RAY WHITE **NOW**

NOVEMBER 2022

PROUDLY PRESENTING PROPERTY MARKET INSIGHTS IN REAL TIME

Cover photo - 46 Hutchinson Avenue,
Mosman Park WA 6012
Vivien Yap | Ray White Dalkeith Claremont

A MESSAGE FROM OUR **MANAGING DIRECTOR**

The market could not have been more consistent. We recorded $5.1 billion worth of sales in Australia in October 2022, just as we did in September. The result, which was 26 per cent less than what we recorded in October 2021, continued the trend we've reported for most of this year.

New South Wales and Victoria reported the biggest year-on-year declines in sales volumes of 35 per cent and 28 per cent respectively. Queensland continues to outperform these larger states, though its network still reported a 14 per cent decline on its 2021 figures. South Australia was approximately in line with last year. Western Australia was the only state to be up on last year - in fact, well up - with a 17 per cent jump.

Does this year-on-year fall in our sales figures point to a market in turmoil as the media headlines are so quick to proclaim?

Mike DelPrete is a highly regarded real estate technology strategist based in the United States. He argued recently that comparisons of today's United States real estate market to 2021 was a bit meaningless because 2021 was "a strange aberration where everyone moved, house prices skyrocketed, and nearly every real estate business posted record revenues… 2021 is an outlier, not a benchmark."

Could the same argument be applied to Australia? Looking at our figures over the past three years, it probably can.

Our October 2022 sales results, while well down on October 2021, were well up on October 2020 and October 2019, by 25 per cent and 35 per cent respectively. Even when we exclude the impact of average property price growth over this period by focussing on the number of sales, again we see that the number of sales has also increased over October 2019 levels.

So our October numbers show anything but a market in turmoil.

Whilst the usual trend is for October's sales to exceed September's, we did flag in last month's Ray White Now that listing numbers in recent months were relatively weak. So it's pleasing to see somewhat of a bounceback in the value of residential stock listed for sale during the month at $6.1 billion, which was well up on $5.5 billion in September. We also reported last month that auction clearance rates, auction bidder numbers and days-on-market have stabilised, pointing toward a more balanced market between buyer and seller. This stabilisation has no doubt created greater confidence in potential vendors to come to market.

The total amount of property for sale in the market has risen sharply this year. In October 2022 we held 21,377 listings, a 39 per cent jump over the prior October when we held 13,005 listings. The most interesting aspect of this is not the fact that listings are up by this much, as we held more listings in the same month in 2017, 2018 and 2019, and just five per cent less in 2020. It's that there were so many more listings that had been on the market for more than 90 days. Twice as many in fact. Nearly 38 per cent of today's listings are older than 90 days.

So what happens to these listings? Extrapolating our data for the first 10 months of this year, these listings will have a 48 per cent chance of selling.

We're seeing some great case studies of properties that have been on the market for some time being re-marketed as auctions and subsequently sold. An example of this is Ray White Windsor identifying 10 properties that had been on the market for between two to three months, and then taking them to auction, achieving seven sales in 42 days. Our 'relaunch campaign' encourages vendors that have been on the market for some time to have a renewed marketing campaign via the auction method to close their sale by Christmas. Many of our clients will see value in not having to worry about what the market might be like in 2023, and bring fresh energy to their campaign to achieve a result before year's end.

Dan White
Managing Director
Ray White Group

THIS MONTH IN **RAY WHITE NOW**

Interest rates continue to increase every month and, at this stage, there's still no sign of inflation declining. Although it's unlikely that we'll see a strong rebound in house prices anytime soon, it's been surprising that over the last two months, capital city medians in many capital cities have begun to creep upwards again. Sydney house prices are up 1.8 per cent since October, while Melbourne has increased by 2.4 per cent. Perth saw a kick up of 0.8 per cent since October while Hobart is up by 1.8 per cent and Canberra has increased by 2.6 per cent.

While surprising given the level of negativity about the market, it's consistent with other market drivers. Population growth has started up again and this is putting pressure on housing demand. While it showed up quickly on rental growth, at some point it will also be putting pressure on price growth. Supply is currently being constrained by high construction costs. On the ground, high prices continue to be paid for renovated properties which remain hard to find. The only real opportunities to grab a bargain seems to be unrenovated homes which, given what's happening to prices, are likely to become more expensive next year.

