

Well as we sneak out of Winter this year & we welcome Spring it has been a very interesting couple of months since we last wrote to you. With probably one of the wettest & coldest winters we have experienced in a while it is certainly a relief to see the days starting to warm up & the sun starting to stay out that just little bit longer. This issue we look at what is happening with the Market in detail. With the change of State Government we look at their first budget & what that it means to prospective buyers. Also there is a focus on that ever so challenging Gen Y & what they are after in this Market. *Charlie Mellino MD*

welcome to our newsletter!

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NSW Budget Cuts

The dream of home ownership has ended for many Australians as a result of cuts to stamp duty concessions for first home buyers announced in the State Budget.

The comments were made following the O'Farrell Government's decision to slash First Home Buyers benefits by removing stamp duty concessions for existing homes.

"This is really disappointing news for families, essential workers and all those trying to buy their first home," said REINSW President Wayne Stewart.

"Unfortunately for some, the dream of homeownership will now become simply unachievable. "And in the broader context when the storm clouds are gathering over the global economic outlook, today's decision is troubling.

"Australia weathered the last global financial crisis because the property market was invigorated yet those lessons have been ignored today.



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“REINSW believes that the budget initiatives announced will unfortunately worsen the housing affordability and housing availability crisis gripping the state and hurting First Home Buyers.

“While the announcement of a release of an additional 10,000 land sites is welcomed, it will have little impact as we would expect most of those sites would be well beyond the reach of first home buyers. “REINSW is not seeing anything in the Budget which goes to the heart of the housing affordability and availability crisis.

It is unfortunate that the decision to cut first home buyers stamp duty concessions on existing properties will only serve to increase house prices and further erode housing affordability. It is inevitable that as first home buyers scramble to beat the 1 January deadline, we will see prices increase as demand exceeds supply. The flow-on effects for NSW are serious, both in metropolitan as well as regional and rural centres. The government’s announcement of hundreds of additional nurses, teachers, police and other frontline workers is laudable, but as we have argued for years now, where will they be able to afford to live that is close to where they work? The simple reality is that as housing affordability is squeezed; more people are forced to look at alternatives such as renting which only worsens the accommodation crisis. Housing affordability is one of the single biggest issues affecting the state and unfortunately the announcement will only make the problem worse.

Housing Market

New home sales suffered a sharp decline for a second consecutive month in July 2011 according to the Housing Industry Association (HIA).

The latest HIA - JELD-WEN *New Home Sales Report*, a survey of Australia’s major residential builders, showed that the number of new homes sold in July 2011 dropped by 8 per cent following a decline of 8.7 per cent in June.

Detached house sales fell by 9 per cent in the month of July 2011 while sales of multi-units increased by 1 per cent.

HIA Chief Economist, Dr Harley Dale, said the July sales result reinforces the marked deterioration in new home building conditions that is so glaring in

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mid-2011. "The weak environment is actually good news for new home buyers," he said.

"A competitive building market, less pressure on skilled trades, and steady interest rates combine to mean that if you're in a financially sound position to do so, now is a particularly good time to build a new home." In July 2011 the HIA – JELD-WEN *New Home Sales Report* found that detached new house sales fell by 11.2 per cent in New South Wales, 7.8 per cent in Victoria, 8.5 per cent in Queensland, 1.5 per cent in South Australia, and 12.7 per cent in Western Australia.

Housing Affordability

Housing in Sydney is now 2.0% more affordable, according to a report from the Housing Industry Association (HIA).

The *HIA-Commonwealth Bank Housing Affordability Index* saw a national improvement of 0.8 per cent in the June 2011 quarter. Outside of the capital cities, affordability improved in the non-metropolitan regions of New South Wales by 3.0 per cent.

HIA Senior Economist Andrew Harvey said earnings growth and a small decrease in mortgage lending rates worked to improve housing affordability over the June 2011 quarter.

"These factors more than offset a small increase in the median house price," he said.

Global economic uncertainty played a key role in the increase in affordability with the Reserve Bank of Australia (RBA) making the decision to keep rates on hold during the quarter.

The improved conditions for Australian banks in wholesale lending markets facilitated a slight lowering of mortgage lending rates and average weekly ordinary time earnings posted respectable growth of 1.2 per cent in the quarter, equivalent to an annualised rate of 4.8 per cent.

"Improved affordability is good news for home buyers. If we look through the GFC period which was skewed by unprecedented cuts to interest rates, we have not seen affordability reach its current level since 2006. With new home building activity moderating and some easing in pressure on skilled trades, now is a particularly good time to consider building a new home," Harvey said.

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Average Australians face a better prospect of saving for a first home in 2011 compared to five years and especially two years ago, according to research by financial comparison site Rate City.

Rate City CEO Damian Smith said the national average house price is relatively unchanged compared to 2006, based on RP Data figures. "Buying a home and paying off a mortgage is something most Australians strive for. It got much harder towards the end of 2008, but since the global financial crisis affordability has improved, due to lower housing prices and continued income growth for most Australians. "The average Australian home now costs \$417,500, which is \$66,000 less than the average house price from two years ago and pretty much the same as five years ago," he said. On the income side, median household income in Australia continues to rise – at an average annual rate of over 7 percent since 2006. Median household income in Australia now sits at just under \$77,000, as compared to just over \$54,000 in 2006.

