Switzer Super Report

Issue 245, 9 December 2013

Sink or swim

As the year draws to a close and the prospect of tapering becomes ever near (and thankfully more accepted by the market), I thought it was time to have a look ahead at the big picture themes for 2014. And for all those who remember my call at the beginning of the year for the ASX to get to 5500 by December, we got within 58 points - and as I explain later and say tongue in cheek, "stop your whinging!"

Also in the *Switzer Super Report* today, Paul Rickard explains why BHP comes out ahead of RIO, and James Dunn explores unlisted commercial property trusts and finds some very attractive yields.

Sincerely,

Peter Switzer

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"Shut up! What are you whinging about?"

by Peter Switzer

I lunched with my old Triple M mate Doug Mulray the other day, and his words of advice came back to me after another colleague teased me because the S&P/ASX 200 has not reached my forecasted 5500-level.

My response to my fair-weather friend was on par with the low-standard sledging of our much improved Test team. Does anyone recall the days when sledgers were both cutting and amusing?

Anyway, my comeback was: "Shut up! What are you whinging about? You made money this year, if you took my advice on where stocks were heading!"

Sure, it was accurate and aggressive, if you add in my tone, but it was not clever, biting and amusing, which great sledging should be.

When I worked with Mulray in the late '80s, his sidekick was one Andrew Denton and I once asked them what was the secret to their fast, witty and very appropriate comebacks. Doug volunteered: "Always rehearse your ad libs, Switz!"

If I had taken his advice, I would have expected a smart Alec to tease me if 5441.4 – the closing high on October 28 – ends up being the best for the year.

The good news

So a well-rehearsed response would have gone like this:

- First, it is only 58.6 points off 5500 and, given the forecasting of an index high for any one year is a mug's game, it's not a bad result.
- Second, for the year we are up around 11%, after about a 5% pullback and, if you add in dividends of say 5%, that's a 16% gain – not a bad pay-off for something given to you by a 'mug'!
- Third, if you'd taken our income portfolio, you would have been up 23.11% by November 29. And if you were a risk taker, you'd be 25.57% up. These two portfolios have beaten the index by 3.8% and 6.3% respectively. These are pretty good results, considering we do not stick our necks out with high-risk businesses. (If you want more details on this then check out our December 2 *Switzer Super Report*)
- Fourth, we did a really good job forecasting on the local economy, with yours truly giving the poor old RBA a bagging on being too slow to cut rates. I think they're just about right now. We also put money on a resurgent China and an economic comeback for Japan. Regulars might recall that I actually bought two Armani ties when I was in Tokyo, which I argued was a classic case of how the lower yen was going to help Japanese economic growth. And I even called an improving Europe, when I was on the Greek island of Patmos in June and now most of the global economic commentators have jumped on the slow-moving, yet improving, Euro-economy bandwagon.

Sure, some of our experts might have made the odd wrong individual call on a stock but we nailed plenty of good ones over the year.

An even better 2014

For next year, I believe we are looking at another solid year for stocks, as the economic pick ups for Europe and Japan get more solidity. The experts I listen to think European-exposed funds should have a good year. I like the fact that private equity companies are now into Spain and Italy, which is a positive sign that the smart value hunters are giving us a leg up.

All the omens on the US economy scream that tapering will start early in 2014 Remember, the $US85 billion bond-buying with QE3 will only be peeled back to around $US75 billion, or maybe $US65 billion, and so there won't be a massive liquidity dry up effect, which in turn could push rates much higher.

The Fed won't want to spook this US economic recovery and so if a correction happened, say in February, I would again be calling it a buying opportunity.

Every week we sit down as a group and try to work out how we can help our subscribers navigate the vagaries of the stock market, the bond market and any other area that SMSF trustees should be thinking about. Sure, so far I have missed the index call of 5500, but it has been a pretty good effort by our team and we are determined to do it again next year.

So stop your whingeing!

That's what I should have rehearsed and that's what I am doing right now.

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BHP beats RIO by a whisker

by Paul Rickard

There aren't too many 'shrink to greatness' success stories, so it was hard to get too excited by the RIO Investor Presentation last Tuesday. Invariably, when the subject of RIO comes up, the question most often asked is – "do I buy BHP or RIO"?

