

Australian Business Economists



Housing Outlook

Mr Sam White, Ray White Group
Mr Harley Dale, Housing Industry Association

29 October 2007

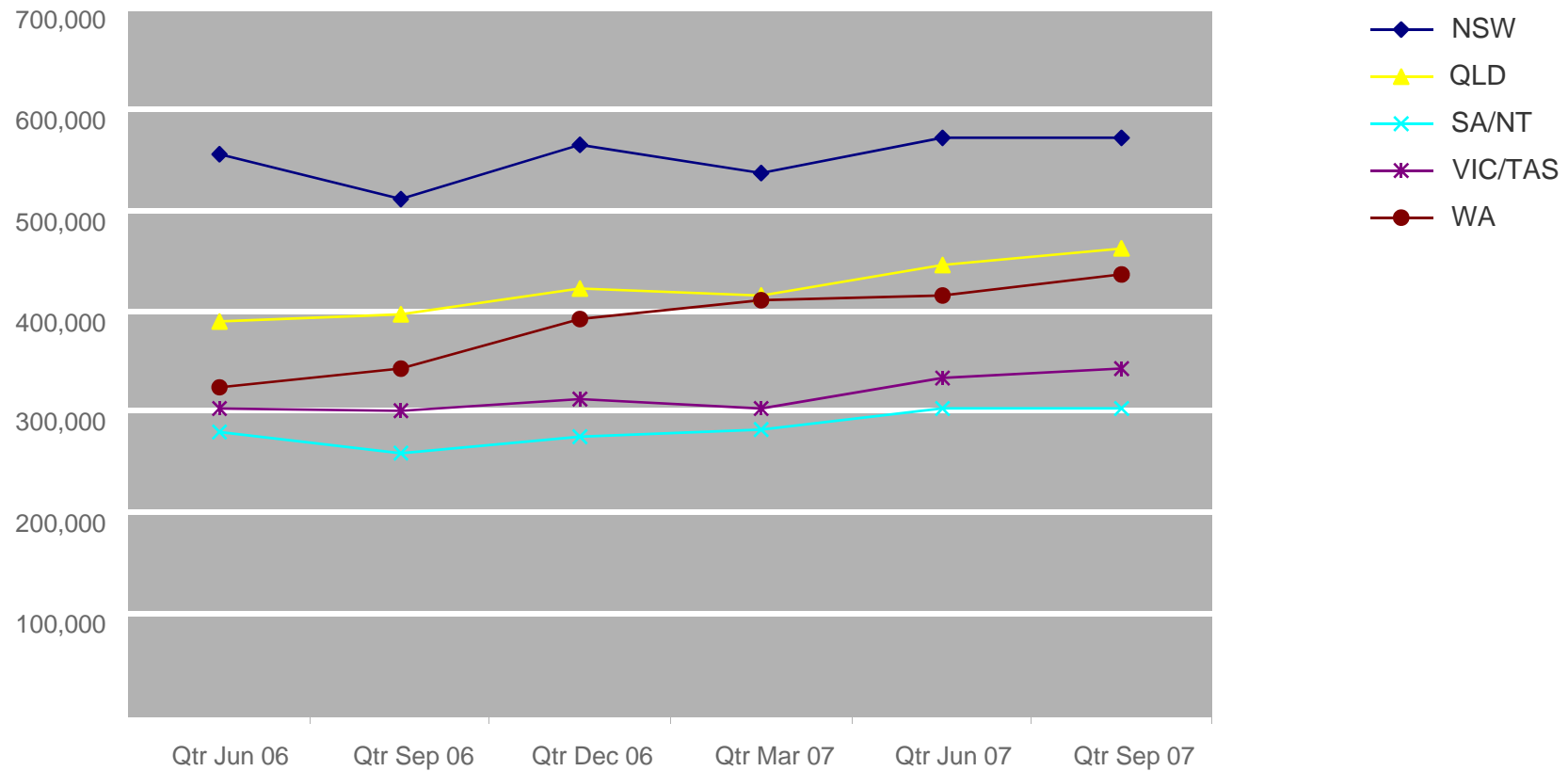
Ray WhiteTM

Australian Business Economists

October 2007

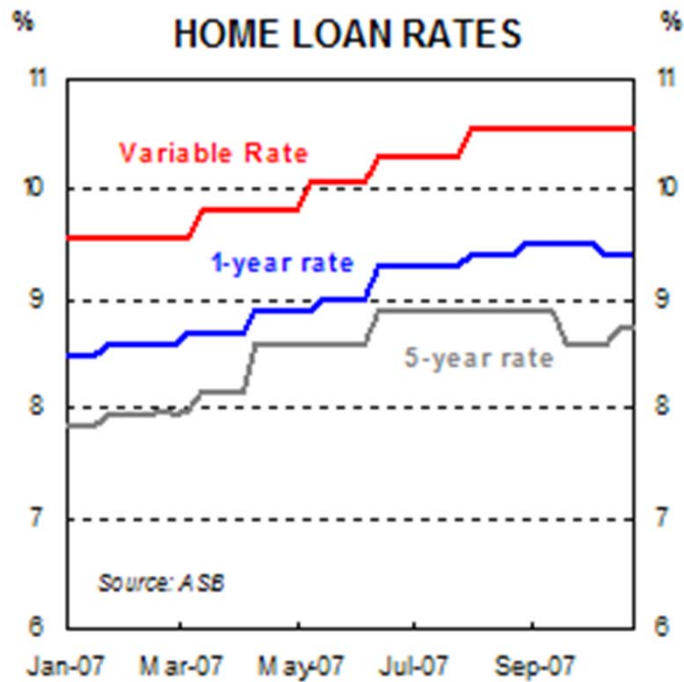
Presented by Sam White

Average Prices



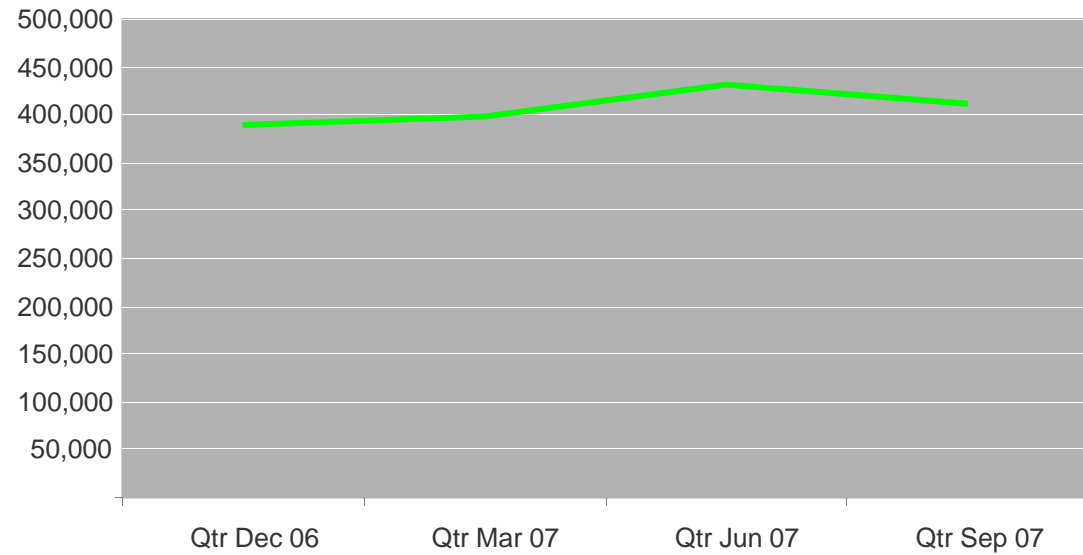
Source: Ray White

NZ Experience



Source: NZ ABS

AVERAGE PRICES



Source: Ray White

Ray White Sydney Markets

Blue Metro Green

BLUE

Eastern Suburbs, North Shore, most of Northern Beaches, part of Inner West

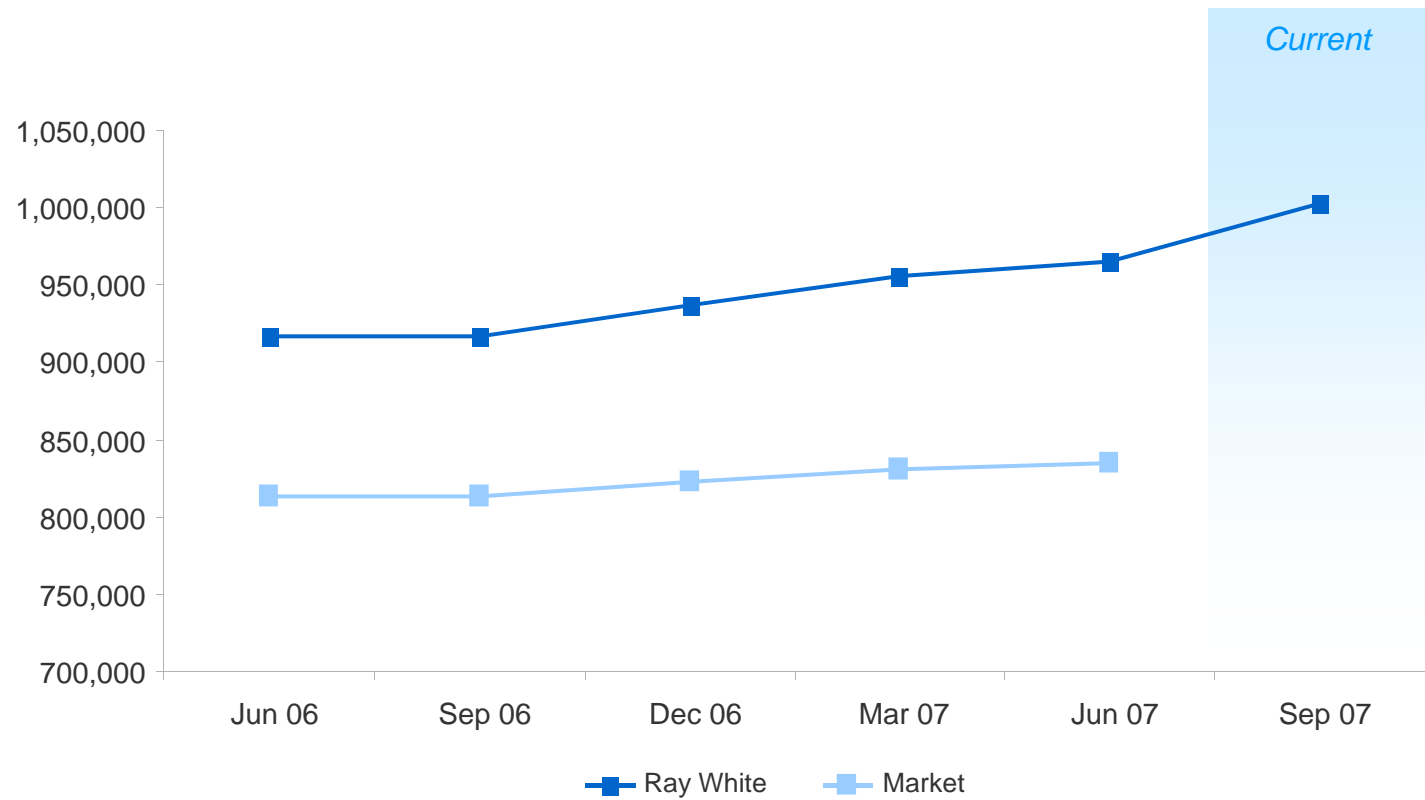
METRO

Southern suburbs, Sutherland, Northern Districts, Hills Districts, Western Sydney, most of South West Sydney, Central Coast

