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URBANPROPERTY AUSTRALIA

ADVISING THE DEVELOPMENT AND INVESTMENT COMMUNITY

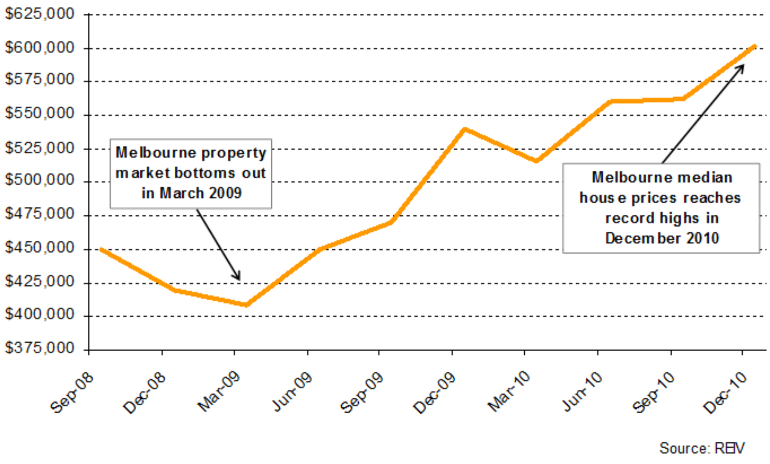
2011 Melbourne Property Outlook

In contrast to other developed countries, the Australian residential property market continues to outperform with house prices going from strength to strength with Melbourne dominating house price performances. While the Melbourne property market briefly dipped at the beginning of 2010, house values reached record highs by December, despite four consecutive interest rate increases in the year. In the final quarter of 2010 alone, Melbourne's median house prices surged by almost $40,000. In fact, median prices have risen by $330,000 in the past decade, with $180,000 of the increase happening in the past two years alone.

Since March median house prices in the Melbourne housing market have increased by 17%. With population growth still strong and an increasing housing supply shortage, Melbourne's median house prices were propelled past $600,000 for the first time.

2011 is likely to see property owner expectations change significantly, with market conditions anticipated to swing in favour of buyers with only modest capital growth forecast.

Greater Melbourne - Median House Prices



Source: REIV

Capital Values

Although Melbourne is likely to continue to outpace the nation with robust employment growth forecast, our view is that capital growth will be soft for 2011. With fewer first-home buyers, lower migration rates and higher mortgage repayments, competition for housing stock is likely to diminish leading to house prices on average stagnating.

JANUARY 2011

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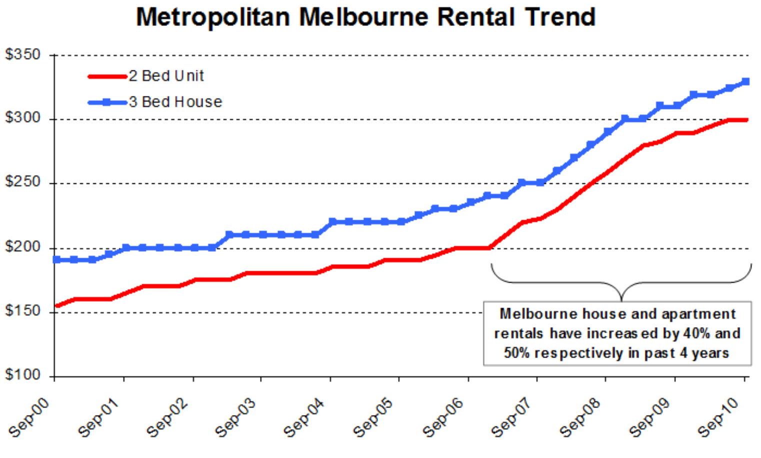
Vacancy Rates

The vacancy rate for Melbourne housing has averaged around 3 per cent (which is accepted as equilibrium - where renters can easily find a home to rent and investors are able to secure a reasonable return) over the past 15 years.

However since 2007 vacancy rates have remained below 2 per cent indicating a tight supply which is consistent with Victoria's high population growth.



