

RESIDENTIAL PROPERTY RISKS & OPPORTUNITIES REPORT

AUSTRALIAN STATES & TERRITORIES

Issue: November 2019



RISKWISE
PROPERTY RESEARCH

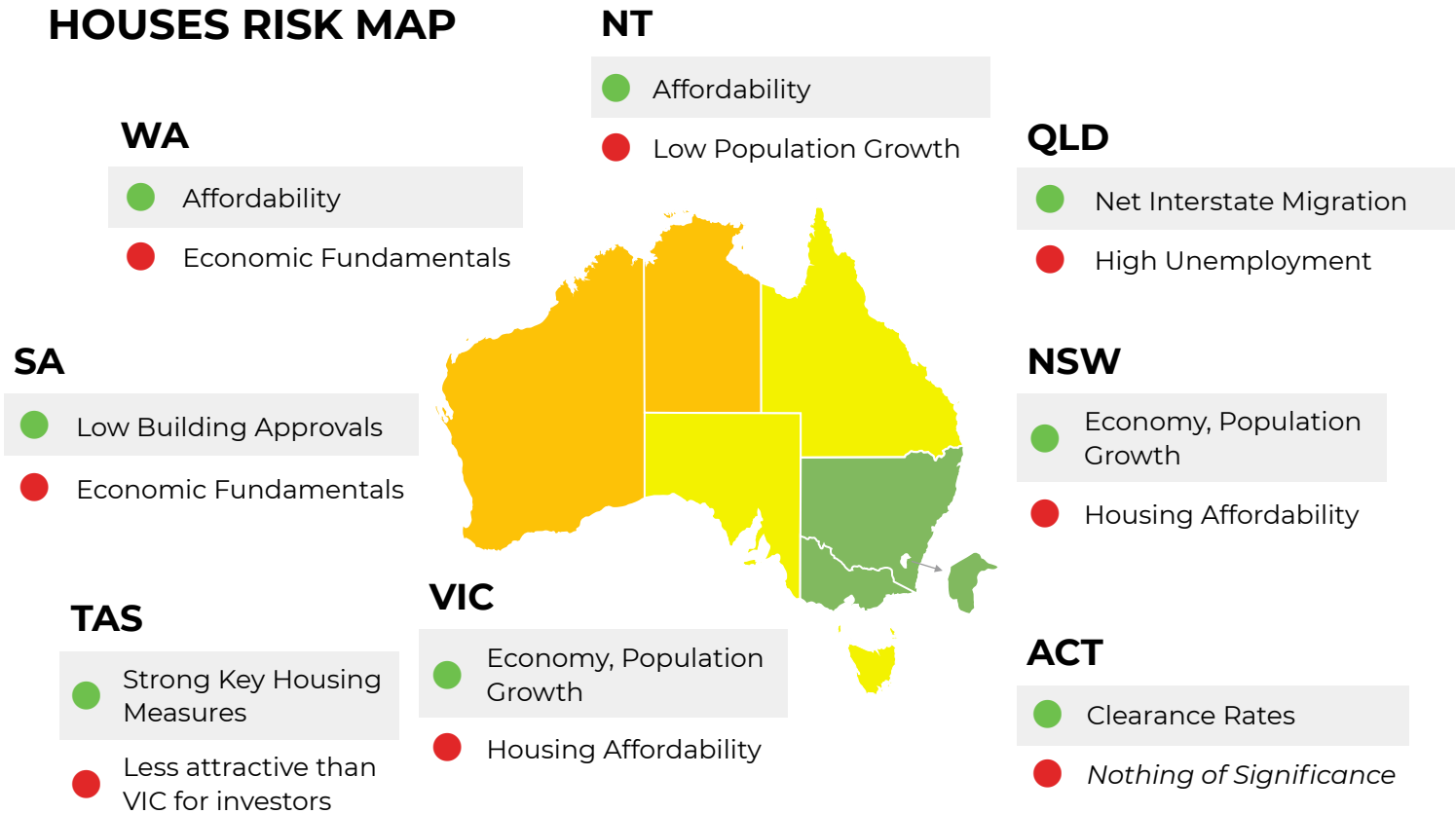


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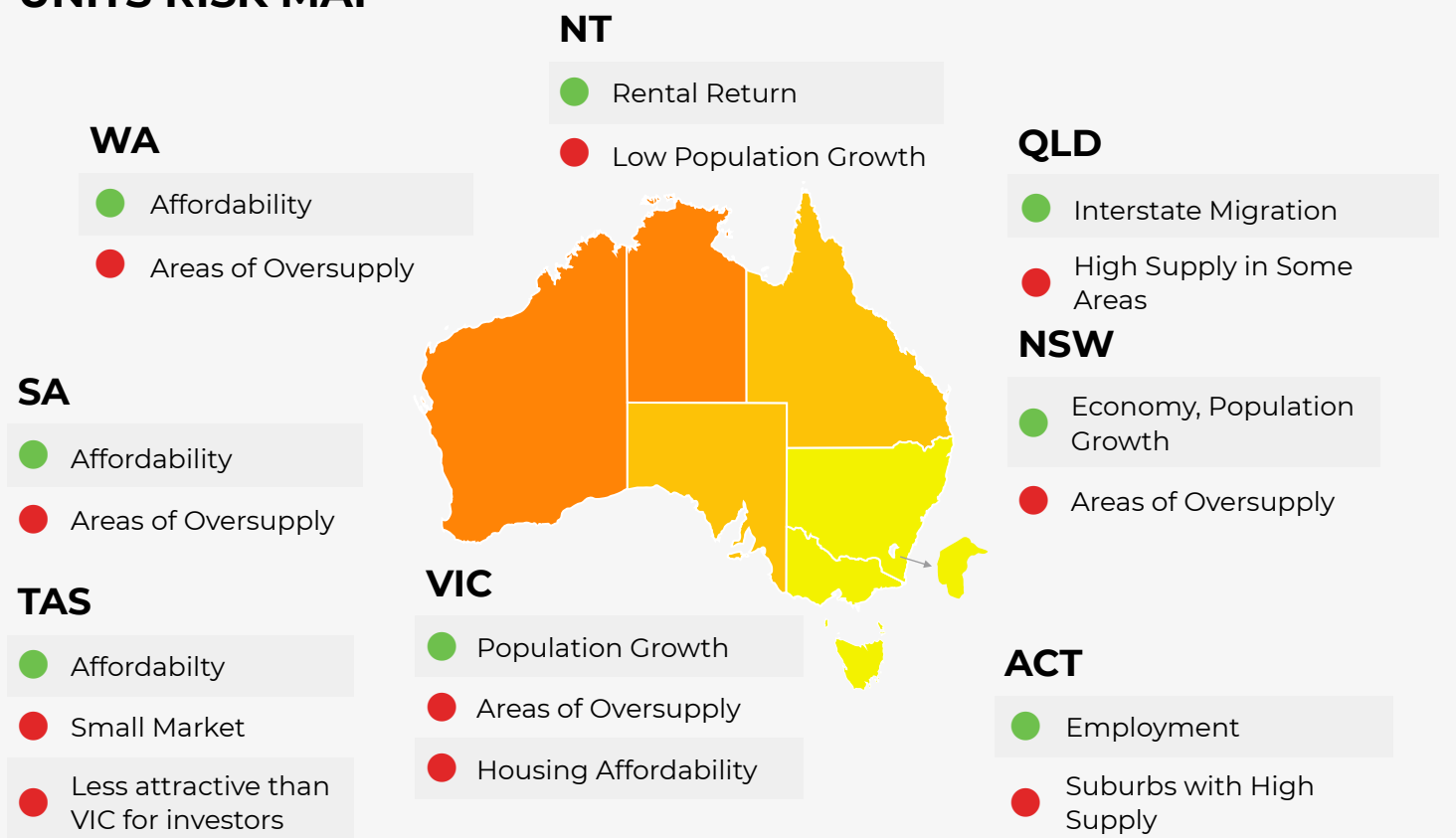
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EXECUTIVE SUMMARY

HOUSES RISK MAP



UNITS RISK MAP



ABOUT THIS REPORT

Welcome to the November 2019 Edition of the Residential Property Risks & Opportunities Report by RiskWise Property Research. Our objective is to provide you with a risk heat map of the residential property market and a comprehensive review of the major risk factors.

The report covers 30 risk factors, grouped into seven categories: economic fundamentals; key housing measures; housing affordability; lending standards and restrictions; jobs & employment; population & demographics; and alternative investment options. The report is structured using a top-down approach commencing at the State level, followed by a category-level analysis and down to the individual level.

We have taken this approach in order to simplify the measurements for overall risk and major drivers, whilst still providing detailed information. This is an effective tool that enables the reader to ascertain the context for each factor (such as population growth) and how the risk factors impact the property market.

A summary of the risks across each of the seven categories can be found in the table in the next page.

IMPORTANT NOTICE

This report is consistent with our previous reports and is also based on the following assumptions that have not been included in the 'base-case' of our previous reports, these are:

- 1) The RBA will undertake an additional interest rate cut during the first half of 2020;**
- 2) The unemployment rate will be noticeably higher, with an overall soft labour market in most states and territories with the exception of NSW and VIC.**

PLEASE NOTE

Our 'base-case' is NOT based on the reintroduction of lending restrictions by APRA (while it is possible that such restrictions might be introduced). The likelihood of this event will be assessed again in February 2020.

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Economic Fundamentals	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Key Housing Measures (Houses)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Key Housing Measures (Units)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Housing Affordability	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Lending Restrictions	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Tax Regimes	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Jobs & Employment	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Population & Demographics	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Housing vs Alternative Investments	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Units vs Alternative Investments	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Overall Rating (Houses)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Overall Rating (Units)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>

	Low	Low-Med	Medium	Med-High	High	Extreme
Risk Rating	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>

QUARTERLY UPDATE

New peak for Sydney & Melbourne on horizon, housing affordability deteriorating, strong increase in investor activity and potential regulatory intervention

As projected in our previous Risks & Opportunities reports, the property markets in Sydney and Melbourne are recovering. The RBA's interest rate cuts (the most recent one in October 2019), some loosening of credit restrictions, significant improvement in buyer confidence and increased auction clearance rates provide very strong indications regarding these markets. Sydney and Melbourne are likely to reach a new peak in 2020 and these cities are highly likely to be the top performing markets in Australia, well ahead of any others.

This means our two major cities are going back to 'square one' when it comes to housing affordability and undersupply of family-suitable properties relative to demand driven by population increases and this has been the biggest (recurrent) issue in the Australian property market since mid-last decade. A significant reduction in dwelling commencements will continue to create a problem of undersupply of family-suitable properties in high-demand areas. On the other hand, there is still a high level of supply of rental properties in some areas. These imbalances are a major issue with very a material impact on dwelling prices particularly those unsuitable for families.

The Australian economy, and particularly employment measures, is deteriorating, and interest rate reductions are insufficient to address these conditions and to sufficiently reduce the unemployment level to the RBA target. It appears that unless there is a structural change to the Australian economy, for example through massive investments in technology, it is very possible that Australia will experience low growth and there is a risk of an increased unemployment in the foreseeable future.

Therefore, there are still some areas of elevated levels of risk in many SA4s in other parts of the country. There is a very strong connection between jobs, population growth and the demand for housing. Consequently, areas (SA4s) with below-average economic conditions will be negatively impacted. In particular, some SA4s with elevated levels of risk due to poor economic performance, soft employment markets and low population growth are those in WA, QLD and the NT. The potential increase in the effective unemployment rate is likely to have an impact on these areas.

As projected in our previous Risks & Opportunities Report, a sustained period of ultra-low interest rates and, consequently, a significant increase in housing finance, is highly likely to see a rise in investor activity. Sydney and Melbourne have the largest concentration of investors and an increase in their activity will have a major impact on dwelling prices.

However, we are still in an environment of tighter lending restrictions, greater scrutinising of loan applications and an increased number of controls implemented by lenders, particularly banks, following the Royal Commission. However, non-banks i.e. non-ADIs are not subject to all of the compliance obligations the ADIs are, particularly since they don't take deposits and are not regulated by the prudential regulator. In addition, some of the non-bank lenders have aggressive growth targets leveraging on strong broker networks, online marketing and more advanced IT tools and procedures to process and approve loans quicker. Consequently, the trend of increased market share to non-bank lenders is likely to continue.

It is possible APRA will consider the reintroduction of macroprudential measures if investor activity increases significantly contributing to double digit growth and potentially an increased risk to the housing market. Obviously, if APRA reintroduces tighter lending restrictions, this is highly likely to have a negative impact on price increases, potentially not only in Sydney and Melbourne but also other areas of the country.

It should be noted unit oversupply is still an issue across the country and also includes some SA4s with traditionally poor demand for units, particularly in high-rise buildings. Therefore, in some areas even a medium addition to the current stock could carry an elevated level of risk, particularly when the units are considered premium and carry a price tag similar to that of a freestanding house. The reputational damage and impact of the recent construction defects of high rises, that have received strong media coverage, increases the risk that demand for both new and existing high-rise properties will fall as investors, who are the main buyers of these properties, look elsewhere e.g. low-rise buildings or freestanding houses. However, in some areas the sharp drop in dwelling commencements will somehow mitigate the risk, particularly in popular locations.

Major Risks / Opportunities:

Improved buyer sentiment and auction clearance rates:

The property markets in Sydney and Melbourne are showing recovery with Melbourne, and later on Sydney, likely to reach a new peak in 2020.

The RBA's interest rate cuts (the most recent one in October 2019), some loosening of credit restrictions, and increased auction clearance rates provide very strong indications regarding these markets. As projected in our August report, buyer sentiment in relation to housing measures and auction clearance rates has noticeably improved and the Westpac-Melbourne Institute's House Price Expectations and Time to Buy a Dwelling Indices show a consistent trend.

Auction clearance rates have also recovered and are largely above 70 per cent in Sydney and Melbourne. Investor sentiment has clearly improved, and many areas that experienced very sharp reductions will present very good buying opportunities. This will result in price increases.

However, this means both these cities are likely to face issues of housing affordability and undersupply of family-suitable properties as the population increases. This has been the biggest (recurrent) issue in the Australian property market since mid-last decade especially with the significant reduction in dwelling commencements. On the other hand, there is still a high level of supply of rental properties in some areas. These imbalances are a major issue with a very material impact on dwelling prices particularly those unsuitable for families.

The current interest rate cuts, combined with the possibility of a further one in the first half of 2020, will further improve buyer confidence in relation to housing and continue good auction clearance rate results, mainly in Sydney and Melbourne. NSW and VIC are the states where investors, traditionally, are more active. Consequently, it is expected that investor activity will further increase with a direct impact on auction clearance rates and dwelling prices. However, they will also decrease price reductions in weaker markets such as WA and the NT.

Demand for housing finance, further interest rate cuts and a long period of low interest rates:

Interest rate reductions have significantly improved serviceability of both owner-occupiers and investors. However, with low economic growth and effective unemployment above the 'full employment' target, it is possible that without a material change to the fiscal policy, the RBA will cut interest rates again during 2020 to 0.5 per cent. At its November meeting the RBA seriously considered interest rate reduction and decided, at that stage, not to do so due to the potential negative effects on savers and confidence. It should be noted that the RBA will reassess this position at its next meeting based on additional developments.

Housing finance: There has been a material increase in housing finance, driven by owner-occupiers. First home buyer activity is also well above benchmark. However, owner-occupier activity is very likely to reduce with an expected increase in investor activity. It should be noted, that it is highly likely that investor activity, that is currently well below the peak, will increase substantially. Investors are very responsive to interest rate cuts and lower out-of-pocket expenses. However, the 'investor journey', from the point of time when a decision is made to 'buy an investment property' until the financial commitment, generally takes six to 12 months. Given that the recent changes to the property market started following the election results, investor activity is yet to be fully factored into the market.

Since moving through a trough in May, the value of new owner-occupier home loan commitments has increased by 17.3 per cent through to the end of September and the value of investor loan commitments is up 8.4 per cent. The latest ABS data on new housing credit showed a sharp rise in the value of home loan commitments, driven by a surge in owner-occupier lending as well as a smaller rise in investment lending.

Weak employment areas

A low interest rate environment, soft employment market, poor wage growth and no major growth drivers for the Australian economy in the foreseeable future means there is likely to be a sustained impact on the property market, particularly in the mining states, but also in South Australia which has been experiencing slow economic growth. Since there is very strong connection between jobs, population growth and the demand for housing, below-average economic conditions will have an impact on a number of markets across the country with some SA4s impacted more than others.

The RBA's 2019 GDP growth forecast has been revised down from 3.25 per cent a year ago to the current 2.25 per cent. This downgrade is in line with the average downgrade for each year's growth forecast seen since 2012. This is further indication of the poor performance of the Australian economy. We can also see that wealth impact and consumer sentiment influence household spending, e.g. new car sales. For example, in September, sales of new vehicles in Australia fell for the 18th consecutive month.

Credit restrictions, compliance obligations and competition between banks and non-banks

APRA is watching the housing market closely, particularly given record-low interest rates, high household debt and signs of some revival in borrowing for speculative purposes. It should be noted that strong investor activity is perceived by the RBA as 'speculation' that increases the risk to the financial stability. Consequently, a major increase in investor activity is likely to trigger the reintroduction of macroprudential measures by APRA.

While we have seen improvements in the property market due to the changes to the floor assessment, credit standards, although loosened, remain relatively tight.

There has also been a sharp rise in home loans issued by non-bank lenders, as their risk appetite is higher than the risk appetite of the banks. APRA's change in relation to the 'stress test' is likely to have a positive impact on the market share of the ADIs in the short term. However, in the medium to long term, non-bank lenders are likely to gradually increase their market share due to higher risk appetites and greater reliance on technology. Overall, this signals strong competition between banks and non-bank lenders.

Housing affordability to deteriorate

The recent downturn and interest rate reductions have led to an improvement in housing affordability, both in terms of price-to-income ratio and serviceability measures (for owner-occupiers in terms of the ratio of their income and for investors in terms of investor serviceability ratio). However, the recovery of the property market and solid price growth in the next two years in Sydney and Melbourne, together with improved market conditions in most of the other areas, will have a negative impact on housing affordability.

Negative equity:

Negative equity has become a major issue, particularly for lenders who have a concentration of loans in weak markets within WA, QLD and the NT. These risks are compounded by a high rate of arrears in some of those markets, especially WA. The mortgage arrears ratio in WA has fallen to 2.75 per cent compared to 3.05 per cent in June, however, this is still a high ratio that requires attention from lenders.

In addition, most of the properties that have been purchased in Sydney and Melbourne in the past couple of years have depreciated in value, and properties that have LVR of 90 per cent or more carry a high level of risk of negative equity. However, the Sydney and Melbourne markets are recovering and are expected to reach a new peak during 2020.

Increased levels of unemployment and under-employment increase the default risk in some markets. SA4s in WA, QLD and the NT which are still experiencing weakness will continue to be impacted. These areas should be closely monitored and home loans should be assessed based on serviceability as well as property type, configuration and price point (i.e. percentile).

High-rise buildings – unit oversupply and major construction defects:

Unit oversupply is still a major risk to some property markets. Despite a 32.4 per cent reduction in dwelling approvals for units in the past two years, there are still elevated levels of risk in certain areas. For example, Inner City Brisbane (SA4) with 10,664 units in the pipeline (or 12.3 per cent of current stock). Sydney Blacktown has 6,477 units in the pipeline (39.3 per cent increase to the current stock) and Baulkham Hills - Hawkesbury has 2,039 units in the pipeline (20 per cent increase to the current stock). In Melbourne – West there are 6,192 units in the pipeline (12.3 per cent increase to the current stock), Melbourne – South East has 7,231 units in the pipeline (12.2 per cent increase to the current stock) and Melbourne – Inner has 21,853 units in the pipeline (9.2 per cent increase to the current stock).

The story is much the same on the Gold Coast where Surfers Paradise has 3,188 units in the pipeline (or 16 per cent increase to the current stock), Southport has 1,228 units in the pipeline (10.7 per cent increase to the current stock) and Broadbeach has 503 units in the pipeline (7.7 per cent increase to the current stock).

In the short to medium term, oversupply of apartments for investment purposes, mainly in Sydney, Melbourne and Brisbane, will **continue to impact unit prices in the relevant SA4s**. A very low number of pre-sales and sales of off-the-plan and newly completed apartments have led developers to offer property marketers, financial advisers and mortgage brokers very high commissions of up to 8 to 9 per cent. This is a very strong indication that demand for off-the-plan and newly completed apartments is lower than supply, despite a reduction in dwelling commencements.

Further, with media attention focused on high-profile construction defects in high-rise buildings, there are signs the reputational damage has further impacted demand. While there has been a drop in sales for off-the-plan units, some buyers and lenders are also considering the risks associated with units in high rises that were built in recent years. This defect risk is

compounded in some areas by oversupply. Both investors and owner-occupiers are generally finding high-rise properties to be high risk and the impact of the recent defects might potentially be sustained for the short to medium term.

Therefore, the future equity risk associated with units in high-rise buildings for both new and existing properties remains high in many areas due to a combination of unit oversupply and construction-defect risks.

Dwelling approvals and commencements:

Spike in developer insolvencies

In the past two years, there was a reduction of 32.4 per cent in unit approvals and, along with a reduction in commencements, this has had a material impact on GDP growth. Low developer confidence has led to more conservative approaches and thorough risk-management practices. However, developers are failing to meet pre-sales and sales targets with lower sales volume and less focus by some property marketers on units in areas that are harder to sell. Lenders have very low risk appetite, conservative risk-management practices and have 'black listed' areas for both residential lending and construction loans. The 'pipeline' of available funds for developers is shrinking as developers also face difficulties getting finance from alternative financiers, lower LVR (i.e. higher deposit) for property developments and very high rate of pre-sales as a condition to proceed to commencements.

Construction lending, particularly for apartments, carry a high level of risk and in Q3 2019 construction insolvencies spiked to their highest level since the September 2013 quarter, according to the latest ASIC figures.

