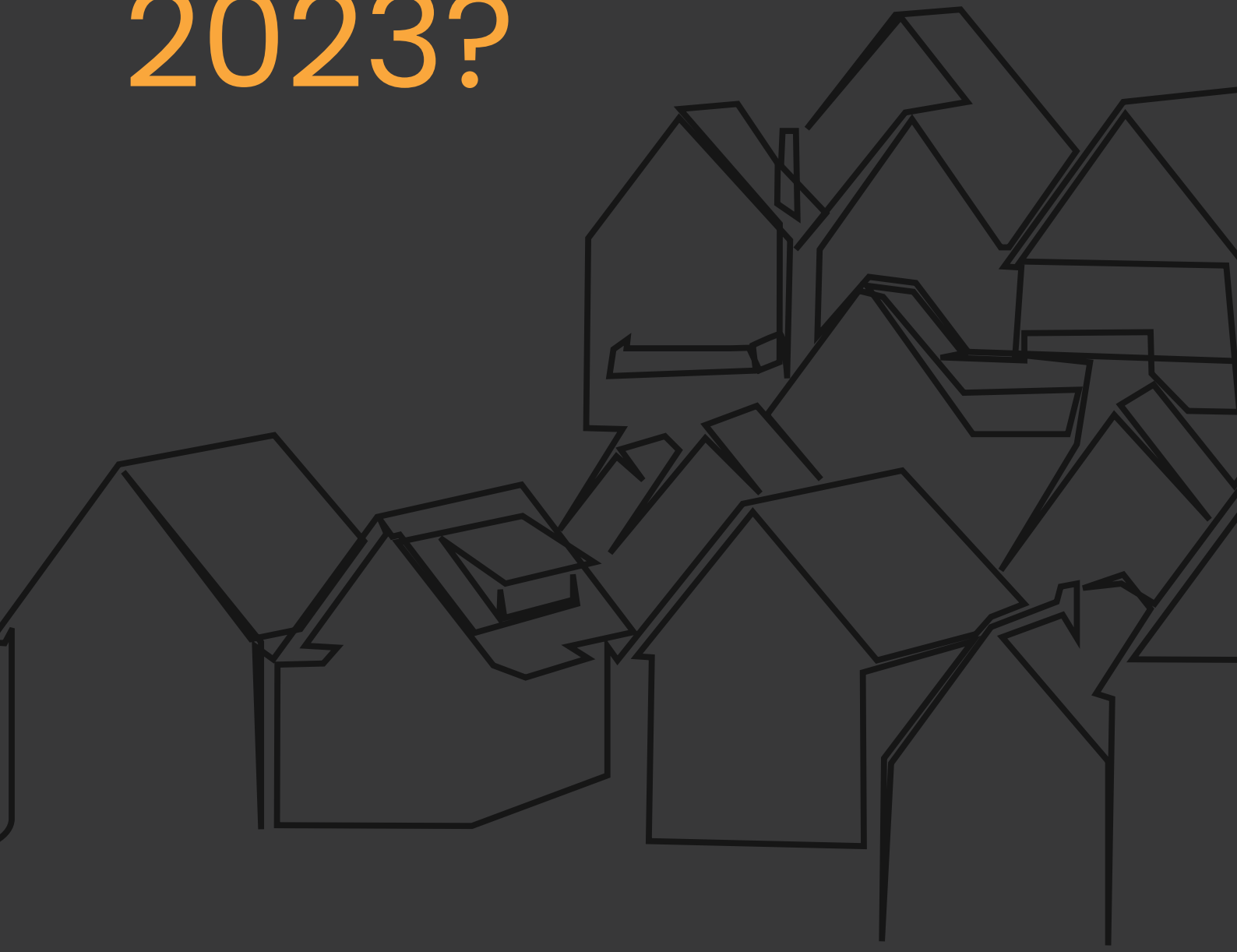
2023 Trends White Paper

What's In Store For 2023?



ljhooker.com.au

LJ Hooker

Contents

Introduction	3
TREND #1 Tight Rental Markets Will Encourage Tenants to Buy and Investors to Return	4
TREND #2 Shortages and Higher Costs Will Make New and Renovated Homes Very Popular	7
TREND #3 Shifting Population and International Arrivals Will Drive Housing Markets	9
CASE STUDY How An Alice Springs-Based Accountant Recently Built A Solid Real Estate Portfolio To Create Passive Income	12
TREND #4 Sellers Will Seek More Advice Before Listing Their Property	14
CASE STUDY How Buying Properties To Renovate And Sell Can Be A Great Strategy To Build Wealth	16

Introduction

The past few years have seen a clear shift in the way Australians want to live, work and play. Adjusting to the 'new normal', and getting on with life, has been a hallmark of 2022.

The way we live and where we want to live has shifted as we look for more space within our homes and surrounding area to relax, exercise, socialise and work. Combined with the work from home trend, this shift has made many think about where they want to live and has seen many people pack-up and make a `tree' or `sea' change to a more laid-back affordable location.

The way we relax and entertain ourselves has also meant that more people want to get out, have a holiday and explore. The past two years have seen Australians wanting to do this within our borders. More people have purchased caravans, leased their homes and taken to the road to travel. This, in turn, has seen smaller regional and rural centres become popular and drive a rise in demand for short-stay accommodation, and has been a boon for local businesses.

> "The way we live and where we want to live has shifted as we seek more space to relax, socialise and work.

As we move into a new year, these trends will continue to evolve while shifting economic conditions and demographic changes will result in new ways Australians interact with property markets.

Mathew Tiller,
Head of Research



TREND #1

Tight Rental Markets Will Encourage Tenants to Buy and Investors to Return

Rental markets are currently going through a crunch in supply and a surge in demand. This combination has seen vacancy rates reach record lows and rents rise at the fastest pace in almost a decade.

There are several factors from both a supply and demand perspective which had led to the current conditions.

On the demand side, the number of people looking for a home to lease has risen substantially since the onset of the pandemic in early 2020. People want more space because they are at home more, work from home, and want to limit the risk of catching Covid. This has seen the average household size fall as those living at home or in share houses look for their own place, and those living in apartments look for a townhouse or house to expand into.

