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THE LENDING SLOWDOWN THAT'S GONE GLOBAL

Hold onto your hats folks, because as 2016 kicks off in earnest it seems media headlines will once again be saturated with reports of an ever-changing lending landscape and property market.

Particularly as activity and trends across the two sectors interplay and influence one another, along with regulators and monetary policymakers.

And it's not just local news outlets that will be busy regurgitating the infinite fodder surrounding these topics to sell papers.

All across the world, numerous developed nations are undertaking the same tenuous balancing act to keep their respective economic vessels afloat on a fiscal sea that remains tricky to navigate, some eight years on from the GFC.

The turmoil resulting from what was arguably the most catastrophic financial sector collapse in modern history, kicked off by a dangerously under-regulated US banking system, turned into a catalyst for change.

Ever since, the world's advanced economies have been busy exploring ways to keep money flowing among the masses in a more responsible manner. Especially when it comes to financing the largest asset acquisition most of us will make in our lifetime – residential real estate.

Interestingly, many of those nations that are now taking a tougher regulatory stance to slow their 'runaway' housing markets, relied heavily on the local property sector for their economic lifeblood immediately beyond the GFC.

However, concerns have arisen regarding the possibility that too many populations have been lured into accruing significant housing debt, with ongoing access to 'cheap credit' and rising local property values making real estate an attractive investment vehicle.

Some self-proclaimed 'rogue economists' are suggesting such large amounts of debt might not be such a good idea.

And as various countries attempt to claw back activity in their respective property sectors with various regulatory efforts, it seems those in power might secretly harbour similar concerns regarding the 'd' word.

We know this is the case in Australia, with APRA slapping the banks around throughout 2015 in a (somewhat successful) bid to put investor lending (and the Sydney property market) back in its place.

So let's take a brief jaunt around the world to look at how other nations are handling their own 'housing bubbles' with a bit of good old fiscal fiddling...

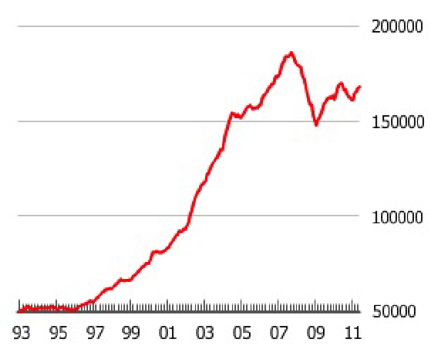
WHAT GOES DOWN MUST COME UP AGAIN...BUT NOT TOO FAST!

Property values initially spluttered to a halt and then started moving backwards across much of the tightly held UK housing sector after the GFC, falling briefly by 20 per cent in 2009.

However, with property prices having almost quadrupled in the 25 or so years to 2008 throughout the UK, many overseas buyers saw London housing in particular as a relative safe haven for investment after the GFC.

Prime London housing values increased by 11.4 per cent in the 12 months to October 2011, reflecting a 40 per cent rise after their post-credit crunch low.

This is indicative of the same type of international 'brand' recognition our real estate markets enjoy here in Australia (particularly among Asian buyers).



Source: Global Property Guide

In an effort to cool its over-heated property sector the Bank of England 'did an APRA' in 2014, introducing limits on higher LVR lending and stricter stress testing on prospective borrowers.

It was decreed that no more than 15 per cent of new mortgages taken out across the financial services sector could be provided to people borrowing more than four and a half times their income.

Additionally, stress testing must now be undertaken for all applicants at an interest rate of at least 3 per cent above the going variable rate of the day.

The most radical change to Britain's banking sector though, was the Mortgage Market Review or MMR, which saw a wide-ranging cache of rules and policies enforced across the banking and brokerage industries.

ACROSS THE DITCH

Our New Zealand neighbours began feeling the effects of a tightening fiscal monetary fist back in October 2013, when the Reserve Bank of NZ placed LVR restrictions on lenders, allowing for no more than 10 per cent of all new loans to be issued to borrowers with an LVR of 80 per cent or more.

But despite the central bank taking a more targeted approach in May 2015, requiring investors in the residential housing market to put down a minimum deposit of 30 per cent, NZ property values rose by a further 14 per cent throughout 2015.

