INVESTMENT 101

The Australian Property Conundrum

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Over the last 12 months, Australia has seen some of the most severe credit tightening new policies which seem to discourage foreign investors into their property market. Many have been affected and left confused about the situation, wondering if Australia is no longer friendly to foreign investors.

To understand what happened, we have to dive a little into the economic history of Australia over the last 15 years or so. Especially since we are talking about the period that saw the rise and fall of the resource/mining market.

Resource/Mining Rise And Fall

Prior to resource and mining becoming a major economic force, Australia was a stable but somewhat neglected economy. Australia GDP was USD415.4 billion for the year 2000, compared to USD1.57 trillion in 2013 - a staggering 378% increase over 13 years.

Much of the growth can be attributed to a resource boom created by the awakening of China. The scale and speed of growth in China fuelled strong demand especially for coal and iron ore and when prices skyrocketed, so did the Australian dollar.

That might sound like good news. But the truth is the high AUD was killing the rest of the sectors such as tourism, education and exports.

And as all booms go, the resource burst came in 2014 as growth in China slows down fairly quickly falling from more than 10% in 2012 to 6.5% today. Australia, having developed an addiction to the resource market have to quickly adapt as its currency fell along with the resource demand and interest rate race to the bottom at the same time.

At the same time, Australia has built up quite some reputation with international investors in the housing market. Thanks to its beautiful natural landscapes and relatively low natural calamities, it was fast becoming a preferred place for migration.

The Interim Solution

Australia needed to wean off its dependence on resource markets and strengthen the other sectors to fill the economic gap created. However, doing that takes time. An interim solution to hold the economy together while it transits was critical. Given the low-interest rate environment, the weak currency and high level of international interest in its properties and migration, construction was a natural choice.

Foreign purchasers were hence welcomed with open arms. Cuffs were removed to encourage liberal sales and lending to international buyers while red carpets were rolled out to developers and funds to stimulate the housing sector.

It obviously worked. The Australia economy stabilised. Unemployment was held at bay, and house prices, instead of retracting, experienced a somewhat artificial developer-led boom. Australia GDP continued to grow, continuing its 25 years of being recession free. However, such a solution is not without consequences. Foreign capital was largely biased towards city centre locations. This quickly led to an oversupply and price inflation in these areas. Given its international repute, Melbourne was the hot bed of such foreign capital driven activities. Brisbane too followed on a smaller scale. For Sydney, due to almost a decade of construction drought where median house price only grew about 21% in total, it was a long-awaited downpour.

Price escalation eventually got to the local Australians who were frenziedly buying up homes for fear of missing out. Liberal lending practices led to market risks that raised concerns within the authorities. Localised oversupply in the city areas led to yields falling and rampant selling practices to foreigners led to prices that could not be met when valued for settlement. In some cases, we have seen apartment prices as high as 40% above resale market prices being touted to unknowing foreign investors.

Putting The Cuffs Back On

While all that was happening, Australia's service and export sectors grew from strength to strength. In 2017, tourism grew 6% hitting a record 8.9 million visitors spending a total of $41.3 billion. The number of international students grew 13% hitting another record, with over 700,000 students delivering close to $30 billion of economic value. Exports too were peaking at $373 billion, with the energy and resource sector leading the pack at $214 billion with the exporting of LNG. Even the wine export achieved a record of $2.56 billion, up 15% in value and 8% in volume. Reserved Bank Of Australia (RBA) made a bullish forecast of 3.25% GDP growth for the year of 2018.

With all that in view, it is naturally time to rein in the housing market and put the cuffs back on.

Limiting sale of residential projects to foreigners at 50% was reinstated. Then came the additional foreigner duties and taxes. This was followed by toughening of lending standards and barring lending to foreign buyers. Capital gain tax discounts were removed and various other policies were introduced to restore market sensibility.

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With the economy now stronger than ever, Australia is driving towards adding 30 million to its current 24 million population by 2101 by bringing in over 200,000 new and stringently-qualified immigrants annually. That makes Australia an ideal country for property investing despite the fact that the overall environment is much more challenging than ever.

For speculative investors who bought units at inflated prices - while the bad news is you might have to cough up more money to settle, the good news is the continual prosperity of Australia will likely make your investment worthwhile, albeit over a longer period of time. That is if you have not bought at an exorbitant price. For those who bought at the right places, you will do well with the right economic and demographic fundamentals.

But what about those who are looking to buy? Well, we think that the current state of the market does provide an excellent opportunity for the savvy, brave and well-capitalised investors. Across markets such as Melbourne, Brisbane and Perth we are seeing discounts and incentives from developers looking to offload their projects. It is currently a good time to be a buyer in Australia, especially with the anticipated upsides.

Conclusion

Property markets are umbilically linked to the world economy, government regulations, monetary policies and population shifts. Today's investors need a comprehensive perspective on property markets. Receiving intelligent and responsible advice and being well supported by holistic investment services have never been more essential for investors to succeed. Investors will do well to seek advice from independent agencies with the necessary knowledge and experience to help them identify opportunities and execute their investment diligently.

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