

# CORONAVIRUS TO KILL AUSTRALIAN PROPERTY



# Agenda: Coronavirus to Kill Australian Property

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- Virus a unique challenge to Australian growth model
- Mass immigration and international students
- Foreign buyers' role in property
- Rental crash
- 1.3 million loss-making landlords
- Policy exhaustion and options
- Investment implications



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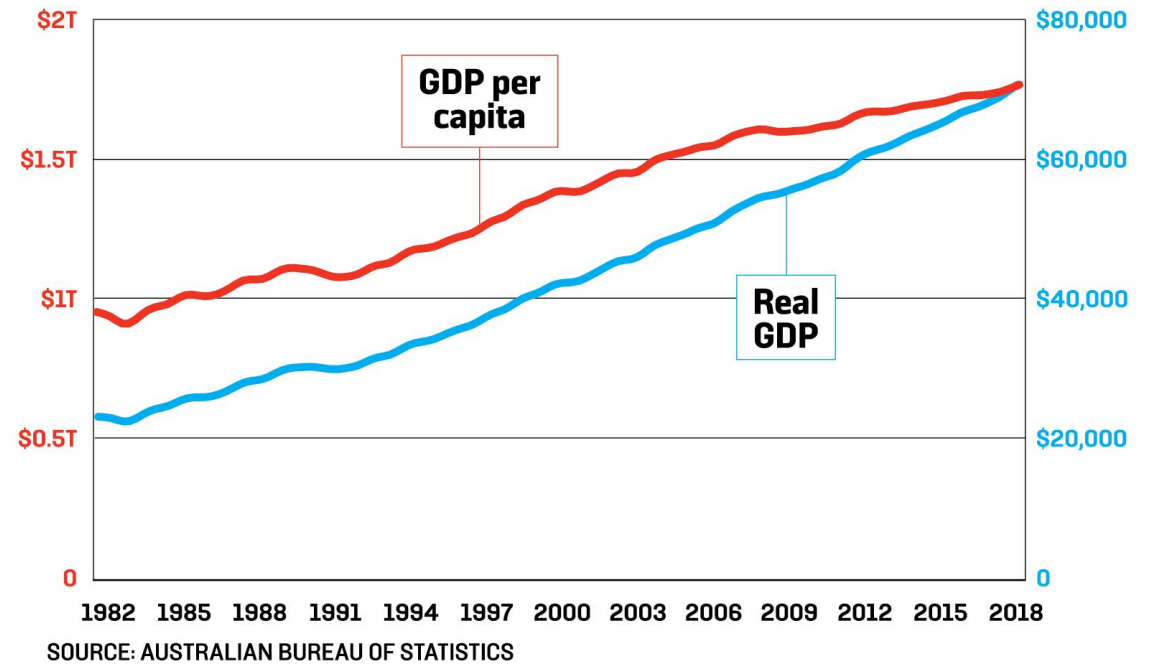
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# Virus a unique challenge to Australian growth:

- The role of immigration is huge in driving growth. Sectors that benefit include education, tourism, construction, banking, retail, property and professionals. They constitute 43% of employment.
- In short, output is kept artificially high as it falls in per capita terms. This is very deflationary and has resulted in a crash in the cash rate, also helping boost the above sectors.
- Without immigration, Australia has hollowed out other external sectors. For instance, manufacturing which is now approaching an astonishing 5% of value-added growth, far below other DMs.
- In short, without immigration, Australia faces a long and difficult growth adjustment as it rebuilds tradable sectors which will include chronically higher unemployment.

