

# Marketview

## South Australia Residential

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Fourth Quarter, 2009

### Hot Topics

- SA's residential market has gained further momentum in Q4 2009, despite a slowing in activity from first home buyers
- Sales volumes in Adelaide increased
- House values in Adelaide have gained 7.14% over the 12 months to December 2009 and units have risen by 6.94%
- Median rents have started to gather pace, rising by 5.5% for houses over the year
- Adelaide's residential market has been more subdued than other capital city markets but rental growth is likely to result from a slowdown in the construction cycle.

### Market Overview

The Australian economy performed remarkably well in difficult global conditions throughout 2009. Australia was one of the few developed economies who did not fall into recession during the year, but it was still a tough year for the Adelaide residential property market.

With the reduction of the first home owners grant in September there was a significant retraction of first home buyers in the market. This was to be expected as, in many cases, the first home buyers grant boost had brought forward the purchase decision for purchasers in this category. Investors as a purchaser group were less active while the first home owners boost was in place, but there are signs that they are now returning to the market as the rental market picks up.

The amount of stock on the market fell during the first three quarters of 2009, but there was a rebound in the December quarter. According to Residex the number of house sales in the metro area reached 21,686 over 2009 which was 9.1% higher than in the year to December 2008. This indicated a level of confidence in the market which was not evident in first three quarters of 2009.

Capital growth picked up pace in the December quarter with 2.26% capital growth recorded according to Residex. This brought total annual capital growth to 7.14%. Adelaide remains the most affordable mainland capital city to purchase a house with a median house price of \$396,000 in the December quarter.

Vacancy in the Adelaide metropolitan area tightened with a vacancy rate of 1.19% recorded as at December 2009. The tightest market according to the REISA were in North Adelaide and the CBD with a vacancy rate of 0.67%.

Median rentals for houses increased to \$295 per week over the metropolitan area according to Residex. This is an increase of \$20 per week which equates to a 6.8% increase on December 2008.

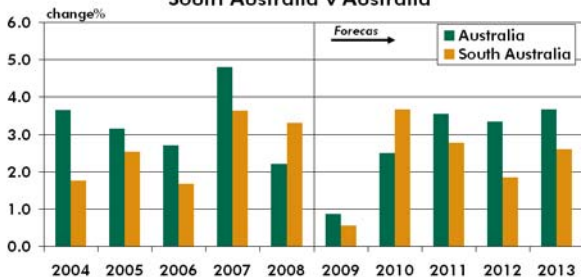
Rental yields for residential properties tightened further in the December quarter. Rental yields for houses were recorded at 4.21% and units 4.58%. This tightening in yields can be explained by the fall in interest rates throughout 2009.

The number of properties going to auction increased dramatically in both November and December 2009. Clearance rates reached as high as 80% during the year, but averaged 64.4% during the December 2009 quarter. This is compared to a 61% clearance rate in the June 2009 quarter.

The State government recently announced a lifting of land tax thresholds to \$300,000 with this threshold to be indexed in years to come.

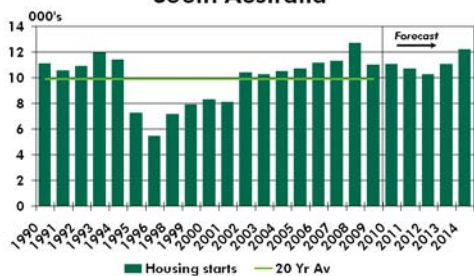
Overall there appeared to be a level of optimism returning to the Adelaide residential property market which had been absent during the start of the year.

## Real Output South Australia v Australia



Source: Access Economics (Jan 2010)

## Housing Starts South Australia



Source: Access Economics (Jan 2010)

## Real output slows in 2009 recovering in 2010

Despite the dire predictions at the beginning of 2009 for growth throughout the year current economic forecasts predict South Australia will have experienced growth of 1.8% during 2009. This is a very positive result given the economic turmoil the rest of the world has experienced through 2009 and the predictions by many economic analysts that Australia would be in recession during the year. There are positive signs for 2010 with business confidence, consumer sentiment and retail sales beginning to improve. Economic growth in South Australia is predicted to accelerate during 2010 with growth of 3.1% forecast.

