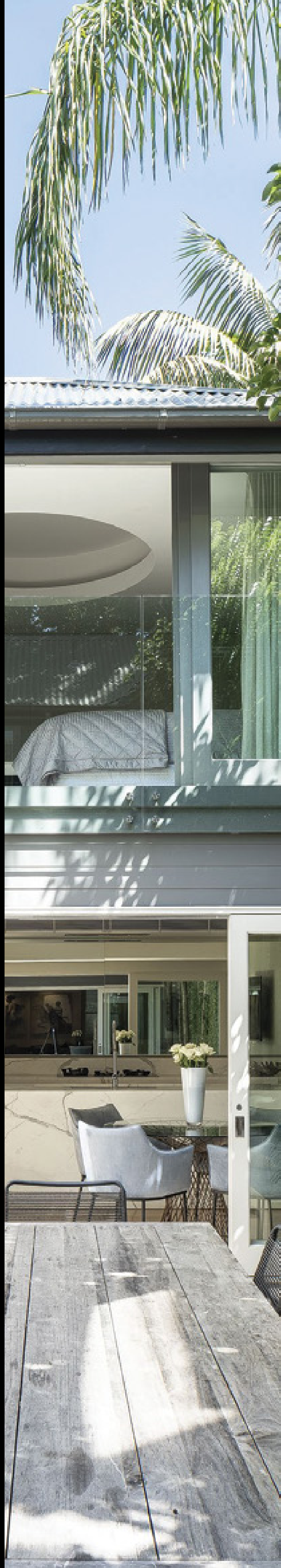
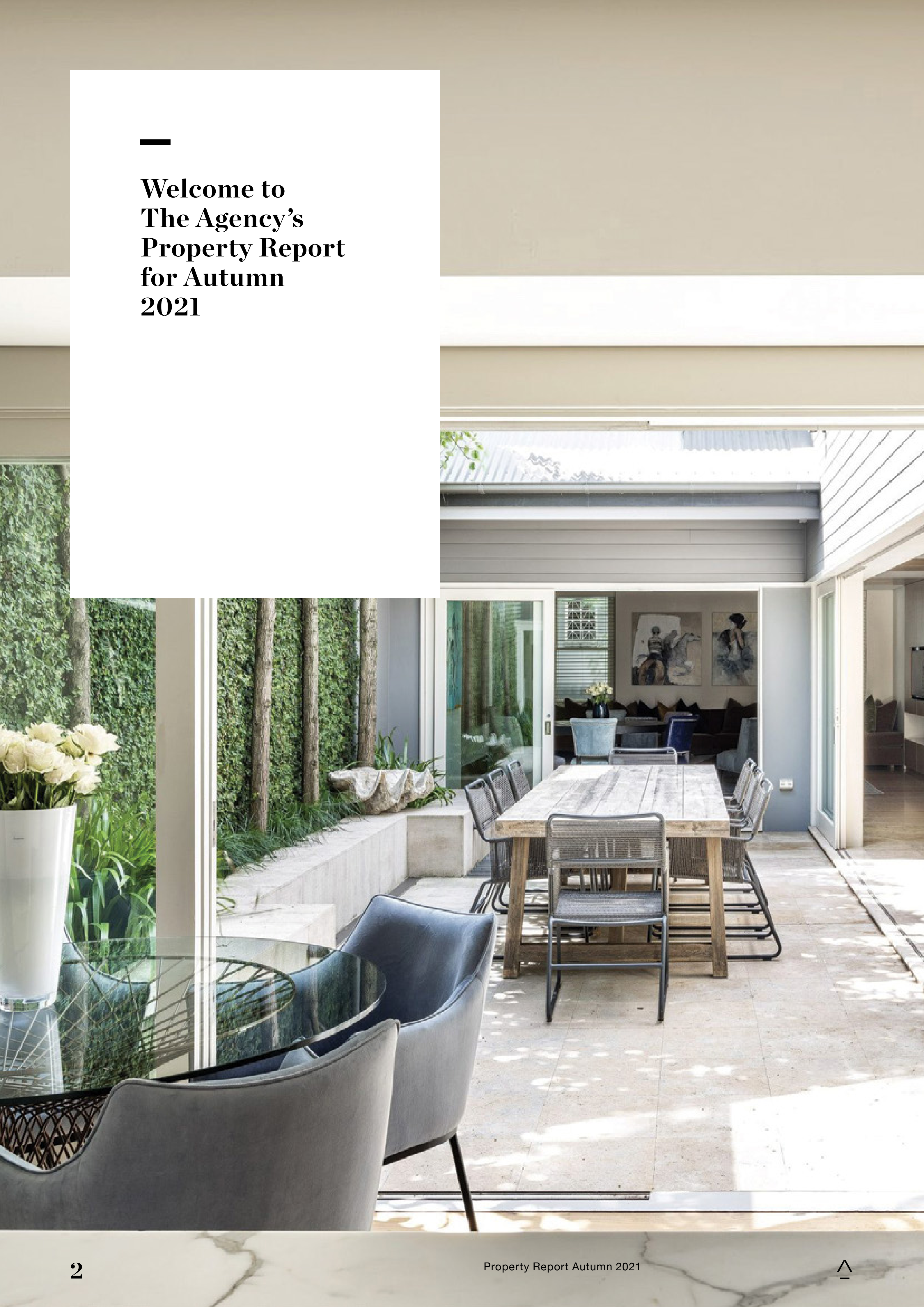
Property Report
Autumn 2021