There was a sharp quarterly increase in construction insolvencies in Victoria, from 107 to 190, as well as a further increase in NSW, and more than a 40 per cent jump in Queensland.

Construction insolvencies are now at multi-year highs in all three of the most populous states and have increased sharply to a six-year high at the national level.

One of the key reasons for that is suboptimal risk-management practices that often fail to accurately assess the likelihood and the impact of not meeting pre-sales and sales targets, as well as understating the risks associated with the settlement of the properties.

In the current lending environment for both developers and home buyers, and with lower demand and reputational damage to off-the-plan units, particularly high-rise buildings, there is an improvement opportunity in relation to construction lending practices and, in particular, a realistic and independent review of feasibility studies.

State-by-State Analysis can be found in the States & Territories: Summary section

IN CONCLUSION

As projected, the property markets in Sydney and Melbourne are recovering and Melbourne, and later Sydney, are expected to reach a new peak in 2020.

The RBA's three interest rate cuts (with an additional one expected), have significantly boosted consumer confidence, improved auction clearance rates and, consequently, we have seen dwelling price increases.

Housing finance has increased significantly and while investor activity has not been strong, it is highly likely it will rise noticeably in 2020. This might lead to the reintroduction of additional macroprudential measures that if introduced, are very likely to have a negative impact on the housing market, not only in Sydney and Melbourne but also in other areas, particularly markets that have experienced sustained weakness.

However, risks remain elevated in relation to loans with negative equity, unit oversupply, construction defects in high-rise buildings and large falls in dwelling commencements. Despite this reduction in dwelling commencements, sales of new units are still very low and, therefore, in some areas it could take longer for the stock to be absorbed into the market, meaning the risk is still high. Further, weak markets with continuous price reductions, poor economies and low population growth will take longer to recover and will require a more conservative and risk aware investment strategy.

This quarter (**December - February**):

This is the Summer quarter which typically has a decreased volume of properties sold across the country. Consequently, some of the key measures might not be useful due to very low auction clearance rates at this time of year and other housing-related measures that might not be valid.

In particular, the following measures will be monitored closely by RiskWise:

1. Dwelling price readings.
2. Measures regarding consumer sentiment in relation to house price expectations e.g. Westpac Melbourne Institute House Price Expectations Index.
3. Additional macro-economic measures, particularly in relation to Consumer Price Index (CPI), employment and GDP growth. These measures are crucial to set the next interest rate move, both in relation to the direction of potential rate cuts and their timing by the RBA.
4. APRA's position regarding the likelihood of reintroduction of macroprudential measures.
5. Construction defects, particularly, high-profile events and changes to laws and regulations.

Thank you for your interest in this November edition. Please register on our website if you wish to subscribe to our next release.

Doron Peleg, CEO



PART ONE

RISK & OPPORTUNITIES REPORT

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ECONOMIC FUNDAMENTALS

Economic fundamentals are a group of major measures used to assess the overall growth of the economy and to provide state-by-state analysis in order to assess the projected likelihood of sustainable capital growth.

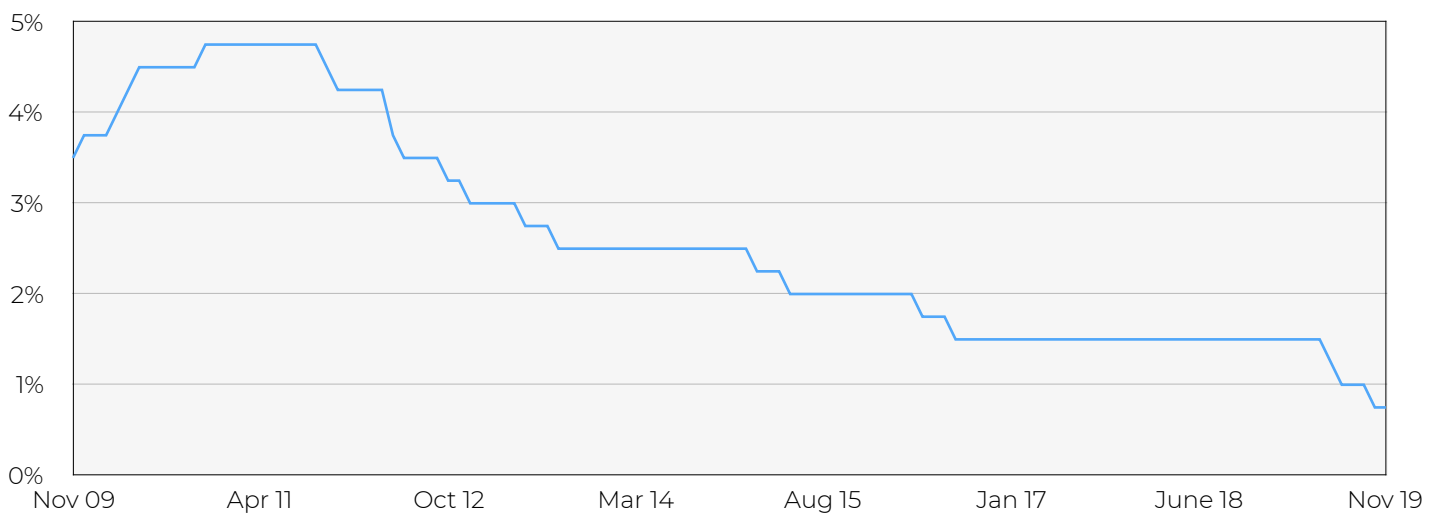
Sustained economic growth is strongly correlated to solid capital growth across the property market, particularly in a low interest rate (i.e. low economic growth) environment. Economic growth is also strongly correlated to population growth, and vice versa.

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	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Risk Rating								

CASH RATE

The official cash rate (OCR) is the term used in Australia for the bank rate and is the rate of interest which the central bank charges on overnight loans to commercial banks. A low cash rate means that the interest rate for residential properties is low. Therefore, decisions made by the RBA regarding changes to the cash rate not only have an impact on the immediate cash rate but also on market expectations regarding dwelling prices.



CURRENT STATE

- The RBA cut interest rate from 1.0 per cent to 0.75 per cent in October but kept rates on hold in September and November.
- The RBA further slashed its annual GDP growth forecast for 2019 from 2.5 per cent to 2.25 per cent. Record low interest rates have a direct impact on extremely low variable interest rates, for both owner-occupiers and investors.

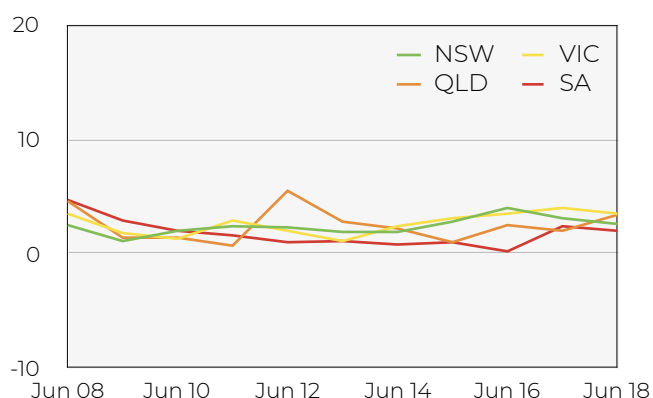
PROJECTION

- CPI is highly likely to remain below the 2 per cent target.
- The unemployment rate is likely to increase during 2020. In addition, the effective unemployment rate is trending up. It is highly unlikely that the unemployment rate will reach the RBA target of 4.5 per cent, in the foreseeable future.
- There is more than 50 per cent chance of another rate cut in the first half of 2020.
- An additional interest rate reduction will make residential properties more attractive to both owner-occupiers and investors as out-of-pocket costs will be further reduced.

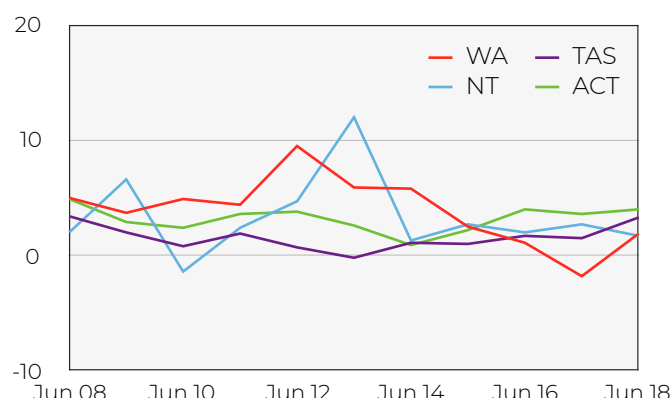
ECONOMIC GROWTH

Our economic growth measurement utilises gross state product (GSP) data from ABS. The volume measure of GSP is the headline measure of state economic activity across each state and territory. These estimates are essentially a dissection of the Australian estimates contained in the Australian System of National Accounts. GSP provides a strong indication of overall economic strength. However, other measures, such as private new capital expenditure and unemployment, should be analysed alongside GSP.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



		Jun 17	Jun 18	Benchmark*	Proj.
NSW	●	3.1%	2.6%	2.4%	→
VIC	●	4.0%	3.5%	2.7%	→
QLD	●	2.0%	3.4%	2.5%	↗
SA	●	2.4%	2.0%	1.8%	→

		Jun 17	Jun 18	Benchmark*	Proj.
WA	●	-1.8%	1.9%	3.9%	↗
TAS	●	1.5%	3.3%	1.6%	→
NT	●	2.7%	1.7%	3.3%	↘
ACT	●	3.6%	4.0%	3.2%	→

* Based on a 10-year average

CURRENT STATE

- The RBA has downgraded the forecast for Australia's annual GDP growth rate to 2.25 per cent from 2.5 per cent previously.
- However, VIC, QLD and TAS have delivered good economic growth rates. This has resulted in more new jobs, lower unemployment and high population growth.
- WA's economy is back in positive growth but still below the 10-year benchmark. This is closely related to high unemployment and low population growth in WA.

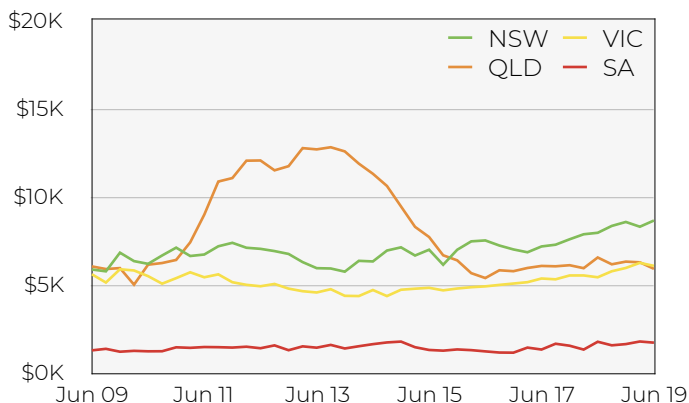
PROJECTION

- The annual Australian economic growth rate is 1.4 per cent, the slowest since 2009.
- However, NSW & VIC are likely to deliver ongoing economic growth which will be driven by population growth.
- QLD will continue its transition from a largely mining-based economy. This will be driven by strong interstate migration.
- Particular risks that could reduce economic growth include reduction in household spending and a significant reduction in construction of residential property. These are likely to have an impact on GDP growth.

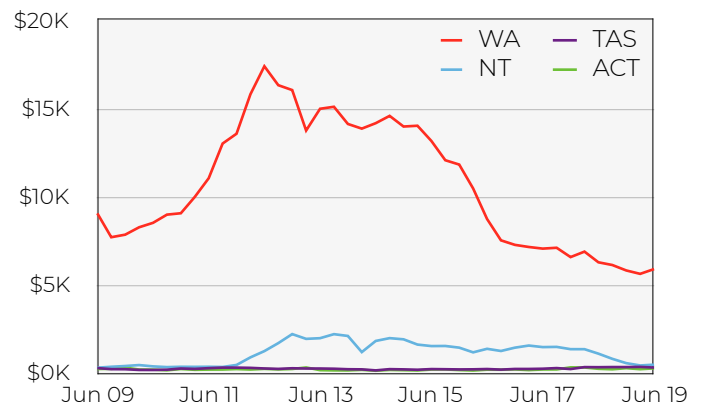
PRIVATE NEW CAPITAL EXPENDITURE

Private New Capital Expenditures is a measure of the total investment by private businesses across each state and territory. This provides a good indication of the business's attractiveness, opportunities and the projected demand for labour. The measurement is strongly correlated to economic growth which, in turn, impacts the strength of the property market.

NSW, VIC, QLD, SA (millions)



WA, TAS, NT, ACT (millions)



		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
NSW	●	\$8,302	\$8,653	\$6,978	↗
VIC	●	\$6,257	\$6,087	\$5,178	↗
QLD	●	\$6,287	\$5,919	\$8,163	→
SA	●	\$1,806	\$1,740	\$1,464	↗

		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
WA	●	\$5,634	\$5,905	\$10,653	→
TAS	●	\$368	\$332	\$268	→
NT	●	\$450	\$495	\$1,170	→
ACT	●	\$239	\$286	\$228	↗

* Based on a 10-year average

CURRENT STATE

- WA and QLD experienced the greatest losses of private capital expenditure in comparison to the 10-year average, as a result of the decline of the mining industry.
- NSW and VIC have been recipients of a consistent flow of private investment over the past 10 years. This has been a key contributor to their strong employment measures.
- ACT and SA also received consistent levels of private capital expenditure, that are well above the 10-year benchmark.

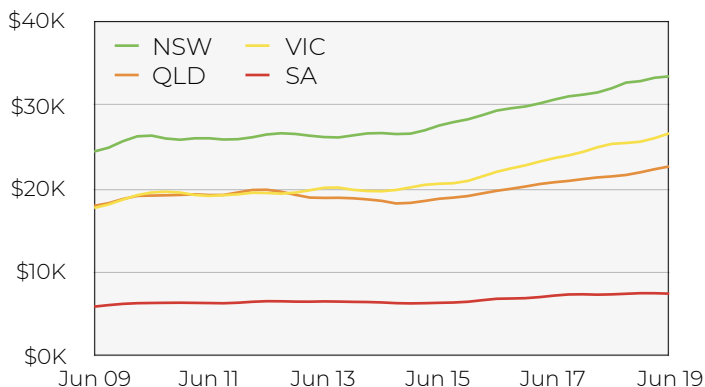
PROJECTION

- Private investment is set to improve over the medium to long term.
- QLD is likely to attract increased private investment as a result of the state government's effort to strengthen its economy following the end of the mining boom.
- WA is likely to experience slow improvement to private expenditure as its economy continues to adjust to the post-mining era.
- The reduction in residential property dwelling commencements has an adverse impact on private investment.

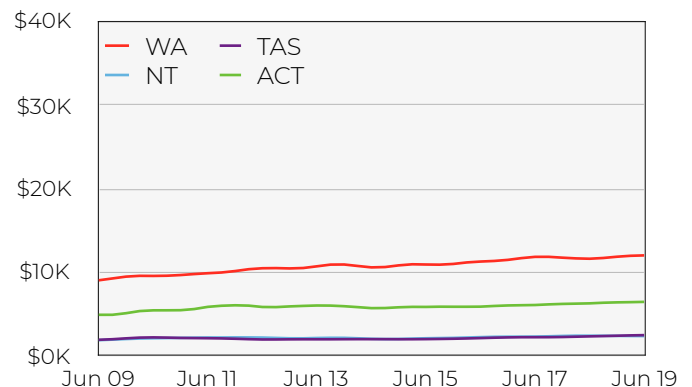
GOVERNMENT EXPENDITURE

Government spending or expenditure includes all government consumption, investment and transfer payments in each state and territory. This measurement has a similar sentiment to private new capital expenditure and provides an indication of employment market changes, wage growth expectations and spending initiatives that may impact the property market.

NSW, VIC, QLD, SA (millions)



WA, TAS, NT, ACT (millions)



		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
NSW	●	\$33,239	\$33,402	\$27,972	↗
VIC	●	\$26,030	\$26,593	\$21,139	↗
QLD	●	\$22,317	\$22,640	\$19,664	↗
SA	●	\$7,498	\$7,449	\$6,652	↗

		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
WA	●	\$11,971	\$12,018	\$10,749	↗
TAS	●	\$2,463	\$2,493	\$2,132	↗
NT	●	\$2,389	\$2,381	\$2,200	↗
ACT	●	\$6,433	\$6,466	\$5,879	↗

* Based on a 10-year average

CURRENT STATE

- Across all states and territories, spending by each government is above the benchmark.
- NSW is undertaking a large number of major infrastructure projects as illustrated by its high capital expenditure. This investment is likely to be an engine for economic growth.
- QLD also has a strong focus on infrastructure and job growth. This is illustrated by large-scale projects such as the Cross River Rail, Brisbane Airport's new second runway and the Brisbane Metro.

PROJECTION

- Overall, government expenditure across all states and territories is likely to continue to increase in the short to medium term. This will be driven by the federal, state and territory governments seeking to mainly improve infrastructure and to drive stronger economic growth in their respective areas.
- These government investments are likely to stimulate the employment market, provide support to an ongoing steady trend of wage growth, although slow, and generally contribute to economic growth.

CONSUMER SENTIMENT

Consumer sentiment is an economic indicator of the overall health of the economy as determined by consumer opinion. Consumer sentiment takes into account an individual's feelings towards his or her own current financial health, the health of the economy in the short term and the prospects for longer-term economic growth. Consumer sentiment has a direct impact on consumer spending which is typically around 58 per cent of GDP.



CURRENT STATE

- Per the Westpac Melbourne Institute Consumer Sentiment Index, the overall index fell 5.5% from 98.2% in September to 92.8% in October. This is because consumers are getting nervous about the economy due to the three interest rate cuts and also continuing low wage growth.
- However, consumer expectations for house prices rose 5.9%. This is a massive 54% increase since the May election. More consumers expect prices to rise than fall – the first ‘net positive’ consensus since mid-2018. Again, this is due to lower interest rates.

PROJECTION

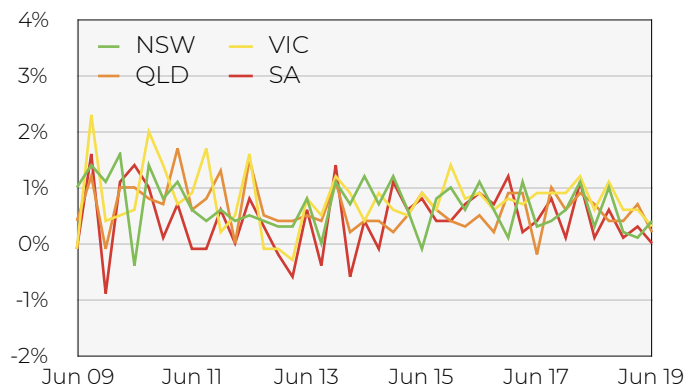
- Due to recent improvements, it is projected that consumer sentiment in relation to housing will rise. Since the Coalition win, the housing market has shown signs of growth and consumer sentiment, in relation to house prices, is expected to improve.
- Consumer sentiment in relation to housing is likely to have, during 2019, a flow-on effect on overall consumer sentiment and an impact on consumer consumption and, consequently, on GDP growth.
- The interest rate cuts and other recent improvements are likely to improve buyer sentiment regarding dwelling prices.

Source: RiskWise, Westpac

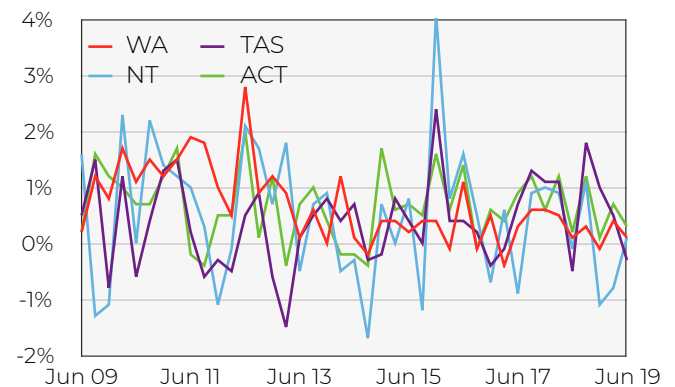
HOUSEHOLD SPENDING

Household consumption relates to household economic wellbeing in that it measures the acquisition of goods and services used for the direct satisfaction of individual or collective wants and needs. This measure is useful for determining how willing households are to spend disposable income on items such as food, clothing, electricity and restaurants. The graph below depicts the quarterly growth in household spending (in percentage).

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
NSW	●	0.40%	0.20%	0.70%	↗
VIC	●	0.30%	0.40%	0.80%	↗
QLD	●	0.30%	0.70%	0.60%	→
SA	●	0.00%	0.30%	0.40%	→

		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
WA	●	0.10%	0.30%	0.70%	→
TAS	●	-0.40%	0.20%	0.40%	→
NT	●	0.00%	0.20%	0.50%	→
ACT	●	0.30%	0.50%	0.70%	→

* Based on a 10-year average

CURRENT STATE

- Almost all states and territories (QLD excepted) posted lower household spending growth rates relative to their 10-year benchmarks. This is a negative sign of the household economic wellbeing across Australia.
- Following a 0.4 per cent rise in August, the September monthly, seasonally-adjusted retail sales figures have only risen 0.2 per cent, which is below market expectations of 0.5 per cent.

PROJECTION

- While wage growth is still weak, there are significant increases in dwelling prices in Sydney and Melbourne with strong price increases expected. Therefore, it is likely that household spending will only show some growth in these states.
- However, overall, due to a softening job market and poor wage growth, in most of the states and territories (with the exception of Sydney and Melbourne), household spending is likely to remain low.

















2

KEY HOUSING MEASURES

This section provides a small snapshot of what is happening in the housing market, particularly around supply and demand. It should be noted that the RiskWise algorithm used in the creation of reports contains dozens of housing variables. Furthermore, please note that while the analysis is performed on the state level, data at the capital city level is used when applicable and relevant.