## Housing Starts

Housing starts in South Australia fell by 15.5% during 2009 to just over 11,000 starts. This follows a peak during 2008 when 12,705 starts occurred. Access Economics forecast that starts will increase only slightly during 2010 to 11,029 and fall in 2011 to 10,700 starts. These figures are still above the long term average of approximately 9,900 starts commenced per year.

## Interest Rates

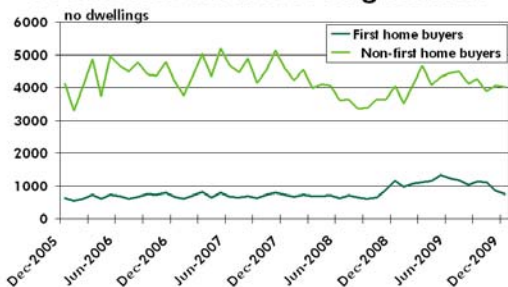
Interest rates hit record lows during 2009 with the Reserve Bank of Australia cutting the official cash rate to 3.0%. With confidence returning to the Australian market the Reserve Bank began increasing interest rates to more 'normal' levels. With consecutive 25 basis point interest rate rises in October, November and December the official cash rate now sits at 3.75%. At the most recent meeting in February the Reserve Bank decided to keep the cash rate on hold due to instability in the global economy which could jeopardise Australian economic growth in 2010. Many economists are expecting the Reserve Bank to continue to raise interest rates in 2010 with most predicting that it will be in 25 basis point increments to bring the cash rate to 5.0%.

## Australian Cash Rate vs 10 year Bond Rate



Source: Reserve Bank Australia (January 2009)

## South Australian Housing Finance

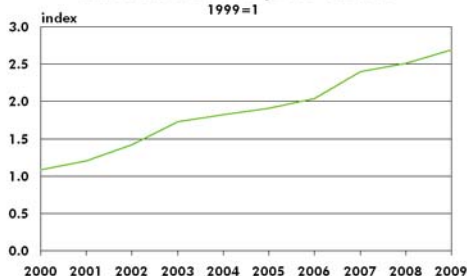


Source: Australian Bureau of Statistics (Jan 2010)

## Lending & housing finance

As expected through the period when the boosted first home owners grant was available there were more loans approved for first home buyers than in the proceeding 12 months. Since the reduction in the amount a first home buyers can receive in the grant, there has been a fall in the number of first home buyers finance approved. First home buyers over the last five years have accounted for approximately 18% of housing finance approved. During the period of the boosted grant, first home buyers accounted for around 27% of loans. In December 2009 this has fallen to 18.7% of total loans. The total number of loans approved in the month December 2009 was 4,784 which was 8.6% lower than in December 2008.

### Adelaide house price index

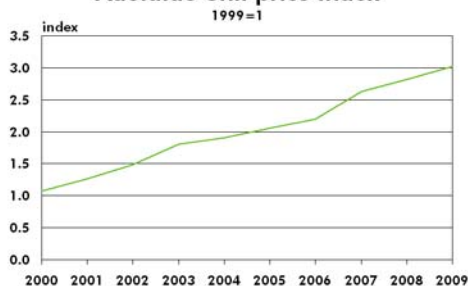


Source: Residex (December 2009)

### House values continue steady rise

The median value for houses in the Adelaide metro area increased by 7.14% over the year to December 2009 to bring the Adelaide median house price to \$396,000 according to Residex. With the exception of Hobart, Adelaide is the most affordable capital city to buy a house. The most expensive is Sydney with a median house price of \$632,000 followed by Melbourne (\$543,500), Darwin (\$505,500), Perth (\$485,500) and Brisbane (\$471,500). Growth in the median house price appears to have picked up pace in the second half of 2009 with growth recorded at 2.16% for the September quarter and 2.2% for the December quarter. Residex predicts growth over the next five years of 2% per annum.

