



## Office closure over Christmas

The WHK offices will be closed for the Christmas/New Year period from Tuesday 24 December 2008 and will reopen on Monday 5 January 2009.

We wish all our clients and their families a safe and happy festive season.

## Mortgage Sector Update

Over the past few weeks many of you will have heard the Mortgage Sector of the Australian investment market has had liquidity issues.

Most of these issues have been caused by the Federal Government's announcement that they will be guaranteeing bank deposits. This announcement has led to increased volumes of withdrawal requests being submitted to our large Australian Mortgage Fund Managers as investors become concerned about the security of income investments not covered by the guarantee.

As a result, many Mortgage Fund investments have closed to redemptions meaning that money cannot be withdrawn from these investments at this time. This action has been taken to protect the interests of all current Mortgage Fund investors.

Some of the funds affected include:

- Mirvac Aqua High Income Fund
- Mirvac Aqua Income Fund
- AMP Enhanced Yield Fund
- Australian Unity High Yield Trust
- Perpetual Monthly Income Fund
- Challenger Howard Mortgage Trust
- Australian Unity Mortgage Income Trust

It is important to note that the quality of the investment assets within these Funds

remain sound and that ALL of the portfolios will continue to pay income distributions on invested money. The Funds' assets continue to be invested in commercial mortgages secured by a range of quality properties. With the exception of the Mirvac Aqua HIGH Income Fund, which was internally exposed to higher levels of risk resulting in a 6% capital write-down, ALL of the above funds have the capital fully intact. Notably, these funds are not market linked and therefore not impacted or exposed to share market volatility. They are generally conservative and secure investments with the security further enhanced by the freeze.

Although closed to withdrawal at this time many of the above investments will be offering the opportunity to withdraw amounts every 90 days while in this temporary suspension mode as cash becomes available from maturing mortgages. Importantly, given the significant reduction of interest rates recently announced by the Reserve Bank (RBA) with more expected to follow, most of the above funds will have HIGHER returns than current cash or term deposits rates.

Should you like further information about the Government guarantee or mortgage freeze, please contact your financial planner.



# Housing Prices

Leading economic forecaster and industry analyst, BIS Shrapnel expects that residential property prices will rise over the course of 2009, following a weak performance in 2008.



The company says it is likely that residential property prices declined in most cities in the September quarter of 2008, following on from a marginal fall in the previous quarter.

“On the surface, these two quarters of decline may appear to represent a recession, in residential property markets, says BIS Shrapnel’s Managing Director, Robert Mellor.” However, we do not expect that the recent weakness represents the beginning of a sustained decline in prices, of the type that is underway in the US and the UK.

“In the US, there is clearly an oversupply of housing, and, combined with much tighter lending conditions, there have been sizeable falls in property prices.”

BIS Shrapnel notes that difficult credit market conditions flowing from the US have affected other countries, albeit in different ways.

The UK mortgage market had sourced 70 per cent of its finance from international funding sources, meaning when the cost of debt rose during 2007 and 2008, there were far greater restrictions placed on loans, particularly in relation to loan-to-valuation ratios.

“While UK housing interest rates have declined in 2008 to date, demand was constrained and house prices have continued to weaken this year,” explains Mellor.

Australia’s mortgage market is less dependent on international funding sources

and availability of finance is solid, in contrast to the UK.

“In Australia, there is a clear undersupply of housing and an environment of housing shortages provides fertile ground for interest rate cuts,” says Mellor. “Recent Government policy moves, like the boost to the First Home Owners Grant, are likely to be successful because of the current housing shortages.”

BIS Shrapnel believes the global credit crunch will actually support Australian residential property prices in 2009, as financing constraints are reducing the pipeline of new rental developments.

National starts of new medium and high density dwellings are forecast to plunge by 18 per cent in 2008/09 and, as supply declines, the rental markets in all cities will tighten further, which will support property prices.

“For example, in Sydney, the number of new medium and high density dwellings being completed is forecast to fall to a 20 year low in 2009, pushing the vacancy rate to below one per cent,” explains Mellor. “Rental properties will remain in short supply, and the national average rental growth is forecast to rise to 10 per cent in 2009, up from the current rate of 8.2 per cent, according to the Australian Bureau of Statistics rental index.”

BIS Shrapnel forecasts further turbulence in property markets as unemployment rises. The national unemployment rate is expected to rise to six per cent by the end of 2009 and employment growth is expected to be very low. However, an outright decline in the total number of persons employed is not anticipated.

Mellor says it is important to note that increases in unemployment in 1997 and 2001 did not lead to sustained decreases in property prices.

“There may be unfortunate home owners who lose their jobs and may need to sell their properties, but at the moment there are many renters who will be seeking to buy,” he says. “Interest rate cuts and the increase in the First Home Owners Grant are providing motivation for these people to buy before the end of 2008/09, and this outcome will support growth in property prices.”

In addition, BIS Shrapnel expects a return of investors to the market by the latter part of 2009, which will also help to support modest price growth.

Overall, residential property prices are expected to gradually recover in 2009, with growth of between zero and three per cent across the capital cities of Australia as the market strengthens in the second half of calendar year 2009.



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## Looking after the country



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