Quarterly Review

The Australian Residential Property Market and Economy

Released July 2017

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Introduction

June 2017 marked the fifth anniversary of the current housing market growth phase. Over the second quarter of 2017, combined capital city dwelling values had increased by 0.8% which was their slowest quarterly growth rate since December 2015. The June quarter has historically shown seasonal weakness, however, despite a slower rate of growth over the quarter, the combined capital cities still recorded value growth of 9.6% over the past 12 months. With values continuing to rise, the total value of residential property nationally was estimated at $7.1 trillion at the end of the quarter.

Sydney and Melbourne were the only capital cities to have recorded double-digit value growth over the past year with values increasing by 12.2% and 13.7% respectively. Although values have risen swiftly in these two cities over the year, the annual trend rate of growth has slowed since the March 2017 quarter. Across the remaining capital cities, values have increased over the past year in Brisbane (2.0%), Adelaide (2.4%), Hobart (6.8%) and Canberra (9.6%) while values are lower in Perth (-1.7%) and Darwin (-7.0%).

In 2008 during the financial crisis, combined capital city dwelling values fell by around 6%. The combination of state and federal government stimulus and aggressive cuts to the cash rate by the Reserve Bank saw values rise from the end of 2008 and since then, over two growth cycles, combined capital city dwelling values have increased by 69.8%. The rates of growth since 2008 have been substantially greater in Sydney (110.9%) and Melbourne (95.3%) than across all other capital cities. Canberra (39.1%) is the only other capital city to have seen values rise by more than 20% since the end of 2008. Growth in Sydney and Melbourne has been due to a range of factors, including but not limited to: rapid population growth, much stronger economic conditions driving employment growth and a relatively low supply of established stock available for sale. The ongoing rises in home values are being supported by a low cost of borrowing

$7.1 trillion

Value of residential property

$2.3 trillion

Value of Australian superannuation

$1.8 trillion

Value of listed equities

$0.951 trillion

Value of commercial real estate

As values have increased over recent years, so too has supply with new housing construction, particularly construction of units, recently passing through a new historically high level. New construction activity has been driven by the low cost of borrowing and the elevated level of activity from the investor segment of the market, including demand emanating from overseas. It is reasonable to conclude that many of the new units constructed in particular, have been purchased by investors. It has also been widely reported that the level of purchasing by offshore buyers has increased dramatically over recent years which has also supported the heightened level of new housing construction. The surge in unit construction is already leading to units increasing in value at a slower pace than houses across a number of capital cities. Although new housing construction has started to slow, a substantial volume of units remain under construction and will continue to ensure completions remain elevated over the next few years.

A year ago the rental market was showing clear signs of slowing with the surge of new housing stock causing rental growth to slow. Over the past nine to 12 months, rental growth has started to pick-up noticeably. It is difficult to know exactly what has driven this however, rapid population growth and the sheer lack of affordability of owning a home are most likely drivers. Furthermore, the rising popularity of AirBNB is potentially resulting in some level of stock removal from the long-term rental market and increasing supply in the short-term market. Additionally, as mortgage rates edge higher, particularly for investment mortgages, it is likely that landlords will be doing their best to recoup their higher cost of debt by pushing rents higher.

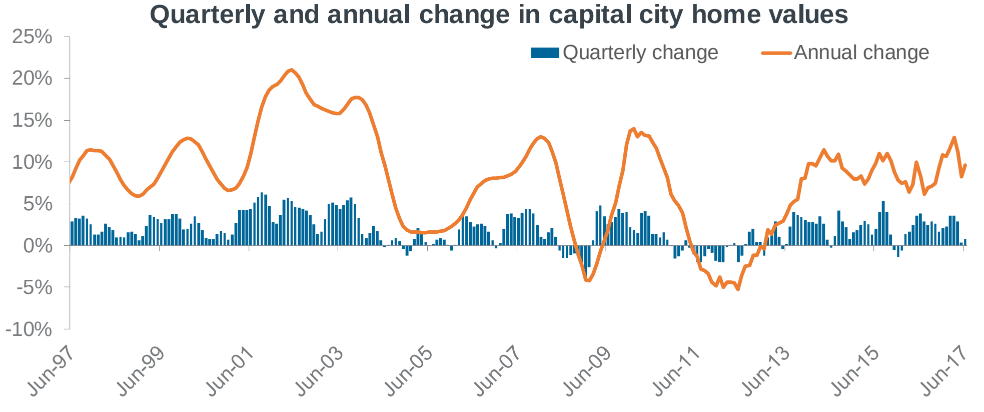
Capital city dwelling values have now been rising for five years and the rate of growth in Sydney and Melbourne has been significantly greater than that outside of these two cities. While lower mortgage rates have improved mortgage serviceability, for those that don't own a home it is increasingly difficult for them to firstly save a large enough deposit and secondly to compete with the equity that current home owners have built over recent years. The housing market conditions prevalent in Sydney and Melbourne are not prevalent across the rest of the country however, these cities are being supported by strong economic and demographic conditions which are fuelling mortgage demand.

Mortgage rates have clearly played a role in driving housing demand in Sydney and Melbourne but the relatively weaker economic conditions outside of these two cities have dampened housing demand elsewhere. With affordability becoming stretched we are seeing increasing pushes for housing market reform from Government. These calls are expected to only grow louder the longer the current growth conditions persist.

Housing Market

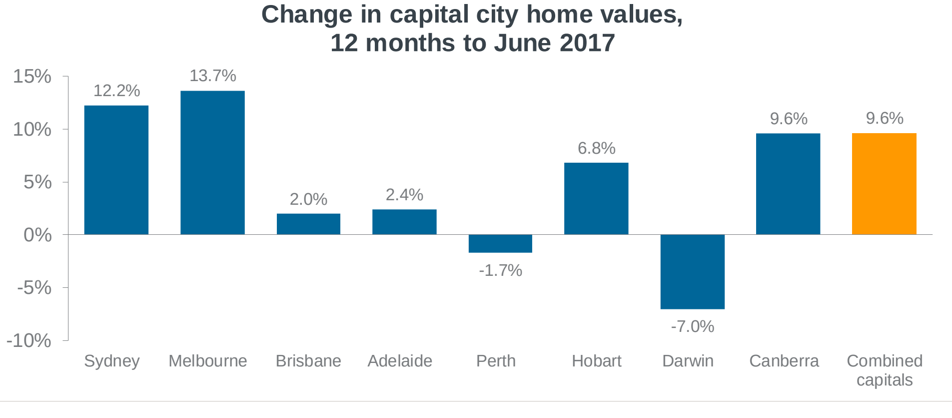
Dwelling values rose at their slowest quarterly pace since December 2015 over the June 2017 quarter

- Combined capital city dwelling values increased by 0.8% over the second quarter of 2017, down from 3.5% over the first quarter of this year and the weakest quarterly change sits values fell -1.4% over the final quarter of 2015.
- The June quarter has historically shown seasonal weakness, however, although growth has slowed over the quarter, values have still risen at a strong, albeit slowing pace over the past year, up 9.6% which is slower than the annual growth rate of 12.9% at the end of March 2017.
- Over the past year house values have increased by 10.3% which is more than double the 5.1% annual increase in unit values.
- In most cities, the rate of value growth for houses has been more than double that of units however, Perth was the only capital city in which the change in values for units was greater than the change for houses.



After five years of growth, Sydney and Melbourne are still seeing the strongest annual growth rates

- While combined capital city home values rose by 9.6% over the 12 months to June 2017, across individual capital cities there has been some significant variation.
- Sydney and Melbourne are the only two capital cities to have recorded double digit value growth over the past year with values 12.2% and 13.7% higher respectively.
- The annual rate of growth in Sydney and Melbourne has slowed from the peak recorded at the end of the previous quarter.
- Value growth has accelerated over the past year in Hobart and Canberra, has remained moderate in Brisbane, and Adelaide while Perth and Darwin continued to record value falls.
- Sydney house values have increased by 13.0% over the past year and units by 8.6%. Although values are continuing to rise, the rate of annual growth has slowed over the quarter from 19.7% and 15.3% respectively.
- Over the past year, Melbourne house values have increased by 15.0% compared to a 1.5% increase in unit values. The rate of annual growth is slower for houses and units than it was a quarter ago.

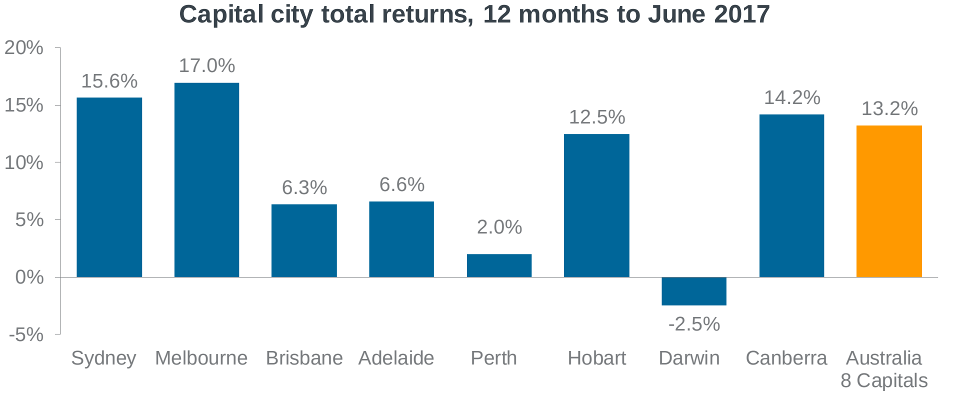


Housing Market

- In Brisbane, dwelling value growth has remained moderate over the past year however, the increase in house values (2.5%) has substantially outstripped units which have seen values fall by -3.2%.
- Adelaide home value growth has been moderate over the year with the 2.7% increase in house values much greater than the -1.3% fall in unit values.
- Dwelling values in Perth have continued to fall over the past year however, the pace of decline has slowed with houses falling -1.9% while unit values have increased by 0.5%.
- Hobart house values have increased by 7.4% over the past year compared to a 1.5% increase in unit values.
- Overall dwelling values in Darwin have continued to fall over the past year with house values falling by -6.2% over the past year and a -10.5% fall in unit values.
- Over the past 12 months, Canberra house values have increased by 9.7% while unit values have increased by 7.6%.

Capital city housing recorded a total return of almost 13.2% over the past year

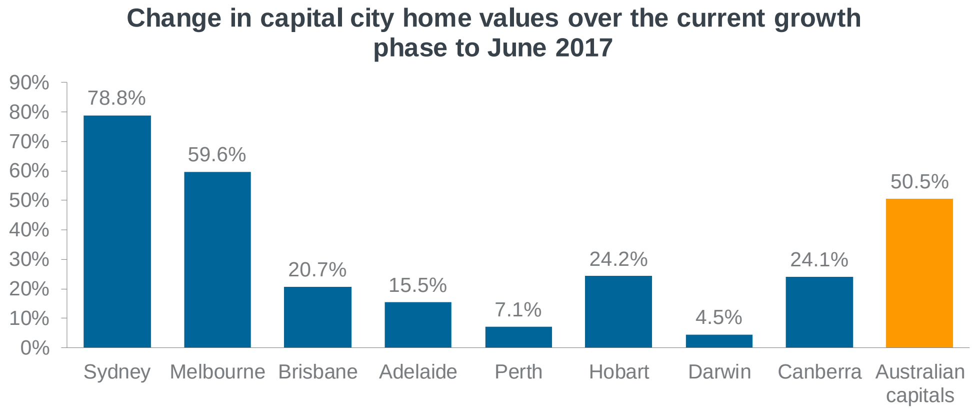
- Over the 12 months to June 2017, total property returns which factor in both capital growth and rental returns have been recorded at 13.2%, down from 16.7% at the end of March 2017.
- Investors enjoyed double-digit returns from residential property over the past year in Sydney, Melbourne, Hobart and Canberra.
- All other capital cities except Darwin (-2.5%) recorded positive total returns over the year however, they were relatively moderate.
- The strong returns from property highlight why investment in certain cities has been, and remains, popular.



