

## FAREWELL TO THE ROLLERCOASTER (WE HOPE !)

Well, we've made it through another year – another decade even – and as always, I like to reflect on the year that was. And what an interesting rollercoaster 2009 has been – especially for Australia's first home buyers. Let's take a trip down memory lane.

**JANUARY-** If you can cast your mind back this far, you'll remember that the first home buyer market was going great guns because of the First Home Owner Boost and other government incentives on offer, plus the low fuel prices and interest rates.

The corporate rental market, however, was feeling the pinch in response to the downturn in the financial services industry and the tide of expats relocating.

Commsec research showed that most people believed the wisest place to put any extra savings was in the bank, with paying off loans also popular. Just eight per cent of those surveyed at the time believed that the sharemarket was the best place for savings – the second lowest reading in 14 years.

**FEBRUARY-** A leading Australian captain of industry described the market as “very strange – one of the weirdest I've ever experienced”. That really described the rest of the year, and is still relevant today. Luckily we didn't go through a 1990s-style property downturn though.

Economic forecaster BIS Shrapnel came out with the fantastic comment: “There's nothing to fear except fear itself.” BIS Shrapnel felt the Australian economy would not fall into recession (they were right), and that there was no good reason for us to fall into recession – apart from a self fulfilling prophecy!

The forecasting group also said that Australian residential property markets were not over supplied and that after the current “shock”, prices and construction would rise, not fall. Plus they predicted a recovery in the residential property market and residential construction should lead a strengthening of growth in early 2010. And the first home buyer market's growth continued apace.

**MARCH-** Media reports described a possible first home buyer led recovery. A report from the Housing Industry Association (HIA) showed that buying a home in Australia had not been this easy in years – particularly for first home buyers.

Lower property prices, dramatically lowered interest rates and expanded government incentives had made it the most affordable time to buy a home in the past five years.

At the time, Charles+Stuart was selling apartments in two fabulous properties, at Stanmore and Randwick, and the demand from first home buyers was unprecedented. We literally had queues of people looking at the apartments, which were selling for under \$500,000.

**APRIL-** The number of housing loan approvals rose by 0.9 per cent, the seventh monthly rise in a row. The value of home loan approvals was up by nearly two per cent, whilst the average size of the first home buyers' loan eased slightly to \$283,400 from nearly \$286,000 in February. Since the boost to the scheme was announced, the average size loan for first home buyers increased by nearly \$20,000.

There was plenty of discussion about whether the First Home Bonus should be extended beyond June 30 2009. What couldn't be disputed was the fact that first home buyers had helped reignite the market. The market up to \$600,000 was firing. Beyond the \$1 million mark, however, it was best described as labouring.

During this month we also experienced an increase in demand from investors, as they put their hard earned money into bricks and mortar.

**MAY-** The major banks reported that they were struggling to keep up with the rate of applications from first home buyers. Some lenders were taking as long as a month to approve loans, some hired additional staff to cope, and staff were working on weekends to clear the backlog.

Figures showed that since the introduction of the First Home Owner's Grant, housing finance commitments rose 12% and building approvals increased by 7.7%. However, the rumours were building about whether the

Government would wind back the grant or extend it...

During this period property forecast group Residex named Sydney as offering the best location for property investors in 2009. Their reasoning was that Sydney had at last reverted to positive growth and was presenting as if the worst has passed.

**JUNE-** First home buyers were now experiencing some of the most affordable property levels since 2002. The Federal Government's first home buyer incentive scheme, easing property values, and low interest rates acted as huge stimuli.

According to the Federal Government's Housing Minister Tanya Plibersek, the total number of first home buyers around the country was up more than 30 per cent between February and March, increasing from 12,664 to 17,265. The monthly loan repayment needed on a typical first home mortgage fell 11 per cent from \$2,085 to \$1,831 in the three months to March.

The NSW Government announced the \$3000 first homebuyer bonus would be in place until June 2010, and to fast track home investment, stamp duty would be slashed in half for newly-built homes (to the value of \$600,000 or less) until December 31. In addition, more than 24,000 new houses would be built, and local councils would get \$200 million in interest-free loans to help fund infrastructure.

**JULY-** The First Home Buyers Boost was extended until September 30. That meant first home buyers opting for a newly-built home could claim up to \$21,000 in Government grants, and for existing homes it was \$14,000.

The Australian Bureau of Statistics reported that the percentage of first home buyers in the market had swelled to the highest level on record. First home buyers made up 28 per cent of all dwellings financed, the largest proportion since the ABS began collecting the data in 1991.

A senior economist from BIS Shrapnel said he expected investors would begin entering agreements to buy apartments off the plan, enabling developers to secure funding for these projects.

## AUGUST

The Chief Economist at the Housing Industry Association (HIA) stated that the First Home Owners Boost, combined with very low interest rates, were fuelling a turnaround in new home building activity in mid 2009, but this wasn't enough on its own to generate a sustainable recovery.

