RAY WHITE **NOW**

FEBRUARY 2022

Proudly presenting property market insights in real-time

UPDATE FROM OUR **MANAGING DIRECTOR**

The start of a new year always invites plenty of speculation about the direction of the real estate markets. But it's hard to talk about 2022 when we are still trying to make sense of 2021! It was the most active year in the real estate market in memory.

We sold $75.6 billion of property in 2021, which was 43 per cent more than the prior record year of 2020. This record was driven by a record number of properties sold (up 25 per cent in 2020) coupled with strong price growth. Many commentators said that there wasn't much stock on the market in 2021 - in fact there was a record amount of stock that came to market last year, it all just sold very quickly. Then later in the year when the consensus was that the supply of listings would outstrip demand, the market finished the year on a high.

We can get caught up trying to predict things in the future when there is so much to learn from what is happening now. Every January for more than 30 years, Ray White Surfers Paradise hosts The Event on the Gold Coast where over 100 properties are auctioned in one day. This year's Event was perhaps the best ever, with hundreds of people attending, and very strong bidding from local, interstate and international buyers at levels ensuring sensational results.

Our real time data from our auctions has shown total active bidders are at a record high, even though the number of live property listings exceeds those from last year. In January, our group wrote $5 billion in sales, up 20 per cent on last year. So it's been a very healthy start to the year as this edition of Ray White Now details.

However there are factors at play this year that will require close attention. There will be more talk of interest rate rises. We have the Australian Federal Election in May, and state elections in Victoria and South Australia. On the other hand, if borders continue to open up we should expect more migration and tourism, and alternative investments outside of real estate that offer strong and stable financial returns which are hard to find.

Our economics, technology and data teams combine and analyse the data collected by more than 10,000 members across Australia and New Zealand. We are in a unique position to listen closely to what is happening in the market and report on it to our customers to ensure they make the best real estate decisions in 2022.

We look forward to sharing our insights with you throughout 2022. Our local Ray White members would be delighted to discuss this edition of Ray White Now with you further.

Dan White
Managing Director
Ray White

RAY WHITE NOW
THIS MONTH

The pandemic rolls on, as does house price growth. While there's been a lot of talk of a slowdown, there's still very little evidence that it's actually happening. In every capital city we saw better price growth conditions in the final quarter of 2021 than we did in the previous quarter. Nevertheless, this year's different. Finance restrictions are now in place, there's an affordability inquiry currently being undertaken by the Federal Government and a growing realisation that at some point, the days of very cheap finance are limited. We also have an election where housing may be a contentious issue. What seems to be the case is that price growth will continue, albeit at a slower rate than last year.

While price growth is slowing, rental growth will accelerate in many places in 2022. International borders reopening means that migration will start up again. People moving to a new city or region generally rent before they buy. For some places where rents have fallen considerably, such as high unit development areas, this will be good news. Less so for many regional areas where affordability is becoming problematic.

In this month's Ray White Now we provide an outlook for 2022 for each of our capital cities and investigate whether now is a good time to sell. With rural property prices now at record levels, we also look at the state of the agricultural sector - whether you are looking for a sheep farm, cattle station or just a rural weekender, we outline the drivers of current market conditions. Finally, we take a look at many of the myths associated with commercial property, including a look at whether the demise of both office and retail tenant demand are overstated

We hope you enjoy this month's Ray White Now and we're proud to be providing you with relevant, timely and interesting content and data in 2022.

Nerida Conisbee
Chief Economist
Ray White

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WHY SELL **NOW?**

There's always a reason to sell! This month, we take a look at some of the things that you should consider if you're looking to go to market this month.

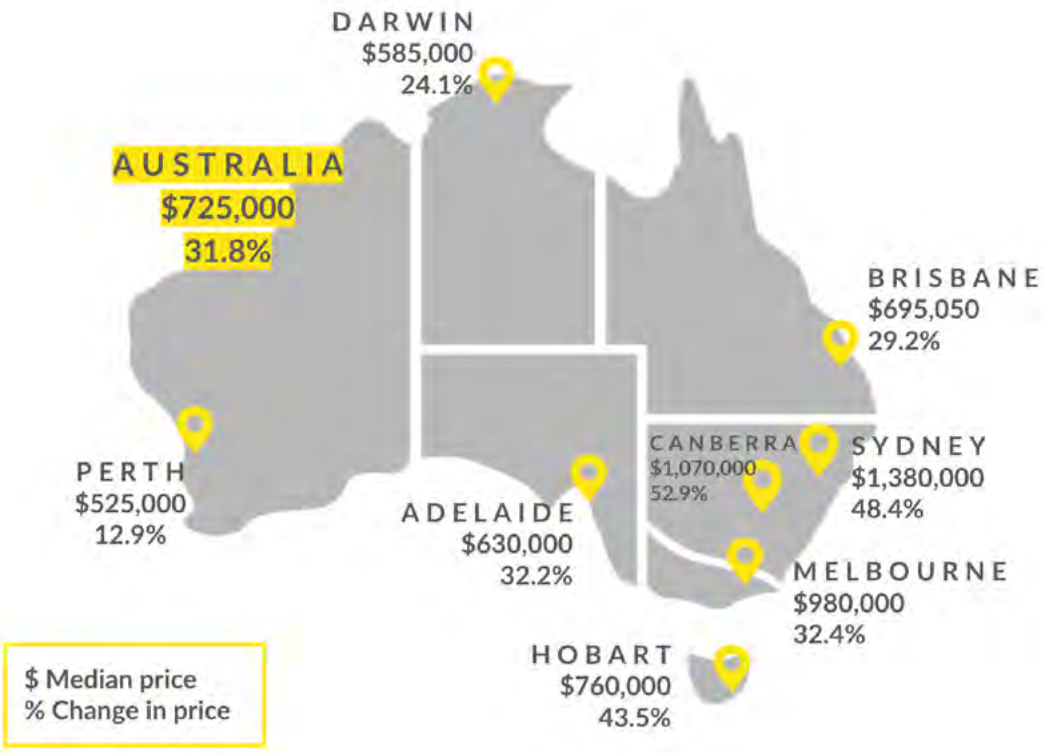
1. PRICE GROWTH IS SET TO CONTINUE

Price growth since the start of the pandemic has been unprecedented. Not only in its strength but in the way it's been so consistent across Australia. Whether you're in a regional area, inner city, or outer suburb, we've seen increases. It would be rare to find anywhere not impacted by this pandemic-driven boom.

With strong price growth comes big increases in home loans so it was no surprise that the Australian Prudential Regulation Authority (APRA) stepped in late last year to put the first set of restrictions in place to slow things down. While the restrictions are currently mild, we're likely to see further restrictions if they don't work as hoped. Furthermore, although an interest rate may or may not happen this year, there's a growing realisation that they will possibly increase more quickly than anticipated. These things combined have led to a gradual shifting in sentiment towards property and this is likely to slow down price growth.

While it's almost certain that price growth will be slower this year compared to last, at this stage, we're not looking at a decline in prices. APRA is moving carefully and higher inflation is not surprising anyone, least of all the Reserve Bank of Australia (RBA). Confidence in property remains high and we've now reopened international borders which will once again lead to population growth rates we are more accustomed to, further supporting property demand. This year will be a growth market, but it will also be a much calmer market.

House prices (% change) since March 2020



2. DEMAND REMAINS HIGH

It's hard to measure demand for property. Price growth, for example, means that there was strong demand for property, but doesn't necessarily mean that it's still there. One metric that we track closely is active bidding at auction. If you bid on a property at auction, it's a pretty good indication that you're in the market and ready to buy. At the end of 2021, we saw the highest level of active bidding ever recorded.

While we've never seen so many people bidding at auction, active bidders per auction did decline. This reflects more properties coming to market as Melbourne and Sydney came out of lockdown. At this point, it does look like the main driver of slowing market conditions, particularly in our biggest cities, is being driven by more properties for sale, as opposed to a drop off in people looking to buy.

3. SUMMER REMAINS A GREAT TIME TO LIST YOUR PROPERTY

Wanting to wait until the spring selling season to list your property? While spring is the time that buyers and sellers come out, summer is also a decent time to sell. Fewer properties for sale, and hence less competition, is an obvious reason that's generally true whatever the year. This year however we also have a lot of uncertainty. It's likely that at some point, more finance restrictions will be put in place and we also have a federal election looming. At this stage we still don't know what the policies will be regarding housing for each party. COVID-19 restrictions seem to be easing but there's still no end in sight for the pandemic. Interest rates may or may not increase this year but at some point, perhaps sooner than later, they will. For now, the market is far more steady than last year, but still seeing price growth. These calm conditions make it a favourable time to come to market.


RayWhite
Auction

STATE OF THE STATES **CAPITAL CITIES**

The pandemic has resulted in the strongest house price growth conditions ever recorded. But 2022 is starting to feel a bit different. COVID-19 continues to rage but the days of frequent lockdowns are now over as we look to a way to live with it long term. The first set of finance restrictions have now been put in place and although interest rates may or may not rise this year, there is a realisation that an increase may happen sooner than initially anticipated. Finally, this year we will also have a federal election where affordability is set to be a major focus. Here's our take on what 2022 holds for each capital city.

SYDNEY - HOUSING MARKET STARTS TO CALM IN 2022

The pandemic has resulted in a heady ride for the Sydney housing market with prices up almost 50 per cent since March 2020. The Sydney median is now steadily heading towards $1.5 million and the number of suburbs priced over $4 million has almost doubled over the past 12 months. For many people looking to sell their homes and then buy again, the speed of price growth has been stressful. The good news is that in 2022, it does look like the market will begin to calm.

In December, we saw a very slight dip in pricing with the median dropping by $10,000. Although such a small decline at a time when people are heading off on their holidays doesn't necessarily mean that the market is slowing, there are indicators that suggest that Sydney's extreme surge may be close to over. The main one being the time taken for properties to sell - time on market has been steadily increasing since March 2021 , although historically it still remains low.

There have been a couple of things that have driven the slowdown. The main one being an increase in properties for sale. Lockdowns are house price accelerators, driving down properties for sale at a time when people are saving more. The second is talk of an interest rate rise. Although this may not happen this year, it's looking more likely it will happen before 2024. The third is that housing finance is starting to be restricted. Of all markets, Sydney is perhaps the most sensitive to availability and cost of finance.

While prices will start to calm, the re-opening of international borders will push up rental levels. This is of course good news for investors but bad news for renters. In 2022, it will be a major driver of construction activity, particularly for units.

If you're looking to buy in Sydney, 2022 is likely to provide more favourable circumstances, or at the very least give you a little bit more time to make decisions. For sellers, a drop in pricing still remains off the cards for now.

