

State of the Market Report

Autumn 2015

Dr Andrew Wilson

Senior Economist for the Domain Group



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Dr Andrew Wilson is the Senior Economist for the Domain Group.

Dr Wilson provides regular property and construction market commentary to a broad spectrum of print, radio, TV and online media. With weekly columns in The Sydney Morning Herald and The Age, he specialises in housing market analysis.

Previously, he held senior property and construction research positions within industry, academia and government.

Dr Wilson holds a PhD and Masters by Research in Housing Market Economics.

National Overview

Prices growth consolidates as rates fall

Australia’s capital city housing markets have generally commenced 2015 on the front foot despite ongoing underperformance from most local economies.

The February cut in interest rates, although not providing significant improvement to affordability, has nonetheless impacted buyer confidence and reinforced underlying market dynamics.

2014 was a year of divergent house price growth.

- Sydney remained the tear-away leader with results in that market remaining at decade-high, boom-time levels.
- House price growth in Melbourne, Perth, Hobart, Darwin and Canberra declined over 2014 to be notably less than that recorded over the previous year.
- Adelaide and Brisbane improved on their previous year growth outcomes, reflecting the relatively late entry to the growth cycle by those markets.

Local economic activity generally deteriorated through 2014 with the national economy characterised by rising, decade-high unemployment and low and falling wages and profit growth. The Sydney economy, however, remained a robust capital city leader - a key factor in sustaining high levels of housing market activity.

The Reserve Bank has commenced an easing cycle for interest rates following 16 months of steady rate settings. Constrained by high budget deficits, monetary policy remains the key tool for reactivating the economy. Historically low rates, however, result in a balancing act between boosting the economy and creating a deflationary environment with chronic low incomes and profit growth.

This year should result in an overall steady outcome for capital city house price growth as improved affordability from lower interest rates is offset by weakening economic activity - particularly rising unemployment.

Sub-market activity will remain mixed with growth prospects in the mid to higher priced brackets continuing to be the strongest performers of most local markets overall. The prestige market, which has been relatively subdued over recent years, should benefit from a rising stock market to finally regain its previous peak levels of 2007.

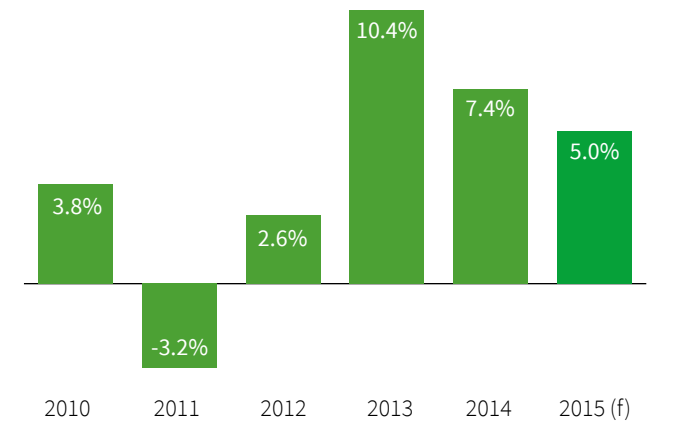
Lower interest rates will also continue to attract investors, particularly to the strong Sydney market with low and falling deposit rates reinforcing the attraction of bricks and mortar investment.

House price growth in the budget market will remain flat overall with improved affordability through lower rates offset by economic constraints. Modest first home buyer market share will continue in most capitals as recent changes by states to the first home buyers grant continue to impact market activity levels for this group.

Overall, solid buyer activity is set to continue through the autumn selling season in most capital city markets with a moderation of activity likely through the spring season – particularly if the general economic climate deteriorates. Capital city house price growth will therefore peak over the first half of 2015 although growth levels will remain relatively similar through the year. Local prices are set to broadly increase between 2 and 8 percent over 2015.

Accordingly, the national median house price will rise by 5 percent over 2015 compared to the 7.4 percent recorded over 2014.

National median house price growth



Sydney

Boom-time growth again for top performing Sydney

Entering its third year of boom-time conditions, the resilient Sydney market continues to produce extraordinary results. Prices growth continues to track at decade high levels with a market characterised by high levels of confidence and enthusiasm.

Sydney’s continued strong housing market activity is due largely to the nation-leading performance of the local economy. High levels of migration are also keeping demand well ahead of supply, which remains significantly below underlying requirements.

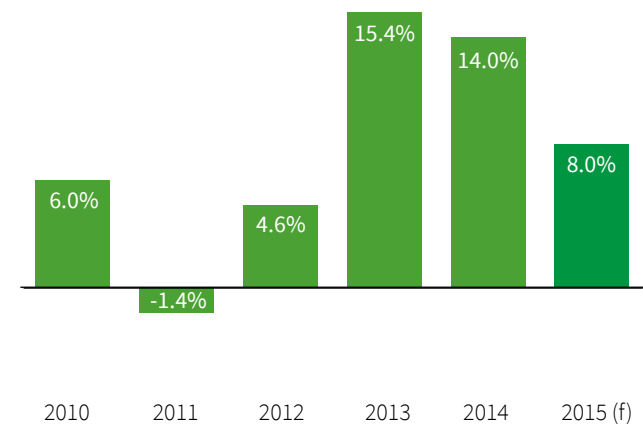
Investor activity in the Sydney market remains at record levels and is another key driver of prices growth. Low vacancy rates, rising rents and prices growth will continue to attract investors into the market this year. Lower interest rates will also activate investors who will have increased capacity to borrow and an enhanced “bricks and mortar” comparison with falling term deposit rates. Rising rents and rising prices are also consolidating gross rental yields for investors.

The Sydney housing market has commenced 2015 strongly with record level auction clearance rates for the late summer season. Robust buyer activity in Sydney is encompassing all price ranges and suburban regions. First home buyer activity, however, remains at near record low levels as a proportion of market share. The prestige market revived over 2014 and although prices growth was below other market sectors, the increase in volumes and the prospect of a higher share market through 2015 will continue to activate buyers and restore confidence in this sector.

