# HOME TRUTH

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Welcome to HOME TRUTH, a monthly synopsis of Brisbane's quality real estate sales and leasing markets

## MARKET BRIEF

**SALES:**

~ Enquiry Levels – Low to Moderate
~ On Show Attendances – Low to Moderate
~ Listing Activity – Low
~ Negotiating Activity – Moderate
~ Conversion Index – Low
~ Auction Success Rate – Moderate
~ Disparity Index* - High 15%

* The Disparity Index is the general difference between what buyers and sellers feel properties are currently worth

**LEASING:**

~ Enquiry Levels – Moderate
~ Listing Activity – Low
~ Take-up Rate – Moderate

## MARKET DETAIL

**SALES:**

The tempo of the sales market has slowed this past month, quite unseasonal behaviour but not surprising given the lacklustre state of our state's economy (and so too the nation's albeit to a lesser degree), a marked Chinese retreat from the market, and latterly the disruption and uncertainty of an early federal election which carries with it the very real threat of market damaging significant changes to negative gearing guidelines (see 'observations' below).

The status quo is far from representing the perfect storm for property but dark clouds are gathering ominously on the horizon, and starting to swirl.

Nationwide market messages are mixed. House auction clearance rates and rates of other sale types in Melbourne and Sydney remain relatively robust though well off their 2015 highs, here at home sales turnover is down on relatively thin pickings, in Adelaide, Canberra and Hobart the situation is broadly similar, but in Perth and Darwin courtesy their high reliance on mining, the market continues its extended contraction.

For apartments nationwide the story is universally down, particularly so for the now ubiquitous investment apartment where chronically high levels of supply are causing serious cracks to appear.

The market for older, larger, more upmarket or unique apartment product is managing to hold its own, providing a ray of hope in the market but obviously should the threatened rout in investment apartment product get up a head of steam, expect all apartment product to be tarnished to at least some degree by association.

More broadly we now know that southern property markets, traditional feeders to our own, have peaked for this cycle. Sales data supports that theory, re-enforced by the clear feedback we are getting from the increasing number of southern buyers up here presently and of course the fact that they are back up here again and in such numbers.

Where the number of southerners in the market is rising, the number of mainland Chinese investors has contracted (at least for now). This is in part due to heightened efforts by China to stem capital outflows but also because Australian banks are now not just asking Chinese buyers to provide the same finance documentation as everyone else before they will loan them money, increasingly they are not accepting non-Australian income or assets in assessing finance suitability.

When it comes to investment property and particularly apartments, the banks are also now asking Chinese buyers (and increasingly others) to put up 20 – 30% of the purchase price as collateral (more in observations).

More broadly in the market, in line with the recent overall slowing has come an easing in buyer urgency. Buyer urgency is a very fluid thing and it takes little for it to be influenced significantly one way or the other. Something as financially insignificant as a .25% interest rate movement either way can greatly influence sentiment either way.

From that, expect a positive blip in the market at least short term from the RBA's decision to cut benchmark interest rates again to a near record all-time low of 1.75%, as we rather belatedly resume the inexorable track towards interest rate ground zero% (or very close thereto).

All the above and other factors considered including the fact that more houses have come on the market here than have sold since the start of the year, we should see significantly improved sales turnover in the period ahead as market forces balance out the market as they ultimately always do.

**LEASING:**

Leasing has been the standout performer over the last monthly period, this unusual for the time of year and particularly surprising given the market is having to contend with the massive supply pipeline of investment apartments competing for the tenant pool.

Company-wide our vacancy rate remains in the low single digits, something more typical of January than May.

The unprecedented number of investment apartments entering the market is understandably impacting negatively on rental yields broadly but thus far the effect on rents for houses has been less than might have been expected.

It seems that whilst renters can be lured from a house to an apartment if the apartment rent is cheap enough, generally they will still pay a bit of a premium for their first accommodation choice.

Given what we are seeing happening in the market coupled with the fact that the premium end of the market is less exposed to the investment apartment building boom, we expect it to hold up the best of all the sectors of the leasing market short to medium term.

## PROPERTY ECONOMICS

**HOMEFILE** - The present unseasonal slowing in the market is frustrating but shouldn't totally surprise. Good tidings on the economy are thin on the ground locally and internationally on top of which and perhaps because of which we now have the added distraction of a marathon federal election campaign and the uncertainty of its outcome.

The RBA also has kept the flame to the feet of the market and the economy by ignoring the clear writing on the wall by keeping its foot planted firmly on the interest rate brake, this which it did for a whole year until now where they have finally passed through a further .25% interest rate cut, quite possibly one of the most overdue in our history.

Given your past intransigency, one can only assume that their isolation in persisting in the fiscal folly of keeping interest rates artificially high (for reasons known only to them) became so profound they could no longer ignore it.

Their incredibly belated act will give some heart to the market and to what's left of small business but will do nothing to bring back any of the 10,000's of SME's that the previously poorly managed rate settings has sent to the wall, and whose owners lives and well-being have been destroyed.

Direct and immediate positive stimulus will come from the latest rate cut. 3 out of the 4 Big 4 banks have already announced they will pass it on in full. Interestingly now that the RBA has finally moved on rates, most of the very same economists who were saying just two weeks ago that the interest rate cycle had bottomed are now saying that we are in for several more rate cuts this year. Go Figure!

