# HOME TRUTH

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Welcome to HOME TRUTH, a monthly synopsis of Brisbane's quality property sales and leasing markets. Beyond our usual content, this edition we include for your reference a timely update of 'Property Clocks' for both detached and attached housing (re-produced courtesy of Matusik Property Insights).

## MARKET BRIEF

**SALES:**

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

## MARKET DETAIL

**SALES:**

Unsurprisingly given the marathon election campaign, the policies at issue therein (particularly the threat of the wholesale removal of Negative Gearing - more on that below) and the unpredictability of its outcome, the market limped through much of May, frustrating given it is usually one of the two busiest months of the sales calendar.

June should see some improvement as people seem to be tiring of the cut and thrust (build destroy promises and threats) of the principal protagonists and are choosing to get on with life regardless.

Auction clearance rates particularly plummeted in May. One senior analyst informed us this week of an unheralded 0% clearance rate across several inner eastern suburbs just two weekends ago (where normally it would be 60% plus on high volume).

The picture is similar nationwide, buoyed through by delayed sales data that showed the first quarter of 2016 was stronger than expected across all Eastern seaboard capitals, which surprised many, ourselves included.

Back here at home but doubtless nationwide as well, the number of for sale sales on apartments grows inexorably. With a glut of investment apartments ready and waiting, the election outcome probably weighs more heavily on that sector of the market than any other (not that any will be totally immune if Negative Gearing is abolished).

Despite their own property markets again going gangbusters, the Chinese continue to keep a much lower profile in our market than we have become used to (and not just because of the threatened unwinding of Negative Gearing).

Interest rates fell again this past month and money markets are predicting further falls in the second half of the year and into next year. We went out on a limb (well not really) to predict rates here would go to zero on national radio a few years ago and nothing has happened since to make us want to change our mind (indeed quite the contrary).

Given the artificially inspired slowing in the market generally presently courtesy the election, we expand a significant spring back post election, and one that won't wait for spring.

**LEASING:**

Where the sales market has not reacted well to the marathon election and the property price sensitivities of key policies at play, the leasing market has largely ignored it.

Despite the highly publicised glut of investment apartments in the market, we continue to see near zero vacancies across all sectors of our portfolio which is as surprising as it is welcome.

Should there be a shift from leasing to selling in the second half of the year from record low (and still falling) interest rates or other factors to reverse a trend that had been heading the other way for some time (driven by people taking cautious wait and see positions in the market), we may see the vacancy trend flatten or start to head back up.

In summary across the market, at the lower end of the market the sheer weight of numbers is putting downward pressure on rents.

That is less so towards the middle of the market where yields particularly for houses remain extant.

At the top end of the market, despite the quieter time of the year, the state of the economy, and the improving attraction of what you can get for your rental dollar further downmarket, rents continue to hold up well.

**PROPERTY ECONOMICS**

**HOMEFILE** – Yes, it's all about the fallout from Labor's planned removal of Negative Gearing from 98% or so of properties that currently quality. The debate around just how far property prices would likely fall in a post Labor victory, post Negative Gearing world is now fast gaining traction after a surprisingly slow start (which may have just been everyone was in shock at the announcement).

Whilst most senior real estate commentators would like (more of) the truth about the ramifications of the benefits of Negative Gearing being removed from all but 1 OR 2% of properties that currently qualify to get out into the public forum, they would prefer others get the (dis)credit for telling it.

Hats off to McGrath CEO John McGrath who recently came out to confirm Labor's signature re-election policy would achieve its stated aim of driving down property prices, though he chose not to put a percentage number on it.

Only Aussie Home Loans supremo John Symonds has been brave (or foolhardy) enough to do that thus far.
His prediction of average falls of 20% nationwide may seem conservative (and see the nation dodging a bullet) given how interwoven into the fabric of investment and society Negative Gearing has become but let's not forget that even just a 20% fall would see an average loss of $135,000.oo per property for every one of the millions of Australian households (three-quarters of all) who own property, sending hundreds of thousands of them broke in the process.