Overall, oversupply of dwellings has a significant impact on capital growth and has been flagged as a high-risk area for the property market by lenders. It has a direct impact on specific lending restrictions. The current credit restrictions have increased the risk for units, particularly those unsuitable for families. The risk of oversupply has been realised particularly around the CBDs of Brisbane, Perth, Adelaide and Melbourne. Property demand is indicated by both price growth rates and auction clearance rates.

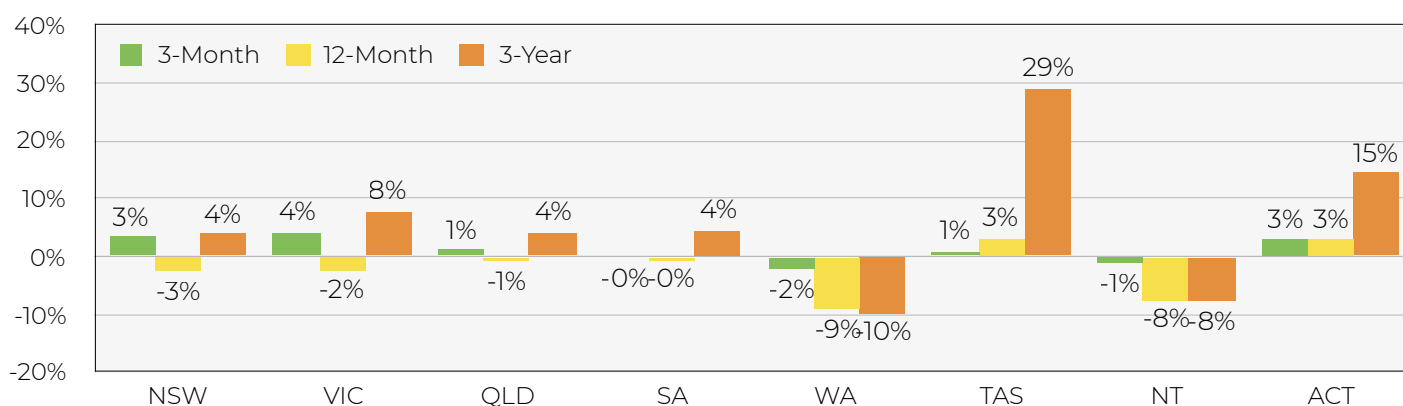
PRICE GROWTH RATES	22
HOUSES UNDER CONSTRUCTION	23
UNITS UNDER CONSTRUCTION	24
DWELLING SUPPLY TO POPULATION GROWTH	25
AUCTION CLEARANCE RATES	26

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Houses								
Units								

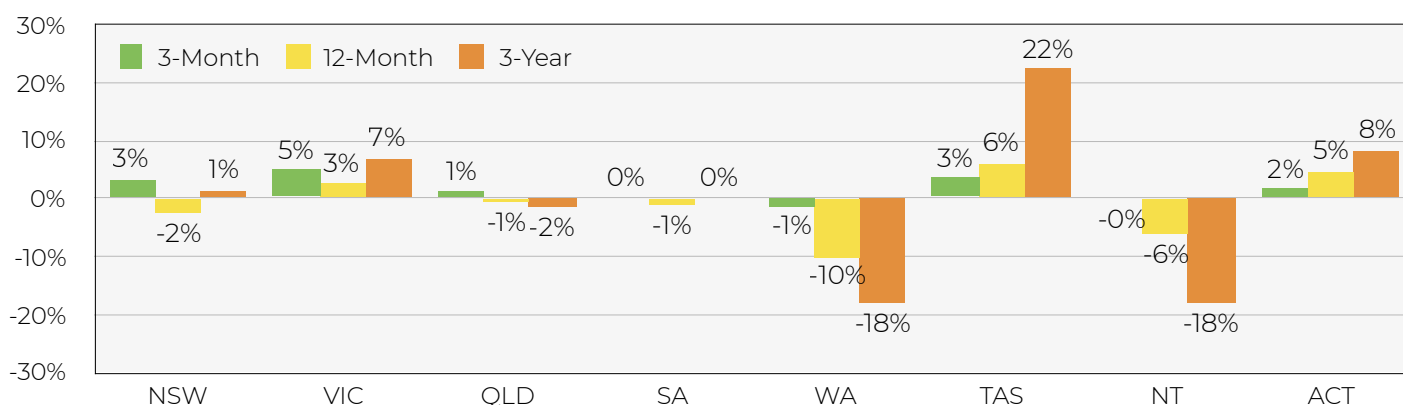
PRICE GROWTH RATES

Price growth rates give a strong indication of historical housing demand in a particular area and help to assess changes in the property market. Demand could be informed by a variety of factors including migration, jobs, affordability or lifestyle factors. For example, dwellings in affordable areas with good access to the city typically deliver strong growth rates, particularly in unaffordable markets such as NSW.

Price Growth for Houses



Price Growth for Units



CURRENT STATE

- After bottoming out in June, national housing prices in October increased for the fourth continuous month, especially in Sydney and Melbourne.
- WA and NT were the weakest markets for continuous falling prices in recent years for both houses and units, where units delivered very material losses.
- Houses in QLD delivered reasonable growth over the past three years. However, units carry high risk and are likely to experience negative price growth in some areas.

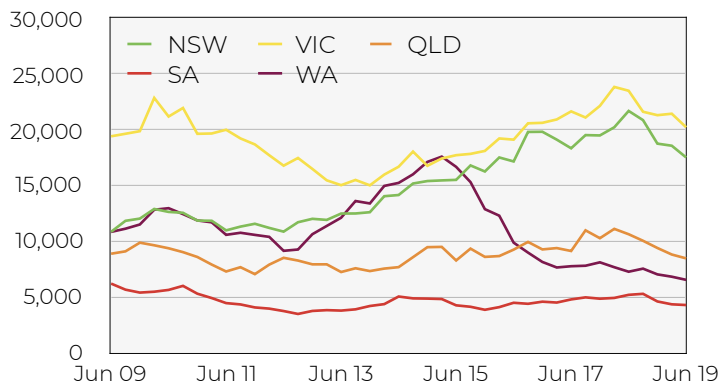
PROJECTION

- The combined factors of RBA's interest rate cuts, APRA's changes, more credit availability and the first home buyers' scheme will support the housing market recovery with solid growth projected in 2020 for Sydney and Melbourne.
- Overall QLD and SA will have stable markets with modest growth.
- However, units, particularly off-the-plan, still carry a high level of risk of significant price reductions. Areas with high unit oversupply carry a very high risk.
- The WA and the NT markets are still very soft.

HOUSES UNDER CONSTRUCTION

The number of houses under construction helps to create a forward-looking view around supply and demand. The supply of houses in a particular area may be greater than what the market can absorb, often leading to poor returns. An example of this includes the oversupply of houses in mining towns, inflicting significant losses on investors. Increasing numbers of houses under construction can also be an indication of strong economic conditions in a particular area meaning that high supply should not be analysed in isolation of other statistics.

NSW, VIC, QLD, SA, WA



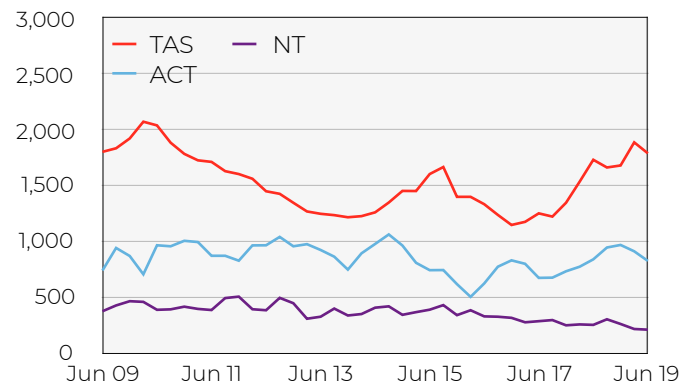
NSW VIC QLD SA

% of Existing Supply: 0.9% 1.2% 0.6% 0.7%

		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
NSW	●	18,549	17,498	15,028	↓
VIC	●	21,416	20,201	19,185	↓
QLD	●	8,803	8,455	8,807	↓
SA	●	4,341	4,277	4,619	↓

* Based on 10-year average

TAS, NT, ACT



WA TAS NT ACT

% of Existing Supply: 0.7% 1.0% 0.5% 0.7%

		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
WA	●	6,815	6,533	11,119	↓
TAS	●	1,885	1,787	1,524	↓
NT	●	213	207	358	↓
ACT	●	909	823	848	↓

CURRENT STATE

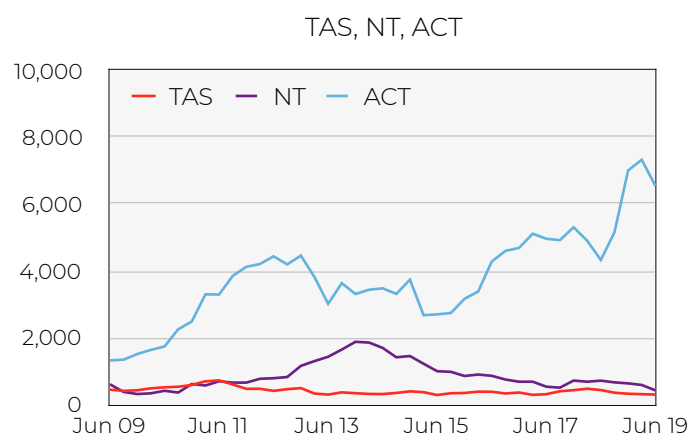
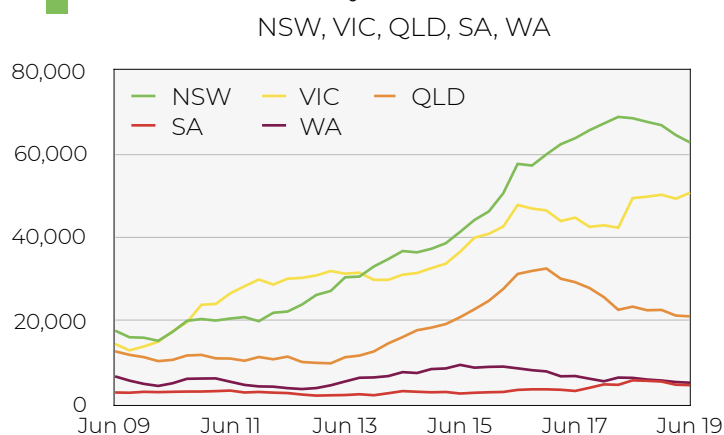
- The ABS September house approval figures declined by 0.3 per cent compared to August and by 13.8 per cent over a 12-month period. Overall, dwelling approvals (including units) fell 21.1 per cent compared to September 2018.
- During the June 2019 quarter, houses under construction also fell in most states and territories relative to March 2019. The current number of houses under construction is, overall, relatively low, with an addition of 0.6% to 1.2% to the current stock - well below the rate of population growth.

PROJECTION

- The risk for oversupply of houses is overall low, particularly in South-East QLD and other areas that while experiencing high levels of stock, enjoy good demand, with continuous house appreciation and low default rates at settlement.
- In the next two years, it is likely that the housing construction pipeline will significantly slow down with fewer houses likely to be built, mainly due to financing issues. This is likely to lead, at least in the medium term, to undersupply of new houses.

UNITS UNDER CONSTRUCTION

The number of units under construction helps to create a forward-looking view around supply and demand. The supply of units in a particular area may be greater than what the market can absorb, often leading to poor returns. An example of this includes the oversupply of units in Brisbane and Perth, inflicting significant losses on investors. Increasing numbers of units under construction can also be an indication of strong economic conditions in a particular area meaning that high supply should not be analysed in isolation of other statistics.



	NSW	VIC	QLD	SA
% of Existing Supply:	6.6%	7.2%	4.2%	4.5%

	WA	TAS	NT	ACT
% of Existing Supply:	3.5%	1.0%	1.9%	12.9%

		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
NSW	●	62,197	57,842	40,442	↓
VIC	●	51,043	49,956	34,933	↓
QLD	●	21,593	21,375	18,236	↓
SA	●	4,780	4,356	3,417	↓

		Mar Qtr 19	Jun Qtr 19	Benchmark*	Proj.
WA	●	5,304	5,303	6,350	↓
TAS	●	310	319	414	↓
NT	●	430	447	860	↓
ACT	●	6,537	6,389	3,919	↓

* Based on 10-year average

CURRENT STATE

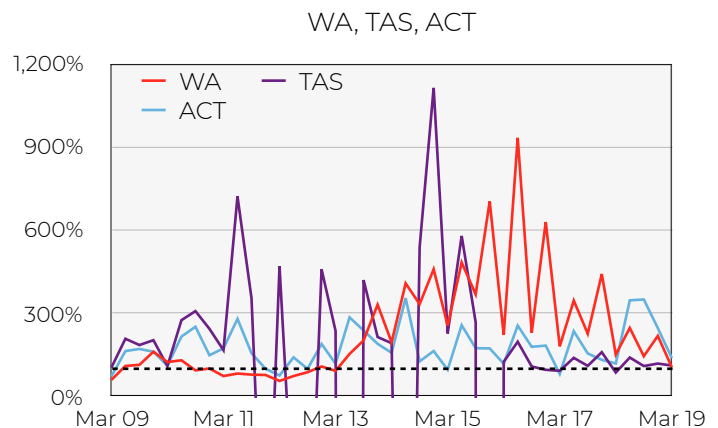
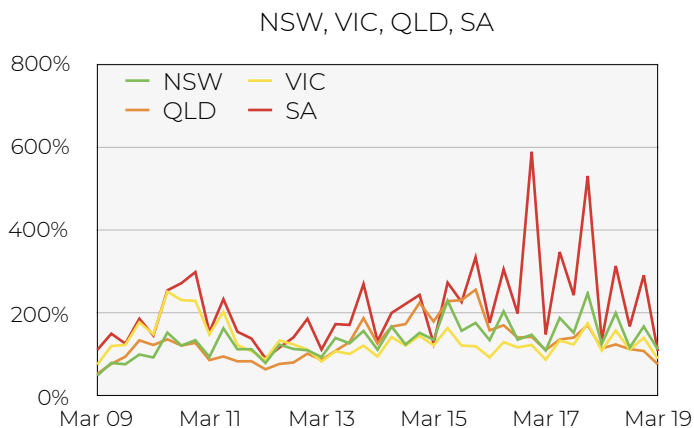
- The ABS September unit approval figures showed a 1.3 per cent decline compared to August and a huge 31.8 per cent drop over a 12-month period.
- However, a very high level of units is still under construction, so units in many areas carry high risk of significant price drops unless measures are taken to boost demand.
- In particular, off-the-plan units in most Australian capitals have high settlement risk due to falling unit prices.

PROJECTION

- The September decline in unit approvals continues the overall trend of significant reductions.
- In the next two years, it is highly likely that new unit commencements will continue to fall sharply. There is a very strong indication that demand for off-the-plan and newly-completed apartments is low. Current stock levels are still very high across many areas and therefore the risk of unit oversupply remains high.

DWELLING SUPPLY TO POPULATION GROWTH

The dwelling supply to population growth ratio is a useful measure to assess supply and demand. The metric provides an indication of the number of dwellings required to service population growth and therefore provides an indication as to what changes in capital growth property investors can expect. For example, a high ratio indicates that there is an increased likelihood of dwelling oversupply.



		Dec Qtr 18	Mar Qtr 19	Benchmark*	Proj.
NSW	●	167%	112%	100%	↓
VIC	●	140%	89%	100%	↓
QLD	●	108%	76%	100%	↓
SA	●	291%	108%	100%	↓

		Dec Qtr 18	Mar Qtr 19	Benchmark*	Proj.
WA	●	217%	103%	100%	↓
TAS	●	116%	109%	100%	↓
NT	-	No Data	No Data	No Data	↓
ACT	●	245%	136%	100%	↓

* Based on 100% being the equilibrium point between supply and demand

CURRENT STATE

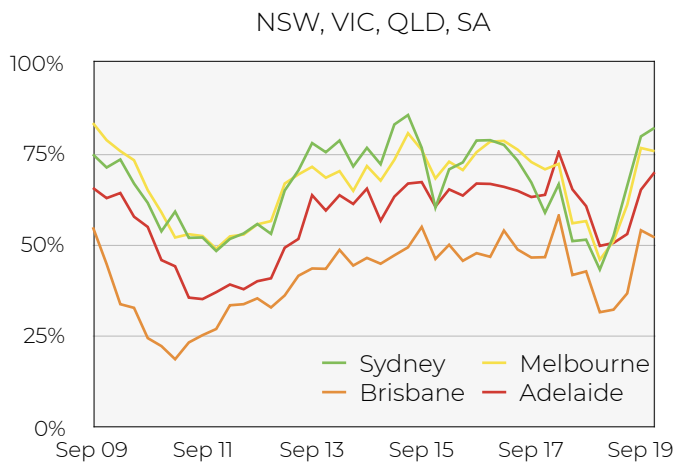
- The population growth rate in most states and territories has increased over the Mar 19 quarter. Therefore, the dwelling supply to population growth ratios in most states have dropped compared to the Dec 18 quarter.
- Dwelling supply increases are higher than the population growth rate in most states, especially in NSW and ACT. These supply increases have often delivered capital growth losses, particularly for off-the-plan properties.

PROJECTION

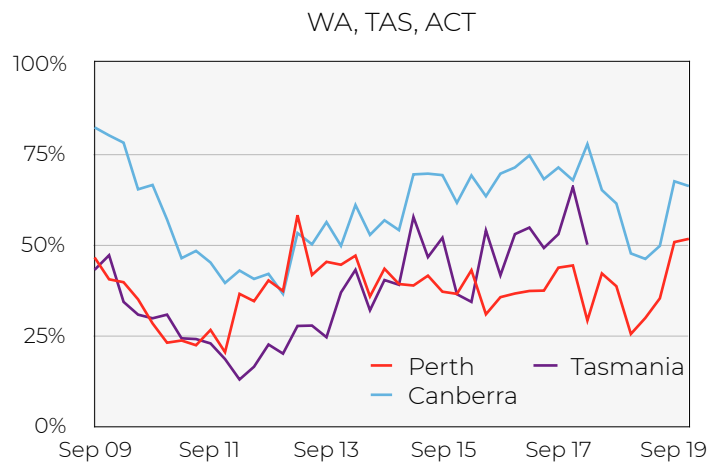
- It is highly likely that a significant reduction in dwelling construction will take place in the next couple of years. This could reduce the ratio of dwelling supply to population growth, particularly for units. However, it also depends on the population growth rates.
- With a large number of development approvals not proceeding to construction, this area should be closely monitored.

AUCTION CLEARANCE RATES

The Auction Clearance Rate (ACR) is the percentage of properties on the market that have been sold. The rate is typically measured weekly and gives the public, property professionals and decision-makers a good indication as to the current market conditions. A high clearance rates would typically indicate high buyer confidence and a strong residential property market. Therefore, low clearance rates would typically indicate a strong buyers' market and a high clearance rate would mean a strong sellers' market.



		Jul 19	Oct 19	Benchmark*	Proj.
NSW	●	77%	82%	60%	↗
VIC	●	72%	76%	60%	↗
QLD	●	39%	52%	40%	↗
SA	●	61%	70%	55%	↗



		Jul 19	Oct 19	Benchmark*	Proj.
WA	●	30%	52%	36%	↗
TAS	-	-	-	-	-
NT	-	-	-	-	-
ACT	●	56%	66%	59%	↗

* NSW & VIC are set at 60% given their status as traditional markets. The rest are 10-year averages

CURRENT STATE

- Auction results have consistently and materially improved following the election results and recent changes. Auction clearance rates are well correlated with strong price increases in Sydney and Melbourne.

PROJECTION

- It is likely that auction results will remain high, with very high likelihood of clearance rates above the 70% mark in Sydney and Melbourne, and with solid price growth in 2020.

3

HOUSING AFFORDABILITY

This category assesses different aspects of housing affordability, the price of dwellings against household income and a variety of serviceability measures. These are: dwelling price-to-income ratio; discounted variable interest rates; investor serviceability ratio; median rental yields; and securitised mortgage arrears rates. Furthermore, please note that while the analysis is performed on the state level, data at the capital city level is used when applicable and relevant.

The less affordable dwellings are, the greater the likelihood for slow / poor capital growth, and vice versa. Affordability measures significantly differ among the states and territories.

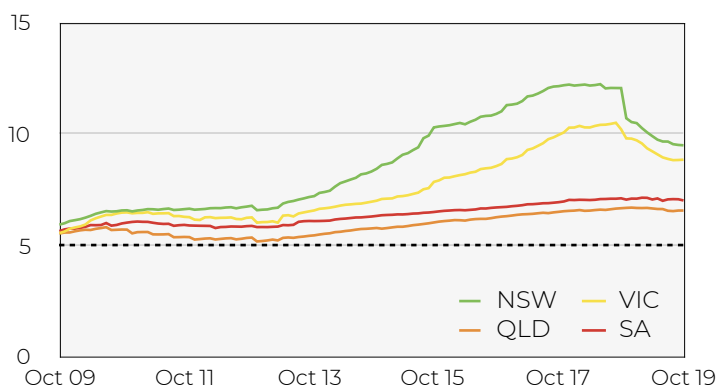
HOUSE PRICE-TO-INCOME RATIO	28
UNIT PRICE-TO-INCOME RATIO	29
MORTGAGE SERVICEABILITY RATIO - HOUSES	30
MORTGAGE SERVICEABILITY RATIO - UNITS	31
DISCOUNTED VARIABLE INTEREST RATES	32
INVESTOR SERVICEABILITY RATIO - HOUSES	33
INVESTOR SERVICEABILITY RATIO - UNITS	34
MEDIAN RENTAL RETURN	35

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Risk Rating	●	●	●	●	●	●	●	●

HOUSE PRICE-TO-INCOME RATIO

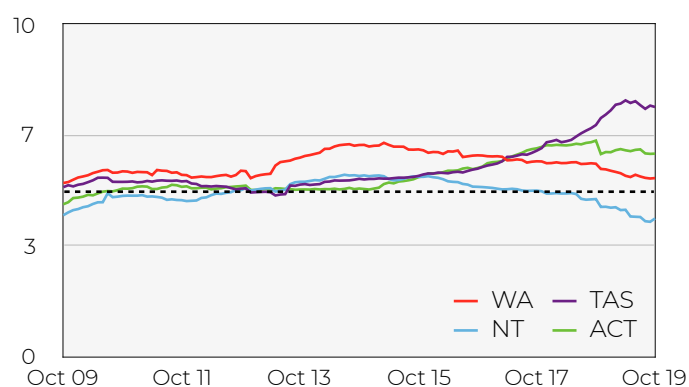
Dwelling Price-to-Income Ratio is a measure that illustrates the affordability of a particular property market. This ratio is measured by comparing the mean household income to the median price of dwellings in a particular area. For example, a high ratio indicates an unaffordable property market relative to the average wage in that area (such as NSW & VIC in the graph below).

