Will 2017 See a Global Property Meltdown?

Description

The global property market has been a major beneficiary of the monetary policies pursued in recent years. Low interest rates and quantitative easing have not only made borrowing cheaper, they have pushed asset prices higher. However, now the outlook for monetary policy is more restrictive. Higher inflation in the US could be exported across the globe. Could this signal the start of falling property prices this year?

Changing times

The election of Donald Trump could prove significant for global property prices. He is apparently in favour of adopting a looser fiscal policy, with taxes set to fall and spending forecast to increase. This could push inflation higher, which could be exported across the globe. The likely effect of this would be a tightening of monetary policy, with interest rates across the developed world likely to rise in order to cool higher inflation.

Higher interest rates would not only mean existing borrowers have more difficulty in servicing their debts, it could also mean that demand for new loans falls. After all, debt is just like any other market. If it is cheaper, demand is likely to increase. If it is more expensive, demand is likely to fall. As such, it would be unsurprising for global property prices to experience a slowdown of some sort this year.

Uncertainty

As well as higher interest rates, the effect of a Trump Presidency and Brexit could be to cause uncertainty among investors. This may cause a delay or the cancellation of investments in property, since investors have been shown to prefer to make significant purchases when the outlook for the global economy is more robust. This could hurt demand yet further and given that Trump has a four-year term and Brexit talks will last for two years, reduced demand for property could be witnessed beyond 2017.

Long-term factors

Despite this, property could prove to be a sound asset to own in the long run. Another effect of inflation beyond having the scope to push interest rates higher is to erode the value of debt. In other words, a higher rate of inflation will make debt worth less over time in real terms, so that it gradually becomes easier to repay. This is particularly the case for investors who are able to fix their debt at today's low interest rates.

In addition, the world continues to face pressure on housing. The world's population is expected to rise by a third between now and 2050, and in much of the developed world there is likely to be a lack of supply in the long run. Therefore, even if global property prices fall somewhat this year, it could prove to be a worthwhile opportunity to invest. That's especially the case for those investors who are able to fix their borrowing rate. For them, the global property market remains relatively enticing.

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peterstephens