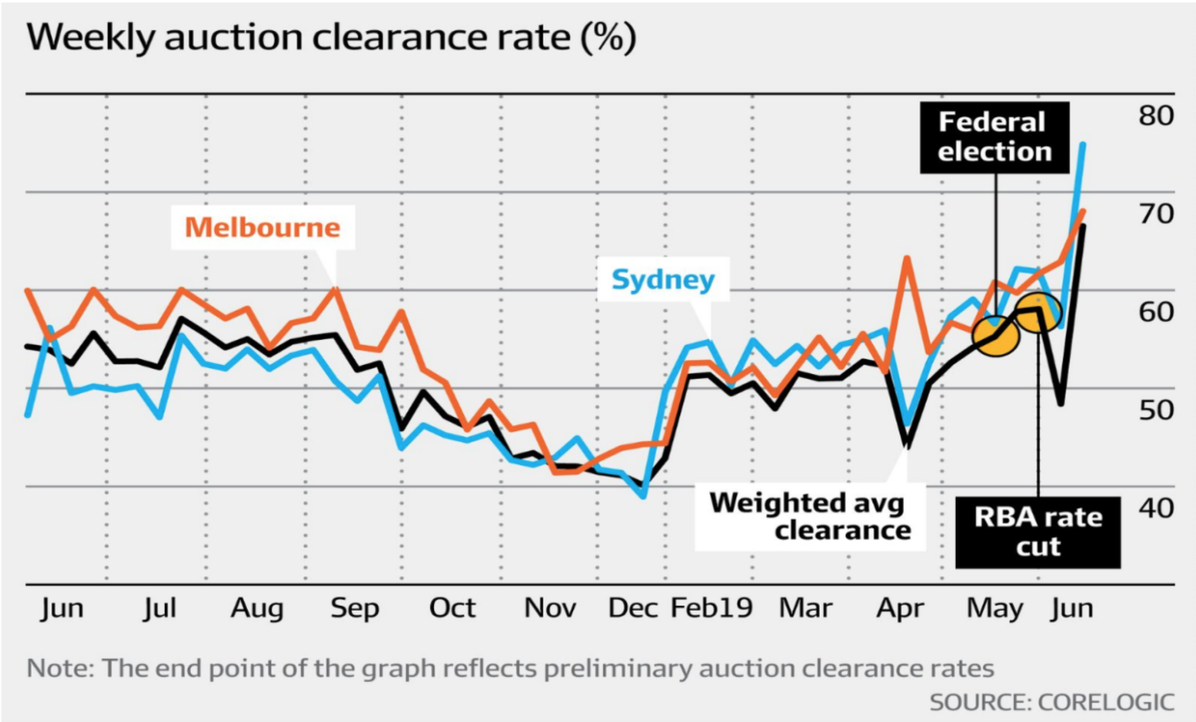
Sydney Residential Property Market Update

July 2019

<u>Overview</u>

Sydney dwelling values trended lower during the last quarter of the Financial Year, before showing signs of life in June! According to Corelogic's most recent report. The median price in May fell a further 0.5% over the month, before seeing a 0.1% rise in June. The Sydney property market now sees dwelling values -**<u>14.8%</u>** from their market peak in July 2017. May was ***the smallest month on month decline since March last year, while June saw the first rise since June 2017!*** This indicates what could be a **<u>consolidation</u>** of downward price movement for the Sydney Residential Property Market.

It was noted that, apartment values in Sydney during April and May (-2.3% QoQ) were playing catch up to median house price falls (-1.9% QoQ). This has been a change over the previous 12 months as apartment prices held reasonably well due to their level of affordability and level of undersupply in the market up to 1H 2018..



Source: www.afr.com

Auction clearance rates in Sydney have been rising from the 40%-60% range over the last year, into the high 60% range (average) over the last quarter, albeit on lower volumes. The combination of a recent interest rate cuts, and vendor discounting, is the main trigger.

