Quarterly Economic Review

The Australian Residential Property Market and Economy

June Quarter 2020

Released August 2020

Location: Sydney Traffic, New South Wales

CoreLogic

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Introduction

$7.1 Trillion

Value of Residential Property

$1.0 Trillion

Value of Commercial Real Estate

$2.0 Trillion

Value of Listed Equities

$2.7 Trillion

Value of Australian Superannuation

Data as at **August 2020**

This report provides a review of June quarter housing market and economic data. The housing market dynamics of each State and Territory is examined.

Nationally, data is showing some of the trends evident in economic and housing market performance since the onset of the pandemic.

The impact of COVID-19 has been an enormous negative shock to the economy. However, housing market value declines were relatively mild over the June quarter. This is thought to be a function of record low mortgage rates, home loan repayment deferrals and various demand-side government stimulus for owner occupier purchases. The decline in Australian dwelling market values was just 0.8% in the three months to June.

The decline in values was led by capital city markets, where values fell 1.1% in the June quarter. Regional markets had been relatively resilient, increasing in by a further 0.3% in the same period. There has been an emerging narrative of the high demand for regional dwellings as the pandemic has normalized remote work, with regions outside of the capital cities offering lower density and lower-cost housing.

However, it is important to note that a large part of the relatively strong performance in regional areas could be cyclical. Regional markets can sometimes lag capital city performance, and although capital growth rates in regional Australia were still positive in the June quarter, many areas have seen a slowdown in capital growth rates since the March 2020 quarter.

The main impact of the pandemic on the dwelling market has not been value declines. Rather, social distancing and plunging consumer confidence led to a sharp fall in in transaction activity.

Listings and sales volumes initially trended down significantly amid the stage 2 restrictions rolled out in late March. Sales volumes fell by over a third in the month of April. However, as restrictions eased and consumer confidence was partially restored in May and June, a strong rebound was observed across sales and listings.

Finance activity fell in the June quarter, which is understandable given the dip in transactions. However, an increase in transaction activity over May and June signaled the start of a rebound in new lending. Refinancing activity amid record-low mortgage rates has also offset some of the decline in new home lending.

The capital city markets have shown some interesting divergence since the onset of the pandemic.

Melbourne saw the sharpest decline in values of the capital city markets, led by declines in the Inner East and Inner regions. Inner-city areas have been particularly impacted by the pause on international migration, and an acute decline in employment across tourism and hospitality.

Some smaller capital cities continued to experience an increase in dwelling market values over the June quarter. Adelaide, which has historically shown very little volatility, saw a 0.7% increase in values.

The Australian Capital Territory dwelling was also a relatively high growth market through the start of the pandemic in Australia, though increases are largely concentrated across houses. Furthermore, the ACT rental market saw a decline in value, as lower-income household employment as been more impacted by the pandemic.

Despite divergent performance, the renewed restrictions across Victoria are likely to put downward pressure on economic performance nationally, which will ultimately impact purchasing capacity for housing, and prices. For this reason, It is anticipated that the housing market decline will become more broad-based in the second half of 2020.

The trajectory of the market is largely dependent on overcoming the current health crisis, which would allow the flow of people and economic activity to resume. A housing market recovery is unlikely until borders re-open, and the labour market makes a consistent recovery.

National economic and property update

National housing market summary, June 2020

		Combined 8 capital cities	Combined regional areas	National
Dwellings	Monthly capital growth	-0.8%	-0.2%	-0.7%
	Quarterly capital growth	-1.1%	0.3%	-0.8%
	YTD capital growth	1.7%	2.3%	1.9%
	Annual capital growth	8.9%	3.7%	7.8%
	Total return	12.5%	8.5%	11.7%
	Gross yield	3.4%	4.9%	3.7%
	Median value	$641,671	$394,570	$554,741
Houses	Monthly capital growth	-0.9%	-0.2%	-0.7%
	Quarterly capital growth	-1.3%	0.2%	-0.9%
	YTD capital growth	1.8%	2.2%	1.9%
	Annual capital growth	9.1%	3.6%	7.8%
	Total return	12.4%	8.3%	11.4%
	Gross yield	3.3%	4.9%	3.6%
	Median value	$677,194	$405,626	$568,730
Units	Monthly capital growth	-0.6%	-0.2%	-0.6%
	Quarterly capital growth	-0.5%	0.9%	-0.3%
	YTD capital growth	1.7%	2.5%	1.8%
	Annual capital growth	8.4%	3.9%	7.7%
	Total return	12.8%	9.4%	12.3%
	Gross yield	3.9%	5.2%	4.0%
	Median value	$576,058	$351,840	$521,020

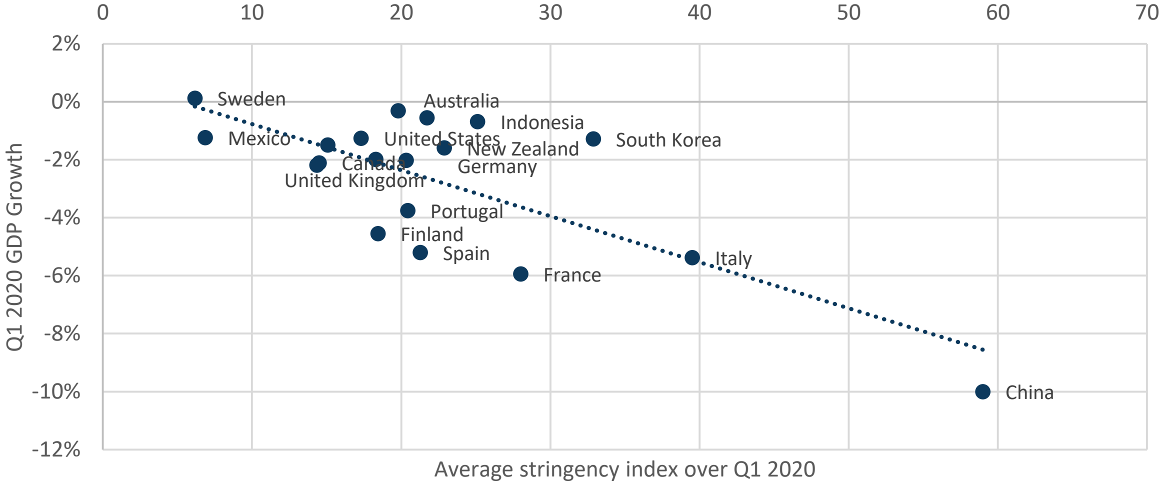
COVID-19 has been an enormous shock to the Australian economy. The RBA estimates the peak-to-trough decline in GDP in the first half of 2020 has been around 7%[1].

While this is the largest economic decline the country has endured since the 1930's, it is a milder outcome than the 10% contraction estimated in April, and there were signs of economic recovery as restrictions began easing across the country.

However, the shape of the economic recovery has seen further uncertainty with the resurgence of COVID-19 cases across Victoria, and to a lesser extent, in New South Wales since June. This will result in further downside risk to property prices and real estate activity.

Analysis from the ABS earlier this year compared March quarter GDP changes and the intensity of government restrictions (measured through Oxford University's 'stringency index'). The results showed poorer economic performance in countries with stricter lockdowns. This analysis is replicated in the chart below.

Average stringency index of government response and growth in real GDP



Source: Analysis from ABS, data from Oxford Economics, OECD

[1] Source: RBA, *Statement on Monetary Policy,* August 2020. Accessed online here: https://www.rba.gov.au/publications/smp/2020/aug/

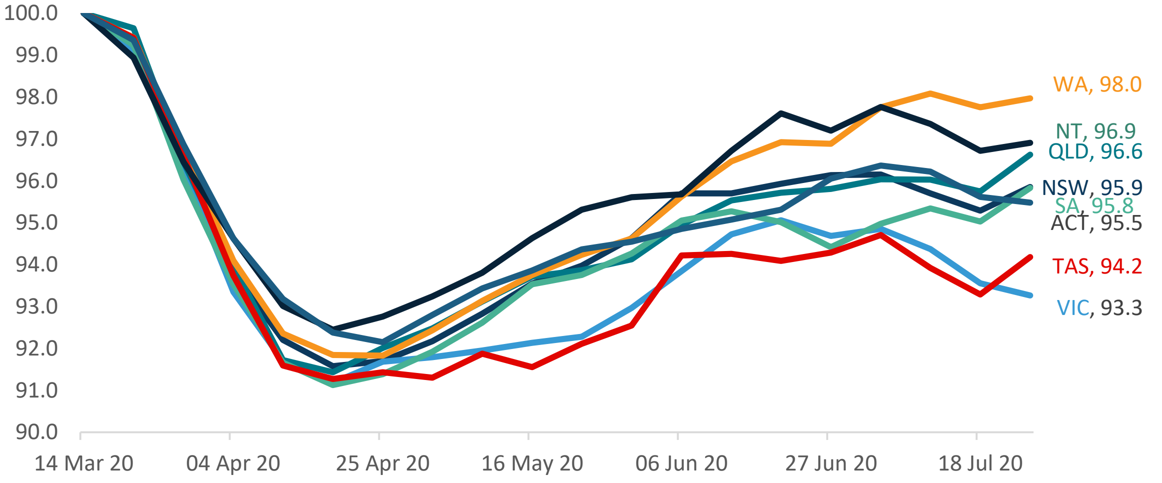
Australia had a relatively low 'stringency index' through most of the March quarter, where strict restrictions were implemented from March 25th, and began easing in late April. The incidence of poorer economic performance amid greater social distancing enforcement speaks to the short term contraction likely to be reflected in the second quarter of Australian GDP figures.

Further to this, the implication for Victoria is that the state economy will experience a second negative economic shock through Q3. Victoria accounted for 23.7% of Australian GDP in the 2018-19 financial year, and the decline in demand from households and businesses will have broader implications for economic performance across the rest of the country.

ABS payroll data has already shown job declines re-commenced in Victoria amid the stage 3 and 4 restrictions rolled out in July and August. However, there are strengths in other state and territory economies which have so far seen an improvement in jobs growth since bottoming out in April.

The contraction in the Australian economy has had varied impacts on the housing market. As was expected based on housing market performance from previous downturns[2], the initial impact was a short, sharp decline in the number of properties sold, as opposed to a significant decline in property values.

Index of Payroll Jobs since March 14th (Australia's 100th case of COVID-19)



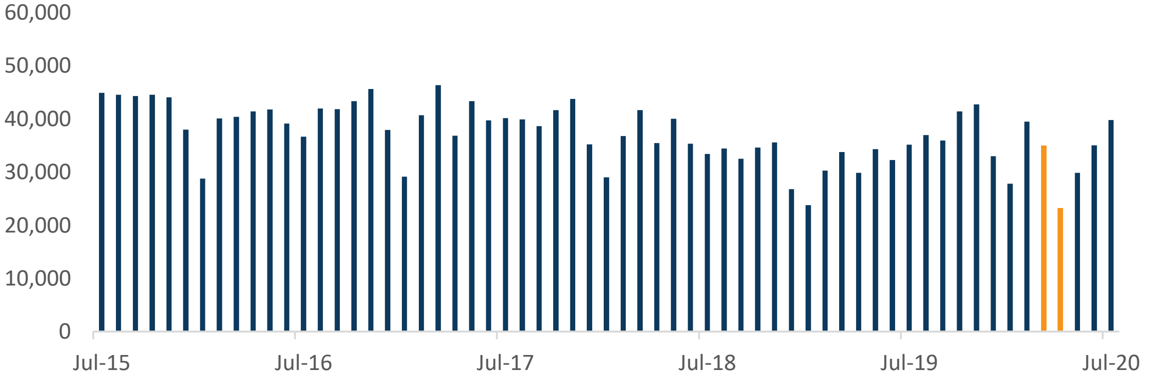
Source: ABS

Through April, national sales volumes dipped 33.7%. This was partially due to a negative economic shock that impacted certainty around property purchasing decisions. This was illustrated by a 17.7% plunge in the Westpac-Melbourne Institute consumer confidence index in April.

