

# Market update

September 2011

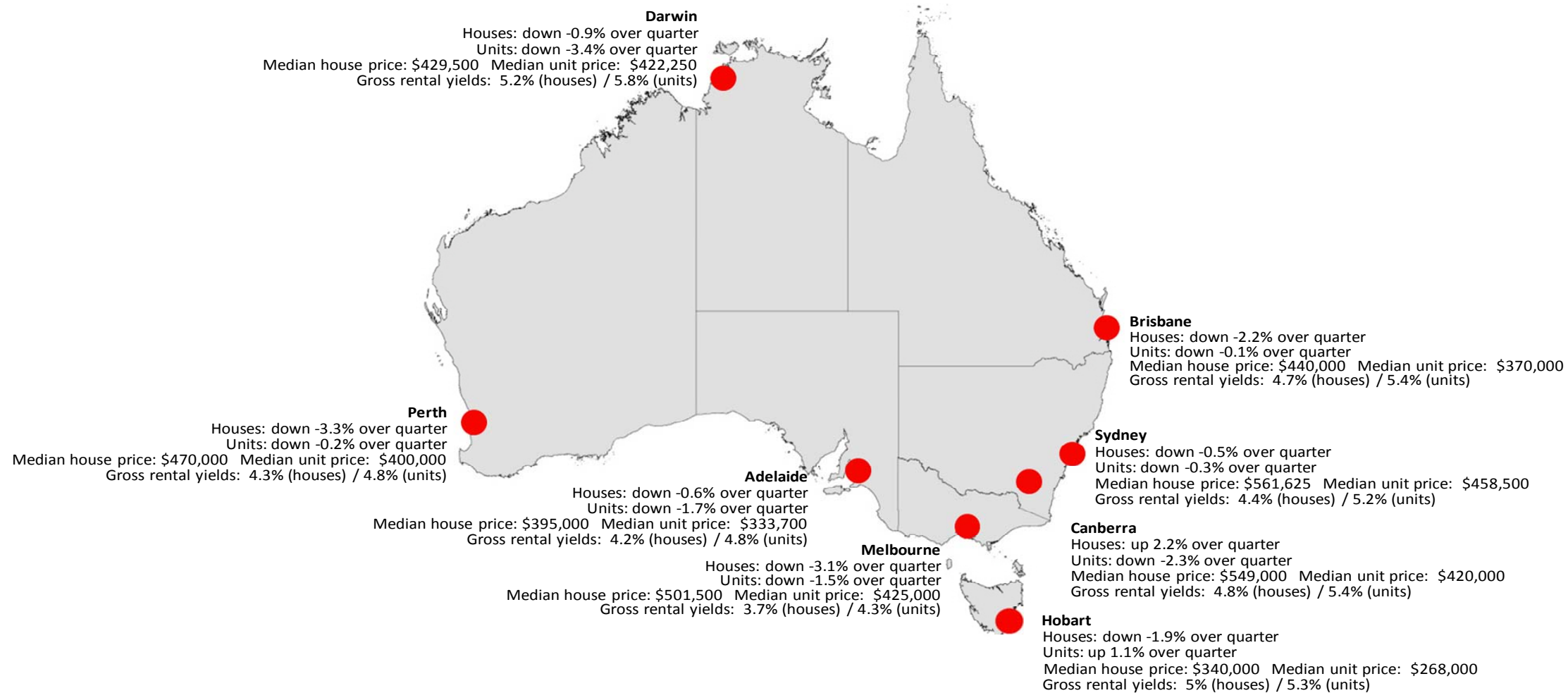


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# Market snapshot

## Australian capital cities, July '11



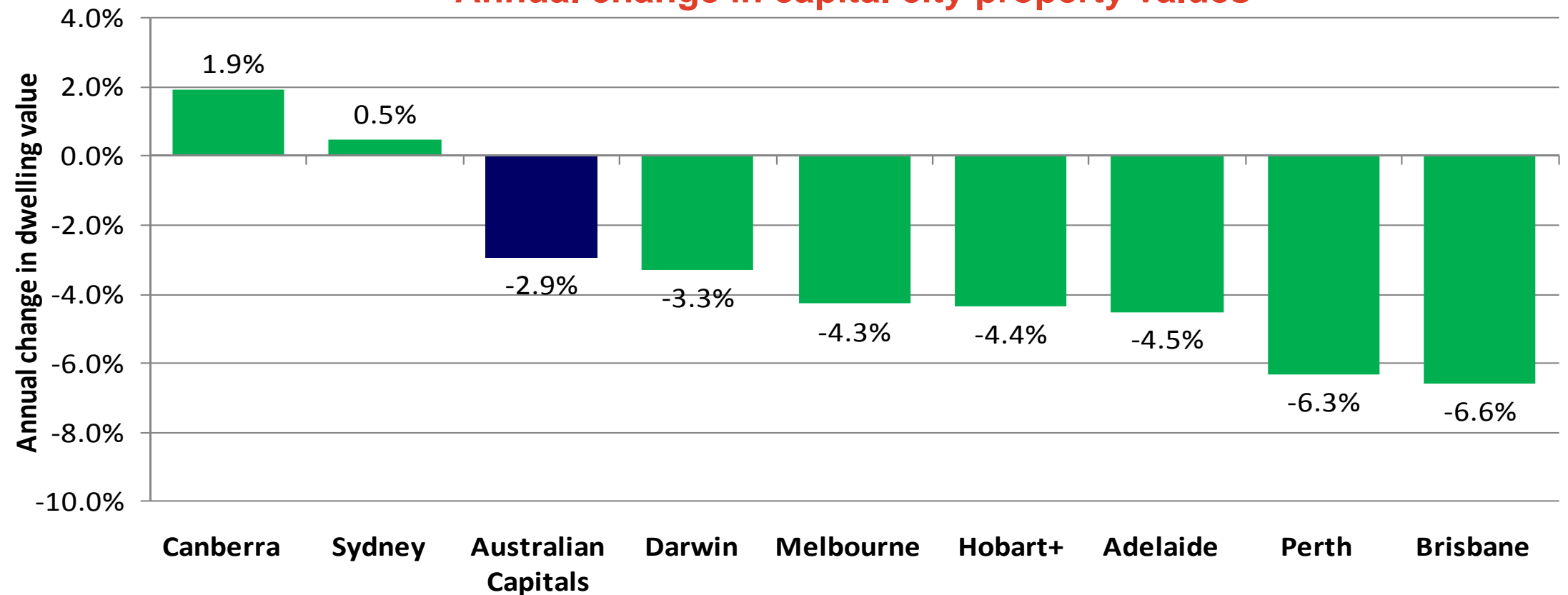
\* Hobart data is based on June '11 results

Source: rpdata.com - Rismark

# Home values are down in all cities except for Canberra and Sydney

- Across the capitals, property values have fallen by -2.9% over the past year.
- Canberra and Sydney have been the only cities in which values have risen over the last year while Brisbane and Perth have recorded the greatest value falls.

### Annual change in capital city property values

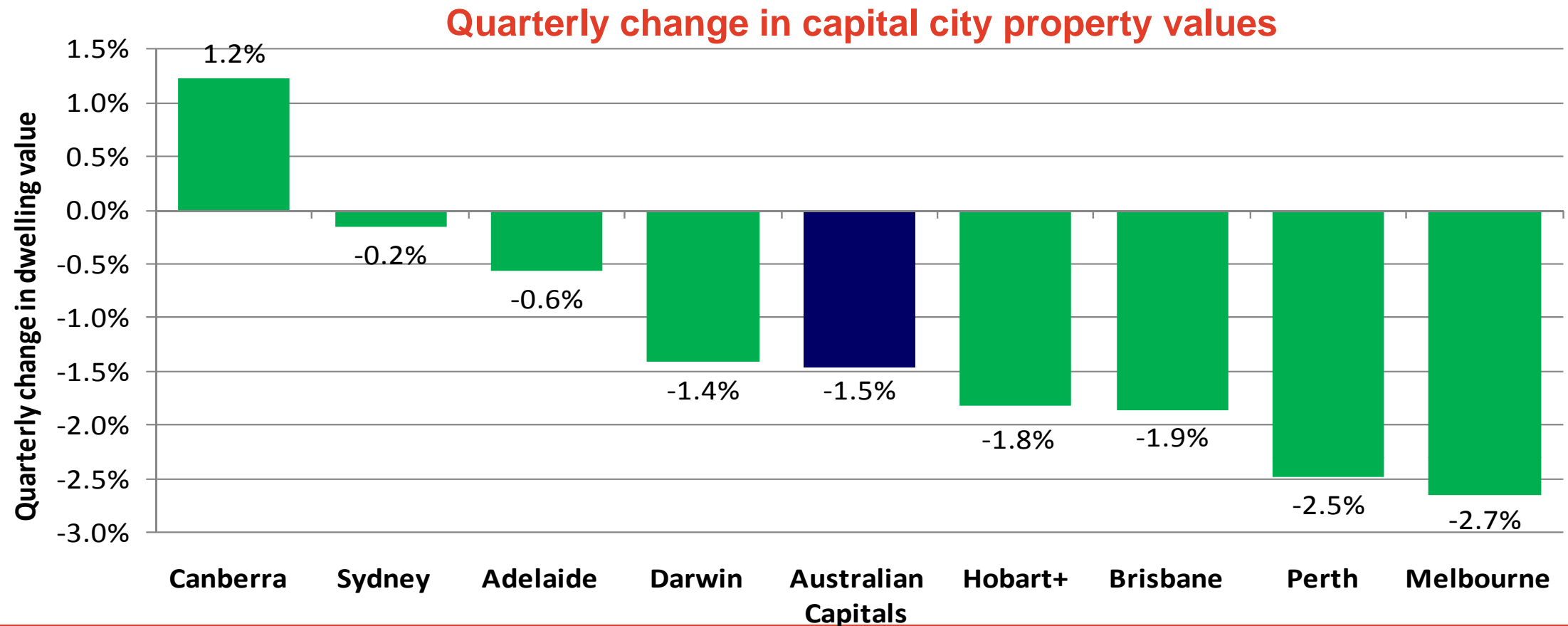


\* Note Hobart figures are based on June 2011 data

Source: rpdata.com - Rismark

# Canberra was the only capital city to record positive value growth over the quarter

- Over the three months to July 2011, capital city home values were down -1.5% compared with a -1.2% fall over the three months to June 2011.
- After a solid capital gain performance across 2009/10, Melbourne is now the weakest market based on the quarterly movement in home values, closely followed by Perth.



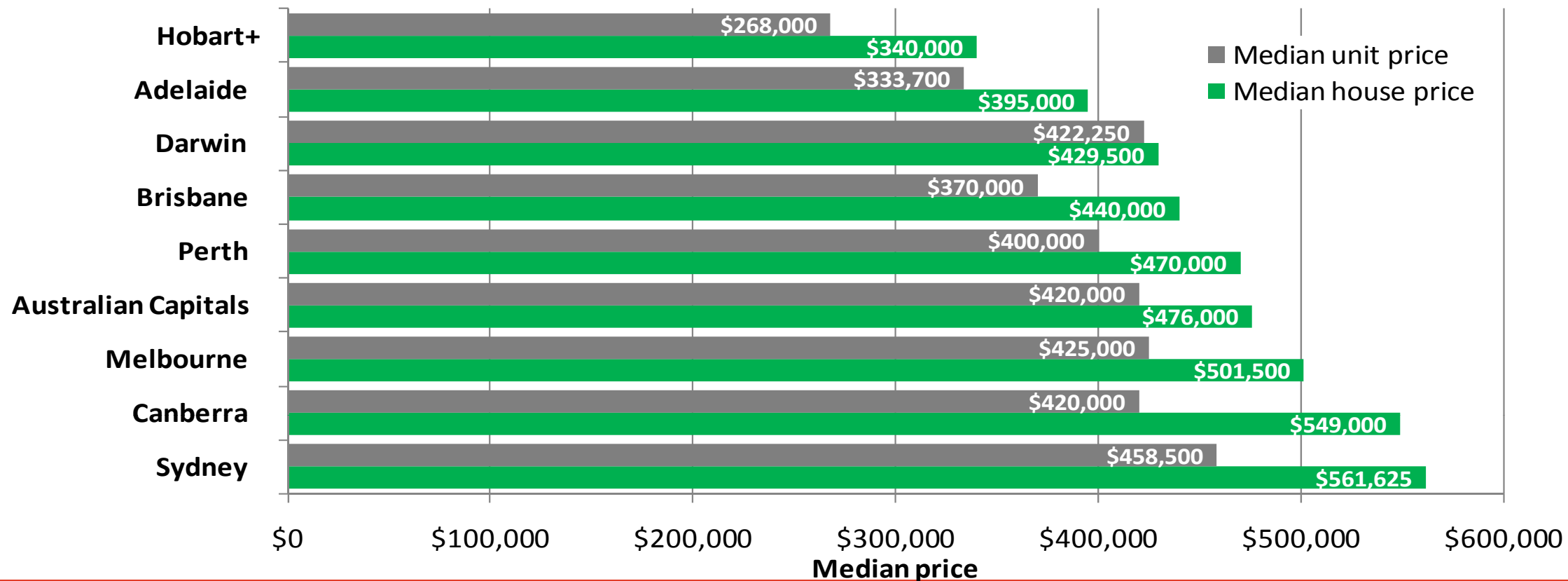
\* Note Hobart figures are based on June 2011 data

Source: rpdata.com - Rismark

# Sydney house prices the most expensive of any city

- Sydney house prices are the highest of all capital cities and Hobart houses remain substantially more affordable than the other capitals.
- Across the combined capitals, median house prices were \$476,000 and units \$420,000 over the three months to July 2011.

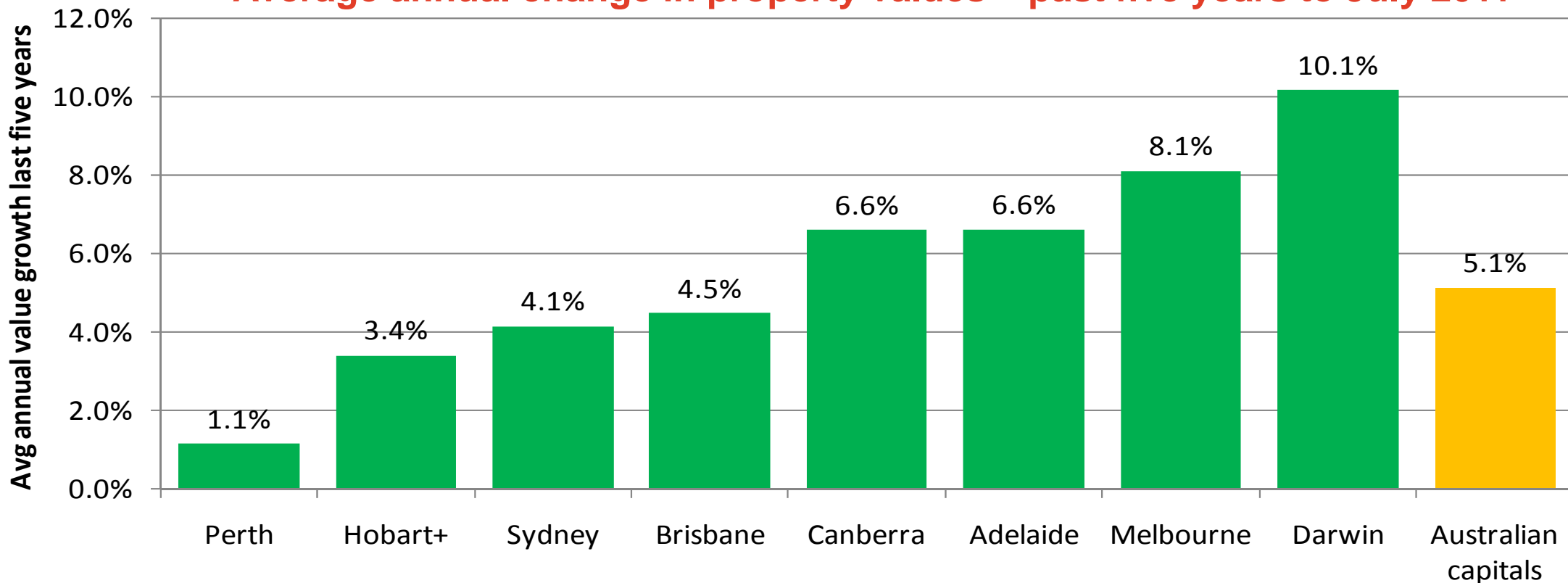
## Median house and unit prices – July 2011



# Darwin has been the standout performer during the past five years

- Capital city property values have increased at an average annual rate of 5.1% during the five years to July 2011.
- Over the past 10 years capital city property values have increased at an average annual rate of 6.8%, indicating more subdued growth conditions over the second half of the decade.

## Average annual change in property values – past five years to July 2011



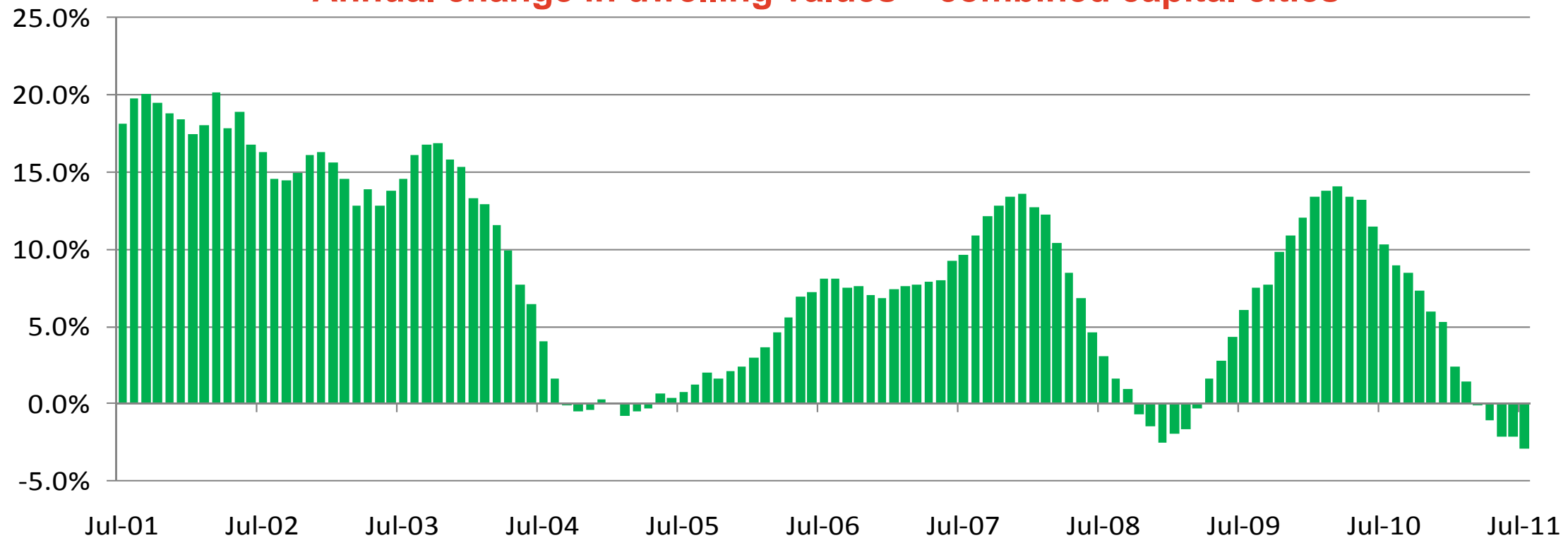
\* Note Hobart figures are based on June 2011 data

Source: rpdata.com - Rismark

# Values are down -2.9% across the combined capital cities benchmark over the past year

- Annual growth in capital city dwelling values most recently peaked at 14.2% in March 2010.
- Since that time the annual rate of change in dwelling values has fallen to -2.9% in July 2011.
- Since the start of 2009, capital city property values have increased by 13.9%.

