WINTER 2019

The Property Report

PROPERTY REPORT

We have come to the end of the financial year and to the close of what has been an uncertain time politically and economically in Australia. Fortunately, indications are the country has turned the corner on this uncertainty, which is only good news for the property market.

In my autumn report I talked about the significant impact the lending crunch had on the property market post the Financial Services Royal Commission. But with the major banks adjusting to the new regulatory emphasis and APRA's proposed loosening of mortgage serviceability tests, we are already seeing greater confidence from buyers seeking finance. These factors, combined with the June interest rate cut, saw buyer activity rise significantly. No doubt, the further interest rate cut to a record low one per cent will further bolster buyer confidence.

The other obvious trigger has been the election outcome, with a majority government elected. We saw a pronounced pause in market activity leading up to the election, this may have been policy driven, but stability in government is always key to the property market.

What these combined events have triggered is a backlog of buyers in the market and a shortage of available housing stock. We are seeing strong clearance rates at auction, the month of June 2019 ending on a national weighted average of 66.5 per cent, Melbourne and Sydney hitting over 70 per cent. But while the clearance rates are higher than this time last year, the overall auction volumes are lower, according to CoreLogic.

Though winter is traditionally a quiet listing period, it is actually a prime time to market your property. Competition from other homes is low, buyers are out in big numbers and they want to re-locate before the end of the year. Buying and selling is normally a 12-week process from campaign to settlement, so ideally, buyers want to purchase prior to spring and be re-settled well before Christmas.

On another positive note, a range of economists have signalled a coming end to the property value decline with a return to growth in 2020. In fact, the end-of-month June home index values show Sydney's prices increased by 0.1 per cent and Melbourne's prices by 0.2 per cent, though minimal it is still a positive sign. CoreLogic's Head of Research, Tim Lawless, has stated the easing in price decline even predates the election outcome, interest rate cut and APRA's policy adjustments, dating back to February this year*.

The Domain Group's latest property price forecast predicts increases from spring in most capital cities, with Perth predicted to rise in 2020. Notably, the forecast predicts Sydney to increase by potentially five per cent and Melbourne three per cent in the house category in 2020. Steady unemployment at five per cent, annual population growth of 1.75 per cent and further rate cuts were factored into Domain economist Trent Wiltshire's forecasts**.

Globally, there have been murmurs of another financial crisis on the horizon, but Reserve Bank of Australia governor Dr Philip Lowe believes this is unlikely. At the recent G20 Finance Ministers and Central Bank Governors Meeting in Japan, the International Monetary Fund gave an optimistic outlook on the global economy for 2020, Dr Lowe said this was unusual for the traditionally conservative organisation ***.

On the ground, we are seeing a large number of listings coming on for spring across the nation and many buyers in the market currently. Please don't hesitate to contact our helpful team for an appraisal or an update on your local market.

Matt Lahood,
CEO The Agency

*The Australian 27.6.19
**The Australian Financial Review 27.6.19
***The Australian Financial Review 25.6.19

Capital city auction statistics CoreLogic data week ending 1st July

City	Clearance Rate	Total Auctions	CoreLogic Auctions	Cleared Auctions	Uncleared Auctions
Sydney	72.0%	503	354	255	99
Melbourne	70.6%	536	442	312	130
Brisbane	36.4%	123	77	28	49
Adelaide	68.9%	73	45	31	14
Perth	33.3%	27	18	6	12
Tasmania	n.a.	2	2	2	0
Canberra	44.4%	28	18	8	10
Weighted Average	**66.5%**	**1,292**	**956**	**642**	**314**
Gold Coast	13.8%	59	29	4	25

Cover Photo - 16 Holdsworth Street, Woollahra

SYDNEY

The Sydney market has now levelled out, the declines have essentially stalled, buyers are back and there is renewed confidence in the fundamentals of our city's real estate market.

This does not mean we are forecasting significant price rises. However, we do expect the remainder of 2019 to be a fairly neutral market for Sydney property, with more buyers willing to put their best foot forward, more vendors willing to list their homes for sale and properties achieving solid results.

This is a significant change when you consider the last 18 months have been trending down for Sydney property. Since this time last year, Sydney dwelling prices have declined by 9.9 per cent according to CoreLogic data. They have also fallen 14.9 per cent since the market's 2017 peak.

