



WHY THE AUSTRALIAN PROPERTY MARKET IS WORSE THAN IT LOOKS

Agenda

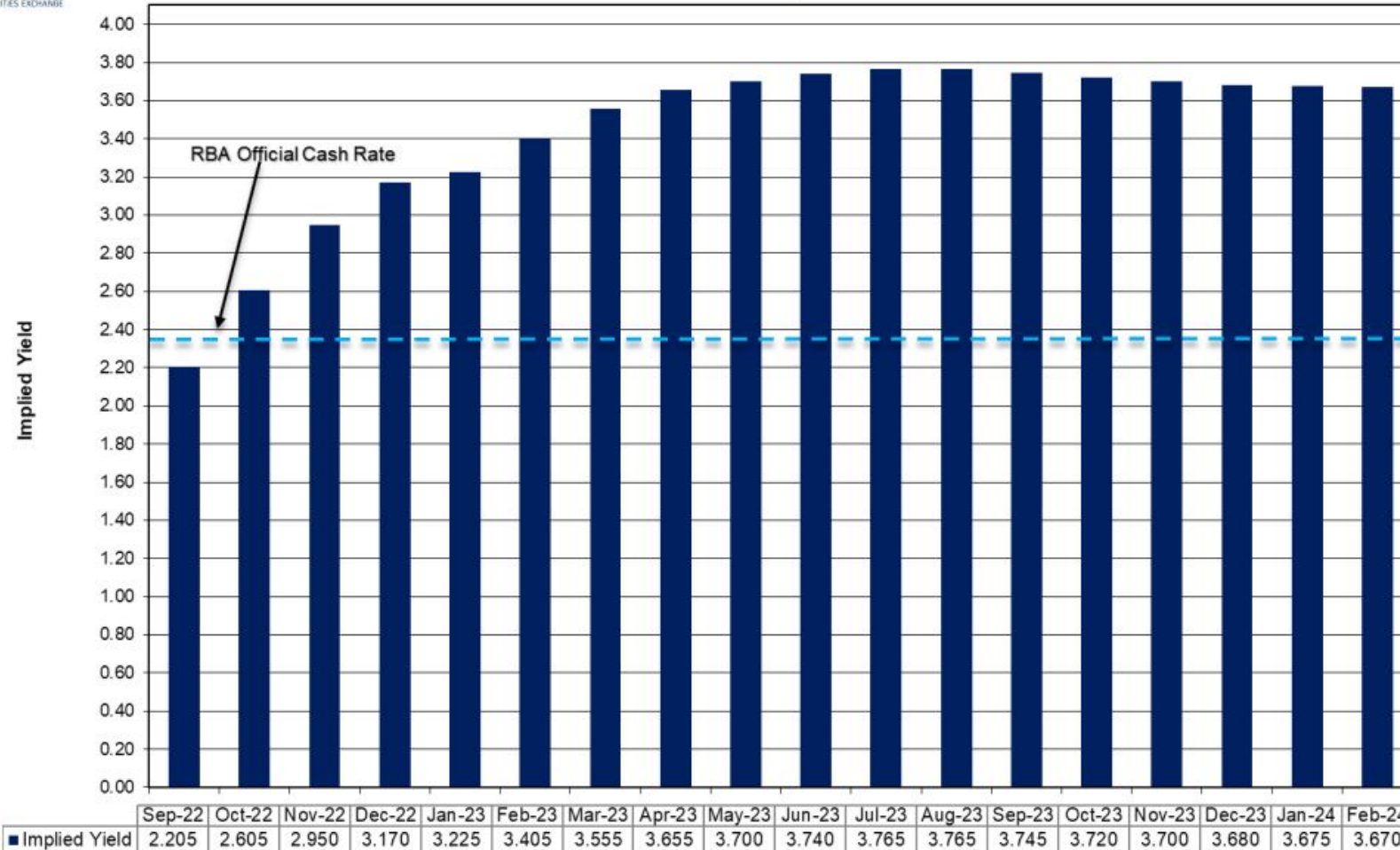
- How to value property
- Latest affordability data / macroeconomics
- Effect of rising interest rates
- Buying vs renting
- Property vs shares

