RAY WHITE **NOW**

APRIL 2022

PROUDLY PRESENTING PROPERTY MARKET INSIGHTS IN REAL-TIME

MESSAGE FROM OUR **MANAGING DIRECTOR**

Over the past few months, it's been fascinating to witness the shift in media reporting on the state of the Australian property market. It has quickly become foreboding. True, it's not as foreboding as it was this time two years ago when media commentators were unanimous in predicting a drop in property values of up to 30 per cent (only for them to rise by 30 per cent!). However, the overall message being presented is clear and consistent that the market is struggling.

It's true that the dynamics of the market have changed since the start of this year. The simplest way to illustrate this is to look at listing numbers and sales numbers. Across Australia, we listed 7,700 properties for sale in March and sold 6,100. In the same month last year, we listed 7,300 properties for sale and sold 6,900. The average number of active bidders per auction fell from 3.5 last March to three in March this year.

The problem with the above paragraph is that it lacks any meaningful context. It simply compares current activity against what was the most remarkable period of real estate activity in this country's history. For context, we sold $6.7 billion worth of property in Australia in March, which was $300 million more than the value of property sold as of March 2021 (highlighting the increase in property prices over the past 12 months). It was our biggest March result ever, and our second biggest month ever. While our average bidder numbers dropped, they're the highest numbers recorded at any time other than in 2021.

Clearly, as reported, the prospects of increasing interest rates is a downside risk for our housing markets. We've always believed that community expectations of where interest rates are going is more important than any actual interest rates movements. Is it fair to think that current buyers are already factoring in higher interest rates in their decision making, given the extensive amount of media commentary on the subject? If so, how much higher?

If and when interest rates change, we will discover answers to these questions.

We know that most of our customers sell and then buy in the same market. Accordingly, ensuring that every sale campaign obtains the best possible result available in the market is critical to creating value for our customers. We trust that the information available in this edition of Ray White Now, together with the knowledge and commitment of our local members, empowers all of our customers in their decision making.

Dan White
Managing Director
Ray White Group

RAY WHITE NOW **THIS MONTH**

This time last year, you could've bought anywhere and be almost guaranteed a capital gain on your property. This year, conditions are far more complicated.

In Melbourne and Sydney, prices are stabilising while in other cities, price growth is not quite as strong as it was in the final quarter of 2021. Interest rate talk continues and although we're yet to see a rate rise, banks are now starting to move on fixed rates in anticipation of rates increasing sooner rather than later. The federal election is imminent and housing affordability is likely to be a key policy battleground.

Finally, with lockdowns no longer on the horizon and international borders reopen, we're no longer saving as much as we did over the past two years. It also means Australian population growth will pick up again. All of these change the outlook for property.

This month in Ray White Now, we explore some of the reasons why so many of our customers are selling in the current market, and we detail who the main winners are from a slowing market. It isn't just first home buyers that like more stable conditions.

I also provide details on the markets that I'm watching closely, which include some that have been top performers (and should continue to be), and some that haven't benefited at all from the boom time conditions we've seen over the past two years. Finally, for those of you interested in commercial property, we take a look at properties that can be purchased for the same price as a residential investment.

We hope you enjoy our latest Ray White Now and we look forward to your feedback on the topics that interest you.

Nerida Conisbee
Chief Economist
Ray White Group

Cover photo
53 Birkalla Street Bulimba, QLD 4171
Auction on site 7 May 2022 at 10:00am
Matt Lancashire - 0416 476 480 | George Petavrakis - 0450 909 075
Ray White New Farm

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Angela Lemanio

WHY SELL **NOW?**

Now we're firmly in election mode in the run up to 21 May, many people may be wondering if there's any expected impact on the Australian property market if there's a change in government. The short answer is it's still too early to say as we're still waiting on policy announcements. The main driver that has the potential to impact the market is the official cash rate moving up and we do know that the Reserve Bank of Australia's (RBA) decade without a rate rise is coming to an end, possibly as early as June. When the board of the RBA left the cash rate at 0.1 per cent in April, it marked the 137th month without a rate rise.

