My Market

Australian Residential Property Outlook

FEBRUARY RELEASE | 2019

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Australia

Residential Property Market

Capital City Overview

The **Adelaide** property market represents a combination of solid rental conditions and attractive affordability. In October 2018, rental yields were recorded at 4% for houses and 5.1% for apartments. Rental growth was robust over the 12 months to October 2018 and is a trend that is expected to continue given the fact that Adelaide continues to demonstrate the tightest vacancy rate of all the five major capital cities. Capital growth over the 12 months to October 2018 was positive and is expected to continue off the back of continued roll-out of the State's major $89 billion submarine and shipbuilding program.

Brisbane is continuing to show positive signs, with many analysts now earmarking the Sunshine State capital to be a top performer throughout 2019 and 2020. This optimism is supported by Brisbane's improving vacancy rate which fell from 3.8% in December 2017 to 3.2% in December 2018. This sign of strengthening rental demand also comes at a time when apartment completions continue to reduce dramatically, further placing upward pressure on rents. According to BIS Oxford Economics, new apartment completions halved in 2018 compared to the previous year.

The **Melbourne** market continues to experience well-reported price adjustments after a period of strong growth. However, a closer look at the data reveals that these adjustments have not been uniform across the market. Melbourne housing pulled back by 5.6% over the 12 months to October 2018, whilst apartments have been more resilient only reducing ever so slightly by half a percent. Rental growth has been robust for both houses and apartments, with landlords being able to increase weekly rents by $15 and $10 respectively. Rental growth is expected to continue off the back of a tight vacancy rate of only 2.2% as well as strong population and economic growth.

Perth continued to show promising signs as it moves through its recovery phase. The vacancy rate continues to tighten swiftly and is quickly heading towards a balanced market scenario, with December 2018 results showing a rate of 3.4%. This trend is sure to underscore further interest from investors looking to secure a piece of Perth real estate ahead of its next growth cycle. On top of a tightening vacancy rate, Perth's recovery will be aided by the state's $75 billion pipeline of new mining and resources projects and the accompanying population and jobs growth that this level of investment entails.

The **Sydney** property market continued to undergo a well-reported correction after what had been a very strong period of growth. Like Melbourne, most of the decline continued to be felt at the more expensive end of the market. With the unemployment rate now tracking at the lowest levels in over 25 years and with major infrastructure projects in the pipeline, it is reasonable to expect Sydney values to stabilise in time before experiencing more buoyant conditions in the medium term.

Interest Rates

Leaving the cash rate at 1.5% throughout 2018 was expected given existing global and domestic economic conditions. At a national level, slow wages growth remained a key consideration for the RBA's decision to hold rates. And with house prices in Sydney and Melbourne reduced from their peaks, the RBA did highlight potential flow-on risks to the broader economy as a result of household incomes remaining stagnant. In light of these developments, many economists now consider a rate cut to be a real possibility in late 2019 and 2020.

Housing Finance

In January 2019, NAB joined the remaining Big 4 banks who had since raised their rates in response to increased funding pressure. In terms of financial regulation, APRA removed the 30% interest only lending cap in December 2018 with APRA Chairman Wayne Byres commenting that measures had "served their purpose" given that lending standards had strengthened across the industry. This follows the previous July 2018 scrapping of the 10% investor speed limit. With plenty of change happening in the finance space, investors should spend time speaking with their broker or directly with banks to find out how they can secure the best finance option for their specific situation.

Royal Commission

For property investors, one of the key takeaways from the Royal Commission included the findings around banking compliance with Responsible Lending conduct obligations. The Commission revealed case examples of non-compliant lending practices by banks and as a result, there is now increased emphasis to ensure all lenders comply with these obligations. The Final Report did note that many banks had already improved their lending practices over the past six to nine months. This occurred in anticipation of the Commission's findings which led to the proactive tightening of credit observed in the markets. As a result, the Royal Commission is expected to have little to no further impact to lending beyond what has already occurred. Overall, the Royal Commission should be seen as welcome news by property investors as it will help to bolster, what is by international standards, an already strong, stable and resilient financial system in Australia.

Federal Election

Many are seeing this upcoming Federal election to be largely one about property with strong and different viewpoints given by both parties. A key consideration in the mind of voters will be the perceived effectiveness of each party's proposals for "managing" the property market and any second-order effects to the wider economy. On this issue, the Liberals are aiming for a regulatory approach to oversee the property market whereas Labor has largely campaigned on tax reform. The regulatory approach championed by Liberals involves reliance on financial regulators such as APRA to manage the property market via

Australia

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macroprudential policies which have thus far been effective in curbing house price growth. On the other end, Labor's proposed tax reforms have been grounded in the message of housing affordability, particularly for young people. These tax reforms include increasing capital gains tax liabilities by halving the current 50% concession and a limitation on negative gearing to only those who invest in new properties. People with existing rental properties would have investments grandfathered.

Building Activity

Latest ABS data indicates a sharp slowdown in residential building approvals, with most of the decline occurring in the apartment space. National trend data for the 12 months to November 2018, shows an 18.3% drop across all property types, with houses falling by 6.3% and apartments falling by 31.2%. For investors, this translates to a reduced supply pipeline over the coming years and the expectation that any existing stock levels will be absorbed by the market.

The slowdown in approvals, particularly for apartments, has been attributed to lessened demand from local and offshore buyers as a result of tighter purchaser finance environment as well as increased foreign buyer taxes. In addition, a tougher development finance environment as well as escalating construction costs have also played a key role in the sharp slowdown in residential building approvals. It is expected that approvals will remain subdued in the medium term. According to the ABS, building approvals for the nation are now trending at their lowest levels in over 5 years. Across the major capital cities, the most significant shifts occurred in Melbourne, Perth and Sydney apartment approvals where annual declines were 14.2%, 30.4% and 19.9% respectively.

Australian Economy

The national economy grew by 0.3% over the September 2018 quarter and 2.7% over the year. This result fell short of RBA expectations, which previously forecasted growth of 3.5%. The weaker-than-expected economic growth rate was attributed to reduced construction activity and flat retail and manufacturing sectors. As such, it is anticipated that the RBA will maintain current cash rate levels in the near term until economic growth strengthens. In the meantime, an area to watch will be material changes to consumer sentiment with Melbourne and Sydney property markets still softening. Policymakers will keep a close eye on potential effects to consumer spending which may impact economic growth moving forward – and ultimately, prompt the RBA to consider a rate reduction to stimulate growth.

