

## PROPERTY MARKET MONITOR

### RESIDENTIAL OVERVIEW - SEPTEMBER QUARTER 2007

#### *SYDNEY*



#### RESIDENTIAL HOUSING AND RENTAL MARKET

Sydney's extortionate housing and apartment prices make it difficult for investors and first homebuyers to secure residential property. The market has suffered a turbulent time over the last couple of years with affordability issues at crisis levels, residential vacancy rates at all time lows and mortgage sales at all time highs.

Property performance has varied greatly throughout the city. The Eastern suburbs and lower North Shore have experienced growth of 10% or more over the last 12-months, in comparison to the negative growth in the West and South-West regions.

In some of these areas, families are spending well over 50% of their income on mortgage repayments. Many who purchased property at the height of the boom period, with loan to value ratios exceeding 80%, are now experiencing negative equity with home loan commitments exceeding current market values.

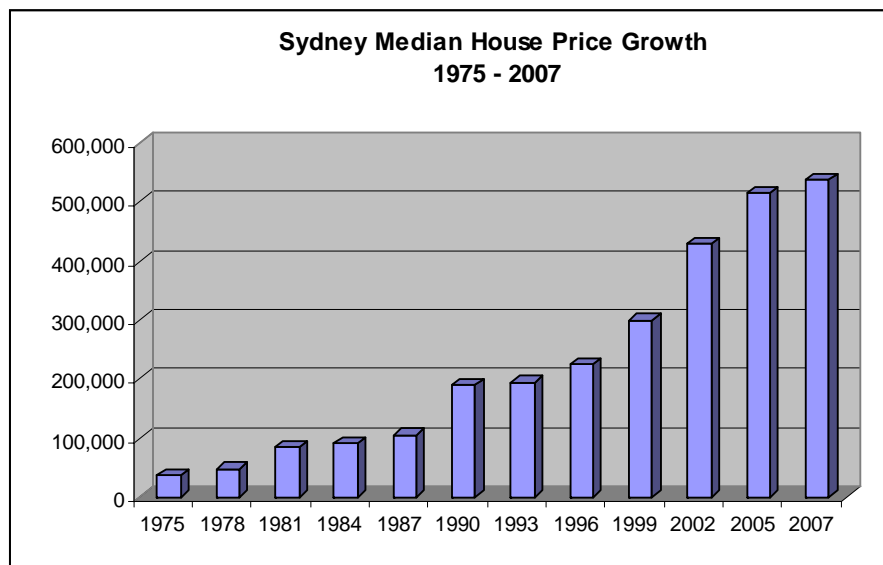
Information released by the Real Estate Institute of New South Wales indicates that Sydney displayed a modest recovery in the September quarter with 1.5% growth in median house prices. The value now stands at \$538,000, representing an annual increase of 3.4%.

There was a slight 0.9% decrease in median value for units and apartments over the quarter down to \$361,000, demonstrating no increase in value over the last 12-months.

The average price paid per week for a 3-bedroom unfurnished house in Sydney was \$395 for the September quarter. This was an increase of 5.5% over the three-month period and 9.3% growth for the year. Rents paid for 2-bedroom units increased by 3% for the quarter up to \$340 per week, representing an increase of 9.7% for the previous 12-months.

Table 1 demonstrates the increase in median house value in Sydney from 1975 to 2007. Construction activity was rampant in 2001 with a 44% increase in dwelling approvals, leading to a housing price increase of 24% in the following year.

Table 1



Increased residential stock and rising vacancy rates reduced investor interest during 2003. Affordability had reached its worse levels ever and potential buyers were staying at home for longer or buying in more affordable parts of the country.

In response, the New South Wales government abolished stamp duty for first home buyers in 2004, for dwellings up to \$500,000. This provided savings up to \$18,000 and significantly increased first homebuyer commitments between 2004 and 2006.

Dwelling construction has fallen to record low levels and with demand well exceeding supply; the stock deficiency is rapidly increasing. The situation is largely a consequence of the limited land supply that has resulted in owner-occupiers being priced out of the market for new detached dwellings.

Table 2 illustrates the variation between Median House and Unit prices throughout the States and Territories of Australia. The Real Estate Institute indicates that Sydney has the highest median house price of all the Capital cities.

