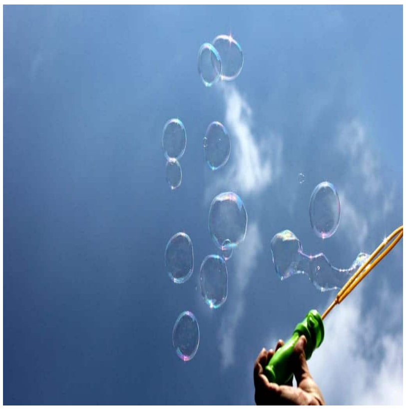

Is a Global Property Crash Ahead in 2018?

Description

Since the financial crisis, property prices across the world have generally experienced a period of stunning growth. In various capital cities, the price per sq ft of residential and commercial property has benefitted from the adoption of loose monetary policies. This has seen interest rates fall to near-zero, while quantitative easing has helped to improve the economic performance of a range of economies in recent years.

Now, though, the era of ‘cheap money’ seems to be coming to an end. Could this mean that a global property crash is ahead?

A changing focus

Already in the US, interest rates have started to rise. Its monthly asset repurchase programme ended some time ago, while in Europe this year could see the tapering of the ECB’s quantitative easing programme. This signals that central banks across the developed world are sensing that their economies could handle a higher interest rate given the future prospects for GDP growth and inflation.

Furthermore, the fiscal policy being pursued in the US in particular could lead to a tighter monetary policy. Lower taxes and higher spending may create higher inflation, which may prompt a less favourable operating environment for the property sector. If interest rates do continue to rise across the developed world, then it could mean that property becomes less affordable. This could reduce demand and create a surplus of supply, which may not be favourable to prices in future.

Gradual change

However, the reality is that interest rate rises are likely to be relatively gradual. Policymakers are unlikely to seek to make major changes to the status quo in a short timeframe, since it may harm the overall economic outlook. Therefore, demand for property is unlikely to sharply decline due to affordability issues.

Furthermore, with central bankers being aware of market sentiment, they are likely to make it clear when they are considering an upward move. This could lessen the risk of a surprise move and may help to keep confidence buoyant among investors.

Long-term potential

Of course, with the world's population continuing to rise, it could be argued that property remains a worthwhile asset to own. In many parts of the developed world, there is a lack of supply versus demand and this situation looks set to persist over the long run. As such, there could be a clear catalyst for further rises in residential house prices in particular.

Certainly, the property market may have overheated to some degree in recent years. It clearly offers less upside potential than it did a number of years ago, with yields and price multiples being less favourable than they once were. But with the fundamentals for the asset class remaining strong and economic policy remaining generally favourable, property still seems to be a worthwhile place to invest. Therefore, buying property-related stocks for the long term could be a shrewd move for Foolish investors.

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