The McGrath Report

2020

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A message from John McGrath

People are constantly asking me, 'Where are we in the cycle?'.

I can see why many people have been looking at the market a bit quizzically over the past few years. If we look from above, here's what most of East Coast Australia has looked like over the past seven years.

We've had five years of growth (25% to 75%), 18 months of correction (-5% to -20%) and a small rebound to the positive (not material yet in price but auction rates have shifted up from 45% to 75%) after APRA finally loosened the strings and official interest rate cuts began having an impact.

You might have had a slightly different experience depending on the micro-market you live in but generally speaking, East Coast home owners have done well out of property in recent times.

Unfortunately, our friends in Perth and Darwin can't report the same enjoyment but their turn will come very soon, in my opinion.

Let me share a few of my observations and the trends that I believe are having an impact (some positive, some negative) on market performance.

"Upgraders in big cities are paying close to $100,000 in fees and absurdly high stamp duty."

Record low listings

This is the case in most markets right now. So, what's behind this and will it shift soon?

My view is that two things are driving the current shortage:

- Transition costs. Upgraders in big cities are paying close to $100,000 in fees and absurdly high stamp duty. If we went back just 20 years for direct comparison, we are now paying an additional $40,000 (inflation adjusted) or 400% more in real terms. This is ridiculous and penalises almost every single Australian moving around the property ladder as their life circumstances change. But it's the issue that nobody wants to talk about in government, on either side. With the exception of the ACT Government, which has a plan to phase out stamp duty by 2032, there seems very little appetite by State Governments to find a better way. They seem addicted to the revenue it brings them. As a result, it's possible that these lower levels of activity will remain for some time

- Uncertainty in the world economy. And when people are uncertain, they generally stay put and watch. The 24-hour news cycle bombards us with every piece of negative news on the planet. Whether it's Brexit, the US-China trade war or the China-Hong Kong tensions, many people are waiting to see how some of these play out. With the 2020 US election looming large, we may find that until we get some resolution on these issues and clarity on the political direction of the US, listing levels will remain on the low side.

  Tighter supply and strong demand is likely to be a positive factor in the price rebound we're now experiencing. Less for sale generally means better prices. This may indeed keep us in solid territory until we see the next sales cycle begin.

Continuing record low interest rates

It appears we might be in this environment for some time to come, which works positively on two levels for the property market:

- It's cheaper to borrow money. Pretty straightforward. The cheaper it is, the more people buy and the more they can borrow

- Property becomes the No 1 investment choice. Real estate is far more attractive when you're getting close to zero for lazy cash in the bank. The days of 5% or 6% returns on deposits are long behind us. The closest asset to cash in the bank, in most people's minds, is bricks and mortar. The safe, solid investment that lets most people sleep at night. The investors who bailed out of the market two years ago are likely to return in numbers from 2020 onwards.

So, as we peek into the crystal ball, here are a few of my predictions...

- Investors return in sizeable numbers - 3% plus capital growth beats the hell out of 1% or none for cash
- Overseas buyers return, and I anticipate some of the recently formed overseas investor taxes starting to loosen and Australia continuing to look like the best place to live, learn and work
- Regional markets continue to grow in popularity courtesy of high metropolitan prices, baby boomer sea and treechangers and people being able to work virtually from anywhere in this new world
- Listings remain tight in the short term but return to more normal levels beyond 12 months
- Prices remain stable on the East Coast; Darwin and Perth see a positive bounce by 2021
- Investment or lower grade apartments built in the past decade fall in popularity due to recent construction issues. Older style apartments and high quality new builds by A-grade developers and builders experience stronger demand
- Massive infrastructure investment has a positive impact on values in hidden pockets
- South East Queensland outperforms, with both investors and lifestyle seekers looking for better value than they can obtain in the big southern cities

We hope you enjoy this year's McGrath Report.

House of the Future

Trend Report 01

The large suburban home has long been the Australian dream but the house of the future is emerging as a sleek, minimalist dwelling designed to maximise psychological and environmental benefits.

The move to minimalism is resulting in smaller, simpler homes with streamlined, open spaces that are easy to maintain and provide a sanctuary-style escape from a hectic world.

Demographics are driving the move towards more affordable, minimalist homes. Two megatrends - the ageing population and the shrinking family, mean fewer people per Australian residence.

The ageing population will see more downsizer single and couple-only households. In the 2016 Census, 14% of Australians were aged 65 years and over, an increase from 11% in 2011.[1] This is expected to further rise to 21-23% of the total population by 2066.[2] Lone person households are expected to grow from 2.3 million in 2016 to 3-3.5 million by 2041.[3]

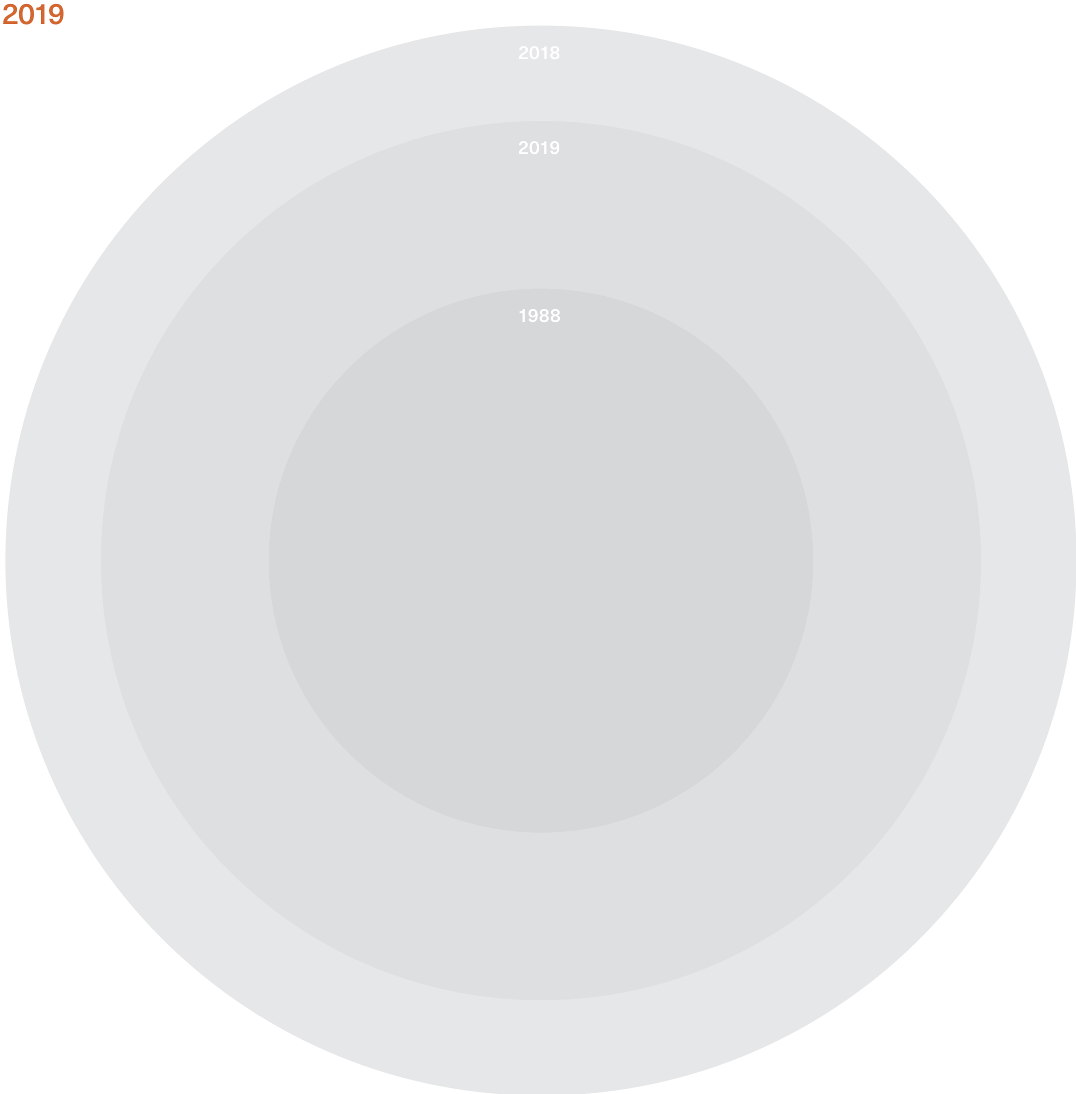
Families are also shrinking, reducing the need for space. Australian women are having fewer children, with the fertility rate at 1.74 babies per woman - the lowest since 2001.[4] The proportion of Australians living within traditional families has fallen from 54% in 1996 to 49% in 2016; and this is forecast to fall further to 48% in 2041.

By contrast, couples living without children have increased from 19% to 21%.[5] This has been helped by a big jump in couples aged 25-34 years who don't have children, as more millennials choose to start their families later in life.[3]

Australia's surging population, which is expected to grow from 25 million to 37-49 million in 2066, means major cities will have to make more use of medium and high density options.[6]

Interior Design: The Unlisted Collective   Photographer: Justin Alexander

House size in Australia 1988–2019



Increasingly time poor home owners want more flexibility and lower maintenance properties to suit their busy lifestyles. Many people don't have time to mow lawns or clean large residences anymore.

An important factor driving the move to minimalism is psychological.

Japanese tidying expert, Marie Kondo has popularised minimalism through her best-selling book, 'The Life-Changing Magic of Tidying Up' and her hit Netflix show, 'Tidying Up with Marie Kondo'. People are realising they are happier and healthier in a minimalist home, which is backed by scientific research.

A study by the US Centre on the Everyday Lives of Families (CELF) revealed a 'clutter crisis'[7] amongst Los Angeles home owners. It found that women in homes they described as stressful, including cluttered and unfinished, were more likely to suffer from chronic stress, depression through the day and greater fatigue at night.[8]

Another study by Chicago's DePaul University and the University of New Mexico found clutter can damage our sense of home and subjective wellbeing.[9] We are more likely to consume unhealthy food, too.[10]

The growing shift towards minimalism will see Australians reject excess across the design, décor and function of homes.