Northern Beaches topped Sydney house price growth in 2021

% median house price growth - 12 months to December 2021

Region	Growth (%)
Northern Beaches	42.7%
North Sydney and Hornsby	42.4%
Sutherland	42.2%
Eastern Suburbs	42.1%
Central Coast	41.9%
Ryde	40.0%
Baulkham Hills and Hawkesbury	39.9%
Inner West	39.3%
Inner South West	33.8%
City and Inner South	32.5%
Outer South West	31.5%
Outer West and Blue Mountains	29.7%
Parramatta	27.8%
Blacktown	27.7%
South West	25.2%

Source: CoreLogic, Ray White

MELBOURNE - THE PROPERTY MARKET RETURNS TO NORMAL

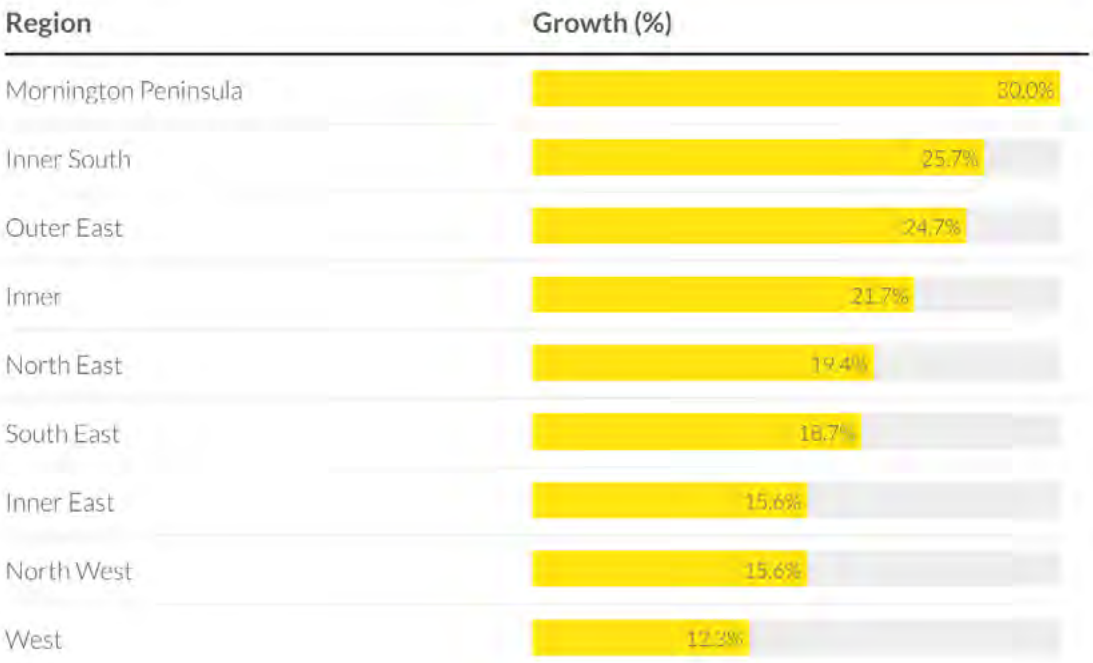
Melbourne's lockdowns look to be at an end and this is good news for both buyers and sellers. For sellers, 2022 marks a time when it will be easier to prepare a property for sale and allow for maximum competition between potential purchasers. For buyers, more properties for sale will calm the market. Lockdowns are house price accelerators, not only leading to less for sale but also higher savings, a lot of which has gone into buying houses.

The pandemic not only led to a sharp acceleration in pricing in the Melbourne market, but also to a dramatic change in population distribution. Not only was there record movement of people out of Melbourne into regional areas but the city saw the highest level of migration up to South-East Queensland since the early 1990s recession. Many outer suburban areas saw much stronger price growth than premium inner areas. Expensive suburbs like Armadale and Hawthorn East dropped in value, while areas on the fringe with large blocks of land like Diamond Creek and Gembrook saw well over 20 per cent growth.

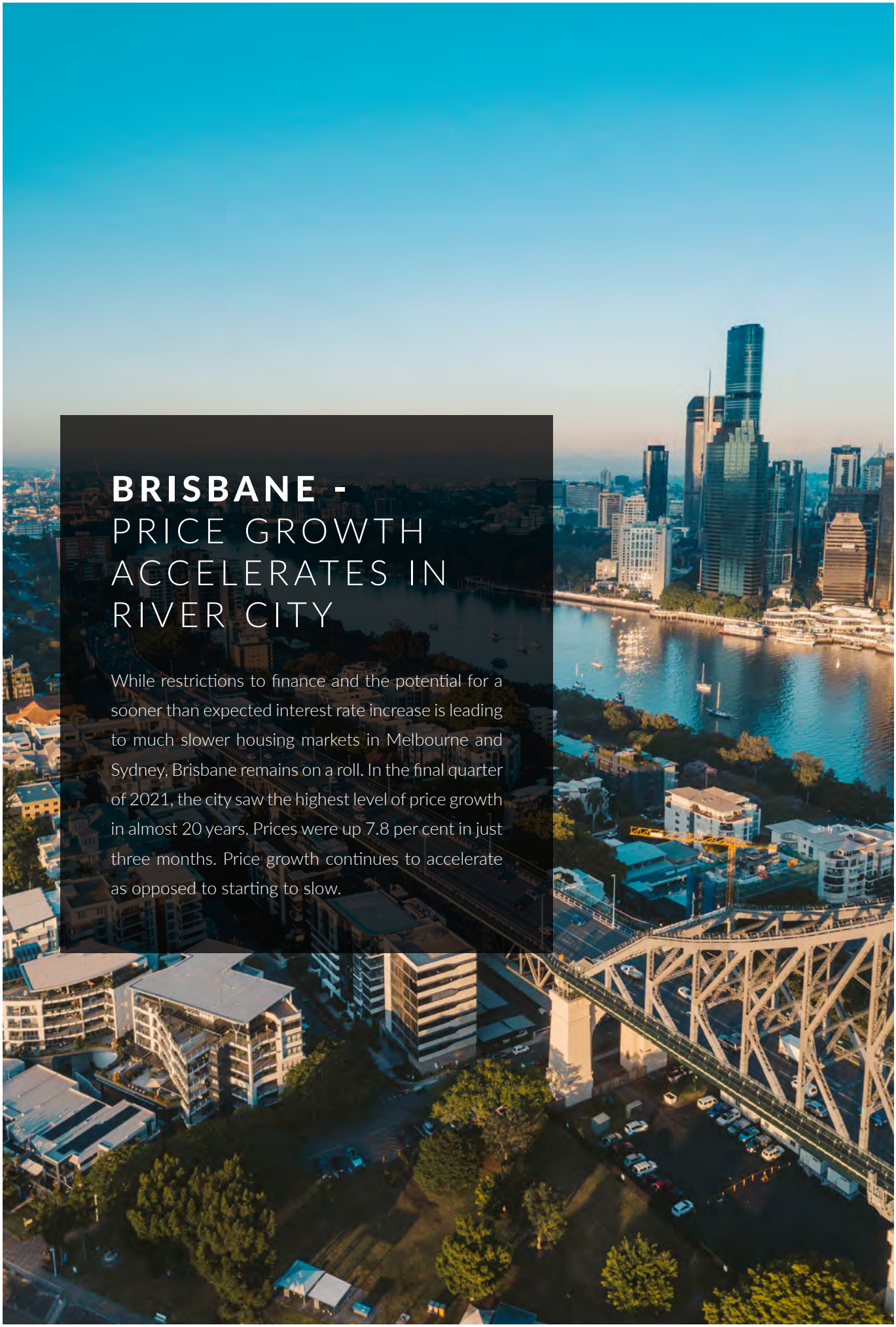
The end of lockdowns late last year marked a turning point for the Melbourne market. More stock for sale is calming conditions. And while it remains uncertain whether we'll have an interest rate increase, a growing realisation that rates may rise sooner than 2024 is also stabilising price growth. The biggest change in the Melbourne market will be the impact of open international borders and a return of vibrancy to Melbourne CBD. Both of these will revitalise unit markets, as well as again making inner urban living desirable. Watch out for the strong return of premium markets, as well as rental growth starting up again in locations such as Melbourne CBD and Southbank.

The Mornington Peninsula saw the highest growth in Melbourne in 2021

Median price growth by SA4 - 12 months to December 2021



Source: CoreLogic, Ray White



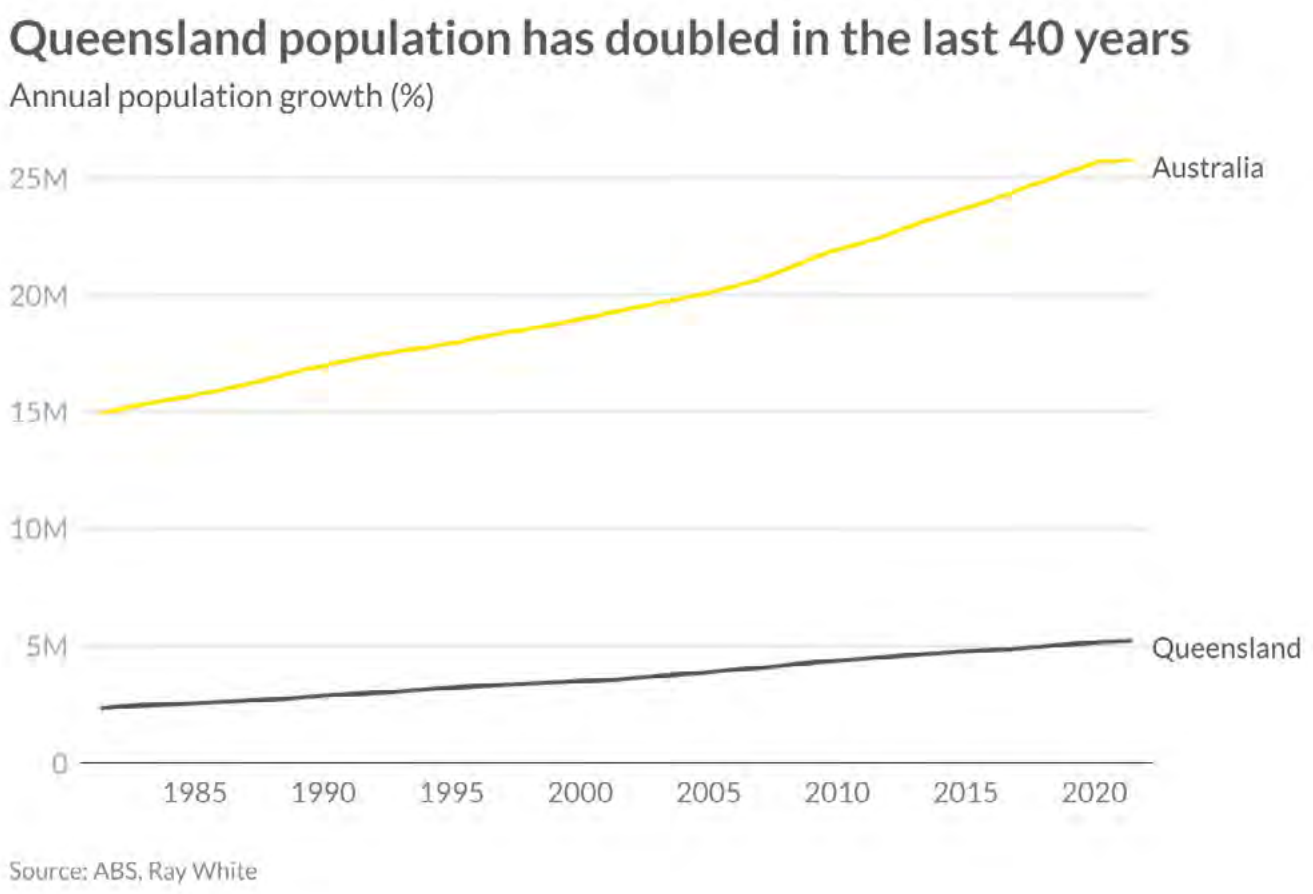
BRISBANE - PRICE GROWTH ACCELERATES IN RIVER CITY

While restrictions to finance and the potential for a sooner than expected interest rate increase is leading to much slower housing markets in Melbourne and Sydney, Brisbane remains on a roll. In the final quarter of 2021, the city saw the highest level of price growth in almost 20 years. Prices were up 7.8 per cent in just three months. Price growth continues to accelerate as opposed to starting to slow.

