

# **FINANCIAL TURMOIL and AUSSIE PROPERTY**

By Michael Bentley 2016.

**The most common question** we are being asked at the moment is - what does Brexit, China's slowdown, financial upheaval, stock markets falling, the USA election result and general world uncertainty mean for the Aussie property markets?

**This is the fifth stock** market crash or bear market in stocks in less than 10 years.

**So what does all this mean for Australian property?**

**Firstly**, many of the readers would not have been around in business back in 1987. Before internet. Before computerised selloffs.

In financial markets, **Black Monday** refers to a dreadful day back in 1987.

**MONDAY, OCTOBER 19, 1987.** When stock markets around the world crashed, shedding a huge value in a very short period. The crash began in HK, spread west through international time zones to Europe, hitting the USA after other markets had already declined by a significant margin. The Dow Jones (DJIA) dropped by 22.6%. By the end of October, stock markets in Hong Kong had fallen 45.8%, Australia 41.8%, the UK 6.4%, the United States 22.68%, and Canada 22.5.

**The Black Monday** decline was the largest one day percentage decline in stock market history at that time.

**Australia's biggest ever** property boom then followed the stock market crash of 1987, with some parts of Sydney increasing by a massive 98% in the 2 years following. In fact every time there has been a stock market crash in the last 50 years, Australian residential properties increased in value quite dramatically.

**Simply put**, what happened then was that everybody who had been burnt or who had ridden the roller coaster threw in the towel, and said they would never buy a stock again.

**People moved** back into the security of bricks and mortar. Into safety.

**Cash, gold and real estate** were the most popular.

**There was a flight to safety, and billions moved into real estate in Australia.**

And that was at a time of very high 15%+ mortgage rates!

**That was a long time ago, so more recently, what happened after the 2008 stock crash and global financial crisis?**

On September 16, 2008, failures of large financial institutions in the United States, due primarily to exposure of securities of packaged subprime loans and credit default swaps issued to insure these loans and their issuers, rapidly evolved into a global crisis resulting in a sharp decline in the value of equities (stock) and commodities worldwide.

**In the 2 years** immediately following, from October 2008 to October 2010, Melbourne apartments shot up by 23.6 % and Sydney went up by 20.2%

**Then what happened after the 2010 to 2011 stocks crash?**

Following the Greek bailout in 2010 which triggered the decline of stock markets worldwide and of the Euro's value, on the 6 May 2010 the Dow Jones suffered its worst intra-day loss dropping 1,000 points before partially recovering. A year later, in late July/early August 2011 stock markets around the world again plummeted and were volatile for the rest of that year.

**In the 2 years** following these events Sydney houses went up by 25% while Melbourne rose by 22%.

**Will history repeat** itself now with the world uncertainty? What if the Dow and or the world markets **AGAIN collapse** as has been predicted by some?

**One thing for sure** the events of the past few years have taught us is that no one knows the future, but the experts tell us that the Australian economy remains one of the strongest in the world, with 25 years of positive GDP growth, and National Australia Bank says economic confidence is higher than at any time since the GFC:

*“Consistently above-average business conditions in non-mining appear to supporting business confidence (despite Brexit), which is encouraging. Our real GDP forecasts are 2.9% for both 2016 and 2017. Brexit will have minimal direct effect given Australia’s goods trade has re-oriented to Asia”*

The exchange rate is attractive, its AAA credit rating will continue to attract investment, and Australia has low debt, and is continuing to look to high economic growth.

(To download the latest Australian economic figures go here:  
<http://www.citylifeprojects.net/why-invest-in-australia.php>)

**Once you see** these figures, it may help explain why Australia is and will remain a safe haven for capital.

**Certainly it is a fantastic time** to be a landlord if you already own property. Rents are rising, and will continue upwards for some time, and rental occupancy rates are at all-time highs throughout the country, including previously troubled areas like Melbourne's CBD.

There will always be pockets that suffer higher vacancy from time to time so research into occupancy rates is always important before investing.

TIP: Look for locations that have occupancy rates at 95% or higher.

**Migration hit record highs** during the Global Financial Crisis in 2008-2009, and still remains high with 190,000 migration places available for 2015 to 2016 fuelling demand for new accommodation. Current population is 24.1 million, and with:

- one birth every 1 minute and 44 seconds,
- one death every 3 minutes and 22 seconds,
- a net gain of one international migration every 2 minutes and 36 seconds, leading to
- an overall total population increase of one person every 1 minute and 30 seconds

**Meaning by 2061** we are likely to see up to 48.3 million people in Australia.

**Simply put** where will all these people live?

There is still strong demand for properties.

The National Housing Supply Council says we're undersupplied by more than 280,000 homes right now and this could balloon out to at least 430,000 by 2028.

**So what's going on?** Why are we undersupplied and why is the problem so hard to fix? And why is there so often talk about "oversupply?"

Basically, it relates to population trends, incoming migration numbers, social changes, lifestyle choices, a lack of available land and constraints

on construction including strict government planning approvals on apartments recently introduced.