Labour market conditions were positive with strong jobs growth and a low unemployment rate of only 5% in December 2018. Major public infrastructure investment pipeline undertaken by major capital cities across the country is set to support strong jobs and population growth over the coming years. Furthermore, surging demand for prime office space has resulted in the national office vacancy rate tightening to the lowest levels since 2012 off the back of strong white collar employment growth and limited supply. At a capital city level, Sydney and Melbourne office vacancy rates have tightened to 10-year lows which is a positive sign for these markets.

Australian Outlook

Looking ahead, Adelaide will benefit in a big way from the $89 billion dollar defence infrastructure program which is set to drive economic and population growth. This investment also coincides with a governmental focus on increasing population and a backdrop where, now, Sydney and Melbourne buyers are looking for opportunities outside their city to add to their portfolio. With a robust rental yield, strong affordability and a positive outlook, the South Australian capital is definitely on investor radars.

Brisbane continues to experience the positive effects of record-level interstate migration. This has been reflected in the vacancy rate which has continued to tighten. With Brisbane's superior levels of affordability compared to its east coast counterparts, more investment activity and interstate migration is expected over the medium term.

Melbourne's market will continue to moderate before stabilising later in the year, however apartments will remain more resilient than houses. With apartment approvals now slowing down, and with Melbourne slated to overtake Sydney as the nation's most populous capital city, it's anticipated that any movement on the downside will be short-lived.

Perth will continue to move through its recovery phase and be supported by positive movement across its premium suburbs. The vacancy rate for the Western Australian capital is a very promising sign given that it's trending towards a balanced scenario – a milestone which will no doubt add further emphasis to the market's long-awaited growth phase.

Finally, Sydney will continue to moderate, although certain pockets will continue to remain resilient. More specifically, those properties priced below $900K and those positioned to benefit from the state's $87 billion infrastructure pipeline are likely to outperform the market. The overall market is expected to stabilise throughout the year and be supported by a very strong economy as indicated by Sydney's unemployment rate which currently sits at 3.5%, the best it has been in over 25 years.

Nationally, the market presents numerous opportunities for investors who are able to look to the long term and read past the headlines and instead focus on the underlying fundamentals which drive the many property markets across the country.

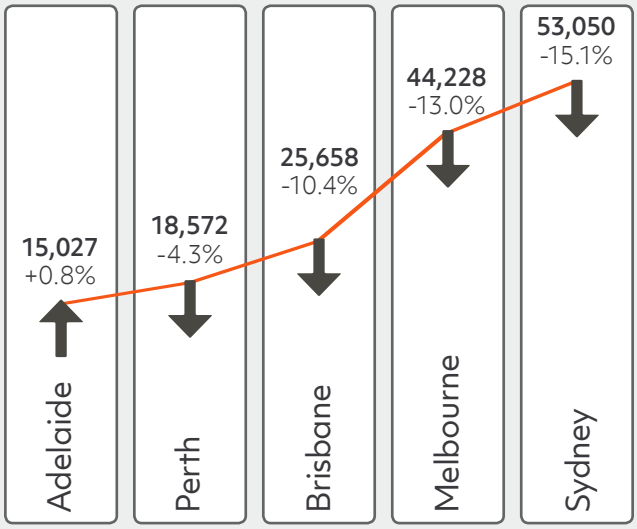
National Property Market Snapshot

Houses

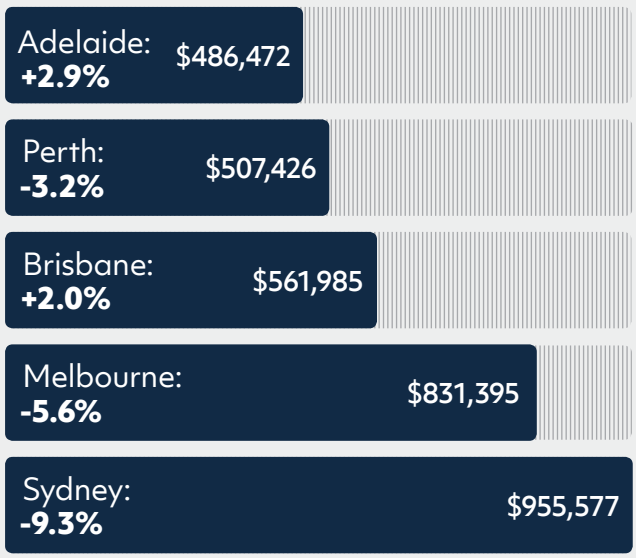
Rental Market
November 2017 - October 2018

Houses	Rental Yield	Median Rent
Adelaide	4.0%	$380 per week
Brisbane	4.1%	$420 per week
Melbourne	2.8%	$440 per week
Perth	3.7%	$380 per week
Sydney	3.0%	$550 per week

Annual Sales Volumes
November 2017 - October 2018



Capital Growth and Median Values
November 2017 - October 2018

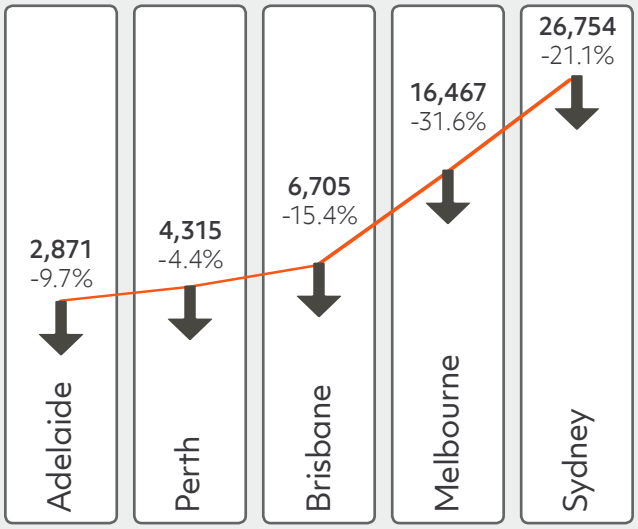


Apartments

Rental Market
November 2017 - October 2018

Houses	Rental Yield	Median Rent
Adelaide	5.1%	$310 per week
Brisbane	5.1%	$380 per week
Melbourne	4.0%	$410 per week
Perth	4.7%	$340 per week
Sydney	3.7%	$530 per week

