



AUTUMN 2019

The Property Report

PROPERTY REPORT



Welcome to The Agency's autumn 2019 property report. Over my 30 years in real estate the two key levers I have observed affect property prices have been the rate of employment and interest rate levels, but today we are seeing a third lever, that of tighter lending criteria.

Interest rates are at record lows and unemployment is at the lowest rate since June 2011, at 4.9 per cent February this year, according to the Australian Bureau of Statistics. But it is the buyer's ability to obtain finance and uncertainty around property valuations in the current market, that we are seeing impact prices.

Post the Financial Services Royal Commission the big four banks have cited the Commission's recommendations as a contributing factor in the credit squeeze, in particular ANZ CEO Shayne Elliott and NAB's incoming chairman Philip Chronican. In response, ASIC Chairman James Shipton refuted these claims, stating the responsible lending laws have been in place for more than a decade*.

While the financial services regulatory bodies, ASIC and APRA, and the major banks work their way through to a balanced lending approach, the property market will continue to feel the effects of this process.

In good news though, we have seen a strong start to the year in terms of the volume of sales, and homes selling that remained on the market from late last year. There has also been considerable buyer activity, with a re-calibration between seller's price expectations and that of home buyers.

As reported by CoreLogic, national dwelling values dropped by 0.6 per cent in March, which is a 7.4 per cent decline since the property market's peak in October 2017. To put this in perspective though, most home owners are still in a strong equity position. Despite the decline over the last year and a half, national dwelling values still sit 15.9 per cent higher than they did five years ago. The property market has always been cyclical and should never be viewed as a short-term investment.

CoreLogic's Head of Research, Tim Lawless, has also noted that the rate of property value decline has slowed in 2019 from its height in December 2018, when home prices fell by 1.3 per cent across the capital cities**. In fact, the rate of home value decline across the nation has slowed again in March, 0.6 per cent is the smallest decline since October 2018 when values fell by 0.5 per cent.

Across Australia it continues to be a market of highs and lows. We are still seeing suburb records broken in some postcodes and reserves blown away at competitive auctions, while in others, values have been harder hit. In this report we take you through our core markets of Sydney, Perth, Melbourne and the Gold Coast, providing key property insights and investor advice.

Please contact our team with any property questions you may have, our agents are here to help. We hope you enjoy this update.

Matt Lahood,
CEO The Agency

*The Australian Financial Review 28.3.19

**The Australian 29.3.19

Capital city auction statistics CoreLogic data week ending 4th April

City	Clearance Rate	Total Auctions	CoreLogic Auctions	Cleared Auctions	Uncleared Auctions
Sydney	54.3%	801	685	372	313
Melbourne	52.1%	978	851	443	408
Brisbane	33.5%	195	161	54	107
Adelaide	53.9%	106	89	48	41
Perth	40.9%	24	22	9	13
Tasmania	n.a.	3	1	1	0
Canberra	39.6%	57	48	19	29
Weighted Average	50.9%	2,164	1,857	946	911
Regional					
Gold Coast	21.3%	52	47	10	37

SYDNEY

In positive news for the Sydney market the auction clearance rates have lifted. At the end of 2018, we saw the clearance rate fall well below 50 per cent. In fact, CoreLogic reported that it had plummeted to as low as 38.8 per cent in the lead up to Christmas. However, for the past few months, it has consistently reached over 60 per cent and has even touched 70 per cent some weekends during March 2019.

In blue chip areas such as Sydney's Lower North Shore and Eastern Suburbs, we're seeing even higher rates being recorded. On March 20, the *Wentworth Courier* reported that 75 per cent of the homes listed for auction that week were sold at, or prior to auction. One day later, the *Mosman Daily* reported a figure of 88 per cent.

These kinds of numbers are usually indicative of a strong – or even hot – property market, where demand far outstrips supply and prices begin to rise. But that's not necessarily what's happening now, says The Agency's National Director of Sales, Thomas McGlynn.

"This year, we have been averaging around



50 groups throughout the course of each campaign. This tends to show there is still genuine buyer interest in the market. By way of comparison, during the property slump in the Global Financial Crisis we were lucky to have 15 groups through an open home.

"On the other hand, with the odd suburb exception, there has been no corresponding lift in median property values," Thomas McGlynn explains. "What this shows is that sellers have recalibrated their price expectations and are willing to accept an offer on their property they would not have accepted in 2018."

McGlynn's advice to any buyer in today's market is that they shouldn't hold off in the hope prices will fall further. "Not only is it unclear that this will happen, the risk of losing money is minimal if you intend to hold the property for at least five years and through another market cycle."

For potential sellers, now is a great time to either upsize or downsize. There are still strong prices being achieved across all segments of the market and suburb records being broken.



A slower economy over the past five years has meant fewer migrants have been heading to the west coast. This in turn has impacted housing demand in Perth, with certain property segments affected more than others.

"There has been an oversupply of apartments in WA for a few years now," says Stuart Cox, The Agency's General Manager in Perth. "There was a significant downturn in population a few years ago and this has had a flow-on effect to the market."