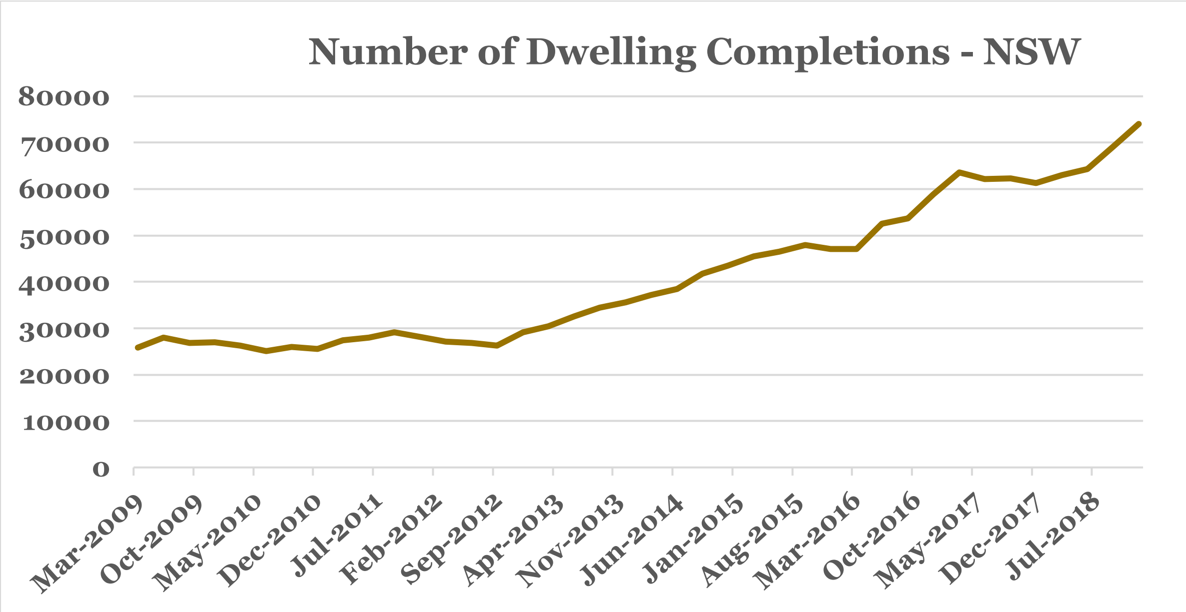
Over the last year there has been 20% fewer properties that have sold in Sydney with an additional ~15% of total listings.

These are positive signs for the Sydney property market.

The recent positive backdrop in dynamics, is seeing the Sydney & Melbourne Property Markets in particular, stabilise.

