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Introduction

Welcome to the CoreLogic RP Data Capital Markets report for 2015. Our latest annual report comes at a time when Australia’s economy enters its twenty fourth year of consecutive economic expansion, albeit at a slower pace than what we have previously become used to. Australia’s economic transition is in full swing, with less reliance on the mining sector and related infrastructure investment, to a greater economic contribution from the non-mining sector.

It is often the case that economic recoveries in Australia are led by the housing sector; this again appears to be the case. Dwelling approvals have moved to new record highs at a time when housing values are generally rising across most capital cities. Sydney and Melbourne have been the epicentres of growth in the Australian housing markets; however seven of Australia’s eight capital cities recorded a capital gain over the past twelve months.

In February 2015 the Reserve Bank of Australia cut official interest rates by twenty five basis points to take the overnight cash rate down to 2.25 per cent; the first rate cut since August 2013. The most recent fall in the cash rate takes the average variable mortgage rate to its lowest reading recorded since 1968. Mortgage holders and prospective buyers are the clear winners from lower interest rates, while many of those with cash savings will be seeking alternative asset classes that will provide them a better return.

What is less clear is whether lower interest rates will provide as much stimulus to the housing market as what has occurred in the past. More than 80 per cent of Australian mortgages are on floating or variable interest rates which means changes in monetary policy settings flow through to household budgets almost instantly; normally when interest rates move lower, consumers become more willing and able to take on debt including mortgage debt.

The counterbalance to lower mortgage rates may come from lower consumer sentiment as labour markets are expected to soften further during 2015. Additionally the prudential regulator, APRA, has recently been more vocal about ensuring lending standards are maintained by Australian authorised deposit-taking institutions. There is a particular focus on ensuring the pace of lending for investment housing remains around the ten per cent mark or less per annum, that owner occupier interest-only loans don’t comprise a larger proportion of overall home lending and that minimum servicing standards are adhered to.

Affordability challenges and low rental yields may also act as a disincentive to prospective home buyers in 2015, particularly in Sydney and Melbourne, where capital growth has been strongest.

With the rate of economic growth moderating, there has been no evidence of heightened housing market distress; mortgage arrears remain at historically low levels, with ninety day mortgage arrears hovering around the 0.5 per cent mark according to the Reserve Bank of Australia. The low levels of arrears are reinforced by the small number of ‘mortgagor in possession’ valuation events across the CoreLogic RP Data valuation platforms, which reveal the number of valuations related to bank repossessions are tracking at around half the number recorded in 2012.

Last year CoreLogic RP Data reported that dwelling values across Australia’s aggregated capital cities increased by 7.9 per cent. Our expectation is that the rate of capital gain is likely to finish 2015 at a slightly more moderate pace despite lower mortgage rates. A slowdown in the rate of dwelling appreciation would be a healthy outcome, particularly in Australia’s two largest cities, Sydney and Melbourne, where growth conditions have been much stronger than in all other capitals. Of course, market conditions in twelve months’ time depends on many factors and we will be closely monitoring conditions and publishing reports on the performance of the housing market on a monthly basis throughout the year.
Executive summary

Australia’s housing market has broadly been in an upswing since June 2012, with dwelling values across CoreLogic RP Data’s combined capital city index having increased by 22.2 per cent through to January 2015. While the headline growth rate has been strong, the market shows a great deal of diversity with Australia’s two largest cities, Sydney and Melbourne, showing a substantially higher rate of growth than the other capital cities.

Coastal and lifestyle markets are gradually recovering from previously soft conditions while markets associated with the mining and resources sector have softened substantially. With mortgage rates at their lowest level since 1968, and potentially moving lower over the year, we are expecting some further stimulus to housing market conditions, however there is likely to be some counter balance from declining housing affordability, weaker rental yields and tighter lending conditions as federal regulators step up their vigilance on lending standards.

According to the CoreLogic RP Data Home Value Index, home values across the combined capital cities increased by 8.0 per cent over the 12 months to January 2015. The annual rate of growth has slowed over recent months after hitting a peak of 11.5 per cent over the year to April 2014.

Over recent growth phases we have consistently witnessed growth in the value of houses outpacing that of units. Although growth in unit values has been slower than that for houses, we are observing a growing appetite for units, particularly in the inner city areas of major capital cities. While units may not have a history of recording stronger capital growth than houses, they tend to see higher rental yields as well as having a lower purchase price than is achieved for detached houses.

As Australia’s $1.4 trillion mortgage market continues to grow and evolve, underpinning Australia’s $5.7 trillion dollar residential property market, regulators, policymakers, analysts and investors are becoming increasingly sophisticated in analysing and understanding the component parts of each respective market. On page 16, Craig Mackenzie, Executive GM Commercial & Legal, CoreLogic RP Data looks at the impact of market access to more granular and timely data. In the old days, the market would essentially only find out, typically on a half yearly basis, how much home values had increased across the combined capital cities and how much new lending had taken place over the prior period. Things have certainly changed.

The underlying mortgage market is healthy, supported by low interest rates, and dynamics ensure good interest from issuers and investors alike. New regulation is conducive to further development of the RMBS market in 2015 and beyond. Last year Australian RMBS issuance hit $32 billion, its highest level since the global financial crisis (GFC), said Chris Dalton, chief executive officer (CEO) of the Australian Securitisation Forum, in an analysis of the RMBS market on page 18. It isn’t widely appreciated but Australia had the highest issuance of private label RMBS around the world.

Further afield, low rates and job growth are set to propel the US property market in 2015, according to Frank E. Nothaft, Chief Economist, Information Solutions at CoreLogic. On page 19 he predicts that the US economy is poised to grow at about a 3.0 per cent pace in 2015, generating a 3 to 4 million gain in employment. This job growth, coupled with low mortgage interest rates and easier credit access, are expected to propel both owner-occupant and rental housing activity. This heightened level of housing demand should translate to the best home sales market in eight years, a rise of 5 to 6 percent in US house-price indexes, and mortgage originations that will likely be higher than last year.

Sydney is undoubtedly the star of the State by State breakdown on page 20 recording the greatest increase in home values amongst all Australian capital cities with values increasing by 13.0 per cent over the past 12 months. Sydney house values have recorded a higher level of growth than units, increasing by 13.8 per cent over the year as opposed to 9.9 per cent for units.

However, despite strong gains in Sydney and Melbourne, prices were flat to slightly higher in most regions, with capital city dwelling prices rising 7.9 per cent across calendar 2014. Glenn Levine, Senior Economist at Moody’s Analytics looks at the road ahead as the February interest rate cut, and the likelihood of another such move before midyear, will continue to support prices.

Finally, our economic overview of the Australian economy finds that the rate of economic growth has slowed over recent years as investment in the resources sector has moderated.
Housing market overview

Australia’s housing market has broadly been in an upswing since June 2012, with dwelling values across CoreLogic RP Data’s combined capital city index having increased by 22.2 per cent through to January 2015. While the headline growth rate has been strong, the market shows a great deal of diversity with Australia’s two largest cities, Sydney and Melbourne, showing a substantially higher rate of growth than the other capital cities. Coastal and lifestyle markets are gradually recovering from previously soft conditions while markets associated with the mining and resources sector have softened substantially. With mortgage rates at their lowest level since 1968, and potentially moving lower over the year, we are expecting some further stimulus to housing market conditions, however there is likely to be some counter balance from declining housing affordability, weaker rental yields and tighter lending conditions as federal regulators step up their vigilance on lending standards.

Key Statistics

Canberra was the only capital city in which home values fell over the year, down 0.3 per cent. Sydney recorded the highest level of growth over the year, by some margin, with values increasing by 13.0 per cent.

Capital city home values have increased by 8.0 per cent over the past year

According to the CoreLogic RP Data Home Value Index, home values across the combined capital cities increased by 8.0 per cent over the 12 months to January. The annual rate of growth has slowed over recent months after hitting a peak of 11.5 per cent over the year to April 2014. The current growth cycle has been running for just over 2.5 years now after commencing in June 2012.

House values increased by a greater amount than unit values over the past year. Combined capital city house values increased by 8.2 per cent, compared to a 6.2 per cent increase in unit values. Much like dwelling values, the rate of appreciation in both house and unit values is trending lower after recording peak annual growth in April and July of 2014. Over recent growth phases we have consistently witnessed growth in the value of houses outpacing that of units. Although growth in unit values has been slower than that for houses, we are observing a growing appetite for units, particularly in the inner city areas of major capital cities. While units may not have a history of recording stronger capital growth than houses, they tend to see higher rental yields as well as having a lower purchase price than is achieved for detached houses.

A varied performance across capital cities with Sydney leading the pack

While combined capital city home values have increased by 8.0 per cent over the past
12 months, the performance across the eight capital cities has diverged significantly. Canberra was the only capital city in which home values fell over the year, down 0.3 per cent. Sydney recorded the highest level of growth over the year, by some margin, with values increasing by 13.0 per cent. Elsewhere, Melbourne (7.0%) was the only other city to record value growth of more than 5 per cent while Brisbane (4.6%) and Adelaide (3.1%) recorded the next strongest capital growth performances. Elsewhere, home values have increased by 2.6 per cent in Perth, 3.0 per cent in Hobart and 1.4 per cent in Darwin over the past 12 months.

The rate of annual capital growth is now lower than the recent peak across all capital cities. The data indicates a broad trend of slower rates of capital growth. Nevertheless, Sydney continues to standout as the market which is recording significantly higher levels of capital growth. (See G2)

### Total returns are strong across capital city housing markets

The CoreLogic RP Data Accumulation Index tracks the total returns from residential property across each capital city. The growth rates factor in capital gains as well as the gross rental returns, prior to costs such as borrowings, property management and maintenance. Across the combined capital cities, total returns have increased by 12.2 per cent over the past year. In comparison to risk free assets such as bonds or savings, these returns are far superior and they eclipse the returns from Australian equities over the past year. This provides insight into why investment activity in the residential property market has been so strong over the past year. Sydney has once again led the way as the strongest performing market with total returns of 17.5 per cent over the year, followed by Melbourne with 10.7 per cent. Across the remaining capital cities, total returns have been recorded at 9.5 per cent in Brisbane, 7.6 per cent in Adelaide, 6.9 per cent in Hobart, 7.6 per cent in Darwin and 4.0 per cent in Canberra. Sydney and Melbourne have been the epicentres of investor activity over the past year and their superior returns help explain why this is the case. (See G3)

### The increase in home values over recent years has been very much focussed on Sydney and Melbourne

The financial crisis in 2008 impacted on the national housing market, albeit not as substantially as it hit housing markets in other countries across the world. Nevertheless, during 2008 home values across the combined capital cities fell by 6.1 per cent from March to December of that year. Following December 2008, home values once again started to the rise on the back of a rapid reduction in official interest rates by the Reserve Bank and first home buyer stimulus from the Federal Government.

Historically low interest rates are one of the primary factors fuelling the growth however, the high rate of capital gains is largely only occurring in Sydney and Melbourne. From December 2008 (the financial crisis low point in home values) to January 2015 combined capital city home values have increased by 37.9 per cent. It is important to remember that the combined capital city index is weighted and therefore largely influenced by the bigger capital cities. Over the period, home values in Sydney have recorded a total increase of 56.9 per cent and Melbourne home values are up 51.8 per cent. The next best performing city for capital growth has been Darwin where values are 24.0 per cent higher and Canberra where values have increased by 17.9 per cent. Across the remaining cities, total value growth has been recorded at 8.6 per cent in Brisbane, 10.1 per cent in Adelaide, 17.0 per cent in Perth and a 0.2 per cent rise in Hobart.
Key Statistics

The most affordable 25 per cent of capital city suburbs recorded a value increase of 7.3 per cent compared to an 8.8 per cent rise across the middle 50 per cent of suburbs and a 7.9 per cent lift in values across the most expensive 25 per cent of capital city suburbs.

As we will touch on in other sections of the report, demographic factors are most likely playing a significant role in the fact that Sydney and Melbourne are recording a much greater level of capital growth than other cities. Both of those regions are seeing fewer residents leave and attracting more overseas migrants. (See G4)

Current rate of growth in home values is much slower than during the 2001 to 2004 phase

Over the current growth phase, which commenced in June 2012 following value falls of 7.7 per cent, home values across the combined capital cities have increased by 22.2 per cent through to January 2015. Although this sounds like quite a strong rate of value growth it is only 0.65 per cent per month over that period. If we look to the strongest period of growth in home values in recent years (the 2001 to 2004 property boom), growth at that time was much stronger. Over the same period as the current growth phase, home values had increased by 58.3 per cent which equates to a monthly rate of growth of 1.77 per cent. It is also important to remember that over the previous boom, value growth was broad-based whereas the current growth phase has been largely focussed on a handful of capital cities, with the rest lagging well behind. (See 5)

The middle market is recording the strongest capital growth

Over the 12 months to January 2015, the middle 50 per cent of capital city suburbs recorded the strongest increase in values, while the most affordable 25 per cent of capital city suburbs recorded the lowest value growth.

Each of the three market segments analysed have recorded growth over the past year. The growth has generally been similar across each segment. The most affordable 25 per cent of capital city suburbs recorded a value increase of 7.3 per cent compared to an 8.8 per cent rise across the middle 50 per cent of suburbs and a 7.9 per cent lift in values across the most expensive 25 per cent of capital city suburbs.

The data indicates that the market, at least from a macro perspective, is experiencing broad-based value growth across the price segments. Further to that, it is the more standard stock, not the most expensive areas and not the most affordable areas, which are recording strongest demand and subsequently, the highest rate of growth. (See G6)

The gap between capital city house and unit prices is at a record high

Across the combined capital cities, the median selling price of a house over the three months to January 2015 was $590,000 compared to $487,500 for units. The $102,500 differential, which equates to units being 17 per cent lower in price than houses, is both the greatest dollar value and percentage differential on record. Across the individual capital cities the differential varies greatly from as much as $245,000 in Sydney to as little as $95,000 in Adelaide. Elsewhere the difference between house and unit prices is: $133,000 in Melbourne, $100,000 in Brisbane, $118,500 in Perth, $99,600 in Hobart, $111,000 in Darwin and $170,000 in Canberra.

Particularly in capital cities, the trend in dwelling approvals data shows a greater relative proportion and number of higher density housing is being developed. The significant differential in selling prices between houses and units is likely due to one of the factors driving the trend towards increased higher density development stock. Furthermore, much of the new higher density development is taking place in inner city areas, where a large proportion of the population want to reside, however, the cost of detached housing in these areas is high and supply is very limited. (See G7)
Transaction volumes are beginning to moderate

According to CoreLogic RP Data house and unit transactions estimates nationally, the number of real estate purchases is beginning to trend lower. The lower number of transactions is much more prevalent across the unit market.

Over the 12 months to November 2014, there were 218,067 houses and 99,718 units sold across the combined capital cities. On an annualised basis the number of house sales was 3.8 per cent higher than over the previous year while the number of unit sales were 5.2 per cent lower. Importantly the unit figures only include settled sales so off-the-plan unit sales are not counted until such time as they settle. This is then likely to result in some upward revision to unit sales.

Although the annual figures show higher volumes over the year, by looking at the data for the three months to November 2014, it shows a somewhat different story. Over the three months to November 2014 there were 59,168 houses and 24,761 units sold across the combined capital cities. Based on this data, house sales are 1.1 per cent lower than over the same period in 2013, while unit sales are 14.9 per cent lower over the period.

More recently, the chart also shows weaker transaction trends and although transactions have risen over recent years, they remain well below previous peaks.

