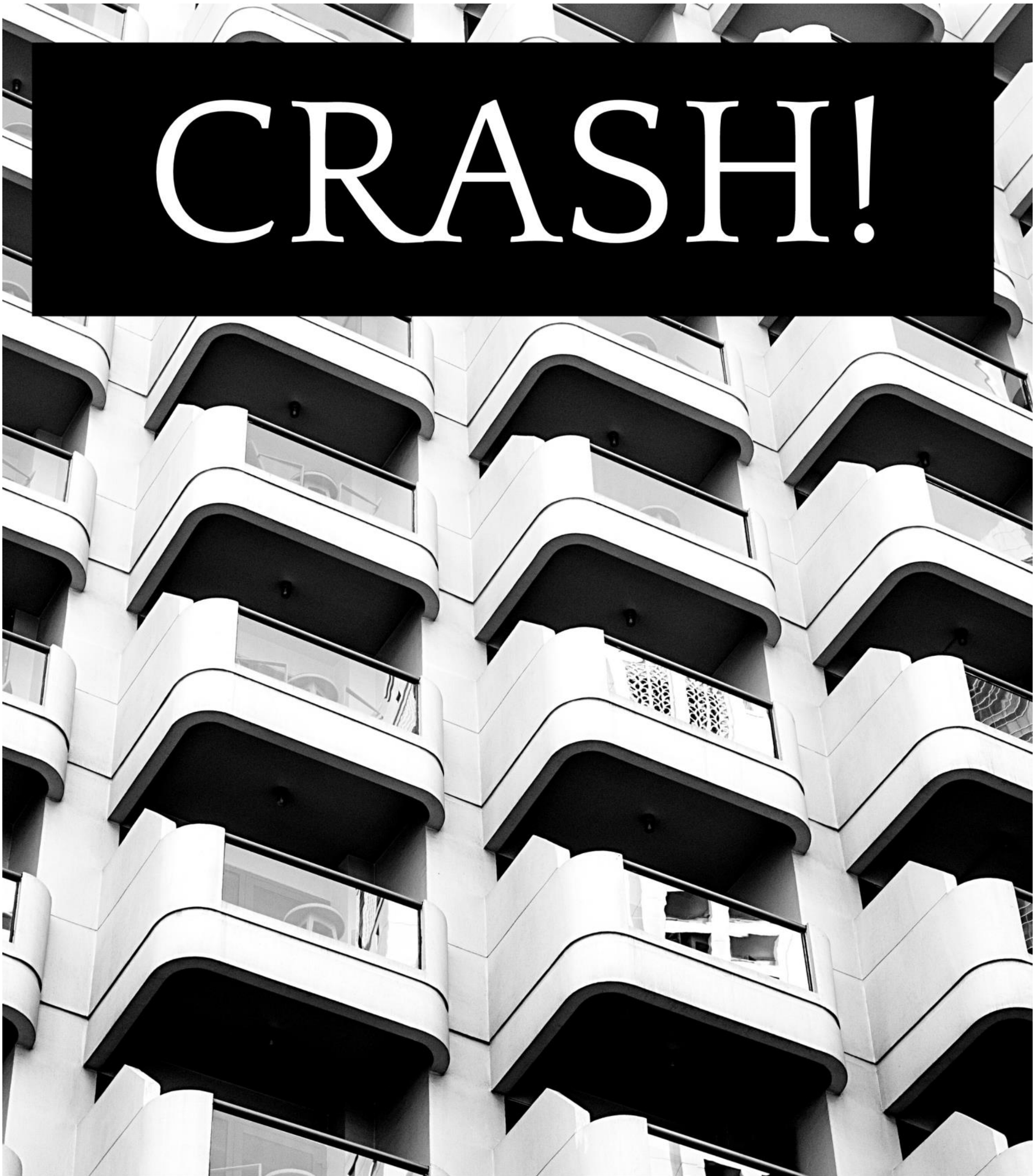
CRASH!



FINANCIAL UPHEAVAL AND AUSTRALIAN PROPERTY

THE VIRUS, FINANCIAL AND SOCIAL TURMOIL AND AUSSIE PROPERTY

"The continual death spiral of Australian stocks is breaking multi-decade records as historic measures imposed to control the spread of the coronavirus grinds the economy to a halt.

The ASX200 closed 5.6 per cent lower, tumbling to 4,546 points after Prime Minister Scott Morrison essentially placed the country in lockdown with state leaders closing their borders in reaction to an increase of the outbreak.

This is the fifth consecutive week of falls for the Aussie market which has plunged 36 per cent in that time, wiping out gains from 7.5 years of trading.

"That's pretty much broken all records outside of the 1987 stock market crash in terms of the speed of the fall," Burman Invest chief investment officer Julia Lee."

News.com March 22, 2020

The most common question we are being asked at the moment is - what does the virus, turmoil in the financial and social markets and the potential economic collapse mean for the Aussie property markets, now and going forward?

This is the sixth or seventh stock market crash or bear market in stocks in less than 10 years.

And after dropping like a stone between 17 February and March 9, by the end of November (2020) the S&P/ASX200 was back to nearly it's all time February high. And the property market was suddenly "unlikely to fall" and "would be strong again" in 2021 according to the major banks, who earlier in the year had predicted a terrible outcome for property.