While it's easy to get caught up in short term price movements, the reality is that they mean very little to most people given that property is not an asset class that's easy to buy and sell quickly. Over the long term, where you buy in the cycle matters far less and property has outperformed shares, gold, term deposits and treasury bonds over the past 10 years. This month, we take a look at long term performance of different investment types, including why financially it makes sense to buy, not just as an investor but also as an owner-occupier. For property specifically, we look at the suburbs that have seen the strongest price growth, as well as the commercial property types that have done best.

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

Nerida Conisbee
Chief Economist
Ray White Group

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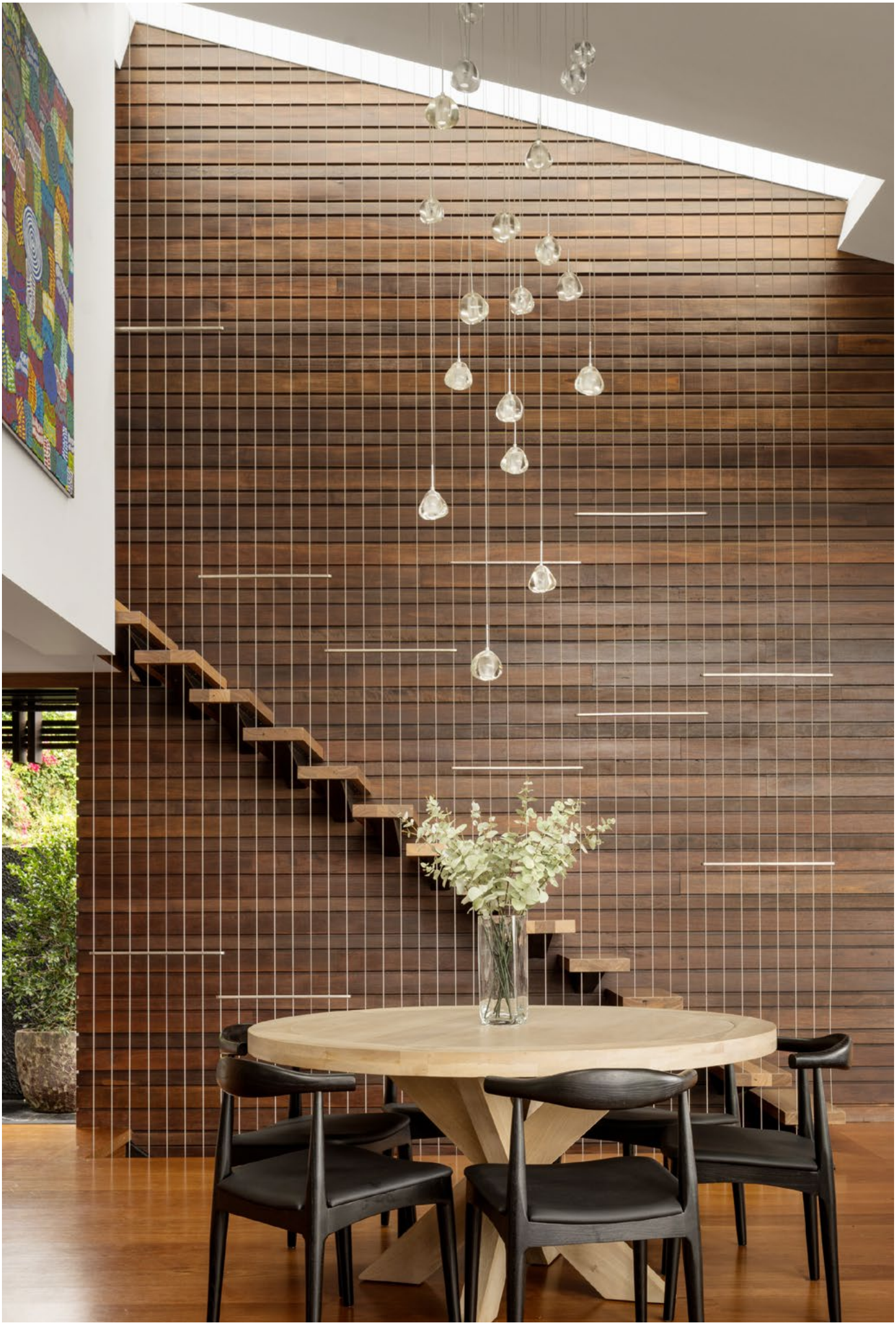