On the supply side, there has been an extremely low number of properties advertised for rent. CoreLogic estimates that the total advertised rental stock is now 35 per cent below the five-year average. Meanwhile, SQM Research estimates the national rental vacancy rate to now be only 0.9 per cent, the lowest rate since 2006 and down from 1.7 per cent 12 months ago. This tightness has been exacerbated by many investors selling their investment properties, over the past two years, to capitalise on strong price growth or because of increased regulations that occurred during government-mandated lockdowns.

The tightness in rental markets has, in turn, seen rents surge across all capital cities and regional markets, with the annual growth breaking into double digits for the first time on record in August.

CoreLogic data shows rents grew 10 per cent nationally over the year to September 2022. The desire for space has seen house rents increase by 9.4 per cent over the year. Higher affordability levels, plus the re-opening of the international borders, have seen unit rents grow by 11.8 per cent over the past 12 months.



So what's next?

Tenants become buyers

Rental markets will remain tight in 2023 as more international workers and students arrive and the supply of rental stock holds steady. The rise in rents, at a time when sales prices are softening, will see tenants who have been budgeting to buy a home bring forward their purchasing decisions. Higher days on market and vendor discounting will make it easier to make the leap from renter to homeowner over the coming year.

Investors return

The strong rental price growth combined with declining home values has pushed rental yields higher. The combination of these factors, along with the positive outlook for rental markets over the medium term, will inevitably see investors return to purchase more properties in 2023.

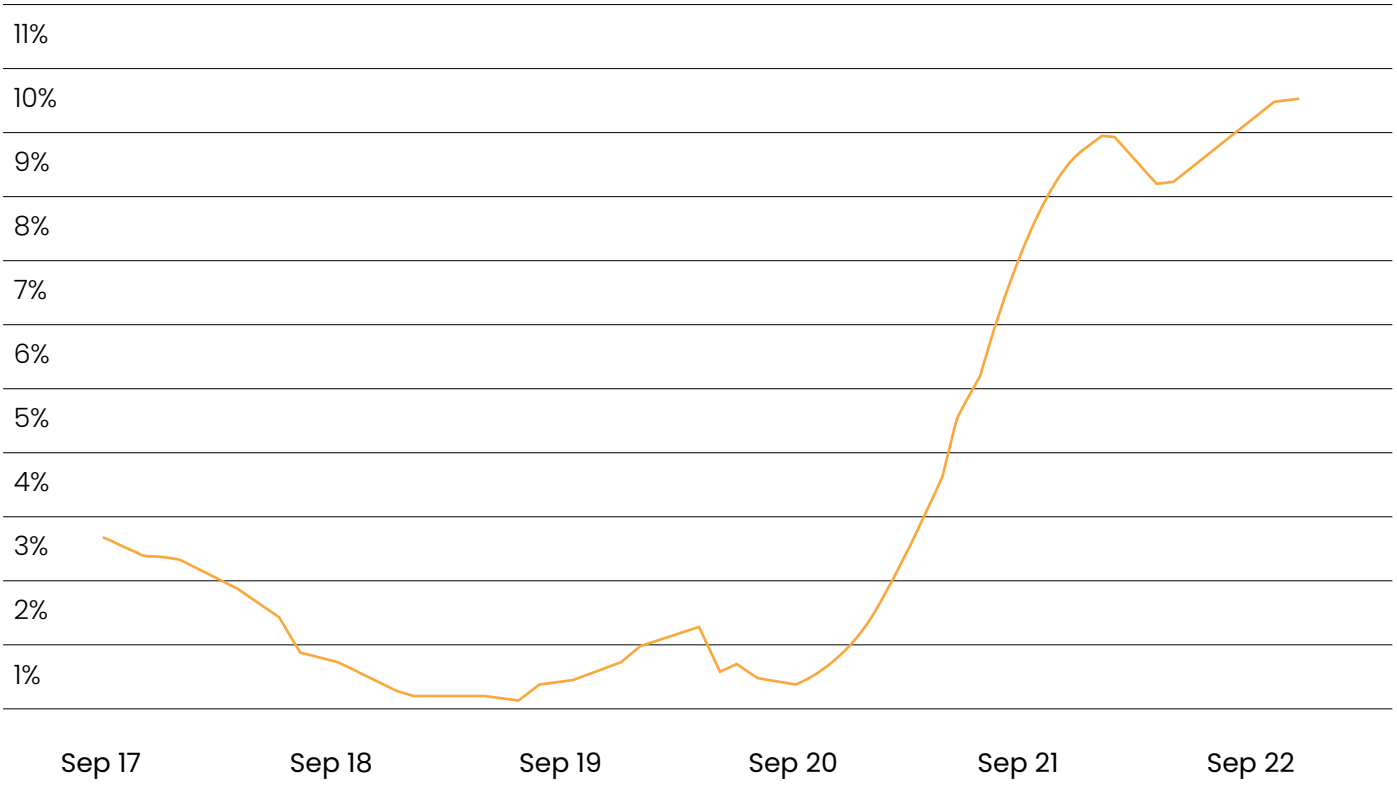


Median rents across the country

All dwellings	Median rent	12-month change
Sydney	$665	10.3%
Melbourne	$495	8.6%
Brisbane	$573	13.5%
Adelaide	$508	12.8%
Perth	$533	9.1%
Hobart	$551	7.3%
Darwin	$590	5.4%
Canberra	$682	7.2%
Combined capitals	$562	10.2%
Combined regionals	$497	9.7%
National	$544	10.0%

Source: CoreLogic, September 2022 compared to September 2021

Annual Change rental rates - National



Source: CoreLogic, September 2022 compared to September 2021

TREND #2

Shortages and Higher Costs Will Make New and Renovated Homes Very Popular

The past year has seen the cost of living rise substantially. Inflation has risen as domestic demand for goods and services has rebounded after the easing of government-mandated lockdowns and pandemic-related restrictions. In addition, issues with global supply chains and the war in Ukraine have contributed to higher prices of energy and transport costs for goods coming into Australia.

