

Terry Ryder



11 September 2018

Four key markers for property investors of future price growth



EXPERT OBSERVER

Over the weekend I spoke to crowds of people with their heads crammed full of media misinformation.

The number one point of discussion was the general perception that prices are falling across Australia, thanks to simplistic analysis and inaccurate headlines.

In reality, the latest monthly price report from CoreLogic (the source of most articles and headlines on prices) tells us that there are 14 major market jurisdictions across Australia (eight capital cities and six state regional areas) – and nine of the 14 have price levels higher than last year.

I see plenty of potential for buyers to find locations where prices are rising or are on the cusp of a growth phase.

How do you find them? Here are four markers that provides clues to future price growth ...

1 The underlying local economy is rising

In 2011 when the government changed in New South Wales, the state ranked as one of the weakest economies in the nation, according to CommSec's *State of the States* report.

But with proactive governance and increased spending on infrastructure, NSW rose steadily up the rankings to eventually become the nation's strongest economy. Out of that came the Sydney property boom.

There was a similar story in Tasmania. Traditionally Tasmania has ranked as our weakest economy but, following a major change of state government in 2014, the state rose up the national rankings, eventually reaching its current position of No.4, ahead of Queensland, South Australia and Western Australia.

The marked improvement in the state economy gave rise to the growth in the Hobart property market, now the strongest among the capital cities for price growth.

The linkages between capital city property markets and the underlying state economy are undeniably strong.

So where does this marker point us for the next growth markets among the capital cities?

There are definite signs of improvement in the economies of Western Australia, South Australia and Queensland.

This, along with other indicators, suggests better growth in the property markets in Perth, Adelaide and Brisbane.

2 Demand has risen but prices haven't moved much - yet

Three capital cities stand out for this reason: Perth, Canberra and Adelaide.

There has been significant uplift in sales activity in Perth, as the underlying state economy improves.

Canberra sales activity is rising steadily also, and Adelaide currently has one of the most active markets among the capital cities.

When demand rises, prices tend to follow. One major forecaster has tipped Canberra to lead on price growth in the next 2-3 years. I think the national capital will definitely be a contender, but so will Perth and Adelaide.

3 Rents have risen strongly, but prices haven't moved much - yet

Before Sydney prices started to rise, we saw a couple of years of strong growth in residential rentals. Before house prices started to move in Hobart, it was noticeable that vacancies were extremely low and that rents were rising. Prices followed.

So where are those conditions most evident right now in capital city Australia? The clear answer is Canberra, where vacancies are below 1% and residential rents have risen strongly in the past year or so, according to SQM Research data.

We're also observing significant improvement in the Perth rental market, with vacancies declining and leasing activity rising.

4 Prices overall haven't moved much, but the Top End has had strong growth

Sydney's growth cycle started at the Top End and rippled out over time. In Melbourne, the up-cycle began in the millionaire suburbs and gravitated from there to the middle ring and more recently to the outer ring suburbs.

This is a common pattern in property cycles. And right now there are three capital cities where the million-dollar suburbs have had double-digit price growth in the past year, but the market overall has not had big price growth.

Those three cities are Perth, Adelaide and Canberra.

Where do all these markers point us?

Put all those indicators together and they point to strong price growth in the near future in three capital cities:

- Canberra: the underlying economy ranks third in the nation, it has the highest average incomes and lowest unemployment, vacancies are low and the rental growth is the highest in the nation, sales activity (demand) is increasing and the Top End prices have risen strongly.
- Adelaide: the state economy is improving and has big growth drivers in the system, vacancies are below average, demand is rising, yields are strong and Top End prices have risen at above-average rates.
- Perth: the state economy is recovering, vacancies are falling, rental activity is rising, sales activity is steadily improving and Top End prices have recorded double-digit annual growth in many of the millionaire suburbs.

Brisbane will get on board if the signals of an improving state economy and the promise of big spending on infrastructure actually come to pass.

Terry Ryder is the founder of hotspotting.com.au