Annual Sales Volumes
November 2017 - October 2018



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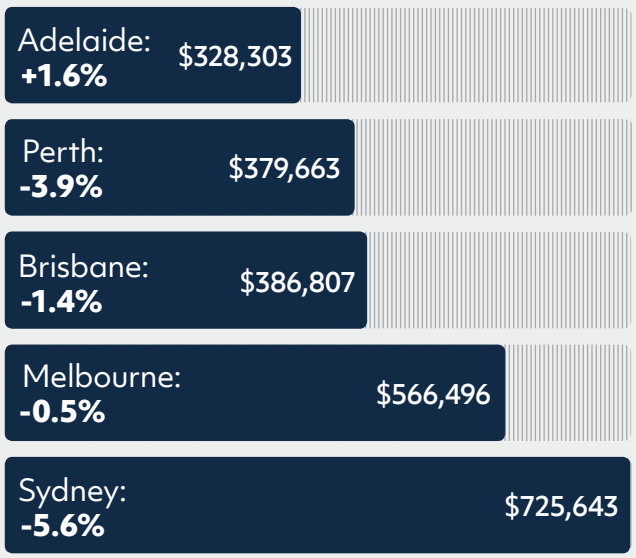


Adelaide

Residential Property Market

Economy

The South Australian economy grew by 17.6% above the annual average rate of growth for the past decade. The state's higher rate of economic growth came off the back of a number of sectors such as tourism, where international visitor numbers in mid-2018 were up by 6% from the previous year and are now trending at record highs. The education and training sector also played a key role, as have a number of major projects across Adelaide's infrastructure pipeline.

Jobs creation was positive, with the state adding almost 14,000 jobs over the 12 months to November 2018. There were also positive developments in the city's unemployment rate which trended down to 5.2% for November 2018 - a solid improvement from the previous year's result of 5.9%.

Economically, Adelaide is set to benefit in a major way from the $89 billion shipbuilding and frigate program which will be a tremendous boon for population growth and jobs growth. The program will be a magnet for skilled interstate and international migrants and drive further economic confidence in the area. Investment interest is expected to pick up due to this once-in-a-generation investment into defence.

Supply and Demand

South Australia's population grew by 12,500 people over the 12 months to June 2018. Overseas migration was a strong contributing factor to this overall increase, adding 12,600 people. However, at the same time, the state experienced a net interstate migration outflow of 5,000. Investors should note though, that this trend is markedly improving with recent ABS data indicating that the rate of interstate migration outflow fell by 25% on a yearly basis to June 2018.

This is a promising sign for Adelaide and is a trend that is expected to continue as a result of the South Australian Government's focus on population growth. In addition to improved population numbers, Adelaide also recorded the tightest vacancy rate of the five major capital cities with a vacancy rate of only 1.3% for December 2018. This helped to translate to robust rental growth and will support ongoing capital growth in the years ahead.

Houses

Adelaide houses appreciated by 2.9% over the 12 months to October 2018 bringing the median value to $486,472. As such, Adelaide remains the most affordable market of all the major capital cities. In addition to its lower price point, rental growth has been robust. Rents rose by $10 a week – and have been complemented by a healthy 4% rental yield which is second highest of the five major capital housing markets.

Future housing performance will be supported by the continued roll out of the submarine and shipbuilding programs which are collectively valued at $89 billion. Developments for the wider program are already underway with the November 2018 commencement of the $3 billion Offshore Patrol Vessels project. In 2020, the $35 billion Frigate Fleet project is slated to commence which will be a significant boost for the Adelaide economy. The associated influx of new jobs as well as skilled workers and their families will have a positive effect on what is already a tight rental market.

Other noteworthy developments include the December 2018 announcement that Adelaide would be home to the new Australian Space Agency. Prime Minister Scott Morrison announced that the agency would be a pivotal step in helping local businesses to access the $480 billion global space industry and believes that the agency will help to create up to 20,000 jobs by 2030.

Apartments

Adelaide apartments recorded a 1.6% gain over the 12 months to October 2018 bringing the median value to $328,303. Adelaide apartments along with Brisbane, recorded the highest rental yield of all major capital city markets at 5.1%. Rental growth was also robust, increasing by $10 a week. Like housing, Adelaide apartments remain the most affordable property market of the five major capital cities.

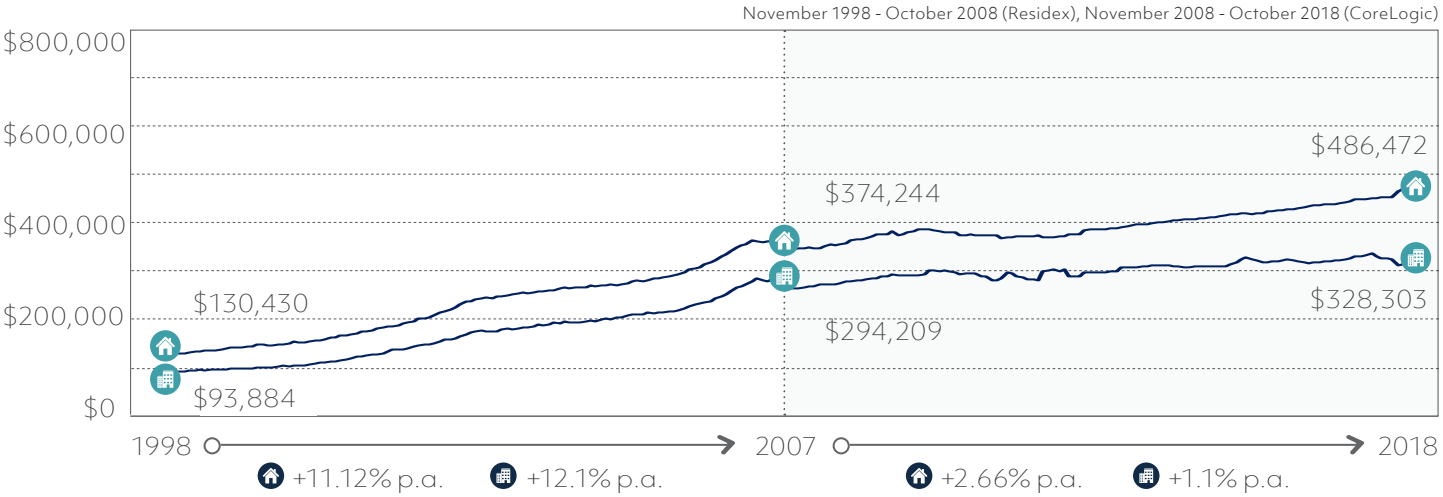
Outlook

Adelaide is expected to continue its path of positive and reliable growth – a trend which will be supported by the city's relative affordability, and attractive rental yields.

