2017
EDITION 2

NATIONAL MARKET OVERVIEW

2017 | EDITION 2

PERFORMANCE
PROPERTY ADVISORY

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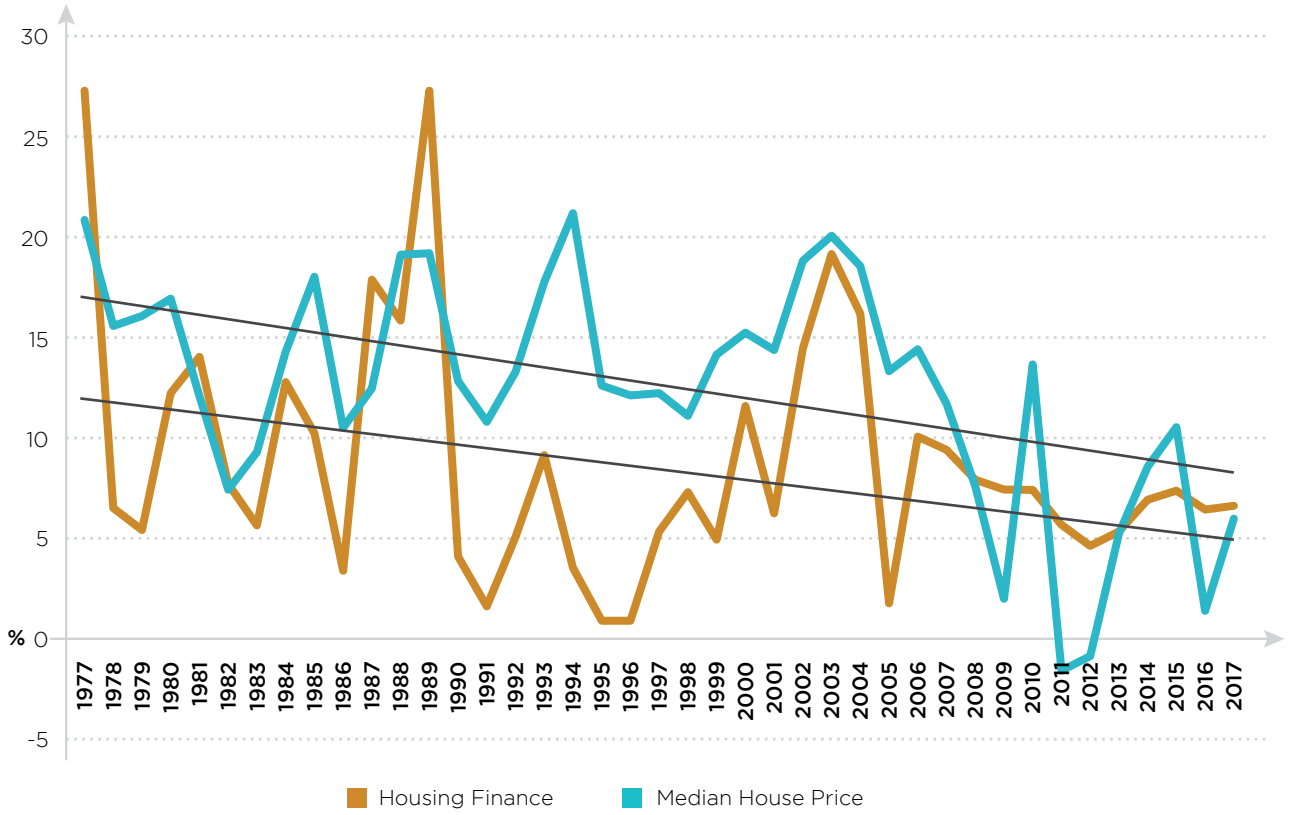
LONG TERM CREDIT GROWTH TREND

This graph shows national housing credit growth versus median price change since 1977. There is a very strong relationship between credit growth and price growth. As we can see, over the last 40 years the trend lines run almost parallel. Credit growth has been progressively declining over the past three decades and this is causing the long term trend of house price growth to slow.



In the 80's credit was growing consistently between 10-20% per annum which resulted in the late 80's crash and early 90's recession. During this time median price changes were also fluctuating between 10-20% per annum with some exceptions. As we moved into the mid 90's and early 2000's we saw credit growth fluctuate between 5-15% and price growth follow suit with a few outliers.

Moving past 2010, credit growth has been within a much lower band between 0-10% with price growth generally aligning in this band. Interestingly, 2010-11 was the first time we saw negative house price growth nationally and the first time in the last 40 years housing credit growth dropped below 5%.

SLIGHTLY NEGATIVE

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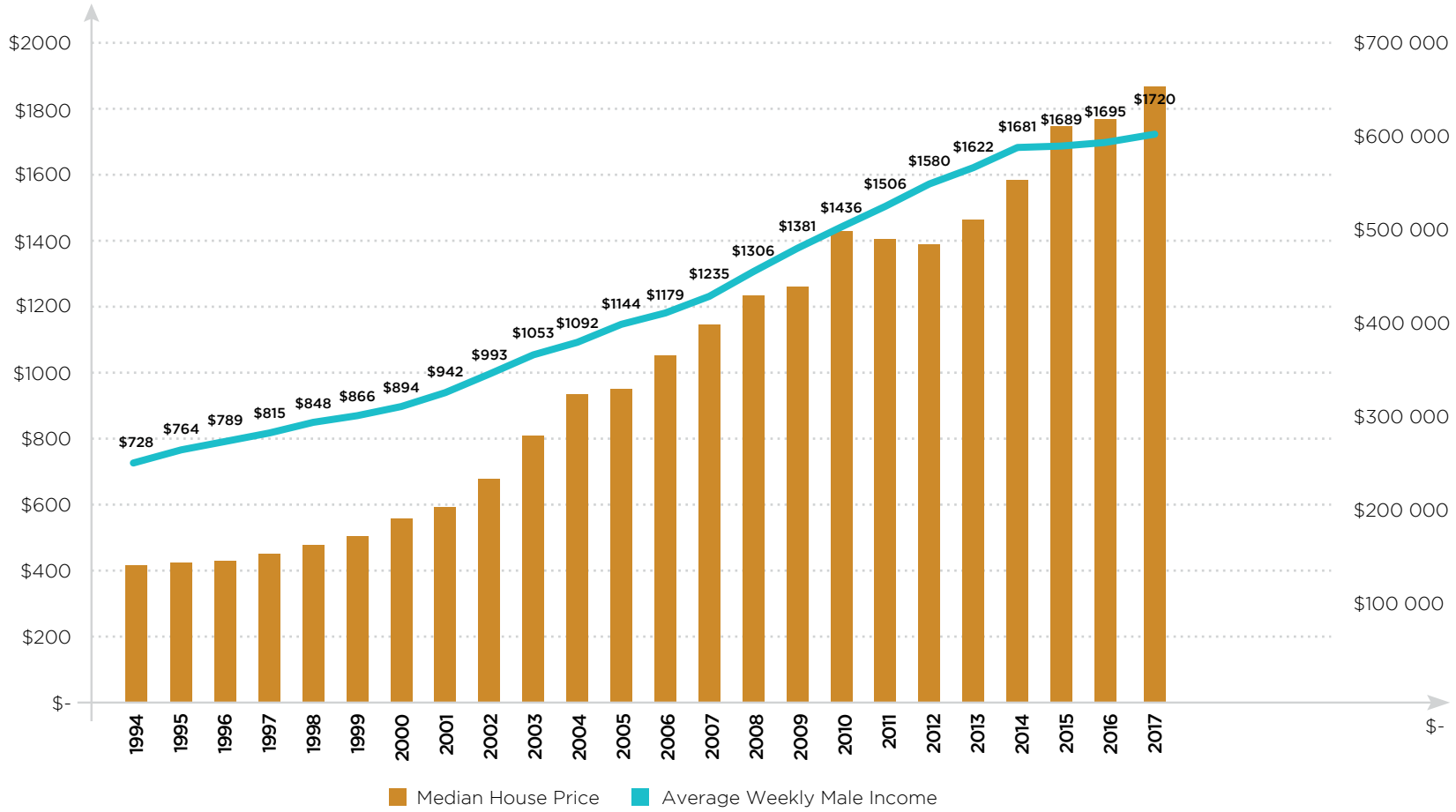
MALE INCOME VS MEDIAN PROPERTY PRICES

Despite the changing variables in the market place, the outperformance of price versus income is unsustainable long term. We see this as slightly negative for the property market.



Across Australia between 1994-2017, (according to the ABS) the median house price rose from $144,963 to $652,175. This represents a 349% increase in prices. During the same period, individual income for Australian males rose from $727 to $1,720, which represents an increase of 136%. The outperformance in house prices has been permitted to continue due to the rise of dual income households, increased foreign investment, and the falling cost of debt. In addition, the Capital Gains Tax 50% discount introduced by the Howard Government in 1999 has also made residential property as an investment class more desirable.

SLIGHTLY NEGATIVE

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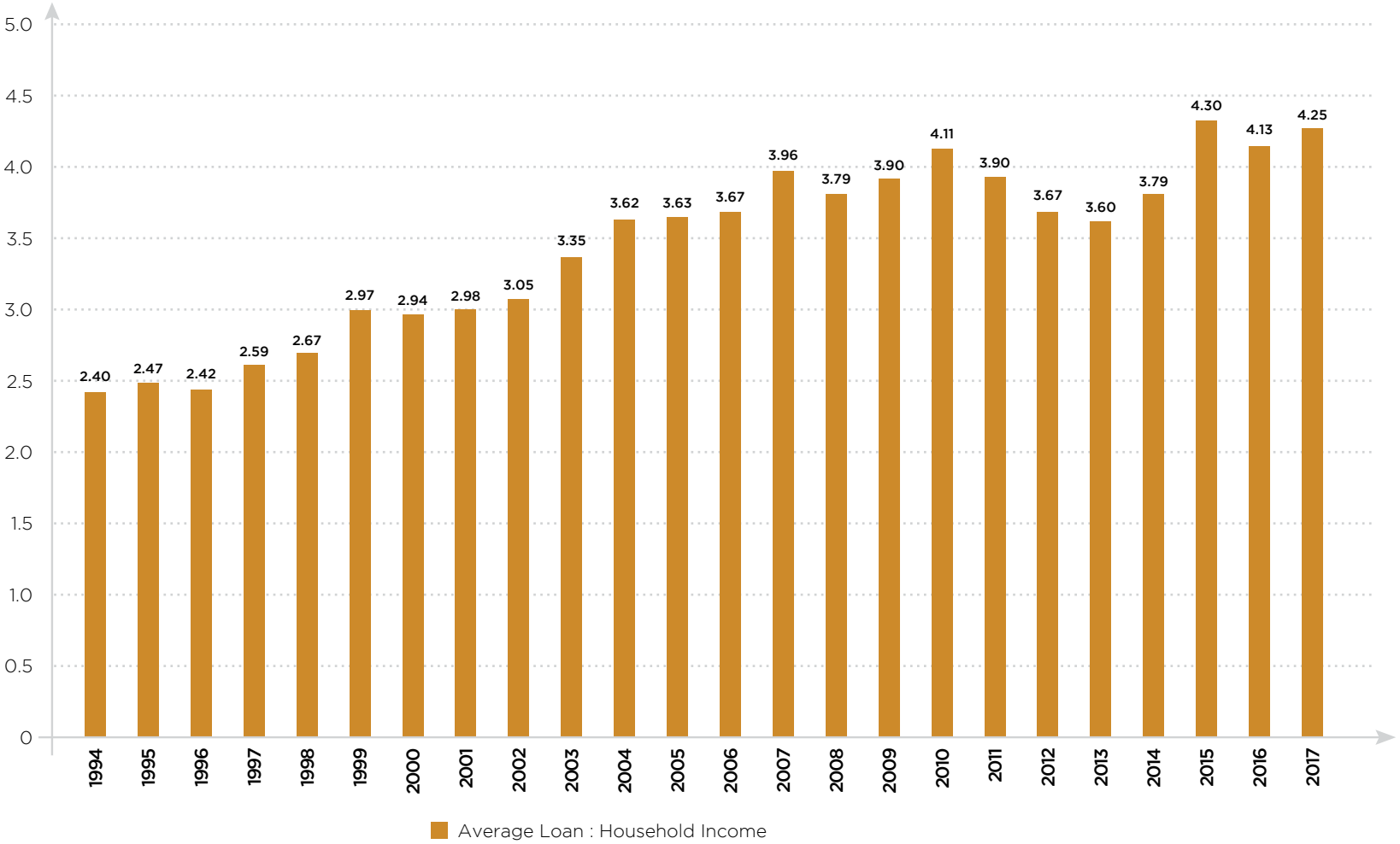
MORTGAGE VS INCOME

Should this continue on its current trend and move closer to five, this could cause some vulnerability in the property market.



This graph shows the amount of debt we are taking on relative to the average male income. As we can see this has been progressively rising. This is also a reflection of the falling interest rate, increase in foreign investment and the rise in dual income households. At the moment the average mortgage is 4.25 times the average individual male wage and this is the second highest it has ever been. This is a slightly negative indicator.

