



AUSTRALIAN ECONOMIC
AND PROPERTY REPORT 2017

Lending Policy Squeezes Buyers



FOREWORD

The Australian Economic and Property Report is now in its tenth year. The 2017 edition continues to be an important resource for those wanting to keep up to date on key market trends that are evolving.

Extraordinary price growth in Sydney and Melbourne and the legacy notion of 'cheap money', has seen an increased focus on the widening gap between family income, stemming from slow wage growth and the level of mortgage debt. The issue of 'affordability' continues to be the hot topic across politics, media and property industry discussions; inducing a myriad of policy responses from various government, banking, and regulative authorities. It is paramount to evaluate the effectiveness of these policies, evident through the state of various key indicators discussed in this report.

Based on specific Government intervention in 2016 we are starting to see some impact from these efforts with the Home Loan Affordability indicator increasing.

Towards the end of the financial year we have seen APRA led bank lending policies that reduces credit availability to investors and fixed interest borrowers, which has squeezed buyers - particularly targeted investors and to a lesser effect, owner occupiers.

It will be interesting to observe how the action of key enablers such as the Federal and State government, APRA, banks and the FIRB will continue to impact traditional investor and buyer activity from their policy toolkits.

The likely outcome should see a 'soft landing' for the market with prices settling back to sustainable solid single digit growth in the major east coast markets. This should increase the opportunity for a broader base of first home buyers to enter the market.

WELCOME

Welcome to our Australian Economic and Property Report 2017, prepared and released shortly after the delivery of Federal Budget 2017 and during the final stages of State-level Budgets being announced.

The Australian consumer sentiment has gone through a period of ups and downs over the past 12 months to May 2017, with current readings just under the positive index at 98.0. This result is not surprising, as consumer sentiment is reflective of consumer's confidence in political stability, economic health, exchange rate and international trade, and policy direction. Over the past 12 months we have also had a number of domestic and international events that directly and indirectly impacted these aspects. Brexit, Trump, French and UK elections are just some examples.

It is without a doubt that Australia went through a period of dwelling approval frenzy since mid-2012, which has mostly been absorbed by increasing property activity in 2014-2015. In late 2015 dwelling approvals stabilised, before starting on a declining trend in late 2016. Our property prices soared throughout this period, so much so that for the first time housing affordability was at the forefront of many political

debates, and eventuated in new schemes and initiatives in Federal Budget 2017.

We are seemingly now at a stage where the property market, despite still showing strong levels of growth, is entering a period of slower growth. This is particularly true for Sydney and Melbourne, where May 2017 readings reported annual growth of 11.1% and 11.5%, respectively - lower than May 2016 annual growth reading of 13.9% and 13.1%, respectively. That said, affordability is still a major issue, particularly with first home buyer activities increasing only by a minor percentage - lower than what is deemed ideal.

Various enablers - the Reserve Bank of Australia, banks, APRA, government (Federal and State), and FIRB - are delving into their respective toolkits (in the form of policies) to address this issue. Despite the varying objective of these policies - the need to 'further regulate' foreign investment, time to curb lending and interest only loans to protect the great income vs debt divide, the need to create an even playing field for owner-occupiers and first home buyers, and so on - a constant message seems to be one where



Tony Brasier
Chairman and Managing Director,
PRDnationwide

buyer's activity is being squeezed to ensure that current supply is absorbed by the market.

The Australian Economic and Property Report 2017 focuses on associated policy/policies designed to address the current status of each key economic indicator - whether it is a tweak, a tightening, general maintenance, a new creation, or a complete overhaul. It will be interesting to watch the roll out of various policies over the next 12 months, and whether or not it results in the purpose of the policy itself. As per our current consumer sentiment reading - I remain cautiously optimistic.

Yours in research,



Dr Diaswati Mardiasmo
National Research Manager,
PRDnationwide

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There are two key guidance points throughout this document. Traffic light indicators on the health of market conditions and highlights on 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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ABOUT PRDnationwide

PRDnationwide is an acknowledged industry real estate leader. We've been in the business of selling and managing properties since 1976 and have a network of over 100 franchise offices spanning nationally and internationally (and still counting).

PRDnationwide Research is home to the latest and most in-depth property knowledge in Australia and beyond, establishing us as the leading property and real estate research provider. Through a series of research products we provide a wide range of direct and indirect stakeholders with the most up-to-date data and analysis, monetary and fiscal policy movements, Local Government initiatives; and relevant residential, commercial, and infrastructure project developments.

PRDnationwide are innovators in research. Our team of Research Analysts are key contributors to topical discussions relevant to local, regional, and national interests through a series of reports, conference papers, and regular media commentary. As a leader in research we work in collaboration with multiple stakeholders across a range of academic expertise, working with multinational organisations, local communities, and State Government Departments.

HOW WE CAN HELP YOU:

If you would like to know more about key trends and the impacts of what's happening in your market speak directly to our dedicated research team today at research@prd.com.au.

We can provide you with secure access to all of our research and the privilege of receiving our latest market commentary, in-depth analysis, upcoming trends, and up-to-date data and research forecasts.

PARTNER WITH US:

There is nothing worse than flying solo and attempting to navigate your way without clear directions. Our team of highly experienced research analysts strive to be your best wingman (and wingwoman), delivering strategic advice enabling you to make fully informed decisions and ensure your next project has a positive outcome. If you would like to access our range of in-depth Research Consultancy Services, contact our team at research@prd.com.au.

PRDnationwide RESEARCH:

About PRDnationwide Research

PRDnationwide's research division provides reliable, unbiased, and authoritative property research and consultancy to clients in metro and regional locations across Australia.

Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sound decisions about residential and commercial properties.

Our Knowledge

Access to accurate and objective research is the foundation of all good property decisions.

As the first and only truly knowledge-based property services company, PRDnationwide shares experience and knowledge to deliver innovative and effective solutions to our clients and stakeholders.

We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections and strategic research collaborations.

We focus on understanding new issues impacting the property industry such as the environment and sustainability, Government policy and initiatives, the economy, demographic and psychographic shifts, commercial and residential design, and forecast future implications around such issues based on historical data and fact.

Our People

Our research team is made up of highly qualified researchers who focus solely on property analysis.

Skilled in deriving macro and micro quantitative and qualitative information from multiple credible sources, we partner with clients to provide strategic advice and direction regarding property and market performance.

We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the best considered.

Our experts are highly sought after consultants for corporate, communities, and Government bodies; their advice has helped steer the direction of a number of property developments and secured successful outcomes for our clients and stakeholders.

Our Services

PRDnationwide provides a full range of property research services across all sectors and markets within Australia.

We have the ability and systems to monitor market movements, demographic changes and property trends.

We use our 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:

- Advisory and consultancy
- Market analysis including profiling and trends
- Primary qualitative and quantitative research
- Demographic and target market analysis
- Geographic information mapping
- Project analysis including product and pricing recommendations
- Rental and investment return analysis
- Competitive project activity analysis
- Economic indicators
- Social science research, including empirical data collection methods

OVERVIEW

KEY FACTS

Consumer Price Index: 2.1 %

Standard Variable Home Loan Rate: 5.3%

Unemployment Rate: 5.5%

Average Australia Fuel Price: \$1.3/L

The word “affordability” continues to be the headlining topic of political debates, media stories, property industry discussions, community engagements, and family BBQ conversations. Thanks to extraordinary price growth in capital cities and the notion of “cheap money” – partly due to the declining trend of the Reserve Bank of Australia (RBA) cash rate and its associated savings previously passed on by banks - there has been an increasing shine on the widening gap between family income (stemmed from slow wage growth) and the level of mortgage debt serviced or rental payments made.

Since June/July 2016, post Federal Election 2016, a few policies to address this were introduced by a variety of institutions. This includes (but not limited to): foreign holders of Australian property who were in breach of Foreign Investment Review Board (FIRB) regulations being forced to sell, tighter restrictions from banks on foreign lending for home loans, Australia’s four major banks increasing interest rate for property investor loans, the Queensland government imposing a 3% duty increase on individuals who meet the definition of a foreign person, Australian Prudential Regulation Authority (APRA) not modifying its 10% benchmark for annual growth in residential investment loans, a new tax rule from the ATO in regards to properties with a market value of \$2M and above, and others. The purpose was simple: tighter policies to address concerns relating to foreign buyers and investor activity, to create a more even the playing field for owner-occupiers and first home buyers.

These efforts are starting to have some impact, with the Home Loan Affordability indicator increasing by 4.5% over the past 12 months to March 2017, currently at 32.9 index point. Out of the states that house Sydney Melbourne and Brisbane, Victoria had the highest increase in home loan affordability, at 6.5%. Interestingly both NSW and QLD reported 3.6% annual change. The proportion of family income needed to meet home loan repayments has decreased from 31.7% to 30.4% over the past 12 months to March 2017, whereas the proportion to meet rent payments has decreased from 25.1% to 24.6%.

