ANZ Economics & Markets Research

Housing Snapshot

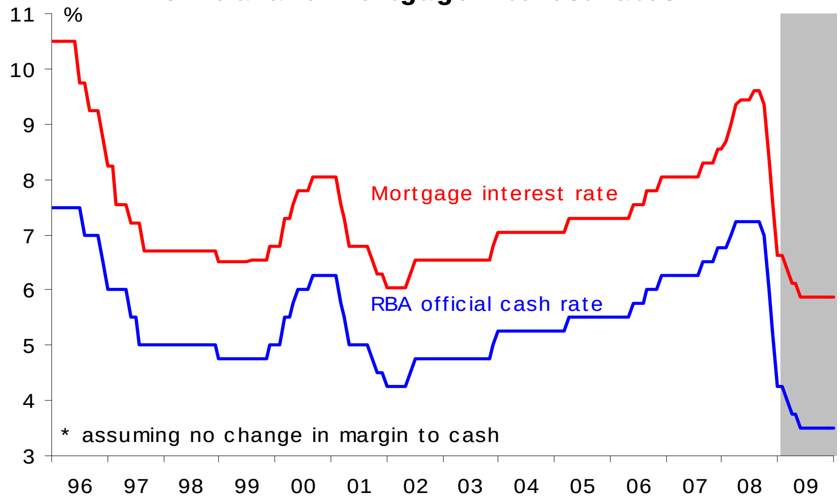
Economy slows but house prices remain resilient

December 2008

The global economic outlook has deteriorated sharply. The US, Japan, Europe, and UK are officially in recession and even emerging Asia/China is not immune. Equity markets have collapsed and global liquidity/credit availability has been severely restricted. We have downgraded our Australian growth forecasts and expect real GDP growth of just 0.6% in 2009 and 2.0% in 2010. Lower growth will see the unemployment rate rise to 6.5% by mid 2010.

However, despite marked downturns in international markets, Australian house prices have, to date, been remarkably resilient. Over the year to September, house prices are up by 2.8% and from a peak in March are down just 2.1%. This stands in stark contrast to equity markets (that have *halved* since peaking in 2007) and sharp falls in international house prices (US, UK, Ireland, and NZ).

Official and mortgage interest rates*



Despite heightened economic uncertainty and rising unemployment, a range of factors will continue provide support to Australian house prices:

- Significant interest rate cuts and more generous grants to first-home buyers will drive a dramatic improvement in housing affordability, boost housing demand and stir interest in the development sector.
- Australia is facing an unprecedented shortage of housing over the next decade. Underlying housing demand is booming, buoyed by accelerating population growth, while supply continues to be restricted by limited land availability, excessive infrastructure charges and developer uncertainty.
- Rental markets are extremely tight, rents are rising and investor yields are improving.
- In stark contrast to international markets, Australian mortgage lending has remained conservative and sub-prime loans remain less than 1% of the market.

Nonetheless, risks remain - with unemployment rising, mortgage defaults will edge higher in 2009, increasing the incidence of forced home sales. In addition, tightening credit conditions could increasingly restrict *actual* housing demand in the year ahead.

On balance, given our current macroeconomic outlook, we expect the *median* house price to soften by between 0 to -5% over the next year. Unlike some commentators we do not expect a collapse, and house prices will recover quickly once the current economic uncertainty is passed.

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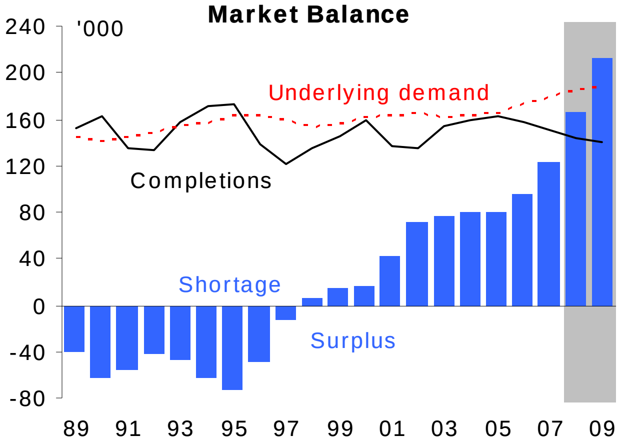
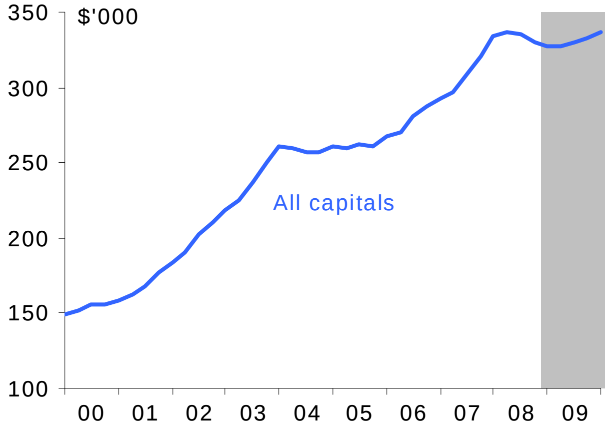
Australia

Despite the proliferation of negative commentary, *measured* Australian house prices continue to defy the doomsayers. From a peak in March, the median house price (ABS) fell just 2.1% in the 6 months to September. Moreover, the RPdata-Rismark series show modest *rises* in house prices in both September and October. A 300 basis point fall in mortgage rates in the past four months has already led a dramatic improvement in housing affordability which combined with extensions to the first home-buyer grant and further interest rate cuts should support buyer demand in 2009. Housing market fundamentals also remain very supportive with record net international migration (213,000 in 2007-08) pushing annual population growth to 1.7% and underlying housing demand to 185,000 p.a. At the same time, new home building continues to weaken with completions in 2008-09 expected to fall to just 140,000. Consequently, Australia is facing a chronic undersupply of dwellings over the coming decade. Rental vacancy rates are already at record lows and rents and rental yields are rising sharply. The Australian housing market is therefore well placed to avert the dramatic declines experienced in some international markets. Nonetheless, downside risks exist in the form of rising unemployment, heightened economic uncertainty and tightened credit availability. The key to the outlook remains the health of the broader economy and if Australia can avoid a deep recession we remain confident that falls in house prices will be limited.

