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2021 AUSTRALIAN
PROPERTY PRICE BOOM

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Agenda

- Why we were wrong on housing.
- Strong economic rebound
- Household sector cashed-up
- Easy credit
- Collapsed immigration the only obvious headwind
- Smaller capitals to perform best

Leith van Onselen
Tim Fuller
Damien Klassen



Mid-year housing predictions wrong

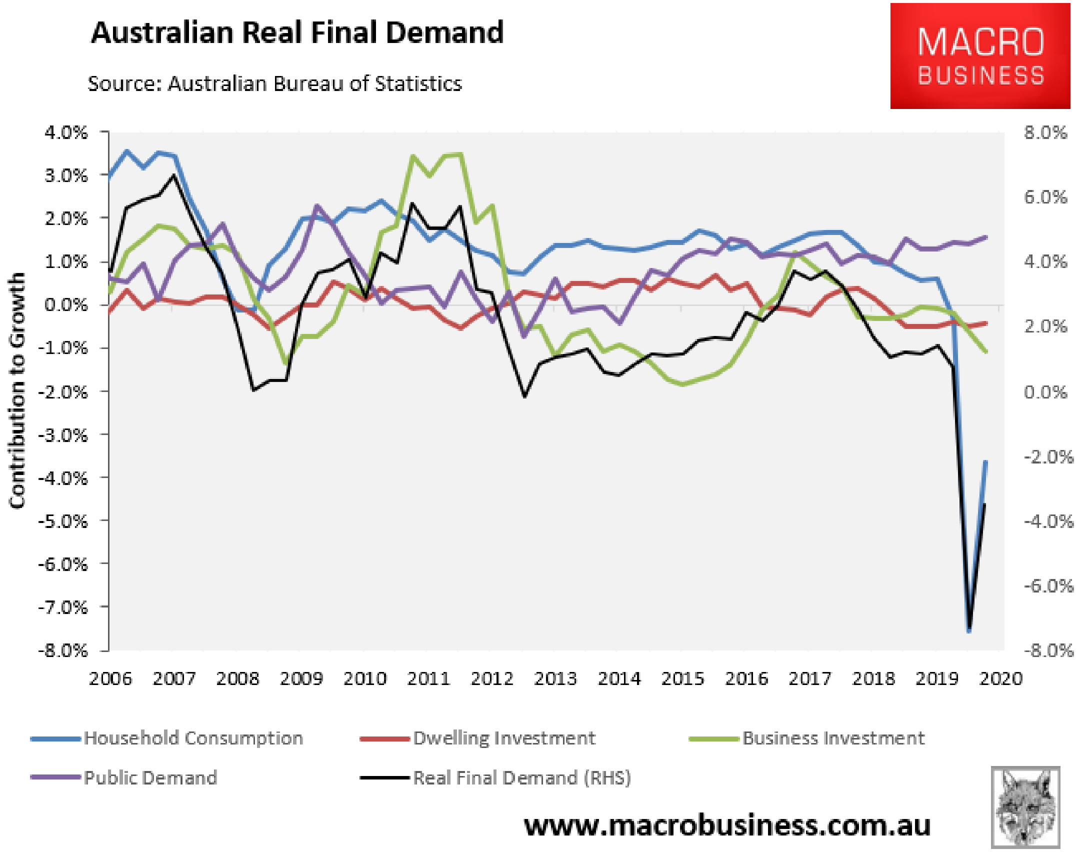
- Mid-year we anticipated double digit property losses, driven by Sydney and Melbourne, based on:
    - Collapsing immigration and rising supply;
    - Rising unemployment and falling household incomes;
    - Unwinding of mortgage repayment holidays and emergency income support;
    - Tightening credit availability (despite low mortgage rates); and
    - Little prospect of further mortgage rate reductions.

- We were wrong on most counts.