This is despite the fact that the national population is bigger and the size of the total housing stock is also larger. Higher transaction costs such as state government stamp duty (which is tax payable on the purchase of a property) and agency fees which increase as prices rise are likely to be one of the main reasons why relatively fewer sales are taking place. (See G8)

There continues to be fewer homes sold at more affordable price points

Based on sales transactions over the past year, a majority of homes, both at a national and combined capital city level, have sold for more than $400,000. Across the nation, 36.4 per cent of houses and 44.8 per cent of units sold for less than $400,000. Across the capital cities, just 22.4 per cent of house sales and 35.6 per cent of unit sales were at a price below $400,000 over the past year.

Breaking the results down further, just 1.4 per cent of capital city houses sold for less than $200,000 compared to 2.8 per cent selling for more than $2 million. The price ranges that recorded the greatest number of house sales over the year were $400,000 to $600,000 (33.4%), $200,000 to $400,000 (21.0%) and $600,000 to $800,000 (18.0%). Looking at the unit market, only 3.6 per cent of capital city units sold for less than $200,000. The price ranges with the greatest proportion of unit sales were $400,000 to $600,000 (34.3%), $200,000 to $400,000 (32.0%) and $600,000 to $800,000 (17.7%).

Looking at the market for capital city homes over $1 million, this price segment has increased over the past 12 months. A year ago, 12.7 per cent of capital city houses and 4.7 per cent of units were sold for more than $1 million. Over the past year, the proportion of sales above $1 million has increased to 16.0 per cent for houses and 5.9 per cent for units.

The data indicates a sharp decline in more affordable housing stock while higher priced housing stock, which is typically close to city centres, is seeing fairly rapid growth in demand.

It is becoming much more difficult to deliver affordable housing in Australia’s capital cities. Most new housing development is undertaken by the private sector and the cost of purchasing and holding the land, along with costs associated with new development, are high. Unfortunately that cost ultimately gets passed on to the buyer in the form of a higher selling price. (See G9)

Key Statistics

Over the 12 months to November 2014, there were 218,067 houses and 99,718 units sold across the combined capital cities. On an annualised basis the number of house sales was 3.8 per cent higher than over the previous year while the number of unit sales were 5.2 per cent lower.
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**Key Statistics**

Across the combined capital cities, the houses that sold over the 12 months to December 2014 had been owned for an average 10.5 years and units 8.7 years.

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The typical length of home ownership continues to rise

The average length of home ownership has continued to rise across the country over the past year. This is highlighted by the fact that although the population is much higher, total sales are much lower than they were back in 2001 to 2004. The average length of home ownership has been consistently increasing since 2005.

Transactional costs associated with buying and selling residential property in Australia are believed to be one of the main reasons for the length of ownership rising. Often it will be cheaper to renovate the current home rather than move because the agent commissions when selling, coupled with stamp duty when purchasing, can significantly add to the cost. As a result, these charges act as a disincentive for some to move to more appropriate accommodation whether it be appropriate in size or location.

Across the combined capital cities, the houses that sold over the 12 months to December 2014 had been owned for an average 10.5 years and units 8.7 years. The average length of tenure across homes sold had increased from 10.1 years for houses and 8.4 years for units 12 months ago. The same trend can be seen across regional markets. In December 2013, the average hold period was 9.6 years for houses and 8.6 years for units. The hold period has risen from these levels to 9.9 years and 8.9 years respectively over the past year. (See G10)

Realised losses on residential property transactions are trending lower

An analysis of residential properties resold over the September 2014 quarter showed that 9.3 per cent of these homes sold for a price below the previous purchase price. The proportion of loss-making resales has increased from 9.0 per cent over the previous quarter but is much lower than the 11.0 per cent a year earlier. While 9.3 per cent of homes sold at a loss, 30.1 per cent sold for more than double their previous purchase price. The total value of these realised losses over the quarter was $383 million or an average of $62,246 per home sold. On the other hand, there was $13.5 billion in realised profits over the quarter at an average of $223,870 per resale.

Homes which had been owned for between three years and five years were those most likely to be resold at a loss over the September 2014 quarter. Of those homes resold over the quarter, 18.7 per cent held for between three and five years sold for less than their previous purchase price. Homes sold between five and seven years of their previous purchase date (16.7%) and in less than one year (12.1%) had a higher likelihood of selling at a loss. Only 0.3 per cent of homes which had been owned for more than 15 years sold at a loss and only 2.9 per cent of those owned for between 10 and 15 years. These results highlight the long-term nature of investment in residential property.

The decline in loss-making resales over the past year is reflective of broader housing market conditions. Home values are generally rising, resulting in more favourable selling conditions for most home owners. (See G11)

Homes are being discounted by a lower amount in order to sell

CoreLogic RP Data’s vendor discounting figures measure the difference between the original list price of homes, and the ultimate selling price of those homes which sell for less than the original list price. The figure is expressed as the percentage difference between the original advertised sale price and the ultimate selling price.

Across the combined capital cities, homes are being discounted by an average of 5.5 per cent prior to selling. Houses are being discounted by 5.4 per cent and units recorded...
a typical 5.6 per cent discount. At the same time in 2013, discount levels were recorded at a higher 5.8 per cent for houses and a lower 5.5 per cent for units.

Discounting levels across the combined capital cities are at their lowest rate since the period between October 2009 and February 2010. Discounting levels have recently fallen due to lower levels of stock available for sale at a time in which buyer demand has increased, creating greater competition for available stock. (See G12)

**Homes are selling quickly but time on market has begun to rise**

CoreLogic’s time on market figures are calculated by measuring the difference between the date at which a home is listed for sale and the date at which it ultimately sells. Using the contract date of sale, the figure is published as an average across the specific region.

Across the combined capital cities, homes are taking an average of 38 days to sell currently compared to 40 days at the same time in 2013. Houses are currently taking an average of 39 days to sell and units 37 days. A year earlier, houses and units took an average of 40 days to sell. (See G13)

**Rental rates are rising at their slowest pace in more than a decade**

Over the 12 months to January 2015, weekly rental rates have increased by just 1.7 per cent across the combined capital cities. This indicates that rents are now increasing at their slowest pace since June 2003. Rental growth is limited for both houses and units although unit rents have increased at a faster pace over the year (2.2%) than house rents (1.7%).

At the end of January 2015, the typical capital city house was renting for $489 per week and the typical unit rented for $458 per week. Across individual capital cities, rental rates still increased in most cities however, Perth, Darwin and Canberra all recorded falls in rental rates.

With the rate of growth in rents lagging well behind the rate of growth in home values, gross rental yields have trended lower over the past year. At the end of January 2015, the typical capital city house had a gross rental yield of 3.6 per cent and the typical unit yield was 4.5 per cent. At the same time 12 months earlier, rental yields were recorded at 3.9 per cent for houses and 4.7 per cent for units.

As we will show later in the report, housing demand from the investment segment of the market has been particularly strong over the past year. Given how low gross rental yields are, and the fact that investor activity has been strongest in the lowest yielding markets (Sydney and Melbourne) it appears likely most investors are focussed on capital growth rather than rental yield. (See G14)

**The number of homes available for sale is lower than over recent years**

As at February 8, 2015, the total number of properties advertised for sale was continuing to climb from its typical low point during January of each year.

Across the combined capital city housing markets there were 26,013 new properties advertised for sale and 96,650 total properties listed for sale. The number of new properties advertised for sale is currently 2.8 per cent lower than they were at the same time in 2014. Total listings were also lower than a year ago, down 3.2 per cent.

It is difficult to get a true read on the listings picture at this time of year however, the fewer new and lower total listings indicates that the supply of homes available for sale is likely to remain tight over the coming months. A lower number of listings is desirable given that the number of transactions is also generally easing, it would be concerning if listings were mounting in the face of fewer sales. (See G15)
**Key Statistics**

Over the 12 months to December 2014, investors accounted for an average of 39.8 per cent of all housing finance commitments. From the owner occupier segment; new loans to subsequent buyers averaged 33.1 per cent, new loans to first home buyers were recorded at 8.9 per cent and refinances accounted for 18.2 percent.

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**The cost of land continues to escalate**

The price of vacant residential land across the capital cities has increased sharply over recent years. Over the 20 years to December 2014, the median price of vacant land across the combined capital cities has increased by 382 per cent or at a compound annual rate of 8.2 per cent. The ongoing rapid escalation in the cost of vacant land has contributed significantly to the overall rise in housing costs. These increases are further exacerbated by a number of other factors, namely:

- Slow development approval processes;
- Restrictions to urban development boundaries;
- Significant land banks owned by a handful of developers;
- Most new development being undertaken by the private sector.

The median selling price of vacant land across the combined capital cities was recorded at $283,000 over the three months to December 2014. Over the past 12 months, vacant land prices have increased by 17.4 per cent. When construction costs are factored in, it becomes easier to understand why established home prices are often cheaper than new homes.

While land prices have increased significantly over the past 20 years, the typical size of vacant land has gone the other way, and significantly reduced. As a result buyers of vacant land are now spending more and getting much less for their money. Importantly, the vacant land which is available is now often located further away from the city centre with less local infrastructure and amenity.

At the end of 2014, the median vacant land area was 509 square metres (sqm). Ten years earlier, the median land area was 624 sqm and 20 years ago the typical land area was 684 sqm. Although land sizes have shrunk over time, they are slightly larger than the 463 sqm recorded at the end of 2013.

With land prices rising and the average land area falling, there has been a sharp rise in the rate per square metre of vacant residential land over time. At the end of 2014, the typical vacant land lot cost $534 per square metre. On a rate per square metre basis the figure was slightly lower than the $538 per square metre a year earlier. Ten years ago the rate per square metre for vacant capital city land was $239 and 20 years earlier it was recorded at $84. As previously mentioned, buyers now get much less for their money than they did 20 years ago. As an example, 20 years ago the typical lot size was 684 sqm and cost $58,750. Based on current prices if you purchased 684 sqm of vacant land it would cost $365,256. (See G16)

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**Investor activity in the housing market is hovering around record high levels**

Based on the raw value of housing finance commitments on a 12 month average basis, investor activity has been the major driver of market activity over recent time.

The housing finance data splits commitments into four major types of borrowers, three of which are owner occupants (new loans to subsequent buyers, first home buyers and refinances) with investors the remaining category. Over the 12 months to December 2014, investors accounted for an average of 39.8 per cent of all housing finance commitments. From the owner occupier segment; new loans to subsequent buyers averaged 33.1 per cent, new loans to first home buyers were recorded at 8.9 per cent and refinances accounted for 18.2 percent.

Activity by the investment sector was at an all-time high in December 2014 and activity by owner occupiers refinancing was at its highest level since March 2013. First home buyer activity was at its lowest level since October 2004, while new loans to subsequent purchasers was at its lowest level since November 2009.
The national housing market is currently predominately being driven by investors and owner occupiers upgrading. First home buyer activity is at an historical low despite the fact that official interest rates are at record low levels. This would suggest that other factors such as affordability are preventing this segment of the market from entering into ownership. Anecdotally, more first home buyers are choosing to purchase an investment property rather than a principal place of residence as their first property. (See G17)

Growth in lending to owner occupiers has stalled over the past year
The increase in the value of owner occupier housing finance commitments has slowed over the past 12 months. In December 2014, owner occupiers committed to $18.0 billion in housing finance. Year-on-year, the value of owner occupier housing finance commitments has increased by 11.1 per cent however, if not for a surge in lending in December the change in owner occupier lending would have been virtually flat over the year.

The $18.0 billion in owner occupier commitments in December 2014 was comprised of: $1.9 billion for construction of new dwellings, $1.0 billion for purchase of new dwellings, $5.8 billion of refinancing of established dwellings and $9.4 billion in purchases of established dwellings. The market for established dwellings is much greater than the market for new dwellings. With a year-on-year increase of 11.1 per cent for total owner occupier finance commitments, within the segments changes have been recorded at; a 14.6 per cent rise for construction of new dwellings, a 1.8 per cent rise for the purchase of new dwellings, a 27.0 per cent rise in refinances and a 3.5 per cent rise for purchases of established dwellings.

Refinances have recorded the greatest rise over the year indicating that many mortgage holders are shopping around for a better home loan deal or looking to use the equity in their home. Despite the fact that interest rates are tipped to remain low, and potentially move lower over the coming year, it seems unlikely that this will change the likely slowdown in housing demand. (See G18)

Investor demand has risen sharply over the year
In December 2014, investors committed to $12.6 billion worth of housing finance. The value of investor housing finance commitments has increased by 18.8 per cent compared to December 2013.

Investors overwhelmingly prefer to purchase existing properties as opposed to new properties. Of course, it is important to remember that there are significantly more existing homes to choose from than there are new homes. Investment housing finance commitments for construction of new dwellings was recorded at $1.0 billion in November 2014 compared to $11.5 billion for established dwellings. Based on this data, only 8.3 per cent of investor housing finance commitments in December 2014 were for new builds.

Investment levels have been high over the past two years seeing lending to that segment of the market rising to a record high as a proportion of all lending. (See G18)
Key Statistics

Over the past 12 months there have been 94,554 owner occupier first home buyer finance commitments. The number of annual commitments is 3.7 per cent lower than at the same time last year.

past year and the current growth phase. What is also of note is the fact that Sydney and Melbourne also have the lowest gross rental yields of any capital city housing market. This would suggest that most investors are much more focussed on capital growth rather than rental return. With the rate of value growth now slowing across both cities, it will be interesting to see which investors take their profits this year, or continue to hold their asset. Obviously selling in a market where value growth is slowing can at times be difficult. (See G19)

First home buyers continue to languish at record low levels

As a proportion of the value of housing finance commitments first home buyer activity currently sits at a record low level (8.9%). It is important to note that the way in which the data is captured is such that the data only includes first home buyers that purchase homes for owner occupation purposes. We suspect that many first time buyers are purchasing homes for investment purposes, as such they are captured in the investor segment but not the owner occupier first home buyers segment.

In December 2014, there were 8,213 owner occupier housing finance commitments to first home buyers. Year-on-year the number of first home buyer finance commitments is 1.3 per cent lower. As a proportion of the total number of owner occupier housing finance commitments, first home buyers make-up just 14.5 per cent of the market.

Over the past 12 months there have been 94,554 owner occupier first home buyer finance commitments. The number of annual commitments is 3.7 per cent lower than at the same time last year. Again, it is important to recall that these figures only include first home buyers that are purchasing for owner occupation. (See G20)

Most mortgage holders have their loan on a variable rate

In December 2014, owner occupier housing finance data shows that there were 7,764 new commitments on a fixed mortgage rate. This represented just 13.7 per cent of total owner occupier housing finance commitments over the month. This has been an ongoing key feature of the Australian residential mortgage market; Australians overwhelmingly prefer variable mortgage loans as opposed to fixed rate loans. The average three year fixed mortgage rate (4.85%) is currently similar to the average discounted variable mortgage rate with certain lenders offering much lower fixed rates. Despite the opportunity to have the surety of stable interest rates for the next three years, most new borrowers continue to choose a variable rate. The fact that the majority of Australians prefer variable mortgage rates greatly assists the Reserve Bank. From the Reserve Bank’s perspective they know that when they adjust monetary policy it will have a significant impact on consumer behaviour as costs associated with one of their largest expenses (the mortgage) are immediately affected. (See G21)

Interest-only mortgages rise significantly

Each quarter the Australian Prudential Regulation Authority (APRA) releases data on property exposures by Australian ADIs. At the end of the September 2014 quarter, there were 1.445 million interest only mortgages with an outstanding balance of $445.7 billion. Based on this data, 28.0 per cent of all loans were interest only however, on a value basis these loans accounted for 36.2 per cent of outstanding mortgages. Both of these figures were at a record high (the time series is published from March 2008). Over the year, the number of interest only mortgages has increased by 12.0 per cent or by a larger 14.4 per cent in value terms.

