RAY WHITE **NOW**

SUMMER EDITION

PROUDLY PRESENTING PROPERTY MARKET INSIGHTS IN REAL TIME

A MESSAGE FROM OUR **MANAGING DIRECTOR**

It might not have been a big spring bounce, but it was definitely a bounce. And we'll happily take it!

We recorded $5.6 billion worth of sales in Australia in November 2022. While this was a solid lift from $5.1 billion in October, it was 28 per cent less than what we recorded in the heady days of November 2021.

It's understandable that many may look at the comparison to our November 2021 results and think that we're in a soft market. To illustrate how strong the market was last November, our November 2022 sales results were well up on October 2020 and October 2019, by 20 per cent and 40 per cent respectively.

What didn't bounce in November was the value of new listings that came on the market. The value of residential stock listed for sale during the month was $6 billion, nearly identical to what we listed in October. This was somewhat of a surprise, as we expected that the stabilisation of auction clearance rates and auction bidder numbers would create more confidence in potential vendors to come to market.

There were three acts in the Australian real estate story of 2022. The first act of the year started as last year ended, with more properties being sold than were being listed. Even though auction bidder numbers were in slight decline for the first time in a few years, the process of selling properties and achieving a premium price was flowing well, and new listings continued to rise. These are the hallmarks of a great market for our industry.

The second act started around May. While new listings continued to rise, the amount of property being sold was in decline. During this period, the amount of property on the market began to climb for the first time. 'Stock in' wasn't a problem, though we needed to be more precise in how we managed the sale of our listings to achieve results that met the expectations of our vendor customers.

In the final act of the year which started in October, new listings are in decline for the first time since May 2020. And so while 'stock in' has become a challenge, we also remained challenged to achieve sales results.

The conditions we're now in are emblematic of conditions most common in our history. It's the conditions we actually know best. Trust is built over a longer period of time, and there is no shortcut to creating competition for our vendors. It's a market that rewards those who seek to be proud of every relationship and transaction.

During November we were responsible for more than 22 per cent of all scheduled auctions across Australia. That is five times more than the next largest group. We're proud of that because it means we are creating more competition than any other group.

We'd like to thank all of our members for their hard work and commitment throughout the year, and our customers for their ongoing support.

We wish everyone the best for the holiday season.

Dan White
Managing Director
Ray White Group

THIS MONTH IN **RAY WHITE NOW**

We finished 2022 with one more interest rise, taking us to a 10 year high, and house prices having dropped by 4.5 per cent since they peaked in March this year. While certainly a very different market to 2021, and an easy one to be negative about when it comes to property, it isn't all doom and gloom. Inflation is starting to slowly come back and house price falls took a break in November, stabilising over the month. While interest rate increases may not be over and house prices may continue to fall, it's starting to look like the worst is now over.

This month in Ray White Now, we take a look at 2023 and provide our predictions as to what will happen to both residential and commercial property. Residential property markets continue to show quite divergent activity depending on where you are. Sydney continues to lead the way for falls, driven by much higher debt levels while Adelaide has only recently started to fall. Population growth however continues and will accelerate next year. This is most clearly showing up in rental increases but will start to influence house prices in 2023. Given it's unlikely that Australian house price falls will reach anywhere near a 10 per cent decline, affordability will continue to be a hot topic and Government policy will continue to focus on supplying enough homes in places people want to live.

Commercial property is also being impacted by higher interest rates but similarly to residential, performance also depends on the property type and its location. Value-added assets are expected to be in high demand while anywhere with strong population growth will do well.

We hope you enjoy reading this month's Ray White Now and we look forward to providing you with more property market information in 2023.

Nerida Conisbee
Chief Economist
Ray White Group

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TOP PREDICTIONS FOR 2023 FOR AUSTRALIAN **RESIDENTIAL MARKETS**

We don't have a crystal ball but here are some of the things that we think will happen in residential property markets in 2023.

1. Interest rates to peak

We're yet to see the peak of interest rates but at this point, it's likely to happen early next year. Conditions can of course change quickly however, as of writing, fuel prices have pulled back, supply chain blockages are improving and most recently, we saw inflation pull back slightly. With interest rates rising so rapidly, we'll start to see rising unemployment next year and this is likely to result in interest rates coming back down later in 2023.

