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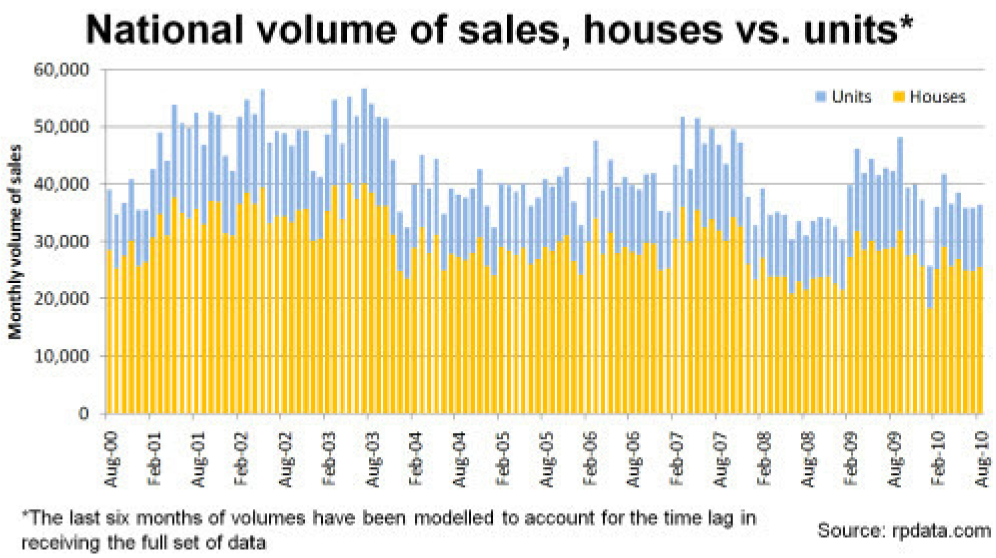
Higher density living gaining popularity

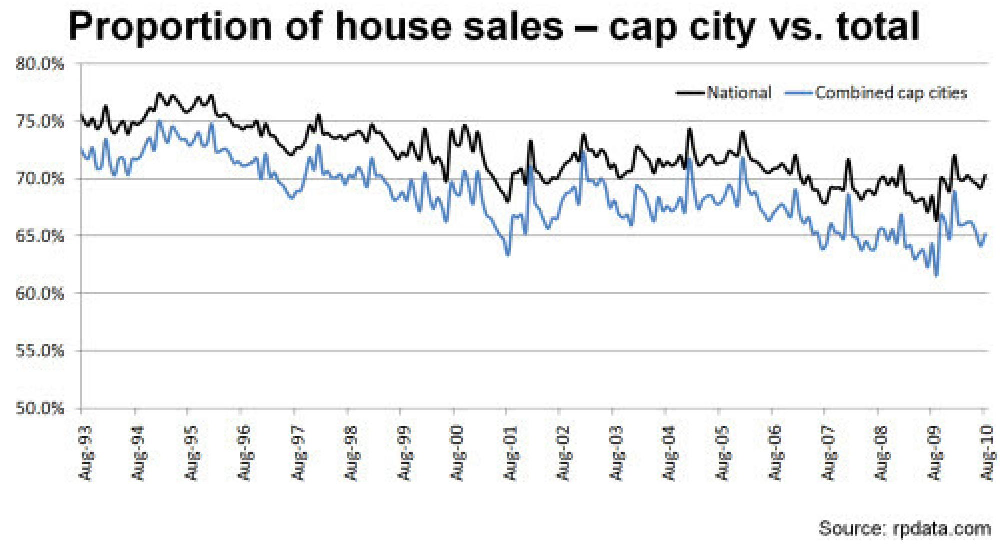
Fifteen years ago only 25% of capital city home sales were for units and apartments. Today, medium and high density housing accounts for about 35% of home sales.

More buyers are choosing to live in higher density housing, particularly in inner city areas of capital cities. Since 2005, coming out of the last significant property boom, the proportion of unit and apartment sales had been moving lower until the trend was disrupted in 2009. The boost to the First Home Owners Grant and the sharp drop in interest rates saw first home buyers flow back into the market resulting in a rebound in demand for detached houses. With the highest level of housing affordability since 2002, it was no real surprise to see first time buyers targeting detached homes. The jump in the proportion of houses being sold during 2009 can also be partly attributed to the longer settlement time large apartment developments involve. There may be some revisions to the proportion of sales as these larger projects settle.