Interest only mortgages are usually, but
not always, utilised by investors. The large increase in the number and value of interest only mortgages over the past year is reflective of the growing investor demand for housing. (See G22)

**Around a third of all new loans have a loan to value ratio (LVR) above 80 per cent**

Data from APRA shows that over the September 2014 quarter, 33.0 per cent of new mortgages from Australian ADIs had an LVR of 80 per cent or more. Breaking the data down further: 25.2 per cent of new mortgages had an LVR of less than 60 per cent, 41.8 per cent had an LVR of between 60 per cent and 80 per cent, 20.9 per cent had an LVR of between 80 per cent and 90 per cent and 12.1 per cent had an LVR of more than 90 per cent. Interestingly, compared to data from the same time a year earlier, loans with an LVR of more than 90 per cent was the only segment to experience a decline, down 3.8 per cent. On the other hand, loans with an LVR of between 60 per cent and 80 per cent have recorded the greatest annual increase, up 16.8 per cent.

It is important to remember that in Australia virtually all mortgages taken out with an LVR of more than 80 per cent are mortgage insured. Mortgage insurance is paid by the borrower and protects the lender against loss on that mortgage. Of course, there remains a high proportion of borrowing above an 80 per cent LVR however, mortgage insurance does act as an incentive for many to save a greater deposit before purchasing to avoid this additional cost. (See G23)

**New dwelling approvals sit at near record high levels**

In December 2014, there were 17,753 dwelling approvals across the country which was slightly lower over the month but close to the record high level. The number of approvals over the month was also 8.8 per cent higher than over the same period the previous year. The 17,753 approvals are comprised of 9,518 house approvals and 8,235 unit approvals. House approvals are 5.6 per cent higher year-on-year while unit approvals are 12.7 per cent higher.

Over the past 12 months, there has been a record high 201,025 houses and units approved for construction. Over the 12 months to December 2014, only 1.4 per cent of dwelling approvals were received by the public sector. Given this, the private sector will generally need to see some increase in demand for homes and a subsequent rise in values in order to bring new stock to the market.

The nature of new housing supply has changed quite significantly over recent years. Over the 12 months to December 2014, 43.0 per cent of all dwelling approvals were for units. Just five years ago unit approvals made up 27.7 per cent of approvals. There is a rising appetite from developers to build unit product, particularly in inner city areas of major capital cities. This is in response to growing demand, particularly from younger residents, to live in these inner city areas. Historically, only around 85 per cent of those units approved for construction have ultimately been completed compared to around 98 per cent of houses. Although demand for inner city units is growing with a record high number of approvals, at a time when sales volumes are falling and the rate...
G19: Monthly value of housing finance commitments for investment purposes

<table>
<thead>
<tr>
<th>$14bn</th>
<th>$12bn</th>
<th>$10bn</th>
<th>$8bn</th>
<th>$6bn</th>
<th>$4bn</th>
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</thead>
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<td>Dec-14</td>
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Source: ABS, CoreLogic RP Data

G20: Monthly number and proportion of first home buyer housing finance commitments

<table>
<thead>
<tr>
<th>20,000</th>
<th>15,000</th>
<th>10,000</th>
<th>5,000</th>
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Source: ABS, CoreLogic RP Data

G21: Rolling annual number of owner occupier housing finance commitments on a fixed mortgage rate

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<th>0.30</th>
<th>0.25</th>
<th>0.20</th>
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</tbody>
</table>

Source: ABS, CoreLogic RP Data

of growth is slowing, it will be interesting to see how many ultimately end up being constructed. (See G24)

Over the 12 months to December 2014, the combined capital cities recorded 75,213 house approvals and 76,537 unit approvals. While at a national level only 43.0 per cent of all dwelling approvals were for units, across the capital cities the result is somewhat different with 50.3 per cent of all approvals being for units. Over the past year, each of Sydney (64.4%), Melbourne (54.2%), Brisbane (54.3%), Darwin (57.9%) and Canberra (57.6%) recorded a higher proportion of unit approvals than house approvals.

The near-to record high number of dwelling approvals in December 2014 is a very positive result. As the economy transitions away from mining investment, the Reserve Bank is looking for residential construction to at least fill some of that void. Although this is clearly happening at the moment the challenge will be extending this period of increased construction activity over a number of years.

With home value growth starting to slow and home sales now trending lower this may well prove to be quite a challenge. Furthermore, the unprecedented level of unit approvals will create further challenges. Undoubtedly more people are willing to live in higher density housing and this type of housing typically costs much less than similarly located houses. Despite this, new units remain quite expensive and are less likely to ultimately be built when compared to houses approved for construction.

Where to from here?
As the previous pages have shown, capital city home values are moving higher however, the rate of growth is extremely un-even across the cities. Despite the fact that mortgage rates are low across the country, Sydney and Melbourne home owners continue to be the major benefactors experiencing the strongest increases in home values. Although the growth period has been running now for more than two and a half years, it is not as broad-based or as strong as the 2001 to 2004 boom.

Homes are selling at close to their most rapid pace on record while discounting levels are extremely low. Stock levels are also quite low indicating that available stock is being absorbed relatively quickly.

Over the past year, combined capital city home values have increased by 8.0 per cent and all cities except Canberra (-0.3%) have recorded an increase in home values. Although values are higher in most cities over the year, only Sydney (13.0%) and Melbourne (7.0%) have recorded annual growth of more than 5.0 per cent. Importantly, although home
values increased by 8.0 per cent over the year, the annual rate of growth has slowed from a peak of 11.5 per cent in April 2014. This trend has occurred in each capital city over the year, with the rate of growth now lower than the recent peak.

In-line with the slowing rate of home value growth, the number of houses and units selling is also trending lower. After sales volumes peaked in late 2013, they are now trending lower.

Broadly speaking, CoreLogic RP Data is of the view that capital city home values will continue to trend higher over the coming year, albeit at a more moderate pace than they have over the past year. Home values in Canberra have already fallen over the past year and we would expect further declines are a possibility in 2015.

Perth and Darwin have seen their rates of home value growth slow sharply over the past year and similar to Canberra, these cities have the potential to see falls in 2015. In the remaining cities we anticipate that growth will also slow with an expectation that Sydney and Brisbane will be the two strongest markets for value growth in 2015 while values will rise at a slower pace elsewhere.

After a period of growth in home values which has now run for more than two and a half years, we also expect that transaction volumes will continue to ease. The elongated period of value growth will see further exhaustion of the pool of potential purchasers of homes.

Housing finance data indicates that the rate of growth in mortgage lending is easing and we would anticipate that this will also persist in 2015. Furthermore, as value growth continues to slow and rental yields continue to decline, it is likely that the appetite for residential property from investors will potentially also slow. This will be welcome news for the RBA and APRA who have both stated that they are concerned about both higher risk lending and the high proportion of lending to the investor segment.

2015 looks as if it will be a year in which sales volumes fall and the rate of home value growth continues to moderate. With record high levels of new dwelling approvals we would anticipate that a growing proportion of these, particularly units, may not go ahead as achieving a sufficient level of presales may become more difficult.

Furthermore, the high level of new dwelling construction over recent years is likely to result in ongoing moderate rental growth. Rents have increased at their slowest pace in more than a decade over the past year and we anticipate that rental growth at or slightly below this current rate is likely over the year.
The importance of analysing the component parts

As Australia’s $1.4 trillion mortgage market continues to grow and evolve, underpinning Australia’s $5.7 trillion dollar residential property market, regulators, policymakers, analysts and investors are becoming increasingly sophisticated in analysing and understanding the component parts of each respective market. Craig Mackenzie, Executive GM Commercial & Legal, CoreLogic RP Data looks at the impact of market access to more granular and timely data.

In the old days, the market would essentially only find out, typically on a half yearly basis, how much home values had increased across the combined capital cities and how much new lending had taken place over the prior period. Now, the market receives extremely granular information about changes in home values across each capital city, on a daily basis, and new lending statistics via the Australian Bureau of Statistics (ABS) on a monthly basis. A couple of years ago the Australia Prudential Regulation Authority (APRA) provided more granularity by releasing a quarterly publication setting out a range of statistics on residential and commercial property exposures of approved deposit-taking institutions (ADIs).

This improved level of transparency has assisted the Reserve Bank of Australia (RBA) and APRA in their policy deliberations and prudential supervisory activities in respect of the residential mortgage market. In 2014, the RBA called out their concern with the level of investment lending activity driving the market, stating that the market had effectively become out of balance. That is, they became concerned that the composition of new lending was becoming too skewed in favour of investors over owner-occupiers, including first-home buyers.

Then, in December 2014, APRA and the Australian Securities and Investments Commission (ASIC) released separate communications stating that they would be focusing on areas of perceived higher risk lending including investment lending activity, high LVR (LTV) lending, interest only lending to owner occupiers and ensuring minimum servicing buffers were being applied. So now the RBA, APRA and ASIC are empowered (and able) to monitor these markets with more timely, accurate, reliable and granular data, so as to ensure that the component parts of the housing and mortgage markets remain in balance.

The subprime crisis in the US highlighted the damaging consequences which can flow when a mortgage market becomes unbalanced, as it did when nearly one in four new loans made in the 2006/2007 period were so called subprime loans made to less credit worthy borrowers.

The graphs on page 17 seek to highlight what elements of our housing market, and economy more broadly, potentially remain in and out of balance when compared to ten year averages. This is informative as, if and to the extent that any element of our housing market becomes overheated (or out of balance) or macroeconomic forces become unbalanced, then it can be argued that policymakers and regulators ought to increase their level of vigilance and take a proactive approach in their respective activities.

Graph 1 highlights that Australia’s residential property market is comprised of many sub markets. This graph shows the ten-year average annual rate of capital growth for the combined capital cities (grey line) and compares it to the rate of capital growth for the past 12 months across each capital city (red line).

The graph demonstrates that the Sydney market has experienced strong capital growth over the past 12 months (and indeed 24 months) when compared with the ten year average. This partly explains the attention and focus from policy makers and regulators, notwithstanding the fact that deeper analysis would suggest that the fundamentals of the Sydney market remain sound.

Apart from Sydney, only Melbourne, Brisbane and Hobart have experienced stronger growth over the past decade than they have over the past 12 months, and even then only by modest amounts. Perth, Darwin and Canberra have all experienced much softer housing conditions over the past 12 months in comparison to the last decade.

So the broad conclusions:

- Certainly the Sydney market warrants close attention given its rate of growth over the past 24 months,
- However the rate of growth across the remainder of the combined capital cities is largely unremarkable when compared to ten year averages.

Graph 2 looks at broader macroeconomic forces which impact on the level of home price appreciation, lending activity and potential risks associated with that activity. It looks at six key elements:

- aggregate capital growth across the combined capital cities;
- unemployment rate;
- population growth;
- dwelling approvals;
- interest rates (in particular the average standard variable interest rate); and
- rental growth.

Table 1 draws out some high level observations from Graph 2.

In summary, Australia’s housing and mortgage markets are each at an interesting point in their respective cycles, driven by an extremely low interest rate environment. Given this, the RBA and regulators will be monitoring each component part of the market to ensure unintended adverse consequences do not follow from any imbalances that may arise.
Table 1:
The following high level observations can be drawn from graph 2, which again compares current readings to ten year averages:

1. Mortgage interest rates are in fact at forty year lows, which is particularly relevant given roughly 80 per cent of mortgages in Australia are variable or adjustable rate.

2. Unemployment at 6.4 per cent is marginally higher than ten year averages, compounded by not immaterial levels of underemployment.

3. Population growth remains about par, although it has softened in recent years with lower immigration levels.

4. Domestic construction of new dwellings has noticeably picked up over the past 12 to 24 months, a deliberate objective of the Reserve Bank in their monetary policy settings. CoreLogic RP Data tracks dwelling approvals at a very granular geographic level in order to monitor potential issues associated with oversupply.

5. Capital growth over the past twelve months is nearly one and a half times the ten year average, although, as evidenced in Graph 1, this is primarily driven by Sydney and to a lesser degree Melbourne and Brisbane.

6. Finally, rental growth remains well below ten-year averages, with gross rental yields in Sydney and Melbourne now between 3 per cent and 4 per cent in broad terms. This explains part of the concern of policymakers: strong investor activity in the market appears driven by future (and perhaps unrealistic) capital growth expectations rather than current rental returns.
The underlying mortgage market is healthy, supported by low interest rates, and dynamics ensure good interest from issuers and investors alike. New regulation is conducive to further development of the RMBS market in 2015 and beyond. Last year Australian RMBS issuance hit $32 billion, its highest level since the global financial crisis (GFC), said Chris Dalton, chief executive officer (CEO) of the Australian Securitisation Forum. It isn’t widely appreciated but Australia had the highest issuance of private label RMBS around the world.

“That is an indication we have a relatively healthy and functioning market whereas some of the international markets are still recovering from the regulatory reform, as well as the effects of the market disruption immediately after the crisis.”

Issuers range from the five largest banks through to regional banks, mutuals and non-bank lenders including specialist lenders such as Pepper, Bluestone and Liberty Financial. Last year saw some issuers – including Heritage Bank, Wide Bay Building Society and Citi – return to the market after an absence of more than a year. This year Credit Union Australia and Suncorp have priced their first RMBS deals since 2013.

With RMBS an established source of funding for banks and non-banks, Dalton is expecting this year’s issuance to be up five or 10 per cent. That will easily be met by investor demand. Patrick Tuttle, co-group CEO of Pepper, noted that in the low interest rate environment, RMBS are prepaying ahead of schedule.

“That is largely a factor of borrowers being very aware of the low interest rates and the opportunity to refinance,” said Tuttle. “That is a trend we are seeing in our portfolios and anecdotal across most lenders.”

Given the limited issuance in other RMBS markets around the world, Dalton expects continued strong demand from offshore investors, particularly UK investors. They’re after the diversification benefits plus there is relatively little domestic RMBS issuance because of the cheap funding offered by the Bank of England’s “funding for lending” program.

One thing to watch is if RMBS issuers continue to use lenders mortgage insurance (LMI). “Westpac, for example, is restructuring its use of LMI so you could see a greater number of transactions using subordination as a form of credit enhancement and less reliance on LMI,” said Dalton.

On 17 February, Australia’s largest LMI provider, Genworth Mortgage Insurance Australia, said that after a strategic review of its LMI arrangements Westpac would no longer be using Genworth.

Pepper originally specialised in non-conforming home loans, namely lending to people with impaired credit histories and others who didn’t meet the criteria of mainstream lenders. However it started originating prime home loans in its own name in 2013 and doesn’t use LMI. Pepper hopes to do the first securitisation of those prime mortgages this year.

“It will be a slightly new structure for the market because typically all the prime RMBS have a rating dependency on LMI,” said Tuttle. In that respect, it is similar to Pepper’s non-conforming RMBS because it represents a pure play on Pepper’s underwriting and servicing expertise.

The government’s financial system inquiry recommended that the four major banks and Macquarie Bank should carry more capital against their mortgage portfolios. Global regulation is moving the same way, possibly creating opportunities for non-bank lenders in Tuttle’s opinion.

For example, Pepper offers alternative income verification products as a way to extend mortgages to self-employed borrowers without up-to-date tax returns. This “alt doc” product requires alternative sources of income verification such as business bank statements to form a “forensic view” to determine income and calculate the ability to service a 25-year mortgage.

“Banks aren’t geared up to that because it doesn’t sit well with automated credit scoring models and it also requires a lot more capital,” explained Tuttle. “So that opens up some of the more traditional non-conforming mortgage lending areas that banks started to encroach upon before the GFC.”

Another regulatory development is the Reserve Bank of Australia’s (RBA) reporting requirements for RMBS that are eligible collateral for repos and the committed liquidity facility (CLF) regime that came into effect on 1 January.

