



How to Buy with Finance in a Hot Market - Part 1

Terry: Hi, everybody. I'm Terry Ryder, founder of Hotspotting and welcome to today's special webinar event in which we're speaking about the hot property market and how to operate in these interesting times, including the issue of getting finance. And it's a very special event because my special guest, the legendary mortgage broker, and property investment guru, Louise Lucas, who would normally be sitting in her office in Melbourne but today she's here with me in Queensland. So presenting side-by-side should actually make for a fun and interesting dynamic, we hope. Our central theme today is sorting out and sticking to your own race as the most important part of your property investing plan. So Louise - welcome. What does that actually mean? Sticking to your own race?

Louise: Well, Terry, before I get into that, I just have to say one thing. First of all, how excited am I to be in Queensland and particularly as Victoria looks like they're going back into lockdown! And I'm very lucky having a job that I can work anywhere in the world. But this is particularly fun today. And I thought this was my excuse to visit Queensland and talk to Terry and see what's happening in other markets across the country and catch up with lots of clients up here as well. So it's been an absolute thrill. I'm so excited to be up here.

Terry: Oh, you might not be able to go home anyway.

Louise: No, well, they'll take me back, it's getting back out again - that's the problem. So I'm just tempted to stay. But anyway, always contactable by phone or email. But one thing before I start, just going to give you the financial disclaimer, this is general information. If you want an actual specific review of your portfolio and your financial situation, please just call us. Okay, so I've just got to give that as a heads up before we begin. But we're talking about running your own race. So thanks for the question.

Terry: That was the question I asked you 5 minutes ago.

Louise: But that's okay. Okay, let's go back to the plan of attack for today. There are four things we want to cover off. And the first one is that it's a hot market, and what makes the hot market and why is this happening? And what are the symptoms? And how long do we expect all this to go on for?

And the second thing I want to talk to you about is a really interesting survey I found on millennials having buyer remorse.

The third thing I want to discuss is pre-approvals and what they're worth and what they're not worth to you.

And finally, I want to talk to you about making compelling offers.

Terry: And please put any questions too because, towards the end of today's hour event, we will be trying to answer as many questions as we can.

All right. Okay, the comments are coming in thick and fast.

Louise: We're talking about a hot market. And there's heaps of FOMO out there at the moment as you can imagine. You're the expert in Hotspotting. Tell us what's happening in a hot market.



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Terry: Well, I think the key thing is why we have a hot market. I think it's really important for people to understand the reasons why the market is as strong as it is because I think the key point is that there are so many different factors feeding into it. Therefore, if one of the factors is eliminated, it's not necessarily going to stop the market from being strong. Okay, because what we're getting from media is – if the Homebuilder ends the boom will end well, the Homebuilder didn't cause the boom it's just one of about 16 dot points in my list.

Louise: Oh okay - give us your 16. Quick and fast, go.

Terry: Okay, so I'll just work my way through my list of dot points and the reasons why I believe we have the market that we have which is probably the first genuine national property boom since the start of the century – since 2001, 2, 3 okay - so 20 years ago.

So we've got a stronger than expected economy because we were told to expect a long and deep recession that hasn't happened. We're told to expect double-digit unemployment that never went any higher than about seven and a half percent. Now it's down to five and a half, so that's been a factor. There are lots of Government stimulus out there in the market by state and federal including tax cuts, assistance to homebuyers, and other forms of stimulus. When the economy is strong, real estate is going to be strong. We certainly have that factor right now and Government stimulation issues have certainly been a great part of that. During the pandemic period primarily through last year but currently, unfortunately, it seems in Melbourne, people in lockdown have been reviewing life choices, and also they saved a lot of money. People haven't been able to travel. I mean, I live to travel basically, you know.

People have actually had an enhanced level of savings and that's actually helped them to put their money into real estate. Ultra Low vacancies. That's a huge factor we have, apart from the CBD so, Melbourne, Sydney and Brisbane, we have vacancy rates in most parts of Australia below 1% - ridiculous. That means rents are rising strongly and when that's happening prices will follow inevitably. We know that to be true from history in our research. And in many parts of Australia, we've got to the point it's actually cheaper to buy than to rent in probably most parts of Australia. That's what research tells us. So why wouldn't you and many young Australians be actually doing that.

