

The Hudson Report

Thursday
10th December,
2009

This weeks Hudson Report is brought to you by The Hudson Institute **Financial Adviser - Hamish McDouall CPA**

Dear[membersalutation], **Username** [membershipno]

This week I've had a strange and sudden wave of Christmas cheer inspire me to compose an Aussie Christmas poem (a very rare occurrence indeed). I'm not sure Banjo Paterson would be impressed but hopefully it provides a few chuckles.

Secondly, we would like to congratulate Michal Park, (Hudson Adviser) and her partner Matthew, on the birth of their second beautiful daughter Vivienne.

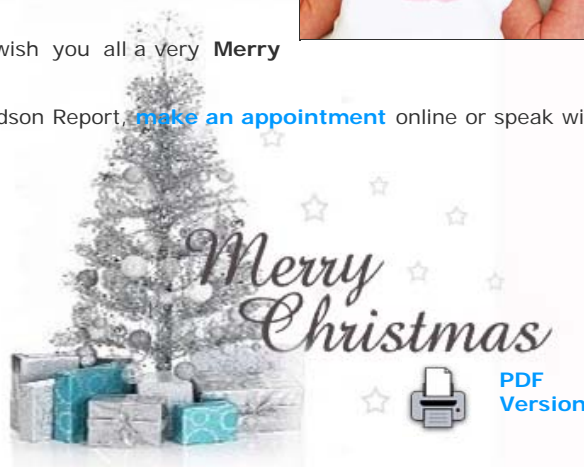
On a more investment featured note, I've taken a look at the outlook for residential property and posed the question; are we headed for the next great property boom?

As my last Hudson report for the year, I will take this opportunity to wish you all a very **Merry Christmas!!**

If you would like more information about any of the subjects in this week's Hudson Report, [make an appointment](#) online or speak with your Hudson Adviser on **(free call) 1800 804 296**.



All the Best,
Hamish McDouall CFP
Financial Adviser



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The Next Great Property Boom?

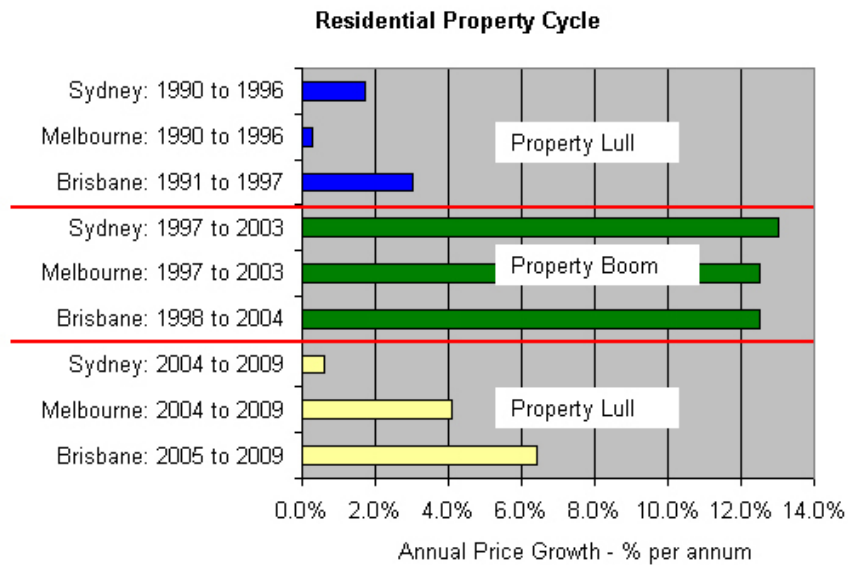
Over the past six years, on the eastern seaboard, property price growth has been relatively modest; is this period of low price growth about to end? Are we about to experience the next great property boom?

Expert opinion on property prices is currently divided.

