

J&L B FUNDRAISING BREAKFAST CLUB BENEFITS FROM JLB FOUNDATION



It was a full house at Mornington Cinemas on Thursday the 4th June as The JLB Foundation held its inaugural fundraiser night.

Raising money for the Mornington Park Primary School Breakfast Program, those in attendance enjoyed great food supplied by local cafe owners Jamie and Simona Mula.

Speeches reminded everyone of the great work being achieved by the Breakfast Program that supplies breakfast to kids that otherwise may begin the day on an empty stomach.



Jacobs & Lowe-Bennetts Director, Peter Skewes, took the opportunity to remind everyone in attendance that while our day to day focus is often about business and one's self, The JLB Foundation has been established to take care of those in our community that are less fortunate.

To make a donation to this worthy Foundation, or to obtain further information on its programs, drop in and see the team at Jacobs & Lowe-Bennetts, 220 Main Street, Mornington.

HOUSING SECTOR OUTLOOK

Attitudes to the housing sector have skipped along over the past month. Evidence of a recent rebound in prices emerged for June quarter 2009, which was consistent with high auction clearance rates and improvement in turnover.

Property price metrics vary, but the overall picture is that modest price declines during the second half of 2008 were followed by small increases during the first half of 2009. Certainly, the RBA action to raise interest rates during 2007/08 was effective at rapidly cooling the housing sector with turnover and

approvals reaching a trough in December quarter 2008 which was a drop of 25-30% on the previous corresponding period.

The rapid reversal of interest rates during 2008/09 has also been effective, in that turnover and prices have recovered. Not surprisingly, the degree of response to ratecuts has been quite gradual, as sentiment was severely affected by the startling developments in the global economy and uncertainty from the Australian outlook. That uncertainty is dissipating, as the effectiveness of stimulus measures on households has been borne out. It is less clear as to what the path for recovery looks like.

We continue to think that increasing property prices have to be part of the process – this view should be uncontroversial, given that it is so rare for market-wide house price measures to show outright declines. However, it seems likely that further evidence of rising prices, irrespective of magnitude, will be referenced as a “bubble”, a term that has achieved currency due to its ongoing power in the minds of the public.

Part of this power is the inherent tension between excessive property price growth and interest rates – if prices shift quickly, then rate rises are likely to happen earlier and be more substantial, making the price gains only a temporary phase. This debate will play out for the rest of this year, and is only likely to be quietened by a series of subdued figures for retail sales and business investment.

More significantly, there will be the initial evidence of declining first home buyers (FHB) demand from September 2009, given that contracts must be signed by the end of that month if FHBs are to qualify for the maximum value of the Boost Scheme grants.

It seems likely that speculation about softening housing demand and maybe even prices will emerge again from October. In this environment, it will be hard to see much merit in the “bubble” label. Surely the RBA will want to observe a housing market without the Boost Scheme before concluding that a sustained recovery is underway.

Bear in mind also, there will be a substantial drop in dwelling apartment construction activity during the second half of 2009 due to the 26% plunge in apartment starts during 2008/09 – and this will be joined by the sharp decreases for non-residential building and engineering construction. National construction work done is forecast to show an annualised decline of 15% during the second half of 2009.

It would be a bold move to raise interest rates in this environment – particularly on the

basis of property price expectations. Dwelling construction will be vital to national economic growth in 2010 – and that will not happen without modest price growth in that year. We will need a rate of price increase that delivers a safe path for the housing sector, enough to sustain the recovery in investor demand, but not so high that rates are raised substantially (by more than 1%) during 2010.

Arguably, it is the medium term outlook (say three years out) for interest rates that is vital for asset price expectations. History suggests that we should be fairly relaxed. The last tightening cycle from 2001 to 2008 was quite extended. From a lot of 6.05% in December quarter 2001, the housing rate was only 0.50% higher by September quarter 2003 (almost 2 years later). Interestingly, that period of low interest rates came with a sharp upturn in residential building, which was used to offset deep negative effects from the trade balance. In 2010, there will again be some major constraints on economic growth. This time, the problem will be business investment – private sector non-residential building, civil works and equipment; plus very weak household spending as the stimulus ‘drugs’ wear off. If the overall environment in 2009/10 is much more challenging than in 2002, then it seems reasonable to expect interest rates to be on hold for most of next year.

Source: BIS Shrapnel August 2009

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INVESTORS TAKE OVER FROM FIRST HOME BUYERS

Investors have joined the housing recovery just as signs emerge that the first home buyer mini boom might have peaked.