Leith van Onselen
Tim Fuller
Damien Klassen

Economy performed better than expected

- Successful management of COVID-19.
- Economy 'over-stimulated' with $180b of support provided in Q2 and Q3 alone:
  - Initial welfare boost = $18 billion
  - JobKeeper payments = $71 billion
  - JobSeeker and other coronavirus supplements = $28 billion
  - Business cashflow boost = $28 billion
  - Early superannuation release = $35 billion
- Strong rebound recorded in Q3 despite Victorian economy being closed.



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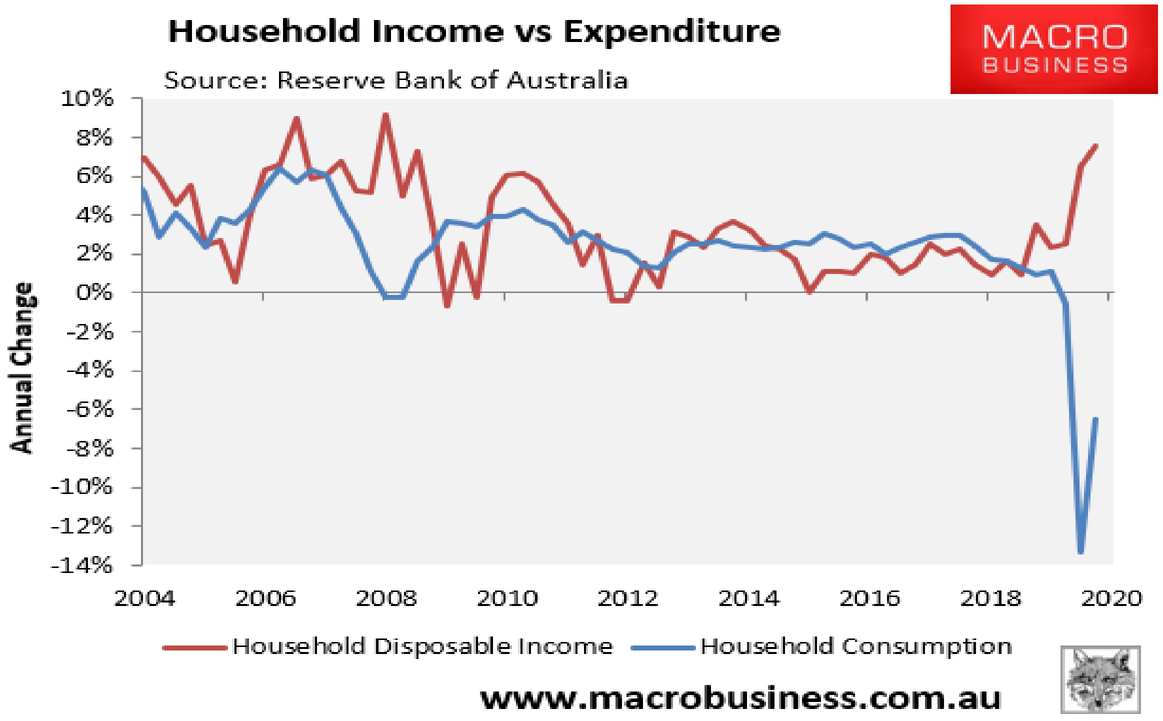
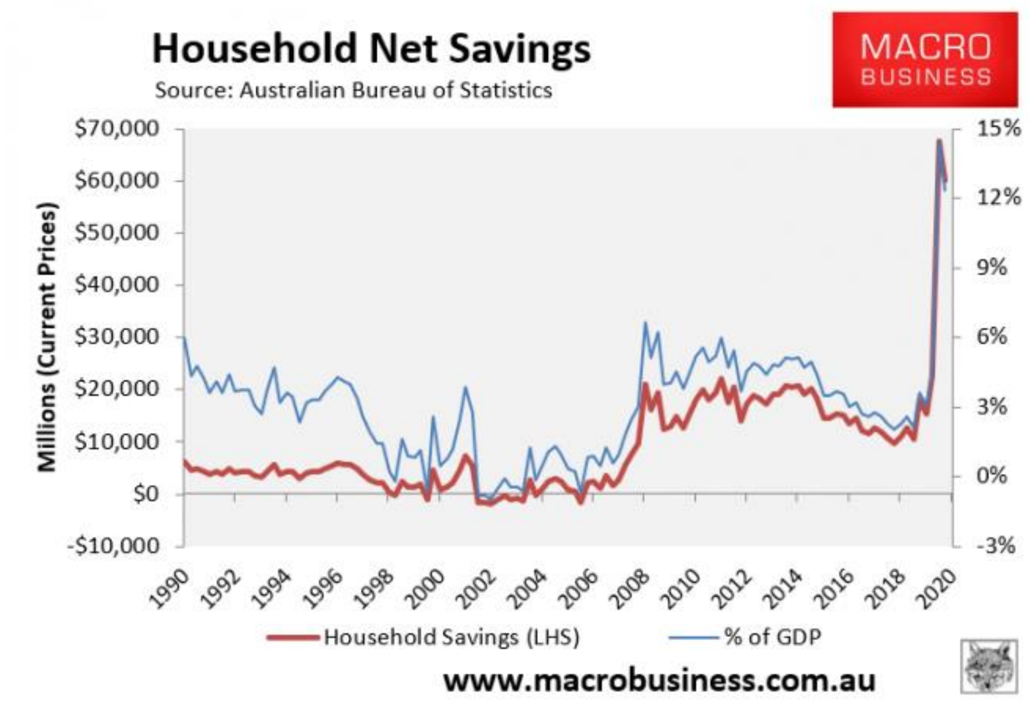
Households cashed-up





