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Will 2024 be 'the year of the property investor'?

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In 2002, then US secretary of defence, Donald Rumsfeld, delivered a convoluted word salad that's perhaps one of history's most awkwardly constructed quotes.

In describing his country's position on the war in Iraq, Mr Rumsfeld said:

"There are known knowns; there are things we know that we know.
"There are known unknowns; that is to say, there are things that we now know we don't know.
"But there are also unknown unknowns – there are things we do not know we don't know."

Try pulling that pithy rhetoric out at a cocktail party!

While these three sentences are a hot mess, there are some surprising parallels that can be drawn between this phrasing and the Australian property as we head into 2024.

Real estate markets across the nation are being "taffy pulled" in many directions by multiple drivers. It is perhaps one of the most divergent periods we've seen in the sector in recent memory. Rising interest rates, tighter lending restrictions, anti-investor legislations and tax changes, increased inflation and cost of living all dragging the market down. But driving values higher has been record immigration, strong buyer demand for quality assets, wage growth, low unemployment and historically tight vacancy rates.

Throw in the high cost of construction (bad for new homes and renovations, good for established housing) plus the ups and downs of remote working, and we should be seeing a market that's bouncing about like a pinball.

But … it isn't! The general resilience of Australian real estate shines through. That said, the new year brings new considerations.

My ongoing analysis of data and conversations with industry experts have led me to several conclusions about what's in store for 2024.

Here's what I think is set to unfold in the year ahead.

Construction

For new home builders and renovators, the first bit of good news is that the rate of price growth for building costs has slowed.

This will no doubt assist some project bottom lines; however, the cost of labour is rising, and I don't see that retreating anytime soon. In fact, increased labour costs have offset lower price growth in materials to the extent that the net result will still be higher overall project costs.

Why do they keep increasing? Well, governments across all tiers are ramping up infrastructure programs. Couple that with the federal government setting an unrealistic construction target to address the housing crisis, and the level of demand for builds is steaming. The target of building 1.2 million homes over five years from 1 July 2024 is fanciful at best, but nigh on impossible given the fact that it's a pace the country has never achieved. In addition, it's being targeting during a period where close to a third of all construction companies are reporting job vacancies.

Rental crisis

Frankly, the rental crisis is unlikely to ease this year.

New construction supply is consistently overstated as the panacea for the rental crisis, but the pipeline of higher density residential projects is a third of the normal figures at present. Developers' margins are being screwed down by construction costs and the price of developable sites in near-city suburbs remains high.

And demand isn't going away anytime soon. Immigration remains at record levels, and these new Aussies typically rent on arrival. I suspect we will see further increases in average household densities this year as a result, and vacancy rates that continue to hover around 1 per cent to 1.5 per cent.

Interest rates

Interest rate increases were influential during 2022 and early 2023, particularly as we saw many loans move from fixed to variable rates. However, the shock and influence of rate rises faded somewhat towards year's end.

There's now speculation the next move will be a cut in the latter half of 2024.

My thoughts are that if there's any upward shift in rates, the impact would be insignificant and diluted.

Interestingly, if rates were cut the outcome would be more substantial. A fall in the cash rate would open up borrowing capacity – particularly for those at the affordable end of markets. An easing in the cash rate also flags that the Reserve Bank of Australia is comfortable with the inflation figure. This will feed directly in property stakeholder confidence and, subsequently, property prices.

Consumer sentiment

Property is reliant on stakeholder confidence to drive price growth.

The rising cost of living has affected overall consumer confidence as demonstrated by the Westpac/Melbourne Institute's Consumer Sentiment Index, which remains weak.

That said, when it comes to property, the story is a little different. The gap between consumer sentiment around property prices and the "time to buy a dwelling" measure indicates many Aussies actually believe values in major population centres will continue to grow in 2024. Further evidence of the faith our nation has in real estate as a secure, long-term vehicle for building wealth.

So … what's the net outcome for 2024?

In short, I think it will be an overall positive story for residential property this year.

Market experts are predicting the national property market to grow anywhere between 1.5 per cent and 8 per cent. It's a wide range, but then that is across multiple opinions. Meanwhile, there are bank economists expecting some locations (i.e. Perth and Brisbane) will come close to, or even exceed, double-digit capital gains in 2024.

I tend to agree with these assessments. The fundamental supply/demand imbalance across capital city markets will continue to bolster the chance of capital gains. I wouldn't be surprised to see properties achieve more than 10 per cent over the next 12 months in some instances.

I also believe there's plenty of steam in larger regional markets, especially where there is a diverse range of employers, and major infrastructure projects, like the inland rail corridor, are underway. Diversified locations with median price points under $600,000 will perform strongly – particularly with investors. Our own data shows Aussies are now extremely comfortable with investing in assets well away from their hometowns if the numbers stack up.

Apartment prices will remain strong too, with some good upside potential. High construction costs are restricting the supply pipeline for this property type. Less supply plus high renter and home owner demand equals robust price growth.

As I alluded to at the start of this article, there are multiple drivers pulling the property market in all directions but, in the end, I think the only way is up in 2024. As such, those who act earlier in the year look set to benefit most.

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