We think the answer is marginally in favour of BHP, and here is why.

Interestingly, over the course of 2013, there is very little difference in shareholder returns. BHP started the year at $37.10 and closed on Friday at $36.75. RIO, on the other hand, has risen from $66.01 to $66.41. BHP has paid higher dividends, so its all up return is 2.29%, compared to 3.40% for RIO. Nothing to get too excited about, although both are better than the Materials Accumulation Index, which shows a negative return of -4.59% this calendar year.

So what about 2014?

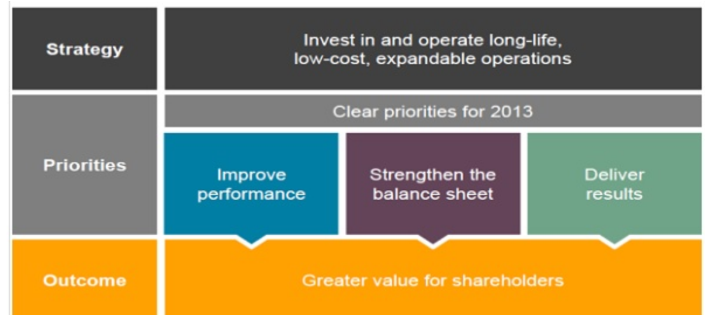
RIO – shrinking to greatness?

The market liked the RIO briefing, which basically put growth on the back-burner. Cash will now be used in order of priority for essentially sustaining capex, then progressive dividends and in third place, debt reduction or "compelling" growth.

Key priorities for the group are lowering operating costs, reducing exploration spending, completing existing projects, progressing non-core asset disposals and increasing the dividend. Exciting stuff.

You also wonder which consulting firm designed this powerpoint below, as this "strategy" slide could arguably be applied by dozens of mining companies:

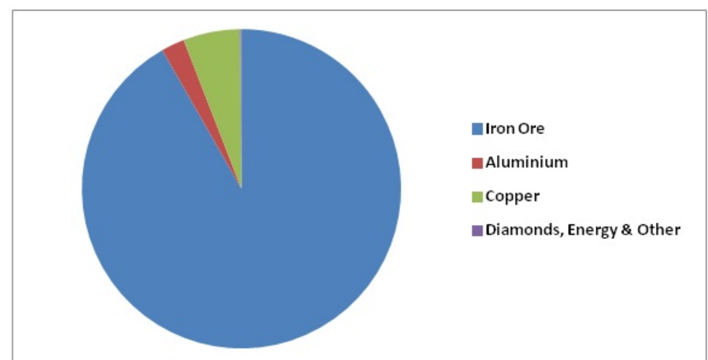
A consistent strategy with clear priorities



Source: RIO Investor Presentation, 3 December 2013

Importantly, RIO remains largely an iron ore miner, with a somewhat problematic copper division and some other bits (such as aluminium) that it really doesn't want. This means that it potentially has great leverage to the iron ore price, however it also carries greater risk.

RIO EBITDA (1st Half 2013)



Source: RIO Tinto

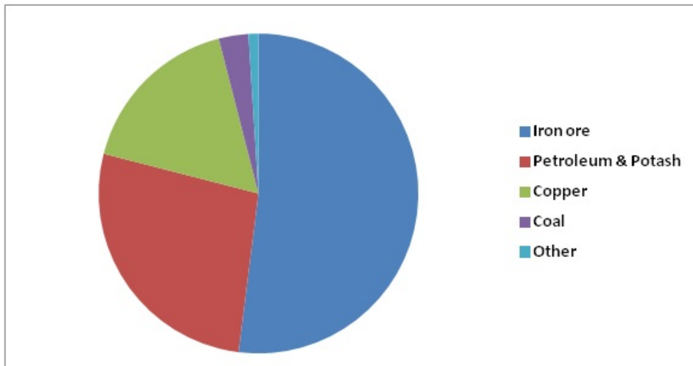
BHP – diversification brings strength

BHP, with its "four key pillars of coal, copper, iron ore and petroleum, and a possible fifth pillar in potash" (as stated by Jac Nasser, Chairman, at the AGM in November), sees its diversified strategy as its key strength, making it less vulnerable to specific commodity risks. Further, the portfolio potentially gears BHP to both investment and consumption-led

economies, with its exposure to steel making, metals, energy and food.

