

FEBRUARY 2019

Dear Advisors and Clients,

We have received a number of requests from various supporters of Quantum for more information on the current state of the Australian property market, post a number of press releases and media commentary.

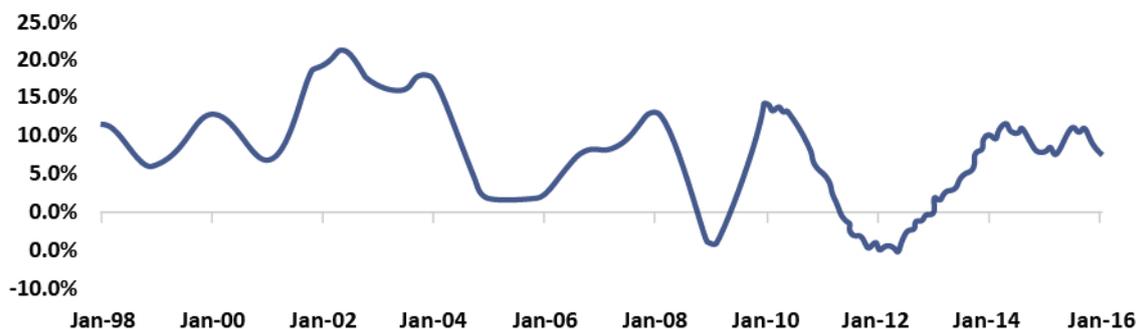
PROPERTY PRICES DOUBLE EVERY DECADE?

It is often commented that in Australia property values double every 10 (some say 7) years. This week we look at whether this has been the case over the past 10 years across the capital cities.

Most people who are interested in residential property would have heard of the notion that property values double each decade. This week we are looking at whether or not that has been true over the past 10 years

Over the 10 years to January 2016, home values across the combined capital cities have increased by a total 72.0% which is well short of values doubling over the decade. If we look at the split between houses and units, house values are 73.1% higher compared to a 64.3% increase in unit values. [1]

Rolling annual change in combined capital city home values

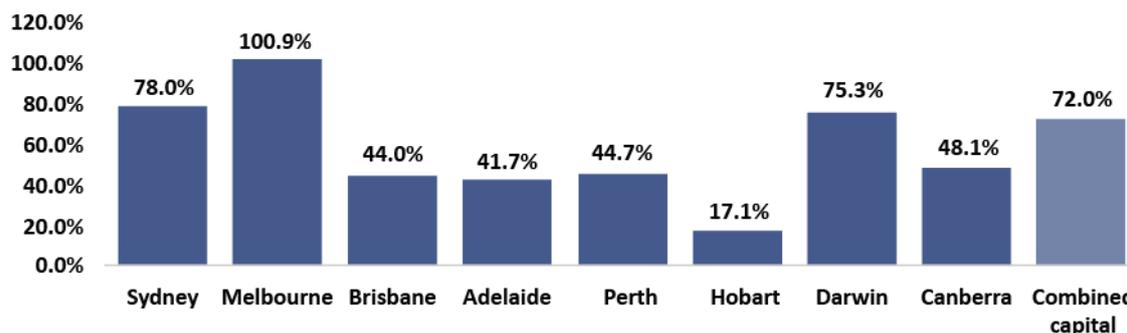


Source: CoreLogic RP Data Home Value Index [1]

Although combined capital city home values haven't doubled over the past decade, the previous decade was quite a different story. Between January 1996 and January 2006 combined capital city home values increased by 151.7% with house values up 159.6% and unit values 110.1% higher. Based on this data, the most recent decade of capital city home value growth has been half that of the previous decade.

