Global Property Bubble Is Ready to Pop

Description

Ever since interest rates were slashed to near zero in the wake of the financial crisis, the world has gone property mad.

Residential house prices from Abu Dhabi to Zurich have spiralled as hot money travelled the world looking for a home.

For those who got in early it has been incredibly rewarding, even if – whisper it – stock markets have actually done far better.

The global property bubble cannot blow much bigger. The best we can hope is that it deflates slowly… but it could burst.

China crisis?

Property is still going crazy in China, where prices have been pumped up by yet another bout of government stimulus.

Guangzhou, close to Hong Kong on the Chinese mainland, leapt a whopping 36% in the past 12 months, according to Knight Frank.

Prices rose around 20% in Beijing and Shanghai, as well as in Toronto, Canada.

Seoul in South Korea continues to boom, as does Sydney and Stockholm, both up 10.7% over the last year.

Berlin (8.7%), Melbourne (8.6%) and Vancouver (7.9%) are also performing strongly.

London stalling

In most other global cities, property is finally starting to slow.

Hong Kong rose a relatively modest 5.3% while Singapore grew 4%, and thereafter price hikes trail away.

Half of the 41 countries in the report grew by less than 2%, while nearly one in three saw prices fall, by up to 8.3%.

Prime central London was the world's raciest property market but is now leading the charge in the other direction, falling 6.4%. Former hotspots Zurich, Moscow and Istanbul fell 7% or more over the last 12 months.

I suspect we will see more of this.

It's over

Cheap money has driven prices ever higher for eight years but is finally losing traction, as affordability is stretched again.

Interest rates cannot go any lower and could start rising if the US Federal Reserve continues to tighten.

Regulatory authorities are looking to rein in overheated markets, with China only the latest to tighten borrowing requirements.

The glory days are over.

Taking stock

Investing in property has one major benefit over stocks and shares — you can leverage up borrowing money to fund your purchase. Thereafter, the advantages are all one way.

First, you can trade stocks online within seconds, whereas offloading property can take months (longer in a market crash).

You can invest small amounts, rather than the hundreds of thousands of dollars, pounds, euros, yen or renminbi you need to buy a decent property these days.

If you buy an investment property you have the effort of doing up and maintaining it, finding tenants, and paying a host of local taxes. You don't have any of that nonsense with stocks.

Best of all, you can invest quickly and easily in a wide spread global stocks, sectors and markets.

Stocks can be volatile, but wise investors turn that to their advantage by holding for the long term, and taking advantage of any market dips to load up on their favourite shares. That's a far saner strategy than succumbing to property madness.

Piling into property at this late stage in the cycle could prove a massive mistake, so tread carefully.

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