

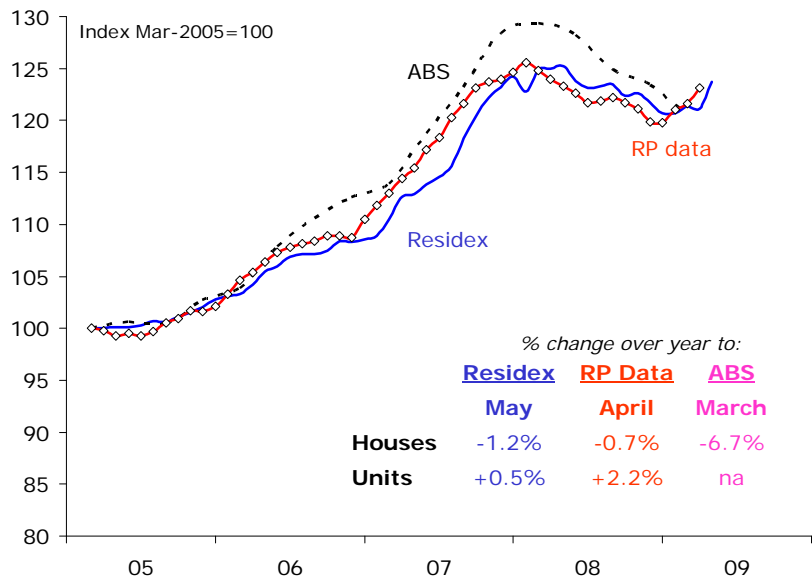
Australian housing market defying the economic downturn

June 2009

The outlook for the global economy has stabilised but recovery is expected to be gradual. Industrial activity is showing early signs of stabilisation and consumer confidence is improving from very low levels. Financial markets are also improving with equities market gains since early March consolidating and credit spreads narrowing. The Australian economy has thus far avoided a 'technical' recession and has been among the best performers globally. While economic growth will remain fragile in 2009, ongoing policy stimulus and support from improving Chinese demand will soften the blow going forward.

While house prices in most other developed economies have tumbled significantly since the global financial crisis, Australian house prices have been resilient, softening only 1.2% in the year to May 2009¹. Prices momentum has clearly improved on the back of significant interest rate cuts and government assistance to first-home buyers.

National house prices are rising again



Sources: RP Data, ABS, Residex

Australia's housing market will be well supported over the medium-term:

- Housing affordability is testing record 'highs'. Any post-grant market adjustment is likely to be overwhelmed by ongoing and additional stimulus from recent and prospective interest rate cuts; and further broadening the recovery from first home buyers to the 'upgrader' and investor segments.
- Population growth is running at its highest level in 4 decades, providing an unprecedented call on national dwelling stock. This is being reflected in rental vacancies at historical lows in most capitals;
- the supply-side has been inhibited by high development costs, land availability and developer uncertainty. The now chronic demand/supply imbalance will intensify upward price pressures, providing a key signal to investors and developers alike to engage the market for the first time in a number of years.
- The labour market looms as a cloud over the horizon but on current expectations, is likely to present as a second-order influence on housing market outcomes.

We expect dwelling prices to edge higher for much of the remainder of 2009 with upside risk presenting from intensification of strong fundamentals, a shift in price expectations and a restoration in market confidence.

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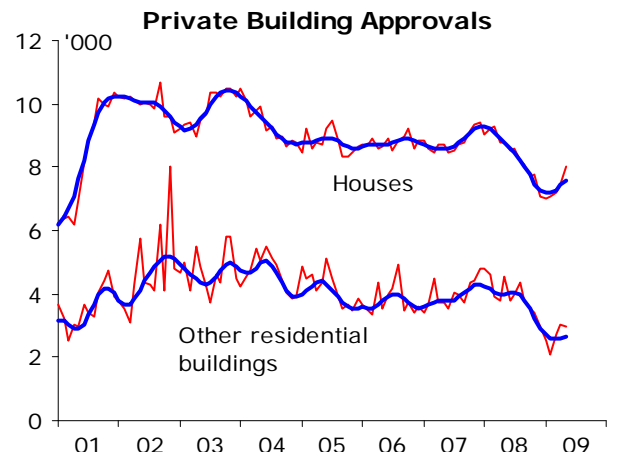
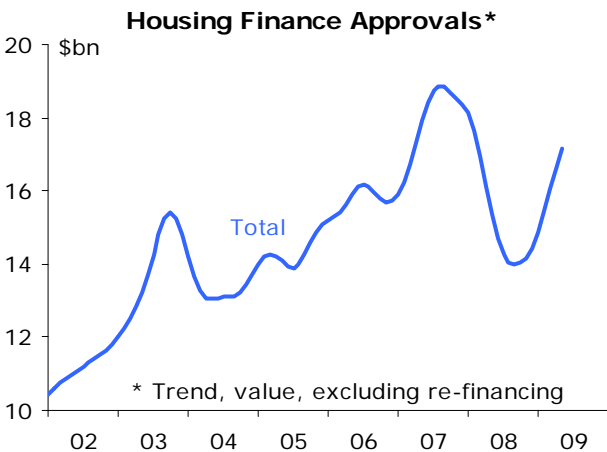
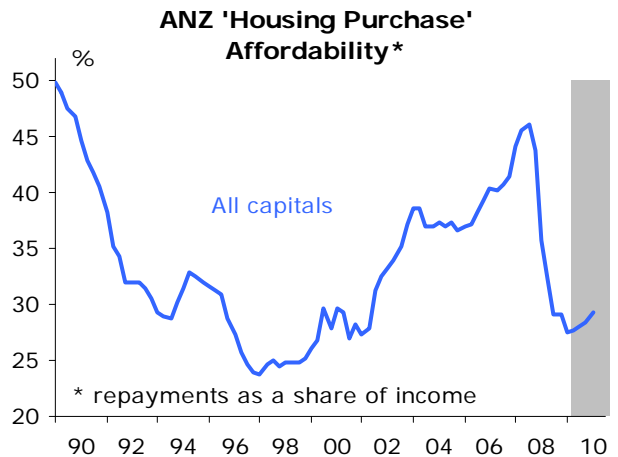
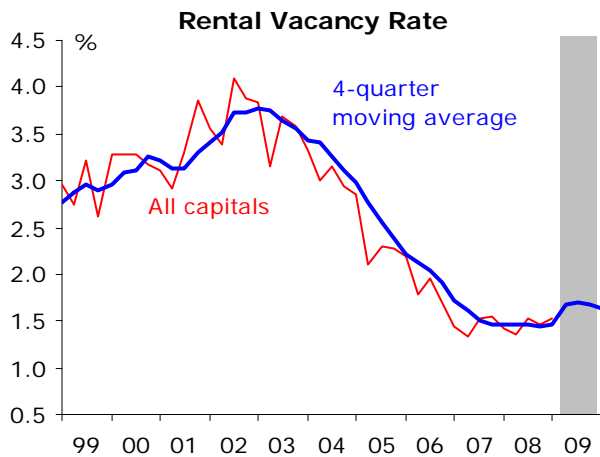
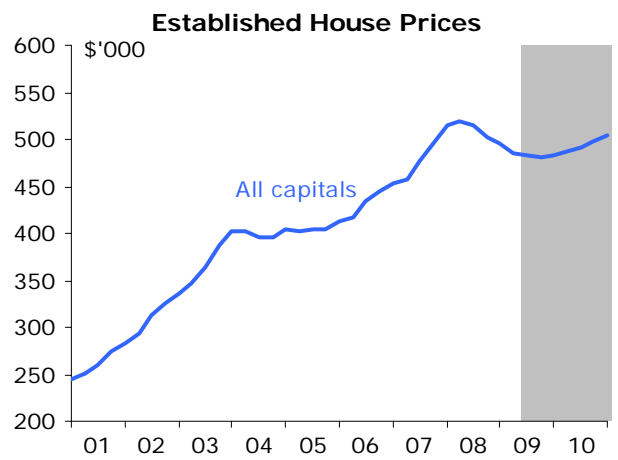
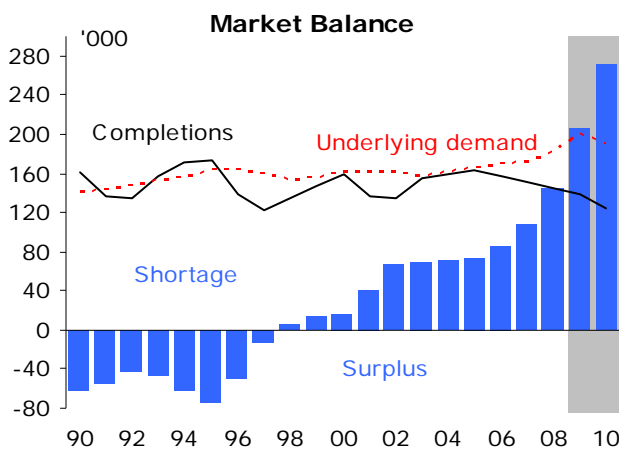
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¹ Residex. RP Data report no change in Australian dwelling prices over the year to April 2009