The combined capital city index is weighted so it is heavily influenced by the performance of the larger capital cities. Taking a look at value growth over the past decade across individual capital cities shows a diversity in results. [1]

Cumulative change in capital city home values, 10 years to Jan '16

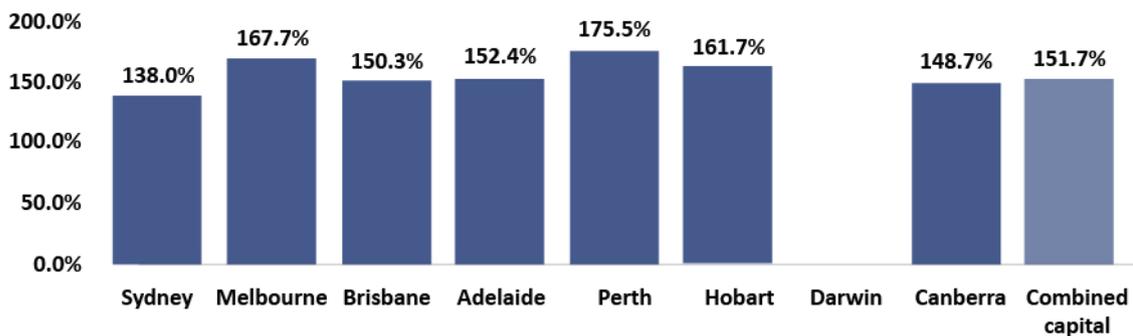


Source: CoreLogic RP Data Home Value Index [1]

Melbourne is the only capital city housing market in which home values have doubled over the past decade. In fact, many cities are a long way from having doubled with values in Brisbane, Adelaide, Perth, Hobart and Canberra having all increased by less than 50% over the past decade. Home values in Sydney and Darwin have each recorded increases of more than 75% over the past decade however, they too fell well short of seeing values double over the decade.

Over the previous decade (10 years to January 2006) home values more than doubled across each capital city (note that Hobart values are for houses only and data is not available for Darwin). In fact, value growth over the previous decade was more than three times greater than over the most recent decade in Brisbane, Adelaide, Perth, Hobart and Canberra while nationally it was more than double the rate of value growth over the past 10 years. Even Sydney and Melbourne recorded much stronger home value growth over the previous decade compared to the past decade. [1]

Cumulative change in capital city home values, 10 years to Jan '06



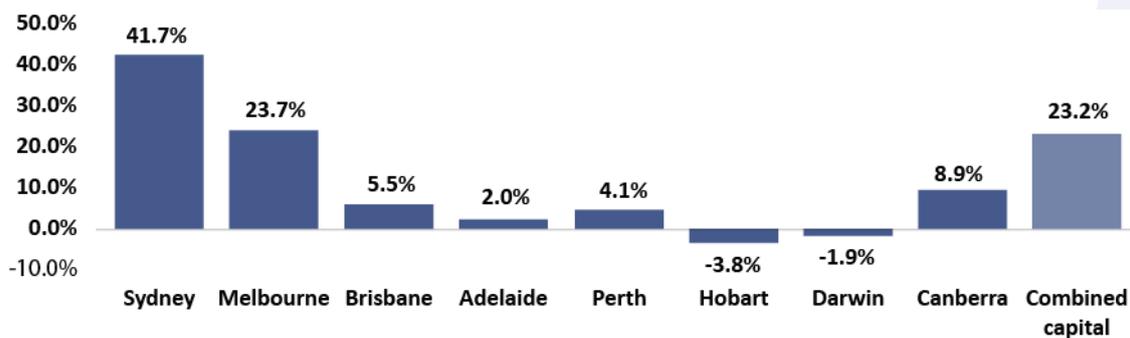
*Hobart value change shown is for houses only

Source: CoreLogic RP Data Home Value Index

[1]

If we look at value growth over the five years to January 2016, it looks unlikely that by the time January 2021 rolls around that home values would have doubled over the decade in any of the capital cities. Over the past five years, Sydney and Melbourne are the only capital cities in which home values have increased by more than 10% with values lower in Hobart and Darwin.

Cumulative change in capital city home values, 5 years to Jan '16



Source: CoreLogic RP Data Home Value Index

[1]

ANZ Research still expects prices will fall nationwide by around 4 per cent in 2018 and 2 per cent in 2019. Most of this weakness will occur in Sydney and Melbourne which are forecast to fall by around 10 per cent peak to trough. While that sounds like a significant result but keep in mind Sydney is already halfway there.

The current decline is being shaped by the availability of credit as banks continue to tighten lending standards.

ANZ Research believes 2019 will be impacted by the cost of credit as recent out-of-cycle mortgage rate hikes flow through. The Reserve Bank of Australia will likely lift the cash rate toward the end of 2019 which would result in further price weakness in 2020 before the market stabilises over the rest of the year.