There are a few things that are setting Brisbane apart. The first is stellar population growth, driven last year by interstate migration and further pushed along this year by reopening international borders. The second is a high level of positivity - Queensland's economy's going pretty well and will do better again as it continues to operate more normally in 2022. Add to this the Olympics - while still some time away, it has given Brisbane international status and this seems to have impacted premium markets in particular.

The third is that Brisbane remains affordable. This further exacerbates population movement given affordability challenges elsewhere but is also encouraging a high level of interstate investor activity. For $1 million, you can buy in Sydney's highest crime suburb of Blacktown. For the same price, you can buy in Brisbane's Kelvin Grove. Brisbane's most expensive suburb for houses is now Teneriffe at $2.5 million, similarly priced to Sydney's Collaroy Plateau - a nice suburb but far from being that city's most expensive.

The outlook for Brisbane is particularly positive this year. In the first half of this year, it looks like price growth will continue to accelerate. And like the rest of Australia, rents are set to rise as international borders reopen - which is great news for investors but could get challenging for many renters, particularly in highly desirable suburbs.

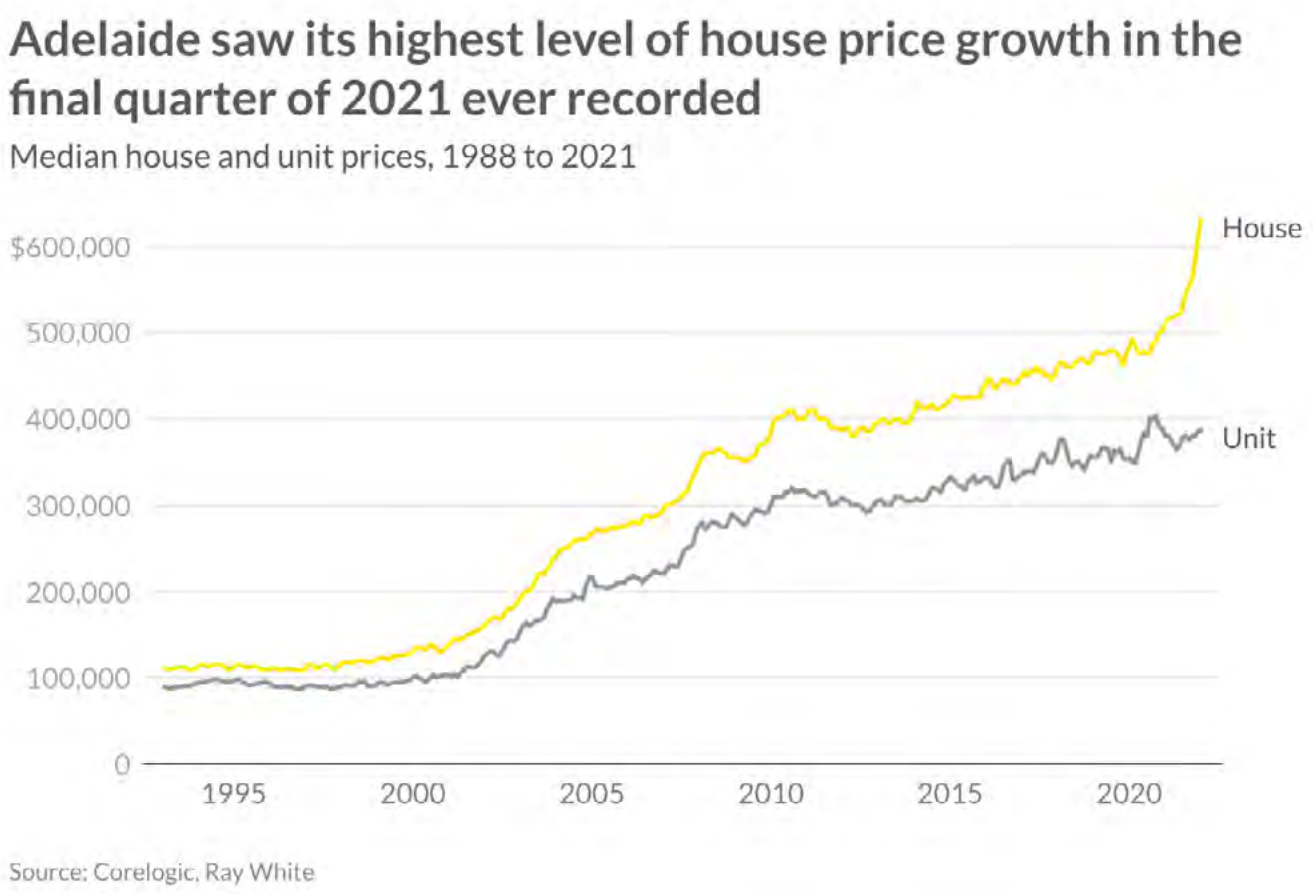


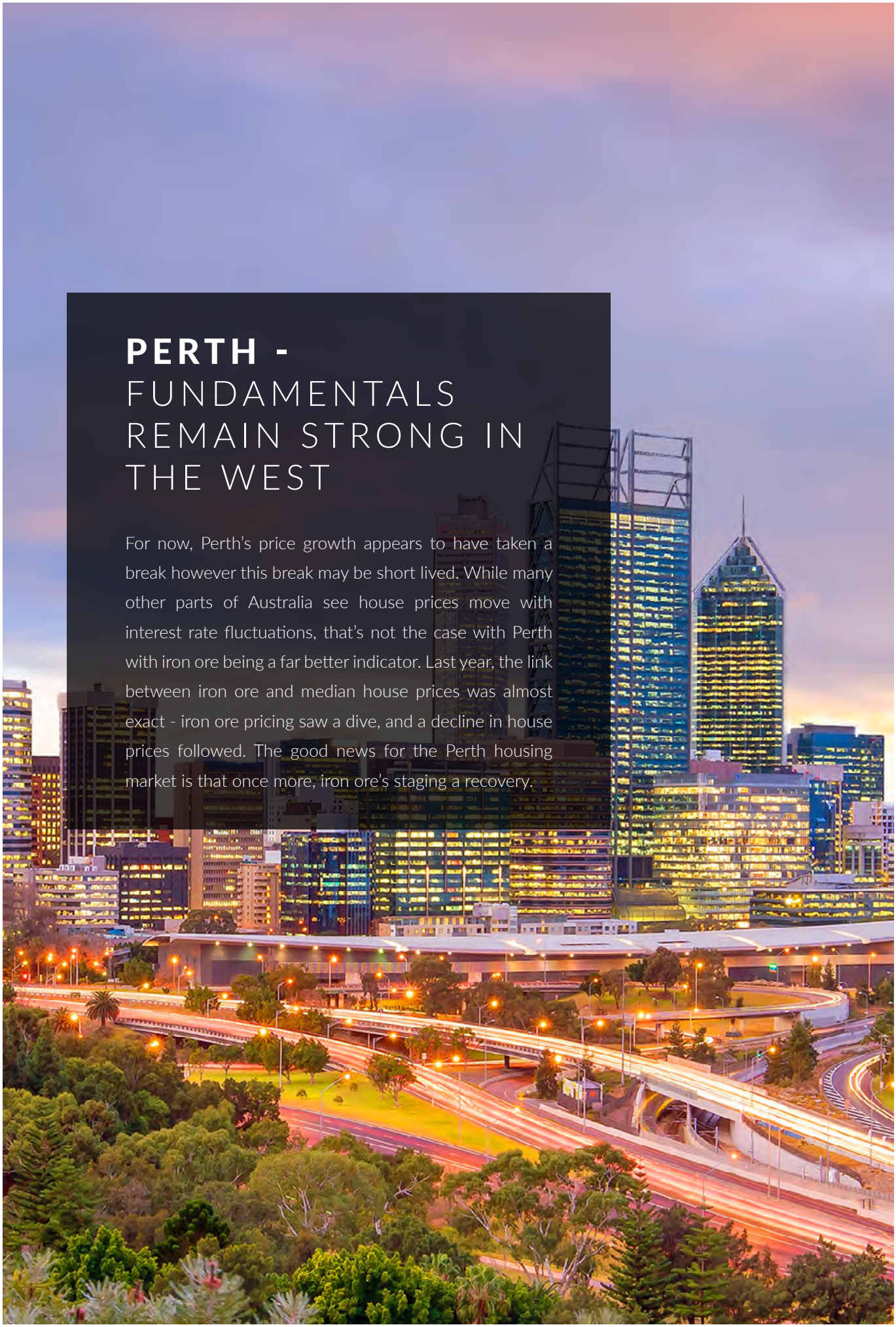
ADELAIDE - STRONGEST PRICE GROWTH EVER RECORDED

It's Australia's most liveable city and in 2021, South Australia saw the highest level of economic growth in the country. This positivity encouraged buyer activity, both from locals and from interstate. The end result was the highest level of price growth in the final quarter of 2021 ever recorded. Prices surged 12.5 per cent in just three months, following an increase of 10.3 per cent the previous quarter. While the national focus is on the slowdown in Sydney and Melbourne, there is no hint of slowdown in Adelaide at present.

Adelaide is far more resilient for a number of reasons. The city is still affordable and as the Economist Intelligence Unit study can attest, highly liveable. While its liveability is not in doubt, the strong increase in pricing is making the city much more expensive. Unley Park, Adelaide's most expensive suburb, saw its median jump by $1 million in 12 months to become the first suburb to hit $2 million. Overall the city's median pushed up 30 per cent since the start of the pandemic.

For now, the market is set to show strength, at least for the first half of 2022. The city is less sensitive to finance restrictions and talk of interest rate increases than bigger cities, and will further benefit from international borders reopening. Rents are set to see strong increases, particularly in areas that have been adversely impacted by closed borders such as units around universities.





PERTH - FUNDAMENTALS REMAIN STRONG IN THE WEST

For now, Perth's price growth appears to have taken a break however this break may be short lived. While many other parts of Australia see house prices move with interest rate fluctuations, that's not the case with Perth with iron ore being a far better indicator. Last year, the link between iron ore and median house prices was almost exact - iron ore pricing saw a dive, and a decline in house prices followed. The good news for the Perth housing market is that once more, iron ore's staging a recovery.

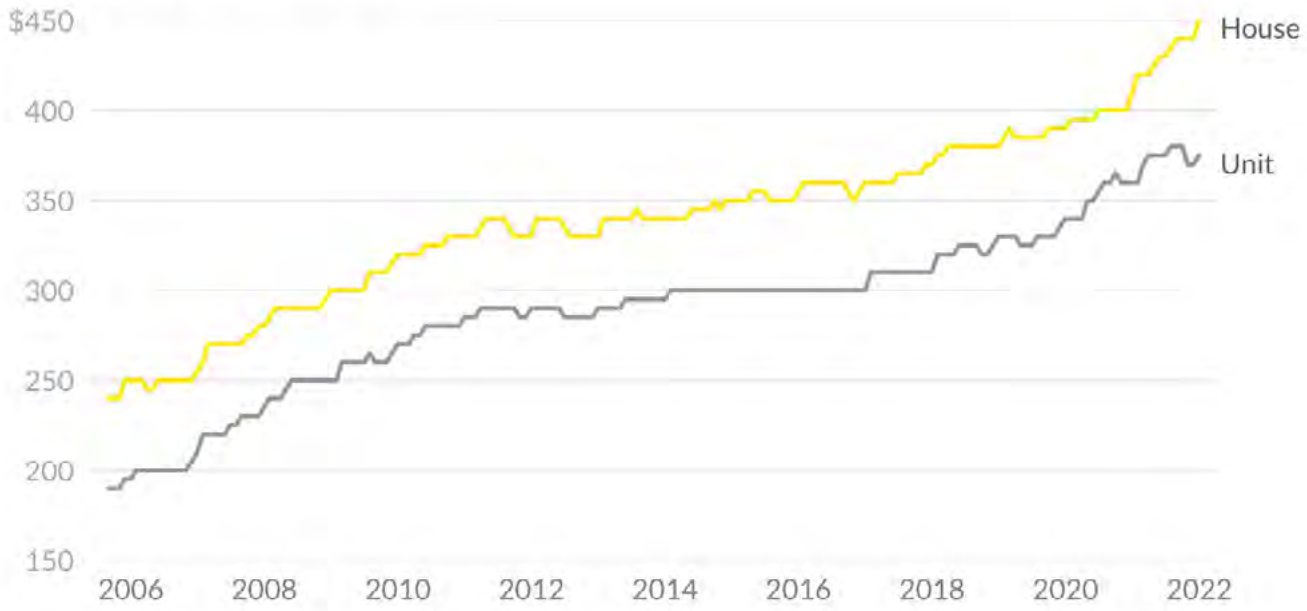
Iron ore fluctuations aside, the fundamentals of Perth remain strong and this is showing up most clearly in rental increases. The The city's seeing some of the strongest rental growth in Australia, reflecting both growing wealth and employment growth. Opening borders will be a further driver of rental growth, and by extension price growth. There are lots of jobs in Perth and lots of people wanting to move there but for now, it's difficult to do so.