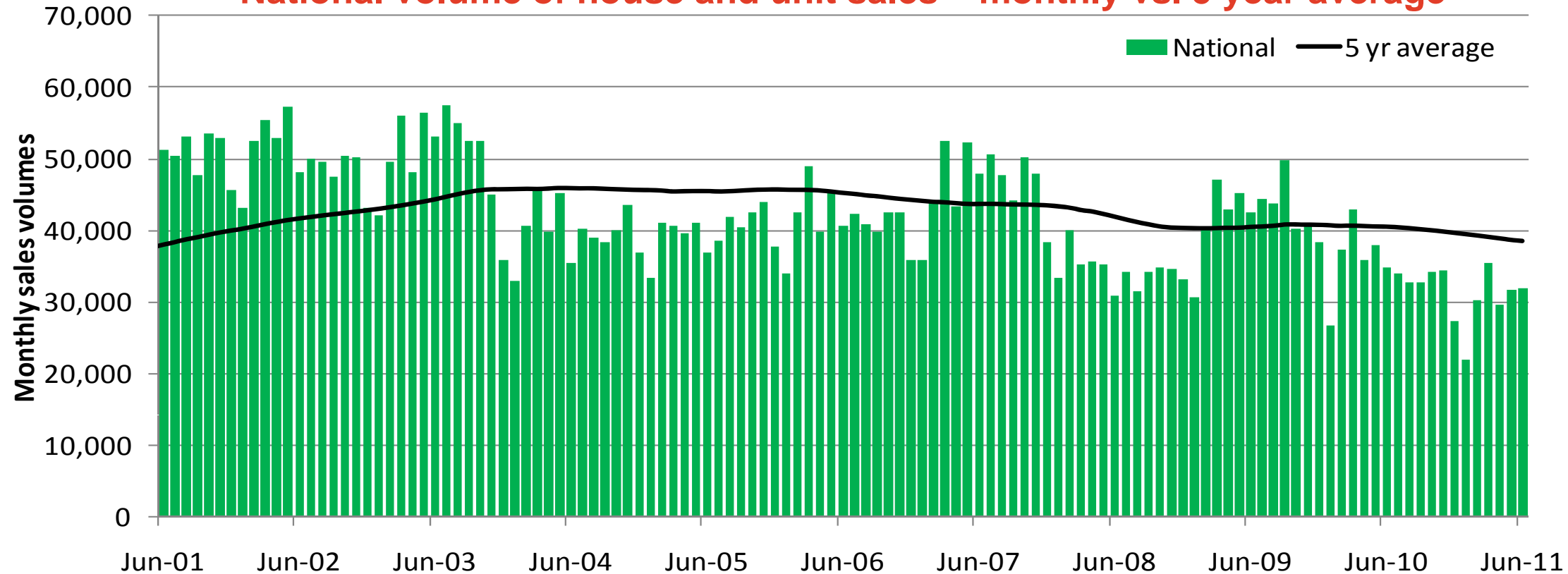
## Annual change in dwelling values – combined capital cities



# Sales volumes remain well below average as value growth stalls

- Estimated sales volumes were -18% below the five year average in June 2011.
- Sales volumes have remained relatively flat over the past month and a lack of consumer confidence does not bode well for a recovery in sales activity.

## National volume of house and unit sales – monthly vs. 5 year average



Note: the last five months of sales volumes are modelled based on historic levels of revision

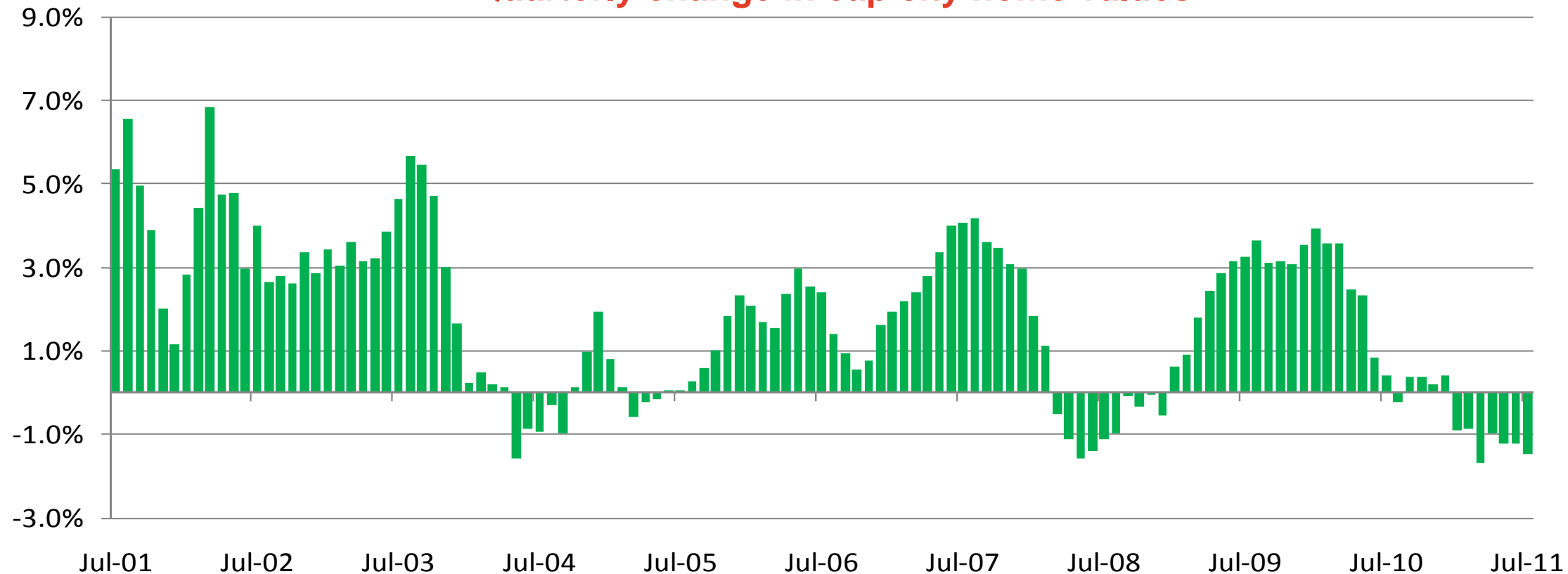
Source: rpdata.com



# On a quarterly basis the decline in home values have increased over the past month

- During the last quarter property values across the combined capital cities have fallen by -1.5% compared with a quarterly fall of 1.2% over the three month periods ending May and June.
- The quarter ending March 2011 has been the weakest result to date, with a quarterly fall of 1.7%.

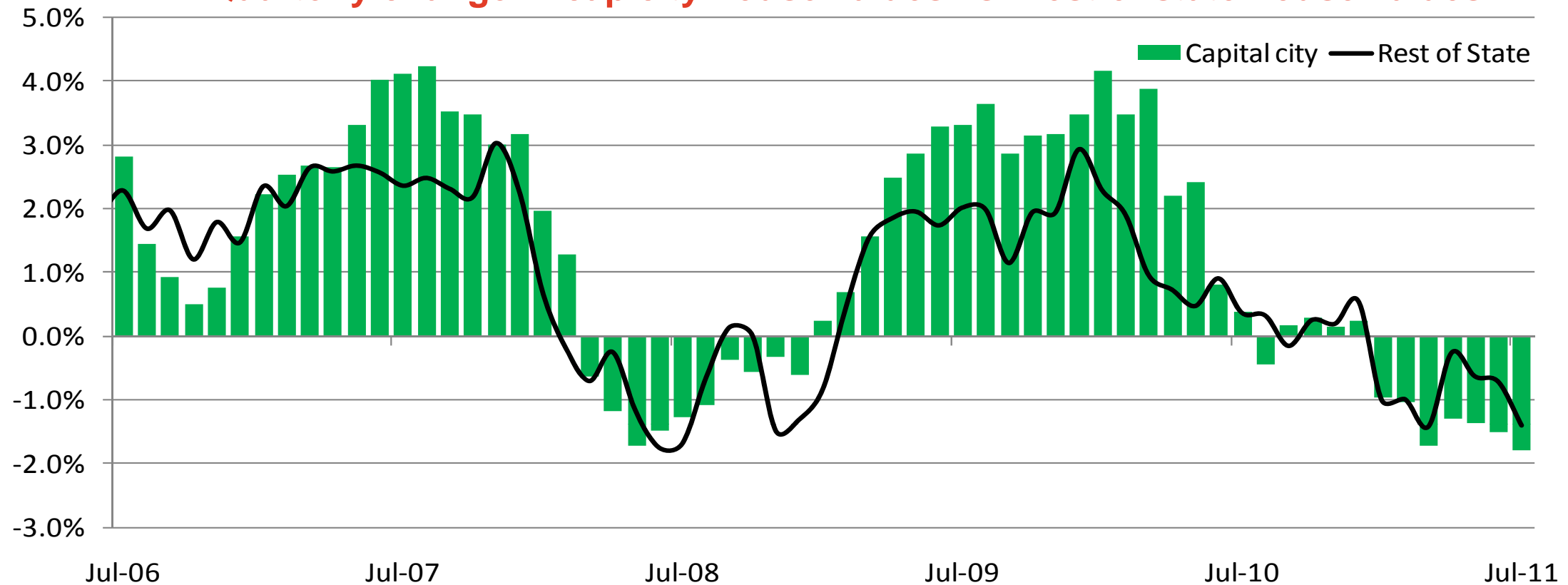
## Quarterly change in cap city home values



# Regional housing markets are now outperforming the combined capital cities

- Capital city markets have generally recorded a superior performance with regards to changes in home values compared with housing markets outside the capital cities.
- Over the three months ending July 2011, house values across the combined capital cities fell by -1.8% compared with a -1.4% fall across the combined 'Rest of State' markets.

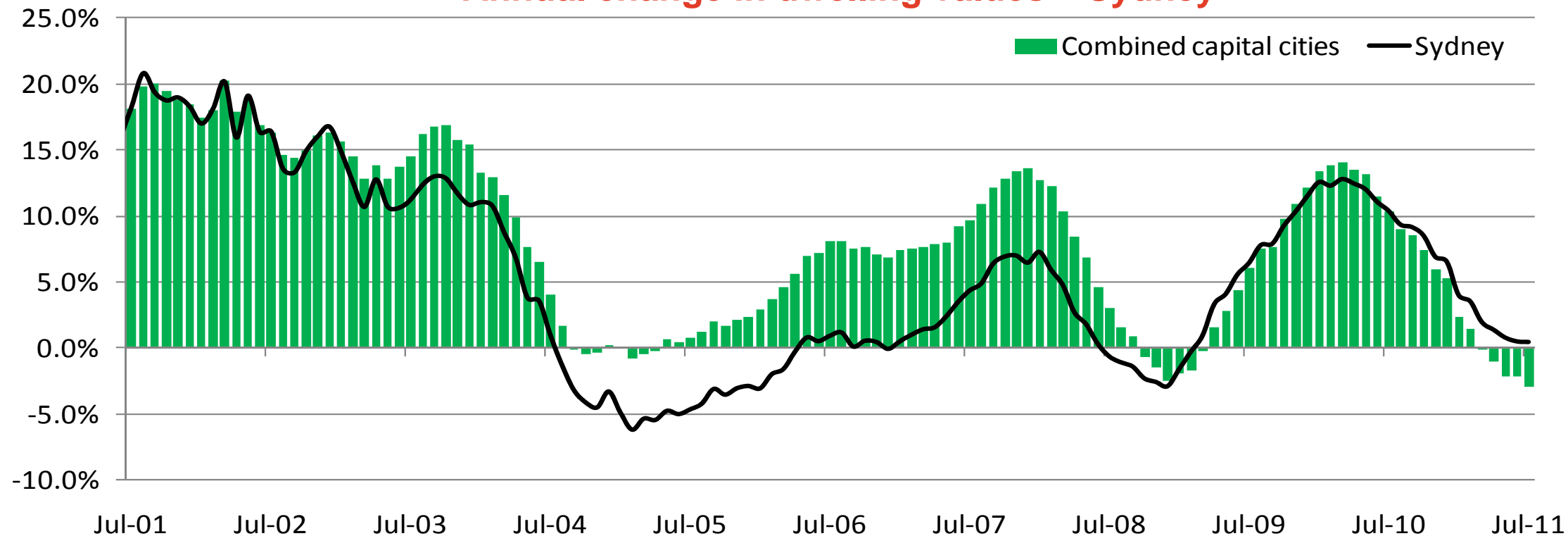
## Quarterly change in cap city house values vs. Rest of state house values



# Sydney's housing market remains resilient to value declines over the year

- Between December 2002 and January 2009, annual capital growth in Sydney was lower than that recorded across the combined capitals, averaging a capital gain of just 1.2% year on year.
- Property values have increased by a total of 17.7% since the start of 2009.
- Over the past year, Sydney property values have increased by 0.5%.

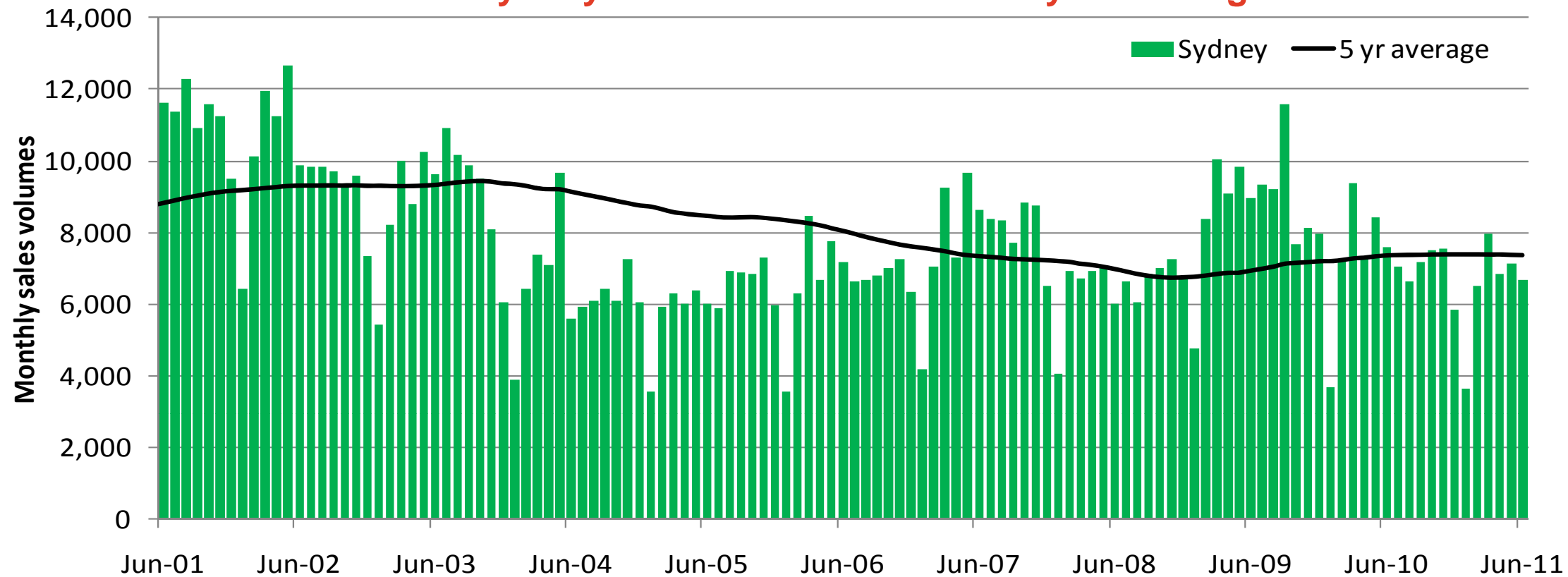
## Annual change in dwelling values – Sydney



# Sydney volumes are slightly below the five year average level

- Estimated transaction volumes are running -9.4% below five year average levels.
- The five year average volume of sales is trending slightly higher due to a pick up in sales activity across the city since 2009.

## Sydney volume of sales and five year average



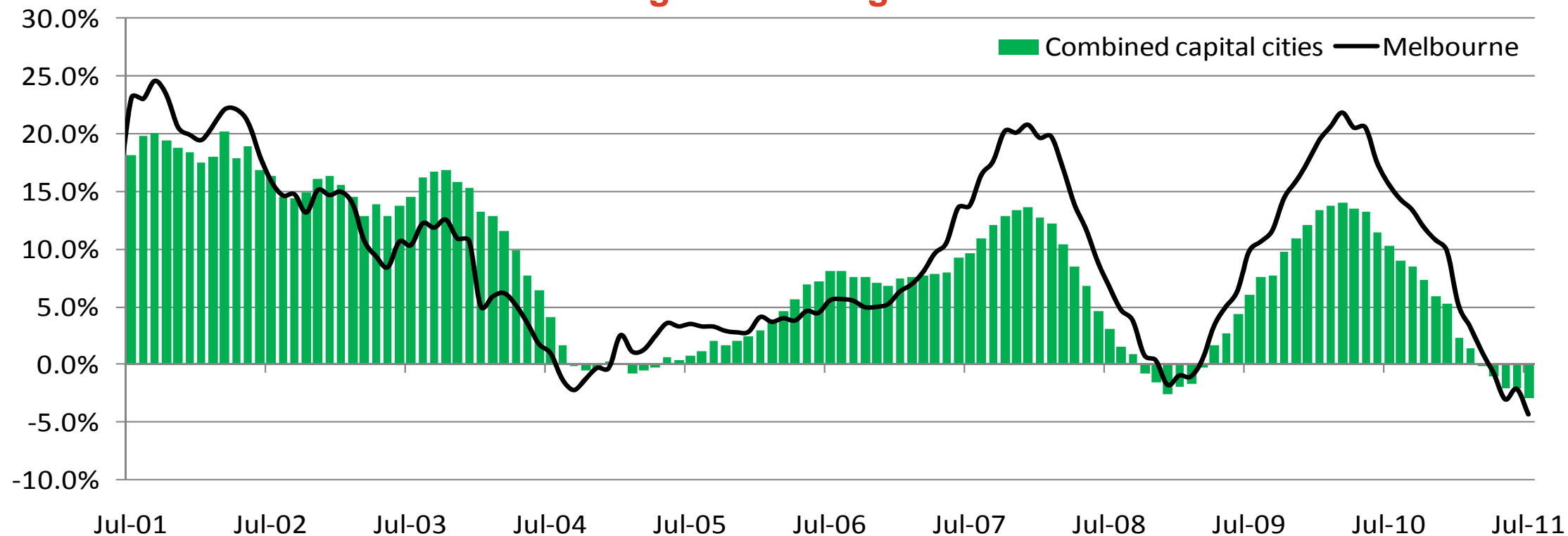
Note: the last five months of sales volumes are modelled based on historic levels of revision

Source: rpdata.com

# Melbourne's residential market is now slowing quite rapidly

- Since the beginning of 2007, property values in Melbourne have increased by a total of 45.1%.
- Over the last 12 months, Melbourne values have fallen by -4.3% and the quarterly movement at -2.7% was the weakest result of any capital city.

