20th April 2019

The Week In Real Estate

Vacancy Rates Fall Further in March

The national residential vacancy rate fell further to a low of 2.1% in March 2019, with four of the eight capital cities recording vacancy rates between 0.4% and 1.6%, according to SQM Research.

Canberra is the only capital city to increase its vacancy rate (from 0.8% in February to 0.9% in March 2019), but continues to have the second lowest rate among the capital cities. Hobart, steady at 0.4%, remains the city with the tightest rental market. Sydney, Melbourne, Brisbane, Perth and Adelaide all experienced a 0.1% decrease in vacancy rates in March. Sydney currently has the second highest vacancy rate at 3.1%, despite improving from 3.2% in February. Darwin's vacancy is now 3.7% as the city continues to rank the highest since it overtook Perth in September. Perth vacancies have dropped from 4.1% a year ago to 2.9% in March - and was the only city to record increases in rents for both houses and units during the month.

But in annual terms rents are rising in most cities. In addition, almost every regional area in NSW, Victoria and Queensland recorded rent rises in the past year, according to Domain.

Millennials To Exploit Market Trends

Millennials plan to invest in real estate by taking advantage of falling house prices in the biggest cities. A survey by comparison website Finder indicates that 35% of Australians aged 34-38 believe they have something to gain from recent price drops.

Finder says that's 1.9 million Gen Ys buoyed by the prospect of a bargain. Kate Browne, Finder's personal finance expert, says savvy Millennials see the downturn in Sydney and Melbourne as an opportunity to create wealth.

"There's no reason Millennials can't have their smashed avo and eat it too – especially in this current market," she says. "But being an opportunist requires planning. Boost your savings and get home loan pre-approval in place so you are ready to snap up a bargain when you see one."

Overall, one in five Australians (19%) are interested in buying property amid recent price drops in the big cities. The survey of 2,026 Australians found the big city property slump has had no effect on the purchase decisions of 30% of people, while the remaining 50% are not looking to buy property at this time.

Quote of the Week

"A housing market slowdown is a fresh start for those who had been priced out of the market. At the same time, a lot of investors want to get in while prices are dropping and interest rates are low."

Kate Browne, personal finance expert at comparison website Finder.

Yields Rise Across Capital Cities

The return investors can expect on properties across Australia's major cities is rising, with rising rentals creating improvements in some cities and falling prices helping in others.

Rental yields increased in all capital cities bar Brisbane over the past three months, data from the latest Domain Rental Report shows.

With yields still lowest in Sydney and Melbourne, investors are increasingly looking to spend elsewhere, says Rich Harvey of propertybuyer. "You would only ever consider going to that low a yield if you knew there was going to be a strong capital gain," Harvey says. "We're seeing a lot of investors now interested in regional areas or Brisbane."

Units in Canberra, with a gross yield of 6.14%, offered the best return in the March Quarter, followed by Darwin with 6.07%. Hobart offered the best yield for houses at 5.13%, helped by the lowest vacancy rate in capital city Australia.

"For investors, Hobart is a double win – it not only has the highest yield, but it's seen significant capital growth," says Domain's Nicola Powell.

ALP Gearing Numbers "Don't Add Up"

New independent analysis has added qualitative proof to claims the Labor Party relied on incorrect assumptions in formulating its negative gearing policy.

The figures by MCG Quantity Surveyors show Labor's assertions on the percentage of investors buying new homes were grossly understated, calling into question their revenue projections.

It describes Labor's assessment as "woefully inaccurate".

"Shadow treasurer Chris Bowen has suggested new-buy investors comprised anywhere between 4% and 14% of the cohort, but our figures suggest this is patently wrong with the number actually over 40%," says Mike Mortlock, managing director of MCG.

"Labor's based much of their projected Budget revenue on the premise investors will move 'en masse' from buying existing property to new holdings due to its negative gearing changes," he says. "But our figures show investors are already buying new."

Westpac Joins Banks In Cutting Rates

Westpac has reduced interest rates on fixed-rate mortgages by up to 0.2 percentage points, following a recent round of similar decreases by ANZ, the Commonwealth Bank and many of the smaller lenders.

Westpac is lowering fixed-rates across three, four, and five-year products for owner-occupiers who pay principal and interest. It is also reducing fixed rates for investors across two, three and five-year terms.

The biggest cut for owner-occupiers was a 0.2 percentage point reduction in the four-year fixed rate, to 4.09%, matching CBA. For investors, the biggest cut is a 0.2 percentage point reduction on its three-year loan, to 3.99%, also matching CBA.

It comes as banks are facing slower loan growth after the increased scrutiny of banks led many to slow down their loan approval times.

The Westpac cuts will apply only to customers taking out a new fixed-rate loan. They do not affect interest rates on variable rate loans, which are the most common type of mortgage in Australia.