PRD. REAL ESTATE

Australian Economic and Property Report 2020

Balancing On A Tightrope: Where To Now?

"Although industries such as tourism and hospitality have been badly affected throughout this difficult period, the property market has been remarkably resilient."

FOREWORD

Just when you thought you had seen every possible disruption, along comes a global pandemic to significantly impact the economy, our lifestyle and the property market.

Despite extensive droughts and bushfires, we were amid a market recovery in the latter part of 2019 and the first two months of 2020.

However, COVID-19 hit us swiftly and threw the economy and property markets into turmoil.

Dealing with an entirely new set of circumstances has been incredibly challenging for Governments around the world.

In Australia, the Federal Government reacted quickly to provide incentives to stimulate the economy and keep as many people as possible in jobs.

We are now in the middle of an economic recession and we will continue to walk a tightrope for the foreseeable future. The balance between health and wellbeing and financial impacts will provide continual challenges for all levels of government and the private sector.

Although industries such as tourism and hospitality have been badly affected throughout this difficult period, the property market has been remarkably resilient. Although prices and rents have reduced marginally, demand has been stronger than many people anticipated.

In fact, some markets have seen price growth and good sales volumes leading up to the end of the financial year, particularly in some major regional markets where the impact of the bushfires and the pandemic has been minimal.

Auction clearance rates, in the major markets, have been encouraging albeit off low volumes.

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The key going forward will be increasing levels of employment, public and private investment and consumer confidence based on the ongoing impact of COVID-19.

Significant investment in government infrastructure and private development projects can provide the necessary stimulus to accelerate economic recovery.

This report release signals a significant change in the economic conditions and the impact on the property markets around Australia. Hopefully it will assist you in navigating through the various future challenges we face as a result of these unique circumstances.

Now in its thirteenth year, PRD are proud to present our Australian Economic and Property Report.

We trust this report will give you a good overview of the current economic drivers and their impact on the property market thereby assisting you in making fact-based property decisions.

Todd Hadley
PRD Managing Director

Tony Brasier
PRD Chairman

"The property market started strong in 2020 and coupled with a historic low cash rate, it is somewhat protected from the short-term restrictions of COVID-19."

WELCOME

As we closed 2019 many were looking forward to a "fresh start" in 2020. After what seemed to be tumultuous year many embraced the headline theme of "20/20 vision".

Little did we know that 2020 would be the year we would never forget.

As a society we have been through a lot so far. We barely recovered from the bushfires that rampaged many areas in New South Wales (NSW) and Victoria (VIC), before being confronted with floods in Queensland (QLD) and NSW. We took a pause and then COVID-19 hit.

COVID-19 has had a major impact on our lives; not only Australians, but citizens worldwide. In a bid to contain community transmission of the virus strict restrictions were put in place, resulting in a short-term shut down of the economy. Many lost their jobs or had to accept reduced hours and there were concerns for people's mental health and wellbeing.

During this chaos our Federal Government was able to strike a balance, through the release of stimuluses, schemes, and incentives to assist all parts of Australian life. It spent close to 16.2% of Australia's Gross Domestic Product (GDP), which puts us in second spot in terms of spending within G20 Developed Nation's responses to COVID-19, only behind Germany (21.4%). Australia's stimulus payment per capita during COVID-19 was higher than Canada, Japan, New Zealand, the United States of America, and the United Kingdom.

With many balls being juggled trying to maintain balance has become a recurring theme in 2020. In the face of significant unemployment levels and loss of income, a new personal income tax reform has been delivered in late July by the Federal Government. Homeowners' and landlords' fears were balanced out by extremely low interest rates and banks offering a holiday period on a variety of loan repayments. Numerous construction projects were stalled but fears for that sector were balanced with the release of the HomeBuilder grant.

The property market came under high scrutiny with many predicting major losses in home values and a crash in the rental market. We did experience a slowing in capital city transactions, which was not unexpected given the restrictions regarding open homes and auctions. However, once this lifted real estate activity bounced right back. This was especially so in regional markets where there have been unprecedented sales numbers. The property market started strong in 2020 and coupled with a historic low cash rate, it is somewhat protected from the short-term restrictions of COVID-19.

As for the rest of 2020 there remains many uncertainties – a major one being the potential of a second wave of COVID-19 infections, both within Australia and worldwide, and how it will impact the economy. As we take small steps in economic recovery, we may still face a few curveballs. However, based on the strength of our economic fundamentals and the Australian spirit, I am confident that we will safely make it to the other side of this tightrope.

Dr Diaswati Mardiasmo
PRD Chief Economist

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

Health of the Market Indicator:

Red: Cautious

Need to pay increased attention.

Yellow: Somewhat stable

Needs to be carefully monitored.

Green: Go!

Healthy market conditions.

PRD Research Team Key Contributors:

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ABOUT PRD RESEARCH

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

Our Knowledge

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

Our People

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

Our Services

PRD provides a full range of property research services across all sectors and markets within Australia. 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 analysis
- Geographic information mapping
- Project analysis including product and pricing recommendations
- Rental and investment return analysis
- Competitive project activity analysis
- Selling and managing properties
- Social science research, including empirical data collection methods

PRD. RESEARCH

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

Through a series of research products PRD provides to a wide range of direct and indirect stakeholders, the most up-to-date data and analysis on monetary and fiscal policy movements, local Government initiatives and relevant residential, commercial, and infrastructure project developments.

The research team develops reports, conference papers and regular media commentary in conjunction with multiple stakeholders including academics, organisations, communities and Government departments.

It contributes innovative research relevant to local, regional, and national interests.

ABOUT PRD

PRD Real Estate is an acknowledged real estate industry leader.

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

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

Service

We are proud of our ability to deliver unrivalled service and build strong relationships that generate the best possible outcomes for our clients. We believe that one of the most important elements of maximizing your sale price is asking the right questions early on in the process. Finding out everything we can about you and your property is paramount to us understanding your goals and achieving the right outcomes for you.

Integrity

We are a client-focused business that operates ethically and with honesty in all of our dealings. Be it a 'once in a lifetime' sale or purchase of a home, or an enduring collaboration in terms of your property's management, we partner our efficiencies with our transparency. Integrity is a driving force behind the confidence that our clients experience when working with us.

Teamwork

Fostering a united team spirit is also one of our key philosophies, and one of our dedicated staff will be supporting you every step of the way. This includes providing you with the key tools you need to on your real estate journey, meaning you'll be selling or purchasing your new home before you know it!

Community

We live where we work and we love where we live, so for us, it's not all about real estate. We are also dedicated to the local communities we are part of and we pride ourselves on these relationships, whether it's sponsoring local sporting clubs, supporting local charities or participating in community events. So don't be surprised to see us at your favourite coffee shop, cheering on the local sporting team or generally helping out around the community.

Knowledge

We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections. Access to accurate and objective research is also the foundation of all good property decisions, so we use this to leverage our knowledge and experience to deliver innovative and effective solutions to our clients.

Key focuses we undertake include researching the economy, demographic and psychographic shifts, commercial and residential design and understanding new issues impacting our industry such as sustainability and the environment. This allows us to forecast future implications around these issues based on facts and historical data.

OVERVIEW

The theme for this year's Australian Economic and Property Report is 'Balancing on a tightrope: Where to now?'; appropriately chosen considering the multitude of events that has forced our Governments and society to re-think the way we tackle the many aspects of life, while at the same time still leaving a cloud of uncertainty over the rest of the year.

There are many balls being juggled, with an action/reaction dynamic being employed in the attempt to create a balance. Of all the health crises the world has faced – African Ebola, Avian Influenza, and Swine Flu – COVID-19 is the one that has caused the biggest disruption to our way of life and led to the most acute short-term closure of the economy.

The Reserve Bank of Australia (RBA) responded quickly, with an emergency cash rate cut in March 2020. It then did an unprecedented double cut in March, on the 4th and 20th to be precise, bringing us to a historic low rate of 0.25%. This helped balance financial market fears as many of the world's stock exchanges experienced a deep dive and the "doom and gloom" commentary of a worldwide economic crash. Since May 2019 the RBA has cut the cash rate five times, giving a strong signal of an upcoming economic downturn.

The Australian economy is experiencing its biggest contraction since the 1930s. Since March, an unprecedented 800,000 people have lost their jobs, with many others only keeping their job because of Government and other support programs. Treasurer Josh Frydenberg officially announced that Australia was in a recession as the National Accounts dropped by -0.4% in the March quarter of 2020. Another decline is forecast for the June quarter of 2020. Conditions have, however, stabilised recently and the downturn has been less severe than earlier expected. While total hours worked in Australia continued to decline in May, the decline was considerably smaller than in April and less than previously thought likely.

The proportion of family income required to meet home loan repayments increased by 7.4% nationally in the 12 months to the March quarter of 2020, which has put a strain on household budgets. That said, there is a balance. The proportion of family income devoted to meeting median rents declined by 1.7% nationally in the 12 months to the March quarter of 2020, which brings a sigh of relief to those renting. Australians are currently benefitting from a historical low 4.52% standard variable bank loan rate and an average three-year fixed rate of 2.35%. This creates extremely conducive conditions for those who are looking to enter the property market, upgrade their home, or re-finance loans.

