

JOHN McGRATH'S WINTER
MARKET REVIEW 2011

It is always darkest before the dawn. It seems a lot of people are interested in buying quality property but many are standing on the sidelines looking in. Fear of a second correction has created some hesitation in sections of the market. However this is not representative of the general marketplace in high demand regions, where there is still reasonably strong buying up to \$2M for the right properties and a reasonable depth of demand above \$2M.

Last year, we saw the beginnings of a recovery but this has been punctuated by this new round of uncertainty fuelled by global and macro economic factors as well as natural disasters closer to home.

It's not unusual that in this environment we see the property market stalling as it is generally driven up or down by the economic backdrop and consumer sentiment.

Last year I predicted solid growth in 2011. That prediction might be slightly delayed due to these changes, however I still feel the worst is behind us and we are at the beginning of a long term growth cycle.

My best read is this will gradually move throughout the country starting in major eastern seaboard capitals and continuing for some 3-5 years.

Market observations

- **Market slightly softer** with RP Data figures for the March quarter showing a decline of -2.1% seasonally adjusted (nationally) and -1.1% (Sydney). Clearance rates remain around the 50%-60% mark and there are 30% more homes on the market now compared to this time last year.
- **Luxury property** in every capital city seems to be the sector hardest hit. My experience however is when economic confidence returns this market segment can rise rapidly as high net worth buyers fight for the best homes.
- **Some inner ring markets** (within 10km of CBD) defy the gravitational pull of uncertain economic times such as Sydney's Inner West, which continues to show strong demand.
- **Fundamental market drivers** such as the national housing shortfall and record low building approvals means we won't keep up with population growth and immigration demands. Supply and demand will continue to drive the property market nationwide in the medium term.
- **Interest rate uncertainty** may be causing some concern for some buyers, however with 3-year fixed rates at around 7.25%, buyers can lock in repayments for the short term which should give them a level of comfort. This also suggests that lenders are not expecting rates to escalate much higher than current levels, or at the very least return quickly to those levels if they do. Banks are once again lending 95% LVR indicating a stable climate and the banking sector's confidence and anticipation of a stronger property market with long term capital growth.
- **First home buyers.** As rents continue to escalate there is a greater incentive for tenants to buy prior to the next growth cycle kicking in. NSW is the most popular state with first home buyers who comprise 17.3% of the market, well above the national average of 13.9%. This suggests that FHB's continue to want to enter the market and break the renting cycle in favour



of securing a quality asset. Whilst FHB Boost has been removed, there are still some incentives for first home buyers to make the move and with rents expected to continue their steep rise, it seems logical for them to find an entry point.

- **Excellent environment for investors** with higher rental yields and slightly softer prices. One and two bedroom apartments are hot property in Sydney and there is a growing trend in Self Managed Super Fund investing. According to AFG Mortgage Index* data, VIC dominates with 38.4% of loans to investors; NSW is second with 37.5%.

*Australia's largest mortgage broker

John McGrath's Top Metro Suburb Picks

Houses

- Bellevue Hill
- Breakfast Point
- Bronte
- Glebe
- Haberfield
- Hunters Hill
- Lane Cove
- Manly
- Mosman
- Summer Hill

Apartments

- Cremorne Point
- Cronulla
- Kensington
- Newtown
- North Parramatta
- Potts Point
- Pyrmont
- Rozelle
- Sans Souci
- Waverley

Regional Markets

A continued growing confidence in regions outside major cities has been witnessed by many of our regional offices recording their best results in recent months. While it's still early days and growth in some areas is patchy, it's encouraging to see increasing activity and buyer confidence in areas such as Ballina, Tweed Heads, Wollongong and the Gold Coast.

- **Improving transport infrastructure** (road, air and train) is further opening up regional markets for investors and seachangers. Rental demand is even higher in some areas due to the extra demand from tradespeople working on new roads.
- **Under \$500,000 bracket** the strongest sector with local buyers upgrading or downsizing and out-of-area buyers investing or retiring. The exception is the Gold Coast where there is a significant oversupply – with 300+ homes in Surfers Paradise area listed on realestate.com.au in this price range.
- **Newcastle renaissance.** Newcastle is undergoing a major transformation. The market is buoyant and positive media attention is encouraging retirees, seachangers and investors from as far afield as Melbourne, Brisbane and Sydney. Newcastle is shedding its steel city image and great value is available. A good 3 bedroom house in a decent suburb is about \$500,000. The rental market is strong with a large undersupply and tenants willing to pay six months advance rent. A hot investor market with great capital growth prospects plus high yields.
- **Gold Coast Activity** – The Gold Coast area has been the hardest hit market in Australia. With local business in South-East Queensland suffering and an overweight number of mortgagee sales taking place, prices have plummeted with some homes selling as low as 50% of their purchase price. Whilst this appears a scary time for property owners in that area, it also creates some amazing buying opportunities. We have seen a much greater number of buyers entering the market in the last 60 days. Whilst recovery won't be overnight, right now it appears to me that buying quality residential property on the Gold Coast may deliver the best growth opportunity Australia-wide in the medium term.

John McGrath's Top Regional Picks - Best Buying Opportunities

- East Bowral
- New Lambton
- Avoca Beach
- Bulli
- Main Beach, (Queensland)

Key points and predictions

- Last year's recovery punctuated by a new round of uncertainty fuelled by global and macro economic factors as well as natural disasters closer to home – worst is still behind us though
- Next growth phase in some parts of the country may be delayed by 6-12 months. South-East Queensland is the hardest hit
- Some inner ring areas such as Sydney's Inner West are defying the market slowdown
- New interest rate uncertainty, great opportunity to refinance with significant new bank competition and loans up to 95% LVR available, indicating banks confidence in growth of the residential market
- Excellent environment for investors, escalating rents/softer prices also an incentive for first timers
- Regional recovery continues, hottest price bracket under \$500,000
- Gold Coast property market hardest hit market in Australia, with amazing buying opportunities. Buying on Gold Coast may deliver best growth opportunity Australia-wide in medium term.



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