AUSTRALIAN ECONOMIC & PROPERTY REPORT

PRD. REAL ESTATE

AEPR 2024

DIFFERENT MARKETS. DIFFERENT GEARS.

FOREWORD

Welcome to the 17th edition of PRD's Australian Economic and Property Report.

Aptly titled 'Different Markets. Different Gears', this report portrays how **each market across Australia is currently moving at various speeds and directions, depending on the supply and demand balance** of each specific area.

"Regardless of whether an area is located closer to a capital city or is regional, we are seeing **different markets recording varying levels of price growth, while simultaneously, other areas prices are declining.**"

A prime example of this can be seen in Brisbane where property prices continue to grow, whereas Hobart prices are shrinking. Similarly, regional Victoria has seen declining prices, while regional Western Australia has recorded double-digit growth.

Without a doubt, **we still have similar issues as we had last year**: a housing supply shortage due to high construction costs and even more complex rules and regulations, higher interest rates and cost-of-living pressures, a tight labour market and low productivity, as well as low consumer confidence. These challenges will persist for the next few years, as we look for innovative solutions. The good news is that **housing and cost-of-living are at the forefront of the 2024 Federal and State level budgets** and multiple initiatives that tackle these issues have been introduced.

The first half of 2024 demonstrated how fast things can change. Many started 2024 expecting a cash rate cut towards the end of 2024, however, changes in the inflation rate (from a declining pattern to an increasing pattern), changed these expectations within the span of just three months. We are expecting a cash rate hike, with a potential cash rate cut not expected until mid-2025. This may play havoc with property plans.

At present, there are many moving pieces in the economy, evident in the variety of red, green, and orange traffic light indicators throughout this report. For once, there is no dominant colour. We trust this report gives you a good outlook on the current economic environment, its impact on the property market, and your future investment strategies.

Todd Hadley
PRD Managing Director

WELCOME

One of the key things I have learned whether in life, property, or economics, is that **anything can change quickly** and that **nothing is permanent**. This has been true over the past six months.

Entering 2024, many Australians were still sighing a breath of relief as the cash rate was held steady (and was still steady as of June 2024), at 4.35%. Now, more than ever, the Reserve Bank of Australia's (RBA) movements are under scrutiny, becoming a popular topic at backyard BBQ's and kids' birthday party conversations (at least at mine anyway). In the first quarter of 2024 the most popular question we were asked was: **"Should I do something now, or do I wait until the (expected) cash rate cut?"**

Economically, we are 'between a rock and a hard place'. While our wages have increased, data suggests it peaked for both private and public sectors in December 2023 at 4.2%. The silver lining is that **we are entering a stable period of growth** which is a welcome relief as business confidence dipped into the negative territory (-3.0%) in May 2024. A stable wage growth has assisted business confidence to climb back up to 4 index points in June 2024.

Frustratingly, any gains made in wages are cancelled out by the cost-of-living, with household savings dipping to a historical low of 0.9% in December 2023. **Inflation rates have continued to climb at a steady pace since January 2024, hitting a high 4.0% increase in May 2024**. Fuel, insurance and financial services, rent, alcohol, and the health sectors saw the most significant price increases over the past 12 months (to May 2024). **The consumer confidence index reflects this sitting at 82.7 index points as of July 2024 indicating a negative sentiment** (under 100 index points). Due to family finances being under pressure there has been a tendency for people to save rather than spend, which has had a multiplier effect on the economy.

All these factors combined has prompted the RBA to continue holding the cash rate steady, with a 5.0% household savings rate projection by the end of 2024, and the Federal Budget 2024 focused on housing and cost-of-living relief. **Stage 3 tax cuts are now in effect, which promises a saving of $1,428 for those earning $70,000 per annum and up to $3,728 for those earning $140,000 per annum.**

A stable cash rate proves to be a catch-22. On one hand it provides stability, hence many believe that now is an ideal time to purchase. **On the other, a stable cash rate has created 'sticky buyers' that no longer feel the need to rush, even though they actually have a short(er) timeframe to make a purchase decision before the next cash rate hike** (demonstrated in housing finance commitments). Although there was an 18.0% growth in the past 12 months, it declined by -1.7% in the past month (to May 2024). **That said, investor activity has increased by 29.5% in the past 12 months, which is good news for renters.**

Across all the greater capital cities we are witnessing a market recovery, albeit at different speeds. Greater Brisbane grew by 17.0% in the past 12 months (to June 2024), outpacing Greater Melbourne at 14.6%. Greater Brisbane's median house price was $900,000, making it the second most expensive capital city after Greater Sydney ($1,360,000), and overtaking Greater Melbourne ($825,000). The exception has been Greater Hobart which has seen a softer market with -6.5% growth in the past 12 months (to June 2024), and a median house price of $640,500. Is it time to make the move across the sea, maybe?

Regional markets are moving in different gears, but overall seeing a slight correction of -4.3% in the past 12 months (to the 1st half of 2024). Regional Western Australia is currently in Fourth gear, recording a 12.7% median house price growth, to a record high of $518,445. Regional Queensland and South Australia are both in third gear, with 4.7% and 4.5% growth respectively. Regional New South Wales and Northern Territory are in second gear and starting the correction route at -0.7% and -3.7% growth. Regional Victoria and Tasmania are in first gear, recording -5.1% and -7.7% growth.

These differences create opportunities for owner-occupiers, first homebuyers, and investors.

Compared to other countries around the world, Australia has proved itself to be a more resilient market against successive cash rate hikes. Our property prices did not decline as sharply as New Zealand, Canada, Hong Kong, the UK, and South Korea. **In terms of affordability, internationally, we sit in the middle. New Zealand, Canada, the USA, and Hong Kong are still more expensive than Australia, but the UK, South Korea, Japan, and France are more affordable.**

What can we expect for the rest of 2024 and early 2025? Well, the question we are being asked now has changed to: ***"How many more months do I have before something else (i.e. a cash rate hike) happens?".***

In February, the RBA's outlook was that of a declining inflation rate, albeit at a slower pace, getting closer to the target rate of 3.0%. This decline would bring about a potential cash rate cut towards the end of 2024. In May, it all changed. The inflation rate was expected to stabilise, with some slight variations for the rest of 2024. **Cash rate expectations changed to a potential hike in late 2024, which created some havoc in people's property-buying plans, especially those who were waiting for a cash rate cut.**

From a housing supply perspective, we will be in deficit for some time. It might be comforting to know that we are not the only ones; New Zealand, Canada, France, South Korea, and Japan have also recorded a declining pattern. **There is a record high amount of funding being allocated to increase housing supply through the 2024 Federal Budget initiatives, State and Council budgets.** The devil is in the details however, as there is a big difference between millions of dollars being committed to increasing housing stock and having private residential projects coming out of the ground.

For now, it appears all we can do is hold tight and be strategic with our financial decisions based on our individual needs as we ride the different gears of each property market.

Different Markets. Different Gears.: Although there is a similar economic story throughout Australia right now (i.e. a stable cash rate, increasing inflation rates, higher cost-of-living and stagnating wage growth), the balance between demand and supply of real estate in each market is significantly different. The overall trends might look the same, but a closer look reveals multiple speeds.

Yours in research,

Dr Diaswati Mardiasmo
PRD Chief Economist

KEY FACTS (As of June 2024)	
Consumer Price Index:	**4.0%**
Standard Variable Home Loan Rate:	**6.3%**
Unemployment Rate:	**4.0%**
Gross Domestic Product:	**0.1%**
Average Weekly Earnings:	**$1,880.80**

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

Health of the Market Indicator:

Red: Cautious

Need to pay increased attention.

Yellow: Somewhat stable

Needs to be carefully monitored.

Green: Go!

Healthy market conditions.