That said many still blame the increasing, and seemingly uncontrolled, levels of domestic and foreign investment activity – and that these enablers (particularly the government) is not doing enough. The protest continues: owner-occupiers, particularly first home buyers, are outpriced and cannot fairly compete in an open market. As such the number of both first home buyers and loans has decreased, where they now make up only 13.4% of total owner-occupied housing. This rate has been dropping steadily over the past 5 years, and although it has stabilised over

the past 18 months, it is still a cause for concern. Particularly as there are increasing heart-felt stories of young Australians with good jobs, frugal lifestyles, and relatively modest aspirations who have given up on the prospect of owning their own property.

It is thus not surprising a myriad of enablers – Federal and State government, APRA, banks, and the FIRB – are now even more so actively utilising tools within their policy toolkit to dampen investor and buyer activity. Banks (or more accurately some banks) no longer offer interest-only loans, have introduced tighter lending policies, closed foreign buyer loans, and have chosen to not pass cash rate savings on to mortgage loans.

APRA has upped its pressure on banks to reign in investor lending, requiring financial institutions to restrict new interest-only advances to 30% of total residential mortgage lending. From 1st July 2017 sellers of homes over \$750K will have to apply for a clearance certificate from the ATO and provide it to the purchaser, or otherwise 12.5% from the sale price is to be withheld. This will effect approximately 37.9% of suburbs in Brisbane, 94.1% in Sydney, and 61.7% in Melbourne.

The Federal Government, through its FIRB, has made changes in both the residential and commercial property categories. Residential application fees for foreign purchases valued at less than \$10million will increase by 10% on the current fees, and there will be an annual vacancy rate charge (equivalent to the relevant foreign investment application fee imposed at the time of purchase) if the property is not occupied or genuinely available on the rental market for at least 6 months of each year. There will also be limitations on foreign investment ownership in new developments, increasing foreign buyer fees and taxes, foreign and temporary tax residents denied access to capital gains tax exemptions. State Governments are also playing an active role in this space – for example New South Wales has doubled their foreign buyer tax from 4% to 8%.

Enablers are also activating tools to increasingly assist first home buyers – for example the First Home Buyer Super Savers Scheme in Budget 2017, First Home Buyer super savings accounts in banks, continuation of first home buyer grants in most states, increased price range for stamp duty exemptions – in order to re-ignite the great Australian dream of home-ownership. Federal and State governments are finally flexing their building hammers by promising the construction of more homes to assist with housing supply, providing an additional 10% Capital Gains Tax (CGT) discount to individuals investing in quality affordable housing, and establishing a National Housing Finance and Investment Corporation (by 1st July 2018). They are also starting to tweak negative gearing policies – something that has been called for strongly over the past 12 months and causing much debate between its supporter and nay-sayers.

These new policies have come at the right time, considering the Australian Consumer Sentiment has fluctuated over the past 12 months, ping-pong between being optimistic and pessimistic in a matter of 30-60 days. This suggests consumers are wanting to be optimistic about economic outlook but are cautious – just hovering by a couple of index points below the positive line over the past 6 months. It will be interesting to monitor consumer sentiment over the months to come, as most of the new policies come into play July 2017 onwards.

Home Loan Affordability has increased by 4.5% over the past 12 months to March 2017, currently at 32.9 index point. Family income needed to meet home loan repayments has decreased to 30.4% over the past 12 months to March 2017, the proportion to meet rent payments has decreased to 24.6%. That said first home buyers and loans have decreased, now making up only 13.4% of total owner-occupied housing.



AVERAGE GROWTH IN MEDIAN HOUSE PRICE

	Capital City					Metro					Regional				
	1 2015	2 2015	1 2016	2 2016	1 2017	1 2015	2 2015	1 2016	2 2016	1 2017	1 2015	2 2015	1 2016	2 2016	1 2017
NSW	11.8%	5.9%	8.3%	-1.1%	12.1%	13.9%	6.8%	-0.8%	7.2%	0.1%	2.9%	1.0%	3.4%	10.3%	3.2%
QLD	0.5%	5.3%	1.6%	1.6%	1.5%	1.4%	3.4%	0.3%	2.0%	1.0%	0.3%	-1.2%	-12.4%	3.6%	4.0%
VIC	2.9%	9.7%	6.5%	13.6%	11.4%	10.0%	8.3%	0.8%	9.1%	5.3%	3.4%	13.7%	-9.1%	13.7%	1.1%
WA	-0.2%	9.7%	-19.0%	7.0%	-10.7%	-5.6%	4.1%	11.4%	16.6%	-18.9%	1.3%	-21.6%	23.2%	-35.5%	1.5%
TAS	2.1%	2.3%	0.9%	10.6%	8.1%	3.6%	0.8%	3.6%	7.7%	4.5%	3.7%	-8.3%	1.2%	6.5%	3.4%
NT	4.8%	4.8%	6.7%	-14.1%	3.6%	2.7%	-1.0%	-3.4%	-6.8%	5.4%	-13.1%	-2.0%	-13.1%	13.0%	8.8%
SA	-6.9%	-6.9%	3.6%	9.3%	-6.7%	3.5%	-1.6%	4.3%	3.3%	1.3%	-1.8%	6.7%	-8.0%	-7.7%	9.7%
ACT						-1.4%	5.6%	-9.4%	2.2%	7.2%					

Capital city markets continue to perform, with the highest growth for the 1st half of 2017 reported in New South Wales (12.1%), followed by Victoria (11.4%). Other metropolitan markets – Tasmania (8.1%), Northern Territory (3.6%), and Queensland (1.5%) also continue to record positive growth. Western Australia experienced a decline (-10.7%), not unexpected due to their current mining sector situation. Unexpectedly the South Australia metropolitan market declined by -6.7%, which had performed well at 3.6% and 9.3% in the 1st half and 2nd half of 2016, respectively. This is potentially due to uncertainties within the society, including layoffs in the automotive manufacturing industry and the potential closure of the local steel industry.

Metropolitan markets, except Western Australia, experienced growth although at a slower pace compared to the 2nd half of 2016. Dampened growth may be a result of the regulatory landscape, which is thought to have been designed to slow investment and interest-only mortgage lending. Growth figures that were positive – in descending order - are Australian Capital Territory (7.2%), Northern Territory at (5.4%), Victoria (5.3%), Tasmania (4.5%), South Australia (1.3%), Queensland (1.0%), and New South Wales (0.1%). New South Wales, Northern Territory and Australian Capital Territory each

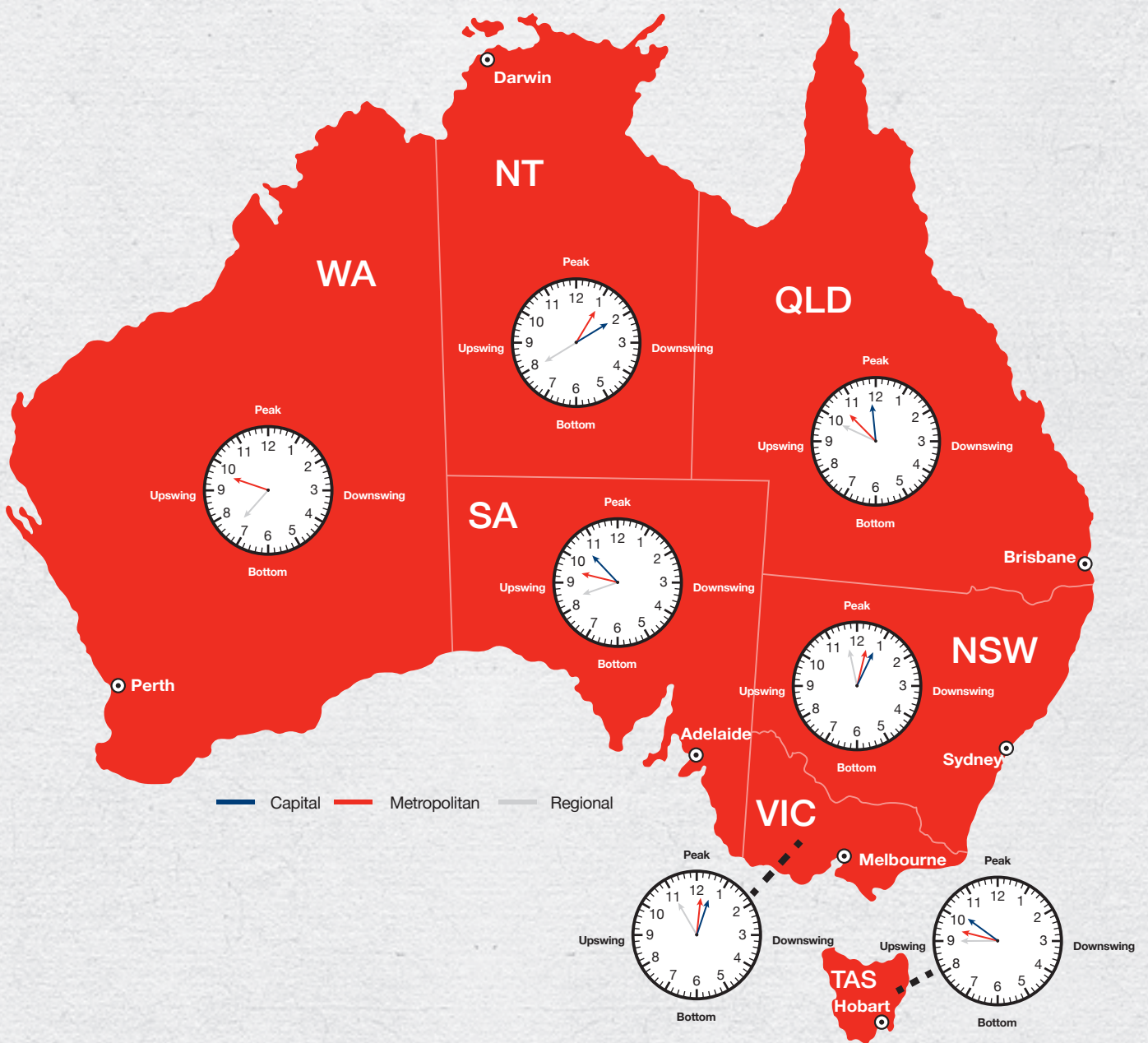
recovered from declines a year prior, to record positive growth figures. This recovery suggests it would be hasty to declare that the market has hit its peak.

