PRD. REAL ESTATE

AEPR 2023

AUSTRALIAN ECONOMIC & PROPERTY REPORT

How Multiple Layers Shape Local Property Markets

FOREWORD

Welcome to the 16th edition of our Australian Economic and Property Report.

Titled "How Multiple Layers Shape Local Property Markets", the report aptly portrays the complexities that impact our property trends and how these variables interact with each other to shape local markets. We are seeing some pockets still recording different levels of price growth in both capital and regional areas, yet simultaneously, other pockets have been recording declining prices.

"Without a doubt, there are numerous issues within our property market. However, it is through these challenges that we formulate solutions. Our housing shortage is at the core of our issues, affecting household affordability for buyers, owners, investors, and renters alike."

Every government, community housing provider, and important property sector peak body is now asking for a united plan that provides a diverse range of housing stock, both for the private market and for social and affordable housing. We also have some good news. For example, the return of skilled workers since the re-opening of Australia's international borders in late 2021 is affecting several sectors, including house and apartment construction and manufacturing businesses. All else being equal, we should begin to see this translate into the market in late 2023/early 2024, which will help to alleviate the housing shortage.

Following 12 cash rate hikes (since May 2022), our property market is entering a new phase in the cycle. We trust this report will give you a good outlook on the current economic environment, its impact on the property market, and your future investment strategies.

Todd Hadley
PRD Managing Director

WELCOME

"Cash rates went up again. My payments have changed so much."

"Cash rates are on hold. What a relief."

And so goes the pattern in which all manners of my communication – email, text message, social media, phone calls, etc. have pinged in the past 12 months.

More than ever, how the economy is performing and its impact on the property market is widely discussed. I seem to be on stage almost weekly, providing an economic and property market update to a wider variety of audiences in all parts of Australia. It was even the topic of debate when we hosted a dinner at home with our friends. Interestingly, the discussion revolved around how it has impacted not only their property related decisions, but also day-to-day budgets like food, entertainment and travel.

In June 2023, the Reserve Bank of Australia (RBA) increased the cash rate to 4.1%. This was higher than the cash rate peak predicted in their May 2023 Statement of Monetary Policy, causing a ripple effect throughout the economy. We became uncertain as to where the economy was heading, which, when coupled with continuously higher cost-of-living, resulted in moderated spending. The good news is this was captured in our inflation data and trends, which have continued to decline.

Following this, the RBA held the cash rate at 4.1% for two consecutive months, providing us with some relief (to the household budget) and stability (that allowed us to make financial decisions). The August 2023 Statement of Monetary Policy projected only a slight upward trend in cash rate expectations, peaking at approximately 4.2%, before travelling down to just under 4.0% towards the end of 2024. Although the RBA is still determined to pull down inflation to the target rate of 2-3.0% sooner than later, this suggests that the period of multiple cash rate hikes is ending.

"There's nothing left to buy. There's hardly any stock."

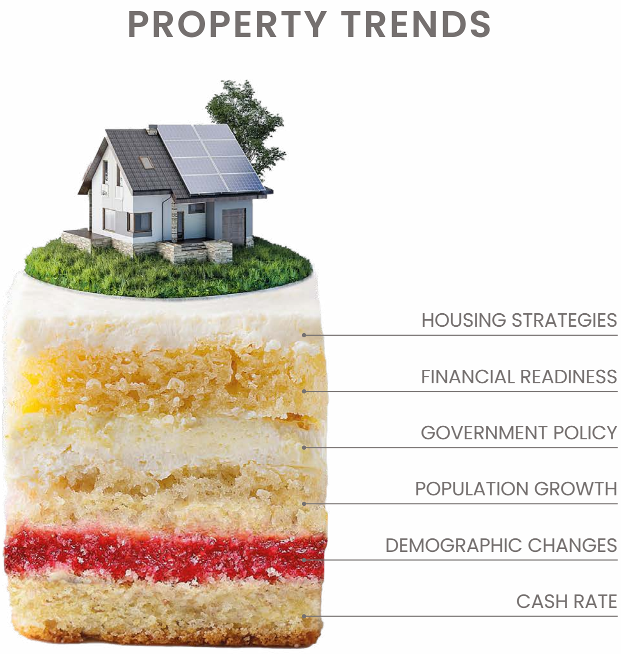
"We don't have enough houses and it's pushing prices up."

This is another set of messages I have received, and more frequent than before.

Housing supply is no doubt at the forefront of our minds, as our nation battles the "housing crisis". We are now intensively playing catch up, with all three levels of Government having ambitious housing strategies and targets. However, we face multiple and equally intensive hurdles in front of us: availability of suitable land, varying levels of bureaucratic red tape, challenges in construction costs and the industry, and the capability and capacity of local builders in various markets.

"It is incredibly fascinating to untangle the different layers of numerous factors that interact and shape our property trends, resulting in local market variance."

For example, on the ground, market activity observations from Redland Bay (QLD) are the opposite to that of Dapto (NSW).
As I speak to people across Australia, I notice both similar and divergent trends and/or issues which point to one conclusion – the importance of understanding your local market.



Cash rates play an essential role as they determine our borrowing power and how much we can afford. Yet in some markets, cash rates play less of a role, due to the imbalance between demand and supply. If you see a house with your specifications available, you go for it.

To further complicate things, there are a multitude of factors that impact demand and supply at a local level, and a divergent method of managing these factors. What's more, individual household and financial readiness add another layer of complexity to the decision making.

"Yet in some markets, cash rates play less of a role, due to the imbalance between demand and supply. Individual household and financial readiness is also a factor. We have buyers that are more aggressive than others and we have investors that chose to leave the market whilst others stayed."

As if our property layers are not complex enough, our demographics are shifting. We have smaller family compositions, more acceptance to long-term renting, generational co-living, and even a mindset shift regarding our wealth creation and spending preference. Ask any Gen-Z individual about property ownership and there is a good chance they would prefer travelling the world as opposed to serving a 25–30-year mortgage (and other homeownership costs). Thus, the need for innovative and alternative housing solutions is dire.

Property prices in other countries also soared in mid-2020 onwards and softened when cash rate hikes were introduced. From a price perspective, we sit in the middle-range. Today we are more affordable compared to New Zealand, United States, Canada and Hong Kong. On one hand, our on par performance should boost our confidence. However, having a more affordable market (compared to some) suggests there are more international investors in an already undersupplied market.

At present, our (currently) stable cash rate has created a ray of hope and a steadier 'base' to our layer of property factors. This has a multiplier effect on the household budget and individual finances, as well as some business costs. However, there are still other/multiple layers at play, all of which will have a different impact on a particular local market.

Yours in research,

Dr Diaswati Mardiasmo
PRD Chief Economist

KEY ECONOMIC FACTS

AS OF THE JUNE QUARTER OF 2023

Consumer Price Index:	**6.0%**
Standard Variable Home Loan Rate:	**8.52%**
Unemployment Rate:	**3.7%**
Gross Domestic Product:	**0.9%**
Average Weekly Earnings:	**$1,807.70**

CONTENTS

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.

Chief Economist: Dr Diaswati Mardiasmo

Research Analysts: Benjamin Grigson, Owen Mitchell, Steven Hayward

HOUSING SHORTAGE

HOW DO WE SOLVE THE ISSUE?

COMMUNITY HOUSING PROVIDERS
GOVERNMENT
PROPERTY INDUSTRY BODIES
CONSTRUCTION INDUSTRY

UNIFIED STRATEGY

PROVIDING DIVERSE RANGE OF HOUSING STOCK FOR THE PRIVATE MARKET AS WELL AS SOCIAL AND AFFORDABLE HOUSING.

