



The September “Cliff”

Researched & written by
Aaron Christie-David

As featured in:



The sentiment as mentioned by the media

Beware the September 'cliff' facing SMEs

The September end for the government's SME support package is a worry for the wider economy.

FINANCIAL REVIEW

Source: <https://www.afr.com/chanticleer/beware-the-september-cliff-facing-smes-20200612-p5522v>

Australia is 100 days from an economic cliff

NEWS

Source: <https://www.abc.net.au/news/2020-06-12/australia-100-days-out-from-economic-cliff-coronavirus-supports/12345710>

September cliff: Why business experts are preparing for a flood of insolvencies when JobKeeper ends

9NEWS

Source: <https://www.9news.com.au/national/australia-coronavirus-flood-of-business-insolvencies-when-jobkeeper-ends/b121497a-4605-4d4c-a406-96a4bd4422ce>

Treasurer signals 'income support' to avoid September cliff

The Sydney Morning Herald

Source: <https://www.smh.com.au/politics/federal/treasurer-signals-income-support-to-avoid-september-cliff-20200708-p55a2r.html>

The September fiscal cliff will be replaced with a fiscal slope, thanks to tax cuts and a Jobkeeper 'extension'

SmartCompany

Source: <https://www.smartcompany.com.au/coronavirus/government-fiscal-cliff-tax-cuts-jobkeeper-extension/>

What lies beyond the September cliff?

AB+F
An RFI Group company

Source: <https://www.rfigroup.com/australian-banking-and-finance/news/what-lies-beyond-september-cliff>

How many loans have been deferred?



1 out of 14

Australian mortgages have been paused during the COVID-19, which is about **7% of all mortgages**.

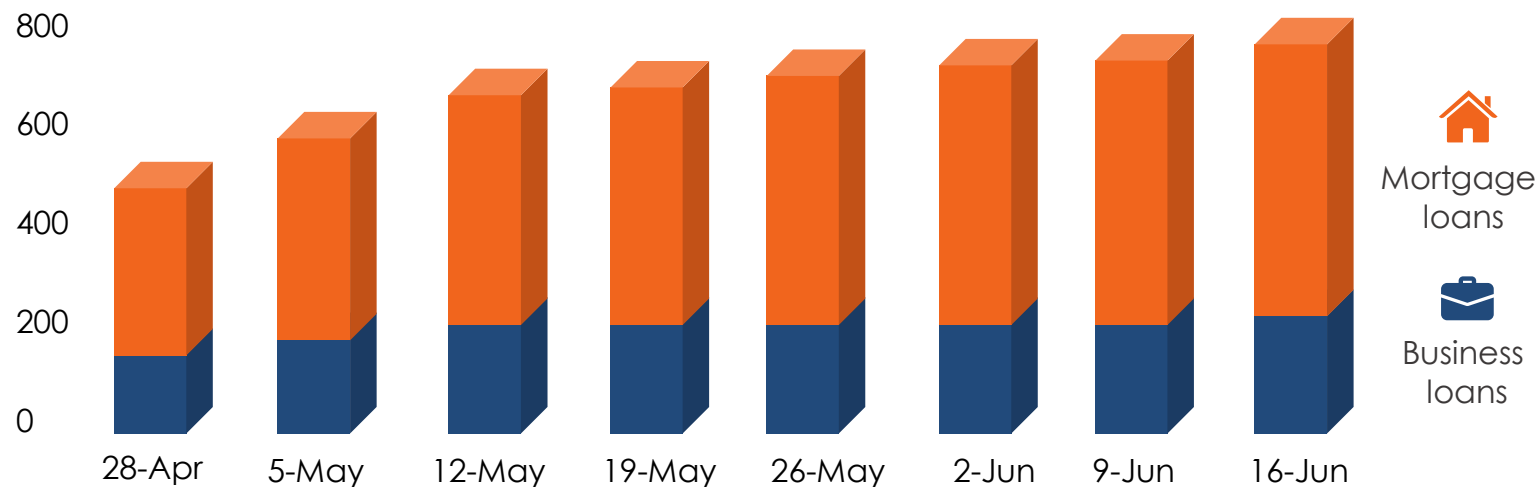
643,000 loans deferred

The Australian Banking Association (ABA) show a total of 643,000 loans have now been deferred, with the **total values of these loans now over \$200 billion**

	Commonwealth Bank	Westpac	ANZ	NAB
\$ value of loan deferred	\$50bn	\$39bn	\$36bn	\$26.5bn
# of loans deferred	144,000	105,000	105,000	70,000
% of loan book	12.5%¹	9%	14%	n/a

¹ includes BankWest

Total loans deferred (in thousands)



Source: ABA
<https://www.smh.com.au/politics/federal/banks-regulators-discuss-help-for-jobless-once-mortgage-freeze-ends-20200514-p54st4.html>
<https://propertyupdate.com.au/heres-why-were-not-going-to-fall-off-a-financial-cliff-in-september/>

Current Lending landscape



Lenders in addition to their differed repayment option have extended Interest Only terms (which is something I flagged in my [article](#) as a threat in 2018



Bank policy has been continuing to tighten, especially around purposes such as "equity releases", blacklisting industries, more vigilant employment verification, LMI waivers reduced, additional forms to verify Covid impacts, more bank statements required for living expense checks.