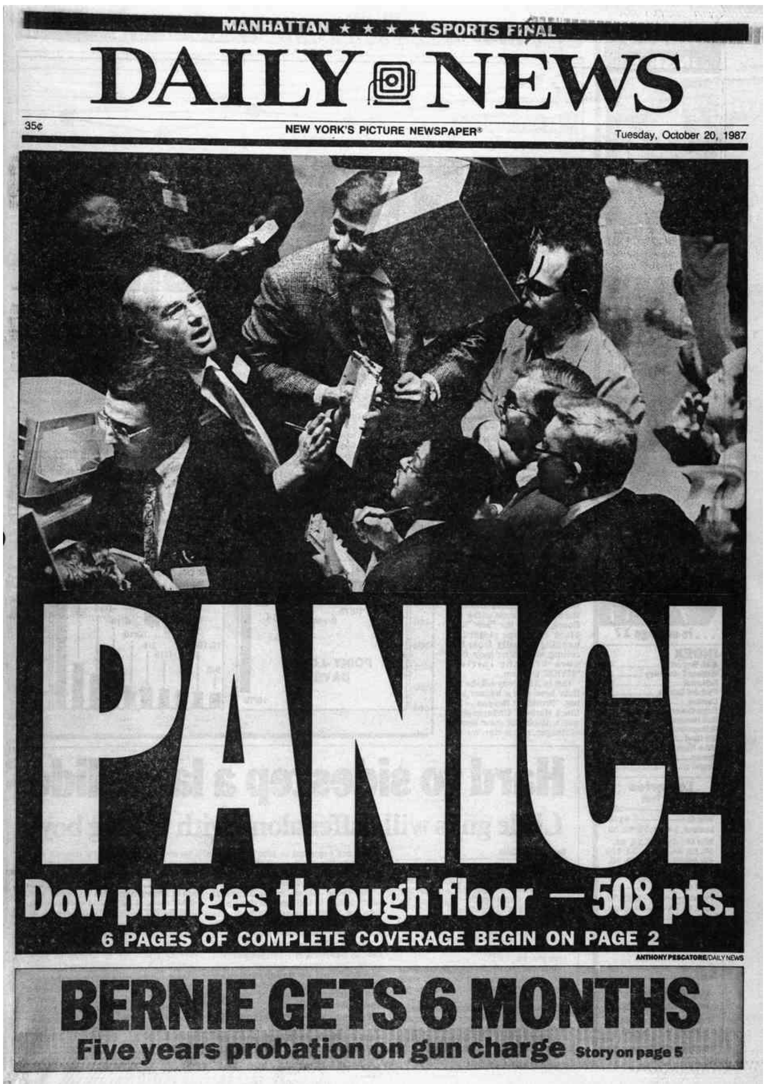
So what does all this mean for Australian property going forward?

Firstly, many readers would not have been around in business back in 1987.

Before internet. Before computerised sell offs.

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

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



MANHATTAN ★ ★ ★ ★ SPORTS FINAL

DAILY NEWS

35¢ NEW YORK'S PICTURE NEWSPAPER® Tuesday, October 20, 1987

PANIC!

Dow plunges through floor — 508 pts.

6 PAGES OF COMPLETE COVERAGE BEGIN ON PAGE 2

ANTHONY PESCATORE/DAILY NEWS

BERNIE GETS 6 MONTHS

Five years probation on gun charge Story on page 5

MONDAY, OCTOBER 19, 1987

The day when stock markets around the world crashed, shedding a huge value in a very short period. The crash began in Hong Kong, 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 United States 22.6%, and Canada 22.5%.

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.

Why? Simply put, what happened was that many people who have been burnt or who have ridden the roller coaster throw in the towel, and say they would "never buy a stock again".

They cannot deal with their wealth dropping by 20% to 40% in a few days.

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

Cash, gold and real estate become the most popular.

In 1988/89 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.**

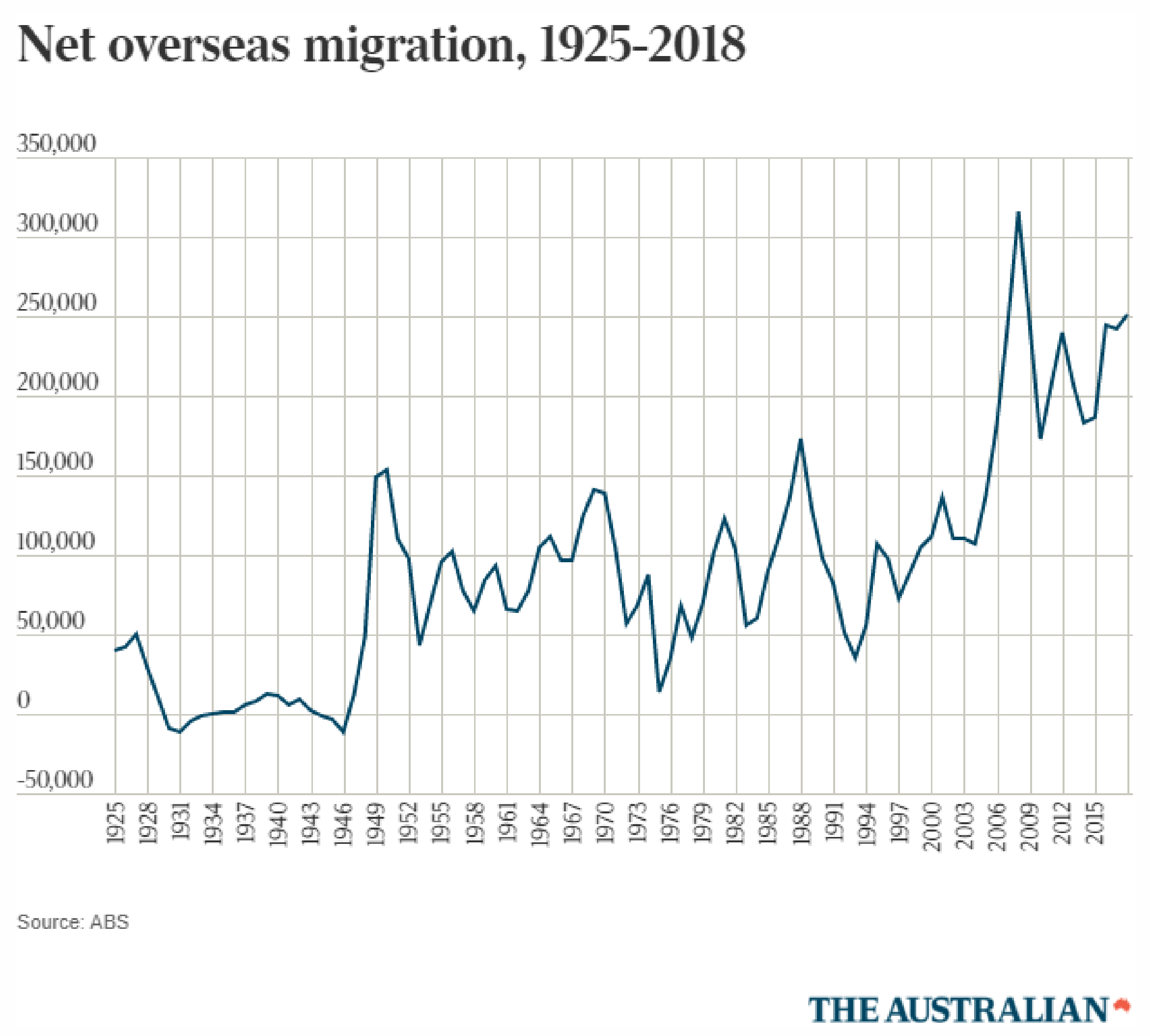
BUT, that was a long time ago.

