



Australian Housing Outlook

2020-2023

Prepared by BIS Oxford Economics for QBE Lenders' Mortgage Insurance
September 2020

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Welcome to

Australian Housing Outlook

2020 - 2023



The way we live and work has fundamentally shifted during 2020. No corner of our society has been immune from the effects of COVID-19, including the Australian property market.

It's my pleasure to welcome you to the 19th edition of the Australian Housing Outlook. The report, authored by Bis Oxford Economics and sponsored by QBE Lenders' Mortgage Insurance, deep dives into property market dynamics and forecasts where prices are headed during this extraordinary time.

As you'll read in the following pages, COVID-19 is now the major driver of the housing market. It's effecting our economy in fundamental ways, including through a profound slowdown in overseas and interstate migration, tourism, education and, of course, jobs and growth.

And yet, we're continuing to see growth in demand for our Lenders' Mortgage Insurance product in some corners of the market, which suggests an offsetting effect is taking place. Record low interest rates, Government support by way of stamp duty concessions and first home owner measures mean some in the community remain highly motivated to buy homes and invest in residential property.

We're also seeing the emergence of a new phenomenon in the market with the rise of lifestyle migrants. This group are evidence that technology enabled, remote working means location no longer needs to be a barrier to work. They are seizing the opportunity to move out of more expensive metro areas and into regional Australia. If this trend gains momentum, we can expect many positives as a result, including reduced pressure on capital city infrastructure, improving affordability in our capital cities and more choice of properties in the places we want to live.

There's no doubt it's a very different Australian Housing Outlook this year and I have found it fascinating to look beyond some of the short-term numbers to the longer-term trends.

We thank Bis Oxford Economics for their 19-year partnership with us to produce this publication and commend them on their analysis and forecasts.

I do hope you find this report an interesting study into our Australian Housing Outlook.

Phil White
CEO, QBE LENDERS' MORTGAGE INSURANCE

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New South Wales

Change of pace

The market will be challenged, but a strong economy brings optimism and regional markets support



Victoria

Challenges on the horizon

Lockdown effects have created some difficulty but Government infrastructure programs bring future optimism



6



Spotlight

Migration effects are being felt across the market

Migration has long been a key driver of Australia's economy and has fuelled demand for residential properties and construction activity, creating investment opportunities across the country. The pandemic has forced a temporary halt to inflows, so what will be the impact of this on the economy and housing markets across the country?

Queensland

Mixed bag

Affordability offers some support as international student numbers decline

Western Australia

Resourced and ready

Mining recovery supporting Perth's prices as economy builds



Tasmania

Southern exposure

Challenges expected as a halt to migration and tourism takes a toll



See page 45 for references, disclaimer and acknowledgements.



02. Housing outlook

Australian housing snapshot

Economic indicators 2023 forecast

Cash rate



0.25%

September 2020 0.25%

Employment growth



3.7%

June 2020 -3.9%

Unemployment rate



6.2%

June 2020 7.4%

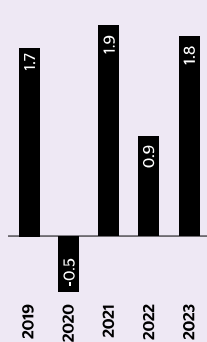
Effective unemployment rate 11.2%

Consumer Price Index (CPI) growth



1.8%

2020 -0.5%



Gross Domestic Product (GDP) growth



3.6%

12 months to June 2020 -0.2%

Overseas migration



210,662

year to December 2019



-16.5%

from December 2018

Housing affordability*



22%

at June 2020

Population

25,522,169

from December 2019



1.4%



from December 2018 (est)

*Housing affordability is shown as mortgage repayments at the prevailing discounted variable rate (based on 75% of the median house price) as a percentage of household disposable income



Change in home loan activity Year to June 2020

First home buyer

^
13.0%

Non first home buyer

∨
-4.8%

Investors*

∨
-4.2%

*based on value of investor loans

House commencements



'000s pa

108.5

10 years to 2020

'000s pa

114.6

five years to 2020

Vacancy rates

at June 2020



Sydney

^ **4.1%**
2019 **3.3%**

Brisbane

^ **2.6%**
2019 **2.4%**

Melbourne

^ **2.8%**
2019 **2.2%**

Perth

∨ **2.0%**
2019 **2.9%**

Unit commencements

'000s pa

85.1

10 years to 2020

'000s pa

100.7

five years to 2020

Unit dwellings

as a proportion of total dwelling commencements



43%

10 years to 2020

46%

five years to 2020

Total dwelling commencements

193.6 '000s pa

10 years to 2020

215.3 '000s pa

five years to 2020



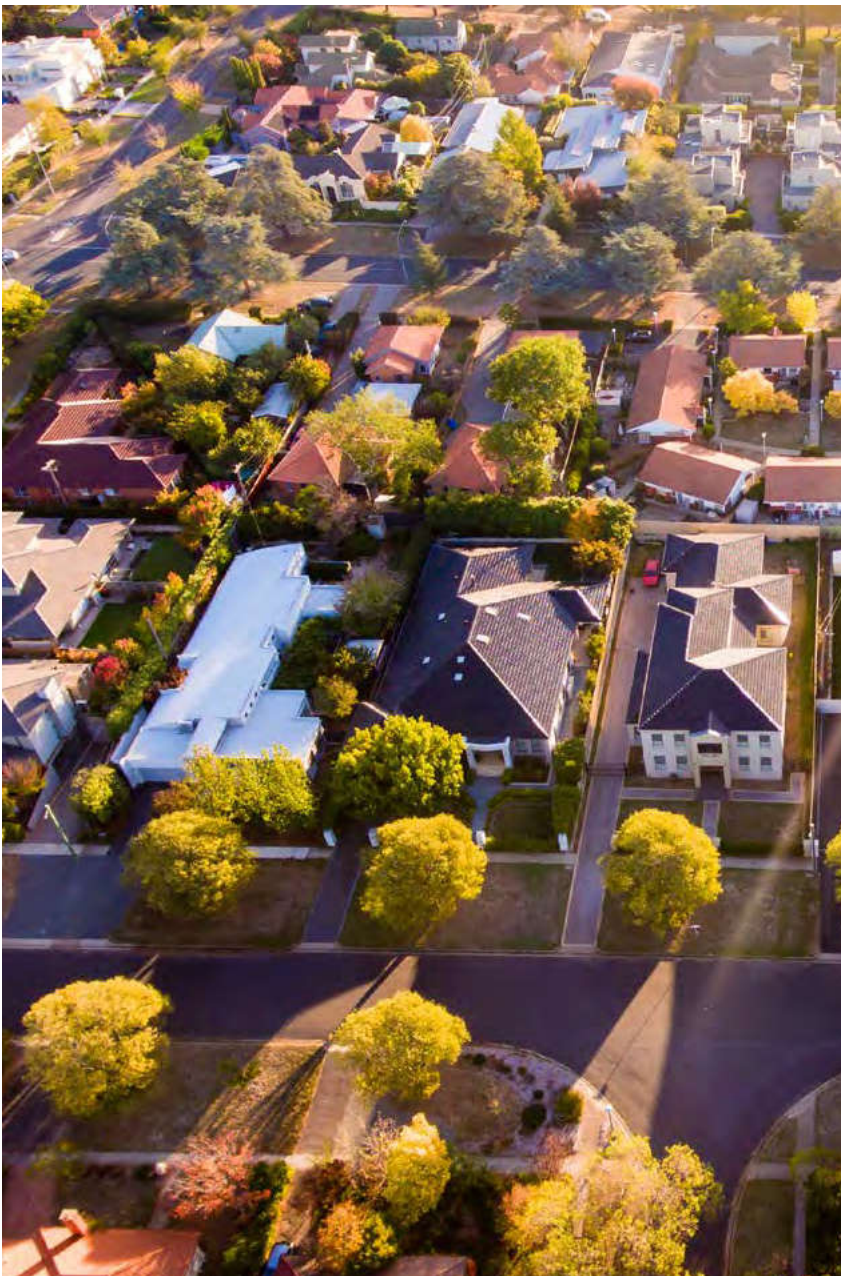
Migration effects are being felt across the market

Migration has long been a key driver of Australia's economy, and has fuelled demand for residential properties and construction activity, creating investment opportunities across the country. The pandemic has forced a temporary halt to inflows, so what will be the impact of this on the economy and housing markets across the country?

The fallout from COVID-19 has been felt across most parts of the economy. One of the most prominent impacts has been the movement of people into the country, overseas migration has fallen from 250,000 people a year to practically zero in a matter of months. This shift has filtered down to a number of sectors in the economy. Residential dwelling construction and property markets have seen the largest initial responses, given the importance of migration in incremental demand for housing. Demand for rental properties has fallen short of pre-COVID-19 expectations, putting downward pressure on rents, and the implied sharp fall in demand for new dwellings over the next 12-24 months is weighing heavily on residential construction activity.

And the impact is spreading to other parts of the economy. The drop in the number of international students has led to significant falls in university incomes, which in turn are forcing job losses on the sector. Demand for the goods and services that these students normally consume has also fallen back, compounding the drag generated by the weakness in local household spending. The direct impact on construction activity will also be magnified by supply chain linkages; many professional and support service firms service the construction sector and are likely to experience a drop off in activity through late 2020 and into 2021.

The composition of migration in recent years has shifted away from temporary workers and towards international students, who now account for around a third of all arrivals. This shift, in turn, has led to changes in the destination of overseas arrivals. The dominance of Sydney and Melbourne in tertiary education, with 55% of Australia's universities having a presence in at least one of the two cities, mean that NSW and Victoria now absorb around two-thirds of all net overseas arrivals. Given this, Sydney and Melbourne will be most impacted by lower migration.



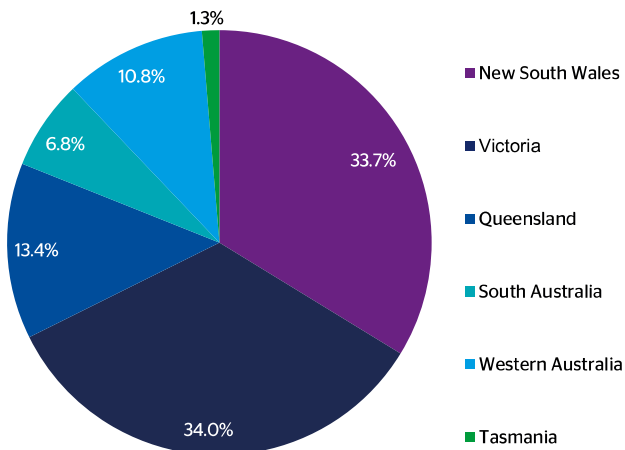


As a result, their economies (and housing markets) are expected to underperform over the near term; the unemployment rate is expected to see a larger increase (relative to pre-COVID-19 levels), and the recovery in the economy is expected to be more drawn out than other parts of the economy.

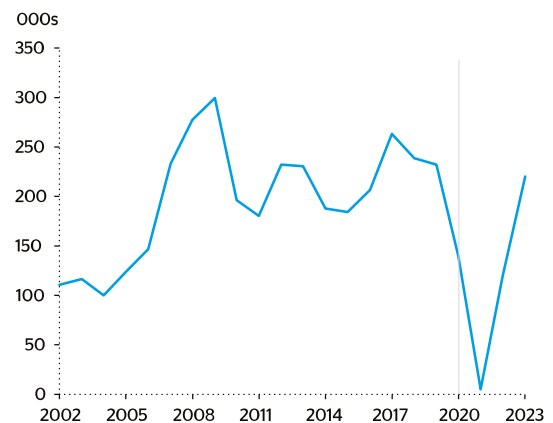
Although the immediate outlook is challenging, we see reasons to be optimistic about migration trends in the long run and expect the level

to return to the pre-COVID-19 normal. The authorities have charted a relatively successful path through the pandemic thus far, which should underpin the country's reputation as a safe destination, and the Australian dollar remains at a globally competitive level. And once it becomes clear that migration is rebounding, we are likely to see the start of a recovery in both residential dwelling construction and housing markets, particularly in NSW and Victoria.

Net overseas migration breakdown 2020



Net overseas migration





04. State and Territory overview

States at a glance

	NSW	VIC	QLD	WA
Population at December 2019	8,128,984	6,651,074	5,129,996	2,639,080
Five-year growth	7.3%	11.1%	7.8%	4.3%
ANNUAL MOVEMENT YEAR TO JUNE 2020				
FHB loans	20.1%	17.1%	6.9%	3.9%
Non-FHB loans	0.9%	-9.2%	-2.5%	-2.2%
Investor loans (value)	-9.4%	3.1%	-2.5%	-8.2%

	Sydney	Melbourne	Brisbane	Perth
Median house price at June 2020	\$1,103,100	\$846,800	\$564,800	\$497,500
Annual movement (year to June)	8.1%	4.8%	0.6%	-2.5%
Forecast median house price growth 2020-2023	-1.2%	-1.9%	0.9%	7.5%
Median unit price at June 2020	\$763,900	\$587,300	\$413,500	\$353,500
Annual movement (year to June)	4.0%	4.1%	-3.6%	-1.1%
Forecast median unit price growth 2020-2023	1.1%	0.3%	2.1%	6.8%
Vacancy rates (at June 2020)	4.1%	2.8%	2.6%	2.0%
Annual rental movement (to June 2020)	-2.0%	-1.1%	-0.7%	-0.7%
Affordability ¹	27.1%	26.0%	16.8%	13.3%

¹ Housing affordability is shown as mortgage repayments at the prevailing discounted variable rate (based on 75% of the median house price) as a percentage of household disposable income



SA	TAS	ACT	NT	
1,759,184	537,012	427,419	244,761	Population at December 2019
3.8%	4.4%	8.7%	0.8%	Five-year growth
3.9%	3.5%	-6.1%	36.0%	ANNUAL MOVEMENT YEAR TO JUNE 2020
-14.7%	-19.7%	-9.4%	-9.6%	FHB loans
-6.7%	3.0%	10.5%	0.0%	Non-FHB loans
				Investor loans (value)

Adelaide	Hobart	Canberra	Darwin	
\$504,000	\$556,500	\$740,000	\$454,200	Median house price at June 2020
1.6%	4.2%	4.2%	-3.0%	Annual movement (year to June)
5.3%	-3.8%	6.3%	6.6%	Forecast median house price growth 2020-2023
\$395,200	\$484,800	\$460,000	\$279,500	Median unit price at June 2020
2.9%	7.3%	1.1%	-8.0%	Annual movement (year to June)
4.9%	0.8%	4.9%	5.7%	Forecast median unit price growth 2020-2023
1.6%	2.6%	1.1%	4.0%	Vacancy rates (at June 2020)
0.1%	0.2%	-0.2%	-1.9%	Annual rental movement (to June 2020)
15.2%	17.4%	11.5%	7.8%	Affordability ¹



State of play

Short-term uncertainty with recovery on the horizon

As with all other parts of the economy, country, and the world, the fallout from COVID-19 is now driving Australia's housing market. Prior to the pandemic, the majority of cities had seen a turn in market conditions, with prices and activity rebounding from the lows seen in mid-2019. Sydney and Melbourne were leading the way, buoyed by low interest rates, removal of LVR restrictions by the regulator, and improved affordability after the previous downturn. And unlike the previous upturn, foreign participation in the market was limited – data from the Foreign Investment Review Board shows a further decline in the number of approved buyers to 7,500 nationally (from a peak of over 40,000 in 2015/16). But the last six months has seen a marked change, with prices now falling in most parts of the country.

