The QBE Australian Housing Outlook 2018-2021

QBE

About this report

Produced by BIS Oxford Economics for QBE Lenders' Mortgage Insurance.

This report provides an analysis and forecast of the key drivers influencing the residential housing market nationally, as well as across each of Australia's state and territory capital cities and selected regional centres. The analysis presents an outlook for the performance of the residential market, as measured by historical and forecast movement in the median house price and median unit price. The forecast annual percentage changes in the median house price and median unit price in the price forecast charts in this report are often rounded to the nearest whole number. Any reference to price growth in the text may not be identical to that indicated in the charts due to the impact of this rounding.

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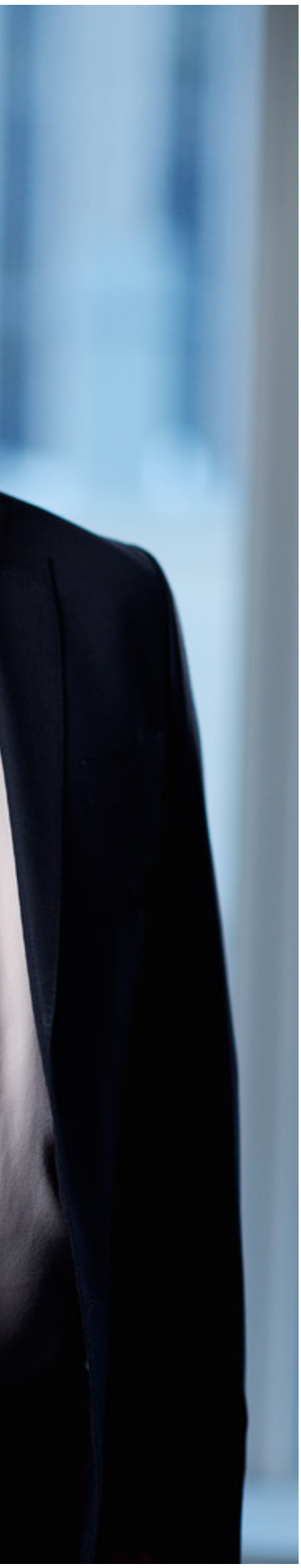

Welcome to

The QBE Australian HousingOutlook 2018-2021

Australia reached a major milestone on 7 August 2018 when our population reached 25 million. Natural population growth and international migration combined to achieve this milestone quicker than most forecasters predicted. And, of course, everybody needs somewhere to live.

But it's not just bricks and mortar that motivates us. We're a diverse nation with different wants and needs. The views that matter aren't just the ones we see from our living room windows; they're also the ones that drive how and where we want to live.

This is a special year for the QBE Australian Housing Outlook. It's the 17th year we've partnered with BIS Oxford Economics to produce this report. It's also the 10th anniversary of QBE Lenders' Mortgage Insurance. We're proud of our history of helping Australians achieve the dream of home ownership and the roots of our business reach back to 1965.

It's fitting that this year's report takes a closer look at what drove demand during the past 10 years and what changes we can expect over the next decade. In our feature *Millennials moving on up* we've identified one of the most compelling residential property challenges of current times: where will today's Millennials live when they transition into their next life stage?

We are now seeing the predicted softening in both the Sydney and Melbourne markets after many years of growth. First time home buyers are surging back into these markets replacing some of the demand left by retreating investors.

Australia's property market is not homogenous. Over the past year, the performance of our capital cities and regional centres have differed considerably. And this divergent performance is expected to continue over the next three years.

Meanwhile, our growing population and the natural desire to form independent households necessitates that the residential property market must evolve to meet our changing needs.

I hope you enjoy this year's QBE Australian Housing Outlook.

Phil White
CEO
QBE LENDERS' MORTGAGE INSURANCE

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Spotlight

Millennials moving on up

The Millennial population, who are typically born between 1981 and 1996, represent the most influential age cohort in today's residential property market. The Millennials are a significantly larger group than Generation X, those born between 1965 and 1981.

Economic outlook

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Australian housing snapshot

Economic indicators 2021 forecast

Cash rate

2.0%

2018 **1.5%**

Employment growth

1.9%

2018 **2.5%**

Unemployment rate

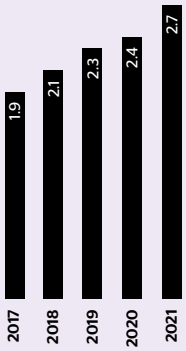
5.3%

2018 **5.3%**

Consumer Price Index (CPI) growth

2.7%

2018 **2.1%**



Gross Domestic Product (GDP) growth

2.9%

2018 **2.9%**

Overseas migration

240,421

year to December 2017

1.4%

from December 2016

Housing affordability

29.6%

at June 2018

Population

25,000,000

from 7 August 2018

1.4%

from 7 August 2017 (est)

Change in home loan activity 2017/18

First home buyer

28.4%

Non first home buyer

3.4%

Investors[1]

11.1%

1 based on value of investor loans

House commencements

'000s pa
107.1
10 years to 2018

'000s pa
115.2
five years to 2018

Vacancy rates
at June 2018

Sydney 2.5%
2017 **1.8%**

Brisbane 2.2%
2017 **2.8%**

Melbourne 1.9%
2017 **2.2%**

Perth 5.6%
2017 **7.3%**

Unit commencements

'000s pa
78.9
10 years to 2018

'000s pa
101.3
five years to 2018

Unit dwellings
as a proportion of total dwelling commencements

42%
10 years to 2018

47%
five years to 2018

Total dwelling commencements

186.0 '000s pa
10 years to 2018

216.5 '000s pa
five years to 2018

States at a glance

	NSW	VIC	QLD	WA
Population at December 2017	7,915,069	6,385,849	4,965,033	2,584,768
Five-year growth	7.6%	11.8%	7.7%	5.2%
ANNUAL MOVEMENT 2017/18				
FHB loans	73.6%	36.0%	8.2%	3.3%
Non FHB loans	-3.6%	1.3%	-5.6%	-10.3%
Investor loans (value)	-12.3%	-6.2%	-18.9%	-11.7%

	Sydney	Melbourne	Brisbane	Perth
Median house price at June 2018	$1,103,500	$856,000	$552,300	$523,900
Annual movement (year to June)	-7.6%	-1.6%	0.6%	-0.8%
Forecast median house price growth 2018-2021	-1.2%	-2.5%	11.3%	5.0%
Median unit price at June 2018	$768,700	$556,700	$427,000	$390,500
Annual movement (year to June)	-4.7%	-0.1%	-1.0%	-5.4%
Forecast median unit price growth 2018-2021	-3.1%	-2.1%	-5.1%	3.7%
Vacancy rates (at June 2018)	2.5%	1.9%	2.2%	5.6%
Annual rental movement (to June 2018)	2.2%	1.9%	-0.5%	-6.6%
Affordability[1]	34.9%	35.7%	23.1%	21.0%

1 Housing affordability is shown as mortgage repayments at the prevailing standard variable rate based on 75% of the median house price as a percentage of average household disposable income.

SA	TAS	ACT	NT	
1,728,053	524,677	415,916	246,726	Population at December 2017
3.9%	2.5%	9.5%	3.4%	Five-year growth
				ANNUAL MOVEMENT 2017/18
11.3%	6.8%	46.1%	25.5%	FHB loans
-6.3%	-2.0%	6.2%	-8.0%	Non FHB loans
-9.8%	9.7%	-4.6%	-21.3%	Investor loans (value)

Adelaide	Hobart	Canberra	Darwin	
$493,900	$481,800	$675,000	$500,000	Median house price at June 2018
3.0%	10.6%	0.7%	-7.4%	Annual movement (year to June)
12.4%	7.9%	10.4%	6.0%	Forecast median house price growth 2018-2021
$376,300	$384,200	$439,000	$382,000	Median unit price at June 2018
4.0%	16.0%	-1.6%	-18.7%	Annual movement (year to June)
6.3%	9.3%	5.9%	-4.5%	Forecast median unit price growth 2018-2021
2.3%	1.7%	0.8%	5.6%	Vacancy rates (at June 2018)
0.7%	3.5%	2.7%	-5.8%	Annual rental movement (to June 2018)
19.3%	23.1%	15.1%	12.1%	Affordability[1]

Lay of the land

Supply is mixed as markets soften

The slowdown in most residential markets that emerged over 2017/18 is expected to continue into 2018/19 and potentially 2019/20. Bank lending practices towards borrowers, and in particular towards investors, in response to initiatives undertaken by the financial regulators, have tightened and this will be an overriding influence on the residential market.

Large numbers of new dwelling completions are also having an increasing influence on supply. A record 219,000 new dwellings were completed in 2016/17 and a further 217,000 are expected to have been completed in 2017/18. This will have a further dampening effect on the market, with owner occupier demand also likely to weaken as slowing price growth and longer selling periods discourage owners from selling their existing dwelling to upgrade. Nevertheless, any downturn in prices is likely to be moderate. A generally positive economic environment and continued low interest rates will support borrowers and prevent too many forced sales coming to the market to depress prices.

Demand and supply

The market will, however, be supported by strong population growth. Net overseas migration has begun to trend downward to be around 230,000 in 2017/18 but is forecast to remain high in a long-term sense, averaging 220,000 per annum over the three years to 2020/21 – significantly higher than the prior 20-year average of 183,000 per annum. The solid rise in population will underpin demand for new dwellings and help meet the high level of new supply coming online. Despite a record underlying demand of 200,000 dwellings per annum in the three years to 2020/21, there is still likely to be an oversupply in most markets because of all the new supply coming online. Only New South Wales and Victoria (where most overseas migrants settle), as well as Tasmania (largely driven by interstate migration), are expected to remain in aggregate undersupply through to 2020/21, although there may be sectors within these markets where an oversupply exists.

City outlook

Despite undersupply in both the **Sydney** and **Melbourne** markets, these two cities offer some of the greatest downsides over the next three years. Investors have been a key feature of the strength of price growth in Sydney and Melbourne since 2012, accounting for over half of residential finance in their peak years. The curbs on investor lending reduce investors' ability to bid up prices to compete with owner occupiers, who in turn are already facing challenging affordability after the recent strong growth. Marginal buyers in these more expensive markets may also be influenced by the out-of-cycle increase in lending rates in 2018. **Hobart** and **Canberra** are forecast to experience another year of solid price growth in 2018/19 before price growth begins to slow as rising construction and diminished affordability influences prices. In **Adelaide**, with conditions remaining relatively steady, the recent moderate price growth is forecast to continue.

Prospects for price growth in the **Brisbane**, **Perth**, and **Darwin** residential markets in the short term remain weak, but by 2020/21 an upturn in prices is expected to emerge. The dwelling oversupply is likely to be substantially eroded, while improved affordability is anticipated to be a trigger for price growth as economic conditions strengthen around the turn of the decade.

Median prices by capital city quarter ended June 2018

Houses

	Sydney		Melbourne		Brisbane		Perth		Adelaide		Hobart		Canberra		Darwin	
	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var
Forecast growth (%)																
2018-2021		-1.2		-2.5		11.3		5.0		12.4		7.9		10.4		6.0
Forecast																
2021	1,090.0	2.3	835.0	1.2	615.0	6.0	550.0	4.8	555.0	4.7	520.0	1.0	745.0	4.2	530.0	2.9
2020	1,065.0	0.0	825.0	0.6	580.0	3.6	525.0	1.9	530.0	3.9	515.0	2.0	715.0	2.9	515.0	2.0
2019	1,065.0	-3.5	820.0	-4.2	560.0	1.4	515.0	-1.7	510.0	3.3	505.0	4.8	695.0	3.0	505.0	1.0
Prior years																
2018	1,103.5	-7.6	856.0	-1.6	552.3	0.6	523.9	-0.8	493.9	3.0	481.8	10.6	675.0	0.7	500.0	-7.4
2017	1,194.8	14.1	869.8	16.2	548.8	1.7	528.3	-5.6	479.6	3.5	435.7	9.2	670.0	8.2	540.0	-6.3
2016	1,047.3	2.5	748.8	7.3	539.7	5.2	559.4	-3.9	463.3	4.2	398.8	10.8	619.0	7.7	576.0	-5.6
2015	1,022.2	24.1	697.7	15.6	512.8	4.3	582.2	-2.6	444.4	2.1	360.0	0.2	574.5	4.5	610.0	-1.7
2014	824.0	17.3	603.6	10.5	491.6	6.3	597.8	4.9	435.4	6.3	359.1	6.4	550.0	1.9	620.8	1.4
2013	702.4	8.2	546.3	3.4	462.5	4.0	569.8	10.7	409.7	0.5	337.4	-1.8	540.0	5.9	612.0	7.4
2012	649.1	-0.4	528.4	-5.3	444.6	-2.9	514.7	-1.6	407.7	-3.0	343.6	-2.0	510.0	-1.9	570.0	10.7
2011	651.6	-0.4	558.2	-3.5	457.7	-5.7	522.9	-3.9	420.2	-2.0	350.5	-2.1	520.0	4.0	515.0	-7.3
2010	654.5	15.1	578.4	24.8	485.3	9.1	544.3	9.3	428.7	11.5	358.0	9.2	500.0	10.7	555.3	18.2
2009	568.6	1.2	463.5	0.1	444.8	-3.2	498.0	-1.9	384.6	-2.6	327.9	3.0	451.8	-3.8	469.9	11.0
2008	561.8	1.0	463.1	11.1	459.3	13.1	507.8	-1.8	394.8	18.3	318.3	4.6	469.5	6.1	423.3	7.2
2007	556.4	2.7	416.9	11.2	406.1	16.0	517.0	9.8	333.7	9.6	304.2	6.1	442.5	13.5	395.0	12.9
2006	541.7	-0.9	374.7	7.5	350.2	7.0	470.8	48.7	304.6	7.6	286.8	13.2	390.0	6.0	350.0	25.1
2005	546.6	0.9	348.6	4.0	327.2	2.1	316.6	13.8	283.0	6.3	253.4	6.6	368.0	-1.9	279.8	9.7
2004	541.9	6.7	335.0	7.0	320.5	29.1	278.2	15.6	266.2	17.3	237.8	59.9	375.0	13.7	255.0	23.8
2003	507.8	15.7	313.0	9.8	248.3	27.4	240.7	16.3	226.9	24.5	148.7	25.7	330.0	29.4	206.0	3.0
2002	438.7	20.8	285.1	18.7	194.9	17.9	207.0	12.1	182.3	17.2	118.3	4.8	255.1	21.5	200.0	7.0
2001	363.1	17.5	240.2	7.4	165.3	2.7	184.6	4.6	155.5	6.7	112.9	-0.3	210.0	14.1	187.0	-1.8

Units

	Sydney		Melbourne		Brisbane		Perth		Adelaide		Hobart		Canberra		Darwin	
	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var	$'000	% Var
Forecast growth (%)																
2018-2021		-3.1		-2.1		-5.1		3.7		6.3		9.3		5.9		-4.5
Forecast																
2021	745.0	1.4	545.0	0.9	405.0	0.0	405.0	3.8	400.0	2.6	420.0	1.2	465.0	3.3	365.0	2.8
2020	735.0	0.0	540.0	0.0	405.0	-2.4	390.0	1.3	390.0	2.6	415.0	2.5	450.0	2.3	355.0	1.4
2019	735.0	-4.4	540.0	-3.0	415.0	-2.8	385.0	-1.4	380.0	1.0	405.0	5.4	440.0	0.2	350.0	-8.4
Prior years																
2018	768.7	-4.7	556.7	-0.1	427.0	-1.0	390.5	-5.4	376.3	4.0	384.2	16.0	439.0	-1.6	382.0	-18.7
2017	806.2	8.6	557.1	6.3	431.4	0.5	412.9	0.1	361.8	6.4	331.1	-0.6	446.0	2.5	470.0	-6.0
2016	742.4	2.8	524.0	3.2	429.1	-0.6	412.6	-4.7	340.0	2.1	333.1	10.6	435.0	1.6	500.2	4.2
2015	722.1	15.5	508.0	4.9	431.8	4.3	432.9	-1.8	332.9	-2.1	301.1	-6.0	428.0	4.4	480.0	-1.0
2014	624.9	13.2	484.1	6.1	413.9	4.9	440.9	1.3	340.0	4.2	320.2	3.4	409.9	0.0	485.0	4.5
2013	552.2	6.6	456.3	2.5	394.6	1.0	435.3	6.4	326.5	2.4	309.6	4.6	410.0	-2.4	464.0	6.7
2012	517.9	4.3	445.3	-3.2	390.7	-0.3	409.1	1.8	318.9	-4.4	295.8	1.3	420.0	0.0	435.0	2.4
2011	496.4	2.2	460.1	0.0	391.9	-2.6	401.8	-3.0	333.5	-0.8	291.9	-0.4	420.0	1.2	425.0	-2.9
2010	485.6	15.7	460.3	18.3	402.2	6.8	414.3	7.7	336.3	12.1	293.1	7.1	415.0	10.7	437.6	15.1
2009	419.9	3.0	388.9	4.4	376.5	-2.9	384.5	-0.9	300.0	2.3	273.7	4.9	375.0	7.1	380.1	15.5
2008	407.5	-0.1	372.6	7.7	387.8	11.4	388.0	0.9	293.2	15.7	261.0	7.6	350.0	-1.4	329.0	17.8
2007	408.2	1.6	345.9	12.7	348.2	13.2	384.5	11.3	253.5	10.2	242.6	-3.0	355.0	9.2	279.3	4.4
2006	401.7	0.8	307.0	6.2	307.7	10.2	345.6	34.2	229.9	5.5	250.3	14.0	325.0	4.2	267.5	32.1
2005	398.3	1.2	289.2	1.6	279.3	9.1	257.5	15.6	217.8	6.6	219.5	6.2	312.0	4.0	202.5	6.6
2004	393.7	3.4	284.5	1.3	256.0	20.6	222.8	6.0	204.3	11.9	206.7	45.0	300.0	15.4	190.0	20.9
2003	380.7	3.8	280.8	6.0	212.2	10.1	210.1	19.9	182.5	30.0	142.6	26.5	260.0	20.4	157.1	2.8
2002	366.9	14.2	264.9	19.0	192.7	4.0	175.2	16.4	140.4	10.9	112.7	10.4	216.0	39.4	152.8	7.8
2001	321.2	9.0	222.5	11.6	185.2	1.2	150.4	8.5	126.6	16.0	102.1	-11.6	155.0	9.2	141.8	1.1

Home making

Return of the first home buyer as incentives entice

Sydney house market

Limited supply, a low interest rate environment and robust investor demand led to strong price growth in Sydney over the five years to June 2017.

Market conditions

The median house price peaked at $1,194,800 over this period, growing by a cumulative 84% (or roughly 13.0% per annum).

However, supply is now rising. Annual dwelling completions in New South Wales (NSW) over the two years to June 2018 were 113% higher than the 10 year average between 2006 and 2016, and the NSW dwelling shortage has begun to fall sharply through 2017/18. In Sydney, vacancy rates have increased to 2.5% as at the June 2018 quarter, up from 1.8% 12 months earlier. The increase in vacancy rates has been most significant in the middle ring suburbs where the vacancy rate increased to 2.8% in the June quarter – the highest level since September 2012. This comes as the middle ring suburbs have experienced the greatest increase in new apartment supply through this cycle.

An uptick in dwelling completions and slowing population growth have reduced upward pressure on prices. Together with tightened credit conditions, house prices declined in 2017/18 for the first time in six years. The Greater Sydney median house price at June 2018 was $1,103,500, representing a 7.6% decline on a year earlier. After seeing the strongest price growth in the 12 months prior, the inner and middle ring suburbs of Sydney have seen the largest fall in prices over 2017/18 (falling by 8.1% and 10.6% respectively). Outer Sydney saw a more moderate decline of 2.8% over the same period, which was likely supported by its relative affordability appealing to first home buyers.

Investors

Sydney has been most impacted by the measures introduced by APRA to restrict interest only lending (favoured by investors). Investors in 2014/15 accounted for over 60% of residential property finance activity. Banks have both limited the availability of interest only loans and raised interest rates on these loans. As a result, the value of loans to investors in NSW fell by 12.3% in 2017/18. Tight yields and lower potential for capital gains over the medium term is likely to further discourage investors, and further falls in investor activity is expected.