The Australian property market has experienced an interesting dynamic during the past year, with many predicting a market crash due to COVID-19. Property prices experienced moderate growth in mid-2019, climbing to almost recovery levels towards the end of the year. Sydney and Melbourne led the way, as well as metro markets. Early 2020 delivered a strong property market which was dampened in activity by COVID-19 restrictions on open home inspections and auctions. As the economy slowed due to COVID-19 and balancing financial instruments were introduced (the historical low cash rate and unprecedented low fixed interest rates on home loans), property sales in capital cities also slowed with minimal discounts to final sale prices.

As restrictions eased the property market returned stronger than before as a result of pent-up demand. This is not surprising, as consumer confidence also rose, and retail spending experienced a slight recovery. Regional markets have had an unprecedented spike in economic activity – not only in terms of property market inquiries and sale numbers, but also in other aspects of the economy.

Australia's rental market was a point of high concern throughout COVID-19. There were concerns about whether tenants could meet their rental obligations if they had experienced a loss of income. Negotiations between those representing renters and landlords resulted in new rental laws being introduced both at Federal and State Government levels, to protect both parties. Australia's national vacancy rate hit its peak in April 2020, sitting at 2.6%. Although this spiked concern, a historical analysis since 2005 of the Australian rental markets shows quick recovery after a health and/or financial shock, with the vacancy rate likely to decline within two to three months post-shock event.

Beneficiaries of the Government's attempted balancing act to steady the economy are first home buyers. The Federal Government announced two back-to-back schemes that would assist them. In June 2020 it unveiled the HomeBuilder Grant with a double pronged objective: a) assist first home buyers in entering the market and b) stimulate the residential construction industry through new home builds and renovations. Through this first home buyers can access $25,000, which can be added on top of the relevant State Government's First Home Buyer Grant. In July 2020 the Federal Government announced the opening of the second round of the First Home Loan Deposit Scheme, allowing first home buyers to purchase a modest home with a deposit as little as 5.0%.

The number of loans to first home buyers across Australia increased by 23.1% in the 12 months to the March quarter of 2020. Tasmania (TAS) leads the nation in first home buyer growth, increasing by 85.5% during this time. It was followed by the Australian Capital Territory (ACT) (57.6%) and NSW (33.3%). This is a win, particularly as Australia's home loan affordability declined by 7.1% in the 12 months to the March quarter of 2020. In the 12 months to the March quarter of 2020 VIC and NSW experienced the largest decreases in home loan affordability, by -7.7% and -7.5% respectively.

The global economy has experienced a severe downturn as countries seek to contain the coronavirus. Leading indicators have generally picked up recently, suggesting the worst of the global economic contraction has now passed. Despite this, the outlook remains uncertain and the recovery is expected to be bumpy and will depend upon containment of the coronavirus.

Although there are signs of a gradual improvement, the nature and speed of the economic recovery remains highly uncertain. Uncertainty about the health situation and the future strength of the economy is making many households and businesses cautious, and this is affecting consumption and investment plans. A series of unprecedented fiscal and monetary policy assistance is helping keep the balance, while Australia continues to walk the tightrope to full economic recovery.

There are many balls being juggled, with an action/reaction dynamic being employed in the attempt to create a balance.

KEY FACTS

Consumer Price Index:	**2.2 %**
Standard Variable Home Loan Rate:	**4.52%**
Unemployment Rate:	**7.1%**
Average Australia Fuel Price:	**$1.2/L**

PROPERTY GROWTH

Property Market On A Tightrope Remains Resilient

AVERAGE GROWTH IN MEDIAN HOUSE PRICE

	Capital City					Metro					Regional				
	1st Half 2018	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020	1st Half 2018	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020	1st Half 2018	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020
NSW	-9.7%	-7.7%	-8.6%	5.7%	10.8%	-3.4%	-4.7%	-9.9%	0.3%	12.2%	2.5%	0.5%	-2.8%	3.8%	5.3%
QLD	1.5%	1.8%	0.7%	0.7%	3.6%	2.7%	2.3%	1.1%	0.9%	1.2%	0.5%	-1.1%	-1.2%	2.8%	0.0%
VIC	6.3%	-15.2%	-17.6%	8.4%	14.3%	6.2%	-1.8%	-8.8%	1.1%	5.4%	5.5%	6.6%	3.3%	4.4%	4.4%
WA	-9.6%	9.1%	37.5%	-9.4%	-9.1%	-0.4%	-1.0%	-3.9%	-2.7%	-2.1%	-3.6%	-3.4%	1.5%	-0.1%	-0.5%
TAS	9.5%	4.4%	3.4%	1.6%	9.0%	14.5%	9.4%	4.8%	6.4%	10.2%	9.1%	7.0%	4.7%	9.3%	9.8%
NT	-8.3%	-3.8%	-3.5%	-5.8%	-6.0%	-5.8%	-2.5%	-2.6%	-6.2%	-3.6%	-4.3%	-4.5%	1.3%	-11.7%	2.5%
SA	-9.8%	32.9%	34.7%	-10.5%	-15.4%	2.5%	2.5%	2.0%	-0.2%	-4.5%	-1.7%	2.6%	1.4%	0.8%	2.2%
ACT						5.8%	1.8%	1.1%	0.3%	1.6%					

Australia's property market has had its fair share of "doom and gloom" predictions following COVID-19 restrictions, with many predicting potential significant reductions in property price, particularly in capital cities. These predictions came after restrictions on home inspections and auctions were applied as part of the COVID-19 shutdown. That said the real estate industry was quick to rally and adapt, using multiple technologies to continue "business as usual". Real estate agents have anecdotally reported a decline in inquiry numbers which has led to an increase in days on market. However, this is balanced by an increase in the quality of inquiries – that is, those serious about buying a property; and the preparedness of buyers to purchase at close to first list asking price.

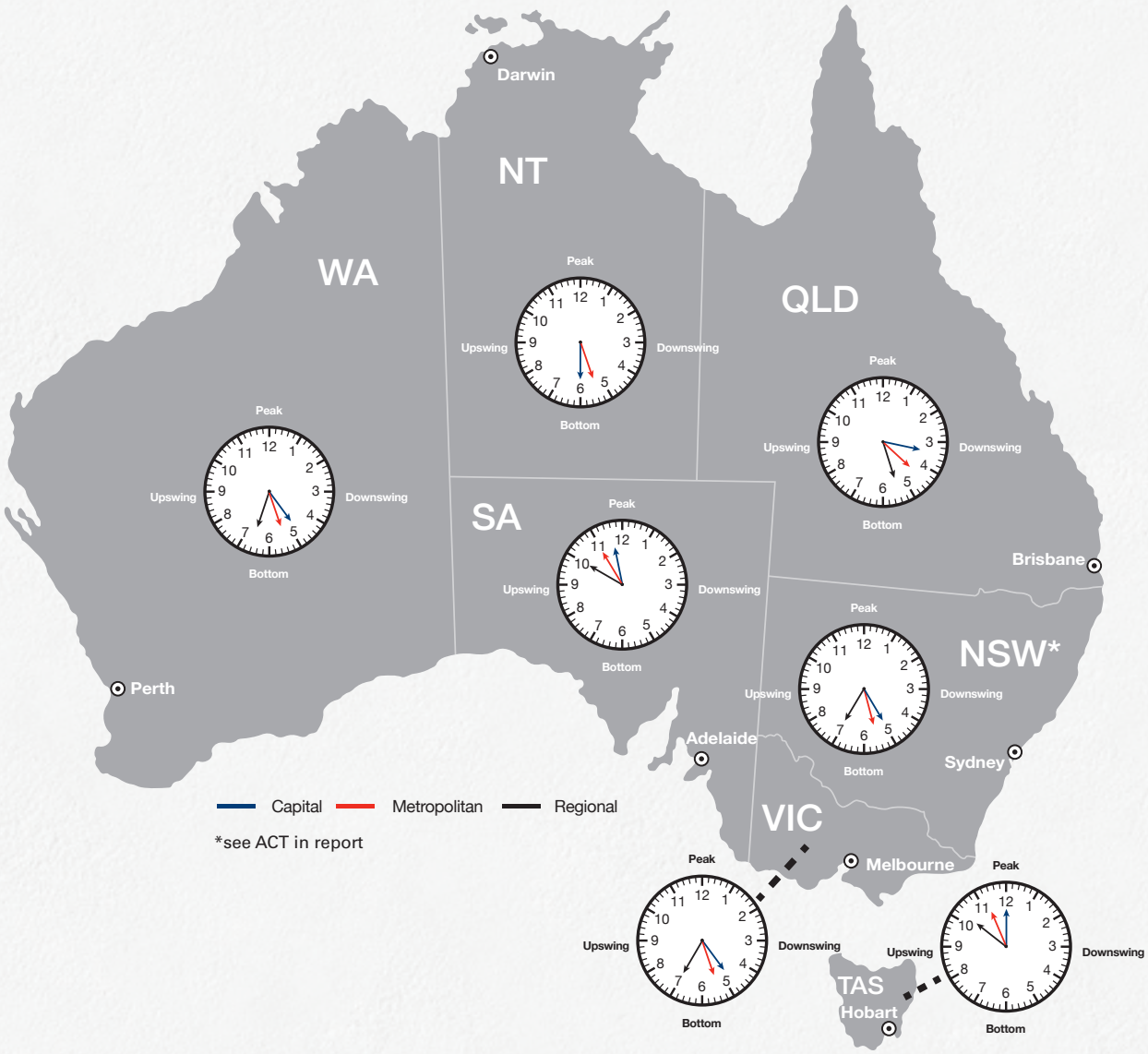
Capital city markets did experience the most tumultuous ride throughout COVID-19, however they held value and finished on a balance, recording an average of 1.0% median house price growth in the 12 months to the first half of 2020. Although this pales in comparison to the 6.7% average recorded in the 12 months to the first half of 2019, given COVID-19 restrictions capital city markets have fared better than predicted. Melbourne and Sydney led the way, with 14.3% and 10.8% median house price growth in the 12 months to the first half of 2020. This was followed by Hobart (9.0%) and then Brisbane (3.6%).