Looking into late 2020 and 2021, although progress towards a vaccine and better treatment is being made, COVID-19 is expected to be with us for some time. The impact on the global economy has been substantial. Most governments have at least partially limited day-to-day life, which is weighing on economic activity levels. This has been the case in Australia; GDP declined by 7.0% in the June quarter and the effective unemployment rate has risen to 11% (from around 5% pre-COVID-19). Some restrictions on activity will have to remain in place over the near term, which will put a lingering drag on economic activity and employment. Moreover, the decline in output and incomes thus far will take some time to recover; over 600,000 jobs have been lost since March, and the economy shrank by 7% in the June quarter. This challenging environment is likely to weigh on housing market activity and on prices. Thus far the market has shown relative resilience, with a variety of government financial support packages for people and businesses, interest rate cuts and mortgage repayment deferrals helping to prevent a sharp market correction, but further price declines are expected.





Demand and supply

One of the most profound impacts of COVID-19 has been on net overseas migration, which has fallen to near-zero as a result of the closure of the international border. Restrictions in travel are likely to remain in place until 2021, after which migration is expected to stage a gradual recovery, with net overseas migration projected to rise to 120,000 in 2021/22 and 220,000 in 2022/23. But considerable uncertainty remains about the outlook and therefore population growth, and this is weighing on new dwelling construction activity. Monthly approvals fell back to just over 12,000 dwellings in June 2020, its lowest level since mid-2011, and further declines are likely despite the support from the HomeBuilder program. Dwelling commencements are expected to drop to 163,000 in 2020/21, declining further to 152,000 in 2021/22, before recovering to 175,000 in 2022/23.

City outlook

Sydney and **Melbourne's** exposure to the impact of COVID-19, in terms of economic damage, exposure to the negative shock from the collapse of net overseas migration, and the worst health outcomes, are expected to result in their property markets underperforming in the near term. In contrast, the combination of a natural turn in the market and economic resilience to COVID-19's impact mean **Perth** is expected to outperform. Mining sector construction activity is picking up as China's recovery drives commodity prices, the disease has been less prevalent, and the economy is relatively under-exposed to the sectors that have suffered the most under the restrictions. **Darwin** is also expected to see a modest correction, given the weakness in the market in recent years and a brighter economic outlook, with the Federal Government set to make significant investments in a number of projects.

Brisbane's market remains relatively affordable, with continued oversupply of properties, and Queensland has escaped the worst of the pandemic, which will help to support activity. But limits on international and domestic travel are putting a significant drag on the hospitality sector. **Adelaide** and **Canberra** are both somewhat protected from the COVID-19 fallout by the importance of the government in the local economy, and the lack of significant oversupply of housing will provide some support to prices as the recovery kicks in. **Hobart's** market is subject to contradictory pressures - the State's economy is very exposed to international tourists, but the tight supply of housing after the recent strength in population growth is expected to limit the size of the contraction.



Median prices by capital city quarter ended June 2020

Houses

	Sydney		Melbourne		Brisbane		Perth		Adelaide		Hobart		Canberra		Darwin	
	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var
Forecast growth (%)																
2020-2023	-1.2		-1.9		0.9		7.5		5.3		-3.8		6.3		6.6	
Forecast																
2023	1,089.5	5.3	830.6	5.3	570.1	5.1	534.9	5.6	530.7	3.3	535.6	4.9	786.8	4.3	484.3	5.2
2022	1,034.6	0.3	788.8	0.7	542.5	0.3	506.5	4.8	513.5	4.8	510.7	-2.3	754.2	3.8	460.4	4.3
2021	1,031.6	-6.5	783.3	-7.5	540.9	-4.2	483.4	-2.8	489.8	-2.8	522.6	-6.1	726.7	-1.8	441.6	-2.8
Prior years																
2020	1,103.1	8.1	846.8	4.8	564.8	0.6	497.5	-2.5	504.0	1.6	556.5	4.2	740.0	4.2	454.2	-2.9
2019	1,020.7	-9.7	807.7	-10.0	561.6	-0.2	510.5	-4.2	496.3	0.8	534.3	8.2	710.0	6.0	468.0	-2.9
2018	1,130.3	-5.7	897.8	2.7	562.9	1.8	532.8	0.6	492.3	2.8	493.6	12.4	670.0	0.3	481.8	-8.2
2017	1,198.1	14.7	874.4	16.4	552.9	3.9	529.8	-5.4	478.7	4.1	439.3	9.7	668.0	7.8	524.6	-1.0
2016	1,044.1	2.3	751.0	6.6	532.0	4.8	560.2	-4.0	459.9	3.5	400.5	10.2	619.5	8.2	529.9	-7.6
2015	1,020.8	24.3	704.6	17.0	507.6	4.5	583.8	-2.3	444.4	2.3	363.4	0.4	572.3	4.1	573.3	12.2
2014	821.2	17.4	602.4	10.5	485.7	6.4	597.5	4.1	434.5	6.6	362.0	6.8	550.0	1.9	510.8	3.5
2013	699.5	8.2	545.4	3.4	456.4	4.0	573.9	10.7	407.6	0.5	338.8	-1.8	540.0	5.9	493.4	-0.9
2012	646.3	-0.4	527.5	-5.3	438.8	-2.9	518.3	-1.6	405.5	-3.0	345.0	-2.0	510.0	-1.9	497.9	5.2
2011	648.9	-0.4	557.2	-3.5	451.7	-5.7	526.6	-3.9	418.0	-2.0	351.9	-2.1	520.0	3.9	473.5	-6.6
2010	651.8	15.1	577.4	24.8	478.9	9.1	548.2	9.3	426.5	11.5	359.4	9.2	500.5	11.0	506.8	8.8
2009	566.3	1.2	462.7	0.1	438.9	-3.2	501.5	-1.9	382.5	-2.6	329.2	3.0	451.0	-3.9	466.0	19.0
2008	559.4	1.0	462.3	11.1	453.3	13.1	511.4	-1.8	392.7	18.3	319.6	4.6	469.5	6.1	391.6	9.8
2007	554.0	2.7	416.2	11.3	400.7	15.9	520.7	9.8	332.0	9.6	305.4	6.0	442.5	13.5	356.7	23.1
2006	539.4	-0.9	374.1	7.5	345.6	7.0	474.1	48.7	303.0	7.6	288.0	13.2	390.0	6.0	289.8	8.6
2005	544.3	0.9	348.0	4.1	322.9	2.1	318.8	13.8	281.5	6.3	254.5	6.6	368.0	-1.9	266.9	20.2
2004	539.7	6.7	334.4	7.0	316.2	29.1	280.2	15.6	264.8	17.3	238.8	59.9	375.0	13.7	222.1	16.0
2003	505.6	15.7	312.4	9.8	245.0	27.3	242.4	16.3	225.7	24.5	149.3	25.7	329.9	29.3	191.5	9.4



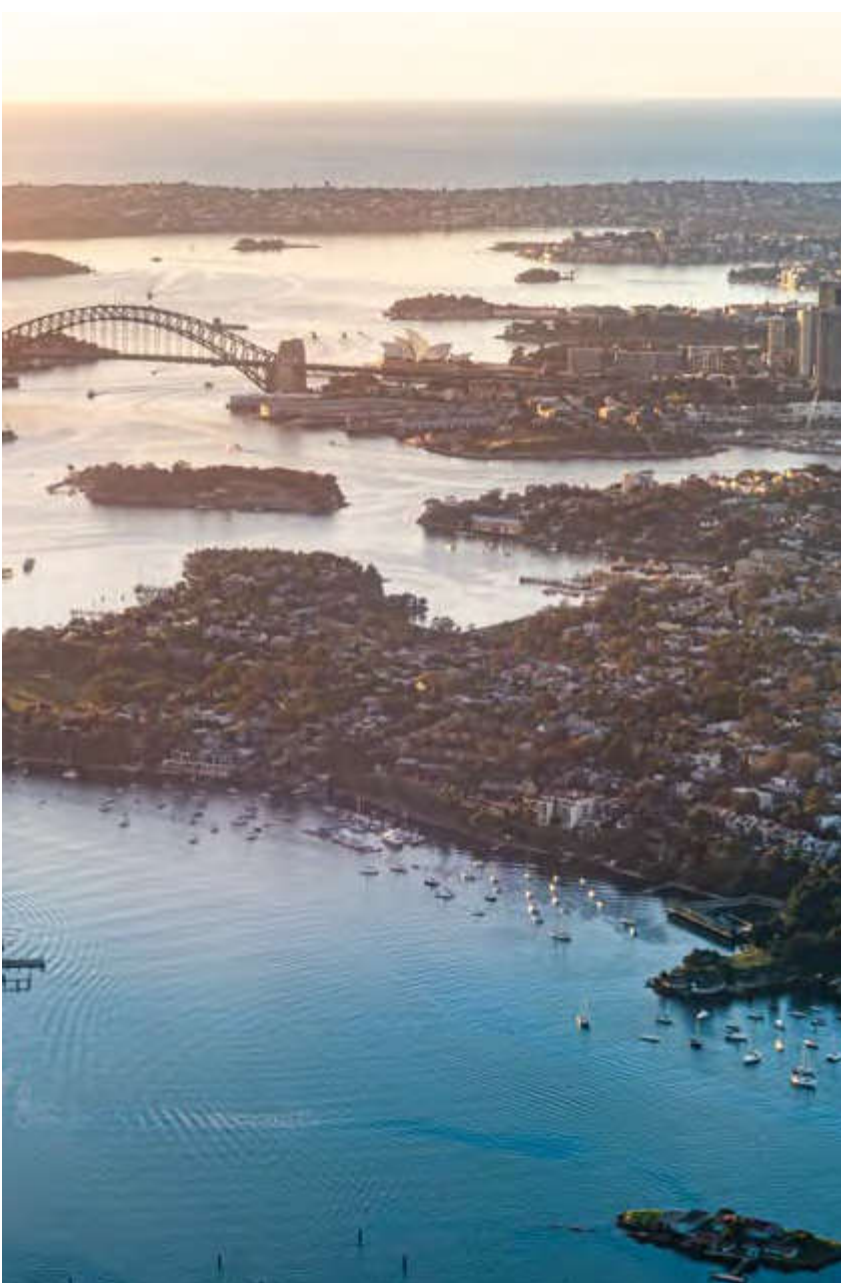
Units

	Sydney		Melbourne		Brisbane		Perth		Adelaide		Hobart		Canberra		Darwin	
	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var	\$'000	% Var
Forecast growth (%)																
2020-2023	1.1		0.3		2.1		6.8		4.9		0.8		4.9		5.7	
Forecast																
2023	772.1	6.3	589.3	6.4	422.0	5.2	377.5	4.7	414.4	4.0	488.9	5.3	482.6	4.2	295.5	4.7
2022	726.1	1.7	554.1	2.2	401.2	1.6	360.4	5.0	398.3	3.6	464.3	3.8	463.1	2.8	282.2	4.9
2021	713.9	-6.5	542.2	-7.7	394.8	-4.5	343.3	-2.9	384.6	-2.7	447.1	-7.8	450.4	-2.1	269.0	-3.8
Prior years																
2020	763.9	4.0	587.3	4.1	413.5	-3.6	353.5	-1.1	395.2	2.9	484.8	7.4	460.0	1.1	279.5	-8.1
2019	734.7	-7.4	564.1	-2.1	428.7	-2.5	357.5	-8.8	384.1	2.1	451.6	11.5	455.0	1.4	304.0	-12.2
2018	793.6	-4.2	576.1	-0.1	439.8	0.4	391.9	-3.1	376.2	4.0	405.0	21.3	448.6	0.2	346.4	-15.2
2017	828.8	8.0	576.7	5.5	437.9	0.0	404.4	-1.5	361.7	7.2	334.0	1.0	447.5	4.1	408.3	2.7
2016	767.5	3.0	546.7	5.0	437.7	1.0	410.6	-4.5	337.3	1.2	330.8	9.9	429.9	1.0	397.6	-19.4
2015	745.0	19.0	520.7	7.2	433.4	5.0	429.8	-3.5	333.2	-2.4	301.1	-5.8	425.8	4.4	493.3	5.4
2014	626.3	13.8	485.9	5.8	412.8	4.4	445.4	2.6	341.5	3.4	319.7	3.3	407.8	-0.7	468.2	5.2
2013	550.2	6.6	459.1	2.5	395.5	1.0	434.3	6.4	330.3	2.4	309.6	4.7	410.6	-2.4	445.0	5.2
2012	516.0	4.3	448.1	-3.2	391.5	-0.3	408.1	1.8	322.7	-4.4	295.8	1.3	420.6	0.0	423.2	-1.7
2011	494.5	2.2	462.9	0.0	392.7	-2.6	400.8	-3.0	337.4	-0.9	291.9	-0.4	420.6	1.2	430.7	-1.9
2010	483.9	15.7	463.1	18.3	403.1	6.8	413.3	7.7	340.3	12.1	293.1	7.1	415.6	10.7	438.9	17.6
2009	418.4	3.1	391.3	4.4	377.3	-2.9	383.6	-0.9	303.6	2.4	273.7	4.9	375.5	7.1	373.1	19.4
2008	406.0	-0.2	374.9	7.7	388.7	11.4	387.0	0.9	296.6	15.7	261.0	7.6	350.5	-1.4	312.4	7.0
2007	406.7	1.6	348.0	12.7	348.9	13.1	383.6	11.3	256.4	10.2	242.6	-3.1	355.5	9.2	291.9	14.7
2006	400.2	0.9	308.9	6.2	308.4	10.2	344.7	34.2	232.6	5.5	250.3	14.0	325.5	4.2	254.6	21.0
2005	396.8	1.1	290.9	1.6	279.9	9.1	256.9	15.6	220.4	6.6	219.5	6.2	312.5	4.0	210.4	24.8
2004	392.3	3.4	286.3	1.3	256.6	20.6	222.2	6.0	206.7	11.9	206.7	45.0	300.4	15.4	168.6	-1.6
2003	379.3	3.8	282.5	6.0	212.7	10.2	209.6	19.9	184.7	30.0	142.6	26.5	260.4	20.4	171.3	14.2



Change of pace

The market will be challenged, but a strong economy brings optimism and regional markets support



Sydney house market

Sydney's housing market has been on a rollercoaster ride over the last two years. After reaching the trough of the previous downturn in early 2019, prices rebounded rapidly, fuelled by three cuts in the cash rate (in June, July and October 2019), the reduction of the interest rate buffer by APRA, and the re-election of the Coalition, which took changes to negative gearing and Capital Gains Tax off the table. Prices were up almost 14% Year on Year in the March 2020 quarter, led by owner-occupier purchases of detached houses, and sales volumes had also begun to recover.