LOWER ENTRY PRICE
LOWER VACANCY RATES
HIGHER RENTAL YIELDS
REGIONAL MARKETS

BEST INVESTMENT

CORRECT MIX OF INGREDIENTS

HOUSING SUPPLY HURDLES

- AVAILABILITY OF SUITABLE LAND
- VARYING LEVELS OF BUREAUCRATIC RED TAPE
- CHALLENGES IN CONSTRUCTION COSTS
- CAPABILITY AND CAPACITY OF LOCAL BUILDERS

CHANGING DEMOGRAPHICS

=

NEED FOR INNOVATIVE AND ALTERNATIVE HOUSING SOLUTIONS

RENT

BUILD-TO-RENT
MODULAR HOMES
TINY HOMES

AUSTRALIAN PROPERTY PRICES

MORE AFFORDABLE COMPARED TO

NEW ZEALAND
USA
CANADA
HONG KONG

LESS AFFORDABLE COMPARED TO

SINGAPORE
JAPAN
FRANCE
DENMARK

ECONOMY
IMPACTS
HOUSEHOLD BUDGETS
IMPACTS
PROPERTY RELATED DECISIONS
IMPACTS
PROPERTY MARKET
IMPACTS

RENTAL CRISIS

DUE TO

RENT INCREASES

7.3% (JUNE 2023)
6.3% (MAY 2023)
6.1% (APRIL 2023)

DUE TO

VACANCY RATE

2.9% IN JUNE 2019

1.3% IN JUNE 2023

0.6% ADELAIDE & PERTH TIGHTEST VACANCY

CASH RATE

12

CASH RATE HIKES

DETERMINES BOROWING POWER

CAN IMPACT SUPPLY & DEMAND IMBALANCE

4.1%

CASH RATE HELD FOR CONSECUTIVE MONTHS

AUG 2023 STATEMENT OF MONETARY POLICY PROJECTED CASH RATE PEAK OF APPROX. 4.2% BEFORE TRENDING DOWN TO 4.0% AT THE END OF 2024

AUSTRALIA'S GROWTH ON PAR WITH OTHERS

%

END OF MULTIPLE CASH RATE HIKES

INCREASED CONFIDENCE

PROPERTY GROWTH

↑ 2.8%

OVER PAST 6 & 12 MONTHS

GREATER BRISBANE
GREATER PERTH
REGIONAL SOUTH AUSTRALIA

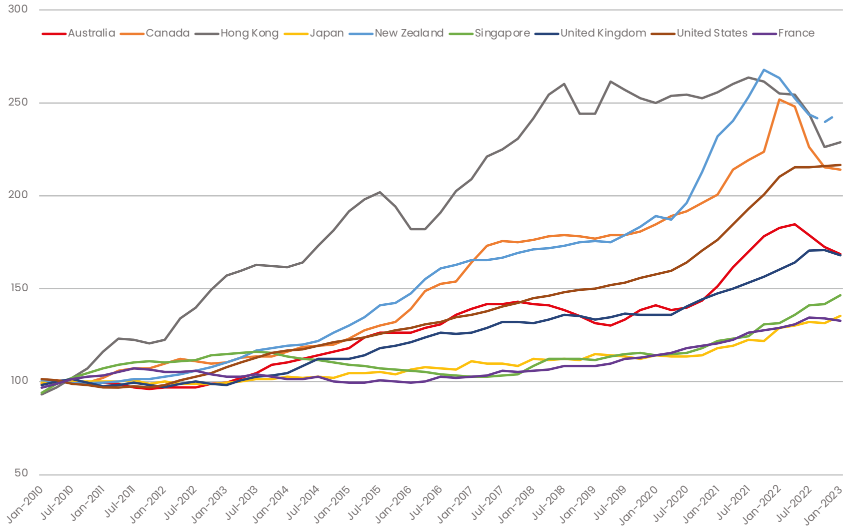
MOST RESILIENT MARKETS PAST 12 MONTHS

PRD.

PROPERTY GROWTH

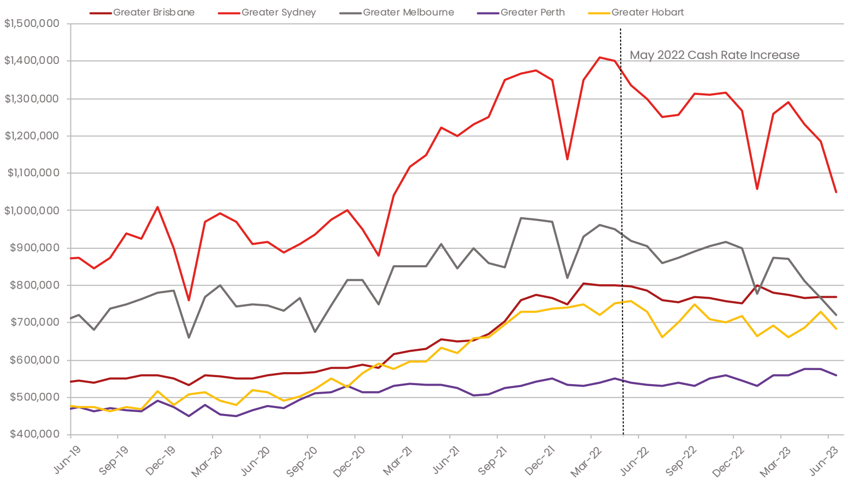
Some property markets are starting to recover whilst others remain sticky.

INTERNATIONAL REAL ESTATE PRICES



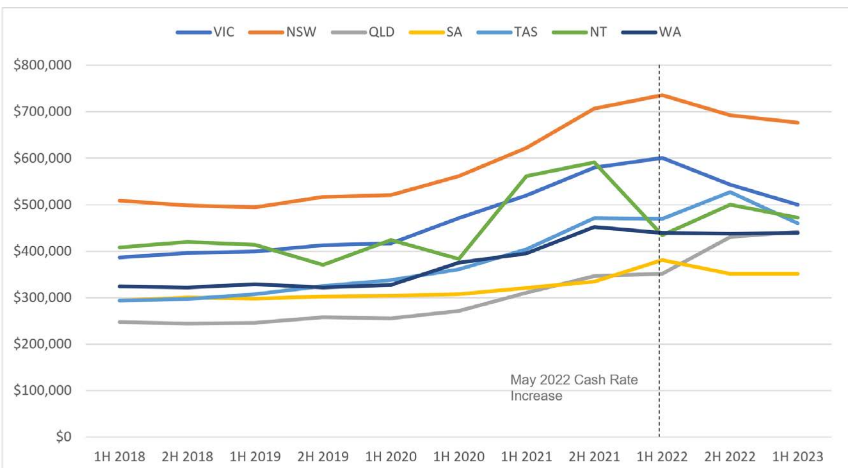
Prepared by PRD Research
Source: Based on the BIS Index, Macrobond as data aggregator. Latest updated July 2023