Housing Market

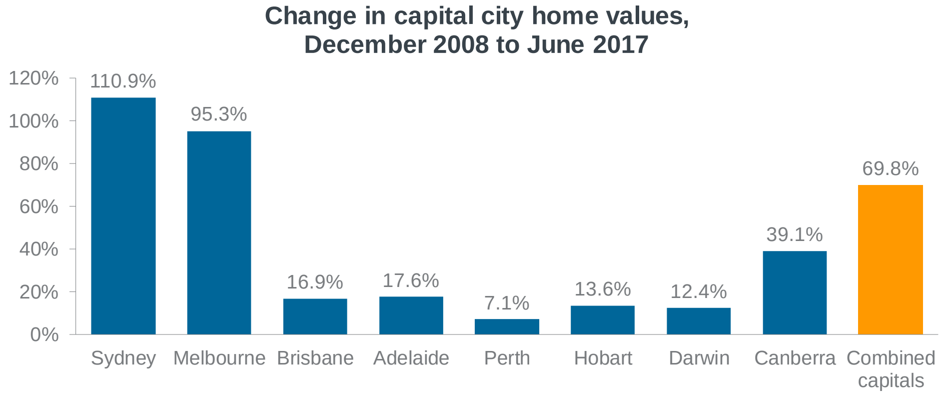
Growth in Sydney and Melbourne over recent years has eclipsed all other capital cities

- Following a decline of -6.5% between October 2010 and May 2012, combined capital city dwelling values have increased by 50.5% over the five years to June 2017.
- The chart below shows the increase in home values across the current growth phase in each capital city with Sydney and Melbourne recording a substantially higher level of growth than all other capital cities.
- Considering that Hobart has recorded the third highest rate of growth at just 24.2%, it is clear that this growth phase has been very much focussed on Sydney and Melbourne.
- Outside of the two major capital cities, values have increased by between 20% and 30% in Brisbane, Hobart and Canberra, and by less than 20% in the remaining capital cities.
- Interest rates are usually named as the culprit for such strong growth but all cities have the same interest rates, yet Sydney and Melbourne have substantially outperformed all other capital cities. As we further dissect the housing market we shall see that demographics, investment concentrations and labour markets are a big driver of Sydney and Melbourne's strength.



Since value falls in 2008 housing market growth conditions have been significantly skewed towards Sydney and Melbourne

- In 2008 during the financial crisis, capital city dwelling values fell by -6.1% between March and December but with lower interest rates and first home buyer stimulus dwelling values began to rise thereafter.
- As has been the case with the most recent growth phase, since the global financial shock it has been the two largest capital cities that have seen substantial value growth while other capital cities have recorded relatively moderate increases in values.
- The relative strength of the Sydney and Melbourne economies, strong migration into those cities and a relatively low supply of stock available for sale has supported this growth in dwelling values while these conditions have generally not been apparent in other capital cities.
- Since December 2008, Sydney dwelling values have more than doubled while Melbourne values have almost doubled.
- All other capital cities except for Canberra (39.1%) have recorded cumulative value growth of less than 20% since the end of 2008.

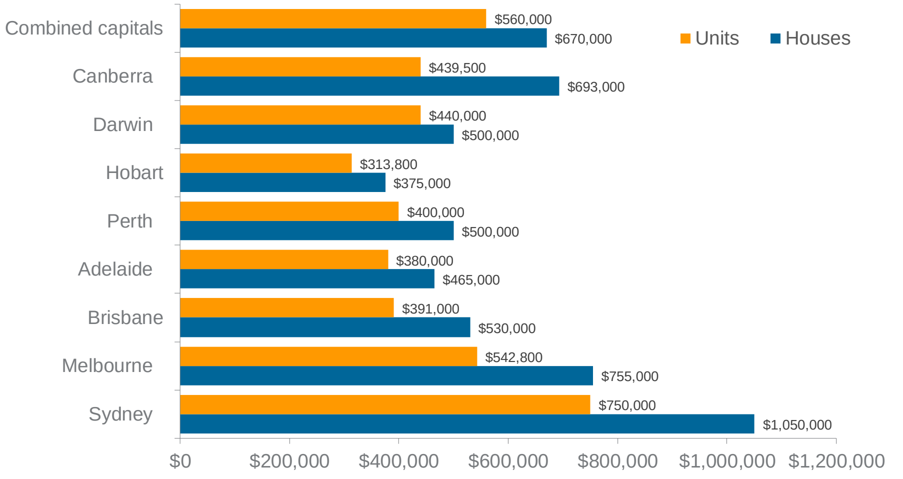


Housing Market Overview

There is a 20% premium for houses over units across the combined capital cities

- At the end of June 2017, the median selling price of a capital city house was recorded at $670,000 and the median unit price was $560,000, a gap of 20%.
- Across the individual capital cities, the premium for houses over units is recorded at: 40% in Sydney, 39% in Melbourne, 36% in Brisbane, 22% in Adelaide, 25% in Perth, 20% in Hobart, 14% in Darwin and 58% in Canberra.
- In dollar terms the gaps between house and unit prices are recorded at: $300,000 in Sydney, $212,200 in Melbourne, $139,000 in Brisbane, $85,000 in Adelaide, $100,000 in Perth, $61,200 in Hobart, $60,000 in Darwin and $253,500 in Canberra.

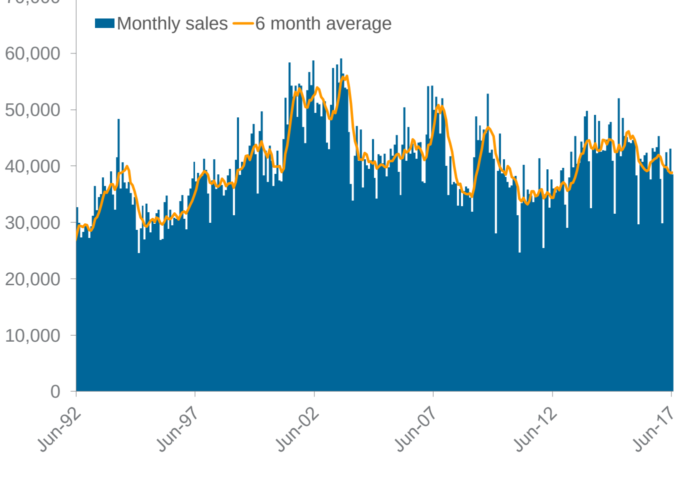
Capital city median house and unit prices as at June 2017



Transaction activity is lower than its peak but the declines have eased recently

- It is estimated that over the 12 months to June 2017 there were 482,674 settled dwelling sales nationwide.
- Compared to sales over the 12 months to June 2016, the number of transactions was -2.7% lower.
- The combined capital cities recorded an estimated 302,907 settled sales over the year which accounted for 64% of total sales nationally.
- Capital city transactions were -5.1% lower over the past year than the previous year.
- Across the individual capital cities, the annual change in transactions was recorded at: 2.8% in Sydney, -9.9% in Melbourne, -8.2% in Brisbane, -1.3% in Adelaide, +0.7% in Perth, +7.2% in Hobart, -7.6% in Darwin and +0.1% in Canberra.
- Note that these figures only count settled sales; off-the-plan sales are unsettled and will not settle until they are completed, at that time these sales will be counted at their contract date.
- Given this, it is expected that recent years of sales activity will be revised higher over the coming years once these settlements occur.

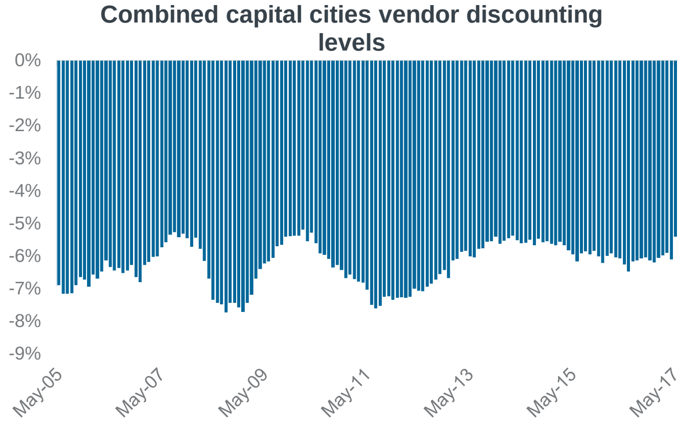
Monthly number of settled dwelling sales



Housing Market Overview

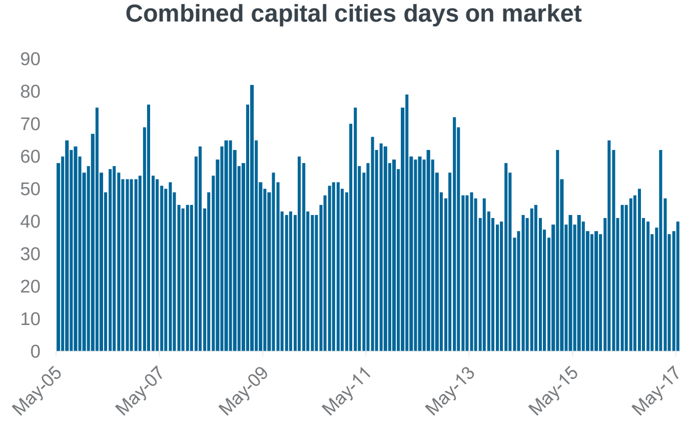
Discounting levels have been trending lower over recent years

- Vendor discounting measures the difference between the initial list price and the ultimate selling price of properties which sell by private treaty for less than their original list price.
- Vendors that sold their homes below the initial list price are currently discounting them by 5.4%.
- Discounting is currently at its lowest level in two years.
- The current level of discounting across the individual capital cities is recorded at: 4.5% in Sydney, 4.4% in Melbourne, 5.6% in Brisbane, 5.9% in Adelaide, 8.3% in Perth, 4.0% in Hobart, 8.4% in Darwin and 3.6% in Canberra.
- Discounting levels are lower over the past year in Sydney (-1.3%), Melbourne (-1.5%), Brisbane (-0.4%), Adelaide (-0.3%), Hobart (-2.8%) Darwin (-2.2%) and Canberra (-0.8%).
- Perth is the only capital city in which discounting levels are higher over the year, up 0.7%



The length of time it takes to sell a home is starting to rise

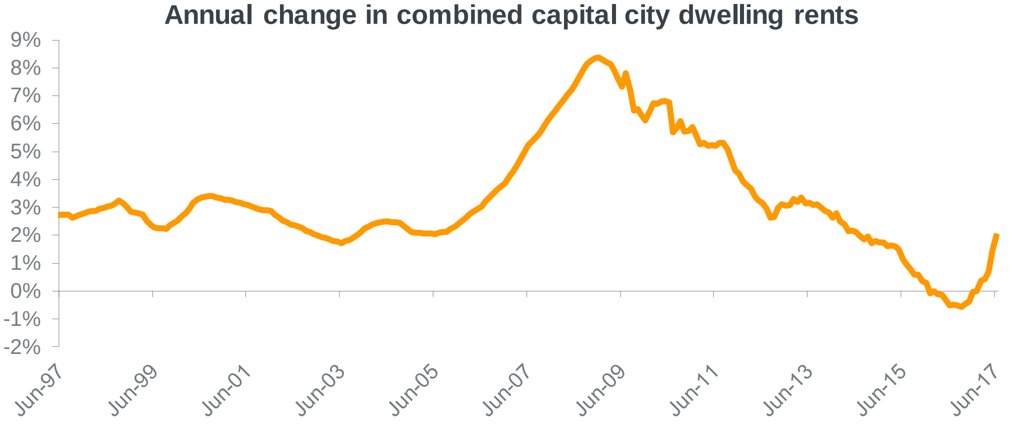
- The days on market figure measures the average time from the first listing date to the contract date for properties sold by private treaty.
- Combined capital city homes are currently taking an average of 40 days to sell compared to 45 days at the same time a year ago.
- At an individual capital city level, the average days on market is recorded at 32 days in Sydney, 31 days in Melbourne, 61 days in Brisbane, 44 days in Adelaide, 76 days in Perth, 38 days in Hobart, 63 days in Darwin and 40 days in Canberra.
- The average days on market has reduced over the past year in Sydney (-10 days), Melbourne (-2 days), Adelaide (-8 days), Hobart (-29 days), Darwin (-20 days) and Canberra (-10 days).
- In Brisbane homes are taking 12 days longer to sell than they were a year ago and in Perth they are taking an additional 9 days to sell.
- Although days on market is generally lower than it was a year ago, in most capital cities it has risen over the past few months.



Housing Market Overview

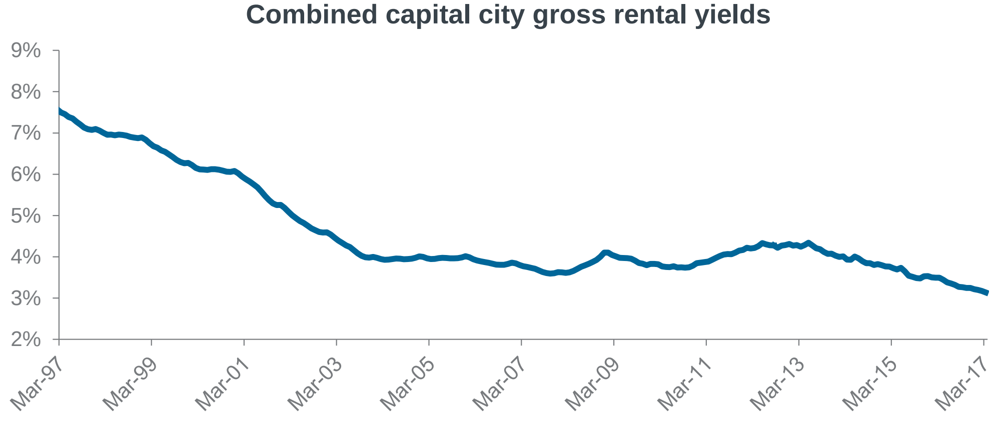
Rental growth has accelerated over the past year, particularly in Sydney and Melbourne

- Rental rates across the combined capital cities increased by 2.0% over the 12 months to June 2017 with house rents increasing by 1.9% compared to a 2.4% increase in unit rents.
- Rental growth had been steadily slowing since 2009 so the recent uplift is occurring against the softer long-term trend and it will be interesting to see whether supply additions over the coming months and years see the market revert to softening rental growth however, the supply additions are somewhat being offset by rampant population growth, particularly in Sydney and Melbourne.
- At an individual capital city level, the annual change in dwelling rents have been recorded at: +4.5% in Sydney, +4.1% in Melbourne, -0.2% in Brisbane, +1.1% in Adelaide, -8.3% in Perth, +6.2% in Hobart. -5.4% in Darwin and +8.4% in Canberra.



