

Welcome all to 2012 including all new clients that have come on board & I hope to inform you & current clients of latest market trends & any new legislation. As Summer disappears with a whimper we enter Autumn in the hope the weather & market changes our confidence in the market. This issue we cover some popular topics plus some controversial issues & what it will mean for you.

*Charlie Mellino MD*

## Welcome to our newsletter!

In this issue:

- Carbon scheme will deliver 'triple tax slug'
- Residential Vacancy Rates
- New Home Owners set to Refinance
- Interest Rate Update
- Retail & Commercial Market Update

### Carbon Tax (Scheme)

The Federal Government's carbon scheme will push the cost of the Great Australian Dream up by thousands of dollars according to the state's leading real estate body, all of which will also be subject to GST and stamp duty. Average residential building price increases of \$5,000 as a result of the Carbon Tax will be even further blown out by more than \$740 in additional GST and stamp duty imposts, according to the Real Estate Institute of New South Wales.

It is bad enough that the Carbon Tax will push up the cost of an average new home by at least \$5,000, but to then make that increase subject to not one but two existing taxes, is just unconscionable. New home buyers will be delivered a 'triple tax slug' that for many will simply mean the final nail in the coffin of their Great Australian Dream.

A Carbon Tax increase of \$5,000 on the average new home which incurs a 10% GST, and is then subject to stamp duty, will inevitably knock some buyers out of the market permanently.



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When cost of living pressures are making home ownership harder, the Federal Government should be looking at ways to make buying a home easier and not harder. By allowing a tax (carbon) on a tax (GST) on a tax (stamp duty) is to simply abandon those struggling to buy their own home. An increase of \$5,000 in the cost of materials for a new residential home flowing from the Carbon Tax will result in approximately \$747.50 in both GST and stamp duty. Combined the three taxes will result in an increase of \$5,747.50 – all of which will be borne by the purchaser. The government has either not thought through the impact of the Carbon Tax on the real estate sector or is hoping home buyers won't pick up on it and will just cop it.

REINSW is strongly opposed to this blatant tax gouging, which simply makes the home ownership dream impossible for struggling families and workers. The direct and indirect impacts of the Carbon Tax on cost of living will seriously erode housing affordability and result in a generation of Australians who will never know the feeling of owning their own home Housing Market

## Residential Vacancy Rates

The rental markets in Sydney and Newcastle have failed to capitalise on January's strong gains, with both cities recording declines in available properties last month.

The February 2012 data released by the Real Estate Institute of New South Wales shows that Wollongong was the only major metropolitan centre in the state to record continued growth in rental vacancies.

After the strong showing at the start of the year, it is disappointing that we have gone backwards in Sydney and Newcastle in February. It is unfortunate that the contraction of the rental market in both those cities last month will only make it harder for many prospective tenants to find a home. There was however some good news, with Wollongong recording a second consecutive month of growth which is encouraging.

The resolution of this chronic shortage in rental accommodation won't be achieved in the short term. The overall rental vacancy rate for Sydney fell 0.1% to 1.8%, driven by falls in the inner and middle suburbs of the city. The inner suburbs (0-10km from the CBD) fell 0.2 to 1.5%, while the middle suburbs (10-25km from the CBD) recorded a decline of 0.1 to 2.0%.

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Sydney's outer suburbs (more than 25km from the CBD) were the only part of the city where vacancy rates increased, up 0.1 to 1.9%.

Available rental properties in Newcastle fell to their lowest level since September last year, down 0.2 to 1.3%, while vacancy rates across the entire Hunter region dropped 0.1 to 1.4%.

Wollongong reversed the trend in February with the city's rental vacancy rate rising 0.1 to 2.4% and the entire Illawarra area recorded an increase of 0.4 to 2.5%.

Rental vacancies on the Central Coast also increased in February by 0.2 to 1.6%, reversing all of January's losses.

## Home Owners set to Refinance

Research has shown that 46 per cent of first home owners who entered the market less than two years ago are looking to refinance.

The survey conducted by Galaxy Research on behalf of LJ Hooker Finance found that more than one in five of those active in the property market were looking to refinance their home loan in the near future.