Houses will be smaller. The move to minimalism has found expression in the 'tiny home' movement – the growth of small, eco-friendly homes. Tiny homes significantly cut emissions because they need less heating and lighting.[11]

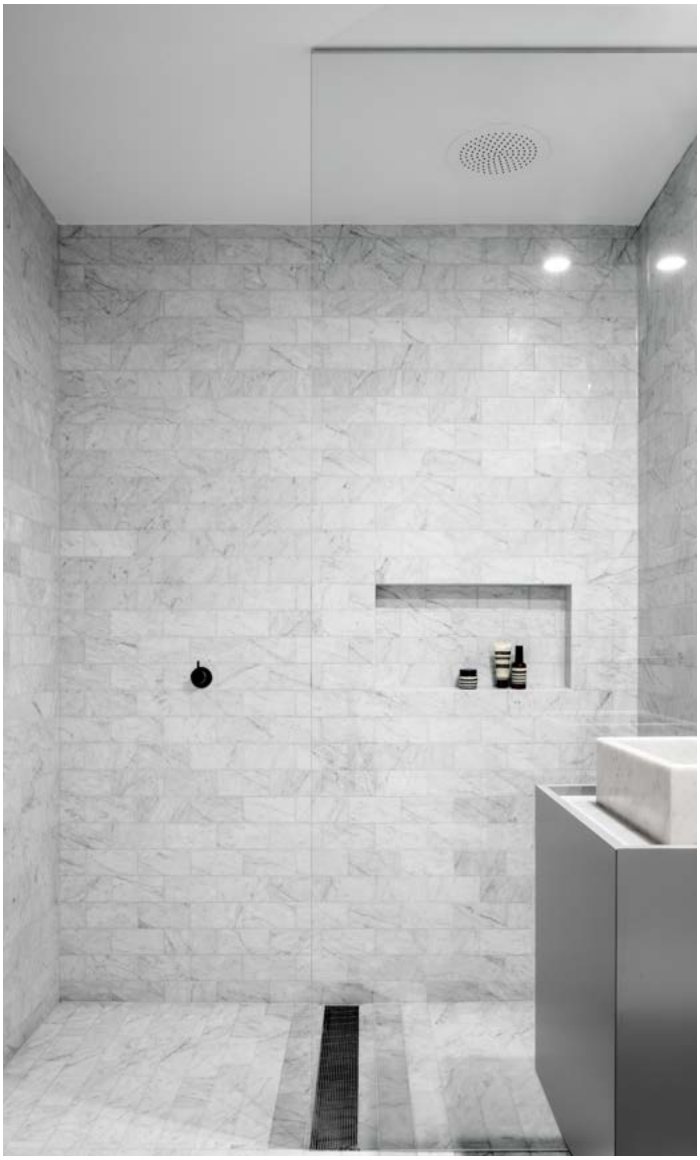
In Australia, tiny might not become typical but smaller will be standard. While the size of our homes grew by 30% in the 30 years to FY18, accelerating through the 1980s and 1990s, the average size of the Australian home is now the smallest it has been in 22 years, reflecting more apartment living.[12]

The smaller home will meet people's growing desire to cut their environmental footprint. Bigger homes wipe out the benefits of more energy efficient dwellings.[13] Cutting the size of a house by 5-10% makes it easier to move to zero net energy – a household with no ongoing energy costs.[14]

Only essential furniture will remain and stylish yet easy to clean features will dominate, such as timber floors and stone benches and vanities. The growth of renting, including cars and even clothes, will make garages and storage increasingly unnecessary.

Interior Design: The Unlisted Collective   Photographer: Justin Alexander

Tiny homes significantly cut emissions because they need less heating and lighting.



Interior Design: The Unlisted Collective   Photographer: Justin Alexander

Technology is facilitating the move to minimalism. Less gadgets are needed as various technologies collapse into universal systems operated by phone or voice activation with Google Home, Alexa or Amazon Echo.

Family photos and documents are being digitised. Cookbooks are becoming redundant with recipes on smartphones and eventually, on smart benches. Home technology will become silent and invisible. Cords and knobs will disappear and screens will be camouflaged - the current trend is wall-hung TV mirrors.

The typical Australian home of yesteryear was a cluttered castle full of photos, trinkets, aged furniture and happy memories. The house of the future looks more compact and curated; and more symbolic of our work and lifestyle priorities.

Trend Report 02

The Modern Commuter

A new fly-in, fly-out (FIFO) worker is emerging that will have a significant impact on regional property markets – the white collar FIFO.

For much of the noughties, Australian airports on Monday mornings were filled with blue collar workers in boots and high-vis vests. After a weekend in their city homes, they were flying back to well-paying jobs at the mines.

Now, a new fly-in, fly-out (FIFO) worker is emerging that will have a significant impact on regional property markets – the white collar FIFO.

Professional FIFO families are relocating from expensive capital cities to affordable regional and coastal lifestyle areas serviced by airports, where they are pushing up demand for property.

Come Monday, they are hopping on a plane to work in the city, staying in crash pads, boltholes and even hotels. Some even Airbnb their city pads when they fly back home to defray costs.

The search for lower cost of living, housing affordability and a better lifestyle are major drivers for white collar FIFOs.

As East Coast capital city house prices have surged, particularly in Sydney and Melbourne, affordable regional areas have become more appealing. Professional FIFOs can sell up in the city and buy a larger 'forever' home in a regional area with a small mortgage or even no debt at all.

Small townsfolk are more likely to own their homes outright (35% compared to 28% in major cities); and they also have lower loan repayments at a median $1,414 per month compared to $1,483 in medium sized towns and $1,943 in major cities.[1]

These savings offset the expense of flying and lodging in the city, although some professional FIFOs have their commuting costs covered by their employers. This is more common in banking, consultancy and IT industries.

Many big companies are allowing more of their employees to work remotely, at least part of the time, as a way of retaining and attracting the best talent. Amongst Australia's one million independent contractors,[2] many can work flexibly using technology.

Professional FIFOs are also seeking lower stress and healthier lifestyles. On weekends, they can be surrounded by rolling green hills and farmland, surfing little-known breaks or roaming through untouched rainforest in remote national parks. Everything they need is within a 10 minute traffic-free drive – their children's schools, playing fields for Saturday sports, shops and cafes.

Increasing air travel options are allowing these modern day commuters to extend the range of where they can live. There are 155 airports in Australia and 2,000 smaller airfields. About 75% of airports are in regional and remote areas,[3] most with regular flights to Sydney, Melbourne and Brisbane.

To cope with growing demand from expanding residential populations, many regional airports are increasing flights and boosting infrastructure.

In Victoria, Bendigo Airport is undergoing a major redevelopment. Since March 2019, the airport has had flights to Sydney six days per week.

Victoria's busiest regional airport, Mildura Airport has a three hour service to Sydney and one hour to Melbourne and Adelaide. It has tripled passengers from 60,000 in FY94 to 214,000 in FY16; and this is expected to rise to 400,000 by 2032.[4]

The median house price in Mildura increased 11.3% to $295,000 in the 12 months to June 30, 2019 - still well below Melbourne's $730,000 median house price.[5]

Albury Airport services North East Victoria and has flights to Sydney and Melbourne. Albury Wodonga's population is forecast to grow by 35% to 124,472 by 2036.[6] North East Victoria includes the increasingly popular lifestyle towns of Beechworth, Bright and Mansfield, which have access to lakes, national parks and ski areas.

In NSW, popular white collar FIFO areas include Orange, Byron Bay and Port Macquarie.

Ballina Byron Gateway Airport, which offers a one hour flight to Sydney, is now the third busiest airport in NSW after Sydney and Newcastle. It recorded a 5.6% rise in annual passenger movements over CY18 to 538,200.[7]

Port Macquarie, also a one hour flight to Sydney, is the fifth largest regional airport in NSW with 230,000 passenger movements per year.[8] Council has completed a $21 million upgrade, providing the capability for 180-seat B737/A320 aircraft for the first time in the airport's 60-year history.

Orange Regional Airport had the strongest growth amongst the top 50 regional airports in CY18, with passenger movements up 19.9%.[7] It has 25 return flights to Sydney per week. The median house price has increased 5.8% to $415,000 in the 12 months to June 30, 2019[5] - less than half Sydney's median.

Queensland is also a hot spot for white collar FIFO families.

Toowoomba's Wellcamp Airport has more than 80 flights per week to destinations including Melbourne and Sydney.

The Gold Coast, which has attracted high interstate migration in recent years, has flights to every capital city and 6.6 million passengers per year, which is set to double by 2037.[9]

On the Sunshine Coast, many executives and business owners are setting up home in Noosa and commuting directly by air to Sydney, Melbourne and Adelaide.

Airport	State
	VIC
Bendigo	- Undergoing a major redevelopment - Flights to Sydney six days per week
Mildura	- Has a three hour service to Sydney and one hour to Melbourne and Adelaide - Passengers expected to rise to 400,000 by 2032
	NSW
Albury	- Albury Wodonga's population is forecast to grow by 35% to 124,472 by 2036
Ballina Byron Gateway	- Third busiest airport in NSW - 5.6% rise in annual passenger movements over CY18 to 538,200
Port Macquarie	- 230,000 passenger movements per year - Council has completed a $21 million upgrade
Orange Regional	- Strongest growth amongst the top 50 regional airports in CY18, with passenger movements up 19.9%[7] - It has 25 return flights to Sydney per week
	QLD
Toowoomba Wellcamp	- More than 80 flights per week to destinations including Melbourne and Sydney
Gold Coast	- Flights to every capital city - 6.6 million passengers per year, which is set to double by 2037
Sunshine Coast	- New runway in 2020 - Passenger numbers are expected to soar from 1.2 million today to 3 million by 2040

Sunshine Coast Airport is opening a new runway in 2020 to allow long haul flights within Australia and to Asia. Passenger numbers are expected to soar from 1.2 million today to 3 million by 2040. This will help facilitate a surge in the local population from 350,000 to 500,000.[10]

Regional property prices performed well during the downturn. CoreLogic data shows combined capital city dwelling values were down -10.2% from the peak by June 30, 2019 while regional markets fell just -3.4%.[11]

With growing flexibility and people yearning for freedom and authentic lifestyles, the white collar FIFO will continue to influence regional markets as cities get bigger, busier and more expensive.