And has the world EVER seen something like the Covid-19 Corona Virus?

The only really close comparisons (in modern times) to the current pandemic are the two world wars, the Spanish flu epidemic (1918-20) and the Great Depression (1929-32).

Over the 100 years during which these catastrophes have played out, Australia's population has increased from six million to 26 million, largely because of net overseas migration.

In the post-depression world of 1920's Europe, Australia was very much seen as the **safe haven** to escape to.



Large migration inflows of people have the effect of immediately boosting spending, and increasing demand for both housing and commercial property.

More recently, what happened after the 2008 stock crash and the 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%**

In fact, the GFC triggered a three-year economic boom the likes of which had seldom been seen in Australia before, as China ramped up demand for Australian resources.

Often overlooked by analysts and share traders is this: people require and need shelter. It is not an option. So if the population is increasing, whether through migration or natural means, and the economy is strong, with good employment, then housing remains in strong demand.

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.

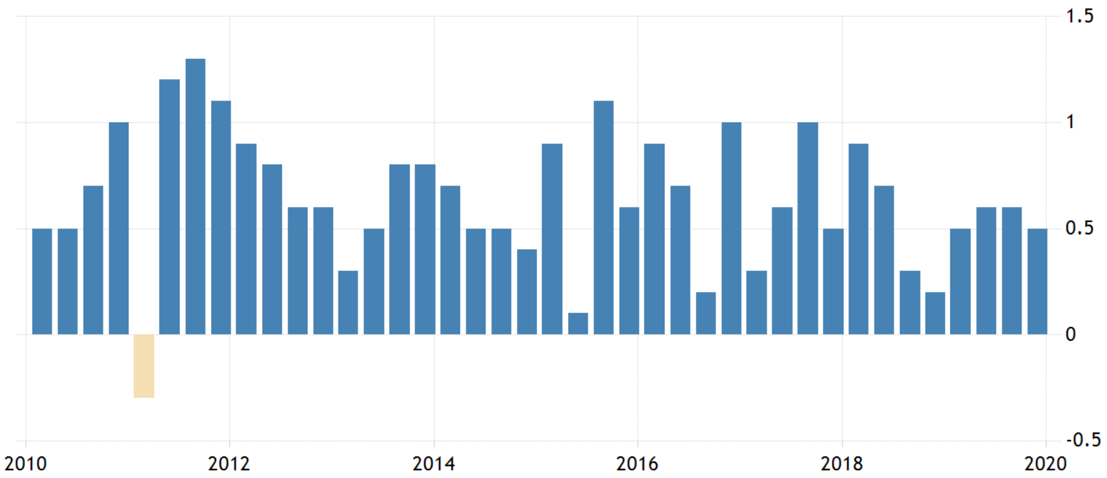
In the 2 years following these events Sydney houses **went up by 25%** while **Melbourne rose by 22%.**

Will history repeat itself now with the world uncertainty?

One thing for sure the events of the past few MONTHS have taught us is that **no one knows the future.**

Who could have predicted this just a few short months ago?

It is important to remember that the Australian economy has been one of the strongest in the world, with 26 years of positive GDP growth. So even if it suffers a recession, the likelihood of Australia bouncing back and resuming its long term trend seems assured.



SOURCE: TRADINGECONOMICS.COM | AUSTRALIAN BUREAU OF STATISTICS

The exchange rate is VERY attractive.

Also, Australia is one of only 11 countries to have a AAA **credit rating**, which was regained after being downgraded in the wake of the global financial crisis.

The AAA credit rating will continue to attract investment into the future assuming it maintains this status. Even if it is downgraded, it is highly likely it will regain this status again.

