IS NOW THE TIME TO BUY AUSTRALIAN PROPERTY? OR, IS IT BETTER TO WAIT?

BOOM,OR GLOOM FOR AUSTRALIAN PROPERTY?

BY MIKE BENTLEY

EXECUTIVE SUMMARY

Covid caused panic buying of homes in Australia.

Prices then fell back in 2022, before rebounding again in 2023. Should you jump in NOW, or wait and watch?

To understand what is happening to Australian house prices, it is important not to view Australia in isolation, but to also understand the global trends affecting world real estate.

The pandemic affected every person in the world and has affected every business and industry, and real estate is no exception.

Property is probably the biggest business in the world. By one estimate, construction, the buying, selling, and renting of properties, and the imputed benefits to owner-occupier's account for around 15% of rich countries' GDP.

Property also makes up around two-thirds of the tangible capital stock in most economies. Most important of all, property is by far the world's biggest single asset class. Investors have much more money tied up in property than in shares or bonds.

What happened in Australia also happened in Canada, the UK, the US, and many other western and developed countries.

Pandemic fuels broadest global house price boom in two decades

In 2020 analysts and economists were expecting terrible things for the global real estate markets.

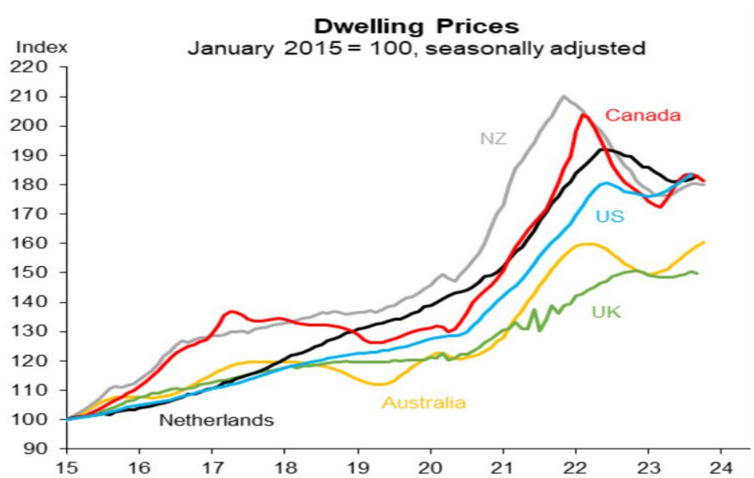
As we all know, the coronavirus pandemic had sent large parts of the world into lockdown, shutting businesses, costing millions of jobs, and putting the housing market into a deep freeze.

The number of people asking lenders for more time on their mortgage payments surged as the global recession hit.

The fear was that house prices would collapse.

An increase in bankruptcies and unemployment would squeeze disposable incomes and make it difficult for highly indebted home-owners to keep up with their mortgages.

"*Actually, none of that happened,*" said Kate Everett-Allen the head of international residential research at consultancy Knight Frank.



Source: CoreLogic, CREA, Macrobond, REINZ, Justin Fabo

The Covid Effect

In an unexpected twist, the pandemic benefited house prices.

"There are many reasons, but a contributory factor to rising house prices globally has been the mass reassessment of housing needs in the wake of the pandemic, whether that's been buyers seeking home offices, gardens or just to be closer to wide-open spaces," added Kate Everett-Alle.

With so many people having to work from home, they realised their home is their sanctuary, and they needed more or bigger space, home offices, and better design.

Governments around the world helped homeowners by temporarily banning repossessions and providing trillions of dollars of support for workers and businesses.

Interest rate cuts kept mortgage repayments affordable in many places, while temporary reductions to purchase taxes in some markets spurred home buying.

A freeze on repayments greatly helped many.

Apartment complexes like Build to Rent projects around the world have seen huge increases in occupancy, with younger tenants especially appreciating the social interaction such complexes bring, compared to standard apartment buildings.

Across advanced economies, interest rates began to fall sharply during the global financial crisis and remained at low levels until late 2021 - early 2022.

These measures cushioned the housing market from the coronavirus recession.

But the pandemic itself has actually turbocharged prices.

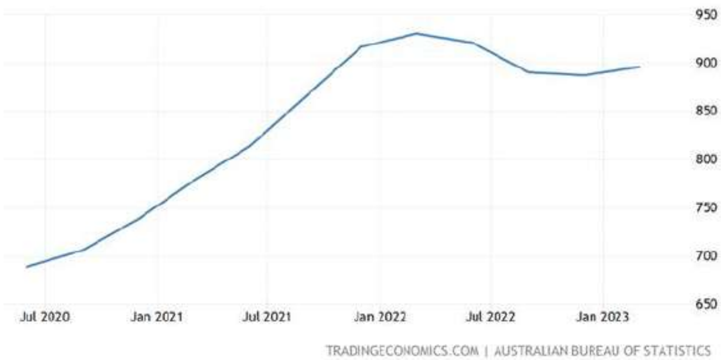
"If you lock up the vast majority of the population for months, they [rapidly reassess] what they want from their homes," said Richard Donnell, research director at UK property platform Zoopla.

