

PROPERTY DEVELOPMENT

S Y S T E M

www.PropertyDevelopmentSystem.com.au

Disclaimer

- I am not an economist
 - I am only a property entrepreneur who likes to stay tuned with the market.
- For that I read and keep an eye on various economic indicators and listen for signals.
 - What I am going to talk about next is a synthesis of my research from various news sites & online journals that I follow and read.
- You are to make your own judgement & be 100% responsible for it.
 - Even economist don't get it right. If they could, the top richest people in the world, would be economist. I am yet to come across a rich economist in my journey.

Year 2014

- A solid and steady year for Australian Residential Market for major cities.
 - Major Market remained steady through out 2014.
- Economists expect that Interest rates will probably remain the same throughout 2015.
 - ANZ even predicting another fall in interest rates.
- So the overall outlook, should remain buoyant through out 2015.

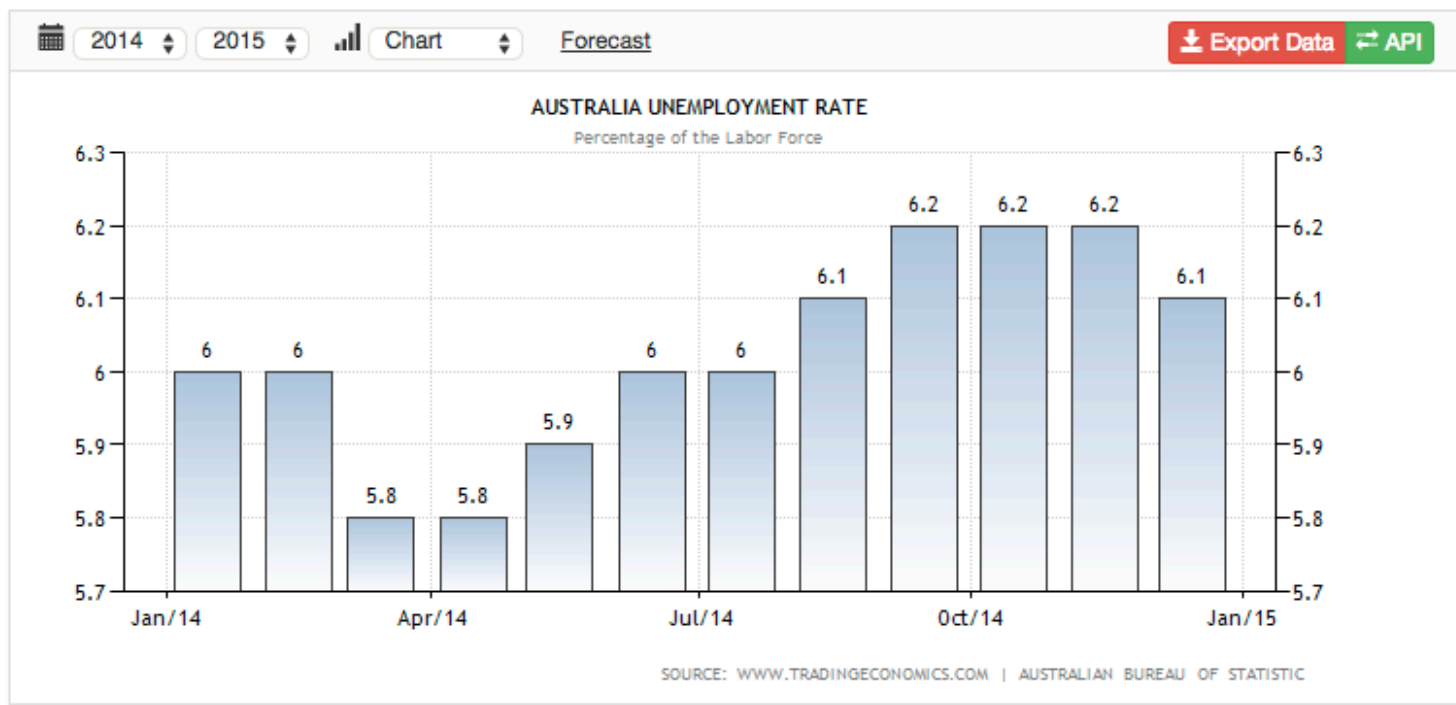
What is the Government Doing?