Rental growth is expected to remain robust, particularly off the back of a very low vacancy rate. The South Australian government's strategic focus on increasing population growth by attracting skilled workers as well as young adults and families, will help to underpin demand for property providing further reassurance for investors.

In the near term, Adelaide will be a solid performer throughout 2019 and into 2020. In addition to the state's massive defence investment, continued advancement of Adelaide's innovation and sustainability agenda will be key. Projects such as building the world's largest virtual power plant and being the base for Australia's space industry will all prove to be positive drivers for the economy and the local property market in the years ahead.

20 Years of Capital Growth



Property Market Update

Houses

Median Value	$486,472
Capital Growth	+2.9%
Median Rental Yield	4.0%
Median Rent	$380
Rental Growth	+$10

Apartments

Median Value	$328,303
Capital Growth	+1.6%
Median Rental Yield	5.1%
Median Rent	$310
Rental Growth	+$10

City Vacancy Rate — Current **1.3%** — 1-Year Ago **1.5%**

*Values as at October 2018. Growth Rates are for the 12 Months to October 2018. Median Rent and Rental Growth calculated on a per week basis. Vacancy is December 2018)

Brisbane

Residential Property Market

Economy

Queensland's economy performed 19.1% above annual economic growth rate averages for the past decade for the June 2018 quarter. Over the 12 months to November 2018, the state added 38,500 jobs with health care, retail and construction being key sectors which contributed to the upswing. Overall, state economic growth numbers were robust at 3.6% and continued to outpace the national rate of 3%. According to SGS Economics and Planning, last financial year, Brisbane achieved a 3.4% economic growth rate which was the highest rate in 5 years.

One of the key factors responsible for this above-average growth has been Brisbane's multibillion infrastructure pipeline which has been headlined by major projects such as the $3.6 billion Queens Wharf Casino and the $1.3 billion Second Runway. The construction for Queens Wharf Casino is already underway with Economic Development Queensland approving the plan of development and excavation of the site well progressed. The Casino will be a major economic driver for the nation's third largest city, with 8,000 jobs expected once the Casino is operational. The Casino is expected to result in an increase of 1.4 million extra tourists to the Sunshine State capital, and further underpin Brisbane's global appeal. The Casino is scheduled for completion in 2022 and will be supported by Brisbane's soon-to-be-opened Second Runway. The Second Runway is anticipated to deliver 7,800 jobs by 2035 and significantly boost Brisbane's airport capacity.

Brisbane's unemployment rate improved from 7.2% in February 2018 to only 6% in November 2018. Looking ahead, analysis by Deloitte confirms that Queensland is expected to have the strongest annual economic growth rate of all states and territories from 2019 to 2023 rising by at least 3.5% per annum on average, significantly ahead of the expected average annual rate of 2.8% for the nation.

Supply and Demand

Over the 12 months to June 2018, Queensland's population increased by 84,500. This increase came off the back of surging net interstate migration and robust overseas migration numbers. Like the previous quarter, Queensland again led all states and territories for net interstate migration adding almost 25,000 people from other parts of Australia. Apartment approvals and completions remain subdued whilst the vacancy rate continues to improve significantly, falling from 3.8% in December 2017 to only 3.2% in December 2018. BIS Oxford Economics expects new apartment completions this year in Brisbane to be only 5700, which is half that of the 10,700 peak recorded only 2 years ago. With the construction cycle now in a slowdown and with development finance conditions remaining tight – new supply to Brisbane is expected to remain subdued for some time paving the way for upward pressure on rental and capital growth.

Houses

Rental yields for Brisbane houses again topped all major capital city state housing markets with a 4.1% rental return for investors. Over the 12 months to October 2018, Brisbane housing recorded positive growth of 2% which is a promising sign for investors as the city continues to buck the trend of price pullbacks occurring across the other two major east coast cities. According to the Real Estate Institute of Queensland, Brisbane home prices have now hit an all-time high as a result of recent positive and steady growth.

According to the most recent October 2018 data, the median value of a house in Brisbane is now $561,985. At a significantly lower price point than competing cities and with a relatively higher rental yield, the Brisbane opportunity continues to attract many.

Apartments

Brisbane apartments again recorded the highest rental yield of all major capital city apartment markets along with Adelaide. Over the 12 months to October 2018, Brisbane apartment values slightly reduced by 1.2%.

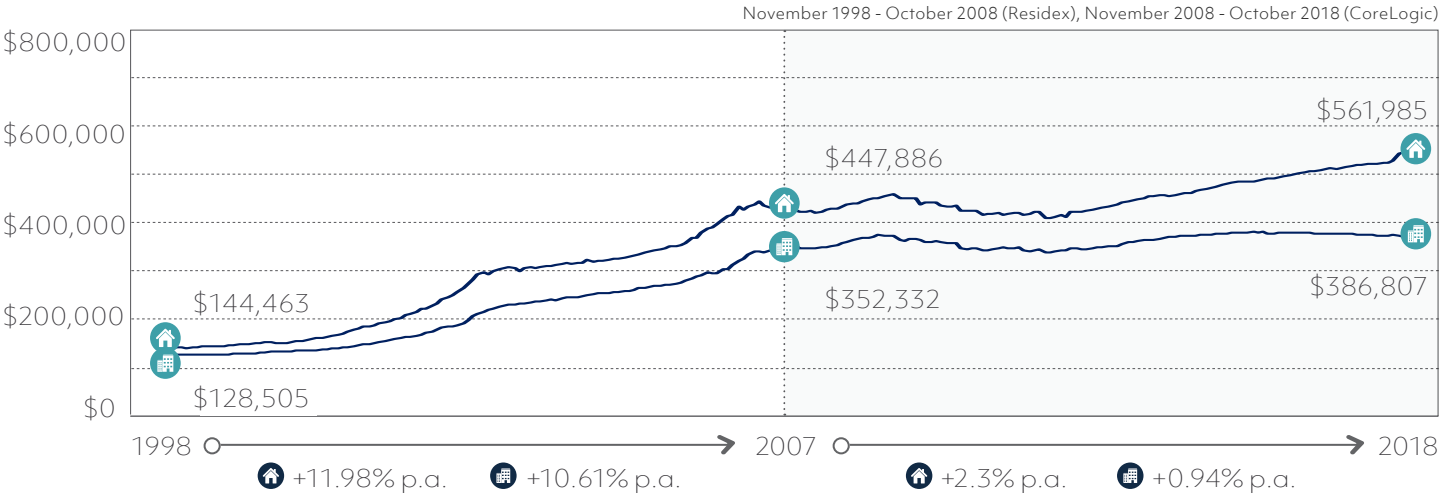
However, many analysts are now suggesting that positive growth is not far away. In January 2019, Moody's Analytics tipped Brisbane's apartment market to lead the nation over the next two years. Brisbane apartments will benefit from a growing number of first home buyers and downsizers who are entering a market which is facing a significantly reduced supply pipeline in the years ahead.