As people were forced to transform houses into offices and classrooms, it didn't take long for a "race for space" to take hold.

Globally, many house markets were on a non-stop upward march.

Then in early 2022 to counter the effects of inflation the Reserve Bank of Australia started lifting interest rates.

House prices rose sharply during the Pandenic and then slowed with interest rate rises. Australian medium dwelling price annual % change (nominal prices)



Soaring real estate prices can have serious economic consequences, but the market incentives that drove them there aren't likely to go away overnight.

Will Australian house prices keep rising?

Like many other countries, extremely accommodating financial conditions with record-low interest rates has helped boost house prices at an unusually fast pace during a period of weak economic activity.

Low borrowing costs made house purchases more affordable relative to rent and to other investments.

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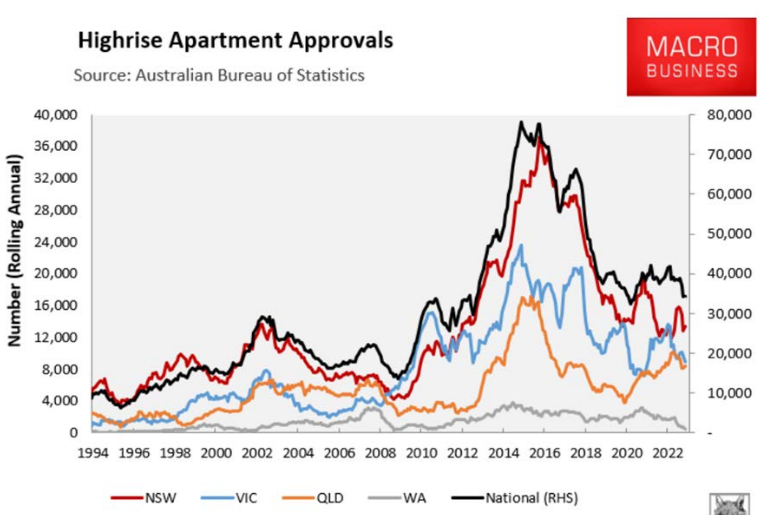
When mortgage rates were at all-time record lows, more people decided to move house, upgrade to a bigger property, or move to quieter places, following long hours spent at home during the lockdown.

Low interest rates, government grants, Covid working-from-home arrangements, and solid job security translated to strong demand for homes.

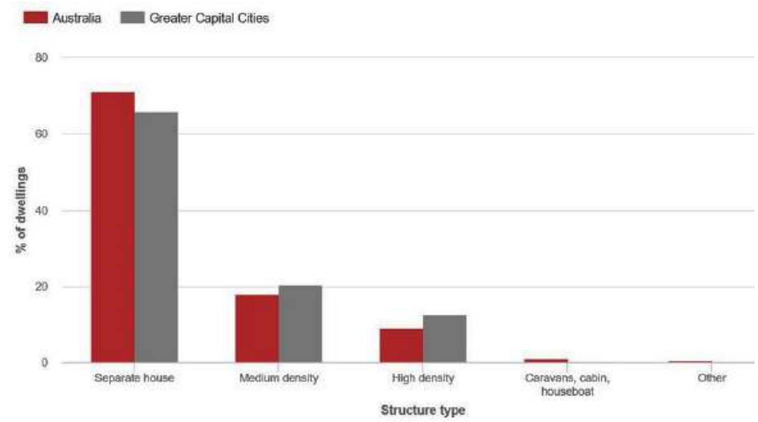
At the same time that demand for homes has been super-strong, Covid-19 has been a key factor restricting the supply of homes on the market.

The situation has been amplified by lack of new supply and increasing building prices.

Even the much-maligned high-rise apartment market in Australia has seen plummeting new permits and building approvals.



This sector, much against common belief, is the smallest segment of Australian housing.



Many Australians moved out of the cities and suburbs to coastal and country towns, causing prices to escalate and rental property to have full occupancy.

Some wealthy individuals in Australia fled the capital cities for larger country homes with more outdoor space in the anticipation that they won't need to commute into their city offices as much after the pandemic ends.

In addition, many households, particularly those that were already better off, are financially in a better position than they were before the pandemic hit

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since they've spent less on travel (both overseas and interstate), entertaining, vacations and eating out, and accumulated large savings since the start of the pandemic.

A lot of this additional income was allocated to the housing market.

People rushed into property markets that were already busy with pent-up demand from households that had postponed moves.

And as prices started rising, even more money flowed in.

The end result is that home prices soared – recording the fastest annual growth rate in 32 years.