Part of the decline in sales volumes was also the physical limitation of selling property in a socially distanced environment.

As restrictions eased through late April to late June, consumer confidence increased 23.9%, and monthly property sales volumes rose an estimated 71.2% from April to July.

Monthly modelled sales volumes - National



Source: CoreLogic. Note that recent months of sales volumes are modelled estimates, and are therefore subject to revision over time.

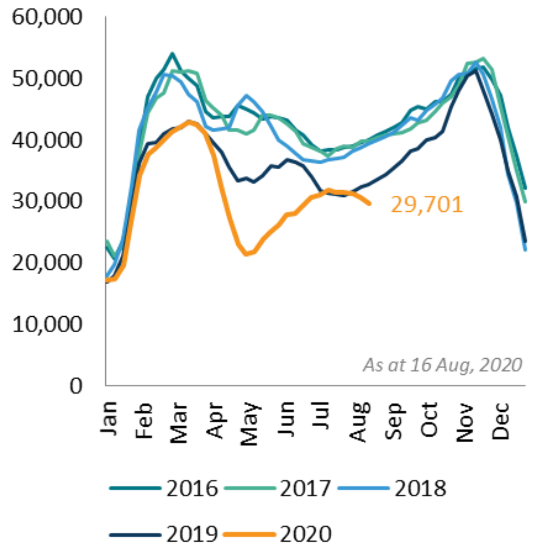
[2]CoreLogic produced initial expectations of the impact of COVID-19 on the Australian property market in March. The full report can be viewed here: https://www.corelogic.com.au/node/2758

As new restrictions create another round of job losses and further uncertainty, consumer sentiment is once again falling. Sales volumes are likely to follow. This is supported by a fall in the count of valuations ordered across CoreLogic platforms for the purpose of purchasing property, which had fallen 7.4% week-on-week at the 9th of August.

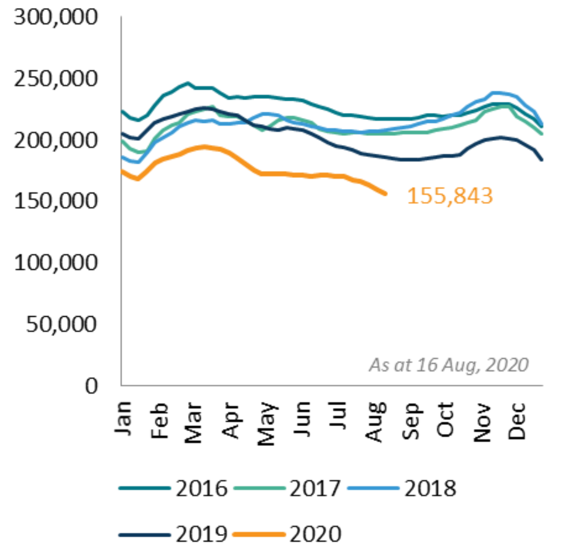
As noted in the previous quarter, social distancing measures and the associated economic slowdown also triggered a sharp decline in the volume of dwellings listed for sale. The second round of restrictions has instigated a similar pattern through the start of August. Nationally, new listings declined -5.9% in the 28 days to August 16th, a decline almost entirely driven by a 38.6% fall in new listings across Melbourne.

Rolling 28-day count of new and total listings

Number of new listings, National Dwellings



Number of total listings, National Dwellings



Source: CoreLogic

Labour markets, income and interest rates

While transaction activity is clearly responsive to economic conditions, property values have been less impacted.

Over the June quarter, national dwelling values fell 0.8%, led by a fall across the combined capital city markets of 1.1%. Regional dwelling markets increased 0.3% in the period, but are likely to move into price falls over late 2020 or early 2021.

Though property value falls have been mild to date, there has been some debate as to whether property values would undergo a significant price fall during the pandemic due to weakness in the labour market.

A steep decline in incomes and employment would result in lower property prices for a few reasons:

- Property becomes less affordable as incomes decline;
- Uncertainty about future employment and income prospects leads people to postpone property purchases, leading to an accumulation of supply; and,
- Job losses among mortgage holders could lead to more distressed sales, with the added supply of listings placing downwards pressure on dwelling values.

But historically, housing market growth and the unemployment rate were *positively correlated*. For the 20 years prior to the pandemic, monthly national dwelling value growth and the unemployment rate had a weak positive correlation coefficient of 0.46.

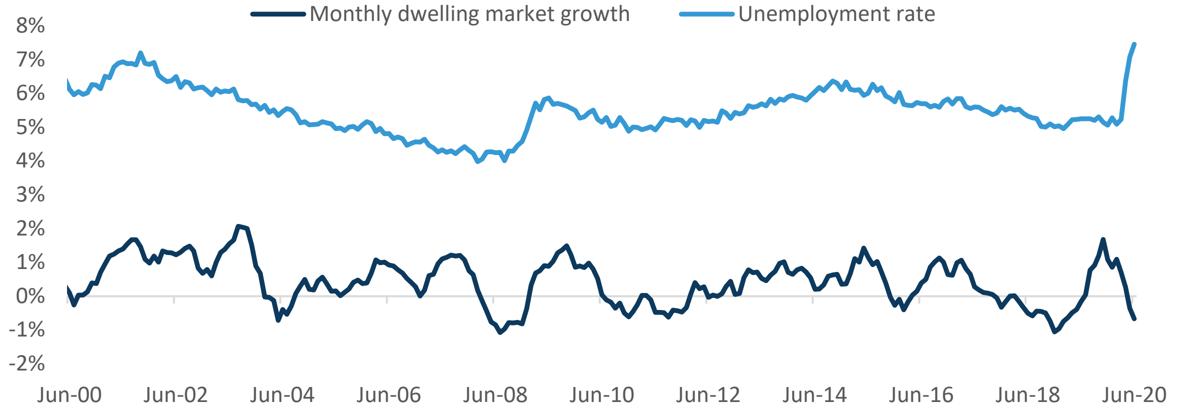
At the very least, this correlation coefficient indicates property values have been relatively unaffected by the unemployment rate.

This is presumably because increases in unemployment have been associated with reductions in the cash rate, which has made borrowing cheaper for those unaffected by changes in the labour market. Additionally, the unemployment rate alone is not always an indicator of other aspects of labour market weakness, such as participation or underutilisation.

However, the chart below shows this dynamic is changing. ABS payroll data shows that between the 14th of March and the 25th of July, total wages paid declined 4.8%, and payroll jobs declined 4.5%.

ABS labour force data to June saw over 660,000 jobs lost since March, and much more labour is underutilised. The underemployment rate rose to 12.6% in June. The extent of disruption to the labour market could outweigh the stimulatory effect of record low mortgage rates.

Monthly dwelling market growth v unemployment rate - Australia



Source: CoreLogic, ABS

The RBA has previously noted for every 1% rise in the unemployment rate, 90 day mortgage arrears generally increase by 80 basis points[3].

In the August *Statement of Monetary Policy,* the RBA outlined the baseline economic forecast could see the unemployment rate peak at 10% by the end of the year[4]. This implies a 90-day mortgage arrears rate of around 5%.

This 5% figure may be an overstatement, considering weak labour market conditions are skewed toward young, casual workers, who are less likely to hold mortgage debt. However, June quarter data is already showing prices weakening amid record low mortgage rates.

The outlook for both the economy and housing markets is extremely uncertain, but risk remains skewed to the downside.

[3] Source: RBA, *Financial Stability Review,* April 2020. Accessed online here: https://www.rba.gov.au/publications/fsr/2020/apr/

[4] Source: RBA, *Statement of Monetary Policy,* August 2020. Accessed online here: https://www.rba.gov.au/publications/smp/2020/aug/

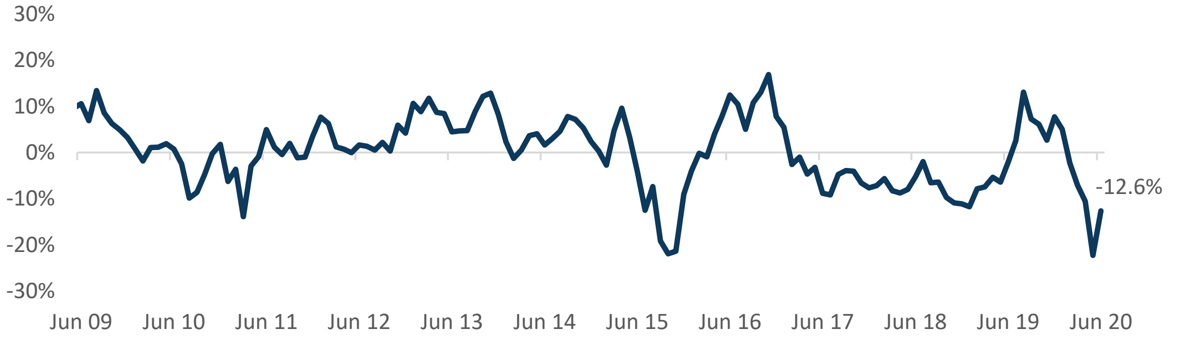
Housing Finance Overview

Housing Finance Overview

Housing finance data over the June quarter revealed subdued new lending for dwelling purchases, and a pivot toward refinancing of existing loans to help reduce housing costs.

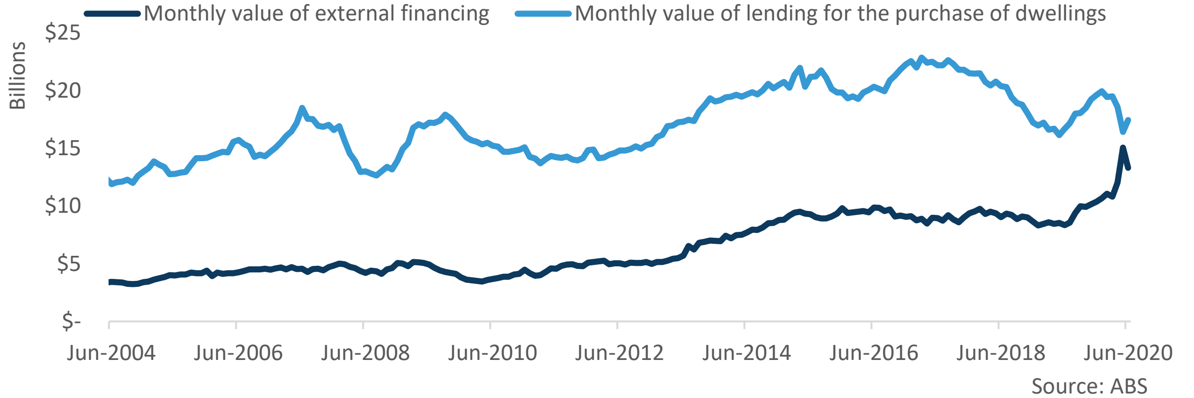
In May, the value of new lending for the purchase of dwellings fell 11.6%, the largest decline on record. This represented a month-on-month decline of about $2.2 billion.

3 month change in value of housing finance commitments (excluding refinance) - National



Source: ABS

Monthly value of new housing lending v external refinancing - National



Source: ABS

The fall in the value of finance commitments in May was likely due to a decline of 33.7% in sales volumes over April. ABS housing finance data has, at times[5], has lagged CoreLogic sales volumes. This is because the date of a sale record from CoreLogic is generally indicative of the contract date, whereas a secured loan is dated at the point of acceptance of the loan by the borrower.

