PRD. REAL ESTATE

Australian Economic and Property Report 2021

Property Tests Positive: Will It Require Another Injection?

"The Reserve Bank's advice that interest rates are not likely to rise before 2024, together with improving employment rates will underwrite the strength of the market over the next 12 months."

FOREWORD

'Doomsday to boomsday' are the words that come to mind when describing the Australian residential property market over the past 12 months.

In the middle of 2020, we were beginning to see some green shoots in the market following a very tough first half, with lengthy COVID-19 lockdowns and general fear of what may lie ahead.

What surprised everyone was the strength of demand and price growth that has characterised the market in the 12 months since.

The strength in the market has been fuelled by:

- The rollout of effective COVID-19 vaccines
- The Federal Governments initiatives including Jobkeeper, Jobseeker and first home buyer grants
- State Governments' investment in infrastructure projects
- The prevailing low-interest rates, with many mortgage rates currently below 2%
- The better than forecast unemployment rates resulting from Jobkeeper
- A slowdown in new housing construction
- Increased demand for houses rather than apartments
- Increased demand for major regional locations

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All these factors have contributed to the higher volumes of properties being offered for sale, fewer days on market, high auction clearance rates and spectacular price growth.

The experience of the past 12 months has also provided new methods of marketing and transacting properties. Virtual property tours, zoom meetings, online auctions, and online document management processes have created greater efficiencies and opened broader geographic buyer markets.

Major regional markets have been the big winners, with many workers leaving the major cities and telecommuting from more affordable locations. Price growth in major regional markets reflects this.

The apartment market was initially hit the hardest, particularly in locations that were oversupplied. This has changed in the first half of 2021, with demand and price growth returning to this sector in most East Coast locations. There is a wider than normal differential in prices between houses and apartments, which represented a good opportunity for first home buyers and investors.

Rental vacancies initially climbed and rental levels fell, however, the past six months has seen that trend reversing, with some markets facing a critical undersupply.

The prospect of borders opening and international students, tourists and workers being allowed back into Australia will provide a positive injection into the economy and further increase demand in a residential market-facing future undersupply.

Todd Hadley
PRD Managing Director

Tony Brasier
PRD Chairman

This is the 14th edition of to PRD's Australian Economic and Property Report. We trust it gives you a good overview of the current economic drivers and their impact on the property market, enabling you to make well researched and smarter property decisions.

"As for the rest of 2021 and early 2022, local Australian property buyers are still sheltered from the usual international demand as our borders remain closed. "

Dr Diaswati Mardiasmo
PRD Chief Economist

WELCOME

Lockdown. A word that many Australians have become accustomed to in 2020 and anticipated would be less of an issue in 2021. In some ways this has been true, however, the snap lockdowns and border closures that have continued in 2021 have interrupted everyone's lives – planned holidays, business trading hours, events, gatherings, and more. This said, Australians have been both resilient in supporting one another and flexible and agile in the way that we do business to keep the country moving forward.

The property market's performance since the beginning of COVID-19, is nothing but a profound surprise and testament to the resilience of the real estate industry. Many predicted a market crash, 'doom and gloom' for property owners, and declines in asset value. In some ways, we must thank these predictions as they spurred the Federal Government to release fiscal policies directly targeted to increase homeownership access, such as the HomeBuilder scheme and the extension of the First Home Loan Deposit, both of which has prompted first home buyers to enter the market in droves.

The Reserve Bank of Australia (RBA) played its part, cutting the cash rate in a series of expansionary monetary policy movements to a historical low of 0.1%. Australians can now access credit at a lower repayment rate, allowing them to continue purchasing goods and services. Additionally, banks offered the lowest fixed housing loan interest rates Australians have seen, further spurring real estate demand.

Property prices continue to strengthen, with many reports of record-breaking sales across the country – all the way to regional areas, catching many people by surprise. Unfortunately, wage growth has not grown at the same rate as property prices, thus, owners must dedicate a higher proportion of their incomes when already paying higher mortgage loans. The rental market is in dire need of housing supply, with shortages reported across the country. This is the time for local and state governments to publish housing policy strategies that free up land in the middle-rings of capital cities, and lessen the red tape that many developers are struggling with.

With the help of Federal Government incentives, now is the most affordable and advantageous time for first home buyers. Whilst banks and lenders are signalling an increase in their interest rates, they will still be lower than previous rates. Prices will continue to rise due to undersupply of new housing, which will create an incredible opportunity for numerous key stakeholders to engage and collaborate, to deliver targeted and correct housing supply.

Our property market has proven itself to be resilient throughout COVID-19, in both capital cities and regional areas. However, Government incentives have contributed to inflating lower-end prices, and Australians are in higher debt – by 1.1% for first home buyers and 2.6% for others. It will be interesting to see if further Government injection will be needed to ensure our affordability.

CONTENTS

The key guidance point throughout this report is the traffic light. The traffic light colour indicates the health of market conditions and highlights what each economic and/or property graph could mean for you.

Health of the Market Indicator:

Red: Cautious
Need to pay increased attention.

Yellow: Somewhat stable
Needs to be carefully monitored.

Green: Go!
Healthy market conditions.

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OVERVIEW

Australian consumer sentiment was at 108.8 index points in July 2021, which shows a remarkable rebound after a deep plummet to 75.6 index points at the height of COVID-19 in April 2020. There was a switch from 'almost positive' to 'definitely positive' consumer confidence when compared to the 93.7 index points recorded in June 2020. Confidence soared due to COVID-19 management systems across the country, resulting in Australia being one of the first countries to re-open its internal borders and economy. It is also a reflection on how the government policy has both supported those who lost their income and drove down the previously peaked unemployment rate to a low 4.9% in June 2021.

The Reserve Bank of Australia (RBA) noted the resilience of household disposable income during COVID-19, as extraordinarily, it did not decline but picked up. Households were saving more in this period for several reasons: extra income due to stimulus policies that were introduced by the government, extra savings as movements were restricted (i.e. no overseas holidays), withdrawing from a more volatile share market, and more.

Throughout COVID-19, the property market has proven resilient as industry players became more innovative with how they do business. Inspections and auctions were moved online to ensure transaction continuity, utilising advanced technological platforms. As restrictions eased, the property market returned stronger than before due to pent-up demand.

The theme for this year's Australian Economic and Property Report is '*Property Tests Positive: Will It Require Another Injection?*'. The property market as we know it has changed in leaps and bounds, especially when considering the market crash predictions from mid-2020 as we all grappled with COVID-19 and its potential impact on real estate transactions and values.

The Australian property market exceeded all expectations in 2020 and the first half of 2021 and the market crash predictions did not eventuate. In the first half of 2020, capital city, metro, and regional markets held resilient, growing by an average of 1.0%, 2.7%, and 3.4% respectively. In the second half of 2020, all property markets grew by 7.1%, 6.3%, and 8.6% respectively. Regional markets saw the highest growth again, proving their resilience and value. In the first half of 2021, capital city markets held, growing by an average of 7.6% which was no surprise considering the snap lockdowns in Sydney and Melbourne. Both metro and regional markets grew further by an average of 10.4% and 12.7%.

Housing loan commitments have soared in 2021 due to a combination of factors: household income resilience, a change in spending habits (i.e. swapping overseas holidays for property investment), the expansion of the HomeBuilder and First Home Loan Deposit Scheme, and historical low housing loan interest rates. Although first home buyers have seen increased activity, owner-occupiers (excluding first home buyers) still lead the way and investors have been making a comeback.

Australia's home loan affordability index remained stable in the 12 months to the March quarter of 2021, at 28.8 index points. This represents a -2.4% decline in the 6 months to the March quarter of 2021, which is reflective of the latest property price increases across all parts of Australia.

Australians are committing to a higher level of debt to afford a house, by 1.1% for first home buyers and 2.6% for others. Luckily, the proportion of family income devoted to meeting average loan repayments has declined by -1.4% in the 12 months to the March quarter of 2021, due to historically low home loan mortgage rates. The proportion of family income devoted to meeting rent has increased by 3.8% in the 12 months to the March quarter of 2021 across Australia.

The Australian rental market was a prominent focus in early 2020. The ability of renters to keep on servicing their tenancy agreement and landlords having a secure cashflow, was central to both the government's and banking industry's policies. Fast forward 12 months and there is a new landscape in the 2021 Australian rental market. In 2021, both capital cities and regional areas across Australia face a rental housing shortage, where prospective tenants are having to be extremely competitive in their bid to secure their ideal rental. Vacancy rates have dropped to historical lows, rental prices have increased, and there is a dire need for a rental housing supply injection.

Residential construction recovery is underway, with $15.3 billion spent across Australia in the March quarter of 2021. This represents an annual growth of 6.9% above the 10-year average figure of $14.7 billion. The residential construction industry faces new challenges in 2021. Dwelling approvals have surged due to HomeBuilder and low housing loan rates. Yet, worldwide COVID-19 restrictions have caused the importation of building materials and other goods to slow, taking up to 2 months to arrive in Australia as opposed to 2 weeks. Slower production impacts the developer's cost structures and delivery of new housing to the market, further contributing to the imbalance between demand and supply.

There is also an imbalance between property price growth and wage growth, with the former moving at a faster pace than the latter. Saving for a home deposit is difficult for first home buyers and certain demographics, which has led to the Federal Budget 2021 prioritising increased access to homeownership. The First Home Loan Deposit, Family Home Guarantee, and New Home Guarantee were key schemes introduced by the Federal Government, which is commendable as the past 2-3 Federal Budgets have not directly addressed this issue. State governments are also doing their share, by continuing to review their First Home Owner Grant schemes and stamp duty exemption charges and structures.

At present, the Australian property market is sheltered from international demand with borders remaining closed. Now is potentially the most affordable and advantageous time for first home buyers and single parents to enter the market, before there is added competition. The RBA is committed to keeping the cash rate low, but many banks have signalled a change in their housing loan interest rates. The government may need to further lend a hand by injecting household income if interest rate changes severely impact affordability. With housing supply lagging, the government will also need to re-strategise by creating a more favourable landscape for developers and those in the construction industry.

Whilst capital cities manage a multitude of snap lockdowns, the economy continues to steadily grow, with a positive outlook for the rest of 2021. Australia's consumer confidence remains high, with pent up demand being unleashed in the property market and property prices breaking records. More government-led help with household incomes may be needed due to the high levels of home loan commitments and a changing interest rate landscape.

The property market as we know it has changed in leaps and bounds, especially when considering the market crash predictions from mid-2020 as we all grappled with COVID-19 and its potential impact on real estate transactions and values.

