Quarterly Review

The Australian Residential Property Market and Economy

Released August 2016

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Housing Market Overview

Residential property in Australia is the nation's single largest and most valuable asset class by a substantial margin. The total value of residential property was estimated at $6.6 trillion as at July 2016. The total value of residential property is significantly larger than the value of listed equities ($1.7 trillion) and Australian superannuation ($2.0 trillion). Over the 12 months to March 2016, Australian gross domestic product (GDP) was recorded at almost $1.65 trillion indicating that the value of residential property is around four times larger than the annual output of the Australian economy.

While Australian residential housing has an estimated worth of $6.6 trillion, the Reserve Bank's (RBA) private sector credit data indicates that the total value of outstanding mortgage debt to Australia Authorised Deposit-taking Institutions (ADIs) was approximately $1.57 trillion as at June 2016. This indicates that the level of mortgage debt remains comparatively low relative to the overall value of the national housing portfolio, at around 24%.

The private sector credit data also shows that lending by Australian ADI's is heavily tilted to residential mortgages. According to the data there was $1.57 trillion (61.1%) outstanding for housing, $144.9 billion for other personal lending (5.6%) and $853.5 billion (33.2%) for business lending. Mortgage lending has consistently been a larger proportion of lending by Australian ADI's since April 2001. Banks have continued to favour mortgage lending over business lending with good reason. Mortgages have generally performed well with low arrears, the return on equity is strong, earnings from mortgages are consistent, higher risk loans are generally insured via lender's mortgage insurance (LMI), home values have generally trended higher and Australian's tend to prioritise repayments of their mortgage. It is also important to remember that anecdotally many small businesses are actually funded through housing equity rather than via business loans. The high level of mortgage lending has been a contributing factor to the escalation of property values and the subsequent record-high level of housing debt.

Since June 2012, combined capital city home values have been rising following a fall of 7.4% over the previous down phase which ran from October 2010 through to May 2012. While this represents a strong level of value growth, it has been heavily biased towards Sydney and Melbourne, this was also the case over the previous growth phase between 2009 and 2010. The rate of growth in each of these cities is now slowing however, it is still much stronger in these two cities than in all other capital cities. The rise in home values across the combined capital cities has been accompanied by an increase in the number of property transactions however, the number of home sales is now also starting to trend lower, as accompanied by a rise in the level of new dwelling approvals.

$6.5 trillion

Value of residential property

$2.0 trillion

Value of Australian superannuation

$1.7 trillion

Value of listed equities

$0.88 trillion

Value of commercial real estate

Private sector credit data from Reserve Bank (RBA) indicates that the total value of **outstanding mortgage debt** to Australian Authorised Deposit-taking Institutions (ADIs) is **$1.6 trillion** as at June 2016.

The Australian residential housing market is highly concentrated and largely dominated by a handful of capital cities. The four largest capital cities: Sydney, Melbourne, Brisbane and Perth generally have the largest labour markets and employment opportunities and between them they account for almost 60% of the national population with almost 40% of Australians living in either Sydney or Melbourne. As a result, competition for housing in these cities is often strong, particularly those homes that are well located, close to public transport, in inner city areas or close to desirable attributes such as water. Most of these cities have had an insufficient supply of new housing over the past decade which has also created upwards pressure on home values. At the same time these four cities also have historically attracted a higher number of overseas migrants than the smaller cities which is another contributor to growing housing demand, although migration rates across Perth and Brisbane have slowed over recent years.

Across the combined capital city housing markets, home values have increased by 6.1% over the 12 months to July 2016. Although this represents relatively strong increases in home values, the rate of growth has slowed significantly from the 11.1% annual increase at the same time in 2015. Importantly, only Sydney, Melbourne and Hobart have recorded annual value growth of more than 5% while values have fallen over the year in Perth and Darwin.

Capital city rental rates have fallen by -0.6% over the past year. Although this represents only a moderate fall, it is also the largest annual decline in capital city rents on record. Subsequently gross rental yields have plumbed record lows and are now recorded at 3.3%.

Housing Market Overview

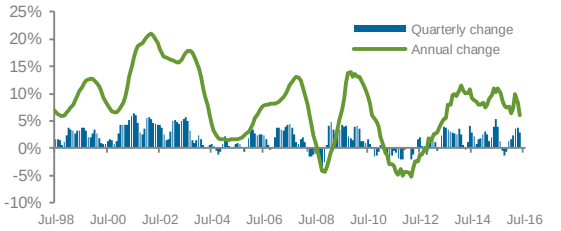
The slowdown in home value growth and rental market conditions is a positive development when you consider how weak inflation and wage growth are as well as growing affordability constraints in the two largest capital cities. The slowdown in dwelling value appreciation has also been somewhat by design due to historically high levels of new housing construction, increased regulation and lenders tightening their lending policies.

Over the past year, Australian lenders have made significant changes to their lending policies. These changes include: a premium applied to mortgage interest rates for investors, higher interest rate serviceability calculations, lower loan to value ratios for certain types of lending along with other changes. A 10% speed limit on annual investor credit growth for lenders has applied since December 2014 which has slowed investment mortgage demand to well below the mandated limit. More recently many banks have tightened lending policies for offshore borrowers which in most instances includes excluding income earned offshore and lowering loan to value ratios for these lenders.

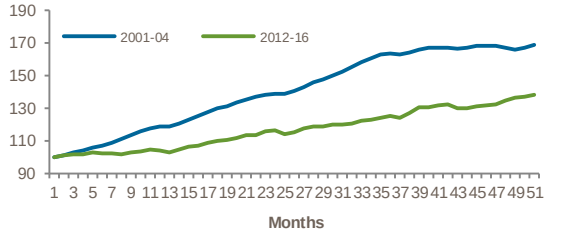
While the impact of the recent changes to offshore borrowers is unclear so far, the earlier changes have resulted in a decline in lending to the investor segment of the market as well as some loans being reclassified from investment purposes to owner occupiers. The value of investor housing finance commitments is -19.4% lower than its peak in April 2015 and annual investor housing credit growth has slowed from a peak of 10.8% in May and June of last year to 5.0% in June 2016. Over the past two months new lending to investors has picked-up and it will be interesting to see how much growth this segment sees over the coming months.

Official interest rates were lowered to 1.5% in August and, with inflation tracking at 1%, there is an expectation that the cash rate could move even lower during 2016 or early 2017. Given this, we anticipate that home values are likely to continue to increase however, it is expected that the rate of appreciation will continue to slow. Despite virtual record-low interest rates, affordability is stretched (particularly in Sydney and, to a lesser extent, Melbourne) and a tighter lending and regulatory environment should continue to take some heat out of the market. It is possible that as growth slows in Sydney and Melbourne, value growth may pick-up in other regions and we are seeing evidence of this occurring in markets like Brisbane, Hobart and Canberra along with coastal lifestyle housing markets such as the Gold Coast, Sunshine Coast and northern New South Wales. Improving levels of consumer and business sentiment along with an improving housing market are also likely to contribute to further increases in home values albeit at a more moderate growth rate.

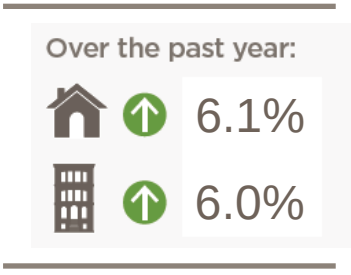
Annual and quarterly change in combined capital city home values



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



Annual change in capital city home values - to April 2016



Annual home value growth has been slowed substantially since peaking in July 2015

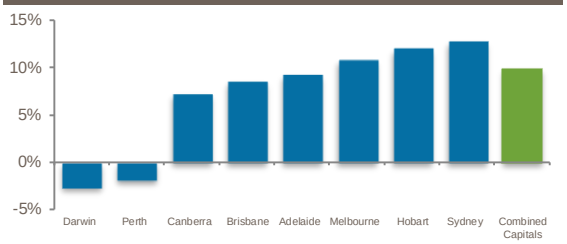
- Combined capital city home values have recorded value growth of 6.1% over the 12 months to July 2016.
- The annual growth in home values is substantially lower since its most recent peak in July 2015 at 11.1%.
- Over the past year, house values have increased by 6.1% compared to a 6.0% increase in unit values.
- In Melbourne, Brisbane and Canberra the rate of value growth for units over the past year has been less than half that for houses.
- Sydney and Hobart are the only capital cities in which unit values have increased at a faster annual pace than house values.

Housing Market Overview

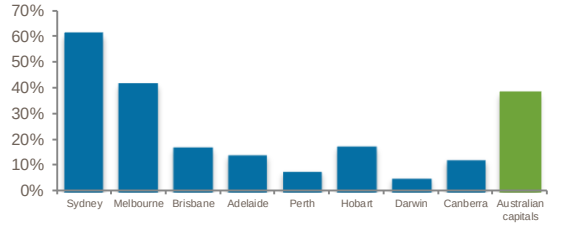
Sydney and Melbourne continue to record the strongest annual rates of value growth

- Only three capital cities; Sydney, Melbourne and Hobart have recorded value growth of more than 5% over the past year.
- Home values in Sydney have increased by 9.1% over the past year, Melbourne values are 7.5% higher and Hobart values are up 6.2%.
- Home values have fallen in Perth and Darwin over the past year, down -5.6% and -7.6% respectively.
- Across the remaining cities, annual value growth has been recorded at: 3.9% in Brisbane, 4.8% in Adelaide and 2.9% in Canberra.

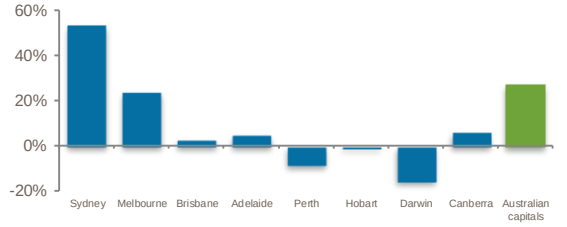
Annual total returns from capital city homes - to July 2016



Cumulative change in capital city home values over current growth phase - to July 2016



Change in home values compared to previous market peak - to July 2016



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

- The CoreLogic Accumulation Index tracks the total returns from residential property across each capital city, factoring in capital gains plus the gross rental yield, prior to factoring in holding costs such as interest payments, management fees and maintenance costs.
- The growth in this index over the year provides insight into why the level of activity by investors in the housing market has remained strong over recent years. Across the combined capital cities, total returns have been recorded at 9.9% over the 12 months to July 2016.
- Sydney (12.7%), Melbourne (10.8%) and Hobart (11.9%) have each recorded total returns in excess of 10%.
- Across the remaining cities total returns have been recorded at: 8.6% in Brisbane, 9.2% in Adelaide, -1.9% in Perth, -2.6% in Perth and 7.2% in Canberra.
- From an investment perspective, few other asset classes are offering these levels of returns, a factor which has likely contributed to the recent high level of investment activity, particularly within markets such as Sydney and Melbourne where total returns have been the highest. Many investors continue to view investment in housing as a less volatile and a relatively 'safe' asset class for investments, despite the high entry and exit costs, which has encouraged heightened investment activity over recent years.

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

- At the combined capital city level, home values reached their most recent low point in May 2012 and since that time home values have increased by a total of 38.3%.
- Although headline figures may indicate a robust rate of growth in home values, on a city-by-city basis the figures show significant variation.
- Sydney (61.3%) and Melbourne (42.0%) are the only cities where values have risen by more than 20% over the current growth cycle.
- Across the remaining capital cities, cumulative growth has been recorded at: 17.4% in Brisbane, 14.3% in Adelaide, 7.9% in Perth, 17.6% in Hobart, 5.4% in Darwin and 12.4% in Canberra.