As of 1 July issuers of qualifying RMBS must present monthly data on the underlying loans in a standard format. It represents a step change in the RMBS market’s transparency, enabling the RBA, investors and other interested parties to undertake their own detailed analysis. By that time the Australian Prudential Regulation Authority (APRA) should have released the final draft of its prudential standard APS 120 that covers securitisation.

“That will really set the outlook for the growth of the market in the foreseeable future,” said Dalton. The big banks in particular are hoping that they’ll be allowed to use master trusts vehicles to issue RMBS in foreign currencies.

“That could see a significant expansion in the market in terms of volumes,” said Dalton. However that is a story for 2016 and 2017. APS 120 won’t be finalised until later this year for implementation early next year.

With RMBS an established source of funding for banks and non-banks, Chris Dalton is expecting this year’s issuance to be up five or 10 per cent.
US View

Low rates and job growth are set to propel the US property market in 2015, says Frank E. Nothaft, Chief Economist, Information Solutions at CoreLogic.

The US economy is poised to grow at about a 3.0 per cent pace in 2015, generating a 3 to 4 million gain in employment. This job growth, coupled with low mortgage interest rates and easier credit access, are expected to propel both owner-occupant and rental housing activity. This heightened level of housing demand should translate to the best home sales market in eight years, a rise of 5 to 6 percent in US house-price indexes, and mortgage originations that will likely be higher than last year. Let’s take a closer look at each of these for the 2015 market.

Economic growth near 3 percent
US economic growth will be buoyed by three forces in 2015. One is the halving in energy prices since last summer, with prices unlikely to jump back up this year. While lower energy prices will boost aggregate growth, regions of the US that depend on energy production will face a slowdown. A second force at work is the rise in consumer and business confidence to the highest levels since before the Great Recession. Consumers that feel more financially secure are more likely to form new households and to transition from rental to ownership. Businesses are more likely to hire staff if they are optimistic that product demand will be there. The third factor at work is a significant improvement in the budget outlook for state and local governments. With tax receipts stronger than expected, state and local governments will likely spend more, providing further stimulus to aggregate demand. With these three forces working in concert, 2015 economic growth could hit 3 percent; if so, then 2015 will mark only the second calendar year over the past decade with growth of 3 percent or better.

Mortgage rates low
Weakness in global economic growth and uncertainty wrought by political tension in parts of the world have encouraged capital inflow to the US, helping to push long-term interest rates lower. Rates on 30-year single-family, fixed-rate mortgages drifted down to 3.6 percent in early February, only 0.3 percentage points above the all-time low. Likewise, 10-year US Treasury yields, a benchmark for commercial mortgage rates, eased to below 2 percent for a few weeks at the start of 2015 before turning back up.

In addition to low interest rates, some steps toward easier credit access were recently announced. In December both Fannie Mae and Freddie Mac announced a resumption of their purchase programs for 3 percent down payment conventional mortgages. Then in January the Federal Housing Administration cut its annual insurance premium by 0.5 percentage points. Low rates coupled with these programmatic changes will support home sales, especially among first-time buyers.

Home sales, prices up
With job creation supporting family income growth, and low mortgage rates and easing credit availability supporting financing, home sales are forecast to rise 4 to 5 percent in 2015, to their highest level since 2007. Further, the composition of sales will continue to evolve: This year will have larger gains in newly built home sales, and existing sales will reflect more by owners who are not under financial stress and more by buyers who use mortgage financing. CoreLogic’s MarketTrends data confirm these trends over the past few years, with new home sales up over each of the last three years, “distressed sales” of existing homes down, and the all-cash share of purchases down.

With for-sale inventories and rental vacancy rates at their lowest in at least 15 years, the strengthening of housing demand will support additional house price gains. CoreLogic’s Home Price Index (HPI) for the US rose 4.8 percent during 2014, and our latest projection is for an additional 6.0 percent gain in 2015. While some local markets have achieved new nominal highs, most markets remain below their pre-Great Recession peaks. Our HPI for the US at the end of 2014 remained 14 percent below its 2006 peak.

Mortgage originations up
With home sales forecast higher, house prices up, and more buyers financing with mortgages, the dollar volume of originations for home purchase may grow by better than 10 percent in 2015. This gain should more than offset a drop in refinance in 2015 compared with last year, resulting in slightly more originations this year. Mortgage originations on rental apartment buildings are also expected to be up in 2015.

Look for regular updates to our housing forecast, commentary and data at: www.corelogic.com/about-us/research.aspx or twitter: @CoreLogicEcon
Sydney

Key Statistics

A typical Sydney house that sells for less than its purchase price is being discounted by 4.7 per cent compared to 5.3 per cent at the same time a year ago. A typical unit is discounted by 5.1 per cent compared to 4.3 per cent a year ago.

Over the three months to September 2014, only 2.6 per cent of Sydney homes sold for less than their previous purchase price compared to 4.9 per cent 12 months ago.

Over the past month, there were 6,673 new properties listed for sale across Sydney and 17,361 total property listings. New listings are 8.0 per cent lower than a year ago and total listings are 9.1 per cent lower.

On average, Sydney houses are taking 29 days to sell, while units are now taking 28 days, compared to 34 days and 27 days respectively a year ago.

Sydney home values have risen by the greatest amount over the past year

Over the 12 months to January 2015, Sydney recorded the greatest increase in home values amongst all Australian capital cities with values increasing by 13.0 per cent. Sydney house values have recorded a higher level of growth than units, increasing by 13.8 per cent over the year as opposed to 9.9 per cent for units. Although Sydney home values are increasing at a faster pace than all other capital cities, the 13.0 per cent annual rise is well below the peak annual growth rate of 16.7 per cent in April 2014.

Over the five years to January 2015, Sydney home values have increased by a total of 35.6 per cent, which is the strongest rate of growth of any city over that period. The recent growth comes on the back of total value growth of just 14.4 per cent over the previous five years, which was the lowest amongst all capital cities. Between January 2000 and January 2005, Sydney home value growth was greater than it has been over the past five years with values rising 62.3 per cent. See G1

Transaction volumes have started to ease in Sydney

Over the past year, CoreLogic RP Data estimates that there have been 60,245 houses and 38,929 units sold in Sydney. Over the past six months the annual number of sales has begun to decline and this is further highlighted when focusing on quarterly sales volumes. Over the three months to November 2014 there were 16,818 houses and 9,759 units sold across Sydney. The number of houses sold was 3.9 per cent lower than over the same period in 2013 and unit sales were 21.4 per cent lower.

With home value growth slowing and broader economic conditions softer than they were 12 months ago we would expect a further easing in sales transactions throughout 2015. See G2

Sydney rents rise by the greatest amount of all capital cities

Median rents in Sydney were recorded at $606 per week for houses and $528 per week for units as at January 2015. Over the year to January 2015 house rents have increased by 3.4 per cent compared to a 3.0 per cent increase in unit rents. Sydney has seen the strongest rate of rental growth across capital city housing markets over the past year. Although rental growth is comparatively strong in Sydney, both houses and units have recorded rental growth lower than their five year averages at 4.8 per cent and 4.2 per cent respectively. With home values rising at a faster pace than rents over the past year, rental yields have fallen. Sydney now has the second lowest gross rental yields of all capital cities at 3.5 per cent for houses and 4.4 per cent for units. At the same time in 2014, rental yields were recorded at 3.9 per cent for houses and 4.7 per cent for units. See G3

$850,000

The median selling price of a Sydney house is $245,000 higher than the median unit price with the figures recorded at $850,000 for houses and $605,000 for units.
City key statistics – January 2015

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Source: CoreLogic RP Data

G1: Rolling quarterly and annual change in Sydney home values

G2: Monthly and five year average Sydney home sales

G3: Sydney median weekly rents and gross rental yields

Regional New South Wales

Change in home values over time

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<tbody>
<tr>
<td>Hunter</td>
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</tr>
<tr>
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<td>4.1%</td>
<td>0.0%</td>
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<td>4.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Richmond-Tweed</td>
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</tr>
<tr>
<td>Mid-North Coast</td>
<td>11.8%</td>
<td>4.0%</td>
<td>0.0%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Northern</td>
<td>6.1%</td>
<td>5.1%</td>
<td>-0.1%</td>
<td>6.5%</td>
<td>5.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>North Western</td>
<td>6.6%</td>
<td>5.3%</td>
<td>0.0%</td>
<td>6.6%</td>
<td>5.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Central West</td>
<td>7.7%</td>
<td>4.4%</td>
<td>0.0%</td>
<td>7.8%</td>
<td>5.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>South Eastern</td>
<td>6.0%</td>
<td>4.1%</td>
<td>0.0%</td>
<td>-0.4%</td>
<td>0.4%</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Murrumbidgee</td>
<td>8.4%</td>
<td>4.3%</td>
<td>0.0%</td>
<td>6.6%</td>
<td>3.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Murray</td>
<td>4.5%</td>
<td>3.2%</td>
<td>-0.2%</td>
<td>4.4%</td>
<td>2.7%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Far West</td>
<td>6.7%</td>
<td>6.3%</td>
<td>0.0%</td>
<td>6.7%</td>
<td>6.3%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Reference: 12 mth = 12 month change, 5 yr = Average annual change over five years, 10 yr = Average annual change over 10 years, From peak = change in values since the market peak.

Source: CoreLogic RP Data
Melbourne

**Key Statistics**

The median selling price for a Melbourne house is currently $613,000 and the median unit price is $480,000. Based on this, units are $133,000 more affordable than houses.

Over the three months to September 2014, only 6.5 per cent of Melbourne homes sold for less than their previous purchase price compared to 7.4 per cent 12 months ago.

Over the past month, there were 7,262 new properties listed for sale across Melbourne and 27,681 total property listings. New listings are 6.1 per cent lower than a year ago and total listings are 10.4 per cent lower.

Melbourne recorded the second greatest increase in home values over the year amongst all Australian capital cities. Home values across Melbourne have increased by 70 per cent over the 12 months to January 2015, resulting in the second strongest rate of capital city home value growth behind Sydney. Although home values have increased over the past year, the annual rate of growth has slowed since peaking at 11.9 per cent in January 2014 and is now at its lowest annual rate of growth since November 2013. Looking at the difference between houses and units, house values increased by 7.5 per cent over the year which was much greater than the 2.7 per cent rise in unit values. Over the most recent five years, Melbourne home values have increased by 23.2 per cent with only Sydney home values increasing at a faster pace across the capital cities. Melbourne has had a recent history of strong value growth. Home values rose by a total of 52.7 per cent between January 2005 and January 2010, and by 71.5 per cent over the five years from January 2000 to January 2005. Over the past 15 years, Melbourne home values have increased at a compound annual growth rate of 8.1 per cent, Perth is the only capital city to have recorded a stronger growth rate over the period.

Melbourne transaction activity is still recording a moderate increase

On an annual basis, CoreLogic RP Data estimates that there were 61,127 house sales and 27,616 unit sale in Melbourne as at November 2014. The number of transactions is slightly higher than over the same period in 2013 (+4.2%) and is trending moderately higher. The quarterly sales volumes data shows a recent rebound in sales activity across the city. Over the three months to November 2014, Melbourne recorded 18,163 house sales and 7,246 unit sales. The quarter on quarter measurement shows house sales were 8.3 per cent higher than over the same period a year earlier and unit sales were 4.5 per cent lower. With value growth having slowed across the city since January 2014, we would expect sales volumes will ease over the coming year.

Melbourne rents are rising, but at slow pace

Over the 12 months to January 2015, Melbourne house rents have increased by 5.8 per cent compared to 6.1 per cent at the same time a year ago. A typical unit is being discounted by 5.7 per cent compared to 5.9 per cent a year ago.
City key statistics – January 2015

<table>
<thead>
<tr>
<th></th>
<th>Houses</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median price</td>
<td>$613,000</td>
<td>$480,000</td>
</tr>
<tr>
<td>12 month value change</td>
<td>7.6%</td>
<td>2.7%</td>
</tr>
<tr>
<td>5 yr compound annual value change</td>
<td>4.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>10 yr compound annual value change</td>
<td>6.7%</td>
<td>5.1%</td>
</tr>
<tr>
<td>15 yr compound annual value change</td>
<td>8.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Average time on market (days)</td>
<td>37</td>
<td>42</td>
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<tr>
<td>Average vendor discount</td>
<td>-5.8%</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Median weekly rental rates</td>
<td>450</td>
<td>398</td>
</tr>
<tr>
<td>Gross rental yield</td>
<td>3.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Average hold period (years)</td>
<td>11.8</td>
<td>9.7</td>
</tr>
</tbody>
</table>

Source: CoreLogic RP Data

G1: Rolling quarterly and annual change in Melbourne home values

G2: Monthly and five year average Melbourne home sales

G3: Melbourne median weekly rents and gross rental yields

Regional Victoria

Change in home values over time

<table>
<thead>
<tr>
<th>Region</th>
<th>12 mth</th>
<th>5 yr</th>
<th>From peak</th>
<th>12 mth</th>
<th>5 yr</th>
<th>From peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barwon</td>
<td>2.6%</td>
<td>4.4%</td>
<td>-0.1%</td>
<td>2.4%</td>
<td>3.3%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Western District</td>
<td>5.1%</td>
<td>3.6%</td>
<td>0.0%</td>
<td>5.1%</td>
<td>3.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>5.8%</td>
<td>4.8%</td>
<td>0.0%</td>
<td>4.5%</td>
<td>4.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Wimmera</td>
<td>5.4%</td>
<td>4.9%</td>
<td>0.0%</td>
<td>5.2%</td>
<td>5.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Mallee</td>
<td>3.7%</td>
<td>3.2%</td>
<td>0.0%</td>
<td>4.1%</td>
<td>3.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Loddon</td>
<td>2.2%</td>
<td>6.0%</td>
<td>-0.9%</td>
<td>2.6%</td>
<td>6.0%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Goulburn</td>
<td>2.1%</td>
<td>3.1%</td>
<td>-0.7%</td>
<td>2.9%</td>
<td>3.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Ovens-Murray</td>
<td>7.9%</td>
<td>3.1%</td>
<td>0.0%</td>
<td>7.6%</td>
<td>3.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>East Gippsland</td>
<td>1.8%</td>
<td>2.7%</td>
<td>-1.2%</td>
<td>1.6%</td>
<td>2.6%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Gippsland</td>
<td>1.4%</td>
<td>3.2%</td>
<td>-0.9%</td>
<td>1.4%</td>
<td>3.2%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Far West</td>
<td>6.7%</td>
<td>6.3%</td>
<td>0.0%</td>
<td>6.7%</td>
<td>6.3%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Reference: 12 mth = 12 month change, 5 yr = Average annual change over five years, 10 yr = Average annual change over 10 years, From peak = change in values since the market peak.
Source: CoreLogic RP Data
Key Statistics

The median selling price of a Brisbane house is $485,000. The median unit price is $385,000. Based on these figures, units are $100,000 more affordable than houses.

A typical Brisbane house that sells for less than its purchase price is being discounted by 5.8 per cent compared to 6.3 per cent at the same time a year ago. A typical unit is being discounted by 5.3 per cent compared to 6.2 per cent a year ago.

Over the past month, there were 4,372 new properties listed for sale across Brisbane and 18,598 total property listings. New listings are 5.4 per cent higher than a year ago and total listings are 0.3 per cent lower.

Over the three months to September 2014, 11.0 per cent of Brisbane homes sold for less than their previous purchase price compared to 14.8 per cent 12 months ago.