## Australia Real GDP vs. GDP Per Capita



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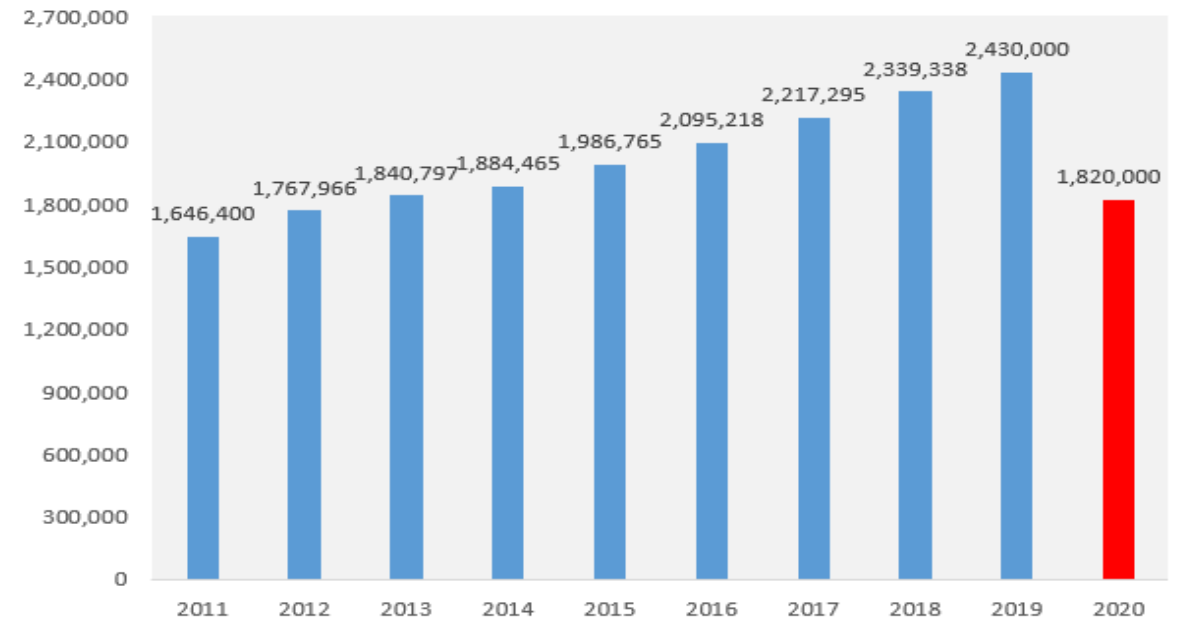
# Mass immigration and international students

- Morrison Government estimates net overseas migration to fall by 85% over 2020 and 2021.
  - Stock of temporary migrants (2.4m in Dec 2019) to fall by 600k in 2020 alone.
- Difficult to reboot numbers owing to:
  1. high unemployment keeping market drivers weak
  2. political resistance on weak wages
  3. quarantine failures
  4. China hostilities
  5. Alternative markets virus saturated

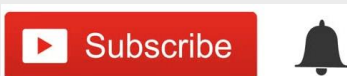
## Australian Temporary Visas on Issue

Source: Department of Home Affairs; Abul Rizvi

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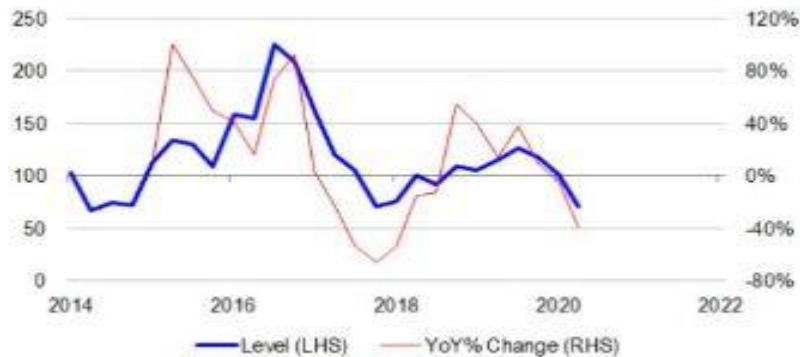
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# Foreign buyers' role in property

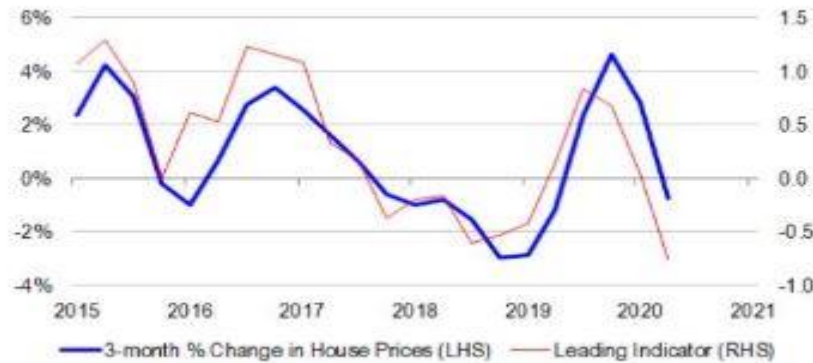
- Boom in 2016/17.
- Now gone bust and getting worse.
- Without students and with China turning more hostile, numbers will keep falling.
- Some benefit from Hong Kong.