2. House price growth to start again

House price data from Neoval, a new property analytics company backed by the White family, has already recorded house prices stabilising across Australia. While this may just be a temporary reprieve, at some point, increasing population growth and a shortage of homes will lead to price pressures that will overtake higher interest rates. Already this is showing up in rental levels. With interest rates starting to stabilise, it will also result in house price growth starting up again.

3. Beach house opportunities

Holiday homes were hot property during the pandemic. Interest rates were low, many of us could work anywhere and we were restricted to holidaying close to home. Interest rates are increasing, many employers want people back in the office at least some of the time and international borders are back open. Add to this growing shortages of long term rentals in many regional beachside locations. This is leading to a crackdown on vacant holiday homes. All of this is likely to lead to more holiday homes on the market.

4. Regional population movement to continue (but slow)

The pandemic sparked the biggest movement to regional Australia ever recorded. While we won't know for sure until later next year, it's likely that this movement has now slowed considerably, however it's unlikely to have ended. The main reason for this is that population movement was already occurring prior to 2020, driven by affordability and improvements to transport links to regional areas. This trend will continue and will particularly benefit those areas close to capital cities that offer high levels of amenity.

5. Apartment living to become more popular

Inner city living wasn't much fun during the pandemic. Much of what makes it great such as great restaurants and entertainment were not available. In addition, living in small places is more problematic when you need to work and study there every day. As a result, we saw record movement to regional areas and very high demand for bigger homes. This is now starting to change back as we move on from pandemic restrictions. Rents are rising again in many inner city apartment markets and pricing will follow from this, further fueled by much lower levels of new development.

6. Rental pain to continue

Population growth and restrictions to housing supply show up most quickly in rental rates, although as discussed above, will also impact pricing in 2023. With population growth accelerating in 2023, as well as construction problems continuing to slow down housing supply, rents will continue to rise. One balancing factor will be lower levels of household formation. Moving out of home, or leaving a shared house, will become less likely as rents and the cost of living continue to rise.

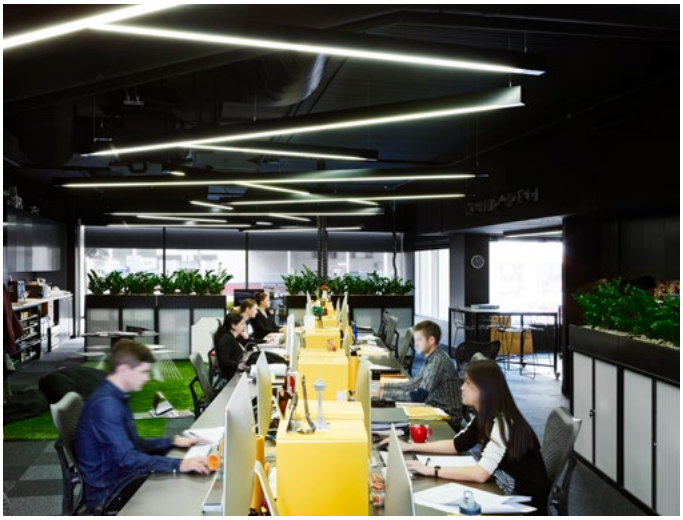
7. Building to become easier but remain challenging

Construction costs are now the biggest component of inflation, having risen by over 20 per cent over the last 12 months. Interest rate rises however are slowing down demand for renovating and building new homes. Similarly, many of the problems that have plagued the industry such as blocked supply chains and labour shortages are now being resolved. Building costs are unlikely to drop considerably however it's likely that it will be easier to find a builder in 2023 and cost escalations will slow.

8. Housing affordability to remain a hot topic

It was a hot topic before the pandemic and after seeing the strongest house price growth ever recorded through 2021, it's now an even more urgent issue. Most recently, the Productivity Commission has found that many first home buyer incentives introduced over the past decade have worsened affordability, as opposed to making it easier for people to get into the market. As a result, expect a greater focus on housing supply, rental stress and social housing.

