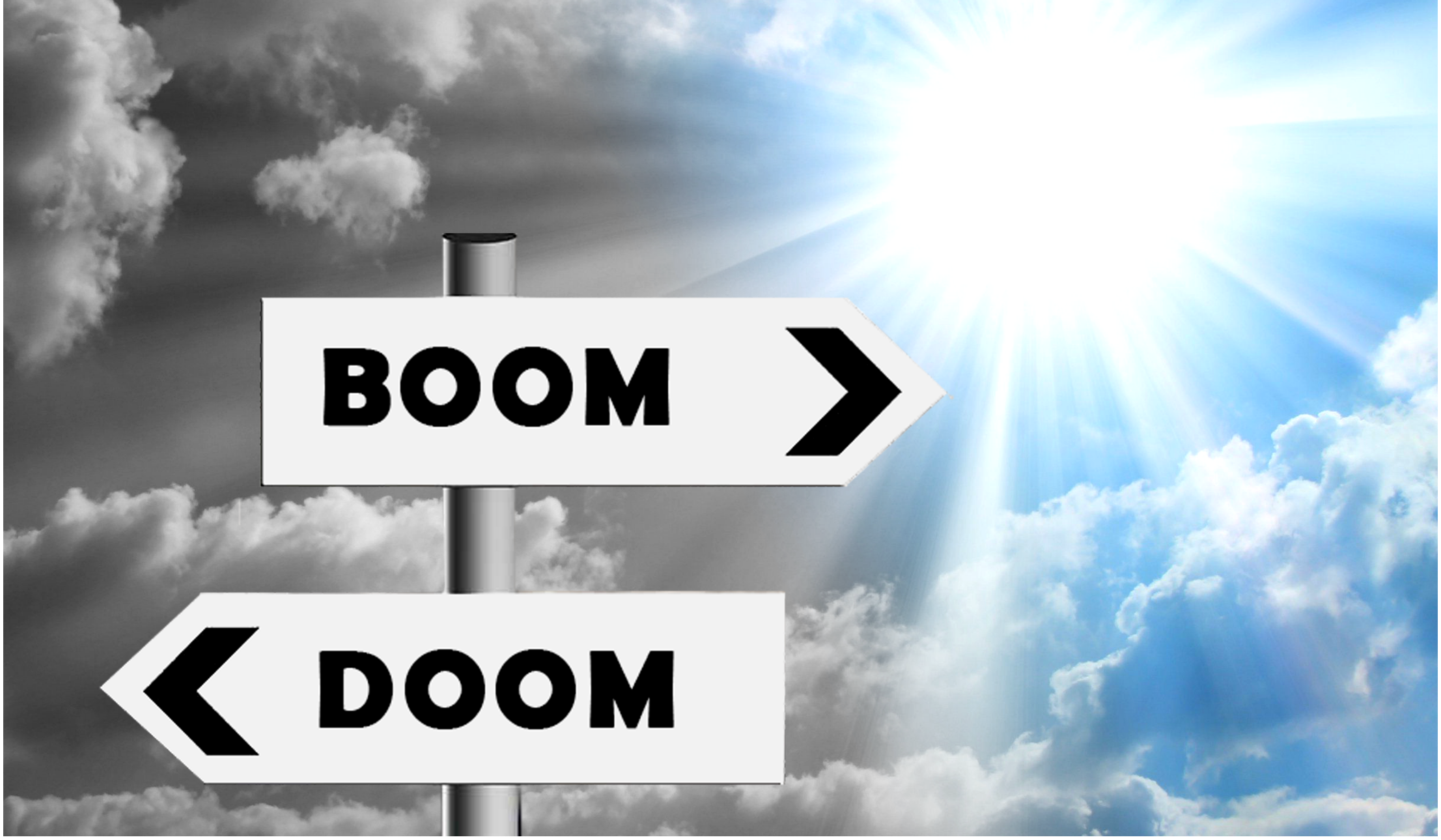

Australian Property: From Doom to Boom

By Paul Miron
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With Spring now in full bloom, we are witnessing more green shoots in the COVID-19 recovery with optimism beginning to emerge with some positive economic news.

Despite Melbournians experiencing what can only be described as a 11-week home detention sentence passed down by the Andrew's government, the daily numbers are now clearly retreating . This is giving Melbournians some hope that they will eventually be free to leave their homes and be able to reintegrate back into society. In fact, the national recent daily numbers of local cases acquired are the lowest since the beginning of the crises - which is enough to be positive in itself.

The first major piece of valuable economic data has come out with the official unemployment trending better than expected with 111,000 new jobs being created last month with unemployment down from 7.5 to 6.8 per cent[1]. This is despite Melbourne being in total lockdown, which has been a significant handbrake to the national recovery as Victoria contributes to 24% of the national economy[2].

