

ANZ PROPERTY RESEARCH AUSTRALIAN HOUSING SNAPSHOT

26 October 2011

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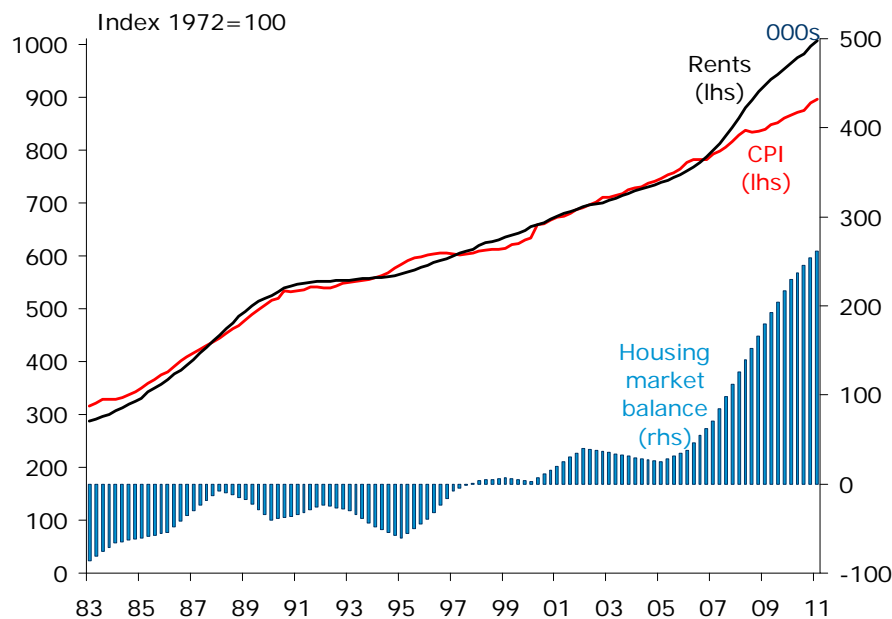
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Despite extreme volatility in global financial markets and plunging equity prices, Australia's medium-term economic outlook remains favourable, largely due to our exposure to the fast-growing Asian region. Heightened concerns of a Greek default and European banking crisis will keep markets on edge and growth in Europe, the US and Japan will be anaemic. However, the Asian growth story remains intact and the outlook for Australian resource investment and profitability are still positive. The risk of further RBA rate hikes has dissipated and the market is priced for substantial rate cuts. Reduced estimates of the near-term momentum in core-inflation, soft retail spending, retail discounting and falling import prices have reduced the urgency for further rate hikes. Moreover, recent global volatility and a slowing labour market have opened the door for 'insurance' interest rate cuts in the 6 months ahead.

Housing market sentiment continues to soften and prices have drifted lower in most capital cities. Declining auction clearance rates and rising days on market reflect the mis-match between buyer and vendor expectations. However, the absence of wide-scale 'forced' selling has, to date, protected measured price outcomes. Flattening employment growth and rising unemployment present clear risks to loan delinquencies and house prices. Weak sentiment will see house prices continue to drift sideways to lower over the coming 6-12 months. Nevertheless, a rebound in economic growth in 2012 and 2013 should limit the fallout. Moreover, housing market fundamentals continue to tighten and near record low vacancy rates will eventually drive a renewed acceleration in rents that should encourage investors and first home buyers back into the property market.

FIGURE 1. TIGHT SUPPLY IS PUSHING RENTS HIGHER

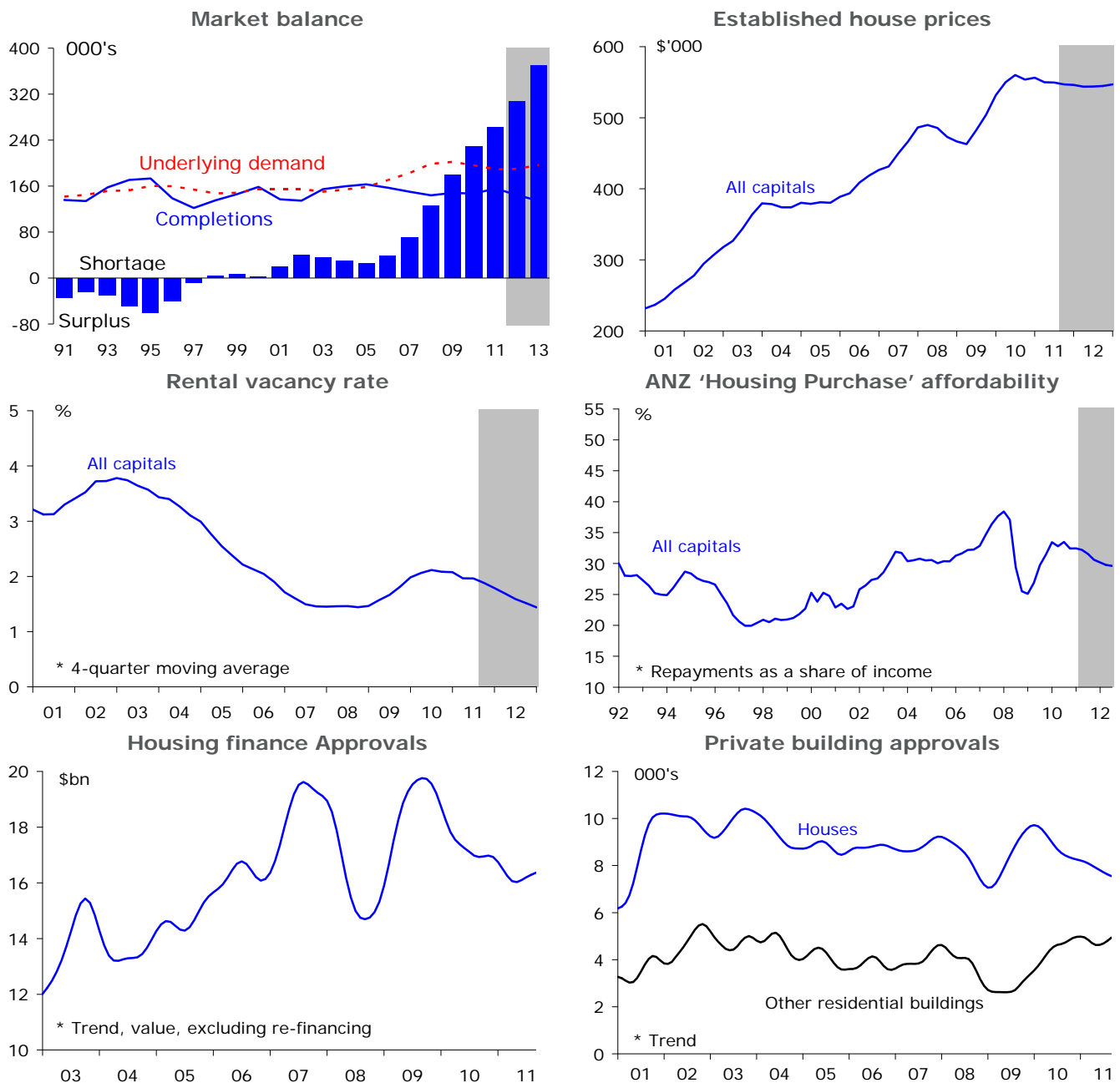
Rents vs. CPI



Sources: ABS, ANZ

AUSTRALIA

Amongst a turbulent global economic environment, the national housing market continues to soften. Interest rates are at 'mildly restrictive' levels and home buying subsidies have been significantly scaled back. The housing market has also been hit with a behavioural shift towards increased household caution. These combined headwinds have resulted in falls in house prices (-1.9% y/y across capital cities to June 2011) and a decline in new building approvals which fell 9% in the year to August 2011. Weak housing market sentiment has weighed on development activity, with current building approvals equivalent to an annual completions rate of just 143,000, well below our estimate of underlying housing demand of 190,000 for 2011-12. A continuing deterioration in the national housing shortage is expected to add further downward pressure on rental vacancies and present conditions for increased rents. Through 2011-12, steady population growth and weak home completions will add further tightness to the housing market. Assuming domestic economic conditions remain stable enough to support household finances, the national housing market should continue to simmer, avoiding the recent boilover experienced by many other developed economies through the Global Financial Crisis.