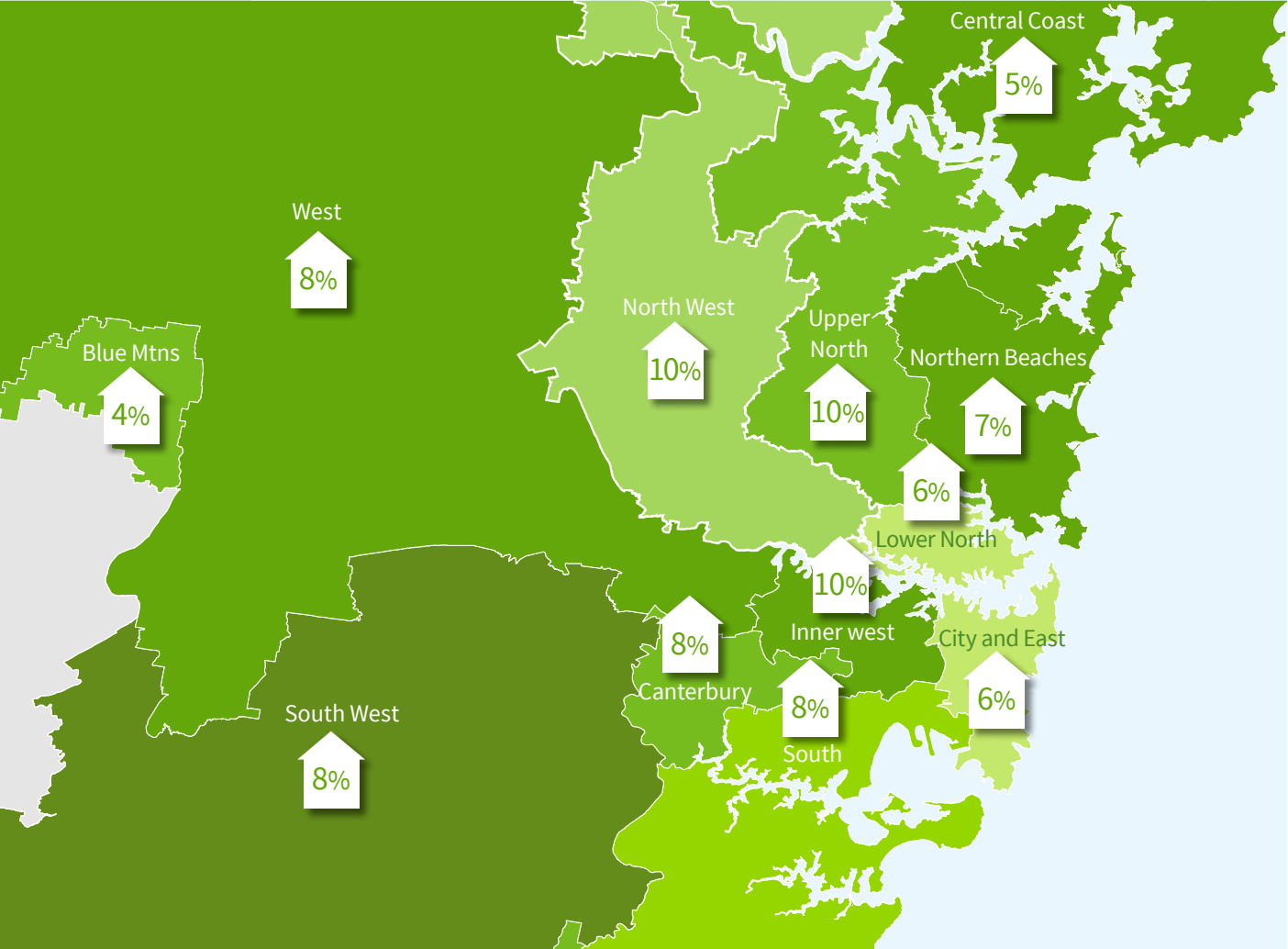
Sydney’s median house price increased by 14 percent over 2014, a similar result to the 15.4 percent recorded over 2013. Sydney is on track to record prices growth of between 7 and 10 percent over 2015, which will again be the best result of all capital cities.

Sydney is on track to record prices growth of between 7 and 10 per cent over 2015.

Sydney median house price growth

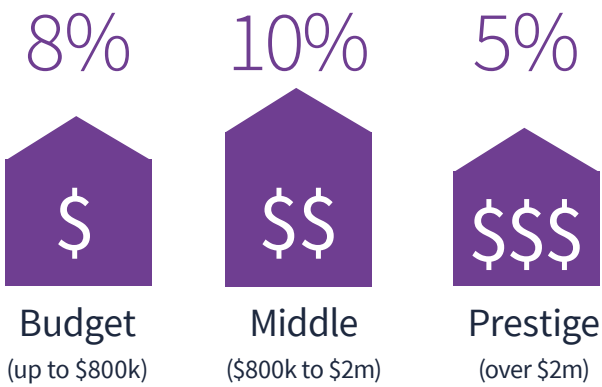


Sydney suburban regions 2015 forecasts



“The Sydney housing market has commenced 2015 strongly with record level auction clearance rates...”

Sydney 2014-15 price range forecasts



Melbourne

Weaker Melbourne market to steady

The Melbourne housing market weakened over 2014, dragged down by an underperforming local economy. Melbourne recorded prices growth of 4.1 percent over the year, well down on the 10 percent recorded over 2013.

Melbourne has commenced 2015 in solid to strong fashion with activity in the local auction market clearly tracking ahead of the weaker results recorded over late spring and early summer in 2014. Interest rate cuts are fuelling increased confidence with inner suburban regions particularly active.

Melbourne’s mid and upper price ranges, and eastern suburban regions in particular, were the best performers in 2014. These sectors are expected to continue to prove resilient through 2015 as aspirational buyers remain active.

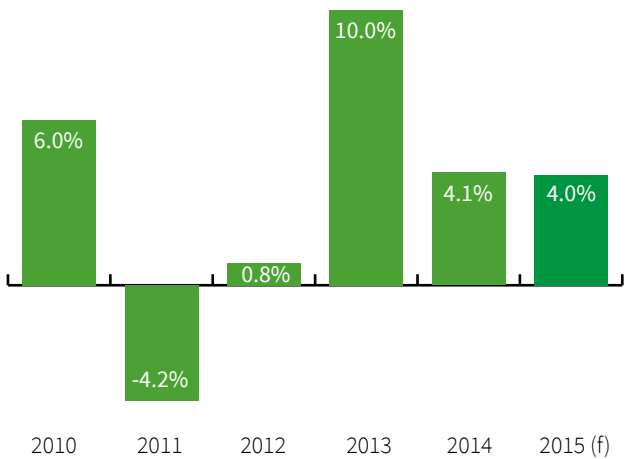
Lower interest rates through 2015 will offset weakening economic activity although budget priced outer suburban markets are likely to remain subdued. The prospect of a stronger stock market through 2015 will continue to activate prestige buyers. This market sector reported a solid 2014.

