

## PROPERTY

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### COORDINATOR'S MESSAGE

**By Adrian Vorbach**

Grant Ryan of Ironfish provides a well researched article on the impact of the global financial crisis on residential property followed by a city by city outlook. Recent home price data from RP Rismark have shown that **property values** grew in all capital cities (except Perth) over the first four months of 2009 by 2.8% nationally. Darwin, Melbourne and Sydney gained the most.

Alex Brooks is a regular contributor to the [www.domain.com.au](http://www.domain.com.au)'s real estate blog site. The two articles we have included will be of great interest to property investors. The first discusses how energy prices will affect housing prices – quite timely and topical in light of the recent rises in electricity and gas prices.

Alex's second article is a piece of timely advice based on past experience and outlines five real estate mistakes you can't afford to make.

*Adrian Vorbach is a Councillor of the AIA.*

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# AUSTRALIAN RESIDENTIAL PROPERTY MARKET UPDATE – JUNE 2009

By Grant Ryan

When the Global Financial Crisis (GFC) launched itself into our lives about nine months ago we moved into unknown territory, however financial experts have been proven correct in their assessment that the fundamentals of the Australian Economy the Banking system and Residential Property market remains strong. After contracting by 0.6% in the December 08 quarter the economy surprised many by rebounding with 0.6% growth in the March 09 quarter with many arguing that a recession has now been avoided. CommSec's Craig James expects the Australian economy to rebound far quicker than Federal Treasury with 2.1 per cent growth tipped for 2009/10 and 4.1 per cent growth in 2010/11.

Prestige residential properties have been hit hard whilst the lower end of the market (driven mainly by first home buyers) has performed strongly and overall the residential property market is in pretty good shape. One of the biggest challenges is making sense of the constant new statistics and information being presented by the media, politicians and business groups every week.

First, let's talk about **property "cycles"**. Experienced investors understand that all booms come to an end and then after an adjustment period another boom begins that we all want to be part of. (We also need to recognize that different states and cities in Australia have their own "cycle" within the overall Australian one.) The fact remains that now the market is abuzz with buying activity from astute investors that recognize that the property market is at the start of a new cycle that features low pricing, strong rental returns and low interest rates. Market commentator BIS Shrapnel believes that any downturn will be short and sweet and be followed by a "runaway boom". In the years to come, many investors that did not take action will look back on 2009 as the year they should have done more.

Next let's look at fundamentals – **supply and demand** – which underpins all property markets. The GFC has meant that Banks and Lenders have pulled the pin on thousands of developments across the country by either withdrawing funding or demanding onerous conditions on developers – particularly on high density apartment projects. What this means is that tremendous additional pressure has been added to an already undersupplied market – BIS Shrapnel says that "Banks are financing people buying stock but not developers". The problem is hard to fix because even when the supply "tap" is turned on it is years not weeks or months before that supply hits the market in the form of completed properties.

Recent home price data from RP Rismark have shown that **property values** grew in all capital cities (except Perth) over the first four months of 2009 by 2.8% nationally. Darwin, Melbourne and Sydney gained the most. Strong demand is fuelling the market due to the population growing at its fastest rate in 40 years, record low interest rates and strong rental returns. Strong rental yields and an uncertain share market are enticing investors back to the property market. Interestingly units (+3.3%) outperformed houses (+2.7%) in the first quarter of 2009.

Many people still have a "wait and see" attitude and are concerned by the potential **unemployment** risk to them over the coming 12 months or so. Craig James, Chief Equities Economist for Commsec believes that the fears about job losses have been "overdone" and that companies have been creative in cutting hours and salaries rather than jobs. Unemployment will undoubtedly rise but it shouldn't result in a kind of instability in house prices. Residex states in its latest quarterly reports that "the only real certainty is that rents will continue to rise and even substantial cuts to overseas migration will not solve the housing shortage problem" that continues to exist across the country. The **rental yield** for units across Australia is 5.24% and houses 4.7% and with low vacancy rates nationally these will move up and make residential property even more appealing to investors.

