

## AUSTRALIAN PROPERTY AUSTRALIAN HOUSING CHARTBOOK

JANUARY 2012

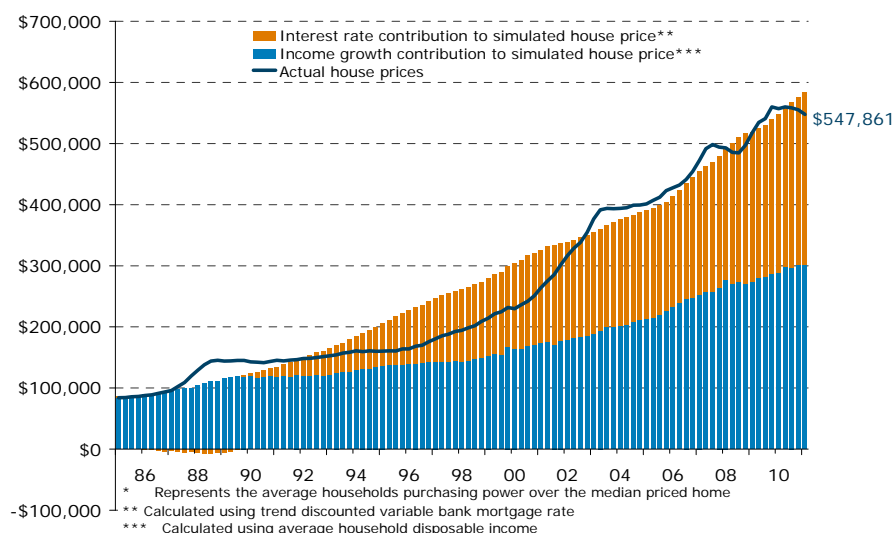
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Research  
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- **The residential property market has continued to cool from the heated pace of 2009 and early 2010.** Economic fundamentals suggest this weaker momentum is being driven mainly by a shift in market sentiment rather than any significant forced liquidation of housing due to financial stress. Though mortgage delinquencies increased modestly in the three years to mid-2011, they have been falling since then.
- At the same time, **Australian households' financial stability has strengthened.** Disposable income growth has been solid, household savings have increased and despite recent increases, the unemployment rate remains historically low. In addition, competition for limited housing finance and RBA monetary policy easing has contributed to lower mortgage rates.
- **Despite the continued concerns about significant Australian house price overvaluation from some commentators, housing market fundamentals remain supportive.** While house prices are driven by a complex set of influences (of which many structural influences have now been 'capitalised' into house prices), even a simplified analysis of household income growth and interest rates suggests that Australian house prices are fully explained by changes in these two factors. In the absence of large scale 'forced' selling from a major recession and escalating unemployment (as was the experience of many developed economies through the GFC), Australian house prices should continue to drift sideways to slightly lower through 2012.
- **Market balance pressures are continuing to build.** While housing construction continues to weaken under the cloud of negative market sentiment and softening prices, forward indicators suggest the recent slowdown in net overseas migration will continue to reverse. This renewed housing market tightening will add further upward pressure on rents, household size and provide a fundamental support to flagging market activity, especially for the first home buyer market.
- **Divergent regional economic trends should continue to drive differing regional housing market performances through 2012.** While significant major resource projects should continue to drive housing markets in resource-rich regions, we expect the second-order economic benefits from these projects to also boost capital city housing markets in Brisbane, Perth, Adelaide and Darwin through 2012. In contrast, some regional housing markets will continue to be weighed down by the relatively weak outlook for tourism.

### AUSTRALIAN HOUSE PRICES VS. 'PURCHASING POWER'\*



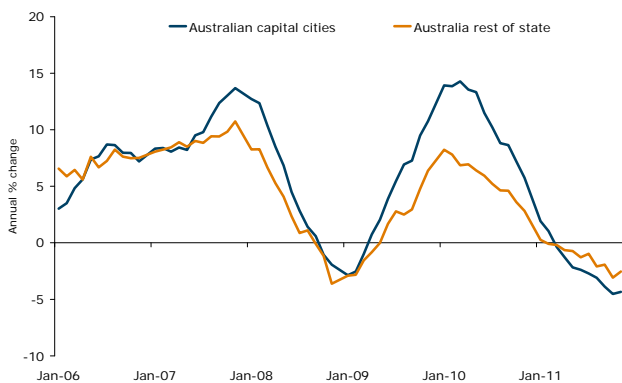
Sources: ABS, RBA, RP Data-Rismark, ANZ Research

# KEY INDICATORS

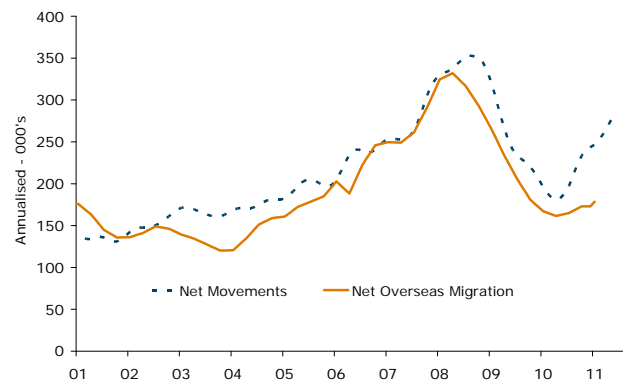
## SENTIMENT WEAK, ACTIVITY SOFT, BUT FUNDAMENTALS REMAIN SUPPORTIVE

- Housing indicators continue to show a distinct divergence between market activity and underlying fundamentals.
- Market activity (sales, days on market, prices) remains soft, burdened by the influence of global economic and financial market uncertainty and a behavioural shift towards increased debt aversion. Soft dwelling price growth and increasing pressure on building costs are squeezing developer margins and weighing on residential development plans.
- Recent growth, in first home buyer housing finance signals the positive impact of both improving housing affordability and tight market fundamentals. The removal of the NSW first home buyer stamp duty exemptions for existing homes from 1 January 2012 will temporarily dampen this impact in early 2012.
- The fundamentals of the Australian housing market remain solid, particularly with the continuing underlying shortage of housing expected to increase further. Net arrivals data indicate population growth is reaccelerating, while the outlook for residential construction continues to soften.