And in much the same manner as Sydney, a steaming hot Auckland housing market gained 22.5 per cent over last year (Quotable Value).

Similar to our own Harbour City however, slower final quarter growth of just 2.9 per cent to the end of 2015 reflected a cooling in the Auckland property sector.

HONG KONG INVESTORS HUNG OUT TO DRY

If you thought Aussie investors were being unreasonably vilified by a regulatory witch-hunt, spare a thought for those trying to climb the property ladder in Hong Kong.

When real estate prices climbed by 13 per cent across the country over 2014, the Hong Kong Monetary Authority (HKMA) responded with a lowering of LVRs for owner-occupier borrowers acquiring a home for HK$7 million or less (AU$1.3 million), to 60 per cent.

For investors however, the maximum debt-servicing ratio (monthly mortgage repayment as a percentage of monthly income) was cut from 50 per cent to 40 per cent. Ouch!

TOO MUCH, TOO SOON?

Singapore has long been considered one of the most advanced (and clean) nations in the developed world, with infrastructure second to none. And this is no exception when it comes to cooling overheated housing markets.

But has the Monetary Authority of Singapore (MAS) been a little too successful in its bid to slow values down since the country's record gains a few years back?

In June 2013, the MAS announced a new framework whereby a debt-servicing ratio of 60 per cent was employed, after modest increases in stamp duty did little to control climbing property prices.

Some say regulators need to back off the brakes though, with Singapore house prices sliding by 4 per cent across 2014 and a further 3.7 per cent last year.

This is the type of extreme halt that Australian monetary policymakers are no doubt hoping to avoid as they continue making tweaks across the financial services sector into 2016.

It will be interesting to see what happens in two weeks time, when our own central bank board kicks off 2016 with its first meeting and sets the pace for the next twelve months. Don't forget to look for our special announcement issue on 2nd February.

Something tells me there are some interesting twists and turns ahead for property and finance sectors throughout the world across the coming year.

If you would like more information on how to navigate the new look lending landscape here at home, why not **connect with the team at Trilogy Funding**?

It's never been more important to ensure your debt portfolio is managed efficiently and with optimal cashflow in mind. Click here now to find out how we can help.

WHY THE RECENT CREDIT BOOM COULD MEAN ECONOMIC BUST

Debt. You have it. I have it. In some way, shape or form, most of humanity is financially indebted, with a number of economists now suggesting we live in an age whereby much of the modern world is, slowly but surely, drowning in the trappings of 'easy' (but not cheap) credit.

For those of us who understand how debt, when applied and used responsibly, can translate to personal financial freedom, the dreaded 'D' word might not seem quite so dirty.

Investors for instance, who utilise other people's capital to acquire high growth assets in a bid to self fund retirement, quickly learn how to manipulate debt to their own beneficial ends.

They turn one borrowed dollar into two and allow compounding and time to turn those two dollars into a tidy little nest egg.

But these same investors also understand that debt can indeed be dangerous.

When squandered on material items that possess no real value due to ease of accessibility – like big screen TVs or the latest Holden Commodore for example – debt can quickly assume the driver's seat in your financial affairs.

Compounding and time will work against you when debt is used to procure worthless 'stuff', making you a slave to money instead of its master.

On an individual level this can of course quickly become problematic and see people get into all kinds of fiscal misfortune.

But what happens when our private debt becomes a very public and very global issue?

What happens when we all have so much of it, including our governments and central banks, that the only plausible solution is the one that so many people laughed at Pauline Hanson for suggesting? Just make more money!

How much is too much debt? And how does what's essentially a concept, transition from being relatively innocuous to downright dangerous?

WHEN BOOMS COULD MEAN BUST

According to a recently released report from Switzerland's Bank for International Settlements (BIS), there's a strong historical link between credit booms, productivity growth and financial crises.

The argument is not really new. Many self-professed 'rogue economists' suggest that common sense dictates; economies with massive levels of private debt are inefficient, less productive and essentially unsustainable.

One such expert is Professor Steve Keen, who received a fair amount of ridicule over his suggestion back in 2008 that Australian property prices would fall by as much as 40 per cent over the long term.

