Real Estate myths are being destroyed: "There's never been a worse time to buy..."

By Matt Ellis, 2015 E. J. Craigie Award winner

Like all marketing exercises, real estate is primarily sold by exploiting our fears. In order to exploit our fears, marketers must first stoke fears. And the stoking of fear requires one or more invented problems, which we must be taught to fear. Finally, the salesperson requires corresponding myths about the product that will allegedly solve such invented problems. The magical snake-oil, with exceptional unexplained properties, that solves non-existent ailments.

The more persistent and culturally ingrained those mythologies, the easier the swindle can be passed off. Unlike the humble snake-oil salesperson, a real estate agent does not even need to create their own problem-fear-solution package; the social context does it for them. In Australia we have developed a bad case of economic, financial and cultural amnesia, that has enabled real estate mythology to thoroughly infect our collective psyche, and thus, has led to the largest wholesale economy-wide marketing exploitation that we've probably ever known.

We suffer from a textbook case of speculative bubble psychosis, where even our nearest and dearest seem determined to draw us in using that inalienable motivator and marketing tool in this Age of the Hipster: the dreaded FEAR OF MISSING OUT.

But sadly for the marketers, spruikers and myth-pedlars, the foundations of our FOMO are now being shaken to the core, with a swathe of souring news in nearly all facets of the real estate fear-factory. In recent months we have had news of rapidly slowing population growth, major pending oversupply of apartments in major cities, falling house prices in mining-focused regions, rapidly cooling auction clearance rates, record low rental growth, record low income growth as well as admissions by our economic regulators that investment lending has been majorly underestimated, lending standards are far worse than presumed, and that our banking sector is under-capitalised and putting the financial system and economy at risk.

Additionally, we have seen the introduction of macro-prudential policies to slow mortgage lending and house price growth and increase capital reserve requirements for banks, (both reducing the availability and increasing the cost of mortgages). And most recently we have had the introduction of proper oversight and enforcement of foreign investment laws locally, and stricter capital controls offshore, putting a pin in a key contributor to recent market extremes.

Finally, we have had our economic regulators, ratings agencies, investment banks, hedge funds, sell-side analysts, and a vast horde of economists, researchers and journalists lining up to call the top of the great Australian real estate boom. Most are predicting price falls, and many are predicting price collapse. And either way, price falls in some areas, and slowing price growth everywhere else has commenced in agreement with these negative forecasts.

What a difference 6 months makes in the wonderful world of Aussie Real Estate Mania. In remarkably quick succession, most of Australia's real estate myths are being destroyed. FOMO will soon become:

- Fear of Market Overshoot
- Fear of Money Owed
- Fear of Mortgage Oppression
- Fear of Mistakenly Owning

The egregious and pervasive myths used so far to generate exploitable fears are almost too numerous to list. But given this rapid changing of fortunes, I wanted to provide a comprehensive guide to the reversal of these foundational real estate myths. I for one am so very tired of explaining the reality of problems we face and busting the associated myths. I'm sick of avoiding the old real estate "barbecue stopper" for fear of causing offence or losing respect.

These circumstances and factors were never proof that there is no housing bubble, they were the cause of the bubble. Why? Because they were all temporary, and were always going to eventually change. The fact that they all coalesced at the right time to create a bubble means that their temporary and coincidental nature equates to an incredibly tenuous alignment of the stars. Chances are when they reversed course, they were all going to do so. Which as detailed in this helpful and comprehensive cheat sheet, they now are.

Is it sinking in yet? These bubble forces are all pointing in the wrong direction now. Every single mythology or temporary distortion mistaken for a permanent change of economic circumstances is now acting in exactly the opposite way.