Regional Australia property growth proves to be sustainable, and in fact all states experienced positive growth for the 1st half of 2017. Queensland regional markets recorded the highest growth (4.0%) out of the three main states (NSW, VIC, and QLD). Average growth over the past 6 months to 1st half of 2017 is 4.5%, which is higher than capital city (2.8%) and metropolitan (0.7%) average growth. This reflects increasing consumer confidence in regional markets, particularly as Federal (through Budget 2017) and State governments increase their commitment to regional infrastructure developments. Budget 2017's new business and small medium enterprise tax cuts are expected to further fuel local commercial activity in regional areas, thus fostering local job growth and increasing liveability.

Regulatory landscape has dampened growth, with capital cities and metropolitan markets recording slower levels of positive growth. Regional markets have pivoted to recording positive growth, suggesting increased confidence in regional areas.



AUSTRALIA PROPERTY GROWTH MAP





MEDIAN HOUSE PRICE CAPITAL CITY

	Capital City				
	1 2015	2 2015	1 2016	2 2016	1 2017
NSW	\$1,386,000	\$1,468,000	\$1,590,000	\$1,572,500	\$1,762,000
QLD	\$603,000	\$635,000	\$645,000	\$655,000	\$665,000
VIC	\$843,500	\$925,500	\$986,000	\$1,120,000	\$1,247,500
WA	\$1,067,500	\$1,170,750	\$948,750	\$1,015,250	\$906,250
TAS	\$378,583	\$387,333	\$390,833	\$432,083	\$467,083
NT	\$572,500	\$600,000	\$640,000	\$550,000	\$570,000
SA	\$690,000	\$642,500	\$665,500	\$727,500	\$678,938

MEDIAN HOUSE PRICE METRO

	Metro				
	1 2015	2 2015	1 2016	2 2016	1 2017
NSW	\$1,378,146	\$1,471,171	\$1,459,417	\$1,565,067	\$1,567,383
QLD	\$442,900	\$458,000	\$459,500	\$468,600	\$473,300
VIC	\$763,635	\$827,331	\$833,866	\$910,161	\$958,045
WA	\$871,086	\$906,964	\$1,010,000	\$1,178,000	\$955,000
TAS	\$351,375	\$354,250	\$367,083	\$395,208	\$412,958
NT	\$515,100	\$510,200	\$492,710	\$459,000	\$483,800
SA	\$550,737	\$542,026	\$565,385	\$584,211	\$591,599

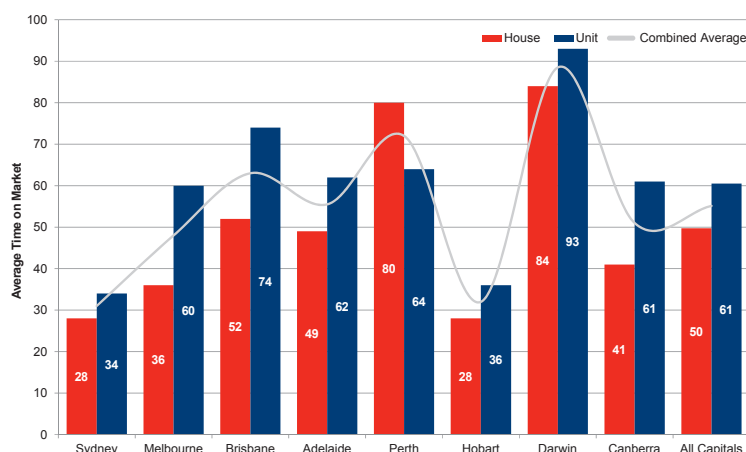
MEDIAN HOUSE PRICE REGIONAL

	Regional				
	1 2015	2 2015	1 2016	2 2016	1 2017
NSW	\$270,757	\$273,587	\$282,818	\$311,951	\$322,085
QLD	\$286,500	\$283,000	\$247,803	\$256,769	\$267,153
VIC	\$259,438	\$295,000	\$268,297	\$304,962	\$308,290
WA	\$363,750	\$285,000	\$351,143	\$226,449	\$229,829
TAS	\$247,500	\$227,000	\$229,772	\$244,761	\$253,043
NT	\$279,188	\$273,625	\$237,833	\$268,750	\$292,500
SA	\$240,206	\$256,250	\$235,782	\$217,654	\$238,663



Stop Press: Median price for 1st half of 2017 reflects sales up to and inclusive of 30th June 2017.

AVERAGE TIME ON THE MARKET



Prepared by PRDNationwide Research
Source: CoreLogic RP Data, last updated June 2017

STATE AND TERRITORY PROPERTIES LISTED FOR SALE MAY 2017

State	No. of new listings	12 mth change (%)	No. of total listings	12 mth change (%)
NSW	12,277	9.1%	46,957	-3.0%
Vic	10,889	1.2%	52,445	-4.9%
Qld	9,678	-8.7%	65,023	-3.5%
SA	2,776	-5.5%	18,647	0.1%
WA	4,895	-12.5%	36,555	-6.4%
Tas	968	5.8%	6,933	-15.7%
NT	304	34.5%	2,248	0.8%
ACT	618	9.4%	2,126	15.0%
National	42,405	-1.0%	230,934	-4.1%

CAPITAL CITY PROPERTIES LISTED FOR SALE MAY 2017

Capital City	No. of new listings	12 mth change (%)	No. of total listings	12 mth change (%)
Sydney	7,460	15.0%	22,280	6.3%
Melbourne	7,944	2.5%	28,929	-0.7%
Brisbane	4,286	-7.1%	20,208	1.4%
Adelaide	2,056	-3.3%	8,644	1.4%
Perth	3,551	-12.4%	22,241	-5.0%
Hobart	348	4.8%	1,449	-28.3%
Darwin	235	37.4%	1,633	-2.7%
Canberra	596	7.6%	2,044	12.6%
Combined capitals	26,476	1.5%	107,428	0.0%

WHAT DOES THIS MEAN FOR YOU?

- ✓ Policies newly introduced in the market has created a polarising growth rate between capital city and regional markets. Median prices are expected to continue to grow nationally, albeit at a slower pace than 2016.
- ✓ New listings in Brisbane, Adelaide and Perth declined over the past 12 months to May 2017, at -7.1%, -3.3% and -12.4%, respectively. Double digit increase in the number of new listings over the past 12 months can be seen in Sydney and Darwin, at 15.0% and 37.4%, respectively. This is reflective of housing affordability issues being at the forefront of Australia's conversations, where more supply is needed to answer market demand.
- ✓ Average time on market for all capital cities has displayed a declining trend over the past 12 months, by 24.2% for houses and 12.9% for units. Sydney and Hobart tied for the spot of lowest days on market, with houses sitting at 28 days in both capital cities and units sitting at 34 and 36 days respectively. Demand is rising in both capital cities for polar opposite reasons, suggesting the time to enter the market is now.



