RAY WHITE **NOW**

JUNE 2022

PROUDLY PRESENTING PROPERTY MARKET INSIGHTS IN REAL-TIME

MESSAGE FROM OUR **MANAGING DIRECTOR**

When you're reading the news, do you find yourself wondering if you clicked on the right news article? That you're reading an article that includes some comments and statistics that don't match the scary, dramatic headline?

It feels like there are so many people that are sure they're right about a big change to the property market, that they're looking for any sign to validate their position. And in a world full of content, you can understand the desperation for some authors to do what's needed to grab everyone's attention.

We prefer to look objectively at what's happening now in the market to support the decision making of our members and customers. We're fortunate that we have the largest network of agents all using the same data collection software supported by a specialist team of data scientists and engineers.

Our sales results in May were very strong. They were up 29 per cent year on year to $6.2 billion. That means the market is operating at speed, with many "willing sellers" and "willing buyers", and that they aren't so far apart that a transaction can't be reached.

Auction clearance rates have fallen from the highs of late 2021, but they've stabilised and are above long term averages. The average time it takes to sell a property is now 14 days longer than it was a year ago, and our recent data shows there's a 75 per cent chance that a property listed as auction will sell within 60 days.

Is stock "piling up", as is so widely reported? We're seeing strong levels of new stock coming to market, in line with last year. Total stock on the market is up about 15 per cent from last year but still below where it was two years ago. So the headlines are alarmist. But stock is increasing, trending up towards longer term averages.

The data and insights get more and more interesting as you look closer into the specifics of each market. Our members around the country look forward to talking to our customers about their local market and ensure we're bringing value to your decisions.

Dan White
Managing Director
Ray White Group

RAY WHITE NOW **THIS MONTH**

We now have a new federal government and with that comes change in leadership, policies and the way the country is run. The changing of the guard also comes at an interesting time for our economy and our property markets, with significant change in both since the start of the year. At this stage, we know there will be a number of areas that the new government will focus on when it comes to housing. The first is sustainability, the second is first home buyers and the third is social housing. All areas that need to be addressed as we move forward from the pandemic.

In this month's Ray White Now, we take a look at the influences on house prices. We're now in a new cycle and interest rate increases are a key driver of this. Housing markets are, however, more complex than simply moving with interest rates, and the influences are diverse. Australia is also not a uniform single market when it comes to housing and some locations are far more sensitive to rate rises than others.

In keeping with the green theme that characterised a lot of the election debate, we take a look at our most leafy suburbs using some aerial data from Nearmap. Of all capital cities, Brisbane tops the list for tree canopy but the leafiest suburb in our capital cities is Olinda in Melbourne's outer east. We also do a deep dive into the impact of electric vehicles on commercial property.

We hope you enjoy this month's Ray White Now.

Nerida Conisbee
Chief Economist
Ray White Group

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CONTENTS

WHY SELL **NOW?**

The Australian market is high functioning with high turnover, with not too much of a gap between buyers and sellers. We know we're in a new cycle but there are a number of reasons why prices aren't likely to drop dramatically. Since the RBA flagged the start of their monetary policy tightening cycle, borrowers were told to expect four to five interest rate rises. As a group we take nothing for granted and know we can achieve competition for property in any market. We've been in business for 120 years and right now we continue to defy the headlines. The fact is people buy and sell houses every day. They upsize, downsize, move away, and move home as everyone's personal circumstances are different. Selling is a personal decision.

Some pundits are now predicting up to 20 per cent price falls in some markets off the back of the supersized, inflation-busting rate rise. These were also the same pundits who were predicting 30 per cent falls at the start of the pandemic. They were so wrong. We've always said that we don't have a crystal ball to predict the future and we've never been one to speculate. We work in the 'now'. What's more worrying is a prolonged period of high inflation - which will no doubt lead to lower rates of household saving and may potentially weaken a prospective borrower's ability to meet serviceability assessments from lenders.

What we know right now is that our all critical appraisal numbers are up 62 per cent on two years ago and 22 per cent higher than last year. This gives us confidence that the spring pipeline is looking strong. Stock is rising. Our open homes numbers remain sound (10 per cent higher foot traffic than one year ago but still 22 per cent lower than two years ago during the height of the pandemic). Our volume of sales are also up on two years ago too. Scheduled auctions across our group remain higher too over the last two years, and since polling day our clearances are climbing back to the mid-60 per cent ranges - which is actually slightly above our long term average. The average days on market right now is 37, which is still a week shorter than it was five years ago.

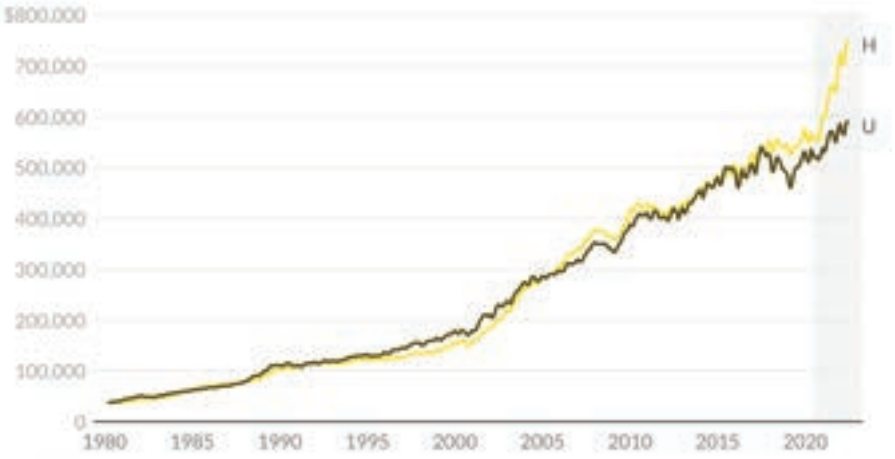
Our job has always been the same. To create competition for our sellers - and we can do that in any market. The process remains the same to market our properties as far and widely as possible for our sellers. We've never lost sight of that.