KEY FACTS

Consumer Price Index:	**1.1 %**
Standard Variable Home Loan Rate:	**4.52%**
Unemployment Rate:	**4.9%**
Annual Gross Domestic Product:	**1.1%**
Average Weekly Earnings:	**$1,711.60**

PROPERTY GROWTH

Property market proves positive

AVERAGE GROWTH IN MEDIAN HOUSE PRICE

	Capital City					Metro					Regional				
	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021
NSW	-17.5%	-2.4%	10.8%	5.6%	4.9%	-13.0%	-4.4%	12.2%	6.9%	9.0%	-0.4%	4.3%	5.3%	8.6%	15.5%
QLD	2.2%	2.5%	3.6%	6.4%	11.6%	3.9%	3.3%	1.2%	4.3%	9.9%	-0.7%	1.6%	0.0%	4.3%	13.6%
VIC	-12.5%	-8.1%	14.3%	1.5%	-8.1%	-3.1%	-0.7%	5.4%	4.0%	6.1%	9.0%	11.3%	4.4%	14.1%	19.1%
WA	24.2%	-1.1%	-9.1%	21.8%	2.1%	-4.3%	-3.6%	-2.1%	8.1%	5.4%	-2.1%	-3.5%	-0.5%	16.7%	17.4%
TAS	13.3%	6.1%	9.0%	11.9%	8.0%	20.0%	16.5%	10.2%	10.3%	9.0%	14.3%	17.0%	9.8%	11.1%	14.3%
NT	-11.5%	-9.4%	-6.0%	1.9%	23.4%	-8.3%	-8.6%	-3.6%	11.5%	20.0%	-3.0%	-15.7%	2.5%	3.5%	1.9%
SA	21.4%	19.0%	-15.4%	0.7%	11.2%	4.5%	2.3%	-4.5%	-1.2%	13.3%	-0.3%	3.4%	2.2%	1.6%	7.5%
ACT						7.0%	2.1%	1.6%	8.4%	14.2%					

Australia's property market proved every property market crash prediction wrong. Upon restriction announcements, the real estate industry quickly adapted their business practices to adopt multiple technologies to allow buying and selling to continue. Clients also quickly adapted, which allowed for transactions to continue. Due to this, the property market held resilient with the first half of 2020 showing positive median price growth in most capital city, metro, and regional markets. The easing of restrictions saw demand unleashed as the property market proved itself to be more resilient than the stock market. Real estate agents, regardless of location, started to report double-digit enquiry numbers and increases in transaction values.

Capital city markets, particularly Sydney and Melbourne, have had some tumultuous rides since the peak of COVID-19 in April 2020, due to various snap lockdowns which halted economies fully re-opening. That said, capital city markets proved their value and resilience in recording an average of 7.6% median house price growth in the 12 months to the first half of 2021. This was much higher compared to the 1.0% average recorded in the 12 months to the first half of 2020. Darwin grew the most by 23.4%, followed by Brisbane at 11.6% and Adelaide at 11.2%. Sydney and Melbourne grew by 4.9% and -8.1% respectively, which was not surprising given their COVID-19 restrictions.

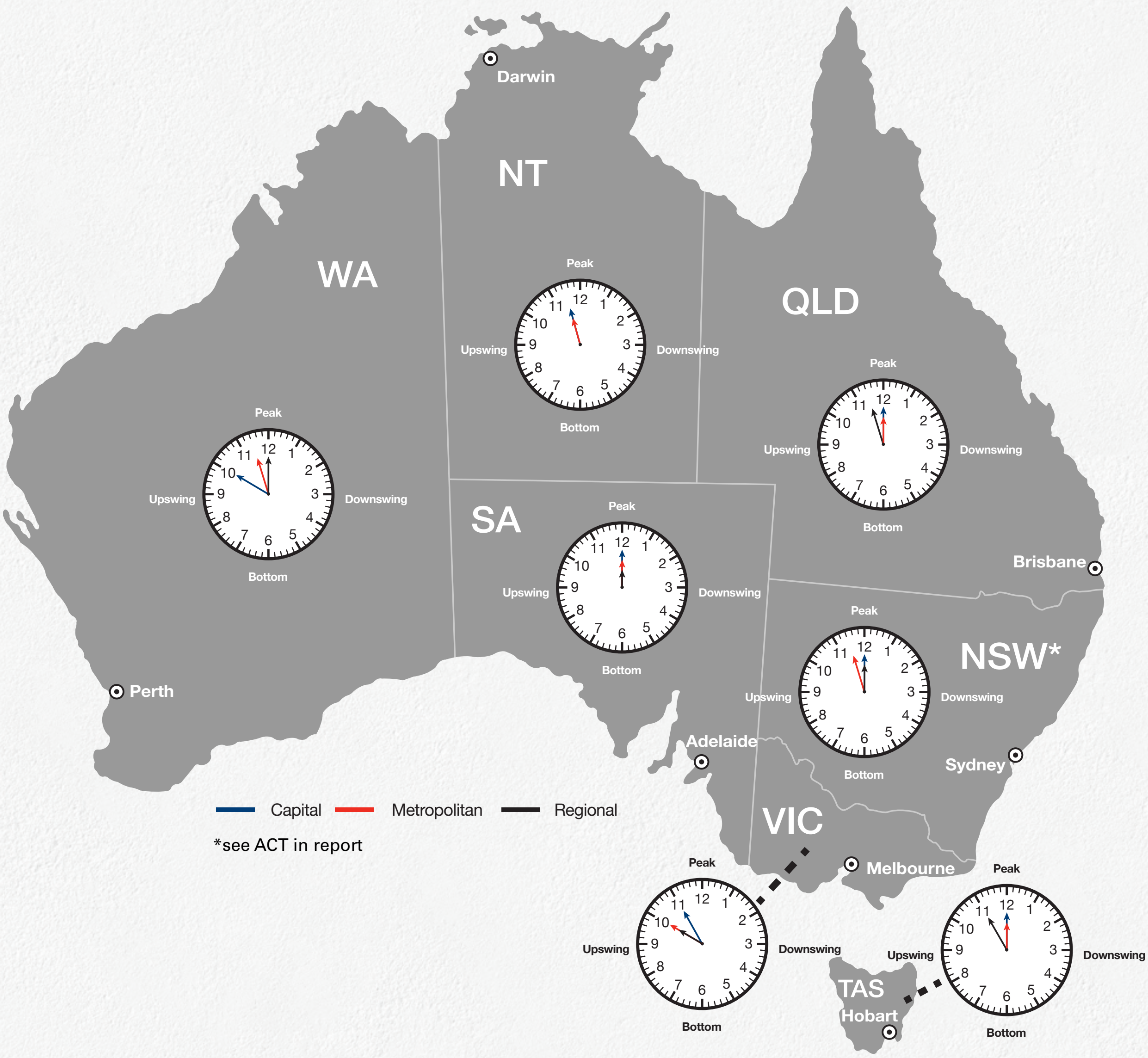
During the height of COVID-19, metropolitan markets recorded an average of 2.7% median house price growth in the 12 months to the first half of 2020. It grew by an average of 10.4% in the 12 months to the first half of 2021, the strongest yet, with buyers moving to metropolitan areas due to remote working conditions and first home buyers being able to access multiple grants to build their homes. The Northern Territory (NT) and Australian Capital Territory (ACT) lead this category, recording 20.0% and 14.2% growth. New South Wales (NSW) and Queensland (QLD) metropolitan markets grew at an almost identical pace of 9.0% and 9.9%. This is a first, which significantly highlights the interest in QLD's affordable prices.

Regional markets soared, recording an average of 12.7% median house price growth in the 12 months to the first half of 2021, outpacing metropolitan and capital city markets. It is the highest average median house price growth recorded since the first half of 2019, reflective of high demand.

Extremely affordable prices, a less reliant economy on international trade, higher rental yields, and increasing investment in infrastructure have made regional areas more attractive. There are many reports of real estate agents recording ground-breaking sales in these areas. Regional Victoria (VIC), Western Australia (WA), and NSW lead in these markets, recording 19.1%, 17.4%, and 15.5% growth respectively. Regional NT and SA recorded the lowest growth in contrast to its capital city markets.

AUSTRALIAN PROPERTY GROWTH MAP

Australia's property market proved positive against all market crash predictions. All capital city, metropolitan, and regional markets recorded the highest average median house price growth in the past 12 months since the first half of 2019, with regional markets leading the way. This is a better result than predicted. That said, government and RBA intervention played a crucial part, with some areas recording sky-high prices. This prompts the potential need for further Government policy injection, to ensure more access to homeownership.



PROPERTY GROWTH | SALES

MEDIAN HOUSE PRICE CAPITAL CITY

	Capital City				
	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021
NSW	$1,485,000	$1,610,000	$1,645,000	$1,700,000	$1,725,000
QLD	$685,000	$705,000	$710,000	$750,000	$792,250
VIC	$1,050,000	$1,301,000	$1,200,000	$1,321,000	$1,103,000
WA	$1,320,000	$1,087,500	$1,200,000	$1,324,500	$1,225,000
TAS	$713,500	$721,500	$777,500	$807,600	$840,000
NT	$500,000	$471,000	$470,000	$480,000	$580,000
SA	$1,105,000	$1,020,000	$935,000	$1,027,250	$1,040,000

MEDIAN HOUSE PRICE METRO

	Metro				
	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021
NSW	$1,158,700	$1,242,100	$1,300,200	$1,327,900	$1,417,300
QLD	$554,400	$567,400	$561,200	$591,800	$616,500
VIC	$815,500	$876,600	$859,300	$911,800	$912,100
WA	$538,700	$538,800	$527,200	$582,600	$555,600
TAS	$504,700	$521,900	$556,400	$575,600	$606,600
NT	$489,900	$462,600	$472,500	$515,600	$567,200
SA	$542,300	$533,200	$517,700	$527,000	$586,500
ACT	$984,300	$974,200	$1,000,500	$1,055,900	$1,142,400

MEDIAN HOUSE PRICE REGIONAL

	Regional				
	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021
NSW	$494,400	$516,900	$520,600	$561,600	$601,100
QLD	$441,100	$451,600	$441,300	$471,200	$501,100
VIC	$399,000	$413,300	$416,600	$471,500	$496,200
WA	$329,100	$321,800	$327,300	$375,700	$384,200
TAS	$307,700	$324,900	$338,000	$361,000	$386,500
NT	$413,600	$370,800	$423,800	$383,800	$431,700
SA	$298,100	$303,100	$304,700	$307,800	$327,600

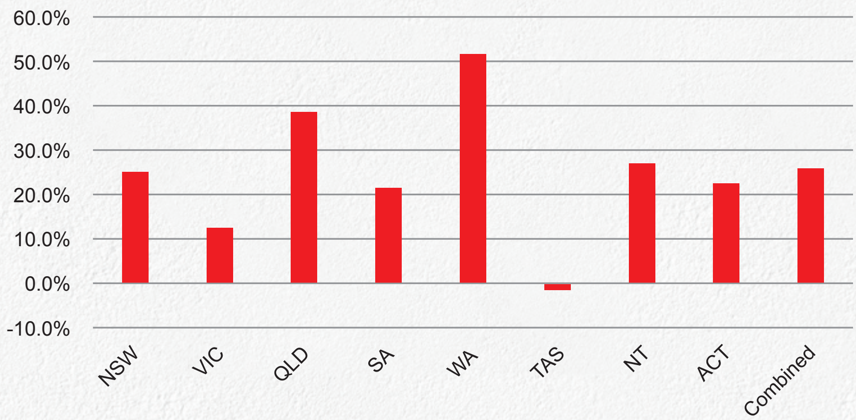
Median house price growth for the first half of 2020 reflects sales up to and inclusive of 30th June 2021. ACT median house price growth only reflects the metropolitan area, due to an absence in what is classified as a "regional area" in the territory.