Border closures and international tourists and students

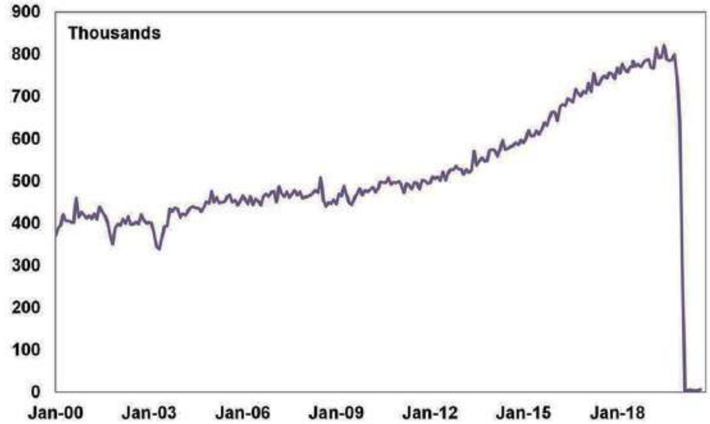
Before COVID-19, education-related travel services generated $37.6 billion per year and 8% of all export earnings. It is in fourth position after iron ore, coal, and natural gas.

Education exports have risen sharply over the past decade, with 15.2% growth over the past five years.

The demand for education will remain in the post-COVID-19 world.

Inbound arrivals, tourists, business travellers, and students, collapsed to virtually zero in 2020-2021.

Short-term visits to Australia (Less than one year)



The focus on Australian tourism is usually around international arrivals.

But, domestic tourism (Australians travelling between and within states) actually makes up a larger share of the economy.

Domestic tourism is worth just over 4% of GDP, well above the 1.3% of GDP that international tourists spend in Australia.

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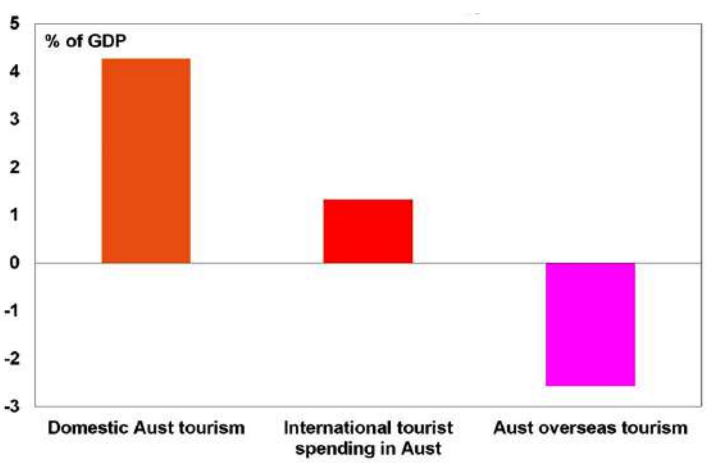
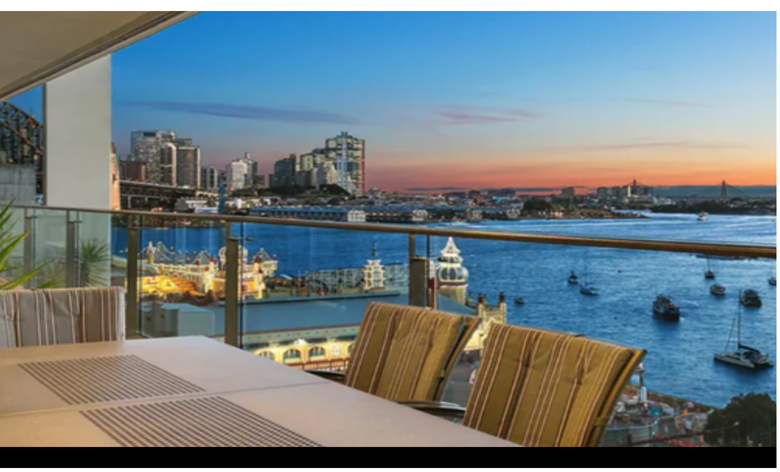
Australians spent $58.3 billion in 2018–19 visiting other countries, while visitors spent $39.1 billion in Australia.

So, the ban on international travel but a return to domestic travel within Australia actually boosted the Australian economy, especially over the short term.

Short-term visits to Australia (Less than one year)



2024 and beyond



All of this indicates Australians are much more likely to stay (and spend) within Australia over the next few years.

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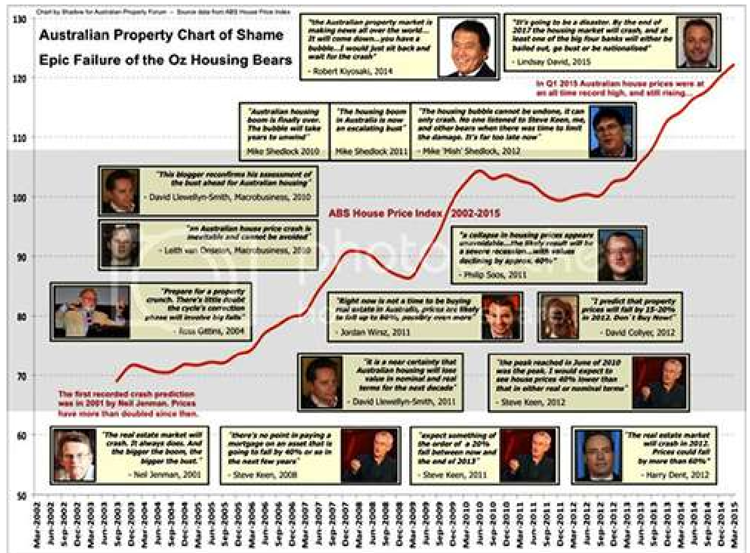
This will benefit the housing market.

