

ADELAIDE PROPERTY MARKET MONITOR

RESIDENTIAL OVERVIEW

MARCH QUARTER 2008

“RELIEF IN SIGHT AS MARKET LOOKS LIKE EASING”

South Australia has continued to record stronger growth in the level of sales activity and new home approvals in comparison to other states. For the three month period to January 2008, there were 1,073 building approvals and for the same period there was an 8% increase from January 2007 in housing finance commitments. This is significantly greater than a national growth figure of 5.2%.

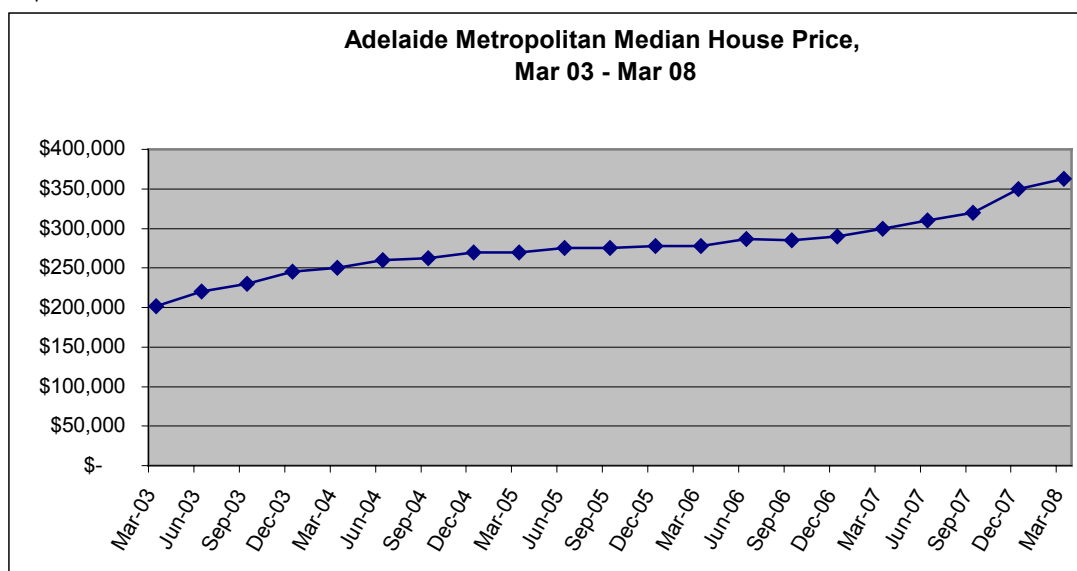
In regards to the proportion of family income required to meet average home loan repayments, South Australia is more affordable than in the Eastern States and is the third most affordable state after Tasmania and Western Australia. Supporting the state’s housing market is strong labour market conditions, strong wages growth, the highest annual rate of population growth in 23 years, and low rental vacancies. Having said this, it is tipped that the increasing effect of repeated rate rises will slowly over time have an impact.

South Australia’s strong labour conditions have continued into 2008 experiencing the highest labour force participation in 17 years. As a result the unemployment rate is at 4.5% which is a record low. Remaining at high levels is the level of newspaper job ads, which suggests a positive outlook for new hiring activity in the state in the upcoming months.

RESIDENTIAL SALES

In the first three months of 2008, metropolitan house prices have continued to grow. From the December Quarter 2007, the median metropolitan house price grew by 2.11% and now stands at \$362,500. This represents an increase of 19.4% from this time last year. While the median house price has once again risen over the first quarter, it was at a much slower rate, making the future a little brighter for first time home buyers. These latest figures are an example of the two latest rate rises having an impact and easing the level of sales volume and prices. Graph 1 illustrates the growth in Adelaide Metropolitan house prices from March 2003 to March 2008.

Graph 1



During the March quarter 2008 there were approximately 6,462 statewide house sale transactions. This is compared to 7,076 12 months ago. Again this is a sign that the sales volume is beginning to ease. The state-wide median house price increased by 18.1% over the last 12 months from \$279,500 to \$330,000 in the March quarter while the state-wide median price for units and apartments during the March quarter was \$250,000.

Table 1 below illustrates the top 10 growth suburbs based on median house prices for the March quarter 2008. Christies Beach was the best performing suburb with a median change of 60.17% over the last 12 months.