MEDIAN TIME ON MARKET AND VENDOR DISCOUNT

	Median Days on Market		Median Vendor Discount	
	May-20	May-21	May-20	May-21
Sydney	33	24	-3.8%	-2.4%
Melbourne	31	28	-3.5%	-2.7%
Brisbane	41	25	-4.1%	-2.8%
Adelaide	43	32	-3.2%	-2.9%
Perth	49	17	-4.5%	-2.6%
Hobart	13	21	-3.1%	-1.6%
Darwin	67	36	-6.0%	-3.1%
Canberra	46	35	-2.5%	-1.9%
Combined Capital	36	25	-3.8%	-2.7%

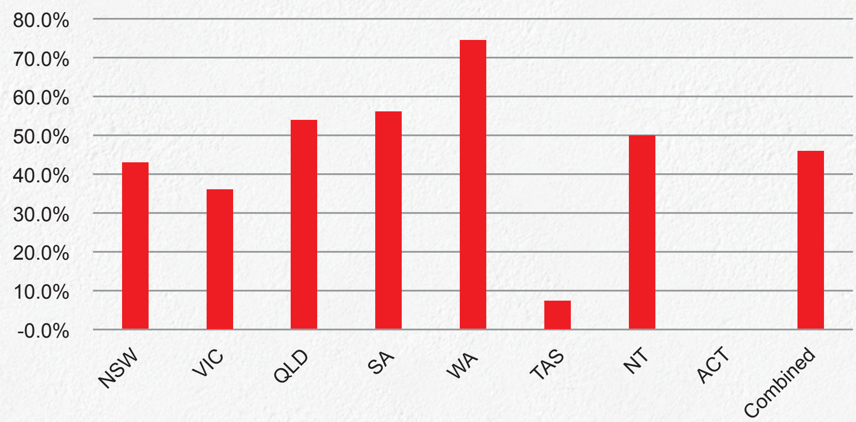
Source: Corelogic Property Market Chart Park June 2021

METRO ANNUAL CHANGE IN SETTLED SALES MAY 2021



Source: Corelogic Property Market Chart Park June 2021

REGIONAL ANNUAL CHANGE IN SETTLED SALES MAY 2021



Source: Corelogic Property Market Chart Park June 2021

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's capital city, metropolitan, and regional markets recorded positive median house price growth in the 12 months to the first half of 2021, with regional markets leading the way at an average of 12.7%. This presents an excellent opportunity for first time investors looking to build their equity but in a more affordable manner.
- ✓ Regional settled sales growth in the 12 months to May 2021 surpassed that of metro settled sales growth, at 45.8% across Australia. Regional WA leads this category, growing by 74.2%, followed by South Australia (SA) (56.1%) and QLD (53.8%). This signifies increased demand in regional markets as many look to invest in more affordable areas. Regional economies have proven to be more resilient compared to capital cities, stimulating local and interstate demand.
- ✓ Combined metro settled sales increased by 25.8% in the 12 months to May 2021, which is at a higher level than the previous 2019-2020 growth (12.4%). Sales transactions have increased rapidly as restrictions eased. WA leads the nation, increasing by 51.5%. This was followed by QLD (38.5%) and NT (27.2%). Tasmania (TAS) was the only state to record a decline in metro settled sales (-1.3%), potentially due to the number of stock available in the market.
- ✓ In May 2021, properties were selling the fastest in Perth (17 days) and slowest in Darwin (36 days). The combined capital city average days on market were 25 days in May 2021, which shows a -30.5% decline in the past 12 months. This is a consistent pattern compared to May 2019-2020. Competition is heating up, with demand outweighing supply.
- ✓ Sellers are the winners in the 2021 property market with a -2.7% median vendor discount for combined capital cities as of May 2021. This is a tighter rate than May 2020 of -3.8% which means sellers are achieving final sale prices much closer to their first list price. Hobart and Canberra sellers have benefited the most, with a median vendor discount of -1.6% and -1.9% respectively.
- ✓ Darwin and Brisbane lead the capital cities market, with a median house price growth of 23.4% and 11.6% in the 12 months to the first half of 2021. Metropolitan NT and ACT were also winners at 20.0% and 14.2% growth. VIC and WA lead the regional markets with 19.1% and 17.4% growth.

PROPERTY GROWTH | RENTAL MARKET

Historical low vacancy rates beg for new housing supply

The imbalance in rental supply and demand is clarified in vacancy rate patterns, with many capital cities seeing a significant decline since the height of COVID-19 in April 2020. Adelaide, Perth and Canberra recorded below 1.0% vacancy rates in the March quarter of 2021, AT 0.7%, 0.9%, and 0.9% respectively. Fears of an oversupply in the Brisbane market were vanquished, with a steep decline in its vacancy rate to 1.7%. Understandably, Sydney's and Melbourne's vacancy rates increased to 3.6% and 6.1% respectively, reflective of their experiences with multiple COVID-19 lockdown periods.

Implied rental yields for houses for the March quarter of 2021 were strongest in Darwin at 5.2%, and in Adelaide (4.2%). Previously this title was held by Canberra, however, due to the increase in median house price in Canberra, this is no longer the case. Implied rental yields for units for the March quarter of 2021 is lead by Hobart (5.6%), followed by Canberra (5.5%), then Darwin and Adelaide (both at 5.4%).

Sydney is no longer the most expensive capital city to rent a three-bedroom house after previously holding this title three years in a row, from the March quarter of 2019 to 2021. Sydney's $530 per week price for a three-bedroom house is lower than Darwin's ($539) and Canberra's ($570). Sydney has also lost the title of the most expensive location to rent a two-bedroom unit ($480), giving the crown to Canberra ($520). This is not a surprise, as the vacancy rates seen in Canberra and Sydney travelled in opposite directions. Two-bedroom unit rental prices in Melbourne and Hobart were identical in the March quarter of 2021 at $400 per week. This is significant, as Hobart was always noted as the more affordable capital city. Darwin recorded the highest annual growth in median rent for three-bedroom houses, of 17.4% ($539 per week) whilst Perth recorded the highest annual growth in median rent for two-bedroom units of 14.7% ($390 per week).

ANNUAL MEDIAN RENT PRICES

Annual Median Rental Price								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	$530	$410	$405	$400	$400	$470	$539	$570
2 b/r Unit	$480	$400	$410	$335	$390	$400	$364	$520

Median Rental % Change								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	6.0%	0.0%	3.8%	6.7%	14.3%	2.2%	17.4%	6.5%
2 b/r Unit	-9.4%	-13.0%	1.2%	6.3%	14.7%	1.3%	10.3%	6.1%

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australian vacancy rates indicate a rental shortage in urgent need of a housing supply injection. This opens new opportunities for developers and levels of Government to innovate their new housing strategies.
- ✓ Implied house rental yields for the March quarter of 2021 is the highest in Darwin, whereas implied unit rental yields are the highest in Hobart.
- ✓ Regional markets have the right ingredients for a highly conducive investment market, with a lower entry price, lower vacancy rates and higher rental yields. This provides first-time investors with a broader investment scope.

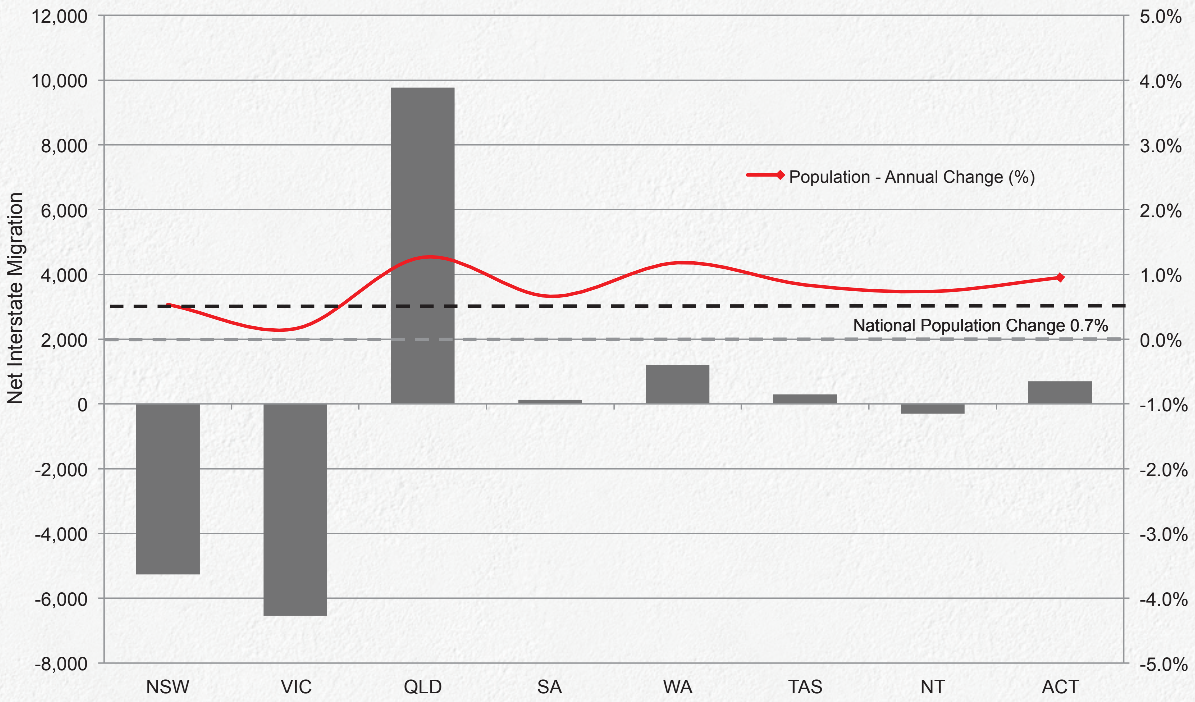
DEMOGRAPHICS

Queensland's net interstate migration growth requires a housing injection

QLD leads the nation in population change, growing by 1.3% in the 12 months to the December quarter of 2020. This is followed by WA (1.2%) and ACT (1.0%). QLD also leads in net interstate migration for two years in a row, with an extra 9,763 people calling the sunshine state home. Net interstate migration recorded negative figures for NSW and VIC in the December quarters of both 2019 and 2020, with many choosing to move interstate.