Housing drivers - short term



ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve

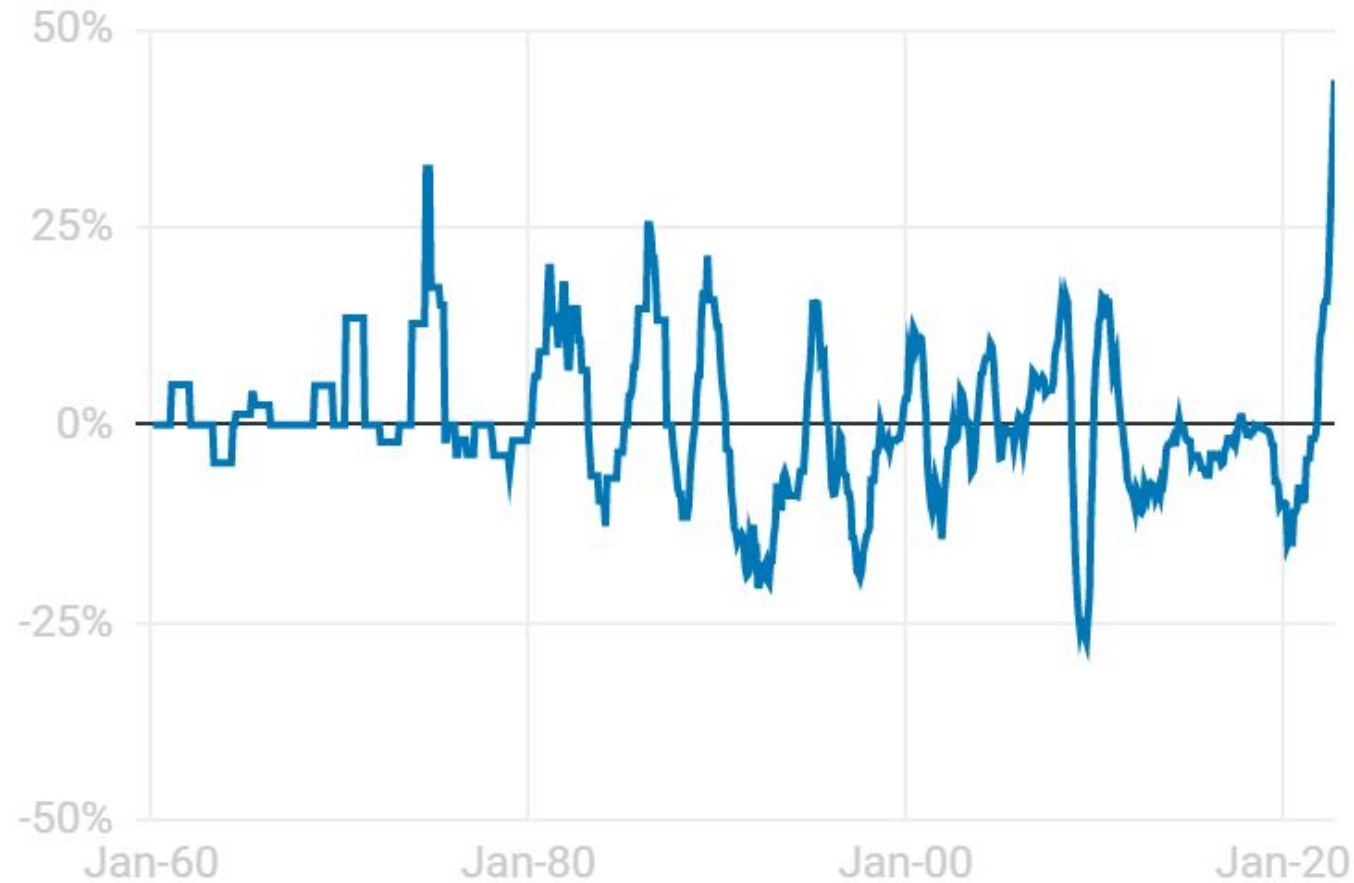
As at market close on 7th September 2022



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Housing drivers - short term