The lag between the contract date and full processing of the finance may have been blown out over this period as social distancing measures slowed valuations and process work, and banks were processing a high volume of deferrals and refinances. As sales volumes began recovering in May and June, this saw an increase in secured loans recorded across the ABS datasets.

Over the June quarter, lending to owner occupiers for the purchase of property fell -9.9%, while lending for investment property fell 12.6%. As a result, investor housing finance as a percentage of *total* housing finance fell to 25.4% of total lending, which is well below the decade average of 36.3%. As rental markets remain subdued and property prices fall, this share may continue to decline.

The share of first home buyer commitments as a portion of total owner occupier commitments sat at 29.5% in June, which is well above the decade average of 23.2%. The expansion of the first home loan deposit scheme and other first home buyer incentives announced over June and July is likely to see a boost in first home buyer participation over the second half of 2020.

While new housing finance took a hit in the quarter, refinancing has reached record highs. ABS data suggests the total value of externally refinanced loans increased 25.1% in May. Since March, over $40 billion in home loans has been externally refinanced. While ABS data suggests external refinancing has historically made up about 26% of total lending, the ratio was up to 43.3% in June.

[5]See full research piece here: https://www.corelogic.com.au/news/what-corelogic-data-tells-us-about-record-fall-housing-finance

The refinancing has been enabled by a record-low cash rate target of 0.25%, which is part of the comprehensive monetary response laid out by the RBA in mid-March. The actual cash rate has hovered well below the target. Since late April, the actual cash rate has fallen to around 13 to 14 basis points.

The record low cash rate setting has enabled low mortgage rates, which are summarised in the table below.

In a recent address[6], RBA Governor Phillip Lowe outlined there would be no near-term changes to the monetary response established in mid-March.

Specifically, he referred to lower or negative interest rates, intervention in the foreign exchange market, or changes to the term funding facility, with these sorts of interventions dependent on the global economic environment.

But Lowe stressed that there was a limit to the effectiveness of such policies to stimulate demand, with fiscal responses needed to increase demand and inflation. The dynamics in the housing finance space has amplified this, where low rates led to an increase in refinancing to save money, rather than spend money on housing.

Summary of average interest rates as at June 30

Buyer type	Loan purpose	Outstanding loans	QOQ Change	New loans	QOQ Change
		% per annum		% per annum	
Owner-Occupier	Principal-and-interest	3.18	↓	2.65	↓
	Interest-only	3.88	↓	3.31	↓
Investor	Principal-and-interest	3.49	↓	2.96	↓
	Interest-only	3.88	↓	3.17	↓

Source: APRA, RBA. Note data is indicator lending rates for loans across all institutions

Keeping perspective around mortgage risk and the 'September cliff'

COVID-19 exacerbates the risk that high housing debt has to the Australian economy. In the March quarter, the ratio of household debt to annualised household disposable income sat at near-record highs of 142.0%.

With widespread unemployment, there is increased likelihood borrowers could fall behind on mortgage repayments, with the potential to generate forced sales. This in turn could increase the supply of listings, and put further downward pressure on dwelling values.

Many banks offered a pause on mortgage repayments early in the pandemic to reduce this risk. As of June 2020, the value of housing loans deferred was $195 billion, or 11% of total housing loans[7].

These 'mortgage holidays' are temporary, and were initially in place for 6 months from March 2020. This led to concerns over a 'September cliff', where mortgage holiday repayments and fiscal support policies would be repealed as the economy was yet to recover.

However, it is important to remember that no entity has an interest in seeing residential mortgages fall off a 'cliff' come September. Residential mortgage lending accounts for about 60% of bank lending. Housing accounts for about 53% of household wealth, and the accumulation of wealth in housing eases pressure on the government to fund Australians in retirement.

Thus, it is unsurprising to see that both banks and statutory authorities are looking to extend repayment deferrals where it is needed. In a letter to banks, APRA advised that for loan repayment deferrals provided prior to September 30 2020, ADIs could continue to apply a 'temporary capital treatment' to a total deferral period of 10 months, or up to the end of March 2021[8]. The 'temporary capital treatment' means that APRA does not count a deferred loan as in arrears, or as restructured.

Interestingly, of this deferred volume, only 8% had a loan-to-value ratio of more than 90%. In addition to the national property price upswing of 8.9% between July 2019 and April 2020, it likely that relatively few of the borrowers deferring their mortgage repayments are in a negative equity position.

This is important, as recent research from the RBA has highlighted that foreclosure on mortgages is far less likely when the borrower is in a positive equity position[9].

It is also worth keeping in perspective that not every Australian has the same level of risk when it comes to housing and debt. For example, around 30% of Australian households own their home without a mortgage. RBA research suggests that over 50% of loans had repayment buffers of at least 3 months, and about 30% of loans had prepayments of at least 3 years. However, this is not to say parts of the market are without risk.

[6] RBA, (July 2020), COVID-19, 'The Labour Market and Public Sector Balance Sheets', accessed online here: https://www.rba.gov.au/speeches/2020/sp-gov-2020-07-21.html

[7] APRA (August 2020), 'Temporary loan repayment deferrals due to COVID-19', accessed online here: https://www.apra.gov.au/temporary-loan-repayment-deferrals-due-to-covid-19-june-2020

[8] See letter here: https://www.apra.gov.au/letter-to-authorised-deposit-taking-institutions-treatment-of-loans-impacted-by-covid-19

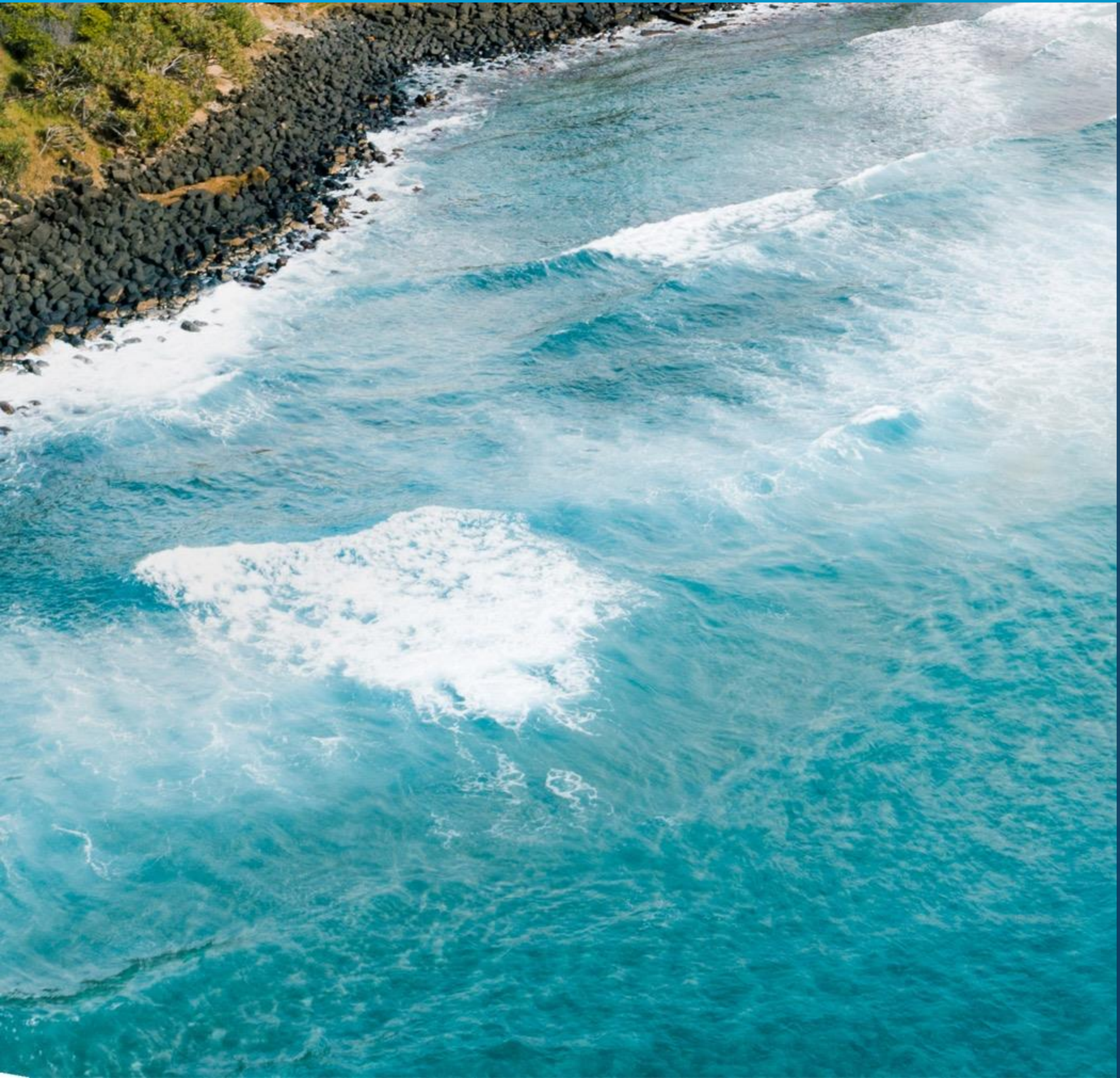
[9] Bergmann, M. (2020). *The Determinants of Mortgage Defaults in Australia–Evidence for the Double-trigger Hypothesis* (No. rdp2020-03). Reserve Bank of Australia.

The same dataset showed just under one third of mortgage holders had less than one month of prepayment, and that this group with low repayment buffers were more likely to experience financial stress[10].

The markets more likely to see a dangerous combination of negative equity and mortgage arrears have recently been mining regions, such as the north western region of WA. More recently, there is evidence to suggest more severe price falls and disruptions to loan repayments could occur across inner-city apartment markets of Melbourne, and potentially Sydney. These risks are further explored in the state and territory sections of this report.

[10] Source: RBA, *Financial Stability Review,* April 2020. Accessed online here: https://www.rba.gov.au/publications/fsr/2020/apr/

New South Wales



New South Wales

NSW housing market summary, June 2020

		Sydney	Regional NSW
Dwellings	Monthly capital growth	-0.8%	0.3%
	Quarterly capital growth	-0.8%	0.6%
	YTD capital growth	3.1%	2.4%
	Annual capital growth	13.3%	3.9%
	Total return	16.7%	8.3%
	Gross yield	2.9%	4.6%
	Median value	$875,749	$467,571
Houses	Monthly capital growth	-0.9%	0.3%
	Quarterly capital growth	-1.1%	0.6%
	YTD capital growth	3.2%	2.4%
	Annual capital growth	14.5%	4.2%
	Total return	17.7%	8.5%
	Gross yield	2.7%	4.6%
	Median value	$1,010,426	$480,437
Units	Monthly capital growth	-0.6%	0.0%
	Quarterly capital growth	-0.1%	1.0%
	YTD capital growth	2.8%	2.2%
	Annual capital growth	10.6%	2.2%
	Total return	14.7%	7.2%
	Gross yield	3.4%	4.6%
	Median value	$761,792	$408,115

As noted in the March quarter, quarterly dwelling value growth of properties across Sydney and parts of regional NSW had already started to slow before the onset of COVID-19. Quarterly growth in the Sydney market peaked at 6.2% in November 2019. In the June quarter, the effects of the pandemic saw house values move into decline, and values fell -0.8% across Sydney.