Australia

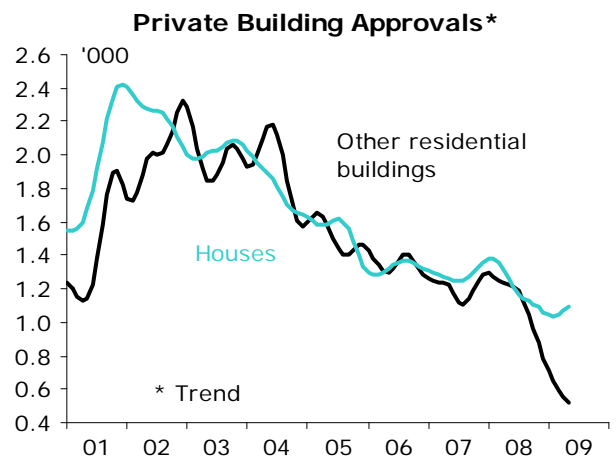
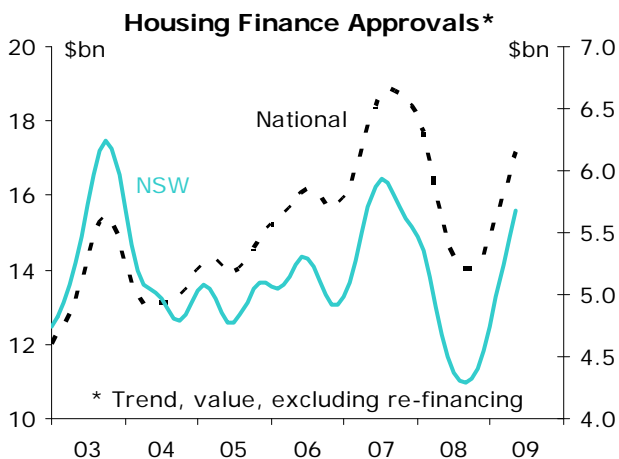
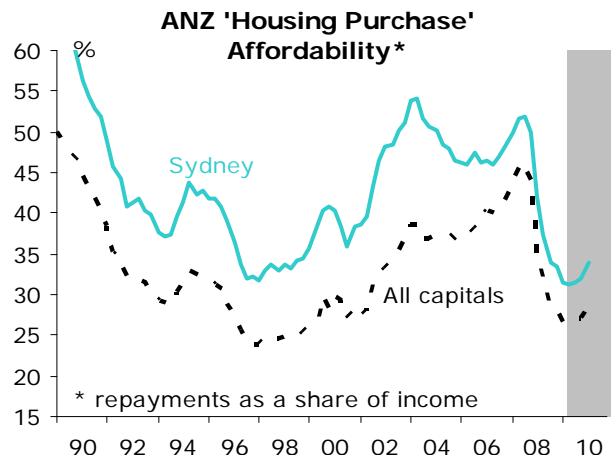
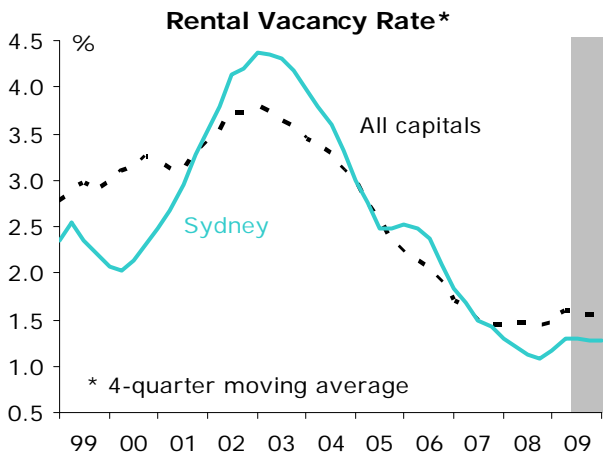
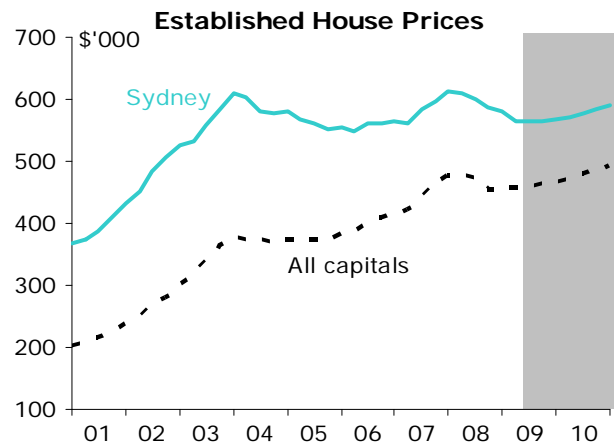
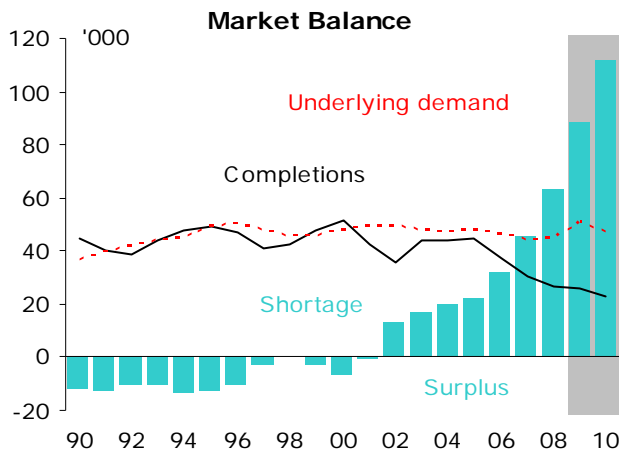
The Australian economy has proven to be remarkably resilient to the recessionary conditions currently gripping much of the globe - so has the Australian housing market. Median house prices, on average, have fallen in the vicinity of 4-5% in the year to March. In contrast to the 20%-plus falls in other countries this is an outstanding result. Further, in recent months housing data has become more positive. Demand is increasing, reflected by an over 20% turnaround in housing finance approvals since the RBA began cutting rates back in September last year, with confidence returning in spades. The Federal and state first homebuyer incentives have also assisted the market with a record proportion of new buyers (around 38% ex-refinancing) looking to enter the market. Amidst this strong demand clearance rates have been high and prices, especially where first homebuyers are most active at entry to median levels, have started to edge upwards. However, there are some caveats. Top-end prices remain relatively soft and we anticipate that this segment of the market will be last to recover. Further, recent gains have not been made across all states with the mining boom states weaker after being so much stronger through the boom. Policy stimulus and tight fundamentals, due to record high population growth and weak building levels, continue to exacerbate the shortage of housing – this has supported the market until now and will continue to do so. As such we anticipate modest growth in median prices going forward, capped by ongoing economic uncertainty.