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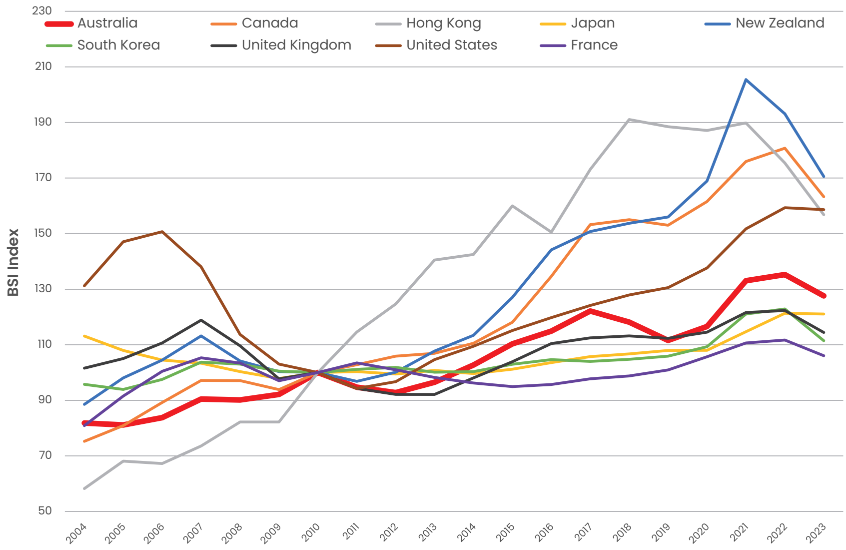
PROPERTY GROWTH

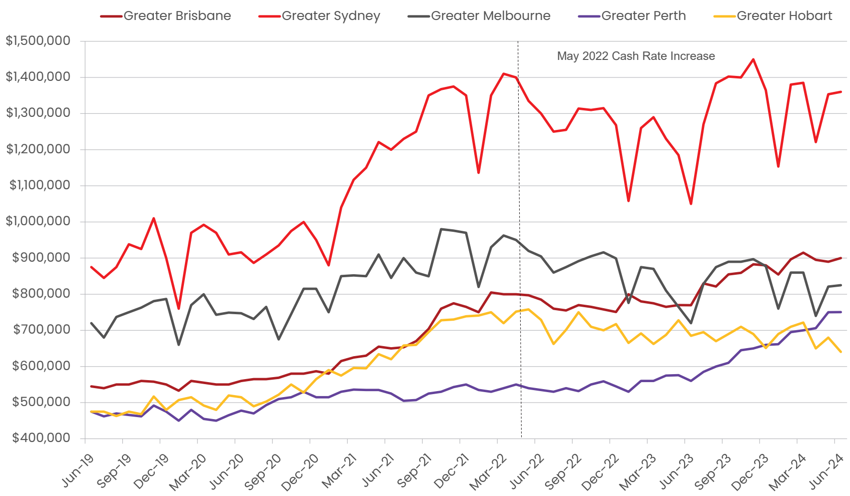
Different Markets, Different Gears

INTERNATIONAL REAL ESTATE PRICES



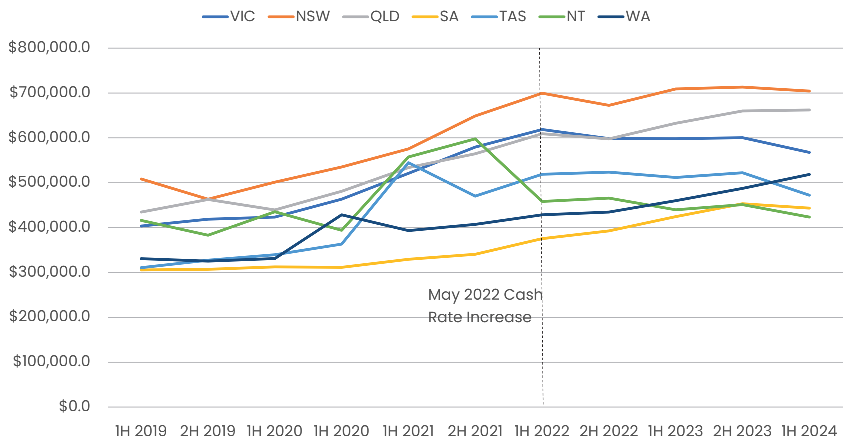
Source: BSI Index, Macrobond as a data aggregator. Updated June 2024

GREATER CAPITAL CITIES MEDIAN HOUSE PRICE



Source: APM Pricefinder Prepared by PRD Research. © PRD 2024. Last Updated: July 2024

REGIONAL MARKETS MEDIAN HOUSE PRICE



Source: APM Pricefinder. Prepared by PRD Research Last Update: July 2024

WHAT DOES THIS MEAN FOR YOU?

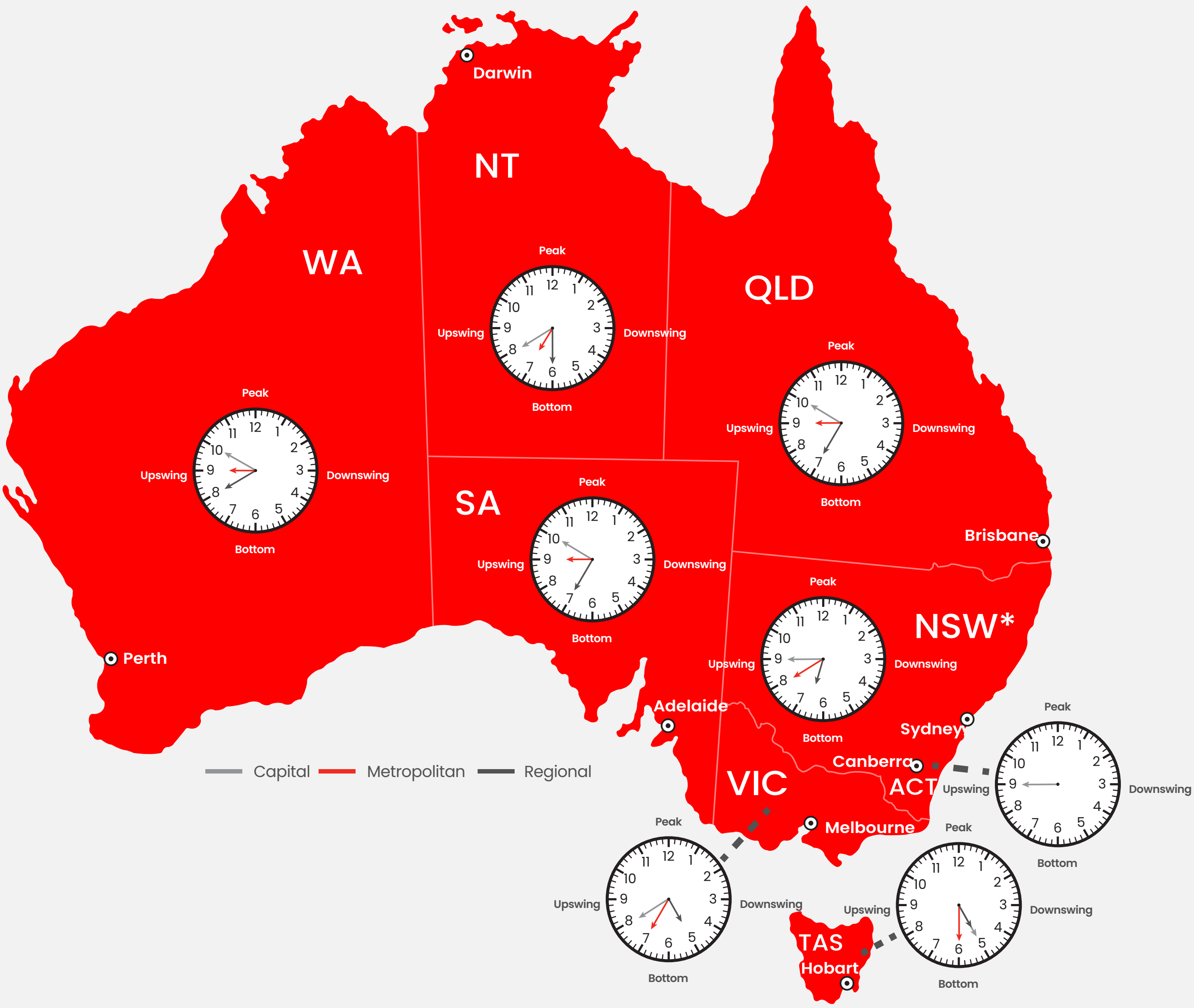
- ✓ Australia's median house price was $1,026,903 as of the March quarter of 2024, representing a 1.9% growth over the quarter. This officially makes us a million-dollar country and signals the return of the Australian market after a period of successive cash rate hikes. Our market is in recovery due to increasing demand and a stable cash rate. Sydney, Melbourne, Brisbane, Adelaide, Perth, and Darwin are in recovery, with the exceptions of Canberra and Hobart.
- ✓ Around the world, most property markets have experienced the same property cycle. Many countries experienced a brief strong price growth post-COVID-19, between 2021-2022, followed by declining prices as cash rates increased. This is evident in New Zealand, Canada, USA, and the UK. Comparatively, our market proved to be more resilient throughout cash rate hikes; New Zealand, Hong Kong, Canada, the UK, and South Korea saw steeper declines in prices than Australia.
- ✓ Although our house prices have become more expensive in the past 12 months, compared to other countries we sit in the middle range. We are more affordable than the USA, Canada, Hong Kong, and New Zealand, but more expensive than the UK, South Korea, Japan, and France. This is consistent compared to 12 months prior, which explains why our property market is still attractive to a wide range of international buyers and investors.
- ✓ Greater capital cities have seen a significant increase in median house prices in the past 12 months (to June 2024), except for Greater Hobart. This signals the return of Australia's housing market after a period of slower growth due to cash rate hikes. Greater Perth recorded the highest increase at 34.0%, followed by Greater Sydney at 29.5%.
- ✓ Greater Brisbane recorded the highest growth since COVID-19 of 65.1% between June 2019-June 2024, and is now the second most expensive capital city after Sydney. Greater Melbourne is still in a recovery phase with the slowest growth (of 14.6% during the same time frame). As of June 2024, Greater Hobart is the most affordable capital city.
- ✓ Regional Northern Territory (NT), Tasmania (TAS), Victoria (VIC), and New South Wales (NSW) saw a slight decline in median house prices over the past 12 months (to the 1st half of 2024), by an average of -4.3%. This signals an opportunity for first-home buyers. Regional Western Australia (WA) saw the highest growth at 12.7%, followed by Queensland (QLD), at 4.7%.

