



Residential Property Prospects 2009 – 2012

“Will residential prices hold up in a weak economic environment? How will owner occupier and investor demand be affected? Which cities will experience recovery first?”



EXTRACT TO INDICATE THE GENERAL NATURE OF THE REPORT

RESIDENTIAL PROPERTY

Contents

	EXECUTIVE SUMMARY.....	III
1.	INTRODUCTION	1
1.1	Objective.....	3
1.2	Cautionary note	3
1.3	In this report.....	3
1.4	Historical data source	4
1.5	Real house price.....	4
2.	THE RESIDENTIAL PROPERTY INVESTMENT CYCLE	5
2.1	The upturn	8
2.2	The boom	8
2.3	The bust.....	10
2.4	Stagnation	10
3.	UNDERLYING DEMAND FOR DWELLINGS	11
3.1	Net overseas migration	16
3.2	Net interstate migration	18
3.3	Underlying demand and dwelling construction.....	23
3.4	Stock deficiency.....	25
4.	ECONOMIC AND MARKET CONDITIONS	27
4.1	General economy and business conditions	29
4.2	Interest rates.....	31
4.3	Government policies affecting residential building	33
4.4	Housing finance.....	36
4.5	Home loan affordability.....	41
	4.5.1 Home loan affordability	41
	4.5.2 Rental versus mortgage repayments	44
4.6	Residential rental property vacancy rates	45
4.7	Residential rents.....	47
4.8	Median rents.....	51
4.9	Rental yields	54
5.	PRICE FORECASTS BY CAPITAL CITY	57
5.1	National trends	59
	5.1.1 History – Long term.....	59
	5.1.2 1996 to 2007—The residential boom.....	60
	5.1.3 Current market conditions.....	61
	5.1.4 Market issues	62
	5.1.5 Prospects for first home buyers	63
	5.1.6 Longer term trends.....	65
5.2	Sydney residential prices	67
	5.2.1 History of the Sydney residential cycle	67
	5.2.2 Current conditions in the Sydney residential market	70
	5.2.3 Sydney residential price forecasts	71

5.3	Newcastle residential prices	72
5.3.1	Current conditions in the Newcastle residential market.....	72
5.3.2	Newcastle residential price forecasts.....	72
5.4	Wollongong residential prices	74
5.4.1	Current conditions in the Wollongong residential market	74
5.4.2	Wollongong residential price forecasts	74
5.5	Melbourne residential prices	76
5.5.1	History of the Melbourne residential cycle	76
5.5.2	Current conditions in the Melbourne residential market	77
5.5.3	Melbourne residential price forecasts	77
5.6	Brisbane residential prices	82
5.6.1	History of the Brisbane residential cycle.....	82
5.6.2	Current conditions in the Brisbane residential market	82
5.6.3	Brisbane residential price forecasts.....	82
5.7	Gold Coast residential property prices	87
5.7.1	Current conditions in the Gold Coast residential market	87
5.7.2	Gold Coast residential price forecasts	87
5.8	Sunshine Coast residential prices	89
5.8.1	Current conditions in the Sunshine Coast residential market.....	89
5.8.2	Sunshine Coast residential price forecasts.....	89
5.9	Cairns residential prices	91
5.9.1	Current conditions in the Cairns residential market	91
5.9.2	Cairns residential price forecasts.....	91
5.10	Townsville residential prices.....	93
5.10.1	Current conditions in the Townsville residential market.....	93
5.10.2	Townsville residential price forecasts	93
5.11	Adelaide residential prices	95
5.11.1	History of the Adelaide residential cycle	95
5.11.2	Current conditions in the Adelaide residential market	95
5.11.3	Adelaide residential price forecasts	99
5.12	Perth residential prices.....	101
5.12.1	History of the Perth residential cycle.....	101
5.12.2	Current conditions in the Perth residential market.....	101
5.12.3	Perth residential price forecasts.....	105
5.13	Hobart residential prices.....	106
5.13.1	History of the Hobart residential cycle	106
5.13.2	Current conditions in the Hobart residential market.....	106
5.13.3	Hobart residential price forecasts	110
5.14	Canberra residential prices	111
5.14.1	History of the Canberra residential building cycle.....	111
5.14.2	Current conditions in the Canberra residential market	111
5.14.3	Canberra residential price forecasts	112
5.15	Darwin residential prices	116
5.15.1	History of the Darwin residential building cycle	116
5.15.2	Current conditions in the Darwin residential market	116
5.15.3	Darwin residential price forecasts	120
6.	INVESTMENT STRATEGIES.....	121
6.1	Counter-cyclical investment strategy.....	124