Economic Regulator Actions have Busted the Myths and are Bursting the Bubble

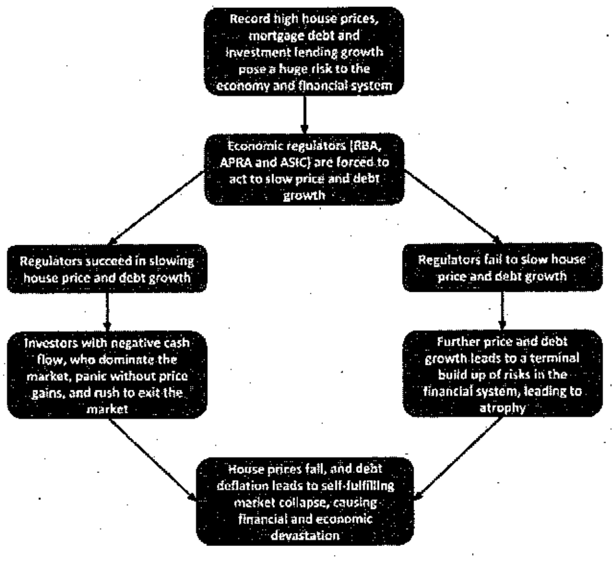
For all of our glorification of enormous house prices in this country, there is now universal acceptance amongst economic regulators, banks, the investment community and economists who haven't sold their credentials off to the highest bidder, that these much celebrated prices are a problem. A big problem. They only tend to disagree about scale, but as history unanimously demonstrates, scale is actually of minimal consequence to the inevitability and pain of rebalancing – either by regulation and force, or by virtue of terminal imbalance.

A market driven by the growth of debt is either expanding or contracting – it never stands still for long. The 'permanently high plateau' often touted as an answer to severe overvaluation is always a vain hope once debt deflation sets in and erodes asset prices.

If prices were to rise faster than incomes indefinitely, what do we suspect would be the outcome? Our top economic regulator the Reserve Bank, whose job it is to manage inflation and employment, and to ensure financial stability, has specifically explained that further real price escalation and indebtedness will destabilise our financial system even more than it already is. That's the reason that the RBA in concert with other regulators have finally taken decisive action to slow down investor lending for residential real estate. They need to see price growth flatten or even fall in order to ensure financial stability. And as the last few months have proven, it's now working, with price growth across the country slowing fast, and year on year falls in Perth and Darwin.

They've also explained three or four times in the last year or so that prices are due to fall. And as explained above, a whole host of global investment banks, hedge funds, ratings agencies and economists agree, forecasting price falls. Yep, prices are going to fall folks. They don't go up forever, and the market is at very high risk of investor exodus once price falls set in. And in our investor-dominated market, that in turn creates a very high risk of collapse, which creates a very high risk of widespread economic fallout.

The fear of that kind of contagion (a genuine fear, not a marketed fear) should send a shiver down the spine of real estate speculators, as it means one of only two possible outcomes for the future of house prices is now assured. Either the RBA, APRA and ASIC fully succeed in slowing the growth of house prices leading to price collapse via market contagion, or they fail, and our financial system is further destabilised, leading to price collapse via some kind of atrophy. If prices continue to rise above the rate of income growth indefinitely, then the mathematically certain conclusion is a terminally unstable financial system. We only need to look at nearly any country in the developed world in the last ten years to understand what happens next. If that's hard to visualise, here's a little flowchart to illustrate the logical possibilities facing the housing market:



So the conclusion is that in the medium term, prices are going to fall relative to incomes. Either they do so gradually, if our economic regulators are able to engineer a soft landing, or quickly if the 'soft-landing' triggers a run on negatively geared investment properties, leading to a self-fulfilling and rapid downward spiral (this is my base case), or catastrophically if the regulators fail to control further escalation of real prices, as the aforementioned financial instability finally leads to a panic moment amidst a rapidly slowing economy.

The last case is what most bubble-denier commentators and insiders are unwittingly calling for. They want/predict strong price growth to continue just because it can, or because they need to sell that prediction. But the logical options presented above are not negotiable with market and economic realities. Whichever case above you think more likely, it is utterly certain that spending money on residential real estate at this juncture is at best a bad investment, and at worst, financial suicide.

In conclusion, that's all you need to explain to your loved ones and real estate lusty peers when asked when you are going to buy a house, or told that you're at risk of missing out forever. It's a logical impossibility to miss out forever by virtue of price alone. As long as you are employed, and save and invest wisely (outside of real estate), there will always be an opportunity to enter into the hallowed ranks of home ownership. But right now, what slim opportunity there is to purchase, is a terminally risky proposition. It won't be like that forever. And the only difference between successfully navigating the terminal risks of the current real estate bubble and our massively tanking economy, and the completely preventable and disastrous outcome of financial ruin, is patience.

Patience is the toughest word to utter in this debt-addicted house-horny consumerist western culture and its obsession with instant gratification. For your own sake, for your family, your friends, and indeed the financial and economic well-being of the country, please remember that this current era of real estate mania will not last and is already unravelling, and as such: "There has never been a worse time to buy"!