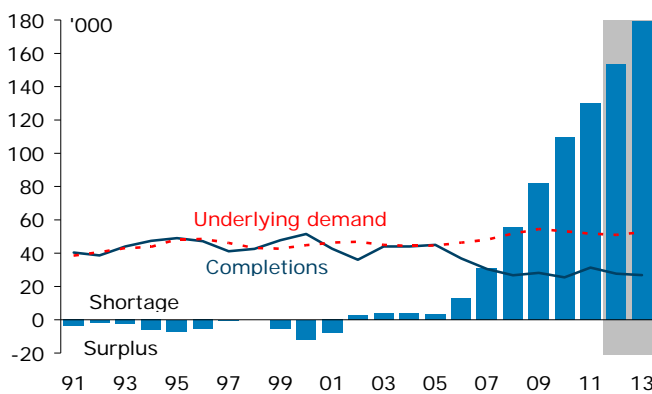


Sources: ANZ, ABS, RP Data

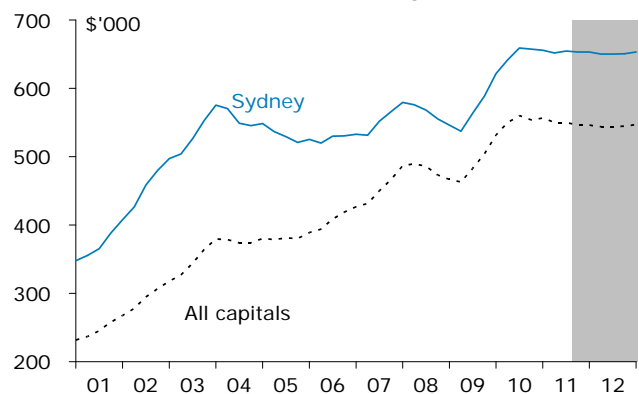
NEW SOUTH WALES

Sydney house prices have been the most resilient across the capital cities, with prices edging 0.3% higher over the year to August, compared to a 3.2% decline in the capital city average. This reflects a number of factors, including a degree of 'catch up' following many years of house price underperformance. Further, annual population growth is expanding at a relatively healthy 1.1%. Combined with a sustained period of under-building, we estimate the current NSW housing shortage (in excess of 130,000 homes) will worsen with just 58,000 dwellings forecast to be completed over the next two years (to June 2013), falling well short of underlying demand over the same period which we estimate at 103,000. Vacancy rates are sitting at just 1.3%, reflecting the tight fundamental conditions of the Sydney housing market. Rental growth has begun to accelerate, increasing by 5.9% over the year to June 2011, while advertised rents are already running at 8%. Although weaker sentiment is likely to weigh on house prices in the near term, rising rents and deteriorating rental affordability should encourage first home buyers into the purchaser market, while investors will find higher rental yields attractive. As a result, prices should start edging higher through the second half of 2012.

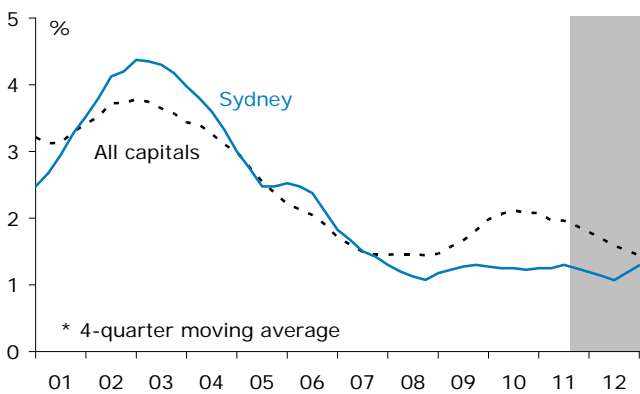
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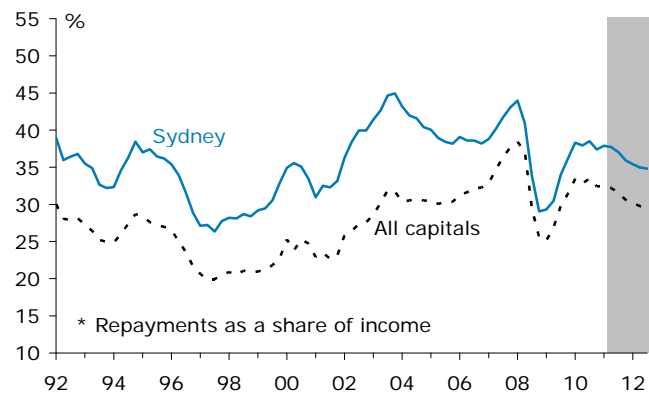
Established house prices