Outlook

Overall, the market outlook is positive for Brisbane. A review of key property performance indicators such as vacancy rates and rental growth, suggest that Brisbane will be a place that many investors will look to in the short and medium term. Population growth to Brisbane has been robust and looks to be accelerating courtesy of rising net interstate and overseas migration. Economically, Brisbane's proximity to Asia as well as its burgeoning tourism and education industries will remain important growth areas to watch as well as the rollout of the city's multibillion dollar infrastructure pipeline.

As the year unfolds, houses are anticipated to perform at a steady rate driven by strong population growth and affordability. Meanwhile, apartments are expected to perform positively as a result of reduced supply forecasts and growing demand. And finally, due to Brisbane's more affordable price point and favourable price to income ratios, the market has been less affected by prevailing credit restrictions which have hampered both Sydney and Melbourne. This positions Brisbane very well for sustainable levels of growth over the medium term.

20 Years of Capital Growth



Property Market Update

Houses

Median Value	$561,985
Capital Growth	+2.0%
Median Rental Yield	4.1%
Median Rent	$420
Rental Growth	$0

Apartments

Median Value	$386,807
Capital Growth	+1.4%
Median Rental Yield	5.1%
Median Rent	$380
Rental Growth	$0

City Vacancy Rate — Current **3.2%** — 1-Year Ago **3.8%**

*Values as at October 2018. Growth Rates are for the 12 Months to October 2018. Median Rent and Rental Growth calculated on a per week basis. Vacancy is December 2018)

Melbourne

Residential Property Market

Economy

Victoria topped all states and territories in the most recent January 2019 Commonwealth Bank State of the States report, receiving top marks across several economic indicators including construction work and economic growth. Victoria added more than 103,000 jobs over the 12 months to November 2018, with over 94,000 of these jobs being full-time. Strong employment growth was also reflected in Melbourne's prime office vacancy rates, which fell to the lowest levels since 2012. Melbourne's unemployment rate also fell, dramatically improving from 5.2% in November 2017 to only 4.3% in November 2018.

According to SGS Economics and Planning, Melbourne was responsible for 82.7% of state economic growth over the last financial year - the highest share on record. The state's robust economic growth and strong population numbers has helped to accelerate key infrastructure projects. Over $100 billion worth of new roads, rail, hospitals and other infrastructure is in building or planning stage according to an analysis by Deloitte. Moving forward, Melbourne's strong construction levels and robust infrastructure investment pipeline will continue to be key for Melbourne's sustained economic growth.

Supply and Demand

Over the 12 months to June 2018, Victoria added over 138,000 people – a substantial lead over NSW, which grew by just over 119,000. Victoria's remarkable population growth will continue to add further pressure to what is already a tight market, with Melbourne's vacancy rate tracking at 2.2% for December 2018. The vacancy rate is expected to tighten even more over the coming months as a result of continued population growth and reduced completions. Furthermore, apartment approvals declined falling by 14.2% over the 12 months to November 2018.

Houses

Over the 12 months to October 2018, Melbourne housing pulled back by 5.6%. Most of the decline occurred at the upper end of the market whereas affordable properties under $800,000 largely retained their values. It is expected that housing will continue to moderate in early 2019 before stabilising later in the year. Rental growth has been positive for housing, with landlords being able to raise rents by $15 a week. Robust rental growth is expected to continue as indicated by Melbourne's low vacancy rate which continues to place upward pressure on rents.

Apartments

Over the 12 months to October 2018, Melbourne apartment values remained largely unchanged recording only a slight pullback of half a percent. The median value of an apartment in Melbourne is now $566,496. The resilience of apartments compared to housing is a trend that is expected to continue given the importance of affordability and rising demand for inner-city apartment living.Rental growth was robust over the year increasing by $10 a week which is welcome news for investors. This continues the trend of sustained rental growth for Melbourne apartments which have grown by 17.1% over the past 5 years – the largest growth for all major capital city apartment markets.

New apartment supply is expected to remain subdued. This is due to several factors including rising construction costs, increased planning restrictions, a tightened lending environment for developers as well as higher taxes for foreign buyers. When coupled with Melbourne's strong population growth, economic performance and increased demand for apartments, further upward pressure on rents and values is expected.

