yield from rental returns on residential investment property can seem quite attractive, the actual net yield received after all costs are accounted for, can be quite low compared with other investment assets. This is an aspect that many investors in the housing market often don't fully appreciate.

Lastly, housing is an extremely illiquid asset compared to most other investments. It can take a long time to sell a property to realise its value, particularly in a distressed market environment. That can present problems in an investment context, particularly if investors need access to capital periodically or at short notice.

Residential property as an investment?

Has housing outperformed other investments?

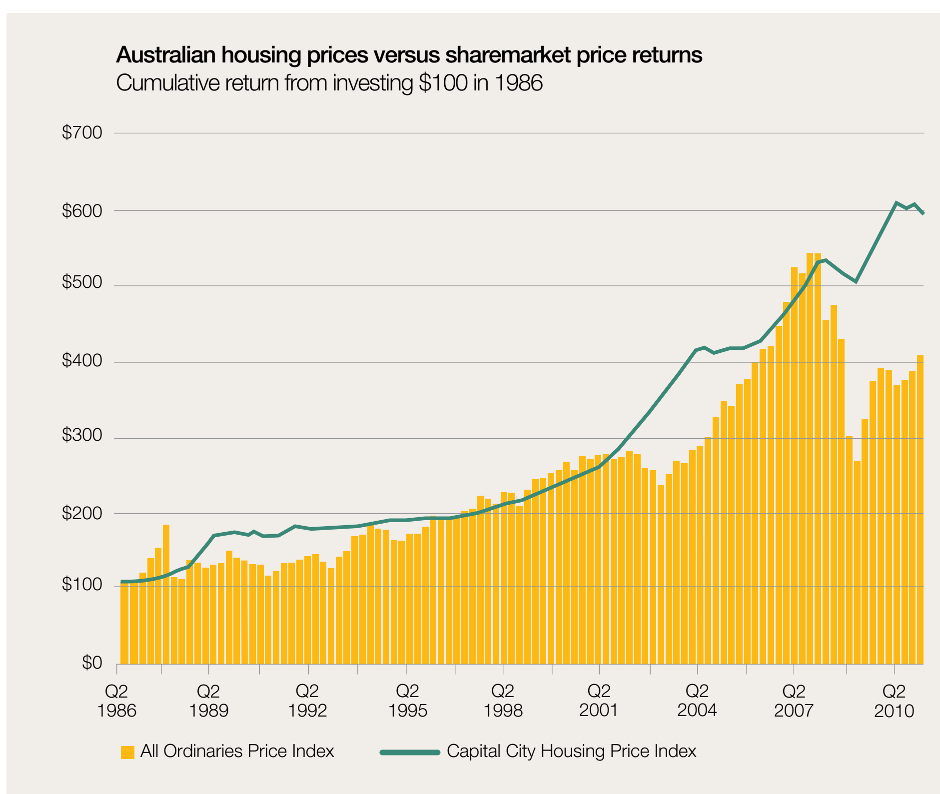
The widely held perception is that housing has delivered superior returns to other investments. This view however, is very dependent on the timeframe for comparison chosen. Since the GFC housing has clearly outperformed share investments. However, it is perhaps one of the more widely held misperceptions that Australian housing has outperformed the local sharemarket over the long term as well. Over a long period of 20–25 years the returns from housing and shares are actually very similar.

There is a great deal of misinformation regarding long–term relative performance between housing and shares.
By way of example, quite often we see the performance of property and sharemarkets compared using the price index of each.

This considers capital appreciation but makes no assumption or accounting for income or dividends earned from investment in each asset class. Nor may this incorporate elements such as capital improvements or ongoing maintenance expense associated with owning property which can significantly distort the actual long–term returns generated by housing.

This analysis can generate artificially higher return data for housing which can undermine the perception of other investments such as shares. Looking at the chart to the right, which compares the performance of the Australian housing and sharemarket since 1986, it can be seen that when comparing simple price performance, the housing market has apparently won hands down.

Price returns from Australian shares significantly less than Australian housing over 25 years—this is misleading.