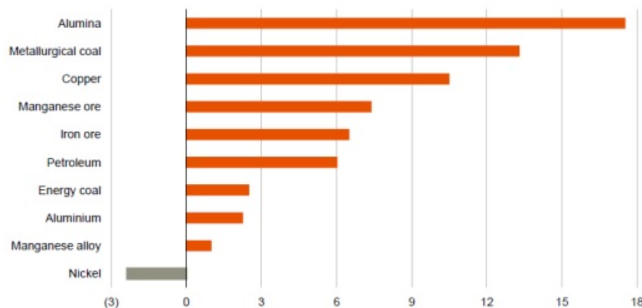
While BHP is more diversified than RIO, iron ore is still a major driver of EBIT:

BHP EBITDA FY 13



Source: BHP

Like RIO, BHP is also focussed on reducing costs (claiming US$2.7bn in controllable and sustainable annualised cost savings in 2013), and has cut back on capital expenditure, with this reducing by 25% to US$16bn for the 2014 FY. BHP has a major focus on boosting productivity from existing operations, and in 2013, delivered volume increases in all businesses except nickel.



Source: BHP Annual General Meeting

The broker analysts go for RIO

According to the broker analysts surveyed by FN Arena, they see more upside in RIO's share price from current levels (a target price of $79.21) than they do for BHP. While they are bullish on both companies, RIO has the highest average 'sentiment' indicator of +1.0 (+1.0 is a buy/outperform/overweight; -1.0 is a sell/underperform/underweight).

	Current Price	Target Price	Upside	Sentiment
BHP	$36.75	$41.40	12.7%	0.6
RIO	$66.41	$79.21	19.3%	1.0

BHP by a whisker

While the market seems pretty much of the opinion that it is RIO over BHP, our sense is that BHP remains a better play from an investment point of view. Both companies are essentially pursuing similar strategies in reducing operating costs, improving productivity, and a more focussed approach to capital expenditure – although RIO seems to be putting growth on the backburner.

So, what tilts it in favour of BHP? We prefer BHP's broader mix of commodities and the strength (and lower risk) from its diversification strategy, the longer-term opportunity in potash and food, the higher dividend and, historically, it has demonstrated a better track record in delivering shareholder returns. There is also an argument that if you are mainly after exposure to iron ore, Fortescue offers a better "pure-play" exposure than does RIO. On a risk/return basis, BHP gets the nod.

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The benefits of unlisted property for your SMSF

by James Dunn

With the cash rate at only 2.5% and the Reserve Bank of Australia (RBA) arguably still on an easing bias, income-oriented investors face a more pressing quandary as to where to generate income. Term deposits, while the safest investment, no longer cut the mustard in income terms.

This is particularly the case for self-managed super funds (SMSFs) looking to diversify their income sources from the main game in town, bank-share dividends.

Increasingly, they are finding this in commercial property investment, which many seem to be viewing as a combination of asset allocation to property and income source.

Unlisted property attracts

And in this twin role, unlisted property is emerging as an attractive proposition – at the expense of the listed Australian real estate investment trusts (A-REITs) sector.

Kevin Prosser, research manager, Direct Assets, at Lonsec, says “the pendulum has swung back a bit” to a preference for unlisted investment.

“The A-REIT market is trading at a slight premium to net asset value (NAV), particularly the bigger trusts. If you take out the Westfield pair, and Goodman, which tend to skew the figures, it’s about a 3% to 5% premium. With the valuations a bit stretched, investors are looking much more closely at the yield picture.”

This comparison “markedly favours unlisted trusts,” he says.

“In the listed REITs, you’re looking at about 6% to 6.5% for FY14, with a bit of tax advantage. In the unlisted market, the average is about 7% to 7.5%. If you’re in an industrial property, that’s probably a bit higher, so the range you’re looking at is more like 7% to 9% pre-tax, with higher-risk properties even in the double figures.”