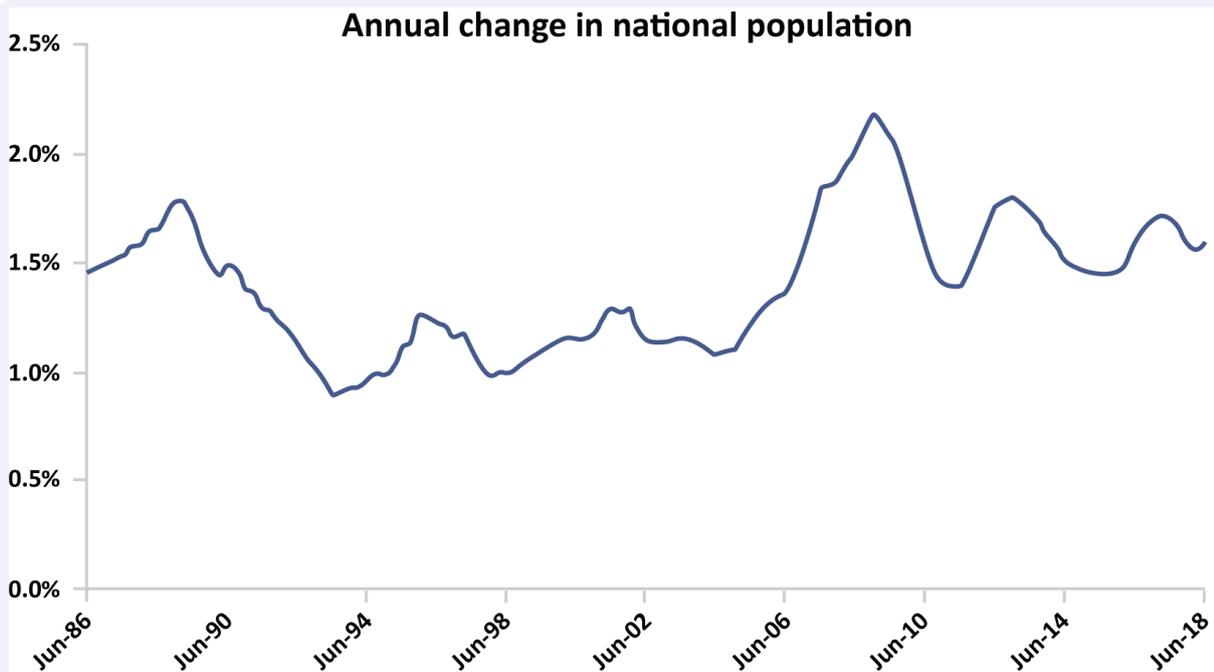
Keep in mind that while the price decline in Sydney and Melbourne gets a lot of attention, some other parts of the country are looking better. In particular, ANZ Research is more optimistic on the Brisbane, Canberra and Adelaide markets.

The former is benefiting from accelerating population growth while the latter two are not expected to be highly sensitive to tighter credit conditions, given their relatively strong housing affordability. [1]

THE AUSTRALIAN RESIDENTIAL PROPERTY MARKET AND ECONOMY

While Australia's population continues to grow quite rapidly, the rate of growth has slowed.

- It was estimated that at the end of the June 2018 quarter, the national population was 24,992,369 persons.
- Australia's population increased by 1.6% or 390,509 persons over the 12 months to June 2018.
- The 390,509 annual person increase in the national population was slightly higher than the previous quarter but well down on the 410,953 person increase the previous year.



Net overseas migration is slowing as an increasing number of Australians move abroad

- Population growth nationally is comprised of net overseas migration as well as the natural increase in the population (births minus deaths). State-based migration also includes net interstate migration which cancels out at a national level.
- Net overseas migration was recorded at 236,734 persons over the 12 months to June 2018 which was -10.1% lower than at the same time in 2017 due to fewer overseas arrivals and a relatively high number of overseas departures.
 - o Net overseas migration over the year was the lowest it has been since September 2016.
 - o Natural increase rose by 4.2% over the year and was recorded at 153,775 persons.
 - o With the federal government scaling back migration levels and further falls possible in the lead-up to the next election it is likely that while net overseas migration will remain elevated it is likely to be lower over the coming quarters. [2]

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