THE AGENCY

Welcome to The Agency's Property Report for Autumn 2021



Intro

—

with Matt Lahood

When the COVID-19 pandemic hit just one year ago, commentators were forecasting that a worst-case scenario could see home values across the country fall by more than 30%. As we all know, that never eventuated. Instead, we saw a strong market rebound in the second half of 2020, which resulted in Australian home values rising 3% over the year according to CoreLogic. Every single capital city except Melbourne saw annual growth. And, for once, the best news story was regional Australia, where housing values rose by 6.9%, outstripping the combined capital city increase of 2%.

Early 2021 has begun with even more positive news for the property market.

In March 2021, economists from ANZ upped their house price forecasts to predict a nationwide increase of 17% over 2021.
The last time we saw a national property boom as big as this was the late 1980s.

One year ago the auction clearance rate stood at 37.3%, but at the end of March 2021 it was 84.4% across the capital cities. We ended the first quarter with the nation's busiest auction week since March 2018. The last weekend in March, dubbed "Super Saturday", saw some auctions in our capitals achieve results that were hundreds of thousands, and sometimes even more than $1 million above their reserves.

CoreLogic's national home value index reflected this positivity, rising 2.8% in March alone – its fastest growth in 32 years. Overall we saw a rise of 5.8% in national dwelling values over the first quarter of 2021 and a 6.2% increase over the past year to reach a median of $614,768. Houses have continued to outpace units but the market in apartments seems to have turned the corner. Also, for the first time in a year, capital city housing values have outpaced Australia's regional markets.

So what's driving the market?

One of the most significant trends we're seeing right now is that the property market is being fuelled by expat Australians returning home. Research shows around one in five of Australia's expats – some 400,000 – came back home during 2020. Of these, it seems a large percentage have been intent on buying property. While Sydney – and to some extent Melbourne – absorb many of these buyers, all capital cities and many regional markets are benefitting too, including the Southern Highlands, Central Coast, Wollongong and other locations within striking distance of major metropolitan areas.

COVID-19 has increased the number of people working remotely. So, in addition to the expats, we're seeing an increase in tree and sea changers who are leaving our cities for more space and a relaxed lifestyle in smaller towns or regional areas. We're also seeing space become a more important requirement for many buyers, with strong demand for larger homes, garden apartments and any property with a study or sunroom.

The other big factor underpinning today's national property market is a lack of stock. There are fewer properties available for sale than the long-term average. Combine this with steady demand from buyers who fear missing out, and it is little wonder prices are trending upwards.

With interest rates at record lows, we've also seen a rise in first home buyers. Tenants are leaving the rental market because in many cases it is now cheaper to buy than rent.

We anticipate this property boom will remain for the balance of the calendar year before prices level out and clearance rates return to a more sustainable 50–60%.

The RBA says it has no plans to raise interest rates. But with Australia's economy booming, this may change. Having been in real estate for several decades I have experienced the effect of 18% interest rates. So my advice to buyers is to always factor in a rate rise when you're planning to purchase, just in case.

The boom means that while buyers face strong competition, it's a great time to sell. Downsizers in particular have seen an opportunity to capitalise, selling larger homes and buying into apartments, as there has been less competition in this market.

Over the past year, The Agency has strengthened its sales and operations teams in regional areas and has taken steps to prepare for a big 2021. We have expanded to Queensland, starting a Brisbane office, to strategically help our clients wanting to buy and sell in the popular Sydney, Melbourne, Brisbane network. We've launched a new commercial division. We have also established a China Desk to assist our local clients as much as our international clients, once immigration – one of the property market's biggest future challenges – resumes once more.

Matt Lahood

Matt Lahood
CEO The Agency

Location

QLD
Brisbane
with David Price

Early 2021 has proven to be a great time to launch our Brisbane office. From Brisbane's inner city to its outskirts and from the Gold Coast to the Sunshine Coast, the market has exceeded our expectations for the first quarter of the year, with buyers returning and prices rising.

"In some parts of the market it feels like everyone in Queensland is buying," says The Agency's QLD General Manager, David Price. "If they're not buying they're trying to buy."

While the whole Brisbane metro market is currently strong, the market for houses under $1 million is running hottest of all.

