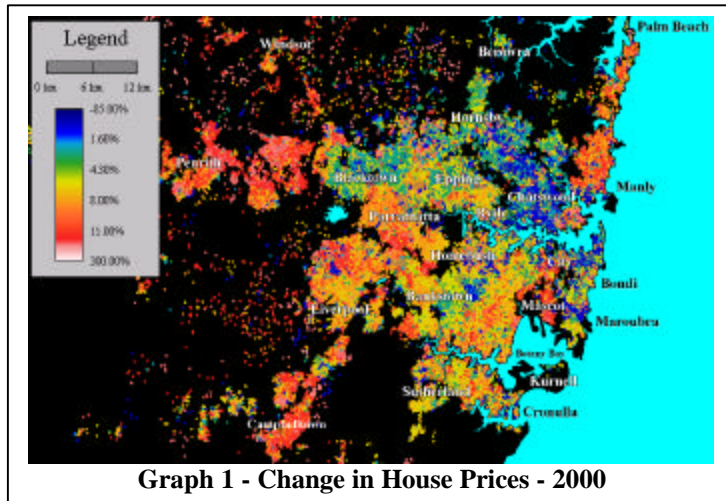




SYDNEY 2000 – YEAR IN REVIEW

Before we begin our odyssey into the Sydney housing market of 2001, we thought it might be revealing to examine the housing trends of 2000 and see what we can learn from them.



Graph 1 - Change in House Prices - 2000

It is not clear whether or not there is a relationship between the two different kinds of slowing. Intuitively, one feels there should be, with a diminishing number of sales presumably indicative of reduced demand for property, which, theoretically at least should flow through to reduced prices.

We begin by looking at house prices in Sydney. How did they vary over the year 2000? We can get some idea by examining Graph 1, which shows the percentage change in house prices over the year.

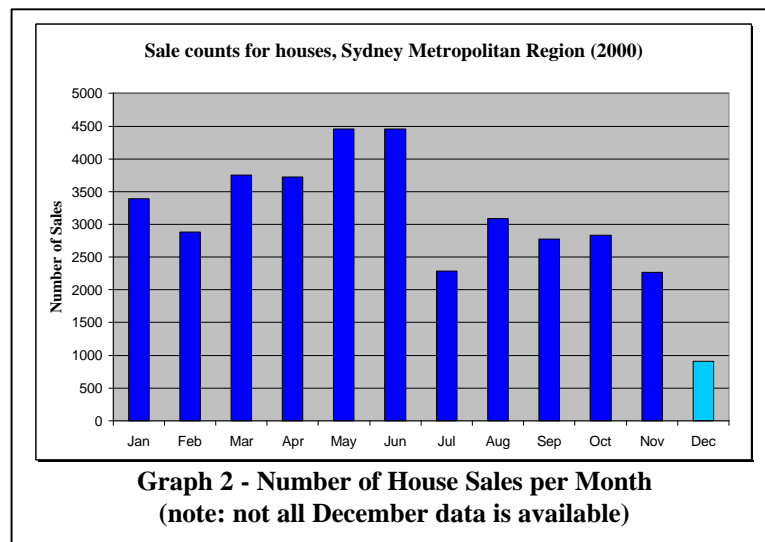
This map demonstrates how the major movements in the market over the year 2000 were in the outer areas of the city. The Penrith Windsor region, for example, grew by 13.19% on average and Campbelltown by 7.46%.

Other areas showed good growth, such as the Northern Beaches area. However, the good growth on the beaches were offset somewhat by poorer growth further in from the coast.

The growth in the outer areas of Sydney traditionally brings the housing cycle to an end. We expect this pattern to continue and as a consequence think that

2001 should see a slowing in the Sydney housing market.

However, locating such a relationship in the data has



Graph 2 - Number of House Sales per Month
(note: not all December data is available)

When we speak of a slowing in the Sydney housing market, we are referring to a slowing in the capital growth of the market. That is, prices will not grow as rapidly. This is different to a slowing in the number of sales in the market.

proven extremely difficult to date. Despite this, an examination of Graph 2 shows that in number of sale terms the Sydney housing market slowed considerably over the latter half of 2000 (even allowing for the fact that not all data for December is available yet)

A significant GST impact can be seen here, with the sales dropping noticeably in July as the new tax was introduced.

Interestingly, while there was some talk of a slowdown in the housing market during the Olympic Games, the data doesn't particularly reflect this (of course, without the Games, the September numbers may have been significantly higher than what

they are here - but the September data doesn't show any particularly noticeable drop relative to the months around it.

