

MMP111

INTRODUCTION TO PROPERTY



ASSIGNMENT 2

PROPERTY VALUATION

JANUARY 28 2011

TABLE OF CONTENTS

1.0 INTRODUCTION	1
2.0 CURRENT STATE OF THE PROPERTY MARKET	2
2.1 INTEREST RATES	2
2.2 LENDING & LOANS	2
3.0 PROPERTY INSPECTION	3
3.1 INTERNAL INSPECTION	3
3.2 EXTERNAL INSPECTION	5
4.0 VALUATION	6
4.1 SUBURB STATISTICS	6
4.2 COMPARABLE SALES	7
4.3 4 DOULTON RD, BLACKBURN 3130	9
REFERENCES	10
APPENDICES	11
APPENDIX 1 – BANKS’ HOUSING INTEREST RATE (%)	11
APPENDIX 2 – LOAN DATA	12

1.0 INTRODUCTION

The aim of this report is to provide the user with a realistic market valuation of a selected property. The report is hypothetical, however, the data and housing information provided has come from actual sources. The report focuses on the property in which the writer of the report lives. The actual property is not for sale, however, the valuation that is provided is based on the assumption that the property would be for sale.

The address of the property is 4 Doulton Rd, Blackburn, 3130.

The report consists of three main sections. The first section provides the reader with an overview and background on the current state of the national housing market. Although each state and its suburbs/regions will have their own particular factors that will influence property prices, the general trends, however, are closely aligned in each state and territory of Australia. This stems from the fact that housing prices are very closely linked to economic activity, unemployment rates, interest rates and consumer disposable incomes. These economic variables follow similar trends across Australia. The second section focuses specifically on the property to be valued in the form of a physical property inspection. An inspection is important since it will highlight the various features and condition of those features in the property itself. All these things have influence on the property's price. The third and final section is the valuation itself. The valuation will be based on the market approach using comparable sales and taking into consideration the current state of the housing market. The comparative sales are composed of five recent property sales are reasonably similar properties in the surrounding area.

2.0 CURRENT STATE OF THE PROPERTY MARKET

In recent years the property market in Australia has come under some distress. Many different factors have come together that have impacted not just property prices, but also the sentiment of potential buyers as well as lenders.

2.1 INTEREST RATES

In 2008 the global financial crisis hit economies around the world. Although Australia was not affected to a large extent, part of this was thanks to the Australian Government's rapid response in reducing interest rates. Interest rate manipulation affects consumer spending and disposable income since changes in interest rates will affect how much households spend on loan repayments, and therefore, how much they have left to spend in the economy as well as their ability to save. **Appendix 1** details changes to the bank's housing interest rate (BHIR). In July 2008 the BHIR rate was 9.6%. By September of the same year it had decreased to 9.35%, then to 8.35% in October 2008 and to 7.75% in the following month. The Reserve Bank of Australia kept reducing interest rates until April 2009 when the BHIR fell to a low of 5.75%. In June 2009 interest rates began to increase with the first upward adjustment to 5.8%. From this month the BHIR has been steadily increasing to the current rate of 7.8% which began in November 2010.

Strangely enough the global financial crisis had little impact on actual housing prices, as these continued to rise after a very short pause. The biggest impact during the period during the global financial crisis occurred with regards to lending and loans.

2.2 LENDING AND LOANS

Appendix 2 provides detailed information about home loans. The continued increase in housing prices over the past five years meant that homebuyers had to take out larger loans. This is illustrated in the first chart which shows a steady and continued increase in the average home loan for a new property. By the September quarter of 2010, the average size of the new home loans stands at \$305,764. Part of the reason for this continued increase in housing prices and loans has been the fall in interest rates that occurred between mid 2008 and mid 2009. The fall in interest rates increased home loan affordability, since the average monthly repayment of a home loan decreased to \$1818 in 2008/09 from \$2051 in the previous year. Even though interest-rate began to rise by mid 2009, households still had lower monthly repayments in 2009/10 (\$1926) than they did two years prior in 2007/08 (\$2051). The lower loan repayments meant that households were paying considerably less for the home loans as a percentage of their incomes. In 2007/08 the average monthly repayment was 37.9% of family income. The following year decreased to 1.9% and by 2009/10 it was 31.7%. As interest rates continue to rise so too does the proportion of home loan repayments to income. The latest data indicates that this ratio has risen to 34.8%.