While prices have stalled overall, there are some suburbs that are clearly outperforming the rest of the city. Dalkeith and City Beach have both seen price rises over $600,000 over the past 12 months. Six suburbs have seen their medians rise by over 40 per cent. Price growth is mixed but does seem to be favouring Perth's more expensive suburbs.

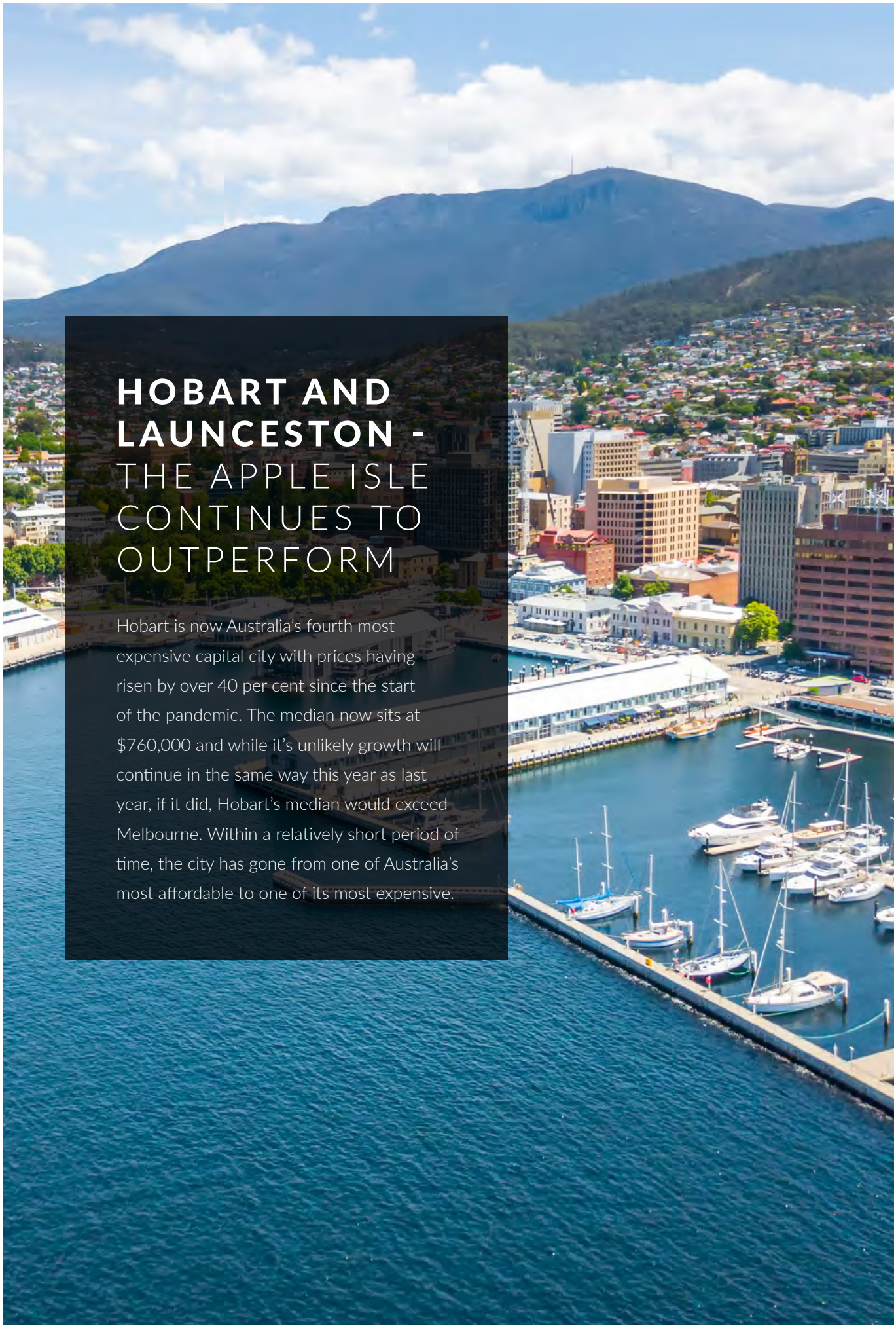
Perth is definitely a market to watch, particularly given that it does tend to move counter to the eastern seaboard. With iron ore price growth returning, strong rental growth and borders reopening, there remains a lot of positivity for this market.

Perth's rental growth has been one of the strongest in Australia

House and Unit rents - Perth



Source: Corelogic, Ray White



HOBART AND LAUNCESTON - THE APPLE ISLE CONTINUES TO OUTPERFORM

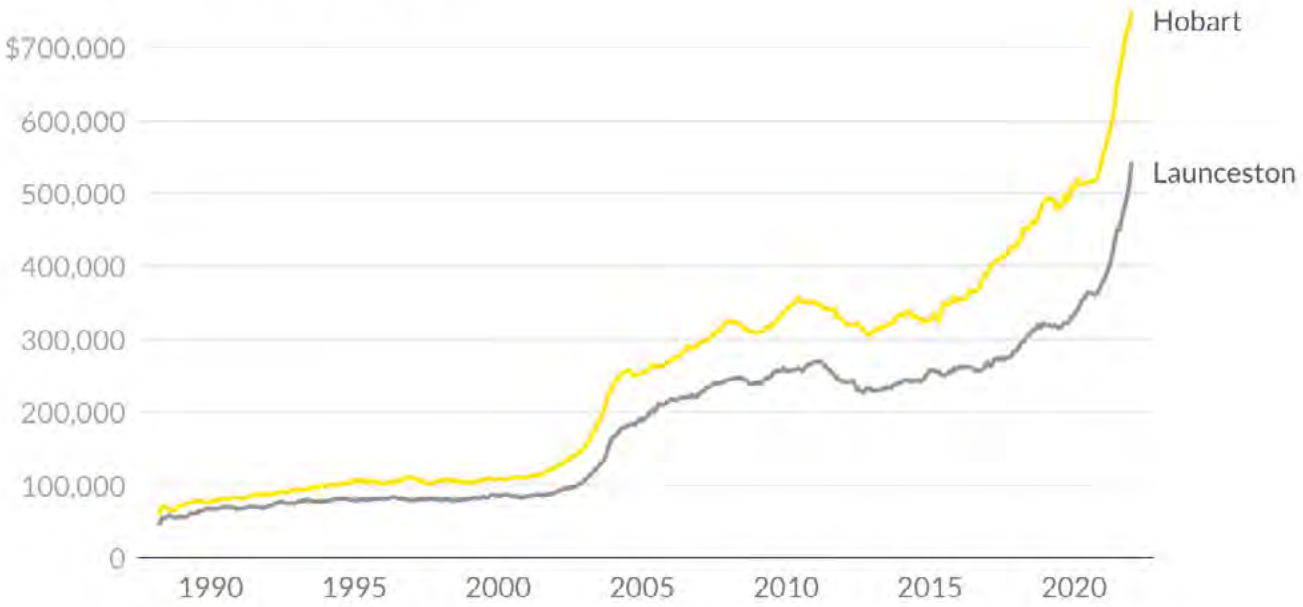
Hobart is now Australia's fourth most expensive capital city with prices having risen by over 40 per cent since the start of the pandemic. The median now sits at $760,000 and while it's unlikely growth will continue in the same way this year as last year, if it did, Hobart's median would exceed Melbourne. Within a relatively short period of time, the city has gone from one of Australia's most affordable to one of its most expensive.

It's therefore no surprise that the spotlight has now also shifted to Launceston. While the city's median is a lot lower at just over $500,000, growth has outpaced Hobart since March 2020, hitting a 45 per cent increase. Exeter and Prospect Vale have seen their medians increase by almost $200,000.

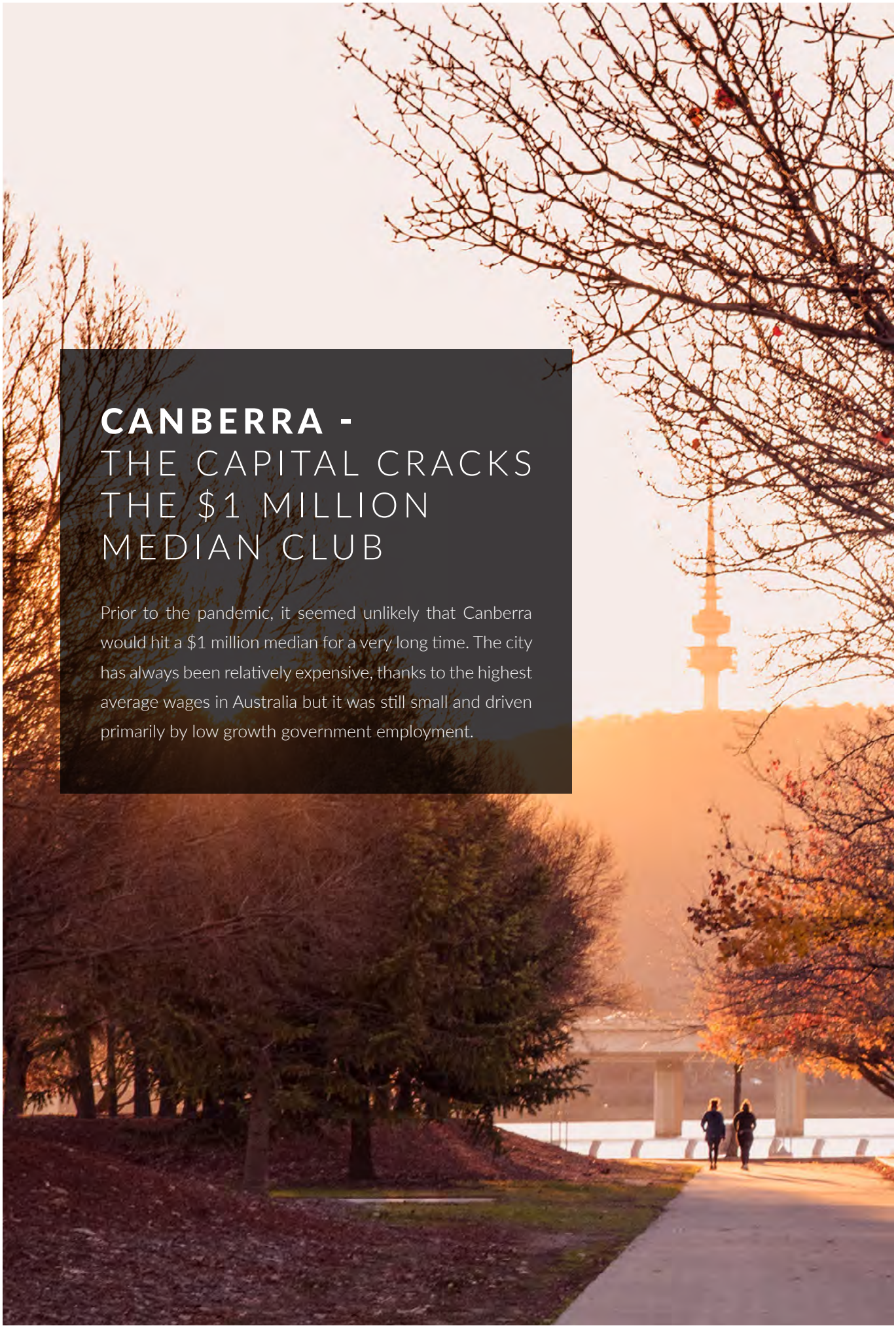
What's the outlook for Hobart and Launceston? While bigger cities are more sensitive to restrictions to finance and interest rate talk, Tasmania is a bit less so. With very strong rental growth, borders reopening and a continual shift in the drivers that shape the economy, high demand for property is set to continue.