- Government is placing a ban on borrowing to buy property within self managed super funds – this could slow down the economy.
 - Government has capped investment loans to 10% of banks capital lending requirements.
- Most banks are either at this limit & most secondary lenders have already exceeded this limit – which basically squeezes the credit & destroys confidence and subdues demand.
 - Bad Move

Unemployment Rate

- Property prices are a leading determinant of
 - household consumption expenditure
 - consumer confidence
 - employment and growth
- When property prices rise
 - households feel wealthier spurring consumer confidence
 - Which increases spending and employment growth
- On the other hand, If property prices fall
 - households feel poorer
 - which spurs consumer pessimism
 - Triggers savings and job losses

Unemployment Rate



Interest Rates & Property Prices

- A steady increase in interest rates is one of the early signs, that the market will start declining.
- RBA has kept the interest rates low to
 - Boost the economy
 - Stabilize Australian Dollar
- Low Interest Rate
 - Cheap Money = More Borrowing
- Factors that matter to RBA
 - Inflation
 - Employment
 - Economic Growth
 - Mortgage Debt of the country in relation to GDP.
 - Australians owe about \$1.8 trillion or \$80k/person.
 - This figure is amongst the highest in the developed world.

Inflation Rate

- Generally, Low Inflation = no growth in property value.
- Property's Golden Rule
 - Not how to make the most, but how to lose the least
 - Mining Towns Vs Established Cities
 - As a thumb rule – holding property in low inflation environment is beneficial.
- Relationship between Capital Growth & Inflation
 - Real Growth = Capital Growth – Inflation
 - Inflation = 12% and Capital Growth = 15%
 - Real Growth = 3% - Newspapers would be telling us that the market is booming.

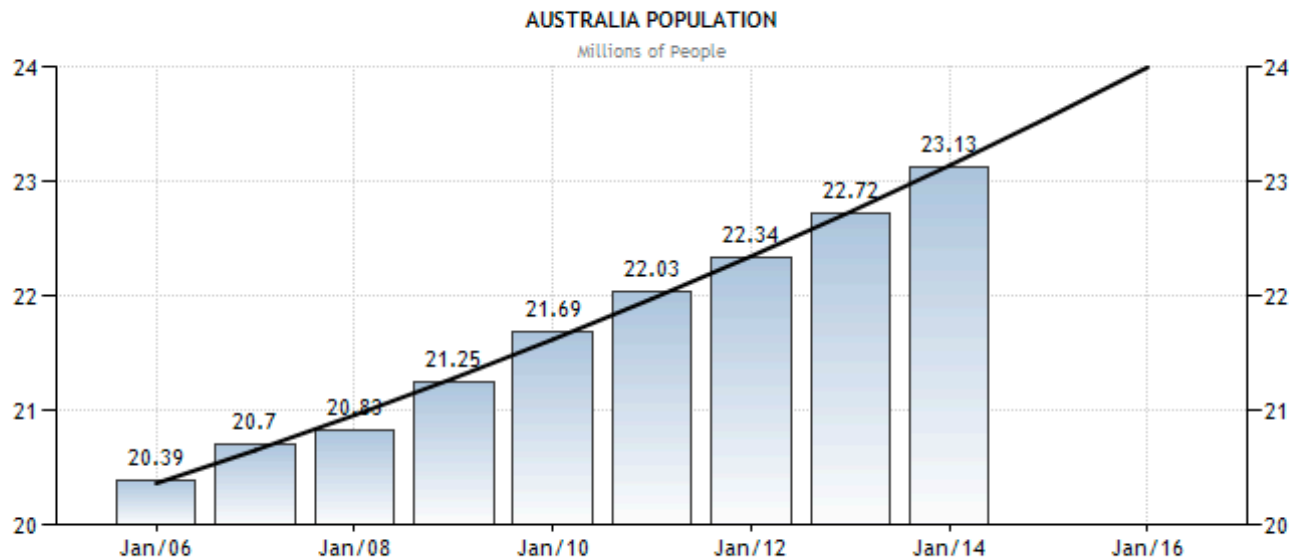
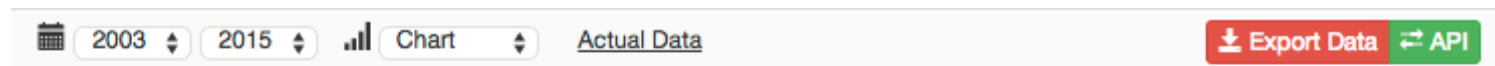
Inflation Rate