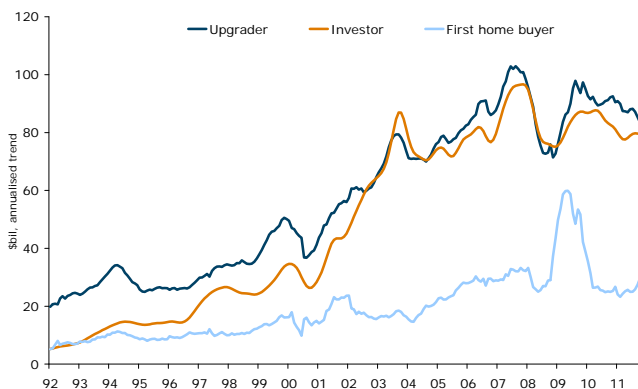
### HOUSE PRICES



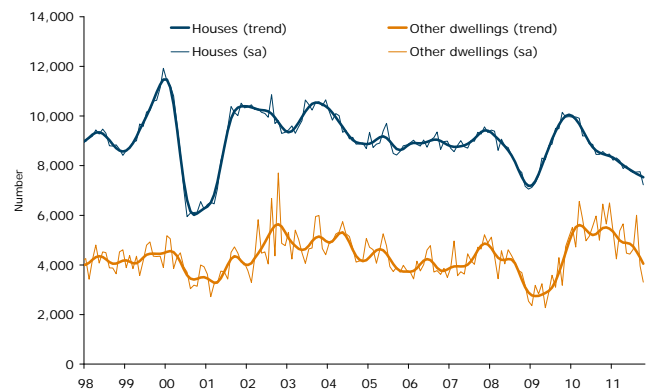
### POPULATION GROWTH



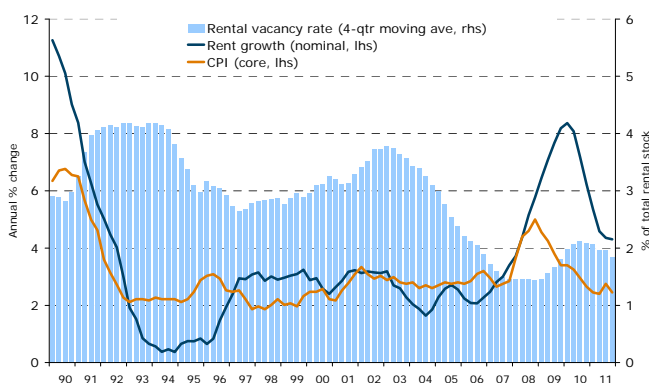
### HOUSING FINANCE



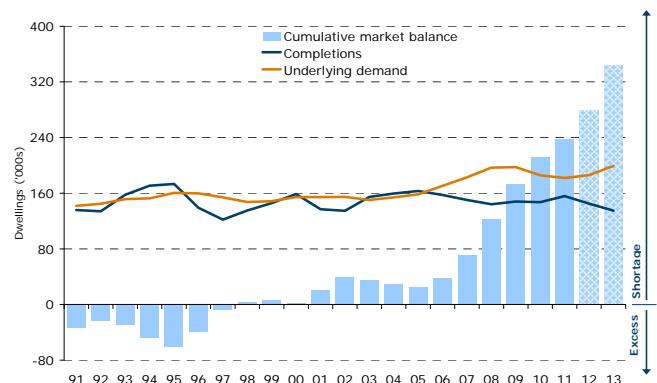
### BUILDING APPROVALS



### RENTS VS VACANCIES



### MARKET BALANCE



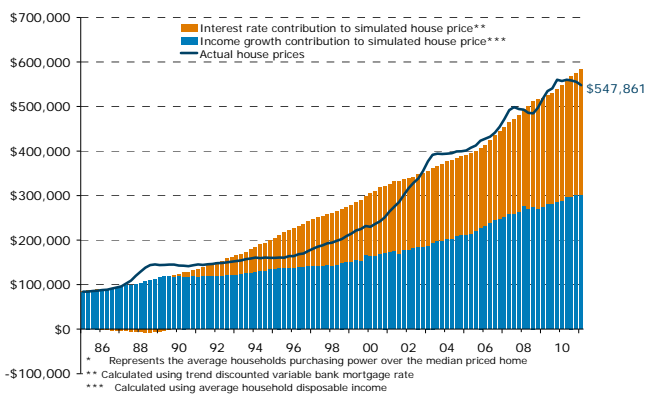
Sources: ABS, RP Data-Rismark, REIA, ANZ Research

# VALUATION MEASURES

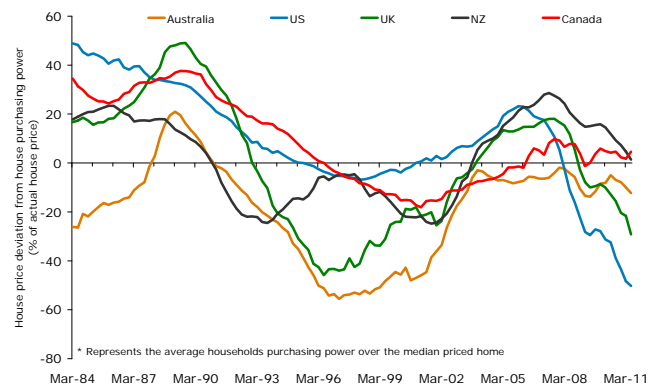
## EVEN PARTIAL MEASURES FULLY EXPLAIN AUSTRALIAN HOUSE PRICE GAINS

- A combination of lower interest rates, falling house prices and rising household incomes has improved Australian house purchase affordability over the past twelve months. ANZ analysis shows since 1986 *all* the growth in Australian house prices can be explained by gains in average household incomes and a structural decline in the cost of borrowing.
- Cross-country comparisons using partial valuation measures are commonly used to contend the case of *overvaluation* of Australian house prices. That is, suggesting actual house price growth in Australia has run significantly higher than justified by explained price growth. International house prices, rental yields and house price to income ratios as shown below present interesting comparisons. However, the explanatory power of these measures reveals little about the future direction of house prices.
- These measures do not address 'other drivers' of house prices, including economic growth and unemployment, population growth, housing stock, net household wealth, household financial stability, government policy, housing credit risk and mortgage lending standards.

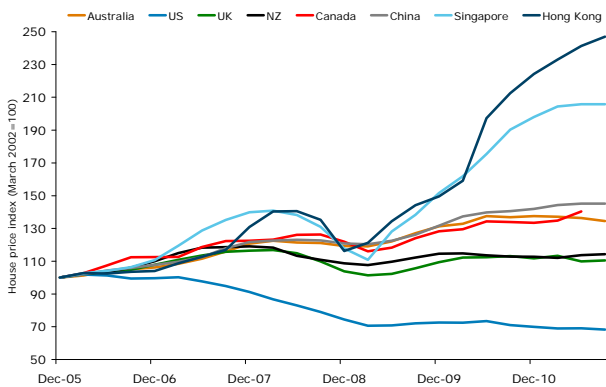
HOUSE PRICES AND HOUSE PURCHASING POWER\*