The number of days a property for sale is spending on market is falling. Auction clearance rates have risen to over 90% in most key areas. We're seeing anywhere between 20 and 40 bidders at many auctions. And the majority of properties are selling well above their reserve prices. Right now, we simply cannot keep up with buyer demand.

David Price has sold real estate in Brisbane for several decades and says this is the first property boom the city has experienced in a while. David notes that the current hot market began at lower price points and worked its way through to the top end of the market, where houses above $4–$5 million are now selling very well.

As a result, CoreLogic has Brisbane's median dwelling value up 6.8% over the year, and 4.8% over the first quarter of 2021 to $548,260. While some banks are forecasting capital growth of as much as 20% over the coming year, we expect that after an initial boom it will flatten out to a more sustainable growth rate of 3–7%, in line with other booms we've observed.

In part, the current market is being fuelled by an influx of expats returning home and looking to buy. These buyers are competing with locals, as well as buyers from other states who see great value and opportunity in the QLD property market and are planning to invest or migrate.

COVID-19 has increased remote working and made moving interstate, or to regional areas, far more accessible to a wider group of buyers. Some of these interstate buyers are looking for a lifestyle change, and want to escape overheated property markets in other cities. In Brisbane, $1 million still buys you a well proportioned house, while it is only likely to buy you a unit in many parts of Sydney or Melbourne.

With record low interest rates and rental yields consistent at 4–5% in the Brisbane metropolitan area, savvy investors are also seeing value and may even be able to positively gear their properties. There's also strong tenant demand, with vacancy rates falling to 1.5% in February.

"Buyers really need to do their research and compare recent sales to get an idea of the price. Clever buyers can see the value and how prices are rising," David Price says. "On the flip side, with sales prices consistently exceeding vendor expectations, sellers should consider going to auction."

"We anticipate continued growth in the market, continued enquiry. The market has more time to run yet."

"In some parts of the market it feels like everyone is buying"

WA
Perth
with Stuart Cox

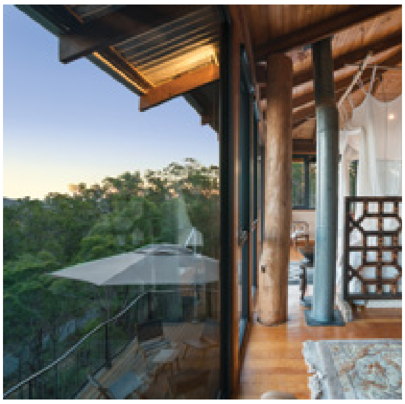
Over the last five years, the Perth property market has been flat. The entire metropolitan area of Perth had been clocking just 600 sales a week, which is the estimated minimum to be generated through enforced sales due to debt, divorce, death and relocation. Discretional buying and selling simply had not been happening.

Over the past six months this has changed, with pricing picking up and confidence kicking in. We are now seeing around 1,100 sales a week – not far short of the 2006–2008 boom. Price-wise, the city hasn't yet returned to its 2014 peak but it is heading in the right direction. For example, we sold 100 Banksia Terrace, Kensington in less than a week for $1.58 million. Meanwhile, 22 Oceanside Promenade, Mullaloo sold pre-auction for $1.8 million, well in excess of its price guide.

The Agency sold 240 properties in February and around 350 in March. There's particularly strong interest in the $1–$1.5 million price range. Properties 10 to 15km from the city centre are in demand, especially those located near the coast. We expect to see this continue in a ripple effect towards the outer suburbs.

According to REIWA, median selling days are falling. CoreLogic had the Perth median dwelling value sitting at $505,850 at the end of March, representing a first quarter increase of 5% and an annual rise of 6%. The major banks and REIWA are all predicting median prices in Perth will increase between 6% and 12% over 2021.

Like elsewhere, the local Perth market is being driven by a lack of stock. But there are other factors at play: the WA iron ore and resources market is strong, WA has managed COVID-19 well, and we are enjoying historic low interest rates.



The first home buyer market is buoyant, thanks to rising rents, and rental vacancy rates below 1%.

SQM Research shows rents have been on a steady uphill trajectory since mid-2019. With the COVID-19 emergency measures ending, some forecast rents will increase by as much as 20% over the coming year.

With rising rents, and capital growth predicted, we have already seen an increase in investor enquiries and we expect this buyer group to enter the market strongly this year. Perth offers rental yields of 5% for units and 4% for houses, which is far greater than those in the eastern states.