Metropolitan markets outperformed capital city markets, recording an average of 2.7% in median house price growth in the 12 months to the first half of 2020. Interestingly this brings us back to median house price growth levels experienced in early 2018. This is not surprising, considering that metropolitan markets are more affordable compared with capital city markets, and are fast growing in terms of infrastructure and commercial projects. Metropolitan TAS and NSW lead the way, with 12.2% and 10.2% median house price growth in the 12 months to the first half of 2020. This is followed by metropolitan VIC (5.4%) and ACT (1.6%).

Consistent with findings in the first half of 2019, regional markets have again come out as winners, outperforming both capital city and metropolitan markets. Regional markets recorded an average of 3.4% in median house price growth in the 12 months to the first half of 2020, effectively triple that of capital city markets. In the face of COVID-19 regional markets were slightly more insulated from economic shocks, as there was less reliance on international trade and a more affordable housing market. Regional TAS and NSW lead the way, with 9.8% and 5.3% median house price growth in the 12 months to the first half of 2020. This was followed by regional VIC (4.4%) and the Northern Territory (NT) (2.2%).

AUSTRALIA PROPERTY GROWTH MAP

Australia's property market held its value in the face of COVID-19. On average, median house prices grew for capital, metropolitan, and regional markets in the 12 months to the first half of 2020. Regional markets showed the highest resilience, growing by 3.4%. Capital city markets grew the least, at 1.0% on average. Although this is a better result than expected, we continue to walk along the property market tightrope in 2020, due to both health and economic uncertainties.



PROPERTY GROWTH

Property Market On A Tightrope Remains Resilient

MEDIAN HOUSE PRICE CAPITAL CITY

	Capital City				
	1st Half 2018	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020
NSW	$1,625,000	$1,522,500	$1,485,000	$1,610,000	$1,645,000
QLD	$680,000	$700,000	$685,000	$705,000	$710,000
VIC	$1,275,000	$1,200,000	$1,050,000	$1,301,000	$1,200,000
WA	$960,000	$1,200,000	$1,320,000	$1,087,500	$1,200,000
TAS	$690,000	$710,000	$713,500	$721,500	$777,500
NT	$518,000	$500,000	$500,000	$471,000	$470,000
SA	$820,500	$1,140,000	$1,105,000	$1,020,000	$935,000

MEDIAN HOUSE PRICE METRO

	Metro				
	1st Half 2018	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020
NSW	$1,285,500	$1,238,300	$1,158,700	$1,242,100	$1,300,200
QLD	$548,100	$562,400	$554,400	$567,400	$561,200
VIC	$894,500	$867,000	$815,500	$876,600	$859,300
WA	$560,600	$553,700	$538,700	$538,800	$527,200
TAS	$481,600	$490,300	$504,700	$521,900	$556,400
NT	$502,900	$493,200	$489,900	$462,600	$472,500
SA	$531,800	$534,400	$542,300	$533,200	$517,700
ACT	$973,500	$971,600	$984,300	$974,200	$1,000,500

MEDIAN HOUSE PRICE REGIONAL

	Regional				
	1st Half 2018	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020
NSW	$508,900	$498,100	$494,400	$516,900	$520,600
QLD	$446,400	$439,500	$441,100	$451,600	$441,300
VIC	$386,300	$395,800	$399,000	$413,300	$416,600
WA	$324,300	$322,000	$329,100	$321,800	$327,300
TAS	$293,800	$297,200	$307,700	$324,900	$338,000
NT	$408,100	$420,000	$413,600	$370,800	$423,800
SA	$293,900	$300,800	$298,100	$303,100	$304,700

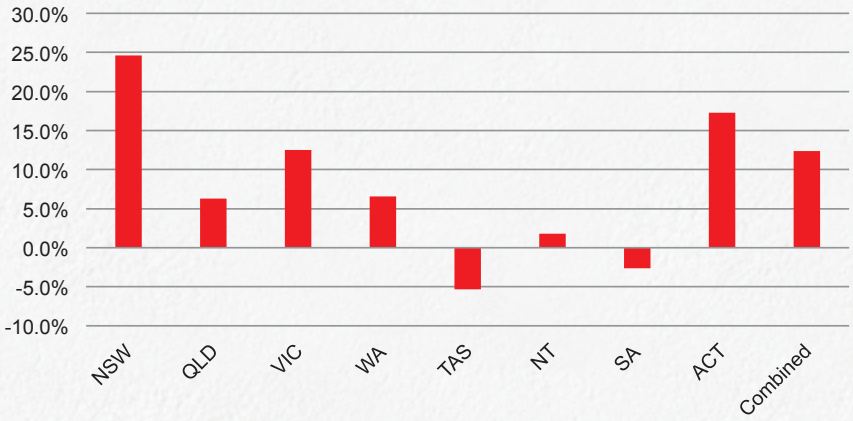
Median house price growth for the first half of 2020 reflects sales up to and inclusive of 30th June 2020. ACT median house price growth only reflects the metropolitan area, due to an absence in what is classified as "regional area" in the territory.

MEDIAN TIME ON MARKET AND VENDOR DISCOUNT

	Median Days on Market		Median Vendor Discount	
	May-19	May-20	May-19	May-20
Sydney	51	28	-6.8%	-3.4%
Melbourne	43	28	-6.7%	-3.6%
Brisbane	47	37	-5.0%	-4.2%
Adelaide	48	42	-5.2%	-4.3%
Perth	58	40	-6.9%	-5.2%
Hobart	17	22	-4.1%	-2.7%
Darwin	65	53	-6.8%	-6.4%
Canberra	49	36	-3.1%	-1.8%
Combined Capital	48	32	-6.0%	-3.9%

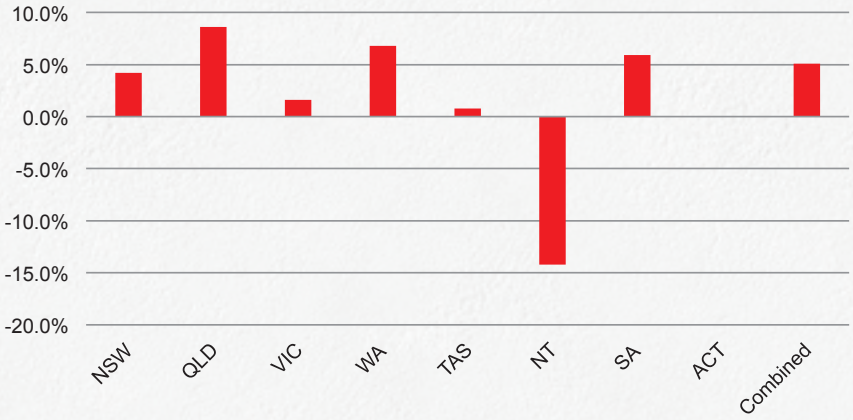
Source: Corelogic Property Market Chart Park June 2020

METRO ANNUAL CHANGE IN SETTLED SALES MAY 2020



Source: Corelogic Property Market Chart Park June 2020

REGIONAL ANNUAL CHANGE IN SETTLED SALES MAY 2020



Source: Corelogic Property Market Chart Park June 2020

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's property market has proven to be extremely resilient in the face of COVID-19, balancing on the tightrope of positive growth. On average, capital city markets grew by 1.0% in the first half of 2020. On average metro markets grew by 2.7% and regional markets grew by 3.4%. Combined this highlights the Australian property market as a safe place for both owner occupiers and investors.
- ✓ Regional settled sales have largely experienced a positive trend in the 12 months to May 2020, with combined regional settled sales increasing by 5.1%. Regional QLD leads, increasing by 8.6%, followed by regional Western Australia (WA) (6.8%) and regional South Australia (SA) (5.9%). These figures suggest resilience in regional markets, which is encouraging during these times of uncertainty.
- ✓ Combined capitals settled sales increased by 12.4% in the 12 months to May 2020, which defeats the myth of a total property market slowdown. Sydney leads the nation, increasing by 24.6%. This was followed by Canberra (17.3%) and Melbourne (12.5%). Only Hobart (-5.3%) and Adelaide (-2.6%) recorded a decline in settled sales.
- ✓ In May 2020 properties were selling the fastest in Hobart (22 days) and slowest in Darwin (53 days). This was a consistent pattern with May 2019 figures. Combined capital city average days on market was 32 days in May 2020, which represents a -33.3% decline in the past 12 months.
- ✓ Property transactions remained strong in 2020, amid COVID-19 conditions. This is evident in a decline in median days on market in all capital cities, except for Hobart. In the 12 months to May 2020 the largest decrease in median days on market were evident in Sydney (-45.1%), Melbourne (-34.9%), and Perth (-31.0%). Property prices in these three capital cities slowed the most during COVID-19, which may explain the surge in real estate transactions. Despite holding the title for lowest median days on market (22 days), Hobart recorded an increase of 29.4%. This is not surprising as Hobart's property prices experienced an upswing in late 2019, and maintained capital growth throughout COVID-19, potentially pricing out first home buyers.

