

JULY 2013

SYDNEY RESIDENTIAL

Prestige & Mainstream market analysis and comparison

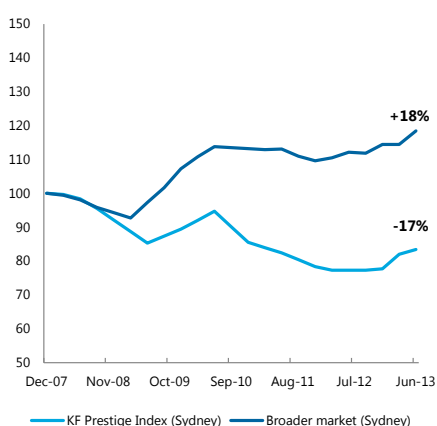
After entering a stabilisation phase in 2012, **Sydney Prestige¹** (top 5% of market) residential prices began to show early signs of recovery in the first half of 2013. **Annual price growth has rebounded 7.9% over the year to the end of June 2013, following negative 0.9% growth in the 2012 CY.**

The main contributors to the improved performance in 2013 at the top end include a pick-up in confidence on the back of lower interest rates, more liquid debt markets, and a strong rebound in the share-market (notwithstanding recent correction), which has underpinned improvement in volumes. Vendor discounting has also lessened as confidence has returned, supporting prices. Nevertheless, buyers remain price and product sensitive.

Figures 1 and 2 highlight the divergence in performance between the Sydney prestige market and the broader market since the commencement of the GFC. When indexing both the *Knight Frank Sydney Prestige Residential Index²* (PIRI) and the ABS established house price index back to December 2007, there has been a stark underperformance in the prestige market.

Sydney prestige prices remain 17% below the December 2007 levels, compared to the mainstream market up 18%. This divergence in performance was predominately due to the mainstream market being supported by a huge injection of monetary and fiscal stimulus. However, with the bottom being reached in the prestige sector, this gap in performance will begin to close, as buyer depth has picked up noticeably in 2013. Competitive pressures are now evident at auctions and in private treaties, whilst the broader market remains arguably relatively unaffordable.

Figure 1
Prestige & Mainstream House Prices
Sydney, Indexed to 100 at December 2007



Source: Knight Frank PIRI, ABS HPI³

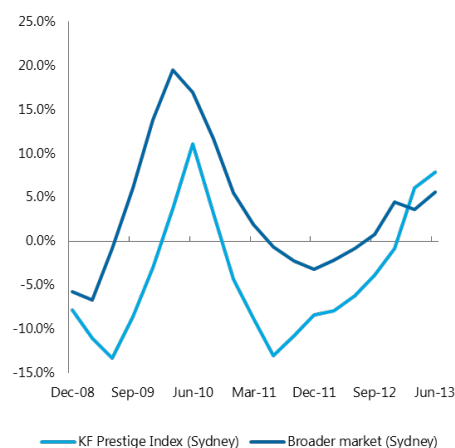
There will be continued demand from Asian buyers, particularly Chinese. At the top end of the market, two of the largest recent prestige homes to change hands were sold to Chinese buyers, namely the Bang & Olufsen house for \$32.5 million and "Altona" for \$52 million.

In the **Sydney mainstream** residential market, Knight Frank expect continued buyer activity from overseas, with buyers coming from the likes of China, Hong Kong, Singapore, Malaysia and Indonesia, driven in part due to tightening measures which continue to be imposed on Asian markets in an attempt to cool house prices. Offshore developers have been active in 'landbanking' sites over the past year, where Chinese and Malaysian developers will actively market apartments in their local markets.

The lower cash rate (53 year low) and increased market liquidity in lower price brackets (sub ~\$1.5 million), has seen a rebound in volumes and auction clearance

rates, however the market remains relatively balanced between vendor and purchaser expectations. This has seen the broader (mainstream) market record some flattening out in price growth over the first half of 2013, but strong results continue to be achieved for properties that tick all of the boxes.

Figure 2
Prestige & Mainstream House Prices
Sydney, Rolling annual growth, Dec 08 - June 13



Source: Knight Frank PIRI, ABS HPI³

With the recent change of leadership in Australia and a formal election looming, the market may enter a holding pattern until later in the year. However, with population growth and overseas migration rebounding and mortgage rates remaining lower for longer, the momentum is building. *Nominal price growth across the residential sector for the remainder of 2013 is forecast to average 5%. Prestige prices are expected to outperform the broader market, rebounding off a lower base, with double digit annual price growth expected by the end of 2013.*

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¹ Prestige - dwellings greater than ~\$3 million
² PIRI - Prestige International Residential Index
³ Australian Bureau of Statistics House Price Index - detached residential dwellings