HOME TRUTH

MAY | JUNE 2017

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

In this edition beyond our usual definitive market narrative, we summarise what the federal budget means for property, of which the positives are few once you peel away the veneer, and we again draw attention to the aggravated madness of APRA whose unqualified and unprecedented interventions into the market (sanctioned by the government) risk turning what was already a slow moving train wreck into an unimaginable disaster.

Firstly though as always…

BRISBANE'S MARKET IN BRIEF

SALES:

~ Inquiry Levels – Moderate
~ On Show Attendances – Moderate
~ Listing Activity – Low to Moderate
~ Negotiating Activity – Moderate
~ 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 broadly worth

LEASING:

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

THE MARKET IN GREATER DETAIL

SALES:

In the latter mid part of the first half peak marketing period we are seeing some firming in the level of sales enquiry but listing activity continues muted.

If you were to believe everything you read about the market you might find the latter surprising but a savvy broader market doesn't quite buy the media hype, this borne out in a recent report from one of the country's lead sales data trackers showing that even with the recent rekindling of interest in Brisbane housing the market is still down some 8% on average from where it was in its halcyon mining boom 2007 peak days.

If you're feeling a little dismayed at this (as many understandably would be given it is a rare thing for Brisbane or indeed anywhere in the country to have flat or worse values for such an extended period of time) spare a thought for poor old Perth where average values are not just down twice that of ours over the same period but are still falling.

The broad house price pain in Brisbane hasn't been shared equally though, the business sensitive top end has worn the brunt of it as the mid market marked time and the bottom end firmed through heightened affordability.

For apartments at the lower end of the market it has been a different story and particularly recently where supply has progressively erased and then overshadowed any advantage won through today's record low interest rates.

AUCTIONS:

Brisbane's auction clearance rate remains relatively solid but on very low turnover, the turnover particularly thin at the higher end.

NATIONALLY:

Starting at home **BRISBANE** continues to threaten to break out of its extended holding pattern as our non-mining sectors gain traction and much improved mining royalties start to make their positive presence on the state felt.

We stated last month that an interstate rebalancing can't be too far away. Everything we have seen over the past month would seem to indicate that we are much closer to that than previously thought.

Sadly for the higher end of the market, the next recovery will be a bottom up affair with the top end not fully gaining traction until markets below have had their run.

Brisbane's current average property price remains just below $500,000 but it is firming.

Just to the South the **SYDNEY** housing market has either fully or nearly completed its run for this cycle, likewise its apartment market despite it being among the least oversupplied in the nation.

The current best estimate of Sydney's average house price is $870,000 with price growth starting to flat-line.

The nations capital **CANBERRA** continues to perform well in the market as the election promise of small government (taking PS numbers back to where they were prior to the Rudd|Gillard) goes the same way as those previous. Many things in life may be possible but we need to accept that trimming bureaucracy does not count among them.

Canberra's combined property price average continues to hover around $580,000 with a slight firming bias.

(Much) further South **HOBART** as the clean, green, cheap alternative remains the nations bullet performer which is understandable when you consider your average house sale in Sydney buys you almost three in Hobart (one to live in and two to live off).

Hobart's average property price across houses and apartments is around $350,000 with their market still firming.

MELBOURNE housing despite threatening to slow continues to surprise on the upside (except on the apartments front where they have a bit of a problem, one as big as ours).

Melbourne's average property price is around $650,000 where it is showing a slow firming bias.

ADELAIDE continues to benefit from being the mainland alternative to Hobart for the same record high housing affordability reasons.

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

PERTH being Brisbane without the second and third strings to its bow, agriculture and tourism, continues to be the nation's house price underperformer (along with Darwin which given its small size can turn on a dime, or any rumour) with its top end and mining boom demand driven outlying areas suffering the most.

Perth's average property price sits at just $475,000 with a continuing easing bias, a very long way from its heyday in the high $500,000's mid last decade when it lead the nation.

DARWIN who I got into trouble for leaving off last month (not quite as bad as we previously leaving Tasmania off the map of Australia way back when) continues to emulate Perth and for like mining investment downturn reasons.

As difficult as it is to get a clear number on Darwin, the current best estimate has it in lockstep with Perth at $475,000

Finally the **COMBINED CAPITALS** average price presently sits around $620,000 with a slow firming bias. Even as the two key positive drivers of this cool as expected over the coming period, expect this to continue to firm as the market balances and those left behind start to catch up.