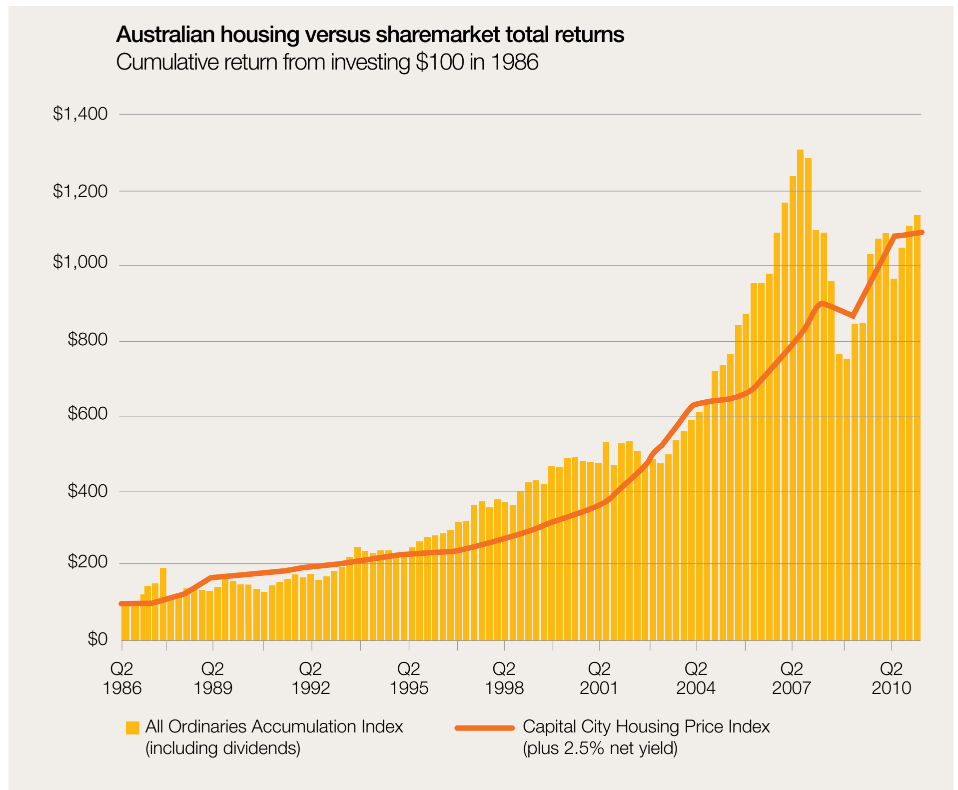
Source: Datastream

Over the past 25 years, the Australian capital city housing price index has risen such that $100 invested in 1986 has grown to $592 at the end of 2010. Over the same period however, the All Ordinaries share price index has risen such that $100 invested has only grown to $400. On this basis the housing market seems the winner. However, this is an unfair comparison because it conveniently ignores a significant source of returns for equities. That is dividends. In Australia, not only are dividends a significant share of the total return from shares, they are also highly tax efficient.

Comparing instead the total return from shares (including dividends earned and reinvested) against the total return from housing (including an assumed net rental yield) over the same 25 years, the results change dramatically. Both asset classes have generated a similar total return with investment in the share index growing from $100 to $1108 while an investment in the housing index has grown to $1090 over the same period.

This generously assumes a 2.5% pa net yield to housing which would not be available through owner occupied property. This outcome is despite the sharply negative effects of the GFC on share portfolio returns.

Similar total returns from Australian shares and housing over 25 years (before tax and including dividend/income yields)



Source: Datastream (assumed net yield for housing incorporates estimated depreciation costs, management fees and other ongoing costs. Ignores dividend imputation benefits for shares)

Residential property as an investment?

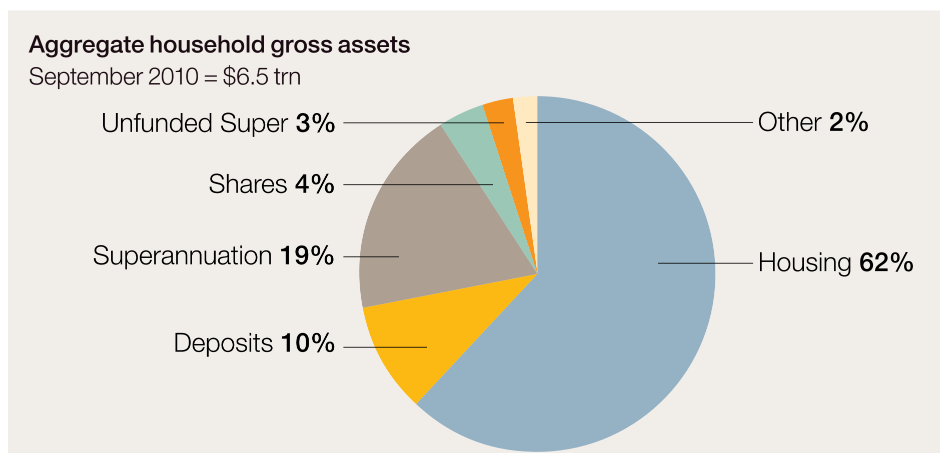
Household wealth is heavily biased towards housing

