SUMMER 2018/2019

The Property Report

PROPERTY REPORT

Welcome to The Agency's summer 2018/2019 property report. As the year comes to a close, whether you are looking at your phone, turning on the television or picking up a paper, it's hard to avoid news about the financial services credit crunch and the property market decline. Though the market has softened, it is interesting to note Australia's residential property market is currently valued at $7.6 trillion. This is almost double the value of Australia's listed stocks (ASX) and superannuation combined, according to CoreLogic's November 2018 report. Residential property remains the backbone of Australia's wealth.

Homeownership and property investment should not be viewed as a short-term objective, and through this lens it is easier to put the property cycles in perspective. As of November 30, 2018, the combined capital city home value index dropped by 5.66 per cent from the same time last year, but over the 2012 to 2017 super cycle, the combined capital city home value index rose 47.3 per cent.

CoreLogic's Head of Research, Tim Lawless, says after rising 75 per cent, Sydney has returned to September 2016 values and Melbourne, after rising 58 per cent through the super cycle, has returned to March 2017 levels*. These adjustments are not surprising given the period of growth in these two capital cities overran expectations.

**The Australian, November 30, 2018*

Perth has experienced an annual value decrease of 4.19 per cent, Adelaide an annual value increase of 1.42 per cent and Brisbane (including the Gold Coast) an annual value increase of 0.19 per cent. These three capital cities did not experience the meteoric price increases of Melbourne and Sydney.

Unlike the Global Financial Crisis (GFC) of 2008, there are still active buyers in the market, but the decreased clearance rates continue to reflect the 'price expectation' divide between vendors and purchasers. The other constraint for keen home buyers is the lending criteria changes, which have created uncertainty. Reforms have been required within the financial services and superannuation industries, but financial institutions and government are still finding the right balance when it comes to these lending corrections.

What does this all mean for those looking to buy, sell and invest? There are pockets in each of our core markets that are bucking the trend and still performing well, particularly blue chip areas. There are great opportunities to be found for both buyers and vendors, but it will take a little more negotiation and time. Off-market and private treaty sales are on the rise, but keep in mind post-auction clearance rates remain high, so if you are heading to auction, we recommend taking an in-depth and realistic evaluation of current prices.

We predict an early start to 2019 with a high rate of listings scheduled for January. If you are looking to sell, it is a good idea to get your property online sooner rather than later. On New Year's Day there is a spike in search activity on the property portals in response to New Year's resolutions.

For buyers, getting your finances in order over the break and investigating your mortgage options with a broker will assist you in tackling the stricter lending conditions. Given variable interest rates have been increased by the major banks, irrespective of the cash rate inertia, don't rest on your laurels when it comes to comparing the various products on offer.

Finally, for investors, there have been changes to rental laws in Victoria, with potential changes coming to other states. The Agency's National Director of Property Management, Maria Carlino, outlines these changes and provides strategic advice for investors engaging in short-term rentals.

We wish you and your family a joyous and safe holiday season.

Matt Lahood,
CEO The Agency

Capital city auction statistics CoreLogic data week ending 3rd December

City	Clearance Rate	Total Auctions	CoreLogic Auctions	Cleared Auctions	Uncleared Auctions
Sydney	50.6%	927	545	276	269
Melbourne	45.8%	1,381	1,076	493	583
Brisbane	40.3%	125	62	25	37
Adelaide	41.5%	145	82	34	48
Perth	33.3%	52	18	6	12
Tasmania	n.a.	7	1	1	0
Canberra	50.0%	105	68	34	34
Weighted Average	**47.0%**	**2,742**	**1,852**	**869**	**983**
Regional					
Gold Coast	37.5%	42	16	6	10

Cover Photo - 46 Burrawong Avenue, Mosman NSW

SYDNEY

Sydney's current property market is a story of highs and lows. We've seen record-breaking sales in blue chip suburbs, like Ben Collier's sale of 'Rona' on Ginahgulla Road in Bellevue Hill, and the prestige market is still performing well. The outer suburbs on the other hand, have been hardest hit in terms of value decreases.