Although the rapid responses of the Reserve Bank of Australia (RBA) and lenders to COVID-19 prevented a sizeable near-term decline in prices, the upturn in Sydney's housing market has changed in recent months. Detached house prices fell by 4.7% quarter on quarter in the June quarter, taking the median price down to just over \$1.1 million.

Prior to the pandemic, the inner and middle Sydney markets recorded the strongest rebounds, with prices in both markets seeing price growth of 18% Year on Year in the March 2020 quarter. The outer region recorded a much more modest rebound (though it also saw a smaller decline through the previous downturn) of 6.9%, but it has fared best in the first months of the pandemic; prices in the region were broadly flat in the June quarter, but declined 6% in the middle region and 9% in the inner region.

Vacancy rates have risen modestly over the last year, from 3.3% up to 4.1%. But the reduction in net overseas migration has created oversupply in the city's rental market, and the vacancy rate is expected to spike to above 6% in the near term. The impact of this on rents is already becoming apparent, with frequently published data suggesting that they are now declining. Although the apartment market is expected to bear the brunt of this, average house rents are anticipated to fall 7% over the year to June 2021.

Investors

Investor activity has yet to recover from the fallback in 2018 and 2019. Prior to COVID-19, the continued release of new dwelling supply to the rental market was depressing yields, although some activity was returning as prices shifted into an upswing. As a result, there were signs of investor activity stabilising, with mortgage lending ticking up at the end

of 2019. But the fallout from the pandemic has put paid to this, with lending to investors falling by 13.8% in the June quarter. Given the challenging outlook for net overseas migration and the importance of this in Sydney's population growth, investors are expected to remain on the sidelines over the near term.

Owner-occupiers

The recovery in Sydney's housing market was led by owner-occupiers, particularly first home buyers who have benefitted

from a range of schemes including stamp duty concessions. Overall, lending to owner-occupiers rose 13.6% in 2019/20, but uncertainty about the economic environment coupled with some tightening of lending conditions by banks (in anticipation of a deterioration in the labour market) have put a dent in activity, with the pace of annual growth in lending falling to 18.3% Year on Year in the June 2020 quarter from 30.9% in the March quarter.

Sydney unit market

Although dwelling prices have shown resilience so far, COVID-19 is already having a significant impact on rental markets, particularly for attached dwellings. The absence of overseas migrants, an influx of properties that usually target the short-term rental market (aimed at international visitors) and continued new supply are all depressing rents for apartments in Sydney, with the inner city seeing a spike in the vacancy rate to over 13%. Depressed yields are now weighing on prices, with unit prices declining 3.7% in the June 2020 quarter.

👁️ Outlook

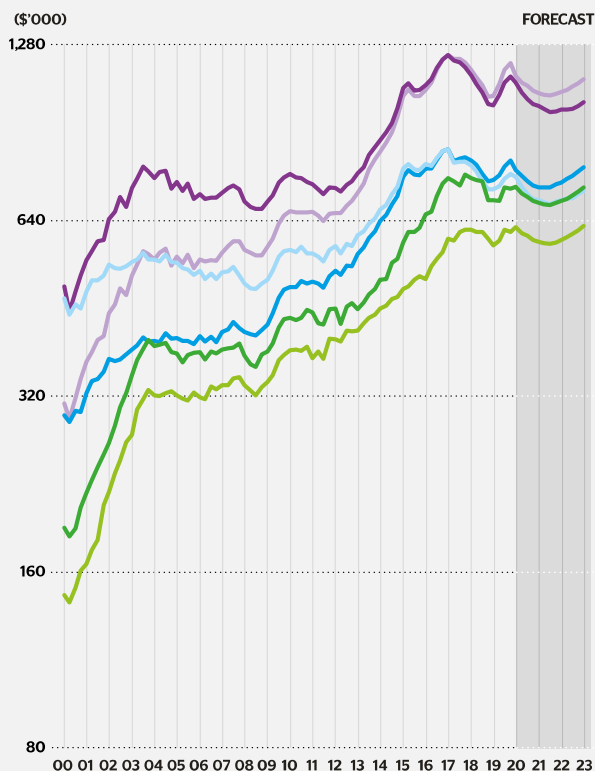
The over-exposure of Sydney to the economic impact of the pandemic will have clear influence over the housing market. Price falls are expected in 2020/21, with the average house expected to be worth around \$1,032,000 in June 2021 (6.5% lower than a year earlier). Although economic conditions will continue to be challenging for quite some time, limited increases in supply are expected in the near term, with dwelling completions projected to fall to 21,400 (-15.8% y/y) in 2020/21 and 22,100 in 2021/22. Monetary conditions will also remain very favourable, with no increase in the cash rate expected until 2023 at the earliest.

These trends, coupled with the complete normalisation of the economy, including the re-opening of the border, are expected to generate a modest recovery in the housing market. The average price is expected to reach \$1,090,000 in the June 2023 quarter, but the long-lived impact of COVID-19 is clear - this is 6% below the mini-peak reached in March 2020.

👁️ Outlook

Prices are expected to fall further in the near term, with rents and yields held back by ongoing weakness in demand. But the fall in unit prices is expected to arrest sooner than detached dwellings, as the development pipeline diminishes. The challenging environment is weighing on developer activity and, although attached dwelling commencements and completions have already declined significantly from their 2017 peak, further falls are expected of 11.5% in 2020/21, 32% in 2021/22, and 20% in 2022/23, at which stage completions will be at their lowest level since 2013.

New South Wales: dwelling prices



Percentage points (%)

Sydney house price	
2019: -10	2021: -6
2020: +8	2022: 0
	2023: +5

Sydney real house price	
2019: -11	2021: -9
2020: +9	2022: -1
	2023: +3

Sydney unit price	
2019: -7	2021: -7
2020: +4	2022: +2
	2023: +6

Sydney real unit price	
2019: -9	2021: -9
2020: +5	2022: 0
	2023: +4

Wollongong house price	
2019: -8	2021: -6
2020: +5	2022: +1
	2023: +6

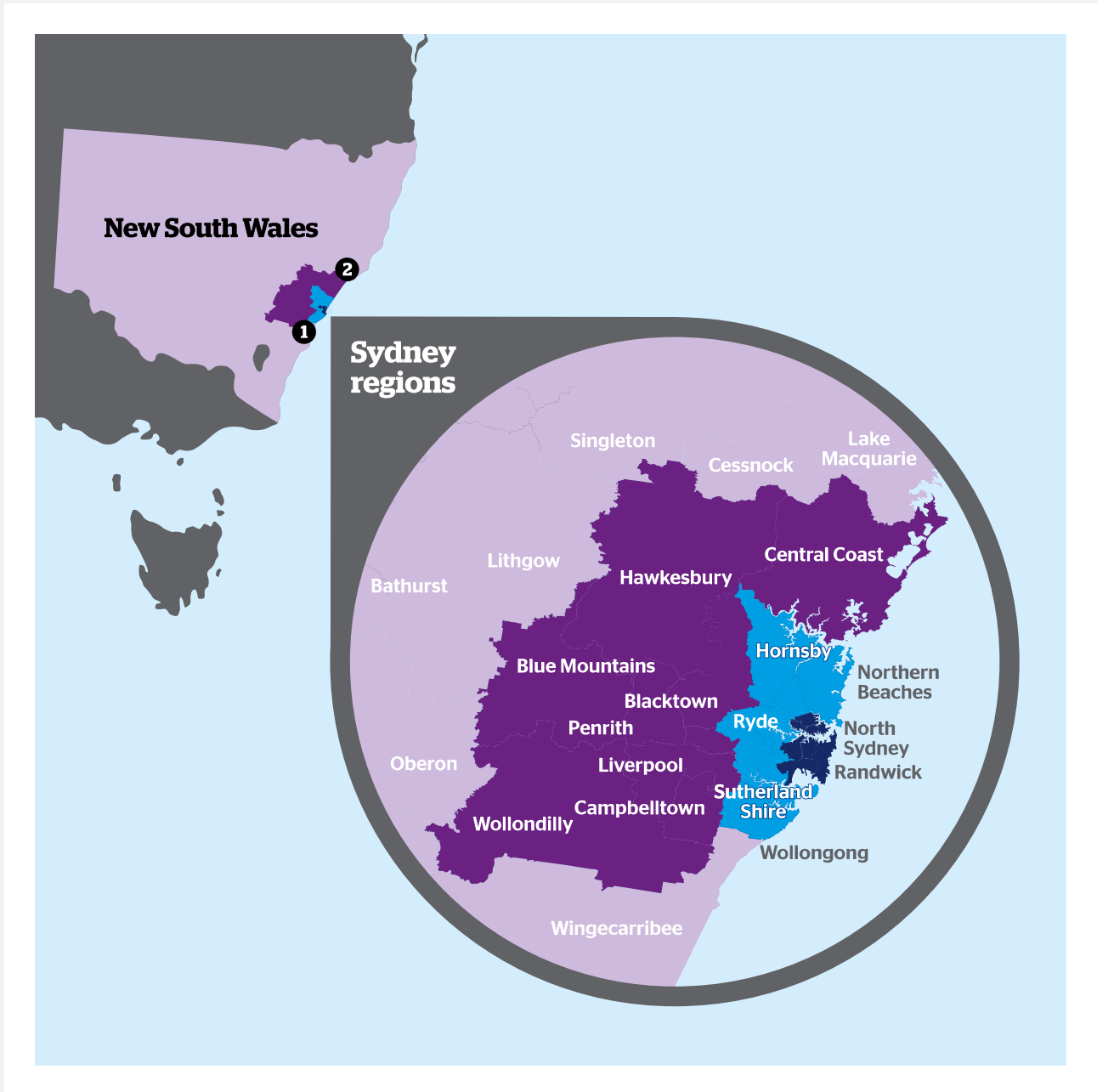
Newcastle house price	
2019: -6	2021: -6
2020: +7	2022: +1
	2023: +6

* Real house/unit prices in 2017 dollars

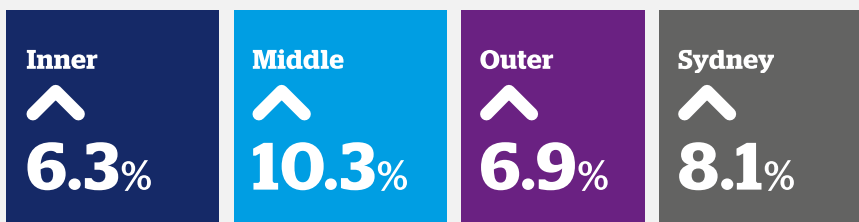




New South Wales and Sydney regions



Sydney median house price annual % change - year to June 2020



Regional New South Wales centres

As in previous downturns, price declines in Sydney are expected to spill over to regional New South Wales. But the relative lack of exposure to the pandemic, assuming it remains well-contained, will soften the blow. China's recovery will support the State's mining sector, good rainfall has broken the drought in many areas, and restrictions on international and interstate travel will encourage locals to take holidays at home. In addition to a relatively positive economic outlook, lower property prices and the incentives on offer for first home buyers in particular are expected to provide some support.



1 Wollongong region

Wollongong remains an attractive, affordable region for many people who work in Sydney; the 2016 census found that 26% of full-time working residents in the region commute to Sydney.

As a result, the region has seen solid population growth, with many owner-occupiers looking to purchase in the area to make their money go further. The economic links to Sydney mean house prices will broadly track the metro area, but the cycles are usually more muted. Over 2019/20, house prices in Sydney rose 8.1% while in Wollongong they increased by 5.3% to \$715,000.

Outlook

Wollongong's affordability and relative under-exposure to COVID-19 will support the housing market. Prices are expected to drift down over the near term, to a trough of \$667,000 in late 2021. After this, a steady recovery is expected to emerge as the economy fully recovers and migration flows and population growth return to normal. This will take the median price to \$715,000 in 2022/23.

2 Newcastle and the Hunter region

Newcastle's position slightly further away from Sydney means it is much less influenced by developments in the metropolitan area.

Instead, the economic outlook for the Hunter Valley region is crucial and, like Wollongong, it appears to be outperforming the capital city; relatively low levels of COVID-19 are increasing individuals' comfort levels, and after a brief shutdown domestic tourists are now able to travel freely around New South Wales. House prices rose 7.4% Year on Year in the June 2020 quarter to \$612,000 and, unlike Sydney, this included an increase in the last three months.

Outlook

The relative strength of the local economy (compared to Sydney) will support house prices and dwelling construction activity in the near term. But both are expected to decline, as the absolute size of the COVID-19 shock feeds through. House prices are expected to decline 6.4% peak-to-trough, before recovering modestly through the second half of the forecast horizon. Overall, prices are broadly expected to have regained the ground lost to COVID-19 by June 2023 to \$614,000.

Price growth


7.4%
year to June 2020

Vacancy rates


1.7%
as at June 2020

Forecast house price


0.4%
2020-2023 growth

Unemployment


4.8%
as at March 2020





Challenges on the horizon

Lockdown effects have created some difficulty but Government infrastructure programs bring future optimism



Melbourne house market

The spread of COVID-19 and measures taken to limit the health impact of the pandemic have resulted in a significant downturn in demand - largely caused by a strong fall in net overseas migration - and the effects are now forecast to be more severe and longer-lasting than previously envisaged as Victoria faces the nation's most significant outbreak. The 2020 June quarter has seen the first shockwaves of the COVID-19 lockdowns and associated recession begin to ripple through into Melbourne's residential property market, with a 4% fall in Melbourne's median house price over the quarter to \$846,800 in June 2020.