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

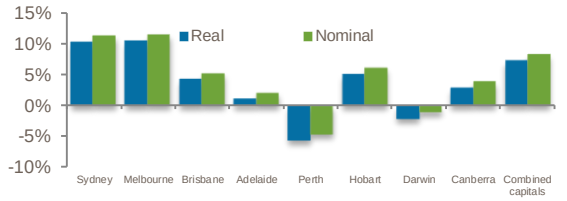
- Throughout the 2008 calendar year home values peaked in March and fell by -6.1% to their low point in December 2008 which was the low point for home values throughout the financial crisis. Since that time to July 2016, combined capital city home values have increased by 56.1%.
- Although the combined capital city index increase in values has been strong, the growth has been driven by the nation's two largest capitals where values have risen by 90.2% in Sydney and by 73.7% in Melbourne.
- All other capital cities have seen value growth of less than 30% since the end of 2008.
- Cumulative growth across the remaining capitals has been recorded at: 13.7% in Brisbane, 16.5% in Adelaide, 8.0% in Perth, 7.5% in Hobart, 13.4% in Darwin and 26.1% in Canberra.

Housing Market Overview

Recent falls have seen Perth and Darwin home values shift much lower than their previous peaks

- At the end of July 2016, combined capital city home values were 27.2% higher than they were at the time of their previous October 2010 peak.
- Although combined capital city home values are higher than their previous peak, Hobart home values are still -0.8% lower than their previous cyclical peak.
- Recent declines in home values in Perth and Darwin have seen home values move -8.3% and -15.4% respectively below their most recent peak.

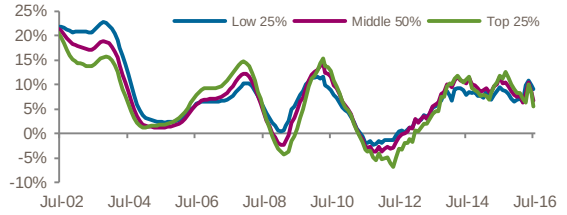
Change in home values from previous peak, inflation adjusted vs. non inflation adjusted - to June 2016



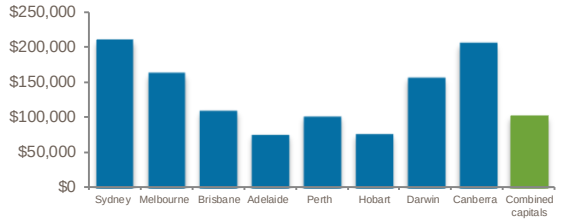
When adjusted for inflation values are below their recent peak in every capital city except Sydney and Melbourne

- Focusing on the nominal change in capital city home values only tells part of the story.
- Inflation data is only released each quarter in Australia so the latest information available is to June 2016.
- When you factor in the impact of inflation, home values at this time were still lower than their previous peaks across all capital cities except for Sydney and Melbourne.
- Across the combined capital cities, inflation adjusted home values are currently 7.3% higher than their previous cyclical peak in September 2010.
- Home values in Brisbane (-10.9%), Adelaide (-7.4%), Perth (-14.1%), Hobart (-16.5%), Darwin (-17.2%) and Canberra (-6.7%) are still lower, in real terms, than they were at their previous peak.
- Inflation adjusted home values in Sydney are 23.7% higher than their previous peak while in Melbourne they are 9.0% higher.

Annual change in home values across market segments - to July 2016



Difference between median house and unit prices - three months to July 2016



The most expensive suburbs have recorded the lowest rate of value growth over the past year

- Over the 12 months to July 2016, the most affordable 25% of capital city suburbs recorded the highest rate of value growth while the most expensive 25% recorded the slowest rate of value growth.
- Each of the three broad market segments analysed have recorded growing values over the 12 months to July 2016. The most affordable suburbs recorded an annual value increase of 9.1%. The middle 50% of suburbs recorded a 6.6% increase, while the most expensive 25% recorded a 5.6% increase.
- Over the past three months the trends are much different with the most affordable suburbs recording a value rise of 1.8% compared to a 2.4% increase across the middle market and a 4.0% increase across the most expensive suburbs.

Sydney unit prices remain more expensive than house prices in all other capital cities

- As at July 2016, the median selling price of a house across the combined capital cities was $602,000 and the median unit price was $500,000.
- This is a difference in selling prices of $102,000 or 20%.
- The median unit price in Sydney ($670,000) is higher than the median house price in all other capital cities indicating the significant difference in housing costs between Sydney and the other capital cities.
- The gap between median house and median unit prices is at least $100,000 in all capital cities except for Adelaide and Hobart and is greater than $200,000 in Sydney and Canberra

Over the past three months:

The most affordable suburbs:

↑ 1.8%

Middle market:

↑ 2.4%

The most expensive suburbs:

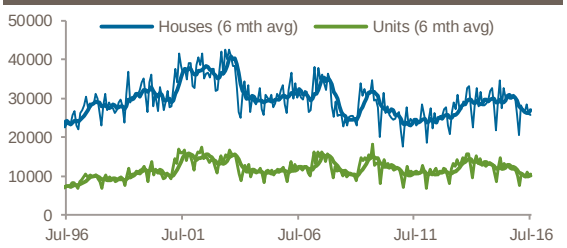
↑ 4.0%

Housing Market Overview

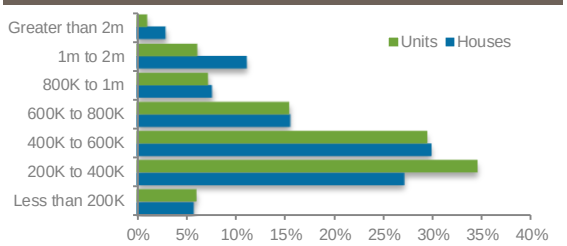
Transaction activity continues to trend lower

- Based on CoreLogic's estimate of dwelling transactions, the annual number of home sales is lower than levels recorded one year ago.
- Over the 12 months to July 2016 there were an estimated 329,444 house and 126,840 unit sales across the country. Annual house sales are -7.9% lower than they were a year earlier. The number of unit sales has decreased by -14.8% over the year.
- Although unit sales are much lower than a year ago, it is important to note those figures don't include off-the-plan sales which aren't counted until settlement. Given this, we would expect unit sales to revise higher.
- Focusing specifically on the capital city markets, there were an estimated 199,735 house sales and 91,553 unit sales over the 12 months to July 2016.
- Affordability constraints, which are becoming particularly apparent in the detached housing market, are pushing more buyers towards the unit market due to more affordable price points and the fact that units are typically located more strategically; closer to the city centre and along transport spines.
- Furthermore, India and China are now the largest sources of migrants to Australia, many of whom are more comfortable with high density housing.
- Dwelling approvals data (which will be covered later in the report) indicates that many developers believe that emerging trends will see more buyers choosing multi-unit dwellings as opposed to detached houses.
- Annual capital city house sales are -10.9% lower than they were a year earlier. The number of settled unit sales has fallen by -17.5% over the year.
- Sales volumes remain much lower than the previous transactional peaks recorded in 2007 and between 2001 and 2003.

Monthly number of house and unit sales nationally



Annual number of sales by price point - to July 2016



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

- Based on reported sales activity throughout the 12 months to July 2016, the majority of homes have transacted at prices greater than $400,000. Across the nation, 67.1% of houses and 59.4% of units sold over the year for more than $400,000.
- Focusing specifically on the combined capital city markets it becomes obvious that housing in these centres is significantly more expensive. Just 18.9% of all houses and 31.1% of all units sold across the capital cities over the year had a selling price of less than $400,000.
- Over recent years there has been a sharp reduction in the number of homes selling at more affordable price points as home values have trended higher.
- The reduction in the availability of affordable homes within Australian capital cities is a significant policy challenge which involves a range of policy response initiatives including better infrastructure linkages between emerging population centres and major working nodes, a more efficient and strategic release of land supply and more focus on medium to high density housing options with efficient design to reduce costs.
- There has been a higher proportion of units approved for construction in the capital cities which is likely to be a response to the diminishing supply of more affordable houses available for sale.
- Although there are more units being built it is important to note that a majority of these new units sell for in excess of $400,000.

Sales over the 12 months to Jul 16:

329,444

126,840

Across the nation:

32.9%

40.6%

Sold over the year for less than $400,000

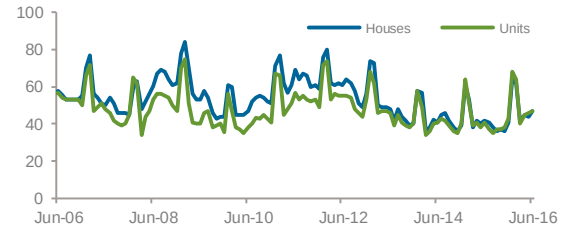
Housing Market Overview

Discounting levels are relatively unchanged over the past 12 months

- Vendor discounting figures are measured across those residential properties that sold via private treaty at a price lower than their originally advertised price. The figure is the percentage difference between the initial list price and the ultimate contract price.
- As at June 2016, the typical house across the combined capital cities had sold for 6.2% less than the initial list price and units for 6.1% less.
- Discounting levels have changed very little over the year for houses and units, having been recorded at 6.3% for houses and 6.0% for units in June 2015.
- The data suggests that despite the rate of value growth having slowed over the past year, selling conditions overall have changed very little.

Average level of vendor discounting across the combined capital cities

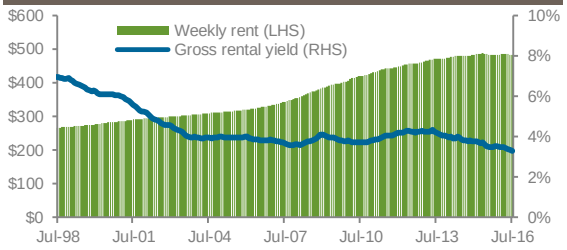
Average number of days on market for home across the combined capital cities



Average selling times have increased over the past year

- Time on market figures are calculated by measuring the difference between the date at which a residential property is first advertised for sale and the date at which the property ultimately sells (based on contract date and excluding auction sales). The figure represents the average number of days it takes to sell a home across the region.
- In June 2016, houses and units across the combined capital cities were each taking an average of 47 days to sell.
- At the same time a year ago, houses took an average of 42 days to sell and units took 41 days.
- The average time on market is still quite low and only slightly higher than a year ago however, in Sydney and Melbourne time on market figures are trending higher form their recent lows which may start to push discounting rates higher if the trend continues.