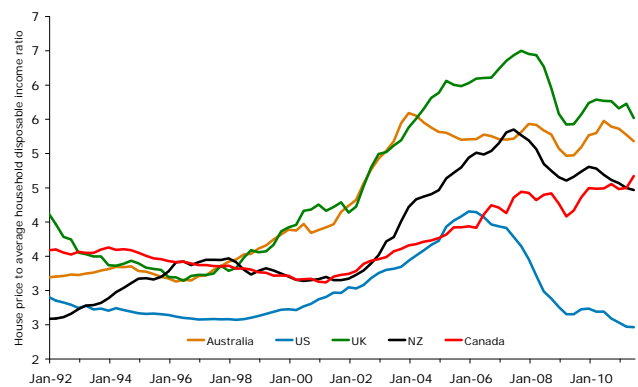
HOUSE PRICE TO PURCHASING POWER\*



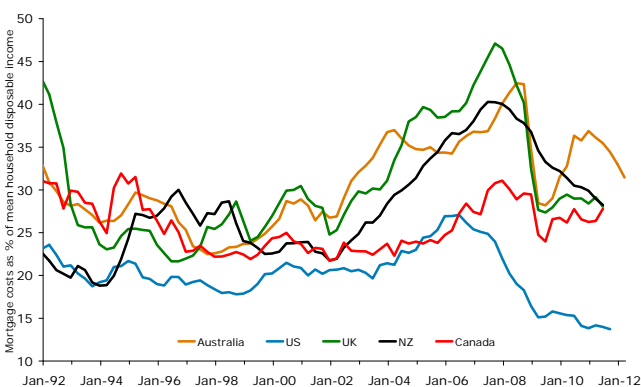
INTERNATIONAL HOUSE PRICES



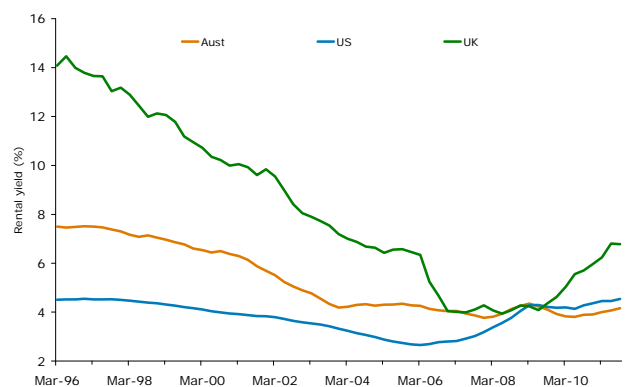
HOUSE PRICE TO INCOME RATIOS



HOUSING AFFORDABILITY



INTERNATIONAL RENTAL YIELD



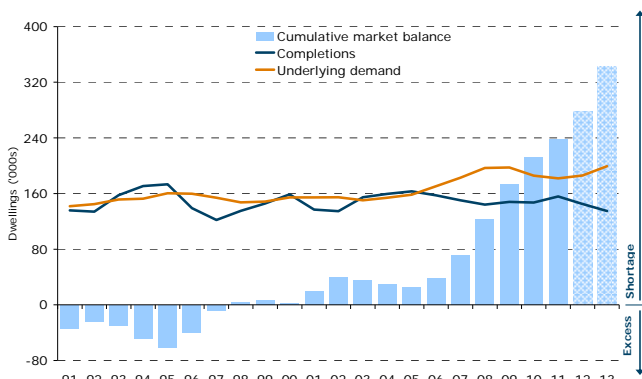
Sources: ABS, RBA, RP Data-Rismark, S&P/Case-Shiller, Nationwide, RBNZ, Teranet National Bank, Global Property Guide, ANZ Research

# UNDERLYING DEMAND

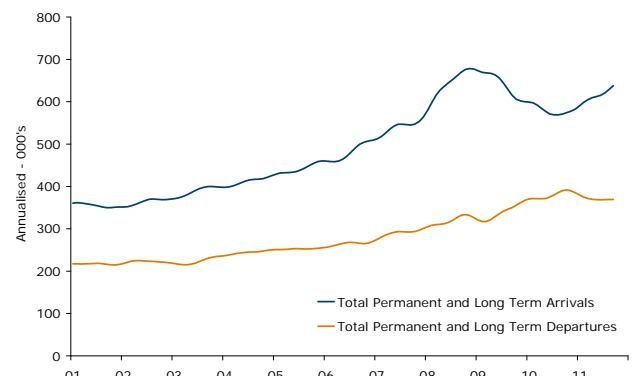
## POPULATION GROWTH TO DRIVE STRONG UNDERLYING DEMAND

- In 2011, net overseas arrivals (see 'Population growth' chart on pg 2) have rebounded suggesting strong population growth will support underlying demand for housing in the years ahead.
- A significant housing shortage, exacerbated by declines in dwelling construction, is already squeezing rental markets and building fundamental demand for first home buyers and lower priced housing. State government home buying subsidies are also supporting first home buyer demand, particularly for new housing, with modest increases in first home buyer finance activity.
- Despite regional-based divergence in population growth rates, national population growth has re-accelerated due to the pick-up in net arrivals.
- Population growth in recent years has been dominated by regions in WA and Victoria, with WA growth driven by strong labour demand in mining-based locations. Mining-sector regions of Queensland have also shown solid population growth; however Queensland's interstate migration gain from other states (largely NSW) has been weakening, particularly to tourism-based regions.

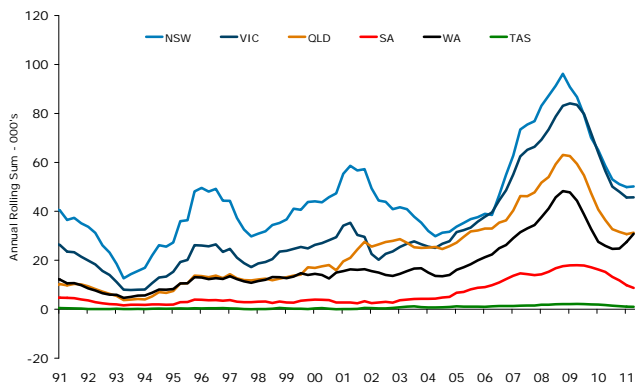
MARKET BALANCE: AUSTRALIA



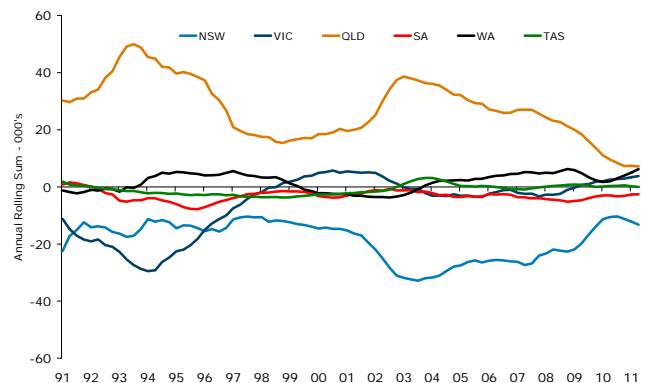
PERMANENT AND LONG TERM ARRIVALS AND DEPARTURES



