Month in Review

September 2022

The Month in Review identifies the latest movements and trends for property markets across Australia.

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Disclaimer

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A message from our CEO

Welcome to our September edition of Month in Review

Australia's property markets traditionally come to life each spring. Listing numbers go up as owners look to show off their properties when the weather is prime and demand is on the rise.

Together with more sales activity, there is normally increased renovation and building activity. The cooler pre-summer months are an ideal time to upgrade a home or investment. It's a path to improved lifestyle and asset value.

However, 2022's property market has once again proved to be anything but typical. Heading into September and there are headwinds delivering uncertainty to the building sector. We've seen recent reports of further building company closures as margins are squeezed by rising material costs and an ongoing lack of labour. Unfortunately, these circumstances look to be entrenched for the time being. There are few signs the price of building materials will retreat anytime soon, and while the Jobs and Skills Summit appears promising, we're yet to have a detailed solution to labour shortages. So, construction delays could be the norm for a while yet.

As a result, according to this month's submissions, property owners are becoming increasingly hesitant about undertaking construction projects. Many of our offices are describing lacklustre demand for real estate that requires renovation.

The evidence isn't just qualitative. Research by Drew Hendrey, Herron Todd White's executive director of valuation and advisory, supports our valuers' commentary. Drew has tracked the number of construction valuations we've carried out over the past two years and discovered that construction report numbers fell 45 per cent between Quarter 1, 2021 and Quarter 1, 2022. This softer result has continued into Quarter 2, 2022 as well with activity down 20 per cent compared to the same time last year.

In contrast, our valuers are reporting good demand for fully renovated homes across most markets. It appears buyers are paying a premium to avoid upgrade work altogether. This growing price disparity between renovated and unrenovated homes is something I flagged in my CEO's address back in May this year.

All of this should signal another concern for builders. The pipeline of construction work is strong right now, but many contractors may find it difficult to secure deals beyond their current bookings. What will that mean for a sector which had been so robust throughout the past two years? I suspect the uncertainty may well see builders becoming more competitive over the next 12 months.

I suspect the uncertainty may well see builders becoming more competitive over the next 12 months.

This month our commercial teams have dissected the nation's office markets and it appears that uncertainty continues. There hasn't been the mass return of workers to the office some employers had hoped for. In addition, construction woes are slowing new office development. Our valuers suggest investors are being more targeted in their office acquisitions in response to the uncertainties and a two-speed market is evolving. Prime assets with strong lease arrangements are gaining favour while secondary office stock is proving a little more challenging to lease and sell.

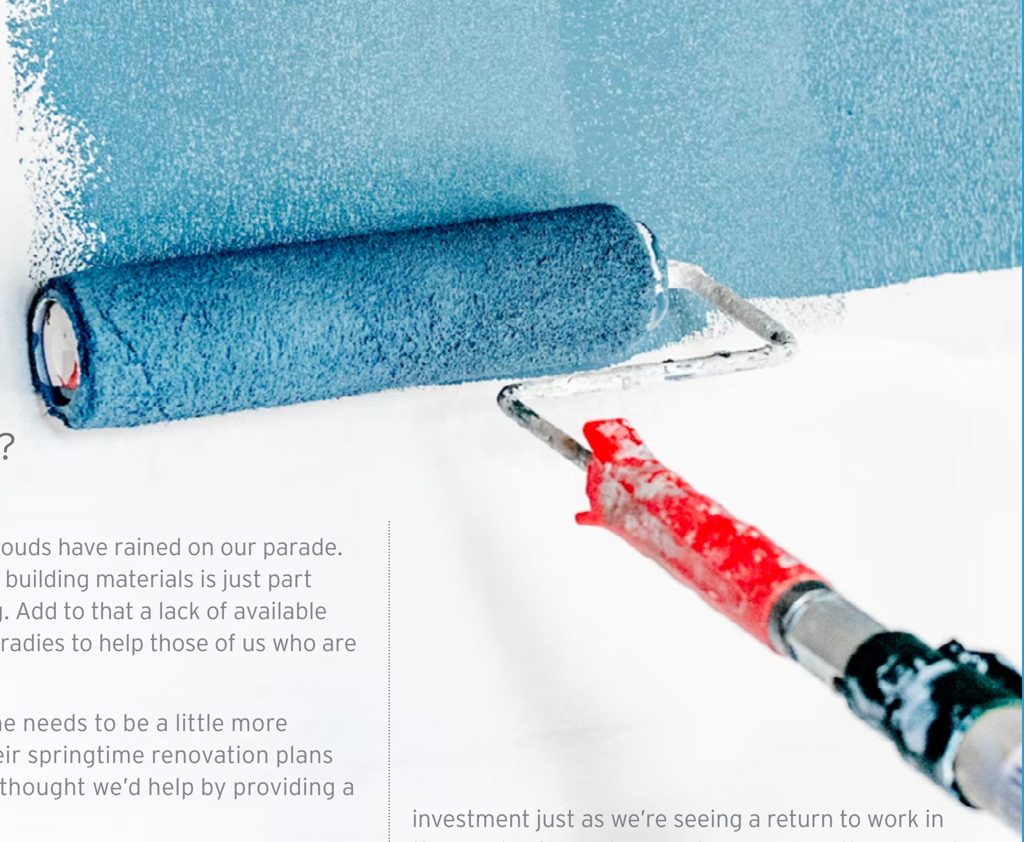
Finally, our rural teams have detailed an interesting summary of their markets, with a bullish sentiment continuing in primary production. While elements such as interest rate rises and increased running costs are steadying values in some areas, good seasonal conditions and ongoing high demand for rural investments are insulating most property values.

Please enjoy the September issue of Month in Review.

Gary Brinkworth
CEO

Springtime renovation

The flowers are blooming, the bees are buzzing, the birds are singing... but are the houses selling?



Springtime is a moment of renewal. A season where we shake of our dour winter coats and emerge with the vim and vigour of a well-rested grizzly bear. Folks right across the nation tackle spring cleaning, or make plans to get out, exercise, enjoy and take in the wonders of the season.

At least, that's the way it's always been. In this, the era of the pandemic, we are living more month-to-month than season-to-season. As such, at least for property markets, spring's step may be a bit more stuttered in 2022.

We are dealing with multiple challenges in the sector. Interest rate rises remain entrenched, inflation is high and supply chain issues aren't going anywhere. Little wonder that consumer confidence is down, even during the traditionally upbeat spring period.

This is feeding through to another popular springtime activity – property renovation. This is normally the time of year when owners like to spruce up their homes or investments. Some 'refresh' work to welcome the fine weather.

But again, dark clouds have rained on our parade. The rising cost of building materials is just part of the dampening. Add to that a lack of available contractors and tradies to help those of us who are DIY challenged.

In short, everyone needs to be a little more careful about their springtime renovation plans this year. So, we thought we'd help by providing a little info.

This month we've asked our valuers to dive into the springtime renovation story and deliver a summary of what's happing in their doer-upper markets.

You'll find a lot of location-specific intel on these pages. Each office has had a look at what's working and what isn't in their reno space this season. Each spring we usually see sales activity rise too, but will this year be different? Delve into our report and find out.

Looking at commercial and it's a discussion about office property across our major population centres – or more specifically, how rising interest rates are impacting office markets. Has it stymied investment just as we're seeing a return to work in the pandemic's wake? Our teams are on the ground and taking the measure of this sector daily so that you can benefit.

Finally, it's our rural crew's turn with valuers from various primary production sectors throughout the nation weighing in. Here is a comprehensive guide on the state of rural property throughout Australia. To add to the wealth of knowledge, we've asked these specialists to expand on whether interest rate rises are hitting productivity and property prices as well.

There you are dear reader, the wisdom never stops. A myriad of market intel awaits in this month's document. Of course, if you have specific questions about your real estate – whether it's home renovation or broadacre production – the team at Herron Todd White can help. We're just a phone call or email away.

As such, at least for property markets, spring's step may be a bit more stuttered in 2022.

HERRON TODD WHITE COMMERCIAL

Commercial

September 2022

National Office Overview

The nation's office markets have faced considerable headwinds since the outbreak of the pandemic. The lockdowns experienced across a number of major cities, in particular the extended lockdown in Melbourne, saw physical office occupancies fall dramatically as the working from home phenomenon became firmly entrenched in the psyche of the white-collar Australian employee.

Despite these headwinds, sales of office buildings across Australia post-pandemic continued to show record low yields which were primarily associated with the very low cost of debt funding. These low funding costs were brought about by very accommodative monetary policy which was intended to mitigate potential detrimental impacts on the economy as a result of the pandemic. As has been widely reported, this yield compression was not isolated to office assets and indeed it would be fair to say that this sector of the market has not performed as well as the industrial market over the corresponding period where yields have seen a greater degree of compression.

There is however reportedly an increasingly divergent view in yield expectations between vendors and purchasers as a result of the increase in interest rates.

The rapid pace with which the Reserve Bank of Australia (RBA) has increased the cash rate since initially moving in May 2022 caught some industry sectors by surprise, however the trend for central banks across the world to begin tightening monetary policy has been forced by the significant inflationary environment being experienced across most of the world's developed economies. In this respect, the RBA was arguably a laggard in comparison to peers such as the Federal Reserve (USA), Bank of England (UK) and even the RBANZ (New Zealand) which began raising interest rates some seven months earlier in October 2021.

Any discernible impact on capitalisation rates for leased investment acquisitions is yet to be fully determined due to a lack of recent transactions. As always, there is a lag factor whilst the market fully digests the implications of interest rate rises on funding structures and income distributions. The latter is a particularly relevant concern for unlisted property syndicates, who have been particularly active in the office market in recent years, tapping the significant amount of private investment capital seeking an adequate return in what is a low return environment.

Anecdotally we are yet to see purchaser enthusiasm wane considering rising mortgage interest rates which remain at historical lows despite the recent rises. There is however reportedly an increasingly divergent view in yield expectations between vendors and purchasers as a result of the increase in interest rates.

There is a view amongst some property commentators that the inflationary environment which has necessitated the increase in interest rates will result in net income growth, with tenancies that have CPI or CPI plus percentage fixed annual rent increases providing a hedge to the potential detrimental impact on capital value that occurs due to rising capitalisation rates due to the inverse relationship with value.

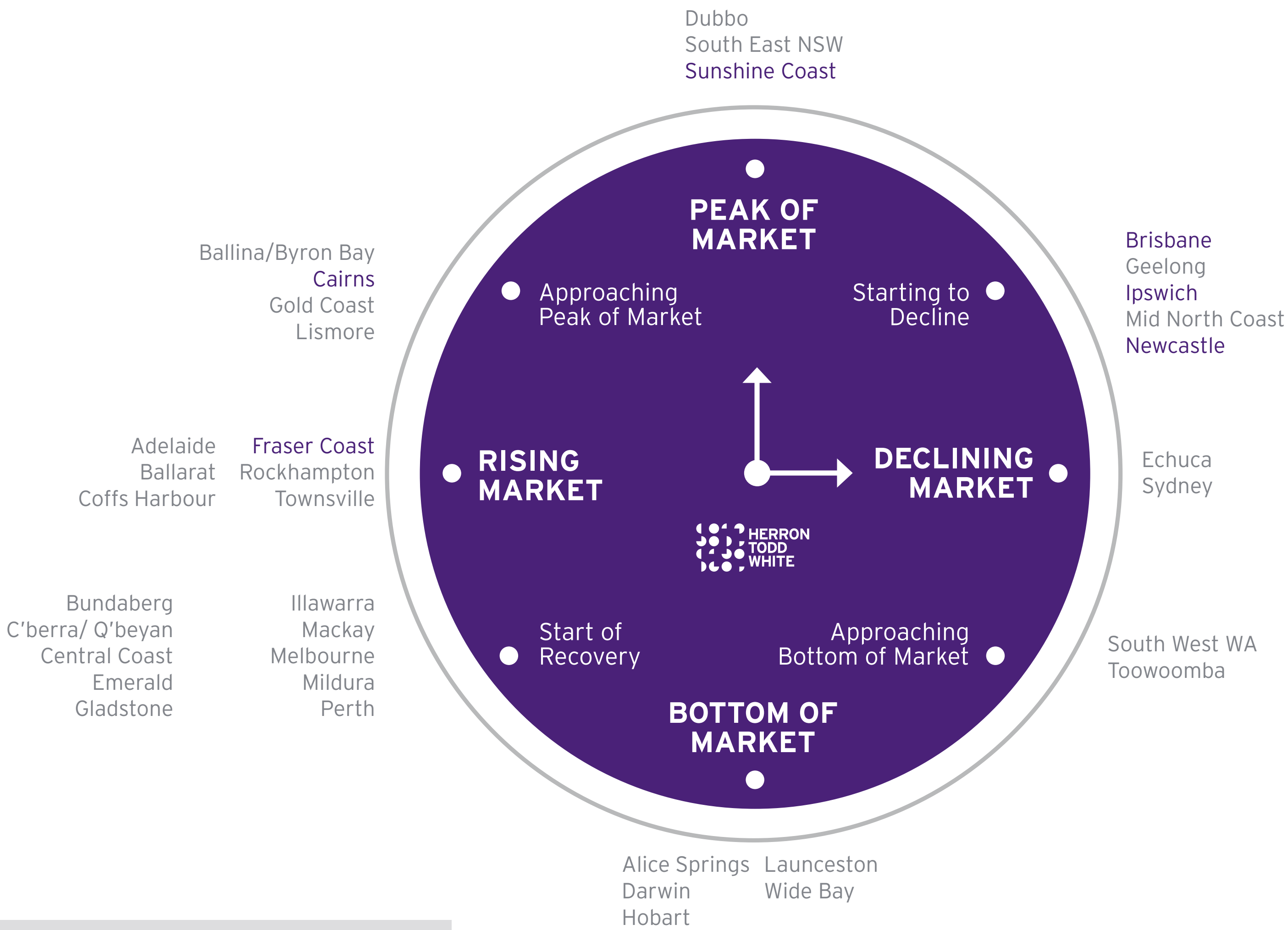
However, it is as yet unclear whether the extent of this income growth will be sufficient to offset any potential significant yield decompression that may occur as it seems that the RBA has not yet finalised its process of increasing interest rates above the current 1.85 per cent cash rate as at August 2022.

It is anticipated that the latter part of calendar year 2022 and early 2023 will provide a better guide as to what impact the recent interest rate rises have had on the office market as transactions occur within the prevailing higher interest rate paradigm.

Greg Mullins
Director

National Property Clock: *Office*

Entries coloured purple indicate positional change from last month.



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New South Wales - Office 2022

Sydney

The office market in Sydney remains somewhat subdued although in some areas there are positive signs emerging and general interest in the office market has certainly been stronger this year compared to last year. The market is still being driven by pent-up demand. The events of 2021 led to a quieter year, but investors and tenants who were looking to make a move in 2021 have been out in the market in 2022.

Rising interest rates are affecting most levels of office investment to a degree. Overseas investment remains strong as our markets are broadly seen as stable. The impact of interest rate rises is not in full effect as yet.

Purchaser enthusiasm has not yet slowed, but there are early signs. We are noting slightly fewer listings, fewer auctions and fewer general enquiries.

Vendors are adjusting to the market. Prior to the sale process, there is more pressure to ensure leased assets are locked into long-term leases as opposed to month to month terms or short term leases. Buyers are looking for strong lease covenants.

New projects are being delayed because of interest rate increases but it is more likely that project delays are due to general uncertainty. Much focus has been on residential development and less so on commercial office development, with the exception of Parramatta and some other smaller centres that have seen growth. New development in the Sydney CBD has been strong but it was mostly pre-committed, lessening the risk for developers.

The leasing market is strong depending on size and location. Tenants are downsizing but are looking for collaborative workplaces that have a fit out as there is too much uncertainty in the building industry. Bigger corporations appear to be expanding. Premium office space is in high demand and thus lower grade or poorly located offices have not performed well. Incentives are at the projected peak but tenants are being savvy about fit out, space and costs.

There is very early evidence to suggest that at the lower end of the market, yields may start to soften, however it is still too soon to tell. Much of the pent-up demand from the last year or so has flowed into 2022 despite rate rises.

Angeline Mann
Commercial Director

Wollongong

The Wollongong office market appears to be tracking relatively well since the initial interest rate increases. Two notable sales in the $2.5 million to $3 million price range occurred in June and July 2022; both properties were fully leased to single tenants. The sales reflected analysed market yields in the order of 4.5% to 5% and a capital rate range in the order of $4375 to $5100 per square metre of lettable area.

Local agents are still reporting sound investor interest for office assets underpinned by strong lease covenants and with WALEs extending past three years.

The leasing market is continuing its recovery from the COVID-19 induced slump and while most established businesses are not seeking expansion space, many are looking to upgrade into higher quality office developments in the CBD as tenants take advantage of the healthy incentive offerings generally available.

The second half of 2022 will see delivery of Wollongong's newest office building (Langs Corner). No new office development is planned at this stage, not as a result of interest rate increases, but rather broader supply and demand forces. The development cycle for new office assets in the CBD generally sits in the order of a new office project up to every ten years.

Scott Russell
Director

Purchaser enthusiasm has not yet slowed, but there are early signs. We are noting slightly fewer listings, fewer auctions and fewer general enquiries.

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Local agents are still reporting sound investor interest for office assets underpinned by strong lease covenants and with WALEs extending past three years.

Hunter Region and Newcastle

The peak of the boom market is now officially over and while the rate of sale has so far slowed significantly, rather than a precipitous fall we are yet to see any actual material change in market values. We do however anticipate somewhat of a pull back from the heights of the market peak which for office was late 2021. While there have been no crystallised value losses, we're keeping a close eye on re-sales. One office in Erina for example sold for $1.36 million in mid to late 2021 and is now back on the market with an asking price of $1.25 million. While this lower asking price reflects a lower WALE, it certainly can be used as an example of a slowing market. We are anticipating similar results elsewhere.

It really isn't all doom and gloom though; already most major lenders have started re-adjusting their interest rate predictions, with two of four expecting rates to rise to 2.5 per cent (currently 1.85 per cent), before heading south again around mid-next year. The more pessimistic half of the lenders are still tipping the cash rate will top out at 3.5 per cent. Of course, everyone is looking at inflation rates (which have started coming down in the United States). It seems the Reserve Bank has gone too hard too late on the cash rate and given inflation rates in Australia are reported only every three months, the slowdown in inflation may actually surprise the Reserve Bank, the market and valuers alike!

So right now, there's plenty of uncertainty in the office investment market around interest rates.

While the market is in a bit of a holding pattern at present, there is still good enquiry in well-tenanted offices with long leases to established tenants.

Ed Thwaites
Property Valuer

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Victoria - Office 2022

Melbourne

The repercussions of the COVID-19 pandemic are still being acutely felt within the Melbourne CBD office market and are best illustrated by the escalation of the office vacancy rate. According to the Property Council of Australia's (PCA) Office Market Report, Melbourne's CBD office overall vacancy rate increased from 11.9 per cent to 12.9 per cent over the six months to 1 July 2022.

Overall, despite the various challenges the Melbourne CBD office sector has faced in the past two years, the market has illustrated growing momentum. Agents are reporting strong demand in sub-500 square metre office space with a strong increase in the volume of transactions relating to high-rise premium grade buildings within Melbourne's East-End reflecting an approximate 15 to 25 per cent increase.

The Melbourne metro office market however has fared better. According to Colliers research, the Melbourne metro market has seen enquiry remain stable in 2022 compared to the first half of 2021, which is still at record levels for the metro market. With a slight decrease in demand for smaller space, the market witnessed an increase in demand for the mid-market. The government sector recorded over 49,000 square metres of demand for the first half of 2022, which is the most demand recorded for one sector in the Melbourne metro market. Demand for office space between 1000 and 2999 square metres is the only size segment that has seen an uplift in demand when comparing January to June 2021 data with the same period in 2022.

In general, there is still substantial pent up demand for good quality office investments as well as land rich properties with good holding income.

In the capital markets, online research indicates that transactions in the commercial property sector reduced by more than one-third over the first half of 2022 as a direct response to interest rate rises and inflation. There is still strong investor interest although at pricing reflective of the higher cost of debt and changing dynamics of the market around rental growth. At the moment, there is still a disparity between vendor and buyer expectation which typically occurs prior to a market reset.

With inflation climbing and interest rates also increasing, we consider there will be a wider gap between the two tier market which currently exists whereby assets with strong tenancy profiles and underlying land value will continue to perform, whilst the downside pricing risks will be greatest for secondary office stock where buildings may experience substantial vacancies for an extended period. It is possible that we will see many of these types of buildings being repositioned for alternative uses. We also anticipate landlords and investors will favour leases with strong review mechanisms which provide a hedge against rising inflation.

In general, there is still substantial pent up demand for good quality office investments as well as land rich properties with good holding income. However, with interest rates rising and other global issues in play, buyers are taking a cautious approach and transaction volumes have reduced significantly during this current period of uncertainty.

Jason Stevens
Director

Queensland - Office 2022

Brisbane

The Brisbane office market showed strong capital growth in 2021, primarily off the back of the historically low interest rate environment and subsequent yield compression as well as an extraordinary weight of capital and strong owner-occupier interest.

In 2022, inflation grew sharply in the December to March quarter, reaching 5.1 per cent, the highest since June 2001 (6.1 per cent). The consequent rising interest rate environment is now having a significant impact on all investment markets.

With the softening buyer activity and higher costs of funds, there is now a disconnect between vendor and buyer expectations and a standoff has emerged. Buyers have thinned out and their yield expectations are certainly increasing. There is also a significantly greater level of uncertainty around where rate rises will end up and what yield and IRR is now reasonable.

It is likely that this will take some time to bridge the buyer/seller gap and we are expecting to see some transactions flow through over the coming months.

Selling agents are also reporting that the urgency in the market in 2021 appears to have settled down to more stable enquiry levels and contract terms are starting to favour buyers (extended due diligence and settlement periods).

Whilst we haven't seen many recent transactions to suggest where yields and capital values have fallen to, it is widely acknowledged by selling agents that yields have started to soften but it will be dependent upon a number of fundamentals. Prime asset values are tipped to soften in the vicinity of five to 10 per cent, whereas older style secondary assets that require a significant amount of capital expenditure and pose significant leasing risk may soften by up to 20 per cent.

There is no denying that the work from home paradigm is here to stay and this is evident when the top searched term on SEEK (online employment agency) is "work from home".

The fringe CBD and suburban owner-occupier market is still quite active for quality office assets in the sub $5 million price category as interest rates remain low by historic standards despite the recent increases. There is also a lack of supply of assets coming to market (due to prices softening below vendor expectations). Accordingly, better quality owner-occupier suitable assets in strong locations are still sought after.

New office development is expected to slow further on account of not only rising interest rates and a leasing market favoured towards tenants, but rapidly increasing construction costs which have risen circa 30 to 40 per cent since the pandemic. These have been exacerbated by significant material and labour shortages. As a result, the feasibility of many projects has collapsed, and many sites are inactive. Unless construction prices moderate, it is likely that the development site market will cool until there is more certainty. This will put greater focus on sites with holding income, whilst vacant sites are likely to be more vulnerable.

The office leasing market has been and will remain a tenant's market and landlords still need to offer large incentives to attract and retain tenants. Vacancy rates have largely remained static in comparison to the six months prior, but office utilisation remains a key metric for landlords to follow. There is no denying that the work from home paradigm is here to stay and this is evident when the top searched term on SEEK (online employment agency) is "work from home". Accordingly, landlords need to offer quality, attractive and efficient office space to stay up to date with current market expectations. Lesser grade office buildings are becoming more difficult to lease and landlords have to significantly upgrade or reposition these assets or run the risk of them becoming unlettable and unsaleable without a significant discount.

The long-term prognosis for Brisbane is strong and the Olympic Games influence is definitely starting to develop, however there is still a long way to go before office markets are settled and back to a sustainable equilibrium.

Alistair Weir
Director Commercial

Gold Coast

Despite the impacts of COVID-19 and a greater proportion of the workforce working from home, vacancy rates on the Gold Coast have steadily declined, incentives have softened and rental rates are on an upward trajectory. The improvement is off the back of strong internal migration and the general growth in the south-east Queensland economy, along with other factors such as improved demand from education providers.

There has been less capital value growth in the office sector over recent years in comparison to the booming industrial sector, however due to improving occupancy rates, there may be a greater focus on the office segment moving forward.

Another consideration for the established office sector is the high cost of land and soaring costs of building with volatile pricing and timeframes. This dynamic may foster value growth in established assets for refurbishment opportunities as a more viable option.

The Surfers Paradise and Southport office sub-markets have continued to demonstrate positive trends moving through 2022. Vacancy within Surfers Paradise has shown a fairly significant downward trend to 8.5 per cent (from 12.1 per cent in January 2022 and a recent high of 14.3 per cent in January 2021). In Southport, where vacancy had remained fairly flat pre-2020, office vacancy has also trended downwards to 8.7 per cent (from 10.7 per cent in January 2022 and a recent high of 15.4 per cent in January 2020).

Against this backdrop, agents report occupier frustration due to the firming vacancy rates and lack of quality fitted suites within these markets.

This dynamic may foster value growth in established assets for refurbishment opportunities as a more viable option.

This dynamic is likely to continue as good quality accommodation is absorbed and the amount of new stock introduced to the market lags demand.

The northern Gold Coast corridor (between Southport and Beenleigh/Springwood) has historically been devoid of any substantial office developments, although more recently, the localities of Helensvale, Ormeau and Beenleigh (Logan City) have witnessed new product coming on-line or under construction.

The M1 Connect building at Helensvale, developed by Alder Constructions, is mostly complete, with tenancies on the market for lease. This is a prominent, modern building on the service road. There is a similar complex at Ormeau, known as Interciti, with the second building of a multi-stage development now complete.

M1 business hub at Helensvale Source: realcommercial.com.au

Office investments in the northern corridor are brought to the market sporadically and the reflected yields vary greatly depending upon the quality of the building, tenant profile and WALE.

In summary, we have been saying for some time now that the commercial investment market on the Gold Coast presents a good value proposition compared to its industrial and retail counterparts. Whilst there is a general expectation that increasing interest rates will flow on to higher investment yields, we are hopeful that steady improvement of net rental rates will help maintain capital values moving into the next market cycle.

Ryan Kohler
Director

Sunshine Coast

The Sunshine Coast has seen significant value growth across all commercial sectors as a result of a record low interest rate environment. Interest rates have now entered an upward trajectory with cash rate predictions from the four major banks varying from 2.60 per cent to 3.35 per cent over the next 12 to 24 months. As interest rates rise, it is anticipated that this will have an impact on achievable yields across commercial assets.

Agents have advised that there is no exception to this forecast for the local office market. The local investment market for offices is tight with limited transactions in the past month or two to indicate any definite softening of yields so far, however agents have advised that purchasers are more selective in their decision making, leading to a far less frenzied market.

Owner-occupiers are still active in the market, however there is a very limited supply of good quality office stock that is vacant and currently ready for occupation. We are not aware of any


Foundation Place, Maroochydore Source: realcommercial.com.au

significant projects that would free up supply of strata stock to owner-occupiers in the near future. The Sunshine Coast Council has partnered with Walker Corporation to deliver a $2.5 billion investment in the Maroochydore City Centre which will provide approximately 160,000 square metres of commercial and retail space over a 15-to-20-year period. This development of the new city centre will however be tenant-led in line with the existing developments to date. These are Foundation Place, which was fully leased on completion and the new Council chambers, which are to be utilised by Council. Evans Long currently has A1 under construction in the city centre which is to comprise 2,677 square metres, though all is reportedly pre-leased.

Given the lack of supply in the current market, we are beginning to experience an increase in rental rates. Existing CBD office space has historically leased for circa $400 per square metre however as new leases are executed, $425 to $450 per square metre is now being achieved. Incentives are also diminishing in the market and are now typically well below 20 per cent for new leases.

The early onset of rising interest rates does not appear to be having a negative impact on rentals due to the limited supply available. As the Maroochydore CBD continues to be developed and supply is added to the rental market, this may change.

Chris McKillop
Director

Cairns

The Cairns office market is relatively shallow and has experienced limited new development. The last large office building constructed in Cairns was the State Government office tower completed in 2010. There have been several smaller (sub-2500 square metre) tenant-initiated design and construct projects completed, however there are no known significant new developments in the pipeline.

The recent redevelopment of the former Masters building into the new Centrelink premises has made available some larger areas in different buildings within the CBD, but there is limited demand for larger tenancy areas at the moment. Demand is mainly for smaller quality areas, of which there is limited availability. An older 5000 square metre building within the CBD has been extensively refurbished and will bring around 2500 square metres of as new space to the market. It is providing areas of any required size at around $400 per square metre gross.

Quality green star rated premises, of which there are only a handful in Cairns, achieve high levels of occupancy and rent levels, typically of $350 to $450 plus per square metre per annum gross and these figures have remained stable. Demand for lesser quality space remains limited with non-inner CBD and well exposed secondary space in the $225 to $300 per square metre per annum rental range.

A CBD office building recently sold for $6.05 million with a four-year WALE showing a yield of 6.04% and a value per square metre of $5485.

Investor demand remains strong but limited by a severe shortage of quality stock.

Shane Quinn
Director

Mackay

There is very little to report on the office market in Mackay. A 1344 square metre double-storey building at 52 Macalister Street, Mackay was sold earlier this year. Leasing demand remains fairly steady and agents report that most enquiry is for smaller offices. There are still many office vacancies in the city centre and several require considerable work to enhance the level of accommodation to a competitive market standard.


52 Macalister Street, Mackay Source: commercialrealestate.com.au

On a completely different topic, the local motel market has been more actively traded in recent times with two notable transactions this year.

The freehold going concern interest in the Miners Lodge Motor Inn on Nebo Road sold at a price of $2.13 million in March. It is a 29-room, budget-style motel complex with a four-bedroom manager's residence and a restaurant.

The freehold going concern interest in the Coral Sands Motel in Macalister Street was sold in February at a price of over $3 million. It is a 46-room motel (including a three-bedroom apartment) plus a 120-seat licenced restaurant and bar leased to an unrelated entity.

Motel occupancy and cash flow in Mackay have improved considerably since 2019/2020.

