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A TURNING POINT YEAR

REFLECTIONS ON 2018

Reflections on 2018

by Daniel Schulz

2018 was quite a turbulent year for real estate, both in Melbourne and many other parts of Australia. Stagnation and negative growth have been touted as being the beginning of a property crash.

In this report, Secret Agent will analyse some indicators and metrics which affected the property market in 2018, and discuss how they are likely to affect prices further into 2019.

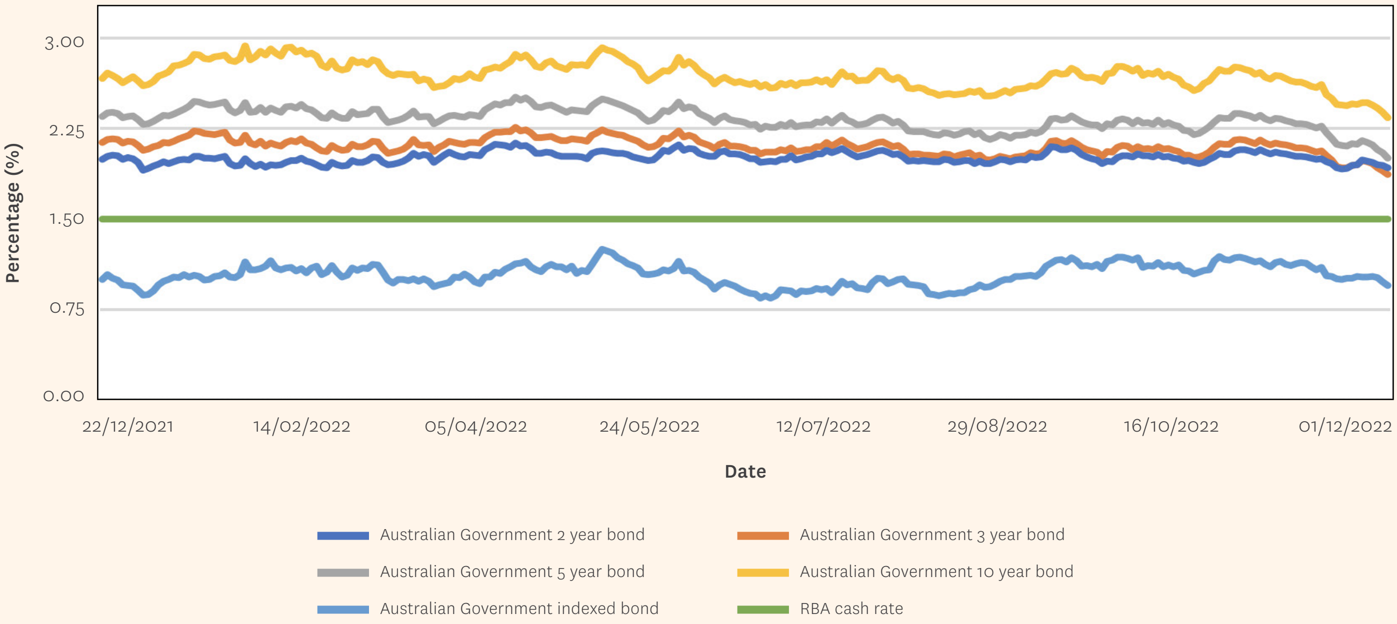
Australian Government Bond Yields

Throughout 2018, government bond yields largely remained the same, with the 10-year rate peaking at 2.935% on the 5th of February. The low of 2.34% came at the end of the year on the 20th of December and underlines the recent market volatility. There was a downward trend for all bond yield rates over the last quarter of 2018.

As in 2017, the RBA kept the cash rate steady at 1.5% throughout the entire year. This is tipped to change in the new year. Some economists are predicting a fall down to 1% for 2019. This would likely soften the blow of the gradually deflating property prices.

Figure 1

Australian Government Bond Yields & RBA Cash Rate



Auction Clearance Rate

There was a concerning decline in the number of properties sold throughout 2018 using a traditional auction method, with many properties being passed in and later sold at lower prices through means of a private sale.

Melbourne saw a significant drop to 50.5% in 2018 (Harling, 2018), compared to 74.3% in 2017. This coupled with the negative sentiment that was present throughout the year, makes it undoubtedly the case that there is a slow and gradual deflation of the property market in Melbourne (and most other capital cities within Australia). Many failed auction results go unreported as well so the true clearance rate is likely to be 30-35%.

While there have been conflicting reports about which direction the Reserve Bank of Australia will take the nominal cash rate, most analysts predict either no change in 2019 or a small decrease (McInnes & Boyd, 2018).

Housing Prices and Household Debt

It is also worth analysing household prices to household debt, as shown from the Australian Bureau of Statistics. In 2018, there was an unprecedented high for income-to-debt ratio of 2. This means that the average household is unable to live within their means and is relying on more debt to service not only increasing housing costs but also household expenditure.

Long term, this is clearly unsustainable, and will likely require either much higher wage growth in real terms, lower household costs, strict mortgage conditions (resulting in less debt being taken on) or other changes which may reduce living pressures.

