BUST TO BOOM – OUR PROPERTY MARKET EXPLAINED

'A common sense approach to complicated matters'

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The previous two years have seen Melbourne property prices seemingly free-fall with some suburbs losing up to 30% of the values from the previous 2017 highs! Over the past two months, property prices have stabilised and started a new trajectory looking to achieve their previous record highs.

What caused the plummet of property values?

In my opinion, property prices were forced to drop by an orchestrated effort by the banks and the Regulators who acted in unison to sabotage the property values. Specifically, contributing factors included:

- The Royal Commission into Banking Misconduct,
- the potentially devastating impact of a change of government which was preaching significant changes to negative gearing and capital gains taxes
- Regulation to significantly limit Interest-Only loans (capped at 30% at one stage)
- Regulation to limit investment loans
- Regulations to reduce the loan amount banks could lend to borrowers (H.E.M.)
- Further lending restrictions to businesses and self-employed borrowers
- Tightening of loan conditions for people over 45 years old
- Foreign buyers faced stricter lending restrictions
- An effective strangling of funds to the building industry due to the tighter lending restrictions and the plummeting values of properties
- Feasibility of development projects no longer stacking up due to the falling property values
- Increasing fees, charges and interest rates by banks to their clients, knowing that the uniform tighter lending conditions would not allow their clients to leave them, further exacerbated the situation as it put additional cash-flow pressures on borrowers.

These local factors were self-imposed by the industry and their Regulators, artificial and self-perpetuating in regards to pushing property values down.

What has changed recently?

The outlook has changed significantly with many commentators suggesting a slow and protracted recovery whereas I believe a more 'V'-Shaped recovery with property prices returning to their previous highs by the end of the year / early next year.

The things which have changed are:

- The Royal Commission has concluded and made public its findings confirming bank misconduct against their clients but banks have escaped relatively unscathed

- The Federal election has returned the existing government to power, eliminating the uncertainty a new government was going to have on the economy
- The artificial regulatory policies have been removed allowing banks to once again decide who to lend to; i.e. removal of interest-only & investment lending caps
- The lowering of serviceability requirements allowing higher value loan amounts to be approved
- Banks relaxed their lending policies therefore allowing clients to switch from uncompetitive banks to more competitive ones
- Banks negotiating on rates, fees and charges – especially when brokers are involved, therefore freeing up income for borrowers
- The pent-up supply of bank funds is now free to meet the pent-up demand from borrowers
- The pent-up demand for properties can now be met due to the availability of funds which is what has caused the spike in auction clearance rates and the higher property values.
- The Reserve Bank of Australia has also dropped the cash rate to unprecedented lows which have mostly been passed on to consumers as lower mortgage rates.

Does this mean we are on a verge of another property boom?

In short, I believe we are already in the boom – property prices are on a steep trajectory and borrowers are now realising that going to a bank directly for finance is not in their best interest. Brokers are able to tailor the funding solutions of each borrower to the lending criteria of lenders so loans are cheap and plentiful.

Add to this the low unemployment rate, low inflation, pent up demand in housing, low supply of new homes and massive population boom, there is only one way the property prices will be going in the short term -up!

How long will this cycle last?

High household debt, low wages growth, economic uncertainty around the world and upcoming American elections will all have a dampening effect on an ongoing boom. Add this to the fact that the Financial Regulators have been found to be complicit to the behaviour of banks rather than Regulating them and the added uncertainty of the Regulators causing another slow down of the property market, all means that the boom should not become an out of control property bubble.

Chocolate Money will be holding a <u>free</u> workshop for First Home Buyers on the Friday 22nd of November at 10am at Master Builders.

Reserve your spot by calling 1300 137 539 or register your interest for the next one as seats are very limited.