Greg Williams
Director

Rockhampton

Rockhampton has a relatively stable office market, with a mixture of well-established professional services firms, local and national businesses and government departments. Several large-scale infrastructure projects underway in the greater Rockhampton area has resulted in an increase in office demand, although with a preference for sub 300 square metres, modern, well-located office accommodation with good onsite car parking. We consider that rentals for the better-quality offerings have increased by about ten per cent over the past two years prior to the interest rate rises. Demand for larger and first floor walk-up office accommodation is more tempered. The health and allied services industries have been a consistent participant in this market and are often active in the suburban or fringe medical localities. Owner-occupiers and investors have been active in the market.

This market is slow to change and evolve. With regard to the leasing market, we consider business confidence will be a stronger driver than interest rates and at this time, anecdotal evidence suggests business confidence levels remain positive. With regard to investment, we anticipate increases in interest rates will reduce buyer activity levels in the short to mid-term, however property leased to local businesses that have been achieving yields of circa 7% to 8% will remain attractive at borrowing rates of five per cent or below.

Richard Dunbar
Valuer

Townsville

The Townsville office sector has performed reasonably well with a number of notable sales between $50 million and $100 million, considered significant for a regional city. Townsville has a relatively small and established CBD office sector underpinned by professional services firms, local and national businesses, education and a number of government departments.

It appears that the number of infrastructure projects and strong economic foundation remain on the radar of investors. This coupled with the low interest rate environment is proving to be a major driver in a buyer's decision-making process. Whilst the forecast for continued rises in interest rates may alarm certain buyers or groups, the broader opinion is that it may take longer for yields to soften (in comparison to corrections of previous markets); put simply, the lower yielding commercial investment market may be around for some time.

In relation to leasing, there remains a relatively high office vacancy overall, with a majority being within B and C grade options. Tenant churn has not been a major factor in the local market generally, although the full extent of COVID-driven downsizing or flight to quality is yet to be fully understood. It is clear that staffing levels and floor plate ratios will continue to evolve as the regional market contemplates the business strategy around hybrid work environments. The potential for downward pressure on rental rates and cash flow is a real threat for landlords moving forward, which again may influence yield profiles in the short to medium term.

Jason Searston
Director

Wide Bay

Wide Bay office markets remain relatively stable and are yet to demonstrate a change influenced by recent interest rate rises. Most recent market activity has been in the medical and allied health services, particularly within Hervey Bay; this has been a dominant trend for some time.

Anecdotal evidence from leading local agents suggests a reduction in vacancies for quality office stock throughout the Wide Bay which in turn has begun to increase asking rents within the market which have been relatively stagnant for some time. Owner-occupiers are also relatively active in the market, however are price point sensitive.

Ben Harnell
Property Valuer

Toowoomba

The office market in Toowoomba has seen moderate to high transaction volume in the first half of 2022. The market is dominated by owner-occupiers seeking standalone office accommodation in and around the CBD. Leasing volumes continue to be limited in line with the trend of the past three years with largely static rents.

Investor demand for properties with favourable lease terms has remained relatively strong in the

It appears that the number of infrastructure projects and strong economic foundation remain on the radar of investors.

face of increasing interest rates. The volume of tenanted office accommodation coming to market is low, however sales with net yields of between 5% and 6% in the sub-$1 million price bracket have been exhibited.

Owner-occupier demand increased in the first half of the year with limited supply coming to market; little difference has been seen in sale prices of vacant versus fully leased properties.

New office developments continue to be restricted. This has been a trend of the past three years with the impediments of low leasing demand and high construction costs being exacerbated by the current interest rate environment. The most recent commercial building completed was 131 Margaret Street, Toowoomba City with tenancies currently marketed for lease.

131 Margaret Street, Toowoomba City Source: realcommercial.com.au

We note Heritage Bank has a medium-term strategy to develop a purpose-built head office complex with 5000 square metres plus of floor space within the Toowoomba CBD. A site for the project has yet to be secured and it is planned to be completed by 2025 for the 150-year anniversary of the bank. Plans for a new NAB Toowoomba branch to replace the existing CBD branch and Business Banking Centre have also recently been lodged. Both projects indicate confidence in the Toowoomba market, however will also result in additional vacant office space on completion of the developments and relocation of banking operations.

Ian Douglas
Director

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South Australia - Office 2022

Adelaide

The Adelaide CBD office market has seen some projects delayed as a significant supply of office space will become available in late 2022 and into 2023, along with the continuously rising construction costs and interest rate rises. Investors and developers have noted these factors and their projections on profitability of new projects have been affected. The demand for prime grade office space remains strong however, particularly as businesses look to relocate to buildings with superior amenities such as end of trip facilities, allowing them to convince new employees to join them and for existing employees to remain. Although these relocations involve higher rents, most businesses saw increased profitability during 2021/2022. Higher grade buildings are also typically more environmentally friendly, reducing the cost of utilities and meeting ESG targets. During 2021/2022, businesses may have seen a shift in their clients and now desire new office space to be closer to them. Broadly the Adelaide CBD and Adelaide fringe markets saw slight decreases and increases in vacancy rates respectively, which is reflective of a broader national trend as users return to the CBD. Users seeking office space have also slightly reduced the amount of space they are seeking as some employees remain working from home.

These factors are believed to mildly increase rents in the near future, even with the new office space becoming available as the majority of it will likely be pre-leased and offer few options for users post construction. Newly constructed, fully leased office buildings with high WALEs are likely to generate interest from national and international investors; rising interest rates are unlikely to stifle the interest given the strong fundamentals of these assets.

Investment within the Adelaide CBD is likely to increase as international investors look to invest now that the international border restrictions have been eased, most recently in July 2022, and the federal government remains committed to keeping the borders open. This has increased confidence in the short to mid-term viability of CBD assets as migration is able to resume and international students can return for study. Foreign investment has also been buoyed by broader factors in Australia such as our low unemployment rate and political stability; these factors are highlighted in particular to US and European investors who have experienced political instability, energy crises and the war in Ukraine.

Chris Winter
Commercial director

Newly constructed, fully leased office buildings with high WALEs are likely to generate interest from national and international investors; rising interest rates are unlikely to stifle the interest given the strong fundamentals of these assets.

HERRON TODD WHITE COMMERCIAL

Western Australia - Office 2022

Perth

Despite new tenant demand from emerging companies in the state's mining and resources sector, the latest PCA Office Market Report indicated Perth's CBD total vacancy rate rose from 15.0 per cent to 15.8 per cent in the six months to June 2022.

According to the PCA, the increase has been largely driven by new refurbished stock in existing buildings including Dynons Plaza and The Atrium on St Georges Terrace.

Positively, West Perth recorded a total vacancy rate of 15.3 per cent, down from 18.0 per cent for the same period aided by certain buildings being re-purposed or withdrawn from the market.

Nonetheless there remains a visible vacancy factor in Perth's traditional office districts, particularly for non-premium grade accommodation. The level of occupancy as opposed to vacancy is proving to be a key statistical distinction in the performance of the office property sector given the work from home phenomenon.

Of the very limited stock put to market for sale in the past 12 months, high net worth investors and local syndicates have been active, though often seeking opportunistic acquisitions of older stock and embarking on refurbishment programs.

The Atrium, 168 St Georges Terrace, Perth Source: realcommercial.com.au

Under prevailing market conditions, refurbishment is viewed as a necessity in order to compete for prospective tenants whilst re-positioning the asset in the marketplace.

Owner-occupiers are often being deterred by large scale floor plates (greater than 500 square metres), so too prospective investors unless such properties are securely leased to established tenants on attractive terms.

Despite the succession of cash rate increases by the Reserve Bank of Australia since May 2022, any impact on capitalisation rates for leased investment acquisitions is yet to be fully determined due to a lack of recent transactions. As always, there is a lag factor whilst the market fully digests the implications of interest rate rises on funding structures and income distributions.

Anecdotally, we are yet to see purchaser enthusiasm wane in light of rising mortgage interest rates which remain at historical lows despite the recent rate rises. We suspect such buyers, particular those based in the eastern states, will be undeterred at least in the short term however wary of further cash rate increases in the near future.

Similarly, there have been no discernible changes or delays to construction projects in this sector outside of labour shortages and construction material supply chain disruptions that are affecting all real estate sectors.

From a leasing perspective, companies are continuing to take advantage of the considerable incentives on offer (either in the form of landlord works contributions or rental abatements) to relocate to premium and A grade accommodation, creating a clear two tier leasing market.

Overall, there are currently many factors at play in the market including inflationary concerns, likely further interest rate rises and the possibility of a global economic recession. It remains difficult to predict how the local Western Australian economy and the office property market will perform in the short to medium term in light of these potential headwinds.

Greg Lamborn
Director

Anecdotally, we are yet to see purchaser enthusiasm wane in light of rising mortgage interest rates which remain at historical lows despite the recent rate rises.

Northern Territory - Office 2022

Darwin

Market conditions for Darwin office property can be conveniently categorised as:

1. Modern property, with strong lease covenants to quality tenants: strong enquiry; and
2. Everything else: not so much.

In the first category, we have seen a number of transactions not only in Darwin CBD but also across Greater Darwin, with property types not limited to office. Purchasers in this category have had access to cheap money and are attracted to Darwin by its relatively strong yields. We have seen investment sales of office property with yields as low as 6.0% net, which is an historically low level, but appears high to investors who see similar assets being sold in interstate capitals for yields of 3.5% or even lower.

Interestingly nearly all transactions of this type across Greater Darwin in the past 12 months have involved local vendors selling to interstate buyers.

The realisation that the exceptionally low interest rates will not last forever is having some effect on purchaser decision-making. We are aware of a case where an interstate purchaser reduced their offer for a Darwin office property by $1 million as soon as the first interest rate rise was announced, yet the deal is still reportedly going ahead.

However, it cannot be said that recent interest rate rises have been the cause of delays in new projects. That's because there are no new projects to delay at the moment. The only construction underway in the CBD is the new campus of Charles Darwin University.

Commercial office rents in the Darwin CBD appear to currently have a ceiling of around $650 per square metre per annum (gross) for space in say the modern Charles Darwin Centre. There is very little if any A-grade space available for rent in the CBD which by the laws of supply and demand should result in rental growth, however this will be tempered by leakage of tenants to other areas, notably Berrimah Business Park and Palmerston CBD. In fact, Palmerston rents are now approaching levels similar to the CBD.

There will need to be further rental growth before a new development becomes economically viable. Even with a solid pre-commitment, our back of the envelope calculations indicate that rents in the order of $800 per square metre per annum would need to be attained for financial viability. Given the current uncertainties surrounding building costs and interest rates, it would be a brave developer to take on a project even at that level.

Moving to the second category of office property type, demand is much more subdued although it has certainly improved somewhat in the past 12 months, however this is yet to translate into a significant change in value levels. This category is dominated by smaller scale owner-occupiers focused on their own accommodation requirements rather than the yields on offer. For these purchasers, interest rates are more of a secondary consideration. Again, many of these are also looking at areas such as Berrimah that are closer to the demographic centre of Darwin and do not have the car parking limitations that are always an issue in the CBD.

Terry Roth
Director

Interestingly nearly all transactions of this type across Greater Darwin in the past 12 months have involved local vendors selling to interstate buyers.

HERRON TODD WHITE RESIDENTIAL

Residential

September 2022

National Residential Overview

There's little doubt that overall construction activity ran at a fast clip during the second half of 2020 and into 2021. COVID shutdowns and work-from-home arrangements had many people considering ways to make their living spaces more user friendly. In this mix was government stimulus such as HomeBuilder, increased savings and pauses on mortgage repayments. As a result, Australians became more inclined to fix up their homes and devote lockdown time to co-ordinating builders and tackling small DIY projects.

But that sentiment has changed in 2022.

We've analysed the volume of valuations for construction projects carried out by Herron Todd White's team. This data encompasses both new builds and renovations.

A comparison showed the volume of reports completed for construction finance has fallen 45 per cent between Q1 2021 and Q1 2022. A similar contrast between Q2 2021 and Q2 2022 reflects a 25 per cent drop in job numbers.

These outcomes are supported by ABS data too. Building approvals for new houses were 23.0 per cent lower in the three months to July 2022 compared to the same time last year.

So, we are in a market where the overall number of construction projects is on the decline. This is due to several levers. There's been a substantial increase in the cost of materials. In addition, difficulty in securing builders and subcontractors means it takes far longer and costs substantially more to do a project than many owners expect.

I believe that building activity will continue to fall in this space for a while longer – at least until interest rates drop or construction costs retreat to more reasonable levels.

Then there's increased pressure from rising interest rates. A higher borrowing cost means available household cashflow has been reduced. Perhaps more significantly, higher interest rates, along with record inflation, are denting consumer confidence.

So, how is this all playing out in property markets across the nation?

Firstly, while the total number of construction projects has fallen, I suspect the vast majority of those have been in renovation as opposed to new builds. Owners who have been thinking about renovating have received astronomical quotes from builders. In many instances, it just makes more financial sense to buy an existing home, or build a new one, than do a renovation.

Another outcome is that the disparity in value between unrenovated and fully renovated properties will become even greater. Why go through the hassle of completing a project when you can buy a home that's done and ready to move into straight away?

I believe that building activity will continue to fall in this space for a while longer – at least until interest rates drop or construction costs retreat to more reasonable levels. When these things do occur, expect owners to undertake projects once again.

There might even be an opportunity to buy a renovateable home in today's market and wait for conditions to improve. If you have access to funds and/or can rent out the property for the medium to long term, there's a chance to profit as the market, and construction costs, return to equilibrium.

Drew Hendrey
Executive Director,
Valuations & Advisory

HERRON TODD WHITE RESIDENTIAL

National Property Clock: *Houses*

Entries coloured orange indicate positional change from last month.

Albany
Albury
Bathurst
Canberra
Central Coast
Dubbo
Illawarra
Mildura
Mount Gambier
Shepparton
South West WA
Sunshine Coast
Tamworth

Adelaide
Adelaide Hills
Barossa Valley
Broome
Bundaberg
Fraser Coast
Hobart
Kalgoorlie
Newcastle
Port Hedland
Wodonga

Alice Springs
Cairns
Darwin
Emerald
Esperance
Geraldton
Gladstone
Karratha
Mackay
Perth
Rockhampton
S'thn Tablelands
Toowoomba
Townsville
Whitsunday

Ballina/Byron Bay
Burnie / Devonport
Coffs Harbour
Geelong
Gold Coast
Launceston
Lismore
Melbourne S'thn
Highlands

Brisbane
Ipswich
Sydney

National Property Clock: *Units*

Entries coloured blue indicate positional change from last month.

Peak of Market:
Albany
Albury
Bathurst
Brisbane
Central Coast
Gold Coast
Ipswich
Mildura
Mount Gambier
Shepparton
South West WA
Sunshine Coast
Tamworth

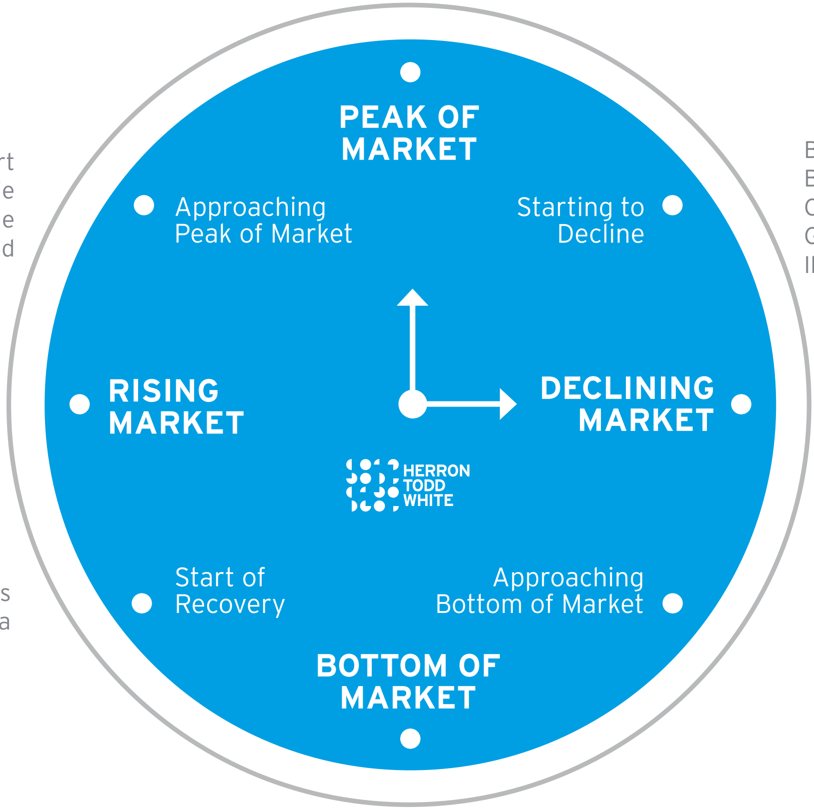
Approaching Peak of Market:
Adelaide
Adelaide Hills
Barossa Valley
Bundaberg
Hobart
Kalgoorlie
Newcastle
Port Hedland

Rising Market:
Alice Springs
Broome
Cairns
Darwin
Dubbo
Emerald
Esperance
Fraser Coast
Geraldton
Gladstone
Karratha
Mackay
Mt Gambier
Perth
Rockhampton
Townsville
Whitsunday
Wodonga

Start of Recovery:
Southern Tableands
Toowoomba

Starting to Decline:
Ballina/Byron Bay
Burnie/Devonport
Coffs Harbour
Geelong
Illawarra
Launceston
Lismore
Melbourne
Southern Tablelands

Declining Market:
Canberra
Sydney



RESIDENTIAL

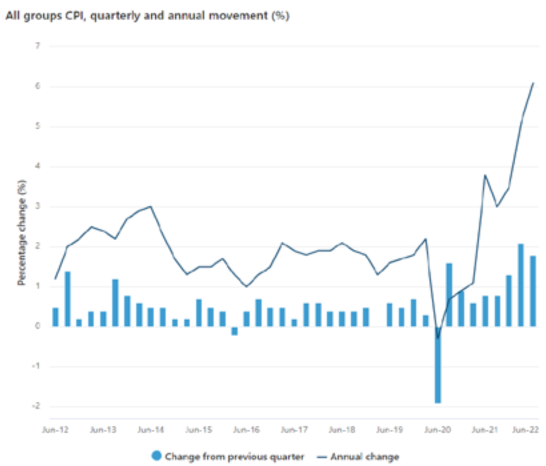
HERRON TODD WHITE RESIDENTIAL

New South Wales - Residential 2022

Sydney

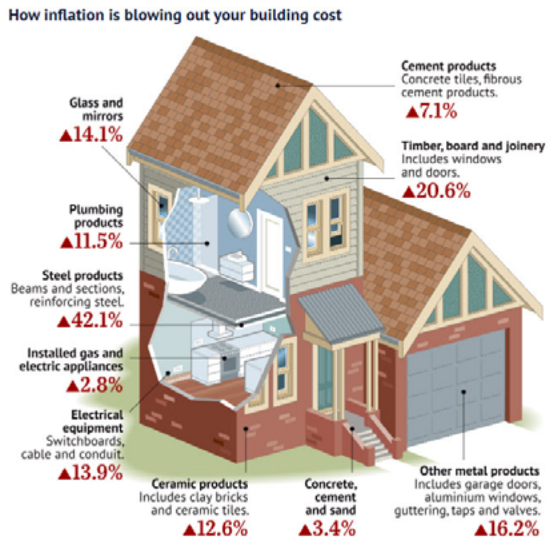
Heading into September is normally when we begin to see an influx of renovations on the market as we wake up to the sound of hammers in the morning and the new season of The Block is blaring on the TV. Buyers start to come out of the woodwork to enjoy the warming Australian weather and sellers look to capitalise on the increased demand and clear weather. We start to see a surge in renovation projects, listings and overall activity, kick-starting the so-called spring selling season.

The keyword here however is "normally". While COVID redefined the meaning in 2020, this time around it's inflation. The lockdown period generated a boom in renovations, as people found themselves with time and savings to renovate their homes to accommodate the recently normalised work-from-home state of affairs. At the same time though, we have seen a record increase in inflation, up 6.1 per cent annually from June, causing the ABS to create a new monthly inflation indicator, which sits at 0.7 per cent as of June and is showing no sign of slowing down. Construction costs have increased significantly, with CoreLogic's Cordell Construction Cost Index (CCCI) for Quarter 2 2022 showing a national residential construction costs increase of ten per cent over the 12 months to June 2022, the highest annual growth rate on record outside of the introduction of the GST in 2001.



Source: Australian Bureau of Statistics

More dramatic has been the substantial price increase in material costs, with some of the most significant being a 42.1 per cent increase for steel, 20.6 per cent for timber and 16.2 per cent for aluminium (ABS, 2022). Wet weather and labour shortages are also playing a part in causing extensive delays in renovations which further adds to cost blowouts and risk. All of this is placing downward pressure on both builders and homeowners looking to renovate. Adding to the risk has been Sydney's falling market, decreasing 4.7 per cent over the three months to July 2022 and down 2.2 per cent month on month, the fastest we've seen since the global financial crisis in 2008, as the RBA tries to quash rising inflation.



Construction cost increases Source: Sydney Morning Herald

Inner City

The pandemic has changed the way in which the world works and with a rise in work from home arrangements, many families are spending more

More dramatic has been the substantial price increase in material costs, with some of the most significant being a 42.1 per cent increase for steel, 20.6 per cent for timber and 16.2 per cent for aluminium (ABS, 2022).

Areas such as this provide a good opportunity to profit from renovation and more so if the homeowner is in touch with the market's drivers.

time in their homes than ever before. This is driving a string of renovations across Sydney, however with space at a premium in the dense inner city, this renovation revival is more pronounced here. The need for additional study and office spaces beyond a cupboard under the stairs is the main driver for this uptick in renovations.

If the needs of the householders are immediate, then a renovation does make sense, however the popularity of renovations, shortage of trades and global supply chain disruptions are driving costs upwards. Whilst renovated dwellings in some sub-markets within inner city Sydney can absorb this through the premium attached to renovated dwellings, cost may not always equal value across all parts of the city, therefore a homeowner would need to do some research as to whether the additions they are planning will provide a return in the form of value uplift.

In some parts of inner-city Sydney, renovated dwellings command a significant premium. These are usually more affluent areas with difficult access for trades and heritage constraints, all of which add to the difficulty of renovation. This is very evident within the suburb of Paddington, with 5 Olive Street, a two-bedroom plus study renovated terrace with a studio or work from home office above the garage recently selling for $4.033 million. When compared to 17 Dillon Street, a three-bedroom renovated terrace, but without the separation of an external studio, which sold for $3.67 million, the demand for work from home spaces within renovated dwellings is clear.

5 Olive Street, Paddington Source: CoreLogic

Areas such as this provide a good opportunity to profit from renovation and more so if the homeowner is in touch with the market's drivers. In Paddington, this is often modern, low maintenance and with a study or studio space. Therefore adding a study or additional room through renovations or attic conversions can significantly uplift the value of a property.

The cost of many of the extensive renovations within the inner city can approach seven figures and therefore most homeowners will leverage their home to fund the works. As such, rising interest rates are putting cost pressures on those wishing to renovate and no doubt this is becoming an increasing consideration within this market segment.

Inner West

The residential property market in the inner west of Sydney is experiencing a general softening in sale prices across all residential property types. Properties with renovation potential are experiencing a more significant softening given the current supply and cost issues surrounding construction materials. There are not too many examples of properties which have sold within 12 to 18 months having undergone a renovation and then resold, however there remains the potential to make a profit on a renovated dwelling as there is still a good amount of demand for high quality modern renovated dwellings. Part of this demand is fuelled by people avoiding the current wider construction industry issues by completing the renovation themselves. These buyers are mainly builders or tradespeople who on sell the renovated dwelling to a home owner-occupier.

However, the consecutive interest rate rises over the course of May, June, July and August 2022 have caused a general decrease in demand for residential property. Real estate agents are reporting a large portion of prospective buyers are taking a wait and see approach to the market. This looms as a major risk to current renovation projects if the original house was purchased between March 2020 and March 2022 when market conditions were significantly stronger (and some price points were higher).

An example of this risk is highlighted in the sales of two side by side semis at 67 and 69 Gipps Street, Birchgrove. Number 67 was sold on 18 July 2022 for $1.75 million whilst 69 was sold on 2 April 2022 prior to the interest rate rises for $1.87 million. Both properties provided two-bedroom and one-bathroom accommodation, however 67 Gipps Street was more recently renovated, yet was sold for less than its more dated neighbour. 67 Gipps Street was previously sold in October 2020 for $1.55 million, indicating that the general market has not lost all of the capital gains it experienced between March 2020 and March 2022.


67 Gipps Street, Birchgrove Source: realestate.com.au


69 Gipps Street, Birchgrove Source: realestate.com.au

The spring and summer months tend to see an increase in buyer activity as well as the number of properties on the market. Given the current property market climate, this season may be more subdued than in recent years.

Eastern Suburbs

Prices for recently renovated properties in the eastern suburbs are holding up better than their non-renovated counterparts. The appeal of being able to move into a home not requiring any works is significantly more attractive at the moment compared to the thought of having to go through a renovation or extension process, with a shortage of builders and tradies and construction costs at record highs.

Prices for recently renovated properties in the eastern suburbs are holding up better than their non-renovated counterparts.

Units still provide good opportunities for renovation given that structural changes are usually not required and trades can be engaged separately, meaning the time and cost to renovate is reduced.

An example of a recently renovated unit is 3/10-16 Onslow Street in Rose Bay, which sold in July for $1.8 million. The three-bedroom, one-bathroom unit with single garage, situated in a lowrise 1970s unit building underwent a full internal renovation after previously being purchased in November 2020 for $1.386 million. This compares to another three-bedroom, one-bathroom unit at 1/47 Onslow Street which sold in superior market conditions in March for $1.395 million with a significantly older renovation.


3/10-16 Onslow Street, Rose Bay Source: CoreLogic

At the prestige end, a dated, single level, semi-detached dwelling in Coogee, with three bedrooms and one bathroom on 323 square metres of land sold in June 2021 for $3.73 million. The property then underwent a significant extension and full high-quality renovation to form a two level, five-bedroom, three-bathroom dwelling with alfresco and inground pool. It recently resold in mid-August for an undisclosed amount, in the early to mid-$6 millions.


40 Beach Street, Coogee before Source: CoreLogic


40 Beach Street, Coogee after Source: CoreLogic

The cost of building and the cost of financing both rising along with property prices falling is putting a squeeze on the ability to profit from a renovation in the current environment. This environment is likely to remain in place until mid-2023, when building costs and interest rates become more stable. With property prices now falling more quickly than first expected, it is also likely that the bottom of the market will be reached sooner. Should all this eventuate, then the second half of 2023 into 2024 should see renovation projects start to become more viable again for those looking at renovating for profit.

For those looking to renovate or extend their current home, then their immediate needs and wants may outweigh the factors outlined above and any costs outlaid are more likely to be recouped in a stronger property market in the future.

Whilst demand for properties in need of renovation has fallen more quickly in the current downturn, this does provide some good opportunity for those who can hold off the renovation for a year or two. With building cost pressures and the upward pressure on interest rates expected to ease in the first half of 2023, those who can live in or rent out a property in its unrenovated condition or with minimal updates may be able to benefit from a potential bargain buy in the current market.

South-West Sydney

In Sydney's south-west, we are seeing a similar trend, particularly in secondary locations such as Eschol Park, Eagle Vale and Raby which are seeing sharp corrections. This adds an extra layer of risk for renovators, given the insecurity of where the market will be once renovations are complete. Nevertheless, we are still seeing well-renovated properties in prime locations such as Cecil Hill, Bossley Park, Abbotsbury and Chipping Norton maintaining decent prices and shorter selling periods.

Recent sales in Bossley Park show an older three-bedroom home could be purchased for $1.001 million and a fully renovated three-bedroom home in the area can still fetch a price of $1.18 million with a selling period of under 30 days. While the recent increase in interest rates has quashed buying power, we suspect underlying demand for housing is still there; this coincides with the significant compression in vacancy rates, as people priced out of home ownership look to the rental market. However, profit margins have decreased and the risk appetite has changed. Buyers are more cautious now given the current economic climate and are avoiding the uncertainty of construction costs and market movement, instead favouring already established dwellings.

8 Butler Avenue, Bossley Park   Source: realestate.com.au

146 Quarry Road, Bossley Park   Source: realestate.com.au

Moving forward, home building in the next 12 months should remain at capacity, but the number of approvals is expected to continue to slow as rising interest rates and construction costs continue to push people out of the ability to afford their renovations. Construction costs and interest rates would need to soften and labour shortages would need to be filled in order to provide more ideal market conditions for renovations to be viable and affordable again for most people. Accordingly, we expect the market to continue to soften as the RBA raises the cash rate over the medium term, with ANZ's latest forecast to be an 18 per cent correction from peak to trough, however, still below the recent record growth we saw in Sydney which peaked at 34 per cent annually.

Western Sydney

Increases in construction costs and construction timeline blowouts have had a twofold effect on the renovation market in western Sydney. Dwellings that require significant renovation are considered less desirable and are achieving below average results with renovated dwellings or near new dwellings holding their value as many buyers prefer the ready-made dwelling.

The construction market has seen prices rise sharply over the past 12 months with many builders nationally having financial jitters or closing up shop completely as they struggle to complete dwellings on fixed price building contracts.

In the current climate, renovated or modern dwellings in sought after positions are holding their value even in a weakening market. Whilst no records are being broken, they haven't seen the price reduction that less desirable properties have experienced.

A recent example is 744 Slopes Road, The Slopes selling for a reported $1.38 million in August 2022 after selling for $1.375 million in September 2021, a $5,000 difference in 12 months. This was a renovated tree change style property on just under one hectare of land. This sale highlights that renovated sought after property is holding up, even given the weakening conditions.


744 Slopes Road, The Slopes Source: realestate.com.au

Many buyers of homes requiring renovation may wait and see how things play out over the next 12 months as supply chain issues hopefully resolve themselves and construction costs stabilise.

Springtime has traditionally been the time to buy in western Sydney as the gardens are in full bloom and the wider market awakens from its winter hibernation. Currently, rising interest rates, rising construction costs and low market sentiment have been spooking buyers from the market resulting in downward pressure on prices.