Population Growth

- Population is consistent.
- The cliché "populate or perish" is still relevant today.
 - If the Australian population went into a long decline the result would be catastrophic. So Governments continue to encourage the birth rate with tax incentives and social benefits whilst immigration continues.
- Immigration on the rise.
 - It is argued that immigration helps recovery.
 - For each immigrant, 3 new jobs are created.

Population Growth

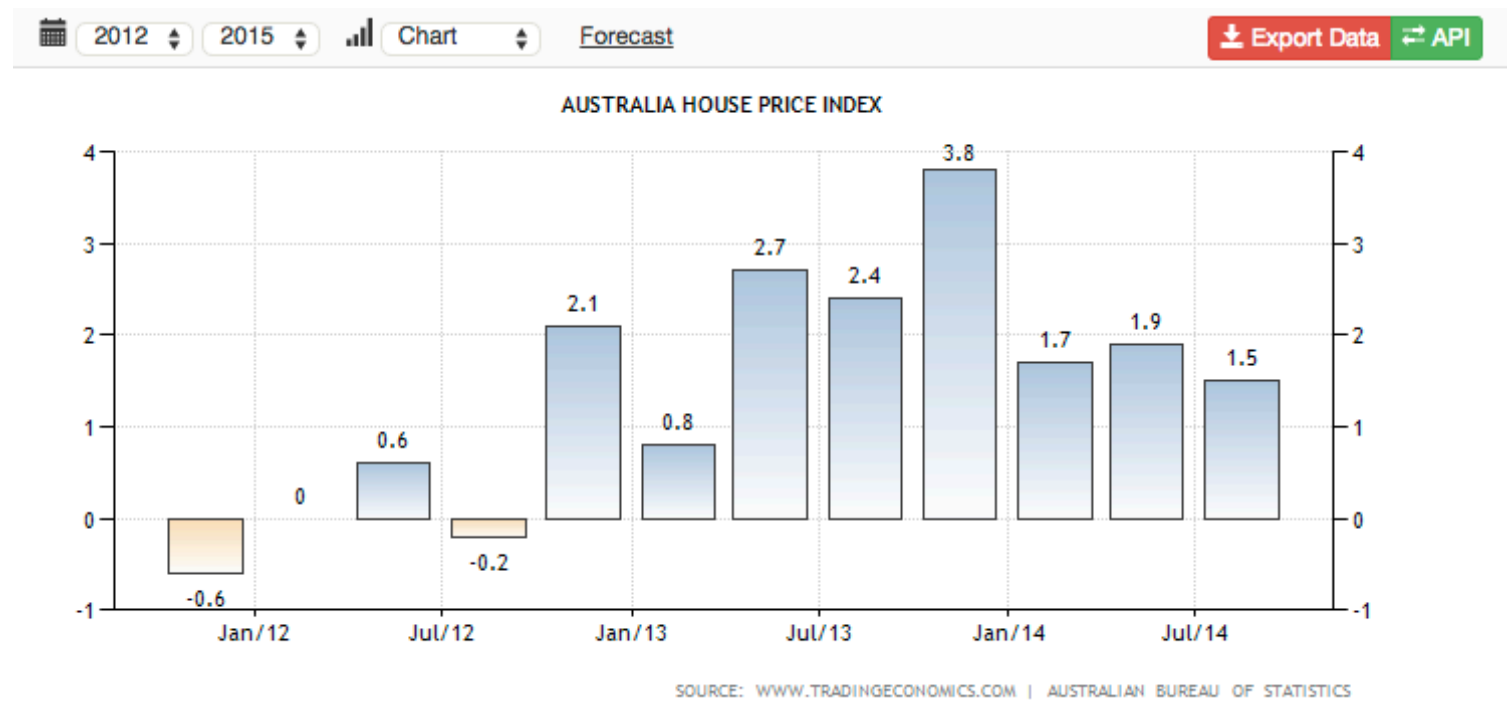


SOURCE: WWW.TRADINGECONOMICS.COM | WORLD BANK

House Price Index

- A **House Price Index (HPI)** measures the price changes of residential housing.
- It is a measure of the broad property market movement.
- RP Data(CoreLogic)-Rismark Index, the change in the index value reflects the average increase or decrease in property prices.

House Price Index



House Price Index (Forecast)

- Housing Index
 - Expected to decrease to 1.31 in 1st quarter of 2015 from 1.50
 - In 2016 HPI to increase to 1.77
 - In the long run, it is projected to trend around 2.55 (2020), 2.45 (2030) & 1.63 (2050)

Forecasts	Actual	Q1/15	Q2/15	Q3/15	Q4/15	2020	2030	2050	Unit
Australia House Price Index	1.31	0.8	1.66	1.77	1.77	2.55	2.45	1.63	percent

Impact of Aussie \$ on Property Prices

- Aussie \$ and Property Prices are two major indicators of how well an economy is functioning.
- No matter which way the \$ goes, some industries will benefit and some won't.
- So A\$ does not have a complete black or white effect on all industries.
 - The economic effect of A\$ is specific to an industry.
- Strong \$ =
 - Cheaper Imports
 - Loss of local jobs in manufacturing and retail

Impact of Aussie \$ on Property Prices

- Weak \$ =
 - Expensive Imports, which boosts local economy and job.
 - Boosts domestic travel
 - Discourages import – so good for local industries, specially retail.
 - Boosts exports to our trade partners like India and China.
 - Boosts tourism
 - It makes it even cheaper for Chinese to buy more property in Australia.
- The falling dollar must always be looked at in conjunction with the cash rate in order to determine the real effect of it on property prices.
- Many industry watchers foresee the low rate continuing for another year, much to the delight of homeowners and those looking for property for sale across the country.

Aussie \$ Forecast



Here's my point of view.

- Where is the demand coming from?
 - From 1st home buyers?
 - Australia's internal demand?
 - Chinese Investors?
- My Guess is Chinese Investors?
 - Which basically means that a bulk of the property is driven by Chinese money.