Fixed rates are always a good barometer of how the banks see **interest rates** moving in the medium term and they are worth keeping a close eye on. They normally track pretty closely to the variable rate however over the past 2 months the major banks have all put their fixed rates up substantially – the clearest indication yet that they believe interest rates may have bottomed out and that upward movements in rates may come earlier than previously expected. The latest home price data confirming prices have gone up will strengthen the RBA's case for continuing to keep rates on hold and make the chances of more interest rate cuts less likely.

One of the significant outcomes of the GFC is the way that **Banks** have tightened their lending criteria and processes to make it more difficult for property buyers to borrow money. In particular it is now much more difficult for self employed people and investors seeking "low doc" loans. It is interesting to note that Banks will come out of this cycle with extremely strong balance sheets that will feature higher profit margins and with minimal bad debts which are good for the long term stability of the Australian Financial markets – watch out for record Bank profits in the years ahead!

Overall, the market seems to be at the bottom of a new cycle with growth being driven from the bottom end of the market whilst prestige property devaluations dominate at the top end. A low interest rate environment is a ripe time for investors - with price growth likely to flow into the mid market over the next 2-3 years. Time is a crucial commodity in every property cycle and a bottoming / rising market is the best time cyclically to invest "off the plan".

*Grant Ryan is a Research Director with Ironfish, Adelaide.*

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## AUSTRALIA – CITY BY CITY ANALYSIS

By Grant Ryan

**Adelaide:** South Australia posted the strongest economic growth of any State over the March 09 quarter with state final demand up 2.0 % which was a real boost for the resource state. According to Residex, median Adelaide house values rose 1% and units 0.6% in the first three months of 2009 to underpin stability in South Australia's capital. After enjoying a boom year in 2007, 2008 was a year of adjustment and consolidation and that continues in 2009. Adelaide still has the lowest median house value of any Australian mainland capital city and this "affordable" tag continues to serve the city well. Rental returns remain solid.

Throughout 2008, building approvals for new projects were very slow and this has resulted in tightness in the property market for "quality new stock". The March ANZ Property Outlook reported that "housing finance approvals (for South Australia) increased over 25% from October 2008-Jan 2009 this year signifying strong demand". This was also evidence that housing affordability had again improved too. The outlook for the next 12 months is positive with the rental market still tight and availability of new "quality" projects limited.

**Brisbane:** After a boom 2007 and holding steady in 2008, RP Data-Rismark reports Brisbane houses grew by +1.6% in the first three months of 2009 which is positive news for the Queensland capital where supply of new properties is limited. Pent up demand for new homes will further build this year even though the QLD State economy has stopped growing, Michael Matusik reports that there were only 29,000 new starts compared to an underlying requirement of around 46,000.

Almost \$5 billion worth of residential projects have been shelved in Brisbane's CBD since the GFC late last year. Commercial and Residential buildings throughout Australia are being shelved due to lack of funding and Brisbane is no exception. As mentioned in the main brief, even when the supply "tap" is turned on it will be years before the undersupply problem will be affected putting extreme pressure on apartment prices of recently completed projects or off plan projects that will be proceeding anyway.

**Melbourne:** After a boom 2007 and a more stable 2008, Melbourne house prices rose 4.5% in the March 2009 quarter and were second only to Darwin for growth during this period. This strong

result is indicative of being one of the strongest markets in the country. Melbourne has some of the best “value” properties in Australia and the first home buyer market has been fierce in the wake of the Federal Government’s “Boost” scheme and Victorian State government’s incentive to first home buyers - which have definitely given this local market a “boost”.

The median house rent of \$380 per week rose 8.6% in the past 12 months whilst the median unit rent of \$340 per week has risen 13.3% over the same period. The local rental market is still tight with rents predicted to continue to go up in the second half of 2009.