But all is not lost. These conditions have reduced the volume of stock on the market. In many areas, solid results are still being achieved even with less buyers. An example is Pellitt Lane, Dural, a recent $9.5 million sale of a large luxury dwelling with high quality finishes and five acres of quality landscaped grounds. A lack of high end stock has maintained this end of the market for now.


11 Pellitt Lane, Dural Source: realestate.com.au

This rule will not apply for the investor grade unit market which has supply issues and is still impacted by the negative market stigma from multiple highrise buildings with defects or prohibition orders. The new unit market has to compete with the existing stock, of which more is starting to come online as owners offload unwanted property or want to upgrade from a unit to a dwelling. If too many units are listed at the same time, prices will reduce somewhat more in the short term.

Northern Beaches

Declining value levels in the vicinity of 10 to 15 per cent and a strong rise in construction costs have unfortunately stripped any potential profit out of projects that were secured during 2021. Factoring in acquisition costs (stamp duty), and a majority of sellers are either taking a loss or barely breaking even on their investment. As a result, sellers are withholding properties in the hope that market conditions improve before they list.

Projects being secured in today's market are in a more favourable position although carry a greater inherent risk given the uncertainty surrounding the market outlook moving forward. For conditions to improve, there needs to be a greater disparity between the two products. We would anticipate this to naturally broaden as interest rates rise and the entry level sector of each market continues to weaken at a greater rate.

A recent example is 35 Ennerdale Crescent, Wheeler Heights, which sold in July for $1.8 million. The sale comprised a circa 1960s, four-bedroom, two-bathroom dwelling situated on 556 square metres of land. The property presents modestly, providing older interiors that would benefit from renovation.

For comparison, 2 Langdale Place, Wheeler Heights, sold in late June for $2.3 million. The sale was a renovated circa 1960s four-bedroom, two-bathroom dwelling with inground pool and two-car built-in garage situated on 562 square metres of land.


2 Langdale Place, Wheeler Heights Source: realestate.com.au

Declining value levels in the vicinity of 10 to 15 per cent and a strong rise in construction costs have unfortunately stripped any potential profit out of projects that were secured during 2021.

RESIDENTIAL

HERRON TODD WHITE RESIDENTIAL

Comparing the two sales, our broader research suggests that construction costs are still typically absorbed by the market, but realising any potential profit is currently challenging.

North Shore

Like most other areas across broader Sydney, the North Shore residential market is beginning to weaken, with interest rates being the main catalyst for this. This is more obvious at the lower and middle price points on the North Shore, where buyer demand has slowed and selling periods are increasing. It does appear that the higher end and prestige market is being less impacted, which is usually the trend when interest rates are rising, due to there being less mortgage pressure in this sector.

The North Shore market is also not immune to the significantly increased building costs. Local agents are reporting that renovation projects, previously in very high demand and well received by the market, have experienced significantly decreased interest. Obviously this is a direct result of current inflated building costs compounded by the increased time these projects are taking to complete due to current supply issues. As a consequence, high-end renovation and new-build properties are benefiting, with this sector of the market appearing to be holding up reasonably well. Buyers are willing to pay a premium for a completed product rather than take on the risk and face the unknowns currently associated with renovating or rebuilding.

Although renovated homes and new builds currently appear to be the most popular product, high building costs and softening market conditions are making it very difficult to profit from short turnaround renovation projects. An example of this is the very recent sale of a property on the Upper North Shore in the suburb of Roseville.

The property was purchased during very strong market conditions in June 2021 for $4.45 million. Although limited marketing was available, it appears to have been in poor condition, in need of full refurbishment. The property was listed for sale again in July of this year, having undergone a full renovation internally and with significant external landscaping improvements. Although the current sale is yet to settle, the price achieved is advised to be between $4.75 million and $4.85 million. Considering the current price of renovations, it would be assumed that minimal profit, if any, would have been achieved through the completion of this project.

12 Dudley Avenue, Roseville before Source: realestate.com.au

12 Dudley Avenue, Roseville after Source: realestate.com.au

Although new build projects are still being undertaken on the North Shore, we have certainly seen an increase in construction costs through viewing the associated building contracts. With building companies and owners now aware of the current cost and supply issues, it appears that there is a good understanding of this and transparency from both parties. It is becoming more commonplace to have a contingency within the building contract to reflect any future issues in regard to costings and supply. This contingency also works both ways, with some building contracts agreeing to lower the price should material costs happen to decrease throughout the project. It appears that both parties are trying to communicate and work together to get through this period of uncertainty.

In general, the next few months are set to be very interesting, with further interest rate rises predicted to soften the market even further. In saying that, the North Shore has the fundamentals and reputation to minimise decreasing market conditions as well as any other area in Sydney.

Southern Sydney

We have seen a decline in demand in original condition properties in secondary locations. This coincides with consumer hesitancy which is reflected in New South Wales auction clearance rates, hovering on average between 47 and 55 per cent on a weekly basis.

If you are savvy enough to remain within a feasible budget and have access to local contacts who can provide you a better cost and ensure that materials are within company stock (to avoid construction delays), then there is still a lucrative opportunity to create a capital gain within this area of the market. Inflation has seen construction soften and has deterred the broader market from risking excessive amounts to construct. We note that construction costs have increased over an annual period by 10.1 per cent (source: CoreLogic).

Fully renovated and newly constructed homes are selling at a premium, mainly due to the reasons mentioned of rising interest rates, inflation of construction costs, consumer hesitancy and increased property supply on the market in comparison to the previous 12 to 18 months. The current price point and demand for these properties remains high.

Generally speaking, sought-after locations have had less variance during this correction in the market. As stated above, there is potential for capital gain – it is a matter of undergoing due diligence in the search for quotes for costings and supplies.

A recent example of a strong sale of a renovated house is 82 Hannans Road, Riverwood, a single level three-bedroom, two-bathroom home with detached self-contained studio on 468 square metres of land, which sold in August for $1.7 million after being purchased unrenovated in September 2016 for $967,500. Another is 17 Madrers Avenue, Kogarah, a single level three-bedroom, two-bathroom home with detached double garage on 563 square metres of land which sold in July for $2.435 million after being purchased unrenovated in June 2015 for $1.1 million.

17 Madrers Avenue, Kogarah Source: CoreLogic

The difference between renovated and unrenovated prices is also quite clear in the villa market. In Sans Souci, a fully renovated two-bedroom, one-bathroom villa at 2/43 Walter Street achieved $1.21 million in June, while an original 1970s two-bedroom, one-bathroom villa at 4/98-100 Alfred Street sold for $965,000 in July.

2/43 Walter Street, Sans Souci Source: realestate.com.au

This is a good indication of the downsizer market seeking easy maintenance properties that have also been renovated so that they can move in without the hassle of renovation works to complete.

Shaun Thomas
Director

Albury

The springtime property market for renovation may be more muted than the past three years, with the vibrant colours of a spring palette reserved for landscapes rather than renovation projects. The market for the renovator's delight appeals to a homeowner wanting to transform or an investor willing to spend and flip or achieve a better rental return from improving a property. The former was bolstered early on by the HomeBuilder grants for substantial renovation. The latter is more the lower end of the market enjoying significant uplift from renovating and selling in the investor market in very short time frames.

The lift in property values has been sustained across our region and demand for renovated properties is outstripping demand for renovator's delights, as cost of materials and securing a builder is very difficult and there are higher acquisition and holding costs and diminishing profit margin due to delays and rising costs of a renovation project. The heated market conditions of the past 12 to 18 months created an environment where property owners may have been able to dip into new-found equity to justify and fund a reno that despite being more costly may still not result in over-capitalisation. This was especially evident in the prestige character dwelling market in central Albury, Wodonga and Wangaratta. In many areas though, the entry level or lower end of many markets saw such large increases in values (30 to 100 per cent in some locations) due to demand from unprecedented multiple positive market drivers that renovating was near superfluous to the goal of increasing value. The standout towns in our region for this have been Mount Beauty, Myrtleford, Wangaratta, Shepparton, Benalla and fringe CBD in Albury-Wodonga.

That was then and this is now! Renovating is motivated by a sense of confidence in a project adding more value than the spend with the exception of the forever home affliction, where the emotional investment often rivals the spiraling rework of quotes as more is added or discovered, hence the term "money pit".

In the blinding light of the dazzling regional property boom, the tart up did very well as did the fully renovated character dwelling in central CBD districts, however we expect that with escalating building costs and supply issues in conjunction

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The migration from metropolitan areas has brought in purchasers willing and able to pay more for established properties, whether new or old and renovated.

with interest rate rises and cost of living pressures, many may assume a holding pattern on renovating and possibly shy away from investing in the renovator's delight that costs 50 to 100 per cent more than pre-pandemic markets. There are a finite number of building professionals in the region and with more sophisticated purchasers entering regional markets, the premium for the fully renovated product most likely will continue to outstrip demand for properties that need substantial work.

The migration from metropolitan areas has brought in purchasers willing and able to pay more for established properties, whether new or old and renovated. With the market now stabilising and everyone poised to see whether regional areas suffer a decline mimicking the metro areas, renovating will be on the back burner and the uplift from renovation or flipping may have peaked. A possibility for a spike in renovation in the future may come from some purchasers of vacant land opting to sell their vacant allotment (for a profit) after considering the cost escalation and delay of a new build. This may place more pressure on established homes as these purchasers decide to buy established and renovate down the track, hoping to secure a not so busy builder.

It is important to acknowledge that many of our regional markets have come from a low base with high affordability, good rental returns and limited stock in many sought-after areas. No doubt there have also been questionable decisions based on panic purchasing of sub-standard real estate that may play out yet, especially for second home or bolt hole pandemic property, and new home construction may become a more volatile sector of the market. This spring, we might have time to smell the roses for the first time in nearly three years and reflect on what is a normal property market as expectation management goes into overdrive and although we may not remember, we really hope we hydrated and the hangover is bearable.

Rachel Anderson
Associate Director

Lismore/Casino/Kyogle

"To buy and renovate or build new, that is the question
Whether 'tis nobler to buy vacant and create,
Or to take arms with hammer and nail and renovate,
We may not be questioning life,
But the amount of money spent could leave one in strife,
So consider well how much to expend,
For on the banks who give the money, we depend,
Plan well whatever the decision,
Just make sure you don't leave the wallet with a deep incision".

Despite the threat of future interest rate hikes, let's be frank… they are still low compared to recent history. As a result, there are several opportunities that could potentially feature in the minds of investors, first home buyers and upgraders with regard to renovation.

Cost is naturally going to be the key ingredient in the decision-making and the resultant end value of the final product.

Lately, the option to purchase an established dwelling and renovate rather than build new is accentuated by the interest expressed in the recently flood damaged properties within Lismore City. Prior to the flood (circa December 2021 to early February 2022), such properties in North Lismore and South Lismore were achieving sale prices in the region of $500,000 to $600,000 (as renovated).

Following the devastating flood event of late February and early March 2022, some of these properties have sold for approximately 50 per cent of their pre-flood event market value. To be sure, they are a shell with a gutted interior and no functioning bathroom or kitchen, however for the suitably qualified tradesperson or those handy with the tools, they present the opportunity to renovate or repair at a budget to return the dwelling to a habitable standard and then lease out at a rental level comparable, if not more than, pre-flood event conditions. For example, a flood impacted property is purchased for $230,000 plus stamp duty and then around $50,000 to $100,000 is spent to repair and renovate. Not a bad investment when a total outlay of around $300,000 to $350,000 achieves a gross yield of between nine and ten per cent at a gross rental of $600 per week. And the demand for rental accommodation is expected to get even more heated as the supply continues to be constrained.

Outside of this devastation, there are still the hidden gems requiring TLC or refurbishment within the council areas of Lismore City, Casino and Kyogle. A savvy renovator can achieve a lot with a budget of less than $75,000 for an updated kitchen, bathroom, ensuite and general painting and floor covering. Provided the renovation work emphasises the more positive features already there OR introduces new features that the market desires (do your homework for the areas you wish to invest or live in as each locality is different), then the cost spent should translate to some capital gain.

However, the trick is not to overcapitalise.

A good option is to seek out large homes with only two bedrooms and a large living space. Cut the living room to provide a third bedroom and the rental would naturally improve to reflect that of a three-bedroom home.

From a conservative perspective, the purchase of an established house with opportunities to renovate could well be a more viable option and a purposeful stepping stone to something newer in the future without the millstone around the neck of larger debt by buying a new build.

Yes, it is risky and presents the unpalatable possibility of misfortune, but remember,

"Failure is the fog from which we all glimpse triumph" (Aldrich Killian).

Vaughan Bell
Property Valuer

Clarence Valley

Across the Clarence Valley, the market for renovators remains strong as a number of untouched treasures, dated and dilapidated, are snapped up. As has long been the case, the sub $500,000 market, which predominantly comprises renovators, shows the most rapid transactions from marketing to exchange. However demand for trades and products is at an all-time high, causing time stresses and higher expenses. Fast forward to the renovated product and whilst the remuneration reward for a renovation or flip may not be quite as exaggerated as it was pre-interest rate hikes, there is still considerable demand for fully renovated homes (the complete package). Buyers are attracted by turnkey luxury, particularly the buyer segment of people wanting to relocate from nearby and distant larger centres. This option certainly proves more affordable compared to like products in the larger centres. As a whole, renovators and the renovated constitute a large component of transactions in the Clarence Valley and this is likely to continue, however the market for renovators is likely to outweigh its luxurious counterpart as interest rates continue to pressure the pockets of purchasers.

Caitlin Davies
Property Valuer

Coffs Harbour

The renovation world has been difficult over the past 12 months due to increased building costs and lack of builders and trades to undertake this work which we are all aware has been caused by the COVID pandemic and natural disasters in the region. We have all heard the old saying "whatever you think the renovation will cost, just double it" which still holds true but we could probably say "triple" it now. So not only will you struggle to get a builder, the cost and time often makes it prohibitive to undertake this work. The added value of renovations typically does not add dollar for dollar, however as the market grew at a phenomenal rate during the 2021/22 period, these costs were being absorbed in increased property prices.

As the market has now slowed since the first rate increase in May 2022, we are seeing a general price reduction in the order of five to ten per cent with days on market becoming longer and more negotiation required to sell a property, although building costs and builder availability have not improved and do not look like they will for some time. This poses a problem of added value versus cost which affects the justification of undertaking this work, the ability of obtaining finance and value of an existing property which requires upgrade work.

Selling agents are already reporting buyer negativity for renovator properties as the average person cannot engage a builder within a reasonable time frame nor have any surety around actual build cost to undertake renovation work. This means these properties are sitting on the market longer and ultimately will require reduction in price to compensate for this issue. Conversely, properties that have already been renovated with nothing to do are attracting strong buyer interest and achieving sales. I cannot see this market changing in the short to medium term even if interest rates continue to increase as the building industry has such a backlog of work, a shortage of tradespeople and materials still under supply pressure.

Whether to renovate or not will still be a personal choice. If it is your dream home with a long-term goal to stay and enjoy, then best to engage a builder to undertake all work at once and be

Selling agents are already reporting buyer negativity for renovator properties as the average person cannot engage a builder within a reasonable time frame nor have any surety around actual build cost to undertake renovation work.

patient with time and understand that cost will be a variable beast. If it is an investment property, stick to the basic service areas of new floor coverings, painting and kitchen and bathroom upgrades rather than full blown remodeling. If you consider yourself a handyman or building supervisor, then you can have a crack at demolition and organising trades, however be well prepared and plan for building material delays, variability of tradespeople which will affect timing and cost blow outs. It can be a never-ending rabbit hole of frustration and in many cases tears, speaking from the writer's own personal experience.

Grant Oxenford
Property Valuer

Tamworth

With spring fast approaching, there are some looming questions about what the change of season will bring for regional New South Wales housing markets in the north-west. Let's tackle the question most homeowners ask themselves (at least once): why not renovate?

First let's look at the Tamworth residential market for renovators, which focuses primarily on the detached dwelling property type. Renovation projects are available and active across most Tamworth suburbs. This is largely due to the relative affordability of the Tamworth postcode. By-and-large, the major metrics renovators look for are location (proximity to CBD, schools, Tamworth Base Hospital etc.), scope to value add (extend, refurbish) and above all else cost.

The impact of delayed registration of newly developed residential land and the higher cost to construct new home dwellings has given current property owners the opportunity to explore home renovations that feature lower monetary outputs and manageable project timeframes. Typical home renovations include dwelling extensions, outdoor areas, ancillary buildings and swimming pools.

Renovation is generally seen as a cost-effective way to improve the value of a property, improve the quality of life and extend the lifespan of a dwelling. That being said, there are some risks to renovating in the current period:

- Homeowners are expecting to face financial headwinds with national inflation causing upward pressure on the cost of living and the Reserve Bank lifting interest rates to 1.85 per cent in August and hinting at further increases before the end of the calendar year.
- The construction industry is amidst challenging times with skilled labour shortages, variable and inflated material costs, above average rainfalls and extreme weather events and unforeseen project delays. To be fair, this is a perfect storm of challenges for the industry.
- Lack of available residential property stock on the market.

Sorry for the bleak outlook, but there has been a slight change of sentiment from the previous 12-month period (of strong growth) within the area, with selling agents indicating that buyer enquiry within local residential markets has been subdued. This is evident in the slight increase in average days on market for current listings. That being said, local residential market prices have not declined and are showing signs of stabilising after strong growth from the 12 months prior. In fact, Tamworth has been identified by InvestorKit founder Arjun Paliwal as a regional hotspot for strong growth, with buyers unlikely to be deterred by fast-rising interest rates. This is largely due to Tamworth's affordability and lifestyle advantages (source: thenewdaily.com.au).

Within the current market there is still opportunity to renovate to make a profit, however the margins are increasingly thin. This is largely due to the pressures faced by the construction industry, resulting in fixed price contracts with large contingency sums and possible contract variation clauses due to unprecedented market price increases. Renovation markets in the Tamworth area are dominated by homeowners who occupy the dwelling and are in need of more from their current space. That is growing families, or downsizers looking for ease of use, improving the living standards and renovating for the future needs of the occupants.

Nick Humphries
Property Valuer

Within the current market there is still opportunity to renovate to make a profit, however the margins are increasingly thin.

Newcastle

Over the past few years, purchasing a property to renovate as an investor or homeowner has been the ideal situation in a rising market with limited risk of overcapitalisation on completion of the works. Whether purchasing a property to renovate and sell or live in and enjoy, the cost outlay would have seen a positive return. In more recent times, increasing interest rates and construction costs and the shortages in skilled labour and materials has caused the prudent renovator to think twice.

In many instances, material shortages occur during the renovation rather than before the project commences, which cause a different set of problems, such as the organisation of following trades.

Renovation activity centres around older weatherboard houses in suburbs such as Mayfield, Lambton, Shortland, Kotara and Merewether in order to provide a modern dwelling in an established location. In these locations, it is often the main way to afford to live in the suburb. Purchasing an older property to renovate allows the owner to live in the desirable suburb at an affordable cost, whereas in many cases, a renovated property is simply too expensive and not an option.

Although the market is starting to soften, motivation to renovate is still there, being driven by the lack of supply of affordable housing in desirable locations and the current increasing asking prices.

In recent times, the discount for properties requiring work was minimal due to the rising market, however now that purchasers are becoming more prudent due to the risk of rising mortgage costs, they are keen to pay less for a house requiring work considering the rising cost of construction and potential issues with ordering materials.

Here are some photo examples of renovation projects.

114 Springfield Avenue, Kotara, NSW, 2289
Before: Sold $807,000 30 August 2021
After: Sold $1,182,500 16 June 2022

114 Springfield Avenue, Kotara before Source: realestate.com.au


114 Springfield Avenue, Kotara after Source: realestate.com.au


114 Springfield Avenue, Kotara before Source: realestate.com.au


114 Springfield Avenue, Kotara after Source: realestate.com.au


114 Springfield Avenue, Kotara before Source: realestate.com.au


114 Springfield Avenue, Kotara after Source: realestate.com.au

12 Jean Street, New Lambton, NSW, 2305
Before: Sold $730,000 27 August 2019
After: Sold $1,445,000 30 May 2022

12 Jean Street, New Lambton before Source: realestate.com.au

12 Jean Street, New Lambton after Source: realestate.com.au

Renovating for profit is not ideal in the current market unless undertaking the majority of work yourself. For those who have the skillset to take advantage of the conditions, there is a good opportunity to benefit from the current climate. Owners who may have previously thought about renovating or extending are instead looking to move and purchase an existing renovated dwelling without the risks involved of issues during the renovation process.

Darren Sims
Property Valuer

Central Coast

Historically, the Central Coast region has seen suburbs transform over many years through higher density developments, renovations of older style housing or knock down and rebuild projects.

In this month's edition we will take a closer look at the current residential renovation market and assess whether potential in capital growth exists, or whether a state of wait and see should be adopted by our DIYers and builders alike.

Over the past few years we have seen unprecedented growth in property values in some areas across the Central Coast region with increased activity in the property flip renovation sector. It was a time when interest rates were at emergency levels, allowing for speculators and investors to dip into increased property wealth and capitalise by transforming homes of underwhelming appeal into must have commodities.

Properties presented to market in impeccable, recently renovated condition attracted a wider buyer pool and essentially at the peak of the market would sell themselves with little selling agent intervention.

It wasn't until 2021 that reports began coming from the building sector indicating that the industry was beginning to enter a building material shortage, and the cost of certain materials started to exponentially rise with no signs of any reprieve on the horizon. This storm that was brewing in the background of a red-hot housing market boom on the Central Coast was ignored by many as increased costs were absorbed in the runaway property prices. Fast forward to now and with data emerging that we may be beyond the peak and entering a declining phase of the market, feasibility of renovation projects is coming to the forefront of people's minds.

What we have been seeing across the region is newly renovated properties coming to market with still positive end results depending on when the buy in happened, however committing to a renovation project in the current market when the buy in is high is met with hesitancy, at least for short term gains. We consider the renovation market will remain viable for long term investors and for homeowners looking for a lifestyle benefit to renovating.

Freestanding dwellings have always been the chosen asset type to complete part or full-scale renovations on the Central Coast. At the same time, we do see units undergo cosmetic renovations, however at a much lesser volume with the opportunity to profit from a renovation project and maximise returns the underlying reason for buyers to select freestanding dwellings as opposed to units.

Areas on the Central Coast that have recently been transformed by way of renovating existing properties include the likes of Long Jetty and Shelly Beach along the central beachside suburbs and Umina Beach, Ettalong Beach and Woy Woy towards the southern area of the Central Coast.

Builders and professional tradespeople have always been in short supply on the Central Coast and with recent national labour shortages, the issue has been exacerbated. If you are looking at self-managing a renovation project in the region, then expect to face delays in the near future.

Wrapping up this edition it is important to conclude by saying that it may be time to call tools down for the time being until more certainty enters the many markets at play. If building costs remain at similar levels into the near future, then the risk of properties overcapitalising in the market may increase, which would have a delayed effect on the property market, due to sellers' expectations not being met. This would result in renovated properties listed on the market for sale taking longer to sell as we navigate a correction in the marketplace.

Todd Beckman
Associate Director

Nowra / Shoalhaven

As we continue into the third quarter of 2022, the Shoalhaven residential property market has continued to flatten and is showing signs of decline. Multiple interest rate rises, cost of living pressures and increasing inflation levels are all contributing factors towards this shift in market conditions. The Reserve Bank has increased interest rates for the fourth month in a row now. The cash rate target has now increased by 1.75 percentage points since the start of May to 1.85 per cent. As we move out of winter and head into spring, let's take a look at market expectations, particularly within the renovated and renovate-able home sphere.

The time and cost involved in renovating a property has increased dramatically in the past 12 months. It's safe to say that a renovation pre COVID-19 would have cost significantly less that a renovation today. Like many other regions in the state, the COVID-19 pandemic has had a significant impact on the construction and renovation industry in the Shoalhaven region. Builders and home renovators in the region are noting that the cost of materials, most notably timber, is increasing substantially while also highlighting the struggle in obtaining and sourcing other materials and contractors in general. Many homeowners are advising of the high cost of quotes they are receiving for landscaping, kitchen and bathroom works. Many professionals in these industries are so busy and facing such cost escalations that they have been forced to pass these onto owner renovators. Home renovators are also noting the difficulty in currently hiring contractors to complete their projects. These factors combined with the recent wet weather have also put many contractors behind schedule and therefore compounded wait times for vendors.

We therefore consider that less and less potential home renovators have the desire to renovate their homes. So what does this mean for renovated homes coming onto the market? We believe that these will be sought after in the market and overall will be more desirable, even taking into account the flattening market conditions. Many potential purchasers have less time and money to complete a renovation and could be willing to pay more for a home that is renovated. Prospective purchasers can move into a renovated home with no money and time to spend completing the renovation themselves. Due to the current difficulties and increasing costs facing homeowners renovating their properties, we believe that renovated properties will likely see a good result when they are placed on the market.

Joshua Devitt
Associate Director

Illawarra

Cost of living pressures (inflation, interest rates) are having an effect on the residential property market in the Illawarra. Since the beginning of 2022, the previously hot market has commenced cooling. Prices did not show any significant decreases initially, but the growth we had been seeing mostly halted. In the past month however there have been indications that prices have dropped across the board for residential property in our region.

With a weaker market, property presentation becomes more important. When things were hot, buyers were banging down the door to get their hands on whatever they could, regardless of property condition. Now buyers are able to take their time, compare properties and make an informed decision when making an offer. This means that if a property requires work and is not move-in ready, buyers will either choose another property or expect a good discount to buy the unrenovated home.

Overall demand for property has dropped this year leading to longer selling periods and a reduction in vendor expectation, however for the right price (read cheap), do-er upper properties will still sell. An older brick home in fair condition in Bent Street, Warrawong sold in July for $550,000 and so far in 2022 this is the only freestanding dwelling sale in the region for $550,000 or less. Further north, a three-bedroom house plus granny flat in Pamela Street, Corrimal is the only standard size Torrens Title property selling in the northern suburbs for less than $850,000 since May 2021. Originally asking over $1 million, the vendor had to reduce their expectation to meet the market and the condition of the property.

Properties that present well with modern renovations are still holding appeal in the weaker

Overall demand for property has dropped this year leading to longer selling periods and a reduction in vendor expectation, however for the right price (read cheap), do-er upper properties will still sell.

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market. A small three-bedroom home with a full renovation in Doncaster Street, Corrimal sold in August for $1.21 million and a circa 1920s fully restored four-bedroom cottage in Woonona also sold in August for $1.85 million. While these properties continue to hold appeal, poorer condition properties being discounted provide opportunity for property flippers to renovate for profit. If you are looking to sell your property in the upcoming months, any work that can be completed to lift its appeal will result in wider market interest and a more favourable sale price.

Chris McKenna
Region Director

Southern Highlands

During the COVID-19 lockdowns throughout 2020 and 2021, it wasn't uncommon for people to have home renovation jobs happening at home, some more eager to undertake DIY jobs, such as completing new kitchens and bathrooms, updating the carpet to modern floorboards or giving the place a lick of paint. Renovations and refurbishments have become a part of Australian culture with television shows such as Backyard Blitz and Better Homes and Gardens inspiring people for decades. Nowadays the question seems to be whether the cost is worth it when selling or whether it's better to sell as is.

Going back three years or so ago, you could buy a do-er upper, flip the property and profit from it generously, however as land values have been driven up recently, it's harder to see generous returns as even run down properties in need of love are returning historically higher prices.

Typically a renovated property in a completed state with no outstanding work required will sell for above what a property in an original condition would achieve, although we are still seeing premiums being paid for popular locations.

Location is what underpins a property's value and it's not uncommon for a property to be in original condition and achieve more than a renovated property in a less desirable position.

Location is what underpins a property's value and it's not uncommon for a property to be in original condition and achieve more than a renovated property in a less desirable position.

Properties in original condition requiring updates tend to attract first home buyers as the price point may be within reach for them as opposed to a freshly renovated property that would typically be asking a higher price.

A perfect example of premiums being paid for updated, completed, modern style properties is this home located at 20 Sir Donald Bradman Drive, Bowral. This is a 1990s home that has had an interior and exterior facelift, boasting a new Hamptons style kitchen, modern marble bathrooms, timber flooring and plantation shutters. The exterior has been rendered in a modern gray tone, complete with a white Hamptons style fence. This property sold for $1.725 million, whereas just four doors down at 28 Sir Donald Bradman Drive, an original style circa 1985 home of a similar size (four bedrooms, two bathrooms) sold for $1.04 million just two months prior. These two properties are located on the same street, with very similar size blocks and outlooks. One was fully renovated and achieved $685,000 more than the property in original condition.

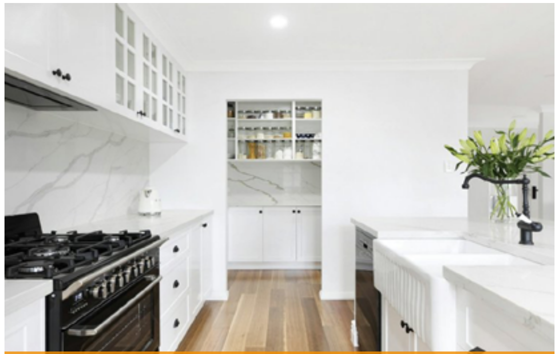
20 Sir Donald Bradman also sold two years prior in the original state for $800,000. The 2022 sale is a $925,000 increase after renovations and with improved market conditions.

Throughout 2021 and 2022, building costs have been escalating due to shortage of supplies, delays due to COVID and escalating cost of living prices, therefore many people have opted to stay put and renovate or buy existing homes. The next hurdle is now interest rate rises. People may have to consider whether they can still afford to purchase an existing home and borrow additional funds to renovate after settlement. Interest rates will continue to rise throughout 2022 and this is creating a lot of uncertainty for purchasers. It is going to be interesting to see the divide between renovated and original homes moving forward; perhaps vendors will have to settle for less of a return when selling renovated homes?

