CoreLogic
RP Data

Quarterly Review

The Australian Residential Property Market and Economy

Released September 2015

Contents

Housing Market Overview

Residential property in Australia is the nation's single largest and most valuable asset class with a total estimated value of $6.0 trillion as at July 2015. The value of residential property is significantly larger than the value of listed equities ($1.5 trillion) and Australian superannuation ($2.0 trillion). Over the 12 months to December 2014, Australian gross domestic product (GDP) was recorded at $1.59 trillion indicating that the value of residential property is more than three times larger than the annual output of the Australian economy.

Although the total value of the residential housing market sits at an estimated $6.0 trillion, private sector credit data from the Reserve Bank (RBA) indicates that the total value of outstanding mortgage debt to Australia Authorised Deposit-taking Institutions (ADIs) was $1.5 trillion as at June 2015. This indicates that the level of mortgage debt is comparatively low relative to the overall value of the national housing portfolio, at around 25%.

The same data set from the RBA shows that Australian ADIs have a significantly greater level of lending to mortgages as opposed to personal and business lending. According to the June 2015 data, there was $1.5 trillion outstanding to housing, $789.7 billion to business and $136.9 billion to 'other personal'. Based on these figures, 61.5% of credit is for mortgage purposes compared to 32.8% to businesses. Mortgage lending has consistently been a larger proportion of lending by Australian ADIs since April 2001. Banks have continued to favour mortgage lending over business lending with good reason. Mortgages have generally performed well with low arrears, the return on equity is strong, earnings from mortgages are consistent, higher risk loans are generally insured via lender's mortgage insurance (LMI), home values have generally trended higher and Australian's tend to prioritise repayments of their mortgage. The high level of mortgage lending has been a contributing factor to the escalation of property values and the subsequent high level of housing debt.

Over the past 38 months, combined capital city home values have been rising following a fall of 7.4% over the previous 18 months. As always the level of value growth has generally been uneven however, the two largest capital cities, Sydney and Melbourne, have consistently recorded the strongest capital growth conditions of all capital cities over the past two growth cycles. The rise in home values across the combined capital cities has been accompanied by an increase in the number of property transactions as well as a rise in the level of new dwelling approvals. Both sales volumes and approvals appear as if they may have recently peaked which may begin to result in a moderation of capital growth.

$6.0 trillion

Value of residential property

$2.0 trillion

Value of Australian superannuation

$1.5 trillion

Value of listed equities

$0.7 trillion

Value of commercial real estate

Private sector credit data from Reserve Bank (RBA) indicates that the total value of **outstanding mortgage debt** to Australia Authorised Deposit-taking Institutions (ADIs) is **$1.5 trillion** as at June 2015.

The Australian residential housing market is highly concentrated and largely, dominated by a handful of capital cities. The four largest capital cities: Sydney, Melbourne, Brisbane and Perth generally have the strongest job prospects and between them they account for more than 58% of the national population with almost 40% of Australians living in either Sydney or Melbourne. As a result, competition for housing in these cities is often strong, particularly those homes that are well located, close to public transport, in inner city areas or close to desirable attributes such as water. Most of these cities have had an insufficient new supply of housing over the past decade which has also created upwards pressure on home values. At the same time these four cities also attract a higher number of overseas migrants than the smaller cities which also contributes to growing housing demand.

The Australian Prudential Regulation Authority (APRA) has highlighted it has some concerns about the current mortgage lending environment. This was highlighted in the letter entitled 'Reinforcing sound residential mortgage lending practices' which it sent to all Australian ADIs in December 2014. The letter highlighted three main areas of prudential concern: risk profile, investor lending and serviceability assessments. More specifically APRA are concerned from a risk profile perspective about high loan to value ratio (LVR), high loan to income ratio (LTI) and long term lending to owner occupiers on an interest-only basis. From an investor lending perspective APRA highlighted that annual growth above a 10% per annum benchmark in investment credit will be an important risk indicator. From a serviceability perspective, APRA commented that new loans should have a serviceability buffer of at least 2% above the loan product rate, with a minimum floor assessment rate of 7%.

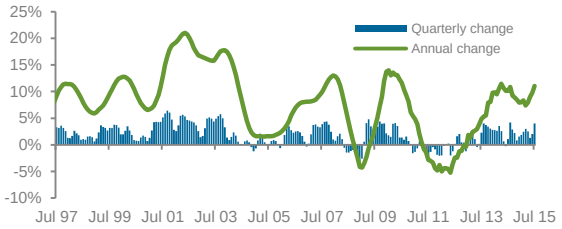
Housing Market Overview

APRA is reviewing these key risk indicators over the first quarter of 2015 and where an ADI is not adhering to these guidelines it will result in an increase in supervisory action. Over recent months we have seen an announcement that from next year Australian banks will be required to hold more capital. We have also seen many ADIs adjust their lending policies with a specific focus on serviceability limits and lending to investors. In many instances this has resulted in an increase in interest rates to investors along with requirements for borrowers to have larger deposits. What that action could be is not clear but it may include steps such as lending caps or requiring these ADIs to hold more capital against mortgages. Over the past quarter we have seen many ADIs adjusting their lending policies to maintain these prudent standards, we will probably see further changes over the coming months. Most of the changes made to-date have been targeted at the investment segment of the market.

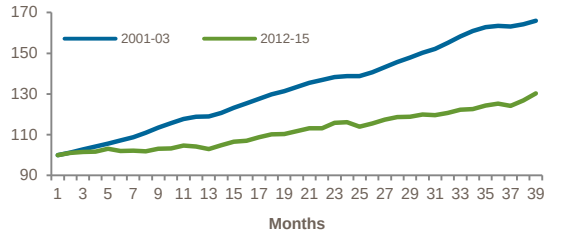
The major market challenges now are improving housing affordability in major residential areas, ensuring that levels of investment activity within the market do not result in an increased risk of a future housing market downturn and ensuring that the level of new housing supply increases. Mortgage rates remain at their lowest levels since the 1950's which are providing a level of confidence to the market. Of course it is important that lenders and borrowers are prudent given mortgage rates can fluctuate significantly over the life of a mortgage.

With the expectation that mortgage rates will remain at low levels for some time yet and may even reduce further, we would expect further increases in capital city home values over the coming months. Although the rate of growth has recently been accelerating we anticipate that shortly the rate of value growth in Sydney and Melbourne will begin to moderate as changes in lending practices come into effect. Sydney and Melbourne have seen strong value rises over the past year and although the rate of growth was slowing through late 2014, the rate of growth in these two cities has now starting to escalate again. Higher levels of unemployment, lower levels of consumer sentiment, compressed rental yields and record low rates of wage growth are expected to counterbalance some of the stimulus from lower interest rates at a national level in 2015.

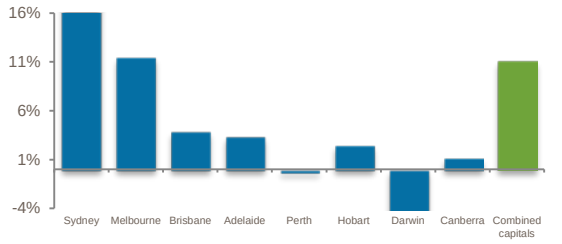
Annual and quarterly change in combined capital city home values

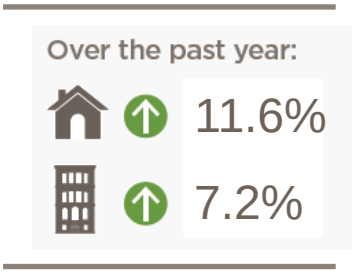


Cumulative value growth, 2001-04 growth phase vs. current



Annual change in capital city home values - to July 2015





Combined capital city home values have increased by 11.1% over the year

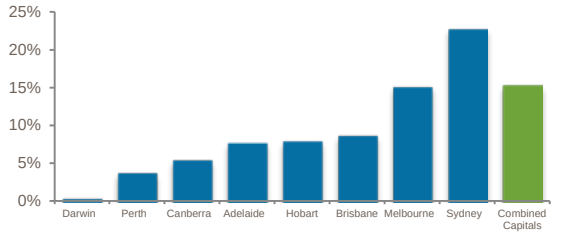
- Combined capital cities home values have recorded value growth of 11.1% over the 12 months to July 2015.
- The annual rate of home value growth has slowed from a recent peak of 11.5% in April 2014 but has rebounded from 7.4% in March of this year.
- Over the past year, house values have increased by 11.6% compared to a 7.2% increase in unit values.
- The stronger performance of detached housing markets compared with multi-unit dwellings has been a feature of Australia's housing market over each of the past four cycles.
- Despite the stronger growth conditions within the detached housing market, we continue to see a growing level of development appetite for medium to high density housing. This is likely due to significantly higher prices in most cities for detached houses compared to units, an increasing desire for residents to live closer to the city centre and changing town planning regulations.

Housing Market Overview

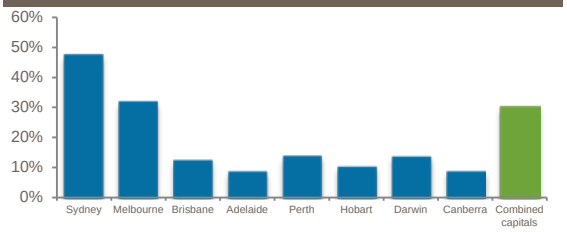
Growth is uneven across the capital cities with Sydney by far the standout for capital growth

- Although combined capital city home values increased by 11.1% over the 12 months to July 2015, the rate of growth has varied significantly across each capital city.
- The overall growth in the capital city index is largely being driven by Australia's two biggest cities: Sydney (18.4%) and Melbourne (11.5%), which have been recording a much more rapid rate of growth than the other capitals.
- Perth (-0.3%) and Darwin (-5.3%) are the only two capital cities that have recorded a fall in home values over the past year.
- Across the remaining cities, annual value growth has been recorded at: 3.9% in Brisbane, 3.4% in Adelaide, 2.5% in Hobart and 1.2% in Canberra.

Annual total returns from capital city homes - to July 2015



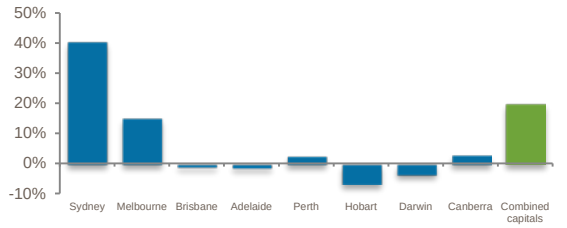
Cumulative change in capital city home values over current growth phase - to July 2015



The total return from residential housing over the past year has been far better than returns across most other asset classes

- The CoreLogic RP Data Accumulation Index tracks the total returns from residential property across each capital city, factoring in capital gains plus the gross rental yield, prior to factoring in holding costs such as interest payments, management fees and maintenance costs.
- The growth in this index over the year provides insight into why the level of activity by investors in the housing market is currently so strong. Across the combined capital cities, total returns have been recorded at 15.3% over the 12 months to July 2015.
- Once again, Sydney and Melbourne have led the way with total returns of 22.8% and 15.2% respectively over the past year.

Change in home values compared to previous market peak - to July 2015



- From an investment perspective, few other asset classes are offering these levels of returns, a factor which is likely to be contributing to the current high level of investment activity, particularly within markets such as Sydney and Melbourne. Australian home values have rarely recorded significant and sustained value falls over the past two decades, as a result many see investment in housing as a less volatile and a relatively 'safe' asset class for investments.

