Rental property and the RBA cash rate .

For the purpose of the exercise consider this sample annual statement for a residential property purchased for $500,000 and rented @ $500 per week / $25000 pa and having a variable rate mortgage of $400,000 @ 6% interest.

XYZ REALESTATE AGENCY
annual rent statement

Gross rent received year ended June 2023		GST FREE		$25000
LESS ACOUNTS PAID				
Council rates	$1800	gst free		
Land tax	$1500	gst free		
Water rates	$1400	gst free		
Gardening	$1320	inc gst	$120	
Plumbing repairs	$2200	inc gst	$200	
Agency fee 9%	$2475	inc gst	$275	
Total expenses including GST	$10695	inc gst	$595	$10695

Net income before interest on a property valued at $500,000 (2.86% return) $14305

less Bank Interest of 6% per annum on $400,000 loan $24,000
Net loss deducted from PAYG earnings before tax NET LOSS $9695
With a PAYG tax rate of 30% on earnings tax saved by the negatively geared investor is $2908 which is taken from the tax pool and funded by fellow Australians .

It is the understanding of the landlord that property price over time will increase sufficiently to compensate for the out of pocket losses. ($9695 less $2908 = $6787 loss)
In the example the $6787 out of pocket loss would require the $500,000 property to increase in value by $67870 to $567870 at the end of year 10 to break even at a rate of 1.42%
That is a price increase over 10 years of 14.20 %

HOUSE PRICE INCREASE TO BREAK EVEN

Year 1	$500,000	1.42%	$7,115.00
Year 2	$507,115	1.42%	$7,216.25
Year 3	$514,331	1.42%	$7,318.93
Year 4	$521,650	1.42%	$7,423.08
Year 5	$529,073	1.42%	$7,528.71
Year 6	$536,602	1.42%	$7,635.85
Year 7	$544,238	1.42%	$7,744.50
Year 8	$551,982	1.42%	$7,854.71
Year 9	$559,837	1.42%	$7,966.48
Year 10	$567,804	1.42%	$8,079.84
round up to	$567,870		

Rental property and the RBA cash rate .

During a 10 year period to 2021 the chart below states the national average increase in house prices to be 70.27% . Applied to the example the $500,000 house would increase to $851397

House values over the last 10 years (2011 - 2021)

	Median value, June 2021	Annual percentage change	Total change
National	$835,700	5.61%	70.27%
South Australia	$547,900	3.80%	44.22%
ACT	$891,700	5.16%	62.87%
Northern Territory	$466,300	-0.87%	-10.79%
Queensland	$631,000	4.03%	47.15%
Tasmania	$576,200	6.80%	88.86%
Victoria	$891,500	5.86%	73.92%
Western Australia	$612,600	1.75%	16.73%
New South Wales	$1,093,100	7.53%	102.13%

HOUSE PRICE IF 70.27 % INCREASE OVER 10 YEARS APPLIED

Year 1	$500,000	6.09%	$30,462.50
Year 2	$530,463	6.09%	$32,318.43
Year 3	$562,781	6.09%	$34,287.43
Year 4	$597,068	6.09%	$36,376.39
Year 5	$633,445	6.09%	$38,592.62
Year 6	$672,037	6.09%	$40,943.88
Year 7	$712,981	6.09%	$43,438.38
Year 8	$756,420	6.09%	$46,084.87
Year 9	$802,504	6.09%	$48,892.59
Year 10	$851,397	6.09%	$51,871.37

HOUSE PRICE IF RBA TARGET 3% MAX INFLATION APPLIED

Year 1	$500,000	3.00%	$15,000.00
Year 2	$515,000	3.00%	$15,450.00
Year 3	$530,450	3.00%	$15,913.50
Year 4	$546,364	3.00%	$16,390.91
Year 5	$562,754	3.00%	$16,882.63
Year 6	$579,637	3.00%	$17,389.11
Year 7	$597,026	3.00%	$17,910.78
Year 8	$614,937	3.00%	$18,448.11
Year 9	$633,385	3.00%	$19,001.55
Year 10	$652,387	3.00%	$19,571.60

Why did the house price increase well above the RBA target of 3% inflation that would have seen the price of the $500,000 house rise to $652387 and return the landlord a healthy profit.

Sale price $652387 less Cost and outgoings $567870 = $84517 capital gain.

Rental property and the RBA cash rate .

Applying the actual 70.27% average price increase over 10 years the $500,000 house would have required a compound price increase of 6.09% over 10 years to arrive at a sale price of $851397 . Well above the RBA Inflation target of 3%

Sale price $851397 less cost and outgoings $567870 = $282627 capital gain.

Perhaps Westpac's new chief economist may be able to instil a policy of responsible lending ?

World hasn't learnt lessons of the GFC

PAUL GILDER

NEARLY a decade on from the worst financial crisis in almost a century, heavily fuelled by overexuberant home lending in the US, a leading Reserve Bank official has bemoaned the lack of an international framework on lending standards.

As Australia's major banks weigh up the prospects of being asked to carry more emergency capital against global shocks, the ongoing focus on the quantity rather than the quality of lending is puzzling, the RBA's head of financial stability Luci Ellis says.

Addressing a Sydney conference on the role banks play in maintaining financial stability yesterday, Dr Ellis said that were a bank to enforce "sound underwriting standards" for each individual loan, there should be some confidence in the rigidity of the aggregate debt.

"I find it extraordinary that in all the avalanche of reforms that have occurred since the (financial) crisis, there has been so little international attention to lending standards," she said.

"There is still no internationally accepted common language about lending standards. The conversation ends up being all about quantities, not quality."