Sources: ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

New South Wales

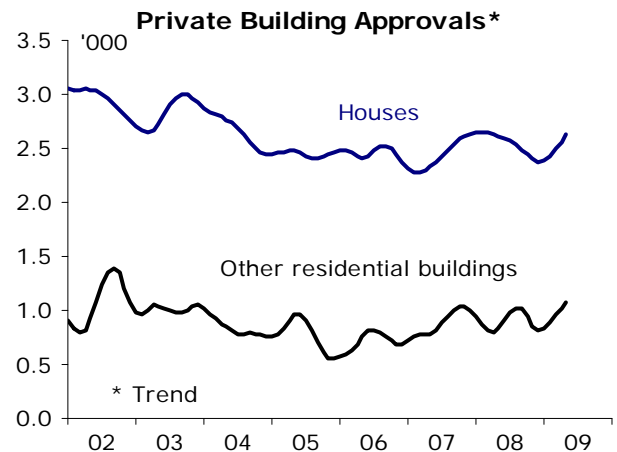
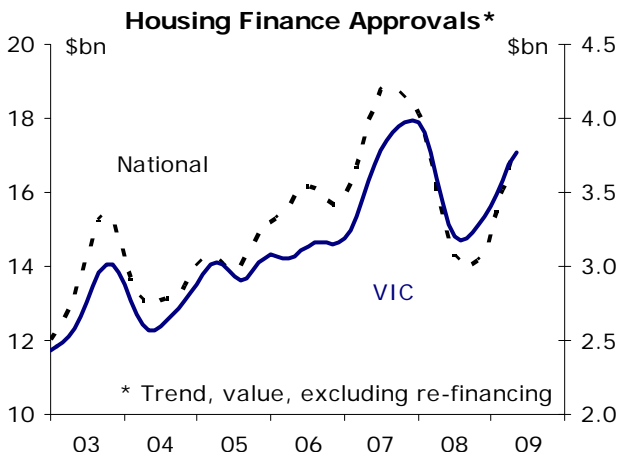
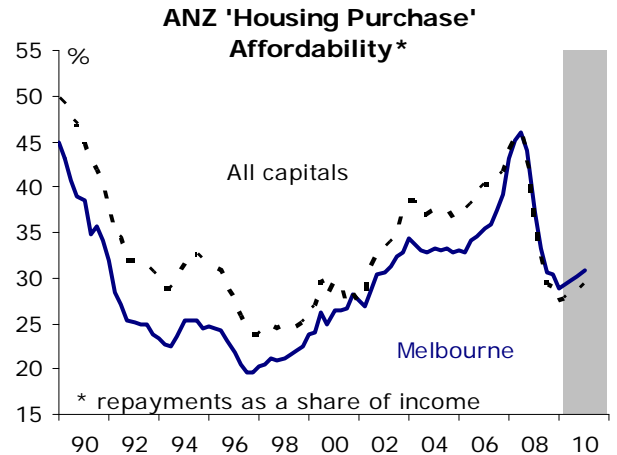
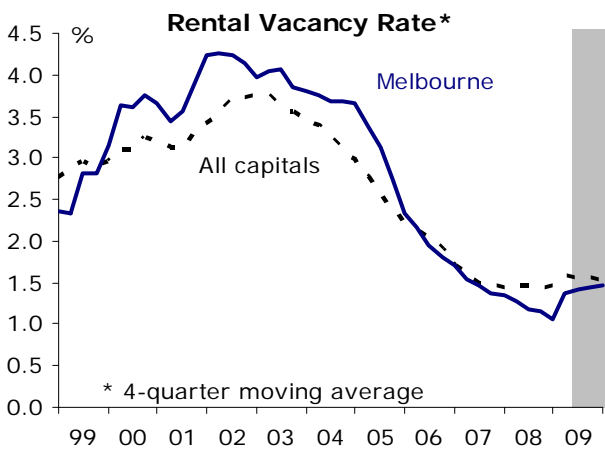
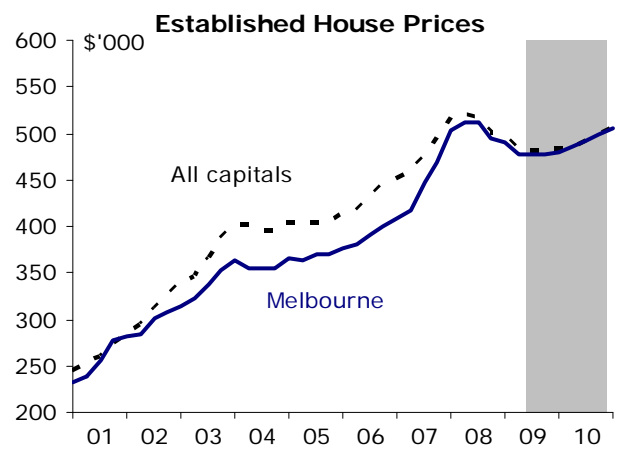
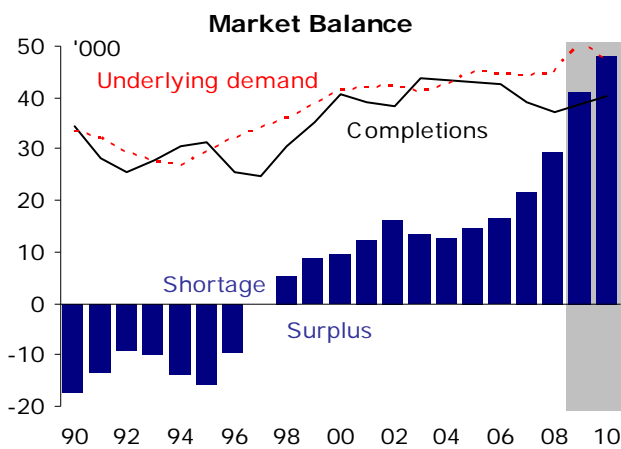
This market was seen as vulnerable entering this downturn in the property cycle, but the Sydney market was weaker earlier than others and has now shown some positive signs in recent months. Housing finance approvals are up over 30% in the past 7-months outperforming all other states. This has supported numbers of sales around the recent 3 year average, remaining significantly higher than in the recessions of the 1980's & 1990's. Clearance rates have also risen to regularly fall between 70-80% in the recent months. As such Sydney median prices, that had eased as much as 5-7% through the year to March, have seen solid increases 1-2% per month in April and May. However, the recovery is not a smooth one and a reversal of fortunes from recent years characterises the market. The strength of the top-end has largely evaporated and the low to median range, dominated by first home owners, is leading the recovery. This is anticipated to continue not only due to the continuation of the Federal government FHOG grant but also now a bonus from the state government in addition to significant stamp duty concessions. The state government bonus focussed on stimulating desperately needed new housing. The Sydney market faces the challenge of economic underperformance over the coming year, as such we anticipate only a consolidation of recent price gains over the medium-term, yet still see considerable upside over the longer term.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