The HIA's viewpoint was that the timely roll out of the social housing initiative to build 20,000 dwellings together with other Federal Government programs such as the National Rental Affordability Scheme and the Housing Affordability Fund were essential to ensure a new home building recovery would gather legs rather than peter out.

It was during this time that the debate heated up about whether the SEPP65 policy, which dictates that only architects are allowed to design apartment blocks, should be scrapped. The NSW Department of Planning felt SEPP65 was working very successfully and getting results. However, there were rumblings that changes were needed.

## SEPTEMBER

And so spring had sprung, and the newspapers were full of stories about the state of the market and the 'first' auctions of the season. Demand from first home buyers was still strong, although the winding down of the Boost began on 30 September.

There was talk that the stimulus packages, a lack of supply of new housing, combined with interest rates which were at their lowest levels since the early 1960s, were causing a housing bubble. In early August the Australian Bureau of Statistics released figures showing that housing prices across our capital cities rose by 4.2% over the three months to June 30.

Glenn Stevens, Governor of the Reserve Bank of Australia (RBA) warned that Australia faced "a very real challenge in the near term" in ensuring there were enough low-cost homes available to keep low-cost financing from pushing prices too high. He went on to say that if steps weren't taken to ensure the development of more housing, it could pose elevated risks of problems of over-leverage and asset price deflation down the track. That is, the housing bubble could burst.

According to Stevens, the solution was to "add to the dwelling stock without a major run-up in prices". He said this should be possible given the low price of raw materials and because labour shortages [are] lessening.

## OCTOBER

Charles+Stuart launched The Alta at 200 Goulburn Street in Surry Hills. The Alta is

being developed by the award-winning Anka Property Group, and the superbly located apartment building will feature one, two and three bedroom set over 14 levels. Interested? Contact our sales team on (02) 9327 6444. We've already had significant interest from owner occupiers and investors alike.

In October we also learnt that immigration rates are at record highs, prompting the Federal Government to approve the development of a five to 10-year plan that would consider the types of migrants that Australia needs, where they should settle, and the extra need for housing, transport, water and other resources to accommodate more people.

## NOVEMBER

The weather warmed up and there were plenty of media reports about the strong auction clearance rates and signs that Sydney house prices were set to rise significantly. Little wonder clearance rates were up, because there was very little for sale!

The *Housing Outlook for 2010-2012* report from mortgage insurer QBE LMI and analysts BIS Shrapnel stated that within three years the median house price in Sydney would jump by 21% to \$660,000 – the second-best result (with Adelaide in first place).

Of course the rise won't be immediate, and with the enhanced First Home Owner Boost scheme finishing at the end of December, it's expected to cause prices at the lower end of the market to dip in the first quarter. But pent up demand will ensure this is only short term.

QBE LMI predicted that comparatively low interest rates and improved economic conditions would speed up the growth in house prices, and a broad-based recovery is forecast from the second half of 2010 as conditions in the labour market stabilise and investors and buyers are attracted back into the market by low interest rates and high rental yields.

## PLANNING NIRVANA? NOT IN NSW

I'm always interested to catch up with property developers to hear their views of the market. They're a good litmus test as to what the market's currently doing and what it will be doing some years from now. Recently talk turned to an article that appeared in the Sydney Morning Herald – *NSW not a developer's nirvana... it's planning hell.*

An opinion piece from the Urban Taskforce Australia, the gist of the article was that developers don't regard NSW as a planning

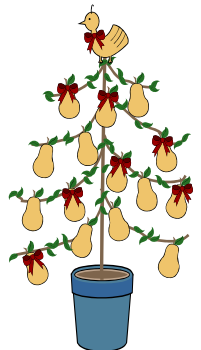
nirvana, and for the past 10 years they've been increasingly upping stumps and going elsewhere.

I know from personal experience that a number of our developer clients have been sitting, cashed up, for opportunities to appear in NSW, but there's been a dearth of such opportunities. The seriousness of the situation is highlighted by the fact that in 2008 NSW lost its mantle as number one in development terms to Victoria and Queensland. Put it this way, in the year to June 2009 NSW accounted for 23% of the country's building activity, but we had 32% of the population.

Not only is the lack of development impacting the NSW economy (property developers contribute an estimated \$78 billion to the national economy each year and create many jobs), it also means we are producing fewer new privately-financed homes than any other state or territory in Australia. On a per-capita basis NSW has slipped behind Victoria, Queensland, Western Australia, the ACT, Tasmania and the Northern Territory. It's the reason why rents around Sydney have continued to escalate and vacancy rates remain at record lows.

It doesn't look like the situation will improve any time soon, not while there's a limited supply of land for new developments, the planning approval process can be onerous, and not while there's a lack of infrastructure investment in NSW.

## WISHING YOU A VERY MERRY FESTIVE SEASON



As 2009 draws to a close, the Charles+Stuart team wishes you all the best for the festive season. I hope you've enjoyed our yearly round up, and here's to a healthy and prosperous 2010.



ANDREW VERON  
PRINCIPAL