Buyer activity

Victoria saw a rise in the total value of housing loans to first home buyers (FHB) and investors in June, rebounding after a weak start to 2020. Although still well below previous historic levels, investor activity appeared to defy the national trend of new loan commitments falling since the COVID-19 lockdown restrictions were implemented in late March. FHB activity has trended up since the First Homeowner Grant was doubled for buying or building new homes in regional Victoria in 2017, along with stamp duty exemptions and discounts. Previously set to end in June 2020, these measures have recently been extended to mid-2021. The value of new loans to upgraders has fallen 18.4% in 2020. Much of this decline occurred before the COVID-19 pandemic, with only a minor 4.2% decline in the month of June. The HomeBuilder scheme has sparked strong land sales activity to close out the 2020 financial year, with the package benefitting house-and-land buyers in areas such as Melbourne's city fringes.

The downturn in house prices since December 2019 has been relatively evenly felt across metropolitan Melbourne. The overall Melbourne median house price has fallen by 4.2% in H1 2020. Middle ring suburbs saw a slightly larger fall of 5.6%, while the inner ring suburbs saw a 7.9% reduction in values and a 1.8% decline occurred in the outer regions. However, from their peaks in December 2017 price declines have been largest in the inner (-16.1%) and middle ring (-9.2%) suburbs. These regions saw larger growth in prices over the upturn and the cycle in outer Melbourne has been more modest, with a peak-to-trough fall of (-2.2%).

Demand and supply

Melbourne's overall residential market was more-or-less in balance at the start of 2020, with high levels of construction gradually catching up with relatively rapid growth in demand from interstate and international destinations in recent years. Dwelling completions have been sustained at a high level in Victoria since 2016/17, with a record 66,247 dwellings completed in 2017/18. But the pandemic has significantly altered the environment. A sharp fall in underlying demand in 2019/20 as a result of slowing population growth means that supply is now running ahead of demand and any deficiency has all but disappeared.

Completions were already set to decline in 2020/21; now the downturn will be more intense due to weaker market conditions as the State grapples with bringing COVID-19 under control and developers come to terms with the new outlook for overseas migration. A low of 45,131 dwellings is forecast in 2022/23, marking a 31.9% peak-to-trough fall. Even so, supply won't be reacting quickly enough to the sharp decline in demand and a large excess of stock is expected to emerge; around 20,427 dwellings in 2021/22. But with overseas migration currently expected to rebound in 2021/22 and 2022/23, this excess should be quickly absorbed.

Melbourne unit market

Severe headwinds persist for the apartment sector. Pre-existing weakness in investor demand is being compounded by rising rental vacancy rates and falling rents. Unit prices were already declining prior to the COVID-19 pandemic, and the outlook for unit prices is bleaker than for houses. The median unit price in Melbourne of \$587,300 at June 2020 is down 1.3% on its peak in December 2017.

Supply

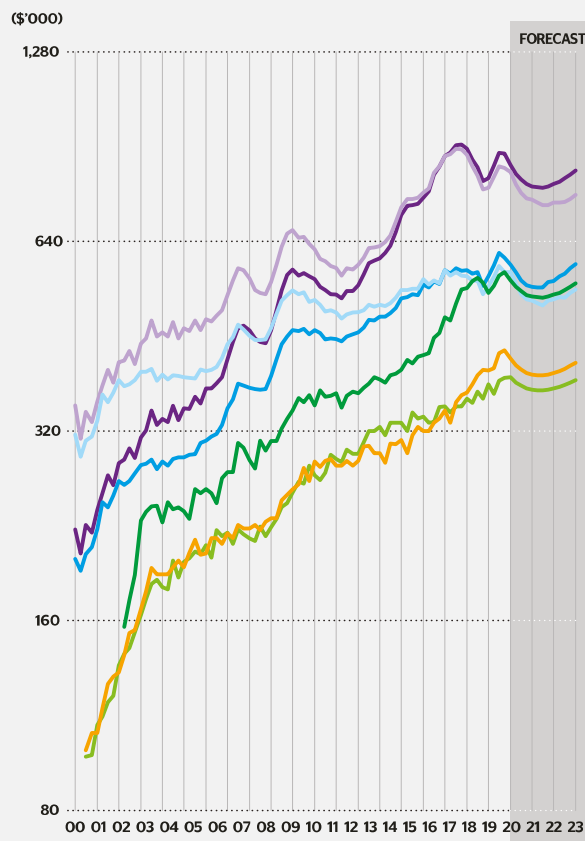
Unlike houses, it is difficult to find any concrete positive indications of off-the-plan apartment sales activity. As such, attached dwelling commencements are expected to continue declining into 2020/21. The decline would be worse if not for a moderate allowance of social housing stimulus concentrated in townhouses and low-rise apartments. Downside risk is limited by the low base where high density commencement remains.

The March 2021 deadline for the start of construction for the HomeBuilder program will largely rule out new apartments and many townhouse projects unless construction commencement is imminent. Not until 2021/22, when apartment feasibility has improved, will growth emerge for total attached dwellings. With commencements coming off a very low base, it will take the sector several years to reach the levels of activity reminiscent of the prior residential boom.

🔍 Outlook

Much of the outlook for Melbourne's housing market is tied to health outcomes and the State's ability to roll back lockdown restrictions once the COVID-19 containment measures are no longer needed. Border closures associated with the COVID-19 pandemic are creating a sharp contraction in net overseas migration and this will worsen in 2020/21. In addition, the net interstate migration inflow has reduced and is forecast to fall to negligible levels over the next few years. Overall, with population growth returning, an accelerated program of Government infrastructure investment and the labour market improving, Melbourne's median house price is expected to rise 6.6% from its trough to \$830,600 as at June 2023.

Victoria: dwelling prices



Percentage points (%)

Melbourne house price		
2019: -10	2021: -7	
2020: +5	2022: +1	
	2023: +5	

Melbourne real house price		
2019: -11	2021: -10	
2020: +5	2022: -1	
	2023: +3	

Melbourne unit price		
2019: -2	2021: -8	
2020: +4	2022: +2	
	2023: +6	

Melbourne real unit price		
2019: -4	2021: -10	
2020: +5	2022: 0	
	2023: +4	

Geelong house price		
2019: -2	2021: -6	
2020: +5	2022: +1	
	2023: +4	

Bendigo house price		
2019: +6	2021: -5	
2020: +3	2022: 0	
	2023: +3	

Ballarat house price		
2019: +9	2021: -6	
2020: +4	2022: +1	
	2023: +4	

🔍 Outlook

The heavily reduced migration projections and employment losses, compounded by vacant investor stock placed on the market for sale, are forecast to severely impact Melbourne's median unit price. Unit prices are anticipated to fall 7.7% in 2020/21, with the recovery dependent upon the resumption of overseas migration, including the return of international students, thereby boosting market confidence. Victoria's annual population growth is expected to return close to pre-COVID-19 levels in 2022/23, resulting in unit prices recovering a further 6.3% in 2022/23.

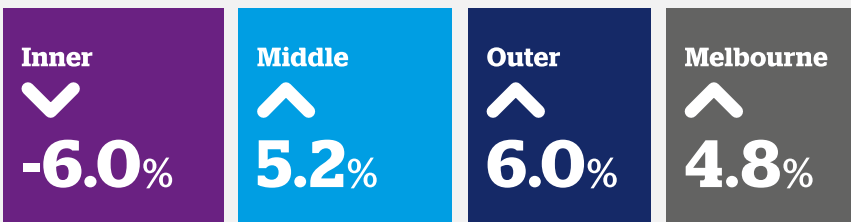
* Real house prices in constant 2017 dollars



Victoria and Melbourne regions



Melbourne median house price annual % change - year to June 2020



Regional Victoria centres

The regional centres of Geelong and Ballarat are close enough to Melbourne to support regular commuter transit, while Bendigo attracts infrequent commuters. Median house prices in Geelong, Ballarat and Bendigo are highly correlated to Melbourne prices, though the regional areas are showing comparatively more resilience to Melbourne's median house price declines. The COVID-19 shutdowns have shifted the way people think about where they live and work, with many becoming accustomed to working from home and the benefits of eliminating lengthy commutes. With a lower relative reliance on recently curtailed overseas migration, demand appears to be fuelled by a combination of population escaping Melbourne's high house prices, and first home buyer incentives attracting population into these affordable centres. Regional Victoria (including Geelong, Ballarat and Bendigo) is expected to outperform Melbourne, with first home buyers now eligible for a cumulative \$45,000 in grants.



Price growth



2.6%

year to June 2020

Vacancy rates



2.6%

as at June 2020

Forecast house price



-1.4%

2020-2023 growth

Unemployment



3.2%

as at March 2020

1 Ballarat

Ballarat benefits from its proximity to Melbourne, with the city offering a viable commuting option to Melbourne via road and rail. One of a number of regional centres that have withstood recent COVID-19 headwinds comparatively more resiliently than Melbourne, Ballarat had enjoyed solid median house price growth over the past three years, averaging around 6.5% per annum. However, the impacts of the pandemic are now being felt in median house price declines, with house prices softening 3% in the 2020 June quarter to \$417,000. Continuing demand from first home buyers from Melbourne taking advantage of the stamp duty concessions on offer and a favourable local economy with high levels of work opportunity have supported investor demand and prices to date. However, Ballarat will be included in the general property price downturn occurring across the country.

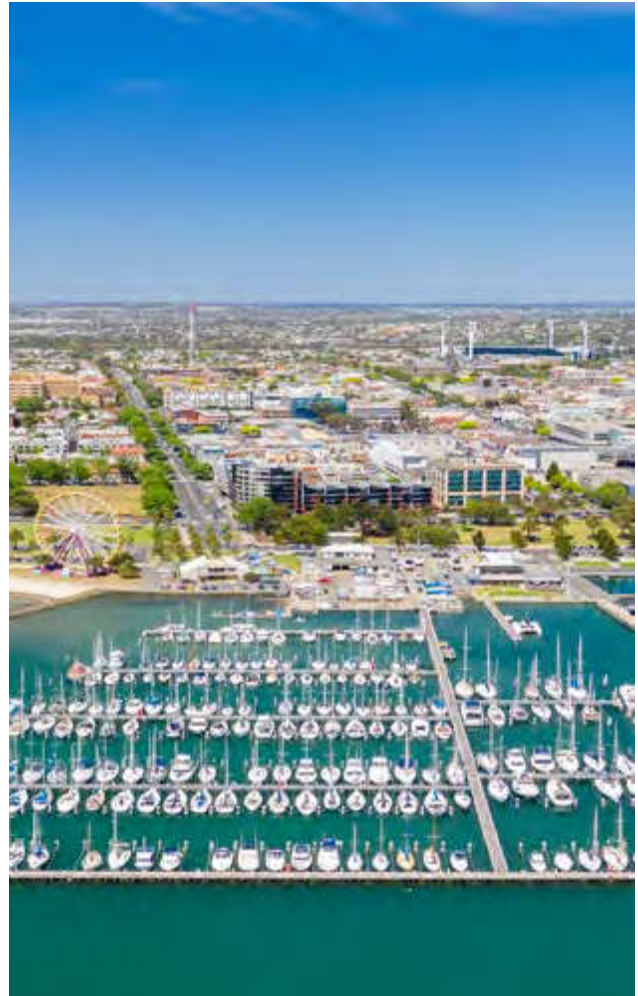
Outlook: Positive impacts from first home buyer incentives and the HomeBuilder scheme will cushion the anticipated fall in median house prices in Ballarat over the coming year. Furthermore, Ballarat continues to benefit from a number of employment-generating projects in the short term, such as the \$60 million Ballarat GovHub office development which is due for completion in early 2021. Commuters are expected to continue to be attracted to this affordable market, although the anticipated downturn in Melbourne prices in the 2020/21 year is expected to increasingly influence Ballarat prices, with median house prices forecast to reach \$411,000 at June 2023.



② Geelong

The loss of car manufacturing in the Geelong area in late 2016 presented the satellite city with a range of challenges, however growth in both population and employment opportunities has been strong. In terms of residential property prices, Geelong has weathered the initial phases of the COVID-19 pandemic more favourably than Melbourne. Geelong's property market is buffered by relatively low levels of overseas migration, relative affordability and population flows from Melbourne, which in turn has supported prices. Nevertheless, after rising by 4% in the nine months to March 2020, median house prices declined by 3% in the June quarter as the market appears to be slowing down.

Outlook: Geelong's affordability advantage over Melbourne is expected to continue to draw population from Melbourne, particularly with first home buyers taking advantage of the stamp duty concessions for dwellings under the \$600,000 threshold. The HomeBuilder scheme will see a further boost to demand over the remainder of 2020, with house-and-land packages the subject of increased demand. However, with Melbourne house prices becoming more affordable after strong expected declines in 2020/21, the impetus to Geelong prices is likely to be reduced, and total growth in Geelong's median house price to June 2023 is expected to be broadly similar to that of Melbourne. This will take its median house price to \$549,000 at June 2023, noting that this will remain below the current median house price of \$555,000 in June 2020.



③ Bendigo

Bendigo's greater distance from Melbourne to that of Geelong and Ballarat makes it less viable for commuters, and resulted in smaller spillovers from the pre-COVID-19 recovery in Melbourne's property market, with median house price growth of just 3.7% per annum in the three years to June 2020. Migration to regional areas typically increases when property markets go through difficult times due to better affordability (with the price gap between the two locations tempting many to move in light of property market uncertainty) and Bendigo's median house price has shown more resilience than Melbourne in the 2020 June quarter, rising by 0.3% to \$390,000.

Outlook: In the absence of any major infrastructure projects to help drive the economy, median house price growth is expected to remain relatively modest over the forecast period, though demand is likely to be boosted in the short term as a result of the HomeBuilder stimulus. The economic fallout from the pandemic will drive an initial downturn, followed by a recovery. By June 2023, Bendigo's median house price is expected to return to around \$386,000 after troughing in late 2021.





04. Queensland outlook

Mixed bag

Affordability offers some support as international student numbers decline



Brisbane house market

Subdued dwelling construction, after strong activity in the mid-2010s, was leading to a gradual tightening in Greater Brisbane's property market. But the spread of COVID-19 and measures taken to limit the health impact has already caused a large fall in demand, due to a significant reduction in net overseas migration and hits to employment and incomes. This has tipped the market back towards oversupply.