Victoria

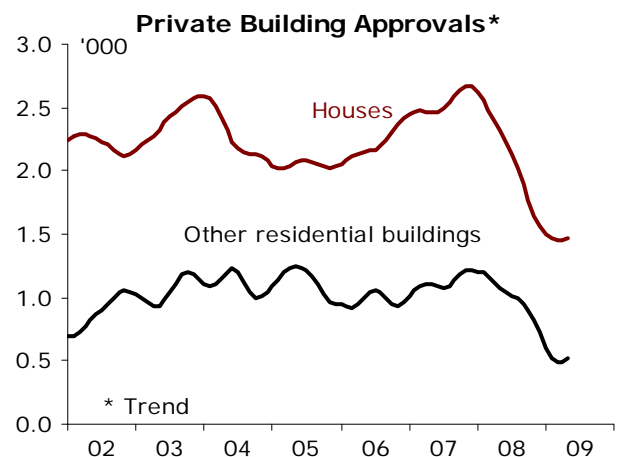
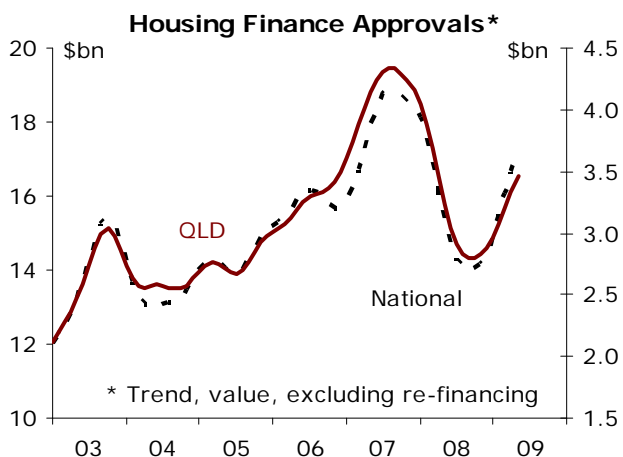
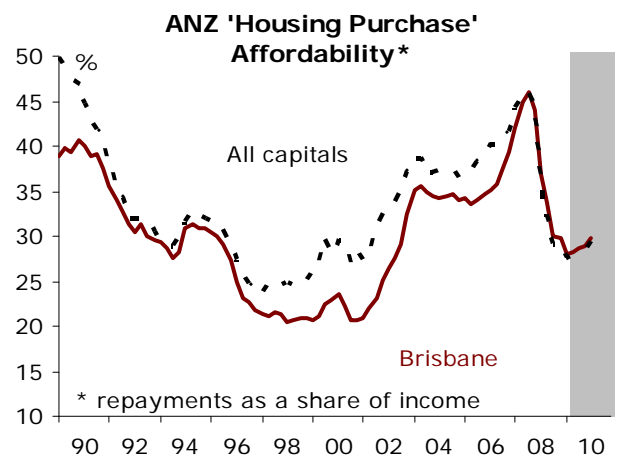
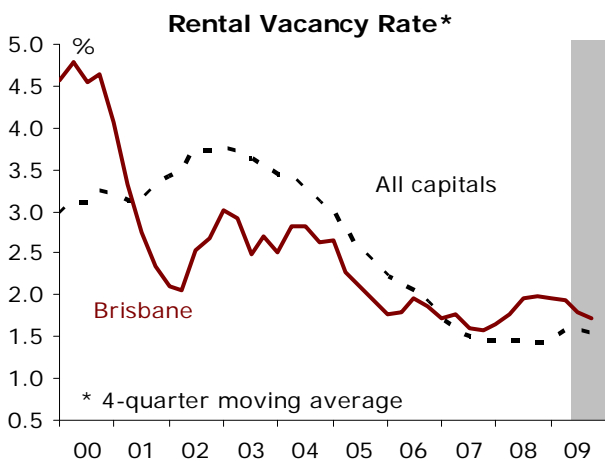
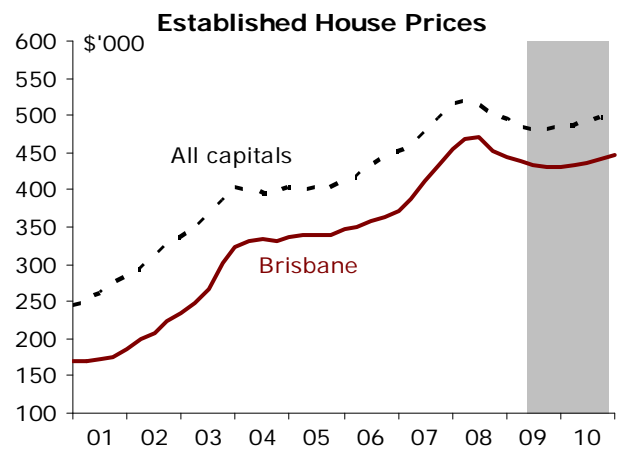
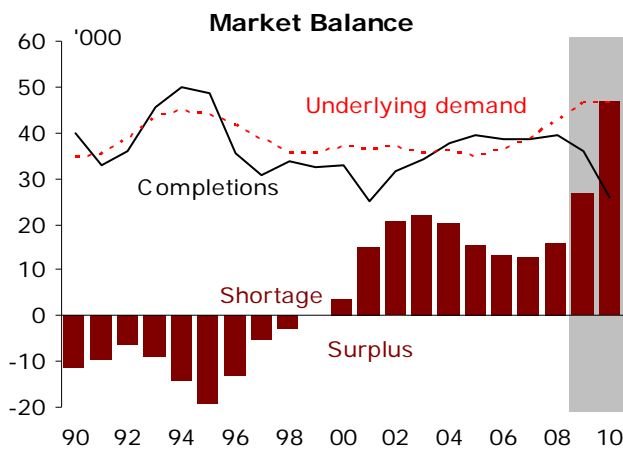
The Melbourne market continues to be the most solid of the major capital cities. This has been driven by strong demand, with Melbourne the fastest growing capital city in the country adding, 70,000 residents last year. On average, Melbourne median house prices have been down around 4-5% over the past 12-months. However, activity particularly at the median level has been very solid recently, led by first homebuyers that accounted for almost 50% of the owner occupier market in April. As a result, house sales numbers have remained elevated, more than 30% higher than in previous recessions and unit sales have plateaued at near record highs. These sales levels have been supported by the highest levels of building activity in the country. Further, the recent Victorian budget announced measures to further stimulate new house building via the state's first homeowner bonus scheme. In some suburbs lack of trading supply may be holding the market back and adding to upward price moves with clearance rates in the high-70s to low-80s now commonplace. Renewed activity has pushed median prices 3-4% higher in the last 3-months, recovering much of the falls over the past year, with best performing suburbs having prices near median levels. The influx of first homebuyers into the market has marginally eased the squeeze in rental markets but vacancy rates remain very low at 1.4%, still putting upward pressure on rents. The Victorian economy should remain relatively solid and amidst strong demand the market should continue to perform solidly.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