Property enthusiasts and investment advisers went on a witch-hunt, claiming Keen was clueless when it comes to the underlying supply and demand fundamental that would underpin values for many years to come in a country with strong population growth and a relatively restricted accommodation pipeline.

However, Professor Keen's argument went a little deeper than that. He said the huge levels of debt being used to fund what are essentially non-productive assets are the real concern. That is, assets that will never be able to generate sufficient return to repay the associated debt.

Let's say I live in a house worth $300,000 and I leverage the equity in that property (take on additional debt) to buy a factory for $500,000, which employs a bunch of people.

I've now created a productive asset that creates things of value, provides employment and contributes to the overall economic wellbeing of the country.

In reality however, during the lead up to the GFC and immediately after, think about what most populations across the developed world were encouraged to spend debt on in increasing large quantities. That's right…residential property.

So instead of that productive factory being created, the $300,000 house was purchased over and over again by people borrowing money at interest rates not reflective of the actual investment risk.

BIS argues that this reliance on property to move debt around is the root driver of economic underperformance throughout the world. And could very well be our financial undoing if it continues unabated.

Of course this isn't in line with what we see and hear from the world's monetary policymakers – the central banks.

BUILD IT UP, BUILD IT HIGHER

Monetary policy traditionally revolves around containing inflation and ensuring the economy is at 'full employment' (around 5 per cent unemployment being the benchmark).

To contain inflation means to keep the price of certain goods and services in check. Think rental increases that can only happen in line with inflation for instance.
On the surface this makes perfect sense – if things get too expensive too quickly, businesses would not only have to pay higher prices for things, they'd also have to consider upping their employees' paychecks, making them completely untenable.

Interestingly though, the one asset many central banks have allowed to escalate well beyond the going rate of acceptable inflation is residential housing.

To them, if people choose to borrow high levels of capital from a lender to purchase a home or multiple investment properties, it simply means economic spending power shifts from the borrower to the bank.

In other words, house price inflation is matched by the creation of equally large debts, whereby the borrower has to make the mortgage repayments and in turn, Great Aunt Hilda enjoys a good dose of interest on her generous savings account.

The problem, argues Keen and other economists who think the same way, is that banks don't just take a deposit and then lend it to a borrower. Financial institutions multiply those deposits to create larger wads of 'credit', which in turn influences the overall money supply of any given economy.

Add low interest rates to the mix and the volume of money moving around the economy starts to swell.

According to the authors of the BIS report, who studied economic slumps as far back as the 1960s, these low interest fuelled credit booms represent a significant drag on the production and consumption of other things people really need.

MORE OF THE SAME?

The BIS report contends that fighting a credit crisis initially fuelled by the handing out of debt to consumers for the purchase of real estate like lollipops, by lowering interest rates and creating even more debt is entirely counterintuitive.

It says, "credit booms tend to undermine productivity growth by inducing labour reallocations towards lower productivity growth sectors. A temporarily bloated construction sector stands out as an example."

Sound familiar?

MEANWHILE, HERE AT HOME...

Many analysts are now starting to ask questions about how our own central bank will maneuver monetary policy in our increasingly debt laden society.

According to an analysis by Wells Fargo Securities, Australia's household to GDP ratio increased from 108 per cent to 122 per cent in the seven years to June 2015. And what was the primary reason for such a resounding rise? Yep...housing.

While many other households across the developed world were clawing back on the leveraging of credit post GFC, Aussies were doing the opposite and taking advantage of dirt-cheap mortgages.

Essentially, lower interest rates have meant we can take on further debt without any extra cost to service it, thereby allowing (in theory) more money to be spent (or saved) in other parts of the economy.

While this might seem like a win-win at first glance, it's essentially seen the Reserve backed into a bit of a corner.

If it decides to drop the official cash rate further, it's likely that the now cooler housing market could start to heat back up again as we take on larger amounts of 'cheap credit'. This would mitigate the lower debt servicing costs to households.

Conversely, pushing rates up will reduce the amount of disposable income available to Australian households, impacting our ability to spend money on other goods and services at a time when the economy is already feeling the effects of a weakening resources sector.