A number of economists from leading financial institutions have predicted further price falls for Sydney, but we don't believe these will be akin to those during the GFC. One of the biggest differences between now and the GFC is that there are still active buyers in the market. During the GFC there were very few buyers, and unlike today, the premium suburbs were the hardest hit.

Another key differentiating factor in the current market is the tighter lending criteria resulting from the Financial Services Royal Commission. And while the lending crunch has played a key role in reducing prices and improving affordability, it is also holding first time home buyers back.

For those upsizing, there's never been a better time to upgrade. "It's probably the most attractive market for those looking to upsize in the last 15 years," Thomas McGlynn, The Agency's Director of Sales and Chief Auctioneer, explains. "Sellers are still getting fair prices, but on average, the gap between selling a smaller property and buying a bigger one is narrower than it has been for a long time. The biggest hurdle is stamp duty and we may see an upswing in renovations."

42 Liverpool Street, Paddington

Sydney's auction clearance rates have been hovering around 50 per cent, it's not all doom and gloom, however. Certain regions are still experiencing high clearance rates and according to Domain's research, approximately one third of all Sydney properties that pass in, sell within the following weeks.

In mid-November, the *Wentworth Courier* reported the auction clearance rate in the Eastern Suburbs was 67 per cent. Meanwhile, the *Southern Courier* (which covers Clovelly, Coogee and Maroubra and surrounds) reported a rate of 62 per cent. In suburbs where the *Mosman Daily* is delivered, the auction clearance rate was 63 per cent. But in Sydney's outer areas it has now dipped below 40 per cent.

As 2019 rolls over we do expect the year to start early, with properties coming on from mid- to late January.

PERTH

224 Bulwer Street, Perth

Within the national property landscape, Perth has experienced a truly unique set of economic factors given its ties to mining performance. And while there have been signs of improvement, overall the market remains soft. The silver lining? There are opportunities in this property climate for savvy buyers and for those looking to enter the property market for the first time.

In late 2017 and early 2018, Perth's property prices seemed to be lifting after a long period of inertia. But the gains were temporary. Spring saw a return to a buyer's market, with CoreLogic revealing an average value fall of two per cent over the quarter to October 2018.

Not all parts of the market are moving in unison, however. There have been some recent signs of increased demand, especially in suburbs within 10km of the Perth CBD. The outer areas, both north and south of the Swan River, remain quiet. But this is due to lack of demand compared to supply, creating real opportunities for those looking to buy.

Buyers looking to upgrade are also in a good place, as are first home buyers. In fact, unlike some other capital cities, Perth's affordable property market is attracting high numbers of first time buyers. According to Australian Bureau of Statistics' June data, first time buyers comprise 25 per cent of all owner-occupier finance in WA, the highest in the country.

Over 2019 we're expecting a sluggish recovery for Perth property prices. More substantial gains depend on the broader WA economy also picking up, but we're not expecting dramatic improvements over the next year.

One positive for Perth's investor market is that yields are lifting. CoreLogic figures show that annual Perth rental rates have risen by 1.5 per cent as of October and there's evidence of increased rental demand.

"Rental yields in WA are strong and the rental market is recovering," Stuart Cox, The Agency's General Manager in Perth, explains. "This will in turn lead to confidence coming back into the sales market. Now is a great time to invest if you have equity in your family home as prices are down, demand is low and there are some great buys in the marketplace."

MELBOURNE

For Melbourne's vendors, Spring 2018 was a more challenging property market than the past few selling seasons. Days on market continued to grow and auction clearance rates dipped below 50 per cent at times, although this was partly due to high stock levels.

As a result, Melbourne's average property price fell 2.1 per cent over the quarter to October 2018, or -5.8 per cent for the year to November 30. We believe, as a whole, the market is starting to level and this should mean buyers and sellers can calibrate expectations and act more confidently.

One highlight from the last quarter was representing contestants Bianca and Carla on *The Block*. What wasn't necessarily clear to viewers, was the difference in size between the properties. Bianca and Carla's apartment is 192 square metres, compared to 260 square metres in the units on the floor below. This meant, when it sold for $2.991 million, it achieved the highest price per square metre in the building. We consider this a great result. Overall, *The Block* apartments achieved good prices, especially considering they came with a single car space and no parking permit.


