2017
Annual Review

December 2017

I would call this year 'challenging' on a number of fronts. For the 1st time in over 5 years, we didn't experience any growth on the previous Calendar year (which should convert to a nice kick up the bum to head into 18). The current lending conditions are the toughest we've experienced in 17 years of business. I'm also not too sure what to make of the real estate market – this year & heading into 18.

Owner Occupied Interest Rates remain steady (Cash Rate 1.50%) with no movement at all in 2017. Forecasts at this point indicate an increase in late 2018. Fixed rates are pretty attractive at this point though.

Slight change of MO in this year's review! I'm going to include commentary from HTW Valuers on the Property Market, & CommSec (Craig James) commentary on the Economy. Both make interesting reading.

Despite no growth for us in 2017, we did manage to get our revamped website up & running, and completed our Client Care Survey (that provided us with excellent/valuable feedback/ideas). We also published the 1st of our educational series (Offset Accounts) with more planned in 2018. Our BMW Drive Day experience was a hit with all that attended, & our day/dinner at the Ashes with a few Clients/Referrers was very enjoyable.

No great sporting fairy-tales this year, though Titans fans may be thinking that Hayne jetting off to the Eels is a fairy-tale! Ok, maybe the Tigers winning the Flag in the AFL had a tinge of it…

On the personal front… finally offloaded our previous house – wow, wasn't that a challenge! My HSL sponsored Masters Soccer Team made the GF again but missed back to back wins on a penalty shootout! Our oldest Jibreel nailed a 3-peat of Academic Merit Awards & also took out the top Japanese student award for Year 6. In fact it was a great year for him with being awarded the Year 6 Debating Award (I REALLY have NO idea where he gets that 'skill' from…), & also captaining the Prep Chess GPS Team. Bear got through Prep unscathed, & the Girls did their thing as usual, though Fiya has demonstrated that Hockey might be her 'thing'! Ohhh, Dee & I managed a date night without 4 kids for the 1st time in over 4 years!! That's an achievement right there!!

At the end of this update, we've rehashed a politically correct 'seasons greeting' and a pic montage of 2017 – hope you enjoy it!

THANK YOU ALL again for your wonderful support! We look forward to seeing/speaking with you in 2018! May it be prosperous for each and every one of you!

Economic Insight

One of my preferred Economic commentators is Craig James from CommSec. Annually, Craig issues 'The Big Issues' report that reviews all things 'economic' & gazes (forecasts) into the following year. He's some excerpts from the latest issue:

Review of the Past Year

- The economy played out generally as expected in 2017. Now while economic growth will be closer to 2 per cent rather than 3 per cent, other variables hit the target. Underlying inflation does look set to remain in the 1.50-2.00 per cent band with unemployment between 5.25-5.75 per cent.
- On interest rates, last year we said: *"At present we think the Reserve Bank will stay on the interest rate sidelines for much of 2017. The Reserve Bank still has the ability to cut rates if underlying inflation stubbornly remains below the low end of the 2-3 per cent target band."* The cash rate indeed has remained stable at 1.50 per cent.
- Both the Aussie dollar and the sharemarket are ending the year well within the forecast bands. The sharemarket may finish near the top of the forecast band while the Aussie dollar is currently trading near the middle of the US73-79 cent trading band.

The Year Ahead

- The Australian economy remains in good shape. Home building remains solid in most states and territories. Certainly more new homes will be finished over the next year, and this will keep investors and authorities alike focussed on the type of landing experienced: 'hard' or 'soft'.
- The business sector is in great shape, with conditions reportedly the best in 20 years. Businesses are spending, investing and employing and the jobless rate is gradually edging lower. The jobless rate is at 4½-year lows.
- Consumer confidence is still uninspiring due to lower wage growth and greater spending on 'grudge' purchases like utility bills, council rates and insurance premiums. But consumers are still spending.
- Federal and state governments continue to unveil infrastructure spending – especially transport. That is, roads, tunnels, railways and airports. And work on current and mooted projects will support the economy in the next few years.
- Economic growth is expected to lift from around 2 per cent to near 3 per cent over 2018. Contributions to growth are expected to be broad based with consumers, businesses, exports and governments expected to contribute to the firmer growth pace.
- Inflation is expected to remain contained, resulting in stability of interest rates. Indeed the cash rate may remain at 1.50 per cent for most of the year. While we have pencilled in a rate hike for December 2018, clearly that is still some way ahead.