Thomas McGlynn, The Agency's National Director of Sales, largely attributes today's market to one thing: the May federal election outcome.

"We've essentially seen two markets this year: one pre-election, where people were reluctant to enter the market and one post-election, where buyers and sellers have returned and there is activity once again."


502/17 Barangaroo Avenue, Barangaroo

According to McGlynn, despite some concern a Labor election victory would have impacted property prices, it wasn't necessarily that the Coalition won, but more simply we have entered a new period of stability in federal politics.

"The property market loves stability. The fact the Morrison government has an increased majority and it looks as though we will have a functioning government for the next three years, is enough to bring people back into the market.

"We're already seeing this with increased numbers through open homes, higher auction clearance rates and more homes going to auction in the first place."

Solid results are being achieved across all market segments, especially those homes that appeal to more than one type of buyer. McGlynn cites 48 Jennings Street, Alexandria, a two-bedroom cottage with renovation potential as an example.

"The auction attracted a crowd of more than 200 and there were 20 registered bidders. The property's location and price point meant these bidders spanned all buyer types, including downsizers, young families and young professionals," McGlynn explains.

In the end, the property sold for $1.46 million, that was $260,000 over the reserve price, a great result for the vendor achieved by The Agency's Brad Gillespie. Another standout result was Nic and Kingsley Yates' sale of 17 Myahgah Road, Mosman, which sold for $4.55 million under the hammer. An astounding $550,000 above reserve, Nic Yates referenced strong buyer confidence and limited housing stock for the impressive result.


20 Allpike Road, Darlington

PERTH

The performance of Perth's property market is closely tied to the performance of WA's mining-focused economy. This meant between 2003 and 2006, the price of Perth real estate climbed 94 per cent, by comparison Sydney prices fell by six per cent at the same time.

Unfortunately, it also meant that when the state's mining boom ground to a halt in 2014, property prices began falling. For the first time in a long time, however, there is good news on WA's economic front. With the price of Australian gold at record highs and iron ore prices heading back to levels last seen in 2014, it looks like miners are back in business. This is in part due to increased demand for metal exports, but it is being further aided by a low Australian dollar, which is making WA exports cheaper.

Though it may take some time for the effects of the economic rebound to filter down to everyday Western Australians, this mining recovery should be the first step in a wider recovery for the state's economy. We do expect the property market to recover also, but to recover slowly.

"We expect to see an increase in enquiries over the second half of 2019, which will turn into more sales but we don't expect this to happen quickly," says The Agency's WA General Manager, Stuart Cox. "Instead, it's more likely we'll see confidence steadily growing as the economy gathers pace."

For the moment, with prices still down, Cox believes Perth property represents the best value in the country. Although, some suburbs located within a 10 km radius of the city have been outperforming the rest of the market.

"North of the Swan River, I'd single out Mount Lawley. South of the river, I'd highlight Mount Pleasant, Applecross and South Perth in this category," he says.

The Perth team has seen some very strong results for unique properties that offer owners something more than a run-of-the-mill home. This includes 41 North Road, Bassendean, a homestead built in the 1800s and situated on 3,600 square metres of land. Also 44 Aztec Island Retreat, Halls Head, a five-bedroom waterfront resort-style home with its own private jetty. Both properties achieved a sale price of $2.3 million each.

MELBOURNE

There has rarely been a better time to buy in Melbourne than right now, according to The Agency's Victoria General Manager Peter Kakos. The election result, APRA restrictions easing and interest rate cut are all strong reasons people should return to property, especially at a time when unemployment is relatively low. But that doesn't necessarily mean people are entering the market, just yet.

"It's a bit like dominoes out there at the moment," Kakos explains. "Potential sellers are sitting on their hands, waiting to see how things play out. But because people aren't listing their homes, there is little for buyers to purchase. So, we have very low stock levels and less activity overall."

However, Kakos is optimistic this will change soon. "We have rarely seen a whole year of low stock levels," he says. "Typically, a quiet inventory in the first half of the year leads to a busy second half of the year. Even though it's probably a bit too optimistic to think confidence will return immediately, there are positive signs there. I think we'll see a rush of properties coming to market in middle-to-late spring and this will kickstart things again."

