HOME TRUTH

MARCH | APRIL 2017

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

In this edition beyond our usual market narrative we take a frank look at the incredible mess APRA's well intentioned but inept and misguided (politically motivated, mistimed, contentious, and unprecedented) interventions into the property market is causing, further proof if ever was needed that the public and private sectors are oil and water.

We also relate in COMMENTARY a real life case scenario of true residential property prices in China which should go a long way to explaining why they are so keen on ours.

Firstly though as always…

BRISBANE'S PROPERTY MARKET IN BRIEF

SALES:

~ Inquiry Levels – Moderate to High
~ On Show Attendances – Moderate
~ Listing Activity – Low
~ Negotiating Activity – Moderate to High
~ Conversion Index – Low to Moderate
~ Auction Success Rate – Moderate
~ Disparity Index* - Very High 15 - 20%

*The Disparity Index is the gap as a percentage between what buyers and sellers think property is currently worth

LEASING:

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

THE MARKET IN GREATER DETAIL

SALES:

As we enter the peak pre and post-Easter sales period, we find buyer activity markedly up and seller activity down creating an imbalance in the market which if not addressed could make for an interesting time for the rest of the year.

Just what is driving the latent turnaround in the market is hard to put your finger on as it so often is. Suffice is to say that when enough planets align a certain way (and that certain way is not fixed), things can start to happen.

They're happening. That they are could be because the market is believing interest rates here have bottomed (which they shouldn't have but that doesn't mean anything, ask the US) or it could also be that the broader market pendulum is finally swinging back our way state capital wise, or a bit of both, plus many other mitigating factors (and is the why really so important)…

The recent spike in the spot price of coal and iron ore obviously hasn't hurt. Royalties that had slowed to an anaemic trickle are now flowing nicely again (though still not anywhere near the rate of 5 years ago) to fill what have been very empty coffers.

Whilst the broader global economic picture would make a double dip mining boom seem highly unlikely, the current jump in royalties from China's vigorous resumption of its decades long build it and see approach to development (at least for as long as it lasts) is a welcome fillip for our state, and more than just financially.

The Chinese are coming to our rescue in other ways also with inbound tourist numbers going through the roof, a la the Japanese in the 80's but with 14 times the population, hitting new highs with each passing month.

Where they are disappointing presently however is as investors for our investment housing (houses and apartments) but it's not their fault. Our and their respective governments in cahoots, though for vastly different reasons, have made it so difficult for the right ones to invest that many have given up trying and gone off to find greener pastures leaving us with mostly only the wrong ones.

Filling the large void created by the forced Chinese departure thankfully though thus far far from fully is a long overdue resurgence in interstate migration and returning expats (the latter mostly from the UK).

AUCTIONS:

Brisbane's auction clearance rate has tracked back upwards again after its slow start to the year to be back hovering around a reasonably healthy by our modest standards 50%. Given how difficult most banks are making it to get housing finance presently and the fact you have to have your finances in order to bid, that is not a bad number.

NATIONALLY:

BRISBANE housing is starting to kick harder as the price disparity between us and our sun and lifestyle starved Southern cousins markets moves further into record territory to see us even challenging the percentage differential record also.

A re-balancing therefore you think can't be too far off. That is traditionally achieved by our southern feeder markets plateauing (and even often bouncing 5 – 10% off their ceiling) and then our market running hard or at least harder until traditional differentials are once again achieved.

That is what history would dictate and whilst history does not necessary guarantee the future it is the best yardstick we have.

The only other way to balance up the differential other than Brisbane kicking is for there to be a retracing of Southern values. Historically, depending on where, such a likelihood is somewhere between rare and unheard of.

Where we won't get to experience any real bounce anytime soon is at the investment end of apartments where the unprecedented glut of unsold and unsettled investment apartment product continues to grow (and frighten). Whilst thus far only the sub $1million (and particularly sub the $750k) markets have been affected, we can only hope that the quality end of the apartment market doesn't end up getting tarnished by the same brush.

Brisbane's current average property price presently sits at or around $500,000 with a firming bias.

