

AUSTRALIA RESIDENTIAL PROPERTY MARKET BOOM OR BUST?

A PERSPECTIVE



Australia Residential Property Market Boom or Bust?

So what is REALLY happening in the Australian Property Market? Are we heading for a major price correction, or is this just an inflection point in the upward cycle? What will happen to property prices in the next 12-24 months? Whilst we would have liked to accurately predict the future, we can only make an informed opinion based on some objective statistics and data. We are aware of numerous recent news articles claiming that the Australian property market is on the verge of collapse – banks not lending to foreign buyers, an apparent oversupply of apartments, Victoria increasing stamp duty from 1 July and NSW may also following suit very soon! A lot of our clients have probably read in the news that Melbourne CBD Apartments are re-selling for 24% lower than their purchase price a few years ago. On the other hand, Sydney 400 CBD apartments on the harbourfront selling out in 4 hours mostly to local Australian buyers! So what is really happening?

We hope to provide both a qualitative and quantitative assessment of the situation.

From a public policy perspective, the Government is closely monitoring market movements with the ultimate objective of ensuring that everyday Australians are still able to realise the dream of owning their own home and within a reasonable commute to work and major employment and activities centres. Governments have a tough dilemma at hand – on one hand, they can benefit from increased taxes, higher construction industry output and greater household wealth as a result of a strong property market. On the other hand, it would be unwise policy to allow property prices to fall and collapse, as a large majority of Australian's individual wealth is stored in real estate, and most of Australian bank assets are domestic home loans. A declining property market results in reduction in household wealth, increased household gearing levels and a higher risk banking environment, all of which will have a knock-on effect on consumer spending, reduced liquidity for businesses and overall economic growth.

There are several characteristics of the Australian property market that make it different from other developed Asian markets such as Chi-

na, Hong Kong or Singapore:

- Australian property is not a speculative market due to relatively high transaction costs and low level of local investor activity. A rise in property prices of 15% per year is already considered extraordinary.
- Everyday middle-class Australians will probably own less than three properties in their entire lives. Culturally, owning a home is not a life objective for locals, and having lived in Australia since 1987, many working class Australians are content with living in a rental property forever.
- The underlying driver of property prices in Australia is local demand and population growth. As the fastest growing state in Australia, Victoria has been enjoying solid price growth over the past few years.
- The motivations for purchasing property are very different - In contrast to Asian property buying due to proximity to good schools or for wealth accumulation, Australians buy property due to real need (enlarging family, interstate migration, downsizing) or for tax purposes (negative gearing). A normal Australian family will happily live in a friendly neighborhood close to family and friends and attend an ordinary local public school. This dictates the frequency and size of property investment for everyday Australians.
- Australians do not enjoy living in the CBD in a high rise apartment due to lifestyle preferences. Unlike Asians who prefer living as close to the CBD as possible, locals prefer getting away from the city and having more open space, better schools and amenities close by. There are no schools in any capital city of Australia and often the best schools are located at least 30 minutes from the city. Australians value lifestyle much more than convenience.
- Land is NOT a limited resource in Australia. On the outer fringes of all capital cities, there is developable and farmable land stretching as far as the eye could see. My first personal experience