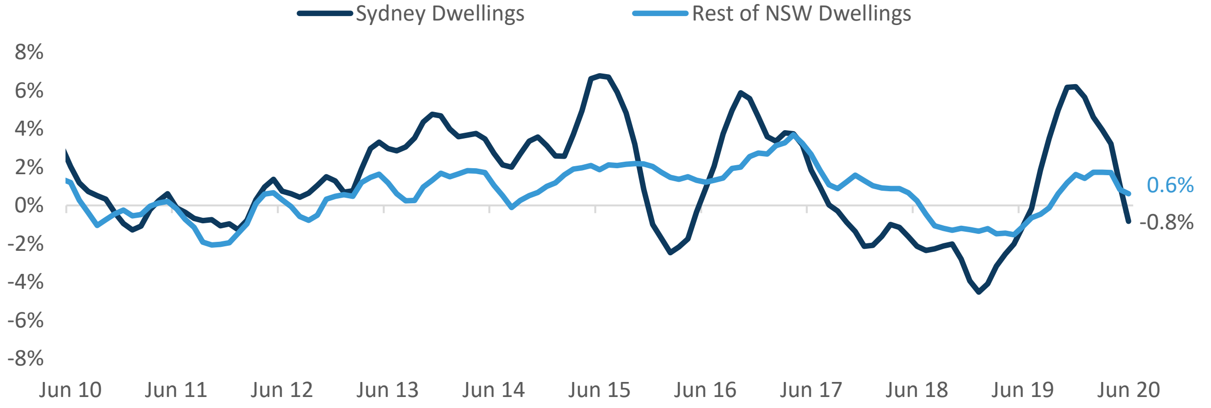
Resilience in regional NSW?

Regional NSW values continued to increase 0.6% over the June quarter. There has been a narrative of resilience across regional dwellings since the onset of COVID-19.

It is argued the traditional draw cards of demand for regional markets (such as low levels of density, traffic congestion, lifestyle opportunities and relatively low price points), have become more weighted since remote work has been normalised through the pandemic.

It is important to note that the pandemic marks a significant structural shift in the way we think about proximity to work. But this a long term phenomenon. In the short term, regional markets are clearly losing momentum and are likely to follow Sydney into a downswing, where regional Australia has also been affected by an economic decline in aggregate demand, which will ultimately limit purchasing capacity for many Australians. Quarterly growth in the combined regional NSW market peaked at 1.7% in February 2020, and has since more than halved.

Rolling quarterly growth in dwelling markets



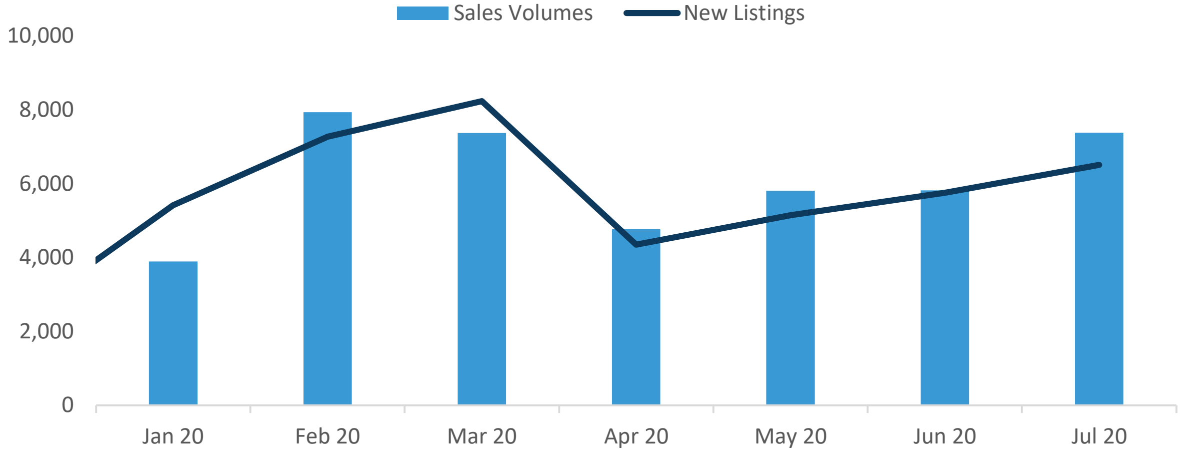
Source: CoreLogic

Dynamics of the downturn across Sydney

As with most jurisdictions, the biggest impact on the dwelling market amid COVID has been in transaction activity. Total listings fell 39% between national stage 2 COVID restrictions in late March, and the gradual easing of restrictions commencing early May, as vendors became wary of selling during the height of lockdown.

Similarly, sales volumes over April and May 2020 were 11.3% below where they were in April and May 2019. This is significant, because April and May 2019 was around the trough of the previous downswing, and represents a point at which sales volumes were already historically low.

Monthly transaction activity, Sydney



Source: CoreLogic. Note that recent months of sales data are modelled estimates and subject to revision over time.

As restrictions eased across the country over May and June, transaction activity rebounded, although prices began to slip as purchasing capacity was impaired by job and income loss across the city.

Value falls were led by the North Sydney and Hornsby region, which fell 2.2% in the June quarter. While the June quarter results indicated that some regions still had higher values when compared to March, but each market had shown a month-on-month decline at June, suggesting the downturn was becoming more broad-based.

Summary of Sydney dwelling markets to June 2020

SA4 Name	Monthly value change	Quarterly value change	Median value
North Sydney and Hornsby	-1.5%	-2.2%	$ 1,376,503
Sutherland	-1.7%	-1.9%	$ 1,072,257
Northern Beaches	-1.0%	-1.7%	$ 1,563,255
Inner West	-0.5%	-1.2%	$ 1,216,280
South West	-1.1%	-1.2%	$ 704,496
Inner South West	-0.8%	-1.2%	$ 857,243
Parramatta	-1.1%	-0.9%	$ 776,942
Blacktown	-0.9%	-0.7%	$ 677,849
City and Inner South	-0.6%	-0.7%	$ 1,029,031
Baulkham Hills and Hawkesbury	-0.3%	-0.6%	$ 1,299,391
Outer South West	-0.5%	0.0%	$ 611,809
Outer West and Blue Mountains	-0.5%	0.2%	$ 632,594
Eastern Suburbs	-0.6%	0.5%	$ 1,406,535
Ryde	-0.2%	2.1%	$ 1,375,631

Source: CoreLogic

Despite price falls, Sydney dwelling values were 13.3% higher over the year to June. For many purchasers who had bought before June 2019, the strong upswing has partially mitigated the risk of the current downturn because many will be in a better equity position.

Rent value declines were more severe than property value declines in the June quarter across several regions of Sydney. The largest rental value declines were across the City and Inner South Sydney region, where rent values were down 4.1% in the quarter. Performance in rental values and listings by region is summarised in the table below.

Summary of Sydney dwelling rental markets to June 2020

SA4 Name	Change in rents	Median rental AVM	Yields	Total rent listings - March 2020	Total rent listings - June 2020	Change in rent listings
City and Inner South	-4.1%	$ 668	3.3%	3,700	5,131	38.7%
Eastern Suburbs	-3.7%	$ 742	2.9%	2,278	2,990	31.3%
North Sydney and Hornsby	-1.6%	$ 710	2.9%	2,963	3,269	10.3%
Northern Beaches	-1.6%	$ 867	3.0%	1,201	1,069	-11.0%
Inner West	-1.3%	$ 640	3.0%	2,259	2,577	14.1%
Inner South West	-0.4%	$ 537	3.5%	3,260	3,306	1.4%
Ryde	-0.3%	$ 596	2.9%	1,367	1,491	9.1%
Parramatta	0.1%	$ 496	3.7%	3,589	3,726	3.8%
South West	0.2%	$ 494	3.8%	1,939	1,894	-2.3%
Blacktown	0.4%	$ 464	3.5%	2,142	1,810	-15.5%
Baulkham Hills and Hawkesbury	0.4%	$ 676	2.9%	728	722	-0.8%
Outer South West	0.5%	$ 451	3.7%	973	758	-22.1%
Outer West and Blue Mountains	0.7%	$ 440	3.8%	1,484	1,143	-23.0%
Sutherland	0.7%	$ 655	3.4%	661	591	-10.6%

Source: CoreLogic

As has been noted in previous research, the declines in rents have been most severe among regions exposed to high levels of overseas migration, the investor concentration in the market is high, and there is a high incidence of workers in accommodation, hospitality and the arts.

The regions that saw a decline in rent values over the June quarter accounted for 61.4% of the net overseas migration intake across Sydney over 2018-19, as well as 59.3% of workers across the arts and accommodation and food and recreation sectors. These markets also account for 15.3% of Australia's total rental market.

While the pandemic period seems bleak for housing market performance, the first round of restrictions and their subsequent repeal revealed a strong bounce back in housing market activity. Additionally, there are several policies which will continue to support stability in the housing market through to March 2021, by which time NSW may see more migration, and a recovery in the labour market. More recently, the NSW government announced further stamp duty discounts for new homes for first home buyers. The temporary scheme will also incentivise the purchase of new builds while construction is expected to be otherwise subdued.

The main headwind for the NSW housing markets, as with most markets across Australia, is a resurgence of COVID-19 cases which would stunt the economic recovery.

Victoria

Victoria

VIC housing market summary, June 2020

		Melbourne	Regional Vic
Dwellings	Monthly capital growth	-1.1%	-0.4%
	Quarterly capital growth	-2.3%	0.6%
	YTD capital growth	0.5%	2.9%
	Annual capital growth	10.2%	4.6%
	Total return	13.8%	9.4%
	Gross yield	3.2%	4.5%
	Median value	$683,529	$392,030
Houses	Monthly capital growth	-1.3%	-0.5%
	Quarterly capital growth	-2.8%	0.4%
	YTD capital growth	0.3%	2.9%
	Annual capital growth	10.6%	3.9%
	Total return	13.8%	8.7%
	Gross yield	2.8%	4.4%
	Median value	$802,551	$414,448
Units	Monthly capital growth	-0.7%	0.0%
	Quarterly capital growth	-1.2%	1.9%
	YTD capital growth	0.9%	2.8%
	Annual capital growth	9.3%	8.2%
	Total return	13.6%	13.9%
	Gross yield	3.9%	4.9%
	Median value	$575,009	$290,133

Of the capital city markets, Melbourne has seen the sharpest declines in property values thus far. The capital growth rate over June was -2.3%, and the downswing in property values could accelerate over the September quarter due to the sharp reduction in economic activity associated with stage 4 restrictions.

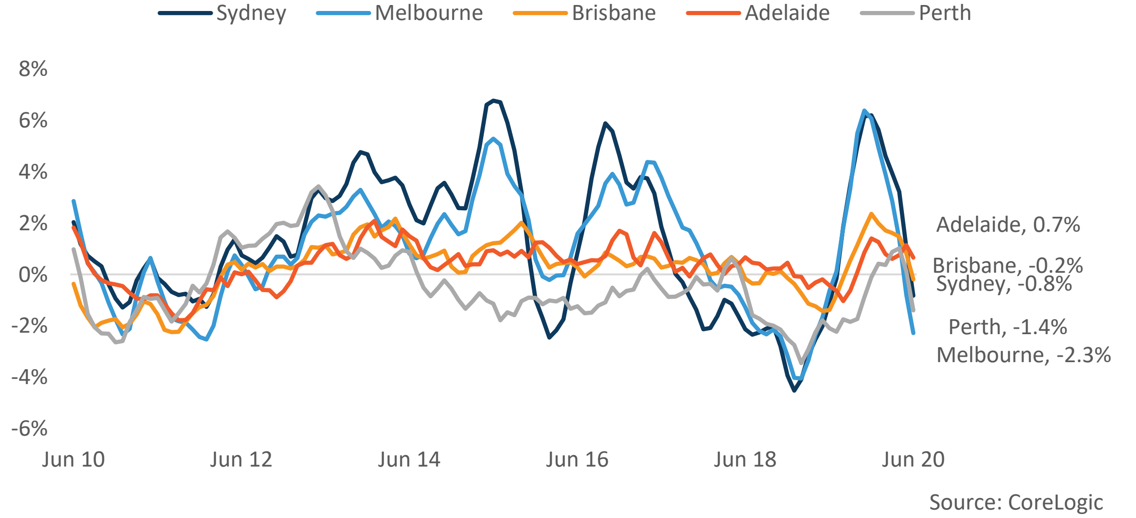
Melbourne has historically been a more 'volatile' market

The reasons Melbourne property values are leading a decline are two-fold. Cyclically, it is common for the Melbourne market to see more volatility, especially in recent years. In other words, capital growth rates have recorded 'higher highs' and 'lower lows' over the course of its property cycle compared with other capital cities, which partially explains the steeper decline.