But, what about the high prices in Australia?

Surely, NOW is NOT the time to buy?

Well, if it makes you feel better to believe Australia's housing market is a bubble, go ahead and believe it.

Many others do.



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Many of this company's clients rang us to ask if they should sell their Australian properties.

They were spooked.

Many others held off buying to "watch what happens".

An expensive mistake

.

In fact, the opposite happened. Prices rose and were up 26% averaged over all the capital cities by 2007. (Australian Bureau of Statistics)

(Given the Economist said prices would fall 30% and they rose 26% it would be fair to say they were wrong by a massive 56%. Hopefully, you can see why you need to be very wary of following the advice given out by the media that needs to sell subscriptions/papers/magazines/ web views, etc.)

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Again, prices rose by 16% over the next two years, and **were up by over 80% by early 2024. Oh dear.**.

In 2017, "BUBBLE" was how the secretary to the Treasury and the Australian Securities and Investments Commission have described it. A former head of the Liberal party said it was a "crisis".

In the 3 years immediately following prices rose by 16%!

And in fact, when I first started in real estate in the mid-1980's I read a book called 'The Wealth Power of Property' by Fred Johnson which really influenced me and cemented my commitment to a real estate career.

However, I remember one chapter that really stood out for me was where Fred Johnson said:

"Consistently throughout the past 45 years, people have been telling me that it's not a good time to invest in property. In the early 1950's when a home loan was as rare as hen's teeth, they said it's not a good time to buy - there is no money available - prices will not rise.

In the late 1950s when exports were flagging, they said the economy was heading for disaster don't buy property. Interest rates were going up.

Import quotas were being cut and world prices for wool and wheat had dropped.

The Menzies credit squeeze of 1961 was a good reason not to buy property. Drying up of credit; lack of confidence in the economy. The doomsayers said property as an investment was finished and would never return to its old glory.

In the late 1960's Great Britain, Australia's biggest export customer was negotiating to join the EEC.
Menzies raced to London to point out the error of their ways.

He was unsuccessful and proclaimed that Great Britain's entry to the EEC would make previous recessions look like a boom
.
Don't invest in property now they all said.

The early 1970's saw low inflation.

Property would not increase in value, they said. Then in the mid 70's there was high inflation, high unemployment and then recession.

The OPEC oil crisis of the late 70's caused the experts to say that property prices would drop as people and industry could not survive the expansion of our cities as oil prices soared.

Property was out of fashion yet again."

So when I went into the real estate industry in the 1980's we had the abolition of negative gearing.

And I still to this day have kept the press clippings with people saying it is the end of property because if you can't get negative gearing "what is the point of investing in real estate with no tax advantages?"

Shortly thereafter we had "Black Monday" the biggest stock market crash since the great depression. It's not the time for property now they told me.

Then in the early nineties we had a full recession in Australia.

Don't buy real estate now they said.

I thought my career was over before it had begun!

And low inflation with the headlines all saying values could never rise if inflation is low.

Don't invest in property!

Then in the late 1990's accelerated depreciation on property investments was removed, and major changes to Capital Gains Tax were introduced.

Without tax benefits property investing is over they said.

In 2008 there was the global financial crisis, and the collapse in house prices was predicted.

"Experts" said the falls would range from 20% to 60%.

By 2015 Australia's house prices were in a "bubble" they said, then China - Australia's largest trading partner- faced its own stock crash.

It's going to be an absolute disaster for property in Australia they said.

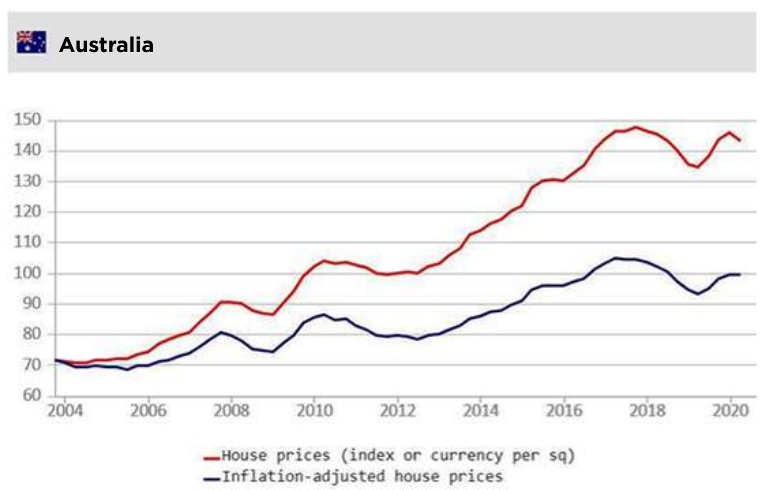
Investor loans became harder to obtain. There are no loans available, it's not a good time to buy. Prices won't rise.