Value growth in Brisbane still lags well behind that of Sydney and Melbourne

Brisbane has recorded home value growth of 4.6 per cent over the 12 months to January 2015. Over the period, Brisbane house values have increased by a much greater amount than units with values rising by 5.1 per cent and 0.3 per cent respectively. Home value growth in Brisbane has eased over recent months after growth peaked at 7.0 per cent in June 2014. Home values in Brisbane are now increasing at their slowest annual pace since February 2014. Although value growth is quite moderate, Brisbane has seen the third largest gains in home values over the past year. There has been very little growth in Brisbane home values over the past five years. Over the period Brisbane has been one of the weakest performing capital city housing markets with home values falling by 0.3 per cent. In comparison, Brisbane home values increased by a total of 45.0 per cent over the five years to January 2010 and by a much greater 115.8 per cent over the five years to January 2005. Brisbane home values have increased at an annual rate of 7.9 per cent over the past 15 years. See G1

The volume of sales across Brisbane has moderated over recent months

Based on house and unit sales estimates over the 12 months to November 2014, there were 34,873 houses and 15,002 units sold in Brisbane. Annual house sales have increased by 10.6 per cent over the year and unit sales are 1.5 per cent higher. Although annual sales have risen, more recently sales volumes have begun to trend lower and this is highlighted in the quarterly trend. Over the three months to November 2014 there were 8,782 houses and 3,152 units sold in Brisbane. Brisbane house sales were 6.0 per cent lower over the three month period compared to the same period in 2013 and unit sales were 27.8 per cent lower. Although sales have eased, the expectation that Brisbane will be one of the strongest performing housing markets in 2015 (along with many off-the-plan unit sales) may see transactions lift again. See G2

Rental rates in Brisbane are rising at a very slow pace

The median Brisbane house rent was recorded at $436 per week at the end of January 2015 compared to $414 per week for units. The rate of rental growth has been sluggish over the past 12 months, with house rents increasing by 1.8 per cent compared to a 1.1 per cent rise in unit rents. The rate of rental growth over the past year for houses and units is below the five year average rates recorded at 2.2 per cent for houses and 1.9 per cent for units. For houses, the much greater increase in home values compared to rents has resulted in gross rental yields falling from 4.6 per cent to 4.4 per cent over the past year. For units, the rate of capital gain and rental growth has been at similar levels which have resulted in stable yields over the year at 5.5 per cent. See G3

55 days

On average, Brisbane houses are taking 55 days to sell and units are taking 59 days compared to 45 days and 51 days respectively a year ago.
City key statistics – January 2015

<table>
<thead>
<tr>
<th></th>
<th>Houses</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median price</td>
<td>$485,000</td>
<td>$385,000</td>
</tr>
<tr>
<td>12 month value change</td>
<td>5.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>5 yr compound annual value change</td>
<td>0.0%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>10 yr compound annual value change</td>
<td>3.8%</td>
<td>3.6%</td>
</tr>
<tr>
<td>15 yr compound annual value change</td>
<td>8.1%</td>
<td>5.7%</td>
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<tr>
<td>Average time on market (days)</td>
<td>55</td>
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<tr>
<td>Average vendor discount</td>
<td>-5.8%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Median weekly rental rates</td>
<td>436</td>
<td>414</td>
</tr>
<tr>
<td>Gross rental yield</td>
<td>4.4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Average hold period (years)</td>
<td>10.2</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Source: CoreLogic RP Data

G1: Rolling quarterly and annual change in Brisbane home values

G2: Monthly and five year average Brisbane home sales

G3: Brisbane median weekly rents and gross rental yields

Regional Queensland

Change in home values over time

<table>
<thead>
<tr>
<th>Region</th>
<th>12 mth</th>
<th>5 yr</th>
<th>From peak</th>
<th>12 mth</th>
<th>5 yr</th>
<th>From peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Coast</td>
<td>5.7%</td>
<td>0.5%</td>
<td>0.0%</td>
<td>-0.7%</td>
<td>-1.9%</td>
<td>-10.7%</td>
</tr>
<tr>
<td>Sunshine Coast</td>
<td>4.1%</td>
<td>0.5%</td>
<td>0.0%</td>
<td>1.5%</td>
<td>-1.6%</td>
<td>-9.8%</td>
</tr>
<tr>
<td>West Moreton</td>
<td>0.7%</td>
<td>-0.2%</td>
<td>-3.2%</td>
<td>0.4%</td>
<td>-0.4%</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Wide Bay-Burnett</td>
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<td>-0.7%</td>
<td>-4.6%</td>
<td>2.0%</td>
<td>0.1%</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Darling Downs</td>
<td>2.6%</td>
<td>2.4%</td>
<td>-0.5%</td>
<td>8.8%</td>
<td>0.9%</td>
<td>-3.6%</td>
</tr>
<tr>
<td>South West</td>
<td>-0.1%</td>
<td>1.5%</td>
<td>-2.0%</td>
<td>-0.1%</td>
<td>1.5%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Fitzroy</td>
<td>-1.3%</td>
<td>1.8%</td>
<td>-7.6%</td>
<td>-0.6%</td>
<td>1.8%</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Central West</td>
<td>-5.2%</td>
<td>1.5%</td>
<td>-13.4%</td>
<td>-5.2%</td>
<td>1.5%</td>
<td>-13.4%</td>
</tr>
<tr>
<td>Mackay</td>
<td>-1.1%</td>
<td>1.2%</td>
<td>-5.9%</td>
<td>-1.3%</td>
<td>1.1%</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Northern</td>
<td>-1.9%</td>
<td>-1.1%</td>
<td>-7.0%</td>
<td>1.3%</td>
<td>-3.5%</td>
<td>-18.6%</td>
</tr>
<tr>
<td>Far North</td>
<td>4.9%</td>
<td>1.7%</td>
<td>-0.1%</td>
<td>2.0%</td>
<td>-2.1%</td>
<td>-12.1%</td>
</tr>
<tr>
<td>North West</td>
<td>6.1%</td>
<td>1.6%</td>
<td>-0.9%</td>
<td>5.1%</td>
<td>1.6%</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

Reference: 12 mth = 12 month change, 5 yr = Average annual change over five years, 10 yr = Average annual change over 10 years, From peak = change in values since the market peak.

Source: CoreLogic RP Data
2,032

Over the past month, there were 2,032 new properties listed for sale across Adelaide and 7,923 total property listings. New listings are 0.6 per cent higher than a year ago and total listings are 4.0 per cent lower.

Adelaide home values increased at a moderate pace over the past year

Over the 12 months to January 2015, Adelaide home values increased by 3.1 per cent with house values increasing by 2.9 per cent compared to a 4.5 per cent increase in unit values. The increase in home values is greater than the 2.5 per cent recorded at the same time in 2014 however, the rate of value growth has slowed after peaking at 5.9 per cent in August 2014. Although home values are increasing, they are doing so at a fairly moderate pace.

Home value growth in Adelaide has been limited over the past five years, with values increasing by just 4.2 per cent over the period. Over the past fifteen years growth across Adelaide has been decelerating.

Over the five years to January 2005, Adelaide home values increased by a much greater 105.1 per cent. Over the five years to January 2010, home value growth in Adelaide was also greater than over the past five years, recorded at 38.1 per cent in total. Over the 15 years to January 2015, Adelaide home values have increased by a total of 195.2 per cent or at a compound annual rate of 7.5 per cent. See G1

Transaction activity in Adelaide has started to slow

There were 20,089 houses and 6,427 units sold across Adelaide over the 12 months to November 2014. Over the year, house sales were 0.8 per cent higher than over the same period in 2013 and unit sales were 7.9 per cent higher. On an annual basis, sales volumes are higher, however, they have been trending lower since June 2014 and quarterly sales data shows slowing overall transaction activity. Over the three months to November 2014, there were 4,985 houses and 1,604 units sold throughout the city. Transaction numbers are 0.8 per cent and 7.9 per cent higher than over the same period in 2013 but on a quarterly basis they have also been trending lower since June 2014. See G2

Limited rental growth in Adelaide over the past year

Over the 12 months to January 2015, median house rents in Adelaide have increased by 1.5 per cent compared to a 1.4 per cent rise in unit rents. As at January 2015, house rents were recorded at $372 per week compared to $316 per week for unit rents. Rental growth for both houses and units has been lower than the five year average levels recorded at 2.3 per cent and 2.1 per cent respectively. The gross rental yields for houses were recorded at 4.2 per cent at the end of January 2015 and yields for units were 4.7 per cent. House yields have fallen from 4.3 per cent a year earlier due to stronger value growth relative to rental growth while unit rental yields are down from 4.8 per cent. See G3
Regional South Australia

Change in home values over time

<table>
<thead>
<tr>
<th>Region</th>
<th>Houses 12 mth</th>
<th>5 yr</th>
<th>From peak</th>
<th>Units 12 mth</th>
<th>5 yr</th>
<th>From peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outer Adelaide</td>
<td>-4.5%</td>
<td>2.7%</td>
<td>0.0%</td>
<td>-4.0%</td>
<td>2.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Yorke and Lower North</td>
<td>-2.7%</td>
<td>-1.2%</td>
<td>-12.3%</td>
<td>-2.7%</td>
<td>-1.1%</td>
<td>-12.2%</td>
</tr>
<tr>
<td>Murray Lands</td>
<td>5.8%</td>
<td>1.1%</td>
<td>0.0%</td>
<td>6.0%</td>
<td>1.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>South East</td>
<td>-2.2%</td>
<td>0.7%</td>
<td>-6.6%</td>
<td>-3.4%</td>
<td>0.4%</td>
<td>-7.6%</td>
</tr>
<tr>
<td>Eyre</td>
<td>-4.4%</td>
<td>-2.1%</td>
<td>-16.5%</td>
<td>-4.4%</td>
<td>-2.1%</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Northern</td>
<td>-3.7%</td>
<td>-1.0%</td>
<td>-11.6%</td>
<td>-3.7%</td>
<td>-0.9%</td>
<td>-11.5%</td>
</tr>
</tbody>
</table>

Reference: 12 mth = 12 month change, 5 yr = Average annual change over five years, 10 yr = Average annual change over 10 years, From peak = change in values since the market peak. 
Source: CoreLogic RP Data
Over the three months to September 2014, 6.0 per cent of Perth homes sold for less than their previous purchase price compared to 4.9 per cent 12 months ago.

Home value growth in Perth has slowed rapidly over the past year

Perth home values have increased by 2.6 per cent over the 12 months to January 2015, with house values increasing by 2.7 per cent and unit values rising 1.4 per cent. The rate of home value growth has slowed sharply over the year from 6.9 per cent at the same time in 2014. The rapid slowdown in home value growth matches broader economic trends across Western Australia where the resource-led economy is feeling the effects of falling iron ore prices.

Over the 15 years to January 2015, Perth has experienced a significant increase in home values. Over the 15 year period, home values have increased by a total of 240.5 per cent or an annual rate of 8.5 per cent. Breaking the growth into five year increments, home values have increased by just 6.7 per cent over the past five years, by 77.1 per cent over the five years to January 2010 and by 80.2 per cent over the five years to January 2005. See G1

Perth transaction numbers have fallen sharply over the past year

Over the 12 months to November 2014, there were 31,873 houses and 6,690 units sold throughout Perth. House sales were 7.6 per cent lower than they were over the same period in 2013 while unit sales were 15.4 per cent lower. Annual home sales are now at their lowest level since December 2012. On a quarterly basis, the slowdown is clearer with house sales 10.8 per cent lower than they were over the three months to November 2013 and unit sales down 14.7 per cent. With home values slowing sharply, we would expect that transactions across Perth will continue to see a downwards drift over the coming year. See G2

Rental rates in Perth have fallen sharply over the past year

The median weekly rent at the end of January 2015 in Perth was recorded at $489 for houses and $441 for units. Over the past 12 months rental demand has eased with rents falling by 3.2 per cent for houses and by 2.4 per cent for units. With rents falling, the pace of rental growth is significantly underperforming the five year average rental growth figures of 4.1 per cent for houses and 3.9 per cent for units. With home values still increasing, albeit at a moderate pace, and rents falling, yields have trended lower over the year. House yields are down from 4.2 per cent a year ago to 4.0 per cent and unit yields are down from 4.8 per cent a year ago to 4.7 per cent currently. See G3
**City key statistics – January 2015**

<table>
<thead>
<tr>
<th></th>
<th>Houses</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median price</td>
<td>$548,500</td>
<td>$430,000</td>
</tr>
<tr>
<td>12 month value change</td>
<td>2.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>5 yr compound annual value change</td>
<td>1.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>10 yr compound annual value change</td>
<td>6.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>15 yr compound annual value change</td>
<td>8.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Average time on market (days)</td>
<td>47</td>
<td>44</td>
</tr>
<tr>
<td>Average vendor discount</td>
<td>-5.8%</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Median weekly rental rates</td>
<td>489</td>
<td>441</td>
</tr>
<tr>
<td>Gross rental yield</td>
<td>4.0%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Average hold period (years)</td>
<td>8.8</td>
<td>8.2</td>
</tr>
</tbody>
</table>

Source: CoreLogic RP Data

**G1: Rolling quarterly and annual change in Perth home values**

<table>
<thead>
<tr>
<th></th>
<th>50%</th>
<th>50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td></td>
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</tr>
<tr>
<td>20%</td>
<td></td>
<td></td>
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<tr>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CoreLogic, RP Data Home Value Index

**G2: Monthly and five year average Perth home sales**

<table>
<thead>
<tr>
<th>Monthly sales volumes</th>
<th>Nov-99</th>
<th>Nov-04</th>
<th>Nov-09</th>
<th>Nov-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>6000</td>
<td>6000</td>
<td>6000</td>
<td>6000</td>
<td>6000</td>
</tr>
<tr>
<td>5000</td>
<td>5000</td>
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<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**G3: Perth median weekly rents and gross rental yields**

<table>
<thead>
<tr>
<th>Rental rate ($)</th>
<th>Gross rental yield (%)</th>
<th>Jan-97</th>
<th>Jan-99</th>
<th>Jan-01</th>
<th>Jan-03</th>
<th>Jan-05</th>
<th>Jan-07</th>
<th>Jan-09</th>
<th>Jan-11</th>
<th>Jan-13</th>
<th>Jan-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>700</td>
<td>8.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>600</td>
<td>7.0%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>500</td>
<td>6.0%</td>
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<td></td>
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<tr>
<td>400</td>
<td>5.0%</td>
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<td></td>
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</tr>
<tr>
<td>300</td>
<td>4.0%</td>
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<td></td>
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<tr>
<td>200</td>
<td>3.0%</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>2.0%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>1.0%</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: CoreLogic, RP Data Home Value Index

**Regional Western Australia**

**Change in home values over time**

<table>
<thead>
<tr>
<th>Region</th>
<th>Houses 12 mth</th>
<th>Houses From peak</th>
<th>Units 12 mth</th>
<th>Units From peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>South West</td>
<td>4.7%</td>
<td>4.0%</td>
<td>0.0%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Lower Great Southern</td>
<td>5.4%</td>
<td>0.2%</td>
<td>-9.8%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Upper Great Southern</td>
<td>3.7%</td>
<td>-0.3%</td>
<td>-14.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Midlands</td>
<td>-3.5%</td>
<td>-1.5%</td>
<td>-16.1%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>South Eastern</td>
<td>-1.5%</td>
<td>0.7%</td>
<td>-4.7%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Central</td>
<td>0.0%</td>
<td>2.0%</td>
<td>-7.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Pilbara</td>
<td>-2.5%</td>
<td>3.3%</td>
<td>-10.8%</td>
<td>na</td>
</tr>
<tr>
<td>Kimberley</td>
<td>-2.5%</td>
<td>3.3%</td>
<td>-10.8%</td>
<td>na</td>
</tr>
</tbody>
</table>

Source: CoreLogic RP Data
The median selling price of a Hobart house is $364,600. The median unit price is $265,000. Based on this, units are $99,600 more affordable than houses.