CONFIDENCE

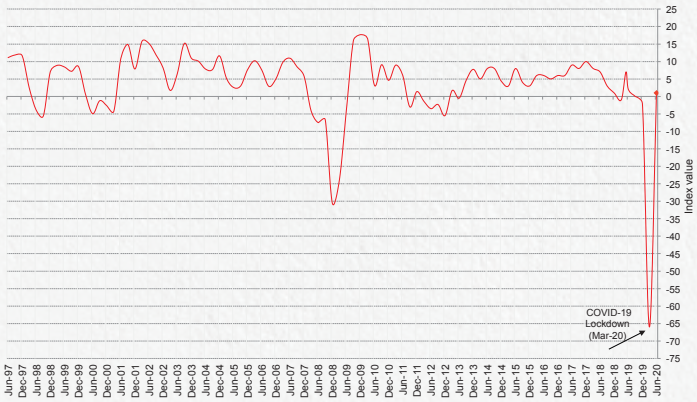
Consumer Confidence On The Rebound

Australian consumer sentiment was at 93.7 index points in June 2020, which represents a remarkable rebound after a deep plummet to 75.6 index points at the height of COVID-19 in April 2020. Although June 2020 consumer sentiment represents a -7.0% decline in the past 12 months, we are in fact at a similar consumer sentiment level to prior to all the events that 2020 has brought us, when consumer sentiment was at 93.4 index points in December 2019. Confidence has been propped up by a series of Federal Government stimuluses and grants, particularly when many lost their jobs at a quick pace. Consumer confidence has been on one of its biggest rollercoaster rides yet, however this is balanced by a quick recovery not two months beyond its deepest plummet.

Australia's business confidence has been declining since May 2019, in line with global business and financial market conditions. It took an extreme hit in March 2020, plunging to -66.0 index points in the face of COVID-19. The plummet occurred in the same months as the Australian consumer sentiment index drop, which is not surprising. The easing of restrictions has seen the cautious reopening of businesses under strict health regulations, bringing relief particularly to those in retail and tourism industries. Australia's business confidence saw a dramatic improvement, rebounding back up to a positive reading of 1.0 index points.

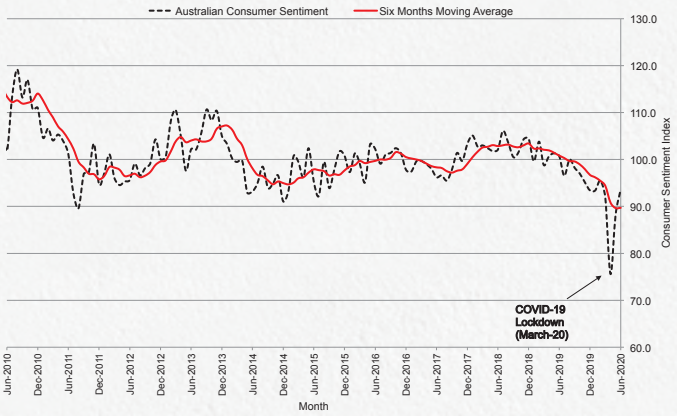
Confidence has clearly been buoyed by Australia's continued success in bringing COVID-19 under control and further easing of social restrictions. As our economy continues its path to recovery, there should be a further climb towards higher business confidence and consumer sentiment.

BUSINESS CONFIDENCE



Prepared by PRD Research
Source: National Australia Bank (NAB), last updated July 2020

CONSUMER SENTIMENT



Prepared by PRD Research
Source: Westpac/Melbourne Institute, last updated July 2020

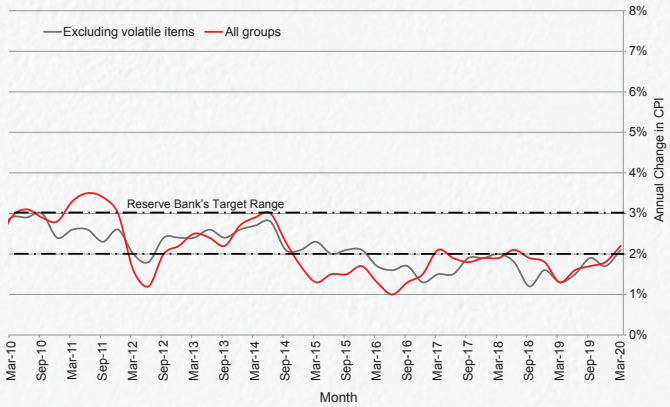
WHAT DOES THIS MEAN FOR YOU?

- ✓ Consumer confidence has returned to pre-COVID-19 levels, after a plummet in April 2020.
- ✓ Business confidence dramatically improved post-COVID-19, back to a positive reading of 1.0 index point. Continuous easing of restrictions is needed to maintain and propel this further.
- ✓ Combined this shows high resilience of Australia's economic fundamentals and provides a strong balance as we walk the rest of the 2020 tightrope.

MACROECONOMIC CLIMATE

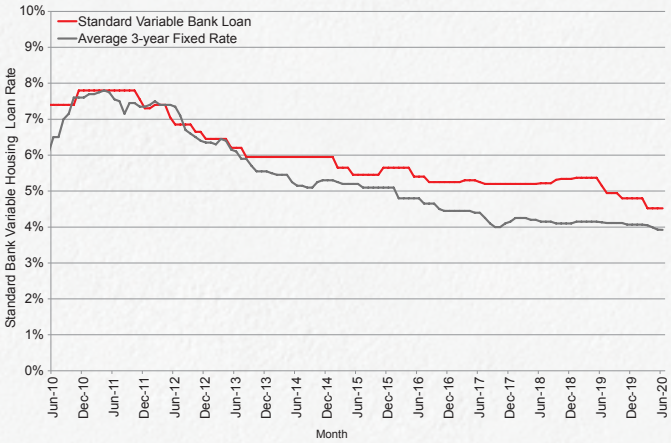
Steady Historical Low Cash Rate Supports Economic Recovery

INFLATION



Prepared by PRD Research
Source: RBA Table G1 Consumer Price Index, last updated July 2020

HOUSING LOAN INTEREST RATE



Prepared by PRD Research
Source: RBA Table F5 Indicator Lending Rates, last updated July 2020

The RBA has applied extensive expansionary monetary policy since May 2019, with five cash rate cuts in the past 12 months. The RBA performed unprecedented easing of monetary policy in March, with a double emergency cash rate cut in response to COVID-19. This brings us to a historical low cash rate of 0.25%, which has held steady for the past four months. As a result, Australians are benefitting from a 4.52% standard variable bank loan and an average three-year fixed rate of 2.35%, a historical low for both figures. This creates extremely conducive conditions for those who are looking to enter the property market, upgrade their home, or re-finance loans. The RBA has professed its commitment to keeping the cash rate low and will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2.0% to 3.0% target band.

Inflation (consumer price index) for all groups was recorded at 2.2% in the March quarter of 2020, the highest recorded reading in the past 12 months. Consumer price index has been on a declining trend since the second half of 2018, however the uptick in the March quarter of 2020 reading brings us back to the June quarter of 2018 reading, as well as being the highest reading since 2016. The RBA's target range for consumer price index is within the 2.0-3.0% band, thus the March quarter of 2020 reading suggest a stronger economy. The RBA predicts a lower consumer price index in the June quarter of 2020 due to COVID-19, as there is less consumer activity due to restrictions. This will assist household budgets impacted by reduced working hours or job loss. Inflation is expected to trend low for the rest of 2020, with an anticipated pick up in the first half of 2021.

WHAT DOES THIS MEAN FOR YOU?

- ✓ Standard variable bank loan and average three-year fixed rate loans are at historical lows of 4.52% and 2.35% respectively in June 2020.
- ✓ The March quarter of 2020 consumer price index reading reflected a stronger economy. COVID-19 should see a lowering of the index, assisting household budgets on reduced income.