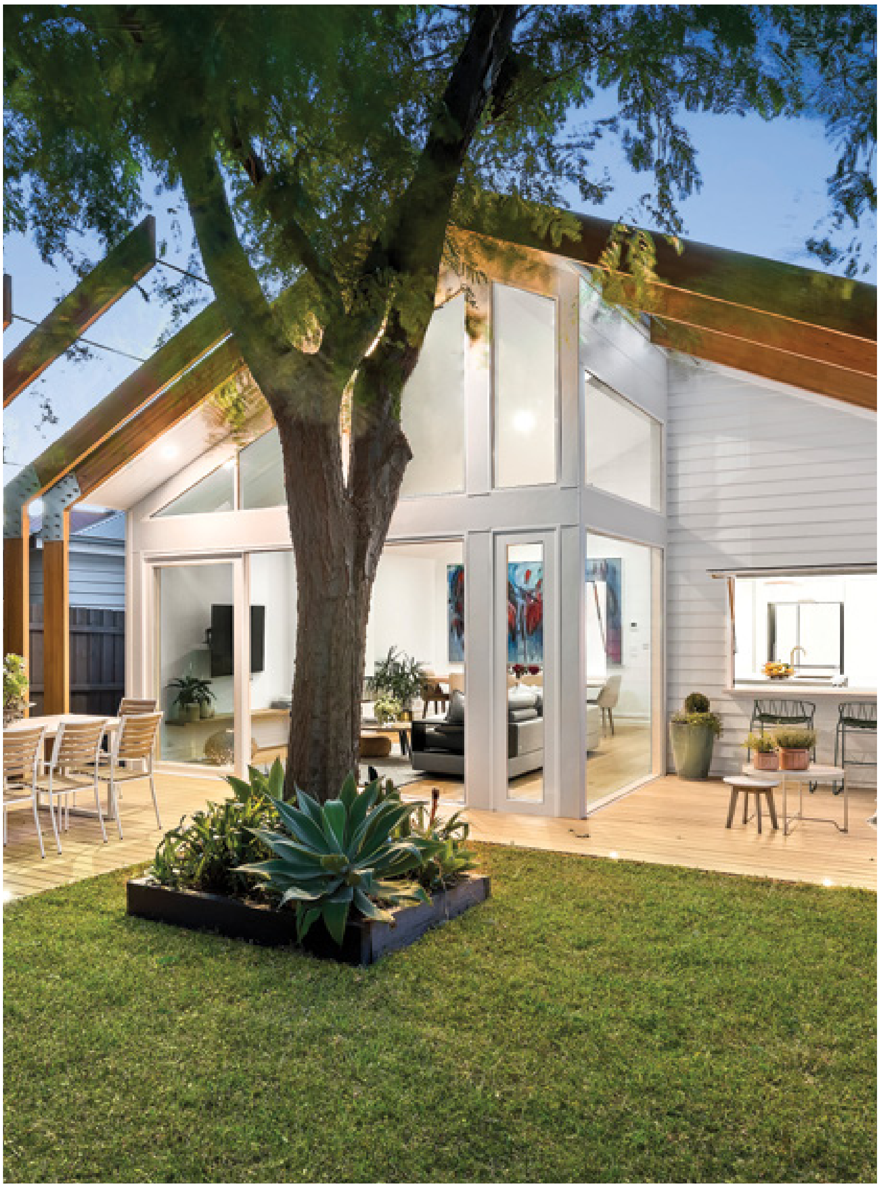
The Agency's WA General Manager, Stuart Cox, says buyers are in danger of being caught out by not believing the market is as good as it is.

"We're seeing strong buyer demand, and receiving unconditional offers within days of listing a property," says Stuart Cox. "It's a cliché, but for the first time in several years buyers really need to put their best foot forward. If they don't make a decent offer buyers are missing out, as the market is rising."

"Many clients are asking us if they should sell now, or wait? The answer really depends on why you're selling. For example, if you're selling to move up the ladder we'd advise doing so sooner, rather than waiting for prices to rise further."

"Sellers should be aware that pricing and demand is picking up."

VIC
Melbourne
with Peter Kakos



By any measure, the Melbourne property market has had a strong start to 2021. The median property price has grown 4.9% over the March quarter, while the auction clearance rate has been sitting close to – or even over – 80% for the entire year-to-date. After enduring one of the world's most protracted lockdowns in 2020, this year it seems the buyers are out in force, open homes are busy and more people than ever are ready to make a move.

The one thing missing from the equation is property. Stock levels remain low. In February 2021, there were 38,211 properties listed for sale across the city. While that's more than this time last year, on many occasions in the past there have been closer to 50,000 Melbourne properties for sale.

This mismatch between supply and demand isn't just driving up prices, it's also creating an incredible depth of buyers. For every person who secures a property at auction, there are almost always several who miss out. This is usually a sign that there is a lot of growth left to come. It's when buyer and bidder numbers begin to dwindle that property price growth also starts to slow and the market goes flat. Barring several interest rate hikes or new curbs on lending, we don't see that happening any time soon.

An increasing number of Melbourne sellers are using the current market conditions to list their property for sale off market. This sales method can often provide a no-fuss alternative to a public auction. It can also provide flexibility in sales terms and help time a settlement so that it corresponds with the property they're buying.