Queensland

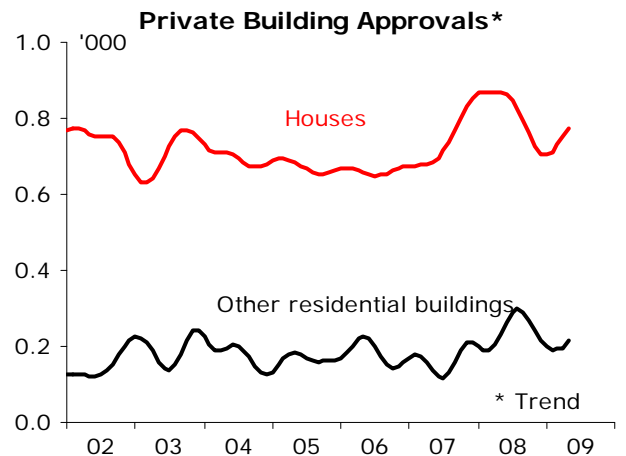
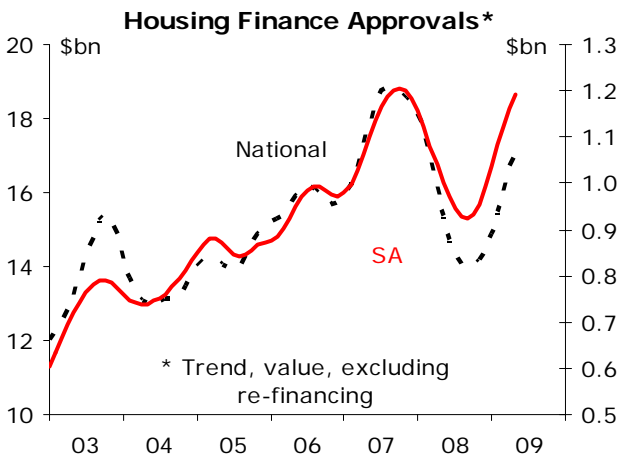
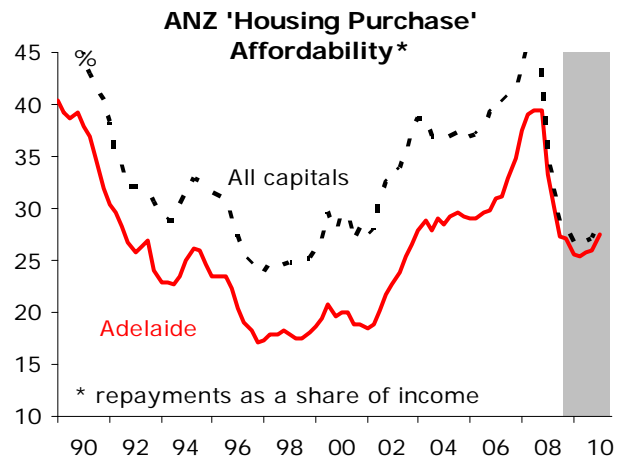
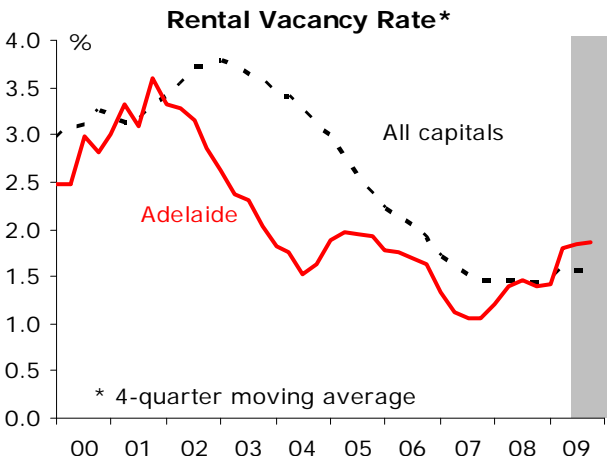
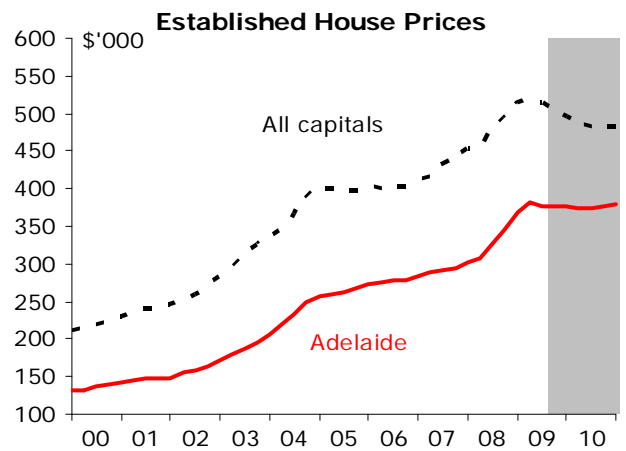
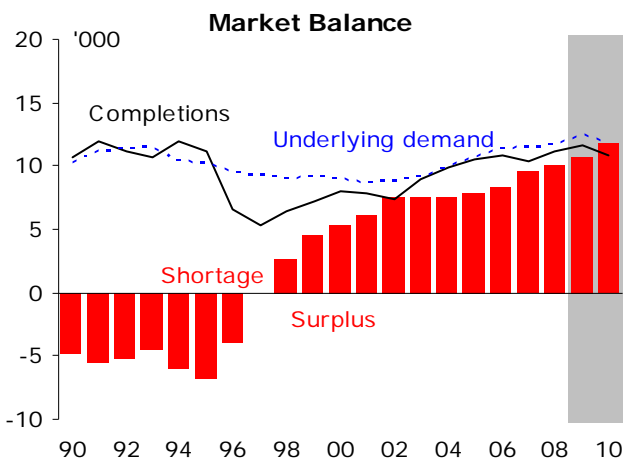
The Queensland economy and property market have been hit hard by the slowdown in the global economy and the reversal of the commodity boom. The market has in some ways been a victim of its own success. Median prices rose over 90% between 2002-2007 suggesting the market became overheated and now median price falls in the past year have been around 5-6%, with price weakness greater at the top end of the market. Transaction numbers have fallen sharply, down around 25% in both the house and unit markets. However, activity, as in other states, is increasingly being supported by the first home buyers, yet partly due to demographic differences the proportion of FHB in the market is relatively low. Additional first home buyer assistance, in the form of grants, from the state government is also less (but stamp duty paid is relatively low compared to other states). Much of the recovery in activity is centred around the median price with over 80% of recent sales taking place below \$500,000, and due to lower relative prices the unit market is outperforming detached houses. Housing finance approvals are up 20% over the past 6-months but growth has slowed in recent months as the economy slows. Nonetheless, prices have been showing signs of consolidation in recent months with south east Queensland and Brisbane performing best, with the latter reportedly seeing median price increases around 1-2% over the last 3 months. The state economy will continue to weaken in the short term, but strong fundamental drivers, including ongoing strong population growth, should shield the market from any further significant falls from here.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

South Australia

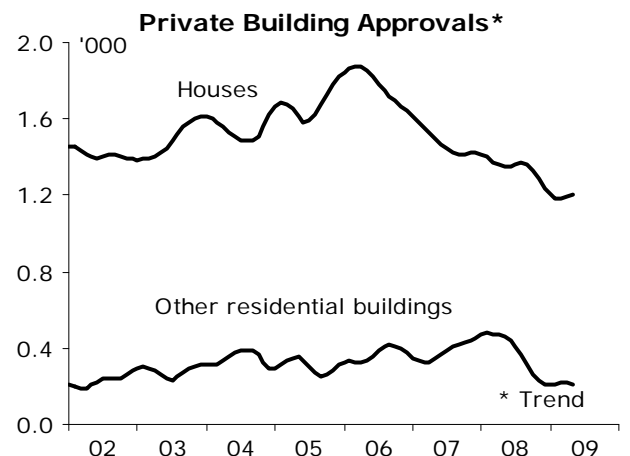
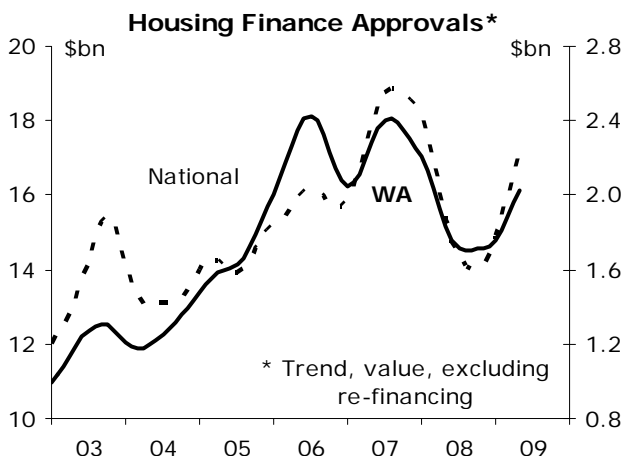
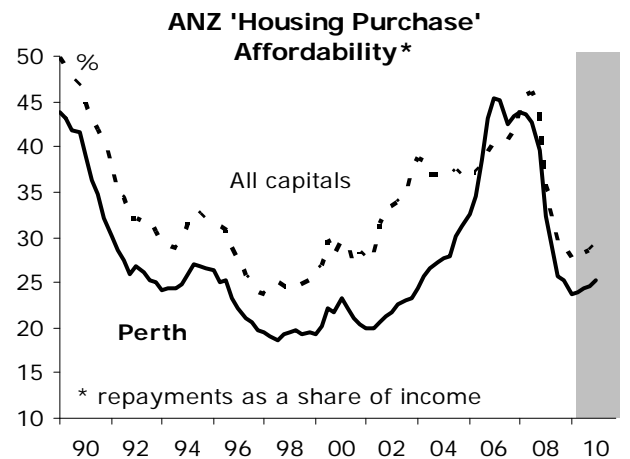
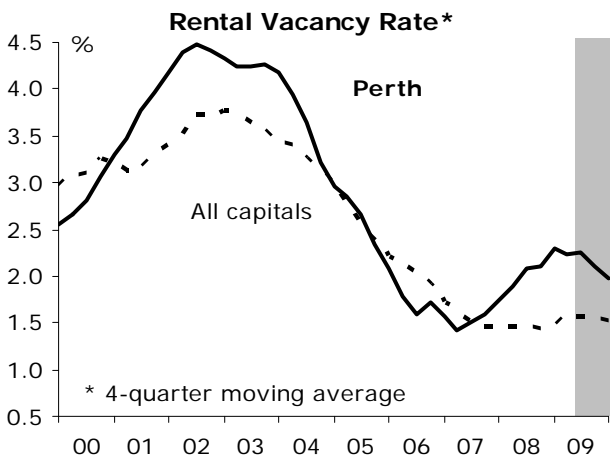
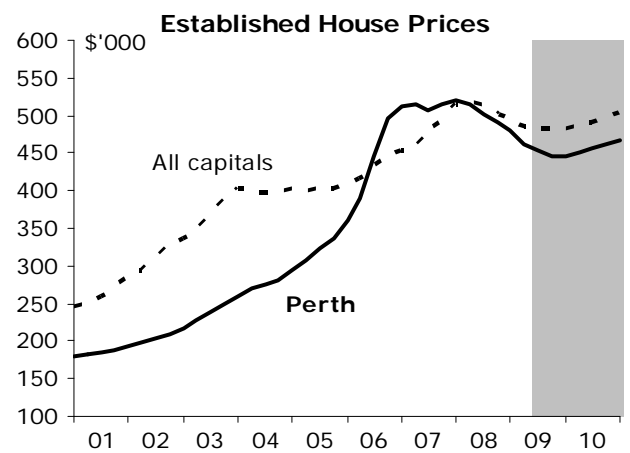
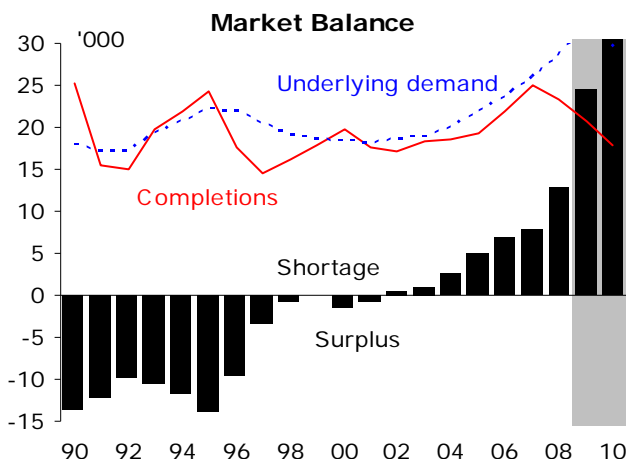
The South Australian economy has been a surprise performer recently and was the only state to record positive economic growth in the first quarter on the back strong private investment and solid consumption. As a result the median house price falls in Adelaide have been the smallest of all states down only 1-2% over the past year. However, top end suburbs that had experience double-digit price growth in the previous year have come off around 4-5%. The number of property transactions has fallen around 20% in the year shielding the market from greater falls. Housing finance approvals have turnaround around 20% in recent months in line with the national average but the past couple of months have been patchy due to relatively less activity from FHB. Transition from renting to buying has seen vacancy rates rise towards 2%. Yet rental markets remain tight as solid rental growth of around 7% has taken place in the last year. However, recently numbers of first homebuyers seem to have softened with only 20% of the market (ex-refinancing) the lowest of any state, so it seems, unlike other states, some momentum has already come out of the market. Latest price figures suggest prices were flat in May not building on the 1-2% gains made in the previous few months. With the SA economy likely to come under increasing pressure, particularly as the manufacturing sector bears the brunt of the downturn, we anticipate prices will track broadly sideways over the medium term, edging upwards thereafter.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