In fact, since the market peaked in 2014, property prices in the western capital have fallen about 18 per cent, according to

CoreLogic. The city's median dwelling price now sits around \$475,000, and as a result, housing affordability has not posed the same problems as it has on the east coast, with first home buyers a key market segment.

In good news, some green shoots seem to be emerging in the Perth property market. Commodity prices – such as iron ore and gold – have been on the rise. Australian Bureau of Statistics figures show the city's population is growing again, with overseas immigration a key factor. And, as The Agency's National Director of Property Management, Maria Carlino, confirms in *Investor's Corner*, the rental market is tightening.

"This is the light at the end of the tunnel," Stuart Cox says. "Due to the population starting to grow again, people are now looking to rent. The vacancy rate in Perth is 2.9 per cent and our vacancy rate [at The Agency] is two per cent. We expect rental prices to increase as a result of this."

When rents rise, it tends to make buying property a more attractive option for tenants, eventually pushing up property prices in the first home buyer bracket. It also means more investors enter the market in order to take advantage of stronger returns, which also encourages price growth.

For buyers looking to the long term, conditions like these can be an excellent time to enter the market or to upsize into something larger. Less competition provides the opportunity to find a decent property without having to compromise too much. And, when the Western Australian economy clicks back into gear, property prices will no doubt rise again.

PERTH

MELBOURNE

Similar to its northern counterpart, Melbourne's property market has slowed, and we are witnessing a transfer in power from sellers to buyers. Vendors who are prepared to make the necessary price adjustments are seeing prompt sale results and fair prices.

The southern capital's property market has been shifting a few months behind Sydney's movements. For example, Sydney's market peaked in July 2017, while Melbourne's peak occurred four months later in November 2017. The auction clearance rates are also lagging. Sydney's clearance rates lifted to between 60 and 70 per cent in March, while Melbourne's have been slightly behind at 50 to 60 per cent.

We're seeing greater buyer numbers at nearly every open home in comparison to Spring 2018 when prices were falling. There is a greater degree of confidence in the market and, as long as vendors remain realistic, properties are selling. In fact, this year we have had great success moving listings that remained unsold during November and December 2018.

According to The Agency's Victorian



General Manager, Peter Kakos, there are some great opportunities for Melbourne buyers in the market, but he cautions buyers from holding off too long in the hope prices will continue to fall further.

"The best advice I can give, having seen many up and down markets, is don't try to time the market. If it's right for the long term, then buy it," Peter Kakos says. "The current market will present great opportunities to upgrade. Percentage-wise, the upper end of the market will require more of an adjustment to provide these same opportunities."

For vendors, the key to the current Melbourne market is to accept that buyers are wary of overpaying. This means it's more important than ever to be realistic

about pricing. If you are not, your property is likely to remain on the market for some time, which is evident by days on market increasing, and when this happens, it can often impact the final sale price.

We have seen some very strong results for vendors who have approached their sale with realistic price expectations. For example, in early March 2019, our agents Mark Sproule and Peter Kakos achieved an above market result for 52 Clyde Street Kew East at \$2.9 million. And after two unsuccessful campaigns, Michael Paproth picked up 67 York Street St Kilda West and sold it within 24 hours for \$3.2 million off-market.

Compared to most of Australia, the Gold Coast has been something of a recent property success story. After all, property prices stayed relatively stable over 2018, even as the Sydney and Melbourne markets suffered decline, -10.9 per cent and -9.8 per cent respectively, as at the 1st of April 2019 according to CoreLogic data. Predictions are it could well continue to defy the market and post strong gains, especially over the medium term.

This is partly because Queensland is currently attracting more migrants from south of the border than at any time in the past 14 years. Australian Bureau of Statistics data also shows the Gold Coast has been attracting the highest level of

internal migration of any region in the country, as recorded over 2016 to 2017.

A growing population is often a key factor in helping lift property prices. Importantly, the Gold Coast is still relatively affordable compared to major metropolitan markets, meaning lending restrictions may not impact prices quite as much as in other areas. The Gold Coast is also popular with retirees, who are often cash buyers and therefore relatively unaffected by changes to borrowing criteria.

On top of this, we are noticing an increase in the number of foreign buyers and expats coming into the market, particularly for prestige properties. These buyers have been attracted by a lower Australian dollar and the relative value of prestige property

in the area when compared to other states.

The top end of the Gold Coast market is as strong as it has been in some time. In January 2019, The Agency's Gold Coast office sold two properties for an average sale price of \$8,675,000, an outstanding figure for a region with a median sales price of around \$655,000.

At the other end of the market, property in the sub-\$750,000 category is currently in demand right across the Gold Coast. It is the middle of the market where lending restrictions have had the biggest impact.

The Agency's John Natoli has noted a prolific level of building and construction work being undertaken on the Gold Coast, this is usually a sign of confidence in the property market.

"Particularly, we're seeing new homes being built in areas such as the Isle of Capri, Broadbeach Waters, Mermaid Waters, Mermaid Beach and Palm Beach," John Natoli says. "Some of these will be the biggest residential homes ever built in these areas. A lot of people are also undertaking major renovations."