27 Sir Donald Bradman Drive, Bowral - original Source: CoreLogic

27 Sir Donald Bradman Drive, Bowral - renovated Source: CoreLogic


27 Sir Donald Bradman Drive, Bowral - original Source: CoreLogic


27 Sir Donald Bradman Drive, Bowral - renovated Source: CoreLogic


27 Sir Donald Bradman Drive, Bowral - original Source: CoreLogic


27 Sir Donald Bradman Drive, Bowral - renovated Source: CoreLogic

Kurt Bismire
Valuer

Byron Bay

The renovation of houses and units in the Byron Shire has always been a popular and sometimes necessary means of adding value to a property.

Broadly speaking, the lack of vacant land in the Byron Shire means that owners or buyers looking to live in a new or modern dwelling have little option but to consider renovation (or demolition as a more radical solution) as a means to an end. The result is that the large volume project builders that dominate the skylines in housing estates across the outer suburbs of our major cities have little to offer property owners in Byron Bay and its surrounding villages and towns. Instead, there is a plethora of small family-owned and operated building companies that compete in the renovation space for clients that have a wide range of briefs from the minor to the major.

These smaller builders tend to take on only a few projects at a time and deal directly with owners, catering for individual needs.

Renovation projects tend to range in cost from $100,000 at the lower end to $1 million and above if the owner or client is looking for something bespoke and special. In the current economic climate however, with materials and labour shortages, many builders are loathe to quote on projects until they are ready for an immediate start lest costs get away from them and margins shrink. As a remedy many builders are preferring to quote projects on a cost-plus basis which protects their margins but shifts the risk of cost blow-outs to the owner. Some fixed price contracts are starting to contain various cost escalation clauses in their fine print, effectively bringing in elements of a cost-plus contract into a fixed price contract.

Rising interest rates are beginning to impact the residential market in the Byron Shire as borrowers are effectively having less and less spending power with each increase. This is being felt more keenly at the lower end of the market where first and second home buyers and investors dominate. So too in the renovation space; renovation works may be constrained by the inability of borrowers to obtain the funds needed to complete the project they want and compromises may have to be made in some aspects of the project. At the prestige end of the market where owners are less reliant on borrowed funds, there are still a good number of renovation projects being undertaken in Byron Bay and surrounds.

Renovation projects tend to range in cost from $100,000 at the lower end to $1 million and above if the owner or client is looking for something bespoke and special.

The ever-popular secondary dwelling or dual occupancy (granny flat or studio) is high on many homeowners' lists for value adding, with these backyard beauties able to provide additional income (to help with those pesky interest rate hikes, no doubt) or as a place for the grown up kids or in-laws. Swimming pools, garage conversions and general renovation projects are all other areas of interest to homeowners. What should be done and how much should be spent is up to individual owners and consideration needs to be given to lifestyle choices (wants) as well as needs, and no two owners' wants and needs are ever really the same.

The current climate of rising interest rates, decreasing affordability and a construction sector beset with supply and labour issues makes for challenging times for homeowners aspiring to renovate, so now is not the time to plough headfirst into a renovation project without some degree of serious thought.

Mark Lackey
Property Valuer

Victoria - Residential 2022

Melbourne

Australians spent more on home renovations during the pandemic years than at any other time since records began 50 years ago. In 2021, Australians poured a massive $12.3 billion into renovating their homes, up 33 per cent from 2020. This was largely due to the pandemic forcing Australians to stay home, however there were government schemes (Home Builder Scheme) that paid out between $15,000 and $25,000 to those willing to undertake a major renovation. However, as the country moves out of the pandemic and looks to enter an economic downturn, the Melbourne market has been flipped on its head by soaring building and renovating costs, with new homes flying and those that need work struggling. Australia is in the midst of its biggest trade shortage in decades, with prices and demand adding further pressure to the construction industry. The worker shortage is at the worst level since industry records started, particularly in bricklaying, carpentry and roofing. This in turn puts pressure on the reno market and we could see housing renovations on the decline in coming months.

Melbourne CBD and Inner City

In a city that has been vastly developed, with varying heritage overlays and restrictions, building a brand-new home from scratch is made near impossible, meaning owners and buyers in the CBD and inner Melbourne are forced to renovate their existing dwellings.

When these opportunities do arise, they are generally being utilised for multi-level developments in an attempt to generate revenue. This can be made difficult by the area's relevant overlays and restrictions.

The cost of a new home in Australia has hit a record high as the construction sector remains beset by supply chain issues, staffing shortages, company collapses and failing consumer confidence. In April 2022, it cost $76,715 more to build a new house in Australia than it did a year ago. However, housing prices in East Melbourne have trended downwards over the past 12 months, with the median price decreasing by 19.3 per cent. This coupled with high construction costs would indicate that owners looking to renovate and sell in the inner suburbs of Melbourne will struggle to make their investment a positive one. Many existing units, apartments and houses are sold off the plan, meaning renovations and extensions are very difficult.

South East

Over the past 12 months, demand for properties in the south-east Bayside and the Mornington Peninsula flourished as many homeowners sought a lifestyle change away from traditional metropolitan Melbourne. As a result, renovations and upgrades have become a viable option for many homeowners and homebuyers. Funds that may have previously been spent on travel and entertainment have in recent times been injected into people's own assets, including property. However, as the economy and property markets begin to look less favourable and with increased material and labour costs, we could see owners hold fire on their renovations.

Property prices are falling in areas such as Beaumaris and Black Rock, with the median sale prices down seven per cent and five per cent respectively over the past two months. This, coupled with increased building costs, indicates it's a bad time to renovate and sell your home, with the cost of building and potential resale value leading to a potential loss based on how the market is trending.

Despite the sign of downturn, extensions that include study areas and home offices have been the most popular as many businesses encourage their employees to work from home. Landscaping and the addition of outdoor entertainment areas have also seen high demand as homeowners have looked to ensure their homes are as comfortable as possible.

For example, this recently renovated Capel Sound house sold in March 2022 for a strong price of $1.025 million. The two-bedroom, one-bathroom dwelling incorporates a small study area as well as an outdoor entertainment space with a backyard. These features have likely impacted the solid result in a suburb with a sale median of $850,575 (reiv.com.au, 2022).

In April 2022, it cost $76,715 more to build a new house in Australia than it did a year ago.

Analysis by the Housing Industry Association has found the cost of building work rose 22 per cent between May 2019 and May 2022.


Capel Sound Source: realestate.com.au


Capel Sound Source: realestate.com.au

Inner and Outer East
The Reserve Bank of Australia increased the cash rate target by 50 basis points to 1.85 per cent on 2 August 2022 and most economists have forecast that the cash rate will continue to rise to a high of 2.85 per cent by the end of 2022.

Analysis by the Housing Industry Association has found the cost of building work rose 22 per cent between May 2019 and May 2022, while the Australian Property Journal reported that construction costs are expected to continue to increase moderately in 2023 with residential projects tipped to rise by eight to ten per cent.

Combining these with the softening of the property market as well as the collapse of several major developers and builders, we have observed a decrease in the number of construction and renovation projects.

Fuelled by the factors above, the number of monthly planning permit applications received was 3746, a decrease of 15.5 per cent in June 2022 (planning.vic.gov.au). According to the ABS, permits for private sector houses approved fell 22 per cent while private sector dwellings excluding houses fell 10.1 per cent compared to the same time last year (seasonally adjusted).

Turning a profit by renovation in the current market situation can be tough due to rising borrowing and construction costs. That being said, as property prices are declining, profit can still be made if a smart purchaser buys a house for the right price which does not require a huge renovation job and is able to keep the cost down or has connections to good trades.


113 Power Avenue, Chadstone Source: domain.com.au


113 Power Avenue, Chadstone Source: domain.com.au

The property at 113 Power Avenue, Chadstone is currently listed with an asking price of $850,000 to $935,000 and marketed as a redevelopment site either as a new residence or multiple townhouses, STCA (domain.com.au 2022).

Inner and outer North
Real Estate Institute of Victoria president Richard Simpson said there was "definitely some anxiety in the market around having to renovate" amid runaway build costs. Properties that are unrenovated are struggling a little bit in this environment in contrast to properties that are already fully done up due to a preference for turn-key from people who are looking to conveniently buy and move in.

Due to this, properties that have already undergone renovations have been selling more competitively compared to earlier when couples and families were willing to buy average homes and renovate to their liking. An example of this can be seen from the three-bedroom house at 8 Thornaby Drive, Mickleham, which sold strongly after three hours of post-auction negotiations. The vendors ended up earning $770,000 for their property which had a $650,000 to $700,000 price guide.

The owners splurged almost $50,000 to create a high-tech cinema as well as renovating the internal living spaces to give a modern feel to the single-storey home which was built in 2014.

8 Thornaby Drive, Mickleham sold for $770,000 Source: News.com.au

8 Thornaby Drive, Mickleham sold for $770,000 Source: News.com.au

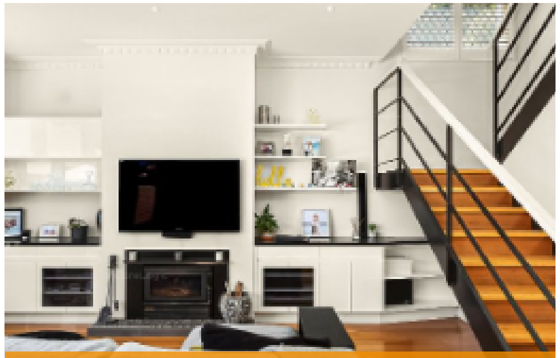
Western & North Western Suburbs

Renovations and alterations in Melbourne's western suburbs occur largely in the inner western suburbs, as the outer west is dominated by developing areas consisting of almost exclusively new construction or knock-down rebuild projects. However, there has been a slight decrease in activity in recent months. This is largely due to a materials shortage and an increase in the cost of construction. The materials shortage is a flow-on effect of the construction boom Australia experienced in the past 12 months.

Wait time for materials has doubled, tripled or even more for some items, increasing the price of materials because of such high demand. To add to this, there is a nation-wide shortage of qualified tradespeople, putting greater pressures on the industry and driving up the cost of labour. With these factors in mind, renovating is becoming less feasible from both a financial and time perspective.

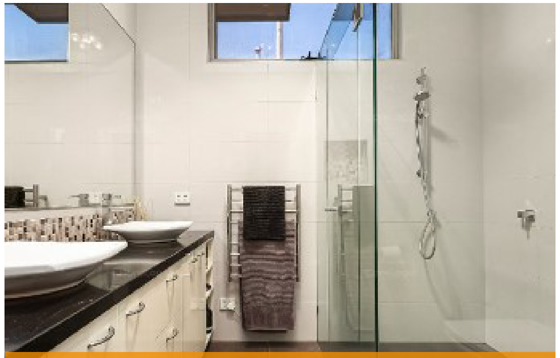
As a medium-term investment, if homeowners are able to renovate and if house prices continue to sit where they currently are, it is a feasible option. With the potential of a continued declining market and increased building costs, it may be smarter for owners to hold off on renovations until the situation stabilises. Despite the issues, we have seen some great new renos pop up in the north-western area of Melbourne. Below is an example of a freshly renovated home sold recently in Strathmore for $1.95 million.

Strathmore property Source: realestate.com.au



Strathmore property Source: realestate.com.au

Strathmore property Source: realestate.com.au



Strathmore property Source: realestate.com.au

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Geelong

The Geelong property market is now showing signs of slowing down, particularly for properties that require substantial renovations. Looking at the Geelong renovation market, the suburbs of focus appear to be within the inner Geelong region, specifically Belmont, Grovedale, Hamlyn Heights and Geelong West, with a price range of $650,000 to $850,000.

Research shows that homes that require substantial renovations in the Geelong property market are selling well below the agent's advertised selling range and in most cases, the advertised range is lowered by 10 to 15 per cent prior to selling. These types of properties also have slightly longer days on market in comparison to homes that are new, updated or renovated. This evidence indicates that the Geelong renovation market has declined.

Factors such as recent increases in interest rates, inflation, uncertainty of the future property market, increased cost of construction materials and the shortage of trades available is the likely reasoning behind the lack of demand in the Geelong renovation market. The majority of homeowners appear to be steering clear of the expensive hassle of renovating, especially first homebuyers, who have been pushed out of this market due to affordability.

4 Fairlie Street, Hamlyn Heights sold for $907,000 Source: news.com.au

The majority of homeowners appear to be steering clear of the expensive hassle of renovating, especially first homebuyers, who have been pushed out of this market due to affordability.

On the other hand, sales evidence indicates that the renovated market is more competitive, with homes selling at the upper end and upwards of the agent's advertised price range, shorter days on market and often selling via competitive auction campaigns. Homeowners avoiding taking on renovation projects is driving demand for the renovated market.

The property of 4 Fairlie Street, Hamlyn Heights was purchased in 2015 for $300,000. In 2021, the owners undertook a full internal renovation with the addition of a pool and spa in the backyard. The property sold earlier this month for $907,000 via a competitive auction campaign.

Undertaking a renovation in the current property market could be a great opportunity for homeowners with experience in renovating and for those with plenty of funds available and able to avoid loans with high interest rates. Renovators will find the most profitable results in inner Geelong locations within the upgrader buyer market of $800,000 to $950,000, as this is where the demand is currently sitting.

4 Fairlie Street, Hamlyn Heights sold for $907,000 Source: news.com.au

Perron King
Director

Warrnambool

We see detached dwellings being the favoured residential property type to get the renovation treatment. This is likely due to a few key reasons, but chiefly because detached dwellings comprise the majority of housing in Warrnambool. Further the feasibility of renovation projects may be a growing issue as interest rate increases impact borrowing potential.

At present, homes in need of renovation are readily appearing on the market as the supply of better kept and presented properties dries up.

For those hoping to profit from a renovation project in the Warrnambool area, the well-worn maxim about location still holds true. Projects undertaken in central locations or areas with ocean views or good proximity to the beach typically end well for the renovator.

Beyond the Warrnambool city limits, the township of Port Fairy rewards owners handsomely for any capital improvements. There's likely no better place in all of the south-west to chase the returns from renovation.

A great example of a renovation in a desirable location is that of:

15 Omega Crescent Warrnambool, VIC, 3280
4 Bed | 2 Bath | 2 Car | 1,138 square metres

Purchased - June 2020 for $695,000

Sold - January 2022 for $1.235 million

While the main bathroom remains much the same, the dwelling has undergone extensive updating with the kitchen highlighting the level of works completed. Externally, the alteration of an existing detached double garage into a two-bedroom self-contained studio would have been a major draw for potential buyers.

Here are a series of photos of 15 Omega Crescent

Front Elevation September 2019 Source: Core Logic/RP Data

Front Elevation January 2022 Source: Core Logic/RP Data

Kitchen-Before renovations Source: Core Logic/RP Data

Kitchen -Post renovations Source: Core Logic/RP Data

Bathroom Source: Core Logic/RP Data

Bathroom - Post, looking very much the same Source: Core Logic/RP Data

Detached garage, prior to becoming studio Source: Core Logic/RP Data

Internal image of new self-contained studio Source: Core Logic/RP Data

Jordan Mowbray.
Valuer

Central Victoria (Murray Riverina)

The market for renovation projects is limited at present given the premium price required to purchase a property, the high material and labour costs and the uncertainty around completion timeframes.

There is still evidence of reasonable demand for fully renovated homes. Buyers are willing to pay a premium for renovated houses instead of undertaking renovation works themselves and the disparity between renovated and unrenovated property is not as large as expected given that unrenovated property prices are being buoyed by the appeal of a lower price point.

The opportunity to profit from a renovation project at present (assuming no sudden rise in the market) requires either a bargain purchase or the ability to complete renovation works below commercial rates.

The most successful renovations appear to be in central, desirable locations within walking distance of town centres and involving detached character dwellings with period features that can be enhanced.

The main buyers of renovated properties are property owners who are upgrading and have significant equity in their existing home and reliable income to service additional debt if required.

Interest rates are limiting the price that buyers who are relying on finance are able to spend on a renovated property, however buyers purchasing without finance are still able to pay a premium which may sustain prices of high quality, fully renovated property in desirable central locations.

11 Bowen Street, Kyneton - Before

Source: Corelogic/RP Data

11 Bowen Street, Kyneton - After

Source: Corelogic/RP Data

Above are photos of 11 Bowen Street, Kyneton which has been fully renovated and sold on 3 August 2022 for $1.775 million

Malcolm Swan
Valuer

Mildura

The market for dwellings due for renovations in the Sunraysia region is approaching an uncertain period, much like the rest of the property market. With rising interest rates creating a softening in the local market after a sustained period of high growth, it appears buyers and homeowners are becoming more cautious about outlaying significant funds.

The majority of homes ripe for renovation are located within inner city locations with older weatherboard and conite dwellings forming the bulk of this market. They come with the clear advantage of being close to the CBD and river, which appeals to many buyers. Investors generally spend a minimum on renovation, making only cosmetic upgrades when needed, whereas homeowners are more likely to spend larger amounts on significant renovations or extensions. It is also popular for buyers of older circa 1980s dwellings on larger

Buyers are willing to pay a premium for renovated houses instead of undertaking renovation works themselves.

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There is a small market for investors locally to buy run down dwellings, perform a quick renovation and on-sell the property in a short period.

allotments further out of town in Irymple and Nichols Point to undertake significant works and generally create a family home that is held onto for some time.

There is a small market for investors locally to buy run down dwellings, perform a quick renovation and on-sell the property in a short period, with most of this activity generally younger first home buyers moving into these older dwellings and completing renovations in stages over a longer period.

With significant build cost increases over the previous two years, some buyers may be hesitant in current times to take on any projects requiring a vast amount of work due to the uncertainty of overall cost in the face of a potential market dip. Therefore, this market may slow in the coming months with buyers showing less urgency and instead waiting for a potential bargain to appear in the future.

207 Eighth Street, Mildura Source: RPData

At the same time, buyers may now be more willing to compete to buy freshly renovated dwellings which can be moved into immediately, thereby avoiding uncertainty around renovation costs.

A recent example of a renovated dwelling being resold is 207 Eighth Street, Mildura which sold for $480,000. The vendors purchased the home in May 2018 for $262,500 and subsequently completed good standard renovations.

Jake Garraway
Valuer

Queensland - Residential 2022

Brisbane

There's plenty of data out in the world now which indicates we've passed the peak of the price growth. There's no doubt that progressive interest rate rises were the straw that broke the camel's back.

Brisbane felt immune to some degree. The slowdown in Sydney and Melbourne was underway around November and December 2021, but Brisbane kept powering on. The expected big uptick from the Olympics, skyrocketing interstate migration and the pending reopening of international borders all looked like they'd bring a boost to the river city. It seemed to many for a moment as if our home prices might come away untouched by the downturn.

But reality has hit, and it's now apparent that property values in Brisbane are as capable of softening as they are of strengthening.

CoreLogic data to 1 September indicates a house price retraction in Brisbane of 1.8 per cent for the month and 3.8 per cent for the quarter... but let's add a little more perspective to those falling figures. The same data set shows prices have increased 17.5 per cent for the year and the total return over that period after factoring rental is 21.7 per cent. So, in the wash, we're still well ahead.

While interest rate rises seem all but assured over the next month or so, there is a glimmer of hope among pundits that we may hit the bottom sooner rather than later. Of course, it would be a brave valuer to make that call.

Sellers want to take advantage of the fine dry weather and show off their homes in the best possible light.

And so, onto this month's theme looking at springtime renovations.

First up, spring does tend to bring more property to the market. Sellers want to take advantage of the fine dry weather and show off their homes in the best possible light. It's also a time when forward-planning buyers are beginning their house hunt to prepare for a move before the start of next year.

In this year's spring sales season, many may feel a little more subdued. Confidence has taken a hit and FOMO has left the market. Sellers are now choosing whether to list their property or keep it off the market with hopes of better times to come.

The challenge is even greater if you're a keen renovator.

Along with interest rate rises, there's been an unstoppable increase in the cost of construction. Builders are also quite busy at present which means delayed start times and longer project horizons.

This has translated into buyers shunning homes in dire need of renovation. Listing pages are littered with fixer-uppers across many locations and price points.

The other side of this equation is that despite the market being softer, properties that have been comprehensively renovated are attracting good interest from buyers. It makes sense, because if a purchaser can secure a property that is move-in ready, they'll avoid the hassle of having to line up trades and source reasonably priced materials.

While it is hard to quantify how much more buyers will pay, anecdotal evidence suggests that the price differential between renovated and unrenovated property is growing.

This state of affairs also delivers some prime opportunities for the right kind of buyer. If you are handy with a hammer or know a group of tradies keen to take on your project, there's the chance to buy a renovate-able home at a reasonable price. If you're not a DIY master but have deep pockets, then now might also be the time to land bank a renovate-able home.

Well-located properties that could be rented out in their current state but that could also benefit from renovation at some future date make for good prospects. As time passes and the market cycle progresses, materials and labour will become more reasonably priced. Those who banked a renovation project will do best when that day comes.

Here's a few examples of what we mean.

21 Imperial Terrace, Paddington sold in April for $1.44 million. Set on a 544 square metre site,

this is a liveable two-bed, one-bath cottage within walking distance of the Latrobe Terrace café strip. This one does lack off-street parking, but the potential is still there to make some renovation gains in the future.

21 Imperial Terrace, Paddington Source: realestate.com.au

21 Imperial Terrace, Paddington Source: realestate.com.au

In contrast, homes in Paddington that are fully renovated are regularly achieving $2 million plus.

61 Bank Terrace, Paddington sold in August for $2.2 million. It's a three-bed, two-bath, two-car cottage on 405 square metres of land. The property has been fully renovated throughout and is a good mix of contemporary fittings and traditional features.

61 Bank Terrace, Paddington Source: realestate.com.au

61 Bank Terrace, Paddington Source: realestate.com.au

For those with a tighter budget you may need to seek a project a little further out.

A great example is this property at 4 Kankool Street, Stafford which originally sold in March 2020 for $680,000. The home has been extensively renovated and has some semi-industrial vibes about it now. The property offers four-bedroom, two-bathroom, two-car accommodation across three levels. The dark colour pallet, high-end kitchen, hardwood timber floors and city views are just part of its appeal. The property recently sold for $1.45 million reflecting a solid return on the original investment.

4 Kankool Street, Stafford before Source: realestate.com.au

4 Kankool Street, Stafford after Source: realestate.com.au

Another example of an even more affordable price point is 53 Killen St, Nundah which was originally purchased in January 2020 for $615,000. The property has been renovated and offers four-bedroom, one-bathroom, one-car accommodation in a well-presented lowset brick home. While market values have risen dramatically since the start of 2020, this property's recent sale of $1,037,500 reflects the good demand for finished homes in family-friendly locations. It's a pretty handy return on the original purchase price.

53 Killen St, Nundah before Source: CoreLogic

53 Killen St, Nundah after Source: realestate.com.au

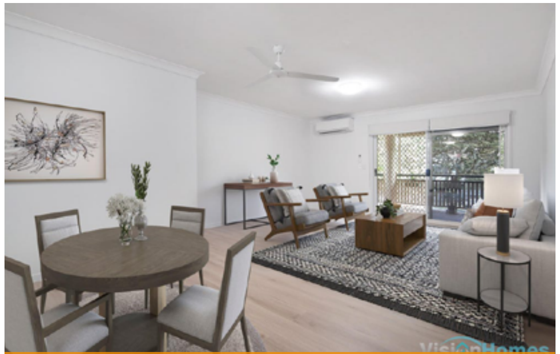
For those with an even tighter budget, perhaps a unit renovation is in order.

The joy of unit renovation is that some fairly simple works can deliver dramatic results. New floor coverings and a coat of paint will do wonders for liveability and boosted value. Even more extensive work, such as an updated kitchen and bathroom, will not set you back too much in comparison to a detached house either.

A good example would be 6/9 Buxton Street, Ascot which recently sold renovated for $540,000. This is a two-bedroom, single-bathroom unit that has been freshly painted and given new floors, along with a kitchen and bathroom spruce up.

The moral of the renovation tale in Brisbane is simply this – making quick-flip profits in the current market is tough because of rising costs, including holding charges.

In comparison, an unrenovated unit in the same complex offering the same accommodation sold in August 2021 for $441,000.



6/9 Buxton Street, Ascot Source: realestate.com.au

The moral of the renovation tale in Brisbane is simply this – making quick-flip profits in the current market is tough because of rising costs, including holding charges. There are two likely buyers of renovate-able properties at present. The first will be those looking for a holding proposition they can upgrade now (because they're DIY skilled) or at some future date. The second will be homebuyers (often family households) who will accept spending a bit more for their upgrade now to enjoy a better long-term lifestyle.

The counter to this is that if you do have a home that's completed and ready to hit the market, interest remains strong from the right kind of buyers.

David Notley
Director

Gold Coast

It is often noted that there is a lull period in the property market over the winter months, with spring season being a more ideal time to sell a property. The past few months have been much quieter in the residential property market across the Gold Coast. The multiple interest rate rises this year have resulted in a decline in buyer confidence as expected, with the cost-of-living top of mind for homeowners and prospective buyers at the moment, however there are still many agents out there who are optimistic that the change of season will bring a busier market. Time will tell if this will be the case. This month we aim to provide a quick market update with a focus on renovated properties and look at the benefits and challenges of renovating in the current climate.

Tweed Shire and Southern Gold Coast

In the Southern Gold Coast and Far Northern New South Wales areas where market conditions appear to be softening, many property owners who have their house listed on the market are interestingly still optimistic of achieving strong sale prices, knowing that stock levels remain at low levels, according to recent agent feedback. However, with vendors' price expectations generally remaining high, agents are finding it much more challenging to achieve a satisfactory result for their clients in the current market. The buyer frenzy has well and truly ended, buyer confidence has weakened and overall, properties are now typically taking much longer to sell. The market reached its peak in the first quarter of this year and is now showing signs of cooling but there is still solid demand for a few property types, one of them being for fully renovated or recently constructed houses.

Earlier this year and late last year we saw some very strong sales results for fully renovated or near new homes in and around Coolangatta and Kingscliff. For example, a fully renovated townhouse in Orient Street, Kingscliff sold back in April 2022 for $1.925 million. The property comprises a circa 1997 built, two level townhouse providing three bedrooms and two bathrooms and a double lock-up garage, an approximately 250 metre walk to the beach. The townhouse has been completely refurbished to a good standard both internally and externally and features a modern kitchen and


4/5 Orient Street, Kingscliff, NSW Source: realestate.com.au


4/5 Orient Street, Kingscliff, NSW Source: realestate.com.au

bathrooms, plantation shutters, air-conditioning to all bedrooms and Blackbutt timber flooring. It was purchased in late November 2019 for $912,000 in largely original condition.

Prices are remaining firm today for these properties which have been given a fresh, modern look and buyers appear to be more than happy at the moment to pay a premium for a property that needs no work to avoid the likelihood of not only high renovation costs, but also the problem of having to find available building trades to complete the work in a timely manner.

The woes within the construction industry have been well publicised for many months. The cost of renovating or constructing a new home continues to climb and there appears to be no positive outlook on this front in the next twelve months, according to building experts. Subsequently, it comes as no surprise that agents have recently been reporting some increased market resistance for residential properties which mainly present in dated or original condition or require immediate renovation work. This appears to be most evident across the Tweed Shire for properties priced above $1.5 million, although in general we are finding that properties within the coastal areas priced below $1.5 million are still attracting a good amount of interest, particularly for freestanding dwellings regardless of whether they have been renovated or not. The initial shock of multiple interest rate rises appears to have diminished somewhat for most buyers, however they are still wary of the raft of challenges and short-term risks that currently exist in the prevailing market conditions.

Many property experts out there are predicting property values to soften considerably in the coming twelve months so it may be tough going to make a profit or strong capital gains from

renovate and flick opportunities. We suggest that any short-term holding proposition with a view to fully renovating should be carefully considered and treated with a high level of caution at the moment.


8/34 Coolangatta Road, Coolangatta Source: realestate.com.au


8/34 Coolangatta Road, Coolangatta Source: realestate.com.au

We are aware of a fully renovated unit at 34 Coolangatta Road currently listed on the market with the vendor seeking offers over $669,000. The property was purchased in June 2021 for $486,000 in dated condition. After being renovated it was put back on the market about a year later. The property is a single level, two-bedroom, one-bathroom strata unit which now features a modern interior and single car garage and is within close proximity to Kirra Beach. The unit is within an older style walk-up complex consisting of eight units. Similar style units in dated (unrenovated) condition within the immediate area are typically selling for between $500,000 and $600,000.

Gold Coast Central Areas

Demand levels for residential property in the central areas of the Gold Coast have declined significantly since the peak of the market earlier this year and we are now seeing the flow on effect this is having on property values. In some instances, we have seen a decline in values of up to 15 per cent in the past six to twelve months, however there are some market segments where value levels are holding firm. Given the downward trend in the market and the challenge of meeting vendor price expectations, many local agents are reporting that this is an extremely difficult market in which to set an asking price for listed properties.

Buyers know they have more time up their sleeves to negotiate as there are less people in competition and properties are typically taking longer to sell. Some prospective buyers are of the opinion that this recent decline in market activity will only be a short term blip but are still holding off making a decision and taking a wait and see approach. Overall the decline in active buyers has resulted in many auctions having to be cancelled or postponed due to lack of registered interest.

Of the standout market segments where prices are still holding firm, again, it's the renovated or newly constructed freestanding homes that are attracting the good attention. Over the past six to twelve months, we have seen a stream of interstate purchasers snap up renovated properties to be their forever homes and some huge premiums have been paid, particularly in areas such as Palm Beach, Miami and Burleigh.

For example, 123 Mallawa Drive, Palm Beach sold in July 2022 for $1.83 million. The property is a fully renovated, single storey, circa 1970s built dwelling providing four bedrooms and two bathrooms with a new double carport. Features of the residence include ducted air-conditioning, tastefully renovated kitchen with butler's pantry, modern bathrooms, new paintwork and flooring, gabled ceiling to living area and immaculately presented backyard with new swimming pool. Before the renovation, the property was previously purchased approximately a year earlier for $815,000 in largely original condition.

