



**IS THERE A PROPERTY CRASH
BREWING? CATHERINE CASHMORE
SAYS NO.**

Agenda:

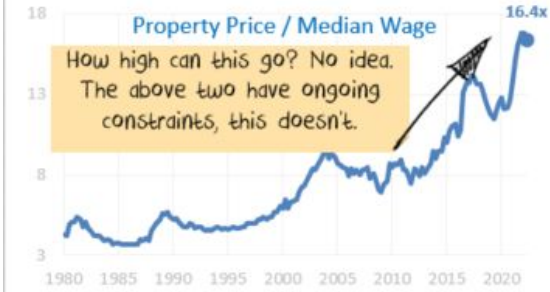
- Current Affordability
- Interest rate forecasts
- Impact on Aussie households and economy
- Is there a property crash brewing?
- Investment implications

Affordability

Sydney House: Affordability Measures



The cost of a mortgage vs the median wage or rent is higher than ever.



How high can this go? No idea. The above two have ongoing constraints, this doesn't.



Melbourne House: Affordability Measures



Melbourne affordability in the worst 4% of historical ranges.

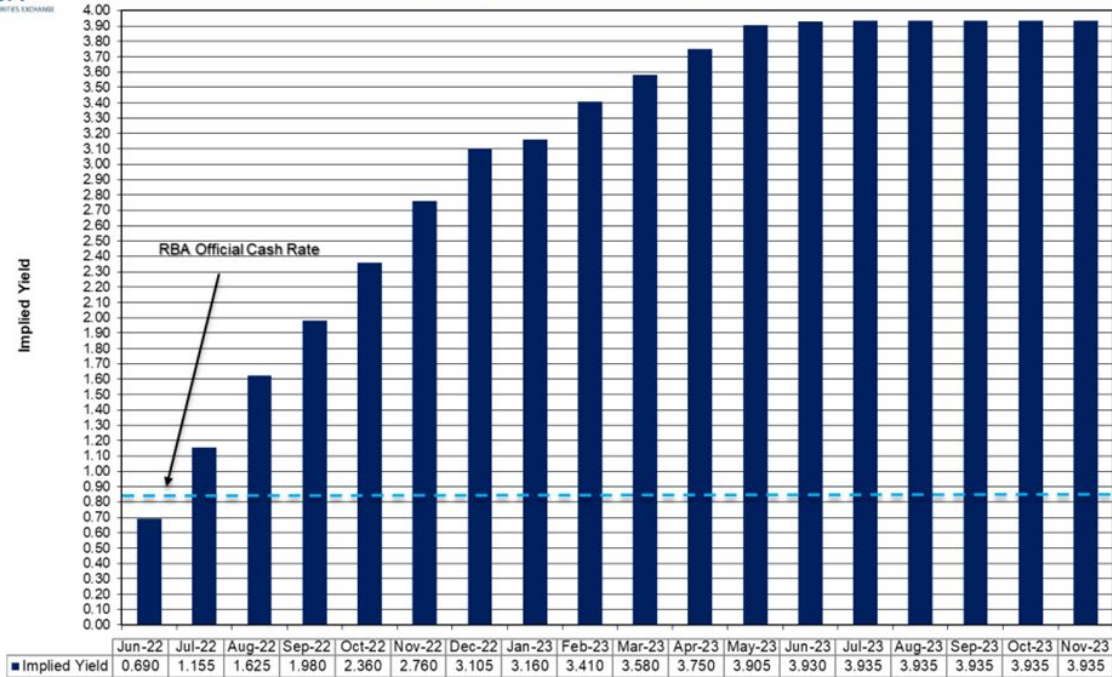


Interest rates forecast to rise aggressively



ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve

As at market close on 7th June 2022



- Futures market tips 3.1% official cash rate by December and 3.9% by May 2023
- Economists tip cash rate of around 2.75%.