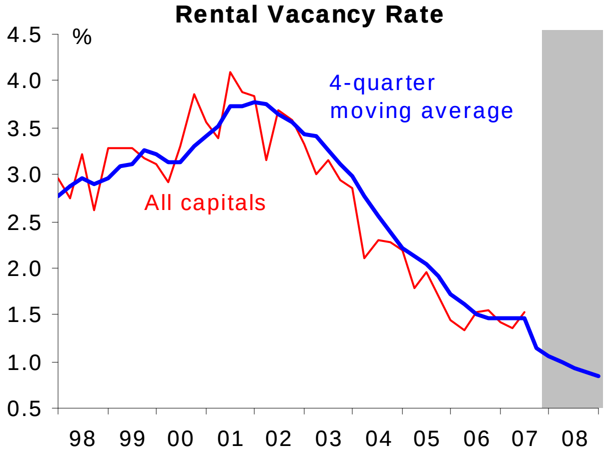
Market Balance



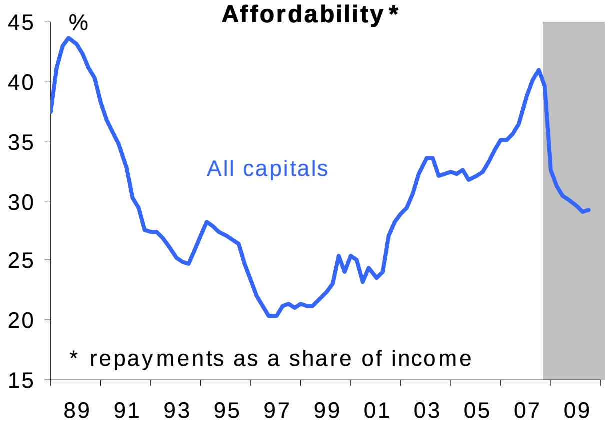
Established House Prices



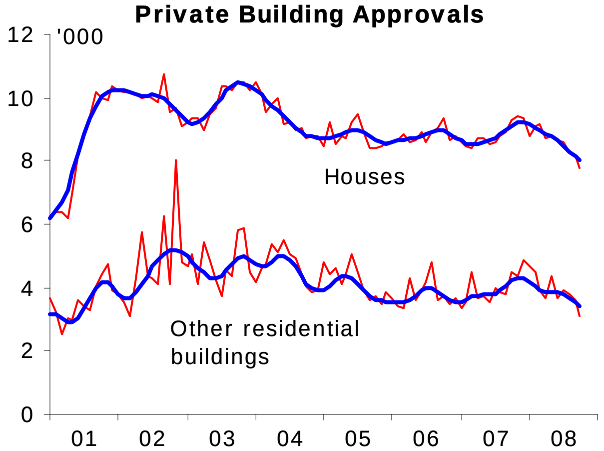
Rental Vacancy Rate



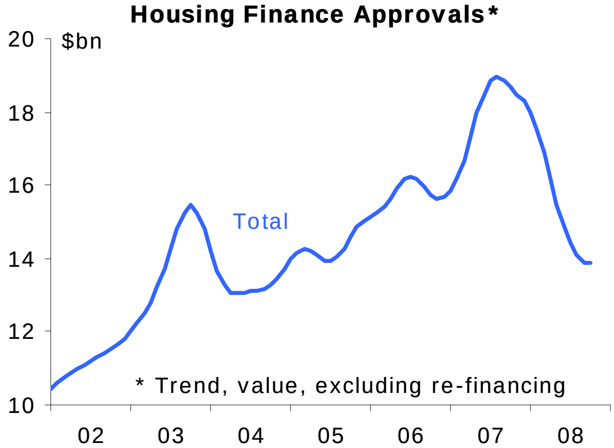
ANZ 'Housing Purchase' Affordability*



Private Building Approvals



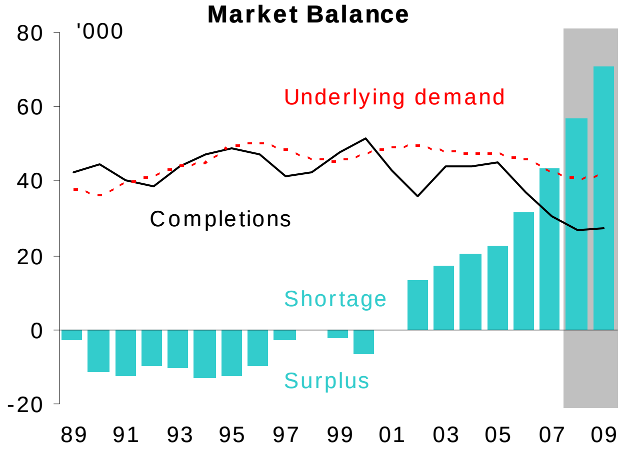
Housing Finance Approvals*

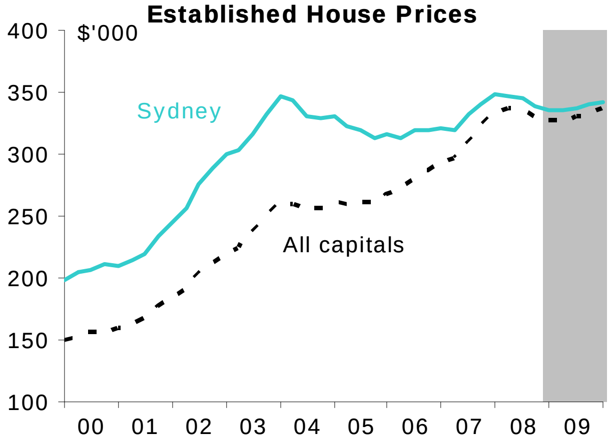


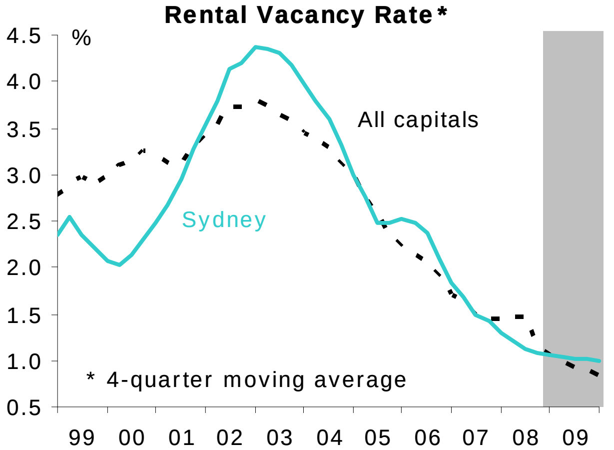
Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

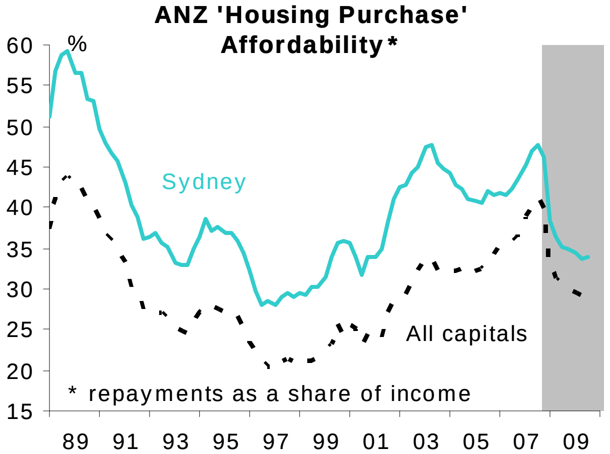
New South Wales

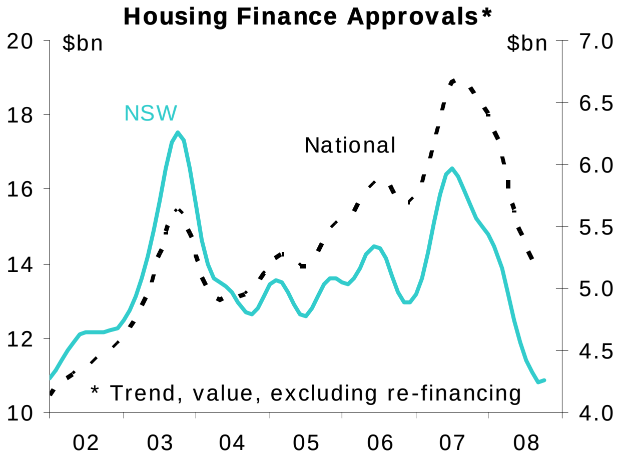
After showing signs of improvement, the Sydney market again looks vulnerable. Median prices had just reached the previous peak level (2003), yet the financial crisis and economic downturn will see capital values at best stagnate in 2009. Sydney is at the epicentre, of not just the financial turmoil, but also slowing economic growth. Anecdotes are rife suggesting prices, especially at the top end, have come off sharply. However, ABS data puts the overall falls at only 2% in Q3. Despite this, still Sydney seems particularly vulnerable in this time of uncertainty as median house prices are significantly higher than any other capital city. Further, mortgage delinquencies significantly exceed the national average and with the unemployment rate on the rise, a greater incidence of forced selling may weigh on the market in 2009. Unfortunately, there is little help from the state government who have been forced to undertake conservation budget measures. Building approvals have slumped to record lows amidst what were high interest rates combined with prohibitive developer costs and bureaucratic delays. Limited supply has seen vacancy rates become entrenched at 1% pushing rents ever higher and improving yields which may begin to entice investors; especially with equity market volatility remaining high. Residential market fundamentals remain tight, but difficultly in entering this market for both buyers and renters combined with the softer economic prospects could see an acceleration of outward interstate migration. Although, opportunities are bound to present themselves in the softer market it may be a case of waiting until the economic clouds pass.