The RBA governor's statement left out one word – "patient" – in his notes after the April announcement not to increase the rate. The governor's statement usually ends with a line saying (as it did last month): "The Board is prepared to be patient as it monitors how the various factors affecting inflation in Australia evolve." This month, however, the statement ended with "The Board will assess this and other incoming information as it sets policy to support full employment in Australia and inflation outcomes consistent with the target."

Although underlying inflation, at 2.6 per cent, is slightly above the middle of the RBA's target range, the RBA remains uncertain as to whether core inflation will remain in the target range, given the potential for higher energy costs and supply side issues to be transitory.

The outlook for wages growth is another key area of uncertainty, with the RBA noting they still expect a pickup in wages growth to only be gradual. On the housing front, the RBA notes some housing markets have eased recently. All the major home value indices show this slowdown is evident across most of the capital cities and regional markets, although conditions are becoming increasingly diverse.

The good news for home owners is that variable mortgage rates are set to remain at their historically low settings for at least another month. On the other hand, fixed term mortgage rates are consistently rising, reflecting expectations for a higher future cost of debt. The rise in fixed term mortgage rates is just one of the factors contributing to a gradual slowdown in the rate of housing value growth. Other factors working to slow the housing market include affordability constraints, a lower rate of household saving, lower consumer sentiment and higher supply levels in some cities.

WHO BENEFITS THE MOST FROM A SLOWING PROPERTY MARKET?

The end of the pandemic has sparked the end of runaway price growth and, as we head into winter, we're now starting to see conditions stabilise. Prices are still increasing across most capital cities, albeit at a slower rate. In Perth, Sydney and Melbourne, we've seen them soften over the first quarter of 2022. This switch to a more balanced market is good news for many people looking to buy and sell.

Price growth is now slowing across all capital cities

Median price growth - this quarter compared to previous quarter

City	Sept-Dec	Jan-Mar
Darwin	1.8%	1.7%
Canberra	11.6%	9.5%
Hobart	7.1%	4.3%
Adelaide	10.9%	7.2%
Perth	4.1%	−3.0%
Sydney	5.3%	−3.3%
Brisbane	12.4%	3.4%
Melbourne	12.1%	−3.6%