The increase in interstate migration to QLD is due to several factors: friendlier COVID-19 conditions (it was one of the first states to re-open for business), lower property prices (approximately 50% and 30% lower than NSW and VIC respectively), and more affordable living costs. In the real estate industry, this has translated to an increase in property demand, which has outstripped supply. Thus, QLD real estate prices have continued to rise as NSW's and VIC's residents purchasing power parity is higher than that of QLD buyers.

POPULATION GROWTH & NET INTERSTATE MIGRATION



Prepared by PRD Research
Source: ABS Statistics, Catalogue 3101.0 Table 4, last updated July 2021

WHAT DOES THIS MEAN FOR YOU?

- ✓ 2020 recorded the lowest population growth in the past 11 years due to the incredibly small volume of net overseas migration, of only 3,253 people as of the December quarter of 2020.
- ✓ Net overseas migration declined by -98.0%. The low uptake of casual and contract jobs, traditionally performed by international students and backpackers, has impacted multiple industries.
- ✓ QLD's high net interstate migration has brought an imbalance in the demand and supply of housing. Developers have the opportunity to inject the market with innovative solutions.

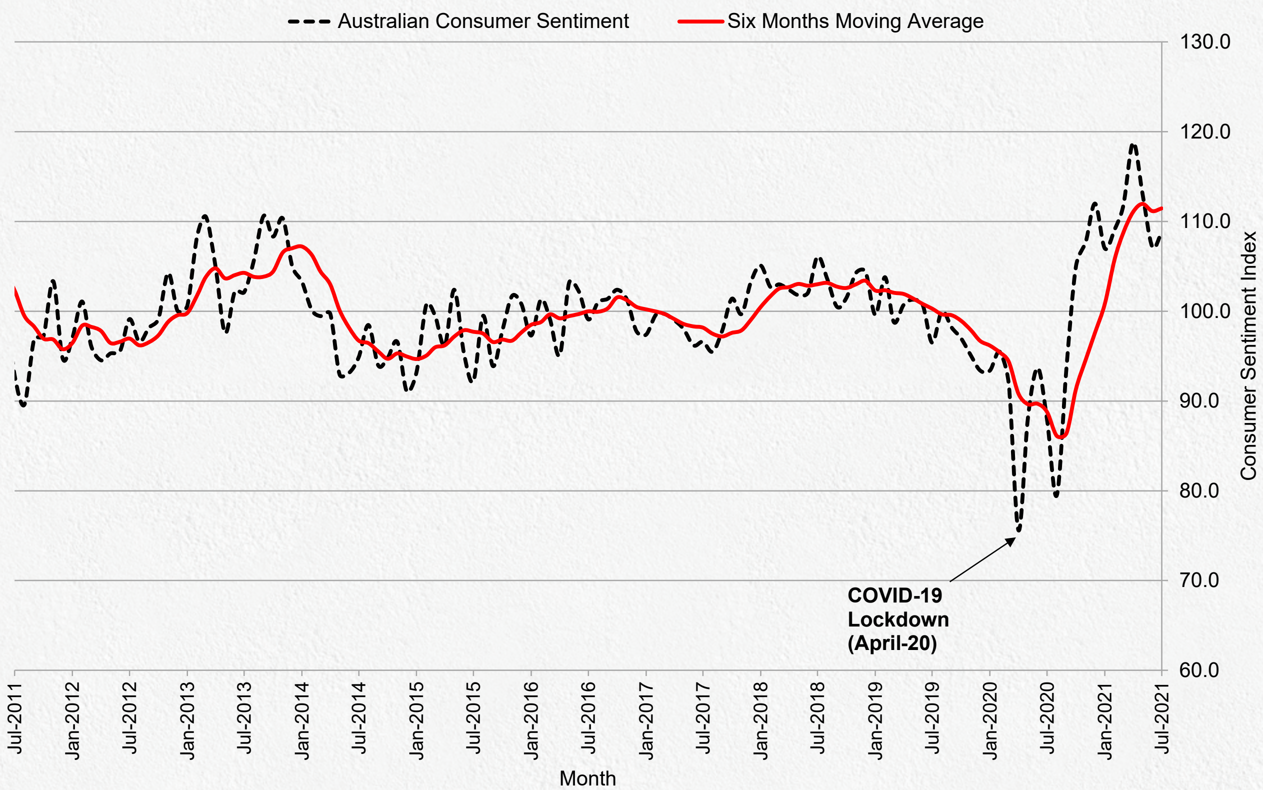
MACROECONOMIC CLIMATE

An uplift in confidence increases demand

Consumer confidence in 2021 has been above the 100 index point positive benchmark, peaking in April at 118.8 index points, and reading at 108.8 index points in July 2021. These are the highest confidence levels recorded in the past 11 years, with similar levels seen post-Global Financial Crisis (GFC) recovery periods. There have been fluctuations in consumer confidence since January 2021, which have been reflective of Melbourne's fourth COVID-19 lockdown and the release of the Federal Budget 2021. Overall, there is evidence of a more confident society.

At present, Australians have a higher propensity to spend as opposed to saving, which creates positive demand for goods and services across numerous industries. In the real estate market, this has translated to increasing property transactions with real estate agents in multiple areas across Australia recording ground-breaking sales figures and prices.

CONSUMER SENTIMENT



Prepared by PRD Research
Source: Westpac/Melbourne Institute, last updated July 2021

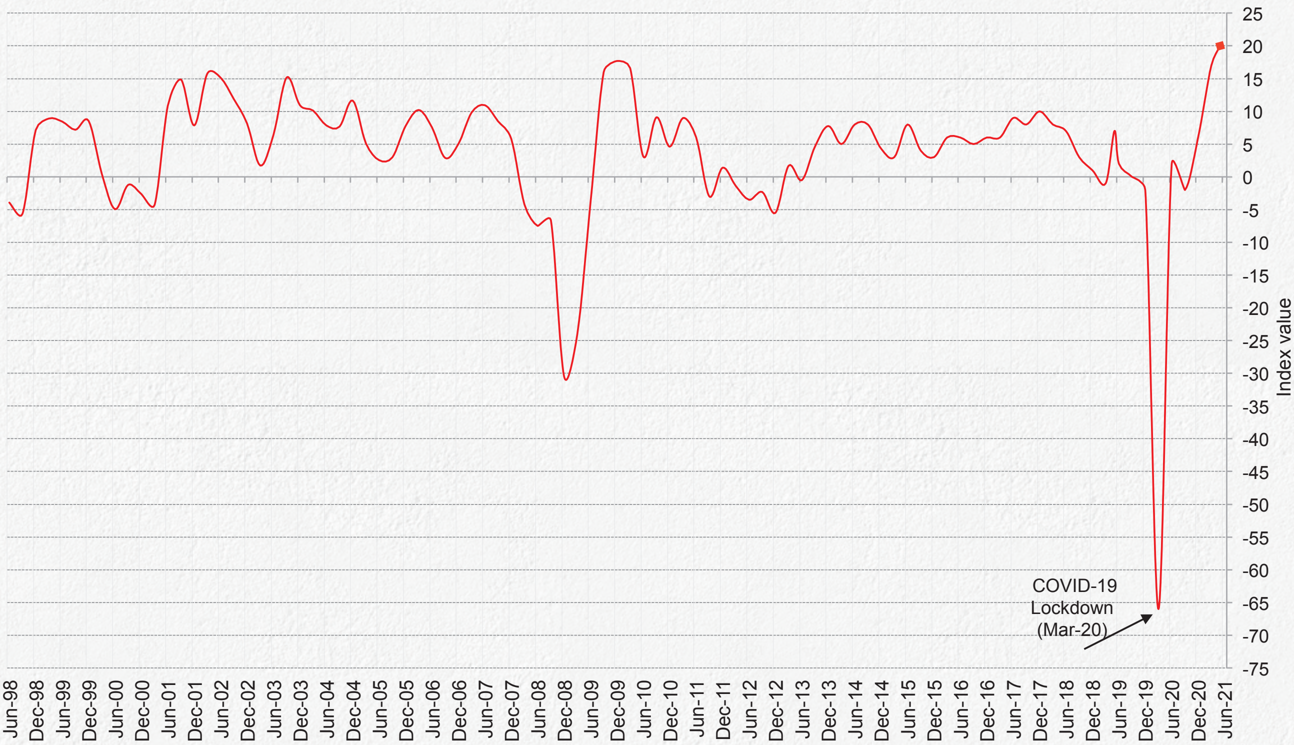
WHAT DOES THIS MEAN FOR YOU?

✓ Consumer confidence is at an all-time high, where there is a tendency to spend rather than save. This will increase demand for goods and services across multiple industries, creating a multiplier effect for economic growth.

Australia's business confidence saw an astounding rebound in May 2021, to 20.0 index points, the highest business confidence recorded since 1998. Business confidence recovered from a plummet of -65.0 index points in COVID-19's March 2020 lockdown. There is a stronger business confidence recovery compared to the GFC, which recorded 17.7 index points in December 2009.

Australian businesses were among the first to re-open worldwide, and are all now accustomed to servicing customers under a new set of COVID-safe plans. Business owners and small-to-medium enterprises benefitted from JobKeeper, which allowed staff retention until trading recommenced. The Federal Budget 2021 initiatives for a reduced tax rate of 25% for small and medium companies from 1 July 2021 is welcomed, as well as being able to apply for temporary full expensing and temporary loss carry-back, which allows for increased cashflow.

