



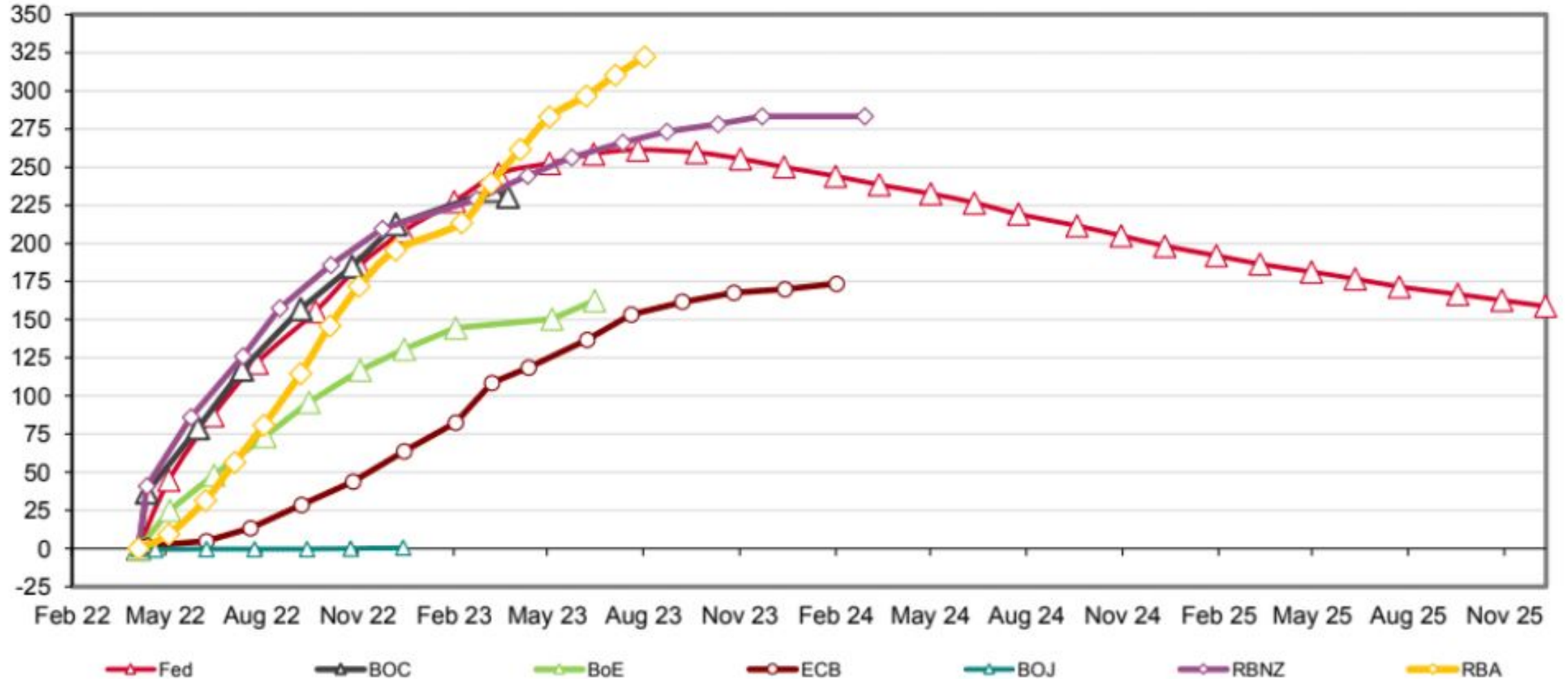
RISING RATES WILL CRUSH HOUSE PRICES

Agenda

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

Housing drivers - short term

Monetary Policy Expectations: basis point change from current



Housing drivers - short term

	Effect on Sydney / Melbourne House Prices			
	The Boom 2012-2017	The Bust 2018	Pre-COVID 2019-2020	Post-COVID 2020+
Demand Factors				
Credit Availability	▲▲▲	▼▼▼	▲▼	▲▲▲
Price of Credit	▲▲	-	-	▲▲▲
Employment	▲	▲	▲	-
Population Growth	▲▲	▲	▲	▼▼▼
Foreign Buyers	▲▲	▼	▼	▼▼
Tax Incentives	▲	-	-	▲▲
Money Laundering	▲▲	▲	▲	▲
Supply Factors				
Restrictive Planning	▲	▲	▲	▲
Under/over supply	▲	▼	▼	▲▼

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

Syd/Melb expensive, even accounting for higher rents + wages.

