

Weekly Property Pulse Professional Edition

This week's edition covers

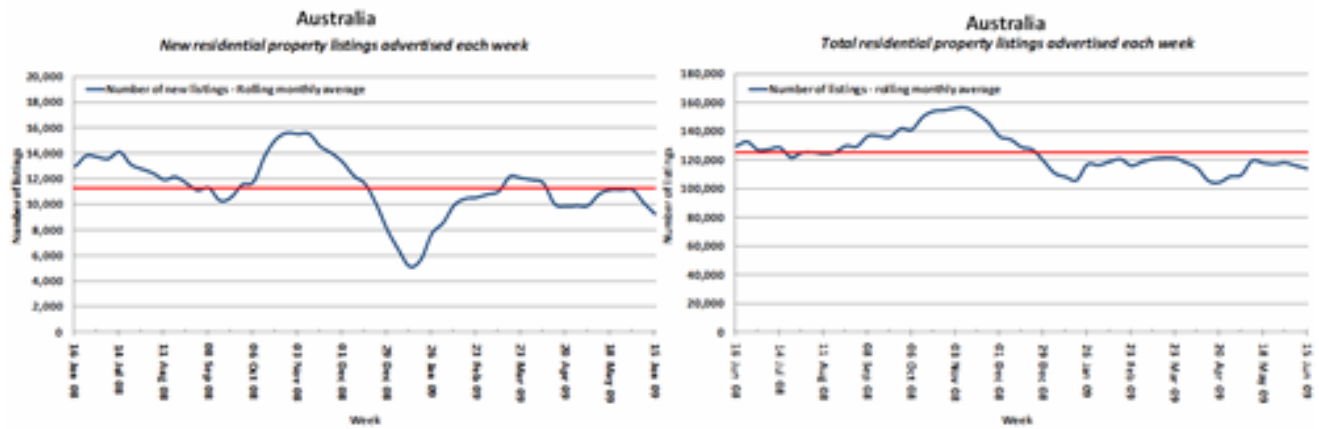
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Industry Market Wrap

This week's biggest property related story was probably BIS Shrapnel's release of their three year forecasts for property prices. Within the release they forecasted that capital city price growth over the next three years would range from 11% in Darwin to 19% in Sydney, Melbourne and Adelaide. Their forecasts have come in for much criticism however (as we will study later in the Pulse) the forecasts reported by the media did not take into consideration the fact that these figures include inflation.

Although many have suggested these forecasts are quite bullish, in real terms we are talking about increases of between 5% and 9%. The media headlines also don't mention when in that three year period the growth will happen. I don't think anyone would believe the next year to year and a half will see strong price growth given the economic climate but given the undersupply of dwellings in Australia and the cyclical nature of our market it may be the case that property prices will rebound in the second half of the three year period.

Dwelling commencements data was also released during this week with the statistics showing that the trend estimate dwelling commencements for the March 2009 quarter fell by 8.5, following an 8.4% fall in the previous quarter. Many economic commentators as well as Government Departments have highlighted Australia's ongoing shortage of housing estimated to be somewhere between 40,000 and 80,000 too few dwellings. In order to cater for our booming population it is imperative that dwelling commencements improve to provide housing for those in need and to minimise affordability issues that arise due to this shortage. Given this result it is unsurprising to see Government incentives for purchases of new houses however, it may be more effective to slash the restrictive charges on new development and inject money into the timely deployment of critical infrastructure in and around these new housing areas on the outskirts of our capital cities.



Auction clearance rates – week ending June 14th

City	Clearance Rate	Total Auctions	RP Data Auction Results	Sold Prior To Auction	Sold At Auction	Sold After Auction	Passed in	W/drawn
Adelaide	48.3%	65	60	5	20	4	26	5
Brisbane	51.6%	109	95	24	23	2	41	5
Canberra	73.1%	30	26	1	18	0	6	1
Melbourne	84.9%	594	502	92	318	16	76	0
Perth	72.0%	28	25	4	10	4	6	1
Sydney	71.0%	459	331	56	174	5	81	15
Tasmania	25.0%	17	8	2	0	0	5	1

APPROXIMATE COMMISSION:

Based on the median dwelling value of \$463,554 we estimate the total amount of available commission to be \$1.10 billion available across the Australian mainland.