SYDNEY is close to completing its cyclical catch up but hasn't fully run out of puff yet.

The Sydney apartment market also continues to hold up well in the face of the damage being wrought upon investment apartment markets in most other capitals.

The best point estimate of Sydney's current average house is $850,000. It's market continues to firm.

CANBERRA continues relatively solid across both property mediums though still with only moderate turnover.

Canberra's combined property price average is around $550,000, and holding.

HOBART continues its ride on the shirt tails of the recent economic hardship induced desire for cheaper retirement lifestyle options (still in country - which ostensibly Tasmania is – Taswegians tend to get upset by the way if you refer to the mainland as Australia when talking to them – don't know why. They're just as touchy when you mention people with two heads).

Hobart's average property price across houses and apartments is an inviting $350,000 and their market is still firming and should continue to do so while so ever Sydney and Melbourne continue to run.

MELBOURNE housing continues to firm slowly but at nowhere near the Chinese driven pace that drove its market these past two years.

Apartment values (particularly at the investment value end) are heading south given Melbourne has both the highest glut of investment apartments in the country and the greatest reliance on those overseas (mainland) Chinese investors that are finding it harder to get their money out of China.

Melbourne's average property price is presently just over $600,000 with a slow firming bias.

ADELAIDE continues to benefit from an affordability driven stimulus from Melbourne but as a capital city that owes much of its past growth to now defunct industry, its short to medium term (at least) growth prospects are likely to be muted (though the current joke going around 'the last person to leave Adelaide doesn't even have to remember to turn the lights out' is a little too cruel – besides, they make the best hardcore Shiraz in the world).

Adelaide's average property price presently sits around $425,000 and is relatively stable.

PERTH despite the recent rebound in commodity prices continues to endure tough market conditions. Interestingly though, despite the significant price correction of the last two years, they stand out as the capital city with still the highest average capital growth (as a percentage – 290%) in the nation over the past decade and a half, just ahead of Brisbane at 270% over the same period, Melbourne 240% and Sydney 230%.

As encouraging as that statistic may seem, it could also signal they have further to fall before they find true bottom.

Perth's average property price has slipped below $500,000 and has a moderate albeit slowing easing bias.

LEASING:

Brisbane's leasing market has eased a little over recent weeks as we put some distance between ourselves and the ultra-peak months of December – February.

Accelerating the perennial slowdown this year of course is the 'incredible' supply of inner and near city apartments now available for rent at highly competitive (read cheap and cheapening) prices.

Demand for quality HOUSES in good areas however continues to outstrip supply which is keeping yields for them relatively robust.

Entry level housing though is feeling the pinch because if prospective tenants can rent an apartment much cheaper than a similarly sized house they can often be tempted to do so.

For APARTMENTS the lower end continues to be hit very hard by oversupply. That won't end until we see an end of the latest apartment building boom.

Mid sized and priced apartments are less affected by the bulging glut further down and the top end hardly at all.

PROPERTY ECONOMICS

HOME:

The government has a problem.

How can it be seen to be doing something to address housing affordability without actually doing something to address housing affordability (which would be economic and political suicide, driving down revenue for the states and territories as at the same time greatly increase sovereign risk and send Australia's biggest employer the construction industry responsible for 1 in 4 jobs nationwide into a tailspin.

As adept as governments (of all persuasions) are at paying lip service to or stepping gingerly around all manner of issues, this one is a doozy.

And APRA isn't helping by trying to 'succeed' where the government is intentionally failing with it's now two novice interventions in the market. Given it has less of a political imperative (and is constrained by a public service mentality) we trust it will lose interest before the wounds it has inflicted on the industry fester too much. More on that below...

Using the obfuscation surrounding the politically hyper-sensitive issue of rising property prices as cover, banks have quietly slipped in some further unjustified interest rate hikes, again independent of the official rate settings of the RBA.

As much as it doesn't justify their actions, from a commercial perspective you can't blame banks for wanting to get whatever money in the tin they can. Possibly one of the worst kept secrets in the nation is that they are about to take a tremendous bath on the investment apartment front so every last dollar they can get away with getting in counts.