Raywhite

WHAT DRIVES PRICE GROWTH?

There are many ways to measure price growth, and the performance of Australian house prices are either declining, or starting to see a more sustainable rate of growth depending on what method you use. Nevertheless, we're clearly in a new cycle where the red hot market of 2021 has come to an end. Median house prices have increased by 3.4 per cent in the first five months of this year but this is a distinct slow down from the 9.8 per cent increase experienced in the final five months of 2021.

Australian median house and unit prices



Highlighted section is the pandemic
Source: Ray White, Corelogic

While the end of ultra low interest rates are clearly a factor driving this current slow down, it's now timely to have a look at what drives house prices as this will determine how much of a market change we're in for.

1. INTEREST RATES

House prices are highly correlated with interest rates at a national level. Not surprisingly, as it becomes more expensive to pay off a loan, people can borrow less. Once you move beyond aggregates however, there are often other drivers that override this. Overall, Sydney and Melbourne are the most sensitive to interest rate changes primarily because of high debt levels. In more affordable locations, the link is a lot weaker.

2. ACCESS TO FINANCE

Restrictions to finance also slow down property markets. Right now, restrictions to finance are relatively low.
In anticipation of increasing rates, the Australian Prudential Regulatory Authority (APRA) increased the interest rate buffer on mortgages last year - when lenders assess new borrowers' ability to meet their loan repayments, they must show they can pay at an interest rate that's at least three percentage points above the loan product rate. Similarly to interest rates, Melbourne and Sydney are far more sensitive to finance restrictions.

3. ECONOMIC GROWTH

In a strong growth economy, people are less worried about losing their jobs and when it comes to housing, their ability to pay off their loans. As a result, sentiment towards housing tends to be stronger. We've seen this most recently following the start of the pandemic. Although initially house prices declined, once it became apparent that the economic downturn would be short lived, prices bounced back quickly.

4. POPULATION GROWTH

More people need more housing so population growth unsurprisingly results in house price rises. The evidence on this is most striking in small regional towns when there is some form of economic stimulus. The opening of a new mine, for example, can dramatically increase house prices, similarly very strong growth in tourism can have a similar effect. With international borders reopening, population growth is set to get back to more normal levels and this will keep pressure on housing demand.

5. HOUSING SUPPLY

If population growth is occurring but housing supply is constrained, house price growth (and rental growth) will occur due to the shortage. Although housing supply is the most direct way to ensure affordability, it's also the most complicated. Right now, we're in an environment of constrained housing supply due to rising construction costs and this is likely to be a key factor in keeping house prices high rising interest rates.

6. SENTIMENT TOWARDS PROPERTY

Although interest rate increases can explain the most recent slowdown in house prices, sentiment towards housing is also a factor. Last year, it was a seller's market - prices were moving quickly and the number of people bidding at auction hit record highs. Since the start of the year, the market has firmly moved into the buyer's favour as sentiment has turned.

7. TAXATION

Taxation can be used as both a deterrent to buying, as well as an incentive. Generally it's used to drive certain behaviour - for example, negative gearing ensures we have enough rental housing while stamp duty reductions are used to encourage first home buyers. While it does achieve certain goals, it can often drive up (or down) prices.

8. URBAN REGENERATION

Urban regeneration can result in significant price increases over a prolonged time period. Within large cities, this generally happens when older people move out of a suburb and young people move in their place. It can also be driven by more subtle drivers such as a renewed retail precinct or traffic calming within a neighbourhood.

9. INFRASTRUCTURE IMPROVEMENTS

Significant infrastructure spending can completely change house values in the areas that they benefit. The announcement of the Western Sydney airport and the subsequent investment that has taken place since then has led to marked changes to housing demand in the surrounding area. Similarly, continued investment in transport links between Geelong and Melbourne have led to pricing in Geelong more closely resembling Melbourne pricing.

10. GOVERNMENT POLICY

Government policy can change house prices. Easing up of planning controls can lower the cost of housing while policies that put more money in people's hands can increase them. The main change to government policy this year will be the introduction of the shared equity scheme, allowing low income earners to buy a home in partnership with the government. It's expected that this will lead to higher prices, particularly at lower price points.

11. CONSTRUCTION COSTS

It's getting more expensive to build a home. This will push some people into established housing (if building becomes too expensive for them) and will lead to a shortage of housing (projects will be put on hold). Fewer new homes and more people wanting existing homes will mean that prices won't fall as much as they otherwise would.

12. PERFORMANCE OF OTHER INVESTMENT TYPES

Most people that purchased property during the pandemic have done particularly well in terms of capital growth. Although this is now slowing, strong rental growth is now occurring and many investors will benefit from this. An investor sell off of property assumes either a focus on reducing debt or a wish to invest in something else. While property price growth is slowing, so too is the rate of growth of other asset classes. In some cases, prices are falling rapidly (e.g. technology stocks and Bitcoin). Property is often called "inflation proof" and while that's not always the case given its sensitivity to interest rate rises, the stability of rental returns can often offset changes in value.