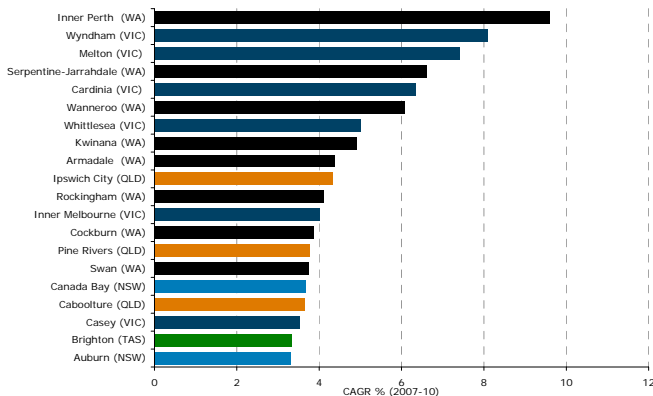
NET OVERSEAS MIGRATION



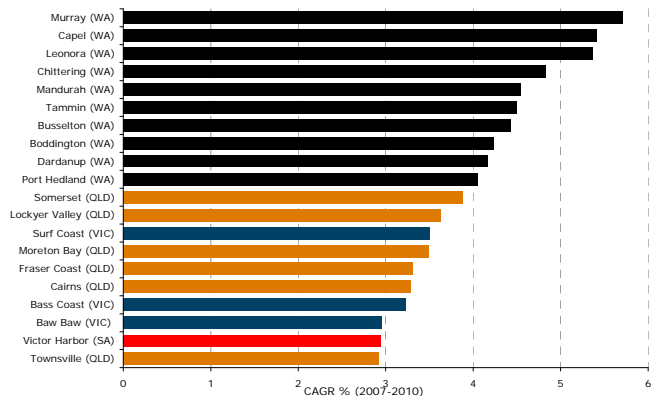
NET INTERSTATE MIGRATION



TOP 20 FASTEST GROWING URBAN POPULATIONS



TOP 20 FASTEST GROWING REGIONAL POPULATIONS



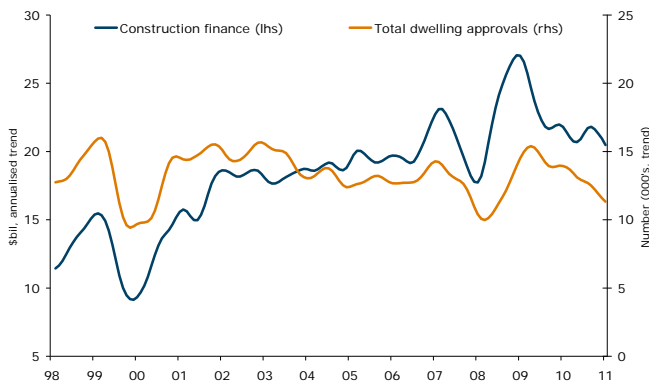
Sources: ABS, ANZ Research

## SUPPLY

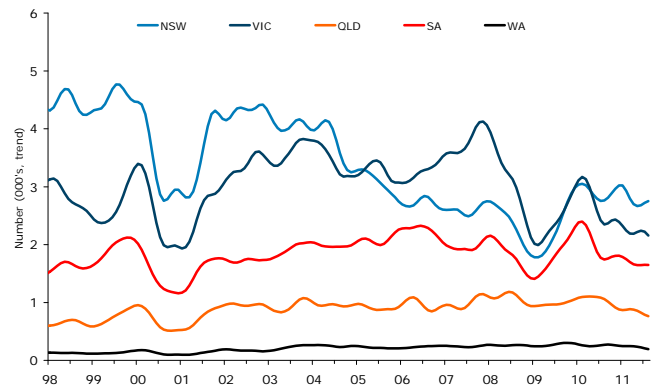
## HOUSING CONSTRUCTION REFLECTING WEAK SALES ACTIVITY AND TIGHT MARGINS

- Residential building remains on a softening trend with approvals representing the lowest annualised trend completions rate since mid-2009 (126,000 dwellings). This remains significantly below our estimate of underlying housing demand of 190,000 for 2011-12.
- Private sector house approvals have been in steady decline since the start of 2010, with levels a matter of months away from 10-year lows. Monthly approvals for flats/units/townhouses (which are usually lumpier month to month) have been extremely volatile, but have also been in trend decline since November 2010.
- Soft house prices, weak housing market sales activity and tight credit conditions have dampened residential developer sentiment. Despite the recent interest rate cuts, weak housing market sentiment will continue to weigh on residential development activity through 2012.
- Housing construction levels continue to be strongest in Victoria, though approvals have slowed sharply since late-2010. While NSW is showing some tentative signs of a recovery in home building, after a sustained period of under-building, building approval levels continue to run well below underlying demand (30,000 annualised completions compared to underlying demand of 50,000 dwellings for 2011-12).

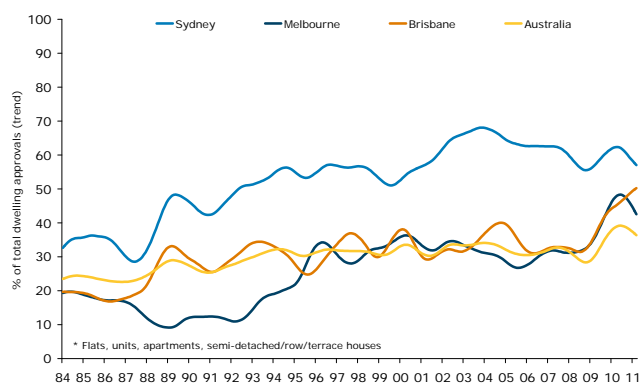
## BUILDING APPROVALS &amp; CONSTRUCTION FINANCE



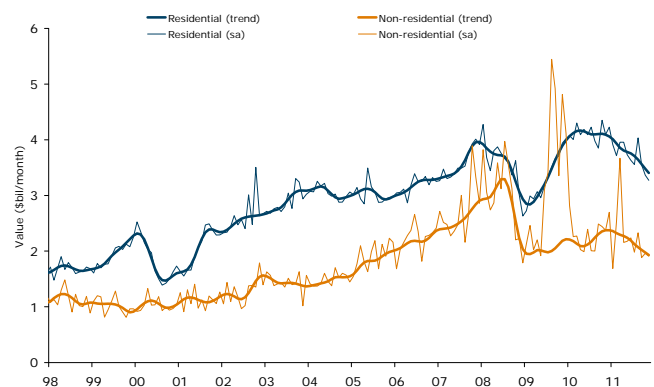
## BUILDING APPROVALS, MAJOR STATES



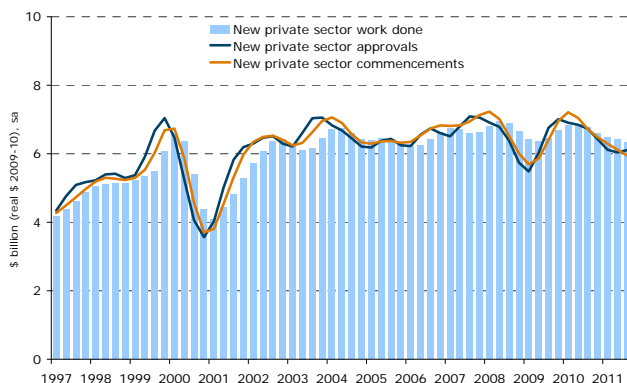
## NON-HOUSE\* SHARE OF TOTAL DWELLING APPROVALS



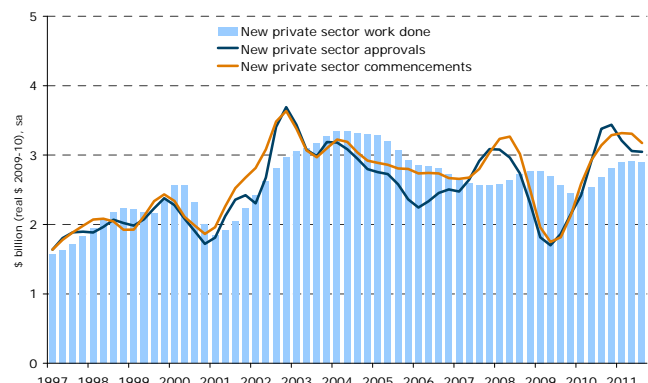
## RESIDENTIAL VS NON-RESIDENTIAL BUILDING



