# PINNACLE CHOICE

NEWSLETTER

AUGUST 2020

## SOUTH AUSTRALIA PROPERTY MARKET "MOST OPTIMISTIC'

The confidence level in South Australia's property market is improving the fastest among states, according to the latest poll from ANZ and the Property Council. South Australia's confidence level currently sits above the national average after it recorded the biggest quarterly increase.

The survey showed that seven in 10 property market professionals are optimistic about the future impacts of the COVID-19 outbreak in the state. They expect things to improve over the next three months.

Daniel Gannon, executive director for South Australia at the Property Council, said it is going to take some time for confidence to return to pre-COVID-19 levels. Thus, caution remains despite the optimism.

"However, it is vital for all levels of government to continue to work with the sector to ensure that landlords and tenants alike survive this hibernation period — rather than picking favourites," he said.

According to a CoreLogic report, South Australia's capital city, Adelaide, reported a slight decline in house prices in June, down by 0.2%.

Despite this, Adelaide, along with Perth, remains the strongest rental market amongst capital cities.

"These cities have also generally seen lower levels of investor participation and less' investment grade' construction over recent years which has kept rental supply reasonably tight," the report said.

A separate report from Domain showed that rents in Adelaide remained stable over the June quarter at $395 for houses and $320 for units. The South Australian capital remained

the second most affordable city to rent a house. However, the city's relative affordability for units is declining, as rents in the segment have continuously increased since 2011.

Adelaide has one of the stronger rental markets of all major cities. In fact, it has the second lowest vacancy rate, which has declined, and steady asking rents.

Nicola Powell, senior research analyst at Domain, said Adelaide offers greater value for money compared to other capital cities.

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* Gerv Tacadena - Your Investment Property Magazine 2020

## AUCTION CLEARANCE RATES JULY 2020

| Region | July 2020 | Last year |
|---|---|---|
| VIC - Melbourne | 49.5% | 70.3% (LY) |
| NSW - Sydney | 65% | 72.5% (LY) |
| QLD - Brisbane | 46% | 34.2% (LY) |
| SA - Adelaide | 66.5% | 50% (LY) |

The Stage 3 Restrictions in Victoria can be seen through the clearance rates for July 2020. A decrease of 20.8% since last year for Melbourne. Adelaide still strong in July, with the highest clearance rate, even higher than last year in July.

*Domain Auction Results 2020

## HOW HOPEFUL HOME BUYERS ARE MAKING THE MOST OF THE CURRENT CLIMATE

While the COVID-19 pandemic continues to disrupt property markets across the country, none more so than in Victoria, industry experts are reporting a wave of activity from first-home buyers spurred on by increased government support.

"First-home buyers are out in force," says Antony Bucello, director of National Property Buyers. "Some people can really take advantage of some really good incentives put in place by government organisations."

Victorian first-home buyers pay no stamp duty on homes priced at $600,000 or less and a reduced fee on properties priced between $600,000 and $750,000. They may also be eligible for the $10,000 First Home Owner grant when buying or building their first new home. This grant is doubled for new homes built in regional Victoria until June 30, 2021.

Throw in the recently announced HomeBuilder program which will deliver grants of $25,000 to eligible parties building a new home, and it's little wonder there's good activity in this sector. "There are no shortage of buyers at that level going through well-located, well-presented properties," says Bucello, who reports properties within 15 kilometres of the CBD and close to rail transport are at the top of the first-home buyers' wishlist.

Bucello says investors are largely sitting on the sidelines, with only a few exceptions in the sub-$700,000 price bracket.

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* Kate Farrelly - Domain.Com.Au 2020

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## AUSTRALIAN HOUSEHOLDS COMFORTABLE ABOUT THEIR FINANCES

Research conducted by ME Bank has found that Australian household financial comfort levels increased by 3 per cent to 5.76 (out of 10) in the past six months to June 2020 – just shy of its historical high of 5.78 recorded in December 2014.

Contrary to expectations, financial comfort has jumped the most among typically struggling cohorts – such as casual workers, the unemployed, low-income households and single-parent households.

That being said, while these groups might be benefiting from greater government stimulus measures, the report highlighted that their comfort level remains much lower than the average household and higher-income earners.

ME Bank's consulting economist, Jeff Oughton, attributed the high financial comfort to a combination of prudent financial actions by households in response to both the health and economic crisis and unprecedented government support.

"Fear of COVID-19 and a very weak labour market triggered many households to increase precautionary savings, reduce spending, draw on long-term savings such as superannuation, and delay bills or loan repayments," he said.

Despite some Australians finding themselves in a more comfortable financial position, many are struggling to make ends

meet due to the crisis. The report notes that in June, only 32 per cent of households indicated they could "maintain their lifestyle for more than three months if they lost their income".

Many households were already under pressure before COVID-19, particularly with low household income growth and cost of living concerns.

"Financial comfort levels are up for now, but many households are on the cliff's edge. They've lost income, their jobs and entire livelihoods. Their wafer-thin savings buffer is dwindling, and government support is the main action stopping them from falling over," Mr Oughton said.

Not only are Australians finding it harder to make ends meet, many could not change their position if they wanted to, the research found.

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*Cameron Micallef - Smart Property Investment 2020

## RBA ACKNOWLEDGES HOMEBUILDER BOOST

The Reserve Bank of Australia (RBA) has released minutes from its monetary policy board meeting earlier this month, outlining its assessment of developments in the residential property market.