On the one hand we have the doomsday brigade, fearlessly lead by none other than Today Tonight's favourite property expert, Professor Steve Keen who has been arguing that property prices are due to fall by 40%. Despite losing a well publicised bet and now having to walk to Mt Kosciusko with a sign saying 'I was wrong ... ask me how?', is still standing by his prediction that Australian property is overvalued and is due to experience a substantial fall.

On the other hand we have the optimistic boom time brigade, typically led by real estate agents and property spruikers, suggesting that a significant shortage in properties, rising rental yields and low interest rates will result in the next property boom.

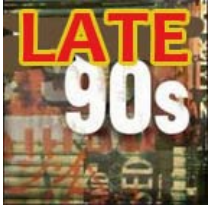
Where to from here for property prices?



Property Cycles – Taking a look at property prices in Sydney, Melbourne and Brisbane it can be demonstrated that the property market has moved in three distinct phases over the past 20 years.



The early 90's were categorised by negligible price growth. The primary reasons for this were due to the strong price growth in the preceding years (Sydney had risen by 112% between 1988 and 1989) and the high interest rates of the late 80's had dramatically reduced housing affordability and the confidence of borrowers.

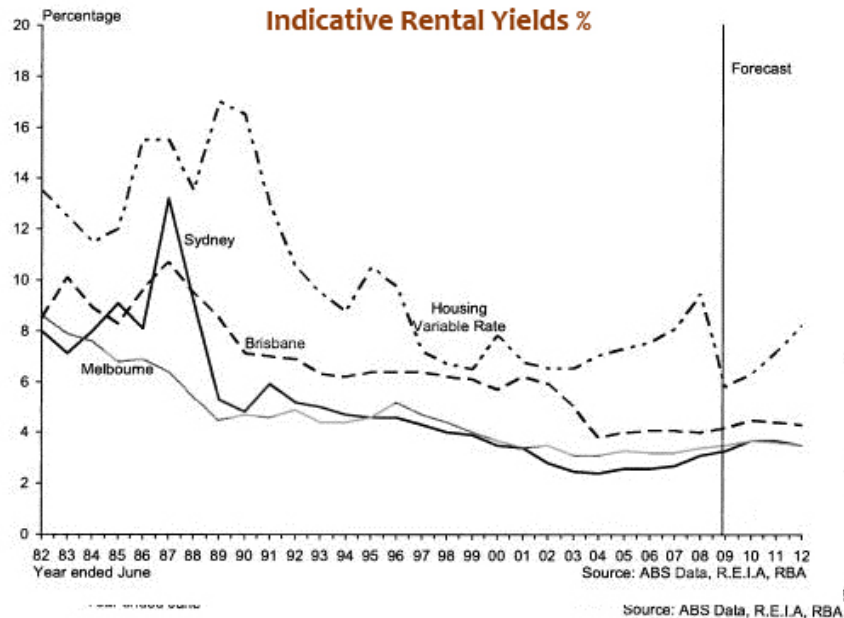


During *the late 90's / early 2000's* the Australian property market experienced one of its greatest booms with average annual growth rates in excess of 12% per annum. This boom continued around the rest of the country, with Queensland following a year later and many other capital cities catching up two or three years later. The primary reason for this boom was the pent up demand from years of below average growth, lower interest rates and good rental yields.



Which brings us to our current cycle, *the late 2000's*, which have experienced below average growth rates, albeit not as bad as the early 90's, with substantial differences between the cities.

Rental Yields – As demonstrated by the below chart, rental yields have been falling quite consistently over the past 30 odd years, primarily due to the strength of property prices (i.e. property prices rising faster than rental returns). This trend must be reversed at some stage for property to remain attractive. As shown in the below chart rental yields have begun to plateau and even improve over the past few years due to below average growth in prices and above average rental growth. Due to the low vacancy rates it is anticipated that rents will continue to grow strongly.



However, it is important to recognise that something else has been happening over the past 30 years, interest rates have been falling. Analysing the above chart further demonstrates that the difference between rental yields and interest rates has been a primary driver behind property growth.

