Palladium property Insights

Summer 2021

Welcome to our current insights on the growth of GDP, inflation, and rise in property prices in Australia.

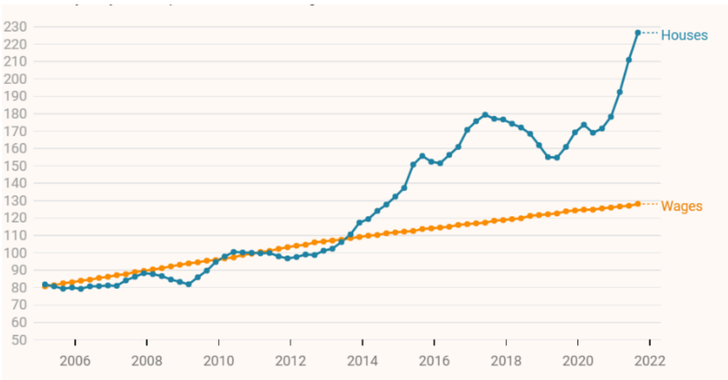
Orchard Quarter, Lisarow DA approved Mixed Industrial Commercial Precinct (now leasing and selling)

GDP Growth in Australia

The Australian economy has been recovering since the ease of 2021 lockdown. As vaccination rates continue to rise in all the states of Australia, further restrictions will be eased. The economy is expected to bounce back significantly greater than predicted. The growth for GDP is expected to be 3.75% in 2021-2022, 3.5% in 2022-2023 before easing back to 2.25% and 2.5% over the further two years. The unemployment rate is expected to as low as 4.25% by June 2023 (Source: MYEFO, Dec 2021).

However, an uncertainty continues for the possibility of a further setback on the health front with the new Omicron Variant. The possibility of another lockdown or international border closure as a precautionary measure would drive down the spending and would impact the economy and the property market in Australia.

Annual CPI inflation is significantly rising with expected rate to be 4.9% annually over the next two years (Source: ABS, Dec 2021). It is mainly affected by higher price of petrol, newly constructed homes, and disruptions in supply chains. Wage growth is also expected to pick up as the labour market tightens. The Wage Price Index is expected to increase by 2.5% over 2022 and 3% over 2023. However, wage is increasing at only 2-3% annually and the apartment price is growing by 17% and houses by 40%. This is making the first home buyers difficult to enter the property market (Source: ABS, Dec 2021). This indicates a disconnect between wage and residential property growth which is not sustainable unless driven by a significant increase in foreign investment which appears unlikely.



Wage vs housing price growth in Australia (Source:ABS, Dec 2021)

Rise in Australian Property Prices

The residential and the industrial property prices in the last 12 months have risen by record levels. The surge was led by house prices with 25% increase in price nationwide and 32% rise in Sydney. The estimated value of Australia's residential real estate has increased by $2.2 trillion in just 12 months (Source: CoreLogic, Dec 2021).

With interest rates at record lows, there is strong demand for both owner-occupied and investor residential properties which is causing the rise in residential property price in most of the markets. The residential sale volumes in 2021 climbed to the highest level in 18 years. However, recent study shows that the rise in property prices in Australia is predicted to slow down and may even contract once the interest rates start rising in late 2022.

The Australian Prudential Regulation Authority (APRA) has increased the minimum rate buffer on home loan applications from 2.5% to 3%. The increase in the interest rate is estimated to reduce the maximum borrowing capacity for a borrower by 5% (Source: APRA, October 2021). The rapid rise in prices also forced many aspiring homebuyers to continue to rent. The vacancy rate of residential property fell to a decade low of 1.6% nationwide in October 2021. Similarly, the vacancy rate for the industrial property is at or close to a historic low of 2%.

Extremely strong occupier demand is seen for industrial property in Sydney and Melbourne throughout 2021 despite the lockdowns. The heightened demand for industrial property is estimated to run for the next six to twelve months (Source: APJ, Dec

2021). Strong rebound in economic growth in NSW and Victoria will continue as the states reopen supporting stronger than normal demand for industrial property. However, the growth is likely to slow down to more sustainable economic rates of growth in 2023.

Palladium Property www.palladium.net.au

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Contact

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TRIATHLON NEW SOUTH WALES

Palladium Property is the proud supporter of Triathlon NSW U23 Elite/ Junior / Youth Mixed Relay Team.