Source: REIV

Latest housing vacancy rates show Melbourne's vacancy at 1.7 per cent. With a number of projects having been placed on hold given tight criteria for development funding, vacancy rates are likely to remain at very low rates for the medium term.

Rental Rates & Yields

With significant capital growth now seen to be abating out of the housing market, it is likely that rental rates will start to show some upward pressure this year.

We project that throughout 2011, rental rates will rise at historic growth levels of between 5 per cent and 8 per cent boosted by first home buyers opting to rent rather than purchase, providing positive reinforcement for investors. These pressures are likely to see rental yields improving for investors particularly in regional Victoria.

Rental yields were impacted sharply in 2009 and during the first half of 2010 as capital gains outshone rental markets. In 2011, yields will likely improve to provide further confidence for investors looking to strategically position themselves in the market.

Melbourne Apartment Market

Over course of 2010, more than 23,000 apartments were approved, a 66 per cent increase on the previous year, but the actual construction of new developments remain constrained by the cost of finance. Following the credit crunch and ensuing weakened purchaser sentiment during 2008-09, completions forecast to come on line over the next 2 years remain below the long-term average.

Within the Inner Melbourne region specifically, approximately 3,000 apartments were completed in 2010 with a further 3,000 apartments forecast to be completed in 2011. Additionally, a further 17,000 apartments at various stages of planning, however, historical evidence tends to show that on average only 60% of Inner Melbourne apartment developments were completed.

Although lending restrictions have eased the apartment deficiency is expected to become more acute between now and until to new supply picks up substantially from 2012–13, which should drive solid rental and price growth.

Melbourne Land and Subdivision Market

Latest data, as at September 2010 reveals that the median price for an average land allotment in Melbourne increased by 24 per cent over the past 12 months to $212,750. The cost of land is likely to surpass the median construction cost for a new home for the first time on record in 2011.

The median land price across all new releases is $199,000 with the median lot size in the first stage of each of the new projects at 484 square metres. The most affordable lot released was $165,000. In total, there are 92 active land projects, with the Whittlesea municipality accounting for 27 per cent of all projects, followed by Wyndham (26 per cent) and Casey (11 per cent).

New house and lot production are running close to record levels, with little scope for activity to increase further, despite the accelerating economic conditions. Solid underlying demand, together with some lingering dwelling deficiency, will keep new lot activity high – at around 18,000 lots this year.

New home sales fell for a second consecutive month in December 2010. New home sales are now tracking below their long-term average; further exacerbating the housing shortage. This housing shortage is likely to lead to a rise in rental levels and may intensify land and house price rises as confidence in Australia's economy continues to gain momentum.

We may see a boost in first home buyer activity from July this year following the implementation of the Victorian Liberal Nationals Coalition Government decreasing stamp duty for eligible first home buyers by 50 per cent on principal place of residence homes. The Coalition's 50 per cent stamp duty cut for eligible first home buyers will be phased in this year, starting with a 20 per cent cut from 1 July 2011.

Outlook

Although there is a growing housing supply shortage, we anticipate that Melbourne house prices are likely to remain reasonably stable over the coming year. The outstanding price growth which has occurred over the past 5 years is over; with purchasers unlikely to be able absorb the higher ratios of their mortgage on their income.

If historic performance is anything to go by, the post-boom period between 2004 and the end of 2006 saw metropolitan Melbourne home values increase on average by 1.8 per cent per annum over the three year period. During this time national unemployment levels were at a similar level to current figures and the Australian economy was on the cusp of a resources boom that fuelled strong levels of economic prosperity.

Urban Property Australia

Urban Property Australia is a highly specialised independent property advisory firm, committed to providing expert advice in:

- Property Valuations
- Strategic & Development Advisory Services
- Acquisition and Disposition Advice

Valuation and advisory services include mortgage, company reporting and insurance valuations, rental assessments and determinations, development feasibility analysis, underwriting and financial due diligence services, acquisition and divestment advice. Urban Property leverages from its extensive network of contacts of institutional, financial and corporate clients.

For the latest complimentary market research, comparable sales reports and overview of the property market please feel free to contact Sam Tamblyn, Managing Director of Urban Property Australia for further information.

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