Hobart has recorded only moderate value growth over the past year

Hobart home values have increased by 3.0 per cent over the 12 months to January 2015 with house values increasing by 3.8 per cent and unit values fell by 5.4 per cent. The rate of home value growth is slightly higher than at the same time last year but has slowed from a recent peak of 5.2 per cent. Both house and unit values remain well below the recent peaks with house values still 7.0 per cent lower and unit values 17.8 per cent lower.

Hobart has recorded a fall in home values over the past five years. Between January 2010 and January 2015, Hobart home values have fallen by 7.2 per cent. Over the previous five year period, home values in Hobart increased by 29.8 per cent. Between January 2000 and January 2005, which was a boom period, home values in Hobart increased by a total of 156.4 per cent. Over the 15 years to January 2015, Hobart home values have increased by a total of 208.8 per cent despite a reduction in values over the past five years. See G1

Hobart sales volumes are now trending lower

Across Hobart, there were 3,412 houses and 998 units sold over the 12 months to November 2014. Annual sales have been trending lower since July 2014 but are still higher than they were a year ago. The 3,412 house sales are 4.4 per cent higher than a year ago while unit sales are 0.9 per cent lower. The slowing conditions are more evident from quarterly sales volumes which peaked in May 2014 and are now lower than they were 12 months earlier. Over the three months to November 2014 there were 835 house sales which are 7.8 per cent lower than the same period in 2013. The 216 unit sales over the three months to November 2014 are 24.9 per cent lower than the previous year. See G2

Rental growth in Hobart is quite strong compared to other capital cities

As at January 2015, the median rent for a house in Hobart was $344 per week and for a unit it was $291 per week. Over the 12 month period, house rents in Hobart have increased by 2.3 per cent and unit rents have increased by 2.6 per cent. Although rents have increased by a comparatively large amount over the year, rental rates in Hobart remain much lower than other all capital cities. Rental growth over the past year has also been much stronger than the five year averages of 1.1 per cent for houses and 1.6 per cent for units. Gross rental yields for houses are down from 5.3 per cent a year ago to 5.2 per cent currently while unit yields have increased from 5.4 per cent to 5.8 per cent. See G3
**City key statistics – January 2015**

<table>
<thead>
<tr>
<th></th>
<th>Houses</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median price</td>
<td>$364,600</td>
<td>$265,000</td>
</tr>
<tr>
<td>12 month value change</td>
<td>3.8%</td>
<td>-5.4%</td>
</tr>
<tr>
<td>5 yr compound annual value change</td>
<td>-1.4%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>10 yr compound annual value change</td>
<td>1.9%</td>
<td>1.3%</td>
</tr>
<tr>
<td>15 yr compound annual value change</td>
<td>7.8%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Average time on market (days)</td>
<td>47</td>
<td>70</td>
</tr>
<tr>
<td>Average vendor discount</td>
<td>-5.3%</td>
<td>-8.8%</td>
</tr>
<tr>
<td>Median weekly rental rates</td>
<td>344</td>
<td>291</td>
</tr>
<tr>
<td>Gross rental yield</td>
<td>5.2%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Average hold period (years)</td>
<td>9.6</td>
<td>9.1</td>
</tr>
</tbody>
</table>

Source: CoreLogic RP Data

**G1: Rolling quarterly and annual change in Hobart home values**

<table>
<thead>
<tr>
<th></th>
<th>12 mth</th>
<th>5 yr</th>
<th>From peak</th>
<th>12 mth</th>
<th>5 yr</th>
<th>From peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern</td>
<td>15.6%</td>
<td>7.3%</td>
<td>0.0%</td>
<td>15.6%</td>
<td>7.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Northern</td>
<td>0.2%</td>
<td>-0.3%</td>
<td>-4.3%</td>
<td>0.4%</td>
<td>-0.3%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Mersey-Lyell</td>
<td>-2.4%</td>
<td>-0.2%</td>
<td>-5.7%</td>
<td>-2.7%</td>
<td>-0.3%</td>
<td>-6.3%</td>
</tr>
</tbody>
</table>

Reference: 12 mth = 12 month change, 5 yr = Average annual change over five years, 10 yr = Average annual change over 10 years, From peak = change in values since the market peak.

Source: CoreLogic RP Data
Darwin

Key Statistics

The median selling price of a Darwin house is $561,000 and the median unit price is $450,000. Based on this, units are $111,000 more affordable than houses.

A typical Darwin house that sells for less than its purchase price is being discounted by 5.8 per cent compared to 5.7 per cent at the same time a year ago and the typical unit is being discounted by 8.3 per cent compared to 5.1 per cent a year ago.

Over the three months to September 2014, 9.6 per cent of Darwin homes sold for less than their previous purchase price compared to 10.3 per cent 12 months ago.

Darwin has seen very little growth in home values over the past year

Home values in Darwin have recorded a moderate rise of just 1.6 per cent over the 12 months to December 2014. The rise in home values was made-up of a 0.7 per cent increase in house values and a 5.7 per cent increase in unit values. The rate of annual home value growth has been trending lower since peaking in May 2014 at 9.7 per cent with the slowing trend appearing set to continue with the annual rate of growth now at its lowest level since October 2013.

Over the past 15 years, home values in Darwin have increased by a total of 186.2 per cent or at an annual rate of 7.3 per cent. Although the 15 year rate of growth is strong, it has varied greatly. Between January 2000 and January 2005, Darwin home values increased by 39.2 per cent. Over the five years to January 2010, Darwin home values increased by 100.8 per cent and over the most recent five years they have increased by just 2.4 per cent. See G1

Darwin home sales are trending higher

Over the 12 months to November 2014 there were 3,363 home sales the highest annual number since March 2010. Over the year there were 2,103 houses and 1,260 units sold which was 1.3 per cent lower and 26.3 per cent higher than the previous year respectively. Note that the trend of transaction numbers can be more volatile that other capital cities in Darwin and is likely being influenced by recently settled unit developments. Quarterly sales also indicate transaction activity is rising driven largely by the unit market. Over the three months to November 2014 there were 486 houses and 475 units sold in Darwin. In comparison to the same three month period in 2013, house sales were 0.6 per cent lower and unit sales were 79.2 per cent higher. See G2

Darwin rental rates have recently started to fall

Over the 12 months to January 2015, Darwin house rents have fallen by 1.8 per cent and unit rents are 2.4 per cent lower. Despite the falls, house rents in Darwin are the highest of all capital cities at $617 per week and unit rents remain comparatively expensive at $483 per week. Over the past five years, house rents have increased at a rate of 3.2 per cent and unit rents have increased by 2.7 per cent. With rental rates falling and home values still rising, there has been a fall in gross rental yields for both houses and units over the past year. In January 2014, Darwin houses had a gross rental yield of 6.2 per cent and units 6.0 per cent; in January 2015 yields had fallen to 6.0 per cent and 5.9 per cent respectively. See G3

250

Over the past month, there were 250 new properties listed for sale across Darwin and 1,377 total property listings. New listings are 0.8 per cent higher than a year ago and total listings are 29.2 per cent higher.
City key statistics – January 2015

<table>
<thead>
<tr>
<th></th>
<th>Houses</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median price</td>
<td>$561,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>12 month value change</td>
<td>1.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>5 yr compound annual value change</td>
<td>0.2%</td>
<td>1.6%</td>
</tr>
<tr>
<td>10 yr compound annual value change</td>
<td>7.5%</td>
<td>7.4%</td>
</tr>
<tr>
<td>15 yr compound annual value change</td>
<td>7.2%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Average time on market (days)</td>
<td>70 62</td>
<td></td>
</tr>
<tr>
<td>Average vendor discount</td>
<td>-5.8%</td>
<td>-8.3%</td>
</tr>
<tr>
<td>Median weekly rental rates</td>
<td>617 483</td>
<td></td>
</tr>
<tr>
<td>Gross rental yield</td>
<td>6.0% 5.9%</td>
<td></td>
</tr>
<tr>
<td>Average hold period (years)</td>
<td>6.7 6.4</td>
<td></td>
</tr>
</tbody>
</table>

Source: CoreLogic RP Data

G1: Rolling quarterly and annual change in Darwin home values

G2: Monthly and five year average Darwin home sales

G3: Darwin median weekly rents and gross rental yields
Over the three months to September 2014, 12.2 per cent of Canberra homes sold for less than their previous purchase price compared to 8.4 per cent 12 months ago.

Canberra is the only capital city in which home values have fallen over the year

Home values in Canberra fell by 0.3 per cent over the 12 months to January 2015. Over the year, house values were 0.5 per cent lower while unit values had increased by 1.4 per cent. At the same time in 2014, Canberra home values had increased by 2.7 per cent. The falls in home values look set to continue in 2015 with other economic factors weakening and public sector job losses set to increase over the year.

Home values in Canberra have increased at a compound annual rate of 7.6 per cent over the past 15 years or a total of 200.3 per cent. Most of the growth in values has occurred over the first half of the past 15 years. Over the five years to January 2015 home values increased by 6.0 per cent compared to 34.0 per cent over the five years to January 2010 and 111.5 per cent growth over the five years to January 2005. See G1

Home sales in Canberra are slightly higher than a year ago

Over the 12 months to November 2014 there were 7,140 home sales in Canberra with 4,345 house sales and 2,795 unit sales. Sales volumes are lower than their recent peak but higher than they were at the same time in 2013. House sales are slightly higher (0.6%) than a year ago while there has been a significant 16.5 per cent fall in unit sales. Sales volumes over the quarter further highlight this trend. Over the three months to November 2014 there were 1,254 houses and 670 units sold. Compared to the same three month period in 2013, sales volumes were 16.5 per cent higher for houses and 13.6 per cent lower for units. See G2

Canberra rental rates have slumped over the past year

In January 2015, the median rent for a Canberra house was recorded at $499 per week and the median unit rent was $402 per week. Over the 12 months to January 2015, house rents have fallen by 4.4 per cent while unit rents have declined by 4.8 per cent. The rental market has recorded weak growth over the past five years, averaging 0.5 per cent annually for houses while unit rents have fallen by an average of 0.3 per cent over the same period. With rental growth weaker than home value growth, rental yields have fallen over the past year for houses and units. As at January 2015, the gross rental yield for a house was recorded at 4.2 per cent and for a unit it was 4.9 per cent. Yields have reduced from 4.4 per cent for houses and 5.1 per cent for units a year earlier. See G3

Key Statistics

The current median selling price of a Canberra house is $580,000 and the median unit price is $410,000 based on this units are $170,000 more affordable than houses.

Over the past month, there were 671 new properties listed for sale across Canberra and 2,155 total property listings. New listings are 9.9 per cent lower than a year ago and total listings are 7.6 per cent higher.

Canberra houses are on average taking 48 days to sell currently and units are taking 62 days compared to 49 days and 54 days respectively a year ago.

Canberra houses are being discounted by 4.7 per cent compared to 5.3 per cent at the same time a year ago and the typical unit is being discounted by 4.5 per cent compared to 4.6 per cent a year ago.
City key statistics – January 2015

<table>
<thead>
<tr>
<th></th>
<th>Houses</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median price</td>
<td>$580,000</td>
<td>$410,000</td>
</tr>
<tr>
<td>12 month value change</td>
<td>-0.5%</td>
<td>1.4%</td>
</tr>
<tr>
<td>5 yr compound annual value change</td>
<td>1.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>10 yr compound annual value change</td>
<td>3.6%</td>
<td>3.1%</td>
</tr>
<tr>
<td>15 yr compound annual value change</td>
<td>7.7%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Average time on market (days)</td>
<td>48</td>
<td>62</td>
</tr>
<tr>
<td>Average vendor discount</td>
<td>-4.7%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Median weekly rental rates</td>
<td>499</td>
<td>402</td>
</tr>
<tr>
<td>Gross rental yield</td>
<td>4.2%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Average hold period (years)</td>
<td>9.6</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: CoreLogic, RP Data

G1: Rolling quarterly and annual change in Canberra home values

G2: Monthly and five year average Canberra home sales

G3: Canberra median weekly rents and gross rental yields

Source: CoreLogic, RP Data Home Value Index
Most important financial asset class in Australia?

Residential Mortgaged Back Securities (RMBS) have never historically been at the forefront of the Australian Financial System. That has now changed, according to Graham Andersen, chairman and founder of Mòrgij Analytics.

The Reserve Bank of Australia (RBA) has granted emergency liquidity relief to Australian Banks, Building Societies and Credit Unions using RMBS via its committed liquidity facility (CLF). So the performance of the mortgages that underlie these RMBS assets that the RBA may end up owning will become critical to the resolution of an Australian ADI, should it face a liquidity crisis. Thus in 2015 and beyond there is now probably no more important asset class in Australian debt markets than RMBS.

Equally the 5-15 per cent of RMBS holdings that many fixed income investors hold in their portfolios provide an important alpha generator for returns relative to index and peers. As part of CLF eligibility for RMBS, the RBA requires that specified loan and security level data be supplied to both the RBA and be made available publicly. This is to apply from July 2015. According to the RBA on appropriate public users:

“Appropriate users might include: banks and other recognised financial institutions; any person or institution that has invested in RMBS; organisations or individuals compiling research to be distributed to financial institutions and other wholesale investors; market data or cash flow model providers to the investor community; Governmental bodies, regulatory authorities and central banks; recognised credit rating agencies; any other party which would normally be considered to be a market professional and is a potential investor in RMBS; professional advisers representing any of the above; and academics”

Recognising the importance of the RMBS sector, the benefits of the new transparency regulations for RMBS that will be brought to the market and the financial system as a whole should be highlighted. This transparency will deliver the RBA, investors, and other interested participants such as academics, an ability to look through security ratings and tranches to the performance of the underlying mortgage collateral.

Even though AAA investors are unlikely to do detailed analysis on all of their deals all of the time, given the tranching structure of RMBS, the ability to quickly access relevant RMBS data and analytics periodically by all market participants should be viewed as a big plus for RMBS market functioning.

This is especially the case for investors who buy the subordinated tranches of the securities and the forum believes this transparency is also likely to increase buying, and thus lower pricing, for the lower trances in the structure. In time this could deliver lower pricing to Australian home buyers.

The RMBS asset class is largely held by investors, such as fund managers and bank balance sheets (buying to hold in their liquidity books), which buy to hold and not to trade. As a result RMBS are not liquid in the sense that Commonwealth Government bonds are easily priced and sold. However, having standardised data available will certainly help evaluate, and if necessary restrain prices to a more realistic level should selling eventuate in a risk event. This latter point is of particular importance to the RBA, both for its own liquidity operations and in ensuring market functioning.

One of the issues concerning the RBA and certain market participants is privacy concerns. This directly affects the RBA and the data providers, so in that sense there is a common concern to not breach any regulation or to set up a situation that could lead to any future breaches especially due to providing loan level data publicly and certain types of data mining occurring. Solutions to this issue are requiring that users only use data for specific purposes, data cannot be used for purposes to identify borrower identity, data cannot be passed on without permission and minimum security requirements.

An additional solution or distribution method may be the creation of secure data bases which are used to run multiple party apps for analytic purposes but does not allow direct access to the data. These data base parties could guarantee security of data access, use and purpose.

In conversations with the RBA it would seem that every effort is being made to resolve outstanding issues before data is required to be made available in mid 2015. This then brings great transparency to RMBS, ie the ability to look through the rating on RMBS to the underlying collateral and performance of collateral at any point in time. The RBA and independent buyers, in times of trouble would because of this initiative, have a reasonable understanding of what was being served up to them. A situation which should allow reasonable pricing in both buoyant and stressed markets.

Research organisations, such as the Centre for International Finance Regulation, have expressed the view that the CLF data provision requirements was a positive for innovation within the financial system as disclosure of the data and the contribution academics could make through use of the data would help drive financial innovation.

