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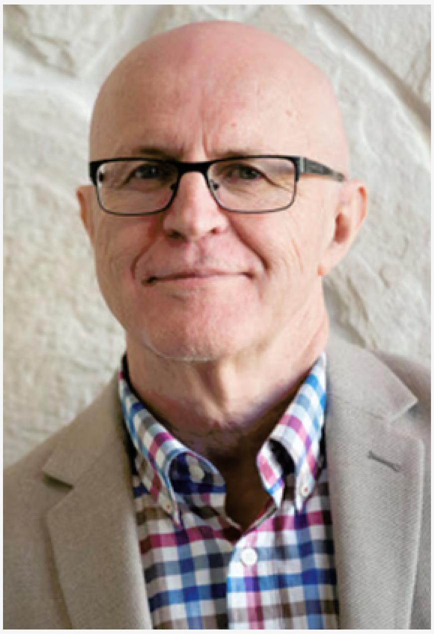
Australian Property Update

June 2024



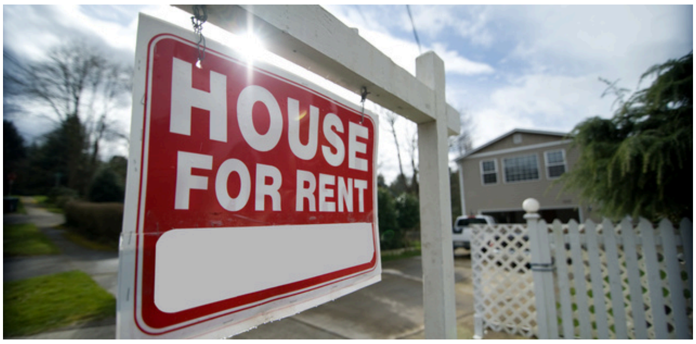
Terry Ryder
Australia's Leading Independent Property Analyst

Why Builders Aren't Building

Home builders and property developers make their money creating new dwellings for Australian households. If they get it right, they can make lots of money doing what they do. When they decide NOT to do what they do, you have to ask why. Why are the builders of major projects of housing or apartments walking away from their plans? Why are big companies who have spent years and millions of dollars planning a major project making the decision not to build? We've seen many instances recently. An example is the decision by AVJennings to abandon a major housing development near Caboolture in the outer northern suburbs of Greater Brisbane. This project would have added 3,500 new homes to an under-supplied market. Brisbane is a market with high demand and a serious shortage of homes. Why would a big developer with a proven track record and the capacity to deliver these kinds of projects make the very big decision to walk away from the project? The answer is: that it's simply not viable. AVJennings said massive cost escalations – including the infrastructure charges imposed by local councils and their long delays in granting approvals – meant projects like this were no longer viable. The new construction code has added tens of thousands of dollars to the cost of building a house, in just the latest example of politicians imposing new policies which add massively to the cost of creating dwellings, at a time of extreme shortage. I have had discussions with developers who say that the cost of creating big residential projects is so high, it's not financially feasible to proceed. They would have to place such a high price on the end product that no one would be able to afford to buy the homes. This is true for high-rise apartment buildings as well as housing estates. It provides further confirmation that all the core problems in the housing industry - the dwelling shortage, deteriorating affordability and the rental crisis - are all caused by our elected representatives.