		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	173%	82%	16.8	2.8%	-1.7%
	Melbourne	162%	56%	11.6	3.0%	-1.5%
	Brisbane	116%	45%	9.3	4.2%	-0.7%
	Adelaide	110%	42%	8.7	4.4%	-0.6%
	Perth	95%	30%	6.2	5.1%	-0.1%
Units	Sydney	132%	40%	8.2	3.7%	-1.1%
	Melbourne	123%	31%	6.4	3.9%	-0.9%
	Brisbane	96%	23%	4.8	5.1%	-0.1%
	Adelaide	93%	23%	4.7	5.2%	0.0%
	Perth	80%	18%	3.7	6.1%	0.6%

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

Latest Stats

3 month Change in Valuation Ratios

Green = becoming cheaper, Red = more expensive

Affordability worse except Sydney (due to rocketing rent).

		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	-5.5%	3.2%	-0.1	0.2%	-0.3%
	Melbourne	2.9%	2.5%	0.0	0.1%	-0.4%
	Brisbane	7.9%	4.7%	0.6	-0.1%	-0.5%
	Adelaide	1.1%	2.9%	0.2	0.2%	-0.3%
	Perth	5.4%	2.6%	0.3	-0.1%	-0.5%
Units	Sydney	-5.3%	0.7%	-0.2	0.3%	-0.2%
	Melbourne	5.7%	1.8%	0.1	0.0%	-0.4%
	Brisbane	6.1%	2.2%	0.2	-0.1%	-0.5%
	Adelaide	7.4%	2.3%	0.3	-0.2%	-0.6%
	Perth	-0.6%	0.7%	0.0	0.3%	-0.2%

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	89%	100%	99%	98%	10%
	Melbourne	89%	96%	99%	99%	13%
	Brisbane	76%	89%	100%	100%	19%
	Adelaide	54%	88%	100%	95%	14%
	Perth	53%	60%	92%	60%	15%
Units	Sydney	69%	39%	89%	96%	6%
	Melbourne	80%	45%	91%	98%	16%
	Brisbane	29%	7%	68%	67%	6%
	Adelaide	46%	33%	91%	74%	13%
	Perth	28%	12%	61%	55%	8%

House affordability expensive everywhere except Perth.