Change in Mortgage Payments over 1 year



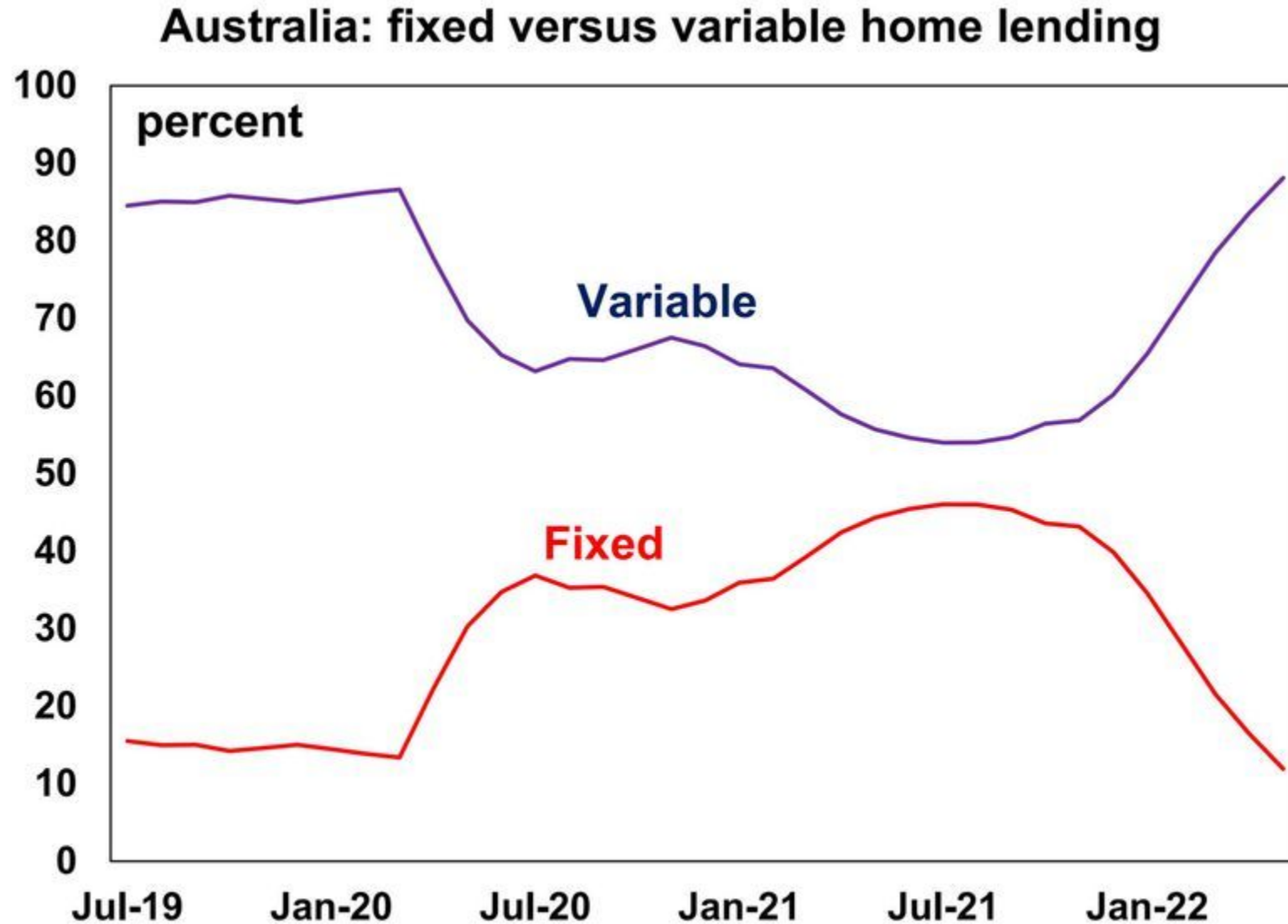
Source: Nucleus Wealth, RBA

Housing drivers - short term

Flowchart 1: Example of May 25bp cash rate increase for a CBA mortgage holder on a monthly repayment cycle



Housing drivers - short term



Source: ABS, AMP

How the economic machine works

A great video by Ray Dalio on how interest rates and the cost of debt affects the economy.

“one person's spending is another person's income”

<https://www.youtube.com/watch?v=PHe0bXAluk0>

It explains what Damien is talking about in more detail if you have the time.

Housing drivers - short term

The bust only needed credit to pull back.

Effect on Sydney / Melbourne House Prices

	The Boom 2012-2017	The Bust 2018	Pre-COVID 2019-2020	COVID 2020-2021	Post-COVID 2022+	
Demand Factors						
Credit Availability	▲▲▲	▼▼▼	▲▼	▲▲▲	▲▼▼	Slowing due to APRA changes, but far from restrictive
Price of Credit	▲▲	-	-	▲▲▲	▼▼▼	RBA raising interest rates at a record speed
Employment	▲	▲	▲	▼	-	Wage growth improving, but from record lows.
Population Growth	▲▲	▲	▲	▼▼▼	?	Reopening borders, but speed/takeup unknown
Foreign Buyers	▲▲	▼	▼	▼▼	▼▼	Chinese buyers likely to be discouraged
Tax Incentives	▲	-	-	▲▲	▲▲	Government support maintained
Money Laundering	▲▲	▲▲	▲▲	▲	▲▲	No changes. Austrac recently highlighted continued issues
Supply Factors						
Restrictive Planning	▲	▲	▲	▲	▲	No significant change to planning process
Under/over supply	▲	▼	▼	▲▼	▲▼	Large amount of building in progress, developers collapsing
Structural Change	-	-	-	▲▲▼	▲▲▼	More desire for houses vs units, more for regional vs city

Rising interest rates to trump other factors?

The boom had everything going for it

Source: Nucleus Wealth

Housing market valuation - long term

- Mortgage Payments to Rent
- Mortgage Payments to Wages
- Property Prices to Wages
- Rental Yield

Housing market - stock vs flow

- Each year Australia builds 100,000-200,000 dwellings
- There are about 11m houses
- 11% are unoccupied
- 2.6 people per occupied dwelling
- Absorb 350,000 new dwellings? 2.64 to 2.55
- Another 150,000 new dwellings? Change unoccupied from 10.5% to 11.4%.