The Victorian State Government continues to offer property buyers a unique (and generous) stamp duty concession for off plan purchases and the Melbourne market has continued to attract record number of investors whether buying apartments off the plan or “new build” home and land packages. The prospect of further growth in 2009 is excellent with the ongoing strong demand and supply struggling to keep up. Melbourne – like other capital cities has had a fair share of new projects shelved due to lack of funding.

**Perth:** Perth was the only Australian capital city not to record rises in house prices in the first three months of 2009 signalling that its correction period is still not complete although it has slowed substantially. (This is of course off the back of an extraordinary period of growth and all cycles have adjustment periods.)

The rental market continues to perform well and this is evidenced by the strong rental growth over the past 12 months for both units (+9.4%) and houses (+9.1%). House rents are coming off a low base and are still (in spite of increases) only 4.1%. Units on the other hand are at 4.9% and are likely to hit 5% in the near future.

Reindex’s March Quarterly Report records the decline in values for Perth in the 12 months to March 09 to be -9.4% (units) and -4% (houses). The short to medium term growth outlook for houses is for (slow) growth, whilst units will mainly be a rental proposition in the short term. Perth is a good long term investment but will probably be last and slowest to start the next cycle of growth. One to watch though.

**Sydney:** Between January and March 09 Sydney house prices rose by 3.9% according to RP Data-Rismark. Hopefully (for investors) this is a sign of things to come. This is a strong result for one of the softest performing markets over the past ten years with annualized growth of less than 7% for both houses and units and prices “flat-lining” for around five years. Sydney has a chronic under-supply with demand of around 41,000 dwellings pa whilst approvals of only 16,000 pa. Sydney has the largest unit market of any Capital City with over 40,000 unit sales in the 12 months to March 09.

The Sydney rental market is still extremely tight with house and unit median rents going up 7.6% and 9.1% respectively over the 12 months ending March 09. The rental yield for Sydney units is now 5.4% and helping pull investors back into the Sydney market after a few years of lackluster interest.

Sydney’s biggest problem by far is the lack of supply of new projects – more projects have been shelved in NSW than in any other state. Investors need to be wary not to “rush” into any project just because it’s “Sydney” as there is a supply of lower quality products which will not perform as well as higher quality products over the medium to long term. The trend in Sydney is towards smaller apartments that remain “affordable” and of course close to infrastructure and transport.

**Hobart:** In late 2008, the Tasmanian economy performed well above its eastern seaboard mainland states. Furthermore the March ANZ Property Outlook points out that more importantly the unemployment rate is relatively low and remains under the national average at 4.5%. It describes the Tasmanian property market as “well supported” with housing approvals having grown 25% since lows in September. First Home Buyers have been active in this “affordable” State market and account for one third of new housing finance approvals.

The rental market is extremely strong with 10% rental growth for houses (\$330 per week) and 18% growth for units (\$260 per week) over the 12 months to March 09.

**Information Sources:** Australian Financial Review (AFR); ANZ Property Outlook, March 2009; PRD Nationwide Quarterly Economic & Property Report, Issue 4 2008/2009; REIA Real Estate market Facts, December 2009; Residex

Reports (March 09 quarter) for NSW, VIC, SA, WA, TAS, ACT, NT; The Matusik Snapshot series 2009; Craig James, Chief Equities Economist, Commsec – various articles; BIS Shrapnel economic seminar – March 17 2009; Various metropolitan newspapers.

The Market update was written and compiled by Grant Ryan, Director of Research and Acquisition, Ironfish.

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## WHY ENERGY PRICES WILL AFFECT HOUSE PRICES

By Alex Brooks

I got my electricity bill the other day and my brain started to sizzle and pop - \$233 for 39 days of connection!!!

At the risk of sounding like a tight-fisted grandad, I couldn't believe it! I was spending more than it costs to keep African children alive each day to zap power to my (newly rented) house.

What's worse is that if my recent energy bill had the 20% price hike that's coming from July 1, I would be paying \$291.25 for 39 days. That's a bigger increase than Commonwealth Bank's recent 0.10% interest rate increase on a \$300,000 mortgage!