WHY SELL **NOW?**

We recently conducted our Real Estate of Origin, our tri-annual appraisal drive and this one didn't disappoint! Our network came together to hit the phones for a synchronised four hour call-a-thon, talking to homeowners from Auckland to Albury, from Darwin to Dunedin, from Perth to Port Adelaide, and our network united behind the appraisal drive like never before. Over 11,000 homeowners said yes to receiving an update on the current value of their homes. What does that mean?

Taking it from the most cynical to the most optimistic of viewpoints, at the very worst, homeowners may be keen to understand how much their homes may have 'dropped' by and in the best scenario, homeowners may feel optimistic about current market conditions.

Appraisals can be the predictor of listing numbers and based on the spike in appraisals for October, maybe we'll see the typical spring rush hitting in summer this year? Early indications are showing our live listing numbers are starting to climb.

What we need to remember is that while the economic landscape is a consideration to some people's decision making, when it comes to a fundamental necessity of life - such as knowing 'where will I live?', most people will continue to buy and sell property irrespective of what the market conditions are.

We also see that there are certain points in the calendar year that really motivate decision making and undoubtedly, the biggest point every year is the advent of Christmas, New Year and the summer holidays.

The psychological deadline of 31 December is a very powerful motivator for buyers wanting to have a decision made. Every year we see our greatest number of contracts signed during November and December.

The impact of families wanting to be able to tick off the 'finding our next home' job and relax over the summer holidays is a huge motivator. So now really could be the absolute best time to sell your home.

Bianca Denham
Head of Performance
and Recognition
Ray White Group

WHAT'S BEEN THE BEST INVESTMENT **LONG TERM?**

Although people buying and selling property quickly have done well through the pandemic, holding property long-term is always the best strategy to build wealth. Even if you buy at the absolute peak of the market, keeping a property for a long time means that it barely matters. And having a fully owned home at retirement puts you in a vastly different situation to a renter. But how does property compare to other asset classes?

Bitcoin has topped the list over the past decade

Working out the best performer by asset class is difficult for a number of reasons. When you buy it and when you sell it is critical. Entry and exit costs differ according to what you're buying. For the share market we've used both the ASX and the NASDAQ, however different shares yield different returns. Similarly, you can't buy a Sydney median-priced house, and house prices vary a lot across cities but also within suburbs. This analysis doesn't provide a perfect comparison but does give an insight into what has performed well over the past decade and what hasn't.

The star performer over the past decade has been Bitcoin, rising by close to 160,000 per cent. Generally seen as one of the most high-risk investments, it's certainly paid off for anyone that invested a decade ago. At the opposite end of the spectrum are term deposits and Treasury bonds. As opposed to Bitcoin, these are considered the most risk-free investments and their returns have reflected this. A term deposit would have only given you 12.7 per cent return over 10 years.

How did property fare over this time period? Sydney house prices have seen the most growth, up 237 per cent. They were narrowly beaten by the NASDAQ, a selection of US stocks. Hobart was also a top performer, followed by Canberra. In fact, most Australian capital cities did far better than the Australian share market. The ASX beat only Darwin and Perth over this time period.

Tax systems favour property investment and being an owner-occupier

Once purchased, the family home is a tax free asset in most of Australia (Canberra is switching from stamp duty to an annual land tax system). Buying a family home, instead of renting and investing in other asset classes, can mean much less tax is paid over time.

Property investing's role in supply of rental properties also means some tax incentives are in place. In order to ensure a steady supply of rental housing, negative gearing and capital gains tax concessions are in place for those that buy rental properties.

What's been the best investment over the last 10 years?