Banks bill swap rates (BBSW's) with the exception of a surprise aberrant upward spike a couple of weeks back have consistently reflected the view that rates here need to go down, not up. As I write this, all 3 key BBSW indices (3 month, 2 year and 10 year) are at record historic lows so short of China pulling some form of unforeseen rabbit out of the hat to give us more hope economically than now exists, this week's rate cut by the RBA won't be the last.

The market is also still grappling with the negative flow-on effects of APRA's unprecedented market intervention from late last year and is likewise cognisant that it may have an even more formidable obstacle to contend with should Labor be returned to government on its election platform mandate of deconstructing negative gearing as it says 'to increase housing affordability'. This is political speak for intervening in the market to make house prices fall.

Given the integral relationship between negative gearing, the construction industry and the market, largely dismantling it may not just succeed in its stated aim of bringing down property prices, it may significantly overachieve.

More positive is the fact that everyone including even the RBA now seems to be on the same page that there is no easy or fast way out of the economic malaise that the mindlessly squandering all of the proceeds from the mother of all mining booms in the decade to 2012 brought about. It is going to be a long and hard road back and one that would be made even harder were China's economy to continue on its current slowing trajectory.

In the overall mix is the recent tacit admission from banks that they previously may not have been getting adequate documentation and security from overseas buyers. That could make it interesting come settlement for the 60,000 or so apartments recently sold off the plan to mainly mainland Chinese buyers presently under construction nationwide.

If the value of these apartments at settlement are down by more than the amount of the deposit paid when they were bought off the plan, which for many of the early sales was only 10% of the purchase price, despite the Chinese deep-seated desire to acquire property and reluctance to abandon such sums of money, expect many not to settle, the buyers safe in the knowledge that given the logistics, they will be difficult to pursue for specific performance.

**SINOFILE** - Where all roads lead to Rome in biblical times, today they seem more connected to China. The jury is still out as to whether the Middle Kingdom is economic puppeteer or puppet in all this, but regardless which it is whatever the prevailing economic mood is in China today sets the tone for much of the rest of the world (a la 1980's Japan).

What has been underreported in the press thus far is that over the last 6 months property prices across most key Chinese cities have again taken off. Per square metre property prices in the nations' capital Beijing are up by 60%, in the finance capital Shanghai around 50%, in Nanjing upwards of 80%, and in Shenzhen they have doubled in places.

Driving the latest price breakout are variously; easing in lending restrictions, last year's share market correction, tightening of capital outflow restrictions, undersupply (worst in Shenzhen given its Sydney-like physicality), but mostly by the sheer volume of money being printed by China to try and reverse its slowing GDP growth.

The massive stimulus is not just causing property price inflation, it is pushing up the price of virtually everything. Word on the street is that further yuan devaluations short to medium term are now highly likely if not assured.

**EUROFILE** – The EU is more of a mess today than it has ever been in its short history, a model of unworkable disfunction that has got so bad that one of it's two principal players in the UK - who needs the EU as least as much as the EU needs it – is seriously considering pulling out.

Despite the obvious to most dire economic consequences of a Brexit and not just to the UK, the looming vote in late June is becoming a closer run thing by the day. Whilst money markets are still betting that common sense will prevail and the vote lost, the numbers in the exit camp are growing. Could it be that common sense in the common market is as uncommon as we are so often reminded it is.

If there is a Brexit, regardless of how orderly governments may say such it will be or whatever else they may promise, expect pandemonium to reign supreme and on a global scale.

That will firstly be in the form of a global share market correction or crash, followed by upheaval in EU member nations property markets lead by London, the ripple effects of which will then be felt right across the globe, most pronounced in countries with the greatest exposure to UK and EU property assets, in that order.

## EN-GLOBO WATCHING BRIEF

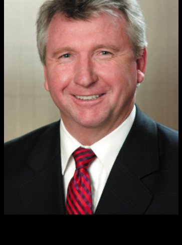
TAILWINDS: Lower AUD | Comparatively cheap Brisbane House Prices | Cheap Finance
HEADWINDS: Mining & Commodity Price Meltdown | 'Moribund' State & Federal Governance | RBA Myopia
CROSSWINDS: China Slowdown | Euromess | Global Race to the (currency) Bottom | Religious Fundamentalism
CRYSTAL BALL: 0% Benchmark Interest Rate | 60c AUD | Yuan Devaluations | QE (money printing) Australian Style

## NATIONWIDE PROPERTY INVESTMENT

- BUY Inner or Near Ring Brisbane Housing
- SELL Investment Apartments anywhere (assuming you still can)
- SELL Melbourne, Perth, Darwin anything (particularly Investment property)
- HOLD Sydney Inner and Near Ring Housing
- HOLD off buying anything in Canberra pre-election (and then only buy if public service friendly Labor gets in)
- HOLD off buying anything mining industry reliant for at least the next decade (or boom, whichever comes first)
- HOLD off buying anything coastal for the foreseeable future unless lifestyle is more important than money

That's it from me for this edition of HOME TRUTH

Warm Regards,



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