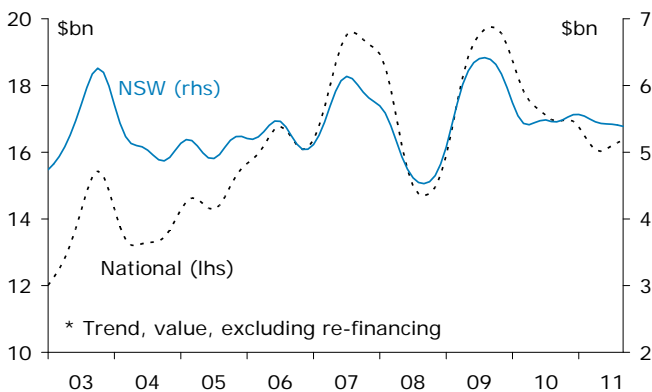
Rental vacancy rate



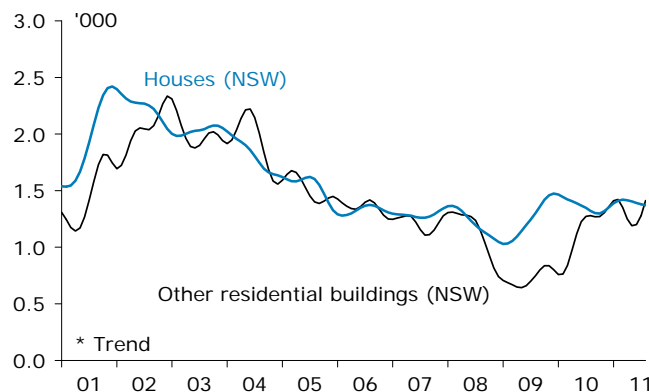
ANZ 'Housing Purchase' affordability



Housing finance Approvals



Private building approvals

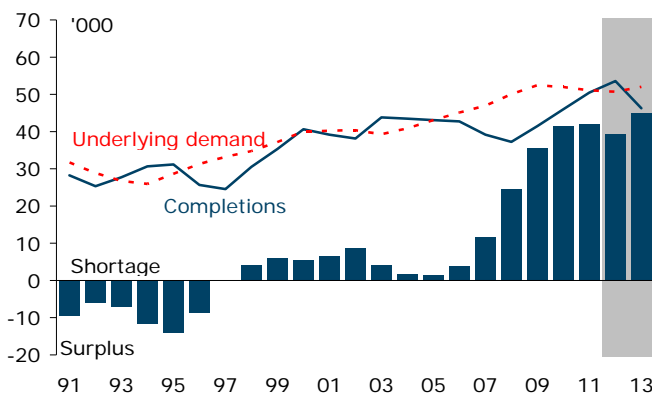


Sources: Australian Bureau of Statistics, RBA, REIA, Residex, RP Data-Rismark, ANZ

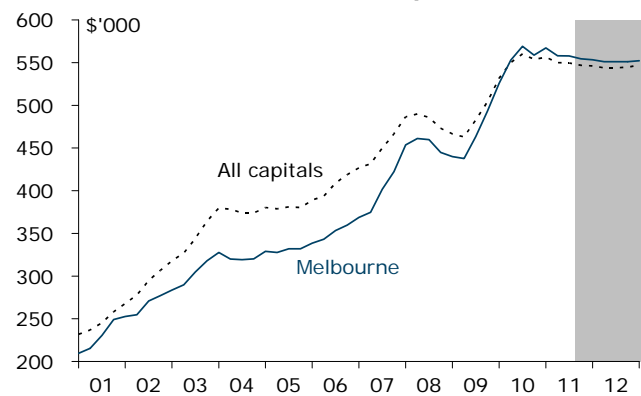
VICTORIA

Despite slowing from the peaks of late-2010, Victoria's housing market has performed well compared to other states and territories. With annual population growth moderating from 102,000 in March 2010 to 82,000 in March 2011 and the recent strength of Victoria's construction cycle only recently beginning to wane, underlying tightness in Victoria's housing market is expected to continue to ease through 2011-12. Dwelling construction in Victoria has continued to outperform despite building approvals slowing since late-2010, with annual dwelling starts to March 2011 at 58,700 (more than 80% higher than NSW). Looking forward, easing market conditions should take some of the heat out of a very tight rental market, with rental vacancies (1.9% in June 2011) expected to increase to slightly higher than 2% by end-2011. However beyond 2011, the recent pick up in net arrivals in Victoria should boost population growth and drive rental vacancies lower from mid-2012. With ongoing pressure from yield-seeking investors to increase rents and moderate house price falls making housing purchase affordability easier, housing finance to the first home buyer segment should begin to gain momentum. This will be fuelled by the added stimulus of first home buyer stamp duty concessions that have been rolled out from 1 July 2011.

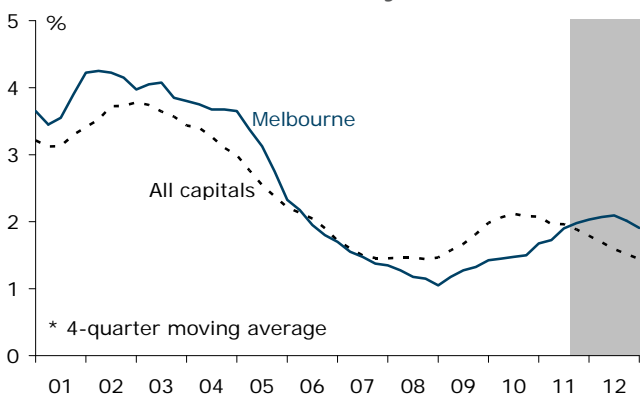
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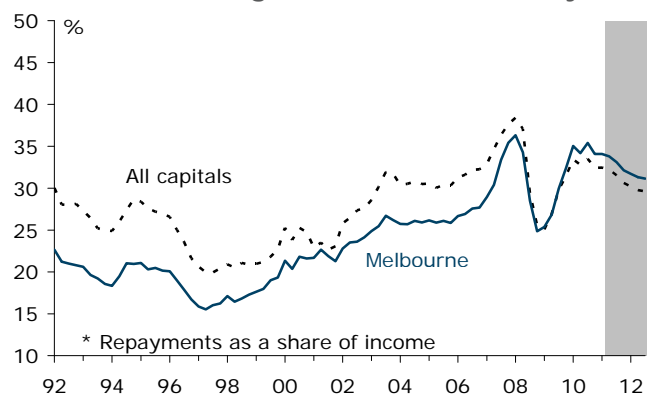
Established house prices



