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**Homeownership**

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**CURTIS, Mr Christopher Donald, Managing Director, Curtis Associates**

**CHAIR:** On behalf of the committee, I now welcome the representative of Curtis Associates to this hearing. I remind you that although the committee does not require you to give evidence under oath, the hearing is a legal proceeding of the parliament and warrants the same respect as proceedings of the house. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. Would you like to make an opening statement before we proceed to questions?

**Mr Curtis:** I did not really wish to elaborate much more on what is in the submission, No. 33, that we submitted for the inquiry's attention. I would submit myself to any questions you might wish to ask of me.

**CHAIR:** One of the primary motivations for this inquiry has been a concern in some major regions of sharp price increases, of larger borrowings, of the dominance—we think anecdotally but we are gathering evidence to this effect, also—investors in dominating the market and excluding homebuyers. That, in itself, is a concern—the possibility of more properties being owned by fewer people might also add to a volatile situation. Also, and as we understand now, there are more and more people who may not have been able to buy their own home because of the non-deductibility of mortgages but are now venturing into investment properties. These are people such as nurses, firemen, policemen and teachers. The concern is: if they are buying in at a break-even point, even a positively geared point or at very small loss, and if interest rates were to change, each of these groups might encounter real problems. We are wondering if you have some views on what you are seeing in the marketplace in regard to these three points.

**Mr Curtis:** That is, essentially, a topic of the submission that we put forward. Therefore, I can really only offer anecdotal evidence from our experience as buyers' agents in the Sydney metropolitan area. Just to clarify for the record, our focus of concern is within about 15 kilometres of the Sydney CBD, and rarely does this particular business stray outside of that, so any anecdotal evidence is constrained by that reality. I share the concerns that you have articulated, Mr Chair, in terms of things that are currently affordable in what is an aberrant interest rate environment historically. We have never enjoyed—or endured, as the case may be—such a sustained period of low interest rates as we are now doing.

Anecdotally and with respect, the question that you have posed falls under a species of a broader issue: that is, the extent to which these low interest rates might be somehow contributing to price increases and activity in the marketplace. Our feeling is that it takes time for sustained low interest rates to work their way through the system. The lag seems to be about six months at the minimum before you start to notice something which you then might say is attributable to interest rates. I think we are well and truly in that period and that, generally, the low level of interest rates has turbocharged the market in some fashion—although the extent of that is right at the heart of our submission; we would like to know precisely the extent in terms of whether that is driving lower income people or giving them opportunity or exposure to the property market that may be disadvantageous when interest rates go up, as they inevitably will.

Not that we notice, but the caveat there is that our business really does operate at the higher end of the market—the million-dollar-plus bracket. It is not often that it is in that lower end for a variety of reasons; partly an economic decision that we have made, but also that the clientele below that figure sometimes find it difficult to make the distinction between the cost-value proposition that a buyers agency provides. From going around the auction rooms and participating in auctions from time to time, one is not struck with the idea that there is a new class of person, for example, now bidding that previously was not. The main effect of the million-dollar-plus bracket has been to probably put more expensive properties within the reach of certain people who, but for the interest rate rises, could not have reached them. The perception that we have got is that the lower interest rates have not turbocharged large numbers of new entrants of the type that you have outlined into the market. But again, it is a heavily qualified answer because that is really not our end of the market.

**CHAIR:** Is that because the investor is beating that new home buyer?

**Mr Curtis:** I do not know the answer to that question, and we would really like to know that. The starting point to that is to have good, reliable data rather than data that has been in a sense manipulated for extraneous ends on a week-to-week basis. I do think that there is a stronger investor component because of interest rates, but whether they are squeezing the first home buyer or owner-occupiers out of the market is a very difficult question. You have to look at the supply side of things as well to see if there is enough property to go around. Then that invites the next question, which is not a question that can sensibly be answered at a macro level; you have to look at the micro level because the properties that should be being purchased should be ones of decent quality. Typically they are always in short supply, so you never quite know what the source of the competition is for that sort of asset, and the extent to which interest rates might affect that competition. There is always a horde of

buyers for something that is attractive and for whom the property has that appeal, rather than the interest rates making that property prima facie affordable.

