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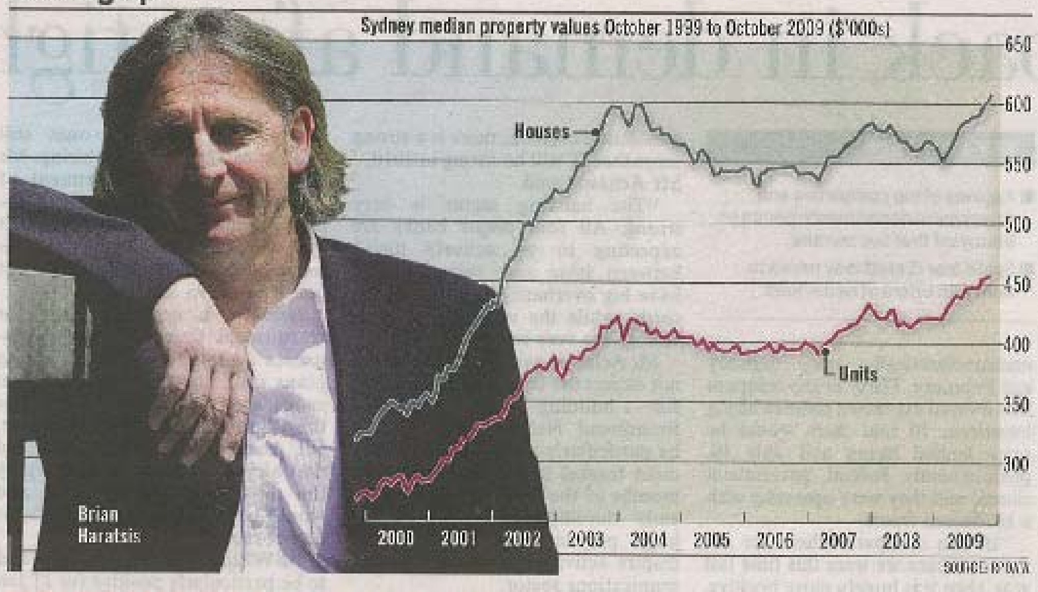
Publication: The Australian Financial Review
Date: Tuesday, 5 January 2010

Population boom to push prices

An influx of migrants and tight supply will buoy Sydney's housing market, writes **Ben Hurley**.

Holding up



For those who think Sydney property is too expensive, Brian Haratsis is the bearer of bad news. The managing director of property consultancy MacroPlan Australia believes the nation's largest city is on the verge of a population boom that will lift prices further, and those who stand to benefit are the people who can afford to buy now.

Haratsis tells *The Australian Financial Review* that Sydney is about to see the fastest population growth in 15 years, owing to two factors. Firstly, climbing house prices in south-east Queensland have made it too expensive for Sydneysiders to migrate there, meaning fewer people are leaving.

"You're getting the same share of international migration and the same historic levels of birth rates but you're not getting the same levels of outward migration," Haratsis says.

Secondly, Sydney will see employment-generated population growth, as young brains from around the world come to work in Sydney-based financial services. They will be information technology, finance and property services employees on high incomes, happy to share a two-bedroom apartment close to the city.

"Eighty per cent of the world's financial services are within 10 kilometres of the General Post Office," Haratsis says.

These two factors will drive higher demand for Sydney property, and are likely to see increased interest in greenfields areas as families look for cheaper options on the urban fringe. Those who invest into "super suburbs" like Oran Park stand to make good returns.

At the same time, the apartment market will be starved of stock, owing to tight lending practices that restrict the use of leverage by developers.

"The loan-to-value ratios the banks are offering are still maxing out at 55 per cent," Haratsis says. "That means you have to share the same amount of equity over fewer projects."

Banks are also requiring 50 per cent of the dwellings in a proposed apartment development be sold off the plan — a tough requirement likely to reduce the scale of developments.

"That is limiting the size of many developments, so it's like we're drip-feeding the economy."

He says the winners will be people who can afford to buy now. "Your rate of return will be very good, you're looking at good capital growth and there will be high demand."

Rents are poised to soar even higher due to the shortage of rental accommodation, particularly with rising interest rates deterring some people from buying property.

At the prestige end, he predicts prices will remain flat for another 24 months. But a growing commodities boom could flow through to Sydney's financial sector, lifting sentiment and driving up premium property prices in coming years.

Rob Ellis, managing director of property research consultancy Property Insights, says some factors will actually ease the demand pressures in Sydney in 2010.

The resources boom increases the demand for labour and building supplies and also draws workers to the resource-rich states, slightly easing population pressures in Sydney.

Rising house prices and interest rates will also lower affordability as the year goes on.

However, he says the chronic undersupply of housing in NSW will keep demand high.

"It's unlikely the increase in supply for NSW will go anywhere near enough to eradicate the undersupply that already exists," he says.

"The risk is you end up with far greater house price appreciation than you expected. Ten per cent certainly wouldn't surprise me."

■ *The Australian Financial Review's city by city housing outlook continues tomorrow with Brisbane.*

SYDNEY MARKET TIPPED TO GROW

Sydney real estate is set for steady growth over 2010, with a tight rental market and good investor returns likely to ensure healthy demand.

Louis Christopher, managing director of SQM Research, is tipping 6 to 8 per cent growth in Sydney house prices in the next 12 months, compared with 4 to 6 per cent nationally.

"Nothing in the recent indicators, such as days on the market, NSW government housing finance numbers, and auction clearance rates, are suggesting the trend of buying activity will dry up," he says.

RP Data figures to November show Sydney house prices rose by 11.6 per cent in 2009, but Christopher says affordability was at its best level since 2002.

He believes Sydney's house prices will grow more than any other Australian capital and his projections for prestige property are bullish.

"I wouldn't be surprised if we saw between 12 and 15 per cent in 2010 for real estate over $2 million," he says. "The prestige end of the market in 2009 did not recover, it remained a very soft part of the market, while other sectors of the market eventually switched on."

Jason Anderson, senior economist with BIS Shrapnel, says Sydney will face an "extreme" shortage of rental properties, worse than any other capital city.

This would boost demand for outer-ring suburbs, leading to growth as high as 10 per cent in those areas.

He predicts 5 per cent growth for Sydney generally, but in contrast with Christopher, believes prestige property will remain flat over 2010.

Ben Hurley