Hence, we come to the productivity fly in the ointment that the BIS report so eloquently (and rather obviously) points out.

THE ANSWER?

While the BIS report recommends a more multi-dimensional approach to monetary policymaking that accounts for greater all-round productivity within an economy from the world's central banks, the answer also lies with each of us.

In procuring debt for our own personal benefit, we each need to be accountable in attempting to leverage borrowed capital responsibly, for the betterment of our financial future.

For me anyway, this report is a timely reminder as to why we need to be respectful of the credit that has seemed so attainable up until now, and the manner in which we use it.

On an individual level, you need to manage your debt portfolio with the same rigorous planning and forethought as you manage your assets. Never get into a sea of debt that's deeper than you can comfortably stay afloat in, no matter how choppy the waters get.

If you would like to know more about how to effectively manage your housing debt, whilst growing a productive and financially freeing property investment portfolio, why not connect with the team here at Trilogy Funding?

You can leverage our expertise to improve and maintain your cashflow and serviceability. Click here now to find out how we can help.

FALLING HOUSE PRICES ARE NOT THE HARBINGER OF DOOM

With residential property playing the big bad protagonist when it comes to debt accruing assets upsetting the economic apple cart, a slow down in the mad run of recent activity will no doubt be welcome relief for monetary policymakers and regulators.

As was so eloquently pointed out by the BIS report discussed in our article looking at how credit booms invariably end in busts, too much buying and selling of bricks and mortar leads to the creation of 'debt bubbles', which can in turn stunt overall economic productivity.

Hence, a necessary reprieve from all the mania in order to bring a semblance of equilibrium back to our housing markets is not such a bad thing.

ALL GOOD THINGS MUST COME TO AN END

For many Australians the possibility of declining house prices will be difficult to comprehend.

Indeed, younger generations have really only known close to two decades of phenomenal capital growth, particularly across our major inner city markets.

These 'good times' for residential real estate have been stimulated by favourable underlying supply and demand fundamentals, as well as policymaking intended to keep one of the few sectors that's consistently underpinned our general economic wellbeing, alive and kicking.

Let's face it...without the resources boom and a few consecutive property booms since the turn of the century; we wouldn't have weathered the 2008 GFC with such aplomb, even as world economic powerhouses started to crumble.

Now though, both the mining and housing sectors are faltering, with the former falling victim to a slowing Chinese economy and the latter to a local credit crunch that's seen lenders forced to tighten the proverbial purse strings.

Things are not as rosy as they once were in this low interest rate environment, as our household debt levels rise with increasing property borrowings and we have less disposable income to spend in other areas of the economy.

BACKING UP

Our relatively long upward housing cycle of recent times was largely the function of an accommodation undersupply and of course, an abundance of 'cheap credit'.

Now, after an extended period of above average price growth across some property markets, a notable shift is underway.

At the end of 2007 Australia was building approximately 150,000 new homes annually, fast forward to mid-2012 and that was up to 200,000, while at the end of last year, we were constructing around 230,000 new dwellings per annum.

According to ANZ chief economist Saul Eslake, even if these robust activity levels were to weaken slightly, housing stock levels will still likely outstrip demand within the next few years, causing that supply /demand imbalance to tilt prices in the other direction.

Combine this turn of events with lenders seriously rethinking how much capital they're willing to dish out to property buyers as a result of APRA's regulatory curveballs, as well as the potential for climbing interest rates in the next year or so, and it doesn't take a genius to figure out what comes next...

Less credit 'on tap' and in turn decreased buyer activity, coupled with more stock on the market, equals the curbing of property price growth.

BUT IT'S NOT SO BLACK AND WHITE

As always though, the Australian housing market is not such a simple beast to pin down.

Even as domestic buyers start to reconsider further property acquisitions due to newly imposed lender obstacles, foreign purchasers are continuing to stoke the Australian bricks and mortar fire.

For this reason says Eslake, it's likely new apartment construction (the property sub-sector overseas investors are busy stimulating) will continue pushing dwelling approvals beyond 200,000 each year for some time.