Latest Stats

Property Valuation Ratios

		Affordability			Investment Returns	
		Mortgage Payment / Rent	Mortgage Payment / Full Time Wage	Property Price / Full Time Wage	Gross Rental Yield	Net Rental Yield Less Interest Rate
Houses	Sydney	231%	97%	16.1	2.6%	-3.9%
	Melbourne	204%	68%	11.3	2.9%	-3.7%
	Brisbane	155%	54%	9.0	3.9%	-3.0%
	Adelaide	145%	55%	9.1	4.1%	-2.9%
	Perth	115%	38%	6.3	5.2%	-2.1%
Units	Sydney	163%	50%	8.2	3.7%	-3.2%
	Melbourne	142%	37%	6.2	4.2%	-2.8%
	Brisbane	115%	30%	5.0	5.2%	-2.1%
	Adelaide	116%	28%	4.7	5.2%	-2.2%
	Perth	96%	21%	3.4	6.2%	-1.4%

Source: Nucleus Wealth, RBA, ABS, Domain, Rismark, SQM

Latest Stats

3 month Change in Valuation Ratios

Green = becoming cheaper, Red = more expensive

		Affordability			Investment Returns	
		Mortgage Payment / Rent	Mortgage Payment / Full Time Wage	Property Price / Full Time Wage	Gross Rental Yield	Net Rental Yield Less Interest Rate
Houses	Sydney	31.5%	13.1%	-0.1	0.0%	-1.5%
	Melbourne	22.6%	8.7%	-0.1	0.1%	-1.4%
	Brisbane	16.9%	7.2%	-0.1	0.1%	-1.4%
	Adelaide	21.1%	8.2%	0.1	0.0%	-1.5%
	Perth	14.9%	5.3%	0.0	0.1%	-1.5%
Units	Sydney	18.6%	7.1%	0.0	0.1%	-1.4%
	Melbourne	16.6%	5.1%	0.0	0.1%	-1.4%
	Brisbane	15.7%	5.2%	0.2	0.0%	-1.5%
	Adelaide	20.8%	5.0%	0.2	-0.2%	-1.7%
	Perth	9.6%	2.9%	0.0	0.3%	-1.3%

Source: Nucleus Wealth, RBA, ABS, Domain, Rismark, SQM

Latest Stats

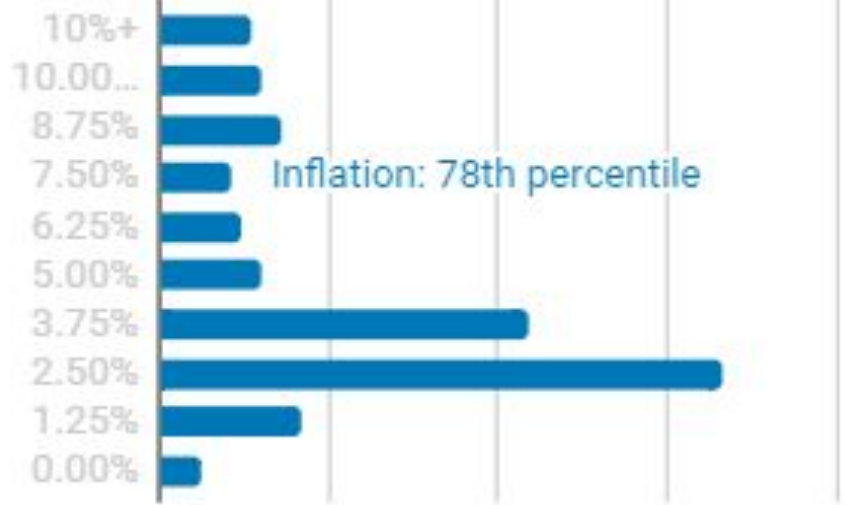
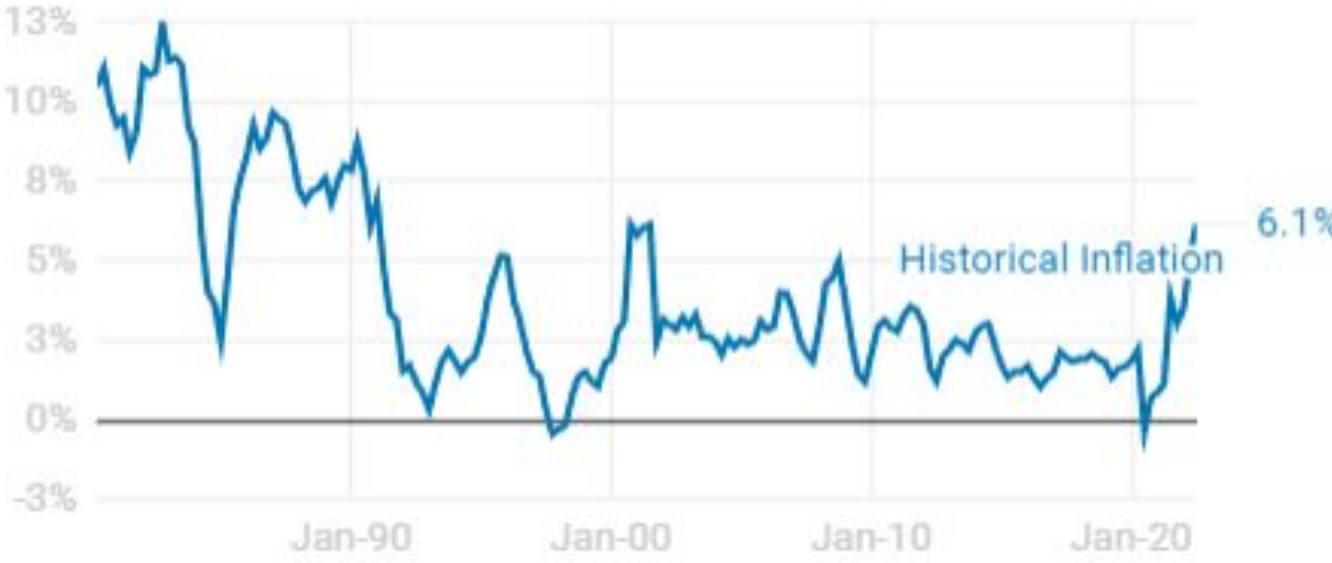
Cheap or Expensive: Current vs Historical Values