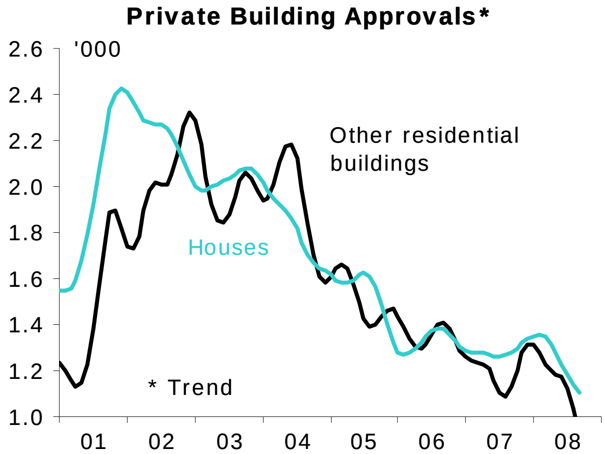








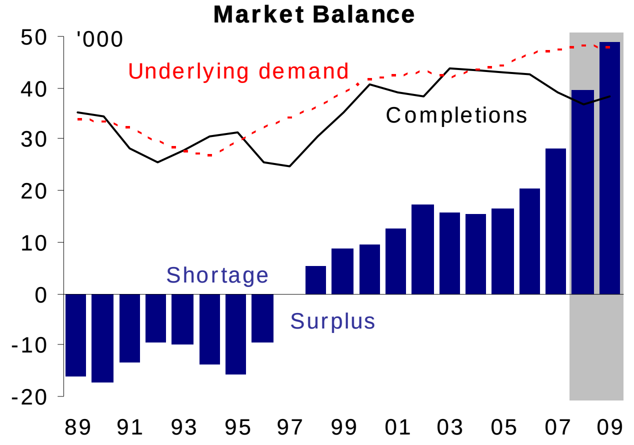


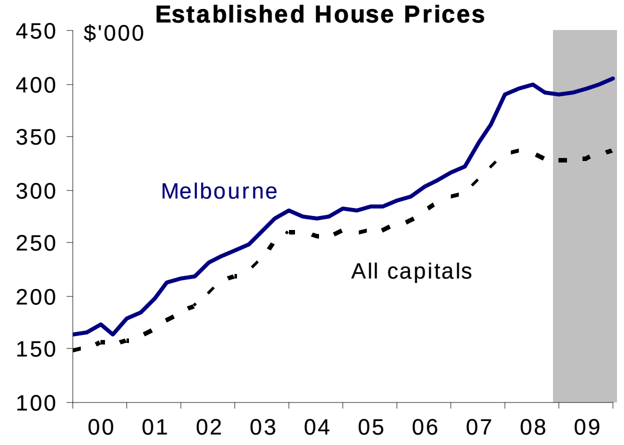


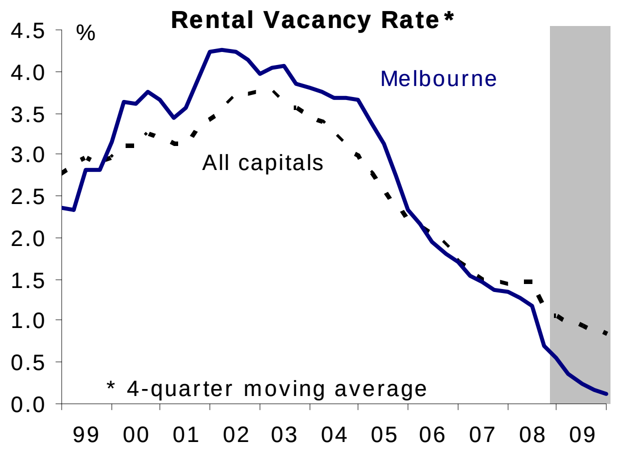
Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

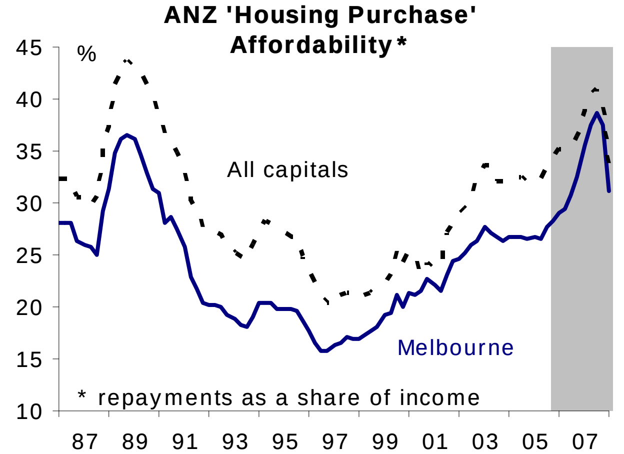
Victoria

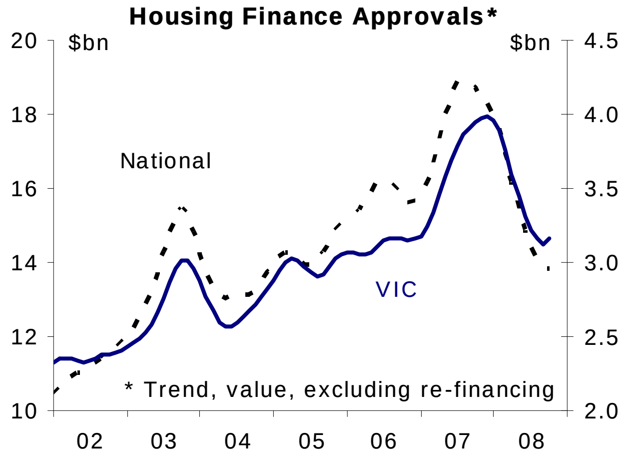
The Melbourne market has been more resilient than Sydney. Better affordability and strong fundamentals saw prices boom in 2007 and should continue to protect the market from any significant or sustained falls. Sales activity has slowed as economic uncertainty increased and auction clearance rates have slumped; hovering around 50-60%. These falling auction clearance rates do not necessarily point to price falls but reflect the stand-off between buyers and sellers which for now is unresolved. As in Sydney, anecdotes suggest prices at the top end are falling rapidly, yet Residex price data to September seems to refute this claim. Activity closer to the median has been solid. According to REIV, of the top 20 growth suburbs for the quarter only five have prices in excess of the median. All in all, the ABS suggests that prices softened between 1-2% in the Melbourne market in the September quarter. Victoria's economy has so far performed solidly and unemployment rates have not as yet picked up (cf NSW). There is cause for cautious optimism for both owner-occupiers and investors with interest rate cuts improving affordability significantly. Vacancy rates remain very low pushing up rents and residential yields. First homeowners should also be encouraged by the increases in the FHOG and ongoing state government bonuses. Underlying fundamentals continue to be strong, yet depending on the extent of the downturn in the economy any boost to sales and prices in the short-term from interest rate cuts may be muted. Nonetheless, over the medium-term these fundamentals suggest prospects in this market remain good.