### Adelaide unit price index

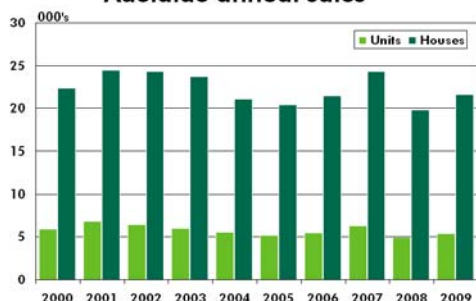


Source: Residex (December 2009)

### Unit values grow solidly

The Residex median price for a unit in the Adelaide metro area was \$307,500 as at December 2009. Units experienced slightly slower capital growth than in houses, with a growth rate of 6.94% for the 12 months to December 2009. Adelaide units are the most affordable on the Australian mainland as at December 2009. Capital growth for units appeared to have slowed in the December quarter with only 0.74% growth recorded for the quarter. Residex predict average capital growth over the next five years to be 1% per annum.

### Adelaide annual sales

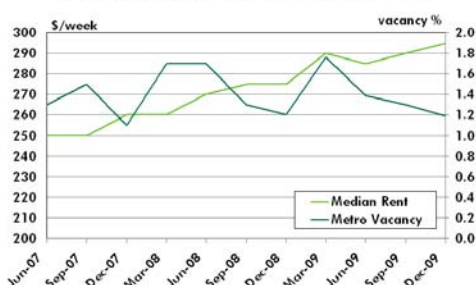


Source: Residex (December 2009)

### Sales volumes begin to recover

The December quarter saw the sales volume of houses and units pick up by 8.6% and 9.0% respectively over the year December 2009 according to Residex. This was the first quarter of 2009 to witness an increase in sales volumes over the previous year. This follows subdued sales volumes over a year compared to in the September 2009 quarter and a peak in volumes during the boom in 2007. The number of houses sold in the year to December 2009 was 21,686 houses and 5,441 units. Throughout the first three quarters of 2009 there was a lack of stock on the market, but this situation appears to have improved in the final quarter. It is likely that sales volumes will continue to recover during 2010.

### Adelaide vacancy & median rent

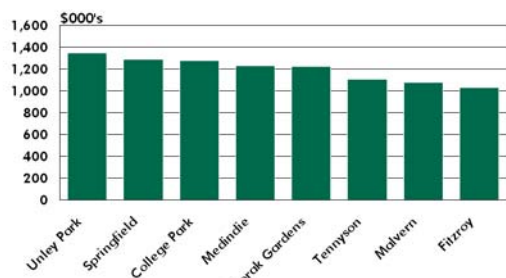


Source: REISA (December 2009)

### Median house rental in Adelaide increases

The median rental in Adelaide for a house in Adelaide was \$295 per week in December 2009 according to the REISA. Rentals have grown by 5.4% since December 2008. Over the year Woodville North and Mansfield Park saw rentals increase by 27.3% with the median rental increasing from \$220 per week to \$280 per week in both suburbs. Belair and Glenalta also saw strong growth with median rentals growing from \$295 per week to \$360 per week which was a 22% increase over the year.

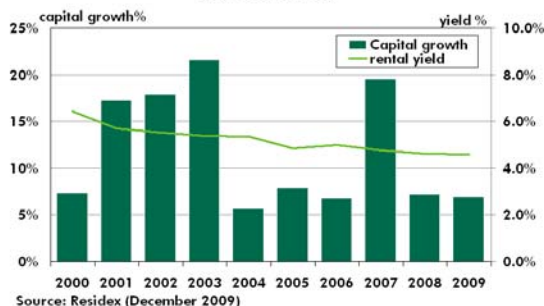
### Suburbs median house price > \$1 mill.



Source: Residex (year to December 2009)

### Capital growth & rental yield

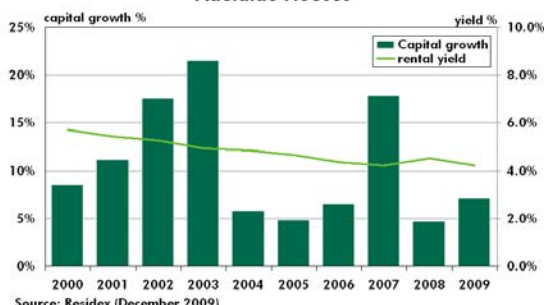
Adelaide units



Source: Residex (December 2009)

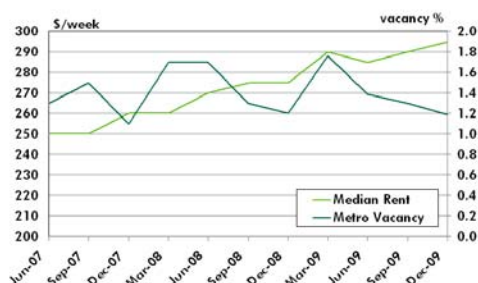
### Capital growth & rental yield

Adelaide Houses



Source: Residex (December 2009)