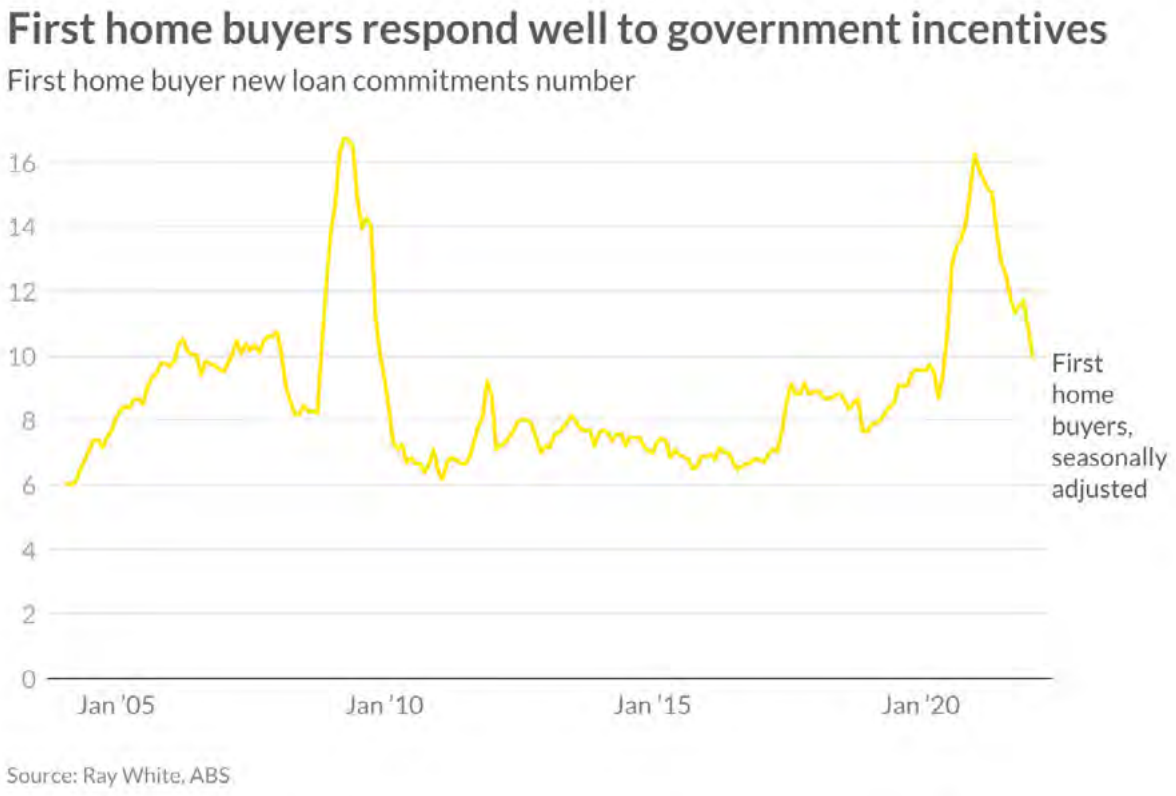
Source: Ray White, Corelogic

FIRST HOME BUYERS

First home buyers were very active in 2020, despite the pandemic, a recession and a sharp rise in unemployment. So much so, first home buyer purchases hit the second highest number on record and hit their highest level ever recorded in Victoria, Western Australia and Canberra.

The end of sharp price rises will be a welcome relief for most first home buyers who tend to not transact as much in fast moving markets. In addition to a slower market, many first home buyers will also benefit from the extended loan guarantee scheme announced in the recent Federal Budget. The third driver of more interest from first home buyers is rising rental levels which could make buying a home a better option.

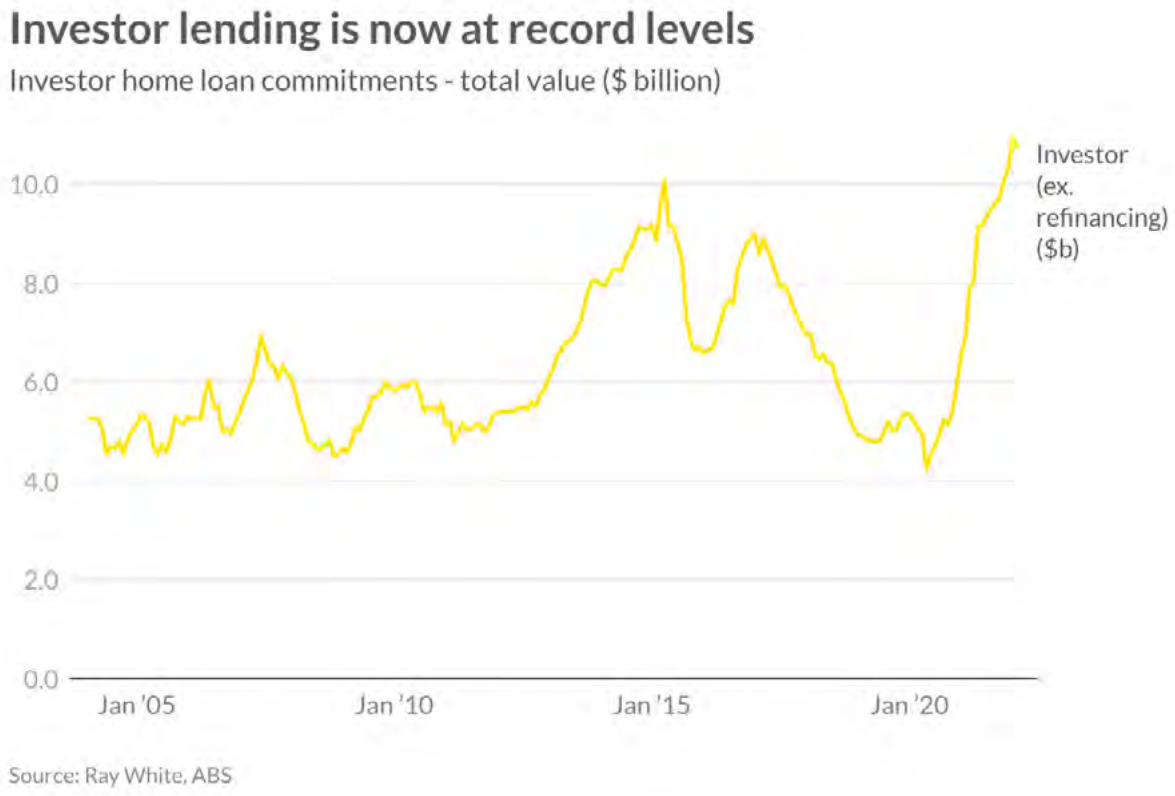
As a result, the steady fall we've seen in first home buyers since the start of last year is likely to start to stabilise this year.



