



## 2009 - 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 every capital city 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 interest rates in a downward spiral – 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.

So where are Australia’s capital cities in the current market cycle and which city is poised to offer the greatest capital gain over the next term?

Firstly, let’s look at projected population growth, essential to the ‘supply & demand’ equation. The following chart gives an insight to population growth in this country to 2021.

### **Population growth - a key indicator**

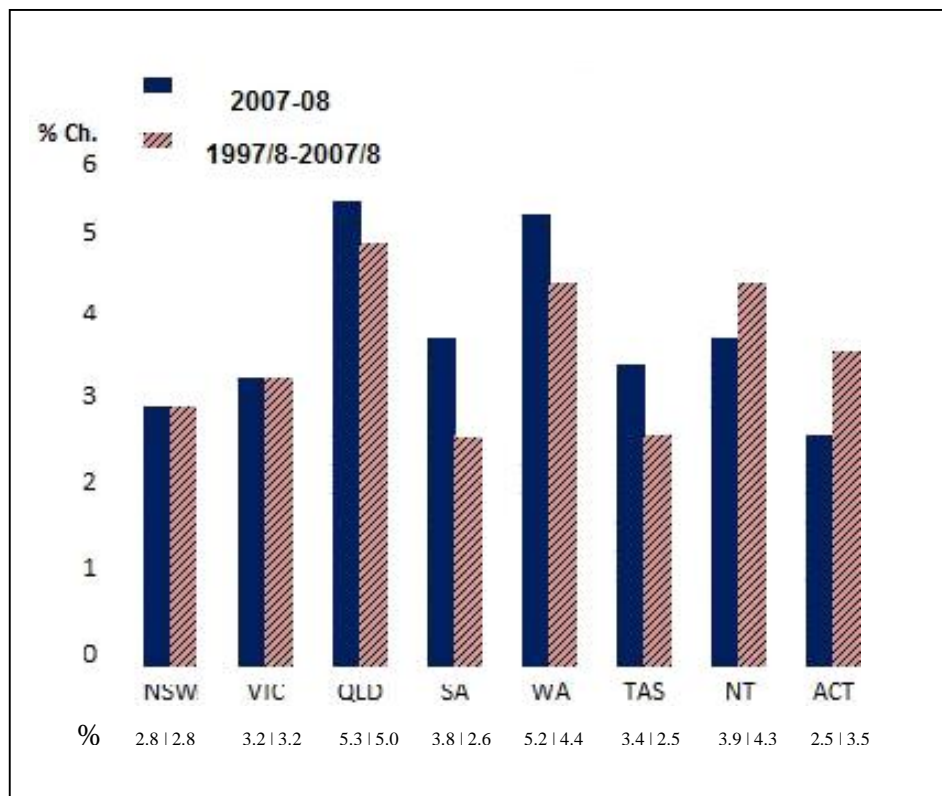
Capital City	June 2006 (,000’s)	June 2026 (,000’s)	Growth %
Sydney	4,282.0	5,426.3	26.7
Melbourne	3,743.0	5,038.1	34.6
Brisbane	1,819.8	2,681.1	47.3
Adelaide	1,145.8	1,384.5	20.8
Perth	1,518.7	2,267.6	49.3
Hobart	205.5	245.3	19.4
Darwin	114.4	165.2	44.4
Canberra	334.1	416.5	24.7
<b>Australia</b> (all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

You can see by the chart on the previous page 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; Melbourne and Sydney somewhere around the national average; Canberra a little off the pace; while Adelaide and Hobart are predicted to post only modest increases.

Secondly, economic growth.

The next chart summarises economic growth of the various Australian States and Territories.

### GROWTH IN GROSS STATE PRODUCT



Source: ABS – Australian National Accounts, 2007-2008 Cat. 5220.0

Queensland and W.A. are the standouts with economic growth in these states forecast to be well in excess of the national average over the remainder of this decade.