-10.2%

Fall in value of combined capital city dwellings from the peak to June 30, 2019[11]

-3.4%

Fall in value of regional dwellings from the peak to June 30, 2019[11]

With growing flexibility and people yearning for freedom and authentic lifestyles, the white collar FIFO will continue to influence regional markets as cities get bigger, busier and more expensive.

Australia's cities and skylines have been transformed by a proliferation of high rise apartments but has our fascination with homes in the sky reached its peak?

Trend Report 03

A High Rise to Low Rise

Australia's cities and skylines have been transformed by a proliferation of high rise apartments but has our fascination with homes in the sky reached its peak and will we see an increasing desire for people to own a small parcel of terra firma?

While the high rise will always have its place, especially as the population grows, a shift is coming that will see many Australians, particularly downsizers, seek more small home options, including terraces, townhouses and low rise apartments in master planned estates.

In recent years, apartments have grown in number and height. The number of occupied apartments has increased by 78% in the past quarter century to 1.2 million in 2016[1] and most of these new buildings have reached for the stars.

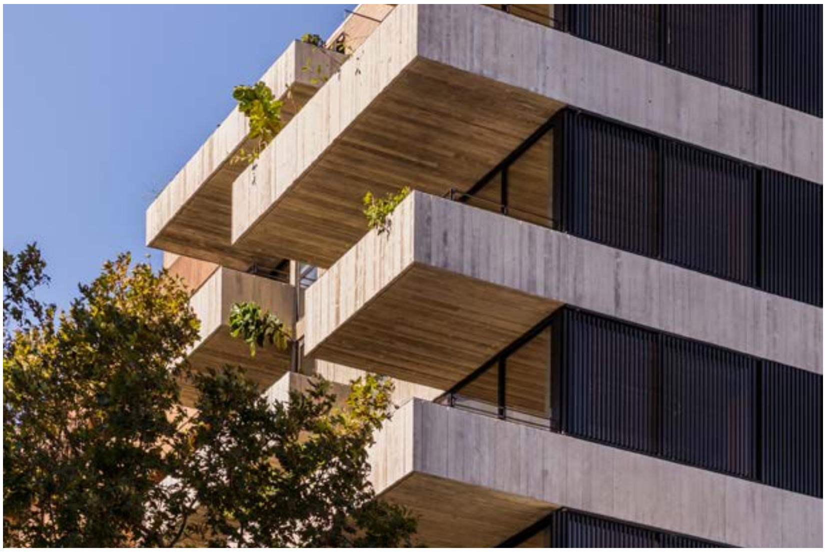
From FY04 to FY18, commencements of super high rise apartments (more than 20 storeys) surged by an astounding 510%. In contrast, high rise buildings (nine to 19 storeys) increased 186%, medium high rise (four to eight storeys) rose 120%; and low rise (one to three storeys) fell -36.8%.[2]

A number of factors will contribute to the shift in buyer sentiment. The first is a flight to quality.

Apartment owners and buyers, particularly in Sydney, were shocked in 2019 when residents were evacuated from two high rise buildings, Opal Tower in Homebush in the inner west; and Mascot Towers in the inner south, due to significant structural defects.

The reputation of high rise apartments has been tarnished by these events. As a result, buyers will be

Apartment Commencements 2004 – 2018



Architects: Woods Bagot Photographer: Trevor Mein far more discerning and likely to gravitate towards well known developers with strong brands and track records.

Another beneficiary of the flight to quality will be branded residences – private residences serviced by a luxury hotel brand that is already known and trusted by prestige buyers.

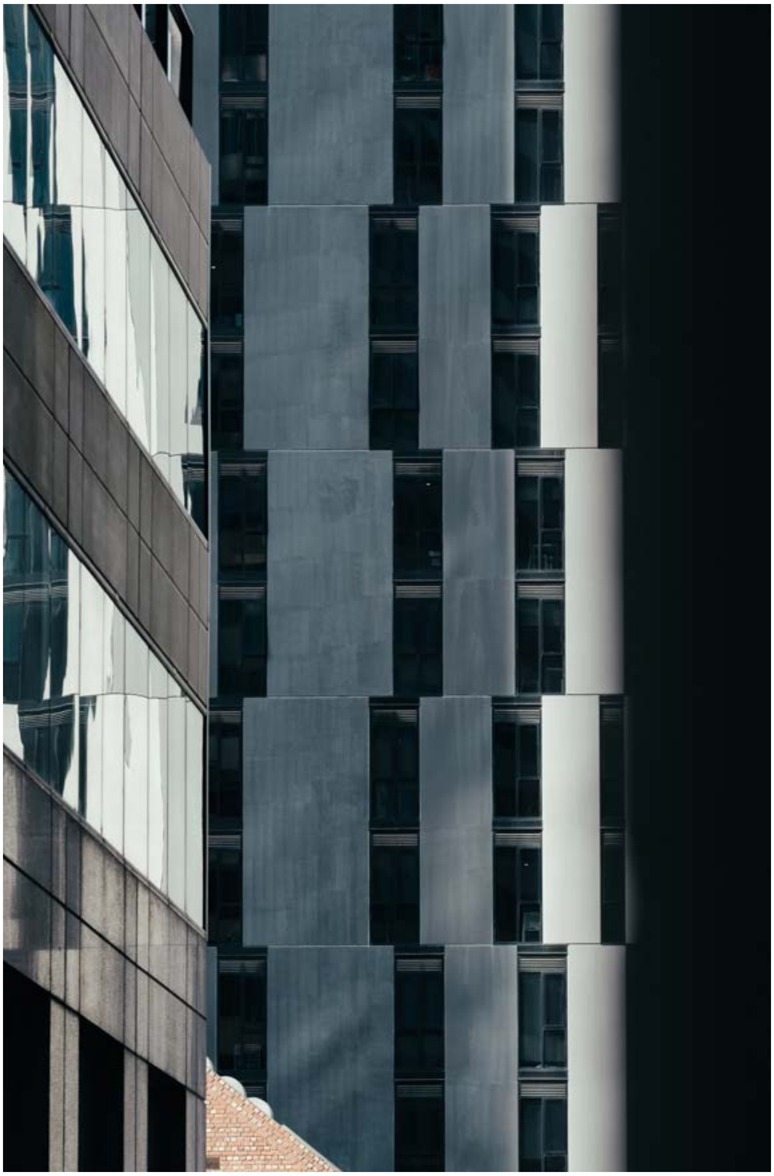
Crown Residences at Sydney's One Barangaroo, due for completion in 2021, represents the entry of branded residences into Australia. Buyers of the 82 apartments with a $9.5 million starting price will have access to the facilities and services of the city's first six star hotel, Crown Sydney Hotel Resort.

Branded residences command premiums of up to 132% in some Asian cities, while One Barangaroo is expected to have a 25-35% premium over comparable non-branded apartments.[3]

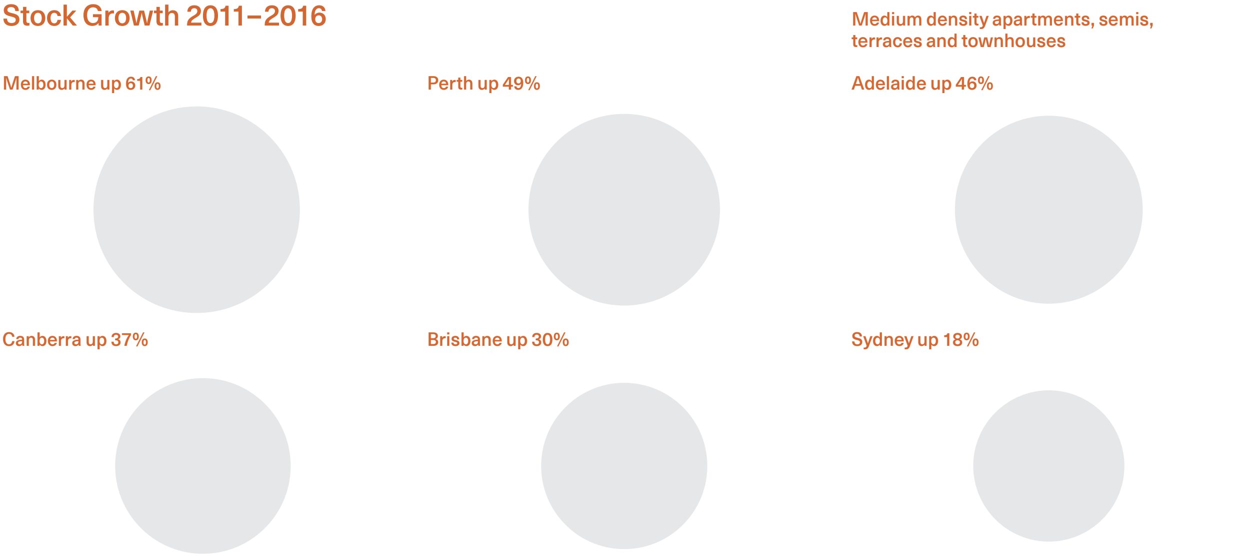
The demands of downsizers is another factor in the shift to medium density living. Downsizers are often concerned by expensive strata levies associated with high rise to maintain lifts, pools and gyms.

There has been talk of a need to create vertical retirement villages in inner city high rise buildings, with designated seniors apartments.[4] However, many older Australians struggle to reconcile themselves to high rise living after decades in the family home. Three quarters of Australians aged over 75 live in detached houses[5] and only 12% of over-85s live in apartments.[1]

However, downsizers and other buyers seem to be taking a fancy to a growing number of low rise



Stock Growth 2011–2016



apartments in master planned estates, where they can enjoy quiet, pleasant surrounds with lower body corporate levies. They also have access to amenities, such as expansive green spaces, walking and cycling paths, playgrounds and plentiful parking for visitors.

In Melbourne's Clayton South, developer Cedar Woods' master planned community, Jackson Green, incorporates one and two bedroom apartments, some with outdoor areas of up to 103 sqm. The developer says it is attracting buyers seeking high quality apartments in a quiet suburban setting.[6]

In Queensland, Hamilton Reach, the master planned community 6km from the Brisbane CBD, has one and two bedroom apartments in various buildings.

