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Tale of Two Suburbs

Investors,

It is hard to see the trees from the woods some days. The number of articles published on the financial crisis originating from the US sub-prime market has been overwhelming at times. Financial commentators are all over the place, some saying property markets are still a bubble and will burst dropping 30 to 40% yet others are keen on property market strength due to the underlying demand/supply equation and lack of volatility as compared to the share market.

It is apparent the headline seekers of 30 to 40% drop have mostly disappeared as the property market has not done that, whereas the share market has. What has affected certain property market segments is the economic uncertainty and slowdown, where prestigious suburbs and holiday resort areas have suffered a general market fall. These are owner-occupier properties in most part, where high incomes and job security (and investment returns) is critical to sustain mortgage payments for these type of properties being non-deductible debt. For that top end of the market, business cycles are more keenly felt compared to suburbs where there is a greater investor share of the market at more median price levels.

The following article touches on this subject and it is interesting to notice the increase in prices for outer Melbourne West. Affordability is still an issue and those suburbs are attracting more interest from first home owners and some investors. The issue with outer suburbs is that they have not demonstrated a consistent capital growth trend that is important to investors.

Financial crisis triggers high-end market slump

Prestigious housing markets are facing price falls greater than their outer-suburban counterparts as a result of the sharemarket downturn and the financial crisis. Australian property Monitors data shows that house values in Sydney's inner and eastern suburbs fell eight per cent in the six months to September, *The Australian* reported today. In contrast house values in Sydney's western suburbs declined just two per cent.

Adviser Edge economist Louis Christopher told the paper "there are lots of desperate sellers at the top end of the market, with many of them forced to sell and sell very quickly because of what's happened in the stock market".

On the west coast housing markets recorded similar results with Perth's inner city and coastal suburbs falling seven per cent in the six months to September while houses in cheaper south eastern suburbs fell two per cent.

Melbourne's outer west house prices rose two per cent while inner city values declined by 3 per cent.