GREEN

Some outer lying Sydney and regional

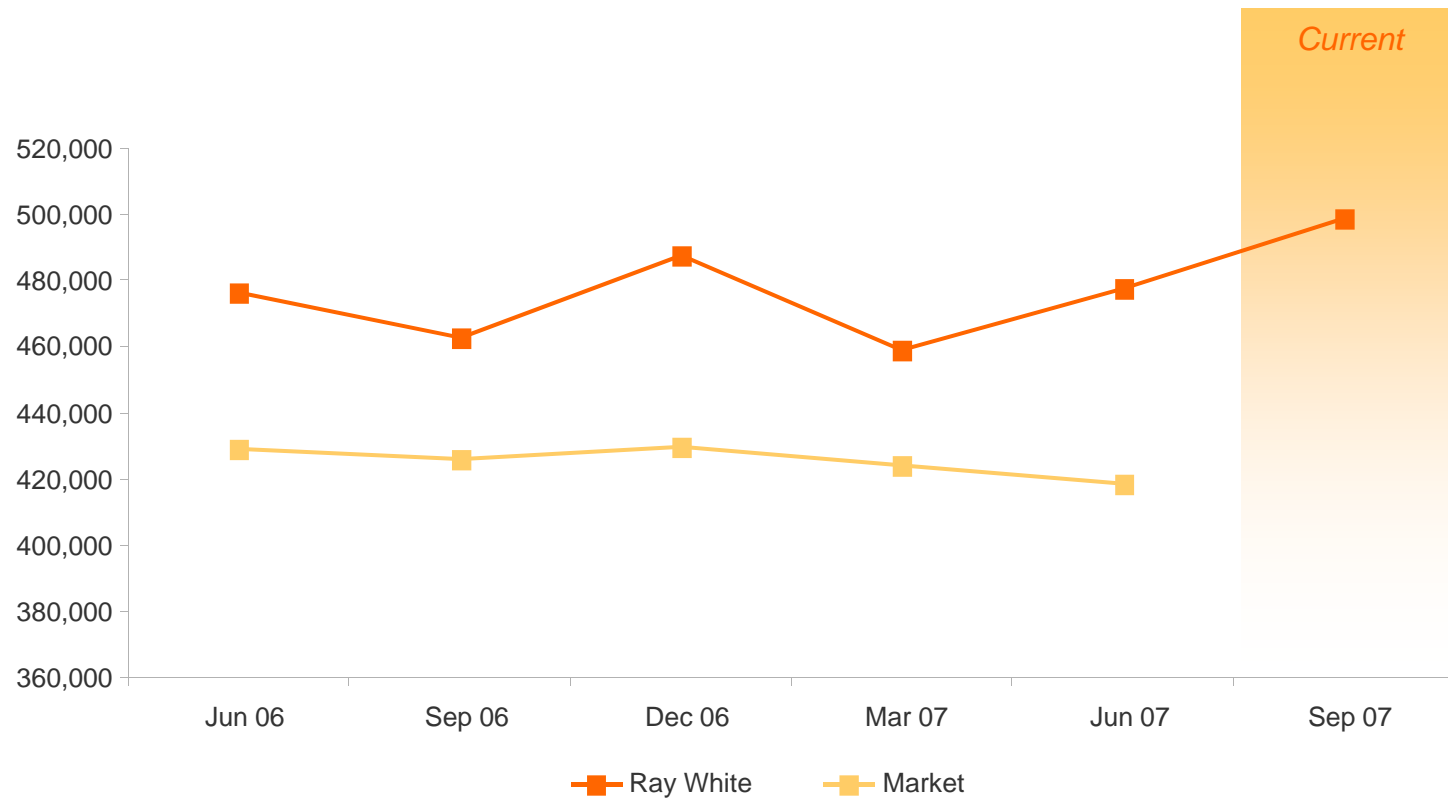
Average Prices



Source: Ray White

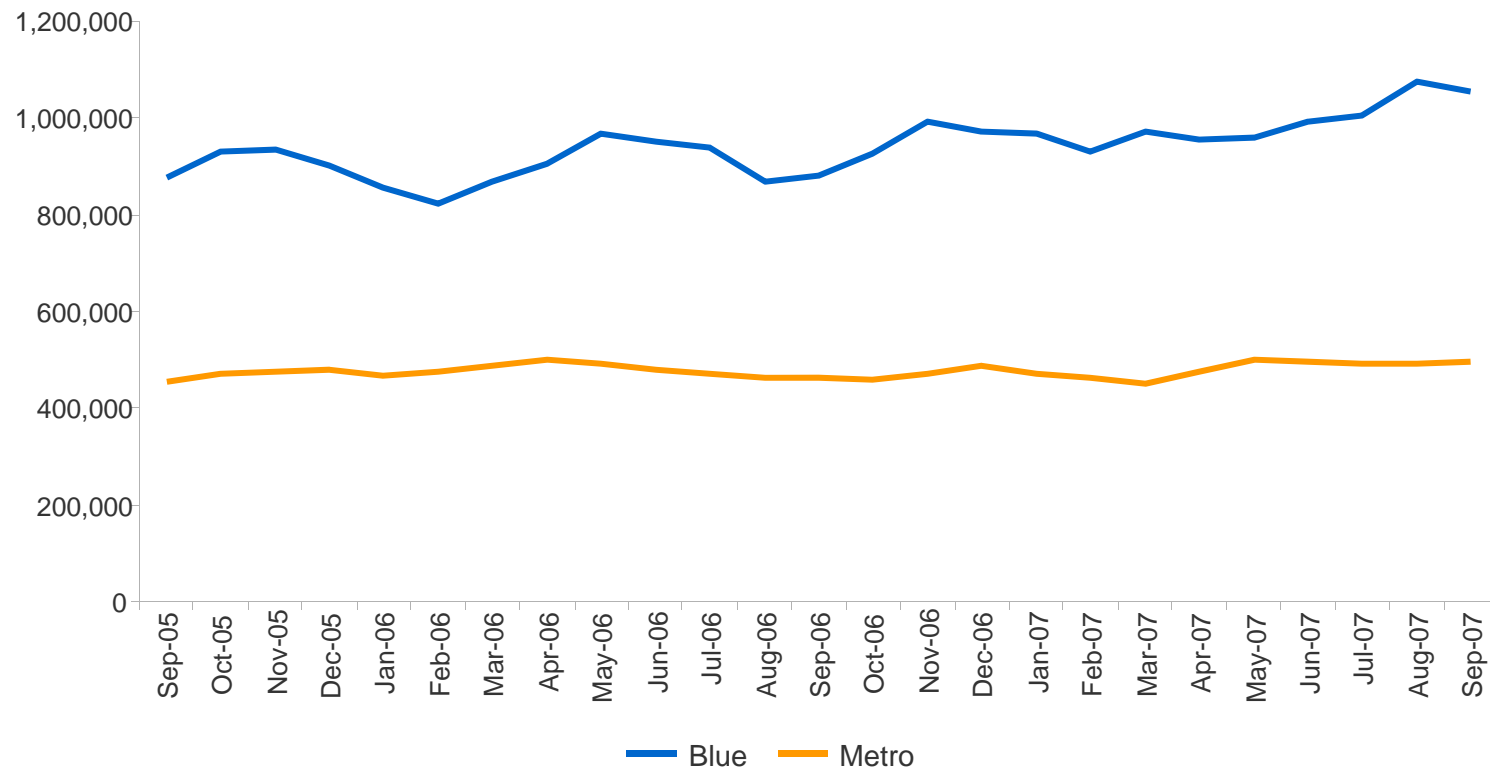
Average Prices

Blue Metro



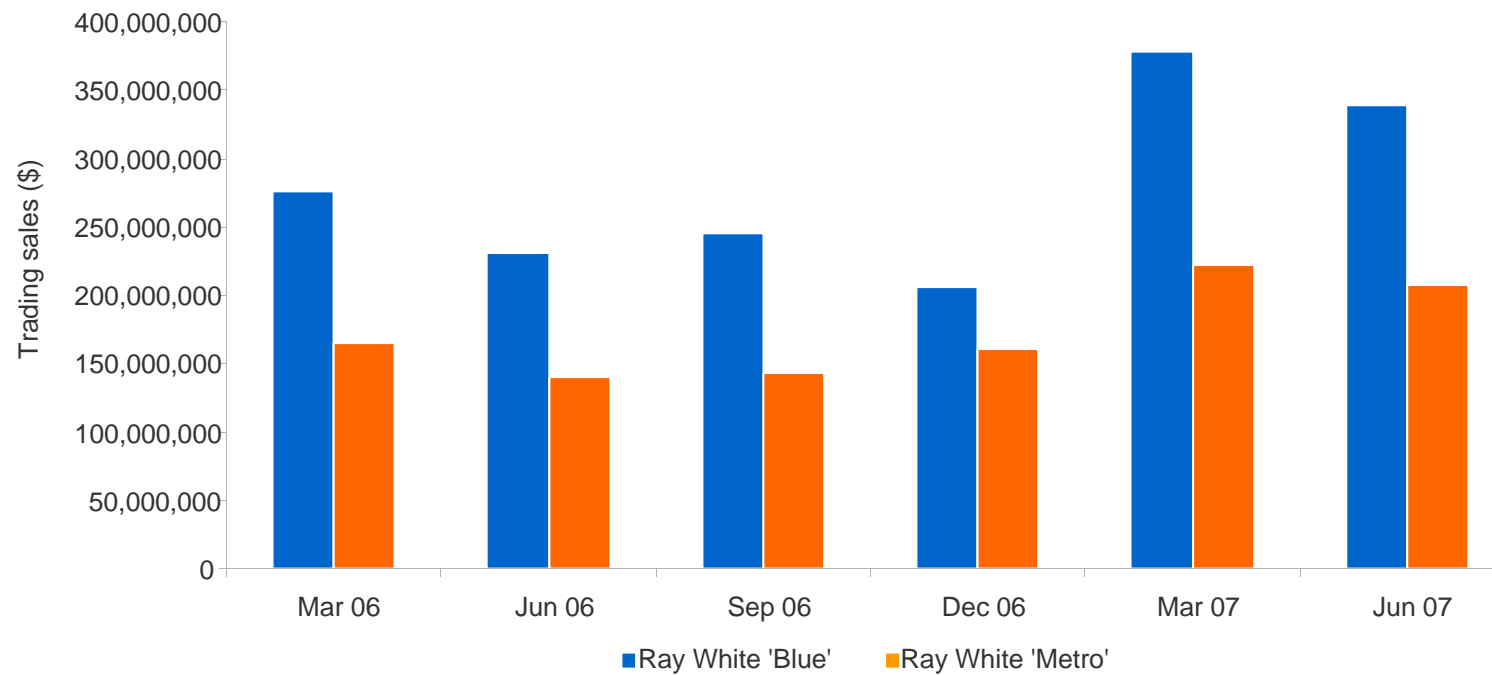
Source: Ray White

Average Prices



Source: Ray White

NSW Trading Sales



Source: Ray White

Sales Volume – NSW

Number of properties sold:

	March Qtr 2006	March Qtr 2007	% change
Blue	588	679	13%
Metro	730	1001	27%
Sydney TOTAL	1,318	1,680	21%

Source: Ray White

Auction Clearance Rates

	Mar 2006	Jun 2006	Sep 2006	Dec 2006	Mar 2007	Jun 2007	Sep 2007
Blue	59%	59%	57%	56%	69%	74%	73%
Metro	45%	42%	40%	42%	55%	55%	55%
Sydney TOTAL	54%	52%	49%	50%	63%	65%	66%

Source: Ray White

Median Weekly Asking Rents – Houses

	Sep 07	Jun 07	Sep 06	3 month % change	12 month % change
Sydney	\$400	\$385	\$350	4%	14%
Melbourne	\$330	\$320	\$285	3%	16%
Brisbane	\$320	\$320	\$290	0%	10%

Source: Australian Property Monitors Rental Report, – September Quarter.
www.homepriceguide.com.au

Gross Rental Yield – Houses

	Sep 07	Jun 07	Sep 06	3 month % change	12 month % change
Sydney	4.00%	4.00%	3.80%	0%	6%
Melbourne	4.30%	4.30%	4.00%	-1%	5%
Brisbane	4.80%	4.80%	4.60%	0%	3%

Source: Australian Property Monitors Rental Report, – September Quarter.
www.homepriceguide.com.au

Median Weekly Asking Rents – Units

	Sep 07	Jun 07	Sep 06	3 month % change	12 month % change
Sydney	\$380	\$380	\$340	0%	12%
Melbourne	\$290	\$285	\$260	2%	12%
Brisbane	\$300	\$300	\$285	0%	5%

Source: Australian Property Monitors Rental Report, – September Quarter.
www.homepriceguide.com.au

Gross Rental Yield – Units

	Sep 07	Jun 07	Sep 06	3 month % change	12 month % change
Sydney	4.90%	5.00%	4.60%	-1%	6%
Melbourne	4.90%	4.90%	4.50%	0%	9%
Brisbane	4.90%	4.90%	4.60%	0%	6%

Source: Australian Property Monitors Rental Report, – September Quarter.
www.homepriceguide.com.au



Factors in the Market

Supply Side

- Tight Equity vs growth in prices
- Pay later poor vs rising home values
- Appraisal numbers are down

Demand Side

- The 'boy who cried wolf'

Financial Services

Dunstan
Charity begins to
make its mark **60**

Edited by: ejohnston@afr.com.au

Billions lost as markets tumble

Source: *Australian Financial Review*
18 August 2007

Stuart Washington and Jessica Irvine
GLOBAL fears gripped financial markets yesterday, in a rout that wiped \$48 billion from Australian investors' trading accounts - the biggest one-day fall since the September 11 terrorism attacks of 2001.

The race downwards was led by Macquarie Bank, which lost almost \$2.4 billion from its market capitalisation as investors reacted strongly to continuing bad news about the sub-prime mortgage market in the United States.

The Australian investment bank had revealed that retail investors in its Fortress Notes would face losses of up to 25 per cent because of the fallout from the US mortgage crisis.

The ASX 200 plummeted 203 points or 3.3 per cent, falling below the 6000 mark it broke through in April.

The stockmarket has now fallen almost 8 per cent in the past week, cutting a hefty chunk out of money many investors placed in superannuation at the end of the financial year.

Fund managers were warning yesterday the sell-off could be far from over, with predictions that more nervousness could push the market down another 5 per cent. Trading rooms were frantic with stop-loss sell orders.

There were modest falls at first which grew as the market plunge spread through Asia.

While investment banks Macquarie Bank and Babcock & Brown bore the brunt of investor angst, there was little reprieve for investors in other sectors.

A veteran analyst, Peter Chilton, of fund manager Constellation Capital Management, said: "There doesn't seem to be any stocks that are safe havens. It's absolutely across the board."