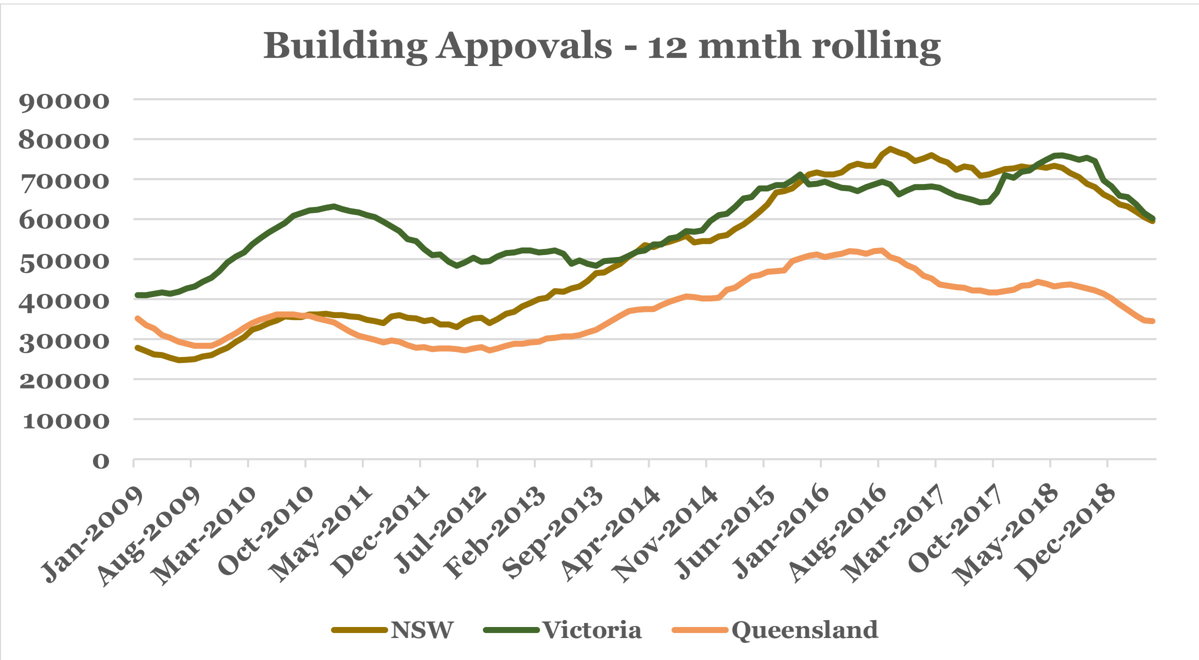
Supply

Restrictive lending practices and the large amount of dwelling completions since the middle of 2017, largely brought about the downfall of Sydney's property prices over the last 12 months. Over the last 2 years (to end 2019) have seen 54,000 new apartments hit the Sydney market taking Sydney Vacancy rates from ~1.7% at its lows to currently 3.4%.



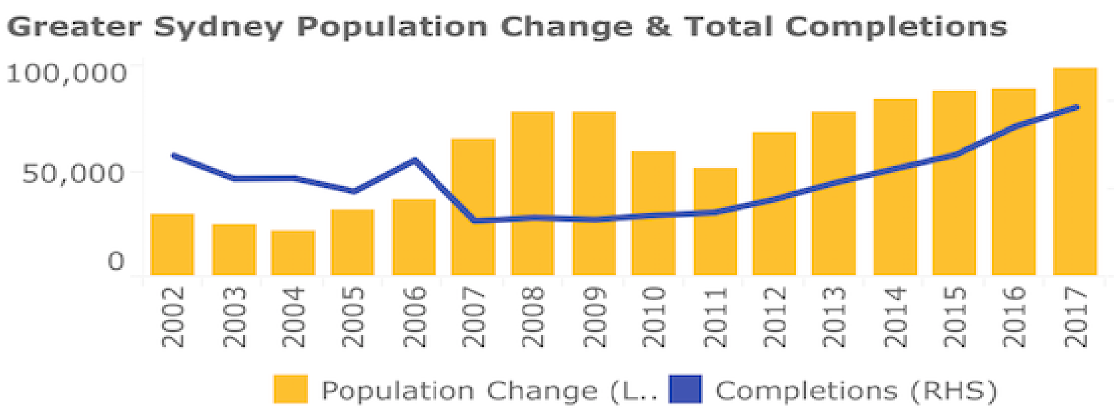
Source: ABS

However, the supply of new attached dwellings (units) to hit the market in Sydney is starting to curtail AGGRESSIVELY. All to do with the recent pull back in dwelling prices, restrictive lending practices and developers seeing projects as not being economically viable.



Demand - Population

Despite this, and because of Australia's desirable qualities including; a robust economy, democratic elections and way of life, the amount of immigrants wanting to move to Australia is relentless, keeping Australia's Population growth >400,000 people, and over 100,000 new Sydney-siders over the last few years!