GREATER CAPITAL CITIES MEDIAN HOUSE PRICE



Prepared by PRD Research
Source: APM Pricefinder, last updated July 2023

REGIONAL MARKETS MEDIAN HOUSE PRICE



Prepared by PRD Research
Source: APM Pricefinder, last update July 2023

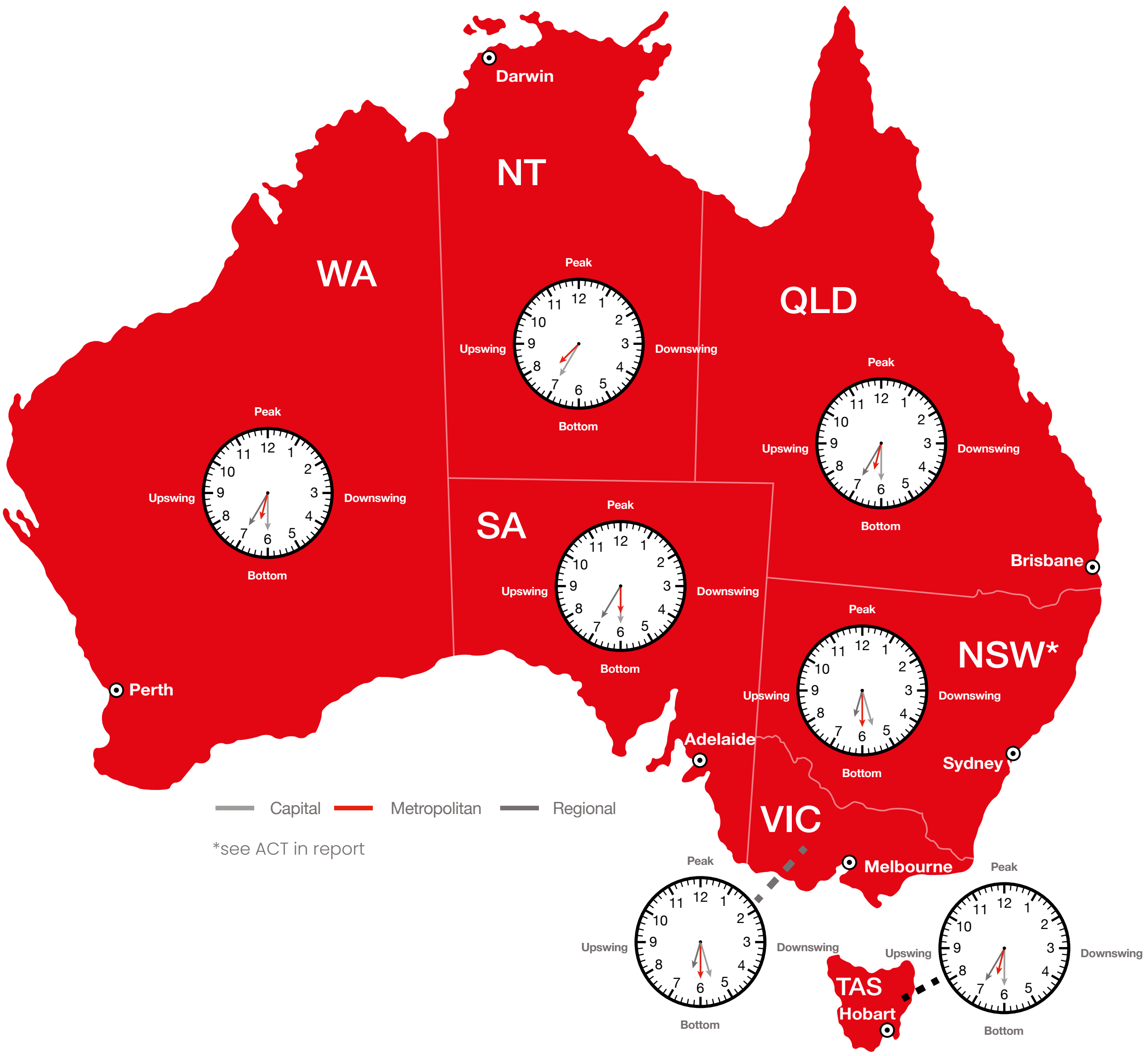
WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's median house price was $745,000 as of June 2023, representing a 2.8% growth in the past six and 12 months. This suggests market resilience amid 12 cash rate hikes, with the Australian median house price peaking in April 2022 ($760,000) prior to the cash rate hikes. Between June 2019 (pre-COVID-19) and June 2023, the Australian median house price grew by 34.2%, despite price fluctuations on a month-by-month basis.
- ✓ Australia's property market has performed on par with other international markets, which should increase confidence. Property prices in other countries also soared in mid-2020 onwards and softened when cash rate hikes were introduced. Our property market enjoyed a slightly longer period of growth, with Hong Kong, Canada and New Zealand among the first to see a softening trend. This is most likely due to the later timing of our cash rate hikes.
- ✓ On a world-scale, our median house price sits in the middle-range. Our property price is on par with the United Kingdom, but is more expensive compared to Singapore, France and Japan. That said, we are more affordable when compared to our neighbour New Zealand, as well as United States, Canada and Hong Kong. Although some property prices have become unaffordable for local Australian buyers, they are still affordable to some international investors.
- ✓ Between June 2019 (pre-COVID-19) and June 2023, Greater Hobart and Greater Brisbane had the highest median house price growth, of 44.2% and 41.2% respectively. However, between June 2019 and June 2021, Greater Hobart and Greater Sydney had the highest median house price growth, of 53.5% and 48.6% respectively.
- ✓ Greater Sydney and Melbourne median house prices have fluctuated heavily in the past 12 months since the May 2022 cash rate hikes, showcasing steeper price decline than other areas. Greater Brisbane and Greater Perth proved to be the most resilient markets, with stable or small price growth in the past 12 months.
- ✓ Regional South Australia (SA) recorded the lowest median house price in the 1st half of 2023 but has proven to have had the highest median house price growth in the past six months. Regional SA is a more resilient market in the face of cash rate hikes and establishes itself as an alternative and more affordable option for investors looking to diversify their portfolio.

PROPERTY GROWTH

Australia Property Growth Map

Australia's property prices have entered a new phase after a period of high growth between post-COVID-19 and the RBA's cash rate hikes. Although there is an overall trend of a softer property price nationally, a closer inspection of local markets gave mixed results. This is due to the layer of factors that impact the balance of supply and demand in each market. Higher cash rate and various cost-of-living pressures have created abnormal household budgets and financial situations, and a more varied decision-making pattern for buyers and sellers.



*see ACT in report

PROPERTY GROWTH | RENTAL MARKET

A worsening rental crises is in dire need of drastic solutions

The Australian rental market has reached a point of severe stress, with many referring to current conditions as the "rental crisis". Rental prices have increased significantly, remaining a "sticky point" in the declining trend of Customer Price Index (inflation) for the past 12 months. As a component of inflation, rents increased from 6.1% (April 2023) to 6.3% (May 2023) to 7.3% (June 2023). A rental crisis is experienced not only in the capital cities and metro areas, but also in regional markets, raising the matter as an immediate concern.

Housing supply is the key issue in our rental crisis, with Australia's vacancy rate declining from 2.9% in June 2019 (pre-COVID) to 1.3% in June 2023 (post-COVID). This is significant, as vacancy rates provide a sense of how many properties are available for rent. The Real Estate Institute of Australia (REIA) has a healthy benchmark of 3.0%, and anything below suggests demand outstripping supply. In June 2023, all our capital cities sat below 3.0%, suggesting fewer rentals were available. Adelaide and Perth hold the tightest rental markets, with a vacancy rate of 0.6% (respectively).

Canberra continues to be the most expensive capital city to rent a 3-bedroom house, at $650 per week as of the March quarter of 2023. This is followed by Sydney ($650 per week) and Darwin ($611 per week). Sydney is the most expensive for 2-bedroom unit renters, who have to pay $650 per week. This is followed by Canberra ($580 per week) and Melbourne ($520 per week). Brisbane proves to be the most affordable for both 3-bedroom houses and 2-bedroom units, at $480 and $470 per week. It is interesting to observe that the gap in the rental prices between units and houses is becoming smaller in 2023. With an increasingly small pool of houses available for rent in the capital cities, renters are now turning their preference to bigger-sized units/ apartments, thus increasing demand and prices.

RESIDENTIAL VACANCY RATE

Residential Vacancy Rate									
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	National
Jun-22	1.8%	2.1%	0.7%	0.5%	0.7%	0.7%	0.7%	1.0%	1.2%
Jun-23	1.7%	1.3%	1.0%	0.6%	0.6%	1.9%	0.9%	2.1%	1.3%
Annual Change (points)	-0.1%	-0.8%	0.3%	0.1%	-0.1%	1.0%	0.2%	1.1%	0.1%

Source: SQM Research, last updated July 2023

ANNUAL MEDIAN RENT PRICES

Annual Median Rental Price								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 bedroom house	$620	$470	$480	$500	$520	$550	$611	$650
2 bedroom unit	$650	$520	$470	$400	$495	$450	$478	$580

Source: Real Estate of Australia, Real Estate Market Faces Report, March Quarter 2023 for annual median rent

Median Rental % Change								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 bedroom house	7.8%	9.3%	11.6%	13.6%	15.6%	5.8%	11.7%	3.2%
2 bedroom unit	27.0%	23.8%	11.9%	8.1%	17.9%	2.3%	12.6%	3.6%

Source: SQM Research, last updated July 2023

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's vacancy rates were 1.3% in June 2023, a slight increase compared to June 2022. Most capital city markets saw moderate increases in their vacancy rates in the past 12 months to June 2023, which suggests there is an increase in rental supply. However, this is still not enough to satisfy demand. The need for more investors to enter the market is crucial.
- ✓ Median rent for 3-bedroom houses have increased the most in Perth, by 15.6% in the past 12 months to the March quarter of 2023. Sydney and Melbourne are ideal for unit investors, with the median rent for 2-bedroom units having increased by 27.05% and 23.8% respectively.
- ✓ Regional markets continue to have the correct layer of ingredients for a highly conducive investment, with a lower entry price, lower vacancy rates, and higher rental yields. First-time investors have an even wider investment scope, requiring a more individualised approach.