INVESTORS

Unlike first home buyers, investors transact readily in a fast moving market. As a result, as first home buyers started to drop off as the market got too hot, more investors piled in. Generally as prices cool, we generally expect that investors will also pull back. This, however, may not occur as much as in previous cycles.

The first reason that investors are likely to continue to transact is that finance restrictions are still light. Even though interest rates may rise earlier than hoped, access to finance through other restrictions aren't looking likely to change. The second is that rents are rising rapidly. Even with price growth slowing, tenancy conditions are solid which means finding a tenant at a decent rental level is likely to be easier.



SELLERS

Most sellers are subsequent buyers. As such, while in a strong growth market sellers are usually buoyed by prices moving quickly, many find it stressful to buy back in once they've sold. In 2021, we saw many suburbs jump by well over 15 per cent within a three month period. Worst case, some recent sellers may have been in a situation where they could not afford to buy back their recently sold home by the time they settle. For a seller that's a subsequent buyer, a slower moving market makes it easier to transact. There isn't such a rush to buy a new home immediately upon selling.

LONG-TERM HOLDERS

The last two years have been a great time for house flippers. Buying and selling while taking advantage of leverage has resulted in some investors doing very well over a short time period, even without making any improvements to a property.

The investors that do well long-term are those that don't house flip. House flipping, while lucrative in a rising market, is problematic in a slow market and many get caught out when market conditions change. For long-term holders of property, even buying at the peak of the market rarely creates problems as it's then possible to ride different cycles over a prolonged time period.

As an example, the worst downturn we've seen was in Sydney following the Global Financial Crisis. Prices dropped by 17 per cent between peaking in December 2007 and then bottoming out in February 2009. A purchase made at the peak, however, would've completely recovered in value by December 2009 and two years later would've achieved price growth of over 14 per cent in the following 12 months. A house bought in December 2007 would on average be worth 2.5 times more now than what was paid at that peak.

CHIEF ECONOMIST'S MARKETS TO **WATCH IN 2022**

Last year, you could've bought anywhere and seen the value of your property rise. This year, conditions are more complicated. These are the areas that I'm watching closely.

MELBOURNE CBD APARTMENT MARKET

The pandemic led to a net loss of more than 6,000 people from Melbourne CBD and not surprisingly this resulted in a dramatic decline in rental levels and prices. Through the pandemic, apartment rents dropped from $507.50 per week to $360 per week while the median sale price declined from $585,000 to $420,000. With both prices and rents dropping by almost 30 per cent, it's certainly been a challenging time for the city.

While the general advice when investing is to buy at the bottom of the market and sell at the top, it's advice that only investors with a high risk tolerance tend to take. As Melbourne was grappling with prolonged lockdowns, a shutdown CBD retail sector and a loss of foreign students, it was one of the few markets that was locked out of the pandemic-driven price boom.