For reference, at current median property prices every 1% fall in average values represents a real loss of $6,500.oo.

Whilst Labor openly admit that the changes are expressly meant to drive down house prices, they have been far less candid about how far they want them to go down (if indeed they know themselves). They have also been strangely mum on just what the planned move will cost the country directly and indirectly or how long it may take the country to recover from it (what with less CGT, less rates, GST, higher debt, higher unemployment, additional welfare etc).

The coalition too has been disconcertingly quiet. Whilst it may be just that they do not wish to interrupt an opponent while he making a grave mistake, it could also be that they too don't quite grasp just dependant property and the construction industry (Australia's biggest employer responsible for 1 in 4 Australian jobs) has become on Negative Gearing in the 30 or so years since Labor's last (failed) attempt to dismantle it.

Why a government would want to punish the masses (particularly their own given property on the margins will be the hardest hit by the changes given their generally lower equity and greater susceptibility to economic downturns) for trying to be less of a burden on society later in life we may never know but hey it's certainly not the first time the illogical builder destroyer reality of Australian politics has stuck the country's head in an economic toilet.

Investment property of course will also be hit hard by the planned changes. Whilst Labor is trying to obfuscate matters by saying new homes will be exempt, they represent less than 2% of the market, beyond which the exemption is only good for the first sale. Quiet frankly, they shouldn't have bothered, 1 or 2% will make 0 difference in the quantum of the price falls.

Given there is only downside to the planned changes (other than from a political standpoint the obvious that such a massive expansion of the welfare state that such price falls would cause would tip the political playing field a long way to the left), one has to wonder if the monicker of 'barking mad' is the sole preserve of Donald Trump.

**SINOFILE** – The Chinese continue to frustrate our market given it had been hoped that there might be some flow on from the positive price effect that their investing had had in Sydney and Melbourne. Whilst we are told they are still somewhat in evidence (but less so) in the southern capitals, they are largely missing in action at the property sales coal-face here other than in and around isolated pockets of Sunnybank and surrounds.

Could it be that they are too busy making a killing in their own markets where their investment is welcomed, as opposed to being punished for investing as they currently are here (this on top of the increasing threat they they may face future sanction for taking money out of China, regardless of the money's provenance and bona fides).

More positive for the market is the current government (in caretaker mode now as we know) is making it easier for Chinese students to get visas to come here. That should provide some market foundation for apartments located close to universities.

**EUROFILE** – It's not just all about the elections at home. In Europe the Brexit poll is just two weeks away and there the Leave camp have just edged ahead of the Stayers for the first time since polling began.

What was it we said about common sense and the Common Market being largely mutually exclusive?

Money money markets are now paying attention to the shifting sands, marking the pound down appropriately.

Should the exit happen, don't expect instant property price falls, property is an illiquid asset, but do of course know global sharemarkets (led by the Footsie) will jellify.

Just where and when the opportunities for property investment will lie in a post Brexit world (should it happen) is a hard one to pick. Short term expect a rush to the exits led by London (and by the Russians and the Italians in that order) to likely at least short term the nearest, safest property harbour (even if that is dubious Dubai).

Longer term the situation will be dictated by how things look on the ground once the dust settles. If they do leave, even if it is the right economic decision, it will probably take decades for the effects to wash through.

Inside Europe, probably only Switzerland stands out as reasonably safe short to mid term (although this week 25% of the population voted in favour of every adult being paid a minimum of $2,500 per month whether they work or not).

We should panic (or celebrate) yet though. Despite the current polling, don't be surprised if the whinging but ultimately pragmatic poms don't choose to grudgingly stay in (perhaps even more on their terms) come the poll, this of course only possible if the stream of 'helpful' foreigners in high office giving them direction butt out.

The Brits are not known for their appreciation of external advice on how to run their country (which quite frankly is why so many want out of Brussels in the first place).