Despite the relatively similar total returns over the past 20–25 years from each asset class, Australian households have nonetheless maintained a strong bias towards investing in residential property. Looking at data for household wealth, at present 62% of gross wealth is stored in residential housing with an aggregate value of around $4 trillion. This compares with an estimated value of $800 billion in 1990 (also 62% of household wealth).

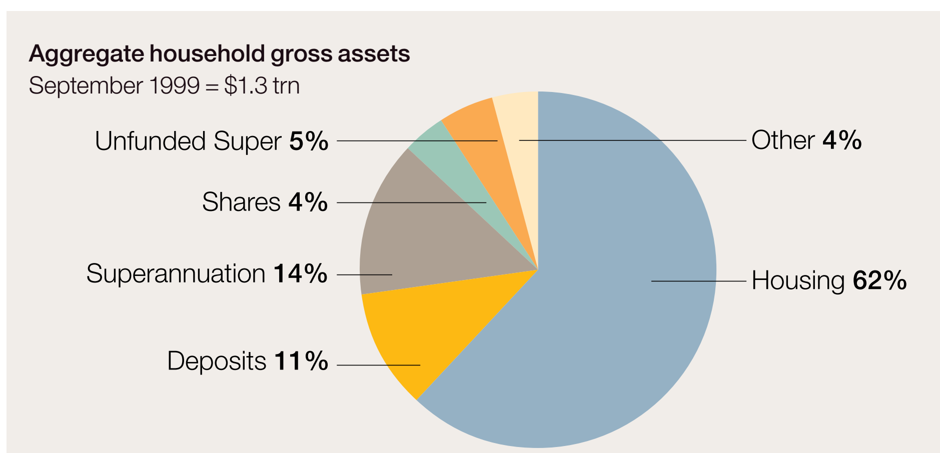
The majority of this increase in the value of the housing stock is a result of rising house prices (around $2 trn) with likely just over $1 trn due to an increase in the size of the housing stock itself (and capital improvements made to the value of the existing housing stock). Throughout the course of the past 20 years, as the pace of property price rises has ebbed and flowed versus other investments, the aggregate value of housing in Australia has fallen as low as 56% of household wealth. At its current share, however, housing is as high a percentage of household wealth as observed at any point in the last 20 years.

An obvious argument can be made that housing has only maintained its share of household wealth because of the period of exceptional housing price appreciation we have observed over that 20 year period. However, it can equally be argued that house prices have only risen to such an extent because households have chosen to devote the majority of their wealth and incomes to acquiring housing.

Housing dominates household wealth today



The same story 20 years ago



Source: Reserve Bank of Australia (excludes non – housing non – financial assets)

Against that, aggregate superannuation wealth currently accounts for only 22% of total household wealth at around $1.5 trn (including unfunded superannuation claims). Interestingly, comparing the same data 20 years ago, whilst housing as a share of household wealth is unchanged, superannuation has grown only marginally at the expense of other investments (eg bank deposits and other investments).

If one aspect of the superannuation story has been to create a greater diversity of household wealth then at least from that narrow perspective it has not had much impact to date. Households are just as exposed to housing as the principal store of their wealth as was the case 20 years ago.