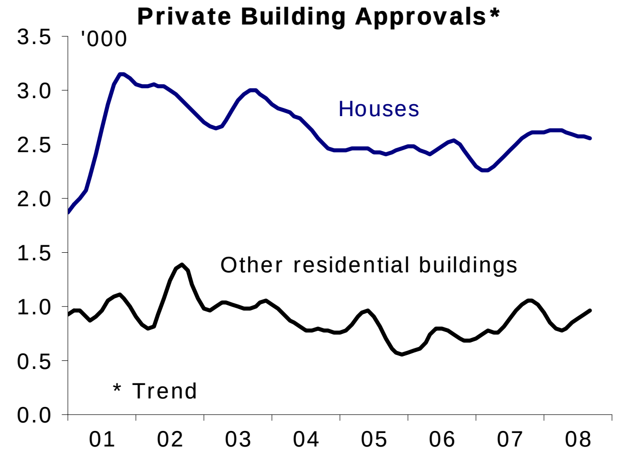








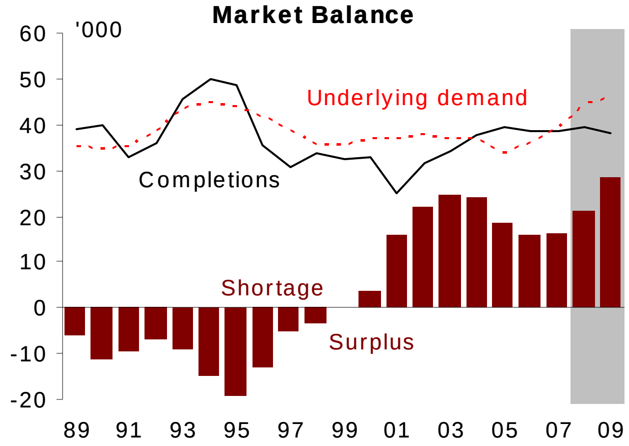


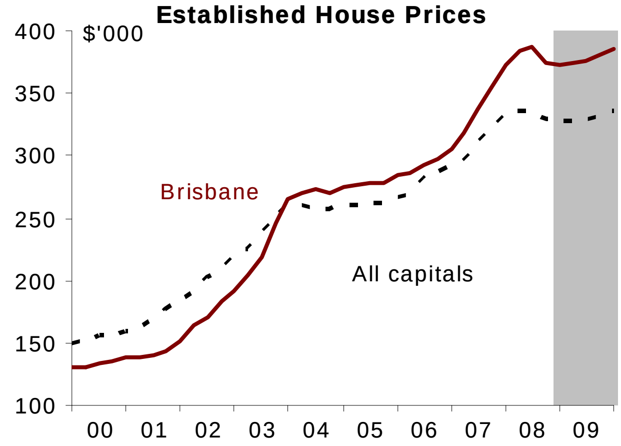


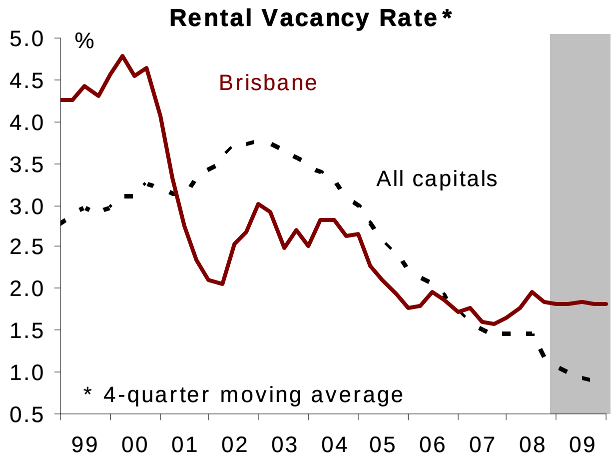
Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

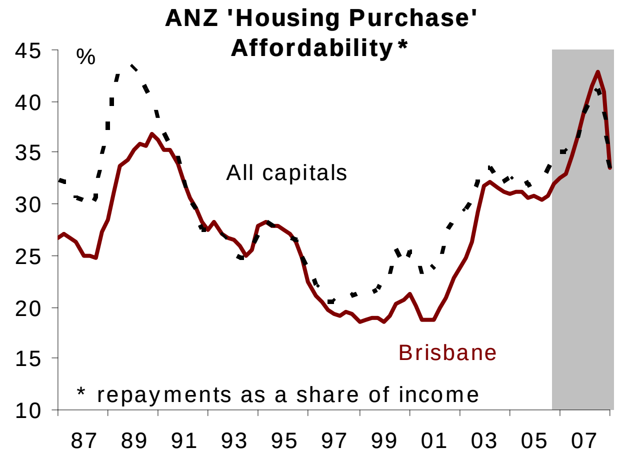
Queensland

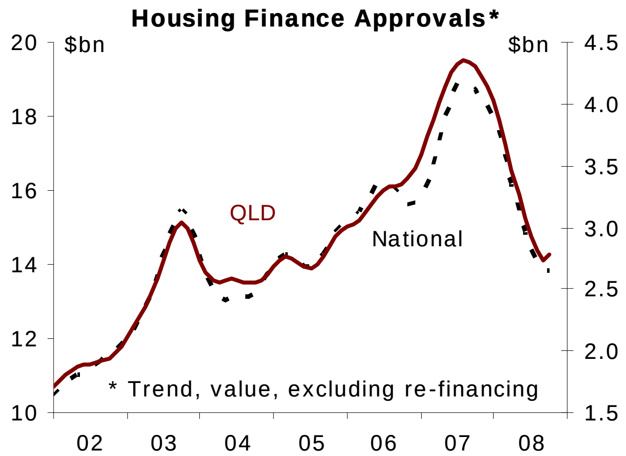
The Queensland property market has come to a screeching halt in recent months with house sales falling by close to 15% in the year to September and clearance rates easing to the low-20s%. According to the ABS, median prices fell 3.3% in the September quarter, leaving growth for the year at just ½%. Top end property sales in the Brisbane market in particular are stagnating. As such sales volumes have shifted significantly with figures for the quarter suggesting 80% of sales less than $500K (this *shift* in the type of house sold has caused some price measures to perhaps misleadingly suggest 20-30% falls in median prices). This shift down the house price spectrum has been encouraged by the state government's lifting of the stamp duty exemption to $500K. Inner suburban areas, especially to the north east, have also performed better than outer suburbs. Price growth has also been slowed by an adequate supply of housing coming on stream, despite above average population growth. Building approvals had been the highest in the country earlier in the year (they have since dropped off) and land supply has been sufficient. Home completions have assisted with rental availability with vacancy rates of 2.2% slightly higher than the national average despite strong demand. Despite this, rents have still grown at a healthy 10% in the year to September. The diverse nature of the Queensland economy should see it well placed to ride out the worst of the economic slow down and strong fundamentals in the housing market and improved affordability should see medium term prospects improve.

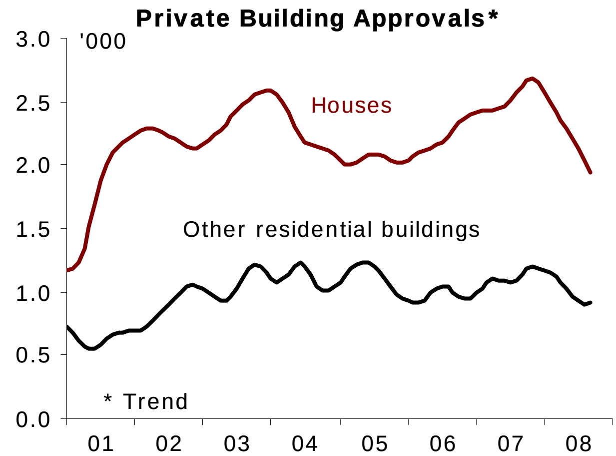








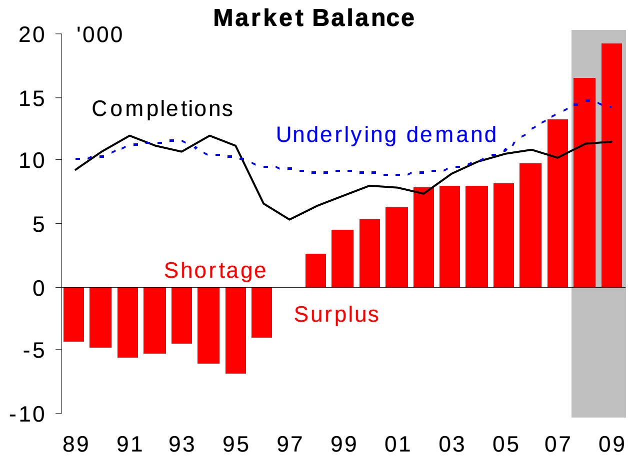


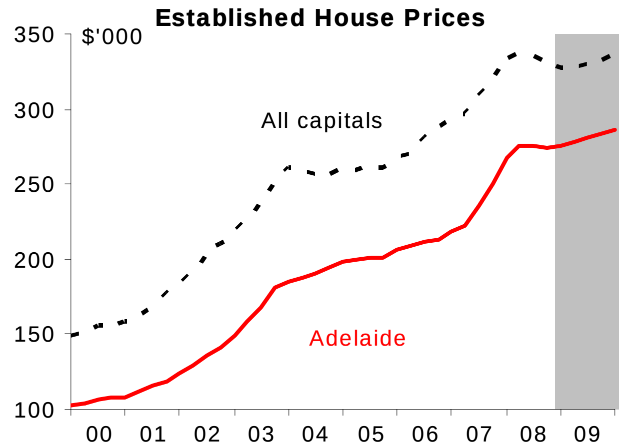


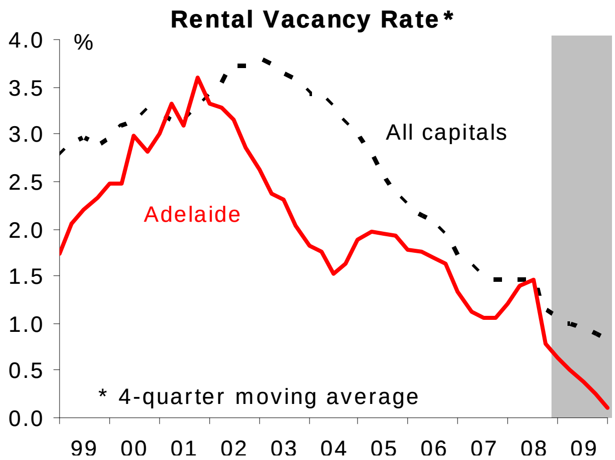
Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

