HOME TRUTH

O C T O B E R 2 0 1 6

Welcome to HOME TRUTH, a monthly journal of Brisbane's quality residential sales and leasing markets.

In this edition in addition to the usual market narrative, given its potential global relevance (including to us given well trodden migration paths), we take a closer look at post Brexit decision UK now and the picture post actual execution (for want of a better term).

We also take a closer look at our own situation, where we invoke the trusty but oft forgotten Rule of 72' to current capital city pricing to observe where would head were house price growth rates to continue at current levels (which they won't but it is worth doing the exercise anyway) using updated data provided by Matusik Insights.

IN BRIEF

SALES:

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

* The Disparity Index is the percentage difference between what buyers and sellers generally feel property is worth

LEASING:

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

IN DETAIL

SALES:

October is traditionally one of the very peak sales months of the year and whilst recent weeks has seen some of the traditional uplift in activity materialise, overall the market remains down on what is normal for this time of year.

There are more buyers out there but most of the recent uplift in activity has been on the listings front. New listings of course bring out more buyers so on balance assuming interest rates stay low (or go lower as is likely) and there are no fresh economic or other shocks at home or abroad, we should see a quite okay finish to a calendar year that has broadly underwhelmed, in accordance with expectations.

A particularly interesting (and noteworthy) phenomenon though is the increasing number of properties that are coming on to the market for sale 'quietly', i.e. to be sold without advertising or other fanfare. Whilst their number has been building steadily year on year for a decade or more (and indeed we have had certain success with them), of late what had been just a trickle has developed into a mini flood. Just what this is a harbinger of I will leave up to you.

On interest rates, the RBA predictably disappointed last week when it again left rates on hold (when it should have cut) either still not knowing any better or wanting to continue for just a little bit longer for reasons that wouldn't make sense even if they told us (which they won't) the Chinese water torture plan that worked so miserably under former chair Glenn Stevens. What's the saying…? 'No matter how far down the wrong road you have travelled, turn back'.

What may change the play elsewhere in the market is the pressure being applied to the government by certain influential (political donor) types to undo their recently tightened foreign investment guidelines. Given the clout of the names doing the lobbying, an early government backflip is not unlikely (not that they will call it that).

One day governments (everywhere) will learn that the best way they can help the market (the economy and themselves) is to stay right out of it and just let market forces run their course (positively or otherwise). Of course they won't do that (and perhaps can't due to the habits they've formed and the holes they've dug for themselves).

AUCTIONS:

Given the heady time in the market we have entered, the level of auction action is disappointing, a fact as evident in the media as it is on the ground. Root causes for the anomoly (which it is given how many people there are out there that really want to sell) include fear of market reality (present and future), lack of funds for marketing, but mostly the easier road of holding off taking action in the hope that a change for the better might be just around the corner.

NATIONAL CAPITALS PICTURE:

Sydney – Fresh lease of life in housing sales and thus far only negligible softness for apartments
Canberra – Like its geography, somewhere between Sydney and Melbourne
Hobart – Enjoying a cyclical affordability driven mainland to island migration mini growth spurt
Melbourne – Slowing on most fronts and not unlike here going backwards fast on the investment apartment front
Adelaide – Flat-lining despite all the electoral cash splash promises
Perth – Mining downturn driven contraction continues at pace, top end being hit particularly hard
Darwin - Perth situation writ large on the downside but on the upside only needs one good project to bounce back

LEASING:

It has been another relatively steady period for leasing with the exception being the apartment glut driven rental yield attrition sadly has gained some unwelcome but unsurprising traction in the market and equally frustratingly has started to make itself felt more broadly in the market which it is eroding yields on lower to mid priced housing.

More positively the mid to upper end of the market is showing welcome resilience, which is being principally propelled by a seasonal rebound in corporate placement activity coupled with the continuing tendency of many baby boomers to rent rather than immediately rebuy once they have sold (for perhaps the first time in our history).

With the bottom end of the market for housing broadly flat-lining but with both interest rates and bank lending margins easing, there is potential for some further diminution of rental yields short to medium term across the lower to middle ends of the leasing spectrum as whilst the imperative to buy over leasing may have eased back from what it used to be for the average Australian (Queenslander), it continues to bubble under the surface.

To summarise the leasing market:

For APARTMENTS the demand versus supply disconnect continues to widen in the lower to middle end; the middle to upper end of the market is proving resilient; but the top end suffering from the greater subdued economic picture.

For HOUSING the lower to middle is coming under increasing pressure from ever cheaper priced and ever increasing supply of new apartments; mid ranged leasing product is holding up quite well with yields even increasing in some sectors of the market; with the top end not unlike apartments (though not to the same extent) being marked down by the current state of the broader economy.

PROPERTY ECONOMICS

HOMEFILE – Not a great deal has changed on the property economics front since our last report. In short;

~ Interest rates remain unchanged as does their negative outlook;
~ the macro-economic picture remains extant (sadly);
~ we continue to make it increasingly difficult for foreign investors to buy property here (rightly or wrongly);
~ state and federal governments not wanting to go out on any limb (even positive ones) continue their aversion to doing anything pro-active (now would be a great time to undertake the Melbourne to Brisbane VFT fast train and be a far better investment than the proposed next pod of underwater white elephants – this from a proud ex-submariner).

SINOFILE – Economically China is presently leaning more towards a hardish than a softish landing which could hurt us (though help some), but given their unpredictability that could readily change.

Over the past week the rest of the world finally got to know what we reported some months ago in the massive house price rises recorded across China's principal capital cities this past year, most notably Shenzhen which is up a cool 100%, somewhat outperforming Beijing and Shanghai's 'modest' 60% each.