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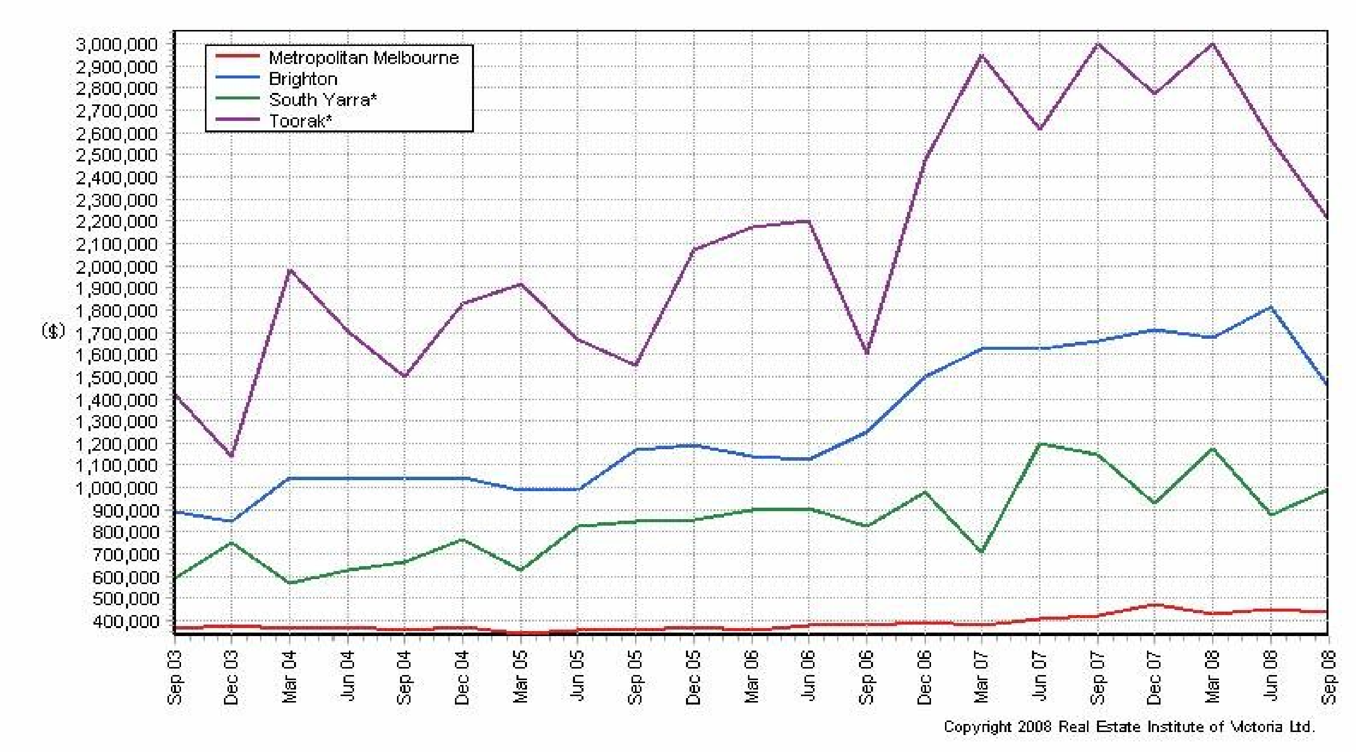
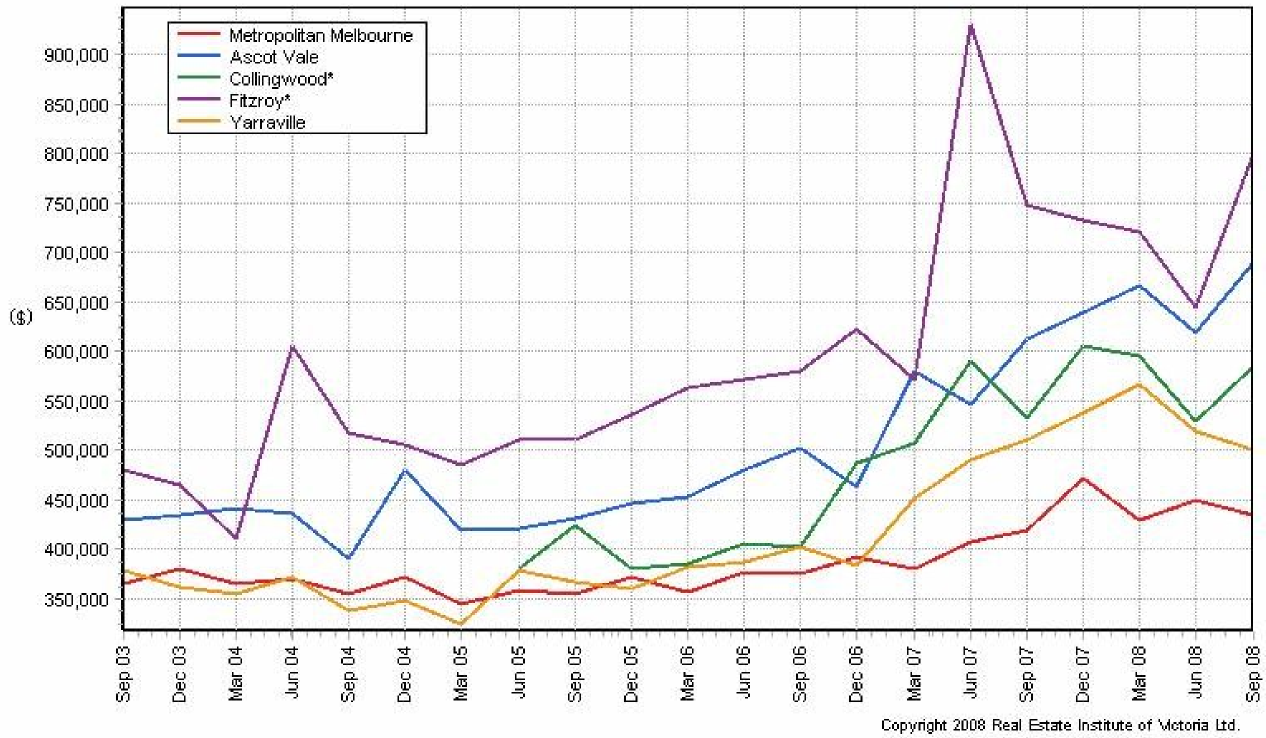
I have extracted some data from the REIV site showing the quarterly movements to Sept 08 for the more prestigious suburbs and compared against Melbourne average. I have included South Yarra as a comparison where there is greater investor ownership than for Toorak and Brighton. If there are a high number of properties coming onto the market with a desperate need to sell and the numbers of buyers are absent due to caution or funding availability, prices will drop.



If we compare this to some inner suburbs, close to everything, with facilities and continued demand. While there have been dips, more as a result of the nature of median prices and number of sales in a quarter, there are consistent upward trends, even in the September '08 quarter. These are the type of suburbs that investors need to be buying in. The type of property, the street it is in, which side of the street etc are all important criteria. Pay an expert to assist you select that property, it is money well rewarded long term.



With this latest round of interest rate cuts and the continued uncertainty in the share market, do not be surprised if more investors come back into the residential property market. Add the other factors that effect demand and supply, the FHOG substantial increases, the continued stream of migrants coming into Victoria, the funding difficulties faced by developers and further slow down in building approvals, this should mean upward pressure on prices and rents.

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If you have any questions about any of these topics, give me a call.

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