## PRIVATE HOUSE BUILDING ACTIVITY



## PRIVATE NON-HOUSE DWELLING BUILDING ACTIVITY

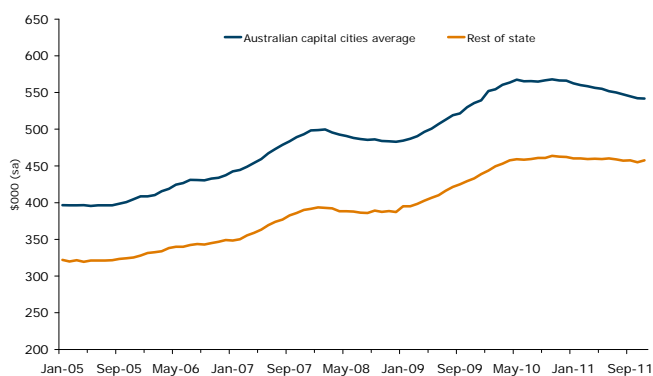


# PRICES

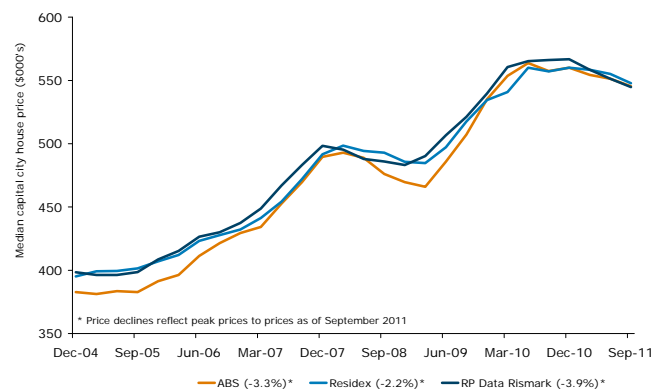
## HOUSE PRICES CONTINUE TO SOFTEN (FROM EXCEPTIONAL 2009-10 LEVELS)

- House prices have drifted lower across all capital cities since early 2011.
- Sydney dwelling (house and unit) prices are performing comparatively better than other Australian capital cities, due to the increasing pressure of stronger population growth on weak housing construction and a degree of 'catch up' after an extended period of house price underperformance.
- Initially, house price falls were concentrated in Perth and Brisbane but more recently Melbourne and Adelaide prices have declined by more than 5% in annual terms.
- In the absence of a major economic downturn and escalating unemployment (unlike the recent experience of most other developed economies) Australian house prices have continued to 'hold value'. Most other comparable economies (with the exception of US) are now paring back GFC recession-induced house price losses.

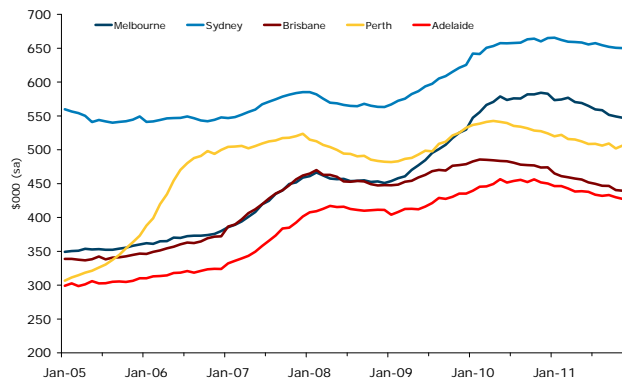
HOUSE PRICES



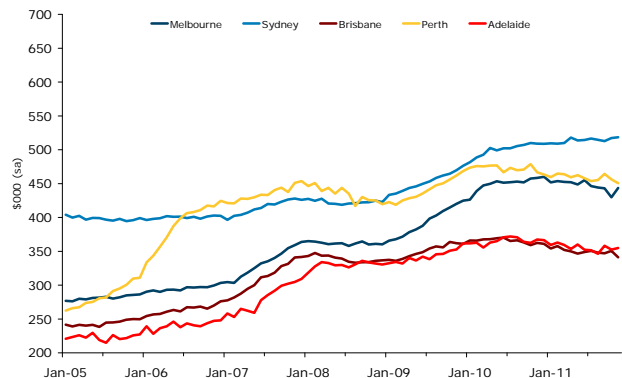
HOUSE PRICES, VARIOUS MEASURES



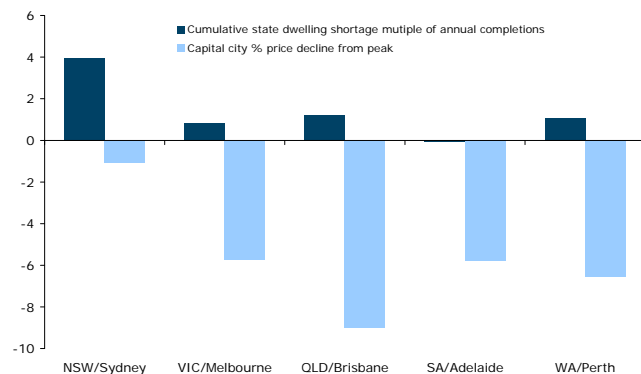
HOUSE PRICES, MAJOR CAPITAL CITIES



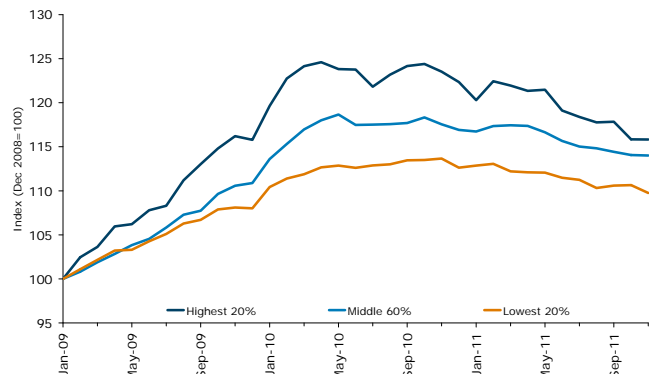
NON-HOUSE DWELLING PRICES, MAJOR CAPITAL CITIES



DWELLING PRICES & HOUSING MARKET SHORTAGE



HOUSE PRICES, PRICE RANGE



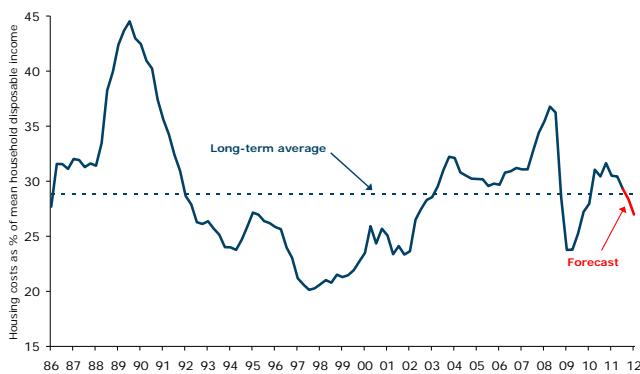
Sources: ABS, RP Data-Rismark, Residex, ANZ Research