The tax advantages for unlisted vehicles arise from the significant building and depreciation allowances on new buildings, which are effectively passed on to investors as tax-deferred income. This provides cash flow benefits because tax-deferred income is generally not taxable when it is received, but is deferred until the investment is sold: the investor will pay more capital gains tax (CGT) on the way out.

Yield boost

“If you have a new property, if you’re getting a 7% to 9% pre-tax yield from the syndicate, a lot of that is tax-deferred on the income. You’re not paying any tax on that income in the near-term, and effectively you can gross that up to be 8.25% to10.5% for an SMSF in accumulation. Compare that to the listed REITs, where you’re getting 6% to 6.5% with not much tax advantage, the yield comparison is substantially in your favour in terms of income in the unlisted sector,” Prosser says.

When the unlisted property market “froze” in 2008, at the height of the GFC, many trusts froze redemptions.

“After that, investors were prepared to pay a premium for the liquidity of the REIT sector,” says Prosser.

“But now that the unlisted market has come through its problems, liquidity is not seen as the major issue, and investors are prepared to take the risk of not having liquidity – or as much liquidity – to get that greater yield.”

To meet this demand, unlisted property trust managers and syndicators have returned to the market, says Ken Atchison, managing director of specialist property investment consultancy Atchison Consultants.

“The likes of Abacus, Sentinel, Folkestone, Fortius, Centuria and Cromwell Property Group have all released products this year. Cromwell, in particular, came out with some syndicate offerings based on very simple, good long-term leases to government tenants, in new buildings, so [there are] high tax advantages. There was a lot of demand and a lot of groups have climbed on the bandwagon.”

The risks

Unlisted property funds and syndicates typically run for a defined term of about three to seven years, but can be longer. It can be very difficult to get an investment back before the term expires. Closed-ended funds are illiquid, meaning the investment is locked up for the entire term. Other funds can be open-ended, meaning there may be the option to sell part of your investment, on say a monthly or quarterly basis.

Increasingly, says Atchison, the market is seeing property groups working with the accounting firms and the financial planning dealer groups that advise SMSFs, on tailored syndicates offered to particular groups.

“They will divide the asset into smaller, more manageable sizes of investment, say $100,000 to $200,000, instead of having to buy the whole property yourself for $1 million. That’s a chunk that many SMSFs can afford, and the SMSFs are realising that they don’t actually need liquidity. They are now more prepared to hold inert property exposure, as a long-term hold and a pension funding source.”

The trade-off, he says, is that the unlisted trusts and syndicates generally work in the area of lower-quality assets than those owned by the REITs.

“Investors must do their homework on the quality of the building, and the quality of the tenant is just as important, to satisfy yourself that the projected income stream is reliable,” he says.

Listed options

For those who prefer the liquidity – and the ‘half equity’ profile of the share market – there are still some exposures that offer a bit of added attraction for their yield. Broker RBS Morgans, for example, says its preferred exposures are:

Cromwell Property Group (CMW), which gives investors exposure to office property, with a particularly long profile of weighted average lease expiries – which is important, given current challenges in leasing markets. RBS Morgans expects office rents to remain under pressure in the medium term, given increased vacancies. Consensus FY14 forecast yield 8.2%.

Bunnings Warehouse Property Trust (BWP), which, as the name suggests, mostly holds Bunnings Warehouse properties. The broker says good-quality industrial assets should also see solid tenant demand continue from internet retailers, large retailers and other businesses seeking to achieve scale benefits in their logistics infrastructure. Consensus FY14 forecast yield 6.8%.

Generation Healthcare REIT (GHC), the only listed REIT that invests solely in healthcare assets. The portfolio of seven properties includes hospitals, medical centres, laboratories and other purpose-built healthcare facilities. Consensus FY14 forecast yield 6.4%.

APDC Group (AJD), the only listed REIT that owns data centre assets. AJD has a portfolio of two operational data centres in Melbourne (M1) and Sydney (S1), and another under construction in Perth (P1). AJD has one tenant, data system operator NEXTDC Limited (NXT), under long-term leases. (NXT hived off and floated AJD in January of this year.) Consensus FY14 forecast yield 8.8%. RBS Morgans says GHC and AJD both offer exposure to niche sectors with high barriers to entry.

