

RESIDEX NEWSLETTER - July 2007



Rent increases in all capital cities - and more to come!

MARKET WATCH

WITH JOHN EDWARDS

The Market as at June 2007

The year has finished on a strong note in most markets across Australia.

Houses									
Area	Median Value	Growth			Rent			Sales	
		10 Years % pa	Last Year	June 2007 Quarter	Return	Amount June 2007	Change	Year to June 2007	Change
ACT	\$425,500	11.14%	10.59%	5.61%	5.21%	\$425	25.00%	9745	10.46%
Adelaide	\$319,000	10.15%	9.77%	3.40%	4.54%	\$280	12.00%	41634	6.29%
SA Country	\$218,000	9.89%	10.06%	4.02%	4.30%	\$180	0.00%	13124	6.32%
Brisbane	\$393,000	11.05%	13.09%	6.05%	4.25%	\$320	16.36%	92351	7.86%
QLD Country	\$349,000	10.00%	14.56%	4.79%	4.49%	\$300	7.14%	89735	4.25%
Darwin	\$385,000	9.55%	16.98%	8.76%	5.15%	\$380	4.11%	3964	3.42%
Northern Territory	\$347,500	8.57%	15.79%	6.57%	5.55%	\$370	2.78%	5460	1.73%
Hobart	\$309,000	11.32%	1.15%	-3.47%	4.89%	\$290	18.37%	4824	2.90%
TAS Country	\$235,500	11.30%	5.64%	3.09%	4.21%	\$190	0.00%	8721	7.19%
Melbourne	\$402,500	9.99%	6.46%	0.38%	4.08%	\$315	16.67%	98447	4.65%
VIC Country	\$243,000	9.58%	2.73%	-0.95%	4.83%	\$225	2.27%	76575	-3.06%
Perth	\$490,000	14.33%	3.96%	0.87%	3.19%	\$300	25.00%	66628	-15.60%
WA Country	\$334,500	11.66%	10.73%	-2.47%	3.59%	\$230	15.00%	17781	-10.05%
Sydney	\$569,000	8.55%	6.12%	3.70%	3.90%	\$425	16.44%	77086	6.69%
NSW Country	\$315,500	9.74%	4.60%	2.21%	4.13%	\$250	2.04%	81993	2.39%

Units									
Area	Median Value	Growth			Rent			Sales	
		10 Years % pa	Last Year	June 2007 Quarter	Return	Amount June 2007	Change	Year to June 2007	Change
ACT	\$327,000	10.72%	6.05%	3.60%	5.91%	\$370	7.25%	5450	51.64%
Adelaide	\$242,000	10.51%	11.35%	5.04%	4.96%	\$230	17.95%	9600	24.58%
SA Country	\$191,500	7.99%	1.95%	-1.29%	4.50%	\$165	-5.71%	794	33.22%
Brisbane	\$301,000	9.30%	10.00%	3.44%	5.20%	\$300	17.65%	26524	8.01%
QLD Country	\$318,000	9.48%	7.83%	3.01%	4.59%	\$280	7.69%	33944	5.40%
Darwin	\$280,000	8.03%	15.11%	3.93%	5.97%	\$320	14.29%	3615	8.17%
Northern Territory	\$265,000	7.52%	13.80%	3.93%	5.90%	\$300	17.65%	4310	7.64%
Hobart	\$222,000	10.54%	1.67%	-1.57%	5.52%	\$235	17.50%	1428	10.36%
TAS Country	\$178,500	9.57%	1.48%	-0.08%	4.67%	\$160	10.34%	882	16.36%
Melbourne	\$307,000	10.06%	4.73%	0.14%	4.68%	\$275	10.00%	52809	5.10%
VIC Country	\$200,000	9.39%	3.50%	3.78%	4.70%	\$180	0.00%	9482	-4.30%
Perth	\$374,500	12.32%	7.59%	0.79%	4.04%	\$290	31.82%	4298	-8.08%
WA Country	\$309,000	9.49%	20.79%	6.88%	3.38%	\$200	11.11%	885	-4.63%
Sydney	\$386,000	7.18%	2.81%	1.96%	5.00%	\$370	12.12%	63437	7.37%
NSW Country	\$278,000	8.80%	1.88%	1.92%	3.75%	\$200	-6.98%	19649	9.13%

RESIDEX NEWSLETTER - July 2007

Perth, last years strong performer, is settling into a period of correction and is taking a breather but doing it well and a "soft landing" is looking more like the most likely outcome.

Hobart has regained the mantle of being the most affordable city in Australia but is probably not so sure that it wants the billing as its rate of growth in real terms last year was negative. However, it has something that most other cities don't and that is less of the population in housing stress.

Sales activity is up across the nation with the ACT seeing the highest growth rate followed by Brisbane. The winner in the capital growth rate stakes was Darwin where house prices increased by better than 16% and in second place was Brisbane with a growth rate of 13%.

The most significant aspect of the year was the significant rental increases across the nation where most cities recorded increases which were in double digits. Canberra and Perth saw the largest increases of 25%. Housing stress is becoming front page news. It is a topic I look at in some detail in the next Residex Report which will be issued in the next week. What has caused it and are there solutions? Yes, there are solutions and probably not as we all expect.

Will rents rise across Australia? Yes, and they have a considerable way to go.

A point that will undoubtedly get overlooked in the debate which is gathering momentum; The spending power of the tenant has improved significantly during the period of the current Government. Let's take Sydney as an example; take the typical tenant in a housing rental property in Sydney, increase rentals by say \$180 per week and then his/her spending power in real terms after paying rent would be the same as it was in 1990. If we did increase the typical rental by the \$180 per week then the rental yield to the investor would be only 5.5% which is probably still not sufficient to bring investors back into the market in the numbers necessary to satisfy demand. It is clear rents for houses are in all probability going to increase by more than the \$180 per week as markets usually overshoot the fundamental need before the masses realise the benefits and start investing in sufficient numbers to stabilise rental growth. Once this happens then there is a natural readjustment and the rental yield will fall back slightly to its natural required level.

Notwithstanding the above Sydney is still going to see house price growth but our models are telling us it will be relatively moderate. Something in the order of 6% to 7%pa over the next five years. This suggests the typical home in Sydney will have a cost of something like \$800,000 by the year 2012. It will be more than this if governments make the situation worse by providing quick fixes like reduced taxes, first home buyer grants and the like. The supply issues must be corrected by significant structural change before any of these items should be in any way considered.

Clearly, all of our focuses are being turned to rent. Our Best Rent Report is issued today and the research indicates that there are now many more good rental investment opportunities than there were this time last year. The report also shows that while capital growth opportunities are reducing, this is being compensated by rises in rental yield, particularly in suburbs which are relatively affordable across Australia as these lower cost locations generally have comparatively higher rents.