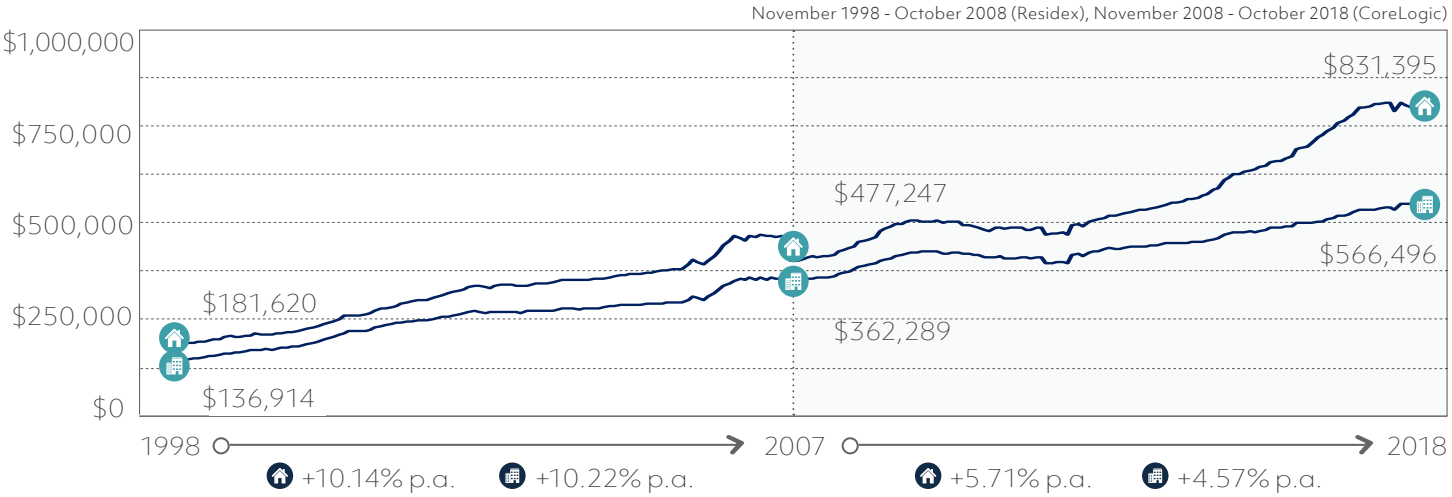
Outlook

The recent pullback in Melbourne housing has been largely a result of tightened lending restrictions. This has led to many buyers opting for more affordable property. This is evident in continued resilience of properties priced below the $800,000 threshold.

Additionally, the Royal Commission is not expected to have a significant impact given that lending institutions had already factored in the anticipated findings of the Royal Commission which drove the tighter credit environment and market pullback in 2018. As a result, it is very unlikely that we will see any further tightening to lending which will thus help the Melbourne market stabilise in 2019, prior to experiencing more stable and positive conditions in 2020.

The underlying long-term fundamentals of Melbourne are robust with surging population growth, strong jobs growth and a reduced supply pipeline. Melbourne apartments will enjoy more positive conditions over the short term, given that more and more people are now favouring inner city living and the fact that affordability has increasingly become a key consideration for many. The apartment market will also be driven by a larger number of first home buyers and downsizers seeking well-located and well-designed apartments.

20 Years of Capital Growth



Property Market Update

Houses

Median Value	$831,395
Capital Growth	-5.6%
Median Rental Yield	2.8%
Median Rent	$440
Rental Growth	+$15

Apartments

Median Value	$566,496
Capital Growth	-0.5%
Median Rental Yield	4.0%
Median Rent	$410
Rental Growth	+$10

City Vacancy Rate — Current **2.2%** — 1-Year Ago **2.1%**

*Values as at October 2018. Growth Rates are for the 12 Months to October 2018. Median Rent and Rental Growth calculated on a per week basis. Vacancy is December 2018)

Perth

Residential Property Market

Economy

The WA state economy recorded a growth rate that was 8% above annual averages for the past decade over the June 2018 quarter. Western Australia also added just over 19,000 new jobs over the 12 months to November 2018. According to a 2018 snapshot by SGS Economics and Planning, Perth grew at its fastest rate in five years, being primarily driven by the professional and health industries. Perth's unemployment rate in November 2018 was recorded at 6.2% which is a solid improvement from the earlier March 2018 high of 7.9%. Positive momentum on the employment front is expected to continue across multiple industries. A survey by the Chamber of Commerce and Industry WA (CCIWA) cited five key local industries which will help to underpin short and medium term employment growth. These industries included mining, agriculture, fishing and forestry, services catering to mining, real estate as well as education and training.

Supply and Demand

Western Australia's population grew by 21,700 over the 12 months to June 2018. This primarily came off the back of natural increase and overseas migration components, which added over 19,000 and 13,000 respectively. However, the state continues to experience an interstate migration outflow with 11,300 leaving for other parts of Australia. Overseas migration is expected to pick up with the increased demand being driven by Western Australia's significant $75 billion mining and resources pipeline. According to figures by job portal, SEEK, job advertisements for the mining, resource and energy industry were 32% higher in mid-2018 than the same time the year prior.

One of the leading indicators signalling a turn for the Perth market has been its swiftly declining vacancy rate. The city recorded only 3.4% in December 2018 – a significant improvement on the 4.6% recorded the year earlier.

Houses

Over the 12 months to October 2018, the Perth housing market experienced a small 3.2% pullback in house values. The rental yield remains robust at 3.7% and rents have remained largely unchanged. With the market now in a period of recovery, positive momentum for housing values are expected over coming years. According to REIWA, some of the best performing suburbs for price appreciation have been at the premium end of the market with REIWA noting that traditionally the top end of the Perth real estate market is usually the one that leads a recovery.

According to Domain, Perth house values are expected to grow faster than any other capital city in 2019. This outlook is underpinned by better economic conditions, higher commodity prices, stronger population growth, improved employment prospects and increased building activity for mining and resources. The aforementioned $75 billion pipeline is largely made up of the construction of major mines which are set to transform the economy. The December 2018 announcement by Rio Tinto to go ahead with a $3.5 billion Koodaideri iron ore mine capped off the state's pipeline which altogether, will help to deliver tens of thousands of jobs for the economy and facilitate the Perth property market's long awaited recovery.