123 Mallawa Drive, Palm Beach - before Source: RP Data/Corelogic

123 Mallawa Drive, Palm Beach in 2022 - after Source: realestate.com.au

As long as there is no additional work to be done, buyers still appear to be happy to pay a premium for a new or very modern or fully renovated property, regardless of the suburb. With good reason, as prospective buyers are well aware of the current expensive building costs, shortages of building supplies and extended time now required to complete renovations. The negative press regarding the current predicaments within the building industry, resulting in many building companies collapsing, has also deterred people from starting a new build or completing a major renovation this year. Subsequently, vacant blocks and homes listed as an opportunity to renovate have become far less appealing in the market.

For those buyers who are still keen to find opportunities to buy a do-er upper for a quick flip, we suggest looking for strata units within small complexes or townhouse units.

There may be opportunities in purchasing smaller sized units with easy access in the trendier suburbs such as Palm Beach, Miami and Burleigh where modernising a unit to meet the current trends and tastes will attract broader market appeal.

For example, a fully renovated two-bedroom, one-bathroom strata unit in Nalla Court, Palm Beach recently sold for $720,000. The unit features a modern interior with modern kitchen and bathroom, plantation shutters, split cycle air-conditioning, new blinds and floor coverings and updated outdoor area. It was previously purchased in May 2021 for $580,000 with a partly updated interior.

8/6 Nalla Court, Palm Beach Source: realestate.com.au

8/6 Nalla Court, Palm Beach Source: realestate.com.au

In this market, the key is to buy a property which can be renovated and flipped quickly, therefore buying a freestanding house or a large highrise apartment to renovate could be tricky, as more time and expenditure would likely be required to renovate given the larger size. In order to make the project as profitable as possible, the unit or townhouse would need to be renovated and flipped within a three to six month period, considering the flattening market conditions. Keep in mind that the property you are renovating would need to be your principal place of residence, otherwise you will be subject to capital gains tax on selling the property and potentially diminish any reasonable profit margin. If the project blows out longer than six months, you may find yourself selling in a much weaker market, leaving you with a tiny profit margin at best.

Last year, we saw plenty of renovate and flip activity across a broad range of suburbs in the central Gold Coast region. It was very popular to renovate a house in areas such as Southport, Benowa, Mermaid Waters, Carrara and especially in Ashmore. Most renovation activity within the unit market that we have seen has mainly been between the coastal suburbs of Main Beach and Mermaid Beach.

We note that 20 Wallaroo Way, Ashmore sold for a premium price of $1.645 million after being extensively renovated. The property was initially picked up for $710,000 in early 2021. The recently refurbished property comprises a late 1980s built, split level design dwelling providing four bedrooms and three bathrooms, two car garage and swimming pool on a 695 square metre corner block. Features include modern kitchen and bathrooms, high and raked ceilings, bi-fold doors, fireplace, new paintwork and split cycle air-conditioning.

20 Wallaroo Way, Ashmore Source: realestate.com.au

20 Wallaroo Way, Ashmore Source: realestate.com.au

The property market has shifted to a different direction now and the market for homes in need of renovation has slowed considerably. Most of the demand for these more dated properties is coming from owner-occupiers looking for long term homes for their families, with very few flippers in the market according to agent feedback. Buying a freestanding home now with a view to renovating immediately really only makes sense if the buyer is an investor with a long term plan to rent out the property and claim depreciation on the renovations, or an owner-occupier who may benefit from a long term plan to hold and sell in the distant future. We have been told that there are still quite a few builders in the market looking for the fixer upper but they are very conservative with their offers and looking to take advantage of an urgent sale. Areas where builders and skilled tradespeople have been searching for bargain fixer uppers have been in suburbs which have good access to the M1, such as Carrara and Nerang.

With the current difficulties within the construction industry and the negative impact this is having on renovation projects, making them less viable, we actually might see the market gearing more towards fully renovated and new homes. But in order for more feasible renovation projects to get underway in a softening market, it will come down to trades and building materials being more accessible and more affordable again.

Property managers are reporting that all rents have increased significantly in the past couple of months, with minimal vacancy, so it is easy enough to find a long term tenant for your property if you don't want to be confronted with a potentially challenging renovation project right now.

Northern Gold Coast and M1 Northern Corridor
At the northern end of the coast, it's the same story – the local market appears to have peaked with sale volumes now in decline and properties taking much longer to sell. The market segments which are holding firm and seeing good buyer activity in recent months look to be the markets for affordable housing, for both units and entry level freestanding homes. Agents are reporting good levels of first home buyer activity in the $300,000 to $750,000 range. Tenancy stress is very evident, particularly for housing from Pacific Pines and up to Coomera with soaring rents and critical rental stock shortages. More and more tenants are opting out of their rentals and looking to buy their own properties at the budget end of the market.

It appears that there has been a lack of interest from investors to buy residential property this year. Much of the more affordable investment stock has subsequently been snapped up by first home buyers, however even the first home buyer market seems to have lost some momentum after multiple interest rate rises.

Renovations are not high on the priority list for owner-occupiers at the moment. Many people in this area live within recently developed residential estates that consist of all modern style housing, so there is essentially little need to complete major renovations to these homes. With the cost of living so high at the moment, for many, it's just about budgeting week by week, meeting loan repayments and just keeping a roof over your head.

Those out there looking to renovate right now generally should currently view their property as a long-term holding proposition. To renovate and flick in the current market conditions is risky. With property values pulling back, any renovation improvements may not result in the desired short-term capital gains, however it's always advisable to keep on top of essential repairs and maintain good presentation. Properties not well presented or that may have deferred maintenance issues will generally struggle to sell in a buyer's market.

We are aware that a flipper sold a renovated townhouse unit at Koala Town Road, Upper Coomera mid this year for $515,000, having reportedly purchased the property in February 2022 for $440,000 in dated condition. The property comprises a mid-1990s built, two-storey townhouse providing three bedrooms and one bathroom with single lock-up garage located within a medium sized cluster development with common pool. The property features a neatly renovated interior with average quality finishes used throughout.


40/2 Koala Town Road, Upper Coomera Source: realestate.com.au


40/2 Koala Town Road, Upper Coomera Source: realestate.com.au

At the end of the day, anyone contemplating a renovation needs to make diligent decisions taking into account their own personal financial risk in terms of holding on to their properties for a more projected period of time.

Currently, we are seeing fewer interstate buyers in the market compared to twelve months ago. These buyers were seen last year as often paying premium prices regardless of whether the property was renovated or not and playing a role in driving the recent boom in property values.

Moving further north along the M1 Motorway towards Beenleigh and the Logan Shire area where the market appears to be stabilising, local agents are reporting that there is not a whole lot of renovation activity occurring on residential properties. There has been the odd freestanding home built in the 1970's or 1980's providing a modest standard of three-bedroom accommodation being seen by buyers as having reasonable potential for future capital gains. Agents have reported that the ones which have had some minor cosmetic renovations are typically easy to rent out.

A few high-set dwellings have been popular to renovate lately, with some converting the lower level to provide additional rooms, however it is important for renovators to know that many of these older style high-set dwellings in this area have lower levels which do not meet the legal height requirements to provide additional habitable space.

Overall, partly renovated and fully renovated properties in suburbs such as Mount Warren Park, Beenleigh and Edens Landing are still attracting good attention from prospective buyers. As we mentioned earlier, buyers would prefer to move into a unit or house with all works completed as opposed to purchasing and renovating themselves given the uncertainty surrounding costs and the availability of building labour. Agents are strongly advising vendors that the presentation of the property is becoming much more important now that the heat in the market is evaporating, and if any renovation works are recommended prior to sale, typical items are the upgrade of floor coverings, internal paint, kitchen and bathrooms.

Sam Gray
Associate Director

Sunshine Coast

The construction industry on the Sunshine Coast, like everywhere else around Australia, is having some serious issues. Materials have become harder to get which has in turn led to significant cost increases. Then the second part of the problem is finding a tradie who isn't booked out till next year. Good luck!

There is no doubt we have seen an increase in the gentrification of established suburbs and particularly in the sought after, coastal and beachside areas. With the strength we experienced in the market, the option of trading up is pretty hard, so owners have had to re-assess their options. If you like where you live, the option is to renovate and extend the current home, maybe even drop in a pool. This helps future-proof the property.

The main driver of gentrification in these older areas is that they are well located close to amenities and the beach, thus creating the desire for people to live in these locations. The coastal areas south of Caloundra right along the coast to Maroochydore are all areas that are renovation hot spots. Moving further north, the areas of Mount Coolum, Yaroomba and Coolum Beach are seeing increased demand. Up north in the Noosa region, the areas in Sunrise Beach, Sunshine Beach, Old Tewantin near the river and town centre and also Noosa Junction are seeing a significant number of renos and rebuilds. Once again, locations close to shops, cafes and basically all areas close to the beach have become highly sought after.

The majority of renovations being completed are by owner-occupiers. Typically they are looking to stay in their current location which may be close to schools or the beach and they want to create their dream home. With the buoyancy in the market, we have seen some house flipping going on with some great results being achieved. Well-presented properties with good quality renovations completed are attracting a premium as purchasers are looking at these properties with nothing to do.

The main driver of gentrification in these older areas is that they are well located close to amenities and the beach, thus creating the desire for people to live in these locations.

Renovations have typically been to housing but we have been seeing renovations completed to the older walk up style unit complexes and townhouses. The risk however with these renovations is that if the body corporate is not in the position to do works to the exterior of the building, it may detract from the internal renovation and therefore may not achieve the desired result.

The typical entry price point for these types of properties along the coast ranges from $1 million to $1.2 million, however the entry price point within the northern suburbs of Sunshine Beach and Noosa Heads are well north of that.

The Sunshine Coast has had and continues to have some large infrastructure projects that are attracting a significant number of people to the Coast. Also with the 2032 Olympic Games scheduled for Brisbane and wider south-east Queensland, the positive energy in the market will continue for some time yet. Clearly the headwinds surrounding the interest rate rises and deterioration of economic conditions will pose some problems.

Stewart Greensill
Director

Cairns

The Far North Queensland residential market is trending onwards and a little more sideways than upwards mainly due to the recent increases in interest rates and cost of living pressures. We are seeing prices hold up well with agents reporting that the only noticeable impact is a reduction in overall numbers of buyers and less multiple buyer situations. In general, price increases have moderated although there are still plenty of examples of increasing prices. Winter is the peak tourist season in Far North Queensland and there is normally an increase in activity in the market due to southern buyers being in town. This may be masking any pronounced change to market conditions. Time will tell as we move later into the year.

Due to the difficulty in finding builders and tradespeople at the moment, renovated properties are in good demand although it is hard to tell if the demand is significantly above the wider market. Older homes in need of renovation are suited to investors and also offer a lower price point for owner-occupiers to move in and plan renovations over time. It is also difficult to determine whether profit from a transaction is due to the renovations or simply as a result of rising market conditions.

Craig Myers
Director

Gladstone

Renovation projects have been very active over the past couple of years despite the significant increases in costs. Profits are there for the taking however this has largely also been because the market has continued to rise during lengthy construction timeframes. The biggest problem facing renovators in the current market is not whether they can make a profit, but who is actually going to be able to complete the work (in a timely manner). In fact, if you can manage to get a quote, you are already ahead of the game! Due to the labour shortages and increased costs, many owner-occupiers will go straight for a fully renovated property so they do not have to spend any money once they've moved in. Of course, buyer preference comes into play a lot here, however premiums are definitely being paid for well renovated homes with no maintenance required.

We have seen the effects of increasing interest rates in our market. Activity has definitely slowed over the past few months. Value levels are holding however, and increases are still being seen in most market sectors albeit at a slower rate than the rapid increases of the past two years. We still expect a strong spring selling season, however perhaps it will be a little dialed back from previous years as buyers weigh up the impact of further potential interest rate rises.

June Button
Property Valuer

Mackay

The renovation market in Mackay was extremely active over the past two years, however has slowed dramatically recently. Labour shortages and huge increases in costs and time has made renovating extremely difficult, especially if looking to flip the final product.

Professional builders were probably most active over the past few years. They advise that the profit on the job is hugely dependent on the price of acquisition, with dwellings prior to 2022 being able to be purchased for sub $200,000. These dwellings then get a full rebuild, providing for all intents and purposes a brand-new dwelling while keeping the charm and characteristics of the original older home. Costs of the rebuilds were more than $200,000. Price points for the finished product worked out to be similar to a brand-new modern home of similar size in new estates and were extremely popular. Finished products were selling high for $400,000s to low $500,000s.

However, with the increase in the market over the past 18 months, it is extremely difficult to find entry level homes under $200,000 with limited stock under $250,000. Factor in cost increases of between 30 per cent and 50 per cent recently and construction times blowing out to at least a year, and the appetite to try full renovations has waned.

For owner-occupiers, this blow out in costs and time frames gets even worse. The majority of builders and contractors have forward bookings for at least six months. Local agents report properties that require substantial renovations are actually more difficult to sell in the current market once prospective purchasers research renovation costs and times. Unless you are a tradesperson or extremely handy with a paintbrush and hammer, then renovations are a tough road in the current market.

The increase in interest rates does not appear to have had a huge impact in the Mackay market. Most bankers and brokers we have spoken to have advised they have been factoring in the increase in rates in all applications to ensure capacity to service the loan and outline general expectations with their clients on where interest rates may go. Our market has definitely lost the urgency it had, however most agents still report strong demand across most market sectors.

Mick Denlay
Director

The biggest problem facing renovators in the current market is not whether they can make a profit, but who is actually going to be able to complete the work (in a timely manner).

Hervey Bay

The renovation market on the Fraser Coast is relatively thin at present mainly due to the lack of availability of builders and the ability to flip the property in a short period of time.

Historically, flipping a renovated home showed little profit due to the cost to renovate and the relatively low level of price growth. Over the past two years however, with the significant growth in values experienced, costs to renovate have easily been recovered and profits made. All price points experienced growth over the past two years with some realising $100,000 to $200,000 plus if purchased in early 2021 and re-sold in 2022 without renovating at all.

Maryborough has followed a similar trend and there are still opportunities if you purchase at the right price and have the ability to complete renovations yourself. Be mindful not to over-capitalise and cut into potential profits.

It appears the market has now peaked with selling periods extending from days to weeks or months and vendors becoming more willing to negotiate. Whale season on the Fraser Coast has generally been a very active time as southerners holiday in the area and end up staying or buying. This may not occur as much as previous years, however the sun is shining and the temperature is right for an active spring.

Tracey Werder & Tracy Lynd
Valuers

Emerald

Lengthening construction times in the new house market have redirected many market participants into the existing housing market, however the shortage of construction materials and qualified trades has limited the renovation market in Emerald. There have been examples of properties purchased with the intent to renovate which have ended up back on the market due to the inherent challenges. At the moment, most do-er uppers are generally purchased by people in the construction industry who are able to achieve a premium.

It is more common to see houses being updated rather than fully renovated. Updates include smaller, quicker, more achievable projects such as new floor coverings, new tiling in bathrooms, painting or updated counter tops etc.

In order for full renovations to become more viable in Emerald, there would need to be an increase in qualified trades, a reduction in construction material costs matched with decreased supply and increased demand for residential property.

In the original and central area of Emerald, there is a handful of Queenslanders that have been renovated and are very attractive to a particular section of the market. These properties are competitive with new builds.

Kerry Harrold
Residential Valuer

Whitsundays

The renovation market in the Whitsundays is almost non-existent. This is mainly due to the shortage of properties and of tradespeople available to complete the work.

There are of course people who purchase and renovate properties, however these appear to have been held by the owner to live in or to rent as there is a huge shortage of rentals in the Whitsundays with rental returns appealing to the home owners.

With the increase in values over the past 18 months and the costs of trades (that is if you can get one), the profit margin would be minimal for the effort required to complete the renovation.

The increase in interest rates at this time does not appear to be having any real impact in the Whitsundays with local agents advising that properties are still being sold within or around 30 days. Value levels are holding and increases are being seen in most markets. We are still very affordable in the Whitsundays and offer a great lifestyle.

Whitsundays lifestyle Source: Noelene Spurway

Noelene Spurway
Valuer

Townsville

The market for renovated properties at present appears relatively strong with the big issue being whether the cost to renovate equates to added value. Current high costs to engage tradespeople and the high cost of materials point towards renovation costs outweighing added value.

Those currently renovating or purchasing renovated properties appear to be people trying to avoid the long wait for a new home build, in particular in the markets where a lack of land supply coupled with long construction times result in a wait time of up to 18 months for the land

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development and new dwelling to be completed. The most common market this appears to be happening in is the rural residential sector where land supply is limited.

The other localities where renovations appear to be occurring are the inner city and inner-city fringe localities characterized by mostly older dwellings that are generally in need of renovation.

Given the current high costs for major renovation works, it appears the most profitable renovations are the more simple DIY projects. One such case is a property in an outer residential suburb that was purchased in late 2020 for $255,000. The property has had a relatively basic refurbishment that included new floor coverings, tiles painted in the bathroom and kitchen benchtops rejuvenated. This resulted in a recent sale price of $365,000 being achieved.

The other instance where profit can be achieved is when something can be done to add to the existing property. For example, a four-bedroom, one-bathroom property purchased in March 2021 for $185,000 had the carport that was under the main roof enclosed to form a fifth bedroom with ensuite. This property was recently contracted for $327,000.

Darren Robins
Director

Rockhampton

In terms of property types which attract renovator interest in the Rockhampton and Capricorn Coast region, units do not play a significant role in this market. Established homes requiring renovation provide an affordable entry into either: (1) the market for first home buyers or established investors; or (2) entry level into premium locations where an already renovated dwelling is considered unaffordable for the particular purchaser.

A current preference is clearly defined as being for renovated or near new homes. This has been the driving force behind the established home market for some time now in this region.

This market sentiment has come about due to the significant rise in construction costs over the past two years. The Queensland Master Builders Association reports increased building costs due to supply shortage of materials as a result of increased demand – a direct result of the Home Builder grant (now ended) as well as ongoing disaster recovery work. Further, many materials imported to the country are experiencing supply chain shortages due to COVID-19. Delays in construction as well as significant increases to building costs are being experienced.

Anecdotally, renovation costs for an extension to the main living area (including a bathroom) and timber deck have doubled within the past 18 months. This type of renovation costed out at around $200,000 18 months ago, whereas in 2022, costs have increased to now be in the order of $400,000.

Due to the significant cost escalation of construction materials, profit from renovations is only achievable at present due to the strong capital growth being experienced. Historically, costs of major renovations are not fully recoverable in a stable or declining market. Smaller scale renovations such as kitchens, painting etc tend to provide more bang for your buck.

At this point in time, the current interest rate environment does not appear to be having any major effect on this market sector. Relatively speaking, interest rates remain affordable for many homeowners in the region due to the historic low starting point from which the recent rate rises began. Interest rates are having less of an effect on the renovation market than the current building supply and labour shortages being experienced nation-wide.

Cara Pincombe
Property Valuer

Toowoomba/Darling Downs

As Toowoomba and the Darling Downs was one of the earliest areas of Queensland to be settled and developed, it possesses a wide range of dwelling types and styles from various eras and uniquely those considered federation or inter-war era homes. In Toowoomba these character timber dwellings dominate an approximate three-kilometre radius of the CBD with the suburb of East Toowoomba continuing to be highly sought after and popular due to being quiet, leafy and close to the Toowoomba CBD, parklands, prestigious schools and transport links. Given this continued popularity, there has been a steady increase in the number of property owners renovating these older homes.

However, buyers intending to renovate, or house owners looking to upgrade and sell, face increasingly difficult obstacles due to rising construction costs and the limited availability of adequately experienced tradespeople (due to continued strong demand for their services) pushing out construction timelines. As a result, location has become crucial and East Toowoomba continues to be in high demand and has been able to command a premium for both pre-renovated and recently renovated homes.

An example is a recent sale advertised as a renovator's delight (July 2022) for a circa 1920s gable dwelling with approximately 155 square metres of living on an 810 square metre parcel located close to the Toowoomba CBD and Queens Park. This four-bedroom, one-bathroom character dwelling sold for $545,000. The property presented in an original but tidy condition with huge potential for renovation from a virtually blank canvas.


Hume Street, Toowoomba Source: realestate.com.au


Hume Street, Toowoomba Source: realestate.com.au


Hume Street, Toowoomba Source: realestate.com.au

The recent sale of this corner lot in East Toowoomba serves as an illustration of how competitive the market has been in this area. The property was located in a sought after leafy street among high quality older homes. The circa 1915 five-bedroom, two-bathroom property on a 727 square metre block was discounted heavily due to fire damage and its need for moderate renovations. It went to market and sold for $775,000 in July 2022 to a builder, allowing the purchaser to break into this exclusive location. A comparative renovated home within close proximity to this property also in East Toowoomba sold for $1.07 million in May 2022. This renovated four-bedroom, one-bathroom Queenslander on a slightly larger parcel shows that there is some scope for a possible $100,000 to $150,000 renovation and freshen up, allowing potential for profit.


Arthur Street, East Toowoomba Source: realestate.com.au


Arthur Street, East Toowoomba Source: realestate.com.au


Arthur Street, East Toowoomba Source: realestate.com.au


Arthur Street, East Toowoomba Source: realestate.com.au

Buyers who are tradespeople, have contacts in the trades, or have renovation experience are drawn to this suburb. The increase in real estate values over the past few years has helped balance out the additional costs related to renovations. Here are some recent examples of quality renovations that have attracted premium prices due to proximity and demand for this area.


Original Dwelling Source: CoreLogic


Same property - renovated and extended Source: CoreLogic


Hickey Street, East Toowoomba Source: realestate.com.au


Hickey Street, East Toowoomba Source: realestate.com.au

This property is a fully renovated circa 1930s dwelling converted to a five-bedroom, two-bathroom, two-car accomodation property on 878 square metres of land which sold in July 2022 for $1.85 million to local buyers. The property was purchased in Feburary 2017 for $495,000. Building and renovation costs are believed to be upwards of $500,000.

Another quality renovation undertaken along Ipswich Street, East Toowoomba was to a circa 1960s dwelling renovated to a four-bedroom, two-bathroom and give-car accomodation property on a 974 square metre parcel. The property sold in July 2022 including chattels of four wall mounted


Ipswich Street, East Toowoomba Source: realestate.com.au


Ipswich Street, East Toowoomba Source: realestate.com.au


Ipswich Street, East Toowoomba Source: realestate.com.au

televisions and BBQ with sink and fridge in the rear deck area for $1.1 million to local buyers.

Nearby suburbs such as Mount Lofty and North Toowooomba are also seeing some renovation of older style timber homes, but to a lesser extent than in East Toowoomba. There is significantly less home renovation being carried out in the lower price brackets and in other suburbs across Toowoomba. We also note that there is limited renovation activity in our regional areas such as Warwick, Stanthorpe, Gatton, Kingaroy, Goodiwindi, Roma and Dalby, given that the added value is not reflected on a dollar per dollar basis as perceived by the market.

Regarding the current renovations and sales being made in the current market, it appears that East Toowoomba is the exception rather than the rule. It is wise for homeowners and buyers to exercise caution due to shortages of building materials and skilled craftspeople, as well as the Reserve Bank of Australia's four cash rate increases since May 2022 that have increased the overall rate from one per cent to 1.85 per cent.

One of the biggest oversights homeowners make when renovating is raising the standard of their

You will need to order everything required as far in advance as possible to give suppliers enough time to have it packed and delivered to you.

property above that of the properties around them. Dwelling costs frequently reflect the preferences and price range of local homebuyers. Modifications may offer a lower return on investment in low to medium income neighbourhoods due to prospective house buyers in these areas being less willing to pay for them. High-end improvements in Hickey and Ipswich Streets are in keeping with potential homeowners' preferences in this reasonably affluent neighbourhood, so can still generate a reasonable return on investment.

For those looking to renovate and sell, knowing your area and local market and what buyers want is crucial to reducing risks of overcapitalisation.

Also, don't fall into the trap of ordering your materials a week or so before you plan on renovating. You will need to order everything required as far in advance as possible to give suppliers enough time to have it packed and delivered to you. You don't want to be caught having to settle for your second or third alternatives. Your trades are the same. The majority of tradies are currently under pressure and wait times of six to twelve months are to be expected. To ensure you don't miss out, make sure to book them far in advance.

The key takeaway point - don't leave anything until the last minute.

Marissa Griffin
Director

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South Australia - Residential 2022

Adelaide

The property market has begun to stabilise after a prolonged period of growth. Data released by the South Australian government indicates that the median house price grew approximately 1.8 per cent to $661,750 in the June quarter. This represents the lowest growth rate since the median house price retracted in the June quarter of 2020. The slowing of the South Australian market continues a national trend with many of the larger markets that Adelaide typically follows now entering a downward cycle.

2022

Quarter	Metropolitan Adelaide	Non-metro (major towns)
Jun 2022	$661,750	$338,750
Mar 2022	$650,000	$325,000

2020 - 2021

Quarter	Metropolitan Adelaide	Non-metro (major towns)
Dec 2021	$600,038	$295,000
Sep 2021	$561,000	$279,000
Jun 2021	$540,000	$280,000

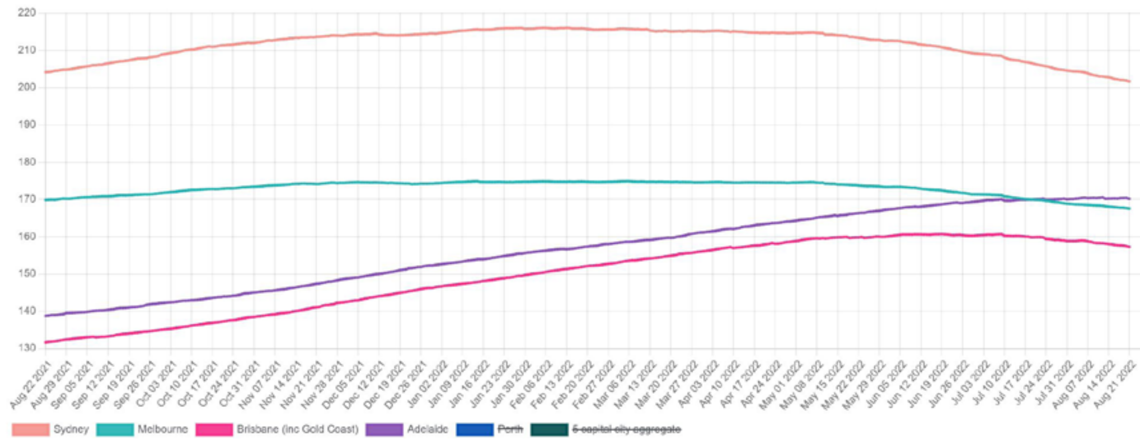
Median sale prices Source: SA.gov

The rise in interest rates has been a major discussion point amongst those operating within the property industry. Many purchasers have had their borrowing capacity reduced with four consecutive cash rate rises. Agents have been reporting that they are fielding less enquiries and achieving lower numbers at opens, however there are still a significant number of motivated buyers who missed out on purchasing during the height of activity.

Properties undergoing renovation are found throughout metropolitan Adelaide. Depending on location and dwelling age, a renovation can be as significant as a full internal strip back or as minor as a coat of paint and updated window furnishings.

The sales of 1 Edward Street, Evandale and 26 Harcourt Road, Payneham represent the differing levels of a renovation. These properties are in neighbouring suburbs and comprise character cottages on similar allotment sizes. 1 Edward Street achieved a sale price of $1.2 million with a modest internal renovation whilst 24 Harcourt Road achieved a sale price of $1.856 million with an extensive and highly specialised renovation and extension.

CoreLogic RP Data: Daily Back Series



Hedonic Index Source: CoreLogic

1 Edward St, Evandale Source: realestate.com.au

The easiest form of renovation is what's commonly known as the pre-sale face lift: floors, walls and lights. These items can transform a space with minimal physical output and capital outlay. Requiring a larger capital outlay but one

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24 Harcourt Rd, Payneham Source: realestate.com.au

of the biggest selling points are kitchen and bathroom renovations. Always have consideration of the future sale of your property when renovating and remodelling, as what may appeal to you may not appeal to the broad market.

When discussing renovations, the concept of over-capitalisation should be a consideration. To over-capitalise means to improve a property beyond its potential resale value. Good practice for those considering a renovation is to determine the market value of their property and have consideration of sale prices being achieved for renovated dwellings. This will help aid in decision-making for capital outlay, ensuring that current market value plus expenditure doesn't exceed the sale prices renovated dwellings are achieving.

The inner southern suburb of Hyde Park has seen a number of transactions in the past 12 months of both extensively renovated dwellings and those presenting in original condition. The sales of a renovator's delight at 20 Fashoda Street, Hyde Park and the extensively renovated 13 Esmond Street, Hyde Park for $1.9 million and $3.656 million respectively represent the opposite ends of the spectrum in terms of dwelling quality and condition. With the sale of Esmond Street, the purchasers of Fashoda Street now have a guide as to what price may be achieved on resale post a renovation and can scale their costs accordingly.

20 Fashoda St Hyde Park Source: realestate.com.au

13 Esmond St, Hyde Park Source: realestate.com.au

The market for renovated dwellings is being fuelled by a mixture of upsizers and downsizers. Both of these buyer pools are looking for something else in a property that theirs doesn't have. In the past, these buyers may have gone to the construction market before the property market. Buyers are now willing to pay a premium for a renovated property as they don't have to carry the risk of increasing building costs and prolonged construction time frames. The sale of 24 Ballville Street, Prospect for $2 million in July represents the style of property falling into this buyer's market. This property was purchased in 2019 for $650,000 in a dilapidated state before being extensively renovated and extended.

24 Ballville St, Prospect Source: realestate.com.au

Kitchen of 24 Ballville St, Prospect Source: realestate.com.au

Kitchen and meals area 24 Ballville St, Prospect Source: realestate.com.au

It's expected that premiums will continue in the short term for these dwellings.

Before renovation 24 Ballville St, Prospect Source: realestate.com.au

Pre renovation from the rear 24 Prospect St, BallvilleSource: realestate.com.au

Units continue to remain popular as they provide a more affordable entry point to the market. Owners are limited as to what capital works can be completed on units with works restricted to the internal walls and unit subsidiaries. The biggest tip with unit renovations is that prior to the commencement of any works, ensure the proposed works are approved by strata management and the strata committee. An example of a recent unit renovation is 3/110 Hewitt Avenue, Toorak Gardens.

This is an attached strata unit comprising two bedrooms, one bathroom and a single garage. The unit has been full renovated internally with modern fixtures and fittings throughout and achieved a sale price of $572,000.