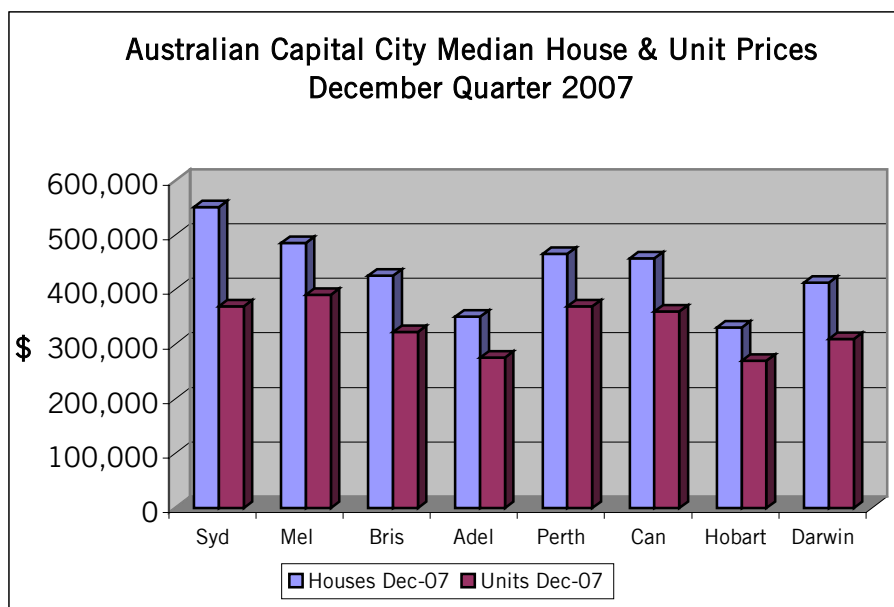
Table 1 – Top 10 growth suburbs.

Suburb	Sales 1Q 2007	Median 1Q 2007	Sales 1Q 2008	Median 1Q 2008	Median % Change
Christies Beach	37	233,500	32	374,000	60.17%
Brighton	14	390,000	12	592,500	51.92%
Seacombe Gardens	13	271,000	10	410,000	51.29%
Rosewater	21	238,000	18	350,000	47.06%
Nairne	30	238,000	28	347,000	45.80%
Marino	16	415,000	14	605,000	45.78%
O'Sullivan Beach	12	197,000	12	281,500	42.89%
Magill	38	375,000	32	535,000	42.67%
Andrews Farm	25	208,000	25	295,725	42.18%
Panorama	12	345,000	15	488,000	41.45%

Source: REI

As evidenced in Graph 2, South Australia has the lowest median house price of all the mainland states & territories. The traditional higher priced capital cities of Melbourne, Sydney and Brisbane have experienced strong growth in median house prices over the last 12 months. Darwin and Canberra have each had an increase in median house price of 11.5% and 14.8% respectively over the last 12 months, while an increase of 13.8% was experienced in Hobart for the same time period.

Graph 2



Source: REIA

RESIDENTIAL RENTAL MARKET

In the March quarter vacancy rates eased slightly and increased to 1.7%, this is however still comfortably below 2% and the long-term historical average of 4.0%. The average weekly rent for a two-bedroom unit in South Australia is \$220 per week. This has fallen by 0.9% over the quarter from \$222. The average weekly rent for a three-bedroom house in South Australia has also fallen since the December quarter 2007. It has come down from \$272 per week to \$255 per week.

Evidence suggests that tenant demand for rental properties in Adelaide has dropped ever so slightly in recent months but there are still a good number of quality tenants in the market looking for the right property.

Graph 3 illustrates the average residential rent growth in three bedroom houses and two bedroom units in South Australia over the last three years.

Graph 3 – South Australian Average Weekly Rental Prices March 05 – March 08.

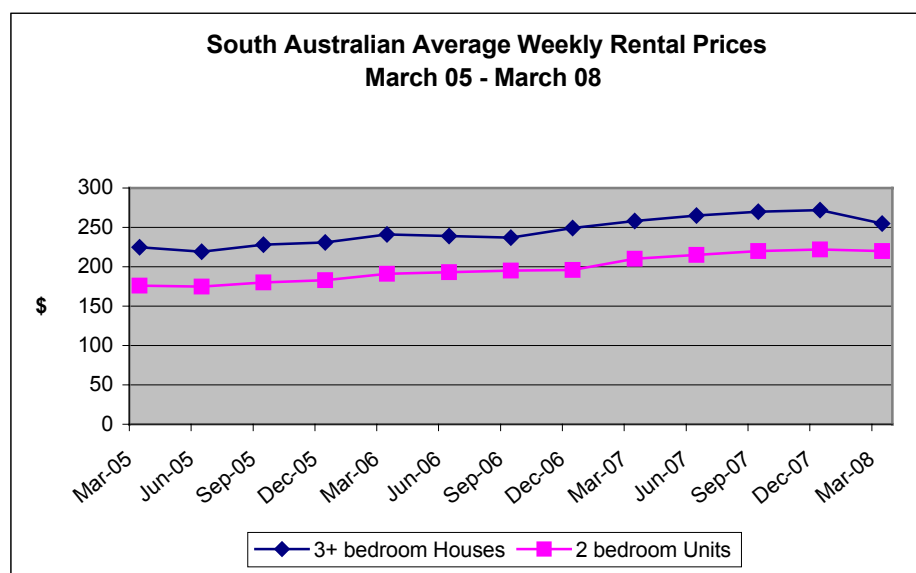


Table 2 highlights the metropolitan vacancy rates for the March quarter 2008 while Table 3 highlights the top 10 growth postcodes (metro) based on median weekly rents for houses for the March quarter 2008.