Household finances would be annihilated

Australian Mortgage Repayments

	Median Dwelling Value	Monthly Repayment						
		May-22	May-22 3.70%	Plus 2.4% 6.10%	Change (\$)	Change (%)	Plus 3.55% 7.25%	Change (\$)
Sydney	\$ 1,120,836	\$ 4,127	\$ 5,434	\$ 1,307	32%	\$ 6,117	\$ 1,990	48%
Melbourne	\$ 806,196	\$ 2,969	\$ 3,908	\$ 940	32%	\$ 4,400	\$ 1,431	48%
Brisbane	\$ 779,895	\$ 2,872	\$ 3,781	\$ 909	32%	\$ 4,256	\$ 1,384	48%
Adelaide	\$ 628,744	\$ 2,315	\$ 3,048	\$ 733	32%	\$ 3,431	\$ 1,116	48%
Perth	\$ 555,538	\$ 2,046	\$ 2,693	\$ 648	32%	\$ 3,032	\$ 986	48%
Hobart	\$ 738,399	\$ 2,719	\$ 3,580	\$ 861	32%	\$ 4,030	\$ 1,311	48%
Darwin	\$ 504,306	\$ 1,857	\$ 2,445	\$ 588	32%	\$ 2,752	\$ 2,627	48%
Canberra	\$ 940,026	\$ 3,461	\$ 4,557	\$ 1,096	32%	\$ 5,130	\$ 1,669	48%
Combined Capitals	\$ 829,390	\$ 3,054	\$ 4,021	\$ 967	32%	\$ 4,526	\$ 1,472	48%
Combined Regions	\$ 597,074	\$ 2,199	\$ 2,895	\$ 696	32%	\$ 3,258	\$ 1,060	48%
National	\$ 752,507	\$ 2,771	\$ 3,648	\$ 877	32%	\$ 4,107	\$ 1,336	48%

* Assumes: Discount variable mortgage rate; 30-Year loan term; 20% deposit; P&I loan.

Sources: CoreLogic (dwelling values); RBA (average mortgage rates).

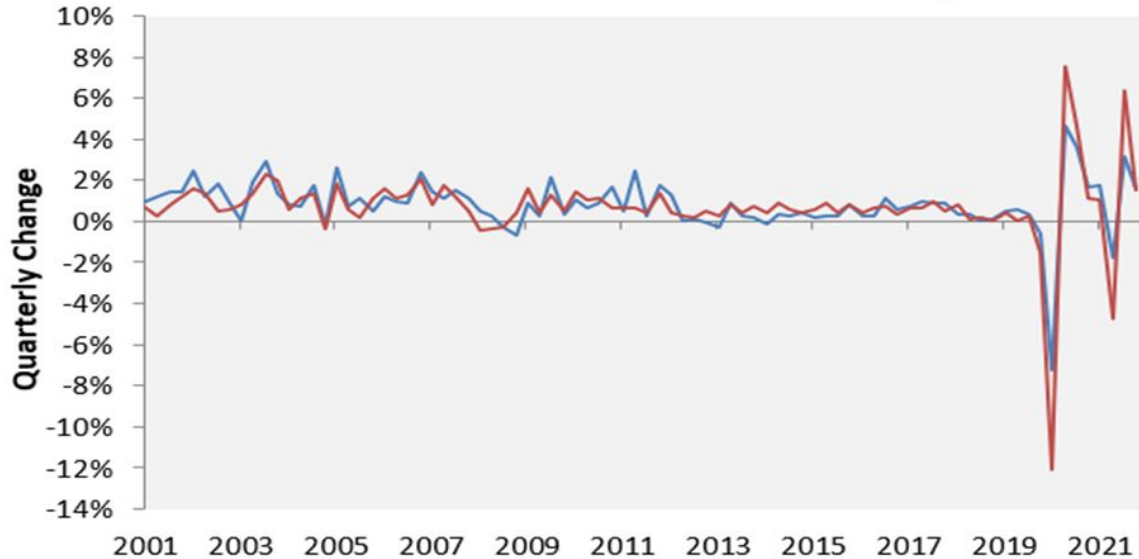
- If economists' 2.75% OCR projection comes true, mortgage repayments would soar 32% or by \$877 a month nationally.
- If the market's 3.9% OCR projection comes true, mortgage repayments would soar 48% or by \$1,336 a month nationally