Nerida Conisbee
Chief Economist
Ray White Group



TOP PREDICTIONS FOR 2023 FOR **AUSTRALIAN COMMERCIAL PROPERTY**

1. Private investors converge on value-add assets

Sales volumes are expected to remain subdued throughout 2023 given the increased cost of finance. While many buyer types will retreat, savvy investors will capitalise on increased yields or even vacant assets, albeit at the right price. Those buyers who see development upside in an asset or are willing to reposition or repurpose an asset to capitalise on future income and capital returns will be rewarded. Remember that commercial property markets historically have shown much volatility, however over the longer term can yield an investor quality returns.

2. More buyers will follow the population

Over the last year, strong interstate population flows from Sydney and Melbourne into Queensland, and to some extent Western Australia, have grown the popularity of investment into these states. Growing population has had a positive impact on occupancy levels and returns for some asset classes due to increased demand. This is notable across the full spectrum of assets, from industrial property via increased logistic and transport needs, a larger workforce descending on retail and office assets, our desire for fast food, and need for childcare. Savvy investors will follow these population movements to aid in keeping vacancies low and income return more favourable.

3. The transformation of the retail asset class

This market has been in an evolution phase since well before COVID-19; with online trade changing the way consumers interact with retail assets. Services will continue to move into our retail strips with uses like medical becoming more prevalent, together with our growing appetite for hospitality assets. Centres will continue to evolve, offering more entertainment options outside of the traditional uses; think Ninja Warrior and e-sports! Food will continue to be an attractor however uses like childcare and co-working office space may take up some larger holes if and when vacations occur.

4. Work from home continues to pressure our major office markets

Markets such as Sydney and Melbourne continue to have a hard time enticing their staff back into the office on a full time basis. Many employers accept this change in working conditions, given the difficulty in attracting talent and

altering the way in which they interact with their office accommodation. This will dampen absorption levels and keep vacancies elevated over the short term, as well as hinder rental increases or incentive reduction. Sentiment shifts across the workforce will continue as COVID-19 cases re-emerge across the community, adding more setbacks to returning to work in some locations, in particular those which have suffered multiple lockdowns in the past. Confidence in office markets in growth zones such as Sunshine Coast, Gold Coast, and Perth - which have benefited from population gains - are likely to remain high, keeping occupancy rates up and future prospects sound.

5. Domestic tourism to rebound, impacting hotel market

While Australians are keen to get back to international travel, uncertainties regarding health, economy and safety will see more travellers seek out domestic holiday options. More affordable airfares and certainty surrounding currency will re-route otherwise international travellers back home, improving occupancy levels and growing average daily room rates to never before seen highs. This will put the spotlight back on hotel assets as an attractive investment choice, from major CBD holdings of interest to foreign buyers, through to smaller coastal motels catering for the whole family (pets included) for the smaller private buyer.

6. Owner occupiers continue to seek out industrial assets

The low vacancy situation across the Australian industrial market will continue into 2023 given the current limited development pipeline. This will put pressure on rents to grow and create uncertainty for small businesses. The continued need for a range of industrial assets (from small units through to large distribution centres) will see occupiers take greater control of their accommodation needs, despite growing financing costs, and actively seek out assets to suit their current or growing business needs, sheltering from possible increases in rents.

7. Government stimulus will grow demand for some assets

Childcare and aged care are two asset classes that enjoy high levels of subsidies for both operators and consumers. This aids in keeping occupancy levels high which means some certainty in returns over the longer term. These assets are typically held in high regard by investors seeking well-maintained facilities, which can hedge against possible changes to the cost of finance. Despite the elevated demand for these assets, location will remain key to ensure the long-term prosperity of the asset and its stable, ongoing income stream.

8. Developments will rebound

After a number of years of limited new supply across most asset classes, next year will see a resurgence in the development of new assets, notably residential and industrial. While construction costs are expected to remain high, the underlying demand for accommodation will see more cranes appear on the skyline. Development site sales have been particularly strong in 2022, and while planning may be a hindering factor, the development pipeline for stock will look more promising into 2023.

Vanessa Rader
Head of Commercial Research
Ray White Group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WHY SELL **NOW?**

And so this is Christmas. Another year is over. It's hard not to become reflective at the end of the year, to take the opportunity to review the year that was; the ups and the downs.

While it's easy to fixate sometimes on the negatives, it's important to remember the reality of the real estate market we find ourselves in. Now that we're in a more balanced market, it's clearer to see just how phenomenal 2021 was, but it was a market that was far too fast paced for many buyers to be able to participate.