**CHAIR:** The answer of supply has been given as the remedy on a number of occasions. But it appears that, because the previous restraint of the investor having to fund negative gearing when interest rates were higher than rental returns is no longer there, the more properties there are the more the investor will buy, and they will still exclude a person that should have been a homebuyer. So, as to the ideal situation of the investor providing affordable rental accommodation for those who cannot buy, it would appear that they have trespassed onto this area of the homebuyer with their advantages of negative gearing and rental returns and such.

**Mr Curtis:** With respect, I think it is very difficult to form any such conclusion, given the way in which the data is currently collected and segmented. As far as I am aware, there is no one organisation analysing the data in that particular way. It is always an inference drawn from, for example, comparing loan applications and then drawing an inference as to the motivations of particular property buyers, whether they are investors or otherwise. But you need more information than that, I think, to draw any conclusions, and not to have that information is to invite speculation. There could be, for example, a spike in investor loans for established properties, but you would need to drill down to see how many of those are refinanced as opposed to ab initio finance. And you have to keep drilling down into the data. That all presupposes that the population of data or the dataset that you are working from is, in itself, reliable. Any chain is only as good as its weakest link. Our concern, as addressed in the submission, is that the system and the culture within which that system exists of collecting data is unreliable. And that needs to change. Until and unless that does change, questions of the type that you pose, Mr Chair, really, sensibly, cannot be answered in an informed way.

**CHAIR:** The final of our terms of reference is: 'opportunities for reform'. So you would suggest the first area of reform is a collection of data that will paint a more complete picture of trends?

**Mr Curtis:** Indeed. We addressed that front-on in the beginning of our submission. The topics in our submission relate to the terms of reference 'demand and supply drivers in the housing market' and 'opportunities for reform'. We actually would see the priorities of those two terms being reversed. The fundamental thing—the \$64 question—is how to get the data collected in a way that is accurate and reliable and, more to the point, timely, rather than being subjected to a six to 12 week lag before, for example, you can go to an authoritative source such as Land and Property Information in New South Wales, and, if needs be, search the transfer in the hope that you will find the consideration expressed—and that is not now mandatory. So you have all these methods that are theoretically available, but each of them is flawed because none of them is a comprehensive way of ensuring that we are comparing apples with apples or that, if we do go looking for this data, we will find it.

There is an emotive element to this submission, and we welcome this opportunity and the invitation that has been extended to us to make this point forcefully. We have been making it in various article blogs and so forth for several years, but, on the ground, as a professional property buyer, it is a source of great infuriation. The time has come where I say, almost emotionally: this has got to change. You, with respect, cannot inform policy settings until you do that.

**CHAIR:** APRA has engaged with banks and asked them to take more prudent measures regarding how much they lend to investors and the capacity of homebuyers to be able to fund higher interest rates, either the current rate plus two per cent or seven per cent, largely, as I understood it, as a result of what has happened. And this seems to already be having some effect in cooling down the investment sector. Do you have any suggestions regarding possible action we could take to have more of a timely prevention of such rapid increases in property prices, which are most likely to lead to rapid decreases sometime?

**Mr Curtis:** The single answer, again, is the integrity of the data that you collect. At the moment there is a brutal sense that, for example, in relation to the mechanisms occurring now with the macroprudential measures that APRA has introduced, those measures have translated into some high interest rates for investors and therefore the cost of that has been shunted onto the consumer. This is early days in that process. The brutal analysis will be to say: 'What is the state of the market before that change was imposed upon the system that we know as the housing market in Australia? Snap-freeze that; take whatever metrics you can and a snapshot of those metrics as at that stage; wait six to 12 months, assuming that APRA maintains that position and that interest rates continue to respond to those macroprudential measures; then take another snapshot six to 12 months down the track, and see how they compare.'

That is the only logical analysis that we could suggest. Our point, on a brutal experiential type of analysis, is that it should not be necessary to do that in the first place. We should be starting with reliable data that makes it otiose to do that. You should not really be looking to see what changes are produced by introducing a shock to the system, such as an increase in interest rates, indirectly through APRA's measures and then just measure the two

and say, 'That proves the point.' Such experiential methodology should not arise. You should be able to test the impact of interest rates and so forth on a dataset and then continue that analysis all the way through.