NSW, VIC, QLD, SA



		Oct 18	Oct 19	Benchmark*	Proj.
NSW	●	12.1	9.5	5	↗
VIC	●	10.2	8.9	5	↗
QLD	●	6.7	6.6	5	→
SA	●	7.1	7.0	5	→

WA, TAS, NT, ACT



		Oct 18	Oct 19	Benchmark*	Proj.
WA	●	5.8	5.4	5	↘
TAS	●	7.0	7.5	5	→
NT	●	4.7	4.2	5	↘
ACT	●	6.5	6.1	5	→

* Our research suggests that a benchmark of 5 is an affordable ratio

CURRENT STATE

- Houses in NSW are the most unaffordable in Australia. While housing affordability has improved as illustrated by the lower price-to-income ratio, this is now deteriorating again.
- While VIC has also been unaffordable for people on an average income, there are many suburbs in the Greater Melbourne area offering affordable investment opportunities.
- QLD, WA, SA & NT are affordable relative to the NSW & VIC markets. As a result, QLD, in particular, has become increasingly popular among investors and home buyers.
- For first home buyers, housing has become more affordable across most capital cities.

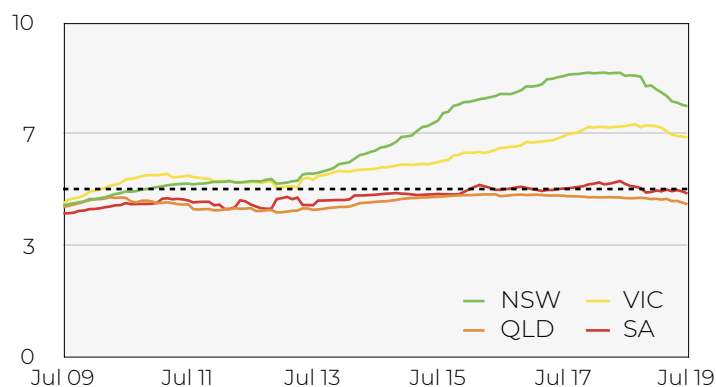
PROJECTION

- During the recent downturn, price reductions in the order of 11 to 15 per cent in Sydney and Melbourne significantly improved housing affordability.
- However, prices in Sydney and Melbourne have already started to recover with strong growth projected in the next two years. Combined with improved conditions in most of other areas, this will have a negative impact on housing affordability.
- In QLD, SA and the ACT it is likely that housing affordability will be similar to the current level (with a slight deterioration), with some price increases and modest wage growth.

UNIT PRICE-TO-INCOME RATIO

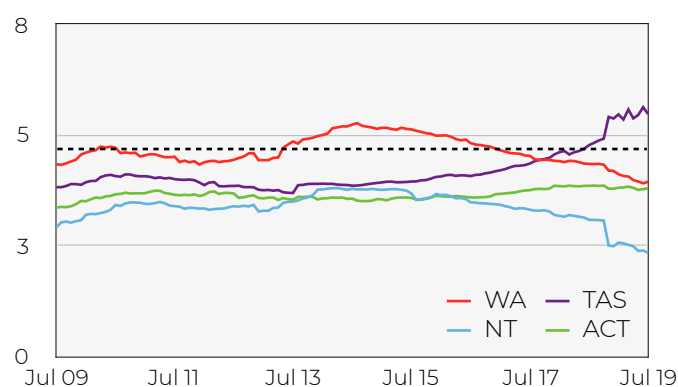
Dwelling Price-to-Income Ratio is a measure that illustrates the affordability of a particular property market. This ratio is measured by comparing the mean household income to the median price of dwellings in a particular area. For example, a high ratio indicates an unaffordable property market relative to the average wage in that area (such as NSW & VIC in the graph below).

NSW, VIC, QLD, SA



		Oct 18	Oct 19	Benchmark*	Proj.
NSW	●	8.4	7.5	5	↗
VIC	●	6.9	6.6	5	↗
QLD	●	4.8	4.6	5	→
SA	●	5.1	4.9	5	↘

WA, TAS, NT, ACT



		Oct 18	Oct 19	Benchmark*	Proj.
WA	●	4.6	4.1	5	↘
TAS	●	5.2	5.8	5	→
NT	●	3.3	2.5	5	↘
ACT	●	4.1	3.9	5	→

* Our research suggests that a benchmark of 5 is an affordable ratio

CURRENT STATE

- Units in NSW are the most unaffordable in Australia. However, unit affordability has improved as illustrated by the lower price-to-income ratio.
- While VIC has also been unaffordable for people on an average income, there are many suburbs in the Greater Melbourne area offering affordable investment opportunities.
- QLD, WA, SA, TAS & NT are affordable relative to the NSW & VIC markets. As a result, QLD, in particular, has become increasingly popular among investors and home buyers.

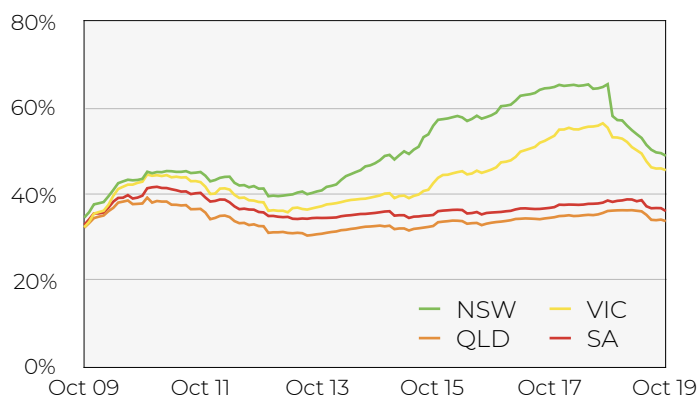
PROJECTION

- During the recent downturn, price reductions in the order of 11 to 15 per cent in Sydney and Melbourne significantly improved unit affordability.
- However, prices in Sydney and Melbourne have already started to recover with solid growth projected in the next two years.
- While there are improved conditions in other areas such as TAS and the ACT, the unit market is largely soft or 'stable' and overall, no material changes are expected in relation to unit affordability, besides of Sydney and Melbourne.

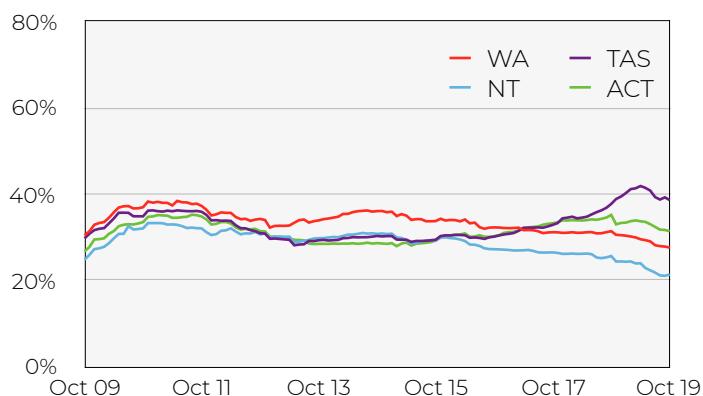
MORTGAGE SERVICEABILITY RATIO - HOUSES

The Mortgage Serviceability Ratio (MSR) is the ratio between the median household income and the amount that is required to service a discounted variable loan, based on an 80 per cent loan-to-value ratio (LVR). The ratio details the affordability, and therefore demand, of residential properties among owner-occupiers, i.e. the higher the ratio, the less affordable a mortgage becomes.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



		Jul 19	Oct 19	Benchmark*	Proj.
NSW	●	50%	49%	30%	↓
VIC	●	46%	46%	30%	↓
QLD	●	34%	34%	30%	↓
SA	●	37%	36%	30%	↓

		Jul 19	Oct 19	Benchmark*	Proj.
WA	●	28%	28%	30%	↓
TAS	●	39%	39%	30%	↓
NT	●	22%	21%	30%	↓
ACT	●	32%	31%	30%	↓

* In a low interest-rate environment the benchmark is 30%.

CURRENT STATE

- In NSW, the combination of very high house prices and lending restrictions have led to the highest MSR across Australia for houses. This has had a significant impact on owner-occupier demand, resulting in high interstate migration from NSW to other states.
- However, due to the RBA's rate cuts which have lowered mortgage interest rates, mortgage arrears ratios have fallen in all states and territories. For example, in WA, mortgage arrears ratio has fallen to 2.75 per cent compared to 3.05 per cent in June.
- Most affordable houses in Australia in terms of MSR are in the NT, which is likely to remain consistent over the short to medium term due to falling house prices.

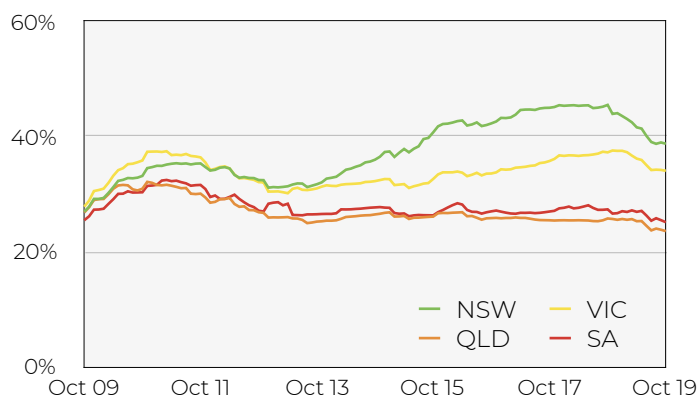
PROJECTION

- While improved, following the recent price reductions, the mortgage serviceability ratio for houses remains high, particularly in Sydney and Melbourne.
- However, the RBA's interest rate cuts and increased competition among bank and non-bank lenders will further improve the mortgage serviceability ratio for houses, mainly for 'low-risk borrowers' who purchased low-risk assets that are likely to enjoy very competitive interest rates.

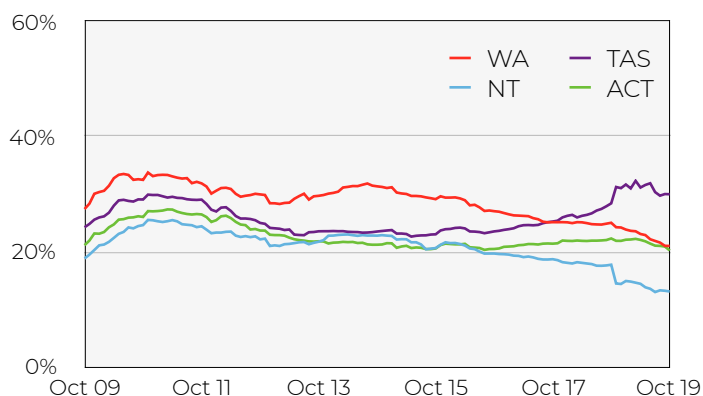
MORTGAGE SERVICEABILITY RATIO - UNITS

The Mortgage Serviceability Ratio (MSR) is the ratio between the median household income and the amount that is required to service a discounted variable loan, based on a 80 per cent loan-to-value ratio (LVR). The ratio details the affordability, and therefore demand, of residential properties among owner-occupiers, i.e. the higher the ratio, the less affordable a mortgage becomes.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



	Jul 19	Oct 19	Benchmark*	Proj.
NSW	39%	39%	30%	↓
VIC	34%	34%	30%	↓
QLD	24%	24%	30%	↓
SA	25%	25%	30%	↓

	Jul 19	Oct 19	Benchmark*	Proj.
WA	22%	21%	30%	↓
TAS	30%	30%	30%	↓
NT	13%	13%	30%	↓
ACT	21%	20%	30%	↓

* In a low interest-rate environment the benchmark is 30%.

CURRENT STATE

- In NSW, the combination of very high unit prices and lending restrictions have led to the highest MSR across Australia for units. This has had a significant impact on owner-occupier demand, resulting in high interstate migration from NSW to other states.
- However, due to the RBA's rate cuts which have lowered mortgage interest rates, mortgage arrears ratios have fallen in all states and territories. For example, in WA, mortgage arrears ratio has fallen to 2.75 per cent compared to 3.05 per cent in June.
- Most affordable units in Australia in terms of MSR are in the NT, which is likely to remain consistent over the short to medium term due to falling unit prices.

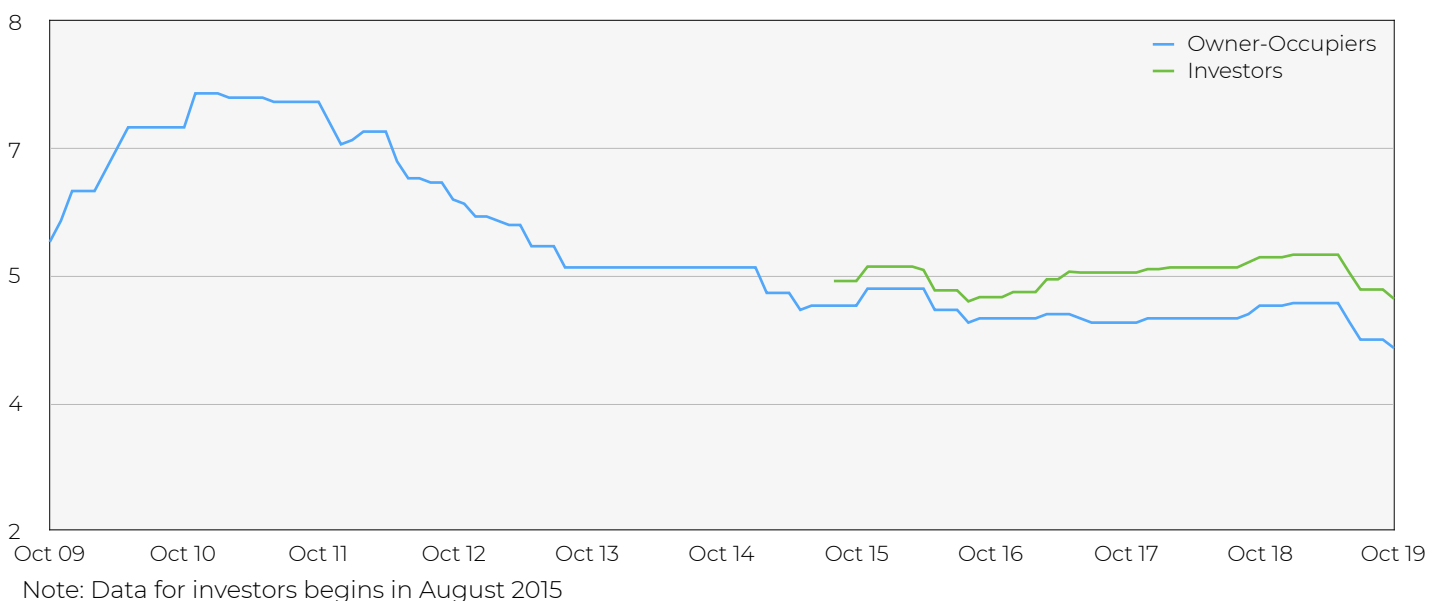
PROJECTION

- The mortgage serviceability ratio for units is well below the ratio for houses.
- While improved following the recent price reductions, the mortgage serviceability ratio for units remains high in Sydney and Melbourne.
- However, the RBA's interest rate cuts and increased competition among bank and non-bank lenders will further improve the mortgage serviceability ratio for units, mainly for 'low-risk borrowers' who purchased low-risk assets that are likely to enjoy very competitive interest rates.
- Overall, units across the country are likely to be more affordable than the benchmark.

DISCOUNTED VARIABLE INTEREST RATES

A discounted variable interest rate loan is a loan in which the interest rate charged on the outstanding balance is discounted (the actual interest rate) and varies as market interest rates change. As a result, payments will vary as well (as long as payments are blended with principal and interest). Different interest rates typically apply to owner-occupiers and investors, particularly if there are lending restrictions.

Discounted Variable Interest Rates (By Owner-Occupiers and Investors)



CURRENT STATE

- As illustrated above, RBA's interest rate cuts have already had a direct impact on the discounted variable interest rates.
- Lenders have passed most of the rate cuts to customers.
- Currently, there is a significant gap between the discounted variable interest rate offered to owner-occupiers and investors. This gap of 0.6 per cent is reflective of the lending restrictions on investors.

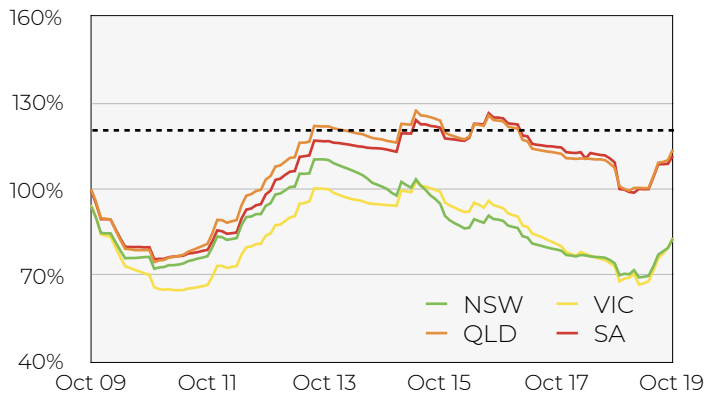
PROJECTED

- There is more than 50 per cent chance of another rate cut in the first half of 2020.
- Further, the implementation of the changes to APRA's 'stress test' and increased completion should materially increase borrowing capacity (as the buffer is now calculated on the basis of the actual interest rate)
- Any reduction of discounted variable interest rates for investors is likely to attract new borrowers with an increase in investor activity expected.

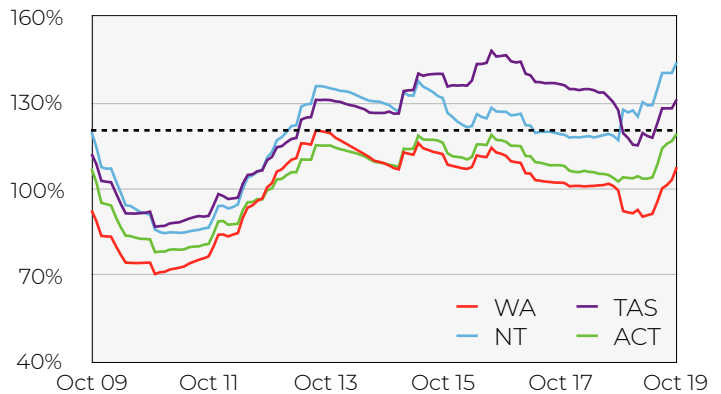
INVESTMENT SERVICEABILITY RATIO - HOUSES

The Investment Serviceability Ratio (ISR) is the ratio between the gross rental return and the amount that is required to service a discounted variable loan, based on a 80 per cent loan-to-value ratio (LVR). The ratio details the profitability, and therefore demand, of residential properties among investors, i.e. the higher the ratio, the more serviceable a loan becomes. The lower the ratio, the higher the out-of-pocket expenses for property investors.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



		Jul 19	Oct 19	Benchmark*	Proj.
NSW	●	77%	83%	120%	↗
VIC	●	76%	83%	120%	↗
QLD	●	109%	114%	120%	↗
SA	●	109%	112%	120%	↗

		Jul 19	Oct 19	Benchmark*	Proj.
WA	●	100%	108%	120%	↗
TAS	●	128%	131%	120%	↗
NT	●	140%	144%	120%	↗
ACT	●	114%	119%	120%	↗

* In a low interest-rate environment the benchmark is 120%.

CURRENT STATE

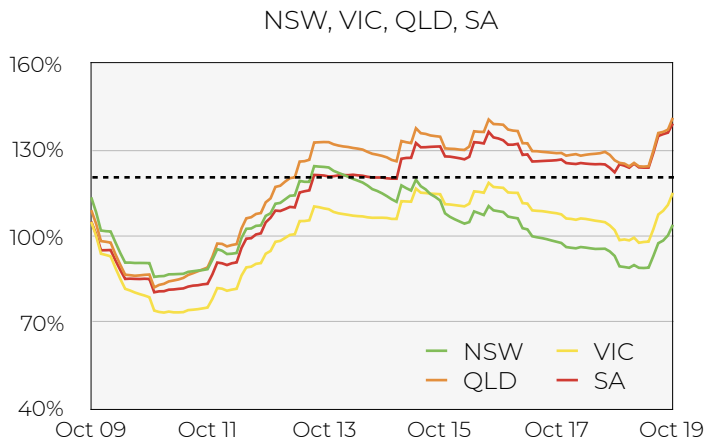
- As illustrated above, the RBA's interest rate cuts have already increased investment serviceability ratios across all states and territories.
- However, in NSW & VIC, the combination of low rental returns, higher interest rates for property investors and lending restrictions still led to the lowest serviceability ratios across Australia for houses. This has had a significant impact on investor demand, resulting in low / negative capital growth across areas in Sydney and Melbourne.
- TAS delivered an exceptional ratio that should be viewed very favourably among investors.