Table 2

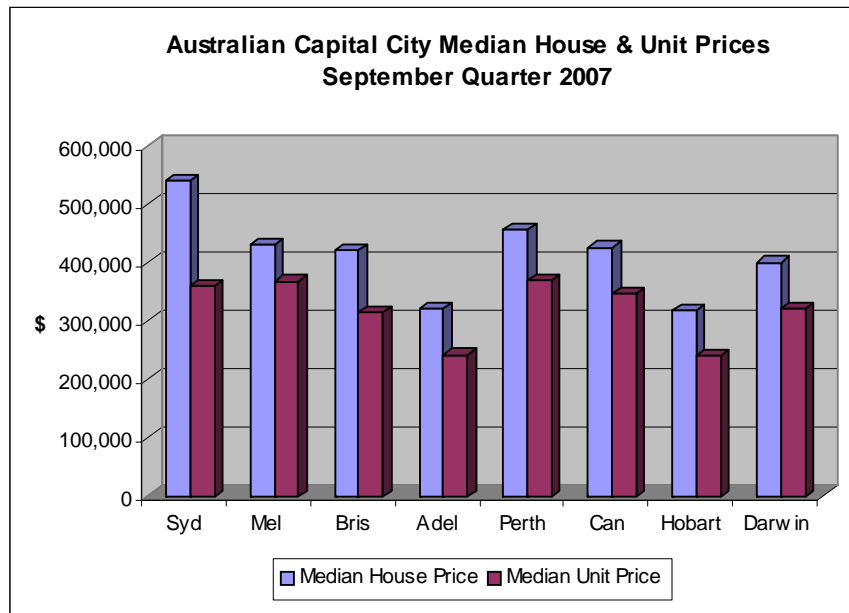


Table 3 displays a series of residential investment performance indicators in Sydney supplied by the Real Estate Institute of Australia.

Table 3

RETURNS %	3 BEDROOM HOUSES	2 BEDROOM UNITS
Annual Yield - June 07	2.3%	3.9%
Quarterly Return - June 07	3.0%	1.1%
Annual Return - June 07	5.4%	6.4%
Ave Return - last 5 years	5.9%	5.2%
Ave Return - last 10 years	11.4%	10.2%

While the average Australian home loan size for owner occupied housing commitments rose to \$240,300 in September, Sydney can claim the largest average home loan of all the capital cities with the average mortgage value at \$262,800.

Elsewhere in the country, the average mortgage size in Queensland is \$240,900 followed by the ACT at \$239,600 and Western Australia \$238,500.

Melbourne recorded an owner occupied housing commitment of \$234,500, Northern Territory's \$212,200, South Australia's was \$194,200 and Tasmania's \$175,000.

## HOMELoAN AFFORDABILITY

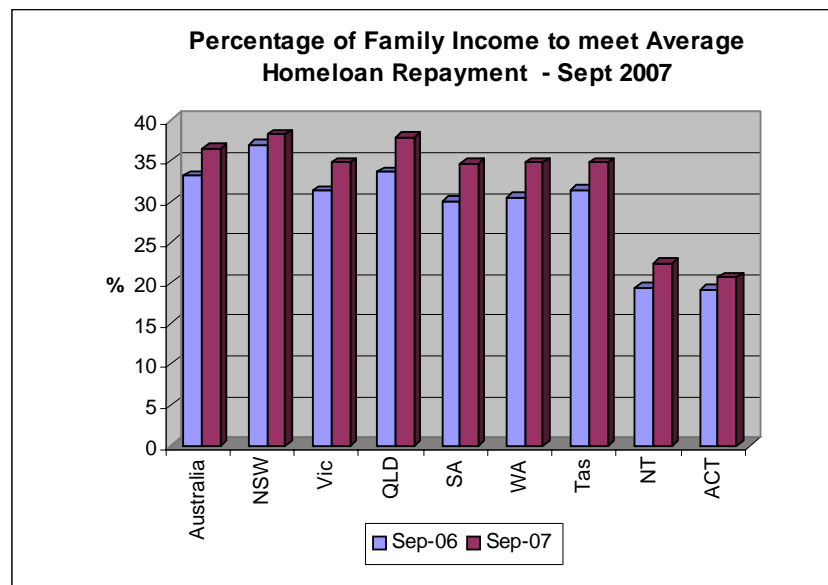
In Australia, borrowers need 36.6% of their family income to meet average loan repayments. Home loan affordability deteriorated by 2.2% over the Quarter and by 8.1% over the year.

