Residential Outlook
Post COVID-19
By Scott Keck, Chairman, Charter Keck Cramer

28 July 2020
charterkc.com.au

CHARTER. KECK CRAMER

VALUATIONS

I have been monitoring property markets nationally for fifty years.

With its diversified national footprint and Singapore representation, Charter Keck Cramer operates across all market categories, with a strong research core. During my career, I have noticed particularly that the residential markets, are very resilient, driven by population growth, social needs and demographic change. Whenever there has been an economic threat, recession, interest rate spike, or credit squeeze, the residential markets always bounce back, usually more quickly than projected, demonstrating the resolve of the Australian community to maintain its embrace of real estate and homeownership.

Scott Keck
Chairman

E scott.keck@charterkc.com.au
T +61 (0) 3 8102 8866
M +61 (0) 417 279 052

In my current analysis of the likely changes in a post COVID-19 world, I am an objective analyst, my apparent 'optimism' only relative to the fact that so many commentators are negative. I provide the following summary comments;

» Many 'off the plan' sales were supported by incentives including undisclosed discounting of prices, stamp duty concessions, first home buyer grants, rental guarantees, furniture packages and specification upgrades. This resulted in price inflation at the time of sale but subsequently, when completed and valued for mortgage purposes, these supporting incentives are not taken into account and were therefore not reflected. No wonder subsequent valuations for banks are lower than initial purchase prices. These incentives can count in total for as much as 10%.... the fall in apartment prices over the last 18 months is therefore more attributable to these factors than a shift in market sentiment or real reduction in values.

» The projection that Airbnb would shift away from its short-term market to the long-term rental pool, has not happened. The quite expected strong upsurge in domestic tourism has encouraged most Airbnb owner/operators to maintain their short-term rental strategy. The traditional rental market, particularly for apartments, is not therefore being challenged by this possibility.

» Whilst sales turnover has slowed, so far, there has been little reduction in property values for established houses and townhouses in inner and middle urban areas, because they are strongly supported by a strong socio-economic catchment which is not as vulnerable to the economic challenges which are occurring. As economic conditions tighten the most vulnerable residential categories, will be fringe urban housing, where mortgage debt is high, and many owners may be seriously affected by increasing unemployment resulting in mortgage distress and delinquency. The apartment sector is also vulnerable but more for the short-term 'perception' that rents will decline and vacancies increase not withstanding that there will be a medium-term return to supply/demand balance, particularly as the 'supply pipeline' contracts.

- Concerns arise over stalling immigration and a reduction in population growth leading to an overall slowing in demand for residential accommodation. This concern ignores the inevitability that population growth is crucial to Australia's economic well-being and that consequently immigration will be strongly incentivised to return to appropriate levels. Furthermore, demographic change within the existing population is the most significant driver in the inner urban housing markets and will continue to create demand for a variety of style, size and location in the apartment and townhouse market.

- Dire predictions of substantial residential value falls are not warranted. Projections of 20–30% reductions in value are irresponsible. If there is to be a decline it will not be market wide, but rather more locality focused and probably settle more in the order of 5%-10%, down from pre COVID value levels. There are many potential purchasers currently just marginalised due to the 'affordability' factor, who could be expected to enter the market enthusiastically before values fell too far. Another incentive is that with very long term, low interest rates mortgage repayments, in many instances, now align with rental payments thus encouraging renters to become homebuyers. Furthermore, the reality is that those members of our community most adversely affected by the economic downturn, are renters rather than potential home purchasers and for this reason their plight will not bear directly adversely on the home sale market.

- Concerns about permanent immigration reduction and the loss of foreign students are alarmist. For its location in the Asian region there are both social and economic imperatives for Australia to maintain strong relationships with its neighbours, not only Southeast Asia, but particularly China. Those relationships may not always be harmonious, but they will survive and co-related to that inevitability will be a resumption of appropriate immigration levels and a return of foreign students wishing to study and live in Australia, and in turn, supporting segments of the residential markets.

- Appropriately, and with positive economic impact, the federal government continues to recognise the importance of stimulus in the construction industry and the homebuyer market and can be expected to prioritise those strategies as an interim defence to the economic challenges until they subside

I would like to emphasise that I am not an optimist, but rather an objective analyst. I recognise the strong fundamentals that drive the residential markets in the cities, the suburbs and regional areas and based on my five decades of experience and analysis am convinced that they will prevail post COVID-19. Consequently, I encourage all Australians to have faith in the sound, long-term reliability and financial security of the housing markets and not overreact in response to short term perceptions and anecdotal commentaries forecasting a market crash.

Scott Keck
Chairman – Charter Keck Cramer