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Subject: Threesome - Incentives, low % rates and low vacancies = new owners

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Watch out! New unit owners coming through...

As rental prices continue to rise, interest rates drop, construction of new homes stall and first home buyer incentives beckon, many people in New South Wales are moving from renting to buying. Increasingly units and apartments are also making their way to the top of many investors' lists and we're expecting that you'll see a reshuffle of owners in your units quite soon.

Here's why...

The shortfall of rental accommodation

ANZ has estimated that there is a demand for approximately 180,000 new homes in Australia each year, while in the year to September 2008 only 150,000 homes were built. With construction slowing even further over the last six months demand for rental accommodation is accelerating.

Inner-city rental vacancy rates dipped to 1.3% in February, according to the Real Estate Institute of New South Wales, as renters struggle to find accommodation in Sydney. Suburbs 25 kilometres or more from the CBD also fell to 1.1% and in the Hunter region, Newcastle, Illawarra and Wollongong vacancies fell by almost 1%.

Shortfalls in rental accommodation typically force the median weekly rental cost for an apartment or unit to rise. Jason Anderson, a property analyst at BIS Shrapnel, predicted recently that due to reduced construction of rental housing, weekly rental accommodation prices would rise by another 10 per cent this year.

As rental bills climb, more and more renters will begin to look at their finances and consider buying a place of their own. Not surprisingly units will be at the top of their list.

The incentives for first home buyers

For those who haven't purchased their first home the First Home Owner Grant of \$14,000 for an existing dwelling, or \$24,000 for a newly constructed home (including the \$3,000 NSW New Home Buyers Supplement) is very attractive for anyone looking at the market.

An amazing 36% of first home buyers of all ages are purchasing on a single income according to a study performed by Mortgage Choice recently. These buyers are looking at the affordable units on the market and some real estate agents are reporting a lack of stock as first home buyers increase their activity in the unit sale segment.

The incentives for investors

With interest rates dropping to a 49 year low of 3.00% investors are busy hunting the market for quality dwellings. Industry analyst Michael Matusick commented recently, "for a fall of one percent in interest rates, house sales increase by 10%". This means that after the announcement of a quarter of a percentage cut on Tuesday the 7th of April more buyers should be entering the market very soon.

Many investors picking up an investment unit in the current soft real estate market will also see their properties profitable from day one as the need for negative gearing is diminished.

Terry Ryder, a real estate analyst, has also predicted that home prices will double in the next ten years, leaving investors looking at making very profitable investments if they buy now.

Summary

With the current favourable conditions for those looking to buy in New South Wales, Solutions ie predicts that the occupancy of many strata unit blocks may change dramatically as investors shuffle their portfolios and first home buyers replace renters. In what can only be described as a tough economy, lower interest rates, low vacancies and the first home owners incentives are creating an amazingly buoyant unit/apartment selling environment.

Historic is a word that comes to mind when you look at the factors driving the changeover in unit ownership. The Chinese saying "May you live in interesting times" was meant to be a curse. For many these interesting times will be a blessing. I hope it is that for you.

James Freestun
Managing Director, Solutions ie

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