Negative Gearing Changes

2018 was controversial for many property investors. This was due to the proposed changes to the ability to negatively gear property, as well as changes to capital gains and other tax incentives which have helped fuel the real estate industry in Australia for many years. Primarily, this is seen as a method to increase tax revenue, reduce the number of investors within the property market and enable more first home buyers to afford their first home. It is likely that any investment properties purchased before legislative changes are made, will be unaffected. (Fuary-Wagner, 2018)

Figure 2
Weekly Clearance Rates for all Capital Cities
Source: CoreLogic (Harling, 2018)

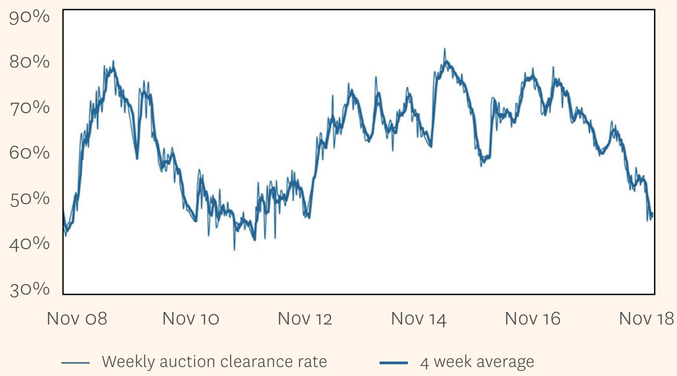
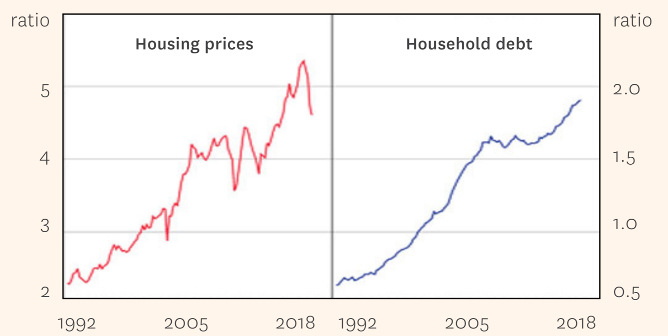


Figure 3
Housing Prices and Household Debt*
(Ratio to annual household disposable income)
Sources: ABS; APM; APRA; CoreLogic; RBA



*Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises.

Growth Results for 2018

Average Median Monthly Capital Growth 2018

Table 1	North	South	East	West	CBD
Houses & Townhouses	3.95%	6.76%	3.29%	1.23%	-
Apartments	10.51%	4.38%	11.90%	10.12%	1.46%

We find that on a month-by-month basis (that is - non-cumulative), property prices increased. This meant that for extremely short term investment (ie. 30 days) prices on average would increase. This however has little benefit to the vast majority of investors, who look for long term growth opportunities in the property market.

Yearly Capital Growth 2018

Table 2	North	South	East	West	CBD
Houses & Townhouses & Apartments	-12.625%	-12.625%	-11.53%	-18.14%	-1.81%

In terms of yearly growth, we see that there was an overall decline in all areas, with the CBD losing the least value, and inner western suburbs losing the most value. Finally, it is useful to see a breakdown of the growth on a per Suburb level, as shown in Table 3.

Houses, Townhouses and Apartment Growth

Given the results, it is evident that growth is dependent entirely on the area. The highest growth area was apartments in Albert Park with 87.50% growth (with 9 Apartments sold in 2018). It should be noted however this is quite a small sample size. East Melbourne Houses and Townhouses had the least growth, declining by 57.04%, although once again this result is likely of little actual value, due to only 3 comparable sales being recorded.

Conclusion

It has been an interesting year for real estate in Melbourne and Australia as a whole, perhaps a watershed moment of such. Many investors and home buyers have seen that conventional wisdom of “property prices always go up” is in fact not true. Nonetheless, 2019 will undoubtedly be an even more interesting year for property, as we wait to see how the government, banks and the public address and operate in unknown market conditions.

References listed on page 5.

Table 3

Inner Melbourne percentage growth for houses, townhouses and apartments in 2018

SUBURB	HOUSES & TOWNHOUSES	APARTMENTS
INNER CITY		
SOUTHBANK	-	-1.41%
MELBOURNE	-	-2.84%
DOCKLANDS	-	5.31%
INNER NORTH		
FITZROY	-5.83%	7.68%
FITZROY NORTH	-8.40%	-10.71%
NORTHCOTE	-0.38%	10.02%
NORTH MELBOURNE	-16.09%	0.38%
BRUNSWICK	-12.50%	10.75%
CLIFTON HILL	1.22%	5.40%
BRUNSWICK EAST	-0.94%	-15.00%
COLLINGWOOD	-9.32%	-4.68%
CARLTON	-13.82%	-1.02%
CARLTON NORTH	-19.02%	6.51%
PRINCES HILL	9.19%*	43.50%
PARKVILLE	22.05%	-
INNER SOUTH		
MIDDLE PARK	-16.10%	-12.19%
PORT MELBOURNE	-10.89%	0.00%
SOUTH MELBOURNE	-5.28%	2.19%
ALBERT PARK	-6.60%	87.50%
INNER EAST		
CREMORNE	4.47%	-0.45%
EAST MELBOURNE	-57.04%*	7.61%
BURNLEY	13.03%	47.03%*
ABBOTSFORD	-7.56%	-1.17%
RICHMOND	-1.66%	12.48%
HAWTHORN	-23.81%	-3.11%
SOUTH YARRA	-1.66%	-6.30%
PRAHRAN	-1.22%	-7.97%
INNER WEST		
WEST MELBOURNE	-21.53%	-23.14%
KENSINGTON	1.87%	6.70%
FLEMINGTON	-15.71%	-4.51%
TRAVANCORE	51.22%*	0.00%

*Indicates values calculated using 5 sales or less.

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