Gross rental yields hit record lows with values rising at a much faster pace than rents

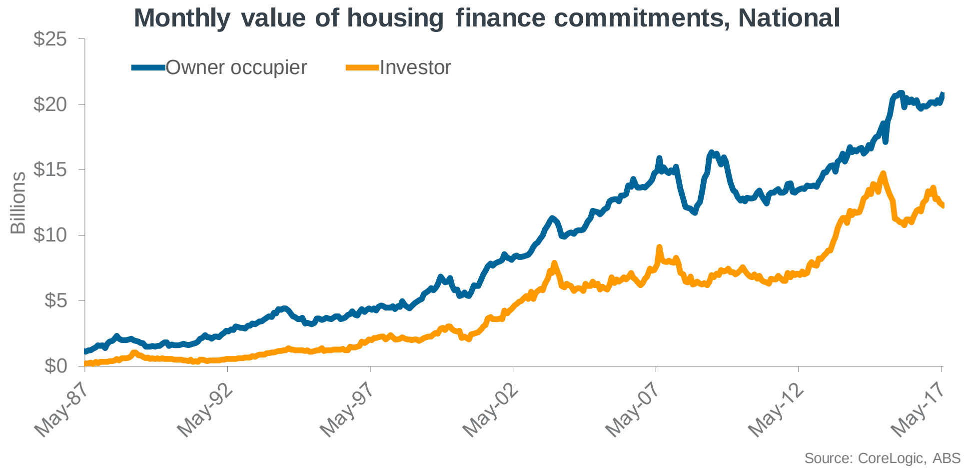
- At the end of June 2017, the gross rental yield for combined capital city dwellings was recorded at an historic low of 3.1% with rental yields for houses recorded at 3.0% and unit yields sitting at 4.0%.
- Gross rental yields were recorded at a higher 3.4% a year earlier with yields on houses recorded at 3.2% and 4.1% for units.
- Gross rental yields sit at record low levels currently in Sydney (2.9%) and Melbourne (2.8%).
- Across the remaining capital cities, gross rental yields are recorded at: 4.2% in Brisbane, 4.0% in Adelaide, 3.6% in Perth, 5.2% in Hobart, 4.9% in Darwin and 4.1% in Canberra.
- Hobart and Canberra are the only capital cities in which gross rental yields haven't fallen over the past year, in both cities they are unchanged.



Mortgage Lending

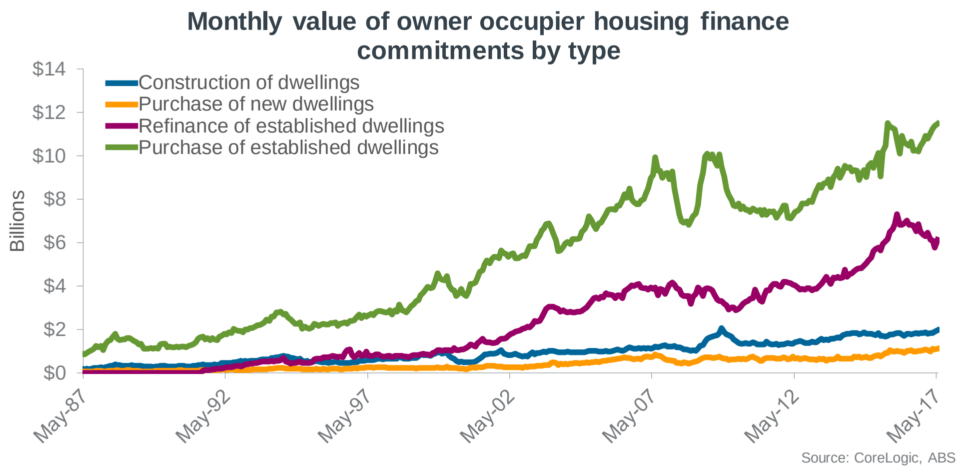
New finance commitments to investors are trending lower while owner occupier demand has swung higher

- There was $33.0 billion in housing finance commitments in May 2017 to Australian lenders.
- The total value of housing finance commitments increased by 1.3% in May and was 4.8% higher year-on-year.
- The $33.0 billion in commitments was split between $20.7 billion to owner occupiers and $12.3 billion to investors.
- The value of owner occupier housing finance commitments increased by 2.9% over the month and was 3.1% higher year-on-year.
- Finance commitments to investors fell by -1.4% in May and have fallen for four of the past six months however, they are 7.8% higher year-on-year.
- With ongoing changes to lending policies for investors this is leading to waning demand in this segment which is likely to continue.



Lending to owner occupiers has been steady for more than half a year

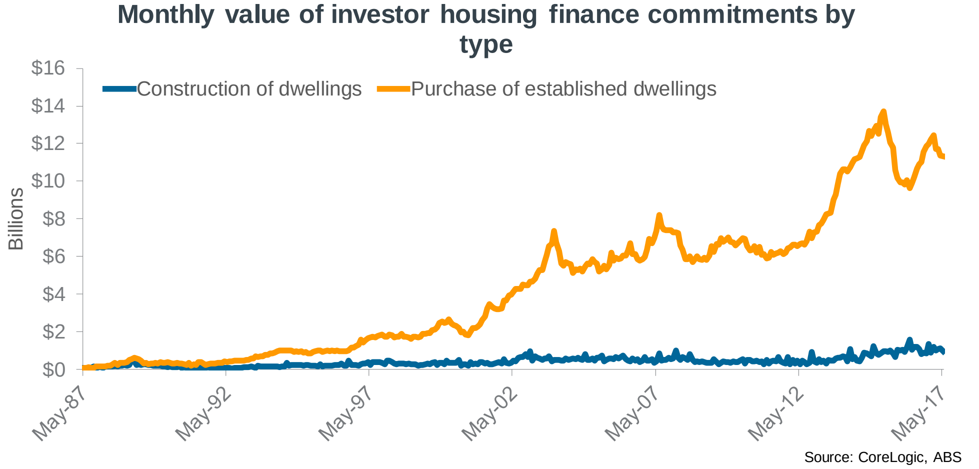
- In May, the $20.7 billion in owner occupier housing finance commitments was split between: $2.0 billion in construction of dwellings, $1.1 billion in purchase of new dwellings, $6.1 billion in refinancing of established dwellings and $11.5 billion in purchase of established dwellings.
- Owner occupier lending has been primarily rising on the back of increases in lending for construction of new dwellings and purchase of established dwelling while refinancing has been trending lower.
- Year-on-year, finance commitments were higher for construction of dwellings (+9.7%), purchase of new dwellings (+11.1%) and purchase of established dwellings (+9.6%) while they were lower for refinancing of established dwellings (-9.9%).



Mortgage Market

Lending to investors continues to trend lower on the back of increasing mortgage rates

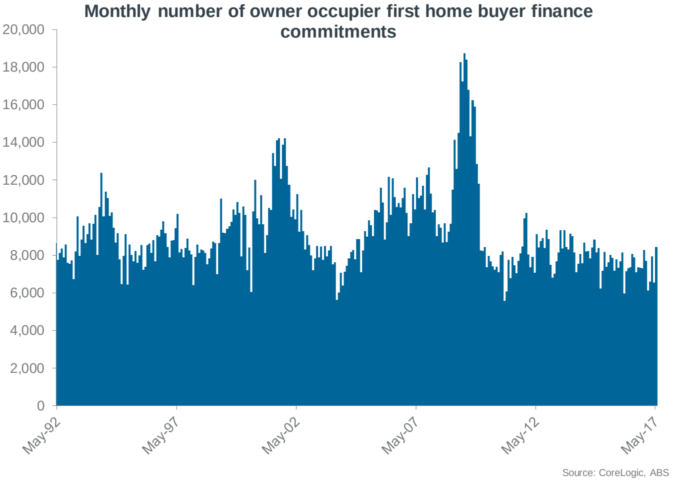
- In May 2017 there was $12.3 billion in housing finance commitments to investors which was the lowest value since August 2016, consisting of $1.0 billion for construction of dwellings and $11.3 billion for established housing.
- The value of lending for construction was at its lowest level since December 2016 while lending for established housing was at its lowest level since August 2016.
- The value of investor housing finance commitments has been easing on the back of higher mortgage rates to investors and other policy constraints restricting lending to this segment.
- As at May 2017, the value of investor housing finance commitments was -17.4% below its historic peak.
- New South Wales and Victoria have seen heightened levels of investor borrowing over recent years and the recent increases in mortgage rates to investors, as well as tighter lender credit policies, are most likely to impact those markets where investors have been most active.



Source: CoreLogic, ABS

Owner occupier first home buyer participation in the market remains low

- Data on owner occupier housing finance commitments to first home buyers shows that there were 8,439 commitments in May 2017, accounting for 14.0% of all owner occupier commitments.
- The number of owner occupier first home buyer commitments rose in May to its highest number since October 2014 and its highest percentage since July 2015.
- Although there has been a lift in borrowing by first home buyers it remains lower than the long-term average and well below peak levels.
- An increasing number of first home buyers are reportedly purchasing their first property as an investment, unfortunately this data is not published separately and would only be included in the investor data.

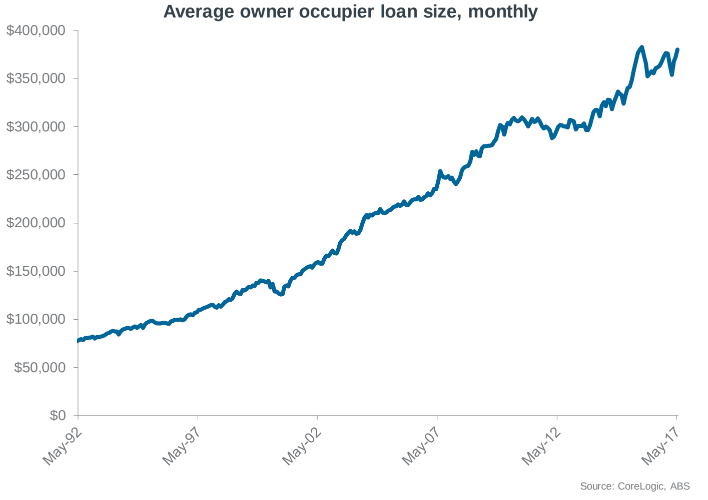


Source: CoreLogic, ABS

Mortgage Market

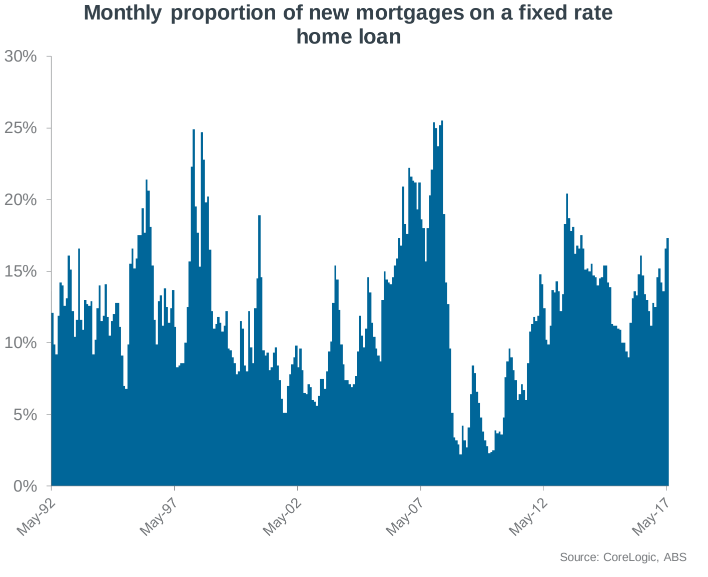
There has been a rebound in average loan sizes to owner occupiers recently

- The average new mortgage size to owner occupiers was recorded at $380,000 in May 2017.
- Average mortgage sizes have increased over each of the past three months and are 7.0% higher year-on-year.
- Although average loan sizes are higher over the year they are -0.7% lower than their November 2015 peak.
- Unfortunately the Australian Bureau of Statistics doesn't publish a similar dataset for investors.