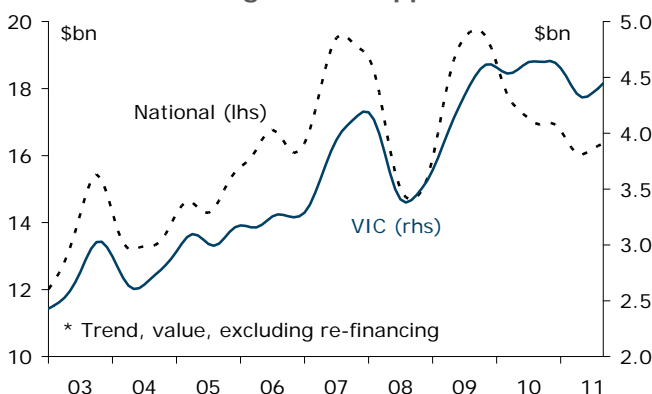
Rental vacancy rate



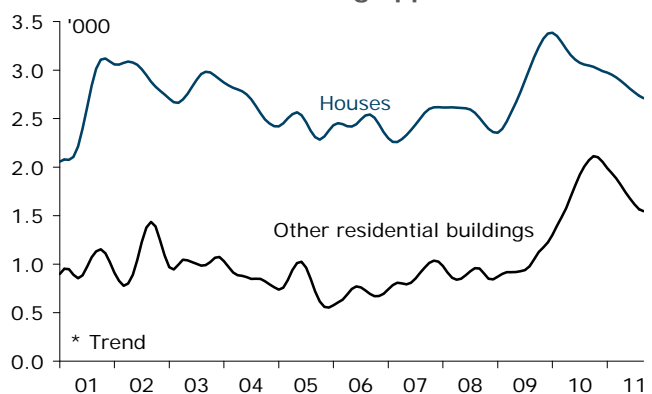
ANZ 'Housing Purchase' affordability



Housing finance Approvals



Private building approvals

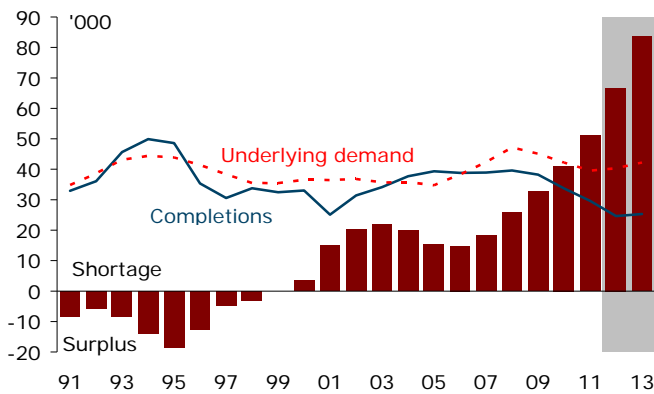


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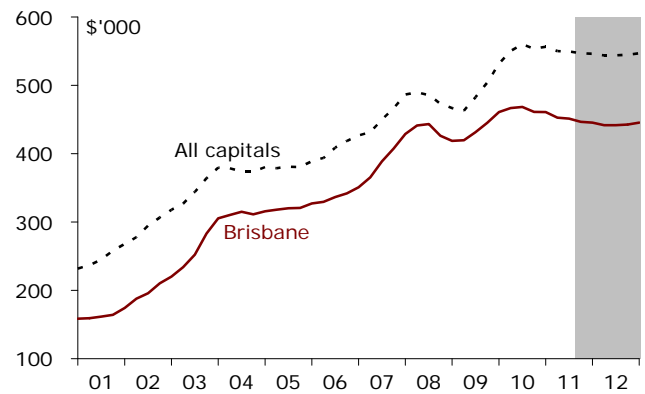
QUEENSLAND

The Queensland housing market remains in the doldrums, with soft economic conditions weighing on sentiment. Brisbane house prices declined by 6.1% over the year to August. After a sustained period of decline, housing finance approvals appear to have passed their nadir, increasing 9% over the six months to August 2011. Further, economic conditions should continue to improve as commodity exports rebound from the natural disasters earlier in the year and business investment ramps up. Based on the major resource and infrastructure projects pipeline for Queensland, we are estimating Queensland major infrastructure spending of A\$55 billion over 2012-15. Improving economic prospects, in conjunction with better housing affordability, will encourage higher levels of interstate and overseas migration to the state. With housing fundamentals already relatively tight, the upswing in economic activity and population growth will place downwards pressure on vacancy rates, which we expect to fall below 2% by the end of 2012. Although we expect weaker sentiment to dominate fundamentals over the next 12 months, the positive economic outlook suggests house prices should begin to track upwards thereafter.

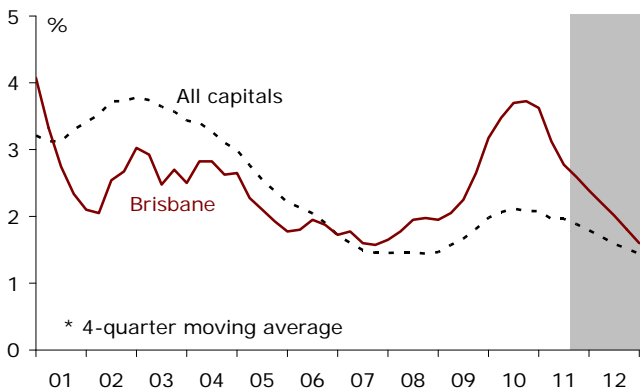
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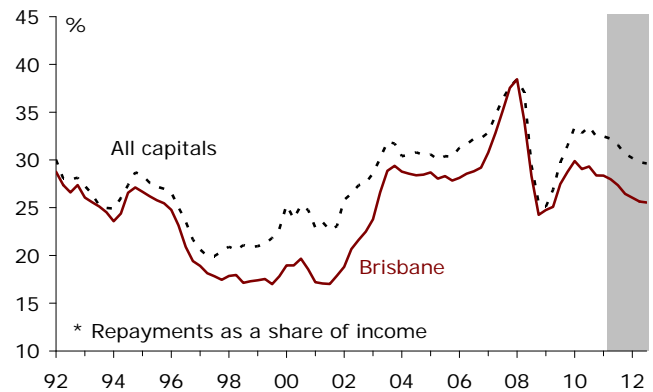
Private building approvals



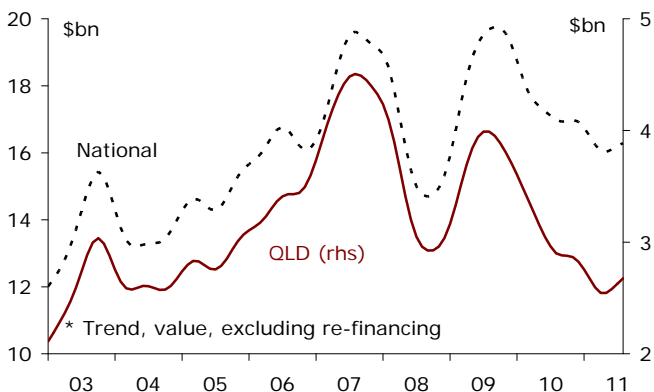
Rental vacancy rate



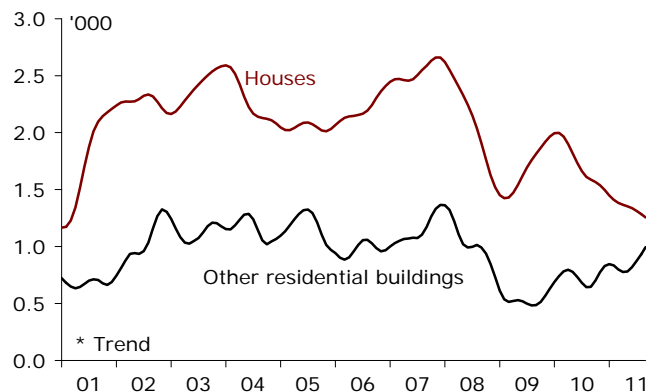
ANZ 'Housing Purchase' affordability



Housing finance Approvals



Private building approvals

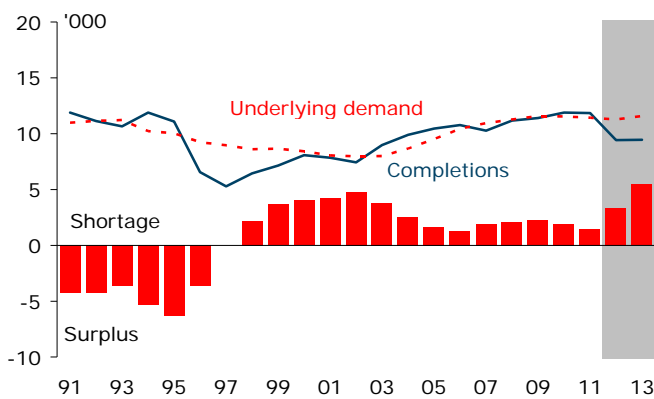


Sources: Australian Bureau of Statistics, RBA, REIA, Residex, RP Data-Rismark, ANZ

