THE BUYER'S EYE
SYDNEY - SUMMER 2013

- WHAT TO EXPECT IN 2014 -

2013 will be remembered as a year in which property markets accentuated their bounce in much of Australia.

While property prices in other cities remain below their respective previous peaks experienced in 2010, it was our firm view that Sydney, as a relative underperformer since the city's last boom in the period through to Q1 2004, would lead Australia's property markets through to an extended recovery. And thus it has proved.

Not only have Sydney's property markets broken through previous peaks, Sydney has been by far and away the strongest Australian capital city performer through 2013, with median dwelling prices comfortably recording double digit levels of growth.

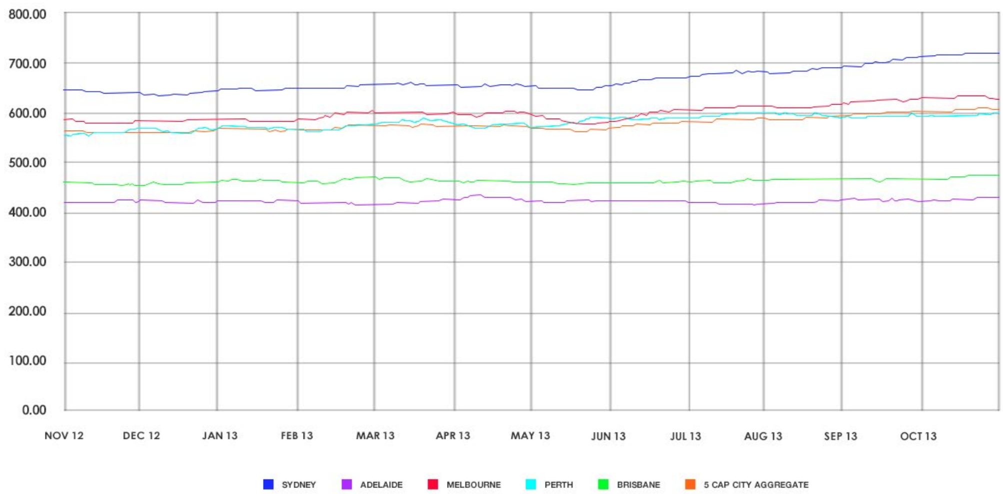
So, it has been a strong 18 months for the Sydney property markets, as was our conviction and exactly as we anticipated in previous editions of The Buyers Eye.

The good news for Sydneysiders – and indeed for interstate and international investors – is that the fundamentals in Sydney remain very strong for 2014. Quite simply, it remains the Australian capital city with the strongest fundamentals.

Vacancy rates in the key favoured suburbs remain very low and there has also been a very material reduction in the levels of stock on the market.

Elsewhere in Australia, dwelling price growth has been more subdued as charted from RP Data's Daily Home Value statistical data below.

- RP DATA-RISMARK DAILY HOME VALUE INDEX VALUES OVER 12 MONTHS TO END NOVEMBER'13 -



SOURCE: RP DATA

Historically, property market recoveries in Australia have been led by Sydney, with price growth later rippling out to other state capital cities. With interest rates forecast to remain close to generational lows through 2014, this cycle appears set to be no exception.

2014 also looks likely to be primarily a Sydney story.

Gradually other markets will come into the frame, but at this stage our view is line with what every major forecasting house in Australia is saying, and that is that Sydney will continue to power ahead in 2014.

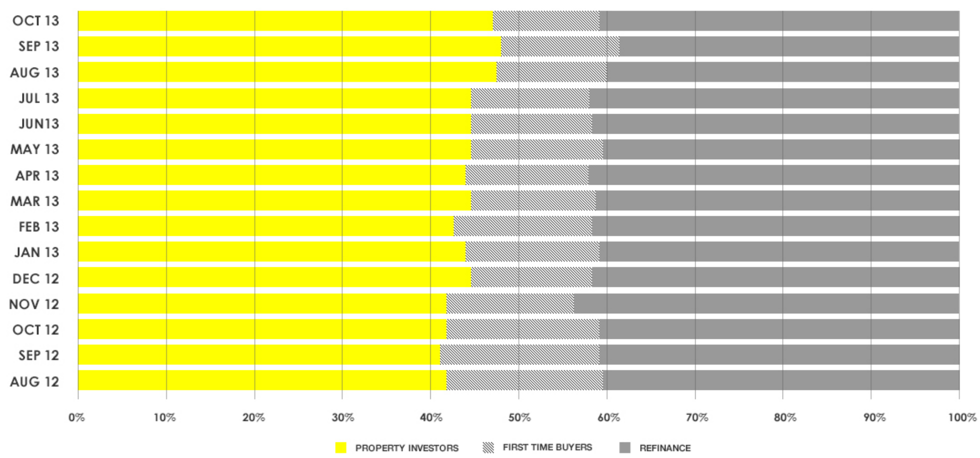
- AN INVESTOR-LED RECOVERY IN AUSTRALIA -

As had been analysed in previous editions of The Buyers Eye, this has been an investor-led recovery in Sydney.