Median house prices

The Greater Brisbane median house price was \$565,000 at June 2020 and, while up 0.7% on a year earlier, prices declined 3% in the 2020 June quarter. Brisbane's median house price is faring relatively better through the COVID-19 downturn than New South Wales and Victoria due to Queensland easing restrictions earlier, thanks to notable success in containing the outbreak. Moreover, housing affordability is considerably better than in Sydney and Melbourne.

The COVID-19 pandemic and associated recession are expected to have a greater impact on prices in the inner areas of Brisbane, while demand for houses and land in the more affordable areas should generally remain more resilient through the economic downturn.

Demand and supply

Growth in demand for dwellings in Greater Brisbane was fairly robust in 2016/17 and 2017/18, but not enough to keep pace with supply. Market conditions were shifting prior to the pandemic; underlying demand remained elevated in 2018/19 and completions of new dwellings declined sharply. Had it not been for the large decline in demand resulting from the COVID-19 travel restrictions, Brisbane would have moved quickly back into undersupply.

2020/21 is anticipated to see both growth in underlying demand and dwelling completions decline further. The fall in demand is expected to be more pronounced, with overseas and interstate migration set to moderate sharply. As a result, the oversupply in the market is expected to increase. Assuming international travel restrictions are progressively relaxed in 2021/22 and 2022/23, overseas migration is expected to return which will provide support to dwelling demand. Over the same period, developers are unlikely to commence new projects while the market is heavily oversupplied, meaning dwelling completions will remain muted. This will allow a return to a more-or-less balanced market in early 2022/23.

🔍 Outlook

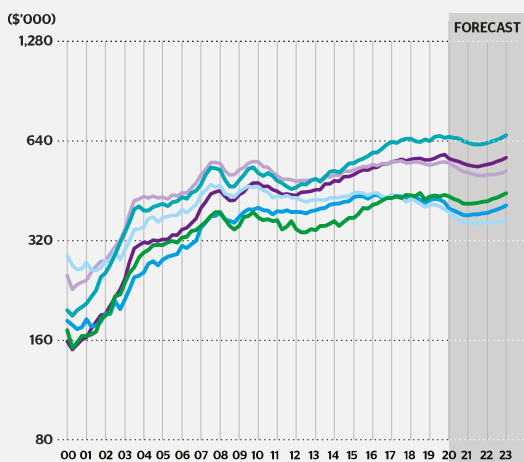
The COVID-19 pandemic and associated recession are expected to put a drag on the nation's residential property market and, despite Brisbane having limited COVID-19 outbreaks, house prices are expected to face continued downward pressure over the near term. The Greater Brisbane median house price is expected to fall 4.2% over 2020/21 as population growth slows to record lows and unemployment is at its highest level in 25 years. However, Brisbane continues to maintain a significant affordability advantage over other east coast capital cities and, as employment prospects improve, demand from home buyers who are priced out of these cities is expected to increase. 2021/22 is forecast to see a slow recovery, as the oversupply is gradually absorbed, and employment and income growth progressively return. Prices are then expected to see strong growth over 2022/23 and the recovery will see the median house price rise to \$570,000 at June 2023.

Brisbane unit market

Brisbane has undergone a major increase in apartment supply over the past six years and, despite several recent years of oversupply, the market was on the cusp of a recovery coming in to 2020.

However, the untimely shock to demand spurred by the COVID-19 pandemic and associated recession has put paid to that. Increased economic uncertainty and higher unemployment will negatively impact demand in the near term and as previously noted, the pandemic has suppressed both overseas and internal migration, both of which are key drivers of population growth. Brisbane's median unit price has fallen by 3.6% to \$413,500 in 2019/20, with falls largely concentrated in the June quarter.

Brisbane and Gold Coast: dwelling prices



Percentage points (%)

Brisbane house price	
2019: 0	2021: -4
2020: +1	2022: 0
	2023: +5

Brisbane real house price	
2019: -2	2021: -6
2020: +1	2022: -1
	2023: +3

Brisbane unit price	
2019: -3	2021: -5
2020: -4	2022: +2
	2023: +5

Brisbane real unit price	
2019: -4	2021: -7
2020: -3	2022: 0
	2023: +3

Gold Coast house price	
2019: -2	2021: -4
2020: +3	2022: 0
	2023: +6

Gold Coast unit price	
2019: -1	2021: -5
2020: 0	2022: +2
	2023: +6

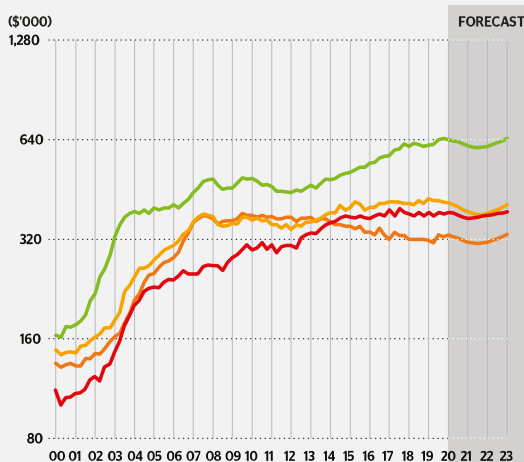
Sunshine Coast house price	
2019: +1	2021: -4
2020: +4	2022: 0
	2023: +5

Townsville house price	
2019: -1	2021: -3
2020: +4	2022: 0
	2023: +6

Cairns house price	
2019: +4	2021: -6
2020: -3	2022: -1
	2023: +6

Toowoomba house price	
2019: +1	2021: -4
2020: +4	2022: 0
	2023: +5

Regional Queensland: dwelling prices



🔍 Outlook

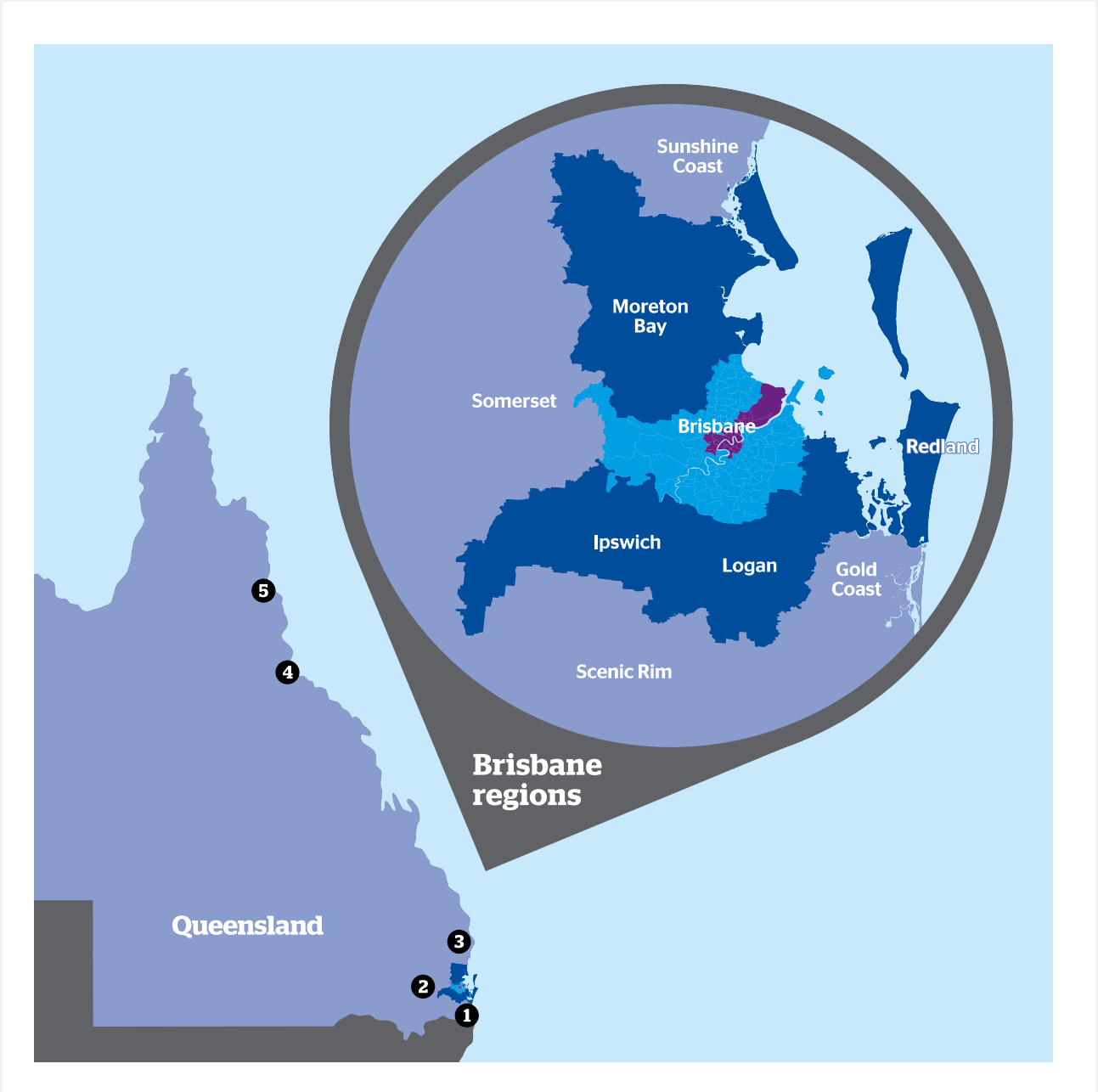
Fallout from the COVID-19 pandemic will have a significant negative impact on rents and prices to 2021/22. A fall in international student numbers is expected to shift the market into a deeper state of oversupply in 2020/21, with a challenging rental environment exacerbated by the shift of short-term accommodation (e.g. Airbnb) to the longer-term rental pool. Falls in median prices of apartments are expected across Brisbane through to around the early stages of 2021/22.

Fortunately, the number of units under construction in Brisbane is not overly burdensome and, once most are completed in 2020/21, new development is forecast to fall away swiftly. However, short-term challenges will remain for the Brisbane unit market given the increased scrutiny of the borrowing capacity of investors and the excess supply of units. Median unit price decline of 4.5% is anticipated for 2020/21, before prices stabilise in 2021/22 and then rise to \$422,000 in 2022/23.

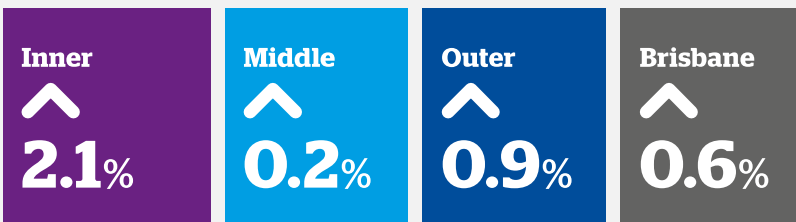
* Real house/unit prices in 2017 dollars



Queensland and Brisbane regions



Brisbane median house price annual % change - year to June 2020



Regional Queensland centres

Residing adjacent to the Greater Brisbane Urban Area, the Gold Coast and Sunshine Coast, and to a lesser extent Toowoomba, are influenced by changes in Brisbane's residential market. Over the three years to June 2020 median house price growth in the Gold Coast and Sunshine Coast has outpaced that of Brisbane, although the region's fortunes may turn if investors begin shying away from traditional tourist hotspots in the pandemic-related recession. Although being relatively closely situated geographically to each other, the Townsville and Cairns residential markets have seen vastly different outcomes in recent years.



1 Gold Coast

Following the 2018 Commonwealth games, the local economy on the Gold Coast was buoyed by the strength of its tourism industry – both international (benefiting from a relatively weak AUD) and domestic.

This is now emerging as a negative, with the region exposed to the current border closures and ensuing fall in both inbound and domestic tourists. It is likely that travel restrictions will be one of the last to be removed, which will disproportionately impact the Gold Coast.

The median house price on the Gold Coast underwent steady price growth to \$660,000, averaging 1.3% per annum over the three years to June 2020, despite a 1.5% decline in 2018/19. The median unit price on the Gold Coast tracked steady at \$435,000 in 2019/20.

Outlook

Affordability and local tourists' desire for a sea change have proved a major factor in Gold Coast's strong historical house price growth, attracting significant population from other parts of Australia.

However, population growth potential and the local tourism industry will continue to be hampered while State border closures remain in place and this will provide a drag on residential demand in 2020/21, with house prices expected to decline by 4.2% to \$632,000 and unit prices set to decline by 4.9% to \$414,000, given the greater rise in the supply of units. However, by June 2023, house and unit prices are anticipated to have returned to pre-COVID-19 prices on the Gold Coast, to \$667,000 and \$445,000 respectively.

2 Toowoomba

Toowoomba is a key logistics hub for agriculture centres in the Darling Downs. It also benefits from its location on the Melbourne to Brisbane freight route. The local economy is solid with the local unemployment rate sitting at a healthy 4.6% in March 2020. The median house price has seen patchy growth in recent years, after an earlier spurt of growth where the median house price rose 24% in the three years to June 2015. In the year to June 2020, house prices grew by a modest 0.3%, taking the median to \$390,000.

Outlook: In the medium-term the Inland Rail project will cement Toowoomba's position as a key logistics hub in the region, while in the short-term the completion of the Toowoomba Bypass, previously known as the Toowoomba Second Range Crossing, in September 2019 has made the city more accessible. Outside of this, there are few key infrastructure projects to drive the growth outlook for Toowoomba and median house prices are forecast to average 0.2% growth per annum in the three years to \$391,000 in June 2023.





Regional Queensland centres continued



③ Sunshine Coast

The tourism industry on the Sunshine Coast is less developed and as a result hasn't seen the same level of growth as the Gold Coast, although economically the region has benefited from strong residential construction activity and several large infrastructure projects. Rapid population growth is part of the explanation for the Sunshine Coast's outperformance of the greater Brisbane area in terms of house price growth; but this is highly dependent on interstate and intrastate migration flows. With the advent of restrictions associated with the COVID-19 pandemic, not to mention the ensuing economic recession, population growth is now expected to slow appreciably. Median house price growth of 4.1% was recorded in 2019/20 on the Sunshine Coast, despite a 1.1% decline in the 2020 June quarter to \$640,000.

Outlook: The Sunshine Coast is particularly dependent on retirees relocating from Australia's southern states. The slowing of this source of housing demand and boost to the local economy through the pandemic – as a result of travel restrictions and the deterioration in household finances – will be sorely felt. Including a dip of around 4% in 2020/21, house prices are expected to grow by a total of just 0.3% over the three years to June 2023, taking the median house price to \$645,000.