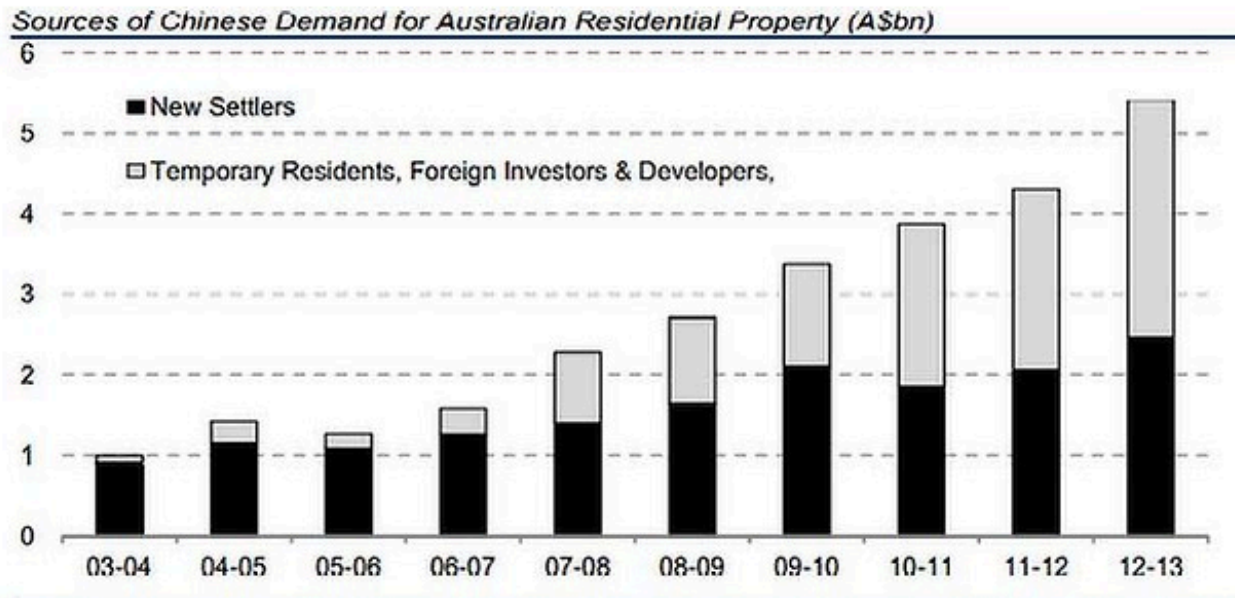
In the News

- The Sydney Morning Herald
 - 15th Aug 2014
 - *“House hunters may complain, but the “phenomenal” influx of Chinese money into the local residential property market may be the best thing that happened to the local economy as it struggles to make its difficult transition from an unprecedented mining boom”.*
 - It also said, that the demand from foreign investors for Australian property is set to intensify for at least 3 years.

ABS & Foreign Investment Review Board

- Chinese buyers account for 18% of new property purchases in Sydney
- 14% of the supply in Melbourne excluding second hand homes.

ABS & Foreign Investment Review Board



Source: Foreign Investment Review Board, Australian Department of Immigration, Australian Bureau of Statistics, Credit Suisse estimates

More Interesting facts

- Wealthy Chinese buyers have purchased \$24 billion of Australia housing in the past seven years, and over the next seven years an additional \$44 billion will be spent on residential property, Credit Suisse estimates.
 - Around 10 million of the wealthiest Chinese families, or 1 in 7 families, are interested in migrating to Australia. (Sydney Morning Herald)
- China is already the number one source of foreign money in the local real estate market.

More Interesting facts

- CLSA analysts spent the past six months meeting more than 50 property industry contacts, both here and in China.
 - The conclusion they reached is no less striking: the “phenomenal” Chinese investment in Aussie housing will continue “for at least three years”.
- CLSA is even encouraging people to buy stock in LendLease.

Is this the right time to get into property development?

- Research the market and invest in areas where new infrastructure is planned.
 - Make sure that your numbers stack up properly – a deal is a deal, no matter where it is. If it stacks up, it stacks up.
- Practice caution when dealing in new property and investor driven markets that are overly influenced by foreign buyers.
 - Acquire property that's adaptable/suitable to peoples' current lifestyle needs like properties with sunny northerly aspect rear yards, alfresco outdoor areas and open plan living areas.
- Do your homework! Buyers/Developers alike need to put in the time and the effort to complete thorough research into any property purchase to ensure it will perform well in the future.
 - Investigate comparable sale results, sale history of the property, conduct building and pest inspection reports and review intangible aspects such as locational attributes, street appeal, floor plan, orientation, outlook, future surrounding development, town plans and zoning precincts.
- In other words, finding the right deal and making sure that your due diligence is rock solid is paramount in property development.

Leave your comments below

- Would you agree that the Australian Property Prices are driven by Chinese investors?
- Would Chinese investors find a lower Australian dollar attractive?
 - Please leave your comments below
 - I read all of them and I will get back to you.
 - Please leave your questions in the comments section below.