THE PROPERTY REPORT

Summer 2019/2020

PROPERTY REPORT

Welcome to The Agency's Summer Property Report. The question on many people's minds is what will happen to the property market in 2020? A wide range of factors impact property prices and demand – interest rates, lending criteria, consumer confidence, employment rates and of course the country's overall economic performance. And our economy is in turn impacted by the global economic climate and events like the US-China trade negotiations.

Despite these complexities we can break down the last quarter's performance and gain insight into the year ahead. The market has experienced a mini boom in both Sydney and Melbourne, by the close of November 2019, Sydney house prices jumped by 6.2 per cent and Melbourne by 6.4 per cent over the quarter, according to CoreLogic. Over the same period home values across the combined capital cities increased by 4.6 per cent, with every capital except Perth and Darwin experiencing growth. In good news though, the rate of decline has slowed in both these cities and Perth experienced a price rise of 0.4 per cent during November.

The Reserve Bank of Australia's (RBA) interest rate cut to a record low 0.75 per cent has played a key role in the recent house price growth. Further to this, RBA Governor Philip Lowe's well-publicised talk of two more rate cuts next year, down to 0.25 per cent, is keeping the market buoyant. The easing of lending restrictions by the Australian Prudential Regulatory Authority (APRA) has significantly helped home buyers gain access to funds and in response we have seen an increase in home buyer depth and demand across all our markets.

While the unemployment rate remains steady at 5.3 per cent according to the Australian Bureau of statistics (ABS), consumer confidence has taken a significant hit this year. The recent tax concessions and low interest rates have made small improvements, but overall, consumers are remaining conservative. This sentiment has had many homeowners sitting on the fence as to whether they should put their home on the market and the shortage of supply pushes prices up even further in key markets. Homeowners need to feel confident they will be able to find their next home before deciding to sell.

With home buyers armed with access to affordable funds and fewer homes on the market, auction clearance rates have hit new highs. Sydney clearance rates have been consistently over 80 per cent and Melbourne over 70 per cent, which is extraordinary considering last year's clearance rates regularly sat around 50 per cent.

Our prediction for next year sees this buoyed property market activity continuing with available stock levels rising next year as homeowner confidence grows in response to the current buyer depth and competition in the market. While there have been a range of reports released citing large house price growth in 2020, we foresee a steady market with modest price growth.

While Perth and Darwin have not experienced the same 'mini boom' in terms of price growth over the last quarter, they are proving to be attractive markets in terms of rental yields for investors. In particular, we are seeing an increase in investment in the Perth market from the east coast of Australia, with investors taking advantage of the attractive property prices. ASX-listed accommodation provider Aspen Group recently invested in 84 properties in this growth market to the value of $20 million and The Agency has been appointed managing agent for this portfolio.

Please don't hesitate to contact one of our helpful team for any property questions you may have. Enjoy a happy and safe festive season.

Matt Lahood,
CEO The Agency

Capital city auction statistics CoreLogic data week ending 2nd December

City	Clearance Rate	Total Auctions	CoreLogic Auctions	Cleared Auctions	Uncleared Auctions
Sydney	84.7%	1,131	778	659	119
Melbourne	78.3%	1,497	1,028	805	223
Brisbane	54.8%	138	73	40	33
Adelaide	78.7%	136	61	48	13
Perth	50.0%	61	26	13	13
Tasmania	80.0%	10	5	4	1
Canberra	71.7%	85	60	43	17
Weighted Average	**78.9%**	**3,058**	**2,031**	**1,612**	**419**
Regional					
Gold Coast	43.3%	60	30	13	17

Cover Photo - Beacon Hill Old South Road, Bowral

SYDNEY

19 Shellcove Road, Neutral Bay

Sydney's residential property market experienced a surprisingly rapid recovery over the second half of 2019. In fact, data from Domain's September House Price Report revealed that it was one of the fastest market rebounds on record with the median house price across the city gaining close to $50,000 during the third quarter.

The CoreLogic home value data released December 2, showed another large jump in prices for Sydney in November. The average home value increased by 2.7 per cent for the month, with houses increasing by 3.09 per cent and units by 1.84 per cent.

