

## Run a Mile

I'm excited to report I managed to complete the New York Marathon in just over four hours this week - a pretty respectable time given the winner made the finish in just over two hours! A total of 47000 runners took part in the race which starts on Staten Island and crosses the bridge into Brooklyn. In reality, the marathon could easily be described as a 26 mile (42km to us) block party, with cheering zones, entertainment and more. It was an incredible experience.

Of course, I'm not just over here for the race. I'm keen to see what's happening with the US property market and will be meeting with some interesting people over the next few days. I thought this week I'd just give you a little bit of background to start with – a couple of key differences between Australia and the US markets. I've often heard people using the example of what happened in the States with house prices in recent years as a warning to what could happen here, but the truth is, the fundamentals are just so different.

Firstly and perhaps most importantly, Australia's financial system is markedly different to the US, which is actually the country where the factors causing the Global Financial Crisis (GFC) originated. From around 2000, the US had comparatively loose lending practices and a large number of sub-prime loans were issued. These were loans to people who didn't qualify for regular loans but were willing to pay higher interest rates to borrow money. Many of the loans were also "no-recourse", which basically meant if the borrower was unable to make repayments, they could hand back the keys and the bank was left with the responsibility of the property and any debt. Parcels of these loans were then on-sold around the world.

When US interest rates started going up in 2004, more and more of these sub-prime borrowers began defaulting on their loans and house prices started falling in a domino effect. Debilitating losses ensued for banks around the world that were left holding the parcels, eventually resulting in the GFC.

Australian lenders have never offered "no recourse" loans, nor have they ever had significant exposure to sub-prime loans. There are other important differences and some similarities too, which I'll share more of next week. Although there will always be lessons to be learned from other markets, it's pretty clear that drawing a direct line between what happened there and suggesting the same could happen here is a bit of a stretch.

Looking forward to helping you make good property decisions,

Michael Knights