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Why we don't buy airlines

by Penny Pryor

Airlines have never been a favourite buy at the *Switzer Super Report*, although we do occasionally run analysis by other commentators. The goings on at Qantas over the past weeks again highlight why companies in this industry are inherently risky.

Last week, Qantas said it expected an underlying loss before tax of between $250 to $300 million for the first-half of fiscal 2014. Standard & Poor's then downgraded the company's credit rating one notch to BB+ (outlook negative) from BBB- (outlook stable). The new rating is now what is sometimes referred to as "junk" i.e. it is below investment grade.

In a statement, Qantas chief financial officer Gareth Evens said a downgrade was not "unexpected" and reiterated the company's line about an "uneven playing field".

"We are continuing discussions with the Australian Government regarding the uneven playing field in the local aviation sector, which has distorted the fundamentals of the market," Evans said.

Don't touch

Switzer Super Group director and expert, Paul Rickard, says there are three reasons why he never buys airlines. In a nutshell, they are:

- The massive capital risk involved;
- Industry profitability is impacted by "ego" investors;
- The many uncontrollables, such as the impact of a plane crash, volcanic ash, 9/11, SARs etc.

"There are all these things you just can't control. And you're competing against people's egos and governments," Rickard says.

Because it is seen by many as a "national icon", the fate of companies such as Qantas makes big news and often governments are called on to "rescue them". Whether they do or don't often depends on the political whims of the day. But those things don't make Qantas, or other airlines, necessarily attractive for long-term investors.

"Qantas gets a massive amount of coverage, disproportionate to what it is," Rickard says.

The ego factor refers to the kind of personalities that are often in control – Richard Branson and Nicki Lauda immediately come to mind, but they're not the only ones.

"They are run by all these people that buy big toys. They come into the industry, try to build market share by cutting prices, and then lose money," Rickard says.

Other risks

Morningstar Research also lists increases in jet fuel prices and sustained economic downturns as reasons for potential poor performance.

"Long-haul flights are particularly affected, given the higher fuel consumption. More discount carriers will also pressure local earnings, as excess capacity pushes both ticket prices and take-up of available seats," the researcher's latest update on Qantas says.

Morningstar Research downgraded the company to Hold, based on poor earnings visibility and significant volatility in the airlines industry.

Citi and UBS have also downgraded it to Neutral from Buy (see Buy, Sell, Hold – what the brokers say), while BA Merrill Lynch, CIMB Securities, Macquarie

and Deutsche Bank all rate it as Hold or Neutral and JP Morgan and Credit Suisse have it at Underweight or Underperform.

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Buy, Sell, Hold – what the brokers say

by Rudi Filapek-Vandyck

Last week, broker activity was all about corporate action, falling share prices and disappointing guidances for the year ahead. The first two factors triggered nine recommendation upgrades, while corporate disappointments were responsible for eight downgrades during the week.

In the good books

Cromwell Property (CMW) was upgraded to Buy from Neutral by BA-Merrill Lynch. The company has acquired Northpoint at a very attractive price, with an 8.7% yield. Cromwell has sold two lower quality properties to fund its share of the acquisition and has flagged further sales to recycle capital into more value adding opportunities. The stock offers exposure to a unique combination of yield and growth.

Upgrades

Order	Company	Old Rating	New Rating	Broker
1	Collins Foods	Neutral	Buy	UBS
2	Cromwell Property	Neutral	Buy	BA-Merrill Lynch
3	ERM Power	Neutral	Buy	UBS
4	Fairfax Media	Sell	Buy	Macquarie
5	Graincorp	Neutral	Buy	Deutsche Bank
6	Orotongroup	Sell	Buy	Credit Suisse
7	Regional Express	Neutral	Buy	CIMB Securities
8	Seek	Sell	Neutral	Credit Suisse
9	Seek	Sell	Neutral	Deutsche Bank

Fairfax Media (FXJ) was upgraded to Outperform from Underperform by Macquarie. The broker believes the worst may now be over for Fairfax's declining metro mastheads, with cost cuts and the digital transition set to provide support. The sale of Stayz has boosted the balance sheet, Domain is likely to be a value driver as it establishes itself in the number two real estate digital classifieds position, and while the outlook remains subdued, the broker feels consensus forecasts are too pessimistic.