Our view is that the impressive growth Sydney prices have experienced since July 2019 is a result of limited supply colliding with increased demand. As Spring arrived, there was more buyer activity at all price points, and across all property types, spurred on by a more favourable lending environment and record low interest rates.

This demand hit at exactly the same time as low stock levels. Sydneysiders simply haven't been listing their homes for sale, creating more competition among buyers and putting pressure on prices. It has also impacted auction clearance rates, which hit a healthy 84.7 per cent at the end of November, according to CoreLogic.

Buyers are likely to find it more difficult to secure a bargain over the next 12 months and will need to act decisively. Although this does not mean sellers should become too ambitious with their price expectations.

"It's a good time to sell but sellers who are fair with their price expectations will engage more buyers and create even more competition, leading to a potentially higher sale price," Thomas McGlynn says, The Agency's National Head of Sales and Chief Auctioneer.

According to McGlynn, buyers are setting firm budgets, which is putting a natural cap on the market. However, as long as stock levels remain low, he believes the price growth we have seen is both promising and sustainable and he expects to see a positive start to 2020.

PERTH

'St Aubyn', Darlington

Over the past 12 months to December 2019, Perth has once again experienced challenging property conditions, with the average dwelling price falling 7.7 per cent to $437,080, according to CoreLogic. However, there is good reason for us to believe the market has plateaued and is entering a new, more positive growth phase and this was reflected in November's 0.4 per cent price rise.

The Agency team has seen an increase in buyer enquiries, an increase in traffic through open homes and greater buyer interest in general. In addition to this, The Agency Group experienced a very strong October selling period, with more than 200 exchanges in just one month.

These are all indications that the Perth property market has turned a corner. While we don't expect to see the same level of growth the capital cities have been experiencing on the east coast, we do expect 2020 to be the year Perth property returns to the black.

This type of market, where property prices begin to stabilise and then slowly rise, rather than charge away, can provide attractive opportunities for a long-term property play explains Stuart Cox, The Agency's WA General Manager.

Cox has observed an uplift in savvy buyers getting into the market recently, particularly investors, who have identified the tangible value in Perth residential property. "These buyers are especially obvious at the lower end of the market where they're taking advantage of rising rents and increased yields," he says.

This growing investment trend in Perth by interstate and international investors has been driven by access to short-term income via the attractive rental yields, as well as the potential for long-term capital growth.

The other big return to the market is first home buyers who are starting to be a real force in the Perth real estate space. This is not surprising given it is cheaper to buy than rent in about one third of Perth's suburbs.

MELBOURNE

It has been full steam ahead for Melbourne's property market in the second half of 2019. In November, the market recorded strong price growth with the average dwelling price increasing 2.2 per cent, according to CoreLogic. And over the quarter, Melbourne was Australia's best performing city with property prices rising 6.4 per cent.


90 Stanhope Street, Malvern

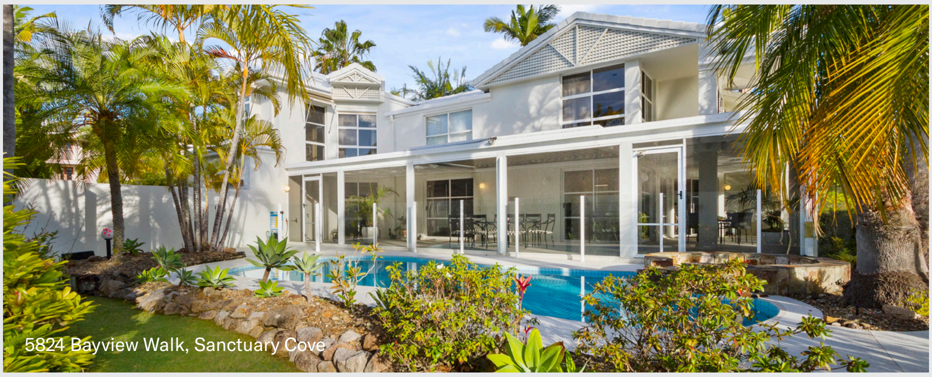
In one sense, this is not surprising. Melbourne's population is growing so quickly the city is currently adding an extra 327 residents per day. Over the 2017 to 2018 period, Greater Melbourne grew by 119,427 people, according to the ABS. If the current trend continues, Melbourne will overtake Sydney as Australia's largest city.