Australia-wide over a third of mortgages processed have been for the purposes of investment, while in New South Wales, the figure has been significantly higher still, consistently coming in at around 50%.

This represents the highest percentage level of investor activity in any state in Australia's history.

- NEW MORTGAGE BREAKDOWN -



SOURCE: AUSTRALIAN FINANCE GROUP

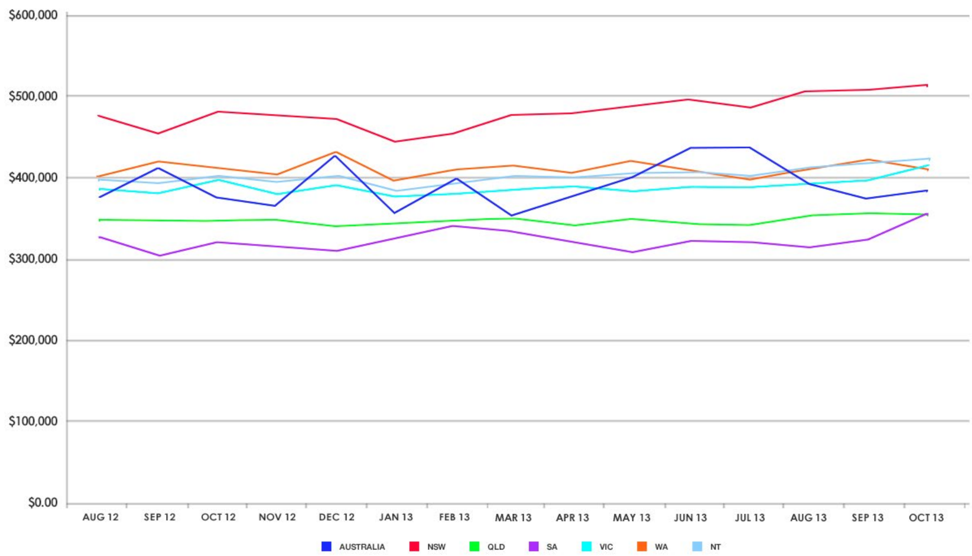
- CHALLENGES FACING FIRST TIME BUYERS -

Data from Australia's largest mortgage broker (AFG) shows that first time buyer activity remains subdued. In Sydney, the number of first time buyers has dropped sharply following the withdrawal of the first home owners grant in the state of New South Wales.

We note the difficulty of capturing complete and accurate data relating to first time buyers in Sydney since the grants have been pulled back, but it's certainly been our on-the-ground experience that the current markets represent a tough buying environment for first-timers.

While low interest rates are welcomed, it is often the case that first time buyers are competing with investors for the same constrained supply of stock. First time buyers need help to level the playing field.

There does perhaps appear to be some light at the end of the tunnel as at last there is a decent level of apartment construction underway in Sydney. But the truth is that with mortgages getting bigger in New South Wales, so too are the deposits needed by first homebuyers.



SOURCE: AUSTRALIAN FINANCE GROUP

- AUSTRALIAN ECONOMIC OUTLOOK FOR 2014 -

Through October and November 2013, there was a surge of positive economic data in Australia, which significantly brightened the outlook for 2014. As a resources-exporting country, positive economic releases from China have also seen confidence picking up in Australia.

There has been a fair amount for Australians to be positive about in recent months.

The missing piece in the puzzle is the Labour Force data. If that improves then we have potentially seen the last of the interest rate cuts for this cycle. The unemployment rate in Australia has to date ticked up to 5.7%.

Traditionally, employment data has been a lagging economic indicator, so it is widely hoped that jobs growth follows on from significant improvements seen elsewhere in the economic data.

There have been signs that low interest rates are starting to bite. In particular, there have been the first signs of a dramatic upwards surge in dwelling approvals and the residential construction index also looks set to boom. This is exactly what the Reserve Bank has been hoping for. Retail sales have at long last started to pick up as well thanks to lower mortgage repayments freeing up some cash for homeowners over the last two years. The risk of recession appear to be receding, although there will still be some headwinds through the next 12 months.

Australia's central bank, the Reserve Bank of Australia (RBA), has made clear its intention that residential construction should be encouraged to offset an expected fall in mining engineering construction.

The RBA forecasts a period of below-trend economic growth of around 2.50% through 2014, which is expected to pick up to above 3.25% through 2015.

- SYDNEY PROPERTY MARKETS – THE OUTLOOK FOR 2014 -

Towards the end of 2013, market forecasters and data providers SQM Research re-iterated its views that Sydney's property markets will be the stunning outperformer of 2014.

SQM Research has had a sound track record of forecasting median price movements in Australia. SQM's base case forecasts "median price growth of 15-20% for Sydney in 2014", and perhaps even as high as 20-30% growth if the economy improves.

Managing Director of SQM, Louis Christopher highlighted: "We have a strong conviction that the Australian Bureau of Statistics will record 15-20 per cent house price rises next year for that city."