Source:www.planning.nsw.gov.au

Table 1: 2019–20 Budget population and immigration estimates

	2019	2020	2021	2022
Population	25 621 000	26 070 000	26 525 000	26 981 000
Pop. growth	439 000	449 000	455 000	456 000
Pop. growth (%)	1.74	1.75	1.75	1.72
Net overseas migration	271 700	271 300	267 600	263 800
Natural increase[1]	167 300	177 700	187 400	192 200

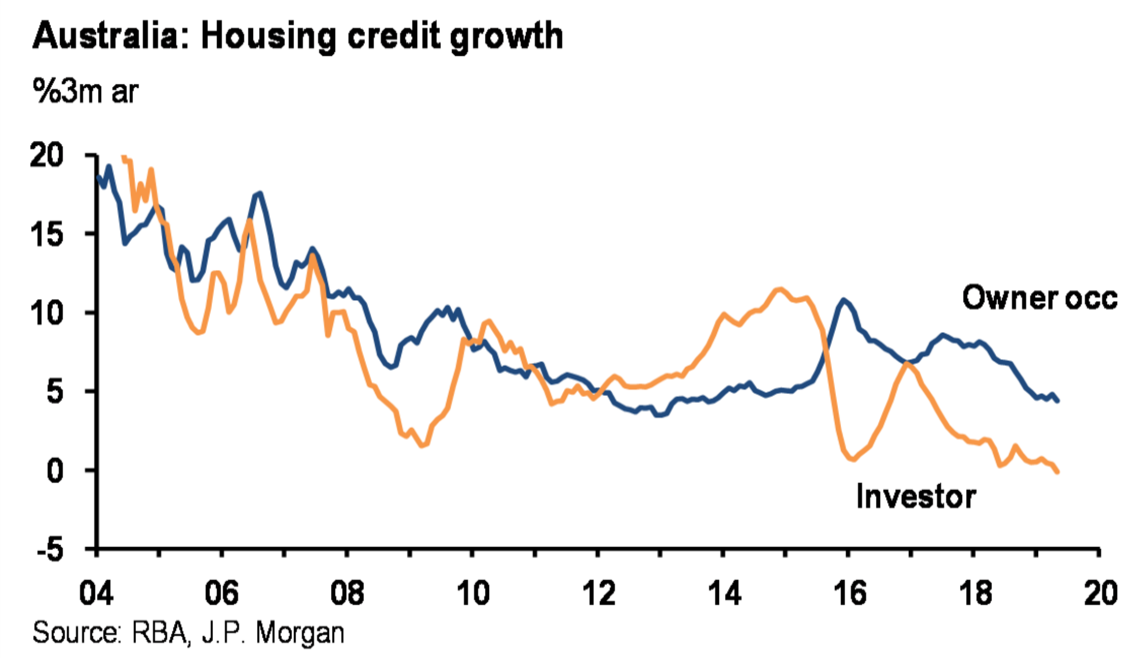
Source: aph.gov.au

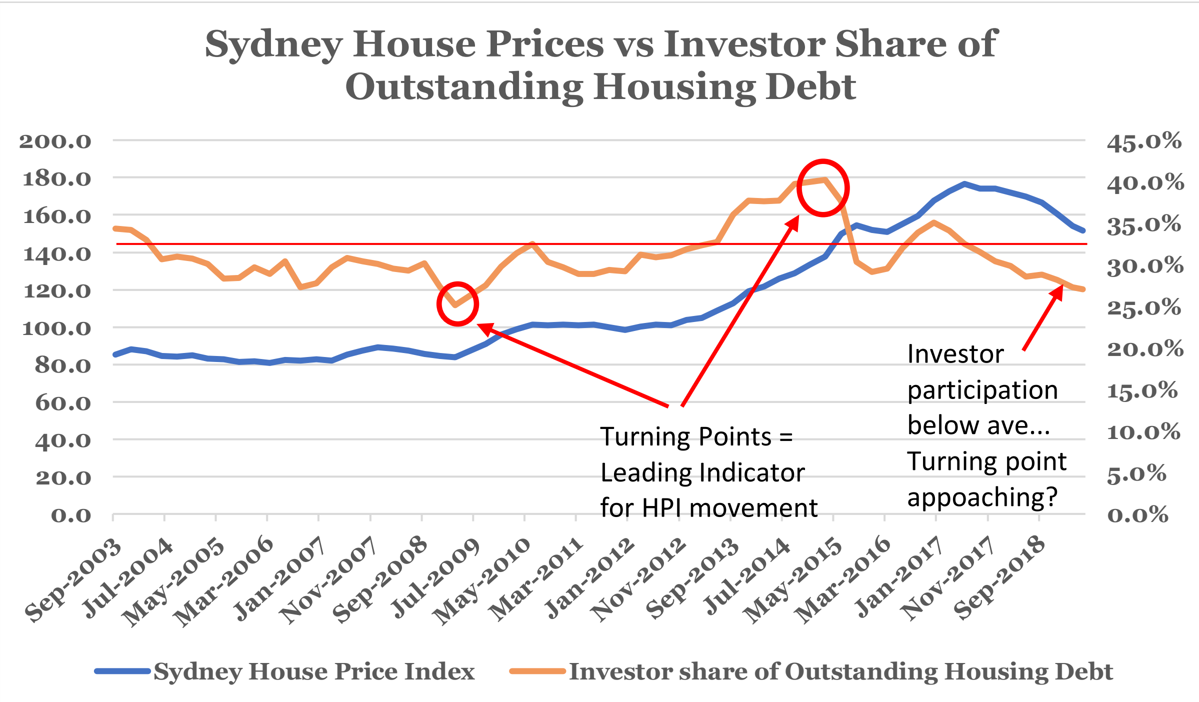
Source: aph.gov.au

Should this continue, the small level of oversupply that Sydney is currently experiencing will be ***absorbed very quickly***!

Lending

One striking macro trend has been the restriction in Investor lending. The most recent data sees Investor Interest-Only lending at ***all-time lows*** and total investor lending ***well below the long term average.*** With low participation rates from investors, and lending to this category of borrowers below average, this bodes well for those contemplating to invest, and with the capacity to invest. With interest rate cuts and low levels of investor participation... Now is an excellent time to revisit entering the Sydney Property market!





