

# VANGARD INVESTOR UPDATE

August 2010

## UNITS COULD OFFER BEST INVESTMENT PROSPECTS

According to Residex, across Australia the total unit market (capital) growth rates have exceeded the growth rate for houses. This has been occurring for the last two years. The unit growth rate was 3.46% from July 2008 to July 2009, while for the same period housing growth was 1.87%. For the current year units grew by 10.89% while houses grew by 9.55%.

Residex believes that affordability is driving the growth rates. It also believes that people want to live in houses but affordability drives them into units. However, when both house and unit markets are as equally affordable to get into, housing market growth outperforms unit markets.

Since the RBA began increasing interest rates from October 2009, affordability is again creating difficulties and the unit market is starting to outperform the housing market.

Different cities, and suburbs within cities, will vary in performance due to a number of factors which influence demand. Vanguard Group can provide professional advice and guidance on market trends and areas that can achieve sustainable investment returns. Contact us on xxxxx for more details.

## MORTGAGE RATES TO RISE

While the RBA is cautiously assessing domestic and international economic indicators and currently has interest rates 'on hold', some banks are already warning that costs of wholesale funding could force another interest rate increase independent of the RBA's official cash rate.

If banks lift rates, it is likely this will flow on to non-bank lenders as most non-bank lenders get their funding from major banks. Recently we have seen a resurgence of competition as non-banks are re-entering the market and, in some cases, are offering more competitive products and rates than some of the major banks. Any 'out-of-cycle' increase in rates by the major banks is likely to be passed on to the non-banks and again stifle competition in the mortgage market.

## HOUSING SHORTAGES WILL DRIVE DEMAND FOR RENTAL PROPERTIES

According to the Housing Industry Association, Australia's housing shortage is set to rocket to a shortfall of nearly half a million dwellings within 10 years.

Currently Australia has a national shortfall of about 190,000 dwellings which is estimated to widen to 466,000 by 2020 due to population growth. Lack of adequate, affordable land supply and bureaucracy is exacerbating the problem.

HIA Chief Economist Harley Dale estimates that it takes seven to eight years for a greenfield site to reach completion – an "unnecessary long period that pushes up costs and reduces supply".

	Australia	Brisbane	Melbourne	Sydney
<b>HOUSES - Median Value</b>	\$444,000	\$464,500	\$592,000	\$668,000
Capital Growth - Annual	9.55%	2.73%	18.81%	12.64%
Capital Growth - Over 10 years p/a	10.11%	11.45%	10.82%	6.84%
Rental yield (July 10)	4.23%	4.21%	3.26%	3.91%
<b>UNITS - Median Value</b>	\$401,500	\$365,000	\$456,000	\$473,500
Capital Growth - Annual	10.89%	1.15%	16.30%	11.94%
Capital Growth - Over 10 years p/a	8.56%	10.25%	10.38%	6.32%
Rental yield (July 10)	4.61%	5.00%	4.00%	4.85%

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