% value change by asset class

Asset	Unit	2012	2022	(%) Change
Bitcoin	USD	12	19,312	158846.5%
NASDAQ	Index	2,988	10,953	266.6%
Sydney median house	AUD	400,781	1,350,000	236.8%
Hobart median house	AUD	233,994	750,500	220.7%
Canberra median house	AUD	319,397	975,000	205.3%
Melbourne median house	AUD	315,429	920,000	191.7%
Brisbane median house	AUD	275,316	750,000	172.4%
Adelaide median house	AUD	238,771	626,000	162.2%
Perth median house	AUD	250,916	545,000	117.2%
Darwin median house	AUD	268,519	580,000	116.0%
ASX200	Index	4,506	7,252	60.9%
Gold	AUD	1,666	2,620	57.3%
Treasury bonds	AUD	500,000	685,000	37.0%
Term Deposit (12 month)	AUD	10,000	11,716	17.2%

Source: Ray White

Use of debt has made property the best performer for most people

While most people haven't done well out of Bitcoin, a lot have done well out of property. One of the reasons is the use of leverage. Simply, using debt to buy a property has resulted in much better returns. When investing in other asset classes, debt is less often used.

Even small increases in the value of your home can lead to a much bigger financial gain than putting a deposit into alternative investments and then renting. As a very simple example, consider someone (let's call him John) with $100,000 saved. John is considering whether to use his savings to get a mortgage and buy a $1 million home or put his deposit into a share portfolio instead. Both shares and housing are seeing the exact same capital growth of five per cent per annum. If John doesn't buy a home, he will pay rent instead of paying off a mortgage.

After just one year, you already have a vastly different scenario. If John bought the house, the value of his home has increased by $50,000. Alternatively, the value of his shares would have increased by $5,000, 90 per cent less than the capital gain of the house.

Renting long term puts you at a disadvantage given higher exposure to market fluctuations

Buying a first home is important, not just to get on to the property ladder but also because being a renter at retirement means that you are much more likely to be living in poverty. It's also the case that being a renter makes you much more susceptible to market fluctuations.

Consider if you bought in Sydney 10 years ago, you would be paying less on your mortgage now for a home that's worth double than what you paid for it. If you rented, you would be paying $9,360 more per year for a home that you hold no equity in.

Effectively, when you buy, you're locking in repayments at the price you paid. Obviously, this will fluctuate according to interest rate changes but ideally over time you pay down your mortgage reducing this sensitivity. If you rent, then you will always need to pay market rent.

WHERE YOU SHOULD **HAVE BOUGHT**

Over the past decade, the median in Sydney has increased the most. There are a lot of factors that have driven this. Like the rest of Australia, low cost of finance has been a big factor. Similarly, strong population growth has supported housing demand. Sydney is also a difficult city to build in, with waterways, national parks and other geographic barriers making development difficult. This, along with planning and infrastructure issues, has limited new supply. Ten years ago, the median for Sydney was just $401,000. It's now $1.35 million, more than tripling over that time period.

The medians of each capital city have in fact, at least, doubled. Although Darwin saw the lowest amount of growth, its median still increased from $269,000 to $550,000. At an aggregate level, it's held that property prices more than double every 10 years. Once you get to suburb level, there are many suburbs that have seen even higher growth.

Some suburbs that have seen strong growth reflect a change in the types of homes being developed over time. Suburbs moving from a small number of older homes to a large number of new homes often see a big jump in values, primarily due to an improvement in housing stock. Often infrastructure is also improved - better schools, public transport and retail facilities drive housing values. Even small changes can make a difference. An outdated retail strip revitalised by a nice cafe changes the dynamic of a suburb which can flow through to the desirability to live there.

Another major shift has been the popularity of living near water and bushland. Even with high levels of flooding occurring at the moment and destruction caused by bushfires, this is not enough to deter people. Even if homes are not impacted directly, insurance premiums have increased a lot in areas that are more sensitive.

Where we'll see the most house price growth over the next 10 years is difficult to predict. Hobart a decade ago was the most affordable capital city in Australia and no one predicted how significantly it would change to now being one of the most expensive. Similarly, the pandemic drove values in regional Australia and in places like Canberra, another change that was certainly not expected even at the start of the pandemic. Overwhelmingly however, liveability seems to be what people are looking for. While this obviously has different meanings for different people, walkability, nice retail precincts, good schools and efficient public transport seem to always be on buyer's radars.