Not one stock among the ASX 200 recorded a green ticker, marking an upward movement.

Market jitters were increased by rumour that a major hedge fund in Asia was suffering substantial losses because investments related to sub-prime mortgages in the US.

The sell-off occurred despite a benign view of the coming company report season, in which brokers are generally forecasting double-digit profit increases. The Treasurer, Peter Costello, said instability should be taken into account the Reserve Bank when it meets to interest rates next week.

A slowdown in the US economy or possibility of a global financial crisis

would argue against the need for a politically damaging interest rate rise.

"I just say that there is a lot of instability in the globe at the moment," Mr Costello said.

"All of these things will impact on the global economy. They will affect Australia one way or another and economic policy has to take them into account."

Mr Costello, on the Sunshine Coast for talks today with 21 Asia-Pacific finance ministers, said the region was not immune to a relapse of the Asian financial crisis.

"If those imbalances are not properly

Source: *Australian Financial Review*
3 October 2007

THE AUSTRALIAN FINANCIAL REVIEW
WEDNESDAY 3 OCTOBER 2007
www.afr.com.au Price \$2.70 (incl GST)

Record-breaking market shrugs off credit concerns

Gabiella Hold
The sharemarket surged to another record yesterday as investors were buoyed by more signs that the worst of the global credit market crisis might be over.
The benchmark S&P/ASX 200 Index climbed 96.2 points, or 1.5 per cent, to 6659.9 - its 40th record close this year.
BHP Billiton, Rio Tinto, Westpac

ECONOMIC OUTLOOK

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Banking Corp and Commonwealth Bank of Australia all hit new highs. The index is up 4 per cent from its previous peak in mid-July and up 17.5 per cent this year. By comparison, the Dow Jones Industrial Average is up 13 per cent and Japan's Nikkei 225 is down 1 per cent.

However, the local market still lags Hong Kong's Hang Seng Index, which was up 1057.28 points to a record 28,199.75 yesterday, taking its gain this year to 41.3 per cent.

The surge in local equities came as the Australian dollar rose to its highest level in 18 years, nudging US90¢ as local government bond yields continued to attract investors and amid expectations of a further interest rate cut by the US Federal Reserve.

The local currency reached US89.50¢ in early trading - its highest level since February 1989 - but fell back to US88.17¢.

Market sentiment was also underpinned by news that private equity group Carlyle Group and equipment rental firm National Hire had agreed to buy rival Coates Hire for \$2.2 billion, sending Coates shares surging 33¢ to a year-high \$6.43.

Continued page 19

Demand Side

- The 'boy who cried wolf'
- Caution at top end vs evidence
- High growth in weekly rents vs costs of first home owners
- Interest rates

Ray WhiteTM

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October 2007



Presented by Sam White



Economics Group

The Outlook for Residential Activity

**Harley Dale
HIA Chief Economist**

Australian Business Economists
October 2007



Overview:

- **New housing is flat, renovations has been recovering for some time**
- **There are wide differences in housing conditions across both geographical locations...**
- **... and sectors of the residential sector**
- **These differences will remain with us for some time yet**



There are four sectors at play:

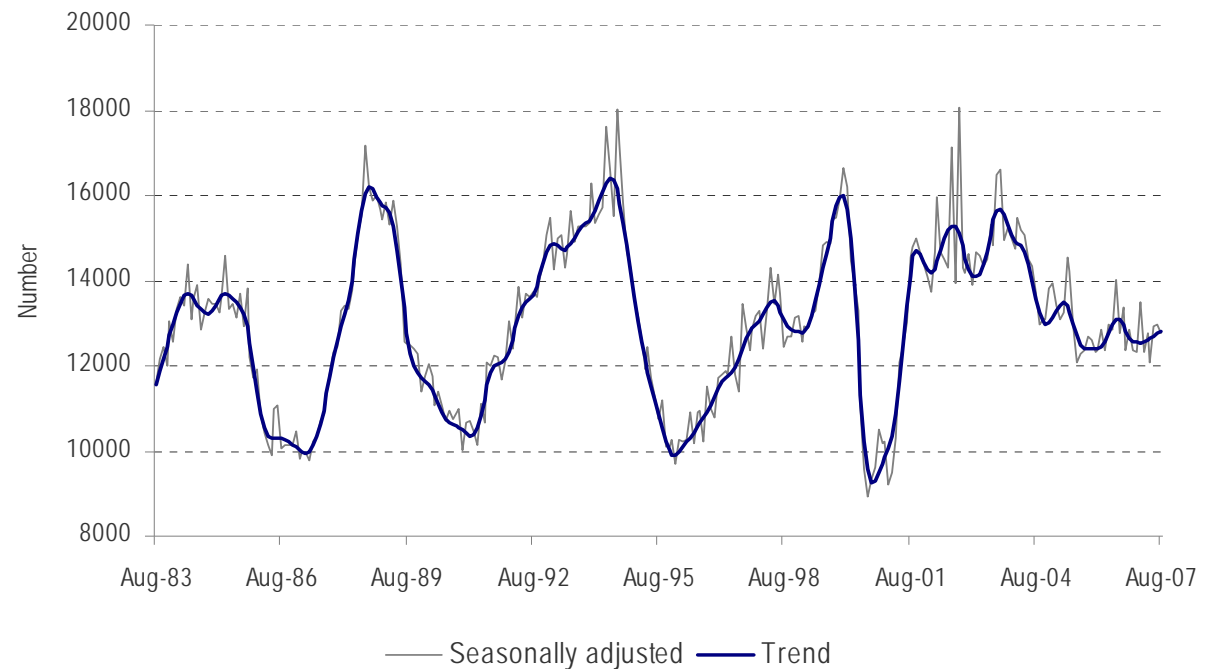
- **New home building**
- **The renovations sector**
- **The established housing market**
- **The rental market**