According to the ABS, the Consumer Price Index (CPI) rose 1.8 per cent in the September 2022 quarter and 7.3 per cent over the past year. It's expected that inflation will reach close to 8 per cent, on an annual basis, by the end of 2022 before slowly declining over 2023.

The housing industry has not been immune to increasing prices and has, in fact, been one of the largest contributors to the high CPI result. Shortages of building supplies, high freight costs, high levels of construction activity and a lack of workers have all contributed to high price rises for newly built homes.

CoreLogic's latest Cordell Construction Cost Index showed national residential construction costs have increased at a record rate. Over the year to September 2022, costs increased by 11.0%. No state has been immune from the growth in prices, with construction costs rising 12.3% in Victoria, 10% in NSW, and 9.9% in South Australia over the past year. In addition, all materials have been impacted, with timber and structural steel, two of the most widely used materials, seeing some of the largest price increases. There has also been a shortage of builders, tradespeople, labourers and building service providers, which have also combined to delay in completion times.

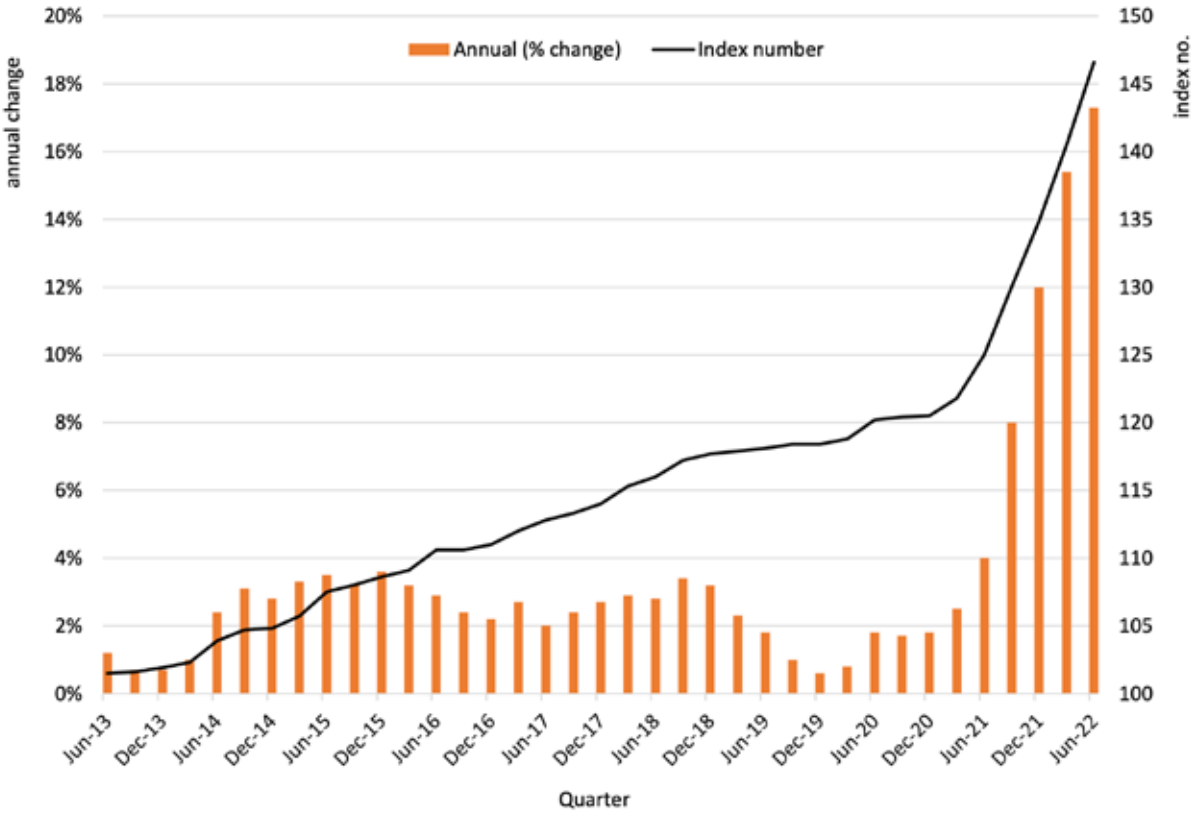
So what's next?

Newly renovated homes to be more sought after

The ongoing high costs of undertaking a major renovation or constructing a new home are expected to persist into late 2023. The cost of materials and the lack of available tradespeople to undertake work or builders to build a home adds stress, time and cost to projects. As such, buyers are expected to seek out and prefer recently renovated or newly built homes instead of undertaking a project themselves on an older existing home or purchasing a vacant land lot.