Overall, Melbourne house prices are set to record similar growth in 2015 compared to 2014. The prospects for a solid autumn season and a moderate spring season continue to be dependent on a stable and improving economic environment.

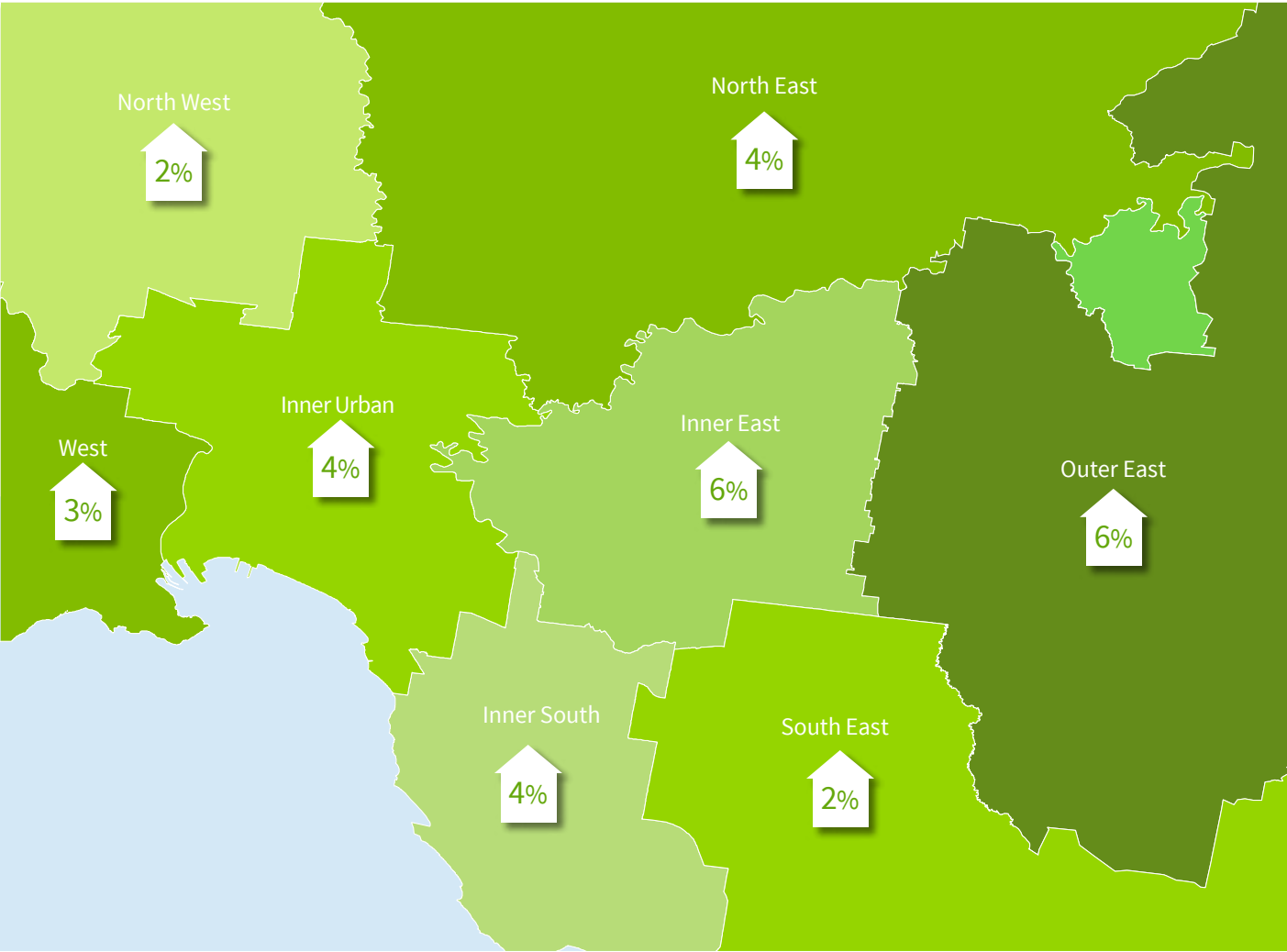
The Melbourne median house price will increase by between 3 and 5 percent over 2015 with the autumn season likely to produce the best results.

The Melbourne median house price will increase by between 3 and 5 percent over 2015.

Melbourne median house price growth

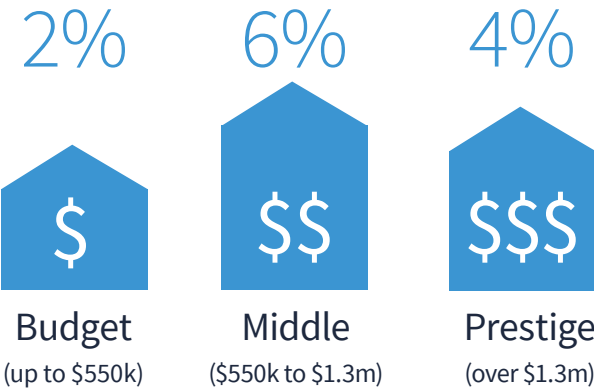


Melbourne suburban regions 2015 forecasts



Melbourne 2015 price range forecasts

“The prospect of a stronger stock market through 2015 will continue to activate presitge buyers.”



Brisbane

Solid Brisbane revival to continue

The Brisbane housing market recorded another encouraging year of house price growth over 2014. Brisbane's median house price increased by 5.9 percent over the year compared to 5.1 percent over 2013.

Brisbane's housing market revival was late compared to most other capital city housing markets, which were driven by the sharp cut in interest rates in 2012-13, but it is now squarely on track. Prices growth has been particularly solid in the mid to upper price ranges in inner and middle ring suburbs. Activity in outer suburban budget priced suburbs, however, has continued to be subdued with high listing numbers and continued concerns over unemployment and job security constraining buyer confidence.