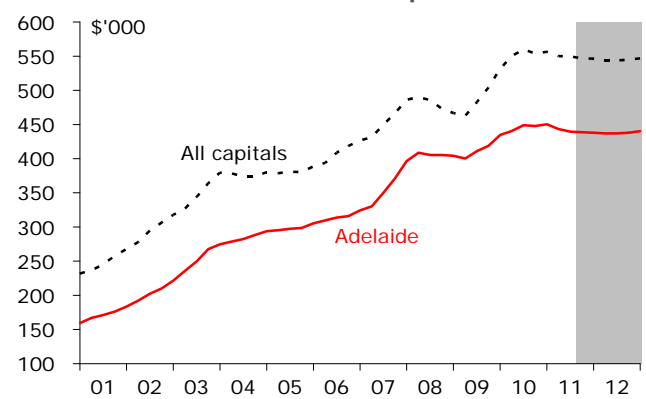
SOUTH AUSTRALIA

While South Australia's housing market continues to remain broadly in balance, tight rental market conditions and a solid pipeline for major mining and energy projects should drive increasing pressure in the years ahead. SA housing construction has taken a significant hit since mid-2010, with trend building approvals running at 10-year lows (10,700 dwellings approvals in the year to July 2011). With the lowest rental vacancy rates across all capital cities (1.2% in June 2011) providing favourable conditions for increased rents and the weak outlook for new housing supply, Adelaide's housing market should see moderate growth in house prices through the second half of 2012. Despite a trend decline in housing finance approvals since mid-2009, housing finance is expected to stabilise, with flat to slightly negative house price growth over 2011-12 maintaining Adelaide's relative housing affordability. This is despite the SA government announcement of the phasing out of the First Home Bonus Grant from 1 July 2012. Looking beyond 2012, the expected boost to the SA economy from the proposed Clinton and Arckaringa Basin coal-to-liquid major projects should underpin stabilisation in the SA housing market and future growth in both rents and house prices.

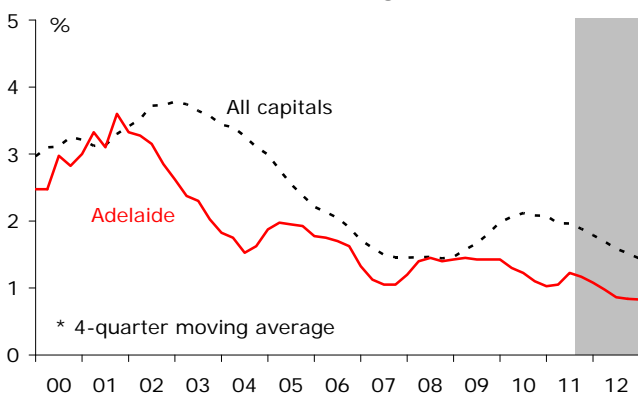
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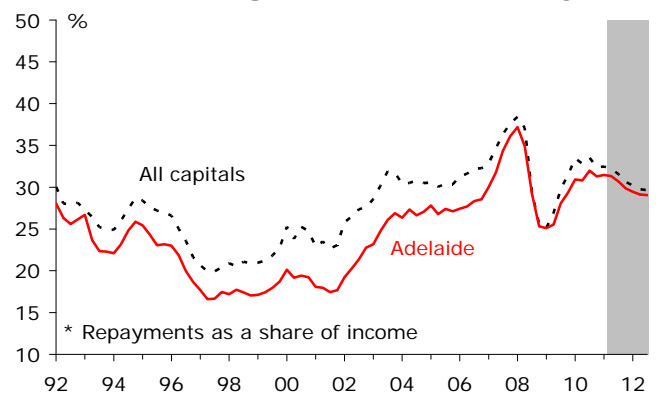
Established house prices



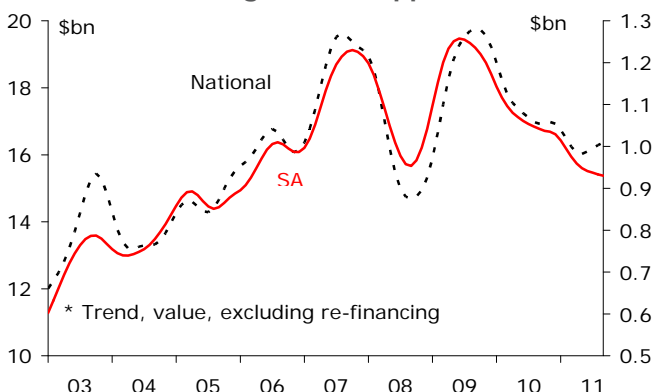
Rental vacancy rate



ANZ 'Housing Purchase' affordability



Housing finance Approvals



Private building approvals

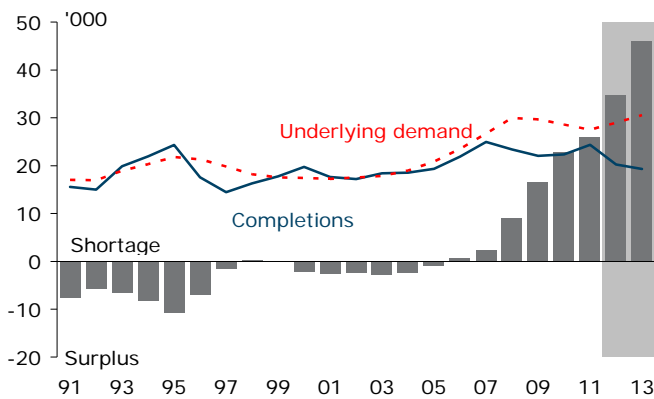


Sources: Australian Bureau of Statistics, RBA, REIA, Residex, RP Data-Rismark, ANZ

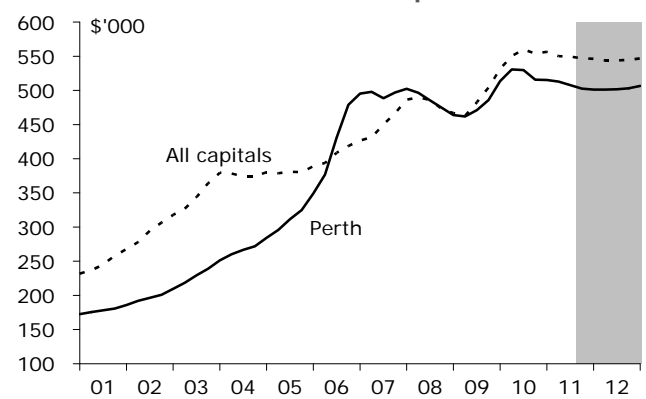
WESTERN AUSTRALIA

The WA economy is continuing to outperform the other Australian states and territories as significant mining infrastructure investment spending gathers momentum, putting upward pressure on household income growth in an already tight labour market. In contrast, the WA housing market has underperformed the national average as Perth house prices lost 7% in the year to August 2011 (compared to a national average of -3.2%), largely unwinding some of the exceptional price gains experienced in the run-up to the pre-GFC commodity boom. A welcome by-product of the recent housing market weakness in WA has been the resultant improvement in housing affordability, with affordability currently at around 25% of average household disposable income compared to a national average of 32%. Increasing tightness in the Perth housing market has put downward pressure on rental vacancy rates, falling from a high of 4.5% in June 2010 to 3.3% in June 2011. Vacancies are expected to grind lower through 2012. With WA's existing underlying housing shortage (around 25,500 dwellings in June 2011) expected to increase further to around 33,200 dwellings in June 2012 and 43,100 dwellings by June 2013, upward pressure will be applied to rental yields, with the potential to trigger a return to growth in house prices and a broader recovery in WA's housing market.