Uncoincidentally all 4 of the Big 4 are complicit in the latest counter-cyclical hikes. Just as they are protected by the government as a pack, they also run as a pack with their rate settings which they will continue to do while so ever the government encourages it (i.e. doesn't punish them for abusing the preferential treatment they are given with the government guarantees by withdrawing them or offering them unilaterally to level the current uneven playing field).

As we predicted they would in our last report, the enormity of Trump getting his antiquated protectionist policies even beyond first base is starting to show with the USD now back to where it was just a week after his victory and with bonds rapidly retracing their post election spike not too far behind.

That is both good and bad for our property market (and economy).

It is good if you are a net borrower because it means that our Bank Bill Swap Rates which went strangely stratospheric post Trumps triumph will now retrace their gains with interest rates not too far behind them.

It is not so good for our exports because a much lower USD (from much lower than predicted inflation) buys less correspondingly more expensive Chinese goods which in turn means less Chinese yuan to buy our products.

We did mention we felt that locking in fixed interest rate borrowings in our last missive was probably not a good idea given economic fundamentals at home and abroad and we are even surer today that this remains sound advice, this despite the banks (un)surprise interest rate gouge that so recently blindsided many sectors of the market.

Be assured that banks won't try it too often. They are very aware that they are being watched and if go beyond a certain point, the government may have no option politically than to level up the banking financial playing field to open it properly to international competition and which would see rates halve from current levels (a la Canada and the US where the borrowing rate compared to the benchmark rate is a country mile narrower than ours) which is why the banks move so quietly and so close together.

INTEREST RATES – Beyond what has already been said, longer term short of another China appearing somewhere which shouldn't be possible given we don't have another undeveloped, hard working and ambitious nation left anywhere on the planet with even half China's population and drive (unless of course a Zimbabwean like money printing effect washes through globally as a consequence of the world borrowing faster than GDP is growing), the prognosis for global interest rates is that they will continue towards zero (or sub-zero as they already are in parts of Europe and in Japan) with the odd dead cat bounce (top and bottom) on the way down.

As terrible as it is for any retirees whose money is tied up in cash, the recent jump in longer dated interest and Bank Bill Swap Rates will likely prove no more than the shock Trump presidency aberration that will soon retrace in tandem with his own loss of momentum to resume their strategic southerly path.

ABROAD:

SINOFILE – The Chinese market is still broadly white hot (particularly the Big 3 capitals, Beijing, Shanghai and Shenzhen (more on a current and real Beijing case scenario below in COMMENTARY).

The Chinese still smarting from the recent share market crash and increasingly frustrated at the hurdles put up locally and internationally (particularly by us) to stop them from investing abroad are keeping their money at home.

And there's a lot of it. Beyond the fact that they boast the largest middle class on the planet, they also have by far the lowest household debt to GDP ration among the G-20 group of nations. That mean a staggering amount of extra money is out their looking for a new home (or a second, or a third).

EUROFILE – Where to start (and to finish)….?

The EU beyond being an incredibly ill-fitting mosaic and being in perpetual decline thanks to its low birth-rate driven shrinking population is hamstrung by a geographical proximity to many poorer and less stable nations (North Africa and the Middle East to the South and Russia and a host of ex-iron curtain nations to the East).

And what a tangled web also. Of the key players, the Brits have just formally triggered their Brexit (which may in turn trigger the breakup of the UK), the French are about to go to the polls an extreme right Trump like outcome whilst not likely (though as likely as was his win) no longer highly unlikely, with the Germans following not too far behind which will be a test of the costliness of their refugee open door policy.

With the stable western anchor of the EU in the UK about to be excised, the EU will be free to drift Eastwards even faster than it has recently. A future EU populated by an increased number of ex-soviet states would be an interesting animal to have to manage indeed (with what's happening in Turkey presently a case in point). Whilst Germany has done very nicely thank you very much out of the status quo and is geographically well placed to benefit economically at least short term from the Eastward drift of the EU, many Germans generally won't be all that comfortable with it.