Every Australian state is facing rising energy prices. NSW is due for a 20% price hike in electricity from July 1. Queenslanders are getting a 16% price hike on the same day. West Australians are copping a 10% hike (after a 15% price rise earlier this year). In Victoria, prices rose 17% back in January and more rises are predicted.

South Australians pay the highest electricity rates in the country and Northern Territorians are also due for more energy price pain.

And not that I want to be alarmist, but those energy price hikes are WITHOUT the cost of the Emissions Trading Scheme that may or may not get through parliament this week and [deliver another round of 25% price increases to householders](#).

If you're sitting in your cosy, heated house thinking a 30-year mortgage is your only financial problem, it might be time to think again.

Electricity is one of those invisible costs - like council rates and insurance - that eat into the income or capital required to maintain residential property.

The last home I owned was a beacon of [energy efficiency](#) -- it was insulated, draught-proof and had a natural gas heater to get me through the chilly winters. My electricity and gas bills averaged around \$300 a quarter for a family of four.

My current abode has air leaks, high ceilings and cold floors - and no natural gas connection. I sit at my desk with a little electric blow heater going. It stops me getting hypothermia but this is a dirty habit I can not afford to continue. Perhaps I should blow up my little blow heater lest I am tempted to indulge in warmth?

The Federal Government knows electricity prices are going to unfairly hurt renters, lower income households and larger households - so it wants us all to live in energy-efficient homes. Hence [the free insulation and solar hot water](#) offers going around courtesy of K Rudd right now.

Yet [energy efficiency](#) is yet another cost for home owners. And it costs investors even more, as they don't gain anything from lowering the bills for their tenants.

[Builders and industry associations](#) say it can cost upwards of \$10,000 more to build an energy efficient home - although draught proofing and insulation are remarkably cheap (especially with a \$1600 rebate), with experts like Kinesis' Bruce Taper saying these are the two most cost-effective home improvements people can make to lower their energy bills.

The ACT is the only state or territory that has legislated to make sure that homes - like commercial buildings - meet minimum energy standards. ACT homes are rated for energy efficiency on a scale of zero to 10 stars. When a house is up for sale, the rating is provided in advertising material and the full certificate supplied when it is sold.

Perhaps if I had known how leaky and cold my current rental house is, I may have chosen to rent the 8-star house up the road for \$40 a week more and save on my electricity bill?

What's more, a study into these energy efficiency ratings in the ACT has found improving energy efficiency by one star increases the home's market value by around three per cent.

It makes perfect sense that energy efficient homes will become more valuable as electricity prices rise. And if the economy stumbles further, surely the running costs of a home will have more influence on a property's intrinsic value than the shade of wallpaper in the lounge room or the water feature in the backyard?

K Rudd and the state and territory leaders have agreed to increase energy efficiency standards to six stars in the national building code from 2011. That means all homes will be bought and sold with energy efficiency ratings from this time.

How would your house perform? Would energy ratings be a good or bad thing for the property market? Or has my brain melted from sitting too close to the heater?

*This article was written by Alex Brooks who blogs weekly for <http://blogs.domain.com.au> and edits <http://renovationplanning.com.au>. This article was posted to [www.domain.com.au](http://www.domain.com.au) on 23 June 2009.*

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## REAL ESTATE MISTAKES YOU CAN'T AFFORD TO MAKE

**By Alex Brooks**

Ah mistakes. I've made a few. And not just in property ...

When it comes to buying and selling real estate, there are plenty of pitfalls, problems and painful learning experiences.

But what are the biggest real estate fluff-ups? Which are the mistakes that will echo throughout the financial life of a first home buyer, investor or upgrader?

"Paying too much in the first place," says SQM Research's Louis Christopher.

If you pay just \$10,000 more than fair value for a \$450,000 property, over 30 years of paying interest at 5% means your mistake costs you \$20,000 in extra interest and lost capital. If you add the cost of missing out on earning, say, 4% interest on that \$10,000 over the same time period, the wallet-denting total comes to around \$43,000. Ouch.