FOREIGN EXCHANGE & COMMODITY PRICE

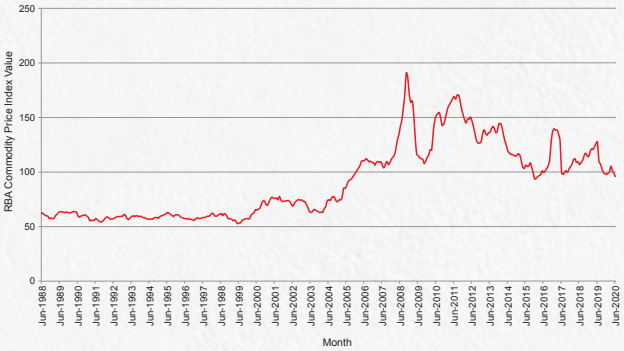
Australian Commodity Prices Have Weakened

The RBA Commodity Price Index dropped in the 12 months to June 2020 by -24.9% to 95.8 index points in Australian Dollar terms, bringing the index to its lowest point since February 2016. This was in stark contrast to last year, when there was a 19.4% increase in the 12 months to June 2019. The decrease in commodity prices is led by lower coal, iron ore, oil, and liquified natural gas (LNG) prices. An upside to this has been lower fuel prices for Australians, a welcome change for many.

The Australian Dollar has strengthened in the 12 months to June 2020, currently at 60.0 index points. In trade weighted exchange rate index terms, this represents 1.4% and 3.3% increases in the past 12 months and 6 months respectively, bringing the Australian Dollar to its highest reading of 2020. A stronger dollar allows Australians to consume imports from other countries at a more affordable level, which may be beneficial for businesses and households. That said Australian goods have become slightly more expensive compared with other countries, which will disadvantage businesses who rely on exporting goods and services.

In the 12 months to June 2020 the Australian Dollar appreciated slightly compared with the New Zealand Dollar (2.5%), Malaysian Ringgit (1.7%), Singaporean Dollar (1.1%), Indian Rupee (5.3%) and Chinese Renminbi (1.3%). This may have a negative impact on Australian tourism and international student populations, particularly as India and China are in the top three countries of origin for Australia's net overseas migration. However, this is balanced by depreciation against the United States Dollar (-1.4%), Japanese Yen (-2.1%), United Kingdom Pound (-0.3%), and Hong Kong Dollar (-2.5%); all of which are listed in Australia's top 10 trading partners.

RBA COMMODITY PRICE INDEX



Prepared by PRD Research
Source: RBA Table I2 Commodity Prices, last updated July 2020

TRADE WEIGHTED EXCHANGE RATE INDEX

Prepared by PRD Research
Source: RBA Table F11 Exchange Rates, last updated July 2020

EXCHANGE RATES

	Japan	USA	EU	NZ	UK
	Yen JPY	Dollar USD	Euro EUR	Dollar NZD	Pound GBP
Jun-2017	82.5700	0.7464	0.6626	1.0477	0.5798
Jun-2018	82.2600	0.7659	0.6459	1.0784	0.5681
Jun-2019	74.0600	0.6840	0.6087	1.0530	0.5457
Jun-2020	72.5100	0.6742	0.6052	1.0794	0.5441
% Annual Change	-2.1%	-1.4%	-0.6%	2.5%	-0.3%
	Hong Kong	**Malaysia**	**China**	**Singapore**	**India**
	Dollar HKD	Ringgit MYR	Renimbi CNY	Dollar SGD	Rupee INR
Jun-2017	5.8155	3.1849	5.0784	1.0312	
Jun-2018	5.9161	3.0036	4.8391	1.0097	50.6400
Jun-2019	5.3586	2.8605	4.7379	0.9375	48.2500
Jun-2020	5.2266	2.9085	4.7979	0.9480	50.8200
% Annual Change	-2.5%	1.7%	1.3%	1.1%	5.3%

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australian commodity prices have weakened, led by lower coal, iron ore, oil, and liquified natural gas (LNG) prices. Australians enjoyed lower fuel prices throughout COVID-19, which assisted household budgets and decreased transport costs for businesses.
- ✓ The Australian dollar has appreciated in the past 12 months, recording its highest index reading for 2020. This provides a balance in the face of COVID-19 and economic recovery, as Australians can benefit from cheaper imports.
- ✓ Despite a strengthening in the Australian Dollar the exchange rate of 60.0 index points remains low, compared with a peak of 79.2 index points in February 2012. This will continue to attract foreign investment, particularly in the residential construction sector.

LABOUR MARKET

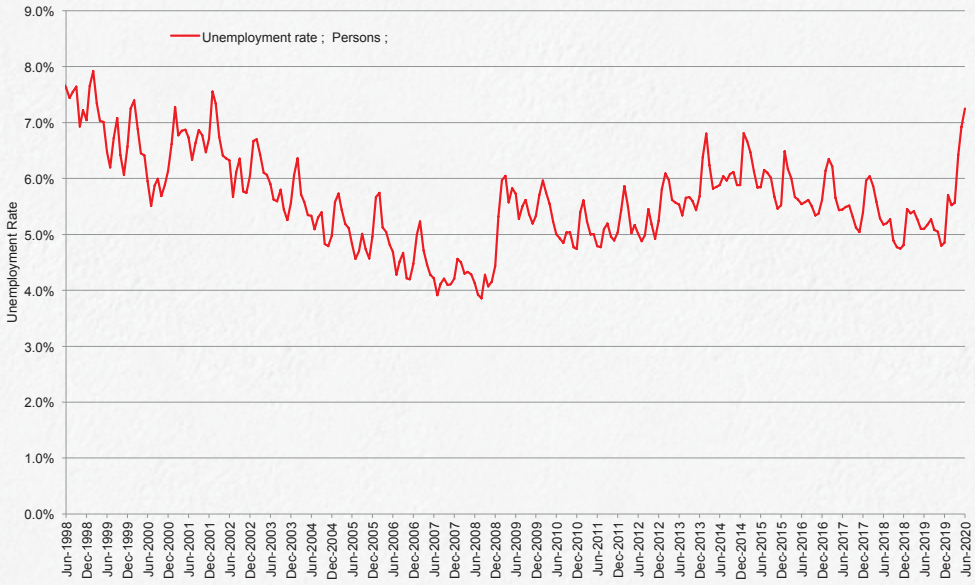
Unemployment Rate Slowly Recovering

March 2020 saw the climbing of unemployment rate, due to COVID-19 restrictions. 800,000 people have lost their jobs since then, with the retail, education, and tourism industries being the hardest hit. The Federal Government's response was swift, with the introduction of JobSeeker and JobKeeper programs to aid those in need. Other support programs to balance the economic shock included a revision in commercial real estate leasing laws, grants for small and medium businesses, and banks providing business-specific loans.

Unemployment rate was recorded at 7.2% in June 2020, the highest level Australia has seen since January 2002. This represented a 49.5% increase in the past 6 months and a 42.2% increase in the past 12 months. The second highest unemployment rate Australia recorded was 6.8%, in January 2015 when the economy was on the cusp of an uptick. Comparing the two, a differentiation between 6.8% and 7.2% unemployment rates in contrasting economic settings provides some comfort, showcasing the resilience of Australia's economy and labour force.

The easing of COVID-19 restrictions in June saw an extra 280,000 people in the labour force, with more people in employment, and more actively looking and available for work. This is underpinned by a large increase in part-time employment (249,000 people) and a further decrease in full-time employment (38,100 people). Overall, the percentage of people employed in Australia increased 1.0 percentage point to 59.2 per cent, up from a low of 58.2 per cent in May 2020.

UNEMPLOYMENT RATE



Prepared by PRD Research
Source: ABS Cat 6202.0. Last updated July 2020

WHAT DOES THIS MEAN FOR YOU?

- ✓ Unemployment levels saw an unprecedented spike due to COVID-19, swiftly balanced with the introduction of numerous Federal and State Government programs, revision of commercial real estate laws, and business-specific banking policies.
- ✓ Employment conditions have started to improve, with the easing of COVID-19 restrictions. The downturn has been less severe than earlier expected.
- ✓ Combined this should instil confidence within the society that a strong safety net exists as we walk through the tightrope of 2020.

CONSTRUCTION MARKET

Residential Construction On Uncertain Footing

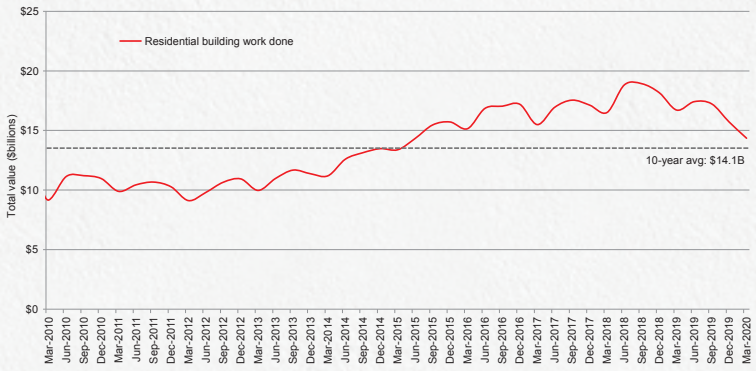
Residential construction across Australia amounted to $14.3 billion in the March quarter of 2020, which represents a decline of -16.7% in the past 6 months and -14.1% in the past 12 months. This is a stark contrast to the $16.3 billion recorded in the March quarter of 2019 and increasing trend of 4.2% between the March quarters of 2018 and 2019. Although a declining trend since September 2018's peak ($17.5 billion) may raise alarm bells, this brings us closer to the 10-year average figure of $14.1 billion, which signals a potential balance in demand and supply in the near future.

