



# Australian Property Update

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October 2024



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## Terry's View: Demand Shifts to Units

Demand for attached dwellings is sweeping Australia, with most of the nation's capital cities and many key regional centres experiencing surging buyer demand for units.

Two major reports published recently by Hotspotting - "The new paradigm in real estate: the rise and rise of apartments" produced in association with Nuestar and the Spring edition of "The Price Predictor Index" - have both highlighted the dramatic rise in market-share by units.

In the Greater Sydney market, for example, the market-share of units in total residential sales has risen from 48% three years ago to 54% now.

We have also charted a major shift in buyer activity in Perth. As houses become increasingly expensive, growing numbers of purchasers opt for well-located units.

Demand for units has also seen significant growth in Melbourne, Brisbane, Canberra, and key regional cities like the Sunshine Coast and the Gold Coast.

The growing popularity of attached dwellings is driven by lifestyle factors as well as by the relative affordability of units over houses in the same area.

As "The new paradigm" report published with Nuestar shows, the old paradigm of houses on land outperforming units on capital growth no longer stands up to scrutiny. Now units are competing strongly on price growth, as well as lower buy-in prices and better rental yields.

## Regional Investor Hotspots

Regional property markets continue to offer investors more bang for their buck with new analysis revealing the top 10 regional investment markets. The analysis by Buyers Agent identifies regional locations with strong sales and inquiries, solid capital growth and rental yields in the past 12 months. The list is dominated by locations in Western Australia and Queensland. The top pick is Mandurah in Western Australia which has had 26% capital growth in the past 12 months and 11% rental growth. Townsville is the top regional pick in Queensland with 19% capital growth and 11% rental growth during the past year. Buyer's agent Andrew Pizzino says regional property prices have surged to the point that many properties are now listed without a price, making it harder for buyers to know what to offer. Regional Australia Institute chief executive Liz Ritchie says new housing projects are starting to emerge after a long period of undersupply as developers recognise the growing demand. She says many regional areas are experiencing strong population and economic growth but have a shortage of properties. "The evidence shows housing approvals and construction are well behind population growth in the regions," she says. "The problem was there before COVID, but it's been super-charged by population movement and only further compounded by record low vacancy rates in regional Australia." Ritchie says the regions added about 89,000 people on average to their populations between 2012 and 2022, and the number of homes approved for construction fell in four of those years.





## Apartments Taking Longer

There may be growing demand for apartments as buyers seek affordability, but it is now taking longer to deliver projects than it was five years ago. Research by Urbis into the apartment development market shows high construction costs and material and labour shortages have significantly pushed out the time it takes to complete development to about 75 months as of June 2024. Urbis economics director Paul Riga says this is how long, on average, it is taking from development to completion. “Five years ago, it took only 45 months. It is taking an extra 2.5 years on average to deliver completed developments. No wonder we are seeing constrained supply,” Riga says. The Urbis Apartment Essentials report for the second quarter of 2024 says there are more than 750 active apartment developments across the Gold Coast, Brisbane, Sydney, Melbourne, and Perth. The average price per square metre remains steady at \$14,000 for recently launched projects. The report also shows that there is an increase in sales of more affordable apartments in some capital cities. “We are seeing a tale of two markets,” Riga says. “In Sydney and Melbourne, the top-selling projects are more affordable. In Queensland, the Brisbane and Gold Coast markets are still targeting the luxury/premium market.”

## Higher Taxes, Higher Rents

Although some believe changes in property taxes could help alleviate the housing crisis, experts warn it could drive rents up even further. Australian National University economist Ben Phillip says negative gearing and the Capital Gains Tax discount are not major contributors to growing house prices. “Negative gearing is a relatively small deduction, so it’s unlikely to have a dramatic impact on prices, particularly if the government grandfathered existing investors,” he says. Chief economist of the Centre for Independent Studies Peter Tulip says increasing taxes will lead to less investment and fewer homes being built. “Taxing landlords increases rents because incentives to build are reduced,” he says. Treasury figures show about 1.1 million property investors recorded total rental losses of \$7.8 billion in FY2021 with a tax benefit of about \$2.7 billion. Tulip says the best way to address the housing crisis is to reduce the amount of red tape and delays around zoning and planning. He says this could lead to higher-density development in better locations close to public transport. University of Melbourne research says eliminating negative gearing could reduce total housing supply by 1.8% and increase rents by 2.5%. HIA Chief Economist Tim Reardon says increasing taxes will result in less investment in housing, less construction and worsening affordability.



## Values Doubling

Strong property price growth means the number of locations where home prices are doubling in less than five years is on the increase.

Mortgage Choice analysis of PropTrack data reveals Australia’s best-performing property markets for price growth. PropTrack senior economist Eleanor Creagh says while in the past many markets doubled their medians in ten years, strong price growth in recent years meant some are achieving that level of growth much quicker. “These areas often start with lower base prices, making them attractive to a broad range of buyers, including first-time buyers and investors seeking value for money,” Creagh says.

In Adelaide, Elizabeth South’s median house price has doubled in just two years to \$440,000 while neighbouring suburb Elizabeth North doubled in three years to \$414,500. In NSW, Warnervale, on the Central Coast, doubled in three years to \$960,000, while Boolaroo, in Lake Macquarie, doubled in four years to \$940,000. In Western Australia, South Hedland, in the Pilbara region, doubled in four years to \$499,500, and Terang, in Corangamite, doubled in the same period to \$400,000.

Tasmania’s Queenstown doubled in four years to a still very low \$196,500. In Queensland, the Ipswich suburb of Riverview (\$537,000) and Elliot Heads in Townsville (\$712,500) both doubled in three years.