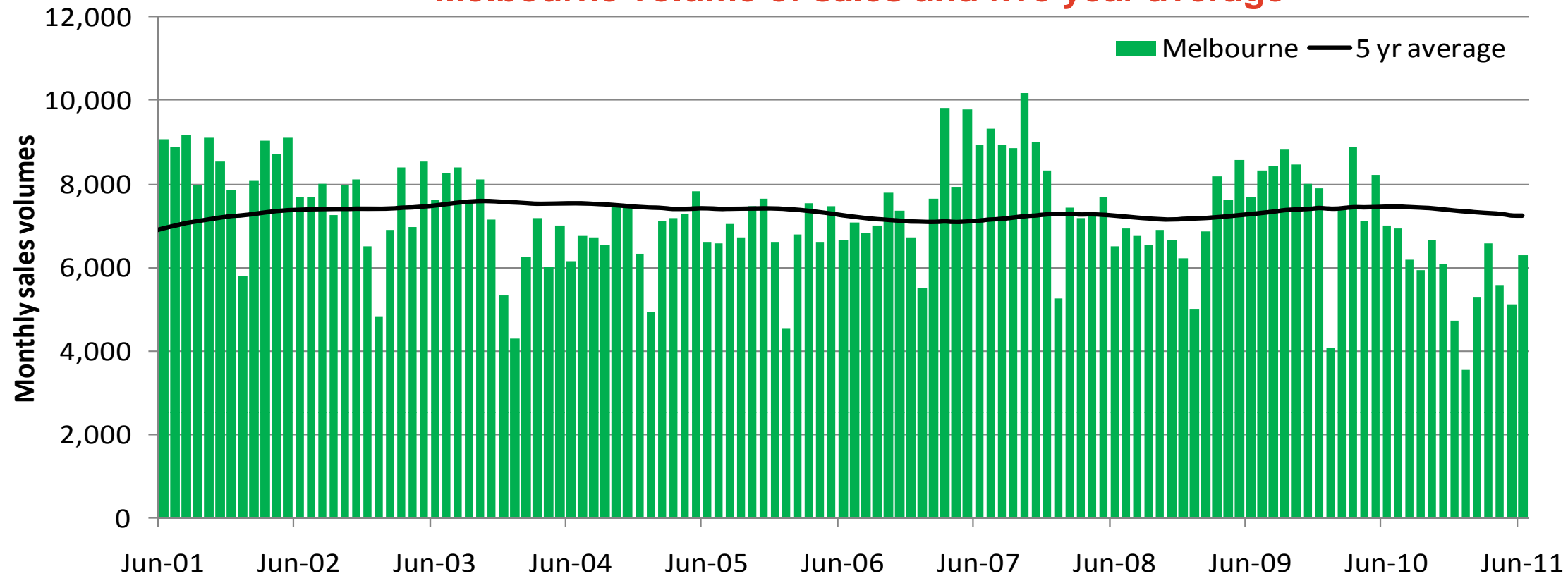
## Annual change in dwelling values – Melbourne



# Melbourne transaction volumes have trended well below average

- Melbourne's estimated sales volumes are currently -13% below the five year average.
- The trend is very much showing lower sales volumes, which is commensurate with the slowdown in capital gains currently being experienced across the market.

## Melbourne volume of sales and five year average



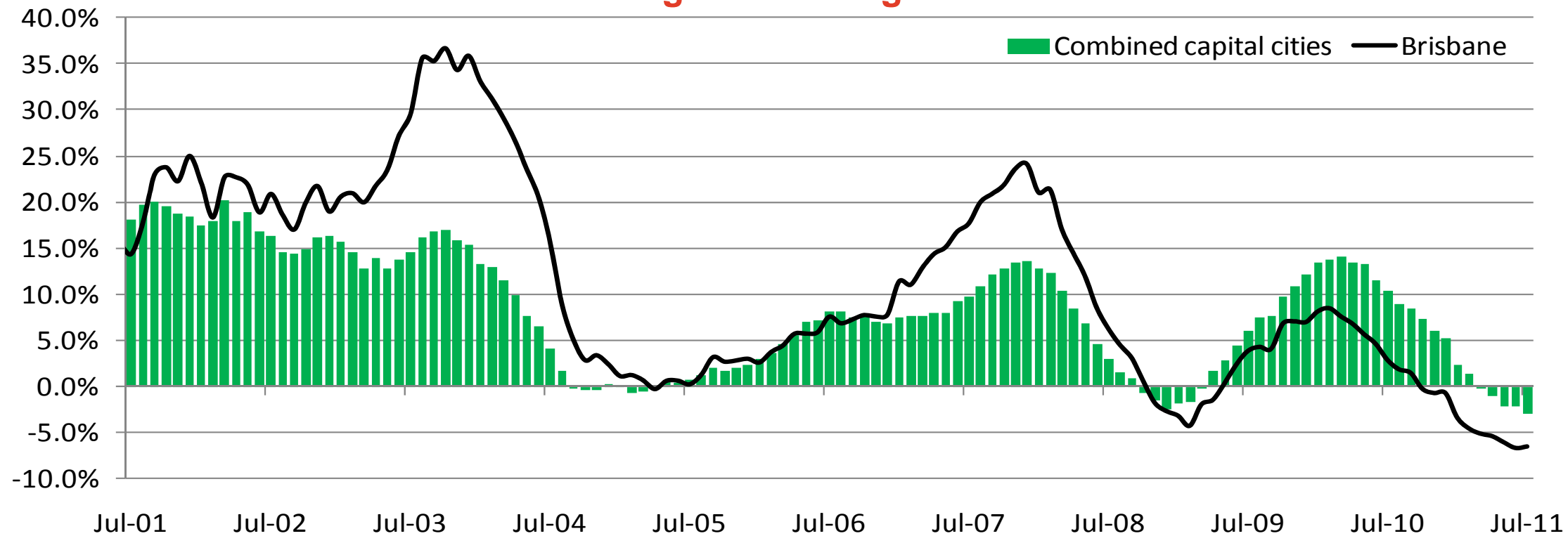
Note: the last five months of sales volumes are modelled based on historic levels of revision

Source: rpdata.com

# Brisbane has been the weakest performing market over the past year

- Since the start of 2008 Brisbane home values are down by -2.3%.
- Brisbane home values have fallen by -6.6% over the twelve months to July 2011.
- After recording above average capital gains since 2001, Brisbane has consistently underperformed the national market since the end of 2008.

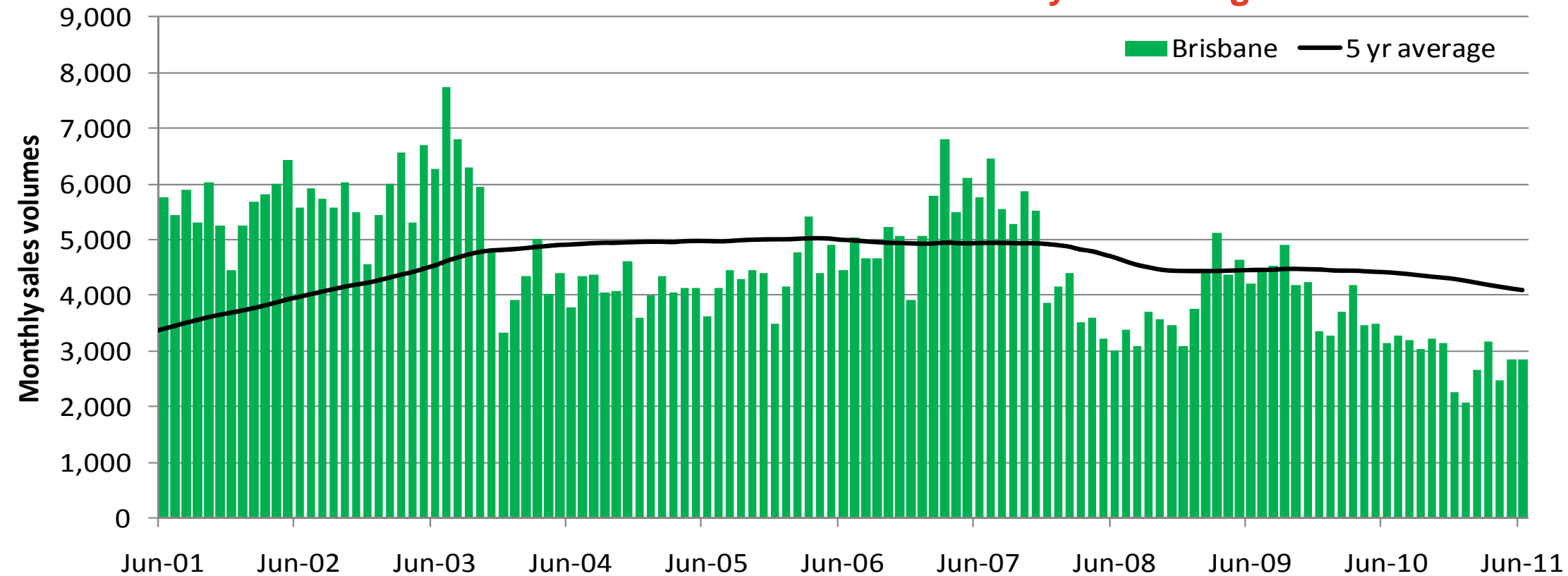
## Annual change in dwelling values – Brisbane



# Sales volumes remain at their lowest levels in 15 years across Brisbane

- Brisbane estimated sales volumes are -31% below the five year average and are at their lowest levels since 1996.
- Volumes have been below five year average levels since mid 2009.

## Brisbane volume of sales and five year average



Note: the last five months of sales volumes are modelled based on historic levels of revision

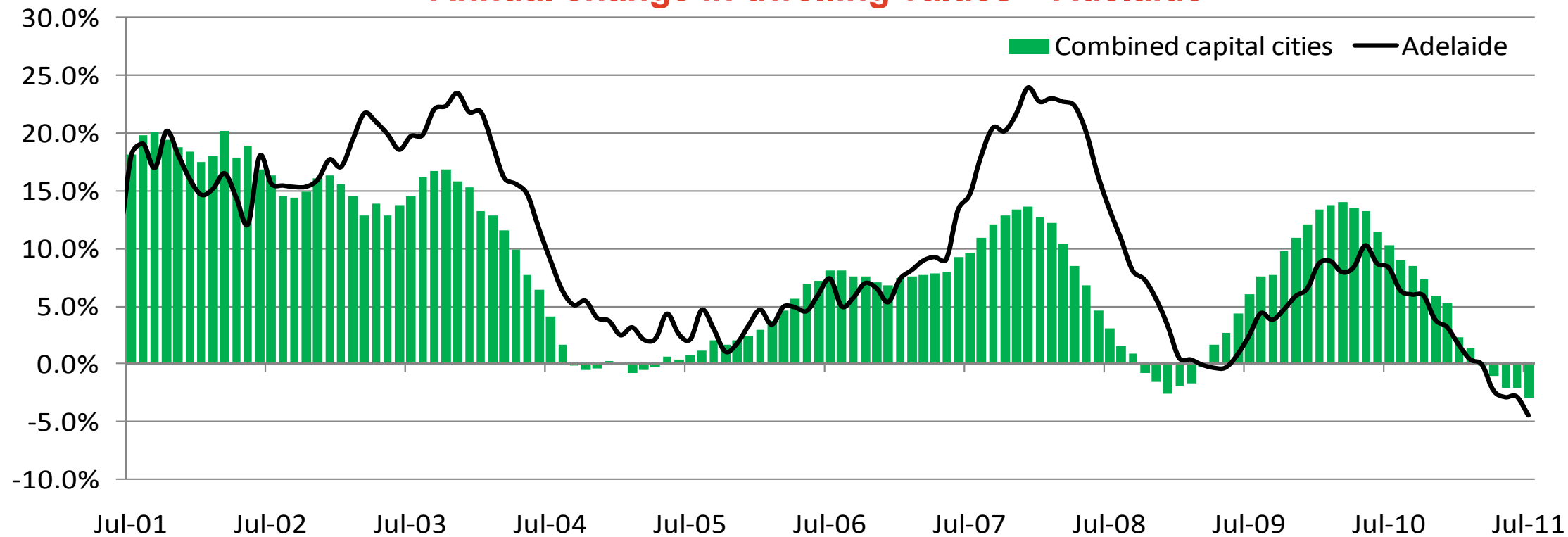
Source: rpdata.com



# Adelaide values are continuing to fall as market conditions weaken

- Adelaide consistently recorded a superior rate of capital gains from late 2002 until late 2008.
- Since the start of 2008, Adelaide property values have increased by 5.9%.
- Over the past year, property values have fallen by -4.5%.

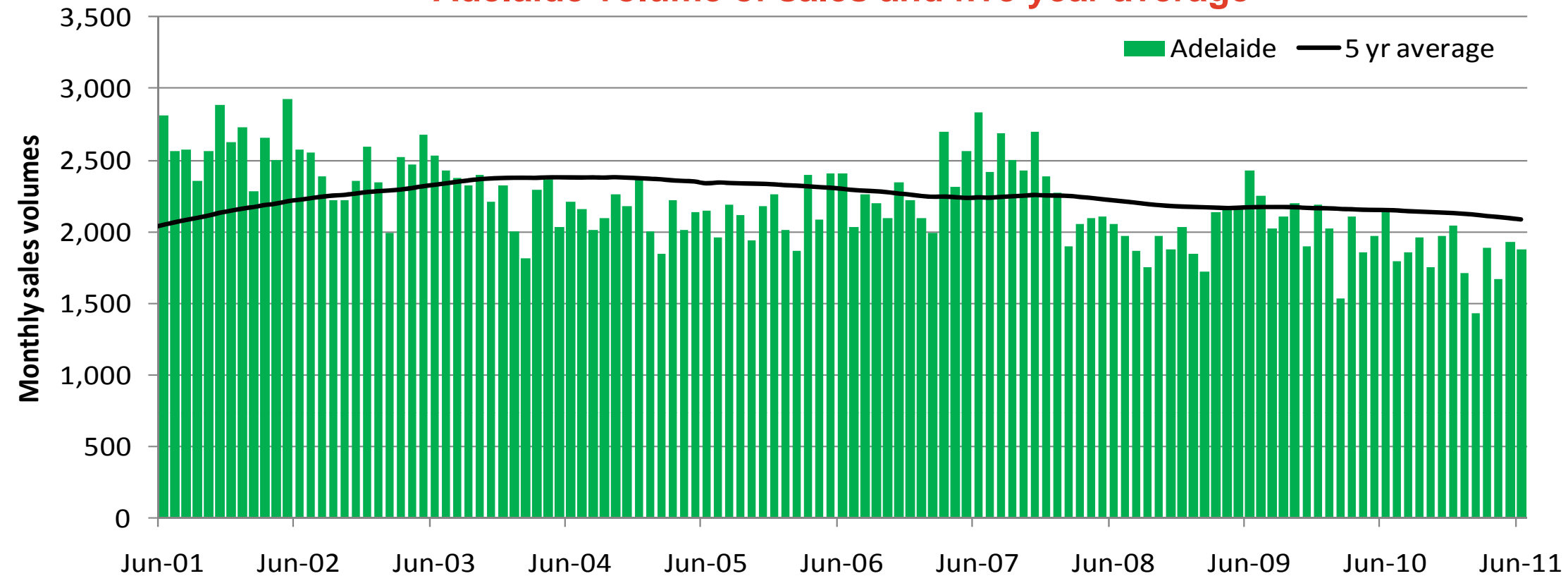
## Annual change in dwelling values – Adelaide



# Adelaide volumes remain below levels of last year and below the five year average

- Adelaide's estimated sales volumes are currently -10% below the five year average.
- As capital gains have transitioned out of the market, sales volumes have also fallen.

## Adelaide volume of sales and five year average



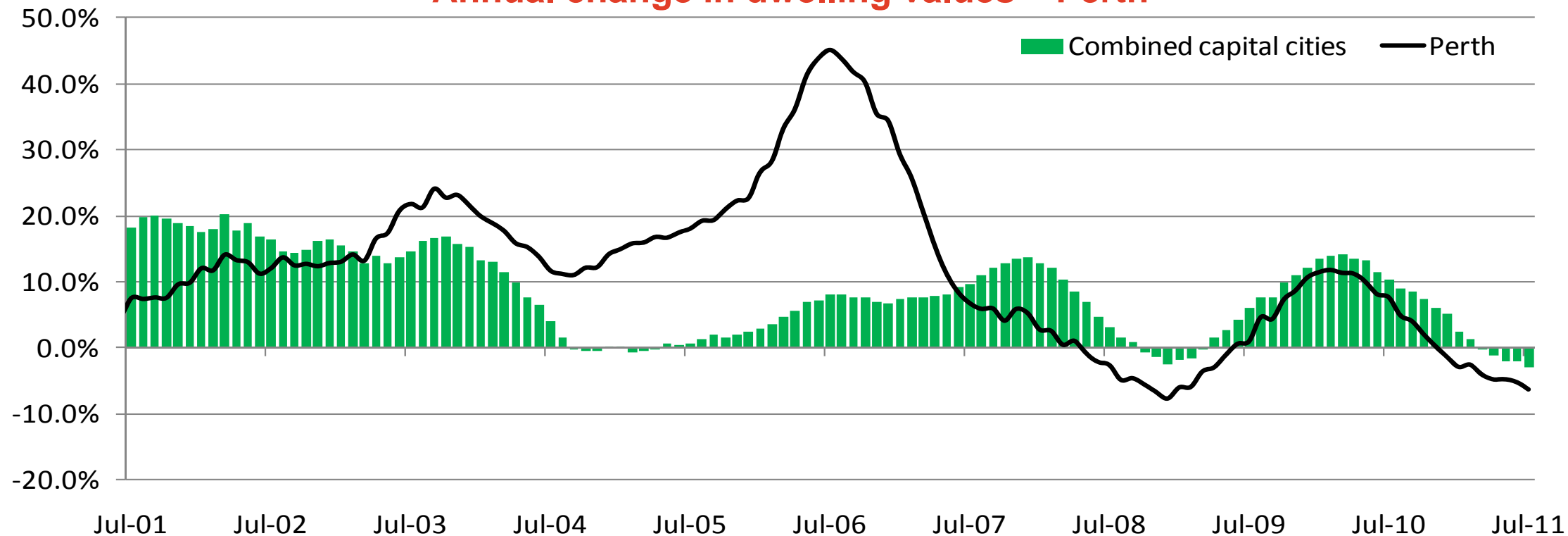
Note: the last five months of sales volumes are modelled based on historic levels of revision

Source: rpdata.com

# Perth's property values continue to slide as the market corrects

- Perth has been the second weakest performing capital city market over the last year with values falling by -6.3%.
- On an annual basis, Perth property value growth peaked at 45.1% during July 2006.
- Capital growth in Perth has consistently underperformed the capital cities since May 2007.