The higher housing prices combined with increasing interest rates will mean that home loan affordability would decrease considerably. If interest rates rise to previously high levels, households who are burdened with larger debt levels will not be able to cope. Therefore, it is expected that housing prices should stagnate in the near future or correct if interest rates continue to rise.

3.0 PROPERTY INSPECTION

The property inspected is located at 4 Doulton Rd, Blackburn, 3130. It is a previously occupied detached house that is categorised as a unit/townhouse/villa. The property was built in 1950 and consists of four bedrooms, one ensuite, two bathrooms, kitchen and meals area, a two car lock-up garage and both a front and back yard. The property has an approximate area of 995 m² and a Lot Plan ID of L16/LP6416. The last recorded sale of the property occurred on September 5, 2009 and the sales price was \$860 000.

Additional features of the property include below floor central heating with vents in all rooms of the property as well as an air conditioner which is built into the side wall of the house.

3.1 INTERNAL INSPECTION

The property is generally very bright, clean and neat on the inside. Although generally the decor as well as the fixtures and fittings are quite dated, they are nonetheless in good working order.



The master bedroom is located at the front of the property with large windows that take up approximately 80% of the external wall space at one end. This makes the bedroom very bright with plenty of natural light coming in. The bedroom is freshly painted as a clean carpet and central heating duct which is located in the floor.



The second bedroom is large enough to be used as a dining/rumpus room. It is quite large, has a fireplace and windows on two sides. The room is carpeted and has a central heating duct in the floor. A large mirror on the mantelpiece provides an illusion of a larger area of the room than is actually the case.



The third bedroom consists of polished floorboards in which there are two central heating vents. The room is currently used as a rumpus room due to its large size.



The fourth bedroom is located at the rear of the property, has polished floorboards central heating vent and windows on two sides of the external walls the larger of which looks into the backyard, and the other onto the driveway at the side of the house.



The kitchen is disproportionally small to what is otherwise a very well proportioned and large house. The kitchen decor is quite dated and the facilities are simple, although those that are most commonly used are present. An external window allows plenty of natural light to enter.



A small meals area is present at the far end of the kitchen that has a window looking into the living room. There is one central heating vent in this location.



The bathroom consists of built-in cupboards, a shower cubicle as well as a bath tub. The wash basin has combined hot and cold water from the one tap. The floor is tiled for easy maintenance and cleaning. Drying racks are built into the wall as well as the bathroom door. The bathroom is relatively dark since only one small window allows natural light to enter.

3.2 EXTERNAL INSPECTION



The property has been well maintained, looks clean and green. The front yard is open with a good balance of green growth that adds a natural feel, yet it is not block out natural sunlight from the house. The roof tiles look aged and worn due to years of rain. It can be assumed that these are the original tiles from when the house was built.



Stepping onto the property one sees a concrete driveway which is not particularly visually appealing, but not unusual in this area. Concrete steps lead to the front door. This could be an obstacle and inconvenience for the handicapped. Standing on the driveway it's possible to see the garage at the back which has a distinctly different colour to the rest of the property.



There is a ramp that leads from the house to the garden and garage. This ramp is particularly useful for trolleys, prams and the handicapped. It is here where one can see that the house is slightly elevated which is good against potential flooding, and to keep the property cool during summer thanks to natural ventilation.

