HOME TRUTH

N O V E M 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 beyond our usual property economics narrative we take a closer look at North America, not just because it is still home to one of the two largest economies in the world in the US (in long term decline and just about to go to the polls) but moreso because it's a major competitor for an increasingly transient, selective and cautious investment dollar of that other world's largest economy, mainland China (presently in the ascendancy).

THE MARKET IN BRIEF

SALES:

~ Enquiry Levels – Moderate
~ On Show Attendances – Moderate
~ Listing Activity – Low to Moderate
~ Negotiating Activity – Moderate
~ Conversion Index – Low
~ Auction Success Rate – 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 to Moderate
~ Take-up Rate – Low

THE MARKET IN DETAIL

SALES:

As we enter the home straight into Christmas and the traditional new year market respite, contrary to what is being reported in an increasingly advertising revenue starved media, activity in Brisbane's higher end is still well down on the norm.

Getting similarly muted media coverage for like reasons is how few multi-million dollar homes are selling for as much or more than what they did or would have had they been for sale in the 2005 – 2011 top end boom market period.

Positively though, we have today a greater buyer seller balance than we've seen for years, albeit at low activity levels.

A further potential fillip for the market is that over recent weeks we have seen a late rush of signature offerings come onto the market after an unseasonably bland spring on the whole.

Not helping of course is the latest predictable decision by the RBA to keep interest rates on hold having decided that with the Sydney market still firing, political sensitivities hold sway over the greater imperative of stimulating our very sluggish economy (so it will have to again wait and hang the downstream consequences).

AUCTIONS:

The Brisbane clearance rate sits around 50% which is de rigeur for us and keeps us well in the shade compared to Sydney and Melbourne where clearances presently top 80%, some 20% or so up on their long term norm.

NATIONAL SALES PICTURE:

Brisbane – Strong demand for quality houses up to $1m. Apartment sales tough. Average price c$500,000
Sydney – Strong house sales activity in quality areas but tougher for apartments. Average price c$825,000
Canberra – Market strengthening to balance price differentials to Sydney and Melbourne. Average c$550,000
Hobart – Continues to enjoy the benefits of surging feeder capital city prices. Average price c$350,000
Melbourne – Resurgent housing market but apartment sales activity slowing markedly. Average price c$600,000
Adelaide – Continues to flat line on muted turnover for both houses and apartments. Average price c$425,000
Perth – Resources downturn driven price rout across all sectors and products. Average now down to c$500,000
Darwin – Enjoying a small bounce presently after a protracted mining gloom contraction. Average price c$475,000

LEASING:

The state of the quality leasing sector is presently under the influence of a number of conflicting factors; one is cheap finance which is driving many at the lower end towards buying over leasing; another is much increased entry level inventory from the investment apartments oversupply; and more broadly in the market another is much tighter drawn purse strings (including at the corporate level).

Mitigating this to some degree is the positive price effect of the rise in the numbers of people who having sold at the higher end of the market are choosing to rent short to medium term rather than rush back into the market. They are doing this for economic imperatives. In other words, many are choosing to have a bob each way.

To summarise the current leasing market:

For APARTMENTS the lower end continues to experience oversupply driven downward pressure on prices; the middle market is also soft though not as soft as is the bottom; and the top end too is softening but this more due to the fact the nation is going through a seasonal heightened cash consciousness phase than anything else.

For HOUSING the lower to middle continues to be negatively impacted by the flood of investment apartment product; mid ranged product however is performing well, and the top end whilst stronger than its apartment equivalent is losing some tempo also and for the same economic imperatives.

PROPERTY ECONOMICS

HOMEFILE:

The last month has seen much noise but little substance (no I am not talking about the US election though we will indulge a little on that below because it can matter) on matters that impact the economics of property.

Of significance and of late is the recent banner headline that investment lending has FULLY HALVED since the middle of last year much thanks to APRA lumping its unprecedented, highly contentious 25% 'Capital Adequacy Requirement' on lenders in a market that was already cooling on its own.

Of particular significance is that over that very same period cash deposit investment has done the exact opposite and doubled. You don't need to be Einstein to do the maths.