If you can pick up a cheaper Paris apartment (made even cheaper with a cheaper Euro) will you want it in 5 or 10 years time if things keep deteriorating (in most people's perspectives) the way they are in France? That is a question a lot of people must be asking themselves, myself included given it has long been a desire to have a bolthole there (and not just because I speak the lingo and don't mind the food and the wine and the clothes and the architecture and I should stop there before I go ahead and commit financial hari kiri despite myself).

ANGLOFILE – The UK market is an even more beguiling conundrum presently with that many twists and turns and unknowns present and future that even Paul the Octopus couldn't pick it.

If it hits the skids (on a currency weighted perspective) which is probably more likely than the other (unless the rest of Europe chooses to see it more a safe harbour post Brexit than pre – which would be devastating overall for the EU), will come a harder choice for many between London or elsewhere in the UK and Paris or elsewhere in France as to what represents the best investment from either or both a financial and lifestyle investment perspective.

What makes a better investment, a property in a more stable but less invigorating (weather wise particularly) country that you probably will soon tire of or one in a less stable but more exciting one that you won't (assuming things won't get that bad that you have to take your life into your own hands to visit or live there)?

That's a hard call. It's an even harder one when the writing is on the wall that both (indeed most of Europe) are fundamentally flawed to varying degrees courtesy of shrinking organic populations and the geopolitical issues touched on above.

The only way to offset these is by being smarter which history shows is harder than simply getting bigger. Very few country's have succeeded at it long term other than perhaps Singapore and Switzerland (who have certain interesting parallels in small land mass, small populations, limited or nil natural resources, high values on education, and who share a particularly hard working ethic).

THE AMERICAS – Where Trump has performed beyond everyone's wildest dreams (including his and our own) is how abjectly he has failed at just about everything he has attempted since taking office, losing a lot of momentum (and face) in the process.

That has changed with his timely and thankfully quite measured response to Syria's latest gassing of its people which was clearly a provocation to see if he has any more mettle than his predecessor, his retaliation a double hit to the US socialists in that it represented what they were too scared to do and it won him a lot of respect globally in the mix.

Now that it is clear he is serious about his red line where Obama wasn't, expect Syria to pull its head in, Putin also as his senior aides mouth indignant protestations as to how unfair it is their ally can be subjected to such due justice.

Until this domestically Trump had been having a shocker. He came out swinging wildly against congress immediately post auction but failed to lay a glove on anyone but himself. Given the extent of his self-inflicted damage, his Syrian foray whilst a win will need to be followed up with another of similar significance fairly soon if his tarnished presidential credo is ever to be re-established. Fingers crossed he doesn't finger North Korea because China is not Russia.

Even if he regains his mojo, it is unlikely he will ever get his domestic protectionist policies into practice. Even so soon after his election they already seem half dead and buried, this not because he didn't really mean them or still doesn't really mean them but simply that they are just too hard to implement.

That he's already back out on the golf course and holidaying is not a good sign (or a bad depending on perspective). Could it be he is bored with this presidency malarkey already? He certainly hasn't enjoyed having to behave.

The effective domestic taming (trussing even) of Trump means first and foremost that the inflation balloon that gained air post his election is irrevocably holed (though like any partially filled balloons with holes will only deflate slowly because the foolish money that rushed in to inflate it in the first place will be reluctant to admit they got it wrong and cut their losses, broadly why BBSW, Bonds and equities tend to take the elevator up and the stairs down).

EN GLOBO WATCHING BRIEF

TAILWINDS: Near Record Comparative Attractiveness of Brisbane House Prices | Cheap Finance
HEADWINDS: Mining Bust Detritus | Moribund State Governance | Tepid Federal Governance | APRA, RBA Myopia
CROSSWINDS: Trump | China | EU | Global Race to the (currency) Bottom | Ever Increasing Global Uncertainty
CRYSTAL BALL: 0% Benchmark Interest Rate | 60c AUD | MAJOR Yuan Devaluation | QE Aussie Style