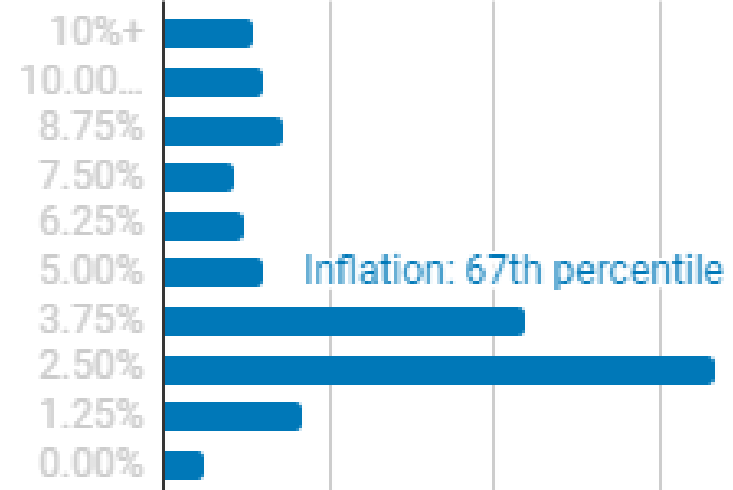
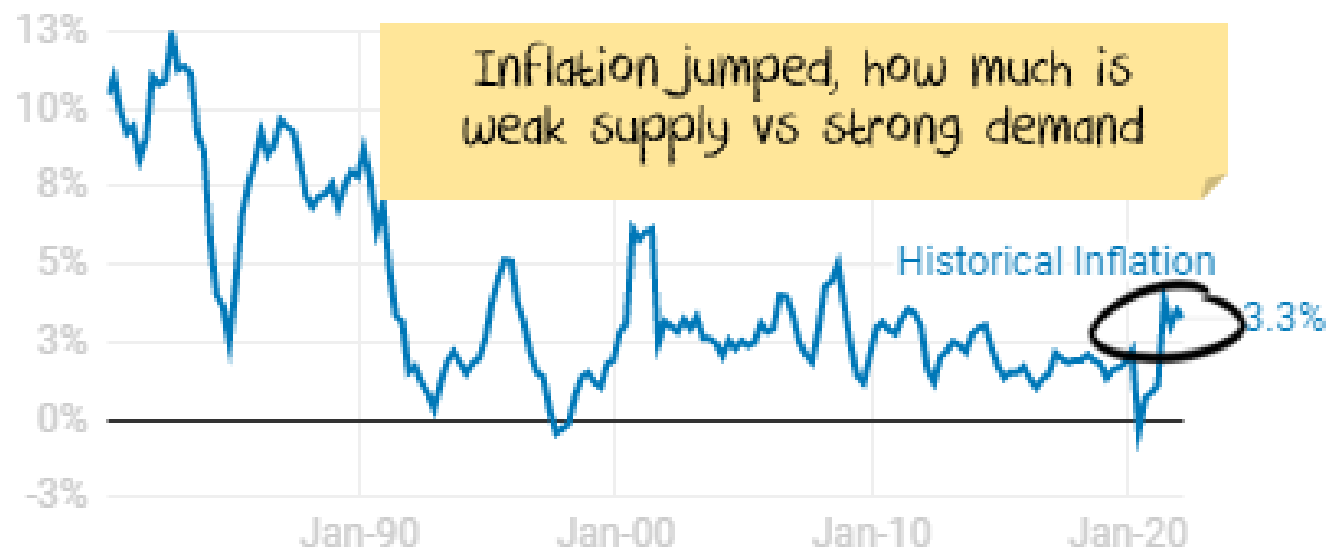
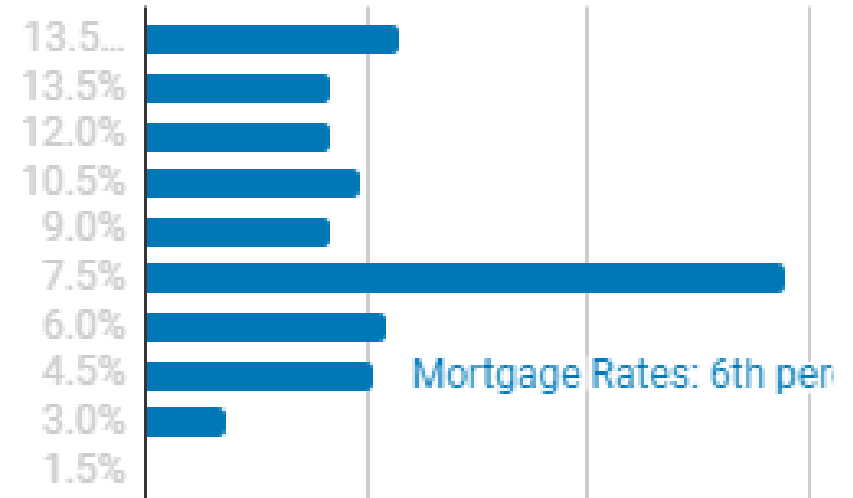
