

The Week In Real Estate



Smaller Cities Lead May Price Growth

The smaller capital cities and regional markets continue to lead price growth in residential markets, according to data from two research companies.

SQM Research records 1.6% growth nationwide in house prices in May, with Brisbane, Adelaide, Canberra and Hobart all recording increases above 2% during the month. SQM says house prices have grown 18.9% nationally and 16.9% in the combined capital cities in the 12 months to 31 May.

CoreLogic says house prices have grown 15.6% in the past 12 months nationally but 22.4% in the Combined Regional areas. Its 1 June Home Value Index records monthly rises in Brisbane, Adelaide, Perth, Hobart and Darwin, as well as all seven state regional markets, with Adelaide leading with an increase of 1.9%.

CoreLogic records declines of 1.1% in Sydney and 0.8% in Melbourne in May, while SQM says Sydney prices recorded no change in May while Melbourne fell 0.4%. The figures highlight the data differences from alternative sources and the dominance of the smaller cities and regions.

Quote of the Week

"Homeowners and investors are being drawn to completed homes rather than those with renovation potential. Given costs are predicted to elevate over the coming 1-2 years, I'd venture that finished homes will not only retain their price premium, but the value spread between renovated and unrenovated properties will get wider."

Herron Todd White CEO Gary Brinkworth

New Homes Taking Longer To Build

Labour and materials shortages continue to blow out the time it takes to build a new home in Australia.

Reserve Bank assistant governor Luci Ellis told the Urban Development Institute of Australia the average time to build a home was now nine months instead of six months.

She does not expect the pressure to ease any time soon as builders are dealing with a backlog of projects but says that ultimately it will work itself out.

"Exactly when that will happen is hard to know. But when it does, we can expect some of the current rate of cost escalation and squeeze on margins to ease," she says.

ABS figures show residential construction costs increased by 10% in the year to March.

Max Shifman of Intrapac Property says builders are experiencing continued delays.

"I'd say if you are looking to build a new home now, you are looking at over 12 months before builders are able to start work," Shifman says.





What Home Buyers Want Now

Buyers keen on an existing property are targeting properties in waterfront suburbs and affordable family-friendly areas, according to Domain's analysis of real estate searches. It also found swimming pools, courtyards and studies were top of buyers' must-have lists.

Domain chief of research and economics Nicola Powell says the housing preferences triggered by the pandemic continue to dominate where people are buying. "The higher interest rate and tighter lending have reduced buyers' borrowing capacity, so they would have to look at what and where they can afford," she says.

Sydney's eastern suburbs of Randwick, Maroubra and Paddington attracted the largest number of buyer inquiries. In Melbourne, Southbank, South Yarra and Docklands are the most popular with potential buyers, while in Queensland, Surfers Paradise chalked up the most inquiries followed by Upper Coomera, Kallangur, Caboolture and Redbank Plains.

In South Australia, Christies Beach and Henley Beach are the most popular, while investors are keen on Munno Para West and Davoren Park.

Downsizing Boosted Market

House prices rose at their fastest rate in more than 30 years during the pandemic despite the absence of international migrants.

Reserve Bank assistant Governor Luci Ellis says Australia's population had been made smaller because of the drop in migration, but this did not affect the housing market.

She says that instead prices continued to rise as more Australians decided to enter the property market. Household sizes fell as people moved out of share houses or their parent's homes.

"Some young adults moved back in with their parents at the onset of the pandemic, but that shift has since reversed," she says.

"On the question of who you would rather be locked down with, at least some Australians have voted with their removalists' van, by moving out of their share house and in with their partner.

"Spurred by the experience of lockdown and self-isolation, many people understandably wanted a bit more space, and perhaps a garden."

Record Pipeline To Sustain Building

The construction industry is still feeling the affects of labour shortages and materials cost increases, with new figures showing work done on new houses in the March Quarter dropped by 3.5%.

Housing Industry Association Economist Tom Devitt says building activity early in the year was held back by the staff absences associated through Covid and also the extended leave that many Australians took over the summer holidays.

"There is still an enormous pipeline of work to complete across all regions," Devitt says.

"At the end of 2021, there were 76% more detached homes under construction than pre-pandemic. The volume of detached homes approved but not yet commenced was also at a record high."

Devitt says there is enough work in the pipeline to keep activity strong through to December 2023.

"The value of multi-unit construction increased by 2.6% in the March 2022 Quarter, though this is still well down from the peak of the previous cycle," he says.