Sector 1: New Homes

- Dwelling Approvals – the heartbeat of the new home industry
- Activity very cyclical until recently
- The industry needs to build 170,000 homes per annum to satisfy population growth (equates to 14,500 approvals per month)
- Have been below this level since 2003

Building Approvals - Australia

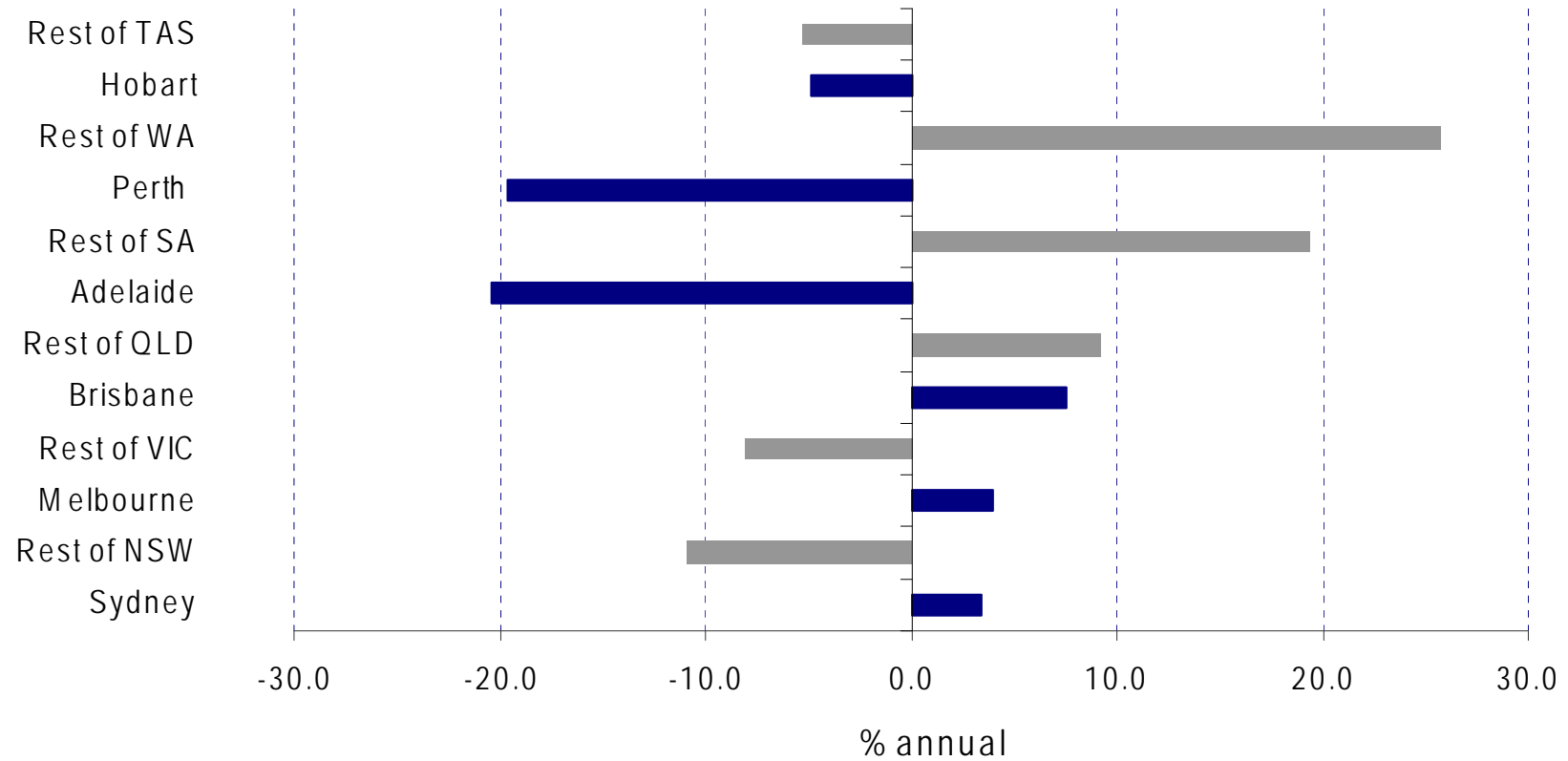




Sector 1: New Homes

Building Approvals – Capital City vs Rest of State

Six months to August 2007



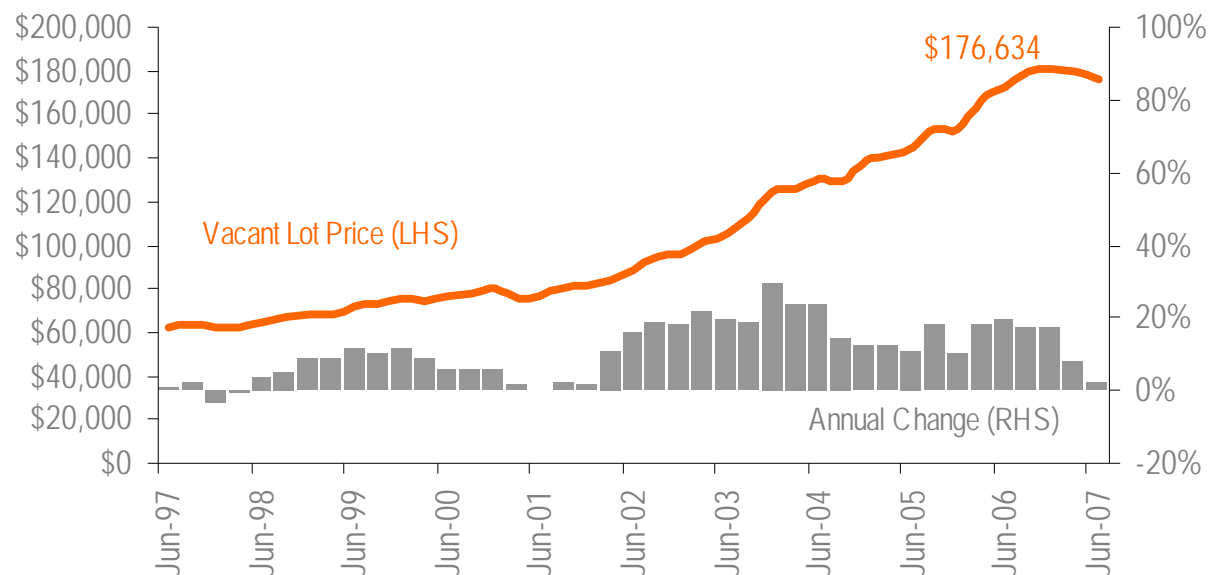


Sector 1: New Homes

- Supply side constraints have been an issue, in particular land availability and price.
- High prices have hammered affordability
- Typical “house-and-land” package was 4.5 times annual earnings in the 1990’s – it’s currently 8 times

Vacant Lot Price - Average of Australia's Largest 5 States

Source: Australian Property Monitors

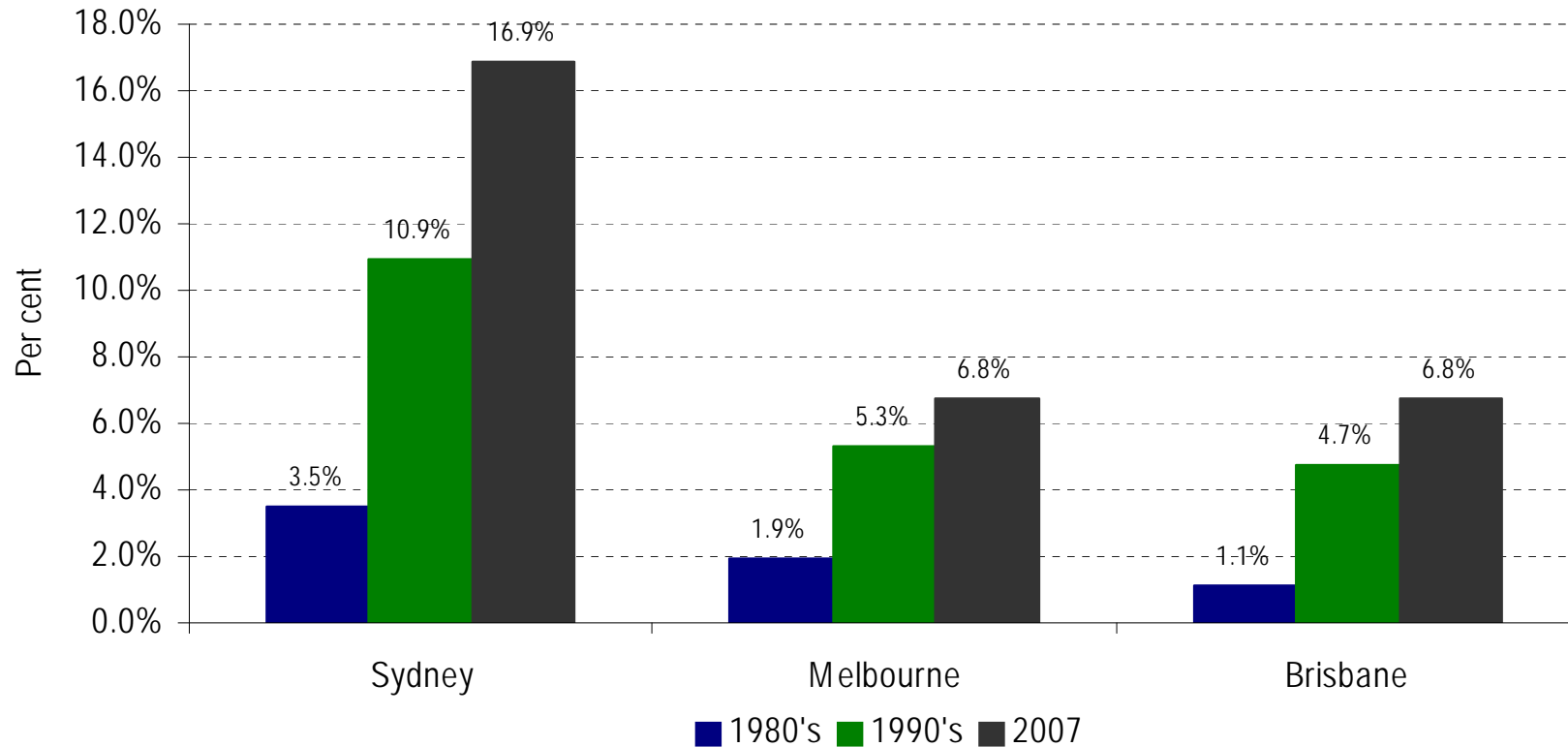




Sector 1: New Homes

Primary Charges for Broadacre Development - % of final house price*

Source: HIA



Includes: infrastructure charges; local regulations; compliance costs; stamp duty on land



