Australian Property Update

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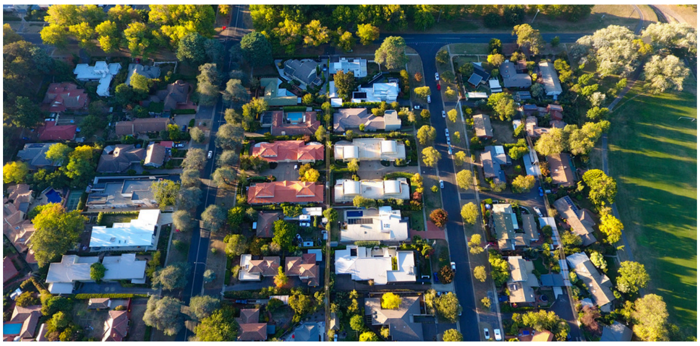
Low Vacancies Will Persist

There is no realistic prospect of rental vacancies rising significantly any time soon, which is grim news for tenants in most parts of Australia. Vacancy rates continue to be close to those historic lows that have become the norm in the past couple of years and I can't see any way they will improve.The politicians who have created this unprecedented shortage of rental properties are clueless about how to fix their mess – and most of their actions that impact on the situation make it worse, not better (including the new rental laws from the NSW Government). The latest data on vacancies nationwide – from one of the key sources, SQM Research - has the national vacancy rate at 1.3% in June, the same as it was a year ago. We still have capital cities with vacancy rates well below 1%, including Adelaide, Perth and Darwin. That June vacancy rate was slightly up from the rate for May, but that's attributed to seasonal factors. Here's what Louis Christopher, managing director of SQM Research and one of Australia's most experienced and respected research analysts, says about the current situation and the future of vacancy rates: "Based on history, we have now reached the peak in rental vacancy rates for Winter. It is likely that vacancy rates will now begin to tighten again and keep tightening until November. "Overall, the national rental market remains in severe shortage and barring some exceptions, is not expected to materially soften out of the rental crisis for some years." So what does this mean for residential rents? It doesn't necessarily mean they are going to continue rising at 10% or more per year. While vacancies are set to remain dangerously low for some time, there is a ceiling beyond which rents can't rise because of the capacity of tenants to pay. Louis Christopher says: "Much of the structural rental shortage has now been priced into the rental market, and so I do believe the days of 10-20% plus annual rental increases have come to an end." I agree. Tenants, who tend to have lower incomes, have had years of rising rents and they can't keep paying more and more in rent, at times when they're also paying more for food, electricity, petrol and other essentials. But the situation of ongoing ultra-low vacancies does mean that rents won't fall. They will remain at the current high levels for the foreseeable future.

Land Values Soaring

Land values are soaring in Australia's smaller capital cities as demand continues to grow. The latest HIA-CoreLogic Residential Land Report says values are growing rapidly in Adelaide, Brisbane and Perth. HIA Senior Economist Matt King says the median price of a typical residential lot sold in the March quarter of 2024 was $343,480 - 3.3% higher than at the same time last year. "Perth, Brisbane, and Adelaide are currently sitting in the fast lane of growth in residential land prices with double-digit annual increases," King says. "Hobart grew by 2.4% over the year, Sydney remained flat while prices in fact fell in Melbourne compared to the previous year. There are evidently two speeds of price growth in residential land market values, with the smaller more affordable capital cities seeing sharper increases in prices." Land values in the regions dropped by 0.9% during the same period. The number of lots sold is dropping and is down by 9.1% in the March quarter compared to the previous quarter at the end of 2023. King says this in part is a result of the inability of policymakers to bring sufficient land for residential development to market in a timely way. "Excessive taxation and charges on land under residential development is a key reason for the high price of land. Land supply has been inadequate for the best part of a decade, and inefficient and inequitable taxes, such as stamp duty, have only compounded the problem and significantly inflated the cost of land."



The Next $1M Hotspot

Property prices are at record highs in all capital cities with one expected to breach the $1 million threshold within a month.