You have to get the data collected properly. What we are advocating in this submission is that, instead of selective data collection with the obsession with auction rates and median prices—these are just tools, but they are not necessarily reliable indicators of what is really going on in the marketplace. Sometimes I read about auction clearance rates and have been directly participating in the marketplace, and it brings a smile to my face to say, 'Why haven't they picked up the purchases that we were involved in?'—the money that we believe we have saved for particular clients, which bucked the trend in terms of median prices, where we have actually made money for our clients and bought property, apparently, below the market. But those transactions are nowhere to be seen.

If that is happening with a small business like ours, imagine if it is happening translated across the nation. It must show you that the data that everyone is reading on a daily basis in the mainstream media is unreliable. What is truly happening at the coalface? What are prices really, and have these prices really gone through the roof? Is the median price an accurate metric of prices generally? We would argue that it is not. We have argued that it is not.

**Mr CRAIG KELLY:** On the issue of median prices, something that may potentially skew the data is where properties are sold for redevelopment, and the property might be a three- or four-bedroom brick house that gets knocked down and is being redeveloped into a block of units, perhaps because of rezoning through the local council. That property is sold well above what it was previously valued at, but it is not being sold to someone to live in. Could those numbers artificially skew the data?

**Mr Curtis:** Absolutely. Those sorts of cases are probably relatively rare numerically speaking. In Australia in any one year there are only about half a million properties that transact anyway, so we are not talking about a huge number of trades relative to the equities and bond markets. But in those situations, yes, if you looked at the data that exists now and the way it is collected, without digging and knowing what to do for—and that is part of the skill and expertise that an organisation or business like mine brings to the analysis—if you stopped at the data, you would get a completely misleading idea of what prices were doing. That particular purchase would look not out of line: it would look indicative of the market, and it feeds its way into the median price. Without a qualification, such as the type implicit in the example you have given, you would not know that in fact you are comparing apples with oranges. That is the problem with median price analysis.

**Mr CRAIG KELLY:** As another example, I was speaking to a real estate agent in Bankstown recently. He was telling me of a fibro house that might have brought \$500, \$600, maybe \$700,000. It actually sold for \$2.5 million because of rezoning by the council. They were planning to build a 10-storey block of units on it. So that \$2.5 million would help feed into the median prices.

**Mr Curtis:** That is right.

**Mr CRAIG KELLY:** The reality is that it does not affect affordability for the average consumer or the average house buyer.

**Mr Curtis:** That is right. I can give you two examples that have come directly from the field with which we are directly involved, one of which may actually feed into a broader spectrum. It occurs in the rezoning situation. It is occurring in the Hills District in Sydney—Castle Hill and that area—where neighbours are coming together—you may have read about it in the press, but this is a very real thing—five or six people form a loose collective and then sell their properties to a developer en bloc. That qualification, or that endeavour, is not reflected in the statistics and the data the way it is currently collected. Each of those individual components in a block of six would show astronomical increases in price or capital gain that bear no relationship to the underlying fundamentals and have everything to do with a rational economic reaction to a rezoning. It is as simple as that. Some bright spark said, 'This is an opportunity', and we get six like-minded people together and make a fortune. That is one particular example. If you translate that over a wide area you would get a very distorted picture of capital growth in that suburb or region.

The other example, at the other end of the spectrum, is a car park in Potts Point that sold for \$260,000-odd. I was present at that auction to see the lunacy that would prevail. There is another story behind all of that. Lunacy did prevail, and you walk away from that auction saying, in the ultimate two people hammered it out, left right and centre, whether there was a clash of egos or otherwise, which explained why a car space in a densely populated area would go for the same price as a cottage somewhere further afield. We understand that there is a story behind all of that—actually the motivation for paying that sort of price was the belief or hope that that space would accommodate two cars. So you have a situation where the price of car spaces—and they are not frequently traded in that district—has gone up exponentially. It has doubled in two years. That is a fact.

**Mr CONROY:** With all these things, isn't the key getting accurate statistics? There is a difference between using average or mean and median transactions. Average is obviously useless, because its distorted by the high end. But if we have 500,000 transactions each year and the median is the sale price of the 250,000th transaction, wouldn't there have to be a huge number of these redevelopment opportunities to distort where that ranking is?