The upshot is that the rest of the nation's COVID-19 recovery will provide confidence and insight to a clearer recovery pathway for Melbournians, as long as there is no impending fear of further lockdowns in sight.

Let's not forget it is not too long ago that both the RBA and Treasury had been predicting unemployment to rise to 10%[3], which is very unlikely if the upswing in job trend continues.

Now we come to my favourite subject, the property market. It does not surprise us that several major economists and banks have further revised their expectations from pessimistic to optimistic.

You do not have to look far, with clearance rates and sales volumes in Sydney last weekend reflecting pre-COVID-19 conditions. Most notably, the well-respected views of Bill Evan's from Westpac, expecting property prices rising - up 15% - commencing from as early mid to late 2021[4].

Msquared's view from the initial outbreak has always been consistent, a modest decline of 5% in the Sydney market with more upside growth, once we have controlled the virus and international travel resumes.

We also appreciate the importance of the Keynesian Wealth effect theorem, that a resilient property market enables the economy to withstand economic shocks such as we are experiencing with COVID-19. The fundamentals are giving Australians the assurance that the largest proponent of their wealth, which is stored in property, is safe and secure in the midst of uncertainty. This confidence will ensure a healthy level of consumption and sentiment, which in turn, will keep the economy turning.

We also need to appreciate the work that is being done behind the scenes in respects to both the RBA and Treasury ensuring that there has been an additional $57b in capital injected into the market to enable the banks the necessary liquidity to provide cheap funding that passes down to borrowers, notably allowing 3 year fixed interest rates below 2.35%pa, giving borrowers certainty that low cost funding is here to stay for a while [5].

Reserve Bank Governor Philip Lowe said last month that, "**the pendulum had swung too far towards blaming banks for bad loans**"[6].

Treasurer, Josh Frydenberg also announced he will be ditching further amendments to responsible lending laws[7], not to burden both borrowers and lenders with increasing red tape and inefficiencies in getting the money out into the economy. It is our view that current legislative laws are sufficient and adequate, they have served the community well post GFC, any more regulation would be counterproductive.

Common sense needs to prevail, and borrowers need to take responsibility for their debt and be even more diligent and cautious when taking out credit and lenders need to ensure they have the right corporate sales culture, acting in the best interest of the consumer. More regulation will not assist those small business and borrowers who have the capacity and desire to borrow money. The Treasurer has rightly said that, we need credit flowing through the economy providing an adrenaline hit during these troubled times.

The property recovery is not only fuelled by affordable loans, recent data published by the RBA and APRA indicates that the application for housing loans is not only on the upward trend but now at pre-COVID-19 levels[8].

The rationale is that owner occupiers and first home buyers whose cashflow have not been drastically impacted, are now turning to their "Castle", whether buying a new home or undertaking extensive renovations, this is a trend that further supports the stability and growth of the property market. This is not even mentioning the biggest stimulus budget announcements since WW2 next week with significant fiscal stimulus measures to be announced.

Despite this plethora of good news, it is critical not to let your guard down now.

We are not completely out of the woods, the virus is not eradicated, we do not have a 100% safe, approved and working vaccine and there are still 620,000 Australian who are on interest repayment deferral, this includes $180b of mortgages that need to be carefully managed [9]. We have no idea the extent of the damage caused by collapsing undercapitalised companies once their government lifelines are cut, all the while we are at the height of diplomatic tensions with our largest trading partner - China.

Being at the coalface of mortgage funds management there has been a significant amount of capital inflow into this sector in the past month, demonstrating that investors have realised the property market will not collapse as once feared.

Mortgage funds attract investors who are seeking capital preservation and healthy yields whilst being secured against property.

In turn there is an increase in competition, lowering investor returns. COVID-19 ironically has been an exceptionally good time for investor's in Msquared Capital, earning a healthy premium, primarily due to lack of competitors as many investors opted to sit on the side lines, fearing the worst.

In these spikes of optimism, we encourage investors to maintain discipline in their assessment of risk, as not all mortgages or mortgage managers are equal. As investor emotions change from fear of losing capital to fear of missing out, don't let this situation impair your logical judgment.

The following are simple questions, investors should always ask themselves.

1. Do I really understand how the investment works and structure, not just conceptionally?
2. What is the business case for the investment, will it pass the pub test?
3. Does it commercially make sense?
4. What is the security being offered? What is the proposed gearing and quality of asset?
5. Am I easily able to obtain the due diligence on the investment from the fund manager?
6. Will my investment withstand an unexpected economic shock or event?

If you would like to see live opportunities please feel free to get in contact with us a **info@msqcapital.com.au**

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Images

Image 1 - https://www.usmoneyreserve.com/blog/doom-gloom-and-gold/

Image 2 - http://www.cbresi.com.au/updates/rise-and-fall%3A-what-we%E2%80%99ve-learnt-about-the-australian-property-market-over-the-past-20-years/79

Image 3 - https://smart-move.com.au/balmain/