OrotonGroup (ORL) was upgraded to Outperform from Underperform by Credit Suisse. Following recent share price weakness and a downgrade to the outlook, Credit Suisse has raised the recommendation to Outperform from Underperform. The company downgraded FY14 guidance and, while this is material, the broker believes it is largely reflected in the share price. Having reviewed the potential in the new brands, Credit Suisse concludes there is value in the stock at current levels.

In the not-so-good books

Ausenco (AAX) was downgraded to Underweight from Neutral by JP Morgan. The company has reduced 2013 guidance and raised equity at a significant discount. JP Morgan is concerned about the speed of the decline in the balance sheet. A turnaround in demand is expected to take some time, and the broker finds it hard to see any positive catalysts in the near term.

Downgrades

Order	Company	Old Rating	New Rating	Broker
10	Ausenco	Neutral	Sell	JP Morgan
11	Fantastic Holdings	Neutral	Sell	Credit Suisse
12	Forge Group	Buy	Neutral	CIMB Securities
13	Metcash	Buy	Neutral	Macquarie
14	Newcrest Mining	Neutral	Sell	Macquarie
15	Nurfam	Buy	Neutral	Credit Suisse
16	Qantas	Buy	Neutral	UBS
17	Westfield	Buy	Neutral	Macquarie

Newcrest Mining (NCM) was downgraded to Underperform from Neutral by Macquarie. The broker has become more bearish on the outlook for the gold price, with Fed tapering now likely, Indian physical demand subdued and mine supply set to have another growth year. Newcrest has suggested it is cash flow neutral at $1450/oz, which is about $100 more than spot right now.

Nufarm (NUF) was downgraded to Neutral from Outperform by Credit Suisse. Nufarm's AGM provided first half earnings guidance, which was below the broker's forecast, which it then reduced by 8-10%. Rain in SE Australia should mean weeds and pesticide demand in the second half, but Nufarm remains a high risk proposition given exposure to weather and commodity prices. Debt is elevated on ongoing working capital investment in South America.

Qantas (QAN) was downgraded to Neutral from Buy by UBS. UBS has taken to reducing forecasts for the second time in two days after the company updated the market with a profit warning. The company expects a pre-tax loss of $250 to 300 million in the December half. Three assets could be sold, in the broker's view, but each is complicated. These are the Sydney airport leases, the frequent flyer program and equity stakes in Jetstar's offshore ventures. Overall, UBS finds it difficult to recommend the stock and has downgraded the rating to Neutral from Buy.

Westfield Retail Trust (WRT) was downgraded to Neutral from Outperform by Macquarie after the details of the proposed merger between Westfield Retail (WRT) and Westfield's (WDC) Australasian business was released last week. Macquarie believes the merger makes strategic sense, but the pricing basis of free cashflow proportions ignores gearing levels. Crunching the numbers implies pricing for WRT of 21 times, which is pretty steep. The total return for WRT shareholders under the cash/scrip deal is reasonable, but the share overhang will likely weigh over performance. Downgrade to Neutral.

Earnings forecase in cents per share

Order	Code	Company	Previous EF	New EF	Change	Recs
Positive Change Covered by > 2 Brokers						
1	AQG	Alacer Gold	11.015	31.965	190.20%	6
2	WSA	Western Areas	0.291	0.434	49.14%	6
3	OSH	Oil Search	13.773	13.919	1.06%	7
4	QBE	QBE Insurance	96.602	97.566	1.00%	8
5	TSE	Transfield Services	12.620	12.717	0.77%	6
6	FXJ	Fairfax Media	5.438	5.475	0.68%	7
7	CSL	CSL	285.288	286.906	0.57%	7
8	CPU	Computershare	57.129	57.415	0.50%	8
9	HGG	Henderson Group	22.080	22.158	0.35%	4
10	HZN	Horizon Oil	4.203	4.217	0.33%	3
Negative Change Covered by > 2 Brokers						
1	FGE	Forge Group	73.333	-52.133	-171.09%	3
2	VAH	Virgin Australia	0.260	0.073	-71.92%	8
3	IMD	Imdex	3.000	2.333	-22.23%	3
4	NCM	Newcrest Mining	35.418	33.668	-4.94%	8
5	NUF	Nufarm	37.224	35.475	-4.70%	8
6	SMX	SMS Management and Technology	26.408	25.208	-4.54%	4
7	IGO	Independence Group	29.023	28.023	-3.45%	5
8	ORL	Orotongroup	31.106	30.166	-3.02%	4
9	UGL	UGL	68.548	67.048	-2.19%	7
10	VRL	Village Roadshow	37.333	36.633	-1.88%	3