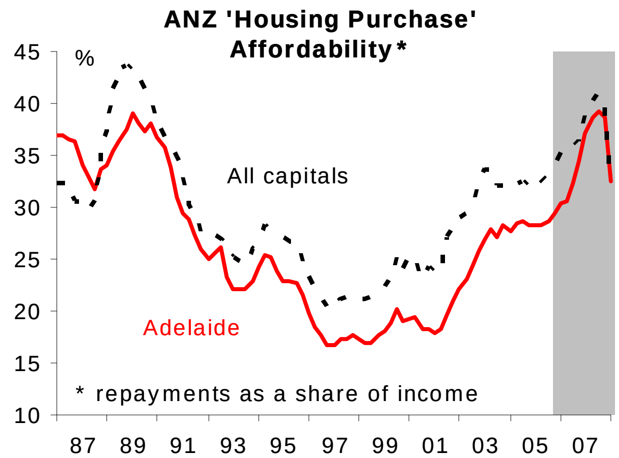
South Australia

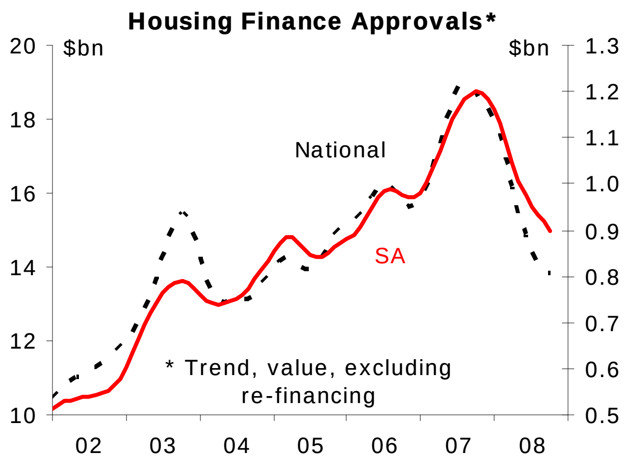
Both the South Australian economy and property markets have performed solidly in the year to the September riding on the resources boom and improved farm production. In fact, the Adelaide housing market has been the best performing in the country in the year to September, posting a rise of 2.8% (according to ABS data). Even in the current soft market nationally, Adelaide median price falls have been relatively small compared to those in other capital cities. Tight rental markets have also seen rents increase significantly with city and country advertised rents climbing by 9% and 18% respectively in the year to September. However, the market is now cooling rapidly and transactions have fallen significantly, by around 11%, in line with higher interest rates. It is likely property markets will consolidate over the coming year. On one hand, the second lowest median prices in the country, combined with the increases in the FHOG and cuts in interest rates will all improve affordability and support prices; especially in the current environment of solid income growth. Yet there are clear risks to the economic outlook. The SA economy remains beset by drought and the rural sector may struggle to recover. Further there are also risks to the large manufacturing sector as the global economy turns down. The automotive industry in particular is under increasing pressure and the Federal government bailout package will be most welcome. Nonetheless the unemployment rate has started to move upwards and at 5.3% is amongst the highest in the country which is a clear risk to house prices should it rise significantly further.

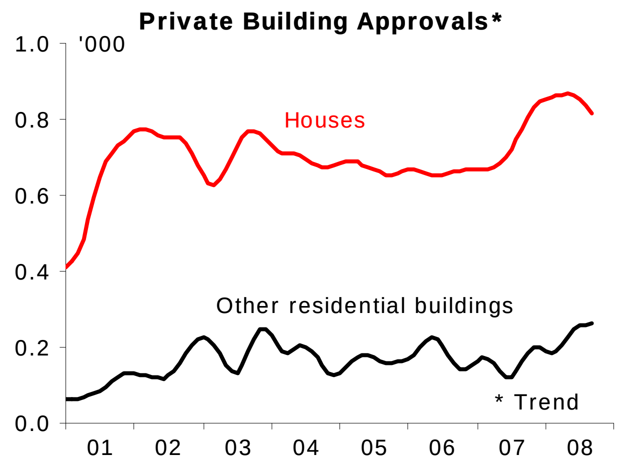








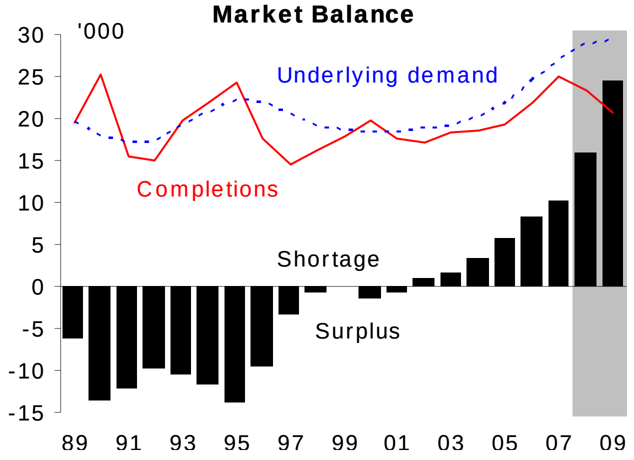


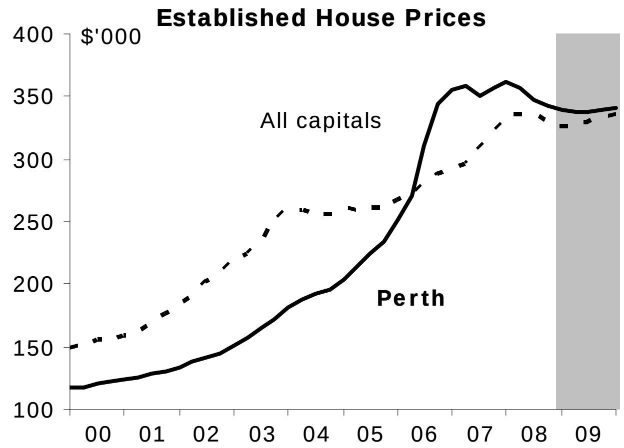


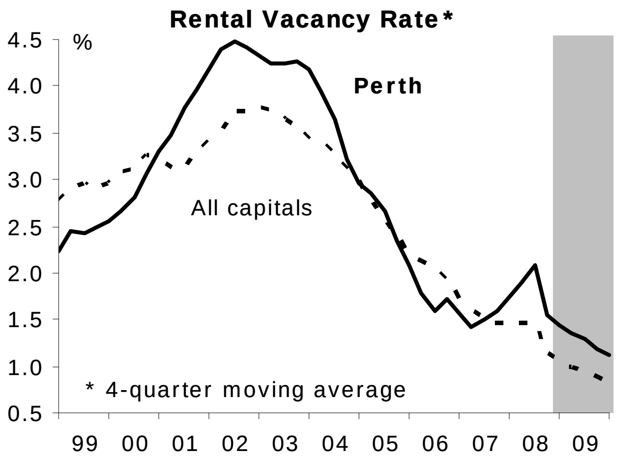
Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