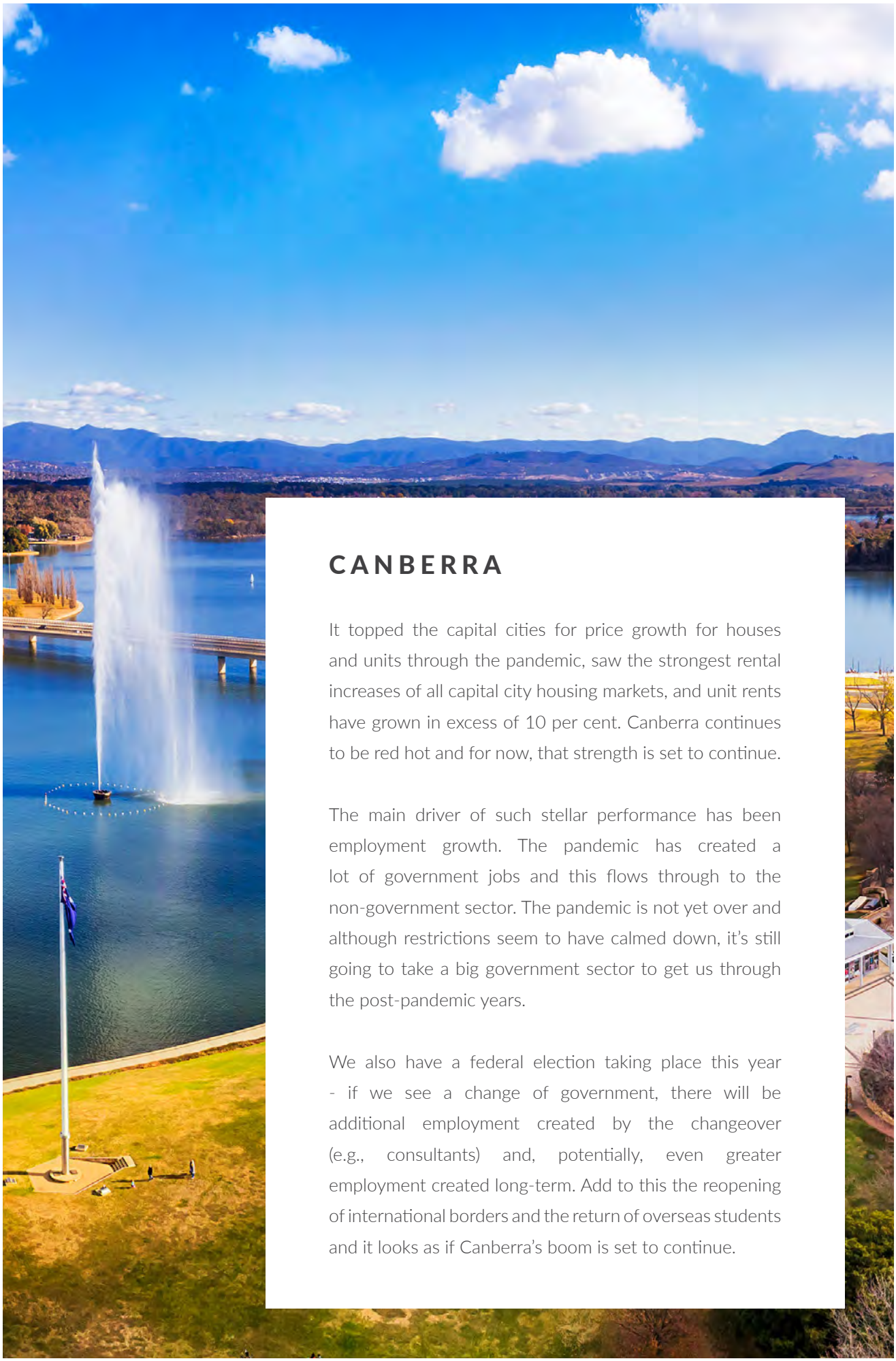
The market for apartments in Melbourne has now turned a corner. Foreign students are coming back, office workers are returning and the retail precinct is slowly but surely coming back to life. This means that more people will return to live in the CBD and this will push up rents and values.