BUSINESS CONFIDENCE



Prepared by PRD Research
Source: National Australia Bank (NAB), last updated July 2021

WHAT DOES THIS MEAN FOR YOU?

✓ Business confidence has dramatically improved with the easing of restrictions in many parts of Australia. Industries such as tourism and education that were heavily impacted by COVID-19 are yet to fully recover, especially with the continuous closure of international borders and snap-lockdowns.

✓ The combination of consumer and business confidence levels create a strong base for Australia's economic recovery in the long run. This will be maintained if all levels of Government are highly agile in their policy injections and decision-making capacity.

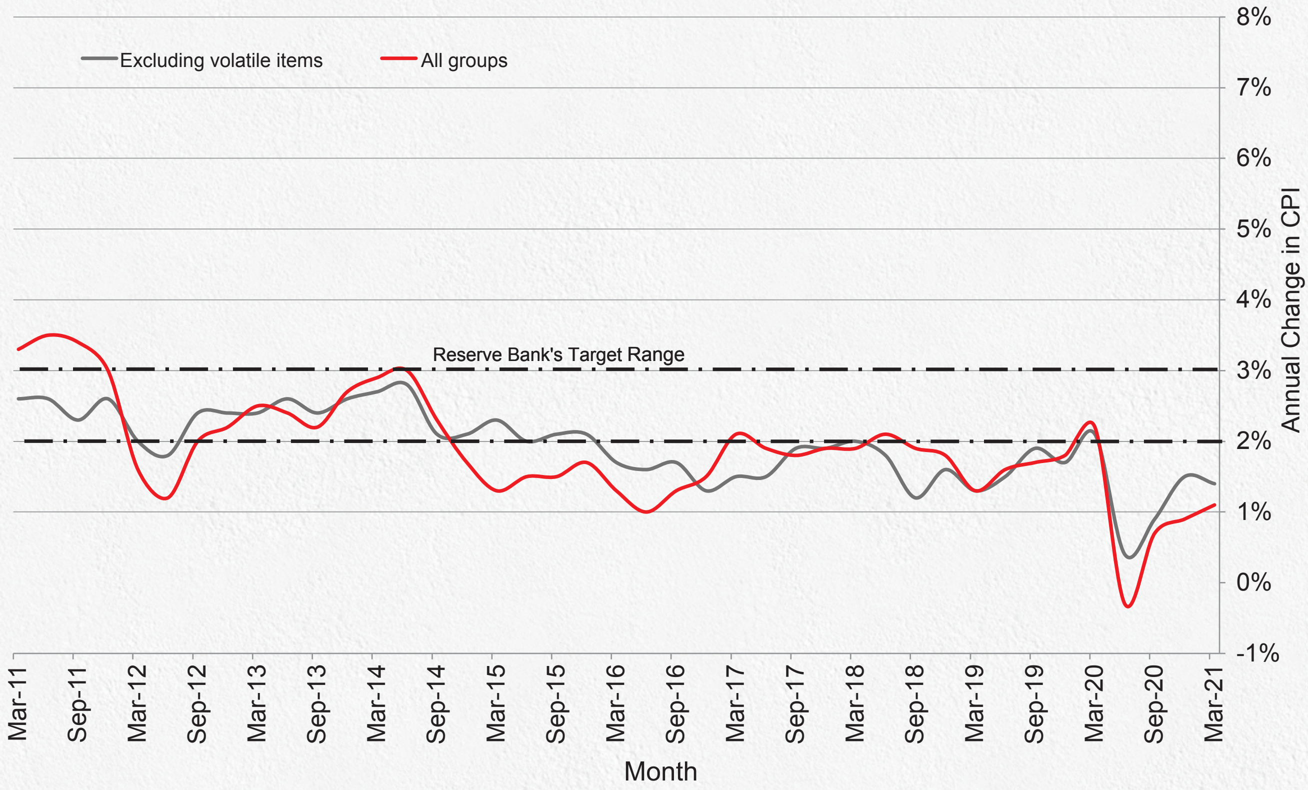
MACROECONOMIC CLIMATE continued

Lower than expected inflation rates keep cash rate low

Inflation (consumer price index) for all groups plummeted to an all-time low of -0.3% in the June quarter of 2020, being recorded at 2.2% in the March quarter of 2020. This was during the height of COVID-19 which greatly assisted household budgets that were impacted by reduced working hours or job loss. However, it also signals a decline in the value of other assets such as property and stocked commodities. This prompted the RBA to cut the cash rate to allow access to money at a lower credit rate.

Inflation has started to increase as the economy opens and Australians transact, however, only to 1.1% (for all groups) in the March quarter of 2021. As this is not close to the RBA's healthy target of at least 2.0%, many assets are still undervalued. Due to this, the RBA has continued to maintain its current monetary policy and keep the cash rate low. The RBA expects inflation to grow to 1.5% by the end of 2021 and 2.0% in mid-2023.

INFLATION



Prepared by PRD Research
Source: RBA Table G1 Consumer Price Index, last updated July 2021

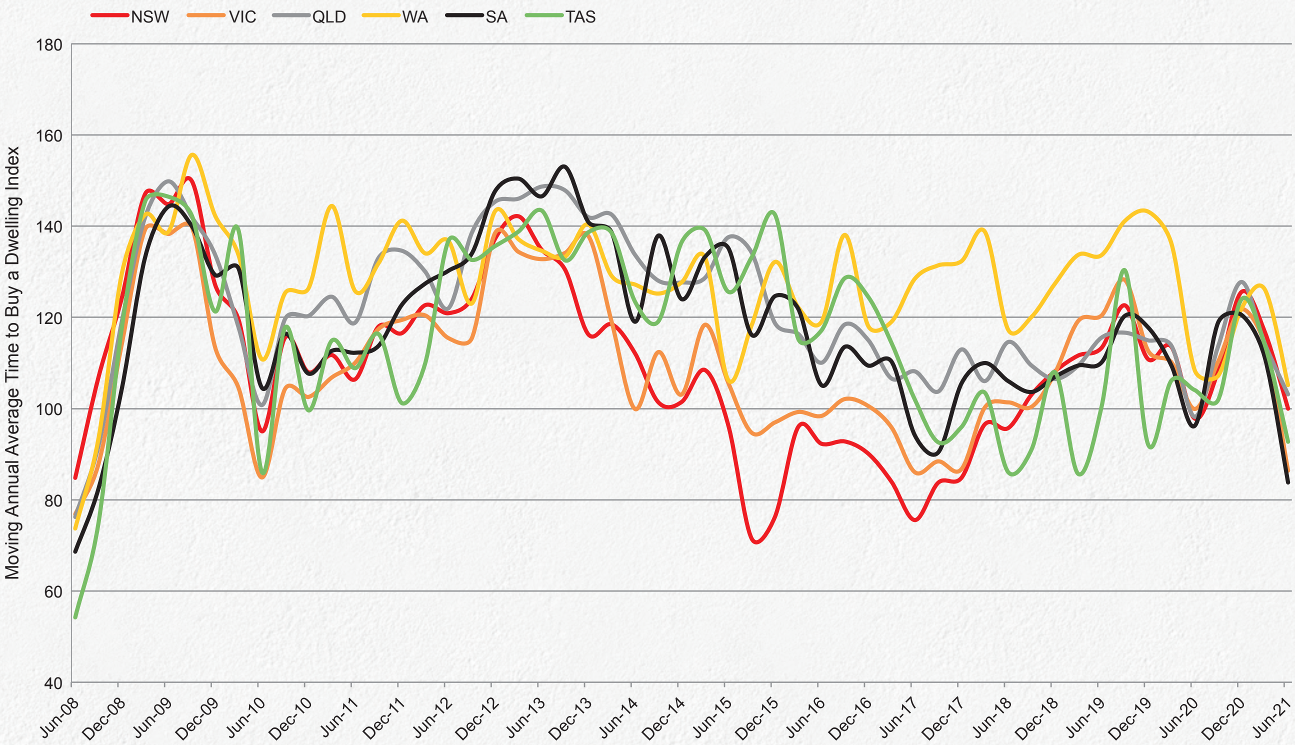
WHAT DOES THIS MEAN FOR YOU?

- ✓ Inflation (for all groups) was recorded at 1.1% as of the March quarter of 2021. This represents a significant recovery from the -0.3% recorded at the height of COVID-19.
- ✓ The RBA is committed to keeping the cash rate at a historical low until such a time where inflation is within a healthier 2-3% band. This will allow Australians to continue accessing credit at a cheaper rate.

The Time to Buy a Dwelling Index across Australia has shown some interesting trends since March 2020, with more fluctuating movements than before. The index increased from June 2020 once general COVID-19 restrictions were eased, with many re-allocating their funds towards the property market. Sentiment continued to increase, reaching its peak in December 2020 as the Government introduced more housing grants and employment levels started to recover. However, with the increase in demand, imbalanced by supply, and the increase in prices, it seems Australians are re-thinking their decision.

The Time to Buy a Dwelling Index has declined on average by -5.5% in the 12 months from June 2020. NSW and QLD are the only two states that have recorded increases of 2.2% and 5.0% respectively. This is attributed to NSW's resilience and QLD's relative affordability and the fact they have been able to keep the economy moving, relatively normally, compared to other states. The index is lowest in SA at 83.8 points and highest in WA at 105.1 points.

TIME-TO-BUY DWELLING INDEX



Prepared by PRD Research
Source: Westpac/Melbourne Institute, last updated July 2021

WHAT DOES THIS MEAN FOR YOU?