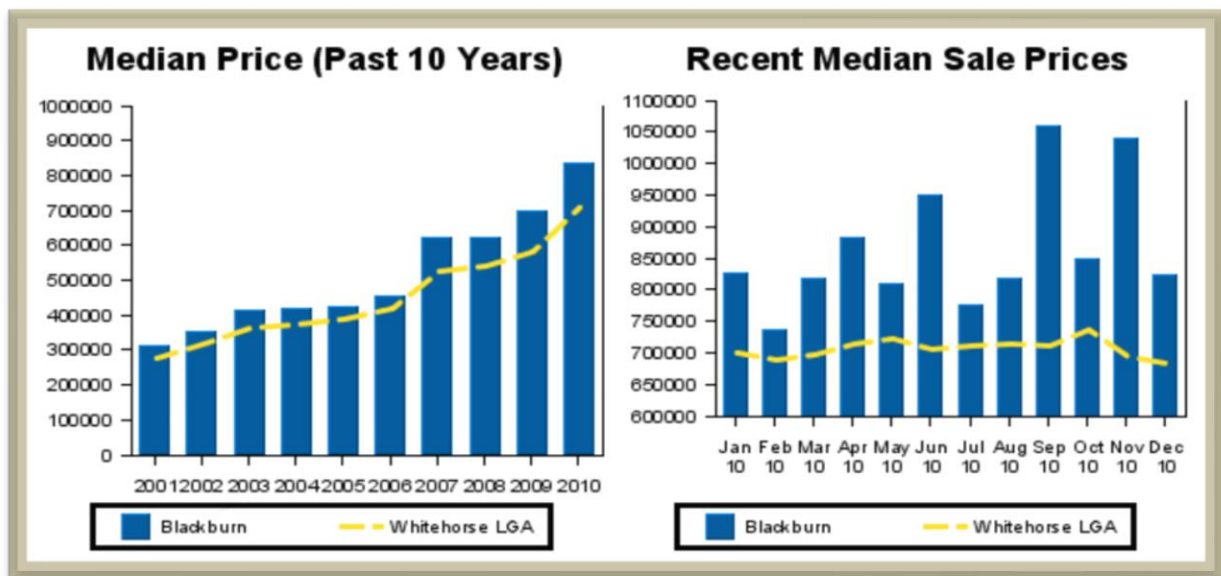


The rear of the property is very open and spacious with plenty of greenery and a small number of trees at the edges of the backyard. A small patio is present which can be used for barbecues or external dining. The large open backyard is well kept and low maintenance. It is in the backyard that one truly feels the large size of this property.

4.0 VALUATION

4.1 SUBURB STATISTICS

It was stated in the introduction of this report that property prices will tend to follow a general national trend which is influenced by macroeconomic variables such as interest rates, economic growth and the rate of unemployment. However, every region will have certain specific characteristics and may or may not have its own market behaviour. For this reason it is important to focus more closely on the trend and sales data of the suburb in which the property is located. The property can be valued is located in the suburb of Blackburn with a postcode of 3130. Below is a market snapshot of the suburb in question with a short term and long term perspective on sales prices.



SOURCE: RPDATA 2011, "House Statistics: Blackburn, 3130, Victoria"

The sales trend of the suburb of Blackburn is consistent with the national trend in property prices as evidenced by the increase in the size of loans for new homes. The data below shows that the suburb of Blackburn experienced a 19.6% increase in the median house price in 2010.

Capital Growth in Median Prices		
Period	Blackburn	Whitehorse LGA
	% Change	% Change
2011	-	-
2010	19.6%	21.5%
2009	12.9%	7.6%
2008	-0.4%	2.9%
2007	36.7%	25.4%

Recent Median Sale Prices		
Period	Blackburn	Whitehorse LGA
	Median Price	Median Price
December 2010	\$ 824,000	\$ 682,250
November 2010	\$ 1,040,000	\$ 695,000
October 2010	\$ 847,500	\$ 735,000
September 2010	\$ 1,060,000	\$ 710,828
August 2010	\$ 818,500	\$ 715,000
July 2010	\$ 774,500	\$ 710,500
June 2010	\$ 950,000	\$ 706,000
May 2010	\$ 810,444	\$ 721,000
April 2010	\$ 881,000	\$ 715,000
March 2010	\$ 817,000	\$ 696,500
February 2010	\$ 735,000	\$ 687,444
January 2010	\$ 825,000	\$ 700,000

SOURCE: RPDATA 2011, "House Statistics: Blackburn, 3130, Victoria"

4.2 COMPARABLE SALES



15 Kinkora Rd, Blackburn 3130

SALES PRICE: \$710 000
SALES DATE: 16/06/10
YEAR BUILT: 1950
EST. AREA: 879m²
BEDROOMS: 3
BATHROOMS: 1
GARAGE: 2 CARS
COMMENTS: Property has smaller land area, 1 less bedroom, 1 less bathroom, but is better kept & more visually appealing.



33 Twyford St, Box Hill North 3129

SALES PRICE: \$782 500
SALES DATE: 23/06/10
YEAR BUILT: 1958
EST. AREA: 801m²
BEDROOMS: 3
BATHROOMS: 1
GARAGE: 1 CAR
COMMENTS: Property has much less land area, 1 less bedroom & bathroom, but it is eight years newer.



52 Springfield Rd, Box Hill North 3129

SALES PRICE: \$880 000
SALES DATE: 29/05/10
YEAR BUILT: -
EST. AREA: 902m²
BEDROOMS: 5
BATHROOMS: 2
GARAGE: 1 CAR
COMMENTS: Property is similar in style and design, has less land area, 1 more bedroom, but less visually appealing.



51 Williams Rd, Blackburn 3130

SALES PRICE: \$901 000
SALES DATE: 6/02/10
YEAR BUILT: 1980
EST. AREA: 891m²
BEDROOMS: 4
BATHROOMS: 2
GARAGE: 2 CARS
COMMENTS: Property is much newer and more modern, but has less land area.