LEASING:

The leasing market in Brisbane has shown some surprising ticker over the past months as it fights the flood of investment apartments clamouring for tenant attention.

The greatest strength we are seeing is for quality housing priced in the $750 - $1,500 per week range where demand and supply are at their most balanced.

The higher end of the house leasing market has cooled noticeably since Easter. Inasmuch as that is not entirely unusual for the time of year, just how quickly enquiry has tapered off does has us thinking.

For APARTMENTS the lower end continues lower as developers and owners fight tooth and nail (and worse) to secure any tenant they can, the former in developers increasingly increasing the incentives (rental holidays, reduced bonds – as crazy as that is and how likely it is that it will backfire down the track – and the like) they offer.

Mid range priced apartments are less affected by the low down glut and the top end even less.

HOME ECONOMICS

AT HOME:

The budget on balance is property neutral, about the best the market could hope for given the government had to be at least seen to be doing something to cool the (Sydney and Melbourne) market to tone down some of the baying from the opposition (whose voter base interestingly would be most impacted were their 'threatened' signature policy platform of deconstructing negative gearing ever enacted given it would take the construction industry down with it, Australia's biggest employer and responsible for 1 in 4 jobs.

The government has more cleverly (politically) focused on a sector that is a political hot potato and already cooling under its own steam (or at least its own steam subsequent to the raft of onerous impediments already placed on it), investment property, which it has done by upping the ante on the disincentives already in place for foreigners to buy property in Australia while at the time being seen to firm up on those existing but underenforced.

Chief among these is the ruling that from July 01 a maximum of 50% of any new apartment project may be purchased by foreign buyers. Given many projects over recent years have been wholly sold off overseas (and a great many more majority sold), expect developers and marketers to go to new lengths to find ways around the new ruling.

Supposed countering that the government has opened a very big door in proposing a very significant salary sacrifice tax break for anyone saving for their first home (a policy you can also expect many developers to inappropriately exploit). Obviously if the proposed scheme gains traction, which it may not as the young as not practised savers, it would have a bottom up inflationary effect on the market, that sector of the market already most inflated.

Somewhere in no mans land is the proposal that retirees may commit up to $300,000 from the sale of their principal place of residence to their superannuation tax free.

But here's the rub and the reason why we suspect only those with an IQ smaller than their shoe size might consider it is the equity in a principal place of residence is both tax and age pension asset test free and once moved into super would be no longer. This is nothing more than a devious attempt by the government under the pretence of giving to a positive cause (freeing up houses to be sold) is actually taking by greatly decreasing the number of people who qualify for the age pension. What clever little monkeys they are (not).

If when very few or nobody takes up the offer, confirming to the government that most people with significant equity in their home also possess significant smarts, short of them trying something cleverer still, logically expect them to decide that grandfathering the contribution asset test free which would at least free up the money to go out into the economy (but not disqualify people from the pension) is far preferable to the status quo of retirees just continuing to sit on their assets (and the money remaining tied up in them) in order to continue to qualify for it.

INTEREST RATES

You wouldn't think looking at what banks are now charging that the RBA benchmark rate remains at a record low 1.5% (and yes we still think it has further to fall, indeed you can almost bank on it with or without the country going into recession, just not on the banks passing it on, or even being able to, if they were of a mind to do so).

Trump sent BBSW (Bank Bill Swap Rates) stratospheric (the pivotal 10 year rate from 2.09 to 3.18% in the blink of an eye) with his initial protectionist postulations but now some six months down the rocky road of his presidency (not that the ABC likes to call it that, they still call him Mr Trump and Obama president Obama tsk tsk – get over it guys), the enormity of what he was proposing to do is hitting home with the longer dated BBSW's having already retraced more than half of their initial flurry and still falling.

The only likely bar on the horizon to our benchmark rates resuming their Trump interrupted strategic track to zero will come from Canbrrra (not a mis-print, I've lived there). If the recent resumption of Chinese appetite for our property (this time more houses than apartments which is interesting but perhaps not so surprising) proves more than an aberration, given political sensitivities, expect the government to again step in (and again in a way that lines their pockets nicely in the process).