Turnaround times have also been continuing to blow out with some banks taking up to 6 weeks to assess new applications, while other lenders are not doing Pre-Approvals.

APRA monthly banking statistics: Home Loans to households:

Bank	% share of home loans among all ADI's (April 2020)	Monthly change in bank's home loan book % (March to April 2020)	Year on year change in home loan book % (April 19 – April 20)
CBA	25.70%	0.40%	4.74%
Westpac Group	23.19%	-0.31% ↓	-0.64% ↓
NAB	14.94%	0.19%	0.12%
ANZ Group	14.05%	0.27%	-1.09% ↓
ING bank (Australia)	2.93%	0.14%	5.02%
Macquarie Bank	2.77%	2.38%	33.03%
Bendigo and Adelaide bank	2.52%	0.47%	8.30%
Suncorp-Metway	2.46%	-0.20% ↓	0.16%
Bank of Queensland	1.61%	-1.73% ↓	0.61%
HSBC bank Australia	1.23%	1.23%	20.51%

Source: RateCity

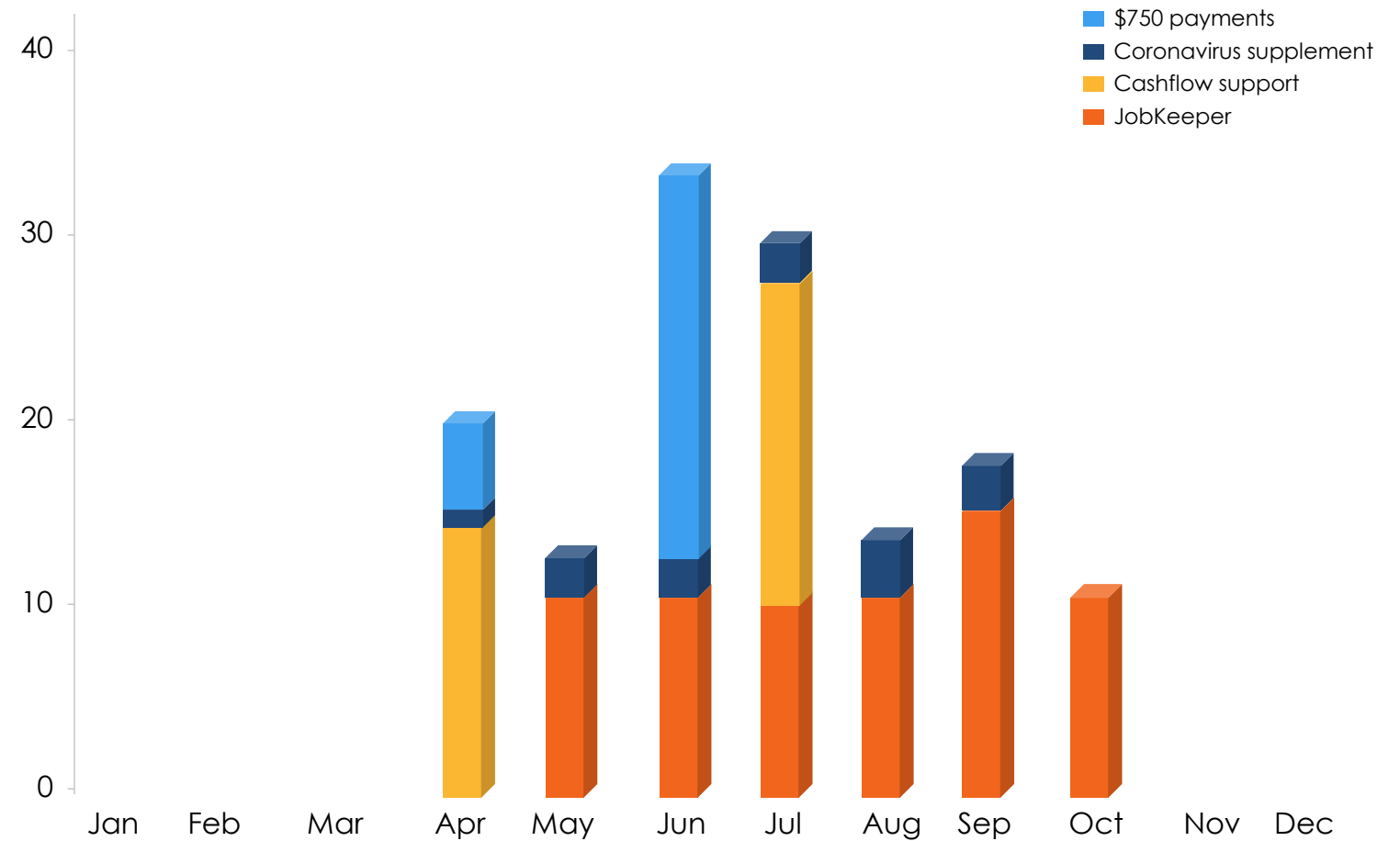
https://www.brokernews.com.au/news/breaking-news/major-slashes-basic-variable-rate-271761.aspx?utm_source=GA&utm_medium=20200608&utm_campaign=Newsletter-20200609&utm_content=&tu=

What assistance is ending?