Renovated dwellings continue to achieve premiums in the current market given the difficulties being faced by owners to move through a home renovation project. It's expected that premiums will continue in the short term for these dwellings. For those jumping into a renovation, remember to have a budget and be prepared for a lag time in sourcing materials and trades.

Nick Smerdon
Property Valuer

Mount Gambier

In Mount Gambier, renovations have been quite popular for some time due to our low median house price compared to other locations. Typically, houses are more commonly renovated than units although in the past couple of years, we have seen more units being renovated. This is due to a high amount of investment in the area. Data shows renovated units achieve an increased rental return.

Homes in need of renovation have recently gained a high level of interest in the Mount Gambier market. Given the increase in property prices in the past year, we have noticed more buyers are open to buying a property that needs work to purchase at a cheaper price to enter the market. In most parts, the buyers purchasing houses are generally owner-occupiers so renovating does still make sense.

Unit renovations have increased over the past couple of years due to investors wanting to gain a higher rental return.

The market for fully renovated homes is always appealing for a large range of buyer types with fully renovated properties often attracting a premium. With the increased price of building materials and long waits for available trades, buyers are opting to purchase already renovated properties. Properties that seem to perform well from renovations are located close to the CBD. Below are two examples of properties located near the centre of town that have undergone renovations in the past couple of years.

16 Byrne Street, Mount Gambier
3 Bed | 1 Bath | 2 Car | 742 square metres

Sold in 2019 for $235,000

Full interior renovation, excluding re-tiling the bathroom, minor external improvements

Sold 2022 for $455,500

16 Byrne Street, Mount Gambier before Source: CoreLogic


16 Byrne Street, Mount Gambier after Source: CoreLogic


16 Byrne Street, Mount Gambier before Source: CoreLogic


16 Byrne Street, Mount Gambier after Source: CoreLogic

24 Wehl Street, Mount Gambier
4 Bed | 1 Bath | 1 Car | 450 square metres

Sold in 2019 for $242,000

Minor kitchen improvements, minor powder room improvements, minor external improvements

Sold in 2022 for $455,000


24 Wehl Street, Mount Gambier after Source: CoreLogic

24 Wehl Street, Mount Gambier after Source: CoreLogic


24 Wehl Street, Mount Gambier after Source: CoreLogic

24 Wehl Street, Mount Gambier after Source: CoreLogic

As renovated properties perform well in the Mount Gambier market, we don't expect to see a decrease in renovation numbers. In future we would expect to see people opting to renovate as opposed to building due to this being seen as the cheaper option of the two and the long delays to new home build times.

Lauren Kain
Valuer

In future we would expect to see people opting to renovate as opposed to building due to this being seen as the cheaper option of the two and the long delays to new home build times.

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Western Australia - Residential 2022

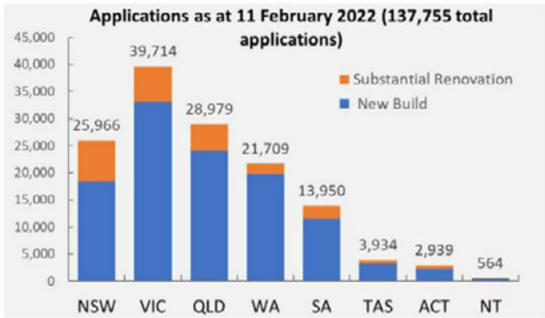
Perth

This September issue sees us tackle the question of renovation works in the current climate. We all know about the prevailing situation with builders, cost blowouts, timeline blow outs and labour shortages, but how has this affected the renovation market? Has it made it more desirable against a new build or are the two options too intrinsically linked? These are the questions we will be tackling to give an impression of what might give you the best bang for your buck in these rather uncertain (and frustrating!) times.

The Then

Let's rewind back to mid-2020 when COVID had just begun its charge through Australia and the word lockdown was becoming the buzz word of the year. The market was in quite a lull. We had all time low interest rates, the cost to build was at very reasonable levels, completion time-frames were normal and inflation and cost of living was not even thought about at that point. The tipping point to all of this was the introduction of the government grants to boost new build and renovation expenditure. With people being offered anywhere between $20,000 up to almost $70,000 in government incentives, suddenly those who were not sure whether they should sign up to a contract to build or undertake a renovation project jumped on the bandwagon with tens of thousands of other West Australians.

The timing of signing your contract was everything in this period to make sure any returns or grants you might receive could be maximised. To get your building or renovation contract locked in at this point in time before any of the subsequent cost increases occurred would have put you in a commanding position. According to the Department of Treasury, at February 2022 Western Australia saw a total of 19,766 people take up the federal building grants and 1943 people take up the renovation grant. That's a total of 21,709 building contracts for the grants alone - and this figure does not include everyone who jumped on the bandwagon but did not meet the application requirements for the grants. These figures translate to approximately $330 million being pumped into the Western Australia building industry over a very short period. Given the population ratio of Western Australia to the rest of Australia, Western Australia really got on board with the grants, largely due to the significant state government incentives that were offered over and above the federal grants.



Source: Treasury

The perfect storm was building. It's easy to see from our reference point in September 2022 that solid gains were on the table if you were able to commence renovation works and have them completed in the window of opportunity presented by the federal and state governments, but of course as time went on, the challenges to complete such works became more difficult as labour shortages started to bite, materials were in short supply and price increases became commonplace.

The Now

For those looking to improve the marketability of a property and maximise market value, renovating can be a great option, but like everything, it doesn't come without risk. We have all seen examples of house flippers undertaking glamorous renovations and making solid profits, and whilst we too love TV renovating shows and a great before-and-after, what's often not visible is the inherent risk of overcapitalising on a project. This doesn't mean that a specific project will fall at either end of that scale however, but it's important to research and understand how variables can influence the outcome.

Some great examples we have seen in recent times of maximising market value through renovating have varied from minor cosmetic updates to entire renovations or extensions. We saw a home in Perth's outer northern coastal suburbs sell for $330,000 in 2018 and recently sell for $475,000 after receiving just a new kitchen. If we estimate a market value gain of 25 per cent, we could have expected the property to sell for around $410,000 in the current market. Assuming a renovation cost of this nature of circa $30,000, this demonstrates

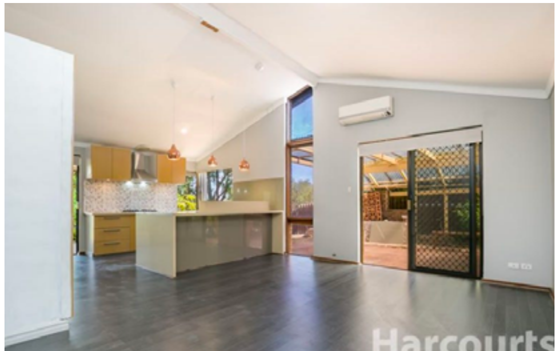
This has contributed to owners being willing to spend a greater amount on their properties as although the costs of renovating may be up, disposable income has also increased.

an estimated profit of up to $35,000 as a result of the renovation alone, showing a pretty easy profit margin from a small renovation project.

Similarly, but to a lesser degree, another property in the northern coastal area sold for $375,000 in 2018 and sold for $465,000 in January 2022 after receiving a kitchen, bathroom and laundry renovation.

Both properties sold within two weeks of being advertised.

17 Vista Close, Edgewater Source: RP Data



17 Vista Close, Edgewater Source: RP Data

At a property down the road in Padbury, a huge profit was seen after the property sold in 2019 for $485,000 and received an almost full house renovation, and then sold for $755,000 in January 2022 just five days after going to market. These gains cannot simply be put down to market growth and renovation work summation alone. There is also a premium paid for a product that for some would be a far more convenient option. By convenient we mean that purchasing a property with a view to renovate versus purchasing a property that has just been freshly renovated saves the buyer the hassle of going through renovation works in a particularly tough construction market at present.

Additionally, this property in Carlisle, in Perth's south-east corridor sold in January this year for $575,000 after being on the market for only 36 days. This circa 1948, three-bedroom, one-bathroom home sold in 2019 for $360,000. Renovations after the initial sale combined with a strengthening property market resulted in the owners being able to capitalise on their investment. Ultimately, through the perfect storm of renovation and a hot property market, we are able to see how a significant profit was realised.

Carlisle - Before Source: realestate.com.au

Carlisle - After Source: realestate.com.au

Other Factors

It's not only the prospect of increasing capital value that's driving demand for renovations in the Western Australian property markets. For some, it just comes down to a simple desire to upgrade and have that home you've dreamed about. On the back of the pandemic, it's been well documented that there is a greater level of disposable income available to the typical household. This has contributed to owners being willing to spend a greater amount on their properties as although the costs of renovating may be up, disposable income has also increased. To put it simply, that $15,000 Europe trip many weren't able to go on could contribute to a new bathroom, or new flooring and painting throughout your home. So for some, the increase in construction costs is not enough to deter them from starting those renos they always wanted.

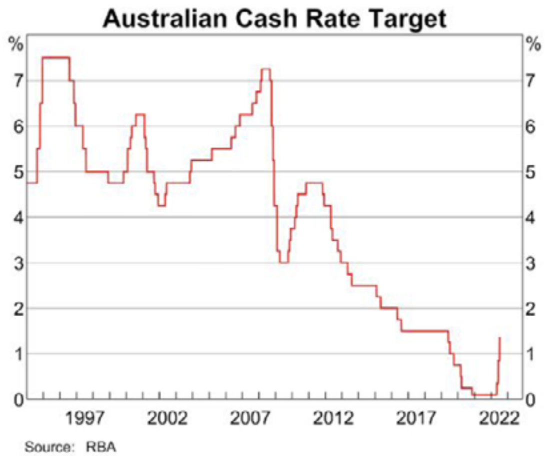
This can be seen through a few recent renovation and extension valuations we've completed. In particular, for two properties located within the inner city and prestige suburbs respectively, we found that cost did not equal value, however the owners still commenced with the renovation. There are many reasons that influence people's decision-making when it comes to undertaking a project. Many prefer to incorporate their own style and design to suit their particular needs; it also allows them to remain in a preferred location with the notion "location, location, location" always kept in mind, and lastly, one can limit selling and buying expenses such as commission and stamp duties. Most often in these areas, we find that the demographics are looking past the prices and rather focusing on being in their preferred location.

Another factor still driving demand for renos in this market is the chance to increase your rental returns. Updating your dwelling can certainly add value to your rental returns by making it stand out from other stock on the market, while also increasing your likelihood of finding good, longer term tenants. In a tight rental market with supply as low as it has been, updating your rental property to attract a higher rental return could be a great opportunity despite the construction costs at present. The rental market is set to be in short supply for the short to medium term which can certainly entice savvy investors into increasing their passive income. A great example of this is from one of our team members who is currently undertaking renovations on an investment property in Perth's western suburbs. The property is a basic two-bedroom, one-bathroom unit which had a rental appraisal at $370 a week. Discussions with a local agent confirmed that once the renovations were completed, the property should generate returns in the range of $420 to $440 per week, with the cost of works only being approximately $10,000. It's worth noting the owner was doing a lot of the labour on these renovations himself to reduce costs, but it is still a great example of how minor works can increase returns.

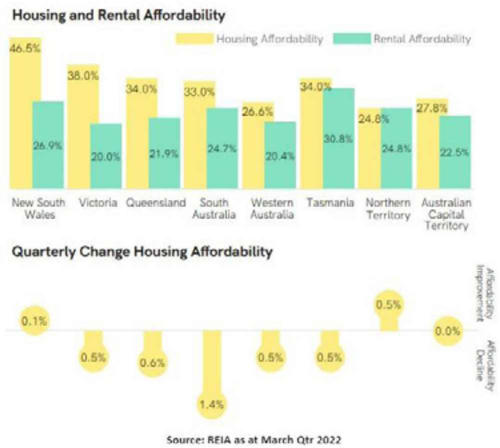
In a similar example, another of our team members completed a renovation on a three-bedroom unit in Perth's south-eastern suburbs earlier this year. Whilst the project took five months to complete and ended up 50 per cent over the original $40,000 budget, the property's capital value changed from circa $285,000 to closer to $400,000, and the rental income received changed from $270 per week pre-renovation to $450 per week after the renovation. So whilst the budget was well and truly blown, the results really do speak for themselves and the loss of rent will be made up within 12 months.

Interest rate rises are also affecting the psychology behind capital expenditure on investments with the cost of borrowing increasing. Although the rates are at historically low levels, the recent consistent increases in the cash rate over recent months have seen consumer sentiment change and coupled with a doom and gloom campaign by some media outlets, there are some serious concerns in the general public in regard to their loan serviceability.

With that in mind, it is important to illustrate the fact that here in Western Australia, we remain extremely affordable in comparison to national trends. The graph below illustrates how affordability in Western Australia compares with the rest of the country (namely the bigger cities), and when you combine this with historical pricing levels in Western Australia, from our point of view, the correction in house prices is almost a non-event in much of the state. The key market drivers in the housing market along with our relative affordability is resulting in a significant influx of interstate investor activity. Whilst this might not seem to affect the renovation market much, as already discussed, the ability to boost rental returns by undertaking some improvement works does appear to be a decent market driver.



Source: RBA



Source: REIA

The Drawbacks
Despite the above mentioned factors, for some the idea of building or renovating has lost much of its appeal with current market conditions making these often very expensive and extremely drawn out options. Construction prices were up 10.4 per cent for the 12 months to June 2022 in Western Australia largely on the back of material shortages, as well as rising fuel, freight and electricity costs. Along with these rising costs, there is currently a labour shortage which is adding further cost pressure and drawing out wait times on these builds and renos, with wait times of up to 18 months not uncommon for a new build just to commence and many instances of builds taking up to three years for a simple project style dwelling. The increased costs combined with rising interest rates are making building and renovating far more expensive than 18 months ago, and whilst the established housing market that underpins property values has also risen in the interim, it's a matter of whether it keeps up with cost pressures.

We can expect that moving forward, there will likely be a reduction in construction activity with customers not willing to gamble with the build time or in many cases, the unknown final cost to complete a new build. As such, a renovation project can seem like a very smart option, at least on paper. But given the various costs involved in a renovation project, does cost always equal value?

Recently, a valuation was completed in Perth's outer northern suburbs for the extension of a dwelling - the owners were planning to add on a master suite and additional living area to an existing home. After purchasing the property less than 12 months ago, the added market value of the extension was roughly 25 per cent less than the cost of construction. Whilst the value-adding capability will vary depending on many factors such as location, size and specification, this example certainly demonstrates the disparity between cost and value, with the contract amount being just less than the cost of a small three-bedroom, two-bathroom house.

The market has shown that undertaking renovations may be beneficial, but extensions (as always) are a costly exercise that might not reflect an increase in capital value.

Regional Western Australia is experiencing similar scenarios, with the same effects of increasing construction costs and limited trades. Our valuers are reporting limited numbers of renovation valuations, although this does not mean works aren't occurring. Often renovations and additions in these locations cost more than in metro regions due to the costs of wages, materials and freight, and the gap is continuing to widen in the current market. Most recently in the north of Western Australia, we have seen a bathroom and ensuite renovation being quoted at $64,500, equalling a rate of $3,764 per square metre for a slightly above average finish. Many would see this as an obscene amount to pay for the product, but this is a common occurrence at present.

Conclusion
The way in which the property market has evolved over the past year and a half has truly been unprecedented. With the cost of money being so low for so long, the risk on renovation expenditure was seen as low but the spike in new house builds resulted in only a small uptake of renovation grants.

The cost of new builds appears to have now spiked, and we're already seeing new incentives hit the market place as builders try to keep their books full, so it's only a matter of time now until construction timelines return to normal, and more importantly, there's an abundance of trades that will move from new builds to look for renovation projects again.

The market however looks to have taken a breather whilst the RBA resets interest rates, but the underlying fundamentals are all still very strong. We have record low unemployment, record low rental vacancy rates, stable sales rates and strong affordability on a comparative level but consumer confidence is low.

The market has shown that undertaking renovations may be beneficial, but extensions (as always) are a costly exercise that might not reflect an increase in capital value - but that's not always the driver for these decisions either. After all, residential property is an emotional beast and many decisions are made with your heart, not your head. That's where your local valuer is always happy to offer advice.

Chris Hinchliffe
Directo

Northern Territory - Residential 2022

Darwin

The renovation market in Greater Darwin is a really tricky space at the moment. Like all of Australia (and the world for that matter), the supply of building materials and trade labour is proving very difficult (and expensive) to come by. The demand for new supply to the market and several natural disasters have resulted in great stress in the market. In our opinion, this is not a case of gouging by the building industry; these are just genuine costs which are being passed through all users. As a result, the viability of an immediate renovation and full value add is not being seen in the market.

The popular section of the market for renovations is the owner-occupied dwelling or rural residential market. Extension of outdoor living space with a balcony or verandah or the addition of a pool or shed are by far the most common renovations in the market. Homeowners are often looking to expand their interaction with their outdoor space, ideal for the tropical climate here in Darwin.

It's not all downside for a renovated dwelling; we have seen a real push to quality for completed homes in the market. The dwellings that have been renovated are selling well and a gap is beginning to be seen in the market for the haves versus the have nots. Purchasers have

Nakara property Source: Corelogic

now understood the challenges apparent with completing their own renovation; as such they are willing to forgo the hassle and buy a dwelling which is done.

An example of a renovation projects is this property at Nakara which was purchased May 2020 for $333,000 and then sold again in April 2022 for $620,000. The uptick in value was due to the home being fully renovated as well as the uptick of the market over the timeframe.

If supply chain issues are corrected and we have further supply of trade and materials, the current high cost of renovation is likely to have some reduction; it's not expected to be fast, but there is a chance.

Nakara property Source: Corelogic

Other factors which we will need to keep an eye on are interest rate movements and the wider confidence in the market.

The Darwin market is still performing well for dwellings. There is a significant pipeline of project work that means there is lots of opportunity to work.

Almost every participant in the market is chatting about interest rates. This has the potential to hurt confidence and will no doubt be a topic of discussion through until Christmas.

Will Johnson
Valuer

The dwellings that have been renovated are selling well and a gap is beginning to be seen in the market for the haves versus the have nots.

Alice Springs

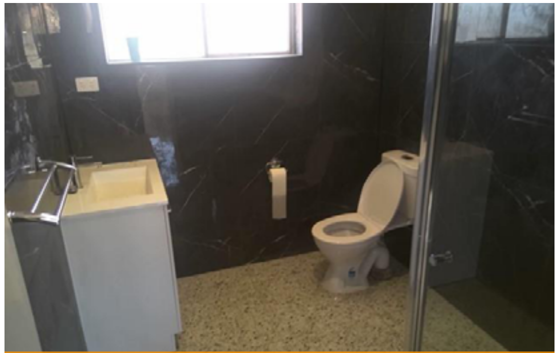
This month, we are throwing the spotlight on home renovations. This activity has certainly been popular in the past 12 to 24 months, thanks in no small part to the NT government's Home Renovation Grant Scheme. The response to this scheme was overwhelming and the government was forced to wind up the scheme suddenly due to the larger than predicted demand. The scheme was intended to help tradespeople survive the COVID outbreak and provide them with a steady stream of work, which would in turn provide stimulus to the general economy. They certainly succeeded, with many people looking to do renovations finding that trades were booked out months in advance, a situation that persists today.

We are aware of a couple of recent instances where homeowners were looking to do extensions to their existing homes but the builder's quotes were very high and lead times were long, so the projects did not go ahead. Builders remain busy, despite the fact that there's virtually no vacant land available for sale at the moment, a situation that's likely to continue until late 2022 or early 2023 when the next stage of the Kilgariff development is expected to have separate titles issued and sales completed. The increased cost of building materials is of course also impacting renovation jobs, not just new builds.

The majority of renovation projects being undertaken are on owner-occupied dwellings and units, with some investment properties getting an update and a small proportion of the market looking to buy, renovate and sell. There is certainly money to be made in flipping houses and units, but it requires some experience and owners need to be wary of over-capitalising.

One recent case of a purchase of a dwelling in need of a complete renovation was a three-bedroom, one-bathroom dwelling in a good area of Gillen. The property was previously owned by NT Housing Commission and was in very poor condition at the time of sale. The property was purchased for $320,000 in April and in the intervening months, was completely renovated. It is not known how much the owners invested in the property, but a


Bathroom before Source: Peter Nichols, Herron Todd White


Bathroom after Source: Peter Nichols, Herron Todd White


Kitchen before Source: Peter Nichols, Herron Todd White


Kitchen after Source: Peter Nichols, Herron Todd White


Front before Source: Peter Nichols, Herron Todd White


Front after Source: Peter Nichols, Herron Todd White

recent re-valuation estimated the current market value to be in the vicinity of $440,000. Following are some before and after photos:

Renovation hints and tips

- Make sure the proposed renovation and its overall cost are commensurate with the individual home and its location. There's no point spending $50,000 on a kitchen renovation of a basic two-bedroom unit as you're just not going to get your investment back when it comes time to sell.
- Do your research. Attend open homes and view properties for sale online to see what other homeowners are doing. Talk to a number of potential suppliers before choosing a tradesperson to do your renovation. You'll generally find tradies with a lot of work on will quote higher than those with less work in the pipeline. Quiz friends and family who may have undertaken renovation projects recently to find out some of their recommendations, tips and potential pitfalls.

Interest Rates and the Current Market

Activity levels certainly have begun to ease in Alice Springs, although this trend began prior to the Reserve Bank beginning to raise interest rates in May 2022. It's therefore difficult to draw a direct correlation between the rise in mortgage interest rates and the tapering off of the number of sales transactions. Below is a brief table showing recent sales transaction numbers:

	Mar 2021	Jun 2021	Sept 2021	Dec 2021	Mar 2022	Jun 2022
Houses	77	85	103	103	82	71
Units	32	54	57	57	39	44

The drop off in activity can perhaps be explained by the ultimate clearing of the backlog of buyers that accumulated during the worst of the COVID pandemic. The frantic activity experienced in the last six months of 2021 has eased, with agents reporting reduced levels of enquiry and smaller attendances at open homes.

Peter Nichols
Valuer

Australian Capital Territory - Residential 2022

ACT

Springtime! The time of the year when the flowers bloom and the grass is green, when renovations typically become more apparent as homeowners and landlords decide to spruce up their homes and investment properties. However, this year seems different with the property market.

Here in the ACT and surrounds, renovated properties usually end up selling for more as buyers are more inclined to buy a renovated property due to there being less hassles, but is it worth the renovation cost?

Properties that typically would be needing renovations would be in the inner north, inner south, Queanbeyan, Jerrebomberra and near the areas of Gungahlin and Belconnen as properties in the Tuggeranong and northern and eastern areas of the ACT are typically newer as land was released at a later stage for those areas.

17 Piper Street, Ainslie was recently renovated and sold on 28 July for $1.53 million.

17 Piper Street, Ainslie ACT 2602, Before Source: Allhomes, 2022

17 Piper Street, Ainslie - After Source: Allhomes, 2022

Another property in Ainslie that would need an overhaul recently sold for $1.21 million. 14 Tyson Street sits on an 836 square metre rectangular block which is relatively flat.

14 Tyson Street, Ainslie ACT 2602, Rear Source: Allhomes, 2022

14 Tyson Street, Ainslie ACT 2602, Living Room Source: Allhomes, 2022

14 Tyson Street, Ainslie ACT 2602, Kitchen Source: Allhomes, 2022

From these two properties, we can see that renovations do make some difference when it comes to selling a property however it doesn't seem to be worth renovating the property.

With the construction industry still having labour and supply shortages and government incentives no longer being available, renovations are no longer as viable as they were earlier this year or last year.

RESIDENTIAL

HERRON TODD WHITE RESIDENTIAL

The price of the two properties seems close considering 17 Piper Street is a reasonably new property compared to 14 Tyson Street which is a knockdown rebuild. This is due to the land size of 14 Tyson Street being one and a half times the size of 17 Piper Street which has meant that the price difference was $320,000. Considering the amount of time and effort you would have to put into renovating the property, the profit seems to be either minimal or non-existent.

Another example is 6 Lalor Street, Ainslie which is partially renovated with a new kitchen and bathroom. The property sits on a 604 square metre block and sold recently for $1.375 million (Allhomes, 2022). Being on a similar block, it is a comparable property to 17 Piper Street, so why the $155,000 difference? 17 Piper Street is on a slightly smaller block however the renovations completed on the property are superior, having almost a full internal renovation which has changed the internal layout of the property to a more modern look. Even considering the amount of time and effort that would have to be put into renovating the property, the profit seems to be either minimal or non-existent.

A reasonably new property in 186 Majura Avenue, Ainslie sits on a 664 square metre block and sold for $1.766 million recently. The property was built in 2007 but has features which would be considered to be of a renovated standard. Considering 186 Majura Avenue was built 15 years ago and sold for $236,000, it proves that renovated properties in the ACT sell for more, however they aren't viable if you are looking to buy a rundown property and sell for a profit as building costs are too high and the price difference between renovated and unrenovated properties is not great enough.

The same result that renovations aren't worth the time and effort was found when looking at units in the ACT, unless for an extraordinary and unique property. 121/50 Ellenborough Street, Lyneham and 185/50 Ellenborough Street, Lyneham were both sold in June. Unit 121 sold for $45,000 more than unit 185. This was due to unit 121 being renovated, however the townhouses were roughly the same size with the main difference being that unit 185 is a double storey whereas unit 185 is a single storey unit.

For ACT and surrounding properties, the suggestion would be to hold off renovating depending on how urgent the renovations are, as building rates (as we have been saying for the past year or so) have been going up at an unanticipated rate. With the construction industry still having labour and supply shortages and government incentives no longer being available, renovations are no longer as viable as they were earlier this year or last year.

Kush Sen
Assistant Valuer

Tasmania - Residential 2022

Hobart and regional

Demand for valuations subject to renovations have fizzled out over the past six to twelve months due mainly to skyrocketing costs for materials and labour despite the recent low interest rate environment.

Premium properties in need of major renovations however are still in demand as properties at the price point over $1.5 million would benefit from such renovations with better return on your investment.

Homeowners at a more modest price point tend to be undertaking renovations on a staged basis when the budget allows. A quick lick of paint and a budget kitchen and bathroom tends to do the trick if the owner intends to sell in the springtime selling season.

Where clients are having their property assessed on an as if complete basis, more often than not the cost to renovate does not represent market value. The market has now cooled and buyers are not under the same pressure to buy on the day, giving them the time to browse more thoroughly and actually get what they want.

Prospective purchasers of renovated properties is a broad group differentiated mainly on their budget. Those who sold their property at the right time (around four months back) have profited significantly and now have the cash in the back pocket to purchase that shiny newly-renovated property.

A quote recently came across my desk for a full renovation on an 1890s two-level brick dwelling in the Hobart vicinity. The quote detailed a 38 square metre extension and full renovation internally (new kitchen, two new bathrooms etc) along with some landscaping. The quote came in at $850,000. Admittedly the house upon completion will be around 275 square metres and is to be completed by one of Hobart's top builders.

This property was purchased in May 2021 for circa $1.485 million and upon completion was assessed at $2 million. The saving grace for this renovation is that the property is located in a prime location where demand is high and supply is very low.

Gone are the days when you could buy a run-down house and do a quick flip for a profit unless you have the skills and time to do so. If you aren't handy, I'd probably find another way to make a quick buck. If you have any suggestion that isn't Crypto, let me know!

Mark Davies
Valuer

Gone are the days when you could buy a run-down house and do a quick flip for a profit unless you have the skills and time to do so.

HERRON TODD WHITE RURAL

Rural

September 2022

Southern NSW

Once again, we have seen a busy month with several transactions occurring in southern New South Wales.

One standout auction this month was the sale of Mayfield Woolshed at Bungowannah, a 646 acre mixed farming holding located 20 kilometres west of Albury, just off the Riverina Highway. Originally part of the larger Mayfield station, this parcel is a gently undulating, mostly arable grazing property improved with a machinery shed, hay shed and cattle yards. Stock water is provided by a bore supplying a network of troughs as well as dams. The property was advertised with a 10 megalitre water licence as yet undeveloped. Offered via an online auction through Peter Ruaro Livestock and Property, the property sold under the hammer for $6.95 million or just over $10,750 per acre overall. The purchaser is believed to have recently sold a much larger holding further west and the competition came from established neighbours. The property is well located with regard to Albury and is another example of a medium sized holding in this area breaking the $10,000 per acre mark.

It appears that the recent interest rate rises are not having the impact on the rural property market in the south that was originally anticipated. Commodity prices are still at historically high levels and the rain keeps coming. The outlook for another wet summer is also contributing to buyers' confidence and good equity positions are enabling farming operators to still compete for the limited number of properties hitting the market. Further west in the Murrumbidgee Valley, we are starting to see larger irrigated row crop holdings come to the market and discussions with agents indicate there are impending sales in the pipeline. With cotton prices for 2023 north of $750 per bale and the temporary water at very reasonable prices due to full storages upstream, we should be able to report some major transactions of irrigated holdings in the next couple of months.

Mayfield Woolshed, Bungowannah Source: realestate.com.au

Andrew Garnsey
Valuer

Echuca/Deniliquin

The current rural market remains relatively strong, however there are signs of a steadying in the market with agents reporting reduced enquiry and a couple of recent sales at below general expectations. However, we are aware of another record-breaking sale about to occur in the mixed farming area northwest of Moama.

The rising interest rates and costs of production appear to be a factor in the steadying levels of value, however this has been offset to a degree by excellent seasonal conditions, strong commodity prices, particularly in regard to grain and an abundance of irrigation water at comparatively low cost.

The general outlook in northern Victoria and the broadacre irrigation areas of south-west New South Wales is for the market to continue to rise, albeit at a much lower rate than the past two to three years.

Rhyola, a 9922-hectare grazing property (Riverina plain country) located about 55 kilometres north-west of Deniliquin in south-west New South Wales sold at auction for $16 million with only one bid after consultation with the agents. The carrying capacity is estimated at 8,000 DSE with the sale showing $1615 per hectare or $2,000 per DSE.

Based on a recent sale in the area at Wanganella, some 35 kilometres to the east, the price expectation prior to auction was $17 million to $20 million.