Source: "Residential Property Prospects 2009-2012", BisShrapnel

The Difference between Rental Yields and Interest Rates

People need somewhere to live and they typically have a choice between renting and buying. If they rent, they must pay the landlord rent, and if they buy, they typically must pay a bank interest on the funds borrowed. Hence, it makes logical sense that the demand for property is intrinsically linked to the difference between the two. The closer they are the more attractive it is to buy, and the further away they are the less attractive it is to buy.

At the beginning of the early 90's the difference between interest rates and rental yields was approximately >>

5%, a property lull then followed.

At the beginning of the late 90's the difference between interest rates and rental yields was approximately >>

2%, a property boom then followed.

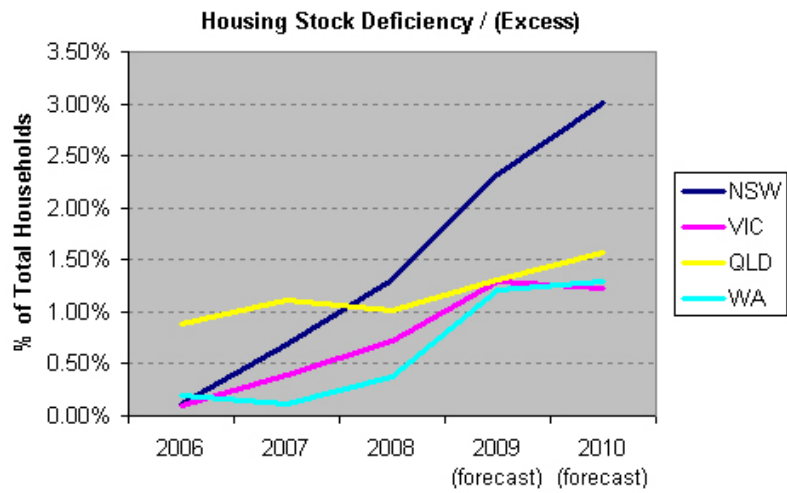
At beginning of the current property cycle, the difference was close to >>

4% and a relative property lull has followed.

The difference is currently sitting at **2%**, although that is likely to widen as interest rates rise. If interest rates rise faster than any increase to rents, the difference between the two will widen, possibly out to by 3-4% over the next couple of years.

This would suggest that a property boom is possible although it may be delayed by rising interest rates.

Shortage – Due to insufficient new property development and strong population growth there is a significant shortage of properties. This problem is expected to worsen over the coming years as demonstrated in the below chart.



Source: "Residential Property Prospects 2009-2012", BisShrapnel

Housing Affordability – As discussed in Phil's recent [Housing Affordability Crisis Debate](#), it is quite possible that this is more of a media beat up than a real issue. Furthermore, it is arguable that the difference between rental yields and interest rates makes more of a difference to the *relative* affordability of property.

Other factors – The first home owners boost concludes at the end of December and the impact of the Governments stimulus package is beginning to fade. These factors may temporarily result in a more subdued market.

Confidence – Like shares, property price growth is often impacted by confidence in the property market. In a rising market people feel a need to get in quickly (before prices rise) and vendors are often less willing to negotiate. In a falling or stagnant market people are not rushed into buying and feel that they can negotiate more. At present it is arguable that it is still more of a buyers market, although that depends on where you are looking and in what price bracket.

The outlook for residential property remains positive and attractive returns are likely within the next few years however we are unlikely to experience the same substantial growth that was achieved in the late 90's.

Residential real estate should remain a core component of the average investors portfolio and it is likely to offer attractive returns. Investors need to be selective about where they invest, the price they pay and they must be realistic about the growth prospects they expect to obtain.

If you would like to discuss property investment and what action you should be taking, arrange a time to discuss your situation with your Hudson adviser.