HOME AFFORDABILITY

MARKET CONDITIONS

Home affordability is now at a stress point

Australia's home loan affordability was recorded at 22.3 index points as of the March quarter of 2023. This is a -2.8% and -7.0% decline in the past six and 12 months, indicating affordability has worsened. It is also the lowest home loan affordability reading we have seen in the past five years, representing a -22.6% decline since the March quarter of 2023, just before COVID-19 truly hit. The home loan affordability index has continued to decline since 2018. However, its underpinning reasons have slightly changed. From 2021-2022 this was mostly driven by higher property prices. Due to this, Australians must commit to a higher level of debt. From mid-2022 to 2023 it has been driven by cash rate hikes, which impacted the monthly re-payments to the higher debt committed prior. In the 12 months to the March quarter of 2023, residents in SA and Australian Capital Territory (ACT) saw the highest decline in home loan affordability. However, NSW and VIC remain the most unaffordable states to service a home loan.

NUMBER OF FIRST HOME BUYER LOANS

Number of Loans to First Home Buyers			
State	March Qtr 2023	March Qtr 2022	Growth
NSW	4,603	6,306	-27.0%
VIC	6,059	9,328	-35.0%
QLD	4,677	5,690	-17.8%
SA	1,342	1,687	-20.5%
WA	3,305	4,780	-30.9%
TAS	405	457	-11.4%
NT	181	159	13.8%
ACT	578	686	-15.7%
AUS	**21,150**	**29,093**	**-27.3%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2023

STATE FIRST HOME BUYER AVERAGE LOAN

Average First Home Buyer Loan			
State	March Qtr 2023	March Qtr 2022	Growth
NSW	$586,770	$585,538	0.2%
VIC	$495,643	$498,585	-0.6%
QLD	$435,129	$424,499	2.5%
SA	$421,908	$384,292	9.8%
WA	$399,879	$381,360	4.9%
TAS	$423,210	$388,403	9.0%
NT	$412,707	$413,836	-0.3%
ACT	$484,602	$527,551	-8.1%
AUS	**$480,057**	**$475,544**	**0.9%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2023

PROPORTION OF FAMILY INCOME REQUIRED TO MEET HOME LOAN REPAYMENTS

Proportion of family income devoted to meeting average loan repayments			
State	March Qtr 2023	March Qtr 2022	Growth
NSW	55.0%	44.5%	10.5%
VIC	46.5%	37.2%	9.3%
QLD	41.2%	32.0%	9.2%
SA	41.0%	30.1%	10.9%
WA	34.5%	25.8%	8.7%
TAS	42.7%	32.5%	10.2%
NT	32.6%	24.8%	7.8%
ACT	34.6%	26.5%	8.1%
AUS	**44.9%**	**35.7%**	**9.2%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2023

PROPORTION OF FAMILY INCOME REQUIRED TO MEET RENT PAYMENTS

Proportion of family income devoted to meeting median rents			
State	March Qtr 2023	March Qtr 2022	Growth
NSW	26.1%	25.1%	4.0%
VIC	19.9%	19.6%	1.5%
QLD	21.4%	20.7%	3.4%
SA	23.8%	22.6%	5.3%
WA	21.0%	19.7%	6.6%
TAS	28.9%	29.4%	-1.7%
NT	25.6%	24.4%	4.9%
ACT	20.8%	21.5%	-3.3%
AUS	**23.0%**	**22.2%**	**3.6%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2023

WHAT DOES THIS MEAN FOR YOU?

- ✓ First home buyers have continued to retract, declining -27.3% across Australia in the past 12 months to the March quarter of 2023. The biggest decline was in Victoria (VIC) (-35.0%), Western Australia (WA) (-30.9%), and NSW (-27.0%). This suggests an opportunity for friendlier first home buyer incentives in the three states.
- ✓ First home buyers are taking on only a slightly higher debt, an increase of 0.9% in the past 12 months to the March quarter of 2023. This is lower than the debt increases in 2021 and 2022, thus a more conducive financial condition in case of more cash rate hikes. Tasmania (TAS) and SA first home buyers had the highest increase in average loans, of 9.0% and 9.8% respectively.
- ✓ The proportion of family income required to meet average home loan payments sat at 44.9% in the March quarter of 2023, a 9.2% increase in the past 12 months. This is concerning as there is just over 50% of the family income to cover other household costs. Those living in NSW and VIC are the hardest hit, at 55.0% and 46.5% respectively.
- ✓ Renters must spend 23.0% of their income on meeting median rents in the March quarter of 2023, a 3.6% increase in the past 12 months. Renters in TAS and NSW are the hardest hit, at 28.9% and 26.1% respectively. This creates an opportunity for Local Government and investors.

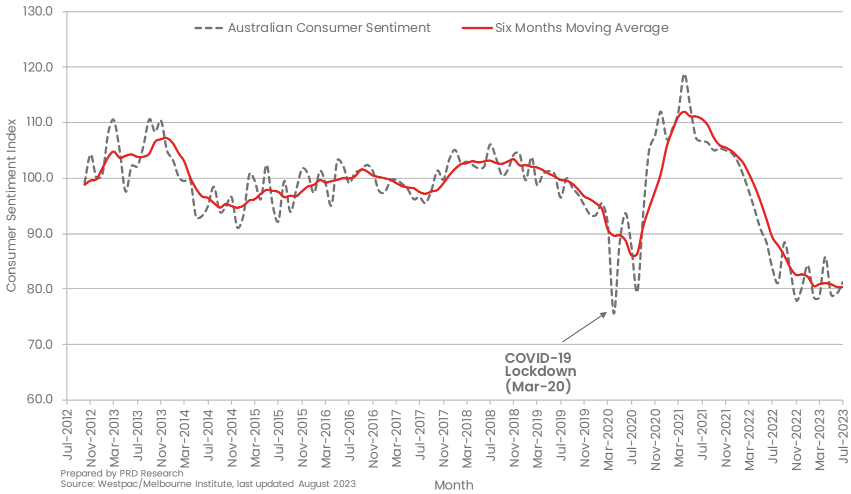
MACROECONOMIC CLIMATE

A turbulent consumer confidence pattern has a multiplier impact on the economy

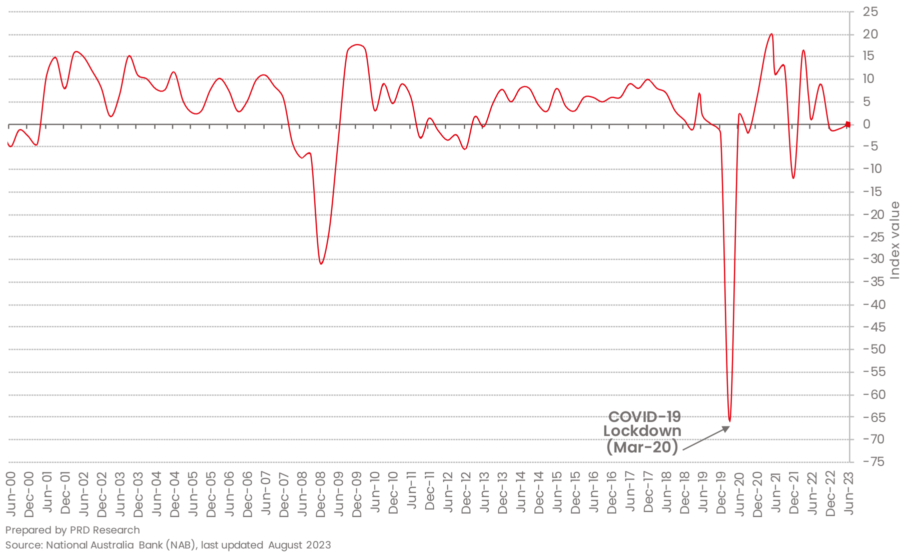
Consumer confidence has taken a rollercoaster journey in the past 12 months to July 2023, with an index reading of 81.3 (as of July 2023). Fluctuating consumer confidence is tightly correlated with cash rate decisions and changes in cost-of-living, with disposable income within household budgets becoming smaller in the past months. A reading below 100 index points suggests Australians have a higher propensity to spend than consume, which has a multiplier effect on multiple industries. In the real estate sector, this translates to buyers being more risk adverse in their decision making.