GOLD COAST

FINANCE WITH JOHN KOLENDA

Official interest rates have been kept at a record low of 1.5 per cent by the Reserve Bank of Australia (RBA) since August 2016, but there is continued pressure on the central bank to lower its cash rate further due to a range of negative factors weighing down economic activity and consumer confidence.

These negative factors include a correction in the property market, the impact of the Hayne Royal Commission into the banking and financial services sector, and reaction to political upheaval locally and abroad. This includes the US-China trade war, the Brexit uncertainty and, of course, the upcoming Australian federal election.

Some economists are forecasting at least two RBA cuts over the next 12 months due to the uncertain economic outlook. It's expected the RBA could make a move in the months following the election, which is due in May.

The lending landscape has also been

highly restrictive and confusing since the Hayne Royal Commission, with tighter lending regimes and forensic examination of borrower expenses, significantly reducing borrowing power for consumers.

Among the Hayne Royal Commission recommendations was the removal of trail commissions for mortgage brokers. I believe, if implemented, this would set the Australian home loan market back 30 years and actually enhance the major banks control at the expense of consumers.

Brokers account for almost 60 per cent of all home loans, this shows consumers have favoured dealing with brokers rather than dealing directly with the banks. Our industry has spoken out against this recommendation and the nation's political leaders appear to be listening. In the industry's view, the trailing commission structure paid to brokers protects healthy competition within the home loan market, levelling out the big four banks' control over lending.



John Kolenda,
Managing Director
1300HomeLoan

INVESTOR'S CORNER WITH MARIA CARLINO



The first few months of the year are traditionally a busy time in the rental market and 2019 has been no different. There was an increase in activity as tenants looked for new homes, whether that was to be settled at the start of the new school year, before beginning a new job or just because it was part of a new year plan. There is also an increasing number of tenants looking to upgrade the property they rent.

The challenge for investors, however, is that this increase in demand has been exceeded by an increase in supply. In some parts of the country, especially in metropolitan Sydney and Melbourne, new developments are coming onto the market almost constantly. This has led to greater competition for tenants. But, more importantly, because new developments come newly furnished it has raised tenants' expectations on what their money should buy.

In light of this, we're advising investors to make sure their properties are as attractive and inviting as they can be. This could mean renovating outdated kitchens and bathrooms, as well as applying a new coat of paint or replacing the carpet. Also, because it's important in today's market to be able to approve tenants quickly, we recommend giving your managing agents guidelines that allow them to do this.

Remember, in today's market a tenant is unlikely to be choosing between one or two properties; they are likely to be weighing up several. With this in mind, we don't expect that either yields or vacancy rates will move in favour of investors anytime soon – at least not on the east coast.

But it's a different story on the west coast. According to SQM Research figures as at March 28, the average yield on Perth apartments has lifted an impressive 3.9 per cent this quarter. Houses have also experienced an increased yield of 1.6 per cent over the same period. We're noticing a reduced amount of rentals on the Perth market (there were 6,718 properties available for rent in Perth in late March 2019 compared to 8,938 a year ago), as well as an increase in the number of people attending open homes. This is leading to more properties being leased directly after the first open home.

Maria Carlino,
National Director of
Property Management

NEW PROJECTS WITH STEVEN CHEN

The first quarter of 2019 has been one of uncertainty and caution in the project marketing space as buyers and developers come to terms with a new lending environment. However, the challenges surrounding funding are also presenting new opportunities, especially for those in a strong cash position.

Tighter lending criteria and negative media sentiment have been placing downward pressure on property prices in Sydney and Melbourne and the project space has become one of the main areas in which this is playing out. Buyer enquiries on new developments are down around 50 per cent from 12 months ago and the number of people attending inspections is down a further 10 per cent.

The uncertainty surrounding lending has seen many buyers now preferring to purchase a finished product rather than buying off the plan. This is because they can be more certain of their ability to borrow and settle on finished stock at the current market value, than they would be on an incomplete build.

Lending restrictions are also affecting developer sentiment. Many developers have become concerned that lower valuations and reduced borrowing capacities mean

some buyers won't be able to finance their purchase.

There are thousands of apartments scheduled to settle in the second and third quarters of 2019 that face these risks. There are also many developers under pressure because their sales and marketing teams have not been able to adjust their prices in light of this market shift.

For developers with cash reserves though, this current landscape is beginning to present some great buying opportunities. Reduced competition for sites means there are attractive long-term development prospects available for much less than they were a year or two ago.

One development that has defied the current off-the-plan challenges is St Kilda's St Moritz in Melbourne, a luxury beachfront development by Gurner. The Agency Projects team has been involved with this \$550 million development, which has almost completely sold out this quarter.

In my 20 years in projects, I have never before seen a project of this scale and quality sell so well in a challenging market. What is even more remarkable is that all the apartments have been sold by invitation with no advertising.

Our clients have seen immense value in St Moritz's location, stunning architecture and design. They have also been extremely impressed by the development's bespoke services, as well as the ability to work with Gurner to customise their own living space.

**Steven Chen,
Director of Projects**



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