It is more difficult to purchase a home today than it has been over the past 22 years. The progressive decline in affordability and concerns about rate rises are reflected in the lower number of loans taken out in the September quarter compared with the previous quarter. The number of loans decreased in all States and Territories except the Northern Territory.

New South Wales is Australia's least affordable location, with 38.3% of family income required to meet average loan repayments. Affordability declined by 0.8% over the quarter and by 5.4% over the year.

Table 3 demonstrates the difference in Home loan affordability between the various States and Territories throughout Australia. The ACT remains the most affordable place to live because of their much higher average family income.

Table 3



Source: REI

## POPULATION

New South Wales occupies over 10% of the Australian continent and is home to approximately one third of the Australian population. There are 4.2 million people living in the state capital alone.

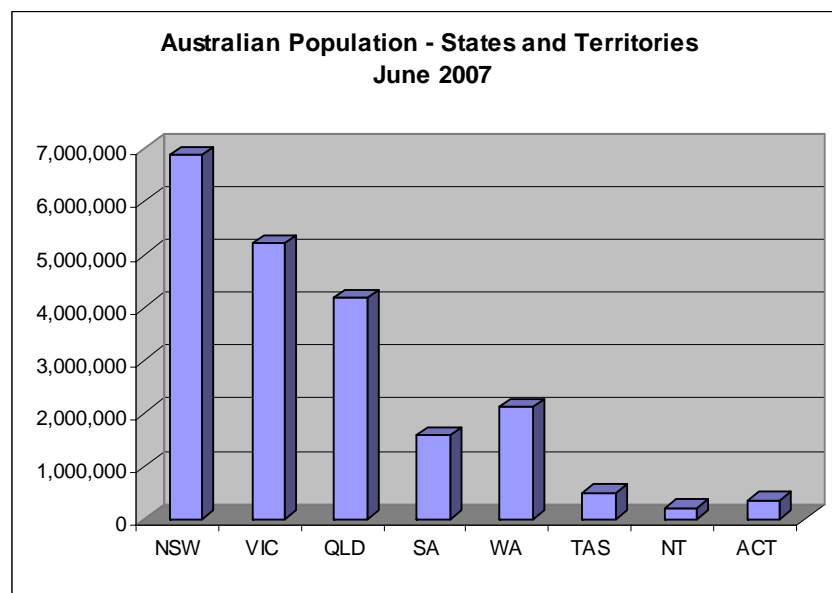
New South Wales has the largest population in Australia, estimated at 6,889,100 residents. Over the last year the population increased by 1.1% or 71,900 people. This was the 3<sup>rd</sup> worst percentage gain of all the major capital cities over the last 12-months. This includes births less deaths plus net gain through interstate and overseas migration.

The estimated population of Australia is currently 21,017,200 people. This is an increase of 315,700 residents over the last 12-months. The natural increase was 138,100 (births less deaths), 6.7% higher than the natural increase experienced in 2006.

The Australian population increased by 1.5% over the 12-month period. Natural increase and net overseas migration contributed 44% and 56% respectively. All states and territories experienced positive population growth last year. Western Australia recorded the largest percentage gain of 2.3% and Tasmania the smallest at 0.7%.

Table 4 demonstrates the population variation between the states and territories of Australia.

Table 4



Source: ABS

## OUTLOOK

The challenging affordability of land has led to knockdowns (demolition of existing homes), accounting for approximately half of all new detached house approvals. Medium density dwellings have become more attractive to increasing numbers of smaller households and delayed the effects of rising land costs on total dwelling supply in Sydney.

Dwelling construction is significantly below underlying demand, vacancy rates will remain tight and strong rental growth is expected.

Opinions differ on the short-term outlook for residential property in New South Wales. There is some belief that conditions to buy a home are better than they have been for the last 10 years. Many analysts recognise it has been approximately 4 years since the last residential property market boom and the setting is set for the next cycle, others believe affordability issues will continue to dampen enthusiasm.

One obvious factor is that construction levels have been declining over the past 48 months and market indicators suggest there will be a prolonged period of under-supply with current new building approvals at levels reminiscent of the 1950's.

Under-supply of homes and tight rental yields are expected to increase the pressure on the Sydney residential market over the next 12 to 24 months. During this period, price volatility is expected to continue with positive growth trends in most regions.

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