Nucleus Wealth

CORONAVIRUS TO KILL AUSTRALIAN PROPERTY

Agenda: Coronavirus to Kill Australian Property

- 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

David Llewellyn-Smith
Tim Fuller
Damien Klassen

Disclaimer

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
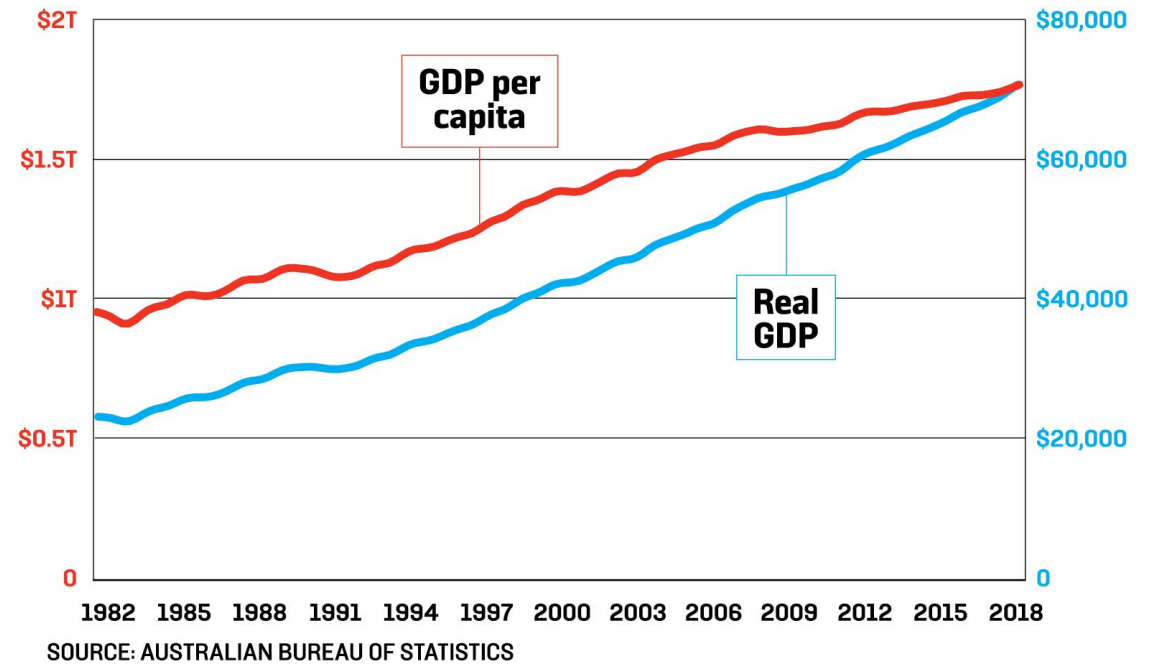
GDP per capita