Alternatives to high rise are already growing, with medium density apartments, semis, terraces and townhouses recording the greatest increase in stock over the five years to the 2016 Census. There were surges in Melbourne (up 61%), Perth (49.4%), Adelaide (46.5%), Canberra (36.9%), Brisbane (29.6%) and Sydney (17.9%).[7]

Dwelling approvals for townhouses are at record levels in Australia's biggest cities.[8] From FY04 to FY18, total dwelling commencements of townhouses surged by 15,079 dwellings or 68.6%.[2]

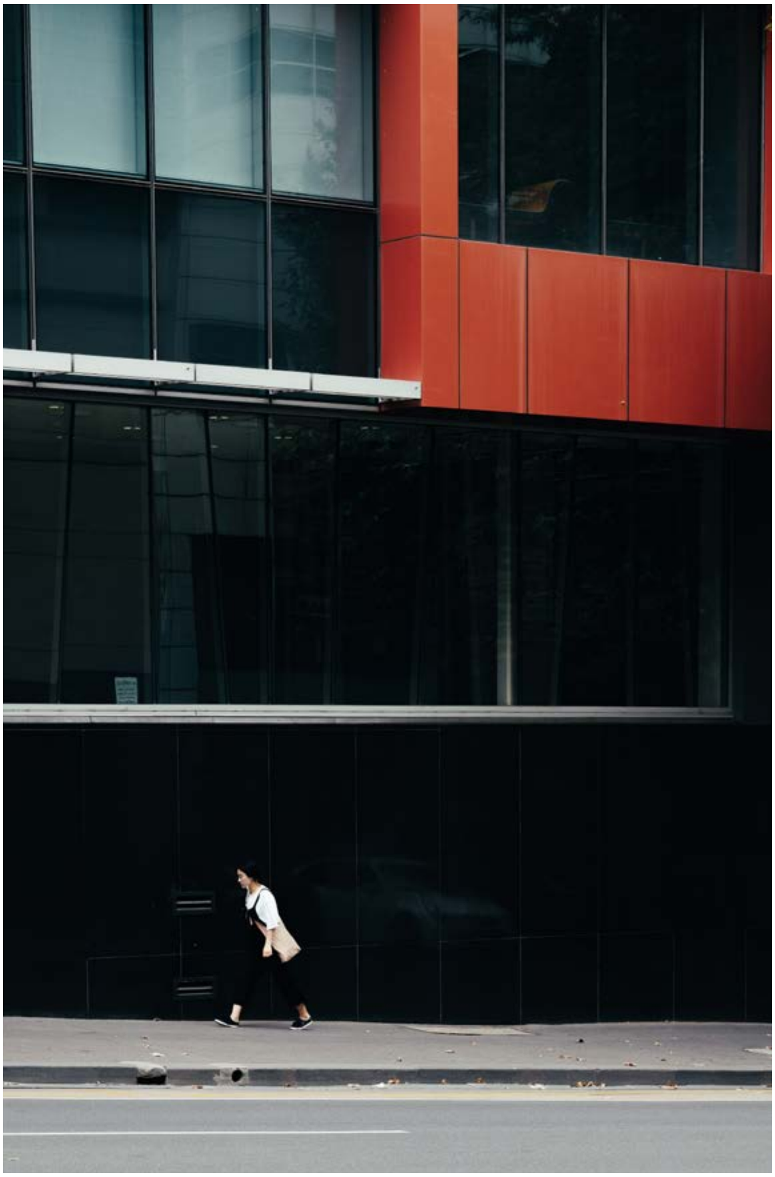
Governments are encouraging development of townhouses and terraces as the 'missing middle' between high rise apartments and big suburban houses. One example is the NSW Government's Low Rise Medium Density Housing Code, introduced in 2018, which facilitates the building of smaller homes on smaller lots with fast tracked development approval.

High rise living has changed in recent years, with smart developers moving away from the cookie cutter style to higher quality, designer residences with lifestyle appeal.

While the high rise won't die, it is evolving beyond the traditional tower in look and feel; and an uncompromising overhaul of construction standards and governance must follow to win back buyers' trust.

Loner Living

Trend Report 04



We have long assumed that a home houses many people. But the future of homes is increasingly single occupancy. More Australians are flying solo and embracing 'loner living', with a significant impact on the property market.

Confident and content with their single status, our new loner liver home buyers want smaller home options that suit their unique needs while also delivering a community right on their doorstep.

Almost a quarter of Australian homes in 2016 were single person households, an increase from one in five in 1991.[1]

The growth of loner living has been experienced around the world. Approximately one third of households in the EU in 2017 comprised single adults without children.[2] In the UK in 2017, 28% of households contained one person, a big increase from around 17% in 1971.[3] In the US, some 35.4 million people, or 28.1% of all households, lived alone - a strong rise from 17.1% in 1970.[4]

In Australia, the number of people living alone is forecast to surge from 2.3 million in 2016 to 3-3.5 million in 2041, an increase of 32-53%.[5]

The number of one person households is projected to grow in all OECD countries from the early mid-2000s to 2025-30. The biggest increases are forecast for England (60%), New Zealand (71%) and France (75%).[6]

One of the main drivers of loner living is an ageing demographic. In 2016, 14% of Australians were aged 65 years or over, an increase from 11% in 2011.[7] This is forecast to rise to 21-23% by 2066.[8] There has been a sharp increase in those aged 80 years or over living alone (from 9% in 1986 to 15% in 2011) and middle-aged people living alone (22% in 1986 to 31% in 2011).[9]

Number of people living alone
Forecast rise of 32-53% by 2041

Older Australians are more likely to be widowed and live alone by circumstance. Conversely, there is growing evidence that young people are choosing to live alone. Young people are marrying later, extending their single status. The median age at first marriage in 2017 was 30.4 years for men and 28.8 years for women. In the past decade, this has increased 0.8 years for men and 1.2 years for women.[10]

Community is at the heart of a single person's needs in property. Rather than the selfish stereotype, research shows single people are heavily engaged with their community and more likely to help friends, neighbours and co-workers with shopping, errands, housework, transport and gardening.[11]

Developers are increasingly delivering ready-made communities for singles in apartment complexes. They are moving beyond the pool and gym to offer many more facilities that encourage interaction, such as communal rooftop gardens and kitchens, chill-out zones, yoga studios, libraries and in-house cinemas. After a busy week, singles can go home and socialise in their building with other residents.

Singles also want community on their doorstep. The walkability of their homes is important to ensure loner living doesn't become lonely living. Being able to stroll to their local village for a coffee, some shopping or lunch with a friend is highly valued.

In one study cited in the landmark book, Livable Streets, Berkeley University urban design professor, Donald Appleyard found people living in walkable, low traffic streets had three times as many friends and twice as many acquaintances as people living in heavy traffic areas.[12]

Walkable residential areas are also more valuable. The George Washington University School of Business found walkable urban places had a 66% rental rate premium over driveable suburban areas in the US.[13]

Research is also showing a positive correlation between property prices and walkscore.com's *Walk Score*, a measure of an address's walkability on a scale of 0-100. A US study by urban leadership group, CEOs for Cities, found a one point increase in *Walk Score* raised house prices between $US500 and $US3,000[14] in 13 of the 15 US markets surveyed.

This is replicated in Australia. Melbourne buyers' agency, Secret Agent, found a five point increase in *Walk Score* between the values of 60 and 100 added around $298 per square metre for houses.[15]

The emergence of small, thriving suburban villages and a strong café culture in Australia has made walkability even more desirable, particularly amongst time poor, environmentally conscious city dwellers. They don't want to drive on weekends after commuting all week and are mindful that their sedentary jobs aren't good for their health in this era of obesity.

Loner livers are aspiring to a unique type of home. Across the East Coast capitals, downsizers typically like luxurious new apartments in boutique, pet friendly blocks close to shops and transport to the CBD. Some developers are creating full blocks with this one type of residence alone, enabling the formation of empty nester communities that allow downsizers to age in place with like-minded neighbours.

City *Walk Score*

Sydney

Walk Score 63

Top 10 Suburbs

01	Haymarket	99
02	The Rocks	98
03	Sydney	98
04	Ultimo	98
05	Surry Hills	97
06	Chippendale	97
07	Millers Point	96
08	Darlinghurst	96
09	Newtown	95
10	Rushcutters Bay	94

Melbourne

Walk Score 57

Top 10 Suburbs

01	Carlton	97
02	Fitzroy	96
03	Fitzroy North	93
04	Melbourne	93
05	St Kilda	93
06	South Yarra	92
07	East Melbourne	92
08	South Melbourne	92
09	Collingwood	92
10	Windsor	91

Melbourne buyers' agency, Secret Agent, found a five point increase in Walk Score between the values of 60 and 100 added around $298 per square metre for houses.

Singles like one bedders with a study zone and designer fixtures in a security block with CBD transport close by. For those on a good wicket, pocket penthouses could be a future trend.

Architects: Woods Bagot   Photographer: Shannon McGrath

Sydney

City Spotlight 01

Median house price $900,017

Median apartment price $710,559

CoreLogic, September 2019

01

The Sydney market turned the corner a year earlier than expected, with a combination of factors including the 'ScoMo effect', APRA's easing of lending criteria and interest rate cuts bringing forward a conclusion to the steepest correction on record, with home values falling -14.9%[1] from the peak in July 2017 to the trough in May 2019.

While the election outcome turbocharged market sentiment, with no changes to capital gains tax or negative gearing, Sydney was already finding its feet with progressively smaller price falls from January.

The first month of price growth in June 2019[1] combined with auction clearance rates rising above 75%[2] indicated the market floor had arrived or already passed us by.

Fear of paying too much was replaced by fear of missing out during Winter 2019, with listing volumes at a decade low contributing to buoyant auction prices in several areas.

Credit restrictions relegated many buyers to the sidelines in 2018 and the first half of 2019, resulting in new loans to NSW owner occupiers falling 28%[3] and investment lending halving from their peaks.[4]

Falling prices inspired the highest level of first home buying in Sydney in seven years.[5] Stamp duty concessions, a $10,000 grant on new homes, interest rate cuts, expedited savings via the Super Saver Scheme and now, help with the deposit via the new First Home Deposit Scheme, starting in January 2020, will enable many young people to achieve the dream of home ownership.