The housing market has delivered high 'risk adjusted' returns compared with other investments

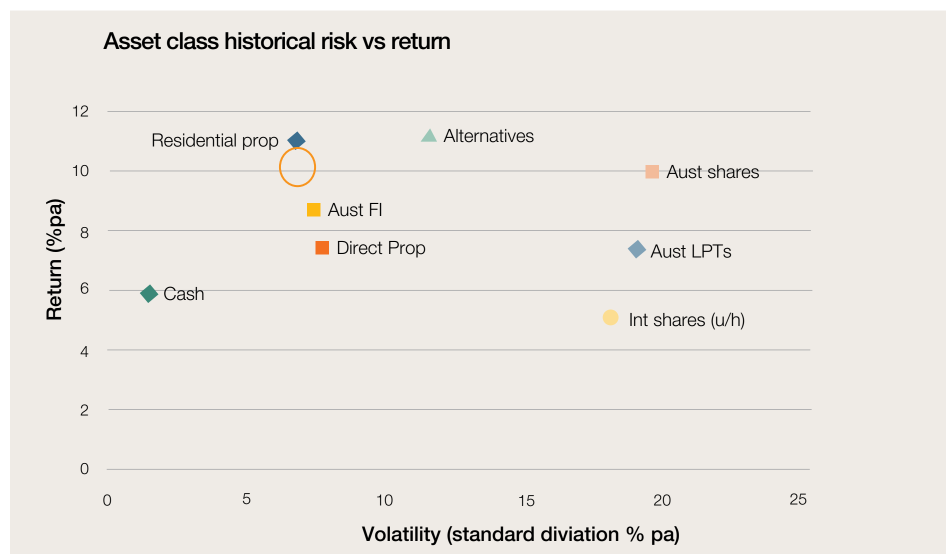
A large part of the story may have to do with the perceived safety of housing as an asset class—safety from financial market volatility which has impacted on other asset classes and the relative stability of Government policy towards housing versus other investment vehicles such as superannuation.

The old adage 'safe as houses' highlights a widely held view that housing is a relatively low risk and stable asset class (and not subject to changing government regulation and tax treatment), whilst other assets often held within superannuation are relatively riskier and more volatile (as well as the changing government treatment of superannuation itself). The sharply higher volatility in shares (and most superannuation funds) during the GFC has accentuated this view.

The lower apparent volatility of housing returns seems to be borne out by observation. Despite similar aggregate returns over the past 20–25 years versus shares, the pattern of returns of the Australian housing index have been less volatile through history than the Australian sharemarket index. As a result housing, as an asset class, has apparently delivered a higher risk adjusted return than shares. This combination of strong returns and low return volatility (risk) has made housing a seemingly winning asset class compared with many other investments.

The below chart shows the historical returns and volatility of returns for a range of investments in Australia, including housing. Residential property has apparently delivered one of the highest returns for the least amount of volatility for any asset class (apart from cash) over the past 20 years.

Housing has delivered the most attractive risk adjusted returns of any asset class (apart from cash) over the past 20 years. Will this continue?



Source: Goldman Sachs, 20 years to end 2009

Is residential property as low risk as it seems?

Has housing been as low risk as the historical data suggests? We would argue that the historical data underestimates the true volatility or risk experienced by an individual home owner.

As investors we can and do invest in a diversified portfolio of shares which aim to replicate or beat the equity index performance. However, we don't do the same with housing. We don't (and generally can't) invest in a portfolio of housing that replicates the overall housing index. Rather we invest in a single house (or if we are lucky, a handful of houses).

The actual return we may receive on a small portfolio of houses can be affected dramatically by their geographic location (ie. state, city, suburb and even street) and other specific factors such as nature of the house (eg house versus apartment, fully detached versus semi, parking versus no parking, renovated versus unimproved, waterfront versus water glimpses). In summary, given the narrow exposure households tend to have to housing, the returns a household may actually experience may be driven as much by factors particular to the actual house owned as it may be by factors impacting on the housing market as a whole.

This will not only potentially generate differing portfolio returns versus the broad-based housing index. An individual housing portfolio may also generate a higher level of actual volatility than that suggested by a highly diversified housing index.

In truth, we don't appreciate this potentially higher volatility because unlike shares, we aren't observing changes in the value of our house every day. We might only consider the value of our own house when we buy it and

Residential property as an investment?

then subsequently sell it, a duration of generally many years. In between times we might get an updated valuation from a bank or perhaps a real estate agent, both of which can be somewhat spurious. However, if you had to sell your house at any point in time would it realize the value you believe it held?