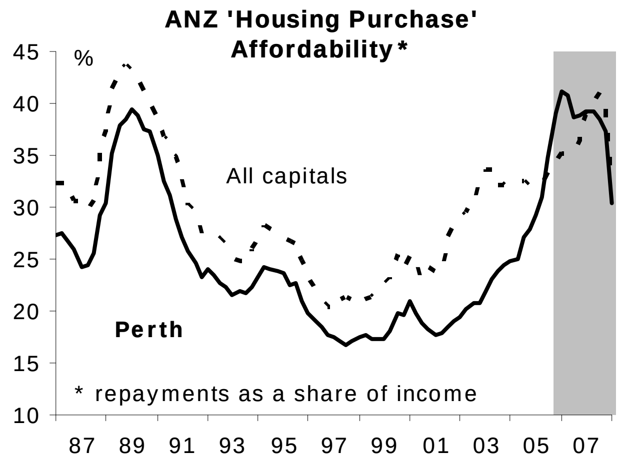
Western Australia

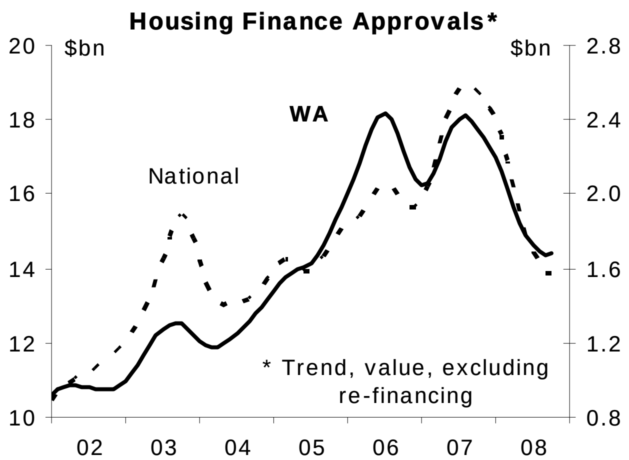
The Western Australian market has stalled following the recent boom where house prices rode the crest of the tidal wave of economic prosperity brought on by high commodities price. Affordability deteriorated rapidly and clearly the acceleration in price growth was unsustainable, even with double-digit income growth. By some measures median prices even exceeded that of Sydney, and currently have the second highest of any state (using ABS data); something that would have been almost unthinkable 5-years ago. Transaction activity has dried up with sales numbers falling despite solid numbers of properties on the market. As a result we have seen downward pressure on prices, particularly at the top end of the market, for some time as the market searches for a more sustainable median price levels. ABS median prices for Perth have shown small falls in the past three quarters to see prices retreat 4% over the year to September. The good news for renters is that many houses slated for sale have been taken off the market and put up for rent. This has eased some of the pressure in the rentals market pushing the vacancy rate up to around 3% and has seen rental growth ease from a 20% annual rate seen last year. Despite the economy still being expected to outperform other states in coming years, commodity prices are now falling sharply which will take the edge off incomes growth and see the property market continue to consolidate. Over the medium term, property market fundamentals remain strong and the 'China story' will eventually continue and support property markets once the economic slowdown passes.

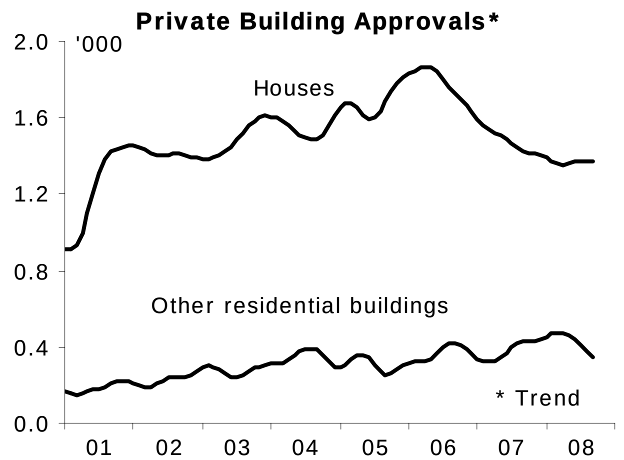










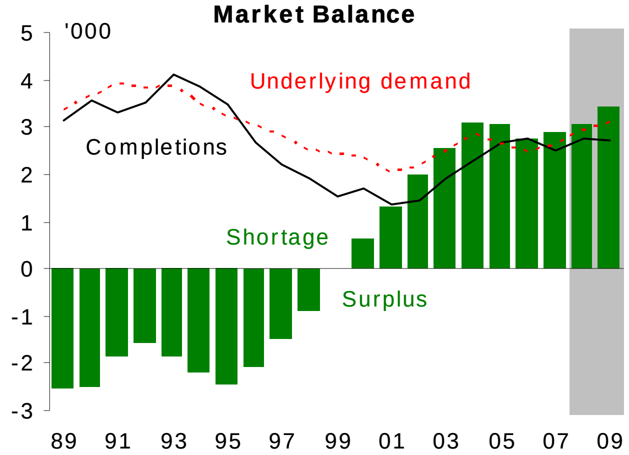


Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

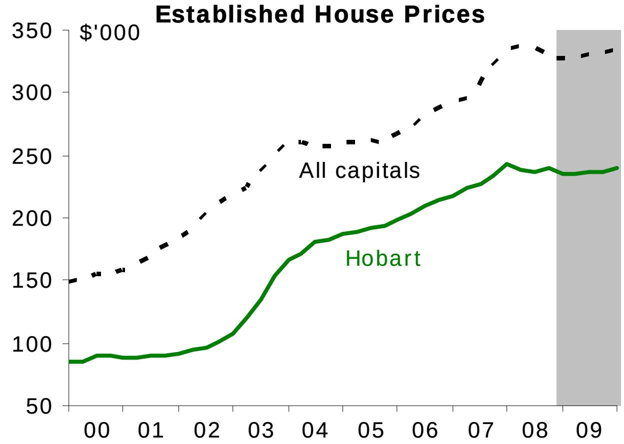
Tasmania

Like its mainland counterparts the Hobart property market has slowed considerably with transaction numbers falling from peaks seen last year. Price performance has been mixed with some falls in median prices in recent quarters, although Hobart was the only state to post a small price rise (+0.7%) in the September quarter. Economic fundamentals currently remain solid with government finances in good shape, unemployment rates well below non-mining mainland states and incomes growth solid. Population growth is below the national average, yet is currently running at twice the annual state average for the past ten years. We would expect population growth to be well supported going forward as demographics see more retirees move to the (still more affordable) Apple Isle. With by far the lowest median price in the country, the Hobart market also provides an affordable option for first homebuyers. Increases in the Federal Government First Home Owners Grant will go a considerable way to furnishing new entrants with a home deposit and may prompt some continued price rises in the short-term. Vacancy rates remain relatively low and may tighten further as investors, the majority of who are from the mainland, scale back any further residential investment activity. The supports for the Tasmanian property market should continue to be solid going forward and it would be unsurprising to see prices continue to push moderately higher as mainland markets continue to consolidate.

