

February 2009 No. 393

## Supportive

*Current conditions should support residential values throughout 2009.*

Several studies about the direction of Australian house prices have been released in recent days. This material, given its negative result, has great media cut-through. The commentariat, disturbingly, accept the results as gospel and write tens of thousands of words about pending doom and how gloomy the outlook is for residential property across the country. Too many take stock in what they write and say, with some panicking and listing their homes for sale before values (according to the material released) fall further. Many of those looking to buy are sitting on their hands – despite declining interest rates and the first home owners boost – confused as to what the future holds.

But what are these house value studies actually measuring? And why do they all differ from each other? **Table 1**, below, shows the wide variance amongst the more recent releases.

Location	RPData (1)	APM (2)	ABS (2)
Sydney	-1.85%	-4.2%	4.1%
Melbourne	-0.89%	0.9%	-3.2%
Brisbane	-2.20%	0.4%	-1.4%
Adelaide	3.13%	2.9%	2.0%
Perth	-5.31%	-7.9%	-6.7%
Hobart	n/a	-0.4%	-3.1%
Darwin	5.85%	5.5%	3.8%
Canberra	-2.97%	-6.7%	-4.1%
<b>Average</b>	<b>-1.68%</b>	<b>n/a</b>	<b>-3.3%</b>

Matusik Property Insights, January 2008. RPData, APM and ABS.  
 (1) = Year ending Oct 2008. (2) = Calendar 2008.

Most of these studies measure the change in median price. Median values are influenced by the type of property sold during a study period rather than the direction in value of individual assets. Some studies even measure average prices, which are further distorted if the type of property sold between study periods differs.

The current declines in median (and average) house prices are due to compositional change and not individual houses losing value. Consider this: Around half (50%) of the house sales across Brisbane during the June quarter last year sold for under \$500,000. In the September quarter sales

under \$500,000 held a 62% market share and our preliminary data suggests that close to 70% of the sales during the last three months of 2008 in Brisbane sold for under half a million dollars. The median price (and especially the average price) must fall under these circumstances.

The reason why more cheaper properties are selling is two-fold. Firstly, look at first home buyers. Attracted by the boost in the grant, they now make up 24% of all buyers as at late 2008 – the highest level in seven years. More than 5,000 took advantage of the first home buyers boost in the first full month of its operation. It is no coincidence that NSW and Qld enjoyed the biggest take-up in the grant (see Snapshot 392), and also experienced declines in median house prices.

The second reason why more cheapies are selling is due to investors returning to the market. Most investors, like first home owners, cannot afford to buy a residential property priced much over \$450,000. The turnouts to investment seminars are on the rise, with record numbers in some instances. Whilst consumer and business confidence is on its back, the opposite appears to be the case for residential investors. The Westpac-Melbourne Institute “time to buy a dwelling index” is up 45% (on last year) in NSW; up 86% in Victoria; up 70% in Qld and SA; and up a staggering 120% in WA. Due to the decline in interest rates; rising rents and tightening supply, many existing investors have seen their net rental returns turn positive in recent months. Many investors – well, the astute ones anyway – will add to their residential portfolios this year.

Not only is the nature of the actual material released of concern, but so too are some - well much of it, if we were to be honest - of the comments which accompany the release of these house value studies. Let's review one such example. When questioned as to why Darwin bucked the national trend and experienced price growth, one supplier said that Darwin's performance could be explained by low unemployment. Hmmm? According to the latest figures from the ABS, the NT's unemployment rate is

4.4%, compared to Qld's 3.8% and WA's 2.7%. Could the real reason simply be that more expensive properties settled late last year in Darwin when compared to the year before? A quick analysis of the territory's sales records suggests this was the case. Even the ABS warns that difficulties are sometimes encountered when compiling house price data, as the "number of price observations available depends on market activity in each quarter". The ABS goes further by adding, "this is most apparent in the established house price indexes for the smaller capital cities."

The same firm dug itself a deeper hole by stating that prices in Darwin would likely plunge over the coming six months because housing approval figures were down 30% during 2008, suggesting that demand is falling away and that this would flow on to prices. Well, that is just plain rubbish! The lack of new supply has little to do with demand and more to do with lack of development finance and the high and rising cost of producing new product. Buyers are opting to purchase established product over new, as older stock is more than 40% cheaper than a new property in Darwin. The demand is relatively strong in Darwin and down just 14% over the last 12 months, against a national average of 29%.