Household consumption would crash, driving a recession

Australian Final Demand

Source: Australian Bureau of Statistics

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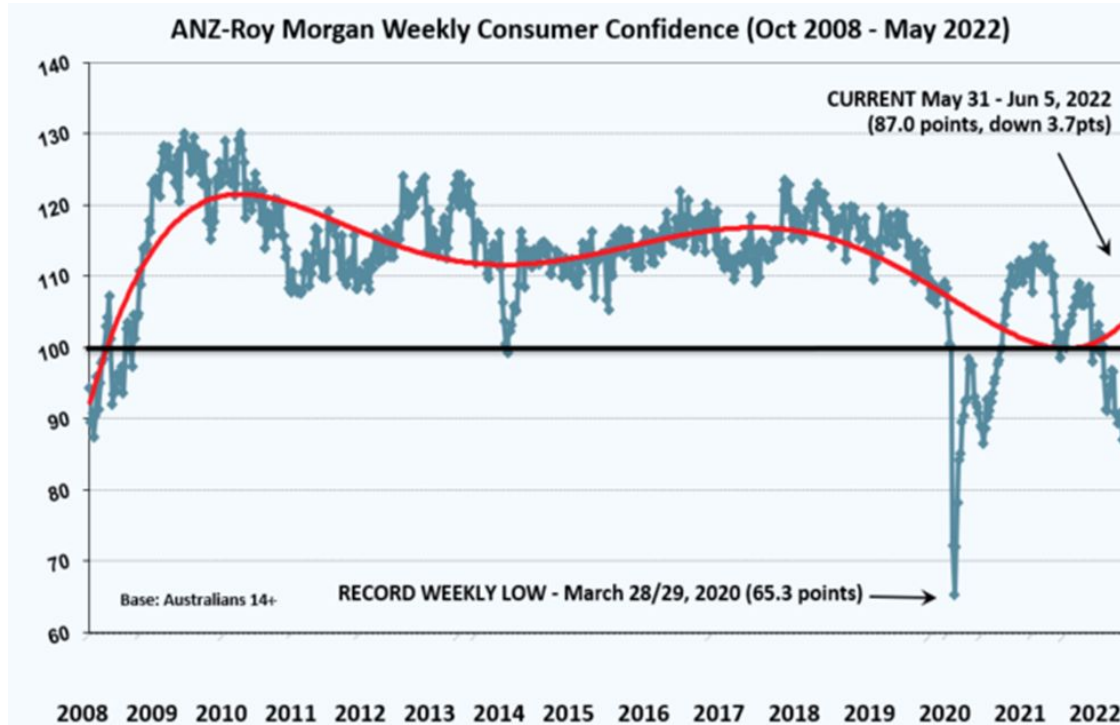
— Final Demand — Household Consumption

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- Household consumption drives economic growth (55% share).
- Soaring mortgage repayments will crush consumption and growth. House price falls will exacerbate it.
- Consumer confidence started this tightening cycle below GFC trough.

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House prices would fall heavily

- Australian house prices soared 35% over the pandemic on the back of deep cuts to mortgage rates.
- Heavy price falls would result from the sharpest lift in mortgage repayments in the nation's history.
- RBA models that a 200bp lift in mortgage rates will lower real house prices by 15%.
- Economists' projection: ~2.65% lift in mortgage rates implies a 20% real house price fall (>25% nominally).
- Market's projection: ~3.8% lift in mortgage rates implies a 28% real house price fall (~35% nominally).
- The size of the bust depends on how aggressively the RBA hikes rates.
- We don't believe RBA will lift rates that aggressively. Expect to see the RBA once again being forced to cut rates aggressively in the second half of 2023 to counter deep falls in house prices and a recession.

Viewer question of the week:

Will Australian house prices crash?

Drop your answers in the comments

Investment implications

- Structural downturn lurking, acute or chronic?

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