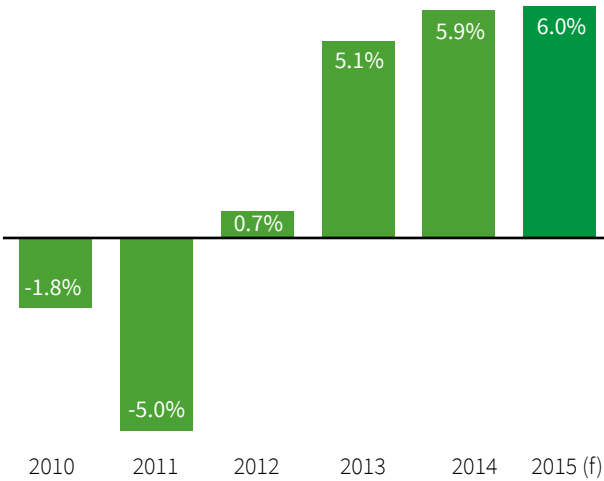
Brisbane's revival gathered pace over spring last year with rising auction numbers reflecting increased confidence in the marketplace from sellers. Activity levels in the auction market have continued to rise early in 2015 with record late summer listings reported.

Lower interest rates will fuel rising buyer confidence with the prospect of increased investor activity for houses driven by relatively high yields, rising rents, low vacancy rates and rising prices. Buyer activity will remain robust in mid to upper price ranges with the budget market improving with recent early signs of an upturn in the local economy.

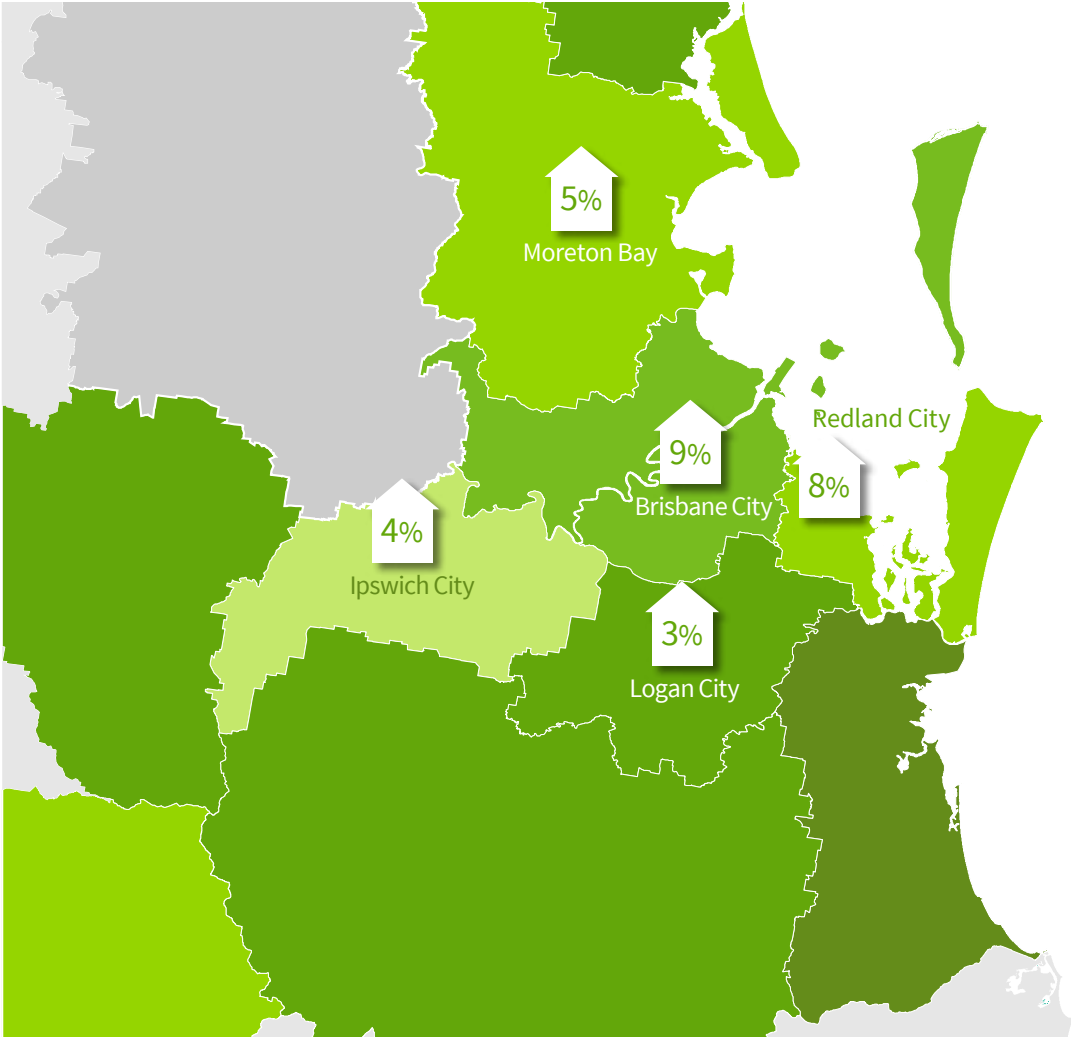
Brisbane median house prices are set for another solid result through 2015, rising again by between 5 and 7 percent, which will likely be only behind Sydney in terms of capital city performance.

Median house prices are set for another solid result through 2015, rising again by between 5 and 7 percent.

Brisbane median house price growth

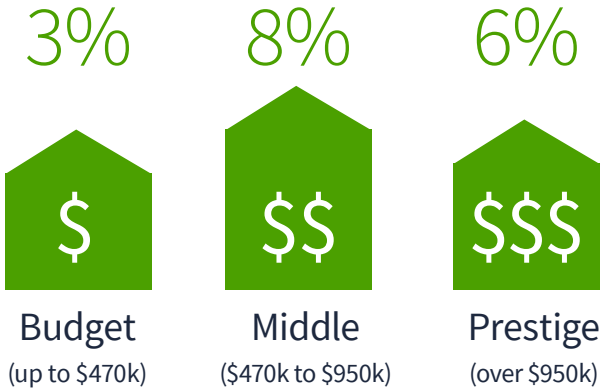


Brisbane suburban regions 2015 forecasts



“ Buyer activity will remain robust in mid to upper price ranges with the budget market improving... ”

Brisbane 2014-15 price range forecasts



Canberra

Steady growth for Canberra market

Prices growth in Canberra has been relatively flat over recent years, reflecting the impact of a declining local economy. Canberra has clearly benefited least from the sharp cuts in interest rates through 2012-13, which activated most capital city housing markets. Federal government fiscal consolidation policies over recent years have impacted the local economy through public service job losses and service cuts, and this has had a predictable impact on housing market activity.