There have been a raft of economic stimulus packages such as tourism boosts, apprentice payments, instant asset write offs etc. The focus is on the Government assistance that is ending, which includes:

-  JobKeeper
-  JobSeeker
-  Loan repayment deferrals
-  Four-month deferral on business activity statements from the Australian Taxation Office
-  Residential and commercial rent relief
-  Childcare subsidies

Major fiscal supports are all scheduled to come off in October



Note: Amounts reflect paying timing. Job keeper runs from late march to late september but is paid in arrears
Source: RateCity. Grattan analysis of government announcements

Postcodes where JobKeeper claims has been highest

844,000 Businesses

Have accessed Job Keeper, subsidizing or replacing the **wages of 3.5 million Australian workers**, and for many Australian businesses.

The industries hit the hardest are:



Cafes/
restaurants



Information
Technology



Cleaning/
gardening



Legal and
accounting



Accommodation

State	Postcode	Suburbs	Number of business claiming
NSW	2000	Sydney, Haymarket, The Rocks	10,290
VIC	3000	Melbourne	6,693
NSW	2170	Liverpool, Moorebank, Casula	3,995
VIC	3029	Tarneit, Truganina	3,681
QLD	4870	Cairns	3,607
VIC	3030	Werribee, Point Cook, Quandong	3,272
VIC	3175	Dandenong	3,211
QLD	4000	Brisbane, Spring Hill	3,048
SA	5000	Adelaide	3,046
NSW	2010	Darlinghurst, Surry Hills	2,982
QLD	4217	Gold Coast, Surfers Paradise	2,949
QLD	4350	Toowoomba	2,923
VIC	3064	Craigieburn, Donnybrook	2,876
NSW	2153	Baulkham Hills, Bella Vista	2,841
VIC	3977	Cranbourne, Sandhurst	2,798
NSW	2250	Gosford, Erina, Lisa Row	2,693
NSW	2145	Westmead, Wentworthville	2,527
VIC	3121	Richmond, Burnley	2,475
QLD	4215	Southport	2,439
QLD	4211	Nerang Gaven	2,420

Source:

<https://au.finance.yahoo.com/news/jobkeeper-postcodes-claiming-most-223952219.html>

Unemployment & JobSeeker numbers

Many are flagging this as a 'lead' indicator of financial stress. The Department of Social Services shows that between March 20 and May 20 the number of Australians receiving Job-Seeker (unemployment) benefits increased by **671,000, or 85%, to 1.5 million.**

To give this current climate context, it's worth noting that unemployment is at 19 year highs: **7.1%**

