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NEW HOME BUILDING TO FALL IN 2019.

The Housing Industry Association (HIA) recently stated that the recent slowdown in new home construction will continue as new home sales decline.

The rate of new home sales has dropped by 27.1% since its high in April 2014. While this equates to a small decrease of 0.5% per month, the ongoing declines in this segment of the market indicate how established this trend is in the wider property market.

Data released by the Australian Bureau of Statistics (ABS) supports the HIA's findings. ABS data released in October found that new house starts were down in July and August 2018 by 9.4% and 13.6% respectively. These are the lowest new home start figures since October 2016. This recent decrease in new home starts is likely to be driven by decreasing home values, tightened lending criteria and declining immigration figures.

New apartment building starts have experienced a deeper decline than private detached housing starts. According to the ABS, approvals for apartments decreased by 17.2% in August. This represents a 23.7% decrease from 2017.

According to the HIA, a 10.6% decrease in new home starts is expected in 2019. This means new home starts would equate to 193,600 homes which is still a historically high number of new homes. Given new home starts have fallen continuously from historical highs in April 2014, the current numbers don't represent a trend that should cause concern.

The recent declines in new home starts aren't being experienced in some parts of Australia. In Western Australia, for example, new house sales increased by 3.8 per cent in August 2018. For detached houses (old and new), performance in August was mixed.

Private detached sales grew by 6.1% in South Australia, by 3.8% in Western Australia and by 0.7% in Queensland. In New South Wales and Victoria, private detached home sales decreased by 7.3% and 7.1% respectively.

As the Australian housing market consolidates before its next cycle of growth, a decrease in new building starts (for detached homes and apartments) is natural. For your investment portfolio, it's important to take the stage of the market cycle into consideration as you make changes to your current portfolio or look to add new properties.

The HIA's figures are drawn from the HIA New Home Sales report which is a monthly poll of Australia's largest home builders across the five largest states in Australia.

A LOOK AT THIS ISSUE:

IS THE SYDNEY PROPERTY MARKET STILL IN ABUBBLE?

The boom in housing prices in Sydney has been widely publicised since the market experienced rapid growth in 2015. This rapid growth was driven by low interest rates, an increase in foreign investment, and increased market speculation.

Since this period of rapid growth, many have speculated whether the Sydney property market was in a bubble which could have concerning consequences for Australia's economy.

A recent report released by UBS could bring much-needed relief to those concerned about the state of Sydney's property market.

The Global Real Estate Bubble Index released by UBS in late-September identified that Sydney's property market is now "highly overvalued" rather than a "bubble risk." The report noted that the bubble risk in Sydney peaked in 2017. With this market correcting by 5% since its highest risk period, prices have stabilised. The Sydney market is behind Hong Kong, Munich, Toronto, Vancouver and London on the list of markets that are at risk of being in a pricing bubble.

The Sydney housing market was determined to be "highly overvalued" in UBS' report due to the ratio of inflation-adjusted values to rent and income growth. Inflation-adjusted home values in Sydney are 50% more than in 2013, while rent and income growth has increased in just single digits.