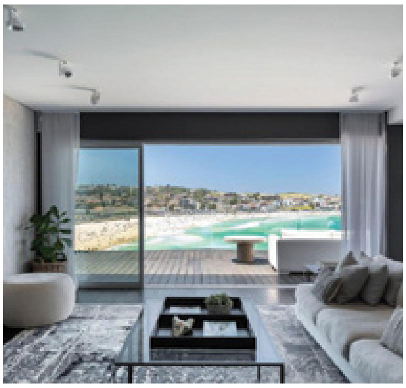
“No one can say for certain what will happen next”

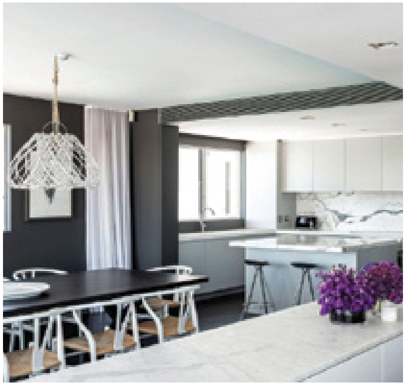
While all market segments have been strong throughout early 2021, we've seen more first home buyers entering the market. Here, lower interest rates and government incentives are combining to make buying a home a more attractive option than renting for many. This should have a positive long-term effect, providing more people with the financial security that comes with home ownership.

Peter Kakos, VIC General Manager and Head Auctioneer, says his advice to those considering a move is not to expend too much energy on trying to time the market.

“No one can say for certain what will happen next,” he says. “When the pandemic first struck, there was a rush to sell as homeowners took the view that the market would crash once JobKeeper and other government assistance was wound back. People who exited the market at that point would have missed out on 10% or more growth and could now find themselves in a desperate position trying to buy back in with less money than they'd otherwise have.”

NSW
Sydney
with Matt Lahood





To say that Sydney is experiencing a property boom in early 2021 would be an understatement. Sydney dwelling values grew 2.8% over March and 3.6% over the first quarter of 2021, to reach a median dwelling value of $895,933. The same is true of regional NSW, where prices grew by 2.2% over March and 5.5% over the quarter.

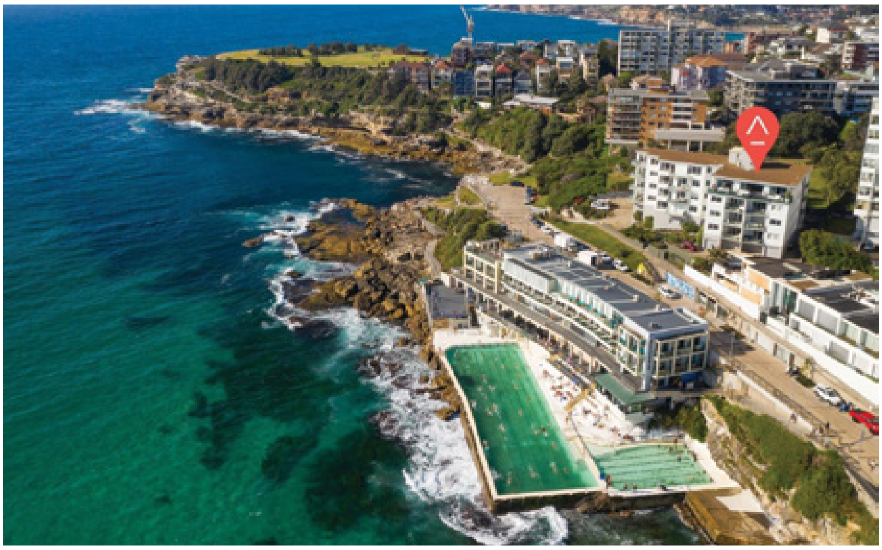
"Consumer confidence is high right now, and FOMO is driving high clearance rates and prices," says Matt Lahood, CEO of The Agency. "Stock levels may be on the lower side, but it's strong buyer demand that has been forcing prices up."

"This fear of missing out is driving buyers to bid ferociously at auctions and we're receiving multiple offers on most properties, even when they're sold by private treaty."

Much of this action has been focused on houses, while demand for apartments has been more subdued. This is largely because investors aren't seeing the value in returns, with declining rents. That said, in March 2021 Sydney unit values grew for the first time in a year.

"The lower end of the market has been largely underpinned by first home buyers," says Matt Lahood.

"Elsewhere, we're seeing demand from lifestyle buyers: those wanting to upsize to a larger home, downsizers looking to capitalise on rising house prices, and sea or tree changers looking to move out of the city to regional areas."



"Areas with good commuter links, such as the Illawarra, Southern Highlands, and Central Coast up to Newcastle are booming."