In turn, we should see an easing of supply constraints and with it, a return to more affordable and sustainable levels of price growth.

Further, should this rising tide of supply combined with a reduction in the instance of easily obtainable and cheap credit force a lowering of house prices, the drain on our overall economy in servicing increasing levels of debt will be reduced, opening the door for increased productivity.

As such, the apparent slowdown we're currently entering could be seen as a necessary and natural correction phase.

Just as our recently robust real estate markets helped to maintain our economy in less than ideal circumstances, so too will this cooler phase of the property cycle have a hand in what will no doubt be an important economic transition for our nation. What goes up must come down, after all.

Do you need to shore up cashflow and manoeuvre around the banks' tighter serviceability barriers to continue growing your property portfolio?

One of our experienced Trilogy Funding brokers can help. Click here now to connect with us and find out how we can keep you on the right track to a secure financial future.

WHAT SHOULD PROPERTY INVESTORS PREPARE FOR IN 2016?

It's a new year for property investors. Some would suggest it's an exciting time to be in the real estate game, with so much history being made since the start of this millennium.

Now, as we enter 2016, an undeniable air of anticipation surrounds our political and economic arenas, as well as the housing and finance sectors.

But given that none of us possess the capacity for 20/20 foresight all we can really do is hypothesise as to what might lay ahead for Australia's property markets over the next 12 months, using our own knowledge and experience.

A brief glimpse at the 'highlights' reel from past cycles and a good deal of conjecture is perhaps as close to any 'expert' commentary or analysis you'll get in this sector.

Just consider what you were reading this time last year and how accurate predictions were for 2015...still waiting on that 'housing bubble' to burst?

The key message when you cut through all the hype about 'what might be' for residential real estate at any point in time is that NONE of your investment decisions should be based entirely on what you read in the media.

Even when couched in an 'expert' voice, it's critical not to be easily swayed into making decisions based on anything less than your own carefully conceived property investment strategy and diligent research.

Having said that, it's never a good idea to simply bury your head either. A pro-active investor remains alert to any actual goings on that could impact his or her evolving portfolio. That's because it's all about forward planning.

Plus when property and finance are your

passion, it's fun to take a stroll down memory lane and fall in love with housing as an investment vehicle all over again...ready for another year and another ride to remember!

So here are some of the more noteworthy past occurrences across the property and finance sectors to recall as we head into another New Year.

THE HIGHLIGHT'S REEL

While supply and demand ultimately determine market movements across the housing sector, this delicate balance will shift one way or another under the influence of a whole raft of stimuli.

Here are some of the more prominent events from the past few years that have helped to shape today's property markets...

August 2013 – RBA lowers the cash rate to a historic 2.5 per cent, where it remains for 18 consecutive months until...

February 2015 – the RBA drops rates to 2.25 per cent. As if people weren't already manically buying up property (particularly across Sydney and Melbourne), now a renewed wave of equity laden (mostly baby boomer) property investors enter the markets in a frenzied bid to shore up their financial future with real estate. Even more jump on board when in...

May 2015 – the RBA drops rates further, to an (you guessed it!) unprecedented 2 per cent. Meanwhile, back in...

December 2014 – APRA announces a series of new macroprudential measures intended to reinforce risk-averse lending practices by Australian financial institutions.

No overall system wide limits or quota caps are imposed, rather APRA warns there'll be closer scrutiny around 'high risk lending', including;

- Higher LVR and interest only loans (generally for investment based borrowing),
- A 10 per cent threshold target for annual growth of investor loans across any one lender's mortgage books and
- Enhanced serviceability measures for new borrowers, including an interest rate buffer of 2 per cent with a minimum assessment rate of 7 per cent.

July 2015 – In response to the banks posting an across the board growth rate of over 20 per cent in investor based borrowing in May 2015, despite repeated warnings to put the brakes on, APRA takes a hard line approach.

The regulator cautions that lenders who don't adhere to mandated restrictions on investment borrowing of 10 per cent or less could force the imposition of formal credit sanctions. Things get very real!

The banks quickly remove all special interest deals for investors and start chasing owner-occupier business with renewed vigor. However, changes to serviceability impact all new borrowers, not just property investors.