Indeed the benefits to the banks and the financial system as a whole from data transparency in terms of, reducing risk, enabling peer comparison, and giving confidence of collateral performance if the Australian economy weakens are benefits to the banks and the economy as a whole. RMBS is now a cornerstone of Australia’s economic disaster recovery program.
Housing still near fair value

The Australian housing market remained robust in 2015 with major urban centres leading the way. Glenn Levine, Senior Economist at Moody’s Analytics, looks at the road ahead.

Prices were flat to slightly higher in most regions, with capital city dwelling prices rising 7.9 per cent across calendar 2014, led by strong gains in Sydney and Melbourne. Record-low borrowing costs and foreign investment have helped to drive house price appreciation nationally. The February interest rate cut, and the likelihood of another such move before midyear, will continue to support prices. The flip side of the rate cut is that the economy remains weak, with a softer global environment and unemployment creeping higher. On balance, however, Moody’s Analytics expects house prices to rise ahead of incomes and inflation in 2015.

The latest housing upturn has lasted two years and has been largely propelled by Australia’s major urban centres, Sydney and Melbourne, with the Sydney market in particular driving activity across 2014. Dwelling prices in Sydney rose 12.4 per cent across the year, and it was the only capital city to register double-digit growth. Melbourne was second best in 2014, with prices increasing 7.6 per cent. Prices in both continued to appreciate in the January figures.

Why have prices in Sydney and, to a lesser extent, Melbourne risen so rapidly while remaining relatively flat in the rest of the country? One point to note is that this is a trend seen globally over the past three years: Prices in major international cities have risen much faster than in the rest of the country. In the UK, house prices have surged in London, but there is little happening outside the capital. In the US, prices in New York and Chicago, for example, have surged, while outside of the major centres activity has been relatively flat. This is not an explanation, per se, but may offer insight as to why Sydney prices have surged.

Global liquidity trend

It could be linked to global liquidity. Central banks, particularly in the US, Japan and now Europe, have kept the credit spigots wide open, engaging in asset-buying programs and leaving investors awash with liquidity. International property investors are more likely to favour major cities. Recent price gains in Australia have been largely driven by investors, both local and foreign. By late 2014, new housing financing to investors exceeded that for owner-occupiers for the first time on record. Moreover, Melbourne and Sydney properties appear to be receiving outsize foreign investment, particularly from Asia. Data is scant, making it difficult to gauge the size of this influence, but anecdotally it appears to be a more prominent factor than in the past.

Finally, Sydney’s well-documented supply limitations have helped to support price growth. Sydney is constrained geographically by mountains on one side and water on the other. Public transport and amenities are patchy, pushing prices in desirable areas higher. Government approval of new development has been slower than in Melbourne. Consider the rapid and ongoing development of Melbourne’s Docklands district; Sydney has no equivalent and little in the pipeline. Although Victoria’s population is 22 per cent smaller, dwelling approvals have consistently outpaced those in New South Wales.

Elsewhere, Canberra was the only city where house prices fell across 2014 and there are signs that government austerity is starting to bite. Perth dwelling prices were flat for most of 2014 as the Western Australia economy weakened. State final demand in Western Australia has contracted 4.8 per cent over four straight quarters, as the mining investment boom has ended.

Is it overvalued yet?

Moody’s Analytics maintains a model of Australian house prices at the state level. The model ties house prices to their long-term drivers – rents, incomes, and the user cost of capital – but allows prices to fluctuate in the short term in line with business cycle drivers. Moreover, we assume that Australia’s housing market is driven by the broader economy and that, in turn, house price changes can influence state-level economic performance. The model is used for stress testing and assessing fair value.

The Australian housing market remains fairly valued relative to its long-run drivers of price. There is, however, substantial divergence between the states. New South Wales prices are among the highest in the country and properties are marginally overvalued, as rents and incomes remain elevated. However, income growth was weak in 2014, and if this continues in 2015 while house prices continue to rise, as expected, the New South Wales market could drift further into overvalued territory. The Victoria market is still the biggest cause for concern. A steady flow of new supply kept rents flat in 2014, while income and employment growth stalled. Victoria’s housing market remains at risk. The weak Australian Capital Territory economy, including falling income and rents, is pushing housing steadily into overvalued territory even as prices fall. We expect the ACT housing market to remain weak in 2015.

The Moody’s Analytics assessment of fair value is highly dependent on the current low interest rate environment. We also calibrate house price valuations under a Reserve Bank of Australia cash rate of 4.5 per cent, which is around the neutral rate and well above the 2.5 per cent used in our calculations.

Exhibit 1: Australian home sales

<table>
<thead>
<tr>
<th></th>
<th>Today</th>
<th>2005</th>
<th>1995</th>
<th>Normal I.R.</th>
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<tr>
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<td>14.7</td>
<td>-7.8</td>
<td>8.9</td>
</tr>
<tr>
<td>Victoria</td>
<td>8.1</td>
<td>11.4</td>
<td>-15.6</td>
<td>15.1</td>
</tr>
<tr>
<td>Queensland</td>
<td>-7.5</td>
<td>16.1</td>
<td>2.8</td>
<td>-1.7</td>
</tr>
<tr>
<td>South Australia</td>
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<td>17.9</td>
<td>-3.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>Western Australia</td>
<td>-10.0</td>
<td>18.3</td>
<td>1.1</td>
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</tr>
<tr>
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<td>23.6</td>
<td>-4.0</td>
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<tr>
<td>Australia</td>
<td>-0.9</td>
<td>14.7</td>
<td>-6.5</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Highly negative=undervalued; +/-10% range=fairly valued; highly positive=overvalued
Economic overview

The Australian economy has continued to grow over the past year however, the rate of economic growth has slowed over recent years as investment in the resources sector has moderated. As resource investment has slowed some of the heavy lifting for the economy has passed to other sectors most notably the residential construction sector. To-date the transition has seen economic growth slow to a level which is below trend, however dwelling approvals on an annual basis are currently sitting at an all-time high.

Key Statistics

Although GDP increased by 2.7 per cent over the year, it has consistently grown at a rate below the 20 year average (3.3%) since September 2012.

Australia’s economy continues to grow albeit at a below average pace

Australia’s National Accounts showed that Gross Domestic Product (GDP) increased by 2.7 per cent over the 12 months to September 2014. The Australian economy was last in a recession (defined as successive quarters of GDP contraction) in June 1991. Over the 12 months to September 2014, the total value of the domestic economy’s output was $1.57 trillion. Although GDP increased by 2.7 per cent over the year, it has consistently grown at a rate below the 20 year average (3.3%) since September 2012. Importantly, on a per capita basis, GDP has only increased by 0.9 per cent. As we will highlight later in the report, consumers have been much more pessimistic than optimistic of late and this may provide some insight into why this is the case. The per capita figure suggests that a large proportion of economic growth is being fuelled by the strong rate of population growth, which has slowed markedly over the past year.

Over the 12 months to September 2014 the major contributors to the 2.7 per cent increase in GDP were: exports (1.5 percentage points) and household consumption (1.4 percentage points). Meanwhile, the major detractors were private investment (-0.5 percentage points) and public investment (-0.1 percentage points). This data suggests that spending is propping up the economy while there is little investment taking place from either government or the private sector.

At an industry level, the major contributors to economic growth over the past year were mining (0.8 percentage points) and financial and insurance services (0.6 percentage points). A number of industries detracted from GDP growth over the year, these included: professional, scientific and technical services (-0.4 percentage points), agriculture, forestry and fishing (-0.1 percentage points), transport, postal and warehousing (-0.1 percentage points), administrative and support services (-0.1 percentage points) and public...
administration and safety (-0.1 percentage points). Despite the slowdown in the mining sector, it continues to be the industry contributing most to GDP growth.

In terms of the proportion of total GDP contributed over the year, mining, financial and insurance services and ownership of dwellings contributed to 8.4 per cent of total GDP while construction contributed to 8.0 per cent to total GDP. Despite the slowing of the resources sector, the contribution of mining is at an historic high indicating although mining investment is slowing, output remains strong. With concerns over a slowdown in the mining sector it is little wonder the Government is looking for the residential sector to carry an increased burden given its substantial size. (See G1)

### Household disposable incomes experiencing virtually no growth

The National Accounts data includes real net national disposable income figures. Over the 12 months to September 2014, real disposable incomes have increased by 0.8 per cent. As the accompanying chart shows, disposable income growth has underperformed over the past two years. This is probably a contributing factor to consumer pessimism with households not experiencing the same income boost as they have in the past. From the housing market’s perspective, it is difficult to see how home values, particularly those in Sydney and Melbourne, can continue to grow at a pace so far above the rate of growth in disposable incomes. (See G2)

### Household savings remain high but are slowly trending lower

The national accounts data includes the household savings ratio which shows the ratio of household net saving to household net disposable income. Over the September 2014 quarter, the household saving ratio was recorded at 9.3 per cent, having declined from 9.9 per cent in September 2013. The level of household savings has been elevated since 2008 and remains at levels not seen since 1987. As the chart highlights there was a significant decline in household savings from the middle of the 1970’s through to 2002.

The decline in savings continued until it hit its nadir in December 2002, when the ratio was recorded at negative 0.7 per cent, having declined from 9.9 per cent in September 2013. The level of household savings has been elevated since 2008 and remains at levels not seen since 1987. As the chart highlights there was a significant decline in household savings from the middle of the 1970’s through to 2002.

The decline in savings continued until it hit its nadir in December 2002, when the ratio was recorded at negative 0.7 per cent, indicating households were spending all of their net disposable income plus another 0.7 per cent. From that time until the middle of 2004, household savings was generally negative and then started to trend higher. There was a material increase in the ratio at the time of the onset of the financial crisis.

The increase in household savings during and since the financial crisis seems to indicate that although Australia didn’t fall into recession like some other countries, Australians have restricted their spending habits ever since.

The 9.3 per cent reading in September 2014 is the lowest quarterly read since June 2010. Although the ratio remains high, it would seemingly suggest that households are starting to change their saving habits and beginning to spend a little more than they have over recent years. (See G3)

### The rate of inflation is outside of the Reserve Bank’s target range

Australia’s Consumer Price Index (CPI) is published on a quarterly basis. Over the 12 months to December 2014, headline CPI increased by 1.7 per cent. The rate of growth in CPI has slowed quite markedly over the past year following a 2.7 per cent increase over the 2013 calendar year. The RBA has a target range for inflation of between 2 per cent and 3 per cent over the cycle. This target range was introduced in the middle of 1993 and as the chart shows since this target was introduced, the rate of inflation has generally been much lower than it was prior to the introduction of this target.
The average discounted variable mortgage rate, which is more in-line with what most borrowers receive, currently sits at 4.85 per cent, which is its lowest level on record. The average three year fixed rate mortgage sits at 5.1 per cent and it remains to be seen if banks will reduce fixed rates following the recent cut to the cash rate.

With annual headline inflation recorded at 1.7 per cent it currently sits below the RBA's target range. The RBA does have preferred measures of inflation which remove some of the more volatile readings from the data, these measures are the weighted median and trimmed mean.

Over the 12 months to December 2014, the weighted median was recorded at 2.2 per cent and the trimmed mean at 2.3 per cent, both of which are at the lower end of the RBA’s target range.

The CPI data is constructed from a collection of items and groups which each have a weighting. Over the past year, the groups which have recorded an increase which is greater than headline CPI were: alcohol and tobacco (7.4%), education (5.2%), health (4.4%), housing (2.4%), food and non-alcoholic beverages (2.0%) and insurance and financial services (2.0%). The following groups have recorded increases below headline inflation: communication (-3.0%), transport (-1.9%), clothing and footwear (-1.5%), furnishings, household equipment and services (0.5%) and recreation and culture (0.8%).

The current rate of inflation provides the RBA scope to reduce official interest rates if they feel they would assist the economy, as they did in February 2014. (See G4)

Mortgage rates have recently shifted lower and remain at historic low levels

As at February 2015, standard variable mortgage rates were recorded at 5.7 per cent after official interest rates were reduced by 25 basis points at the start of the month. The standard variable mortgage rate is at an extremely low level on an historic basis however, most borrowers have access to even lower mortgage rates.

The average discounted variable mortgage rate, which is more in-line with what most borrowers receive, currently sits at 4.85 per cent, which is its lowest level on record.

The borrowing costs for mortgages are currently at extremely low levels and this has assisted in attracting purchasers into the residential property market. Although this has assisted the residential housing market, it is not entirely responsible for the growth, particularly when you consider that value growth hasn’t been broad-based. Nevertheless, mortgage rates are tipped to remain at low levels for a foreseeable period which should continue to attract activity to the residential property space. (See G5)

The national unemployment rate is at its highest level in more than a decade

Labour force data for January 2015 showed that the national rate of unemployment was recorded at 6.4 per cent, its highest level since June 2002. The national unemployment rate has been trending higher since reaching a low of 4.9 per cent in early 2011. At the same time a year ago, the unemployment rate was recorded at 6.0 per cent.

A feature of the labour force data of late has been the greater rate of growth for part-time employment as opposed to full-time employment. Over the 12 months to January 2015, total employment has increased by 1.6 per cent. Looking closer at the data it shows that the increase is being driven largely by part-time jobs rather than full-time positions. Over the year, full-time employment has increased by 1.4 per cent compared to a 2.0 per cent rise in part-time employment. Part-time employment growth has consistently been greater than full-time growth since November 2012.

Part-time employment now accounts for a record high 30.8 per cent of all employment. In January 2015, 17.3 per cent of all male
employment was part-time compared to 46.6 per cent of female employment.

The employment participation rate is currently recorded at 64.8 per cent. The participation rate has actually increased slightly over recent months and is marginally higher than the 64.6 per cent recorded at the same time a year ago. Over the 12 months to January 2015, the total number of employed persons has increased by 1.4 per cent, while the number of unemployed persons has increased by 8.8 per cent.

With unemployment at its highest level in more than a decade, this creates challenges for the Australian economy. The growing prevalence of part-time employment means that individual workers earn less and in some instances have less certainty about their income each week. The most up-to-date underemployment data from the Australian Bureau of Statistics from November 2014 shows that the national underemployment rate was recorded at a record high 8.6 per cent. This indicates that many employees are currently working less than they would like to.

From a residential housing market perspective, the rising prevalence of part-time employment and record high underemployment, along with the highest unemployment rate in more than a decade may potentially create challenges. If concerns surrounding job security or the amount of hours employees can work rise, then they are likely to be less inclined to make a high commitment decision such as purchasing a property. On the other hand, for those that do have a mortgage, paying off the mortgage may become more difficult if the number of hours they are working is reduced. (See G6)

Population growth across the country is starting to wind down

At the end of June 2014, Australia’s resident population was estimated to be 23.49 million persons, having increased by 1.6 per cent over the year or 364,868 persons. Although the 364,868 person increase over the 12 months is strong, it is much lower than the 397,614 person increase over the previous 12 months.

At a national level there are two components of population growth, natural increase (births minus deaths) and net overseas migration.

Over the 12 months to June 2014, 41.7 per cent of population growth came from natural increase with the remaining 58.3 per cent from net overseas migration. The rate of natural increase was recorded at 152,173 over the year, which was down 6.0 per cent over the previous year. Net overseas migration was recorded at 212,695 persons over the year which was 9.7 per cent lower than over the previous year.