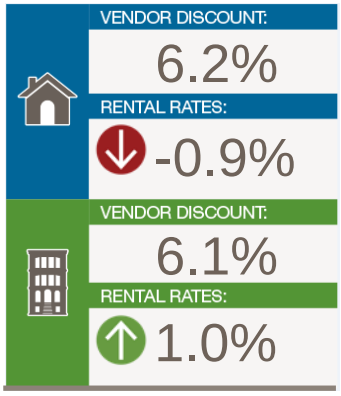
Combined capital city rental rates and yields



Rental rates have fallen over the year resulting in the weakest market conditions on record

- Over the 12 months to July 2016, rental rates have fallen by -0.6% marking the weakest conditions on record (CoreLogic rental data extends back to 1996).
- Combined capital city house rental rates have fallen by -0.9% over the year to $485/week and unit rents have increased by 1.0% to $467/week both of which represent historically weak changes in rents over the year.
- At the same time in 2015, house rents had increased by 0.7% over the year and unit rents were 1.6% higher.
- Gross rental yields for houses have fallen from 3.4% in July 2015 to 3.2% in July 2016.
- Similarly, rental yields for units have fallen to 4.1% in July 2016 from 4.3% at the same time a year ago.
- Rental yields are now at record low levels for both houses and units.
- Rental yields on investment properties are generally low which suggests many investors are utilising negative gearing to reduce their tax liability and speculating on capital growth whilst unconcerned about the low yield scenario.
- With many investors now having to provide larger deposits and investment loans incurring higher interest rates we may see more investors starting to place higher importance on the rental component of their investment rather than solely focusing on value growth.

Across the combined capital cities:



Sydney Housing Market Overview

Sydney

Sydney home values have increased at the fastest annual pace of all capital city markets. Although home values are still increasing at a strong pace, they are increasing at half their recent peak rate of growth in July 2015. While the rate of value growth has slowed, homes have started to take longer to sell indicating that selling conditions are not quite as strong as they were a year ago. Rental markets are soft, although rental rates are still increasing they are doing so at their slowest rate on record.

Values

- +5.6% over the quarter
- +9.1% past 12 months
- +9.3%pa last five years
- +6.6%pa last ten years
- +6.7%pa last 15 years
- +53.2% higher than previous peak
- +61.3% over the current growth phase

Annual sales volumes

- 87,540 sales over the year
- -19.5% over the year
- Sales down from a recent peak of 115,234 in May 2014

Rents

- -1.1% quarter
- +0.4% over the year
- +2.5%pa last five years

Yields

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

Selling time

- +3 days over the quarter
- +14 days over the year

Vendor discounting

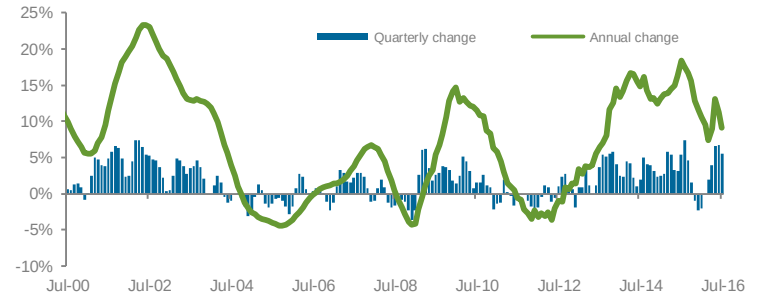
- No change over the quarter
- No change over the year

Key statistics - to July 2016

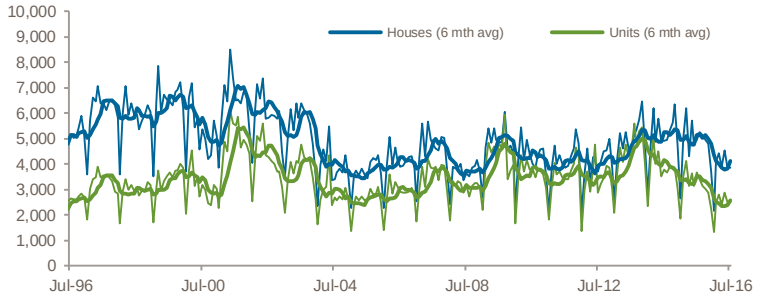
	Houses	Units
Median price	$880,000	$670,000
Quarterly value change	6.2%	3.0%
12 month value change	9.0%	9.4%
5 year annual value change	9.7%	7.5%
10 year annual value change	6.8%	6.1%
15 year annual value change	7.0%	5.5%
Value change from previous market peak	55.1%	40.9%
Estimated 12 month sales volumes	50,682	31,560
Average time on market (days)*	42	36
Average vendor discount*	-5.7%	-4.9%
Median rental rate	$610	$548
Gross rental yield	2.9%	3.9%
Average hold period (years)*	11.6	8.6

* Data to June 2016

Annual and quarterly change in Sydney home values



Monthly number of house and unit sales across Sydney



Melbourne Housing Market Overview

Melbourne

Although Melbourne home values have increased at the second fastest rate of any capital city over the past year, values are now increasing at close to half the rate they were at their recent peak in September 2015. Selling times are stable compared to a year ago but have risen over recent months while vendors appear to be setting much more realistic prices on homes with discounting rates substantially lower. Melbourne has continued to show the lowest gross rental yield profile of any capital city with yields pushing to new record lows in July.

Values

- +3.5% over the quarter
- +7.5% past 12 months
- +5.8%pa last five years
- +7.2%pa last ten years
- +7.6%pa last 15 years
- +23.9% higher than previous peak
- +42.0% over the current growth phase

Annual sales volumes

- 86,441 sales over the year
- -13.2% over the year
- Sales down from a recent peak of 99,679 in August 2015

Rents

- +0.8% quarter
- +2.0% over the year
- +2.0%pa last five years

Yields

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

Selling time

- +3 days over the quarter
- No change over the year

Vendor discounting

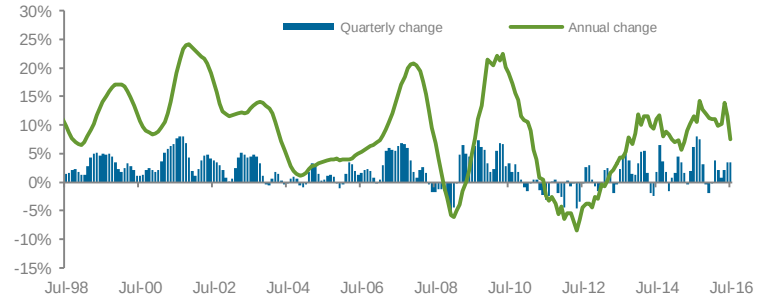
- +0.2 percentage points over the quarter
- -1.0 percentage points over the year

Key statistics - to July 2016

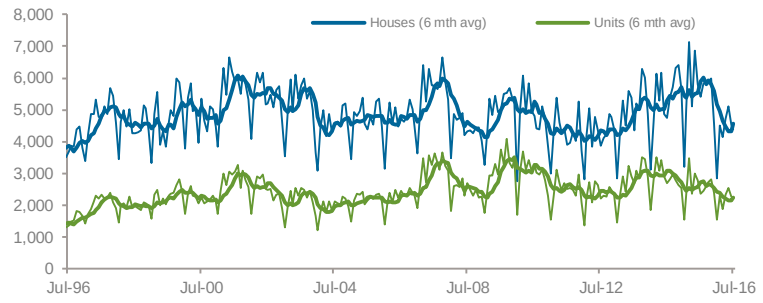
	Houses	Units
Median price	$645,000	$482,500
Quarterly value change	3.8%	1.4%
12 month value change	8.0%	3.2%
5 year annual value change	6.2%	2.2%
10 year annual value change	7.4%	5.3%
15 year annual value change	7.9%	5.6%
Value change from previous market peak	25.8%	8.9%
Estimated 12 month sales volumes	58,382	28,059
Average time on market (days)*	34	42
Average vendor discount*	-5.3%	-5.7%
Median rental rate	$466	$410
Gross rental yield	2.8%	4.0%
Average hold period (years)*	11.8	9.4

* Data to June 2016

Annual and quarterly change in Melbourne home values



Monthly number of house and unit sales across Melbourne



Brisbane Housing Market Overview

Brisbane

Brisbane has continued to see only moderate home value growth over the past year and over recent years value increases have been comparatively moderate. Both average time on market and discounting levels have increased a little over the past 12 months. The rental market has experienced falls over the past year as rental supply has increased. Although housing costs in Brisbane are substantially lower than those in Sydney and Melbourne, the comparatively weaker economy is failing to support a significant increase in housing demand.

Values

- -0.9% over the quarter
- +3.9% past 12 months
- +2.5%pa last five years
- +3.4%pa last ten years
- +7.4%pa last 15 years
- +3.0% higher than previous peak
- +17.4% over the current growth phase

Annual sales volumes

- 51,007 sales over the year
- -8.2% over the year
- Sales down from a recent peak of 56,223 in October 2015

Rents

- -0.8% quarter
- -1.0% over the year
- +1.3%pa last five years

Yields

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

Selling time

- +16 days over the quarter
- +7 days over the year

Vendor discounting

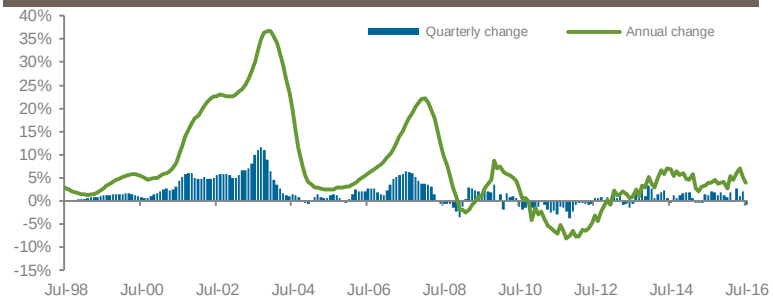
- +0.2 percentage points over the quarter
- +0.1 percentage point over the year

Key statistics - to July 2016

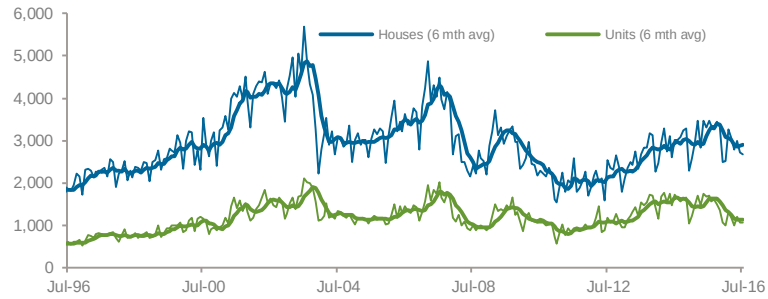
	Houses	Units
Median price	$505,000	$395,000
Quarterly value change	-0.8%	-1.6%
12 month value change	4.1%	1.9%
5 year annual value change	2.7%	0.2%
10 year annual value change	3.5%	2.6%
15 year annual value change	7.6%	5.4%
Value change from previous market peak	3.9%	-5.1%
Estimated 12 month sales volumes	36,006	15,001
Average time on market (days)*	55	74
Average vendor discount*	-6.0%	-5.8%
Median rental rate	$432	$403
Gross rental yield	4.2%	5.3%
Average hold period (years)*	10.6	8.7

* Data to June 2016

Annual and quarterly change in Brisbane home values



Monthly number of house and unit sales across Brisbane



Adelaide Housing Market Overview

Adelaide

Adelaide home values have recorded only a moderate rise over the past year and throughout the current growth phase Adelaide has recorded total growth of less than 15%. The number of home sales have remained reasonably steady across the city and the average selling time has reduced. On the other hand, discounting levels have increased a little as vendors become more flexible on their price expectations and rental rates have fallen over the past year. Overall the Adelaide housing market is fairly steady.