This event will reshape consumer behaviour possibly forever.

It is already unleashing huge government and corporate spending; and it will likely prompt massive future demand for migration again to the "safe haven" of Australia, depending on how Australia performs in terms of infections and deaths in comparison with other nations.

Already Own Property? What Should You Do?

If you already own property, you can assume rents will not be able to be increased, and you may have to consider adjusting your rent downwards to give some help to your tenants. There may be some vacancy, but existing tenants are unlikely to leave if the can possibly avoid it.

Where can they go after all?

And hopefully the Government's assistance scheme will assist those tenants who may lose their jobs because of the virus.

Do NOT panic and try to sell.

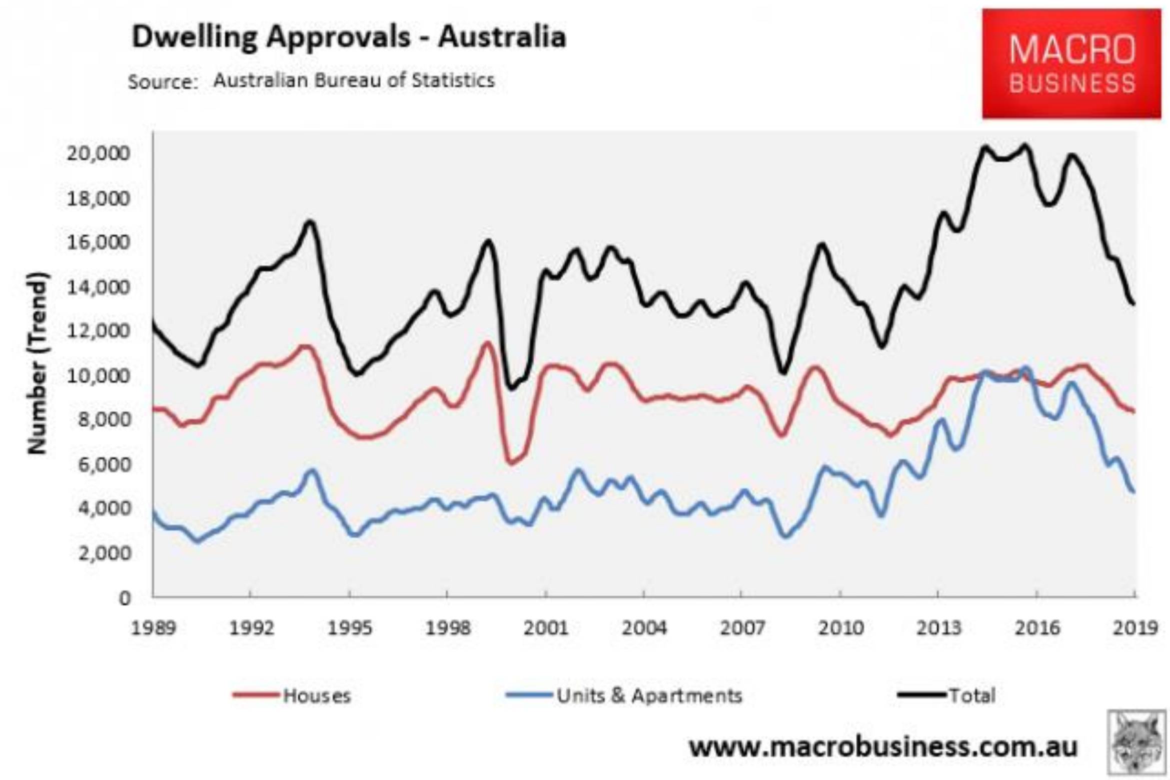
Buyers cannot attend open houses and inspections. The secondary (resale-market) is likely to slow in terms of volume. Auctions will be cancelled.

New and off plan properties will continue to sell, as buyers do not physically have to inspect.

And there is a shortage of new projects. Look at the drop in approvals, and this was BEFORE all this happened!

MAKE NO MISTAKE, we will see in Australia one of the biggest shortages of new building seen for decades.

This is not good for the building industry, and employment in the short term, but could benefit long term investors as it removes virtually any chance of oversupply in the shorter term.