With continued media coverage about what interest rates might do next, you could be forgiven for thinking there were no buyers; however, our Loan Market pre-approval figures are showing an all-time high number of applications in the system. The buyers, it would seem, are very much still in the market.

The summer holiday period provides some much needed rest for so many of us, but the break from the rat race also provides the opportunity to think, dream and plan what the next move might be. Many real estate plans are hatched across the lazy days of summer. Life gets reviewed, change of career, change of city, time to upsize, time to downsize.

While traditionally we see a dip in real estate listings over the Christmas to New Year week, this year may be different. Many of the real estate portals are advertising high traffic numbers as holiday makers have time to browse for their next dream home while the demands of work take a back seat. New listing numbers are down against this time last year, meaning there will be more buyers per property than at this time last year. Perhaps launching your property to market during the festive season may be the best way to bring in the new year!

Bianca Denham
Head of Performance
and Recognition
Ray White Group

FOUR REASONS NOW IS A GOOD TIME FOR FIRST-HOME BUYERS (EVEN WITH AN INCREASED CASH RATE)

For the eighth month in a row we saw the Reserve Bank of Australia (RBA) increase the official cash rate. In its final meeting for 2022, the central bank increased the rate from 2.85 per cent to 3.1 per cent in its ongoing bid to cool rising inflation.

This is three per cent higher than the start of the year, which marks the top end of where borrowers were stress tested for new home loans, meaning many homeowners will be feeling the pinch of higher repayments as they service their loans. The small reprieve being the RBA does not meet in January, so there will not be another increase for at least two months.

There has been a lot of talk around what the rising cash rate and ensuing mortgage interest rates means for people who already have a loan, but what about those who are wanting to enter the property market? Rising interest rates means a lower borrowing capacity (the amount a lender is willing to lend you) and the turbulent property market may seem a deterrent for some. However, there are a number of reasons why this could actually be a good opportunity for first-home buyers to enter the property market.

1. Falling property prices

If you're considering buying property, you've probably seen the widely reported news that property prices have dropped in many areas around the country. Property insights provider CoreLogic released data showing houses in some areas in Sydney have dropped in value by up to 25 per cent over the last year and some Melbourne suburbs dropped by nearly 15 per cent. These were the two hardest-hit cities in the property downturn. While this is not great news for homeowners, it can be a great opportunity for people wanting to get into the market. It means homes may be more affordable than they were a year ago. It also means we are moving toward, if not in, a buyers' market - compared to last year's seller's market.

2. Increasing rents

If you've looked for property to rent recently, you would know competition is high, the prices are up and other applicants are offering anything from higher rent to months upfront in a bid to secure a property. According to a recent report by Domain, Australians are experiencing the longest period of rental price growth on record. Nationally, the annual change to September was 12.8 per cent, with Brisbane experiencing the highest increase at 22 per cent. When you purchase your own home, you become your own landlord. Variable rates for home loans are likely to increase and decrease over time, however rents on properties tend to continue to trend upward. Buying your home to live in helps you to get out of the rising-rate environment.

3. Projected flattening of interest rates

The cash rate has increased steadily over the last eight months, and with it interest rates on home loans. The RBA has said it is open-minded about how many future rate increases it will make, however economists at the big four banks have made predictions on when it will peak - ranging from 3.1 per cent to 3.85 per cent. They all predict this peak will happen at some stage in 2023. There are two potential pros for this for people looking to purchase property. Firstly, if we hit the peak in 2023, they're unlikely to experience the same turbulence homeowners experienced through 2022 with the rapidly rising rates. Secondly, the stress test applied to loan applications (where lenders test if you could afford to pay your loan if the rate was three per cent higher than it is on the day you apply) means you should remain within your "comfort" range on repayments if economic factors are brought into control as projected.

4. Higher savings rates

The flip side of the rising cash rate is that the interest rate on savings accounts usually also increases. This is good news for people saving a deposit to purchase property. While we were experiencing the lowest cash rate on record, savers took a big hit where their savings were receiving very little if any interest. Now savings accounts can have interest rates over four per cent (if the bank's specified conditions are met), helping give a boost to that deposit. This combined with the decreasing property prices can put buyers in a better position to get onto the ladder.

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.

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