Western Australia

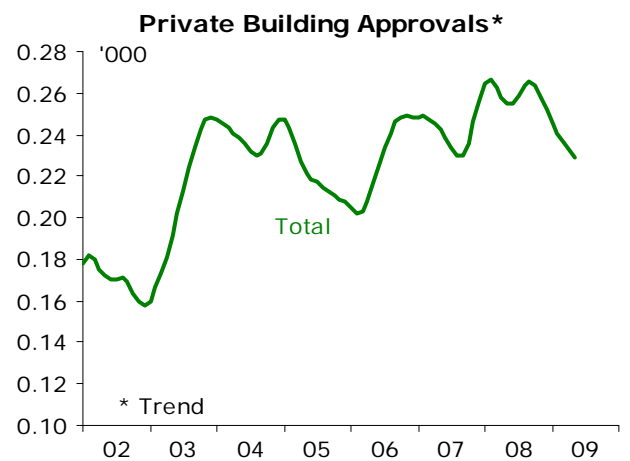
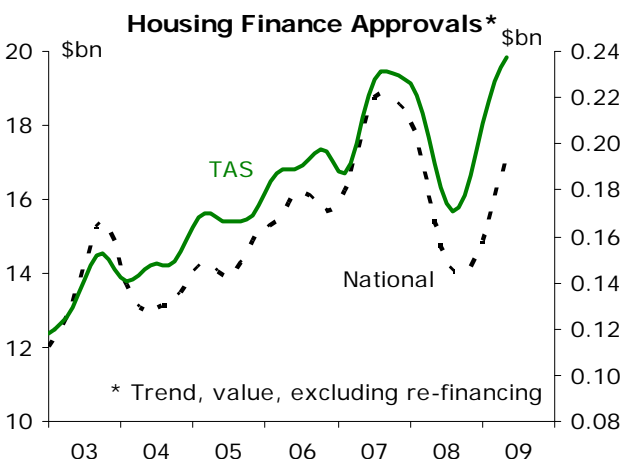
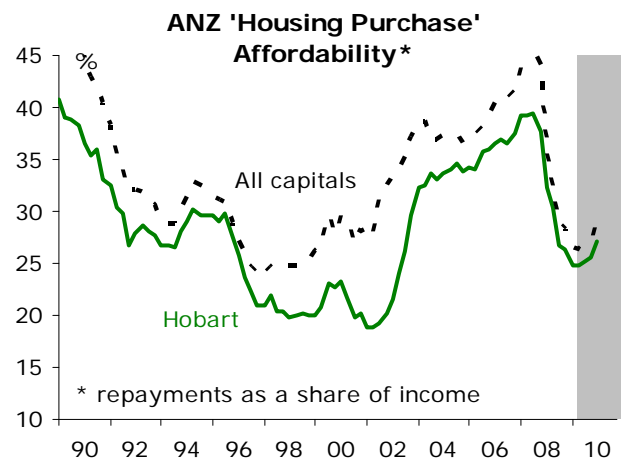
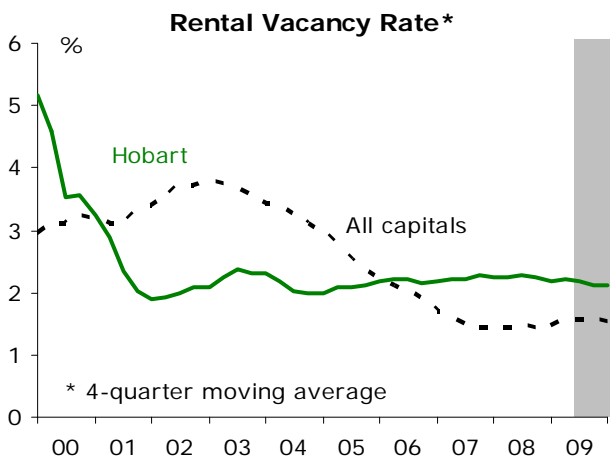
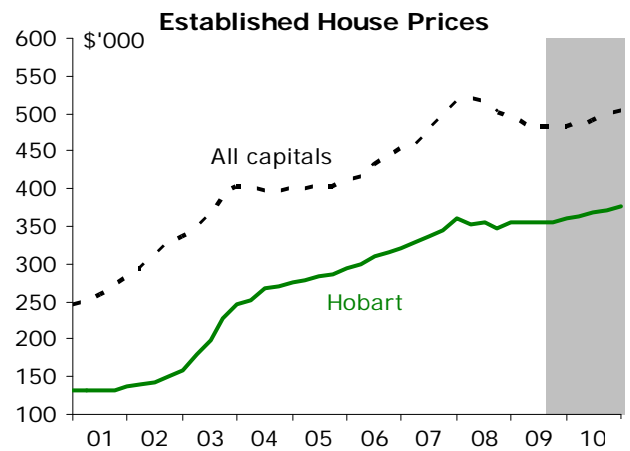
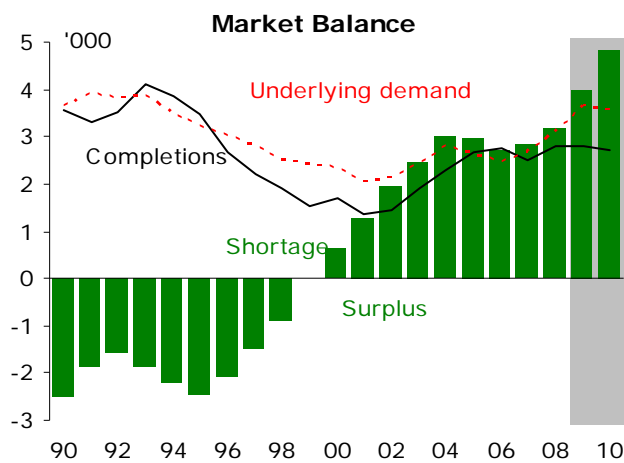
Many have said of the Perth housing market “what goes up must come down”. After coming so far so fast it is not surprising to see prices come off peaks as the economy slows and the commodities boom wanes. Median prices have fallen 10% in the last year and for those that bought at the peak of the market this is clearly not good – *if* they are forced to sell now. But a little context is also helpful; house prices rose 100% in 5 years from 2002 onwards, so a 10% fall does not seem too bad. Prices have eased across much of the market but larger than average falls have characterised the very top end. The numbers of transactions has wallowed at low levels for some time but have been starting to climb steadily (but modestly) in recent months. This suggests, combined with a solid increase in demand that median prices may begin to bottom out. However, reflective of the still subdued market conditions, overall finance approvals are only up 9% over the past six month (cf. 20% Australian-wide). Of the pickup in demand, again it is first homebuyers leading the way accounting for 48% of mortgage approvals. FHB interest has seen prices in some suburbs (where prices are at or below median), buck the downward trend and record price gains in recent months, but performances remain patchy. With the rental vacancy rate now at 2.9%, rental growth has slowed considerably. The Perth housing market as a whole will most likely remain subdued but the return of demand for commodities in coming years will see both the economy and housing market recover well.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

