



Market research insights

Investing in property

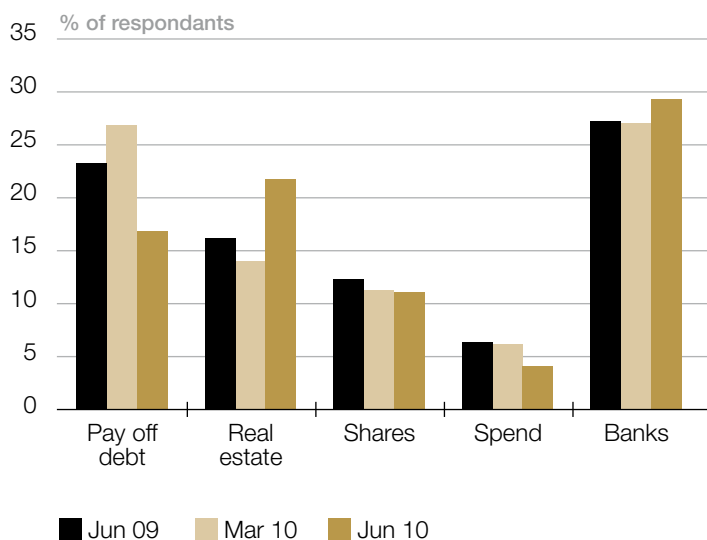
Growth opportunities in the Australian market

If you're thinking about investing in residential or commercial property, where should you look for the best yields? Or, are you planning improvements to your home, or buying a new residence or lifestyle property? In this report, we draw on recent Macquarie Research insights to discuss industry forecasts for property growth in Australia.

In June 2010, a Consumer Sentiment Survey revealed that the number of Australians who prefer to put their savings into property and the bank had grown in the last quarter. Given the current volatility of the markets, property is seen as a secure long-term investment. Recent mortgage rate rises have started to place pressure on household budgets, and while first home buyers have dropped back investors are stepping in to seize new opportunities.

Figure 1: Consumer sentiment - wisest place for savings

Source: Westpac M.I, Macquarie Research, July 2010



The Australian property market barely missed a beat during the recent economic downturn. "The residential property market is usually the first to pick up," explains Rod Cornish, Real Estate Strategist at Macquarie Capital Advisers. "We've already seen growth in Australia, China, Singapore, Hong Kong and California."

In fact, some of these markets are already moving closer to a downswing as affordability constraints set in or policy tightening start to impact – including Melbourne, Shanghai and the luxury segments of Hong Kong.

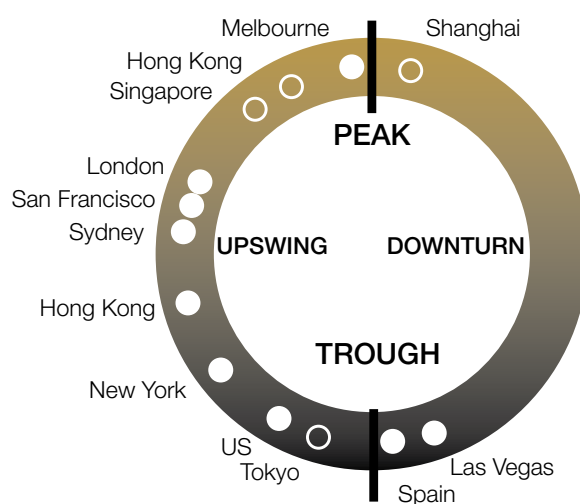
"Locally, our view is that affordability in Melbourne is at tipping point and prices have peaked," Rod says. Affordability and net migration drive the Australian residential markets, and with the current rate of new housing construction there is a real risk that supply will outstrip demand in Melbourne in a few years.

This is not the case in Sydney, however. Although the shift in affordability is enough to soften housing demand, new building approvals have remained stagnant – partly because developable land is more tightly held, and development financing has been harder to obtain in recent years.

Until 2004, the growth rates in Australian states were relatively synchronised. Now, it varies considerably. Perth's home price growth peaked earlier, in 2007, and prices have since rebalanced. Brisbane house price growth hit an affordability ceiling more recently, coinciding with slower state growth.

Figure 2: Residential markets

Source: Macquarie Real Estate Strategy

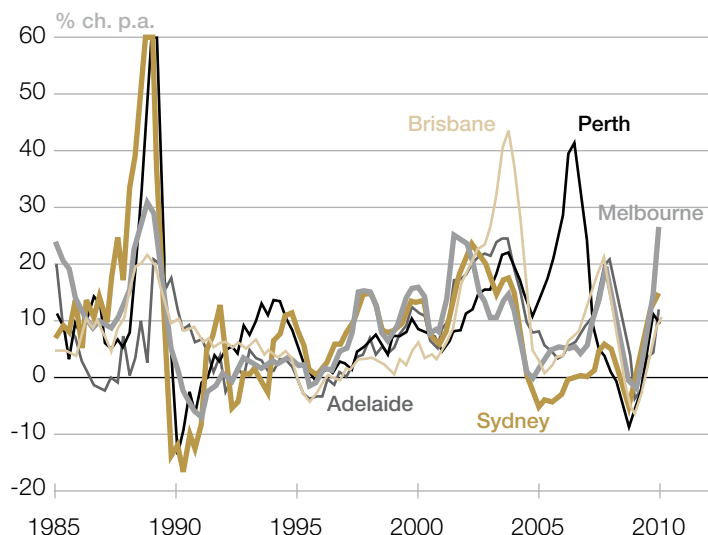


○ Luxury

This variability also reflects the increasing mobility of property investors, who are buying outside their home state in the search for affordable opportunities. These lower price points, where supply is low, offer the best medium to long-term opportunities for growth. But it's important to move quickly, as investment demand is growing.

Figure 3: Australian house price cycle

Source: Macquarie Capital Advisers, APM, REIA



Current outlook for investment growth

Residential property

House prices are driven by a combination of net migration, affordability, interest rates and economic growth. In Sydney, housing demand is predicted to soften as affordability becomes an issue – especially in outer suburbs as first homebuyers reach their repayment threshold. Net migration gains in Sydney will keep demand strong, but overall prices should flatten.

In contrast, Melbourne house prices may fall. Building levels are currently above record highs in Victoria, and supply may begin to outstrip demand by 2011.

In light of recent consumer confidence and inflation results, mortgage rates are expected to stabilise. New development financing will still be harder to obtain, keeping new building approvals low. So for long-term growth, look at affordable price brackets where prices have rebalanced and rents are rising.

Commercial property

Commercial property, like the luxury housing market, is closely aligned with business conditions. Sydney and Melbourne office rents are currently at cyclical lows, but as tenant demand rises these markets are heading for an upturn.

Office yields should firm over the next three to four years, especially in eastern states where investment is strong.

In the retail market, sub-regional centres show strong potential for growth, especially in areas where new developments or upgrades are planned. With the predicted growth of commodity exports, industrial properties also present a good opportunity – especially prime logistics sites and transport hubs.

With all these opportunities, it's increasingly important to act quickly when the opportunity emerges. The time lag between indicators and actual changes in the market has become shorter, reflecting the sharper cycles we're now seeing in the financial markets.

Talk with your Relationship Manager about whether a Macquarie Property Essentials loan can help you move swiftly to secure a new investment or residential property, and capitalise on your current equity.

Call 1300 653 929 or visit macquarie.com.au/opportunity to find out more.

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