# AFFORDABILITY

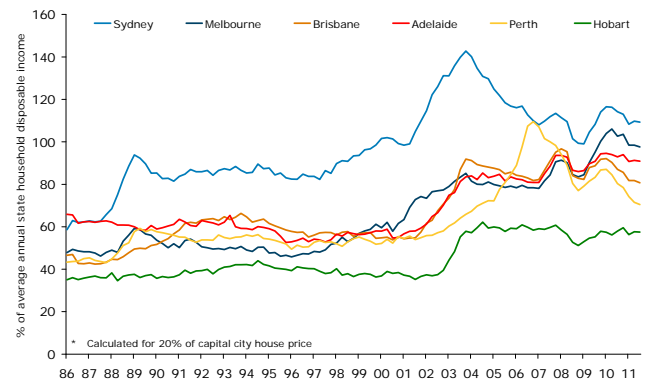
## HOME BUYING REMAINS DIFFICULT BUT MORTGAGE SERVICING AFFORDABILITY HAS IMPROVED

- Softening house prices, rising household incomes and lower mortgage rates have improved Australian housing affordability. While house price levels remain elevated, solid gains in household income and historically low mortgage rates have contained housing costs relative to household income.
- Despite around 5 years of sideways drift in house prices leading up to the recent housing market boom, Sydney housing remains the least affordable to purchase across Australian capital cities. Perth house deposit affordability (based on median house price) has dropped back to around 35% of average household disposable income (ranked 6<sup>th</sup> across Australian capital cities) from 55% before the GFC (ranked equal 1<sup>st</sup>).
- Household expenditure data by tenure type (outright owner, mortgaged owner, renter, etc) shows when matching household income by tenure, housing costs carry the largest burden as a percentage of household income for private renting households (20% of gross household income).
- In 2009-10, mortgaged households in Queensland reported the largest decrease in housing costs compared to 2005-06. Queensland mortgage holders now have the equal lowest housing cost ratio (17% of gross income) across the major states (compared to the equal highest in 2005-06).

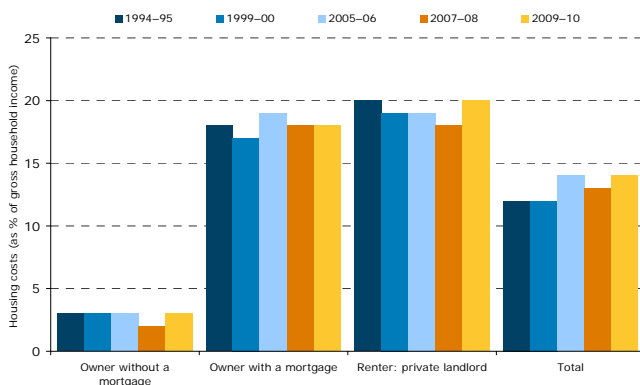
HOUSING AFFORDABILITY



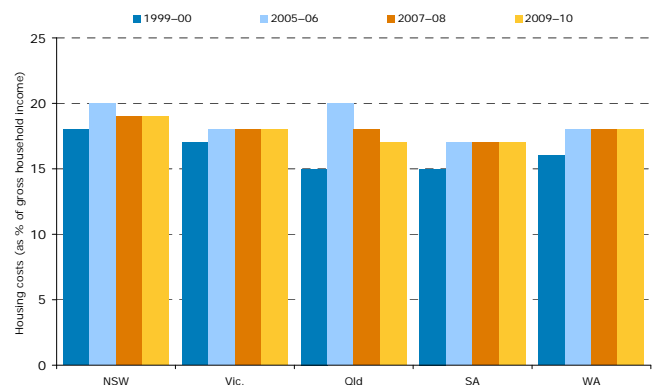
HOUSE DEPOSIT\* AFFORDABILITY, CAPITAL CITIES



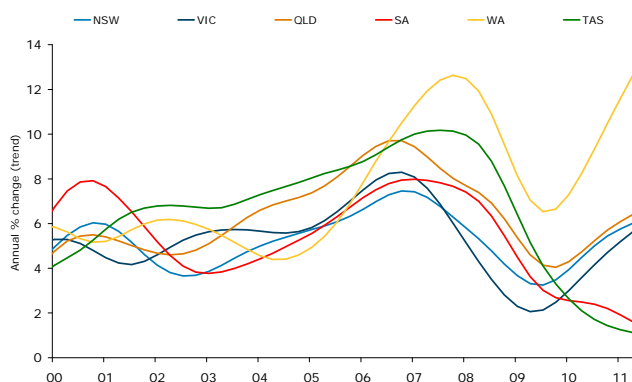
HOUSING COST BURDEN, BY HOUSING TENURE



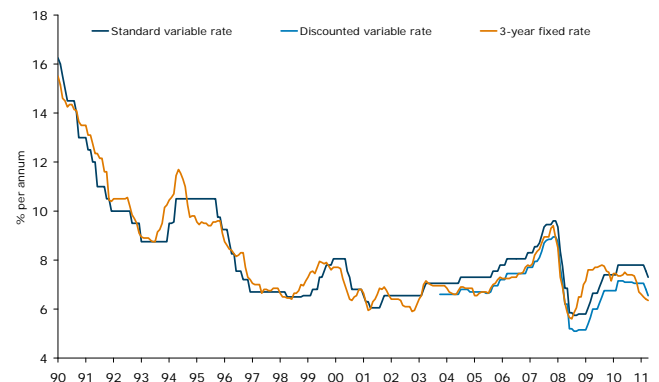
MORTGAGED HOUSEHOLD HOUSING COSTS, MAJOR STATES



HOUSEHOLD DISPOSABLE INCOME



HOUSING LOAN INTEREST RATES



Sources: ABS, RBA, RP Data-Rismark, ANZ Research

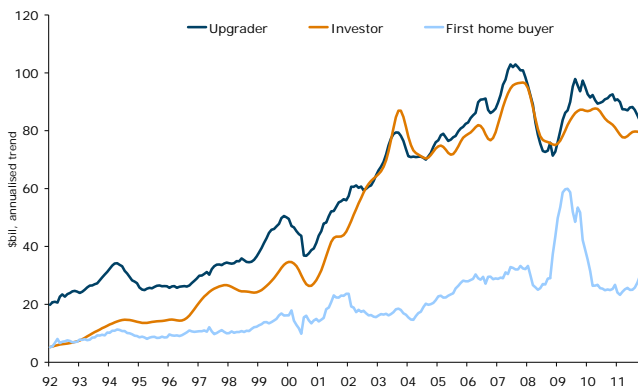


# MARKET ACTIVITY

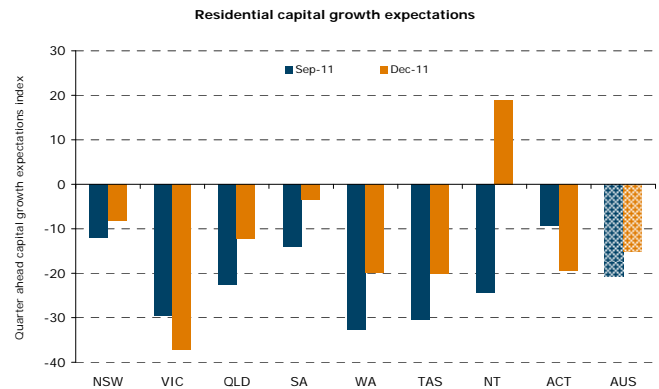
## HOME SALES ACTIVITY WEAK

- Housing market activity continues to struggle, with softer economic conditions and household caution weighing on sales and housing finance. Transaction levels are subdued, with the average number of sales in 2011 tracking below the levels seen in 2009 and 2010. Lower auction clearance rates in conjunction with rising days on market suggest there is a divergence between the expectations of buyers and vendors.
- While weak tourism activity and cautious developer sentiment have hit Queensland's tourism regions hard, housing sales activity in mineral resource-rich regions across Queensland and other states is buoyant.
- The outlook for housing market sales continues to look weak over the first half of the year, as household and developer sentiment is likely to be weighed down by ongoing economic and financial market uncertainty. However, recent interest rate cuts and improved housing affordability should be supportive factors, especially for first home buyers. Market activity is expected to outperform in regions benefitting from the strong income growth from mining-related activity.
- The main risks to Australian property market sales activity in 2012 are rising unemployment and further deterioration in market sentiment from a potential severe economic downturn in Europe.