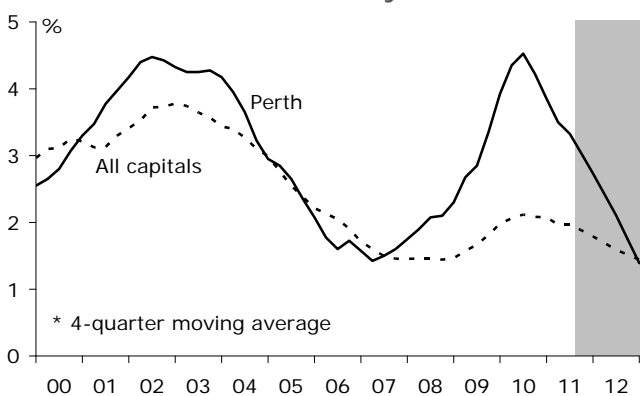
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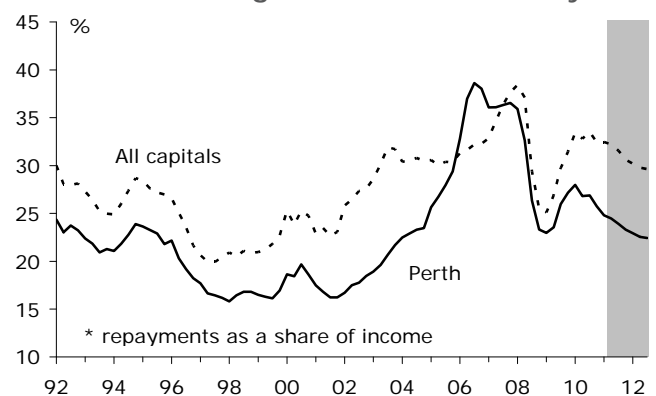
Established house prices



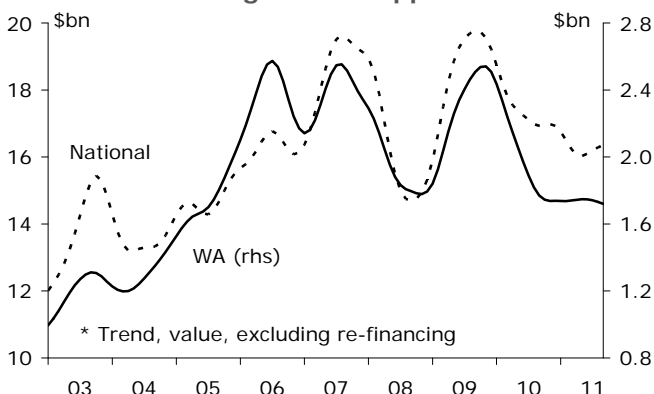
Rental vacancy rate



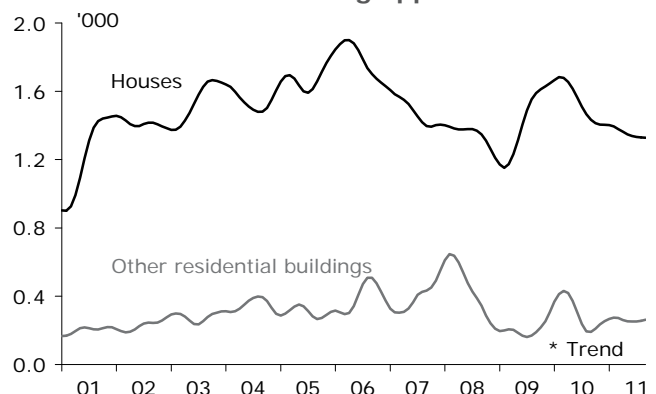
ANZ 'Housing Purchase' affordability



Housing finance Approvals



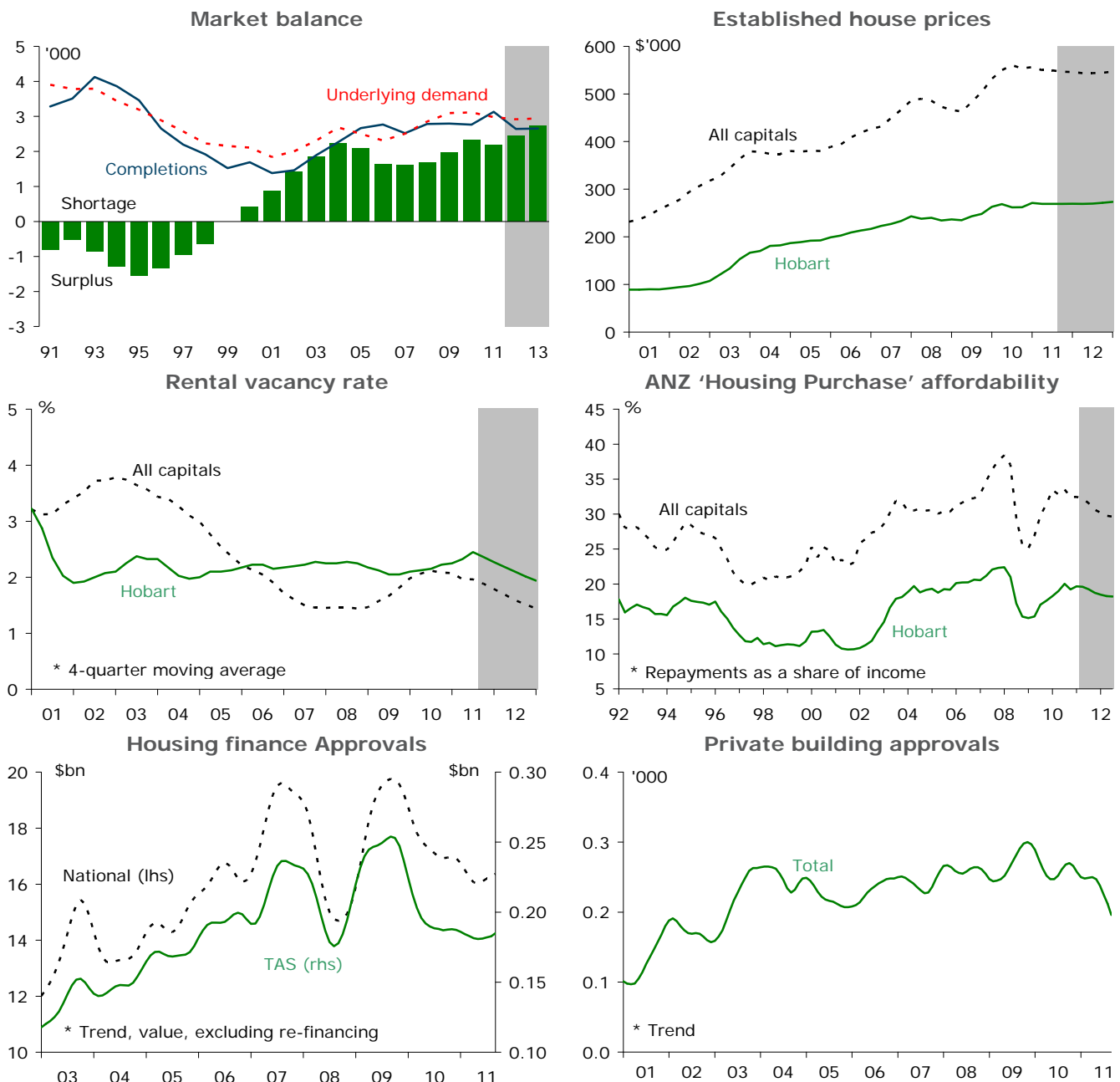
Private building approvals



Sources: Australian Bureau of Statistics, RBA, REIA, Residex, RP Data-Rismark, ANZ