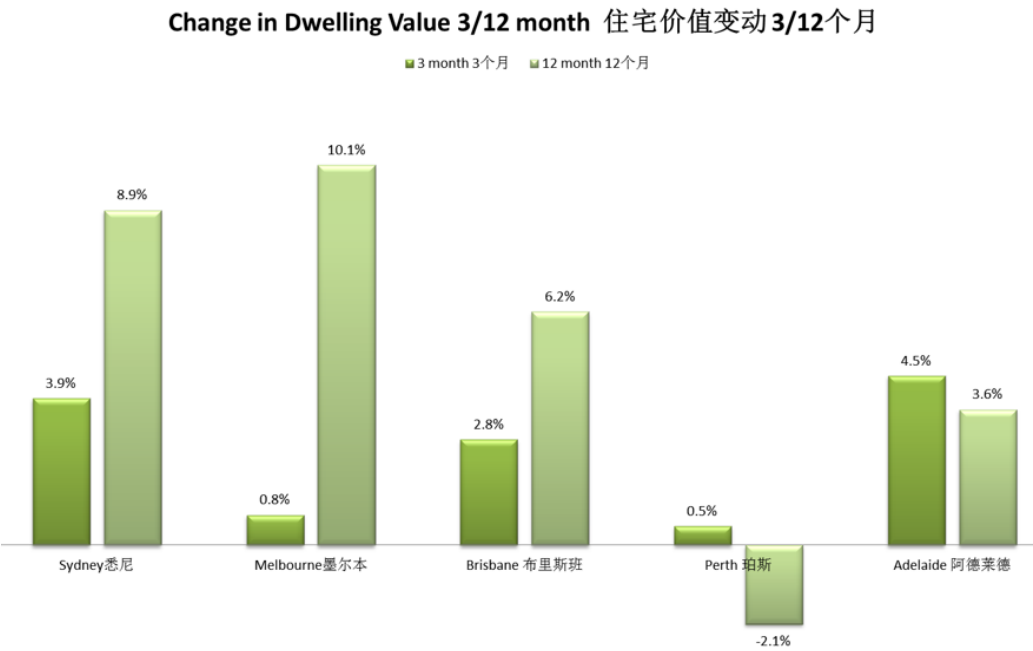
with land is in the 1980s, when land was selling in Edens Landing, a place 30 minutes south of Brisbane. Today, land is STILL available for sale in the same area.

The above underlying characteristics of the property market is a positive and healthy sign of a resilient and mature property market and should provide some comfort for those looking for longer term investments. Our view of recent market reactions (tightening bank lending, stamp duty increases) are only temporary and reflective of the generally conservative nature of Australian policy makers and banks, as they look to re-balance their portfolio more towards local buyers and investors. As traditional economics tell us, if the Big 4 banks choose to compete only in the local buyer segment, other competitors will naturally take up the slack. Tighter bank lending will not influence overseas buyer preference for Australian property – it will only postpone purchasing decisions. We make a simple analogy to this – if a parent forbids a child from eating his favourite

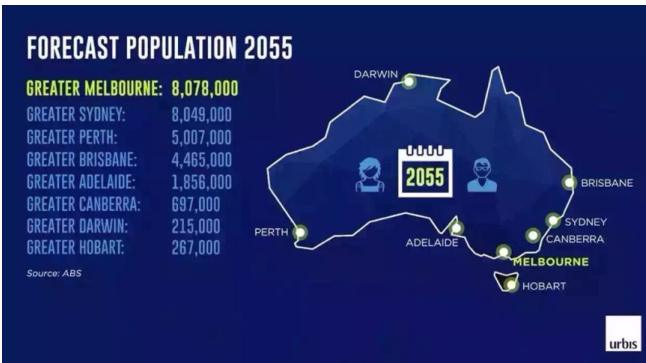
food, it does not mean the child will change to a different food. It just means the child will want MORE of that food when he grows older!

This re-balancing will complete in the future, and with a new Government term in the next few months, we are hopeful of refined policy measures. Just imagine what will happen when bank relaxes lending, and in reality, banks are not able to change buyer behavior. They can only defer it!

Let's turn to some recent statistics. Recent housing data for May 2016 suggests that there is no major correction in the market to date. For the past 12 months, Melbourne has performed the strongest but recent 3 month property prices have seen a slight easing. Definitely not the 24% decline in prices that some news reports have stated! These falls are only seen in the CBD areas, which only accounts for a small proportion of the whole Melbourne market.

