HOME TRUTH

S P R I N G 2 0 1 7

Welcome to this Spring edition of HOME TRUTH, a trusted journal of Brisbane's prime residential property sales and leasing markets.

In this edition beyond our usual broad narrative, we look to introduce some pragmatism to the current interest rate debate, and not totally unrelated, provide a genuine assessment of the investment apartment market.

Firstly though as always…

BRISBANE IN BRIEF

SALES:

~ Inquiry Levels – Moderate to High
~ On Show Attendances – Moderate
~ Listing Activity – Low
~ 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:

Spring as traditionally the best sales period of the year is now officially with us.

With the Sydney and Melbourne housing markets definitely cooling after what has been quite a boom and which has left the gulf between their and our median house prices at all-time record highs, the number of odd coloured number plates we are seeing on our roads and outside properties On Show presently should surprise no-one.

Also helping our market is a welcome rebound in resources prices to complement a tourism sector that is literally jumping out of its skin, this despite our currency remaining stubbornly high, the latter for which we can blame the federal government for not cutting the umbilical cord it established with the banks when the GFC hit in guarantees on bank deposits but haven't had the good sense to remove post crisis (which goes a long way to explaining why our banks are continually able to notch up quite obscene profits).

So yes, it should now be our turn for our property markets to broadly firm with the caveat that the relative flatness of our state's economy will temper the gusto and breadth of any upswing.

Entry level markets for houses across most quality near city areas have already started to firm perceptibly in keeping with historic cyclical moves in the market. Such would normally include all types of residential property but the sheer volume of investment apartments that have entered our market has made the recovery one sided this time around.

Particularly strong right across greater Brisbane presently is the market for houses in quality areas, particularly those close to better schools. In the St Lucia golden Triangle presently (that includes parts of Indooroopilly, Taringa and Toowong), prices being paid for 'in fill sites' (old houses able to be demolished) are at all-time record highs and still climbing. One post war example on just over 700m2 of land in one of the better streets of Indooroopilly just sold at auction for $1.425million (nearly twice its UCV – Unimproved Capital Value).

In contrast, the premium $2 - $5million sector of the market continues to be less buoyant than those below (or even above in the super-premium market which is less economic downturn sensitive) but given burgeoning interstate and overseas interest in the fact of relatively low inventory (particularly off the river) that also could soon change.

AUCTIONS:

True to form Brisbane's auction clearance rate was relatively subdued over winter. Subject to the building wave of interstate and overseas buyers fully forming up, Spring should prove to be entirely different.

NATIONWIDE PICTURE:

Starting at home, entry to mid-levels of many of BRISBANE's discrete market sectors (though not apartments) should continue to record solid price growth short to medium term as the cyclical state versus state rebalancing gathers steam. As it matures, short of the investment apartment train wreck going completely off the rails expect the positive inferences to start to move upmarket (which will be much welcomed) as well as outwards from the near city areas that have enjoyed much of the recent growth. The average house price here presently is just on $500,000

SYDNEY appears a bit like a train going up a hill which probably has got further up than expected due to the momentum it gained going down the previous hill, momentum fuelled by a long overdue catch-up, improved state governance, low interest rates, and a flood of Chinese desperate to get their money out of China to store in known destinations (of which Sydney ranks highly). Sydney's average house price is in the mid $900,000's and steady

CANBERRA is still doing well on the back of the dissipation of any likelihood short term of reversing the Rudd | Gillard government's explosion in Public Servant numbers, low interest rate driven affordability, and the broader market positivity driven by the rise in Sydney and environ house prices. Average house price circa $600,000

Far(ther) South **HOBART** continues its affordability and clean living driven market rails run which has driven their average price to around $375,000

MELBOURNE activity and price growth have both slowed over the last quarter as the Chinese push into our markets is further blunted by our and their respective governments. Despite this quite significant rug being tugged (not quite yet pulled) from under its market, average prices are holding at just above $650,000

The **ADELAIDE** market continues to hold on the back of demand from Melbourne and the promise of more defence money going its way. Presently average prices are around $440,000