REGIONAL AREAS CLOSE TO CAPITAL CITIES

The pandemic sparked a regional property boom, driven by: a search for space, stronger demand for holiday homes, and of course changes to the way we work. As life slowly gets back to normal, demand for regional properties will settle down and price growth is unlikely to be so red hot. Nevertheless, there are many regional areas that will continue to see positive conditions and those are the areas located close to capital cities.

Prior to the pandemic, regional areas close to capital cities were already seeing strong growth. Places like the Illawarra, Geelong, Sunshine Coast and Gold Coast were achieving house price growth far in excess of the capital city average. Significant government infrastructure investment was taking place and this flowed through to population growth. Affordability relative to the closest capital city was attractive to younger people.

As we've seen in the most recent Federal Budget, investment to regional areas is continuing and connectivity in such as fast rail and better roads is a major focus. It's unlikely that price growth in 2022 will be the same as last year, however, with continued investment in livability, these areas will continue to be highly desirable for owner-occupiers, investors and renters.



CANBERRA

It topped the capital cities for price growth for houses and units through the pandemic, saw the strongest rental increases of all capital city housing markets, and unit rents have grown in excess of 10 per cent. Canberra continues to be red hot and for now, that strength is set to continue.

The main driver of such stellar performance has been employment growth. The pandemic has created a lot of government jobs and this flows through to the non-government sector. The pandemic is not yet over and although restrictions seem to have calmed down, it's still going to take a big government sector to get us through the post-pandemic years.

We also have a federal election taking place this year - if we see a change of government, there will be additional employment created by the changeover (e.g., consultants) and, potentially, even greater employment created long-term. Add to this the reopening of international borders and the return of overseas students and it looks as if Canberra's boom is set to continue.

MINING TOWNS (GREEN ENERGY MINERALS)

Green energy doesn't require coal or oil but it does require a lot of other minerals. If the world embarks on a course to become carbon-neutral by 2050, that will mean high demand for minerals such as cobalt, copper and nickel. Australia is not just a major producer of coal, gas and iron ore but is also rich in minerals required for green energy.