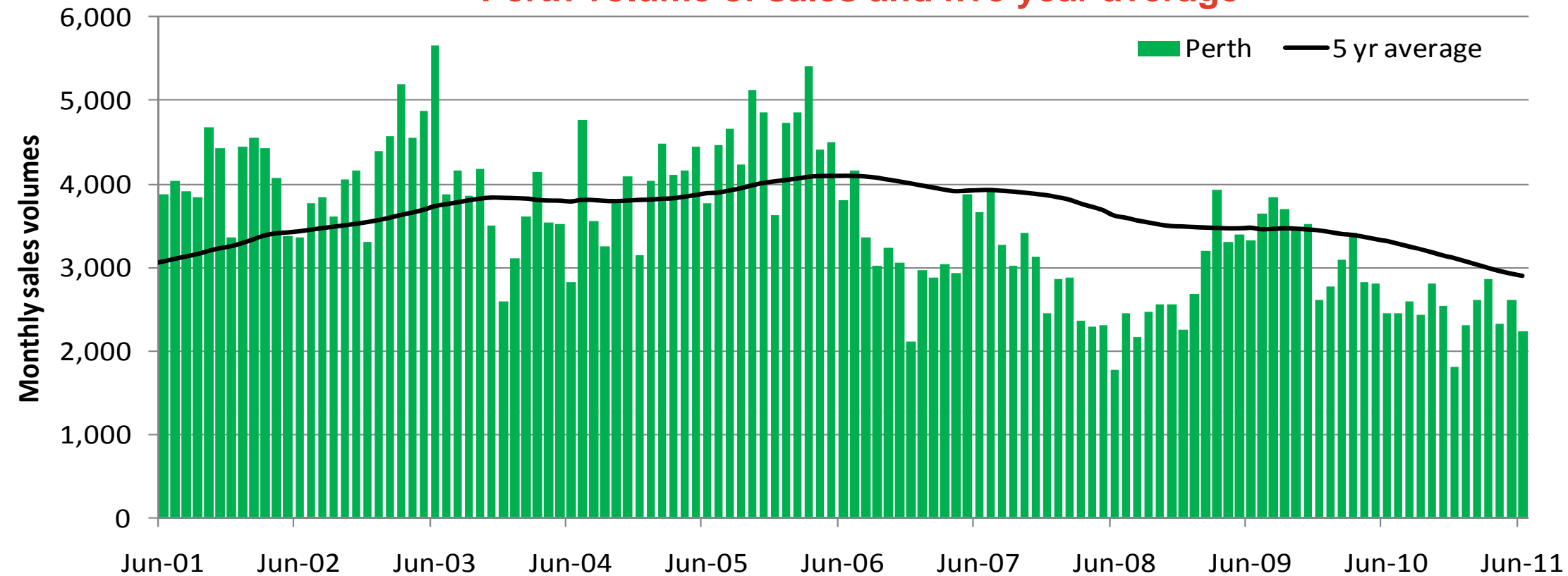
## Annual change in dwelling values – Perth



# Persistent weak sales volumes across Perth bring volumes closer to five year average

- The Perth property market has been consistently weak for most of the last five years, resulting in a strong downward trend in the five year average volume of sales.
- Current Perth sales volumes are -23% below the five year average and are above the lows recorded during the GFC.

## Perth volume of sales and five year average



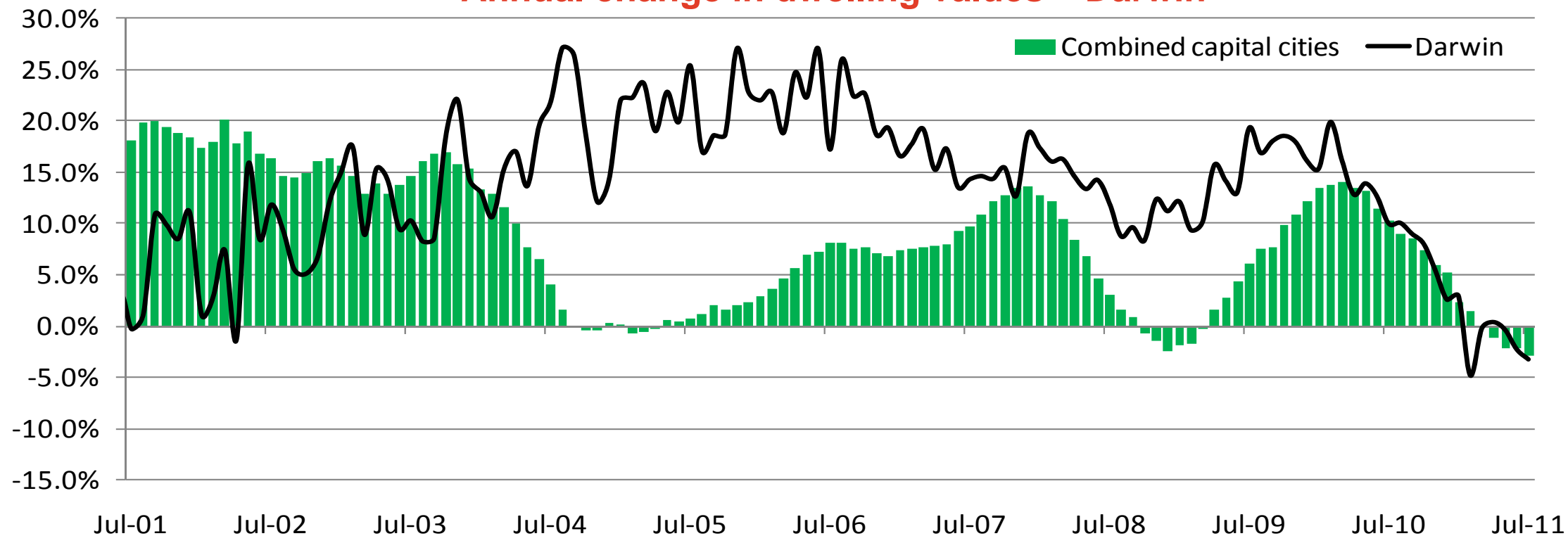
Note: the last five months of sales volumes are modelled based on historic levels of revision

Source: rpdata.com

# Darwin home values now falling after 10 years of virtually unabated capital gains

- Darwin has consistently outperformed the national market since mid 2004.
- Property values have recorded a strong run-up in recent years, with annual gains averaging 10.1% between July 2006 and July 2011.
- Over the last 12 months property values have fallen by -3.3%.

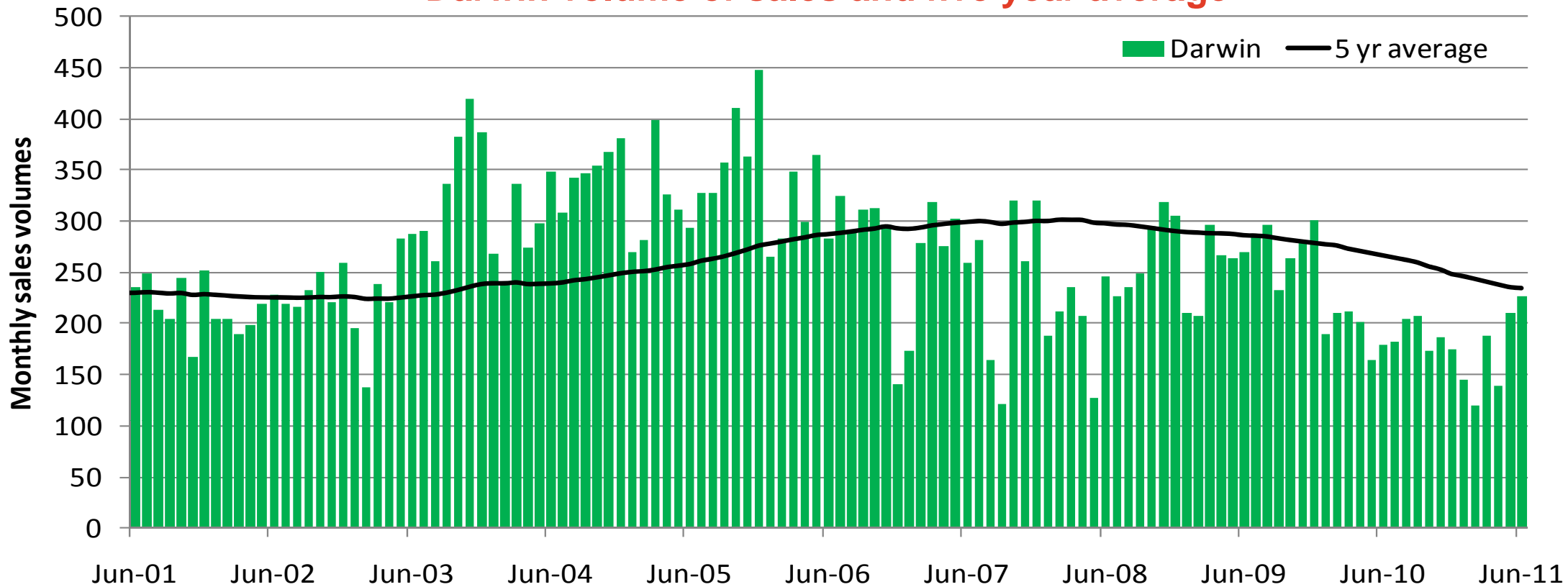
## Annual change in dwelling values – Darwin



# Darwin sale volumes have trended higher over the year, but remain below average

- Current Darwin sales volumes are -4% below the five year average, but our estimate of transactions has shown a consistent improvement across May and June.
- With values declining in Darwin for the first time in a long time we may see a further fall in transaction volumes despite the rebound during the past two months.

## Darwin volume of sales and five year average



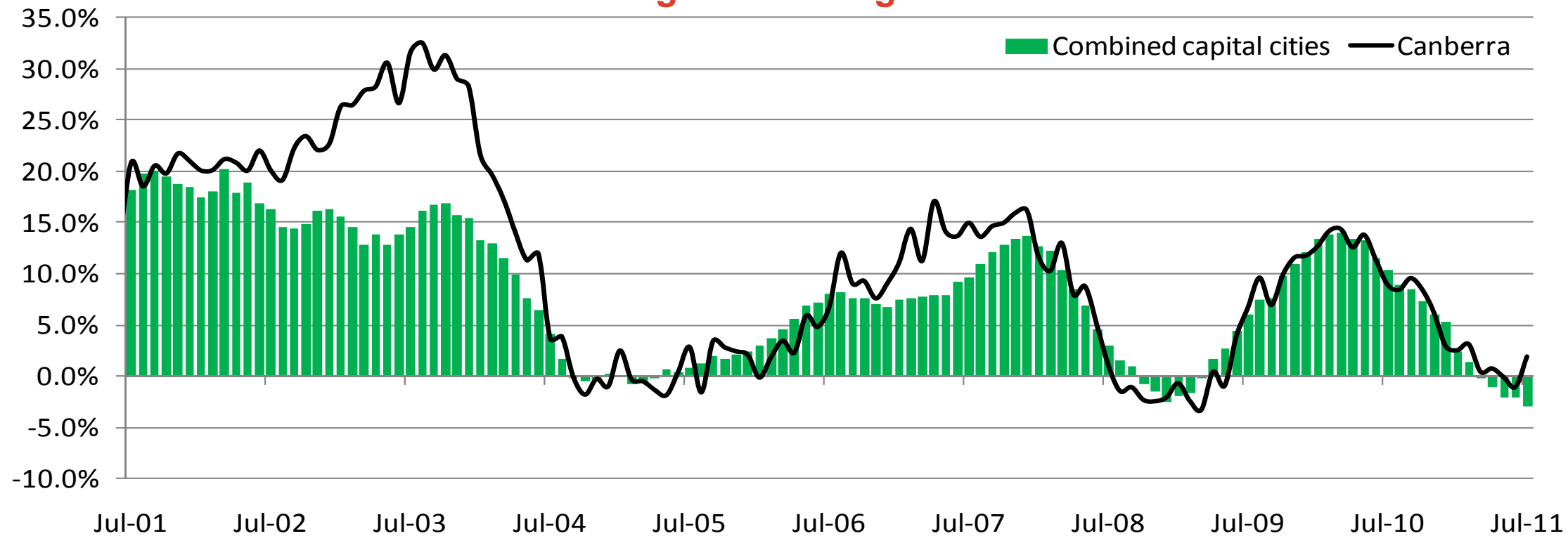
Note: the last five months of sales volumes are modelled based on historic levels of revision

Source: rpdata.com

# Canberra has consistently outperformed or tracked the capital city performance

- Apart from a period of exceptional growth between 2002 and 2004, the Canberra market performance has closely mirrored the capital gains recorded across the combined capital cities.
- During the 12 months to July 2011, Canberra property values have increased by 1.9%.

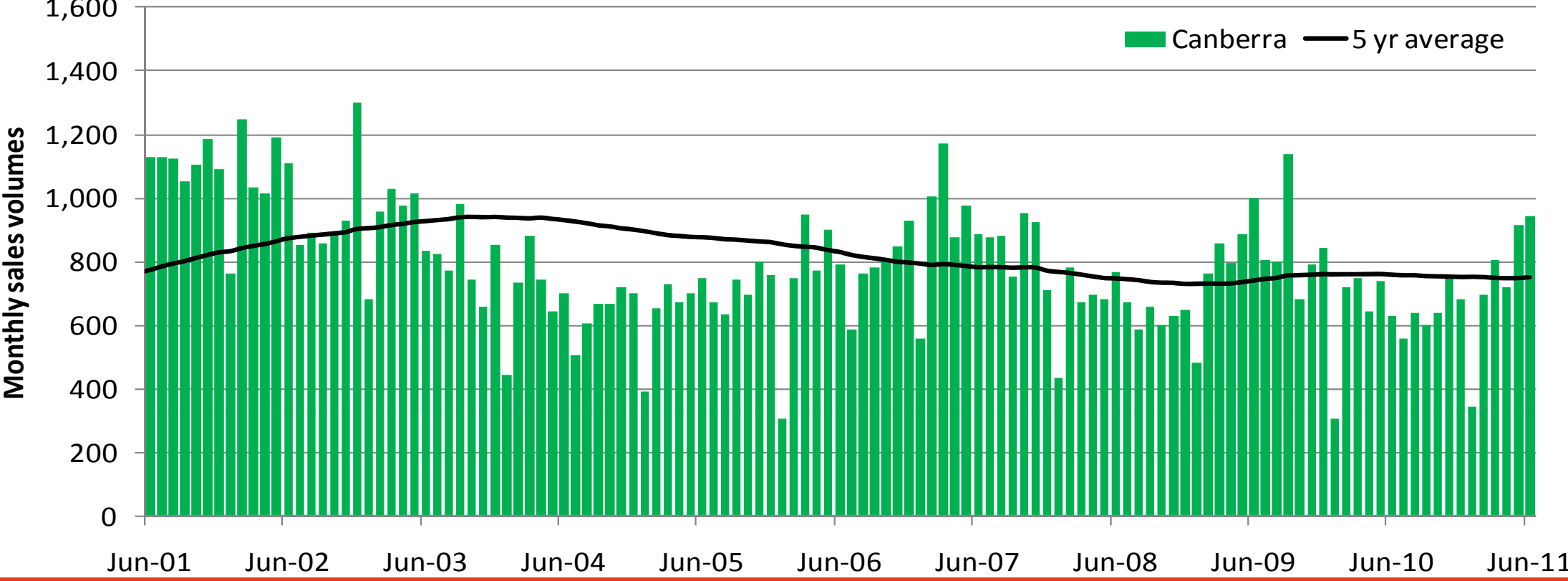
## Annual change in dwelling values – Canberra



# Estimated volumes indicate that demand remains above average levels in Canberra

- Estimated sales volumes in Canberra are currently 25% above the five year average, highlighting the strength in demand across the nations capital.
- Canberra is the only capital city where sales volumes are tracking above the five year average.