CONFIDENCE

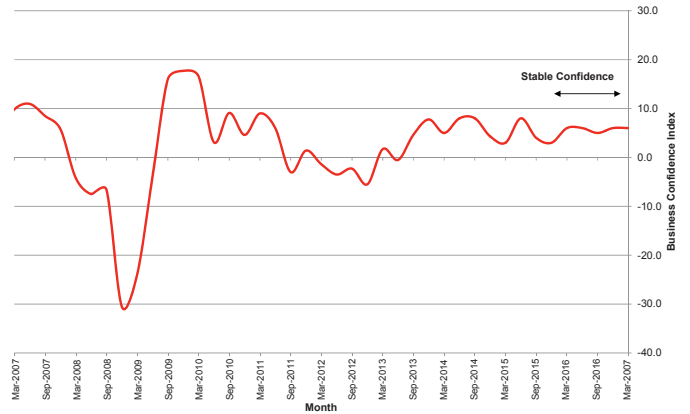
Federal Budget 2017 fails to lift confidence, consumers continue to be cautious

Australian consumer confidence continues to travel below the positive line in 2017, recorded at 98.0 index points in May 2017. Compared to 12 months ago consumer sentiment has decreased by 5.2 index points, from 103.2 index points in May 2016. This is interesting considering the RBA has kept the historically-low cash rate stable, at 1.5% over the past ten consecutive months. The release of the Federal Budget 2017 on 9th May has failed to immediately lift consumer confidence, with sentiment dropping by 1.1% between April and May 2017. Despite the Government promising significant spending on infrastructure, education, and health; 33.0% of families indicated their finances might be worse off over the next 12 months. That said a focus on tackling property affordability concerns through increasing housing supply and policies geared for first home buyers should start to see consumer sentiment lift.

In contrast the Australian business confidence has remained stable over the past 12 months, at 6.0 index points in March 2017. Confidence levels vary across industries, with the mining and construction industry proving to be the most confident. Queensland and Western Australia posted the largest gains, which reflects the resilience of commodity prices and industries in both states. The 2017 Federal Budget brings positive news for businesses, particularly small medium enterprises. Tax deductibility for purchasing assets up to \$20,000 has been extended for another year, and it has been extended to a larger group of businesses. Corporate taxes for all businesses will also be cut to 25% as part of the Ten Year Enterprise Tax Plan.

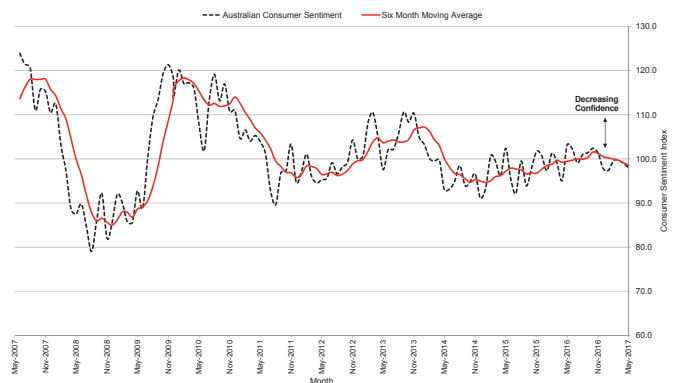


BUSINESS CONFIDENCE



Prepared by PRDnationwide Research
Source: National Australia Bank (NAB), last updated June-2017

CONSUMER SENTIMENT



Prepared by PRDnationwide Research
Source: Westpac/Melbourne Institute, last updated June-2017

WHAT DOES THIS MEAN FOR YOU?

- ✓ Consumers remain cautious as confidence continues to travel under the positive line, deliberating on which tool to utilise to maximise their long-term economic health.
- ✓ Business confidence has remained stable over the past 12 months, which suggests an overall healthy economy that appears to be gaining momentum in the near-term.
- ✓ Federal Budget 2017 initiatives tool-kit brings good news for business owners and first home buyers, forecasted to lift confidence in the near future.



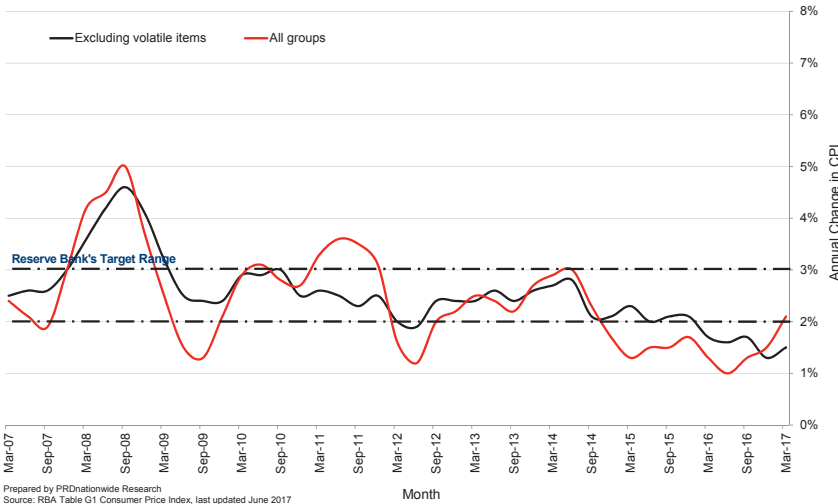
MACROECONOMIC CLIMATE

Consumer price index enters RBA target range



MARKET CONDITIONS

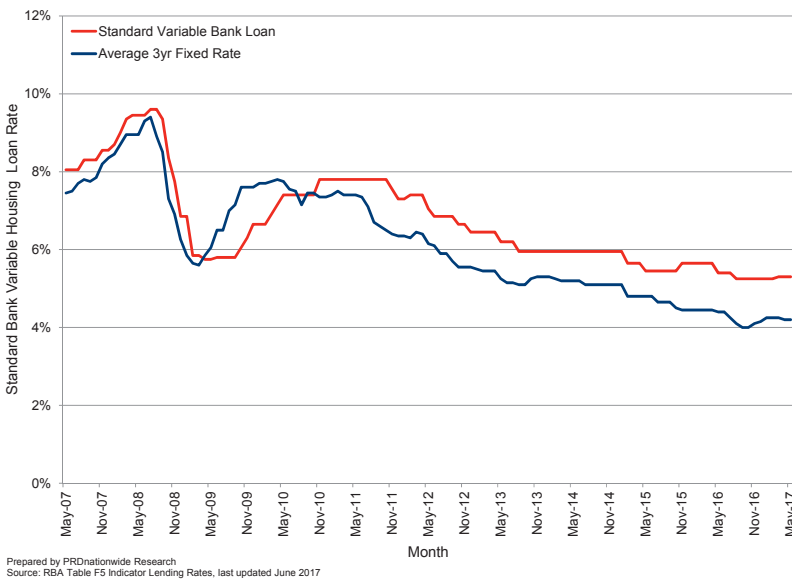
INFLATION



In June 2017 the RBA decided to leave the cash rate at 1.5 points, a historical low for the past 10 consecutive months. This decision was maintained as the board regarded holding the stance of monetary policy unchanged for the time being would be consistent with sustainable growth in the economy and achieving the inflation target over time.

The Australian economy recorded a 0.3% growth in the first three months of 2017, indicating a resilient economy as Australia transitions to lower levels of mining investment. Overall business conditions have improved and capacity utilisation has increased. Conditions in the housing market vary around the country, where there are signs that exponential growth is starting to ease.

HOUSING LOAN INTEREST RATE



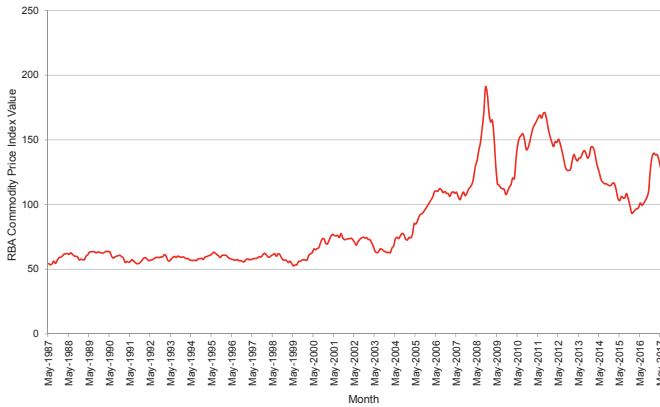
Inflation (consumer price index) for all groups was recorded at 2.1% in March 2017, entering the Reserve Bank of Australia's target range for the first time since December 2014. This is the highest inflation rate since September 2014, driven by a surge in certain sectors. The most significant price rises this quarter are automotive fuel (5.7%), new dwelling purchase by owner-occupiers (1.0%), medical and hospital services (1.6%) and electricity (2.5%). Excluding volatile items however the inflation rate is at 1.5%, outside of the RBA's target range. This suggests that employment and wage growth is yet to be at a level associated with strong economic growth.