Values

- +0.2% over the quarter
- +4.8% past 12 months
- +1.9%pa last five years
- +3.7%pa last ten years
- +6.9%pa last 15 years
- +5.0% lower than previous peak
- +14.3% over the current growth phase

Annual sales volumes

- 26,920 sales over year
- -2.7% over the year
- Sales down from a recent peak of 27,937 in November 2015

Rents

- -1.5% quarter
- -0.5% over the year
- +0.9%pa last five years

Yields

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

Selling time

- -4 days over the quarter
- -3 days over the year

Vendor discounting

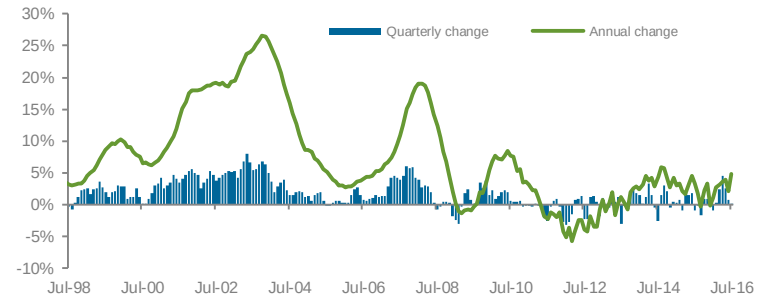
- +0.1 percentage point over the quarter
- +0.1 percentage point over the year

Key statistics - to July 2016

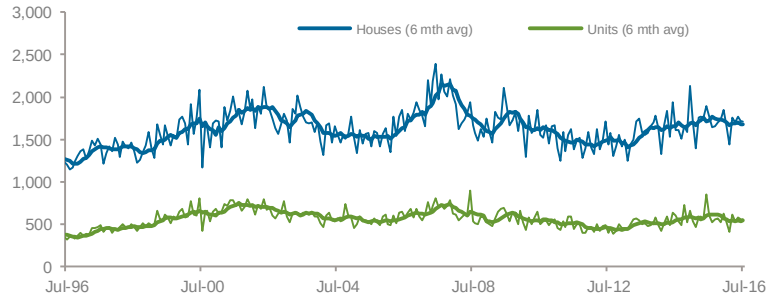
	Houses	Units
Median price	$445,000	$369,000
Quarterly value change	0.4%	-2.2%
12 month value change	5.0%	2.6%
5 year annual value change	2.0%	0.9%
10 year annual value change	3.7%	3.2%
15 year annual value change	7.0%	6.0%
Value change from previous market peak	5.3%	-2.7%
Estimated 12 month sales volumes	20,333	6,587
Average time on market (days)*	50	53
Average vendor discount*	-5.9%	-6.1%
Median rental rate	$371	$315
Gross rental yield	4.0%	4.6%
Average hold period (years)*	8.7	8.6

* Data to June 2016

Annual and quarterly change in Adelaide home values



Monthly number of house and unit sales across Adelaide



Perth Housing Market Overview

Perth

Home values across Perth have recorded a fall over the past year which has been driven by weaker economic conditions related to a slump in resource sector investment and a sharp slowdown in population growth to the state. As a result of the overall softer economic conditions, there has also been a fall in transactions, a decline in rental rates and increases in selling times and discounting level while stock on the market has increased over the past year, likely foreshadowing ongoing weak housing market conditions.

Values

- -4.3% over the quarter
- -5.6% past 12 months
- +0.8%pa last five years
- +1.2%pa last ten years
- +7.4%pa last 15 years
- -8.3% lower than previous peak
- +7.9% over the current growth phase

Annual sales volumes

- 30,007 sales over the year
- -12.6% over the year
- Sales down from a recent peak of 43,127 in December 2013

Rents

- -2.7% quarter
- -9.2% over the year
- +0.2%pa last five years

Yields

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

Selling time

- +21 days over the quarter
- +16 days over the year

Vendor discounting

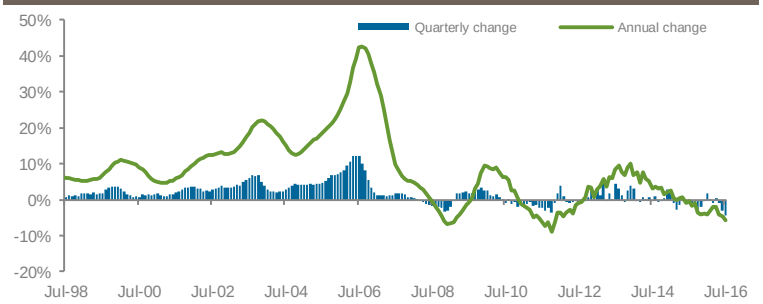
- +0.6 percentage points over the quarter
- +1.5 percentage points over the year

Key statistics - to July 2016

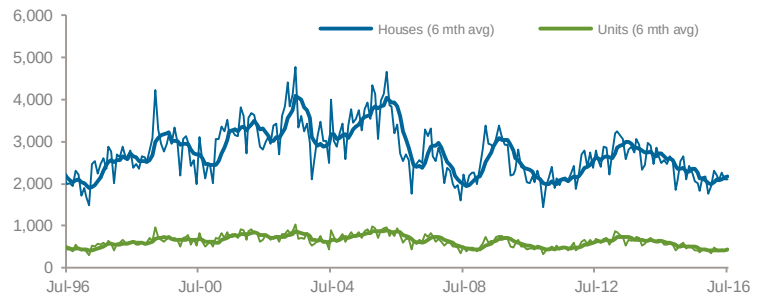
	Houses	Units
Median price	$510,000	$408,200
Quarterly value change	-4.3%	-4.8%
12 month value change	-5.6%	-5.8%
5 year annual value change	1.0%	-1.4%
10 year annual value change	1.2%	1.2%
15 year annual value change	7.5%	6.4%
Value change from previous market peak	-8.3%	-11.1%
Estimated 12 month sales volumes	24,982	5,025
Average time on market (days)*	74	100
Average vendor discount*	-8.0%	-9.8%
Median rental rate	$428	$387
Gross rental yield	3.8%	4.4%
Average hold period (years)*	9.5	9.0

* Data to June 2016

Annual and quarterly change in Perth home values



Monthly number of house and unit sales across Perth



Hobart Housing Market Overview

Hobart

Hobart sales volumes have remained reasonably steady over the past year while home values have recorded the third highest capital city rise over the past year. Hobart is also seeing a reduction in selling times and steady discounting levels which would tend to indicate ongoing improvement in housing market conditions. Furthermore, the city has comparatively high levels of rental growth as well as some of the highest rental yields across the capital cities.

Values

- +5.2% over the quarter
- +6.2% past 12 months
- -0.6%pa last five years
- +1.5%pa last ten years
- +7.6%pa last 15 years
- -0.8% lower than previous peak
- +17.6% over the current growth phase

Annual sales volumes

- 4,576 sales over the year
- -1.0% over the year
- Sales down from a recent peak of 4,731 in February 2016

Rents

- +3.9% quarter
- +6.2% over the year
- +1.6%pa last five years

Yields

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

Selling time

- +24 days over the quarter
- -9 days over the year

Vendor discounting

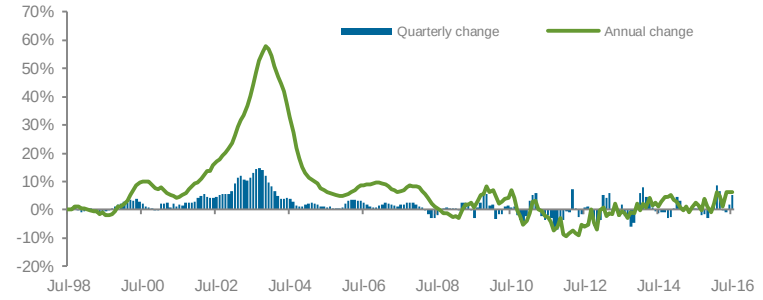
- +0.3 percentage points over the quarter
- No change over the year

Key statistics - to July 2016

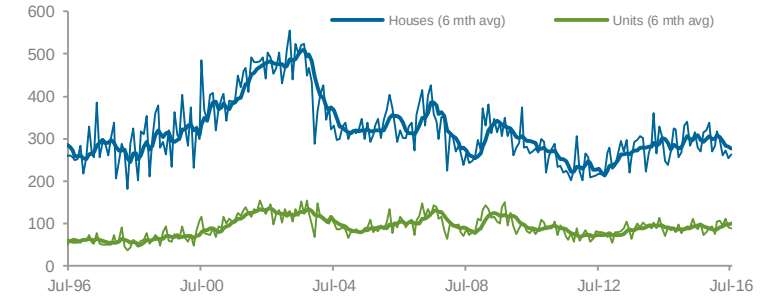
	Houses	Units
Median price	$347,500	$271,000
Quarterly value change	4.6%	11.2%
12 month value change	5.6%	12.9%
5 year annual value change	0.4%	2.6%
10 year annual value change	1.2%	3.7%
15 year annual value change	7.6%	7.9%
Value change from previous market peak	-1.9%	0.0%
Estimated 12 month sales volumes	3,465	1,111
Average time on market (days)*	61	104
Average vendor discount*	-7.2%	-5.6%
Median rental rate	$362	$340
Gross rental yield	5.2%	5.3%
Average hold period (years)*	9.9	9.4

* Data to June 2016

Annual and quarterly change in Hobart home values



Monthly number of house and unit sales across Hobart



Darwin Housing Market Overview

Darwin

Home values in Darwin surged earlier than most other capital cities in the current growth phase. Weaker economic conditions related to the end of the resource investment boom have hit Darwin which is dampening housing demand and causing home values fall. In line with the fall in home values there has been a substantial fall in rents and increases in the level of discounting and time on market. We anticipate that the softness evident across the Darwin housing market is likely to persist as the pipeline of capital expenditure winds out.

Values

- -7.0% over the quarter
- -7.6% past 12 months
- +0.3%pa last five years
- +4.1%pa last ten years
- +6.7%pa last 15 years
- -15.4% lower than previous peak
- +5.4% over the current growth phase

Annual sales volumes

- 2,158 sales over the year
- -25.0% over the year
- Sales down from a recent peak of 3,286 in October 2014

Rents

- -7.5% quarter
- -15.7% over the year
- -1.4%pa last five years

Yields

- -0.1 percentage points over the quarter
- -0.5 percentage points over the year

Selling time

- -15 days over the quarter
- +17 days over the year

Vendor discounting

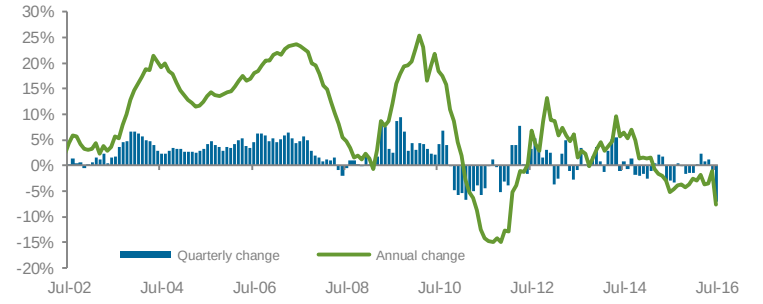
- +2.9 percentage points over the quarter
- +2.2 percentage points over the year

Key statistics - to July 2016

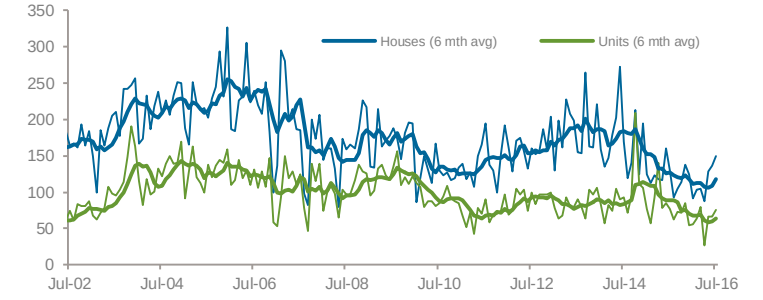
	Houses	Units
Median price	$557,000	$400,000
Quarterly value change	-5.1%	-14.0%
12 month value change	-5.9%	-14.6%
5 year annual value change	0.8%	-1.9%
10 year annual value change	4.5%	2.4%
15 year annual value change	6.8%	6.0%
Value change from previous market peak	-13.8%	-21.7%
Estimated 12 month sales volumes	1,375	783
Average time on market (days)*	84	102
Average vendor discount*	-9.1%	-14.8%
Median rental rate	$503	$326
Gross rental yield	5.3%	4.6%
Average hold period (years)*	8.0	7.5

* Data to June 2016

Annual and quarterly change in Darwin home values



Monthly number of house and unit sales across Darwin



Canberra Housing Market Overview

Canberra

The housing market in Canberra slowed substantially after the announcement of budget cutbacks and job shedding in the 2014 Federal Budget. Both values and rental rates have started to record moderate levels of growth over the past year with growth largely contained to detached houses rather than units. Canberra is actually one of the few capital cities where rental growth is currently stronger than it was a year ago.