Canberra volume of sales and five year average



Note: the last five months of sales volumes are modelled based on historic levels of revision

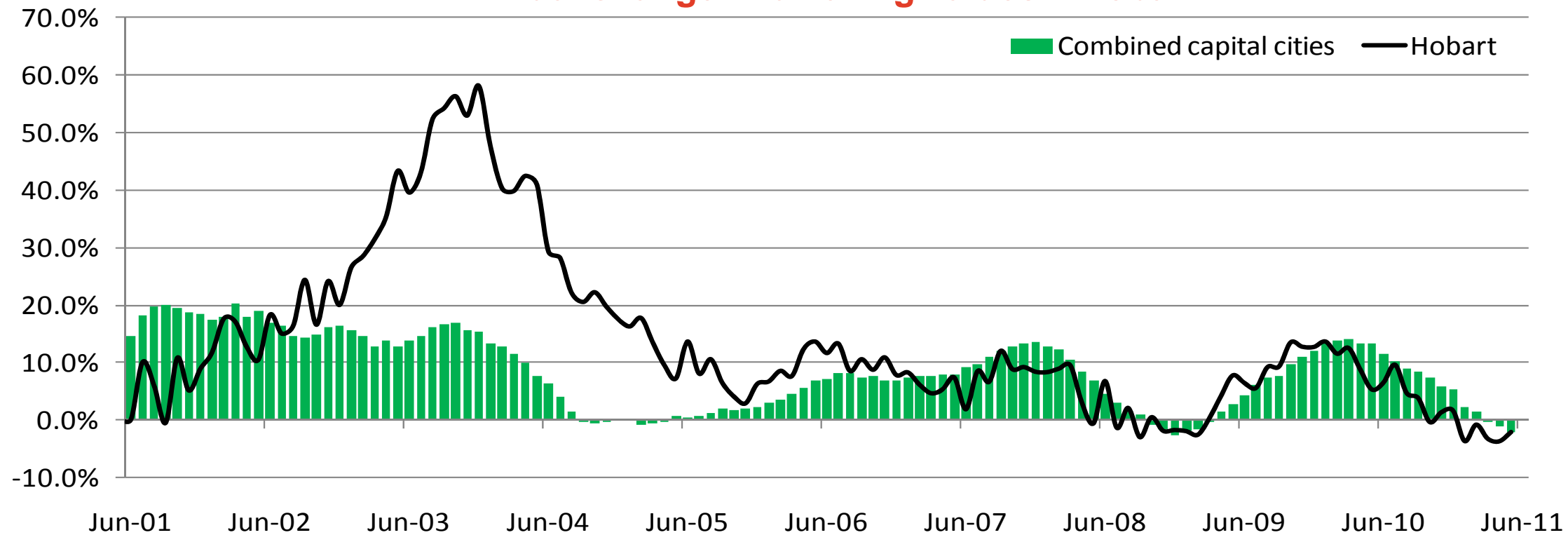
Source: rpdata.com



# Hobart values continue to underperform after strong growth prior to 2007

- Hobart is well and truly the country's most affordable capital city housing market with a median house price of \$340,000 and a median unit price of \$268,000.
- Over the most recent year to June, property values in Hobart have fallen by -4.4%.

## Annual change in dwelling values – Hobart



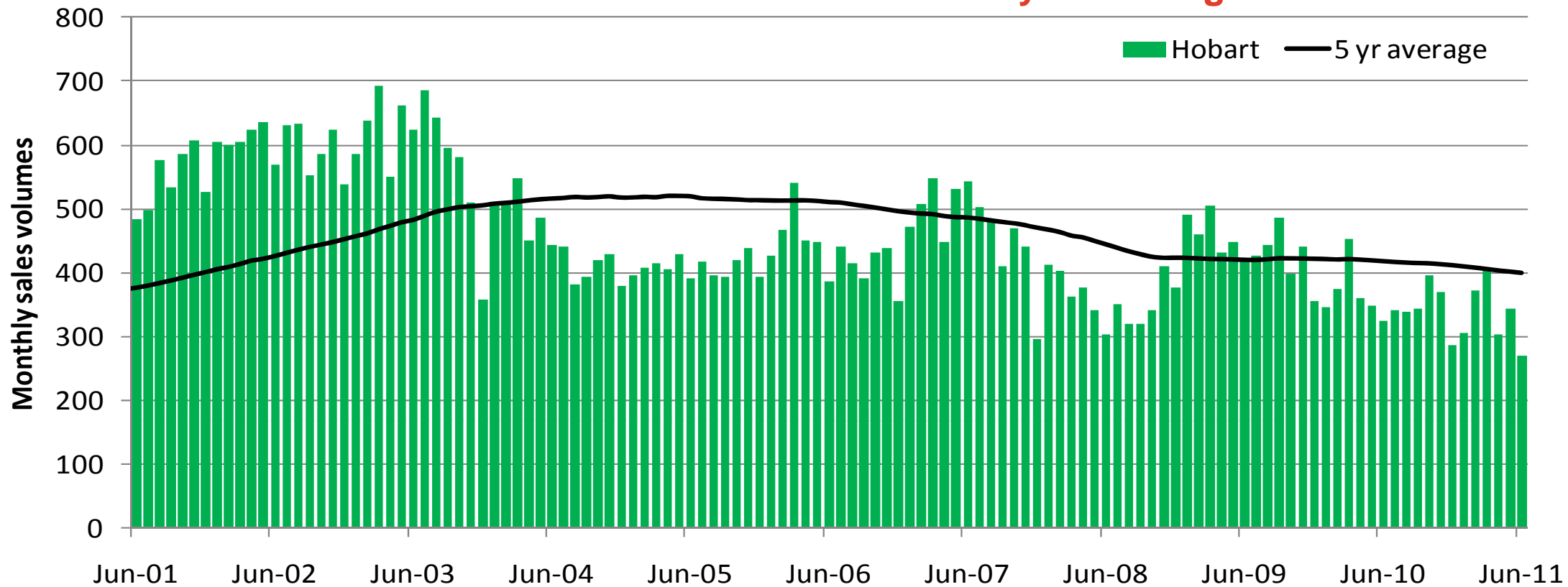
\* Note Hobart figures are based on June 2011 data

Source: rpdata.com - Rismark

# Sales volumes sit well below the five year average level

- The estimated volume of sales across the city is -32% below the five year average highlighting the low level of buyer demand across the Hobart housing market.

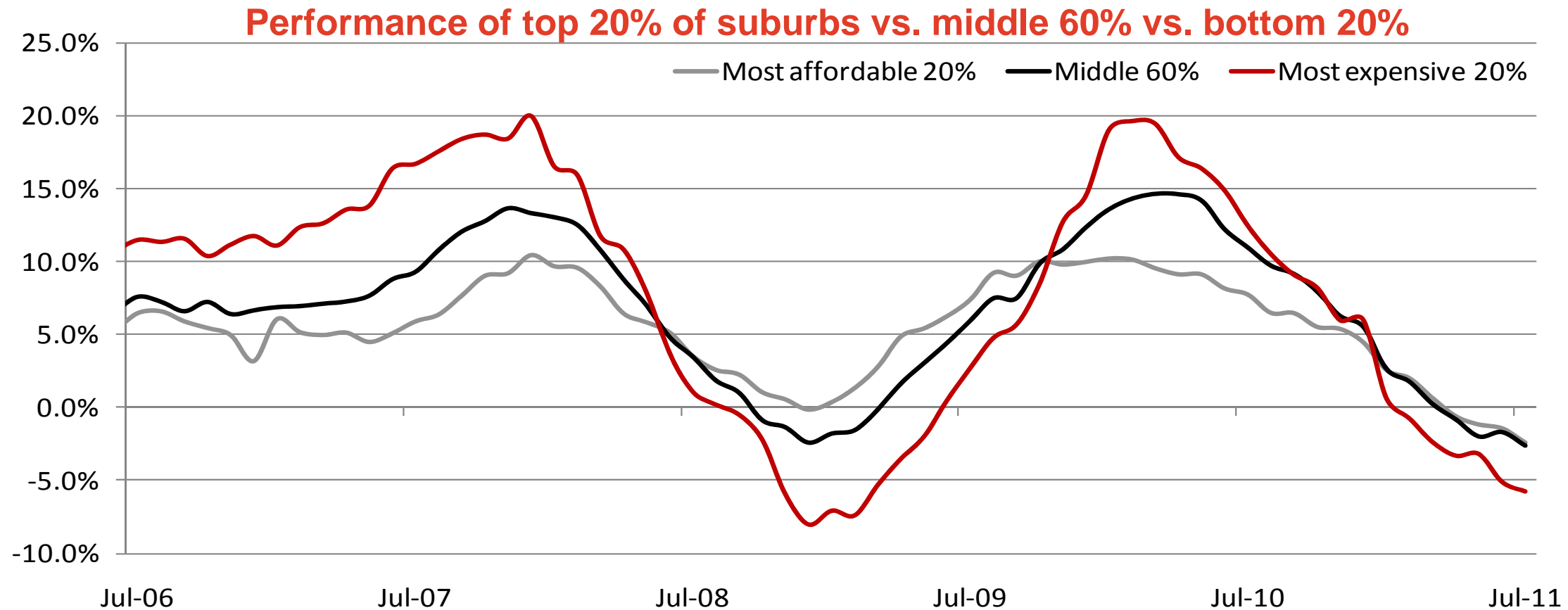
## Hobart volume of sales and five year average



Note: the last five months of sales volumes are modelled based on historic levels of revision  
Source: rpdata.com

# Premium sector of the market continues to show the greatest weakness

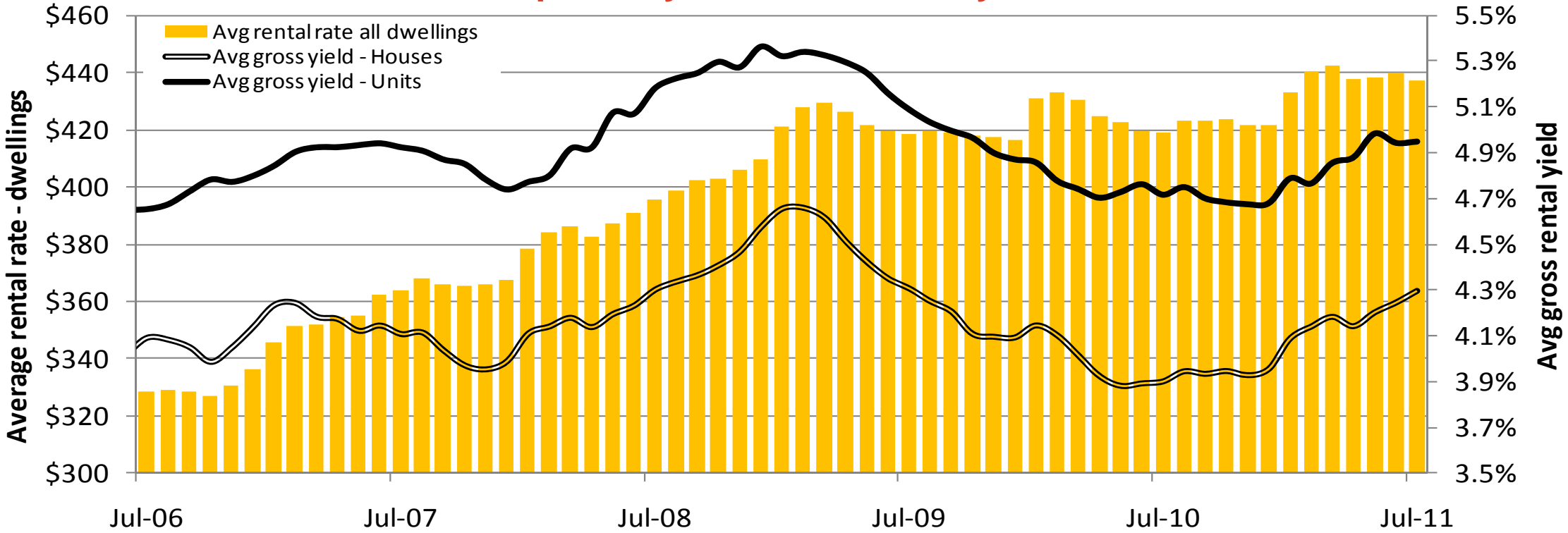
- Across the past year, the most affordable suburbs have been the most resilient to falls in value down -2.4% followed by the 'middle' market (-2.6%) and the premium sector has been the weakest (-5.7%).



# Rents holding steady and yields trending up

- Across the combined capital cities rents sit at \$440/week for houses and \$431/week for units.
- Capital city rents have increased by 4.6% for houses and 3.9% for units over the past 12 months.
- Rental yields have been showing some improvement due to falls in home values and modest rental increases.

Capital city rental rates and yields



# Rents holding steady and yields trending up

		Annual Change		Five year change	
		%	\$	%	\$
<b>Sydney</b>	<i>Houses</i>	7.7%	\$39	4.5%	\$108
	<i>Units</i>	4.7%	\$23	7.3%	\$153
<b>Melbourne</b>	<i>Houses</i>	1.9%	\$7	5.9%	\$97
	<i>Units</i>	3.4%	\$12	7.1%	\$106
<b>Brisbane</b>	<i>Houses</i>	4.0%	\$15	4.9%	\$85
	<i>Units</i>	5.5%	\$18	6.5%	\$96
<b>Adelaide</b>	<i>Houses</i>	1.2%	\$4	5.0%	\$75
	<i>Units</i>	0.1%	\$0	5.4%	\$73
<b>Perth</b>	<i>Houses</i>	4.3%	\$17	7.7%	\$129
	<i>Units</i>	4.0%	\$16	7.9%	\$133
<b>Darwin</b>	<i>Houses</i>	-3.8%	-\$21	8.7%	\$183
	<i>Units</i>	-1.2%	-\$6	11.5%	\$202
<b>Canberra</b>	<i>Houses</i>	8.9%	\$43	6.8%	\$147
	<i>Units</i>	-2.5%	-\$10	5.8%	\$99
<b>Hobart</b>	<i>Houses</i>	-2.6%	-\$9	n.a.	n.a.
	<i>Units</i>	0.2%	\$0	n.a.	n.a.
<b>Combined caps</b>	<i>Houses</i>	4.6%	\$19	5.4%	\$102
	<i>Units</i>	3.9%	\$16	7.1%	\$126

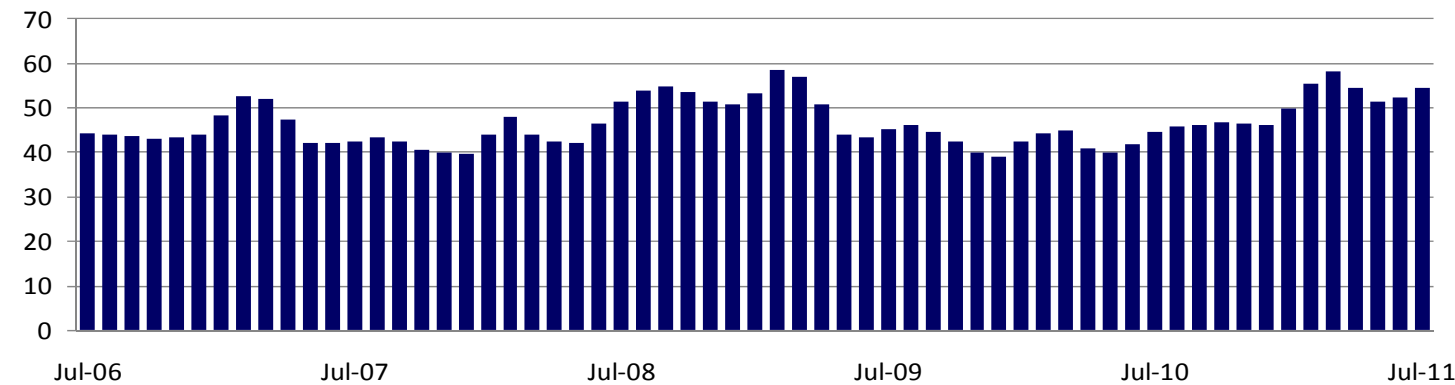
- Across the combined capital cities rents sit at \$440/week for houses and \$431/week for units.
- Capital city rents have increased by 4.6% for houses and 3.9% for units over the past 12 months.
- Rental yields have been showing some improvement due to falls in home values and modest rental increases.
- Over the last five years capital city house rents have increased at an average annual rate of 5.4% and units by 7.1%.
- Over the past five years, house and unit rents have increased at a faster rate than property values, a trend we expect will continue.
- Rental vacancies remain low across most capitals which is likely to see further upwards pressure on rental rates

\* Note Hobart figures are based on June 2011 data

Source: rpdata.com - Rismark

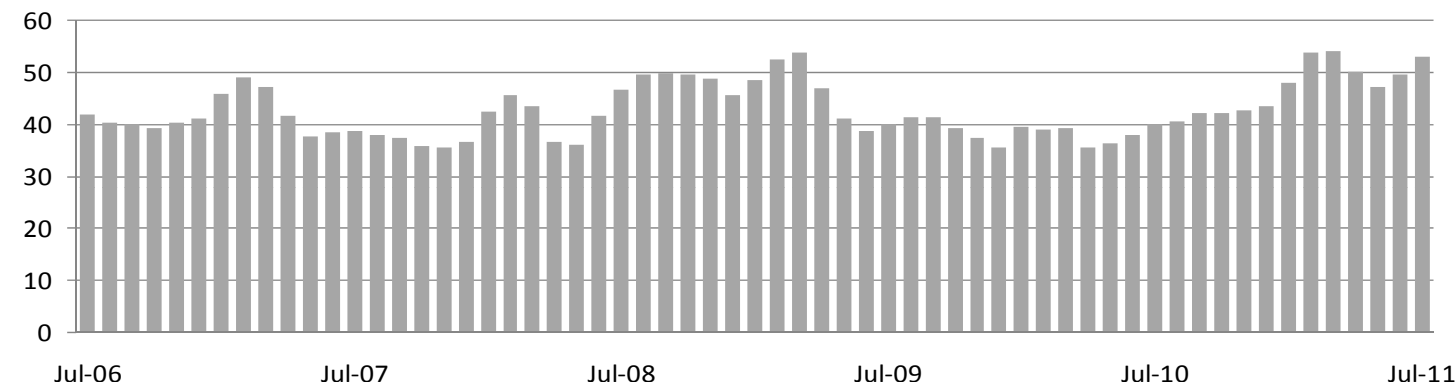
# Average time on market increases over the month but still below recent peaks