Figure 3: Juwai Chinese buyer enquiries into Australia



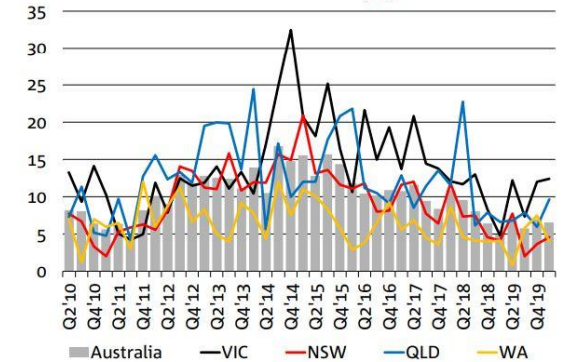
Source: Credit Suisse estimates

Figure 4: House prices & leading indicator

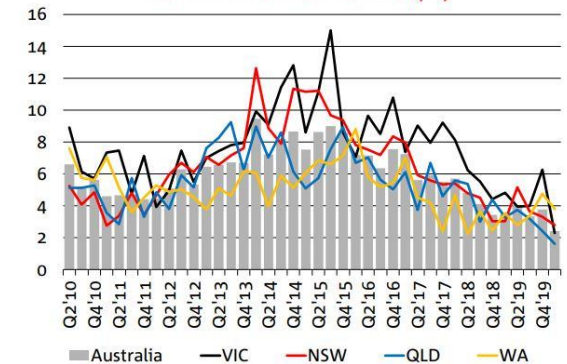


Source: Credit Suisse estimates

SHARE OF DEMAND FOR NEW PROPERTY: FOREIGN BUYERS (%)



SHARE OF DEMAND FOR ESTABLISHED PROPERTY: FOREIGN BUYERS (%)



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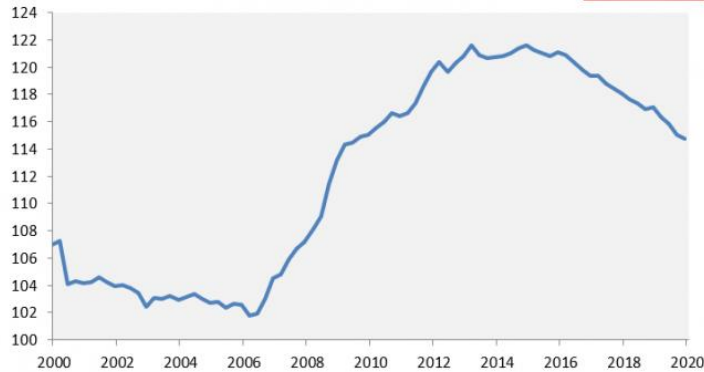
# Rental crash

- Unprecedented rental vacancies in Sydney and Melbourne.
- Other capitals as well.
- AirBnB disgorging many more properties on tourism collapse.
- Still large pipeline of new supply.
- Rents plummeting and will get much worse yet.

ABS Real Australian Rents Index

Source: Australian Bureau of Statistics

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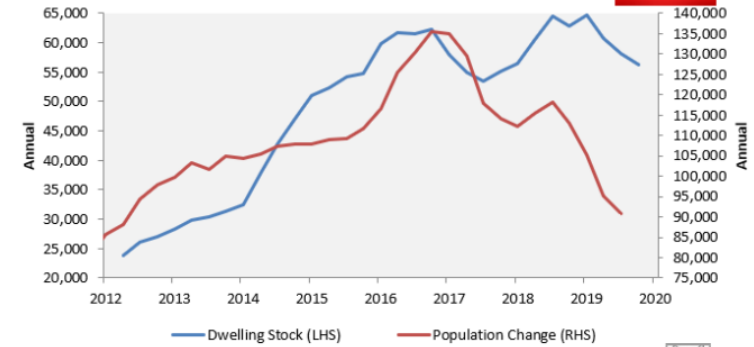
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NSW: Change in Dwelling Stock vs Population Change