Around June this year, The Agency team noticed a visible shift in the market. There were more buyers at open homes, the number of bidders at auctions increased and prices returned to similar levels to those in 2017. According to Peter Kakos, The Agency's General Manager Victoria, there is a new market confidence being driven by first home buyers, and their re-emergence is creating a "domino effect" re-invigorating other segments of the market.

"First home buyers are back in the market, encouraged by incredibly low interest rates and easier access to finance," Kakos says. "There's a flow-on effect because new home buyers are prepared to make a stronger offer on an apartment, the owner of that apartment then has the money and confidence they need to trade up to a semi. The semi owner moves onto a house. This brings the whole market to life."

With the market turning, Melbourne sellers are anticipating the start of the new year. "In January the market usually slows. However, we're seeing people who want to sell in 2020 locking in their properties for auction earlier than ever," Kakos explains. "These are people who have noticed the late spring resurgence and are looking to capitalise on the pent-up summer demand.

Would-be vendors still need to maintain realistic price expectations, Kakos cautions. While there has been reduced housing stock in the Melbourne market, it is not suffering the same acute shortage as Sydney.


5824 Bayview Walk, Sanctuary Cove

GOLD COAST

It has been a relatively strong year for Gold Coast property. House prices increased 6.8 per cent for the Gold Coast hinterland over the year to October 2019 and 2.7 per cent in its eastern suburbs according to Domain's September House Price Report.

Hotspots included Mermaid Waters, where the median unit price increased by a massive 21.2 per cent year-on-year to hit $472,500. Coombabah and Arundel's apartments also achieved double-digit growth as did Clear Island Waters and Paradise Point houses.

Much of this growth has been driven by families and downsizers. Many of these buyers are migrants from cooler parts of the country, Queensland receives more domestic migration than any other state according to the ABS.

The Agency's National Head of Sales and Chief Auctioneer Thomas McGlynn has observed the past three months have been particularly positive for the Gold Coast property market.

"We've seen that lower price points on the Gold Coast are performing well because they represent real value compared to most of the country," McGlynn explains. "We have also seen increased confidence in the market with some significant sales."

There is a strong buyer market on the Gold Coast and with good reason, an attractive location combined with a quality property is further bolstered by the high value-to-lifestyle ratio. That said, Gold Coast buyers do tend to be more price sensitive.

"Because of this, sellers need to be mindful of setting prices that truly demonstrate value. It doesn't pay to be overly confident in this type of market." McGlynn says. "The best way to achieve good results can be to start with lower expectations and let the market push it higher."

The Gold Coast is a lifestyle market, which typically sees increased activity over January. We believe January 2020 will be a good test for how the market will perform over the next 12 months and we are quietly optimistic. In fact, given the state government's prediction the Gold Coast's population will increase by 350,000 people over the next 25 years, we don't believe the property market will slow down anytime soon.

FINANCE WITH JOHN KOLENDA

As Christmas fast approaches, it will be great to see some signs of growing consumer confidence and Australians breaking the spending shackles for the festive season.

Recently there have been some positive signs for the economy and a push by the federal government for banks to relax lending standards for small business.

With official interest rates below one per cent for the first time in our history, the RBA can take a well-earned summer holiday as the rate cuts it has delivered this year have made an important contribution to boosting consumer confidence.

Having upbeat consumers is the key to an economic turnaround and the domestic economy is still showing signs of improvement. It is good to see the government talking to the banks about the way they have been applying the responsible lending guidelines to small and medium-sized enterprises. By supporting more lending and our SMEs we should see positive signs of further economic improvement.

In this environment there is no real need for the RBA to do much more until they get a better view of the economy in the first quarter of next year.

In the lead up to the summer break, I again urge mortgage holders to regularly review their home loans to ensure they are getting the best possible deal. Mortgage holders should never be complacent about their home loan. With interest rates at record lows, lenders are willing to battle for your business. Contact a mortgage broker to make sure you are getting the best terms and, most importantly, saving money.

John Kolenda, Managing Director
1300HomeLoan

INVESTOR'S CORNER WITH MARIA CARLINO

Although the leasing market began promisingly for investors in 2019, it wasn't long before the balance of power shifted to renters. By February, the supply of properties was beginning to quickly outstrip tenant demand as new apartments from the construction boom flooded the market.