4 Townsville

Relative to other parts of the State, the North Queensland regional centre of Townsville has seen weak outcomes in its residential market in recent years, with anaemic economic activity in the region and a major flood event in February 2019.

Furthermore, the decline in mining investment coupled with cuts to defence and public administration jobs and the lack of an economic driver saw the unemployment rate in the region balloon. The recently completed Townsville Stadium project contributed to regional employment during design and construction, however the median house price of \$330,000 as at June 2020 is 14% lower than its peak in December 2009.

Outlook: Population growth had already trended sharply lower through the 2010s prior to the impact of the COVID-19 pandemic. Now, it is expected that domestic and international border closures will result in a further slowing of growth that will dent the underlying demand for dwellings. The local economy is also reeling from the downturn in the domestic and international tourism sectors, but some support will come from an upturn in mining construction activity. The need to replace worn machinery and equipment coupled with the recovery in China's economy, which is driving demand for commodities, will assist. Price growth is projected to be fairly modest but is expected to build over the forecast horizon. The median house price is expected to dip 3.4% in 2020/21 before recovering to \$338,000 by June 2023.



5 Cairns

The COVID-19 crisis and associated border closures and business shutdowns have hit Australia's tourism industry particularly hard, with Cairns significantly affected in this regard given its strong dependence on tourism. Tourism in the region had been strong in recent years, benefiting from a lower Australian dollar, and this had helped to insulate the region from the downturn in the resources sector. However, the median house price declined by 2.9% to \$413,000 in 2019/20 and larger falls are anticipated in the year ahead due to the significant economic impacts from the pandemic.

Outlook: Tourism and hospitality hubs such as Cairns are likely to emerge slowest from the economic rubble of the COVID-19 pandemic. There appears to be little else outside tourism driving the economy and therefore price growth pressures are forecast to be limited in the next three years. A cumulative house price decline of 1.4% is anticipated in Cairns, taking the median house price down to \$407,000 by June 2023.

Resourced and ready

Mining recovery supporting Perth's
prices as economy builds





Perth house market

Median house prices

Perth's median property prices have experienced a prolonged decline since peaking in December 2014. After showing early signs in H2 2019 that the residential

property market had finally troughed, the COVID-19 shockwave and dramatic fall in the Liquefied Natural Gas (LNG) price rippled through the market, with 2019/20 finishing a further 2.5% lower than a year earlier.

Demand and supply

The hangover Western Australia experienced post mining boom has finally faded, but the COVID-19 shock has created a new headache that is expected to slow the recovery for the State. Dwelling construction in Western Australia has fallen sharply since commencements began to decline in Q2 2015. Completions are anticipated to trough at around 14,100 dwellings in June 2021, representing the longest downturn in over 50 years and the lowest level of activity in over 30 years. But the drop in 2020/21 is being cushioned by federal and state government grants, and there is upside risk to the outlook. A rebound in completions is expected in 2021/22 and 2022/23 in response to low vacancy rates and (by then) robust economic growth, however, the recovery will only take completions back to around 19,000 dwellings.

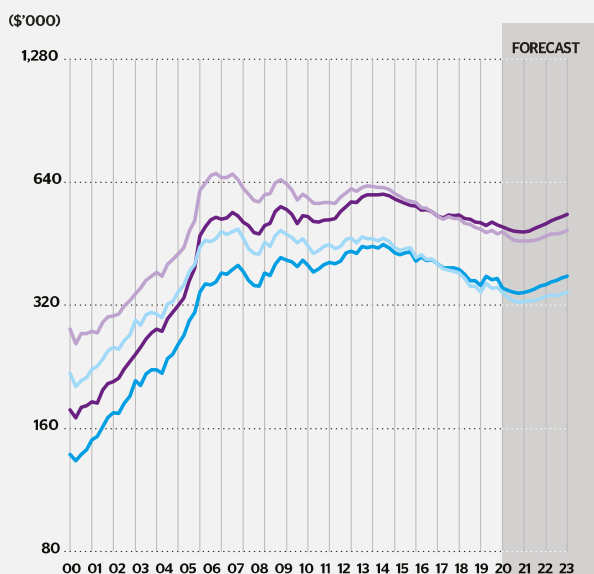
The slowdown to population growth in Western Australia resulting from COVID-19 is mild. As such, underlying demand is not expected to suffer much of a setback in 2020/21. Moreover, population growth is expected to rebound strongly thereafter. Demand is already outpacing the level of completions, and the gap is expected to widen further. This will gradually tighten the property market and induce further development activity towards the end of the forecast horizon.

🔮 Outlook

Perth's property prices are expected to be more resilient than those of the major eastern seaboard capital cities through 2020/21, thanks to earlier easing of lockdown restrictions, the relatively mild impact on the State's economy, and the fact that the market had barely recovered from its previous downturn before COVID-19. Increasing optimism in mining as China recovers from COVID-19 will benefit Perth, with house prices forecast to decline comparatively mildly by 2.9% in 2020/21, before rising strongly in 2021/22 and 2022/23 as the housing market tightens. By June 2023, the median house price is expected to reach \$535,000 (almost 8% higher than June 2020 levels).

Due to the volatility of prices in the resource sector – a key driver of the local economy and, in turn, housing market conditions – the outlook for Perth features notable upside and downside risk.

Perth: dwelling prices



Percentage points (%)

Perth house price			
2019:	-4	2021:	-3
2020:	-3	2022:	+5
		2023:	+6

Perth real house price			
2019:	-6	2021:	-5
2020:	-2	2022:	+3
		2023:	+3

Perth unit price			
2019:	-9	2021:	-3
2020:	-1	2022:	+5
		2023:	+5

Perth real unit price			
2019:	-10	2021:	-5
2020:	-1	2022:	+3
		2023:	+2

* Real house/unit prices in 2017 dollars

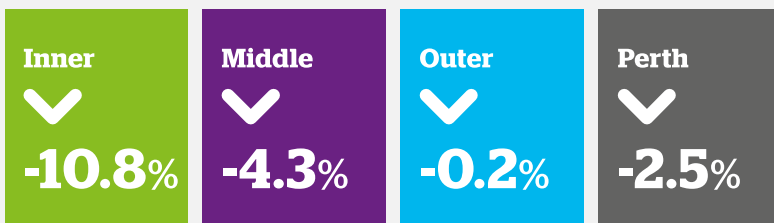




Western Australia and Perth regions



Perth median house price annual % change - year to June 2020





Perth unit market

The significant temporary population that made up much of the mining sector workforce in Perth helped to drive rental demand and growth in the unit market. As employment began to fall and workers started to return home, tenant demand dried up, with vacancy rates rising and rents falling. The unit market was more affected in the mining downturn than the housing market due to the transient nature of this temporary population and demand from this segment being more likely to favour units. Perth's median unit price has fallen by almost 21% since June 2014, however an easing in lending policy by the banks over the past year and the improving economic outlook pre-COVID-19 appears to be having a positive effect - the median unit price in Perth was just 1.1% lower in 2019/20 than a year earlier.

Outlook

Perth's apartment market is expected to remain challenging in the short term, however several factors point to an improving market in the medium term. Improving economic conditions in Western Australia off the back of a recovery in the mining industry and a subdued supply side for apartments - unit dwelling completions are on track to record their lowest figure since 2012/13 - could spur an upturn. After a modest 2.9% decline in unit prices in 2020/21, solid growth is forecast over the following two years to take the median unit price to \$378,000 by June 2023, or a 6.8% increase on June 2020 levels.



04. South Australia outlook

A fine balance

Fundamentally sound market
means relative affordability and
insulation from outside forces



Adelaide house market

The economic environment in South Australia has shown signs of improvement in recent years after consistently lagging the rest of the nation for much of the last decade.

The unemployment rate has been falling since 2015, with the public sector accounting for the majority of employment growth, and population growth has strengthened as the net interstate outflow has reduced. However, South Australia's population growth still lags behind the national figure, and the economy has not experienced the same expansion as other East Coast states.

Adelaide's residential market has historically exhibited significantly less volatility compared to other capital city markets. This has again become evident during the COVID-19 pandemic and associated recession. The stable nature of public sector work has mitigated against larger rises in unemployment, and migration's relatively small contribution to population growth has helped support demand for dwellings.

Reflecting these fundamentals, Adelaide's property market has outperformed in the early

months of the pandemic, with prices in June 2020 broadly unchanged from the March quarter (1.6% growth in annual terms), bringing Adelaide's median house price to \$504,000.

The rental market has largely tracked property prices, with median rents on all dwellings benefitting from tightened vacancy rates spurred by strengthening population growth and improving labour market conditions. The COVID-19 shock has slowed this momentum, with the median rent only rising 0.1% in the June quarter (1.2% annually).

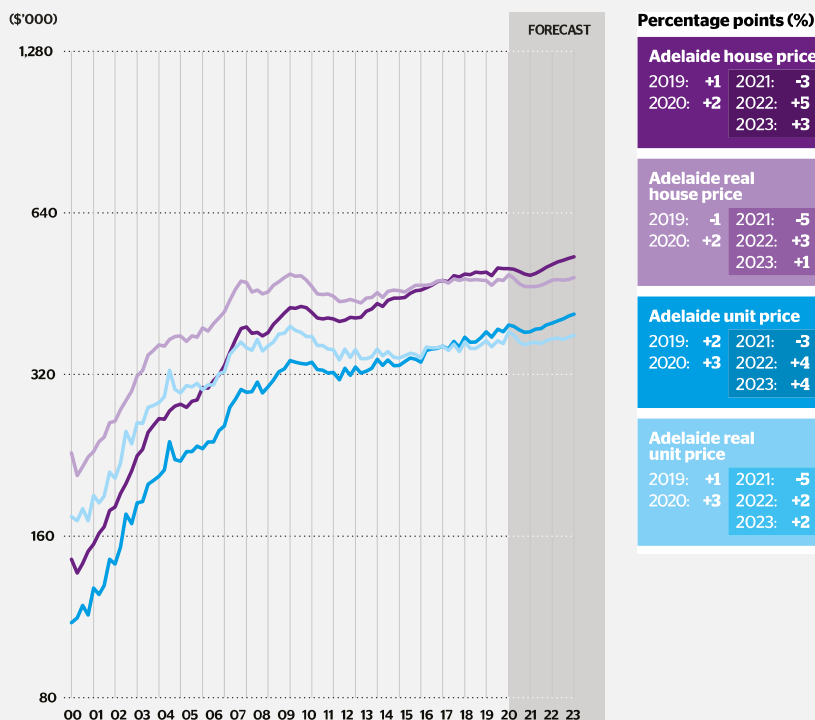
New dwelling supply

While not having seen the same boom in residential construction activity in Adelaide as other cities, dwelling completions have nevertheless tracked higher since 2014/15. As a result, new supply caught up with demand and has since kept pace, which has constricted price growth. Although borrowing rates are low, investors are expected to remain cautious given the economic uncertainty, with completions in Adelaide expected to decline in line with lower private investment.

🧠 Outlook

The moderate growth in Adelaide's median house price has preserved affordability, both historically and relative to other capital city markets. This allows it to make good use of the HomeBuilder stimulus package, which alongside the generous \$15,000 First Homeowner Grant provides an upside to dwelling demand. Adelaide's relative insulation from the shock will see its property market fair better than other capital cities. The median house price is forecast to see a peak-to-trough decline of 2.8%, bottoming out at \$489,800 in March 2021. With new dwelling supply expected to fall back and the local economy expected to outperform, some gentle pressure is expected to build in 2021/22 and 2022/23. House prices are expected to rise modestly, by 3% and 4% respectively as a result.

Adelaide: dwelling prices



* Real house/unit prices in 2017 dollars

Adelaide unit market

Units account for a smaller percentage of new supply in Adelaide than the other capital cities, although this has increased in recent years. Attached dwellings have accounted for 29% of total dwelling supply in the State over the last three years, compared to 23% over the preceding decade. As a result, oversupply across the State is estimated to be more concentrated in the unit sector than the housing sector.

🧠 Outlook

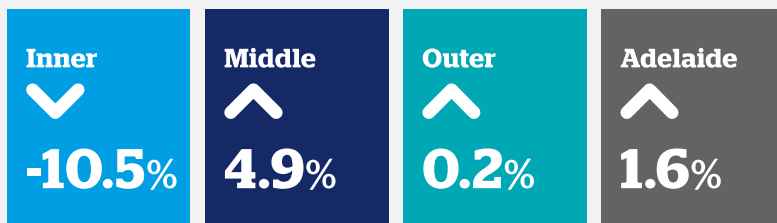
The greater level of unit construction in recent years is expected to mean marginally larger price falls for units than detached dwellings. It is projected that the median unit price will fall 3% peak-to-trough, to \$383,500 in March 2021, before price growth resumes.