Housing: Hard or soft landing?

Certainly there are many parts of the country that have far different experiences. Perth and Darwin housing markets are going through corrections after mining and energy construction booms. Adelaide and Brisbane have generally seen steady conditions. However the significant apartment building in Brisbane has led to a very soft rental market. Interestingly though, demand for some accommodation like townhouses is strong and not being met by supply, supporting prices.

A key factor that points to the potential for a "soft" landing rather than "hard" landing in markets such as Sydney and Melbourne has been the policy of lenders. Reflecting on the experience of housing oversupply in the US and Europe during the Global Financial Crisis, Australian lenders adopted a new policy. Before lenders would provide finance to developers they sought that around 100 per cent of properties be sold "off the plan" by developers. There is still scope for 'indigestion' in some markets with a lot of building going on, but less scope for a broader "hard landing".

US President Donald Trump

The goal of the Trump Administration is to lift the pace of economic growth to the 3-4 per cent range rather than 2-3 per cent range. And the tax cut package is seen to be one of the mechanisms that could serve to lift sustainable economic growth.

US consumer confidence (Conference Board survey) is at 17-year highs. And a measure of small business confidence from Capital One recently hit a 5-year high.

How long will inflation stay low?

Last year we argued that there are good reasons to think that inflation was at an inflection point. Certainly central banks maintain accommodative monetary policies. Many governments are spending more on infrastructure. Economic growth rates are lifting. The US is arguably at 'full employment'. And a number of states and territories in Australia have jobless rates low enough to suggest that inflationary pressures may start to emerge.

But the themes of global consumer good competition and technology-driven cost cuts are still working to keep prices low. Consumers can buy goods whenever they want and wherever they are. And a combination of technology and innovation are reducing production costs. Importantly, these themes could have further to go to play out fully.

In Australia, the Reserve Bank is working on the belief that inflation has bottomed. And as a consequence, interest rates have probably bottomed. But the Reserve Bank continues to emphasise that inflation will rise only gradually. And over the next two years, underlying inflation may only have lifted to 2 per cent – at the bottom of the 2-3 per cent target band.

The disconnect between jobs and wages

So we have been discussing low inflation for a number of years. And the trends over the past year have been especially interesting with economic growth rates lifting, while at the same time inflation has been stubbornly low. On the basis of economic theory, that shouldn't happen. Stronger consumer and business spending and lower unemployment rates should give businesses confidence to lift prices and thus lift margins and profitability. But to a large extent, the theory assumes that consumer goods are sourced locally rather than globally.

Some would argue that the threat of losing customers has meant that businesses can't afford to lift pay of workers. Then other theories suggest that unemployment no longer fully explains labour market tightness. Workers may have part-time jobs but want full-time work, so spare capacity remains. So underemployment remains high. And others would say that if the pay of domestic workers lifts too high, then they could lose jobs overseas – both in goods and services sectors.

Infrastructure

Infrastructure can cover a number of areas. Social infrastructure includes buildings like hospitals and schools. Economic infrastructure includes roads, bridges, railways, airports and bridges.

Deloitte Access Economics says that the value of road and rail projects will lift from a trough of around $4 billion in 2015 to a peak of around $16 billion in 2020. Industry research company, Macromonitor, says spending on road, rail, harbours and bridges will peak near $35 billion in 2019/20.

In part, governments have been under-spending on infrastructure, so they are at the point where they have to spend money on some facilities. The federal government no doubt also acknowledges that it has a role to play in supporting the economy at a time where there are limits on monetary policy to drive momentum in the economy While governments are spending money, much of the work has to be outsourced to the private sector. It is also important to note – unlike the mining construction boom – that the projects are spread across the nation. However, NSW, Victoria and Queensland do dominate given high population growth.

