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Signs of division despite strong residential results

Sydney, NSW (15 June 2010)

Signs of division are starting to emerge in Sydney's residential market despite strong overall results for the second quarter 2010 according to a new market analysis from CB Richard Ellis.

Sydney's 'mortgage belt' taking in the south western and western suburbs is showing signs of moderating demand and longer listing periods as a result of interest rate rises and the reduction of government stimulus measures.

In contrast, areas perceived as affluent locations such as the lower North Shore, upper North Shore and Eastern suburbs are maintaining strong demand for properties in the medium price range.

CB Richard Ellis' Managing Director, Residential Projects, David Milton said there were a substantial number of purchasers in the more affluent unit market, with owner occupiers driving buyer demand and accounting for around 60% of enquiry.

"We are experiencing strong enquiry for higher end units in the lower North Shore and Eastern Suburbs in particular," Mr Milton said.

Sydney's annual unit sales volume for the year to March 2010 accounted for a third of all national unit sales and has exceeded the annual house sales volume in Sydney for seven of the past eight quarters.

Mr Milton said some recent high end apartment transactions included the \$5 million sale of a 240 square metre luxury penthouse at 118 Alfred Street, Milsons Point and the \$3.6 million sale of a luxury three bedroom apartment in the Alchemy building at 30 Cliff Street, Lavender Bay.

Sydney's median unit value reached \$449,000 and remains the highest of all capital cities, recording a 10.4% increase over the year to March 2010 according to Residex.

Mr Milton said strong demand for prestige units coupled with an undersupply in the market was benefiting development as pre-commitments in the lower North Shore were being achieved at an increased rate.

"Thakral's latest residential project for Lavender Bay, the Halcyon Building, was 50% committed after just four weeks on the marketing indicating the strength and speed of the high end market at present."

Mr Milton said CBRE was also experiencing strong demand for medium density units in city fringe locations.

"Investors recognise it is more affordable to enter the unit market in city fringe locations such as Green Square and these areas have the potential to increase in value at a faster rate than traditional areas," Mr Milton said.

The overall vacancy rate for Sydney remained low at 1.3% at the December 2009 quarter and has remained at this level since the end of 2006 according to data recorded by the Real Estate Institute of Australia.

CB Richard Ellis' Senior Director, NSW Residential Mortgage Valuations, Ted Hoskin said despite the low vacancy rate, the pace of new housing starts continued to be limited.

Data from Residex indicates the Sydney region recorded 45,048 house sales over the year to March 2010 which is 21.1% higher than the previous year.

Sydney's median house value remains the highest of any capital city market reaching \$641,000 at the first quarter 2010 when compared to the national median of \$429,000.

Access Economics forecasts gains in housing starts of 21.9% in 2010 and 9.5% in 2011; however this level of construction will only place the state to fifth overall despite accounting for a third of the nation's population.

"The knock on effect of the limited new starts is higher demand for new release suburbs in Sydney's Hills District and South West, with supply of vacant land and new package homes unable to meet demand," Mr Hoskins said.

The introduction of the first zero stamp duty for off-the-plan houses and apartments under \$600,000 could further widen the gap between supply and demand.

"Families and investors who purchase in the preconstruction stage stand to save up to \$22,490 over the next two years. In addition first time home owners could receive up to \$29,490 in benefits for purchasing off-the-plan in the pre construction stage," Mr Hoskins said.

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