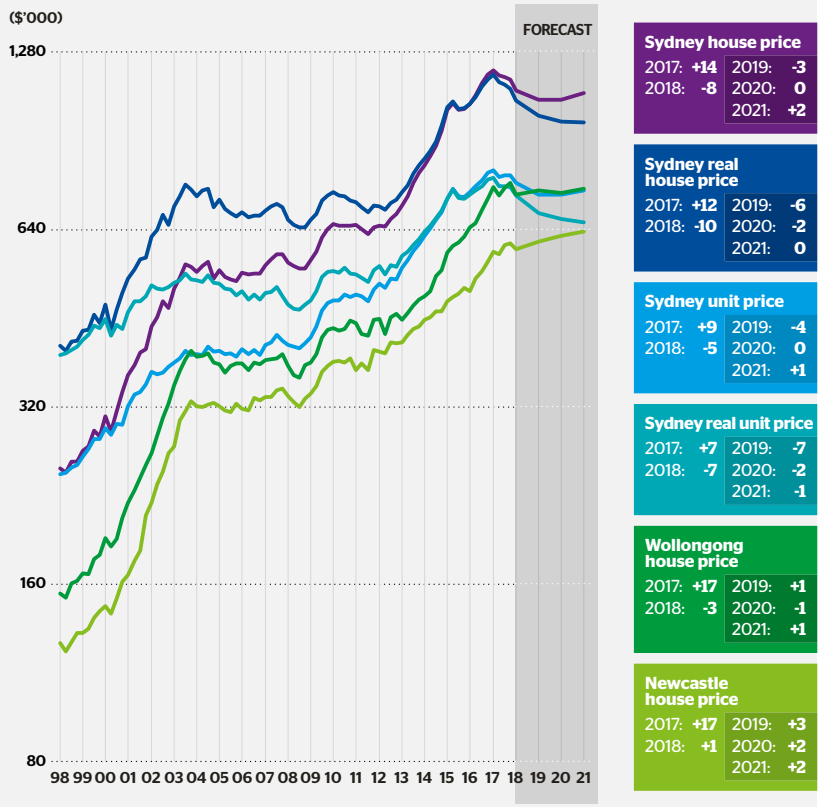
Owner occupiers

Owner occupier lending has spiked in more affordable areas with the introduction of further stamp duty concessions for first home buyers introduced in July 2017. First home buyer lending picked up by 74% in the 12 months to June 2018. This surge in first home buyer lending has outweighed the easing in lending to non-first home buyers which fell by 3.6% in 2017/18 as this segment of the market have become reticent to upgrade or downgrade in the current soft market.

Outlook

Record dwelling completions are expected in 2018/19 with a strong pipeline of apartment construction likely to keep total completions elevated. Softness in the apartment market will have flow on effects for housing by both keeping potential buyers in rental for longer, as well as encouraging potential buyers to opt for an affordable apartment over a house. The combination of increasing numbers of apartments coming online, weaker underlying demand, an out-of-cycle interest rate rise in August 2018 and weaker investor activity is expected to cause a further fall in the median house price of 3% over 2018/19. Prices are expected to bottom out over 2019/20, around 11% below the market peak in 2016/17. The impact of slowing supply is likely to cause the market to tighten over the following year, with forecast 2% growth to take the median house price to $1,090,000 by June 2021.

New South Wales: dwelling prices



Sydney unit market

The strong pipeline of dwelling supply, while also occurring in detached houses, has largely occurred in the apartment market. The year to June 2018 has been marked by a record number of apartment completions in Greater Sydney.

Median unit price

Price growth in the Sydney unit market has been lower than for detached houses. Correspondingly, the decline in unit prices has also been lower. The median unit price has fallen 4.7% in the year to June 2018, compared to a 7.6% fall in the median house price.

Although a tighter lending environment has impacted prices, the more affordable cost of apartments has meant that the stamp duty exemption for first home buyers (on purchases up to $650,000) has supported demand in the unit sector.

Outlook

The inner and middle ring unit market presents first home buyers with a viable option under the threshold for stamp duty exemption. First home buyer activity is expected to continue to support demand in this market segment.

However, buoyant first home buyer demand is likely to be outweighed by weaker investor demand with further falls in unit prices expected over 2018/19. With the Sydney market remaining in deficiency, rental growth is expected to remain positive with rising yields expected to attract investors from 2020/21. Sydney's median unit price is expected to reach $745,000 by June 2021 – around 7.6% lower than June 2017 levels.

New South Wales and Sydney regions

Sydney median house price annual % change

Inner	Middle	Outer	Median
-8.1%	-10.6%	-2.8%	-7.6%

Regional New South Wales

Residential property prices in Newcastle and Wollongong are significantly influenced by the Sydney market. The key driver behind growth in house prices in these regional centres is the relative affordability in comparison to metropolitan Sydney.

Regional New South Wales centres

❶ Wollongong region

Wollongong is the largest city in the Illawarra region and maintains a diversified economy. Improving economic conditions have increased employment prospects in Wollongong and the surrounding Illawarra region, creating an increased level of inward migration.

With better affordability and proximity to Sydney, Wollongong and the Illawarra region is an attractive destination for people working in Sydney. At the 2016 Census, 26% of full time workers residing in the Wollongong Local Government Area (LGA) commuted to Sydney for work. The region also attracts downsizers and those seeking a sea change in retirement.

The Wollongong residential market saw strong price growth averaging 15.4% per annum in the three years to June 2017. However, over the year to June 2018, median prices fell by 2.8% (to $734,900) as the surge in construction activity has been adding significant levels of supply to the residential market.

Outlook: Those looking for improved affordability compared to Sydney are likely to see Wollongong as a less attractive option than it has been previously. The median house price in Wollongong, relative to Sydney, reached 67% in June 2018 – its highest level since March 2013. This could limit the scope for prices in Wollongong to rise considering the weakened outlook for the Sydney market. In addition, a strong uptick in new dwelling supply through 2017/18 and 2018/19 is likely to further dampen price growth.

Wollongong is forecast to see house price growth totalling 2% over the three years to June 2021, taking the median house price to $750,000.

❷ Newcastle and the Hunter region

Over the five years to June 2018, Newcastle experienced solid price growth, averaging 7.6% per annum. However, this growth was significantly lower in comparison to Sydney and other major population centres in NSW due to weakening investment in the coal industry of the region.

Newcastle is further away from Sydney than Wollongong and is less connected to the Sydney employment market. Prices are more reflective of local incomes. The median house price in Newcastle sits below the threshold for the stamp duty exemption for first home buyers and therefore offers a more affordable entry into the housing market than Sydney.

Employment growth in the greater Hunter Region has strengthened and the unemployment rate in the Newcastle and Lake Macquarie region is down to 5.6% in June 2018, from 7.9% in June 2015. New dwelling commencements have picked up in recent years, culminating in an annual increase of 27% in 2017/18. The vacancy rate in the Hunter region currently sits at 1.9% (as at June 2018), down from 2.3% 12 months prior, although recently commenced projects are yet to hit the market.

Price growth
^
1%

Vacancy rates
v
1.9%

Forecast house price
^
7%

Unemployment
v
5.6%

Outlook: Newcastle's role as a logistics hub looks set to continue, which together with improving employment growth from other industries such as agriculture and tourism, is likely to bolster economic activity in the region and improve market sentiment. The market will also benefit from the proposed University of Newcastle Honeysuckle expansion project, with the first buildings planned for completion early next decade. Additionally, a number of major non-residential and infrastructure projects in the region will continue to drive employment growth and net migration inflows.

Newcastle's median house price is expected to grow a cumulative 7% to $635,000 in the three years to June 2021. There's potential for further upside if migration from Sydney increases at a greater rate, given that Newcastle's median house price underperformed relative to Sydney in recent years.

Crowded house

Population growth fuels a mixed market with units in high supply

Melbourne house market

Melbourne house prices increased by 69% over the five-and-a-half years to December 2017, although prices have recently started to retreat. Strong population growth, a dwelling deficiency and falling interest rates have been key drivers of this upturn, with solid economic conditions and employment growth maintaining a positive purchaser sentiment.

Buyer activity

House prices increased at a much stronger rate than the unit market, which has been affected by oversupply. Since the start of the year, with upgrader and downsizer activity starting to taper, and a decline in investor activity coming through, the median house price declined by 4.3% over the six months to June 2018.

Investors were a significant component of the upturn, encouraged by tight vacancy rates and low interest rates. Prices increased across the metropolitan region, with the strongest growth rates recorded in the inner and middle ring suburbs over the five-and-a-half years to December 2017. Initially, the inner and middle ring suburbs performed better than the outer ring suburbs, but since the beginning of 2015/16, median house prices have increased most in the outer ring suburbs.

Melbourne has benefitted from strong growth in first home buyer activity due to increased stamp duty concessions from 1 July 2017. Although house prices have been declining since the start of 2018 across the metropolitan area, the more affordable outer suburbs have maintained their prices since the start of the year, with very minor declines recorded. The biggest falls, which have caused the decline in metropolitan median house prices, have come from the inner and middle ring suburbs. There was a 24% decline in prices in Inner ring Melbourne. This was the result of mainly lower value houses transacting particularly in City of Melbourne and City of Stonnington, and highlighting the difficulty in selling higher value houses in the current market. While first home buyer activity is strong, non-first home buyer loans have reduced slightly since the end of 2017 and investor demand has been steadily trending downwards as credit conditions continue to tighten.

Demand and supply

Demand for new dwellings has been strong in Victoria. Over the three years to June 2018, the total population has grown by an average of 144,660 persons per annum. The level of population increase has been 21% higher than in New South Wales over the same period. Victoria is estimated to have experienced record levels of underlying demand in 2017/18, with both high net overseas and interstate migration inflows contributing to demand.

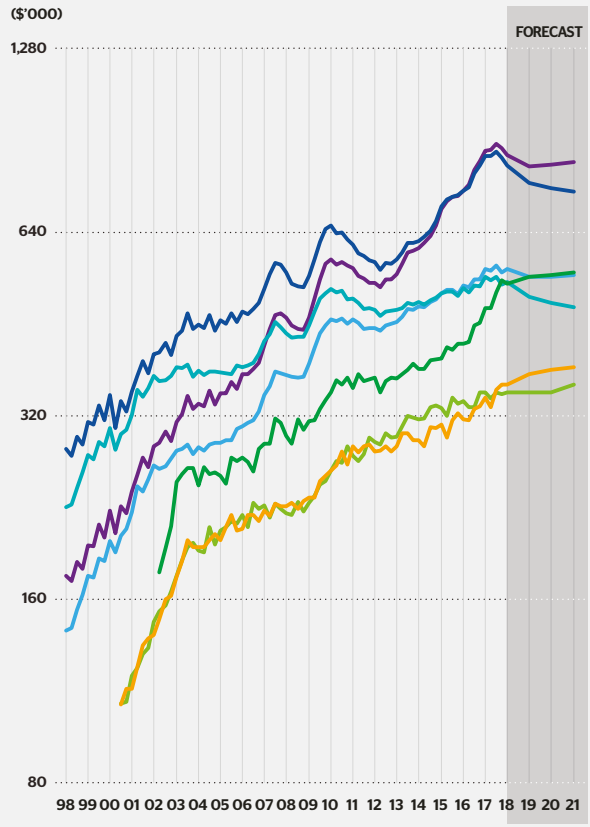
Robust demand for property has led to a strong supply response. Total house commencements are expected to reach a record level by the end of 2017/18, at around 38,300 starts – a similar level to the previous peak in 2009/10.

Outlook

Weaker investor demand and the easing in non-first home buyer demand appears to be having an influence on the Melbourne market. With affordability already strained in Melbourne, the recent out-of-cycle increase in interest rates is also likely to have some impact on demand. By the June quarter in 2019, the median house price is expected to fall to $820,000, which is around 8.4% lower than the December 2017 quarter median.

Population growth is expected to slow over the next three years. This will suppress construction activity and contribute to restrained price growth. Once the stock deficiency starts to rise from 2020/21, house prices are also expected to start rising. Economic growth is also forecast to accelerate as further new dwelling activity is triggered and business investment begins to improve after being subdued. Continuing affordability challenges means that any upturn is likely to be modest, and by the end of 2020/21, the median house price is expected to remain lower than the median price as at June 2018.

Victoria: dwelling prices



Melbourne house price	2017: +16	2019: -4
	2018: -2	2020: +1
		2021: +1
Melbourne real house price	2017: +14	2019: -6
	2018: -4	2020: -2
		2021: -1
Melbourne unit price	2017: +6	2019: -3
	2018: 0	2020: 0
		2021: +1
Melbourne real unit price	2017: +4	2019: -5
	2018: -2	2020: -2
		2021: -2
Geelong house price	2017: +14	2019: +3
	2018: +10	2020: +1
		2021: +1
Bendigo house price	2017: +4	2019: 0
	2018: 0	2020: 0
		2021: +3
Ballarat house price	2017: +9	2019: +4
	2018: +5	2020: +1
		2021: +1

Melbourne unit market

The median unit price across Melbourne hasn't grown as strongly as the median house price in recent years, with the unit market facing a significant volume of new supply relative to the housing market. While house prices increased by around 69% over the five-and-a-half years to December 2017, unit prices increased by 27%. Over the first half of 2018, unit prices have fallen back slightly by 1.2%.

Supply

The increase in dwelling supply in Melbourne since 2011/12 has occurred on the back of surging unit construction. Construction of attached dwellings increased at such a rapid rate, that by 2015/16, commencements for attached dwellings were higher than for detached houses for the first time on record. Unit construction has fallen back a little but remains at very strong levels. Even with the significant supply coming onto the market, the overall market remains in deficiency, given the growth in population. However, the reduction in overall investor demand, tighter lending by the banks and falling prices is likely to lead to a reduction in new unit commencements over the next three years, which in turn will decrease new supply.

Outlook

The median unit price is expected to decline by 3% over 2018/19, and then remain relatively flat over the following two years. The market will face a significant volume of new supply over the next couple of years, while at the same time, investor demand and population growth weakens. By June 2021, the median unit price is expected to be around $545,000, which is some 2% lower than the June 2018 quarter median.

Victoria and Melbourne regions

Melbourne median house price annual % change

Inner	Middle	Outer	Median
↓ -24.0%	↓ -5.7%	↑ 6.2%	↓ -1.6%

Regional Victoria

The regional centres of Geelong and Ballarat are close enough to Melbourne to support regular commuter transit while Bendigo attracts infrequent commuters. Median house prices in Geelong, Ballarat and Bendigo are highly correlated to Melbourne prices, although the regional areas have not been able to keep up with Melbourne's recent price growth.

Regional Victoria centres

❶ Ballarat

Price growth

6.9%

Vacancy rates

1.4%

Forecast house price

6.9%

Unemployment

4.6%

Over the past two years, the median house price in Ballarat has grown at a rate of 6.9% per annum. Population growth has been solid, and the region is benefiting from growing non-residential building activity, relatively low unemployment and tight vacancy rates. Increased first home buyer demand from commuters to Melbourne is also likely to have contributed to price growth in 2017/18 as purchasers took advantage of stamp duty concessions to enter this affordable market.

Outlook: Ballarat will continue to benefit from relatively strong non-residential building construction over the short term. Significant new projects include the Ballarat GovHub office development, Ballarat Railway Precinct redevelopment and Ballarat Sports and Events Centre. The outlook for Ballarat remains positive and median house prices are forecast to rise a cumulative 6.9% to reach $385,000 at June 2021.

❷ Geelong

Geelong house prices have continued to grow strongly over 2017/18, surpassing expectations. The loss of car manufacturing in the area in late 2016 was expected to dampen demand and price growth in Geelong. Instead, the region has benefited from strong service sector employment and population growth. While Melbourne house prices have been in decline since the start of 2018, prices in Geelong have only just started to decline in the June 2018 quarter (falling by 1.5%). Over 2017/18, Geelong median house prices increased by 9.6% (compared to a 1.6% decline for Melbourne).

Outlook: The outlook for the local economy is positive. In the short term, construction activity in Geelong will be strong, benefiting from a high level of new dwelling activity and the commencement of the $500 million New Lara Maximum Security Prison in 2019/20. Geelong will also continue to benefit from an affordability advantage over Melbourne, and it is likely that first home buyers will continue taking advantage of the stamp duty concessions that have been a contributor to demand in 2017/18. The recent robust price growth in Geelong and competition from Melbourne's outer western suburbs is expected to limit stronger price growth over the forecast horizon. Geelong's median house price is forecast to grow 2.6% in 2018/19 before flattening out over the following two years. By 2020/21, the median price is expected to reach $550,000.

❸ Bendigo

Over the past year, the median house price in Bendigo has been flat, remaining at $350,000. Since the commencement of the Bendigo Hospital in 2013/14, there has been no major growth driver for the Bendigo region. The volume of new residential property approvals had been in decline over the four years to 2016/17, but the commencement of almost 200 retirement homes – part of the nearby GemLife Woodend development – has caused a jump in new construction activity for attached dwellings.

Outlook: In the absence of a key economic driver in the region, median house prices are expected to remain relatively flat over the forecast period. By June 2021, the median house price is expected to increase by 2.9% to reach $360,000.

Work and play

Tourism boosting local economy, but units are dominating supply

Brisbane house market

The Brisbane market has been relatively subdued in comparison to the other major east coast capital cities. Brisbane remains affordable in comparison to Sydney and Melbourne, which is likely to continue to support buyer demand.

Median house prices

Over the four years to June 2016, median house price growth in Brisbane averaged 5% per annum, while through 2016/17 and 2017/18, price growth eased to just 1% per annum. Rising supply appears to be having a dampening effect on prices in the city.

In aggregate, the Brisbane market is in oversupply although this is largely expected to be concentrated in the unit sector, with the detached housing market close to balance or in slight undersupply. Across metropolitan Brisbane, vacancy rates vary and are significantly higher in Inner Brisbane and lower in Outer Brisbane, which suggests that the housing market is tightening while the unit market is in oversupply. However, vacancy rates across Greater Brisbane have trended downwards, which may suggest higher migration flows are occurring and/or more attractive rents are enticing people into the rental market.

House price growth has been positive (2.9%) in the more affordable Outer suburbs of Brisbane over the year to June 2018, with a modest decline of 0.8% occurring in Middle Brisbane, and a greater 2.9% decline in the higher-priced Inner Brisbane.

Demand and supply

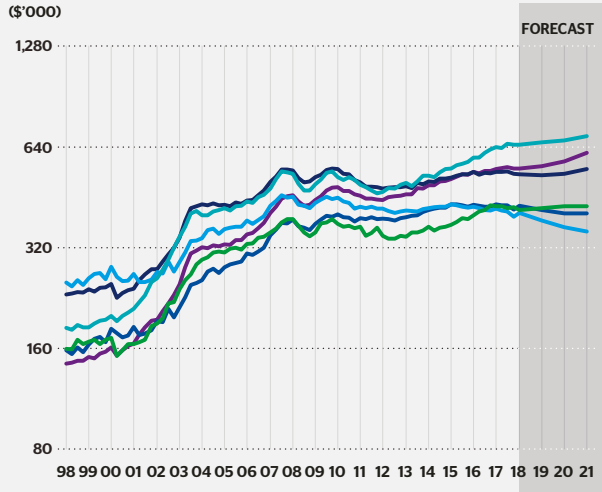
Population growth in Queensland has been strengthening, with a reduction in net overseas migration being offset by stronger net inflows from other states. Migrants from overseas have a higher propensity to reside in inner city units, while those from interstate are more likely to support demand in the detached housing market in Brisbane's suburbs.

New dwelling completions in Queensland have increased markedly in recent years, with average completions in the four years to June 2018 up by 37% compared to the previous four-year period. Although supply has increased primarily for units, there has also been some increase in house completions.

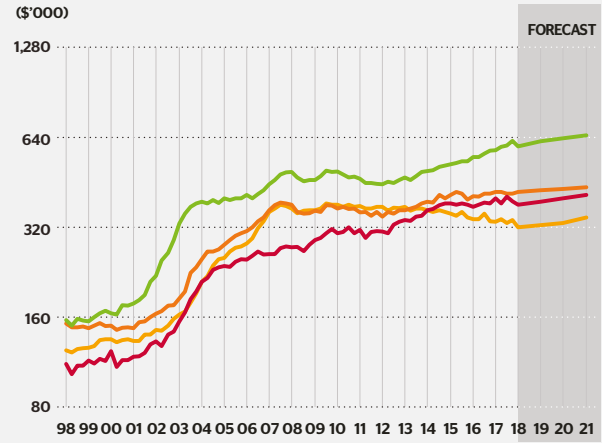
Outlook

The local economy looks to be improving with the impact of declining resource sector investment beginning to subside, and a number of industries, such as the tourism and education sectors, receiving a boost from a lower Australian dollar. Notably, affordability remains significantly more attractive than in Sydney and Melbourne. Nevertheless, a rapid acceleration in prices is not expected until the oversupply in apartments is absorbed. Competitive unit rents and prices due to the oversupply may encourage some potential first home buyers to remain as renters, or alternatively preference an apartment purchase over a house. The Brisbane median house price is expected to see cumulative growth of around 11% over the next three years, reaching $615,000 by June 2021. The strongest price growth is expected to occur at the end of this period, once the oversupply in the unit market is absorbed.

