

Affluent Markets More Vulnerable

Prestige property markets are showing the largest falls in value as the economic crisis begins to hit high end home owners according to the RP Data Property Pulse released this week.

Normally associated with water frontage, magnificent views, or urban acreage, Australia's prestige markets were once thought to be safe havens during a down turn. The argument was that the absolute scarcity of these properties would protect values from falling significantly in this market while more common housing stock would suffer the greatest losses due to the abundance of generic stock available in the suburbs.

According to RP Data's National Research Director Tim Lawless this theory held true until recently when a series of events conspired against the premium sector of the market. These ranged from margin calls becoming common place, share portfolios toppling to almost half their value, company profits hitting rock bottom and executive bonuses lower than expected.

"The combination of these has left the top end of the market experiencing very new market conditions."

"Essentially, the result has been that owners who enjoyed the benefits of discretionary incomes where there was plenty to go around for luxury homes and holiday havens, now simply cannot continue to service a such high debt levels. Further compounding the situation is the fact that demand for expensive homes has virtually come to a halt in some inner city areas," Mr Lawless said.

The top 10 per cent of properties based on price have shown the largest decline in median prices over the last year. The analysis is based on RP Data's stratified median house price index which divides each market into ten 'strata' allowing an analysis of different price segments in the market.

In Sydney, for example, the median price of the city's top ten per cent of properties has fallen by almost 20 per cent, from \$1.6 million in December 2007 to \$1.29 million in December 2008. The magnitude of the fall has not been as great in the other capital cities, however the trend is clear.

At the other end of the spectrum, the lower segments of the market are recording the lowest falls in values, or in

the case of Melbourne, the most affordable properties have actually recorded an increase in median price over the last year.

Mr Lawless said without any real improvements in business conditions in sight just yet, it is likely that demand for prestige homes will remain relatively low.

"This segment of the market is forecasted to be one of the weakest along with tourism driven markets during 2009."

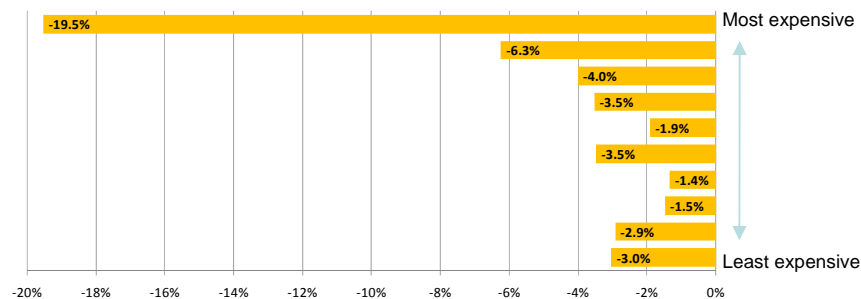
"On the other hand, there is already mounting evidence that first home buyers are venturing back into the market and reasonably priced stock is starting to move," he said.

Nationally, first home buyers now account for almost one quarter of all owner occupied finance commitments. First home buyers have not held such a large share of housing finance commitments since early 2002.

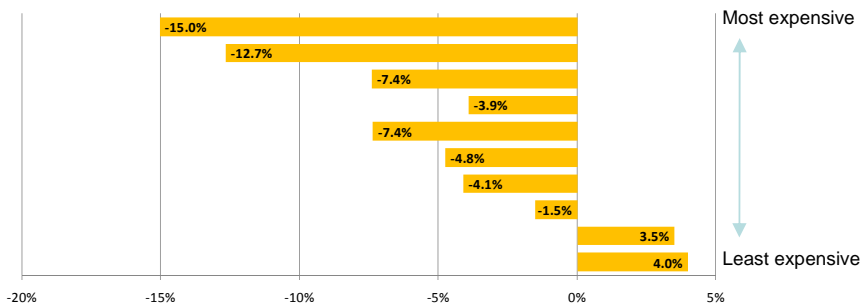
The RP Data Pulse confirms that the competition for reasonably priced and strategically located stock is likely to intensify over the coming months as the window of opportunity closes at the end of June with regard to the increased first home owners grant."

"Investors will be competing for the same housing stock as first home buyers due to the low risk profile and strong rental yields these properties provide," Mr Lawless said.

