

Rate cuts will deliver property price growth of up to 7% to some capital city suburbs in 2013

By Angus Raine
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After a challenging 2012, real estate markets around the country have bottomed. As a consequence, it's fair to expect that a smattering of suburbs across Australia could enjoy some capital growth of between 5.5% and 7% – and in some cases a little more – in 2013.

This prediction is grounded in some part on the assumption that the Reserve Bank of Australia will dish up further interest rate cuts this year, which should aid more home sales and push up property values. Throw in for good measure the chronic shortage of new residential property, coupled with net population growth (increased immigration and a lower proportion of deaths to births), and the fundamentals are in place for property market growth.

That said, we are not without some threats, and I accept negotiating the fiscal cliff in the US remains a challenge. However, the days of Australia catching a cold after the latest American economic sneeze are now mostly behind us. In 2013, the health of our economy is more significantly aligned to the latest thrills (and chills) stemming from China. That said, we've already seen the impact of a slowdown in China and the transition away from the mining and energy sectors, with unemployment now sitting at 5.2% – it was around 4% a few years ago.

These challenges aside, this year I'd be looking to the 'battlefield suburbs', where first-home buyers are set to shape up to investors. In other words, [St Marys](#) in Sydney, Adelaide's [Semaphore](#), as well as [North Melbourne](#), [Ascot Vale](#), [Brunswick](#) and [Footscray](#) in Melbourne are set to benefit as investors compete with first timers for quality homes. Across the continent, it's the 'forgotten suburbs' of inner Perth such as [Embleton](#) and [Ashfield](#) that will enjoy some growth as investors and first time buyers muscle up.

It's fair to say that investors have been a bit late dipping their toe into the property market this cycle. Usually when the share market tanks we see a flood of investors into real estate. However this didn't eventuate this time, it was more of a slow drip. Now investors are playing more aggressively in the \$450,000 to \$700,000 price brackets in many capital city markets – which makes some sense given the ongoing concerns about share market volatility.

In truth, while the battle between investors and first-home buyers will be intriguing in 2013, upgraders and downsizers will also play a part in generating more real estate transactions and as such doing their bit to force up real estate values across most price points in our major capital cities and regional towns.

It's also fair to expect to see this year the continued growth in the values of apartments, units and townhouses in our major east coast capital cities, as well as Perth and Darwin. This is a result of growing demand for higher density housing close to excellent amenities in capital cities.

In 2012, rental returns plateaued, yet they are still extremely attractive. In Sydney, for instance, the average gross yield is almost 5% for apartments and given low rental vacancies, I really can't see returns dropping off next year. It's much the same in Perth (5%), Darwin (6.2%) and Brisbane (5.5%).

If you're looking for a bit more and are prepared to do your homework this year, there are plenty of excellent inland regional centres such as [Bathurst](#), [Orange](#) and [Wagga](#), where astute investors stand to earn yields between 6% and 8%.

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