Sydney's auction clearance rate has been over 80% for almost two months. In the last week in March auction clearance rates sat at 95.8% for the Central Coast, 95% in Newcastle and Lake Macquarie, 92.5% for Baulkham Hills and the Hawkesbury, 94.8% on the Northern Beaches, and 87% in the Illawarra. It's difficult to remember a time when the market was this strong.

We've had some incredible sales, and auctions have routinely been breaking reserves. Ben Collier sold a four-bedroom penthouse at 16/16 Notts Avenue Bondi Beach for $20.1 million, setting a record price for an Australian apartment at auction.

Despite reports of people fleeing the city, one of the strongest property markets is Sydney's inner city. In fact, Alexandria topped Domain's House Price Report for the largest median house price increase over 2020, rising by 30.6% to $1.9 million. These gains have only increased in 2021, with Brad Gillespie selling a three-bedroom terrace at 33 Gerrard Street, Alexandria for $2.25 million – almost half a million over the reserve.

Expats are a huge force across the country, but particularly in Sydney. Some are buying after arriving home; others are making property purchases, sight-unseen, while still continuing to reside overseas.

Matt Lahood remains hopeful that new listings will bring less urgency to the market.

"More listings will cool off the market, but that's not a bad thing, as sellers will be more confident they can find something else to buy."

Matt Lahood believes autumn is the perfect time for sellers to take advantage of the rising market. While buyers may be facing tough competition and rising prices, there's an opportunity cost in not making a move.

"Buyers should do their research, and be ready to act fast when the right property comes along."

Investor's Corner

with Maria Carlino

The start of a new year generally brings new activity to the rental market: employees often relocate for work, schools and universities are back in term, and a lot of people are looking to secure a home before the year gets away from them. This year has followed the same pattern and we have started the year positively. All up, we have leased 295 properties during the first quarter of 2021, with January being our most positive month, as it often tends to be.

But, in today's leasing market, that is where the normalcy ends. In many ways, this remains a very atypical market. COVID-19 has changed the mix of tenants, rewritten the rules of supply and demand and reshaped the power balance between landlord and tenant.

With border closures now in place for over a year, gone are the overseas students who were a driving force in the inner city residential market. In their place, we're often seeing local tenants looking for a change of lifestyle. With flexible working now commonplace, many of these tenants are looking for a larger property to call home or even relocating out of the cities altogether. They are often in a "try before you buy" phase: renting for six months to a year while they determine whether a move is really for them.

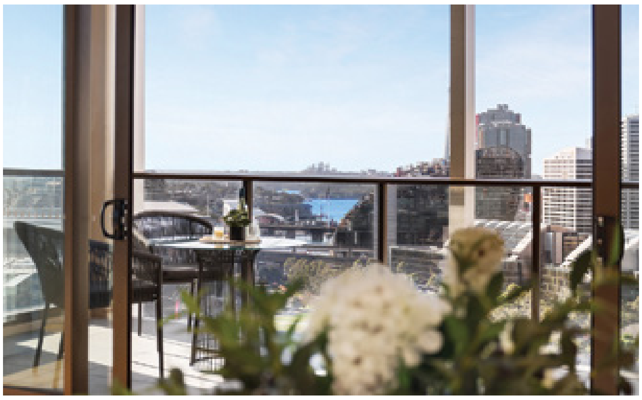
This means a different type of property is in demand. Family homes and larger apartments can be hotly contested, while small inner-city pads can be much harder to fill.

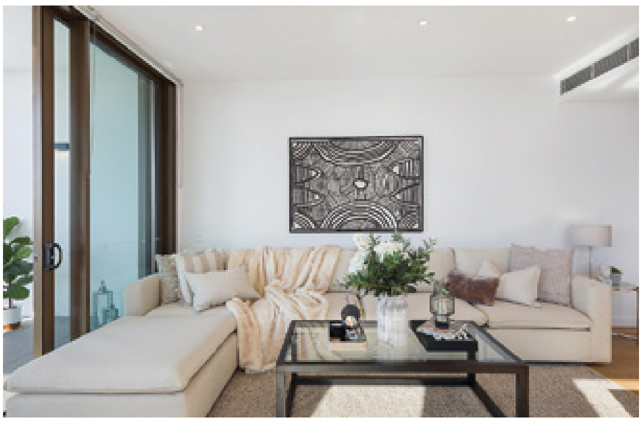
There is no denying that 2020 was a tough year for many, with unemployment rising and salaries being cut. Owners and tenants were often looking to find middle ground to get through that period and many investors chose to reduce rents, at least temporarily. Since then, many negotiated rents have come back to pre-COVID levels but some have not. This is proving a drag on the market. In fact, the median Sydney rent has fallen $30 a week, or 6.8%, between February 2020 and March 2021. Within the same timeframe, the median property price has risen 6.3%.

We expect that 2021 will continue to be a difficult one for Sydney's rental market. Tenants have been leaving the market as with low interest rates it can be cheaper to buy. Plus, more rental properties have been put on the long-term lease market as investors exit the short-term lease (Airbnb) market due to a lack of overseas visitors. Our regional areas, such as the Illawarra, Hunter and Southern Highlands, are stronger markets.