Forecasted Property Growth

A recent report out from respected research group BIS Shrapnel suggests the following forecasted gains in median house prices over the three years to 2012:

State / Territory	Forecast Gain in Median House Price 2010 – 2012
NSW	23%
VIC	24%
QLD	16%

SA	23%
WA	13%
TAS	18%
NT	3%
ACT	15%

These solid forecasted growth figures provide further evidence to the above discussion suggesting a strong property market in certain locations over the coming years.

Are you positioned to take advantage of this growth?

If you would like to discuss **property investment** and what action you should be taking, arrange a time to discuss your situation with your Hudson adviser on 1800 804 296 or [make a booking online](#)

Source: "Residential Property Prospects 2009-2012", BisShrapnel

behind the investment news...



We often refer to the 'yield' of shares and property within our Hudson reports however, what exactly is 'yield' and why is it important to understand?

Yield refers to the income return of an investment, and does not typically include any movement in price (capital gains or losses). The yield of our three main asset classes specifically refers to:

Asset Class	Income Stream
Shares	Dividends
Real Estate	Rent
Cash	Interest

Yield is obviously important as it represents a large part of your overall return, not to mention the fact that it provides investors with all important cash flow. Understanding how yield is calculated, also allows investors to compare different investment options.

There are two yield figures that are often quoted:

Gross yield refers to the income that is received before any direct expenses are taken out.

Net Yield refers to the income that is received after any direct expenses have been taken out such as management expenses, insurance and lease fees.

Whilst both are important the net yield is considered more important as it actually lets you know how much you end up with in your pocket.

For example, let's compare a short stay holiday accommodation property with a long term commercial property lease. Both properties have a gross yield of 8% per annum however, due to the high expenses associated with the short term holiday accommodation such as cleaning fees, high management fees, high body corporate fees, etc, the net

yield on the short stay only ends up at 4% compared, to 7% with the commercial.

	Gross Yield	Expenses	Net Yield
Short Stay Holiday	8%	4%	4%
Commerical Lease	8%	1%	7%

A few other points:

- Franking credits should be added onto the gross yield figure for shares. For more information on calculating franking credits [click here](#).
- Borrowing costs and taxation are typically not taken out of the net yield figure although they remain an important consideration.
- You could go one step further and calculate the net after tax yield, or even the net cost (after accounting for interest) however, these will be the subject for another day.

from the floor...

An Aussie Christmas



We don't love Christmas, oh no, we love it

It's that time of year, Ham, prawns and beer.
Eating, chatting, eating, drinking, eating, eating, sleeping.

By the time new years is here, you won't fit into your new Christmas gear.
Too much bacon and ham, Christmas pudding, swimming in a dam.

We don't love Christmas, oh no, we love it

Cricket in the backyard, classic catches, dirt that's too hard.
A frosty in one hand, diving with the other, hitting a six off your brother,
running and diving for a catch, ouch, landed in a bindy patch.

It's bloody hot today, it's 40 degrees, I'm sweating through my new tees.
No white Christmas this side of the hemisphere, unless you count the zinc and cricket gear.
No bob slaying, reindeers or snow fights, just pool ponies, water pistols and mozzie bites.

We don't love Christmas, oh no, we love it

Santa comes in with the kids in tow, poor old Dad burning like a crisp on the new II-low.
Floating like a dead seal in the pool, until one of the kids bombs him, oh so cruel.

The water pistols are going flat out, hitting grandma and grandpa on the snout,
A yell comes from the couch in a low sounding boom, 'cut it out you two - or you'll go to your room'

We don't love Christmas, oh no, we love it

My Uncle and Aunt have put on a great shindig, I've never eaten so much pig.
We all agree that the food is a hit, pretty soon they'll put me on the spit.

After gorging ourselves over lunch, too many beers, wine and fruity punch,
Everyone finds the nearest couch, bed or shaded grass, swearing at the next meal they'll say 'pass'.

As dinnertime comes around, all of a sudden some room has been found,
Leftovers from lunch we'll polish off, more turkey and ham we'll scoff.
Here comes desert, I think I can fit it in but jeez ... its going to hurt.

