Boost to new homes

Multi-unit dwellings driving rise

JASON CADDEN
PROPERTY

SALES of new homes across Australia are at their highest in nearly five years, boosted by a surge in multi-unit dwellings.

The number of new homes sold jumped 1.1 per cent in February, seasonally adjusted, the Housing Industry Association new home sales report shows.

That followed a rise of 1.8 per cent in January, highlighting the ongoing strength in the property market amid an environment of low interest rates and robust investor activity.

Sales of flats, townhouses and semi-detached houses jumped 11.1 per cent in the month but houses were down 1.3 per cent.

HIA chief economist Harley Dale said the construction of apartment blocks of at least three storeys accounted for a quarter of new home sales last year, up from just 5 per cent two decades ago.

"The signal from both HIA new home sales and Australian Bureau of Statistics building approvals is for further upward momentum to multi-unit dwelling construction in 2015, but a consolidation in detached house building at volumes above the long-term average," Dr Dale said.

He said that new home building conditions varied greatly nationwide after digging below the national surface.

Last month, detached house sales increased by 1.5 per cent in Victoria and by 0.2 per cent in Queensland but declined by 4.8 per cent in NSW, 2 per cent in SA and 2.9 per cent in WA.

Sales in the three months to February compared with the previous three months was strong in Victoria, up 3.8 per cent, and Queensland, up 9 per cent.

CommSec economist Savanth Sebastian said demand from property investors was a driving force behind the construction of multi-unit blocks.

"It's driven by the change in demographics across the Australian landscape it's also the ageing population that is downsizing their homes," Mr Sebastian said.

AAP

MACQUARIE EYES CUTS AS DEALS DRY UP

BANKING

MACQUARIE Group is planning to shed about half of its investment banking workforce in Asia — some 80-90 jobs — as it looks to rely less on trading and advisory services amid a slump in deal-making.

Jeremy Wernert, named head of the group's investment banking unit Macquarie Capital less than a year ago, is also believed to be leaving, according to people familiar with the matter who asked not to be identified.

The cuts at Macquarie Group, known colloquially as the "millionaire's factory", follow a drop in revenue from the advisory and capital markets division as the number of deals fades.

The move also reflects chief executive Nicholas Moore's strategy of shifting the company towards leasing, funds management and lending, reducing the group's exposure to trading and advisory services.

Fiona McDonald, a Hong Kong-based spokeswoman at the bank, did not respond to emails or calls seeking comment. Mr Wernert did not return calls to his mobile phone seeking comment.

The cuts were to be outlined to employees yesterday and would take place across Hong Kong, Singapore, Korea, India and Japan while excluding Australia, sources said.

Some affected staff in Japan had been told since the end of last week to leave.

The bank has been trying to boost its principal investment business, where activities include lending to clients making acquisitions and investing in companies preparing to go public.

Shares in Macquarie closed 25c stronger at $76.67.

BLOOMBERG

Fuelled for dividends

ENERGY

CHEVRON'S exit from Caltex Australia is expected to increase the pressure on the fuel retailer and refiner to boost returns to shareholders, Standard and Poor's says.

But the ratings agency says the move by US energy giant Chevron to sell its 50 per cent stake in Caltex last week does not pose any immediate threat to Caltex's BBB+ credit rating.

Chevron's $4.7 billion exit from Caltex has raised the prospect of the fuel retailer issuing a special dividend given it is carrying about $1.1 billion in franking credits.

MAGNIS RISES

SHARES in graphite miner Magnis Resources have jumped after it inked a $US150 million ($196 million) funding deal with its Chinese partner.

Chinese conglomerate SINOMA's funds, along with $US15 million from Magnis, will build a 200,000-tonne-a-year processing plant in Tanzania. Magnis shares shot up 8.7 per cent, or 2c, to 25c.

Deborah Thomas' appointment to Ardent Leisure has met with some resistance from institutional shareholders.

No doubting Thomas at Ardent's top tier

BOARDROOM

THEME park owner Ardent Leisure says it has no plans to hold an extraordinary shareholder meeting over the appointment of magazine editor Deborah Thomas as its new chief executive.