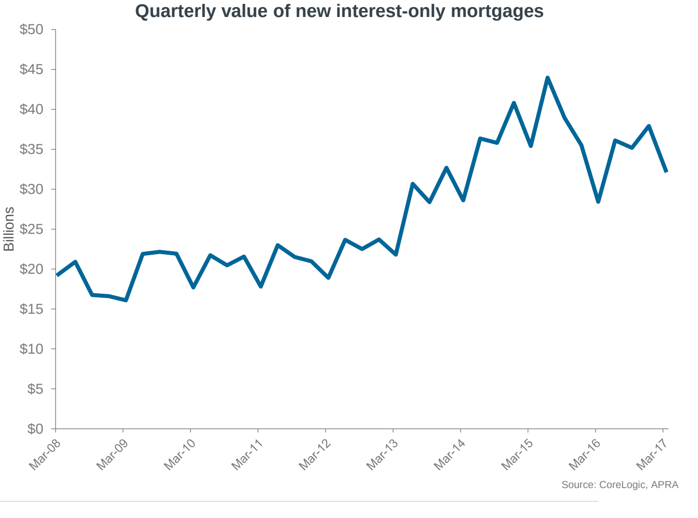
The majority of owner occupiers take out a variable rate mortgage, but fixed rates now rising in popularity

- Housing finance data reveals that in May 2017, 17.3% of mortgage commitments were for fixed-rate loans which was this loan types highest proportion since November 2015.
- At its absolute peak, approximately one quarter of mortgages were on a fixed rate.
- Variable rate mortgages are clearly preferred by Australian owner occupiers, again this data is not published for investors.
- The rising proportion of new mortgages on a fixed rate is likely reflective of the uncertainty which has been created by ongoing mortgage repricing over recent months and likely a growing acceptance that the interest rate cycle has bottomed out.
- The majority of mortgages being on a variable rate means that when the RBA or lenders change the cash rate setting it has an almost immediate impact on household finances.



New interest-only lending is trending lower and will continue to do so

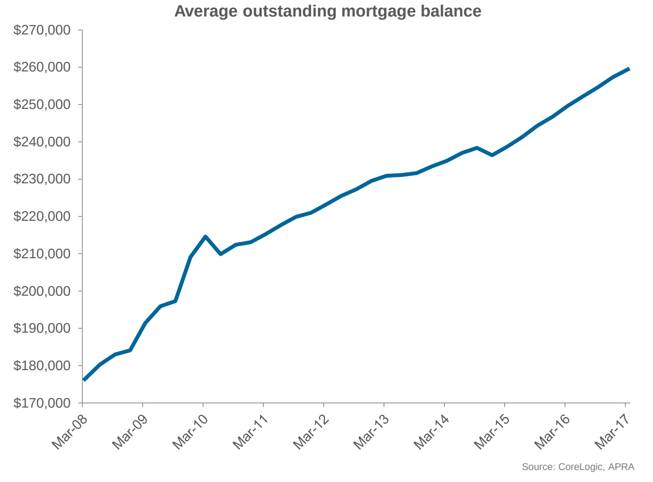
- According to data from the Australian Prudential Regulation Authority (APRA), $32.355 billion in mortgage lending was for interest-only loans over the March 2017 quarter.
- The value of lending for interest-only purposes fell from $37.922 over the previous quarter and was at its lowest total value in a year.
- Interest-only mortgages accounted for 36.2% of all new lending over the quarter which was its lowest proportion in a year and well down on its peak of 45.6% in June 2015.
- Recent regulatory changes will result in a further fall in new interest-only lending. At the end of March 2017, APRA imposed a 30% cap on new 'interest only' mortgage originations.
- Given these changes it will be more difficult for borrowers to access interest-only mortgages.



Mortgage Market

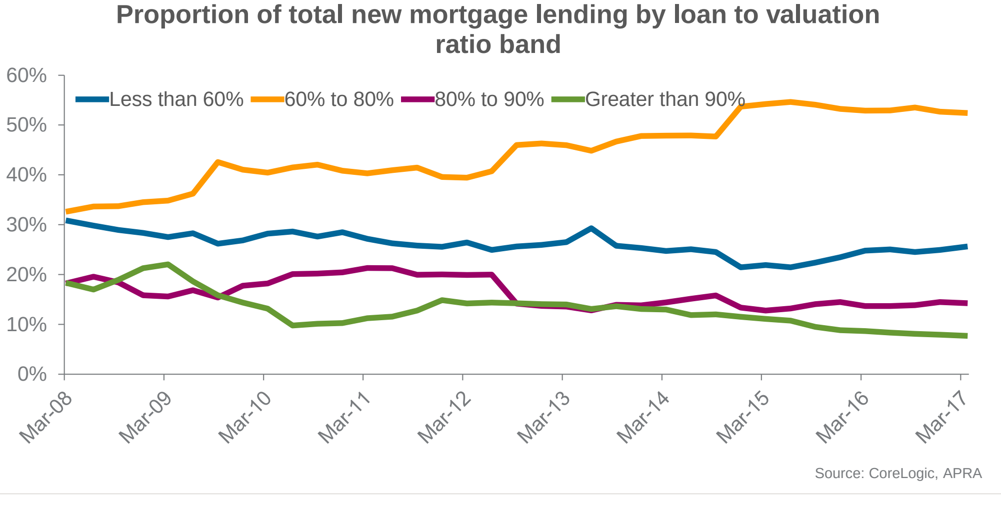
Average outstanding mortgage balances continue increase, 3.9% higher over the year

- The average outstanding mortgage balance was recorded at $259,400 at the end of March, having increased by 3.9% over the year.
- Interest-only mortgages had the highest average outstanding amount at $346,100 having risen by 4.2% over the past year.
- Mortgages with an offset facility also had an above average outstanding amount ($314,100) with the outstanding amount having risen by 2.6% over the past year.
- The average outstanding balance on a reverse mortgage has increased by 3.7% over the past year to $100,100.
- Low-documentation mortgages had an average outstanding balance of $193,100 which has increased by 0.8% over the past year.
- Other non-standard mortgages have seen their average outstanding balances fall by -4.0% over the year to $185,600 at the end of March 2017.
- While outstanding mortgages amounts are edging slightly higher they remain substantially lower than current prices indicating that on average mortgagees have significant equity in their properties.



Fewer new mortgages are being written with a high loan-to-value ratio (LVR)

- According to APRA there was $89.257 billion in new mortgage lending over the March 2017 quarter.
- $22.808 billion worth of new mortgage lending over the quarter was for loans with an LVR of 60% or less which accounted for 25.6% of all new mortgage lending for the quarter, its highest proportion since September 2013.
- Loans with an LVR of between 60% and 80% accounted for 52.4% of all new lending over the quarter at $46.808 billion.
- More than three-quarters (78.0%) of all new mortgage lending over the quarter had an LVR of less than 80%.
- 14.3% of lending over the quarter was for loans with an LVR of between 80% and 90%, at a total of $12.744 billion.
- Just $6.896 billion was lent for mortgages with an LVR of more than 90% over the March 2017 quarter which was its lowest value since May 2011, and these mortgages accounted for an historic low 7.7% of new lending over the quarter.
- With fewer new mortgages being written with high LVRs it reflects the more conservative approach to mortgage lending being taken by lenders.
- Mortgages with LVRs above 80% also typically incur lenders mortgage insurance (LMI) and a reduction in higher LVR lending could imply a reduced demand for this product.

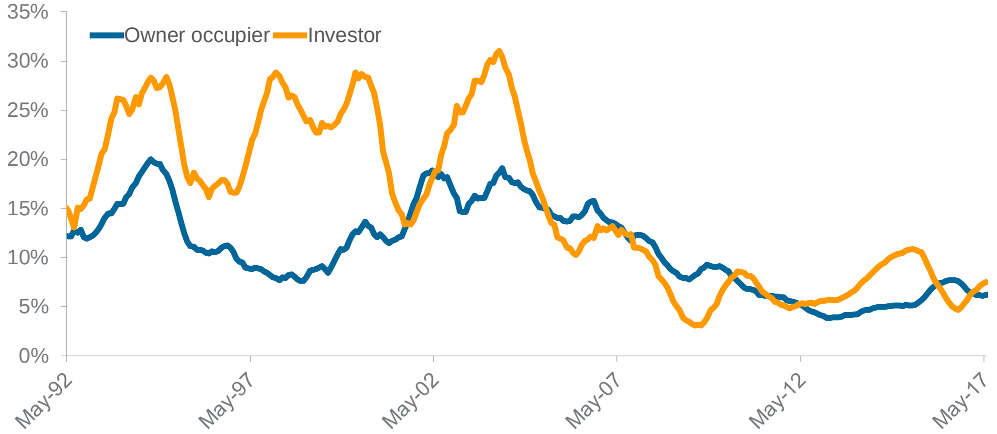


Mortgage Market

Housing credit growth to investors is slowing but picking-up for owner occupiers

- The total value of outstanding mortgage credit, according to the RBA, was $1.673 trillion in May 2017.
- Housing credit advanced by 0.6% in May 2017 with investor credit (0.5%) advancing at a slower pace than credit to owner occupiers (0.6%).
- Monthly housing credit data shows that credit to investors advanced at its slowest pace since July 2016 while owner occupier credit advanced at its fastest pace since December 2015.
- Over the 12 months to May 2017, housing credit has advanced by 6.6% with owner occupier credit increasing by 6.1% and investor credit up by 7.5%.
- Although the annual data shows investor credit growth accelerating, the monthly data shows a clear slowing of growth since late 2016 which is likely linked to the higher interest rates now being incurred by investors which is potentially enticing them to pay back more of their debt and also discouraging new investment.

Annual change in total housing credit, National



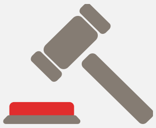
Source: CoreLogic, RBA

Residential Real Estate Underpins Australia's Wealth

Number of dwellings
9.9 million

Outstanding mortgage debt
$1.67 trillion

Household wealth held in housing
52.4%



Total sales p.a.
482,674

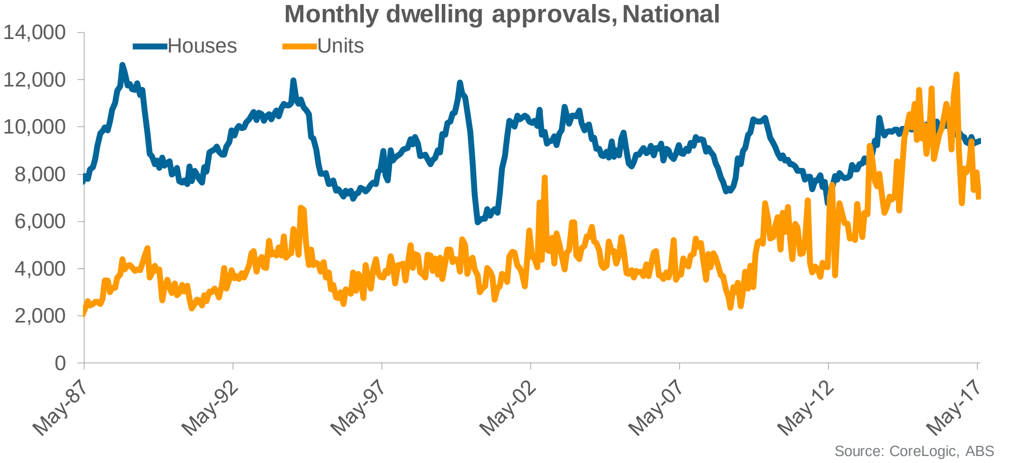
Gross value of sales p.a.
$286.4 billion

Source: CoreLogic, ABS, RBA, ASX

Housing Supply

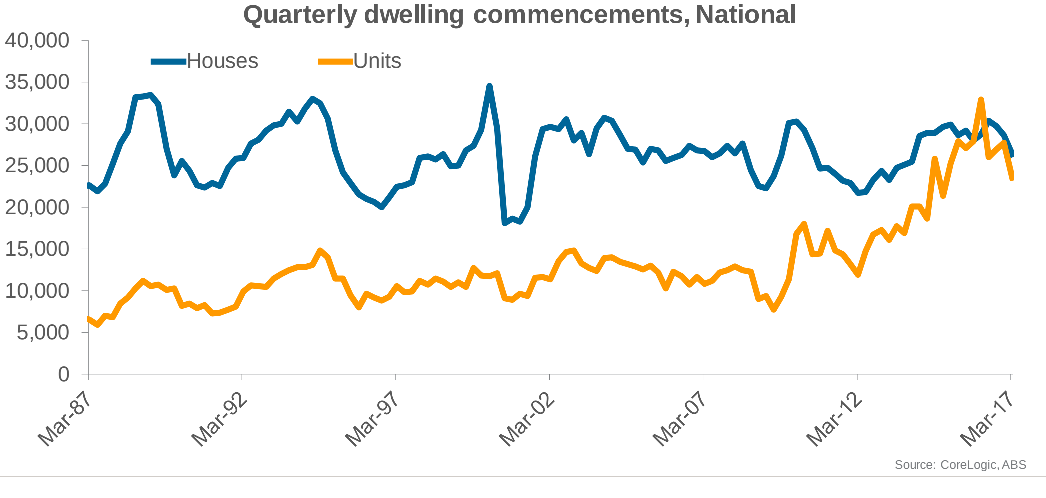
The construction cycle has peaked, with dwelling approvals much lower than recent peak levels and continuing to trend lower

- There were 16,448 dwellings approved for construction nationally in May 2017 which was the fewest since October 2016.
- The number of approvals fell by -5.6% over the month and they are -19.7% lower than in May 2017 as well as being -24.8% lower than their peak.
- The 16,448 approvals in May were split between 9,395 houses and 7,053 units.
- House approvals were 0.4% higher over the month but -6.8% lower year-on-year while unit approvals fell by -12.6% over the month and are -32.2% lower than they were a year ago.
- The chart below highlights that unit approvals tend to be much more volatile than houses.
- Sydney, Melbourne and Brisbane have all seen a substantial slowing of dwelling approvals over the past year.
- Although approvals have fallen significantly from their peak, the approved pipeline of supply remains at elevated levels. With inner city unit markets facing a large number of high rise settlements over the coming years, there is likely to be a heighted level of risk in key inner city markets for at least the next 24 months.