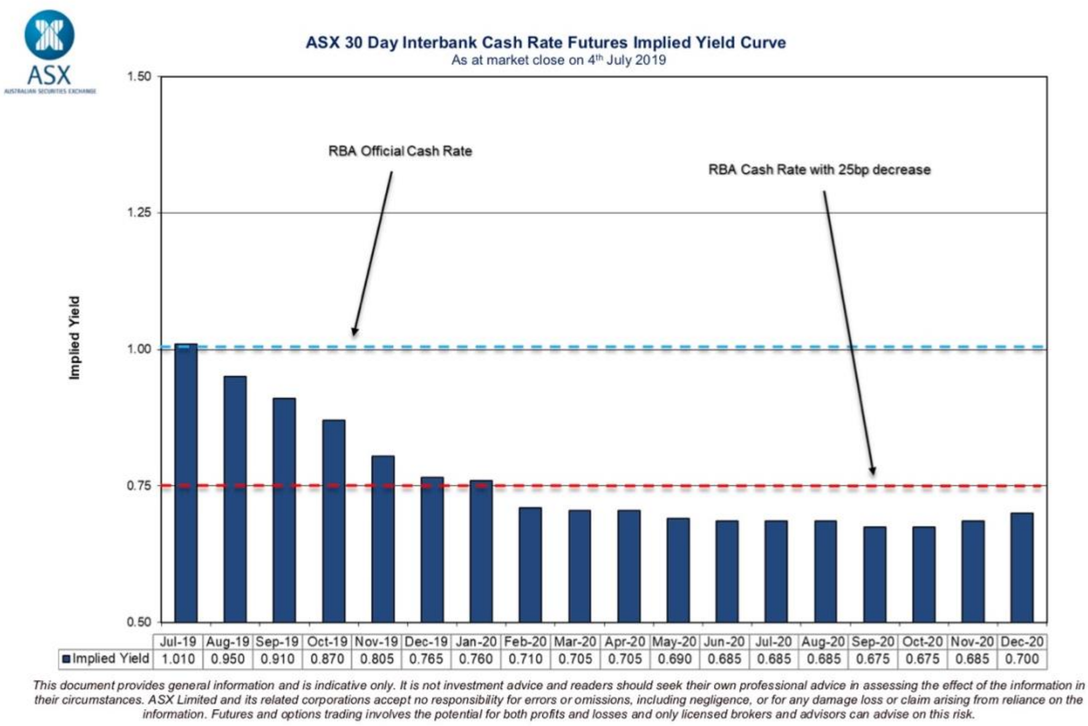
Source: www.abs.gov.au

Interest Rates

The most recent Australian Government Bond Market moves and pricing, are indicating we are likely heading to ***at least a 0.75% cash rate*** by the end of the year. Currently we sit at a 1% cash rate, with many investment banks in the market predicting a 0.5% rate at some point in 2020. Investors (in bond markets) are predicting we will likely see another 25bps by the end of this year, but only a ~30% chance of a 0.5% cash rate at some time next year.

NAME	COUPON	PRICE	YIELD	1 DAY	1 MONTH	1 YEAR	TIME (EDT)
GTAUD2Y:GOV **Australia Bond 2 Year Yield**	5.75	108.80	0.93%	+0	-14	-109	7/5/2019
GTAUD5Y:GOV **Australia Bond 5 Year Yield**	2.75	108.22	0.98%	-1	-15	-127	7/5/2019
GTAUD10Y:GOV **Australia Bond 10 Year Yield**	3.25	118.04	1.28%	-1	-19	-134	7/5/2019
GTAUD15Y:GOV **Australia Bond 15 Year Yield**	2.75	117.06	1.52%	-1	-20	-125	7/5/2019