What that means is that errors at the time of buying property have long-term financial consequences that most of us would prefer not to think about.

Australian Property Monitors' economist Matthew Bell says the biggest property mistake is people thinking they can "jump into property like they can jump into shares (especially simply to take advantage of government incentives)."

"Lots of people buy a property without realising the hidden costs such maintenance, rates, property insurance, land tax (for investment properties). Not to mention forgetting to factor in stamp duty when working out how much you can afford," Bell says.



A recent Domain.com.au poll found that one in four people plan on taking on a larger mortgage now that lower interest rates have made repayments more affordable.

Property is a more complex asset than shares which means buyers need to think long and hard about their capacity to pay a mortgage over the long term as well as understand how to negotiate a fair price for a property.

Here's my list of Top 5 Real Estate mistakes.

**Mistake # 1:** Listening too hard to the real estate agent

Here's a clue: agents sometimes stretch the truth to ensure someone signs on the dotted line. It's always better to do independent research on local property prices ... especially if the agent is trying to get you to pay more money for a property when you've reached your spending limit. It's also wise to have a thorough building and pest inspection done rather than relying on the agent to tell you what might be wrong with a property. In fact, it's even better to go along with the building inspector to see for yourself what you might need to spend money on during the first three years of ownership.

**Mistake #2:** Thinking investment gurus unlock "property secrets" to wealth

I get rather agitated by "property investment seminars" where various book authors and motivational speakers and millionaires pretend they have "secrets" to share about property investing that will make you rich. It's just not true, particularly at this post-boom stage of the property cycle. It's a slow and steady race to win the property investing game - never a surefire "win". And an investment club, special offers to buy cheap properties or signing up to courses or other hype aren't going to make you a better investor than someone who is well-researched and has a long-term risk and investment strategy.

**Mistake #3:** Not staying put for long enough

Home buyers almost need to have clairvoyancy skills to work out what interest rates may be in five years time, as well as taking a punt on what their house may be worth in the future. When it comes to making money from our own property, those of us who buy a house we can live in for more than five years tend to profit the most. And that's because of this nasty thing called "transaction costs", which are literally tens of thousands of dollars in Australia. Once you own a home, buying and selling means paying stamp duty, agent commissions, marketing costs and legal fees that might easily eat up any capital gain your property has made while you live in it.

**Mistake #4:** Believing in a "dream home"

You do NOT need to pay a premium price for a property just because you really, really love it. Agents are well-trained at spotting "house love" and will treat you as a soft target to pay as much as possible to snare that dream home. Auction bidding wars are a classic case in point, where agents hope to achieve price premiums of ten per cent or more as buyers' battle it out to secure the home they simply must have. As Matthew Bell says, there are always more properties to fall in love with ... and it's the house you pay fair value for that you will love the most.

**Mistake #5:** Buying a lemon with high running costs

A house may not have wheels, but can be surprisingly like a car. Most of us would be happy with a reliable, cheap car - but we're even happier with a sleeker model that makes us feel like a more superior human being. Be careful buying properties that cost a lot of money to hold on to. Look out for apartment buildings that have hefty strata fees or - even worse - super-low strata fees that indicate a big fat special levy will be coming your way to pay for much-needed repairs. If you buy a house that's more than 30 years old, it is highly likely you will need to budget money for repairs and maintenance. And while blue ribbon locations tend to hold their value over the long term, think about how much premium you are prepared to pay to be in a swish suburb compared to paying less to live three suburbs away and pay off the mortgage more quickly.

PS: And when it comes to property mistakes, I think I have made all of the above. How about you?

*This article was written by Alex Brooks who blogs weekly for <http://blogs.domain.com.au> and edits <http://renovationplanning.com.au>. This article was posted to [www.domain.com.au](http://www.domain.com.au) on 9 June 2009.*

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