HOME TRUTH

SEPTEMBER 2015

Welcome to this inaugural 'e'(mail) edition of Home Truth, an extended version of the column we have run in MOVE magazine for the last 15 years.

Home Truth will be published early each month where it will summarise property sales and leasing activity covering the preceding month as well as provide relevant commentary on the overall state of the market and related issues.

Reflecting on the month of August just past, from a sales perspective it proved to be typically quiet save for entry to lower mid level markets within 10k of the city which enjoyed unwinter-like levels of activity thanks to the combined effects of much improved housing affordability, still solid employment growth, and piquing investor demand.

As is normal, the prevailing tone for the month was determined by external events. Significant among these, Chinese equities entered a correction phase (taking commodity prices and our currency along with it); Greece's debt tin was kicked well down the road; the US mouthed threats to hike interest rates (giving our RBA governor yet another excuse to delay cutting ours); and China acknowledged its own supremely ambitious GDP forecasts by devaluing its currency three times in just four days sending shock waves through already nervous global stocks.

Share market volatility and the flow on effects for property market sentiment will be with us for some time because in keeping with their famed water torture, the Chinese have adopted a drip feed approach to the leaking of the truth around the true state of their economy. If they come entirely clean, the current $US45 a barrel oil and US70c AUD could well quickly become $30 and 55 cents respectively.

Of concern at home, quarterly business insolvencies hit their highest level on record and more directly impactful on property markets, APRA (the Australian Prudential Regulatory Authority) decided to require lenders to set aside extra capital to offset any future correction in the property market.

This had some interesting affects. It unsurprisingly encouraged lending institutions to quickly raise their investment property interest rates; quite surprisingly saw AMP close off their investment property lending book completely; but moreover broadcasted a message that APRA at least thinks the investment property market is 'toppy'.

Whilst one can assume that the focus of APRA's concern is largely southern capital city centric, the impact of their action is universal, and imposes an unwelcome imposition on our still very much nascent recovery mode market.

We were also unsurprised to learn that China is using Australian property as a vehicle to launder money. Equally unsurprising was news that our government is to get serious about cracking down on illegal property purchases.

Most questionable property purchases thus far have been in Melbourne and Sydney (in that order hinting at why Melbourne has just overtaken Sydney as the best performing capital city in the country - this otherwise inexplicable for mine having lived in both cities) but it would be naïve to think that the same has not been happening here also.

China is also doing its bit to curb overseas property acquisitions by its nationals (of not just our property but assets of anything anywhere) and of course not entirely with our interests at heart as it continues its wide-ranging, highly controversial anti-corruption witch-hunt that has thus far embroiled many senior bureaucrats and business people.

This has sent more Chinese nationals running for the exits but also had them become increasingly cautious about how they invest what money they get out and where they put it. It shouldn't surprise that our governments recent commitment to seriously consider requests from China to return Chinese nationals living here who are suspected of corruption has made those considering coming here or investing here a little more nervous at the prospect.

The RBA did its bit to contributing to the negative side of the sentiment ledger by again doing nothing when it could, or rather should, have done something. It has left our benchmark interest rates at a level which by international standards appear unconscionably high. Their argument that they are saving the act of cutting rates to zero for a rainy day may actually prove to be what causes the rainy day (or at best makes any future rainy day much worse).

More positively for our market however, despite the severe economic effects of plunging commodity prices and of so many SME's being put to the sword, there is an underlying mood, more than just a hope, that Brisbane may still get to benefit from some of the flow-on from the recent marked upswing in southern capital city property values.

Historically and logically this makes sense. Whilst our attractiveness may have waned with our economic fortunes, the price differential between our house prices and those of key feeder markets of Sydney and Melbourne is now at record levels. Everyone still wants their place in the sun and we have place aplenty for all, just not as much money.

Broadly the market can be summed up as continuing along a now well defined and trodden 'flight to safety and quality' path where speculative or discretionary property purchases are out, and low risk investing is in.

Given the economic realities globally and locally, any change to that short to medium term is unlikely. This was put to us rather bluntly by one of our clients recently when he casually remarked that he doubted he could get out of the harbour front land he bought at Port Airlie a few years back any time in this lifetime. He is only in his 40's.

The economic status quo also means we will see a continuation of the recent 'squeezing' of property values, where cheap finance is pushing the bottom of the market up and business difficulties are pushing the top down.

The very same economic fundamentals are determining the fortunes of property leasing markets at this traditionally quieter time in the market though with sometimes different outcomes.

Where greatly increased housing affordability has pushed up the bottom end of the sales market, it has had an inverse effect of lower end rental yields as many people who may have previously only been able to afford to rent have found themselves in a position to buy.

This has been exacerbated by the mass of recently completed investor apartment stock flooding the market to compete for the shrunken pool of tenants, a situation that would be worse were it not for the mainland Chinese investor's unusual tendency to leave apartments sitting empty post purchase, even if bought purely for investment.

They do this because they believe that they can sell an unlived in apartment as new even if it is a number of years old, this a reflection of how the market works in China. They also (more correctly) believe that an unlived in apartment for sell for more in the future than will one that has been lived in.

The mid range house leasing market continues to be the strongest where demand from small to medium sized business owners who having come on hard times have had to sell their own houses and rather than compromise lifestyle completely to move way out of town to where they can afford to buy, choose to rent where and what they used to own instead.

The premium end of the leasing market continues to be the hardest hit by the economic downturn. A significant number of higher valued houses that had been offered for sale but hadn't sold have now entered the market for lease where they have to compete for what has always been a relatively small pool of prospective tenants, but which today is smaller again.

Looking ahead, with spring now upon us, we can expect increased sales and leasing activity right across the board.

On the sales front, given how subdued the first half peak market proved to be, we may even get to see a significant spring back over the coming period between now and Christmas.

What is normally quiet a heady time in the market generally would be given a welcome boost should what many see as long overdue interest rate cuts finally be granted (or any other market stimulatory initiative be embraced).

On the other hand, given the tenuous state of the nations finances, the market would react very unfavourably to too much more negative economic news and even worse to any measure counter-stimulatory to property, of which you can most certainly count the abandonment of negative gearing.

That's it for this month's edition of Home Truth. As with anything we put our name to, we always welcome feedback so feel free to pass on any thoughts you may have.

Kind Regards,

JOHN JOHNSTON
CEO

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

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