45 Clota Ave, Box Hill 3128

SALES PRICE: \$1 100 000
SALES DATE: 13/07/10
YEAR BUILT: -
EST. AREA: 1065m²
BEDROOMS: 3
BATHROOMS: 2
GARAGE: 1 CAR
COMMENTS: Property has more land area, but 1 less bedroom & car space garage.

The comparatively sales can be used for guidance in evaluation process. The local area has very similar styles of buildings which makes this process of comparison quite effective. The average sales price of the most comparable sales was \$874,700, with a range of between \$710,000 and \$1.1 million. The most comparable property was that located at 52 Springfield Road in Box Hill North, 3129. This property sold for \$880,000 on 29 May 2010. The property that is being valued is slightly superior to this one. Firstly, our property has 10% more land area. It is overall more visually appealing and well-kept, with the drawback being that it has one less bedroom than the five bedrooms in the compatible property. The comparable property has car space for one car only. Considering these factors, it would be suggested that our property will be valued at perhaps a 10% premium.

AVERAGE SALES PRICE: \$874 700

SALES RANGE: \$710 000 - \$1 100 000

SALES DATES RANGE: 6/2/10 – 13/7/10.

4.3 4 DOULTON RD, BLACKBURN, 3130



Taking in consideration the current property market conditions, the recent trend statistics and sales data of the Blackburn area, as well as a number of similar and comparable properties located in the vicinity of the property being valued, a fair and reasonable valuation for this property would be \$1 million, with the valuation range between \$950,000 and \$1.1 million.

The previous sales price of \$860,000 was achieved on September 5, 2009. Nationally, property prices have increased by approximately 20% since that period based on the increase in the average size of a new home loan. Specifically in Blackburn, the median house price in 2009 was approximately \$700,000. The sales price of this property attracted a premium being slightly over 20% above the median at the time. The latest sales data for the suburb of Blackburn indicates in median price of around \$820,000. A 20% premium to this median price equates to roughly \$1 million. The \$1 million valuation is also consistent with comparable properties in the vicinity.

VALUATION: \$1 000 000

VALUATION RANGE: \$950 000 - \$1 100 000

VALUATION DATE: January 28th 2011.

REFERENCES

Australian Bureau of Statistics (ABS) 2011, “Housing Finance”, Cat. No. 5609.0.

Reserve Bank of Australia (RBA), “Bulletin”, various issues.

RPDATA 2011, “House Statistics: Blackburn, 3130, Victoria”

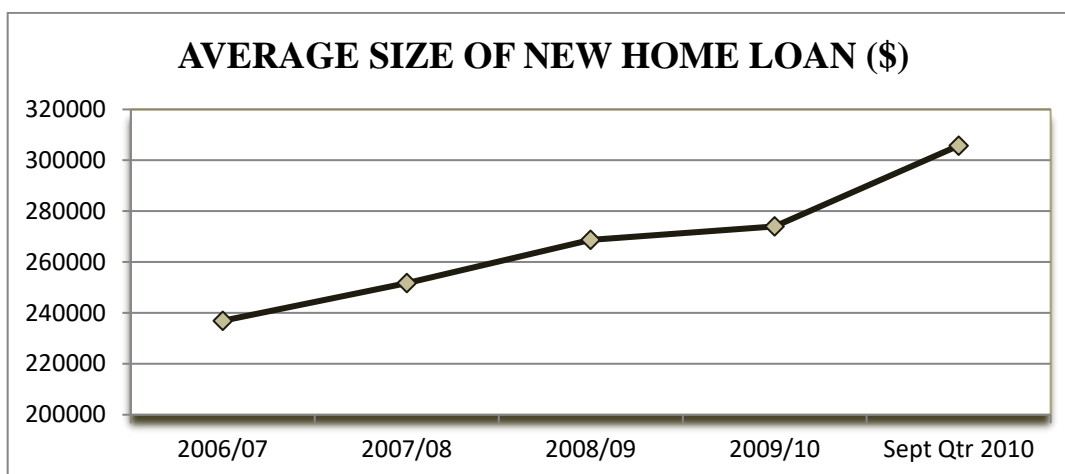
APPENDICES

APPENDIX 1 – BANKS' HOUSING INTEREST RATE (%)