The crazy price spikes however are a double-edged sword for us. Whilst they give Chinese looking to invest here more money to spend, they also give them less inclination through concern that the potential capital growth at home won't be matched here (to which you can add the added disincentive of us openly scorning their interest).

EUROFILE – We coined the phrase Eurogeddon some time ago and economically it seems more relevant than ever today where despite money they don't have being printed at dangerous and unsustainable levels in a sub-zero interest rate environment, they can't ignite even a flicker of inflation in anything (including property in most cities).

In the UK where the pendulum has now swung back toward a Brexit happening sooner rather than later caused the price of property to drop nearly 10% in a matter of hours last week for overseas buyers when it's currency at least temporarily fell off a cliff in response to some off-handed comments from the French Prime Miniature about how Britain should be made an example of in its exit (re-iterating what some others had said a few months back before being silenced by Germany).

Expect plenty more Pound volatility as the UK and the world adjust to an EU bereft of its key moderator and settling influence.

Short term from an investment perspective the status quo will equate to a flight away from those traditional stores of UK wealth; British government bonds, sterling, and London property. Longer term ….hmmmm? Hard to know.

How quickly things change… All those people (myself included) who pre the Brexit vote were lamenting the fact they didn't get into the London housing market a long time ago are all of a sudden pretty happy they weren't that smart.

We need to remember of course, if the pound drops more than it should in the panic and confusion, property prices in the UK may actually prove a good investment. If only we knew what was going on in the minds of the other key EU players (or if ultimately that will be the defining influence). Where's that crystal ball when you need it…?

Speaking of naval gazing….. Remember The Rule of 72 (as it applies to property)? As I was reminded by one of Michael Matusik's Missives these past weeks The Rule of 72 is that simple (but important) formula that calculates future capital growth based on current performance.

It's dead easy. Essentially all one does is divide 72 by whatever the current capital growth of your suburb, city or property and you get to know how many years it will take for your property to double in value. If long term capital growth averages 2% p.a. expect it to take 36 years for values to double; 10% means 7.2 years; and 20%; 3.6 years.

Not that it is any measure or indicator of future capital growth (indeed it is anything but) and doesn't factor in past performance, for the record and for a bit of fun, below (courtesy Michael Matusik) is the current calculus of how long it would take detached housing in the nations capitals to double in value given current average annual capital growth.

- Sydney 10.4 years
- Melbourne 10.4 years
- Brisbane 19.7 years
- Adelaide 16.3 years
- Perth 171.4 years (No kidding!)
- Hobart 21.4 years
- Darwin 17.9 years
- Canberra 17.6 years
- Australia 15.8 years

EN GLOBO WATCHING BRIEF

TAILWINDS: Comparative Attractiveness of Brisbane House Prices | Cheap and Still Cheapening Finance
HEADWINDS: Mining Meltdown | Moribund State Governance | Tenuous Federal Governance | RBA Intransigence
CROSSWINDS: China Slowdown | Eurogeddon [including Brexit] | Global Race to the (currency) Bottom
CRYSTAL BALL: 0% Benchmark Interest Rate | 60c AUD | Yuan Devaluations | QE (money printing) Aussie Style

PROPERTY INVESTING

- BUY Inner or Near Ring Brisbane Housing
- SELL Investment Apartments anywhere – particularly inner city and outer ring (assuming you still can)
- SELL Melbourne, Perth, Darwin anything (particularly Investment product)
- HOLD Sydney Inner and Near Ring Housing
- DO NOT BUY any property mining industry related or reliant regardless of how cheap
- HOLD off buying anything coastal for the foreseeable future unless lifestyle matters more than money

SAFE BETS

- 0% Australian interest rates (or close thereto and for a protracted period)
- Low interest rate and yield world until we find another China or global money printing goes too far
- Predicted US interest rate rises non events (or close thereto)
- Share markets continue north whilesoever interest rates continue south
- The investment apartment oversupply in Australia (and particularly Brisbane & Melbourne) will not end well
- The Chinese will always find ways to get money out of China to put it where it is safest and most welcomed
- Brexit will be either a Go Slow or No Go affair – and the latter were London and Bonn to get their way
- Our federal & state governments will continue to be economic with the real sobering truth about the economy
- Money printing here (using the inappropriate EU and US examples) will become increasingly likely and inviting
- China will continue to export deflation on just about everything except landed property in growing economies

INTERESTING TITBIT(S)

One of our clients who shall remain nameless (and so too his bank other than to say it's one of the big four) related the story to me this week of a piece of coastal land he owns (but wishes he didn't) the value of which plunged into negative equity with the GFC and has been heading further downhill price-wise ever since.

The interesting bit is his bank has not only not pushed the issue but recently openly told him the reason they have not called in the loan is they're under instructions from above to do whatever is possible to avoid triggering a coastal price avalanche. They don't want his or anyone else's property to be that domino that triggers the domino effect.

Intrigued, he pushed the bank on the issue, asking 'how many people are in the same boat as me…?'.

'A great, great many. More than you could ever know' the answer.

'How many is a great many. Thousands, tens of thousands?', he further asked.

The reply. 'The number is big, very big. Let me just say that you are not in the minority'.

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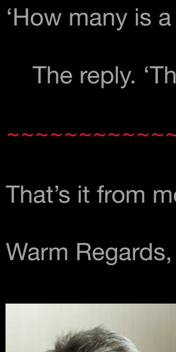
That's it from me for this edition of HOME TRUTH

Warm Regards,



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