Jobless rate peaked

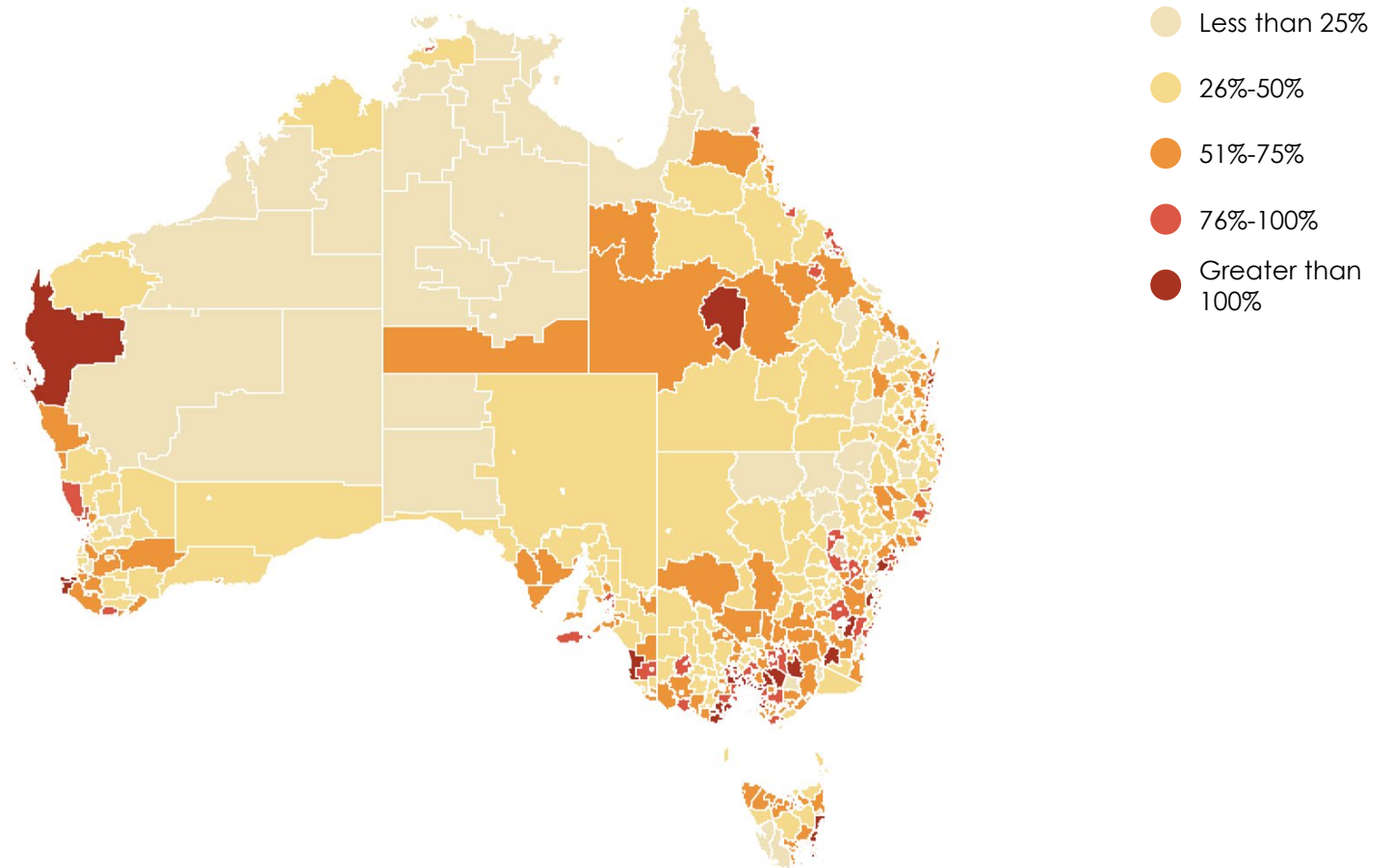
1982 recession **10.5%** July 1983

1991-92 recession **11.2%** Dec 1992

2000-01 dot.com bust **7.2%** Oct 2001

2008-09 global financial crisis **5.9%** June 2009

Percentage change in Jobseeker allowances March-May 2020



Source:

<https://www.theaustralian.com.au/inquirer/rich-and-poor-coronavirus-will-reshape-our-lives/news-story/008e75e95b8bfba32c13877e4b809962>

<https://www.smh.com.au/politics/federal/australians-told-to-prepare-for-even-worse-as-job-numbers-crash-20200514-p54t10.html>