So we've got lots of demand, pent up demand, which sort of became built up during the lockdown phases last year, leading to rising sales activity and at the same time we've got extra-low supply. Not only low supply of rental properties but still for some reason vendors aren't coming to the party with a high-level of listings. So demand exceeds supply therefore prices are rising. Then we have the exodus to affordable lifestyle. The biggest trend I think in the 21st century so far, yes, and impacting on real estate and that's just massively pumping up, particularly regional markets, but it's not just the regions. People are moving from the big cities to the smaller cities. So Brisbane in particular is getting a massive uplift. The population data shows that for the last 12 months that Brisbane and Queensland, have massively gained population as they did the year before. It's not just a COVID thing that's actually been a trend that's been underway for a number of years.

Louise: Oh, but it's a big COVID thing too, and I spoke to two people this morning who said, oh my God I'm going to move!

Terry: COVID has given it more impetus but what was a steady drift has turned into a stampede.

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Louise: Yes because before you thought now people want to stay where their families are, now they're thinking we're taking our little family and going somewhere.

Terry: Well, just to give you a Queensland stat, in 2019 I've got figures of just 23,000 in net internal migration.

Louise: Did Victorian lose that 23,000?

Terry: Victoria – in 2019 Victoria actually gained but last year, the trend became even more pronounced as Queensland gained over 30,000 and Victoria lost 12,000 and NSW lost 18,000.

Louise: The one thing we were talking about before, was this input from people returning to Australia. Although the media likes to think everyone's flocking because you know Australia's a basket case, because they love talking about that, but the truth is that's not really what's happening. You said that there is a huge amount of people, returning expats, returning to live here.

Terry: That's my next point on my list!

Louise: Oh I thought it was a great point.

Terry: Well, it's a huge factor because the economists, let's face it, just don't understand residential real estate and they constantly call it wrong. One of their assumptions was because the tap of overseas migrants coming to Australia was being turned off, property prices would fall. That hasn't happened, of course, but one of the compensating factors has been expats returning, some expat Australians coming back from living in some of the COVID hotspots and want to get the hell out of there. So they're coming back to Australia and they're buying real estate when they return or in advance of their return.

Louise: Yeah, that's true.

Terry: And the number of expats returning is actually more than the number of overseas migrants we normally get coming into Australia.

Louise: Well, but that's massive.

Terry: So it's huge. So that's a big factor and markets like the Gold Coast, which has defied all expectations is actually a boom market when it was expected to crash because it's so reliant on overseas tourists. But expats have been buying there and also people from Sydney and Melbourne have been buying there so they actually have a strong market at a time and logically, you might expect the Gold Coast to be struggling.

Louise: Well, interestingly, talking to our favourite property manager down there, Lyndsey, in the Brisbane area, she said she doesn't even need to really advertise the property at the moment because they aren't going because a lot of vendors have been selling their real estate, investment property



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because they think they're cashing out of a hot market but tenants are struggling to find places and she just pops a notice up on Facebook and she's inundated with applications so there are still plenty of people trying to rent but in the right places.

Terry: Honestly, the rental market is massively undersupplied and I think it's a national crisis that some politicians just don't seem to even be aware of. I mean that we've kind of rejoiced that the Federal Budget didn't make any changes to negative gearing or capital gains tax, but what they actually needed to do was to actually have incentives to encourage investors to get out there because the reason why we have such low vacancies is because investors have been sitting on the sidelines for the last 3-4 years, they've been discouraged by APRA, they've been discouraged by COVID.

At the last Federal election there was a lot of talk, particularly from the Labour side about scrapping negative gearing and all those sorts of negatives have scared off investors and they haven't come back in large numbers yet. But that's one of the things that will give kind of longevity because they starting to come back in now. When they come back in large numbers probably driven by FOMO which is the wrong motivation, but nevertheless it's going to give it longevity. Look, the big infrastructure spend that's just kicking in and is going to extend over the next few years will just keep pumping up the real estate market because these big infrastructure multi billion-dollar projects create enormous economic activity and yes jobs.