SLIGHTLY NEGATIVE

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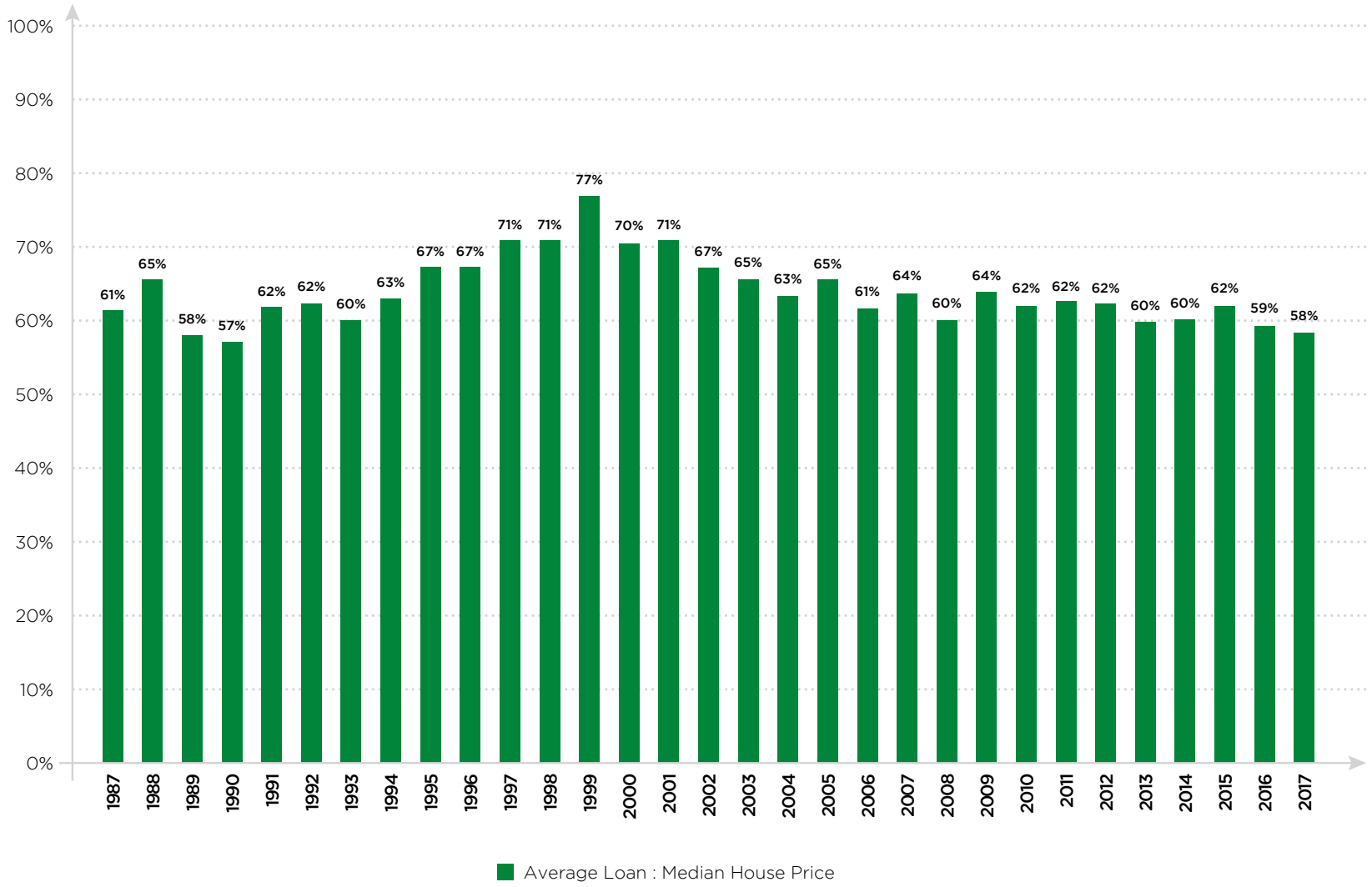
LONG TERM LOAN TO VALUE RATIO

This graph shows the loan to value ratio (LVR) expressed as a percentage over the past 30 years. There is a clear downward trend with the current LVR at 58%, this is positive for the health of the market.



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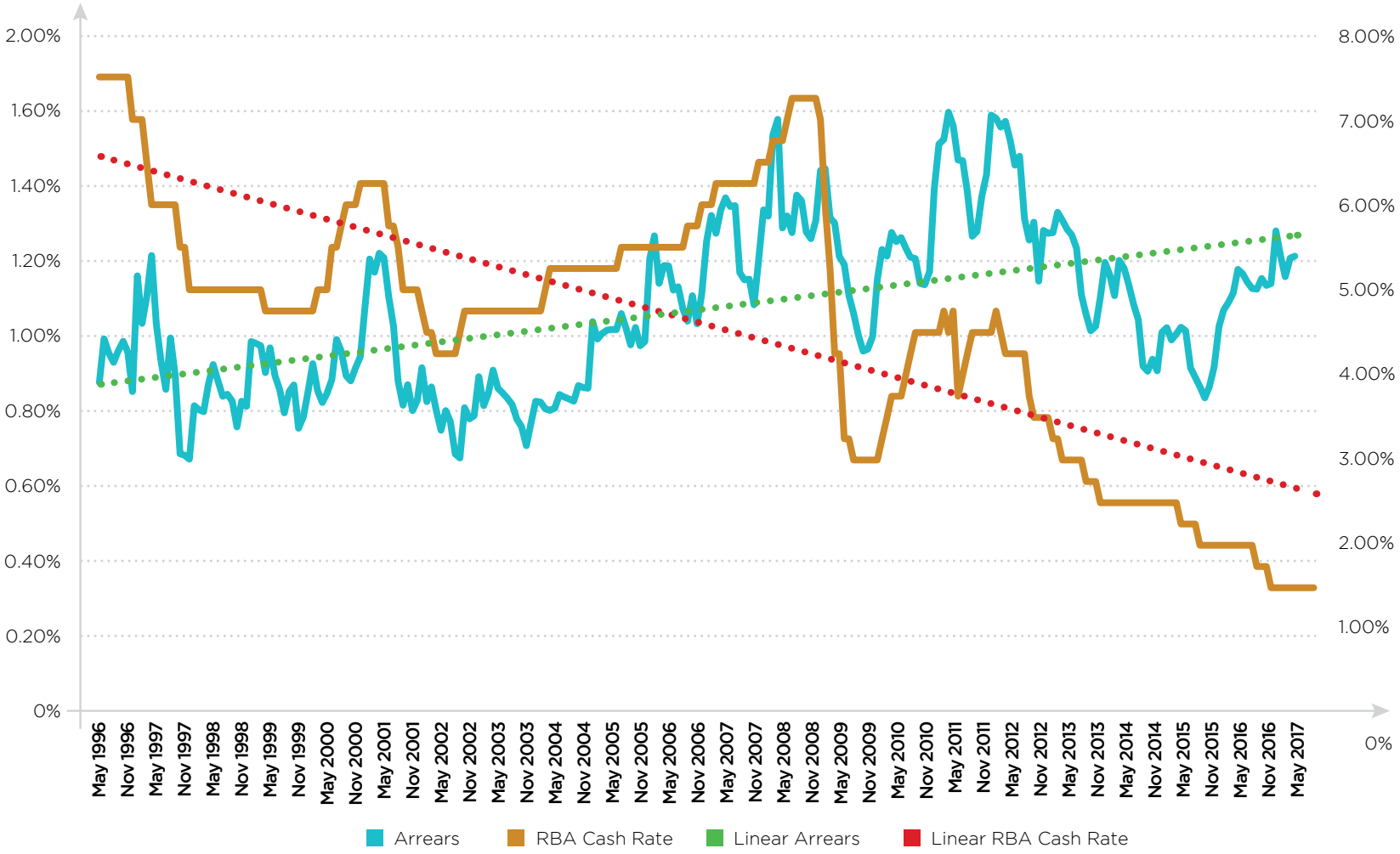
NATIONAL MORTGAGE ARREARS

This graph shows the relationship between the RBA cash rate and National Mortgage Arrears since 1996. This data is supplied by Standard and Poor's global ratings and show the percentage of Australian mortgages that are past 30 days due. There is an upward trend for both the long and short term for mortgage arreas. The recent upward trend in mortgage arreas is a clear deviation from the cash rate and this is negative for the market. However, as we are not at all time highs we see this as slightly negative for the markets.



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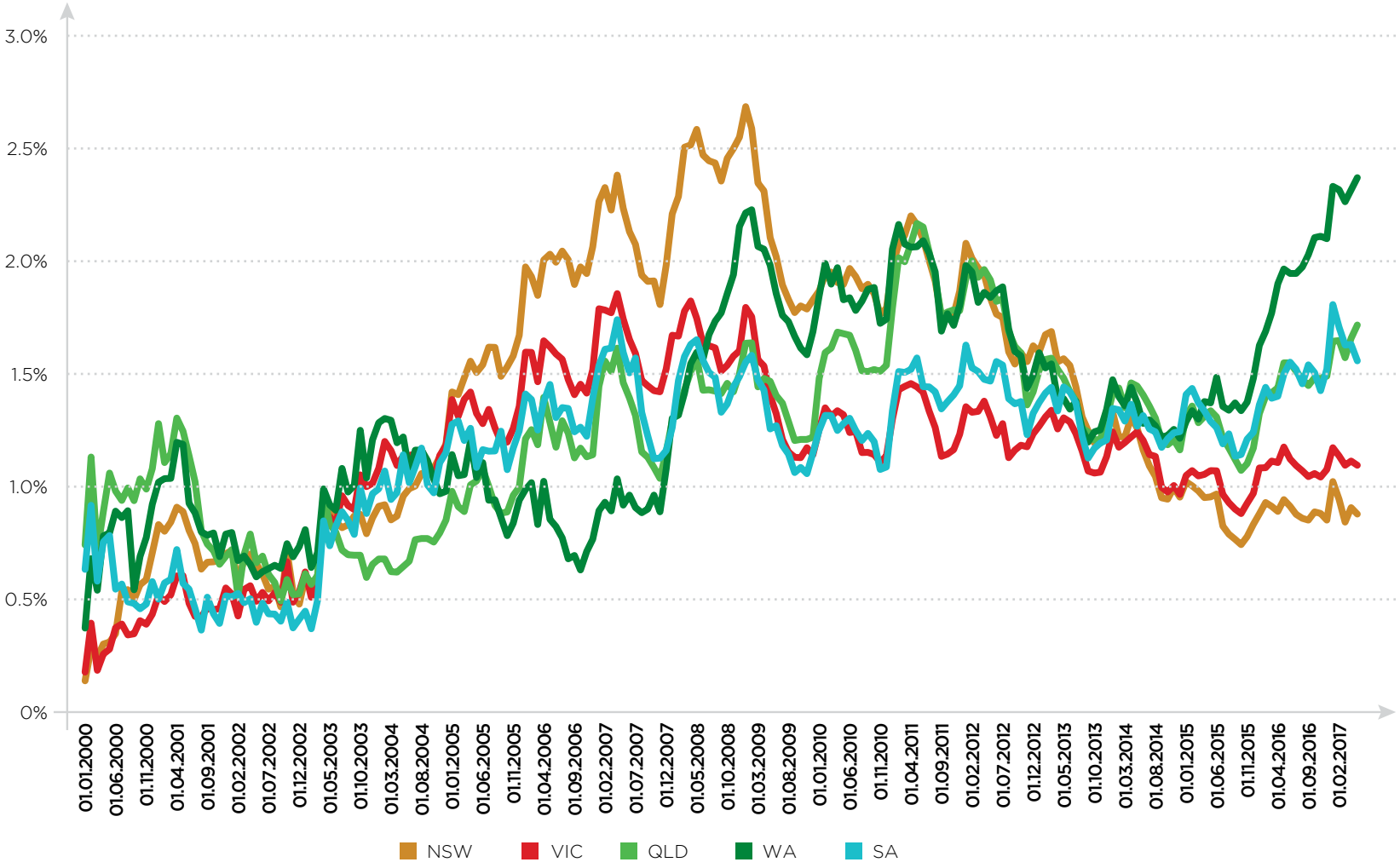
STATE MORTGAGE ARREARS

This graph shows the percentage of mortgages that are 30+ days in arrear for the five major states from 2000 to May 2017 and is supplied by Standard and Poor's global ratings. Western Australia has the highest percentage of arrears and is well above the national level of 1.21%, followed by Queensland at 1.72%, both states are experiencing an upward trend. Conversley, NSW and Victoria are below national levels and have not experienced the same upward trend brought about by the end of the mining boom in WA and QLD.