That said, we've customised our marketing and leasing strategies for each property in order to attract multiple applicants and achieve above current market rents on many of our rentals. This is particularly true for apartments and houses in Sydney's inner west, from Erskineville and Annandale to Strathfield.

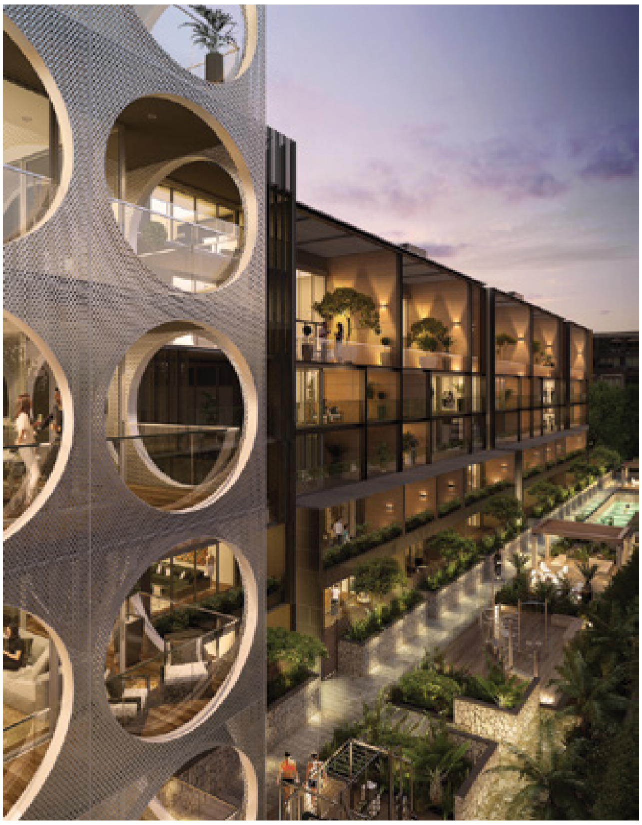
"It's important for investors to know where they stand," says Maria Carlino, Director of Property Management. "If you're looking to lease and your property faces a lot of local competition, it's vital you speak to your property manager to discuss your options – even if that means updating or renovating. After all, now more than ever it's the three Ps – price, presentation and promotion – that matter most."





Projects

with Steven Chen



The market for new projects has been positive in early 2021. Off-the-plan sales have been steady and the overall sentiment has been generally more positive than during 2020. We're once again seeing strong sales rates and solid prices being achieved. This is in line with the property market more generally, which is benefiting from low interest rates, fewer restrictions around borrowing, the limited amount of property on the market, and an overall rise in consumer confidence.

The events that unfolded at Opal Towers and Mascot Towers in 2019 have understandably made some off-the-plan buyers more cautious. Many buyers now conduct a more comprehensive due diligence and are wary of buying into projects where the builder and developer have a poor reputation or no reputation at all. It did not necessarily help the off-the-plan projects market that these high-profile cases involving building defects were quickly followed by the fallout from bushfires and the COVID-19 pandemic.

Steven Chen, head of The Agency Projects, says this has created an environment in which brand new completed units and homes are typically in greater demand than off-the-plan sales. Buyers can see the finished product, be assured of its quality and move in immediately, confident that risk is minimised and there will be no surprises down the track.

Steven Chen says the one market segment where demand for off-the-plan apartments is higher than ever is in the luxury and prestige market. By securing a property before it is completed, discerning buyers can have some control over the end-product and make sure it meets their expectations. For this reason, we've been experiencing unprecedented interest in prestige apartments over $20 million, including from clients willing to pay extra for the ability to amalgamate and reconfigure apartments to their own specifications.

Investors are also returning to the premium market and we're noticing a high level of expat interest. Boutique luxury developments are in particular demand. One example of this type of property is The Address, at 380 Albert Street, East Melbourne. Directly opposite Fitzroy Gardens, with stunning views of the CBD, this block of 23 oversized apartments has received strong enquiries and is achieving good prices. The sensational location and high-spec build mean we've seen great interest from Melbourne downsizers as well as interstate executives.

We're also finding that the projects market for properties valued between $400,000 and $700,000 is strong, particularly in sea or tree change areas, such as the Gold Coast. First homeowners are also active, which means house and land packages are selling well, as are completed inner-city units.

"For developers, the one factor that is really missing from today's market is stock," Steven Chen says. "When it comes to acquiring sites, developers need to be aggressive. Because the real estate market is rising, sellers are spoiled for choice and there are simply no bargains. We're finding land in high-growth regional centres such as Newcastle, Gosford and Wollongong is especially popular."

"With high levels of enquiry across the market, and great prices, we expect to see a strong autumn."