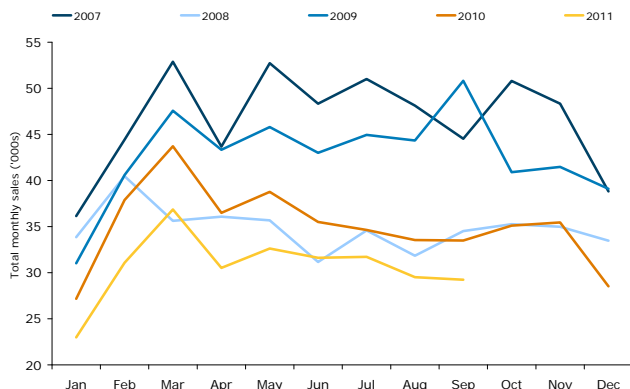
HOUSING FINANCE, BY SEGMENT



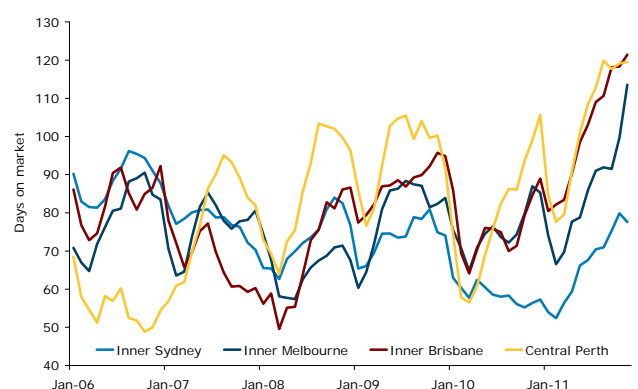
ANZ/PCA PROPERTY INDUSTRY CONFIDENCE INDEX



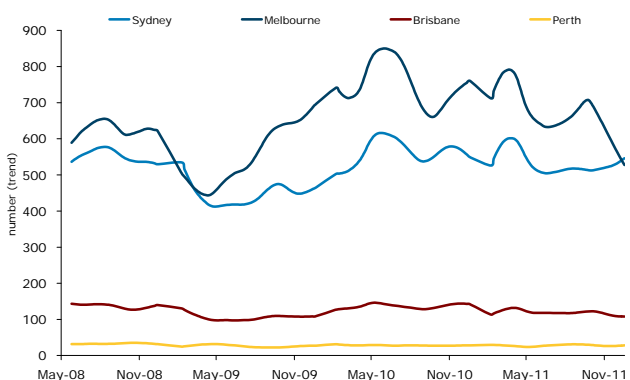
MONTHLY SALES



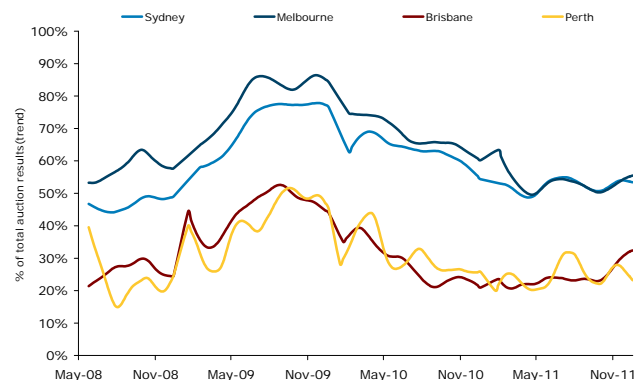
DAYS ON MARKET



AUCTIONS, MAJOR CAPITAL CITIES



AUCTION CLEARANCE RATES, MAJOR CAPITAL CITIES



Sources: ABS, RP Data, PCA/ANZ, ANZ Research

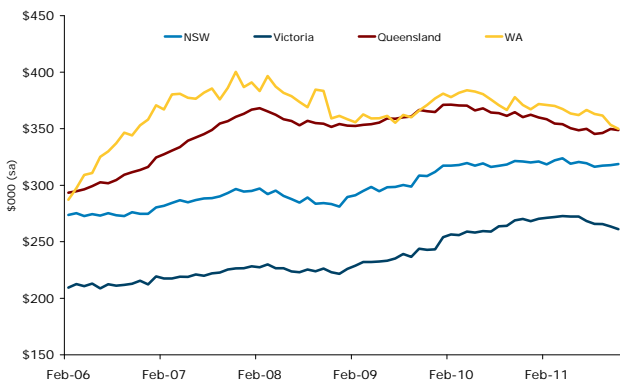


## REGIONAL PERSPECTIVE

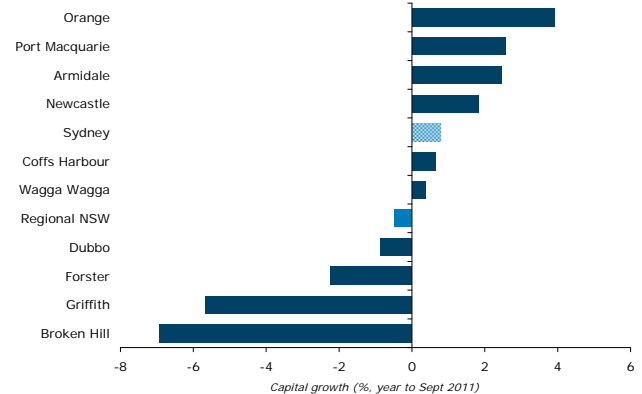
### REGIONAL HOUSE PRICES REFLECTING PATCHWORK ECONOMY

- With the exception of NSW, average house price growth in regional areas has outperformed capital cities. However across states/territories and regions, house price growth has differed greatly, reflecting varying economic performance across Australian industries.
- House price growth in regional Victoria has outperformed other major states in the past 12 months, while WA and Queensland have shown the greatest intra-state variation in house prices.
- House price growth in most SA regional centres is moderately lower in the year to September 2011, however the economic benefits from future major energy projects (eg. Olympic Dam) should boost house prices in some SA major regional centres over the next 12-18 months.