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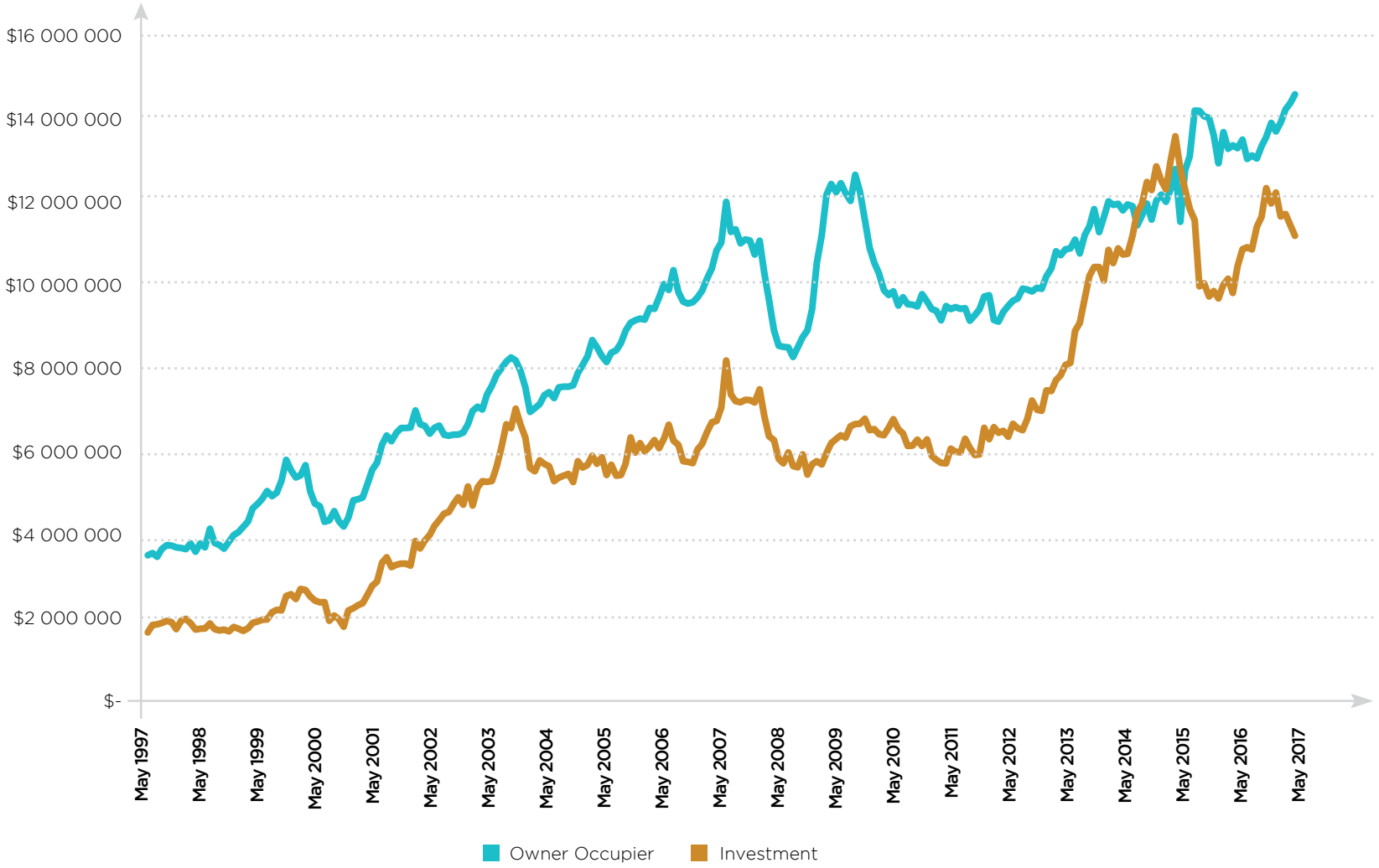
INVESTOR VS HOMEBUYER

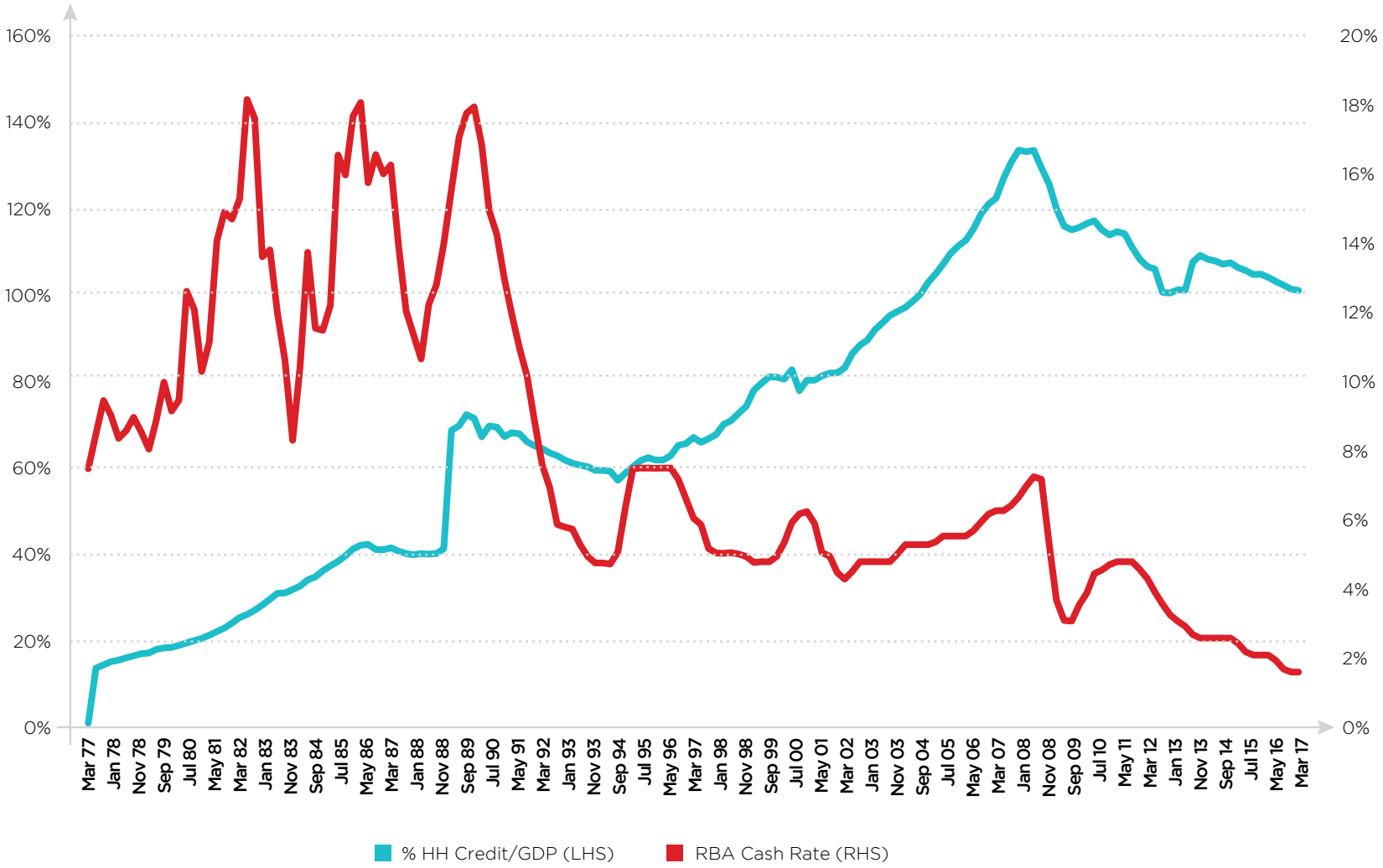
This graph shows the relationship between homebuyer and investor activity. Currently, on average investors make up 43% of the market place and homebuyers 57%. Normal activity would see investor activity at 37.5% and Homebuyer Activity at 62.5%. Whilst investor activity has been decreasing in recent times due to the APRA intervention higher than normal investor activity is a clear negative for the markets.



SLIGHTLY NEGATIVE

HOUSEHOLD DEBT VS RBA CASH RATE

This graph demonstrates the relationship between the RBA cash rate and total household credit as a percentage of national GDP. Due to the high level of household debt and the limited ability for the RBA to stimulate the economy this can only be seen as a negative for the market.



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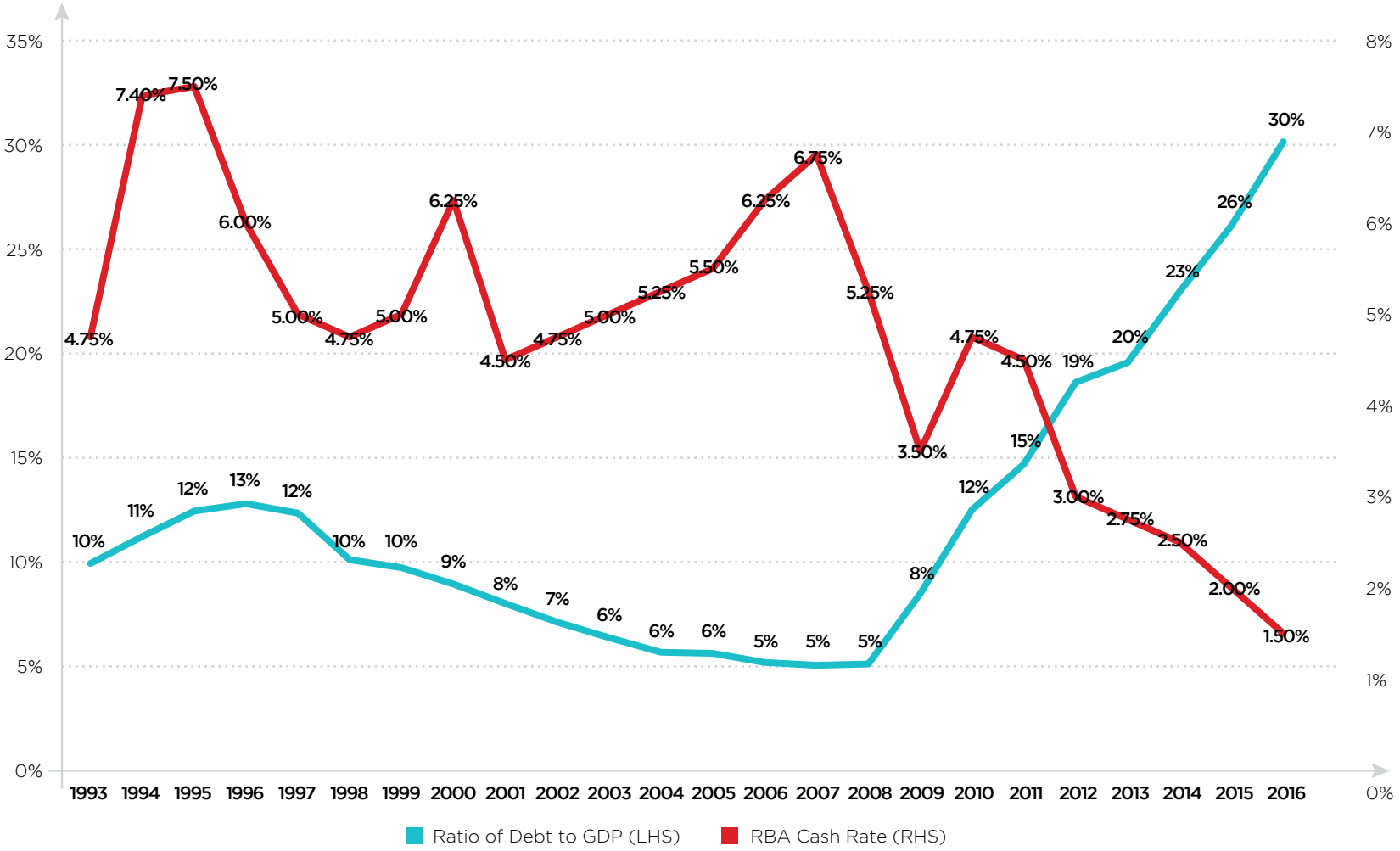
GOVERNMENT DEBT VS RBA CASH RATE