Finance

with John Kolenda
from Finsure

With interest rates at record lows and buyer demand reaching new heights, today's lending environment is highly competitive. Banks and alternative lenders are doing what they can to attract new business, including reducing some fixed-term home loan rates to below 2% – something unthinkable before COVID-19 struck.

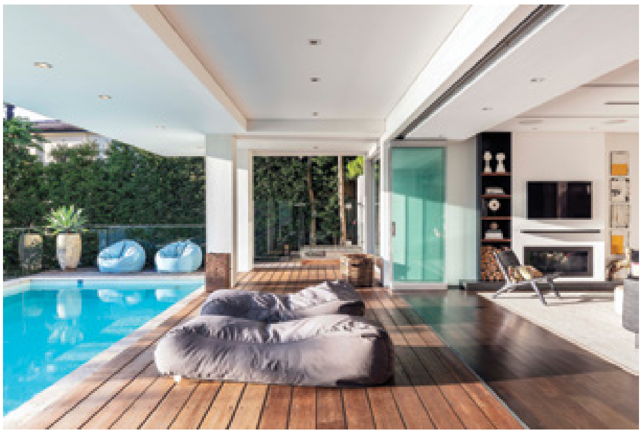
Over 2020 the RBA cut the official cash rate to 0.1% and then announced it was likely to stay there until 2024. But based on current trends we believe banks will begin raising their interest rates much sooner – even during the next 12 months – and that borrowers should factor this into their buying decisions.

After all, funding costs on global markets are rising rapidly, with long-term bond yields on the up. The Australian dollar is strengthening and, most importantly, so too is our national economy. As our vaccination program gathers pace and domestic travel returns, some economists forecast Australia's GDP could rise by as much as 5% over 2021. The second and third quarters of 2021 economic data will be decisive in determining whether our central bank will need to raise the official cash rate sooner than it had hoped, and also whether lenders will be forced to follow suit.

In the meantime, there have been many positives on the lending front. The number of first home buyer commitments is now higher than at any time since the Global Financial Crisis. This is partly because low interest rates have made buying more economically viable than renting in many instances. It's also down to generous state and federal government grants which are helping more buyers onto the property ladder.

Thanks to COVID-19, many people seem to be diverting funds they would have spent on travel and entertainment into improving or upgrading their homes. Lending for renovations has increased. The value of loans for alterations and additions in the three months to January 2021 was 40.8% higher than the same time the previous year, according to the ABS.

The $25,000 HomeBuilder grant has also played a part in helping boost lending commitments for new home construction. Meanwhile, the ABS reported that in January 2021 investor loan commitments reached $6.6 billion – their highest level since 2016.



At Finsure, loan settlements rose 36.8% in the December 2020 quarter to $5.3 billion, so that our total loan book is now worth $50.2 billion. We expect that over 2021, the lending landscape will become even more competitive. The federal government has proposed reforms to responsible lending obligations that will help make homeownership accessible to more Australians, loosening restrictive rules on credit and duplication of regulation in home and personal lending.

In this environment, we're constantly reminding people that it always pays to make sure they're getting the best possible deal on their home loan. Existing mortgage holders should never simply "set and forget" when it comes to their home loans. We believe fixed rates have bottomed out and are likely to go up, so speak to a mortgage broker to obtain the most competitive and most appropriate home loan.

Capital city auction statistics

28 March 2021

Source: CoreLogic

City	Clearance rate	Total auctions	CoreLogic auction results	Cleared auctions	Uncleared auctions
Sydney	87.6%	1,410	1,406	1,231	175
Melbourne	81.0%	1,929	1,922	1,557	365
Brisbane	74.6%	190	189	141	48
Adelaide	74.0%	154	154	114	40
Perth	87.9%	33	33	29	4
Tasmania	n.a.	2	2	0	2
Canberra	90.1%	122	121	109	12
Weighted average	83.1%	3,840	3,827	3,181	646

Index results – Change in dwelling values

31 March 2021

Source: CoreLogic

City	Month	Quarter	Annual	Total return	Median value
Sydney	3.7%	6.7%	5.4%	7.9%	$929,028
Melbourne	2.4%	4.9%	0.7%	3.6%	$736,620
Brisbane	2.4%	4.8%	6.8%	11.3%	$548,260
Adelaide	1.5%	3.2%	8.6%	13.1%	$486,555
Perth	1.8%	5.0%	6.0%	10.8%	$505,850
Hobart	3.3%	7.6%	12.5%	18.0%	$548,686
Darwin	2.3%	5.4%	14.2%	19.9%	$451,408
Canberra	2.8%	6.0%	12.1%	16.7%	$727,032
Combined capitals	2.8%	5.6%	4.8%	8.1%	$693,936
Combined regional	2.5%	6.3%	11.4%	16.6%	$448,819
National	2.8%	5.8%	6.2%	9.7%	$614,768

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