Sector 1: New Homes

Change in Housing Starts
2003/04 to 2006/07

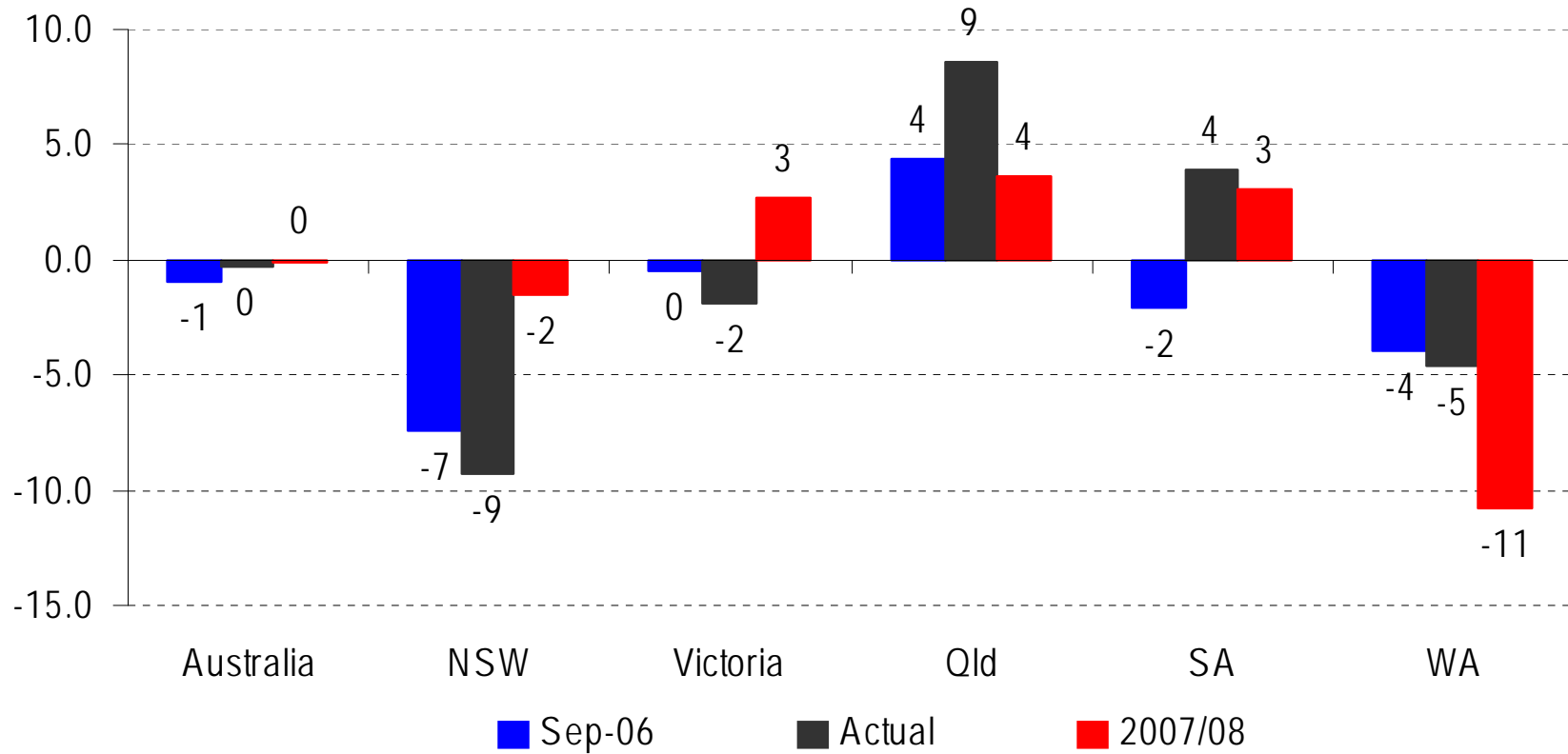




Sector 1: New Homes

Dwelling Commencement Forecasts

2006-07 & 2007/08





Sector 1: New Homes

HOUSING STARTS: by state and territory

thousand dwellings commenced

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aust
2002/03 (a)	47.91	45.80	39.61	10.24	20.31	2.07	0.99	3.13	170.07
2003/04 (a)	45.54	45.31	44.23	10.27	22.58	2.85	1.03	2.87	174.68
2004/05 (a)	39.18	40.91	39.37	10.90	22.93	2.83	1.34	2.44	159.90
2005/06 (a)	32.32	39.23	37.66	10.70	25.75	2.56	1.36	1.85	151.43
2006/07 (a)	29.32	38.50	40.91	11.12	24.56	2.87	1.41	2.29	150.97
2007/08	28.86	39.54	43.21	11.46	21.92	2.88	1.49	2.31	151.68
2008/09	31.26	42.24	44.12	10.90	21.92	2.77	1.43	2.52	157.16
2009/10	36.98	44.22	45.77	11.13	22.36	2.83	1.46	2.45	167.20

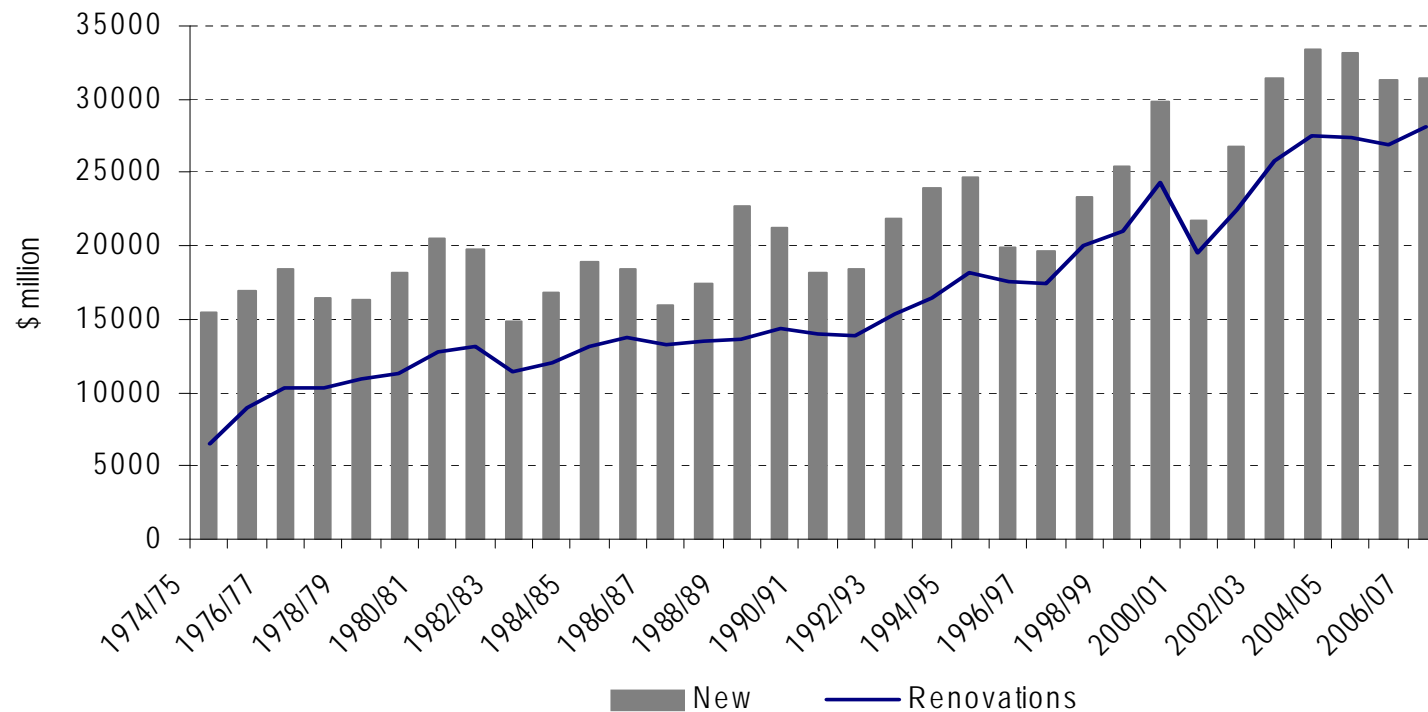
% change:

2003/04 (a)	-5	-1	12	0	11	37	4	-8	3
2004/05 (a)	-14	-10	-11	6	2	-1	30	-15	-8
2005/06 (a)	-18	-4	-4	-2	12	-9	2	-24	-5
2006/07 (a)	-9	-2	9	4	-5	12	4	24	0
2007/08	-2	3	6	3	-11	1	5	1	0
2008/09	8	7	2	-5	0	-4	-4	9	4
2009/10	18	5	4	2	2	2	2	-3	6