RayWhite
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URBAN FORESTS

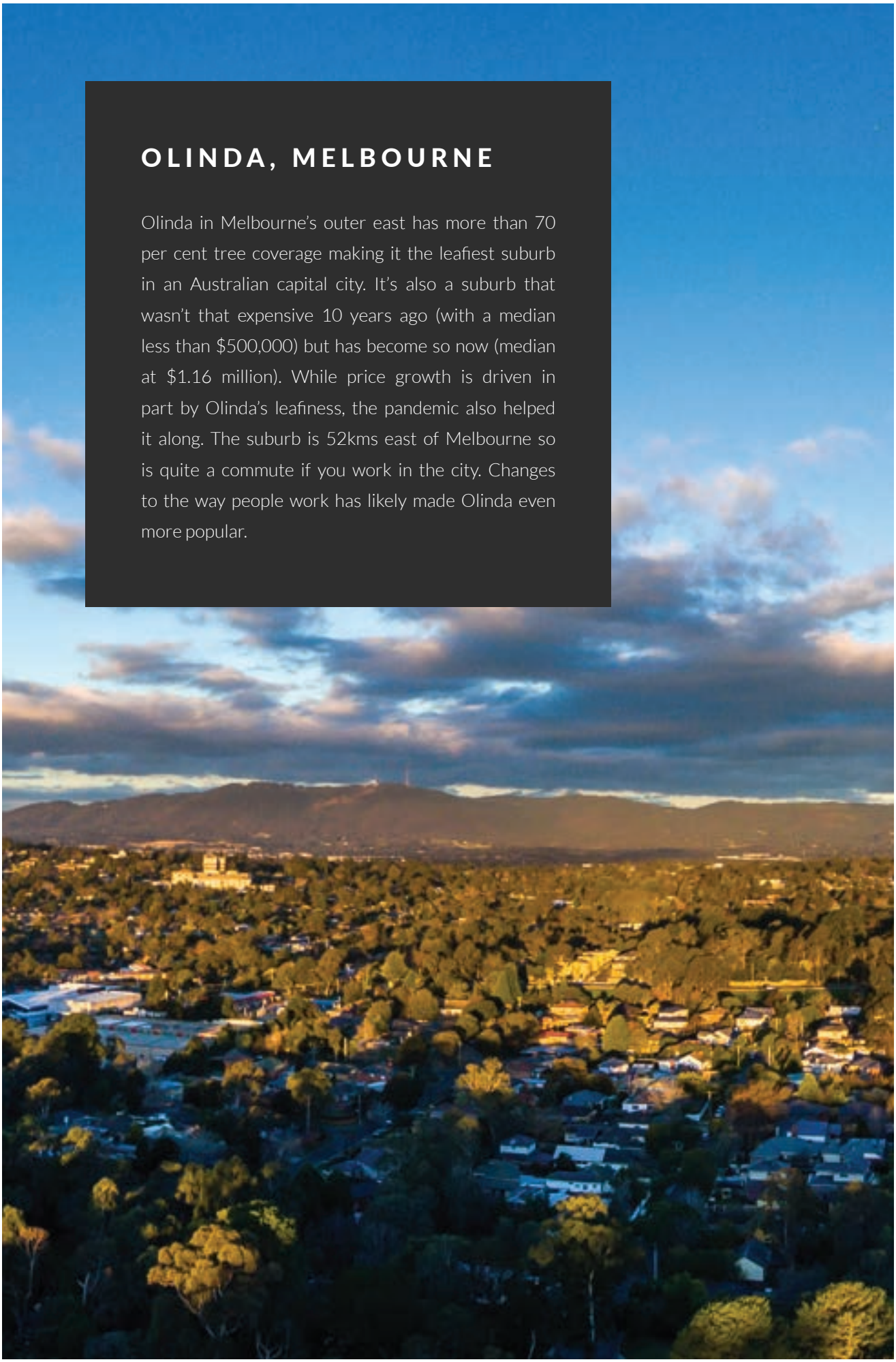
Ranking of Australia's leafiest cities

Now we know more trees is better, here are the leafiest suburbs in your capital city according to Nearmap's Artificial Intelligence (AI) team.

WHERE ARE AUSTRALIA'S GREENEST SUBURBS?

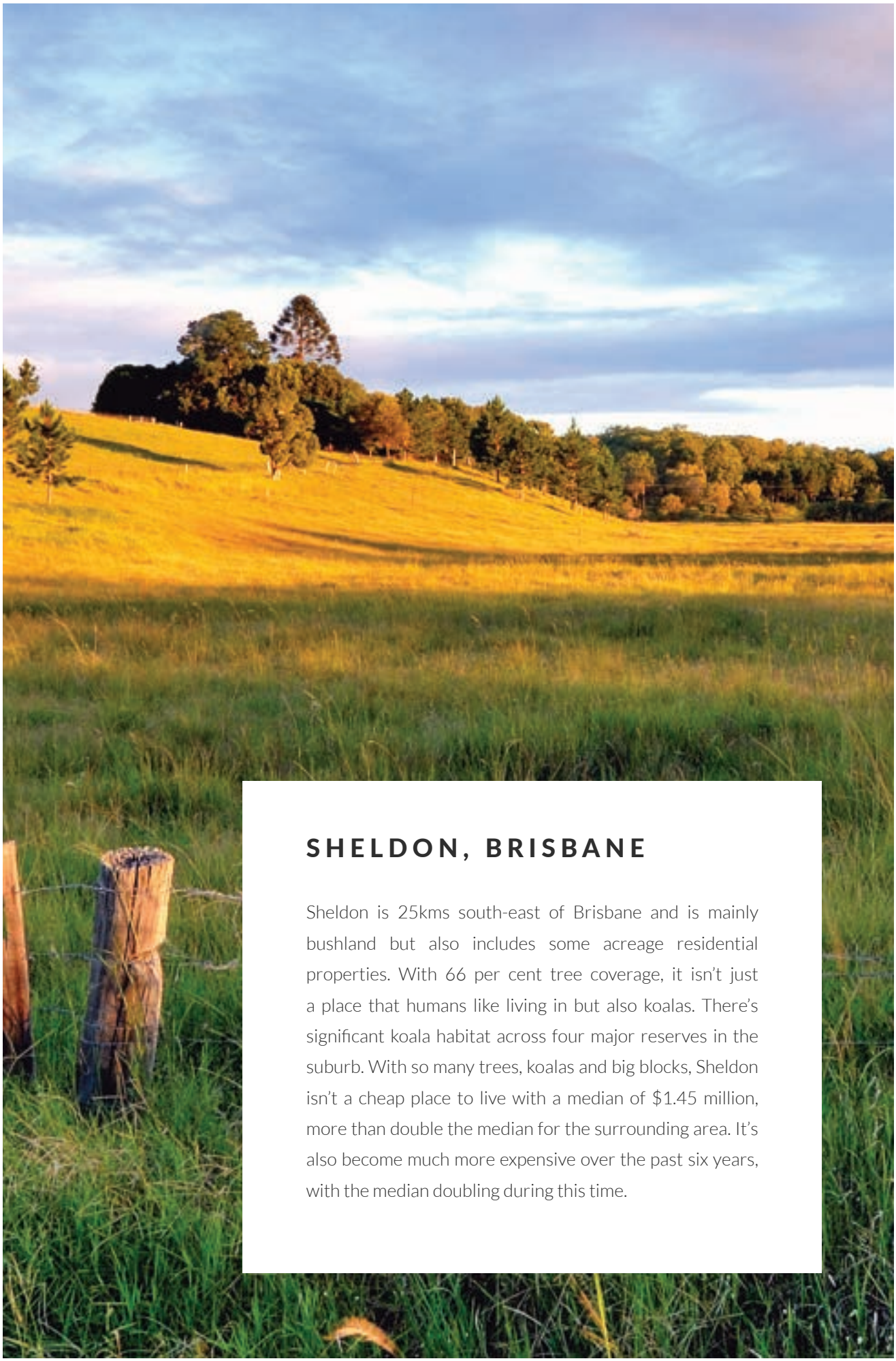
Brisbane now has the most Greens in federal parliament and to match this, it also has the most green foliage. A fascinating study by aerial imagery company Nearmap has recently looked from above to see which capital cities have the greenest populated suburbs. Brisbane tops the list with almost 80 per cent of residents living in suburbs with more than 20 per cent tree coverage, while Hobart comes in second with 71 per cent.