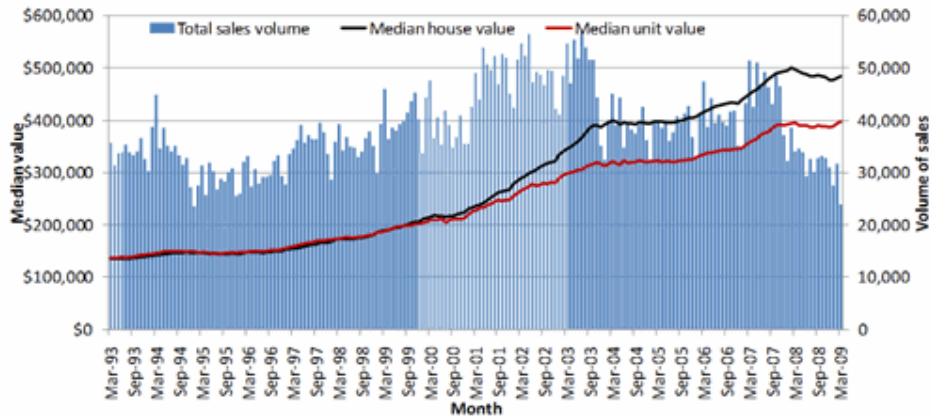
Property Values - analysing the real change

When undertaking analysis of any property asset over time, it is important to take into consideration the affects of inflation in order to determine the 'real' value change.

Between March 1993 and March 2009 (16 years) Australian dwelling values have increased at an average annual rate of 8.0% and as at March 2009 sit at \$458,908. Comparing the performance of houses and units, houses have appreciated in value by an average of 8.3% per annum whilst units on average have increased by 6.9% annually.

On a year by year basis, total value growth has varied dramatically. National dwelling values have increased by as much as 18% (2002) and have fallen by up to -0.6%. Across each year, there have been 12 occasions where median dwelling values have recorded growth of at least 5%, only the 12 months to March 2009 has recorded a fall in property values over this period.

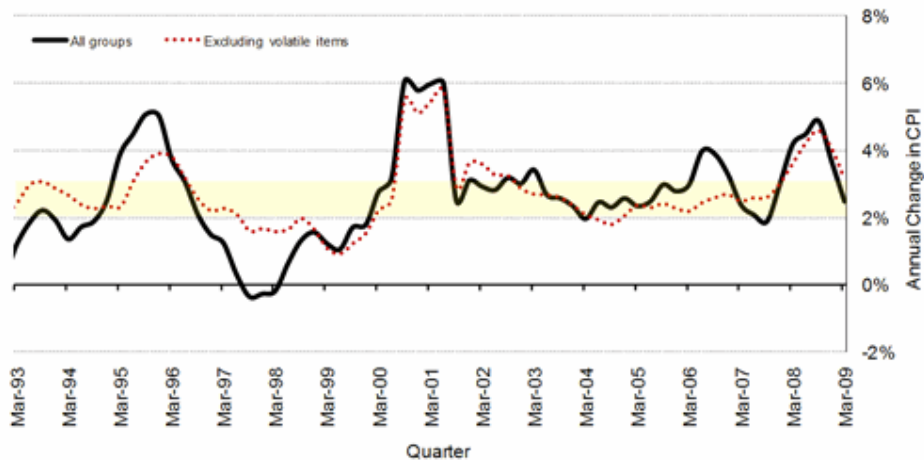
Australian sales volume and median values Mar-93 to Mar-09



Source: rpdata.com

The Consumer Price Index (CPI) measures the level of price inflation in the Australian economy. The Reserve Bank of Australia (RBA) has a target range for inflation of between 2% and 3%. Generally when inflation is higher than 3% they will tighten monetary policy (raise interest rates) and when it falls below 2% they will ease monetary policy (cut interest rates). Between 1993 and today, inflation has fluctuated quite a bit. As at the end of March each year, 2001 recorded the greatest level of inflation (6.0% - which can be attributed to the introduction of the GST) whilst 1998 saw the lowest level of inflation (-0.2%) when prices were actually falling slightly.

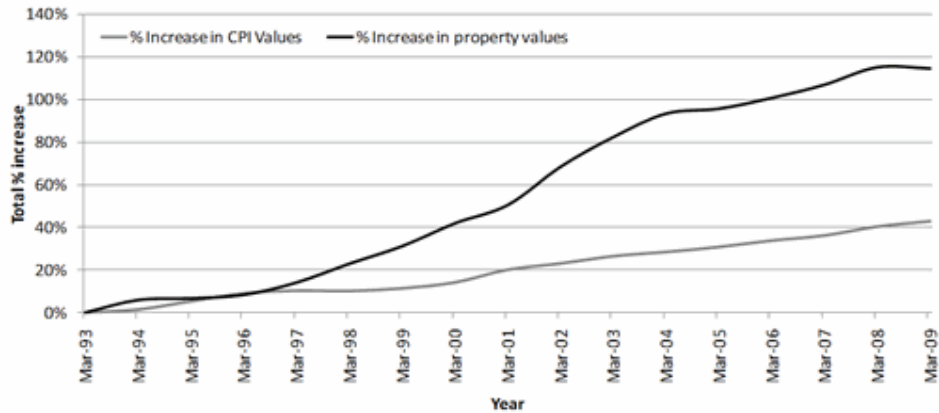
Australian Consumer Price Index (CPI) March 1993 to March 2009