NT, NSW, and QLD experienced the largest decline in residential construction in the 12 months to the March quarter of 2020, by -26.6%, -24.6%, and -22.4% respectively. To a certain extent this will avoid an oversupply and ensuring current and/or approved new residential homes are absorbed by the market. Residential construction increased by 1.5% in SA and 12.0% in TAS, which is strategically needed to answer increasing demand and ensuring sustainable property price growth.

COVID-19 resulted in many residential construction projects halting, as the industry grappled with and adjusted to new restrictions and health regulation requirements. The Federal Government has attempted to balance this, with a policy aimed at reviving residential construction and increasing first home buyer activity. The HomeBuilder scheme provides incentives for Australians to build a new home or perform significant renovations to their existing home. Master Builders Australia predicts the program will be used for $10 billion in building activity, supporting the viability of 368,000 small builders and trades, which in total employ about 800,000 people.

The scheme does help create some balance, as any renovations must be carried out by licensed contractors. There are downsides to the scheme, for example it excludes "mum and dad" property investors and those acting in high property price areas may struggle to build a home under the price threshold set by the Federal Government. That said Australia is one of the few G20 economies introducing such a scheme during COVID-19. The Housing Industry Association reported new home sales increased by 77.6% as of June 2020, from a record low result in May. Although this data is to be treated cautiously due its month-to-month nature, it provides an indication that HomeBuilder will help protect jobs in the sector in the second half of 2020 and into 2021.

RESIDENTIAL CONSTRUCTION MARKET



Prepared by PRD Research
Source: ABS Cat 8755. Last updated July 2020

WHAT DOES THIS MEAN FOR YOU?

- ✓ A slowdown in residential construction will allow for current and scheduled property development to be absorbed by the market. This will create a more balanced supply and demand of property stock.
- ✓ Developers face large uncertainties in the face of COVID-19, both in terms of construction going ahead and the ability of the market to afford new properties. Developers need to perform a thorough residential development pipeline analysis to ensure viability of projects and create niche products that meet the needs of residents.

HOUSE FINANCE

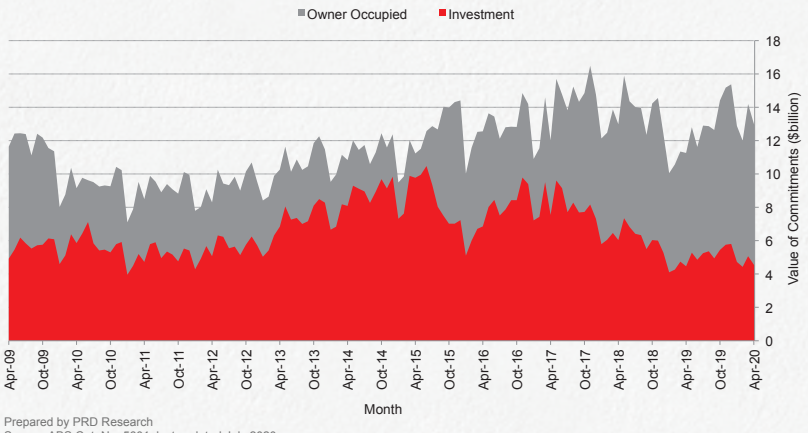
COVID-19 Shakes Up Mortgage Activity

The gross value of housing finance commitments totalled $220.0 billion in the 12 months to May 2020, which represents growth of 1.3% between the periods of May 2018-2019 and May 2019-2020. During this time owner occupiers' commitments increased by 5.1% to $159.6 billion worth of loans, whereas investors' commitments declined by -7.3% to $60.4 billion. COVID-19 resulted in a declining trend between March 2020 to May 2020, by -12.1% to $12.5 billion in owner occupier loans and by -16.8% to $4.2 billion in investor loans. May 2020 figures were almost identical to February 2020 figures, of $12.0 billion in owner occupier loans and $4.4 billion in investor loans. As restrictions ease and confidence recovers financing commitments are returning to normal levels.

Mortgage brokers are reporting a change in where some mortgage activity has come from. In April and May 2020, at the height of COVID-19, refinancing activity made up 38.0% and 36.0% of loans lodged. Due to economic changes many individuals are taking the opportunity to examine their circumstances and make changes to their financial arrangements.

However, this is balanced by heightened activity from owner occupiers who are financially secure, wanting to capitalise on the historic low cash rate, and a softer property market. Upgrader activity jumped to 42.0% of loans lodged in June 2020, bringing us back to 2018 levels prior to any uncertainties in 2019 onward. Financially stable first home buyers continue to seize their opportunity to enter the market, thanks to Federal and State Government stimulus packages. The 2019/20 Financial Year shows stable first home buyer activity, making up 15.0% of loans lodged. A further breakdown of figures on a month to month basis reveal that first home buyers made up 21.0% of loans lodged in June 2020, an all-time historic high since 2013.

HOUSING FINANCE COMMITMENTS



Prepared by PRD Research
Source: ABS Cat. No. 5601, last updated July 2020

WHAT DOES THIS MEAN FOR YOU?

- ✓ Housing finance commitments held steady between May 2018-2019 and May 2019-2020, at 1.3% growth. Amid COVID-19 fears and uncertainty there is cautious optimism, with owner occupiers leading the balance.
- ✓ The dislocation to the economy and the lives of hundreds of thousands of Australian mortgage holders due to COVID-19 have resulted in a spike in refinancing loans lodged.
- ✓ Financially secure upgraders and first home buyers are taking advantage of available Government grants and competitive offers from banks. Now is the time to capitalise on conducive lending practices.

HOME AFFORDABILITY

Home Loan Affordability Propped Up By Government Incentives

The number of first home buyer loans approved in Australia increased by 23.1% in the 12 months to the March quarter of 2020, a stark contrast compared with the -11.6% decrease experienced in the 12 months to the March quarter of 2019. This almost brings us back to the 28.0% growth level of the 12 months to the March quarter of 2018. The growth in first home buyer loans is not a surprise. Property prices in capital cities such as Sydney, Melbourne, and Brisbane recovered in mid to late-2019, and there are tighter lending policies and loan serviceability criteria being imposed by many lenders. These may have deterred first home buyers. However, this is balanced with an historic low cash rate and fixed home loan interest rates, as well as numerous schemes and incentives dedicated to first home buyers such as the First Home Loan Deposit Scheme and HomeBuilder Scheme.

The proportion of family income required to meet home loan repayments increased by 7.4% nationally in the 12 months to the March quarter of 2020, which will put a strain on household budgets. Household budget relief comes to those living in NT and ACT, as the proportion of family income devoted to meeting average home loan repayments declined by -6.9% and -2.3% in the 12 months to the March quarter of 2020.

That said, there is a balance. The proportion of family income devoted to meeting median rents declined by -1.7% nationally in the 12 months to the March quarter of 2020, thus it is now cheaper to rent. Renters in NSW, NT, and SA reap the highest benefit, with their proportion of family income devoted to meeting median rents declining by -2.5%, -1.4%, and -1.3% respectively. TAS households have experienced an increase in both, by 10.4% for home loan repayments and 4.1% for meeting median rents, further escalating the need for a significant increase in residential development.

NUMBER OF FIRST HOME BUYER LOANS

Number of Loans to First Home Buyers			
State	Q1 2020	Q1 2019	Growth
NSW	6,622	4,966	33.3%
VIC	8,624	6,933	24.4%
QLD	5,419	4,485	20.8%
SA	1,493	1,374	8.7%
WA	3,547	3,167	12.0%
TAS	564	304	85.5%
NT	200	181	10.5%
ACT	613	389	57.6%
AUS	27,082	21,999	23.1%

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2020

PROPORTION OF FAMILY INCOME REQUIRED TO MEET HOME LOAN REPAYMENTS

Proportion of family income devoted to meeting average loan repayments			
State	Q1 2020	Q1 2019	Growth
NSW	42.5%	38.0%	11.8%
VIC	37.5%	34.6%	8.4%
QLD	30.4%	29.6%	2.7%
SA	27.9%	27.7%	0.7%
WA	25.0%	24.8%	0.8%
TAS	29.6%	26.8%	10.4%
NT	20.2%	21.7%	-6.9%
ACT	21.2%	21.7%	-2.3%
AUS	34.7%	32.3%	7.4%