At the market turn, Sydney's median house price had fallen to $866,524 and the median apartment price was $682,374.[1] Buyers re-engaged in Spring, many with new funds after having their borrowing capacity reassessed following APRA's lowering of the serviceability bar on new loans from July.

Modest price growth is expected in coming years, with CoreLogic-Moody's Analytics predicting 7.9% house price growth for Sydney over CY20 and CY21, with best gains in Sutherland (15.9%), Baulkham Hills/Hawkesbury (15.3%), Blacktown (13.5%) and the Northern Beaches (10.8%).[6]

Apartments will rebound 10%, with strongest gains in Parramatta (14.5%), the Outer South West in areas such as Camden and Wollondilly (14%) and the Inner West (13.6%).[6]

Critical new infrastructure bringing Sydney's affordable outskirts closer to the CBD continues to be rolled out across the city. The Sydney Metro North West heralded a new era for the Hills District, with immense opportunity to capitalise on the new train line following house price dips of -13.9% in Castle Hill, -18.3% in Rouse Hill and -8.3% in Kellyville in the 12 months to June 30, 2019.[7]

Also opening in July 2019 was the first underground section of WestConnex - two 5.5km M4 tunnels from Homebush to Haberfield, reducing the trip from Parramatta to the CBD by up to 20 minutes.[8]

As Sydney continues to grow, traffic congestion, overcrowding, lack of family time and the high costs of living are motivating people to change their living arrangements according to their priorities.

The most common trade-off is families living in apartments close to work in the CBD, while others accept a long commute in exchange for the traditional house on a quarter acre block.

More families are choosing public schools instead of costly private education and buying according to catchment zones. Others are choosing to work, live, play and stay in burgeoning suburban mixed use precincts where new apartments, office towers and recreational facilities are combined to allow them to stay local.

There is growing interest in master planned estates, with an abundance of shared facilities such as parks, playgrounds, aquatic centres, gyms and childcare giving people more time with their families.

In Sydney's prestige market, entrepreneurs are investing major capital into trophy homes, with Australia's first $100 million sale in FY19.

A shortage of prestige stock, buyer re-engagement after the Liberals' election win and the opportunity to borrow hundreds of thousands of dollars more under relaxed lending rules led to Sydney's most expensive market quartile recording the greatest price growth over the September 2019 quarter.[9] The low Australian dollar has also led to renewed interest from ex-pats, somewhat offsetting less demand from foreign buyers due to capital controls out of China.

The construction issues surrounding Opal Tower and Mascot Towers have shaken confidence in the new apartment sector. Given the crucial role of vertical living in accommodating Sydney's population growth, the state government is expected to introduce tough new building regulations after a parliamentary inquiry as they seek to restore confidence to this sector.

With lending now easier and mortgage rates at their lowest levels since the 1950s,[10] Sydney is once again an exciting buyer's market for long term capital growth.

John McGrath's Top Picks

Breakfast Point 1

This little riverside oasis has long been a favourite of mine and the new roadway infrastructure has just brought it ten minutes closer to the CBD yet still feels like you're on holiday when you come home at night.

Erskineville 2

Once a small working class industrial suburb, this little inner-city gem is now home to hipsters, executives and Baby Boomers all enjoying the close proximity to the CBD, cool cafes and now the revitalised Australian Technology Park next door.

Sandringham 3

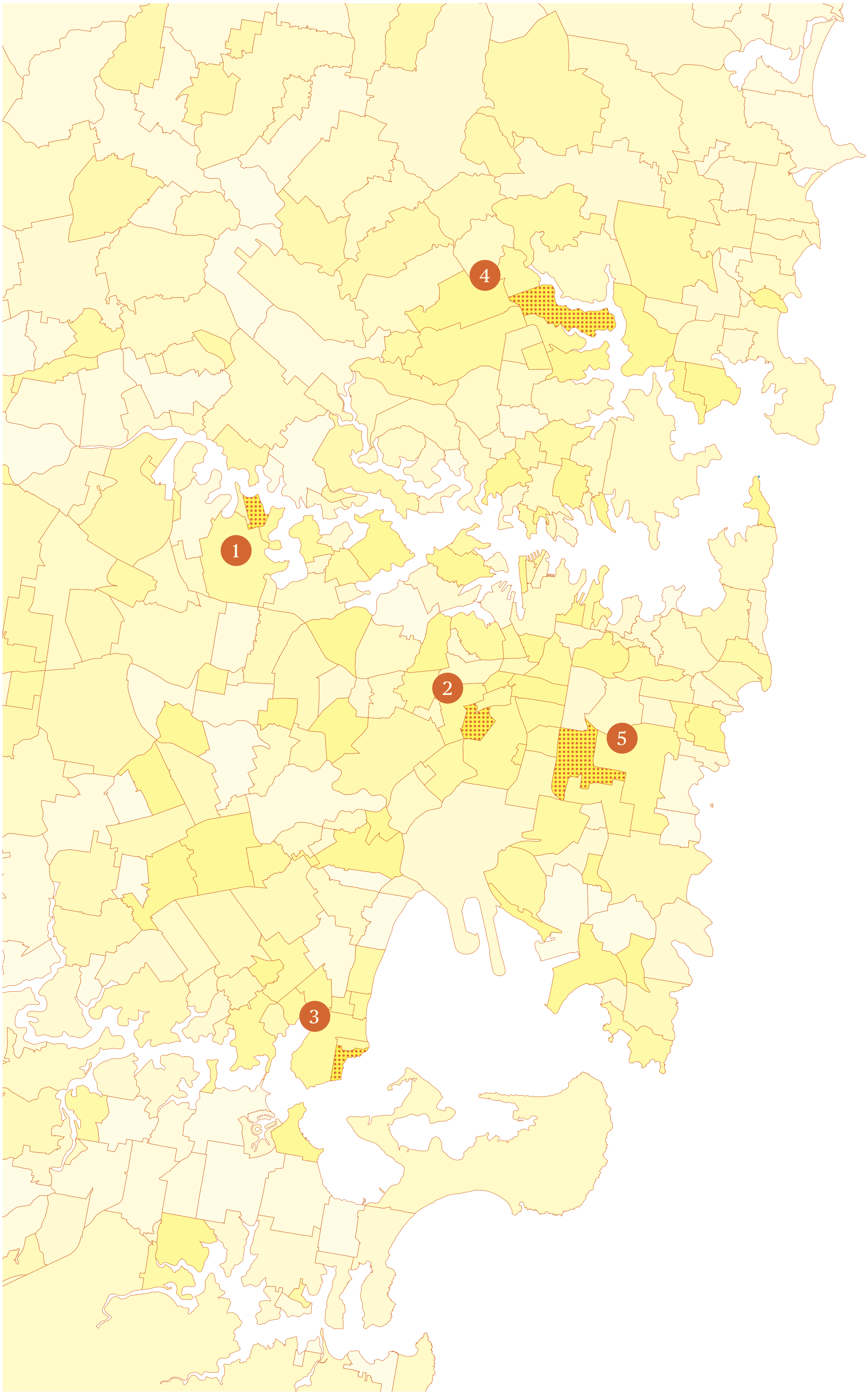
Not the beachside Victorian one - the beachside Sydney one! Close to the CBD, On the water, hidden away and affordable. Hard to believe but true. Buy a home or investment there and sit and wait.

Castle Cove 4

This leafy lower north enclave is tightly held for a reason - once you live there you never want to leave. It's a hidden gem only 12 minutes to town with some of the best mid-century architecture this great city has to offer.

Kensington 5

In the same neighbourhood as Centennial Park, Prince of Wales Hospital and in close proximity to the University of NSW. Now easy access to the CBD with the new light rail this historic suburb is well under valued compared to some of her swanky neighbours.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Central Coast Spotlight

The Central Coast has always been a popular commuter hub, however much is happening to turn this beautiful seaside hamlet into a thriving mini-city with a vibrant growing community.

A 20-year multi-level government vision for the area's evolution that began in 2016 is now bearing fruit. Substantial public and private investment is generating thousands of jobs, new businesses and lively shopping and recreational areas - all enhancing liveability for the locals.

Part of the plan is the dramatic transformation of Gosford into a vibrant, modern CBD and a great place to live with enhanced rail and road links back to Sydney.

The Australian Tax Office and NSW Finance Department have opened new offices in Gosford and the $348 million redevelopment of Gosford Hospital is almost complete. There are plans for a new civic centre and the redevelopment of the Leagues Club Field into a 2.4ha public recreational playground.[1]

Planning processes have been streamlined to encourage private investment, including a new $350 million private hospital and the $280 million redevelopment of the Kibbleplex site into a mixed use precinct with shops, cafes, entertainment and apartments.[2]

Large developers are creating aspirational-style apartments of a design quality never seen before on the coast to attract young professionals and downsizers from Sydney.

Opening in 2020, NorthConnex will shave 15 minutes off the commute by road to Sydney and a new train fleet will provide a more comfortable journey between the city, Central Coast and Newcastle.

The Central Coast's median house price is $630,000 and the median apartment price is $487,500.[3] CoreLogic-Moody's Analytics tips soaring apartment price growth on the Central Coast of 26.9% over CY20 and CY21,[4] as well as 9.6% house price growth, largely due to demand from Sydney buyers.

Seachanging in NSW is easier than ever before due to the rise of telecommuting; advances in technology enabling more start-up businesses; and improving road, rail and air transport back to Sydney. Latest yearly statistics show the highest number of people departing Sydney/NSW for another area in Australia in 14 years,[5] with 50,200 Sydneysiders relocating within NSW.[6]

The NSW Government is encouraging decentralisation from Sydney through a range of new programs to attract business investment, create jobs and boost regional population projections by 30%.[7] Interest-free loans and $10,000 relocation grants for skilled workers are on offer to lure city businesses to regional locations and encourage existing regional businesses to expand.

Melbourne's property market rebounded in the second half of 2019, with strengthening clearance rates and improved sentiment leading to an uptick in median dwelling prices for the first time since peaking in November 2017.[1]

Melbourne

City Spotlight 02

Median house price $729,052

Median apartment price $546,203

CoreLogic, September 2019

02

Melbourne experienced a softer landing than Sydney during the downturn, with a -10.9% decline in dwelling values from its peak compared to -14.9% for Sydney.[1] The Federal election result, two interest rate cuts and improvements in lending conditions helped stimulate prices from June 2019.