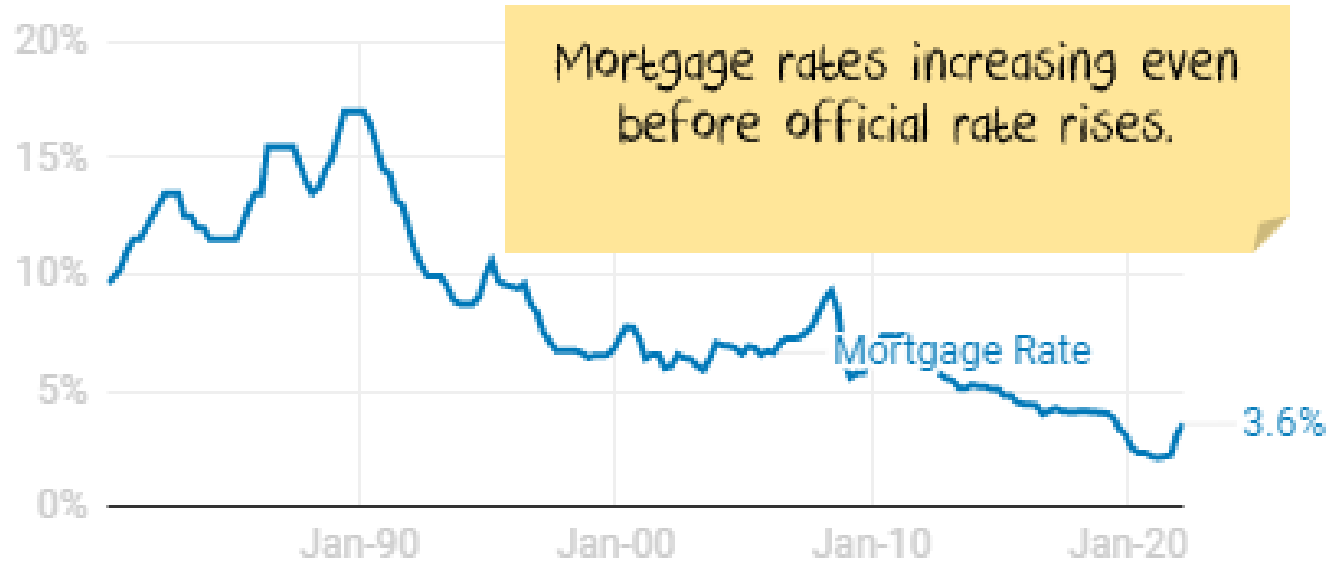
Units still affordable vs history outside of Syd/Melb.