Despite the recent rebound in resources prices, the **PERTH** market remains the weakest of the larger capitals and indeed appears to be the only capital city still experiencing contraction other than Darwin. Median price $460,000

DARWIN is Perth without the 0 in its total population and for the same reasons. No coincidence its average price is also almost a mirror image at circa $475,000

COMBINED CAPITALS average price remain around $620,000 with rises in some secondary capitals being offset by falls in others. With Sydney and Melbourne in a holding pattern, it will be interesting to see where this index goes next

LEASING:

The leasing of houses across most price points and apartments at the higher end continue to show strong resilience given the time of year and the debilitating effect on yields the investment apartment glut has had, particularly now that developers are starting to feel the pinch of having to honour rental guarantees given at the height of the sales boom when rents were much higher than they are today.

Continuing particularly strong are houses in the $600 - $1,200 per week range and large, modern apartments in the executive $1,000 pw+ range (where they are almost out of reach, but not fully, of the carnage below).

HOME ECONOMICS

INTEREST RATES

We are still at 1.5% but really should be at 0% (where we should have been for years and would be if we could be trusted with such cheap money) and indeed we may still need to visit there if banks don't greatly moderate their current average 300% mark-up between what they borrow their money at as set by the RBA (the interbank lending rate) and what they charge us in turn to borrow it from them.

With Trumps idealist protectionist dream that caused longer dated BBSW's to spike 50% immediately post his election now fast being realised as the impossible dream (to the massive cost of anyone who was naïve enough to buy it in the first place), even more downward pressure will be put on benchmark interest rates globally.

What won't interfere with that longer term are the recent very 'public' pronouncements that Europe has turned the economic corner. Most believe it absolutely hasn't, the talk nothing more than convenient bluster designed to inflict maximum pain on its exiting partner and to discourage any others who may be tempted to do the same.

Short of a miracle economic panacea that could allow the same amount of people to be paid the same to do more with less and in less time, the trend of the last 20 years is set to continue. There is certainly not another China on the horizon to reverse it.

AT HOME:

ADFA as the government's fall guy and silent attack dog continues to wreak havoc in property markets, where it is making it nigh on impossible for the first home buyer because most first tier lenders won't touch a first time buyer until and unless they stump up a minimum 10% deposit and otherwise prove they don't need the money, shades of the late 1980's except of course interest rates are a little bit different.

The fact the government is hanging on by a thin thread is also not helping confidence more broadly but as with so many things in life, the very same things we curse may come home to reward us. Certainly housing affordability wouldn't be anywhere near as high as it is in Brisbane were it not for the fact that our economy is so sick.

And if you think affordability is high now, imagine just how high it will surge if the government pulls the deposit guarantee away from the banks so that they have to again compete internationally on a level playing field. That would send mortgage rates plummeting, perhaps to as low as ½ what they currently are without the official rate having to move at all.

Of course then that would have the ultimate effect of pushing house prices higher again, and not just here in Brisbane. Oh to be a pollie in today's world (not).

ABROAD

The more things change, the more they stay the same. The Chinese still want to get out of China en masse (or at least want to get some or all of their hard won wealth) it's just that it is getting increasingly harder to do that; the US continues to bluster and pontificate on the national stage albeit with a diminishing converted audience; the UK continues in denial on just so many fronts; Europe is likely in Disneyland, and the rest don't matter (so much).

SINOFILE

The more the Chinese administration pushes to stop its people from taking their money off-shore, the more determined they become to do it.

And can you blame them? Talking to one of our (seriously) better heeled Chinese clients the other day they asked if I knew a certain Mr xxxx, previously one of China's richest men (close to $100bn rich) who had made his vast fortune from establishing web platforms.

I said no, I haven't.

They said he is now living on the Gold Coast.

I said that it is great for the coast to have such wealth in residence.

They said, not really. He was called in by the powers that be a while back for a private chat when he was given notice they were taking his businesses and all his assets and he had the choice to either go and live quietly in a country somewhere with a small stipend on which to live (a couple of million dollars I was told) or he could stay in China and join the ranks of those others who have quietly disappeared. He chose the former.