Brisbane and Gold Coast: dwelling prices



Regional Queensland: dwelling prices



Brisbane house price			
2017:	+2	2019:	+1
2018:	+1	2020:	+4
		2021:	+6
Brisbane real house price			
2017:	0	2019:	-1
2018:	-1	2020:	+1
		2021:	+3
Brisbane unit price			
2017:	+1	2019:	-3
2018:	-1	2020:	-2
		2021:	0
Brisbane real unit price			
2017:	-1	2019:	-5
2018:	-3	2020:	-5
		2021:	-3
Gold Coast house price			
2017:	+8	2019:	+2
2018:	+2	2020:	+2
		2021:	+3
Gold Coast unit price			
2017:	+6	2019:	+1
2018:	-2	2020:	+1
		2021:	0
Sunshine Coast house price			
2017:	+5	2019:	+4
2018:	+3	2020:	+2
		2021:	+2
Townsville house price			
2017:	-2	2019:	+2
2018:	-4	2020:	+2
		2021:	+5
Cairns house price			
2017:	+3	2019:	+1
2018:	0	2020:	+1
		2021:	+1
Toowoomba house price			
2017:	+7	2019:	+3
2018:	-5	2020:	+3
		2021:	+2

Brisbane unit market

The surge in apartment completions, especially in Inner Brisbane, has caused a significant oversupply in the unit market. Annual unit completions over the past two years have been 95% higher than the annual average over the 10-year period to June 2016.

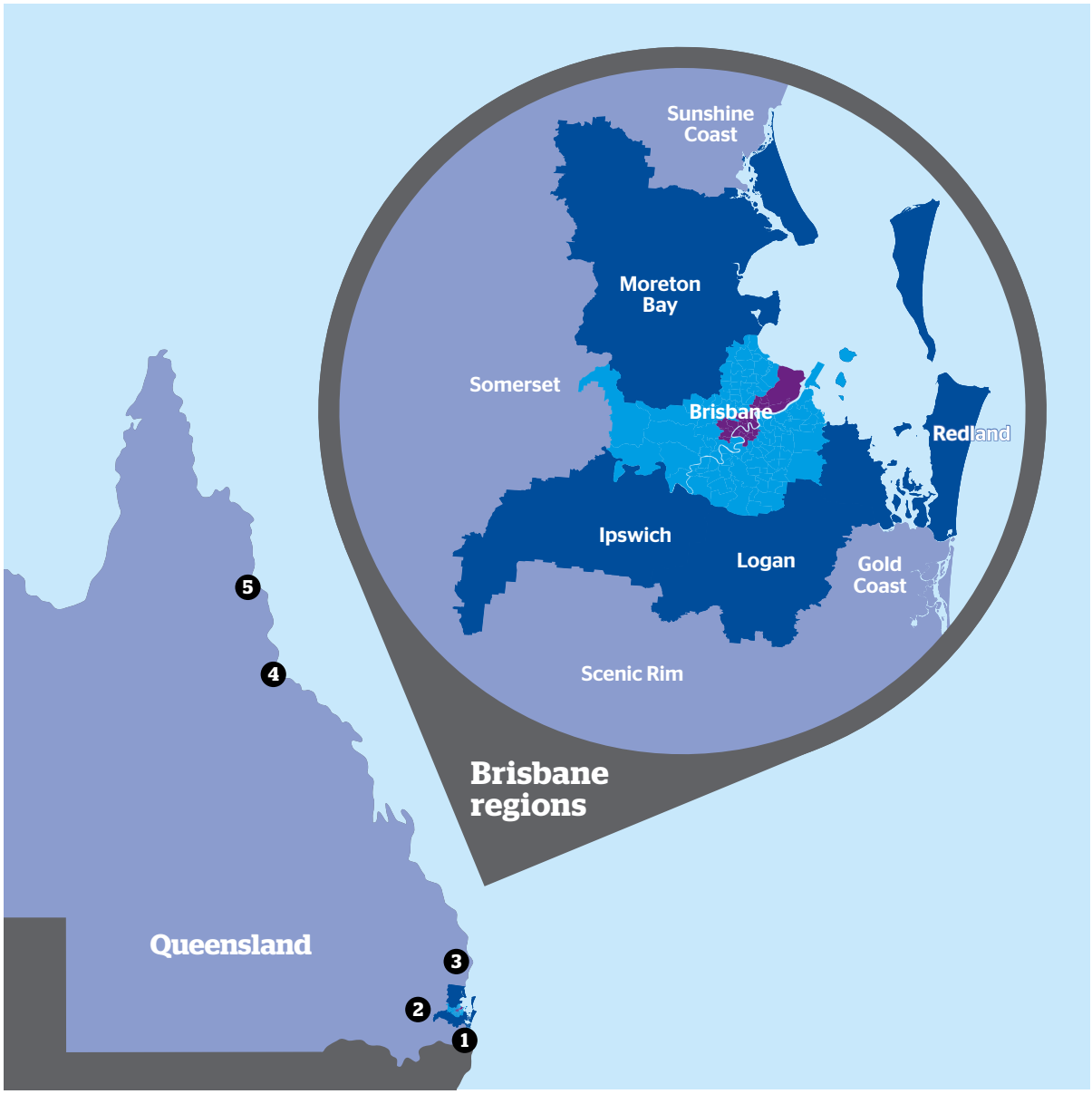
Apartments have a significantly higher incidence of rental occupancy than houses, and vacancy rates in Inner Brisbane are 0.5% higher than that of Greater Brisbane. Falling rents are likely to be delaying owner occupier activity in this market and keeping tenants in the rental market for longer. Furthermore, net overseas migration inflows, which support demand for inner city rental apartments, has started to slow.

Outlook

The oversupply in the unit market is projected to continue to put downward pressure on Brisbane unit prices. Completions will ease through 2018/19 before falling more rapidly as current projects under construction are progressively completed. Increased competition for tenants of inner city apartments will cause owners of investment units in the middle and outer ring suburbs to lower rents in a bid to remain competitive with dwellings closer to the city. There will also be pressure to reduce unit prices so they remain competitively priced with newer off-the-plan apartments that are located closer to the city.

As a result, Brisbane's median unit price is expected to continue to contract over the forecast period to 2020/21. A cumulative 5% decline in unit prices is forecast, leaving the Brisbane unit price at $405,000 at June 2021.

Queensland and Brisbane regions



Brisbane median house price annual % change

Inner	Middle	Outer	Median
-2.9%	-0.8%	2.9%	0.6%

Regional Queensland

Gold Coast, Sunshine Coast and to a lesser extent, Toowoomba, generally move with the Brisbane residential market. In 2017/18, Sunshine Coast and Gold Coast saw Queensland's strongest rate of price growth.

The Townsville market is bottoming out after an extended downturn following falling mining investment. Cairns has positive signs from the strengthening tourism sector. Interstate migration flows usually supports demand for dwellings in the regional markets when prices are rising.

Regional Queensland centres

❶ Gold Coast

Hosting the Commonwealth Games and associated works, along with other infrastructure projects including the second phase of the Gold Coast Light Rail project and the expansion of Jupiter's Casino, has contributed to a boost in local economic activity and employment. However, the local economy looks set to cool slightly as the area awaits the next round of infrastructure projects.

The median house price on the Gold Coast grew an average of 7.8% per annum over the two years to June 2017. However, a strong uptick in supply through 2015/16 and 2016/17, coupled with softening demand, saw slower growth of 1.6% in the year to June 2018. With a strong supply pipeline also in the unit market, the median unit price has fallen by 2.4% to $415,000 in the year to June 2018. The tightened credit environment is also likely impacting Gold Coast investors.

Outlook: Work on a number of major accommodation projects and the development of Westfield Coomera will help to sustain local economic activity, although this will be lower than that of the years leading into the Commonwealth Games. A lower Australian dollar also continues to buoy the region's tourism industry, as the Gold Coast becomes a more cost competitive holiday destination.

Dwelling completions are on track to peak in 2018, which will significantly reduce the stock deficiency and further ease pressure on prices. House price growth is expected to remain moderate in the next three years, averaging 2% per annum and taking the median house price to $690,000 by June 2021. With a stronger increase in unit completions, unit price growth is forecast to be slower, at around 0.8% per annum and taking the median to $425,000 at June 2021.

Price growth

▲ 1.6%

Vacancy rates

▲ 2.0%

Forecast house price

▲ 6.1%

Unemployment

▼ 4.4%

❷ Toowoomba

Toowoomba benefits from its proximity to agricultural hubs in the Darling Downs and sits on the Melbourne to Brisbane freight route. A slowdown in building activity and the completion of some large infrastructure projects has seen the local economy slow with unemployment sitting at 5.2% in June 2018, up from 4.9% 12 months earlier. The median house price has fallen by 5% in the past 12 months, reaching $380,000 at June 2018.

Outlook: Currently, the Second Range Crossing is under construction and supporting local employment. In the medium to long term, the Inland Rail project will further entrench Toowoomba's position as a major logistics hub, connecting Brisbane to Melbourne and to the rest of the interstate rail networks. The outlook for Toowoomba is moderate with an average growth rate of 2.6% per annum forecast in the three years to June 2021.

Regional Queensland centres continued

❸ Sunshine Coast

Population growth of 2.5% in 2016/17 meant that the Sunshine Coast was the fastest growing of all population centres in Queensland. After a long period of undersupply, rising construction has reduced the dwelling deficiency, and vacancy rates have begun to edge upward, albeit remaining low at 2%. In the year to June 2018, house price growth on the Sunshine Coast outperformed both Brisbane and the Gold Coast, with the median increasing by 3.0%.

Outlook: A resurgence in the tourism industry, and a number of infrastructure projects including the second stage of the Sunshine Coast University Hospital and Caboolture Hospital redevelopment will maintain activity in the building sector and help to drive migration and population growth. Price growth is set to continue in 2018/19, but then steadily slow due to a rising supply pipeline. The median house price is expected to reach $650,000 by June 2021, representing a cumulative rise of 9% over the next three years.

❺ Cairns

The Cairns economy is dependent on tourism to drive employment and local economic growth. As a result, Cairns has been less affected by the recent downturn in the resources industry than Townsville.

A lower Australian dollar is increasing the attractiveness of Cairns as a holiday destination for tourists. Job prospects are improving, leading to a pickup in market sentiment and migration inflows, bolstering underlying demand.

Since 2010, the median house price has increased by 1.6% per annum. Cyclone Yasi and subsequent cyclones have increased home ownership costs and reduced buyers' willingness to bid up prices.

Dwelling supply has recently picked up, especially in the unit sector which has remained in a prolonged period of undersupply. Population growth has led to a tightening in vacancy rates (to 1.5% as at June 2018). Notably, the median house price remained flat over the year at $420,000 in June 2018.

Outlook: Outside of a strong tourism sector, there is little else driving the local economy. Price growth in the Cairns market is projected to be limited, with cumulative growth of 3.6% bringing the median house price to a forecast $435,000 by June 2021.

❹ Townsville

Townsville appears to have turned a corner after a significant period of depressed economic activity as a result of the decline in mining investment across regional Queensland. The unemployment rate has improved markedly, however, at 9.1% it is still significantly above the state and national average.

A lower Australian dollar has helped to boost tourism in the area and the cuts to State and Federal Government funding for defence and public administration jobs have largely been worked through. Construction activity has picked up in 2017/18 and looks to further increase in 2018/19, driven by the start of large infrastructure projects including the Townsville Integrated Stadium and Entertainment Centre development and Lavarack Barracks expansion.

The residential market in Townsville appears to be approaching the bottom of its cycle. The median house price has been on a continuous descent for eight years, falling by a cumulative 16%.

Outlook: With some upside now beginning to emerge for the local economy, the median house price is forecast to rise to $345,000 by June 2021. This represents a 7.8% increase in prices over the next three years, although most of the growth is likely to be occurring towards the end of this period once excess stock is absorbed.

Queensland regional mining centres

Through the mining investment boom, the median house price in Gladstone increased by 32% to its peak and by 17% in Mackay. Conversely, as at the June 2018 quarter, median house prices were 45% and 26% lower respectively than their previous peak.

In contrast, the Isaac Region, which contains the smaller towns of Dysart and Moranbah, saw a 97% rise in its median house price between December 2007 and March 2012. This surge was then followed by a large decline, where the median house price fell by 82% by September 2017.

The unemployment rate in Gladstone and Mackay peaked post-boom at 8.2% and 8.3% respectively. Meanwhile, the unemployment rate in the Isaac Region peaked at only 3.2%. This suggests that Gladstone and Mackay have a greater percentage of permanent residents who are less likely to leave when employment prospects decline. On the other hand, in the Isaac region, without other employment opportunities, the unemployed population left the region.

Outlook

Sales volumes as well as price growth are unlikely to return to previous peaks for quite some time, although the median house price in the Isaac region has increased by nearly 50% to $178,000 in the year to June 2018. This may indicate firstly an over-correction in prices as owners (and mortgagors) looked to get out of the market at any price, and secondly that some intrepid investors are now entering this market. Mackay also seems to be recovering with some price growth, taking the median to $330,000 at June 2018 (up 4% from its trough) while the unemployment rate has also begun to come down. In contrast, Gladstone's median house price reached a new trough in June 2018, and with the unemployment rate still drifting upwards and reaching 7.9% in March 2018, the city has continued to struggle.

Median house prices and unemployment rates

REGION		MEDIAN HOUSE PRICE ($) SALES IN PRIOR YEAR				% CHANGE		UNEMPLOYMENT RATE (%)	
		START OF UPTURN	PEAK	TROUGH	JUNE 2018 QTR	START TO PEAK	PEAK TO JUNE 2018	SEPT 2012	JUNE 2018
Isaac Region (MORANBAH, DYSART)	Median house price ($)	335k	660k	120k	**178k**	97%	**-73%**	0.9	**1.5**
	Sales in prior year	440	659	329	**269**				
	Date	Dec-07	Mar-12	Sep-17	**Jun-18**				
Gladstone Region	Median house price ($)	365k	480k	265k	**265k**	32%	**-45%**	3.8	**7.9**
	Sales in prior year	906	1,531	909	**909**				
	Date	Mar-09	Dec-11	Jun-18	**Jun-18**				
Mackay Region	Median house price ($)	381k	446k	318k	**330k**	17%	**-26%**	2.9	**3.8**
	Sales in prior year	3,832	3,251	1,721	**1,666**				
	Date	Sep-07	Sep-12	Sep-17	**Jun-18**				
Greater Brisbane	Median house price ($)	427k	552k		**552k**	29%	**0%**	5.3	**6.0**
	Date	Dec-08	Jun-18		**Jun-18**				

Road to recovery

Oversupply still in place as prices bottom out ahead of a return

Perth house market

Median house prices

The decline in house prices in Perth over the past four years began to slow in 2017/18 as the collapse in resource sector investment bottomed out, and signs of population growth recovery began to emerge. Perth's median house price has fallen by a cumulative 12% since peaking in the June 2014 quarter.

Demand and supply

After the slump in mining investment, the unemployment rate in Perth peaked at 7.5% in March 2017. However, by June 2018, the unemployment rate had improved to 5.7%, assisted by many transient mining industry workers returning to their country or state of origin. Small improvements in both overseas and interstate migration occurred in 2017/18, flowing through to increasing population growth.

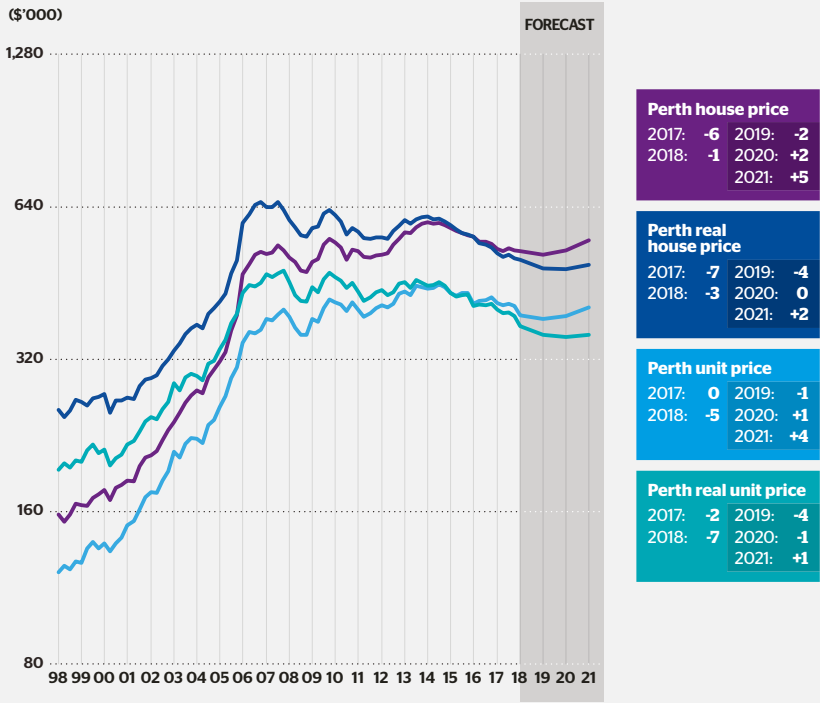
Still, the deterioration in population growth occurred just as new dwelling completions were increasing. A significant surplus of stock emerged in 2016, and the market has remained oversupplied since then.

Rents in Perth are now 19% below the June 2014 peak. This appears to be attracting tenants, with Perth's vacancy rate of 5.6% in June 2018 being down from a peak of 7.3% 12 months earlier.

Outlook

Although the outlook for the state economy has become more positive, the dwelling surplus in Perth looks set to remain in place for some time, and it appears that the market is beginning to retreat again. After the decline in owner occupier lending flatted out in the six months to December 2017, there has been a 12% year-on-year decline in the first seven months of 2018. A further 2% decline in the median house price is forecast over 2018/19, before modest price growth begins to re-emerge in 2019/20 and 2020/21. By June 2021, the median house price is expected to reach $550,000 (5% higher than June 2018 levels).

Perth: dwelling prices



Perth unit market

The transient nature of much of the mining sector workforce boosted demand in the unit market rather than the housing market during the mining investment boom. As employment began to fall and many of these transient workers began to return home, tenant demand for units slumped more than for houses. Together with weaker investor demand stemming from tightened credit conditions, Perth's median unit price continued to fall by a further 5.4% in the year to June 2018.

During the mining investment boom, medium and high-density dwellings began to account for an increasing proportion of new dwellings being built. Over the six years to 2018, the share of units accounted for 52% of new completions compared to an average of 32% in the six years prior. This further suggests that the oversupply in Western Australia is likely to be larger in the unit market than in the housing market.

Outlook

The resultant slowing demand from investors will continue to be felt in the unit market. Recent data for new unit dwelling commencements suggests that completions will continue to remain elevated for the next two years. Consequently, median unit price growth is forecast to be more modest than for detached houses. The median unit price is expected to decline further over 2018/19, before bottoming out and showing signs of improvement over the subsequent two years, taking the median house price to $405,000 by June 2021.

Western Australia and Perth regions

Perth median house price annual % change

Inner	Middle	Outer	Median
-0.9%	1.9%	-2.6%	-0.8%

Western Australia regional mining centres

The median house price in Port Hedland reached a peak of $1.125 million at March 2013 reflecting a 155% increase from the start of the mining upturn in June 2007. The subsequent downturn has seen the median house price fall by over 82% to bottom out at $206,000 in March 2018. The unemployment rate has picked up only marginally, although this masks the transient nature of the employed population. The median house price rose marginally to $210,000 in June quarter 2018, although this is not quite yet sufficient to suggest that the Port Hedland market has turned the corner.

Karratha in the Pilbara region saw price growth of 177% up to its peak of $873,000 at September 2010. The downturn saw prices fall to $270,000 at the bottom of the market in September 2016. Since then, there has been a small recovery in prices, with the June 2018 median price being $313,000.

Outlook

In Port Hedland, sales volumes are significantly higher than when the median price peaked in March 2013, suggesting the market was tightly held. However, although volumes are now higher, they have remained flat (along with prices), suggesting limited demand. In Karratha, both volumes and prices have increased after the market bottomed out in September quarter 2016, indicating investors may be returning to this market. Nevertheless, in the absence of any large new investment in these centres, prices are unlikely to get close to their previous peaks in the short to medium term.