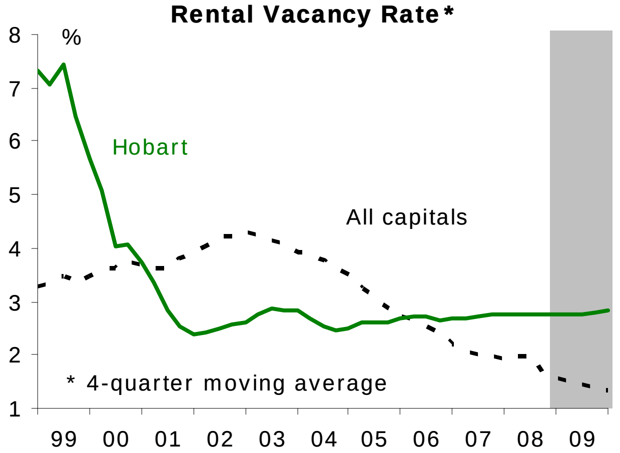
Market Balance



Established House Prices



Rental Vacancy Rate*



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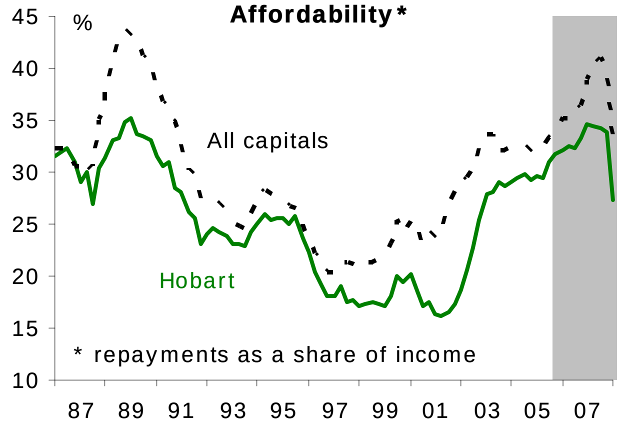
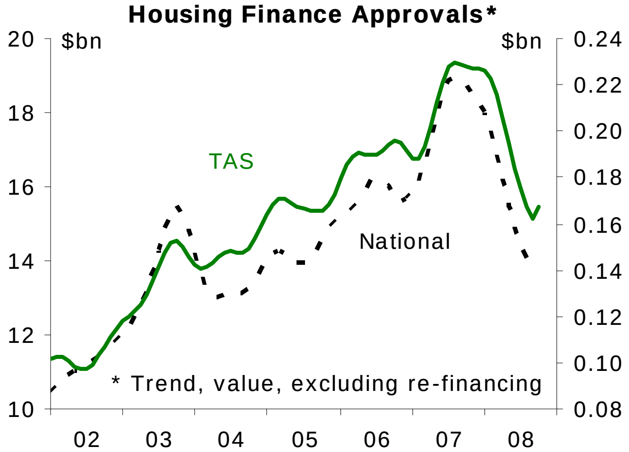


Housing Finance Approvals*



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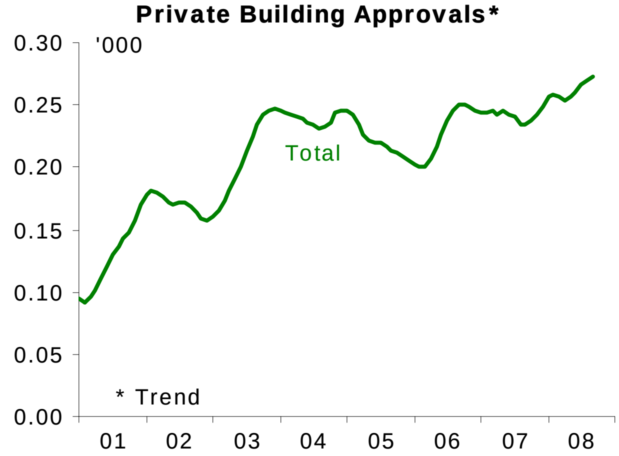
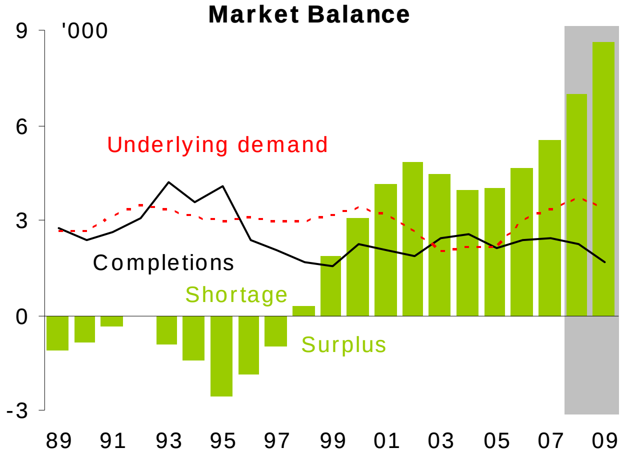
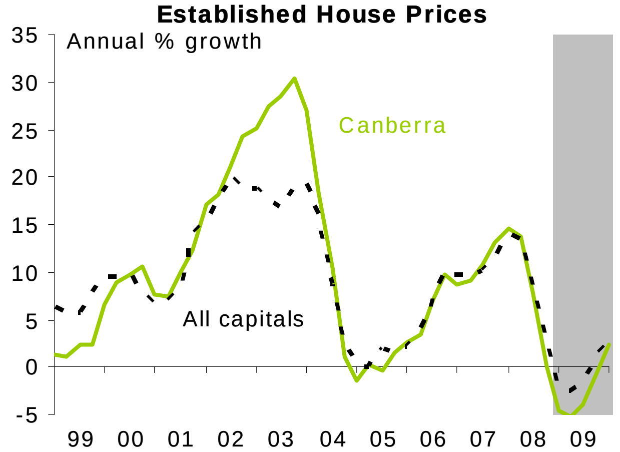


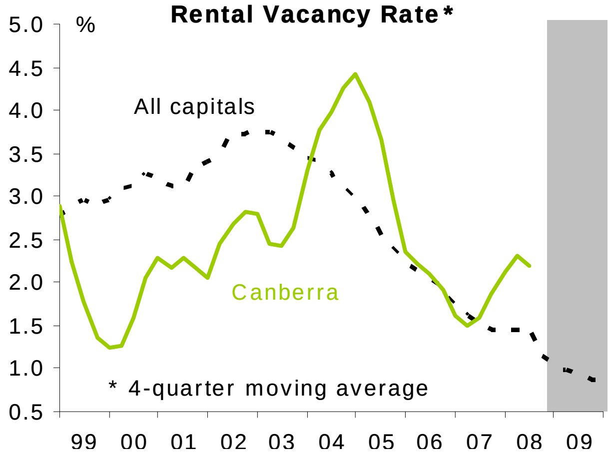
Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

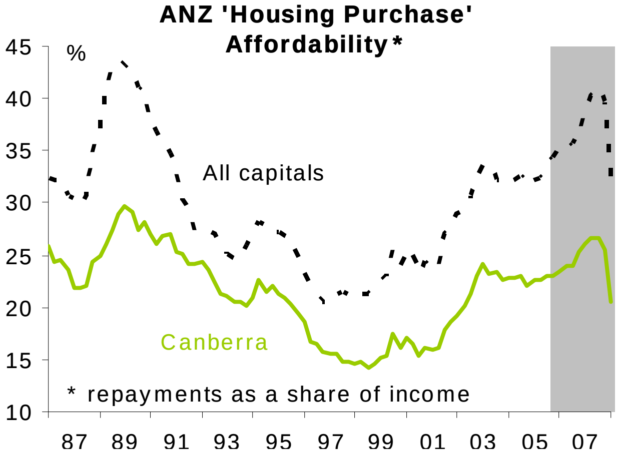
Australian Capital Territory

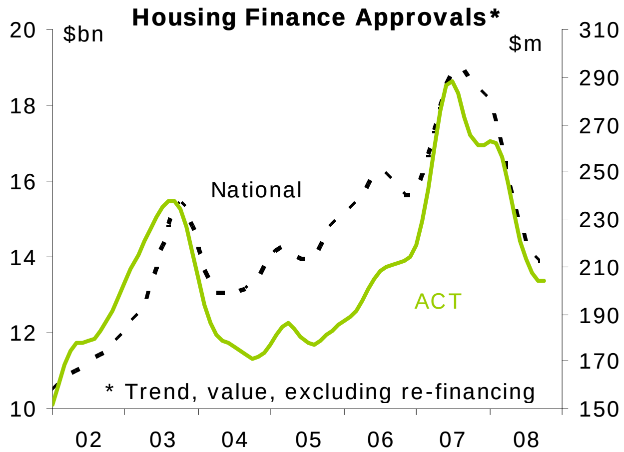
The property market in Canberra has slowed, as interest rates have risen, with transactions falling just over 7%. However, sales levels have been structurally lower in the ACT for several years with shorter term contracts in the public sector encouraging the renter rather than the purchaser market. ABS data suggests that median house prices have fallen by just under 3% in the year so far. Both inner and outer suburbs have been hit by the downturn in prices. As with other areas of the country, sales activity in median priced housing has remained fairly robust. At the high end of the market sales number have slowed, yet there still a number of houses being listed. Results at the high-end have been mixed, and unlike other states, prices of some prestige homes have remained solid. Building approvals numbers have accelerated back to their historical average over the past 6 months to service what has been an upswing in population growth. Yet the residential market remains tight and vacancy rates seem entrenched at 2% with housing rents still rising. However, the unit market is quite different with sales falling by about 9% due to a brief period of oversupply as several developments came on stream. Rents in the unit segment of the market have also softened recently. A proposed reduction in public employment should also free up space in this segment of the market going forward. The outlook for Canberra property markets is fairly soft due to this reduced demand, yet very low unemployment and relatively buoyant income growth should support prices.

