THE FORECAST FOR AUSTRALIAN RESIDENTIAL PROPERTY MARKETS IN 2017

PROPERTYobserver

[OUTLOOK AND OPPORTUNITIES]

Property prices are forecast to rise again in 2017, bringing capital gains for home owners and investors who are already in the market. But experts believe there will also be opportunities for people looking to upgrade or buy for the first time, and for those who plan to make new investments.

The pace of price growth is expected to slow in 2017 from previous years. Predictions from SQM Research suggest average capital city prices will rise by 6 to 10%. Other economists have more modest expectations. HSBC, for instance, estimates national housing prices will rise by 2 to 5%.

HOUSES V APARTMENTS

HSBC chief economist Paul Bloxham says apartment prices will rise at a slower pace than detached houses.

"Overall housing price growth should cool somewhat in response to continued tight prudential settings, particularly in the apartment market. Weaker foreign demand, due to a lower RMB, is likely to weigh on the Sydney apartment market ... In the detached house market there is only modest growth in new supply expected," Bloxham says.

HSBC predicts detached houses in Sydney and Melbourne will gain 5 to 6% in value and house prices in Brisbane will rise by 3 to 5%.

Apartment prices in Sydney are expected to be flat or rise by up to 4%. There may be price falls in apartment markets in Melbourne and Brisbane following construction booms that led to an oversupply of apartments in those cities' CBDs. Melbourne apartments may lose up to 5% in value and Brisbane apartment prices may drop up to 4%, HSBC predicts.

ENTRY POINTS

Slowing price growth may present an opportunity for first time buyers to enter the market, especially those who have saved a deposit, Finder.com.au insights manager Graham Cooke says.

"House prices may not continue to run away from [first home buyers]," Cooke says. "Further, borrowing for a home loan has never been cheaper."

Owner occupier home loans are available with interest rates as low as 3.6%, according to Finder.com.au.

INVESTMENTS

Investors may need to be more discerning about what and where they buy in 2017.

“Properties close to the city will feel the effects of any market contraction less, and will recover quicker once the market bounces back. Thus smart investment in the current market may lie in the inner suburbs,” Cooke says.

Economic indicators such as interest rates, population growth and vacancy rates look good for investment property, particularly in the major population centres, but results will vary depending on where buyers look, Frasers Property Australia executive general manager – residential Anthony Boyd says.

“For specific opportunities, it’s important to look at sub-markets with infrastructure such as public transport – trains where possible – that are central, close to employment hubs, schools and shops,” Boyd says.

A property within 500 metres of a train station in Sydney, for example, is likely to be attractive to a wide range of tenants and future buyers, boosting potential investment returns.

People who are prepared to buy in newly developed areas before the infrastructure has been put in place may be rewarded with stronger-than-average capital growth over the long term, Boyd says.

DEMAND V SUPPLY

Investors should look for opportunities in areas where demand for rental and share accommodation outstrips supply as it will be easiest to attract tenants in these areas, REA Group chief economist Nerida Conisbee says.

Searches on REA’s realestate.com.au site suggest the demand-supply mismatch is biggest in the Gold Coast, Melbourne’s inner suburbs including Richmond, St Kilda and Fitzroy, and Sydney’s inner west.

HIGH END PROPERTIES

In suburbs where the average price point of properties is over $1 million, data from realestate.com.au suggests proximity to large shopping centres such as the malls at Box Hill, Doncaster and The Glen in Melbourne and Chatswood Chase in Sydney is a major drawcard.

“Nine out of the top ten are located near to large regional shopping centres, with Asian buyers dominant in driving demand in those areas,” Conisbee says. “Any big shopping centre is worth looking around.”

Cohen Handler co-founder and managing director, Simon Cohen, expects demand for prestige properties – valued at $3 million and above – to increase in the coming year. “With a limited supply of prestige properties available, the market will remain competitive.

As we lead into the spring and summer months, we typically see more competition among high-end buyers," Cohen says.

The business recently launched Cohen Handler Prestige after experiencing a 400% increase in enquiries about prestige properties in 2015 and a 300% increase in 2016.

Cohen says high-value home buying often occurs off-market so buyers looking for opportunities at these price points typically need specialist assistance.

[RISKS AND CHALLENGES]

There are several risk that may affect the stability of property markets around the country.

"The biggest risk for 2017 is that consumer confidence dies off, although I'm not predicting it to happen," says Frasers Property Australia's Anthony Boyd.

Consumer confidence is affected by local and global politics, economics, budgets and changes in policy, among other factors. Sentiment particularly drives property investment and development.

INTEREST RATES AND LENDING

Another key risk is that interest rates may rise and it may become more difficult to obtain finance, says real estate group Starr Partners chief executive Douglas Driscoll. He expects lenders to lift interest rates and to become fussier about what they lend on.

"For those buying property now, my advice is to choose a loan with a fixed interest rate because the reality is, rates won't stay at record low levels for much longer," Driscoll says.

REA Group's Nerida Conisbee does not expect the Reserve Bank of Australia to begin lifting rates but warns lenders may move rates independently.

"They will start to look at ways to moderate lending, particularly to investors so I think it will become more expensive for investors," she says.

Greater lending restrictions may impact on some property developers' projects, says Boyd.

"There's a bigger risk that some projects won't proceed in 2017 even where they've got levels of presales, some developers may find it difficult to get finance," Boyd says.