## Average days on market, houses



This yr: 55 days  
Last yr: 45 days

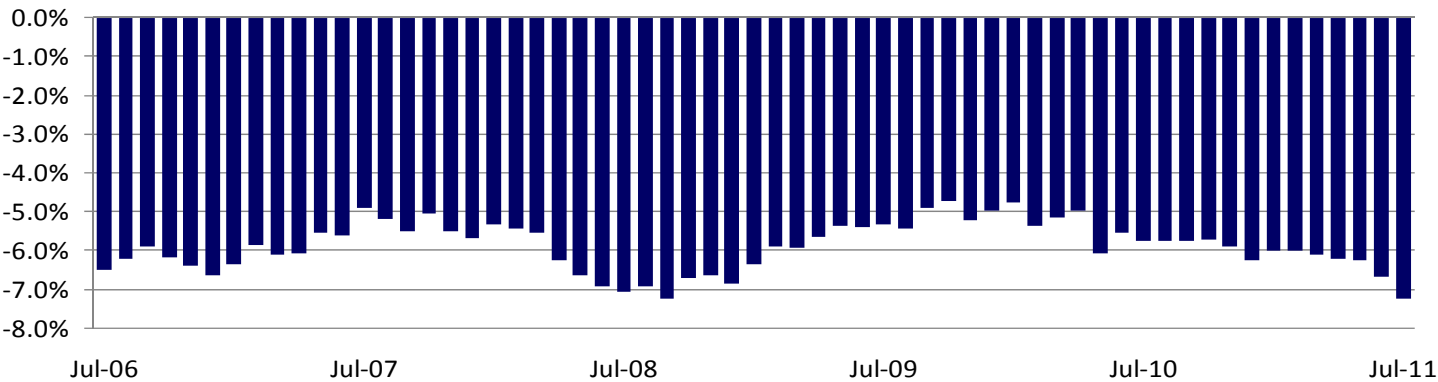
## Average days on market, units



This yr: 53 days  
Last yr: 40 days

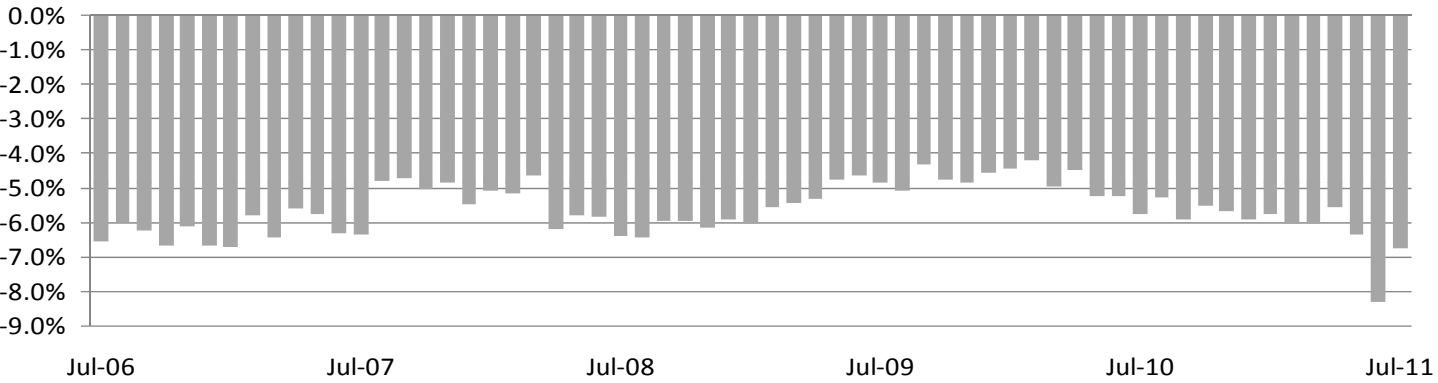
# Owners are having to offer greater discounts in order to achieve sales

## Average vendor discount, houses



This yr: -7.2%  
Last yr: -5.7%

## Average vendor discount, units

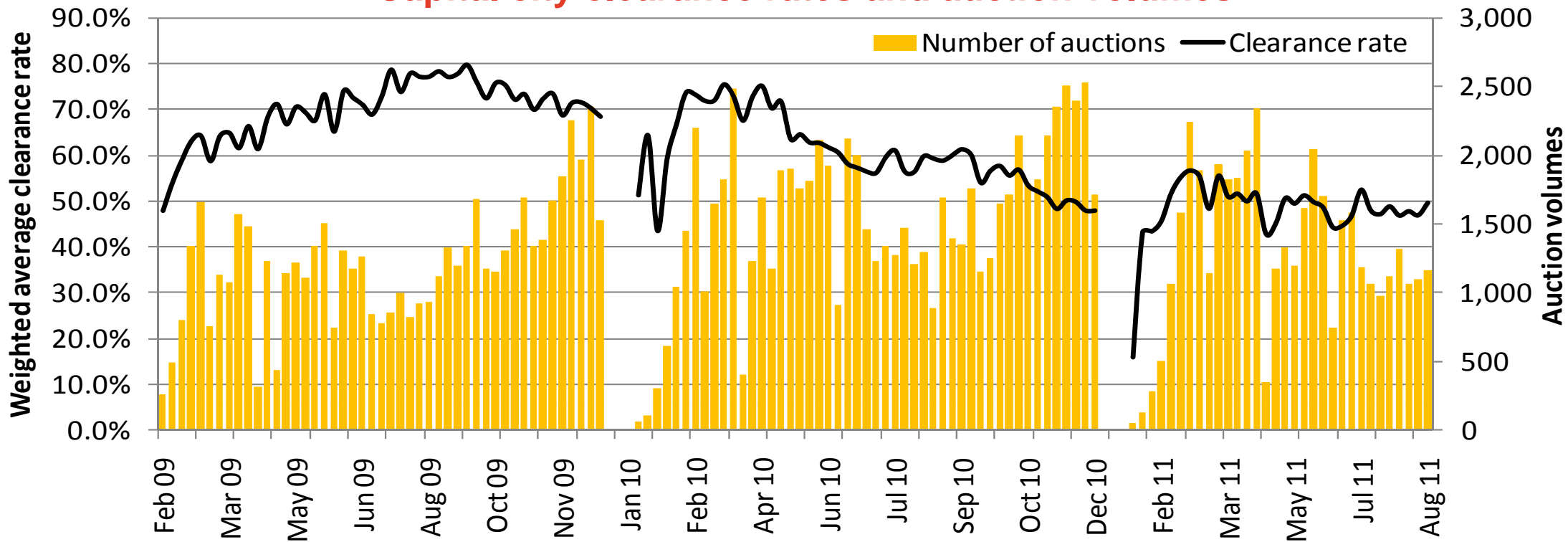


This yr: -6.7%  
Last yr: -5.8%

# Clearance rates below 50% for most of the last four months

- Auction clearance rates are well below levels recorded at the same time last year when around 60% of auctions were clearing.
- The weak clearance rate highlights that market conditions favour the buyer with little competition amongst active buyers and no urgency around making a purchase decision.

## Capital city clearance rates and auction volumes

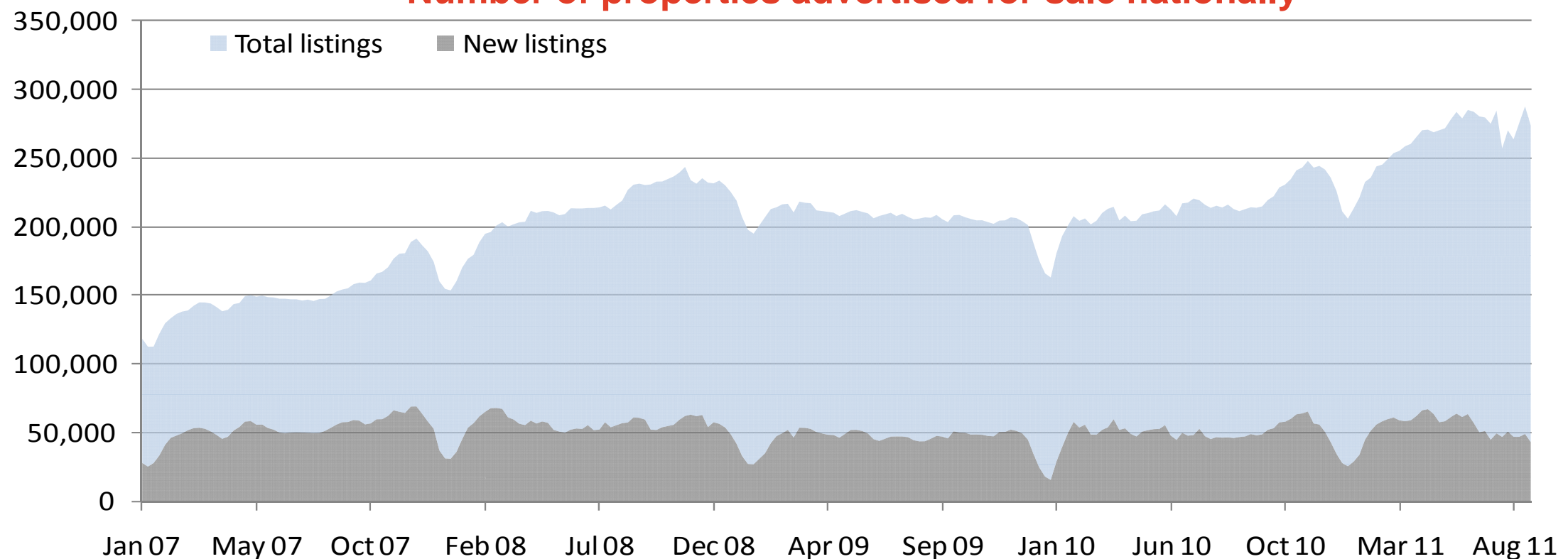




# The number of properties advertised has remained relatively flat recently

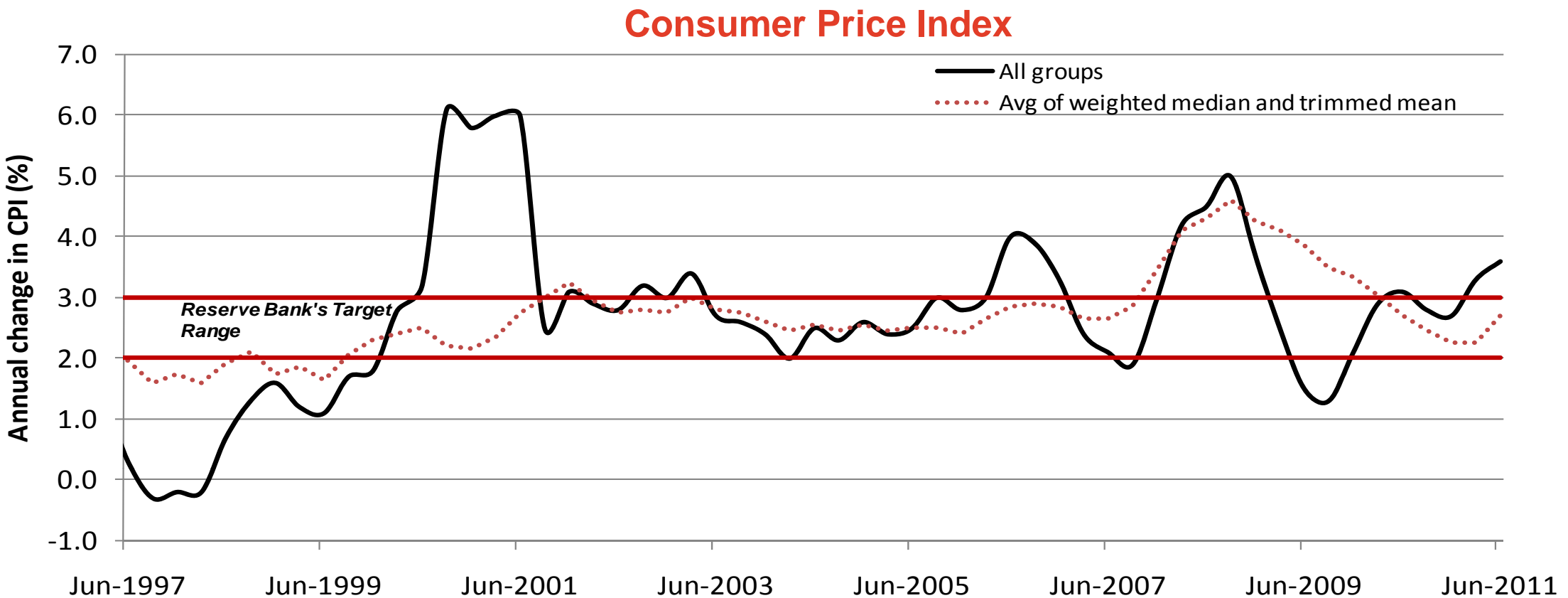
- Almost 274,000 properties are currently advertised for sale across the country compared with about 213,000 homes for being advertised for sale at the same time last year (+29%)
- Recent, both new and total listings are starting to fall.
- Capital city listings account for less than half (48.4%) of the total listings nationally, highlighting severely elevated listing volumes in regional markets.

## Number of properties advertised for sale nationally



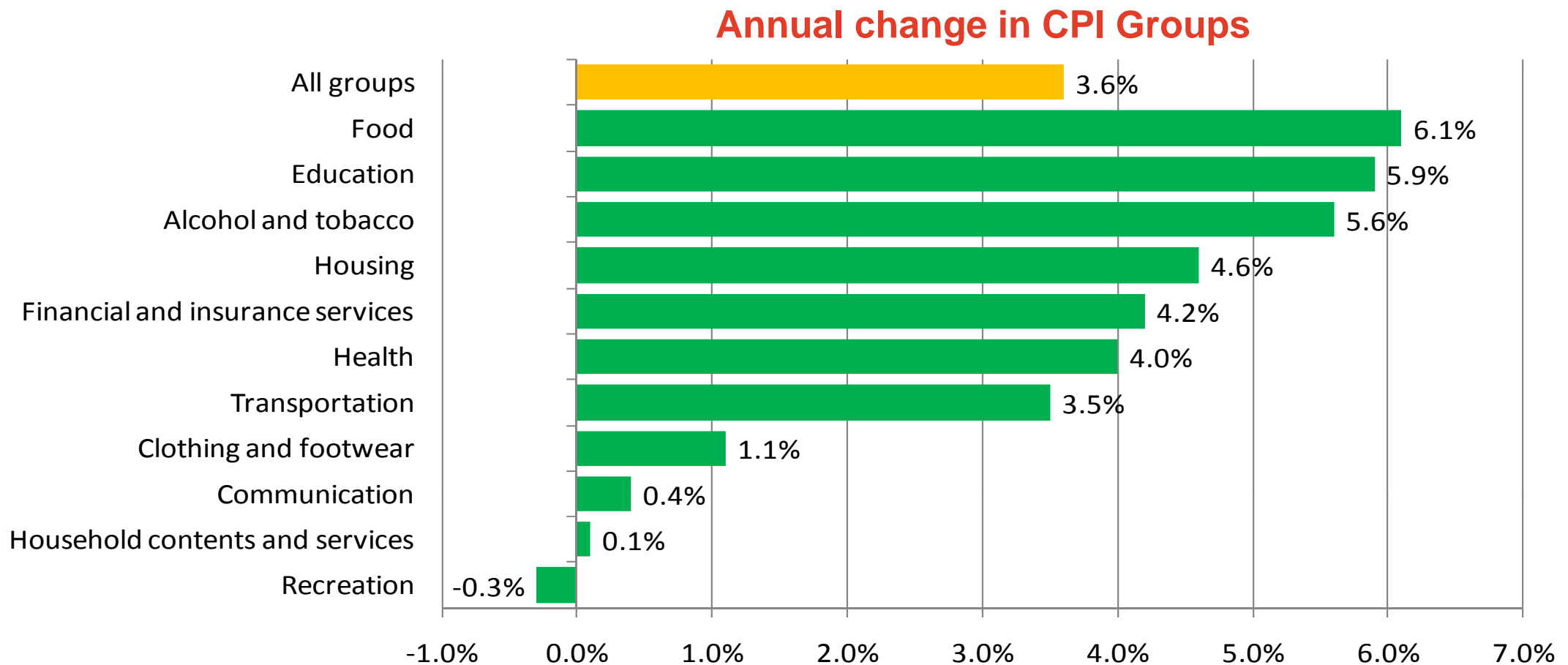
# Headline inflation well outside the RBA's target range and core inflation nearing the top

- All groups inflation increased over the June 2011 quarter to an annual rate of 3.6%, while the RBA's preferred measure, the average of the weighted median and trimmed mean is recorded at 2.7% over the year.



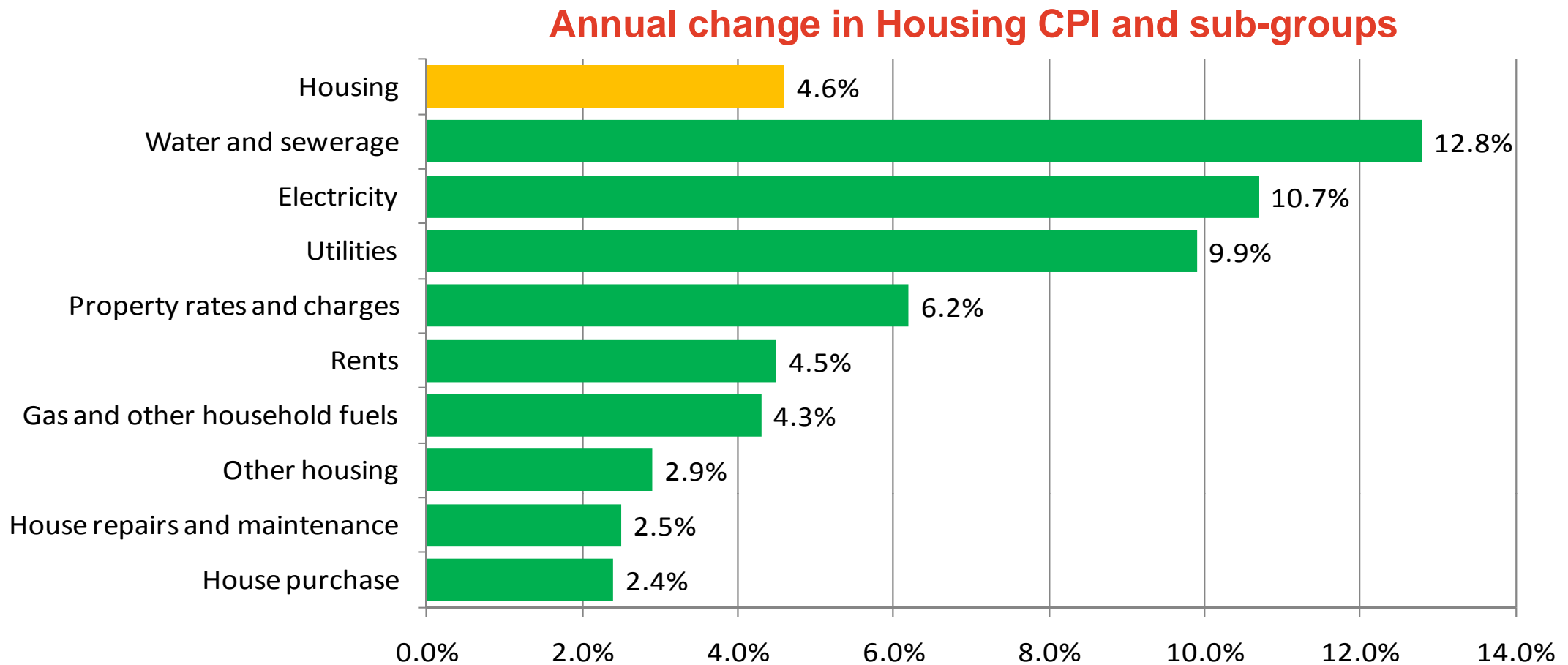
# Headline inflation well outside the RBA's target range and core inflation nearing the top

- Inflation was strongest in food, which has a significant impact on household budgets as it is an item which is consistently being purchased.
- Recreation CPI was the only group that recorded a fall over the year.