Over 2014, Canberra recorded modest price growth of just 0.9 percent, following the previous year's 2.2 percent result.

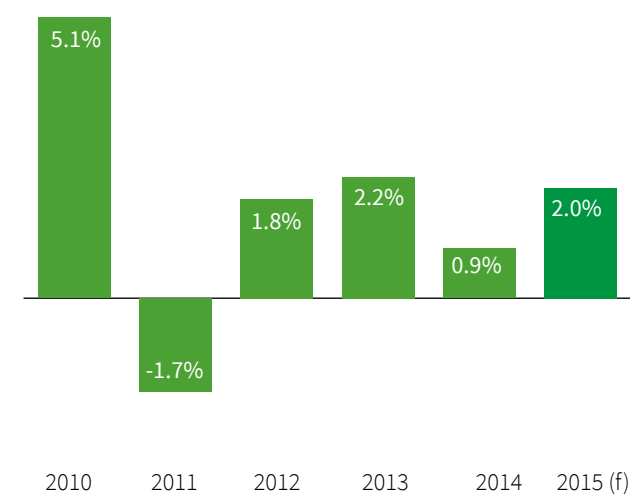
Through 2015 the Canberra housing market looks set to maintain its modest but steady performance of recent years. Recent positive signs for the local market remain with increased auction activity recorded towards the end of 2014 and solid buyer activity early in 2015. Lower interest rates will feed into buyer confidence and add to the prospects of rising buyer activity. Canberra's median house price is set to increase by between 1 and 3 percent through 2015.

The best performers will be the middle and upper price market sections as well as regions that experienced subdued prices growth over recent years as value perceptions drive increased changeover buyer activity.

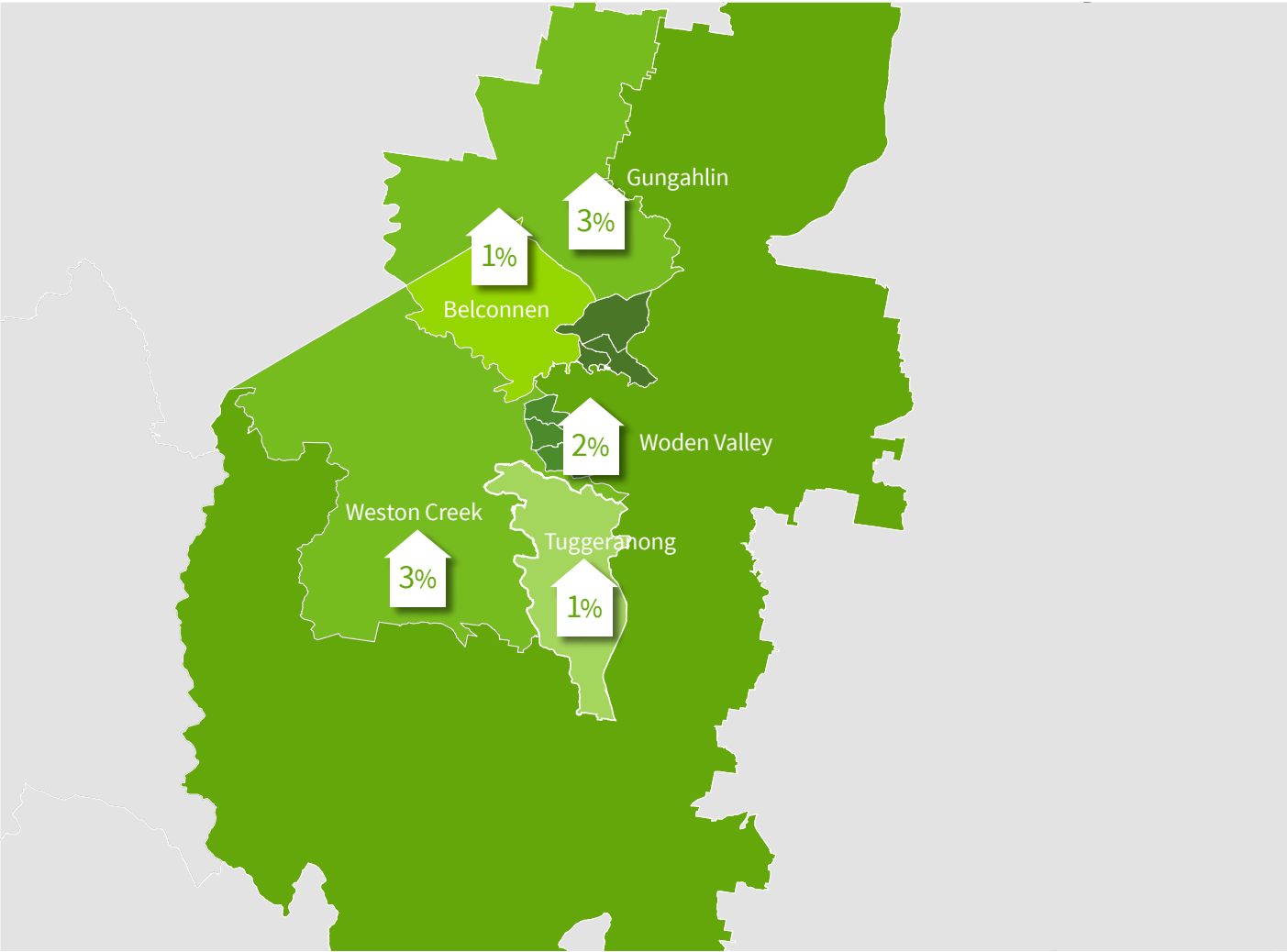
As usual, however, much will depend on the performance of the local economy, which has recently shown encouraging signs of improvement. Government fiscal consolidation policies remain an ever-present impediment for the local Canberra housing market.

Canberra's median house price is set to increase by between 1 and 3 percent through 2015.