Value increases during their current growth phase highlight un-even nature of value growth

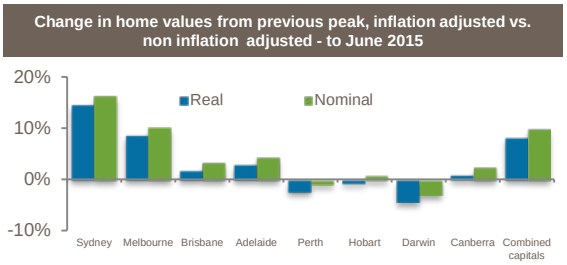
- At the combined capital city level home values reached their most recent low point in May 2012 and since that time home values have increased by a total of 30.4%.
- Although headline figures may indicate a robust recovery in home values, on a city-by-city basis the figures show significant variation.
- Sydney and Melbourne are the only cities where values have risen by more than 20% over the current growth cycle, while all other capital cities, except for Adelaide and Canberra, have seen values rise by more than 10%.
- Sydney has been the clear standout with home values having increased by 47.9% over the current growth phase followed by Melbourne where values are 32.1% higher.

Since the financial crisis growth has been centred on Sydney and Melbourne

- Throughout the 2008 calendar year home values peaked in March and fell by -6.1% to their low point in December 2008 which was the low point for home values throughout the financial crisis. Since that time to July 2015, combined capital city home values have increased by 47.1%.
- Although the combined capital city index increase in values has been strong, the growth has been driven by our two largest capitals which have each seen values rise by 74.4% in Sydney and by 64.5% in Melbourne.
- Darwin and Canberra are the only other capital cities to have recorded value growth of more than 20% since December 2008 with Brisbane and Hobart having recorded cumulative growth of less than 10%.

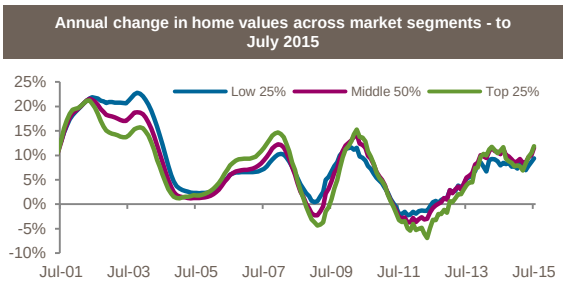
Housing Market Overview

- The data highlights that although the market growth at a combined capital city level is quite strong, recent growth phases have been Sydney and Melbourne centric.



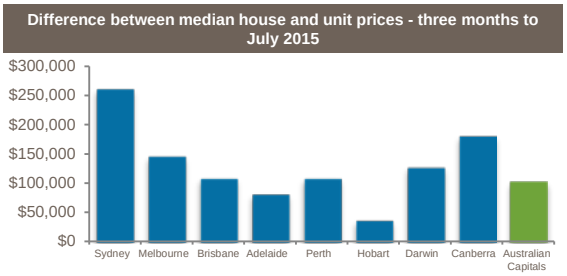
Home values in Brisbane, Adelaide, Hobart and Darwin remain below their previous peaks

- At the end of July 2015, combined capital city home values were 19.9% higher than they were at the time of their previous peak.
- Although combined capital city home values are higher than their peak, across individual capital cities, Sydney, Melbourne, Perth and Canberra are the only cities where values are higher than their previous peak.
- Dwelling values across all other capital cities remain below their previous respective peaks.



When adjusted for inflation values are below their recent peak in every capital city except Sydney and Melbourne

- Focusing on the nominal change in capital city home values only tells part of the story.
- Inflation data is only released each quarter in Australia so the latest information available is to June 2015.
- When you factor in the impact of inflation, home values at this time were still lower than their previous peaks across all capital cities except for Sydney and Melbourne.
- Across the combined capital cities, inflation adjusted home values increased by a lower 8.2% over the 12 months to June 2015.



- Home values in Brisbane (-13.0%), Adelaide (-8.0%), Perth (-12.0%), Hobart (-19.3%), Darwin (-17.8%) and Canberra (-7.2%) are still lower than they were at their previous peak.
- Inflation adjusted home values in Sydney are 19.5% higher than their previous peak while in Melbourne they are 1.8% higher.

The most expensive suburbs are recording the strongest value growth

- Over the 12 months to July 2015, the most affordable 25% of capital city suburbs recorded the lowest rate of value growth while the most expensive 25% recorded the fastest rate of value growth.
- Each of the three broad market segments analysed have recorded growing values over the 12 months to July 2015. The most affordable suburbs recorded an annual value increase of 9.4%. The middle 50% of suburbs recorded an 11.6% increase, while the most expensive 25% recorded an 11.8% increase.
- Over the past three months the top 25% of dwellings has also shown the strongest capital gains. The most affordable suburbs have recorded value increases of 2.5%, while the middle market has seen values rise by 3.8% and most expensive suburbs have recorded growth of 4.8%.

Over the past three months:

The most affordable suburbs:

↑ 2.5%

Middle market:

↑ 3.8%

The most expensive suburbs:

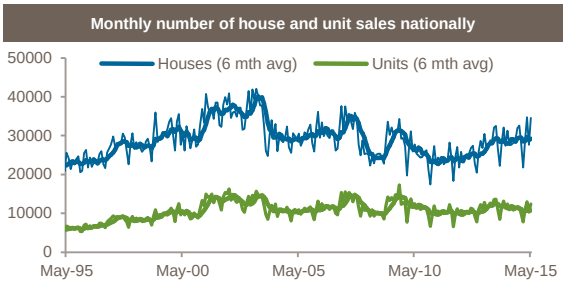
↑ 4.8%

The large gap between median selling prices of houses and units across the capital cities continues to increase

- As at July 2015, the median selling price of a house across the combined capital cities was $608,000 and the median unit price was $505,000.
- This is a difference in selling prices of $103,000 or 20%.
- CoreLogic RP Data anticipates that affordability constraints, which are becoming particularly apparent in the detached housing market, are pushing more buyers towards the unit market due to more affordable price points and due to the fact that units are typically located more strategically; closer to the city centre and along transport spines.

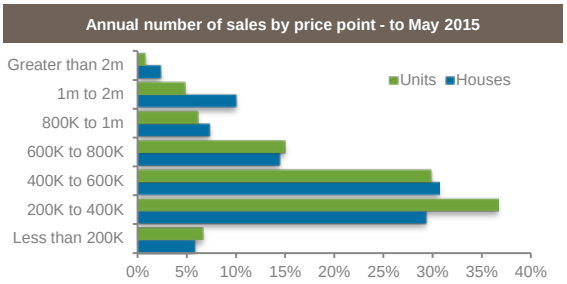
Housing Market Overview

- Dwelling approvals data (which will be covered later in the report) indicates that many developers believe that emerging trends will see more buyers choosing multi-unit dwellings as opposed to detached houses.
- Over the past 12 months, there have been more approvals for multi-unit dwellings than there have been for detached houses across the capital cities.



Transaction activity has increased but has not returned to the highs of late 2013

- Based on CoreLogic RP Data's estimate of dwelling transactions, the annual number of home sales is similar to levels a year ago and lower than the recent peak.
- Over the 12 months to May 2015 there were an estimated 352,012 house sales and 131,992 unit sales across the country. Annual house sales are 2.5% higher than they were a year earlier. The number of unit sales has decreased by -7.7% over the year.
- Although unit sales are much lower than a year ago, it is important to note those figures don't include off-the-plan sales which aren't counted until settlement. Given this we would expect unit sales to revise higher.



- Focusing specifically on the capital city markets, there were an estimated 219,968 house sales and 96,969 unit sales over the 12 months to May 2015.
- Annual capital city house sales are 2.0% higher than they were a year earlier. The number of unit sales has fallen by -10.6% over the year.
- Sales volumes remain much lower than the previous transactional peaks recorded in 2007 and between 2001 and 2003. With mortgage rates once again moving lower we may see a renewed level of housing market activity that will reverse the moderating trend in housing market activity.

Sales over the 12 months to May 15:

352,012

131,992

There has been an ongoing decline in the number of homes selling at more affordable price points

- Based on reported sales activity throughout the 12 months to June 2015, the majority of homes have transacted at prices greater than $400,000. Across the nation, 64.8% of houses and 56.7% of units sold over the year for more than $400,000.
- Focussing specifically on the combined capital city markets it becomes obvious that housing in these centres is significantly more expensive. Just 21.4% of all houses and 33.5% of all units sold across the capital cities over the year had a selling price of less than $400,000.
- Over recent years there has been a sharp reduction in the number of homes selling at more affordable price points as home values have trended higher.
- The reduction in the availability of affordable homes within Australian capital cities is a significant policy challenge which involves a range of policy response initiatives including better infrastructure linkages between emerging population centres and major working nodes, a more efficient and strategic release of land supply and more focus on medium to high density housing options.
- We have been seeing a higher proportion of units approved for construction in the capital cities which is likely to be a response to the diminishing supply of more affordable houses available for sale.

Across the nation:

64.8%

56.7%

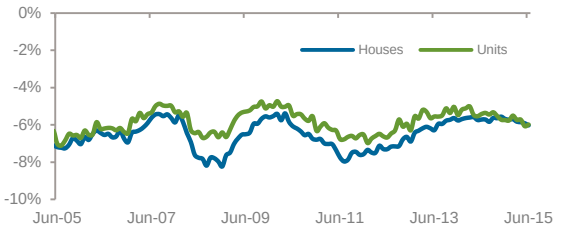
Sold over the year for less than $400,000

Housing Market Overview

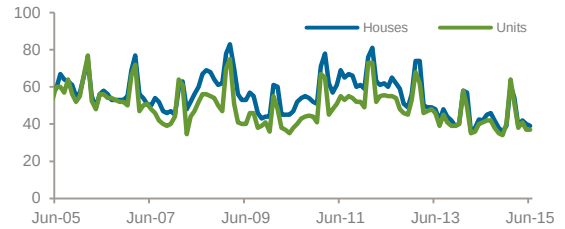
Vendor discounting levels have increased slightly

- Vendor discounting figures are measured across those residential properties that sold at a price lower than their originally advertised price. The figure is the percentage difference between the initial list price and the ultimate contract price.
- As at June 2015, the typical house across the combined capital cities had sold for 6.0% less than the initial list price and so too was the typical unit discount. Discounting levels have softened over the year for houses and units, having been recorded at 5.7% and 5.4% respectively in June 2014.
- The greater discounting levels reflect that selling conditions overall may not be quite as strong as they were at the same time a year ago or that vendors are being more ambitious with their asking prices.

Average level of vendor discounting across the combined capital cities



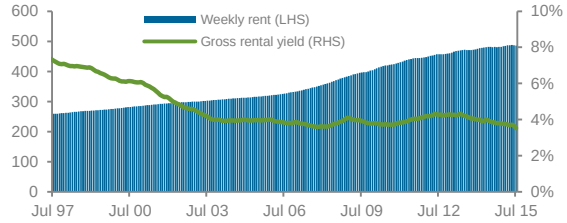
Average number of days on market for home across the combined capital cities



Properties are selling quickly, with time on market at a near record low level

- Time on market figures are calculated by measuring the difference between the date at which a residential property is first advertised for sale and the date at which the property ultimately sells (based on contract date and excluding auction sales). The figure represents the average number of days it takes to sell a home across the region.
- In June 2015, houses across the combined capital cities were taking an average of 39 days to sell and units were taking 37 days. At the same time a year ago, houses took an average of 42 days to sell and units took 41 days.
- The low average time on market is indicative of the broader housing market conditions whereby values are generally increasing and there is significant competition for available homes (particularly in Sydney and Melbourne).
- Both time on market and discounting levels have softened slightly over the year however, both measures remain indicative of a market in which home values are rising at a fairly rapid pace.