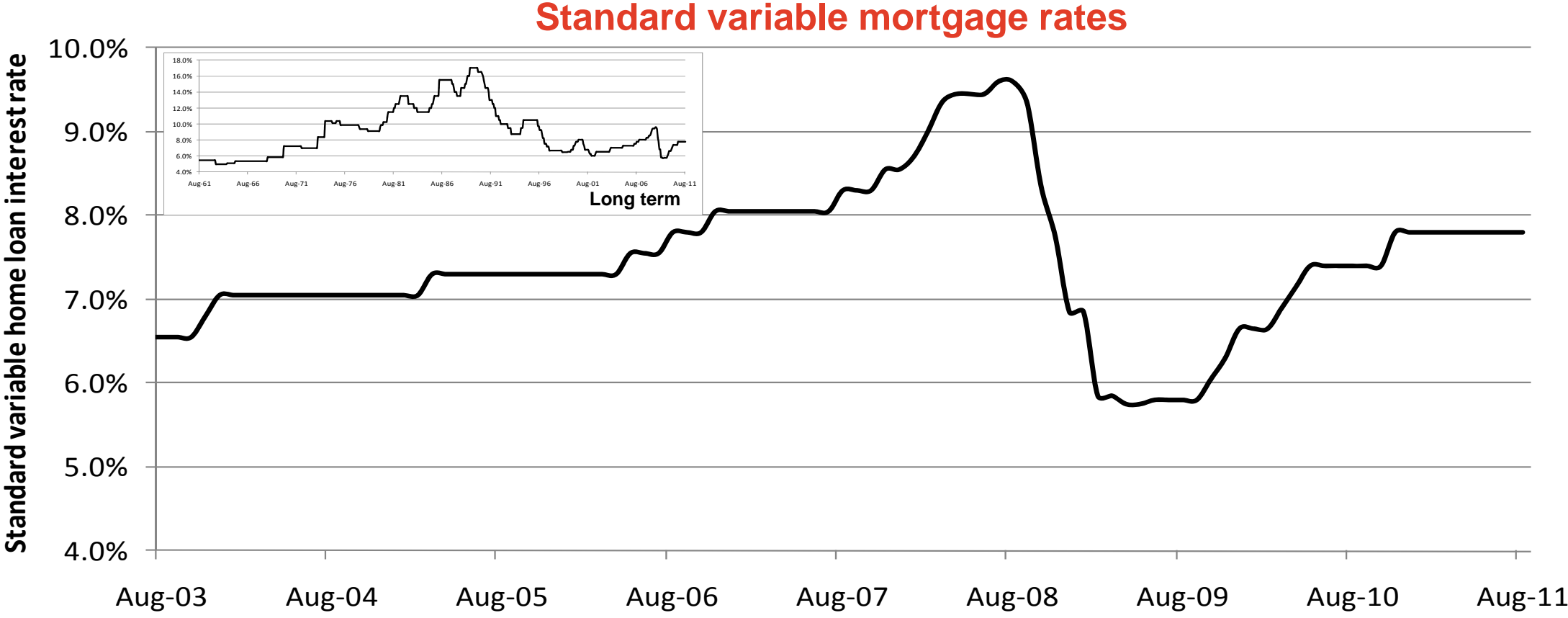
# Higher water, electricity and utility costs driving the cost of CPI housing higher

- Housing CPI rose by 4.6% over the year.
- CPI for water and sewerage (12.8%), electricity (10.7%), utilities (9.9%) and rates (6.2%) rose at a rate well above inflation, while house purchase (2.4%) was well below.



# Standard variable mortgage rates remain at 7.8%

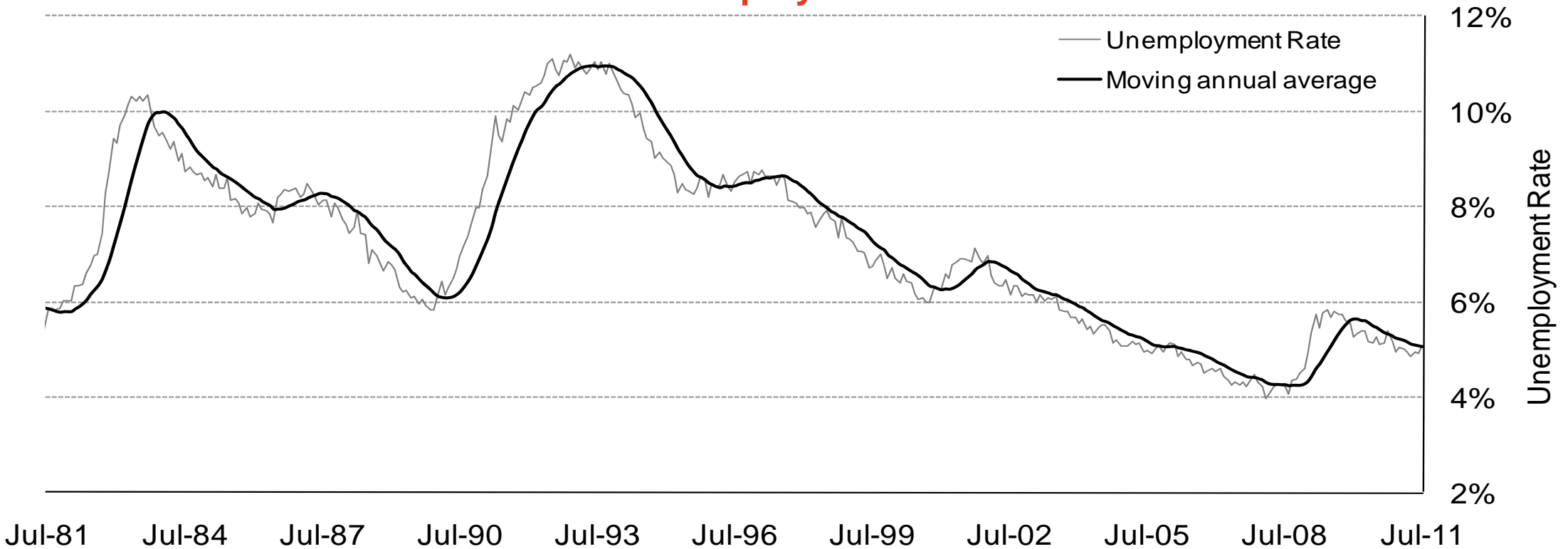
- Mortgage rates have remained on hold for 10 months now and have moved once in the last 16 months.
- Despite the fact that headline inflation is outside of the RBA's target range there is increasing speculation that rates are likely to remain on hold and may fall in the coming months.



# Unemployment above 5% in July for the first time since February

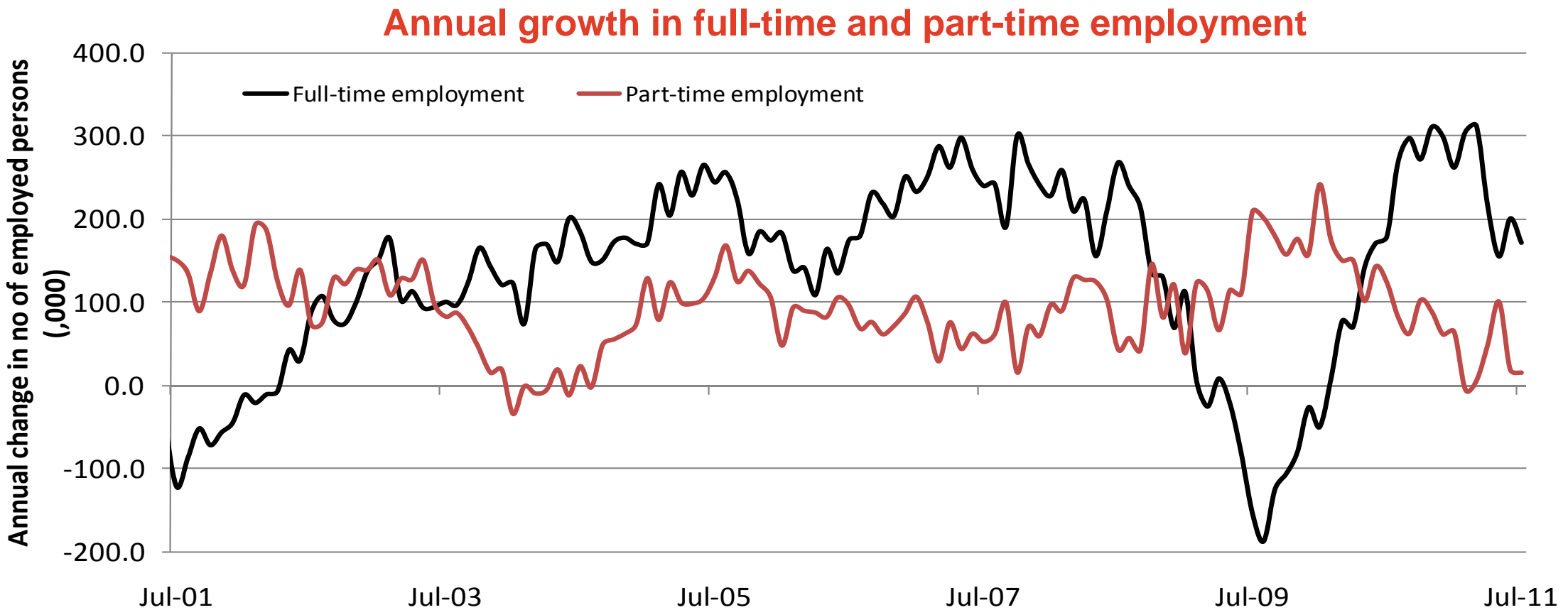
- The national unemployment rate was recorded at 5.1% in July.
- Employment participation rates sit at 65.6%.
- A number of high profile job losses have occurred since July leading to speculation that the unemployment rate will increase further in the coming months.

## National unemployment rate



# Full and part time jobs growth remains positive but is slowing

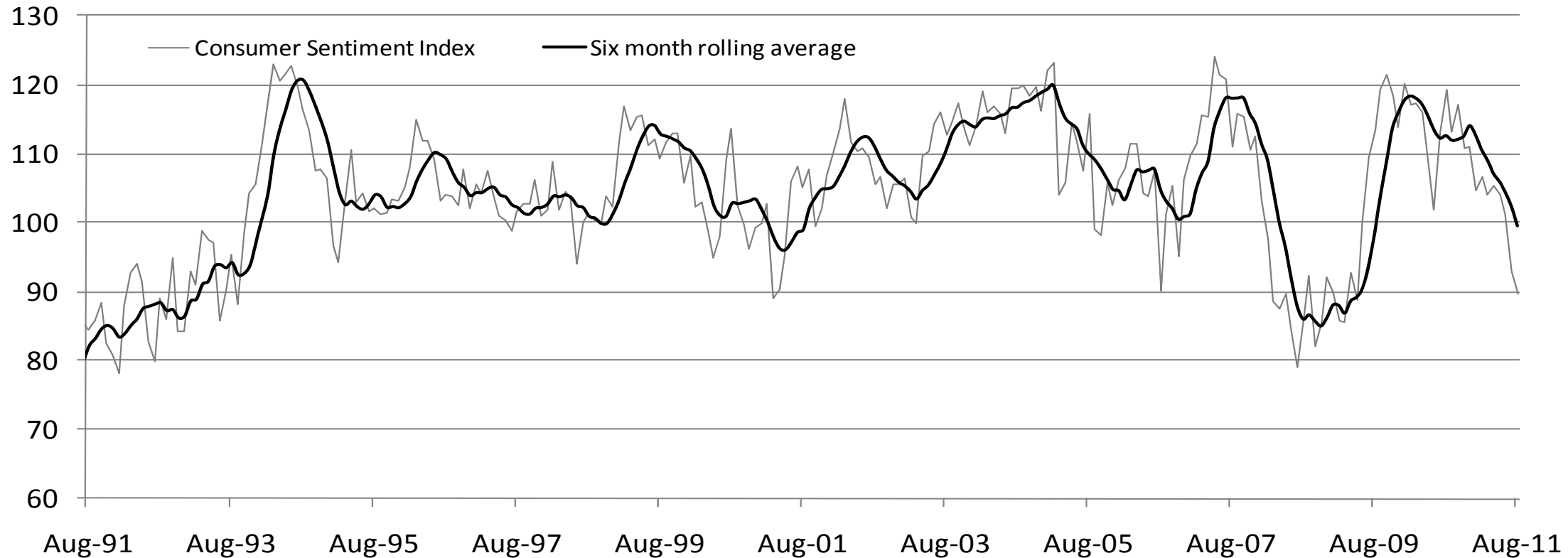
- During the last year, full-time employment increased by 172,000 persons.
- Part-time employment increased by 16,000 persons over the last year.



# Consumer confidence approaches GFC lows as the negative data flow starts to bite

- The index of Consumer Sentiment was recorded at 89.6 points during August 2011, its lowest reading since May 2009.
- The weak sentiment is reflective of subdued economic conditions outside of the resources sector and the ongoing uncertainty surrounding key overseas economies.

## Consumer sentiment index

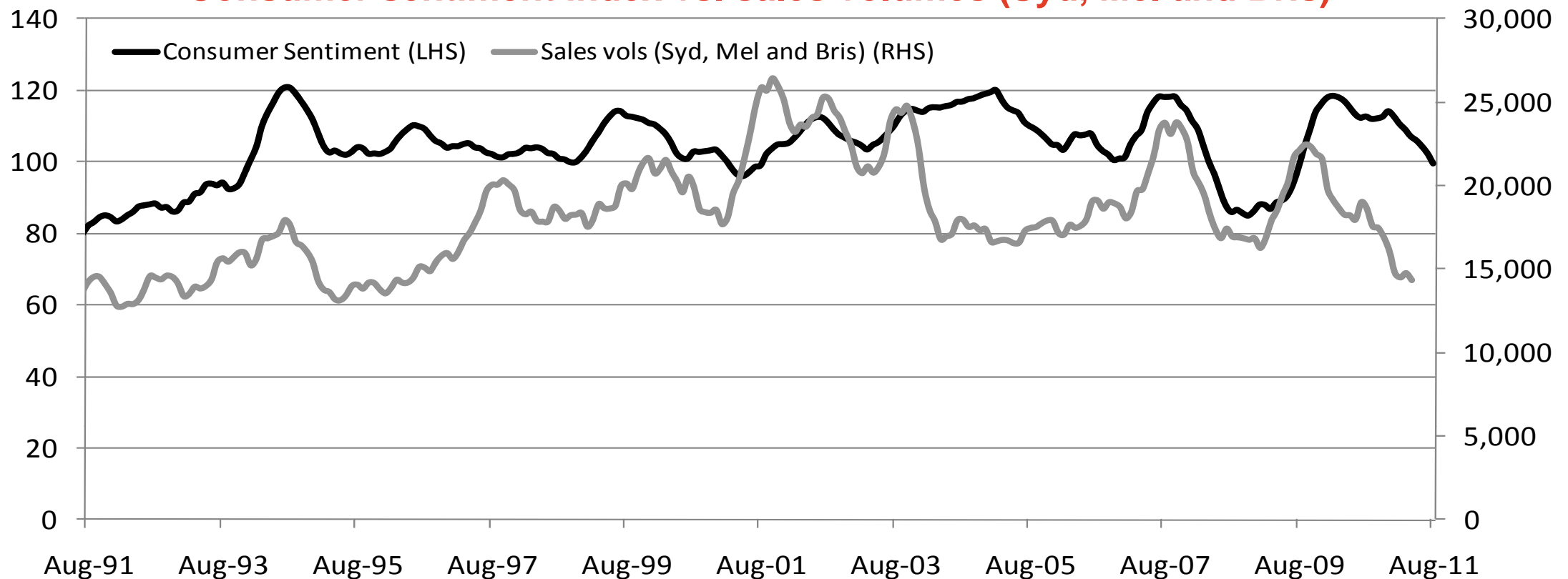




# Housing transaction volumes unlikely to improve until we see improvement in the consumer mindset

- There is a fairly strong correlation between consumer sentiment and sales volumes.
- With sentiment falling we would expect sales volumes to remain at low levels and potentially ease further.

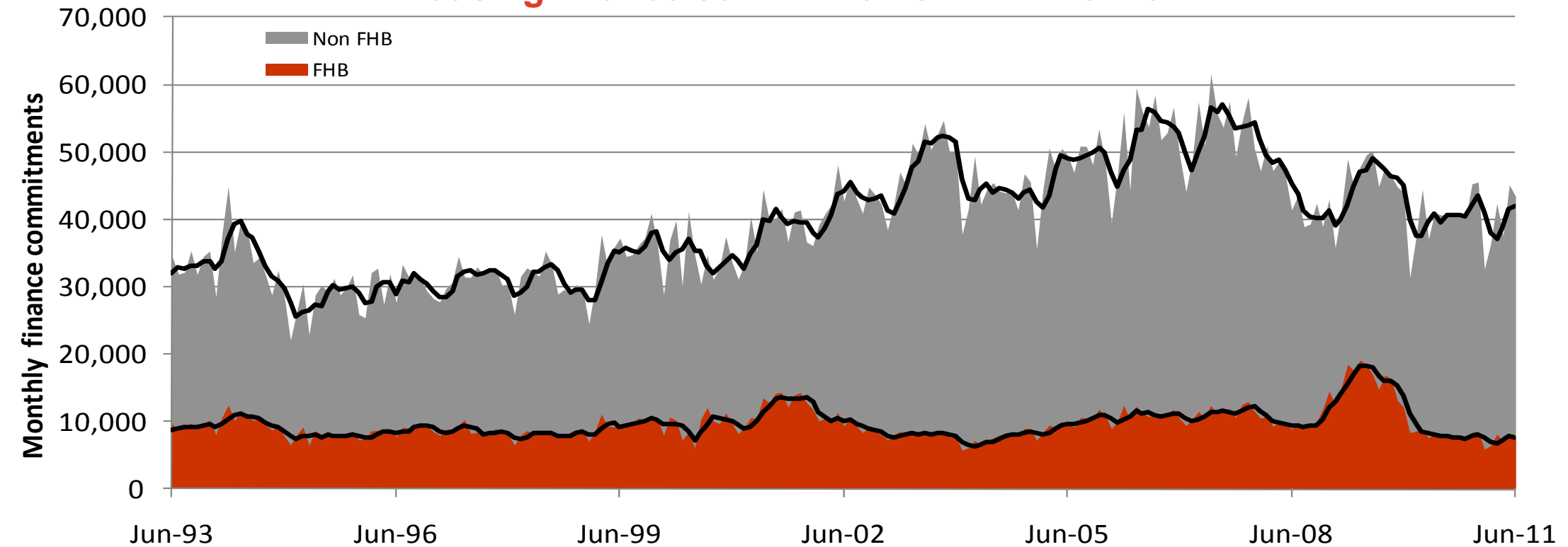
## Consumer sentiment index vs. sales volumes (Syd, Mel and Bris)



# First home buyers and non-first home buyers remain relatively inactive

- During June 11, first home buyers accounted for just 15.2% of all owner occupier finance commitments up from a low of 14.9% in February 2011.
- Non first home buyer activity also remains quite subdued despite the modest rise in May.