Top growth suburbs in the last 10 years

Median sale price growth by suburb (%) - Houses

City	Suburb	2012	2022	(%) Difference
Sydney	Oakville	$930,000	$5,600,000	502.2%
Sydney	Luddenham	$550,000	$3,300,000	500.0%
Sydney	Rhodes	$860,000	$5,110,000	494.2%
Melbourne	Flinders	$698,500	$3,280,000	369.6%
Melbourne	St Andrews Beach	$502,000	$1,748,000	248.2%
Melbourne	Red Hill	$595,000	$2,010,000	237.8%
Brisbane	Marburg	$245,500	$700,000	185.1%
Brisbane	Thorneside	$361,000	$957,000	165.1%
Brisbane	Hamilton	$847,500	$2,230,000	163.1%
Adelaide	Hazelwood Park	$655,000	$1,750,000	167.2%
Adelaide	Kensington Gardens	$620,000	$1,587,500	156.0%
Adelaide	Semaphore South	$521,000	$1,270,000	143.8%

Source: Ray White, CoreLogic

Top growth suburbs in the last 10 years

Median sale price growth by suburb (%) - Houses

City	Suburb	2012	2022	(%) Difference
Perth	Herne Hill	$405,000	$1,045,000	158.0%
Perth	Hilbert	$188,500	$420,000	122.8%
Perth	Brabham	$224,000	$485,000	116.5%
Hobart	Primrose Sands	$162,000	$525,000	224.1%
Hobart	Clarendon Vale	$150,000	$458,552	205.7%
Hobart	Rose Bay	$360,000	$1,095,000	204.2%
Darwin	Johnston	$236,500	$627,000	165.1%
Darwin	Bellamack	$222,500	$589,500	164.9%
Darwin	Herbert	$440,000	$649,000	47.5%
Canberra	Forde	$295,000	$1,195,000	305.1%
Canberra	Casey	$255,000	$894,000	250.6%
Canberra	Bonner	$265,000	$883,500	233.4%

Source: Ray White, CoreLogic

COMMERCIAL INVESTMENT STILL WINNING OVER **THE LONG TERM**

Coming off a two year period of high sales volumes and compressed yields, the Australian commercial property market has already shown signs of decreased investment activity and yield correction off the back of rising interest rates. During these last few years we saw an abundance of new players enter the market, capitalising on the cheap and available finance, from smaller first time private buyers through to larger syndicates and offshore groups. Those buyers who looked to diversify their portfolio with the expectation of continued strong capital growth may be feeling the pinch now interest rates have risen to their highest rate in nine years. Inversely, those who are content with steady income returns in the hope of longer-term gains are well placed to ride this wave of volatility which historically commercial property has moved in.

Office

The office market was one of the hardest hit during COVID-19. The move to work from home saw many businesses reconsider their accommodation needs - either relocating, reducing or vacating their office premises. As a result, office vacancies across the country have shown an increase putting pressure on rents and capital values. Despite the change in occupancy and returns, the increased demand to purchase commercial properties saw some buyers move up the risk curve and consider office assets despite the uncertain market. This resulted in yield compression and capital appreciation despite the ongoing reduction in income return. As we enter this phase of increased financing costs, the spotlight has shone on this mismatch, and reductions in capital returns have started to emerge.

Source: The Property Council/IPD Australian All Property Index

Looking across the longer term, the office market has seen much volatility moving in response to economic shocks, impacting capital and total returns. While this may result in some short-term pain for some investors, the quality returns that this asset class has enjoyed over the longer term cannot be understated. Over the past 10 years, it has returned 10.8 per cent per annum and looking back even further, including the GFC period, annual 20 year returns have also eclipsed 10 per cent.

