

# VANGARD INVESTOR UPDATE

January 2010

## GROWTH IN PROPERTY PRICES WILL GIVE GREAT INVESTMENT OPPORTUNITIES

There has been considerable hype in the media over the past six months about the rapid rises in property prices in the wake of the economic recovery. But how does this impact on current and future property investors?

Figures released this month by Residex, a company that provides independent national property statistics and analysis, reveal that house prices fell or were relatively stagnant in many parts of Australia during the first half of 2009 but growth in prices took off in the second half of the year. Melbourne recorded the highest growth rate of 12% over the past six months, followed by Sydney property values which grew at around 10%. Unit prices also rose, but at slightly lower rates.

It should be noted that these growth rates are averaged across the metropolitan areas and that growth in some suburbs may be higher or lower than the metropolitan average. However, if this trend continues until the end of June this year, Melbourne property prices will have increased by a whopping 25% over 12 months, and by 21% for Sydney.

## CAN THIS RATE OF GROWTH CONTINUE?

The recent high growth rates reflect pent up demand and a lack of supply of housing stock. This is coupled with historically low interest rates and, until recently, very generous first home buyer assistance provided as part of the Federal Government's economic stimulus package.

But will the current rate of growth continue? Residex believes it will – at least in the short term. Two factors will influence future property growth rates – interest rates and demand. Until the Reserve Bank increases interest rates by a further 0.5% to 1%, Residex expects the current growth rates to continue but to be reduced slightly.

Residex also believes the current reduction in skilled migration will dampen demand, but this will take about 18 months to flow through to the property market.

## IS THIS A GOOD TIME FOR PROPERTY INVESTMENT?

Based on Residex's analysis, we believe it is a good time to look at property investment for a number of important reasons:

- Interest rates, although on the rise, are still at affordable and historically low levels for investors, especially as interest payments are a tax deductible investment expense.
- Although the rate of growth is expected to slow, property values are expected to continue to rise and produce excellent capital growth opportunities in key suburbs.
- There is currently solid demand for rental properties with low vacancy rates. This demand is expected to increase as property prices and interest rates continue to rise, pushing up rents and increasing rental yields.

## RENTS FALL IN SYDNEY & MELBOURNE

The Federal Government's first home owner assistance was a doubled-edged sword. On one hand it made buying a home more attractive for first home buyers and increased demand, thereby helping to push up prices. On the other hand it has removed a significant number of renters from the rental market and reduced demand for rental accommodation.

With reduced demand and less heated competition by tenants for rental properties, rent for houses actually fell in Melbourne by 2.6% and by 7% in Sydney during 2009. Units fared better, with rents increasing by around 6% in Melbourne and remaining unchanged in Sydney.

Residex believes that reduced demand for rental properties has delayed rental increases only in the short term. As housing prices continue to rise, coupled with increasing interest rates, a larger number of people will be forced into the rental market than would have happened had housing prices remained lower. As a result, Residex expects rents to increase towards the middle or end of 2010.

	GROWTH		RENT	
	10 yrs p/a	Y/E Dec 09	% Yield Dec 09	% change 09
Australia – Houses	9.84%	6.77%	4.40%	1.43%
Australia - Units	8.00%	6.32%	4.92%	2.94%
Melbourne - Houses	10.23%	14.25%	3.55%	-2.63%
Melbourne - Units	9.81%	12.28%	4.44%	6.06%
Sydney - Houses	6.79%	12.82%	3.80%	-7.07%
Sydney - Units	6.06%	10.41%	5.02%	0.00%

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