At the height of the GFC, if you sold your house, would you have received the same price as a year earlier? Most likely you would not have chosen to sell unless absolutely necessary in such an environment, however, the realisable market value of any residential property would likely have fallen significantly through that period.

In reality it is probable that individually households experience a greater level of price volatility from their narrow housing exposure than a general housing price index would lead us to believe. This lack of diversification within an individual household's housing exposure is an important issue which can materially affect the actual return and volatility experienced when compared with broader housing indices.

Prospective returns from housing may be less impressive in future

Aggregate household data is a useful proxy for the average household's asset allocation. Indeed anecdotally this aggregate data appears highly representative of the asset allocation financial planners see every day. It is generally highly skewed towards housing. Given the strong historical returns delivered by the housing market it is possible to justify an asset allocation skewed towards housing. Households have been rewarded for their asset allocation bias.

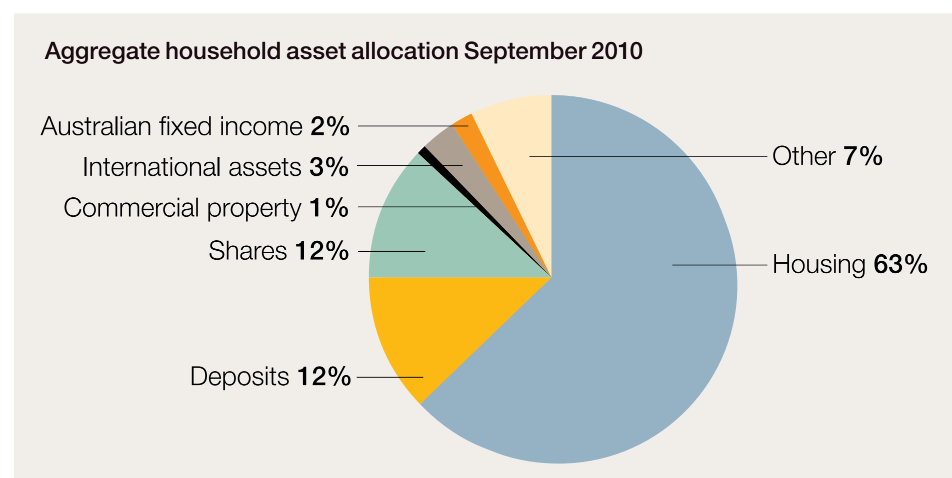
However, we are not convinced such a skewed asset allocation is justifiable based on expected returns over the next 5 years or longer. Given our view of a general overvaluation of Australian house prices at the present time and the poor outlook for housing affordability over the foreseeable future (as a principal driver of future housing price movements), we expect that average returns from Australian housing are likely to be much less attractive looking forward.

(It could be suggested that coming from a funds management perspective our cautious housing outlook and argument for a reallocation of household wealth away from housing may be biased. However, in 2007, following a long period of spectacular appreciation, we felt at that time that the Australian sharemarket appeared relatively expensive compared many other investments including the local housing market.

Post the sharp declines in share prices through the GFC this situation has reversed. As a result, despite having delivered excellent returns over the past 20 years we expect that returns from Australian housing are on average likely to be much less attractive looking forward compared with history and compared with potential sharemarket returns).

Based on a cautious (but not catastrophic) view of future Australian house price returns, we would recommend a more diversified asset allocation mix for Australian households. From an average current asset allocation exposure of around 63%, we believe a significantly lower exposure to housing would be more sensible.

Households asset allocation heavily skewed to housing — driven by high apparent returns and low perceived risk