- Household income boomed on the back of stimulus, whereas consumption has only just begun to rebound following end of lockdowns.
- Huge ‘war chest’ of savings built up in Q2 and Q3, effectively pent-up stimulus.

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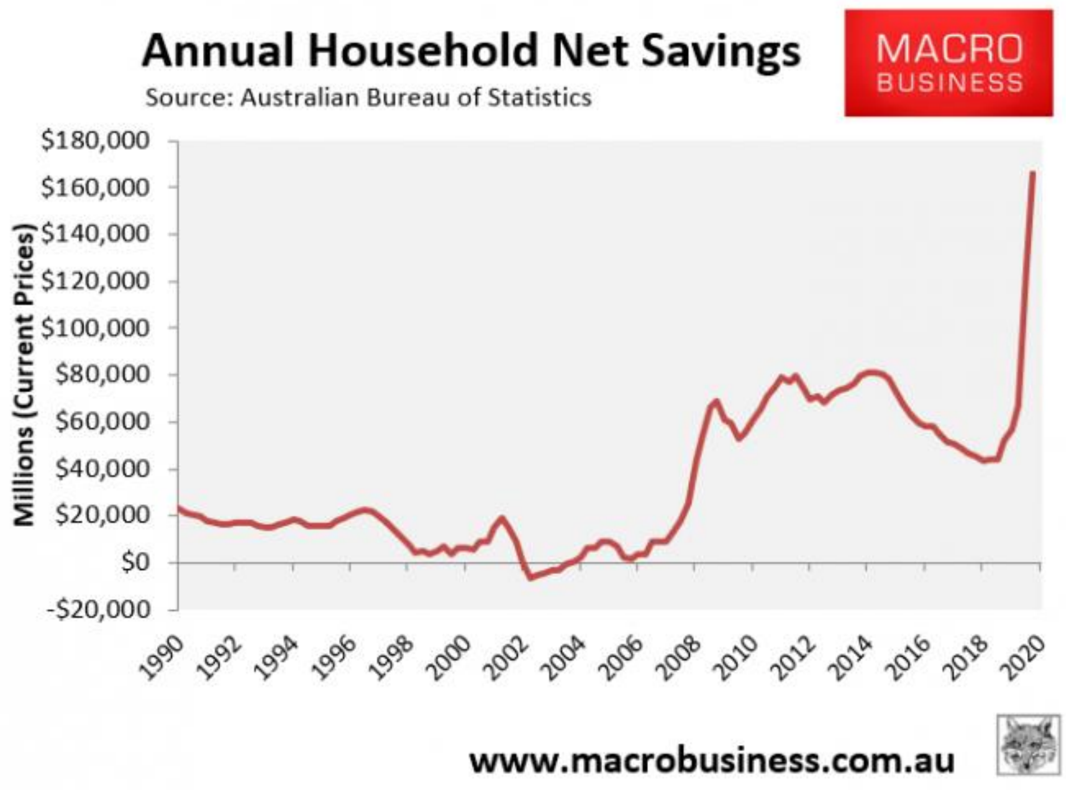
Households cashed-up