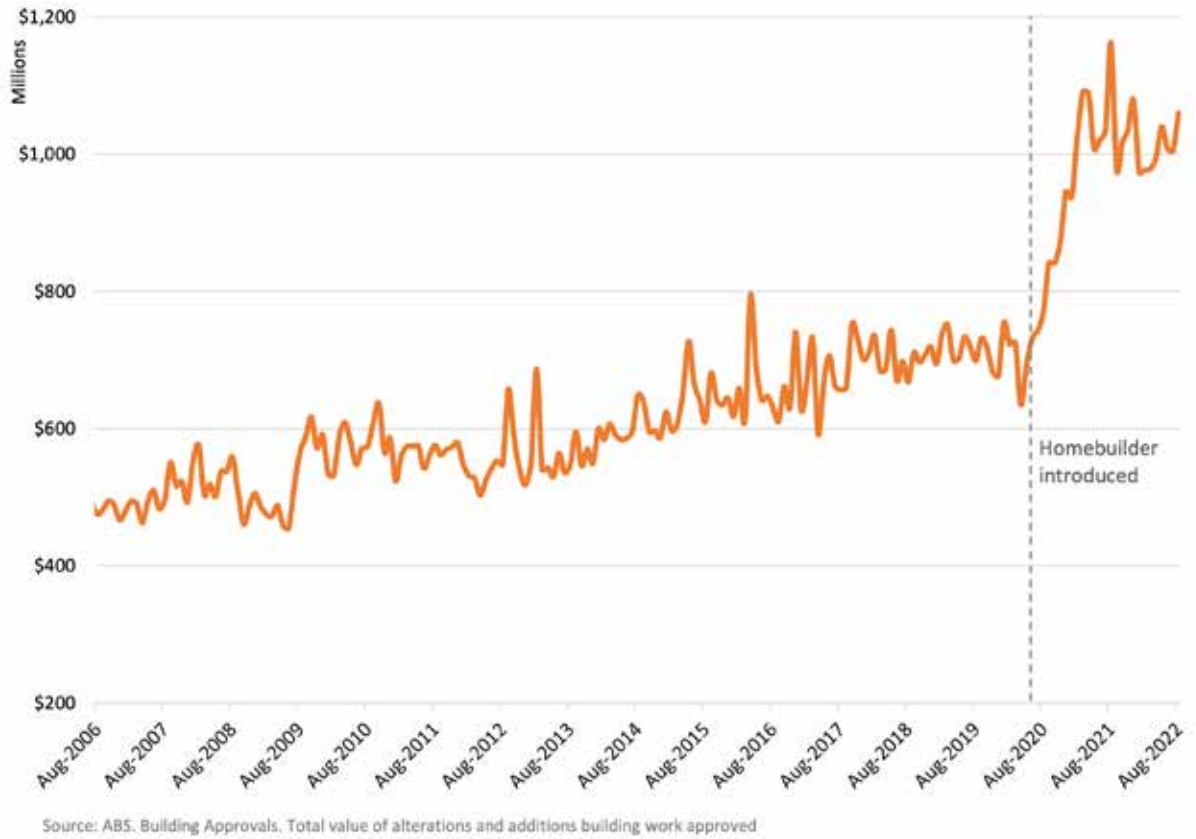


House construction input prices



Source: Australian Bureau of Statistics, Producer Price Indexes, Australia June 2022

Total value of Renovations



Source: ABS. Building Approvals. Total value of alterations and additions building work approved

TREND #3

Shifting Population and International Arrivals Will Drive Housing Markets

Australia has seen a major demographic shift since the onset of the pandemic in early 2020. Changes to how we work and prioritise our mental and physical health have seen people move from one state to another or from capital cities to regional centres in the same state. While this trend has slowed throughout 2022, movement levels will remain significant over the short term. They will continue to be a key driver of housing market conditions.

So where have people moved domestically in 2022? According to the Australian Bureau of Statistics (ABS), Queensland attracted the most interstate arrivals, with 148,372 people moving to the state from within Australia during the 12 months to March 2022. NSW ranked second (108,727), followed by Victoria (90,917) and Western Australia (44,310).

NSW also saw the most residents leave the state, with 148,784 people migrating to another Australian destination in the 12 months to March 2022. It was followed by Victoria (108,914) and Queensland (94,388).

Looking at where people are moving to more closely, Melbourne's outer southwestern council area of Wyndham saw the largest number of new residents. Its population increased by 23,000, or 9 per cent, between June 2019 and June 2021.

More affordable areas with higher levels of new housing estates surrounding capital cities also saw high population growth. For example, Camden in the southwest of Sydney recorded a 15 per cent of 15,000 people increase over the same two-year period.

Major regional areas have also been very popular since Covid due to higher affordability, more space, and a laid-back lifestyle. Three of the most popular are beachside destinations, with the Gold Coast growing by 18,000 people, unshine Coast by 16,000 people and the Surf Coast growing by 10 per cent during the period.

The reopening of international borders has also allowed Australia to begin welcoming back international visitors, new residents, workers and students.

This trend is set to influence housing markets significantly over the coming year as businesses currently struggling to find workers in the tight employment market within Australia look overseas as a source of new employees. It will initially have the most impact on the already tight rental markets across the country as those new to the country tend to rent first, settle into life here and then purchase a property.

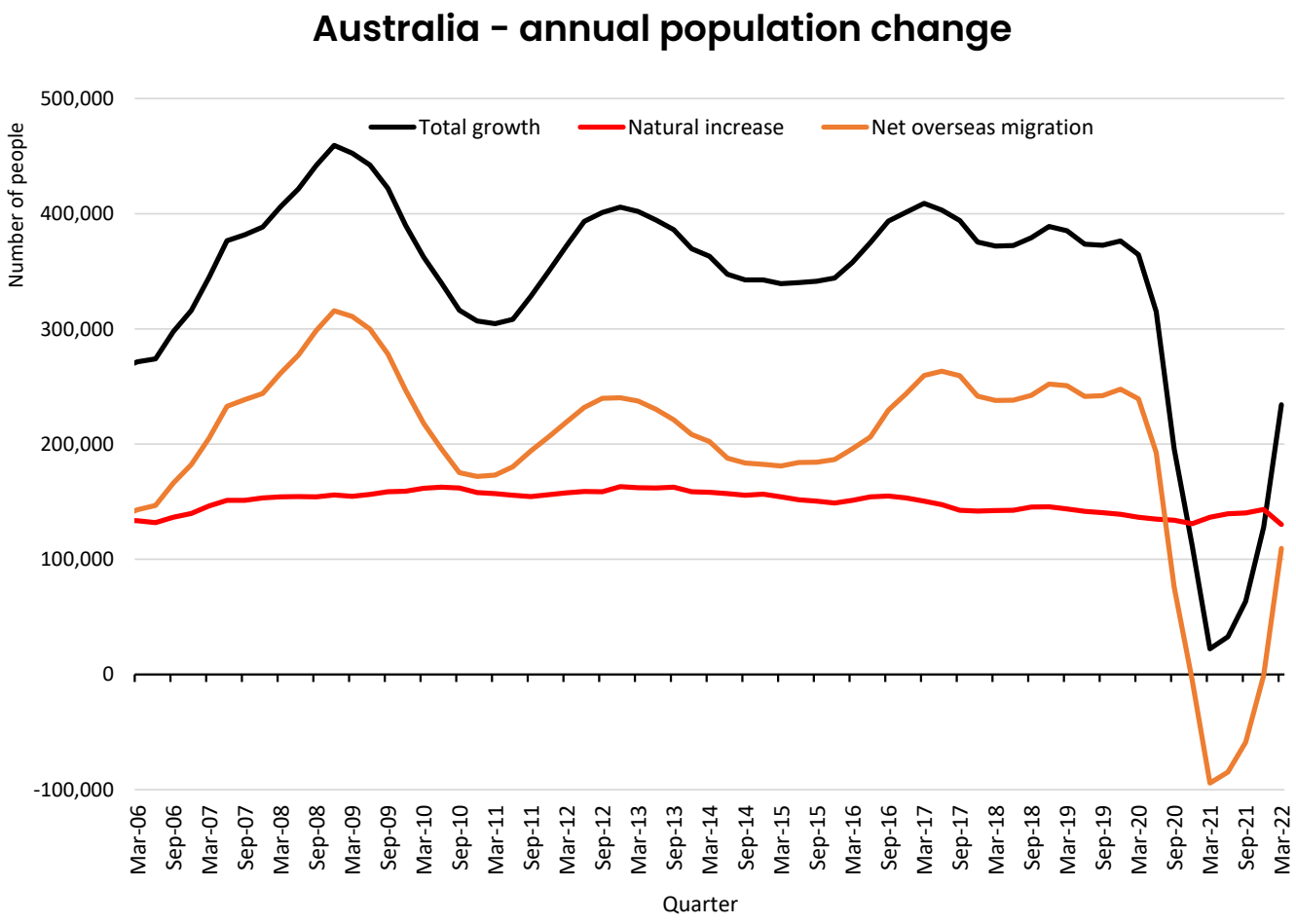
In the year to March 2022, NSW attracted the most international arrivals, with 124,723 people migrating to the state. It was followed by Victoria (96,107), Queensland (45,474) and WA (21,657).

