

THE AUSTRALIAN

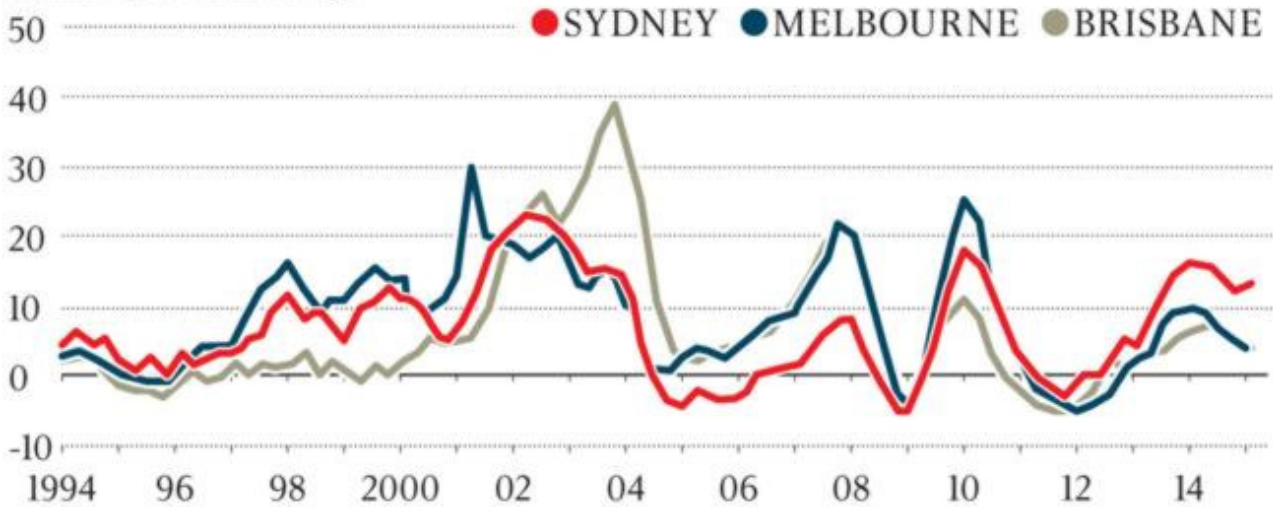
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MARKET	87.84	NAB -0.81% 34.17	QBE -2.96% 13.79 SUN -0.95% 13.58 STO -1.82%
S&P/ASX 200	AUD/USD	TOP GAINER WOW	TOP LOSER BKN
-1.54%	-0.94%	+3.83%	-11.34%
5545.9000	\$0.77	\$27.39	\$1.52

Banks' role in house price surge

STIRLING LARKIN THE AUSTRALIAN JUNE 25, 2015 9:34AM

House price growth is decelerating quite sharply outside of Sydney

Annual per cent change



Source: Australian Bureau of Statistics, Goldman Sachs

Source: TheAustralian

The 1940s expression “that’s the \$64 question”, which became synonymous with difficult or problematic challenges, evolved into the “\$64,000” television shows and media references of the 50s and onwards up and until today.

This was largely because post Second World War real economic inflation became a celebrated reality, positively associated with actual economic progress and true prosperity.

But this acceptance of inflated numbers was perennially allowed to continue and most peculiarly, done so with some warped sense of pride.

This was peculiar because having the value of our “purchasing power” persistently debased — year after year — was somehow perceived as advantageous and not damaging.

But even for the most globally minded of Australian investors today, domestic asset inflation — played out very explicitly in our current Sydney and Melbourne residential real estate markets — must always remain on their radars because, no Australian “domiciled” investor should ever over-allocate their respective portfolios towards international investments.

All Australian investors should find a balance between domestic and global investment exposures and therefore, Australian domestic considerations always matter, to all of us.

Inflation itself is important and does represent much good throughout our economy but the substitute of inflation for genuine prosperity is unequivocally bad and allowing the “thin red line” between the two to continue to be blurred is where the Australian global investor must pay most attention.

Australian ultra high net worth investors do have the “upper-hand” and advantage over other Australian investment communities. This is because, broadly speaking, they hold a greater dispersion of “real assets” — a separate and distinct asset class from financial assets — than others as a proportion of their overall investment basket.

But like much in life, being aware of these issues does not make overcoming or avoiding them any easier.

This awareness does though allow all Australian investors to make shrewder investment decisions today that account for actual inflation and not government — in this case the RBA — advertised “normalisations”.

And when it comes to Sydney real estate valuations, most pundits have spectacularly misunderstood the situation.

In short, the RBA has marginal influence; the big four Australian banks (ANZ, NAB, CBA and WBC), however, have very significant influence and culpability.

This distinction, however, matters greatly to Australian investors in particular, because the “warping” of what is technically referred to as the “smile of the yield curve”, ultimately affects the entire domestic market across almost all important asset classes.

Very simply, asset inflation being seen across the entire price spectrum of residential Sydney real estate valuations has knock-on effects across all domestic investment markets — i.e. stockmarket, commodities, debt and credit, etc — and also affects all Australian investors, including the UHNW community.

We are witnessing this play out by “mum and dad” property buyers inflating this asset class, which, in turn, drives up higher-tier estates, such as those in Sydney making headlines.

Token “Chinese” may be easy to identify and heap blame on but they are not the problem and have become scapegoats. This obvious xenophobia is “groundhog day” for Australian commentators, who levelled identical accusations at the Japanese during the pre-1990 Australian real estate asset bubble.

The primary question that we, Australian investors, should be circling back to, is what are the “big four” — government-protected — Australian banks up to.

Twenty five years ago these banks held one third of their lending exposure to Australian real estate, today’s proportion has roughly flipped to two thirds or more, measured either directly or indirectly.

Australian banks that have squeezed as much juice out of our current metaphorical lemon as possible have finally resorted to one last squeeze by (over) selling insurance solutions over the past five years, which, frankly, are just not required by any economy, anywhere in the developed world.

And therefore the obvious answer is rarely, if ever, simple. But in this instance it is: it is time to revoke the “four pillars” policy — an Australian government policy to maintain the separation of the four banks by rejecting any merger or acquisition between them.

There is no legitimate reason for maintaining the policy and it only serves to protect “oligopoly” markets, which drain enterprise value from the real economy, which should be redirected towards other parts of Australia’s economy.

Such potential future newly allocated enterprise value would stoke genuine and broadly enjoyed prosperity.

We already know that prosperity drives productivity growth and this trajectory only enhances the integrity of our economy and in turn, our investable markets, such as the ASX 200 stockmarket.

Ironically as well, house price affordability will dissipate as an issue for community discussion.

The \$64 question isn’t why are house prices perennially rallying but who is lending the \$62 of the \$64 to the borrower who should not have been lent it in the first place?

Government is not to blame — the only input and impact government can and should have today is

revoking the undemocratic four pillars banking policy.

By allowing liberal, freer and more democratic markets to breathe, Australia will only then find a new prosperity and liberate itself from its current self-incarcerated shackles.

Distortions will dissipate and all Australian investors can then rejoin the real game being played by international global investors, seeking out tomorrow's future investable opportunities, which are undervalued today.

When we allow competition to once again breathe, these issues will sort themselves out naturally.

Australian UHNW investors may enjoy larger sums of capital to invest but they too face the identical same \$64 conundrum.

And that problem may be easily solved by simply asking, why do four of the world's most profitable and scaled financial institutions, still require 1990 enacted government protections?

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