

# real estate wrap

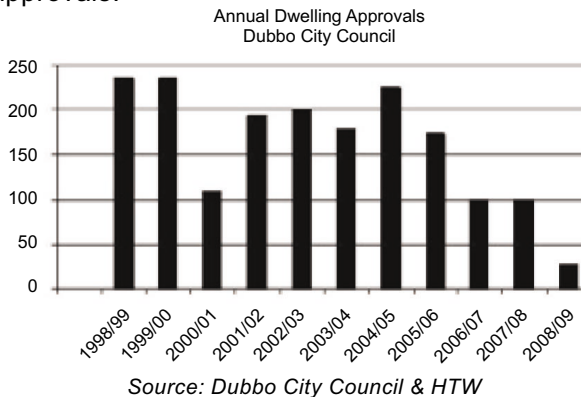
Your guide to what's happening in the Dubbo market

## MONTH IN REVIEW - DUBBO

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The Dubbo residential market has been subject to fluctuating conditions over the last four to five years. 2003/2004 saw turbulent conditions across most market segments, particularly vacant land and traditional housing. The demand for vacant residential land was strong during 2002 – 2005, before softening in 2006 and remained subdued through to 2007. This was a result of several factors, including the negative impact of the drought on the local economy, a return of the investors to the share market, rising interest rates and stalling values. Sale volumes dropped dramatically in 2008 and continue to remain quiet to date due in part to a change in buyer sentiment, but mainly due to the global credit crisis which saw credit availability deteriorate and reduced consumer confidence. These issues combined resulted in a decline of land sales and dwelling approvals. Building approvals for Dubbo are shown below and reflect an average demand of 153 lots per annum over a 10 year period. Dwelling approvals have been in decline since 2004/05 when they peaked at just under 230 approvals, in comparison with 2007/08 recording only 108 approvals.



The graph clearly indicates the lack of demand for vacant residential in land in Dubbo in recent years. Year to date figures for 2008/09 also indicate that the market remains subdued, with only 28 dwelling approvals being approved for the financial year up to the end of november. This clearly signifies this trend is continuing and subdivision developers should be conservative in their planning. However we are aware of over 65 land contracts issued in Dubbo since this period, of land that is ready to build on or under construction. We therefore expect an increase in building approval numbers as they come to hand. The increase of the First Home owners Grant (FHoG) mid 2008 initially did impact on the residential market with agents reporting increased enquiry numbers and sales volumes. latest statistics from the nSW office of State revenue indicate from the 1st november 2008 to 31st January 2009 only 4 people in the Dubbo region received the increased grant of \$24,000 for construction of a new home, in comparison to 65 people receiving \$14,000 for an established dwelling.

These prospective purchasers are finalising home and land package deals in order to obtain finance pre - approval and have been unable to sign a building agreement until their respective lending institution grants final finance approval, which will activate the FHoG. predicting the market conditions, moving forward is extremely difficult at present. Whilst competition between estates remains strong, the threat of developers reducing asking prices to maintain sales rates remains strong, particularly as many of the sites in Dubbo were purchased at relatively low levels some years ago, and accordingly a number of competitors have the ability to reduce prices and maintain a reasonable development margin. There are also several substantial englobo sites in the Dubbo area which are suitable for residential subdivision, we therefore envisage a steady supply of vacant urban land in Dubbo over the next ten years, indicating that competition is likely to be an important consideration for developers, and median prices could reasonably be expected to achieve limited growth.

Herron Todd White Newsletter Month In Review April 2009



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## Honestly, does this look like a recession? Confidence soars; home loans at 11-month high

### Housing finance; Consumer sentiment

\* **The number of new housing loans is at 11-month highs, lifting by 0.4 per cent in February.**

\* **First home-buyers account for almost 27 per cent of home loans taken out – the highest on record. Banks account for over 92 per cent of all loans – a 33-year high.**