Dwelling commencements are starting to follow dwelling approvals lower

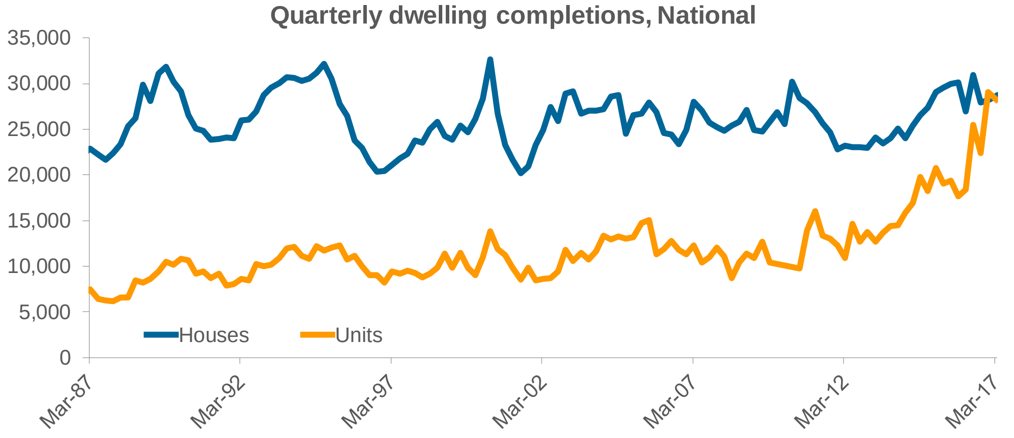
- 50,395 dwellings commenced construction over the March 2017 quarter which was -11.4% fewer than over the previous quarter and -19.2% fewer compared to the March 2016 quarter.
- In terms of commencements for new construction, there were 26,410 new houses and 23,570 new units which commenced construction.
- New house commencements were -7.7% lower over the quarter and -8.1% lower year on year while new unit commencements have fallen by a larger magnitude of -15.1% over the quarter and -28.4% year-on-year.
- New dwelling approvals have trended lower since the end of the March quarter which points to a further slowing of commencements over the coming quarters.
- Although commencements are expected to fall further they are likely to remain elevated compared to historic levels given that approvals remain at above average levels (despite trending lower).



Housing Supply

Dwelling completions fall slightly over the March 2017 quarter but remain at an elevated level

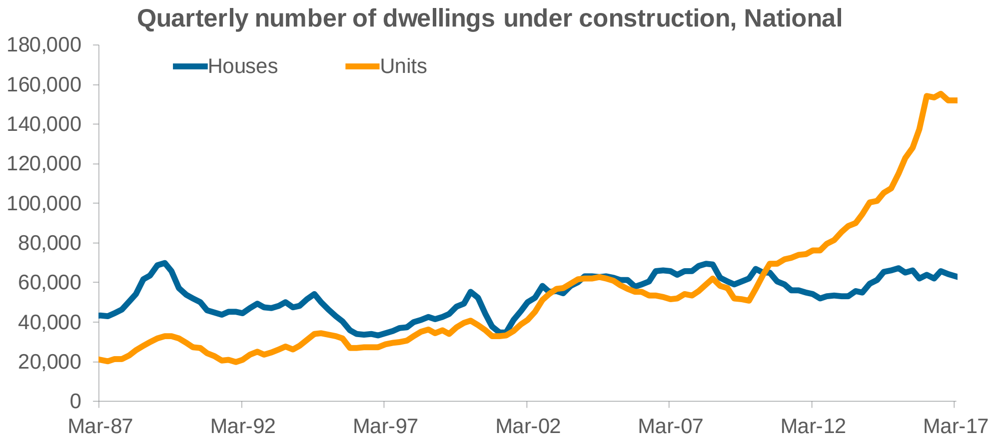
- Over the March 2017 quarter there were 57,371 dwelling completions which was -1.4% lower than the previous quarter but 24.7% higher than over the March 2016 quarter.
- The data consisted of 28,643 new house completions which were 1.6% higher over the quarter and 6.2% higher year-on-year.
- There were 28,231 new units completed over the March 2017 quarter which was -2.8% lower than the previous quarter but 53.1% higher than the previous year.
- Although the number of dwellings commencing construction is easing from record highs there remains a substantial number of dwellings under construction which should ensure that completions continue to remain elevated for some time.



Source: CoreLogic, ABS

The volume of stock under construction remains close to a record-high

- There were 217,482 dwellings under construction at the end of March 2017 consisting of: 63,065 new houses, 152,210 new units and 2,207 non-new dwellings.
- The number of new houses under construction fell slightly over the quarter, down -2.2% but are 30.7% higher than their long-term average.
- The number of new units under construction was slightly lower over the quarter but 295.7% higher than its long-term average.
- Dwelling approvals and commencements are trending lower but there remains a substantial volume of stock under construction which will continue to support completions over the coming quarters.
- Across the individual states the data shows that while the number of dwellings under construction has started to fall, noticeably so in Vic and Qld, in NSW the number of units under construction has continued to climb.
- The heightened level of unit construction in particular will take a number of years to work its way through to completion.

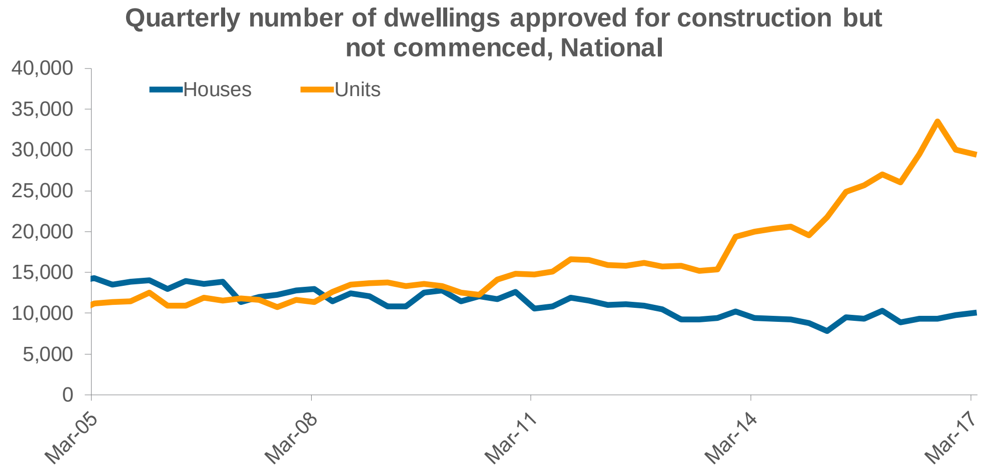


Source: CoreLogic, ABS

Housing Supply

On a historic basis, we are seeing a high proportion of units approved but not yet commenced construction

- At the end of March 2017, 420,186 dwellings were approved but yet to commence construction which was down from 40,408 the previous quarter.
- This figure consisted of 10,051 new houses awaiting commencement and 29,463 new units awaiting to be commenced.
- The number of houses not yet commenced has trended higher over the past four quarters while the number of units awaiting commencement remains at historically high levels.
- The heightened volume of stock awaiting commencement along with the recent decline in approvals, for units in particular, suggests that unit projects are becoming more difficult to commence which is probably linked to developer's ability to achieve sufficient presales to commence construction as well as tighter finance conditions for commercial lending.

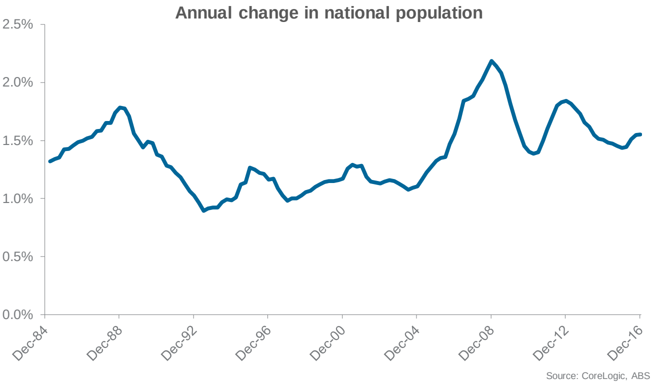


Source: CoreLogic, ABS

Demographic Overview

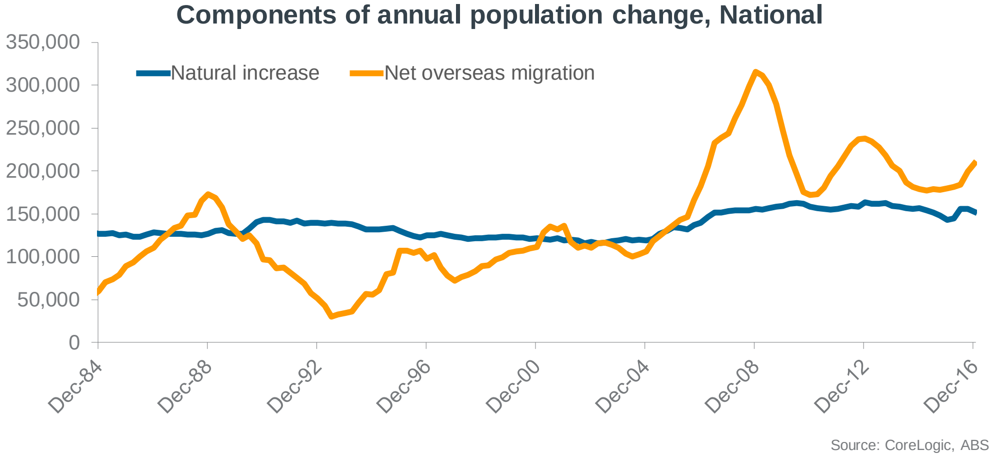
The rate of national population growth has started to trend higher

- It was estimated that at the end of 2016, the national population was 24,385,635 persons.
- The population increased by 1.6% over the 12 months to December 2016.
- The annual rate of population growth has rebounded to its highest level since June 2014.



Net overseas migration continues to fuel the uplift in the rate of national population growth

- Population growth nationally is comprised of net overseas migration as well as the natural increase in the population (births minus deaths). State-based migration also includes net interstate migration which cancels out at a national level.
- Net overseas migration was recorded at 208,953 persons over the 12 months to December 2016 which was 16.5% higher than at the same time in 2016 and at its highest level since September 2013.
- Natural increase rose by 6.5% over the year and was recorded at 152,578 persons.
- The national rate of annual population growth peaked at 2.2% in December 2008 when the population increased by 459,504 persons over the quarter, of which net overseas migration was recorded at 315,687 persons.
- Although the rate of population and overseas migration has slowed relative to the 2008 peak, it remains elevated and is much higher than in most other developed countries throughout the world.



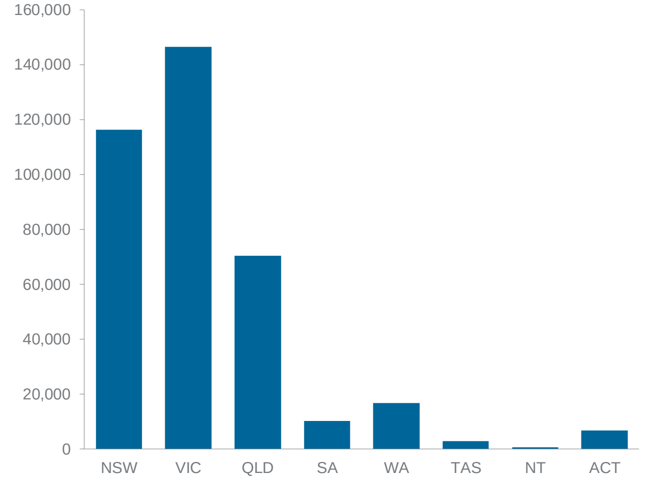
Victoria remains the population growth powerhouse of the nation

- New South Wales' population increased by 1.5% over the 12 months to December 2016 with the state's population increasing by 116,382 persons over the year which was 8.0% higher than the increase in 2015
- The population of Victoria increased by a record-high 146,628 persons over the 12 months to December 2016 which was 7.7% higher than the population increase a year earlier. The total population has increased by 2.4% over the past year.
- Queensland's population increased by 70,442 persons over the past year which was 14.1% higher than the population growth a year earlier and its greatest annual increase since March 2014. The total population of Queensland increased by 1.5% over the year.
- An increase of 10,322 persons over the 12 months to December 2016 resulted in a 0.6% increase in South Australia's population. The 10,322 person increase in population over the year was -8.5% lower than the increase over the previous year.
- Western Australia's population increased by 16,835 persons or 0.7% over the past year, the total population increase was -0.2% lower than the previous year.