Like consumer confidence, business confidence has fluctuated in the past 12 months. That said, it is less turbulent than consumer confidence, with a slight recovery evident in the past six months. This is due to most industries seeing a recovery in business profitability post-COVID-19, particularly those in transport, manufacturing, and building construction. There has been some recovery in the retail and food and accommodation industries. However, profitability in these sectors is more closely tied to the household budget and consumer confidence, which have been turbulent in the past 12 months.

CONSUMER SENTIMENT



BUSINESS CONFIDENCE



WHAT DOES THIS MEAN FOR YOU?

✓ The July 2023 consumer sentiment reading (81.3 index points) is slightly higher than the COVID-19 peak April 2020 reading (75.0 index points). Consumers are prone to save than spend, including some real estate buyers. Sellers must perform localised research and potentially adjust their price expectations according to the market to ensure a quicker sale.

✓ Business confidence was at a 0-index point neutral sentiment in June 2023. Although not as positive as the 2021 directly post-COVID-19 sentiment, this is not too far from the 1-index point reading 12 months prior. It is also much higher than the COVID-19 peak March 2020 reading of -66.0 index points. This suggests new opportunities for those in commercial real estate.

MACROECONOMIC CLIMATE continued

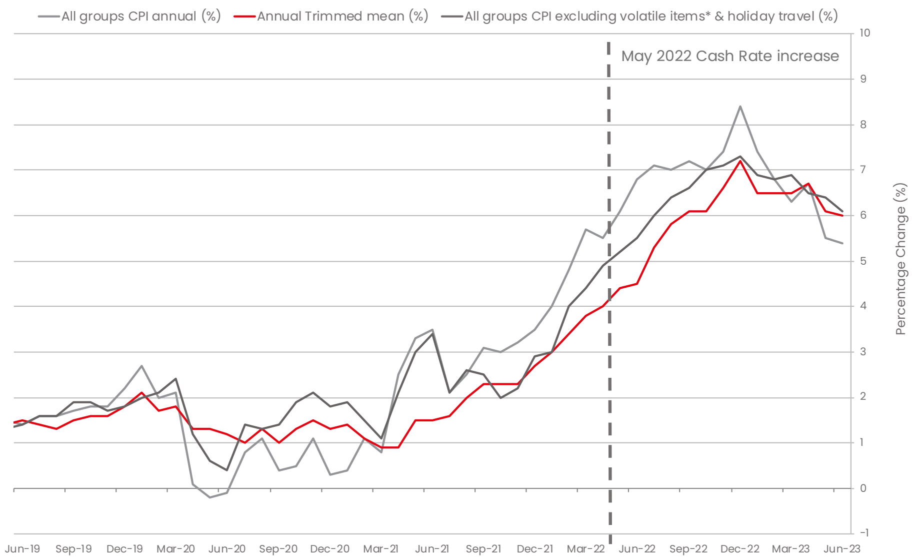
Higher wage growth is still not on par with inflation rate

Consumer price index (inflation) for all groups rose by 5.4% in the 12 months to June 2023, which is reflective of a declining trend since inflation hit a peak in December 2022 (8.4%). This was a relief to many, especially those who predicted an increase after the RBA held the cash rate at a steady 4.1% in June 2023. This suggests that despite a steadier home-loan repayment, the increasing cost-of-living in other sectors (for example food and groceries, electricity, and others) is still impacting household budgets. Combined with low consumer confidence, it is moderating our spending.

Wage growth has continued to increase in the past 12 months to the March quarter of 2023, at 3.8% for the private sector (excluding bonuses) and 3.0% for the public sector. This is an improvement when compared to pre-COVID-19 times in the March quarter of 2020, at 2.1% and 2.4% respectively, and much higher than during COVID-19 in the March quarter of 2021 (1.4% and 1.5% respectively). However, our wage growth is still not on par with inflation rates, and many Australians dipped into their household savings to meet cost-of-living pressures as inflation started to climb and peaked in December 2022.

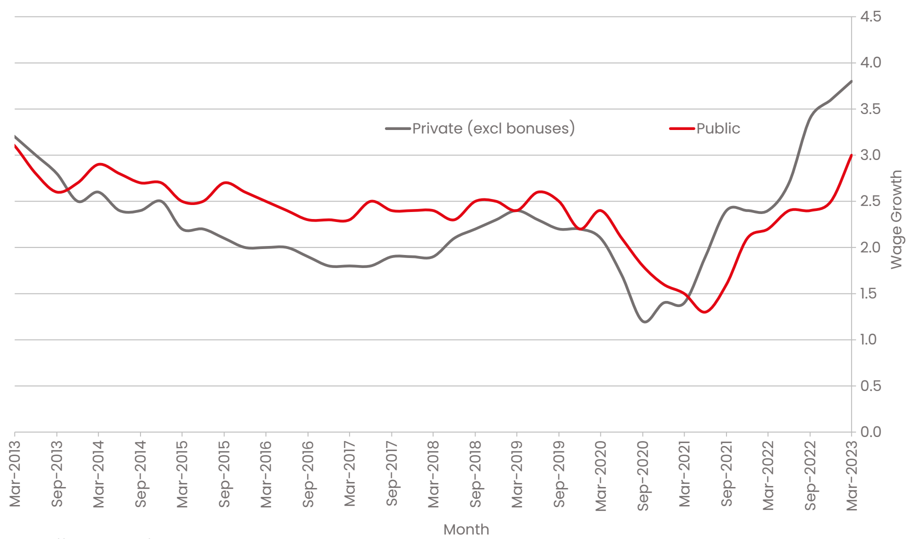
CPI MONTHLY

All groups Monthly CPI Indicator, Australia, annual movement (%)



Prepared by PRD Research
Source: Australia Bureau Statistics, last updated July 2023

WAGE PRICE GRAPH



Prepared by PRD Research
Source: ABS Wage Price Index, last updated July 2023

WHAT DOES THIS MEAN FOR YOU?

- ✓ House prices have continued to be a significant contributor to inflation, rising by 7.4% in the past 12 months to June 2023. However, this is less than 12 months to April 2023 (8.8%) and 12 months to May 2023 (8.3%). Thus, house prices are moderating, which is good news for buyers.
- ✓ Despite a declining inflation rate trend, 5.4% is still higher than the RBA's healthy target rate of 2.0-3.0%. Although the RBA is currently holding the cash rate steady, this comes with the caveat of inflation rate continuing to decline.
- ✓ Increasing wage growth is reflective of a tight labour market, evident in multiple industries. This will result in more buyers and investors in the property market, which when combined with low supply, puts pressure on prices. All things the same, a property price recovery is imminent.