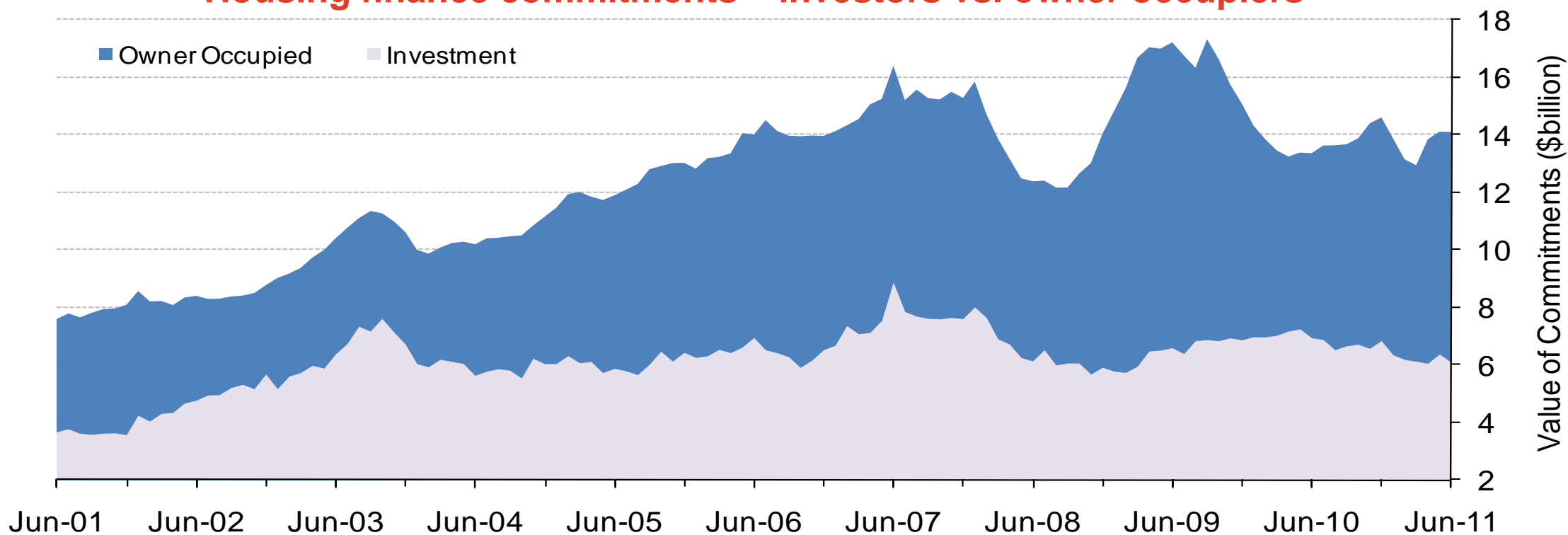
## Housing finance commitments – FHB vs. non FHB



# Investors are taking little part in the current market as values fall

- The total value of investor finance commitments during June 11 was \$6.1 billion, -12.3% lower than at the same time last year.
- Owner occupiers committed to \$14.1 billion, 5.6% higher than at the same time last year.

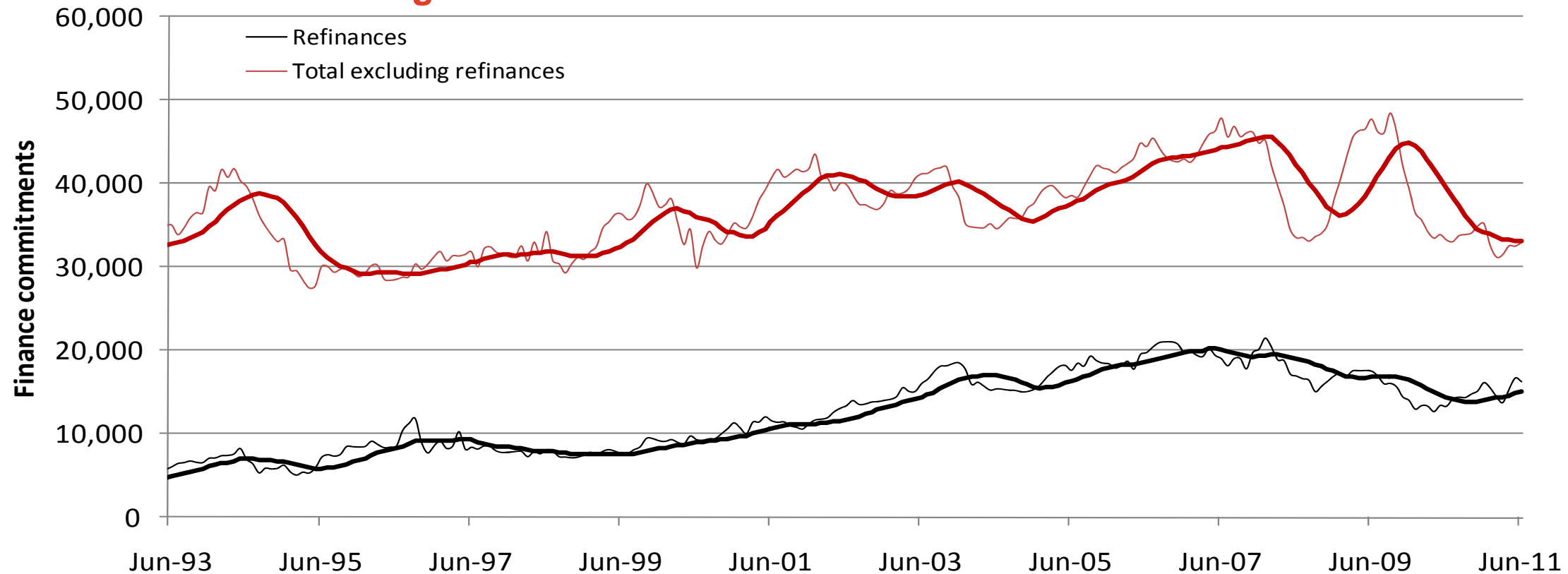
## Housing finance commitments – investors vs. owner occupiers



# When refinances are excluded, finance commitments are extremely subdued

- Over the 12 months, total owner occupier refinance commitments have increased by 22.3% while all other owner occupier commitments have fallen by -0.9% (from an already low level 12 months ago).

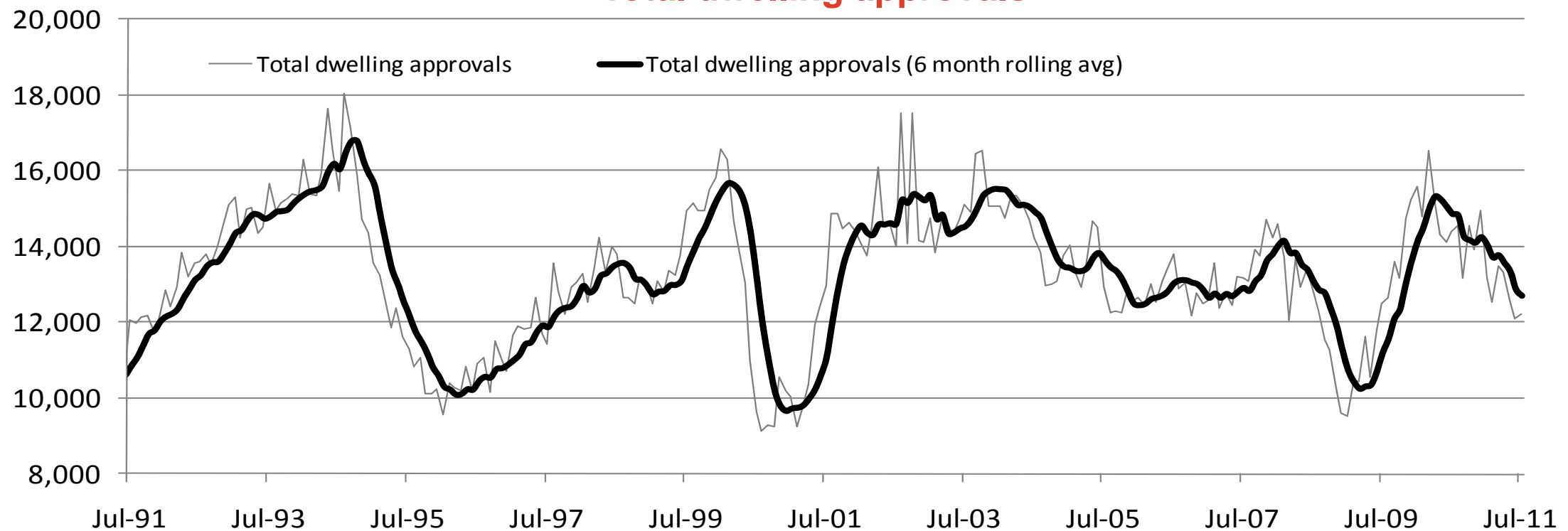
## Housing finance commitments – refinances vs. non-refinances



# Dwelling approvals continue to trend lower despite a slight improvement in July

- Total dwelling approvals are -15.0% lower in July 2011 than they were during July 2010.
- Overall, dwelling approval numbers have not changed a great deal over the past 2 decades despite a ramp up in population growth.

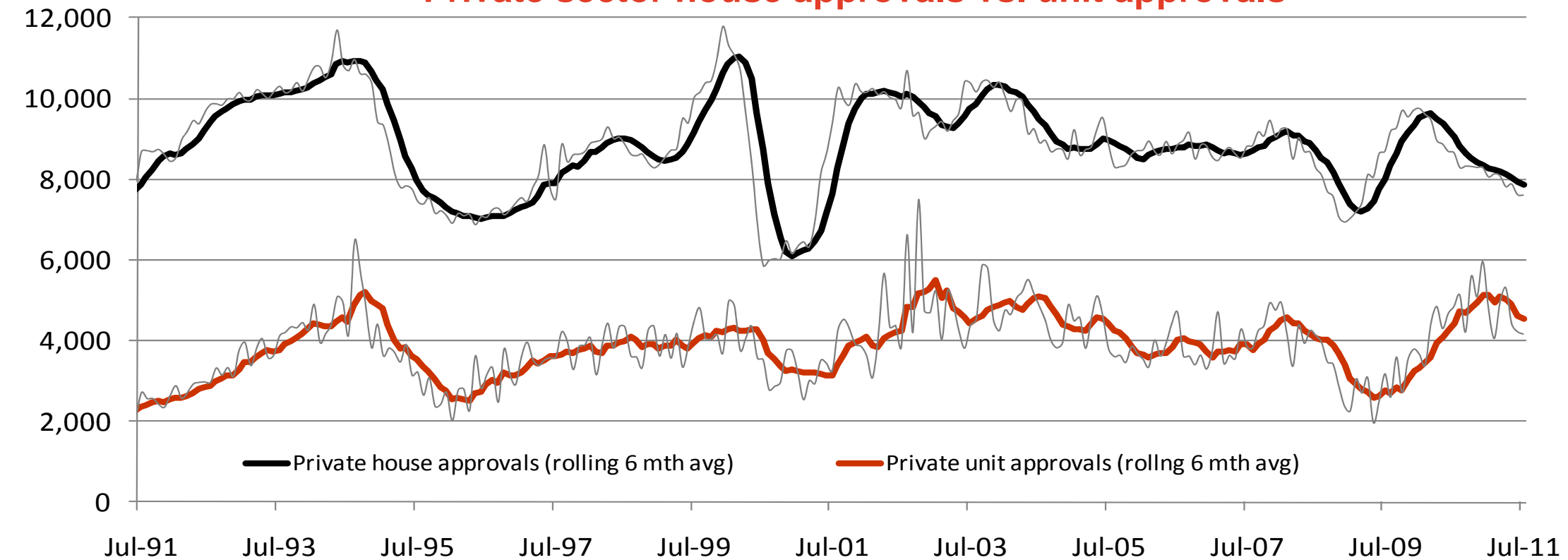
## Total dwelling approvals



# Dwelling approvals continue to trend lower despite a slight improvement in July

- Total dwelling approvals are -15.0% lower in July 2011 than they were during July 2010.
- Private sector house approvals are down -12.1% year on year.
- Private sector unit approvals are down -14.1% year on year.

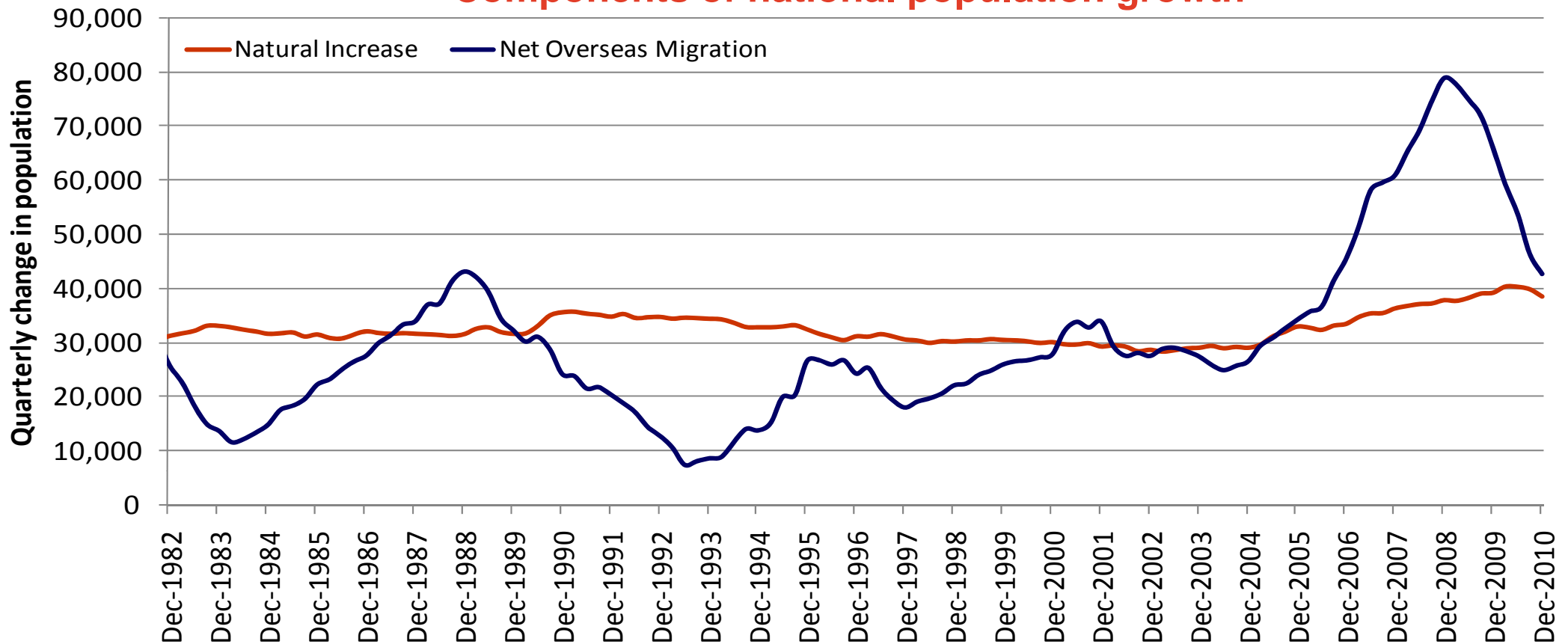
## Private sector house approvals vs. unit approvals



# Population growth is easing but remains well above long-term averages

- The slowdown in population growth is largely the result of a fall in net overseas migration.
- With the increased quota for skilled migration, as well as the likelihood of more 457 visas, we are likely to see population growth once again start to increase.
- Natural increase remains at near record levels.

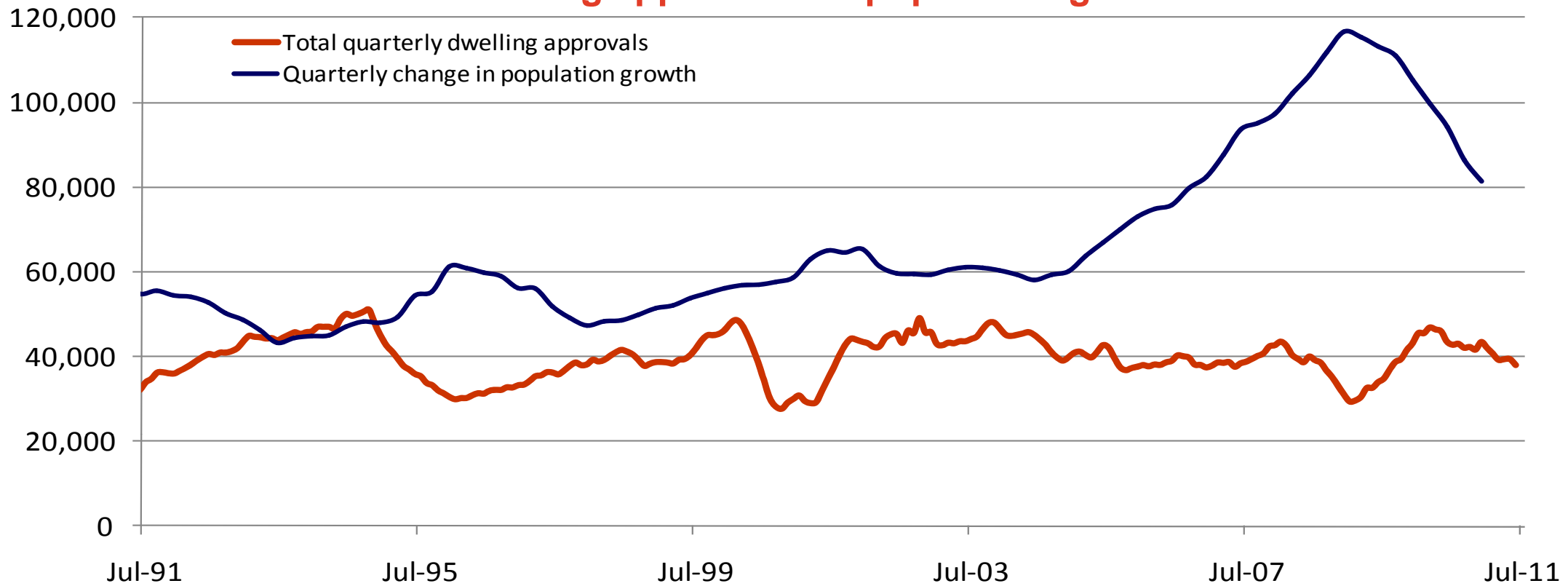
## Components of national population growth



# Although population growth is slowing, the supply of new dwellings has been insufficient

- As population growth took-off during 2005, there was not a sufficient increase in the supply of new building approvals. The latest projections from the National Housing Supply Council suggest that the housing undersupply is likely to be around 228,300 dwellings in 2011.

## Dwelling approvals vs. population growth





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