That mirror reverse investment consequence of the APRA ruling speaks volumes of the dilemma presently faced by return strapped investors seeking low risk investments. That the APRA decision driven capital flight from investment property (made considerably worse with the decision by banks to cut out a very large chunk of the foreign investor market by no longer recognising overseas assets or income in assessing loan eligibility) went mostly into cash and not equities is very noteworthy. Safely read from that that the flight to safety is soaring to new heights.

On cash investing; The paltry 2-3% on offer from our banks to cash investors today is actually not paltry, well at least paltry no more. By first world standards it is actually very high, and increasingly attractive, which goes a long way to explaining why our currency has been rising instead of falling as it should have been given our overall economic fundamentals (and had the RBA cut rates to where they should be).

SINOFILE – In mainland China money printing continues apace, and unsurprisingly given it is now so much more challenging (read dangerous) to try and repatriate money abroad, taking domestic property prices along for the ride.

Equally unsurprising is that Chinese quarterly GDP came in exactly as forecast (as it always does pretty much) at 6.7%. What is though quite surprising (if not amazing) is that the RBA actually puts credence in the numbers, this making them perhaps unique in the world (and certainly unique in China where GDP pronouncements are greeted with a polite knowing grin).

The Chinese themselves are rushing back to property because it is both the path of least resistance (given the capital flight crackdown) and of most promise. We can dismiss their soaring market as a house of cards, a Sino pyramid scheme, or even just one incredible gamble but we should remind ourselves that anyone (including the Chinese themselves) who has been brave enough to call the top of the market there anytime in the last quarter century has been left with much egg on their face (and deficits in the bank).

If it is indeed a gamble, let's not forget the Chinese like a punt, and property stands out in China in a very limited field of legal gambling avenues, as Mr Packer (the third) has so recently but not so eloquently been reminded of.

EUROFILE – Europe continues to be all about the UK and what it's exit will do to it and the EU. The pound continues to be hammered as reality gravitates more towards a hard Brexit than a soft, opening up significant potential investment opportunities, but only for those 'brave' enough to think they can pick the bottom, this not just for the currency but also for property, remembering that whilst the two are totally related, they rarely run in tandem.

On that point, we note that the Little Aussie Battler dollar is up a full 25% on the pound since the Brexit decision.

Everyone seems to have a view on how great or dumb an idea Brexit is but the pendulum does seem more in the latters camp presently. Bill Bailey (a comedian of a certain wit) recently rated the move as the ultimate home goal (but what would he know, he's only a bloody comedian).

Late mail is that while the government is stating publicly that it does not agree with the prospective parliamentary challenge to Brexit (just loomed) and that it will soldier on with the exit regardless, behind the scenes it is a very different reality. That other Brexit pendulum, the on or off one, may have just taken a large swing to the right.

THE AMERICAS – 'This election more than any other in history will determine the future of the free world'.

What rubbish! Yes the yanks do face a particularly invidious choice this time around (well more than usual) between perhaps the least politically correct and savvy (savoury) candidate in history in Donald Trump (who probably would have won in a center had he simply shut up all election but that's not him) and the least fiscally or ethically endowed in Hilary Clinton (unless you credit her and her 'foundations' abilities to amass personal fortunes while in modestly paid high office, a large chunk of which she can thank 'us' for but more on that below) but ultimately once on the throne, regardless of who (at this stage more her than him as the first female president appears most likely and of course partly because it'll be a first), they will more or less all into line with the requirements of the job and life will go on.

Our economy and property market would probably prefer a Trump victory (if prosperity is your thing) because whilst most of his anti-competition rhetoric would fade in office, he would doubtless take a firmer hand with China than has Obama or would Clinton and as such represent a less likely candidate for officially sanctioned Chinese investment, which would be to our (and others but no longer Canada nor the UK given their recent self inflicted travails) comparative advantage.

Should Hilary get the nod she won't be short of help to advise on what not to do in office. Beyond her husband's very personal depth of experience, she of course now 'employs' our very own political pioneer in Julia Gillard.

Ms Gillards highly paid position with 'The Clinton Foundation' accepted upon leaving office we are assured by some sectors of the media had absolutely nothing whatsoever to do with the tens of millions of taxpayer dollars she and her equally contentious predecessor donated to the Clintons while in office, much in her final days. It must gladden the hearts of any hard working tax paying Australian to know we still made such worthy investments with their money.