- Unprecedented $166 billion of household income was saved in the year to September 2020, 77% of which was saved in Q2 and Q3 alone.
- Household consumption historically comprises 55% of growth.
    - As pent-up savings (stimulus) is spent in 2021, it will inevitably drive up growth and property values.
    - More than offset unwinding of stimulus.



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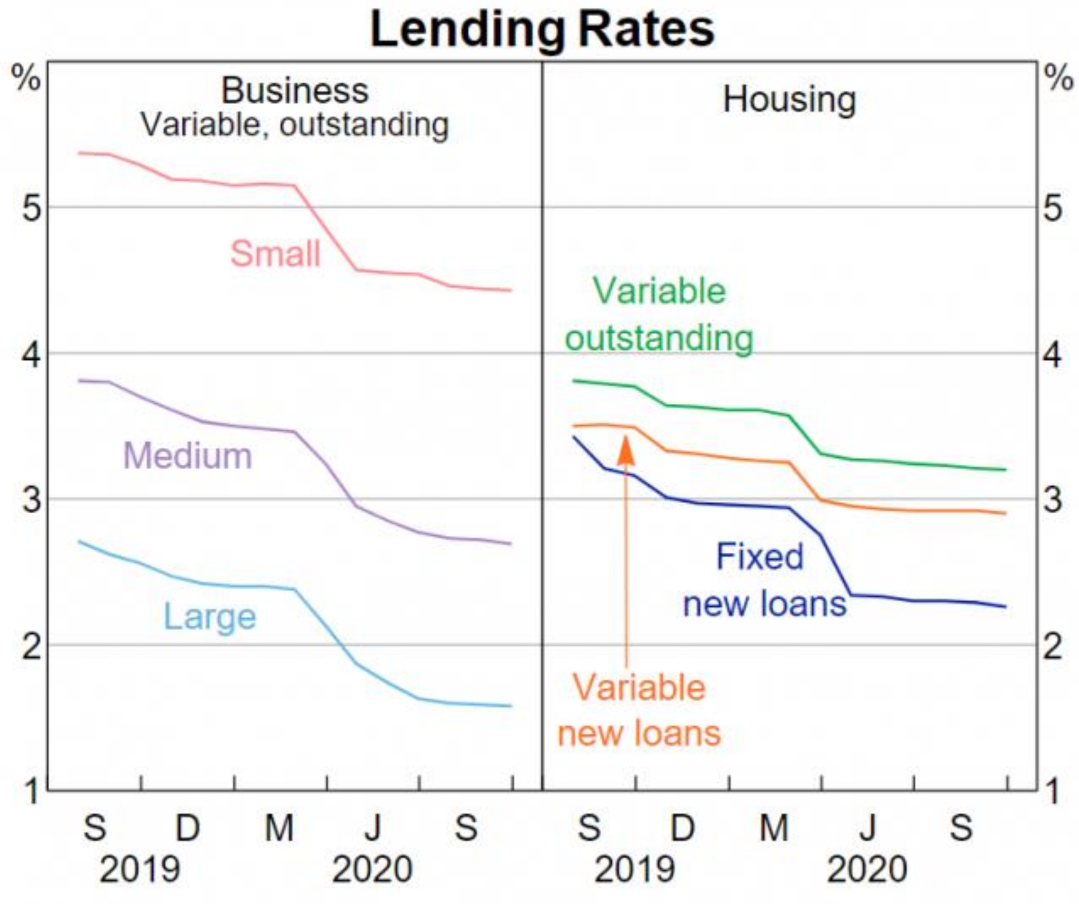
Lighting the mortgage match