APRIL 2008	9.45
JULY 2008	9.6
SEPTEMBER 2008	9.35
OCTOBER 2008	8.35
NOVEMBER 2008	7.75
JANUARY 2009	6.85
FEBRUARY 2009	5.85
APRIL 2009	5.75
JUNE 2009	5.8
OCTOBER 2009	6.05
NOVEMBER 2009	6.3
DECEMBER 2009	6.65
MARCH 2010	6.9
APRIL 2010	7.15
MAY 2010	7.4
NOVEMBER 2010	7.8

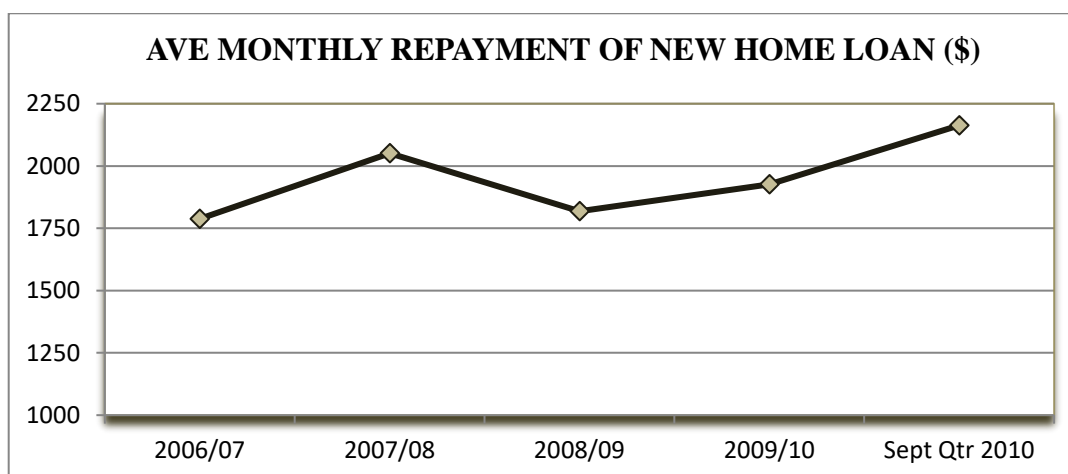
SOURCE: RBA 2011, Bulletin, Various issues.

APPENDIX 2 – LOAN DATA



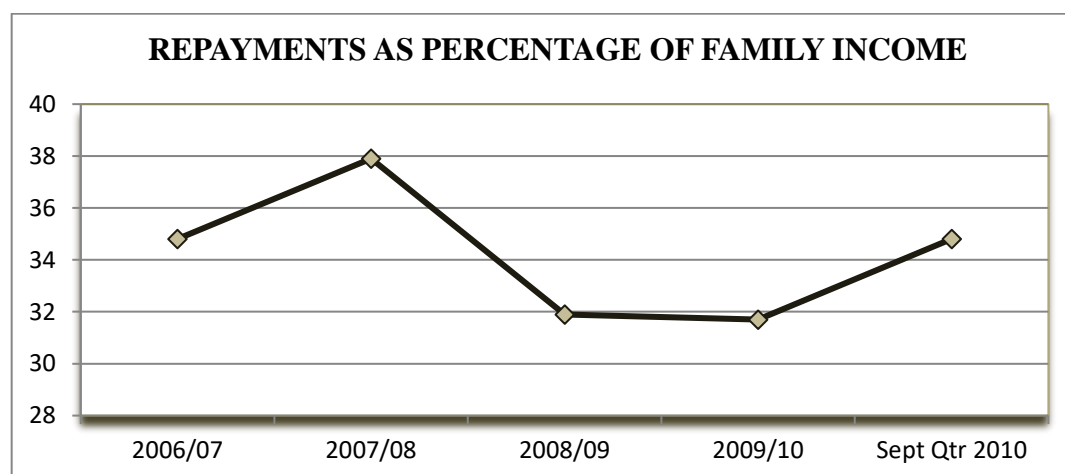
2006/07	2007/08	2008/09	2009/10	Sept Qtr 2010
236 942	251 782	268 699	274 061	305 764

SOURCE: ABS 2011, Housing Finance, Cat. no. 5609.0



2006/07	2007/08	2008/09	2009/10	Sept Qtr 2010
1 788	2 051	1 818	1 926	2 163

SOURCE: ABS 2011, Housing Finance, Cat. no. 5609.0



2006/07	2007/08	2008/09	2009/10	Sept Qtr 2010
34.8	37.9	31.9	31.7	34.8

SOURCE: ABS 2011, Housing Finance, Cat. no. 5609.0