Covid Impacts by age group

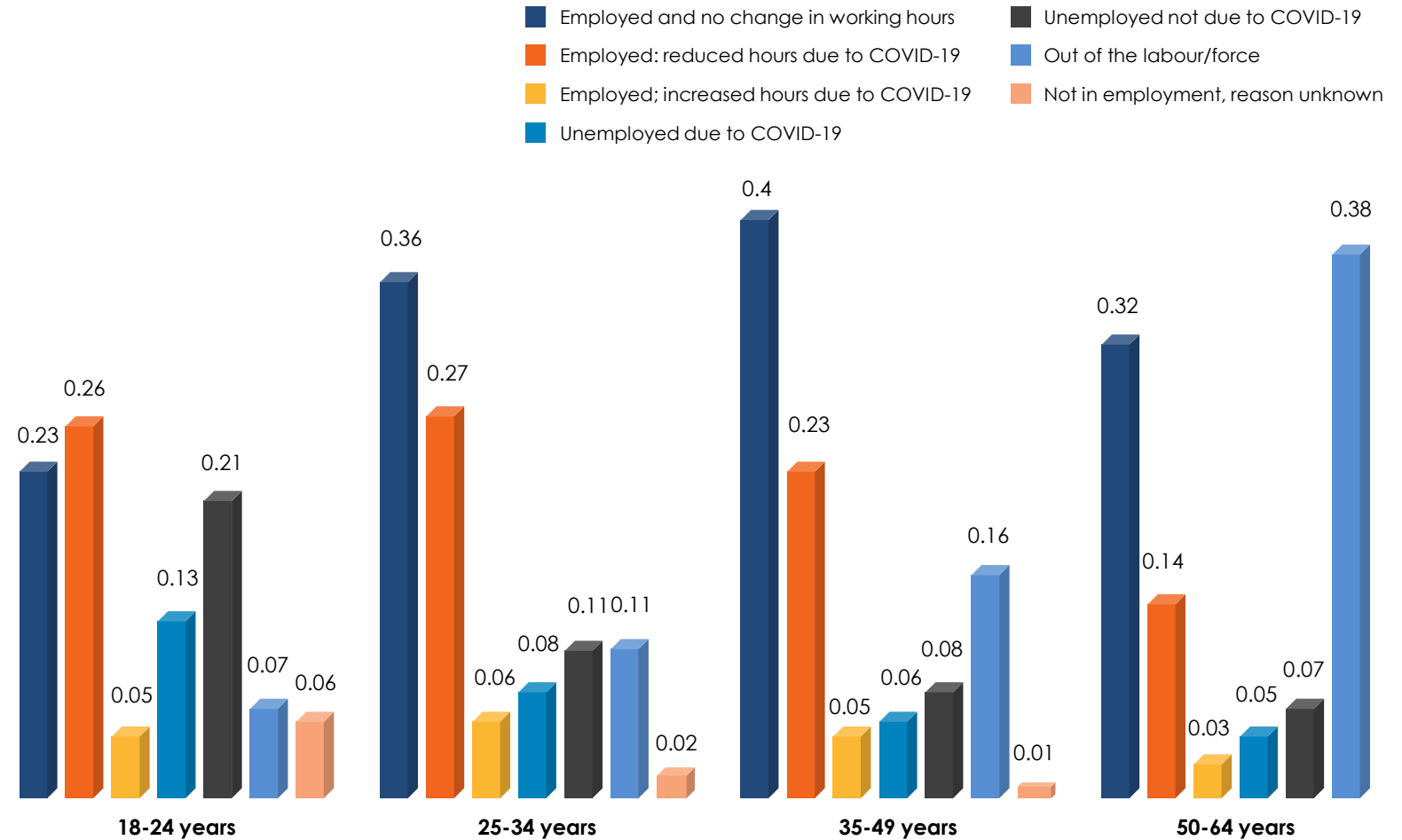


The big question, is that out of those impacted, how many have a mortgage and/ or investment property/ies.



Key mortgagor demographics would most likely be aged 30 - 50. It appears that most Australians in this age bracket have been unaffected or somewhat affected.

Covid-19 impact by age May 11-Jun 12



Source: <https://pursuit.unimelb.edu.au/articles/jobseeker-and-jobkeeper-in-post-covid-policies>

“Expert” predictions of house price drops



House prices could fall by almost a third by the end of 2022



House prices could tumble by a cumulative 30% over this year and next



15% slide in house prices this year and a further 5% decline in 2021



a 4.1% decline this year and a 6.3% fall in 2021



Next year, prices nationally could fall between 2% to 12% (Sydney prices giving up anywhere between 5% to 15%, & Melbourne dropping by 7% to 17%)



Shane Oliver has flagged the potential for prices to fall as much as 20%



Louis Christopher suggests a decline of as much as 30% is not out of the question



Christopher Joye is confident prices will either move sideways or at most fall by up to 5% over the next three to six months



Tim Lawless is citing a drop by 10% from peak to trough, although home values were only showing mild decline

Supply & Demand

We've seen listings that have fallen to record lows but once open homes were allowed to recommence, the June numbers showed a strong uptick. Demand is still very strong from FHBs.

New residential listings in June (MoM change)

Sydney	1,174	12.3%
Melbourne	1,825	16.9%
Brisbane	887	14.3%
Perth	709	16.6%
Adelaide	-157	-4.0%
Canberra	62	5.7%
Hobart	-20	-5.0%