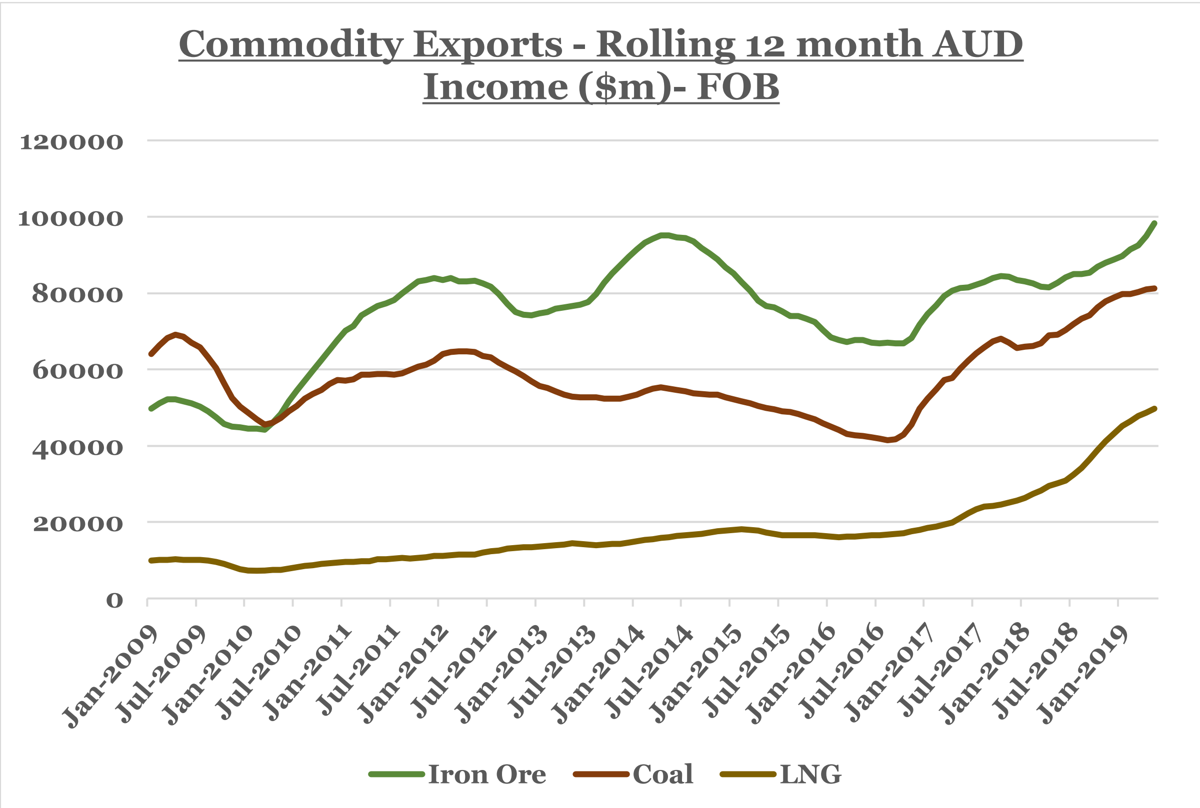
Source: Bloomberg.com



Source: www.asx.com.au

What's driving Interest Rates Lower?

The backdrop of Australia's economy is quite well-insulated thanks to a floating dollar. The AUD/USD rate has been hovering around its Long Term average of 0.70-0.75 for a few years now and with many of our most exported goods being purchased in USD, this is lifting our country's income and what will likely bring about tax cuts over the next few years. The income we are receiving from our three major exports (Iron Ore, Coal & LNG) is now higher than at any time during the "mining boom" mainly thanks to the currency effect!

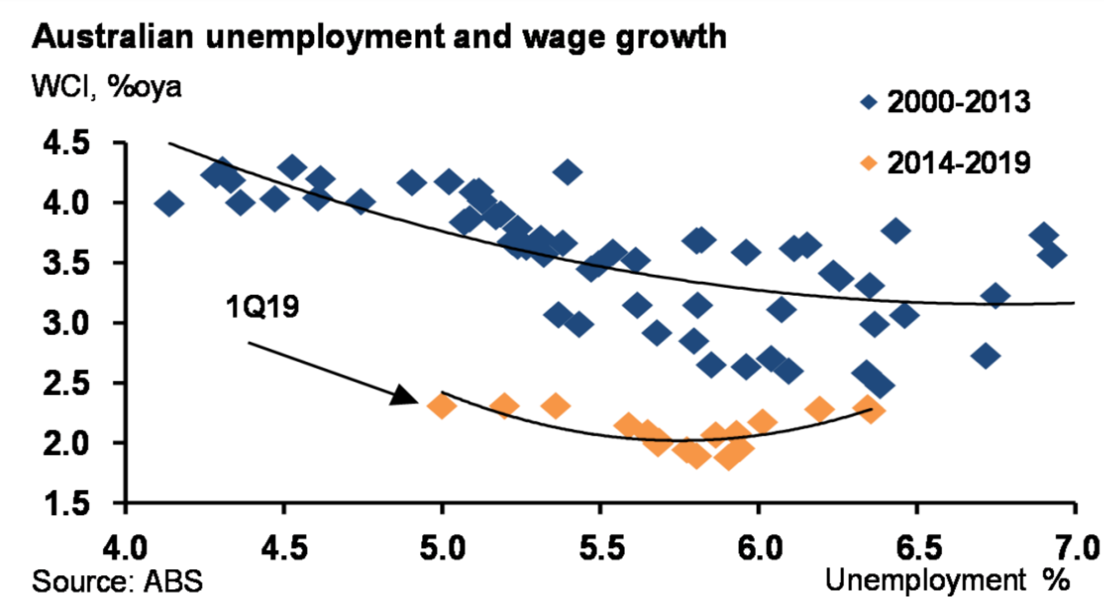


Source: ABS

Despite strong commodity income and employment growth, at this point in the cycle, economists and policy makers have NOT seen significant enough wages growth to bring inflation back to the market.

Australia is seeing a pick-up in nominal wages growth, but at much lower levels in the last 5 years (2014-19), than we have seen between 2000-2013.