Median house prices and unemployment rates

REGION		MEDIAN HOUSE PRICE ($) SALES IN PRIOR YEAR				% CHANGE		UNEMPLOYMENT RATE (%)	
		START OF UPTURN	PEAK	TROUGH	JUNE 2018 QTR	START TO PEAK	PEAK TO JUNE 2018	SEPT 2012	JUNE 2018
Port Hedland	Median house price ($)	442k	1,125k	206k	**210k**	155%	**-81%**	2.3	**4.2**
	Sales in prior year	318	206	318	**311**				
	Date	Jun-07	Mar-13	Mar-18	**Jun-18**				
Karratha	Median house price ($)	315k	873k	270k	**313k**	177%	**-64%**	1.3	**2.3**
	Sales in prior year	440	289	265	**387**				
	Date	Jun-05	Sep-10	Sep-16	**Jun-18**				
Greater Perth	Median house price ($)	478k	598k	524k	**524k**	25%	**-12%**	4.0	**6.5**
	Date	Dec-08	Jun-14	Jun-18	**Jun-18**				

Holding up

Affordability and interest rates support price growth

Adelaide house market

In Adelaide over the past few years there has been consistent moderate house price growth. This has been underpinned by low interest rates and relatively positive affordability compared to other capital cities, despite the difficult economic conditions. Adelaide's median house price grew an average of 3.8% per annum over the five years to June 2018.

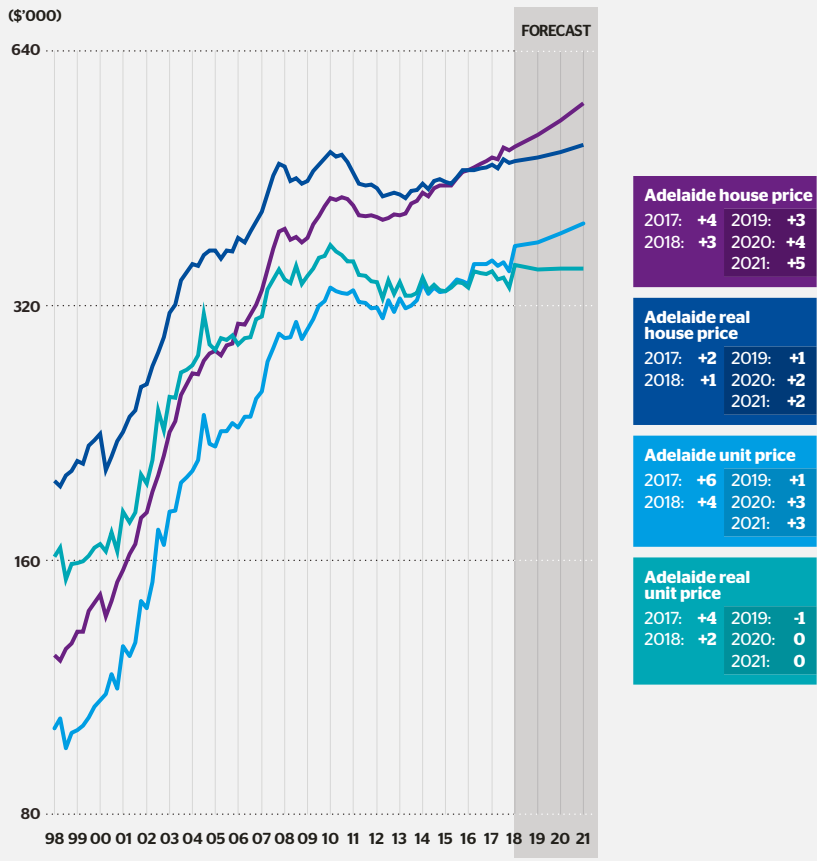
South Australia is currently facing a period of challenging economic conditions. The key manufacturing industry is suffering from low cost overseas competitors, while the automobile manufacturing industry shut down in 2017 which also impacted local suppliers. In addition, public investment has fallen back after a number of major engineering construction projects have been completed.

The price rises have been despite an 11% decline in investor activity in 2017/18 – its lowest level in more than four years. Total owner occupier loans in 2017/18 were only 3% below the previous year, with growth in first home buyers more than slightly offset by weaker demand from other owner occupiers. Median house price growth slowed only marginally to 3% in 2017/18, leaving the median house price at $493,900.

New dwelling supply

Since 2014/15, completions have remained elevated and there exists a significant number of dwellings still in the pipeline. As a result, the South Australian market developed an oversupply in 2015/16 which is projected to continue to increase as new supply remains elevated. It is estimated that the oversupply is concentrated in regional South Australia, although vacancy rates in Adelaide started to edge up in June quarter 2018 to 2.3%. Further upward movement in the vacancy rate is expected in the short term as completions remain high.

Adelaide: dwelling prices



Outlook

The conditions that supported the moderate price growth in Adelaide in recent years are forecast to continue, and even slightly improve. Prices remain relatively affordable and the rate of population growth is expected to improve (albeit remain modest). South Australia's unemployment rate has improved from 7% in June 2017 to 5.6% in June 2018, with some upside coming from greater defence and infrastructure spending. Dwelling commencements are beginning to ease and should remain suppressed for some time as the current excess of dwelling stock is progressively absorbed.

Overall, Adelaide's median house price is forecast to grow by 12% over the forecast period to reach $555,000 by June 2021, which will be a similar rate of price growth (4% pa on average) to that seen in recent years.

Adelaide unit market

While Adelaide saw a slight increase in the share of units compared with the eastern state capital cities, it was of a smaller magnitude.

In 2017/18, units accounted for 34% of total dwelling completions, compared to a long-term average of 25% over the previous two decades. Without evidence of a corresponding increase in demand for this type of dwelling in Adelaide, it is expected that the unit segment will be in higher oversupply than for detached dwellings.

Outlook

The oversupply in the unit sector and softer demand for this type of dwelling will restrain price growth in this sector. The median unit price is forecast to show a modest cumulative 6% increase over the forecast period to reach $400,000 at June 2021.

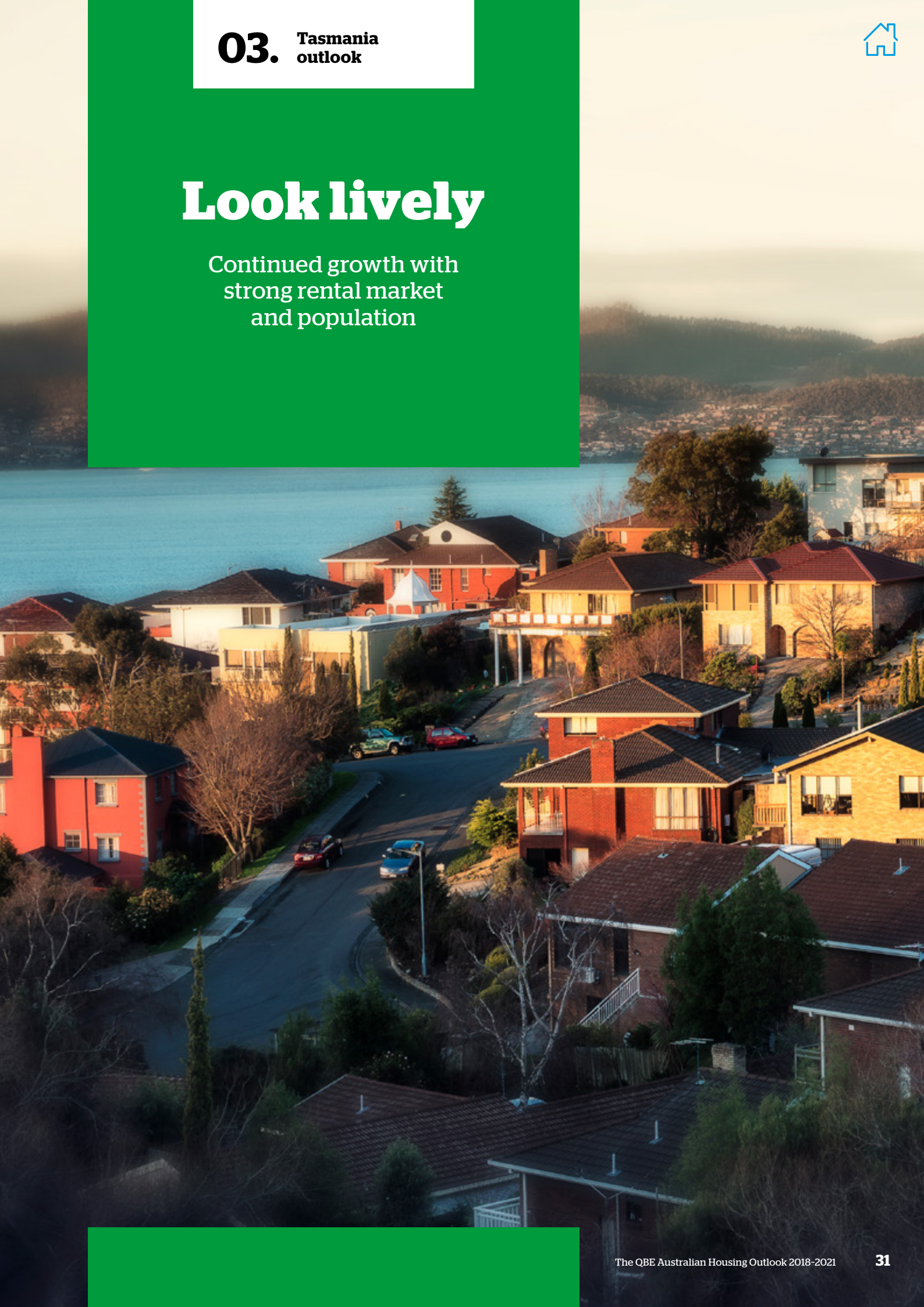
South Australia and Adelaide regions

Adelaide median house price annual % change

Inner	Middle	Outer	Median
-7.8%	3.6%	3.3%	3.0%

Look lively

Continued growth with strong rental market and population



Hobart house market

Hobart has witnessed the fastest growing property prices across all the capital cities in Australia, for both houses and units over the last three years.

Median house price

House prices have increased by a third over the last three years. Even after this increase in prices, Hobart retains the lowest median house price of the state capitals. Its affordability advantage has been a key driver of interstate migration from increasingly strained affordability in Melbourne and Sydney.

Hobart's median house price increased by 10.6% in 2017/18, bringing the median house price to $481,800 at June 2018. Price growth was strongest in Brighton (17.3% growth over the year) and Glenorchy (14.5%), while Hobart City had the weakest growth rate of all the metropolitan area regions (6.3%), suggesting that demand is spilling out to the more affordable regions.

Demand

In previous cycles, net interstate migration inflows have mainly come from 'tree changers' downsizing from the more expensive Melbourne and Sydney markets. However, the current inflow is largely coming from a younger demographic, suggesting this population seeks refuge from higher prices on the mainland. The Tasmanian economy has improved in recent years. A lower dollar has underpinned a booming tourism sector and given a boost to the agricultural sector, which competes in the niche high-value export markets.

The demand for dwellings has been relatively strong, outstripping new supply. Vacancy rates have decreased from around 5% in the middle of 2012, to just 1.7% in the June 2018 quarter.

Outlook

Given the relatively strong rental market, alongside the recovery in the Tasmanian economy and continued population growth, house prices are expected to continue growing in the short term. Hobart's median house price is expected to rise by 4.8% in 2018/19, and then slow down as projects under construction are completed, which will begin to reduce the upward pressuvre on prices. By June 2021, Hobart's median house price is expected to reach $520,000, almost 8% higher than current levels.

Hobart unit market

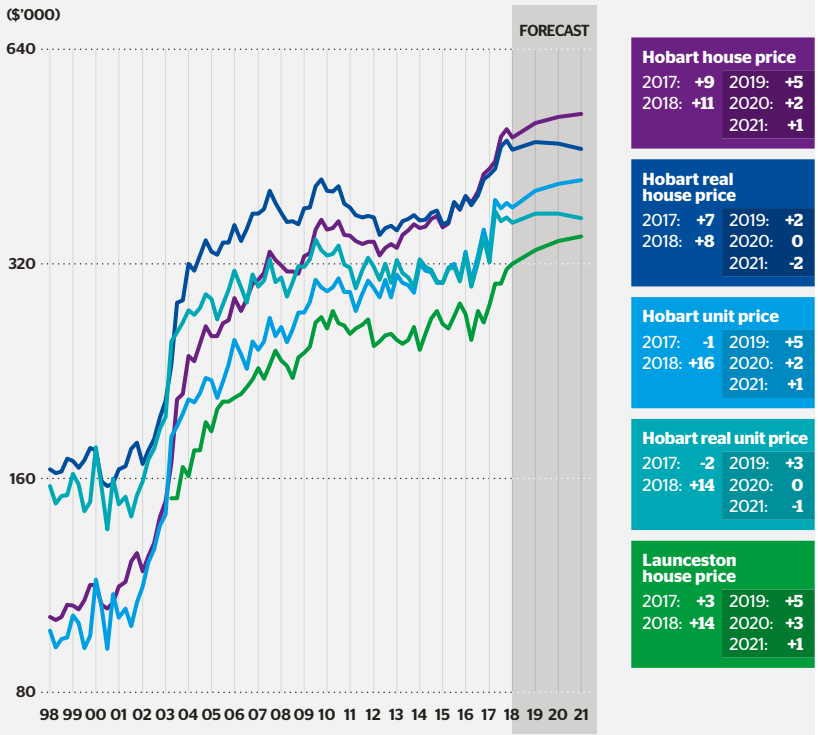
Over the past three years, the median unit price in Hobart has increased by 27.6%, slightly weaker than house price growth, but still significant.

However, in 2017/18 alone, unit prices increased by 16%, surpassing house price growth of 10.6%. As with houses, unit price growth has been led by the suburban areas of Hobart.

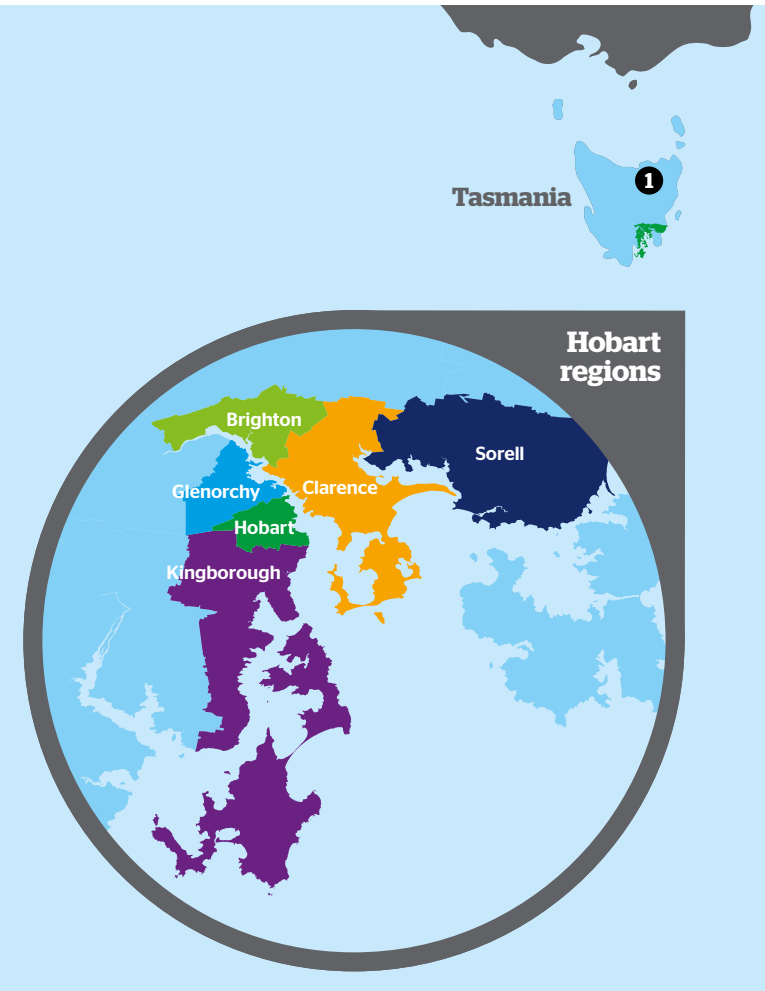
Outlook

Median unit prices in Hobart are expected to grow at a similar rate to house prices. Given the low vacancy rate and pressure in the market, it is likely that some of the demand for houses could spill over to units. The median unit price is expected to increase by around 5.4% over 2018/19, and then slow over the following two years. By the end of 2020/21, median unit prices are expected to reach $420,000, around 9% higher than current levels.

Tasmania: dwelling prices



Tasmania and Hobart regions



Hobart median house price annual % change

Glenorchy ^ 14.5%	
Hobart City ^ 6.3%	Sorell ^ 6.4%
Brighton ^ 17.3%	Kingborough ^ 10.9%
Clarence ^ 11.0%	Median ^ 10.6%

1 Launceston

The improvement in the Tasmanian residential market has been concentrated in Hobart, with the other major Tasmanian centre, Launceston, largely lagging.

However, there are signs now that an upturn in the Launceston residential market has emerged. After only 3% growth in 2016/17, Launceston's median house price rose by 14.3% to $320,000 in the year to June 2018. The price growth has been accompanied by strengthening local economic conditions, with the unemployment rate in the Launceston Local Government Area improving from a high of 9.1% in September quarter 2016, to 6.8% in June quarter 2018.

Outlook: Continued spill over of population and price growth from Hobart is expected to occur in Launceston. Although the local unemployment rate remains relatively high, the construction of the $260 million University of Tasmania Inveresk campus will contribute to the local economy. However, the strong median house price growth in Launceston during 2017/18 has decreased its affordability relative to Hobart, and with Hobart prices showing signs of slowing, the recent pace of price growth in Launceston is not expected to continue. The median house price in Launceston is forecast to be $350,000 at June 2021, which is a cumulative 9% increase on the June 2017 median.

Open for business

Strong fundamentals keep market pumping for all

Canberra house market

With public sector employment accounting for more than 40% of jobs in the Australian Capital Territory, underlying demand in Canberra is strongly related to movements in the level of employment within the Federal government.

Demand

Public sector employment began ramping up through 2016/17 after three years of fiscal austerity. Unemployment in the Australian Capital Territory has since tightened, falling to 3.5% at June 2018, the lowest of all Australian states or territories. This has brought with it stronger net interstate migration inflows. Net overseas migration has also improved, being driven by increased numbers of international students.

Escalating new dwelling completions first tipped the Canberra market into oversupply in 2012/13. However, a strengthening in underlying demand saw the market move back towards balance in 2018. Vacancy rates in Canberra were a tight 0.8% at June 2018.

Supply

The increase in supply of dwellings has been solely concentrated in the unit sector. As a result, there exists a dichotomy between the unit and detached housing market. While unit completions increased, completions of detached houses have dramatically fallen from 1,839 dwellings in 2012/13, to an estimated 900 dwellings in 2017/18.

Median price

After average growth of 8.0% per annum over the previous two years, Canberra's median house price increased by just 0.7% in 2017/18, to $675,000. A factor is likely to be an oversupply in the unit market, with many prospective home buyers either opting to remain as tenants given more attractive rents on offer, or alternately buying a more affordable unit instead of a house. Some housing demand may also have shifted out of Canberra and into neighbouring centres across the border into New South Wales, such as Queanbeyan, as the result of the NSW First Home Owners stamp duty exemption and more affordable house prices.

Outlook

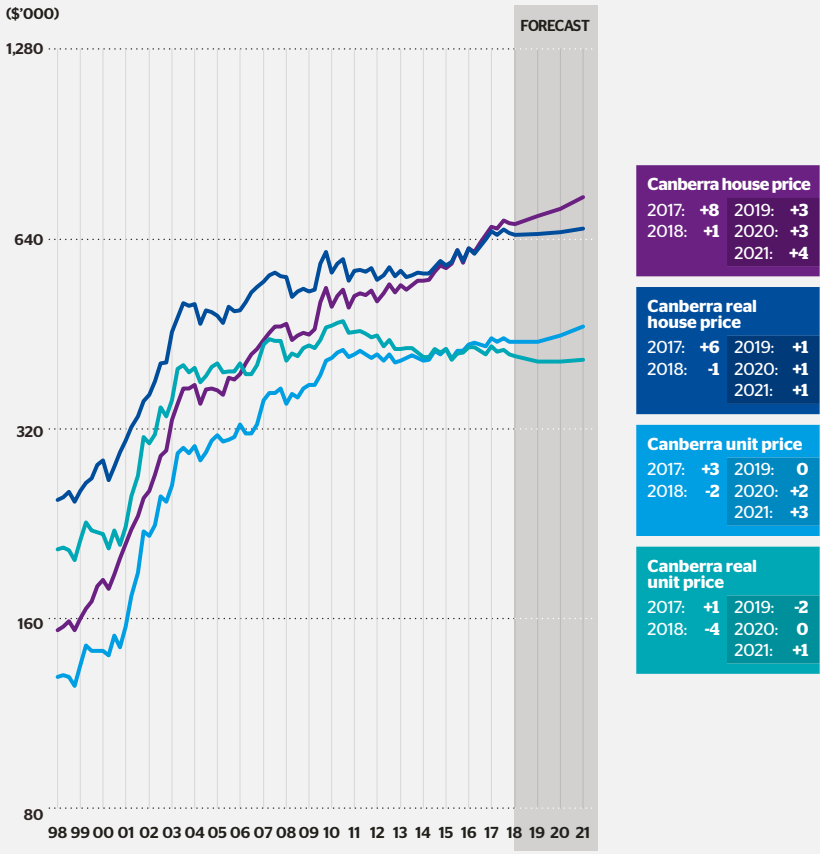
Economic growth in the Australian Capital Territory is projected to begin to slow in the 2019 financial year, yet remain above the national average. Population growth is expected to remain strong, which will support underlying demand for dwellings. Overall, the market is expected to remain close to balance over the next three years, although weak new house building activity would suggest a deficiency of houses. With high incomes in Canberra supporting affordability, this is expected to see 10% growth in the median house price over the next three years, to $745,000 by June 2021.