At the market turn, Melbourne's median house price was $709,092 and the apartment median price was $527,748, according to CoreLogic.[1]

CoreLogic-Moody's Analytics predicts a 7.3% increase in house prices over CY20 and CY21, with best gains in the North East (18%) in areas such as Banyule, Kinglake and Whittlesea; and the Inner East (13.2%) in areas such as Boroondara, Manningham and Whitehorse.

Apartments will rebound just 0.7% overall for the city, however strong gains will be seen in some pockets, such as the Inner East (16.6%), North West (9.5%) in areas such as Keilor, the Macedon Ranges and Sunbury; and Inner Melbourne (8%)[2] in areas such as Brunswick, Essendon and Port Phillip.

Melbourne has excellent fundamentals that will support property price growth over the medium to long term. Victoria had the strongest population growth in Australia at 2.2% in CY18[3] due to high overseas migration, strong internal movement from within Victoria; and new residents moving from Sydney and Perth.[4]

More affordable housing than Sydney but equally attractive job prospects are part of the appeal, with Victoria recording just 4.5% unemployment in January

2019 and the strongest jobs growth in the country, up 15.9% since November 2013.[5]

Melbourne's buzzing café and restaurant scene, cultural richness and lifestyle attributes have elevated it to one of the world's most desirable cities. It is the favoured destination among foreign buyers and will become Australia's largest city by 2066 - overtaking Sydney as early as 2031.[6]

Reflecting its sophistication as a global city is the high glamour of its new apartment developments, which are meeting a growing appetite for luxury sky home living among Melbourne's wealthy.

Although there has been a substantial decline in foreign investors, who bought heavily into Melbourne's high rise projects before the introduction of tough new taxes, opulent and unique projects with a strong brand are resonating with the local business elite.

These include Capitol Grand, the six-star retail and high rise residential project in South Yarra, where 75% of stock, priced from almost $1 million for a one bedroom apartment to $25 million for a penthouse, was sold prior to completion in 2019. Developer, Larry Kestelman said 90% of sales were to local owner occupiers, with several amalgamating apartments to create larger residences.

Fellow developer, Tim Gurner sold 95% of stock in Saint Moritz on St Kilda's beachfront within a month of its launch in April 2019. A double-storey penthouse was sold to a local businessman for a new city record of $30 million. The seven bedroom property includes four living rooms, two pools, panoramic water views, a 1,000-bottle wine cellar and a seven car garage.

Melbourne now has more skyscrapers (taller than 150 metres) than Sydney,[7] with Australia 108 in Southbank the country's tallest new building and home to Melbourne's previous record of $25 million set in 2015. It is due for completion in 2020.

In FY20, major infrastructure projects will continue to prepare Melbourne for massive future population growth, including the commencement of the $15.8 billion North East Link, which will cut travel times by up to 35 minutes to Melbourne's rapidly growing northern suburbs.[8]

The new road should boost buyer demand in areas such as Greensborough, Heidelberg and Ivanhoe, where great new value is available following median house price falls to $755,000, $1,022,500 and $1,301,000 respectively during the downturn.[9]

The Victorian Government is also moving forward with its highly anticipated Fishermans Bend redevelopment, Australia's largest urban renewal project, which will transform 250ha of inner city land into housing and employment opportunities for 80,000 people by 2050.[10]

Regional Victoria received $2.6 billion in the FY20 Budget for new infrastructure and services that are expected to generate an estimated 4,500 new jobs.[11]

About $615 million[12] will be spent on public transport, such as the purchase of new trains for the busiest regional lines. A growing number of Melburnians relocating to satellite cities is straining services, with all trains from Geelong arriving at Southern Cross before 9am at 96-100% capacity.[13]

Planning has also begun for the Western Rail Plan, which will separate regional and metropolitan services on the Geelong and Ballarat lines to enable a faster express commute.

Affordability and lifestyle are fuelling regional buyer demand, with Shepparton, Warrnambool, Ballarat and Bendigo ranked among Australia's top 10 regional performers in FY19 with growth of 2.3-2.7%[1] compared to Melbourne's -9.2% decline. CoreLogic-Moody's Analytics predicts house price growth of 13% in Shepparton, 12.7% in Geelong and 9.7% in Ballarat[2] in CY20 and CY21.

City escapees have brought new industries to regional areas, such as small batch spirits, craft beer and food production. This trend has attracted $10 million of state government support, with business expansion grants of up to $200,000 offered as part of the Artisanal Sector Program.[14]

John McGrath's Top Picks

Kensington 1

Grand Victorian architecture and a 10ha park makes Kensington an aspirational suburb for young families. We've seen significant gentrification following the closure of the Newmarket Saleyards in 1984. Household incomes on the rise as residents' occupations have shifted from manufacturing to professional services. The 4km commute to the CBD (or two train stops from Southern Cross) and an -11.6% softening in its median house price to $895,000[9] means there is plenty of upside left in this former working class suburb.

Carnegie 2

Carnegie's multicultural 'eat street' on Koornang Road contributes to its high liveability score. It has public and catholic schools and trams that run directly to Melbourne University every 15 minutes. As part of the Victorian Government's level crossing removal program, the rebuilt Carnegie train station reopened in 2018 with the trip to Melbourne Central reduced to 18 minutes.

Cheltenham 3

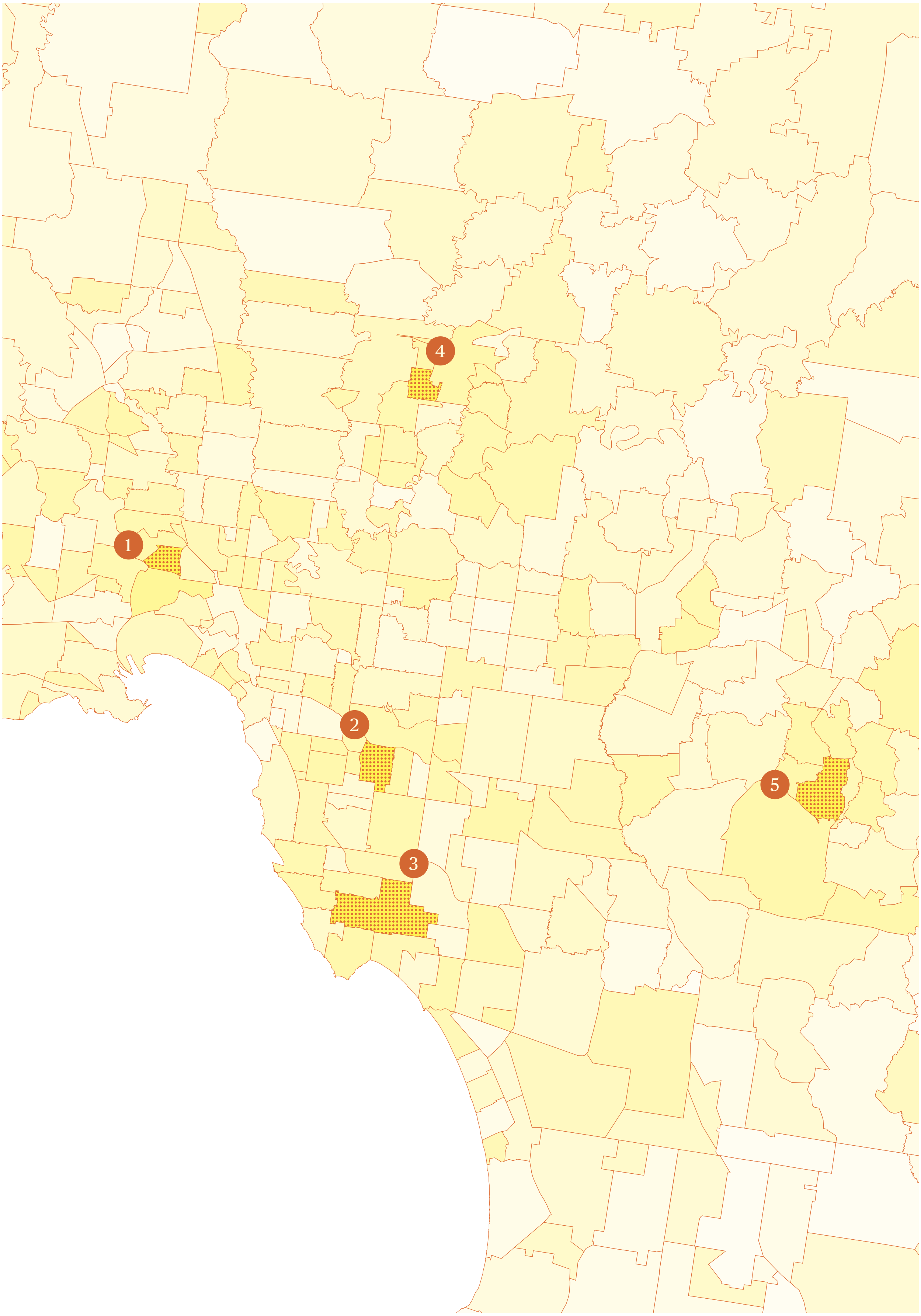
Houses under $1 million coupled with the opening of Southland train station in 2017 makes Cheltenham a go-to destination for savvy young buyers and investors. It offers great affordability compared to its neighbouring suburbs of Hampton and Beaumaris. Cheltenham has half a dozen schools and the most recent expansion of Westfield Southland has provided it with an abundance of retailers and eateries.

Watsonia 4

An often forgotten pocket of Melbourne's north east due to its quiet and unassuming 1970s suburban streetscapes. Road commuters will have their travel time to the city cut by up to 35 minutes[15] with the new North East Link connecting Greensborough Road to the Eastern Freeway. Affordability has improved with a fall in house prices of -18.3% to a median $720,000 in the 12 months to June 30, 2019.[9]

Upwey 5

Express trains make it an easy 50 minute commute from Upwey to Flinders station in Melbourne's CBD for its growing population of professionals and tradies. The Dandenong Ranges' outdoor lifestyle, community village atmosphere and affordable median house price of $687,000[9] makes Upwey attractive. There are hip cafes and restaurants, such as the organic and vegetarian café, Nevedya. The Fat Goat micropub is an advocate for the artisan craft beer and gin movement, reflective of the new local demographic.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Brisbane & Surrounds 03

City Spotlight 03

Median house price $540,224

Median apartment price $377,447

CoreLogic, September 2019

The city is poised for a turnaround with predictions of a 20% jump in house prices – the strongest growth of all capital cities.