Current Value as a Percentile. 1% = Cheap, 100% = Expensive

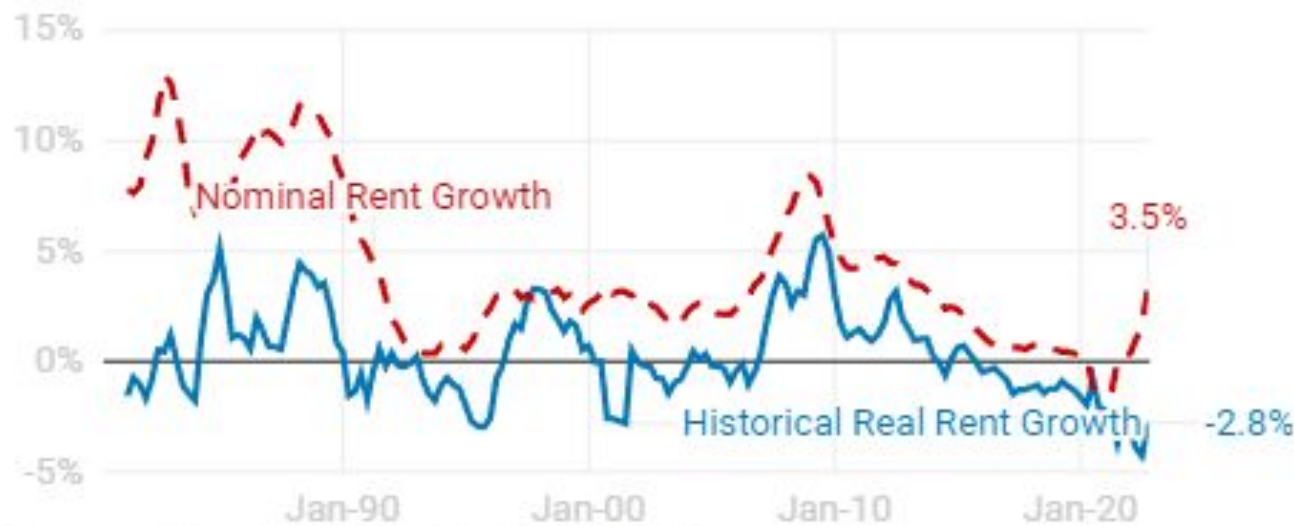
		Affordability			Investment Returns	
		Mortgage Payment / Rent	Mortgage Payment / Full Time Wage	Property Price / Full Time Wage	Gross Rental Yield	Net Rental Yield Less Interest Rate
Houses	Sydney	100%	100%	98%	99%	52%
	Melbourne	100%	99%	98%	98%	60%
	Brisbane	97%	98%	99%	99%	62%
	Adelaide	91%	98%	100%	99%	51%
	Perth	61%	85%	92%	58%	49%
Units	Sydney	97%	89%	89%	95%	41%
	Melbourne	91%	75%	82%	95%	59%
	Brisbane	66%	38%	70%	58%	33%
	Adelaide	81%	72%	92%	87%	46%
	Perth	47%	33%	53%	53%	28%