The FNArena database tabulates the views of eight major Australian and international stock brokers: BA-Merrill Lynch, CIMB, Citi, Credit Suisse, Deutsche Bank, JP Morgan, Macquarie and UBS.

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Retirement age needs to rise

by Barrie Dunstan

Politicians know people don't like constant changes in superannuation and so they usually promise no change – until they get into power. Then they find the bureaucracy and industry want just a few improvements to the system. This means tension between pleasing a public unhappy with change and keeping up-to-date a system still far from perfect.

Pain versus politics

So recent calls by the Productivity Commission and the Grattan Institute think tank to increase the retirement age to 70 have caused cries of pain and inevitable government denials of any plans. The media, of course, headlined that people will have to work until they are 70 – ignoring the fact that most people already are retiring well before the current retirement age of 65 (now rising in small steps to 67 in the next decade).

For the Grattan Institute, it was ground hog day: it also made the suggestion in June 2012, only to have the Gillard government rule it out, echoed by then opposition leader Tony Abbott. Joe Hockey, whose office last month denied any current plans, actually said in 2012 the idea should at least be on the table.

The Financial Services Council (representing the retail superannuation sector) thought that the Commission for Audit was the right vehicle to consider changes and urged a new Intergenerational Report. The national super body, the Association of Superannuation Funds, focussed as much on the social implications of such a move (including policies to help older workers and boost contributions into super).

The retirement age needs to rise

Just calling for a debate, however, will make inevitable adjustments harder and won't solve the problem of retirees with not enough savings. The continued rise in life expectancy means the retirement age needs to rise. It would be a smart move by the government to introduce indexation of the retirement age, linked to life expectancy rises, which would remove the need periodically to lift the age limit.

Actuaries and demographers have been forecasting problems for years with the bulge of retiring baby boomers not having enough time in compulsory super to save enough. However, it won't improve: the Actuaries Institute recently warned that official Australian Bureau of Statistics "life expectancy at birth" figures – now 79.9 and 84.3 years respectively for men and women – understate things. Using figures for people who have reached 65, improvements in longevity will increase those numbers to 86 for men and 89 for women.

So, on average, people may need to fund between 21 and 24 years in retirement. Actuaries Institute president John Newman says those are only averages, and one in three 65 year olds will live past 90 and one in five will live past 95. And, he adds, with rapid advances in medicine, "it is conceivable . . . that half of all healthy 65 year olds will live past 100."

Switzer Super Report subscribers probably are among the lucky ones who have their retirement savings well secured, but the demographics represent a ticking time bomb for a continued, nasty political debate about the "haves" and "have nots" in retirement.

We've already seen the new government remove assistance for low-income earners' contributions and indicate changes to Future of Financial Advice legislation to help financial services providers, rather than fund members. It also will ignore the ill-conceived Labor plan to penalise high incomes

from self-managed funds.

But both political parties have contributed to the problems – Labor initially by taxing contributions and earnings rather than taxing benefits and the Coalition later by making pension fund payments tax-free. As long as these basic settings remain, we will face regular swings in policy as successive governments attempt the complex task of encouraging enough contributions to lower the drain on the age pension while managing the impact on the budget by tax concessions.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

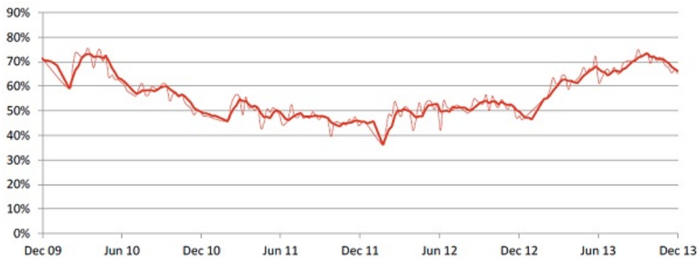
Hot spring, leads to cooler Christmas

by Penny Pryor

Property action has slowed a little after a very hot spring, but there is still plenty of action, even as the market slows down before Christmas.