TASMANIA

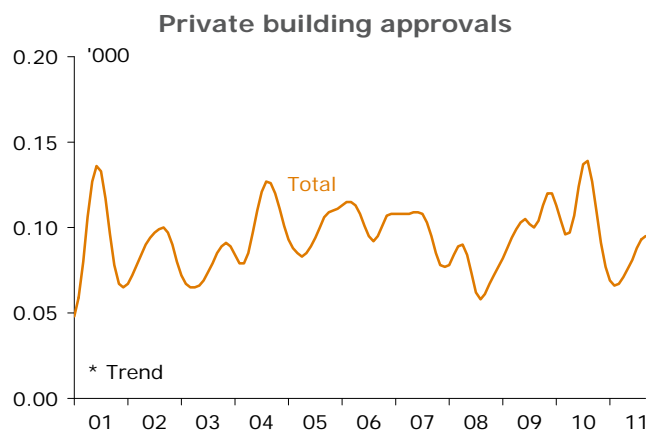
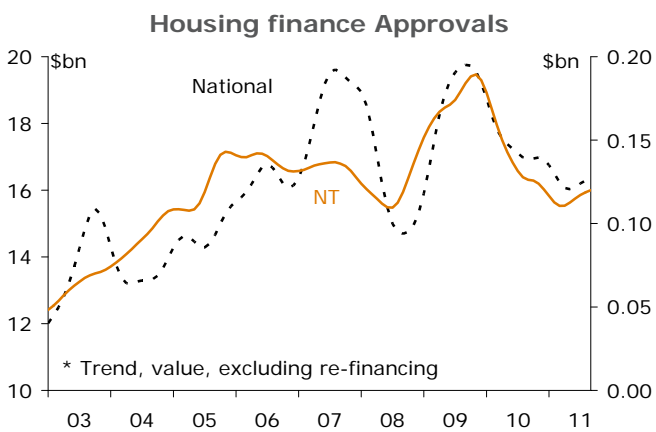
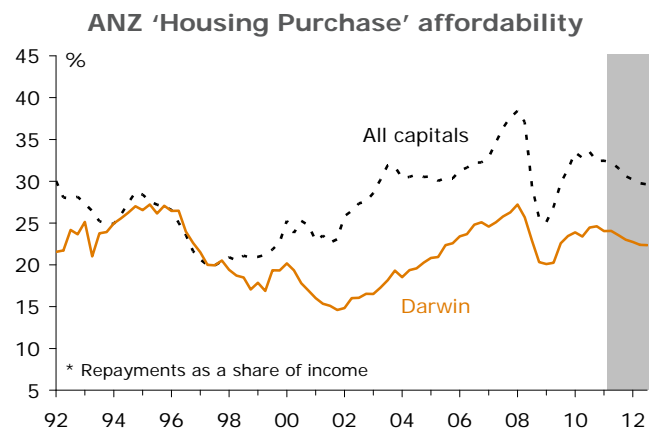
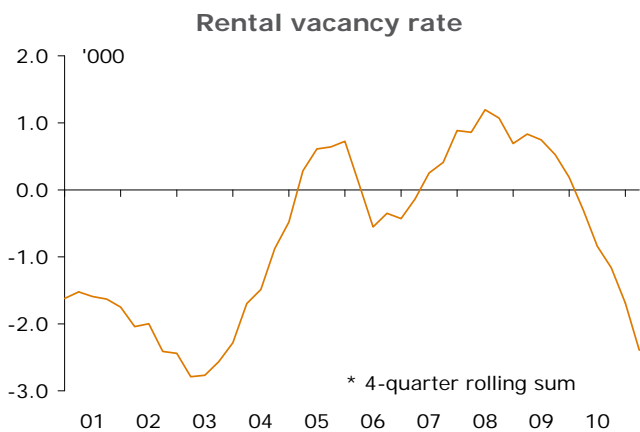
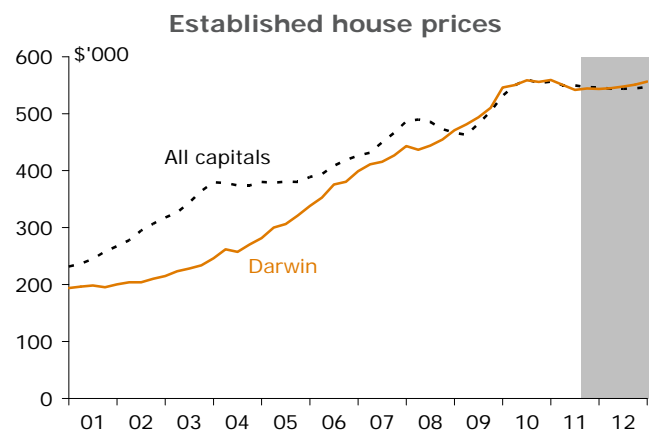
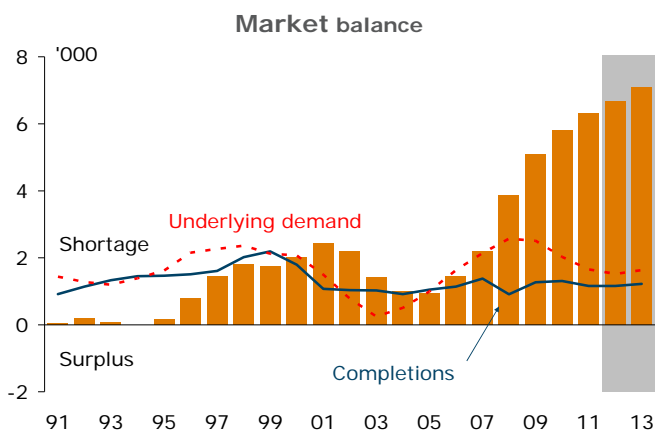
The Tasmanian economy has begun to slow in 2011, ushering in a period of softness in the housing market. Finance approvals have continued to trend down, declining by 4% over the past year. Meanwhile, vacancy rates have eased to 2.5% – their highest rate since 2001. The rise in vacancy rates can be partly explained by population growth, which has slowed to 0.6% y/y, its slowest pace in four years. Further, global economic uncertainty along with softer state economic conditions has also reduced the pressure on rental accommodation. However, the impact that the softer market activity is having on prices is less clear. The ABS and Residex data suggest that Hobart house prices have increased by 2.7% and 1.8% over the year to June respectively. In contrast, RP Data contends that Hobart house prices have declined by 3.7% over the same period. The stark differences demonstrate the difficulties with accurately measuring house prices, particularly in smaller markets such as Hobart. While a subdued economic outlook for the Tasmanian economy presents downside risk to house prices, Hobart remains the most affordable housing market in Australia with only 19.7% of average household income expended on mortgage repayments on the median priced home (compared to the national average of 32.5%).