WHAT DOES THIS MEAN FOR YOU?

- ✓ A significant increase in consumer prices suggest declining disposable household income.
- ✓ Sustained low interest rate is expected to address the risks associated with high and rising level of indebtedness, due to growth in housing debt outpacing growth in income.
- ✓ Economic growth is still expected to increase gradually over the next couple of years to a little above 3.0%.



RBA COMMODITY PRICE INDEX



Prepared by PRDnationwide Research
Source: RBA Table 12 Commodity Prices, last updated June 2017

The RBA Commodity Price Index has improved over the past 12 months to May 2017, by 27.1% to 128.5 index in Australian Dollar terms. That said commodity prices have declined over the past three months in early 2017, with May 2017 recording a 4.5% decrease from April 2017 and 8.0% decrease from January 2017. The decrease was led by declines in iron ore, cooking coal, and thermal coal prices. The rural subindex increased, suggesting positive contributions from the agriculture sectors.

The Australian Dollar has performed well over the past 12 months, strengthening against many currencies. It strengthened considerably against the Great British Pound (13.7%), attributed to Brexit and the devaluation of the GBP following this decision. A stronger Australian Dollar does make our products more expensive to international markets, which may negatively impact those relying on exports. That said it improves Australia's purchasing power parity in international markets.

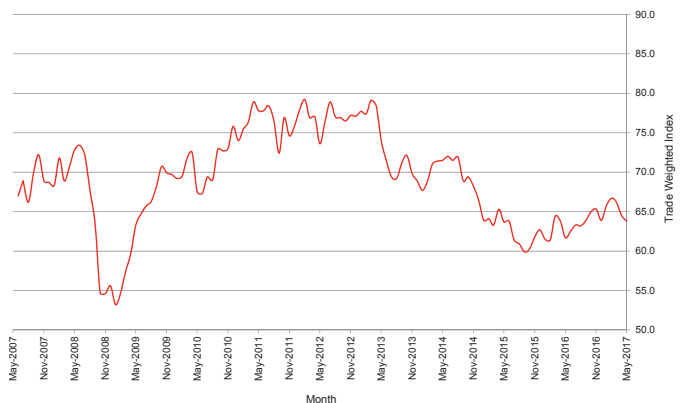
Exchange Rates

	Japan	USA	EU	NZ	UK
	Yen	Dollar	Euro	Dollar	Pound
	JPY	USD	EUR	NZD	GBP
Jun-2016	78.4200	0.7331	0.6463	1.0600	0.5098
Jun-2017	82.5700	0.7464	0.6626	1.0477	0.5798
% Change	5.3%	1.8%	2.5%	-1.2%	13.7%

	Hong Kong	Malaysia	China	Singapore
	Dollar	Ringgit	Renimb	Dollar
	HKD	MYR	CNY	SGD
Jun-2016	5.6946	3.0061	4.8125	0.9985
Jun-2017	5.8155	3.1849	5.0784	1.0312
% Change	2.1%	5.9%	5.5%	3.3%

Trade Weighted Exchange Rate Index has remained trending relatively stable over the past 12 months to May 2017. The index is currently at 63.8 index points in May 2017, reflecting a 3.4% increase over the past 12 months. That said this is a 0.2% decrease when compared to the past 6 months, suggesting that confidence in the currency needs to be treated with caution, particularly due to a global economy slow down where many countries are taking a devaluation policy.

TRADE WEIGHTED EXCHANGE RATE INDEX



Prepared by PRDnationwide Research
Source: RBA Table F11 Exchange Rates, last updated June 2017

WHAT DOES THIS MEAN FOR YOU?

- ✓ Stronger exchange rates improves Australia's purchasing ability in the international market, potentially creating savings for household income from cheaper imports.
- ✓ Federal Budget 2017 introduces more stringent regulations on foreign investment in the housing market, which when coupled with a more expensive Australian Dollar may result in lower foreign investment activity in the market. This is good news for local owner occupiers and first home buyers.
- ✓ Commodity prices have seen an improvement over the past 24 months, however a decline in the recent three months in early 2017. This will balance out market price to a more sustainable level, which is good news for household income in the near future.



LABOUR MARKET

Unemployment rate remain steady, overhaul in regional job creation policy needed

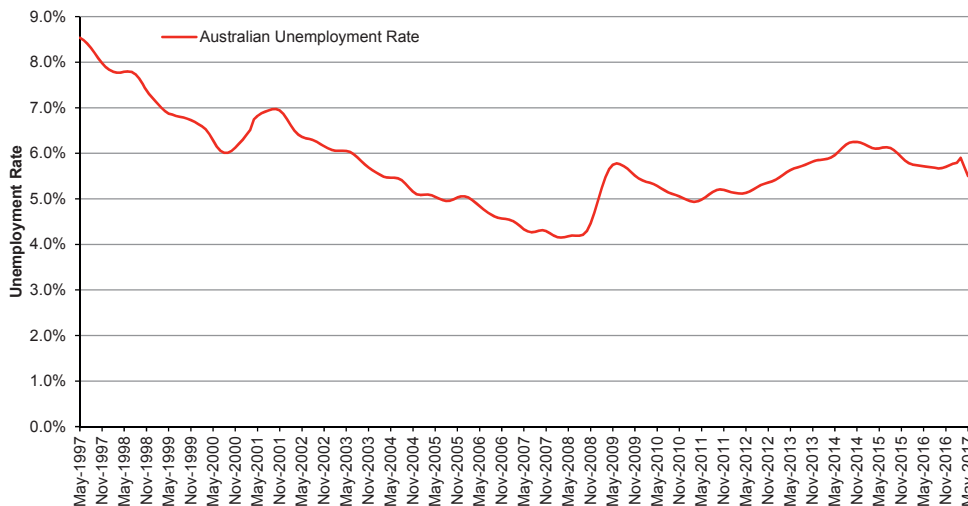


Unemployment statistics have been relatively steady over the past 18 months, between the 5.9% and 5.7% range. Seasonally adjusted May 2017 unemployment rate is 5.5%, which is a 3.8% improvement over the past 12 months. This is a 10.0% improvement over the past 24 months, a positive outcome for the economy at large. This outcome points to an annual job creation of approximately 216,000 in the coming months, which should see the unemployment rate ebb lower. Between the month of April and May 2017 full-time employment increased by 52,100 and part-time employment decreased by 10,000.

Overall employment increased by 42,000 over the past month to May 2017, suggesting more households have secured incomes.

Local job creation and growth in areas outside of the CBD and its immediate ring continue to be a focus, as home affordability and living costs within those areas rise. This is particularly of concern in regional areas, as it is a main question for those looking to relocate as they search for affordable options in home ownership. An overhaul in regional job creation policy is needed, particularly if the objective is to equalize economic growth speed across Australia.

UNEMPLOYMENT RATE



Prepared by PRDnationwide Research
Source: ABS Cat 6202 Table 1 Col BM. Last updated June 2017

WHAT DOES THIS MEAN FOR YOU?

- ✓ Unemployment levels have improved over the past 24 months, with a changing landscape to part-time and contractual preferences. This suggests the need for a tweak in mortgage application appraisals as income pattern variability increases.
- ✓ To attract those seeking affordable home ownership and living cost options regional job creation policies and initiatives require an overhaul.



CONSTRUCTION MARKET

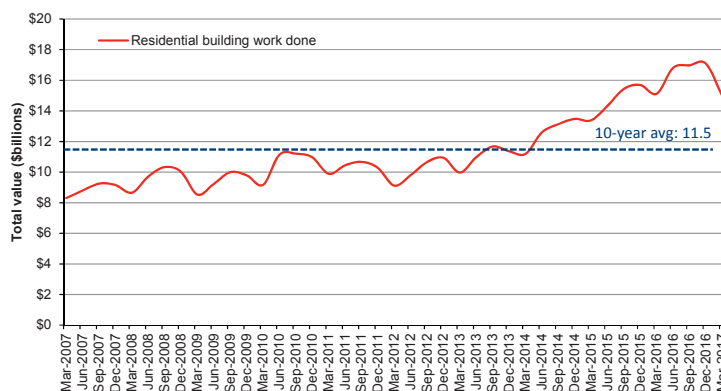
Residential construction cools to allow for market absorption



Residential construction in Australia amounted to \$14.9B in March 2017, which is a 0.9% decrease over the past 12 months. This seems to be a relatively low decrease, considering the rumoured oversupply of units and apartments in capital cities and inner CBD areas. That said new residential construction declined by 11.8% over the past 6 months, after a period of record high between June and December 2016. Over the past 12 months new residential construction in NSW and VIC increased by 6.6% and 5.8% respectively, addressing the under-supply issue as a way to fix affordability concerns. Interestingly new residential construction in seemingly more affordable states of Queensland, South Australia, and Tasmania declined over the past 12 months; by 9.4%, 1.4%, and 11.7%; perceived as pre-cautionary tools in allowing market absorption.