Tasmania

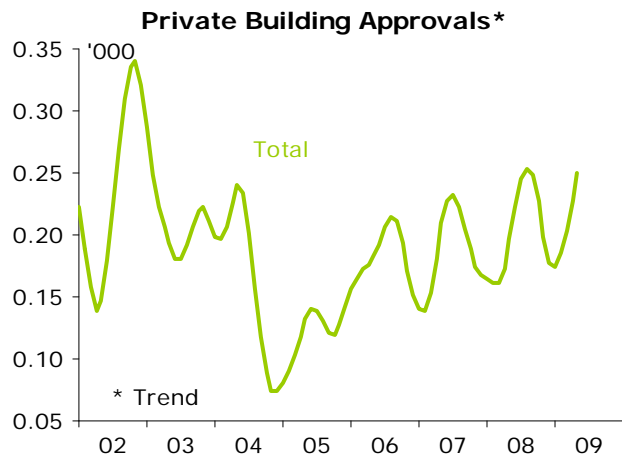
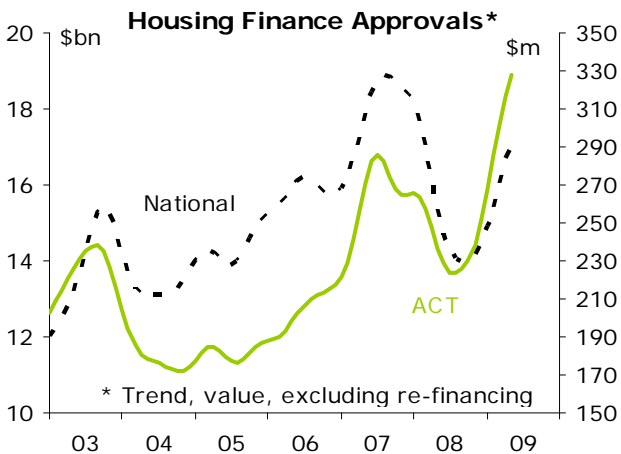
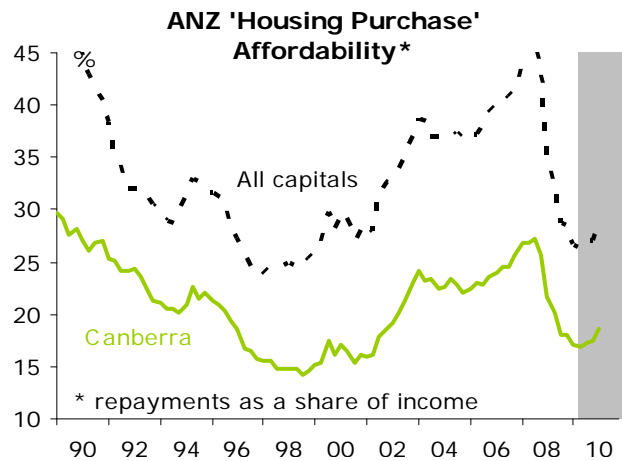
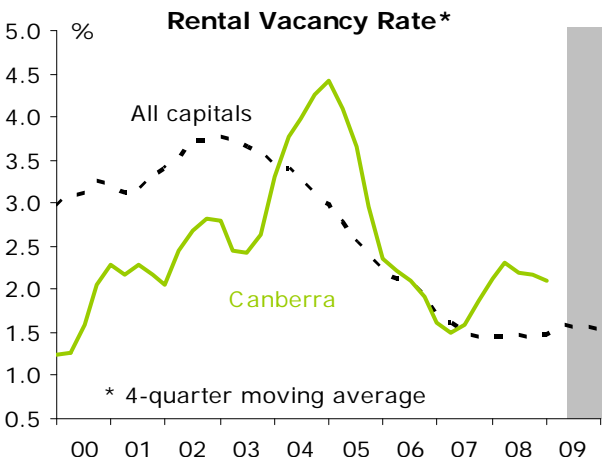
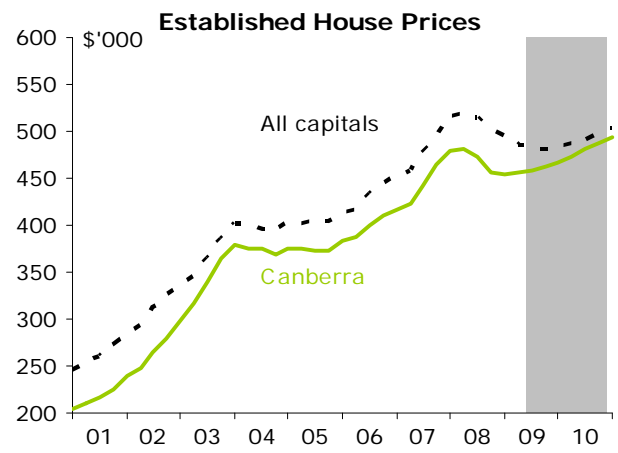
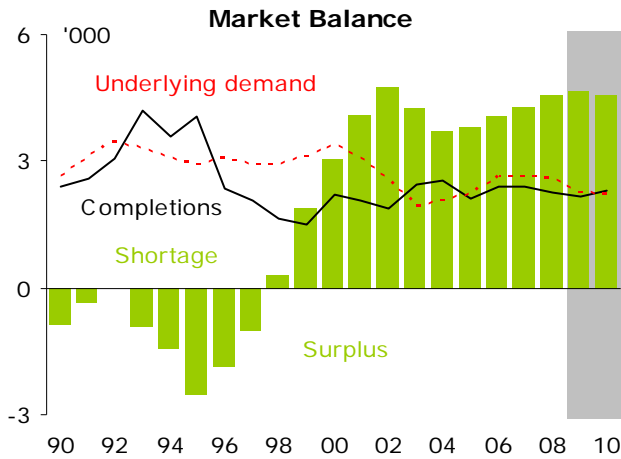
The Tasmanian property market has been the most resilient in the country, supported by an ongoing solid economic performance and relatively high population growth. Unlike other states, according to the ABS, the Hobart market has not experienced consecutive quarterly price falls and is the only state capital to post price rises over the past six-months. The market has been driven by solid inward migration from the mainland, with cashed up “tree changers” finding the lowest median house price in Australia well within their means. First homebuyers have also been very active accounting for over 50% of recent mortgage approvals (ex-refinancing) the highest level in the country. In Tassie low median prices means, the Federal first homebuyers grant, in addition to a \$4,000 state government stamp duty concession, goes a long way. As a result of the FHOG and low interest rates, sales volumes have jumped over 25% in the last quarter. Close to 1,000 homes were sold across the state in April, the highest number since November 2007. Housing finance approvals fell significantly in April after significantly outperforming the national average 6-months prior, likely reflecting a backlog of new entrants looking for opportunities. Reports now suggest a significant lack of supply especially at the median level. Median prices are being supported by these factors, especially given the relatively small size of the market, yet some price softness remains at the top end of the spectrum. However, going forward challenges to the property market remain especially as the very large first homebuyer impact currently in the market begins to dissipate.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