PROJECTION

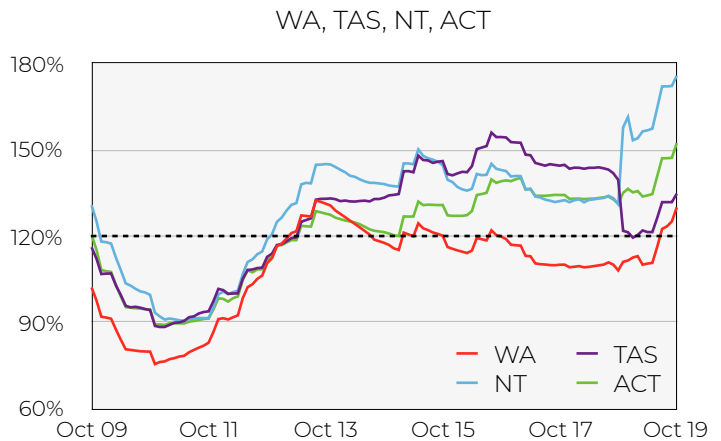
- It is projected that rental returns will remain largely unchanged over the short to medium term for all states and territories.
- If the RBA cuts interest rate again, which is likely to happen in the first half of 2020, it should further improve the investment serviceability ratio.

INVESTMENT SERVICEABILITY RATIO - UNITS

The Investment Serviceability Ratio (ISR) is the ratio between the gross rental return and the amount that is required to service a discounted variable loan, based on a 80 per cent loan-to-value ratio (LVR). The ratio details the profitability, and therefore demand, of residential properties among investors, i.e. the higher the ratio, the more serviceable a loan becomes.



		Jul 19	Oct 19	Benchmark*	Proj.
NSW	●	98%	104%	120%	↑
VIC	●	108%	115%	120%	↑
QLD	●	136%	141%	120%	↑
SA	●	135%	139%	120%	↑



		Jul 19	Oct 19	Benchmark*	Proj.
WA	●	123%	130%	120%	↑
TAS	●	132%	135%	120%	↑
NT	●	172%	176%	120%	↑
ACT	●	147%	152%	120%	↑

* In a low interest-rate environment the benchmark is 120%.

CURRENT STATE

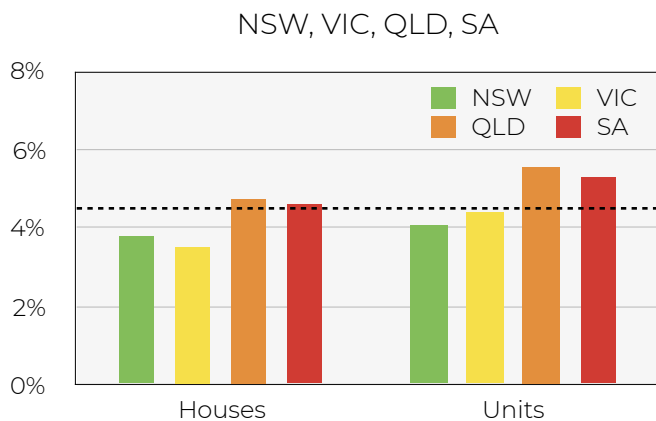
- As illustrated above, the RBA's interest rate cuts have already increased investment serviceability ratios across all states and territories.
- As with houses, in NSW & VIC, the combination of low rental returns, higher interest rates for property investors and lending restrictions still led to the lowest serviceability ratios across Australia. This has had a significant impact on investor demand.
- QLD and ACT delivered an exceptional ratio that should be viewed favourably among investors.

PROJECTION

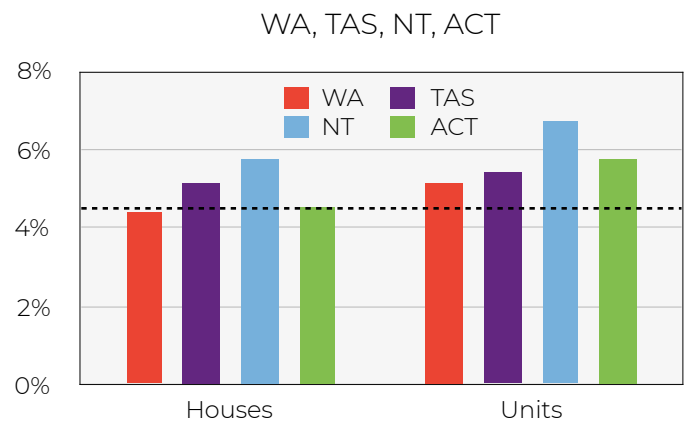
- It is projected that rental returns will remain largely unchanged over the short to medium term for all states and territories.
- If the RBA cuts interest rate again, which is likely to happen in the first half of 2020, it should further improve the investment serviceability ratio.

MEDIAN RENTAL RETURN

Rental return is the rental income as a percentage of the property's value. In this instance, it is calculated as a gross percentage, before expenses are deducted. Median rental returns across a particular area give a broad indication of the rental potential of a particular market. For example, a high rental return would indicate a property market in high demand.



	Houses	Units	Benchmark*	Proj.
NSW	3.8%	4.1%	4.5%	↘
VIC	3.6%	4.4%	4.5%	↘
QLD	4.7%	5.6%	4.5%	↗
SA	4.6%	5.3%	4.5%	↗



	Houses	Units	Benchmark*	Proj.
WA	4.4%	5.2%	4.5%	↗
TAS	5.1%	5.4%	4.5%	→
NT	5.8%	6.7%	4.5%	↗
ACT	4.5%	5.8%	4.5%	→

* Based on research conducted by RiskWise Property Research

CURRENT STATE

- NSW and VIC have consistently underperformed the benchmark, particularly for houses. This is largely due to the very high median house prices in those property markets and only minor changes to weekly rent.
- QLD and SA both delivered good rental return for both houses and units. South-East QLD, in particular, has become an attractive destination for property investors.

PROJECTION

- While improving, median rental returns are likely to remain low, particularly for houses (but also for units) in NSW and VIC in the short to medium term. Price increases are likely to lead to lower rental returns.
- Rental returns in QLD, SA, TAS and ACT are likely to remain strong as a result of reduced supply of housing and good demand for rental properties. These areas should be targeted by investors seeking affordability and high rental returns in the housing rental market. However, gradual price increases for houses, particularly in South-East QLD, are likely to result in declining rental return in the short to medium term across some suburbs.

4

TAX REGIMES, CREDIT STANDARDS & RESTRICTIONS

Credit Standards & Restrictions are:

1. Measures in relation to residential mortgage lending that are set by APRA (the Australian banking regulator) or voluntarily by the lenders to mitigate the financial risks in the Australian property market. These include, among others, 'black lists' of areas with potential oversupply of dwellings, a smaller proportion of interest-only loans and a limited growth rate of lending for property investors.
2. Legislation, regulation and tax regimes dictate what property buyers are able to do. These encourage or discourage buyer activity and have a major impact on investor activity in the form of negative gearing and reduced capital gains tax for investment properties.

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	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Risk Rating	●	●	●	●	●	●	●	●

LEGISLATION, REGULATIONS & TAX REGIMES

Legislation, regulations and tax regimes dictate exactly what property buyers are able to do. These legal frameworks determine things like who can invest, the funds that can be borrowed and how an investment impacts tax position. As these laws and regulations are constantly changing, property buyers should be aware of all the challenges and benefits.

CURRENT STATE

- APRA is watching the housing market closely, particularly given record-low interest rates, already high household debt, and signs of some revival in borrowing for speculative purposes.
- APRA has removed the 7 per cent 'stress test' buffer on home loans.
- As projected, APRA's change to the 'stress test' combined with the RBA's interest rate cuts have increased borrowing capacity by around 9% for investors and potentially 13-14% for owner-occupiers.
- APRA has also proposed an overhaul of its approach to credit risk, which is the first since 2006. It includes improved board oversight and the requirement for banks to maintain prudent risk practices over a loan's entire duration.
- ASIC has lost its legal battle with Westpac over responsible lending and filed an appeal. If ASIC also loses the appeal, it may change mortgage rules. These rule changes could make it harder and more expensive for borrowers to get a new home loan.
- Foreign buyers are generally required to apply for approval before purchasing residential properties in Australia. Government policy indicates that foreign investment should be channeled into new dwellings.

PROJECTION

- APRA's changes to the 'stress test' have partially lifted the credit restrictions.
- High risks in relation to credit provisions and a more risk-based approach towards loan applications, and the risk associated with the security (i.e. property), mean that high-risk borrowers and / or high-risk properties will be subject to more conservative lending requirements and, in some cases, loan applications will be rejected.
- It is highly likely that a 'case-by-case basis' approval process, supported by automated tools, will take place to further increase differentiation between credit restrictions over different loans.
- It should be noted that strong investor activity is perceived by the RBA as a 'speculation' that increases the risk to the financial stability.
- Consequently, a major increase in investor activity is likely to trigger the reintroduction of macroprudential measures by APRA.

VOLUNTARY CREDIT RESTRICTIONS

Banking Credit Restrictions & Standards are based on two factors. First, specific credit restrictions are determined by each lender and go beyond regulatory requirements. Second, credit standards policies and procedures in relation to loan applications, such as scrutinisation of loan applications as required by the Banking Royal Commission. These standards are applied to both investors and owner-occupiers and are often used by banks to respond to market changes. One of their common forms is to have a significantly higher interest rate for investors.

CURRENT STATE

- The latest RBA data showed that seasonally-adjusted housing credit grew by just 3.1 per cent from September 2018, down from 5.2 per cent in the previous corresponding period. This is mainly driven by voluntary lending restrictions.
- There seems to be less credit restrictions, with some lenders increasing the LVR to 90 per cent. The easing, combined with a significant increase in demand for credit (by prospective home buyers), has a material impact on housing finance and on the housing market.
- There has also been a sharp rise in home loans issued by non-banks as major lenders face increased regulatory scrutiny.
- An increased number of lenders are cutting interest rates to attract property investors, however, investor activity is very low and the demand for credit is also low due to weak sentiment regarding dwelling prices.

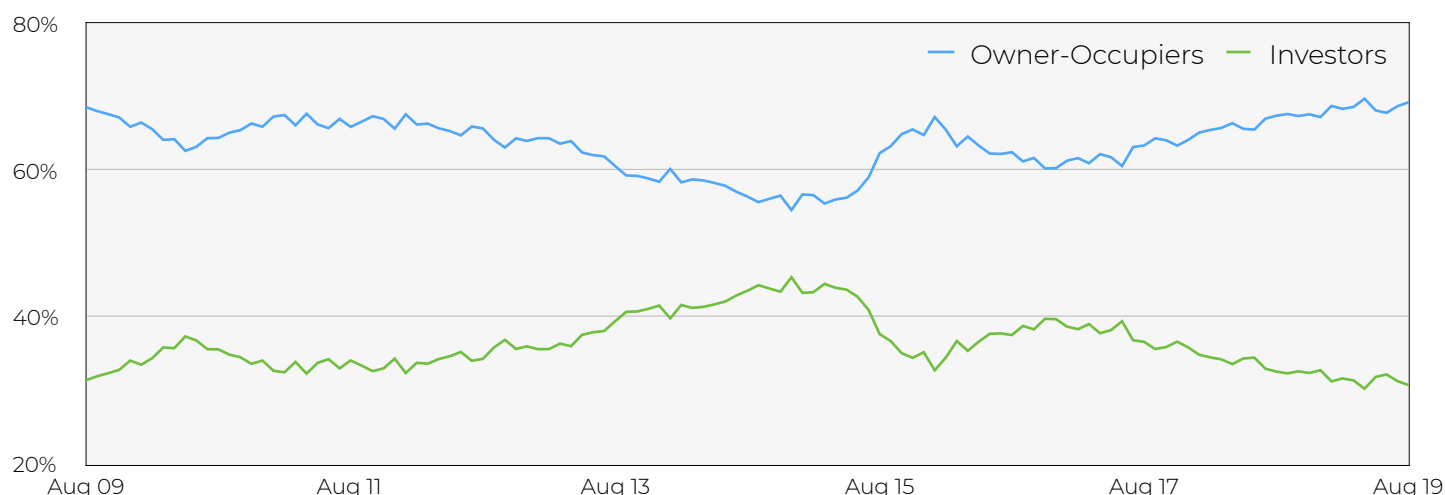
PROJECTION

- It is likely, particularly for non-bank lenders to have less voluntary credit restrictions, mainly for owner-occupiers who apply for principal and interest loans.
- However, credit restrictions for investors are likely to remain tighter than for owner-occupiers, in particular, across inner-city suburbs as the risk of unit oversupply is fully realised.
- The rising non-bank lending trend is likely to continue, mainly for lenders that have aggressive growth targets and greater reliance on technology and effective and efficient processes to approve home loans quickly.

INVESTOR AND HOME-BUYER ACTIVITY

Investor and home-buyer activity is the aggregated value of loan commitments undertaken. The measure checks the proportion of investors and home buyers. When investor activity is high, it is likely that prices will increase, the number of first home buyers will decline and government policy will change.

Owner-Occupiers and Investors as a Proportion of Lendees



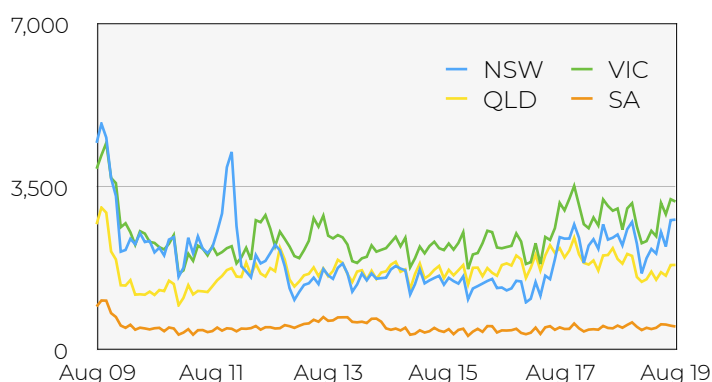
CURRENT STATE

- New housing loans for owner-occupiers recorded a 1.9% growth in August compared to July. In addition, investor lending increased by 5.7%, the biggest growth since September 2016.
- Further, first home buyers' share of owner-occupied loans also rose 5.2%, the largest growth this year.
- The improvement is due to the RBA's interest rate cuts, loosening credit restrictions and improving investor sentiment on housing.

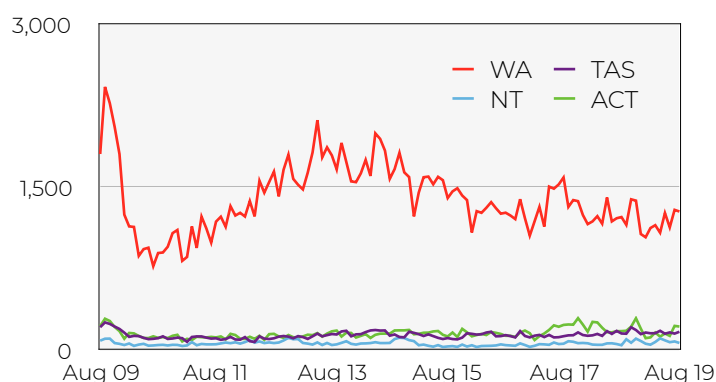
PROJECTION

- While investor lending is still well below boom times, it is likely to materially increase. The combined factors of the RBA's interest rate cuts, APRA's changes and less credit restrictions have led to improved serviceability and lower out-of-pocket costs for investors and this is likely to drive a significant increase in investor activity.
- Further, the first home buyer scheme, once implemented, is predicted to increase their activity in the market.

First Home Buyers (No. Of Lendees)

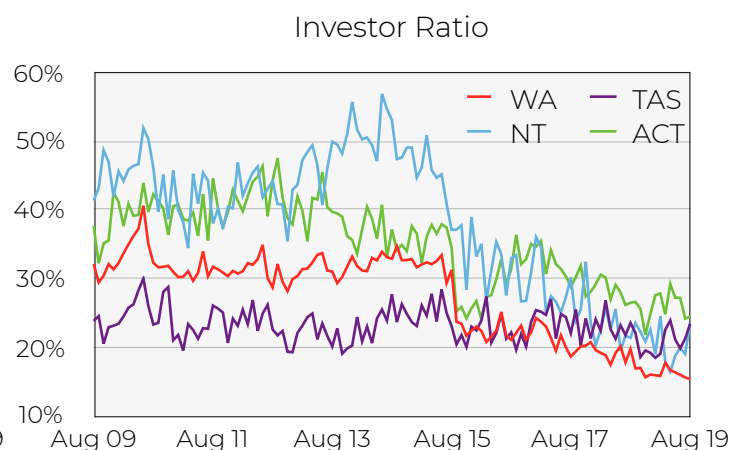
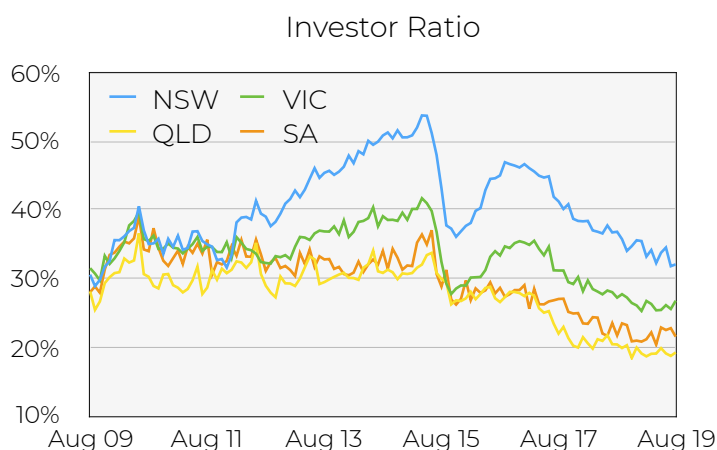


First Home Buyers (No. Of Lendees)



STATE & TERRITORY INVESTOR ACTIVITY

Investor and home-buyer activity is the aggregated value of loan commitments undertaken. The measure checks the proportion of investors and home buyers. When investor activity is high, it is likely that prices will increase, the number of first home buyers will decline and government policy will change.



		Jun 19	Aug 19	Benchmark*	Proj.
NSW	●	34.5%	32.0%	40.3%	↗
VIC	●	26.1%	26.7%	33.4%	↗
QLD	●	19.0%	19.2%	27.7%	→
SA	●	22.5%	21.5%	29.9%	→

		Jun 19	Aug 19	Benchmark*	Proj.
WA	●	15.9%	15.3%	27.2%	→
TAS	●	19.8%	23.4%	23.1%	→
NT	●	19.9%	23.4%	37.9%	↘
ACT	●	27.2%	24.4%	34.9%	→

* Based on 10-year average

CURRENT STATE

- NSW & VIC delivered a significant fall in the number of property investors in the market over the past 12 months and, consequently, Sydney and Melbourne experienced price reductions.
- However, after the election, investor activity has been showing signs of improvement in VIC. This has been driven by the removal of the potential taxation changes, which was the number one risk to the property market.
- Investor activity in QLD and TAS have also risen, which is likely due to their relative affordability and good rental yields.

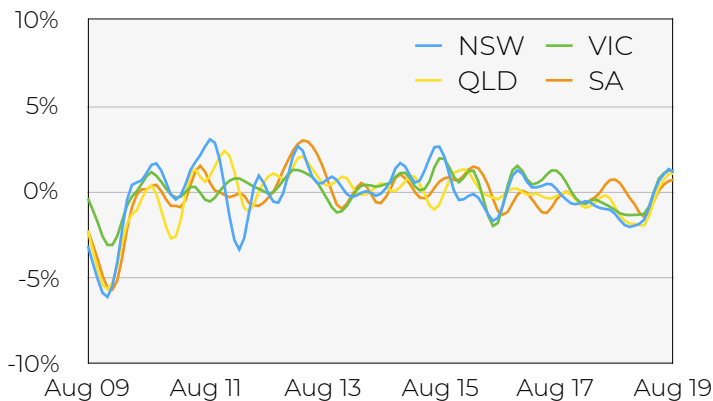
PROJECTION

- While investor lending is below the long-term average, it is likely to gradually increase as a result of the election and RBA interest rate cuts.
- It is likely that QLD will show some increase over the medium term due to its relative affordability and its increasing recognition as a growing investment market for the future.

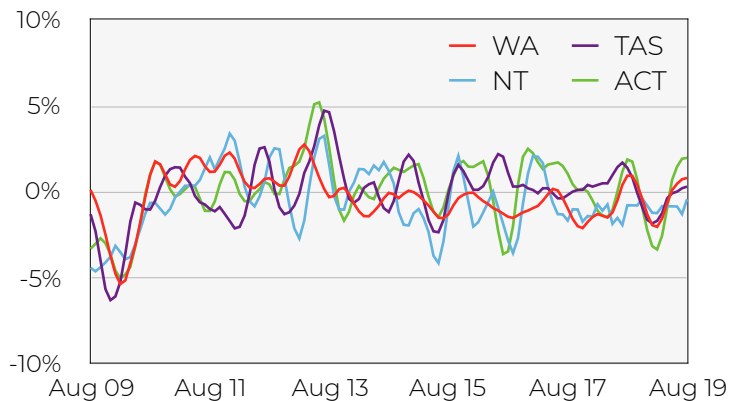
LENDING VOLUME

Lending volume is the number of new loan commitments signed within a set period. The ABS collects the data on a monthly basis and this can be tracked to see the number of new loans approved within any given month. This data is a useful measure to obtain an insight into factors such as consumer confidence and market strength.

Lending Volume (Percentage Change)



Lending Volume (Percentage Change)



		Jun 19	Aug 19	Benchmark*	Proj.
NSW	●	14,196	14,546	14,803	↗
VIC	●	14,323	14,673	13,671	↗
QLD	●	8,882	9,067	9,650	↗
SA	●	3,415	3,460	3,460	→

		Jun 19	Aug 19	Benchmark*	Proj.
WA	●	4,593	4,663	6,156	→
TAS	●	1,022	1,027	911	↘
NT	●	229	225	327	→
ACT	●	1,045	1,086	929	↗

* Based on 10-year average

CURRENT STATE

- Compared to June, almost all states and territories have recorded an increase in lending volumes. This means that overall buyer sentiment and activity have improved.
- Lending volumes in WA have fallen below the 10-year benchmark since the end of the mining boom. This change correlates with falling house prices.
- With increases in both lending volumes and borrowing capacity, dwelling prices have already started to rise again, particularly in NSW and VIC.