We don't love Christmas, oh no, we love it

Our Uncle on Mum's side starts a debate, the way the voices are rising, there must be a lot at stake.
It's politics of course, liberal or labour, until our young cousin comes in to stir,
She prefers Bob Brown and the greens, by the silence she must have said something obscene.

It switches to who should be our cricket captain, then the fast bowler and opening batsman.
No decision can be agreed, except to bring back Tubby Taylor, a champion indeed.

We don't love Christmas, oh no, we love it

We awake steadily on boxing day, five extra kilos we all weigh.

Cricket on the TV, that's suits me,
Can't remove myself from the couch, my tummy seems to have grown a pouch.
They'll call me Skippy the bush kangaroo, I've been eating for two.

We don't love Christmas, oh no, we love it

The pressies are packed in the car, we drove off in the dust waving from afar,
Saying 'see ya next year', when there'll be more ham, turkey and beer.



MERRY CHRISTMAS!
Written by our resident Poet, Hamish McDouall

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ST. GEORGE	12.44	01.00	7.47	6H	STARPHARMA	1.21	0.22	0.203	4HT	STRATA	0.022	0.023	0.023	0	ASK ALL ORDINARIES
ST. GEORGE	35.08	12.45	12.45	4H	STARTRACK	0.65	1.24	1.24	4IT	STRATATEL	0.069	0.08	0.068	4HT	ASK ALL ORDINARIES
ST. GEORGE	21.2	35.12	35.12	5H	STRATATEL	0.022	0.068	0.65	4HT	STRATHFELD	0.069	0.08	0.068	4HT	ASK ALL ORDINARIES
ST. GEORGE	28.13	28.17	28.13	4H	STRATATEL	0.069	0.08	0.068	4HT	STRATHFIELD	0.069	0.08	0.068	4HT	ASK ALL ORDINARIES
ST. GEORGE	14.06	14.06	14.06	4H	STRATATEL	0.069	0.08	0.068	4HT	STRATHFIELD	0.069	0.08	0.068	4HT	ASK ALL ORDINARIES

Share market update for the week ending Wednesday 09/12/2009

The markets were broadly negative this week. As the Copenhagen Summit on climate change continues, along with Tiger Woods' tally of indiscretions, the main headlines affecting markets were:

- US Federal Reserve Chairman Ben Bernanke commented that whilst the US economy was improving, it still faces considerable headwinds.
- Concerns over Dubai's debt position last week, and this week fresh concerns over debt levels, continued to make their way around the world. Both Spain, Greece and Portugal this week have had their credit ratings downgraded by rating agencies.
- Additional concerns remain over other European nation's debt levels as a proportion of GDP.

Index	Close at 09/12/09
All Ordinaries (Aus)	finished the week down 123 points or 2.6% to close at 4,653 points.
Dow Jones (US):	closed at 10,338 down 115 points for the week.
Nikkei 225 (Japan):	the only major market to improve this week, up 396 points or 4.1% to 10,005.
Hang Seng (Hong Kong):	weakened 548 points or 2.4% to 22,290.
S&P 500 (US):	fell 13 points, closing at 1,096.
FTSE 100 (UK):	closed down 123 points or 2.4%, finishing at 5,204.

Source: www.comsec.com.au , *The Australian Financial Review*, www.smh.com.au, Aegis Daily Research