PROPERTY GROWTH

Australia Property Growth Map

Australia's property prices have experienced two new cycles in a very short space due to changing economic conditions and cash rate patterns. Many markets saw a recovery after a period of slow growth, due to a stable cash rate since November 2023. That said, economic conditions and the cost-of-living crisis have dampened savings, and a stable cash rate has created 'sticky buyers'. These are those buyers in the market, but not in a rush to buy.

Each market is now travelling at its own pace, depending on the 'stickiness' of buyers and the levels of supply.



PROPERTY GROWTH | RENTAL MARKET

No light at the end of the tunnel for renters

More and more we hear harrowing stories of renters not being able to find suitable accommodation despite having the necessary funds and/or rental ledger. Rent remains a sticking point in the Customer Price Index (inflation), increasing by 7.4% between May 2023 - May 2024. Granted, this is a declining pattern compared to what we saw in March 2023 - March 2024 (of 7.7%), however, it is higher than the May 2022 - May 2023 change of 6.3%. The rental crisis is widely spread across Australia, although slightly more concentrated in capital cities and metro areas due to higher levels of international migration.

Housing supply is the key issue of the rental crisis, as successive cash rates from May 2022 have forced investors to tap out of the market. Although investors have returned over the past three months due to more stable interest rates, this is not enough. Australia's vacancy rate was 1.7% as of June 2024, which represents a declining pattern from last year. Adelaide and Perth vacancy rates recorded 0.7% and 0.8% respectively, in June 2024. These markets now hold the tightest rental markets for the second year in a row. Renters have the best chance in Canberra, with a vacancy rate of 2.1%, followed by Sydney at 1.7%, and then Melbourne and Hobart, both at 1.5%.

Sydney is the most expensive capital city to rent a 3-bedroom house, at $700 per week as of the March quarter of 2024. This is followed by Canberra ($650 per week) and Darwin ($623 per week). Sydney is still the most expensive for 2-bedroom unit renters, having to pay $740 per week; signifying a 5.7% increase compared to 12 months prior. Melbourne and Perth are next, at $600 per week and equalling a 9.1% increase. Adelaide and Hobart take out the title as the most affordable capital cities to rent at $550 per week for a 3-bedroom house and $450 per week for a 2-bedroom unit. Interestingly, the median rental price change was larger for 2-bedroom units, at an average of 4.7%, compared to 3.1% for 3-bedroom houses. This is most likely due to the perceived affordability of units.

RESIDENTIAL VACANCY RATE

Residential Vacancy Rate									
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	National
Jun-23	1.7%	1.3%	1.0%	0.6%	0.6%	1.9%	0.9%	2.1%	1.3%
Jun-24	1.7%	1.5%	1.2%	0.7%	0.8%	1.5%	0.9%	2.1%	1.3%

Source: SQM Research, last updated July 2024

ANNUAL MEDIAN RENT PRICES

Annual Median Rental Price								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 bedroom house	$700	$530	$540	$550	$600	$550	$623	$650
2 bedroom unit	$740	$600	$550	$450	$600	$450	$486	$600

Source: Real Estate of Australia, Real Estate Market Facts Report, March Quarter 2024

Median Rental % Change								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 bedroom house	2.9%	1.9%	2.9%	2.8%	3.4%	3.8%	3.8%	3.2%
2 bedroom house	5.7%	9.1%	7.8%	4.7%	9.1%	0.0%	-0.2%	1.7%

Source: Real Estate of Australia, Real Estate Market Facts Report, March Quarter 2024

WHAT DOES THIS MEAN FOR YOU?

- ✓ Australia's vacancy rates were 1.7% in June 2024, representing a stable vacancy rate when compared to June 2023. This is the first time post COVID-19 which indicates the balance between rental supply and demand has not changed. This is mostly due to investors returning to the market, as the cash rate stabilises. This creates some hope for renters.
- ✓ Median rent for 3-bedroom houses has increased the most in Hobart and Darwin, by 3.8% in both capital cities. With a more affordable median house sale price than in other capital cities this creates an opportunity for astute investors.
- ✓ Median rent for 2-bedroom units has increased the most in Melbourne and Perth, both by 9.1%. The Melbourne unit market is still going through a recovery phase, with many suburbs recording negative price growth. The Perth unit market is more affordable than most capital cities, which is a unique opportunity for first-time investors.

HOME AFFORDABILITY

Home affordability is still a stress point

Housing affordability Australia-wide has declined by -15.0% over the past five years (to the March quarter of 2024). This is higher than the -13.4% decline seen in the past ten years and -11.5% in the past twenty years. This means those who bought a property in the past five years are 'worse off' economically and in greater danger of mortgage stress, as opposed to those who bought property ten to twenty years ago. This is not a surprise, considering the property boom post-COVID-19 where house prices skyrocketed. What is surprising is that successive cash rate hikes have only moderately slowed down house prices due to the imbalance between supply and demand.

Those living in NSW have been hit the hardest, despite a slight slowdown in their property market due to cash rate hikes; with housing affordability declining by -20.1% in the past five years (to the March quarter of 2024). This is followed by QLD, SA, and TAS at -15.7%, -15.2%, and -15.2% respectively, which is not surprising considering price growth in these states.