Values

- +0.7% over the quarter
- +2.9% past 12 months
- +2.0%pa last five years
- +3.7%pa last ten years
- +6.7%pa last 15 years
- +6.1% higher than previous peak
- +12.4% over the current growth phase

Annual sales volumes

- 7,937 sales over the year
- -2.7% over the year
- Sales down from a recent peak of 8,337 in February 2014.

Rents

- -1.3% quarter
- +1.9% over the year
- -0.6%pa last five years

Yields

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

Selling time

- +7 days over the quarter
- +2 days over the year

Vendor discounting

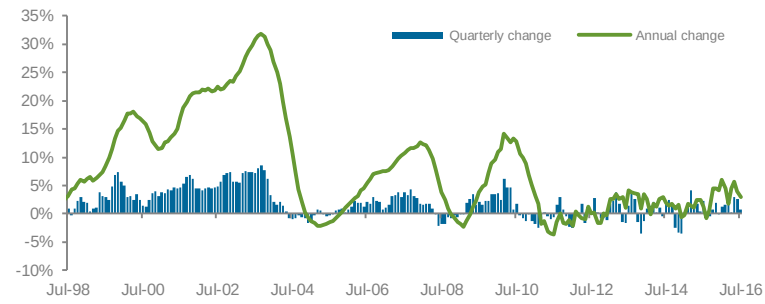
- -0.1 percentage point over the quarter
- -1.2 percentage points over the year

Key statistics - to July 2016

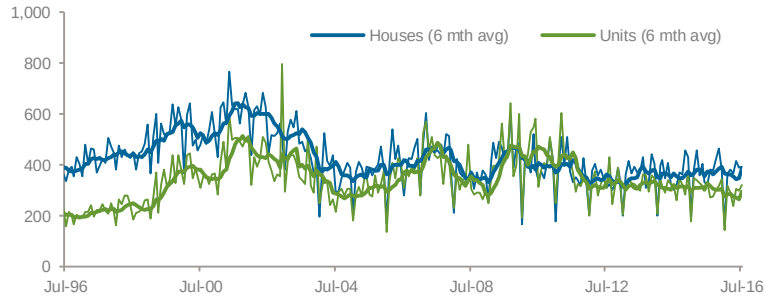
	Houses	Units
Median price	$620,000	$415,000
Quarterly value change	0.8%	-1.3%
12 month value change	3.1%	-0.4%
5 year annual value change	2.1%	0.8%
10 year annual value change	3.8%	2.6%
15 year annual value change	6.8%	5.5%
Value change from previous market peak	6.4%	-5.2%
Estimated 12 month sales volumes	4,510	3,427
Average time on market (days)*	53	69
Average vendor discount*	-3.1%	-4.6%
Median rental rate	$513	$413
Gross rental yield	4.0%	5.1%
Average hold period (years)*	10.3	9.2

* Data to June 2016

Annual and quarterly change in Canberra home values



Monthly number of house and unit sales across Canberra



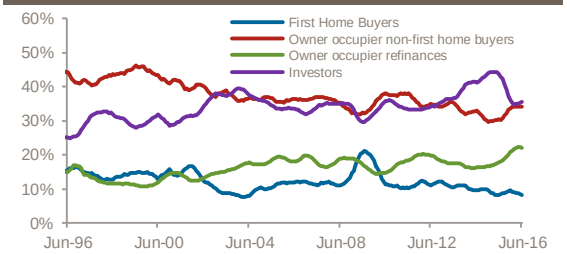

The Rocks, Sydney

Economic Overview

Subsequent purchasers and investors are the key source of housing finance demand

- Looking at the raw value of housing finance commitments on a rolling 6 month average basis across different buyer types provides an insight into the current housing market dynamics.
- Demand from the investment sector had been slowing but is now starting to pick-up again. Investors are now a greater proportion of lending than that to owner occupiers that aren't first home buyers.
- Although refinance is a smaller segment, it has continued to trend higher.
- First home buyer activity is at near record-lows, they account for just 8.3% of the value of total housing finance commitments.

12 month average proportion of housing finance commitments by borrower type



Source: CoreLogic, ABS

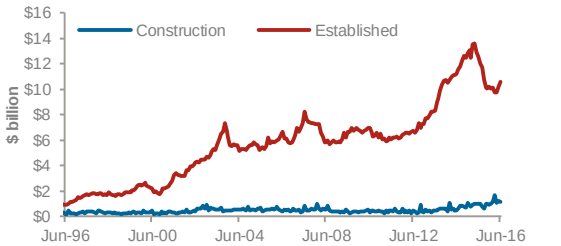
The value of owner occupier housing finance commitments has increased 9.4% over the past year

- The value of owner occupier housing finance commitments is split into four categories: construction of dwellings, purchase of new dwellings, refinance of established dwellings and purchase of established dwellings.
- In June 2016, $1.8 billion worth of commitments were for construction of dwellings, $1.0 billion was for purchase of new dwellings, $6.9 billion was for refinance of established dwellings and $11.0 billion was for purchase of established dwellings.
- The year-on-year changes were recorded at: +4.7% for construction of dwellings, +24.3% for purchase of new dwellings, +15.0% for refinances of established dwellings and +5.8% for purchase of established dwellings.
- The data shows that although all segments are increasing, refinances and purchase of established dwellings are the key drivers of current growth.

Value of owner occupier housing finance commitments

Source: CoreLogic, ABS

Value of investor housing finance commitments



Source: CoreLogic, ABS

The value of investor housing finance commitment has fallen by -13.1% over the past year

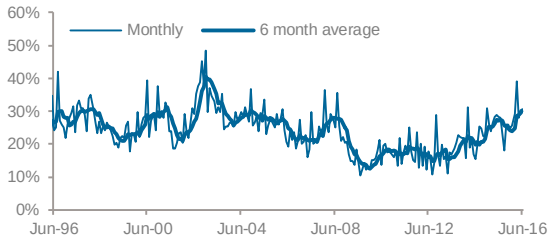
- The value of investment housing finance commitments is split into two categories: new construction and established homes.
- In June 2016, there was $1.2 billion worth of commitments for new construction and $10.6 billion worth of commitments for established homes.
- The year-on-year changes have been recorded at +20.5% for new construction which recorded a record high value in March 2016 and -15.8% for commitments for established homes.
- The data highlights that investor demand has eased substantially since the middle of 2015, however a large number of mortgages have been reclassified by lenders, from investment purposes to owner occupier which makes it difficult to know exactly how much investor demand has slowed. It also shows that investment demand for newly built housing has trended substantially higher, while established housing continues to represent a significant portion of investor demand.
- More recently, investment lending has started to pick-up, with the value of commitments rising by a total of 8.7% over the past two months.

Economic Overview

Most housing finance commitments for new stock are to owner occupiers not investors

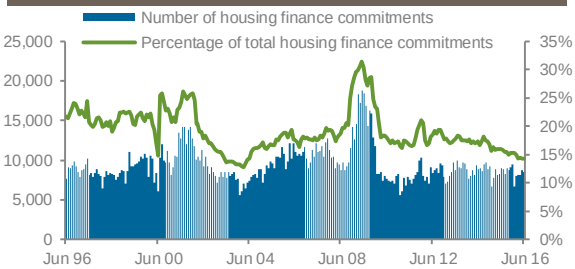
- Looking at the new components of housing finance commitments (owner occupier–construction of dwellings, owner occupier-purchase of new dwellings and investment-construction of new dwellings) there was $4.0 billion worth of commitments in June 2016.
- Of this figure, 70.1% of all of these finance commitments for new housing were to owner occupiers, with the remaining 29.9% of commitments to investors.
- This data indicates that home purchasers overwhelmingly buy existing stock however, it should be remembered that new housing makes up less than 2% of total housing stock.

Proportion of total housing finance commitments for new housing



Source: CoreLogic, ABS

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

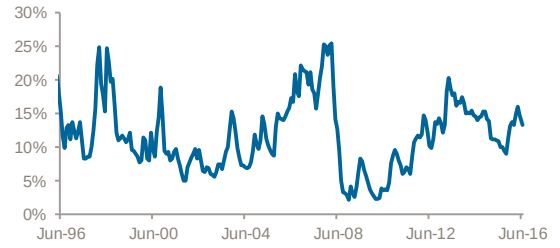


Source: CoreLogic, ABS

First home buyers continue to languish

- In June 2016, there were 8,486 housing finance commitments to owner occupier first home buyers.
- The number of owner occupier first home buyer housing finance commitments has fallen -10.6% over the year.
- First home buyers accounted for just 14.3% of all owner occupier housing finance commitments over the month.
- The weakness from the first home buyer segment has been apparent since early 2010 when the temporary 'boost' on first home buyer incentives was removed. Over the 12 months to December 2015 there were 101,356 commitments by first home buyers which was much lower than the peak of 190,023 commitments over the 12 months to November 2009.
- Within the major capital cities there has been a significant decline in affordable housing options for first home buyers which is contributing to their low activity level.
- Additionally, it is important to note that this data only measures first home buyer finance commitments for owner occupation. Anecdotally a growing number of first time buyers are purchasing investment properties.
- With investor demand having slowed there may be increasing scope for first home buyer demand to pick-up a little over the coming year although affordability constraints are likely to limit any significant resurgence.