66 Albert Street, Port Melbourne

For this reason, Kakos advises people to avoid the rush and list their property sooner rather than later. Quality properties will attract buyers in the current market because they stand out. By getting an early result now, those vendors who are on-purchasing in the market will have more choice when the spring selling season does start and they will be ready to purchase ahead of many other buyers.

A number of highlight sales recorded recently by the team include 1/95 Roslyn Street, Brighton, a three-bedroom home that sold well above vendor expectations for $1.45 million. Meanwhile, 10 McGregor Street, Middle Park, sold for $2.7 million, attracting bids from a wide range of buyer groups, which included international buyers, young families and downsizers.

Gold Coast property held up reasonably well over the recent real estate downturn, especially when compared to other major urban areas around the country. At the same time as Sydney and Melbourne property prices were going backwards, real estate in the Sunshine State remained steady.

That said, the Gold Coast market never experienced the same growth as the southern capitals between 2015 and 2017, so some would argue it had less distance to fall.

National Director of Sales, Thomas McGlynn, believes we can expect to see more of the same from the Gold Coast market for the remainder of 2019, with modest rather than spectacular price growth. In his view, what the city really needs for property prices to rise quickly is a period of sustained economic growth.

"The Gold Coast's property market relies more on interstate migration than other cities," McGlynn says. "But if you want more people to move in great numbers you need to provide jobs."

McGlynn notes that the Gold Coast's unemployment rate is currently higher than Sydney and Melbourne and it went backwards between May 2018 and 2019. This results in fewer working-age people being attracted to the area and affects the potential for gains.

5694 Observation Crescent, Sanctuary Cove

A counterbalance to this, however, is that more first home buyers may start to enter the market. Lower interest rates, an easing of lending restrictions and the potential government incentive in the form of the Coalition's First Home Loan Deposit Scheme, are all major motivators for first home buyers . After all, Gold Coast property remains an affordable option, with an average dwelling value in the mid-$600,000s.

At the other end of the market, premium Gold Coast properties also offer strong value despite ongoing demand from both overseas and local buyers. Given the South East Queensland property market is likely to rise when the state's economy lifts, the current market could be the time to make your property move.

"In a market like this one, where prices are relatively stable, there is less pressure on whether you buy or sell first. And you are likely to secure a decent property for a fair price," McGlynn says. "This gives you the time you need to make a considered move and to secure the kind of home that will set you up for the next phase of your property journey."

GOLD COAST

FINANCE WITH JOHN KOLENDA

How low will they go? That's the question the financial and property markets have been asking since the Reserve Bank of Australia (RBA) made its first move on interest rates in August 2016. The RBA further lowered the cash rate at its recent July meeting to a new record low of one per cent.

Some economists are now predicting the official rate could drop to as low as 0.5 per cent by the middle of next year if the domestic economy remains sluggish and the global impact of the US-China trade war deepens.

I believe the RBA needs to keep some fuel in the tank and limit its actions. Official interest rate movements have not been the only influence on the domestic economy in recent years. If there are further economic headwinds, then it should not just be up to the RBA to try and stimulate the economy.

The federal government can also take some action to address the broader implications of the impact on the Australian economy. Some of the initiatives they have already announced, such as the First Home Loan Deposit Scheme, tax cuts and infrastructure spending, will flow through the economy to help negate a global economic downturn.

It should also be remembered that while there is significant focus on interest rates, the macro prudential tools implemented by the regulators has had a greater impact on the economy over the last few years than a record low official cash rate.

John Kolenda,
Managing Director
1300HomeLoan

INVESTOR'S CORNER WITH MARIA CARLINO

Like the sales market, the rental market tends to slow down over winter. Colder weather means fewer people are actively looking to move, and in turn, there is less stock turnover.

As I noted in April, there is still some slack in parts of the leasing market. This trend combined with winter lethargy, can push vacancies up and rental prices downwards, sometimes by as much as five to 10 per cent.