Source: Australian Bureau of Statistics

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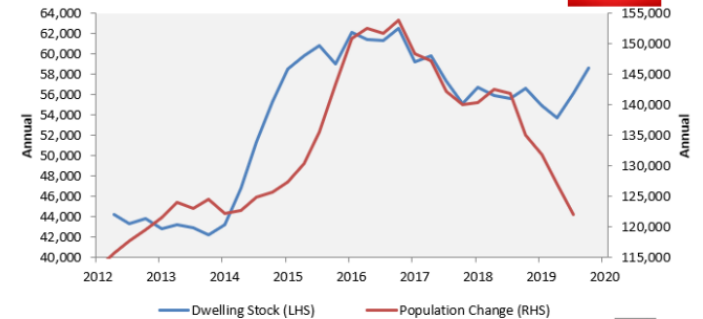
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VIC: Change in Dwelling Stock vs Population Change

Source: Australian Bureau of Statistics

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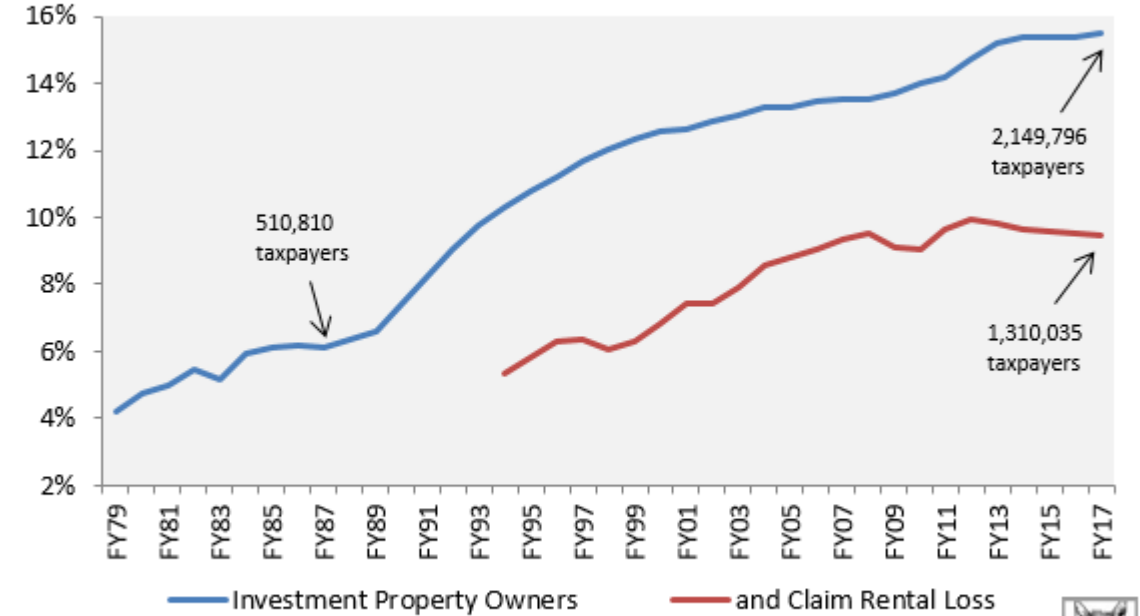
# 1.3m loss-making landlords

- 1.3m landlords were loss-making in FY17 out of 2.1m total landlords.
- Investors facing perfect storm of:
  - Falling property prices
  - Falling rents
  - Rising unemployment
  - Falling incomes
  - Increased competition (e.g. Airbnbs, new construction)
- Forced sales likely.
  - Already reports of investors dumping apartments and walking away from OTP purchases.

## Investment Property Owners as a % of Taxpayers

Source: Australian Taxation Office

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# Policy exhaustion and options

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- Banks tightening lending standards and RBA out of bullets
- Emergency income support, mortgage repayment holidays and rental moratorium scheduled to end in September
- Fiscal already in the market with FHB incentives up to \$70k in some states. Doing little and diminishing marginal impact
- Hail Mary options?



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# Investment implications

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- Markets wrong that Australia is well positioned
- Domestic demand severely challenged
- Abnormal risk of investor run on property
- Banks hugely overvalued despite falls
- Secular stagnation looms
- Weak Australian dollar as world recovers



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## Question of the week:

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**Do you agree that  
Australian property is  
set for massive falls?**



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