The onset of Covid -19 in 2020 bought more doomsday forecasts and that now was NOT the right time to put any money into property.

Consistently for the past 35 years "experts" have been telling me that it is a mistake to buy now **as the time is not right.**

So what did all these calls for doomsday accomplish? Absolutely nothing.

Australian home prices have marched relentlessly higher.



So when potential buyers hold back because they do not want to pay the 7% or 8% Foreign Buyers Tax, they could be making a rather expensive mistake.

And assuming you have sought out the right research, and have the deposit and access to financing, perhaps it would be more correct to say the *biggest mistake you can make* is not to own any property at all.

So assuming you have sought out the right research, and have the deposit and access to financing, perhaps it would be more correct to say the biggest mistake you can make is not to own any property at all.

The large Post Covid price rises have now slowed, stopping the chance of an bubble bursting

But is Australia's housing market an epic bubble on the verge of popping?

Maybe not.

Economists usually define a bubble as being created by a surge in asset prices that is driven by exuberant market behavior. During a bubble, assets typically trade at a price, or within a price range, that greatly exceeds the asset's intrinsic value (the price does not align with the fundamentals of the asset).

A bubble, in other words, is doomed to collapse under the weight of its own irrationality.

By that standard, Australia's real estate market looks less bubble-like than exuberant. Or maybe even catch-up?

Beneath the frenetic behavior of the past few years is a market that is reacting predictably to unusual stimulus and is actually catching up after years of underperformance.

Real estate gains follow stock crashes

After every major stock crash in Australia's history, the "safe havens" have drawn huge amounts of investment particularly in gold and real estate.

There have been six or seven stock market crashes or bear markets in stocks in less than 10 years.

After every major stock crash in Australia's history, the "safe havens" have drawn huge amounts of investment particularly in gold and real estate.

The biggest Dow Jones single-day falls in history were recorded in:

Oct 1987 (Sydney house prices rose 98% between October 1987 and October 1991) (Melbourne +55%)

Oct 1997 (Sydney house prices rose 31% between October 1997 and October 2000) (Melbourne +33%)

Sept 1998 (Sydney house prices rose 50% between September 1998 and Sept 2001) (Melbourne +50%)

April 2000 (Sydney house prices rose 66% between April 2000 and April 2003) (Melbourne +50%)

Sept 2001 (Sydney house prices rose 48% between September 2001 and Sept 2004) (Melbourne +33%)

Sept 2008 (Sydney house prices rose 30% between September 2008 and Sept 2013) (Melbourne +23%)

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Economic resilience provides a safe, low-risk environment for international investors.

The Australian economy

- is the world's 12th largest 2023 (IMF 2023)
- has enjoyed 29 years of uninterrupted annual growth
- is rated triple 'A' by all three global rating agencies in 2023. One of only 9 countries.
- an important contributor to five sectors expected to drive future global growth: agribusiness, education, tourism, mining, and wealth management.
- Australia's population is soaring. Other countries will be severely impacted by an ageing population, but Australia is forecast to experience a massive population increase.

PLUS

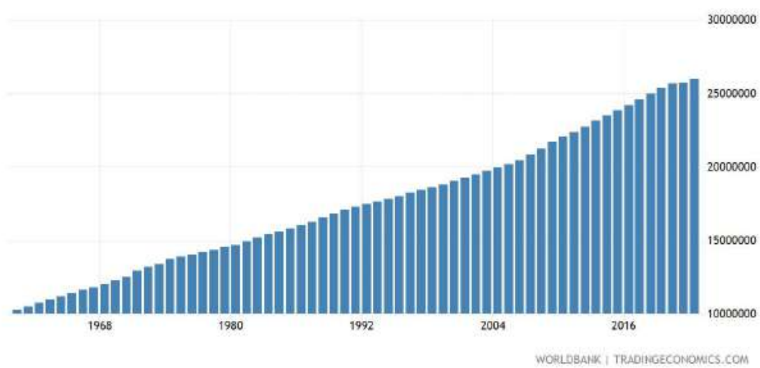
Australia is seen as a "safe haven" so it is a near certainty that high levels of migration shall continue well into the future.

Investors have a unique opportunity to take advantage of this trend by investing in and providing rental accommodation.