Foreign investor interest in residential construction continue to be strong, although slightly deterred over the past 6 months due to the strengthening Australian Dollar. Federal Budget 2017 initiatives on restricting foreign investor investment and ownership in newly built residential development may have short term adverse impact, as financing for new residential construction stall. This will have a varied impact on new dwelling supply across Australia – it will allow for absorption in already close to oversupplied inner CBD and metro areas, thus potentially correcting dwelling prices and returning it to more sustainable levels of growth. However it may stall supply in outer-metro and regional areas and cause price increases. Overall deploying this policy tool will cause short-term pain, in terms of slower growth in capital cities and inner areas; and price increase in outer areas. However it comes with the potential of equalizing price growth and affordability across Australia.

RESIDENTIAL CONSTRUCTION MARKET



Prepared by PRDnationwide Research
Source: ABS Cat 8755. Last updated June 2017

WHAT DOES THIS MEAN FOR YOU?

- ✓ Queensland, South Australia, and Tasmania new residential construction declined over the past 12 months; by 9.4%, 1.4%, and 11.7%; perceived as pre-cautionary tools in allowing market absorption.
- ✓ Federal Budget 2017 initiative on restricting foreign investment and ownership in new residential developments will have a varied impact in residential construction across Australia.



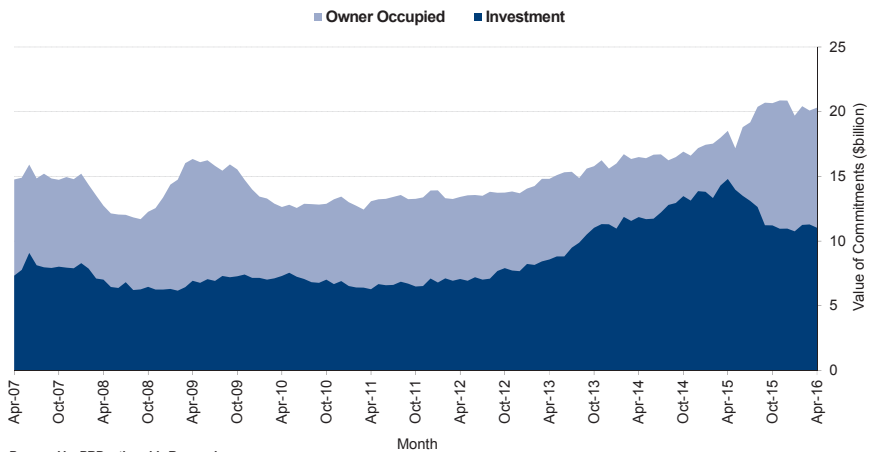
HOUSE FINANCE

Investment policy tweaks geared to bolster owner-occupier activity



The gross value of housing finance commitments have totalled \$390.5B over the past 12 months to April 2017, an increase of 2.5% when compared to housing finance commitments to the year prior. A moderate growth in house financing commitments is thanks to increased activity in both owner-occupier and investor loans over the last 12 months, by 0.4% and 6.1% respectively.

HOUSING FINANCE COMMITMENTS



Prepared by PRDnationwide Research
Source: ABS Cat. No. 5609, last updated June, 2017

Owner occupiers have committed \$120.1B to dwelling finance during the six months to April 2017, 0.2% up from the previous six months. Owner occupiers reflected 61.3% of housing finance commitments in April 2017, which represents a lesser amount of activity when compared to 64.8% share 12 months prior. This is due to a combination between increasing unaffordability of dwellings, slow income growth, and increasing consumer price index.

Investor housing commitments saw an increase over the past six months to \$78.3B, up by 8.4% compared to the previous half year. Investments were relatively even in distribution between construction of dwellings, purchase for rent or resale and purchase for rent or resale by others. Investor activity has increased over the past

12 months, its growth outweighing that of owner occupiers. This has propelled the Reserve Bank of Australia to maintain its monetary policy tool of low cash rate and the government to tweak investment policies in its Federal Budget 2017.

WHAT DOES THIS MEAN FOR YOU?

- ✓ Owner-occupier activity has slightly increased over the past 12 months, although lack of affordability has resulted in owner-occupier spending reduce over the past six months.
- ✓ Proportion of investor financing growth has outweighed that of owner-occupiers, propelling the Reserve Bank of Australia and the Federal Government to delve into its policy tool-box to cool investor activity.



DWELLING MARKET

Oversupply threat requires a tightening in dwelling approvals



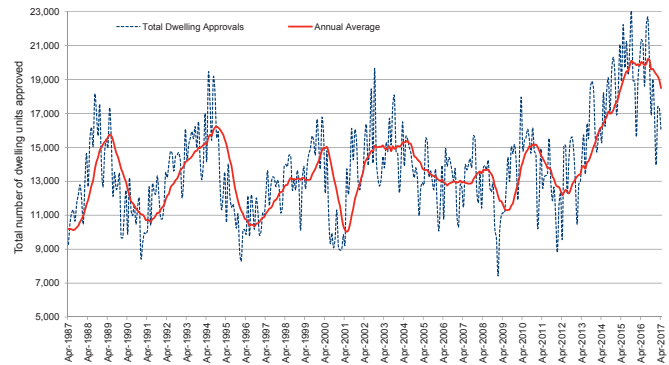
The threat of residential dwelling oversupply has come to the forefront following increasing vacancy rates in capital cities and inner CBD areas, which has seen dwelling approvals levelling for a period of 12 months in April 2015-April 2016, before trending on a declining rate over the past 12 months, by 7.7% to 18,495 approvals in April 2017.

The national average days on market recorded 50 days for houses and 61 days for units in February 2017, which despite an increasing trend for that particular month this is in fact a declining trend over the past 12 months. Consumers are starting to see a gradual pivot in the Sydney market, and a unique combination of affordability and capital growth in Hobart. Thus unsurprisingly Sydney and Hobart tied for the spot of lowest days on market, with houses sitting at 28 days in both capital cities and units sitting at 34 and 36 days respectively. Properties are on the market longest in Darwin and Perth, which mirrors its current softening trend in price growth.

The Time to Buy a Dwelling Index has decreased an average of 7.0% across the five states over the 12 months to March 2017. This is mainly due to the recent fluctuations in dwelling values, with prices in capital cities such as Sydney and Melbourne recording mild softening and uncertainty of to what extent, and speed, will it pivot to a more sustainable level of growth. Australian consumers also question the potential impact of new policies in relation to property taxes and benefits within each state.

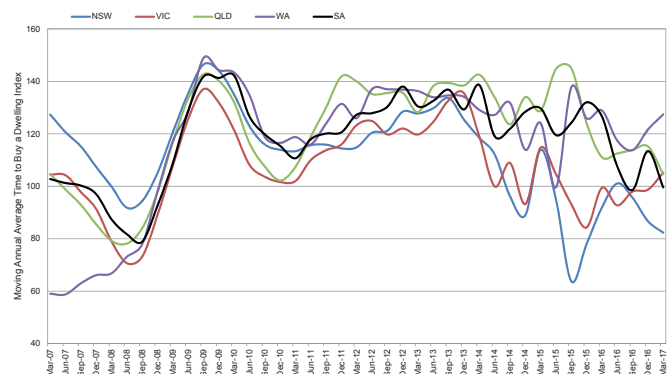
South Australia recorded the steepest decline in Time to Buy a Dwelling Index, dropping by 21.3% over the past 12 months, followed by New South Wales which saw declines of 10.4%. Victoria rose the most of all states, inclining by 5.8%.

DWELLING APPROVALS



Prepared by PRDnationwide Research
Source: ABS Cat. No. 8731, last updated June 2017

TIME TO BUY A DWELLING INDEX



Prepared by PRDnationwide Research
Source: Westpac/Melbourne Institute, last updated June 2017

WHAT DOES THIS MEAN FOR YOU?

- ✓ Annual average monthly dwelling approvals have seen a slowing trend into 2017, declining by 7.7%. This indicates a potentially saturated market, requiring a tightening of approval policy to allow current supply to be absorbed by demand.
- ✓ Time to Buy a Dwelling Index has dropped an average of 7.0% across the 5 states over the 12 months to March 2017. Property related taxes and benefits requires tweaking to incentives local owner-occupiers from feeling priced out of the market.
- ✓ A recent increase in the Time to Buy a Dwelling index for Victoria in 1st half of 2017 is a compelling contrast to other states, suggesting the next rollercoaster speed of property price growth could be in Victoria.



