

Market Comment



2012 - opportunity knocks in selected property markets

With many of our capital city markets currently in 'correction' mode, selected regions in Australia are uniquely positioned to offer sound returns to the astute property investor.

With strong demand for rental properties in most capital cities in Australia resulting in extremely tight vacancy rates and escalating rents; stock supplies of new residential property deficient to underlying demand in most Australian States; and dwelling commencements also deficient to demand, the property market is ripe for sound gains in selected market sectors.

Low vacancy rates, increasing rents, restricted supply, strong underlying demand, rising yields and affordable interest rates – all drivers of the next upward property market cycle.

The Australian property market has always been cyclical and the major capital cities rarely synchronized - the growth rate in one city at its peak, another declining, and yet another rising.

It is rare for one single event to stimulate these markets one way or another.

Interest rates, land supply, population growth, economic growth, level of construction, unemployment levels, job creation, public confidence, underlying demand, stock deficiency/oversupply etc. etc., all play their part.

Supply and Demand - the real driver of capital growth

Capital growth is simply the result of diminishing supply over growing demand.

Firstly, let's look at projected population growth, essential to this 'Supply & Demand' equation.

The following chart gives an insight to population growth in this country to 2026.



Population growth

- a key indicator

Capital City	June 2006 (,000's)	June 2026 (,000's)	Growth %
Sydney	4,282.0	5,426.3	26.7
Melbourne	3,743.0	5,038.1	34.6
Brisbane	1,819.8	2,681.1	47.3
Adelaide	1,145.8	1,384.5	20.8
Perth	1,518.7	2,267.6	49.3
Hobart	205.5	245.3	19.4
Darwin	114.4	165.2	44.4
Canberra	334.1	416.5	24.7
Australia (all regions)	20,697.9	27,236.7	31.6

Source: ABS 'Population Projections, Australia' cat. 3222.0

You can see by this chart that cities such as Brisbane, Perth and Darwin are expected to receive the lion's share of the population growth (%) in Australia well into the next decade and beyond with Melbourne and Sydney somewhere around the national average.

Now, in regard to '**Supply**' let's look at new residential dwelling stock across the States and Territories.

State	Demand for Housing			Building Activity
	Deficiency of Stock as at June 2010		Average Annual Underlying Demand for Dwellings to 2014/15)	Dwelling Commencements Year Ended June 2010 (estimate)
	Number of Dwellings*	% of Average Annual Underlying Demand		
NSW	99,300	216	46,000	31,500
VIC	42,200	87	48,700	54,400
QLD	37,700	87	43,400	33,100
SA	-1,200	-11	10,800	12,100
WA	17,200	64	26,800	25,300
TAS	-1,000	-43	2,300	3,100
NT	2,700	135	2,000	1,200
ACT	800	30	2,700	4,300

* A negative means stock surplus

Source: BIS Shrapnel

NB: Dwelling commencements include conversions



You can see from this chart that the supply of new dwellings in all states, with the exception of South Australia and Tasmania, was deficient to demand as at June 2010, at levels that represent a significant percentage of yearly underlying demand. - no wonder rental rates are rising!

It is also interesting to note that current building activity in most states experiencing critical stock shortages, particularly NSW and Queensland, is still lagging behind current demand, further exacerbating the deficient stock problem in those states.

So, where are Australia's capital cities in the current market cycle and which cities have the potential to offer the greatest capital gain over the next term?

Although all capital cities have performed exceptionally well over the last decade compared to CPI (see http://www.propertymasters.com.au/market_update.asp for up to date details relating to median house price growth and vacancy rates), most have experienced corrections after having reached the top of their current market cycle.

Consequently, there are selected capital city markets that represent prime countercyclical timing for the astute property investor.

Summary:

Brisbane. Considering the city's current and forecast substantial population growth; the State's economic position; significant new stock supply deficiency and building activity, together with a market 'lull', it is very apparent that Brisbane should be on every property investor's radar at this time, particularly with rising rents due to the strain placed on the already tight rental market by hundreds of residents displaced by the devastating floods early this year desperately seeking rental accommodation.

Melbourne should also be on the radar as high inflows from overseas migration are placing significant stress on already strong underlying demand. And with demand already outstripping supply in this city, further pressure will be placed on rents and house prices in the future. However, deteriorating affordability could put a dampener on price growth.

Sydney is another market drawing the attention of many astute investors due to its critical deficiency of stock to underlying demand. 2011/2012 should see positive momentum for house prices driven by escalating rents, rising yields and scarcity of new stock. However, high median house prices and affordability issues are expected to hamper price growth.

Perth, although strong economically, overheated due to affordability issues and came to the end of its last upward cycle in 2007. Prices then went into 'correction' mode before rebounding in 2009/10. Price growth should continue over 2011/12 if commodity markets remain strong and affordability issues are kept in check..

Darwin's rapid median house price growth over the past 5 years together with rising affordability issues, relatively small population base and current 'top of the peak' market cycle makes it a 'tread cautiously' proposition.

Adelaide held up better than most other capital cities over 2008/2009 due, in part, to a rise in net overseas migration and first home buyer demand. Although weakening in early 2009, house price growth was healthy in 2010 and should continue in 2011/12 providing building activity, which is surplus to demand, doesn't go unchecked.

Canberra has experienced strong employment growth, mainly from the government sector, over the last few years resulting in positive median house price growth over this period before weakening in 2008/2009 then rebounding with solid growth in 2009/2010. However, forecasters are predicting a slowdown in employment which should result in only modest growth over 2011/2012.

Hobart only experienced a modest 3% decline in prices over 2008, cushioned mainly by an affordability advantage, and has rebounded well with strong growth in 2009/2010. However, forecast neutral interstate migration and new stock levels surplus to demand should result in more subdued demand in the short to medium term.

Future statistics need to be evaluated to determine the optimum time to enter selected regional markets.

One thing history has taught us is that property markets will continue to be cyclical – and it's the countercyclical investor that reaps the rewards.

Of course, there are always 'special' opportunities for the alert property investor in any of our major capital cities and towns, at any time.

At Australian Property Masters, we have earned the respect of hundreds of property investors for making sense of it all, assisting them to succeed by finding the right property, in the right market, at the right time. And at the right price.

[Contact us](#) if you would like to start the ball rolling, or simply seek advice.

Wishing you every success.

Australian Property Masters

Leon Krig
Director - APM

For further market updates and essential information relevant to property investment, visit www.propertymasters.com.au

Source for graphs and statistics referred to in this article: Australian Bureau of Statistics, BIS Shrapnel, REIA

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