The charts below shows this volatility in a time series of quarterly growth rates, as well as the historic annualised volatility of monthly growth rates across each capital city for the past 15 years.

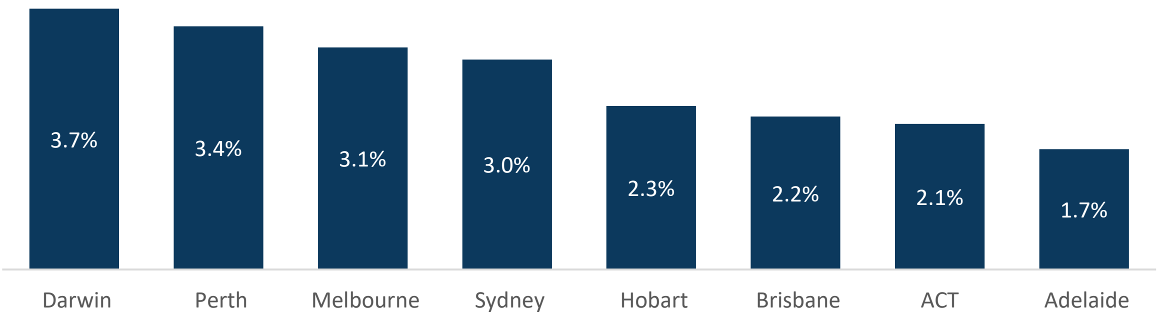
With the exception of Perth and Darwin, which saw significant fluctuations in home values with the mining boom and bust, Melbourne has had the most volatile growth rates.

Rolling quarterly growth in capital city dwelling markets



Source: CoreLogic

Annualised volatility for the past 15 years, capital city dwelling market value change



Source: CoreLogic

Increasing risk in the inner Melbourne dwelling market

As discussed last quarter, there are structural reasons that make the Melbourne property market particularly susceptible to the unique nature of the COVID-19 downturn. The first of these is the closure of international borders. Melbourne has typically been the highest recipient of overseas migrants. Net overseas migration to Melbourne totalled 77,369 over 2018-19, compared with 73,919 across Sydney, and an average of 8,506 across the other capital city markets.

This represents new rental demand of around 23,000 dwellings across Melbourne over the year[11], which has fallen to virtually zero since the closure of international borders in March. In the wake of this negative demand shock, rent values have fallen 1% across Melbourne in the June quarter, led by declines of around 7% in the inner city suburbs of Southbank, Melbourne and Docklands. The SA4 Melbourne – Inner region has seen an enormous uplift in rental stock between the start of the pandemic and the 28th of June, with the count of total rent listings increasing by 57.2%.

The influx of rental stock and significant rental declines is particularly concerning, given that the Melbourne – Inner dwelling market has a relatively high investor concentration.

At June 2020, CoreLogic estimated over 60% of dwellings in this area were owned by investors. Metadata across CoreLogic valuation platforms suggests 57.4% of off the plan apartments received a valuation at settlement that was lower than the contract price, and 24.4% were materially lower at more than 10% below the contract price.

This has risen from 49.9% and 22.4% in March. Between a lack of potential rental income and falling values, the risk of foreclosure will be heightened across this market in the coming months.

Dwelling value growth to June 2020 – SA4 regions of Victoria

Greater Region	SA4 Name	3 Months	12 Months	10 Year Annualised
Greater Melbourne	Melbourne - Inner	-2.9%	10.4%	3.0%
Greater Melbourne	Melbourne - Inner East	-3.8%	12.3%	4.1%
Greater Melbourne	Melbourne - Inner South	-3.0%	11.1%	2.8%
Greater Melbourne	Melbourne - North East	-1.4%	9.6%	3.7%
Greater Melbourne	Melbourne - North West	-0.4%	9.6%	3.8%
Greater Melbourne	Melbourne - Outer East	-2.4%	11.2%	3.8%
Greater Melbourne	Melbourne - South East	-1.6%	9.9%	4.3%
Greater Melbourne	Melbourne - West	-0.3%	7.6%	4.2%
Greater Melbourne	Mornington Peninsula	-1.6%	6.9%	3.8%
Rest of Vic	Ballarat	1.8%	6.1%	3.3%
Rest of Vic	Bendigo	1.9%	2.7%	3.2%
Rest of Vic	Geelong	0.8%	6.3%	4.2%
Rest of Vic	Hume	-0.4%	0.1%	2.6%
Rest of Vic	Latrobe - Gippsland	-0.5%	3.5%	2.2%
Rest of Vic	North West	1.5%	8.4%	3.6%
Rest of Vic	Shepparton	-0.9%	1.1%	1.2%
Rest of Vic	Warrnambool and South West	0.5%	5.8%	1.7%

Source: CoreLogic

[11] Based on the assumption that approximately 80% of new overseas migrants are renters, and accounting for a typical household size of 2.7 people across Melbourne.

The largest dwelling value falls across Melbourne have so far occurred in the Melbourne – Inner East region. As more expensive capital city markets tend to show higher volatility, the Inner East of Melbourne has also led the downswing within the greater capital city area.

The region also has the highest rate of capital growth over the year to June. This reflects the relatively strong upswing in the region prior to COVID-19, and suggests most property owners will still be in a relatively strong equity position.

Regional lifestyle markets such as Ballarat, Bendigo and Geelong have continued to see property value increases over the June quarter, but each area saw a lower growth rate than that posted in the March quarter. This suggests there is a decelerating growth trend across regional Victoria, as the demand shock ripples out across the state and the downturn becomes more broad-based. However, as regional areas have less volatility and exposure to structural changes in demand, the downturn in likely to be far milder in these areas.

Queensland

Queensland

QLD housing market summary, June 2020

		Brisbane	Regional Qld
Dwellings	Monthly capital growth	-0.4%	-0.3%
	Quarterly capital growth	-0.2%	-0.1%
	YTD capital growth	1.4%	2.1%
	Annual capital growth	4.4%	4.5%
	Total return	8.4%	9.7%
	Gross yield	4.4%	5.2%
	Median value	$503,148	$379,942
Houses	Monthly capital growth	-0.4%	-0.4%
	Quarterly capital growth	-0.1%	-0.3%
	YTD capital growth	1.9%	2.1%
	Annual capital growth	4.9%	4.7%
	Total return	8.8%	9.6%
	Gross yield	4.2%	5.1%
	Median value	$557,265	$386,454
Units	Monthly capital growth	-0.8%	0.0%
	Quarterly capital growth	-0.8%	0.9%
	YTD capital growth	-1.0%	2.2%
	Annual capital growth	1.8%	3.7%
	Total return	7.1%	9.6%
	Gross yield	5.2%	5.5%
	Median value	$387,420	$363,549

The COVID-19 pandemic has interrupted positive growth momentum across Queensland dwelling markets, but the decline in housing values has been relatively mild to date.

In the June quarter, the Brisbane dwelling market declined just -0.2%. Interestingly, this fall was driven by the Brisbane – Inner City region, where values fell -2.4%. No other SA4 market recorded a value fall in the quarter.

The weakness in the Brisbane – Inner City market is likely tied to poor performance in investment housing. In the June quarter, rental stock across the Brisbane – Inner City region increased 12.1%, contributing to a -1.5% decline in rent values.

Meanwhile, the quarter saw robust performance across the Brisbane – East market, where values rose 1.9%. Low interest rates, deeper vendor discounts and a relatively low price point may be supporting first home buyer demand in this region, which could be attributed to value increases.

Prior to the onset of COVID-19, there were several factors pointing to positive growth across Queensland dwelling markets, particularly south-east Queensland. Dwelling completions across the state had moderated to 8,805 in the March 2020 quarter, trending down from a peak of 12,241 over March 2017.

As the supply of dwellings across the state had moderated, the rate of population growth was positive, but slowed from 1.8% in 2018 to 1.6% over 2019. However, Queensland has had the highest volume of net interstate migration since September 2017.

Granular migration data shows that in the year to June 2019, the highest level of departure by region for net interstate migration to Queensland were the ACT (8,539), Darwin (1,247) and Richmond-Tweed (1,192). The highest volumes of net interstate migration by arrival in Queensland were the Gold Coast (7,918), the Sunshine Coast (4,577) and Ipswich (2,874).

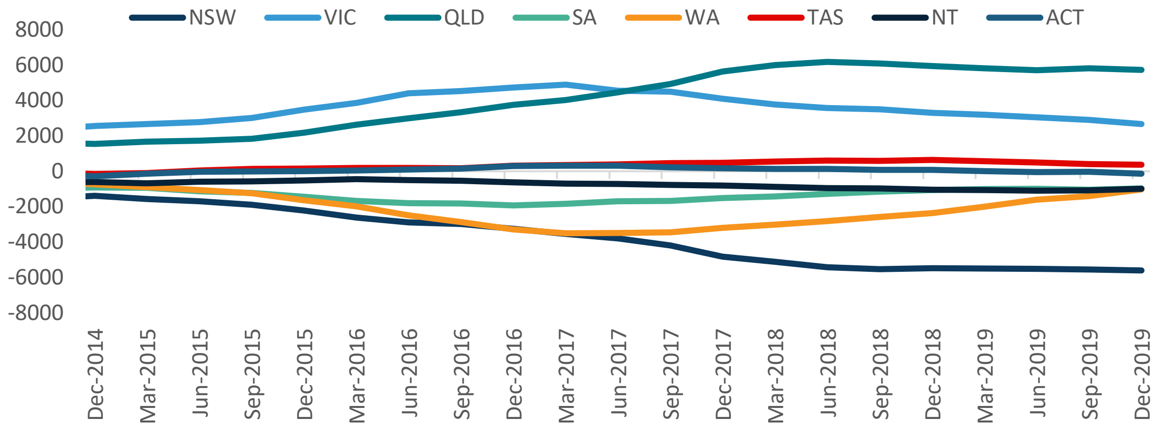
These migration patterns speak to a particular strength in demand across south-east Queensland, because it is evidence of a desire to migrate to the region, even before the onset of the pandemic had normalised remote work arrangements for professional and clerical work. This structural change to housing demand may amplify relocation to south-east Queensland in the long term.

Holiday markets tested by border closures

In the short term, growth in dwelling values across the region will continue to be disrupted following the strengthened border restrictions for people travelling from NSW, the ACT and Victoria in July and August.

The border closures coincide, and in some cases may relate to, a disruption to the recovery in payroll jobs numbers. The Gold Coast has seen the largest decline in payroll jobs of Queensland regions between the 14th of March and the 11th of July. Payroll jobs numbers across the Gold Coast were down 7.1%. This is perhaps unsurprising given that prior to the pandemic, 10.6% of the workforce was employed across accommodation and food services.

Net interstate migration - rolling 4-quarter average



Source: ABS

Job losses in this sector, combined with vacant holiday dwellings, are putting downward pressure on rents in the region. Rent values across the Gold Coast fell 0.2% in the June quarter.