The economic benefit of lower taxes

A fundamental component of US President Trump's election campaign was the need for tax reform. So ever since his election in November 2016, US sharemarkets have been trading on the hope that the President will be successful in implementing his tax reform proposal. And indeed it is closer to reality.

The belief is that lower tax rates – especially for business – will serve to stimulate the economy, thus boosting business revenues and profits. And at the same time, the belief is that lower taxes will reduce business costs and again lift revenues and profits.

Some economists believe that if tax cuts aren't fully funded then it will merely serve to boost the budget deficit. Proponents argue, however, that the tax cuts would be paid for by the faster pace of economic growth. That is, the increased spending, investment and employment would in itself lift budget revenues.

Given that other governments, including Australia, may follow the US lead on tax, we are likely to hear more debate on the pros and cons of tax reform and tax reduction.

Consumer debt

We expect that growth of home prices will soften in 2018 with more new homes completed and coming onto the market. At the same time, the Reserve Bank Governor has indicated that the next move in interest rates is likely to be up – although in his words: "there is not a strong case for a near-term adjustment in monetary policy." If valuations do soften and interest rates lift later in 2018, then clearly the issue of debt will work its way to the top of the agenda.

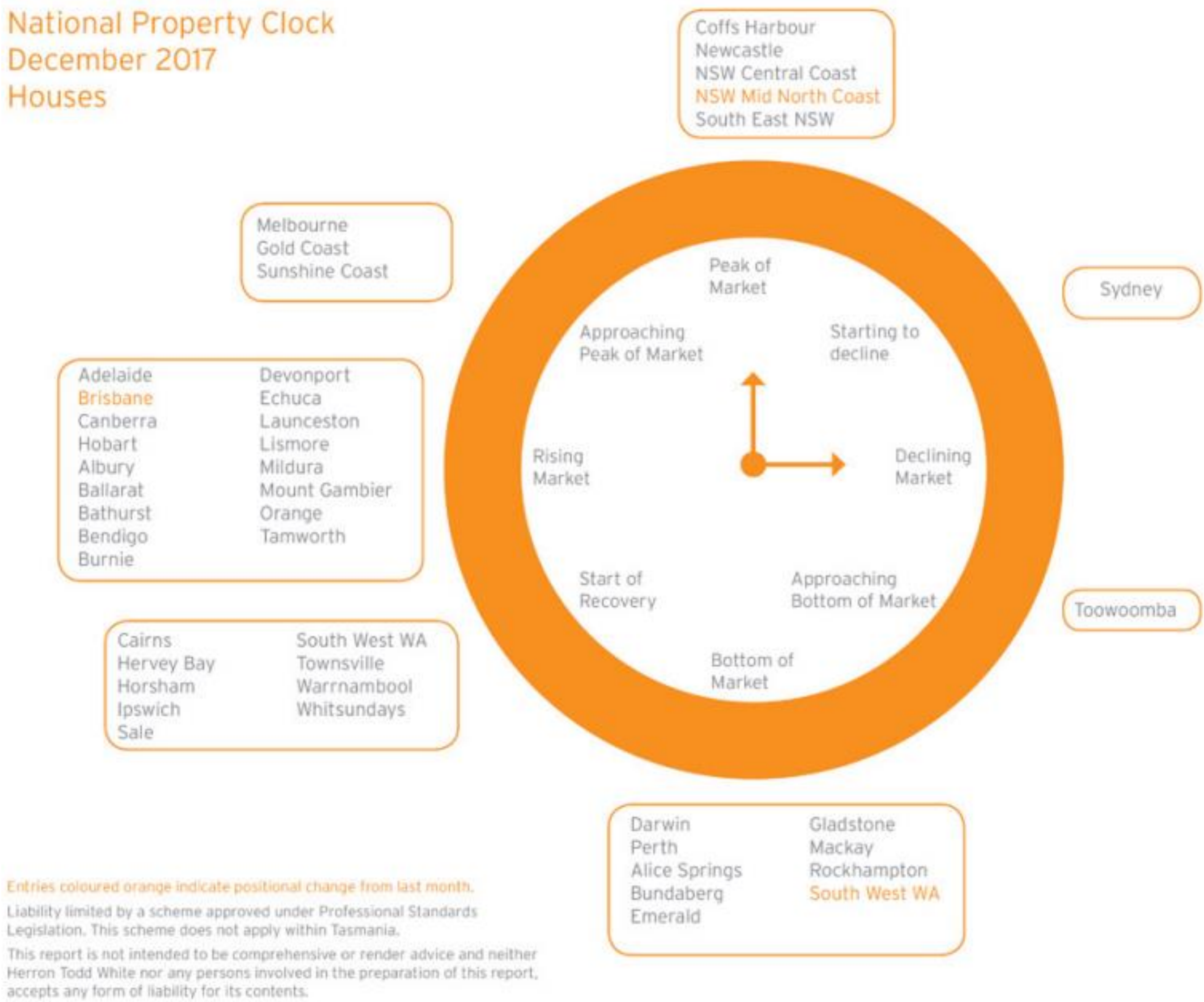
Aussie consumers have taken on more debt in part because interest rates are low, but also because home prices have risen, necessitating bigger home loans. But as the Reserve Bank points out, the level of debt may be higher but "the share of household income devoted to paying mortgage interest is lower than it has been for some time." So the all-important servicing of the debt remains comfortable.