HOUSE FINANCE

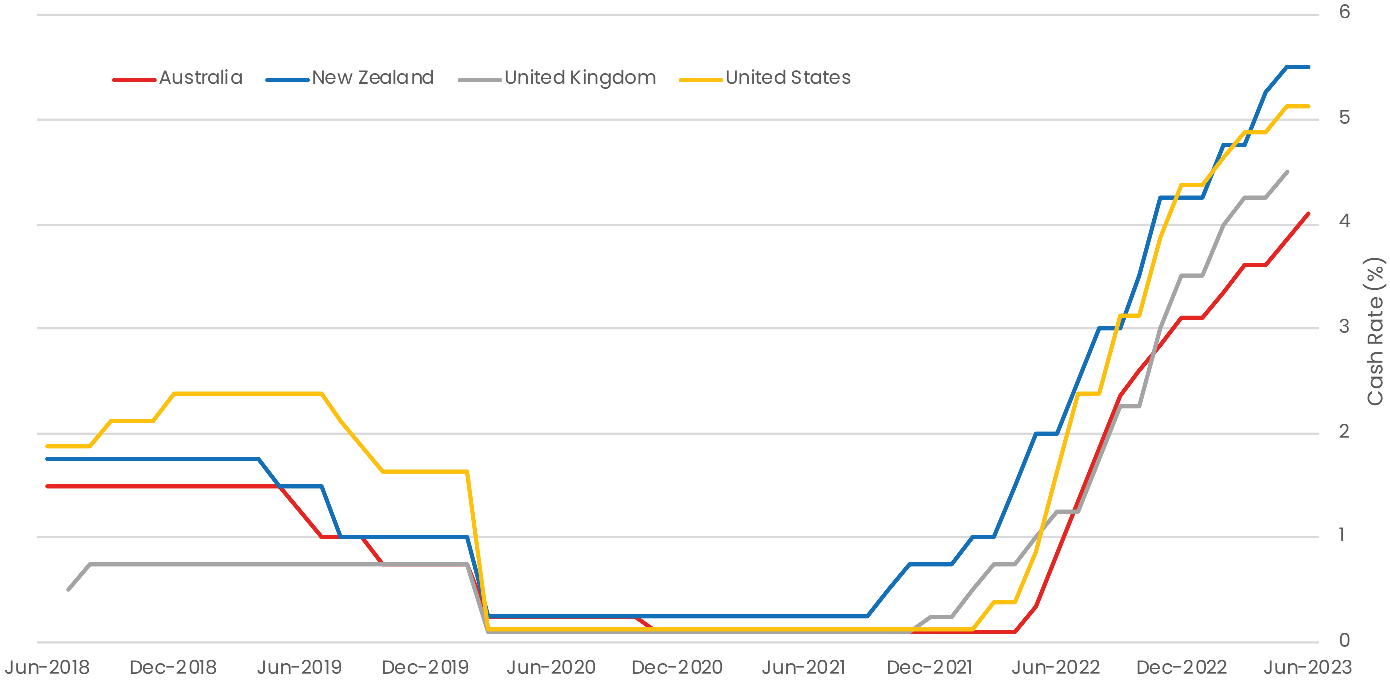
Financial stability is healthy at an aggregate level, but there is pain at a distribution level

Australians have entered a period of higher fixed and variable rates in 2023, after a period of low rates for the past 24 months. As of May 2023, the variable rate was 5.6% for owner-occupier new loans and 5.9% for investment new loans. This is much higher than the 4.8% rate pre-COVID-19.

Canada, USA, UK and New Zealand all have a high, but moderated, cash rate policy expectations for the rest of 2023, with most levelling out in 2024 and 2025. The European Union and Japan continue to increase their cash rate (albeit at a slower pace) after a period of a negative cash rate environment. Thus, our economy is performing at an on par rate to the rest of the world and our cash rate policy approach is in line with international markets. That said, this does not discredit the hurt felt at a household budget level, as our household savings account has dipped to a lower than healthy average of 5.0%.

In the past six months to November 2022, almost 60% of Australian mortgage holders had more than 12 months in liquid assets. Liquid assets include balances held in deposit accounts (including mortgage offset) and shares and holdings in managed funds. They exclude balances available for redraw from the loan. There is a small tail of mortgage holders, approximately 20%, with less than three months in liquid assets. Further, there is only a very small portion of the population with negative equity, which suggest a stable financial position at an aggregate (Australian) level.

CASH RATE POLICY COMPARISON



Prepared by PRD Research
Source: Reserve Bank of Australia, Reserve Bank of New Zealand, The Bank of England, Federal Reserve Board

WHAT DOES THIS MEAN FOR YOU?

- ✓ The August 2023 Statement of Monetary Policy suggests a more stable outlook leveling out to just below 4.0% by late 2024. This provides a more stable platform for buyers and investors in the next 12 months. This puts our interest rates below Canada, New Zealand, the United States, and the United Kingdom, who are still expected to see moderate increases.
- ✓ Australia's household savings account has dipped lower than the healthy average of 5.0%, even lower than pre-COVID-19 times. Although there are borrowers with a healthy offset account, we also have borrowers who have not experienced a cash rate increase. This is the cohort that will need the most support in the next six to 12 months.

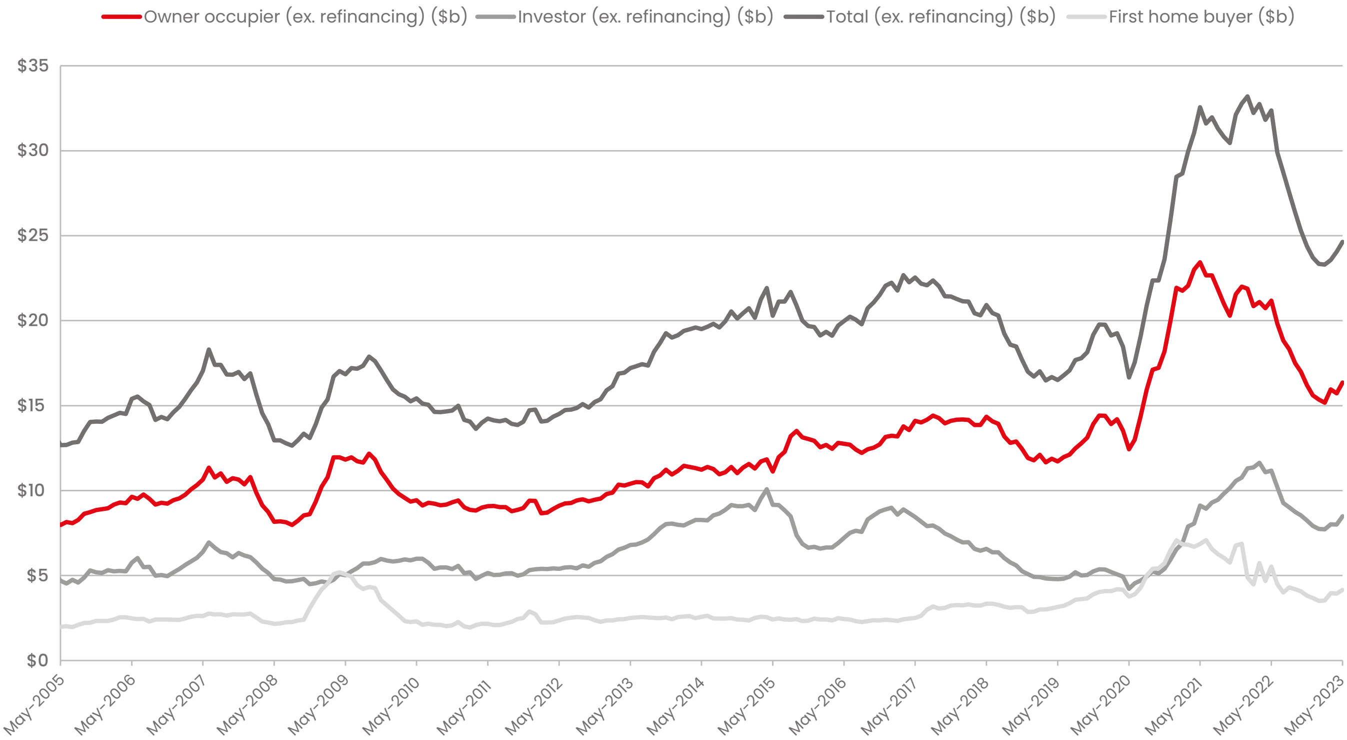
HOUSE FINANCE continued

New housing loan commitments declining, refinancing options on the rise

Housing finance commitment was $24.6 billion in May 2023. This represents a -23.9% decline in the past 12 months, reflective of the 12 cash rate hikes since May 2022. However, this is an improvement compared to pre-COVID-19 and peak COVID-19 times of $16.5 billion (May 2019) and $16.6 billion (May 2020). Investor and first home buyer financial commitments fell by -24.0% and -24.9% in the 12 months to May 2023, whilst owner-occupier finance fell by -22.7%.