Demographic Overview

- Tasmania's population increased by 2,972 persons or 0.6% over the past year which was the greatest increase in population for the state since March 2011.
- Northern Territory's population increased by 0.3% or 645 persons over the 12 months to December 2016, its smallest increase since December 2014.
- In the Australian Capital Territory, the rate of population growth was recorded at 1.7% over the past year resulting in an increase in population of 6,825 persons.

Change in population over the 12 months to December 2016

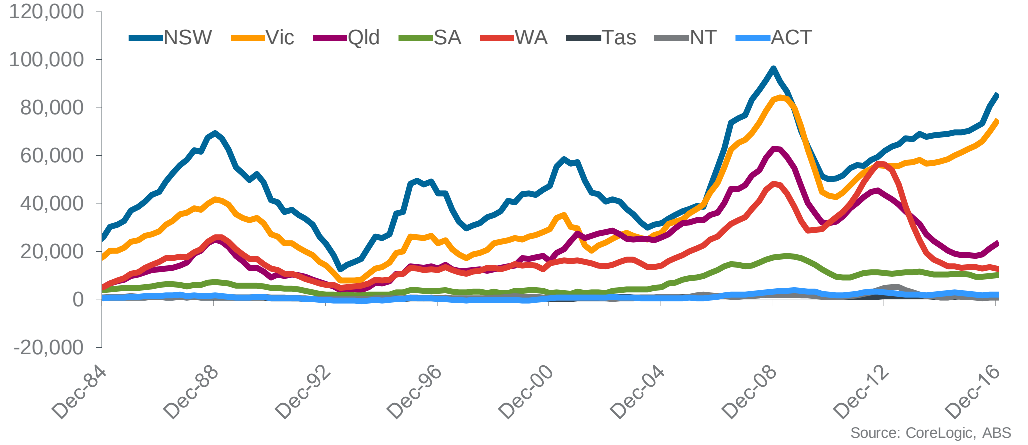


Source: CoreLogic, ABS

More than three quarters of net overseas migration has been into NSW or Vic

- Most of those people immigrating to Australia continue to choose to settle in either NSW or Vic with net overseas migration over the past year recorded at 84,835 persons in NSW and 74,051 persons in Vic.
- NSW accounted for 40.6% of net overseas migration nationally and Vic accounted for 35.4%, if you add in the 11.0% in Qld, the three most populous states accounted for 87.1% of national net overseas migration.
- With net overseas migration of 84,835 persons over the past year, New South Wales recorded its greatest volume of net overseas migrants since Jun 2009 with net overseas migration 20.8% higher over the past year.
- The net overseas migration of 74,051 persons into Victoria over the past year was the greatest number since September 2009 and an increase of 18.1% on the previous year.
- Queensland's net overseas migration was recorded at 23,023 persons over the past year which was 25.1% higher than the number of overseas migrants at the same time a year earlier.
- Over the past year there were 9,942 net overseas migrants to South Australia which was -2.9% fewer than the number a year earlier.
- Western Australia has seen a significant decline in net overseas migration with just 12,921 persons over the year, -3.2% lower over the past year and significantly lower than its peak of 56,753 persons in September 2012.
- Net overseas migration for Tasmania was recorded at 1,261 persons which was 16.0% higher than a year earlier.
- The 838 net overseas migrants to the Northern Territory over the past year was -8.7% lower than the number over the previous year.
- The Australian Capital Territory had net overseas migration of 2,074 persons over the past year which was -12.2% lower than the number over the previous year.

Annual number of net overseas migrants by states and territories

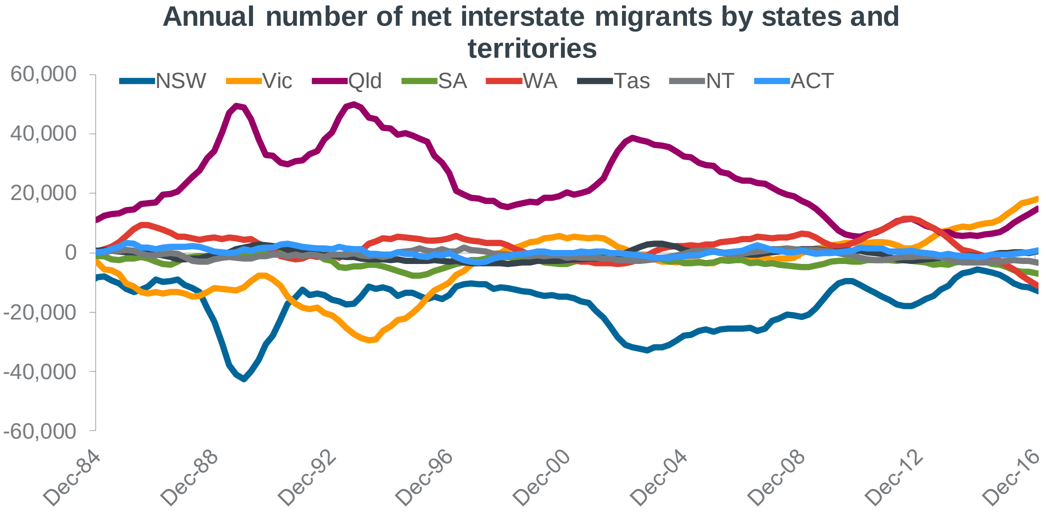


Source: CoreLogic, ABS

Demographic Overview

Net interstate migration into Victoria continues to break previous record highs

- The net outflow of New South Wales residents to other states and territories was recorded at 12,822 persons over the past year, its greatest decline since June 2013 with the outflow gathering pace.
- Victoria recorded a net gain from interstate migration of 17,987 persons which is the greatest gain of all states and territories and its greatest gain on record as well as the net inflow being 37.8% higher than a year earlier.
- Net interstate migration to Queensland was recorded at 14,652 persons over the past year, its greatest increase since June 2009 and 76.0% higher than over the previous year.
- South Australia recorded a loss of 6,903 persons over the past year due to net interstate migration which was its largest outflow since March 1996 and much greater than the 4,967 person outflow a year earlier.
- After annual net interstate migration peaked at 11,425 persons in September 2012, Western Australia has recorded a loss of 10,824 residents over the past year, its largest loss on record.
- Net interstate migration to Tasmania saw a net gain of 467 residents over the past year, which was its strongest net inflow since December 2010.
- The net loss of 3,178 residents from the Northern Territory over the past year was its greatest outflow since the year to March 2015.
- The Australian Capital Territory has recorded a net inflow of residents from other parts of the country of 621 persons, its strongest increase since the 12 months to September 2011.

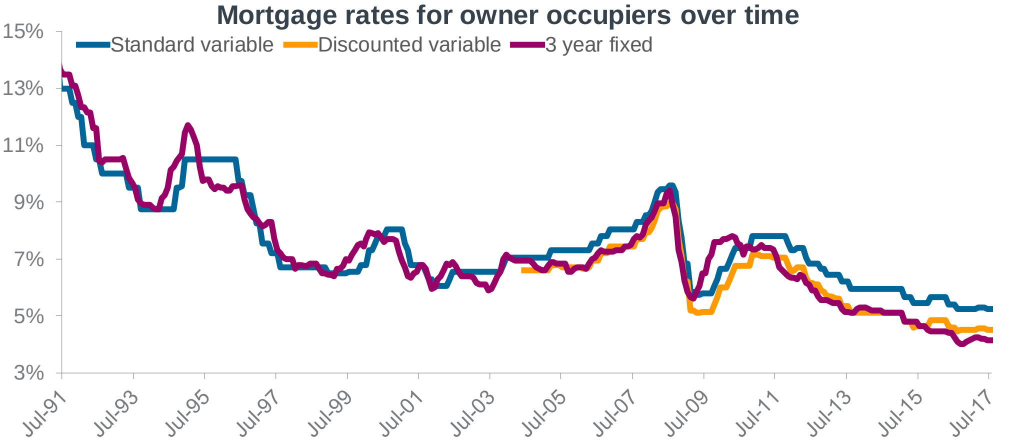


Source: CoreLogic, ABS

Household Finances

Mortgage rates have been lifted independently of the RBA over recent months

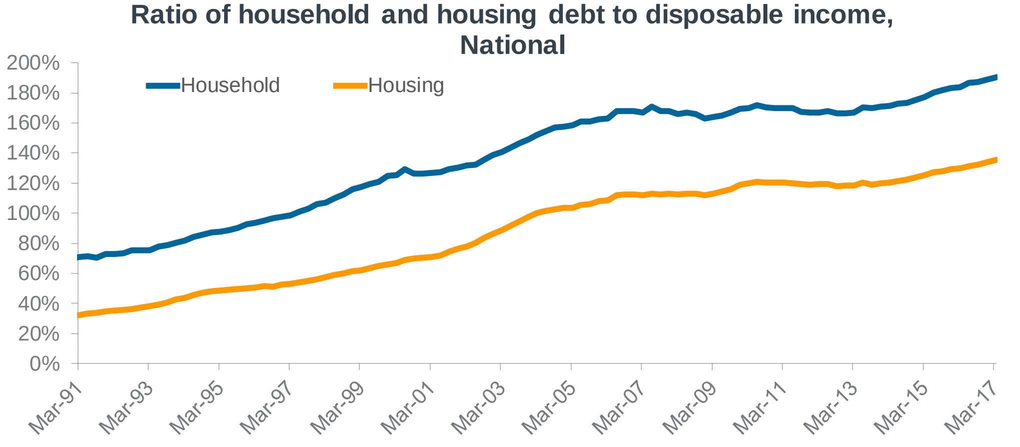
- Official interest rates set by the RBA are currently recorded at 1.5%.
- For an owner occupier, mortgage rates are currently recorded at: 5.25% for a standard variable mortgage, 4.5% for a discounted variable mortgage and 4.15% for a three year fixed rate.
- For investors, current mortgage rates are: 5.8% for a standard variable mortgage, 5.05% for a discounted variable mortgage and 4.55% for a three year fixed mortgage.
- Mortgage premiums for investors have only been in place for less than two years and were introduced in response to the heightened level of purchasing by this market segment.
- Investors on variable mortgage rates are now paying 55 basis points more than owner occupiers which is a big contributor to the slowing mortgage demand.



Source: CoreLogic, RBA

Gross household and housing debt continues to rise to new record highs

- The national ratio of household debt to disposable income was recorded at 190.4% in March 2017, up from 183.6% a year earlier.
- The 190.4% ratio of household debt to disposable income is largely made up of housing debt which has a record-high ratio of 135.0% up from 130.0% a year earlier.
- Of the 135.0% ratio of household debt to disposable income, 101.8% of the 135.0% is owner occupier debt (also a record-high) leaving 33.3% to investors.
- Although household and housing debt is at historic high levels, the ratio of total interest payments to disposable income sits at 8.6% for total debt and 7.0% for housing debt indicating that lower interest rates have improved serviceability which is at levels last seen in early 2003.
- The high level of housing and household debt makes household much more sensitive to any changes in mortgage rates.

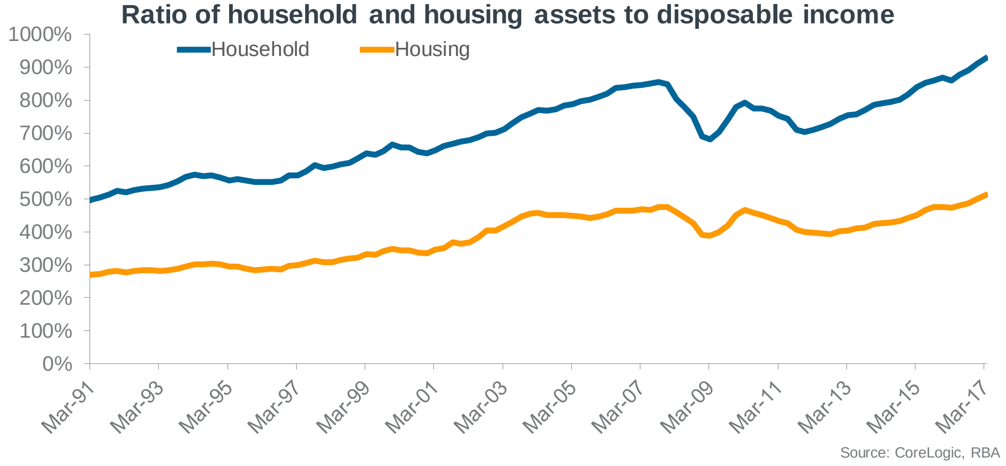


Source: CoreLogic, RBA

Household Finances

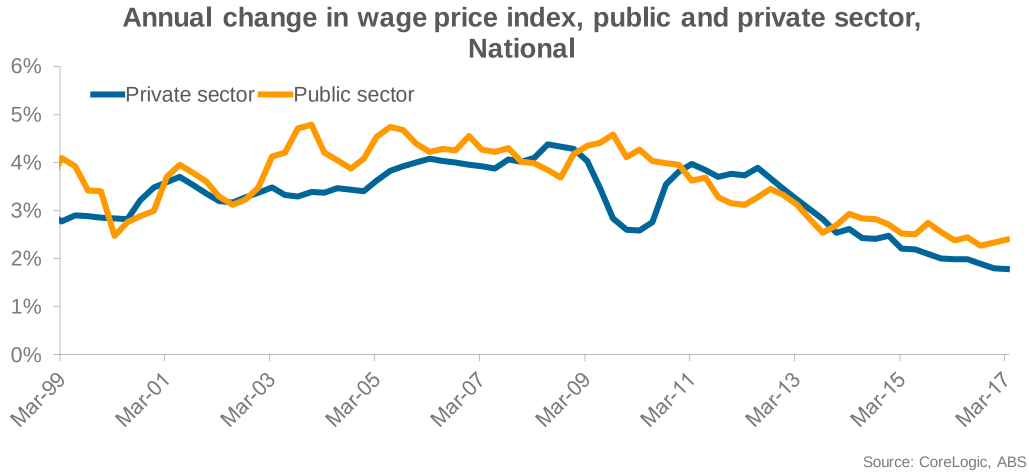
While housing and household debt are at record highs, so too is the ratio of household and housing assets to disposable incomes

- While housing and household debt is at record highs, the ratio of household assets to disposable income is recorded at 927.9% and the ratio of housing assets to disposable income is 511.3%.
- A year earlier these ratios were recorded at 859.5% for household assets and 472.3% for housing assets.
- It is undeniable that households are heavily indebted, largely due to housing however, the macro view is that these assets have a significantly higher value than the debt held against them.
- Of course the macro view does not show what is occurring in individual properties or locations, households that have recently taken out large debt (such as a mortgage) and those who own homes where values have fallen over recent years are likely to be in a much weaker position than these figures indicate.