Proportion of owner occupier finance commitments on a variable mortgage rate



Source: CoreLogic, ABS

More than 10% of new mortgages have been for fixed interest rates over each of the past eight months

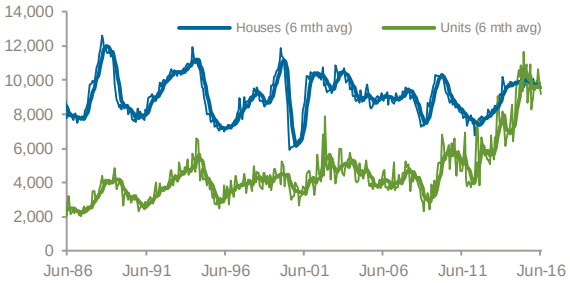
- Housing finance data reveals that in June 2016, 86.6% of new loans to owner occupiers were on a variable or 'floating' mortgage rate.
- Unlike some other countries, Australian's overwhelmingly prefer to take out variable rate mortgages rather than fixed rate loans.
- The other factor to keep in mind is that the usual length of a fixed rate mortgage in Australia is quite short, typically being three years or less.
- Although the proportion of fixed rate mortgage is low it has been elevated over recent months reflective of the fact that some lenders are offering lower three year fixed rate mortgages than those available for variable rates.
- The fact that most Australian's are on a variable rate has important implications for changes in monetary policy. Essentially, having a large proportion of households with variable mortgage rates means that when the Reserve Bank adjusts official interest rates it has an almost immediate impact on consumer attitudes and spending patterns.
- When you consider that the mortgage is often most people's single largest liability, changes to monetary policy have a virtual immediate impact on consumer spending and saving behaviour.
- With interest rates having moved even lower we may see further demand for fixed rate mortgages over the coming months.

Economic Overview

Dwelling approvals remain at high levels but have started to ease from record highs

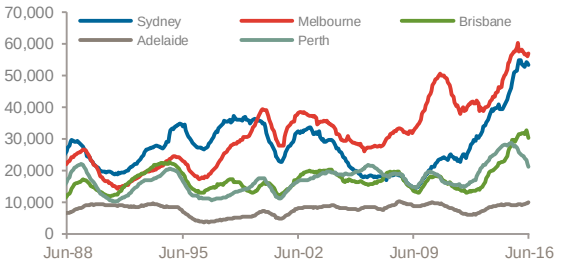
- Over the 12 months to June 2016 there have been 233,246 dwellings approved for construction, which is down from recent highs but still a large volume compared with historical averages.
- The annual number of dwelling approvals has increased by 0.9% over the past year.
- In June 2016 there were 18,693 dwelling approvals which is down -11.8% from the recent all-time high of 21,201 approvals in April 2015.
- The private sector is almost entirely responsible for new dwelling construction in Australia. This is highlighted by the fact that over the past year, 98.5% of all dwelling approvals were granted to the private sector compared with the public sector.
- In June 2016 there were 9,514 houses and 9,179 units approved for construction.
- House approvals are -5.5% lower year-on-year while unit approvals are -6.3% lower than they were in June 2015.
- Dwelling approvals have recently hit record highs fueled by unit approvals. Importantly, just because a unit project is approved for construction does not mean it will be constructed immediately. With value growth and sales slowing it is anticipated that fewer of the recently approved houses and units will be constructed in the short-term with a larger proportion likely to be deferred or withdrawn.

Number of dwelling approvals nationally, houses vs units



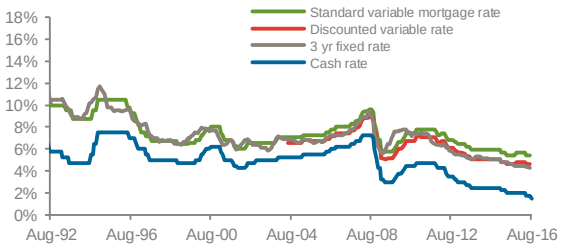
Source: CoreLogic, ABS

Annual number of major capital city dwelling approvals



Source: CoreLogic, ABS

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



Source: CoreLogic, RBA

Capital city unit approvals remain high but have eased back from their recent peaks

- Across the combined capital cities, there were 76,785 houses and 102,323 units approved for construction over the 12 months to June 2016.
- The number of house approvals fell by -1.4% over the year and unit approvals were 6.9% higher.
- Over the past 12 months, 57.1% of all capital city dwelling approvals were for units and unit approvals have now consistently outnumbered house approvals since July 2013.
- Although demand for units is growing, unit developments are less likely than houses to commence construction and complete. This may be attributed to the requirement for a certain level of pre-sales across a new apartment development before finance is granted and work proceeds as well as the 'all or nothing' nature of a large scale unit project (compared with a greenfield detached housing project where the new housing delivery can more easily be phased).
- It remains to be seen whether the proportion of units that don't proceed to the construction phase moves higher due to high supply levels in some precincts as well as tighter business lending criteria for developers.

Official interest rates have been cut to 1.5%

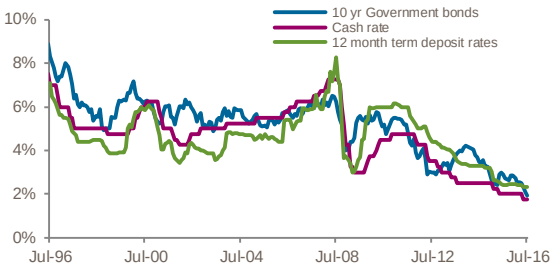
- The Reserve Bank most recently cut official interest rates to 1.5% in August 2016, citing weak inflation as the reason and the prospects of fostering a return to the inflation target range and sustaining economic growth as a reason for the cut.
- On an historic basis, official interest rates are at record lows and subsequently mortgage rates have also shifted to lows not seen since the 1960's.
- The most recent cut to interest rates were not passed on in full, with each of the Big 4 banks passing on less than 15 basis points of the 25 basis point cut.
- The standard variable mortgage rate for an owner occupier is now 5.25% however, investors can expect to pay an additional 30 basis points over this rate.
- At the time of writing, the ASX cash rate futures market suggests that official interest rates will be cut by a further 25 basis points by May next year.

Economic Overview

The impact of low mortgage rates

- The low interest rate environment is also impacting on the type of investment vehicles investors' target. Safe investments such as government bonds and term deposits are showing very low returns. Australian Government 10 year bonds were returning just 1.93% at the end of July 2016 while the 12 month term deposit rate was just 2.4%, both of which are likely to have shifted lower following the August interest rate cut.
- The low returns from 'safe' investment classes are seeing investors move to slightly riskier investment classes.
- Over the 12 months to July 2016, housing, which shows a higher risk profile relative to bonds and term deposits, has recorded much stronger returns, particularly when you factor in both value growth and rental returns.

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

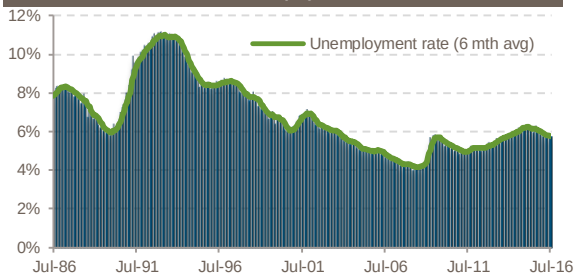


Source: CoreLogic, RBA

Unemployment rate nudges lower on growth in part time jobs and rising under employment

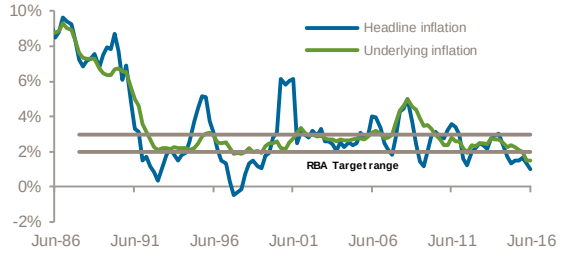
- The national unemployment rate was recorded at 5.7% in July 2016, down from 5.8% in June.
- At the same time a year ago, the national unemployment rate was recorded at 6.3%.
- The number of employed persons has increased by 1.9% over the past year.
- Full-time employment has increased by 0.4% over the year compared to a much greater 5.2% increase in part-time employment.
- While employment is increasing, it continues to largely be driven by part-time employment and a near record-high underemployment rate suggests many part-time workers are seeking additional hours.
- The recent improvement in employment conditions bodes well for housing demand however, it should be noted that most of the increase in jobs has been on a part-time basis rather than full-time.

National unemployment rate



Source: CoreLogic, ABS

Headline and underlying inflation over time



Source: CoreLogic, ABS

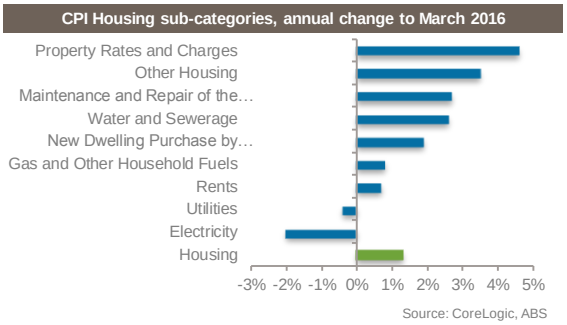
Both headline and underlying inflation are below the RBA's target range which has provided the impetus for the recent cut to official interest rates

- The Consumer Price Index (CPI) increased by 0.4% over the June 2016 quarter following a -0.2% quarterly fall over the March 2016 quarter..
- Headline inflation recorded an increase of 1.0% over the 12 months to June 2016, its lowest annual increase since June 1999.
- The RBA has a target band for inflation of between 2.0% and 3.0% throughout the cycle so the June 2016 read for headline inflation was well below the target band and was likely the primary trigger for the 25 basis point cut to interest rates in August.
- Headline inflation has now been below the RBA's target range for the past 7 quarters which hasn't happened since late 1999.
- The RBA looks at headline inflation, however they pay closer attention to their preferred two measures of underlying inflation; the trimmed mean and weighted median. These two measures of underlying inflation were recorded at 1.7% and 1.3% respectively with inflation calculated by these measures also outside of the RBA's target range.
- The RBA's latest forecasts indicate that they expect headline inflation to range between 1.5% and 2.5% until the end of 2018. Given these forecasts, the RBA will have scope to cut interest rates further over the coming months if they feel it is necessary.

Economic Overview

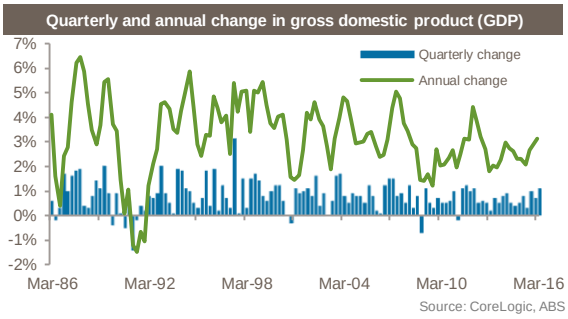
Housing costs are growing at a rate which is slightly greater than headline inflation

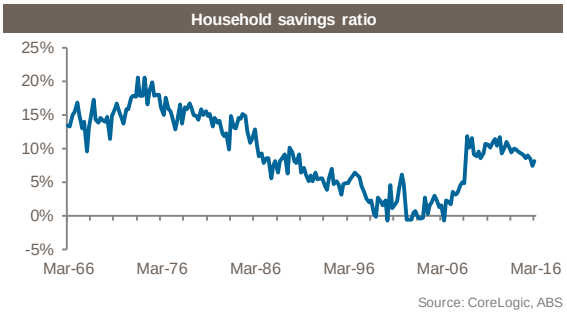
- Housing is a component of the bundle of goods used to measure inflation and it actually has the largest weighting which reflects the fact that, for most people, costs relating to housing are what they spend the greatest slice of their income on.
- The inflation data does not measure escalation in the cost of existing homes or escalation from investor purchases, rather it only measures purchases of new homes by owner occupiers.
- Over the 12 months to June 2016, housing costs have increased by 1.3% which is its slowest annual pace of growth since September 1998.
- Electricity and utilities costs have actually fallen over the past year while the cost of rates has risen by the greatest amount.