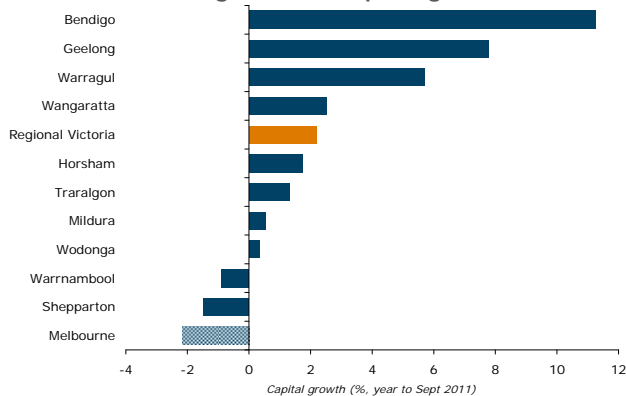
House prices: non-capital city regions



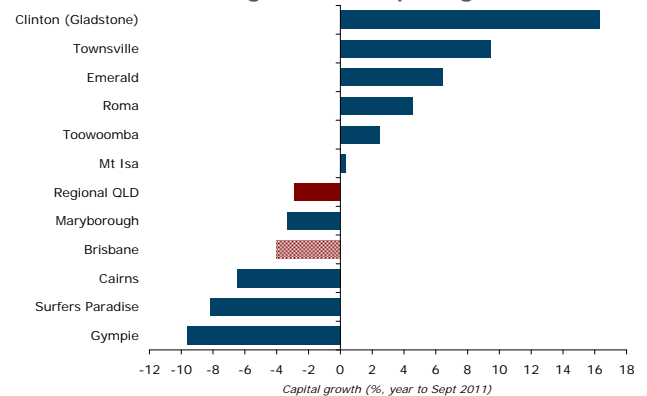
NSW regional house price growth



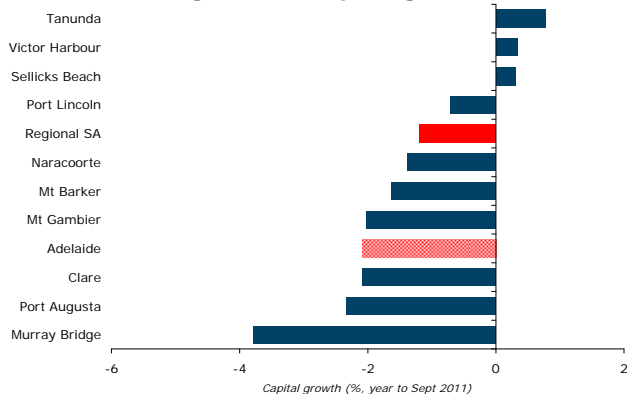
Victoria regional house price growth



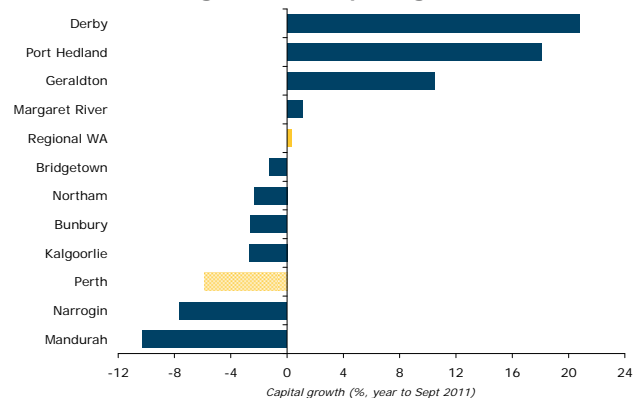
Queensland regional house price growth



SA regional house price growth



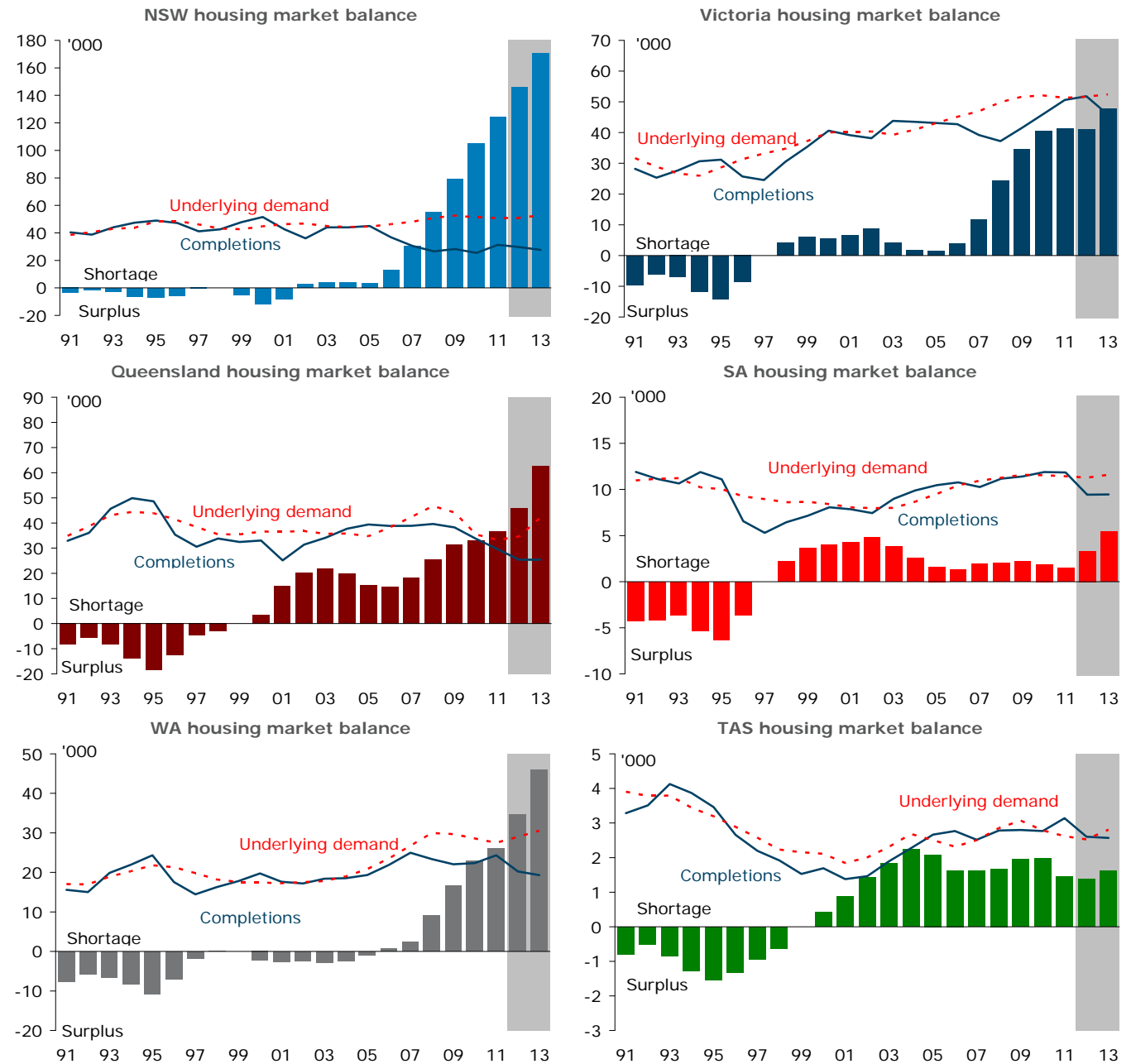
WA regional house price growth



Sources: ABS, ANZ Research

# APPENDIX

## STATE/TERRITORY UNDERLYING HOUSING MARKET BALANCE



Sources: ABS, ANZ Research

## IMPORTANT NOTICE

Australia and New Zealand Group Limited is represented in:

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