NUMBER OF FIRST HOME BUYER LOANS

Number of Loans to First Home Buyers			
State	**March Qtr 2024**	**March Qtr 2023**	**Growth**
NSW	6,073	5,317	14.2%
VIC	8,037	6,859	17.2%
QLD	5,037	5,151	-2.2%
SA	1,665	1,526	9.1%
WA	3,785	3,649	3.7%
TAS	424	451	-6.0%
NT	150	201	-25.4%
ACT	653	683	-4.4%
AUS	**25,824**	**23,837**	**8.3%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2024

STATE FIRST HOME BUYER AVERAGE LOAN

Average First Home Buyer Loan			
State	**March Qtr 2024**	**March Qtr 2023**	**Growth**
NSW	$744,503	$731,059	1.8%
VIC	$602,141	$614,046	-1.9%
QLD	$564,845	$518,446	8.9%
SA	$516,708	$482,469	7.1%
WA	$519,399	$477,987	8.7%
TAS	$445,742	$455,079	-2.1%
NT	$439,286	$437,064	0.5%
ACT	$596,754	$604,294	-1.2%
AUS	**$607,095**	**$586,615**	**3.5%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2024

PROPORTION OF FAMILY INCOME REQUIRED TO MEET HOME LOAN REPAYMENTS

Proportion of family income devoted to meeting average loan repayments			
State	**March Qtr 2024**	**March Qtr 2023**	**Growth**
NSW	56.3%	54.4%	1.9%
VIC	45.9%	46.1%	-0.2%
QLD	45.2%	40.8%	4.4%
SA	44.2%	40.6%	3.6%
WA	37.8%	34.2%	3.6%
TAS	42.0%	42.2%	-0.2%
NT	33.2%	32.5%	0.7%
ACT	34.3%	34.2%	0.1%
AUS	**46.7%**	**44.5%**	**2.2%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2024

PROPORTION OF FAMILY INCOME REQUIRED TO MEET RENT PAYMENTS

Proportion of family income devoted to meeting median rents			
State	**March Qtr 2024**	**March Qtr 2023**	**Growth**
NSW	27.9%	25.9%	2.0%
VIC	21.3%	19.8%	1.5%
QLD	22.7%	21.2%	1.5%
SA	24.7%	23.6%	1.1%
WA	23.0%	20.7%	2.3%
TAS	27.3%	28.6%	-1.3%
NT	24.8%	25.5%	-0.7%
ACT	19.6%	20.6%	-1.0%
AUS	**24.4%**	**22.8%**	**1.6%**

Source: Real Estate Institute of Australia, Housing Affordability Report, March Quarter 2024

WHAT DOES THIS MEAN FOR YOU?

- ✓ The number of first homebuyer loans has increased by 8.3% across Australia in the past 12 months (to the March quarter of 2024), with VIC and NSW recording the highest increases of 17.2% and 14.2% respectively. Not surprisingly, QLD recorded a decline of -2.2% due to high price growth. NT contracted significantly by -25.4%, signalling an opportunity for first-home buyers.
- ✓ The level of debt first homebuyers are committing to continues to increase; by 3.5% over the past 12 months (to the March quarter of 2024), which is a further increase from the 0.9% in the past 12 months (to the March quarter of 2023). QLD and WA first home buyers committed to 8.9% and 8.7% higher home loans, despite still being at a lower amount than NSW and VIC.
- ✓ The proportion of family income required to meet average home loan repayments has increased to 46.7% in the March quarter of 2024, which is higher than the 44.5% recorded in the March quarter of 2023. NSW remains the most expensive with 56.3% to loan repayments. Those living in VIC and QLD now must commit the same level, at 45.9% and 45.2% respectively.
- ✓ Renters must now spend 24.4% of their income to meet median rents, which is closing in even further to the rental distress 30.0% threshold. Intriguingly, NSW and TAS renters must commit similar portions, of 27.9% and 27.3% respectively, as of the March quarter of 2024.

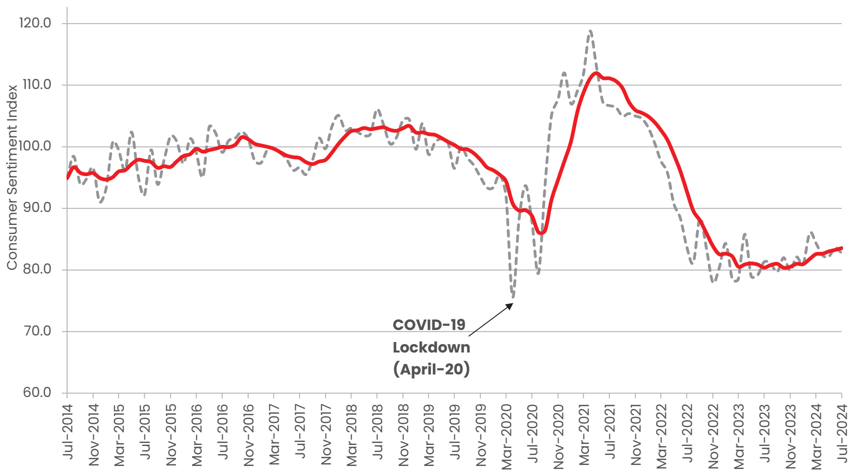
MACROECONOMIC CLIMATE

Sluggish consumers and suffering businesses

Consumer confidence was 82.7 index points as of July 2024, which is a slight improvement compared to the 81.3 index points in July 2023. There are monthly fluctuations for many reasons, including the 2024 Federal Budget release and interest rate changes for example. However, overall, there is a slight improvement in confidence. That said, the July 2024 reading is still under the 100.0 index point positive reading, meaning although sentiment is improving, consumers are still cautious. In real estate, this translates to longer average days on the market and buyers not feeling in a rush to buy.

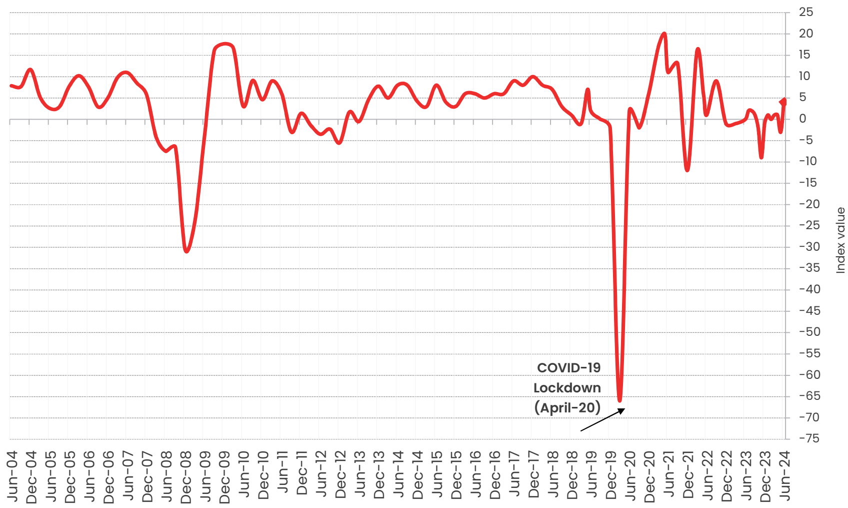
Business confidence shows a similar story. Although there are fluctuations monthly, even dipping into negative territory, business confidence has improved in the past 12 months from 0 index points in June 2023, to 4 index points in June 2024. The increase was broad-based across industries, and was led by manufacturing. Confidence remains weakest (and in the negative) in retail and wholesale due to lower consumer confidence. The level of company insolvencies is stabilising; even in the construction sector. Some residential builders can rebuild margins, which is good news for the housing supply.

CONSUMER SENTIMENT



Source: Westpac/Melbourne Institute, last updated July2024

BUSINESS CONFIDENCE



Source: National Australia Bank (NAB), last updated July 2024

WHAT DOES THIS MEAN FOR YOU?

- ✓ The July 2024 consumer reading of 82.7 index points suggests a slight improvement in consumer confidence, however, it does not signal positive sentiment (100.0 index points). House buyers are in the market, but due to a stable cash rate are not in a rush to purchase. This underpins friction between seller's and buyer's expectations and results in longer days on the market.
- ✓ Business confidence has improved in the past 12 months, currently at +4.0 index points in July 2024. Sectors more exposed to consumer discretionary spending such as hospitality, have accounted for an increasing share of insolvencies. While construction still accounts for the largest share, this is beginning to stabilise, which is good news for our housing supply.