The Sunshine Coast and Gold Coast dwelling markets still saw dwelling price increases in the June quarter, of 1.0% and 0.7% respectively. However, these increases are modest and signify a deceleration of growth in these markets. The Sunshine Coast and Gold Coast dwelling market performance will be closely tied to the state of interstate and overseas migration, as well as opportunities for holiday travel.

As borders are likely to stay closed until 2021, these markets may see mild price falls before next year.

Like most markets across Australia, a return to upswing for many Queensland markets depend upon getting ahead of the COVID-19 curve, the easing of social distancing measures and the re-opening of domestic and international borders. Unlike parts of the country, many parts of Queensland, including coastal regional areas and South East Queensland, present affordably priced housing options and an appealing lifestyle.

South Australia

South Australia

SA housing market summary, June 2020

		Adelaide	Rest of SA
Dwellings	Monthly capital growth	-0.2%	-0.2%
	Quarterly capital growth	0.7%	1.6%
	YTD capital growth	1.3%	2.9%
	Annual capital growth	2.0%	2.5%
	Total return	6.5%	8.5%
	Gross yield	4.4%	5.8%
	Median value	$440,267	$241,605
Houses	Monthly capital growth	-0.2%	0.4%
	Quarterly capital growth	0.6%	1.8%
	YTD capital growth	1.1%	2.9%
	Annual capital growth	2.0%	2.6%
	Total return	6.3%	9.2%
	Gross yield	4.2%	5.8%
	Median value	$476,639	$249,035
Units	Monthly capital growth	-0.3%	-10.9%
	Quarterly capital growth	0.9%	-3.8%
	YTD capital growth	2.3%	2.9%
	Annual capital growth	2.2%	1.3%
	Total return	7.7%	-4.5%
	Gross yield	5.3%	7.4%
	Median value	$332,016	$167,179

In the June quarter, the Adelaide dwelling market had the second highest quarterly growth rate of the capital cities at 0.7%, behind Hobart (1.0%) and tied with Canberra (0.7%). Perhaps even more significant than the rate of growth, is the *change* in the rate over time. Adelaide was the only capital city market to see an increase in the quarterly growth rate over June, up from 0.6% in the March quarter.

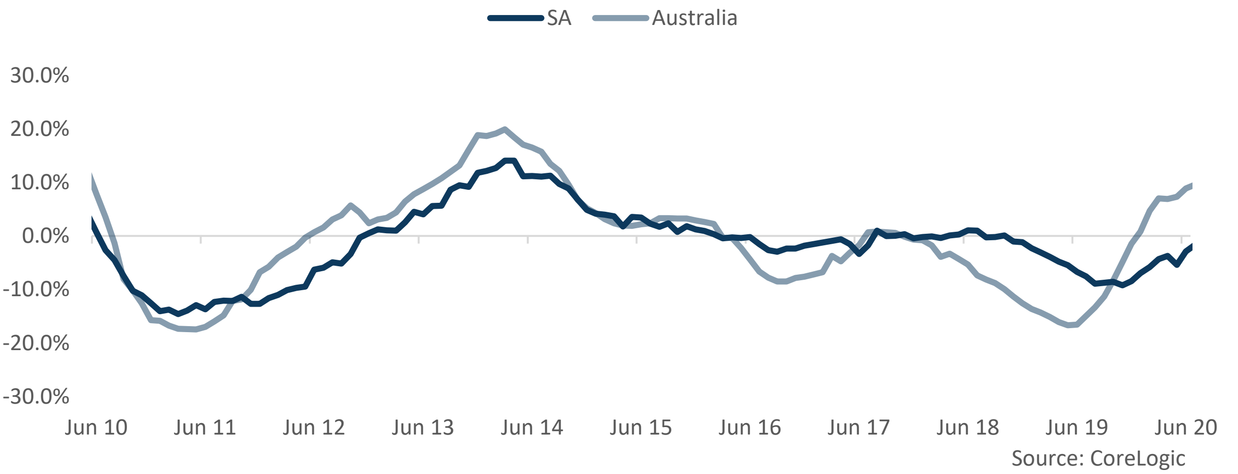
'Slow and steady' performance continues in South Australia

Part of the reason property values have not significantly declined, is the relatively subdued growth of the housing market to begin with.

As was seen in the Victoria section of this report, Adelaide dwelling value growth rates have seen the lowest level of historic annualised volatility of the capital city markets.

For the past 10 years, quarterly growth in the Adelaide dwelling market has not exceeded 2.1%, declines have not exceeded -1.8%, and 10 year annualised volatility was relatively low, at 1.3%. In other words, there has been no real 'boom' across the Adelaide dwelling market, which has mitigated the likelihood of a 'bust'.

Annual growth in 12 month sales volumes



Source: CoreLogic

The steadiness across South Australian dwelling markets is also seen in sales volumes. The onset of stage 2 restrictions in Australia at the end of March saw sales volumes fall an estimated 34% nationally in June. In South Australia, the decline in sales volumes was just 11.1%. It is worth noting that sales volumes dipped further in May, but as of June rose back above the 10-year average.

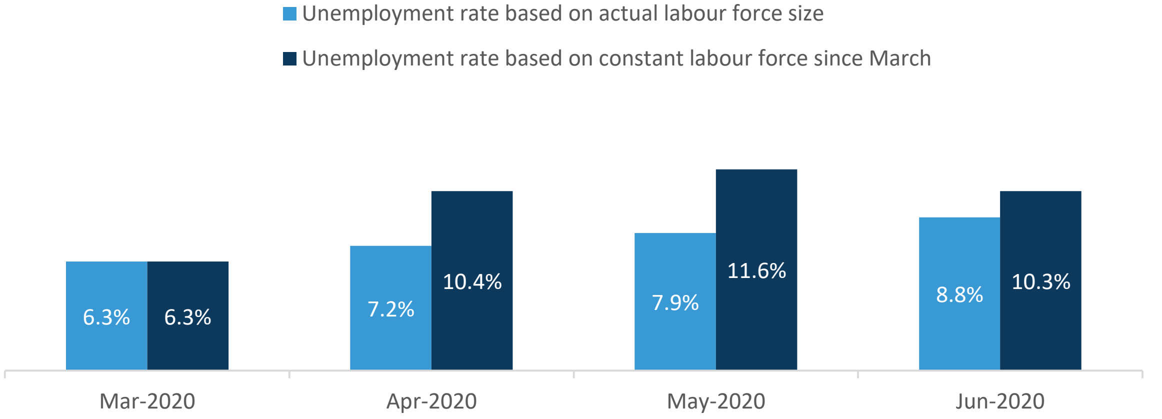
The graph on the previous page shows that the change in sales volumes has historically not fluctuated as much as the Australia-wide market. These less volatile conditions create stability in the real estate sector, and have other benefits, such as consistency in stamp duty revenues.

An aspect of this stability may be the relatively low concentration of investor participation in South Australian dwelling markets. ABS housing finance data shows that lending for the purpose of housing purchases to investors historically made up 32.6% of total mortgage lending across South Australia. This compares with 36.8% across Australia as a whole, and 40.7% across NSW, which has historically has the highest level of investor concentration.

Unemployment remains a headwind for housing demand

Employment conditions remain fairly weak across the state. As of June, South Australia maintained the highest headline unemployment rate of the states and territories, at 8.8%. Accounting for those that have fallen out of the labour force since March, and are therefore no longer counted as 'unemployed', the real unemployment rate may actually be closer to 10.3%.

Unemployment rate, South Australia



Source: ABS

These labour force conditions may constrain housing demand across Adelaide and the rest of the state over the second half of 2020. While the downturn in Adelaide and the rest of South Australia is unlikely to be as severe as in some of the more volatile dwelling markets, continued weakness in the jobs market and income growth will constrain purchasing capacity, ultimately affecting dwelling prices.

One mitigating factor to a downturn, and source of demand for property across SA, may actually be a rise in investor activity. At June, Adelaide units presented gross rental yields of 5.3%, which is among the highest gross yield of the capital city unit markets, behind Darwin (6.8%) and the ACT (5.8%). The Adelaide dwelling market was one of two capital city regions to see an increase in rent values in the June quarter. However, there is still a risk that rental growth will also be constrained by relatively high levels of unemployment.

Western Australia

Western Australia

WA housing market summary, June 2020

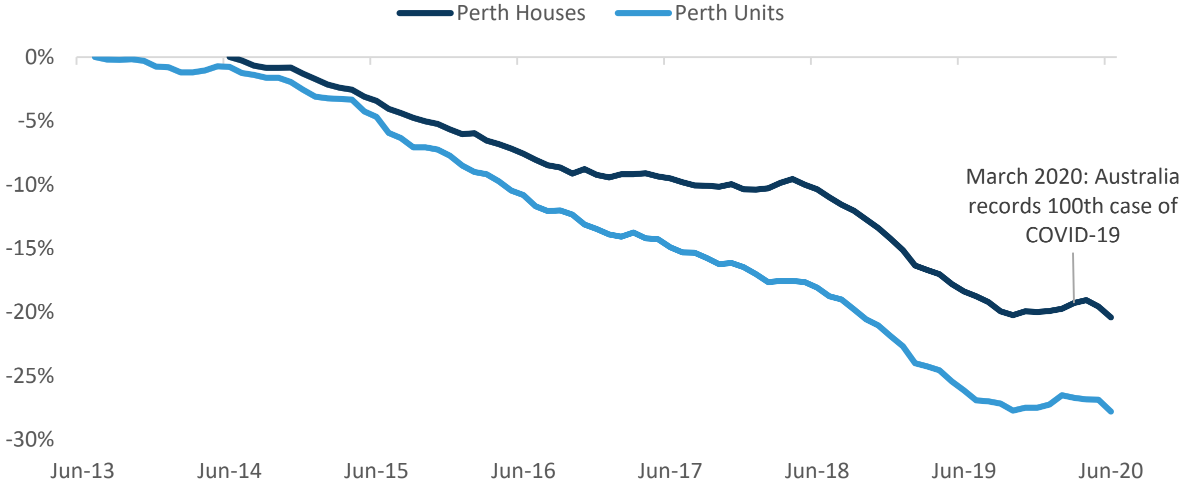
		Perth	Rest of WA
Dwellings	Monthly capital growth	-1.1%	-2.3%
	Quarterly capital growth	-1.4%	-2.3%
	YTD capital growth	-0.5%	-1.2%
	Annual capital growth	-2.5%	-7.3%
	Total return	1.6%	-1.3%
	Gross yield	4.4%	6.2%
	Median value	$441,977	$307,888
Houses	Monthly capital growth	-1.1%	-2.2%
	Quarterly capital growth	-1.4%	-2.3%
	YTD capital growth	-0.5%	-1.4%
	Annual capital growth	-2.5%	-7.6%
	Total return	1.5%	-1.8%
	Gross yield	4.3%	6.1%
	Median value	$459,376	$318,371
Units	Monthly capital growth	-1.3%	-3.1%
	Quarterly capital growth	-1.5%	-2.4%
	YTD capital growth	-0.4%	1.9%
	Annual capital growth	-2.3%	-2.4%
	Total return	2.4%	6.1%
	Gross yield	5.2%	7.3%
	Median value	$357,379	$202,839

Last quarter it was noted that Western Australian dwelling markets had an interrupted upswing due to the onset of COVID-19. The June quarter saw further downward pressure on dwelling markets.

Perth dwelling values declined -1.4% in the June quarter, following the first signs of momentum since the end of the mining boom.

At June, the cumulative decline in dwelling values saw house values -20.4% below the peak value at June 2014, and unit values were 27.8% below the July 2013 peak.

Cumulative decline in Perth dwelling market



Source: CoreLogic

Dwelling market performance has been uniform in the June quarter across Perth, with each SA4 region seeing a decline in value. The steepest fall was in the Perth – South East region, where property values declined 2.0%. This was followed by the Perth – North East region, which saw dwelling values down -1.9% in the same period. At the end of the June quarter, the South East and the North East of Perth were the most affordable parts of the Perth dwelling market, with a median value estimate of $415,801 and $424,810 respectively.