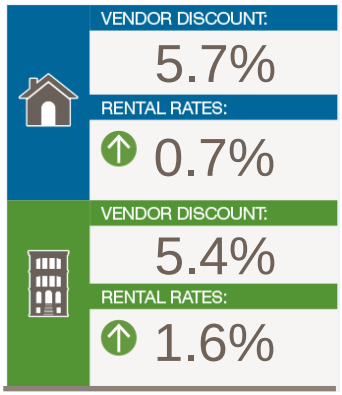
Combined capital city rental rates and yields



Rental rates are increasing at their slowest annual rate on record as rental yields continue to ease

- Over the 12 months to July 2015, rental growth has been at its lowest level on record.
- Combined capital city house rental rates have increased by 0.7% over the year to $490/week and unit rents have increased by 1.6% to $462/week. At the same time in 2014, house rents had increased by 1.9% over the year and unit rents were 3.2% higher.
- Gross rental yields for houses have fallen from 3.8% in July 2014 to 3.4% in July 2015.
- Similarly, rental yields for units have fallen to 4.3% in July 2015 from 4.6% at the same time a year ago.
- Rental yields on investment properties are generally low which suggests many investors are either utilising negative gearing to reduce their tax liability or are alternatively speculating on capital growth whilst ignoring the low yield scenario.

Across the combined capital cities:



Sydney Housing Market Overview

Sydney

Home values in Sydney have appreciated at the fastest pace of all capital city markets over the past year. While home values have risen, the average time on market has fallen to record low levels and discounting sits at low levels. Although value growth has been strong, rental growth is moderating and as a result rental yields are at record lows.

Values

- +5.4% over the quarter
- +18.4% past 12 months
- +7.3%pa last five years
- +5.7%pa last ten years
- +6.8%pa last 15 years
- +40.4% higher than previous peak
- +47.9% over the current growth phase

Annual sales volumes

- 95,549 over year to May 2015
- -8.8% over the year
- Sales down from a recent peak of 104,948 in March 2014

Rents

- -0.2% quarter
- +2.5% over the year
- +3.9%pa last five years

Yields

- -0.2 percentage points over the quarter
- -0.6 percentage points over the year

Selling time

- -1 days over the quarter
- -6 days over the year

Vendor discounting

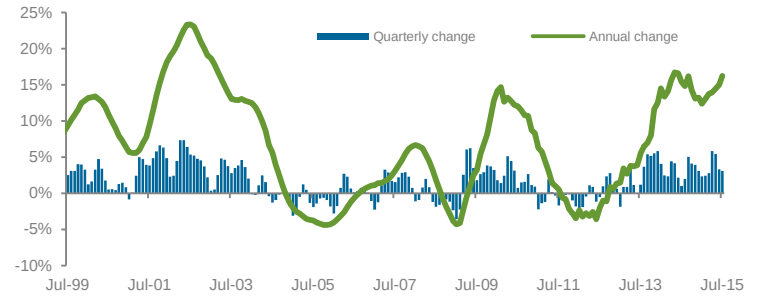
- +0.7 percentage points over the quarter
- +1.1 percentage point over the year

Key statistics - to July 2015

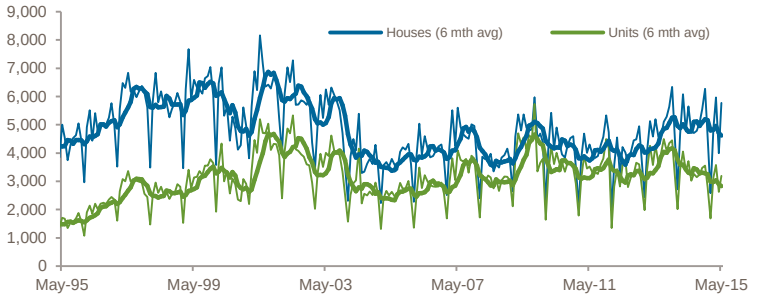
	Houses	Units
Median price	$921,500	$660,000
Quarterly value change	5.5%	5.0%
12 month value change	19.8%	11.9%
5 year annual value change	7.6%	6.0%
10 year annual value change	5.9%	5.0%
15 year annual value change	7.1%	5.6%
Value change from previous market peak	42.3%	28.8%
Estimated 12 month sales volumes**	58,862	36,688
Average time on market (days)*	27	24
Average vendor discount*	-6.1%	-4.7%
Median rental rate	$610	$536
Gross rental yield	3.2%	4.2%
Average hold period (years)*	11.2	8.5

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Sydney home values



Monthly number of house and unit sales across Sydney



Melbourne Housing Market Overview

Melbourne

Melbourne home values have risen at the second fastest pace of all capital cities over the past 12 months. Auction clearance rates have consistently been high and discounting and time on market levels have fallen across the city over the year. Although value growth has been strong, sluggish rental growth has resulted in Melbourne recording the lowest rental yields of any capital city.

Values

- +6.1% over the quarter
- +11.5% past 12 months
- +3.8%pa last five years
- +7.0%pa last ten years
- +8.4%pa last 15 years
- +15.3% higher than previous peak
- +32.1% over the current growth phase

Annual sales volumes

- 94,036 over year to February 2015
- +4.2% over the year
- Sales at their current cyclical peak

Rents

- +0.4% quarter
- +2.1% over the year
- +2.4%pa last five years

Yields

- -0.2 percentage points over the year
- -0.3 percentage points over the year

Selling time

- -2 days over the quarter
- -10 days over the year

Vendor discounting

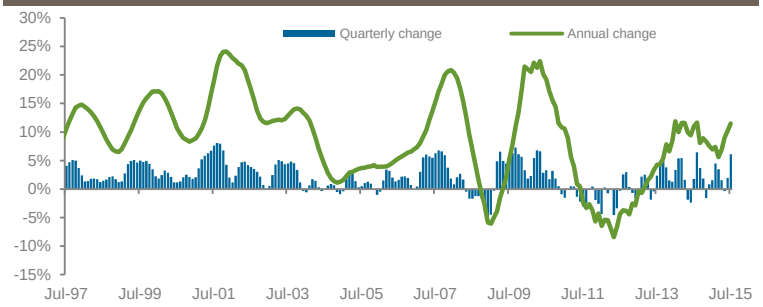
- -0.3 percentage points over the quarter
- -0.7 percentage points over the year

Key statistics - to July 2015

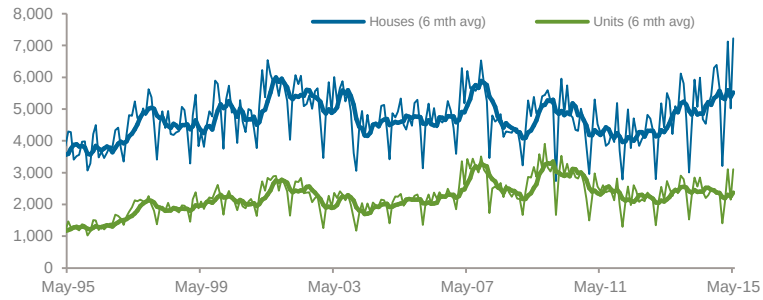
	Houses	Units
Median price	$630,000	$483,500
Quarterly value change	6.5%	2.8%
12 month value change	12.3%	4.8%
5 year annual value change	4.0%	1.7%
10 year annual value change	7.2%	5.1%
15 year annual value change	8.6%	6.7%
Value change from previous market peak	16.5%	5.5%
Estimated 12 month sales volumes**	65,592	28,444
Average time on market (days)*	32	41
Average vendor discount*	-5.5%	-5.4%
Median rental rate	$456	$404
Gross rental yield	3.0%	4.1%
Average hold period (years)*	11.8	9.7

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Melbourne home values



Monthly number of house and unit sales across Melbourne



Brisbane Housing Market Overview

Brisbane

Home values in Brisbane have recorded the third largest increase across capital cities over the 12 months to July 2015. Although values have increased over the year, the rise is minimal relative to growth in Sydney and Melbourne. Although value growth is moderate the rental yield profile for the city is quite strong relative to the two larger cities.

Values

- +1.3% over the quarter
- +3.9% past 12 months
- +0.2%pa last five years
- +3.6%pa last ten years
- +7.8%pa last 15 years
- -0.9% lower than previous peak
- +12.9% over the current growth phase

Annual sales volumes

- 52,444 over year to May 2015
- +4.2% over the year
- Sales at their current cyclical peak

Rents

- -0.4% quarter
- +1.1% over the year
- +2.1%pa last five years

Yields

- -0.1 percentage point over the quarter
- -0.1 percentage point over the quarter

Selling time

- +4 days over the quarter
- +7 days over the year

Vendor discounting

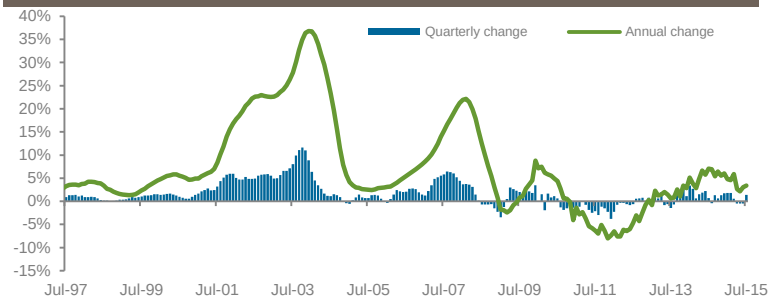
- +0.2 percentage points over the quarter
- -0.1 percentage point over the year

Key statistics - to July 2015

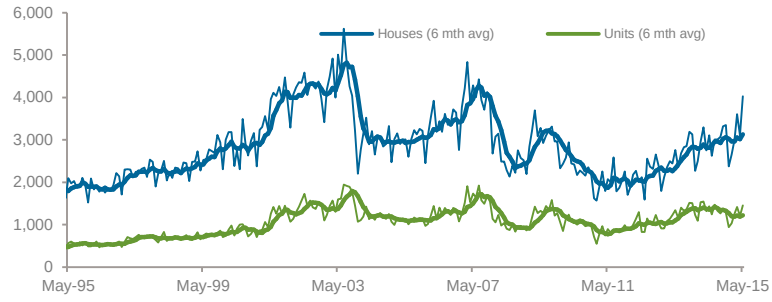
	Houses	Units
Median price	$490,000	$380,000
Quarterly value change	1.7%	-2.3%
12 month value change	4.6%	-2.5%
5 year annual value change	0.3%	-0.9%
10 year annual value change	3.7%	3.1%
15 year annual value change	8.1%	5.4%
Value change from previous market peak	-0.2%	-6.9%
Estimated 12 month sales volumes**	37,171	15,273
Average time on market (days)*	52	67
Average vendor discount*	-5.6%	-5.7%
Median rental rate	$436	$408
Gross rental yield	4.4%	5.5%
Average hold period (years)*	10.4	8.5

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Brisbane home values



Monthly number of house and unit sales across Brisbane



Adelaide Housing Market Overview

Adelaide

Adelaide home values have recorded only a moderate rise over the past year and throughout the current growth phase Adelaide has recorded the second lowest level of cumulative value growth. Home sales are rising across the city however, overall the market remains quite soft.