Australia's pace of economic growth was strong in late 2015 but can it last?

- Gross Domestic Product (GDP) data from the ABS to March 2016 shows that the Australian economy grew by 3.0% over the 12 month period, its fastest annual rate of growth since September 2012.
- Although headline economic growth was solid over the year, on a per capita basis economic growth was recorded at a much lower 1.7%. This result indicates that the strong rate of population growth recently is also significantly contributing to economic growth.
- Economic growth over the past year has been at an above average level however, forecasts indicate that economic growth will slow over the coming year
- Over the past decade economic growth has averaged 2.7% pa and over the past two decades it has averaged 3.2% pa.





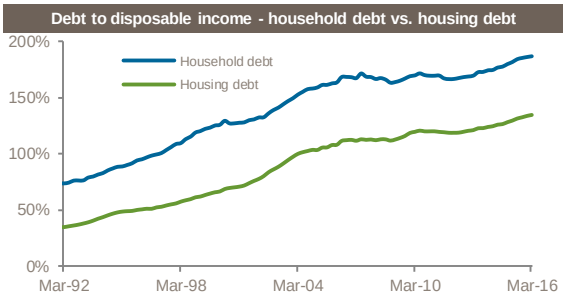
The household savings ratio has eased over recent quarters

- Over the March 2016 quarter, the household savings ratio was recorded at 8.1% up slightly from the 7.5% over the previous quarter.
- Compared to savings levels through the 1990's and early to mid-2000's savings levels remain elevated however, they have started to ease from their recent highs.
- Over the past nine quarters the household savings ratio has been below 10%, this hasn't happened for such a sustained period since September 2008.
- As the chart shows, the household savings ratio started to rise in the mid-2000's and has been much higher since September 2008.
- More recently the ratio has started to fall which is in line with a pick-up in retail sales and growing demand for housing credit.
- With low returns on cash savings we have seen consumers starting to open their wallets again. As a result we may see further declines in household savings over the coming quarters although ongoing consumer caution suggests any decline is likely to remain fairly moderate with the household savings ratio unlikely to slump back to levels recorded throughout the mid-2000's.

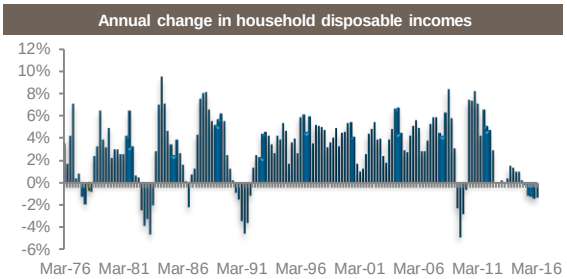
Economic Overview

Households are heavily indebted, largely due to housing debt

- According to the RBA, the ratio of total household debt to disposable income as at March 2016 was 186.9%. Of this total, a record high 134.7% was housing debt.
- Housing and household debt are trending higher and both are at record high levels.
- Although housing debt is very high, it is clearly also a function of high house prices across the country. Despite housing debt to disposable income sitting at 134.7%, total housing assets to disposable income were recorded at 470.8%.
- Housing debt may be very high however; the value of those assets is significantly more than the value of that debt.
- It should be noted that this is a national view and the ratio of housing debt to assets is likely to be much lower for recent purchasers and in areas where home values have seen very little growth over recent years.



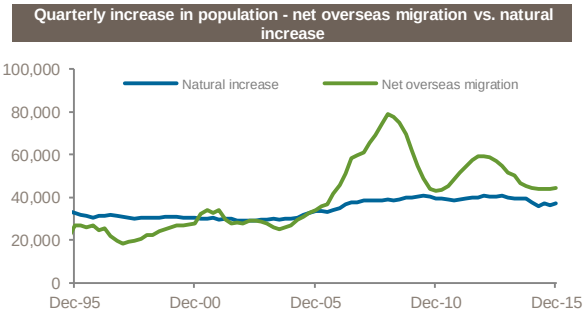
Source: CoreLogic, RBA



Source: CoreLogic, ABS

Disposable incomes have fallen over the past year

- Although mortgage rates are low and home values are increasing, real household disposable incomes have fallen over the past year.
- Over the 12 months to March 2016, household disposable incomes fell by -1.3%.
- Disposable incomes have now been falling on an annual basis for each of the past five quarters.
- Household disposable incomes are now -1.4% lower than their peak and wage price index data shows wages are growing at historic low levels
- Over the past 20 years, household disposable incomes have increased at a compound annual rate of 3.2% which indicates current household income growth is significantly lower that average.



Source: CoreLogic, ABS

- With disposable income growth negative, the ability of households to spend more on housing as values rise is likely to reduce. It also impacts on their ability to pay more for rent as well as purchase goods and services.

Population growth continues to slow

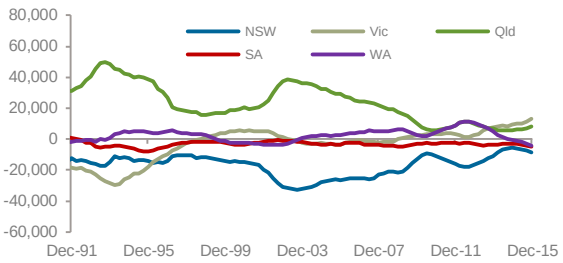
- As at the end of the December 2015 quarter, the national resident population was estimated to be 23.9 million persons.
- The population increased by 326,073 persons or 1.4% over the year.
- Population growth remains strong on an historic basis however, the rate of growth is trending lower, largely due to a slowdown in net overseas migration.
- Over the 12 months to December 2015, there were 177,138 net migrants to the country accounting for 54.3% of total population growth with the remaining 45.7% (148,935) coming from natural increase.
- Although annual net overseas migration has lifted a little, it is -43.9% lower than its peak of 315,687 persons over the 12 months to December 2008.
- More up-to-date overseas arrivals data shows an ongoing slowdown in net permanent and long-term arrivals to Australia, foreshadowing a further slowdown of net overseas migration over the coming quarters.
- The slowdown in overseas migration means less demand for housing as well as potentially having an impact on other forms of spending throughout the economy.

Economic Overview

Victoria remains the destination of choice for interstate migrants

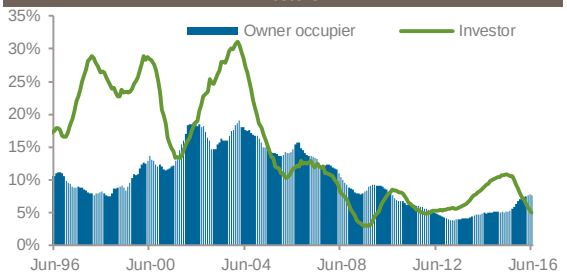
- At a national level, interstate migration cancels out across the states, however recent trends in home value growth are somewhat explained by the change in migration flows between the states and territories.
- Over the 12 months to December 2015, Victoria and Queensland are the only two states to have recorded positive interstate migration.
- While net interstate migration remains negative in New South Wales, the rate of migration is close to record levels however, the outflow has increased over recent quarters.
- Victoria is recording a record high net gain from interstate migration while Queensland net interstate migration is at a near record low but has started to increase over recent quarters.
- New South Wales has always been a net loser from interstate migration however, interstate departures from New South Wales to other states and territories have declined significantly since the financial crisis.
- Victoria has also generally recorded a net loss from interstate migration however, the inflow of interstate migrants has now consistently been positive since March 2009.
- The slowdown in the outflow of residents from New South Wales and Victoria has had a significant impact on net interstate migration to Queensland and Western Australia.
- Western Australia recorded a net loss of 4,313 residents, its largest net loss on record.

Net annual interstate migration across the major states



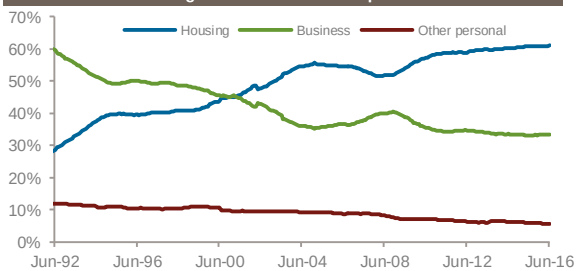
Source: CoreLogic, ABS

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



Source: CoreLogic, RBA

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



Source: CoreLogic, RBA

Housing credit keeps expanding with investment lending gathering the most pace

- Over the 12 months to June 2016, total housing credit has increased by 6.7%, having eased from a recent peak of 7.5% in November 2015.
- Owner occupier housing credit has risen by 7.7% over the past year while investor housing credit has increased by 5.0%.
- Owner occupier housing credit is expanding at its fastest pace since July 2010 while investor housing credit has slowed from a recent peak of 10.8%pa in June 2015 and is now rising at its slowest pace since March 2012.
- With APRA implementing a 10%pa cap on investment mortgage growth in December 2014, as well as premiums now being applied to investment related mortgages, there has been a sharp slowdown in credit growth for this segment of lending and it now sits comfortably below the APRA imposed speed limit. Perhaps there is some scope for lenders to increase mortgage lending to investors considering the APRA targets have been overshot.

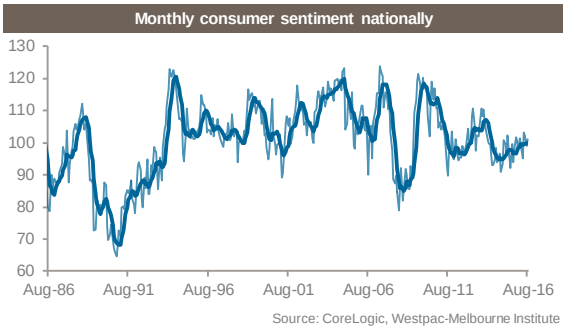
Banks have much more credit outstanding for housing than for business and personal lending

- As at June 2016, the total value of outstanding credit to Australian authorised deposit-taking institutions (ADIs) was $2.6 trillion.
- Looking at the break-down of where this credit is outstanding shows that most is in the form of mortgages. With $1.6 trillion outstanding for mortgages, mortgages account for 61.1% of outstanding credit compared to $854 billion (33.2%) to business and $145 billion (5.6%) for other personal loans.
- Australian ADIs have a clear preference for mortgage lending over personal and business lending.
- In fact, housing has consistently accounted for more than half of all outstanding credit to ADI's since April 2003.
- The low arrears rates over recent years has resulted in this preference by ADI's with business and personal lending significantly more risky than mortgage lending over recent years.
- Anecdotally many small businesses are funded via home equity rather than small business loans.

Economic Overview

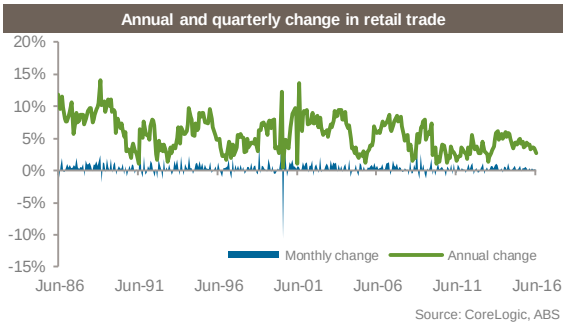
The August interest rate cut drove consumer sentiment higher but it is unlikely to be maintained

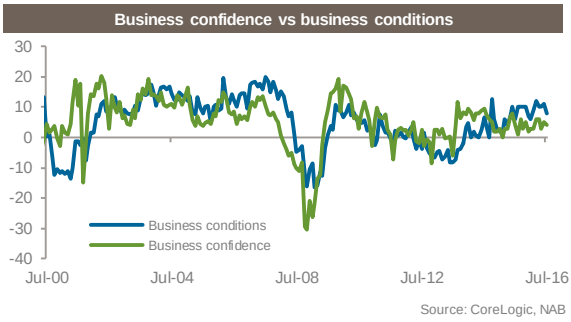
- According to Westpac and the Melbourne Institute, the Index of Consumer Sentiment was recorded at 101.0 points in August 2016.
- A reading above 100 points indicates that respondents are more optimistic than pessimistic.
- The 101.0 reading represented an increase from 99.1 points in July and follows a recent theme of a lift in sentiment when interest rate cuts occur.
- Sentiment has generally been negative since the beginning of 2014 however, interest rate cuts have resulted in an increase and a reading above 100 each time they have occurred.