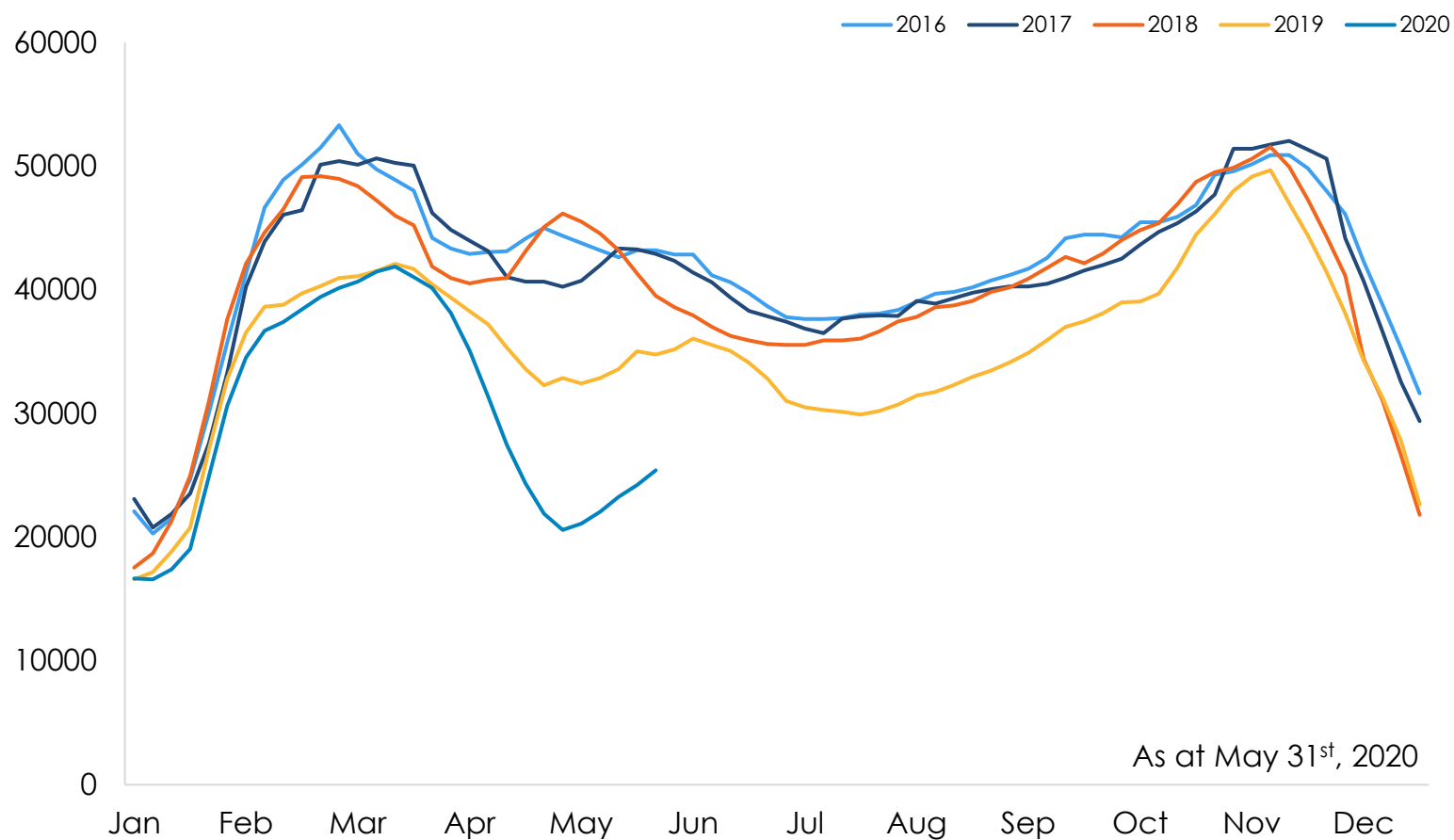
5,698

Total National listings

+11.2%

National change

New listings, rolling 28-day count (national)



Source: SQM Research, Corelogic (pg 22),

https://www.propertyobserver.com.au/finding/residential_investment/114966?utm_source=Property+Observer+List&utm_campaign=cb8b233dc1-EMAIL_CAMPAIGN_2017_09_28_COPY_01&utm_medium=email&utm_term=0_a523fbfccb-cb8b233dc1-245626661

Investors are exiting the market

Why?

The triple whammy of falling rents, rising vacancies and low capital growth is driving many property investors to bail out.

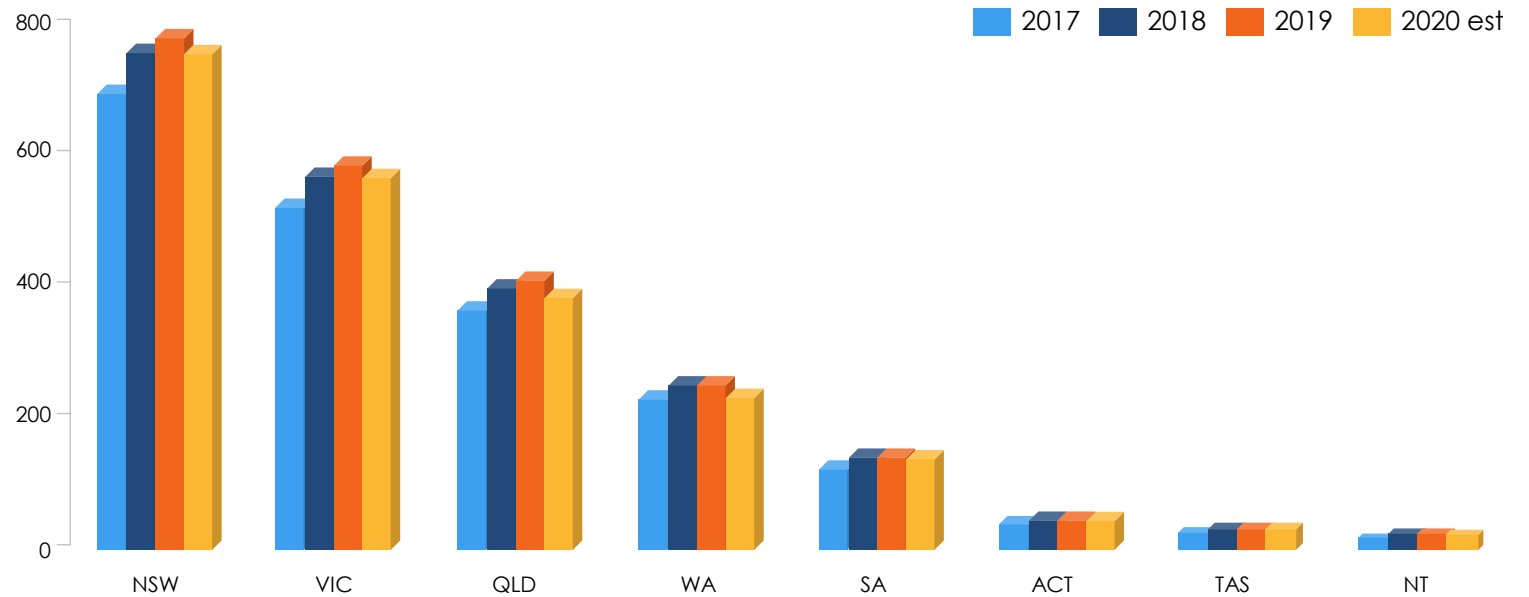
12% decline in investors

The number of landlords who are exiting increased from 8% to 12%, according to Digital Finance Analytics.