Canberra unit market

The surge in unit completions is creating an oversupply of units.

Unit completions in 2017/18 were 128% above the average of the past 20 years. As these units come to market, existing unit stock needs to lower their prices to compete against recently completed new apartments. The oversupply in this market saw the median unit price fall by 1.6% in the year to June 2018.

Australian Capital Territory: dwelling prices



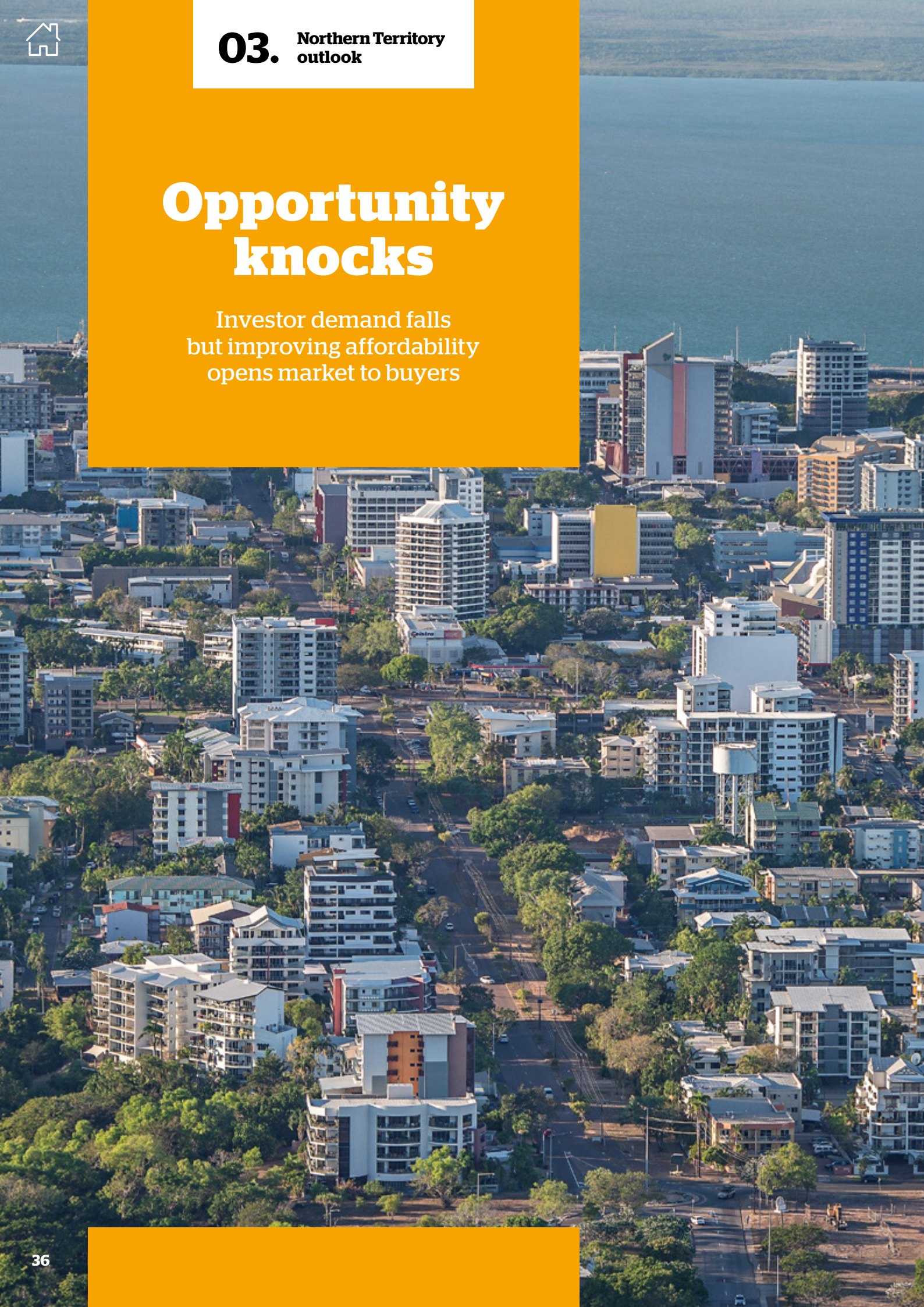
Outlook

Dwelling commencements in the unit sector remained strong in 2017/18 but are expected to fall off in succeeding years. The slowing pipeline of commencements is expected to eventually erode the oversupply of units. An additional constraint on future unit price growth may be Australian National University's recently announced cap on total student numbers (both international and domestic), which predominantly supports rental demand in the unit market.

Median unit price growth is forecast to remain flat through 2018/19. After this period, relative affordability compared to the housing market and higher yields may begin to see increased demand from investors and owner occupiers spilling over from a tight housing market. Unit prices are expected to pick up thereafter, growing to $465,000 by June 2021.

Opportunity knocks

Investor demand falls but improving affordability opens market to buyers



Darwin house market

Darwin's median house price has often run independently of the prevailing national economic cycle of the time. The small size of the Darwin market makes it more susceptible to local events and the median price can be variable. Darwin typically has a higher and more variable vacancy rate, a product of a large transient working population.

The median Darwin house price declined by 20%, representing a $126,000 price drop, between June 2014 and September 2017. This was also a period in which supply outstripped demand leading to higher vacancy rates and a collapse in investor demand. Prices have continued to decline, decreasing by a further 7.4% over 2017/18 to $500,000. The median house price in Inner Darwin fell 12.5% while the Northern Suburbs and Palmerston saw smaller declines of 6.5% and 7.6% respectively.

Demand

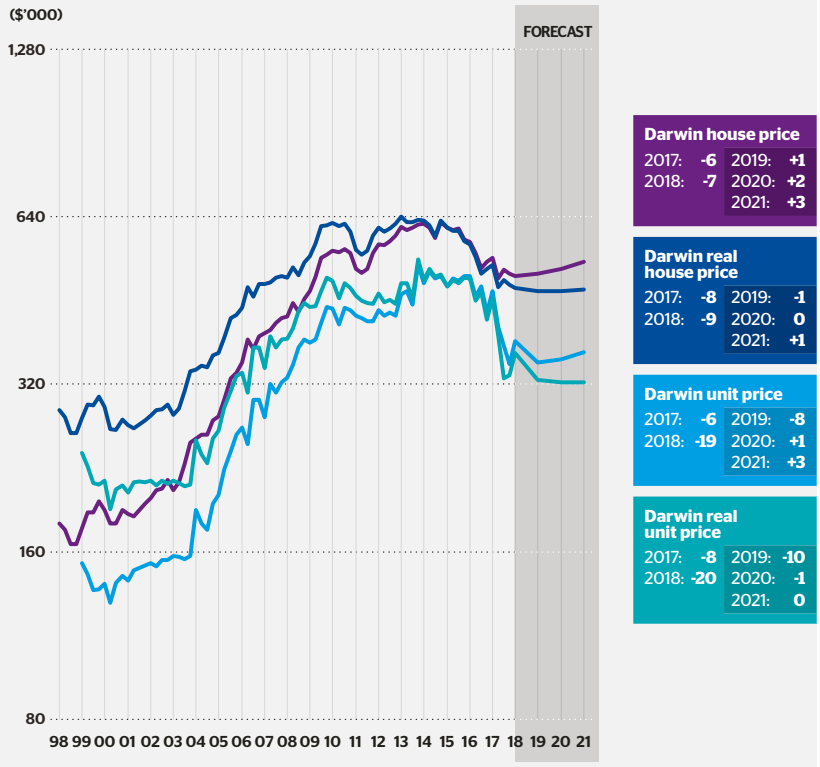
Over the past three years investor demand has collapsed due to declines in rents and prices. Tighter lending conditions for investors also likely had a negative impact more recently. Vacancy rates increased significantly making Darwin a less desirable location for investors. The unemployment rate in Darwin is below 4%, but this is due more to rising overseas and interstate departures, rather than a buoyant job market.

On the other hand, improved affordability (following the price decreases), coupled with significant first home buyer grants and stamp duty concessions has lured first home buyers back into the market. First home buyer lending has increased significantly, being up by 64% in 2017/18 on levels two years earlier.

New dwelling supply

The commencement of new projects has plummeted, reflecting deteriorating financial feasibility, as both demand and prices have retreated. The volume of house commencements in Darwin was around 44% lower in 2017/18 than the preceding three years. The decline in new unit projects over this same period was even more apparent, as unit commencements were 75% lower in 2017/18 than in 2014/15.

Darwin: dwelling prices



Outlook

House prices are expected to rise slightly over the forecast period as market fundamentals improve. Population growth is expected to recover, driven by net overseas migration. New supply should continue declining over 2018/19, but it will take some years before the oversupply is absorbed by the market. The worst is now probably behind for the Darwin property market, and the median house price is forecast to increase by a cumulative 6.0% to $530,000 by June 2021, although most growth will likely be coming through in the final year of this period as the excess stock is absorbed.

Darwin unit market

Darwin's unit market is driven predominantly by investors supplying dwellings to a transitory supply of tenants.

Earlier strong investor demand led to a surge of unit developments, which oversupplied the market, but weakening mining investment has meant fewer transitory workers in the city and rental demand has fallen. Over the four years to March 2018, the median unit price fell by 34% to $347,500, significantly more than the decline in house prices over the same period.

Outlook

Although the median unit price was stronger in the June 2018 quarter, it is expected that prices will settle at the lower March quarter 2018 level in the next two years. Subdued employment prospects in the engineering and mining sectors through lower levels of investment is likely to dampen migration and population growth in the short term. By June 2021, the median unit price is expected to reach $365,000 (30% below the peak in 2014).

Millennials moving on up

The Millennial population, who are typically born between 1981 and 1996, represent the most influential age cohort in today's residential property market. The Millennials are a significantly larger group than Generation X, those born between 1965 and 1981.

The oldest Millennials have entered the 25 to 34-year-old age group over the past decade (Chart 1). Population growth in this age bracket was limited from 1998 to 2008. However, in the ten years to 2018 the majority of the Millennial population moved into this age group, which resulted in Sydney's 25 to 34-year-old population increasing by 176,900 and Melbourne's surging by 241,400.

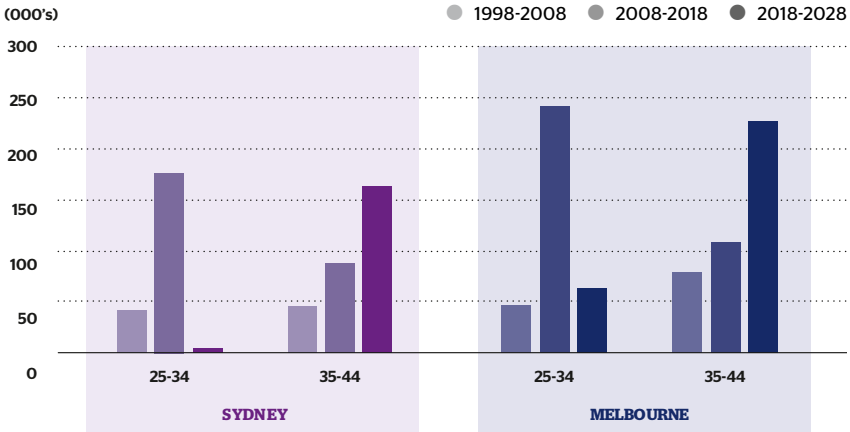
This population growth helped create demand for the record level of new units and apartments that have been built over the past decade. Millennials have provided a steady stream of tenants to occupy these dwellings or, for some at least, first-time homebuyers buying more affordable properties in our two major cities.

A new dynamic

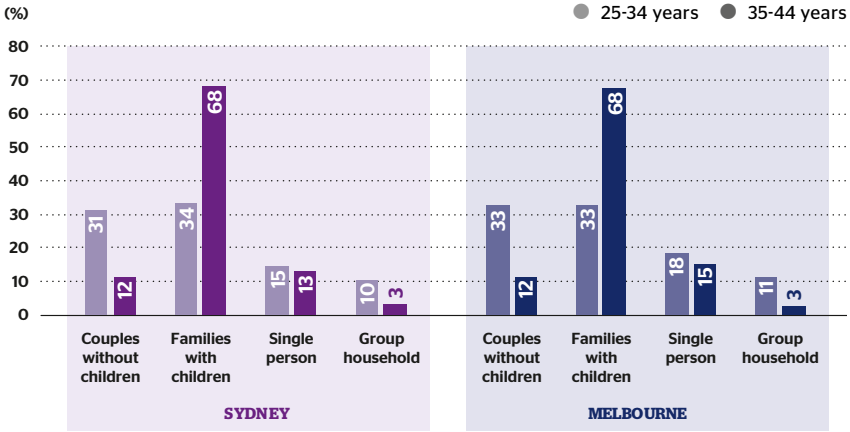
The ageing of the Millennial population over the next decade is expected to create a new dynamic for the residential property market. Between 2018 and 2028, Sydney's 35 to 44-year-old population is projected to increase by 162,400, while in Melbourne, it's projected to grow by 225,700. Historically, this age segment represents a significantly different life stage to people in the 25 to 34-year-old age band.

Around one third of 25 to 34-year-old households in Sydney and Melbourne are made up of families with children, this increases to around 68% of households in the 35 to 44-year-old age group. Meanwhile,

Population growth by age over time

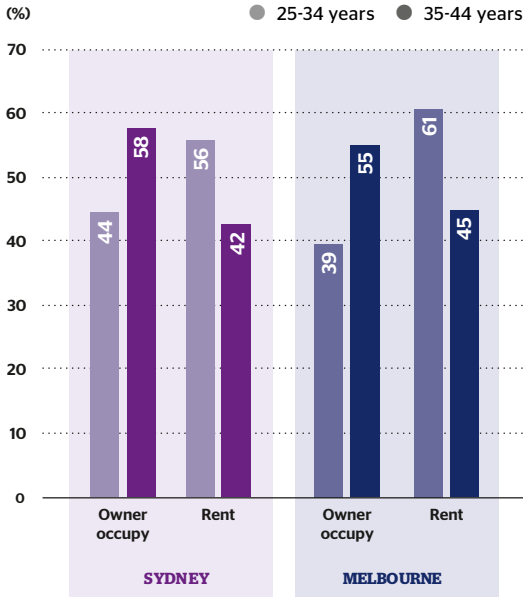


Share of households by household type 2016[1]



1 Excludes multi-family households and other families.

Share of tenure
by age of household



Share of dwelling type occupied
by age of household

smaller households such as couples without children and single person households, as well as group households, are much less prevalent among the 35 to 44-year-old cohort.

There is also a significantly higher rate of owner occupation in the 35 to 44-year-old cohort. Around 60% of 25 to 34-year-old households in Sydney and Melbourne rent. This is almost reversed in 35 to 44-year-old households where around 55% are owner occupiers. Additionally, a greater percentage of 35 to 44-year-old households are occupying detached houses: 55% in Sydney and 69% in Melbourne, compared to 37% and 51% of 25 to 34-year-old households respectively.

Changes in dwelling needs

Consequently, it's likely this family stage of life will bring about a change in dwelling needs as Millennials seek larger dwellings and more of them move from renting into owner occupation.

Already, a shortage of appropriate dwellings is evident within Sydney and Melbourne. The Inner and Middle suburbs of these cities have been losing 35 to 49-year-olds to the Outer suburbs and Regional areas, where larger dwellings are available at more affordable prices.

The boom in apartment construction over the past decade has been key in accommodating the Millennial population as young renters and first-time homebuyers, but the housing market will need to change again over the next decade to be able to accommodate Millennials in their next stage of life. Historical demographic trends indicate that they will be looking for larger family dwellings and more of them seeking to buy rather than rent.

Net movement of 35-49 year olds 2011 to 2016

REGION	SYDNEY	MELBOURNE
Inner	-15,168	-13,524
Middle	-15,083	-13,952
Outer	11,087	18,642
Rest of state	18,322	8,120
Loss to interstate	842	714

Where next for Millennials?

It's not known if Millennials, many of whom now live in the inner suburbs and other high-amenity areas, will follow their predecessors into the outer suburbs and regional areas in search of a house or if they will prefer to stay in the inner and middle ring suburbs.

The challenge for the market to accommodate demand from this group is to provide a more diversified range of housing options in a proximate location at an affordable price yet designed well enough to accommodate a family.

Keeping house

Moderate rent rises encourage stable tenancies, but conditions are varied

Rental price growth

Rental growth through 2018 has varied between capital cities in line with differing demand and supply fundamentals. Strong rental price growth encourages a move towards ownership as it becomes more attractive.

Rents in **Sydney** have grown at 2.2% in 2017/18, having remained at around this level for the last four years. Rents in **Melbourne** through 2017/18 have grown broadly with inflation at 1.9% over the year to June 2018.

Rents in **Perth** at June 2018 were 19% below their June 2014 peak, and in **Darwin** they were 18% below their June 2015 peak, although the rate of decline in both markets has slowed slightly in 2017/18. After sizeable rises leading into these peak years, rental affordability has now improved significantly for tenants.

In **Brisbane**, a large oversupply concentrated in the apartment market has seen rents fall 0.5% in 2017/18. In **Adelaide**, softening demand and increased construction has seen rents continue to rise by 0.7% which is lower than the rate of inflation (2.1%).

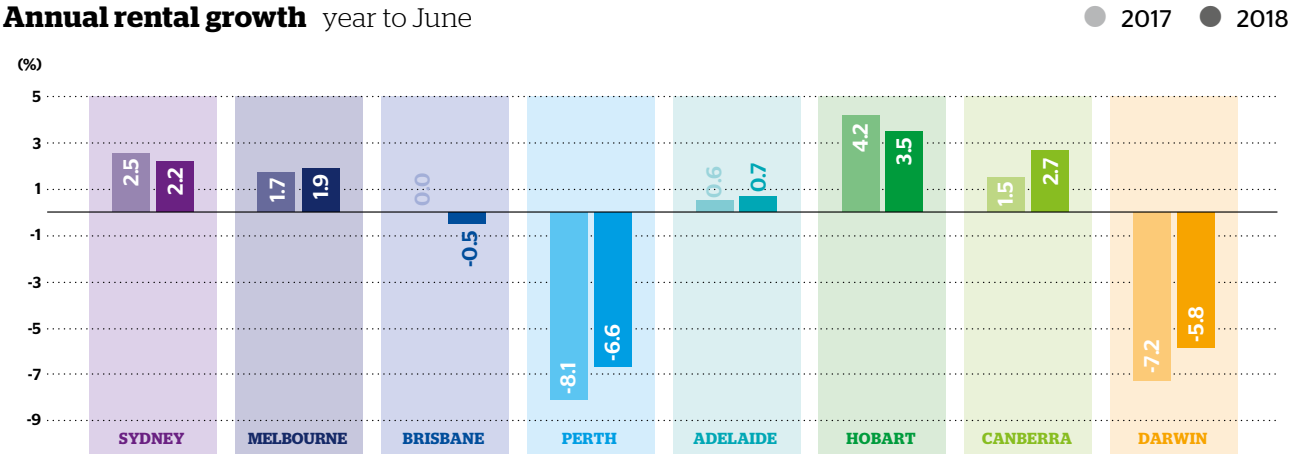
Hobart and **Canberra** saw the strongest rental price growth in 2017/18 of 3.5% and 2.7% respectively, in line with these cities having the tightest vacancy rates. Shortages in rental stock in these cities have allowed landlords to increase rents.