That is an extreme example but it highlights the all-pervasive concern most successful Chinese harbour (particularly right now) that because of the lack of rule of law, the government can step in at any time and simply take virtually any business or other wealth they deem fit. In the West we may struggle to get our heads around how such a thing might be possible but in China everyone is patently aware of it. The fiscal executioners blade is always out there hovering somewhere above you, its release (when, how and why) a great unknown that is out of your control.

EUROFILE

Eurogeddon continues on its merry way to nowhere (worth going to), its currency, property prices and overall well-being of the majority of its producting people increasingly victims.

Incredibly (not), the shiny new and particularly young French President Emmanuel Macron is already less popular than was his most unpopular playboy socialist predecessor. This is a story that is bound to have a typically unsavoury French ending (but 'Paris sera toujours Paris' - except of course for the riots, the bombings and the plummeting joie de vivre which used to be its seductive trademark).

The economic pillars of Germany and Switzerland continue to hold the fort as best they can (as they try to make as much as they can while they still can) but one (or two) can only do so much against so many. Stating the obvious, bad news in the EU is being intentionally being suppressed and any positive tidings shouted from the roof-tops as fortess EU tries to put on a brave face and punish the UK for it's audacity in leaving them.

And they haven't lost their sense of humour, capured perfectly in the current EU Commissioner recent public declaration that Europe was a bastion of stability.

But jokes aside, what of the future for the old coutry(ies)? Hard to know but it certainly encourages one to consider renting rather than buying that dream (or might it prove nightmare) bolt hole in Europe.

ANGLOFILE

Neighbouring but increasingly unneighbourly Great Britain is no less in a mess. Having chosen Brexit as what it sees as a lesser of evils, now that the high price of Brexiting (politically particularly) is becoming clearer (and the pound worth less though not yet worthless to make the price higher still), the transition imperative and the country has descended into slomo.

With all of the understandable indignation and obfuscation, picking the bottom (of both the currency and property markiets) for the old dart, the old country still for many, is not going to be any walk in Hyde Park. If I was a betting man, which I am (occasionally), I would punt that the best time to pick up your very own sentimental, sodden piece of once Great Britain sod will be in the hangover period just post when the divorce is finally sonsummated (assuming it ever is).

At that time disillusionment and (stiff upper lip style) panic will be at it's highest and the value of the pound at it's lowest (noting that we are already into the low 60 pence area already…. might parity even be possible)?

THE AMERICAS

In that other cauldron of obfuscation, the US, the jury isn't just out as to whether the country is moving forward or backward, it's gone into extended recess. Anyone left of far right is so out to assassinate Trump politically and he so out to counter their efforts that the only things getting done are those squeezed into the narrow gaps between the waves of attack and counter-attack. Great way to run a country. Reminds one of home.

Forgetting all the puffery, If the US' current claimed 2- 3% growth is real and can be maintained, that should give the US the fiscal capacity and imperative to continue to borrow from the Chinese to pay for their (Chinese) goods much of which is made with or powered by Australian resources as well as tone down on the protectionist rhetoric that got Trump in initially (an excuse Trump is probably looking for as he is in need of some space to lick his wounds).

This would of course give the Chinese continued confidence to continue to buy our resources and our property, the latter not so much as before because we have made it so incredibly difficult for them to do so (this despite our government having the benefit of seeing how devastating the Chinese pullout from the Canadian market was when they were politically inspired to do what we are being likewise politically inspired to do increasingly now also.

The small elephant in the room (globally) is of course North Korea. It may not be as unpredictable as is being reported but that won't matter if the course of it's tactical internal power posturings clash awkwardly with Trump's.

China may be supporting UN sanctions against North Korea publicly right now (interestingly while it continues to build trade with them to record levels on several fronts) but were the US to do the unthinkable and bomb the place, any economic or other goodwill gained over the past quarter century could quickly spoil (or worse).

