National Overview

As we head into 2016, two key factors are taking some of the heat out of a number of metropolitan property markets. APRA-initiated caps on investment lending are watering down demand among local investors. In addition, the Chinese government has increased restrictions on the amount of capital its citizens can take out of the country. This, too, is seeing a softening of demand from overseas investors.

POTENTIAL SAVINGS FOR UPGRADES

It’s worth stressing that we are not seeing property values tumble. Nonetheless, more-sustainable growth in our state capitals will benefit first home buyers as well as upgraders, who may have been sitting on the sidelines waiting for markets to take a breather.

Upgrading in the current market can mean selling your current home for a lower price than you may perhaps have achieved, say, 12 months ago. The trade-off is the potential to pocket valuable savings on a home in the next price bracket. As our experts across Australia confirm, the current market offers ample opportunities to take advantage of this strategy.

VALUE IN SOUGHT-AFTER SUBURBS

In Sydney, some locations are experiencing price falls. In Caringbah South, for example, the median house price has dipped from $1.582 million in June 2015 to around $1.28 million at present. Yet with proximity to the Cronulla beaches, nearby transport links and ample local facilities, Caringbah South is expected to deliver strong price growth over the long term.

In Melbourne, suburbs such as Balwyn and Balwyn North, in the city’s east, were a favourite among Chinese investors. As this buyer segment withdraws, auction clearance rates are dropping from around 72% to as low as 30%. This has seen values fall by up to 10%, giving today’s buyers excellent value for money.
DECLINE IN RESOURCE SECTOR BOOSTS AFFORDABILITY IN PERTH
The end of the mining boom is the chief cause of price corrections across virtually the whole Perth market. Median prices in prestige locations such as Peppermint Grove have fallen by more than 10%. The lower end of the market is also more affordable. In suburbs such as Balga, to the north of Perth, vacant development sites formerly priced at $480,000 are now listing for around $420,000 – a saving of 12.5%.

Darwin hasn’t escaped the weaker market conditions. Values in and around the CBD have dropped by 4% over the past year; and to the south, sales in Alice Springs have slowed noticeably, providing value-packed buying opportunities.

TASSIE MARKET PICKS UP
Tasmania’s property market continues to perform below long-term averages, though this is a reflection more of a sluggish state economy than of a downturn in the property market. On a positive note, we are beginning to see increasing sales volumes leading to stock shortages in some areas, suggesting now is a good time to buy.

QUEENSLAND MARKET – A MIXED BAG
Brisbane values are reasonably static, with more of the same expected in 2016. The Gold Coast market is strengthening and is likely to pick up speed as we head towards the Commonwealth Games in 2018.

By contrast, a tapering of investor activity on the Sunshine Coast is creating opportunities in the $600,000 to $900,000 price range typically favoured by upgraders. For buyers in the north of the state, Mackay offers outstanding value. Prices have dropped by around 30% and quality homes that were once priced from $700,000 can now be picked up for around $550,000.

LOOK FOR THE POTENTIAL FOR LONG-TERM GAINS
Regardless of the savings that can be made in a cooler market, buyers still need to be mindful of the fundamentals that will underpin long-term capital gains.

If a location ticks the boxes for ample local facilities, strong transport links and nearby employment opportunities, buyers can be reasonably confident their property will notch up healthy value growth over time.

Brendon Hulcombe
CEO - HERRON TODD WHITE
Melbourne

Melbourne’s residential property market enjoyed considerable value growth in 2015. The calendar year saw $27 billion worth of homes sold at auction – an increase of $6 billion from 2014. Private-treaty sales added an extra $246.43 billion to the tally; and amid strong demand, values rose 11.8% over the 12 months to November 2015\(^1\).

As we head into 2016, there is no firm evidence of softening buyer demand across the metropolitan area; however, certain locations are experiencing cooler conditions. Figures from Core Logic (formerly RP Data) suggest a 3.5% drop in home values across the greater Melbourne area in November 2015\(^2\), and a weakening market in some suburbs is giving upgraders greater opportunities to scale the property ladder.

**Restrictions on Chinese Investors Impact Melbourne’s East**

In 2015, Victoria as a whole enjoyed an auction clearance rate of 75%, driven largely by high demand for Melbourne properties. The eastern suburb of Balwyn and Balwyn North were among the standout performers. Balwyn, where the median house price is $2.017 million, had a clearance rate of 72.1%, while in Balwyn North the median was $1.8 million and the clearance rate was 72.5%. However, in the last two months of 2015, auction clearance rates in these locations dropped to around 30-40%.

Part of this slowdown may be seasonal. Also, sales in these suburbs have been dominated by Chinese buyers and this source of demand is being impacted by Chinese government restrictions that impose a $50,000 per annum limit on individuals moving money out of China. This has taken the sting out of the heated local market, and sale prices in Balwyn and Balwyn North have dropped by as much as 10%. This is enhancing the buying power of upgraders looking to buy into Melbourne’s eastern suburbs.

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\(^1\)National Media Release CoreLogic RP Data Hedonic Home Value Index, November 2015
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BUYERS ARE GAINING THE UPPER HAND
Still in the east, Glen Waverley (auction clearance rate of 76.3%) and Mount Waverley (78.3%) have also felt the pressure of a reduction in foreign investment. We are seeing more stock on the market in these locations and buyers can afford to be picky. It’s quite a different situation from early 2015, when buyers often felt compelled to grab any property that fell within their budget.

We estimate prices in Glen Waverley and Mount Waverley have dropped by somewhere between 5% and 10% over the past couple of months. This presents a clear opportunity for upgraders to enter these highly sought-after markets.

THE DOWNSIDE RISK OF A LOOMING OVERSUPPLY IN THE NORTH
Melbourne’s inner north is experiencing a noticeable flattening of buyer activity, especially in terms of demand for townhouses and units, and this is leading to a modest oversupply.

Vacant land prices in the area have steadily increased throughout 2015, though the abundance of land stock in the outer north highlights the risk of an oversupply in this market also.

INNER WEST REMAINS MORE AFFORDABLE
In the inner west suburbs of Yarraville and Newport, price growth continued well into the final days of 2015, and a rise in median values in Newport suggests this is a market that hasn’t yet showed signs of cooling.

The inner west continues to be more affordable than inner east or bayside locations, and this continues to buoy the location’s popularity. An overhaul of the public transport system servicing the west plus local access to a number of freeways are likely to further underpin value growth in this area, which is conveniently located just 10 kilometres from the Melbourne CBD.

Nonetheless, while price falls are yet to be seen in the inner west, price growth is expected to slow in 2016 and this will give upgraders improved buying power. Already popular with professional couples and young families, the inner west offers a variety of renovated older dwellings and new subdivisions. One issue to be mindful of is the possibility of an oversupply of these new developments as the year unfolds.

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