South Australia and Adelaide regions

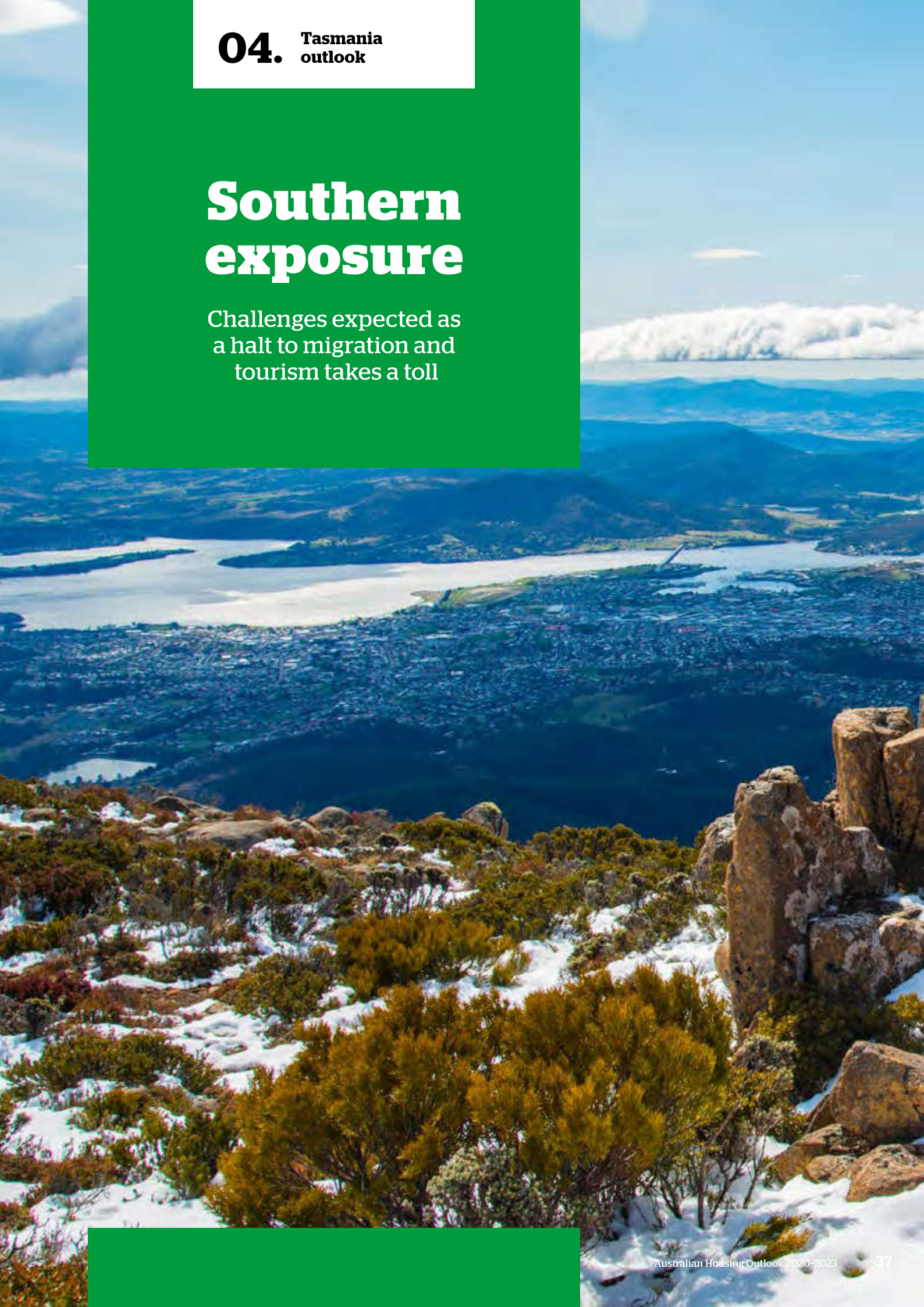


Adelaide median house price annual % change - year to June 2020



Southern exposure

Challenges expected as
a halt to migration and
tourism takes a toll





Hobart house market

Median House Price

Hobart's residential property market saw significant price growth through 2019, with median house prices increasing 7.3%. Relatively rapid population growth, looser monetary conditions, and limited increases in new dwellings drove the upturn, which continued into the March 2020 quarter, with median house prices rising a further 1.5%. But Hobart's heavy reliance on tourism and international students to drive the local economy means it is severely exposed to the impacts of the COVID-19 pandemic and associated recession. The median house price in Hobart fell 1.8% to \$556,500 in the June quarter, although this was still a positive 4.2% increase in Year on Year terms. The fallout from the pandemic has been somewhat mitigated by increased government stimulus measures that have supported household income.

Most regions saw median house prices rise in Year on Year terms in the June quarter, with Clarence continuing to power ahead, growing fastest (7.2% growth over the year), while Hobart City trailed behind the pack (-2.7%).

Demand

Travel restrictions enacted to mitigate the spread of COVID-19 have all-but halted overseas and interstate migration and short-term visitors, both of which are vital to the Tasmanian tourism sector and population growth. Weaker population growth, high unemployment, and economic uncertainty will all contribute to lower demand for dwellings during the downturn. The recovery of demand will largely fall in line with the general economic recovery, as pent-up demand is slowly released back into the market.

🔍 Outlook

The true impact of the COVID-19 shock is expected to come through later in 2020 as government support begins to be wound back. Hobart's residential property market is expected to see the most severe decline of any of Australia's major cities, with forecast peak-to-trough declines from Q1 2020 of 11.2%. Further, Hobart's housing market is anticipated to undergo a longer duration of decline than other capital cities; the market is not expected to start its recovery until mid-2022.

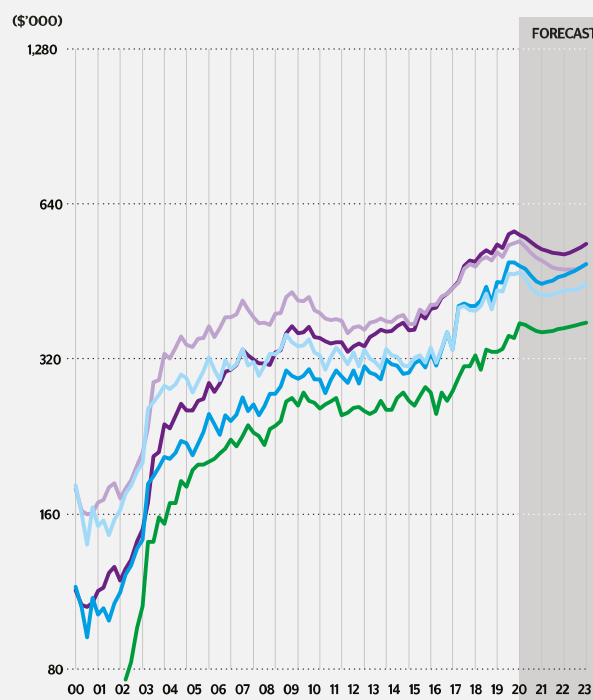
Hobart unit market

Like the market for detached houses, the median price for a unit has surged in recent times, rising by a cumulative 36.8% in the three years to March 2020. After this strong growth, the median unit price fell back in June 2020 to \$485,000, as the market began adjusting to the new economic reality.

🔍 Outlook

With private investment set to be impaired by the environment and government stimulus favouring owner-occupiers, the median unit price in Hobart is expected to continue falling, bottoming out in mid-2021 at \$447,000. Prices are expected to recover as migration and economic activity return, interest rates remain low, and the vacancy rate tightens.

Tasmania: dwelling prices



Percentage points (%)

Hobart house price		
2019: +8	2021: -6	
2020: +4	2022: -2	
	2023: +5	

Hobart real house price		
2019: +7	2021: -8	
2020: +5	2022: -4	
	2023: +2	

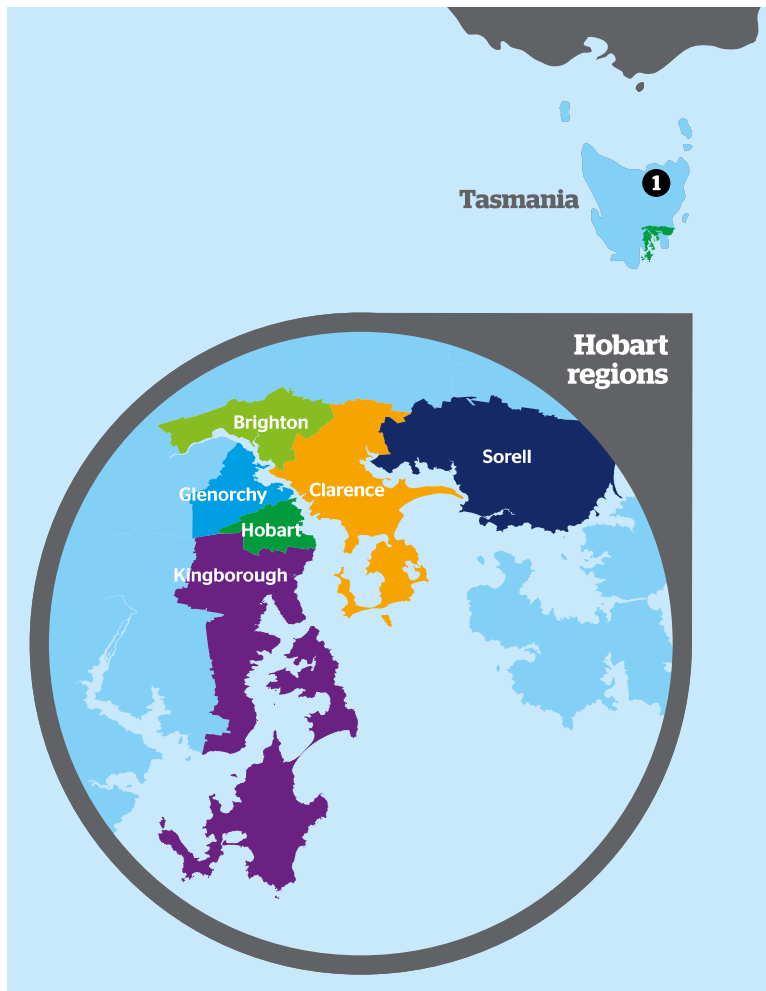
Hobart unit price		
2019: +12	2021: -8	
2020: +7	2022: +4	
	2023: +5	

Hobart real unit price		
2019: +10	2021: -10	
2020: +8	2022: +2	
	2023: +3	

Launceston house price		
2019: +2	2021: -4	
2020: +14	2022: +2	
	2023: +3	

* Real house/unit prices in 2017 dollars

Tasmania and Hobart regions



Hobart median house price annual % change - year to June 2020

Glenorchy
 ^
6.5%

Hobart City
 v
-2.7%

Sorell
 ^
7.1%

Brighton
 ^
5.6%

Kingborough
 ^
5.8%

Clarence
 ^
7.2%

Hobart
 ^
4.2%

1 Launceston

The upturn in the Tasmanian residential market has been largely concentrated in Hobart. However, Launceston has seen some spillover, with prices rising 13.6% in 2019/20, to a median price of \$375,000.

Launceston has not yet seen falls similar to Hobart, but this just represents the lag between the two markets.



🔮 Outlook

The median house price in Launceston is forecast to fall 4% peak-to-trough and is expected to bottom out in mid-2021. While this is a significant shock to the market, it is a shallower and shorter decline relative to Hobart. Launceston may see some benefit as renters and home buyers seek more affordable options. The UTAS-Newnham Campus Development and Northern Prison developments will support employment growth. This should support price growth in Launceston, with a forecast median of \$377,000 at June 2023, rising above the June 2020 level.



04. Australian Capital Territory outlook

Weathering the storm

Strong public sector offers market stability with early price growth expected



Canberra house market

Canberra's economy has significant exposure to the public service and administration sector, as well as sectors servicing government, including supply and professional services. The stable nature of public sector work insulates the Canberra property market from the volatility in demand playing out in other Australian cities. But stalled overseas and interstate migration flows have hurt population growth, and the loss of international students will see demand fall further. Combined with rising unemployment, the demand for dwellings has fallen, but not to the extent seen elsewhere. The reintroduction of stamp duty concessions for first home buyers in the Australian Capital Territory has boosted demand for more affordable properties.

Rising population growth has compressed vacancy rates in Canberra to a very tight 1.1% as at June 2020. This has underpinned strong rental growth over the same period, with median rents on all dwellings up 9.3% over the last four years.

Supply

Strong population and employment growth in recent years has driven an increase in new dwelling construction. Low interest rates and a relaxation of lending conditions in mid-2019 have also helped. New construction has been concentrated in attached dwellings, with units averaging 76% of total dwelling completions over the three years to June 2020 compared to 58% over the prior decade. As a result, there appears to be a notable difference between the relative demand/supply balance of the house and unit markets, and this is reflected in the lower rental growth in units.

Median price

Canberra's median house price of \$740,000 at June 2020 reflects an annual rise of 4.2%, disguising some quarterly volatility. This is a strong result, with prices up in the June quarter despite the impacts of COVID-19 reflecting higher public sector employment. The skew of new supply towards attached dwellings has dampened price growth in houses, as has stamp duty concessions to first home buyers in New South Wales that may have drawn demand out of Canberra and into neighbouring centres across the border, such as Queanbeyan.



Outlook

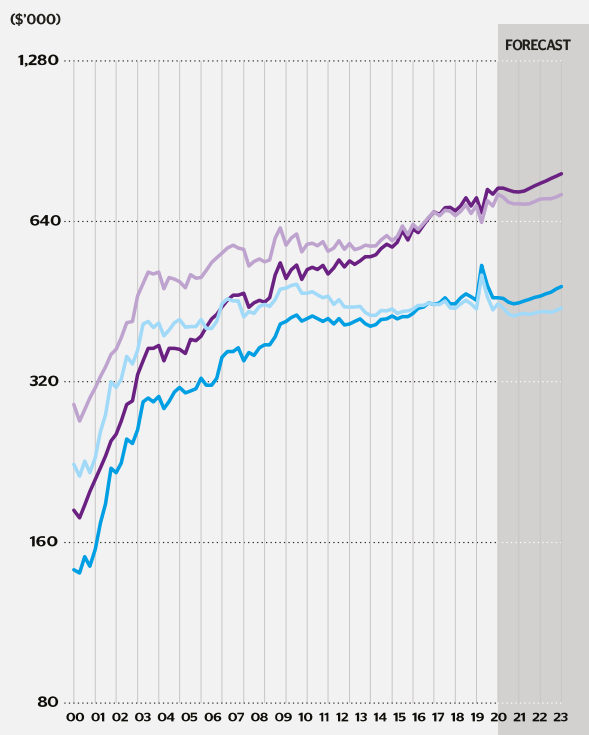
Canberra is expected to weather the COVID-19 shock better than other major cities. The affordability of Canberra positions the market to take full advantage of the HomeBuilder stimulus, and lending rates remain at record-lows. Nevertheless, with unemployment expected to rise as government stimulus is wound back, the demand for dwellings is set to fall. The softening of the demand/supply balance in the market means the median house price is expected to fall 1.8% over 2020/21, down to \$726,700. As domestic borders reopen and economic activity normalises, the median house price in Canberra is expected to return to steady growth in H2 2021, with an expected rebound to \$786,800 by June 2023. This forecast represents a far shorter and shallower fall than other cities around Australia, with the return to price growth occurring almost a year earlier than the nearby Sydney and Melbourne markets.

Canberra unit market

Growth in the median unit price in Canberra has been supported in recent years by a tight property market that has emerged as a result of growth in underlying demand outstripping unit completions. This demand comes from strong population and employment growth, and a solid inflow of international students.

The demand for units in Canberra has been impacted by the COVID-19 shock, with travel restrictions stifling the inflow of international students and worsening labour market outcomes, slowing interstate migration for employment. This reduction in population growth will lower the underlying demand for dwellings. This, in tandem with increasing levels of supply as dwelling completions peak and units take up a larger share of the dwelling mix, has created a moderate oversupply of dwellings in Canberra. As a result, unit prices have been broadly stable over the last 12 months and were \$460,000 in June 2020.

