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### Property becomes a buyer's market

By Monique Wakelin



**TD Securities: Housing activity weakens further in April**

**PORTFOLIO POINT: As higher mortgage rates start to bite, and investor activity falls away property markets are flattening.**

An escalating imbalance between supply and demand, along with sustained high levels of overseas migration, will continue to underpin our inner city property markets in 2008 and into 2009. However, price growth and investor confidence have moderated, largely as a result of the Reserve Bank's 12 interest rate rises and growing concerns over the escalating cost of living and the global credit crisis.

In fact the higher mortgage rates have already hit some parts of the national property market. And, as Robert Gottliebson has revealed (see [Residential value emerges](#)), the "black spots" are not just in western Sydney but a range of top-end suburbs such as Palm Cove in Queensland or Black Rock/Beaumaris in Melbourne.

New research from property research group RP Data confirms that investor activity has dropped to its lowest point since 2006 and most commentators concur that we are experiencing the return of a buyer's market. The RP Data/Rismark International end-of-month indices report confirms that capital growth in the key markets of Sydney and Melbourne has flattened considerably during 2008

RP Data's national research director, Tim Lawless, says: "We are now seeing a higher level of volatility enter the housing market from quarter to quarter." He adds that "the recent fluctuations in the capital growth rates, where growth rates move from positive to negative and back again, indicates the likelihood of large falls in the market has decreased".

ANZ Bank's head of property research, Paul Braddick, has a similar view. "The market remains relatively resilient, with strong underlying fundamentals continuing to place upward pressure on prices into 2008 and early 2009, albeit at a slower pace than last year and with growth more likely to be in the single digits."

Braddick says the significant supply and demand imbalance is perpetuating the affordability and rental crises. "We're simply not building enough houses. Our current estimate for underlying housing demand is approximately 185,000 dwellings per annum, but developers have been discouraged by rising interest rates and high costs. Our forecast for completions for the year ahead is down to 135,000, which means that in the next 12 months we'll see a further housing shortage of 50,000 dwellings.

"The March quarter 0.3% inner Melbourne vacancy rate is a good reflection of this, as is the fact that the supply slump is happening across all capital cities. It's going to get considerably worse over the next few years and there's no real sign that the industry can deliver enough dwellings," he says.

The Rudd government's first budget has fallen short of promises made prior to the 2007 election to address housing issues. Some budget provisions will have an effect but there is nowhere near enough in the government's plans to address the extent of the problems likely to emerge over the next five years. Some of the policies, such as the Enhanced First Home Saver Scheme, are only serving to increase demand. The supply constraint situation will just flow straight through to prices, exacerbating the affordability problem.

More broadly, property investing is being overshadowed by wider concerns about inflation and interest rates. These concerns have been reflected in new housing activity statistics, which show housing finance numbers slowing faster than analysts had expected. (Click [here](#) for TD Securities'

report, Housing activity weakens further in April).

Braddick believes "the over-riding factor that will probably work against the positive fundamentals is uncertainty. I think we'll see a growing recognition that the risk to interest rates is still on the upside and that will make people wary about purchasing over the next six to 12 months, which is why we're suggesting price growth will slow quite significantly even though the underlying fundamentals are still tightening."



### Sydney

RP Data figures indicate that Sydney growth has stalled, with median house prices up by 2.8% to \$566,873 for the year to April 2008, while apartment prices decreased by 1.97%. The delineation of Sydney's property markets is evident in these figures, with declines in property values throughout lower socio-economic "mortgage belt" suburbs pulling down median prices across the board.

The managing director of PK Property, Peter Kelaher, says: "The lower-socio economic outer suburbs, particularly in the west, are still very stagnant in terms of price growth. Unit prices in those areas have decreased quite significantly, while houses seem to be holding their value but not really growing." At the top end of the market Kelaher says that "values for homes in the \$3 million-plus range seem to have risen about 5%. Good properties in the better blue-ribbon suburbs are generally selling very well, although they are now achieving 2–3% over the auction reserve rather than 5–10%." This augurs well for investors who have been waiting for greater market predictability.