PROJECTION

- Lending volumes are projected to continue improving over the short to medium term. This is largely due to the election result and interest rate cuts by the RBA.
- However, there will still be a reduction in activity in areas and property types that require investors to heavily rely on cash flow, for example, off-the-plan units.

STATE/TERRITORY INCENTIVES AND FOREIGN INVESTOR RESTRICTIONS

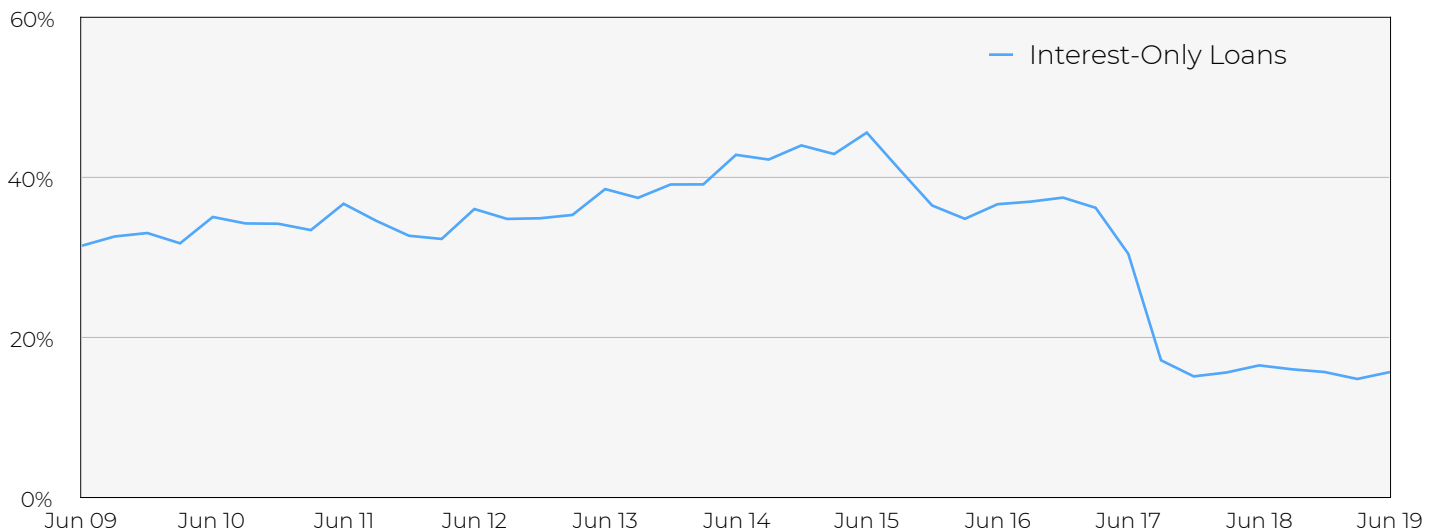
The governments of all Australian states/territories provide incentives for first home owners in the form of monetary grants and/or stamp duty exemptions/concessions. On the other hand, they also create restrictions for foreign investors who wish to buy properties in Australia. The following is the list of first home owner incentives and foreign investor restrictions.

State/ Territory	First Home Owner Grant	First Home Owner Stamp Duty Exemption/Concession	Foreign Investor Restriction
ACT	\$7,000	Available on new or substantially renovated properties valued at less than \$562,000	0.75% land tax surcharge
NSW	\$10,000	Exemptions from transfer duty on new homes valued up to \$650,000 and concessions for new homes valued between \$650,000 and \$800,000	Stamp duty surcharge of 8% and 2% land tax surcharge
VIC	\$10,000 - \$20,000	Exemptions from stamp duty on new homes valued below \$600,000 and concessions for new homes valued between \$600,000 and \$750,000	Stamp duty surcharge of 7% and 1.5% land tax surcharge
QLD	\$15,000	Exemptions from stamp duty on homes valued below \$500,000 and concessions for homes valued below \$550,000	Stamp duty surcharge of 7% and 0.25% land tax surcharge
WA	\$10,000	Exemptions from stamp duty on homes valued below \$430,000 and concessions for homes valued below \$530,000	Stamp duty surcharge of 4% with 75% rebate for off-the-plan apartment purchases
SA	\$15,000	Available on new or substantially renovated units, capped at the stamp duty payable on a \$500,000 valued apartment	Stamp duty surcharge of 7%
TAS	\$20,000	No concessions or exemptions from stamp duty	Stamp duty surcharge of 3%
NT	\$26,000	Full concession on the initial \$500,000 value of the home	No stamp duty surcharge

INTEREST-ONLY HOUSING LOANS

As the name suggests, an Interest Only Loan is exactly that, a mortgage whereby repayments only cover the interest on the amount borrowed, during the interest-only period. This type of loan is very popular among investors but it does come with increased risk and costs significantly more in the long run.

New Interest-Only Loans to Total Residential Loans



CURRENT STATE

- Since 1 January 2019, APRA has removed the restriction on interest-only home loans to 30 per cent of new residential mortgage loans.
- As the above graph shows, the previous restriction had a significant impact on the investment housing market after it was applied in 2017. Interest-only loans now only form about 15.8 per cent of total residential loans.

PROJECTION

- While there are less interest-only loan restrictions, to create a significant impact they need to be on a larger scale. Also, current serviceability requirements and increased loan application scrutiny are the restrictions with the biggest impact for now.
- It is likely that interest-only loans will still continue to remain low due to improved risk-management practices among lenders.

5

JOBS & EMPLOYMENT

The jobs & employment category measures the overall health of the labour market in Australia and in each of the states and territories. These measures are: unemployment; underemployment; effective unemployment; and wage growth.

A strong employment market with many employment opportunities triggers stronger migration, higher wage growth and stronger demand for housing. On the other hand, areas that suffer from poor employment opportunities experience poor and often negative property capital growth.

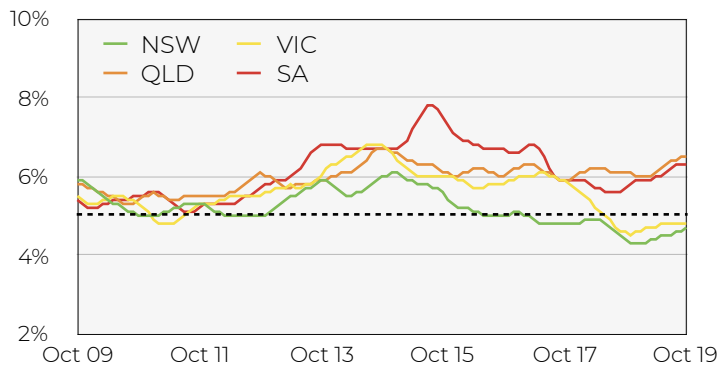
UNEMPLOYMENT	45
UNDEREMPLOYMENT	46
EFFECTIVE UNEMPLOYMENT	47
WAGE GROWTH	48

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Risk Rating	●	●	●	●	●	●	●	●

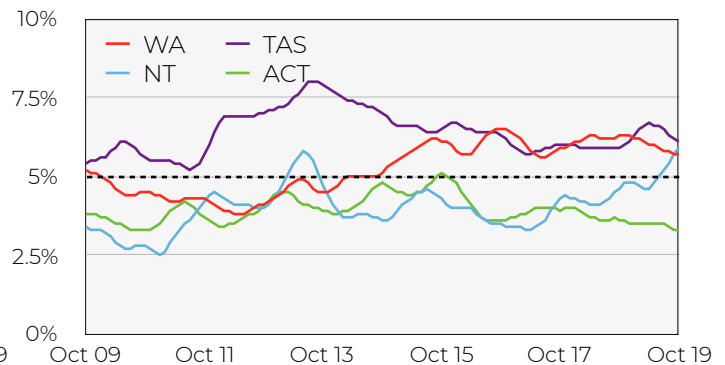
UNEMPLOYMENT

The unemployment rate is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labour force. During periods of recession, an economy usually experiences a relatively high unemployment rate. Unemployment strongly correlates with poor economic growth.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



		Jul 19	Oct 19	Benchmark*	Proj.
NSW	●	4.5%	4.7%	5.2%	↗
VIC	●	4.8%	4.8%	5.6%	↗
QLD	●	6.4%	6.5%	6.0%	↗
SA	●	6.3%	6.3%	6.1%	↗

		Jul 19	Oct 19	Benchmark*	Proj.
WA	●	5.9%	5.7%	5.2%	↗
TAS	●	6.5%	6.1%	6.4%	↗
NT	●	5.2%	5.9%	4.0%	↗
ACT	●	3.5%	3.3%	3.9%	↗

* Based on 10-year average

CURRENT STATE

- Australia's seasonally-adjusted unemployment rate increased from 5.2 per cent in September to 5.3 per cent in October. There is an overall trend of a softer employment market, particularly in NSW and VIC.
- The total number of lost jobs were 19,000, of which 10,300 were full-time jobs. Also, participation rate fell to 66 per cent.
- Further, according to ANZ, October job advertisements declined by 11.4 per cent over the past year.
- The unemployment rate is above the 10-year benchmark in QLD, SA, WA and the NT.

PROJECTION

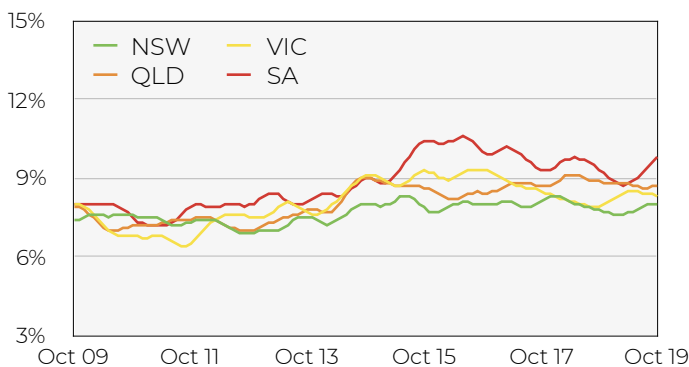
- While the unemployment rate is still relatively low, lower GDP growth and the adverse impacts of reduction in dwelling approvals and consumer spending are likely to increase the unemployment rate further. As of now, the trend of the unemployment rate is towards 5.5-5.6 per cent within the next 12 months.
- Further, in the event of declining global economic conditions, the unemployment rate could increase, particularly in centres more exposed to economic fluctuations, such as NSW and VIC.

Note: Unemployment provides limited insight into the job market. To truly understand the health of the job market, underemployment, effective unemployment and wage growth must also be considered.

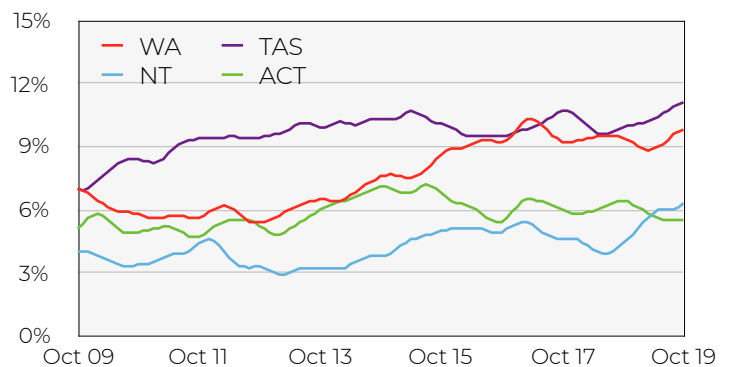
UNDEREMPLOYMENT

Underemployment is the under-use of a worker due to a job that does not fully utilise the worker's skills, is part-time or leaves the worker idle. Examples include holding a part-time job, despite desiring full-time work, and over-qualification where the employee has education, experience or skills beyond the requirements of the job. Underemployment has a similar impact as unemployment.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



		Jul 19	Oct 19	Benchmark*	Proj.
NSW	●	7.9%	8.0%	7.7%	↗
VIC	●	8.4%	8.3%	8.1%	↗
QLD	●	8.6%	8.7%	8.1%	↗
SA	●	9.2%	9.8%	8.8%	↗

* Based on 10-year average

		Jul 19	Oct 19	Benchmark*	Proj.
WA	●	9.3%	9.8%	7.6%	↗
TAS	●	10.7%	11.1%	9.6%	↗
NT	●	6.0%	6.3%	4.2%	↗
ACT	●	5.6%	5.5%	5.8%	↗

CURRENT STATE

- The ACT delivered relatively low levels of underemployment compared to the other states. This is largely driven by the strength of the bureaucratic employment hub in Canberra.
- NT also experienced traditionally low underemployment. However, this is unlikely to remain at a low level.
- The underemployment rates in TAS, WA and SA have been high in recent years, due to unfavourable economic conditions that have led to poor job and wage growth.

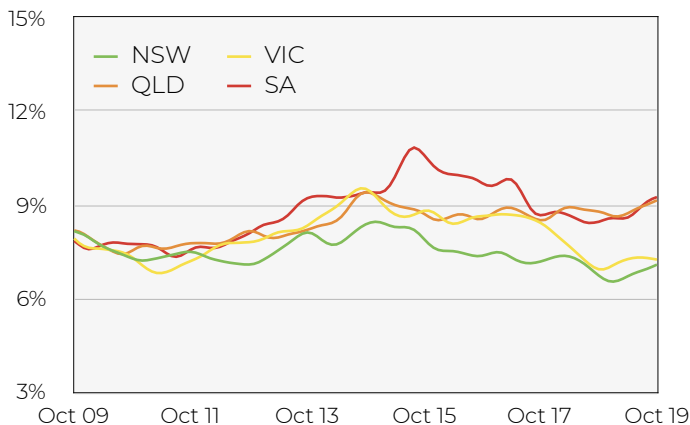
PROJECTION

- The increasing unemployment rate is likely to be similar to the rise in the underemployment, as an articulation of the 'spare capacity' of our labour force.
- The underemployment rate in QLD, SA and WA are likely to remain above the 10-year benchmark during the remainder of 2019.
- Underemployment in NT is likely to increase slightly. With growing part-time employment, declining job vacancies and moderating wage growth, labour conditions may suffer in the short to medium term.

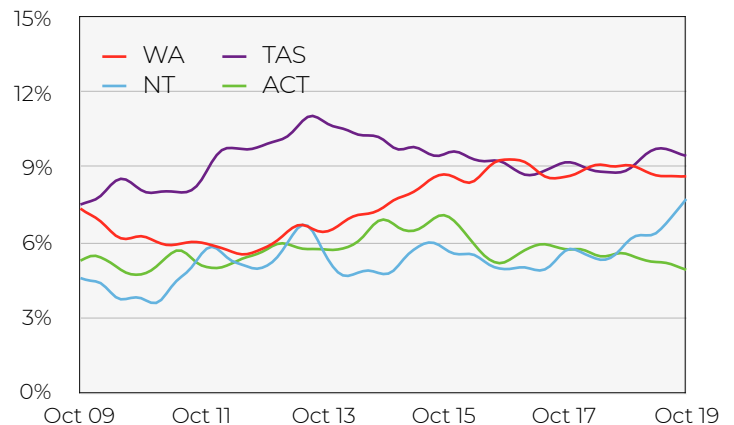
EFFECTIVE UNEMPLOYMENT

The effective unemployment rate is an aggregate of the unemployment rate and measured work hours of underemployment. The measure provides a more accurate picture of the number of people not employed at their full workforce potential.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT



		Jul 19	Oct 19	Benchmark*	Proj.
NSW	●	6.9%	7.1%	7.5%	↗
VIC	●	7.3%	7.3%	8.0%	↗
QLD	●	9.0%	9.1%	8.4%	↗
SA	●	9.1%	9.3%	8.8%	↗

		Jul 19	Oct 19	Benchmark*	Proj.
WA	●	8.7%	8.6%	7.5%	↗
TAS	●	9.7%	9.5%	9.3%	↗
NT	●	7.0%	7.7%	5.3%	↗
ACT	●	5.2%	4.9%	5.7%	↗

* Based on 10-year average

CURRENT STATE

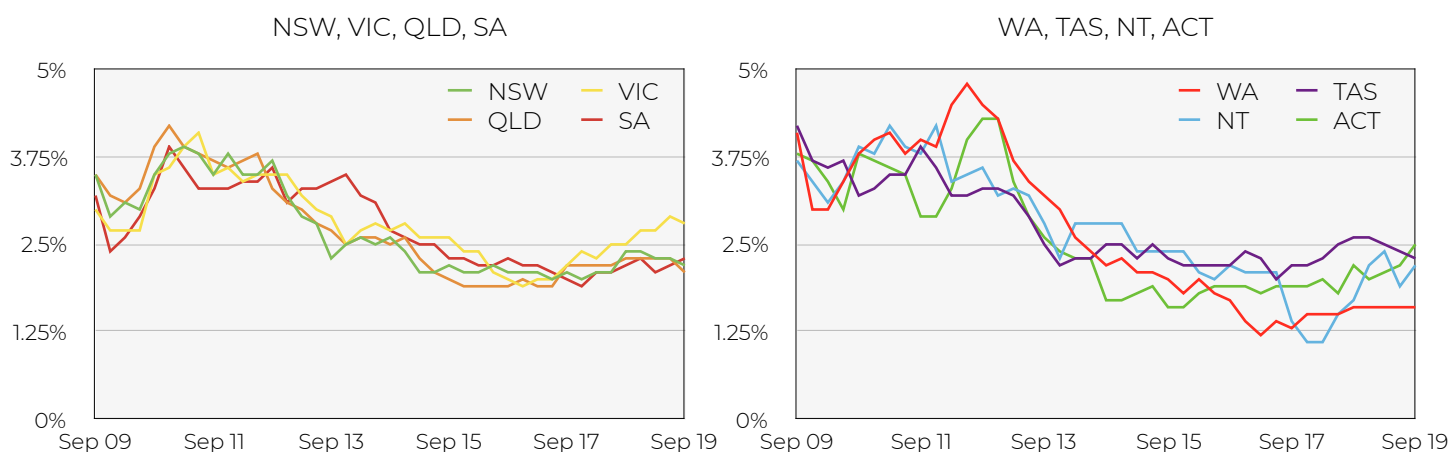
- While effective unemployment across Australia remains above the benchmark, NSW, VIC and the ACT are still below their 10-year benchmarks.
- While the Australian economy is generating a large number of jobs, the majority of them are part-time, resulting in high effective unemployment in many states.
- WA and the NT delivered high effective unemployment relative to the 10-year benchmark.

PROJECTION

- It is likely that the effective unemployment will increase over the short to medium term due to an increase in the 'spare capacity' of our labour force.
- Lower GDP growth and the adverse impacts of reduction in dwelling approvals and consumer spending are likely to increase the effective unemployment rate further.

WAGE GROWTH

Wage growth is the percentage change in weekly income. This data is captured quarterly and shows the movement in wage growth over a 10-year period. Wage growth has a significant impact on housing affordability and median rent. Wage growth has a major impact on inflation and therefore cash rate and interest rates.



		Jun Qtr 19	Sep Qtr 19	Benchmark*	Proj.
NSW	●	2.3%	2.2%	2.7%	➔
VIC	●	2.9%	2.8%	2.8%	➔
QLD	●	2.3%	2.1%	2.7%	➔
SA	●	2.2%	2.3%	2.7%	➔

		Jun Qtr 19	Sep Qtr 19	Benchmark*	Proj.
WA	●	1.6%	1.6%	2.7%	➔
TAS	●	2.4%	2.3%	2.8%	➔
NT	●	1.9%	2.2%	2.7%	➔
ACT	●	2.2%	2.5%	2.6%	➔

* Based on 10-year average

CURRENT STATE

- Nationally, the current annual wage growth rate is 2.2 per cent with most of the growth coming from the public sector.
- With the exception of VIC, all states and territories across Australia still experienced slow wage growth below the 10-year benchmark average.
- In real terms, slow wage growth has continued in the past quarter.
- The public sector consistently outperforms the private sector around wage growth due to moderate demand for working hours by the private sector.

PROJECTION

- It should be noted that the RBA expects no material improvement to wage growth within the next two years. So, it is very unlikely that wage growth will be around the 3 per cent RBA target.
- Higher effective unemployment is likely to have a continual impact on poor wage growth. However, the income tax cut will increase the net income of households in the lower and middle brackets.
- WA is likely to remain the worst wage growth performer as a result of its weaker economy.

6

POPULATION & DEMOGRAPHICS

The population & demographics category measures the overall population growth as well as its components (net overseas migration, net interstate migration and natural increase).

Population growth is a key driver in demand for residential properties by both home buyers and renters, and has a strong correlation with capital growth.

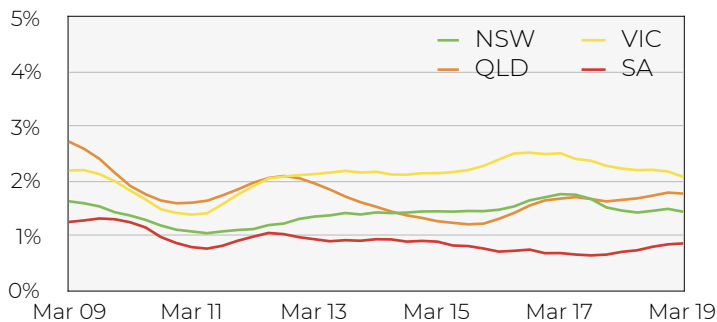
POPULATION GROWTH	50
NATURAL INCREASE	50
NET MIGRATION: OVERSEAS	51
NET MIGRATION: INTERSTATE	51

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Risk Rating	●	●	●	●	●	●	●	●

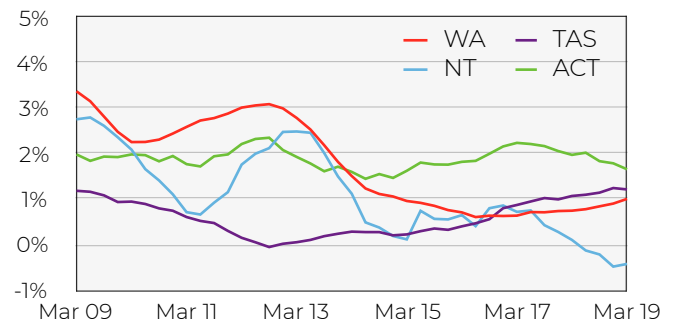
POPULATION GROWTH

Population growth provides a good indication of the likely changes in demand within a particular property market. This assists with determining what could happen regarding growth and return rates for property investors. For example, if population rates decrease, demand and, therefore, returns are likely to stagnate or decline.