So what's next?

Population shifts will drive market performance and keep rental markets tight. Whether it's people looking for more affordable housing options outside our capital cities, moving between capital cities for work opportunities or into a smaller regional community to get away from the hustle and bustle, population movement across Australia will continue to have a major role in the performance of property markets across the country in 2023.

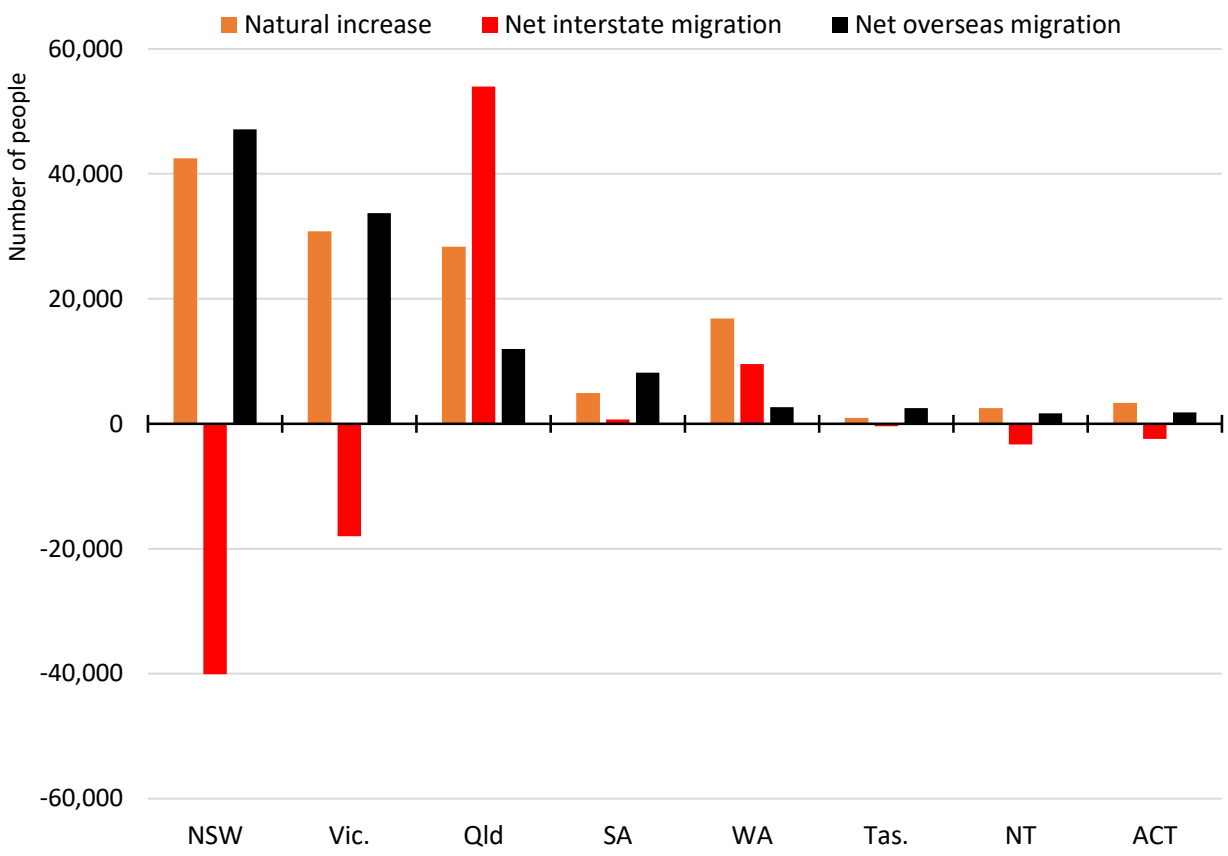
International arrivals are also expected to grow over the coming year. This will also, in turn, put increased demand into our property markets from both a tenants' and buyers' perspective.

Population changes will also contribute to making rental markets remain very tight over the coming year. Higher demand from tenants and an ongoing lack of new rental stock will see rents continue to grow at double-digit rates in some of our tightest regional markets and capital cities over the coming year.