Asset quality, she said, was much harder to measure, hence the value of instilling good lending habits – something the RBA has made much of since the GFC.

However, the potential loss of the nation's triple-A credit rating would be unlikely to significantly affect the financial system based on the experiences of other countries in the same position, Dr Ellis said.

"Often a ratings downgrade is a validation of what the market thought," she said when asked on the possible impact.

"So the answer is possibly 'not much'."

GENUINE TAX REFORM WILL START THE PROCESS BUT IT WILL TAKE TIME AND COMMITMENT BEYOND ONE TERM IN GOVERNMENT AND STOPPING TAX INCENTIVES FOR POLITICAL GAIN .

The Government is advertising reduced tax rates , better take home pay and increased pay rates for all. ? apparently it will not fire up inflation ? But it will help pay the greedy banks.?

Rental property and the RBA cash rate .

The question the banks and government need to answer is :

Why did the RBA ,The ABA , The Big4banks and the ACCC allow house prices to increase by 70.27% well above the 3% targeted rate of inflation by the RBA . Were they not aware that despite the RBA target of 3% inflation house prices were climbing twice that rate.

How has that come about ? It is simple the banks know their mortgage roll and profits increase when prices and interest rates are increasing . They also know that they are the custodians of up to 40% of working Australian's wages and so why have they been so totally irresponsible . The banks are driven by greed for profits and little else. A large mining company has to clean up the land they disturb . Are the banks going to clean up the mess they have created for so many Australian families ?

The figures in the chart below have been taken from published accounts of Westpac and Commonwealth Bank and paint a very sad picture of why the use of interest rates and irresponsible lending by the banks has driven house prices to where they are today and created a new economic poor.

WHO STOLE MY WAGES ?
THE BANKS DID AND THIS IS HOW

WESTPAC	MILLION YE 2022	MILLION YE 2023	MILLION Total
Interest received	22423	38311	60734
Interest expense	5488	22634	28122
PROFIT	$16,935	$15,677	$32,612
			0

COMM BANK	MILLION YE 2022	MILLION YE 2023	MILLION Total
Interest received	19877	38954	58831
Interest expense	4633	20270	24903
PROFIT	$15,244	$18,684	$33,928

The chart covers the covid pandemic period when the Government provided very low interest funds to the banks which is reflected in the large change in interest received and paid while the banks profit remained reasonably stable from 2022 to 2023

The purpose of the exercise is to highlight the impact of rate rises to the gross interest received by the banks . That is every RBA rate rise of 1% drives a huge amount of funds by way of increased mortgage interest payments to the banks and increases the banks ability to fund mortgages despite the stress it places on existing mortgage holders who pay for those funds.

Irresponsible lending is driving house prices upward while many are struggling to keep a roof over their head. ?

Rental property and the RBA cash rate .

TOTAL MORTGAGES OUTSTANDING

Estimate of the total mortgages outstanding is taken from the internet .

The total value of mortgages held by Australia's ADIs grew 0.48 per cent to$2.16 trillion in December 2023, up from $2.15 trillion.
One billion is one thousand times a million and a trillion is one thousand times a billion and here it is ...$ 2,160,000,000,000 wow ! That is a very big deal !
The significance is that every time the RBA cash rate rises 50 basis points or ½ of 1 % and the banks pass on the rate rise in full (which they always do) an extra $10.8 billion every year passes to the banks ($900 million per month) and that is CASH that improves the banks liquidity.
A 100 basis points increase of 1% is $21.6 billion per annum ($1.8 billion per month)

That $21.6 billion dollars would go a long way to fund affordable houses and infrastructure.

Taking into account loan principal repayments (which include offset account extra principal repayments and turnover of shareholders capital) the interest margin of the bank is improved and is the reason the banks profits improve when the RBA cash rate is rising .
When RBA rates are reduced the banks interest paid on deposits will be reduced .
That is the cost of goods (interest) will be reduced but the banks profitability will only return to the baseline of 2% interest margin contrived by the BIG 4 BANKS that in fact are operating as a cartel .
Refer to my notes on EST (economic sustainability tax) that sets the base rate for the RBA cash rate to be fixed @ 2% for Domestic interest rates and change will be applied as economic adjustment levy collected by the banks and remitted to the ATO
EXAMPLE..RBA fixed base cash rate 2% plus bank margin 2%
plus economic adjustment levy increase 50 basis points = 4.5%
4% interest to the bank and 50BP (½ OF 1 %) to the ATO or around 10.8 billion in cash !
That is in cash to the ATO when BAS statements lodged.
The reader will have heard the comment that many Australians are now paying 25% to 40% of their take home pay to the bank and many homeowners and renters are fearful of losing the roof over their head.

Lets cut the BS …

The RBA and the banks (a cartel)are running the economy ...not the Govt. or Treasury.
That is becoming more of a problem as banks diversify. Bendigo Bank is funding TIC TOC home loans. (name to be changed) a private company that will make some shareholders multi millionaires when it is floated on the ASX...that does not sound right ?
Many banks such as Bank SA are private companies not listed on the asx ..who are their shareholders .
Australia's FUTURE FUND should be the largest shareholder in the big 4 banks not overseas interests ?

IT IS TIME TO CHANGE THE WAY THE ECONOMY IS ADJUSTED AS THE BANKS ARE TAKING A LARGE PROPORTION OF THE ECONOMIC VALUE PRODUCED BY WORKING AUSTRALIANS AND REDIRECTING THAT ECONOMIC VALUE TO WHOEVER AND WHEREVER THEY SEE FIT

We are such a wealthy Country and the banks are just pissing it down the drain !

Wake up Australia !