NSW, VIC, QLD, SA



WA, TAS, NT, ACT

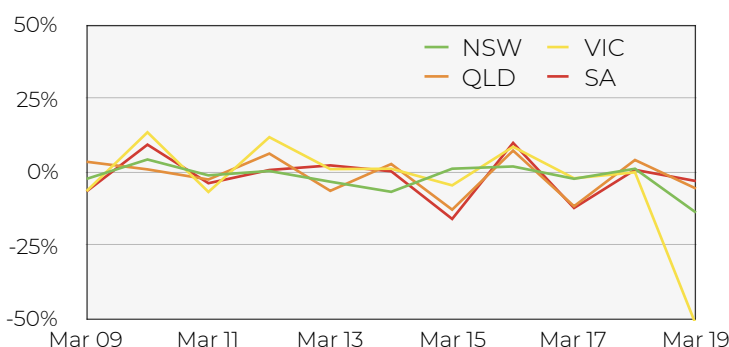


- The population growth rate for Australia for the year ending 31 March 2019 was 1.6 per cent with 64.2 per cent of the growth coming from net overseas migration.
- VIC delivered the highest population growth rate of 2.1 per cent. This will likely bring strong long-term demand for the expanding state.
- WA & NT delivered volatile growth rates in recent years largely triggered by the end of the mining boom.
- Other states such as NSW and QLD have shown solid population growth over the past few years.
- QLD is likely to produce high growth rates due to high level of interstate migration.

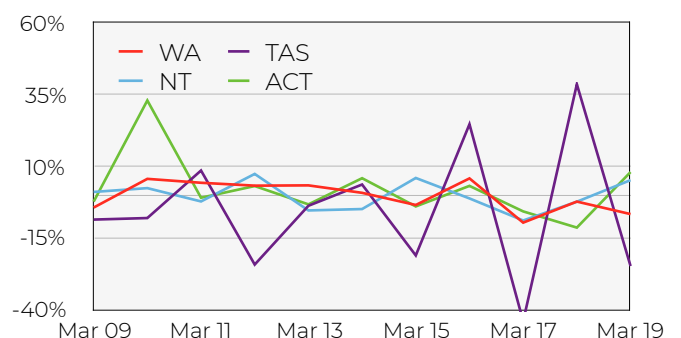
NATURAL INCREASE (BIRTHS/DEATHS)

The rate of natural increase is the crude birth rate minus the crude death rate. This rate excludes population increase from immigration and emigration. This metric provides a strong indication of how demographic changes may impact housing demand.

NSW, VIC, QLD, SA



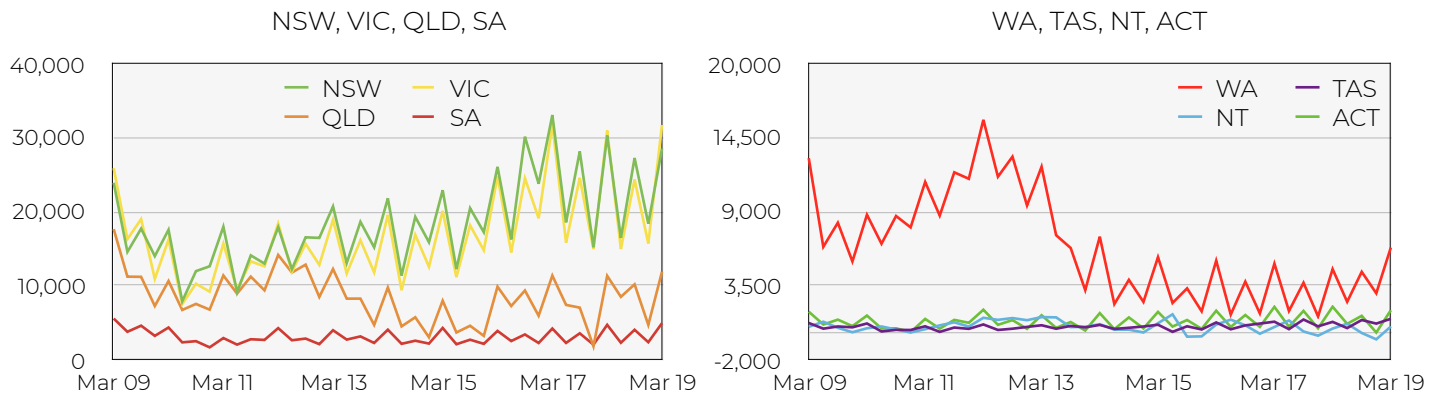
WA, TAS, NT, ACT



- WA has shown steady decline likely due to the large number of young families and couples migrating to other states or territories.
- The natural increase rate is likely to fall nationally over the medium to long term due to Australia's ageing population.

NET MIGRATION: OVERSEAS

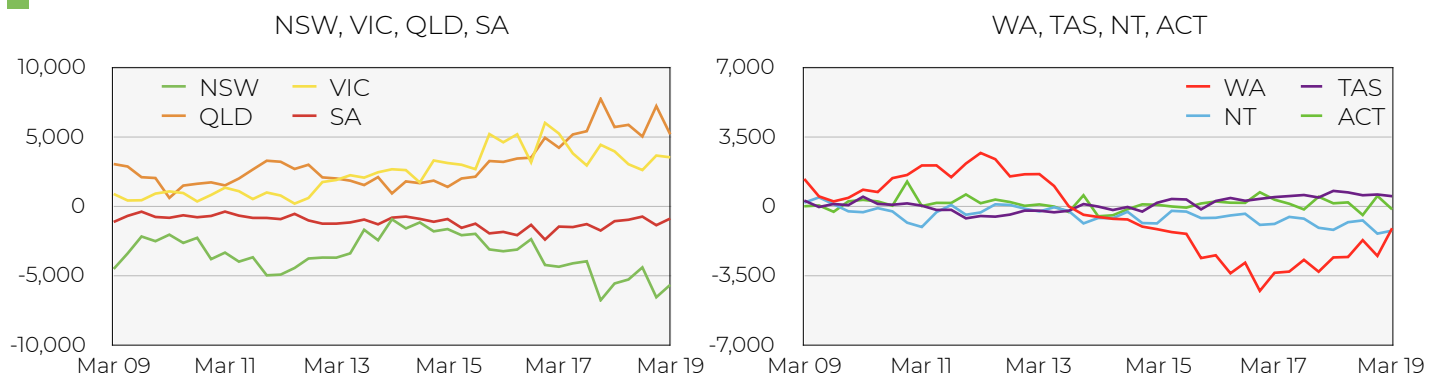
Net overseas migration is the net gain or loss of population through immigration to Australia and emigration from Australia. It is an important metric to anticipate property demand at the state and territory level.



- The Federal Government has cut the annual permanent overseas immigrant quota from 190,000 to 160,000.
- NSW and VIC remain the most dominant states for attracting overseas migrants, eclipsing all other states and territories.
- While Australia's population growth is high by international standards, due to the quota cut, the growth rate is projected to decrease. This will affect future demand for housing in the medium and long term, mainly outside of Sydney and Melbourne.

NET MIGRATION: INTERSTATE

Net interstate migration is the net gain or loss of population through the movement of people from one state or territory of usual residence to another. It is an important component required to calculate Australia's estimated resident population at the state and territory level.



- Affordability has been the key driving force behind interstate migration. In NSW, high median house prices relative to the median income are the major reason behind net interstate migration losses.
- QLD and VIC have dramatically outperformed all other states and have continuously been the states of choice for those already living in Australia.

7

HOUSING VS ALTERNATIVE ASSET CLASSES

The objective of this section is to assess the attractiveness of the residential property market against the top two investment alternatives.

For that, the two measures that best reflect the attractiveness of these types of investments are term deposits and the ASX 200. Lack of attractive investment alternatives increases investor demand for property, drives prices up, and vice versa. The risk ratings below are based on short-term risk.

TERM DEPOSIT RATES	53
S&P/ASX 200	53

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Houses	●	●	●	●	●	●	●	●
Units	●	●	●	●	●	●	●	●

TERM DEPOSIT RATES

A term deposit is an investment of cash placed with a financial institution for a fixed period of time, known as the term, with a fixed interest rate for your return at the end of the term. Term deposits typically range from 6 months to 5 years, and deliver a different interest rate depending on the length of term. When there is high volatility and poor returns, the property market is favoured.



	Current	Projected
Health:	Poor	

- Term deposit rates have consistently declined throughout the post financial crisis period.
- Rates have dropped even lower due to RBA's interest rate cuts and very low funding costs.
- As an alternate investment option, term deposits have produced very poor returns across the major banks.
- Term deposit rates are likely to remain consistently low over the medium to long term in a low interest-rate environment.

ASX 200

The ASX 200 index is a market capitalisation weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's. The index provides a good insight into the strength of Australia's largest companies on the stock market. When there is high volatility and poor returns, the property market is favourable.



	Current	Projected
Health:	Volatile	

- The ASX 200 delivered significant volatility over the past few years. This has reduced its popularity among 'mum and dad' investors relative to 'brick & mortar' investments.
- Due to ongoing volatility and uncertainty, equities are a higher risk investment.

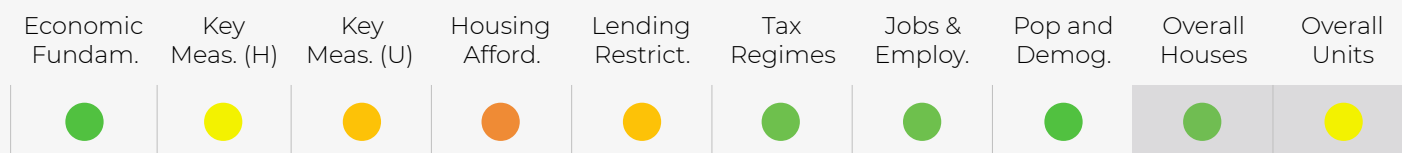


8

STATES & TERRITORIES: SUMMARY

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NEW SOUTH WALES



As projected in our previous Risks & Opportunities reports, the property markets in Sydney is recovering. It should be noted that buyer confidence and auction clearance rates have increased significantly and are well correlated with strong price increases. Since the federal election, the Sydney market has completely shifted from a buyers' market to a sellers' market. Consequently, at this stage it is possible that the Sydney market will deliver double digit price increases and is likely to reach a new peak by the end of 2020.

Housing affordability is therefore highly likely to materially deteriorate as wage growth is way lower than the expected price increases. Further, undersupply of family-suitable properties, relative to demand driven by population increases, is again the biggest (recurrent) issue in the Sydney property market since mid-last decade. A significant reduction in dwelling commencements will continue to create a problem of undersupply of family-suitable properties in high-demand areas. On the other hand, there is still a high level of supply of rental properties in some areas of Sydney. The reputational damage and the tangible financial risk that is associated with high-rise units further increases the risk in some areas.

Therefore, there are now major imbalances between undersupply of family-suitable properties and a high level of supply of investment properties. This will have a material impact on price changes of these two cohorts of dwellings, where family-suitable properties are highly likely to significantly outperform the market.

Population growth continues to be strong in NSW at 1.4 per cent and in Sydney at 1.8 per cent, and unemployment sits at 4.7 per cent and 4.3 per cent respectively. These are key factors to support demand for housing. Housing finance in NSW has improved noticeably with an increase of 31.5 per cent since February 2019 after a reduction of 10 per cent relative to August 2018. In particular, the lucrative inner and middle rings of Sydney are leading the recovery as demonstrated by very strong auction clearance rates and low levels of supply. It should be noted that while investor activity is now only 32 per cent, well below its peak, it is highly likely that it will materially increase. Since Sydney has the largest proportion of investors in the market, it is highly likely that they will amplify price increases.

Also, September ABS dwelling approvals showed a 27 per cent drop to 3,670 in NSW and Sydney, a 32.6 per cent drop to 2,451 dwellings. Units were hardest hit, particularly in Sydney, where approvals fell 36.6 per cent over a 12-month period, however stock levels in some areas remain high and these, combined with the new emerging risk of construction defects in high-rise buildings, which have received major media coverage since late last year, are compounding these risks, as detailed in our previous Risks and Opportunities Report.

NEW SOUTH WALES

Overall, the recovery of the market with potentially a new peak in 2020, will mitigate the risk of negative equity of properties that have been purchased in Sydney in the past couple of years and depreciated in value, and properties that have LVR of 90 per cent or more. However, some properties, particularly those that are potentially affected by construction defects, and units in high rises that carry a high price tag, still hold elevated levels of risk for negative equity for LVR of 90 per cent or higher.

It is possible APRA will consider the reintroduction of macroprudential measures if investor activity increases very significantly and becomes a major contributing factor to double digit growth and potentially create an increased risk to the housing market.

Houses

As projected in our previous Risks & Opportunities reports, many areas that have experienced strong reductions over the past couple of years have shown solid signs of recovery and price increases. In fact, we project strong price increases across a large number of areas in Sydney in the short term, and particularly the long term, thanks to a good population growth and employment market, as detailed above.

As expected, the market has improved with affordable areas that have shown resilience now recovering well. Other areas, including lucrative ones that experienced strong price reductions, are now leading the way to this recovery. Many of the regional areas, particularly those with good access to Sydney also show price increases and increased demand.

However, there are some risks in the short term and some greenfield areas carry a higher level of risk for houses in the short term due to a high level of supply. A prime example of this is Sydney – South West with an addition of 7,266 houses in the next 24 months, being 7.1 per cent of the current stock. However, while the short-term risk is elevated, over the medium to long term no dramatic price reductions are expected, and houses still present a significantly lower level of risk than that associated with high-rise units.

Undersupply in the inner and middle rings, and also in the more affordable outer areas, such as the western suburbs or the Central Coast, will create solid demand over the medium to long term.

In addition, some areas will benefit from stronger demand for properties as a result of major infrastructure projects that the NSW State Government is planning worth \$87 billion in the next four years. For example, the \$14 billion Western Harbour Tunnel and adjoining Beaches Link projects and the \$2.4 billion first stage of the F6 Motorway.

NEW SOUTH WALES

Units

Areas with high demand and generally low supply, such as the Northern Beaches and the eastern suburbs, as well as those suitable for families and owner-occupiers, particularly in the inner and middle rings will enjoy good demand.

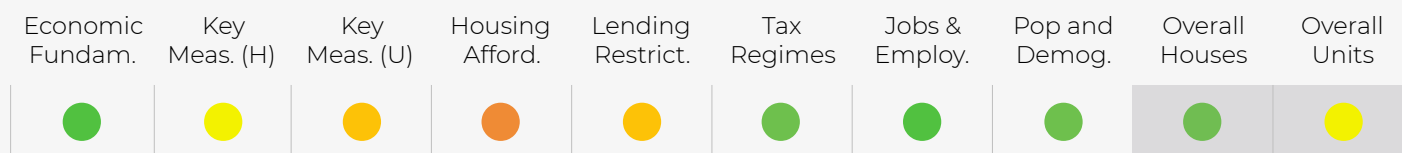
However, some areas across Sydney carry higher risk due to oversupply. A large proportion of units in NSW, and particularly Sydney, are bought by investors. It is likely that units in high-supply areas will underperform that market and, in some cases, carry a risk of price depreciation in the short term. In particular, new units that were bought off-the-plan and are subject to pre-settlement valuation, generally carry a higher level of risk for price depreciation. Examples of areas in Sydney with unit oversupply include Blacktown with 6,477 units in the pipeline (39.3 per cent increase to the current stock) and Baulkham Hills - Hawkesbury with 2,039 units in the pipeline (20 per cent increase to the current stock).

This impact in the short to medium term will be gradually mitigated by a reduction in dwelling commencements alongside strong population growth.

However, as mentioned in our previous Risks & Opportunities report, high-rise construction defects in many Sydney buildings, including the Mascot and Opal towers, have also become a key emerging risk, particularly with the high-profile media attention focused on them.

Therefore, the equity risk associated with units in high-rise buildings for both new and existing properties remains high in a large number of areas due to a combination of unit oversupply and construction-defect risks.

VICTORIA



As per NSW above, and in particular Sydney, the property markets in Melbourne is well on the way to recovery. In fact, there are very strong indications Melbourne is likely to reach a new peak in 2020, meaning it will highly likely be one of the two top performing markets in Australia, well ahead of any others. As with Sydney, buyer confidence and auction clearance rates (71.7 per cent as at 9 November) are on the rise which is indicative of strong price increases thereby creating a healthy sellers' market. Housing finance in Victoria has been showing signs of improvement with an increase of 27.8 per cent since February 2019 after a reduction of 7.1 per cent relative to August 2018.

However, the flow-on effect is that housing affordability, as with Sydney, is highly likely to materially deteriorate given the low wage growth. This also means there will be an undersupply of family-suitable properties, relative to demand driven by population increases. This is exacerbated by Melbourne's population growth which is the highest in the country.

Population growth continues to be strong in VIC at 2.1 per cent and in Melbourne at 2.5 per cent, and unemployment sits at 4.8 per cent and 4.8 per cent respectively. These are key factors to support demand for housing.

It should be noted that while investor activity is only 26.7 per cent now, well below its peak, it is highly likely that it will materially increase.

Melbourne faces the same major imbalances, between undersupply of family-suitable properties and high level of supply of investment properties, as Sydney does. While there has been a significant reduction in dwelling commencements there is still a high level of supply of rental properties in some areas of the city. The reputational damage from construction defects and the tangible financial risk that is associated with high-rise units further increases the risk in some areas. This will mean family-suitable properties are highly likely to significantly outperform the market.

Also, September ABS dwelling approvals showed a 19.7 per cent drop to 4,247 in VIC and Melbourne, a 30.3 per cent drop to 3,430 dwellings. Unit approvals in Melbourne fell 49.4 per cent over a 12-month period, however stock levels in some areas remain high.

Overall, Melbourne's recovery, as with Sydney, will mitigate the risk of negative equity of properties that have been purchased in the past couple of years and depreciated in value, and properties that have LVR of 90 per cent or more. However, those potentially affected by construction defects, and units in high rises with high price tags, still carry elevated levels of risk for negative equity for LVR of 90 per cent or higher.

VICTORIA

It is possible APRA will consider the reintroduction of macroprudential measures if investor activity increases very significantly and is a major contributing factor to double digit growth and potentially increased risk to the housing market.

Houses:

Many areas that have experienced strong reductions over the past couple of years, have shown clear signs of recovery and gradual price increase. We project price increases across a large number of areas in Melbourne in the short term, and particularly the long term, thanks to a strong population growth and employment market, with a new peak reached in 2020.

As with Sydney, and as expected, affordable areas have shown resilience and are now recovering well while lucrative areas that experienced strong price reductions are now leading the way to this recovery.

However, there are some risks in the short term and some greenfield areas carry a higher level of risk for houses in the short term due to a high level of supply. A prime example of this is Melbourne - West with an addition of 16,523 houses in the next 24 months, being 8 per cent of the current stock. However, while the short-term risk is elevated, over the medium to long term no dramatic price reductions are expected and houses still present a lower level of risk than that associated with high-rise units.

Undersupply in the inner and middle rings, and also in the more affordable outer areas, such as Melbourne - Outer East and Mornington Peninsula, will create solid demand over the medium to long term.

In addition, a number of more affordable areas still enjoy strong demand, and consequently, price increases. In particular, some regional areas with good access to Melbourne CBD such as Ballarat and Bendigo still deliver annual capital growth for houses of 4.5 per cent and 4.4 per cent, respectively. Furthermore, there are major infrastructure projects in the pipeline for Ballarat and Bendigo. For example, the \$462 million Ballarat Base Hospital redevelopment and the new \$152 million Bendigo Law Courts. Once those projects are completed, property prices will increase in those areas. Thus, houses there carry a lower risk in the short and long term.

Melbourne's western suburbs, and those undergoing gentrification with good proximity to the CBD, have also proved to be resilient to the downturn, experiencing only small price reductions, and are now expected to gradually recover.

VICTORIA

Units

Areas with high demand and generally low supply, such as Geelong, as well as those suitable for families and owner-occupiers, particularly in the inner and middle rings, will enjoy good demand.

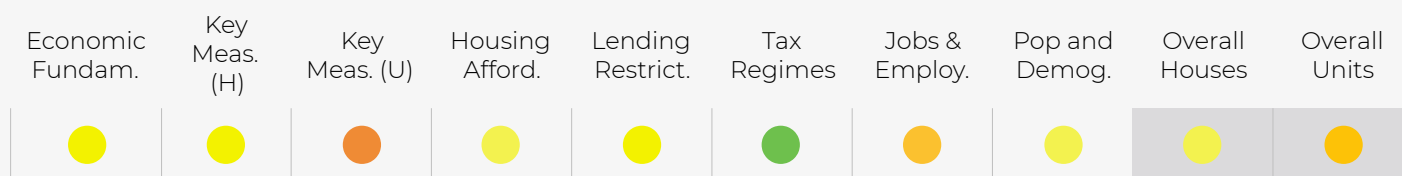
However, **many areas with oversupply have been labelled as danger zones** and have low sales volume. Examples of areas in Melbourne with unit oversupply include Melbourne – West with 6,192 units in the pipeline (12.3 per cent increase to the current stock), Melbourne – South East with 7,231 units in the pipeline (12.2 per cent increase to the current stock) and Melbourne – Inner with 21,853 units in the pipeline (9.2 per cent increase to the current stock). For these areas, the unit market will become less attractive than houses.