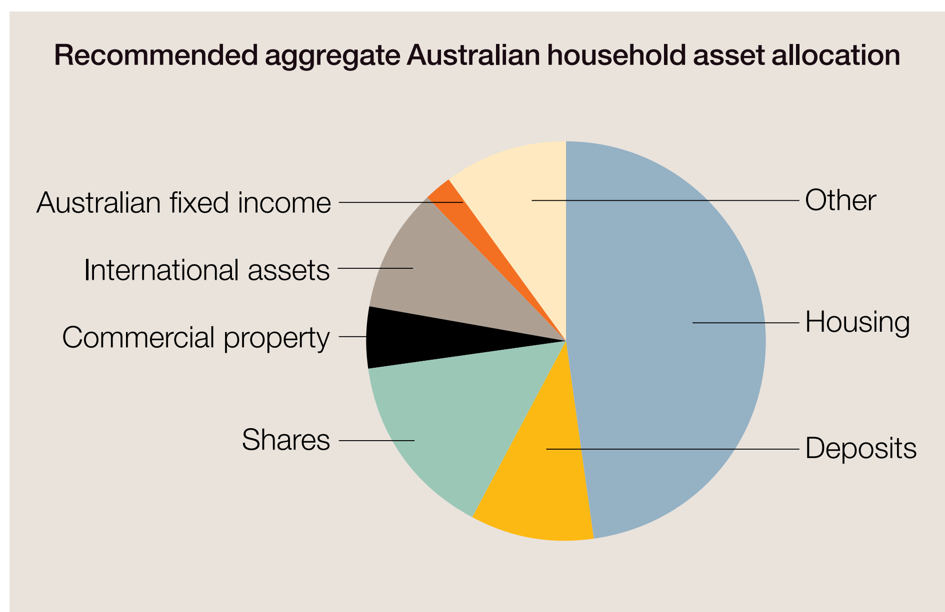


Source: Reserve Bank of Australia

Housing expected to deliver lower returns in future

Source: MLC Investment Management

Lower expected returns suggest an exposure to housing of less than 50% is more suitable



Source: MLC Investment Management

Recommended exposure to housing? Less than 50% of household wealth

The actual exposure that is appropriate for an individual household will undoubtedly vary depending on individual circumstance. It depends, amongst other things, on the household's requirement for residential accommodation and the magnitude of a household's wealth.

However, from a current asset allocation to housing for the average household of around 63% we would suggest that a more suitable allocation should be less than 50% of gross household wealth.

This recommendation acknowledges that a large component of housing exposure is lifestyle related, for use as a principal residence. However, a significant proportion is undoubtedly discretionary in nature and as such should be continually assessed in the light of expected returns for housing. It is this discretionary or investment related component of housing exposure that we believe should be reduced or at least reassessed to reflect a more cautious return outlook for Australian housing over the next few years.

Translated across the entire household sector in Australia, the adjustment required to reduce housing to below 50% of household wealth is massive in dollar terms. To achieve this adjustment it would require a $1 trillion asset allocation shift away from housing towards other investments.

Such a dramatic asset allocation switch, if carried out by the entire household sector, would itself produce the catastrophic price decline that the recommended asset allocation change is designed to avoid. Therefore it is improbable that such an asset allocation shift would spontaneously occur across the entire household sector.

Residential property as an investment?

A reduction in housing allocation might however, be realistically observed over a longer period of time through gradual capital reallocations in an environment where housing underperformed other investments. It is interesting to note that a decline of around 40% in average house prices across Australia (relative to other investments) would equate to the decline in exposure to housing required to bring its allocation below 50%.

Whilst adjusting aggregate household asset allocation to housing is improbable in the short term, individual households would be able to influence their asset allocation as suggested. Being able to act independently of the general household sector to reduce housing exposure could allow individual investors the ability to construct a more suitable asset allocation mix better suited to the forecast environment.

This may be particularly relevant for retirees or those approaching retirement with large existing property portfolios looking for a more suitable and sustainable investment strategy to live on through their retirement, particularly where there is an income requirement which may not be adequately met by property investments.

Some of the preferred asset classes might include domestic and international shares, commercial property and alternative asset classes (eg infrastructure, private equity, hedged funds). Not all of these asset classes can be easily accessed directly by all investors. They may in some cases be preferably accessed via managed funds. The suitability of these asset classes and indeed any investment for an individual investor will vary according to the investor's particular needs and circumstance. Advice should be sought before investing in them.

Alternatives to investing in residential property

For investors that wish to remain within the broader definition of real estate there are a number of alternative avenues for diversification including:

- investing directly in commercial real estate,
- investing in commercial property through pooled vehicles, or
- investing in domestic and global listed property securities or Real Estate Investment Trusts (REITs)

This final segment gives a high level view of the outlook for the direct and listed property and briefly touches on the various market segments referred to above.

The outlook for global property markets will continue to highlight the ongoing divergence across major economies. Increasingly an important driver of future returns may well be the local/regional factor effects on rents and asset prices. The world economy is characteristic of a two speed world. Major Asian markets have strong fundamentals with solid underlying economic forces supportive of tenant demand in an environment of limited supply, particularly in office. By contrast, most Western economies have a muted recovery at best other than in the core major markets following substantial downdrafts in rents, vacancy and asset prices.

