2025 CHALLENGES FOR THE HOUSING AND DEVELOPMENT INDUSTRY

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The Reserve Bank of Australia has hinted to interest rate cuts coming as soon as this month, with most banks having already predicting reductions from February to May.

Many buyers and sellers have been waiting for this news as a sign to return to the market. While the initial relief will be felt across homeowners nationally, the flow-on effects could prove even more stressful for those looking to buy, sell or invest.

Increased borrowing capacity

Lower interest rates will free up borrowing capacity for buyers. An increase in demand for homes, combined with continued strong demand for rental properties, will lead to a short-term spike in prices, leaving many buyers in the same position they find themselves in now, albeit with higher mortgages at lower interest rates.

Upward pressure on established property

Many sellers have been on the sidelines waiting to exit stock until demand returns will begin putting homes to market. This increase in supply is unlikely to reduce prices as across most markets, particularly Melbourne.

The increase demand from new buyers, with better borrowing ability will negate, if not reverse, the normal market downward pricing dynamics of an increase in established stock.

The benefit to buyers will be more variety of homes now within budget. However, the downside for sellers is while there are more buyers in market, there is also more pressure from competing properties.

Increased demand for new homes

The increased demand and capital growth in established properties will flow on to an increased demand for new homes as the price break and benefits of new construction again look appealing.

As builders forward orders start to fill, many will feel the pressure from boards and investors to increase trading margins after a very rough few years in the housing industry. There will be a limited window for purchasers to take advantage of current pricing and construction timeframes, likely the first half of 2025.

Supply of registered land, ready to build, will dry up

Land that has been sitting on the market for some time will begin drying up with the increased demand for new homes. Rebates we are seeing in the market today (up to $40,000 per block) will evaporate overnight. As land reserves diminish, prices will again start to escalate as developers seek to recoup lost revenue over the past few years. In Victoria we will start to see ballots again for land releases, as they are in Queensland now.

This will see us return to the long-term shortage of land supply issues we faced before 2020 and the cycle of individual allotments price increase, demand for broad hectare sites to purchase and develop and calls for council red tape to be cut will begin again.

A continued consolidation of the housing and development industries.

The big industry news this year is the $115 million sale of Metricon to Sumitomo Foresty, who already have a foothold in Australia with the Henley purchase in 2009. This now makes them the largest home builder in Australia by nearly double that of second place.

Foreign ownership of Australian building companies is nearly at the 20 per cent mark, and this is likely to increase as large builders return to profitability and aging directors seek to exit after an exceptionally trying five-year period.

Look out for Japanese owned NXT Building Group, part of the Asahi Kasei Group, and owners of McDonald Jones in NSW and Arden Homes in Victoria (along with many others) who also own 11 per cent of Simonds homes in Victoria to be on the acquisition path.

In the development space, we've just seen the Foreign Investment Review Board approve the sale of $1.3 billion in residential development sites to Stockland from Lendlease, backed by Stockland's Thailand-based capital partner Supalai Australia.

As smaller builders and developers struggle to remain profitable under the sheer buying power of these multinationals, and new players face increased red tape to enter the market, we will see more consolidation of both housing and development companies, along with the need to vertically integrate to maintain supply of materials and trades.

Daniel Senia says the flow-on effects of an interest rate cut could prove stressful for those looking to buy, sell or invest.

Daniel is a property industry expert with more than 19 years of experience in property and high-value purchase experience. Daniel's expertise extends to market analysis and forecasting, sales and marketing strategy, operations and managment.