Values

- -0.9% over the quarter
- +3.4% past 12 months
- +0.5%pa last five years
- +3.6%pa last ten years
- +7.5%pa last 15 years
- -1.1% lower than previous peak
- +9.1% over the current growth phase

Annual sales volumes

- 26,217 over year to May 2015
- +4.5% over the year
- Sales are at their recent cyclical peak

Rents

- -0.4% quarter
- +0.3% over the year
- +1.8%pa last five years

Yields

- No change over the quarter
- -0.2 percentage points over the quarter

Selling time

- -6 days over the quarter
- +6 days over the year

Vendor discounting

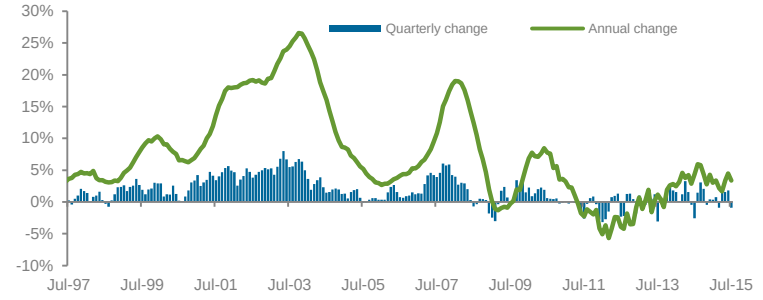
- +0.1 percentage point over the quarter
- +0.2 percentage points over the year

Key statistics - to July 2015

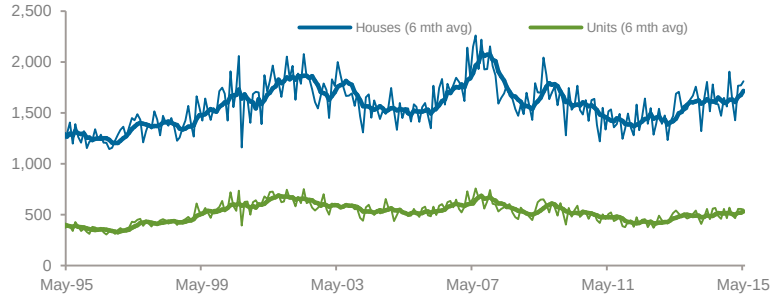
	Houses	Units
Median price	$425,000	$342,000
Quarterly value change	-1.1%	0.7%
12 month value change	3.4%	3.1%
5 year annual value change	0.6%	-0.4%
10 year annual value change	3.6%	3.6%
15 year annual value change	7.5%	6.7%
Value change from previous market peak	-1.5%	-5.2%
Estimated 12 month sales volumes**	19,941	6,276
Average time on market (days)*	54	58
Average vendor discount*	-6.0%	-6.0%
Median rental rate	$373	$317
Gross rental yield	4.2%	4.7%
Average hold period (years)*	8.6	8.4

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Adelaide home values



Monthly number of house and unit sales across Adelaide



Perth Housing Market Overview

Perth

Home values across Perth have recorded a fall over the past year, dragged lower by a much weaker unit market. There has also been a fall in transactions and rental rates while stock on the market has increased over the past year, foreshadowing weaker housing market conditions. Furthermore there has been a sharp rise on the average time on market and discounting levels have expanded.

Values

- -0.7% over the quarter
- -0.3% past 12 months
- +0.7%pa last five years
- +5.4%pa last ten years
- +8.2%pa last 15 years
- +2.7% higher than previous peak
- +14.4% over the current growth phase

Annual sales volumes

- 35,335 over year to May 2015
- -11.1% over the year
- Sales down from a recent peak of 42,104 in December 2013

Rents

- -2.4% quarter
- -5.6% over the year
- +2.9%pa last five years

Yields

- No change over the quarter
- -0.2 percentage points over the year

Selling time

- +14 days over the quarter
- +19 days over the year

Vendor discounting

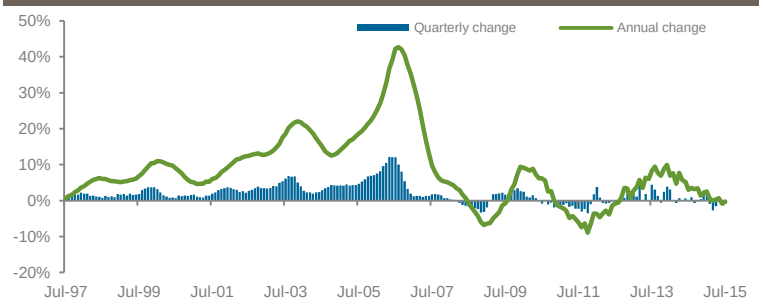
- +0.7 percentage points over the quarter
- +1.5 percentage points over the year

Key statistics - to July 2015

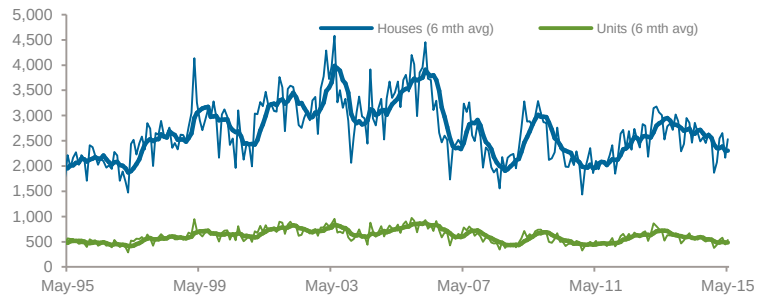
	Houses	Units
Median price	$530,000	$420,000
Quarterly value change	-0.8%	1.2%
12 month value change	0.1%	-5.7%
5 year annual value change	0.8%	0.0%
10 year annual value change	5.5%	4.9%
15 year annual value change	8.3%	7.6%
Value change from previous market peak	2.9%	-1.1%
Estimated 12 month sales volumes**	29,184	6,151
Average time on market (days)*	63	65
Average vendor discount*	-6.7%	-7.6%
Median rental rate	$472	$419
Gross rental yield	3.9%	4.5%
Average hold period (years)*	8.9	8.5

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Perth home values



Monthly number of house and unit sales across Perth



Hobart Housing Market Overview

Hobart

Hobart sales volumes have begun to trend lower while home values are increasing at a sluggish pace. Since the current value growth phase commenced, the overall increase in Hobart home values has been soft and Hobart has been the weakest performing capital city market for the past decade.

Values

- +0.1% over the quarter
- +2.5% past 12 months
- -1.1%pa last five years
- +1.7%pa last ten years
- +7.5%pa last 15 years
- -6.6% lower than previous peak
- +10.8% over the current growth phase

Annual sales volumes

- 4,423 over year to May 2015
- -0.2% over the year
- Sales down from a recent peak of 4,509 in June 2014

Rents

- -1.0% quarter
- +2.3% over the year
- +0.7%pa last five years

Yields

- -0.1 percentage points over the quarter
- No change over the year

Selling time

- +5 days over the quarter
- -4 days over the year

Vendor discounting

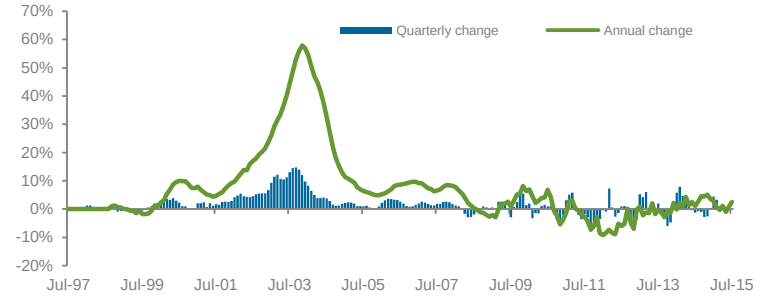
- -0.2 percentage point over the quarter
- -1.2 percentage points over the year

Key statistics - to July 2015

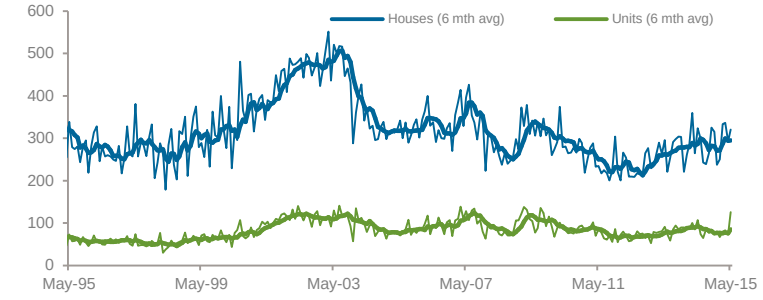
	Houses	Units
Median price	$320,000	$281,900
Quarterly value change	-0.1%	2.4%
12 month value change	1.6%	3.8%
5 year annual value change	-1.3%	0.5%
10 year annual value change	1.6%	2.1%
15 year annual value change	7.4%	8.4%
Value change from previous market peak	-7.0%	-7.1%
Estimated 12 month sales volumes**	3,458	965
Average time on market (days)*	67	77
Average vendor discount*	-6.8%	-5.4%
Median rental rate	$343	$298
Gross rental yield	5.2%	5.3%
Average hold period (years)*	9.7	9.3

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Hobart home values



Monthly number of house and unit sales across Hobart



Darwin Housing Market Overview

Darwin

Home values in Darwin surged earlier than most other capital cities in the current growth phase. Since values reached their low point they have increased significantly however, the rate of value growth has slowed sharply over the past year with values and rental rates both now falling while time on market and discounting is increasing.

Values

- -3.0% over the quarter
- -5.3% past 12 months
- -1.2%pa last five years
- +6.7%pa last ten years
- +7.1%pa last 15 years
- -3.3% lower than previous peak
- +14.1% over the current growth phase

Annual sales volumes

- 2,758 over year to May 2015
- -4.1% over the year
- Sales are trending lower from their recent peak in October 2014

Rents

- -4.1% quarter
- -9.3% over the year
- +1.7%pa last five years

Yields

- -0.1 percentage point over the quarter
- -0.3 percentage points over the year

Selling time

- -18 days over the quarter
- +1 day over the year

Vendor discounting

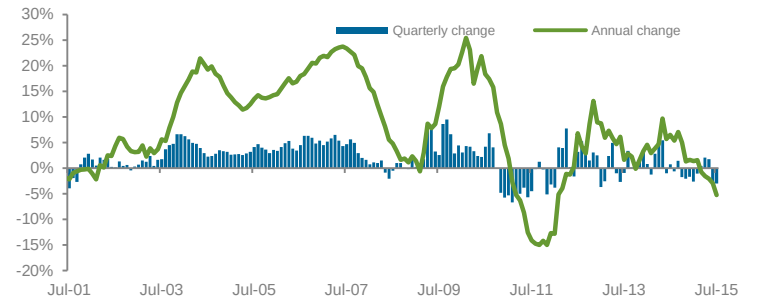
- +2.0 percentage points over the quarter
- +3.6 percentage points over the year

Key statistics - to July 2015

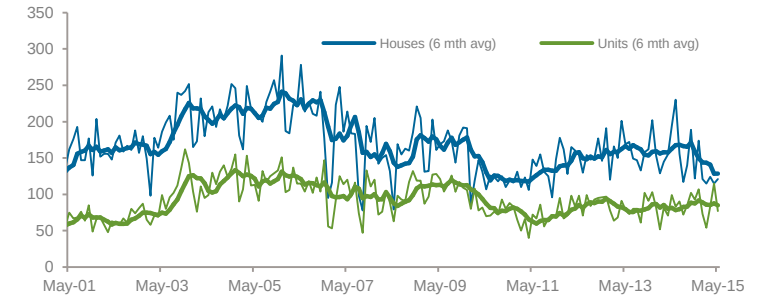
	Houses	Units
Median price	$570,000	$441,500
Quarterly value change	-4.4%	3.1%
12 month value change	-5.7%	-3.2%
5 year annual value change	-1.2%	-1.2%
10 year annual value change	6.8%	6.3%
15 year annual value change	7.0%	7.4%
Value change from previous market peak	-8.4%	-8.3%
Estimated 12 month sales volumes**	1,724	1,034
Average time on market (days)*	77	62
Average vendor discount*	-7.8%	-10.1%
Median rental rate	$575	$459
Gross rental yield	5.7%	5.5%
Average hold period (years)*	7.2	6.5

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Darwin home values



Monthly number of house and unit sales across Darwin



Canberra Housing Market Overview

Canberra

The housing market in Canberra slowed substantially after the announcement of budget cutbacks and job shedding in the Federal Budget. Both values and rental rates have shown some growth over recent months however, overall growth in the marker remains quite sluggish.