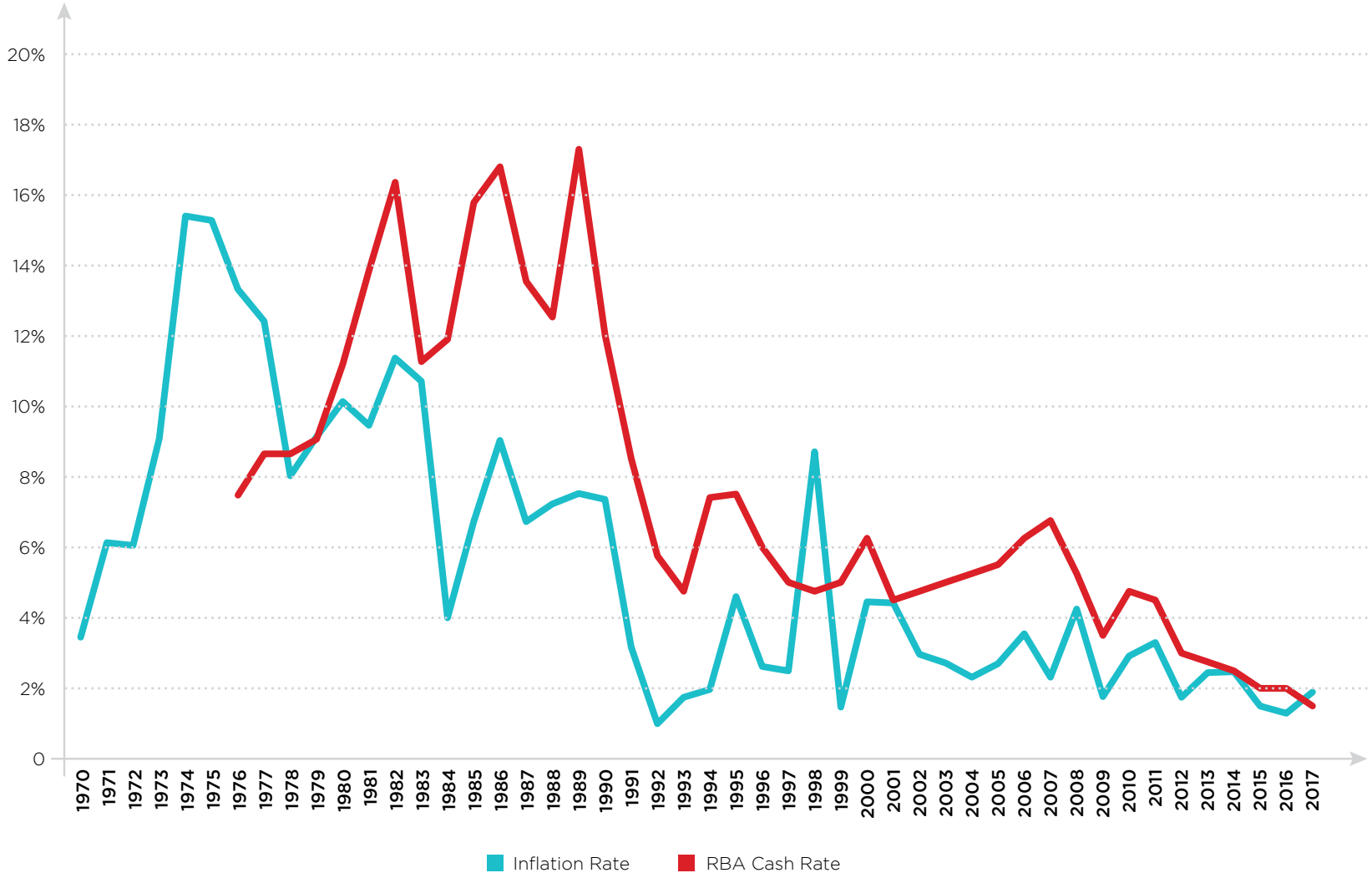
This graph shows the relationship between Government debt expressed as a relationship to GDP versus the RBA cash rate. Due to the high amount of government debt and its aggressive upward trend and the RBA's limited capacity to stimulate the market this can only be seen as negative for the overall economy.



NEGATIVE

INFLATION

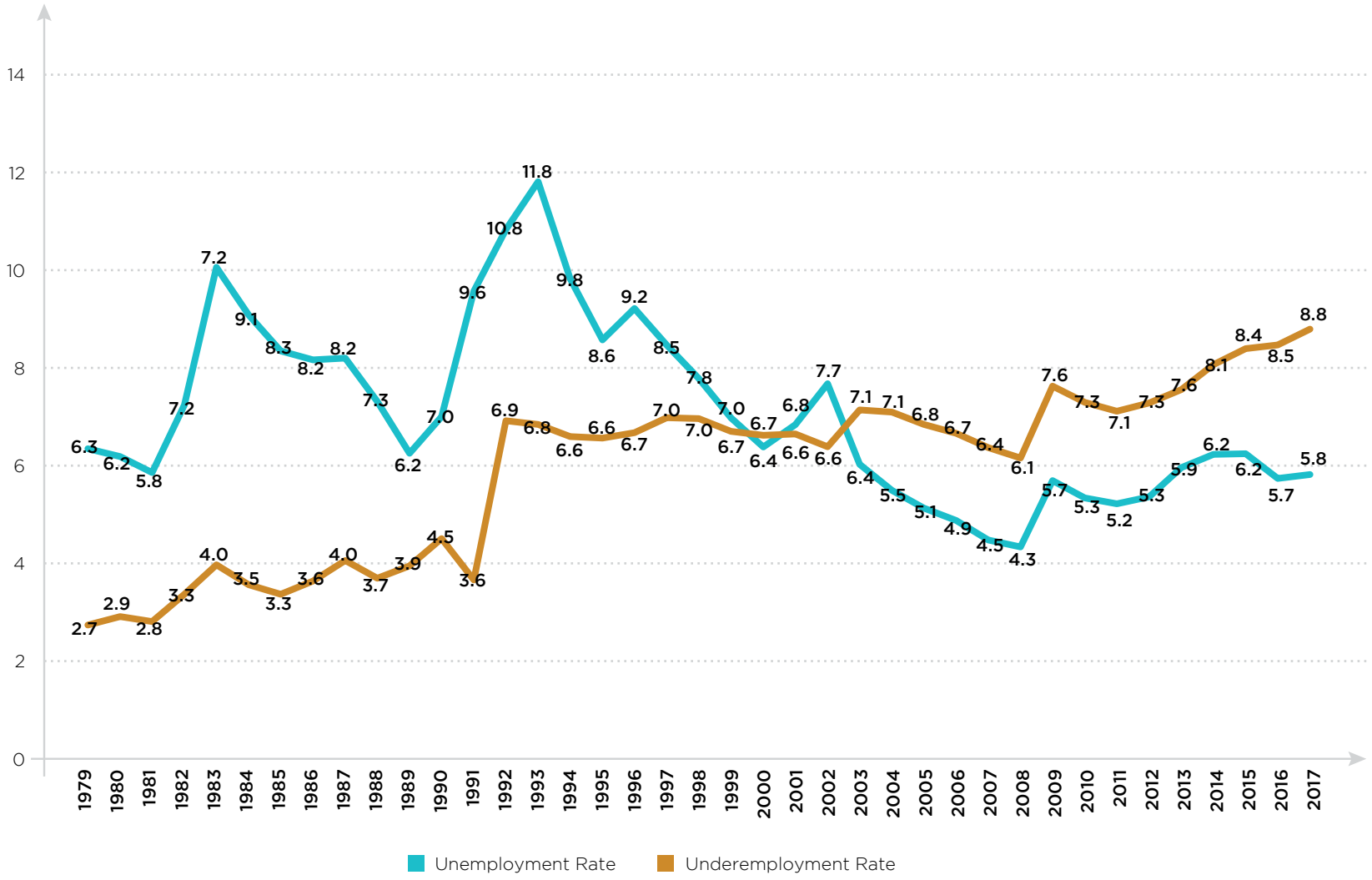
This graph shows the historical relationship between the RBA cash rate and inflation. There is a very high correlation between these two metrics and with the cash rate forecasted to be low for some time one could expect inflation and house price growth to be low. This is a clear negative for the market.



NEGATIVE

UNEMPLOYMENT

This graph shows the relationship between unemployment and underemployment. Unemployment is relative healthy sitting at 5.8% nationally. However, underemployment is concerning with an upward trend sitting at 8.8%. This is slightly negative for the market.



SLIGHTLY NEGATIVE

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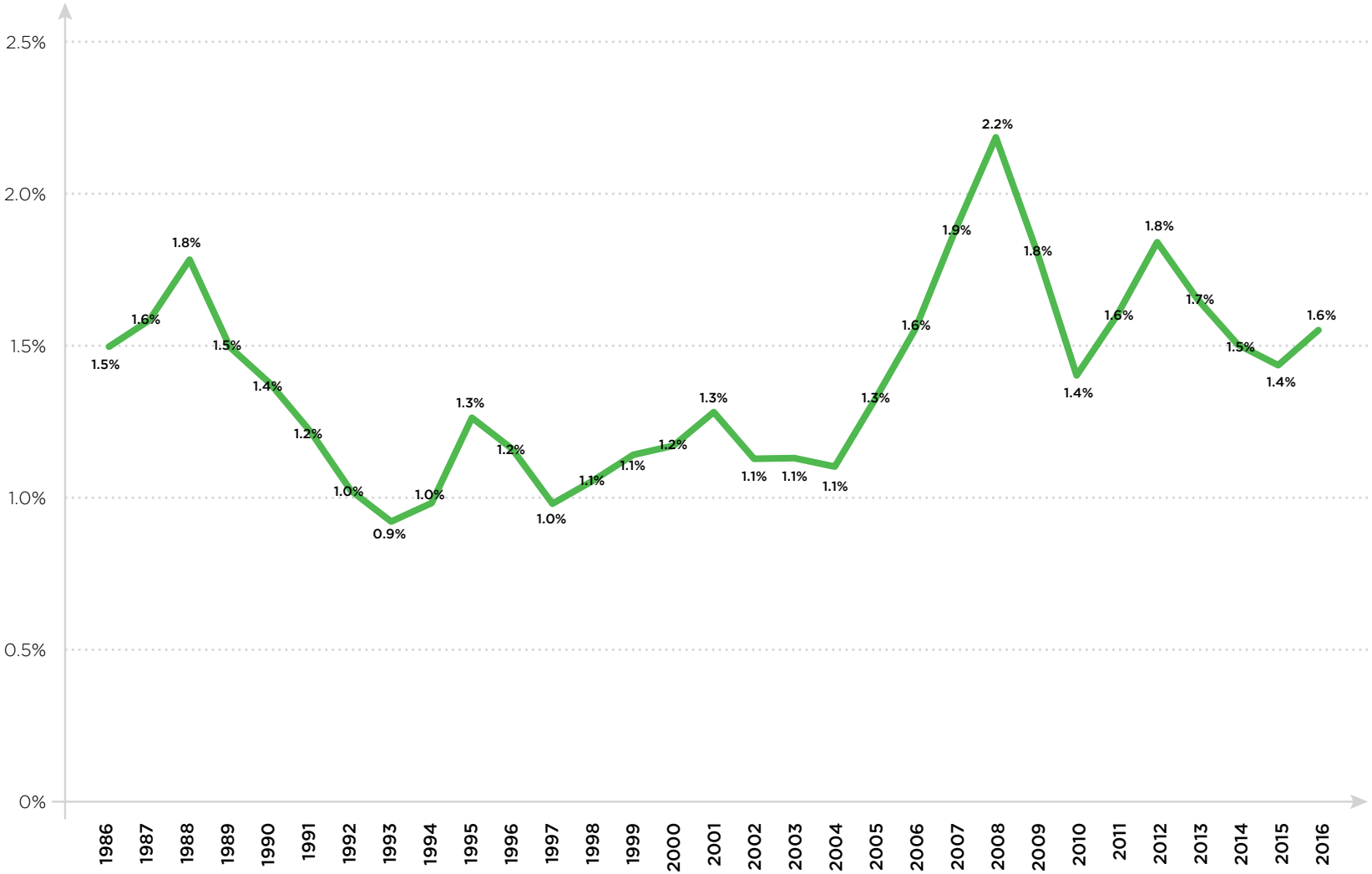
POPULATION GROWTH

This graph shows the change in the population growth rate since 1986. Current growth is at 1.6% and this is a positive indicator for the market moving forward.



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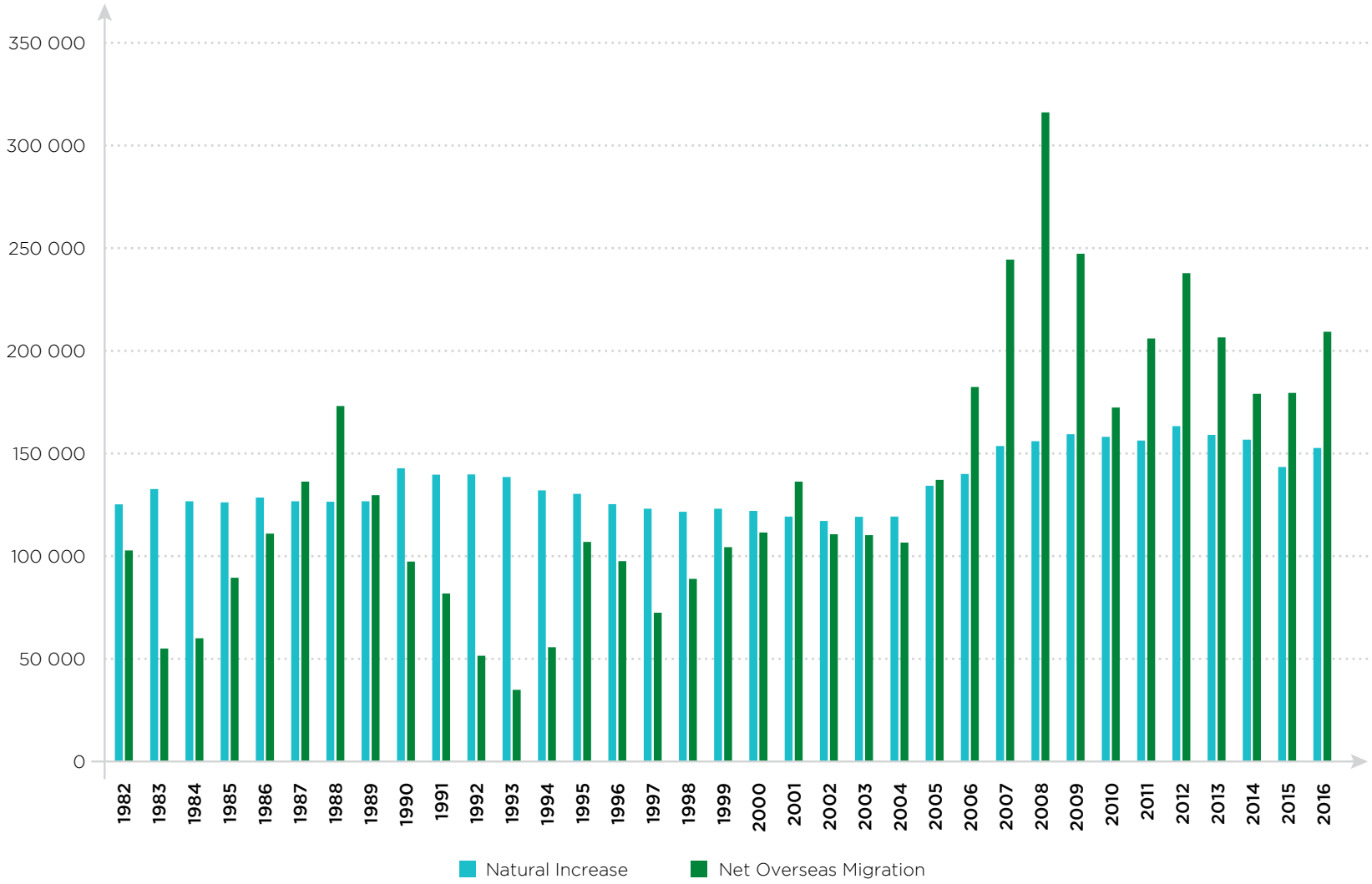
POPULATION BREAKDOWN

This graph shows the breakdown of population increases between net overseas migration (NOM) and natural increases. NOM is the dominant form of pop growth and this is very positive for the market.