List of Tables

Table I:	Deficiency of Stock, Building Activity and Forecast Median House.....	v
Table II:	House Prices by Capital City – Quarterly	xiii
Table 3.1:	Total Population, by State — ('000)	15
Table 3.2:	Net Overseas Migration ('000)	17
Table 3.3:	Net Interstate Migration ('000)	19
Table 3.4:	Underlying Demand for Dwellings and Dwelling Commencements ('000)	23
Table 3.5:	Dwelling Stock Deficiency/Stock Excess as at June—('000)	25
Table 4.1:	Key Economic Indicators	30
Table 4.2:	Interest Rates (%)	32
Table 4.3:	Number of Loans Approved for Owner Occupation — % Change	36
Table 4.4:	Number of Loans to First Home Buyers	39
Table 4.5:	Value of Investment Loans for the Purchase of Property for Rent/Resale	41
Table 4.6:	Home Loan Affordability — Monthly Mortgage Repayments (As a percentage of average disposable income per household)	43
Table 4.7:	Residential Rental Vacancy Rates.....	46
Table 4.8:	Privately Owned Dwelling Rentals, Capital Cities (index with 1989/90 = 100.0).....	49
Table 4.9:	Median Weekly Rental Rate for 3-Bedroom Houses	52
Table 4.10:	Indicative Rental Yields in State Capitals (%), As at June Quarter	55
Table 5.1:	Sydney Residential Property Prices Quarterly Median.....	69
Table 5.2:	Sydney Property Prices—Quartile Values for Detached Houses	70
Table 5.3:	Newcastle Residential Property Prices Quarterly Medians	73
Table 5.4:	Wollongong Residential Property Prices Quarterly Medians	75
Table 5.5:	Melbourne Residential Property Prices — Quarterly Median	79
Table 5.6:	Melbourne Property Prices — Quartile Values for Detached Houses	80
Table 5.7:	Brisbane Residential Property prices Quarterly Median	85
Table 5.8:	Brisbane Property Prices — Quartile Value for Detached Houses.....	86
Table 5.9:	Gold Coast Residential Property Prices Quarterly Medians	88
Table 5.10:	Sunshine Coast Residential Property Prices Quarterly Medians	90
Table 5.11:	Cairns Residential Property Prices Quarterly Medians.....	92
Table 5.12:	Townsville Residential Property Prices, Quarterly Medians	94
Table 5.13:	Adelaide Residential Property prices Quartile Median	97
Table 5.14:	Adelaide Property Prices — Quartile Values for Detached Houses	98
Table 5.15:	Perth Residential Property Prices Quarterly Medians	103
Table 5.16:	Perth Property Prices — Quartile Values for Detached Houses	104
Table 5.17:	Hobart Residential Property Prices Quarterly Medians	108
Table 5.18:	Hobart Property Prices — Quartile Values for Detached Houses	109
Table 5.19:	Canberra Residential Property Prices—Quarterly Medians	114
Table 5.20:	Canberra Property Prices — Quartile Values for Detached Houses	115
Table 5.21:	Darwin Residential Property Prices Quarterly Medians.....	118
Table 5.22:	Darwin Property Prices — Quartile Values for Detached Houses.....	119

List of Charts

Chart I:	The Residential Property Cycle House Prices, Real	viii
Chart II:	The Residential Property Cycle House Prices, Real	ix
Chart 2.1:	The Property Investment Cycle.....	9
Chart 3.1:	Population Analysis.....	14
Chart 4.1:	Interest rates and CPI Inflation—Australia.....	38
Chart 4.2:	Share of Total Residential Finance Attributed to Residential investment.....	40
Chart 4.3:	Rent vs Mortgage Repayments, 1982 to 2012, Australia	45
Chart 5.1:	Sydney Dwellings — Prices and Activity	68
Chart 5.2:	Melbourne Dwellings — Prices and Activity	78
Chart 5.3:	Brisbane Dwellings — Prices and Activity	84
Chart 5.4:	Adelaide Dwellings — Prices and Activity	96
Chart 5.5:	Perth Dwellings — Prices and Activity.....	102
Chart 5.6:	Hobart Dwellings — Prices and Activity.....	107
Chart 5.7:	Canberra Dwellings — Prices and Activity	113
Chart 5.8:	Darwin Dwellings — Prices and Activity	117

1 INTRODUCTION

Residential property constitutes the major investment for most Australians, and is the largest sector of the property market. With an estimated total value of almost \$3,000 billion and comprising around 8.3 million dwellings, it is a market which offers enormous opportunity for both capital appreciation and income generation. While residential property markets are complex, to the informed participant, they are understandable. These markets are affected by many factors, some short-run and some more fundamental.

1.1 Objective

The objective of this report is to provide price forecasts for the next three years for residential property in Australian capital cities. In doing so, information, data and analysis, which will help an investor understand movements in residential property markets, as well as the reasons for those movements, are also provided. The fundamentals of demand and supply are used to forecast movements in property values, assuming likely economic conditions.