Outlook

Rental price growth in Melbourne and Sydney is forecast to begin to soften due to a combination of rising supply, improved affordability and incentives enticing first home buyers towards home ownership. In Perth, Darwin and to a lesser extent Brisbane, a significant oversupply is likely to continue to put downward pressure on rents.

In Hobart, a growing population and tight vacancy rates will continue to push rents upwards. Rental price growth in Canberra is likely to slow as an emerging dwelling surplus, particularly in the unit market, allows renters to be more selective. In Adelaide, a tightening rental market will likely see rents begin to increase after numerous years of soft rental growth.

Annual rental growth year to June



Vacancy rates

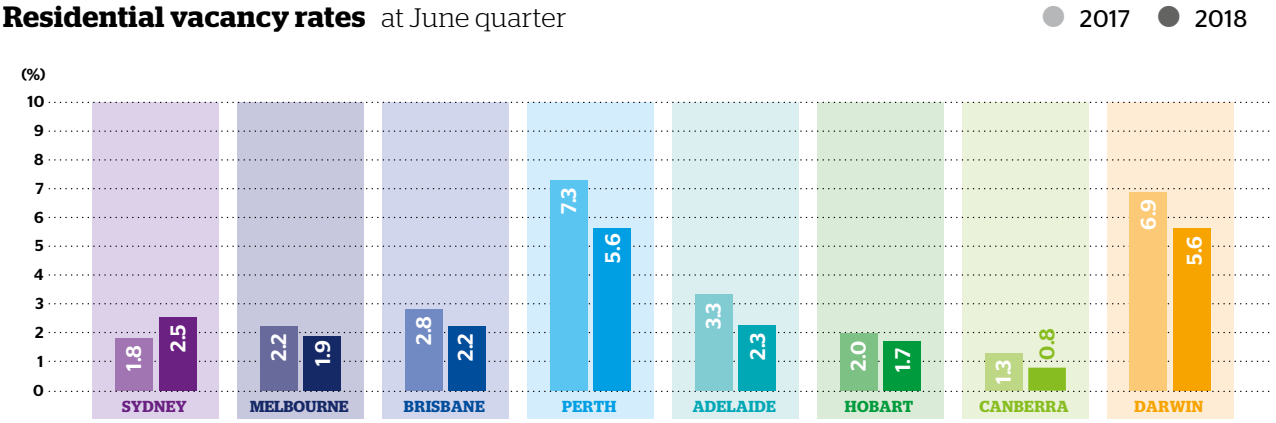
Vacancy rates are a measure of the balance of demand and supply in the rental market. A vacancy rate of 3% is generally considered to be a market in equilibrium, whereby rents will largely move in line with inflation.

Vacancy rates are tightest in **Hobart** (1.7%) and **Canberra** (0.8%), while sustained population growth in **Melbourne** has also seen vacancy rates fall further to 1.9% in June 2018.

Meanwhile in **Sydney,** a large pipeline of stock coming online especially in apartment projects has seen vacancy rates soften to 2.5% at June 2018.

Renters in **Brisbane** and **Adelaide** have experienced a tightening in vacancy rates over 2017/18 from being close to balance in June 2017. The decline in vacancy rates in Brisbane is contrary to the decline in rents that occurred over 2017/18. Meanwhile, vacancy rates in **Perth** and **Darwin** were above 6% in the prior two and three years respectively, although both have fallen slightly to 5.6% in June 2018.

Residential vacancy rates at June quarter

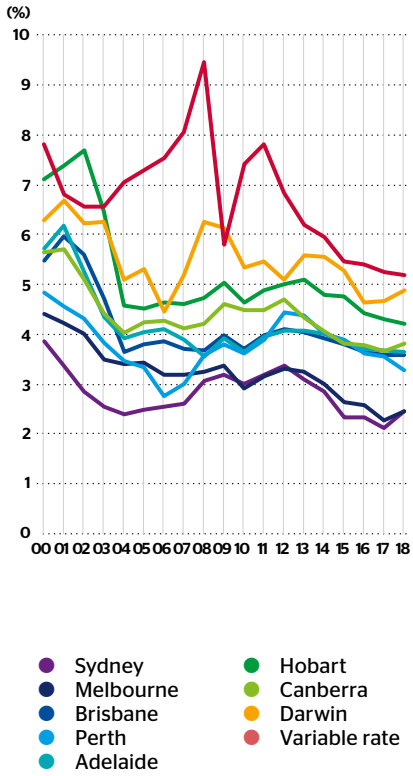


Rental yields

Melbourne and **Sydney** have the lowest housing rental yields of the capital cities at 2.5%. Whilst **Darwin** and **Hobart** have the highest indicative rental yields in the country. Higher yields in these cities reflect their smaller markets and increased volatility. **Hobart's** yields have been tightening over the last six years, with sustained price rises over this period.

Yields in **Brisbane** and **Adelaide** have fallen in similar fashion over the past five years to 3.6% at June 2018 in line with weak rental price growth. Meanwhile, **Canberra** has seen a slight uptick in yields to 3.7% at June 2018 as rents have begun to outpace price growth. In **Perth**, despite a significant decline in prices, rents have fallen further leaving the indicative rental yield at 3.3%. Similarly, a strong fall in rents in **Darwin** has also caused a reduction in yields.

Indicative house rental yields



Outlook

Yields across all capital cities sit significantly below the current standard variable rate. In the current low interest rate environment, the gap between rental yields and mortgage repayments is significantly narrower than compared to the historical average. However, investors have been prepared to accept lower rental yields, especially in markets that have seen capital growth.

Nationally, rental returns are generally forecast to remain consistent during the three years to June 2021, with limited rental price growth matching limited house price growth, keeping yields contained. The unit sector will show some potential for rental growth as price growth is expected to remain low due to large development pipelines. However, the long lead time for new apartments to be built means that the apartment market could tighten before the next round of projects are completed, thereby resulting in rises to yields by 2020/21.

Going steady

Moderate growth expected as jobs and wages stay subdued for now

Economic growth

Economic growth over the next three years is expected to be similar to what was experienced in 2017/18. Gross Domestic Product (GDP) growth is forecast to average 2.9% per annum over the three years to 2020/21 driven by strong export growth, led by liquefied natural gas (LNG) and service sector exports. Solid public infrastructure construction growth is also expected, although dwelling construction is forecast to decline. Early next decade, an expected upswing in investment should lead to an increase in employment growth, resulting in stronger wages growth, household incomes and consumer spending – all of which will support stronger growth in the national economy.

Interest rates

The official cash rate has remained at a record low of 1.5% since August 2016. This comes as inflationary pressures have remained benign with the Consumer Price Index (CPI) largely staying below the lower end of the Reserve Bank of Australia's (RBA) 2-3% inflationary target. Recent Australian Prudential Regulation Authority (APRA) directives have targeted interest-only lending, with the outcome being an increase in the rate on interest only loans. In April APRA announced plans to remove the cap on investor loan growth subject to additional criteria being achieved.

However, rising funding costs have seen lenders increase interest rates independent of changes to the cash rate, with banks raising lending rates by around 15 basis points in 2018, taking the standard variable rate to around 5.35%. In contrast, the cash rate is expected to remain at its present level until the latter half of 2019/20, when wages and CPI are expected to begin to rise in response to steady tightening in the unemployment rate. The cash rate is forecast to be 50 basis points higher than current levels by June 2021, and corresponding rises are expected in lending rates. Without significant competition in the banking sector, there is expected to be little pressure on bank margins.

Housing affordability

Sydney and **Melbourne** property price growth in recent years had pushed affordability to critical levels by 2016/17. But the decline in prices over the course of the past year has started to improve affordability and is expected to continue to improve over the next three years as price growth forecasts are weak. Outside of Sydney and Melbourne, affordability levels are much better, and are expected to remain so over the next three years. The exception to this is **Brisbane**, which will likely see strong price growth over the two years to 2020/21, once the current market oversupply has been absorbed.

State of play

Gross Domestic Product

Economic growth in Australia continues to be driven by exports and business investment, while consumer spending is soft. Merchandise exports are trending up, although are still volatile, and business confidence surveys point towards strong sentiment. In contrast, employment growth has slowed sharply this year and growth in retail spending remains weak, highlighting the challenging environment for households. While mining related investment continues to decline, this has been partly offset by significant investment in public sector infrastructure projects across Australia. National GDP growth ended at 2.9% over 2017/18, up from 2.1% in 2016/17.

Consumer spending and employment growth

Consumer spending is relatively weak. Households face a number of headwinds, including weaker momentum in employment growth, stagnant real wages, weak growth in non-wage incomes, and falling or weak house prices in most of the major capital cities.

In the short term, jobs growth is expected to remain weak, given that employment ran well ahead of output in 2017. Despite an unemployment rate of 5.3% at August 2018, slack remains in the market, with the underemployment rate well above 8%. Wages growth is expected to remain constrained, and with headline inflation set to be boosted by a rising oil price and increases in the cost of essential services such as healthcare, real wages could decline through the rest of 2018.

Inflation

Inflationary pressures remain subdued. Underlying inflation is below the RBA's 2–3% band, although one-off factors such as increases in the tobacco excise and the recent rise in oil prices are expected to push headline inflation up to around 2.5% at the end of 2018.

Core inflation should remain close to the bottom of the RBA's target band, with employment growth slowing and spare capacity still to be absorbed in the labour market. Wages growth is expected to remain weak until well into 2019.

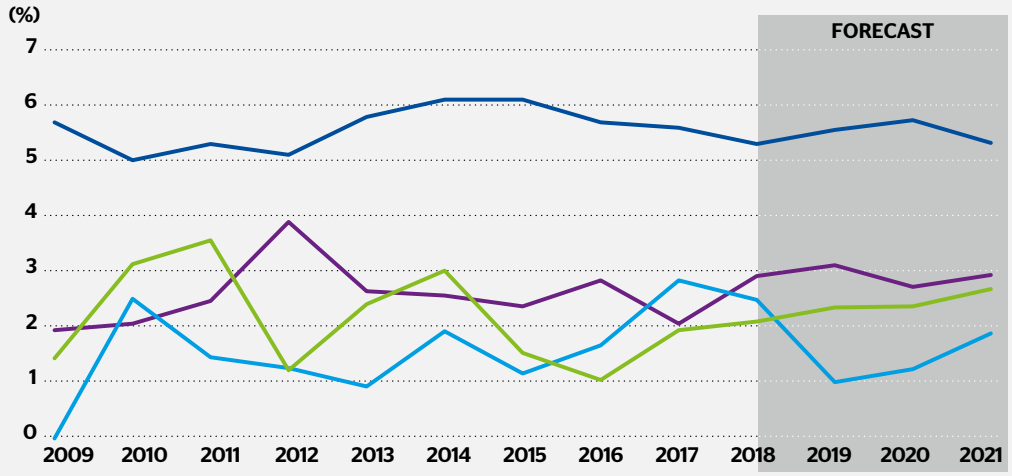
Global climate

Global economic growth is expected to be strong during 2018, as developed economies move towards full employment and China continues its transition to a moderate and sustainable growth trajectory. The US economy is growing at its strongest pace in four years, supported by corporate tax cuts. Over the next three years, global economic growth is expected to slow as some of the major economies hit capacity constraints and reach full employment. Key risks on the global economic horizon include protectionism worries in the form of tariffs imposed by the US on various countries (most notably on China and Europe), the weak Chinese yuan, and the risk of a hard Brexit.

Outlook

Over the next three years GDP growth in Australia is expected to be moderate, averaging 2.9% per annum until 2020/21. Economic activity will be boosted by growth in exports, particularly LNG production and service exports (led by international tourism and education and boosted by a more competitive dollar). The outlook for rural and manufacturing exports is also positive, with both sectors benefiting from Australia's comparative advantage in high-quality premium product. Public infrastructure construction activity is nearing its peak, but with a solid pipeline of work yet to be done (mainly in the road and rail sectors), activity is expected to remain at elevated levels over the next three years. The positives are expected to more than offset declining residential construction over the three years to 2020/21. Early next decade an expected upswing in investment is likely to lead to an increase in employment growth, resulting in stronger wages growth, household incomes and consumer spending – all of which will support stronger growth in the national economy.

Key economic indicators[1]



2021 FORECAST

Unemployment Rate
5.3%
2018 5.3%

GDP Growth
2.9%
2018 2.9%

CPI Growth
2.7%
2018 2.1%

Employment Growth
1.9%
2018 2.5%

1 Employment growth to August and unemployment rate as at August.

Interest rates

Changes to the cash rate

Housing interest rates are set with reference to the 'overnight cash rate' which is set by the RBA. The cash rate has remained unchanged at 1.5% since August 2016 (the lowest on record), having been cut from a high of 4.75% in 2011. The reduction in the cash rate has reflected the modest outlook for employment and income growth, and in turn the outlook for inflation.

The margin between the cash rate and the standard variable lending rate set by the banks has widened as the cost of funding for banks has increased since the Global Financial Crisis, and rises in funding costs in 2018 have seen banks raise the standard variable rate by a further 15 basis points. Banks also differentiate between customers by offering a discounted variable rate for borrowers with lower risk. The indicative standard variable rate used by the banks for owner occupier residential loans is now around 5.35%, although many banks offer discounted rates more than 100 basis points below the standard variable rate to approved borrowers.

Regulatory influences

In recent years, APRA sought to contain rising speculative investor demand and provide more stability to the financial system. APRA did this by progressively increasing oversight, mandating the strengthening of bank balance sheets and tightening lending guidelines, with a focus on containing growth in investment lending. In April 2017, APRA mandated that banks limit interest-only lending (which is favoured by investors) to 30% of new residential loans.

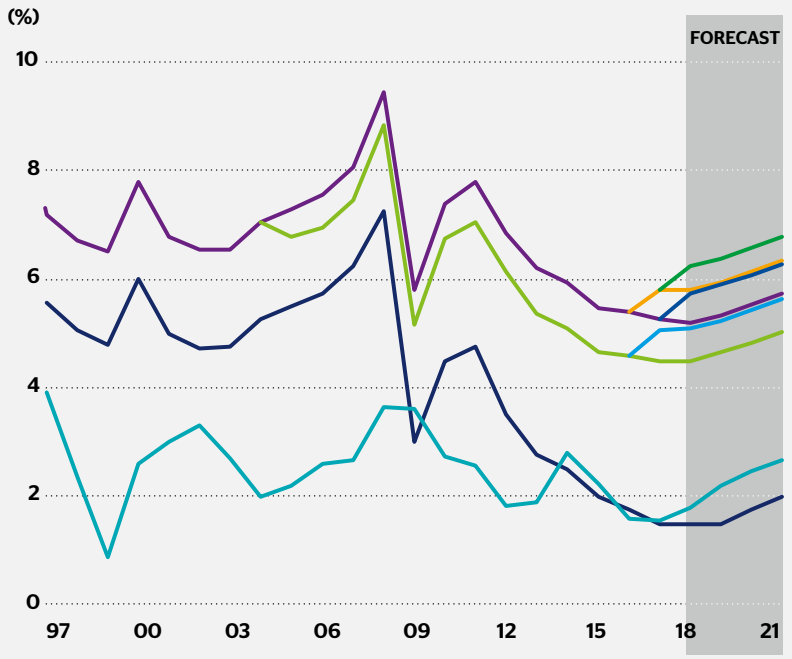
The result has been an increased differentiation in lending by the banks between owner occupiers and investors. Investors pay an interest rate premium of about 60 basis points over the equivalent owner occupier principal and interest rate, while for investors with interest only loans, the premium is around 100 basis points. Maximum loan-to-value ratios offered to investors are also lower than they were prior to the regulatory intervention. The consequent reduction in investor demand has resulted in increased competition for more secure owner occupier borrowers.

Outlook

While employment growth nationally was strong in 2017, some slack remains in the labour market, and wage and inflationary pressures should remain benign for the next couple of years. The cash rate is forecast to remain at 1.5% through to the end of 2019, with the RBA forecast to tighten interest rates in early 2020 with a 25 basis point increase in the cash rate, and a further 25 basis point rise in 2020/21. Concerns are likely to emerge about inflationary pressures building up as the economy begins to pick up as investment strengthens, unemployment falls and the potential for stronger wages growth increases. Equivalent increases are expected in other lending rates.

While not contained in the forecast, further rises to wholesale funding costs by lenders could result in additional out-of-cycle rises to borrowing rates independent of increases in the cash rate by the RBA.

Indicator lending rates[1] as at June



2021 FORECAST (AT JUNE)

Cash rate ^ 2.0% 2018 1.5%	**Housing rate** (Standard investor) ^ 6.3% 2018 5.8%
Interest only (Owner occupiers) ^ 6.25% 2018 5.75%	**Housing rate** (Variable) ^ 5.7% 2018 5.2%
Housing rate (Discount investor) ^ 5.6% 2018 5.1%	**Interest only** (Investors) ^ 6.75% 2018 6.25%
Housing rate (Discount variable) ^ 5.0% 2018 4.5%	**CPI baseline** ^ 2.67% 2018 1.79%

1 Forecasts for interest rates outside the standard variable rate are set at a consistent margin to the standard variable rate. These have the potential to change relative to the variable rate.

Housing affordability

While demand and supply are an important influence on prices and rents, there is an upper limit on how much of a household's income can be spent on mortgage repayments. As it becomes more difficult to service a mortgage, further property price growth becomes less possible unless incomes rise, spending habits change or interest rates reduce sufficiently to make purchasing more affordable.

In **Sydney** and **Melbourne,** the level of affordability (as measured by the ratio of mortgage repayments to average household disposable, or after tax, income) reached its worst point in 2016/17 at a similar level to 2008, when variable interest rates were much higher at 9.6%. At this level any increase in mortgage repayments (i.e. higher interest rates, or conversion from interest only loans to principal and interest) is likely to leave some households in distress. With prices declining in 2017/18, affordability levels have improved, but remain elevated.

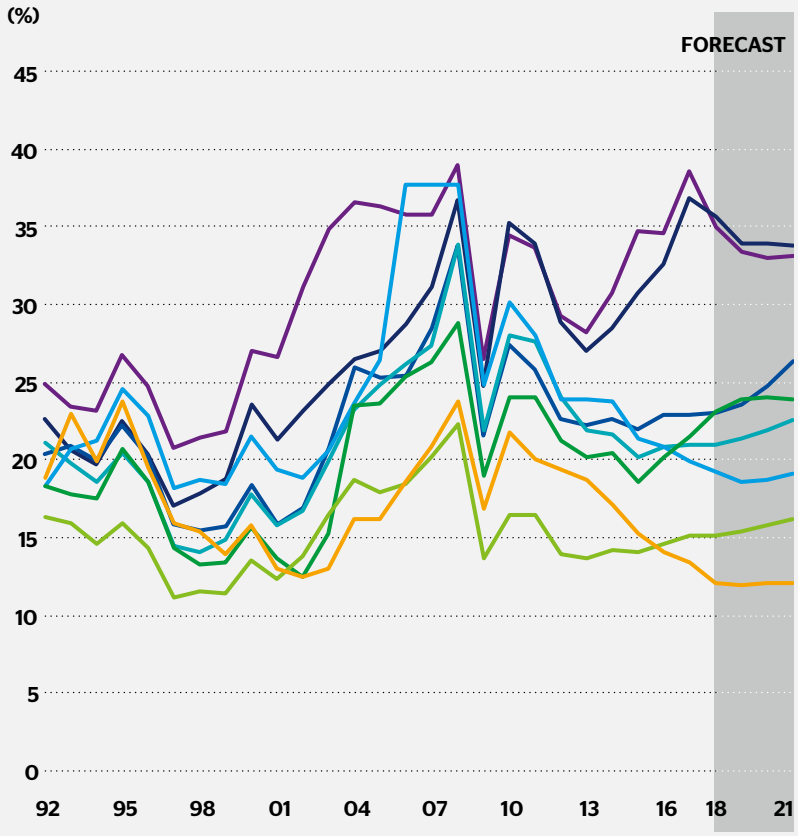
Affordability outside of Sydney and Melbourne is much better. **Canberra** has seen affordability levels deteriorate to a degree after witnessing strong price growth. **Brisbane, Adelaide** and **Hobart** affordability levels have only deteriorated slightly in recent years, while large price reductions in **Perth** and **Darwin** have made purchasing a dwelling much more affordable and affordability is at levels last seen in the early 2000s.

Outlook

Affordability over the next three years is likely to be most influenced by price movements. In Sydney and Melbourne, without major price declines or significant growth in income, affordability will not improve significantly and these markets will remain vulnerable to rises in interest rates, as the most recent purchasers may have stretched themselves to buy their dwelling.