### Adelaide vacancy & median rent



Source: REISA (December 2009)

### Suburbs with median house price above \$1 mill.

There has been no change to the suburbs which have a median house price over \$1 mill. during 2009. Unley Park is still the most expensive suburb in Adelaide with a median house price of \$1,346,500 according to Residex. This is followed by Springfield (\$1,291,000), College Park (\$1,279,000), Medindie (\$1,231,000), Toorak Gardens (\$1,222,000), Tennyson (\$1,104,000), Malvern (\$1,076,000) and Fitzroy (\$1,031,000). College Park experienced the strongest annual capital growth in this group with a growth rate of 14.5% in the year to December 2009. Toorak Gardens also performed well with capital growth of 11.56% in the same period.

### Unit capital growth

Adelaide units capital growth was 6.94% in the year to December 2009. This was slightly slower growth than experienced in the year to December 2008 which was 7.23%. Rental yields across Adelaide units fell slightly to 4.58% in December 2009 from 4.63% in December 2008. Falling rental yields has been a consistent trend over the last three years. Rental yields were 6.43% in December 2000 compared to 4.58% in December 2009. Much of this tightening is due to the rapid rise in capital values and falling interest rates over the last ten years.

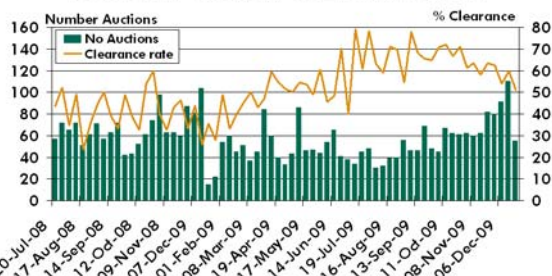
### House capital growth

Adelaide houses capital growth was 2.26% over the December quarter which brought the annual capital growth rate to 7.14% according to Residex. This is improved capital growth over the year with 2008 capital growth of 4.71% but is off the highs of 2007 which saw 19.58% annual capital growth. Yields declined over the quarter with a rental yield of 4.21% recorded. This decline in rental yield is likely due to lower funding costs in 2009, and this is likely to rise again in 2010 with the cost of capital likely to increase through the year.

### Adelaide residential vacancy

The Adelaide residential vacancy rate remained tight in December 2009 with a total metro vacancy rate of 1.19% according to the REISA. This tightening follows an increase in vacancy to 1.8% in June 2008. The City and North Adelaide recorded the tightest residential vacancy with 0.67%. This was followed by West (1.05%), North (1.14%), East (1.28%) South (1.4%) and Hills (1.57%). The Adelaide residential vacancy rate has remained tight over the past five years with vacancy rates below 2% recorded in this period.

### Adelaide Auction Clearance Rates

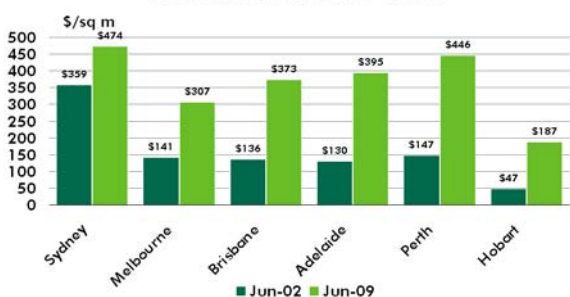


Source: RP Data (December 2009)

### Auction clearance rates improve

Auctions became increasingly popular with vendors in November and December 2009 with an average of 72 auctions per week compared to 48 auctions for the remainder of the year according to RPData. The week ending 13 December saw 110 properties go under the hammer with 60% of these properties selling. This was the largest amount of properties to go to auction since this time series began in July 2008. With the large increase in the amount of properties going to auction the clearance rate fell slightly, but in most weeks remained above 60%. This level of activity shows that confidence is returning to the Adelaide residential property market.