The report includes a discussion of the residential building and property investment cycle, the oversupply or undersupply of dwelling stock, interest rates, rental vacancy rates, home loan affordability, private dwelling rents and residential property values. In the instance of Sydney and Melbourne, historical data on real estate values from the 1960s is included. It is important for investors to have a good understanding of past movements in property values in order to understand future trends.

1.2 Cautionary note

There are many uncertainties in forecasting and many factors can affect the timing of movements in the market. For example, changes in Government policies or interest rates can affect the timing and magnitude of cycles in property values. They can delay an upturn or precipitate a downturn. At the same time, such short-run factors are notoriously difficult to predict with precision.

Therefore, *the forecasts in this report should be taken to be indicative of market directions*. Investment in residential property should have a time horizon of at least three to five years, so that investors are not forced to take premature action. To minimise risk in residential investment, it is necessary to ensure that the investment horizon is long enough to allow time for the fundamentals of the market to come through.

1.3 In this report

This report is intended to provide not only price forecasts, but also a better insight into the factors affecting residential property markets in Australian capital cities. The following information is included:

- The discussion of the residential building and investment cycle places market developments into a longer-term perspective and outlines the four phases of the cycle.
- The analysis of the underlying demand looks at the fundamentals of demand for dwellings in the longer term to determine whether a sufficient number of dwellings are being built. This forms the basis for the direction and magnitude of the next major cycle.
- The discussion of the economic outlook looks at short-run factors affecting residential property markets, in particular the timing of movements in interest rates and its effect on the affordability of housing.

- The chapter on price forecasts is the bottom line in this report and contains analysis and forecasts of property values in Sydney, Newcastle, Wollongong, Melbourne, Brisbane, Gold Coast, Sunshine Coast, Townsville, Cairns, Adelaide, Perth, Hobart, Canberra and Darwin. Constant price or real data is used to illustrate the strong relationship between prices and building activity through the residential building investment cycle, as illustrated at the end of Chapter 2 (see Chart 2.1).

1.4 Historical data source

There have been numerous examples of the residential building investment cycle in Australia. Unfortunately, while data on activity levels is readily available, reliable price data is not. Over the years BIS Shrapnel has collected data on median house prices in Sydney and Melbourne. However, the quality of data available became unsatisfactory.

Therefore, since 1992, BIS Shrapnel estimates of the median house prices for Sydney and Melbourne are from the Real Estate Institute of Australia (REIA). For the other major capital cities, median prices are from the Real Estate Institute of Australia, who have only collected data since 1979.

The data series from the REIA from March quarter 1980 to the June quarter 1998 represents sales of established houses collated from surveys of real estate agents of the REI of each state. From the September quarter 1998 the data series represents a complete listing from the Valuer General or the equivalent in each state of sales of all houses. The only exception is Victoria where the Valuer General's data is delayed by 90 days, so the data used is from the surveys of the real estate agents of the Victorian REI.

Forecasts of house prices to June 2012 are provided for each capital city.

1.5 Real house price

The series marked '*Real House Price*' in Chapter 5 is an index of the median price of house and land divided by the Consumer Price Index, to give an indication of the movements in the real price of housing over the period under review. It also provides an indication of the real capital gains associated with investment in dwellings. Nevertheless, it should be noted that the median price of houses incorporates improvements in the quality of housing and therefore, overstates the real price change in those houses which are not upgraded over time.



Residential Property Prospects Australian Capital Cities 2009 – 2012 Subscription Form



RESIDENTIAL PROPERTY

Please send me the above report:

- | | | |
|--|-------|----------|
| <input type="checkbox"/> Standard rate | \$935 | \$ _____ |
| <input type="checkbox"/> Re-Subscription rate* | \$880 | \$ _____ |
| <input type="checkbox"/> _____ extra copies @ \$660 each | Total | \$ _____ |

*Subscribers to 2008 edition

All prices quoted are inclusive of GST.

Mr/Mrs/Ms: _____

Title: _____

Company: _____

Street address: (for courier) _____

Postal address: _____ Postcode: _____

Phone: (0) _____ Fax: (0) _____

Email: _____

A cheque for \$ _____ is enclosed. Charge my Visa/Mastercard/Amex

Card No. _____ Amount \$ _____

Expiry date: _____ Cardholder's Name: _____

I confirm that these reports are for the internal use of my organisation and its branches and/or subsidiaries, and will not be copied, reproduced or made available to any person outside of my organisation, or used for promotional purposes.

Signature: _____ Date: _____

Please fax to: **BIS Shrapnel Pty Ltd**
Fax (02) 9959 5795
Tel (02) 9959 5924
www.bis.com.au

or post to: **BIS Shrapnel Pty Ltd**
Level 8, 181 Miller Street
North Sydney NSW 2060
AUSTRALIA

ABN: 20 060 358 689

For further enquiries please contact:

Kellie Osta, Subscriptions Manager on (02) 9959 5924 or fax: (02) 9959 5795
or by email (subscriptions@bis.com.au).