Population Growth Not Pushing Prices

Migration and population growth are not necessarily to blame for Australia's housing affordability crisis, according to a new analysis by Propertyology. It says it is more a result of a "perfect storm" of factors including labour and material shortages, higher interest rates and increased investor selling, which has resulted in a shortage of supply. Propertyology head of research Simon Pressley says people think population growth is the most dominant factor influencing the property market but it only plays a small role. Using data from the Australian Bureau of Statistics, Propertyology ranked the population growth of 120 cities and municipalities with more than 20,000 residents over the 20 years to June 2023. It compared that against real estate capital growth rates and determined there was no direct correlation between the two metrics. Pressley says in Sydney there have been significant capital gains over the past two decades but the city ranked 43rd on the list of Australia's fastest-growing locations during the same period. The top growth location was the West Australia coastal city of Mandurah, where the population grew by 91%. "For 14 years of that period (of 20 years) it was Australia's fastest growing population yet the median house price was unchanged," he says. "Similarly, Victoria's Surf Coast saw 85% population growth, West Australia's Busselton 81%, Queensland's Sunshine Coast 70%, and Mount Barker in South Australia, 68%. Yet all displayed underwhelming property price growth during the period." CoreLogic research says migration is more likely to increase rents than purchase prices. An example is Carlton in Melbourne with an 18.4% increase in its population with its rents up by 18% and sale prices down by 10.9% during the same period.



Regional Rents Keep Rising

The chances of finding a more affordable rent outside of capital cities is shrinking with new data showing rents in 75% of Australia's biggest regional towns are at record highs. Batemans Bay in New South Wales had the biggest increase in rents in the past three months, up by 6% or about $32 per week. Rents in Bunbury in Western Australia are up by 4.7% and on the Sunshine Coast in Queensland, rents are up by 4.4%. The CoreLogic analysis shows that no major regional centres recorded a significant fall in rents in the quarter. Those which did, recorded minor drops in rents of below 0%. CoreLogic economist Kaytlin Ezzy says while rents don't generally drop unless there is an economic slowdown, it was still unusual to see rents rising at a faster than usual pace in the regions. "Rents are rising at about 6% across combined regional markets at a time when you would typically see rents rise annually by 2%," she says. "So, it's a much faster pace of growth across rental markets, which has taken most of those markets back to record highs." In the top performing 50 regions for rental increases, the average rent is now highest on the Gold Coast at $827 per week, which is almost 8% higher than at the same time last year.

Apartments Poised To Outperform

Property valuers predict Australia's apartment market will perform strongly in the next 12 months. A survey of valuers by CBRE reveals that 45% of respondents believe buyer demand will also increase in the next 12 months (down from 57% when surveyed in March).CBRE's Pacific head of research, Sameer Chopra, says more than 50% of valuers surveyed expect apartment price increases ahead. More than half predict Perth's apartment values will increase by at least 5%, while about a third believe Brisbane and Adelaide apartment prices will increase by the same amount.Chopra says the production supply pipelines for apartments are slow so there is not a lot of new stock coming onto the market. "The cost of putting up a new apartment is now 35% higher than where it was sitting in 2019," he says. "More people are coming to this realisation that it's just very expensive to build brand-new stock, so they will pay more for the right stock today." The survey says more than 40% of the valuers expect house prices to also rise by more than 5% in the coming 12 months, with Perth, Adelaide and Sydney metropolitan areas tipped to lead the pack.

Buyers Pay More For Green

Home buyers will pay substantially more for sustainable houses with demand for energy-efficient features rising. The Domain Sustainability in Property report says properties with eco-friendly attributes such as solar and double glazing are also selling 4% faster on average and are attracting 17% more buyer interest. It says across most capital cities, roughly half of houses have green features, except Sydney, where only 38.7% did, while Canberra had the highest level of 67.2%. Environmentally efficient houses sold for 14.5% (about $112,000) more than houses without those features while for units the difference was 11.7% ($70,000). Domain head of research and economics, Dr Nicola Powell says Regional Australia is leading the way in terms of buyers paying more for homes with environmentally efficient features. "Across the combined regionals an environmentally efficient house fetches 20.9% more than a non-environmentally efficient one and a unit is 30.8% more," she says. Powell says this is almost double what buyers pay in capital cities. Buyers in Melbourne pay the largest price premium of 28.8% for a house and 22% for a unit, followed by Sydney (23.1% and 11.7%), Perth (17% and 14.6%), Brisbane (16.2% and 10.7%) and Adelaide (10.7% and 8%). Powell says investing in sustainable features could pay handsomely for vendors as demand for green homes rises further.