Source: Australian Bureau of Statistics, National, state and territory population March 2022

State & territory annual population change



Source: Australian Bureau of Statistics, National, state and territory population March 2022



CASE STUDY

How an Alice Springs-based accountant recently built a solid real estate portfolio to create passive income

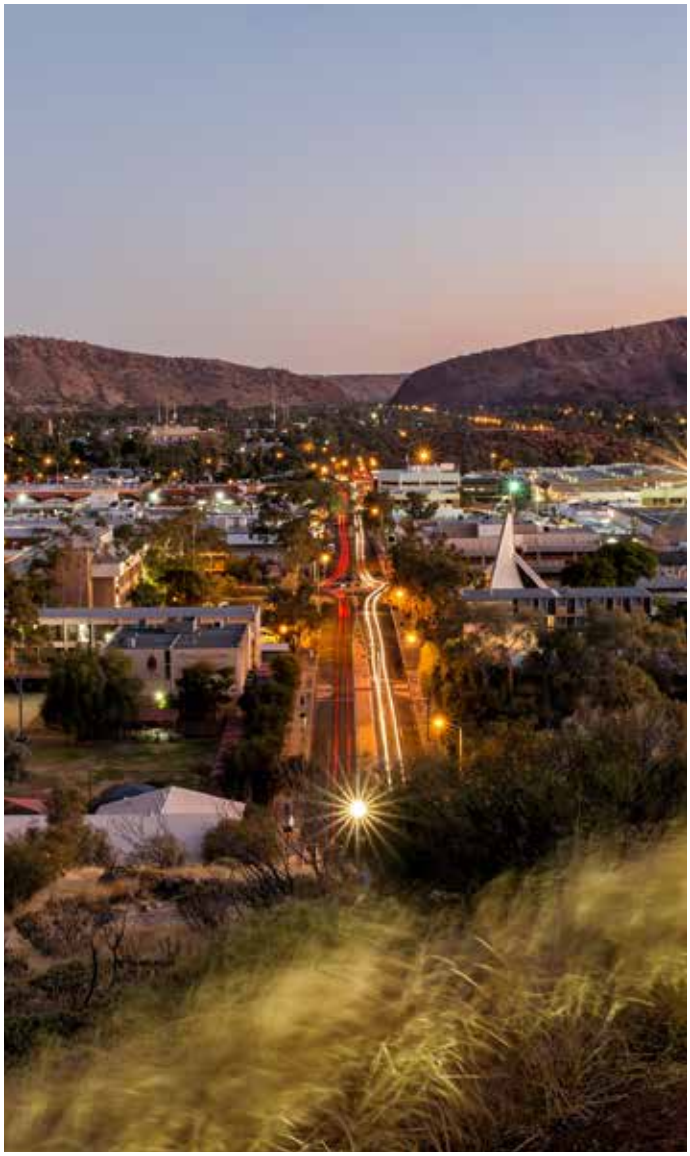
Interest rate rises won't stop Alice Springs-based accountant Mick Trull from looking for his next investment property. The 42-year-old father of two has built a solid real estate portfolio over the past few years to create passive income. He also enjoys the process of finding properties that are negatively geared and exploring ways he can add future value.

His investments are mainly local, although he has also secured a potential development block in Tasmania and a lifestyle acreage in South East Victoria. "It is less about timing and more about the opportunity in the current market," Mr Trull said.

"Often ideal properties might come up when others are feeling negative about the market. My advice is to keep an eye out on opportunities where you can add long-term value too." His most recent purchase was an older-style three-bedroom home in Alice Springs which he purchased for $470,000 six months ago. It is currently tenanted and has a rental income of $500 per week. It was a little more than Mr Trull expected to pay but the site has some potential development.

He also always factors in what he considers 'real' interest rates of 5 to 8 per cent when purchasing a property. "Low-interest rates over the last few years have been completely out of the ordinary, so I built-up a buffer and paid down debt," he said.





Agent Sam Linn from LJ Hooker Alice Springs said investor enquiry has been slowing down due to rising interest rates, however, properties there still offer good returns. It is possible to secure a one or two-bedroom apartment for around $200,000 returning between eight to 10 per cent. These can be leased for $350 to $380 a week.

Alice Springs has a rental vacancy rate of around one per cent with many people relocating to the regional hub for two to three years to fulfil work contracts. "We tend to get a lot of local interest, but we are seeing some investors from Victoria and New South Wales reach out. If you need to park money and have it returned at a good rate, then Alice Springs is a good spot to invest," Mr Linn said.

Mr Linn recently sold an older-style two-bedroom apartment for $185,000 to an investor who renovated the property and has leased it out for $410 per week. Another older style unit which sold for $179,000, and has not been renovated, is fetching $370 in rent per week. "At this price, the properties are dated but you can certainly walk in and live in them - but if you can do it up, then you can increase the rental income."

> **"Often ideal properties might come up when others are feeling negative about the market. My advice is to keep an eye out on opportunities where you can add long-term value too.**

TREND #4

Sellers Will Seek More Advice Before Listing Their Property

The past 24 months have seen property markets across Australia move through a wide range of conditions. The market has since moved into the phase in the cycle which has seen buyer demand soften due to lower affordability and rising interest rates. This change in market conditions has seen homeowners reluctant to sell their properties. Instead, they continue to seek advice and watch market conditions in anticipation of the next upswing.

During the past two years, lockdowns and restrictions also saw Australian households increase their savings instead of taking holidays and purchasing big-ticket items. In addition, as property price growth was very strong, homeowners built up a substantial amount of equity in their homes. When these two factors are combined with a very tight labour market, meaning people are comfortable about job security, homeowners are in a healthy position to absorb interest rate rises.

This security means that homeowners thinking about selling their home have seen reports of softer market conditions and decided to take a wait-and-see approach before selling their property. As a result, the number of new listings coming onto the market, particularly during the traditionally busy spring selling period, has been very low.

The latest CoreLogic data shows that new listings coming onto the market for sales are currently 17 per cent lower than this time last year. In Sydney, the numbers are slightly worse, with new listings now 25 per cent lower than last year. They are also 21 per cent lower in Melbourne and 16 per cent in Brisbane. However, it is more than just capital cities that are tight.

Regional markets are also experiencing a lack of properties on the market for sale, with new listings down 15 per cent and total listings down 4.5 per cent compared to last year.