Living in suburbs with a lot of trees is good for your health and these benefits have been quantified. A study by researchers from the University of Chicago found that by adding 10 more trees to a block, health perception is improved in a way that's comparable to being seven years younger. While I can't promise you that moving to Brisbane or Hobart will give you eternal youth, living with trees is not only good for your health but is also environmentally more sustainable. Greater tree coverage reduces urban heat and improves air quality.



OLINDA, MELBOURNE

Olinda in Melbourne's outer east has more than 70 per cent tree coverage making it the leafiest suburb in an Australian capital city. It's also a suburb that wasn't that expensive 10 years ago (with a median less than $500,000) but has become so now (median at $1.16 million). While price growth is driven in part by Olinda's leafiness, the pandemic also helped it along. The suburb is 52kms east of Melbourne so is quite a commute if you work in the city. Changes to the way people work has likely made Olinda even more popular.

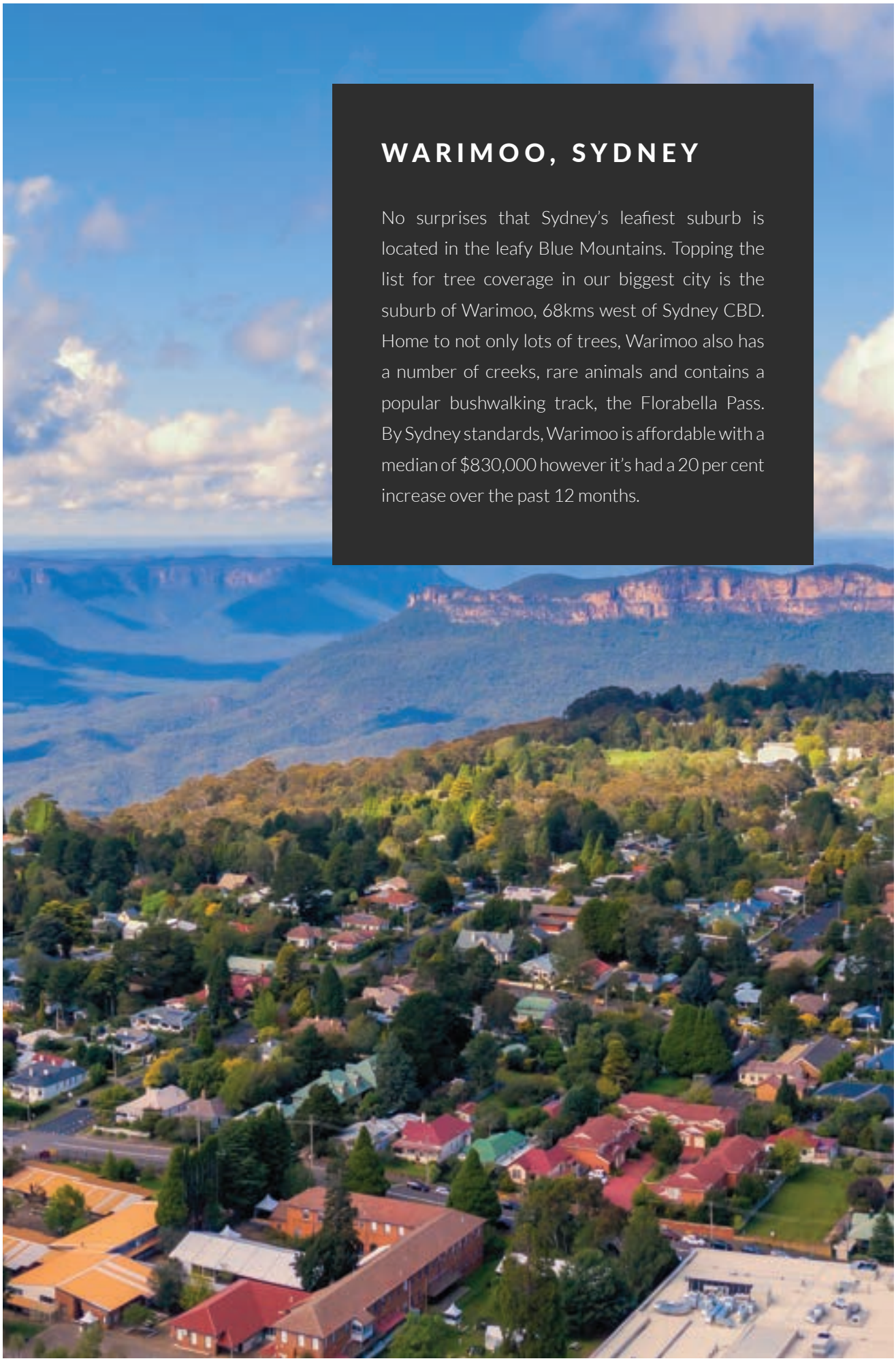


SHELDON, BRISBANE

Sheldon is 25kms south-east of Brisbane and is mainly bushland but also includes some acreage residential properties. With 66 per cent tree coverage, it isn't just a place that humans like living in but also koalas. There's significant koala habitat across four major reserves in the suburb. With so many trees, koalas and big blocks, Sheldon isn't a cheap place to live with a median of $1.45 million, more than double the median for the surrounding area. It's also become much more expensive over the past six years, with the median doubling during this time.