MACROECONOMIC CLIMATE continued

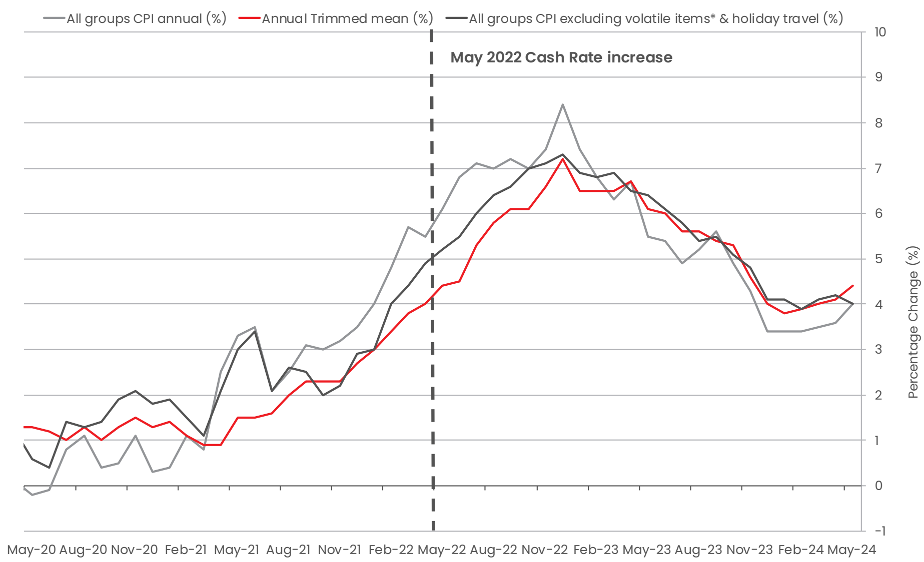
Higher wage growth is still not on par with inflation rate

The consumer price index (inflation) for all groups rose by 4.0% in the 12 months to May 2024, lower than the 5.4% increase previously seen in the 12 months (to June 2023). That said, it does represent an increasing trend since January 2024 where we saw the highest inflation figures in the past 6 months and taking us even further away from the RBA's target rate of 2.0-3.0%. This is not a surprise, as a steady cash rate since November 2023 has provided a platform for higher household spending on goods and services. The most significant price rises in the past 12 months were automotive fuel (9.3%), insurance and financial services (7.8%), rent (7.4%), alcohol and tobacco (6.7%), and health (6.1%).

Wage growth for the private industry (excluding bonuses) has increased from 3.8% in the March quarter of 2023 to 4.1% in the March quarter of 2024. In the public sector, wage growth increased from 3.0% to 3.8% in the same time frame. That said, wage growth seemed to peak at 4.2% between the September-December quarter of 2023 for the private sector, and 4.3% in the December quarter of 2023 for the public sector. This is a catch-22. The yearly improvement will benefit household budgets, but with wage growth already hitting its peak, it is not aligned with inflation rates, resulting in more cost-of-living pressures.

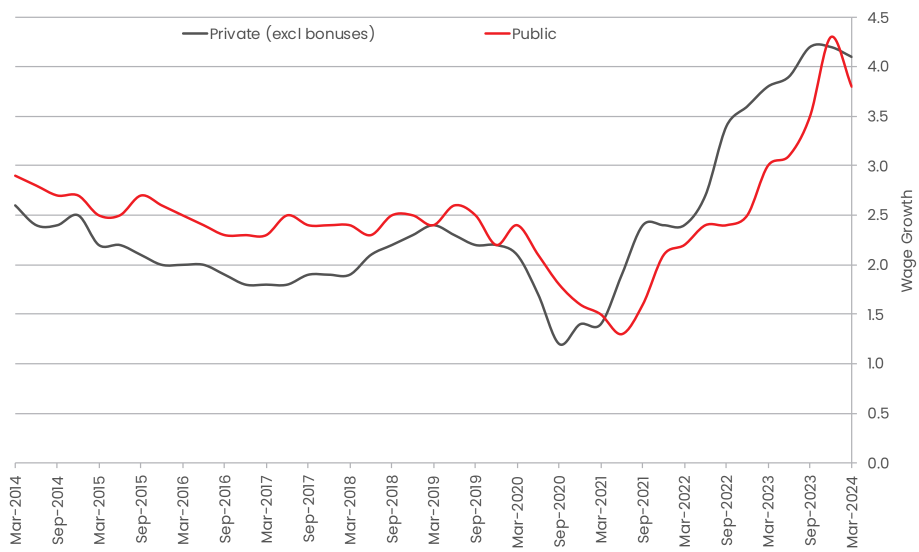
CPI MONTHLY

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



Source: Australia Bureau Statistics. Last Updated June 2024

WAGE PRICE GRAPH



Source: Australian Bureau of Statistics Wage Price Index, last updated June 2024

WHAT DOES THIS MEAN FOR YOU?

- ✓ As a basket within the inflation index, house prices rose by 5.2% in the past 12 months (to May 2024), with a stable monthly pattern in March and April 2024. This is a lower figure compared to the 7.4% increase in the past 12 months (to June 2023). This means house prices are moderating, which is good news for buyers.
- ✓ Inflation rates have increased in the past 6 months to 4.0% as of May 2024. This is farther away than the RBA's target rate of 2-3.0%, suggesting a potential cash rate hike in late 2024. This will impact household budgets through higher home loan repayments and may delay real estate purchasing decisions.
- ✓ Wages have improved in the past 12 months for both public and private employees, now at 4.1% and 3.8% respectively, as of the March quarter of 2024. This still does not match cost-of-living pressures, resulting in cautious buyers in the property market and longer days on the market.

HOUSE FINANCE

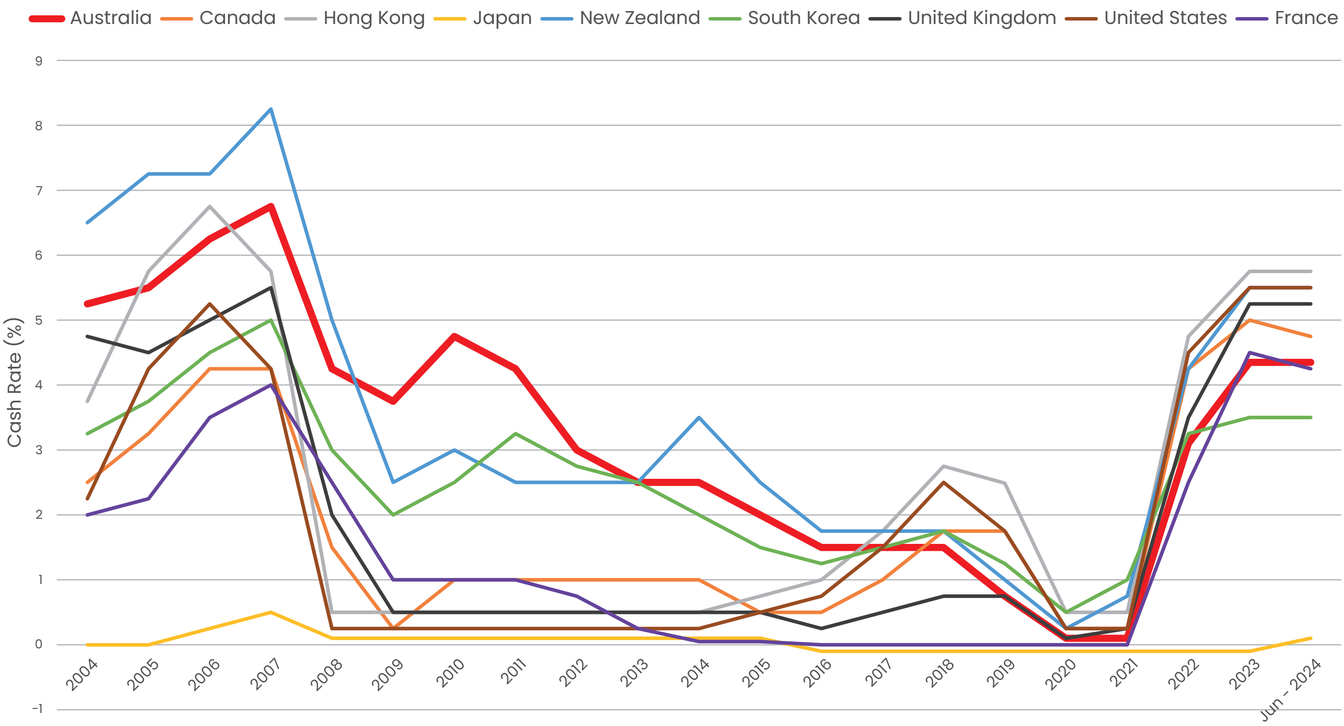
A stable cash rate improved household budget conditions

Australians have breathed a sigh of relief since November 2023, with the cash rate remaining stable at 4.35%, after successive cash rate hikes since May 2022. That said, as of April 2024 we have been faced with higher interest rates, of 6.3% for new homeowner occupier loans, and 6.5% for investment loans.