Source: Nucleus Wealth, RBA, ABS, Domain, Rismark, SQM

Macro background



Macro background



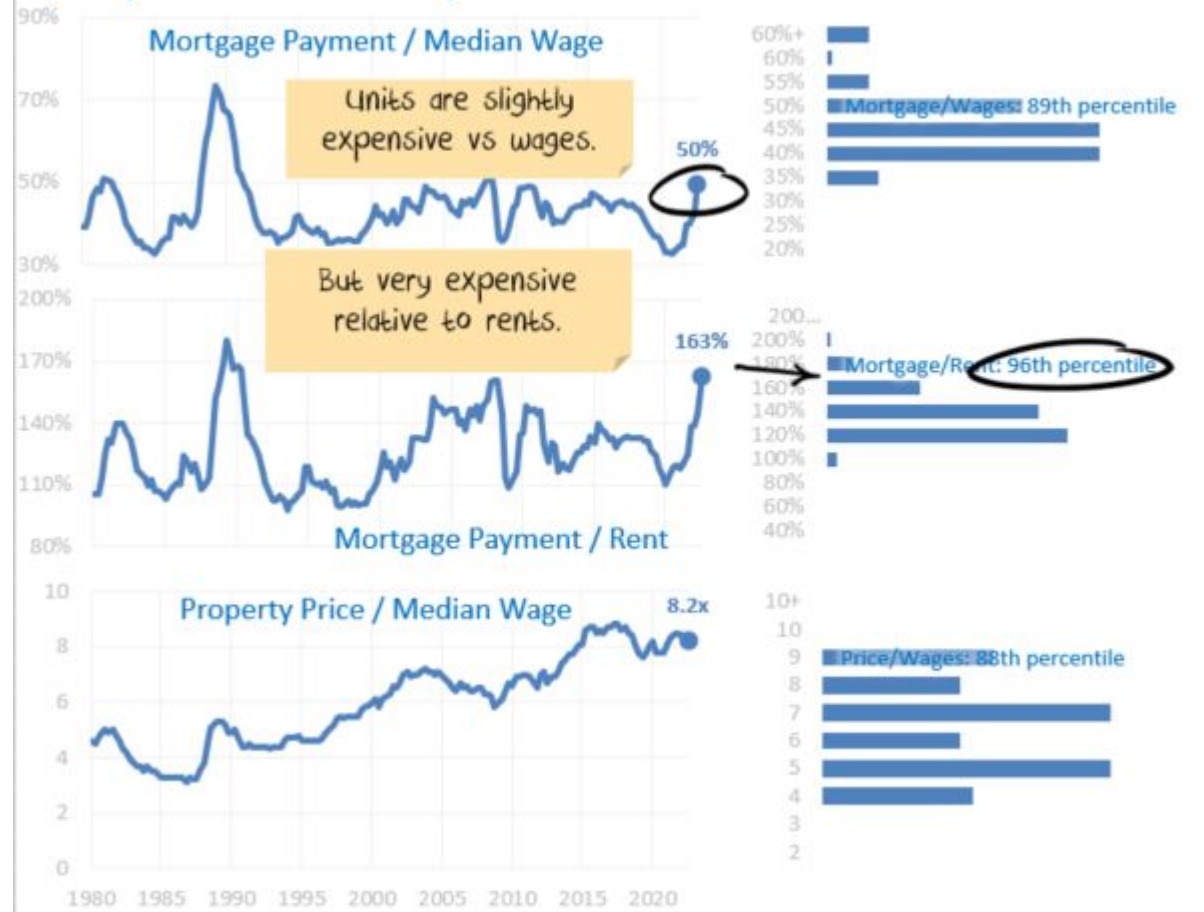
Source: Nucleus Wealth, RBA, ABS

Specific Markets

Sydney House: Affordability Measures

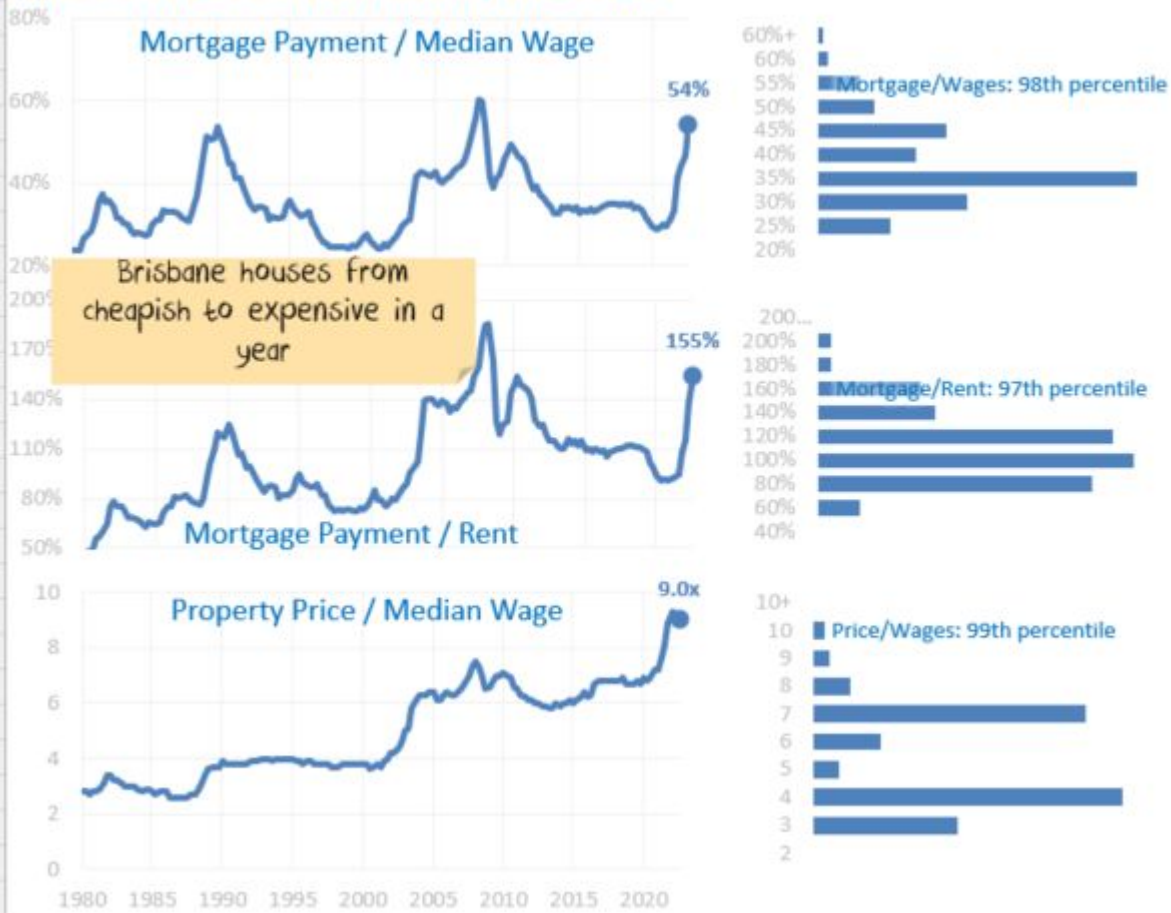


Sydney Units: Affordability Measures

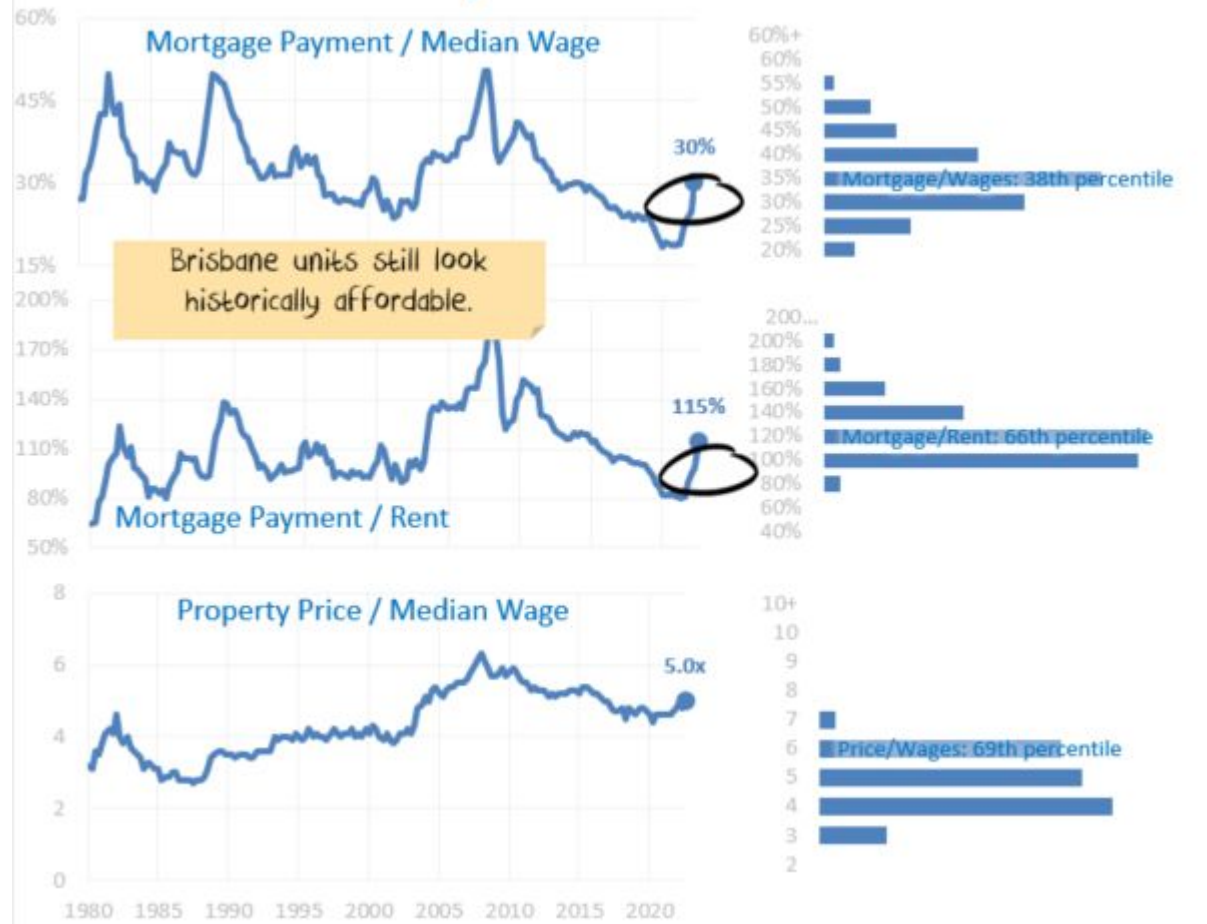


Specific Markets

Brisbane House: Affordability Measures

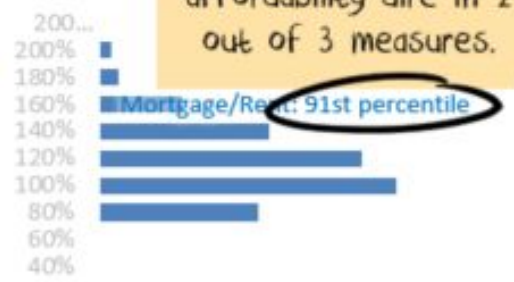


Brisbane Units: Affordability Measures