- We wrongly assumed that mortgage rates had bottomed.
  - RBA's TFF has replaced banks' wholesale funding with cheap 0.1% funding.
  - Cratered mortgage rates, especially fixed.
- We also assumed credit standards would tighten due to unemployment concerns:
  - Late September, Coalition announced the axing of responsible lending rules and declared war on ASIC.
  - Green-lit banks to ease lending standards.



Sources: APRA; RBA

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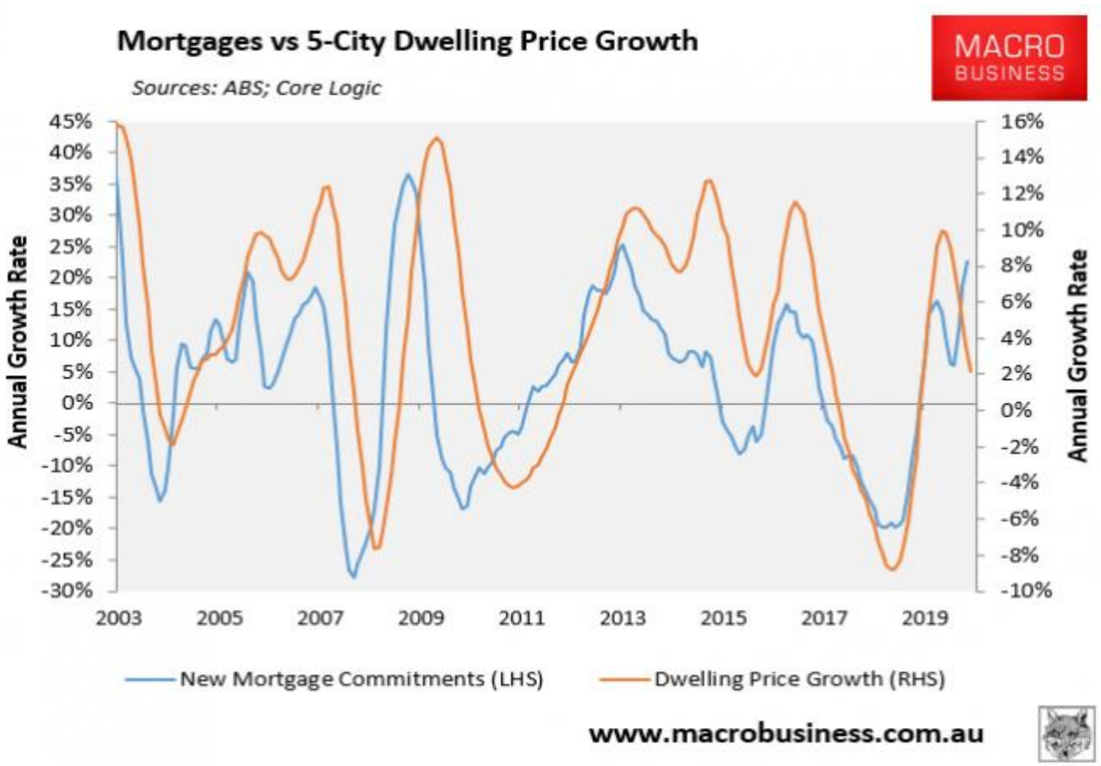
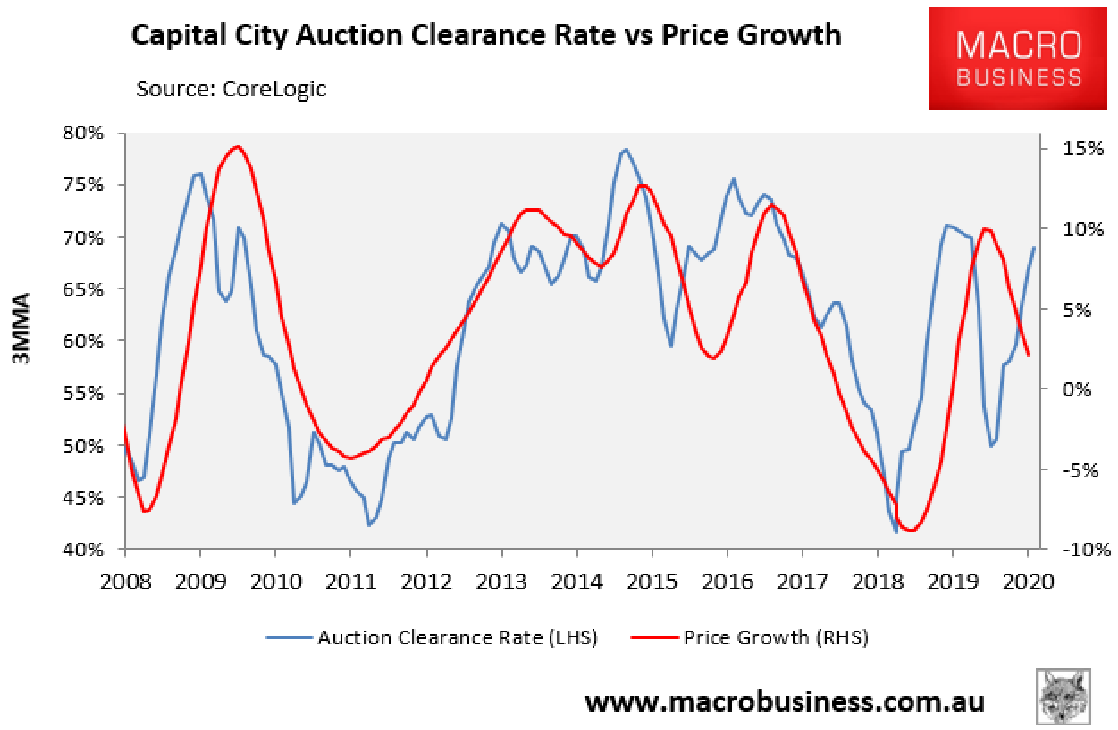
Property demand surging