Several institutional shareholders are considering calling for a meeting in a bid to have Greg Shaw reinstated to the top job, unhappy with the reasons given for the leadership change, according to reports.

Ms Thomas, a former editor of *The Australian Women's Weekly*, will replace Greg Shaw in July when his 13-year tenure ends. When named as Mr Shaw's replacement, Ardent said Ms Thomas' marketing experience would accelerate the growth of the business.

A spokesman for Ardent Leisure said there were no plans for an extraordinary general meeting.

Shares in the owner of Dreamworld and WhiteWater World tumbled 19 per cent the day after Ms Thomas' appointment was announced. They have since regained most of that fall, closing 1.8 per cent up yesterday at $2.24.

Ardent also owns health clubs, tenpin bowling and indoor rock climbing centres.

Safe as houses? Lower rates have a worrying side-effect

THE SHORT CUT
with ROGER MONTGOMERY

USUALLY we write a column about the stocks you should be fearful of — those that might be a danger to your longer-term wealth.

Threats to your wealth, independence and lifestyle choices, however, are not unique to the stock market.

There is a group of people who are swimming with the current and, because there are so many of them, they feel they are doing the right thing.

But the river is flowing towards a cliff and a waterfall that will potentially destroy the financial futures of many of the downstream swimmers.

The Reserve Bank would like to see low interest rates lead to an improvement in demand for borrowing for business investment.

Ideally this would lead to employment and a sustained improvement in the state of the Australian economy.

What is actually happening, however, is that business is not investing.

Instead an asset bubble is being fuelled in property.

According to Lindsay David, author of *Australia: Boom to Bust* and *Print: The Central Bankers Bubble*, "based on median multiples, new home buyers in Sydney will spend the better part of 6.54 years' savings (using 30 per cent of their income) for a 20 per cent deposit to buy a median-priced home".

"When it comes to servicing the first 12 months of a 25-year, 80 per cent loan-to-valuation ratio mortgage, it will cost roughly 65 per cent to 70 per cent of household income to service that debt at current record-low mortgage rates. Melbourne is not too far behind," he said.

In 1991 the value of housing debt divided by disposable income was 35 per cent. Today the same ratio is more than 140 per cent — surpassing any other peak.

Consider also a record 40 per cent of borrowers have taken out interest-only loans.

And finally, housing loans now make up 61 per cent of Australian credit, which compares to 24 per cent before the early '90s recession and 52 per cent just before the GFC.

Property may not be in a bubble but it is definitely in a boom. And history tells us most booms bust.

Hedge fund manager Crispin Odey has warned that economies dependent on China for income, including Australia's, are headed for recession.

Even David Gonski, chairman of the ANZ — an institution arguably conflicted when advising on whether you should take out a home loan — has described markets as "quite scary".

Add to these observations those of the Reserve Bank, which in its Financial Stability Review said, "The risk of a large repricing and associated market dislocation in the commercial property sector has increased".

Commercial real estate is dwarfed by the housing market but the RBA noted it posed "a disproportionately large risk" and "has been responsible for a number of episodes of stress in the banking sector".

We have previously noted the ridiculous premiums of net tangible assets that some real estate investment trusts are trading at.

And let's not even begin to think about what it means for record-high bank share prices that are trading at more than 10 times provision, more than 15 times earnings and more than 2.5 times book value.

Finally, there is Ray Dalio, famed billionaire founder of Bridgewater & Associates.

He noted that seven years into a US expansionary cycle (that's about the average length of a cyclic recovery), any slowdown in the US would be problematic.

In past recessions the US Federal Reserve has cut rates by an average of 300-400 basis points. With rates at zero there isn't that room.

At the end of the debt super cycle, Mr Dalio is saying he doesn't want any "concentrated exposures".

Investors and speculators in Australian property are concentrating their bets.

They are either smarter than Ray Dalio or they will be proven wrong.

Roger Montgomery is chief investment officer at The Montgomery Fund.