Kelaher predicts that consistently low vacancy rates (currently under 1%) will cause rents to increase by a further 15–20% this year in some areas, with select blue ribbon properties now returning over 5%. In my view, if investors have the financial capacity, the current softer growth in Sydney makes it a good time to get into select apartments and period cottages.

Kelaher concurs that if interest rates level out for the remainder of the year, Sydney investors will regain confidence and start to push prices up slowly into late 2008 and early 2009. He suggests investors consider the apartment market in blue-ribbon areas in the \$400,000–750,000 range. "Investors should look for smaller blocks, with no more than 30 apartments, that can't be replicated, with a balcony, lock up garage and good transport links close by."



### Melbourne

Melbourne's median house price has eased by 0.18% since the beginning of the year to \$450,305 in April 2008, according to RP Data figures.

The chief executive of WBP Property, Greville Pabst, says "Melbourne's inner price growth has peaked for the time being and that the middle suburbs continue to appreciate in value after achieving significant growth last year on the back of demand from first home buyers. Multi-layered markets are evident throughout Melbourne, with outer suburban housing in the \$500,000-plus range struggling. Middle and outer suburbs will come under more demand for the balance of 2008 and values in Melbourne's Mornington and Bellarine Peninsulas will hold firm as EastLink and the Geelong Bypass make commuting easier."

Pabst agrees that infrastructure is an ongoing factor in determining market activity and growth. But while the outer suburbs are more affordable, they are being targeted by first home buyers rather than astute investors. "There is a general trend toward smaller, higher density housing in Melbourne," he says. "Select apartments have performed well over the past 12 months and will continue to perform well for the rest of 2008. Key factors in sustaining Melbourne's market include infrastructure expansion (Melbourne's EastLink freeway opens on June 29), migration (with about 1000 new people arriving each week), the increasing deficiency in new dwelling numbers and the city's relative affordability compared to Sydney, Perth and Brisbane."

Irrespective of the current climate and the focus on outer-suburban infrastructure, investors should be mindful that softening conditions and better balance between supply and demand present a perfect opportunity to enter that prime investment market 2–12 kilometres from the CBD.

We expect there will be further rise in rents, particularly in the highly sought after inner suburbs, with Melbourne's vacancy rate now sitting at 0.3%.



### Brisbane

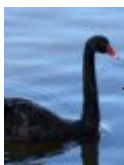
Brisbane's median house price as at April 2008 was \$474,116, according to RP Data, with price growth of 16.12% over the year to date on the back of continued migration,

a robust local economy and the resources boom.

Buyer's agent Meighan Hetherington, of Property Pursuit Pty Ltd, says: "There's been quite a slowdown in activity but not as great an impact on overall prices as expected. We still had about 15% growth in median house prices, but one of the biggest agency franchises here experienced a 50% drop in the number of sales that occurred over the first half of this year, compared to the same period last year."

Hetherington says values are holding and in some instances growing, but believes further interest rate rises and the ensuing uncertainty will reduce the supply and see house prices firm.

"The rental market is quieter through this part of the year but heading into the peak period of January 2009, I think we'll see a significant rise in rentals – between 10% and 12%, based on the traditionally tight supply at that time and the enormous amount of people coming into the area. Certainly property within that 2–8 kilometre radius of the CBD is performing extremely well when you combine all the fundamentals. There are fantastic buying opportunities for investors at the moment because of the lack of speculators in the market so astute investors are taking advantage of the market conditions."



### Perth

Perth's median house price was \$460,000 for the March 2008 quarter, down by 2.5%. Although the commodities boom continues to boost the local economy, and attract investors, the managing director of Schneider Property Buyers, Daren Schneider, says that he expects a further easing of prices into the June quarter and prices to remain stagnant for the remainder of the year, before gaining momentum in 2009.