**Mr Curtis:** Not necessarily. We are not suggesting that you should just throw the idea of a median statistic out of the window. It is a useful metric. Conversely, comparing two median prices over a period is a relevant thing, but it is not sufficient because of these sorts of things. These examples that we are giving just illustrate the fact that the median price can lead to an apples and oranges comparison.

**Mr CONROY:** I understand that, but if the vast majority of transactions are not such as these—if they are straight purchase to live in, purchase to rebuild one dwelling, not multiple dwellings—then surely it should not distort the statistics too much, if we are using medians rather than averages?

**Mr Curtis:** No, I disagree with that statement, because the nature of those prices can be influenced by many other factors apart from the sorts of examples that we have given. In any event, if I am wrong, I ask rhetorically, who cares? The quest here is to get it right, not get it less wrong.

**Mr COLEMAN:** Just on the same theme: in retail, as you probably know, there is a concept of same-store sales, which is a true like-for-like comparison: This store sold this much this year and this much next year, which means that you are not getting distorted by acquisitions and new stores and things like that. It seems to me that in the residential real estate market it is not just these larger re-zonings and so on that are relevant to this issue; it is also your basic household renovation. If somebody buys a house for \$700,000, spends \$70,000 on the internals of the house and then sells it for \$900,000 then, as I understand it, it is effectively reported in the statistics that it was at \$700,000 and is now at \$900,000, implying that there is a \$200,000 uplift, but in fact only \$130,000 has been made. My understanding is that these reported figures do not actually take into account that renovation and cost in calculating the percentage increases in house sales, which seems like quite a substantial issue given how much money is spent on property. Is that a fair summary?

**Mr Curtis:** It is totally accurate, but perhaps I could elaborate on that. Maybe I should have taken up the invitation to make an opening statement in order to elaborate on that particular point. If you look at recommendation (1)(d) and (e) on the last page of submission 33, that is precisely what we are seeking to address. And in answer to the question of how frequent these anomalies are that could make median price analysis unreliable, the topic you raise is probably quite significant because of the sheer scale and extent of home renovations or house renovation. This is an activity that many people engage in. It is not an isolated thing like, for example, an aggregation of owners who then sell to a developer. All your ducks have to be in a row. You have to have the re-zoning, the spirit to do it, the willingness of six people all at once to dispose of what is perhaps their family home, and a compliant developer who is prepared to pay a premium. When you add up all those integers the likelihood of that occurring with any scale is probably small.

But one-on-one renovation is widespread, and, particularly as a property professional, I find it very vexing. We have to devise methods and techniques and indeed incur expenses on certain subscriptions and so forth to identify these things. For example, in the day-to-day operating of our business this issue arises all the time, because our job is ultimately to make recommendations to people on the price or the range in which they should buy a property, beyond which, for sound economic reasons, they should not go, unless they overpay. That is actually at the heart of our keen interest in an inquiry like this. To do that job properly we have to strip away the extraneous things, such as home renovation, and give the clients a true read of what the market is doing and therefore what they should pay. At the coalface we know exactly how difficult that is. On the existing data, it cannot be done, because of the point you rightly make, that within the statistics at the moment, all the way down from the LPI, unless you get into somebody's tax records it is not a searchable matter. For example, home renovations are not a topic of any public register anywhere. The public register does not discriminate.

**Mr COLEMAN:** The sorts of stories you often read in the press—properties seven per cent, shares six per cent—are really quite lacking, given that they do not take any account of that renovation issue.

**Mr Curtis:** Yes, total nonsense. And that is what informs our submission, that so many people are so heavily influenced by reports in the media that are provided by research houses themselves owned by the very same media. You are immediately in a situation in which the reliability of the picture being conveyed has to be called into question. When you realise that, you get a sale that appears to be out of line and you go, for example, to council records to see whether this anomaly is attributable to significant renovations, and you rely solely on the council, that assumes that the person has behaved completely lawfully or that the particular council required a development application for that sort of work and it is not exempt development. It beggars belief. To get to the point where we actually have to subscribe to something that is like a souped-up version of Google Earth to get

aerial photography on a 14-day basis at huge expense, to try to track the physical change externally in the appearance of an individual property, perhaps to explain these anomalies, is really quite primitive. There should be, in our respectful submission, a place where this data is collected so that you can make an informed assessment. Our strong suspicion, based on the way we operate and the prices we manage to get for our buyers, is that if you translate this across the board then the so-called massive increases in the cost of housing are significantly overstated because it makes for good copy; it suits the narrative. Our caveat to this inquiry is: be careful not to believe all that you read.

