Will Property Continue to be Resilient?

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Will property continue to be resilient despite the most significant economic event in the last 100 years?

Despite the doomsday merchants and property sceptics, the performance and resilience of the property sector has taken many by surprise. Particularly as we live through the worst pandemic and economic fallout since the great depression.

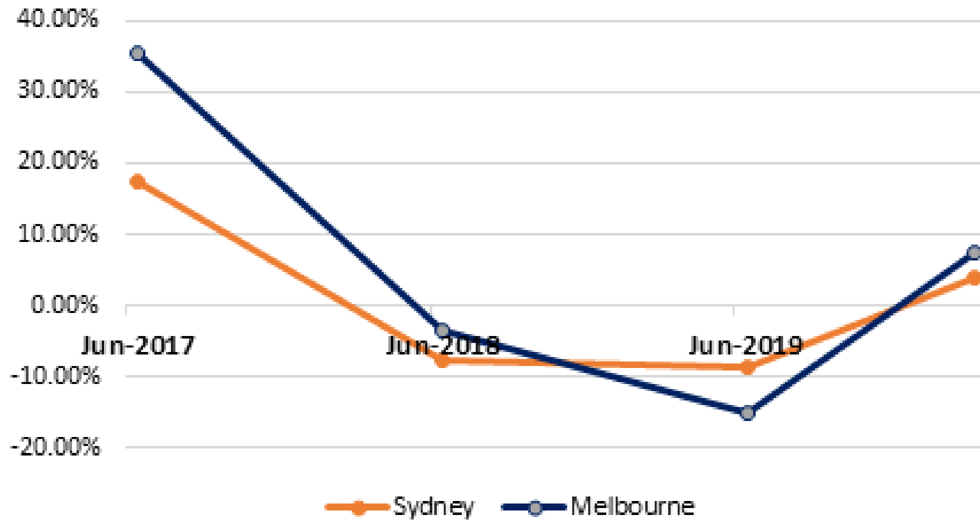
This leads us to a deeper thought-provoking question,

If Covid-19 is unable to burst the mythical property bubble, then why has property fallen in previous cycles and what are the main catalysts?

Historically, property value declines have been the result of either high unemployment, over supply of property or rising interest rates.

The most recent property decline that started in late 2017 was a complete deviation of the natural economic factors. It led to a decline in prices which has been isometrically opposite to previous cycles.

Australian Median House Prices (Sydney & Melbourne)



	Peak	Mid-Trough	Trough	Current
	Jun-17	Jun-18	Jun-19	Jun-20
Cash Rate (RBA)	1.50%	1.50%	1.00%	0.25%
Unemployment monthly	5.68%	5.48%	5.13%	7.50%
GDP Annual Growth Rate	2.10%	3.20%	1.6%	1.4%
Inflation Rate Annual	1.70%	1.70%	1.60%	-1.20%

Source: ABS Data

Initially there was an intentional and deliberate intervention by government and regulators in response to fear of both increasing property prices and household debts exceeding their comfort zone.

Measures were used to mute overall demand for property, such as restricting both interest-only and investor loans and imposing bank restrictions limiting the amount banks could lend to borrowers. The intention being to softly dampen property demand and cap property prices.

What the regulators and the RBA had not anticipated concurrently to these measures was the stormy clouds set by the "Bill Shorten Effect".

Even though it feels like a distant memory, the threat of ripping out negative gearing benefits from a property friendly tax policy was enough to spook both potential and existing property owners into submission.

I am sure that there are plenty of property professionals that would take their chances with catching Covid-19 rather than experience the proposed changes to property tax regime.

This illustrates that market economics alone are not the determining catalyst to initiate a negative property cycle - A significant driver is consumer **sentiment.**

The result was that Sydney and Melbourne property prices fell from a peak to trough of 18% and 16% respectively.

The cycle can be alternatively described as a “targeted credit squeeze”, which indeed ended up with the desired result in enabling the RBA to continue to decrease interest rates whilst trying to continue to stimulate a lagging economy using monetary policy (i.e. interest rates leading to increase in money supply)

Understanding the market factors for the most recent market downturn in Sydney and Melbourne is of great importance, as we now experience the current paradigm shift of property resilience. With low interest rates and the prospect of interest rates not increasing for the foreseeable future, this demonstrates the positive sentiment towards property. As long as households are given the opportunity to borrow and can continue to meet mortgage payments.

The Australian property love affair remains intact despite a deadly virus impacting on how we work, play and feel day to day.

As a mortgage fund manager, it is essential that investors should only choose a mortgage fund with the main priority of the preservation of investor’s capital and the below characteristics.

These strict lending guidelines work to mitigate downsize risk.

- We generally do not lend more than 65% of the property valuation.
- We do not lend against specialised security (i.e. service stations, pubs, bowling alleys)
- We stick to lending against property assets only on the Eastern Seaboard of Australia
- Security properties are within metro area’s only

Our investors have the peace of mind that their investment is secured over mostly metro Sydney properties that is a very resilient asset class that enables them to have control and choice of their investment with regular monthly income as competitive returns, starting form 6.50%p.a.

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