Values

- +2.3% over the quarter
- +1.2% past 12 months
- +0.7%pa last five years
- +3.9%pa last ten years
- +7.6%pa last 15 years
- +3.1% higher than previous peak
- +9.3% over the current growth phase

Annual sales volumes

- 6,174 over year to May 2015
- -5.0% over the year
- Sales down from a recent peak of 6,610 in February 2014.

Rents

- -0.7% quarter
- +0.5% over the year
- +0.3%pa last five years

Yields

- -0.2 percentage points over the quarter
- -0.1 percentage point over the year

Selling time

- +11 days over the quarter
- +2 days over the year

Vendor discounting

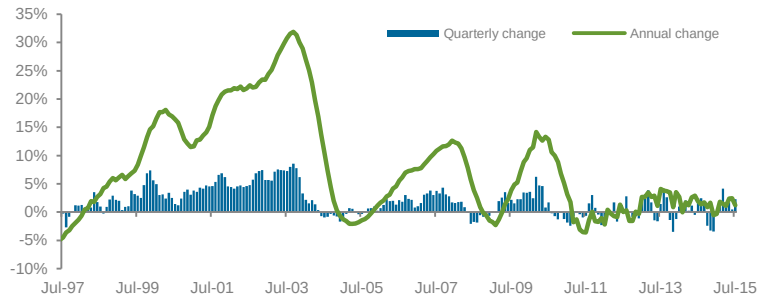
- +0.5 percentage points over the quarter
- +0.2 percentage points over the year

Key statistics - to July 2015

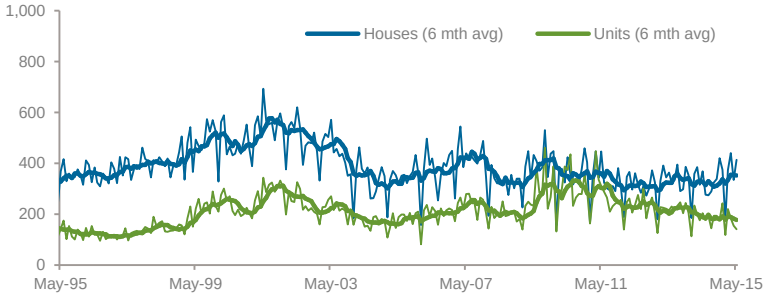
	Houses	Units
Median price	$593,000	$412,200
Quarterly value change	2.4%	0.3%
12 month value change	1.4%	-0.6%
5 year annual value change	0.8%	-0.7%
10 year annual value change	4.1%	2.6%
15 year annual value change	7.7%	6.4%
Value change from previous market peak	3.1%	-4.9%
Estimated 12 month sales volumes**	4,036	2,138
Average time on market (days)*	50	64
Average vendor discount*	-3.0%	-6.7%
Median rental rate	$504	$403
Gross rental yield	4.1%	5.0%
Average hold period (years)*	9.9	8.7

* Data to June 2015
**Data to May 2015

Annual and quarterly change in Canberra home values



Monthly number of house and unit sales across Canberra



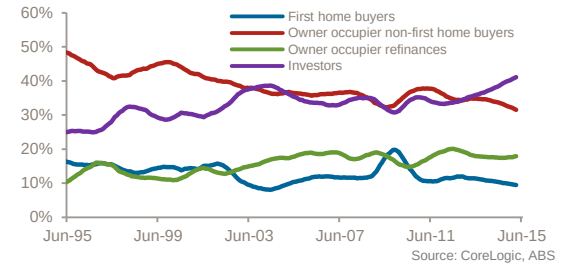

Luxury Waterfront Properties in Queensland

Economic Overview

Investors as a proportion of total mortgage demand have reached new record highs

- Looking at the raw value of housing finance commitments on a rolling 12 month average basis across different buyer types provides an insight into the current housing market dynamics.
- The data shows that investor purchasers accounted for the greatest proportion of lending over the past year, closely followed by owner occupier loans for purposes other than refinances.
- The level of lending to investors has been at an all-time high over the past 12 months.
- It is clear that housing market activity continues to be driven by investors and subsequent purchasers, whether they are upgrading or downgrading.

12 month average proportion of housing finance commitments by borrower type

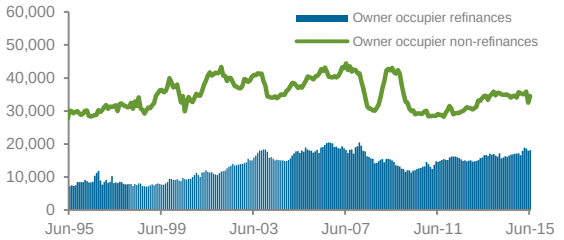


Source: CoreLogic, ABS

Refinance by owner occupiers are the key driver of growth in owner occupier mortgage demand

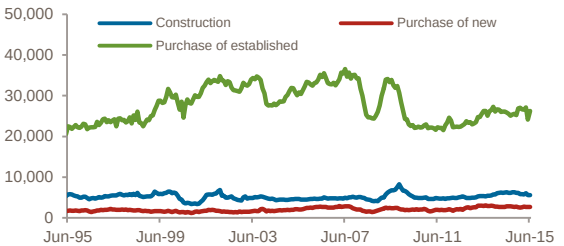
- On a seasonally adjusted basis, there were 52,672 owner occupier housing finance commitments in June 2015.
- The number of owner occupier commitments was 3.0% higher than at the same time in 2014.
- The total owner occupier commitments figure is comprised of refinances and non-refinances (i.e. 'new loans'). In June 2015, there were 18,138 refinance commitments and 34,534 new loan commitments.
- Refinance commitments have increased by 12.4% compared to a year ago. New loan commitments are -1.3% lower than they were 12 months ago.

Number of owner occupier housing finance commitments (refinances vs. non-refinances)



Source: CoreLogic, ABS

Number of owner occupier housing finance commitments by property type



Source: CoreLogic, ABS

Purchase of new dwellings are the only segment of new owner occupier mortgage lending that is rising

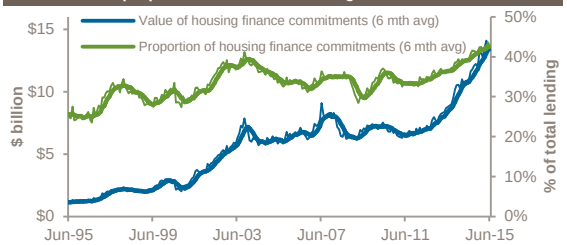
- The new loan component of the housing finance data is comprised of: loans for the construction of new dwellings, loans for the purchase of new dwellings and loans for the purchase of established dwellings.
- In June 2015, there were 5,598 commitments for construction of new dwellings, 2,703 commitments for purchase of new dwellings and 26,233 commitments for the purchase of established dwellings.
- Commitments for the construction of new dwellings were -10.8% lower in June 2015 compared to June 2014, commitments for purchase of new dwellings were -5.3% lower over the year and loans for the purchase of established dwellings were 1.4% higher than a year ago.

Economic Overview

Investors account for more than two fifths of all mortgage lending

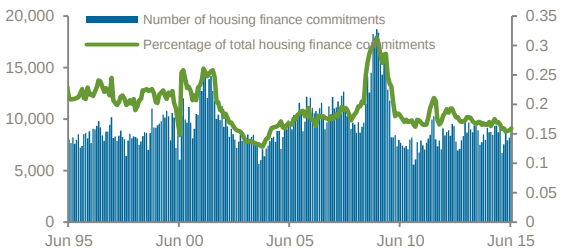
- In June 2015, investors committed to $13.5 billion in housing finance.
- The level of activity by the investment segment of the market has ramped-up sharply over the past year, in June 2014 investors committed to $11.0 billion worth of housing finance indicating a year-on-year increase of 22.5%.
- In June 2014, investors accounted for 42.1% of all housing finance commitments, this figure rises to a record high 51.8% if you exclude refinances.
- Investor activity has been greatest within New South Wales and Victoria. If we assume that the two states are a proxy for their respective capital cities (Sydney and Melbourne) we see that investor activity is mainly targeted across the two cities which are currently seeing the strongest level of home value growth.
- With Sydney and Melbourne recording the lowest capital city yields, the high level of investment activity has seemingly been driven by an expectation of capital gains rather than rental returns.

Value and proportion of investor housing finance commitments



Source: CoreLogic, ABS

Number and proportion of owner occupier housing finance commitments to first home buyers

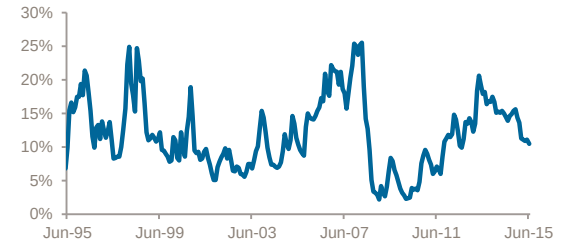


Source: CoreLogic, ABS

First home buyer numbers have increased a little

- In June 2015, there were 8,737 housing finance commitments to owner occupier first home buyers.
- First home buyers accounted for just 15.9% of all owner occupier housing finance commitments over the month.
- The weakness from the first home buyer segment has been apparent since early 2010 when temporary first home buyer incentives were removed. Over the 12 months to June 2015 there were 101,875 commitments by first home buyers which was much lower than the peak of 190,023 commitments over the 12 months to November 2009.

Proportion of owner occupier finance commitments on a variable mortgage rate



Source: CoreLogic, ABS

- The lack of affordable housing available for Australian first home buyers, particularly within the major capital cities, is likely to be contributing to the low number of first home buyers despite historic low mortgage rates.
- Additionally, it is important to note that this data only measures first home buyer finance commitments for owner occupation. Anecdotally a growing number of first time buyers are purchasing investment properties.