Real GDP

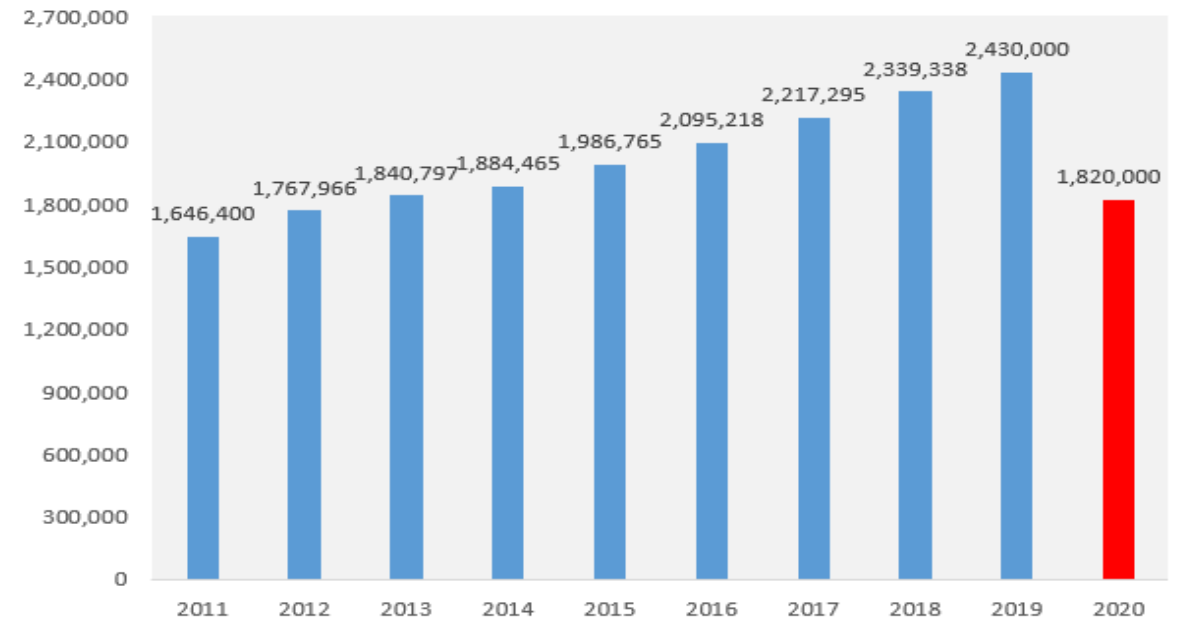SOURCE: AUSTRALIAN BUREAU OF STATISTICS

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
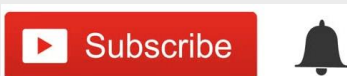4. China hostilities
5. Alternative markets virus saturated

Australian Temporary Visas on Issue
Source: Department of Home Affairs; Abul Rizvi

MACRO BUSINESS

2011: 1,646,400
2012: 1,767,966
2013: 1,840,797
2014: 1,884,465
2015: 1,986,765
2016: 2,095,218
2017: 2,217,295
2018: 2,339,338
2019: 2,430,000
2020: 1,820,000

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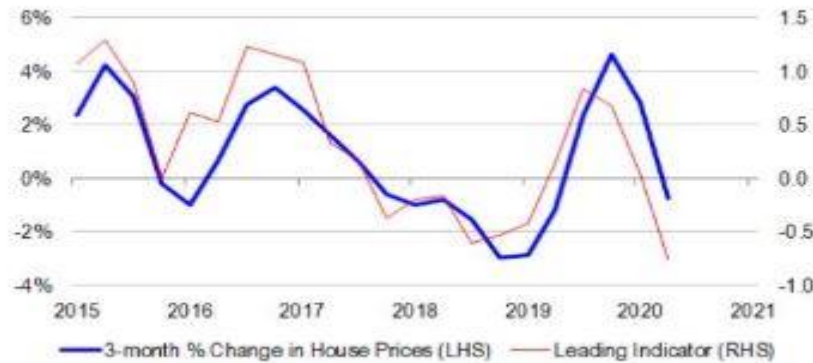
Foreign buyers' role in property

- 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.

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

Figure 3: Juwai Chinese buyer enquiries into Australia
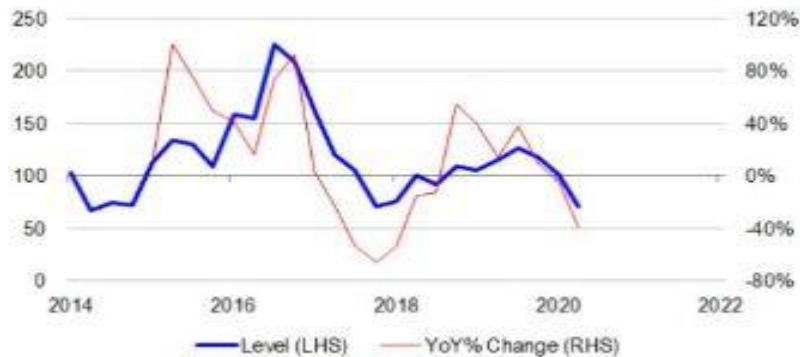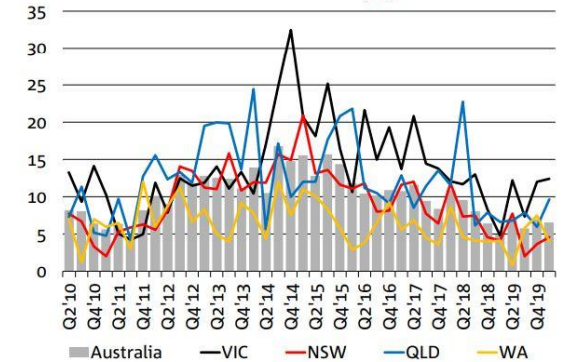
Source: Credit Suisse estimates