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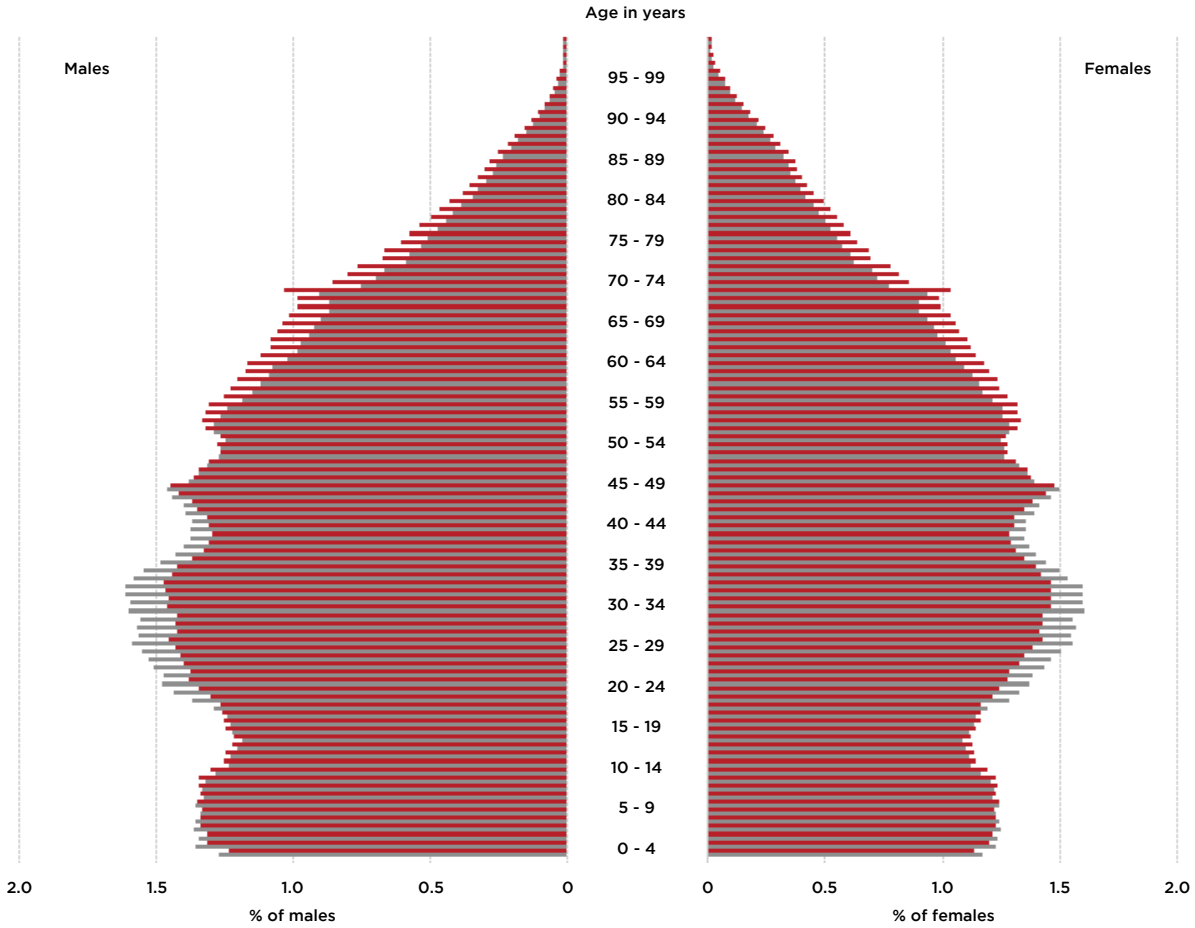
POPULATION PYRAMID

This is the Australian Population Pyramid from Profile ID. The dominant consumer base are ages between 40 and 50. Ideally, there would be a growing dominant consumer base with the 25 to 39 year old brackets larger than the 40 to 49 year old brackets. This graph demonstrates that the current dominant consumer base is being replaced by similar sized groups and as such we see this as fairly neutral.

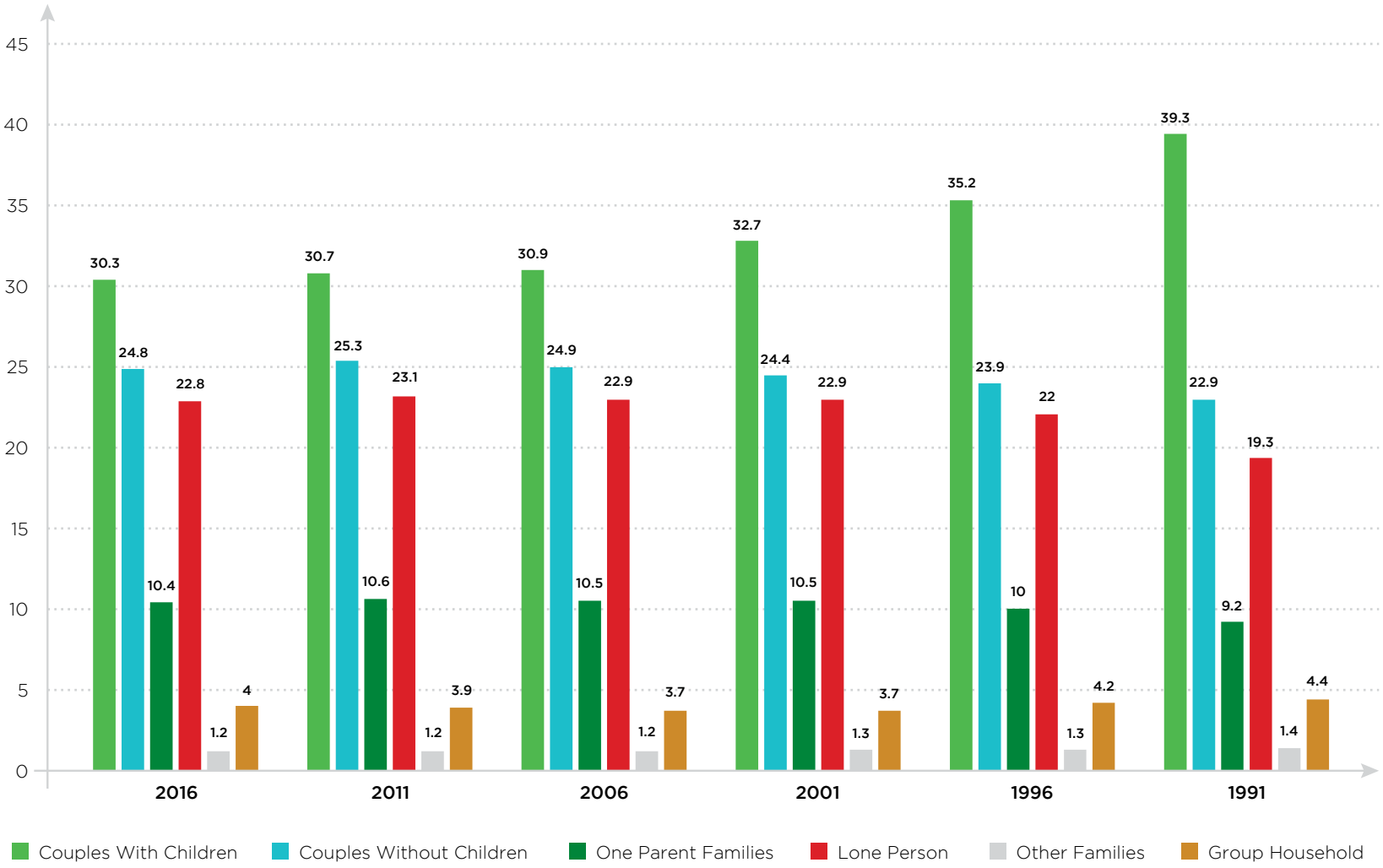


Source: Australian Bureau of Statistics, Census of Population and Housing, 2016 (Usual residence data)
Compiled and presented in profile.id by .id, the population experts.

NEUTRAL

HOUSEHOLD TYPE

This graph demonstrates the downward trend of larger households and the upward trend of couples without children and one parent families from 1991 to 2016. An aging population and increasing divorce rate will continue to influence these changes in household types in the future. This is a slightly positive demand indicator for the market.



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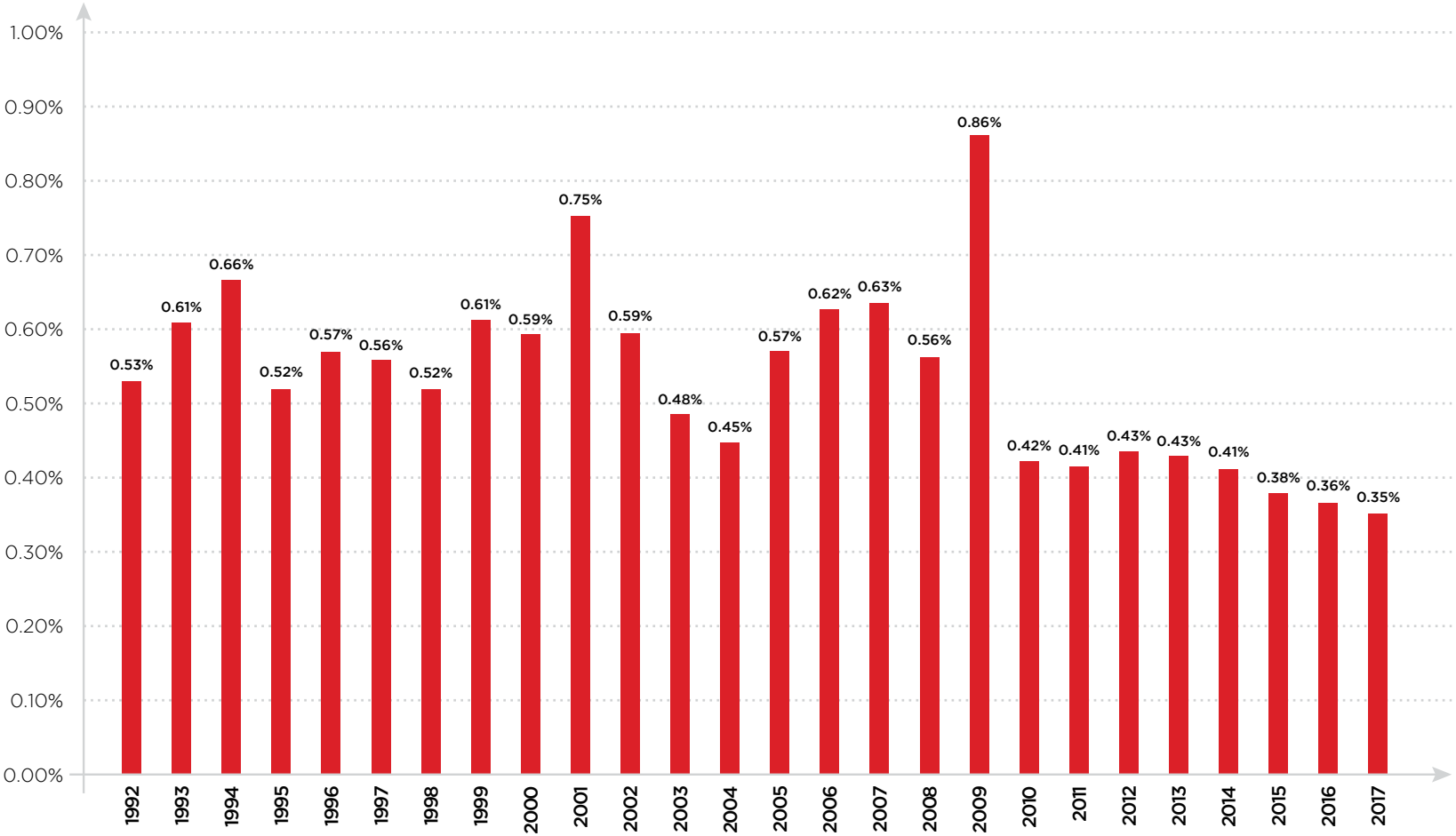
NATIONAL FHB AS % OF THE POPULATION

As can be seen in the graph there are two notable spikes in the percentage of first home buyers in the market. The first occurred in 2000/2001 which coincides with the introduction of the first home buyer grant and the second coincides with the doubling of the first home buyer grant in 2008/2009.