The preliminary weighted auction clearance rate for the capital cities fell slightly to 65.1% from 66.9% on the weekend, according to RP Data (see chart 1 below). In total, there were 3170 auctions in capital city markets over the weekend, down from 3472 the previous week.

Weekly clearance rate, combined capital cities



Source: RP Data

In Sydney, the clearance rate was recorded at 78.2%, according to APM and in Melbourne it was 66.7%. In Melbourne, of the 1310 listed auctions, there were 650 properties sold at 962 reported auctions (see table 1 below).

Table 1: This Saturday, 7 December 2013

	Clearance Rate%	Number Listed	Number Reported Auctions	Number Sold	Number W/drawn	Total Value Sold ($million)	Auction Median Houses	Auction Median Units
Sydney	78.2%	835	540	453	39	$390.1	$990,000	$646,500
Melbourne	66.7%	1319	962	650	12	$449.4	$773,500	$500,500
Adelaide	SNR	71	6	6	0	$3.3	SNR	SNR
Brisbane	SNR	123	5	3	0	$3.3	SNR	SNR

Source: APM

The updated data for the previous week recorded Sydney's clearance rate at 76.9% and Melbourne's at 69.3%, with 571 and 819 properties sold at auction in those cities respectively (see table 2 below).

Table 2: Last Saturday, 30 November 2013

	Clearance Rate%	Number Listed	Number Reported Auctions	Number Sold	Number W/drawn	Total Value Sold ($million)	Auction Median Houses	Auction Median Units
Sydney	76.9%	890	697	571	46	$548.3	$982,500	$696,500
Melbourne	69.3%	1337	1168	819	14	$563.8	$755,000	$490,000
Adelaide	53.6%	81	53	30	3	$14.6	$542,500	SNR
Brisbane	36.2%	100	53	21	5	$9.2	$553,000	SNR

Source: APM

The same week a year ago still shows very low numbers – 56.4% in Sydney and 61.3% in Melbourne – although the number of properties sold was creeping up at 329 and 450 in both cities respectively (see table 3 below).

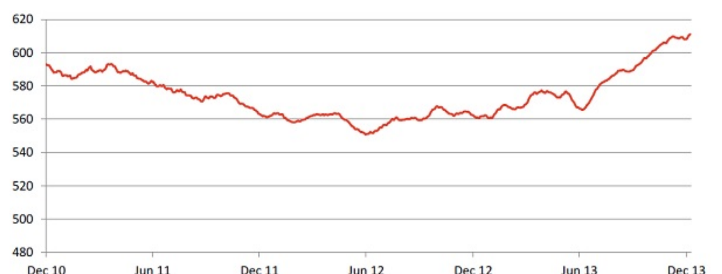
Table 3: 17 November 2012

	Clearance Rate%	Number Listed	Number Reported Auctions	Number Sold	Number W/drawn	Total Value Sold ($million)	Auction Median Houses	Auction Median Units
Sydney	56.4%	628	508	329	75	$270.0	$852,500	$616,000
Melbourne	61.3%	908	724	450	10	$277.4	$687,500	$480,000
Adelaide	37.7%	66	46	20	7	$9.7	$500,000	SNR
Brisbane	31.7%	99	79	26	3	$9.9	$465,000	SNR

Source: APM

The capital city home value changes show the slight slow down over the month but the annual change is still very robust for the major East Coast Capital cities – 13.8% for Sydney and 7.1% for Melbourne (see table 4 below).

Daily change in dwelling values accross 5 capital cities



Source: RP Data

Did you know?

Over the next few weeks, we're going to have Charlie Aitken tell us his picks for 2014, but here is a sneak preview on my Sky TV show from last week.