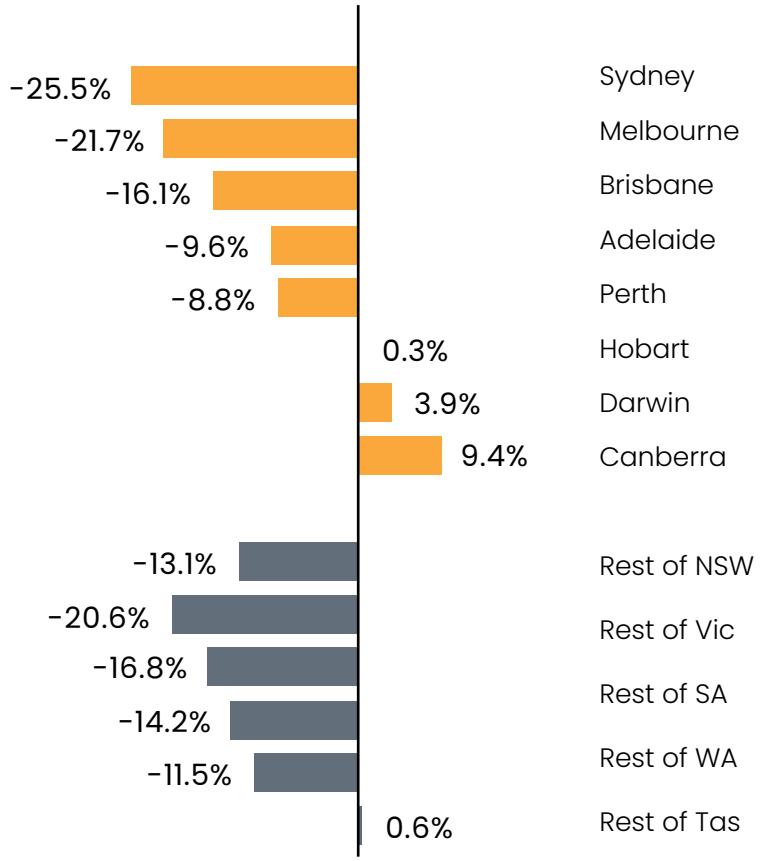
Despite the lack of listings, homeowners remain eager to understand what is happening in their local market. LJ Hooker offices across the country are reporting an increase in property appraisals. Their number in the third quarter of 2022 was up 3 per cent compared to the same period last year. This trend demonstrates that homeowners are carefully watching the market performance for signs of the next market cycle phase.

So what's next?

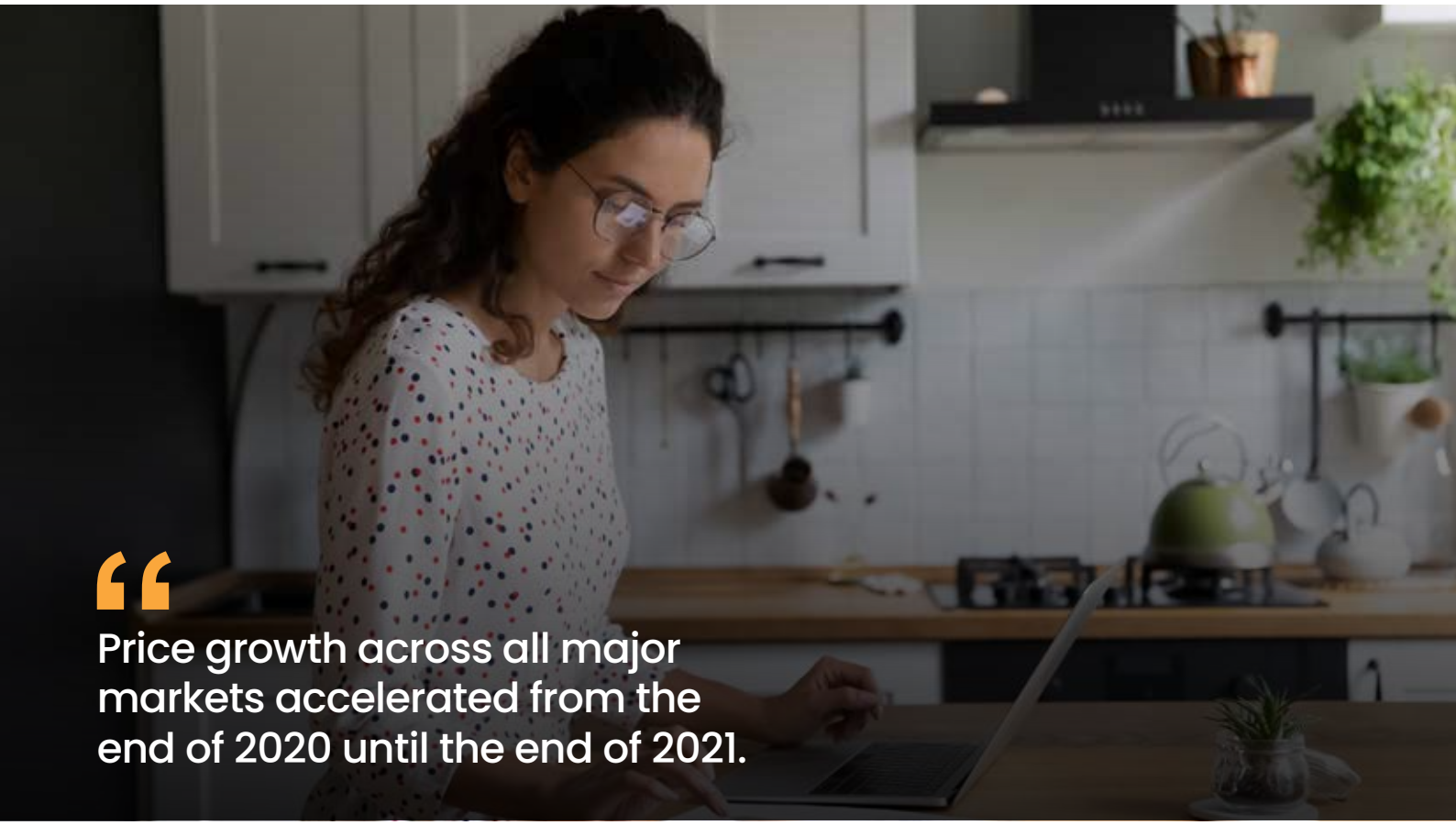
Homeowners to seek advice and watch for an upswing

Given we are now in the late stages of spring and fast approaching the end of the year, we anticipate that listings will remain low and the market tight until the start of 2023. Agents remain busy conducting home appraisals and advising homeowners in their respective areas on local market conditions. They anticipate that these same homeowners will use the remainder of the year to gather information about their local market performance and prepare their homes to list during the first half of 2023.