If investors take delivery of their newly-completed apartments and can't find tenants, they may look to sell. Similarly, some investors about to take delivery of their new apartments may find that valuations have softened. Again that could prompt investors to walk away from the purchase or sell. That then raises questions of what happens to home prices. If interest rates were to also rise then that would stress relatively recent buyers (mortgagees).

Full Report can be viewed here:

http://www.homesweetloans.com.au/wp-content/uploads/2017/12/CommSec-Economic-Update-2017.pdf

Property Insight



HTW Valuers Month in Review – Dec 2017:

We know! Our city seemed to sit back and take wallflower status when it came to capital growth this year. While larger cities revelled in their enormous gains, anyone speculating in the Brisbane market appeared to have little to show apart from reasonable yield and boring performance.

This, however, is only a half-truth because it doesn't recognise the rich tapestry that is Brisbane's property markets. We had some highlights and some lowlights but all in all, our sunshine city saw good performance for anyone who followed the fundamentals of property investing.

First the lowlights, and the darkest shadow cast across our town has been inner-city high-rise unit construction. To be more specific, it was investor stock.

We warned anyone who cared to listen over the past few years attached units with little appeal for owner-occupiers would be troublesome and 2017 seems to be the annum where the rubber finally hit the road. Falling unit pre-sales entrenched themselves firmly in the early part of the year. Many developers started mothballing projects that hadn't yet begun – or sold off sites that couldn't turn a profit. We've started to see falling prices bite in this sector now, with resales of off-the-plan purchases demonstrating just how far the values have softened.

If you did look to make your mark with an owner-occupier style unit, the pain was a little less severe. Certainly, attached housing overall was tough to own in 2017, but at least with a good size 2- or 3-bedroom apartment offering the sort of amenity owners love to enjoy, your potential buyer base was wider and option to sell stronger.

There was also bad news flowing onto second hand unit stock in our mid and outer ring. Extended selling periods, price discounts and difficulties finding tenants effected this sector, as a result of the new unit overbuild. Most smart owners made sure their good tenants stayed happy. This allowed them to hold onto their investment and wait for the inevitable market turn around.

Now for some good news – look beyond the unit gloom and you'll find Brisbane is hitting it straps for well-positioned housing. We've started seeing a turnaround in some key economic indicators – particularly towards the end of this year. Employment is strengthening in Brisbane and with a number of impressive infrastructure projects coming out of the ground, it would be nice to see much of our population continue to enjoy gainful employment.