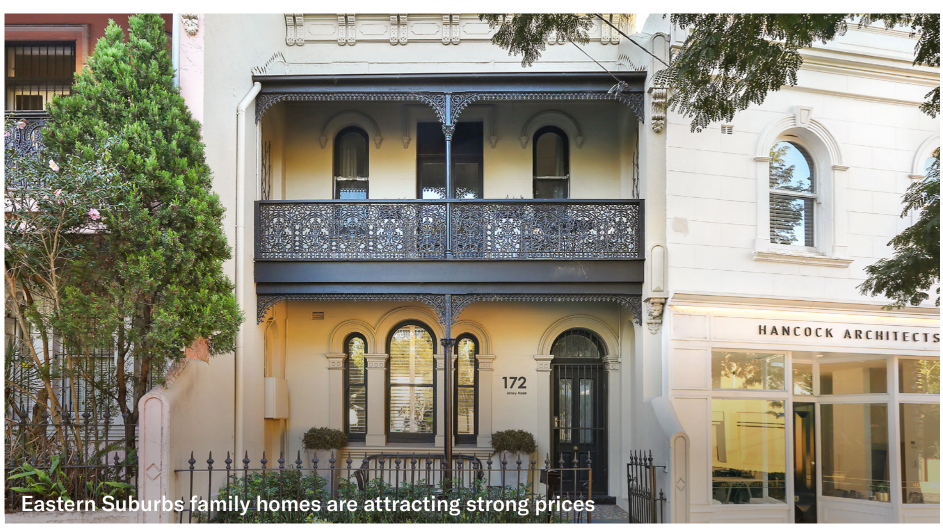
In fact, vacancy rates now run from 1.8 per cent in Melbourne to as much as 3.3 per cent in Sydney, according to SQM Research. In line with this, days on market across the east coast metropolitan areas have also increased from an average of 21 to 24 days.

Some parts of the market, however, are performing better than others. Anecdotally, we've noticed family homes close to transport and employment hubs are holding up well. For instance, a three-bedroom residence in Sydney's Eastern Suburbs commands between $1,200 and $1,500 in rent a week.

In a market such as this one, owners should "immunise" in order to stay on top of their cashflow and maximise their investment. If the property is mortgaged, be prepared to invest additional funds in order to cover vacancy periods when it's not generating an income. If the lease is coming up for renewal, look to secure a fixed-term lease instead of opting for a rolling lease, providing greater certainty.

Lastly, be cautious of a rental increase in the current market and make sure you're well-informed about where the market stands if you want to attempt an increase.

Maria Carlino,
National Director of
Property Management



Eastern Suburbs family homes are attracting strong prices

NEW PROJECTS WITH STEVEN CHEN

The first half of 2019 has been one of caution for both buyers and developers in Australia's projects sector.

Many investors were concerned about the impact Labor's proposed reforms to negative gearing and the capital gains discount would have on property prices. With the re-election of the Morrison government, these measures are off the political table for the foreseeable future. This means one of the factors holding back the market has now been cleared.

We have noticed a slight improvement in buyer sentiment over June, although off-the-plan sales remained slow, partly due to buyers having difficulty obtaining finance. At the premium end of the project market, where there are more cash buyers and obtaining finance is less of a constraint, performance has been positive. For example, sales of the world-class Saint Moritz development in St Kilda, Melbourne, have been unlike anything I have seen in my career.

One trend my team has observed recently is an increased number of funds and high-net-worth individuals entering the projects space to acquire unfinished and distressed assets. They are buying up new but as yet unsold developments in over-supplied areas, often at a high discount. We have seen some funds acquire assets for as much as 35 per cent off valuation. These organisations are looking for an initial return of around 5.5 per cent and intend to hold the asset for 18 to 24 months. This is with the view to on-selling it for the full value when the market comes back.

Smaller developers have been forced into this kind of arrangement in order to repay their lenders. There are many funds and developers currently negotiating bulk buy outs. However, it really is a short-term strategy because the funds are, in effect, taking the developer's profit without actually developing the project.

Interestingly, the market in site acquisitions has been less affected by current conditions than many had forecast. We haven't seen any significant distressed sales, nor have any been touted. Although, we have noticed it is becoming increasingly difficult to make some sites viable given new property revenues are down and building costs are rising.

Steven Chen,
Director of Projects

An increased number of funds and high-net-worth individuals are entering the projects space