**Recent bank restrictions** on lending to new developers will mean many apartment projects will be delayed or cancelled, so new apartment supply during 2018-2020 is likely to be curtailed.

**New height restrictions** in certain areas have already slowed or stopped several major apartment projects from going ahead. The new Better Apartments policy has also meant the flood of tiny, poorly designed apartments that came onto the market over the past 5 years is unlikely to be repeated. These are the oversupply figures so often quoted.

## **SUMMARY**

**The biggest Dow Jones single day falls in history were recorded in**

**Sept 2008** (Sydney house prices rose 30% between September 2008 and Sept 2013) (Melbourne +23%)

**Sept 2001** (Sydney house prices rose 48% between September 2001 and Sept 2004) (Melbourne +33%)

**April 2000** (Sydney house prices rose 66% between April 2000 and April 2003) (Melbourne +50%)

**Oct 1997** (Sydney house prices rose 31% between October 1997 and October 2000) (Melbourne +33%)

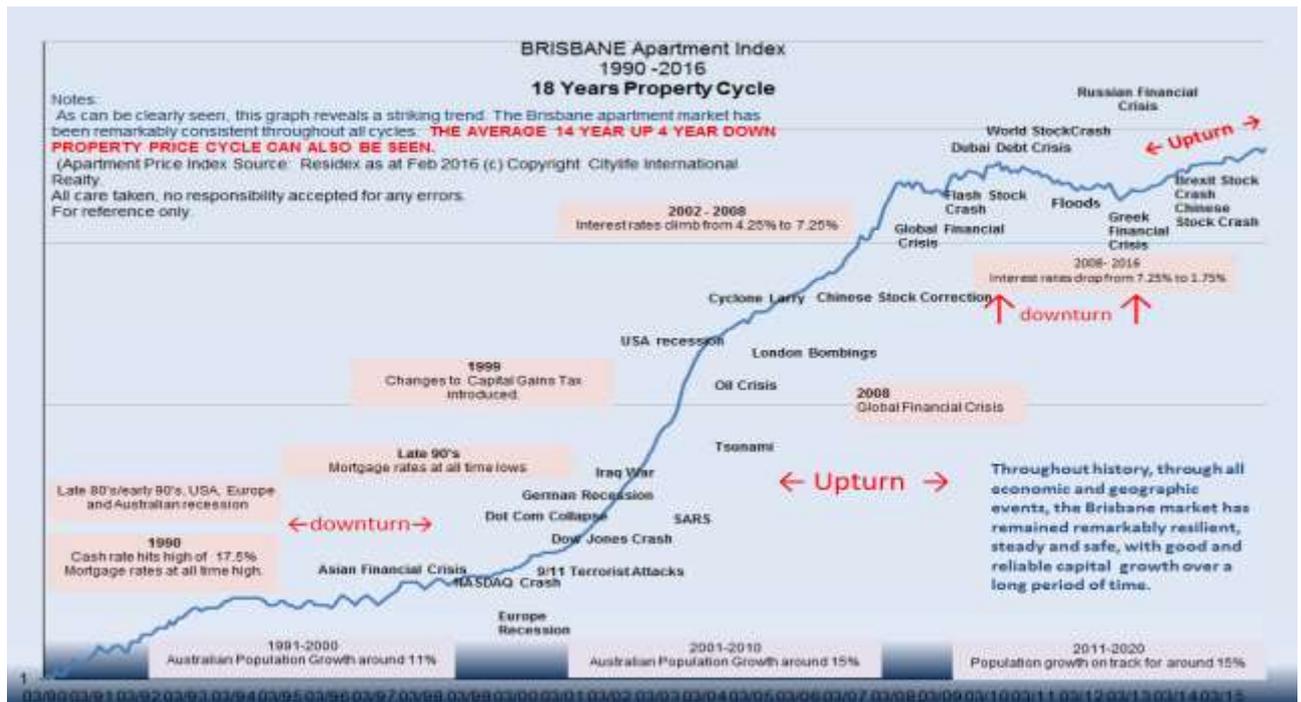
**Sept 1998** (Sydney house prices rose 50% between September 1998 and Sept 2001) (Melbourne +50%)

**Oct 1987** (Sydney house prices rose 98% between October 1987 and October 1991) (Melbourne +55%)

**You may be thinking** "Ah yes, that is Sydney for you!"

Well, over the same period the Melbourne house prices ALSO shot up! (as shown above)

And consider this: using Brisbane apartments as an example, through all economic cycles, through all stock crashes, financial and geographic crises and events, the property prices have also maintained their upward growth:



There is no reason to assume the future does will not be just as rosy, if not more so.

**Perhaps the best thing** to happen will be more stock crashes in the future!

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Prefer to **WAIT AND WATCH** while leaving your money in cash due to "uncertainty?" Read our report CASH IS KING here;

<http://www.citylifeprojects.net/cash.php>

**Still** think stocks are better than property? See our comparison here STOCK V PROPERTY RETURNS here:

<http://www.citylifeprojects.net/shares-v-property.php>

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