The recent bout of blatant bank bashing from the Commonwealth won't help rates of course as the new tax the government has placed on them will be passed on to the market as sure as the sun will rise in the East tomorrow.

If the government seriously wanted to take the banks to task (and create a proper competitive environment in the mix), they would simply level out the playing field, i.e. remove their protection from them).

That would immediately bring about true open competition in the banking sector (from home and abroad) and quickly see a sharp reversal of today's record (as unconscionable as it is unprecedented) percentage markup between the interest rates banks pay for the money they borrow and what they charge us in turn for that same money.

As we have previously tabled, when benchmark interest rates were 15%, banks charged 17% equating to a healthy 15% margin. With those same benchmark rates today way down at 1.5%, if banks were maintaining that same healthy 15% margin, the borrowing rate would be just 1.7% (as it is in most other countries with rates similar to ours).

They're not! They're charging between 4.5 – 5%, or a nice round 300% per annum return on their investment. Nice work if you can get it!!

Why do they do it? Because they can, indeed would be mad not to (which is not bank bashing by the way, it is actually recognitions for their acting commercially).

ABROAD

Whilst many of the key considerations that motivate people to want to move to or invest in our country remain or are gaining precedence (e.g. poisonous pollution in China, corruption in Asia, unrest in the Middle East, stagnation in The Americas, Africa's self-inflicted descent into the economic abyss, and shifting demographics across Europe), political imperatives continue to push us to explore new and often more draconian ways of blunting them, often to the bemusement of many and to the disadvantage of most (at home and abroad) not that most of us quite understand why, even though we should and indeed would were proper economics able to be taught at school (which they haven't been for decades).

SINOFILE ('Chaiiina' in Trump speak)

Just when even more than most were contending that China's property bubble was about to burst, it has just inflated faster than it ever has on record with almost all of larger cities (those with 10 million or more population) having just recorded annual capital growth rates of 30% or more for the year and its mega-cities (those with 25 million or more – yes more than the entire population of Australia in each) more than 50%, this off an already inflated base.

Taking the gong for best performing property market in China over the past year however was Shenzhen (mid sized city of around 10 million people that was not much more than a bare paddock 30 years ago) strategically located on the divide between China and Hong Kong, which appreciated by a nice round easy to remember 100%.

It may not stop there. Even were you to halve China's just released current official manufacturing PMI of 14%, that is still an incredible amount of extra cash to be washing around in a country that already boasts the largest middle class in the world.

Expect some more spill over to come our way now that our property comparatively seems even cheaper than it did before this latest Chinese spike. This is a story in itself and will be in the form of another contentiously true article we are putting the finishing touches to.

EUROFILE

France has changed presidents but not paths which has made more Germans happy than French. In choosing more sameness the French have proven their fear of the mess their country's in and the direction it's headed is only surpassed by their fear of actually doing something about it. The more things change, the more they stay the same.

Given their socio-economic erosion seems destined to continue, from a real estate perspective for anyone wanting a French bolt-hole it is very much a matter of 'hurry up and buy before values drop further'.

Still property-wise neighbouring Germany is quite the different story as it is a large economic beneficiary of the EU. More economic decay in France means continued economic advantage for them (whether Merkel is returned to power or not at their upcoming elections).

Elsewhere Portugal won the Eurovision song contest which whilst the prizemoney wouldn't go any ways towards easing their debt issue, it has given them something to cheer (which they, like their romantic neighbours, like to do).

ANGLOFILE

Across the channel and despite growing fears of what lies on the other side of Brexit, the incumbent British government looks likely to be returned when they have their poll just next week.

Given this heightened uncertainty and the sheer economic dominant weight of the EU vis-à-vis the UK, expect the GBP to continue to fall (and even experience some more flash falls) short to medium term.

If a plummeting pound starts to make some UK property values appear cheap (particularly any in central London) that may cause a bit of a price bounce in country (in pounds) but it would be unlikely that such a rise would fully offset the interim falls in the currency. The situation in the UK is perhaps therefore not much different than that of the continent (i.e. hurry up and buy before values fall further) albeit for different reasons.

THE AMERICAS

If anyone knew what was going on inside President Trumps head they are probably unique in the world (inclusive of the man himself).