CRAFERS WEST, ADELAIDE

With more than 60 per cent tree coverage, Crafers West in the Adelaide Hills is Adelaide's most leafy suburb. The suburb contains not only a lot of trees but a fair few luxury homes on acreages, as well as more standard suburban sized blocks. It's also relatively affordable with a median of just under $790,000. It may be one of the more undiscovered capital city leafy suburbs having experienced relatively moderate price growth compared to that experienced by inner Adelaide suburbs over the past 12 months.

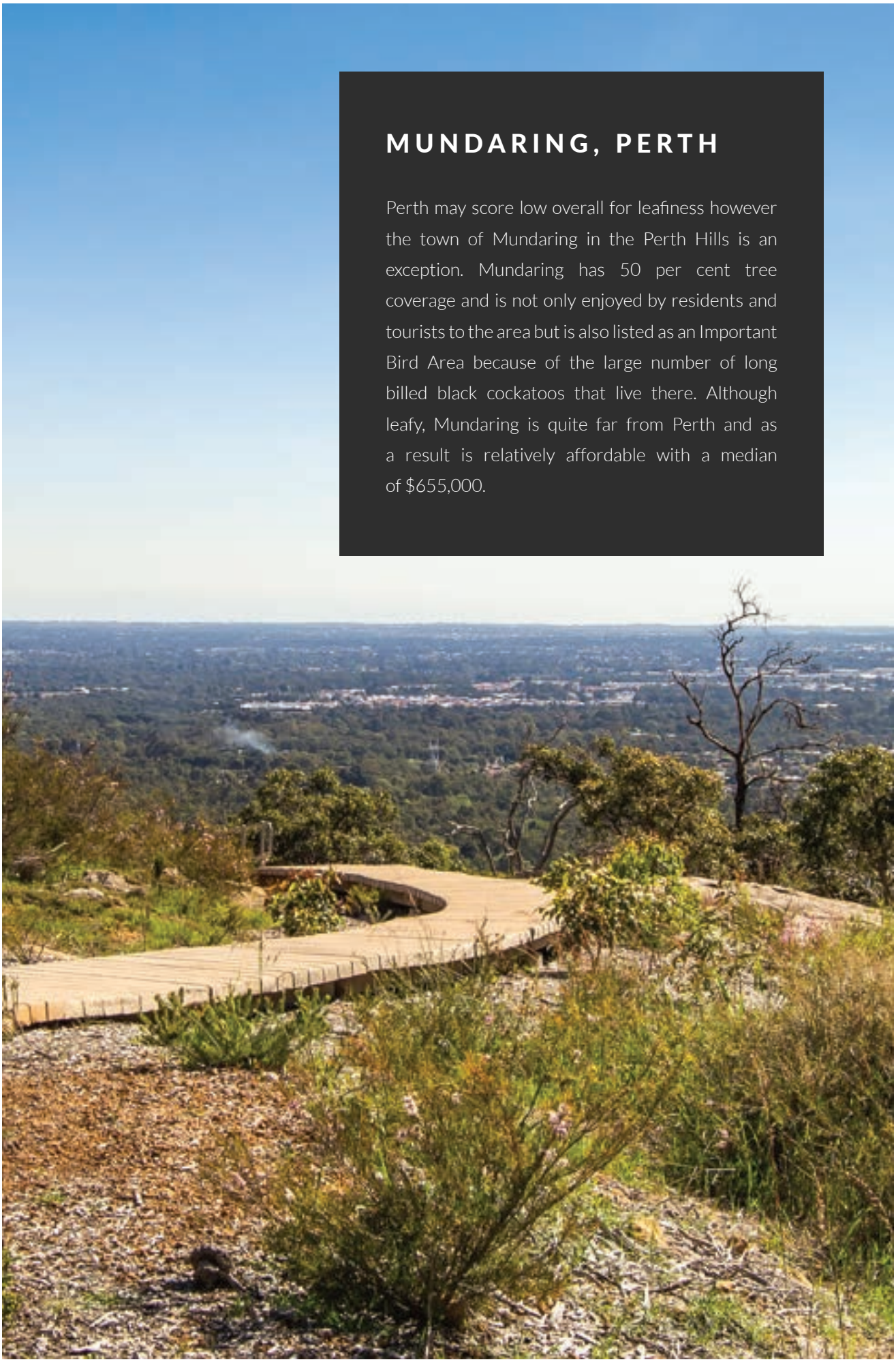


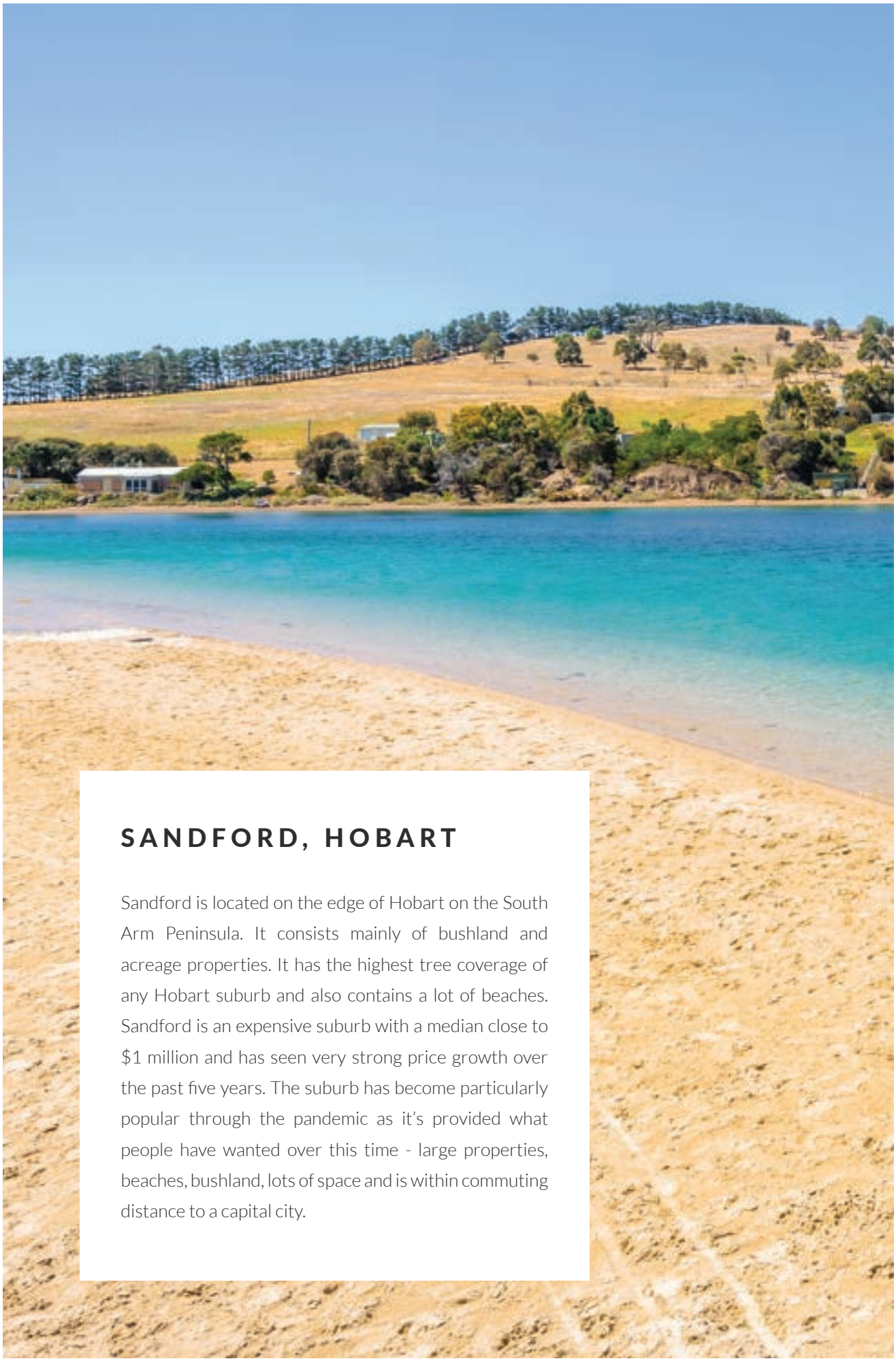
WARIMOO, SYDNEY

No surprises that Sydney's leafiest suburb is located in the leafy Blue Mountains. Topping the list for tree coverage in our biggest city is the suburb of Warimoo, 68kms west of Sydney CBD. Home to not only lots of trees, Warimoo also has a number of creeks, rare animals and contains a popular bushwalking track, the Florabella Pass. By Sydney standards, Warimoo is affordable with a median of $830,000 however it's had a 20 per cent increase over the past 12 months.

MUNDARING, PERTH

Perth may score low overall for leafiness however the town of Mundaring in the Perth Hills is an exception. Mundaring has 50 per cent tree coverage and is not only enjoyed by residents and tourists to the area but is also listed as an Important Bird Area because of the large number of long billed black cockatoos that live there. Although leafy, Mundaring is quite far from Perth and as a result is relatively affordable with a median of $655,000.