Despite the renewed decline in this market, economic indicators suggest conditions could stabilise over the second half of 2020. COVID-19 cases across WA are low, payroll jobs numbers have recovered faster than any of the states and territories, and the WA government is now largely focused on the post-COVID recovery plan. This is because more stringent social distancing measures are not needed when case numbers are relatively low.

One post-COVID area of focus is the Metronet project, which is reportedly the biggest rail infrastructure program ever undertaken in Western Australia[12]. Though this infrastructure project has been in planning for a long time, the WA government is now working to accelerate the project. The WA government is also looking to have much of the construction work go to local business, and local workers will also be preferred given interstate border restrictions.

Other bright spots for Perth and the WA dwelling market more broadly, is the more optimistic outlook in the mining sector. Prior to the onset of COVID-19, mining investment had started to rise, increasing 10.3% in the March quarter, since bottoming out a year earlier after years of decline. A rebound in commodity prices may start to flow through to an uplift in exploration and mining related construction. Additionally, a long downturn in property values is bound to have a cyclical correction. This is already reflected in net interstate migration patterns. At December 2019, interstate migration was still negative in the quarter (-1,013), but had consistently improved from December 2016, when inter-state migration was -4,313. The rebound in migration patterns may in part be attributed to the appeal of very low dwelling prices across Perth and parts of WA.

Added incentives for builders and buyers

There are currently many incentives in place for first home buyers, upsizers and downsizers. As well as low interest rates and the long-standing first home owner grant, 2020 saw the introduction of the first home loan deposit scheme and the HomeBuilder scheme.

On top of the introduction of these federal policies, the WA government has stamp duty exemptions for first home buyers for properties valued up to $430,000, and concessional stamp duty rates on properties up to $530,000. The state topped up the federal HomeBuilder scheme with a 'Building Bonus Grant', which provides as grant of up to $20,000 to anyone entering a home building contract before the end of 2020. For first home buyers, the government also offers $2,000 to cover 'incidental' costs for first home buyers.

These schemes suggest that a first home buyer purchasing a new property under $400,000 across WA could be eligible for grants totalling $57,000, and require a deposit as little as $20,000. The advantage for those looking to buy new property in WA is that the eligibility is wider for the building bonus grant. While these schemes often have an inflationary impact on prices, thus not necessarily benefitting purchasers, it should serve to boost prices and construction through the current economic slowdown.

[12] Clarke, C, August 2020, *Is infrastructure an economic saviour or a white elephant? What COVID-19 can teach us about delivering big projects*, accessed online here: https://www.abc.net.au/news/2020-08-11/can-infrastructure-deliver-economic-boost-coronavirus-recession/12544726.

Tasmania

Tasmania

TAS housing market summary, June 2020

		Hobart	Regional TAS
Dwellings	Monthly capital growth	0.3%	0.6%
	Quarterly capital growth	1.0%	2.5%
	YTD capital growth	2.5%	6.1%
	Annual capital growth	6.4%	10.3%
	Total return	11.9%	16.5%
	Gross yield	4.7%	5.1%
	Median value	$487,827	$329,368
Houses	Monthly capital growth	0.4%	0.6%
	Quarterly capital growth	1.0%	2.4%
	YTD capital growth	3.4%	5.7%
	Annual capital growth	7.1%	9.4%
	Total return	12.7%	15.2%
	Gross yield	4.7%	5.0%
	Median value	$516,600	$342,829
Units	Monthly capital growth	0.0%	0.6%
	Quarterly capital growth	1.1%	3.1%
	YTD capital growth	-1.2%	9.5%
	Annual capital growth	3.8%	19.4%
	Total return	9.1%	24.8%
	Gross yield	4.8%	5.5%
	Median value	$399,404	$268,471

Tasmanian dwelling markets had performed exceptionally well in the lead up to the COVID-19 pandemic. In the 5 years to June 2020, annualised capital growth across dwelling values was 7.7% in Hobart and 6.0% in the 'rest of state' region.

Unlike other markets where capital growth had significantly compressed rental yields, rental value growth had kept strong pace with transaction prices. 5 year annualised growth in rent values to June 2020 was 5.4% across Hobart dwellings, and 3.4% in the rest of state region.

Similarly, economic performance across the state had been strong both relative to historic growth rates for the region, and in comparison with other states and territories. Growth in state final demand over the March 2020 quarter was 0.6%, the third highest rate of growth behind the ACT (2.1%), and WA (0.9%).

However, some of the factors promoting dwelling value growth across Tasmania are the factors that make it susceptible to a decline in a unique pandemic-related downturn. For example, with interstate and international borders largely closed, arts and tourism has slowed greatly, and this has had knock-on effects for Airbnb owners and proprietors of other accommodation and hospitality services.

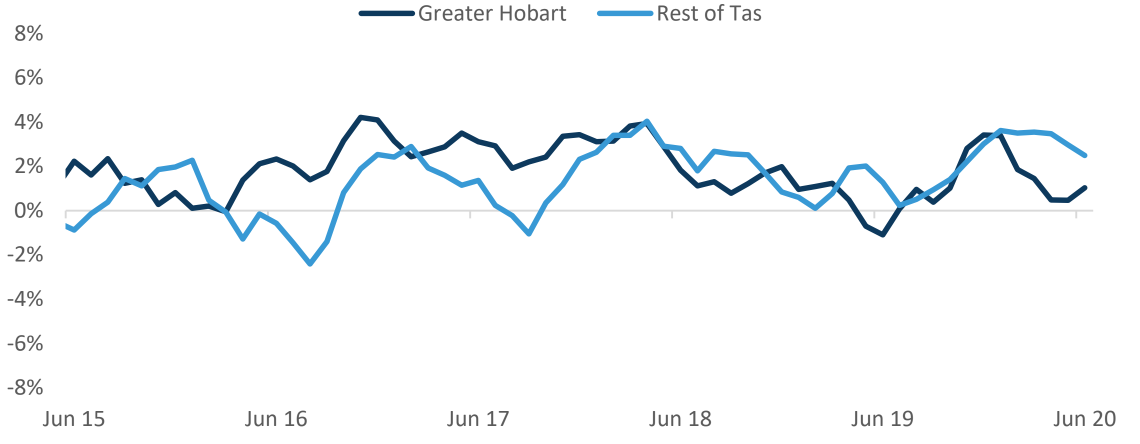
Prior to the pandemic, a relatively high portion of Tasmanian regional workforces were employed in accommodation and food services and arts and recreation services. This includes 12.7% of the workforce in Hobart, and 11.0% in Launceston. This compares with an average workforce concentration of about 9.0% across Australia. As of the 11th of July, payroll jobs across Australia declined over 10% in these sectors.

As workers employed in hospitality, tourism and the arts are more likely to rent than in any other industry, the shock to employment and decline in tourism seems to have had a disproportionate impact on the rental market. Hobart rents fell 2.3% in the June quarter, led by declines in unit rents of 3.7%.

Quarterly growth across dwelling values was still positive in the June 2020 quarter. However, growth rates had already been easing across Tasmania since the start of 2020. The chart below shows the rolling quarterly growth in Tasmanian dwelling markets, showing growth rates across dwellings in Hobart had recently peaked at 3.4% in December 2019.

As of early August, state borders were set to reopen to visitors from select states and territories. However, the Tasmanian government elected to extend border closures until at least the end of August amid the rise of COVID cases across Victoria. This will continue to hamper a recovery in the Tasmanian economy. Payroll jobs data to the 11th of July showed the labour market across Tasmania saw the second largest decline in the portion of payroll jobs behind Victoria, with 6.2% of payroll jobs lost across the state since mid-March. This may contribute to further decelerations in the rate of dwelling value growth for the September quarter.

Rolling annual growth rates in rents and dwelling values



Source: CoreLogic

Similarly to what has been seen in some smaller Australian dwelling markets, there are some factors offsetting dwelling market declines. These include state top-ups of federal stimulus schemes, designed to boost construction activity and incentivise people into purchasing new homes.

In addition to the Morrison Government's $25,000 HomeBuilder grant, eligible Tasmanians can access a further $20,000 toward new home builds. The state grant is designed to align with the first home owner grant, which may support buyer activity across more affordable new house and land projects.

Overall, Tasmanian dwelling markets are unlikely to avoid a downswing. Before the onset of the pandemic, affordability constraints may have contributed to a deceleration in quarterly growth.

With more job and income loss across the state, this slowdown in growth is likely to be exacerbated by the pandemic, and could see property values decline toward the end of 2020 or the first quarter of 2021. Like most dwelling markets, a recovery in economic conditions and capital growth in dwelling markets will be contingent on the outbreak of COVID-19, and associated restrictions.

Northern Territory

Northern Territory

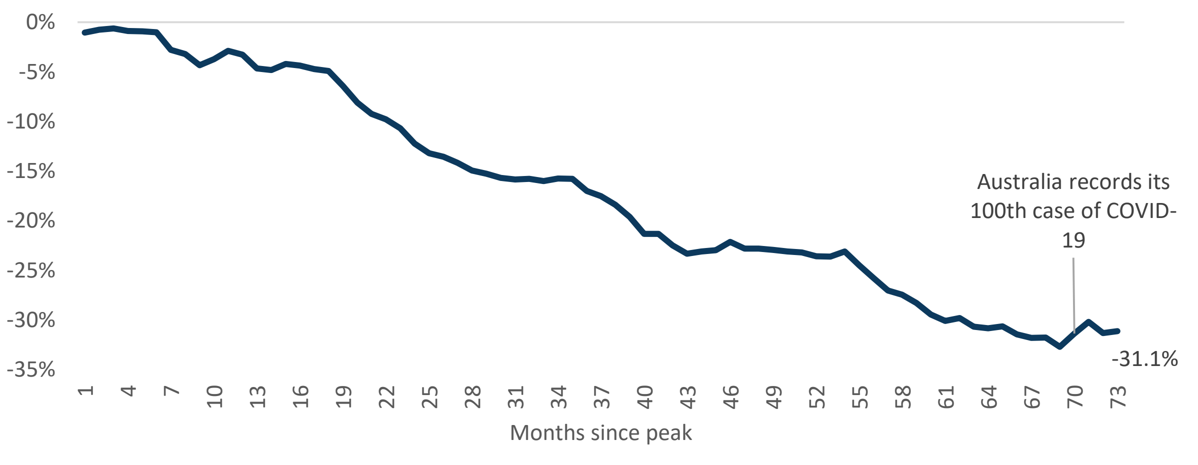
NT housing market summary, June 2020

		Darwin	Rest of NT
Dwellings	Monthly capital growth	0.3%	-
	Quarterly capital growth	0.4%	-
	YTD capital growth	1.0%	-
	Annual capital growth	-1.5%	-
	Total return	5.7%	-
	Gross yield	5.9%	-
	Median value	$387,914	-
Houses	Monthly capital growth	0.4%	-0.2%
	Quarterly capital growth	0.5%	0.9%
	YTD capital growth	3.5%	-1.8%
	Annual capital growth	0.4%	-1.7%
	Total return	7.3%	6.3%
	Gross yield	5.4%	7.0%
	Median value	$470,136	$398,733
Units	Monthly capital growth	0.1%	-
	Quarterly capital growth	0.1%	-
	YTD capital growth	-3.6%	-
	Annual capital growth	-5.0%	-
	Total return	2.7%	-
	Gross yield	6.8%	-
	Median value	$271,757	-

Similar to Perth and WA property markets, the onset of the COVID-19 pandemic may stall a long-awaited upswing in NT dwelling values. But as with WA, improvements in the resources sector and related investment across the Territory could aid a quicker economic recovery from the pandemic.

