



Residential Property Market in Black as Property Values Bounce Back

The release today of the RP Data-Rismark Hedonic Property Value Index heralds some exciting news for the Australian residential market. According to the latest monthly indices, property values are experiencing a recovery from the modest 3 per cent falls seen in 2008. The findings confirmed that over the first two months of 2009, national dwelling values increased by 1.1 per cent with most of the capital gains coming in February.

RP Data National Research Director Tim Lawless believes this turnaround in market conditions has largely been created by mortgage rates being at their lowest levels since 1970 and as a result, providing a significant boost to affordability. Mortgage rates peaked at 9.6 per cent in August 2008, and have fallen to 5.8 per cent with the prospect of more cuts when the RBA Board meets this coming Tuesday.

According to Christopher Joye, CEO of Rismark International, "The recovery in prices over the last quarter has been driven by the 40 per cent reduction in mortgage rates, the boost to the first home owners grant, the Government's fiscal stimulus and a significant housing shortage. It is now clear that the boost to the first home owners grant has been one of the Government's most successful policy measures - this price strength will hopefully encourage developers back into the market."

"The resilience of Australia's housing market has also been underpinned by our robust banking system, which CBA recently reporting that its 90-day mortgage default rate was a stunningly low 0.38 per cent."

Approvals in February 2009 best since 2007

"Despite doomsday rhetoric from some, housing finance volumes have been strong with AFG disclosing that approvals in February 2009 were the best seen since November 2007."

"The improvement in home values in 2009 following modest 3 per cent falls in 2008 highlights the absurdity of the sensationalist predictions by one or two economists in 2008 that prices would fall by 30-40 per cent."

"These index results also vindicate statements last week by the RBA that it expects to see a measured recovery in Australia's residential property market," Mr Joye said.

The latest ABS housing finance data suggests real estate investors have yet to make a return to the property market. The value of investment loans has not been this low since 2002, reflecting the

low level of investor confidence across all asset-classes.

RP Data's Mr Lawless suggests the prospect of positively geared property is likely to lure more investors back into the market.

"More and more, properties are showing 'positive cash flow'. In fact, assuming an 80 per cent loan to value ratio home loan and a discounted 5.4 per cent interest rate, investors in apartments are likely to find that rental income goes a long way towards covering mortgage repayments across every capital city.

More properties are showing positive cash flow

"Another interesting dynamic over the last year has been the reversal of the 'two tiered' market that was evident between 2003-07"

"During this period affluent areas had a tendency to perform best as the financial services industry boomed. At the same time, the mortgage belts suffered from low sales volumes and declines in values. South West Sydney was a classic case in point - in today's market it is the opposite. The top 10 per cent of homes in Sydney and Melbourne are off by more than 12 per cent while more affordable homes around the \$450k mark have recorded price growth."

"People sometimes forget that homes worth more than \$1 million account for less than 5 per cent of all sales. Their performance has therefore little impact on the broader housing market where 80 per cent of all sales occur within the \$200k to \$600k price bands" Mr Lawless said."

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