Hope of saving a deposit, or paying off the loan, has rarely been lower.

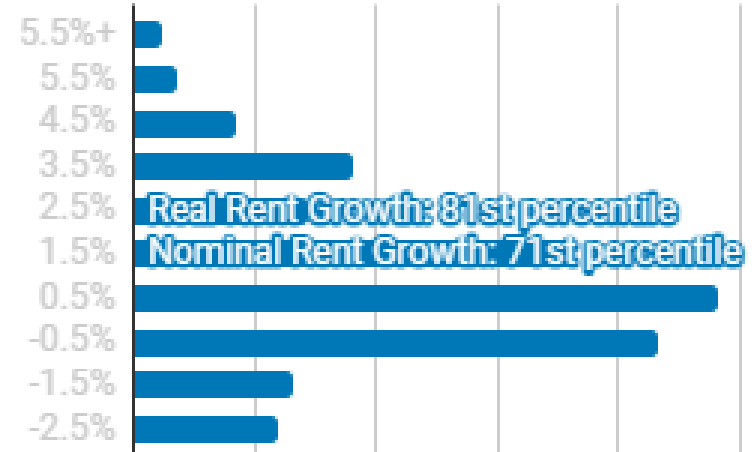
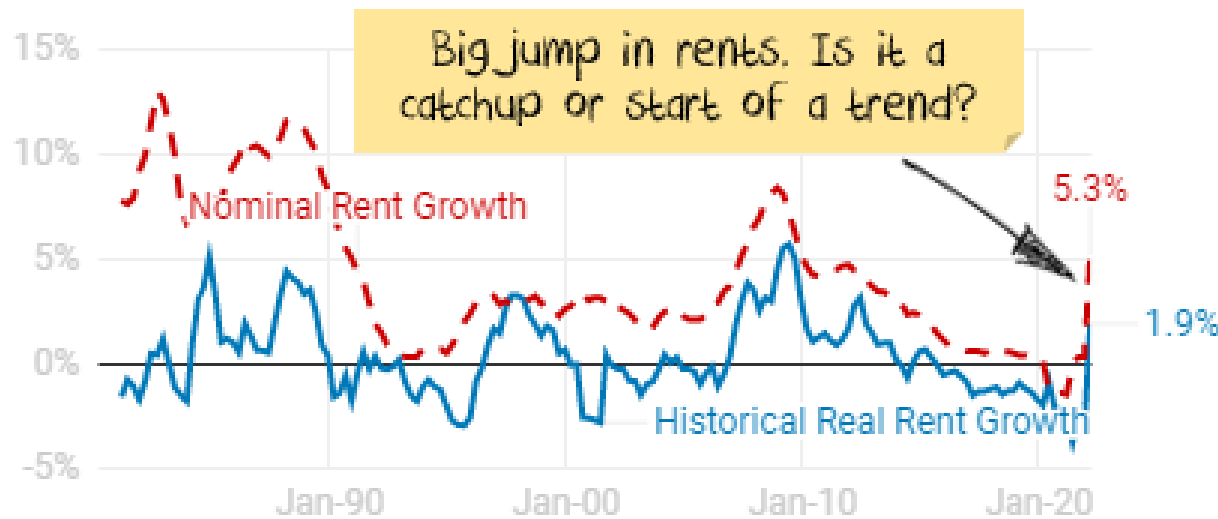
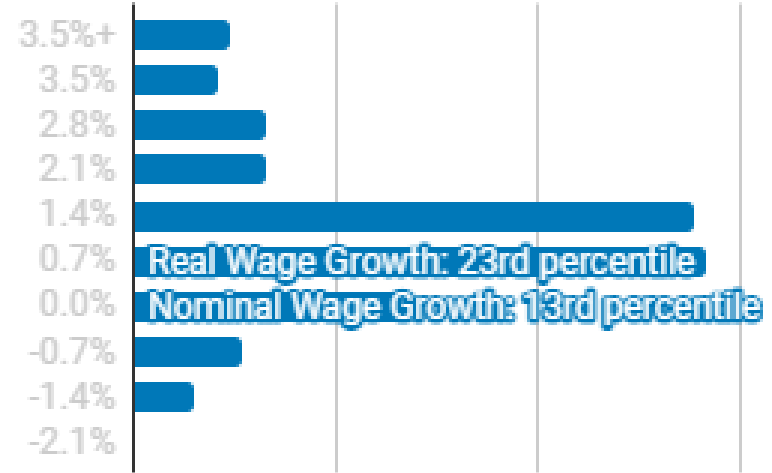
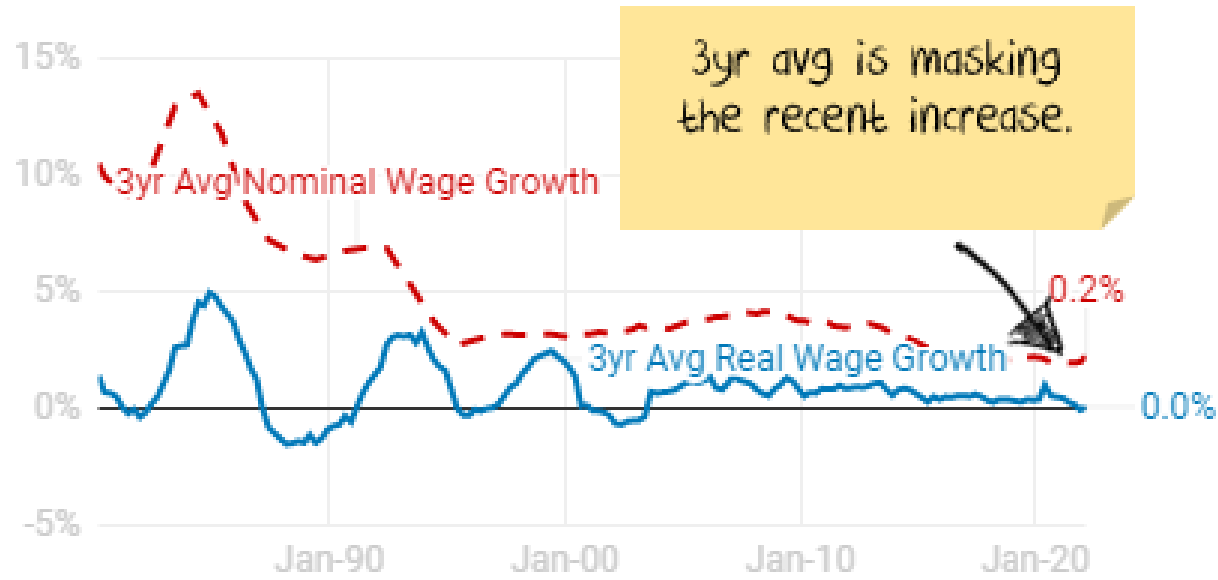
Extraordinary divergence. Absolute rental return very poor, relative to mortgage rates the returns are good.