Australia's cash rate policy has mirrored many around the world that are also holding their cash rates steady, and include: Hong Kong, the USA, New Zealand, UK, and South Korea. Other countries have commenced a cash rate cut such as Canada and France, whereas Japan has only just commenced a cash rate hike period. This further demonstrates how Australia's median house price sits in the middle-range of property prices around the world, and so does our cash rate. We have a lower cash rate than many of the countries mentioned; only higher when compared to France, South Korea, and Japan. Putting this into perspective, compared to many countries, our property buyers are benefitting from higher borrowing power and less in monthly mortgage repayments; thus affording us with more opportunities in the market.

As of January 2024, Australians have a very low percentage of home loans that are in arrears. There was a high concern for homeowners who were previously on a fixed interest rate (thus the 'mortgage cliff') and first homebuyers, however only 9.0% and 5.0% of these loans are in arrears. Only 2.0% of loans with high LVR (loan-to-value ratio) are at risk. Although these figures are positive, household savings have taken a nosedive to 0.9% as of December 2023. The RBA does expect it to improve in 2024 at a maximum of 5.0%. This is still lower than pre-COVID-19 of approximately 8.0-10.0%.

CASH RATE POLICY COMPARISON



Source: Various Reserve Bank Authorities, Macrobond as a data aggregator. Updated June 2024

WHAT DOES THIS MEAN FOR YOU?

✓ Australia's cash rate policy is like many other countries around the world; held stable at 4.35% as of June 2024. Our cash rate is more affordable than in Hong Kong, the USA, New Zealand, UK, and Canada, which ranges from 4.75% to 5.75%. This correlates with our property market being in a recovery and growth phase, while theirs is still in a downturn.

✓ The May 2024 Statement of Monetary Policy suggests an increase in extra mortgage payments in early 2024, most likely due to stable cash rates (since November 2023). This has created a buffer in the event of another cash rate hike, ensuring homeowners are still able to serve their mortgage and minimises the probability of mortgage stress.

HOUSE FINANCE continued

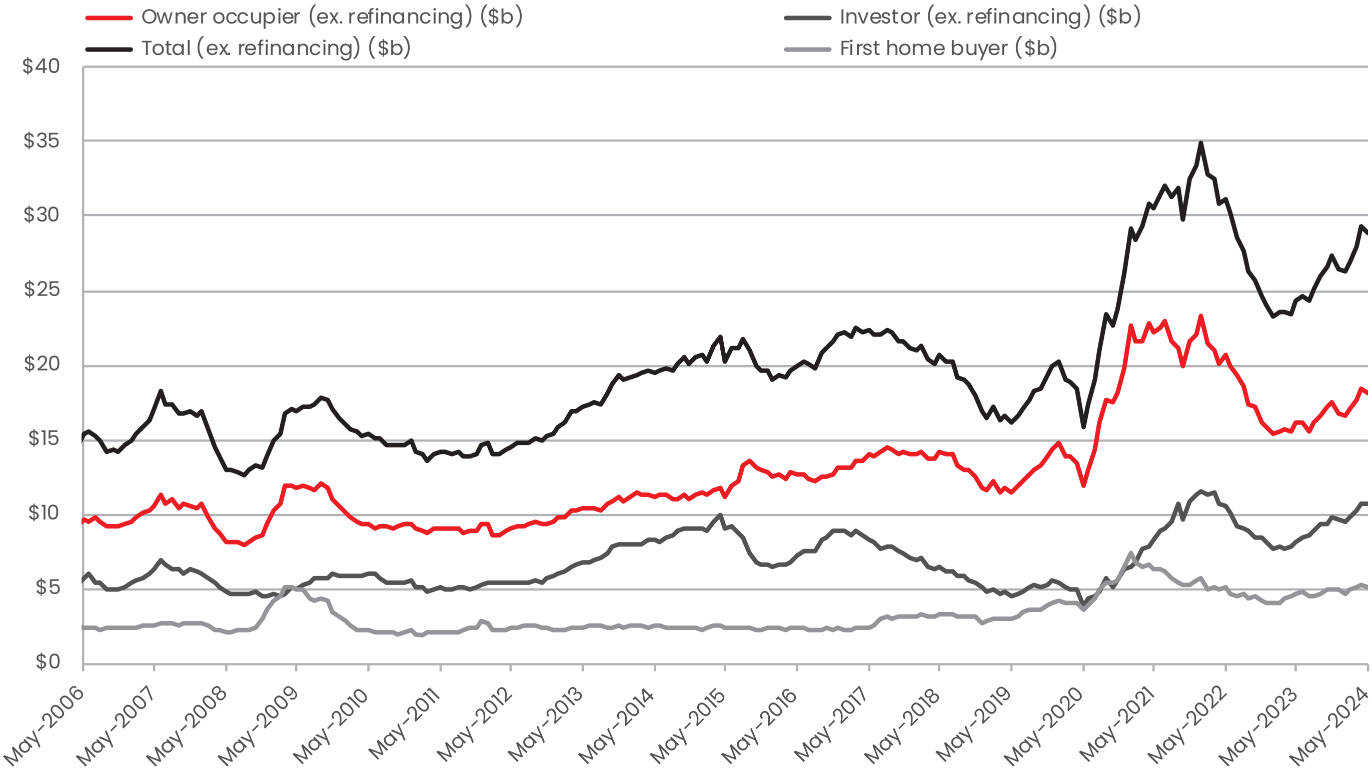
Investors are back and first home buyers are holding strong

Housing finance commitments sat at $28.8 billion in May 2024; an 18.0% growth in the past 12 months. All buyer types showed increasing finance commitment during this timeframe, with investors leading the pack at 29.5% growth (to $10.7 billion). Owner-occupiers and first homebuyers also grew by 12.2% and 10.1% respectively. Overall, this shows there are more players in the market, that demand has grown across the nation, and that our property market has recovered from successive cash rate hikes.

That said, every quarter we have seen slower growth. Housing finance commitments grew by a lower percentage of 7.1%. Investors still led, growing by 9.0% over the past 3 months (to May 2024), which is good news for the rental market. Owner-occupiers and first homebuyers were still active, but only growing at half-speed compared to investors (at 6.0% and 4.9% respectively). This was the start of 'sticky buyers'. Monthly readings proved this, as housing finance declined between April and May 2024 by -1.7%.

First homebuyers were the stickiest, declining by -2.9%. Interestingly, investors were the least sticky, declining by only -1.3%. With the RBA potentially increasing cash rates, we may see this decline further.

HOUSING LOAN COMMITMENTS



Source: Australia Bureau of Statistics Cat 5601. Last updated June 2024

WHAT DOES THIS MEAN FOR YOU?

- ✓ The number of first homebuyer loans has slowed down slightly by -2.9% between April and May 2024. However, comparing March - May 2024 and March - May 2023, there are almost 1,000 additional first homebuyers entering the market each month. Now is the time to build a mortgage offset account to create a buffer for potentially higher home-loan rates.
- ✓ The proportion of investor finance increased to 37.0% as of March 2024, which is good news for renters. This is even higher than pre-COVID-19, which averaged at 29.0% in 2019. Investor finance has steadily increased since mid-June 2023, after declining due to cash rate hikes. At $10.7 billion in May 2024, this will provide much-needed stock for the rental market.