### Residential Vacant Land

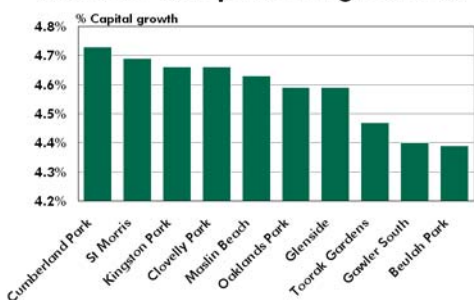


Source: RP Data; HIA Economics Group

### New land releases

There have been several major subdivisions which have received approval over the past quarter. The largest of these is the approval of the subdivision of Buckland Park. This is 25 year project which is being developed by Walker Corporation. Buckland Park is located 32 km north of the Adelaide CBD, which comprises of 12,000 lots, four primary schools, two secondary schools, three neighbourhood shopping centres and areas designated for business and industry. The first stage is the release of 600 residential lots which is expected to be completed in 2016.

### Adelaide best performing suburbs

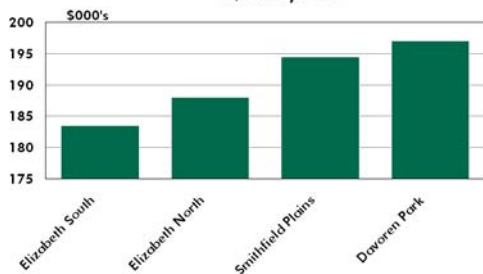


Source: Residex (December 2009 quarter)

### Top performing suburbs

Cumberland Park experienced the strongest capital growth in Adelaide during the December 2009 quarter with growth of 4.73% according to Residex. St Morris recorded capital growth of 4.69% for the December 2009 quarter bringing annual capital growth to 10.48% to December 2009. Kingston Park and Clovelly Park witnessed capital growth of 4.66% for the December 2009 quarter with annual capital growth of 4.04% and 7.9% respectively to December 2009. Toorak Gardens experienced capital growth of 4.47% in the December quarter and was the only suburb in the top ten to record a median house price over \$1 mill..

### Adelaide Metro Median house price <\$200,000



Source: Residex (year to December 2009)

### Most affordable suburbs

There are only four suburbs in the Adelaide metro area which have a median house price below \$200,000 according to Residex. These include Elizabeth South, Elizabeth North, Smithfield Plains and Davoren Park. In country South Australia housing is much more affordable housing. Peterborough and Mt Burr have the states most affordable housing with a median house price of \$104,000 and \$105,500. Both Mt Burr and Peterborough had a median house price below \$100,000 in 2008 and there is now no region in SA where the median house price is below this level.

## Market Outlook

The Adelaide residential property market is likely to continue to recover throughout 2010. There appears to be a renewed level of optimism in the market, with many vendors choosing to go to auction. This are signs that there are more buyers, and enough to make an auction viable.

Positive capital growth in was experienced in 2009, and it is likely that this trend will continue into 2010. It is likely that the number of first home buyers in the market will fall to a more normal level and that private investors will begin to return to the market throughout the course of 2010.

The Reserve Bank is likely to continue to raise the cash rate throughout 2010 with many analysts predicting a cash rate around 5% by the year end. This is likely to dampen some residential activity with the increase being passed on to mortgage holders. This is also likely to place upward pressure on rentals and therefore softening yields throughout the year.

There appears to have been renewed vigor in the prestige end of the Adelaide property market. It is likely the capital losses experienced in 2008 and 2009 will be regained.

The market between \$400,000 and \$800,000 is expected to remain stable over the next six months. As long as a vendor is realistic about the value of their property, then it is likely to transact within the normal marketing period.

It is likely the market below \$400,000 market will come under some pressure during 2010. This pressure will come from increasing interest rates, and the withdrawal of first home buyers from the market, who brought forward their purchase decision in 2009 due to the boost to the first home buyers grant. Investors are more likely to be active in this market and with interest rates increases expected, are going to be looking for better returns on their investment. This could manifest in two ways, downward pressure on housing prices or upward pressure on rents. CB Richard Ellis believes it is likely to be a combination of both of these during the year.

Overall the Adelaide property market has begun the recovery in the December quarter 2009 and is likely to continue in 2010. The major obstacle for the market at this stage is continued increases in interest rates which is likely to effect the more price sensitive end of the market.

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