302/34 Fitzroy Street, St Kilda (*The Block*)

Melbourne's downsizer market is still strong with *The Block* apartments typifying the luxury stock that appeals to affluent downsizers. These buyers are looking for well-appointed, single-level properties in a location walking distance to entertainment, restaurants and good transport links.

Another part of Melbourne's property market that has held up well is the one million and below category, with softer prices making the city more affordable for first home buyers. The hurdle now tends to be obtaining finance.

As Christmas draws near, the real estate market typically fatigues, but people intending to put their property on the market in 2019 shouldn't wait as many people will make buying a new home their New Year's resolution.

"If history is any guide, sellers who can be 'first cab off the rank' in mid-January or early February tend to do well because they can take advantage of pent up demand," Peter Kakos, The Agency's Victorian General Manager, says. "But sellers also need to adjust to new market conditions and set their expectations accordingly."

This includes engaging adequate marketing, making the home accessible over January and being flexible around terms, especially settlement periods. And buyers shouldn't be lulled into thinking that a slower market means they can sit back.

"The best way to buy is to find a home you love and want to live in and to think about the long term rather than trying to time the market," Peter Kakos explains.

GOLD COAST

The Gold Coast property market is considered by some a barometer for the Australian economy. When people feel well off, they often invest in a holiday home. As Australia's leading tourist destination many of these holiday homes are bought on the Gold Coast.

If this is the case, the current Gold Coast market indicates Australia's economy is somewhat stagnant. Property prices rose one per cent in the 12 months to September 2018, according to CoreLogic. Though a much healthier result than Sydney or Melbourne, the Gold Coast did not experience the same high growth the two major capitals did from 2012 to 2017.

As with the rest of the country, the Gold Coast's property market is being constrained by changes to lending criteria. We may have seen more spectacular growth if lenders were financing buyers as they did 12 months ago.

Despite the soft market, we're seeing some strong results in the under $500,000 category where first home buyers and long-term investors are engaged in healthy competition for new developments and established properties. This is not a 'red hot' market, however, and there is time for buyers to consider a property and negotiate without feeling panicked into acting. The buyer pressure has been reduced due to much lower speculative investor numbers.


6801/4 The Esplanade, Surfers Paradise

Many buyers in the middle of the market are choosing to stay put and renovate their property rather than move on. However, The Agency's John Natoli believes there are strong opportunities on the Gold Coast right now for buyers who want to upgrade their home by increasing its size or moving from a non-waterfront to a waterfront property.

"My advice to anyone with a growing family is to buy now when the market is relatively flat with a view to selling in the future when the kids have left home. That way you'll be able to reap the benefits future markets will bring. Property should be about the long term. This really could set you up and mean that you'll be able to downsize effectively when the time comes."

FINANCE WITH JOHN KOLENDA

While there have been some positive signs for the domestic economy with lower unemployment and more first home buyers coming back into the market, it seems a safe bet that the Reserve Bank of Australia will remain on the interest rate fence well into next year and possibly beyond.

The RBA has kept its cash rate at 1.5 per cent since August 2016 and hasn't lifted official rates for eight years, which means many mortgage holders have never experienced a cash rate increase.

In the meantime, lenders have been increasing their rates out-of-cycle. So there has been no need for the RBA to do anything, particularly given uncertain household consumption, the continued fallout from the Hayne Royal Commission and the looming federal election.

Borrowers still face a challenging lending environment with banks toughening their lending criteria and conducting detailed examination of borrowers' expenses and all forms of income used to service their repayments. This is making it more difficult for consumers to navigate and comprehend the minefield of more than 3,000 products and different servicing criteria of all the banks and non-bank lenders.

But there is also strong competition between lenders for your business, particularly if you have encountered rate rises over the last 12 months. My message to mortgage holders is 'never be complacent'. You should always be looking for the best home loan deal. Contact a mortgage broker to make sure you are getting the best terms possible and, most importantly, save money.