Figure 4: House prices & leading indicator

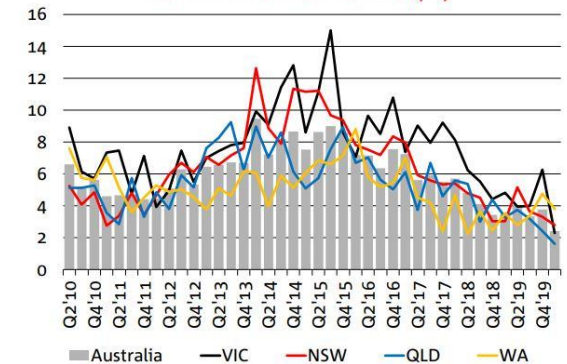Source: Credit Suisse estimates

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

Leith van Onselen
David Llewellyn Smith
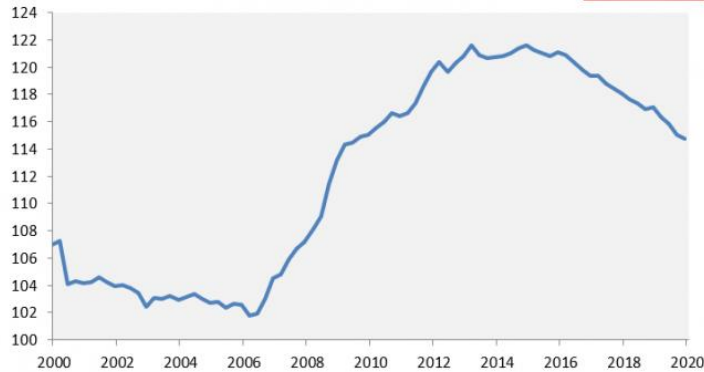**Tim Fuller**
Damien Klassen

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.

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
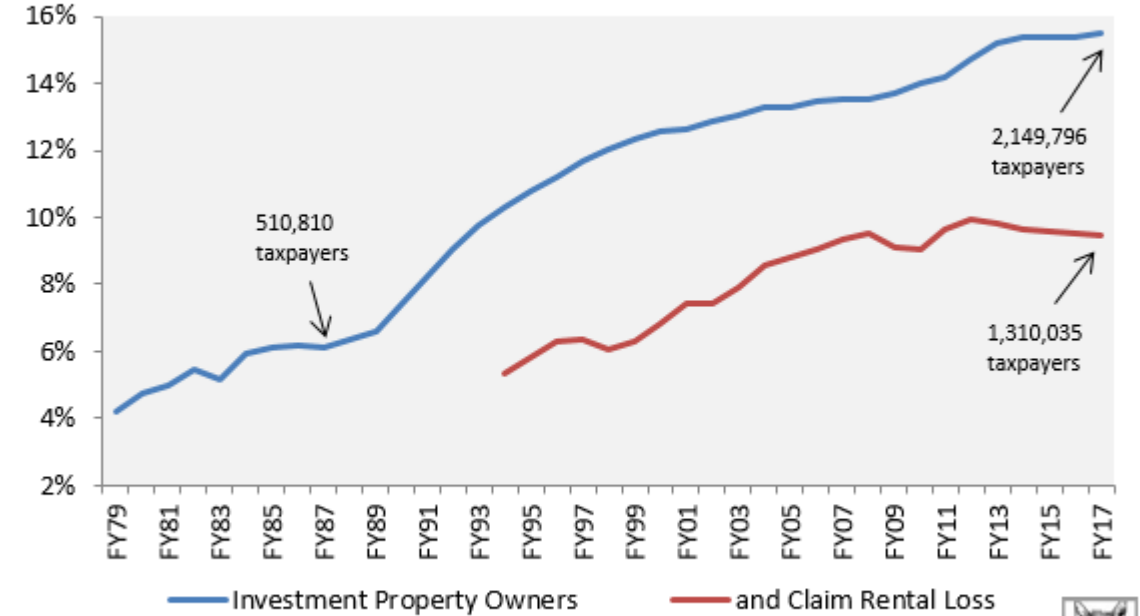 - Increased competition (e.g. Airbnbs, new construction)
- Forced sales likely.
  - Already reports of investors dumping apartments and walking away from OTP purchases.

Investment Property Owners as a % of Taxpayers
Source: Australian Taxation Office

510,810 taxpayers

2,149,796 taxpayers

1,310,035 taxpayers

— Investment Property Owners — and Claim Rental Loss

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Policy exhaustion and options

- Banks tightening lending standards and RBA out of bullets

- Emergency income support, mortgage repayment holidays and rental moritorium 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?

Investment implications

- 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

Question of the week:

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

Let us know in the YouTube comments of this video!

Leith van Onselen
David Llewellyn Smith
Tim Fuller
Damien Klassen