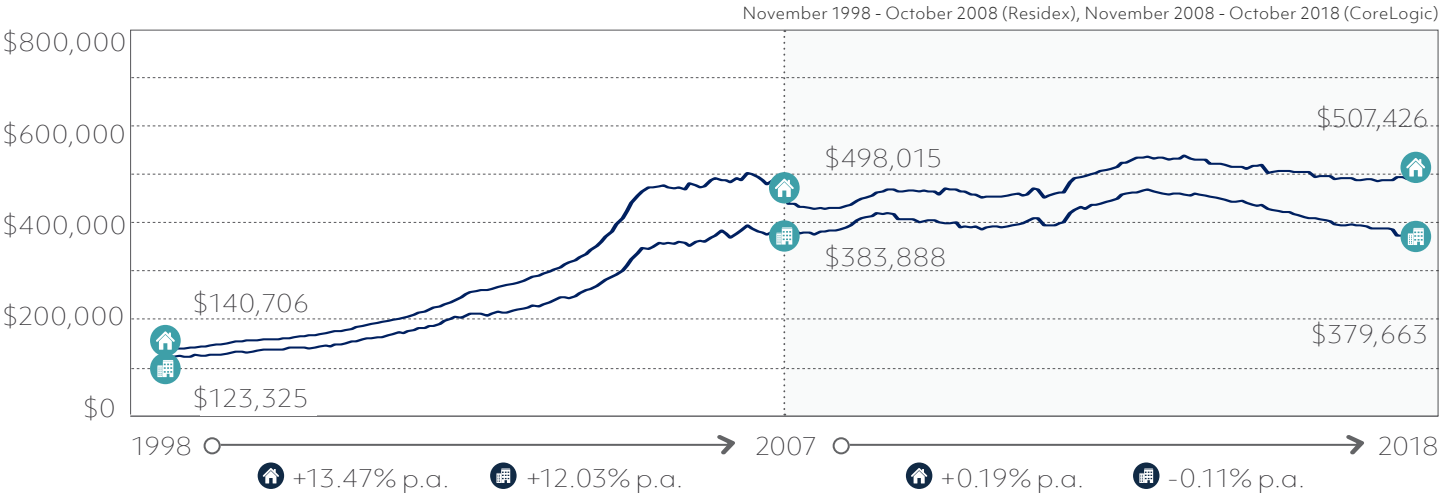
Apartments

The Perth apartment market experienced a decline of 3.9% over the 12 months October 2018. Perth apartment approvals continue to remain subdued and overall supply forecasts remained constrained. Rental yields remain strong at 4.7% for October 2018. The city's improved vacancy rate has been pivotal in driving rental growth over the 12 months to October 2018. Perth recorded the second highest rate of annual rental growth for all major capital city apartment markets, with landlords being able to increase their rents by $10 per week. According to Urbis, Q2 2018 saw owner-occupiers make up 65% of buyers for the Perth apartment market, which was the highest proportion of owner-occupiers recorded since the inception of the survey back in 2014. The recovery in apartment prices will continue to be supported by owner-occupiers moving forward, with first home buyers and downsizers expected to play an influential role.

Outlook

The Perth economy is strengthening off the back of the well-reported $75 billion mining and resources pipeline which is poised to radically uplift the economy and in turn help accelerate the recovery in the housing market. Business confidence is also on the rise, with the latest WA Super-CCI Business Confidence Survey reporting a 10x improvement in optimism for early 2019 compared to mid-2015. In addition to this, the property market is now at its most affordable level in more than two decades. The Housing Industry Association's Quarterly Housing Affordability report demonstrated that the average wage earner only to had to contribute 26.5% of their monthly pay to meet repayments, which is significantly more affordable than cities such as Sydney and Melbourne. As a result, Perth is actually the most affordable major capital city housing market from a price to income ratio perspective. As a result of a strengthening economy and growing population, it is anticipated that over the short to medium term, more and more investors will look west to add to their portfolio.

20 Years of Capital Growth



Property Market Update

Houses

Median Value	$507,426
Capital Growth	-3.2%
Median Rental Yield	3.7%
Median Rent	$380
Rental Growth	-$10

Apartments

Median Value	$379,663
Capital Growth	-3.9%
Median Rental Yield	4.7%
Median Rent	$340
Rental Growth	+$10

City Vacancy Rate — Current **3.4%** — 1-Year Ago **4.6%**

*Values as at October 2018. Growth Rates are for the 12 Months to October 2018. Median Rent and Rental Growth calculated on a per week basis. Vacancy is December 2018)

Sydney

Residential Property Market

Economy

The state economy continued to perform at a strong rate, trending 25.7% above the annual average rate of economic growth for the past 10 years. This growth was and continues to be supported by Sydney's massive infrastructure pipeline which is set to deliver major projects such as the Western Sydney Airport and Sydney Metro rail lines. Sydney's robust economic growth led to the creation of 111,000 new jobs over the 12 months to November 2018 and was key in Sydney achieving its best unemployment rate in over 25 years - an enviable result of only 3.5%. Wages growth is anticipated to pick up further with unemployment trending so low. Over the 2018 financial year, Sydney's GDP was a robust 3.1% and represented more than a quarter of GDP growth. The city continues to experience robust labour market conditions which translate well for its economic future.

Supply and Demand

Over the 12 months to June 2018, the New South Wales population increased by 119,000 people. Most of this growth came from overseas migration with 88,000 added. Natural increase also made a significant contribution with over 52,000 added, however net interstate migration flows remained negative with 21,000 people choosing to move to other parts of the country.

Sydney's vacancy rate rose in December 2018 reaching 3.6%, however this slightly elevated figure was to be expected due to the seasonality of vacancy rates. More importantly, the market is now in the process of absorbing current supply and it is expected that the vacancy rate will tighten towards a balanced market and then an undersupplied scenario in the medium term. The outlook for new apartment supply remains subdued with recent building approvals data showing a near-20% annual decline.

Houses

Over the 12 months to October 2018, the Sydney housing market pulled back by 9.3%. This follows a period of very strong growth where the median house value rose by a significant 86% between late-2012 and late-2017. The recent pullback should be taken into context with the fact that the market had been specifically targeted by macroprudential policies uniquely designed to slow price growth in Sydney and Melbourne. Weekly rents have remained resilient, maintaining their values.