\* **Consumer confidence surged to 13-month highs in April.**

#### What does it all mean?

- Honestly, does this look like an economy in recession – confidence levels are soaring and home lending is again on track to record highs.
- The raft of stimulus packages and rate cuts are working, with the extra dollars lifting spending power and boosting spirits. Aussie consumers have been hit by all manner of bad news over the past year but its amazing how a splash of cash can put smiles back on the dials. A combination of stable petrol prices, a firmer sharemarket, super-low interest rates and government handouts are serving to soothe the jangled nerves and making consumers more positive about life.
- An average wage earner paying off a \$300,000 home loan is saving \$770 a month of repayments compared with September last year – equivalent to a 20 per cent pay rise. Many Australians are substantially better off than a year ago.
- There is a lot of talk about job losses, but at most 2-3 per cent of Australians are affected. More important is what is happening to interest rates, the housing market and fuel prices. In 2001 when unemployment rose, consumer sentiment rose by over 20 per cent.
- The sharp improvement in consumer sentiment validates the Reserve Bank decision to cut rates only 25 basis points. Clearly the RBA is more in touch than market economists, many of whom never travel outside city centres.
- The main problem for first home buyers is that there are so many people in the market at present competing for the limited supply of houses and land. Super-low interest rates and the government grant have substantially boosted purchasing power, but the only problem is that the strong demand is pushing up prices.
- What the housing market needs at present is more investors and developers. Unless more houses and apartments are built, the surge in buying interest by owner-occupiers may only result in higher prices.
- A record \$43 billion in home loan commitments have been made by lenders but the dollars haven't gone out the door. A wall of money is on the sidelines ready to flood into the housing market.

#### What do the figures show?

- **Housing finance:** The number of new owner-occupier housing loans rose for the fifth straight month in February, lifting by 0.4 per cent. The number of home loans (56,235) is at 11-month highs.
- Construction loans rose by 2.6 per cent, while the purchase of newly erected dwellings rose by 4.1 per cent. Loans for the purchase of established dwellings rose by 3.2 per cent while refinancing fell by 6.1 per cent.
- The value of new housing commitments (owner occupier and investment) rose by 1.3 per cent in February to \$18.9 billion. Investment loans fell by 2.8 per cent while owner-occupier loans rose by 2.7 per cent.
- The value of home loans approved but not advanced rose by 4.3 per cent to a record high of \$43.2 billion and stands 12.7 per cent up on a year earlier.
- First home buyers accounted for 26.9 per cent of all lending in February – the highest proportion on record (almost 18 years).
- The average loan stood at \$253,200, up 10.0 per cent on a year ago. The average loan by first home-buyers soared 4.6 per cent in February to \$280,600 and stands 23.1 per cent higher than a year ago.
- Fixed loans account for just 2.7 per cent of all new lending.
- Banks financed 92.4 per cent of all home loans (by value) in February – a fresh record 33 year high.
- Owner-occupier housing finance rose in four of the states/territories with the strongest being ACT, up 12.5 per cent, and NSW, up 3.3 per cent.
- The **index of consumer sentiment** soared by 7.1 points or 8.3 per cent to a 13-month high of 92.7 in April. The sentiment index is now up 6.0 per cent on a year earlier.
- The current conditions index rose by 6.3 per cent, while the expectations index rose by 9.8 per cent.
- Country people are happier than city people and interestingly tenants are happier than those who own their homes.
- All of the five components of the index improved in April. The estimate of **family finances compared with a year ago** rose by 10.8 per cent while the estimate of **family finances over the next year** rose by 11.8 per cent. The measure on **whether it was a good time to buy a major household item** rose by 3.1 per cent. **Economic conditions over the next 12 months** lifted by 16.9 per cent while the measure of **economic conditions over the next 5 years** rose by 4.0 per cent.

#### What is the importance of the economic data?

- Housing Finance data is produced monthly by the Bureau of Statistics and shows commitments by lenders, such as banks, to provide finance for housing purposes. The lending figures relate to those looking to buy or build homes to live in as well as those seeking to buy or build homes for investment purposes. Generally people get their finance organised first, so the figures are regarded as a leading indicator on the housing market.
- Westpac and the Melbourne Institute release the **Index of Consumer Sentiment** each month. Roy Morgan conducts a survey of consumer confidence. Both surveys are aggregated from responses to questions on the current and likely future state of family finances, current and likely future state of the economy and whether it is a good time to buy a major household item. Confident consumers may be more inclined to spend, especially on major items.

#### What are the implications for interest rates and investors?

- The latest data confirms that the low point for interest rates is not far away.
- Banks account for over nine out of every ten home loans being written. The dominant market position should translate to healthy profitability over 2009. And as we've seen overseas, a strong banking system is necessary for a strong economy.
- Investors should think long and hard about property investments. Rents are rising at double-digits rates, construction is still not keeping pace with population, interest rates are low and home prices are rising. *Source Craig James, Chief Equities Economist, CommSec*