Australian home buyers continue to favour variable mortgage rates over fixed rates

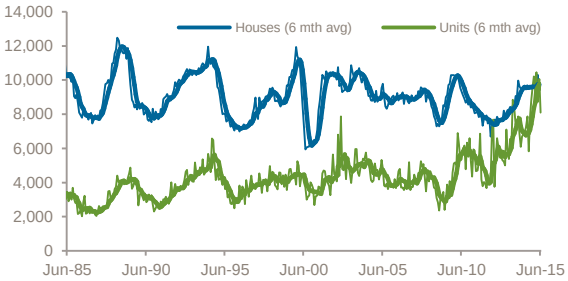
- Housing finance data reveals that in June 2015, 89.5% of new loans to owner occupiers were on a variable or 'floating' mortgage rate.
- Unlike some other countries, Australian's overwhelmingly prefer to take out variable rate mortgages rather than fixed rate loans.
- The other factor to keep in mind is that the typical length of a fixed rate mortgage in Australia is quite short, typically being three years or less.
- The fact that most Australian's are on a variable rate has important implications for changes in monetary policy. Essentially, having a large proportion of households with variable mortgage rates means that when the Reserve Bank adjusts official interest rates it has an almost immediate impact on consumer attitudes and spending patterns.
- When you consider that the mortgage is most people's single largest liability, changes to monetary policy have a virtual immediate impact on consumer behaviour.

Economic Overview

Dwelling approvals appear to have begun easing but remain at very high levels

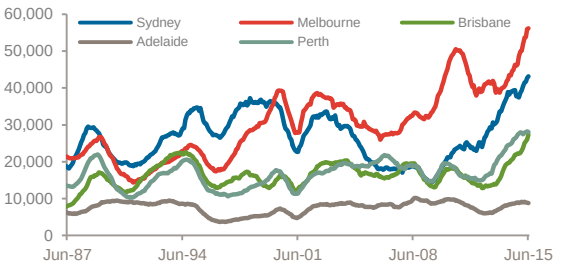
- Over the 12 months to June 2015 there have been 220,423 dwellings approved for construction, which is a record high.
- The annual number of dwelling approvals has increased by 12.9% over the past year.
- In June 2015 there were 17,868 dwelling approvals which is down from the recent all-time high of 20,192 approvals in March 2015.
- The private sector is almost entirely responsible for new dwelling construction in Australia. This is highlighted by the fact that over the past year, 98.4% of all dwelling approvals were granted to the private sector compared with the public sector.
- Over the 12 months to June 2015, there were 116,086 approvals for houses and 104,337 unit approvals.
- Over the year, the number of house approvals has increased by 6.1% while unit approvals are up by a higher 21.5%.
- The national data shows that there is a growing appetite for higher density approvals which indicates that buyers are becoming more accepting of multi-unit styles of housing product. If we look at units, they typically offer a significantly lower buy in price than houses in a comparable location and they allow the purchaser to live, in many cases, in a more desirable inner city location at a more affordable price.

Number of dwelling approvals nationally, houses vs units



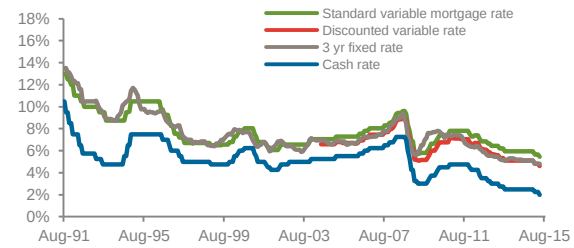
Source: CoreLogic, ABS

Annual number of major capital city dwelling approvals



Source: CoreLogic, ABS

Cash rate vs. standard variable mortgage rate vs. discounted variable mortgage rate vs. three year fixed mortgage rate



Source: CoreLogic, ABS

Capital city unit approvals continue to surge

- Across the combined capital cities, there were 77,117 houses and 93,619 units approved for construction over the 12 months to June 2015.
- The number of house approvals increased by 9.5% over the year and unit approvals were 24.8% higher.
- Over the past 12 months, a record high 54.8% of all capital city dwelling approvals were for units and unit approvals have now consistently outnumbered house approvals since July 2013.
- Historically, 98% of houses approved for construction result in a completion, compared to 86% of units approved.
- Although demand for units is growing, unit developments are less likely than houses to commence construction and complete. This may be attributed to the requirement for a certain level of pre-sales across a new apartment development before work proceeds as well as the 'all or nothing' nature of a large scale unit project (compared with a greenfield detached housing project where the new housing delivery can more easily be phased).
- It remains to be seen whether all these units being approved ultimately end up being constructed.

Official interest rates fall to 2.0% in September 2015

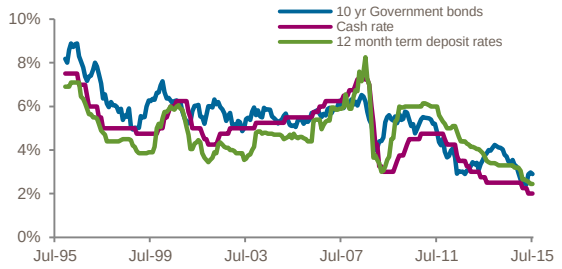
- The Reserve Bank cut official interest rates to 2.0% in May 2015 and they have remained at this level through to the September meeting.
- On an historic basis, official interest rates are at extremely low levels and subsequently mortgage rates have also shifted to record low levels.
- In September 2015, the average standard variable mortgage rate was 5.45%, the average discounted variable rate was 4.65% and the three year fixed rate was 4.65%.
- The record low interest rates are both encouraging growth in home values and higher levels of investor activity given cash deposits are achieving very little interest.
- At the time of writing, the ASX cash rate futures market suggests that there will be another 25 basis point cut to official interest rates in December of this year.

Economic Overview

The impact of low mortgage rates

- The low interest rate environment is also impacting on the type of investment vehicles investors' target. Safe investments such as government bonds and term deposits are showing very low returns. Australian Government 10 year bonds are returning just 2.9% currently while the 12 month term deposit rate is just 2.45%.
- The low returns from 'safe' investment classes are seeing investors move to slightly riskier investment classes.
- Over the 12 months to July 2015, housing, which shows a higher risk profile relative to bonds and term deposits, has recorded much stronger returns.

Cash rate vs. 10 year Government bonds vs.12 month term deposits



Source: CoreLogic, ABS

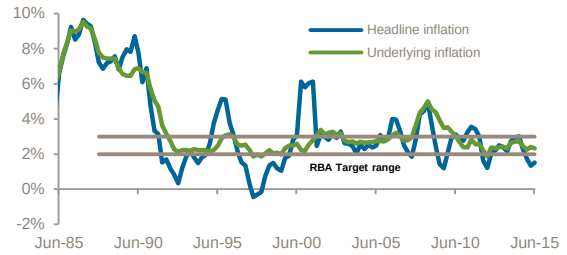
Unemployment rate has now been above 6% for more than a year

- The national unemployment rate was recorded at 6.3% in July 2015.
- At the same time a year ago, the national unemployment rate was recorded at 6.2%.
- The unemployment rate has been at or above 6.0% for 14 consecutive months.
- The number of employed persons has increased by 2.1% over the past year.
- Full-time employment has increased by 1.5% over the year compared to a greater 3.4% increase in part-time employment.
- Last year's Federal Budget forecast was that the unemployment rate would peak at 6.5%, as yet it has not reached that level.
- Higher unemployment and the increasing propensity for part-time job creation may make it harder for some to fulfil their mortgage repayments or to be considered for a new home loan.

National unemployment rate

Source: CoreLogic, ABS

Headline and underlying inflation over time



Source: CoreLogic, ABS

Headline inflation remains below the RBA's target range whilst underlying inflation is comfortably within the 2-3% band

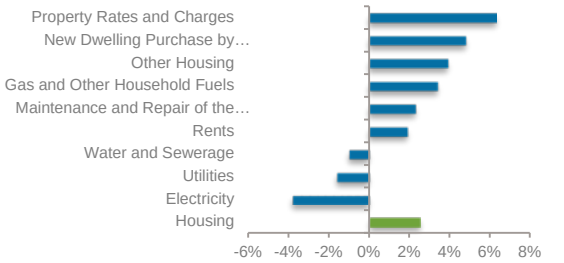
- The Consumer Price Index (CPI) recorded an increase of 1.5% over the 12 months to June 2015.
- The RBA has a target band for inflation of between 2.0% and 3.0% throughout the cycle so the June read for headline inflation was outside of the target band.
- Headline inflation has now been below the RBA's target range for the past 3 quarters.
- The RBA looks at headline inflation, however they pay closer attention to the two measures of underlying inflation; the trimmed mean and weighted median. These two measures of underlying inflation were recorded at 2.2% and 2.4% respectively with inflation calculated by these measures still within the target range.
- The latest Statement on Monetary Policy issued by the Reserve Bank showed that they forecast inflation to reach 2.5% by the end of the year and it would remain within the 2% to 3% target range thereafter to June 2017.

Economic Overview

Housing costs are growing at a rate which is greater than headline inflation

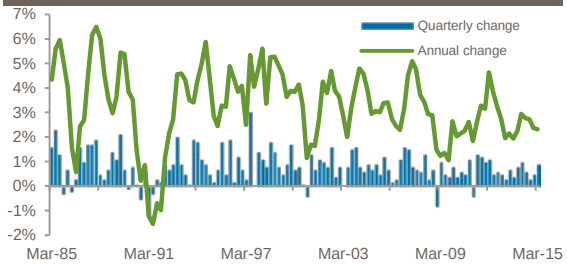
- Housing is a component of the bundle of goods used to measure inflation and it actually has the greatest weighting which reflects the fact that, for most people, costs relating to housing are what they spend the greatest slice of their income on.
- The inflation data does not measure escalation in the cost of existing homes, rather it only measures purchases of new homes by owner occupiers.
- Over the 12 months to June 2015, housing costs have increased by 2.5% which is greater than the rate of headline inflation.
- The data indicates that rates and charges have recorded the largest increases over the year while electricity and utilities and water and sewerage costs have fallen for the first time in many years. .

CPI Housing sub-categories, annual change to June 2015



Source: CoreLogic, ABS

Quarterly and annual change in gross domestic product (GDP)

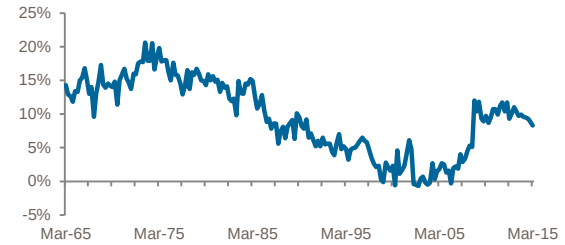


Source: CoreLogic, ABS

The Australian Economy grew at its slowest quarterly pace

- Gross Domestic Product (GDP) data from the ABS to March 2015 shows that the Australian economy grew by 2.3% over the 12 months.
- Although headline economic growth was solid over the year, on a per capita basis economic growth was recorded at a much lower 0.8%. This result indicates that the strong rate of population growth recently is also significantly contributing to economic growth.
- With population growth continuing to slow, it will also likely impact on economic growth over coming quarters.
- While GDP is likely to slow over the coming quarters as spending and population growth slows, the economy is likely to continue to expand.