- Bullish for property prices in 2021.

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Smaller capitals to perform best

- We predict the smaller major markets - Perth, Brisbane and Adelaide - to experience the strongest growth.
  - These markets are less reliant on immigration and were already relatively affordable.
- Sydney and Melbourne to experience softer, but still solid, growth.
  - Oversupply and affordability bigger problems in these markets.
  - Melbourne to lag the most.
- Check out MB’s Christmas Special Report for full analysis.

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Investment implications

Structural downturn lurking, acute or chronic?

Key positive factors

- Government stimulus
- Low probability of US tax hikes
- Earnings very good
- Inequality to increase

Other positive factors

- Bankruptcies limited
- Evictions limited
- Mortgage repayment holidays
- Wage growth very low
- Capital efficiency
- Low oil prices
- Vaccine hope
- Policy certainty
- Structural change in industries leading to cost efficiencies

Key negative factors

- Virus in Northern Hemisphere
- Valuation
- Latent bankruptcies
- Low genuine credit growth

Other negative factors

- Short term gap in US economic conditions
- Inequality longer-term effects
- Effects gradually rolling off
- Structural change in industries leading to weak demand
- Cycle
- Demand weak
- Australian stimulus badly targeted

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Viewer question of the week

What stands in the way of Australian Property in 2021?

Drop your answers in the comments

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Coming up

Nucleus Investment Insights :
Kate Samranvedhya

YouTube.com/NucleusWealth

next
Thursday, 24th December 2020

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