New listings - September 2022



Source: CoreLogic, September 2022 compared to September 2021



"Price growth across all major markets accelerated from the end of 2020 until the end of 2021.

CASE STUDY

How buying properties to renovate and sell can be a great strategy to build wealth

Changing market conditions have not deterred experienced renovator Rob Palmer from recently completing another project. And he will keep going in 2023. He plans on looking for an old home with 'good bones and in a good location' in the New Year which he will revamp and then list for sale.

He hopes the timing will coincide with stabilising interest rates but believes it will be a while before the market 'goes again'. This creates opportunities for skilled renovators such as Mr Palmer to buy at the right time and maximise their profit. "It is always important to do your research, so you don't over-capitalise. I always get a rough idea from a local real estate agent before I start a project about what I'd like to achieve and how much they think it can get on the market," he said.

Mr Palmer, who runs a glass installation company, has renovated many homes for sale and has experienced first-hand how changing conditions can impact results.

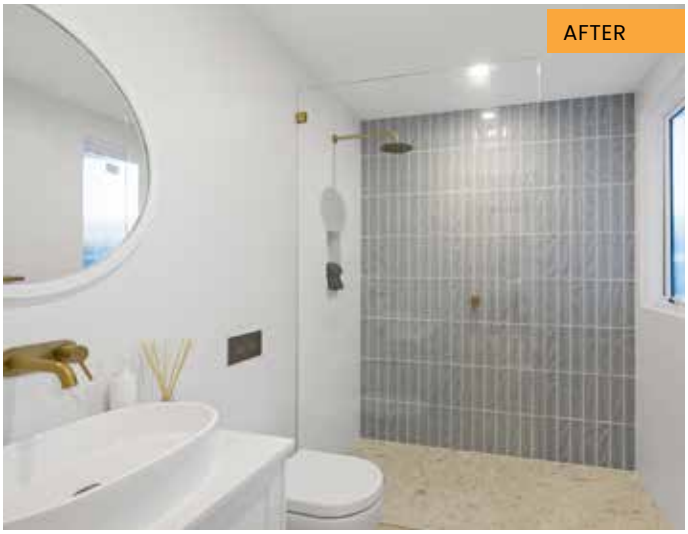
He recently completed an incredible transformation of an A-frame home in Wamberal, on the New South Wales Central Coast. He purchased the property a year ago located close to Terrigal Beach for $1 million. He invested $500,000 into the six-month long renovation project. But just a few weeks from completion, property prices began falling.

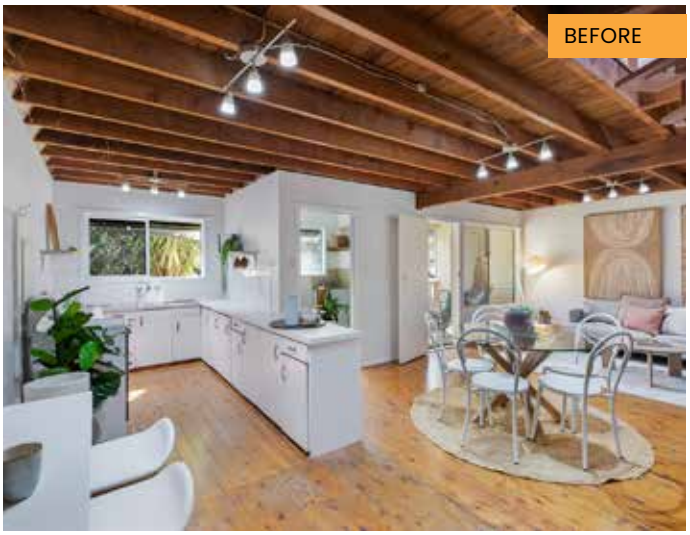


While the sale netted him a tidy profit of $210,000, he had to adjust his expectations. "The result was close to the rough figure we had at the start, but we probably also did spend a little too much. I set my goals high, and it was hard to really pull anything away from it in the end. You can't win everything and while I didn't lose on it, I didn't make a huge amount either. It was still a good project and worthwhile."

Agent Matthew Farrugia from LJ Hooker Terrigal said the makeover of older homes for profit is an increasing trend in his area. If renovators only have a limited budget, he recommends focusing on the kitchen, living and meals area and ensuring it has outdoor flow. He believes it is best to be conservative when it comes to predicting the price outcome.









Styling, painting and carpets can add around 2-5 per cent to the sale price of a property on the Central Coast. Adding a new kitchen and or bathroom on top of this around 10-15 per cent range, while a full renovation on the property can add 20 per cent or more depending on the finishes and presentation.

He also urges renovators to show their plans to a local real estate agent to ensure the finished home will appeal to a wide number of buyers. "An architect might tell you what will look pleasing but that isn't always practical. You need an agent that you know and trust, who has a good knowledge of your area, to get some advice before you start knocking out any walls."

Disclaimer
This eBook does not necessarily reflect the opinion of the publisher. It is intended to provide general news and information only. The content does not take into account your personal objectives, financial situation or needs. While every care has been taken to ensure the accuracy of the information it contains, neither the publishers, authors nor their employees, can be held liable for inaccuracies, errors or omission. Copyright is reserved throughout. No part of this publication can be reproduced or reprinted without the express permission of the publisher. All information is current as at publication release and the publishers take no responsibility for any factors that may change thereafter. Readers are advised to contact their financial adviser, broker or accountant before making any investment decisions and should not rely on this eBook as a substitute for professional advice. This information is to be used as a guide only and is subject to change at any time.