



Which Will Be The Chicken and Which The Egg?

The Next Brisbane House Price Boom or 0% Interest Rates

‘As hard as it is to find anything positive out of APRA’s unqualified and unprecedented intervention into the property market, you can thank it for either ensuring interest rates here go right down to zero, if not sub zero as Japan and Europe have experienced, or at worst stay where they are for as far off into the future as the trained eye can see.

What The Australian Prudential Regulatory Authority has done, they say the R in the acronym is for Regulation but of course that is poor English so we have corrected, by kowtowing to the Chinese hierarchy, an aptly Chinese term common to both Mandarin and Cantonese, who want to keep as much of the Chinese wealth Chinese as they can by (APRA) imposing lending restrictions for property on the banks is squeeze out what life was left in the golden goose that had been laying the golden eggs for the Australian economy, not just for property.

Of course now that the fiscal destruction their ill fated, ill timed, ill equipped and illogical intervention has wrought is clear to everyone perhaps even themselves to see, they have seen fit to do a complete backflip so all can be forgiven and life can go on as before as if nothing ever happened. Nothing to see here..... Well, if only....

Whether or not APRA’s limited or total dearth of real world private sector nous precludes them grasping that markets (and economies) don’t work like that, the commercial reality is they don’t. You can’t just up and decide one day that you’re sufficiently happy that property investment is sufficiently so on the nose and the previous politically hypersensitive but always remote risk of markets overheating so far below zero less that there is less than nil risk in releasing the frantically applied economic handbrake and expect the depth of fiscal and social destruction that the desperate act wrought to right itself. The real word just doesn’t work like that.

And here I digress, any danger the market may have ever overheated was long past long gone long before APRA ever got around to intervening. By the time they did the market hadn’t just already started to cool, it was already cooling at a worrying rate. All APRA achieved with their lending restrictions was to greatly speed up the rate of cooling and exacerbate the correction risk, particularly for investment apartments.

Where APRA’s intervention was never a factor in stopping the market from overheating, it has been spectacularly successful in helping it overcool, interestingly its negative impacts being most felt in those very same southern capitals where the political imperative for such a bureaucratic exercise were once the highest.

Classic hoisted on their own petard. The poetic justice of it all would be comical were it not so serious.

And now of course comes the cream on the investment property price deflation cake courtesy the equally politically motivated Banking Royal Commission which as it grinds on will do at least at much as APRA did to propel interest rates inexorably further towards zero as it deflates more of the southern capitals recent price growth balloon and perhaps pop completely the investment apartment bubble that had done much to prop up the economy post GFC.

So why will that happen? Go to a bank right now and ask if they are still lending for investment property and they will tell you ‘it’s business as usual’. Ask for a loan though and you will find out the real truth, ‘It’s not business as usual’. Yes we will still loan for investment property but only if it’s certain product in certain areas and you can find 30 or 40% deposit.

The banks are doing this to safeguard against the as yet unclear but (they believe) likely negative downstream effects of firstly APRA’s unusual intervention into the market and now the Royal Commission into them.

So how can we still have a Brisbane house price boom among all that?

Well firstly let me make it clear that by housing, I mean housing, not apartments (not for a long time other than those in the higher end where they haven’t been building so madly) and particularly not investment apartments in the \$400 - \$800k price range where courtesy APRA et al the blood in the biblical flood waters is running bright red.

With or without the RBA eating more humble pie (where its already had a surfeit with its continued [wolf] cries that the next movement in rates will be up never having come close to being close to the truth) and dropping rates to where they should be and should have been for years as in ‘zero’, with the only caveat being a highly improbable meltdown in China’s economy, Brisbane house prices simply must now start to rise, if only to catch-up.

Other than in certain key near city areas, house prices here have hardly moved in a decade at the time our Southern traditional feeder markets have seen median house price growth of between 60 – 100%. That of course from a historical perspective is an unsustainable differential and as such prices must rebalance and likely soon.

At the higher end of the market here, not only have prices not gone up, they have broadly either been flat or have gone down, thankfully though nowhere near as much as they have in resources ultra-reliant Perth or Darwin.

Put simply, the reason they must now rise here is the confluence between gravity and economics. Highly Positive Interstate Migration Flow + Ultra-Low Interest Rates + Record Inter-Capital City Price Disparity + Retirement Allure = Market Catchup.

Whether we see only half of Sydney’s and Melbourne’s recent capital growth or the full Monty (or more as we historically have) remains to be seen but we will certainly see a marked improvement in house (and land) values.

We are on the verge of a long overdue market catch-up which will probably fully engage the very day the doors officially close on the banking royal commission freeing them up to go back to work.

And don’t be surprised if by then there is not a political imperative for the government to intervene full circle and incentivise if not open reward the banks for doing exactly what they have just been punished for (not that the government would ever acknowledge doing anything of the sort). That’s politics. Such a tangled web of intrigue.