Sector 2: The Renovations Sector

New Housing and Renovations



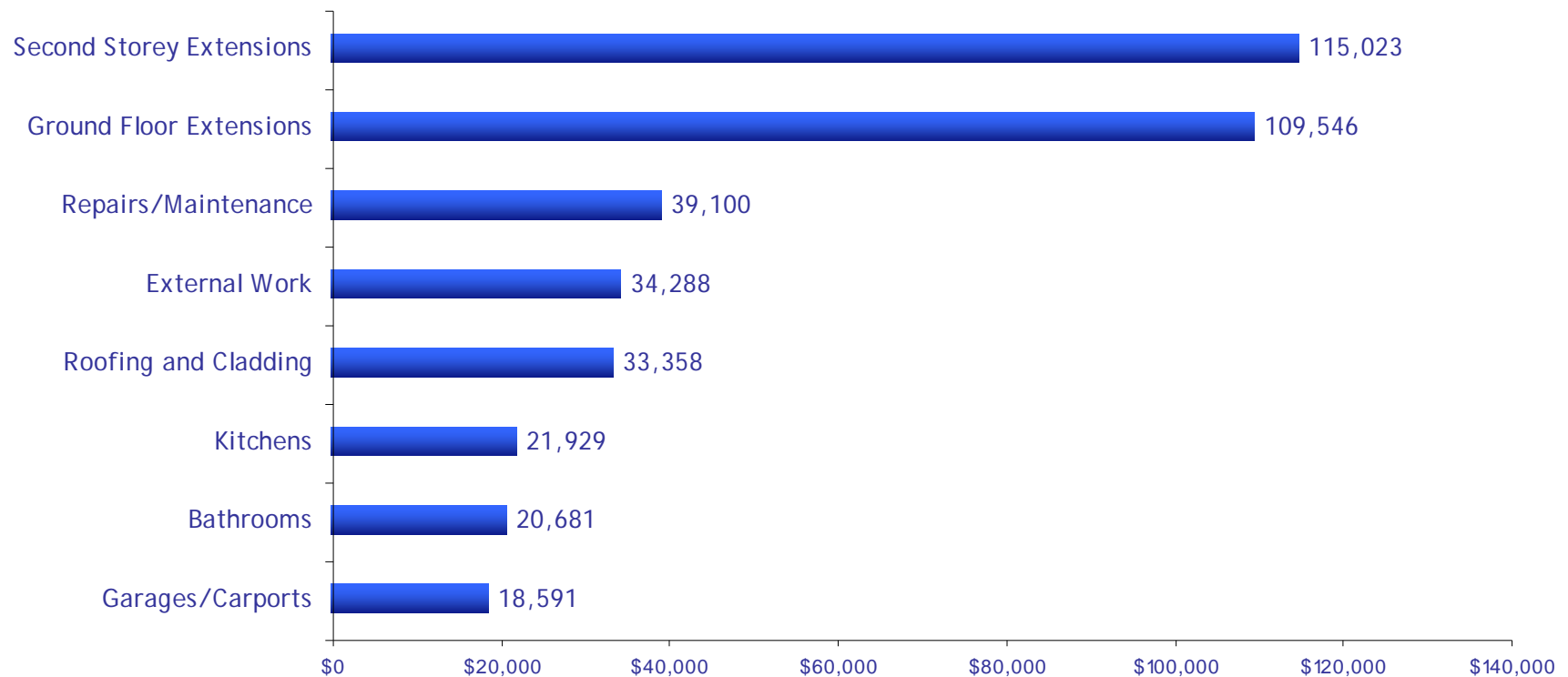
- Renovation activity is much less cyclical
- Renovation activity lost its sexiness for a couple of years but is now heading back up



Sector 2: The Renovations Sector

Average Value of Major Renovation Projects

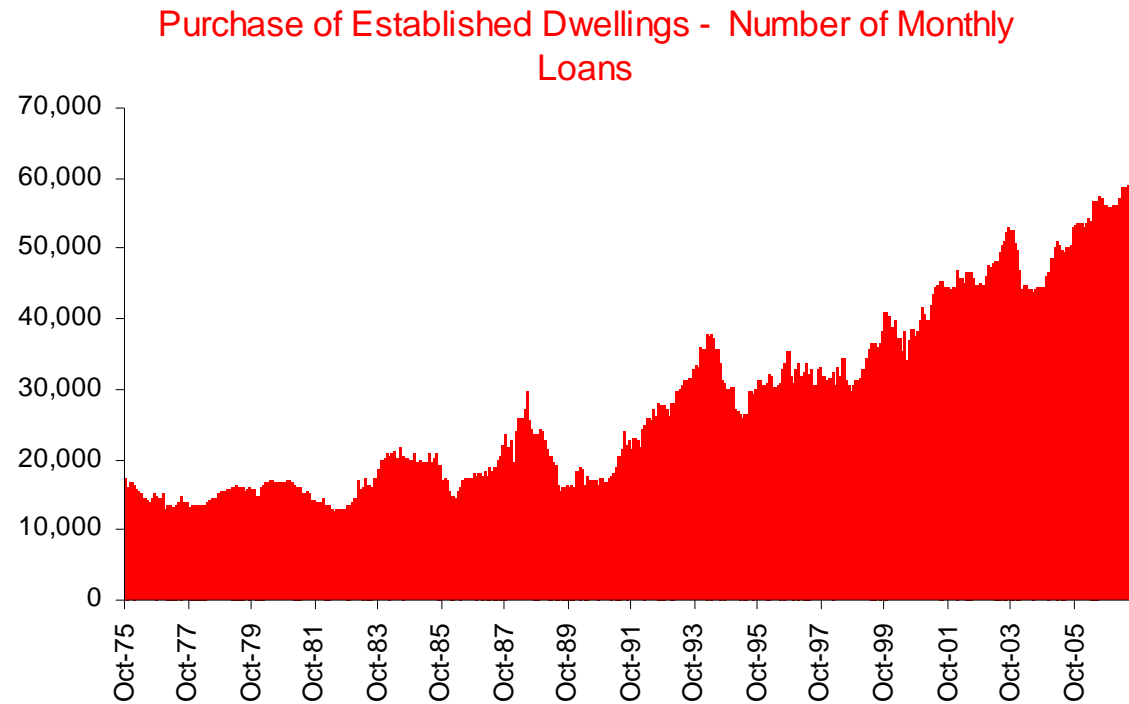
Source: HIA Renovations Monitor





Sector 3: The Established Real Estate Market

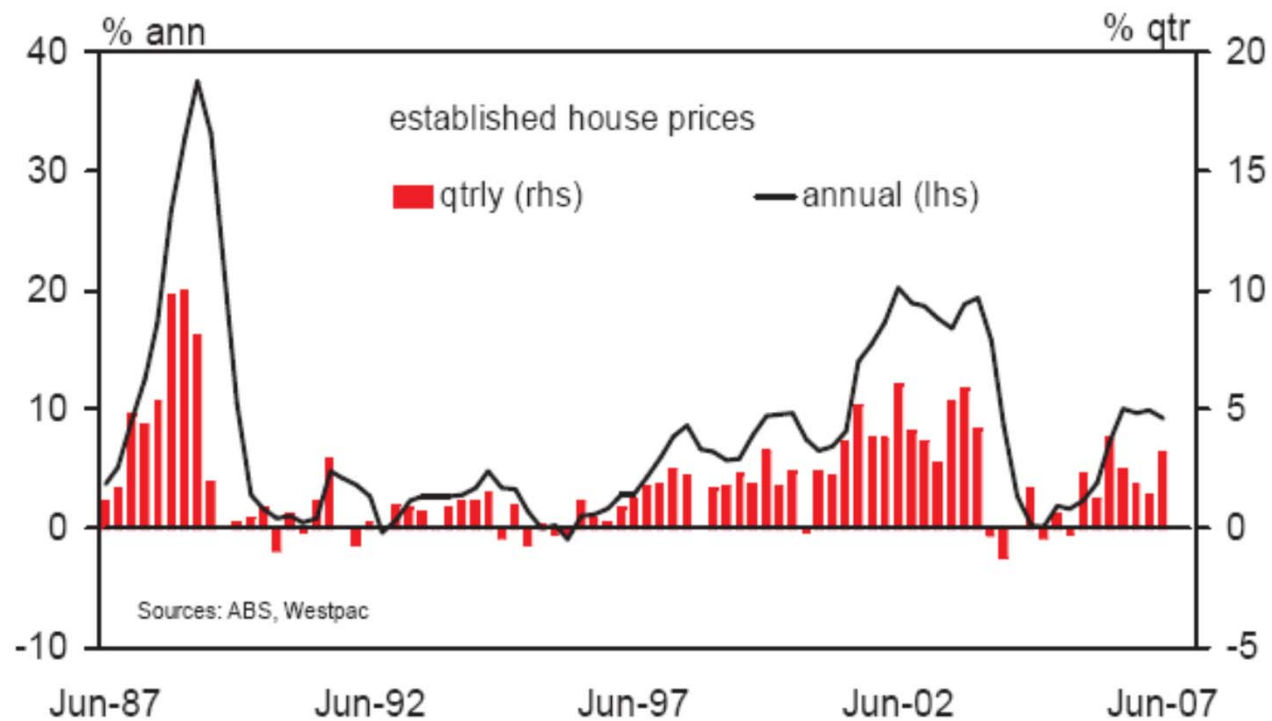
- On the up and up ...
- ... and set to continue that way