Prices have surged in Hobart and Launceston during the pandemic

Median prices from 1988 to 2021



Source: Corelogic, Ray White



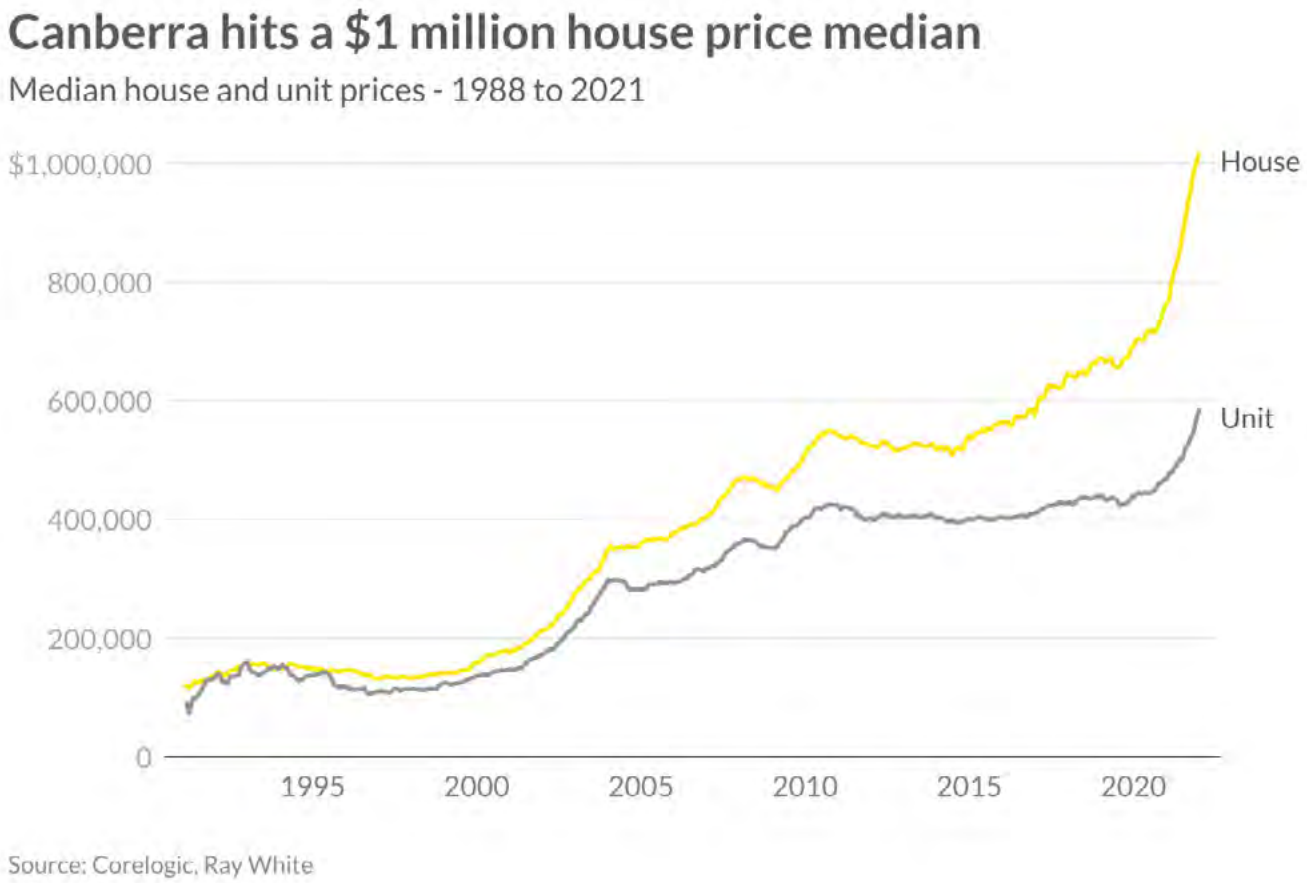
CANBERRA - THE CAPITAL CRACKS THE $1 MILLION MEDIAN CLUB

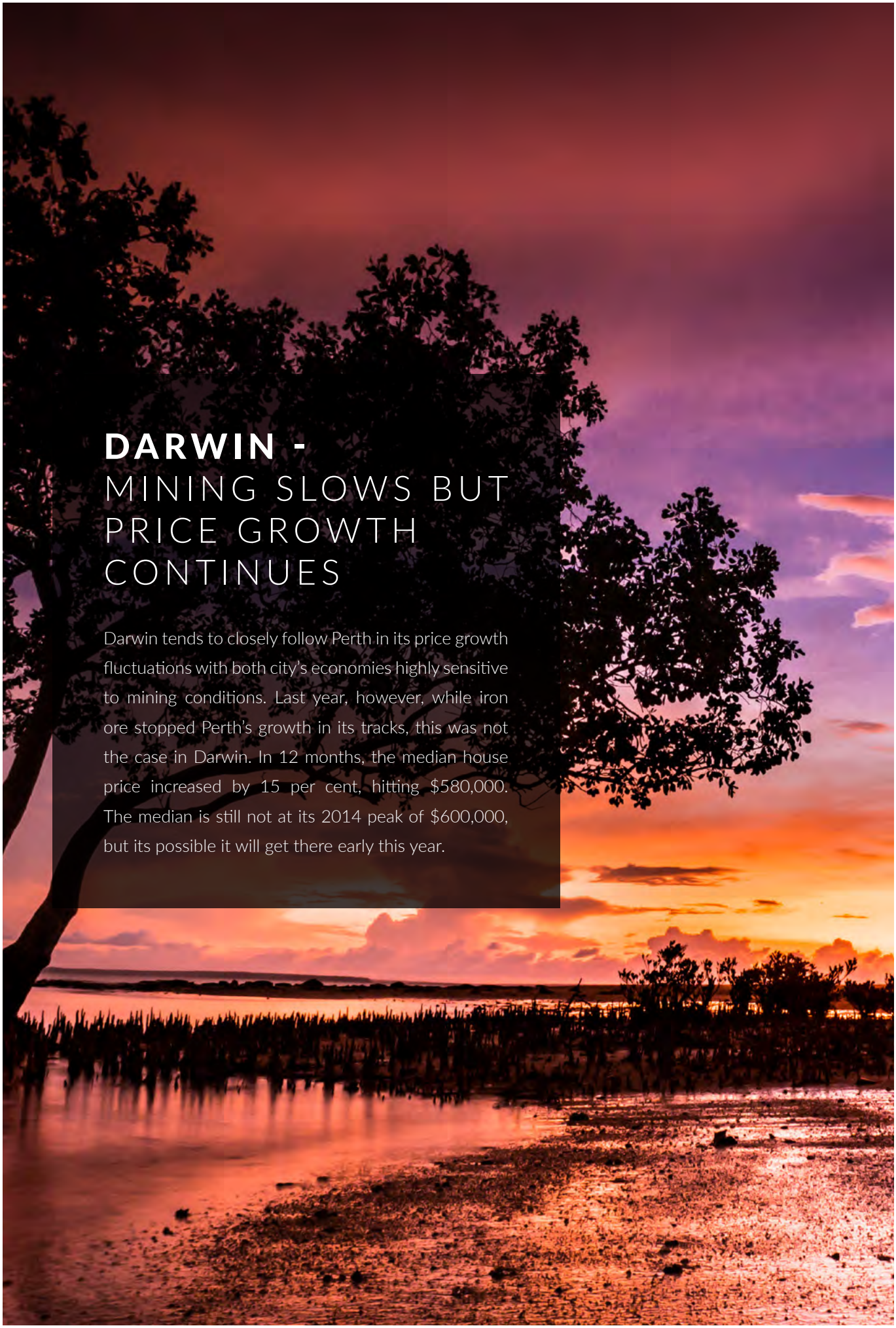
Prior to the pandemic, it seemed unlikely that Canberra would hit a $1 million median for a very long time. The city has always been relatively expensive, thanks to the highest average wages in Australia but it was still small and driven primarily by low growth government employment.

With the pandemic driving an unprecedented need for more public servants, Canberra hit its highest level of quarterly median house price growth ever recorded at the end of 2021. Prices grew by 16.9 per cent in just three months to hit a median of $1.07 million. O'Malley saw its median jump by $1 million while Forrest became the first suburb to hit a median over $3 million. Prices however also rose rapidly at lower price points.

While prices have risen rapidly, so too have rents. House rents have jumped 13.3 per cent, while units have increased 6.5 per cent. There will continue to be more pressure on these in 2022 if this pandemic continues and added to this will be pressure from population growth following the reopening of international borders. This will continue to make conditions tough for renters but will kick start a new construction phase which should settle down rental growth longer term.

Canberra tends to be less sensitive to interest rate talk than bigger cities and as a result, the strong price growth trajectory is likely to continue for a while longer. Beyond that, it will depend on the course of the pandemic, as well as the upcoming federal election.





DARWIN - MINING SLOWS BUT PRICE GROWTH CONTINUES

Darwin tends to closely follow Perth in its price growth fluctuations with both city's economies highly sensitive to mining conditions. Last year, however, while iron ore stopped Perth's growth in its tracks, this was not the case in Darwin. In 12 months, the median house price increased by 15 per cent, hitting $580,000. The median is still not at its 2014 peak of $600,000, but its possible it will get there early this year.