Table 2 – Metropolitan Vacancy Rates March Quarter 2008.

Metropolitan Region	Vacancy Rate
City/North Adelaide	3.27%
North	1.73%
East	1.75%
South	1.09%
West	1.39%
Hills	1.80%
Total Metro	1.70%

Source: REI

Table 3 – Top 10 growth postcodes (metropolitan).

Postcode	Main Suburbs	Volume	Rent Mar07	Volume	Rent Mar08	% Change
5052	Belair, Glenalta	25	\$270	20	\$340	25.9%
5034	Goodwood, Wayville	50	\$280	50	\$350	25.0%
5164	Christie Downs	30	\$185	30	\$230	24.3%
5012	Woodville Gardens, Woodville North	35	\$180	40	\$220	22.2%
5083	Broadview, Sefton Park	40	\$248	40	\$300	21.2%
5037	Kurralta Park, North Plympton	35	\$250	50	\$300	20.0%
5061	Hyde Park, Unley	50	\$330	55	\$395	19.7%
5014	Cheltenham, Royal Park	60	\$225	60	\$268	19.1%
5019	Exeter, Semaphore	55	\$250	40	\$295	18.0%
5152	Crafers, Stirling	15	\$275	25	\$324	17.8%

Source: REI

SOUTH AUSTRALIAN POPULATION

Overseas migration and a minor increase in the fertility rate has seen South Australia's population growth rate increase noticeably. With the highest number of births recorded since 1997, South Australia is experiencing a mini baby boom. Over the last 12 months there has been 19,355 births recorded.

The population gains through overseas migration and natural increase were partly offset by the continued loss of people through interstate migration. In the year to September 2007, 3,934 people left the state, this is 60.9% more people than the previous year.

Throughout 2007 Adelaide attracted 23,300 overseas students. To the local economy this is worth \$648 million and supports more than 3,000 full time jobs. It is estimated that South Australia should be home to some 25,500 overseas students in 2008.

The state has continued to build on its strengths in the traditional manufacturing sectors to lead Australian innovation in new areas including electronics, automotive, and medical equipment. In the December 2007 quarter, 94,500 people were employed in the SA manufacturing industry. This makes up approximately 12% of the total SA employment. For the 12 months to January 2008, manufacturing goods exports were \$7.6 billion which represents 78% of the total value of SA goods exports. The top three export commodity categories for this time period were metals and metals manufacture (\$2.1 billion), wine (\$2.0 billion) and motor vehicles and parts (\$1.1 billion). Key markets that the state has been exporting to include South East Asia, Taiwan, China, Japan, the USA, the Republic of Korea, New Zealand, and the Middle East.

In the year to the end of the December quarter 2007, total mineral exploration expenditure in South Australia was \$331 million. This is up by 73% from the previous year and was the second highest of all the states and territories behind Western Australia. This accounted for 16.1% of the national expenditure. \$110 million of the \$331 million spent on mineral exploration was invested in searching for new mineral deposits with the remaining \$221 million spent on the expansion and development of South Australia's growing list of known mineral deposits. The main commodities produced in South Australia are copper, crude oil, natural gas and uranium oxide.

Overall employment in the food industry has declined marginally over the past decade. During 2006-2007 employment across the food industry was 133,300. For the

December quarter 2007, agriculture, forestry and fishing employment were approximately 41,200. During 2006 – 2007, South Australian food and live animals exports were worth \$1.8 billion.

In recent times South Australia has become known as Australia's defence state and the high-technology centre for the nation's defence industry, with South Australian firms winning 30% of the Australian defence capital budget. Investors have the opportunity to participate in more than \$10 billion worth of defence contracts, which include:

- \$8 billion Air Warfare Destroyer Contract.
- 10 year - \$1 billion deal to maintain and upgrade the AP-3C Orion aircraft fleet.
- Multi billion dollar Collins class submarine through-life support contract.
- Relocation of Australia's new Mechanised Battalion Group to Adelaide, commencing in 2008.

Currently 19,000 people in South Australia are employed by Information and Communications Technology companies. Statistics from the Electronics Industry Association reveal that in 2006-2007 the states electronic industry had approximately 13,000 employees and annual revenue of \$3.6 billion.

It is evident that South Australian house prices have continued to rise in the March quarter but the pleasing news is that relief is in sight for first-time buyers as there are signs of the market easing. With the spotlight on the issue of housing affordability in recent times, the slower rate of growth in the first quarter of 2008 is welcomed news for those trying to enter the market. Signs are now reflecting the evidence we have been hearing that sales volume and prices have begun to ease in response to consecutive interest rate rises.

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MANAGING DIRECTOR

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