This graph shows the level of first homebuyer activity across Australia expressed as a percentage of the population.
As you can see there is a clear downward trend of homebuyers being active in the market despite the fact that interest rates are at record lows. This is clearly a troubling sign for the market.

NEGATIVE

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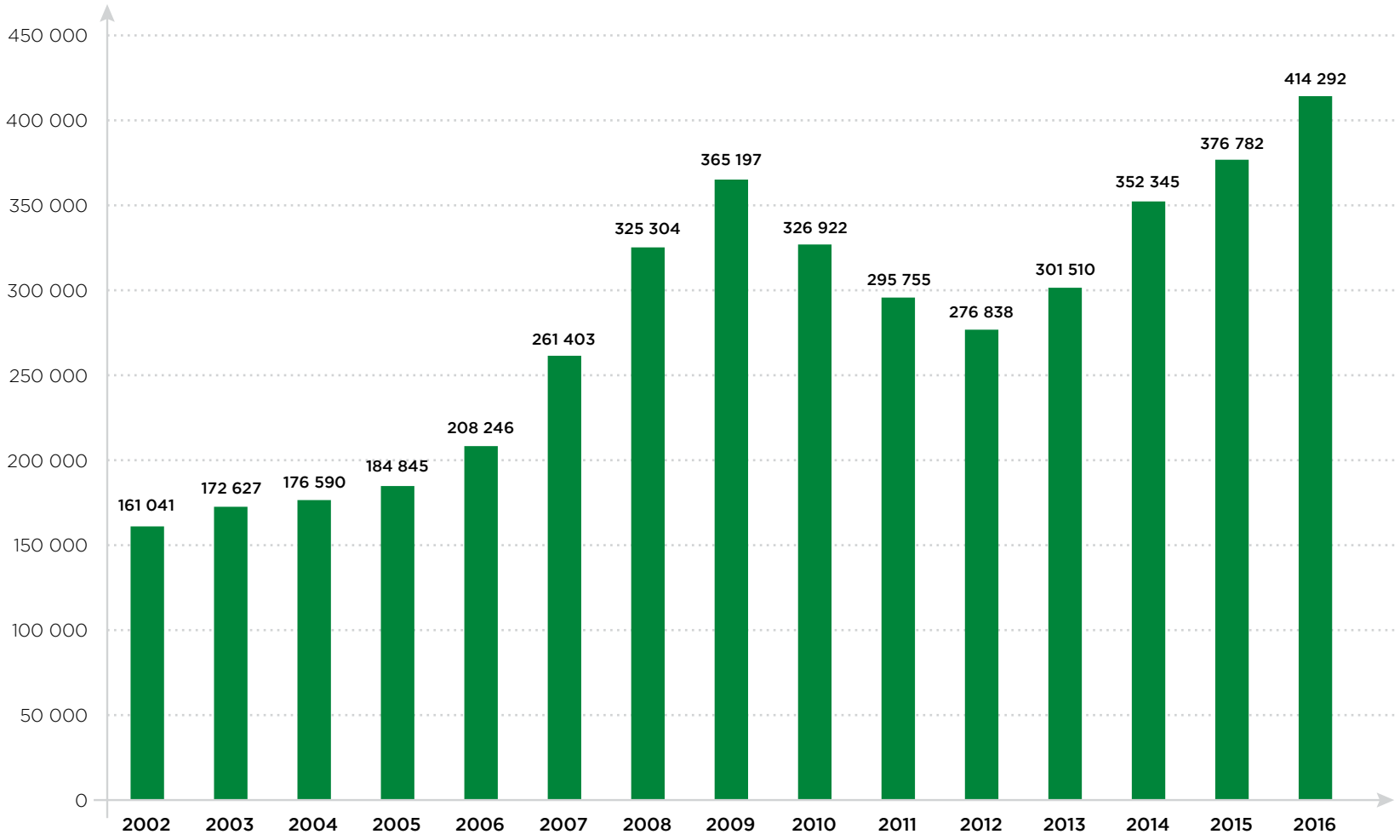
INTERNATIONAL STUDENT COMMENCEMENTS

The above graph shows all International student commencements over the past 14 years. The figure comprises of high school, English language, vocational and higher education students. This is an important graph as it can be a lead indicator of Net Overseas Migration & Foreign Investment. The number of International students is currently sitting at 414,292 which is an upward trend from 2012 and this is a clear positive for the property market.



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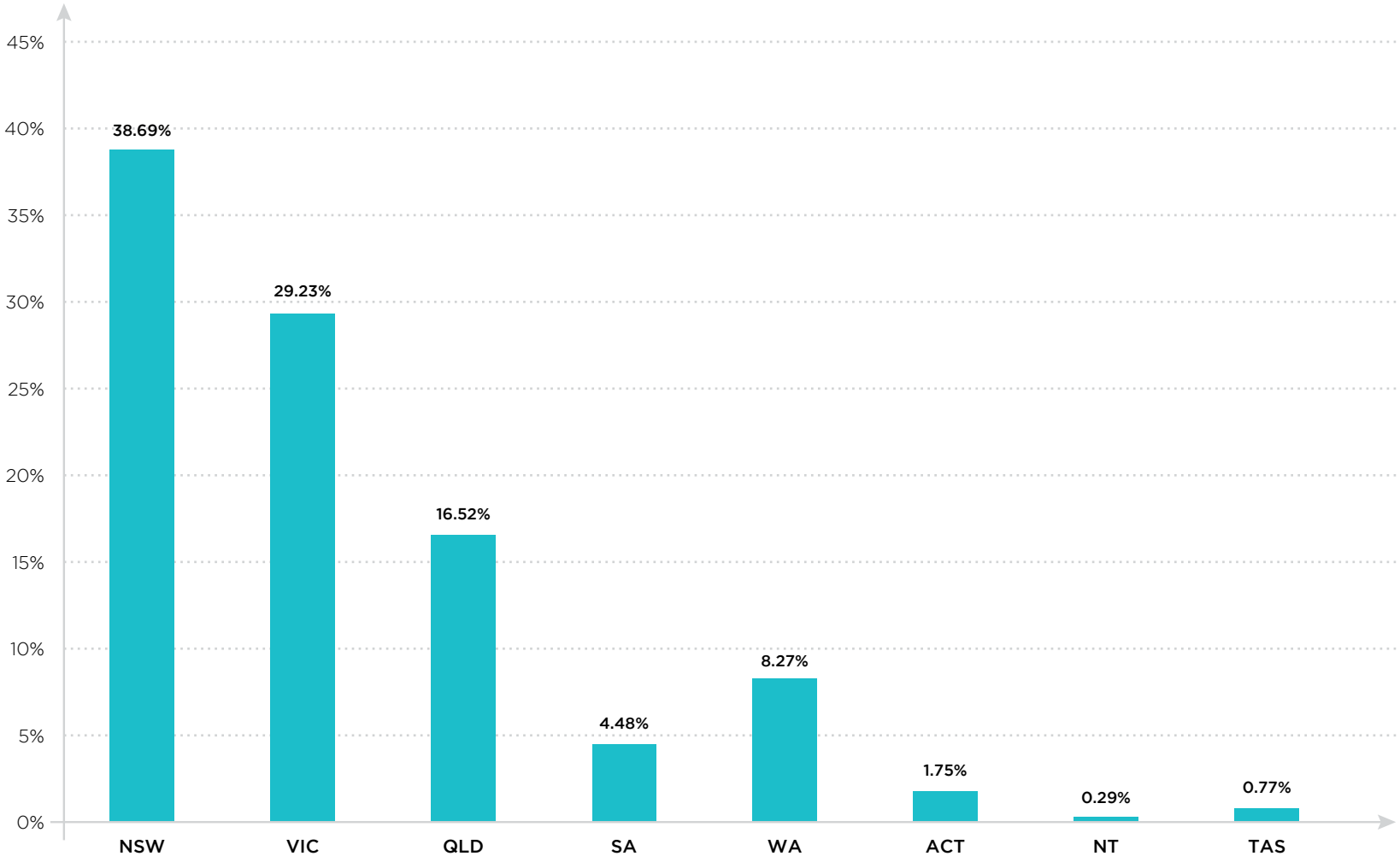
INTERNATIONAL STUDENT COMMENCEMENTS PER STATE

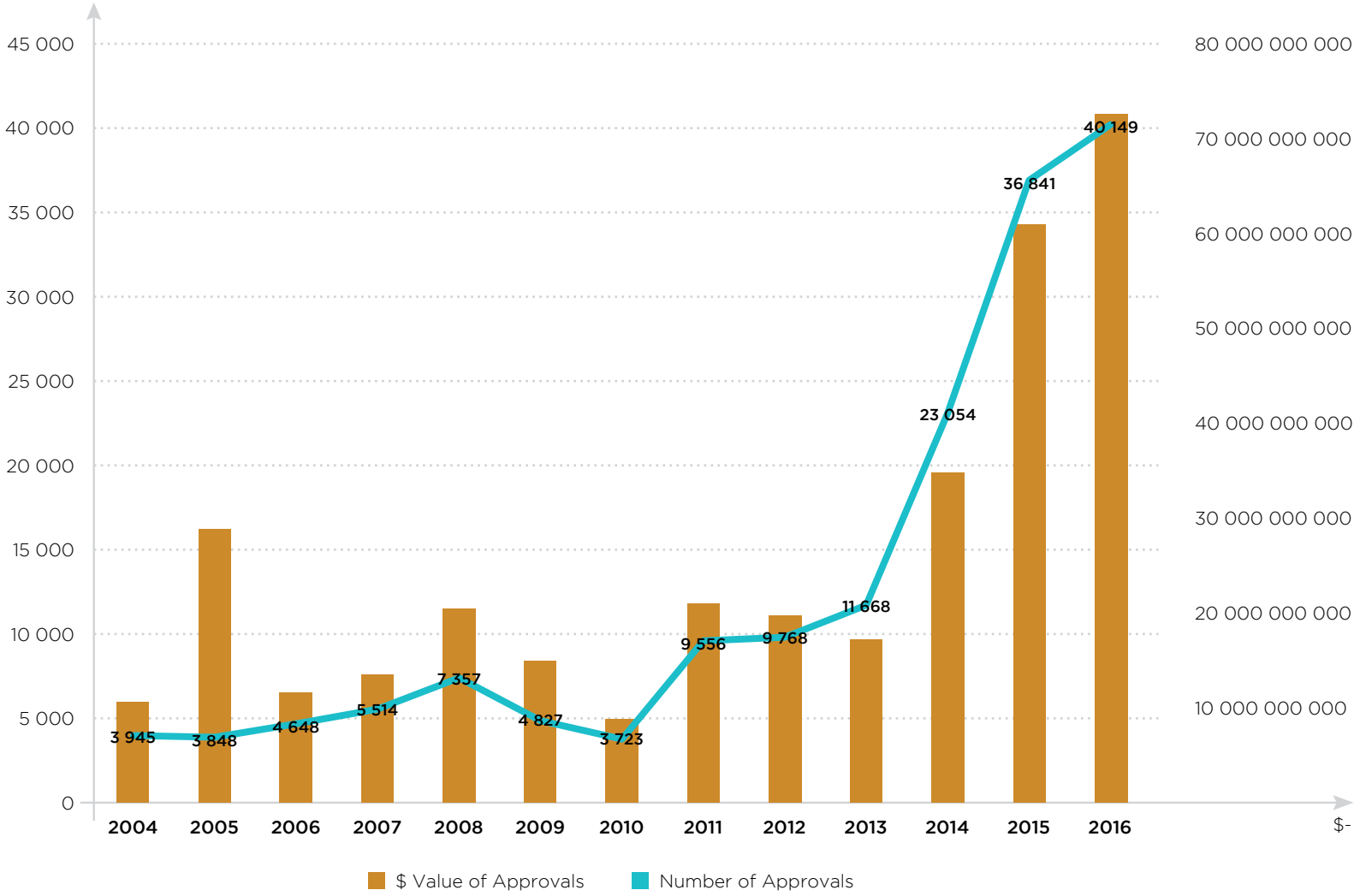
This graph shows the breakdown of international student commencements per state. This is neither positive or negative for the national property market.