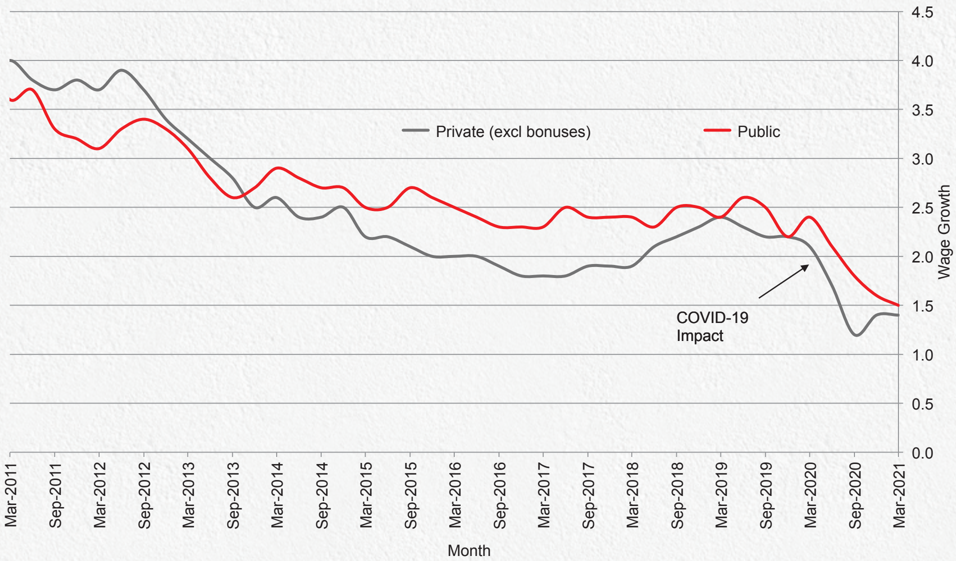
✓ The Time to Buy a Dwelling Index suggests many Australians are starting to feel the sting of property price increases, with an average decline of -5.5% in the 12 months to June 2021. A long-term government policy injection will adjust this, as long as it will increase household income.

LABOUR MARKET

Unemployment rate recovering but wage growth is slow

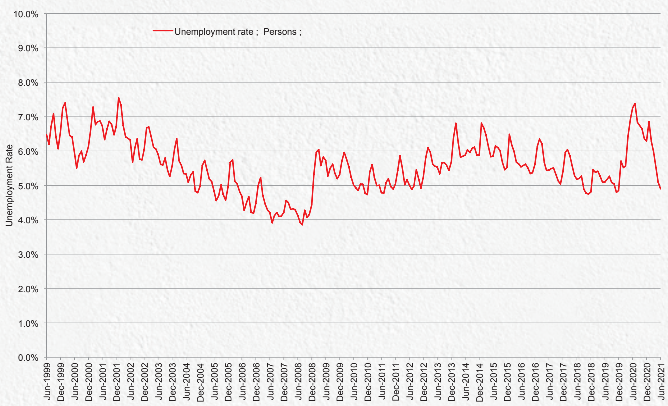
As of June 2021, the unemployment rate read 4.9%, representing a -33.6% declined in the past 12 months. This now reflects pre-COVID-19 times of 4.8% (November 2019) and 4.9% (December 2029). Australia's unemployment rate has officially recovered and at an even lower rate when compared to 24 months ago (5.1% in June 2019).

WAGE GROWTH



Prepared by PRD Research
Source: ABS Wage Price Index, last updated July 2021

UNEMPLOYMENT RATE



Prepared by PRD Research
Source: ABS Cat 6202.0. Last updated July 2021

Wage growth plummeted in March 2020, due to COVID-19 restrictions. Private sector wage growth reached its historical low in September 2020, at 1.2%, and has since recovered to 1.4% as of March 2021. Public sector wage growth continued to decline, hitting a historical low of 1.5% in March 2021. Purchasing power parity also severely declined, prompting the RBA to keep the cash rate at a historical low of 0.1%. This ensures Australians can access funding at a lower repayment rate, which in turn allows continuous purchasing of goods and services, thus, stimulating economic growth.

WHAT DOES THIS MEAN FOR YOU?

- ✓ The unemployment rate reached new heights in July 2020 at 7.4% due to COVID-19. That said, it has declined significantly and has continued to decline since the re-opening of businesses to a low 4.9% in June 2021. Total jobs increased by 104,900 as of March quarter 2021.
- ✓ A lower unemployment rate creates confidence in society and increases household income. Job creation needs to continue to be a key focus to stimulate economic growth.
- ✓ The RBA is committed to keeping the cash rate at a low 0.1% until wage growth has increased to a healthier rate, to ensure Australians can continue to strengthen the economy.

CONSTRUCTION MARKET

Residential construction faces new challenges

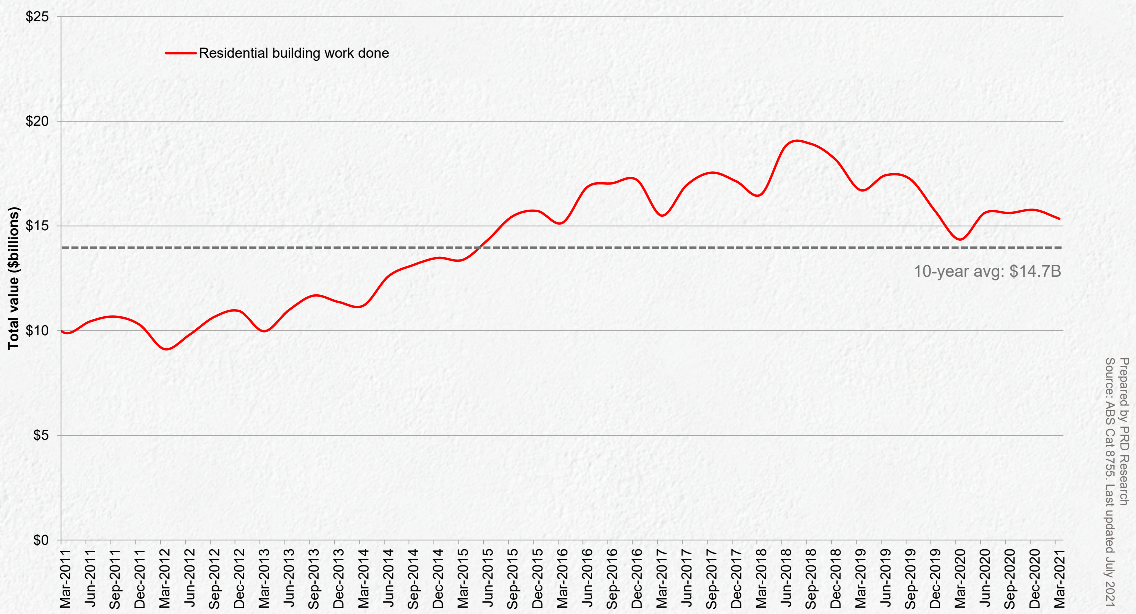
Residential construction across Australia amounted to $15.3 billion during the March quarter of 2021, which represents an annual growth of 6.9%. A recovery is underway, compared to the $14.3 billion spent in the March quarter of 2020, however, not quite back to pre-COVID-19 figures of $16.3 billion in the March quarter of 2019. The March quarter of 2021's residential construction figure is above the 10-year average figure of $14.7 billion, which signals a return towards healthier levels of spending.

QLD recorded the highest growth in residential construction, of 24.0% in the 12 months to the March quarter of 2021, followed by WA (20.2%) and TAS (18.5%). This brings good news to first home buyers in Hobart, as an absence in residential projects has historically caused a disadvantage. QLD recording the highest growth will assist with the influx of net interstate migration, to keep the balance of demand and supply for sustainable price growth. VIC was the only state to have recorded a decline, of -1.1%, which is an appropriate strategy considering COVID-19. This will allow for past stock to be absorbed.

Australia's total number of dwelling approvals has been increasing from September 2020 onwards. There were 20,950 dwelling approvals in May 2021, which represented a 55.6% growth over the past 12 months, and a 15.3% growth in the past 6 months. First home buyers have taken advantage of HomeBuilder and its extension, changing their plans from buying to building. Dwelling approvals (on an annual average basis) increased by 22.4% in the 12 months to May 2021, which although is not yet back to May 2018 levels, is an improvement compared to May 2019 and 2020.

The residential construction industry is facing a new set of challenges in 2021. The surge in dwelling approvals was first welcomed by the residential construction industry, yet worldwide COVID-19 restrictions have seen the import of building materials and other goods slowing, taking months to arrive as opposed to weeks. Slower production impacts the developers' cost structures, as well as the delivery of new housing to market, further creating an imbalance between demand and supply.

RESIDENTIAL CONSTRUCTION MARKET



WHAT DOES THIS MEAN FOR YOU?

- ✓ Residential construction has seen a revival, reporting a 6.9% growth in the 12 months to the March quarter of 2021. QLD leads the nation, an appropriate strategy to ensure sustainable price growth given the level of net interstate migration into the area.
- ✓ The total number of dwelling approvals increased by 55.6% in the 12 months to May 2021, after reaching a peak of 24,277 approvals in March 2021. This is welcomed by the residential construction industry, as it guarantees work in these uncertain times.

HOUSE FINANCE

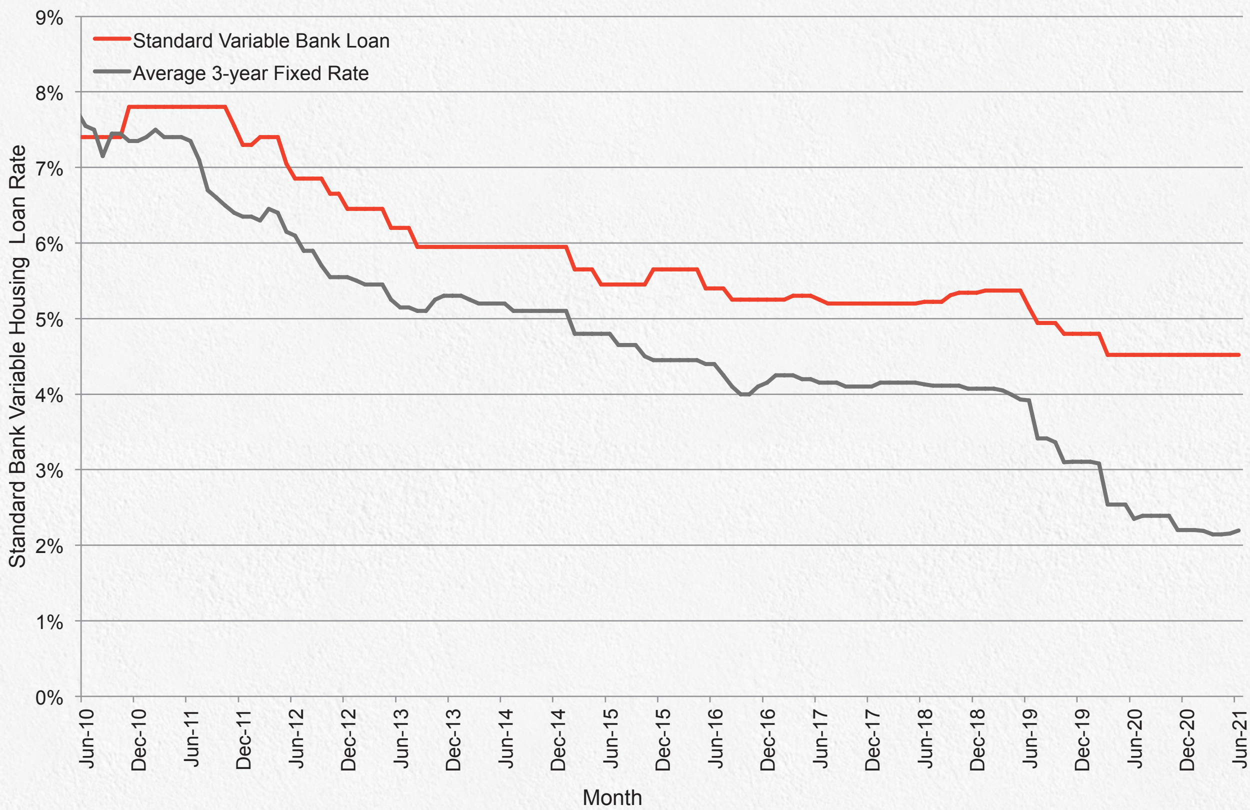
First home buyers rage on and investors are back!