Household savings ratio



Source: CoreLogic, ABS

Household savings continue to ease from their recent highs

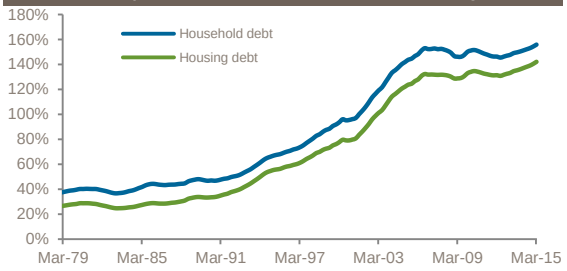
- Over the March 2015 quarter, the household savings ratio was recorded at 8.3% which was its lowest reading since the September 2008 quarter.
- Compared to savings levels through the 1990's and early to mid-2000's savings levels remain elevated however, they have started to ease from their recent highs.
- Over the past seven quarters the household savings ratio has been below 10%, this hasn't happened for seven consecutive quarters since September 2008.
- As the chart shows, the household savings ratio started to rise in the mid-2000's and has been much higher since September 2008.
- More recently the ratio has started to fall which is likely due to a pick-up in retail sales and growing demand for housing credit.
- With low returns on cash savings we are starting to see consumers open their wallets again. As a result we may see further declines in household savings over the coming quarters although ongoing consumer caution suggests any decline is likely to remain fairly moderate.

Economic Overview

Households are heavily indebted, largely due to housing debt

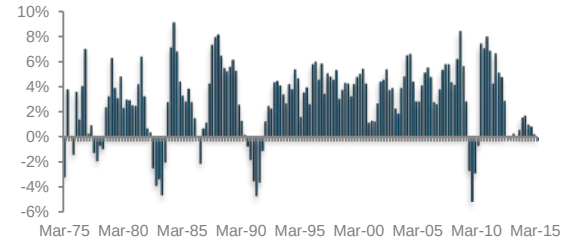
- According to the RBA, total household debt as at March 2015 was 155.9% of disposable income. Of this total, a record high 142.1% was housing debt.
- Somewhat concerning is that recently household and housing debt has once again started to climb after having been fairly flat since 2006.
- Household and housing debt is currently at its highest ever level.
- Although housing debt is very high, it is clearly also a function of high house prices across the country. Despite housing debt to disposable income sitting at 140.3%, total housing assets to disposable income were recorded at 444.0%.
- Housing debt may be very high however; the value of those assets is significantly more than the value of that debt.

Debt to disposable income - household debt vs. housing debt



Source: CoreLogic, ABS

Annual change in household disposable incomes

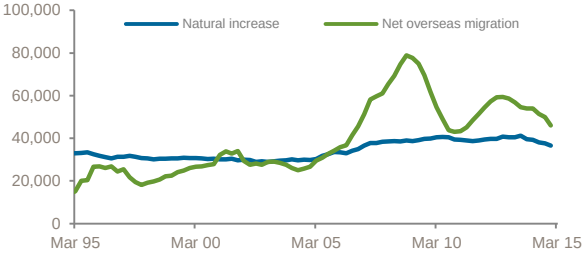


Source: CoreLogic, ABS

Disposable incomes have fallen over the past year

- Although mortgage rates are low and home values are increasing, household disposable incomes have fallen over the past year.
- One wonders in light of this, how long the current growth in home values can continue when growth in disposable incomes is so low.
- Over the 12 months to March 2015, household disposable incomes fell by -0.2%.
- The annual change in disposable incomes has been consistently below 2% for the past 11 quarters.
- Over the past 20 years, household disposable incomes have increased at a compound annual rate of 3.6% which indicates current household income growth is significantly lower.

Quarterly increase in population - net overseas migration vs. natural increase



Source: CoreLogic, ABS

- With disposable income growth low, the ability of households to spend more on housing as values rise is likely to reduce.
- Should the growth in household incomes remain around current levels it may start to curtail future growth in home values.

Population growth is continuing to slow

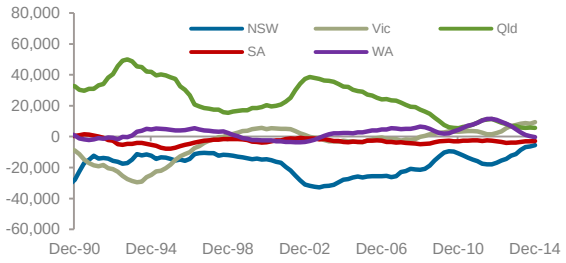
- As at the end of the December 2014 quarter, the national resident population was estimated to be 23.63 million persons.
- The population increased by 330,202 persons or 1.4% over the year which was its lowest annual increase in population since the 12 months to September 2011.
- Population growth remains strong on an historic basis however, the rate of growth is slowing, largely due to a slowdown in net overseas migration.
- Over the 12 months to December 2014, there were 184,135 net migrants to the country accounting for 56% of total population growth with the remaining 44% (146,067) coming from natural increase.
- The annual number of net overseas migrants was at its lowest level since September 2011 in December 2014.
- More up-to-date overseas arrivals data shows a slowdown in net permanent and long-term arrivals to Australia foreshadowing a further slowdown of net overseas migration over the coming quarters.

Economic Overview

Since the financial crisis interstate movements have declined

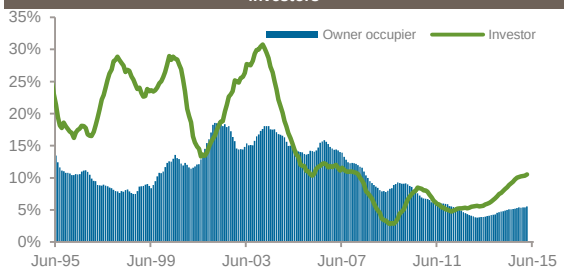
- At a national level there is no net interstate migration however, recent trends in home value growth are somewhat explained by the change in migration flows between the states and territories.
- Over the 12 months to December 2014, New South Wales has recorded its lowest level of net interstate migration loss on record while Victoria is recording record high net gains from interstate migration.
- New South Wales has always been a net loser from interstate migration however, interstate movements have declined significantly since the financial crisis.
- Victoria has also generally recorded a net loss from interstate migration however, the inflow of interstate migrants has now consistently been positive since March 2009.
- The slowdown in the outflow of residents from New South Wales and Victoria has had a significant impact on net interstate migration to Queensland and Western Australia.
- Over the 12 months to December 2014, Queensland recorded one of its lowest levels of net interstate migration on record at just 5,598 persons. Western Australia recorded a net loss of 400 residents, its lowest level of interstate migration since September 2003.

Net annual interstate migration across the major states



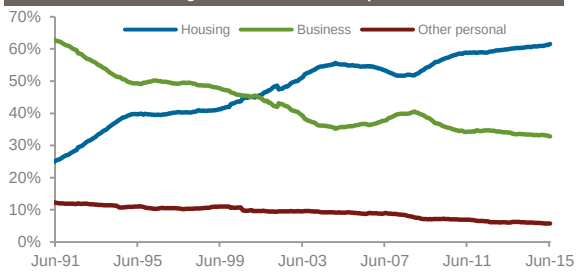
Source: CoreLogic, ABS

Annual change in outstanding housing credit - owner occupiers vs. investors



Source: CoreLogic, ABS

Total outstanding credit to Australian ADIs - housing vs. business vs other personal



Source: CoreLogic, ABS

Housing credit keeps expanding with investment lending gathering the most pace

- Over the 12 months to June 2015, total housing credit has increased by 7.3%, it has remained stable at this level for the past four months
- Owner occupier housing credit has risen by 5.5% over the past year while investor housing credit has increased by 10.7%, its fastest annual rate of growth since January 2008.
- Late in 2014, APRA wrote to Australian Authorised Deposit-taking Institutions (ADIs) to advise of sound lending practices, one of the specific concerns was around ADIs growing the investment segment of their loan book materially above 10% per annum current investor housing credit growth has breached this threshold.
- The rising credit is reflective of the preparedness of banks to lend for housing as well as strong demand for mortgages, particularly the investor segment, at a time when mortgage rates are at such low levels.
- Over recent months many ADIs have made changes to their lending policies, particularly in relation to investors and we would expect this area of lending to begin to moderate back towards growth of 10% pa over the coming months.

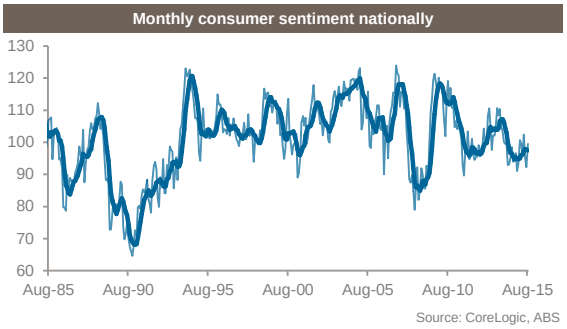
Banks have much more credit outstanding for housing than for business and personal lending

- As at June 2015, the total value of outstanding credit to Australian authorised deposit-taking institutions (ADIs) was $2.407 trillion.
- Looking at the break-down of where this credit is outstanding shows that most is in the form of mortgages. With $1.480 trillion outstanding for mortgages, mortgages account for 61.5% of outstanding credit compared to $789.7 billion (32%) to business and $136.9 billion (5.7%) for other personal loans.
- Australian ADIs have a clear preference for mortgage lending over personal and business lending.
- In fact, housing has consistently accounted for more than half of all outstanding credit to ADIs since April 2003.
- The low arrears rates over recent years has resulted in this preference by ADIs with business and personal lending significantly more risky than mortgage lending over recent years.

Economic Overview

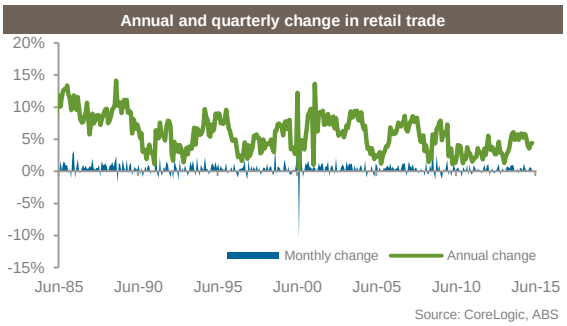
Consumer sentiment data shows consumers are slightly more pessimistic than optimistic

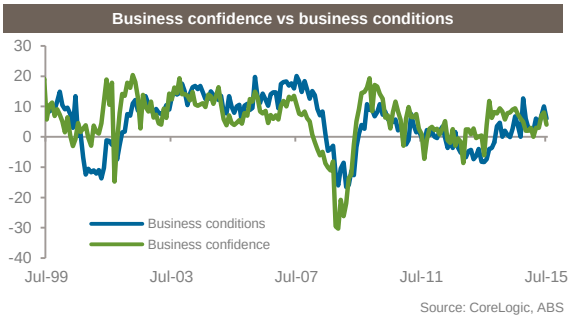
- According to Westpac and the Melbourne Institute, the Index of Consumer Sentiment was recorded at 99.5 points in August 2015.
- A reading above 100 points indicates that respondents are more optimistic than pessimistic.
- The 99.5 reading was one of the stronger recent readings for a month where the RBA didn't cut official interest rates.
- Sentiment has generally been negative since the beginning of 2014 showing higher levels of caution from Australian consumers.



Retail trade is still rising

- Over the 12 months to June 2015, retail trade has increased by 4.9%.
- Although retail trade is still increasing it has slowed from a recent peak annual rate of 6.1% in January 2014.
- Retail trade has increased over the year in each state and territory except the Northern Territory.
- Retail trade increases have been strongest in South Australia and New South Wales over the past year.
- Household goods retailing has seen the greatest increase in trade over the year, up 11.2%, indicating that these retailers are clearly benefitting from the lift in home values and sales.
- There have also been significant annual increases in turnover for clothing, footwear and personal accessory retailing (5.4%) and cafes, restaurants and takeaway food services (5.2%).
- Growth in retail trade for department stores (1.9%), food (3.2%) and other retailing (3.2%) has been much more mild over the year.





