The Experts

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Autumn market update

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by John McGrath

It's exciting times in Australian real estate, and the focus of our national market - Sydney, being the hottest I have seen it in many years.

There are positive signs for a continuing nationwide recovery. The first round of figures from RP Data for January 2014 revealed price growth in every capital city – the first time that's happened in four years. This continued in February (with the exception of Darwin). We're also seeing record levels of new borrowing across the country, with latest figures from Australia's largest mortgage broker, AFG showing a 27% jump in February compared to 2013. Rock bottom interest rates continue to have a strong effect, with no signs that the RBA is intending to increase them any time soon.

The two markets that are most exciting to me right now are Sydney and Brisbane.

Last year, Sydney experienced phenomenal growth with overall values (houses and apartments) up 14.5%. About 30% of that growth occurred in the December quarter, so we had a very strong finish to the year that has now extended into 2014.

Sydney's overall dwelling values increased 0.8% in January and 0.8% again in February. That's a good growth rate and if it stays the same then we're on track for another 10% gain this year, but I think 5-10% is a more realistic expectation.

Vendor confidence has definitely increased in Sydney, with a doubling in McGrath's listings compared to 2013. More sellers are also choosing the auction method to leverage the strong competition among buyers right now.

The factors that will keep Sydney's market firing in 2014 include increasing investor and upgrader activity, very short supply and a burgeoning Chinese interest in the prestige sector.

Despite frenzied buying activity, I have no concerns about people over-leveraging as the lessons of the GFC won't easily be forgotten. Latest AFG figures show the average LVR of today's buyers in NSW/Sydney is 65.6% – well below the banks' comfort zone of 80% and even below the national average of 68%.

It's important to note that the frenzy can't continue forever. Boom time clearance rates like the 86% Sydney recorded on its first Super Saturday can't be repeated week after week. But there's every reason to expect another positive year in Sydney in 2014.

Lots of people are talking about the South-East Queensland market and with good reason.

I often refer to 'The Paddington Gap' between Sydney and Brisbane. Paddington in Sydney is a similar suburb to Paddington in Brisbane, but properties in Sydney's Paddington cost up to $1 million more. I think that gap will start to narrow this year, especially with an increasing number of families and downsizers selling up in Sydney to make a lifestyle change up north.

With so much media commentary about Brisbane and the Gold Coast right now, people are increasingly realising how much further their money can stretch in a relocation from Sydney to South-East Queensland. Did you know that just seven suburbs in Brisbane and the Gold Coast have a median house price over $1 million, in comparison to Sydney where there are 172?

Prices in the Brisbane/Gold Coast markets are moving in the right direction (up 3% YOY) but there is still volatility and we’re still below peak values. But all the signs for growth are there – increasing investment and first home buyer activity, more people turning up at open inspections and greater enquiry from developers looking to capitalise on the imminent upswing.

Supply is much higher in Brisbane compared to Sydney, so there’s still plenty of opportunities for buyers to purchase now before the market begins its inevitable run.