The RBA has applied extensive expansionary monetary policy since the height of COVID-19 in March 2020, allowing Australians to have access to a lower payment rate for credit. This, in turn, ensures the continuity in goods and services being purchased by society, maintaining some economic growth.

Since November 2020 the cash rate has been at a historical low of 0.1% and as a result, Australians are benefitting from a 4.52% standard variable bank loan and an average three-year fixed rate of 2.19% (a historical low for both figures). This creates extremely conducive conditions for those who are looking to enter the property market, upgrade their home, or re-finance their loans.

The RBA has professed its commitment to keeping the cash rate low and will not increase the cash rate target until there is evidence of healthier wage growth (of above 2.5%), and inflation (consumer price index) sits sustainably within the 2.0% to 3.0% target band.

HOUSING LOAN INTEREST RATE



Prepared by PRD Research
Source: RBA Table F5 Indicator Lending Rates, last updated July 2021

WHAT DOES THIS MEAN FOR YOU?

✓ The RBA is committed to keeping the cash rate low, however, many major banks and lenders have signalled a change in their housing loan interest rates. Now is the time to evaluate property purchasing decisions, to ensure serviceability without duress.

✓ Australians have benefitted from a historically low average 3-year fixed-rate, of 2.19% as of June 2021. However, there is also a high level of debt to be serviced. The Government will need to inject household income if interest rate changes severely impact affordability.

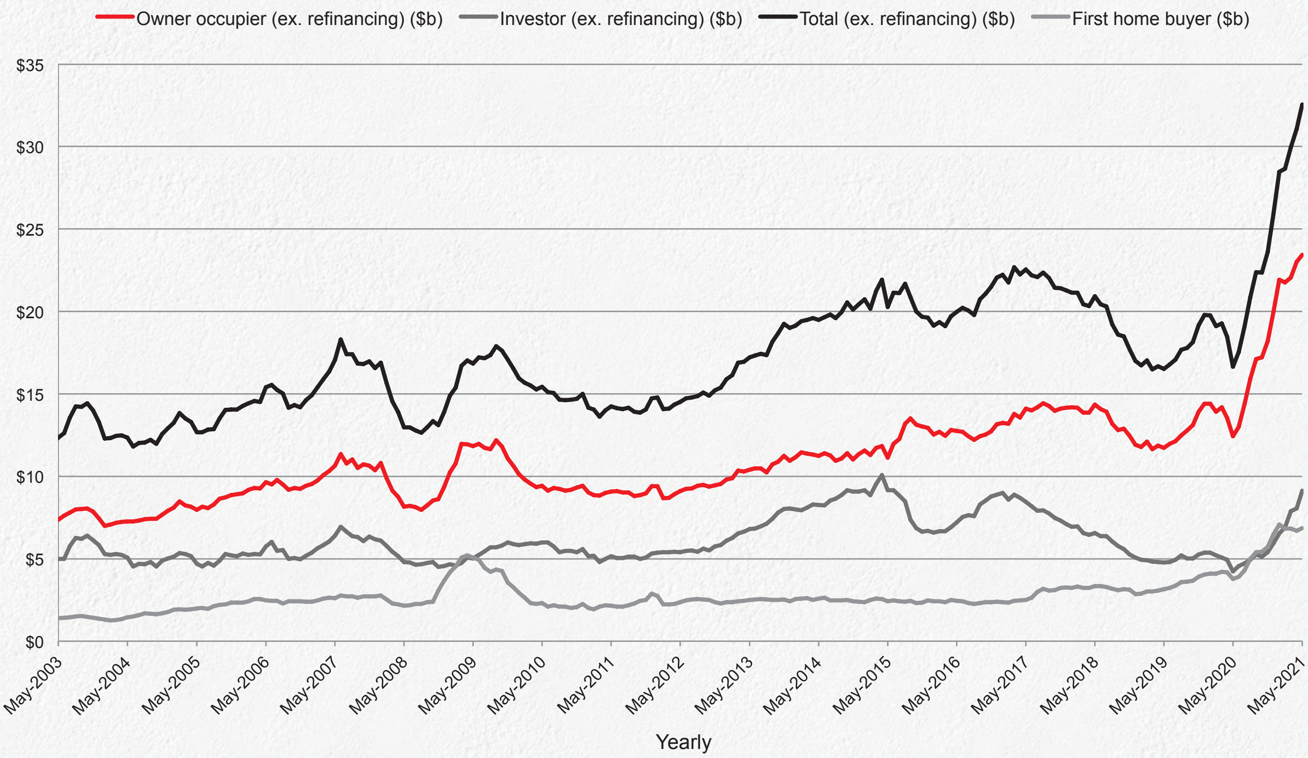
Housing finance commitment recorded a new high in May 2021, of $32.6 billion. This is the highest level of housing finance commitment in Australian history, after a sharp incline since August 2020. In May 2020, the total housing finance commitment was $16.7 billion, with a history of gradual increase on a month by month basis. An extremely conducive environment, with low-interest rates, Government stimuli and guarantees, and accommodating lending policies contributing to a sharp uptake in house loans.

Between May 2020 to May 2021, investor finance commitments increased from $4.2 billion to $9.1 billion, effectively doubling investor activity. This makes the proportion of investor finance to be 28.0%, like the October 2019 pre-COVID-19 levels, meaning investors are officially back.

First home buyer finance activity has increased sharply since August 2020, peaking at $6.9 billion in May 2021. This is not a surprise, due to the Federal Government stimuli including HomeBuilder and the First Home Loan Deposit Schemes, combined with State Government First Home Owner Grants. First home buyers took advantage of the softer property market during mid to late 2020, and extremely low fixed interest rates.

Interestingly, the last time first home buyer finance showed a similar trend was just before the GFC in 2009, falling dramatically during the height of the GFC. Owner-occupier (non-first home buyer) finance commitments were $23.4 billion in May 2021, representing 72.0%. Although this is the lowest recorded in 2021, it is still above the 10-year average of 65.0%.

HOUSING FINANCE COMMITMENTS



Prepared by PRD Research
Source: ABS Cat. No. 5601, last updated July 2021

HOME AFFORDABILITY

Home Loan Affordability Propped Up By Government Incentives

The number of first home buyers' loans approved in Australia has increased exponentially in the 12 months to the March quarter of 2021, by 62.6% to 44,007 loans. This is in stark contrast to first home buyer activity in the March quarter of 2020, which saw a decrease of -11.6% from the previous year. This surpasses first home buyer activity seen in the March quarter of 2018, which is no surprise considering all the government incentives currently available to first home buyers.

VIC recorded the highest number of first home buyer loans, at 13,134, followed by QLD (9,563) and NSW (9,197). In terms of annual growth, however, WA saw the highest spike, by 105.0%. This is followed by SA (9.8%) and NT (79.4%). The government's policies targeting first home buyers have clearly worked, further supported by extremely low mortgage home loan interest rates. The Federal Budget 2021 continues its injection of policies that target increasing homeownership access for first home buyers.

Australia's average home loan for the March quarter of 2021 was $506,340, and the average loan for first home buyers was $425,785. This represents a 2.6% and 1.1% growth in the 12 months to the March quarter of 2021, suggesting Australians must be prepared to be in higher debt to be able to afford current property prices. That said, the proportion of family income devoted to meeting average loan repayments has declined by -1.4% in the 12 months to the March quarter of 2021, due to historically low home loan mortgage rates. NSW, QLD, and TAS residents must dedicate a higher percentage of their income to mortgage payments due to the significant increase in property prices.

A tight rental market has resulted in the proportion of family income devoted to meeting rents increasing by 3.8% in the 12 months to the March quarter of 2021 across Australia, with the pinch being felt the most in WA and NT (12.7% and 14.6% growth respectively). Only VIC recorded a decline in this sector, of -1.7%, due to their ongoing experiences with COVID-19 restrictions.

NUMBER OF FIRST HOME BUYER LOANS

Number of Loans to First Home Buyers			
State	Q1 2021	Q1 2020	Growth
NSW	9,197	6,616	39.0%
VIC	13,134	8,609	52.6%
QLD	9,563	5,420	76.4%
SA	2,861	1,492	91.8%
WA	7,269	3,546	105.0%
TAS	776	565	37.3%
NT	357	199	79.4%
ACT	850	610	39.3%
AUS	44,007	27,057	62.6%

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2021

STATE AVERAGE LOAN

Average Loan			
State	Q1 2021	Q1 2020	Growth
NSW	$635,347	$607,042	4.7%
VIC	$534,711	$522,553	2.3%
QLD	$441,278	$416,929	5.8%
SA	$384,696	$371,959	3.4%
WA	$418,859	$407,049	2.9%
TAS	$381,671	$344,438	10.8%
NT	$408,880	$375,410	8.9%
ACT	$531,970	$449,763	18.3%
AUS	$506,340	$493,279	2.6%