John Kolenda,
Managing Director
1300HomeLoan

INVESTOR'S CORNER WITH MARIA CARLINO

In good news rental yields have risen from their historic lows. According to CoreLogic, national gross rental yields hit 3.8 per cent in October 2018 – up from 3.6 per cent a year previously.

We're noticing a surplus of rental stock on the market, with the number of available rental properties up 10 per cent from the last quarter across the east coast. This should not be cause for concern, we tend to see a spike in movement as people resettle prior to Christmas holidays.

Homeowners purchasing a new property to live in, while still holding onto their existing home, is on the rise. They will often rent out the new purchase on a short-term lease in the hope of gaining a better sale price down the track. Short-term leases are also becoming more fashionable in Sydney's beachside areas and on the Gold Coast, where investors are looking to take advantage of higher rental yields over the summer months.

Investors should be aware the short-term rental market works differently to the long term. The property needs to be styled and furnished attractively in order to stand out from the competition. The other key consideration is taking out short-term insurance, this works differently to standard landlord's insurance.

In this market it is important to secure a new tenant quickly and be firm with expiry dates. The Agency property management team closely monitors open home attendee numbers and assesses property presentation. Managing short-term rentals requires proactive management and experienced competitor and market analysis.

Finally, it is worth noting Victoria has adopted new rental laws and NSW is likely to follow. These Victorian reforms, which aim to make rentals fairer, include capping bonds at four weeks and allowing only one rent increase per year. The Queensland government recently undertook a state-wide survey of tenants, landlords and property managers.

"The survey asks about the property's condition and for information on how each person's experience has been," The Agency's Corey Rotunno-Grant explains. "Already they've received more than 40,000 responses – a lot of which have come from tenants concerned about their safety.

"This could lead to sweeping reforms in Queensland and, if it does, it's important the government achieves a balanced view between landlords, tenants and property managers."

Please contact us if you'd like to know more about potential changes in your jurisdiction or require property management advice.

Maria Carlino,
National Director of
Property Management

NEW PROJECTS WITH STEVEN CHEN

For many developers, the final quarter of 2018 has been a challenging one. A lack of confidence among buyers and investors affected the volume of off-the-plan sales across Sydney, Melbourne and South East Queensland.

One of the attractions of buying off the plan has been the ability to purchase with a 10 per cent deposit, with the balance due on completion – sometimes years down the track. This gives buyers the chance to get their affairs in order before their purchase. It also gives investors the potential to make a capital gain before settlement. With the property being brand new it can also provide tax benefits in the form of a depreciation schedule, as well as the benefits of negative gearing.

These benefits are currently being overshadowed by the uncertainty of lending restrictions and the potential ramifications of the Financial Services Royal Commission. Buyers who would have been confident in obtaining finance 12 months ago are now concerned whether lenders will provide them with the funding they need to complete their purchase. This is creating a newfound caution when it comes to purchasing new properties.

Foreign buyers are also exiting the market. This is the result of tougher restrictions on non-Australian residents purchasing property, as well as policies in their country of origin.

On a recent visit to China, The Agency Projects team met with representatives from one of the country's largest real estate agencies. According to these market leaders, Australia has long been considered an outstanding diversified investment opportunity for Chinese investors due to our safe and secure environment. However, restrictions on foreign buyers, including increased levies and stricter policies on Chinese RMB outflows, mean a purchase would be dependent on migration or if their children are studying at an Australian university.

Despite a softening market, there are resilient pockets, particularly at the premium end. A falling Australian dollar is making property more affordable for expat buyers and Australians who earn money in another currency. For instance, Vaucluse NSW has reportedly seen $220 million worth of sales in the $20 million-plus category since August 2018, while Bellevue Hill has seen $150 million.

We have seen a similar trend at work in an exclusive Melbourne waterfront development The Agency Projects is currently working on. The complex, which offers design, facilities and finishes unlike anything seen in Australia before, is attracting an unparalleled level of buyer interest and sales.

Steven Chen,
Director of Projects

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The Agency Inner West
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