PROPERTY OUTLOOK | TIME TO BUY A DWELLING

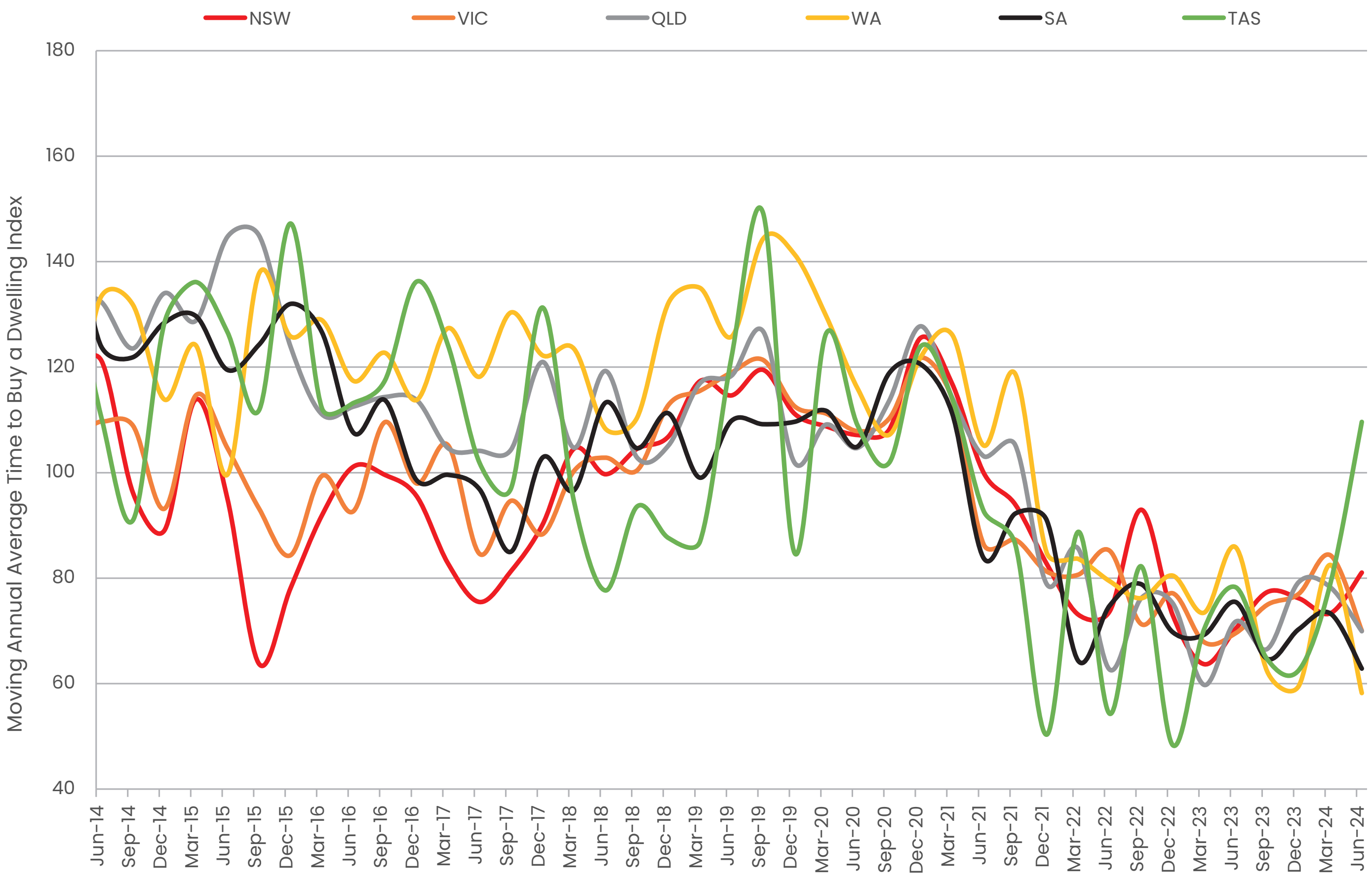
Sticky buyers have attributed to a more balanced market

In June 2024, the time to buy a dwelling index showed that most states recorded a declining trend. This is the opposite of the June 2023 index reading, which showed a clear increasing pattern. Twelve months prior, the common saying was that 'buyers are back', whereas in 2024, this has now changed to 'buyers are sticky'. This is in line with the Consumer Sentiment Index, which identified a more cautious consumer base.

Interestingly, buyers in TAS have a different opinion than the rest of the country, with the time to buy a dwelling index increasing to 109.6 index points (or 40.1%) in the past 12 months. This is the second time that TAS has led the time to buy a dwelling index, indicating more competition.

NSW buyers are also positive with a reading of 81.0 index points in June 2024 (a 15.1% increase in the past 12 months). This spearheaded the market recovery in Sydney and shortened the window of opportunity for first homebuyers. VIC saw a slight improvement of 0.7%, which was not strong enough to push a market recovery. The QLD market saw a decline of -2.5% due to high price growth in the past 12 months. This has created an opportunity for first homebuyers to enter the market.

TIME TO BUY A DWELLING INDEX



Source: Westpac/Melbourne Institute, last updated June 2024

WHAT DOES THIS MEAN FOR YOU?

- ✓ Steady cash rates and lower consumer sentiment have led to 'sticky buyers' in the market, evident through an overall declining trend in the time to buy a dwelling index (as of June 2024). This translates to longer average days to sell and price adjustments from sellers.
- ✓ TAS recorded the highest reading, of 109.6 index points as of June 2024. TAS is the first state to record over 100.0 index points since December 2021.
- ✓ WA saw the biggest decline in the past 12 months (to June 2024), of -32.2%, with the lowest reading across all states (at 58.2 index points). This gives an opportunity for first homebuyers.

PROPERTY OUTLOOK | DEMAND VS SUPPLY

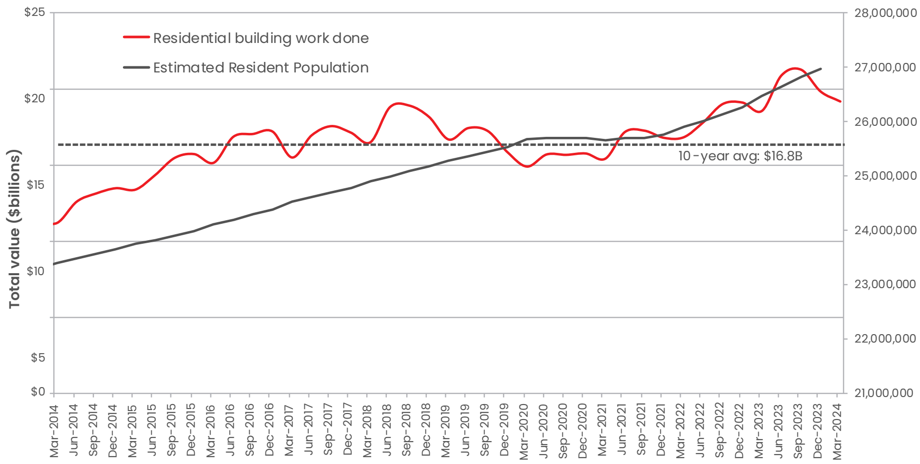
Future demand and supply gaps continue to widen

Residential construction across Australia amounted to $19.1 billion in the March quarter of 2024, representing an annual growth of 3.3%. This is another catch-22 for the housing market. On one hand, '$19.1 billion represents an amount above the $16.8 billion 10-year average, but it is lower than the June and September quarter 2024 figures of $20.9 billion and $21.3 billion, respectively. Overall, in a market where construction conditions continue to be a challenge, this provides hope for more housing supply. Anecdotal evidence from developers continues to name a tight labour market as the culprit to slower residential builds. Tradespeople and contractors are opting for infrastructure projects which is impacting the delivery of new housing stock.