GLOBAL WATCHING BRIEF

TAILWINDS: Record Comparative Attractiveness of Brisbane Housing | Cheap Finance
HEADWINDS: Mining Bust Remnants | Moribund State Government | Benign Federal Govt | APRA | RBA Myopia
CROSSWINDS: Trump | China | EU | Global Race to the (currency) Bottom | Increasing Global Uncertainty
CRYSTAL BALL: 0% Benchmark Interest Rate | More Yuan Devaluations | QE Aussie Style

PROPERTY INVESTING

- BUY Near Ring Brisbane and Sydney Housing (the Chinese are becoming increasingly apartment shy)
- 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 for a long time to come
- HOLD off buying anything coastal for the foreseeable future also 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) will get uglier still
- 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

INVESTMENT APARTMENTS (No - not a contradiction of terms [oxymoron] at least not yet).

The lot of the investment apartment on the Eastern seabord as we know is looking pretty grim.

The Chinese are struggling to get there money here to pay for those they've bought of which for many projects they represent all of the buyers (and where they can, we punish them with a myriad of new add-on taxes); they are in massive oversupply; the banks have virtually closed their lending book on them (unless you can prove you don't need the money); there aren't anywhere near enough tenants to fill those already built let alone the 10,000's under construction or about to be, and; most economists are now openly advocating investing in houses over apartments (which whilst that has always been good advice, it has never been shared as publicly as it is being now).

Grim as that all may seem, it could be a lot worse. ….And it may well yet prove to be.

Presently, and unsurprisingly given advertising revenue self-interest, the private sector media is staying very mum on the scope of the unfolding disaster that is the investment apartment market.

Banks for like self interest reasons are proving equally complicit, accepting for fiscal expediency any number of fanciful delaying tactics for non-performance by developers whose product is increasingly not selling or settling where already sold.

This may prove prudent behaviour but the odds are it won't. History shows very clearly what happens when banks don't enforce their creditor performance requirements in the busts that follow each boom (or at least that always have in history to date).

Sub-Prime in the US (which coined the phrase 'jingle mail' which every American knows but few Australians do to be the sound the keys make when the bank opens the envelope the owner has sent the keys to the property back to the bank in) is a prime recent example of what can happen on the flip side of low doc or no doc lending hysteria.

Fortunately, the US ultimately bit the bullet. It was painful (bullets are hard) but they did it.

Japan didn't. Those same Japanese banks in the late 1980's who chose not to call in their loans as their property investment bubble started to deflate are still insolvent today some 30 years on.

So why aren't our banks moving on the market?

Well it's partly fear, partly policy, partly politics (or even party politics), and perhaps even partly ignorance (and not wanting to know).

Forgetting the possibility however remote that a miracle cure may pop up to save the day for the banks and their clients, no bank wants to be the one to tip the domino that tips the rest. That one should to save themselves and the rest greater harm in the long term doesn't matter.

That our government guarantees our banks is also (not) helping because the safety net such a globally unique guarantee offers encourages inaction.

How ugly will it get?

Well that is hard to know. The situation is already far uglier than most want to admit publicly (and worse in Brisbane than anywhere else). A slew of developers of all sizes are already technically insolvent and still only able to trade through the grace of banks continuing to turn a '(in)convenient' blind eye to their increasingly fanciful stories as to why they can't honour their credit obligations and promises as to how that inability will soon change for the better.

As we know, usually, perhaps even always, when we ignore a problem it doesn't go away, it just gets bigger.

It was also wrong that APRA interfered in the market to try and get a ship it has no inkling how to pilot back on course. That their interference has made the problem they were meant to ease worse is not their fault. They were simply never even remotely qualified for the task.

The banks are however to blame for APRA being given the green light to interfere where they shouldn't. Had banks tightened up on their lending criteria earlier (and blind freddy could see what was coming), not only would the wind have been taken out of the argument for APRA to have it's little bit of fun playing in the real private sector world with the big boys, the banks broader bad debt exposure would have been far less far earlier.

That would have been a win all around.

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That's it for this edition of HOME TRUTH

Until next time..

JOHN JOHNSTON
CEO

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