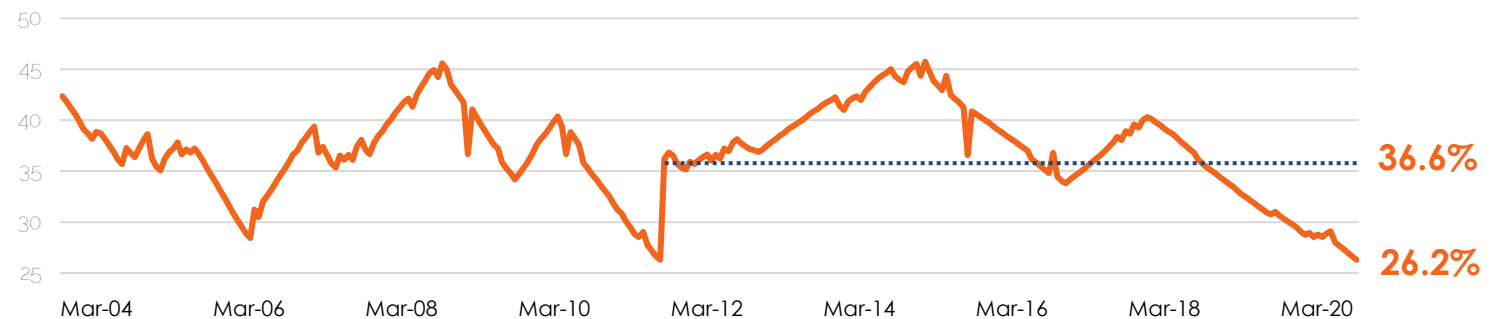
16.6% sold at a loss

It seems like apartments are the type of properties being offloaded and it's interesting to note that 16.6% of investment properties were sold at a loss

Number of property investors (000's)



Portion of new lending for investment housing (excluding refinance)



Source : <https://www.afr.com/property/residential/the-property-investment-party-is-over-20200611-p551q4>, Digital Finance Analytics
<https://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/114770-investors-head-to-the-exits-amid-weakened-covid-19-rental-market.html>: Corelogic: Pg 28 : <https://www.afr.com/property/residential/vendors-pain-as-apartments-sell-below-purchase-price-20200122-p53tlh>

Off the Plan Apartments

52% lower than contract price (Sydney)

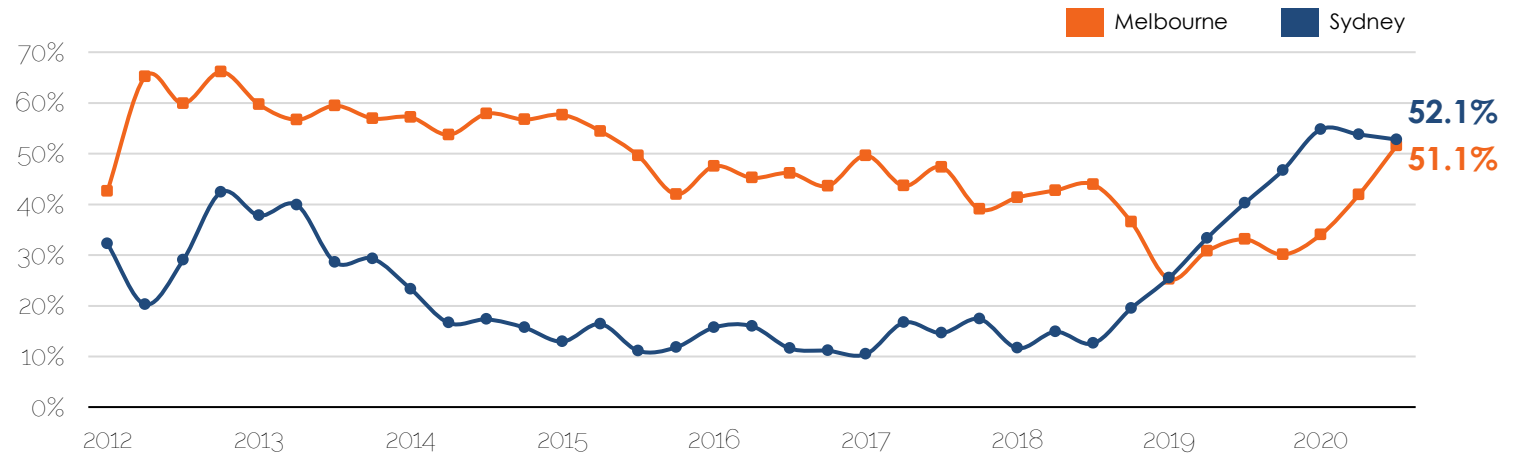
CoreLogic says for the three months to the end of May that of the **3389** off-the-plan unit valuations across Sydney, 52 per cent were lower than the contract price.