Source: rpdata.com, ABS

When analysing asset performances it is important to determine the 'real value' taking into consideration the impact of inflation. If we take March 1993 as a starting point, CPI has inflated by a total of 43.0% over this period or by an average of around 2.7% each year which sits within the RBA's target range. At the same time, property values have increased by a total of 241% over this time (at a rate of 8.0% pa). When taking into consideration inflation, property values have in reality increased by 198% over the last 16 years, or by around 12% pa.

Australian total change in values vs. CPI March 1993 to March 2009



Source: *rpdata.com, ABS*

Again taking March 1993 as a starting point, at that time National median dwelling values were recorded at \$134,544. If property values increased only by inflation over this period national values would now sit at \$205,285. They actually sit at \$458,909 which is \$253,624 greater than the inflation figure, with this figure indicating actual property value growth over this time.

On a year by year basis national median house values recorded their greatest CPI adjusted increase during 2002. At this time, CPI was recorded at 2.9% and property values grew by 22.3% providing a true growth figure of 19.3% during the year. Over the 16 year period, house values have recorded real growth falls on four occasions (1995, 1996, 2005 and 2009) and have witnessed real value growth of 5% or more on eight occasions.

Australian real changes in property values March 1993 to March 2009

Year	CPI	Median house	% change	Real Change	Median unit	% change	Real Change	Median Dwelling	% change	Real Change
Mar-93		\$134,391			\$137,106			\$134,544		
Mar-94	1.4%	\$142,686	6.5%	5.1%	\$145,619	6.8%	5.4%	\$142,862	6.6%	5.2%
Mar-95	3.9%	\$145,556	2.0%	-1.9%	\$147,291	-0.6%	-4.5%	\$145,377	1.2%	-2.7%
Mar-96	3.7%	\$147,340	1.1%	-2.7%	\$148,568	1.7%	-2.1%	\$147,007	1.3%	-2.5%
Mar-97	1.3%	\$155,356	5.5%	4.3%	\$159,041	7.0%	5.8%	\$155,689	6.0%	4.7%
Mar-98	-0.2%	\$172,415	10.6%	10.7%	\$173,933	9.5%	9.7%	\$172,049	10.3%	10.4%
Mar-99	1.2%	\$188,926	10.0%	8.8%	\$188,370	8.6%	7.3%	\$187,891	9.6%	8.4%
Mar-00	2.8%	\$215,223	13.6%	10.8%	\$209,105	10.9%	8.1%	\$212,475	12.8%	10.1%
Mar-01	6.0%	\$235,792	9.6%	3.6%	\$226,974	8.8%	2.8%	\$232,176	9.4%	3.4%
Mar-02	2.9%	\$288,149	22.3%	19.4%	\$265,919	17.2%	14.2%	\$280,455	20.9%	18.0%
Mar-03	3.4%	\$344,084	19.2%	15.8%	\$298,022	12.1%	8.6%	\$329,316	17.3%	13.8%
Mar-04	2.0%	\$398,478	15.9%	13.9%	\$321,730	7.8%	5.9%	\$374,682	13.8%	11.8%
Mar-05	2.4%	\$397,746	-0.3%	-2.6%	\$323,342	0.7%	-1.7%	\$376,363	0.5%	-1.8%
Mar-06	3.0%	\$416,128	4.6%	1.6%	\$334,489	3.4%	0.4%	\$392,666	4.3%	1.3%
Mar-07	2.4%	\$449,538	8.0%	5.6%	\$358,269	7.1%	4.7%	\$423,309	7.8%	5.4%
Mar-08	4.2%	\$496,450	10.4%	6.2%	\$395,858	10.5%	6.3%	\$467,542	10.4%	6.2%
Mar-09	2.5%	\$483,477	-2.6%	-5.1%	\$397,988	0.5%	-2.0%	\$458,909	-1.8%	-4.3%

Source: *rpdata.com, ABS*

National median unit values recorded their greatest adjusted growth also during 2002 when value growth was recorded at 17.2% and CPI was recorded at 2.9%, resulting in a real change of 14.2%. Over the analysed period, value falls have been witnessed on four occasions (1995, 1996, 2005 and 2009) and eight times real growth has been recorded at 5% or more. Interestingly whilst house values recorded five years of double-digit real growth, unit values recorded similar growth just once.

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