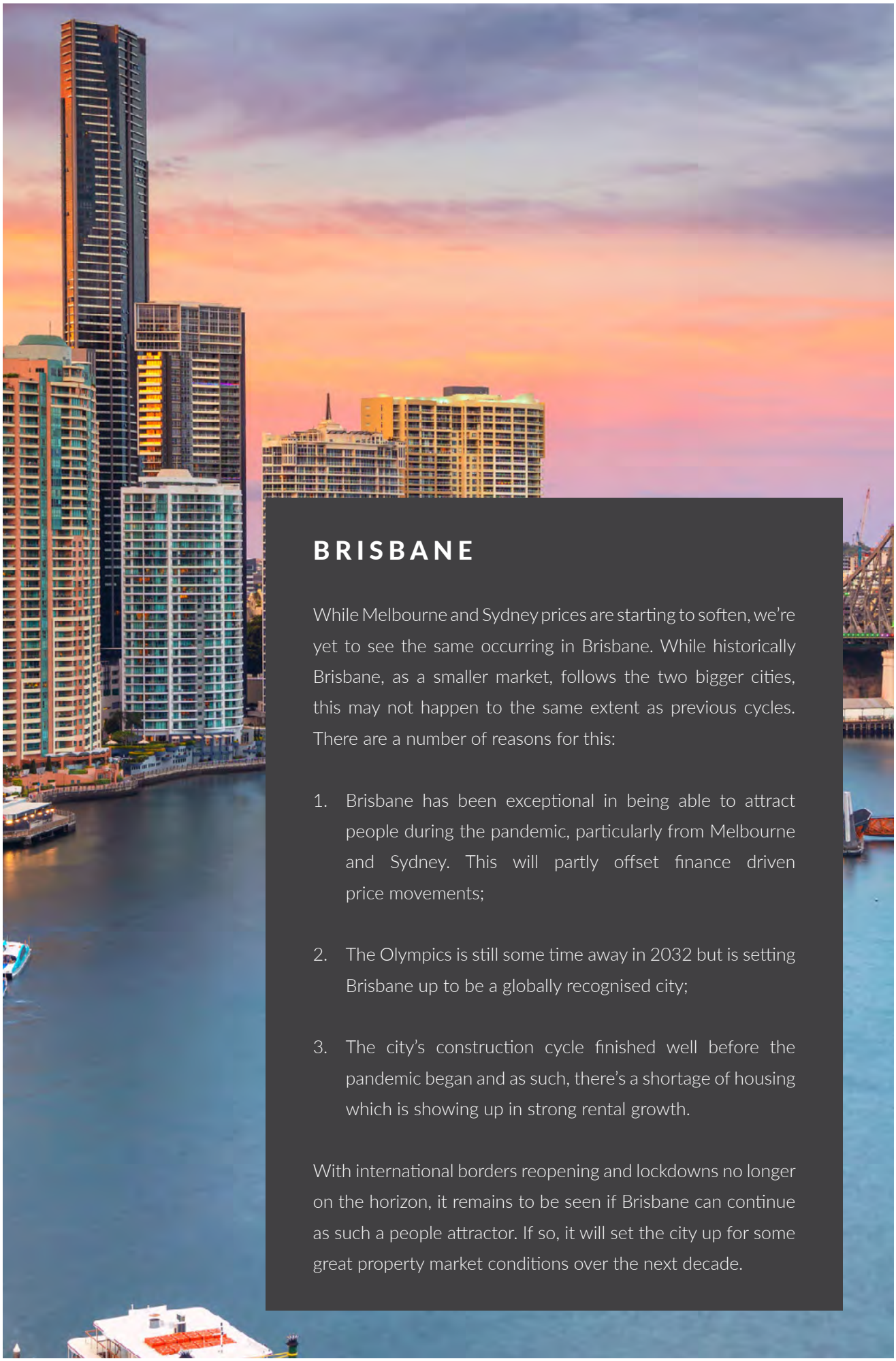
Unlike the other markets to watch, the impact on property is longer term and the areas that will be impacted are variable. Most copper is produced at Olympic Dam in South Australia and Mt Isa in Queensland. Most lithium is located near Greenbushes, 250kms from Perth. In the same way high demand for iron ore led to strong growth in mining towns in places like Port Hedland and Karratha, for areas rich in minerals required for green energy, it's likely that there will be much higher demand for housing and hence a resetting of pricing.

Green Energy Minerals - Where are they mined?

Green energy minerals	Regions
Aluminum	Portland (Victoria), Bell Bay (Tasmania)
Cobalt	Leonora (Western Australia), Fifield (NSW)
Copper	Olympic Dam (South Australia), Mt Isa (Queensland)
Lithium	Greenbushes (Western Australia)
Nickel	Kalgoorlie (Western Australia)
Silver	McKinlay (Queensland), Mt Isa (Queensland)

1. Aluminum smelters have been included, rather than bauxite mines

Source: Ray White



BRISBANE

While Melbourne and Sydney prices are starting to soften, we're yet to see the same occurring in Brisbane. While historically Brisbane, as a smaller market, follows the two bigger cities, this may not happen to the same extent as previous cycles. There are a number of reasons for this:

1. Brisbane has been exceptional in being able to attract people during the pandemic, particularly from Melbourne and Sydney. This will partly offset finance driven price movements;

2. The Olympics is still some time away in 2032 but is setting Brisbane up to be a globally recognised city;

3. The city's construction cycle finished well before the pandemic began and as such, there's a shortage of housing which is showing up in strong rental growth.

With international borders reopening and lockdowns no longer on the horizon, it remains to be seen if Brisbane can continue as such a people attractor. If so, it will set the city up for some great property market conditions over the next decade.