NEUTRAL

FOREIGN INVESTMENT APPROVALS

This graph shows foreign investment approvals in both dollar amounts and the number of applications. In an ideal world foreign investment would increase year on year at a moderate rate. As we can see though, over the past 4 years investment has increased dramatically and the large swings in volume can be seen as a negative for the stability of the market.



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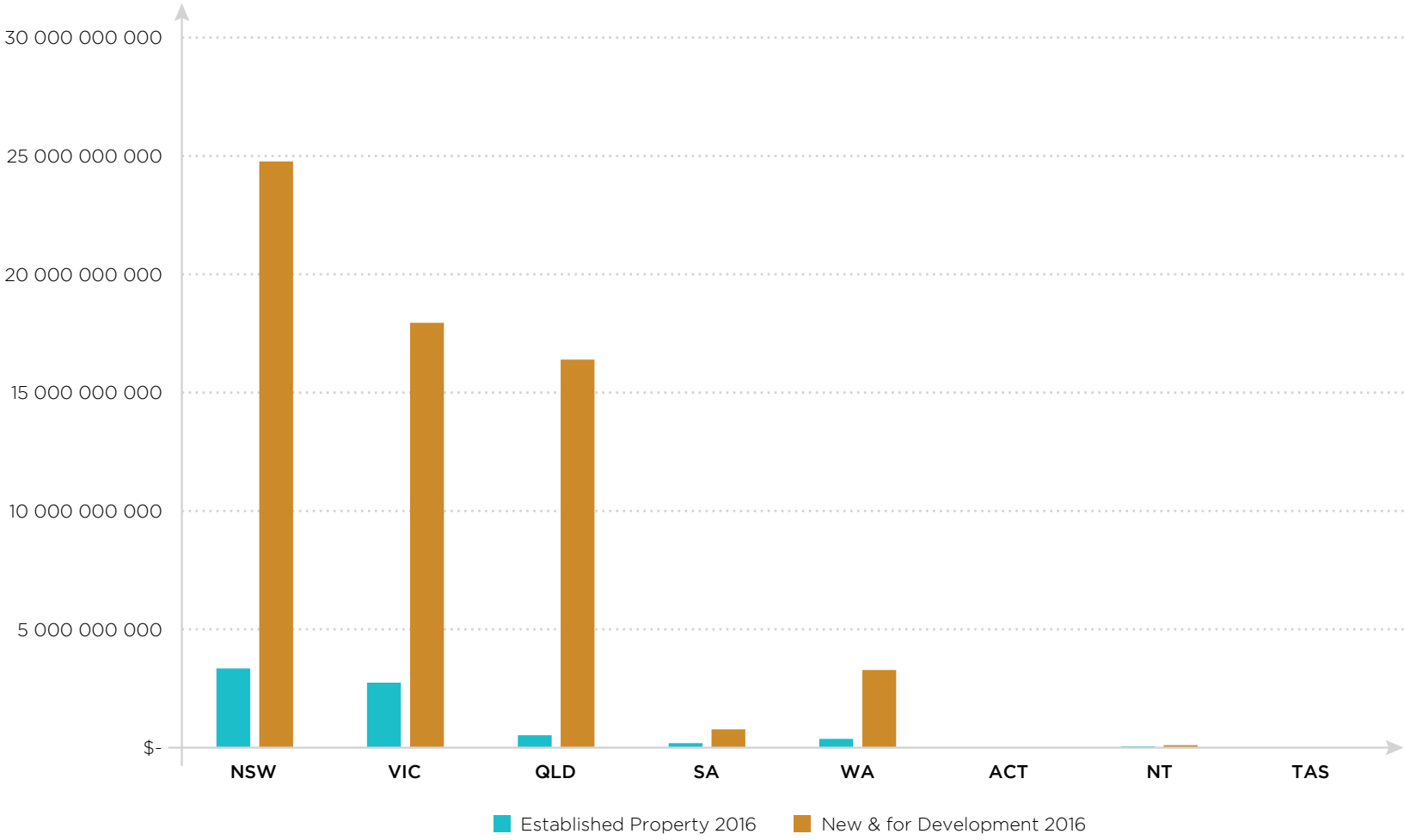
FOREIGN INVESTMENT APPROVALS BY STATE AND TYPE

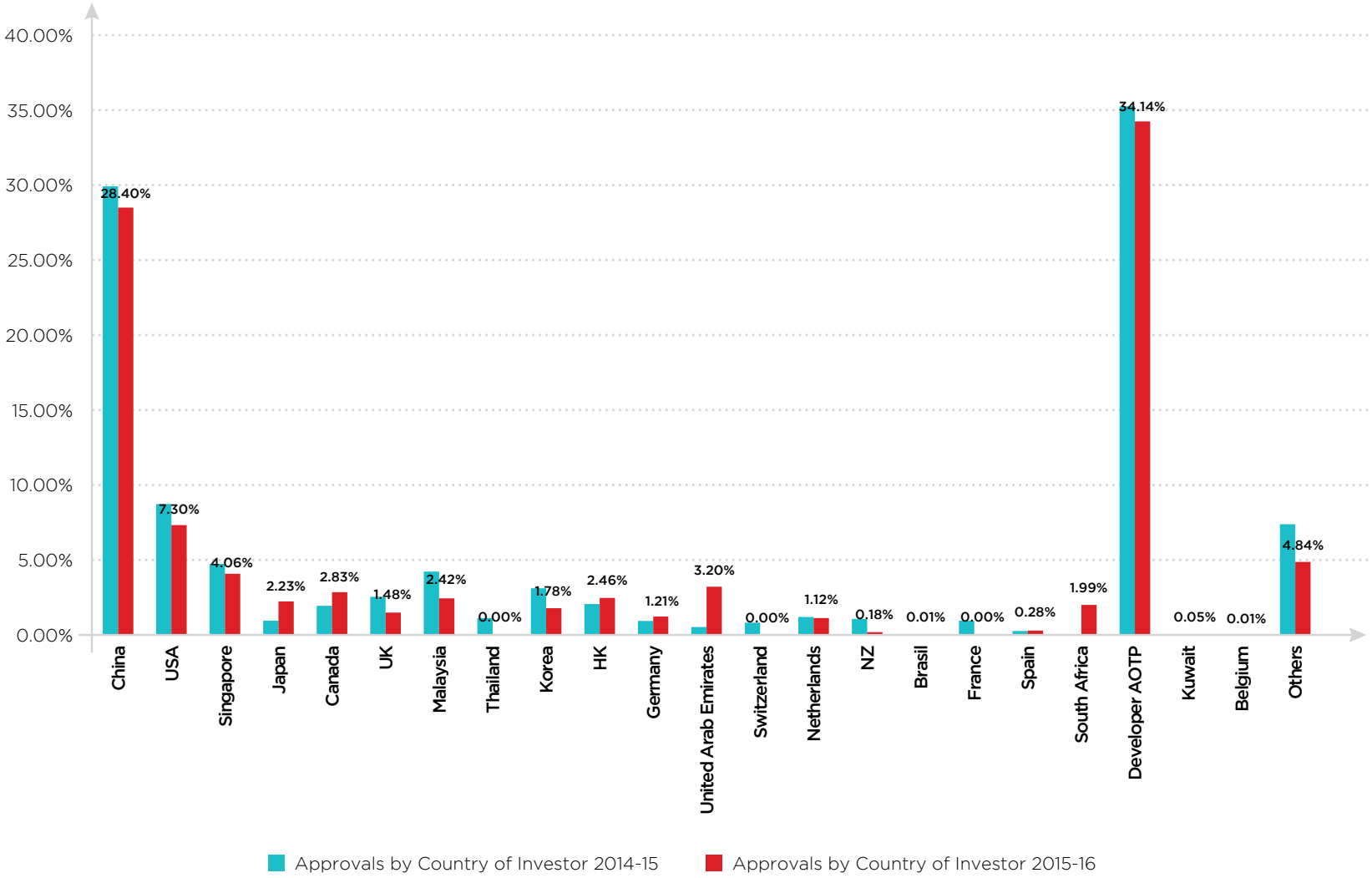
This graph shows where foreign investment is being spent across the country and the breakdown between property types. As can be seen, 80% of residential investment is happening in Victoria and New South Wales with the bulk of investment going into new developments. Whilst this creates building activity which is positive for the market, we are starting to see signs of an over supply of apartments in Brisbane and Melbourne, and the possibility of an oversupply of apartments in Sydney.



SLIGHTLY NEGATIVE

FOREIGN INVESTMENT APPROVALS BY NATION

This graph shows the countries that foreign investment approvals originate from. As we can clearly see, a large proportion originates from the one nation. This is a clear negative for the market.



NEGATIVE

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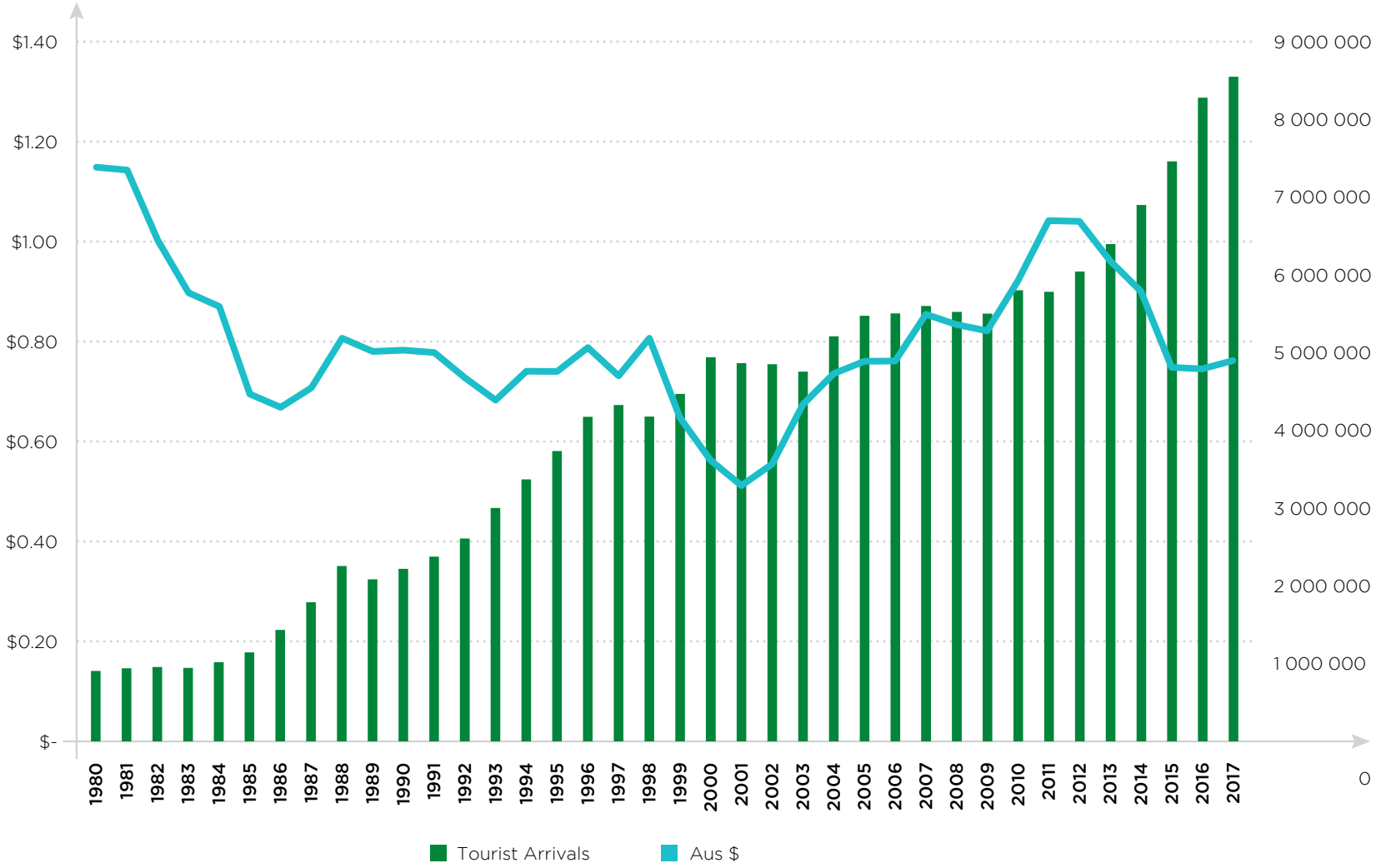
SHORT TERM ARRIVALS VS AUS $

As evident by this graph, short term arrivals into Australia have been on an upward trend since 2011. This has been in line with the decline of the Aus dollar against the US dollar. This increase is a positive demand indicator for the market.