In general, population growth remains strong and the rate of net overseas migration in particular creates additional demand for housing. It is clear though that the rate of population growth is now slowing. As housing construction increases, we may begin to see a more balanced relationship between population growth and the rate of new dwelling construction. In turn this may start to ease some of the upwards pressure on home values. (See G7)

New South Wales and Victoria lead the way in population growth

The two most populous states, New South Wales and Victoria, continue to achieve the greatest increase in population. Over the year, New South Wales’ population increased by 109,135 persons followed by 106,660 persons in Victoria, 70,535 in Queensland, 54,382 in Western Australia, 15,216 in South Australia, 4,705 in the Australian Capital Territory, 2,538 in the Northern Territory and 1,662 in Tasmania. Over the year, 93.4 per cent of total population growth has occurred in the four largest states; New South Wales, Victoria, Queensland or Western Australia.

Key Statistics

With unemployment at its highest level in more than a decade, this creates challenges for the Australian economy. The growing prevalence of part-time employment means that individual workers earn less and in some instances have less certainty about their income each week.
Key Statistics

Since the onset of the financial crisis in 2008, there has been much less interstate migration. In particular, fewer residents have been leaving New South Wales and Victoria for Queensland and Western Australia.

The growth in population over the past year has been fastest in Western Australia (3.0%), Australian Capital Territory (1.8%), Queensland (1.8%), Victoria (1.7%) and Northern Territory (1.7%). Across the remaining states, annual population growth has been recorded at 1.3 per cent in New South Wales, 1.0 per cent in South Australia and 0.4 per cent in Tasmania. (See G8)

Overseas migrants prefer the larger states

While overseas migration reduced over the year, it still remains at an elevated level. Nationally net overseas migration fell from 235,656 migrants over the year to June 2013 to 212,695 migrants over the year to June 2014. As the chart shows, Queensland, Western Australia, Northern Territory and Australian Capital Territory each recorded a significant decline in net overseas migration over the year.

The remaining four states each recorded a rise in overseas migration, albeit more moderate than the falls recorded elsewhere. Over the year, 62.4 per cent of all net overseas migration occurred in either New South Wales or Victoria with the figure rising to 91.8 per cent when Queensland and Western Australia are included. (See G9)

Fewer residents are leaving New South Wales and Victoria

At a national level there is no measure of interstate migration because it all evens itself out. Looking at the state data shows some clear trends with fewer people leaving New South Wales and Victoria than ever before. Over the 12 months to June 2014, New South Wales lost a record low 6,857 persons to other states and territories while Victoria gained a record high 8,783 residents.

The third and fourth largest states, Queensland and Western Australia have recorded a sharp decline in net interstate migration. Queensland recorded its lowest inflow of residents since December 2010 and Western Australia recorded its lowest inflow since December 2003. Elsewhere, South Australia had its smallest outflow of residents since September 2012, Tasmania had its lowest outflow since June 2011, the Northern Territory had its highest outflow on record and the Australian Capital Territory had its highest outflow since September 2004.

As the accompanying chart shows, since the onset of the financial crisis in 2008, there has been much less interstate migration. In particular, fewer residents have been leaving New South Wales and Victoria for Queensland and Western Australia. From a housing market perspective, this has most likely contributed to the much greater growth in home values in Sydney and Melbourne over recent years. Fewer residents have left while overseas migration has also been strong, creating additional housing demand and greater upwards pressure on home values in these two cities. (See G10)

Population and growth across the major regions

Despite the vast land area on the Australian continent, the country has one of the world’s lowest overall population densities. The urban footprint hugs the coastline, particularly along the eastern coast, and is very much confined to the major capital cities.

As a result, well located properties within these cities are highly sought after and tend to attract a significant premium. As at June 2013, 66.3 per cent of Australia’s population lived in one of the capital cities accounting for 15.3 million of the 23.1 million residents. Of those residents living in a capital city, 31.0 per cent lived in Sydney and 28.3 per cent reside in Melbourne with those two cities accounting for almost 3 out of every five capital city residents. At a national level, 39.4 per cent of the total nation population live in...
either Sydney or Melbourne with the figure increasing to 57.6 per cent when you include Brisbane and Perth. Note that more than one out of every five people living in Australia (20.6%) live in Sydney.

Given that such a high proportion of the national population live within a handful of capital cities it is little wonder that housing demand is so strong in these centres. It should be remembered that these cities also have the greatest employment potential as well as being home to essential services. If we look to the regional markets, the five most populous non-capital city regions of the country are located directly adjacent to capital cities. Furthermore, it is possible in each of these regions to commute to the capital city for employment.

As a result of a highly centralised population, the cost of housing is much more expensive as you get closer to the city centre. The city centre generally has superior provision of essential and desirable infrastructure and amenities. Conversely, areas further away from the city centre have more limited provision of infrastructure and amenities. (See G11)

Household debt nearing record highs while housing debt reaches a new peak

Each quarter the RBA publishes a collection of ratios of household finances. The ratio of household debt to household disposable income was recorded at 152.8 per cent in September 2014. The 152.8 per cent reading was the highest it has been since December 2007, before the onset of the financial crisis. As the chart shows, the ratio has been relatively flat over recent years, however it has started to trend higher over the past couple of years.

The reason why the household debt ratio is now rising is due to increasing levels of housing debt. As at September 2014, the ratio of housing debt to disposable income was recorded at a record high 139.0 per cent. Furthermore, it had increased from 135.2 per cent at the same time in 2013. Based on this data, housing debt accounts for 91.0 per cent of total household debt. Although the level of household debt is quite high, the ratio of household assets to disposable income is significantly higher at 803.8 per cent. This figure is made up of ratios of 439.3 per cent for housing assets to disposable income and 338.2 per cent for financial assets to disposable income.

Households are heavily indebted however, it does appear that the value of their housing assets at a macro level is significantly greater than the value of that debt. Of course individual circumstances are likely to vary significantly and recently purchased homes are much less likely to be in such a strong position. (See G12)
Private sector credit is trending higher largely due to housing

According to the RBA’s private sector credit data, total credit has increased by 5.9 per cent over the 12 months to December 2014, which was the greatest annual increase since January 2009, but well below the twenty year average of 12 per cent. Home loan lending is driving the renewed growth in credit; over the year housing credit has increased by 7.1 per cent compared to a 0.9 per cent increase in other personal credit and a 4.8 per cent increase in business credit. Housing credit is expanding at its fastest annual rate since January 2011 and business credit at its fastest face since March 2009.

Focussing on the total value of lending across the three segments, it becomes clear that mortgages are the main asset class on the balance sheet of Australian banks as opposed to business or personal lending. As at December 2014, $1.424 trillion was outstanding for housing, $142.6 billion was outstanding for personal loans and $777.6 billion was outstanding to business. Based on those figures, 60.7 per cent of outstanding credit is for residential housing (which is a record high proportion), 33.2 per cent is outstanding to business and 6.1 per cent for personal loans. Australian ADIs have consistently had more funds lent for mortgage purposes since April 2001, prior to that time business lending had been the lending type of choice. (See G13)

Investor housing credit growing much faster than credit to owner occupiers

Private sector housing credit rose by 7.1 per cent over the 12 months to December 2014. The figure is comprised of two components, owner occupier housing credit and investor housing credit. Owner occupier credit has increased by 5.6 per cent over the past 12 months compared to a 10.1 per cent increase in investor credit. Owner occupier credit has risen at a slower annual pace than it did in November 2014, while investor housing credit has recorded its greatest annual increase since February 2008.

Growth in housing credit has ramped up considerably over the past year, with annual growth recorded at 4.7 per cent for owner occupier credit and 6.9 per cent for investor credit at the same time a year ago. The adjoining chart shows the rate of annual housing credit growth over time and it indicates that housing credit is growing at a slow pace on an historic basis. The amount outstanding is much greater than in the past. In fact, the Australian Prudential Regulation Authority (APRA) has concerns about the current growth in investment credit. So much so that they wrote to Australian ADIs late last year highlighting concerns about ADIs growing their investment lending at materially more than 10 per cent per annum, stating it is an indicator of increased risk. APRA also stated this figure was an important risk indicator and growth above it would result in APRA considering further prudential action.

The total value of outstanding housing credit was recorded at $1.424 trillion in December 2014. This figure is comprised of $935.9 billion outstanding to owner occupiers and $487.7 billion to investors. Although outstanding credit to owner occupiers still significantly outweighs credit to investors, investor credit accounted for a record high 34.3 per cent of all outstanding housing credit in December 2014. (See G14)

Consumers have been pessimistic over the past year but optimism returned in February

The Westpac-Melbourne Institute monthly measure of Consumer Sentiment has been much more pessimistic than optimistic throughout most of the past 12 months. When the index is below 100 points it indicates that...
consumers are overall more pessimistic than optimistic. The Index has been recorded below 100 points over 11 of the past 12 months. Importantly, the Index showed that optimism returned in February. According to Westpac, this was driven by factors such as: the 25 basis point cut to official interest rates, a 21% fall in average petrol prices over the past two months and a recent jump in share prices.

The Index is further split into five sub-indices which make up the overall index. These sub-indices are: family finances over the last 12 months, family finances over the next 12 months, economic conditions over the next 12 months, economic conditions over the next five years and time to buy major household items. The only sub-indices above 100 points are family finances over the next 12 months and time to buy a major household items. Although sentiment improved markedly in February, the Index is quite volatile and it will be important to see over the coming months if the current optimism persists. There is a fairly strong correlation between consumer sentiment and both demand for and growth in home values. The consistently low consumer sentiment reading over the past year is likely to be a key factor contributing to the slowdown in housing market conditions. If consumers are feeling more negative about the overall economy, they would likely be less inclined to make a high commitment decision such as purchasing a home. If sentiment remains slanted towards pessimism, we would expect this will further dampen activity in the housing market. Obviously if sentiment remains optimistic it may result in a further increase in home values and sales volumes.

Every quarter, the monthly consumer sentiment release includes a quarterly measure of where respondents felt were the wisest place for savings. At the end of 2014, 40.3 per cent of respondents felt that a financial institution (bank, building society or credit union) was the wisest place, which was its highest reading since the September 2012 quarter. At the same time 7.0 per cent of respondents chose shares, 20.0 per cent chose real estate and 17.6 per cent chose pay debt. The reading for shares was the lowest since December 2012, for real estate it was at its highest reading since the September 2012 quarter. At the same time 7.0 per cent of respondents chose shares, 20.0 per cent chose real estate and 17.6 per cent chose pay debt. The reading for shares was the lowest since December 2012, for real estate it was at its highest reading since the September 2012 quarter. (See G15)

Business confidence is also weak
It isn’t just consumer confidence which is weak, so too is business confidence. Based on the National Australia Bank’s monthly measure of business confidence, confidence remains around its lowest levels since the middle of 2013. The lack of business confidence is of concern particularly considering that the rate of unemployment is currently at decade high levels. If businesses are less confident they are most likely going to be less inclined to add more staff.

The survey also reveals that business conditions are also weak. If business and consumer confidence continue to remain at low levels along with confidence it doesn’t bode well for an improvement in labour force conditions, nor would it suggest a pick-up in credit demand from businesses. (See G16)

Australian dollar heads lower
The Australian dollar has been comparatively high for some time. Over the past year, the Australian dollar has fallen despite the fact that official interest rates are comparatively high and no change has been made throughout the year. The trade weighted index has fallen by 5.6 per cent over the past year and is now 19.2 per cent lower than its recent peak. In Australia, we often like to compare our dollar’s value to that of the United States’ dollar. In January 2014, one Australian dollar bought $0.876US. At the end of January 2015, one Australian dollar purchased $0.78US. The Reserve Bank has mentioned a number

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**Key Statistics**
At the end of 2014, 40.3 per cent of respondents felt that a financial institution (bank, building society or credit union) was the wisest place, which was its highest reading since the September 2012 quarter.

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**G14: Monthly and annual change in private sector housing credit**

![G14 graph]

**G15: National consumer sentiment**

![G15 graph]

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![G14 graph](https://example.com/graph1.png)

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![G15 graph](https://example.com/graph2.png)
of times throughout 2014 that they felt the Australian dollar was overvalued and, although it has fallen, undoubtedly they would like to see it even lower. A lower dollar would presumably assist industries such as manufacturing, education and tourism. From a housing market perspective, a lower Australian dollar may result in additional foreign investment activity. Unfortunately there are still no solid and reliable figures on foreign investment in Australian residential property. Anecdotal evidence continues to suggest that overseas buyers are particularly active in the two largest cities, Sydney and Melbourne. A lower dollar would of course make housing relatively more affordable for foreign buyers. (See G17)

Gains on the Australian share market over the past year have been moderate
According to the S&P/ASX200 share market index, the Australian share market increased in value by 7.7 per cent over the 12 months to January 2015. The relatively weak share market performance reflects the overall dour attitude to the current economic climate in Australia. If we look at the total returns from the index, this includes dividend yields, the accumulation index rose by 12.5 per cent over the year.

It is important to consider the much more volatile share market conditions. Over the 2014 calendar year, the ASX 200 increased by just 1.1 per cent with total returns of 5.6 per cent with the growth story changing quite dramatically just a month later in January. Although the ASX 200 has increased by 7.7 per cent over the past year, it is still well below its historic high. The end of month high was recorded at 6,754 points in October 2007. Although the market has trended moderately higher over the year, the index is still 17.3 per cent below its previous peak. (See G18)

Cash savings accrue very little interest
With official interest rates sitting at 2.25 per cent there is very little return for savers and self-funded retirees. Interest on everyday transactional bank accounts is virtually nothing. At the end of January 2015, interest rates on term deposit accounts were also very low. The average $10,000 term deposit rate as published by the RBA was 2.80 per cent. One year $10,000 term deposits had an interest rate of 3.15 per cent and three year term deposit rates were 3.45 per cent. With the RBA reducing official interest rates by 25 basis points in February 2014, term deposit rates will most likely fall even further. With risk-free returns so low (also see
Government bond yields at all-time lows, the appetite for investment properties has surged, particularly in Sydney and Melbourne. Total returns from residential property in Sydney and Melbourne have far exceeded returns on risk-free asset classes as well as the returns achieved by Australian equities over the past year. Of course, residential property is an illiquid asset class and has a much higher cost than risk-free and liquid asset investment. (See G19)

Retail trade remains strong
In December 2014, retail trade was 4.1 per cent higher over the year, which was the slowest rate of annual growth in retail trade since October 2013. In December 2014, Australians spent $23.806 billion on retail. Looking across the individual states an obvious divergence once again becomes apparent.

Not surprisingly, the two states which are home to the strongest capital city housing markets, New South Wales and Victoria, have also seen the greatest increase in retail trade. Over the year, retail trade has increased by 6.9 per cent in New South Wales and by 4.2 per cent in Victoria.

The next strongest increase was 4.0 per cent in South Australia and 3.2 per cent in the Northern Territory. Retail trade is higher over the year in each state, however rises have been moderate in: Tasmania (0.9%), Queensland and Western Australia (both 1.7%) and the Australian Capital Territory (2.7%).

Focussing on trade by industry segment, the annual change has been quite divergent. The greatest annual increases in retail trade have been recorded for: household goods retailing (9.7%), cafes, restaurants and takeaway food services (4.6%) and clothing, footwear and personal accessory retailing (4.0%). Retail trade was lower over the year for department stores (-0.3%) while moderate increases were recorded for: other retailing (0.6%) and food retailing (3.6%). (See G20)

Commodity prices fall sharply over the year driven by bulk commodities
The RBAs Commodity Price Index shows that over the 12 months to January 2015, commodity prices have fallen by 20.4 per cent. Although commodity prices have fallen sharply, the chart shows that on an historic basis commodity prices remain high. The decline in commodity prices over the year has been led by bulk commodities which have fallen by 31.8 per cent.

Across the other components of the index, rural commodities have increased by 5.5 per cent and base metals have increased by 1.1 per cent. Although commodity prices have fallen sharply over the year, export prices remain high on an historic basis and volumes of exports are also historically high. (See G21)
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