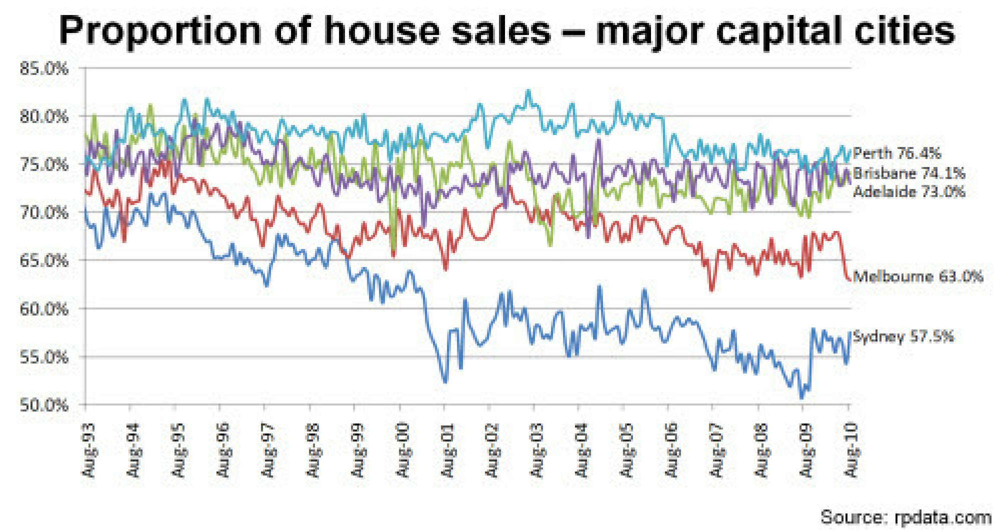
Based on RP Data's modeled volumes for the month of August 2010, there were 36,305 dwelling sales during the month and of these, 70% were house sales and 30% were units. A decade ago, houses accounted for 73% of all sales with the remaining 27% unit sales. The results highlight that whilst the unit market continues to emerge, the improving levels of affordability in recent times has seen purchasers revert to detached homes rather than higher density forms of housing.

The proportion of house sales within the combined capital cities is, as you would expect, lower than that across the nation. As at August of this year, house sales across the combined capitals accounted for 65% of sales compared to the 70% nationally. Across the capital cities there has been a significantly greater increase in the proportion of house sales coming out of the GFC as many buyers utilised the First Home Owner's Grant Boost and/or low interest rates as a way of purchasing a house. Plus, property values had fallen during 2008 also contributing to increased affordability.



In the two most populous markets, Sydney and Melbourne, there are a significantly greater proportion of unit sales. During August, unit sales in Sydney accounted for 43% of all dwelling sales and in Melbourne, the figure was recorded at 37%. Outside of Sydney and Melbourne, Canberra and Darwin have also recorded a significantly greater proportion of unit sales with house sales accounting for 62% and 63% of sales respectively in these markets during August 2010. The common trend between these four cities which have recorded an above average volume of unit sales is that they are also the four most expensive capital city markets.

During the last decade, Melbourne has recorded the greatest increase in the proportion of unit sales, up by 6.1% (despite the increasing demand for houses in recent years). With the introduction of significant amounts of new unit development in areas such as Docklands and Southbank it is probably no surprise to see that units have increased in prominence over the period.



Overall, the national results show that although there is significant focus on the unit market it still only accounts for around one third of the total market.

At its lowest point unit sales accounted for 39% of sales in the market. Given that affordability constraints are now returning to the market and that across the capital cities median unit prices in August were $68,000 more affordable than house prices ($485,000 vs. $417,000) we would expect that the proportion of unit sales will once again begin to increase.

Proportion of house sales – Aug-00 vs. Aug-10

Cap city	Proportion of house sales Aug-00	Proportion of house sales Aug-10
Sydney	61.8%	57.5%
Melbourne	69.1%	63.0%
Brisbane	73.5%	74.1%
Adelaide	72.7%	73.0%
Perth	78.2%	76.4%
Hobart	82.2%	78.4%
Darwin	60.1%	61.5%
Canberra	62.6%	62.5%

Source: rpdata.com

The cities which have recorded the greatest proportion of unit sales compared to houses are also typically those cities in which unit prices are significantly more affordable than houses. In Sydney, median unit prices are $125,000 lower than houses, in Melbourne they are $65,000 lower, in Darwin the difference is $127,500 and in Canberra it is $125,000.

The driving force behind the increasing prominence of unit living will be that they are relatively affordable and are in much greater supply in desirable locations close to public transport, retail and dining amenity and major working nodes. Units also afford the opportunity to live in suburbs in which many purchasers would not be able to afford to own a house. As a result units are viewed as a viable and more affordable alternative.

Another factor that is driving more unit sales is changing lifestyle preference. Empty nesters are downsizing to apartments for the lower levels of maintenance involved in apartment living and also what are often better locations, being closer to work and social precincts.

Looking towards the future, we expect that medium and high density living will continue to become increasingly prominent. Australia's most mature residential market, Sydney, is already showing close to 50% of all home sales as units. The drivers are going to be affordability, increasing densification of the inner city and major transport spines, and changing lifestyle preferences. Over the last five years we have already started to see units outperforming houses in terms of capital growth (7.3% annual gain for units vs 7.0% for houses). With demand likely remain high in the unit, apartment and town home markets these higher capital gains may continue.