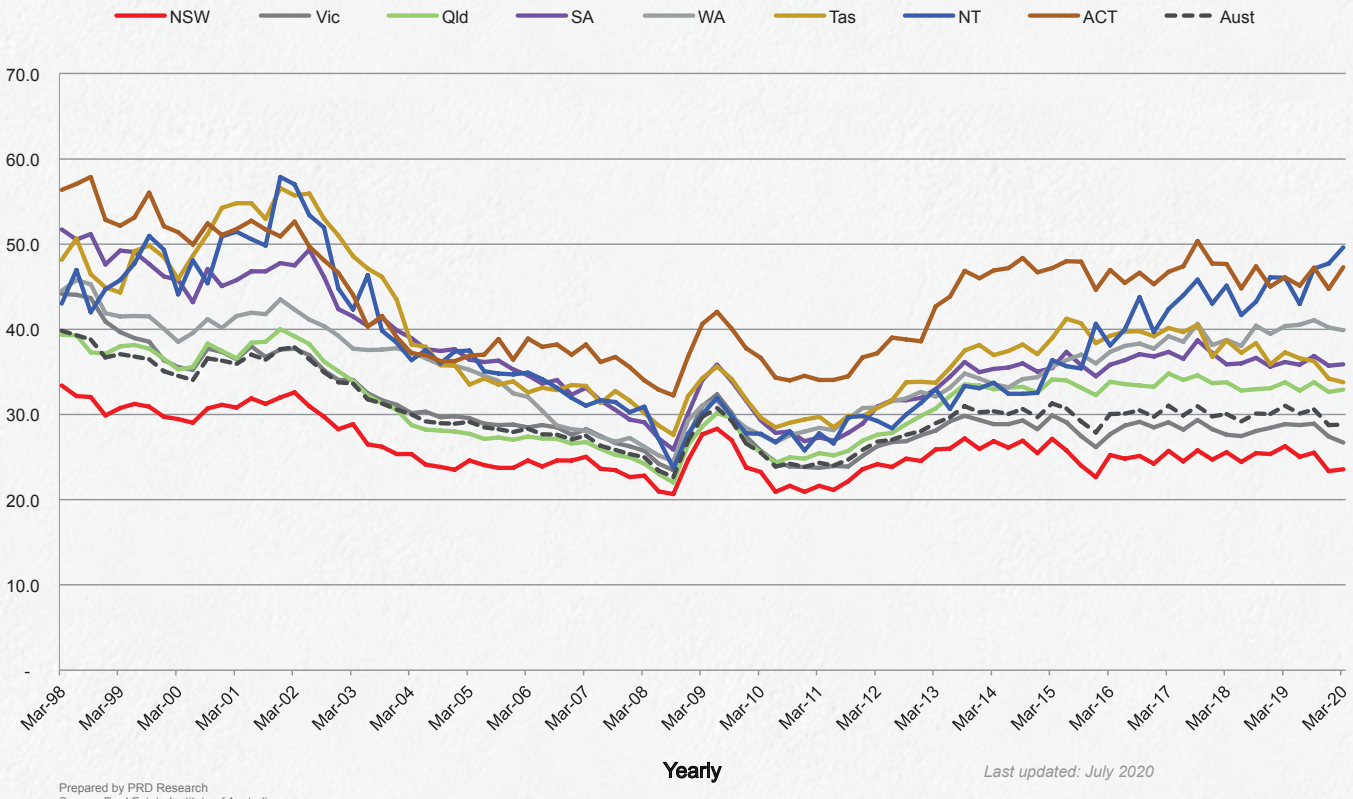
Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2020

PROPORTION OF FAMILY INCOME REQUIRED TO MEET RENT PAYMENTS

Proportion of family income devoted to meeting median rents			
State	Q1 2020	Q1 2019	Growth
NSW	27.5%	28.2%	-2.5%
VIC	23.0%	23.1%	-0.4%
QLD	22.0%	22.0%	0.0%
SA	22.5%	22.8%	-1.3%
WA	16.6%	16.5%	0.6%
TAS	30.5%	29.3%	4.1%
NT	20.6%	20.9%	-1.4%
ACT	19.0%	19.0%	0.0%
AUS	23.5%	23.9%	-1.7%

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2020

HOME LOAN AFFORDABILITY INDEX



Prepared by PRD Research
Source: Real Estate Institute of Australia

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's home loan affordability declined by -5.8% in the 6 months and -7.1% in the 12 months to the March quarter of 2020. Property prices in many capital cities saw a recovery in mid to late-2019 which combined with slow wage growth resulted in a home loan affordability index of 28.8 points for Australia, the lowest in the past three years.
- ✓ In the 12 months to the March quarter of 2020 VIC and NSW experienced the largest decreases in home loan affordability, by -7.7% and -7.5% respectively. These markets have become more expensive for home buyers, thus calling for its respective State Governments to intervene in the form of stamp duty reform.
- ✓ ACT's home loan affordability increased by 2.6% in the 12 months to the March quarter of 2020, potentially due to the significant increase in residential development in the past 24 months. NT experienced the highest increase in home loan affordability, of 7.7%. Now is the time for first home buyers and investors to enter these two markets.
- ✓ In the 12 months to the March quarter of 2020 Australian families have experienced an increase of 7.4% in the proportion of family income devoted to meeting average home loan repayments. Those in NSW have had to balance their household budgets the most, with an increase of 11.8%. TAS households were the second most impacted, with an increase of 10.4%, due to the undersupply of their housing market and high median house price growth.
- ✓ The number of loans to first home buyers across Australia increased by 23.1% in the 12 months to the March quarter of 2020. TAS leads the nation in first home buyer growth, increasing by 85.5% during this time. This is followed by ACT (57.6%) and NSW (33.3%).
- ✓ VIC continues to lead in first home buyer activity, with 8,624 loans recorded in the March quarter of 2020. This is followed by NSW (6,622 loans) and QLD (5,419 loans). Despite a decline in home loan affordability in these three States a balance is established. First home buyers have been able to continuously enter the market, thanks to numerous first home buyers' schemes and incentives introduced by all three levels of Government.

DWELLING MARKET

MARKET CONDITIONS

Dwelling Approvals Cautiously Confident

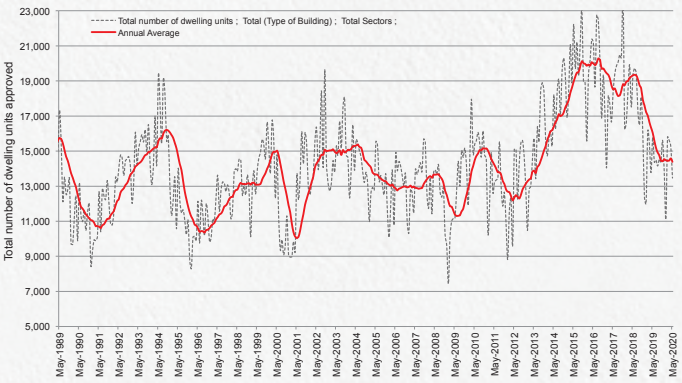
Australia's dwelling approval annual average rate declined in the 12 months to May 2020, by -10.3%. This is not surprising considering the COVID-19 situation, with dwelling applications and approval processes stalled as a multiplier effect to a short-term shutdown in both the economy and business working hours. A more balanced view is to look at the past 6 months, due to COVID-19 conditions. Doing so reveals only a -0.2% decline in dwelling approval annual average figures, which represents some sense of stability for the industry.

Dwelling approvals have been declining since reaching a peak in late 2015, following an unprecedented increase in demand due to the 2014 and 2015 property price boom. The number of total dwellings approved in May 2020 was 13,466 which represented a -14.8% decrease in the past 12 months. Surprisingly, this is an improved result compared with May 2018-2019 figures, when there was a -18.2% decline in the number of total dwellings approved.

A contraction in dwelling approvals would, in usual economic conditions, represent a more sustainable market that allows for new dwellings to be absorbed by the market. However, in current COVID-19 conditions it creates an emphasised feeling of uncertainty for those in the construction industry, particularly from a loss of income perspective. The Federal Government's HomeBuilder grant attempts to balance this, which has shown immediate results.

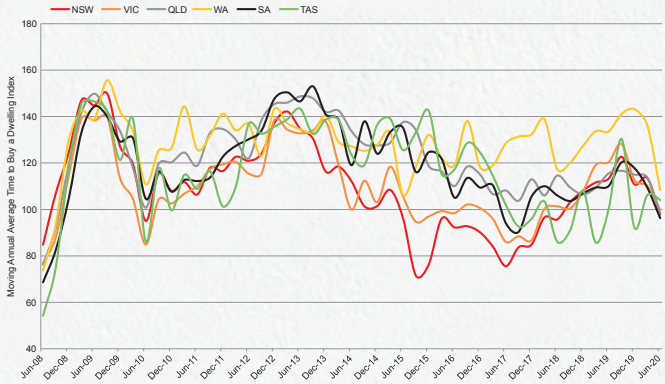
The Time to Buy a Dwelling Index across Australia is showing a cautious market, with many individual State-level indices reading just under 100 points (positive sentiment level) in June 2020. WA and TAS are deemed to be the safest markets, reading at 108.4 and 104.1 index points respectively. There is cautious confidence in NSW, VIC, and QLD markets, reading at 97.8, 99.9, and 98.2 index points respectively. Overall, these readings represent a -12.2% decline in the 12 months to the June quarter of 2020, not surprising considering COVID-19 conditions and consumer expectations of the property market. That said the June quarter of 2020 Time to Buy a Dwelling Index reading is similar to that of the June quarter of 2018, which suggests a relatively stable and balanced property market over the past 24 months. This should instil confidence in those debating on whether to enter the property market.