The lower price and interest was attributed in part by the threat of foot and mouth disease. Agents are reporting that prospective buyers are withdrawing from the market due to not wanting to stretch themselves financially in case the disease gets into Australia.

John Henderson
Director

It appears that the recent interest rate rises are not having the impact on the rural property market in the south that was originally anticipated. Commodity prices are still at historically high levels and the rain keeps coming.

Mildura

As expected, interest rates have started to increase in response to rising inflation, however from our observations, the local rural property markets remain strong. Agents report that several advertised forthcoming spring auctions are still attracting a similar level of interest to that of a year ago. The large Glen Emu aggregation is set for auction in the first week of September and this will provide a good guide to Western Division Pastoral levels.

The Sunraysia region centered on Mildura has been confirmed as Victoria's agricultural powerhouse in official statistics that put the value of local production at more than $1 billion. The Australian Bureau of Statistics said the result has been driven by horticulture and cropping. Its latest data shows that in 2020-21, the top products (fruit and nuts, excluding grapes) were valued at $422.5 million, the bulk of those proceeds coming from almonds ($273 million). A further $324 million was derived from grapes while broadacre cropping contributed $250 million led by wheat ($117.2 million), barley ($86 million) and lentils ($10.9 million). The total agriculture value in the Mildura local government area was $1.13 billion.


Murray River floodplain — Source: Herron Todd White

As expected, interest rates have started to increase in response to rising inflation, however from our observations, the local rural property markets remain strong.

The Murray-Darling Basin Authority's Murray River annual outlook shows southern basin storages are at unusually high levels for this time of year, with the Hume Dam presently at 95 per cent capacity.

Heavy rains in the upper parts of the Murray and Murrumbidgee catchment over the past month are contributing to water flowing into South Australia reaching a six-year high. Some low-lying areas to the west of Mildura are already experiencing inundation. The photo below shows normally dry Murray River flood plain country which forms part of Lake Victoria National Park at Rufus River, south-west New South Wales.

This scenario is likely to be with us for some time as long-term weather forecasts suggest an above average rainfall for the next two to three years.

Carlo Vadori
Valuer

Darling Downs

The Darling Downs rural sector's outlook still appears to be optimistic with the fundamentals of the rural property market remaining strong. Interest for rural land from institutional and corporate investors continues and has the effect of cementing confidence for both farmers and investors alike.

Some recent sales from across the region showing this buyer confidence include Dundoo Station, Eulo Toompine Road, Yowah, which sold in June for $6 million. This 44,500-hectare Mulga grazing, breeding and wool growing property with 1600 hectares of floodout country bisected by Yowah Creek and with no carbon scheme commitment currently in place had been in the same family for 40 years.


Yowah — Source: Herron Todd White

Belonga Park at 114 Sandalwood Avenue South, Dalby sold in July for $1.22 million. This 142-hectare horse and cattle property on blacksoil flats close to Dalby township was on the market less than two months as part of an auction campaign.


Dalby — Source: Herron Todd White

RURAL

HERRON TODD WHITE RURAL

Carisbrooke, 25244 Cunningham Highway, Inglewood, a contiguous 1493-hectare aggregation of 17 parcels is under contract for $8.1 million. This beef finishing irrigation property with McIntyre Brook frontage on Apple Gum alluvial flats and a 350 megalitre irrigation licence had been held by the previous owner for 25 years.

Inglewood Source: Herron Todd White

Thornfield on Kehls Road, Taroom sold in late June for $2 million, being a 130-hectare Brigalow, Belah and Bauhinia allotment with two titles both having gravel road access and frontage. The sale represented an improved rate of $15,444 per hectare.

Taroom Source: Herron Todd White

Even with the recent interest rate rises, the foreseeable path ahead for farming production remains positive.

As these sales show, there is still high confidence across most agricultural sectors in the Darling Downs with supply remaining tight. High commodity prices and good growing conditions are driving continued interest from investors and established growers seeking to expand their mixed farming operations. This is however tempered by an increase in input costs associated with the increase in official interest rates.

Global supply issues for goods have created inflationary pressures and translated to increased operating and living costs which have been causal in the Reserve Bank of Australia raising the cash rate four times since May 2022 and pushing the overall rate to 1.85 per cent with another rise widely expected at the September meeting.

However, these increases in interest rates have come from a historically low base and have been largely offset by gains in commodity prices, particularly for grain and beef with both continuing to remain relatively strong. Also, rural property is largely considered a hedge against inflation as prices rise, demand generally falls for most products except food.

Furthermore, higher than average rainfall forecasts in the coming spring and summer due to the effects of La Nina can provide famers and investors further comfort. Southern oscillation ocean indicators are showing a renewed push towards La Nina with central tropical Pacific Sea surface temperatures cooling over recent weeks.

Even with the recent interest rate rises, the foreseeable path ahead for farming production remains positive and with that production potential, similarly property prices are expected to remain comparatively stable. That said, there are some potential market risks at present, such as foot and mouth disease and lumpy skin disease which if detected in Australia would have a severe impact on the agriculture sector.

Bart Bowen
Director

HERRON TODD WHITE RURAL

HERRON TODD WHITE

Property Market Indicators

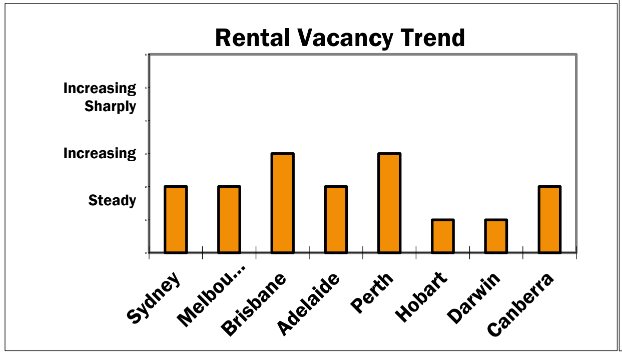
September 2022

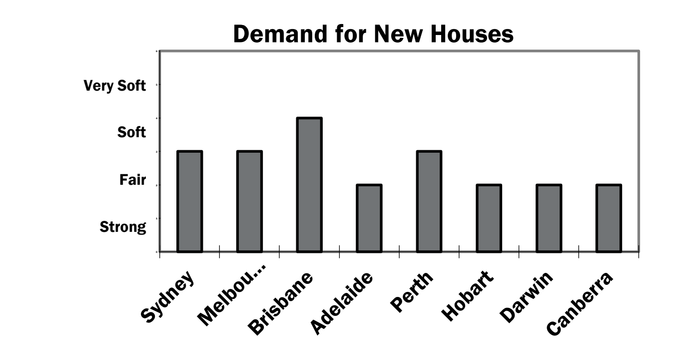
Capital City Property Market Indicators – Houses

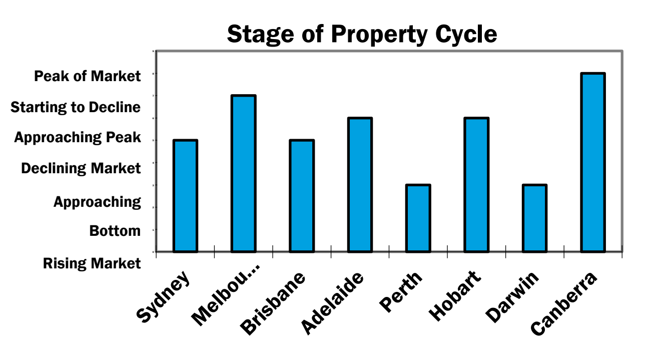
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Steady	Tightening	Steady	Tightening sharply	Tightening sharply	Tightening
Demand for New Houses	Fair	Fair	Soft	Strong	Fair	Strong	Strong	Strong
Trend in New House Construction	Steady	Steady	Steady	Declining	Steady	Declining significantly	Declining significantly	Declining
Volume of House Sales	Declining	Declining	Declining	Increasing	Increasing	Increasing strongly	Increasing	Increasing strongly
Stage of Property Cycle	Declining market	Starting to decline	Declining market	Approaching peak of market	Rising market	Approaching peak of market	Rising market	Peak of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Frequently	Occasionally	Very frequently	Occasionally	Occasionally

Red entries indicate change from previous month to a higher risk-rating

Blue entries indicate change from previous month to a lower risk-rating







Capital City Property Market Indicators – Units

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Steady	Tightening	Steady	Tightening sharply	Tightening sharply	Tightening
Demand for New Units	Fair	Fair	Fair	Fair	Strong	Strong	Fair	Fair
Trend in New Unit Construction	Steady	Steady	Increasing	Steady	Declining	Declining significantly	Declining	Declining
Volume of Unit Sales	Declining	Declining	Steady	Steady	Increasing	Increasing strongly	Increasing	Steady
Stage of Property Cycle	Declining market	Starting to decline	Peak of market	Approaching peak of market	Rising market	Approaching peak of market	Start of recovery	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Frequently	Almost never	Occasionally	Occasionally	Occasionally	Very frequently	Almost never	Occasionally

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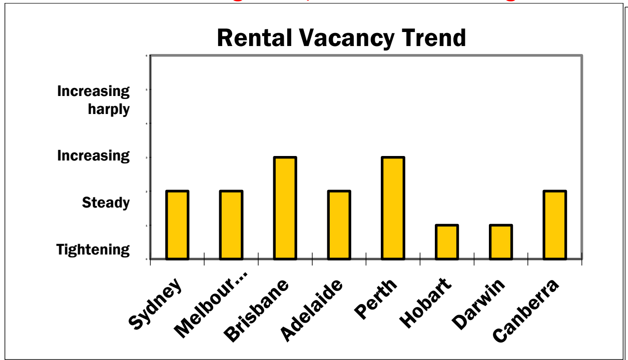

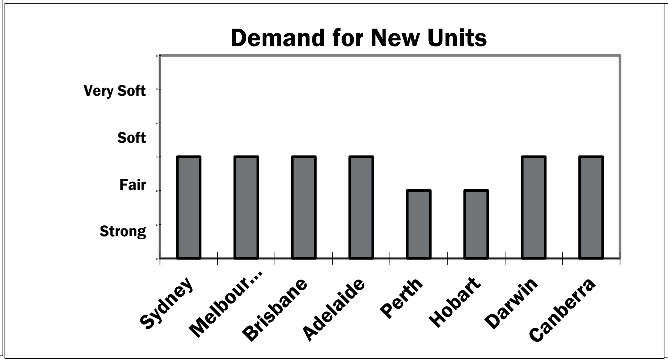

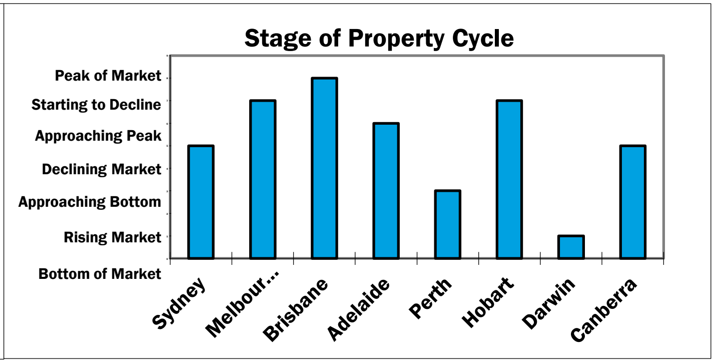

Capital City Property Market Indicators – Office

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Increasing	Steady	Tightening	Tightening	Steady	Steady	Steady
Rental Rate Trend	Declining	Declining	Stable	Stable	Stable	Declining	Stable	Stable
Volume of Property Sales	Declining	Steady	Declining	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Declining market	Start of recovery	Starting to decline	Rising market	Start of recovery	Bottom of market	Bottom of market	Start of recovery
Local Economic Situation	Contraction	Contraction	Flat	Flat	Steady growth	Flat	Contraction	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Significant	Large	Significant	Large	Large

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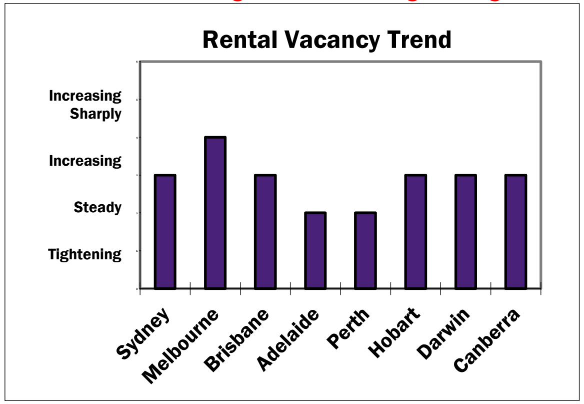
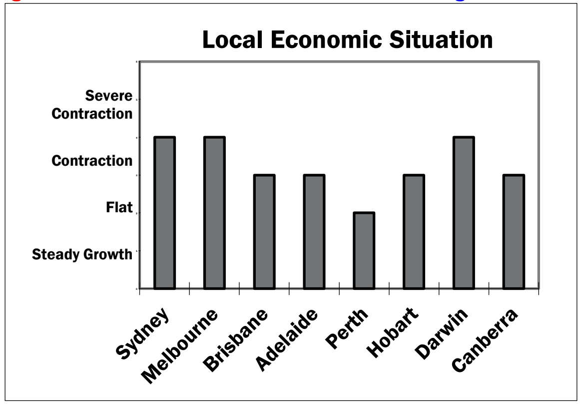
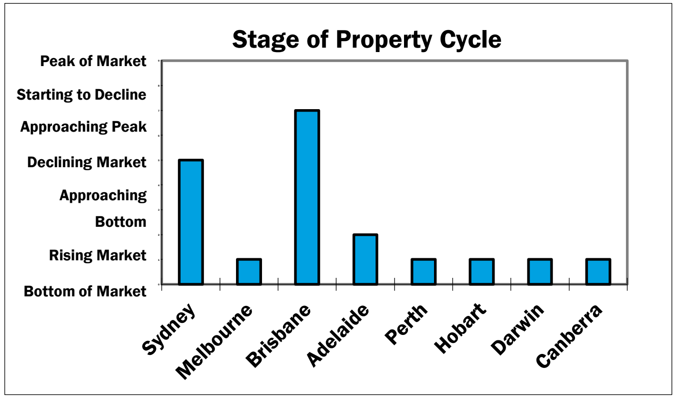
Blue entries indicate change from 3 months ago to a lower risk-rating





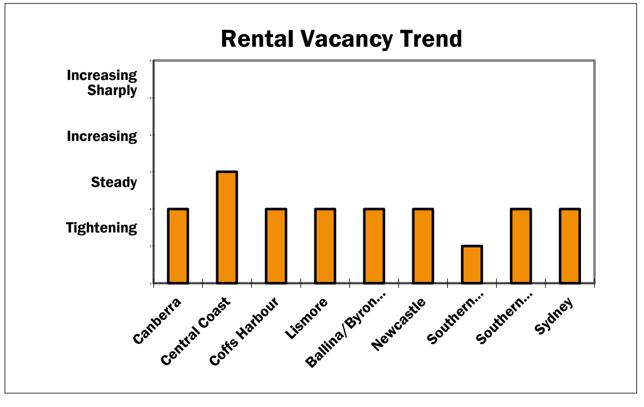


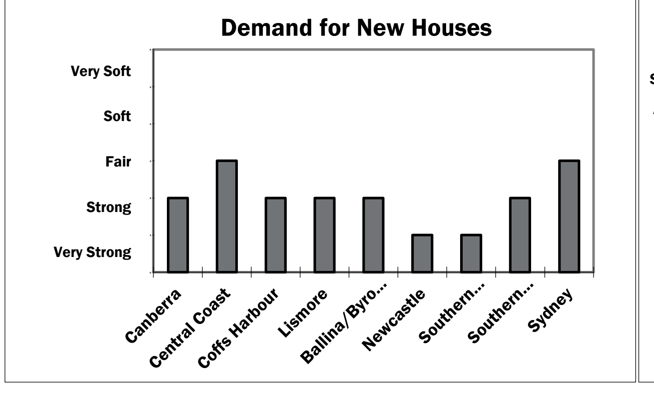
East Coast New South Wales Property Market Indicators – Houses

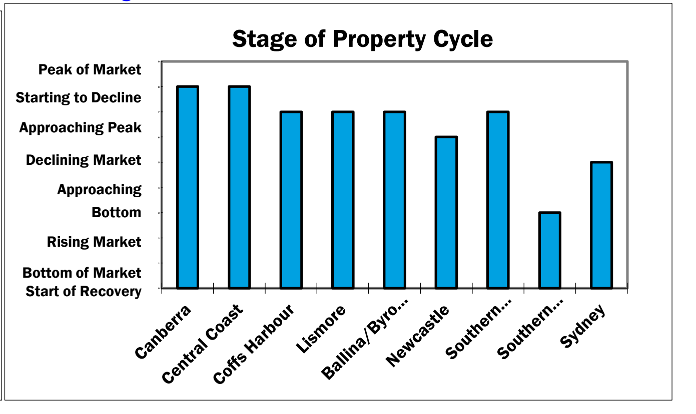
Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Byron Bay/Ballina	Newcastle	Southern Highlands	Southern Tablelands	Sydney
Rental Vacancy Situation	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Tightening	Tightening	Tightening	Tightening	Tightening sharply	Tightening	Tightening
Demand for New Houses	Strong	Fair	Strong	Strong	Strong	Very strong	Very strong	Strong	Fair
Trend in New House Construction	Declining	Steady	Steady	Steady	Steady	Declining significant-ly	Steady	Declining	Steady
Volume of House Sales	Increasing strongly	Steady	Steady	Steady	Steady	Increasing strongly	Declining	Increasing strongly	Declining
Stage of Property Cycle	Peak of market	Peak of market	Starting to decline	Starting to decline	Starting to decline	Approaching peak of market	Starting to decline	Rising market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Almost never	Almost never	Almost never	Occasionally	Almost always	Frequently	Occasionally

Red entries indicate change from previous month to a higher risk-rating

Blue entries indicate change from previous month to a lower risk-rating







Country New South Wales Property Market Indicators – Houses

Factor	Albury	Bathurst	Wodonga	Dubbo	Tamworth	Illawarra
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Tightening	Steady	Tightening	Tightening
Demand for New Houses	Fair	Fair	Very strong	Fair	Strong	Fair
Trend in New House Construction	Steady	Steady	Declining significantly	Steady	Steady	Steady
Volume of House Sales	Increasing	Increasing	Increasing strongly	Increasing	Increasing	Declining
Stage of Property Cycle	Peak of market	Peak of market	Approaching peak of market	Peak of market	Peak of market	Peak of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Occasionally	Very frequently	Occasionally	Frequently

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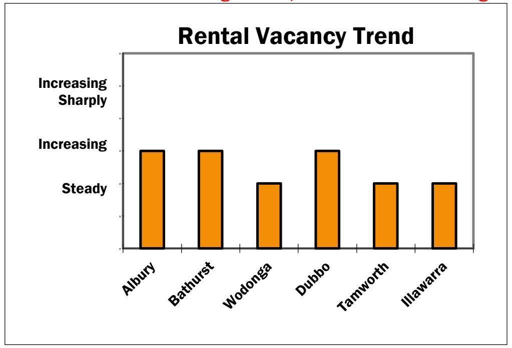

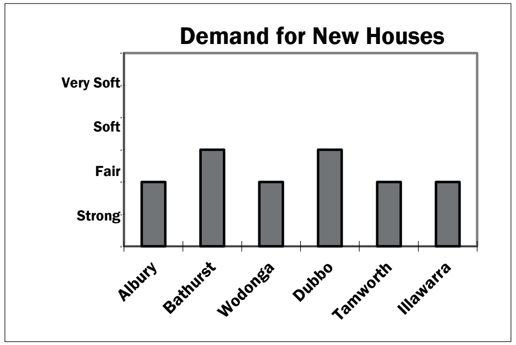

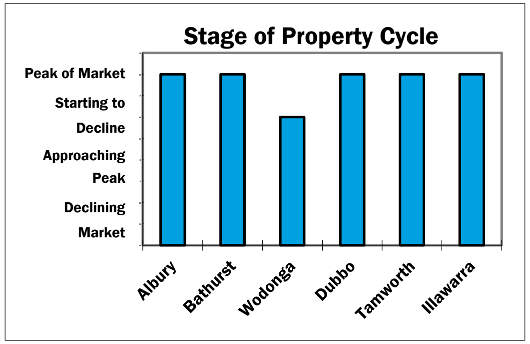

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East Coast New South Wales Property Market Indicators - Units

Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Byron Bay/Ballina	Newcastle	Southern Highlands	Southern Tablelands	Sydney
Rental Vacancy Situation	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Tightening	Tightening	Tightening	Tightening	Tightening sharply	Steady	Tightening
Demand for New Units	Fair	Strong	Strong	Strong	Very strong	Strong	Strong	Fair	Fair
Trend in New Unit Construction	Declining	Declining	Increasing	Steady	Declining significantly	Declining	Declining significantly	Steady	Steady
Volume of Unit Sales	Steady	Increasing	Steady	Increasing	Increasing strongly	Increasing	Increasing	Steady	Declining
Stage of Property Cycle	Declining market	Peak of market	Starting to decline	Starting to decline	Starting to decline	Approaching peak of market	Starting to decline	Start of recovery	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Almost never	Almost never	Almost never	Occasionally	Frequently	Occasionally	Frequently

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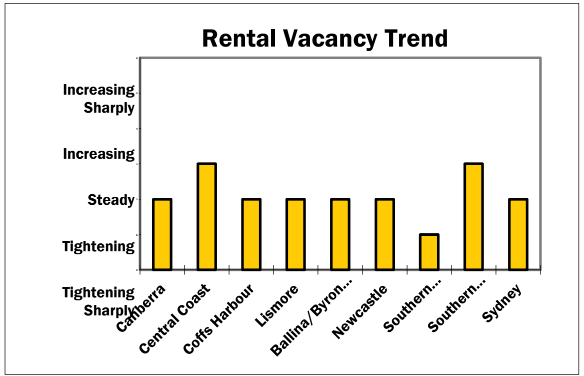

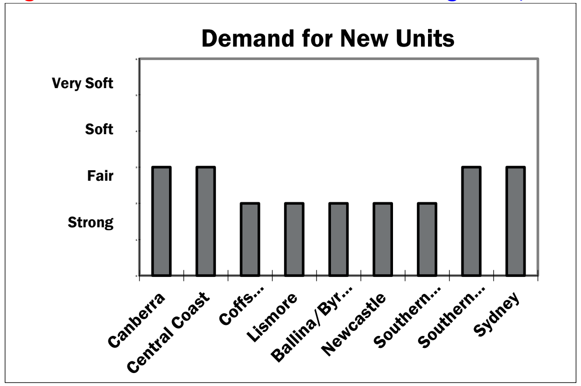

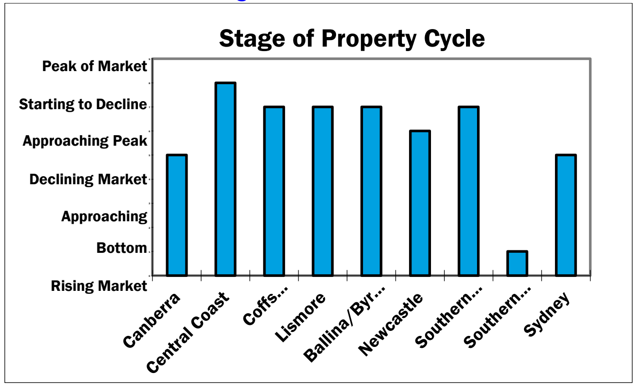

Country New South Wales Property Market Indicators - Units

Factor	Albury	Wodonga	Bathurst	Dubbo	Tamworth	Illawarra
Rental Vacancy Situation	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Steady	Tightening	Steady
Demand for New Units	Fair	Strong	Fair	Fair	Strong	Fair
Trend in New Unit Construction	Steady	Steady	Declining	Declining	Steady	Steady
Volume of Unit Sales	Increasing	Increasing strongly	Increasing	Steady	Increasing	Declining
Stage of Property Cycle	Peak of market	Rising market	Peak of market	Rising market	Peak of market	Starting to decline
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Frequently

Red entries indicate change from previous month to a higher risk-rating
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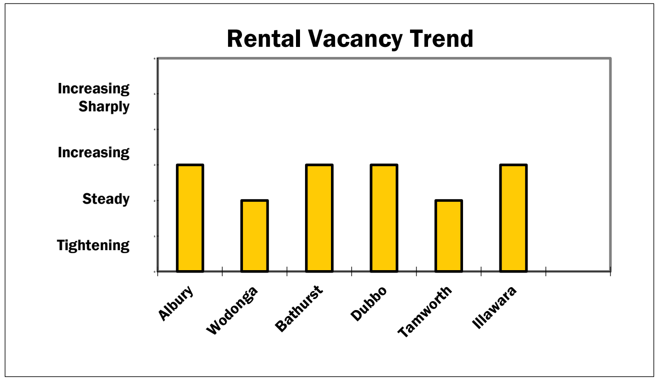

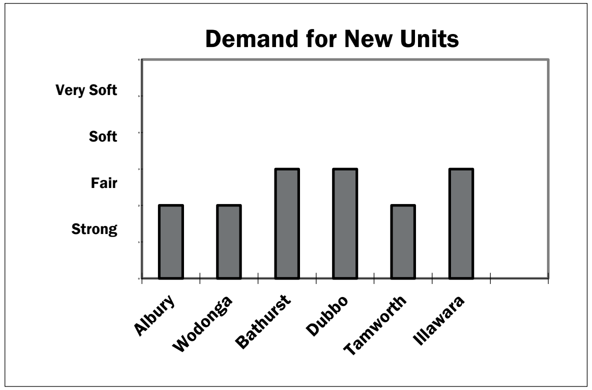

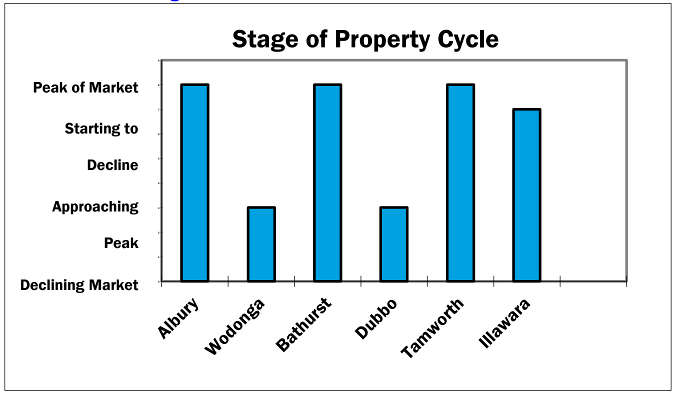

East Coast & Country New South Wales Property Market Indicators – Office

Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Ballina/Byron Bay	Mid North Coast	Newcastle	South Est NSW	Sydney
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Steady	Tightening	Tightening	Increasing	Steady	Steady
Rental Rate Trend	Stable	Stable	Stable	Stable	Increasing	Stable	Declining	Stable	Declining
Volume of Property Sales	Steady	Increasing	Steady	Steady	Steady	Declining	Increasing	Steady	Declining
Stage of Property Cycle	Start of recovery	Start of recovery	Rising market	Approaching peak of market	Approaching peak of market	Starting to decline	Starting to decline	Peak of market	Declining market
Local Economic Situation	Flat	Steady growth	Flat	Flat	Steady growth	Flat	Flat	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Large	Significant	Significant	Significant	Small	Large	Large	Significant	Significant

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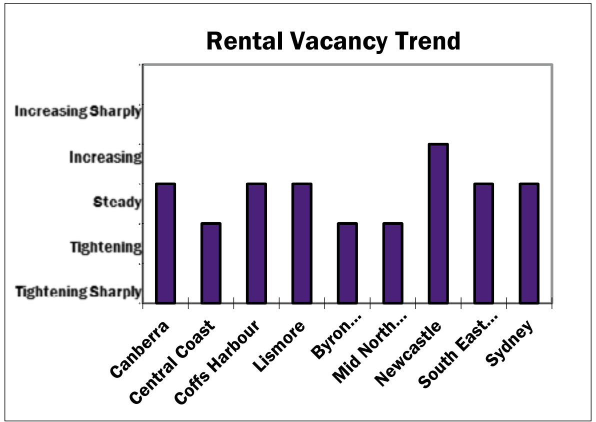

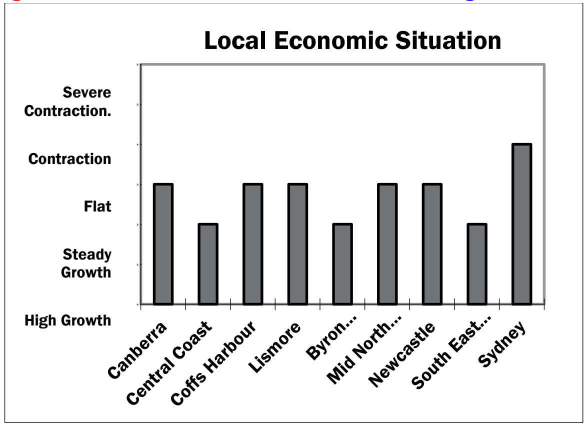

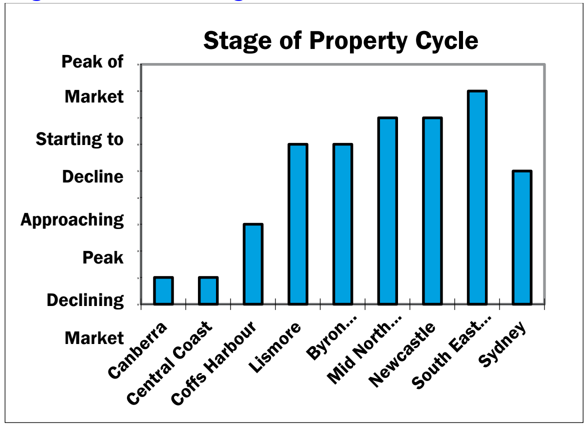

Victorian and Tasmanian Property Market Indicators – Houses

Factor	Geelong	Melbourne	Shepparton	Mildura	Mount Gambier	Hobart	Burnine/ Devenport	Launceston
Rental Vacancy Situation	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Tightening	Tightening sharply	Tightening sharply	Steady	Steady
Demand for New Houses	Fair	Fair	Fair	Fair	Strong	Strong	Fair	Fair
Trend in New House Construction	Steady	Steady	Steady	Steady	Steady	Declining significantly	Increasing	Increasing
Volume of House Sales	Declining	Declining	Increasing	Steady	Steady	Increasing strongly	Steady	Steady
Stage of Property Cycle	Starting to decline	Starting to decline	Peak of market	Peak of market	Peak of market	Approaching peak of market	Starting to decline	Starting to decline
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Very frequently	Frequently	Frequently