51% lower than contract price (Melb)

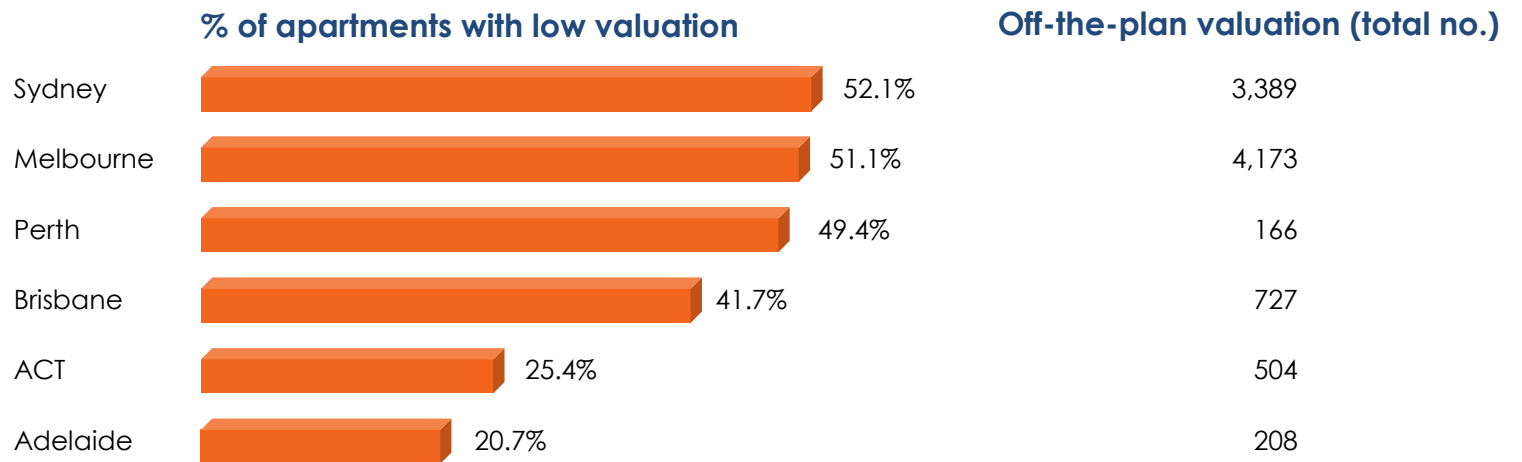
During the same period in Melbourne, there were **4173** valuations for off-the-plan unit settlements, with 51 per cent lower than the contract price.

10% forfeit deposits

The number of off-the-plan apartment buyers have lost their deposits in the last quarter, according to analysis by Digital Finance Analytics.



Off-the-plan units setting with a valuation lower than the contract price*



* 3 months ending may 2020

Source: Corelogic

<https://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/114770-investors-head-to-the-exits-amid-weakened-covid-19-rental-market.html>

<https://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/115179-unit-rentals-across-the-country-see-biggest-price-fall-in-15-years-domain-june-rental-report.html>

<https://www.smh.com.au/money/investing/crunch-time-for-off-the-plan-apartment-buyers-as-settlement-risks-rise-20200612-p551xp.html>

<https://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/114958-one-in-10-off-the-plan-apartment-buyers-have-lost-their-deposits-in-june-quarter.html>

Investor Stress

A property is considered to be in stress for its landlord when:

- 1) It has been vacant for more than two months;
- 2) Rental incomes are insufficient to cover running costs.

Units and apartments were 1½ times more likely to be stressed than houses, while rentals bought within the past three years were twice as likely to be stressed.

Areas with the highest percentage of stressed property investors

Location	Region	Investors	Stressed	Severely stressed	Avg investors stressed (%)
Rushcutters Bay, NSW	CBD	4136	2513	923	83.1
Ultimo, NSW	CBD fringe	1651	908	454	82.5
Kirribilli, NSW	Inner suburbs	1416	772	343	78.7
Pymont, NSW	CBD	2184	1361	340	77.9
Chippendale, NSW	CBD fringe	2036	1264	316	77.6
Melbourne, Vic	CBD	8432	4827	1661	76.9
West Melbourne, Vic	CBD fringe	1334	770	257	76.9
Millers Point, NSW	CBD	5407	2757	1397	76.8
Camperdown, NSW	Inner suburbs	2250	1463	263	76.7
Surry Hills, NSW	CBD fringe	4983	3166	633	76.2
Matraville, NSW	Inner suburbs	3421	2519	80	76.0
Alexandria, NSW	Inner suburbs	1528	1010	136	75.0
Redfern, NSW	Inner suburbs	2286	1505	203	74.7
Erskineville, NSW	Inner suburbs	1842	1206	167	74.5

Source:

<https://www.afr.com/property/residential/perfect-storm-of-high-vacancy-falling-rent-hurts-investors-20200616-p5538h>



Aaron Christie-David
M: 0401 339 681
E: aaron@atelierwealth.com.au

Aaron is the Founder and Managing Director of Atelier Wealth, an award-winning mortgage broking business with a difference.

With a strategy first approach to structuring debt, Atelier Wealth helps clients build wealth, enjoy life, reduce mortgage stress and work towards being debt free.

Atelier Wealth has been recognised with:

- Customer Service Award (NSW) Mortgage & Finance Association of Australia Awards [2020]
- Mortgage Broking Office of the Year Award: Australian Broking Awards [2019]
- Aaron is ranked 79th in the Mortgage Professional Australia's Top 100 Brokers (2019) list for total amount of loans written in FY19.

As featured in:



your investment



Thank You



Atelier
Wealth