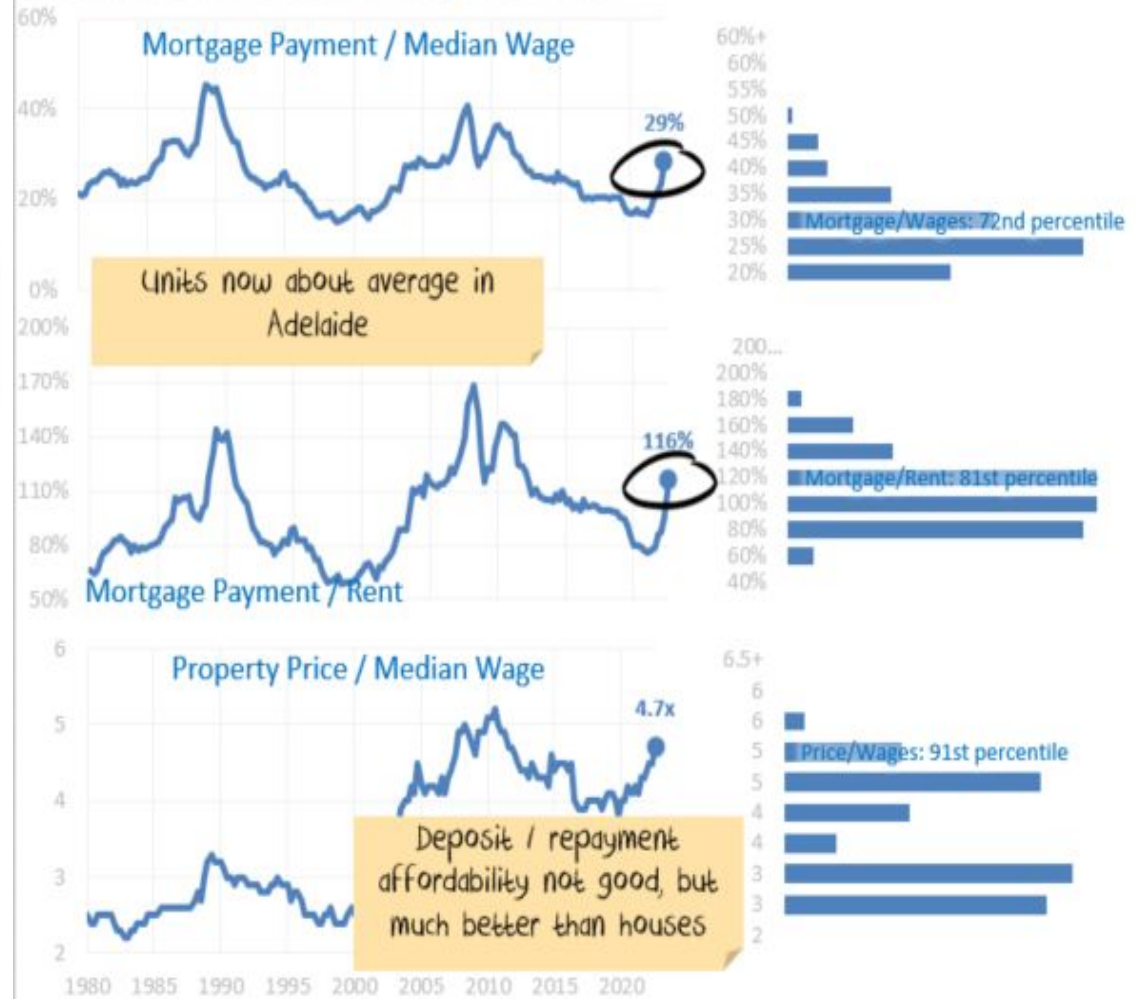
Specific Markets

Adelaide House: Affordability Measures



Adelaide house affordability dire in 2 out of 3 measures.

Adelaide Units: Affordability Measures



Units now about average in Adelaide

Deposit / repayment affordability not good, but much better than houses

Effect of Rising Interest Rates

<https://nucleuswealth.com/property-calculator>

Viewer question of the week:

Will rising interest rates pop house prices, or just slowly deflate them?

Drop your answers in the comments

Investment Implications

- Rent growth vs interest rates vs house prices
- Disbelieve interest rates? Buy bonds, buy international
- Believe interest rates? Sell anything to do with housing.
Hedge your international holdings

- To see the full monthly property report go to <https://nucleuswealth.com/articles/australian-property-market-update/>
- To use the property calculator please go to <https://nucleuswealth.com/property-calculator>

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