Sources: Australian Bureau of Statistics, RBA, REIA, Residex, RP Data-Rismark, ANZ

NORTHERN TERRITORY

House prices have continued to come under pressure in Darwin, falling by 3.4% over the year to August due to slowing population growth and deteriorating economic conditions. As a result of increasing population leakage through net interstate migration and solid dwelling completions (1,200 in the year to June 2011) the underlying housing shortage is expected to increase by a meagre 500 dwellings in the year to June 2011 and 360 dwellings in the year June 2012. However, plans for the commencement of a number of new large resource projects in 2012, including the \$29 billion Ichthys gas project, should provide a significant boost to the NT economy and housing market activity into 2013 and beyond. With housing finance and building approvals showing signs of a recovery, these projects will generate substantial demand for labour, which should result in a turnaround of net interstate migration, placing downwards pressure on rental vacancy rates, providing support to housing market activity.

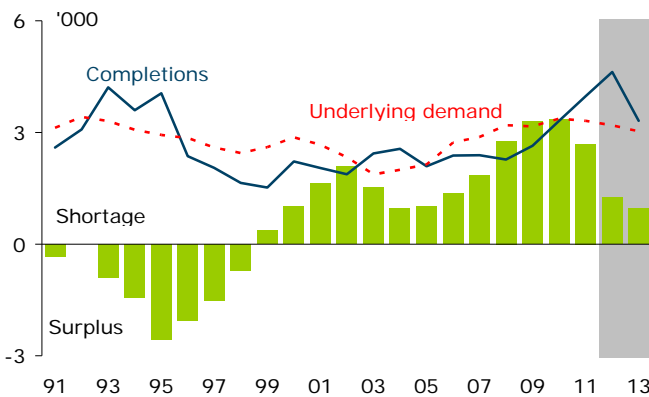


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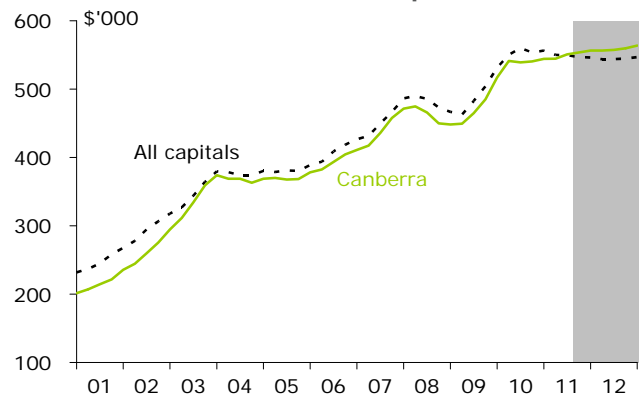
AUSTRALIAN CAPITAL TERRITORY

The ACT housing market has performed strongly over 2011 compared to most other states and territories. With trend annual building approvals 24% higher in the year to July 2011 (more than double annual approvals at December 2008) the ACT is going through a mini construction boom, particularly in the flat/unit/townhouse market. Despite strong growth in housing supply and slowing population growth through 2011, house prices increased 2.2% in the year to June 2011 to sit marginally lower than the national average. Nonetheless, with ACT average household disposable incomes the highest across all states and territories, housing affordability remains better than the national average (repayments currently 20.5% of HDI in Canberra compared to 32.4% across all Australian capital cities). With forecast slowing population growth and sustained strong house building activity through 2011-12, the existing shortage of housing stock in ACT (around 2,300 dwellings in June 2011) should be all but erased by 2013.

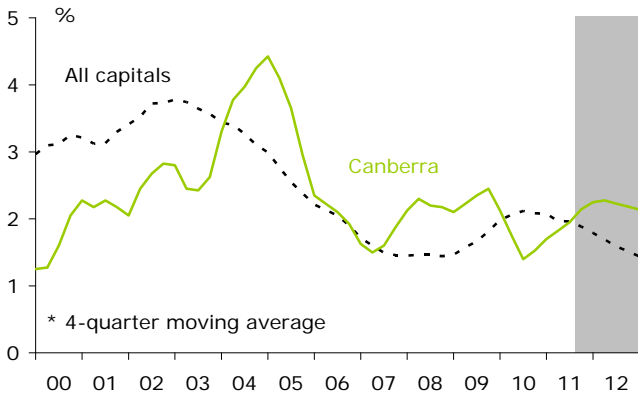
Market balance



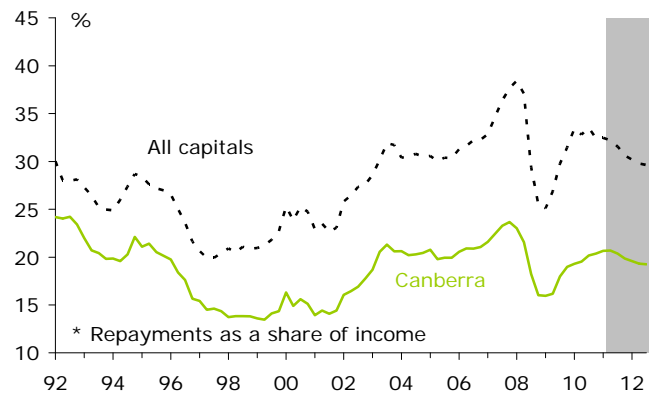
Established house prices



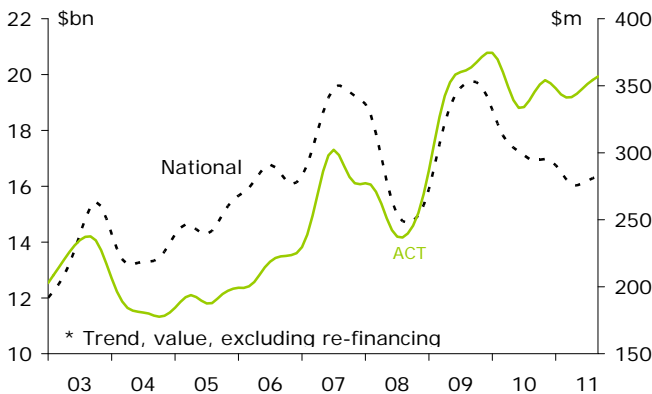
Rental vacancy rate



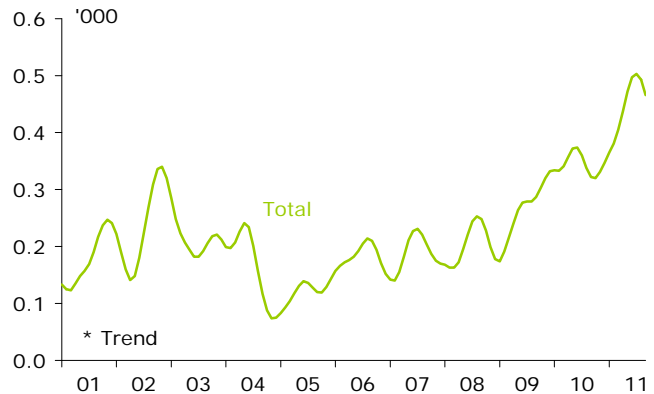
ANZ 'Housing Purchase' affordability



Housing finance Approvals



Private building approvals



Sources: Australian Bureau of Statistics, RBA, REIA, Residex, RP Data-Rismark, ANZ

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