WHAT DOES A $2 MILLION COMMERCIAL **INVESTMENT LOOK LIKE?**

Over the past 18 months we've seen a substantial uptick in private investors and owner-occupiers converge on commercial markets looking to diversify their investment portfolio. Low interest rates, availability of funds due to emerging new lenders and sky-rocketing residential prices are all prompting savvy investors to pivot towards commercial assets. While some markets have been impacted by COVID-19, such as office space and retail, this hasn't dampened demand to buy, with many seeing the pandemic as a small blip in the investment cycle. Assets like industrial property have been hotly contested given its strong performance, while other assets like childcare, fast food, medical, and service stations remain fan favourites.

With this increase in demand for these assets, many investors are quickly being priced out of the market, with new lows in investment yields keeping capital values elevated. However $2 million can still buy you a quality commercial asset across the country. Here are a few examples of where to look at next.

Sydney CBD Strata Office - This asset has had a long history of stagnation, but over the last five years there's been strong capital value growth which hasn't wavered during COVID-19. Despite vacancy levels being elevated across the broader Sydney CBD office market, we've seen good demand at the higher end of the market by both offshore and domestic investor groups, funds, and trusts that highlight the long-term strength of these assets.

Across strata, both investors and owner occupiers have been eagerly competing for the limited assets available. Current average capital values stand at a little more than $14,000/sqm, and the average sale price is just over $2.1million. A 150sqm office suite in Australia's premier office market is affordable within a $2 million price range.

Perth Industrial - Industrial assets have been the standout performer during COVID-19 with significantly increased demand for logistics and warehouse space, while small business growth has also resulted in industrial vacancy levels being low across all states.

Over the past few years we've seen Perth industrial assets grow in popularity with local buyers. However, more recently, the strength in the state's economy has resulted in interstate buyers converging on the various Perth commercial markets. Perth (and most other states) continues to offer quality industrial assets at a range of prices, from smaller industrial warehouse units in the $500,000 and under price range, up to multimillion dollar distribution facilities. The quality and location of assets vary considerably, however, there's a lot of opportunity up to $2 million. From smaller, new industrial unit developments on the more affordable end, to modern freehold investments on the higher end, there's also been a high level of older-style freehold assets transact which shows good affordability mid-range.

Medical/Healthcare Assets - Over the past five years, medical facilities/allied health service assets have grown in popularity across savvy commercial investors who have identified the growing need for space in sectors such as sports and cosmetic medicine. During COVID-19, increased need for pathology saw buyers pounce on this sector of the market, looking to capitalise on high occupancy and growing rents. Our ageing population, as well as health services being used across all age groups has made these properties one to focus on.

This is a trend we're seeing across Australia and high population growth states such as Queensland, Tasmania and Western Australia may have the greater potential however investment demand has been active across all states and prices do vary. However, in the $2 million price range, smaller medical suites can be purchased with larger facilities also possible in some locations.

South East Queensland Retail - While retail assets have received a bad wrap during COVID-19 due to forced closure and strong move to online retailing, we've more recently seen people moving back to bricks and mortar stores - reducing online trade statistics. However, our behaviours towards retail had been changing prior to COVID-19. We've seen retail adapt and move away from clothing and soft goods, to personal goods, services and food in a lot of local centres.

Over the last year we've seen many buyers actively pursuing retail assets despite rising vacancies, with the strong gains in population for South East Queensland being a focus for many investors. Local convenience-based retail continues to do well but prices have risen, making a $2 million investment more difficult. However, our behaviours towards retail had been changing prior to COVID-19.

"Set and Forget" Assets - These are assets offering investors long-term rental returns and are typically assets like service stations, child care, and fast food restaurants, offering the owner a stable income stream. While popularity for these have been high over the past 10 years, causing values to skyrocket and investment yields to plummet, there are still opportunities to be had in this category - however, further up the risk curve. Regional cities across Australia continue to offer value for these types of investments and sales have remained high during late 2020 and 2021. However, opportunities have started to dissipate this year given the likelihood of interest rate rises. These are quality investments if they locationally make sense and the quality of tenant and security of income is high. Also, if investing in these assets, consider an exit strategy - this is more important in a regional city as obsolescence could be a factor

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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