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News release

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Residential property markets to revive in 2009 despite global conditions

Leading economic forecaster and industry analyst, BIS Shrapnel expects that residential property prices will rise over the course of 2009, following a weak performance in 2008. The company says it is likely that residential property prices declined in most cities in the September quarter of 2008, following on from a marginal fall in the previous quarter.

“On the surface, these two quarters of decline may appear to represent a ‘recession’ in residential property markets,” says BIS Shrapnel’s Managing Director, Robert Mellor. “However, we do not expect that the recent weakness represents the beginning of a sustained decline in prices, of the type that is underway in the US and the UK.

“In the US, there is clearly an oversupply of housing, and, combined with much tighter lending conditions, there have been sizeable falls in property prices.”

BIS Shrapnel notes that difficult credit market conditions flowing from the US have affected other countries, albeit in different ways.

The UK mortgage market had sourced 70 per cent of its finance from international funding sources, meaning when the cost of debt rose during 2007 and 2008, there were far greater restrictions placed on loans, particularly in relation to loan-to-valuation ratios.

“While UK housing interest rates have declined in 2008 to date, demand was constrained and house prices have continued to weaken this year,” explains Mellor.

Australia’s mortgage market is less dependent on international funding sources and availability of finance is solid, in contrast to the UK.

“In Australia, there is a clear undersupply of housing and an environment of housing shortages provides fertile ground for interest rate cuts,” says Mellor. “Recent Government policy moves, like the boost to the First Home Owners Grant, are likely to be successful because of the current housing shortages.”

BIS Shrapnel believes the global credit crunch will actually support Australian residential property prices in 2009, as financing constraints are reducing the pipeline of new rental developments.

National starts of new medium and high density dwellings are forecast to plunge by 18 per cent in 2008/09 and, as supply declines, the rental markets in all cities will tighten further, which will support property prices.

“For example, in Sydney, the number of new medium and high density dwellings being completed is forecast to fall to a 20 year low in 2009, pushing the vacancy rate to below one per cent,” explains Mellor. “Rental properties will remain in short supply, and the national average rental growth is forecast

to rise to 10 per cent in 2009, up from the current rate of 8.2 per cent, according to the Australian Bureau of Statistics rental index.”

BIS Shrapnel forecasts further turbulence in property markets as unemployment rises. The national unemployment rate is expected to rise to six per cent by the end of 2009 and employment growth is expected to be very low. However, an outright decline in the total number of persons employed is not anticipated.

Mellor says it is important to note that increases in unemployment in 1997 and 2001 did not lead to sustained decreases in property prices.

“There may be unfortunate home owners who lose their jobs and may need to sell their properties, but at the moment there are many renters who will be seeking to buy,” he says. “Interest rate cuts and the increase in the First Home Owners Grant are providing motivation for these people to buy before the end of 2008/09, and this outcome will support growth in property prices.”

In addition, BIS Shrapnel expects a return of investors to the market by the latter part of 2009, which will also help to support modest price growth.

Overall, residential property prices are expected to gradually recover in 2009, with growth of between zero and three per cent across the capital cities of Australia as the market strengthens in the second half of calendar year 2009.

About BIS Shrapnel

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 44-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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