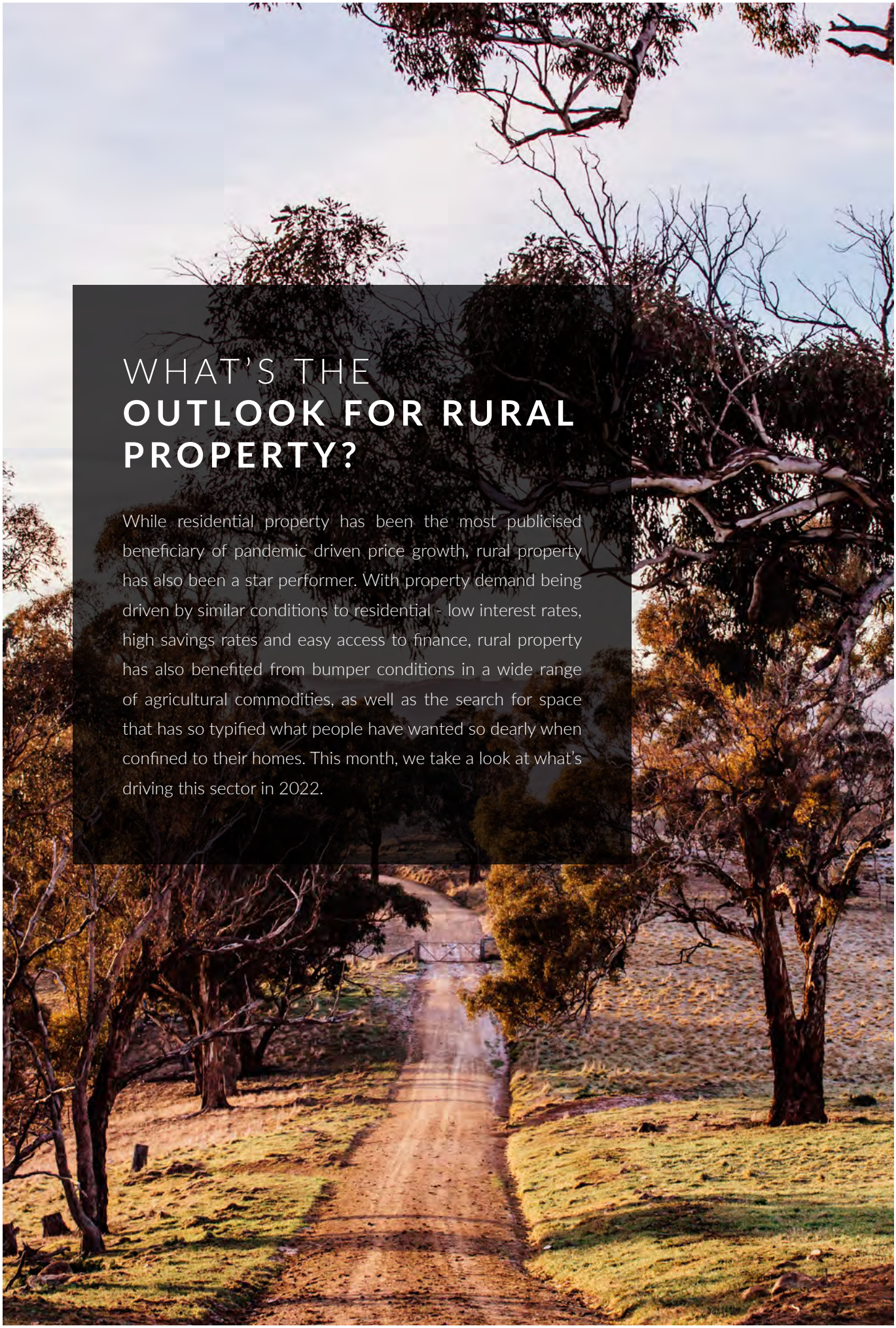
The difference between market conditions in Perth and Darwin can be explained by the type of resources they export. Perth's dependency on iron ore resulted in weaker conditions when that commodity's price dropped late last year. Meanwhile, Darwin's main export is natural gas which continues to see a global shortage. This high demand situation is flowing through to employment, higher levels of wealth and by extension, house prices.

What's the outlook for Darwin? It does seem likely that the 2014 peak will be hit in the coming months. Demand for natural gas remains high and Darwin is less sensitive to interest rate talk. Also positive is the high rental growth being experienced in Darwin. With international borders reopening, rental growth is assured.

Rental levels have increased sharply in Darwin during the pandemic

House and unit weekly rents, 2006 to 2021

Source: Corelogic, Ray White



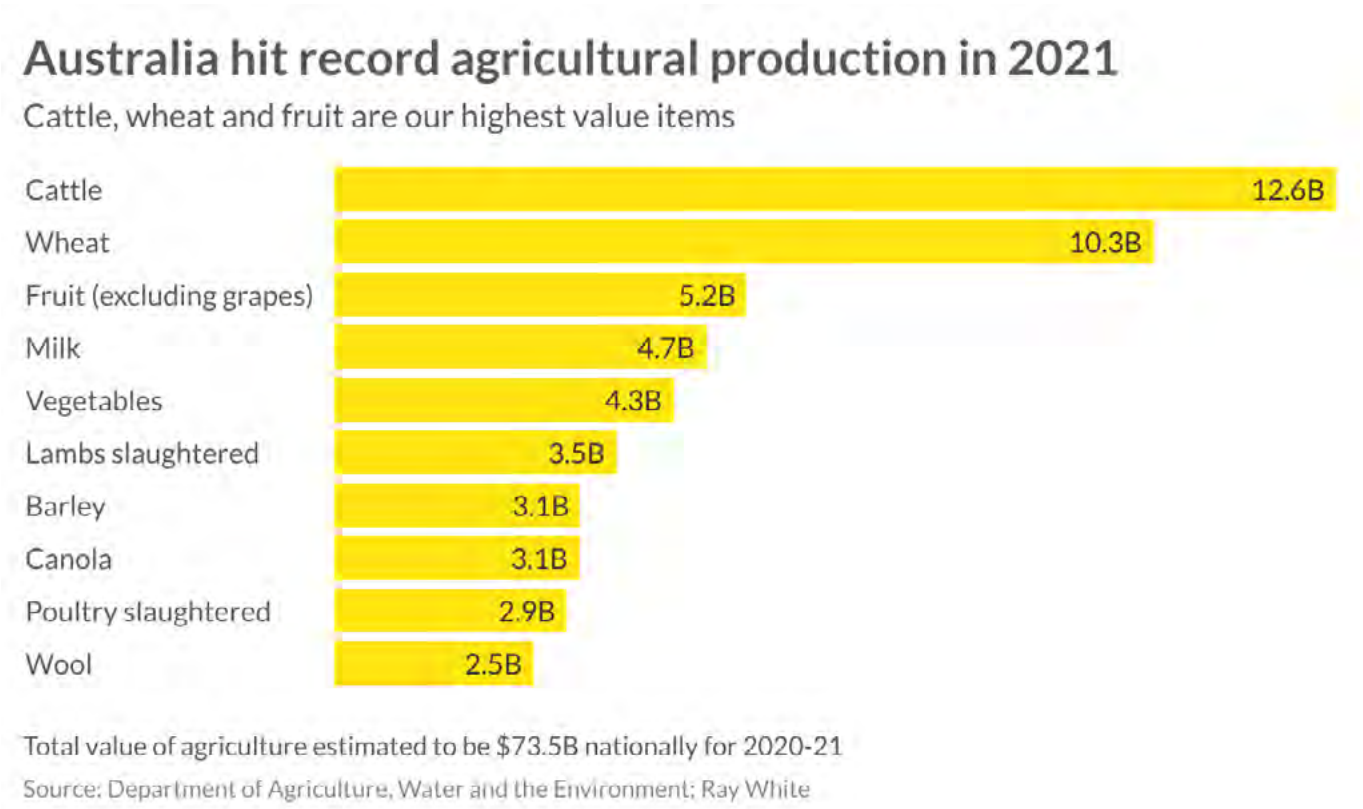
WHAT'S THE **OUTLOOK FOR RURAL PROPERTY?**

While residential property has been the most publicised beneficiary of pandemic driven price growth, rural property has also been a star performer. With property demand being driven by similar conditions to residential - low interest rates, high savings rates and easy access to finance, rural property has also benefited from bumper conditions in a wide range of agricultural commodities, as well as the search for space that has so typified what people have wanted so dearly when confined to their homes. This month, we take a look at what's driving this sector in 2022.

1. AUSTRALIA HITS RECORD AGRICULTURAL PRODUCTION

Australian agricultural production hit a record in 2021, hitting an estimated value of $73.5 billion. Most commodity types saw increases, driven not just by increased demand globally, but also supply chain disruptions pushing up prices, and COVID-19 infection problems overseas that tended to be much more severe than Australia. In 2021, great weather in Australia really helped, particularly at a time when many other places didn't have such great conditions.

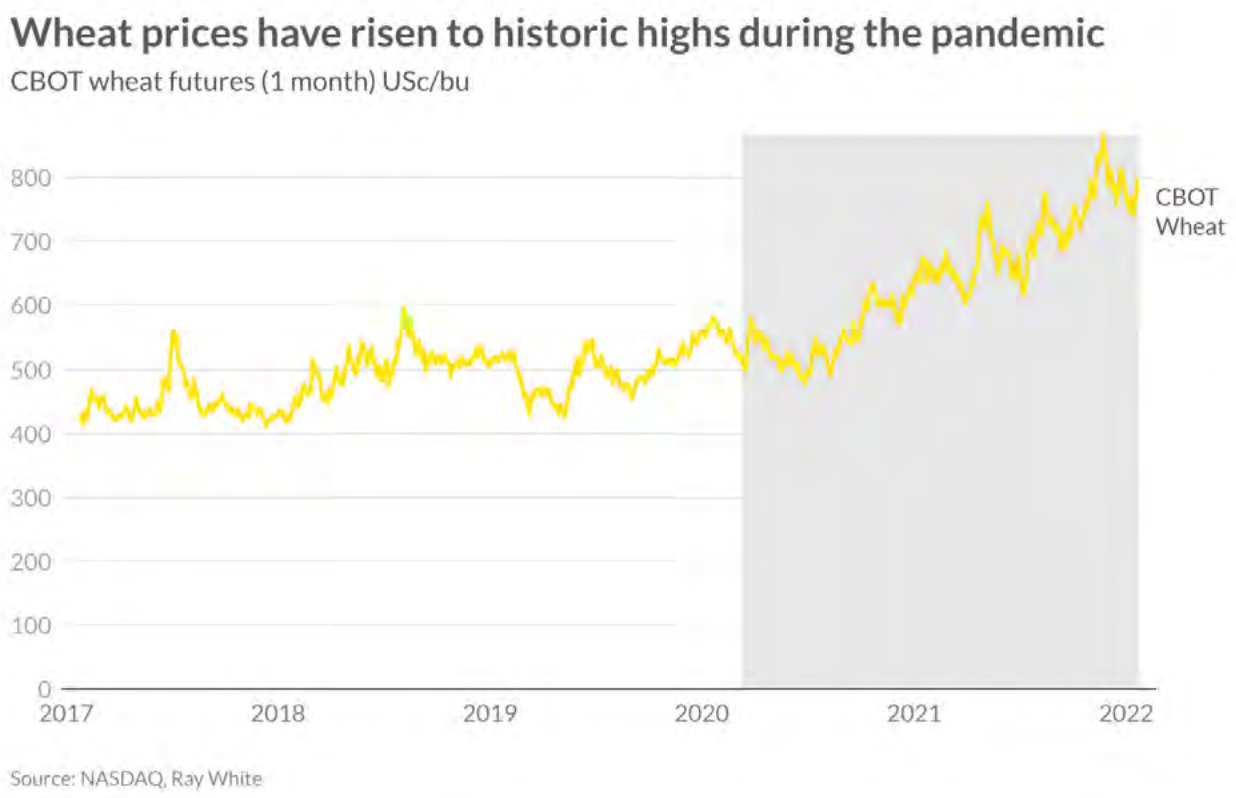
There has long been a saying that "Australia rides on the sheep's back", however sheep farming is no longer anywhere near our biggest agricultural output. That has now well and truly been overtaken by beef and wheat. And in 2021, both of these sectors had particularly strong market conditions.