Wages continue to rise at a historically low rate

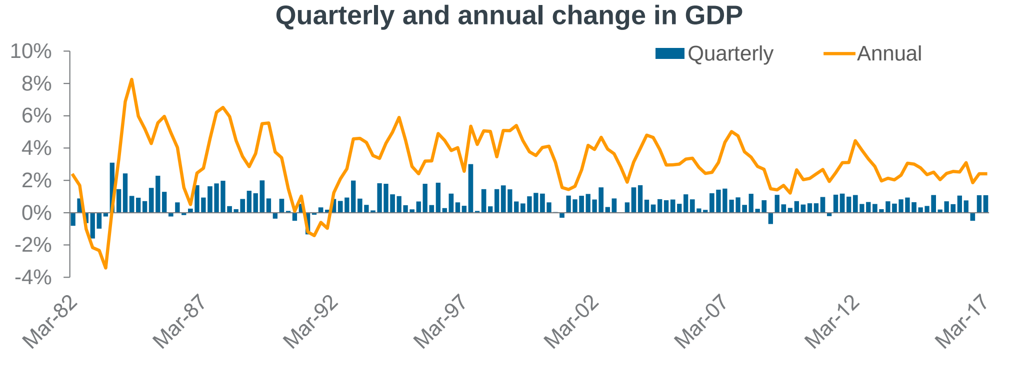
- The ABS wage price index showed that over the 12 months to March 2017, wages increased by 1.9% an historic low increase.
- Separating the data into private and public sector wages shows that private sector wages increased by 1.8% over the year and public sector wages were 2.4% higher.
- The ABS has been producing this dataset since late 1997 and the growth in wages for both the private and public sector is at historically low levels.
- Lower wages growth impacts on a household's ability and willingness to spend more, particularly on items such as rent and other non-essential spending.
- The low rate of growth in wages appears to not be having any impact on the growth in dwelling values.



National Accounts

The Australian economy barely grew over the first quarter of 2017

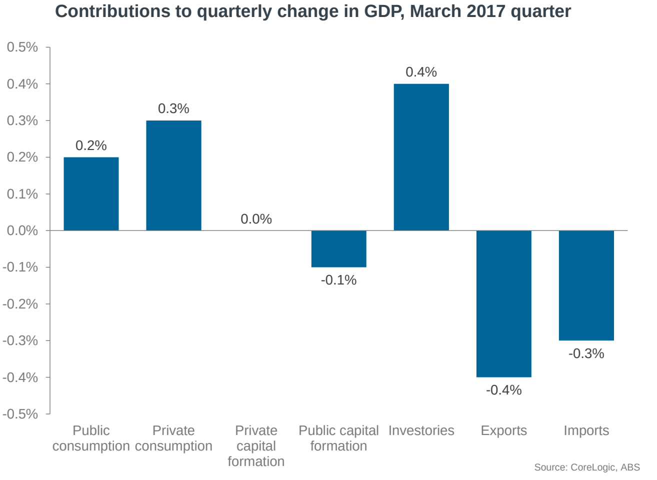
- Australia's economy grew by 0.3% in March 2017 to be 1.7% higher over the 12 months to March 2017.
- The 1.7% annual increase in GDP was the slowest annual increase since September 2009
- On a per capita basis, GDP fell by -0.1% over the quarter and growth was much lower than headline GDP over the year, increasing by 0.2%.
- Nominal (or inflation adjusted) GDP rose 2.3% over the March 2017 quarter to be 7.7% higher over the year.
- The total output of the national economy over the 12 months to March 2017 was $1.685 trillion.
- Australia has now seen the longest period without a recession on record (defined as consecutive quarters of GDP decline) for a developed country eclipsing Netherlands previous record.



Source: CoreLogic, ABS

Consumption and inventories staved off a fall in GDP over the March 2017 quarter

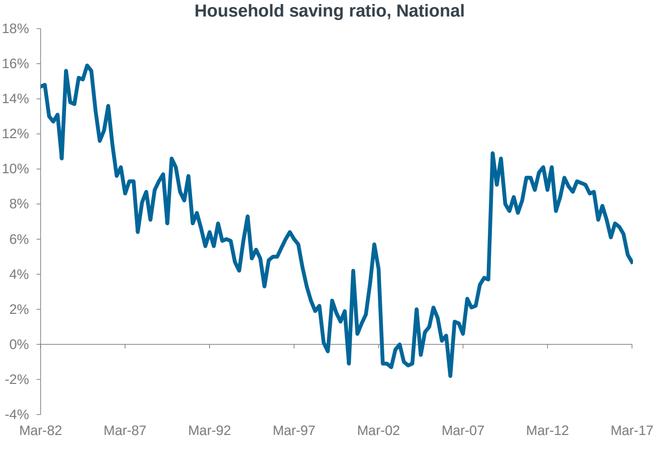
- Over the March 2017 quarter, the percentage point contributions to GDP growth were: +0.2% from government expenditure. +0.3% from household expenditure, +0.0% from private capital formation, -0.1% from public capital formation, +0.4% from inventories, -0.4% from exports and -0.3% from imports.
- Looking at the annual change in the value of these components: government expenditure rose 2.9%, household expenditure increased 2.3%, private capital formation fell -3.8%, public capital formation rose 15.3%, exports increased by 5.6% while imports increased by 7.9%.



Source: CoreLogic, ABS

The rate of household saving has continued to trend lower

- According to data in the National Accounts, the household savings ratio was recorded at 4.7% over the March 2017 quarter.
- This was the ratio's lowest level since it was recorded at 3.7% in September 2008.
- The household saving ratio has now been below 10% for 19 consecutive quarters.
- Given that interest rates, are so low, as are risk-free returns, it is little surprise to see that households are saving less and are increasing borrowings with interest rates close to historic lows.

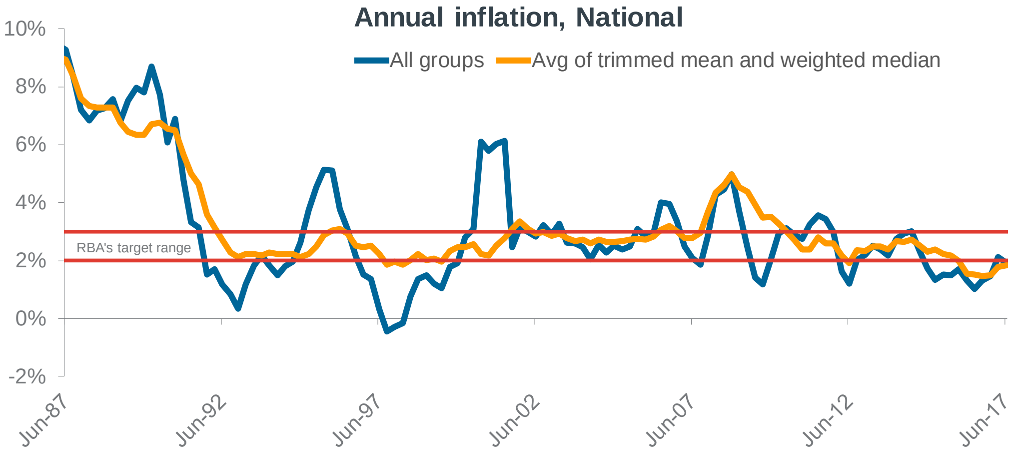


Source: CoreLogic, ABS

Inflation

Both headline and underlying inflation remains below the RBA's target range

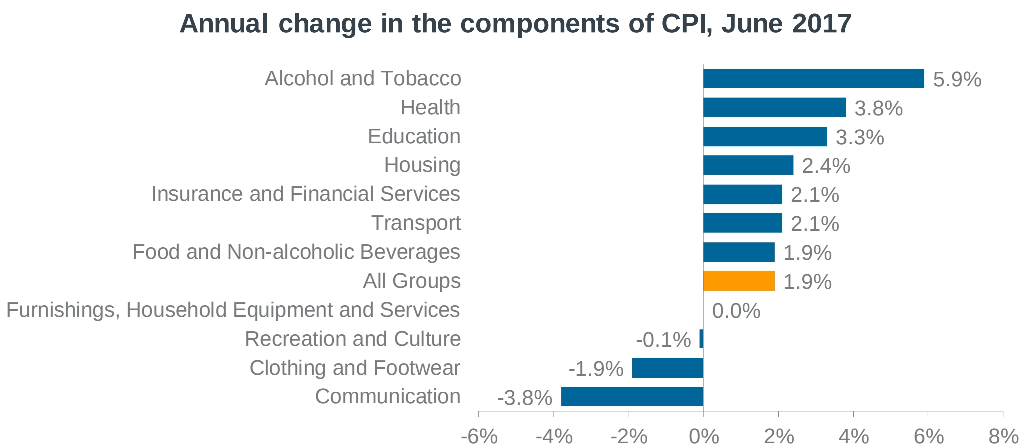
- Although official interest rates remain at their lowest levels since the 1960s, inflation remains stubbornly low.
- Headline inflation increased by 0.2% over the June 2017 quarter taking it 1.9% higher over the 12 months to June 2017.
- Headline inflation was within the RBA target range over the March quarter but has slipped lower over the June quarter.
- The RBA's preferred measures of underlying inflation; the trimmed mean and weighted median each increased by 0.5% over the June 2017 quarter.
- Each of the measures of underlying inflation remain below the RBAs target range and were recorded at 1.8% at the end of the second quarter of this year.



Source: CoreLogic, ABS

Costs associated with alcohol and tobacco, health and education are escalating at the fastest rate

- Inflation is being dragged lower by substantial annual declines in the cost of communication (-3.8%) along with more moderate falls in clothing and footwear (-1.9%) and recreation and culture (-0.1%).
- The components of CPI that have recorded the greatest increases over the 12 months to June 2017 were: alcohol and tobacco (5.9%), health (3.8%) and education (3.3%).
- Housing has the largest weighting of any of these components and over the year housing costs rose by 2.4%.
- Across the remaining sub-groups the annual increases have been recorded at: 2.1% for insurance and financial services, 2.1% for transport, 1.9% for food and non-alcoholic beverages and no change for furnishings, household equipment and services.



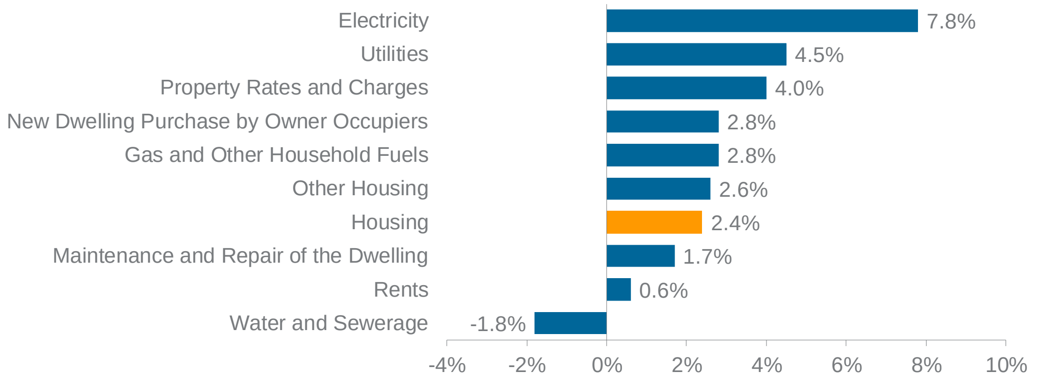
Source: CoreLogic, ABS

Inflation

Water and sewerage costs continue to fall while all other housing costs continue to rise

- The housing component of CPI has the greatest weighting, reflecting the fact that housing costs tend to comprise the greatest proportion of household budgets.
- The only housing expenditure class to record a fall over the past year was water and sewerage, down -1.8%.
- Costs associated with: rents (+0.6%) and maintenance and repair of the dwelling (+1.7%) also rose at a slower pace than the broader housing sub-group.
- The rental component of housing CPI is increasing at its slowest annual pace in 22 years reflecting quite weak upwards price pressures on rents.
- Electricity (+7.8%) and utilities costs (+4.4%) recorded the greatest increases over the past year.
- Across the remaining expenditure classes, the annual increases were recorded at: 4.0% for property rates and charges, 2.8% for new dwelling purchase by owner occupiers, 2.8% for gas and other household fuels and 2.6% for other housing.