"Sydney has historically been sensitive to interest rate changes. The rate rises in 2009 and 2010 had a negative impact and we had a downturn. I think the RBA will lift rates next year, which will mean there will be a slowdown for Sydney housing in 2015."

Our view is similar to SQM, with our belief that that the strongest sector of Sydney's markets through 2014 will be the sub $2 million sector.

Director of AllenWargent's Sydney office, Pete Wargent added: "Those with an investor mindset should be considering sectors of the markets where there is a proliferation of buyers.

"Premium markets tend to bring lower yields, these markets tend to be 'thin' which introduces a higher risk should an investor become a forced seller" cautioned Wargent.

"Of course, this risk is lessened where buyers intend to be in the market for the longer term, with the obvious proviso that they undertake detailed research and buy well".

- INNER WEST HAS "DONE ITS DASH" -

In previous editions of The Buyers Eye, we have highlighted that buyers seeking capital growth look towards certain suburbs of the inner west sector of the market. Capital growth in these suburbs of the inner west in Sydney has surpassed even our own expectations.

In the investment grade and prime location stock, we have seen sales prices increasing by as much as 40% in the past four years, which represents an outstanding return on investment by anyone's measure.

However, we now caution that the best of the growth for the inner west is now almost certainly in the past for this property cycle.

We have had an excellent track record of anticipating growth markets in Sydney, but must caution buyers that after such outstanding growth the ship has most likely now sailed in most of our favoured inner west suburbs.

We have seen house price growth of well over 15% in the last 12 months alone and although auction clearance rates remaining at elevated levels, it is our opinion that buyers competing in the inner west markets today are likely to achieve suboptimal results at this stage in the property market cycle. We envisage strong outcomes for most buyers elsewhere.

- A CAUTIONARY NOTE -

Figures from the Australian Bureau of Statistics (ABS) show that Sydney's extraordinary levels of population growth are forecast to continue through to the middle of the century when the city is expected to house somewhere between 6.6 million and 7.6 million persons.

These are staggering numbers and our view remains that with a diversified range of employment and the geographical spread of the city contained by national parks and oceans on all sides, Sydney presents investors with the greatest opportunities for capital growth.

However, in our opinion is that the city is now entering the first phase of a tremendous construction boom and investors need to be wary. Vacancy rates in Sydney are low and we desperately need the new supply, but investors should take great care in what type of stock they buy.

It is our view that much of the off-plan and new stock is very expensive as compared to established investment grade properties, and that those buying brand new are almost certain to experience inferior capital returns.

Indeed, investors that get it wrong could easily experience erosion of capital.

In the inner south of Sydney there are some 25,000 apartments planned for the next 5 years. Around Central Park and Broadway there are also thousands of expensive new apartments coming online.

The CBD [Central Business District] will see the construction of the city's tallest ever residential block: the Chinese-funded Greenland development will be 60 storeys and 235m high.

We have seen this before in Australia, and we are likely to see some echoes of what has happened in Melbourne's Docklands, which means higher vacancy rates and stunted or even negative capital growth.

Some of Sydney's over-supplied apartment markets are likely to experience a shake-out at some point. Investors who pay too much for new properties and buy into the wrong markets will likely get burned. Investors should look towards established stock and find properties with scarcity value.

- WHERE TO LOOK IN SYDNEY IN 2014 -

Following the outstanding growth experience in Sydney's inner west, our focus has now shifted away from these suburbs.

Our 'one's to watch' for 2014 now include a number of key suburbs to the north of the harbour bridge, in particular those with key transport links to the city via Sydney ferries and the north shore train line.

Our recommended investment strategy in these markets is just as it was in the inner west in previous years.

Investors need to undertake water-tight due diligence and secure properties for which there will be an elevated level of demand for decades to come as the Sydney population continues to boom and our property markets and demographic trends subtly shift over time.

Investors must consider what tomorrow's buyers are going to be looking for. The three key things for buyers to consider if they want to outperform in the Sydney property markets are: research, research and more research.

ALLENWARGENT
LONDON · SYDNEY

AllenWargent are residential property buying advisors focusing on delivering a tailored approach to property search and purchase in London and Sydney. We offer an all encompassing property acquisition service managing the process from property search to completion on your behalf.

We fix all our fees as we believe this embodies our company value of transparency, ensuring our clients independence throughout the process. We are one of a small number of buying advisors to be professionally accredited by the Royal Institution of Chartered Surveyors.

LET'S TALK ABOUT YOUR NEXT MOVE, WE'D LOVE TO HEAR FROM YOU.

LONDON
T: +44(0)207 873 2326
E: LONDON@ALLENWARGENT.COM
A: 11-14 GRAFTON STREET, LONDON, W1S 4EW

SYDNEY
T: +612 9238 2419
E: SYDNEY@ALLENWARGENT.COM
A: LEVELS 56 & 57 MLC CENTRE, 19-29 MARTIN PLACE, SYDNEY, NSW 2000

W: WWW.ALLENWARGENT.COM
TWITTER: @ALLENWARGENT
FACEBOOK: FACEBOOK.COM/ALLENWARGENT