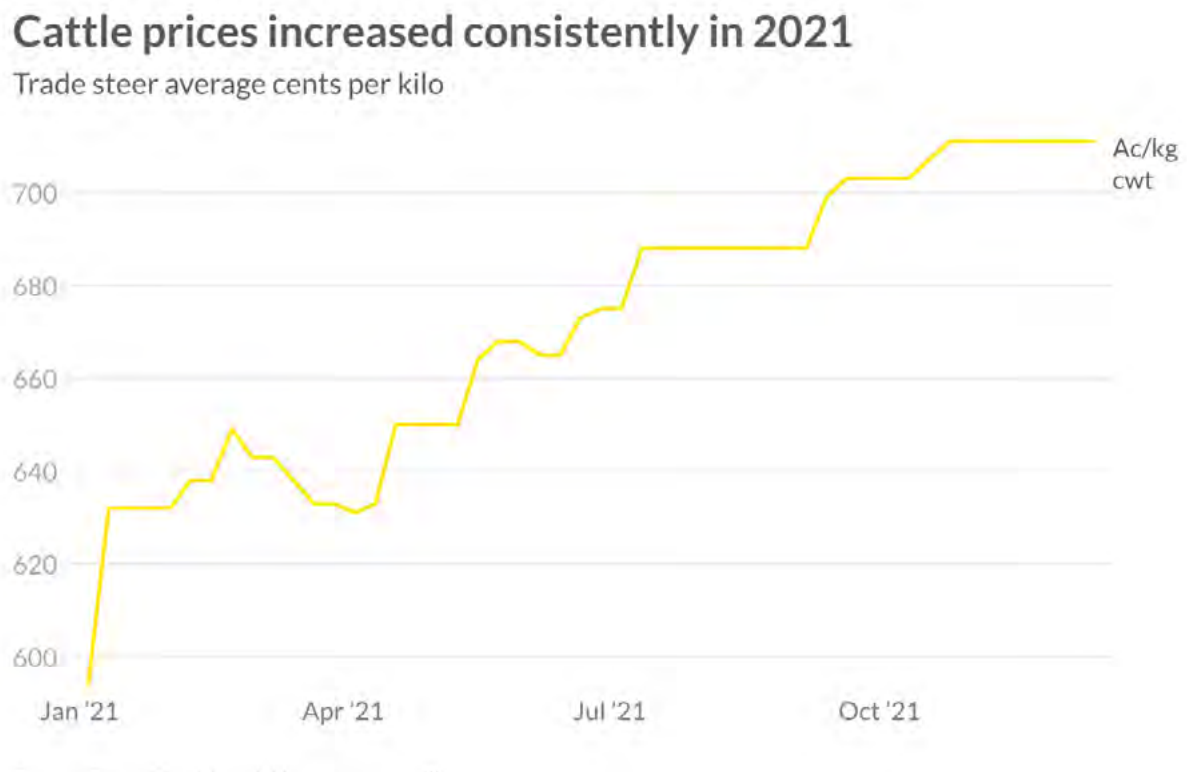
2. COMMODITY PRICES PUSHING UP HOUSE PRICES

The South Australian economy saw the strongest growth of all states in 2021 and it was agriculture that drove it there. In other states, we saw a similar trend - agriculture has been a driver of economic growth during the pandemic, at a time when many other sectors pulled back.

Strong growth in commodity prices for many agricultural products have flowed through to economic growth at a state level but has also pushed up residential prices in many towns that rely on these commodities. The West Australian wheat belt, which produces more wheat than anywhere else in Australia, saw the median house price jump 31 per cent since the start of the pandemic, driven significantly by wealth gains as a result of strong wheat prices.



Like wheat, beef prices have also done well and this flowed through to many beef producing regions. The Queensland outback, where around a quarter of beef cattle live, saw median house prices increase by 40 per cent.



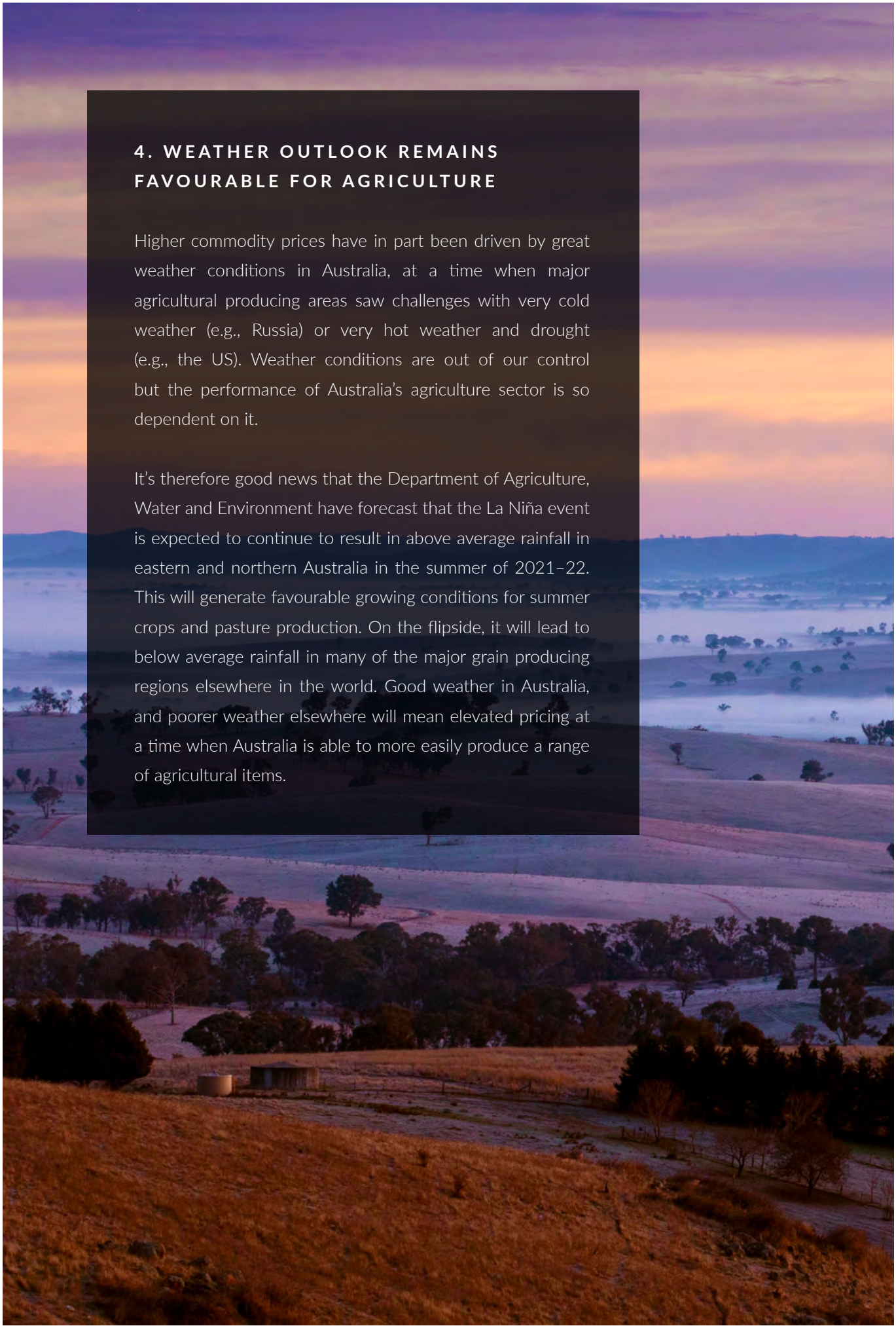
Overall the outlook for commodity prices, as well as production, remains positive. Rural Bank, in their 2022 outlook across all agricultural commodities, outlined that the main challenge was going to be access to labour. With migration levels still very low, it's expected to most significantly hit the horticulture sector.

3. RISE IN FARM PRICES

While high commodity prices have flowed through to house prices in many regional communities, it has of course also driven up farm prices. Rural Bank has been tracking median farm prices since 1995. Since then, farm prices have risen from $1,000 a hectare to $6,000 per hectare. Like with most property types, COVID-19 has driven a sharp acceleration. This is not just because farms have become more profitable over the past two years, but also because of similar things that drove the housing market - very low interest rates, much easier access to finance and very high savings rates.

The majority of demand has come from local buyers. Over the past five years, the proportion of foreign owned land has increased only slightly from 13.6 per cent to 13.8 per cent. Reopening of international borders may change this, particularly given the strong performance of agricultural commodities in Australia over the past two years.

The outlook for farm prices remains strong. Values are expected to continue to grow off the back of strong demand, increasing profitability, strong commodity prices and low interest rates. Fewer transactions are also taking place due to consolidation of parcels and longer holding times.



4. WEATHER OUTLOOK REMAINS FAVOURABLE FOR AGRICULTURE

Higher commodity prices have in part been driven by great weather conditions in Australia, at a time when major agricultural producing areas saw challenges with very cold weather (e.g., Russia) or very hot weather and drought (e.g., the US). Weather conditions are out of our control but the performance of Australia's agriculture sector is so dependent on it.

It's therefore good news that the Department of Agriculture, Water and Environment have forecast that the La Niña event is expected to continue to result in above average rainfall in eastern and northern Australia in the summer of 2021–22. This will generate favourable growing conditions for summer crops and pasture production. On the flipside, it will lead to below average rainfall in many of the major grain producing regions elsewhere in the world. Good weather in Australia, and poorer weather elsewhere will mean elevated pricing at a time when Australia is able to more easily produce a range of agricultural items.

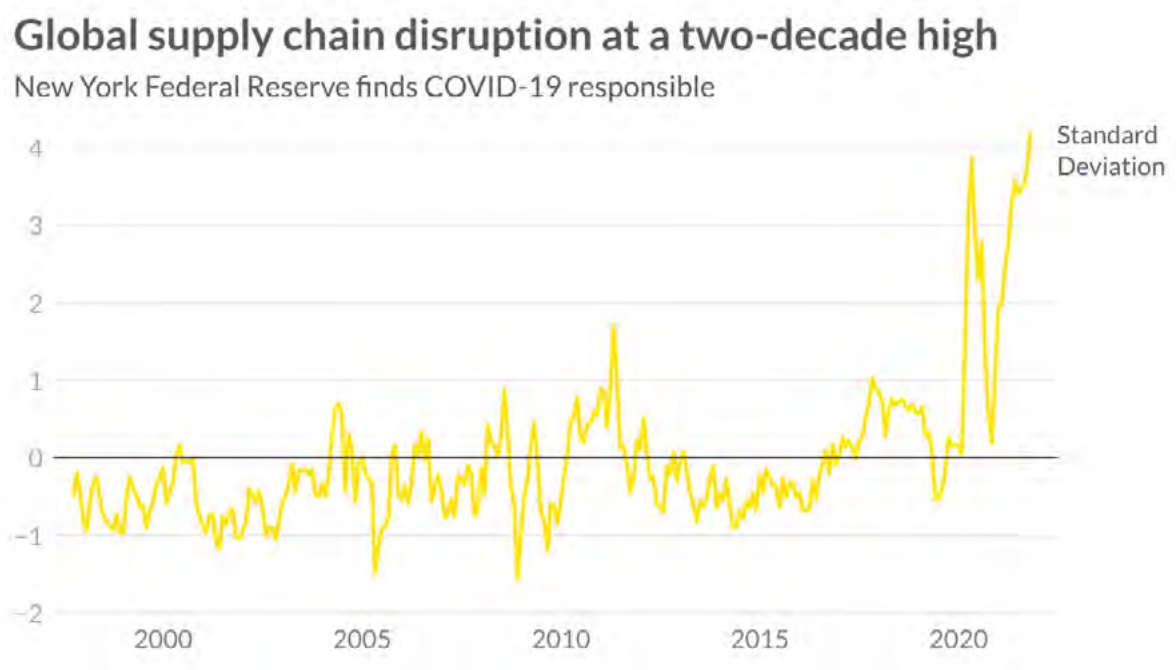
5. GLOBAL TRENDS IN TRADE - SUPPLY CHAIN DISRUPTIONS CONTINUE

It's clear we're seeing some pretty challenging times with global supply chain disruptions. The Global Supply Chain Pressure Index prepared by the New York Federal Reserve is currently showing the highest level of disruption ever recorded.