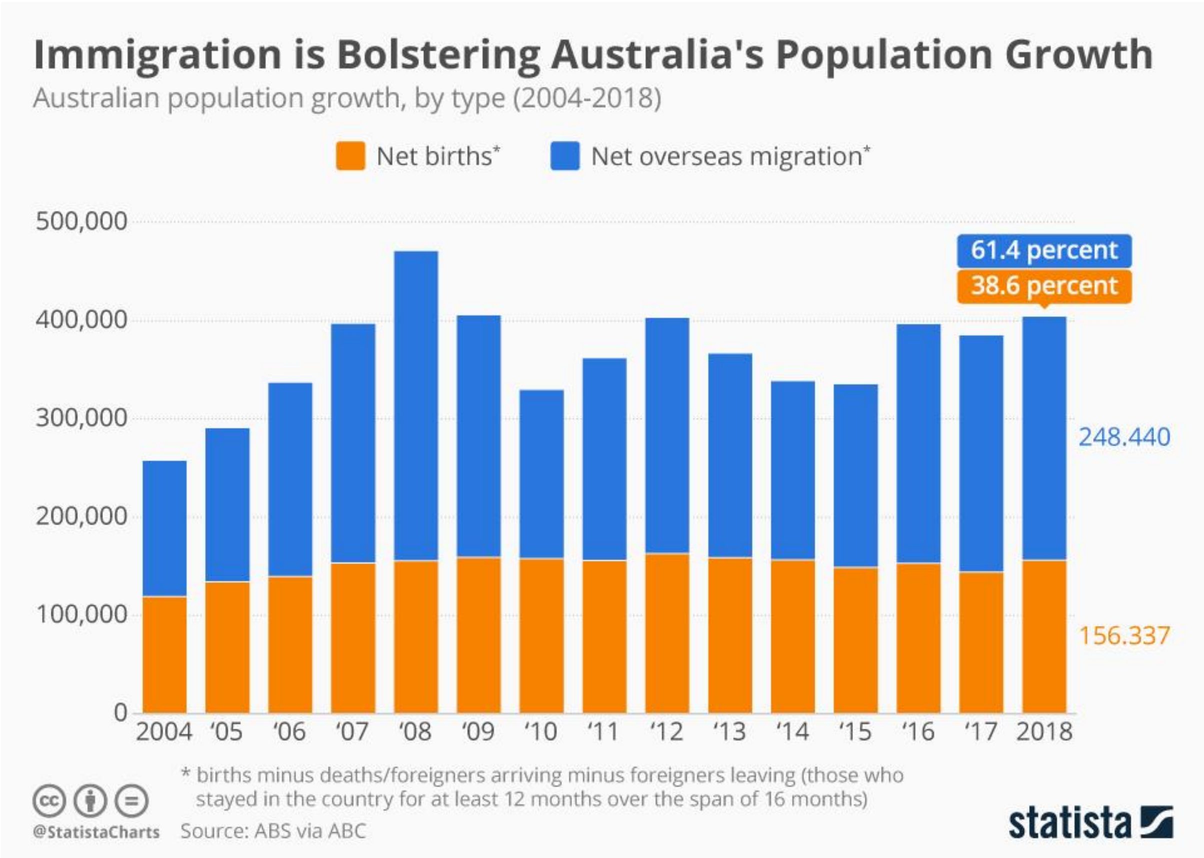


Interest rates have come down. Buyers will be keen to buy but may "sit on their hands" to see out this crisis, leading to ongoing PENT UP DEMAND moving forward, as loan repayments may be lower than their rents.

So depending upon when the situation recovers, there could be huge buying activity from this pent up demand, the flight to safety and hard assets.

What About Migration?

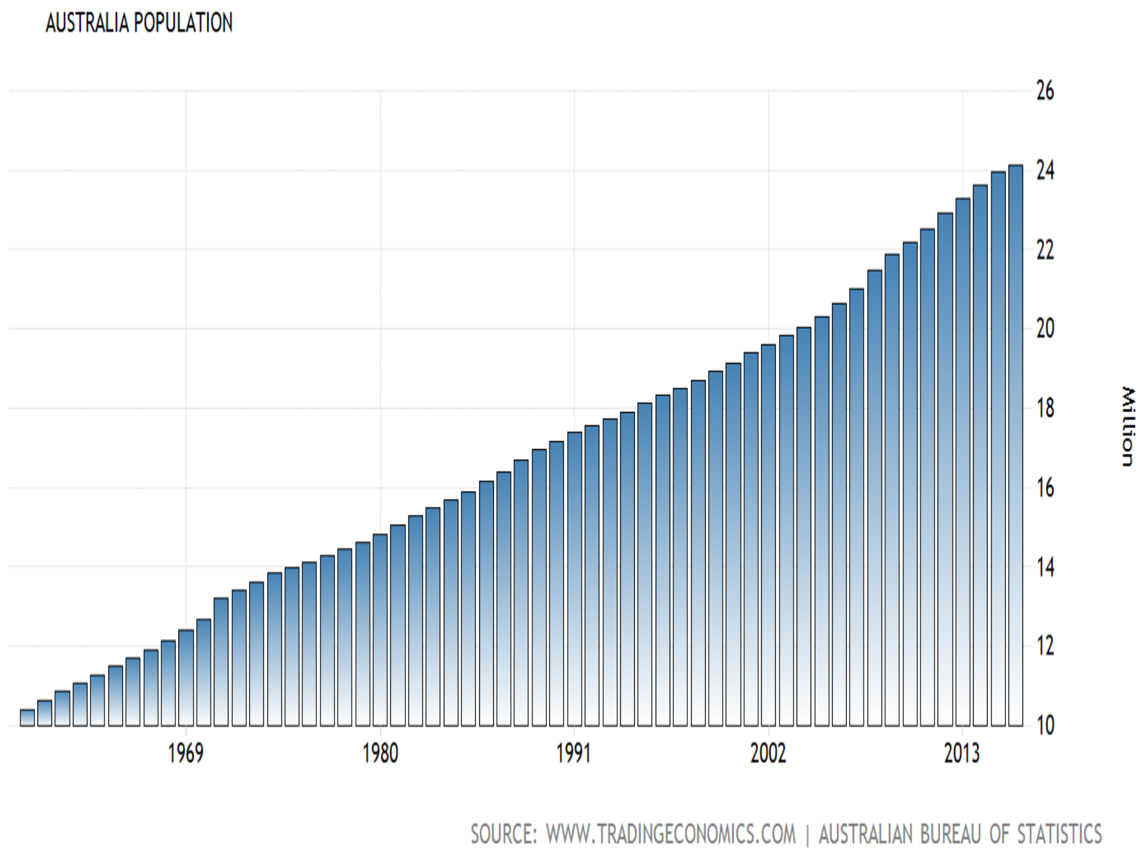
Migration hit record highs during the Global Financial Crisis in 2008-2009, and still remains high today.



