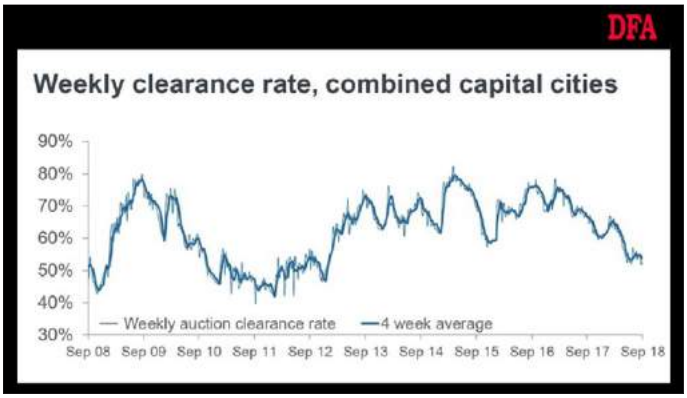
Speculator exodus tipped to pull pin on housing bubble 'hand grenade'

By Richard Bardon

Australia's housing market is "sitting on a hand grenade" that could blow up if even a tiny fraction of investors, especially those who own overpriced inner-city apartments, decide to cut their losses and sell up, a well-placed insider has warned.

Banks, economists, federal governments and other vested interests have often portrayed the drastic rise in house prices over the past decade as the result a short supply of both finished dwellings, and sites available for development. But according to Edwin Almeida of Ribbon Property Consultants, who has worked with Sydney developers, builders, and in both property management and sales for over 15 years, there are at present 120-140 thousand vacant dwellings on Australia's East Coast. Almeida told Digital Finance Analytics principal Martin North, in an interview posted 2 October on North's "Walk the World" YouTube channel, that most of these dwellings are new apartments bought off the plan (i.e. pre-purchased before or during construction) and deliberately left empty by overseas investors looking to "park their money" in Australia. There are over 70 thousand more dwellings under construction, and a further 120-150 thousand at various stages of the three- to five-year process between approval and sale. "So as far as I'm concerned, we've got an *oversupply* for the next seven to eight years", Almeida said. But, he implied, the market is unlikely to last that long.

"We are sitting on a hand grenade", Almeida warned. "We don't know when it's going to go off. Because all it takes is something to happen overseas, for these overseas investors to decide, 'Hold on a minute: I'll take 70 per cent of what I paid for that property, right now. I'll forego 30 per cent; I'll forego 40 per cent; I'll even forego *50 per cent*, as long as I get *something* out of it.' That's going to set off a panic." Meanwhile many foreign investors who have not yet settled their off-the-plan purchases are simply walking away from their deposits. Almeida reported that in one case, an entire residential tower comprising 60 apartments has had to go back on the market thanks to these "Houdini investors". But because of a legal technicality, such properties now count as "established" rather than new housing, and thus cannot be sold to other foreign investors (even were any to be found), whilst the local market will not absorb them without a 30-40 per cent discount. North reported from his own sources that similar things are happening in both Melbourne and Brisbane. And even those off-the-plan buyers who do wish to complete their purchases are finding themselves unable to secure finance, now that the fallout from the Hayne Commission has forced the big banks to curb, however slightly, their enthusiasm for risky mortgages. According to the 4 October *Australian Financial Review*, one (unnamed) major bank has "blacklisted" 6,700 apartment projects nationwide, for which it either refuses to lend at all or will do so only at greatly reduced loan-to-value ratios—which amounts to the same thing in practice, given most off-the-plan buyers lay down only a 10 per cent deposit. Sydney-based mortgage brokerage Home Loan Experts told *AFR* that not every bank will share its blacklist with brokers, but they all have one.



This chart illustrates the fall in auction clearance rates highlighted by Edwin Almeida in his interview with Martin North. Source: Digital Finance Analytics

Auction figures fiddled

Mainstream analysts and media like to focus on the auction clearance rate, which in Sydney has for most of this year held steady at an acceptable if uninspiring 50-60 per cent. But what they have all failed (refused?) to see, Almeida said, is that there is an ongoing reduction in the number of properties of all types actually going to market, but an *increase* in the number open for inspection—of which there are now around 15,000, while auctions on any given week number only in the hundreds. The only thing creating what little momentum remains in the auction scene is the business model of the real estate agencies, which derive as much as 70 per cent of their income not from sales commissions, but from so-called vendor-paid advertising (VPA), the upfront fees the seller pays the agent to market his property. Were the Office of Fair Trade or the regulators to mandate that agents return the VPA fees for properties they failed to sell, Almeida said, there would be fewer than half as many auctions as there are now, even as listings and "time on book" keep going up.

"We don't need 120,000 properties … to flood the market", Almeida said. "The pool is already overflowing in some areas." In Sydney's western Blacktown area, for example, where prices are already sinking fast, the market is so fragile that just another 50-70 properties coming up for sale at once could see prices drop 10 per cent overnight. On the East Coast as a whole, even ignoring the projects planned but not yet commenced, there are at least 200,000 properties "sitting vacant, dormant, or are about to surface in the next few years", Almeida said. A mere 5 per cent of these dumped into the already falling market would be enough to trigger the "economic Armageddon" long forecast by one of North's regular guests, economist and former Liberal Party policy advisor John Adams. "I really, honestly believe we're going to go back to 2004-05 prices in a lot of areas", Almeida said.

For Sydney, this means an average collapse of at least the 40 per cent, as North forecast as his worst-case scenario on the 16 September episode of 60 Minutes. And so far as the real estate bubble is concerned, where Sydney goes the nation will follow.