The only way to determine what residential values are doing is to analyse individual resales. **Table 2**, below, is our analysis of detached house resales across urban Qld. These established properties all resold during the last three months and without any major improvement/renovation between sales.

**Table 2**

Detached house resales in Dec Qtr 2008 Urban Queensland			
Price group	Avg gain pa	Total gain	Avg time held
<b>Regardless of time held</b>			
Under \$350,000	10.4%	\$109,000	6 years
\$350,000 to \$500,000	12.9%	\$169,000	6 years
\$500,000 to \$750,000	8.8%	\$203,000	5 years
\$750,000 to \$1 million	13.1%	\$592,000	12 years
Over \$1 million	18.9%	\$886,500	5 years
<b>Bought and sold in last 12 months</b>			
Under \$350,000	11.9%	\$38,250	
\$350,000 to \$500,000	6.8%	\$17,500	
\$500,000 to \$750,000	2.9%	\$25,000	
\$750,000 to \$1 million	-1.6%	-\$41,000	
Over \$1 million	-12.1%	-\$350,000	

Matusik Property Insights, January 2008. RPData.  
\* Detached house sales on land under 1,000 sqm and without major renovations between sales.

**On average, established detached houses across Qld enjoyed an 8% lift in values last year. For those owners who bought years ago, their capital growth was much higher, averaging 12% per annum.**

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The bottom-end and to some degree the middle market segments fared best last year. The top-end did it tough with values dropping 12% during 2008. Whilst we expect more of the same in 2009, Table 2 shows that, until last year of course, top-end properties made the biggest long-term capital gains.

**Table 3**, again below, shows that some locations across Qld fared better than others last year.

The winners include Bundaberg (with resale values up 11% during 2008); followed by Brisbane and Caboolture with 9% each and Ipswich at 7%.

Markets doing it tough include Townsville with a decline of 4% in house values last year, and Hervey Bay, where resales achieved 2% less in late 2008 when compared to the year before.

**Table 3**

Detached house resales in Dec Qtr 2008 Urban Queensland			
Location	Avg gain pa	Total annual gain	Avg time held & Median price
<b>Regardless of time held</b>			
Brisbane	14.2%	\$42,750	7 years
Bundaberg	9.6%	\$9,750	8 years
Caboolture	8.6%	\$17,750	6 years
Cairns	9.8%	\$23,500	9 years
Gold Coast	7.1%	\$35,500	7 years
Hervey Bay	11.3%	\$27,500	3 years
Ipswich	16.6%	\$24,000	4 years
Logan	9.7%	\$23,500	6 years
Mackay	10.4%	\$33,250	6 years
Pine Rivers	9.9%	\$26,500	5 years
Redcliffe	9.5%	\$27,250	6 years
Redlands	6.3%	\$20,250	7 years
Rockhampton	18.3%	\$27,250	6 years
Sunshine Coast	6.4%	\$27,750	4 years
Toowoomba	5.4%	\$14,500	4 years
Townsville	18.1%	\$25,250	7 years
<b>Bought and sold in last 12 months</b>			
Brisbane	9.3%	\$46,500	\$500,000
Bundaberg	11.1%	\$29,500	\$266,000
Caboolture	8.7%	\$25,500	\$291,500
Cairns	2.5%	\$8,750	\$350,000
Gold Coast	-0.2%	-\$1,000	\$510,000
Hervey Bay	-2.1%	-\$7,250	\$345,500
Ipswich	7.2%	\$22,250	\$310,000
Logan	4.8%	\$17,000	\$355,500
Mackay	1.7%	\$6,500	\$385,000
Pine Rivers	3.7%	\$13,750	\$371,500
Redcliffe	n/a	n/a	\$455,000
Redlands	1.1%	\$4,750	\$440,000
Rockhampton	n/a	n/a	\$284,000
Sunshine Coast	1.2%	\$5,000	\$425,000
Toowoomba	4.1%	\$10,750	\$260,000
Townsville	-4.4%	-\$15,250	\$345,750

Matusik Property Insights, January 2008. RPData.  
\* Detached house sales on land under 1,000 sqm and without major renovations between sales.