

# Q3 2011

## Quarterly Newsletter

3rd quarter, 2011

Prepared for Wise Lord & Ferguson

Outside the mining sector, the broader Australian market appears to be trading water at present as an era of conservatism has crept into the residential market. However an increase in the number of owner occupiers in the market can be seen across most cities, and continues to support apartment and townhouse projects in inner-urban precincts that are complemented by key facilities such as transport, education, medical, retail and entertainment.

This activity is important as approximately 70% of properties in Australia are owner occupied and owned outright or subject to a mortgage. This 70% of owner occupied property makes residential investment unique - it is a safety valve ensuring the residential market isn't dominated by investors.

With our comparatively high interest rates, low unemployment and strong economy defying the trends that have been seen in US, UK and Europe, Australia continues to maintain its position as one of the best placed and most stable economies in the developed world.

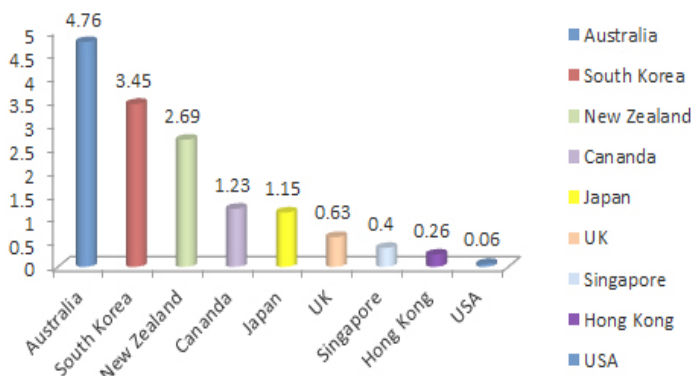
### Interest rates

Following an uncertain period in the global financial markets the RBA opted to keep the cash rate on hold for the tenth consecutive month, making it the longest period of stability since 2005/06. The predictions on whether the RBA will rise or lower the cash rate next month and months to follow will remain a hotly debated topic from a variety of industry experts, each with a differing prediction on what will happen. Amidst this debate, what we do know is Australia has the highest interest rates in the developed world (see graph 1 opposite), which has ensured our nation continues to attract significant offshore funds and leaves us in a much better position to stimulate the economy if required in the future.

### Supply and Demand

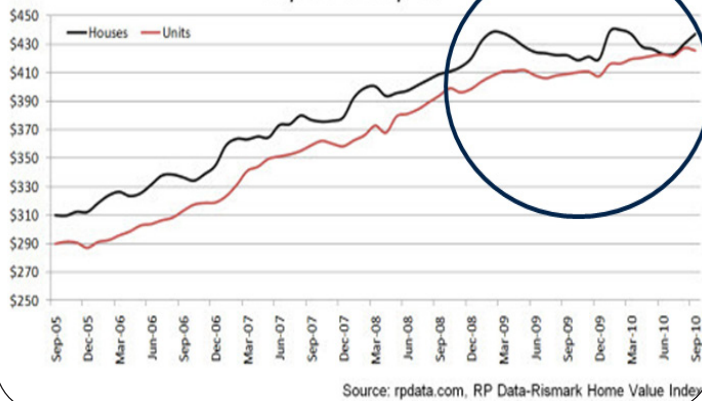
Even with a modest 1% rise in July, national building levels remain 15% below levels in 2010. This coupled with the current completions being at 40,000 - 50,000 (in 2011/12) less than the underlying housing demand, will ensure our housing shortage will further deteriorate. The National Housing Supply Council is reported to confirm that by 2014 the overall gap between supply and demand will grow to 308,000 dwellings of which two-thirds of this will be around the four major capital cities. Factors such as our ageing population, which will increase demand for different types of dwelling; changing demographics; and the shortage of land supply in in-demand suburbs will all contribute to this gap.

### International Interest Rates

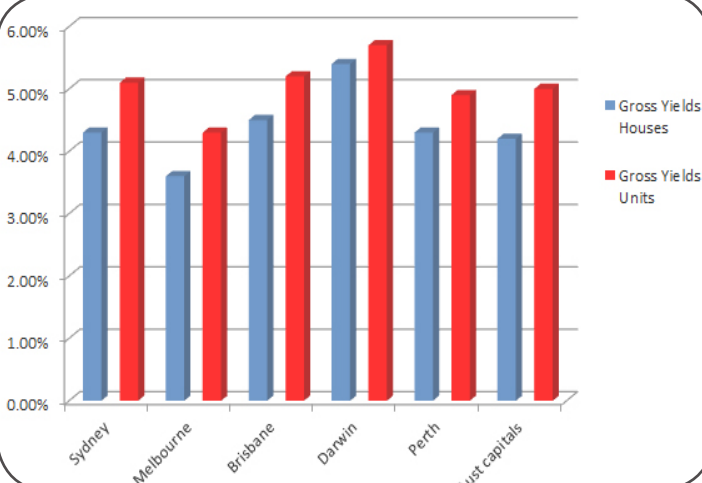


Graph 1: International interest rates (source: Reserve Bank of Australia)

### Capital city rental growth Sep-05 to Sep-10



Graph 2: Capital City rental growth (Source: RP Data)



Graph 3: Gross rental yields: houses v units (source: RP Data - Rismark, 2011)

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### Rental market

Following an average of 11% per annum growth from 2005 to 2008, 2009/10 saw a period of slow growth largely due to improved affordability and historically low interest rates (refer graph 2 over page). We are now seeing rental growth returning to each of the capital cities which is likely to continue through the tail end of 2011 and into 2012. Rents across the nation have risen by 1.4 per cent and in capital cities by 2.7 per cent bringing the average gross yield to 5% (see graph 3). At 5.7%, Darwin provides the best rental returns, with Brisbane (5.2 per cent) and Sydney (5.2 per cent) close behind. As affordability concerns rise again, we are likely to see an increased demand for rental property as purchasers shy away from buying for the time being.

### Key figures

Official interest rate (as at Sept 07, 2011):	4.75%
Inflation rate (to Jun 2011):	3.6%
Current residential vacancy rates (to Jul Qtr 11):	
Melbourne	3.1%
Sydney	1.6%
Brisbane	1.8%
Unemployment Rate (as at August 2011)	5.1%

### Pacific Eastcoast projects - Performance

#### "Morphis Double Bay" Double Bay NSW

Two bed apartment settled in February 2007 for \$548,050. Re-valued for finance purposes in June 2011 at \$710,000.

#### "Pumphouse" North Melbourne VIC

Two bed apartment with one car space settled in November 2010 for \$368,950. Re-sold by private sale in January 2011 for \$435,000.

#### "Petrie Point" Fortitude Valley QLD

Two bed apartment settled in 2001 for \$238,440 and re-sold by private sale in September 2010 for \$520,000.

#### "Parklands" Brisbane QLD

Two bed apartment settled in June 2005 for \$377,000. Re-sold in Sept 2010 for \$620,000.

*For information on property as part of your investment portfolio, please contact:*

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Image 1: 'Morphis Double Bay' NSW



Image 2: 'Pumphouse' VIC



Image 3: 'Petrie Point' QLD



Image 4: 'Parklands' QLD