In mid 2023 Australia's population had reached

26,635,544

Australian Population



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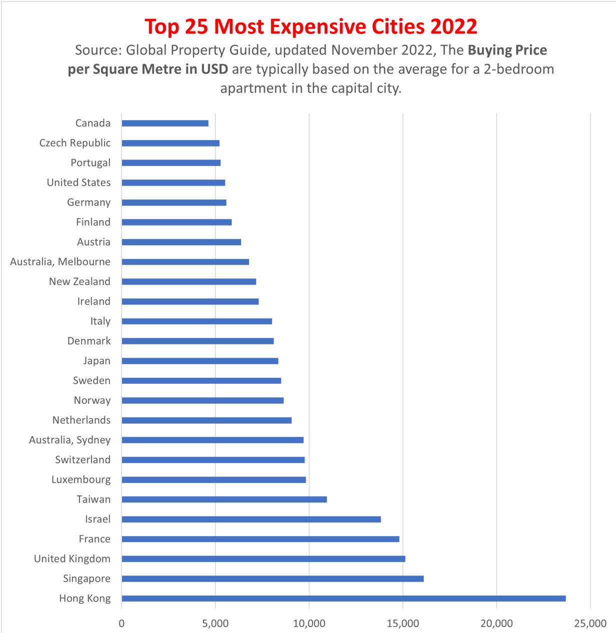

World's Most Expensive Cities in US$ Per Square Metre

This chart clearly shows where Australian apartments stand on a world scale on a per sq. metre basis.

Sydney and Melbourne, our most expensive cities, only rank 9th and 18th among the worlds most expensive cities for secondary market apartments.

LITTLE KNOWN by most people, per sq. metre rates of Australian properties remain very affordable in world terms.

LITTLE KNOWN by most people, per sq. metre rates of Australian properties are amongst the lowest in the world.

This fact alone creates a compelling argument for investing in Australia, and helps dispel any fears of "expensive housing" or a bubble market.

ALSO

• Australians tend to live in larger houses or apartments than people in most other countries, something not captured in many international comparisons that indicate Australian house prices are high compared to other countries. The chart above is a per sqm rate.
• Australians are now among the world's highest income-earners on average and can thus afford to live in more expensive housing.
• Australia's tax system also plays an unusual role in encouraging individual investment in residential real estate to provide much needed rental accommodation, which serves to support housing prices.

Timing a purchase: use the trend lines,and get professional help. Use the data as well as experts.

Australian property is long proven as a safe, secure, and profitable investment.

However, not all property performs to the same levels.

When buying seek professional assistance.

Overseas buyers should use a professional Buyers Agent to protect their interests when purchasing.

But when to buy, sell, or to watch the market?

There is another statistic well worth considering. The long **term trend** lines.

Use the trend lines for guidance

Many people still remain unsure as to the correct timing to enter the Australian Real Estate market. Too many investors try to time the market, whereas as this report shows, "time in the market" is more important than trying to select the best time to buy.

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It can be useful to examine the TREND LINES to get an idea of where each Australian city stands and to also understand why it is not a "bubble" about to burst.

We have updated graphs from data available from the Australian Bureau of Statistics, representing properties (houses, apartments, townhouses) to get a more accurate representation of the overall trends, rather than just showing one segment of the market, like houses only.

Also, these figures do not include new builds, so as to not distort the data, as new builds coming to market are always more expensive than those on the resale market, and thus can distort the data upwards if a lot of new builds come on - so they have been excluded.

It's also important to remember that the trend line changes over time to reflect the latest figures inputted.

The historical trend lines can be a very useful tool, especially when comparing different cities.

However, we have been following the trend lines for decades, and seldom found they let us down.

Consider the trend lines as a guide to timing.

This is the secret ingredient for investment success and overlooked by nearly all novice investors in Australia.

Because, while no one can guarantee prices will rise, these "owner occupiers" protect the downside risk.

That is, in a downturn, they do not rush to sell, as this is their own "home". This provides a natural "buffer" against panic selling, such as occurs in the stock market.

And has been one of the "secrets" as to why the Australian housing market has not collapsed during the various financial crises.

This also means investors have a huge pool of tenants to select from.

It is seldom hard to find a tenant.

However, Covid has taught us that location is critical when selecting a rental property for investment.

Locations, and /or properties that rely on students and/ or tourists and holiday-makers were badly hit during the pandemic with high vacancy.

However, most properties in prime locations targeting local residents as full-time tenants maintained high rental occupancy rates.

BUT, it gets even better.

Just under a THIRD (31%) of all property owners in Australia do not have a mortgage. That is, they simply do not care whether interest rates go up or down, they have no repayments to make.

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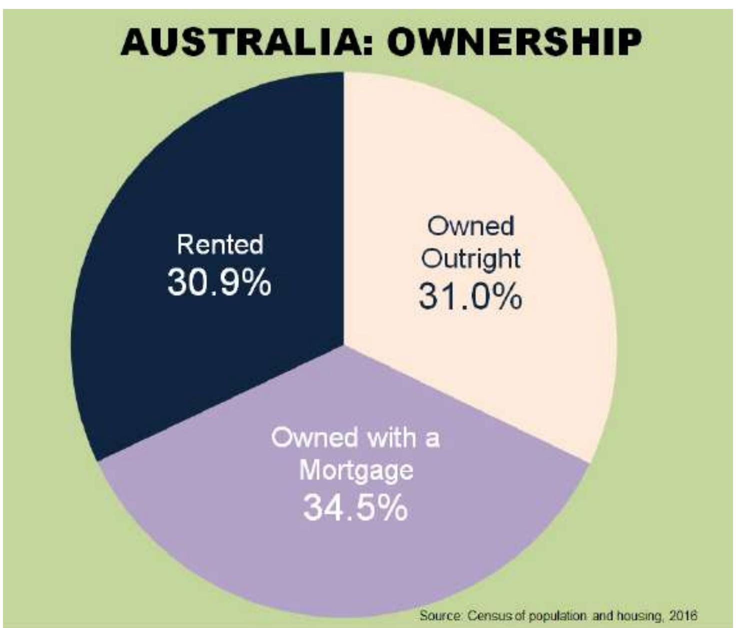