Sector 3: The Established Real Estate Market

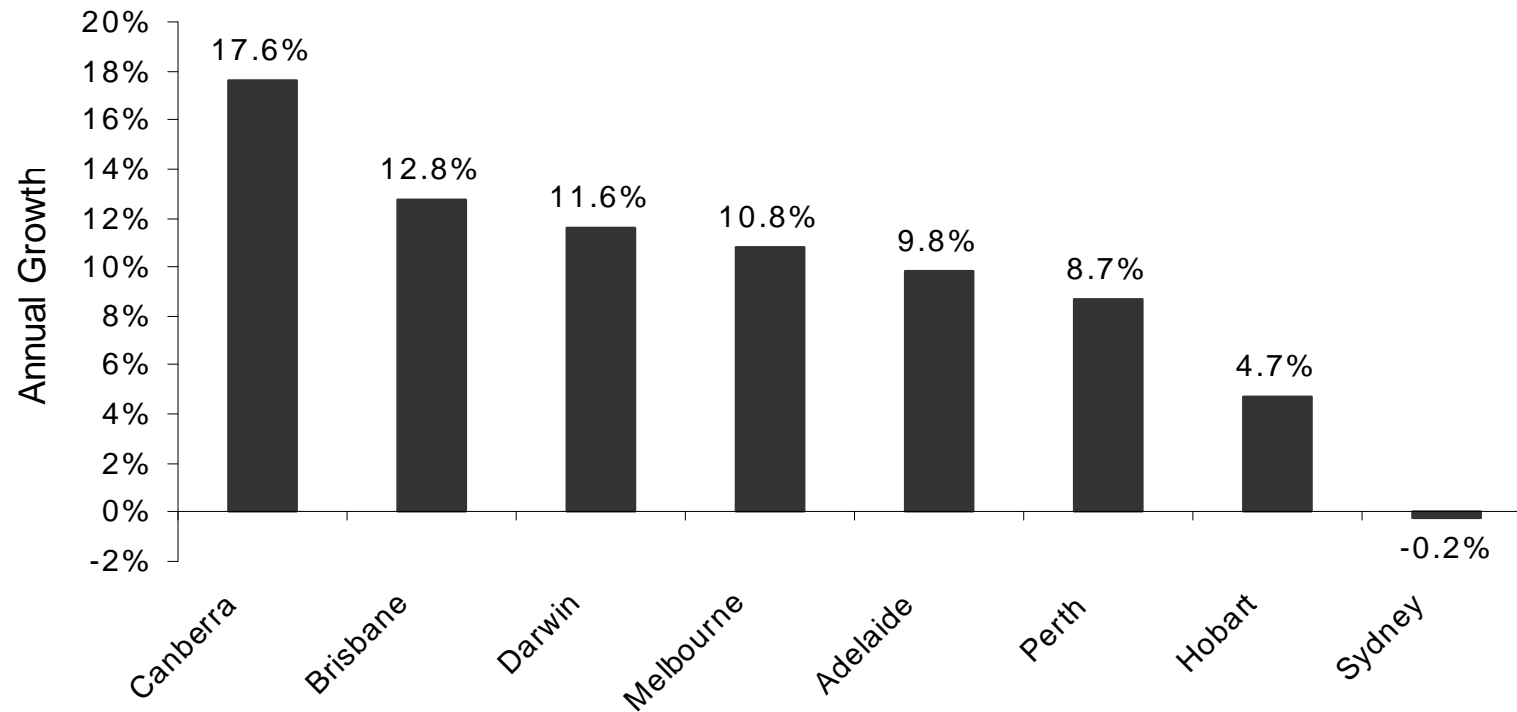
House price growth





Sector 3: The Established Real Estate Market

Median House Prices
June 2007 quarter



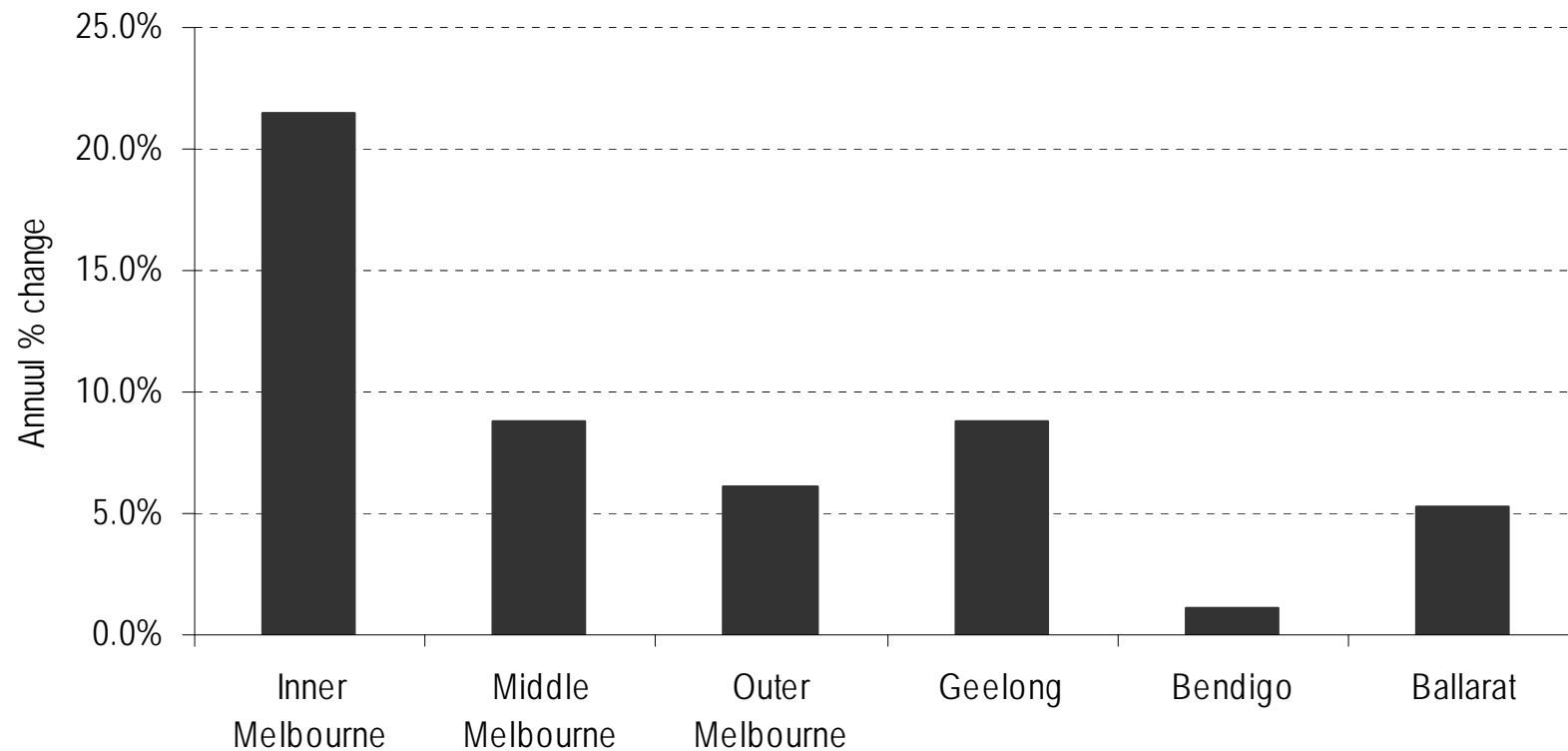
Source APM



Sector 3: The Established Real Estate Market

Change in Median House Prices

Source: REIA



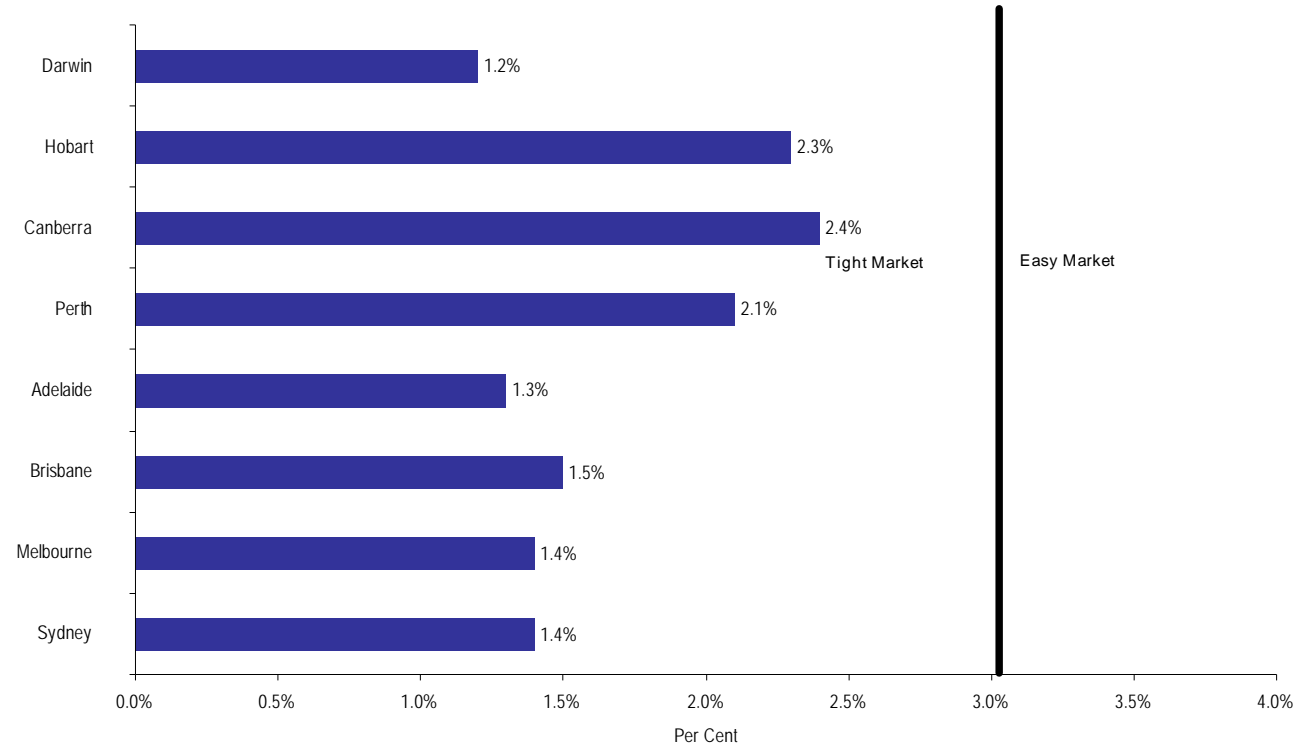


Sector 4: The Rental Market

- The real casualty of the current housing squeeze
- Public housing supply has all but disappeared
- Vacancy rates are at crucially tight levels