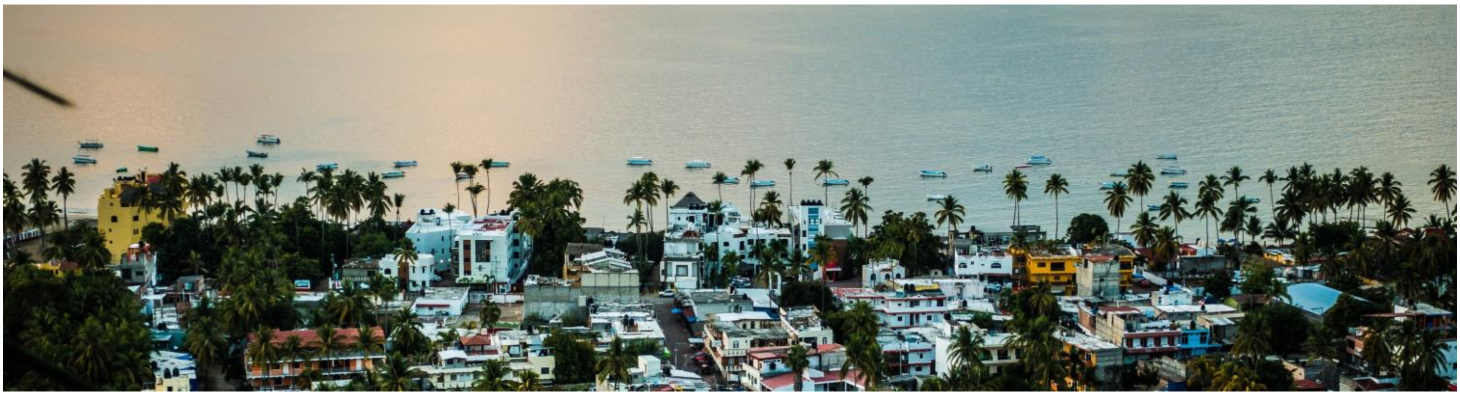
“Rising interest rates and tighter lending conditions can abruptly end a real estate boom if property becomes too pricey, as the current example of Sydney shows,” the report stated.

In the past, investors have tracked interest rate rises as an indicator of potential market corrections. The current low-interest rate environment in Australia, however, has meant that regulators have been using other measures to mitigate market risks. One of the key measures includes tightened lending criteria for investors and owner-occupiers.

Other important criteria that can be a leading indicator of a market correction includes price-to-income ratios, price-to-rent ratios, changes in mortgage-to-GDP ratios, changes in construction-to-GDP ratios, and the price-city-to-country indicator.

In the report, UBS also noted that the Sydney property market is a model for what can happen in markets where home values have the potential to burst. While the Sydney property market may not be back to regular value levels, the recent market correction indicates that the risk of a pricing bubble has decreased.

THE MOST EFFECTIVE SUPPLY AND DEMAND INDICATORS FOR FUTURE GROWTH.



We all know the basic premise of value growth in most industries is supply and demand. For the property market, demand is a property investor's best friend. To understand the state of supply and demand across markets in Australia, there are specific indicators to keep an eye on as you research. Here's our list of some of the indicators that you can monitor to get a detailed idea of supply and demand in a market.

Days on market (DOM)

The number of days that a property is on the market indicates how quickly properties are moving. As demand exceeds supply, the DOM will decrease, indicating a potential growth and in-demand suburb.

Discount to the sale price

Monitoring the sold price of properties and comparing it to its listing price will indicate the discount price on each property. As suburbs become more popular, the discount price will decrease.

Auction clearance rates (ACRs)

Auction clearance rates (ACRs) are a good indicator ofthe popularity of an area. When ACRs are high in an area, it's likely that many bidders are competing to purchase a property in the area. Higher ACRs are common in strong investment markets.

Proportion of renters vs owner-occupiers

The proportion of renters in an area indicates the number of renters in an area compared to the overall population of the area. The higher the proportion of renters, the more landlords you may need to compete with when you list your property for rent.

Vacancy rates

Vacancy rates will be low in areas that are in high demand for renters. In contrast, vacancy rates can be higher in less popular areas. Keeping track of vacancy rates compared to other factors such as rental prices, location, and demographics, is another good way to identify growth suburbs.

It's important to remember that there's no perfect suburb, but you can find a suburb that closely meets your desired price and growth projections and individual investing goals by taking these indicators into account.

Once you've found a specific market or property to monitor, make sure you're proactive about due diligence and talk to a trusted legal and financial advisor. This will help in identifying and mitigating risks as you change and grow your property portfolio.

Remember, everyone has their own individual goals with their property portfolios so don't get distracted by the "next big thing." Instead, stick to your long-term goals and make sure any changes to your portfolio are aligned with these goals.