For them to panic and sell would be unheard of.

In addition, the Australian banks have always tried to keep borrowing levels on property between 60% to 80% as a general rule, creating a built-in "buffer."

The biggest mistake many people will make this time around is to be so concerned about making a "wrong" decision as to timing, they will end up not owning any property at all, and will miss not only rentals rising to levels we have never seen before in Australia, but also the next great property boom.

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- Choose the right property, in the right location.
- Choose the correct mortgage to match your needs.
- Select the ideal mix between the rentability of a property, and the potential for capital growth.
- Use some leverage to maximise returns.
- Don't always select somewhere "you could live in yourself." Your tenants may well have different ideas. Maximize rental returns.
- Seek professional help from a team of solicitors, valuers, accountants, mortgage brokers, and buyers' agents.

Make prudent decisions based on facts and research rather than friends' opinions. Take the long-term view, buy to hold rather than buy to sell.

Remember that each Australian City operates on a DIFFERENT property timing cycle, so it is impossible to say the "market is down" OR "the market is up" as it depends upon WHERE you are talking about.

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AND remember...MIGRANTS.

Many of these are wealthy business or professional people. BUT IN ANY EVENT, THEY ALL REQUIRE HOUSING.

But where will they all live?

YOU may as well be the one to supply their rental accommodation.

The data is indisputable. Over the last 35 years, the market has continued to climb higher. And that's despite crashes, wars, and pandemics.

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Finance, tax, and duties changes

In 2017 Australia began introducing (like many countries) some additional taxes for foreign buyers of its real estate. Australia still has lower taxes than most countries for overseas buyers, and for long-term investors, the effect is amortised over the long term.

Too big to fail?

The CoreLogic August housing chart pack shows that the total value of Australia's housing stock was worth $9.6 trillion in 2023. Mortgage debt is only $2.2 trillion. (23%) .

Source: CoreLogic

That's more than Australia's total superannuation wealth, listed stocks, and commercial real estate combined.

The total value of residential real estate in Sydney exceeds $2.53 trillion.

Melbourne's $1.74 trillion.

When Brisbane, Adelaide, Perth, Canberra, Hobart, and Darwin's market values are added together, they total $1.694 trillion.

- Sydney $2.53 trillion
- Melbourne $1.74 trillion
- Brisbane $626.7 billion
- Adelaide $307.5 billion
- Perth $528.8 billion
- Hobart $62.3 billion
- Darwin $25.9 billion
- Canberra $143 billion

Will real estate go into reverse anytime soon?

No one would be surprised if prices remain stable for a while.

Whenever prices rise rapidly they tend to stabilise for a period, but seldom "crash." then rise again.

The secret is to hold long term, and buy well. Consider using a professional buyers agent to help you purchase at the right price, and in the right location. Use their research tools to your advantage to select prime investment locations, even down to which street.

However,, one good reason to bet against any housing collapse is the attitude of political leaders and central bankers who have been supporting the recent gains.

This is true not just in Australia but in advanced economies around the world.

From Canada to Britain, governments and central banks stimulate their economies by doing everything they can to encourage home buying.

It seems unlikely the powers-that-be would deliberately inflate home prices only to stand back and watch them topple.

Property also makes up around two-thirds of the tangible capital stock in most economies. Most important of all, property is by far the world's biggest single asset class. Investors have much more money tied up in property than in shares or bonds.

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No amount of "planning reform" will lead private sector developers to raise their productivity levels beyond what their business model and the banks dictate and certainly, even if they could produce enough homes to bring prices down to "affordable" levels, governments would step in and stop the crash in the wealth effect for existing homeowners.

The business of developer's and builder's is simple. To make money for themselves and their shareholders. Not to increase the proportion of homeownership or to supply more affordable homes.