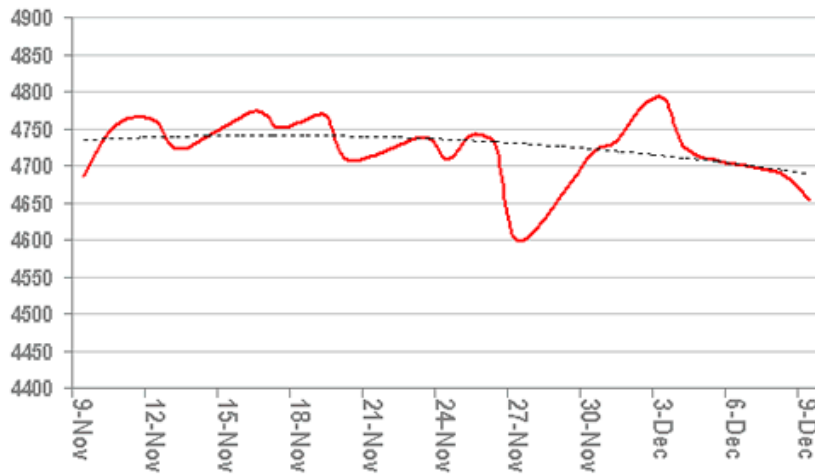
All Ords Price History 1984 - Dec 2009 (monthly)



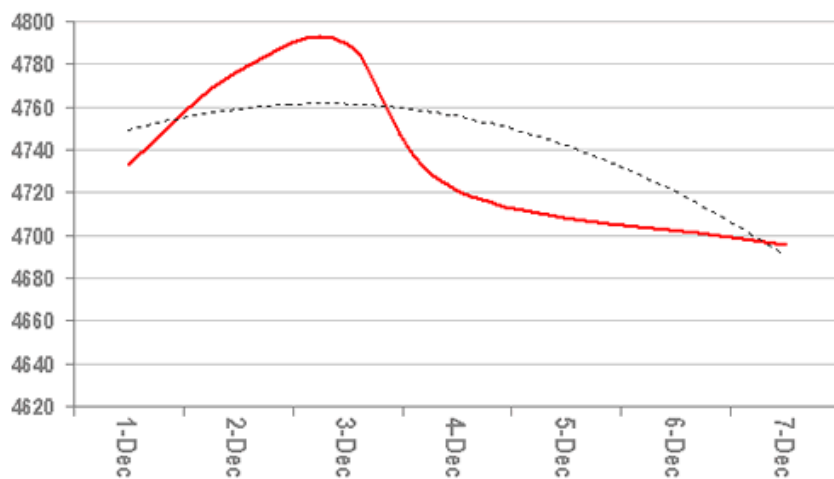
All Ords Price History Dec 08-Dec 09 (weekly)



All Ords 1 Month Price History Nov-Dec 09 (daily)



All Ords 7 day Price History Dec 01-09 (daily)



SOURCE | Graph data: Finance.yahoo.com.au

Whisper of the Week...

Healthscope Limited (HSP.ax)

The Health Care sector is undoubtedly a growing industry and one that should continue to benefit from the aging population in Australia and abroad. Healthscope Limited (HSP) is Australia's second largest private hospital and third largest pathology operator with small operations in New Zealand and South East Asia.

HSP has a sound business strategy of improving the efficiency and occupancy of its existing assets whilst at the same time expanding via acquisitions and organic growth. HSP has a very good track record of successfully following this strategy even in the tougher recent economic times.

HSP continues to research the possibility of greater expansion via possible offshore opportunities and by adding further capacity to their existing hospital portfolio. HSP continues to explore further vertical integration by adding additional healthcare services (such as radiology) to their existing centres.

Sales have increased consistently for more than a decade and net profit continues to increase and is forecasted to strongly increase by 38% over the next year. Following a recent capital raising the companies balance sheet remains sound.

An attractive price earnings ratio suggests the stock is reasonably cheap, particularly for a company with good growth prospects. Whilst the 4.5% fully franked dividend yield provides investors with an effective gross yield of 6.4% at the 30% market transfer rate

Current P/E Ratio	13.50	<p>Healthscope Limited (HSP) Long-term buy under \$4.80</p>
Dividend Cents/Share	21.50	
Dividend Yield	4.5%	
52 week high	\$5.00	
52 week low	\$3.61	

HSP.ax 3 Year Price History Dec 06-09 (monthly)



Source: www.comsec.com.au , *The Australian Financial Review*, www.smh.com.au, Aegis Daily Research

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