Current (March 2020) population is 25.6 million, and with:

- one birth every 1 minute and 44 seconds,
- one death every 3 minutes and 11 seconds,
- one person arriving to live in Australia every 1 minute,
- one Australian resident leaving Australia to live overseas every 1 minute and 44 seconds, leading to
- an overall total population increase of one person every 1 minute and 28 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?

AND, the impact of the virus could easily see a drop in the number of Australians choosing to go and live overseas.

Creating even more local demand.

So, there is, and will remain, strong demand for housing and properties over the mid to long term.

Depending on how long the situation with the virus lasts, there is likely to be strong "pent-up demand." The longer the virus lasts, the more likely the stronger pent up demand.

The demand for housing will not, cannot, simply go away. People need shelter. It is not optional.

With shares, when the value goes down, that money is simply lost. It's gone. With property, if the value drops, it still has an intrinsic value.

OTHER IMPORTANT INSIGHTS:

The National Housing Supply Council was established by the Australian Government in May 2008 to monitor housing demand, supply and affordability in Australia, and to highlight current and potential gaps between housing supply and demand.

The Council comprised of experts from a diverse range of relevant fields including academia and the finance, economics, urban development, residential construction, urban planning and social housing sectors.

The Council's role was to provide estimates, projections, and analysis and policy advice in relation to housing supply and demand.

The National Housing Supply Council concluded that Australia was undersupplied by more than 280,000 homes and this could balloon out to at least 430,000 by 2028, with no way to solve the problem unless migration ceased or height restrictions in the suburbs were relaxed, or both.

Needless to say, for a Government committed to migration this was not what they wanted to hear. And to ensure re-election, there was simply no way to allow high rise blocks in the residential suburbs.

So the Council was promptly abolished on 8 November 2013, due to it being “no longer needed.”

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, infrastructure demands and constraints on construction including strict government planning approvals on apartments recently introduced.

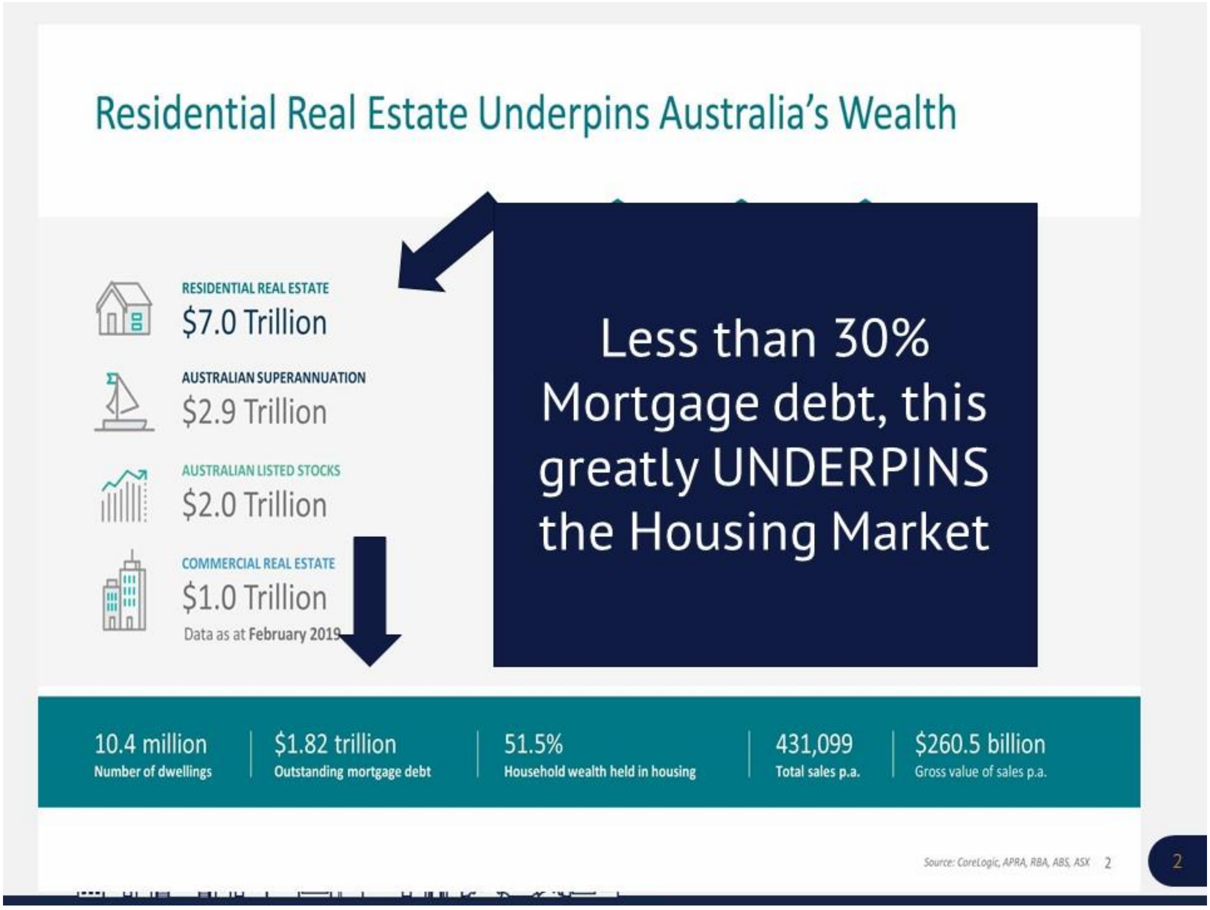
Bank restrictions on lending to developers further meant from 2017 on many projects were be delayed or cancelled.