"It's certainly true that the rich have got a lot richer in Australia over the last few years – but middle Australia is doing better on the income side than some of the doom and gloom stories might suggest," Smith said. "The average household is now bringing in around \$6,000 more than they were two years ago and almost \$23,000 more than in 2006."

Because of declining property prices and consistent income growth, Australians are in a better position to save for a typical 10 percent home loan deposit than two years ago, according to Rate City. A 10 percent deposit in 2009 (on average) was just over \$48,000, whereas in 2011, the equivalent figure is just under \$42,000. Smith said there are greater incentives to save for a mortgage deposit now too. "If you've got money to invest towards a home loan deposit it's a better time to save now than in 2009 because savings interest rates are higher and there are now more attractive savings incentives for first home buyers. Average online savings account rates in early 2009 were as low as just over 3 percent, versus the current average of nearly 5 percent. While the outlook for deposit rates is that they're likely to fall in coming months, current rates are still better than they were two years ago.

Spring Into Action

What are the top five factors that will influence the minds of buyers and sellers when the weather warms up for the spring property market?

1. Interest Rates

Unfortunately, looming interest rates are weighing on the minds of people thinking of buying or selling in the coming months.

BIS Shrapnel forecasts a half a percent rise at the end of this year followed by another half per cent rise in the New Year, due in large part to Australia's mining boom and demand for our resources from fast-growing countries such as China.

However Westpac's Chief Economist Bill Evans took the opposite view, expecting a sequence of rate cuts beginning with a 25 basis point cut in December, with three more to follow in 2012. Despite the uncertainty, REINSW CEO Tim McKibbin expects savvy buyers to take advantage of the softer conditions and clearance rates to rise above 60 per cent during spring selling season. He says there is still a strong market appetite within certain areas. He also points out that the clearance rate on flats and apartments suggests "buyers are trading down in terms of size to get on the property ladder." A recent survey conducted by realestateVIEW.com.au reinforces that it is a buyers' market. The survey found that buyers' standards have risen and they are less likely to make sacrifices than buyers in 2010. Where 66 per cent of consumers felt they had to increase their budget to find a suitable property in 2010, only 55.3 per cent felt the same way this year.

2. Flood levy

Another subduing influence will be the flood levy, introduced by the Gillard Government in January to help cover the cost of rehabilitating flood-affected areas in Queensland and Victoria Paul Bloxham, Chief Economist of HSBC, predicted the levy would have a similar effect to an interest rate hike, potentially dampening consumer sentiment. People earning between \$50,000 and \$100,000 will pay 0.5 per cent of taxable income in excess of \$50,000. People earning over \$100,000 will 0.5% of taxable income in excess of \$50,000 and one per cent of taxable income in excess of \$100,000.

3. Going Country

On the plus side, country areas have been boosted by a \$7,000 Regional Relocation Grant. This should certainly be a positive factor in the minds of city folk who may already have been thinking about a tree change. In addition, the property market in Newcastle is expected to take a quantum leap with the mining industry boom. Property analyst BIS Shrapnel is forecasting a six per cent rise in median house prices in the Hunter Valley by 2014, as mining and major road projects come to fruition. The Hunter Expressway, in conjunction with the booming coal sector, is expected to stimulate the local economy and encourage first homeowners to migrate from Sydney.

4. Fewer First Homebuyers

Competition at the lower end of the market may be less due to a dwindling of first homebuyers, many of whom have already bought in the past few years due to the grants available. This could act as a disincentive for vendors thinking of listing houses and apartments that would normally be snapped up by this group of buyers. However, there is a light on the horizon. Amendments to the First Home Saver Accounts Act were made in late May, entitling those saving for their first home to a government contribution of 17 per cent on the first \$5,500 deposited. They will also qualify for a concessional tax treatment.

5. Housing shortfall

Savvy investors will take heart from figures that show a continued housing shortage, particularly in Sydney, which underpins property price growth in the coming decade. A report from the National Housing Supply Council estimated a shortfall of 178,400 across Australia in 2010, and this has been projected to grow to 308,000 within five years. Sydney is uniquely affected by the housing shortage, with the cost of property development estimated to be \$200,000 more expensive in Sydney than in any other state.

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Gen Y

Generation Y first home buyers are increasingly targeting investment properties as their entry point into the real estate market, according to mortgage broker Loan Market. Loan Market Chief Operating Officer Dean Rushton said in the past month the company had experienced a five per cent rise in enquiries from first time buyers, with a significant number interested in investment properties.

“Among all of our enquiries from first home buyers there has been a 15 per cent rise in the number of them looking to purchase an investment property,” Rushton said. “Many of these buyers are trying to take advantage of the high rental yields around the country and get into the market with an investment property.” Rushton said Generation Y, born after 1981, made up a large number of the first home buyer enquiry. Gen Y is still chasing the great Australian dream of home ownership but many are approaching their entry to the market from a different angle,” he said. An investment property also gives them the option to buy property where they can join forces with a family member or friend to purchase. If they can muster a healthy deposit and take advantage of some of the interest rate specials on offer from lenders they could well be positively geared on the investment. Rushton said official interest rates staying on hold at 4.75 per cent since November last year had also resulted in an increase in enquiries from first time buyers. “We have gone nine months without an interest rate rise by the Reserve Bank of Australia and this has not only given a much needed reprieve to households dealing with increased living costs but has encouraged first time buyers,” he said. “The prospect of the RBA lowering rates in response to the latest global economic downturn could boost consumer confidence and increase activity in the home finance sector.”