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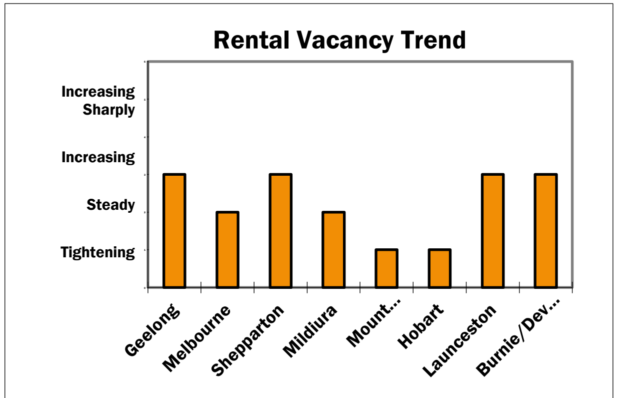

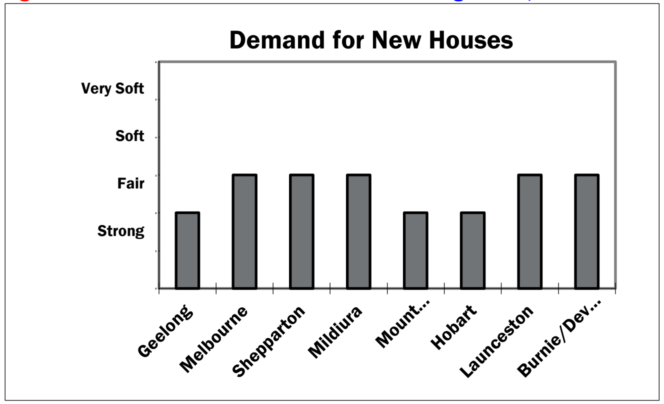

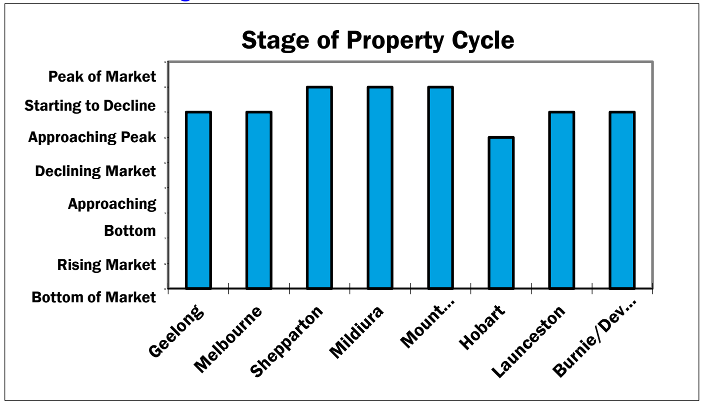

Victorian and Tasmanian Property Market Indicators – Units

Factor	Geelong	Melbourne	Shepparton	Mount Gambier	Mildura	Hobart	Launceston	Burnie / Devonport
Rental Vacancy Situation	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Tightening	Steady	Tightening sharply	Tightening	Tightening sharply	Steady	Steady
Demand for New Units	Fair	Fair	Fair	Strong	Fair	Strong	Fair	Fair
Trend in New Unit Construction	Steady	Steady	Steady	Steady	Steady	Declining significant-ly	Increasing	Steady
Volume of Unit Sales	Declining	Declining	Increasing	Increasing	Steady	Increasing strongly	Steady	Declining
Stage of Property Cycle	Starting to decline	Starting to decline	Peak of market	Rising market	Peak of market	Approaching peak of market	Starting to decline	Starting to decline
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Almost never	Occasionally	Occasionally	Very frequently	Frequently	Occasionally

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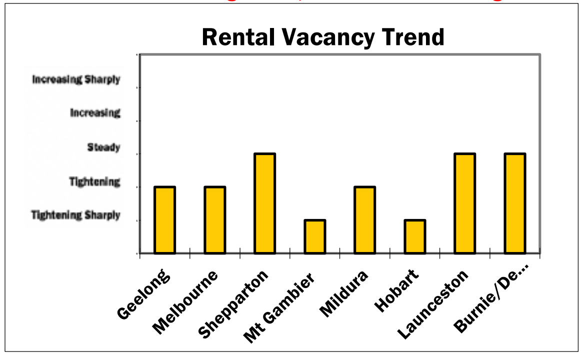

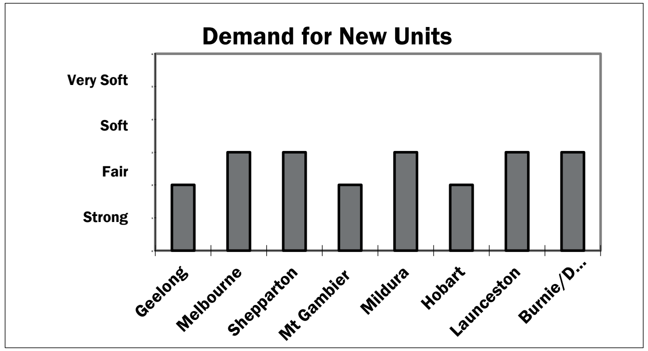

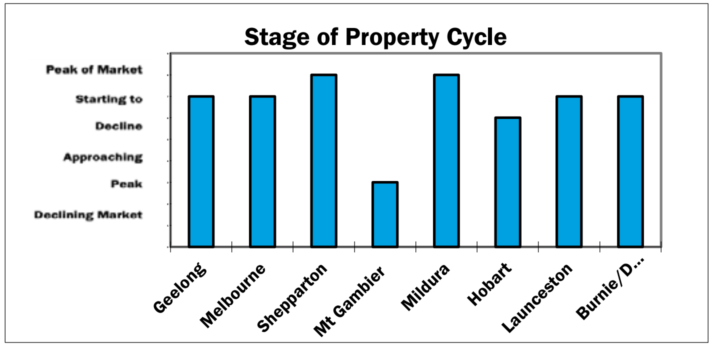

Victorian and Tasmanian Property Market Indicators – Office

Factor	Illawarra	Ballarat	Echuca	Melbourne	Geelong	Mildura	Hobart	Launceston
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Increasing	Increasing	Steady	Steady	Steady
Rental Rate Trend	Stable	Increasing	Declining	Declining	Declining	Stable	Declining	Declining
Volume of Property Sales	Steady	Increasing	Steady	Steady	Declining	Declining	Steady	Steady
Stage of Property Cycle	Start of recovery	Rising market	Declining market	Start of recovery	Starting to decline	Start of recovery	Bottom of market	Bottom of market
Local Economic Situation	Steady growth	Steady growth	Flat	Contraction	Contraction	Steady growth	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Small	Small	Significant	Significant	Small	Significant	Significant

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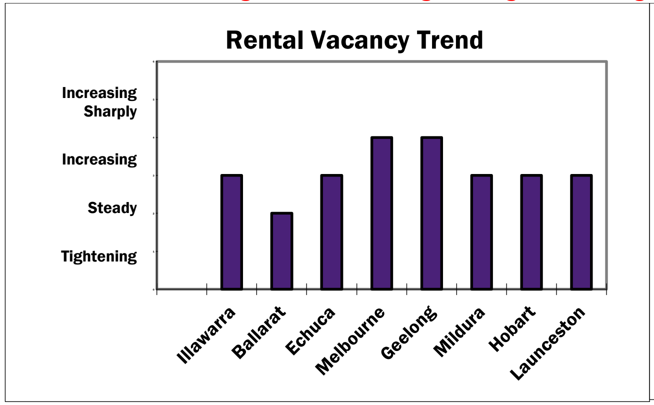
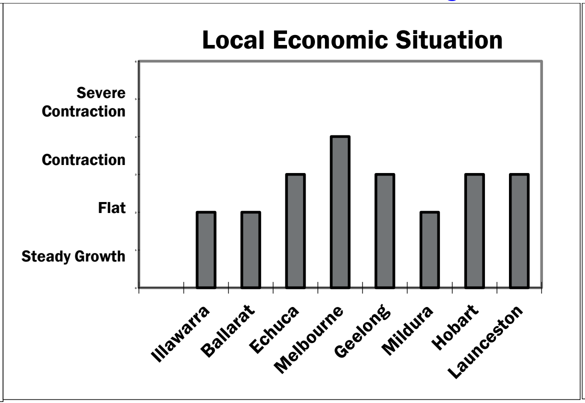
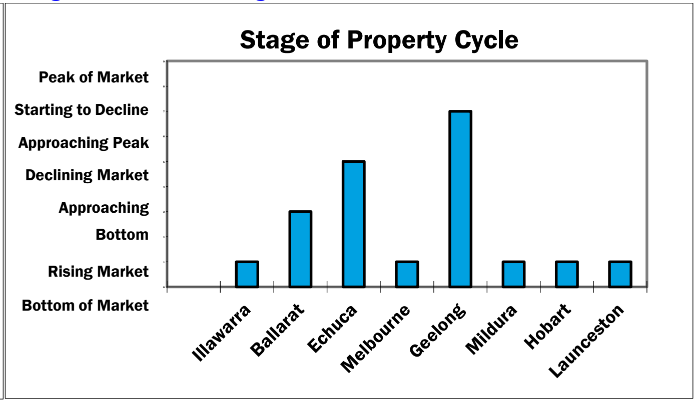
Blue entries indicate change from 3 months ago to a lower risk-rating





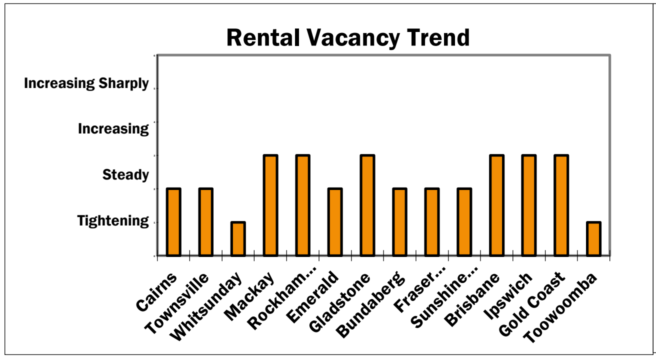


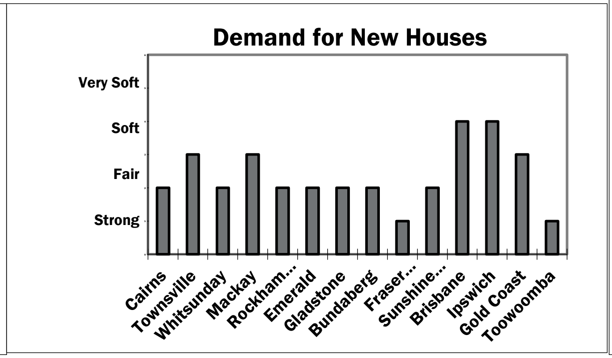
Queensland Property Market Indicators – Houses

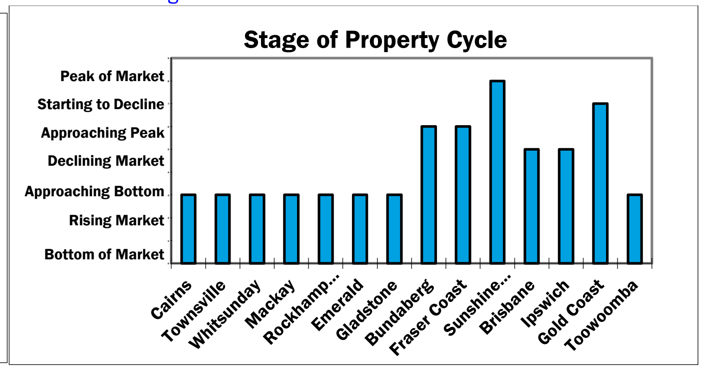
Factor	Cairns	Townsville	Whitsunday	Mackay	Rockhampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Tightening sharply	Steady	Steady	Tightening	Steady	Tightening	Tightening	Tightening	Steady	Steady	Steady	Tightening sharply
Demand for New Houses	Strong	Fair	Strong	Fair	Strong	Strong	Strong	Strong	Very strong	Strong	Soft	Soft	Fair	Very strong
Trend in New House Construction	Declining	Steady	Declining	Steady	Steady	Steady	Steady	Steady	Declining significantly	Declining significantly	Steady	Steady	Steady	Declining
Volume of House Sales	Increasing	Increasing	Increasing	Increasing	Increasing strongly	Steady	Increasing	Increasing	Increasing	Steady	Declining	Declining	Steady	Increasing strongly
Stage of Property Cycle	Rising market	Rising market	Rising market	Rising market	Rising market	Rising market	Rising market	Approaching peak of market	Approaching peak of market	Peak of market	Declining market	Declining market	Starting to decline	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasion-ally	Occasionally	Occasio nally	Frequently

Red entries indicate change from previous month to a higher risk-rating

Blue entries indicate change from previous month to a lower risk-rating



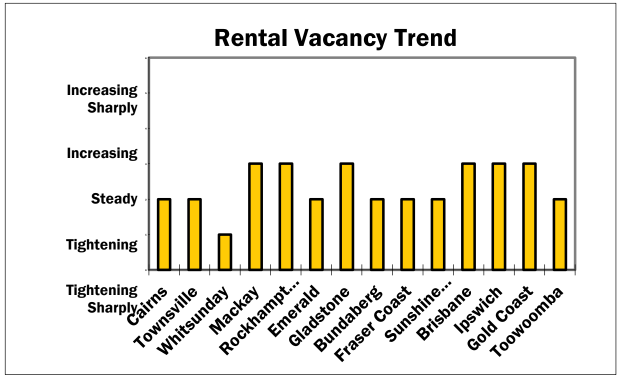


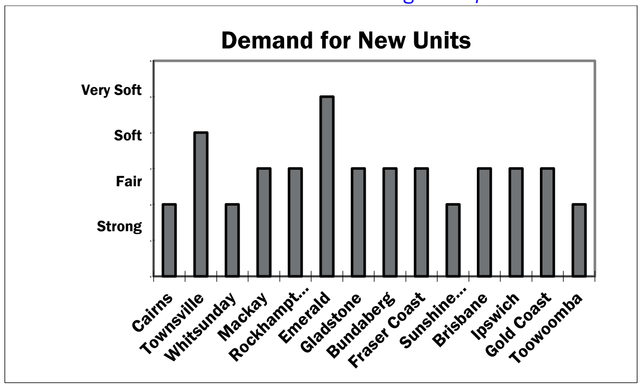


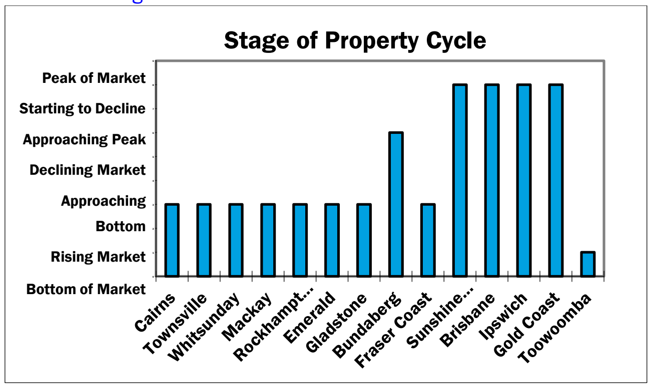
Queensland Property Market Indicators – Units

Factor	Cairns	Townsville	Whitsunday	Mackay	Rock-hampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Tightening sharply	Steady	Steady	Tightening	Steady	Tightening	Tightening	Tightening	Steady	Steady	Steady	Tightening
Demand for New Units	Strong	Soft	Strong	Fair	Fair	Very soft	Fair	Fair	Fair	Strong	Fair	Fair	Fair	Strong
Trend in New Unit Construction	Declining	Increasing	Steady	Steady	Steady	Increasing strongly	Steady	Steady	Steady	Declining	Increasing	Increasing	Declining	Declining
Volume of Unit Sales	Increasing	Increasing	Increasing	Increasing	Increasing	Increasing	Increasing	Increasing	Increasing	Steady	Steady	Steady	Steady	Increasing
Stage of Property Cycle	Rising market	Rising market	Rising market	Rising market	Rising market	Rising market	Rising market	Approaching peak of market	Rising market	Peak of market	Peak of market	Peak of market	Peak of market	Start of recovery
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Occasionally	Occasionally	Occasion-ally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasion-ally	Occasion-ally	Occasionally	Occasionally

Red entries indicate change from previous month to a higher risk-rating *Blue entries indicate change from previous month to a lower risk-rating*







Queensland Property Market Indicators – Office

Factor	Cairns	Townsville	Mackay	Rockhampton	Gladstone	Wide Bay	Hervey Bay	Bundaberg	Emerald	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Tightening	Steady	Steady	Tightening	Steady	Steady	Tightening	Steady	Increasing	Tightening	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Stable	Increasing	Stable	Stable	Stable	Stable	Stable	Stable	Declining
Volume of Property Sales	Steady	Increasing	Steady	Increasing	Steady	Steady	Steady	Steady	Steady	Steady	Declining	Declining	Steady	Increasing
Stage of Property Cycle	Approaching peak of market	Rising market	Start of recovery	Rising market	Start of recovery	Bottom of market	Rising market	Start of recovery	Start of recovery	Peak of market	Starting to decline	Starting to decline	Approaching peak of market	Approaching bottom of market
Local Economic Situation	Steady growth	Steady growth	Steady growth	Steady growth	Flat	Flat	Steady growth	Steady growth	Steady growth	Flat	Flat	Flat	Flat	Steady growth
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Small	Small	Significant	Large	Significant	Large

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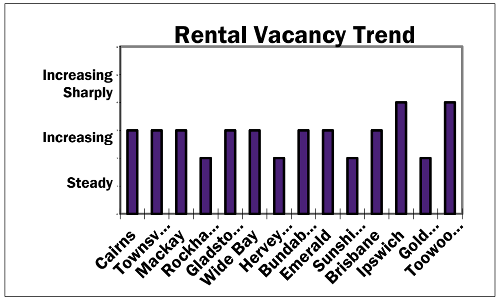
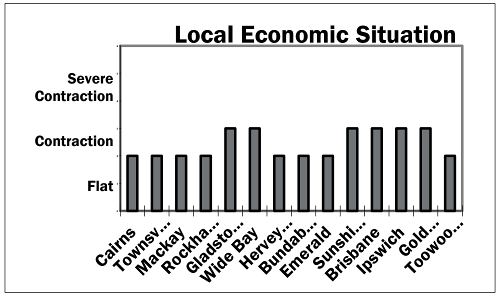
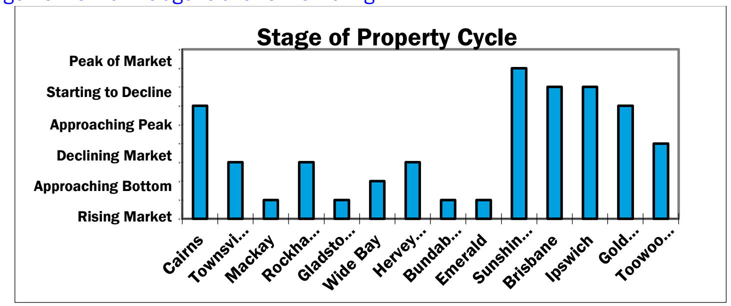


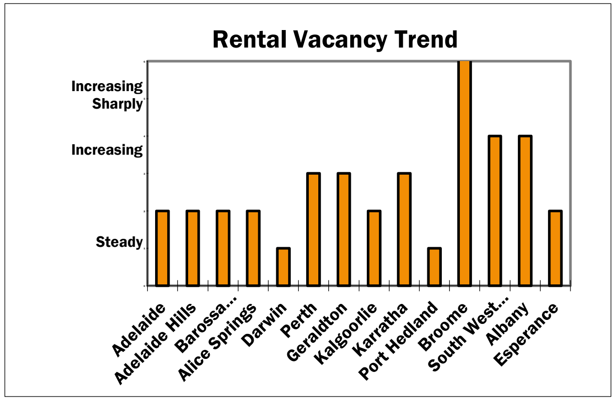


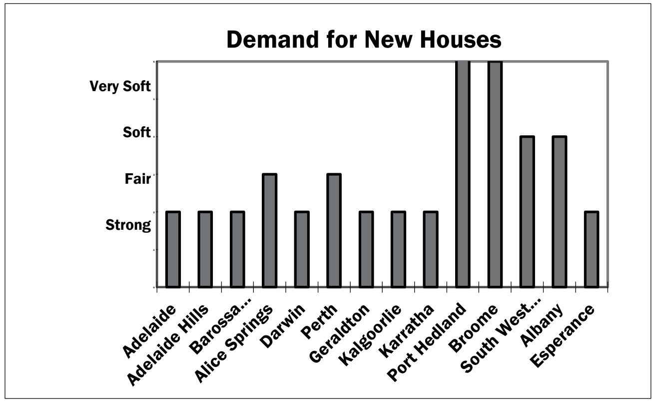


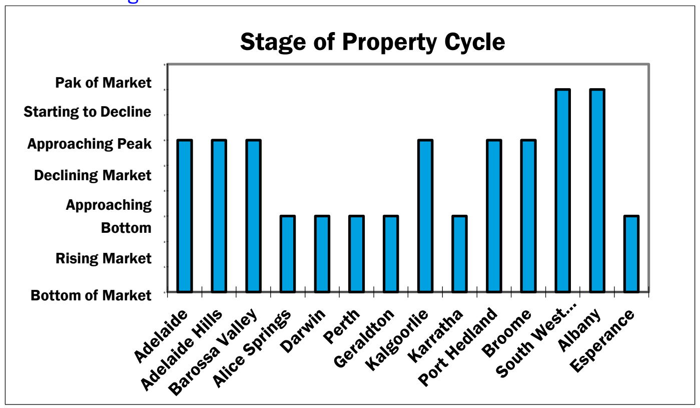
SA, NT and WA Property Market Indicators - Houses

Factor	Adelaide	Adelaide Hills	Barossa Valley	Alice Springs	Darwin	Perth	Geraldton	Kalgoorlie	Karratha	Port Hedland	Broome	South West WA	Albany	Esperance
Rental Vacancy Situation	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Tightening	Tightening	Tightening sharply	Steady	Steady	Tightening	Steady	Steady	Tightening	Increasing	Increasing	Steady
Demand for New Houses	Strong	Strong	Strong	Fair	Strong	Fair	Fair	Fair	Strong	Strong	Strong	Soft	Soft	Fair
Trend in New House Construction	Declining	Steady	Steady	Increasing	Declining significantly	Steady	Declining	Declining	Declining	Declining	Declining	Increasing	Increasing	Declining
Volume of House Sales	Increasing	Increasing	Increasing	Declining	Increasing	Increasing	Increasing	Increasing	Steady	Increasing	Increasing	Declining	Declining	Increasing
Stage of Property Cycle	Approaching peak of market	Approaching peak of market	Approaching peak of market	Rising market	Rising market	Rising market	Rising market	Approaching peak of market	Rising market	Approaching peak of market	Approaching peak of market	Peak of market	Peak of market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Frequently	Frequently	Frequently	Occasionally	Occasion-ally	Occasion-ally	Occasion-ally	Occasion-ally	Occasion-ally	Almost never	Occasionally	Occasionally	Occasionally	Almost never

Red entries indicate change from 3 months ago to a higher risk-rating *Blue entries indicate change from 3 months ago to a lower risk-rating*







SA, NT and WA Property Market Indicators – Units

Factor	Adelaide	Adelaide Hills	Barossa Valley	Mount Gambier	Alice Springs	Darwin	Perth	Geraldton	Kalgoorlie	Karratha	Port Hedland	Broome	South West WA	Albany	Esperance
Rental Vacancy Situation	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Tightening	Tightening sharply	Tightening	Tightening sharply	Steady	Steady	Tightening	Steady	Tightening	Tightening	Tightening sharply	Tightening sharply	Steady
Demand for New Units	Fair	Fair	Fair	Fair	Fair	Fair	Strong	Fair	Fair	Strong	Strong	Strong	Strong	Strong	Fair
Trend in New Unit Construction	Steady	Steady	Steady	Steady	Increasing	Declining	Declining	Steady	Steady	Steady	Steady	Steady	Declining significantly	Declining significantly	Steady
Volume of Unit Sales	Steady	Steady	Steady	Steady	Declining	Increasing	Increasing	Increasing	Increasing	Steady	Increasing	Increasing	Increasing	Increasing	Steady
Stage of Property Cycle	Approaching peak of market	Approaching peak of market	Approaching peak of market	Peak of market	Rising market	Rising market	Rising market	Rising market	Approaching peak of market	Rising market	Approaching peak of market	Rising market	Peak of market	Peak of market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Almost never	Occasionally	Occasionally	Almost never

Red entries indicate change from 3 months ago to a higher risk-rating

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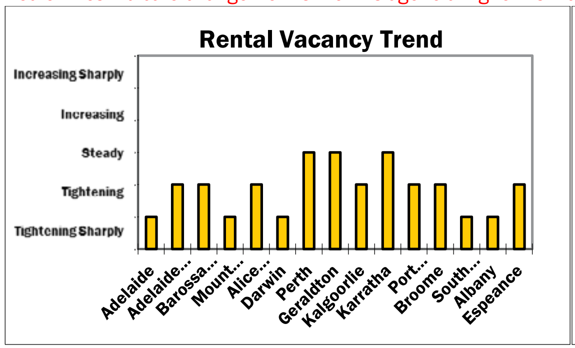

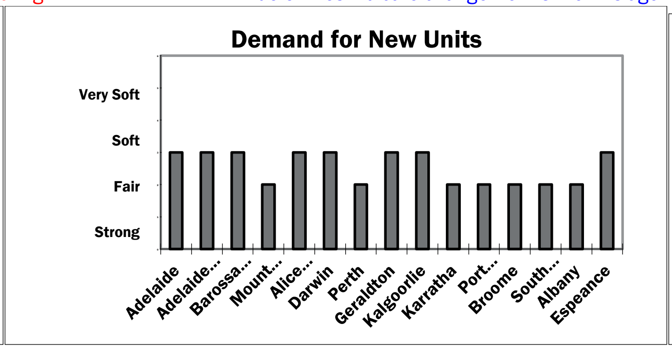

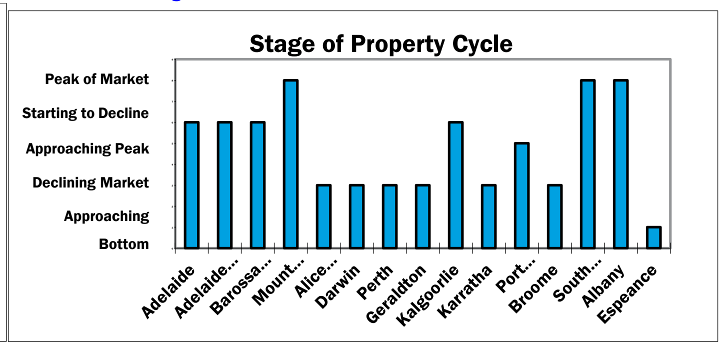

SA, NT and WA Property Market Indicators – Office

Factor	Adelaide	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Balanced market	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Steady	Tightening	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Declining
Volume of Property Sales	Steady	Steady	Steady	Steady	Declining
Stage of Property Cycle	Rising market	Bottom of market	Bottom of market	Start of recovery	Approaching bottom of market
Local Economic Situation	Flat	Contraction	Contraction	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Large	Large	Small

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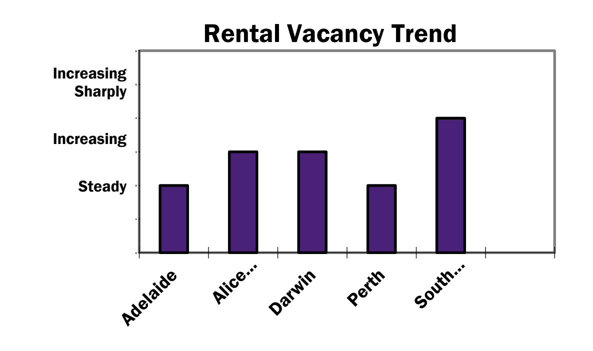

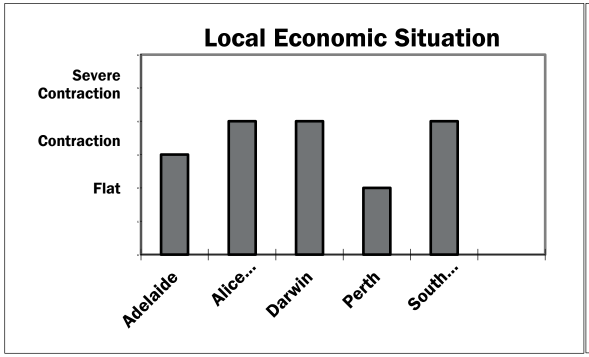

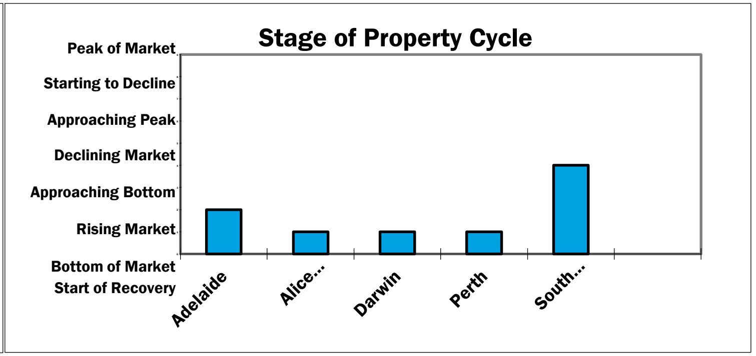

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