CLIENT
INFORMATION BULLETIN

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Here's to a much better 2022. Can't say I'll miss the last couple of years.

2022 and Beyond.

Over the next few years there will be one after another supposedly calamitous event, the media will strike the fear of god into us, and a week later it will be water under the bridge. A recent example, "Evergrande", China's largest property developer, one minute its collapse was going to bring the world down, the next it is last weeks news.

The trick is to turn off the noise and stay focused on the longer term goal.

Life is a Cycle. Enjoying the journey is the bigger picture.

Our Bread and Butter Accounting, Tax, Businesses

The next couple of years should be an ideal time to start or expand your business. We can expect a lot of growth in many areas, it has to follow on as a consequence of the trillions invested around the world by Governments to, in their eyes, help us recover from Covid.

Note, we will keep reminding you that around 2025 will be the time to strongly review your exposure to debt, consolidating where necessary. Avoid being overly indebted when the cycle potentially peaks around 2026, and then follows into a GFC type crash.

Enclosure of the Economic Rent

The understanding of what that term means leads to an understanding of how the worlds economies work.

I will try and illustrate it via the following.

"It all ends up in the Land."
If someone

- has a win in Tattslotto, they invest it
- Makes a million from business
- Makes a million from cryptos
- Inherits a decent amount
- Increases their income, the bank lends them more
- Interest rates fall, they borrow more
- Gets a promotion, they upgrade their home
- Covid comes along and people buy more from Harvey Norman, how does the extra profit get invested by Gerry Harvey
- The whole population get pay rises to keep up with inflation

Then,
for so many people who experience one of the above, they buy a bigger house for a higher price than it was a short time before, or they buy an investment property for a higher price than it was shortly before. It all ends up in the land!

The number one factor affecting house prices is the amount of credit created. Even if interest rates rise, even if APRA change the lending criteria imposed upon banks to be more restrictive, the amount available to be lent for housing can still increase.

$9 Trillion is the value of property in Australia.
$3 Trillion is the value of Super and Shares added together.

The greatest wealth is held, and the greatest wealth is made, in Property.

Yet the con goes on that investing in Super will make you rich. No, it makes the executives of the Super Funds rich when they buy countless properties using the million dollar wages you are paying them. They don't waste their time investing in the products they are flogging the population.

The Investment Cycle

Absolutely nothing can be guaranteed in the future. However, if the Cycle continues to follow the 18 year pattern, as it has done so far since 2008, then we are heading towards a peak in property prices around 2026, followed by a crash around 2027.

Feeding the growth is wasteful Government spending. Victoria's West Gate Tunnel is a perfect example of how Governments do it badly. The billions wasted end up in someone's pockets, then it finds its way into land prices.

There is $230 million additional cash in Australia compared to a couple of years ago. If you go to the bank with a $100k deposit, and a decent family income, the bank will lend you a Million. How much more will the banks lend if just some of the additional $230 million is spent on property? (Another reason in fact why housing prices will continue to increase for the next few years)

Property to 2027

The median priced house in Melbourne in June 2008 was $450,000, a period when the GFC was well underway. It is now worth over $900,000. In 13 years it has doubled. A person who purchased in 2008, by now would have increased their wealth by the same amount as someone who has had Super for the last 30-40 years.

(Note, real estate agents love saying that property doubles every 10 years, it doesn't. In the 70's and 80's it grew faster than doubling every 10 years. Since 1990 it has taken much longer to double)

Yet recently Westpac commissioned a study that found only 7% of people believe the best place for their savings is in real estate.

Is there a house in Melbourne or Sydney worth less now than it was 20 years ago? Yet it takes only seconds to find the names of countless huge companies who no longer exist, or have just lost their investors plenty of money. Companies who, 20 years ago, were touted as fantastic investments.