The Australian Bureau of Statistics recorded a sharp rise in the value of lending to investors, which surged 8.9 per cent in April over the previous month.

On a seasonally adjusted basis, the total value of dwelling finance commitments – excluding alterations and additions – increased 3.6 per cent, while owner occupied housing commitments increased 1.9 per cent.

The latest figures also show that the number of loans to first home buyers represented 28 per cent of all owner occupied housing finance commitments – the highest proportion recorded since the ABS began compiling data on the topic almost 20 years ago.

But economists and other market players believe first home buyer activity, spurred by federal grants, has passed its peak.

If that is so, the increasing presence of investors becomes even more significant in sustaining the recovery, even though they supply a smaller amount of capital to the market overall.

“Perhaps the most encouraging news today is the evidence that investor demand is starting to recover,” BIS Shrapnel told its clients yesterday.

Though the rebound began with first home buyers from the end of 2008, ABS data for March and April 2009 showed evidence of improvement in upgrader and investor housing loans, the forecasters said.

This “will be vital to sustaining the upturn, in the event that a significant number of potential first home buyers are knocked back due to an insufficient savings record.”

This week, Australia’s largest mortgage broker, AFG, said that its monthly index showed first home buyer activity had slowed in the past

two months while loans to property investors had increased.

“The uptick indicates that low rates, good rental yields and the relatively strong performance of property over equities may be contributing to growing investor confidence,” AFG said.

The Housing Industry Association also saw cheer in the finance figures, which showed the eighth consecutive monthly rise in the number of loans for new dwellings.

Source: *The Australian Financial Review* 11.06.09

HOUSING MARKET CONDITIONS

The REIV June quarter medians have revealed that the metropolitan median price of a house has increased 9 per cent from \$405,500 to \$441,875, just short of the 2008 peak of \$450,000. The unit and apartment market has recorded an almost identical increase as houses with the median price increasing by 8.3 per cent over the quarter from \$360,000 to \$390,000. The improvement can be attributed to low interest rates, confidence in the market, continuing population increases and the financial assistance to first home buyers. These factors have contributed to the July 2009 REIV auction clearance rate reaching 85 per cent. The REIV auction clearance rate has now been at 80 per cent and above for the last four months.

The ABS House Price Index released today confirms the price movements witnessed in the REIV June Quarter median prices. The house price index for the weighted average of the eight capital cities increased by 4.2 per cent in the June quarter 2009. All capital city indexes rose over the quarter with the largest increases in Melbourne (+5.2%), Sydney (+4.9%), Canberra (+3.6%) and Adelaide (+3.4%). Over the year to the June quarter, indexes in all capital cities fell, except for Darwin (+11.0%), Adelaide (+2.7%) and Hobart (+0.1%).

Building approvals showed some promise in June. The number of total dwelling units

approved in Victoria increased by 17.4 per cent in seasonally adjusted terms for the month of June 2009, following a revised decrease of 7.8 per cent in previous month. The value of total dwellings approved in Victoria increased by 59.7 per cent to \$2.03 billion dollars. In trend terms, the number of total units approved in Victoria increased by 0.2 per cent for the month while the value of total dwelling units approved increased by 1.3 per cent for the month.

Housing finance statistics also exhibited a positive note. In Victoria, the number of dwellings financed by first home buyers increased by 16.2 per cent in May 2009, as uncertainty about a possible extension of the boost saw many buyers trying to get in the market before the 30 June 2009 deadline. Dwellings financed by non-first home buyers increased by 12.3 during the month. The average loan size for first home buyers decreased by 1 per cent for the month, while the average loan size for non-first home buyers increased by 2.8 per cent. The total number of loans increased by 13.5 per cent for the month, while the total value of the loans increased by 15.4 per cent.

Lending conditions have also improved slightly as the total value of owner occupied housing commitments excluding alterations and additions for May 2009 increased in both trend terms (up 3.0%) and seasonally adjusted terms (up 2.3%). The total value of commercial finance increased in trend terms (up 0.4%) and in seasonally adjusted terms (up 4.0%). The value of total personal finance commitments decreased in both trend terms (down 0.9%) and in seasonally adjusted terms (down 2.9%).

The Metropolitan Melbourne rental market eased slightly in June 2009 with a vacancy rate of 1.4 per cent. The outer and middle Melbourne vacancy rates both eased to 1.0 per cent from 1.6 per cent respectively. The inner Melbourne vacancy rate remained unchanged at 1.4 per cent.

Source: *REIV Monthly Research Bulletin August 2009*

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