Another great number worth watching is our net interstate migration number which is enjoying a steady resurgence on the back of housing affordability, lifestyle and predicted jobs growth.

While none of this has fuelled a rush, 2017 revealed exactly how affordable we are in comparison to those southern cities. A recent set of numbers released by CoreLogic revealed Brisbane's most affordable suburb within a 10 kilometre radius of the CBD was Rocklea with a median price of about $400,000. The same analysis of Sydney showed its most affordable was Tempe with a median of $1.2 million. At one-third of the price, it's easy to see why southerners will continue to have an eye on our homes.

Another reason to not feel too bad for Brisbane is that quality, detached family homes, particularly in great school zones, close to transport and lifestyle facilities continued to feel the love. Demand for this stock is high and sellers weren't missing out on great prices.

We correctly picked continued strength in reasonable quality property in blue-chip suburbs. A tick there. Our office also said mid ring suburban housing would see steady gains citing Kedron and Wavell Heights among the ones to watch. These probably did a touch better than expected for the right style of home.

We predicted the rise in house-and-land prices on the fringe. This has come to pass in many respects. In one of our biggest projects – North Lakes – the finalisation of development will tighten supply.

Also, towards the end of the year, agents were reporting too many buyers, not enough stock. We also said the prestige sector could expect a bit more action too.

Overall – 'steady as she goes' Brisbane rang true for most sectors in 2017.

Full Report can be viewed here (Qld pages 21-28):

http://www.homesweetloans.com.au/wp-content/uploads/2017/12/HTW-MIR-1712.pdf

Home Sweet Loans - Housekeeping

PLEASE NOTE that we are here to assist during the Application process, and post Settlement. If you require any assistance whatsoever once you have your loan in place, please call us at anytime. This alleviates any issues that you will encounter dealing directly with your respective Lender, especially when it comes to Product switches and Discharges/Releases.

We Value Your Thoughts!

Gift Vouchers, Movie Tickets, a night at the Footy, lunch/dinner at sumptuous Restaurants – the more of your family & friends you refer, the greater your rewards!

Take Care
Tarek

HSL Website

NOTICE TO OUR CLIENTS:

Please accept with no obligation, implied or implicit, my best wishes for an environmentally conscious, socially responsible, low stress, non-addictive, gender neutral celebration of the summer solstice holiday practiced with the most enjoyable traditions of religious persuasion or secular practices of your choice with respect for the religious/secular persuasions and/or traditions of others, or their choice not to practice religious or secular traditions at all. I also wish you a fiscally successful, personally fulfilling and medically uncomplicated recognition of the onset of the generally accepted calendar year 2018, but not without due respect for the calendar of choice of other cultures whose contributions to society have helped make our country great, and without regard to the race, creed, colour, age, physical ability, religious faith or sexual preference of the wishee.

*** By accepting this greeting, you are accepting these terms:**

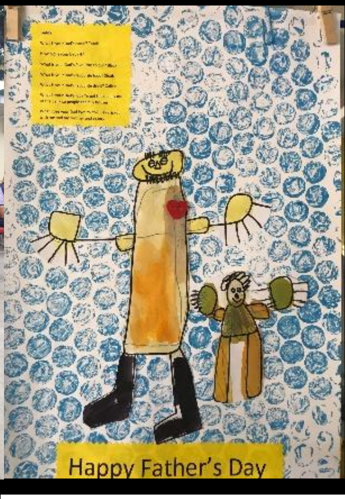
This greeting is subject to clarification or withdrawal. It is freely transferable with no alteration to the original greeting. It implies no promise by the wisher to actually implement any of the wishes for her/him or others and is void where prohibited by law, and is revocable at the sole discretion of the wisher. The wish is warranted to perform as expected within the usual application of good tidings for a period of one year or until the issuance of a new wish at the sole discretion of the wisher.

Best Regards (without prejudice)
Home Sweet Loans ® - ©2012

2017 in pics next page…

Date Night!

Prep – last one!



Didn't know that's what I look like

Looking for lunch

Never sick of coming back here

Hard day at the Ashes