Continuing weakness in the Queensland economy and oversupply of dwellings has kept property price growth in Brisbane low in recent years. However, the city is poised for a turnaround with predictions of a 20% jump in house prices – the strongest growth of all capital cities, over the three years to June 2022,[1] according to analysts and forecasters, BIS Oxford Economics.

Brisbane's median house value is still an affordable $540,224[2] and its median apartment price is $377,447, making the price differential between Brisbane and Sydney houses nearly 40%.

Like Sydney and Melbourne, Brisbane and South East Queensland property was impacted by lending restrictions that took significant buyer demand out of the marketplace in 2018 and the first half of 2019.

Comparing the East Coast capitals, Brisbane held up best, with home values dipping only -2.6% in FY19 while Sydney fell -9.9% and Melbourne declined -9.2%, according to CoreLogic.[3]

With the Sunshine State offering great affordability and lifestyle, more people are relocating here, with Queensland recording the highest and rising net interstate migration.[4] Southern migrants are spoilt for choice because prices are so much lower. For example, in Brisbane there are still 14 suburbs within 20km of the CBD where a typical house costs less than $500,000.[5]

While interest rate cuts and reduced lending restrictions will boost activity across South East Queensland in FY20, it is economic growth fuelled by infrastructure projects and strong interstate migration[4] that will be the key driving forces for property prices over the next few years.

In FY19, $11.6 billion[6] was poured into 405 construction projects, with more to come. Contracts were awarded for the $5.4 billion Cross River Rail, a 10.2km rail line from Dutton Park to Bowen Hills. Brisbane Airport's second runway is on schedule to open in 2020, doubling its capacity and contributing a predicted $5 billion in additional annual economic benefits.[7]

Major infrastructure spending on the Sunshine Coast is also raising the area's appeal and transforming the local economy. The coast's largest construction project is the $303 million Sunshine Coast Airport Expansion, which includes a new runway to be completed by late 2020.[8]

The longer, wider runway will facilitate more tourism and enable direct exporting to new markets in Asia, the Pacific and other parts of Australia previously inaccessible. The project will contribute an estimated $4.1 billion to the local economy through to 2040.

The creation of Maroochydore's new CBD is underway, with work commencing on the first new commercial building as well as an international broadband cable that will create the East Coast's fastest internet. To be completed in 20 years, the new CBD will create 15,000 new permanent jobs[9] and make the Sunshine Coast a more viable location for business.

New housing developments are expected to benefit from improved public transport on the Sunshine Coast, with early works underway on the $800 million Beerburrum to Nambour rail duplication project[10] and a feasibility study completed for light rail linking Maroochydore with Caloundra.

The light rail would benefit the $5 billion Caloundra South housing development, Aura, which is offering some of the coast's most affordable properties with house and land packages starting at $385,000. It is within a short drive to beaches and reasonable commuting distance to Brisbane.

While not firing as substantially as the Sunshine Coast in FY19, the Gold Coast property market has endless capacity for long term growth. Its median house price remained steady in the 12 months to June 30, 2019 at $630,000,[5] slightly above the Sunshine Coast's median of $600,000 following 1.7% growth over the same period. The median apartment price rose by 0.2% to $408,000, while the Sunshine Coast's median rose by 1.2% to $410,000.

The Gold Coast has matured to a point where it no longer suffers the significant peaks and troughs it did in the past. Substantial infrastructure spending, improved public transport and an expansion of services at the airport have helped it develop beyond a tourism economy.

Health care is now the largest local employer following the opening of two new hospitals in 2013 and 2016 and the ongoing growth of the Health and Knowledge Precinct, which currently employs almost 10,000 people and will eventually support 26,000 jobs over the next 10-15 years.[11]

BIS Oxford Economics predicts house price growth of 9% on the Gold Coast and 7% on the Sunshine Coast over the three years to June 2022.[1]

New infrastructure continues to drive inland regional markets as well. In Toowoomba, the $16.7 million upgrade to the Trade Gateway was completed in August 2019,[12] providing key transport links to the region. The Second Range Crossing, which opened in September 2019, will be a game changer for the town as it will divert heavy vehicle traffic away from the centre and enhance liveability for residents.

Buyers taking advantage of South East Queensland's great affordability and lifestyle will reap many rewards later when prices soar off the back of a stronger state economy; a wave of downsizing due to our ageing population; and more seachanging as affordability issues bite in the southern capitals.

BIS Oxford Economics sees the bulk of Brisbane's 20% three-year price growth occurring in FY21 and FY22, so the door is open in FY20 for early adopters of the great northern migration ahead.

John McGrath's Top Picks

Broadbeach Waters 1

The bridesmaid to Broadbeach, Broadbeach Waters is benefitting from the ripple effect with a 15.2% rise in apartment prices to a median $501,250 in the 12 months to June 30, 2019 compared to just a 1.9% gain to $530,000 in Broadbeach.[5]

Buyers might not get beachfront living but they can buy canal front just a few blocks away from the surf, with plenty of local restaurants, bike paths for families and a nearby rainforest walk.

Oxley 2

With plenty of homes priced under $500,000, the gentrifying older suburb of Oxley is an appealing alternative to its affluent neighbours of Sherwood and Corinda, where the median house price is above $800,000.[5]

Oxley was declared a Priority Development Area in FY19, with new homes and community facilities on the way, along with a growing café culture and redeveloped shopping precincts. With a median weekly rent of $450 for houses, up 5.9% in the 12 months to May 31, 2019; and a median weekly rent of $390 for apartments holding steady,[3] these returns are attractive to the savvy investor.

Hendra 3

Sitting next to blue chip Ascot and Hamilton, Hendra's turn is coming. Well located, Hendra will benefit from the redeveloped racecourse precinct and its new amenities. Land has been freed up for residential apartments, retail and commercial precincts, with the first major apartment tower in Mirvac's 54,000 sqm development now under construction.

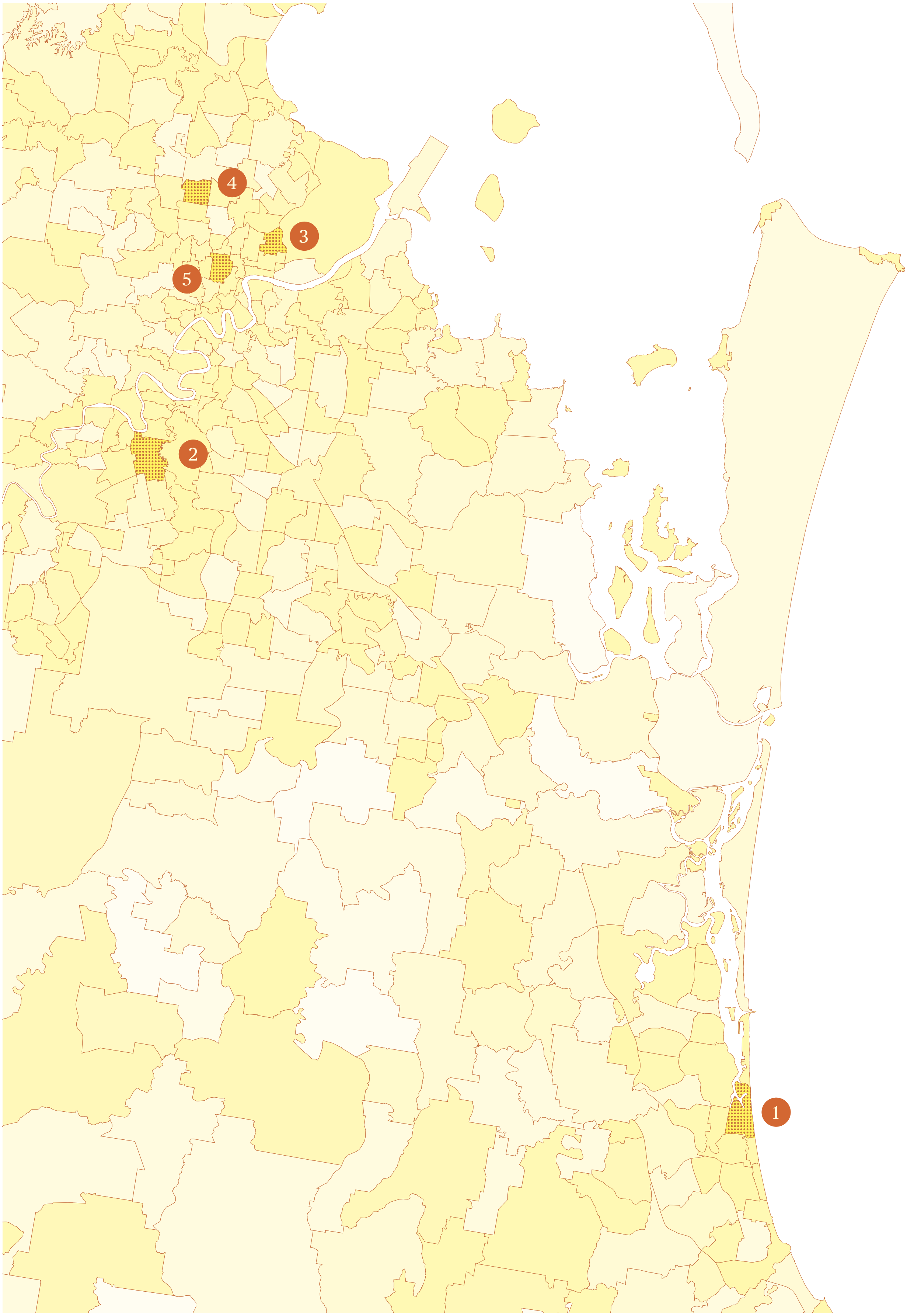
While renovated homes backing onto the Eagle Farm Racecourse are achieving multi-million dollar sale prices, there are still plenty of original homes on large blocks in the $600,000s to $700,000s.

