



## Rebuilding after property's fall by Roger Montgomery

In September this year, Australia's richest man and biggest apartment developer, the property billionaire Harry Triguboff cited slowing foreign investor interest as a reason for his observation that "the slowdown in the apartment market is worsening," adding "the number of new apartments sold had dropped and prices have fallen about 10% over the past six months."

Separately, investment bank UBS reported the results of a survey of almost 1000 Australian mortgage holders who borrowed in the 12 months to August 2017, noting; "Our 2017 survey found factually accurate mortgage applications fell to just 67%. There are now ~\$500 billion in 'Liar Loans' on the banks' books.

Meanwhile, interest-only mortgages increased from around 35% of total originations in 2013 to a peak of 46% in June 2015. APRA's decision however to cap the proportion of new interest-only mortgages at 30% of total originations for each of the banks from 1 July this year means that in just 2.5 years, the loans originated in July 2015 (46% of which were interest-only), will need to be refinanced and many borrowers will be forced on to principle-and-interest mortgages, and an associated increase in repayments of as much as 40% – even if interest rates don't rise.

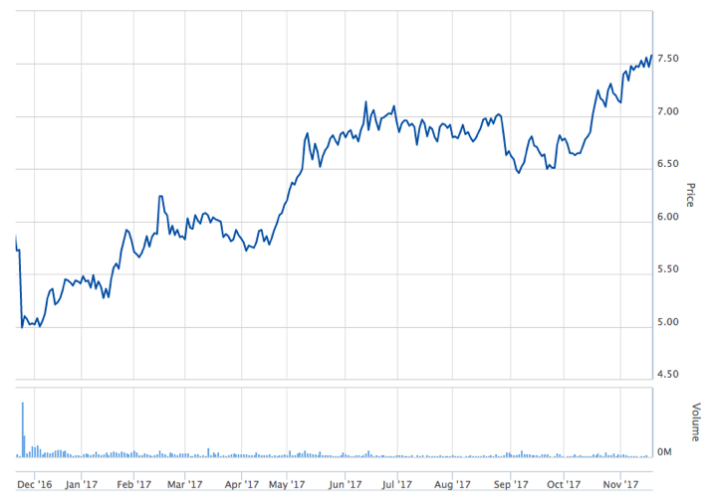
Finally, a slump in approvals in recent months suggests a slump in the near future for construction activity in Australia.

But having said all that, hurricane's Harvey and Irma could prove a boom for international builders and building supply companies because Texas and Florida account for 14% and 10% respectively of the total US market for housing approvals.

So let's take a look at a two building stocks exposed

to the construction sector:

### Boral (ASX: BLD)



Source: ASX

Since reporting its full-year results, the shares fell almost 10%. Investors appear to be concerned about the modest earnings growth anticipated by the company for the Australian division (mentioned in the text above). But Boral Australia has also announced a series of price increases across concrete and cement, which if combined with solid persistent volumes associated with the government-announced infrastructure projects, may prove revenues are less negatively impacted as some believe.

### CSR (ASX: CSR)



Source: ASX

CSR is the company behind the Gyprock plasterboard, Bradford insulation and Monier roof tiles brands, among many others. Since the company announced its results, management has upgraded their expectations for housing, citing 'solid' demand compared to 'steady' previously. But don't read too much into semantics. Announced price increases for plasterboard are expected to offset energy cost increases of circa \$20 million this financial year. While high rise apartment building activity (12% revenue exposure) may be softening, management suggests single family housing is relatively stable.

**Roger is the founder and Chief Investment Officer of The Montgomery Fund. He is a renowned value investor with more than 22 years experience. Stock market guide, Valueable, in 2010.**

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