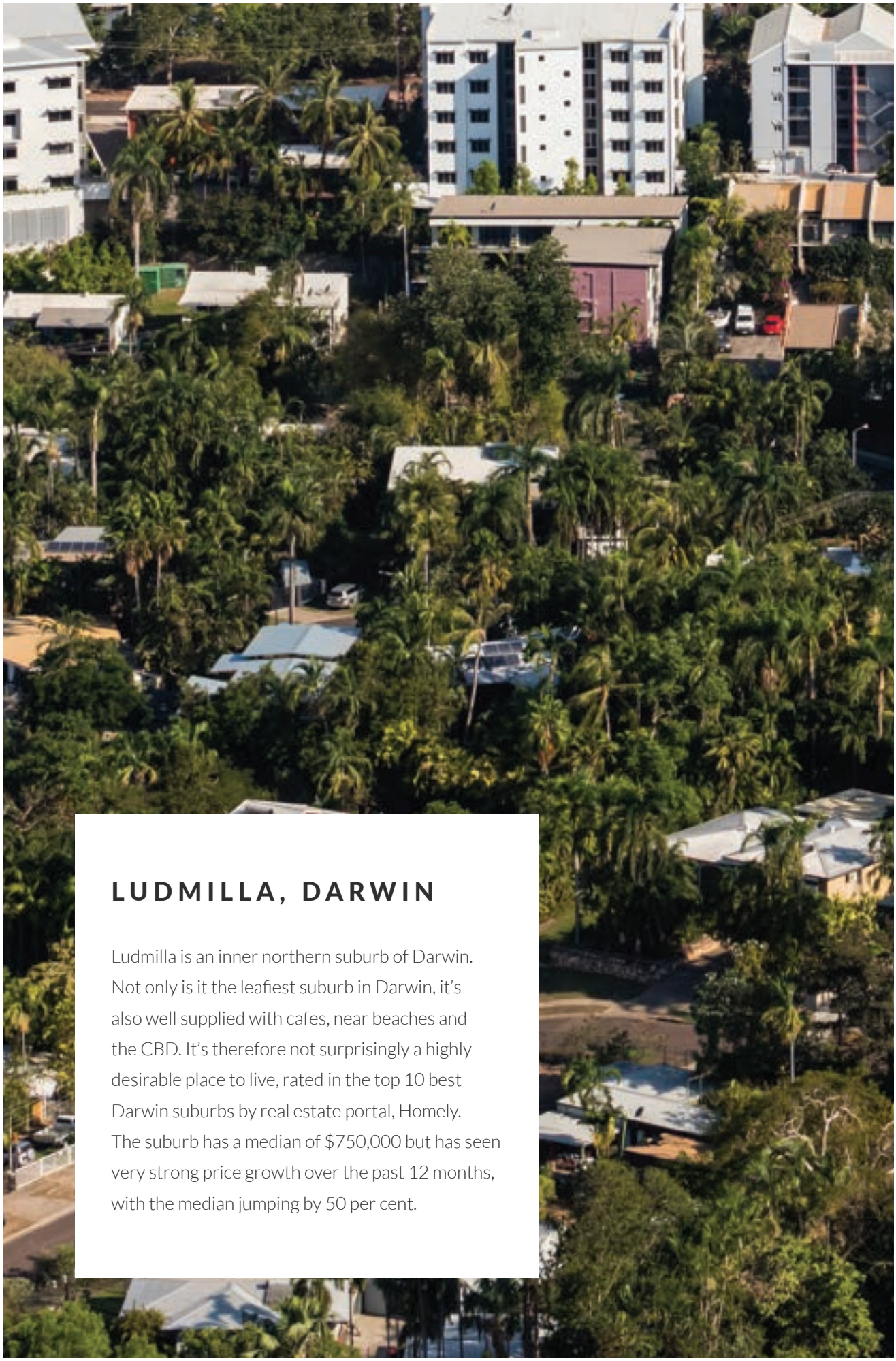


SANDFORD, HOBART

Sandford is located on the edge of Hobart on the South Arm Peninsula. It consists mainly of bushland and acreage properties. It has the highest tree coverage of any Hobart suburb and also contains a lot of beaches. Sandford is an expensive suburb with a median close to $1 million and has seen very strong price growth over the past five years. The suburb has become particularly popular through the pandemic as it's provided what people have wanted over this time - large properties, beaches, bushland, lots of space and is within commuting distance to a capital city.

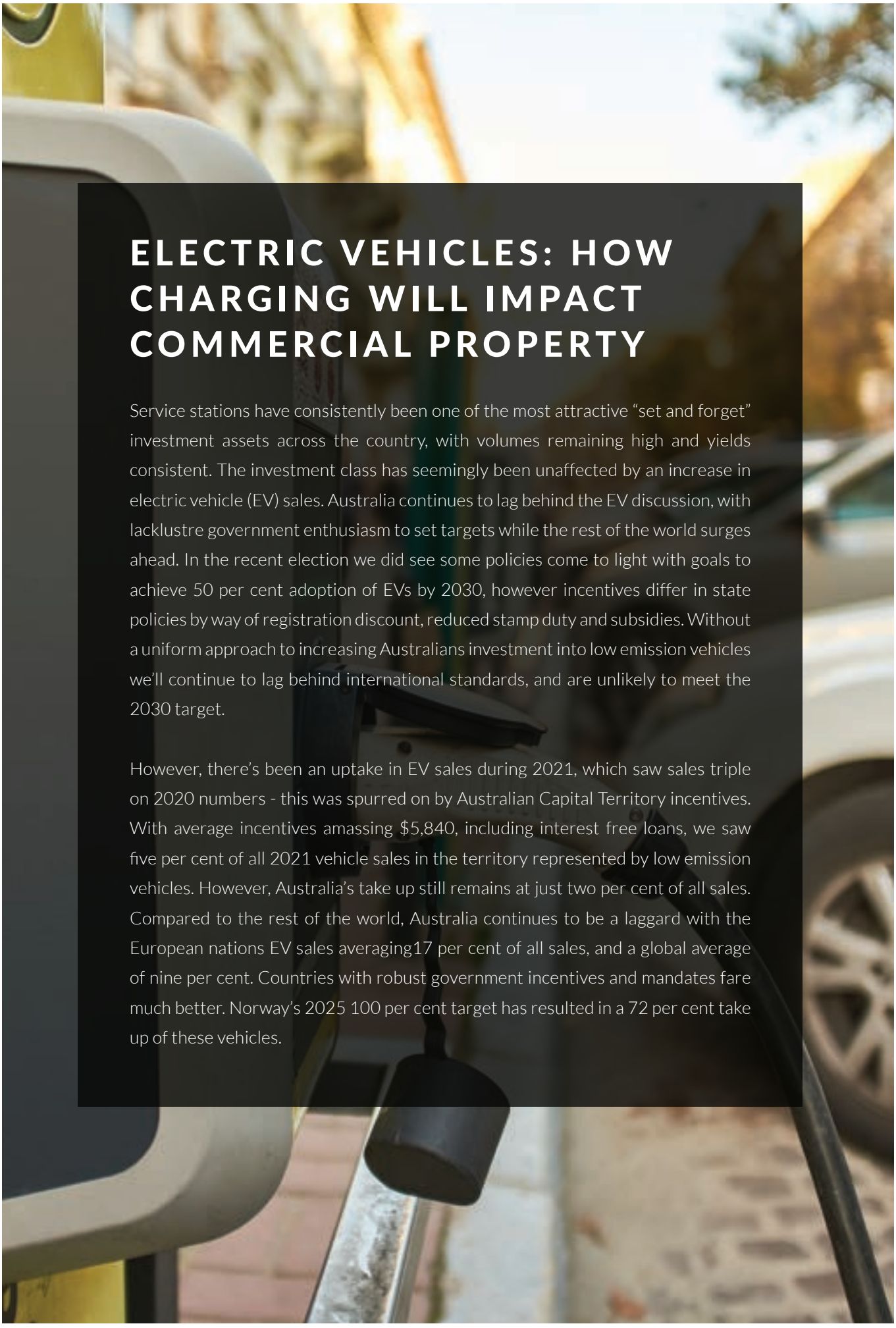
ARANDA, CANBERRA

Aranda was the first suburb to be settled in Belconnen and the developers had the foresight to maintain a large proportion of the native eucalyptus trees. It's also bounded on two sides by nature parks with lots of walking tracks and mountain biking possible through the Aranda Bushland Nature Reserve. As a result, this suburb has the highest tree coverage in the capital. Aranda isn't a cheap suburb with a median close to $1.3 million and has seen significant growth in value through the pandemic. Leafiness is part of the explanation for this but it's also because the suburb is highly liveable with lots of community amenities.