DWELLING PRICES

Year on year annual growth rate slows down in Sydney, Melbourne, and Brisbane



Throughout the annual period to May 2017, the five capital city aggregate values increased by 8.5%; although interestingly this marks a softening of 1.0% from the previous month. Melbourne and Sydney were the top performers with annual growth sitting at 11.1% and 11.5% respectively, however when compared to annual growth to May 2016 this is a slower level of growth, for previously it increased by 13.9% and 13.1%.

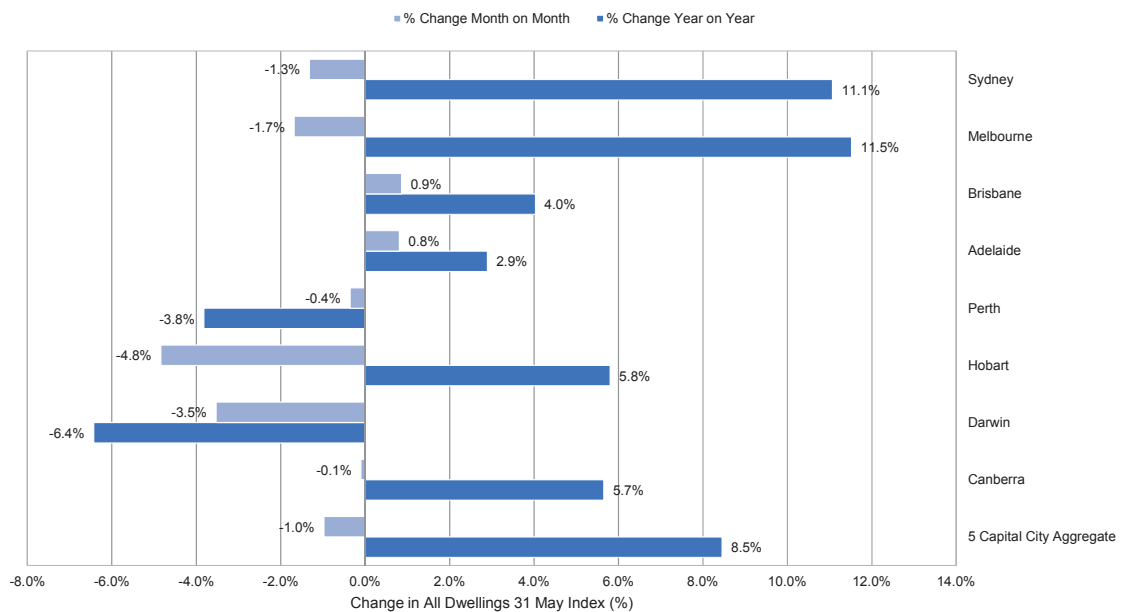
A similar trend can be seen in Brisbane, who despite showing continuous performance with year on year to May 2017 growth of 4.0%, has slowed from the May 2016 annual growth of 7.1%. Compared to May 2016 Brisbane no longer

holds the third highest annual growth among the capital cities, instead Hobart and Canberra tie in this spot at 5.8% and 5.7% respectively.

It seems that there is a cooling in the three main capital city markets, returning to the usual, and more sustainable, levels of strong growth that the market has witnessed prior to the property boom. This pivot can be attributed to tighter lending policies for investors and foreign buyers.

Unsurprisingly Perth and Darwin recorded a softening over the past 12 months to May 2017 at -3.8% and -6.4% respectively, while Adelaide boasts positive growth of 2.9%.

CORELOGIC RP DATA DWELLING HOME VALUE INDEX CHANGE BY CAPITAL CITY



Prepared by PRDnationwide Research
Source: CoreLogic RP Data, last updated June 2017



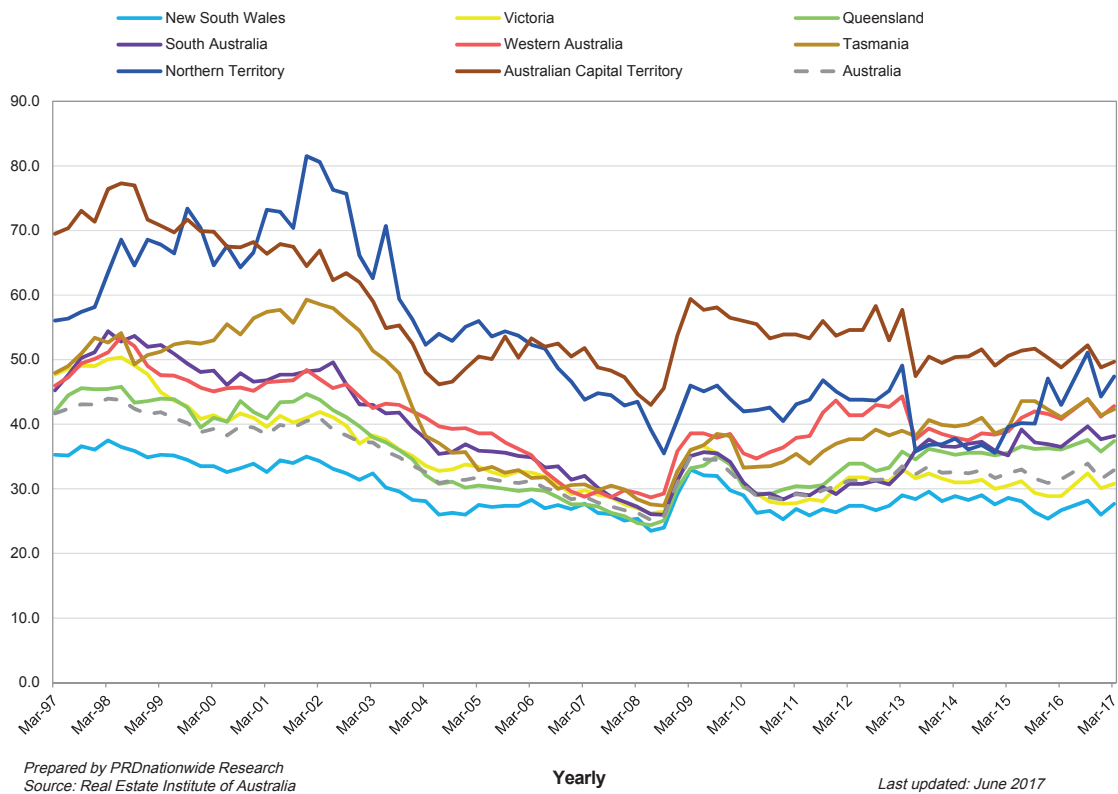
HOME AFFORDABILITY

Affordability increases as investor lending policies tighten



MARKET CONDITIONS

HOME LOAN AFFORDABILITY INDEX



WHAT DOES THIS MEAN FOR YOU?

- ✓ Capital cities continue to perform, however at a slower rate of growth thanks to tighter lending policies to investors and foreign buyers. This may signal a pivot in the market and increased affordability in the near future.
- ✓ Australian home loan affordability increased by 4.5% across Australia over the past 12 months to March 2017, as government and banks introduce tighter lending policies to investors. This is good news for first home buyers, especially as Budget 2017 introduced a range of tools to specifically cater for this group of property buyers.
- ✓ Hobart and Canberra markets are heating up, as they replace Brisbane in the third spot for positive capital growth. Adelaide enters the ring, providing buyers with another alternative.
- ✓ NSW and QLD both reported a 3.6% increase in home loan affordability, Victoria recorded the highest increase of 6.5%. This suggests Victoria is a prime market for first home buyers.



RENTAL MARKET

Darwin and Perth: the two misfits of the rental market



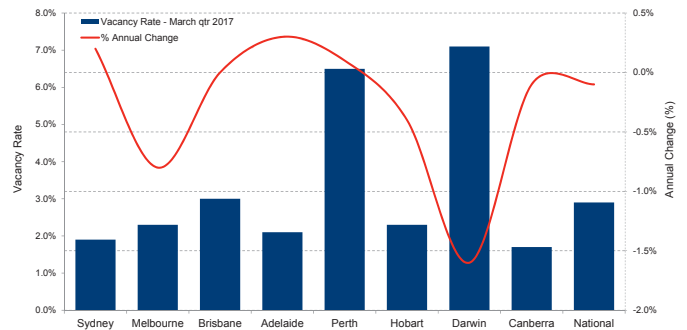
Over the past year, the median house rent for a three bedroom house increased in each capital city, except Perth and Darwin, which recorded decreases, down by 7.5% and 7.6%, respectively. Hobart recorded the highest growth in three bedroom house median rent (5.7%) and Canberra came second (4.4%). Furthermore, Perth and Darwin were the only capital cities experiencing a decline in two bedroom unit median rent: -10.5% and -7.5%, respectively, further highlighting its “misfit” in the rental market landscape. The largest growth for two bedroom unit rents was recorded in Canberra (7.5%), followed by Melbourne (5.3%). Sydney recorded a growth of 2.1% for three bedroom houses and 3.8% for two bedroom units.