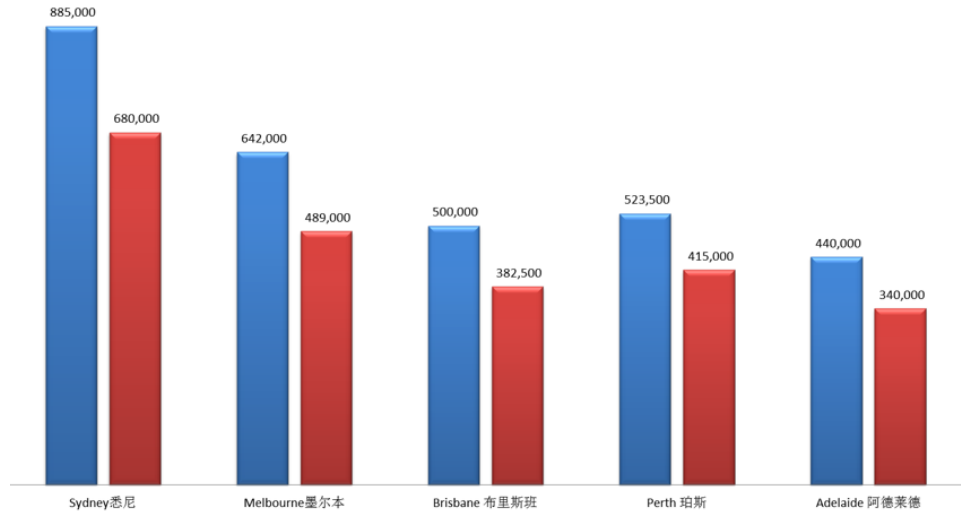


Whilst it is true that Melbourne prices have softened in the past quarter, but compared with 12 months ago, they are still 10% higher. We may see prices soften further, but still increasing in the future due to the fundamental supply-demand imbalance. Also to note, Melbourne will overtake Sydney as the largest capital city by 2055, based on Government forecasts.



Median Dwelling Value, AUD 房价中位数 (澳元)

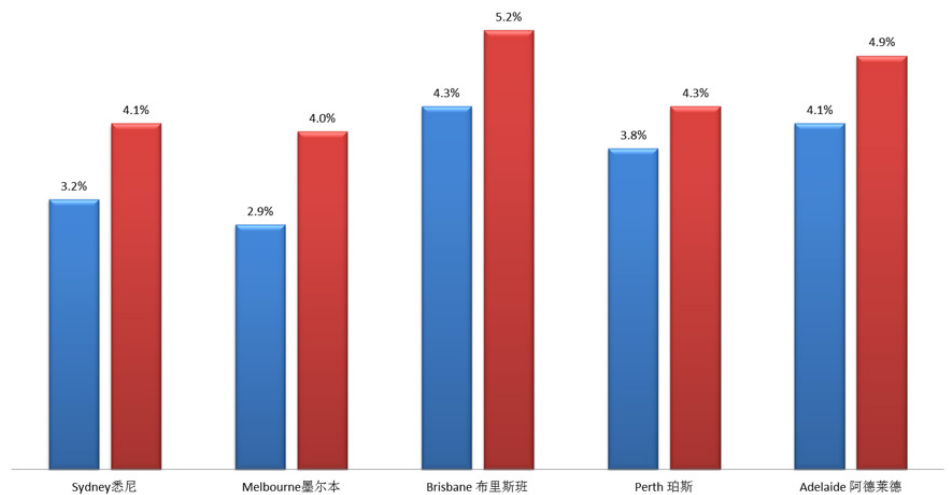
■ House 独立房子 ■ Unit 公寓



Median prices are still the highest in Sydney, followed by Melbourne which is selling at a 25% discount! There is every reason to suggest that Melbourne property prices should at least reach Sydney levels in the future, purely based on the population forecasts.