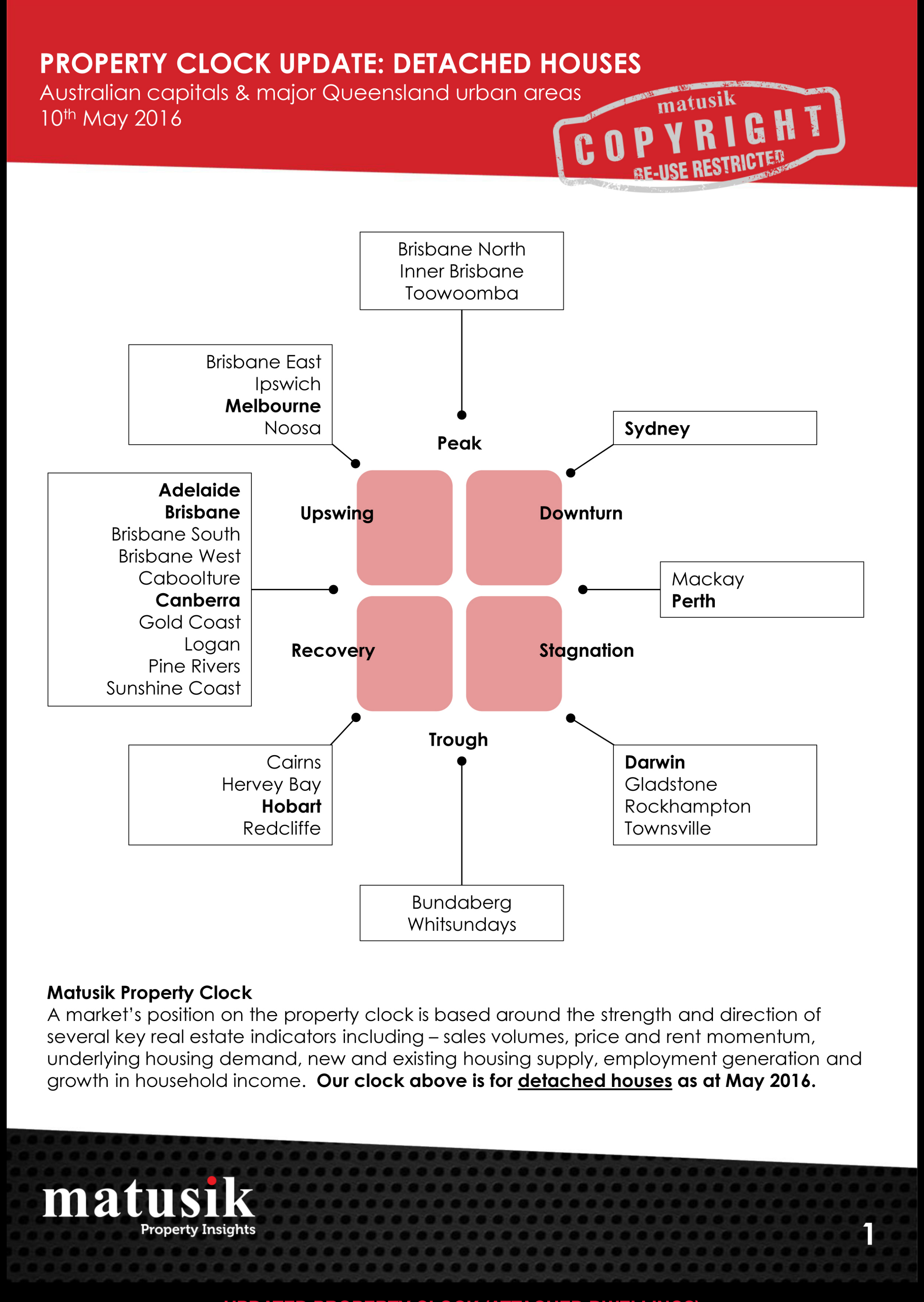
## EN-GLOBO WATCHING BRIEF

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

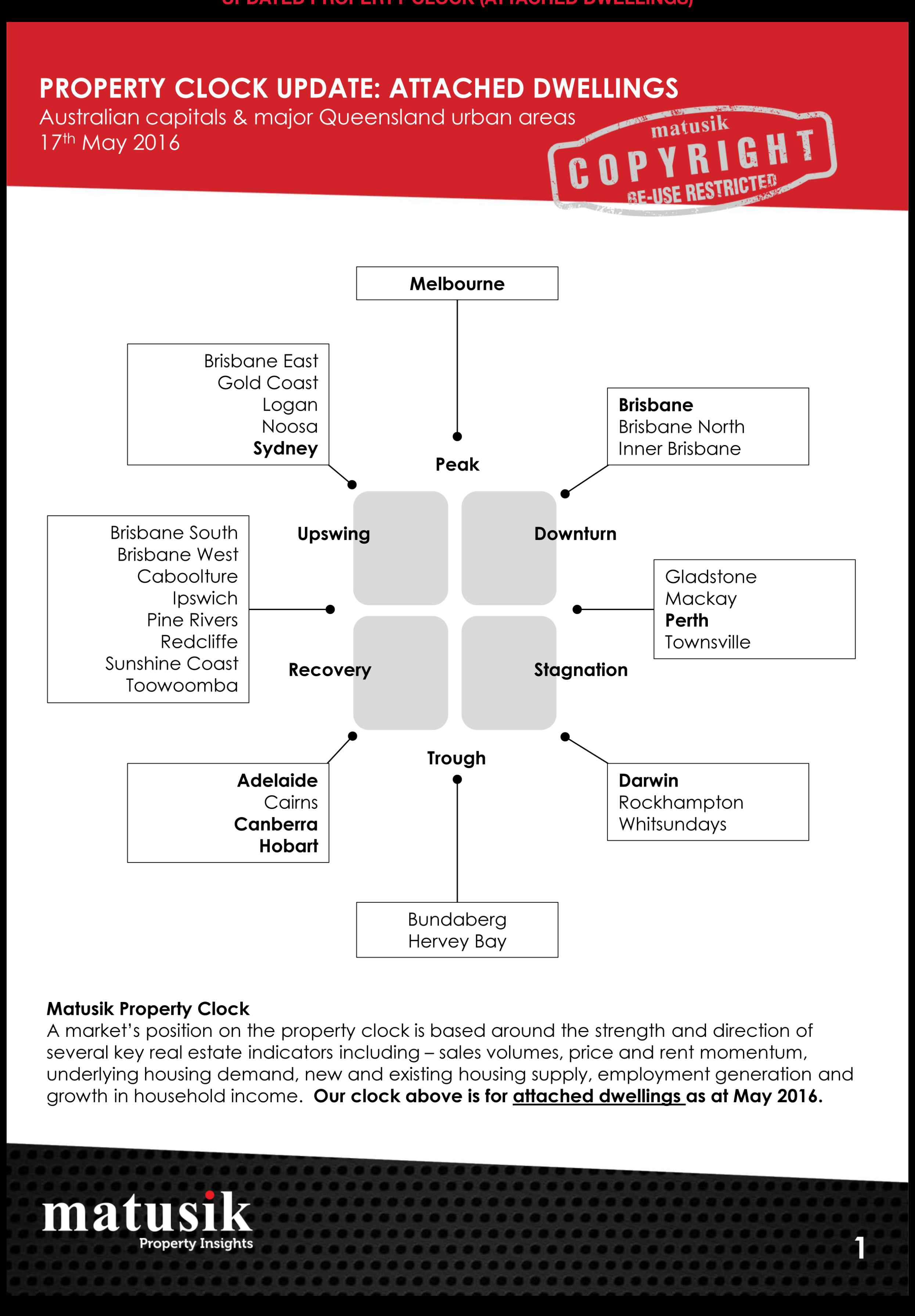
## NATIONWIDE PROPERTY INVESTMENT

- 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

**PROPERTY CLOCK (DETACHED HOUSES)**




**UPDATED PROPERTY CLOCK (ATTACHED DWELLINGS)**




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

Warm Regards,

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