Change in the annual vacancy rate for most capital cities from March 2016 to March 2017 ranges between -1.6% and 0.3%. The average vacancy rate for all capital cities currently sits at 2.9% in March 2017, representing a 0.1% decrease over the past twelve months. This is good news for investors, as a decrease in vacancy rates suggests a healthier rental market and thus steady and/or increasing returns in investment. That said the increase is only marginal, suggesting that caution is still needed when making investment purchasing decisions.

The Darwin rental market has the highest vacancy rate at 7.1%, which is currently more than twice the national average. This is followed by Perth (6.5%) which suggests an oversupply in the market. Vacancy rates in Brisbane continues to hold stable over the past twelve months, at 3.0%. As the industry benchmark vacancy rate is 3.0% this suggests that Brisbane is sitting on the fence between a healthy and oversupplied rental market. Developers need to be on alert as the vacancy rate in Brisbane has not been below 3.0% since 2014, and most capital cities are experiencing vacancy rates under 3.0%. Melbourne recorded a vacancy rate of 2.3% in March 2017, which is an improvement (0.8%)

from March 2016. In Canberra and Sydney rental markets are tight, with both contending for the lowest vacancy rate for all capital cities, at 1.7% and 1.9% respectively. This suggests a strong demand for rental properties in both capital cities, thanks to a surge in infrastructure developments.

QUARTERLY VACANCY RATE



Prepared by PRDnationwide Research. National rate is the weighted average vacancy rate for the eight capital cities. Source: REIA and SQM Research, last updated June 2017

ANNUAL MEDIAN RENT PRICES

MEDIAN RENTAL PRICE		Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	\$490	\$390	\$390	\$350	\$370	\$370	\$494	\$470	
2 b/r Unit	\$540	\$420	\$395	\$295	\$340	\$300	\$375	\$430	

ANNUAL % CHANGE		Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	2.1%	2.7%	1.3%	2.9%	-7.5%	5.7%	-7.6%	4.4%	
2 b/r Unit	3.8%	5.3%	1.3%	1.7%	-10.5%	3.4%	-7.5%	7.5%	

WHAT DOES THIS MEAN FOR YOU?

- ✓ Brisbane's vacancy rates have not been below 3.0% since 2014. Potential oversupply is particularly true for the Inner CBD areas, suggesting that developers and investors need to look beyond the inner ring for improved opportunities.
- ✓ Canberra and Sydney hold the lowest vacancy rate, at 1.7% and 1.9% (respectively) in March 2017. A stable and strong demand in the rental market continue to lead investors in Sydney's direction.
- ✓ Perth and Darwin have experienced a considerable decrease in median rents over the 12 months to March 2017, attributed to an oversupply of rental accommodations.
- ✓ Hobart recorded the highest growth in three bedroom house median rent, Canberra lead in two bedroom unit rent growth.



DEMOGRAPHICS

Victoria – where the potential increase in property demand lies

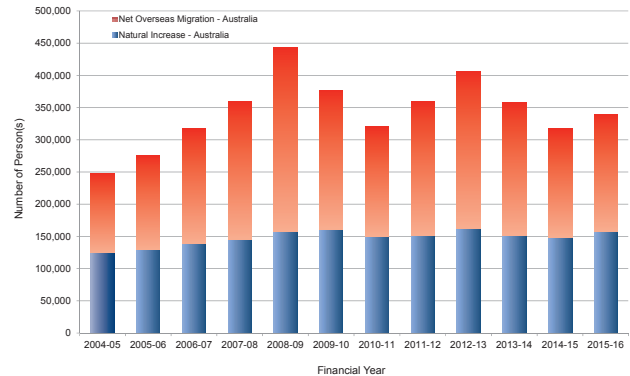
National population growth has increased by 1.5% since June 2015. The largest increase was recorded in Victoria (2.2%), followed by New South Wales (1.4%) and the Australian Capital Territory (1.4%). Queensland's population increased by 1.4%, which has slowed over the past years due to slowdown in the resources sector.

In 2015-2016 Australia's net overseas migration experienced an increase (8.0%) above what was experienced in 2014-15 (-18.3%). Over the past 12 months New South Wales, Victoria, Queensland, and Tasmania each experienced a positive growth for overseas migration at 7.2%, 20.2%, 4.7% and 10.7%, respectively. The rest of the states recorded a decline of between 3.6% (Western Australia) and 62.6% (Northern Territories). This suggests that among all states Victoria has become the most desirable place for overseas migrants between 2015 and 2016.

In June 2016 the natural increase of Australia's population increased by 6.2%, which was a reverse of the decline in 2015 of 2.2%. Natural increase of Australia's population was recorded at 158,087 in June 2015-2016 and net overseas migration was 181,648 – a reverse in the trend experienced in the past two years prior. New South Wales recorded the highest natural population increase of 45,773 residents in 2016, Victoria came second with 43,856 residents, and Queensland became third with 33,059 residents.

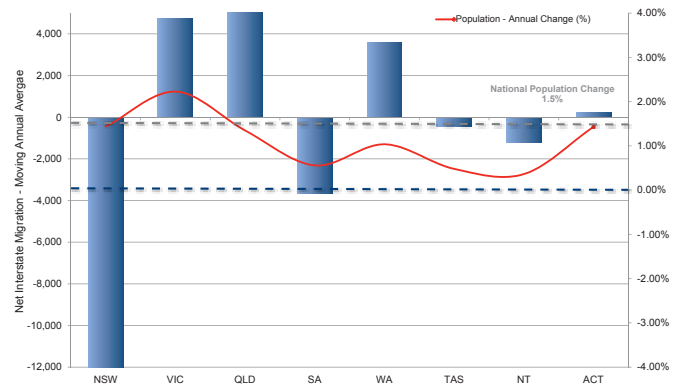
From the number of people perspective New South Wales remained the leader for net overseas migration; with 70,810 residents moving into the state. This is followed by Victoria (64,970) and Queensland (19,966). However, New South Wales experienced the largest decline for net interstate migration (-14,595), while Queensland had the highest increase in net interstate migration of 11,347 people; followed by Victoria (4,738 people).

COMPONENTS OF POPULATION GROWTH



Prepared by PRDnationwide Research
Source: ABS Statistics, Catalogue 3101.0 Table 2, last updated June 2017

POPULATION GROWTH & NET INTERSTATE MIGRATION



Prepared by PRDnationwide Research
Source: ABS Statistics, Catalogue 3101.0 Table 4, last updated March 2017

WHAT DOES THIS MEAN FOR YOU?

- ✓ The Australian population experienced an annual growth rate of 1.5% over the 12 months from June 2015. The continuation of a growing population is likely to create more demand for property and absorb current residential developments in the short run.
- ✓ Net overseas migration has increased by 8.0% in Australia. An increase in net overseas migration might result in faster population growth rates in the long run, impacting new housing and rental property demand in the future.
- ✓ Victoria continues to lead in annual population change, creating more opportunities for property demand and growth in the region.

GLOSSARY

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 the non-farm sectors and is conducted by the National Australia Bank (NAB).

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 Reserve Bank of Australia (RBA) aims to constrain inflation in a long-run target range of 2-3%. The underlying inflation figure (as measured by the RBA) removes volatile items such as fruit and fuel.

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.

National Residential Construction Graph

This data provides an early indication of trends in building and engineering construction activity. The data is estimated based on a response rate of approximately 85% of the value of both building and engineering work done during the quarter.

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 for both owner occupiers and investors.

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 between 16 and 55 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.

RBA Commodity Price Index Graph

The Reserve Bank's Commodity Price Index provides an indicator of primary commodity price movements. High commodity prices are one of the primary drivers behind Australia's robust economy, influencing real estate prices, demand for housing and rental accommodation; particularly in Western Australia, Northern Territory, Northern Queensland and as of late South Australia.

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.

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.

RP Data-Rismark Dwelling Home Value Index Graph

The Rismark Dwelling home Value Index graph measures an annual & monthly change in dwelling values of the capital cities.

Home Loan Affordability Index Graph

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

Quarterly Vacancy Rates Graph

An industry benchmark for vacancy rates is considered to be 3%. Vacancy rates lower than 3% indicate strong demand for rental accommodation, whilst rates higher than 3% reflect an oversupply of rental accommodation.

Population Growth Graph

Population change 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.

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