Business conditions and confidence have improved a little over recent months

- Both business conditions and business confidence as measured by the National Australia Bank are recorded at moderate levels of 6 and 4 points respectively.
- The recent improvement in levels of confidence and conditions suggests that businesses may be more confident about their fortunes moving forward.
- If businesses are seeing confidence improve they will generally be more inclined to borrow money, furthermore they would generally be more inclined to create new roles for staff. This of course would be a positive development given that unemployment is currently high relative to levels over recent years.

Where to From Here

At a broad national level, capital city housing markets have generally responded positively to the stimulus of low interest rates. The number of homes transacting has risen over the past three years and subsequently the value of Australian dwellings have also risen. While the headline combined capital cities data indicates a resurgent market, if you dig deeper you see that is not necessarily the case. Although the number of sales and the value of homes have increased across each of the capital city housing markets, during some point of the past three years, the strongest increases in home values have been experienced in our two largest cities. While home sales have risen across the cities, sales volumes have remained well below previous peaks.

Across the combined capital cities, home values have been consistently rising since June 2012. Over this period; home values have increased across all cities however Sydney and Melbourne have recorded much greater increases in home values with all other capital cities recording cumulative growth of less than 15%. Ever since values started to rise in January 2009 following falls of around 6% over 9 months during the financial crisis Sydney and Melbourne have been the standouts for capital growth. Over this period Sydney home values are 74.4% higher, Melbourne values are 64.5% higher and Darwin has recorded the third greatest increase in values at a comparatively moderate 22.7%. This data suggests that interest rates are not the only reason for capital growth, particularly considering that the growth has been very much focussed on only Sydney and Melbourne. Demographic factors and labour market conditions in Sydney and Melbourne are likely to be major contributors to the much greater level of capital growth that has taken place in these cities.

Combined capital city home values have increased by 11.1% over the past year, which is slightly lower than the recent peak rate of annual growth recorded at 11.5% in April 2014. Over recent months there has been a rebound in capital growth which has been particularly strong in Sydney and Melbourne. Outside of these two cities the rate of capital growth has remained fairly moderate with annual falls recorded in Perth and Darwin.

With sales and values having lifted over the past three years, this has been a positive development for those who already own a home, particularly considering most Australians choose to store a majority of their wealth in residential housing. For those people that don't already own a home, higher prices make it more difficult to save a deposit for their first home. Unfortunately, the fact that so few homes are built by the public sector means that the private sector generally needs to see an increase in sales activity and some associated increase in home values to make it financially viable to develop new housing. As a result, we are seeing extremely low levels of purchasing activity by first home buyers, despite the fact that mortgage rates are at historically low levels. Anecdotally, it appears that many first time buyers prefer to buy an investment property rather than a principal place of residence, which means they are not counted in the official first home buyer statistics from the Australia Bureau of Statistics.

With transactions and values rising we have seen a big upswing in dwelling approvals and construction over the year. Over the 12 months to June 2015 there were a record high 220,423 houses and units approved for construction. This has resulted in a much needed improvement in housing supply, particularly within capital cities where the supply deficiency is often greatest. Although approvals have risen we have seen record high levels of unit approvals which are less likely to be commenced and ultimately constructed compared to houses. Given this it will be interesting to see just how many of these units being approved for construction are ultimately completed. Furthermore, we are watching closely in markets such as Melbourne and Brisbane where new unit supply levels are untested at a time when rental growth is already at record low levels and value growth for units is much lower than it is for houses.

With values rising by the greatest amount in Sydney and Melbourne we have also seen a pick-up in activity in these areas (and others) by the investor segment of the market. The proportion of total housing finance commitments to investors, at a national level, is currently at close to record high levels. This highlights a strong surge in investment activity and when you consider low interest rates and quite high value growth in Sydney and Melbourne, the housing market is undoubtedly an attractive option particularly when you borrow with the equity in your home. This heightened level of investment activity isn't without risks. Housing is typically viewed as a long-term asset class, if investors are entering the market chasing short-term capital gains there is the risk of these investors trying to exit just as quickly once those gains are no longer there. Of course, housing is not a liquid asset and most investors are targeting similar properties (particularly inner-city units). If many looked to exit at the same point in the future it could place downwards pressure on values across this segment of the market. The Reserve Bank is also concerned about the heightened risks associated with such a high level of investment activity. APRA has recently written to Australian ADIs re-iterating what sound home lending principles look like and informing them they will be stepping up their surveillance. We have recently seen many ADIs making changes to their lending policies with a particular focus on investment loans.

Where to From Here

Many home owners are taking advantage of the low mortgage rate environment to refinance their mortgage. The high level of refinancing indicates many mortgagees are shopping around for a better deal on their mortgage. Home owners may also be withdrawing some of their equity or refinancing with the intention to purchase an investment property.

With the market viewing that interest rates are likely to remain at their current low settings for the foreseeable future, we expect dwelling values will continue to increase. Although values are expected to rise further it is likely to occur at a more moderate pace, particularly as banks continue to adjust their lending policies to ensure that they meet APRA's guidelines.

In Sydney and Melbourne in particular the much higher rate of value growth is eventually expected to moderate. The differential in housing costs between these cities and other capitals has expanded significantly and buyers at the more affordable end of the market are being priced out of ownership. These factors, as well as very low rental yields, are likely to be the primary barriers to higher housing demand in these locations. Notwithstanding the fact that home values have been recording consistently strong growth in these two markets for more than three years now.

Overall, home values are expected to continue to rise with the potential for the rate of growth to slow over the coming months as ADIs continue to adjust their lending policies. Demand in the housing market is expected to continue to be driven by home owners upgrading into more expensive homes and investors looking to target capital growth. It seems unlikely that the low level of activity by first home buyers will reverse any time soon despite low mortgage rates. While it is anticipated that values will continue to rise, the moderation in growth in rental rates is likely to persist as more new housing stock comes on line. The sluggish rate of rental growth is can likely be attributed to the very high level of investment activity which inherently creates a higher level of rental homes available for occupation. The new rental stock is adding to the rental market pool and giving renters more power at the time of lease renewal.

Based on these conditions it is clear why regulators such as APRA, ASIC and the RBA are vigilant about the lending sector maintaining prudent lending standards. From a buyers perspective they must consider that mortgage rates are at historic low levels and over the life of a mortgage they are likely to vary. As such they need to factor in a buffer and ensure that they can repay the mortgage once mortgage rates eventually move higher. Investors in particular should tread carefully, we are now more than three years into this growth phase and it is surely now closer to its end than its commencement. Although returns are currently strong, yields are low and capital gains are at the mature end of the growth cycle. Housing is not a liquid asset that is easy or cheap to dispose of once conditions change.

Although the housing market is recording growth and dwelling approvals have increased significantly the rest of the economy is not as strong. Consumer sentiment has highlighted higher levels of pessimism for most of the past year. Wages are growing at their lowest annual rate on record. The unemployment rate sits at 6.3% and continues to hover around its highest level in more than a decade. Population growth is slowing and although this may be a seen as a good thing by some, GDP per capita is already increasing well below the rate of headline GDP and this may drag down economic growth. Commodity prices have sunk significantly since peaking in late 2011. Finally business conditions and business confidence remain relatively low.

Although the RBA has stated that they are looking for housing to fill the void left by the slowing resources sector, the housing market is still facing some headwinds despite the low mortgage rate environment. Transaction numbers have begun to level, rental yields have been compressed and affordability is becoming problematic in cities such as Sydney and Melbourne where values have moved substantially higher. We would argue that the economy as a whole needs more than just housing as a positive to effectively manage the transition as resource investment slows. The recent fall in the Australian dollar may help other sectors such as tourism, manufacturing and education however, any such improvement is likely to take some time yet.

About CoreLogic RP Data

CoreLogic RP Data is a wholly owned subsidiary of CoreLogic (NYSE: CLGX),which is the largest data and analytics company in the world with revenues of $1.3Bn USD from 50,000 business and government customers and over 1 million end users. CoreLogic RP Data provides property information, analytics and services across Australia and New Zealand and is currently developing and growing partnerships throughout Asia.

With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources and includes over 500 million decision points spanning over three decades of collection, providing detailed coverage of property and other encumbrances such as tenancy, location, hazard risk and related performance information. With over 11,000 customers and 120,000 end users, CoreLogic RP Data is the leading provider of property data, analytics and related services to consumers, investors, real estate, mortgage, finance, banking, insurance, developers, wealth management and government.

CoreLogic RP Data delivers value to clients through unique data, analytics, workflow technology, advisory and geo spatial services. Clients rely on CoreLogic RP Data to help identify and manage growth opportunities, improve performance and mitigate risk. CoreLogic RP Data employs over 480 people at nine locations across Australia and in New Zealand. For more information call 1300 734 318 or visit www.corelogic.com.au

Granular Data and Analytics Driving Growth in your Business
CoreLogic RP Data produces an advanced suite of housing market analytics that provides key insights for understanding housing market conditions at a granular geographic level. Granular data is often used for portfolio analysis and benchmarking, risk assessments and understanding development feasibility and market sizing. It gives industry professionals valuable modules which provide essential analytics and insights for decision making and strategy formation within the residential property asset class. We can tailor reports to suit your business requirements. **Call us on 1300 734 318 or email us at ask@corelogic.com.au or visit us at www.corelogic.com.au**

Market Scorecard: Monitor and measure performance of an individual office or a Franchise brand month on month through a detailed view of the Real Estate Listing and Sales market share across Australia. With the ability to gather market share statistics within your active market this product is designed to identify the competing brands and independents at a suburb, postcode, user defined territory and State level. Easily locate growth opportunities and market hotspots allowing you to view the performance of the established offices in these new areas of interest.

Market Trends: Detailed housing market indicators down to the suburb level, with data in time series or snapshot delivered monthly. CoreLogic RP Data's Market Trends data is segmented across houses and units. The Market Trends data includes key housing market metrics such as median prices, median values, transaction volumes, rental statistics, vendor metrics such as average selling time and vendor discounting rates.

CoreLogic RP Data Indices: The suite of CoreLogic RP Data Indices range from simple market measurements such as median prices through to repeat sales indices and our flagship hedonic home value indices. The CoreLogic RP Data Hedonic index has been specifically designed to track the value of a portfolio of properties over time and is relied upon by Australian regulators and industry as the most up to date and accurate measurement of housing market performance.

Economist Pack: A suite of indices and indicators designed specifically for Australian economic commentators who require the most up to date and detailed view of housing market conditions. The economist pack includes the CoreLogic RP Data Hedonic indices for capital cities and 'rest of state' indices, the stratified hedonic index, hedonic total return index, auction clearance rates and median prices.

Investor Concentration Report: Understanding ownership concentrations is an important part of assessing risk. Areas with high investor concentrations are typically allocated higher risk ratings due to the over-representation of a particular segment of the market. Through a series of rules and logic, CoreLogic RP Data has flagged the likely ownership type of every residential property nationally as either owner occupied, investor owned or government owned.

Mortgage Market Trend Report: CoreLogic RP Data is in a unique position to monitor mortgage related housing market activity. Transaction volumes, dwelling values and mortgage related valuation events all comprise our Mortgage market trend report which provides an invaluable tool for mortgage industry benchmarking and strategy.

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CoreLogic®

Email us at ask@corelogic.com.au

1300 734 318

www.corelogic.com.au