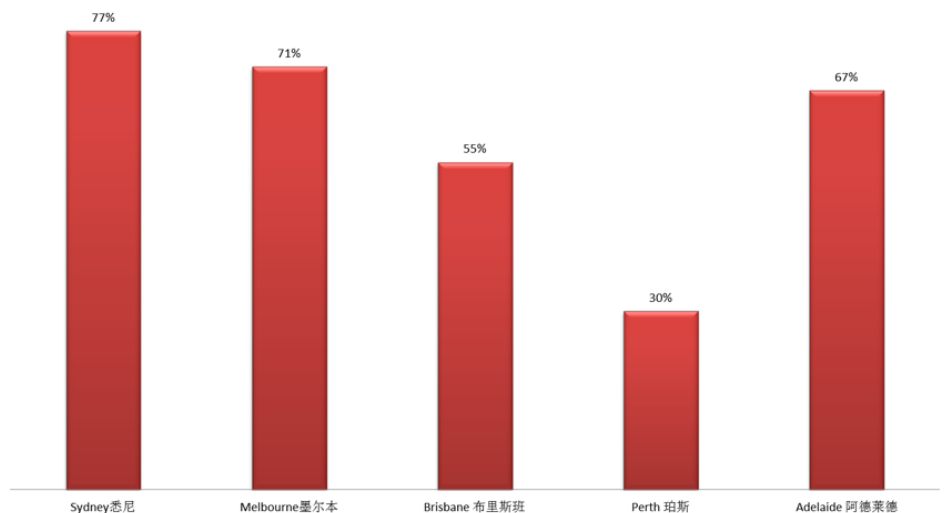
Gross Rental Yield 总租金回报率, %

■ House 独立房子 ■ Unit 公寓



Rental yield for investors is comparable across all capital cities, but bear in mind that high rental yields typically imply lower capital growth potential.

Auction Clearance Rate 拍卖清除率 (%)



Auction clearance rates are a reflection of the level of demand for property. Historically, a 90% clearance rate implies a very heated market. Currently, it is sitting comfortably at 70-80% for Sydney and Melbourne, which is consistent with the long term average.

In conclusion, we are generally optimistic of the market in Australia. There are no true reasons to suggest a major correction in property prices. Yes, there may be some projects where we are seeing price declines due to inability to settle or personal financial situation, but this is a very temporary phenomenon.

We are certainly not seeing this in the suburbs where there is much larger local re-sale market. For the past year, we have advised

all our investors to stay away from those areas such as CBD and house and land packages located in areas where there is virtually unlimited land supply - as we do not see a sustainable reason for the existence of these products, other than fulfilling the love for land from overseas buyers. When a developer offers 10 year rental guarantees, you know that there is trouble moving the stock on this project!



STM Developments

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OUR CAPABILITIES



SITE ACQUISITION

Solid pre-acquisition due diligence and sourcing of the best on and off market development sites is the first step to a successful project.



PROJECT FEASIBILITY

Thorough market research, detailed risk assessment and a robust project feasibility analysis will provide comfort for a successful acquisition.



DEVELOPMENT MANAGEMENT

Leading and managing all project consultants and stakeholders and securing the best planning approval is a crucial first step in the development process.



PROJECT MANAGEMENT & FINANCING

Disciplined project management, design and documentation management and cost control within feasibility limits will ensure projects are completed on time and to budget.



INVESTOR REPRESENTATION

On larger scale joint ventures or projects, negotiating development agreements, undertake commercial and technical due diligence and representing investors throughout the project will ensure their interest and risks are managed.

ABOUT US

STM Developments is a property development & advisory business based in Melbourne, Australia.

We work alongside developers and investors, providing site acquisition, feasibility analysis and project management services for residential and commercial projects. We initiate and participate in property development joint ventures as project proponent. We also act as investors' independent representatives as their point of contact for their co-investment projects and joint ventures.

Founder and Managing Director Simon Lee has more than 17 years of professional experience in all major facets of the development industry in Australia. He has successfully designed, led and managed major commercial, retail, mixed use and residential projects in Hong Kong and Australia ranging in value from \$4 million to \$20 billion. Simon is also an occasional guest lecturer and tutor at the Faculty of Architecture University of Melbourne.

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