Canberra median house price growth

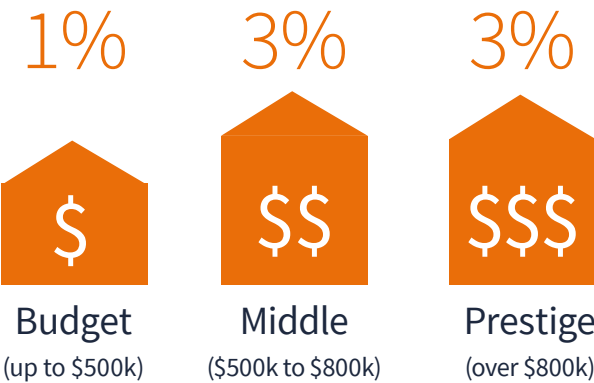


Canberra suburban regions 2015 forecasts



Canberra 2014-15 price range forecasts

“The best performers will be the middle and upper price market sections...”



Perth

Steady year for Perth housing market

The Perth housing market recorded modest price growth over 2014 with affordability barriers and declining economic activity impacting the market. Perth’s median house price increased by just 0.6 percent over 2014 - well down on the 9.6 percent recorded over the previous year.

Perth was the early starter in the general capital city housing market revival that commenced with sharp cuts to interest rates in 2012-13. The local market is now stabilising following exceptional prices growth over 2012 and 2013.

Rising unemployment and lower economic growth, driven primarily by the decline in the resources sector, are impacting housing market activity. Despite this, the local Perth economy remains relatively well placed compared to most other state economies.

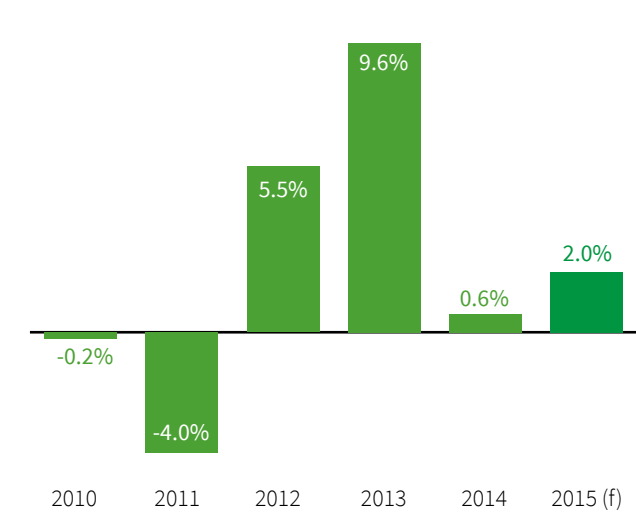
Prices growth over 2015 is likely to remain steady in Perth. The proportion of first home buyers (which exceeds all other capital city markets) and the prospect of rising activity in the prestige market will continue to support overall prices growth. Lower interest rates will also provide a stimulus to aspirational buyers in middle price ranges.

The recent solid performances in Perth’s higher-priced city suburban areas will continue with moderate buyer activity from the mid and budget range regions of the north, south, south-west and east.

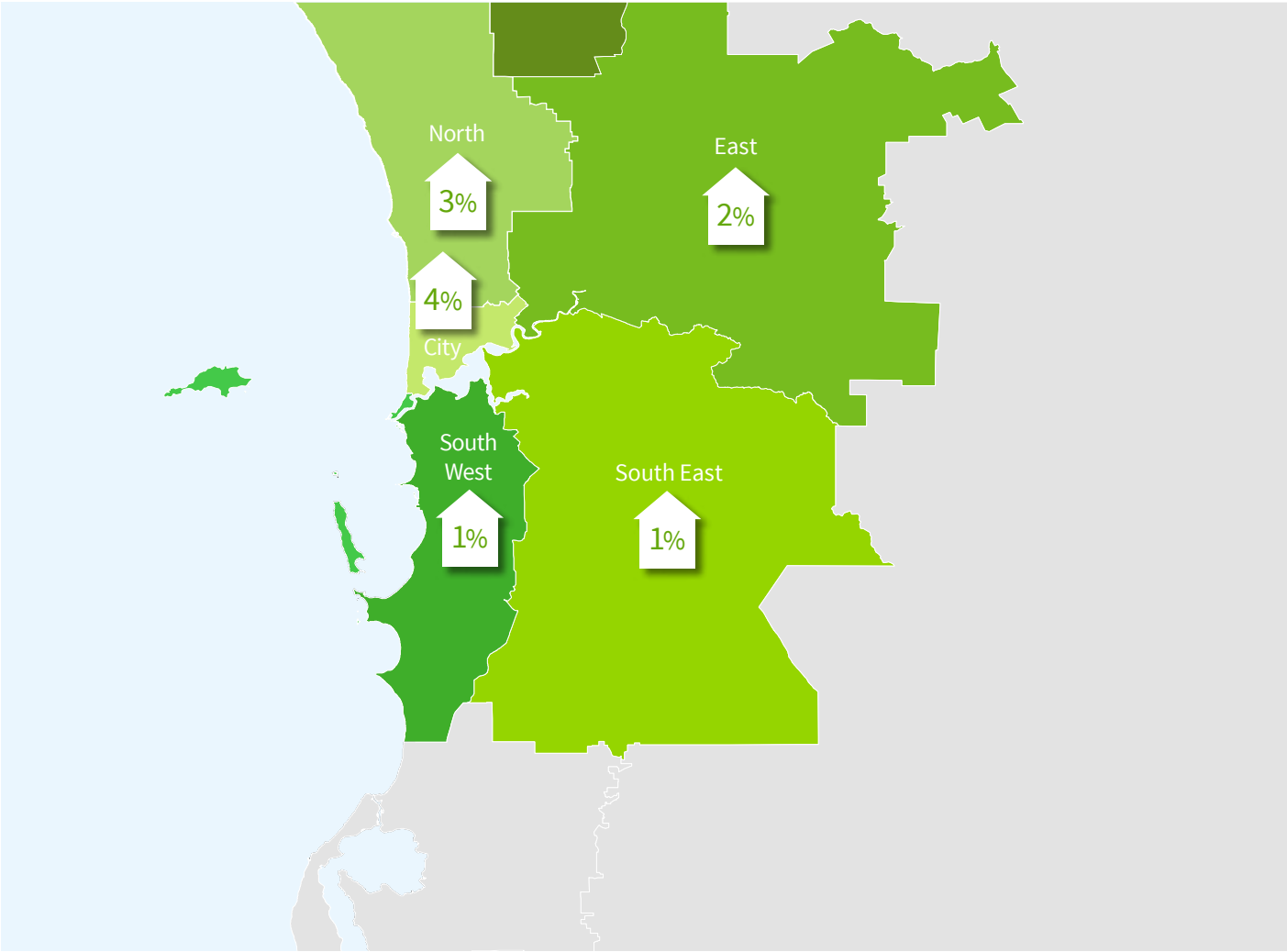
Perth median house prices are forecast to rise between 1 and 3 percent over 2015.