Supply chains are stuck, impacted by capacity challenges driven by a world economy that is coming back to life after two years of relatively low levels of activity. This is making things more expensive and difficult to obtain. This is flowing on to prices, and may trigger an earlier than hoped interest rate increase.

For the agricultural sector, it's particularly challenging at many stages of production. High freight costs are making inputs to production more expensive, as well as forcing up prices of agricultural products. Perishable items such as horticulture are not only getting hit by difficulties in finding labour but also by difficulties in delivering their products. Urea, a major input to fertiliser, is becoming very expensive not just because of supply chain problems but also because of a ban by China of exports to Australia.

At this point, it's difficult to estimate when supply tangles will unwind. Unfortunately, most predictions are for continued challenges for most of 2022.



Global Supply Chain Pressure Index (GSCPI) uses shipping container volumes and costs, air freight volumes and costs, delivery times and backlogs, as well as purchasing volumes.

Source: Ray White, New York Federal Reserve

6. LIFESTYLE PROPERTY DEMAND REMAINS STRONG

While a strong performing agricultural sector has driven up the prices of many farms and houses in regional towns, strong demand for lifestyle properties has also played a role. We have never seen so much movement to regional Australia - there were lots of things driving this, but the search for space was a big one, as was rising demand for second homes and changes in the way people work. This change in demand extended to homes on big properties in some of the most beautiful parts of regional Australia.

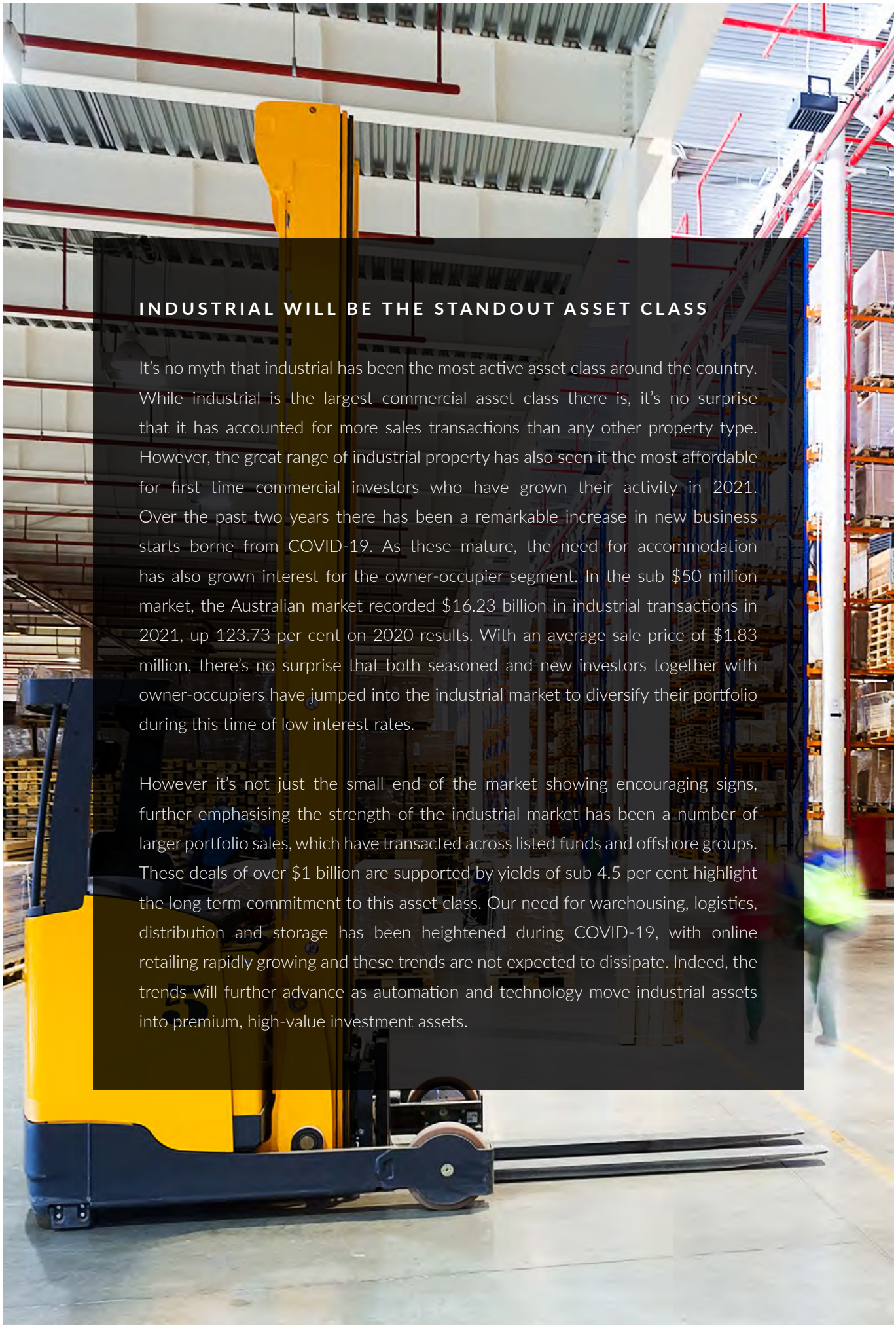
The regional areas that saw the most price growth in 2021 were predominantly in New South Wales, although Sunshine Coast and Gold Coast in Queensland also made the list. The Southern Highlands and Shoalhaven saw the biggest jump with the median jumping by almost $320,000 during the year. Berrima's median increased by double that to reach well over $1.8 million.

Other areas that not only contain a large number of lifestyle properties, and also saw strong price growth, included the Richmond-Tweed area, particularly the Byron hinterland, as well as the Hunter Valley.

Demand for lifestyle properties is set to continue, although it is likely that price growth will slow in line with more stable property market conditions expected in 2022.

MYTHBUSTERS - COMMERCIAL PROPERTY EDITION

With the onset of COVID-19 changing the way in which we interact with commercial property, there was a lot of speculation around which asset classes would be the "winners and losers". We heard the discussion surrounding the future of office markets and retail shops given the lockdowns and work from home mandates. Online shopping was expected to change the face of industrial not only for large distribution facilities but smaller last mile warehousing requirements, while the push to buy Australian saw small business and manufacturing would also stimulate this market. As we approach two years on from our first Australian lockdowns, what have the impacts of COVID-19 been on commercial property?



INDUSTRIAL WILL BE THE STANDOUT ASSET CLASS

It's no myth that industrial has been the most active asset class around the country. While industrial is the largest commercial asset class there is, it's no surprise that it has accounted for more sales transactions than any other property type. However, the great range of industrial property has also seen it the most affordable for first time commercial investors who have grown their activity in 2021. Over the past two years there has been a remarkable increase in new business starts borne from COVID-19. As these mature, the need for accommodation has also grown interest for the owner-occupier segment. In the sub $50 million market, the Australian market recorded $16.23 billion in industrial transactions in 2021, up 123.73 per cent on 2020 results. With an average sale price of $1.83 million, there's no surprise that both seasoned and new investors together with owner-occupiers have jumped into the industrial market to diversify their portfolio during this time of low interest rates.

However it's not just the small end of the market showing encouraging signs, further emphasising the strength of the industrial market has been a number of larger portfolio sales, which have transacted across listed funds and offshore groups. These deals of over $1 billion are supported by yields of sub 4.5 per cent highlight the long term commitment to this asset class. Our need for warehousing, logistics, distribution and storage has been heightened during COVID-19, with online retailing rapidly growing and these trends are not expected to dissipate. Indeed, the trends will further advance as automation and technology move industrial assets into premium, high-value investment assets.

WORKING FROM HOME WILL KILL THE OFFICE MARKET

This looks to be busted! While occupancy levels in many major CBD markets were sub 20 per cent for parts of 2020 and 2021, this has been more of a pause than overall changing trend. While not all businesses have been able to weather the COVID-19 storm and have needed to hand back office space or reduce their requirements, we expect this to be a short-term blip on the office radar, which will see vacancy rates increase and impact income levels. However this will be a short to medium term shift in fundamentals for the office market and hasn't dampened investment demand, which highlights the longer term confidence in office assets.

There's no doubt that COVID-19 changes the way in which we interact with office space, with reduced footprints likely as more employers embrace working from home, while various working models may see more suburban offerings or shared office space an option for some businesses. In 2021, we saw a strong growth in owner-occupier purchased office space with small businesses looking for an alternative to working from home, yet still being close to home. This resulted in $8.55 billion in office sales (sub $50 million) in 2021 across Australia, up 103 per cent on 2020 volumes, while some investors saw strength in tenanted investments with yields of sub 5.5 per cent achieved in some locations. Across the larger end of town, landmark sales in various CBDs again exceeding $1 billion continued to transact with yields as low as four per cent being achieved, as domestic and international funds vie for a piece of premium office stock. These results further highlight the longer term robustness of the office market.

RETAIL IS DEAD

There has been a lot of talk about the future of retail well before the onset of COVID-19 saw retailers have to close their doors. While this has been a difficult time for the retail industry it's safe to say that this myth is also busted, however, location is definitely a factor. We had already witnessed a push towards online retailing, and growing vacancies in our retail strips and centres impacted rents significantly. Some occupiers have changed the way they interact with their customers, providing concept stores and in-store experiences while transacting online. In addition, the growing food segment in mix-retail locations that were striving to become "foodie destinations" were impacted by COVID-19 restaurant closures.

All in all, results for the retail market have been mixed with many suburban locations benefitting from the working from home population growing, while CBD locations close their doors. Many food retailers also found it difficult to navigate the changing regulations, and vacancies have been up across many regions. However, savvy owners have looked to reposition their retail assets if traditional retail tenants haven't been available and subsequently we have seen a large increase in medical users taking up retail spaces. Larger footprints have also been ripe for redevelopment into childcare, fitness/activity spaces or other uses. Despite the challenges, we continue to see buyers eager to purchase these assets. In 2021 Australia saw $8.65 billion (sub $50 million assets) change hands, nearly a 100 per cent increase on 2020 results. Smaller holdings have been attractive to investors with yields ranging from four to seven per cent depending on the quality of asset and tenant, making this a lucrative investment proposition. Similarly, convenience retailing and small centres anchored by supermarkets have recorded robust results given the growth in this segment, however larger centres have seen limited transactional activity over the past 18 months.

ABOUT **RAY WHITE**

Ray White is a fourth generation family owned and led business. It was established in 1902 in the small Queensland country town of Crows Nest, and has grown into Australasia's most successful real estate business, with more than 930 franchised offices across Australia, New Zealand, Indonesia and Hong Kong.

Ray White today spans residential, commercial and rural property as well as marine and other specialist businesses. Now more than ever, the depth of experience and the breadth of Australasia's largest real estate group brings unrivalled value to our customers. A group that has thrived through many periods of volatility, and one that will provide the strongest level of support to enable its customers make the best real estate decisions.

Ray White's first auction house, 'The Shed' Crows Nest, Queensland.

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