Australian Capital Territory: dwelling prices



Percentage points (%)

Canberra house price		
2019: +6	2021: -2	
2020: +4	2022: +4	
	2023: +4	

Canberra real house price		
2019: +4	2021: -4	
2020: +5	2022: +2	
	2023: +2	

Canberra unit price		
2019: +1	2021: -2	
2020: +1	2022: +3	
	2023: +4	

Canberra real unit price		
2019: 0	2021: -4	
2020: +2	2022: +1	
	2023: +2	

Outlook

The oversupply of units (relative to demand) in Canberra's property market is expected to continue through 2020/21, which will put a drag on unit prices. Unit completions are forecast to remain at a historically elevated level and demand is expected to remain down as unemployment and travel restrictions continue to bite. The median unit price is expected to recover after bottoming out at \$449,000 in March 2021, a shorter and lower fall than that forecast for other major cities, but still below Canberra's house market.

* Real house/unit prices in 2017 dollars



04. Northern Territory outlook

A promising future

Defence investment projects
and mining recovery suggests
rebound on way



Darwin house market

The downturn in Darwin's residential property market continued through 2019, with the median house price falling 6.4%.

The market began to stabilise through the December 2019 and March 2020 quarters, with prices up 1.6% over the six months. Although the COVID-19 pandemic saw widespread declines across the nation, Darwin's house market has so far come through relatively unscathed, declining a mere 0.2% to \$454,200 in the June quarter. The Territory was able to unwind restrictions well ahead of many other states due to few recorded cases. The market has been further supported by government stimulus.

Demand

The ongoing downturn in investment in the mining, construction and defence sectors resulted in Darwin's population shrinking over the last two years; reduced employment opportunities caused strong interstate outflows and weak overseas migration. Although mining investment

activity is now picking up, the rebound in population growth will be hampered by COVID-19 due to the current travel restrictions and a number of projects in the Liquefied Natural Gas (LNG) sector being put on hold (as a result of the price correction in natural gas markets). The Territory's tourism sector has also been hit hard, but several defence and public projects will provide some shelter to the local economy from the economic downturn. Dwelling demand is also expected to be boosted near term with up to \$55,000 available in government grants, including the recently announced BuildBonus grant.

New dwelling supply

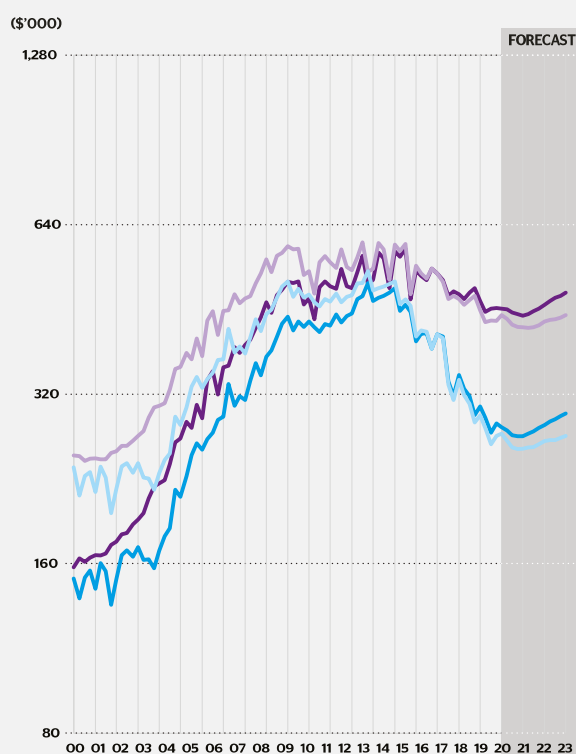
Dwelling completions in Darwin have fallen dramatically from their peak in 2014/15. However, new supply has outpaced underlying demand for the past few years, further exacerbating a sizeable oversupply. The current vacancy rate of 4.0% remains above the balanced market rate, reflecting the current oversupply.

🔮 Outlook

In addition to the relatively muted economic downturn, the combination of affordable housing, significant government grants available and record low interest rates are expected to soften the decline in house prices in the near term - prices are projected to fall just 2.8% peak-to-trough.

The market is expected to rebound strongly over the following two years as population growth comes back sharply, quickly absorbing the current dwelling oversupply. This is expected to see the median house price increase 9.7% to \$484,000 over the two years to June 2023.

Darwin: dwelling prices



Percentage points (%)

Darwin house price		
2019:	-3	2021: -3
2020:	-3	2022: +4
		2023: +5

Darwin real house price		
2019:	-4	2021: -5
2020:	-2	2022: +2
		2023: +3

Darwin unit price		
2019:	-12	2021: -4
2020:	-8	2022: +5
		2023: +5

Darwin real unit price		
2019:	-14	2021: -6
2020:	-8	2022: +3
		2023: +2

Darwin unit market

Falling tenant and investor demand for units has seen prices decline 45% over the past six years. The median unit price declined a further 8% in 2019/20 as a result of significant price declines through the second half of 2019.

🔮 Outlook

Similar to other capital cities, Darwin's unit prices are expected to decline through to mid-2021 to \$269,000. Prices are expected to rebound as economic activity and tourism return, interest rates remain low and the oversupply begins to erode. The large pipeline of defence investment projects, along with the Federal Government backed Darwin City Deal, is expected to drive employment and population growth over the coming years. This is expected to see the median unit price increase 9.8% to \$295,500 in the two years to June 2023.

* Real house/unit prices in 2017 dollars



05. Glossary of terms

Dwelling market:	Includes both houses and units.
Effective unemployment rate:	Official unemployment rate plus those that are employed but who worked zero hours because they had no work, not enough work or were stood down, plus the net change in people in the labour force since March 2020, as a proportion of the labour force at March 2020.
First home buyers:	Australian Bureau of Statistics (ABS) data on loans to first home buyers are derived from returns submitted by financial institutions to APRA at the time of the loan approval. A first home buyer is defined as “a borrower entering the owner-occupier home ownership market for the first time”. The definition includes all first home buyers obtaining a loan (and not just those eligible for grants).
Foreign investors:	Overseas resident purchasers. Foreign investors can only buy a new dwelling, while a temporary resident can purchase an established dwelling that must be sold upon returning home. The Foreign Investment Review Board (FIRB) reports the number and dollar amount in billions approved for residential purchases (which includes the entire value of buildings where 100% of dwellings have been pre-approved for overseas buyers, although all of these may not have been taken up) for investment by temporary residents and people overseas.
House market:	Detached or separate dwellings that do not share a wall with adjoining dwellings.
Housing affordability:	Housing affordability in this report is defined by the mortgage repayments on a 25-year loan of 75% of the median house price at June 30 each year, at the prevailing June 30 discounted variable rate, as a percentage of average household disposable income. Average household disposable income is derived from the National Accounts data, based on aggregate income divided by an estimate of the number of households.
Interest rates:	Interest rates are set by the Reserve Bank of Australia (RBA) as the mechanism for maintaining economic conditions at a level compatible with stable, low inflation. The RBA sets the “overnight cash rate”, against which financial institutions reference their lending rates. Higher interest rates reduce spending in the economy and reduce inflationary pressure. If inflation pressures are benign, then lower interest rates can encourage more spending and economic growth.
Median price:	<p>Refers to the mid-point of sales that have taken place in a period and is considered a better indicative measure of prices than the average, which can be more influenced by extreme results.</p> <p>Movements in the median price can also be influenced by changes to the composition of sales in between periods. Consequently, the Australian Housing Outlook median price refers to a “weighted median”, which is a median weighted by the geographical distribution of the housing and unit stock. It is considered that the weighted median better corrects for the effect of an imbalance in the sales in the period. The raw sales data is sourced from PriceFinder.</p>
Net migration inflow:	When the total number of migration arrivals is greater than the total number of departures.
Net migration outflow:	When the total number of migration departures is greater than the total number of arrivals.
Real median price:	The median price after accounting for the impact of inflation. The real median price allows for a better comparison of price growth over time as, during periods of high inflation, significant rises in the median house price may be underpinned by the inflation rate and do not necessarily reflect a strong market.
Indicative rental yield:	The rental yield of a dwelling is the rent divided by the value. However, actual rent and values data for individual dwellings is unavailable. Consequently, an indicative yield is calculated as the median three-bedroom house rent divided by the median house price. The indicative yield slightly understates actual rental yields, as the median house price is reflective of the whole market (investors and owner-occupiers) while rents are reflective of just properties in the investment market. Investment properties are more likely to be priced below the median house price of all dwellings, although achieve a typical rent. Nevertheless, movement in the indicative yield should correspond with actual yields. The rental return has been compared with the cost of financing by using the measurements for indicative rental yield and the discounted variable interest rate respectively.
Residential market:	Same as dwelling market.
Unit market:	Includes all forms of multi-unit dwellings including townhouses, villa units, semi-detached dwellings, terraces, flats and apartments.
Vacancy rate:	The vacancy rate is calculated as the number of unoccupied rental dwellings as a percentage of the total rental stock and is sourced from a survey of state Real Estate Institute members. The vacancy rate in each city is a measure of the balance of rental demand and rental supply. A vacancy rate of 3% in a market is considered balanced, where rents on average will rise broadly in line with inflation. A vacancy rate of 1% indicates a tight rental market that will result in strong rental growth. A vacancy rate of 7% indicates an oversupplied rental market that will result in rental declines.

Source directory

PAGE	TITLE	SOURCE
PAGE 4	Australian Housing Snapshot	Australian Bureau of Statistics (ABS), Reserve Bank of Australia (RBA), PriceFinder, Real Estate Institute of Australia, BIS Oxford Economics
PAGE 7	Net overseas migration	ABS and BIS Oxford Economics
PAGE 8	States at a glance	ABS, RBA, PriceFinder, Real Estate Institute of Australia, BIS Oxford Economics
PAGE 8	Median prices by capital city	PriceFinder, REINT and BIS Oxford Economics
PAGE 15	New South Wales: dwelling prices	BIS Oxford Economics, ABS and PriceFinder
PAGE 19	Victoria: dwelling prices	BIS Oxford Economics, ABS and PriceFinder
PAGE 25	Brisbane and Gold Coast: dwelling prices	BIS Oxford Economics, ABS and PriceFinder
PAGE 25	Regional Queensland: dwelling prices	BIS Oxford Economics, ABS and PriceFinder
PAGE 31	Perth: dwelling prices	BIS Oxford Economics, ABS and PriceFinder
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PAGE 41	Australian Capital Territory: dwelling prices	BIS Oxford Economics, ABS and PriceFinder
PAGE 43	Darwin: dwelling prices	BIS Oxford Economics, ABS and REINT

The outlook and forecasts in this report are provided by BIS Oxford Economics. Throughout the report references are made to relevant industry data to support the findings. This data is derived from several sources, a selection of which is outlined below:

- Population, population growth, net overseas migration and net interstate migration data is all sourced from the Australian Bureau of Statistics (ABS).
- New dwelling approvals, commencements and completions data is sourced from the ABS.
- State and city level employment growth (including employment growth by industry sectors) and unemployment rates references are sourced from the ABS. References to local employment and unemployment rates (at the Local Government Area level) are sourced from Department of Education, Skills and Employment.
- Lending approvals to first home buyers, upgraders and downsizers, and investors is sourced from data published by the ABS.
- Vacancy rates are sourced from the Real Estate Institute of Australia and the relevant state Real Estate Institutes.
- Rental growth is based on the growth in the rental component of the Consumer Price Index (CPI) for each of the capital cities which is sourced from the ABS.
- Median prices and price growth are sourced from medians created by BIS Oxford Economics based on data provided by PriceFinder.

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About this report

Produced by BIS Oxford Economics for QBE Lenders' Mortgage Insurance.

This report provides an analysis and forecast of the key drivers influencing the residential housing market nationally, as well as across each of Australia's state and territory capital cities and selected regional centres. The analysis presents an outlook for the performance of the residential market, as measured by historical and forecast movement in the median house price and median unit price.

The forecast annual percentage changes in the median house price and median unit price in the price forecast charts in this report are often rounded to the nearest whole number. Any reference to price growth in the text may not be identical to that indicated in the charts due to the impact of this rounding.

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Report and forecasts

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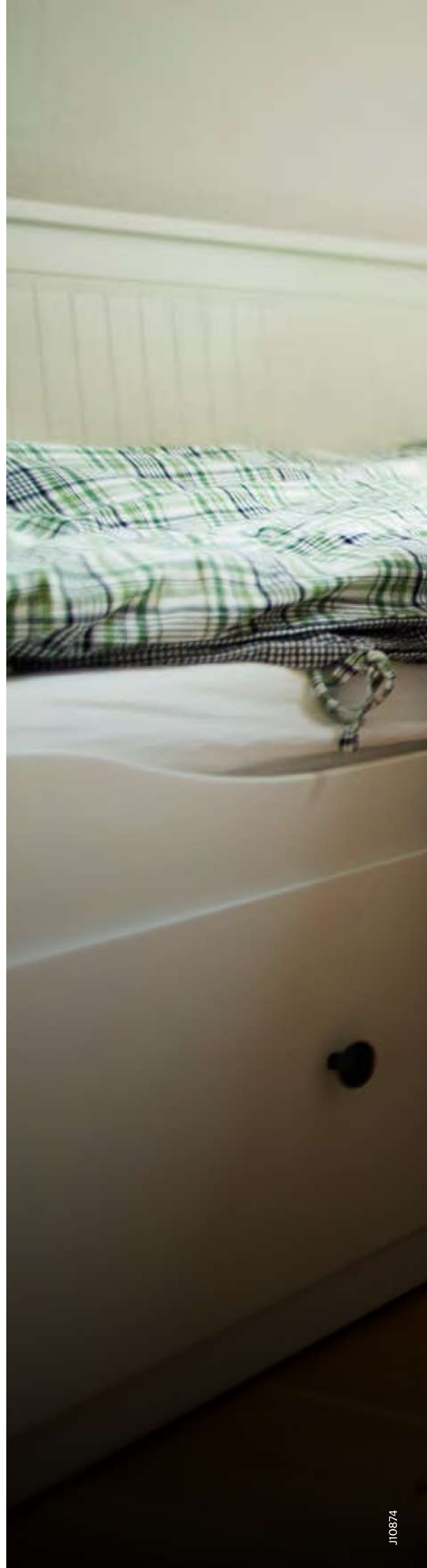
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