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

Macro background



Macro background



Source: Nucleus Wealth, RBA, ABS

Specific Markets

Brisbane House: Affordability Measures

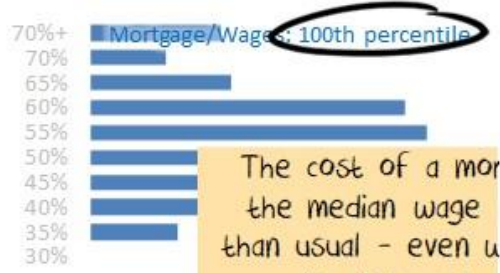


Brisbane Units: Affordability Measures



Specific Markets

Sydney House: Affordability Measures



The cost of a mortgage is higher than usual - even with low interest rates



Perth Units: Affordability Measures



Perth units close to as affordable as they have ever been.



Deposit/ repayment affordability is even OK



Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit, 4% interest rates

You have forecast a **Mortgage Payment / Rent** of **172.84%**. The charts below show how your forecast will affect the other ways that investors value property

Mortgage Payment / Rent



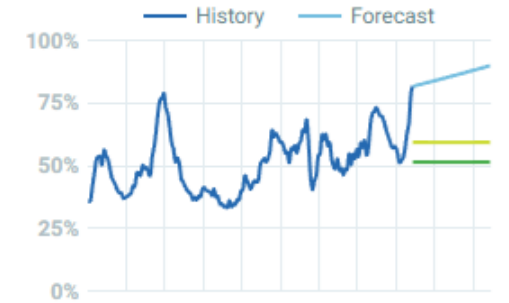
Gross Rental Yield



Property Price / Full Time Wage



Mortgage Payment / Full Time Wage



Core Economic Assumptions

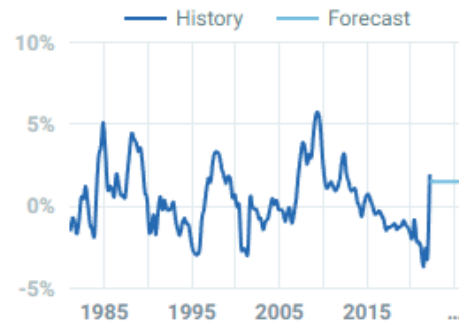
Inflation ⓘ: 3%



Average Wage Growth (Real) ⓘ: 0.5%



Rent Growth of Property (Real) ⓘ: 1.5%



Mortgage Interest Rate ⓘ: 4%

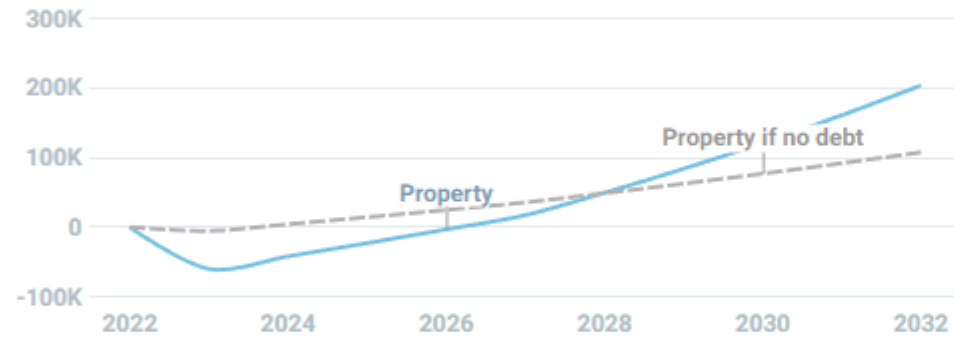


Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit. 4% interest rates

Sydney House | \$1,000,000 Value | \$200,000 Deposit

Cumulative Gain or loss from investment



Gains and Losses over ten years



AFTER 5 YEARS

Property will return \$17,054 ⓘ

AFTER 10 YEARS

Property will return \$203,443 ⓘ

DEBT CONTRIBUTION

By having debt you would be \$96,084 better off ⓘ

Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit, 7% interest rates

The effect of your forecasts:

You have forecast a **Mortgage Payment / Rent** of **172.84%**. The charts below show how your forecast will affect the other ways that investors value property

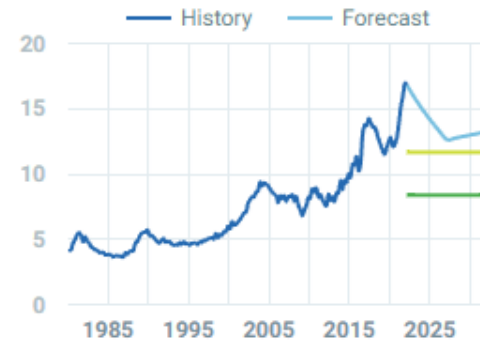
Mortgage Payment / Rent



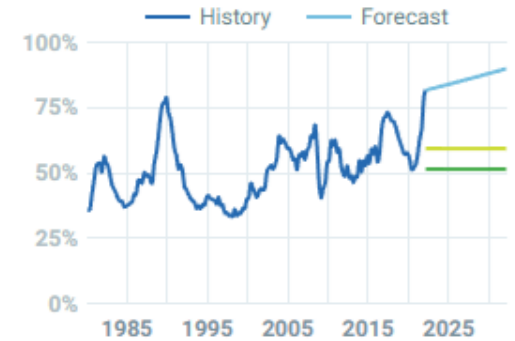
Gross Rental Yield



Property Price / Full Time Wage



Mortgage Payment / Full Time Wage

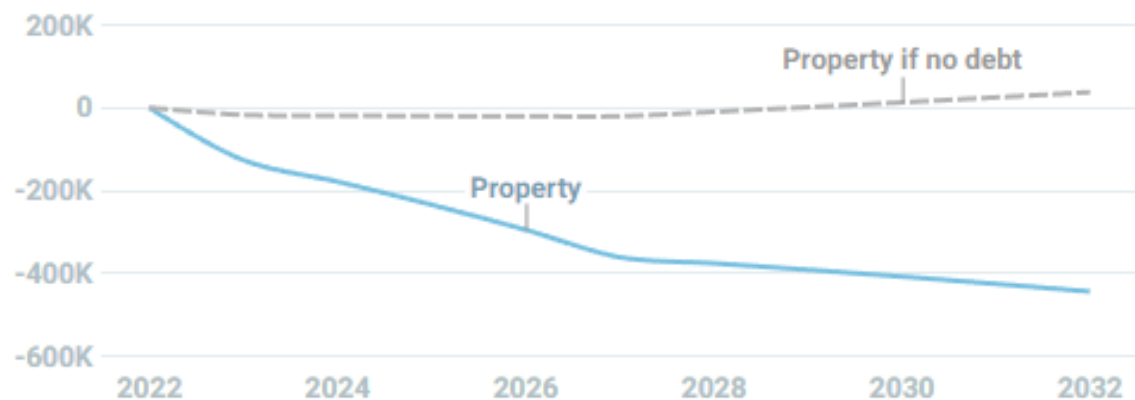


Effect of Rising Interest Rates

Scenario: Sydney House for \$1m, \$200k deposit, 7% interest rates

Sydney House | \$1,000,000 Value | \$200,000 Deposit

Cumulative Gain or loss from investment



Gains and Losses over ten years



AFTER 5 YEARS

Property will return -\$361,469 ⓘ

AFTER 10 YEARS

Property will return -\$444,377 ⓘ

DEBT CONTRIBUTION

By having debt you would be \$481,889 worse off ⓘ

Viewer question of the week:

Which will give - interest rates or house prices?

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

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