Industrial

The industrial asset class has been the clear winner during the COVID-19 era. There's been rising needs for logistic and distribution space as well as emerging small, local businesses requiring accommodation, which has ensured vacancies remain low and rents moved upward. The construction industry has slowed over the past few years and there's been a vast increase in building costs, resulting in a lack of new supply in the market, further fuelling these results. Buyers were actively looking to invest in industrial assets, from first-time buyers through to experienced groups, with many moving towards secondary assets in the quest to secure an industrial property. As a result, we saw annual total returns peak at 30.2 per cent in December 2021 - a rate well in excess of any previous highs for this market.

Source: The Property Council/IPD Australian All Property Index

While the mismatch in supply and demand ensures income growth will continue for this asset class, the growing interest rates will put a cap on acceptable yields for industrial property in the short term. Industrial has proven to be an outstanding performer and has moved from what was considered as a secondary asset class to a premium one, given the changing way in which our community interacts with industrial property. Total returns over the last five years have hit 15.6 per cent per annum and 14 per cent per annum over the past 10 years, highlighting the longer-term attractiveness of this asset class. Considering the downturn during the GFC, total returns - even over a 20 year horizon - still achieved 12 per cent annually, highlighting the quality, longer-term opportunity on offer for industrial assets.

Retail

The retail market has been one of the harder hit asset classes over the past five years, even prior to COVID-19 competition from online retail. This raised the question of the viability of many retail assets, pressuring investment returns. We've seen, however, the reinvention of many retail centres and strip shops over the last few years, capitalising on the growth in alternative uses such as medical and childcare. These spaces have also been creative in the adaptation of customer experience via entertainment and food offerings. Investment has rebounded again, creating new benchmarks in yields, with assets with development potential now viewed in a different light. While this market has endured the greatest volatility of the major commercial markets, returns continue to be positive and investment demand up albeit at the right price.

Source: The Property Council/IPD Australian All Property Index

Over the past 10 years, retail property has been under the microscope, and during the last few years not enjoyed the same level of investment demand as other commercial real estate. Despite this, total returns still averaged six per cent per annum, while over the longer term (20 years), total returns achieved nine per cent annually, highlighting that commercial assets are a long-term investment play.

SIX TIPS TO SAVE MONEY AS **CASH RATE RISES AGAIN**

The Reserve Bank of Australia has increased the cash rate for the seventh month in a row. The cash rate increased from 2.6 per cent to 2.85 per cent.

Australians are feeling the pinch as interest rates rise across the board. Whether paying off a mortgage, or saving to purchase property, the cost to service a loan is increasing. This, combined with high inflation, growing cost of living, and relatively stagnant wage growth has made it an important time to double down on saving money where possible.

While you may not be able to avoid increasing interest rates if you're on a variable interest rate or an expiring fixed rate loan, there are a number of ways you could still save money.

Six tips to save in an interest-rate-rise environment

Some ways you could save money while interest rates continue to rise include:

1. Refinance: Get your broker to check if you can reprice or refinance your loan to a lower rate or for lower fees.

2. Consider your package: Your broker can also check if your home loan package suits your needs. Switching to something more basic if you're not using all the features could save you in fees. Or if you would make use of additional features that could save you money, such as an offset account, your broker can run the calculations for you to determine if it's worth switching.

3. Change the term: You could consider extending the term of your loan to lower repayments. Keep in mind this means you'll be paying more over the life of the loan, but is an option if you're experiencing cash flow problems now.

4. Check your budget: By making note of all your expenses, you could identify areas where spending could be reduced. This could include memberships, subscriptions or luxury purchases.

5. Offset account/redraw facility: If you have an offset or redraw facility, now is a very good time to make use of them. By putting money into your offset or additional repayments on your loan, you'll save on interest which becomes even more money as interest rates rise.

6. Extra repayments: If your loan allows for it, consider making extra repayments now, which can save you money in the long run as interest rates continue to rise.

If you're looking for ways to save on your home loan, speak to your broker for a free, no-obligation home loan health check. They can also discuss your options and the right strategy to achieve your goals.

Andrea McNaughton
Managing Director
Loan Market

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.

RAY WHITE **ECONOMICS TEAM**

Nerida Conisbee
Chief Economist

Jordan Tormey
Data Analyst

Vanessa Rader
Head of Commercial Research

William Clark
Data Analyst

raywhite.com

raywhitecommercial.com

loanmarket.com.au

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