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

State	Demand for Housing		Average Annual Underlying Demand for Dwellings (2008/09 to 2012/13)	Building Activity
	Deficiency of Stock as at June 2008			Dwelling Commencements Year Ended June 2008
	Number of Dwellings*	% of Average Annual Underlying Demand		
<b>NSW</b>	<b>32,400</b>	<b>65.0</b>	<b>50,100</b>	<b>30,600</b>
<b>VIC</b>	<b>12,400</b>	<b>27.0</b>	<b>46,100</b>	<b>41,900</b>
<b>QLD</b>	<b>17,500</b>	<b>39.0</b>	<b>45,200</b>	<b>44,100</b>
<b>SA</b>	<b>-1,100</b>	<b>-9.0</b>	<b>12,000</b>	<b>11,900</b>
<b>WA</b>	<b>400</b>	<b>2.0</b>	<b>25,000</b>	<b>22,300</b>
<b>TAS</b>	<b>-1,500</b>	<b>-68.0</b>	<b>2,200</b>	<b>2,900</b>
<b>NT</b>	<b>600</b>	<b>35.0</b>	<b>1,700</b>	<b>1,100</b>
<b>ACT</b>	<b>800</b>	<b>33.0</b>	<b>2,400</b>	<b>2,100</b>

\* A negative means stock surplus

Source: BIS Shrapnel

NB: Dwelling commencements include conversions

You can see from this chart that **NSW** and **Queensland** have current stock levels **65%** and **39%** respectively deficient to demand!

Stock levels in **Victoria**, **ACT** and **Northern Territory** are also reported to be significantly deficient to demand.

On the other hand, **South Australia** and **Tasmania** both have stock levels surplus to demand.

It is also interesting to note that current building activity in all states showing critical stock shortages is still lagging behind current demand, further exacerbating the deficient stock problem in those states.

### Median House Price performance.

Although all capital cities have performed exceptionally well over the last decade compared to CPI (see [http://www.propertymasters.com.au/market\\_update.asp](http://www.propertymasters.com.au/market_update.asp) for up to date details relating to median house price growth and vacancy rates), some are experiencing corrections after having reached the top of their current market cycle, notably **Perth**, and should be treated cautiously. There are other capital city markets that represent prime countercyclical timing for the astute property investor.

### The conclusions:

Considering the city's current and forecast substantial population growth; the State's economic position; hugely deficient stock supply and building activity, it is very apparent that **Brisbane** should be on every property investor's radar at this time, particularly with softening prices during late 2008/early 2009.

**Melbourne** should also be on the radar as high inflows from overseas migration is 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.

**Perth**, although strong economically, has overheated due to affordability issues and came to the end of its last upward cycle in 2007 after reporting the highest capital growth in the country over the 3 years from September quarter 2004 to September quarter 2007 - a staggering **82%**. Median house prices have since fallen and only modest growth can be expected over the next 3 years.

**Darwin's** rapid median house price growth over the past 3 years; its subsequent slowdown, together with rising affordability issues, relatively small population base and current 'top of the peak' market cycle makes it a 'tread cautiously' proposition.

**Adelaide** has posted positive median house price growth over the past three years, due, in part, to a rise in net overseas migration. However, subsequent slowing of population growth and rising unemployment is expected to reduce underlying demand, and hence impact on future price growth.

**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. However, forecasters are predicting a slowdown in employment which should result in more moderate price growth over the next 3 years.

**Sydney** is another market drawing the attention of many astute investors due to its critical deficiency of stock to underlying demand. Continuing affordability issues are expected to restrict median house prices to modest growth in the short to midterm before slowly gaining positive momentum driven by escalating rents, rising yields and scarcity of new stock.

Future statistics need to be evaluated to determine the optimum time to enter other city and 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**



Clive Bancroft  
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For further market updates and essential information relevant to property investment, visit [www.propertymasters.com.au](http://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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