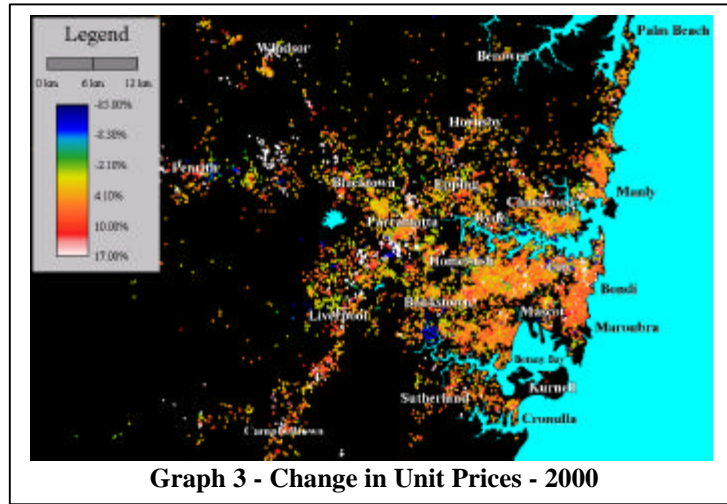
Moving onto units, if we examine the percentage change in unit prices over the course of the year we see a much different pattern to that of the house price growth graph - namely, little or no pattern at all.

The closest we can come to a trend for the units is to note the relatively consistent patch of orange-red around the Bondi-Maroubra area.

Most other patches seem to have some other colours interspersed with them, indicating a quite uneven spread of unit capital growth.

What can we conclude from this? Firstly, that units are a riskier property investment than houses.

Being in the right area does not guarantee good capital growth (or, at least, it didn't over the course of the last year). Which is



not to say there's no such thing as a good location for units. It's just that a good location is not the only factor worth considering (nor is it for houses, but the impact of a good location for a house investment is far more

individual blocks of units in the same suburb to have significantly different growth rates, resulting in the more

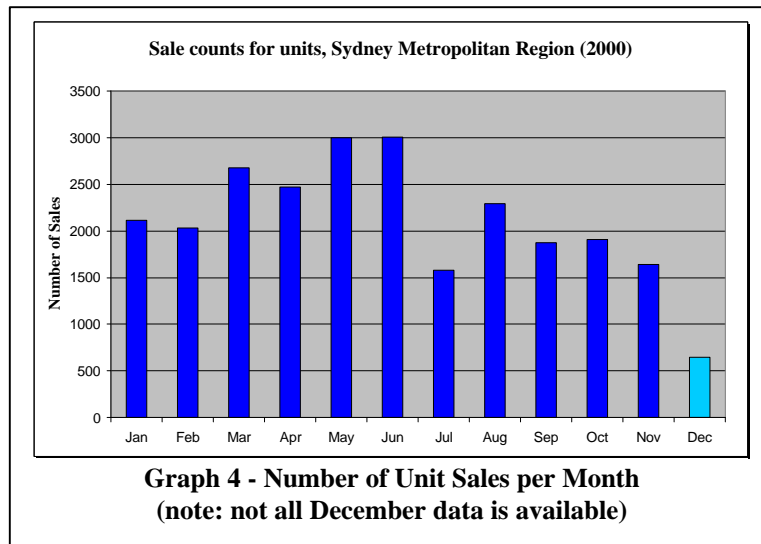
inconsistent growth patterns seen in the unit map.

However, the sales counts for units for the year show a remarkably similar shape to that for houses. The fact that we don't see a drop-off any more significant than that attained by

houses (which are generally not thought of as being oversupplied) implies that the demand for units is retaining its relativity. So, it is only if the supply of units is increasing at a greater rate than it has in the past

year, that oversupply will become (or continue to be) a significant factor in the unit market.

Now, it certainly seems as if there are more new units being built and coming onto the market than during



beneficial).

This lack of pattern in the unit market also reflects a possible oversupply issue. In an oversupplied market with a variety of blocks of units for investors to choose between, a very real possibility arises for

previous years. If this turns out to be the case, we will have an oversupply in the unit market and the haphazard growth rates for units seen in 2000 can be expected to continue.

To summarise, 2000 saw a market where house price growth strengthened in the outer areas of the city, particularly the Western Suburbs. Unit price growth showed no real pattern, reflecting perhaps oversupply issues in the unit market. The sales volume trend was good in the first half of the year as purchasers beat the GST. From July onwards, there was significantly less activity.

We can expect this pattern to continue in 2001. The housing market should slow as we reach the end of the cycle, and the unit market is expected to remain erratic. An interest rate cut may stimulate the market to a certain extent, but at this stage it seems that 2001 will be a slow one for the Sydney housing market.

By Residex Pty Ltd.

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