Chermside West 4

There is a changing of the guard at Chermside West, with retirees leaving and young professionals moving in. With a median house price of $585,000,[5] it has fewer new apartments than neighbouring Chermside and retains a family friendly suburban feel. Its transport links and close proximity to schools, hospitals and retail make it one to watch.

Gordon Park 5

With major public works including the construction of the Northern Busway and Airport Link tunnel now complete, Gordon Park is an appealing option for buyers. The nearby Lutwyche City shopping centre is undergoing a $65 million revamp and it is a five minute drive to Australia's second largest shopping centre, Westfield Chermside.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Canberra

04

City Spotlight 04

Median house price $672,203

Median apartment price $424,911

CoreLogic, September 2019

The quiet achiever of Australian real estate, Canberra continued to display resilience and consistency in the face of a national property downturn with its fifth consecutive year of house price rises in FY19.

As one of only two capital cities to record price growth in FY19, long term market stability continues to be underpinned by Canberra's strong and diversifying economy, steadily rising population,[1] the country's lowest unemployment at 3.5%,[2] the highest average wages and carefully managed land releases.

More people are moving to Canberra primarily due to stellar jobs growth. The territory had the second highest rate of population growth in CY18 at 1.8%,[1] which included a surge in international students; and 3,700 new jobs created in FY19[2] alone.

This has delivered strong, ongoing demand for residential homes, which has offset the impact of greater supply following the construction boom, which peaked with a record 7,160[4] new dwelling approvals in June 2018.

Canberra's median house price rose modestly in FY19 by 2.4% to $656,943, while the apartment median dipped -1.9% to $433,049, according to CoreLogic.[5]

Canberra's rental market is very strong, with the lowest vacancy rate of any capital city at 0.6%[6] and the most expensive median weekly house rent at $570. Apartment rents have steadied after four years of growth but remain the second most expensive in Australia at $465 a week.

The outlook for Canberra's residential market remains positive as the city continues to grow. Easing lending conditions and interest rate cuts will further boost market activity. CoreLogic-Moody's Analytics predicts 9.2% growth for houses and 8.2% for apartments over CY20 and CY21.

A $2.9 billion infrastructure program,[8] introduced in FY17, has led to improved medical facilities, new schools, transport redevelopments and updated town centres, parks and sporting facilities.

The ACT Government is also in the midst of addressing the city's zoning regulations to cater for strong population growth over the next 20 years, with 12 new homes needed per day to keep up.

A key element of the ACT Government Planning Strategy[9] is increasing density around existing town centres and along major transport routes, with up to 70% of new housing to be within the city's existing footprint.

Rezoning will be required to increase diversity beyond traditional family homes and apartments. There is strong demand for more in-between options such as terraces, townhouses, manors and single level age-in-place homes for seniors in established suburbs close to the city.

The ACT Government is phasing out stamp duty and replacing it with higher rates under a 20-year reform plan that began in 2012.[10] From July 1, 2019, no first home buyer will pay stamp duty on any property or vacant land as long as their personal and partner's gross income combined is less than $160,000.[11] The threshold is slightly higher for buyers with children. Stamp duty for non-first home buyers has also been progressively cut every year since FY13.[12]

Construction has begun on Canberra's first six star rated Green Star Community, Ginninderry, which will provide 11,500[13] eco-friendly homes for 30,000 residents over the next three decades.

Beyond the statistics, Canberra is being increasingly recognised as a genuinely great place to live.

Canberra was voted Australia's most liveable city for the third consecutive year in 2019 due to its safety, health services, housing affordability, quality of education and work prospects, according to the annual Life in Australia report by realestate.com.au/Ipsos, the largest annual study into community values and liveability as rated by residents.

Canberra's soul is being revitalised to enhance community interaction and generate a new buzz. The City Renewal Authority is undertaking scores of small, innovative projects to make Canberra's public spaces more inviting, enjoyable and interactive.

This includes the complete rejuvenation of the city's 'backyard', the 19ha Haig Park in Braddon. A series of events and improvements in 2019 included an over 55s street art project, live music and performances, multiple public art installations, new kids' bicycle paths, running tracks, an off-leash dog area with pet play equipment and a nature play zone for kids under 10.

Civic has received a makeover, including new paint and lighting for the much-loved merry-go-round; 100 pieces of new street furniture; scores of new street trees and colourful flower planter boxes; and jet cleaning of sidewalks. With every change of season, a giant plant giveaway encourages locals to pick up flowers for their own gardens to make way for new seasonal plantings.

Pop-up picnic areas with large timber tables and brightly coloured umbrellas are inspiring locals to get together at lunch time in City Walk, Glebe Park and Latin American Plaza.

A strong economy, high income jobs, relatively affordable housing, excellent rental returns and improving liveability makes Canberra an exceptional property market for investors, executives and families with great prospects for ongoing capital growth.

John McGrath's Top Picks

Bruce 1

Well located, Bruce is just a short 5.2km drive to Canberra's CBD. Closer still is the University of Canberra, Australian Institute of Sport and the retail and commercial hub of Belconnen. The median apartment price is $380,000 and the median asking rent is $420 per week,[14] making it very appealing for the savvy investor.

Theodore 2

Theodore's median house price jumped an impressive 12% to $580,000 over the 12 months to June 30, 2019.[14] Offering affordable family homes of a similar style and quality to its more expensive neighbour, Calwell, it has the same access to recreational amenities as well as the Monaro Highway straight to the ski fields.

Holder 3

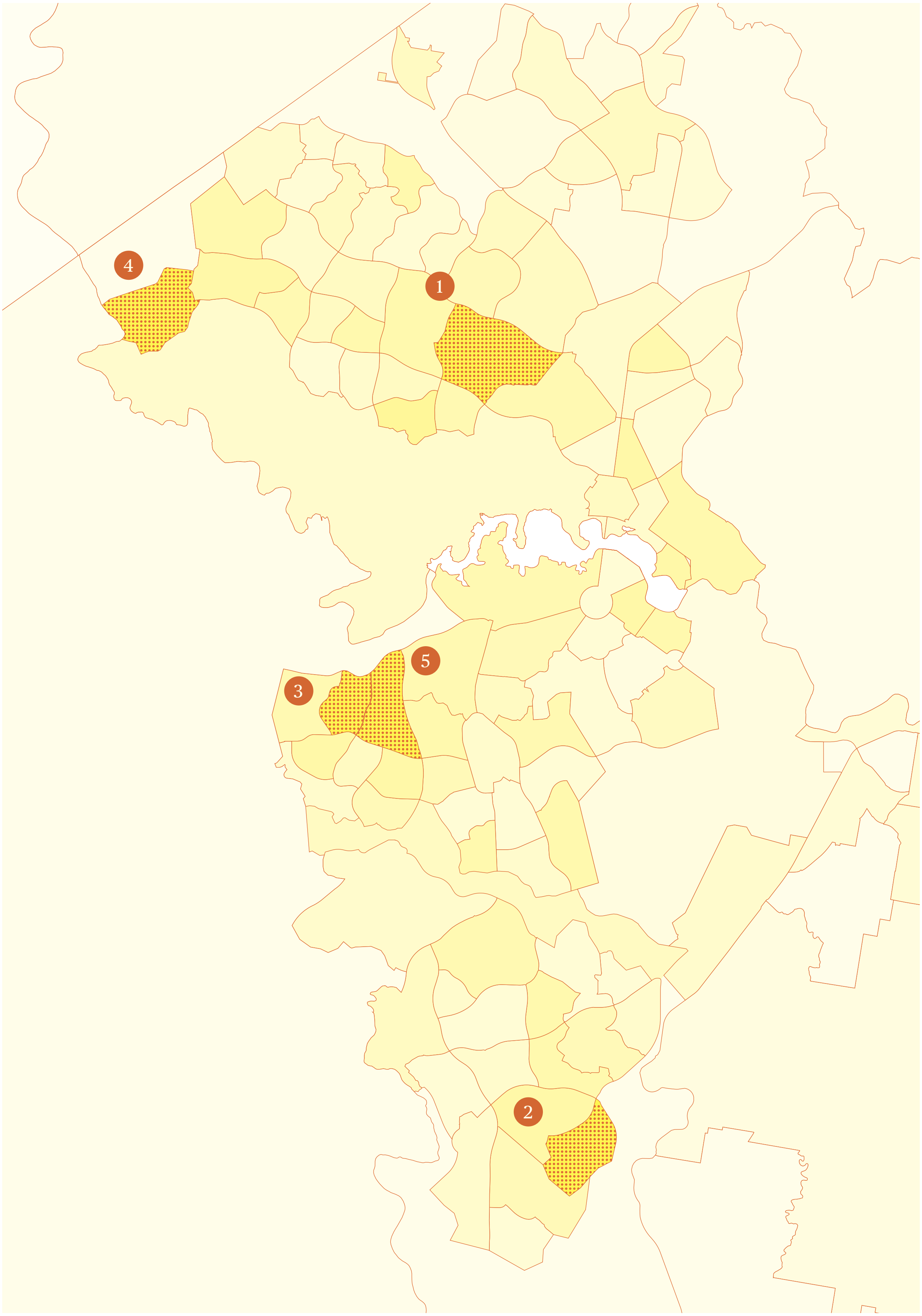
Ideally located, this well-established south west suburb offers some of the city's most affordable housing within a 15 minute drive of Canberra's city centre. Be quick as locals are catching on, with prices already on the rise. House prices surged 16.4% to a median $698,500 over the 12 months to June 30, 2019.[14]

Strathnairn 4

Construction has begun on Strathnairn in West Belconnen, 18km north west of the CBD, with 60 blocks of land sold on the day stage two was released in June 2019.[1] The suburb's land releases will be spread over four years as part of the six star rated Green Star Community, Ginninderry, which will deliver 11,500 new eco-friendly homes over the next 30 years.[13]

Weston 5

Some original 1970s gems with established gardens and plenty of potential can still be found amongst the newer homes of the area. Less than 15 minutes' drive to the CBD, there is a shopping centre and 10 schools within a 3km radius. Affordable buying and perfect for a growing young family.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