Louise: But the problem is that unemployment is going down because there aren't the right people to fill jobs.

Terry: And this is a huge problem in the building sector. I mean there's a lot of media out there this week, in fact, that we've got masses of people buying land wanting to build, but try get a builder or get a builder at a reasonable price because the cost of roofing has doubled, the cost of framing has increased by 30 or 40% because there so much demand and builders can only work so fast.

Louise: And it's really hard. I've got clients who've been trying to get a builder to give us a contract, and it's really hard to get one, but we need it so we can actually go and apply for a loan.

Terry: There are other reasons on my list but just to summarise, this thing that I think is really a big factor which nobody talks about as an intangible, but the last year was a time of fear and uncertainty and when people are fearful and uncertain, they retreat to, I think, what they know to be solid and safe. Bricks and mortar has that perception in Australia. I think it's been a factor. The people in that fearful time have said okay, we're going to put our money into something we know we can depend on and real estate has benefited from that.

Louise: Look at the stock market – it has benefited.

Terry: Initially it didn't but you know what, once the Australian economy surprised all the economic forecasts and was performing much better than expected, the share market has responded to that.

Louise: One thing I wanted to bring up from last year you went you mentioned about how poor the economists are - CBA expected real estate could drop by 30%. I couldn't believe they even put that out there! They clearly had nothing. They couldn't see the wood for the trees - that is never happening.

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And I was saying to clients, if you're looking for property during COVID and lock down in Melbourne, I was saying so long as they make offers subject to looking at the property, so get them stitched up before and a few people got in, thank God, because the minute it all opened up it was all on.

Terry: We should pass a law banning any economist from making any sort of comment on residential real estate, because they just don't get it. 12 months ago, they all called it utterly wrong.

Louise: And now they're all eating their words.

And that's not to say it always goes up in a straight line. So that's one of the things about rowing your own race - you need to set up to invest and buy property for yourself, for your circumstances and situation, not worry about what else is happening in the market. So you need to first up look at your own financials.

Louise: One of the things I wanted to talk about was why people are definitely getting in now because rates are still so low. And we are seeing the 4 year rates, which for the first time in the last 12 months came down below 2%. And they were the lead thing that the banks were trying to stitch us into and if you didn't lock in early enough, you could now be looking at the best offers are only for 2 years fixed and the variable rates are still over half a percent generally higher. Although it's interesting the last week I've seen a couple of lenders reduce their standard variable rates and but increasing their fixed rates. So they're obviously seeing that things are moving.

Louise: So that we were talking about the market - I think you've covered it off pretty well.

Terry: But the last thing on my 16 dot point list is that we have really low interest rates and economists keep citing that as the sole reason why we have a property boom and I think that's really simplistic. We have lots of different reasons of which low interest rates is one. It certainly doesn't hurt that you can get access to such cheap finance. But the indications are, I think that things are changing. But I have an extra graph on my wall over here and it's a shame I can put that in today but we decided we weren't going to do a slide presentation we were just going to have a discussion. But I wanted to discuss the impact that changes in interest rates have on the property market - one interest rate change or rise is not going to stop a runaway property market, nor two. You need sort of four or five or six successive increases in interest rates before it really brings a halt to a fast market and history has shown that so don't be too afraid if you read that interest rates are staring to jump up and that it might bring an end to the current upcycle. It will take a lot more than that to bring this runaway train to a halt.

Louise: Some people are still anticipating it will go for another 12 months at least. Again, it is still so cheap particularly if you're buying (I know we're talking primarily to investors today), but for anyone first time buying, they should be in the market and they should be buying and getting into your own home and paying it off - the ideal, perfect time. Because rates are so low and you can really make some headway on a property, then you get buying your own equity back instead of paying too much for rent, which we might think we're going to see more pressure on. Is it your price predictor report, the one that's showing the impact on rents and prices moving?

Terry: The price predictor is based on sales volumes and the uplift in sales activity is right across Australia. And I'd say the last six months has been exponential. I haven't seen numbers like that. Inevitably prices must rise when that's happening.

Louise: Okay, cool.