Vacancy Rate, Capital Cities, June 2007 qtr

Source: REIA

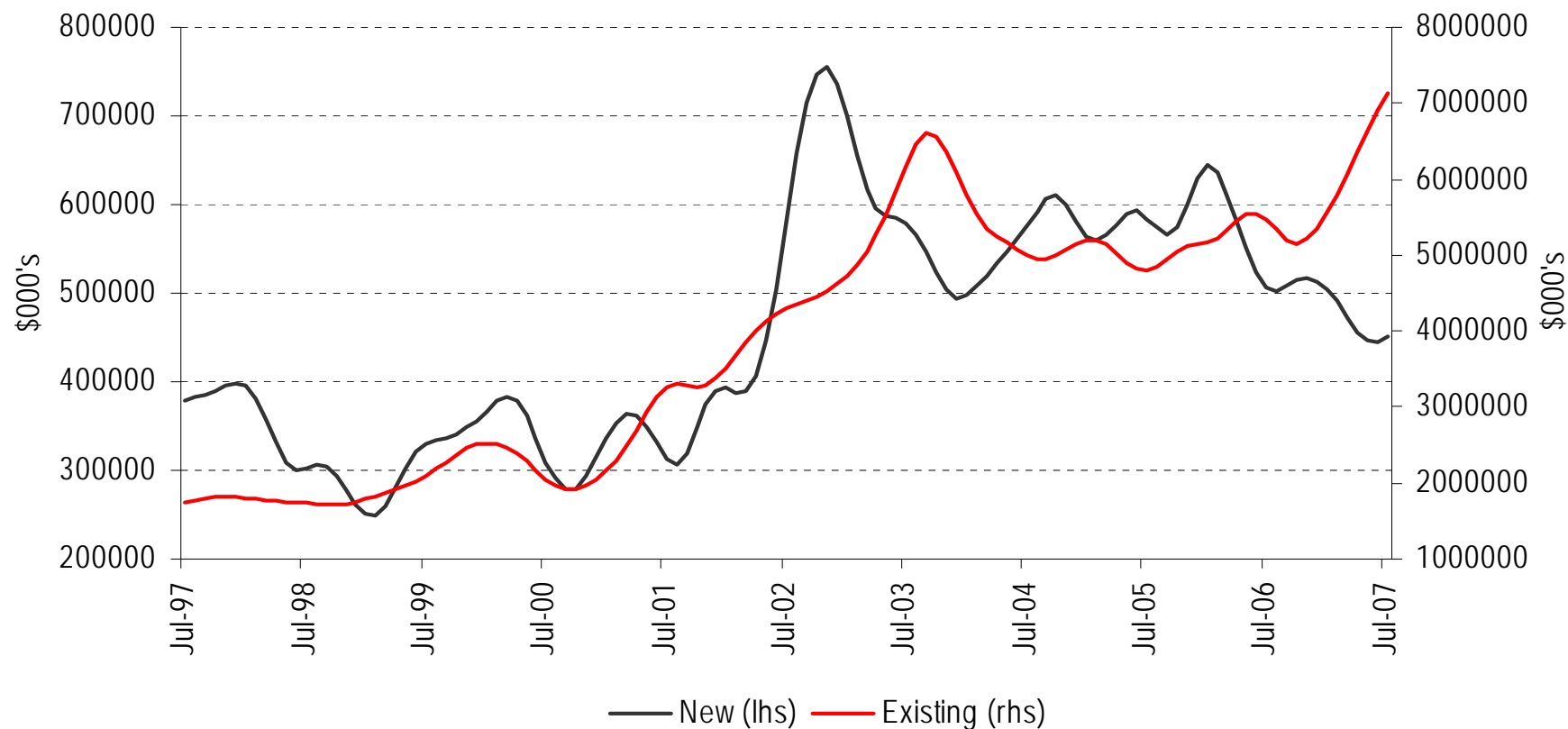




Sector 4: The Rental Market

Trend in Lending for Residential Investment

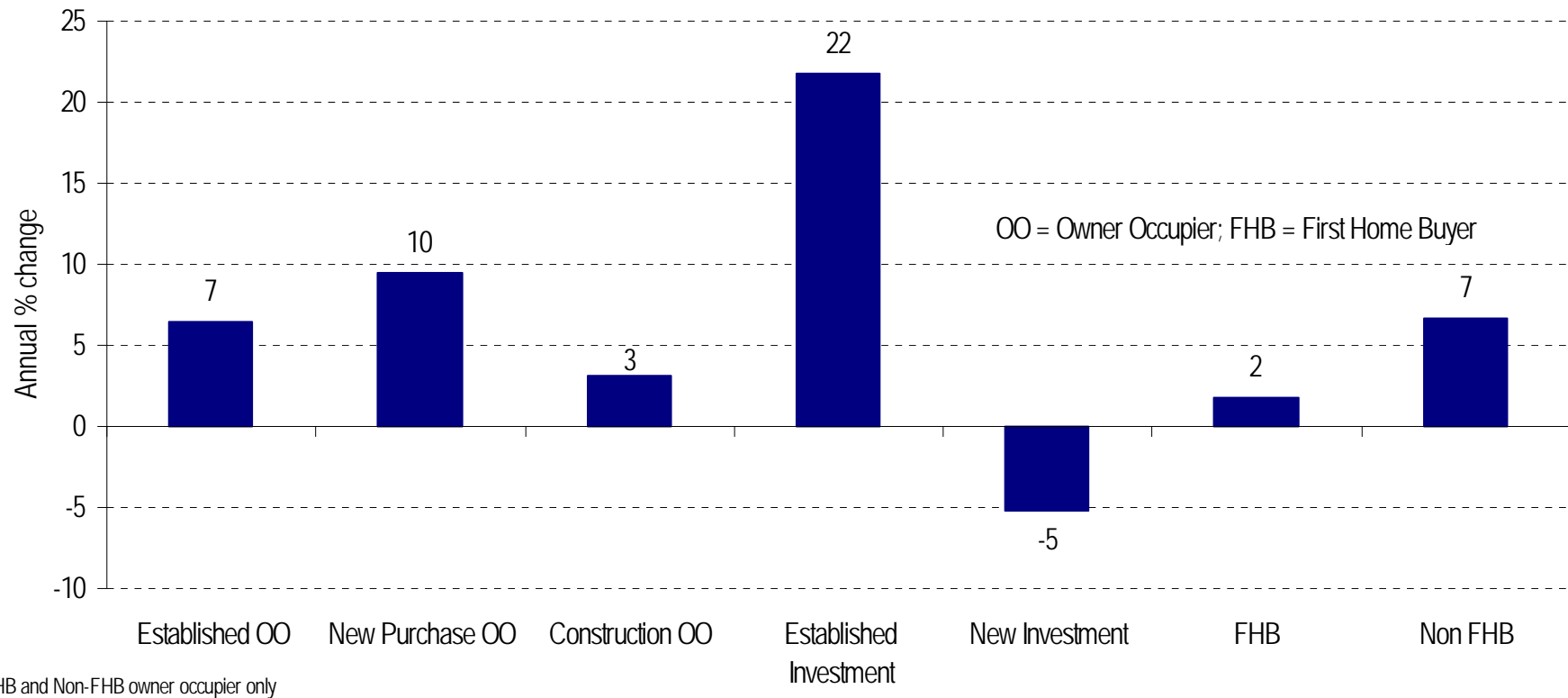
Source: ABS 5609.11





Sector 4: The Rental Market

Growth in Residential Lending over 2006/07





Hot off the press ...

HIA Trade Contractor Price Index - by Trade

(Sep 02 All Trades, All Regions = 100)

	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Qtly Change	Annual Change
Bricklaying	105.4	106.9	109.6	110.4	109.7	105.5	110.7	113.3	119.1	123.1	126.2	2.5%	14.0%
Carpentry	105.2	102.2	105.8	104.5	112.3	112.8	112.0	110.7	109.3	118.8	116.5	-1.9%	4.1%
Ceramic Tiling	109.4	108.4	113.2	116.1	112.9	120.5	128.2	130.9	124.7	122.1	125.4	2.7%	-2.1%
Electrical	142.3	141.6	146.6	148.8	150.9	148.8	150.1	147.9	149.2	146.6	150.1	2.4%	0.0%
General Building	110.2	114.2	114.4	116.1	116.3	120.7	120.0	117.8	116.4	115.6	120.0	3.9%	0.0%
Joinery	118.6	125.4	129.0	127.5	129.0	119.0	120.2	117.5	123.2	129.4	129.6	0.2%	7.8%
Landscaping	111.9	115.5	110.4	111.4	114.6	121.3	110.0	112.7	114.1	116.9	115.3	-1.4%	4.8%
Other Trades	129.1	123.8	122.0	124.0	122.1	125.7	126.9	124.6	133.6	136.0	131.0	-3.7%	3.2%
Painting	95.3	101.7	94.7	97.3	105.7	100.5	109.2	115.4	109.3	115.6	113.9	-1.4%	4.4%
Plastering	107.7	99.2	102.3	104.2	108.3	103.4	111.6	114.4	117.1	115.5	119.5	3.5%	7.1%
Plumbing	151.3	155.3	147.3	142.6	139.9	146.4	138.1	141.1	137.4	143.2	146.2	2.1%	5.9%
Roofing	121.6	135.5	123.8	119.1	118.4	122.1	133.3	134.5	130.1	135.3	138.7	2.6%	4.1%
Site Preparation	121.6	124.0	117.7	114.1	119.7	124.8	123.4	125.7	120.9	124.0	126.5	2.0%	2.5%
All trades	118.1	118.8	120.2	119.9	120.5	120.4	122.6	124.1	124.5	128.1	129.2	0.9%	5.4%



Hot off the press ...

Trade Availability - by Region

	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Quarterly Movement in Availability
Sydney	0.04	0.11	-0.20	-0.03	0.04	-0.21	-0.07	0.03	-0.14	-0.10	-0.14	↓
Regional NSW	-0.24	-0.25	-0.10	-0.14	-0.26	-0.09	-0.10	0.46	-0.07	-0.18	-0.23	↓
Melbourne	-0.42	-0.26	-0.10	-0.28	-0.25	-0.23	-0.42	-0.29	-0.23	-0.25	-0.27	↓
Regional Vic	-0.16	-0.52	-0.43	-0.41	-0.36	0.38	-0.14	-0.20	-0.22	-0.09	-0.20	↓
Brisbane	-0.65	-0.48	-0.53	-0.85	-0.58	-0.59	-0.47	-0.44	-0.56	-0.60	-0.69	↓
Regional QLD	-0.48	-0.34	-0.45	-0.68	-0.83	-0.64	-1.00	-0.73	-0.80	-0.60	-0.76	↓
Adelaide	-0.33	-0.67	-0.47	-0.73	-0.35	-0.32	-0.58	-0.31	-0.17	-0.13	-0.24	↓
Regional SA	-0.42	-0.50	-0.17	-0.80	-0.44	-0.54	-0.29	-0.60	-0.60	-0.40	-0.40	=
Perth	-0.96	-0.76	-0.94	-0.92	-0.83	-1.10	-0.92	-0.95	-0.71	-0.82	-0.93	↓
Regional WA	-0.55	-1.17	-1.33	-0.50	-1.00	-0.67	-1.00	-0.75	-0.70	-0.89	-0.60	↑
All of Australia	-0.42	-0.34	-0.35	-0.35	-0.43	-0.41	-0.42	-0.37	-0.41	-0.43	-0.46	↓

**Note: Critical Short Supply is between -2 and -1, Moderate Short Supply is between -1 and 0, In balance = 0*

Moderate oversupply is between 0 and 1, and massive oversupply is between 1 and 2.

Source: HIA Austral Bricks Trades Report



Some points to take away:

- No recovery for new home building until 2008/09 within which wide differences across regions will persist
- The renovations sector will grow through the rest of the decade
- Current fair call: “If you’re in the housing market you’re fine, if you’re not, you’re stuffed.”
- Land release, infrastructure funding, investment in new rental stock are vital ingredients to a national housing recovery of any suitable magnitude



Economics Group

**Harley Dale
Chief Economist**

October 2007

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<http://economics.hia.asn.au>

Australian Business Economists



Wednesday 14 November

Forecasting Conference

Tim Flannery, Ross Gittins, Don Gunasekera

Annual Dinner

Richard Fisher, Dallas Federal Reserve

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