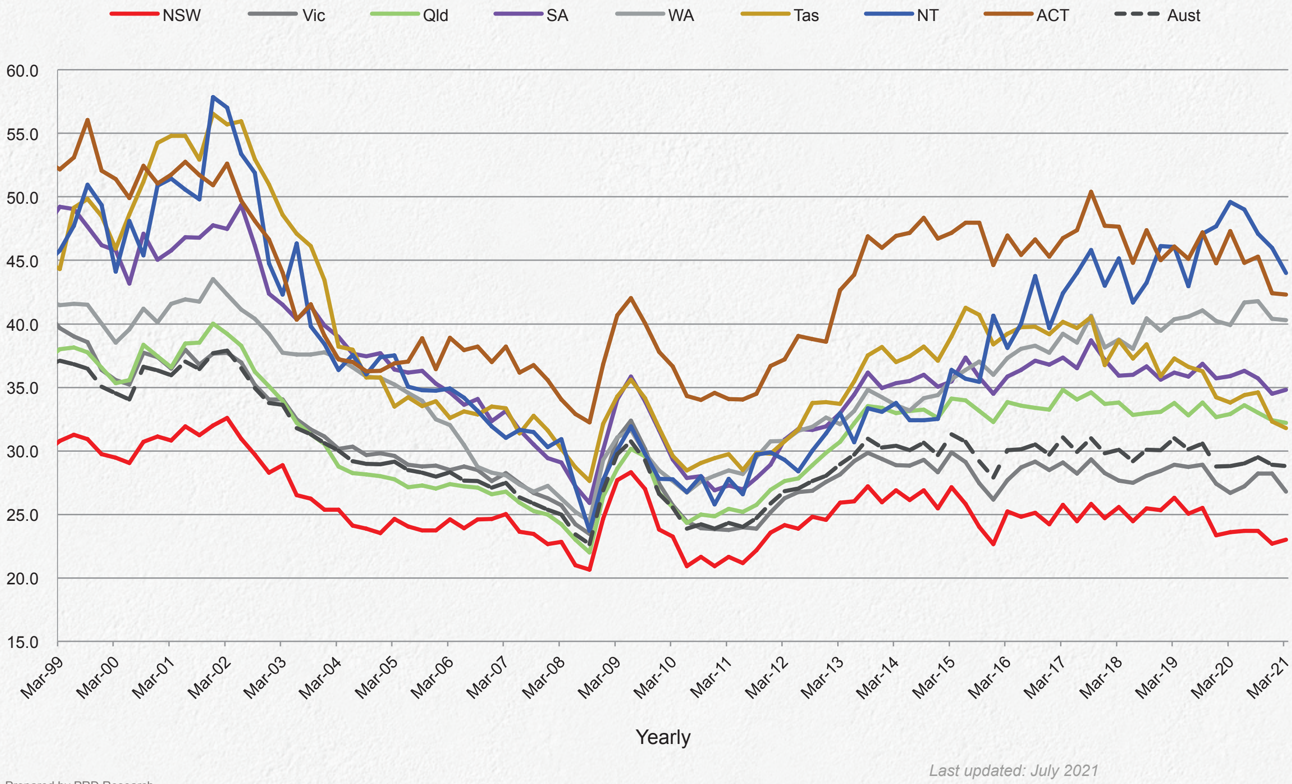
Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2021

STATE FIRST HOME BUYER AVERAGE LOAN

Average First Home Buyer Loan			
State	Q1 2021	Q1 2020	Growth
NSW	$513,733	$502,615	2.2%
VIC	$447,982	$437,937	2.3%
QLD	$384,241	$374,041	2.7%
SA	$339,427	$334,182	1.6%
WA	$369,858	$353,187	4.7%
TAS	$333,634	$302,832	10.2%
NT	$392,717	$367,337	6.9%
ACT	$470,118	$447,049	5.2%
AUS	$425,785	$420,996	1.1%

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2021

HOME LOAN AFFORDABILITY INDEX



Prepared by PRD Research
Source: Real Estate Institute of Australia

PROPORTION OF FAMILY INCOME REQUIRED TO MEET HOME LOAN REPAYMENTS

Proportion of family income devoted to meeting average loan repayments			
State	Q1 2021	Q1 2020	Growth
NSW	43.5%	43.3%	0.5%
VIC	37.3%	38.1%	-2.1%
QLD	31.1%	30.6%	1.6%
SA	28.7%	28.9%	-0.7%
WA	24.8%	25.1%	-1.2%
TAS	31.5%	29.7%	6.1%
NT	22.7%	21.8%	4.1%
ACT	23.6%	23.1%	2.2%
AUS	34.7%	35.2%	-1.4%

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2021

PROPORTION OF FAMILY INCOME REQUIRED TO MEET RENT PAYMENTS

Proportion of family income devoted to meeting median rents			
State	Q1 2021	Q1 2020	Growth
NSW	28.6%	27.5%	4.0%
VIC	22.6%	23.0%	-1.7%
QLD	22.5%	22.0%	2.3%
SA	23.6%	22.5%	4.9%
WA	18.7%	16.6%	12.7%
TAS	30.6%	30.5%	0.3%
NT	23.6%	20.6%	14.6%
ACT	20.0%	19.0%	5.3%
AUS	24.4%	23.5%	3.8%

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2021

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's home loan affordability index remained stable in the 12 months to the March quarter of 2021, at 28.8 index points. However, this represents a -2.4% decline in the 6 months to the March quarter of 2021, which is reflective of the latest property price increases across all parts of Australia.
- ✓ In the 12 months to the March quarter of 2021, NT and the ACT experienced the largest decreases in home loan affordability, by -11.3% and -10.6% respectively. VIC and WA can enjoy a momentary increase in home loan affordability, of 0.4% and 1.0% respectively, however continuous reopening of businesses in both states will stimulate housing demand.
- ✓ Australians are committing to higher levels of debt to afford homes, by 1.1% for first home buyers and 2.6% for others. Extremely low mortgage home loan rates are a saving grace at present. With many banks planning to increase their rates it will be up to the government to inject further cash into the economy, through tax reforms that increase household income.

ABOUT PRD

PRD Real Estate is an acknowledged real estate industry leader.

We have been in the business of selling and managing properties since 1976 and has for over 40 years developed a dedicated network of real estate specialists across Australia nationally and internationally.

At PRD, we understand that there's no substitute for the knowledge, experience and commitment of our people. To 'Sell Smarter' is not just one of our philosophies it's also a clear strategy we continually put into practice. The competitive edge we bring to all aspects of every property transaction is based on the integrity, transparency and professionalism of everyone in our network.

ABOUT PRD RESEARCH

PRD is home to the latest and most in-depth property knowledge in Australia and is a leading property and real-estate research provider.

Our Knowledge

PRD's research division provides reliable, unbiased, and authoritative property research and consultancy to clients in both metro and regional locations. Our extensive research capability and specialised approach ensure PRD clients can make the most informed and financially sound decisions about residential and commercial properties.

Our People

Our team is made up of highly qualified researchers who focus solely on property analysis. Our experts are highly sought-after consultants that develop reports, conference papers, and regular media commentary in conjunction with multiple stakeholders including academics, organisations, communities, and government departments. Their advice has helped steer the direction of several property developments and secured successful outcomes for our clients and stakeholders.

Our Services

We use our extensive knowledge of market sizes, price structure and buyer profiles to identify opportunities for clients and provide market knowledge that is unbiased, thorough and reliable. Our services include:

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- Geographic information mapping
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GLOSSARY

Metro Annual Change in Settled Sales Graph

A percentage figure capturing the change in settled sales between May 2020 and 2021, for all dwelling types across metro and capital city areas of Australia.

Regional Annual Change in Settled Sales Graph

A percentage figure capturing the change in settled sales between May 2020 and 2021, for all dwelling types across regional areas of Australia.

Quarterly Vacancy Rates Graph

A healthy industry benchmark for vacancy rates is 3.0%. Vacancy rates lower than 3.0% indicate strong demand for rental accommodation, whilst rates higher than 3.0% reflects an oversupply of rental accommodation.

Business Confidence Graph

The Business Confidence Index indicates expectations of business conditions for the upcoming quarter. The Index is based on a survey of approximately 900 small to large businesses in non-farm sectors and is conducted by the National Australia Bank.

Australian Consumer Sentiment Graph

The Consumer Sentiment Index indicates short-run changes to consumer willingness to purchase goods in the forthcoming quarter. Based on a monthly survey of 1,200 Australian households conducted by the Melbourne Institute and Westpac, it represents current and future perspectives of the broad economic climate and household financial state.

Inflation Graph

Inflation is measured as a change in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics as the price of a weighted 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households. The RBA aims to constrain inflation in a long-run target range of 2.0-3.0%. The underlying inflation figure (as measured by the RBA) removes volatile items such as fruit and fuel.

Time to Buy a Dwelling Index Graph

The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling. It is a component of the Melbourne Institute's Consumer Sentiment Index which is undertaken monthly.

Population Growth Graph

Population growth tracks the change in population across the states and territories of Australia. Population growth is seen as the key driver of demand for housing.

Net Interstate Migration Graph

Net interstate migration tracks the net population change in each state attributable to interstate migration.

Net interstate migration figures fluctuate with the seasons, so a moving yearly average is shown to filter out these changes.

Net Overseas Migration Graph

Net overseas migration tracks the net gain or loss of population through immigration (overseas migrant arrivals) to Australia and emigration (overseas migrant departures) from Australia.

The data captured is by 'country of birth', with the top 10 countries showcased in this report. All other countries are categorised as 'others'.

Unemployment Rate Graph

Unemployment is calculated as the proportion of people in the labour force that were unemployed and actively seeking work during the survey period.

The labour force is defined as the number of people aged over 15 who were either employed or actively looking for work during the survey period.

This graph tracks the unemployment rate on a monthly and moving annual average basis over the last 30 years.

Wage Growth Graph

The wage price index measures changes in the price of labour, unaffected by compositional shifts in the labour force, hours worked, or employee characteristics.

The wage growth graph illustrates changes in the total hourly rates of pay for both public and private sectors.

Housing Finance Commitments Graph

Housing finance commitments track the volume of finance commitments made by significant lenders to individuals for the purchase of housing.

This graph tracks the value of loans approved to owner-occupiers (non-first home buyers), first home buyers, and investors.

Housing Loan Interest Rate Graph

The housing loan interest rate is the average rate of interest being offered by housing lenders. It is higher than the RBA's target cash rate due to lending costs and profit margins.

Home Loan Affordability Index Graph

The Home Loan Affordability Index measures average loan repayments against median wages and tracks these values over time.

National Residential Construction Graph

This data provides an early indication of trends in building and engineering construction activity. The data are estimates based on a response rate of approximately 85.0% of the value of both building and engineering work done during the quarter.

Dwelling Approvals Graph

Dwelling approvals indicate the number of new dwellings that have been approved for: construction of new buildings, alterations and additions to existing buildings, approved non-structural renovation and refurbishment work and approved installation of integral building fixtures.

A moving yearly average is used to filter out seasonal fluctuations in the number of dwellings commenced.

PRD is a Colliers International company.