Australians can take a small amount of solace in that we are not alone, as New Zealand, France, South Korea, and Canada are also facing an undersupply of housing stock. The UK, USA, and Hong Kong are starting to see an improvement in supply, but it does not make up for the decline in their residential construction industry over the past three years. In other good news, comparatively, Australia is a big spender, only being outspent by New Zealand and Canada.

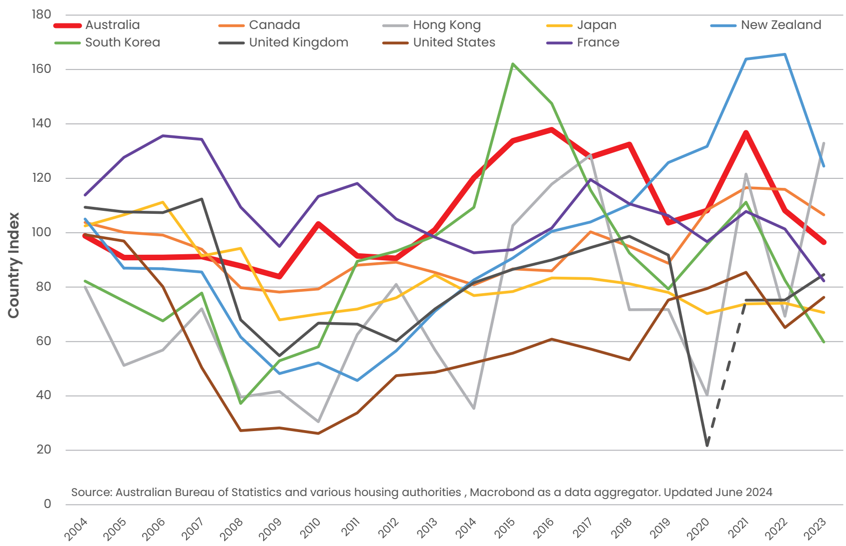
On an annual basis (to the March quarter of 2024), SA saw the highest growth in residential building work completed, at 20.6%. This was followed by VIC at 8.2%, and NSW at 4.8%. QLD saw a -7.1% decline, which was surprising considering its high population growth. The QLD housing market continues to see price growth even during cash rate hikes, with Brisbane being nominated as the second most expensive capital city after Sydney. A decline in new residential works will put more pressure on house prices in QLD.

RESIDENTIAL CONSTRUCTION AND POPULATION GROWTH



Source: Australia Bureau of Statistics Cat 8755 and cat 3101. Last updated June 2024

RESIDENTIAL CONSTRUCTION COMPARISON



Source: Australian Bureau of Statistics and various housing authorities , Macrobond as a data aggregator. Updated June 2024

WHAT DOES THIS MEAN FOR YOU?

- ✓ Challenges in the construction industry have not majorly improved in the past 12 months. Housing supply is a key factor in the Federal Budget 2024, with a significant amount dedicated to increasing stock. This will create new opportunities for multiple players in the industry.
- ✓ Supply and demand of housing stock continues to widen, which suggests incoming price pressures for the rest of 2024. With cautious buyers in the market, those ready to buy can take advantage of the steady lull. Unit prices are climbing due to low stand-alone house stock, meaning now is a crucial time for first homebuyers to act.

GLOSSARY

International Real Estate Price Graph

This International Real Estate Price Graph provides a comparison of real estate residential prices in several countries, based on the BSI Index. The data provided is as of January 2024.

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

Greater Capital Cities Median House Graph

The Greater Capital Cities Median House Graph provides median house prices on a month-by-month basis, up to June 2024. It captures all Greater Capital Cities across Australia, with area boundaries provided by AMP Pricefinder.

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

Source: APM Pricefinder Raw Data Download, calculated by PRD Research.

Regional Markets Median House Price Graph

The Regional Markets Median House Price Graph is based on the weighted calculation of median house prices from each Local Government Area (local council) within a regional part of a state. Data provided captured house sales for the 1st half of 2024, that is, from 1st January – 30th June 2024.

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

Source: APM Pricefinder Raw Data Download, calculated by PRD Research.

Consumer Sentiment Graph

The Consumer Sentiment Index indicates short-run changes in consumer willingness to purchase goods in the forthcoming quarter. Based on a monthly survey of 1,200 Australian households conducted by the Melbourne Institute and Westpac, this index reading represents current and future perspectives of the broad economic climate and household financial state.

Source: Melbourne Institute and Westpac.

Business Confidence Graph

The Business Confidence Index indicates expectations of business conditions for the upcoming quarter. The Index is based on a survey of approximately 900 small to large businesses in non-farm sectors and is conducted by the National Australia Bank (NAB).

Source: National Australia Bank (NAB).

CPI Monthly Graph

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

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

Wage Price Graph

The wage price index measures changes in the price of labour, unaffected by compositional shifts in the labour force, hours worked, or employee characteristics.

Source: Australia Bureau of Statistics – Wage Price Index, Australia, March 2024.

Cash Rate Policy Comparison Graph

The cash rate policy comparison graph illustrates the movements and trends in cash rate policies adopted by central banks worldwide.

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

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

Housing Loan Commitments Graph

Housing finance commitments track the volume of finance commitments made by significant lenders to individuals for the purchase of housing.

This graph tracks the value of loans approved to owner-occupiers (non-first home buyers), first home buyers, and investors.

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

Time to Buy a Dwelling Index Graph

The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling. It is a component of the Melbourne Institute's Consumer Sentiment Index, which is undertaken monthly.

This graph tracks consumer sentiment across all different States within Australia, provided in an index-point format. The higher the index reading, the more likely buyers believe it is an ideal time to enter the market.

Source: Melbourne Institute.

Residential Construction and Population Growth Graph

This data provides an early indication of trends in building and engineering construction activity. The data are estimates based on a response rate of approximately 85.0% of the value of building and engineering work done during the quarter. This determines the level of supply due to entering the market.

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

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

Source: Australia, March 2024 3101.0 - Components of Population Growth, Australia, December 2023.

Residential Construction Comparison

The residential construction comparison graph illustrates the movements and trends in new residential construction spend of different countries across the world.

The graph provides a comparative analysis of residential construction spend among various countries over time, offering valuable insights into the residential supply sector and to what extent each country is undersupplied or oversupplied.

Source: Australian Bureau of Statistics, The Statistical Data and Studies Department France, Canada Mortgage and Housing Corporation, United States Census Bureau. Macrobond as a data aggregator in creating the associated graph.

ABOUT PRD'S RESEARCH DIVISION

PRD's research division provides reliable, unbiased, and authoritative property research and consultancy to clients in metro and regional locations across Australia.

Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sound decisions about residential and commercial properties.

OUR KNOWLEDGE

Access to accurate and objective research is the foundation of all good property decisions.

We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections and strategic research collaborations. We focus on understanding new issues impacting the property industry such as the environment and sustainability, Government policy and initiatives, the economy, demographic and psychographic shifts, commercial and residential design, and forecast future implications around such issues based on historical data and fact.

OUR PEOPLE

Our research team is made up of highly qualified researchers who focus solely on property analysis.

Skilled in deriving macro and micro quantitative and qualitative information from multiple credible sources, we partner with clients to provide strategic advice and direction regarding property and market performance. We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the best considered.

Our experts are highly sought-after consultants for corporate, communities, and Government bodies; their advice has helped steer the direction of a number of property developments and secured successful outcomes for our clients and stakeholders.

OUR SERVICES

PRD provides a full range of property research services across all sectors and markets within Australia.

We have the ability and systems to monitor market movements, demographic changes and property trends. We use our knowledge of market sizes, price structure and buyer profiles to identify opportunities for clients and provide market knowledge that is unbiased, thorough and reliable.

Our services include:

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- Primary qualitative and quantitative research
- Demographic analysis
- Geographic information mapping
- Rental and investment return analysis
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- Comparative analysis - across all suburbs, postcodes, local councils, capital cities, and regional areas in Australia
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