House prices are set to rise between 1 and 3 percent over 2015.

Perth median house price growth

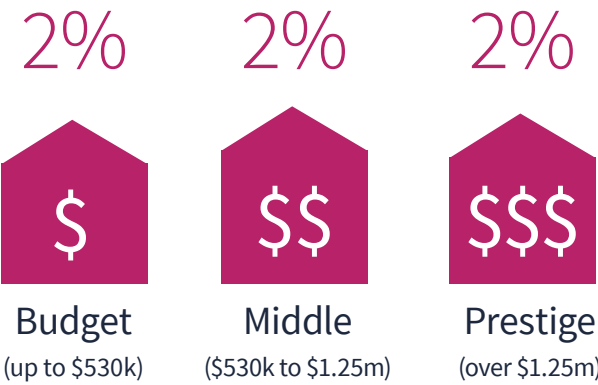


Perth suburban regions 2015 forecasts



Perth 2014-15 price range forecasts

“The recent solid performances in Perth’s higher-priced city suburban areas will continue...”



Adelaide

Rejuvenated Adelaide market steady in 2015

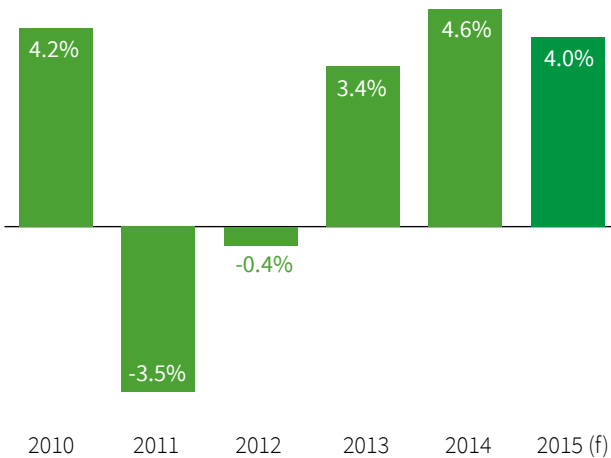
The Adelaide housing market recorded another year of solid activity over 2014 with the median house price increasing by 4.6 percent. This is despite the continued underperformance of the local economy. Up from the 3.4 percent recorded over 2013, this growth reflects a market finding its feet again after a prolonged period of subdued buyer activity.

Buyer activity in the Adelaide housing market has centred on mid to upper price ranges, particularly in the established western and eastern suburban areas. Lower interest rates will fuel confidence in aspirational buyers in these areas again through 2015. The budget markets to the north and south will remain subdued as high unemployment and concerns over job security constrains growth.

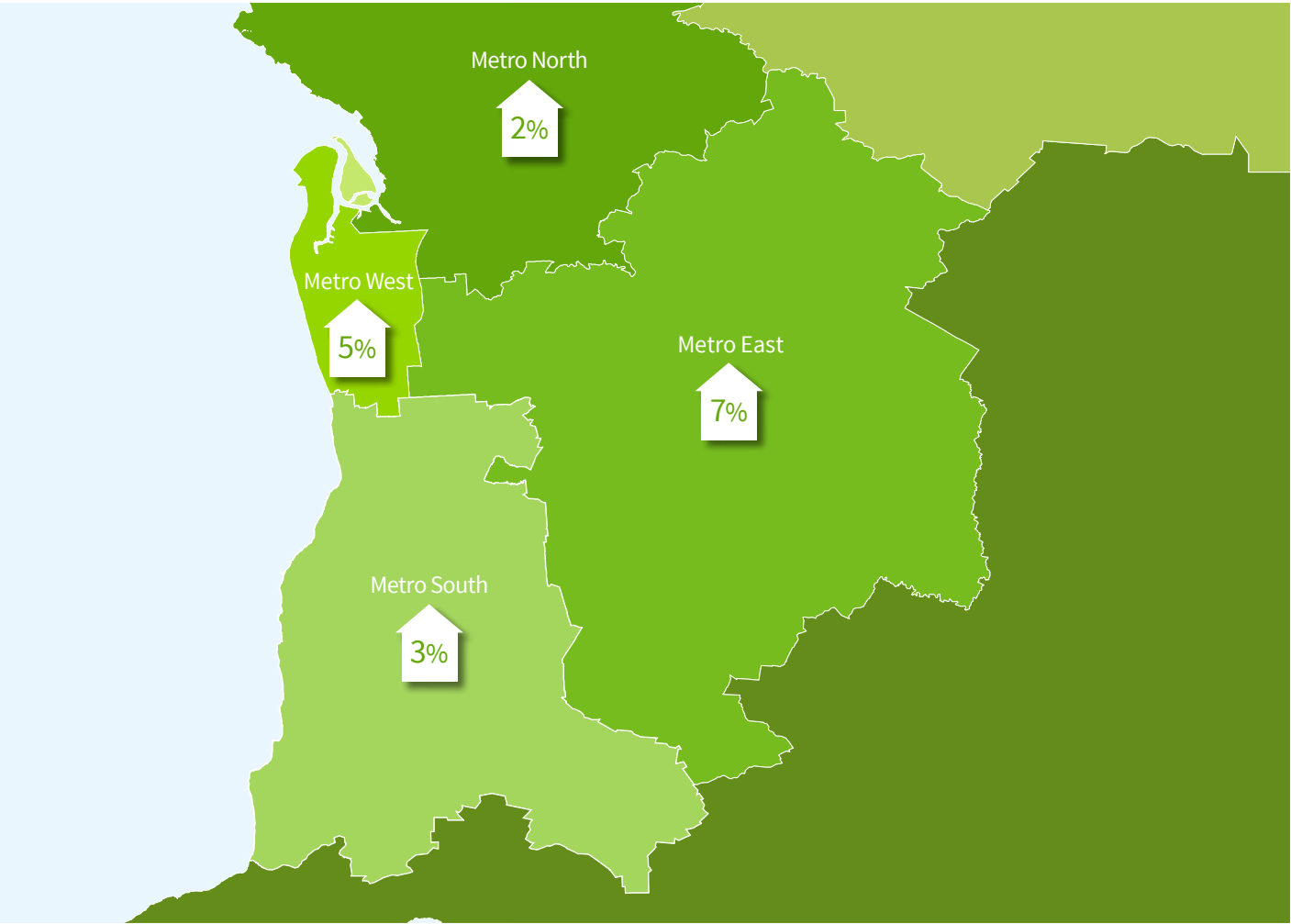
The Adelaide market is set for another solid year in 2015 with prices growth likely to be similar to those recorded over the past two years. The median house price in Adelaide is forecast to increase again by between 3 and 5 percent over the year.