Domain analysis predicts that Brisbane's median house price will surpass the $1 million mark for the first time in September. And it says Perth will not be far behind with its set to achieve a $1 million median by June 2025. Domain chief of research and economics, Dr Nicola Powell, says the two smaller capital cities achieved growth of 4% and 6.6% respectively in the past three months. Domain's analysis shows that Melbourne is also on track to hit a new high median by the end of December if its growth continues to gain momentum. While growth in Sydney and Adelaide is expected to moderate during the next few months. Powell says it is the affordability of the smaller capital cities that is attracting buyers and in turn, driving prices up. She says Perth is also being boosted by its "extraordinarily" tight rental market and positive population dynamics while Brisbane's market is benefitting from big infrastructure spending ahead of the Olympics.

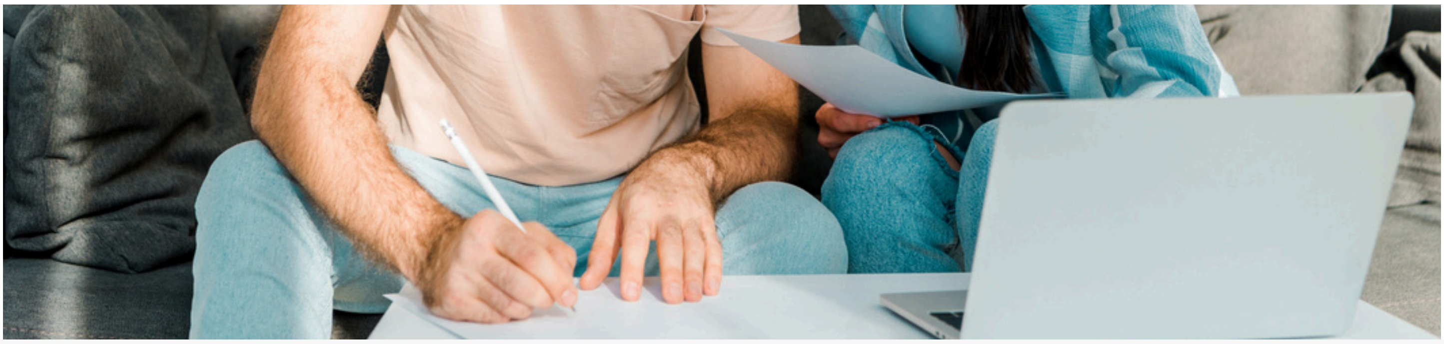
Brisbane had initially been predicted by Domain to tip over the $1 million mark by the end of 2024 but Domain says recent growth has caused it to revise that time frame.

Regions with Highest Yields

Some of Australia's regional markets offer better returns than metropolitan areas, but investors should avoid high-risk locations.

MCG Quantity Surveyors' analysis reveals that affordable regional markets often outperform inner-city suburbs. According to MCG Managing Director Mike Mortlock, the Pilbara in Western Australia has house yields of 9.85% and unit yields of 13.12%, driven by rental demand from the growing mining sector. Campaspe Shire, between Bendigo and Shepparton in Victoria, shows house yields of 6.23% and unit yields of 11.28%. In Queensland, Outback South and Bowen Basin regions have house yields of 9.07% and unit yields of 8.88%. Mortlock notes that strong yields are common in areas with active mining and agriculture sectors. However, he warns of the risks in markets heavily influenced by one industry, as capital growth may not match that of locations closer to capital cities. Balancing high yields with potential for capital growth is essential, emphasising the need for a diversified investment strategy that includes both regional and metropolitan markets.

Hotspotting founder Terry Ryder supports Mortlock's view on the risks of investing in mining towns and areas dominated by a single industry



Renters Pooling Resources

The national median weekly rent value hit a record high in June and is $48 a week higher than at the same time a year ago.

The national rent is now $634 per week according to figures from CoreLogic. It says rental affordability continues to deteriorate in Australia, and has identified a trend of renters starting to favour larger dwellings.

Head of Research Eliza Owen says the data indicates that more renters are moving into larger properties together to try and reduce their overall costs.

For houses, rents increased 8.4% nationally in the year to June, and this ranged from a 7.6% increase in houses with up to two bedrooms to 8.7% in larger houses with five bedrooms or more. At the same time, the pace of rent growth for one-bedroom or studio apartments has slowed from 16.8% in the year to April 2023 to 7.1% in the past 12 months.

"Larger rental properties are showing more resilient rent growth, despite being more expensive," Owen says.

"The average rent for a bedroom (i.e. total rent divided by number of bedrooms) is lower the higher the bedrooms are."