Australian Capital Territory

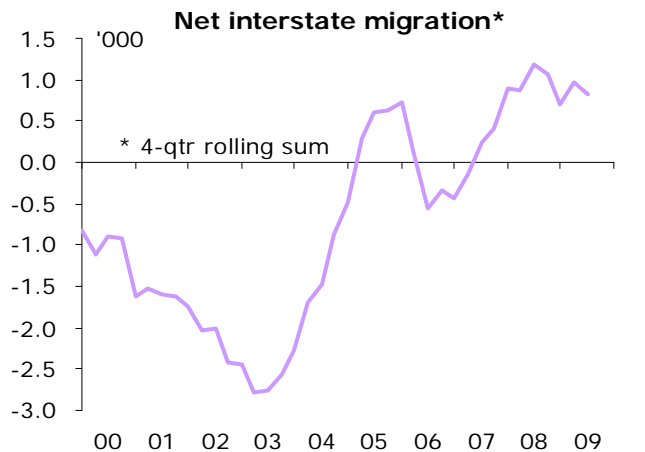
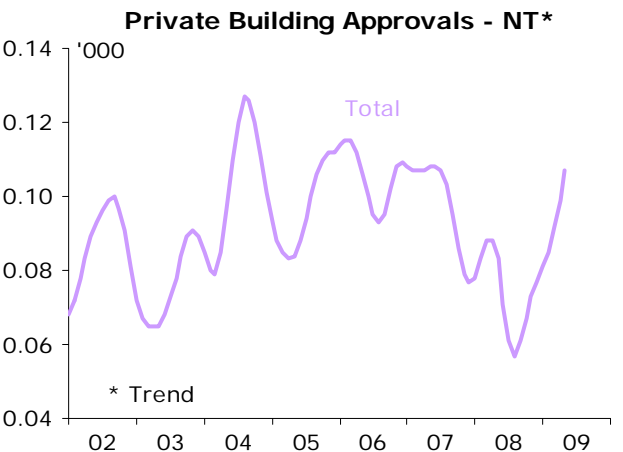
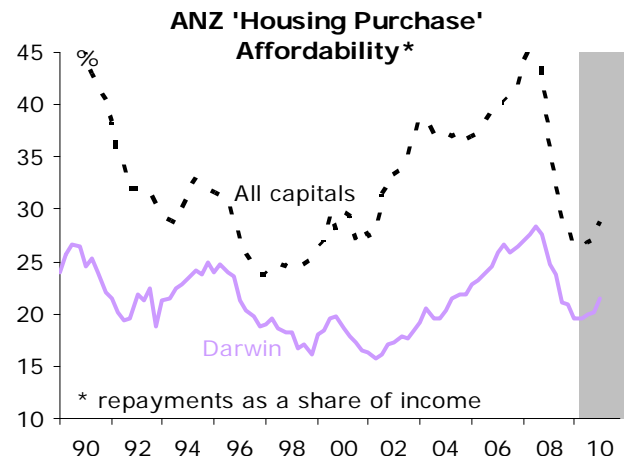
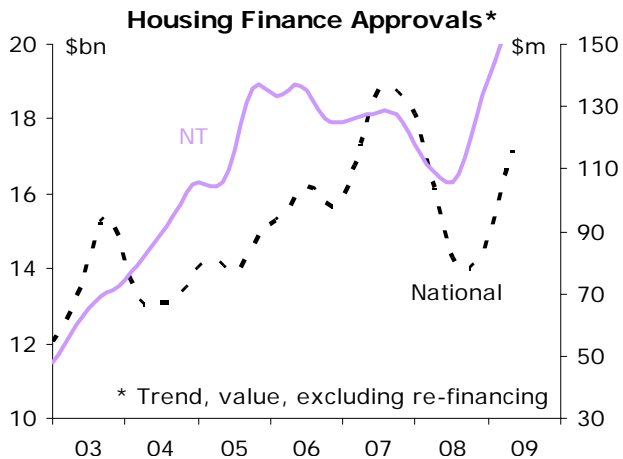
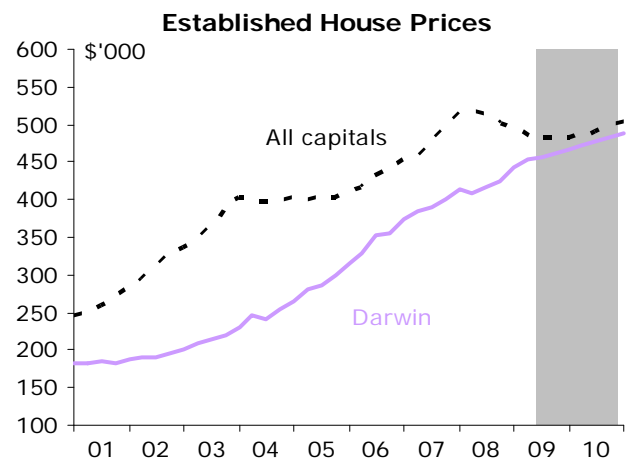
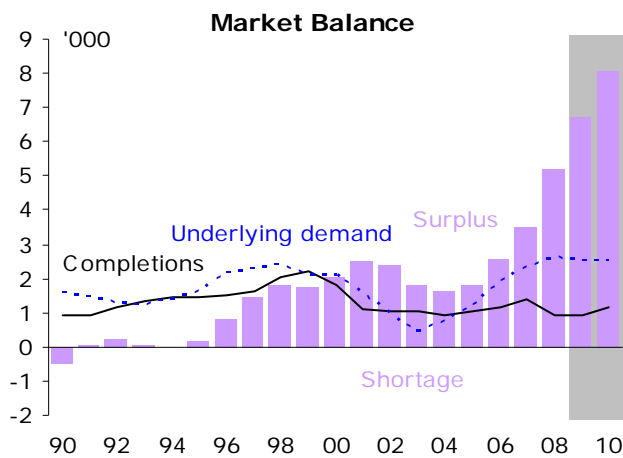
After significant weakness through the back-half of 2008 the Canberra property market has recently shown signs of improvement. Price data shows that only modest falls in prices took place through much of 2008, with the number of transactions falling 14% in the year. As is the case across the country, price falls were mainly at the top end of the market and the recovery which is now in train is centred at the more affordable level of the market. Residex data suggests prices across the ACT were up 2% in the March quarter and just under another 2% in May alone. Housing finance approvals are up over 30% in the last 6-7 months outperforming the Australian average. The proportion of first home buyers has risen sharply supporting the market, yet is well short of the national average. This is likely due to a large proportion of potential first home buyers moving to Canberra for employment that is temporary rather than permanent. Due to this demand from this segment the unit rental market remains tight, vacancy rates are still around 1%, with a shortage of stock supporting prices. Residex suggests there has been no significant fall in unit prices over the past year, further prices have actually gained strongly this year so far to be up 4-5%. With rents still relatively high a rental yield of 5.5% (the second highest in the country) has attracted buyers. Going forward, still very low unemployment and relatively high incomes should support this market.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex

Northern Territory

The Darwin property market has taken all before it shrugging off the falls in prices that have occurred across the country. Solid Territory government finances, ongoing strong population growth, defence force activity and international investment in energy resource projects are all contributing to support the boom in the market. Darwin experienced only one quarter of price falls way back in March 2008 with demand staying strong and the number of sales falling only 2-3%. Since then, Residex data suggests house prices in the Territory have increased well over 10% in the last 12-months, with unit prices outperforming even this to be up closer to 15% over the same period. Darwin has a high temporary workforce and with migration levels from overseas and interstate remaining solid. This has kept the rental market running red hot with vacancy rates entrenched at very low levels, despite local government efforts to bolster the rental stock. As a result rental growth is the highest in the country at around 15% over the past year. Consequently, unit rents are the second highest in the country and housing rents are the highest in the country and as such rental yields are 6% and 5.8% respectively which has attracted investors into the market. However, as the local economy slows in line with other commodity-driven states the NT housing market will inevitably cool with it. Further, deteriorating affordability will also begin to discourage inward migration and take some heat out of the market and growth should return to more sustainable levels.



Sources: Economics@ANZ, Australian Bureau of Statistics, RBA, REIA, Residex



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