DWELLING APPROVALS



Prepared by PRD Research
Source: ABS Cat. No. 8731, last updated July 2020

TIME TO BUY A DWELLING INDEX



Prepared by PRD Research
Source: Westpac/Melbourne Institute, last updated July 2020

WHAT DOES THIS MEAN FOR YOU?

- ✓ Dwelling approvals continue to contract, consistent with previous yearly trends. Despite COVID-19 conditions the annual average rate only declined by -0.2%, which provides a balance in the face of economic instability.
- ✓ Less dwelling approvals can signal an undersupply in some markets, for example TAS. It also forces innovation to ensure high uptake of off-the-plan sales. This creates an opportunity for developers to enter the market with a niche product offering.
- ✓ Time to Buy a Dwelling Index hovers at under 100 index points for most States across Australia, suggesting cautious confidence. This provides a window of opportunity for first home buyers to enter the market, as there is less competition.

RENTAL MARKET

Vacancy Rates Remain Healthy

The Australian rental market has become a prominent focus in early 2020, particularly during the height of COVID-19 and its subsequent job losses. Renters were suddenly faced with a significant loss of income and landlords became uncertain of the cash-flow safety of their investments. Emergency rental laws were issued by State Governments in a bid to balance the needs of both parties, after much negotiation and advocacy from both representatives. Shortly after predictions of a crashing rental market ensued, which further created uncertainty in the market – particularly for landlords with investments in areas with a large international student and/or holiday tourism demographic.

In truth, the Australian residential vacancy rate decreased by -0.2 points in the 12 months to the March quarter of 2020, sitting at 2.4%. In real terms, this represented 67,371 unoccupied rental properties across Australia, most of which are found in Sydney (21,443 properties) and Melbourne (11,091 properties). Australia's national vacancy rate did hit its peak in April 2020, sitting at 2.6%. That said a historical analysis since 2005 shows quick recovery after a health and/or financial shock, with the vacancy rate likely to decline within two to three months post-shock event.

In the March quarter of 2019 Sydney lost its title as the most expensive capital city to rent a three-bedroom house, which continues to be the case in the March quarter of 2020. Canberra continues to hold this title, commanding $535 per week. That said Sydney continues to hold the title for the most expensive capital city to rent two-bedroom units in the March quarter of 2020, at $530 per week, followed by Canberra, at $490 per week. In the 12 months to the March quarter of 2020 the Australian rental market has increased in value, particularly for three-bedroom houses in Perth (increase of 7.0%) and two-bedroom units in Brisbane (increase of 6.6%). During this timeframe only Sydney renters have experienced an improvement in rental affordability, with a stable median rental price for three-bedroom houses and a decline of -3.6% for two-bedroom units.

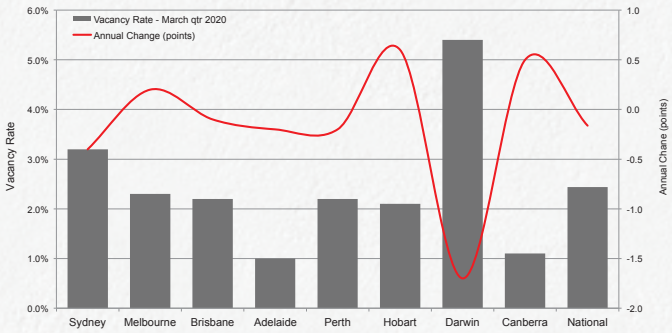
Implied rental yield for houses for the March quarter of 2020 were strongest in Canberra (5.6%) and Darwin (4.2%). Interestingly this is the same pattern as both the March quarters of 2019 and 2018, establishing both capital cities as strong investment choices for houses. This is further supported by a stable vacancy rate in Canberra and a -1.7% decline in Darwin. Implied rental yield for units for the March quarter of 2020 is led by Darwin (5.9%), followed by Hobart (5.7%) and Brisbane/Adelaide (both at 5.3%). Hobart's vacancy rate has remained stable in the 12 months to the March quarter of 2020, whereas Darwin's, Brisbane's, and Adelaide's have declined.

ANNUAL MEDIAN RENT PRICES

Annual Median Rental Price								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	$500	$410	$390	$375	$350	$460	$459	$535
2 b/r Unit	$530	$460	$405	$315	$340	$395	$330	$490

Median Rental % Change								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	0.0%	2.5%	2.6%	1.4%	2.9%	7.0%	1.0%	2.9%
2 b/r Unit	-3.6%	2.2%	6.6%	3.3%	4.6%	3.9%	4.4%	3.2%

QUARTERLY VACANCY RATE



WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's vacancy rate has historically shown a high resilience to health and/or financial shocks, bouncing back two to three months post-event. This should build investor confidence.
- ✓ Implied house rental yield for the March quarter of 2020 is the highest in Canberra, whereas implied unit rental yield is the highest in Darwin.
- ✓ The Australian rental market has increased in value in the 12 months to the March quarter of 2020, despite COVID-19 fears.

DEMOGRAPHICS

India Is The Main Component Of Net Overseas Migration

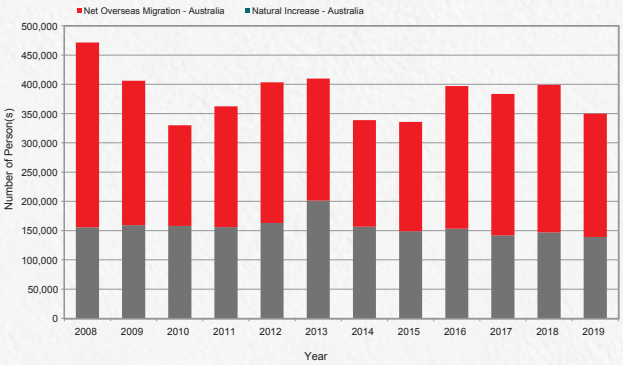
As of July 2020, the Australian Bureau of Statistics (ABS) projected the resident population of Australia to be 25,625,139 people. Annual growth was recorded at 1.4% as of December 2019, with 39.8% of this growth due to natural increase and 60.2% due to net overseas migration.

VIC leads in population change, growing by 1.9% in the 12 months to December 2019, followed by QLD (1.6%) and WA (1.3%). QLD continues to lead in net interstate migration, with an extra 6,860 people calling the sunshine State home. This is the complete opposite to NSW, which saw a significant decline in the number of people moving into the State. A potential explanation is the extremities in property prices and living costs between QLD and NSW, with Brisbane's median house price at about half that of Sydney's. An increase in population translates to an increase in commercial activity and housing demand, which creates exciting opportunities for both commercial and residential developers.

Many believe that China, followed by the United States of America (USA) and United Kingdom (UK), are the major components of our net overseas migration. While this may have occurred in the past, 2017 saw a wind of change, with India, China, and Nepal leading net overseas migration figures. This can lead to a change in business strategy and product development, particularly as many businesses seek to innovate post the COVID-19 pandemic.

In 2018-2019 India accounted for 28.7% of net overseas migration, significantly higher than China (12.2%). Interestingly net overseas migration from China significantly decreased between 2017-2018 and 2018-2019, by -34.3%. During the same timeframe Nepal and the Philippines have climbed into the top 10 of Australia's net overseas migration contributors, increasing by 9.6% and 7.1%. Overall NSW remains the epicentre for net overseas migration, with 36.0% calling the state home. This is followed by VIC (35.2%), QLD (13.5%), and WA (6.6%). However, when broken down by country of origin, there is a different story. The majority of those originating from India, China, Vietnam, and Sri Lanka have chosen VIC as their new home. Those from Nepal, Philippines, United Kingdom, Pakistan, and Iraq have chosen NSW; whereas those from South Africa have chosen QLD.

COMPONENTS OF POPULATION GROWTH



Prepared by PRD Research
Source: ABS Statistics, Catalogue 3101.0 Table 2, last updated July 2020

POPULATION GROWTH & NET INTERSTATE MIGRATION

Prepared by PRD Research
Source: ABS Statistics, Catalogue 3101.0 Table 4, last updated July 2020

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's population increased by 1.4% in the 12 months to December 2019, with VIC leading in annual population change.
- ✓ India, China, and Nepal are the top three contributors to Australia's net overseas migration. This is leads to strategic product development and marketing opportunities.
- ✓ QLD leads the nation in net interstate migration, creating unique opportunities for both commercial and residential developers.

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 business in 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 2.0-3.0%. 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 are estimates based on a response rate of approximately 85.0% 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.

Types of Mortgages Lodged Graph

Mortgages lodged tracks the average loan of mortgages lodged in a financial year, shown in Australian Dollars.

This graph shows the proportion percentage of mortgage applicants including investors, first home buyers, refinancers, and upgraders.

Unemployment Rate Graph

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

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

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

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.

GLOSSARY

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

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

Population Growth Graph

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

Net Interstate Migration Graph

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

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

Net Overseas Migration Graph

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

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

Regional Annual Change in Settled Sales May 2020 Graph

A percentage figure capturing the change in settled sales between May 2019 and 2020, for all dwelling types across regional areas of Australia.

Metro Annual Change in Settled Sales May 2020 Graph

A percentage figure capturing the change in settled sales between May 2019 and 2020, for all dwelling types across metro and capital city areas of Australia.

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