Following the GFC, commercial real estate markets generally bottomed in the second half of 2009 and have gradually begun the process of recovery. In Western markets, unlike previous real estate cycles, excess oversupply of new commercial stock is not the key issue. Rather high vacancy rates have developed as a result of considerable demand contraction. The outlook is broadly for a slow recovery in demand with a gradual improvement in yields.

The Australian commercial real estate universe (excluding residential property) is broadly divided into four segments: direct asset ownership, unlisted retail funds, unlisted wholesale funds and domestic property securities. There are other types of property investments however these are the main investment choices available to the broader investment community. A number of these funds have performed reasonably well generating double digit growth over the long term while there are others that have done poorly. Generally the difference between these return outcomes can be defined by the quality of assets, the level of gearing and management.

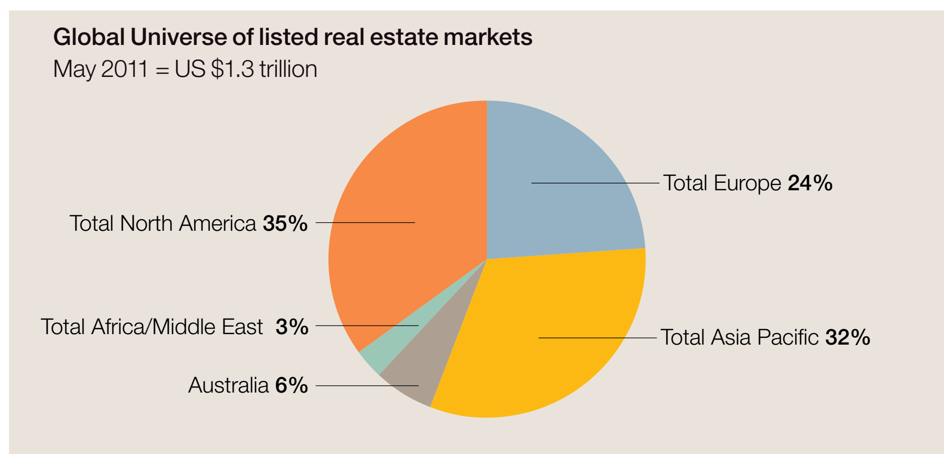
According to Macquarie Capital there are around $260 billion of assets across the Australian REIT market, unlisted wholesale funds and unlisted retail funds. Broadly speaking these are invested across the core asset classes of retail, diversified, industrial, office and other.

Australian listed property trust sector small component of global REIT market

Australian REITs comprise a little more than 50 listed companies that are actively traded on the Australian Stock Exchange. The market capitalization of the local property trust index is some $72 billion. These are either a mix of passive investment vehicles or active structures comprising development and construction.

The wholesale unlisted market is typically designed for large scale pooled retail funds or institutional investors. This segment has around $100 billion under management. The unlisted retail funds market is mainly purely for small scale retail investors. This market segment is around $20 billion in assets.

Australian listed property trust sector a small component of the global REIT market



Source: European Public Real Estate Association Monthly Statistical Bulletin May 2011

The advantage of widening the investment scope to include international markets is that it opens up a broad range of opportunities from the underlying assets, pooled vehicles, debt products and listed REITs. It also avoids some of the problems of a lack of diversification in the domestic REIT market.

According to European Public Real Estate Association as at the end of March 2011, the global investment grade real estate markets is some US$22 trillion, with a further US$1.3 trillion in listed companies or REITs totaling some 1,474 companies. Consequently investing offshore can open up significant opportunities.

As a follow-up paper we will explore the investment opportunities available in the non residential real estate markets both domestically and offshore.

List of sources:

Reserve Bank of Australia—various statistical series and research papers

Australian Bureau of Statistics—various statistical series

Goldman Sachs—A Study on Australian Housing—Uniquely Positioned or a Bubble? September 2010

7th Annual Demographia International Housing Affordability Survey: 2011

Steven Kean's Debtwatch website

OECD economic surveys

Nigel Stapledon—A History of Housing Prices in Australia 1880–2010, University of NSW School of Economics 2010

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