Annual change in components of housing CPI, June 2017

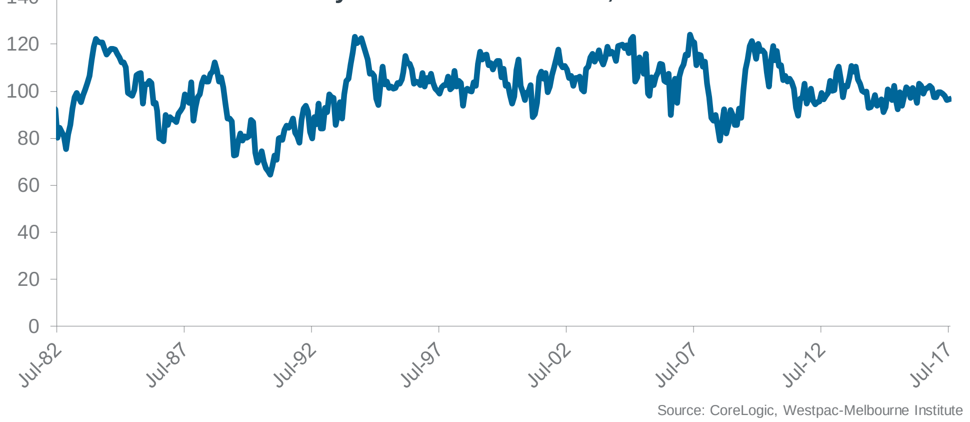


Source: CoreLogic, ABS

Consumer Sentiment

- The Westpac-Melbourne Institute Consumer Sentiment Index was recorded at 96.6 points in July 2017.
- When consumer sentiment is above 100 points it indicates that consumers are more optimistic than pessimistic.
- Although sentiment has been at a fairly neutral setting lately, it has been slightly more pessimistic than optimistic for eight successive months, the longest ongoing period of pessimism since January 2015.
- The components of the Index indicate respondents are still more pessimistic about each component of the index except for time to by a major household item.
- With mortgage rates increasing and housing sentiment weakening, record high household debt and historic low wage growth it is obvious why sentiment has not been more positive than negative of late.

Monthly consumer sentiment, National



Source: CoreLogic, Westpac-Melbourne Institute

Conclusion

Throughout 2015 and early 2016 the rate of value growth across the housing market was slowing as the availability of credit to investors was being rationed. Since around the middle of 2016, investors have become much more able to access credit and the Reserve Bank cut interest rates two times by a total of 50 basis points which has contributed to a rebound in value growth. So far this year, further macroprudential policy changes have been made which have resulted in a widening gap between mortgage rates for investors and owner occupiers. In fact, investors on a variable rate mortgage are now, on average, paying an additional 55 basis points on their interest rate. This is leading to slowing demand from investors and appears to be contributing to a slowdown in the Sydney housing market.

Over recent years, dwelling values have been rising at a rate well above household income growth which has made it more difficult for those that don't already own a home to save a big enough deposit to purchase. Subsequently, first home buyer participation at the moment is hovering around historic low levels.

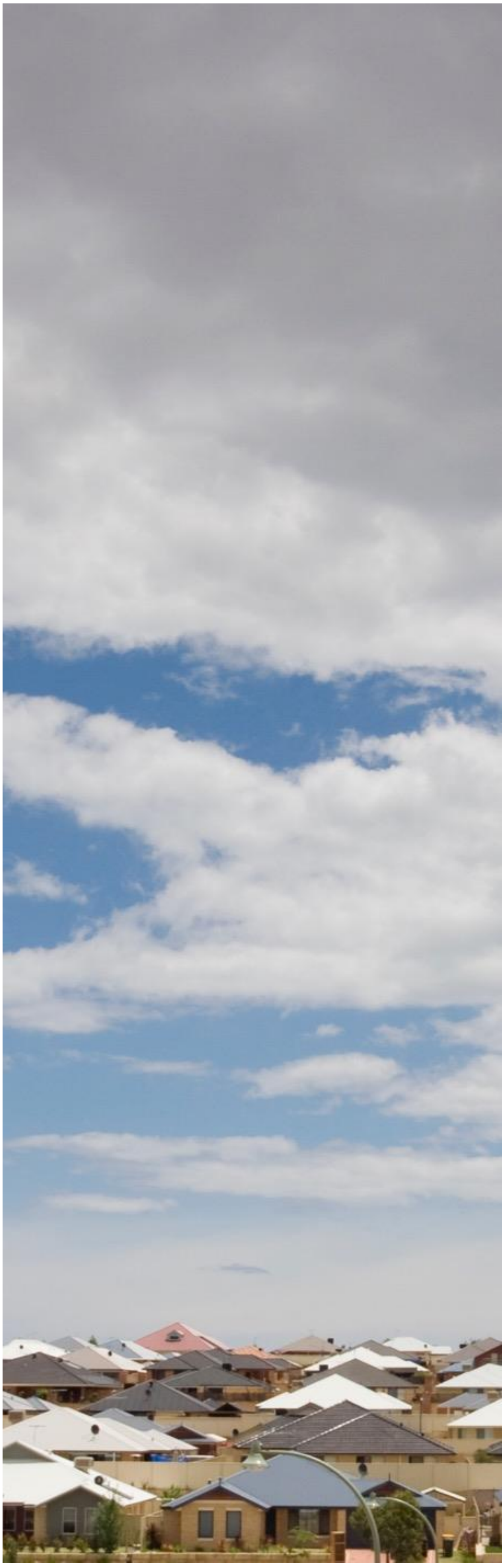
The banking regulator has recently announced a new round of macroprudential measures which aren't aimed at slowing the growth in dwelling values; rather, the new policies are focused on ensuring sound lending policies are maintained. The result of these changes will be a reduced availability of interest-only mortgages and have resulted in higher mortgage rates to investors as well as interest only mortgages for both investors and owner occupiers.

For Sydney and Melbourne in particular, favourable economic and demographic trends are a major driving force behind the ongoing strong increases in dwelling values. These cities have also seen under-building of new housing in recent years as well as insufficient infrastructure investment. These factors along with the ongoing decline in the number of properties available for sale over recent years has resulted in high levels of housing demand and relatively low levels of available supply.

The Hobart and Canberra markets have each seen an acceleration in the rate of value growth over the past year. Canberra is seeing an improving economy along with a relatively low volume of stock available for sale which is creating upwards pressure on values. Hobart's tourism sector is booming however, population growth and migration to Tasmania is not particularly strong (although trending higher). Housing in Hobart is substantially more affordable than in all other capital cities and this is likely to be one of the key drivers of the recent growth in values along with very little new housing supply and a lack of stock being listed for sale.

Dwelling values in Brisbane and Adelaide have recorded only moderate increases in values over the past year. The weaker economic performances of these two cities and the lower levels of migration have certainly curtailed growth. For Brisbane, interstate migration to Queensland has lifted over recent quarters and this could potentially lead to a moderate lift in value growth. In Adelaide it looks as if the moderate rises in values are set to continue in 2017.

Perth and Darwin have continued to experience declines in dwelling values over the past year. Each of these cities continue to be hampered by a high volume of stock available for sale and relatively few buyers. Population growth has slowed dramatically across Western Australia and Northern Territory and whereas during the mining boom they were attracting people from other parts of the country they are now just as quickly leaving.



Conclusion

It is reasonable to expect values to fall further in each of these cities throughout 2017 however, the rate of decline is starting to show some signs of slowing in Perth.

Although our general forecast is that housing values will continue to rise over the coming year albeit at probably a slower rate, it doesn't mean that there aren't potential headwinds for the market.

The record-high pipeline of housing stock currently under construction, the majority of which are units, will be completed over the coming years. There is already evidence suggesting that in certain areas and markets settlements are taking longer and valuations are coming in below or at the purchase price. Recent data also shows that approvals and commencements are falling and the number of dwellings approved but not yet commenced remains at a high level. There will still be many new properties built because so many are currently under construction however, it is clear that settlement of these projects is likely to become increasingly challenging.

In fact, value growth data already shows that in many cities the value of houses over the past year has increased at a much faster pace than that of units. With a relatively high proportion of off-the-plan unit valuations coming in below the original contract price in certain cities, if the decline is less than or similar to the deposit amount it is unlikely buyers would walk away. If the differential between contract price and completion valuation grows we may see an increasing number of buyers unable or unwilling to settle their contract.

Overall we expect dwelling values to continue to rise for the remainder of 2017, albeit that pace of growth is likely to slow. As we have seen over previous cycles, housing market conditions will continue to vary significantly from region to region and across housing types.

There is an expectation of further value rises however, there are clearly some potential risks in the market, most of this risk is coming within the unit market. We are expecting the unit market to underperform relative to detached houses and over the coming year the underperformance of units may potentially increase further. Keep in mind that the volume of unit stock remains significantly lower than detached houses so any weakness in the unit market won't necessarily impact on the detached housing market.

About CoreLogic

CoreLogic Australia is a wholly owned subsidiary of CoreLogic (NYSE: CLGX), which is the largest property data and analytics company in the world. CoreLogic provides property information, analytics and services across Australia, New Zealand and Asia, and recently expanded its service offering through the purchase of project activity and building cost information provider Cordell. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources and includes over 500 million decision points spanning over three decades of collection, providing detailed coverage of property and other encumbrances such as tenancy, location, hazard risk and related performance information.

With over 20,000 customers and 150,000 end users, CoreLogic is the leading provider of property data, analytics and related services to consumers, investors, real estate, mortgage, finance, banking, building services, insurance, developers, wealth management and government. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and geo spatial services. Clients rely on CoreLogic to help identify and manage growth opportunities, improve performance and mitigate risk. CoreLogic employs over 650 people across Australia and in New Zealand. For more information call 1300 734 318 or visit www.corelogic.com.au

Granular Data and Analytics Driving Growth in your Business

CoreLogic produces an advanced suite of housing market analytics that provides key insights for understanding housing market conditions at a granular geographic level. Granular data is often used for portfolio analysis and benchmarking, risk assessments and understanding development feasibility and market sizing. It gives industry professionals valuable modules which provide essential analytics and insights for decision making and strategy formation within the residential property asset class. We can tailor reports to suit your business requirements.

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Market Scorecard: Monitor and measure performance of an individual office or a Franchise brand month on month through a detailed view of the Real Estate Listing and Sales market share across Australia. With the ability to gather market share statistics within your active market this product is designed to identify the competing brands and independents at a suburb, postcode, user defined territory and State level. Easily locate growth opportunities and market hotspots allowing you to view the performance of the established offices in these new areas of interest.

Market Trends: Detailed housing market indicators down to the suburb level, with data in time series or snapshot delivered monthly. CoreLogic's Market Trends data is segmented across houses and units. The Market Trends data includes key housing market metrics such as median prices, median values, transaction volumes, rental statistics, vendor metrics such as average selling time and vendor discounting rates.

CoreLogic Indices: The suite of CoreLogic Indices range from simple market measurements such as median prices through to repeat sales indices and our flagship hedonic home value indices. The CoreLogic Hedonic index has been specifically designed to track the value of a portfolio of properties over time and is relied upon by Australian regulators and industry as the most up to date and accurate measurement of housing market performance.

Economist Pack: A suite of indices and indicators designed specifically for Australian economic commentators who require the most up to date and detailed view of housing market conditions. The economist pack includes the CoreLogic Hedonic indices for capital cities and 'rest of state' indices, the stratified hedonic index, hedonic total return index, auction clearance rates and median prices.

Investor Concentration Report: Understanding ownership concentrations is an important part of assessing risk. Areas with high investor concentrations are typically allocated higher risk ratings due to the over-representation of a particular segment of the market. Through a series of rules and logic, CoreLogic has flagged the likely ownership type of every residential property nationally as either owner occupied, investor owned or government owned.

Mortgage Market Trend Report: CoreLogic is in a unique position to monitor mortgage related housing market activity. Transaction volumes, dwelling values and mortgage related valuation events all comprise our Mortgage market trend report which provides an invaluable tool for mortgage industry benchmarking and strategy.

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CoreLogic®

Email us at ask@corelogic.com.au

1300 734 318

www.corelogic.com.au