New height restrictions in certain areas also 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 in Melbourne over recent years is unlikely to be repeated. These are the oversupply figures so often quoted. Planned apartments. Not going ahead.

Will there be Panic Selling?

The Australian residential property market is valued at approx. AU$7 trillion, significantly more than stocks at $2.9 trillion before the sell- off. Now about $1.9 trillion.

But the key point about the residential market is that mortgage debt comprises less than 30% of the total value, greatly protecting the market.



Think about it. If your house or apartment is valued at say $1 million and you have a $300K mortgage the value would have to fall by 70% before you would need push the panic button.

Even if the market fell 20%, so your house drops to $800K, or even 30%, or 40%, you are hardly likely to panic and ask the broker to SELL!

This greatly underpins the housing market in Australia, and is a key difference to the stock market.

Also, and not to be discounted, houses and property, unlike stock and shares, cannot be sold on the press of a button. It takes weeks to get a property ready for the market, then it can take more weeks, even months, before it sells.

WHAT IMPACT DOES THIS HAVE?

This could be the single biggest "take-away" from this report.

The property market is a very slow moving beast. Prices don't fall quickly. When they do start to fall, sellers often withdraw them from sale as home owners seem to hate selling at anything less than they could get before.

History teaches us that property owners hold onto houses that have dropped in value forever, hoping they'll come back to their original price. They would rather "sit-it out."

These property biases are all elements of human nature that exist in some form within all of us but they become amplified by property owners.

Share owners seem able to accept their losses. But they usually too want to sell, but can't decide in favour of selling now, before further losses, or later when losses may or may not be larger. All they know is that they want to offload their shares and to preserve capital and reinvest the money in a more profitable security.

Unfortunately, it isn't that easy in real life. When the dotcom bubble burst in the spring of 2000 and stocks started their descent into a bear market, investors froze like deer caught in a grizzly's jaws. Many didn't even react until the value of their portfolio holdings had declined by as much as 50 to 60%.

And from this writers own personal experience this story below may help you understand.

In the late 1980’s I had a superb brand new mansion for sale on Sydney harbour, in Cremorne Point.

The market was so strong following the stock market crash of 1987.

Not the actual property, for indication.

I remember the asking price very well, it was A$1.4 million, even back then! I had an English fund manager in Hong Kong very interested in purchasing for his future retirement. It would have been a huge sale for me, which is another reason I still remember the story, or lesson, so well decades later.

He was close to making an offer. Then the property market in Sydney crashed.

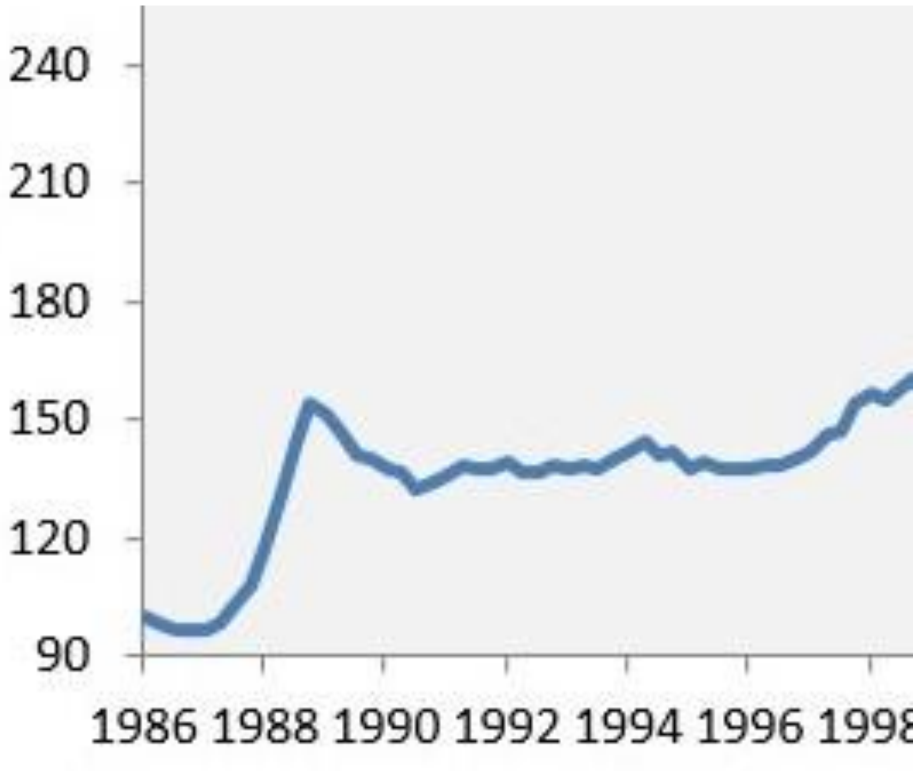
The builder selling the property offered it at $1.2 million to my buyer, basically a 15% discount.

My buyer let fear take over and didn't make a decision.

He thought it may fall further. REMEMBER he was a fund manager. Used to the immediate huge falls and rises in stocks. But this is real estate.

You can see from the chart below, Sydney house prices fell at that time about 14% **statistically.**

Why have I highlighted "statistically" above? **Keep reading as this is quite important.**



Because, as I mention in my seminars and webinars there is a "lag time" in real estate statistics, AND there is the **real market, and the statistics market.**

What do I mean by that? Firstly, with over 35 year experience in the market, this is something I often see missing from economists, accountants, analysts and property writers. They don't have much "real world" experience.

To put it in simple terms:

You have $100,000 cash invested in stocks originally. Over time, the portfolio has grown to $300,000. The stock market crashes 40%, **you have $180,000.**

COULD NOT BE CLEARER OR SIMPLER.