Quarterly growth in Darwin dwelling values was positive in the June quarter. However, the rate of growth had slowed to 0.4%, down from 1.9% in the three months to March. Between December 2019 and April 2020, Darwin house values had seen 5 consecutive months where values did not decline, signifying momentum across the market. This was the longest consistent stretch of capital gains since the dwelling market was at a record high in May 2014.

Cumulative decline in Darwin dwelling market from peak at May 2014



Source: CoreLogic

At June, typical house values were the second lowest across the capital city markets, at $470,136. Unit values were the most affordable of the capital cities, at $271,757.

Across the rest of state region, dwelling values fell 0.9% over the quarter, down from an increase of 2.7% over the June quarter.

The economic outlook in the wake of the pandemic is mixed for the NT. The March quarter change in state final demand was the second-lowest of the states and territories behind NSW, at -1.2%.

Leading into the pandemic, economic conditions looked to be improving at the end of 2019, but deteriorated slightly in the March quarter. This can be seen in the growth of expenditure across different segments of the economy in the chart below.

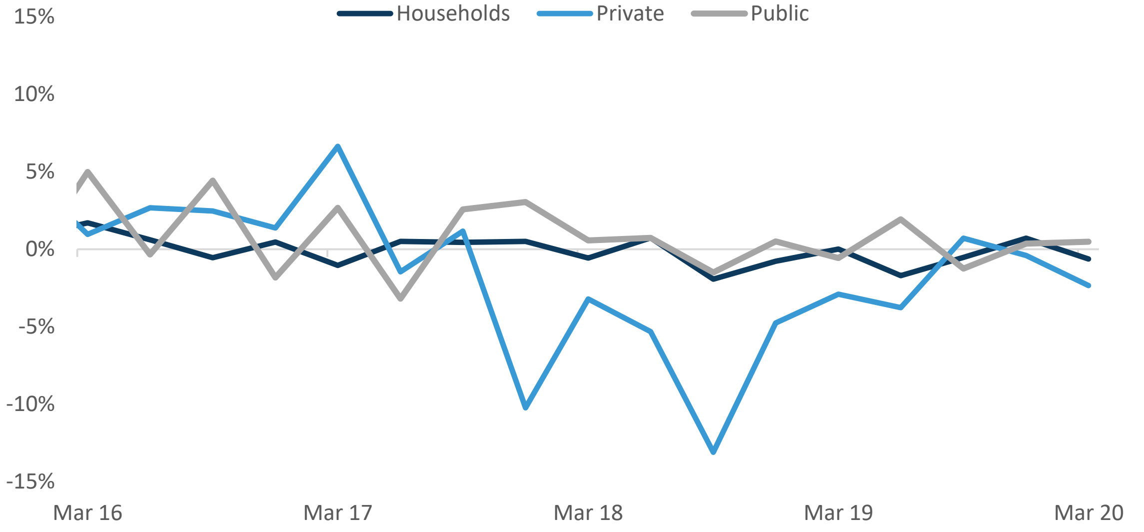
The decline in private expenditure reflects decreased petroleum exploration in the quarter, declines in mining investment and a fall in machinery and equipment investment. Household consumption fell 0.6% due to reduced spending on hotels, cafes and restaurants.

Additionally, despite the historically tight labour market, the unemployment rate was also trending up in the months before the pandemic, due to an increase in the number of people unemployed.

But the upside for the Territory is that it will be one of the first regions across Australia to resume economic activity, which should support household spending across the region. As of early August, the Northern Territory had just 2 active cases of COVID-19, with a focus on post pandemic economic recovery.

The Economic Reconstruction Commission, established by the Territory government in May, has since handed down recommendations to encourage investment in road and tourism infrastructure, as well as mining projects.

Quarterly growth in state final demand components - NT



Source: ABS

Australian Capital Territory

Australian Capital Territory

ACT housing market summary, June 2020

		ACT
Dwellings	Monthly capital growth	0.1%
	Quarterly capital growth	0.7%
	YTD capital growth	2.4%
	Annual capital growth	6.3%
	Total return	11.2%
	Gross yield	4.7%
	Median value	$639,965
Houses	Monthly capital growth	0.1%
	Quarterly capital growth	0.9%
	YTD capital growth	2.8%
	Annual capital growth	7.4%
	Total return	12.1%
	Gross yield	4.4%
	Median value	$716,150
Units	Monthly capital growth	0.3%
	Quarterly capital growth	-0.1%
	YTD capital growth	0.6%
	Annual capital growth	2.1%
	Total return	8.2%
	Gross yield	5.8%
	Median value	$444,181

Through the June quarter, ACT housing market values proved to be relatively resilient. Dwelling values increased by 0.7% in the quarter, which was the second highest quarterly growth rate of the capital city regions, behind Hobart. This brought the ACT dwelling market to a record high. The median dwelling value over June reached $641,360.

The increase in dwelling values was driven by houses, which were up 0.9% over the quarter, while unit values fell by 0.1%.

Understanding demand across the ACT

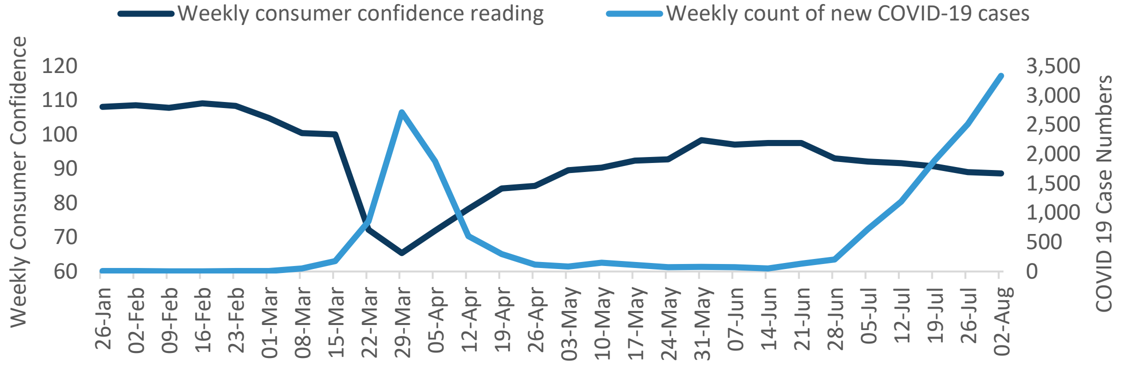
There are several factors which, in combination, may be supporting continued growth across the region.

The first of these is the record low mortgage rates available to home buyers, supported by the cash rate target of 0.25%.

While it may seem counterintuitive that prices are rising across the ACT amid a global pandemic, the property market is actually performing as may be expected when the cash rate is reduced.

Research from the RBA has found that for every 1 percentage point reduction to the cash rate, property values may increase 8% over the following two years[13].

Weekly consumer sentiment readings v weekly count of new COVID-19 cases - Australia wide



Source: ANZ-Roy Morgan, University of Oxford

[13] Saunders, T., & Tulip, P. (2020). A model of the Australian housing market. *Economic Record*

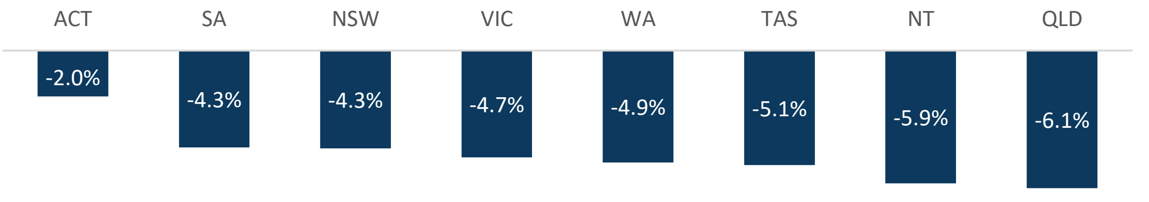
This traditional relationship is being tested by a global pandemic, residents across the ACT may be relatively insulated from some of its effects. Part of this may be because recent case numbers have been low or non-existent.

As of early August, social distancing restrictions were easing across the Territory, and the ACT had gone almost one month without reporting new active cases. Over this year, the chart on the previous page shows that a rising number of coronavirus cases may have been a main contributor to a dampening of consumer sentiment.

The recent lack of cases across the ACT may be keeping consumer confidence more buoyant across the territory, and therefore potential home buyers may be more willing to make a high cost, high commitment purchase decision like housing.

Another factor contributing to housing demand across the ACT is the relatively stable levels of employment. At June, the ACT had the lowest unemployment rate of the states and territories (5.1%), the smallest decline in the size of the labour force since March (-1.3%), and the smallest decline in the number of total jobs (-2.0%), according to ABS labour force data.

Change in Total Employed between March and June 2020



Source: ABS

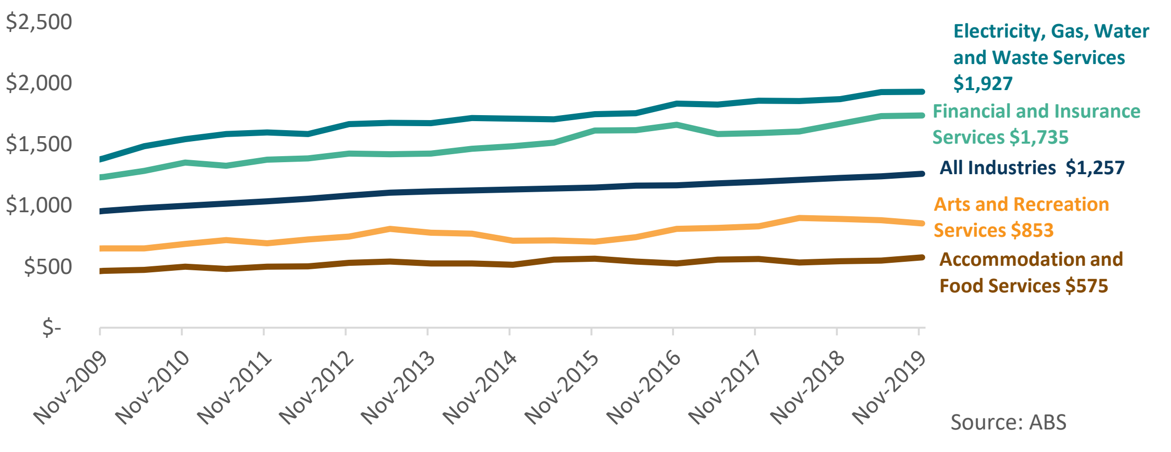
ABS payroll jobs data shows that between the 14th of March and the 11th of July, the volume of payroll jobs increased across financial and insurance services (0.7%) and electricity, gas, water and waste services (2.9%).

The ACT had a relatively large rate of decline across more vulnerable sectors, such as arts and recreation and food and accommodation services. Job losses across these sectors were 19.2% and 19.8% respectively. However, before the onset of the pandemic, the share of the ACT workforce employed in these sectors was also very low, at just 7.9%.

This is important because these sectors have different characteristics in terms of incomes and housing. Those in hospitality, tourism and the arts are more likely to be low income households, and renting households.

Where employment has been more resilient across utilities and financial and insurance services, incomes have generally been higher, and workers are more likely to be mortgage holders or prospective buyers. This is shown in the chart below, where ABS data highlights the difference in historic average weekly earnings for employees by industry.

Average Weekly Earnings, Industry, Australia



Source: ABS

The dynamics of this change in employment will likely support ongoing demand, particularly among owner-occupiers. However, the weakness in employment for those more likely to rent will have a continued dampening effect on rental markets, which could weaken investor interest in the ACT going forward.

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