OVERVALUATION

The sharp price increases of the past few years could leave the market exposed to a downturn in 2018, according to SQM Research managing director Louis Christopher.

"The housing market is currently at its second most overvalued point on record and now, given a combination of factors including loose monetary policy, strong population growth and booming local economies, prices in Sydney and Melbourne will be rising from this very lofty valuation point," Christopher says.

Dwelling prices could increase in Sydney by 11 to 16%, and in Melbourne by 10 to 15% in 2017, SQM Research forecasts. Further interest rate cuts could trigger even larger price gains around 18% for the year – the researcher predicts.

Such price rises would leave the markets in Sydney and Melbourne "dangerously overvalued and paving the way for a possible correction in 2018", Christopher says.

Housing prices in the other capital cities are expected to increase more modestly so the risk is expected to be less severe.

OVERSUPPLY

Large numbers of apartments have been developed in inner Brisbane and inner Melbourne, which may create challenges in the balance between supply and demand for those markets in 2017.

"In some suburbs, it is likely that we will get to the point where the amount of units will exceed demand. Rental vacancy rates may start to climb, leaving more choice for tenants, but I think prices will remain steady because of the burgeoning population," Starr Partners' Douglas Driscoll says.

Conisbee says prices have fallen in some locations due to an oversupply of apartments.

"As more projects complete there will be no growth or falling prices. There will also be challenges to get tenants," she says. "That's good for affordability but challenging for people who have already bought and are relying on capital growth."

SHORTAGE OF LISTINGS

While some markets are experiencing an oversupply, others – particularly the market for established detached houses – face shortages.

A recent survey conducted by the Real Estate Buyers Agents Association of Australia, showed 70% of respondents cited lack of good quality established property as the major issue facing the nation's buyers.

This is forcing home buyers to compromise, overpay or wait extended periods before something suitable comes onto the market, REBAA says.

Some buyers are being pressured into making poor purchasing decisions such as being forced to sign unconditional contracts without time for adequate due diligence or simply relying on reports supplied by the vendor.

REBAA NSW member Sebastian James says buyer's agents can help clients buy off market and pre-market.

"The advantage is reduced competition and fairer pricing driven by comparable sales and not by the fear and emotion experienced in the majority of property transactions," James says.

[TIPS]

The outlook for property markets looks positive and while there are risks, there will be many opportunities for investors and home buyers to benefit. Here are some tips from the experts on how to make the most of 2017.

1. Buy for the long term

"Population growth, vacancy rates, the current state of demand and supply are strong. But I would caution people if they are only looking to buy property on a short-term basis that there is risk," says Frasers Property Australia's Anthony Boyd.

Finder.com.au insights manager Graham Cooke agrees. "There's not a huge amount to worry about for homebuyers, especially if you intend to live in your new home for a long time without moving, as in the long-term markets will be stable," he says.

2. Jump in when you can, but be prepared

With property markets forecast to rise again this year, Boyd says buyers would be wise to buy as soon as they can.
"There are plenty of people who have been waiting for two to three years for prices to fall and who are disappointed," Boyd says.

"Our attitude is that you should always jump in as long as you can stand the finance if interest rates go up or you are required to put more equity into an investment loan.
"Do it as early as possible and take advantage of that growth."

3. Consider all the risks

"Investors should be cautious," Cooke says. "While moderate growth is expected, if the market contracts at all it'll be multi-property investors who are the first the feel the heat. If the rental market follows suit, negative equity could become a serious threat.

"While this is unlikely, it's important to consider all risks when investing. As mentioned earlier, inner city property will present less of a risk. Houses, also, will present less off a risk than apartments."

4. Research sub-markets separately

Look at local factors and details of the individual property when researching to buy. HSBC's Paul Bloxham says different parts of the country and different types of property are at different stages of the market cycle. "It has always been a misconception to refer to Australia as having one housing market," Bloxham says. "After all, Australia's population is strewn across a whole continent and each region is affected by different forces. The cycles in Western Australia and Queensland have been driven by mining, while the south-eastern states have larger services sectors."

5. Don't rely too heavily on technology

Low cost and free online tools and data can help buyers with their research but Real Estate Buyers Agents Association of Australia president Rich Harvey warns against relying exclusively on such technology to make purchase decisions.
"The serious danger we see for buyers and investors is how this information is interpreted and acted upon," Harvey says.

Free tools may fail to consider specifics of a property such as renovation works and aspect, and may miss details about what is driving the local market.
"Take the investor who sees a report promising high capital growth and yield based on two years figures, then buys a property but has major regrets two years later when developers flood the market or the mining boom subsides."

Buyers should supplement their online research by seeking specialist advice, speaking to local agents and looking at the neighbourhood for themselves.

6. Consider using a buyers' agent

Buyers could also consider engaging their own agent, Harvey says.
"While an app can punch out a price estimate in five seconds, it can takes years of training and experience to understand property values accurately," he says.

Buyer's agents can help with analysing data and negotiating a sale. They can also help protect buyers from making emotional, rather than informed, decisions.

7. Consider buying off the plan

First home buyers, anxious about buying at auction, may find there is less pressure if they buy off the plan, Boyd says.
Buying off the plan affords time for decision making, allowing the buyer to consider their options and avoid last minute pressures, he says.

8. Research the developer

When buying off the plan or new, it's essential to research the developer, says Boyd.
"The quality of the developer will drive the quality of the property," he says.
Look at the developer's reputation, track record, and other completed projects.