LJ Hooker CEO L Janusz Hooker said after the 2011 interest rate cuts, home owners are closely watching the market to see what will happen next.

Research has shown that new home owners are concerned about interest rates and are very much aware that a spike in the cost of living could affect their home loan repayments. Of those planning to refinance their home loans, 20 per cent cited interest rates as their primary concern, with a further 17 per cent needing to refinance to consolidate their debts.

When asked about the management of their finances, only 28 per cent of all home owners stated that they tracked spending through a strict budget.

Forty-two per cent claimed they were living within their means but felt that an unexpected large bill would put pressure on their finances.

Although Australians are taking steps to ensure that they are meeting their financial commitments, new home owners are clearly feeling increased pressure to stay on top of bills and mortgage payments.

A lot can happen to a family's living and financial

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circumstances over two years. New home owners should aim to meet with their broker or lender every 12 months to ensure that their loan product still suits their needs. However, not all new home owners are worried about their financial future. Almost one third, 32 per cent, of those looking to refinance were hoping to purchase a second, or investment, property

## Interest Rate Update

Interest rate cuts and renewed action on supply side reforms are required now to arrest the on-going decline in residential construction activity, according to the Housing Industry Association (HIA).

The residential building industry is a key barometer of Australia's economic health, but regrettably there is unequivocal evidence of a further deterioration in conditions following a very weak 2011.

Business closures and job losses are mounting and thousands of small businesses face an even more challenging 2012 than last year.

The RBA needs to cut rates and the banks need to follow suit in the national interest.

There are a range of government policies deserving of urgent attention, including a strategy to encourage state and territory governments to reduce stamp duty on new homes, a Building Industry Financing Guarantee to offset the credit crunch which is preventing commercially-viable residential developments from proceeding and the amendment of capital allowance provisions to enable accelerated depreciation of new rental dwellings. Housing is shelter, a necessity of life. Reducing the cost base of new housing, increasing housing supply, and boosting affordability are not only laudable policy aims, they are essential to a more productive Australian economy.

## Retail & Commercial Update

Weak retail sales have made for difficult leasing conditions on Sydney's prime shopping strips, but food remains popular. Some precincts have felt the pain more than others according to *Sydney Retail Market View*, which highlights particular challenges for shopping precincts with a high emphasis on fashion. Monitors seven main suburban shopping precincts: Campbell Parade, Bondi;

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Military Road, Mosman; the Double Bay precinct; The Corso, Manly; Darling Street, Balmain; Oxford Street, Paddington; and King Street, Newtown.

Rents across these six locations had fallen by an indicative rate of 1.4 per cent during 2011. At the same time the total vacancy rate rose to hit 5.5 per cent as at October 2011. It is likely consumers will maintain a cautious attitude this year and continue to limit discretionary spending on fashion. As a result, the year ahead may be challenging for Sydney's prime shopping strips.

However, some precincts are feeling more pain than others. While fashion based precincts had been particularly hard hit; Food-based strips had been relatively resilient. Sales turnover for cafes and restaurants, which account for around 18 per cent of tenants on Sydney's shopping strips, has been increasing despite subdued consumer confidence and this has been reflected in the better performances by food-based strips such as Campbell Parade and Darling Street.

Data shows that the fashion mecca of Oxford Street in Paddington has the highest vacancy rate of 7.8 per cent, closely followed by Double Bay at 7.5 per cent.

Military Road in Mosman has also been under strain, with the vacancy rate having risen to 5.3 per cent.

On the flipside, the café focused Darling Street shopping strip in Balmain has the lowest vacancy rate of the precincts at 1.8 per cent. Vacancy rates also remain low on Campbell Parade at 3.7 per cent and at The Corso in Manly at 3.8 per cent.

On the rental front, owners were being forced to accept shorter terms of leases in order to attract tenants and incentives had increased significantly.

The Double Bay precinct has been most affected, with indicative gross face rents having fallen by 10 per cent during the December quarter and incentives having increased from three-months rent free to 12-months' rent free on a typical five year lease deal.

Nevertheless, properties along Sydney's prime strips remain tightly held and investors were prepared to pay tight yields for available property, as evidenced by the recent \$17 million sale of four shops on Campbell Parade on a yield of 6.0 per cent

Source REI NSW