October 2015 – APRA gets serious with the promised imposition of definitive guidelines to take effect as at July 2016, which will see the amount of required capital held against mortgages raised from 16 basis points to 25 basis points.

The banks' response is swift and brutal, upping their variable mortgage rates within days of the regulator's official announcement.

Meanwhile, Sydney's median house price has shot up by 21.7 per cent since last October, having broken through the $1 million threshold, but is starting to 'slow down' some, according to analysts.

Of course alongside these events, we also witnessed;

- a higher instance of overseas investment in our property markets than previously seen,
- increased talk of housing bubbles and affordability issues,
- changing demographics as our population ages and traditional Aussie households start to shrink,
- continuing economic and political upheaval, both locally and across the globe,
- a new apartment construction boom in our major, eastern seaboard cities.

The list goes on...because one thing is inevitable when it comes to investing over the long term...you'll see and experience an awful lot of change throughout your journey to financial freedom.

Of course this begs the question...what type of change might we find tugging on our respective property portfolios as we step into an unknown future?

Again I should remind you, it's really impossible to say for sure. But let's exercise our imaginations for a moment and consider what might lie ahead…

Buying activity and prices across Sydney and Melbourne will likely continue on their recent slow down into 2016. But any significant corrections are unlikely and some of the more popular locations will continue to shine.

On the flipside, we may see a continuation of apartment and new home construction at a heady pace, in line with consistent interest from overseas investors who are restricted to snapping up new stock.

Social inequity will no doubt become more of a concern for planning and regulatory authorities, along with housing advocacy groups, as our expanding wealth gap creates an increasing need for affordable rental and owner-occupier accommodation close to CBD employment hubs.

Larger regional property markets across Victoria, NSW and Queensland could see a swell of buyer and tenant demand, as affordability barriers push more people further afield.

Could this be the beginning of a sea and tree change renaissance? Reminiscent of the late nineties when baby boomers were flocking to coastal and bush retreats…only this time with younger generations in search of reasonably priced access to property ownership?

This is already an emerging trend throughout Queensland's Sunshine Coast, where private and public infrastructure and business investment is stimulating the local economy and in turn, interest in local housing.

Further south, house prices in Victoria's coastal town of Geelong grew by 5.5 per cent in the six months to November 2015 according to Domain data, largely due to a swell of commuter buyers who now consider Geelong to be another suburb of Melbourne.

We may begin to see some cracks appear and signs of housing stress when interest rates inevitably start to rise. As to when that will happen with any significance is anyone's guess.

BIS Shrapnel's Angie Zigomanis believes a more positive economic and employment outlook for 2016 will see the RBA push interest rates up by 50 basis points by the beginning of 2017.

Back in July last year, AMP Capital chief economist Shane Oliver predicted that, "The real risk for property is in 2017, when the Reserve Bank starts raising rates, and then you will see prices come off 5 to 10 per cent, particularly in Sydney".

All of these shifting social and economic dynamics could mean a serious infrastructure rethink for local, state and federal authorities, with the potential for a vast outer suburban and regional migration away from our more expensive cities.

Could we see higher density living take hold on the urban fringes into the future?

Experts are already predicting a significant exodus from Sydney as locals look for more affordable accommodation either north or south of the NSW border. And how might this migratory pattern impact Brisbane and Melbourne markets?

What will become of the burgeoning apartment markets across Melbourne, Sydney and Brisbane? You know…the ones predominantly purchased by overseas parties who are leaving them to languish vacant indefinitely?

BE A PREPARED INVESTOR

While all of these possibilities may or may not come to fruition, one thing is certain…whatever ending awaits property investors; this year will not be the same as the last. Change, as I said before, is inevitable.

The best way to prepare for any type of change is to have relatively immutable objectives and strategies in place. By doing so, you can be sure of your destination, even if the path has to bend slightly in order to accommodate any unforeseen obstacles…like rising interest rates for instance.

Essentially, if you've planned, researched and acquired in accordance with your own investment strategy, there's really no reason your 2016 shouldn't look any less bright than your 2015.

Here's to a New Year of prosperity!