Practice Group Real Estate

The Australian Property Market

By Allan Farrar

The global financial crisis (GFC) and the economic uncertainty which has followed throughout the world has continued to depress prices of residential real estate in most Australian cities during the past twelve months with the exception of Perth in Western Australia where population growth continues at a significant rate, due largely to the "boom" in Australian mining activity much of which is focussed in Western Australia.

Confidence in the residential sector of the Australian market in general, however, remains brittle with the Australian Reserve Bank having downgraded its economic forecast for 2012 based on its evaluation of likely consequences of the upheaval in the European financial system.

Australia's major residential property markets of Sydney and Melbourne both see continued population growth occurring with immigration providing up to 70% of that growth. This immigration is creating a need for more residential accommodation and whilst the GFC has impacted the residential property market in the $750,000 (AUD) to $5,000,000 (AUD) range the lower end of the market, $300,000 (AUD) to $750,000 (AUD) remains very active.

Interest rates, which had been falling in Australia, have recently steadied with the Australian Reserve Bank maintaining (not reducing) the rate at its recent review contrary to marketing expectations.

Residential house prices in the upper semi-economic markets of Sydney and Melbourne have been hardest hit over the last three years due partly to the downturns in the banking and professional services sectors arising from the GFC and opportunities prevail in significant numbers to acquire residential properties at prices 20% to 30% below their 2007 levels. Despite these opportunities investors continue to "sit on the sidelines" awaiting more positive signs of a global recovery.

Sydney, the largest city in Australia, where some of the best real estate in the world can be found has experienced a dearth of new residential development with dwelling approvals from local government failing to meet the demands of population growth so it can be expected that there will be a recovery in development activity as the economic conditions improve and funding gradually becomes more readily available.

One interesting trend which has developed in Sydney is the desire of buyers of residential property to make acquisitions in new community style developments which have been constructed in Sydney in recent years. One of these developments, Breakfast Point, a 52 hectare development of over 2,000 residences on the upper reaches of Sydney Harbour has outperformed many of the other residential developments constructed in Sydney in recent years with overseas buyers seeing this type of development as a safe, family oriented environment in which to reside.

In Sydney over the past five years the Sydney industrial market has been undergoing a transformation with the upper end of the market moving further away from lower value properties and this trend is expected to continue over the next 12 months. In the last half of 2011 Sydney experienced an increase in the take up of larger warehouse facilities, with both online retailers and importers seeking larger space.

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The Melbourne residential market is considered to be two speed. The inner suburbs are generally outperforming the middle and outer suburbs where there is continuing evidence of softening prices.

In Melbourne, the mid sector of the industrial property investment market maintained a steady position through 2011 and saw a reasonable volume of transactions with market rentals and capital values maintaining there overall position or slightly increasing. The Melbourne Industrial Market showed strong resilience and signs of recovery within a relatively short period of time and it is expected that this resilience will continue in response to an immediate challenges the market may face.

...next page

Having experienced a poor 2011 in residential real estate, Brisbane is coming off a very low base so the signals are that 2012 should be a little firmer. The regional cities of Mackay, Tamworth and Gladstone which are based around Queensland mining sectors are expecting solid growth in line with mining activity.

The outlook for industrial activity in Brisbane is encouraging given forecast economic growth rates for Queensland where business investment is forecast to improve by 27.75% in 2011 to 2012, as construction of gas and coal projects gather momentum and resources investment grows and economic growth is forecast to strengthen to 5.25% in 2012 to 2013 leading to further growth in business investment, as expected stronger domestic demand allows for non-residential construction to improve.

The Western Australian economy continued to perform strongly, underpinned by the rapidly expanding resource industry and this is expected to have a positive affect on the Perth residential market through 2012.

The industrial property marketing in 2011 for Perth experienced a mixed year, although values overall held steady. The high growth in the mining sector provided an important impetus to this property market. Businesses involved in manufacturing or servicing this boom sector expanded their operations in order to meet increased demand and achieve higher levels of output. This has shielded this market from the instabilities and volatilities of the global economy that has affected other property market sectors and indeed other asset classes.

In Adelaide the industrial sector is expected to remain steady, with a secondary market slowing in some areas.

The Adelaide residential property market is in general expected to be subdued for the duration of 2012 with relatively low levels of transaction numbers and the possibility of continuing moderate decline in capital values.

In overall terms the strength of Australia's strong mining economy is expected to shield most of the property market from any further significant reductions in value but significant activity is only anticipated in those parts of the country favourably affected by the resources sector.

Background: Allan is the Chairman of one of Australia's largest private property developers and has been involved with the property industry in both ASX listed and unlisted companies for the past 25 years.

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