SHORE

"It's all about you"

WINTER 2015
MARKET MOVING INTO UNPRECEDENTED TERRITORY *Issued 8 April 2015*

In line with our New Year prediction capital growth in the 1st Quarter of this year is more than keeping pace with last year's exceptional growth rate of 13%. A Core Logic RPdata Report issued today records that the change in prices in Sydney in the 1st Quarter was 6%. We also keep a close eye on Auction Clearance Rates, as there is a close correlation between Auction Clearances and price growth – higher clearances means faster growth. The auction market has now moved into uncharted territory with record-breaking Clearances in excess of 85% in March according to the same Core Logic Report. Sydney continues its reign as the best performing market in Australia with Melbourne, the next best performer at just 3.5%.

The Reserve Banks decision to keep rates steady in April is fairly easy to understand when you consider the lack of any meaningful economic data coming out since the February rate reduction, the froth in the Sydney and Melbourne property markets and the long lag-time between rate-movements and the behavioral changes stimulated by the reduction in the interest rate benchmark. The RBA again signaled that a further interest rate reduction was likely. The next major economic event will be the release of First Quarter inflation numbers towards the end of April so a May cut, is the more likely. The next tripping point after that, and a big one, will be the Federal Budget in May so June is also a possibility.

Despite the routine focus on interest rates, the rates are now so low that we tend to think the discussion has very much moved on. The thing we, as real estate agents, are supremely conscious of is the shortage of sellers in the market. This will, for the foreseeable future, keep considerable pressure on prices. Supply and demand is firmly at the center of today's market dynamics.

Investors continue to play a large part in sales across the harbor-side suburbs. Mortgage group AFG revealed last week that 52.9% of all loans processed in NSW in March were for investors. The more housing stock that is owned by investors, the more volatile house prices could become, in both directions. It comes therefore as no surprise that there is an increase in the pressure on Rental Yields; we have had a number of painful re-adjustments of rents recently. Expect to see reductions or, at best, static growth in rents becoming the norm.

A number of our clients, conscious of this, are starting to put spare cash into upgrading their properties. This is something we have been strongly encouraging for well over a year and the leverage in returns results has been exceptional for those that have decided to invest in growth. We are seeing fantastic returns in terms of rental growth and the quality of tenant as a proportion of the property's pre-improvement value.

If you are thinking of selling we think now is an excellent time to go to the market with stock levels so low or if you have a property and it is time for improvements let's start a discussion. We look forward to hearing from you.

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