Although the RBA kept the cash rate at a steady 4.1% in June 2023, the past 12 hikes have hurt many Australians. May 2023 lending figures showed owner-occupiers, investors and first-time buyers seeking to refinance in large numbers. Owner-occupier refinancing reached a new high at $14.1 billion, 21.0% higher than 12 months prior, and investor refinancing grew by 25.6% (to $6.8 billion). This reflects how higher rates are hurting borrowers. However, it also speaks to the resilience and strength of the Australian banking system in terms of its ability (and readiness) to provide refinancing options to avoid mortgage distress sales.

HOUSING LOAN COMMITMENTS



Prepared by PRD Research
Source:ABS Cat 5601. Last updated July 2023

Last updated: July 2023

WHAT DOES THIS MEAN FOR YOU?

- ✓ The number of first home buyer loans peaked in January 2022, at $33.2 billion. With most loans being on a fixed interest rate for 12-24 months, this suggests a large proportion of first home buyers are either transitioning or will soon transition to variable interest rates. Now is the time to build the mortgage offset account to create a buffer for higher home loan rates.
- ✓ The proportion of owner-occupier vs investor finance remained at approximately 35-65% for the past 12 months, with slight fluctuations on a month-by-month basis due to cash rate changes. The proportion of investor finance in May 2023, at 34%, is on par with May 2022, at 35%. However, it is much higher than May 2021 (28%), indicating the return of investors.

PROPERTY OUTLOOK | TIME TO BUY A DWELLING

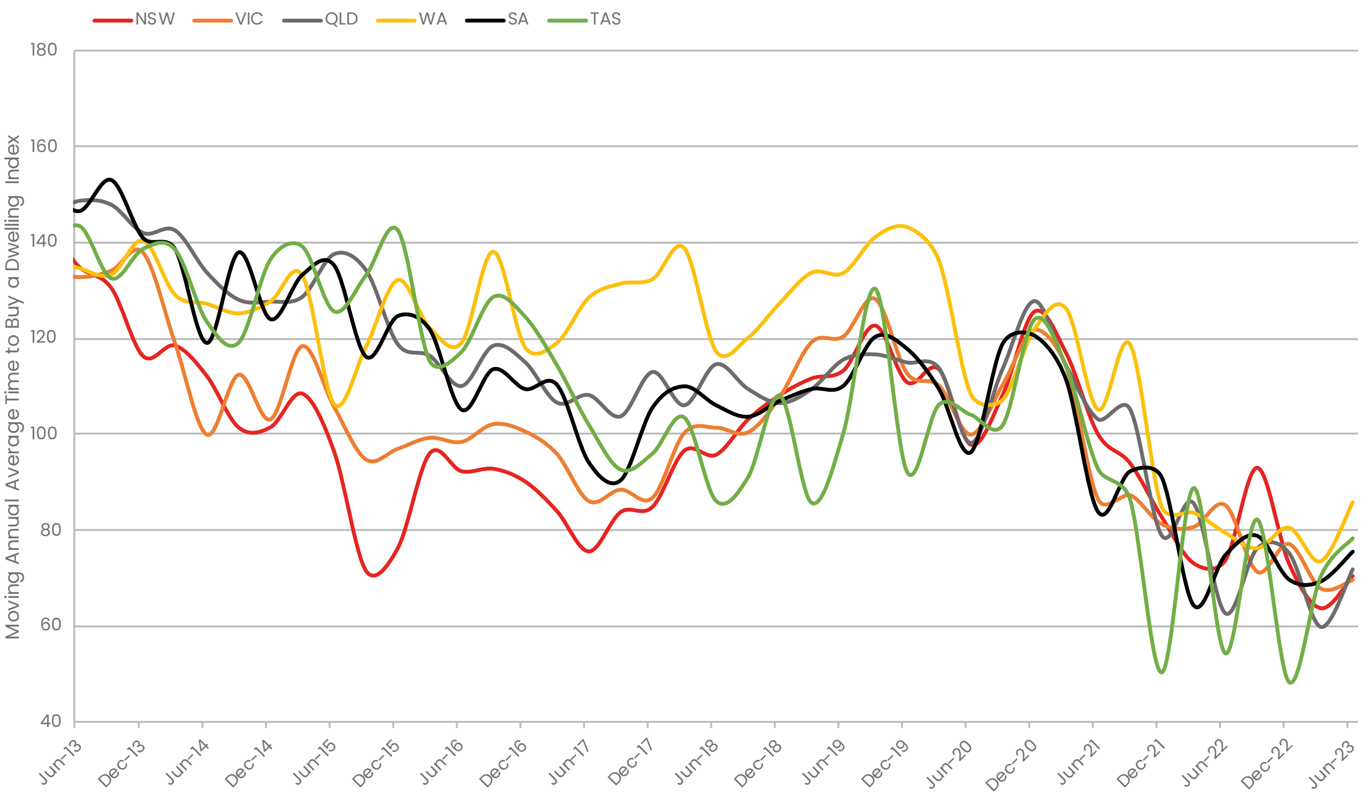
Buyers are back

As of June 2023, although at different levels/speeds, the Time to Buy a Dwelling index showed a clear pattern: buyers are back. This is different to 12 months prior, when the index was quite divergent on a state-by-state basis, with mostly buyers retracting from the market. Across Australia, on average, the Time to Buy a Dwelling index increased by 3.4% annually and 11.7% quarterly.

In the past 12 months to June 2023, buyers in TAS were the most active, with the Time to Buy a Dwelling index increasing by 25.9%. This was followed by QLD (8.9%) and WA (6.1%). However, on a quarterly three months to June 2023, buyers in QLD led the way, increasing 20.1%. This was followed by WA and TAS.

According to PEXA's Property Insights report for the 2022-23 financial year, NSW had the highest residential property spending at $181.4billion, with property sales across all price bands up double digits. A similar trend was also observed in QLD, although higher priced stock (valued at $2 million and above) led the recovery. In Victoria, lower priced properties (valued below $500,000) saw the greatest increase in the June quarter (up by 37.2%) due to high development areas in Melbourne.

TIME TO BUY A DWELLING INDEX



Prepared by PRD Research
Source: Westpac/Melbourne Institute, last updated July 2023

WHAT DOES THIS MEAN FOR YOU?

- ✓ Despite a soft start to the year, residential sale settlement volumes picked up from March in all mainland states. June settlement volumes finished the financial year strong, at a comparable volume to the prior (2020-2021) boom year. With more competition and less supply, buyers must act quickly to secure their homes, especially stand-alone dwellings.
- ✓ In the past three months to the June quarter of 2023, VIC buyers showed the highest reluctance to buy a property. This is potentially due to Melbourne recording a sharp decline in prices due to cash rate hikes. Thus, buyers are biding their time in case of further market softening.