The situation in the other capital cities, which currently have affordability ratios under 23% in 2017/18 (compared to 34–36% in Sydney and Melbourne) are expected to remain around current levels over the next three years. The exception is Brisbane, where stronger forecast price growth by 2019/20 and 2020/21 will likely lead to deteriorating affordability levels, although affordability will remain attractive relative to previous periods in the mid-late 2000's.

Housing affordability[1]



2021 FORECAST	
Sydney ∨ 33.1% 2018 34.9%	**Adelaide** ∧ 22.6% 2018 21.0%
Melbourne ∨ 33.8% 2018 35.7%	**Hobart** ∧ 23.9% 2018 23.1%
Brisbane ∧ 26.3% 2018 23.1%	**Canberra** ∧ 16.2% 2018 15.1%
Perth ∨ 19.2% 2018 19.3%	**Darwin** ⟷ 12.1% 2018 12.1%

1 Housing affordability is shown as mortgage repayments at the prevailing standard variable rate based on 75% of the median house price as a percentage of average household disposable income.

Open house

First home buyers back in the market as investors step away

Residential property loans

The majority of all property transactions require a residential property loan. These loans are split between first home buyers, non-first home buyers (upgraders and downsizers) and investors.

Traditionally first home buyers have accounted for the smallest segment of the market. Since July 2017, affordability improvements, coupled with first home buyer grants and various tax concessions, has seen an increase in both the volume and the proportion of first home buyers, which have partly offset the decline in investor purchasers.

First home buyers

Worsening housing affordability saw loans to first home buyers remain suppressed, averaging 11% of total residential lending through 2013 to 2017. Since then, improvements in affordability and first home buyer grants and related tax concessions in New South Wales, Victoria and Northern Territory have released a surge of pent up first home buyer demand into the market. First home buyer lending increased nationally by 28.4% in the 2018 financial year to account for 15% of all residential lending.

The rise has been particularly apparent in New South Wales with a 74% increase in first home buyer lending in the past 12 months. This indicates the extent of pent-up demand from this group after poor affordability and difficulty in meeting the upfront purchase cost of a dwelling had previously deterred a significant section of this market segment.

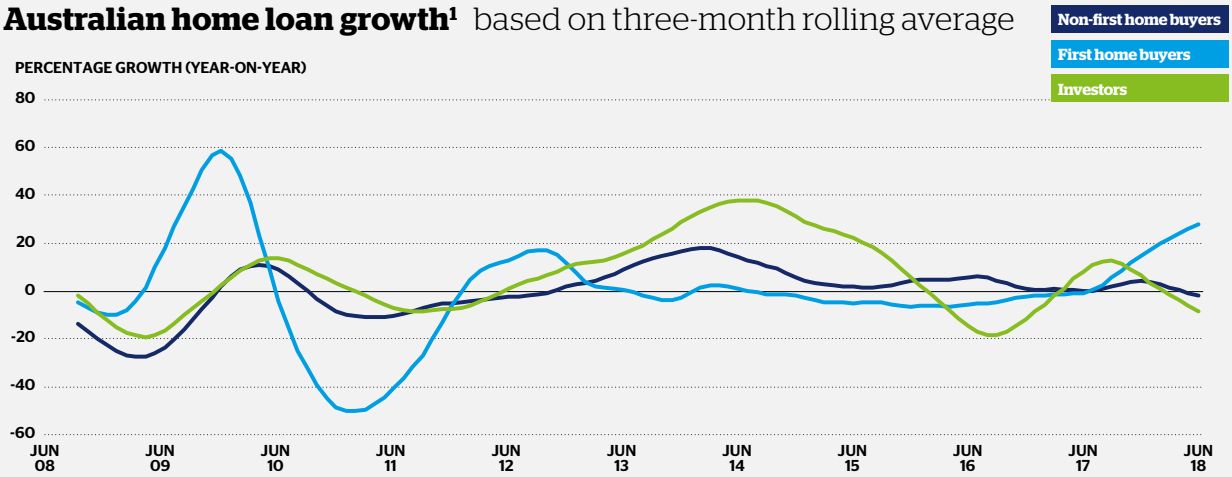
Non-first home buyers

Loans to non-first home buyers nationally eased through 2017/18, recording a decline of 3.4% on the year prior. There was, however, significant geographical variance, with some states recording large declines while others saw positive gains.

Investors

Investor lending peaked in 2014 and steadily eased before a 17.2% decline was recorded in 2015/16. Despite tightening bank lending policy toward investors, loans to investors again rose by 11.1% in 2016/17, before falling by the same amount in 2017/18. This has come as further restrictions and increased costs were placed on interest-only lending which was an investor mainstay.

Australian home loan growth[1] based on three-month rolling average



1 Investor activity based on value of lending , owner occupier data based on number of loans.

First home buyers

Nationally, loans to first home buyers rose by 28.4% over the 12 months to June 2018. The largest increases were seen in the states with the lowest levels of affordability, namely **New South Wales** which saw a 73.6% increase on the previous year, **Victoria** (36%), as well as the **Australian Capital Territory** (45.8%). While recent price declines may have helped to attract some first home buyers in Sydney and Melbourne, it is the introduction of stamp duty concessions that have fuelled first home buyer demand. **Queensland** recorded lower growth of 8.2% in 2017/18, although from a much higher base than New South Wales. Over the past five years the number of first home buyer loans have been higher in Queensland than New South Wales despite Queensland a significantly smaller population.

Significant improvements in affordability and the most substantial first home buyer incentives in the country saw the **Northern Territory** experience a 25.5% increase in first home buyer lending in 2017/18. More modest growth occurred in **Western Australia** (3.3%), **Tasmania** (6.8%) and **South Australia** (11.2%).

First home buyer incentives

The chart shows existing state and federal government incentives offered to first home buyers. Where stamp duty concessions are offered, the maximum concession is indicated. There are some purchase price limits for grant eligibility, which vary by state.

The Northern Territory offers the largest cash grant, offering up to $26,000 in grants for first home buyers of new homes. In New South Wales, stamp duty concessions up to the value of $24,700 for first home buyers have been the impetus behind the surge in first home owner lending.

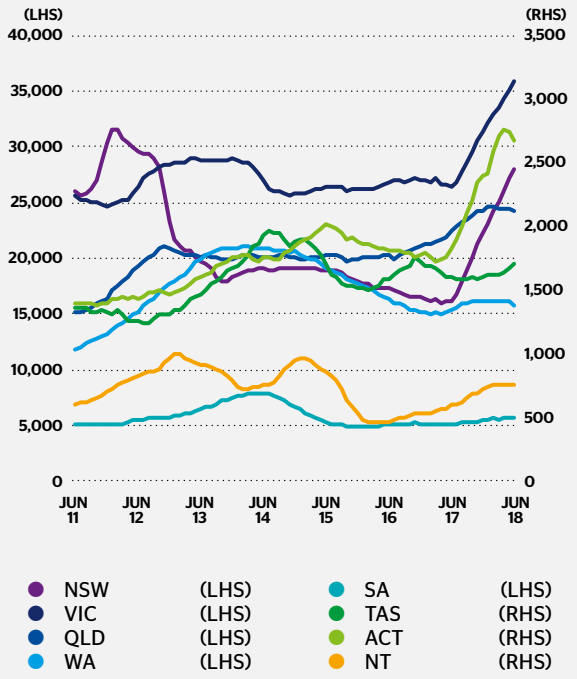
Outlook

The two least affordable states, New South Wales and Victoria, have seen the biggest improvement in first home buyer lending, indicating there is significant pent up demand in cities where high prices have kept first home buyers from entering the market. The stamp duty concessions have reduced the up-front costs, which in turn has made it easier to purchase.

However, in Sydney and Melbourne the price threshold for stamp duty concessions mean that first home buyer demand is largely concentrated in the unit market (and in regional areas) rather than the market for detached dwellings. The threshold for stamp duty exemptions in New South Wales of $650,000 is below the outer ring Sydney median house price of $760,000. This would suggest any benefits will be felt most strongly by the more affordable unit market. In contrast the $600,000 threshold for the exemption in Victoria is only slightly below the Outer ring Melbourne suburb median house price of $661,400 indicating that affordable houses in the outer suburbs are likely to experience increased demand.

First home buyer demand in Queensland should continue to grow in line with rising net interstate migration. More modest rises are expected in the other states, with risks to Tasmania if Hobart's strong price growth continues and affordability deteriorates further.

Number of first home buyer loans for owner occupation by state moving annual totals



First home buyer incentives at Aug 2018
Price thresholds may apply

STATE	ESTABLISHED HOME GRANT		NEW HOME GRANT	
	CASH GRANT	STAMP DUTY CONCESSION (MAX)	CASH GRANT	STAMP DUTY CONCESSION (MAX)
NSW	$0	**$24.7k**	$10.0k	**$24.7k**
VIC[1]	$0	**$31.1k**	$10.0k	**$31.1k**
QLD	$0	**$8.8k**	$15.0k	**$8.8k**
WA	$0	**$14.4k**	$10.0k	**$14.4k**
SA	$0	**$0**	$15.0k	**$0**
TAS[2]	$0	**$0**	$20.0k	**$0**
ACT[3]	$0	**$0**	$7.0k	**$0**
NT	$0	**$23.9k**	$26.0k	**$0**

1 Regional purchase of new dwellings grant of $20k offered expiring 30 June 2020.
2 Grant halves in July 2019.
3 Expiring 30 June 2019.

Upgraders and downsizers

Over the past 15 years upgraders and downsizers have represented the largest component of residential demand, comprising 44% of purchaser activity. This is almost three times larger than the first home buyer segment.

After stagnating between 2010 and 2013, the number of loans approved for this segment strengthened over the four years to 2016/17, before falling by 3.4% in 2017/18.

Movements in upgrader and downsizer lending have shown large variations between the states. **New South Wales** saw a fall of 3.6% in 2016/17, while in **Victoria** lending in this segment edged up by 1.3%.

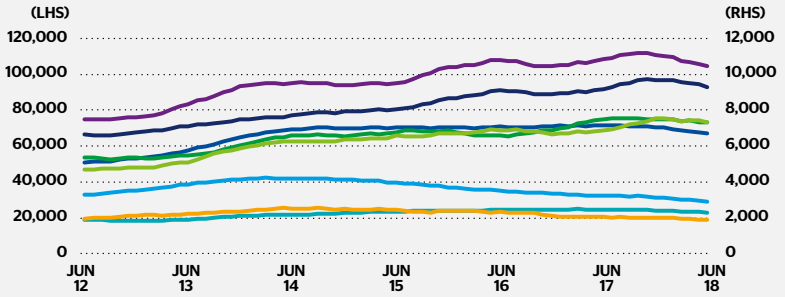
The **Northern Territory** (-8.0%) and **Western Australia** (-10.3%) have seen activity in this segment slump for the third year in a row, which is reflected in their poorly performing residential markets. Meanwhile, **Queensland** (-5.6%) and **South Australia** (-6.3%) saw a more moderate drop in upgrader and downsizer lending in 2017/18.

Of all states, the **Australian Capital Territory** has seen the strongest pick up in upgrader and downsizer lending recording growth in loan approvals of 6.2% in 2017/18.

In **Tasmania,** after a spike in upgrader and downsizer loans over 2016/17, activity has eased, with a contraction of 2% in 2017/18. However, activity in this segment remains significantly above the average of the previous five years.

Number of upgrader/downsizer loans by state

Moving annual totals



Outlook

Low interest rates are expected to continue to support upgrader/downsizer demand in general, although they will most greatly influence markets where there is a dwelling undersupply.

However, a reduced price environment will discourage the selling of an existing dwelling, as evidenced by the drop in loans in Western Australia and Northern Territory. Softening prices in the larger cities are likely to result in upgrader and downsizer activity drifting further downwards in the next year to two years.

Foreign investment

The rise in domestic investor activity coincided with a rise in foreign investment in residential property. Typically, an overseas-based purchaser can only buy a new dwelling in Australia, while a temporary resident can only purchase a dwelling whilst they are in Australia and must sell the dwelling when they leave.

Data from the Foreign Investment Review Board (FIRB) suggests that approved foreign investment in residential property peaked in 2014/15 and 2015/16, at $60 billion and $72 billion respectively, although not all of these approvals translated to eventual purchases.

The most recent data indicates that foreign investment approvals decreased to $25 billion in 2016/17 across both new and established dwellings. As well as the slowing Australian residential market, other disincentives have emerged for foreign buyers. These include greater oversight of foreign purchasers during the application phase, increased FIRB approval fees, limits to the percentage of dwellings that can be sold to foreign investors within a single project, stamp duty surcharges in a number of states, and land tax surcharges for dwellings that are held vacant. In the case of purchasers from China (which make up the largest source of foreign investments by both value and number), tighter capital controls by the Chinese government may have also impacted the outflow of funds. These conditions are likely to remain in place for the foreseeable future and will continue to dampen foreign investment.

Investors

There will always exist a segment of the population demanding rental accommodation. This includes people who move for work or lifestyle purposes or are not ready or do not want the financial commitment of owning a home, cannot afford to purchase a home, or chose to rent in one location and own a dwelling in another. Investors make up a key segment of demand in the residential property market, having accounted for 42% of residential lending over the past 15 years.

Investor environment

Record low interest rates drove a surge in investor lending and played a major role in facilitating price growth in recent years, particularly in Sydney and Melbourne. Investor levels peaked in 2014/15 when they became the largest segment of residential loan activity.

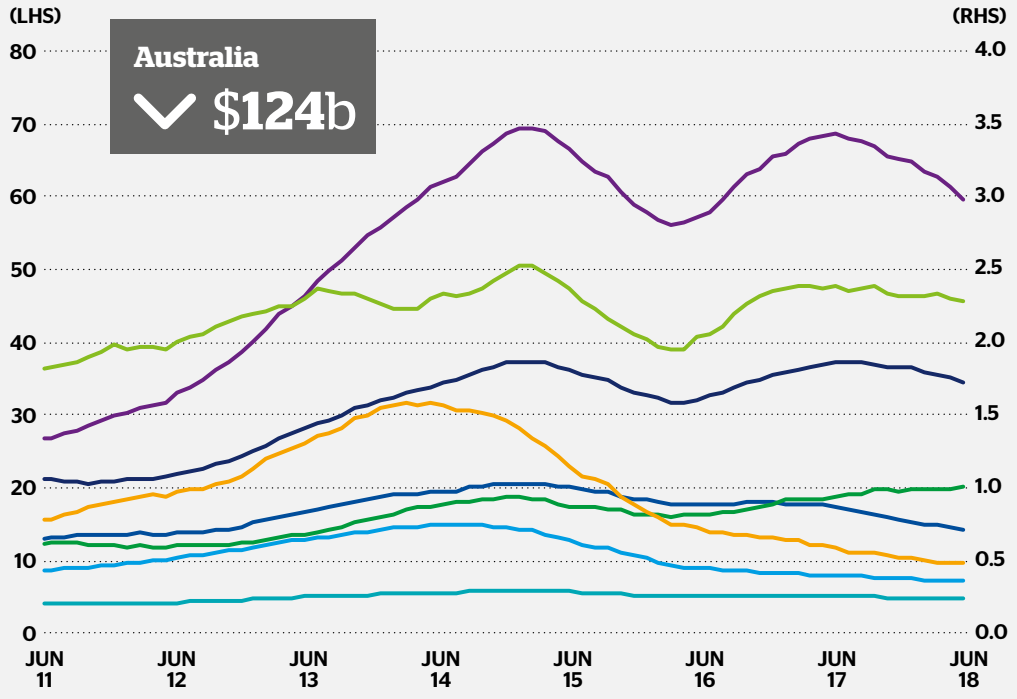
Through the two years to 2016/17 APRA imposed, among other measures, a cap on investor loan growth of 10% for Authorised Deposit-Taking Institutions. Banks responded by tightening approvals criteria for investor borrowers, lowering loan to volume ratios and increasing interest rates for investors.

Investor loans fell in 2015/16 before a reduction in interest rates and some easing in lending policy by the banks saw volumes rebound through 2016/17. Further constraints on interest-only lending (which is favoured by investors) were introduced by APRA in April 2017 to limit interest only loans to less than 30% of new residential loans. This has curtailed investor activity again, and the value of loans to investors declined by 11.1% in 2017/18.

New South Wales and **Western Australia** saw a similar decline in the value of investment loans which fell by an annual 12.3% and 11.7% respectively. Strong capital gains in recent years meant that **Tasmania** (9.7%) was the only state in which there was an increase in investor lending activity in 2017/18. After seeing a sustained fall in median house prices, the **Northern Territory** saw the largest decline in investor lending of 21.3%. **Queensland** saw investor volumes fall by 11.7%, while **South Australia** saw a more moderate 9.8% drop. **Victoria** and the **Australian Capital Territory** saw small declines in investor loan values of 6.2% and 4.6% respectively.

With purchaser activity slowing, APRA announced plans to abolish the 10% cap on annual growth in total bank exposures to investors effective 1 July 2018. This is unlikely to cause another rebound in the level of investor lending. APRA has stipulated a number of additional criteria that banks must comply with before approval is given to remove the investor cap. Furthermore, across the large cities, limited growth in capital gains and lower yields are now deterring investor activity.

Value of investor loans by state ($ billion) moving annual totals



MOVEMENT FROM 2017

New South Wales (LHS)	▼ $59.6b
Victoria (LHS)	▼ $34.4b
Queensland (LHS)	▼ $14.3b
Western Australia (LHS)	▼ $7.1b
South Australia (LHS)	▼ $4.6b
Tasmania (RHS)	▲ $1.0b
Australian Capital Territory (RHS)	▼ $2.3b
Northern Territory (RHS)	▼ $0.5b

A fine balance

Overseas migration slows as completions cause a rise in housing stock

Dwelling balance

The interaction of demand and supply drives price growth and new dwelling construction. If dwelling supply is not meeting demand (a deficiency), then this will drive price growth and more dwelling commencements. Where supply exceeds demand (an oversupply), price growth is more subdued, and new dwelling construction is weaker.

Underlying demand

Underlying demand for new dwellings is driven primarily by population growth, which is a combination of natural increase (births minus deaths) and net overseas migration. Migration between the states, net interstate migration, also contributes to population growth in each of the states. The ebbs and flows of migration will impact more directly on the market, as migrant arrivals will typically require a roof over their heads when they arrive.

Compositional trends

The composition of underlying demand has been steadily changing. Millennial households (those aged 20-34 years old) have shown an increasing preference to live in units, which are typically more affordable than houses (for renting or buying), as well as being located close to high-amenity locations, such as the Central Business District and suburban town centres. Baby Boomers (aged in their 50s to their 70s) are also increasingly downsizing to smaller dwellings as they reach retirement age, although the numbers at this stage are still not significant. Overall, this is leading to units accounting for an increased share of demand. The sustainability of this trend will depend on whether Millennial households continue to remain in units as they enter their late 30s and 40s or move into houses.

Overseas migration

National trends

Net overseas migration has been the predominant driver of national population growth, accounting for 60% of total population growth over the past three years. The drivers of this growth have been strong employment growth (attracting people for employment) and increased numbers of overseas students. Net overseas migration inflows have moved in line with economic conditions, peaking at 300,000 in 2008/09 and bottoming out at 184,000 in 2014/15. Net overseas migration subsequently recovered to 262,500 in 2016/17, with growth in overseas students being the main contributor. Data for the six months to December 2017 suggests net overseas migration has weakened in 2017/18 in response to changed Federal Government conditions on working visas. As a result, net overseas migration is expected to end at around 230,000 persons in 2017/18. Despite being a 12% fall on a year earlier, this remains well above the long-term average.

State trends

Net overseas migration has predominantly been to the largest states of **New South Wales** and **Victoria**, which have captured 63% of all net overseas migration over the past decade. The resource states of **Queensland**, **Western Australia** and the **Northern Territory** have seen their share of net overseas migration fall from over 43% in 2011/12 to averaging just 24% over the past five years. The share of overseas migrants settling in **South Australia**, **Tasmania** and **Australian Capital Territory** has remained relatively steady at around 8% over the past decade.

Net overseas migration to Australia annual average

2009-2018	220.9k
Forecast 2019-2021 ∨	220.0k

STATE SHARE	2009-2018%	2019-2021%
NSW	33.2	∧ 36.6
VIC	29.8	∧ 30.9
QLD	15.9	∨ 14.5
WA	12.4	∨ 10.1
SA	5.6	∨ 5.0
TAS	0.8	◇ 0.8
ACT	1.5	◇ 1.5
NT	0.9	∨ 0.5

Outlook

Over the three years to 2020/21 a combination of factors are expected to lead to a reduction in net overseas migration. There has been a change in visa policies which include replacing the subclass 457 visa with new visa categories, effectively adding barriers for potential migrants. A stronger New Zealand economy has also started to taper off inward migration. On the positive side, overseas student numbers should continue to grow over the forecast period, and net overseas migration inflows are projected to ease slightly to 215,000 by 2020/21. On average, this is around the same level as the past decade, at around 220,000 persons per annum.