This impact in the short to medium term will be gradually mitigated by a reduction in dwelling commencements alongside strong population growth.

However, high-rise construction defects in both Sydney and Melbourne, have become a key emerging risk, particularly with the high-profile media attention focused on them. The reputational damage has already had an impact on demand. The defect risk is compounded in some areas by oversupply. And this impact might potentially be sustained for the short to medium term. There is also the potential for longer term impact if further major events take place, including additional high-profile defects and major changes to the regulations in relation to building standards and inspections. A Victorian Cladding Taskforce report contains 37 recommendations to address construction issues in the legislative and regulatory framework. Current stock levels are generally still very high across many areas and far exceed population growth and dwelling needs, while more conservative risk-management practices by both construction lenders and developers are likely to result in a significant reduction of new units, at least until the end of 2019.

Therefore, the equity risk associated with units in high-rise buildings for both new and existing properties remains high in a large number of areas due to a combination of unit oversupply and construction-defect risks.

QUEENSLAND



As with NSW and Victoria above, and projected in our previous Risks & Opportunities reports, buyer confidence has increased in Queensland, particularly Brisbane. Housing finance in Queensland has been showing signs of improvement with an increase of 16.9 per cent since February 2019 after a reduction of 7.7 per cent relative to August 2018.

Houses in South-East QLD, as expected, also enjoyed higher demand and improved capital growth. However, at this stage only a modest (i.e. 3-5%) price growth is expected and the likelihood for strong (i.e. double digits) price increase is low.

However, units in QLD, particularly in high-supply areas and other areas where the demand for units is consistently low (and houses enjoy strong popularity as a dwelling alternative), also carry a higher level of risk.

In recent years, the QLD market has delivered modest capital growth for houses and poor capital growth for units. Overall, the demand for units among owner-occupiers in QLD is low. Also, in addition to APRA's lending restrictions, units in some suburbs are also subject to voluntary lending restrictions by major lenders, such as lower LTV ratio due to oversupply.

The QLD market greatly varies between its high and low-performing areas. Special attention should be given to the different job markets across the state, particularly since the unemployment rate has gone up from 5.9 per cent in April to 6.5 per cent in October. This includes the mining towns in Central and North QLD, that generally experience low demand, versus houses in popular beachside suburbs on the Gold Coast and the Sunshine Coast that have delivered strong capital growth.

It should be noted that a softer employment market is well connected with low population growth, lower demand for dwellings and price reductions. The risk associated with the QLD market will be monitored closely at the SA4 level, as deteriorating employment conditions are likely to have a significant negative impact on dwelling prices.

The Sydney and Melbourne markets are experiencing continued (while improving) issues in relation to housing unaffordability. On the other hand, South-East QLD enjoys a more stable market, good population growth and healthy rental returns. It has become an attractive market for both home buyers and property investors. However, units, particularly those that are located in the inner-city, continue to perform badly and carry a high level of risk.

QUEENSLAND

Houses

Now that the market is getting back to relatively normal conditions, it is expected that houses in South-East QLD will enjoy solid capital growth.

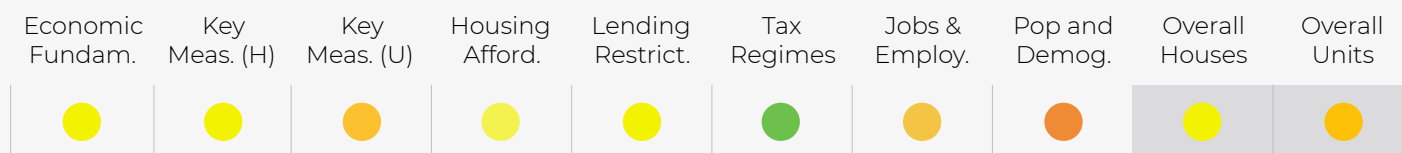
However, as mentioned in our previous Risks & Opportunities report, it should also be noted that there are a variety of markets in QLD, with the mining towns still presenting a relatively higher investment risk due to a very large proportion of investors with negative equity and insufficient growth drivers.

Units

Units, overall, across QLD carry a higher level of risk partly due to oversupply in some areas and also as they are unsuitable for families and owner-occupiers. In particular, units in inner-city Brisbane have the highest level of risk with a very large number of properties in the pipeline and increased rates of defaults for those bought off-the-plan. In addition, in QLD, houses are traditionally considered the more popular dwelling option. So, usually the demand for units is relatively low by comparison. As mentioned in our previous Risks & Opportunities reports, many areas with oversupply have been labelled 'danger zones' and have low sales volume. Further, many of these areas present a major financing barrier with a high deposit required. Therefore, units in QLD, in particular off-the-plan units, still carry a high level of risk that should be further assessed based on the absorption of the current supply into the market in the next two years and the reduction in commencements.

This impact in the short to medium term will be gradually mitigated by a reduction in dwelling commencements alongside strong population growth.

SOUTH AUSTRALIA



As projected in our previous Risks & Opportunities reports, buyer confidence has increased in South Australia, particularly Adelaide. This has also improved auction clearance rates and, consequently, it appears dwelling prices have reached the bottom. Housing finance in SA has been showing signs of improvement with an increase of 8.6 per cent since February 2019 after a reduction of 6.6 per cent relative to August 2018.

In recent years, the SA market delivered modest capital growth for houses and poor capital growth for units. While the labour market has improved in the past couple of years, the effective unemployment rate in SA is still above 9 per cent and the employment market is still soft. It should be noted that the unemployment rate increased from 6 per cent in April to 6.3 per cent in October. This has a strong connection with low population growth (only 0.8 per cent per annum) and, therefore, low demand for dwellings in SA.

While serviceability measures have improved due to RBA's interest rate cuts, the relatively high unemployment rate increases the risk of credit defaults. That, combined with some properties that suffer from low demand, require special attention in relation to credit provisioning. In particular, the demand for units among owner-occupiers in SA is, generally, low. Also, units in some suburbs of SA are subject to voluntary lending restrictions by the major lenders, such as lower loan-to-value ratio (i.e. higher deposit) due to unit oversupply.

However, in some high-demand areas the housing market is showing some evidence of recovery, particularly those with steady recent price growth rates. The state also offers a healthy rental return for both houses and units. Further, the state enjoys high levels of public and private expenditure.

In the short term, the economic growth in SA is projected to remain relatively low, around the 2 per cent mark. While in the long term, SA is projected to improve its economic growth, this is a slow process and with a soft labour market **no significant changes to demand are expected in the short to medium term**, with less popular areas experiencing modest growth only.

SOUTH AUSTRALIA

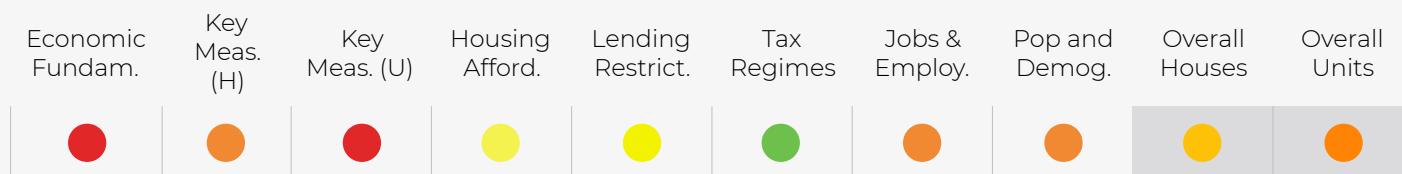
Houses

As mentioned in our previous Risks & Opportunities reports, despite low building approvals, **demand for houses is projected to remain moderate** and, therefore, only moderate capital growth is forecast. However, the growth rate is projected to vary greatly across SA. For example, houses in areas close to the Adelaide CBD, such as Adelaide Central and Hills, are likely to deliver better growth. Meanwhile, houses in areas that do not enjoy good growth drivers still carry a risk of delivering poor / negative capital growth. For example, according to CoreLogic, the median house price in the Barossa - Yorke - Mid North area declined by 0.2 per cent in the past 12 months and the area has experienced a weak property market in recent years.

Units

As previously mentioned, the demand for units, despite good affordability, in SA is generally low and units are not considered a popular dwelling option among families. Further, as previously reported, there is a small number of areas with unit oversupply, such as the Adelaide Central and Hills which has the highest rate of oversupply in SA with 2,696 units in the pipeline (a 8.2 per cent increase to the current stock). This unit oversupply led to a price decline of 0.3 per cent in the past year. **Overall, units in SA are likely to deliver poor capital growth.** In particular, off-the-plan units in high rises, which are unsuitable for families, carry the highest level of risk.

WESTERN AUSTRALIA



As projected in our previous Risks & Opportunities reports, buyer confidence has increased in WA, particularly Perth. Housing finance in WA has been showing signs of improvement with an increase of 15.1 per cent since February 2019 after a reduction of 2.4 per cent relative to August 2018.

Overall, the economic activity in WA is well below its 10-year average and WA's effective unemployment is still significantly above the 10-year benchmark. Consequently, its annual population growth of 1 per cent is the third lowest nationally. As a result, the housing market, particularly units, has experienced continued weakness in recent years. According to CoreLogic, house and unit prices in Perth have declined by 8.6 per cent and 9 per cent in the past year, respectively. WA is still in a long transition process from a mining-oriented economy.

While unemployment has slightly improved from 6.1 per cent in April to 5.7 per cent in October, WA is still projected to deliver low economic growth, a soft job market and low population growth. Also, units in some WA suburbs are subject to voluntary lending restrictions by the major lenders, such as lower loan-to-value ratio (i.e. higher deposit).

In addition, as previously mentioned, the state government tax on overseas investors further decreases the demand for new units as investment properties.

Finally, mortgage arrears in WA are at an alarming level with the delinquency rate sitting at 2.75 per cent. While this has improved from 3.05 per cent as reported in August, this number has grown over the course of several years and is now well above the Australian average. Negative equity remains a major risk in WA, in particular for lenders who have a concentration of loans in this market. These risks are compounded by this high rate of arrears.

Furthermore, the relatively still high unemployment rate also increases the risk of credit defaults. High-risk borrowers, combined with properties that suffer from low demand, require special attention in relation to credit provisioning.

However, price reductions, particularly for houses, are likely to decelerate following recent developments.

WESTERN AUSTRALIA

Houses

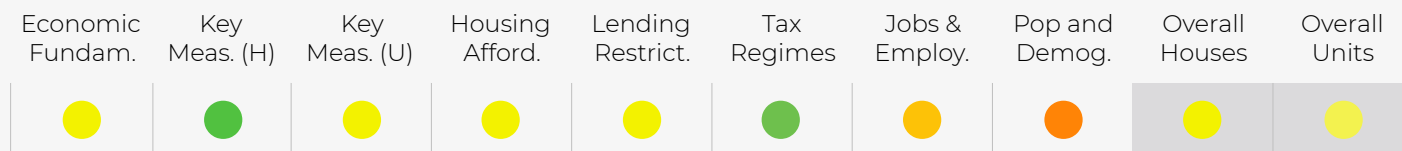
While Perth is very affordable, **the overall demand for both houses and units is low and the risk associated with units, which are experiencing continued weakness, is higher than the risk associated with houses.** While there is a small number of suburbs where houses have delivered reasonable capital growth in recent years, these are exceptions only. **Overall, even following the recent developments and the improved level of risk, houses still carry a medium level of risk due to the economic conditions in WA.** House prices in WA have declined by 9 per cent in the past year and in Perth, as mentioned above, house and unit prices declined by 8.6 per cent and 9 per cent in the past year, respectively.

Low-performing areas for houses in the past year include Perth - North East (with -8.8 per cent capital growth), Perth – Inner (-8.4 per cent) and Perth - South West (-7.3 per cent).

Units

Units carry a very high level of risk to deliver poor or negative capital growth due to the combination of oversupply, lending restrictions and low demand as they are generally not attractive to families or owner-occupiers. The Perth – South East area has the highest rate of unit oversupply in WA with 1,900 units in the pipeline (a 6.7 per cent increase to the current stock). The recent developments in NSW and Victoria regarding building defects are unlikely to materially improve that situation in the short term. While there are no major construction defects reported in relation to high-rise buildings in Perth, the events in Sydney and Melbourne increase the risk of reputational damage and, consequently, lower demand for both existing and off-the-plan high-rise units.

TASMANIA



As projected in our previous Risks & Opportunities reports, **the TAS market has been experiencing decelerated price growth.**

Houses in TAS have delivered exceptional capital growth in recent years, due to low supply, affordable houses, lack of attractive investment destinations (the unattractiveness, at the time, of the Sydney and Melbourne markets) and strong rental returns.

However, despite low supply of dwellings, low median prices, a tighter rental market and strong rental returns, the market has been experiencing decelerated price growth. A key reason for this is that the state remains less affordable than five of the states and territories (in price-to-income ratio) and the market is less attractive.

Other factors include the economic growth of Tasmania, which was ranked fifth in Australia, having the lowest median weekly wage and low annual wage growth of 2.3 per cent.

It should be noted that the recovery of the Melbourne market, with its strong fundamentals and affordability in a number of areas, such as the Western suburbs and Geelong, are providing more attractive investment opportunities than Tasmania, especially Hobart which has become less affordable.

While units have also delivered strong growth, they carry a higher level of risk due to the relatively high number in the pipeline compared to population growth. The relatively high proportion of units that are investment properties also increases the risk associated with such properties, particularly with the improved attractiveness of the Melbourne market.

TASMANIA

Houses

It is likely that houses in TAS will deliver positive capital growth in the short term, however, a decrease in the growth rate has already started and this is highly likely to continue decelerating. For instance, according to CoreLogic, the annual price growth for houses in Hobart is 3 per cent compared to 9.7 per cent last year.

Houses carry a low-medium risk level as approximately 86 per cent of the houses in TAS are owner-occupied. Also, houses in high-demand areas, particularly affordable houses, still enjoy strong demand and present low risk. Furthermore, unlike some other states, lending restrictions have had a relatively modest impact.

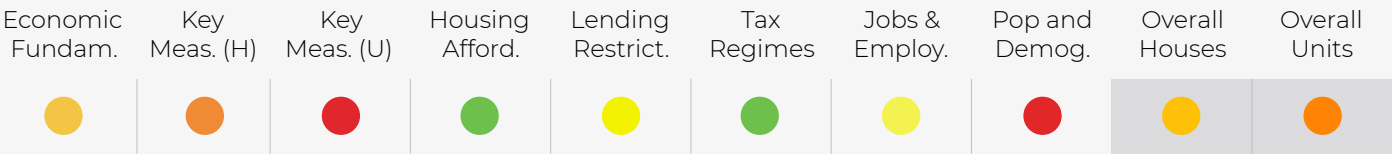
However, as house prices continue to rise, they are becoming less affordable due to the low median household income. Less affordability means less demand, which affects the price growth. **Price growth for houses is projected to continue its significant deceleration in 2020, with some areas likely to deliver very low or negative capital growth.**

Units

While units are also projected to deliver positive capital growth in the short term, they carry a higher level of risk due to the increased level of properties in the pipeline. There are a number of risk factors that may have a negative impact on units in the medium to long term. For example, off-the-plan units carry a significantly higher level of risk.

Furthermore, the unit-to-house price ratio in TAS is high. Our research shows that, statistically, if the unit-to-house ratio exceeds 65 per cent it makes houses a much better investment option for buyers with significantly higher capital growth. Conversely, if it falls below 45 per cent, units are preferred. In Greater Hobart, the median unit price is \$378,846, while the median house price is \$492,465, placing the unit-to-house ratio at 77 per cent, which is considered high and carries a higher risk for units.

NORTHERN TERRITORY



As projected in our previous Risks & Opportunities report, the NT's poor economy continues to play a part in its subdued property market with 15.6 per cent price reductions for houses in the past five years and 29.4 per cent for units. Much of this negative capital growth in recent years is due to population issues. It was the only state/territory in Australia that experienced population loss in 2017-18. While dwelling supply in relation to population growth is low and dwellings are very affordable, the low demand for housing makes the NT a risky area especially given the low level of private investment that is significantly below the growth levels during the mining boom. Combined with a relatively large supply of units, the end of the mining boom signalled significant price reduction for units and, to a lesser extent, for houses.

Houses

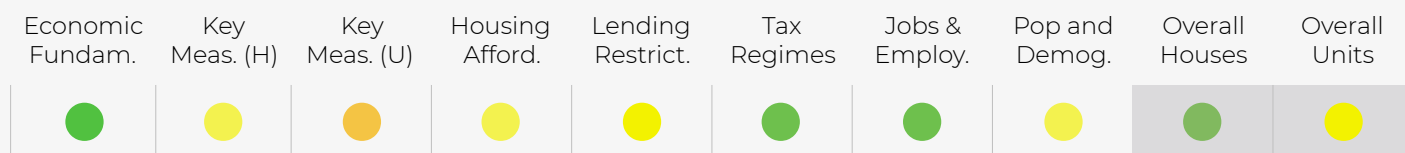
With low population growth and below-average economic indicators, **the NT still carries a higher level of risk**. According to CoreLogic, Darwin house prices peaked in 2014 and fell 15.6 per cent over the past five years. However, improved housing affordability slightly reduces the risk associated with houses from medium-high to medium.

It is likely that houses in the NT will deliver poor or negative capital growth in the short to medium term, however, houses carry a lower level of risk since more than 67 per cent of the houses in NT are owner-occupied and held for a long period of time.

Units

Units carry a very high level of risk to deliver negative capital growth, due to the combination of oversupply, lending restrictions and low demand. The current supply of units, while not considered high in relation to population growth, still exceeds the low demand for them. This is particularly the case in areas with a high concentration of off-the-plan units, such as Darwin with 2,034 units in the pipeline (10.2 per cent increase to the current stock). They delivered -33.7 per cent capital growth over the last five years.

AUSTRALIAN CAPITAL TERRITORY



As projected in our previous Risks and Opportunities report, the ACT market has benefitted from recent developments in relation to the housing market and showed moderate price increases and a good medium to long-term outlook.

The ACT has consistently delivered strong economic growth. Its growth rate of 4 per cent eclipses the rest of the country and provides a strong indication of its future. This is supported by healthy levels of both private capital expenditure and government expenditure.

Houses

As expected, houses in the ACT delivered solid capital growth in recent years. While this growth is more moderate since the second half of 2017, the current growth is still solid and the market shows resilience. This is largely driven by solid economic growth and a relatively low level of effective unemployment. Unemployment in the ACT is 3.3 per cent, compared to Australia with 5.3 per cent.

These conditions are favourable for a strong housing market and make it an attractive destination for property buyers. ACT also enjoys a high investor serviceability ratio. This has significantly benefitted investors who have found it easy to service their loans relative to the rest of the property market.

Units

The unit market in the ACT is suffering from an increased number of new dwellings relative to its population growth. Combined with an overall preference for houses over units, this presents a greater risk for units. Units delivered only 3.9 per cent capital growth in the past three years, (way below the capital growth of houses with 14.5 per cent), mainly driven by an increased number of properties in the pipeline.

So, the risk associated with units is higher than houses, particularly in high-supply areas such as Gungahlin (where there are 315 units in the pipeline at 20.6 per cent of the current stock).

EQUITY RISK DEFINITIONS FOR OVERALL HOUSE AND UNIT PRICE REDUCTIONS

Equity Risk: the risk of purchasing a property that will decrease in value or will deliver a lower return compared to the long-term capital growth projections.

RISK RATING	DEFINITIONS
Low	<ol style="list-style-type: none"> 1. Unless there is a significant slowdown in the property market, there is only a low risk that properties in this area will not return an increase, on average, of at least 3% a year in the next two years. 2. There is high demand for this area in any market condition. It is likely to be easy to sell and achieve the property market value, even in a weaker market, so providing a good return against a low risk.
Low-Medium	<ol style="list-style-type: none"> 1. There is a risk that the value of properties in this area will not return an increase, on average, of 3% a year in the next two years. 2. It is unlikely that the price of properties in this area will be reduced in the next two years. Any price reduction over this period will probably not be more than 5% below the original purchase price. 3. Overall, there is a relatively high demand for this area. However, in a weaker market, properties in this area may take longer to sell, and a small discount, around 5%, might be required.
Medium	<ol style="list-style-type: none"> 1. It is possible that property values in this area will not increase by an average of 3% a year in the next two years, creating a risk of a poor return. This would be particularly the case in a weaker market. 2. It is unlikely, but possible, that the price of properties will be reduced by 5-10% in the next two years, particularly if sold in a weaker market. 3. Demand for this area could be relatively low and unless the market is 'strong', it is possible that properties in this area will take longer to sell and may require a price discount of 5-10%.
Medium - High	<ol style="list-style-type: none"> 1. It is possible there will be no capital growth on properties in this area over the next two years, creating a risk of a poor return. 2. There is a risk that the property values across the area will decrease by 10% or more in the next two years. 3. There could be a low demand for this area and it is possible that it will be difficult to sell at the market value, even after some time on the market.
High	<ol style="list-style-type: none"> 1. It is possible that the value of properties in this area will decrease by 10% or more in the next two years, creating a significant risk of a poor return. 2. It is possible that there will be little demand for this area and it will be very difficult to sell without absorbing a loss.
Extreme	<ol style="list-style-type: none"> 1. Unless there is a sudden and unexpected outstanding demand for similar properties in the area, it is unlikely that there will be any capital growth in the foreseeable future. Property prices in this area are likely to remain unchanged or significantly decrease. This creates a significant risk of zero or negative return. 2. It is likely that it will be very difficult to sell properties in this area due to the following: There will be a very limited number of serious buyers; Buyers will be struggling to get the needed loan from a lender. 3. A significant discount (of 10-20% or more) from the 'market value' might be required during the negotiation

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