LUDMILLA, DARWIN

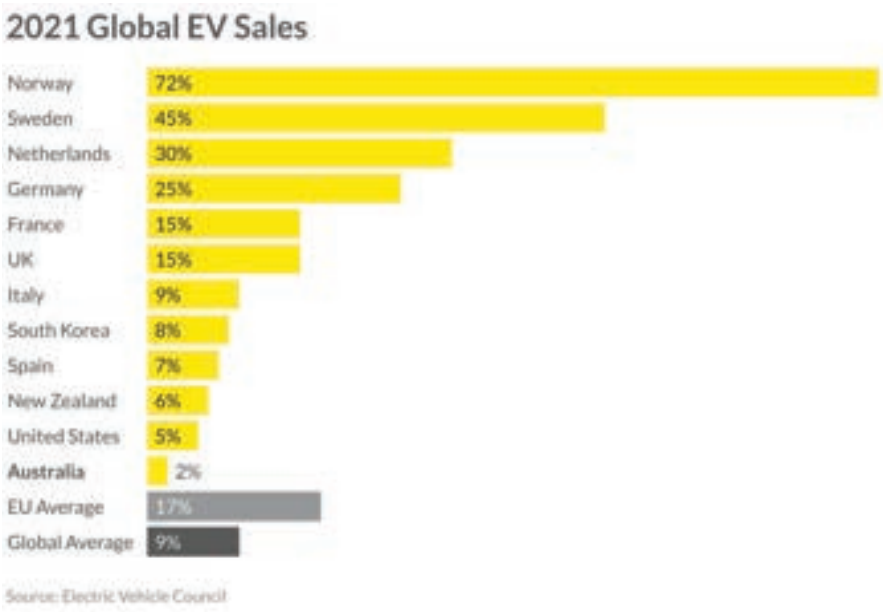
Ludmilla is an inner northern suburb of Darwin. Not only is it the leafiest suburb in Darwin, it's also well supplied with cafes, near beaches and the CBD. It's therefore not surprisingly a highly desirable place to live, rated in the top 10 best Darwin suburbs by real estate portal, Homely. The suburb has a median of $750,000 but has seen very strong price growth over the past 12 months, with the median jumping by 50 per cent.



ELECTRIC VEHICLES: HOW CHARGING WILL IMPACT COMMERCIAL PROPERTY

Service stations have consistently been one of the most attractive "set and forget" investment assets across the country, with volumes remaining high and yields consistent. The investment class has seemingly been unaffected by an increase in electric vehicle (EV) sales. Australia continues to lag behind the EV discussion, with lacklustre government enthusiasm to set targets while the rest of the world surges ahead. In the recent election we did see some policies come to light with goals to achieve 50 per cent adoption of EVs by 2030, however incentives differ in state policies by way of registration discount, reduced stamp duty and subsidies. Without a uniform approach to increasing Australians investment into low emission vehicles we'll continue to lag behind international standards, and are unlikely to meet the 2030 target.

However, there's been an uptake in EV sales during 2021, which saw sales triple on 2020 numbers - this was spurred on by Australian Capital Territory incentives. With average incentives amassing $5,840, including interest free loans, we saw five per cent of all 2021 vehicle sales in the territory represented by low emission vehicles. However, Australia's take up still remains at just two per cent of all sales. Compared to the rest of the world, Australia continues to be a laggard with the European nations EV sales averaging17 per cent of all sales, and a global average of nine per cent. Countries with robust government incentives and mandates fare much better. Norway's 2025 100 per cent target has resulted in a 72 per cent take up of these vehicles.



To help advance Australia's commitment to net zero emissions by 2050, green car loans have grown in popularity over the last couple of months. Westpac started a campaign offering discounted lending rates for customers investing in low emission vehicles such as EV or hybrid models, with most other large bank and second tier lenders following suit. Financiers are now offering not just reductions on their usual car loan rates but historic low, long term, fixed interest loans for buyers. This is attractive given the rising interest rate environment we're currently in.

In order for Australia to increase the uptake of EVs, charging infrastructure needs to see improvement. According to the Electric Vehicle Council, there are 291 fast charging sites around Australia with a commitment to grow to 700 over the next five years. The Queensland government has recently announced phase three of the Queensland Electric Super Highway project, adding a further 24 fast charging stations to Western Queensland. This grows its roll out plan to 55 on major tourism routes, including:

- Coolangatta to Port Douglas
- Brisbane to Toowoomba
- Brisbane to Mount Isa
- Goondiwindi to Emerald
- Cunnamulla to Barcaldine, and
- Longreach to Cairns

However New South Wales has set the standard in their fast charging network, committing $171 million in their Electric Vehicle Fast Charging Masterplan with locations determined by EV ownership, population, tourism, and traffic movements, among other factors.

The growth in charging stations brings attention back to the longevity of service stations as an asset class and the likelihood of where charging stations may be located in the future. With a high proportion of sales to date being for hybrid vehicles, the need for fuel will continue. Without robust mandates such as close to 100 per cent EV adoption by the government, we'll see a continued need for service stations into the future. The ongoing development of service stations highlights the anticipated long term strength of the asset class as we've seen the transformation of new service stations over the past few years growing their food offering. This may be in anticipation of consumers' length of stay on-site increasing. With fast charging taking between 10 and 60 minutes, the surrounding environment will become increasingly important. Offering comfort, convenience and quality food or entertainment options will be vital, differing from a traditional service station offering. Similarly, we've seen the growth of shopping centres and supermarkets offering regular charging facilities.

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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