Putting the same $100K into property as a deposit, and borrowing $200K, (MOST people borrow more, but virtually everyone does borrow to be able to get in the property market) and seeing the same growth (200%) as shares (forget the argument for now which grows faster) the property has grown to $900K.

The market falls 40% and your property value falls to $540K. You are forced to sell, and then you repay the bank their original $200K, you still have $340K cash left, nearly double what was left from your stocks.

But here is the kicker.

I mention above the real market and statistical market.

So, let's go back to my story about the house overlooking Cremorne Point in Sydney to illustrate this point.

My fund manager didn't take up the builders offer. The builder dropped it further for him only, as he was the only potential buyer at that time.

He dropped it to 1 million. In fact, if I recall correctly, it was just under, maybe $980 or $990K.

So, there is the “real market” …a drop of 28%. ($1.4 million to $1 million)

By any account a bargain. My fund manager didn’t take it, **the fear factor was too great.**

Eventually, the builder did sell the house to someone else, for $l.2 million.

Today’s value? Over $7 million.

Now for the statistics market. Finally, many months later, after settlement, that house is recorded in the data. This is the *lag effect.*

Secondly, house price indexes ONLY shown actually SOLD properties, **not asking prices or offering prices of unsold property.**

Share sales are recorded instantly. So, the bottom line is this: as mentioned above, mortgage debt is around 30% only of house values.

Simply put many people will not sell at a loss.

AND THE LESSON I took from 1988-1992: Many banks **froze mortgage payments** at that time, allowing buyer’s breathing space as the banks didn’t want lots of foreclosed houses on their books.

Will this happen again?

Maybe. Or something similar. Too far- fetched?

It happened after the late 80’s crash. And who would have expected Government’s all around the world to offer monthly income payments to those who lose their jobs, as is now happening?

SUMMARY

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

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

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%)

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

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

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

March 2020 the four biggest single day losses in stocks seen since 1987. AND the four biggest single day gains!

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 Sydney 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:

But in saying all that, we are in unprecedented times, and no one knows the future. But it was often the same in other financial crashes. As well as during many of the events shown above.

And many of us sat on cash believing CASH IS KING in times of trouble, missing tremendous buying opportunities. And is cash really king?

Or are hard assets better?

Remember, people cannot deal with their wealth dropping by 20% to 40% in a few days as is happening right now.

Throughout modern history, people move back into security. Into safety.

Does it happen instantly? No.

Cash, gold and real estate become the most popular.

March 20, 2020 Financial Times

"Online gold exchanges, which sell physical gold directly to customers said they had seen record buying volumes.

BullionVault, which allows investors to buy and store gold and silver bars, said net demand had reached a level not seen since the depths of the financial crisis in March 2009.

"If you're looking for a safe haven you're not going to find one today, tomorrow or next week," Adrian Ash, director of research at BullionVault, says.

"But if you're looking for something that historically has gone up when stock markets have gone down over longer periods then gold is the answer."

CONCLUSION

Australia has never seen anything like this as it MISSED SARS, and the GFC barely caused the country to blink.

But people NEED shelter. They NEED housing. Migration will continue. The population will increase.

Demographic expert Bernard Salt has perhaps put it best:

***"In the post-pandemic world**, the decade of the 2020s morphs into an era of renewal and rebuilding. Businesses lost during the carnage resurface or are replaced by leaner, more targeted, more automated, more digitally connected and far more cautious enterprises with far stronger balance sheets.*

***When the pandemic finally passes**, Australia and other nations will emerge tentatively from the mire. The time to be a chief executive isn't so much now — dealing with the stress and the strain of cutbacks and survival — but from next year onwards during the glorious rebuilding of the irrepressible Australian economy.*

***As infrastructure comes online,** as businesses re-engage workers, as consumers breathe a palpable sigh of relief that the lockdowns are over, spending will recover. In some ways, the best career positioning at the moment is probably to be a chief financial officer aged mid to late 30s with the requisite skills and the optimistic world view to convince a board that they are ready to take the reins early next year.*

And so, regardless of whatever pain and sacrifice and hardship may lie ahead for all of us, the evidence from recent history is that humanity always seeks to rebuild. And in that rebuilding Australia, remote and cut off from the world by the tyranny of *distance, is then viewed warmly as a place of refuge, as a place of prosperity that is hygienically managed.*

***In this most terrible of global catastrophes**, the better Australia performs in terms of infections and deaths in blunt comparison with other nations, the more attractive it will appear to business and skilled (and ambitious) migrants during the 2020s.*

***In this coming decade**, there will be new businesses that encapsulate the times like McDonald's and Disneyland, there may even be new businesses that flow out of survivalist government spending of the kind that spawned CSL (one of Australia's biggest companies) all those years ago.*

***It is dangerous** to think that all we need to do as a nation is hunker down and wait until the storm passes. We need to be thinking now about how the world we emerge into has changed. Not so much because of the havoc wreaked by the raging storm but by the way we have changed as a people.*

***The longer the lockdown**, the more lethal the pandemic, the more frightened we are, the greater will be the human response."*

AS we stated at the beginning of this report:

The most common question we are being asked at the moment is - what does the virus, turmoil in the financial and social markets and the potential economic collapse mean for the Aussie property markets, now and going forward?

No-one knows what will happen, but if you are in it for the long term, history teaches us that those who have a greater chance of benefitting have always been those who move early before the inevitable upturn once this crisis is resolved.

------------------------------------END-------------------------------------

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