Annual average net overseas migration

New South Wales
2009-2018
73.4k
Forecast 2019-2021
∧ 80.6k

South Australia
2009-2018
12.3k
Forecast 2019-2021
∨ 11.1k

Victoria
2009-2018
65.7k
Forecast 2019-2021
∧ 68.1k

Tasmania
2009-2018
1.7k
Forecast 2019-2021
◇ 1.7k

Queensland
2009-2018
35.1k
Forecast 2019-2021
∨ 31.9k

Australian Capital Territory
2009-2018
3.3k
Forecast 2019-2021
◇ 3.3k

Western Australia
2009-2018
27.4k
Forecast 2019-2021
∨ 22.3k

Northern Territory
2009-2018
2.0k
Forecast 2019-2021
∨ 1.1k

Interstate migration

New South Wales

There has been a marked increase in net interstate outflows from **New South Wales**, which rose from a low of 6,800 in 2014/15, to an estimated 23,000 in 2017/18. The most recent rises in house prices in Sydney appear to have driven increased outflows, particularly to Queensland, where affordability is more attractive and economic conditions are beginning to improve.

Victoria

With strong economic growth and more affordable housing relative to Sydney, Melbourne has been the destination of choice for interstate migrants. Victoria's net interstate migration inflow averaged 8,800 persons over the past decade and was as high as 16,700 per annum over the past three years. This has started to trend downward, falling to an estimated 14,300 persons in 2017/18.

Queensland

In the years following the mining downturn net inflows into **Queensland** weakened to 11,700 persons per annum over the past decade (from 25,800 per annum over the prior decade to 2008). Interstate inflows from other east coast capital cities, attracted by a more affordable housing market, are now picking up and in 2017/18, the net inflow rose to an estimated 25,800 persons, the highest of all states.

South Australia

Net interstate migration outflows from **South Australia** have fallen from 7,200 in 2015/16 to an estimated 5,500 in 2017/18. Employment growth has remained sluggish and is likely to keep net interstate outflows above the long term average.

Western Australia

In **Western Australia**, the net interstate migration outflow of 1,900 per annum in the past decade masks the impact of the boom and bust mining cycle where net inflows peaked at 8,600 in 2011/12. Net outflows have peaked at 13,900 in 2016/17 and are expected to be slightly lower at 11,000 in 2017/18.

Tasmania

In **Tasmania**, interstate migration outflows became a net inflow in 2015/16, rising to an estimated 2,000 persons in 2017/18. Improved affordability relative to Sydney and Melbourne appears to be resulting in increased "tree change" migration to Tasmania. Having predominantly been mainly retirees there has been a significant increase in the number of younger families moving to Tasmania.

Australian Capital Territory

Strong job growth in the **Australian Capital Territory** saw net interstate migration pick up to an average 700 persons in the past three years. This came after net outflows in the three preceding years.

Northern Territory

Economic conditions in the **Northern Territory** have worsened as resource investment falls back. Subsequently fewer job opportunities have increased the net outflow to an estimated peak of 3,200 persons in 2017/18.

Average annual net interstate migration

	2009-2018	Forecast 2019-2021
New South Wales	-13.8k	⌄ -28.7 k
South Australia	-4.6 k	⌃ -4.0 k
Victoria	8.8 k	⌄ 8.0 k
Tasmania	0.2 k	⌃ 1.0 k
Queensland	11.7 k	⌃ 25.8 k
Australian Capital Territory	0.4 k	⌃ 0.5 k
Western Australia	-1.2 k	⌄ -1.7 k
Northern Territory	-1.6 k	⌃ -1.0 k

Outlook

Net interstate outflows from New South Wales are projected to increase further over the next three years, averaging a forecast 28,700 persons per annum. Inflows into Victoria are set to slow, as high Melbourne house prices and improving state economic conditions elsewhere reduce the relative attractiveness of Melbourne. Queensland is expected to see the strong net interstate migration inflows of 2017/18 be sustained through to 2020/21. In Western Australia and the Northern Territory, the recent high net outflows are forecast to slow markedly as the transient residents from the mining boom have mostly returned home.

The relative affordability of housing in South Australia is likely to see the net outflow slow as its economic outlook picks up. Sustained job growth should keep net inflows into the Australian Capital Territory at around 500 persons per annum over the forecast period. Lifestyle considerations and stronger employment growth will likely see a positive net interstate migration to Tasmania maintained at around 1,000 persons per annum over the three years to 2021.

Supply – commencements

New dwelling starts in Australia have exceeded 200,000 dwellings in each of the past four years to 2017/18, surpassing previous records. Commencements are forecast to remain elevated at 223,000 dwellings in 2017/18. This sustained level of new supply will see some states experience a rising oversupply, while in other states the existing deficiency will be reduced.

New South Wales

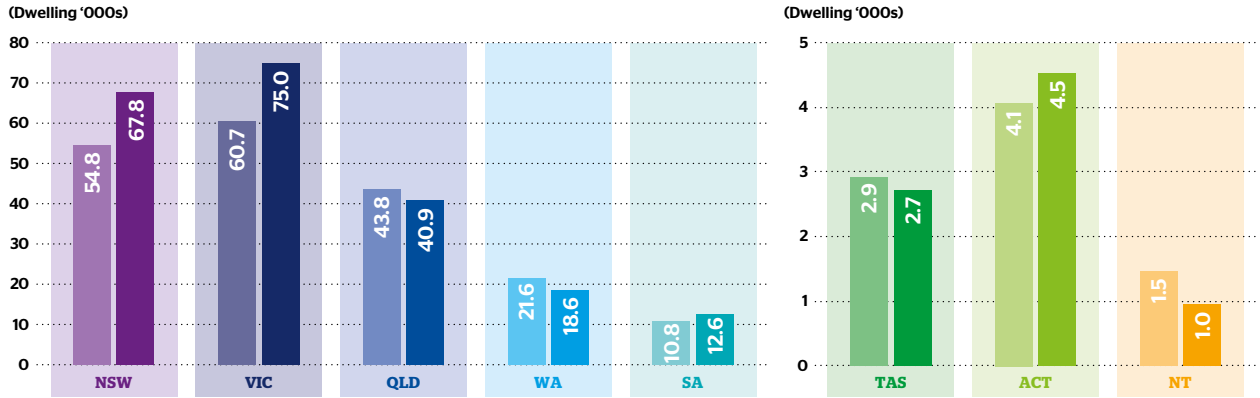
With new dwelling construction in **New South Wales** at 50-year lows through the late 2000s, a significant dwelling deficiency built up, peaking at more than 58,000 dwellings in June 2015. Together with reductions in interest rates, this dwelling deficiency drove a strong upturn in new dwelling construction, and dwelling commencements in the state rose to a record 74,400 in 2016/17. Population growth and annual dwelling completions have been outpacing demand since 2015/16, and the dwelling deficiency is estimated to have eased to 43,100 dwellings at June 2018. New dwelling activity is starting to now ease, with commencements falling by 9% to an estimated 67,900 dwellings in 2017/18. As a result, the New South Wales market is expected to remain in undersupply by 2021.

Victoria

In **Victoria**, dwelling commencements have surged over the past four years to June 2018, averaging 68,100 dwellings per annum, compared to 47,000 per annum over the preceding decade. Dwelling undersupply is estimated to be 11,400 dwellings at June 2018 and will progressively move closer to balance as the dwelling construction pipeline is completed. The disparity between house and unit construction suggests that an oversupply of units will emerge, while the house market will remain in undersupply.

Annual demand and supply by state
year to June [1]

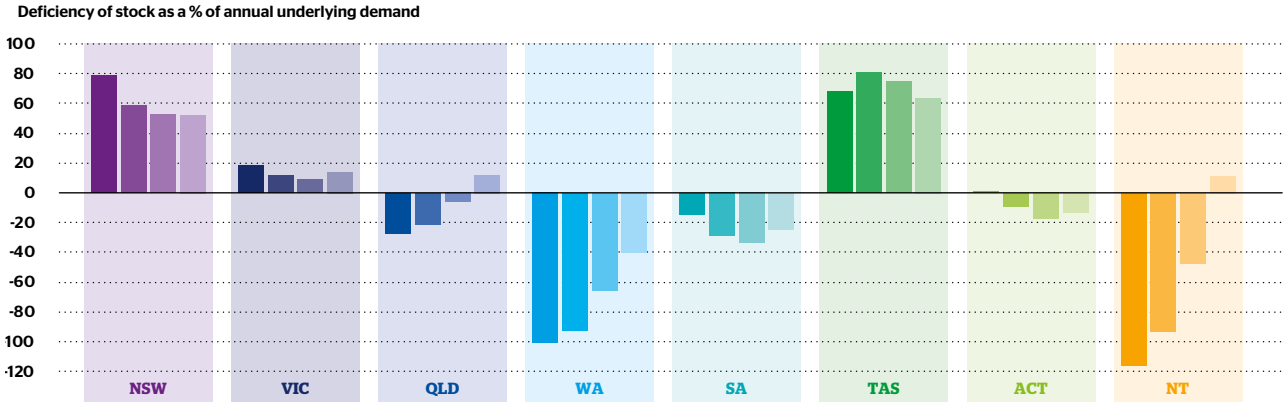
Average Annual Underlying Demand 2018/19 to 2020/21
Dwelling Commencements 2017/18



1 Supply represents commencements for the year which will be added to the stock as they are completed. If commencements exceed underlying demand, this may not mean an oversupply emerges if the market is already in significant deficiency.

Dwelling stock deficiency/surplus by state [1]
as at June

Key: 2018 2019 2020 2021



1 Measured as a percentage of annual underlying demand. A deficiency of 50% means that half a year's worth of demand (in excess of normal building) has to be built for the market to be in balance, while a surplus of 50% means that if no new supply was added, then it would take half a year for the surplus to be absorbed.

Supply – commencements continued

Queensland

In **Queensland**, surging unit construction in Brisbane has seen an oversupply concentrated in the unit market. Medium and high-density dwellings have accounted for over 46% of total new dwelling activity in the five years to 2018, from a historical base of 32% in the preceding 10 years. The oversupply is set to begin to be absorbed albeit slowly with commencements, and therefore completions, projected to be down 30% on their 2015/16 peak by 2020/21.

South Australia

The surplus of dwelling stock in **South Australia** is estimated to be at around 1,600 dwellings at June 2018. The excess of dwelling stock is projected to continue to increase until 2019/20 as completions remain elevated with a significant pipeline still to come online.

Western Australia

In **Western Australia**, new dwelling commencements in 2017/18 are down 41% on their peak in 2014/15, but completions have been high in recent years as the peak in commencements has worked through. Completions are now easing, although there exists a sizeable surplus of stock to be absorbed. At June 2018 this was an estimated 21,700 dwellings, which in a period of low underlying demand will take some years to be fully absorbed.

Tasmania

Historically, large deficiencies in dwelling stock have not built up in **Tasmania** with limited population growth keeping demand in check. Recent strong economic growth in the state and a pick up in population growth has seen demand lift, and at June 2018 there existed an undersupply of 2,000 dwellings, which is the largest in Tasmania in over 25 years.

Australian Capital Territory

A record number of completions in 2018 saw a dwelling deficiency move to balance in 2018. Over the forecast period, strengthening demand driven by public sector employment will likely be met by elevated completions leaving the **Australian Capital Territory** in relative balance.

Northern Territory

An exodus of transient workers in the resource sector has seen a slump in population growth and underlying demand in the **Northern Territory**. Despite a significant reduction in the number of dwelling commencements, an oversupply of 1,700 dwellings remained at June 2018. New dwelling commencements in 2017/18 will be 59% below their peak of 2012/13, with the corresponding fall in completions expected to see the market eventually return to balance by 2020/21.

Compositional trends

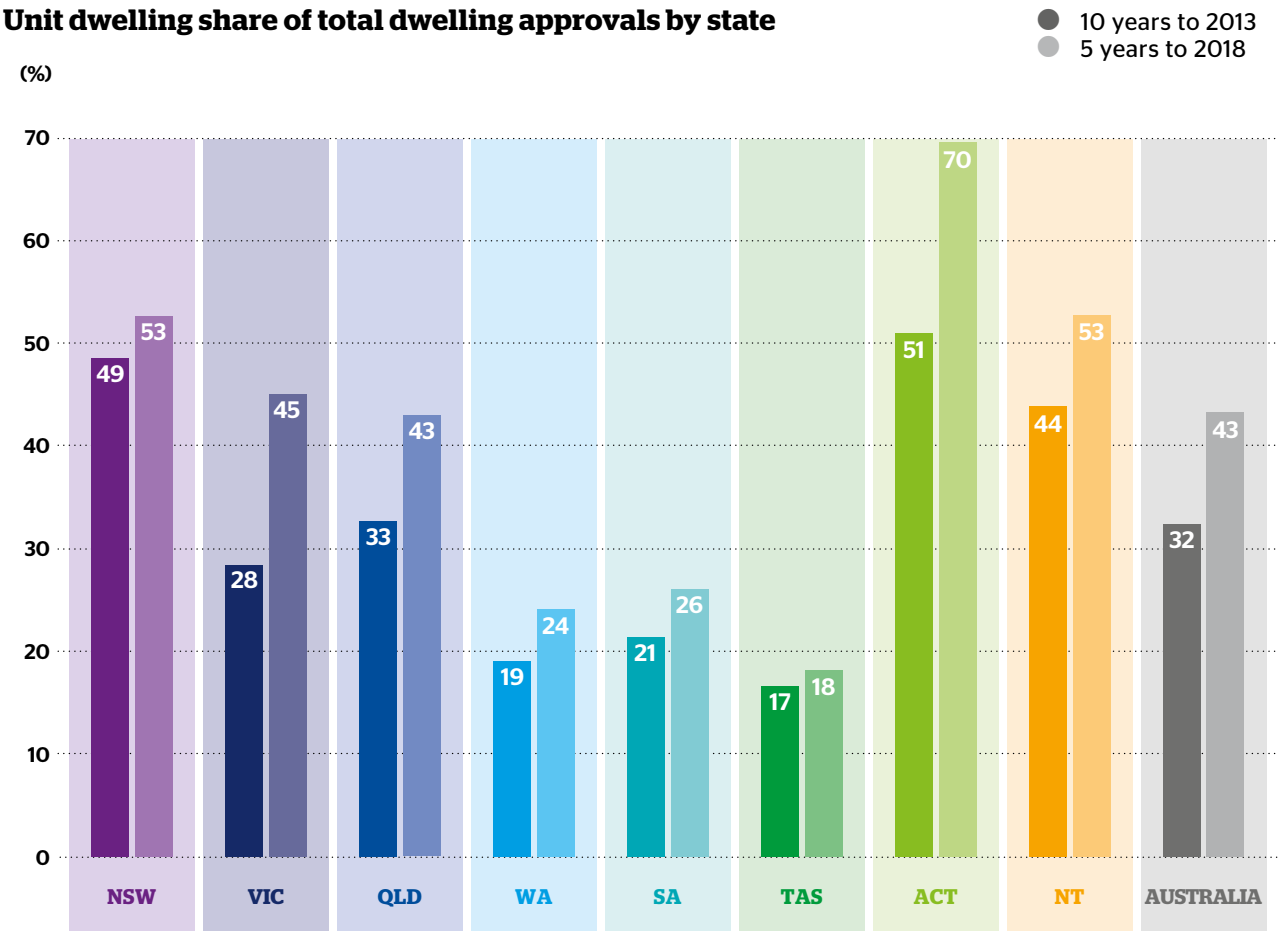
Unit construction in most of the major cities started to surge in 2012/13 and was underpinned by a combination of factors. There has been an increasing preference to live in smaller dwellings, particularly across the younger age groups, while rising downsizer activity has also contributed. Deteriorating house affordability, particularly in Sydney and Melbourne, has seen demand funnel into the more affordable unit market.

Nationally units comprised 32% of new dwelling building approvals in the decade to 2012/13. In the five years to 2018 this was 43%. The largest rise was in **Victoria** (where unit approvals comprised a 28% share in the decade to 2012/13, and a 45% share over the past five years), **Australian Capital Territory** (51% share rising to 70%) and **Queensland** (33% share rising to 43% share). The share of unit approvals in **New South Wales** and **Northern Territory** increased, although units already comprise a large share of new dwelling activity in those states.

Outlook

While unit completions look to have peaked in most cities, the level of unit activity relative to the whole market suggests there remains a marked oversupply in the unit sector, which in turn will dampen unit demand and delay the next round of apartment projects as pre-sales decline. Furthermore, regulatory pressures, rising vacancy rates, and slowing capital growth will curb investor demand over the medium term. With the most recent supply being purchased mainly by investors for the rental market, future supply may also need to transition towards being tailored to changes in demographic demand which is more appropriate for owner occupiers.

Unit dwelling share of total dwelling approvals by state



09. Glossary of terms

Dwelling market:	Includes both houses and units
First home buyers:	Australian Bureau of Statistics (ABS) data on loans to first home buyers are derived from returns submitted by financial institutions to APRA at the time of the loan approval. A first home buyer is defined as "a borrower entering the owner occupier home ownership market for the first time". The definition includes all first home buyers obtaining a loan (and not just those eligible for grants).
Foreign investors:	Overseas resident purchasers. Foreign investors can only buy a new dwelling, while a temporary resident can purchase an established dwelling that must be sold upon returning home. The Foreign Investment Review Board (FIRB) reports the number and dollar amount in billions approved for residential purchases (which includes the entire value of buildings where 100% of dwellings have been pre-approved for overseas buyers, although all of these may not have been taken up) for investment by temporary residents and people overseas.
House market:	Detached or separate dwellings that do not share a wall with adjoining dwellings.
Housing affordability:	Housing affordability in this report is defined by the mortgage repayments on a 25-year loan of 75% of the median house price at June 30 each year, at the prevailing June 30 standard variable rate, as a percentage of average household disposable income. Average household disposable income is derived from the National Accounts data, based on aggregate income divided by an estimate of the number of households.
Interest rates:	Interest rates are set by the Reserve Bank of Australia (RBA) as the mechanism for maintaining economic conditions at a level compatible with stable, low, inflation. The RBA sets the "overnight cash rate", against which financial institutions reference their lending rates. Higher interest rates reduce spending in the economy and reduce inflationary pressure. If inflation pressures are benign, then lower interest rates can encourage more spending and economic growth.
Median price:	Refers to the mid-point of sales that have taken place in a period and is considered a better indicative measure of prices than the average, which can be more influenced by extreme results. Movements in the median price can also be influenced by changes to the composition of sales in between periods. Consequently, the Australian Housing Outlook median price refers to a "weighted median", which is a median weighted by the geographical distribution of the housing and unit stock. It is considered that the weighted median better corrects for the effect of an imbalance in the sales in the period. The raw sales data is sourced from PriceFinder.
Net migration inflow:	When the total number of migration arrivals is greater than the total number of departures.
Net migration outflow:	When the total number of migration departures is greater than the total number of arrivals.
Real median price:	The median price after accounting for the impact of inflation. The real median price allows for a better comparison of price growth over time as, during periods of high inflation, significant rises in the median house price may be underpinned by the inflation rate and do not necessarily reflect a strong market.
Indicative rental yield:	The rental yield of a dwelling is the rent divided by the value. However, actual rent and values data for individual dwellings is unavailable. Consequently, an indicative yield is calculated as the median three-bedroom house rent divided by the median house price. The indicative yield slightly understates actual rental yields, as the median house price is reflective of the whole market (investors and owner occupiers) while rents are reflective of just properties in the investment market. Investment properties are more likely to be priced below the median house price of all dwellings, although achieve a typical rent. Nevertheless, movement in the indicative yield should correspond with actual yields. We have compared the rental return with the cost of financing by using the measurements for indicative rental yield and the standard variable interest rate respectively.
Residential market:	Same as dwelling market.
Unit market:	Includes all forms of multi-unit dwellings including townhouses, villa units, semi-detached dwellings, terraces, flats and apartments.
Vacancy rate:	The vacancy rate is calculated as the number of unoccupied rental dwellings as a percentage of the total rental stock and is sourced from a survey of state Real Estate Institute members. The vacancy rate in each city is a measure of the balance of rental demand and rental supply. A vacancy rate of 3% in a market is considered balanced, where rents on average will rise broadly in line with inflation. A vacancy rate of 1% indicates a tight rental market that will result in strong rental growth. A vacancy rate of 7% indicates an oversupplied rental market that will result in rental declines.

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Acknowledgments

Report and forecasts

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