He says, property values will start to pick up off the back of ongoing population growth. "We recorded the largest percentage growth in population last year, at 2.4%, and this will underpin our property markets into 2009, with the Housing Industry Association predicting a dwelling shortage of 22,000 homes by 2010."

As at July 1 this year, Perth buyers will enjoy a 15% reduction in stamp duty costs on median-priced dwellings. Schneider believes this could be prompting some potential home buyers and investors to delay their purchases.

Activity has slowed considerably, with the number of listings growing from 5000 to over 17,000 in the space of 18 months. About 2400 of these properties are vacant land, and Schneider says this is largely due to interstate speculators offloading investments in view of the current relative flat market conditions.

In spite of the momentum created by the resources boom across WA, serious investors need to ensure their chosen locations will have ongoing upside when the resources boom ends.



### Adelaide

Adelaide's property market remains strong, with median house prices increasing by 19.1% over the year to March 2008 and apartments by 20.7%. It was also one of the few capitals that experienced positive growth for detached dwellings over the quarter, albeit at a marginal 2%. Adelaide's current median house price is still relatively inexpensive, at \$362,100.

The fact that housing supply is not as tight in South Australia compared to other states means prices are more likely to remain stagnant, especially if interest rate moves continue to undermine overall confidence. Less economic diversity than other states and a smaller population base means that investors should restrict their activities to 1–2 kilometres from the city and target period style architecture in quiet ambient locations.



### Darwin

The resource sector continues to enhance confidence in Darwin's property market, with an increase in median house values for the March quarter of 1.8% to \$420,000 and apartments by 4.5% to \$322,700. Darwin's rental market is one of the most expensive in the country, second only to Sydney, with median weekly rents for houses at \$430 a week

Some economic forecasters have suggested the commodities boom may stall later this year, which could see Darwin's market soften considerably. Any change to this industry is likely to cause a significant drop in investor sentiment, as mining and tourism are the predominant industries

sustaining the local economy.

I have never considered Darwin as a prime investment location for a long-term view, however investors with a comfortable appetite for risk may find a shorter-term hold specifically aimed at taking advantage of resources led demand, a rewarding if speculative strategy.



### Canberra

Following exceptional growth over the three years to the end of 2007, house prices in the nation's capital have slowed this year, increasing by just 4.99% to April and sitting at \$519,835.

Canberra's property market is largely reliant on government employment and with Labor's federal budget cutting 1200 public sector positions in the near future, we may see confidence in the local property market diminish in the second half of 2008. If the majority of these job cuts originate out of Canberra, the impact will also be evident in the investment and rental market, with sharp drops in demand, an escalation in vacancy rates and potential declines in capital growth and rental prices.

Investors who wish to enter this market should target areas that are well established and frequented by the long-term resident population, usually close to Civic and in and around Manuka.



### Hobart

Hobart's house sales dropped by 17.3% in the March quarter, while the median house price increased by 1.5% to \$335,000. The apartment sector recorded the largest decline of all capital cities of 7.4% to \$250,000.

Bucking the trend of most other capitals, where growth for the first half of the year has predominantly occurred close to the CBD, Hobart's middle and outer areas have performed better than inner Hobart.

Interstate and overseas investment activity declined by 2.7% for the March quarter, as is usual with smaller, more speculative investment locations, which are generally the hardest hit by reductions in buyer sentiment.

It is expected that price growth will remain fairly slow for the remainder of 2008 as declines in net interstate migration to the area are predicted to continue into the future.

While Hobart's small population and low economic output make it a questionable investment choice, those investors who remain keen should target inner city locations only and concentrate on small period-style houses, especially Victorian and Edwardian.



**Note: We make every attempt to provide answers to readers' questions, however answers are of a general nature only. Subscribers should seek independent professional advice for more in-depth information that is specific to their situation.**

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