Apartments

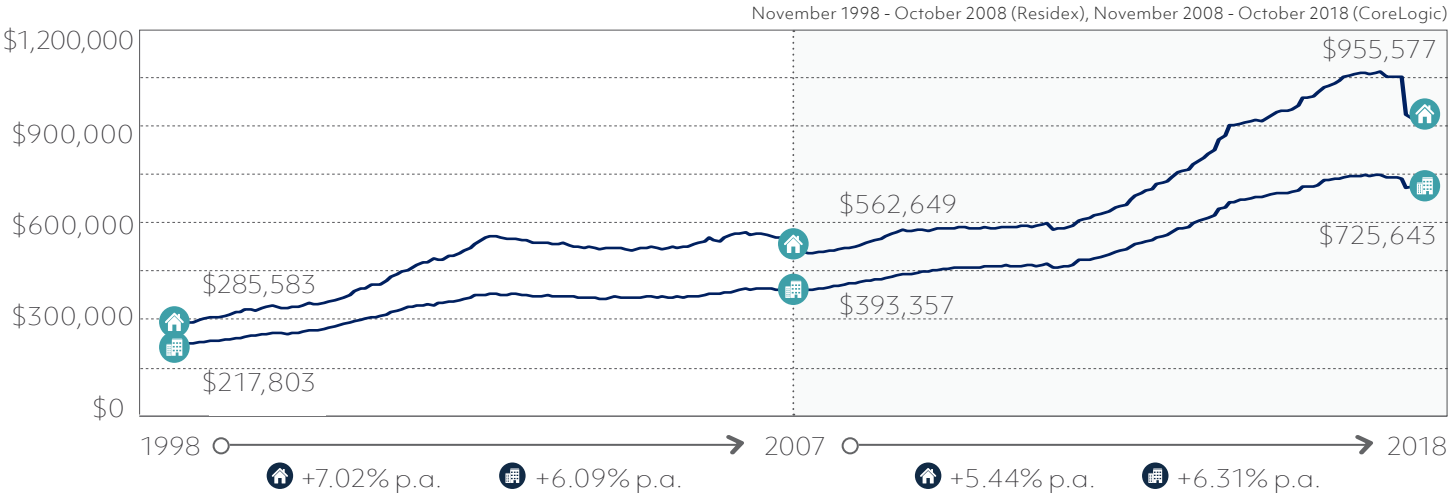
Apartments have been more resilient compared to housing. This reflects the growing importance of affordability as well as the influence of higher price-pointed property being responsible for most of the decline seen in the housing market over the past 12 months. Overall, apartment values pulled back by 5.6% over the 12 months to October 2018. However, similar to housing, this pullback has come after a period of very strong growth which saw the median apartment value rise by 64% between late 2012 and early 2018. This resilience of apartments compared to housing has also been supported by demographic factors with more first home buyers and downsizers seeing apartments as their preferred choice. Importantly, whilst values have declined, rents have been robust growing by $10 a week. As a whole, the market is continuing to adjust after a strong period of construction activity, with current stock levels now being absorbed and new apartment approvals reducing significantly. Consequently, the coming years should see a strong slowdown in supply and it is anticipated that the market will move towards a balanced market in the medium term.

Outlook

Most of the impact from the Royal Commission has already been felt in the property markets given that lending institutions were largely aware of the potential findings ahead of time, particularly with regard to Responsible Lending Conduct. As a result, the major banks begun to tighten their lending well in advance, as demonstrated by the clear falls in housing credit growth in 2018.

Looking ahead, it is expected that the Sydney market as a whole will continue to adjust and then stabilise later in the year. The underlying fundamentals of the Sydney market are robust, however, affordability is a real issue and will continue to hamper growth over the medium term. Investors need to be aware of this and need to be selective when investing in this market, ensuring they are getting the right property at the right price. It is anticipated that affordability will continue be a key driver for demand with the sub-$900,000 price bracket projected to fare better over the coming months as the market finds its footing, along with property set to benefit from proximity to new infrastructure projects.

20 Years of Capital Growth



Property Market Update

Houses

Median Value	$955,577
Capital Growth	-9.3%
Median Rental Yield	3.0%
Median Rent	$550
Rental Growth	$0

Apartments

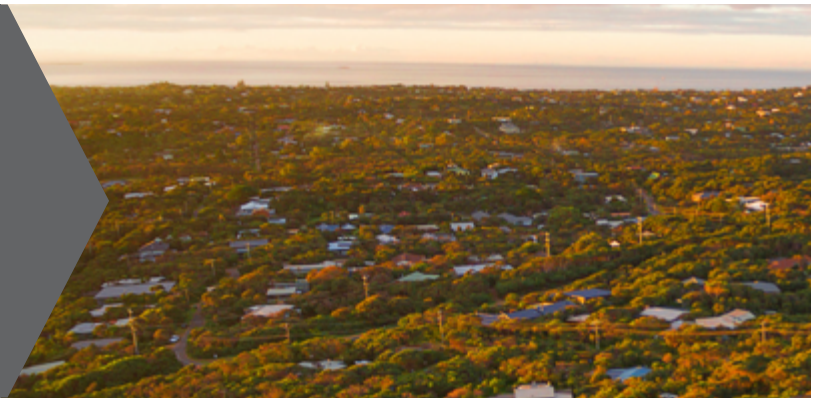
Median Value	$725,643
Capital Growth	-5.6%
Median Rental Yield	3.7%
Median Rent	$530
Rental Growth	+$10

City Vacancy Rate — Current **3.6%** — 1-Year Ago **2.6%**

*Values as at October 2018. Growth Rates are for the 12 Months to October 2018. Median Rent and Rental Growth calculated on a per week basis. Vacancy is December 2018)

Sources

Residential Property Market



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Resources

Ironfish Residential Property Market Research

My City Reports

Our My City reports are an annual series of educational, magazine style publications that are an essential guide for investors to understand each major capital city, their unique qualities and fundamental property market drivers.

My Market Reports

Our Research team monitors Australia's 5 capital city property markets and publishes a quarterly review that incorporates the latest property data, market commentary and fundamental analysis of issues impacting each market.

My Property Reports

Extensive due diligence and research is done by Ironfish's Property and Research division on the merits of each approved property, with key project information, demographics and market research presented in a Property Report for investors.

Portfolio Approach

Our Portfolio Approach to investing is a simple yet powerful strategic approach to build step by step a diverse portfolio of different types and locations and hold onto it over a 10-15 year period.

Ironfish Seminars

Ironfish provides regular investor educational seminars in English and Chinese around Australia. They provide up to date property market information and effective investment strategies presented by many of Australia's astute property experts.

PPA Software

Our educational Ironfish PPA Portfolio software tool has been customised to ensure our professional Strategists can help investors understand firsthand how to cash flow an investment property and build equity over time.

RESEARCH

Knowledge is power when you invest in residential property.

NEGOTIATION

Group buying will always be more powerful than acting alone.

TIME-SAVING

In a busy world, it pays to have professionals working for you.

Ironfish

"It's not what you buy now, but what you own in 10 or 20 years that will make you wealthy."

– Joseph Chou

www.ironfish.com.au