The median house price in Adelaide is forecast to increase by between 3 and 5 percent over the year.

Adelaide median house price growth



Adelaide suburban regions 2015 forecasts



Adelaide 2015 price range forecasts



Hobart

Another positive year for the reviving Hobart market

The Hobart housing market will consolidate its performance of 2014 with moderate prices growth expected through 2015.

Hobart has recorded prices growth over the last two years following a subdued period of buyer activity. The impact of lower interest rates since 2012 has been offset by an underperforming local economy that remains the worst performer of all the capitals. Recent signs, however, are positive with the local housing market recording strong growth over the December quarter.

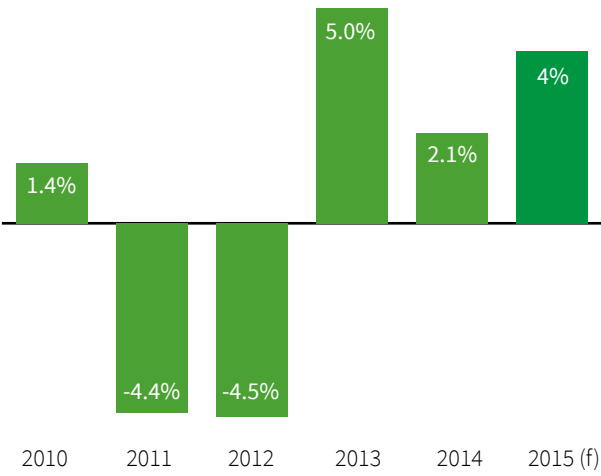
Hobart recorded moderate price growth of just 2.1 percent over 2014 following the previous year's 5.0 percent result.

This years lower interest rates will feed into buyer confidence and add to the prospects of rising buyer activity. Hobart's median house price is set to increase by between 3 and 5 percent through 2015.

Best performers will be the budget and middle price market sections and regions with value perceptions from subdued prices growth over recent years driving increased changeover buyer activity.

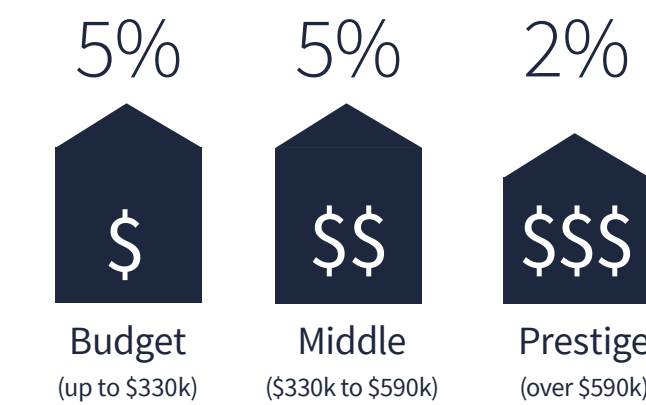
The performance of the local economy will as usual be the key ingredient for rising housing market activity with recent encouraging signs of improvement this year.

Hobart median house price growth

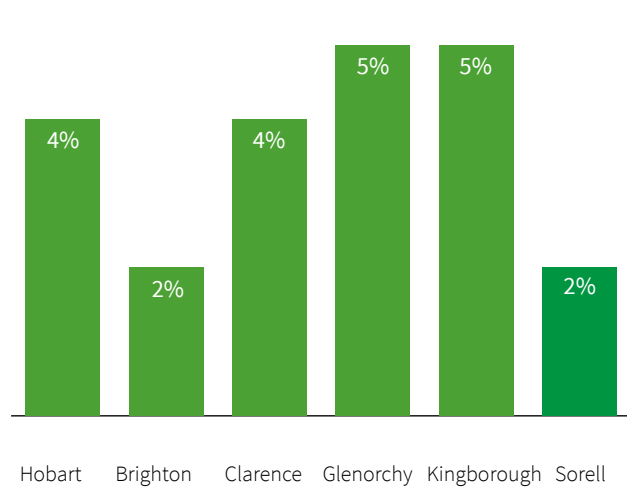


Hobart's median house price is set to increase by between 3 to 5 per cent over 2015.

Hobart 2015 price range forecasts



Hobart regions 2015 forecasts



Darwin

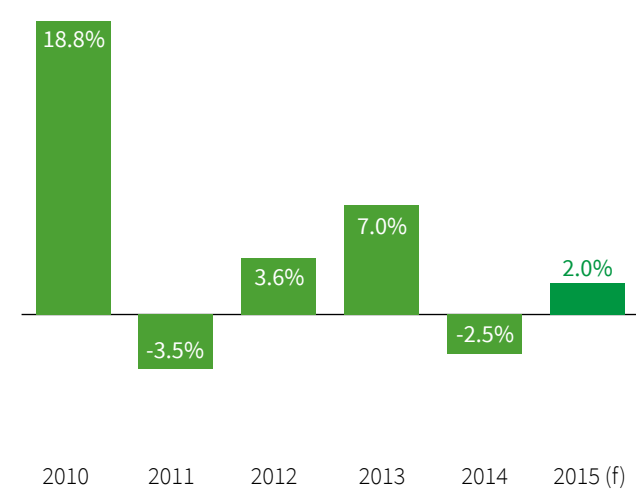
Housing market set to gradually recover

A weakening resource-based economy and rising affordability barriers from previous strong prices growth saw buyer activity in the Darwin housing market decline over 2014.

Despite further weakening over 2015, the local economy remains fundamentally strong with continuing low unemployment rates. Lower interest rates should assist the market to gradually recover through 2015 with price growth expected between 1 and 3 percent.

Darwin house price growth expected to be between 1 and 3 percent over 2015.

Darwin median house price growth



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