This supply of newly built, contemporary homes made it harder for the owners of established properties to compete. Savvy tenants were quick to negotiate on rents and this led to an adjustment in rental prices that lasted until September. In fact, Sydney rents suffered their biggest annual fall in 15 years, with the average rent for houses down 4.5 per cent and units down 4.6 per cent.

The good news for investors is that over the final quarter of 2019, supply and demand came closer together. Figures from the REINSW show Sydney's inner city vacancy rate fell to 2.7 per cent during October (the lowest rate in a year) and according to the REIV Melbourne's vacancy rate dropped to 2.2 per cent in October. Across Perth, the vacancy rate dropped to 2.5 per cent in September, down from 2.9 per cent in June, as reported by the REIWA.

At The Agency we recorded an even lower vacancy rate of just two per cent. This has been achieved by holding frank conversations with our landlords during the current renters' market. It is important investors make educated decisions about the appropriate rent to charge and invest in keeping their rental properties up to date.

The close of the year can be challenging for landlords whose properties become vacant. Traditionally new renters like to be in their home well before Christmas and if they're not, they tend to wait until mid-January. However, if your investment property is located near the beach, an end-of-year vacancy can be a blessing. The short-term rental market is very strong over summer in places like the Gold Coast and in Sydney.

Maria Carlino,
National Head of Property Management

17 Myahgah Road, Mosman

NEW PROJECTS WITH STEVEN CHEN

An air of cautious reserve has pervaded the projects market for most of 2019. Off-the-plan purchasers began the year concerned about low market confidence. Then highly publicised incidents over the past 12 months, such as Opal Towers and Mascot Towers, only increased their reservations.

Tighter lending conditions for both developers and buyers have been impacting the market for around two years now. But this has started to change. Not only have banks loosened their lending requirements for residential buyers, but we're also seeing a trend for developers to circumnavigate traditional lenders and look towards private funding to finance their developments. We expect the emerging field of non-bank or alternative lending to grow strongly over 2020.

The high auction clearance rates and positive results throughout other parts of the real estate industry have had a flow-on effect to the projects market. This shift in market confidence has combined with record low interest rates to bring more first home buyers and investors back into the market. However, one of the effects of media reports about building defects is that buyers are increasingly discerning about what they're looking for.

Quality has become a much sought-after commodity and buyers require developers to have a strong track record of working with reputable builders on top-of-the-line developments in attractive locations. This trend has seen high demand for our current projects Spearwood in Burradoo and Sanctuary By Sekisui House in Wentworth Point. Developments in less desirable areas or those hit by an oversupply will continue to be subject to price discounts.

The luxury end of the off-the-plan residential market has been particularly strong over the last 12 months fuelled by downsizers and high-net-worth individuals looking for trophy assets. In line with this trend, the top three floors of Lendlease's

One Sydney Harbour project, designed by Renzo Piano, sold off the plan for $140 million, breaking the record for Australia's most expensive home.

Steven Chen,
Director of Projects

INSURANCE NEWS WITH TIM CLIFFORD

Early this year, new tenancy reforms came into effect that better protect victims of domestic violence living in a rental property. These changes to domestic violence laws are a positive step forward in supporting and protecting those in a vulnerable situation.

These amendments ensure a tenant or co-tenant in circumstances of domestic violence will not be liable to pay compensation or fees for the early termination of their lease, including break of lease fee, loss of rent, re-letting and advertising fees. The following measures help protect the privacy of victims of domestic violence and ensure that a victim's ability to secure a rental property in the future is not negatively impacted by a domestic violence termination.

Under previous laws, if a lease was terminated prematurely, all tenants were held equally responsible for break of lease expenses and any damage caused within the property. The victim in some circumstances, could then be penalised for loss of rent and their termination notice recorded on their rental history.

While these changes are a timely improvement to outdated legislation, they do affect landlords and property professionals who own and manage rental properties. The updated laws vary from state to state, so it's a good idea for investment property owners to contact their landlord insurance provider to check if their property is covered for incidents relating to domestic violence. For further information on how you can adequately protect your investment property, please contact Honan Insurance Group - theagency@honan.com.au.

Tim Clifford,
Sales & Service Leader (NSW)
Honan Insurance Group

Spearwood in Burradoo