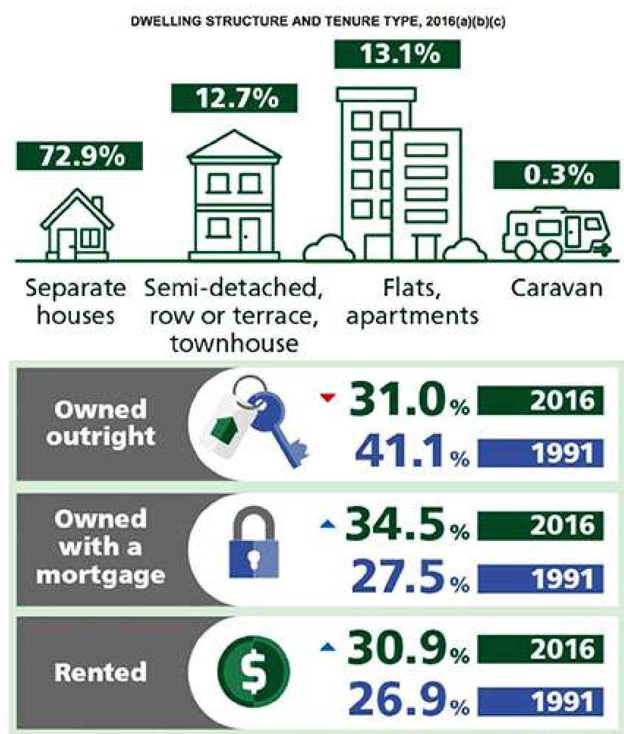
When prices are rising they try to release more homes onto the market.

When prices slow down they tend to release less.

And sometimes they just stop and wait.

The "secret" to why prices are unlikely to crash

In Australia, around **66%** of all properties are purchased by "owners", not investors. This protects the downside.



(a) Includes households in occupied private dwellings only. Excludes visitor only and non-classifiable households.
(b) Owned with a mortgage includes 'Being rented under a shared equity scheme'.
(c) Rented includes 'Being occupied rent free'.
Source: Census of Population and Housing 1991, 2016

That is, people intending to live in them.

NOT buying for investment or speculation.

Not buying to rent them out. But for their own use.

This is the secret ingredient for investment success and overlooked by nearly all novice investors in Australia.

Conclusion

Even though trade and investment may contract sharply over the coming years, there is an opportunity for Australia to capitalise on the safe-haven effect.

In times of global uncertainty, buyers and investors look for safety and security.

Due to the effective management of the COVID-19 risk, Australia has maintained industry supply chains and a stable economy.

However, we may be able to also draw lessons from history.

The 1920s began with the world recovering from a war, the Spanish flu pandemic, and a depression.

However, it later emerged as a time of prosperity, rising incomes, and innovation, with antibiotics, electric light telephones, and radio coming to consumers and making life profoundly different to a decade earlier.

The 2020s might see similar changes with quantum computing, energy storage, AI, blockchain, and molecular biology.

Businesses lost during the carnage resurface or are replaced by leaner, more targeted, more automated, more digitally connected and far more cautious enterprises with far stronger balance sheets.

Emerging technologies today have the potential to boost economic and productivity growth in Australia and internationally.

A generation of Australians will train, work, and live in an economy primarily concerned with rebuilding and recovering from the COVID-19 shock.

This will affect their future housing choices.

Australia can achieve the roaring twenties again in the 2020s.

Australia has never seen anything like this as it missed SARS, and the GFC barely caused the country to blink.

But people NEED shelter. They NEED housing. Migration will continue.

The population will increase.

And in that rebuilding Australia, remote and cut off from the world by the tyranny of distance, is then viewed warmly as a place of safety, as a place of prosperity that is hygienically managed.

Australia has ended up performing well in terms of infections and deaths in blunt comparison with many other nations, so it is appearing more attractive and will continue to attract business and skilled (and ambitious) migrants in record numbers, all of whom will require housing, whether to rent or buy.

Pre-covid it was estimated that around 1 million Aussies were working and living outside of Australia. By mid 2021 around half of them had returned, further putting pressure on prices.

Whether Australians, at least in the short term, will want to live overseas again in such numbers remains to be seen.

Until recently, buyers of Australian property have been a significant disadvantage when purchasing, as real estate agents only represented sellers of homes.

This is highly likely to reduce rental vacancy rates even more, and push up rents, which will increase yields and make apartment investing become popular again going forward.

The house markets around the Australian cities are on different property cycles, however it is likely there are no headwinds to stop continuinglong term growth and attractiveness of Australia as an investment destination.

This means a lot of new housing is will be required – and not just for the lower income earners being priced out of the housing market, but for migrants, first time buyers, students - to add to the current housing options, rent or buy, across the economic spectrum.

Buyers had to deal with highy trained, professional agents working against them for the sellers.

The recent trend of Australian purchasers to hire their own buyers agents has helped level the playing field, and is long overdue.

Finally, Australia is a low-taxing advanced economy. Our tax-to-GDP ratio is 29 per cent of GDP, compared to the OECD average of 34 per cent.

And according to the Credit Suisse Research Institute, Global Wealth Report 2022 (2022), Australia has the highest median wealth per adult of any large economy.

It's hard to see how it could get much better.

Like to discuss the property market with Mike Bentley?

Schedule a call here

www.CitylifeProperty.com/call

Learn more about having a Buyers Agent help you

www.AustralianPropertyBuyersAgent.com

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