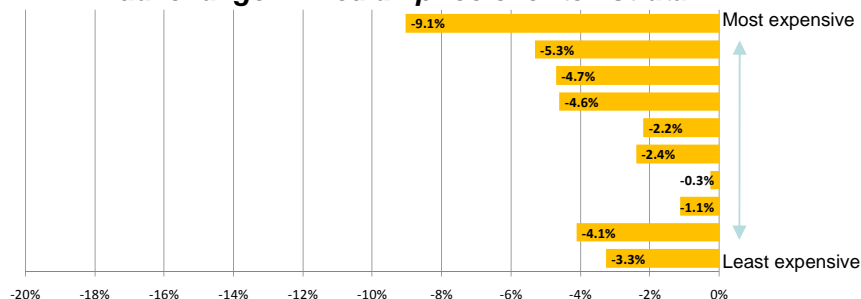
Sydney
Annual change in median price over ten strata



Melbourne
Annual change in median price over ten strata



Brisbane
Annual change in median price over ten strata



Weekly property pulse

Now that we are well into February we are seeing market activity slowly increase. The number of auctions being held is ramping up and the amount of properties advertised for sale are returning to their pre-Christmas period levels.

This week interest rates were slashed to their lowest level since 1964, and by most accounts there will more to come. The latest cuts to the official cash rate will bring the average standard variable rate under to around 5.85%, with all the major banks already announcing they will be passing the complete 100 basis point cut onto consumers. With interest rates falling, property values showing modest declines, and rental rates growing, the net affect is that investment yields are improving and it is becoming more obvious for many renters that buying is an increasingly attractive option.

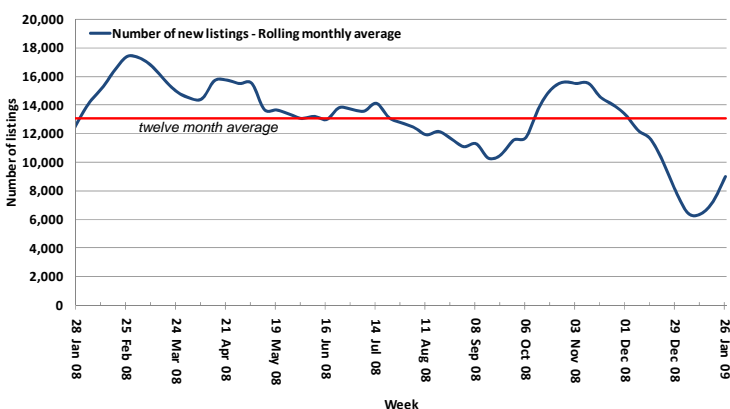
For first home buyers, more and more are realising that the current market conditions are stacked in their favour. This segment of the market now represents almost one quarter of all owner occupier housing finance commitments across the nation. With housing affordability now greatly improved due to rate cuts, falling housing values and the boosting of the first home owners grant, we expect the number of first home buyers in the market to continue improving through the first half of the year.

Auction clearance rates – week ending February 1

City	Clearance Rate	Total Auctions	RP Data Auction Results	Sold Prior To Auction	Sold At Auction	Sold After Auction	Passed in	W/drawn
Adelaide	48.8%	54	43	5	16	0	20	2
Brisbane	25.0%	47	32	2	5	1	20	4
Canberra	12.5%	10	8	0	0	1	7	0
Melbourne	67.9%	60	53	13	22	1	15	2
Perth	53.3%	28	15	1	4	3	7	0
Sydney	48.5%	60	33	5	9	2	15	2

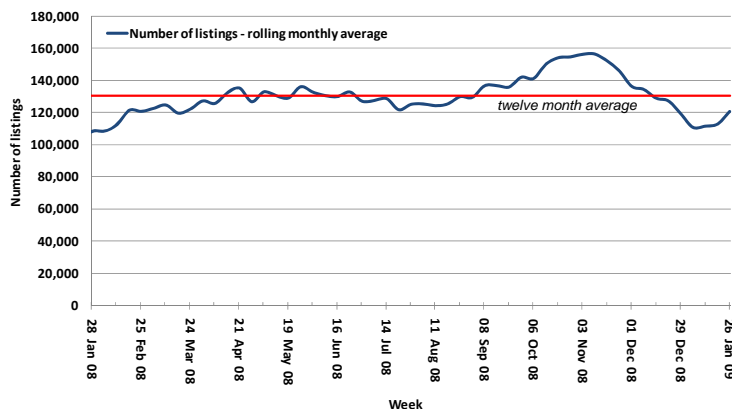
Australia

New residential property listings advertised each week



Australia

Total residential property listings advertised each week



Based on the median dwelling value of \$451,000, we estimate the total amount of available commission to be \$1.4 billion available across the Australian mainland.