The central bank noted that conditions in the established housing market "remained mixed", pointing to recent falls in dwelling values across Australia's capital cities.

"Housing prices in some larger cities had declined in June, though were only a little below recent peaks in the case of Sydney and Melbourne," the RBA noted.

"Housing prices in a number of smaller cities were broadly unchanged."

The central bank also observed that housing turnover had picked up following the lifting of bans on in-person auctions and open homes.

"Housing turnover declined significantly when in-person auctions and open homes were banned owing to physical distancing restrictions, but as these were lifted, turnover had recovered somewhat," the RBA noted.

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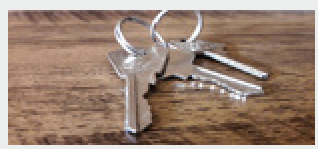
*Smart Property Investment Reporter 2020

## WHY REAL ESTATE IS THE REAL WINNER OF THE PANDEMIC



The co-founder and CEO of Freedom Property Investors, Scott Kuru, has reflected on the question: Where should you invest during and post-pandemic?

From his perspective, the answer's definitely not in business – since it's "always been a wild horse, one with scope to promise a pot of gold at the end of the rainbow or better the light of success at the end of the dark tunnel of start-up risk and looming competition".

While conceding that many business genres do have strong foundations, Mr Kuru said they are all to be considered with caution.

"Any size business is at liberty of market trends and unexpected shifts such as COVID-19 and its impending aftermath, where many businesses have taken a big hit and are yet to suffer for time to come."

He argued that businesses will always be subject to such unexpected forces or changes in market climate "and hence are volatile as an investment". Instead, Mr Kuru lauded residential property for its continued upholding as "a stable place in any property market".

"One just needs to look at the rows of empty retail shops and the change of use of warehouses and office spaces to see that residential property remains as a safe investment staple."

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* Grace Ormsby - Smart Property Investment 2020

# WHY CONCERNS ABOUT THE SO-CALLED ECONOMIC 'CLIFF' ARE OVERBLOWN

The fears were that with JobKeeper previously due to end and the first wave of mortgage deferrals to cease at this time, this could mark a turning point for the economy towards greater unemployment, forced property sales and steep property price falls.

Now that it has been announced that JobKeeper and JobSeeker will be extended beyond September, and recent stimulus measures announced, including pandemic leave in Victoria, those concerns have been somewhat lessened. However, it raises the question, will we see the so-called "September cliff" simply shifted to a later date?

The problem with this perspective is that it draws a line in the sand between pre and post the "cliff". Rarely do we see economic shifts occur so rapidly or neatly, and yet commentators, markets and investors will often react to certain events as if the outcomes will be immediate.

In the lead-up to the 2019 election, the uncertainty over the result led many investors to sit on their hands. If Labor won, it would have meant the possibility of reform to negative gearing and capital gains tax, which spooked investors. When the Coalition won in a surprise upset, investor sentiment rallied and the share market surged to an 11-year high.

The example of the federal election reveals how irrational consumer and investor confidence can be. Had Labor won the election, any changes to negative gearing or capital gains tax could have taken months or even years to legislate, and typically these major changes would be grandfathered i.e. only apply to new transactions from a certain date onwards.

Should the proposed Labor changes have impacted the property market in a negative way, you could expect the government to react with new policies and initiatives. Let's remember Labor abolished negative gearing in 1985, only to reinstate it two years later after rents began to rise and the forecasted tax savings never materialised. For each action, there is a reaction!

The same goes for an economic cliff. If the JobKeeper scheme ends as planned in March next year, the fallout is unlikely to be immediate and you can expect governments, businesses and individuals to react. While it is reasonable to expect some people to lose their jobs immediately, many job losses will take months to eventuate. Many others will hold onto their jobs and new jobs will be created.

As for mortgage deferrals, this will be a staggered process. Only those that successfully negotiated a deferral in March will have their repayments return to normal in September. In reality, everyone will have their deferrals end at different times.

Confidence is fickle. Fears about the economic cliff could in part become a self-fulfilling prophecy. Any hit to confidence could cause the feared decline. On the other hand, given any decline is unlikely to be immediate, that could be looked on favourably by investors and markets.

The government isn't simply a passive observer of the economy. They do have certain levers at their disposal to prevent a worst-case scenario. This was proven by the quick introduction and extension of JobKeeper, the doubling of the JobSeeker payment, the introduction of pandemic leave in Victoria and the many other stimulus packages introduced since.

If it looks like the economy will fall off a cliff in March, the government won't just let it happen, they will intervene. In regard to mortgage deferrals, discussions are already underway between the banks and regulators on how to continue to support households once their deferral periods end.

Economic modelling is notoriously poor at predicting human behaviour. Worst-case scenarios will tend to ignore the adaptability and capacity for invention that has seen humans through previous economic crises.

Even in the very worst of times such as recession, war or a pandemic, the world doesn't stop. Life goes on. It is not human nature to throw up our hands and simply accept the very worst outcomes. Instead, people, businesses and governments will react, adapt, innovate and fight.

Come March, we will not fall off an economic cliff into a permanent period of decline. The reality will be far less neat. While it's fairly certain there'll be some rocky times ahead for parts of the economy, the impacts will likely be less immediate, less severe and more uneven than predicted. This is not the first economic challenge our world has faced, there have been numerous wars and recessions previously.

Despite these major historic world events taking place, people survived and adapted, house and share prices went up, society progressed and life went on.

*David Hancock - Smart Property Investment 2020