PROPERTY OUTLOOK | DEMAND VS SUPPLY

Future demand and supply gap deepens

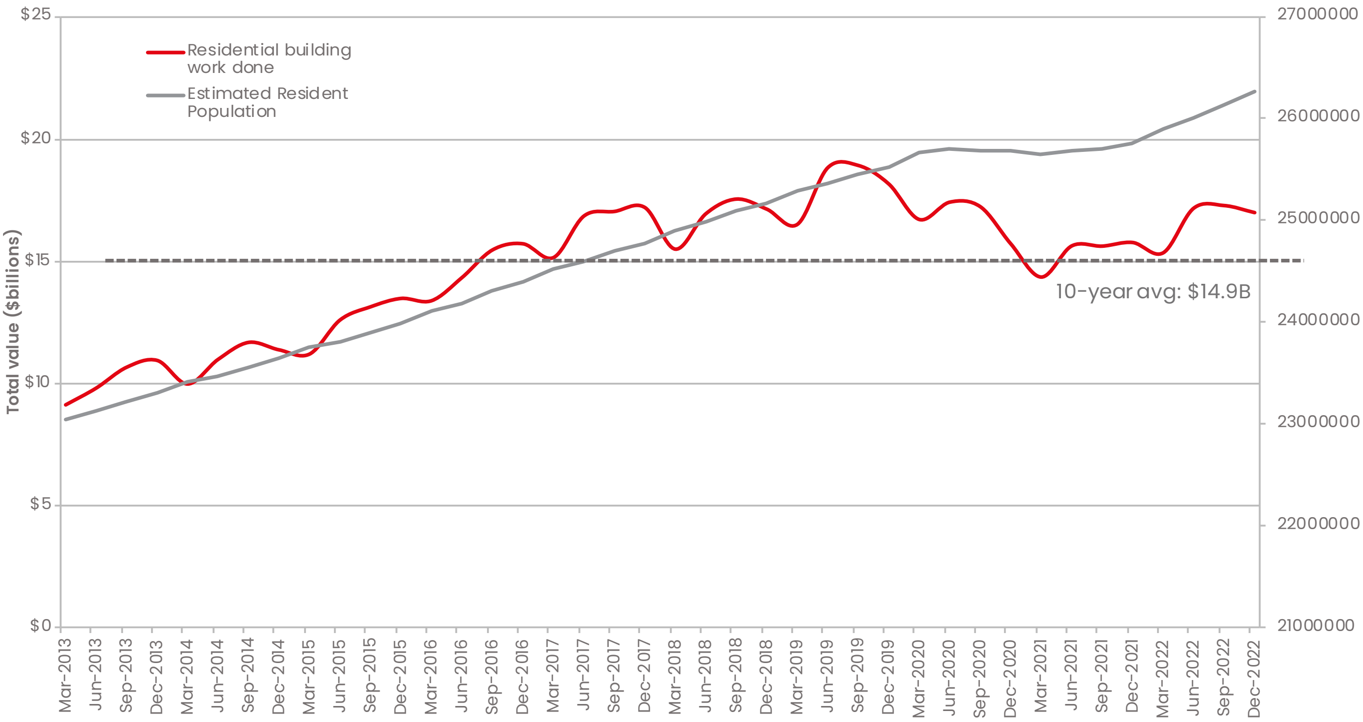
MARKET CONDITIONS

Residential construction across Australia amounted to $18.0 billion in the March quarter of 2023, representing an annual growth of 10.3%. There is good news in this, as residential construction grew by 7.3% in the past 12 months to the March quarter of 2022. The dollar figure also continues to climb compared to the March quarter of 2021 and 2020. That said, the March quarter of 2023 figures represent a slowdown in the past six months, a time in which our population growth continued to climb. Except for peak COVID-19 times, the March quarter of 2023 marked the biggest gap between the amount of residential building work done and (projected) population growth. This is an incredibly imbalanced demand and supply equation and is the root cause of our housing crisis. As a result, our house prices have entered a recovery phase quicker than expected, as of the June quarter of 2023.

On an annual basis to the March quarter of 2023, QLD saw the highest growth in residential building work completed, at 23.6%. This was followed by NT (22.6%) and NSW (10.1%). It is not surprising that QLD is in the race to play "catch up", being the biggest recipient of interstate migration during COVID-19 and with a high population growth projection (especially in the Southeast Queensland region) in preparation for hosting the Brisbane 2032 Olympics and Paralympics.

The Housing Industry Association noted that with a long lag time before cost-of-living cuts are felt in the construction industry, we have not yet experienced the full impact of the cash rate hikes. New home sales fell sharply since the first cash rate hike in May 2022, down by 41.8% in the 12 months to the 1st half of 2023. New home purchase figures for 2023 are 26.2% lower than 2019 (pre-COVID-19).

RESIDENTIAL CONSTRUCTION AND POPULATION GROWTH



Prepared by PRD Research
Source: ABS Cat 8755 and Cat 3101. Last updated July 2023

WHAT DOES THIS MEAN FOR YOU?

✓ Challenges in the construction industry, both material and labour costs, have not majorly improved in the past 12 months. Many residential projects have been delayed or abandoned, which calls for a new approach in sourcing materials and financial/funding structures.

✓ An increasingly deeper imbalance in demand and supply suggests price pressure in the next few months, regardless of cash rate movements. Now is the time to entertain the idea of bigger family-friendly apartments like in other developed nations, to increase the diversity in property choice for Australians.

GLOSSARY

International Real Estate Price Graph

This International Real Estate Price Graph provides a comparison of real estate residential prices in several countries, based on the BSI Index. Data provided is as of January 2023.

Source: BIS Index, Macrobond as a data aggregator in creating the associated graph.

Greater Capital Cities Median House Graph

The Greater Capital Cities Median House Graph provides median house prices on a month-by-month basis, up to June 2023. It captures all Greater Capital Cities across Australia, with area boundaries as provided by AMP Pricefinder.

The graph provides a median house price comparison between all Greater Capital Cities and when the cash rate hikes began, showing how regional markets reacted to the change.

Source: APM Pricefinder Raw Data Download, calculated by PRD Research and Reserve Bank of Australia

Regional Markets Median House Price Graph

The Regional Markets Median House Price Graph is based on the weighted calculation of median house prices from each Local Government Area (local council) within a regional part of a state. Data provided captures house sales from 1st January – 30th June 2023.

The graph provides a regional median house price comparison between all states and when the cash rate hikes began, showing how regional markets reacted to the change.

Source: APM Pricefinder Raw Data Download, calculated by PRD Research and Reserve Bank of Australia

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.

Source: Melbourne Institute and Westpac

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

Source: National Australia Bank (NAB).

CPI Monthly Graph

Inflation is measured as a change in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics (ABS) as the price of a weighted "basket" of goods and services which account for a high proportion of expenditure by metropolitan households. The CPI Monthly Graph is sourced from the monthly data released by the ABS.

Source: Australia Bureau of Statistics, All groups Monthly CPI indicator, Australia, annual movement (%)

Wage Price Graph

The Wage Price Index measures changes in the price of labor, unaffected by compositional shifts in the labor force, hours worked or employee characteristics.

Source: Australia Bureau of Statistics – Wage Price Index, Australia, March 2023

Cash Rate Policy Comparison Graph

The Cash Rate Policy Comparison Graph illustrates the movements and trends in cash rate policies adopted by central banks worldwide.

The graph provides a comparative analysis of these rates among various countries over time, offering valuable insights into the global economic landscape and each country's relative monetary policy stance.

Source: Reserve Bank of Australia, Bank of England, Reserve Bank of New Zealand, Federal Reserve Board. Macrobond as a data aggregator in creating the associated graph.

Housing Loan 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 to owner-occupiers (non-first home buyers), first home buyers and investors.

Source: Australian Bureau of Statistics, ABS 5601.0, Table 1

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.

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

Source: Melbourne Institute

Residential Construction and Population Growth 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. This determines the level of supply due to enter the market.

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.

Marrying these two variables in the one graph provides an outlook as to the balance between demand and supply, which is a key determinant to property prices.

Source: Australian Bureau of Statistics, 8755.0 – Construction Work Done, Australia, March 2023, 3101.0 – Components of Population Growth, Australia, December 2022

ABOUT PRD RESEARCH

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 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, PRD 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

PRD 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 analysis
- Geographic information mapping
- Project Analysis including product and pricing recommendations
- Rental and investment return analysis
- Competitive project activity analysis
- Selling and managing properties
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