

Marketview

ACT Residential

Hot Topics

- ACT housing starts rise in number in 2009 and 2010
- ACT median house value rises by 8.2%
- Median unit values repeat their 2008 growth performance
- Vacancy rate tightens to just 1.0%
- Median house and unit rents rise by \$20 per week

Market Overview

The Australian economy showed surprising resilience over the latter part of 2009. With the threat of a recession, be it technical or otherwise, seemingly passed, the economy heads into 2010 with a much more positive outlook. Government stimulus handouts, the temporary increase in the First Home Owner's Grant and the generational low interest rate setting all helped to support a generally resurgent residential market in 2009. This played a major role in the country avoiding the dreaded recession.

With the effects of the stimulus packages now largely through the system and interest rates climbing towards what is expected to be a neutral setting of between 5.0% and 5.5%, however, 2010 does appear to present a mixed and challenging environment for the residential markets.

The boost to the First Home Owner's Grant did indeed prove significant during 2009, providing support to a recovery in sales volumes, particularly in the sub-\$500,000 bracket, and increases in median house and unit values. While the grant has now returned to pre-boost levels, the ripple effects had begun to spread into the \$500,000 plus market by the end of the year.

Although first home buyers have begun to retreat – in November 2009 the first home buyer percent of dwellings financed had dropped to 22.1% nationally from their mid-2009 highs of above 28% - there is still solid momentum underway in many states which is likely to continue into the first part of 2010 as investors re-emerge. In many ways, however, it appears that while 2009 was characterized by efforts to re-invigorate the housing market, 2010 may well be marked by efforts to slow down the current pace.

Interestingly, residential markets nationally have acted quite uniformly since the onset of the global financial crisis. Rising interest rates, and the varied pace of recovery in individual states, including impacts on employment, are likely to see greater levels of divergence state-by-state emerge in 2010, driven by local economic conditions.

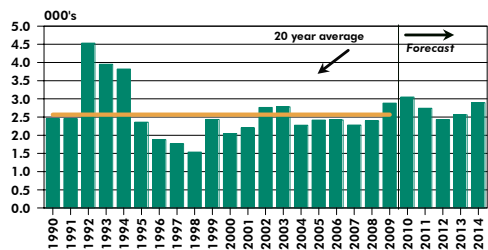
The ACT economy is driven by a strong employment market that supports a lower than average unemployment rate and higher than average weekly earnings compared with most other states and territories. This has helped shield the ACT from the worst of the impacts of the global financial crisis and provides for a less volatile residential market. The ACT economy grew by 1.4% in 2008-09, compared to national growth of 1.1%.

Key indicators of the ACT residential market did indeed perform solidly overall in 2009. At the December quarter 2009, the median house value sat at \$493,500 according to Residex, with an 8.2% rise generated over the year. Sales volume in 2009 picked up slightly to tally 4,976, a rise of 3.8% in comparison with 2008.

ACT unit values in 2009 recorded a growth rate almost identical to that of 2008. At the December quarter 2009, the Residex measure of ACT median unit value had reached \$393,000, with growth in 2009 at 5.9%. Sales volume did fall, however, down by 4.6% to 2,784. This was, in fact, the lowest annual sales volume since 2005.

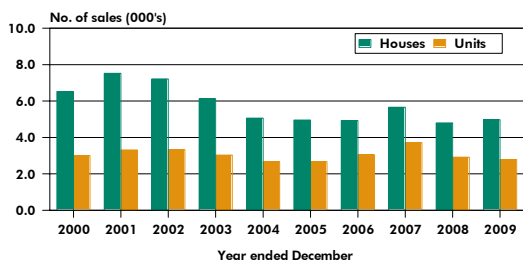
According the Real Estate Institute of Australia, the ACT recorded a residential vacancy rate of 1.0% at September 2009. Vacancy has returned to a level last seen in the corresponding quarter of 2006. A median house rent of \$440 was recorded by Residex in the December quarter 2009, up by \$20 per week over the year. This generated a rental yield of 4.65%. The median unit rent in the December quarter was \$400 per week, having also increased by \$20 per week over the course of 2009. This generated a rental yield of 5.31%

Housing Starts ACT



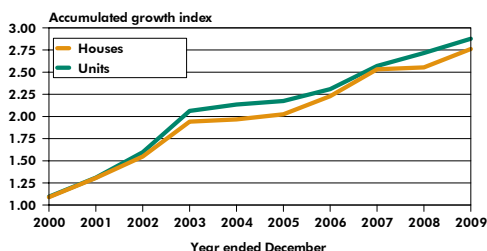
Source: Access Economics - January 2010

Annual Sales Volume Houses and Units, ACT



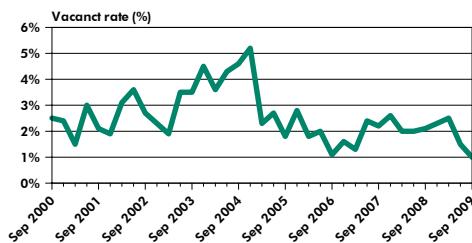
Source : Residex (December Quarter 2009)

Accumulated Capital Growth ACT Houses & Units



Source : Residex (December Quarter 2009)

Residential Vacancy Rate ACT



Source : REIA

ACT Housing starts above long-term average

The ACT's housing construction sector has been picking up pace at a time when the national supply of new housing has been dropping back. In part that represents the ACT Government taking an earlier interest in the need to get more land released than has been evident in some other states. Forward indicators of activity suggest more good news ahead. Two key concerns stand out. First, population growth has stepped back of late, and has been weaker among the young adults who typically drive demand for new housing. Second, any eventual review of Federal Government spending may weigh not merely on job prospects, but also on ACT population prospects. Yet the latter remains a medium term concern, and it won't put paid to a continuation of recent strength across the next eighteen months. After rising by more than 25% from 2007 to 2009 (compared to a 14% national fall), Canberra's housing starts may increase by 5.7% in 2010 before easing by 10.0% in 2011.