This shift in the Phillips Curve (or NAIRU - the relationship between inflation and employment) has been acknowledged by the RBA where it now seems that an unemployment rate of 4.5% or lower is now what is required to get a meaningful acceleration in wage growth.



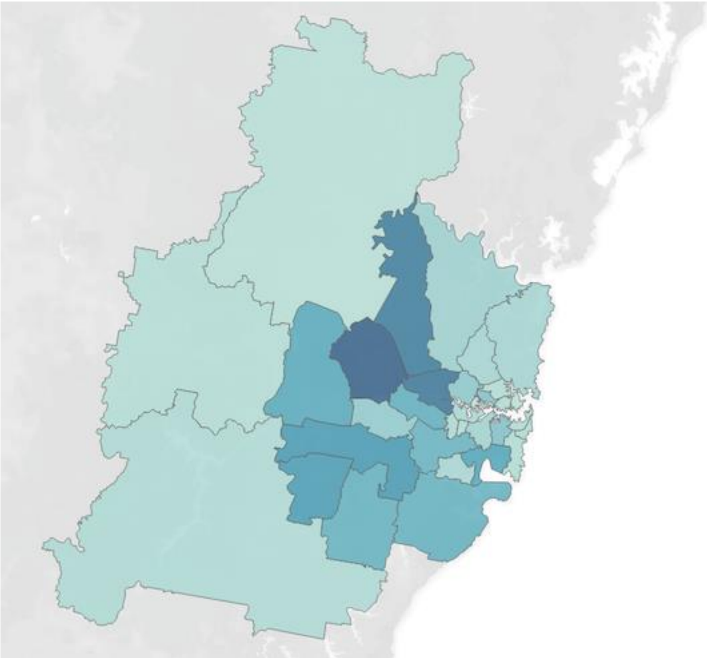
Source: JPMorgan, ABS

It should be worth noting though, that because inflation is so low (~1.6% oya), Australia is actually seeing REAL wages growth.. a strong pre-cursor to future inflation and productivity expectations.

Source: ABS

Sydney Future Supply Segmented

The map below from Planning NSW shows Building Approvals in Sydney by area, with the darker coloured areas showing higher building approvals, than the lighter coloured areas.



Source: http://tiny.cc/zdsz8y

The map indicates that some of the areas with ***lowest amount*** of near term future supply will be: *The Northern beaches, Upper North Shore, Lower North Shore, Eastern Suburbs and Inner West.* Whilst the highest amount of future supply will be in*: The Hills District, Paramatta and Blacktown*

Vacancy Rates are a good indicator of current supply in the market place. Sydney's current vacancy rate as a whole is around 3.3%. Generally speaking, a balanced market is around 3% while anything sub 2% is a very tight market. Nowhere is Sydney currently has a vacancy rate under 2%.

There are indicators of current oversupply in; The Lower and Upper North Shore (Vacancy rate 4.5%), The Hills District (5.3%) and the Sydney CBD (6.8%), while the Northern Beaches (3%), Inner West (3%) and Eastern Suburbs (3.2%) have well-balanced markets, and likely to have first mover advantage when prices shift upward.

These areas could be considered "blue-chip" and maybe "out of reach" for some investors. For value, Fairfield in Sydney's SW suburbs looks attractive with its current low vacancy rate (~2.9%), while the amount of new stock coming to market is also low. Admittedly, nearby Liverpool has a larger portion of apartment approvals, but both Liverpool and Fairfield have very low stock of medium density housing… a highly sought after product in these areas.

It is hard to show with any firm data outside of clearance rates, but the colour from local real estate agents, from various areas of Sydney, are that numbers of parties through at the average open for inspection has increased anywhere between 30-80% in the last 4 weeks (since the election) vs the previous 5 months. A sure sign ***confidence*** has returned to the market, post election.

For any further questions or enquiries regarding buyer advocacy, syndication or developments, please contact Ben Weeding at LGen Property on +61 (0)428 559 308 (Phone or Whatsapp) or via ben@lgen.email

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Referencing:

Information and graphics for this report was sourced from:

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