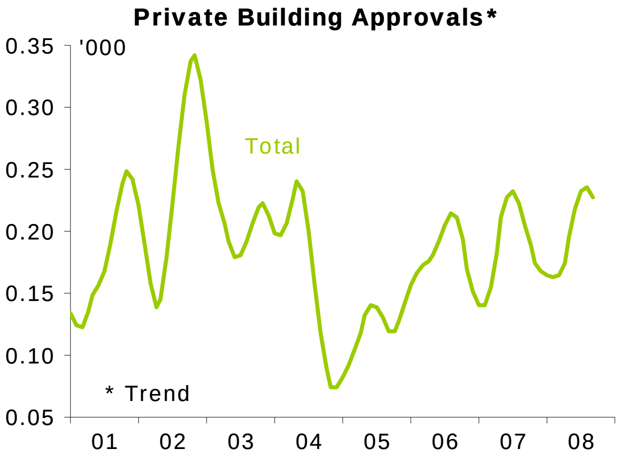










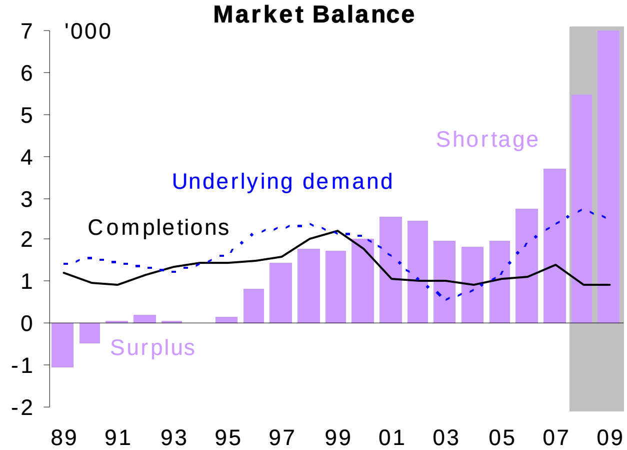


Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

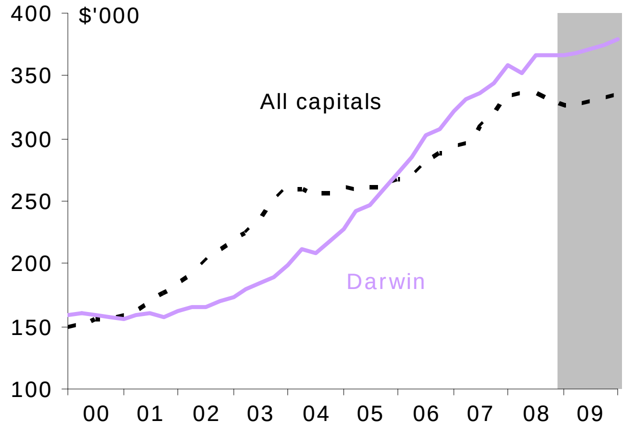
Northern Territory

After median prices fell in the first quarter of this year, Darwin prices have risen by 4% in the last 6-months, the largest rise of any capital city. Strong population growth and relatively high turnover of population (through the highest proportion of interstate arrivals and departures) has seen demand for dwellings remaining solid. This is partly being driven by ongoing investment in the resources sector, the latest being the $12bn gas plant expected to create 2000 jobs. However, this would seem to be creating more pressure in the rental market than for purchasing, with homes on sale reportedly taking close to 80 days to sell, the longest time to sale in the country. Housing at the lower end of the market, around $400K, is still where purchaser demand is strongest, with some weakening at the top end in excess of $500K. Pressures in the rental market continue to build with vacancy rates at very low levels and rental growth for housing is still running at around 10%. Units are highly sought after both in Darwin and the rest of the NT with rents still surging 15% and 19% respectively. In an effort to combat soaring rents and bolster housing supply the NT government has instituted the BuildStart program that provides $14K for people (who do not qualify for the Federal FHOGs) purchasing a newly constructed home. Short-term economic prospects in the NT may weaken on the back of softer commodity prices yet the medium term outlook is good. Population growth will continue to be strong, fuelling the demand for housing and supporting median prices.

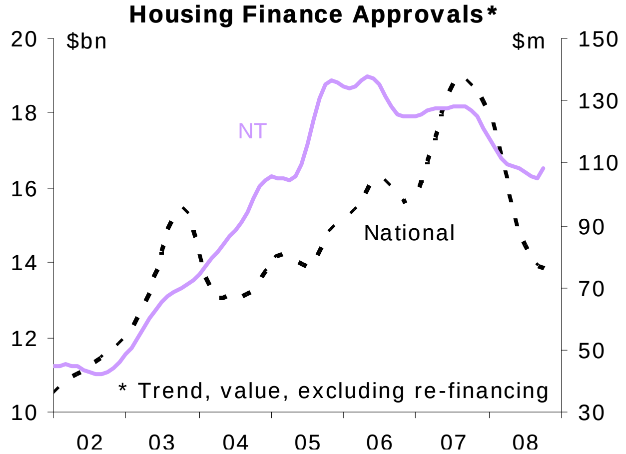
Market Balance



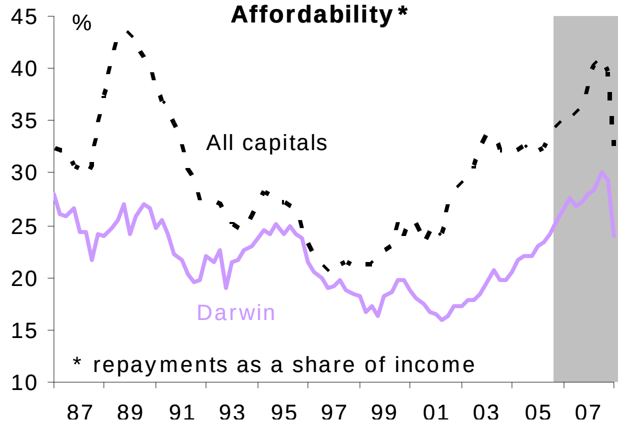
Established House Prices



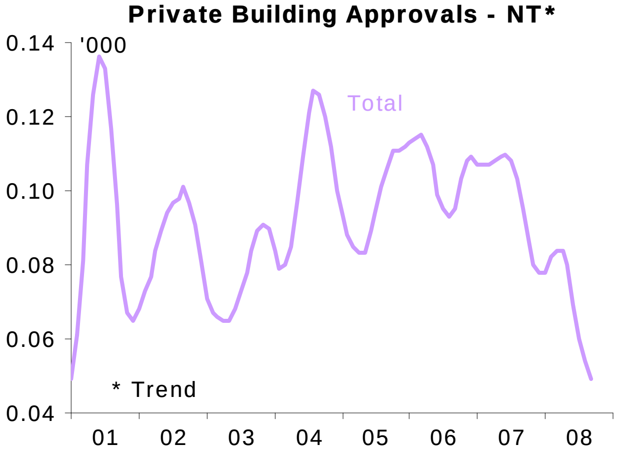
Housing Finance Approvals*



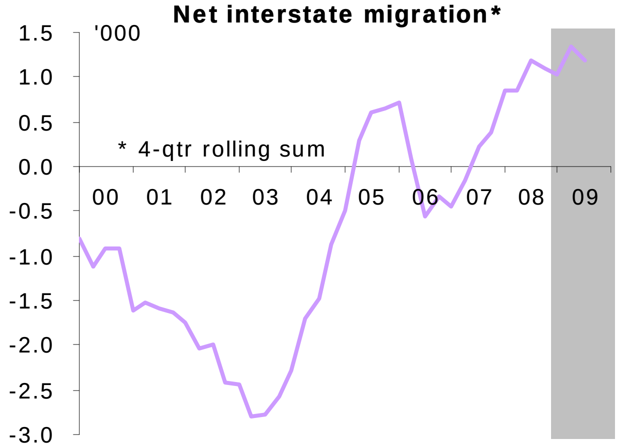
ANZ 'Housing Purchase' Affordability*



Private Building Approvals - NT*



Net interstate migration*



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

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