More than loving to know how much Ms Gillard is getting paid directly and indirectly in her role (and what she does for it if anything) would be finding out how much the Clinton's (or any of their associated entities) pull for themselves from the 'charity' each year.

Still on things that really should be of concern to everybody given they ultimately effect everybody, you have got to wonder about our American cousins. Not once during the whole year long campaign has the fact that the debt owed by every man, woman and child there has nearly tripled under President Obama gained any serious airing or traction.

That has got to ring alarm bells here because Americans not caring that their country's runaway welfare dependency is destroying their country as long as the next handout comes (which has emboldened the current administration to tighten the welfare dependency noose even tighter over the country) will not have escaped our own pollies attention. They too are after all only in for similar reasons and time as the yanks (almost to a man, …or woman).

Still in North America but further North and still on kicking own goals (and ringing alarm bells or giving lessons), the powers that be in Vancouver, Canada recently saw fit to impose a 15% luxury tax on foreign investment in property officially in order to cool the market (but of course unofficially to gain some political ground).

Boy did they overachieve! Both prices and turnover for house sales plummeted by near 30% in just one month and year on year turnover is down by nearly half. Talk about cooking the golden goose! Shades of Queensland when faced with a dose of the shorts 'we' came up with the bright idea of raising stamp duty from the 1% that had given us such an competitive advantage over the other states to their much higher rate (which I think at the time was around 3%) which had the immediate effect of killing of both our competitive advantage and the market (leaving both the market and the treasury more the poorer). Common sense really is so very uncommon.

EN GLOBO WATCHING BRIEF

TAILWINDS: Comparative Attractiveness of Brisbane House Prices | Cheap and Still Cheapening Finance
HEADWINDS: Mining Mess | Moribund State Governance | Hamstrung Federal Governance | RBA Myopia
CROSSWINDS: China Slowdown | Eurogeddon [Brexit particularly] | Global Race to the (currency) Bottom
CRYSTAL BALL: 0% Benchmark Interest Rate | 60c AUD | Further Yuan Devaluing | QE 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 very close thereto and for a very protracted period)
- Low interest rate and yield world until we find another China or global money printing tips something over
- Predicted US interest rate rises largely non events (or at least later rather than sooner)
- Share markets heading further North whilesoever interest rates continue South
- The investment apartment oversupply in Australia (and particularly Brisbane & Melbourne) will end badly
- The Chinese will continue to find ways to get money out of China, just more selectively and in lesser amounts
- Brexit will be either a Go Slow or No Go affair – & definitely the latter were London and Bonn to get their way
- Our federal & state governments will continue to be economic with the real truth about the economy
- Money printing here (using inappropriate EU, Japan and US examples) will become increasingly inviting
- China will continue to export deflation on just about everything except landed property in sound economies

INTERESTING TITBIT(S)

We see prolific apartment developer Harry Triguboff (most active in Sydney but with projects elsewhere including here) is currently having to cope with an unprecedented 50% default rate among Chinese buyers for his stock.

Given they represent roughly 75% of the market (which Triguboff has 75% of in central Sydney), he cannot be happy. 40% of his sales aren't settling. THAT IS A SCARY NUMBER

If someone with the business nous of Mr Triguboff in the least oversupplied apartment market in the country is having trouble getting product to settle, what does that say for the others; those in Brisbane, Melbourne and Perth?

Whilst we suspect Harry has a certain ability to sustain a level of settlement non-performance, few others can.

Something has to give, and don't be surprised given the political clout of some of those un-appreciating the status quo if that 'give' is not provided directly by government. If it doesn't, expect it to come more from the market.

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Finally….. Still not sure what to surprise your better half with this Christmas? As we are here to help, try this…

http://www.harrods.com/product/the-decadence/harrods/000000000003512913?cat1=bn-christmas-hampers&cat2=bn-christmas-hampers-view-all

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

Warm Regards,

JOHN JOHNSTON
CEO

p 3858 8800
m 0409 44 33 22
e jjohnston@johnstondixon.com
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