**CHAIR:** Very interesting. I do not know whether you saw the *60 Minutes* story recently regarding properties around Cherrybrook. There was a house that had sold for \$42 million and another house that had sold for \$8 million that had been bought not long before that for \$440,000. So it is exactly what you were just saying: these would be huge-spike amounts that would be feeding into the data and would distort real trends.

**Mr Curtis:** I did not see the story, but, as an illustration of the same thing, I will add that what often is not recorded or written down in the very same media articles is of course the dark side of the moon as far as buying and selling is concerned—those people, even in this so-called inflated market, upon whom the subsequent purchaser inflicts a capital loss. I can assure you that from an anecdotal point of view there are as many of those bad-news stories for the vendor as there are good-news stories for vendors, which dominate the headlines. I can think of several examples right here and now, within 15 kilometres of Sydney. It is very difficult to make true money by buying and selling a property in the normal course in a two- to three-year turnover—even in the Sydney market, even in the current market—without doing something substantial to it. Those who do that will invariably find themselves bringing that property back to market and running the risk of either an on-paper loss or an actual loss once transfer costs, such as stamp duty and land tax, are taken into account. But you do not read too much about that sort of thing—again, because it does not suit the narrative of the ever-buoyant and ever-increasing median price property market.

**CHAIR:** Notwithstanding what you have just said, there do appear to be genuine pockets in Sydney where property prices have gone up in that range of 40 or 50 per cent over a period of 12 or 18 months. Would you think that does exist, or that it does not exist?

**Mr Curtis:** It does, but not for reasons that you need to know before you look at that phenomenon and then decide policy settings based upon it—for example, the areas of Sydney at the moment where there are exponential increases driven by infrastructure, such as the light rail. The people who are within a 900-metre level walk of light rail—once it is a definite thing that is going to happen and not a political pipedream—will enjoy in the normal course, all things being equal, a significant and aberrant once-in-a-lifetime spike in median prices. But if you were to take a snapshot of house prices in, say, Kingsford, in Kensington, on 500-plus square metres of land—fairly substantial holdings—and track the prices of those particular sales you would be forgiven for thinking that things had gone berserk in those suburbs, and you would be making a mistake to assume that that was a consequence of economic forces or chronic supply and demand problems or big macro issues that need addressing at a federal level and are everything to do with something that is occurring locally, which is that within three years something is going to be passing through those suburbs that does not presently exist and will be taking people to the other end of the city. That something is, on the ground, the explanation. It is a micro market that is enjoying aberrant growth that will not recur once the light rail is here as a permanent fixture. Things will settle down again, and the profit takers will have taken their profit and the market may correct. You can expect the situation to plateau in those suburbs. Surry Hills, Kensington, Kingsford, Randwick and those sorts of suburbs are now enjoying quite a spike. That will plateau and may even fall in the fullness of time, but our view is that it will plateau.

But the point is that there is a very large dataset over five suburbs. If you take everything that is trading there within those radii of, say, a light rail station, over \$800,000 to infinity, over a six- to 12-month period, you are getting a relatively significant dataset in terms of volume of transactions, from which you might then draw an inference about what else is happening through the Sydney metropolitan area. Were you to draw that inference it would be the wrong one, because what is happening there is a local phenomenon; it is not city-wide.

**CHAIR:** There are many, many factors, then, in driving up prices, but wouldn't the low interest rates be an enabler for the purchaser, be they a home buyer or an investor?

**Mr Curtis:** Theoretically, low interest rates are an enabler. As I said earlier, anecdotally we feel that that is having some impact on the market six to 12 months down the track. When people see it as here to stay for at least a period of time or within a horizon, that causes them to say, 'After five years, we're all dead anyway.' We are noticing, however, depending on the demographic, that the impact of the GFC is still alive and well. There is a debt aversion post 2008 that did not exist pre 2008. It really peaked in 2007 just before Lehman Brothers

collapsed in September 2008. We find people who are in this upper bracket are debt averse. That is the prevailing mood. So interest rates can go as low as you like, but memories are long.