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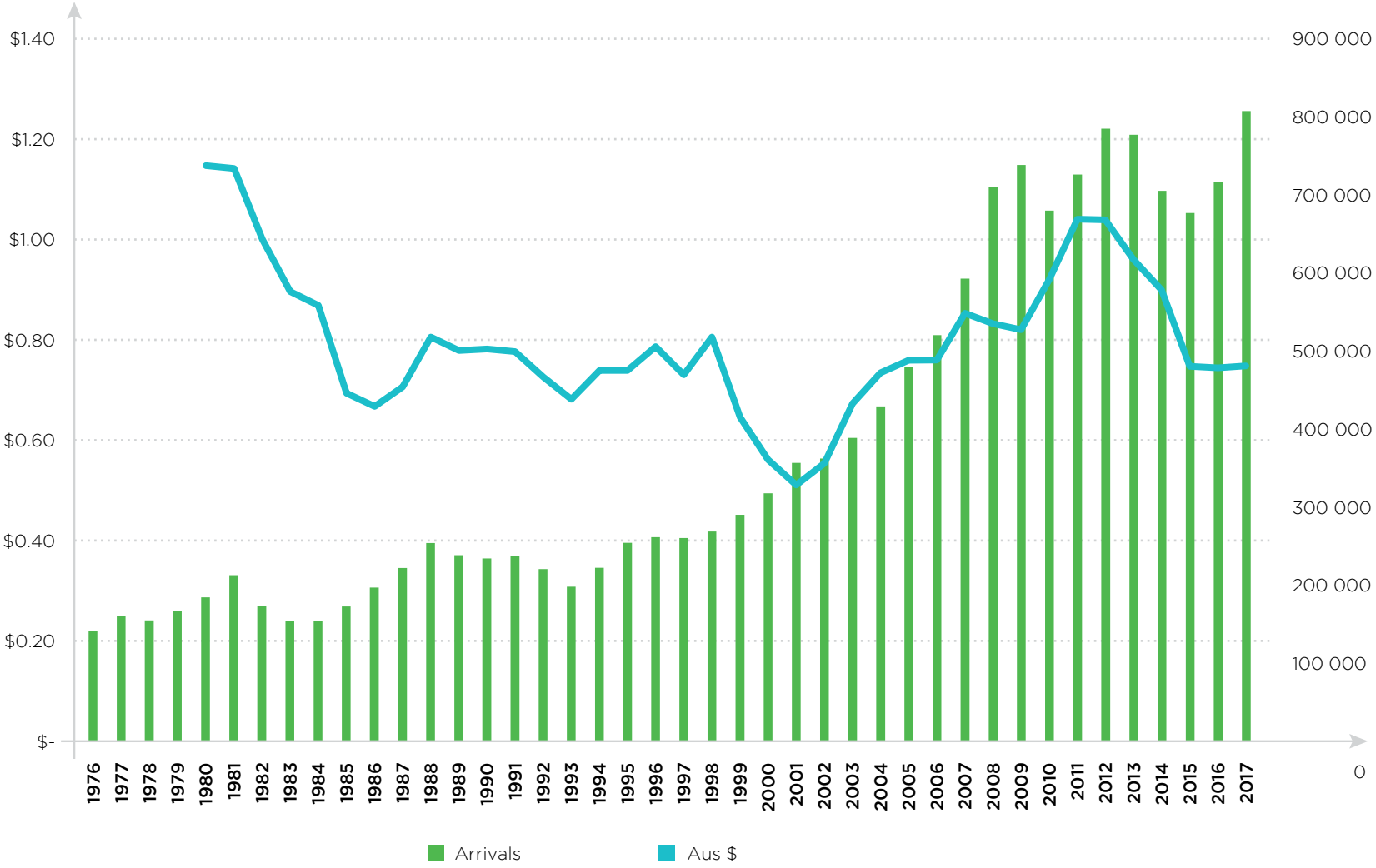
LONG TERM ARRIVALS VS AUS $

The forecasted number of long term and permanent arrivals into Australia for 2017 sees a 12% increase from 2016. On average since 1996 the annual increase has been 5.29%. This increase is a positive demand indicator for the market.



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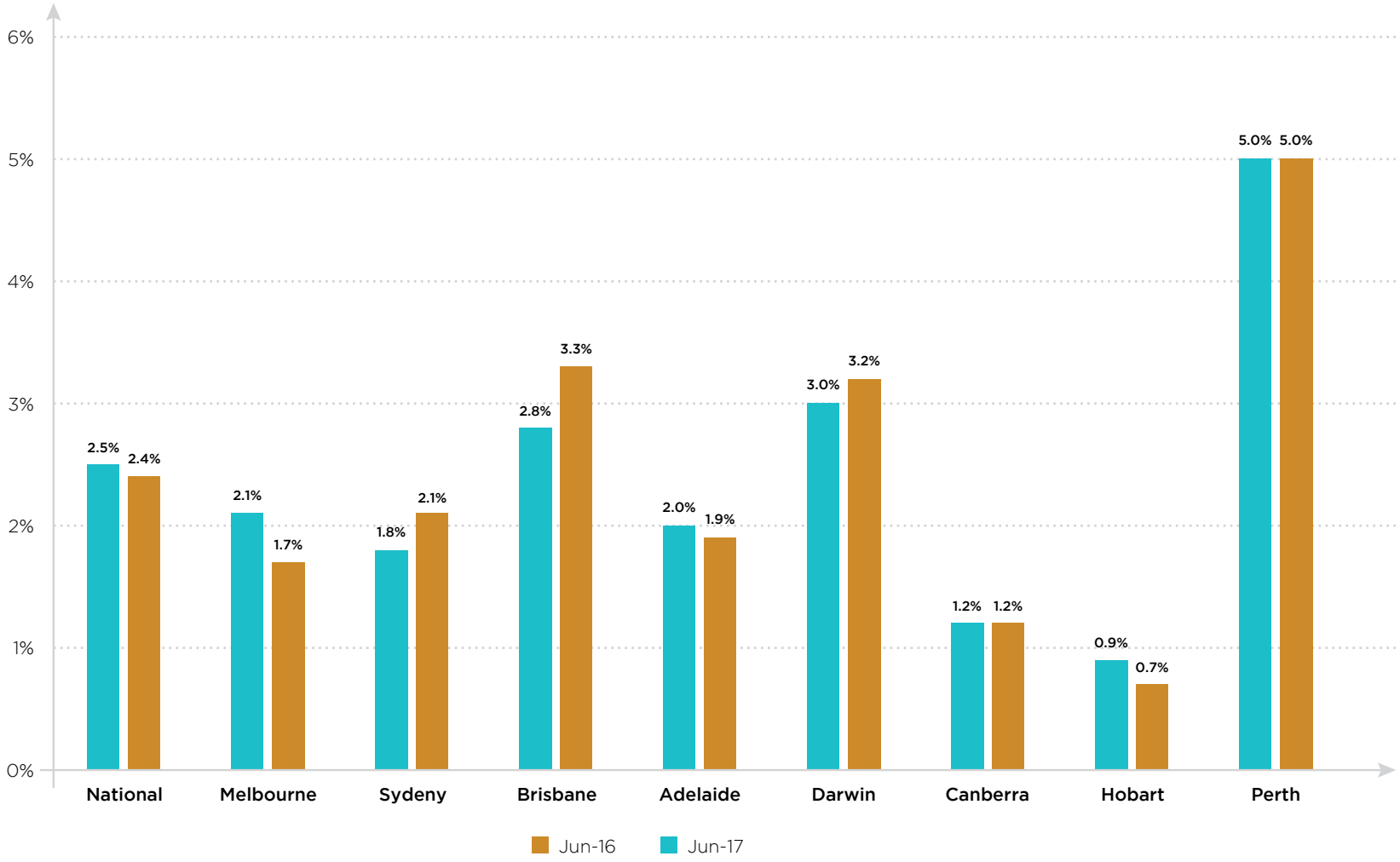
VACANCY RATES

This graph shows the breakdown between the national market and the capital cities (according to SQM Research). The national vacancy rate at 2.5% is relative healthy. There are some concerns in Perth, Darwin and Brisbane.



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DWELLING APPROVALS

This graph shows dwelling approvals at a national level. The recent downward trend is arguably a positive for the market and as supply tightens it should put upward pressure on rents.

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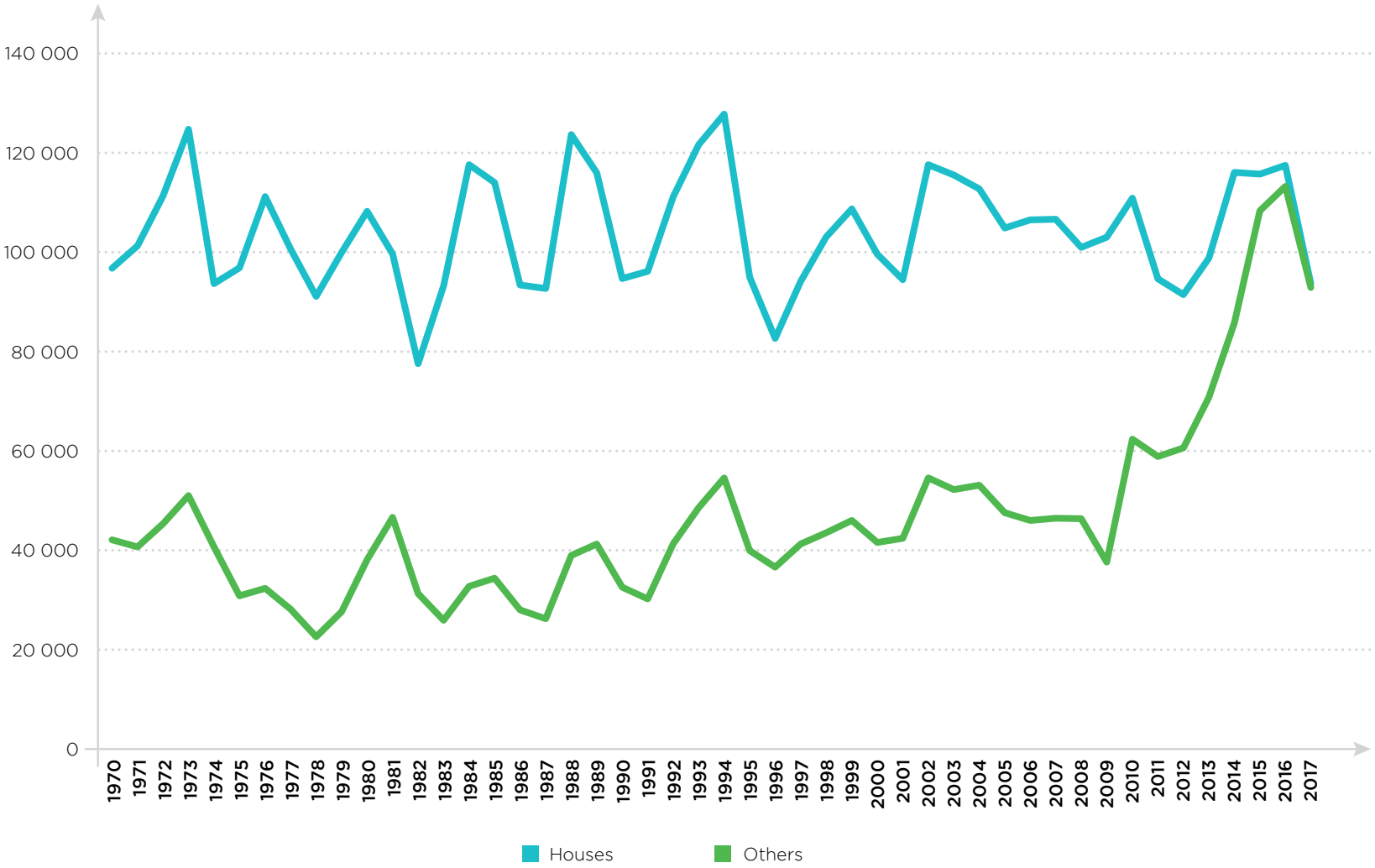
DWELLING COMMENCEMENTS

This graph shows national commencements. The recent downward trend should translate into lower vacancy rates and an upward pressure on rents.



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All property must pass our stringent investment criteria and is subject to a thorough due diligence process. Our low risk approach excludes 99% of all properties currently on the market. We never source properties direct from developers and we don't buy properties off the plan or in new housing developments. We have a strict no commission policy preventing us from ever taking commissions from agents or referrers. We believe in providing quality ethical advice and exceptional customer service. We pride ourselves on delivering successful outcomes every time, guaranteed.

Our objective is not to buy you a property. Purchasing a property is the last step in our considered and thorough process.
Our mission is to understand and satisfy your needs – financial or emotional, in a low risk and efficient manner. Our objective is to build you wealth through sophisticated property investment. We believe in everything we do because we treat your investment portfolio like it was our own.

OUR PROCESS

RESEARCH
Macro Micro Property

ACQUIRE
Find Assess Negotiate

MANAGE
Property Management

REVIEW
Annual Portfolio Review

ADVISE
Hold Improve Dispose

PERFORMANCE PROPERTY ADVISORY SERVICES

- Property Acquisition
- Property Management
- Portfolio Review
- Sales Advisory / Vendor Advocacy

DATA SOURCES:

- Australian Bureau of Statistics
- BIS Shrapnel
- Residex
- SQM Research
- CoreLogic RP Data
- Foreign Investment Review Board
- Australian Trade & Investment Commission

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