

Impact of GEC (GFC) on Local Property

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Outline

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- Michael Chappell
- What went wrong?
- What will happen next?
- The good news
- The bad news
- Megatrends for cities

Michael Chappell

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- Founder and Director of Pracsys Economics
- Research program economics of urban systems

Pracsys

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- Offices in Perth, Sydney, Brisbane
- Feasibility, strategy, impact
- Economics of urban sustainability

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What went wrong?

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□ OECD June 2007

- “the current economic situation is in many ways much better than we have experienced in years”
- “soft landing in the USA and strong & sustained recovery in Europe”
- “solid trajectory in Japan”
- “unprecedented growth in China and India”

□ Two months later, BNP closes three subprime funds.... Lehman Brothers, FM & FM, Basis...

What happened?

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- Economy has declined deeply and quickly
- Deeply because of simultaneous bursting of property, equity and commodity bubbles
- Quickly because of the amount of private debt in opaque packages

What happened?

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- 2007: +5% GDP growth but Australia's aggregate demand due to change in debt: +20% Australia, +23% USA
- Raiding the kids' piggy banks!

How it Happened

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- Commodity boom & cheap debt pushed household expenditure & investment in housing & equities
- Much debt was 'on a knife's edge', exposed by subprime crisis – worldwide (Madoff's Ponzi)
- Bad debts exploded & financiers withdrew funds
- Growth stalled - recession - unemployment
- Asset prices fell – margin calls – negative equity

What happens next?

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- Economy will contract with unemployment 8% +
- Bad debts and savings will increase
- Government Stimulus Package straight to private savings (or debt reduction)
- Package = \$70b, private debt = \$2,000b
- Asset demand goes from debt-fuelled to income-fuelled
- All asset prices will fall – but how much??

The Good News

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- Australia is in top 5 economies globally
- 3 years pent up demand residential, commercial?
- Population growth much higher than expected
 - Natural increase
 - High immigration (poorer performing economies)
 - Low dwelling supply to support prices
- New areas supported by first home buyers
- Interest rates falling – a bit

The Bad News

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- 7/10 of Australia's trading partners in recession
- Property bubble much longer than 1990/91
- 10% - 20% fall already (finance freeze effect) – another 10% + in 2009 (unemployment effect)
- Tokyo has fallen 72% since 1989 peak

The Bad News

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- If 20% + fall – mortgage stress doubles
- Car dealers: 21% fall sales Feb 08 – Feb 09
- First home buyers don't know about unemployment...
- Banks are increasing profit margins

On Balance

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- Demand for property will fall, which is good
- Some projects fall over due to finance (& bankruptcies)
- Prices decline 2009/2010 (unemployment effect) then flat until 2012
- Supply will eventually catch up (cheap immigrant labour?), then gradual increase beyond 2012
- China may provide 'silver bullet' – but with our assets!

Megatrends – Abundance to Scarcity

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- Food
- Water
- Transport
- Energy
- Finance

Food

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- Access to protein will shape cities in future
- Protein comes from beef, pork, chicken
- Most feed for livestock comes from fishmeal
- Fishmeal is nearly gone!

Food Conversion Ratio	
Beef	12:1
Pork	8:1
Chicken	6:1
Fish	1:1

Critical for cities:
***secure local food production
close to population using
renewable inputs
(aquaculture, grains..)***

Water

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- Most drinking water goes on lower order uses
- Reuse, recycle, repurpose
- Innovation in decentralised capture, storage and use of water will reshape cities

Critical for cities: Diversification of water sources, improved reuse across all user types and zero liquids discharge from industrial estates

Energy

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- Fossil fuels for power generation in decline
- Decentralised power generation from renewables is rising – but peak load capacity is weak
- We need better portable storage (eg: nonobatteries vs NiMeHi) and fixed storage (vanadium flow batteries)

Critical for cities: power storage innovation has lagged (car companies?) and new efficient technologies are needed

Transport

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- Urban sprawl has separated people from city amenities and jobs (particularly smart jobs)
- Car use has grown based on cheap fuel
- Public transit systems work best serving dense urban agglomerations

Critical for cities: private transport based on renewable energy and public transport serving dense, diverse activity centres

Finance

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- World finance system is badly broken
- Globalisation and 'innovation' separated sources and application of funds too much
- Regulation must tighten, but only to improve transparency and information flows
- Bubbles are good for the economy of cities in the long run because they fund innovation