From what we have seen these past six months, the US is either going to retake over the world at speed or crash and burn at similar speed (though most likely will do something in between, i.e. continue its recent slow, perpetual decline that at least until now has proven to be the lot of all nations once they've peaked economically and socially).

The opportunities in property in that? Given Trumps volatility and the fact that property (investment) is not a tactical play, acquiring property in the US from here short term is probably more a space for the gamblers among us than the investor (although those wanting their patch of frozen rain in the Rockies might argue ardently against that even when deep down they know the truth of the matter).

And why not? There are many worse places in the world to lose money on property. And if you do buy and then start to see your values erode, mores the reason for keeping it. Who wants to realise a loss on a property.

EN GLOBO WATCHING BRIEF

TAILWINDS: Record Comparative Attractiveness of Brisbane House Prices | Still Cheap Finance
HEADWINDS: Mining Bust Detritus | Moribund State Governance | Benign 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 | More Yuan Devaluations | QE Aussie Style

PROPERTY INVESTING

- BUY Near Ring Brisbane and Sydney Housing (the Chinese are back and they now want houses over units)
- 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

- Near 0% interest rates globally for as far as the eye can see (except in the developing & third world)
- Low yield world also until and unless another China rises (unlikely) or global money printing triggers something
- Share markets will continue to head further North whilesoever interest rates stay low and money printing high
- The investment apartment oversupply in Australia (particularly in Brisbane & Melbourne) is about to get uglier
- 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

OPINION

DON'T EVER BANK ON THE GOVERNMENT (or any of its assigns).

Politics is an 'interesting' science, particularly its parallel aspiration with business of getting people to move in the direction it wants them to thinking they are doing it for themselves.

That's all well and good but what's missing on the property front right now however is the government isn't sure where it wants the people to go to.

It wants to get the issue of rising property prices off the political agenda, an issue that always comes up when there is a spurt in values, but presently is at a loss as to how to pull that off without coming away too scarred or having done too much damage to the economy.

It has had a bold shot though the unprecedented step of involving themselves directly in the market where they normally absolutely would not through APRA'S now twin interventions, but those having failed at either their noble aim of derisking the market or of their real aim of deflecting some of the political heat away from the government (not that it ever should have been there), they haven't the foggiest what to do next.

The most obvious and practical course of action to take when you realise something is not working is to stop doing it and where possible to reverse it. That is how the real world works but the real world and governmental bureaucracy of course are world's apart. Business moves appropriately and pragmatically and as fast as it does because it has to because not to do so risks corporate failure. Bureaucracy doesn't because it doesn't have to.

Because it doesn't carry real world risks it priorities ego. Reversing any bureaucratic decision regardless of how bad is an admission of error and that's not them. It's not their way. Because they can, when they've do something inept, even mind-numbingly, they tend to continue on as if nothing is wrong and wait for a convenient alibi to appear to provide sufficient obfuscation cover for their stupidity. Accountability therein never gets a look in.

Yes, like the vast majority of holes government and their subordinate bodies tend to dig for themselves, even after they realise what they have done, the continue on knowing regardless of how big the ultimate hole, they won't wear any blame or consequences and of course the taxpayer will be there to foot the bill come time to clean up their mess.

There is nothing wrong with APRA's stated aims of their interventions, it's just that they (or any other public sector body) given their limited or nil real life private sector experience are not qualified to handle the task.

What they have been charged to do is also unnecessary. APRA's 'charter' and that of the senior management of the companies their interference is impacting upon are one and the same, the only difference being the private sector is accountable and punishable for their shortcomings whereas they are not.

APRA has broad public favour because its actions like those of the government parent recently with their very public politically motivated or at least expedient bank bashing play along with the public persona that banks can't be trusted.

Their charter also ignores the reality that should banks or any other listed company take unnecessary risks with their shareholders money for any reason, they will be quickly and appropriately punished. That's how the real world works.

APRA as a public entity is beyond such sanction so when the enormity of the unholy mess it's inane (insane) meddling where it shouldn't finally and fully surfaces, it will be no skin off their nose.

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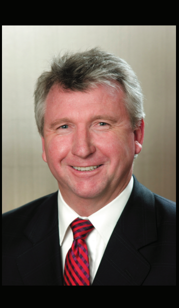
That's it for this edition of HOME TRUTH

Until next time..



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