Median house value rises by 8.2%

Key indicators of the ACT residential market performed solidly overall in 2009. At the December quarter 2009, the median house value sat at \$493,500 according to Residex, with an 8.2% rise generated over the year. This compares with 2008 which witnessed a median value increase of just 0.9%. The 2009 growth rate compares with the 10-year average of 10.7% per annum. Sales volume in 2009 picked up slightly to tally 4,976, a rise of 3.8% in comparison with 2008. The aggregate was, however, some 700 lower than that of 2007, although in line with the preceding three years. ACT unit values in 2009 recorded a growth rate almost identical to that of 2008. At the December quarter 2009, the Residex measure of ACT median unit value had reached \$393,000, with growth in 2009 at 5.9%. This compares with growth of 5.7% generated in 2008. Over the past decade, growth has averaged 11.2% per annum. Sales volume did fall, however, down by 4.6% to 2,784. This was, in fact, the lowest annual sales volume since 2005.

First Home Buyers begin their retreat

As was evident across the nation, market activity in the sub-\$500,000 market was heavily influenced in 2009 by the impacts of the boosted First Home Owners Grant's. The ACT was no exception, although their influence is now diminishing. In the month prior to the introduction of the higher First Home Buyers Grant in October 2008, the average loan size of first home buyers in the ACT was \$269,400. This rose to a peak of \$316,700 in March 2009 and had since eased, although varying from month to month, to \$288,100 at November 2009. The first home buyer share of dwelling finance commitments in the ACT increased from a mark typically sub-15% to a high of almost 25% in September 2009, just ahead of the beginning of the phasing out process of the higher grants. The number of first home buyers in the ACT achieving finance in the 12-months to November 2009 increased by 120% over the corresponding period to 2008 compared with a 20% rise for non-first home owners.

Rents rise while the vacancy rate tightens

According the Real Estate Institute of Australia, the ACT recorded a residential vacancy rate of 1.0% at September 2009. Vacancy has returned to a level last seen in the corresponding quarter of 2006. For much of the intervening period, the vacancy rate sat at 2.0% or higher, before a solid tightening began to occur from the start of 2009. A median house rent of \$440 was recorded by Residex in the December quarter 2009, up by \$20 per week over the year. This generated a rental yield of 4.65%, easing slightly from the 4.80% recorded in 2008 but comparable with the preceding three years. The median unit rent in the December quarter was \$400 per week, having also increased by \$20 per week over the course of 2009. This generated a rental yield of 5.31%, the second consecutive year that rental yield has weakened. The ACT's unit rental yield was, however, the second highest of all capital city markets nationally, behind just Darwin, where a rental yield of 6.0% was recorded.

Market Outlook

With the Federal Government's First Home Owner's Grant having returned to its pre-boost levels and three consecutive interest rate rises from October to December 2009, conditions have been set for a mixed and challenging 2010 for the residential sector.

The Reserve Bank of Australia (RBA) surprised most by leaving the official cash rate unchanged at 3.75% at their February 2010 Board meeting, their first of 2010.

In the statement released subsequent to the Board meeting, the RBA highlighted that Australian economic conditions have been stronger than expected. While the effects of the fiscal stimulus on consumer demand has now faded, household finances are being supported by strong labour market conditions and a recovery in net worth. Credit for housing has been expanding at a solid pace and dwelling prices have risen significantly over the past year.

Importantly, the statement identified that interest rates to most borrowers remain lower than average. If economic conditions evolve broadly as expected, it is likely that monetary policy will need to be adjusted further to ensure that inflation remains consistent with the medium term target.

In short, expect further rises to the cash rate in 2010. Most analysts are still suggesting the rate will have returned to a more neutral setting of around 5.00% by the end of 2010.

The ACT economy tends to be relatively stable, given its government dominated employment base. Unemployment remains low (3.7% at December 2009), while average earnings are high (almost 30% above the national average).

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This means the ACT is able to weather an economic downturn better than most state economies, whether they be driven by, for example, resources (such as Western Australia and to a lesser extent Queensland) the financial sector (such as New South Wales). As a result, confidence levels remain positive.

Key drivers including the strong employment market, high disposable income, good rental returns, continued low interest rates and low stock volumes across all segments of the residential market should keep the market buoyant in 2010. Changes to one or more of the above factors (including rises in interest rates or increase in supply), however, will likely dampen any potential growth in capital values.

Supply, or most accurately, undersupply, is evident across most market segments. This includes the first home buyer market (under \$500,000), the mid-tier and the relatively small prestige home market. The one exception is the prestige unit market, which, with limited levels of both demand and product available for sale, is effectively in balance. In most cases, this is a continuation of the trends evident in 2009.

It is expected that there will be limited new land and new home and land package releases in 2010, while unit development is also expected to be modest.

Rising interest rates may have a negative impact at the first home buyer level as 2010 unfolds. There is concern that some buyers may have overextended their capabilities when entering the market in 2009 which may be exposed by higher interest rates in 2010. The stable employment outlook, however, again provides some protection from these impacts in comparison with other states

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