PROPERTY INVESTING

- BUY Near Ring Brisbane and Sydney Housing (no their boom is still not over, indeed far from it)
- SELL Investment Apartments anywhere – particularly inner city and outer ring (assuming you still can)
- SELL Melbourne, Perth, Darwin anything (particularly Investment product).
- DO NOT BUY mining industry related or reliant property 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 for as far as the eye can see
- Low interest rate and yield world until we find another China or global money printing tips something over
- Share markets will continue to head further North while so ever interest rates stay low and money printing high
- The investment apartment oversupply in Australia (and particularly Brisbane & Melbourne) to end very badly
- The Chinese will continue to find ways to get money out of China, just more selectively and in lesser amounts
- Brexit is going to be a very drawn out and painful affair with many property opportunities and tales of woe
- China will continue to export deflation on just about everything except landed property in growing economies

COMMENTARY

APRACADABRA or APRA CADAVER?

The old Turkish proverb 'No matter how far you have gone up the wrong, turn back' it seems doesn't apply to APRA (The Australian Prudential Regulatory Authority – with a name so important sounding, no wonder they have felt bold enough to fool around far beyond their sphere of competency) because despite the mountain of evidence that their previous intervention in the market did nothing (positive at least), they've gone and done it again! SERIOUSLY!!!!!

What is it they say about the surest sign of insanity, doing the same thing over and over the same way and expecting a different outcome.

APRA's previous ham fisted attempt to stop or at least to slow the current seasonal re-balancing of capital city property markets did absolutely nothing that it was supposed to but did a lot that it wasn't (i.e. had consequences that only someone with real life private sector experience could have seen coming).

If the massive damage wrought upon the construction industry as the country's biggest employer weren't enough, APRA's interventions have been a double disaster in that they have sent a very clear subconscious message to the market that if the bureaucratic powers that be would go to such extraordinary and unprecedented lengths to try and inhibit the market, they must be worried it's about to really take off.

And it may well do. Beyond the fact that housing affordability across the nation is at its highest point since just before the 2003 mega-boom and twice what it was just 9 years ago (meaning the percentage of household income required to pay your average mortgage has halved over that time), given what has happened to Chinese property prices over the last 20 years and particularly the last 2 years since their share market crashed, our property prices for them seem almost giveaway by comparison (as indeed did they to the high flying Japanese of the 1980's).

By way of genuine example, one of our Chinese clients bought a basic 40 year old 50sqm (not a misprint) apartment in a large complex with no lift, no future development potential just outside Beijing's 2nd ring (roughly 5 km from the city centre) for RMB600,000 (the equivalent of AU$150,000) in 2005 and sold it 10 years later in 2015 unimproved for RMB3,600,000 (AU$700,000), recording a very healthy almost 500% gain over the 10 years. Not bad!

It gets more interesting, in the last two years the value of the very same property in the same condition has tripled to RMB9,000,000 (AU$1,900,000) making her sad. It's value (and I am assured it's typical of all residential property reasonably close to the city centre) has gone up a staggering 1,500% (15 times) in 12 years. NOW THAT IS REAL SERIOUS CAPITAL GROWTH!!

Over the same period, our capital city property prices have gone up from between just 10% or so in Perth (our worst performing capital city thanks to the mining bust) and 80% in Sydney (courtesy its long overdue catch-up).

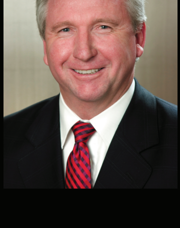
To put things into perspective, for the price of a minute, old, very basic 50sqm apartment in poisonous smog choked Beijing, you can buy a luxury riverside home in Brisbane or a quality home in an inner harbour suburb of Sydney.

Why woudn't you?

THAT IS EXPRESSLY WHY OUR PROPERTY IS SO CHEAP TO AND SO IN DEMAND BY CHINA, THE COUNTRY WITH THE HIGHEST CONSTANT GDP GROWTH, HIGHEST POPULATION, AND LARGEST MIDDLE CLASS IN THE WORLD [now 650 million strong and growing fast].

That's it for this edition of HOME TRUTH other than to say 'Vale' John Clarke

Until then my best regards,



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