Again, anecdotally, in the small segment of a small market in which we operate, people were quite burnt by that experience. People are still losing money. For those who acquired properties in 2007 when money was no object, interest rates, oddly enough, were much higher than they are now. That lends credence to what we are saying. It disputes the idea that might be perceived by some that the real key to what is happening in this market is interest rates. There was a disconnect in 2007. Interest rates were travelling around seven per cent and eight per cent. People were still borrowing like there was no tomorrow and paying huge prices with very little due diligence. For example, whenever we are asked to look for a particular type of asset, one of the first things we do is look for one that was bought in 2007 because the chances of inflicting a capital loss on the vendor of that asset are high. It will be overvalued eight years down the track. That is not a function of interest rates. That was a function of the prevailing animal spirits at the time and the devil-may-care attitude and saying, 'We can't possibly go back.' Then we were shocked. People remember that. It is our view that that has coalesced into a debt aversion which is alive and well today.

We have numerous clients who say, 'I can afford to pay more.' If you are in the middle of a tense negotiation, you can be \$20,000 or \$30,000 shy of the mark in a \$2 million transaction. It is not because those people cannot get the money or afford to service the loan were they to get the money; it is just that they say, 'We are not going any higher. It is as simple as that. We are not going to borrow any more to do this. We would sooner miss the property than go higher.' That is prevalent amongst all of the buyers we represent presently and each is independent of the other. There is never any crossover. They never meet each other. That is a recurring theme. They say, 'We will go so far and no further.' So people are being quite prudent, in our view.

**CHAIR:** That is a mature, prudent investor. Are you aware of cowboys who are buying up larger and larger amounts of properties because—

**Mr Curtis:** I would like to meet them! But the answer is no. I think we would all aspire to be one of them, frankly. Again, I should qualify, as I did in evidence given to the foreign buyers inquiry, we do not operate at the end of the market where the generic or mass produced products are. Whether that is happening and people are going out and buying large slabs of boxes in the sky, I do not know. But if there are these cowboy types not buying generic products which are in relatively plentiful supply and are indistinguishable from each other because there are 237 of them in a tower, I would like to meet them. You would have to be pretty good at finding good property to do it on a scale that would attract the Appalachian cowboy. Good properties like that are pretty hard to find. If they are doing it en masse, they are doing a better job than we are.

**CHAIR:** We have had some evidence that investors are chasing rental returns that in various regions all of a sudden are showing themselves to have a better rental return than others that would allow an investor to buy and actually have a positively geared property. Without the restraint of having to service negative gearing costs, they can acquire more and more properties. But while that person can look very good at the moment, that can end up placing that person in a precarious position when interest rates go up and there is a very large servicing cost to be met.

**Mr Curtis:** I think that might involve a species of buyer that we do not work for because of our geographic constraint. Again, anecdotally, the picture you are painting is one that is reminiscent of the yield chasers who bought in regional centres during the mining boom. The promise of stellar returns and double digits relative to what you could get by putting it in the bank overwhelmed some people, and they found themselves buying in far-flung regions. Of course that is a monomarket, and the moment the mine closes down it turns into a ghost town.

I am aware of people who have lost significant sums of money in that and I think there is an effect now prevalent against the trend that you mentioned which, again, is disconnected from interest rates. It is not the interest rate that causes those sorts of phenomena; it is the fact that there is a unique micromarket in that instance, caused by a dominant mining boom. That is the real source of vulnerability, not so much interest rate increases. But that is to say that if interest rates go up and you are still hanging onto one of these properties—or a lot of such properties—but you do not have many tenants then you are in trouble.

**CHAIR:** Christopher, I think that concludes our questions. Thank you for your attendance here today and your scholarship. If you have been asked to provide any additional material would you please forward it to the committee secretariat—I do not think you have. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. As Hansard may wish to check some details concerning your evidence would you please check if the reporting staff have any questions before you leave. Thank you very much again on behalf of the committee for attending today.



**Mr Curtis:** Thank you.