Retail trade is still rising but at the slowest pace since August 2013

- Over the 12 months to June 2016, retail trade has increased by 2.8%, its slowest annual increase since August 2013.
- Although retail trade continues to expand, it has increased by a fairly moderate 0.5% over the second quarter of 2016.
- Retail trade has increased over the year in each state and territory except the Northern Territory.
- Retail trade increases have been strongest in New South Wales, Victoria and Tasmania over the past year.
- Clothing, footwear and personal accessory retailing has seen the greatest increase in trade over the year, up 8.7%.
- There have also been significant annual increases in turnover for department store retailing (5.0%) and other retailing (3.9%).
- Growth in retail trade for food (1.9%), household goods (0.9%) and cafes, restaurants and takeaway food services (2.4%) has been much more moderate over the year.





Business conditions stable while confidence dips

- The monthly NAB Business Survey measures current business conditions and businesses levels of confidence.
- Business conditions in July 2016 were recorded at 8 points which was down from double-digit readings between March and June.
- While business conditions are reasonably strong, business confidence is not quite as strong but remains positive sitting at 4 points.
- The data suggests that although business conditions are reasonable, the stronger conditions have not yet fully flowed into a sustained lift in confidence.
- It should be noted that there has not been a negative result for business confidence since November 2012.
- Confidence is important given that if it increases, businesses will generally be more inclined to borrow money and furthermore they would generally be more inclined to create new full time and permanent roles for workers.
- Business confidence is vital in creating new jobs and driving a sustainable reduction in the unemployment rate.

Where to From Here

At a broad national level, capital city housing markets have generally responded positively to the stimulus of low interest rates. The number of homes transacting has risen over recent years but is now trending lower however, volumes are likely to be revised higher as the record high pipeline of units under construction move through to settlement. While the headline combined capital cities data indicates continuing strong growth in capital city home values, digging deeper shows that is not necessarily the case across all cities and product types. Although the number of sales and the value of homes have increased across each of the capital city housing markets during some point over the past four years, the strongest increases in home values have been experienced in our two largest cities, Sydney and Melbourne. These two cities continue to see the strongest increases in values although across both cities the rate of growth is about half that of what it was at its peak. While home sales have risen across the cities, sales volumes have remained well below previous peaks.

Home values across the combined capital cities have been broadly rising since June 2012, more than four years ago now. Although home values have increased in all capital cities over this period, Sydney and Melbourne have recorded a substantially greater rise in home values than all other capital cities. It is a similar story since 2008. While combined capital city home values fell by -6.1% between March and December of 2008, since the end of 2008 Sydney home values are now 90.2% higher and Melbourne values are 73.7% higher. The third highest rate of value growth since the end of 2008 has been recorded in Canberra where values are up a comparatively moderate 26.1%. The reason for such strong value growth in Sydney and Melbourne comes down to factors such as high housing demand, strong employment opportunities and recent migration trends which have all favoured Sydney and Melbourne over the other capital city housing markets.

Over the 12 months to July 2016, combined capital city home values have increased by 6.1% compared to an annual increase of 11.1% at the same time in 2015. While the rate of value growth has slowed over recent months, Sydney and Melbourne have continued to see quite robust levels of value growth. There remains an expectation that the rate of growth in each of these cities will continue to gradually slow, however recent interest rate cuts have resulted in an increase in auction clearance rates at a time when stock levels are lower than a year ago. The combined factors of cheaper mortgage costs and less housing stock to choose from appears to be creating a sense of urgency for buyers despite four years of strong increases in home values.

For more than four years now capital city home values have been rising and, in Sydney and Melbourne in particular, housing equity has ramped-up as borrowing costs have reduced. Australians hold a majority of their wealth in residential property which is great for those that own a home but for those who don't, owning a home has moved even further out of reach over recent years, particularly as wage growth has slowed to record low levels. First home buyer activity remains at depressed levels and despite historic low borrowing costs it seems unlikely that there will be any significant increase in first home buyer purchasing over the coming year(s). Anecdotally, it appears that more first time buyers are choosing to buy an investment property rather than a principal place of residence, which means they are not counted in the official first home buyer statistics from the Australia Bureau of Statistics.

As home values have risen, there has been a significant upswing in new housing supply, particularly in terms of new units, high-rise in particular. The Australian Bureau of Statistics reported that as at March 2016 there was a record-high 215,863 houses and units under construction nationally. While the boom in housing construction is seeing a much needed improvement in housing supply there are now concerns of over-supply in specific areas, particularly in inner-city high-rise units. The number of houses and units being approved for construction each month still remains elevated and it will be interesting to see how many of these recent approvals are commenced. Another area to watch is the settlement of these units, particularly in Melbourne and Brisbane where unit supply has ramped-up significantly over recent years. We are already seeing across a number of cities that the value growth performance of units is significantly lower than it is for houses. Additionally, valuations data which is proprietary to CoreLogic shows a large portion of Melbourne, Brisbane and Perth units which have sold off the plan are showing valuations at the time of settlement which are lower than the contract prices.

Following recent curbs to investment lending there has been a significant slowing of demand to that market segment however, over recent months lending for investment purposes have started to increase again. Residential housing continues to offer investors attractive returns, especially if you factor in both capital growth and rental returns. Of course, housing is not a liquid asset and most investors are targeting similar properties (particularly inner-city units). If many looked to exit the market at the same point in the future it could place downwards pressure on values across this segment of the market. Furthermore, there is a rising level of potential valuation and subsequent settlement risk on projects under construction given that borrowers may now need to find larger deposits and rental demand for these projects may not be as strong as they were set to be a few years ago.

With financial markets expecting interest rates to fall even lower next year and following the most recent interest rate cut, it is anticipated that housing demand will remain robust and dwelling values will continue to increase. Although values are expected to rise further we expect that it is likely to occur at a more moderate pace, particularly as regulators continue to monitor the housing market in order to ensure that it does not create financial stability risks.

Where to From Here

In Sydney and Melbourne in particular, the much higher rate of value growth is showing signs of slowly moderating. The differential in housing costs between these cities and other capitals has expanded significantly and prospective buyers at the more affordable end of the market are now likely being priced out of ownership. These factors, as well as very low rental yields, are likely to be the primary barriers to higher housing demand in these locations. Notwithstanding the fact that home values have been recording consistently strong growth in these two markets for more than four years now. Furthermore, the Sydney and Melbourne economies are much stronger than those elsewhere and this will continue to act as a lure.

The expectation is that the rate of value growth is going to slow however, the limited housing stock available for sale will continue to drive urgency and demand and may result in an acceleration of home value growth over the short-term. Furthermore, manly lenders now have scope to increase investment lending which may further contribute to a short-term uplift in housing demand. It seems unlikely that the low level of activity by first home buyers will reverse any time soon despite low mortgage rates. While it is anticipated that values will continue to rise, the moderation of rental markets is likely to persist as more new housing stock comes on line. The weakest rental market conditions on record can be attributed to the recent very high level of investment activity which inherently creates a higher level of rental homes available for occupation. The new rental stock is adding to the rental market pool and giving renters more power at the time of lease renewal. Meanwhile wage growth is at record lows and household disposable incomes are declining which means renters are likely to be challenged to pay more for accommodation.

Based on these conditions it is clear why regulators such as APRA, ASIC and the RBA are vigilant about the lending sector maintaining prudent lending standards. From a buyer's perspective, they must consider that mortgage rates are at historic low levels and over the life of a mortgage they are likely to vary. As such they need to factor in a buffer and ensure that borrowers can repay the mortgage once mortgage rates eventually move higher. Investors in particular should tread carefully, we are now four years into this growth phase and it is surely now closer to its end than its commencement. Although returns are currently strong relative to other asset classes and yields are greater than risk-free assets, yields are at record lows and capital gains which have been the primary driver of these returns are at the mature end of the growth cycle. Of course housing is not a liquid asset that is easy or cheap to dispose of once conditions change.

Although the housing market is recording growth and new housing stock has increased significantly, the rest of the economy is not as strong. Consumer sentiment has improved but remains at a relatively neutral setting. Wages are growing at their lowest annual rate on record. The unemployment rate has improved over recent months but remains well above the average over the past decade and underemployment is becoming more significant. Population growth is slowing and, although this may be a seen as a good thing by some, GDP per capita is already increasing well below the rate of headline GDP and this may drag down economic growth. Commodity prices have sunk significantly since peaking in late 2011, however are now showing signs of trending higher. Finally business conditions and business confidence are improving but the improvement is still in its early stages. The bright spots for the economy outside of housing have been the continued strength of the services sector, retail trade and the booming tourism sector, thanks in large to the fall in the Australian dollar.

Despite the RBA having stated that they are looking for housing to fill the void left by the slowing resources sector, the housing market is still facing some headwinds despite the low mortgage rate environment. Rental yields have been compressed and affordability is becoming problematic in cities such as Sydney and Melbourne where values have moved substantially higher. We would argue that the economy as a whole needs more than just housing as a positive to effectively manage the transition as resource investment slows. The recent fall in the Australian dollar is beginning to assist other sectors such as tourism, manufacturing and education and further falls would assist these sectors even further. Although it does seem that given recent interest rate cuts, the Australian dollar exchange rate is somewhat higher than what would be ideal.

About CoreLogic

CoreLogic Australia is a wholly owned subsidiary of CoreLogic (NYSE: CLGX), which is the largest property data and analytics company in the world. CoreLogic provides property information, analytics and services across Australia, New Zealand and Asia, and recently expanded its service offering through the purchase of project activity and building cost information provider Cordell. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources and includes over 500 million decision points spanning over three decades of collection, providing detailed coverage of property and other encumbrances such as tenancy, location, hazard risk and related performance information.

With over 20,000 customers and 150,000 end users, CoreLogic is the leading provider of property data, analytics and related services to consumers, investors, real estate, mortgage, finance, banking, building services, insurance, developers, wealth management and government. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and geo spatial services. Clients rely on CoreLogic to help identify and manage growth opportunities, improve performance and mitigate risk. CoreLogic employs over 650 people across Australia and in New Zealand. For more information call 1300 734 318 or visit www.corelogic.com.au

Granular Data and Analytics Driving Growth in your Business

CoreLogic produces an advanced suite of housing market analytics that provides key insights for understanding housing market conditions at a granular geographic level. Granular data is often used for portfolio analysis and benchmarking, risk assessments and understanding development feasibility and market sizing. It gives industry professionals valuable modules which provide essential analytics and insights for decision making and strategy formation within the residential property asset class. We can tailor reports to suit your business requirements.

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

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

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

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

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

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

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