Melbourne and Sydney prices are softening at the moment. Multiple properties have been passed in over recent weeks. If prices are a little less heated during 2022 it gives the opportunity to get a foot in without paying the ridiculous prices of recent months. January can be an excellent time to purchase as there is less competition over the Summer holidays. Also, some owners who didn't manage to sell before Christmas may be under pressure to sell, especially if they have already committed themselves to another purchase. However it's not going to stop the overall trend into 2026.

Economists including Shane Oliver are making forecasts of falls, yet again. Shane is the same economist who in early 2020 predicted a 20% decline, when interviewed by Ross Stevenson on 3AW he admitted "I got that wrong". So the bloke who got it so wrong last year is now predicting a 5 to 10% decline in prices in 2023. He couldn't get it right for the year he was in, now he is predicting 2 years ahead!

The logic behind his forecast is an expected rise in the cash rate and increased costs of financing a mortgage. What he has completely missed is that there are many other drivers continuing to push property prices upwards. The digital revolution is a major one he has overlooked.

People are making enormous gains from Crypto Currency investment, some making so much they are paying cash for investment properties. No mortgage required. It all ends in the Land.

Let's assume with savings and a loan you can afford to pay $800,000 for a house. Let's use a Land and House package. Assume it costs $400,000 for the land and $400,000 to build the house. If the cost of building the house fell by 50%, the total cost should now be $600,000. However the savings do not get passed on such that you end up paying less for the site. Based on your incomes, you and the other potential purchasers are all prepared to spend what the bank will lend you. If lending criteria allowed the bank to justify lending you and your fellow bidders $700,000 on top of your $100,000 savings, you won't get to buy the house for $600,000. You will still have to pay $800,000. The price of getting the house to market has fallen, but the gains of cheaper production will still end up being taken by the developers and sellers.

Is it Possible? Check out 3D printing of houses. It is already being done, the only thing holding it back is legislation. Which will inevitably change.

Property Development

How true were my words of 12 months ago, "So a well researched purchase in the next 12 months may have already increased significantly in value by the time you get your plans approved and actually commence the build."

2022 is a great year to get your project underway. We don't need to be a Computer Consultant, an Engineer, a Real Estate Agent, a General Practitioner, etc etc, to help them improve how they run their business and make an income from it. Likewise we don't need to have personally completed a property development to coordinate everything that is required. We can introduce our clients to the team of people who have recently completed a property development for our clients. It took 3 years, the builder completed the build 2 months early, the goal was an increase in equity of $500,000, the result was well and truly in excess of the goal.

Two more are under way. We now have the runs on the board, and are looking forward to helping many more clients either provide something extra for their retirement, or enable their kids to get into the property market without the loan that is never paid back, the loan from the "Bank of Mum and Dad".

Interest Rates

There may be some minor increase in interest rates in the next couple of years. An important point is, interest rates generally rise when the economy is growing, so any rises in the near future are actually a good thing. They will generally coincide with increased productivity, increased employment, increasing wages.

The increases that occur as we get towards the end of the Cycle are the ones that hurt, when a significant percentage of people have borrowed like the party will never stop!

Australian Shares

As predicted the last 12 months was somewhat volatile as far as the share markets were concerned. I expect we will shortly see the commencement of a sustained period of growth in shares over the next 5 years. With the regular ups and downs, of course, that make short term investors nervous.

Out of the ashes of this recession some huge companies are going to rise up.

In Summary

Expect growth in just about everything. Shares up, housing up, interest rates maybe up a little, inflation up, wages up a little, your superannuation up, world tensions up, misplaced faith in your football team always up!

We are years away from the next major crash, so time to make hay while the sun shines.

2022

We look forward to seeing you visit us in the office again in 2022. Hopefully we will still recognise you since you last visited!

Our office will be close at lunchtime Thursday 23rd December, and reopen Monday the 10th January.

We again extend our deepest appreciation for your custom, your loyalty and your support during 2021.

Wishing you a very
Merry Christmas and a Happy
New '22

Grant, Jeanette,
Emma, Rizwan & Suba