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AUSTRALIAN PROPERTY MARKET UPDATE

OCTOBER 2018

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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,

“The news media are, for the most part, the bringers of bad news... and it’s not entirely the media’s fault, bad news gets higher ratings and sells more papers than good news.” [1]
- Peter McWilliams

A new report from leading property data firm CoreLogic and Moody’s Analytics has poured cold water on the claims by various news outlets that the Australian Property Market is in for massive falls in values. Most economic and rational forecasting shows more moderate declines in the nation’s home values over a period. Housing values in Australia’s capital cities have fallen by 2.5 per cent since their peak late last year. Apartment values were down 1.7 per cent, Moody’s reported.

“Australia’s housing market has been cooling through 2018, driven by the most populated and previously most inflated market of Sydney and, to a lesser extent, Melbourne,” Moody’s said.

“We expect national house values to fall by 1.6 per cent in 2018 following the 9.5 per cent gain in 2017,” Moody’s said.

National house values are predicted to grow by 0.6 per cent in 2019, the firm forecast. [2]

Other sources such as the Newdaily have also addressed the current housing prices, however at a much more realistic standpoint unlike 60 minutes; criticising them for their “housing crash scaremongering” [2]

	HOUSES				APARTMENTS			
	2017	2018	2019	2020	2017	2018	2019	2020
National (eight capital city aggregate)	9.5	-1.6	0.8	3.4	5.5	0.6	2.2	3.5

[2]

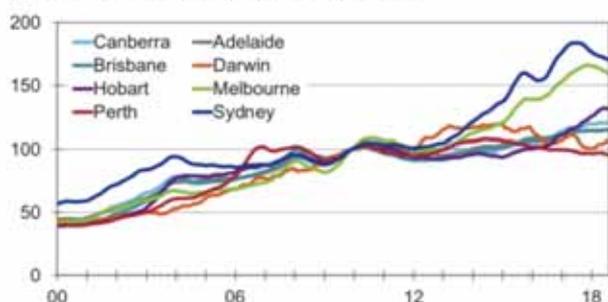
In Sydney, house values rose 12.8 per cent in 2017, and are forecast to fall 5.1 per cent in 2018 before a “slow recovery” in 2019, Moody’s said. Apartment values are set to decline more slowly, down 0.2 per cent in 2018, followed by a slow recovery in 2019. the country. [2]

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In Melbourne, house values are forecast to “decelerate sharply” from a 12.5 per cent rise in 2017 to 0.3 per cent in 2018 “on the back of declines in inner Melbourne areas”. The apartment market is expected to slow in 2018, followed by a sharper slowdown in 2019, Moody’s said. [2]

Chart 1: Capital City House Values

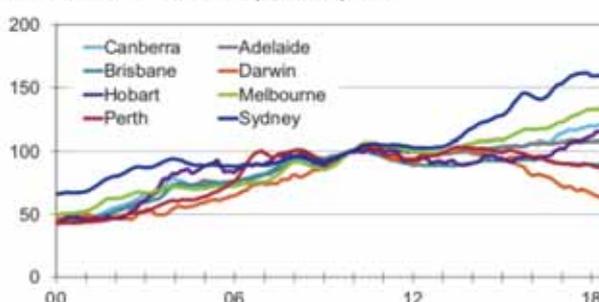
Hedonic Home Value Index, GCCSA, houses



Sources: CoreLogic, Moody’s Analytics

Chart 2: Capital City Apartment Values

Hedonic Home Value Index, GCCSA, units



Sources: CoreLogic, Moody’s Analytics

[2]

[1] Information from https://www.brainyquote.com/quotes/peter_mcwilliams_125955

[2] Information from [HTTPS://THENEWDAILY.COM.AU/MONEY/PROPERTY/2018/09/17/HOUSING-CRASH-60-MINUTES/](https://thenewdaily.com.au/money/property/2018/09/17/housing-crash-60-minutes/)

House values across Brisbane are set to notch up a “mild” 1.5 per cent gain in 2018, “with strength in west Brisbane and inner Brisbane offsetting declines in South Brisbane”, Moody’s said.

“The worst is likely over for the apartment market: Values are tipped to recover by 0.6 per cent in 2018, followed by sharper growth of 6.2 per cent in 2019.”

One of those featured in a report on the demise of the Australia Housing market was SQM property analyst Louis Christopher, distanced himself from this story.

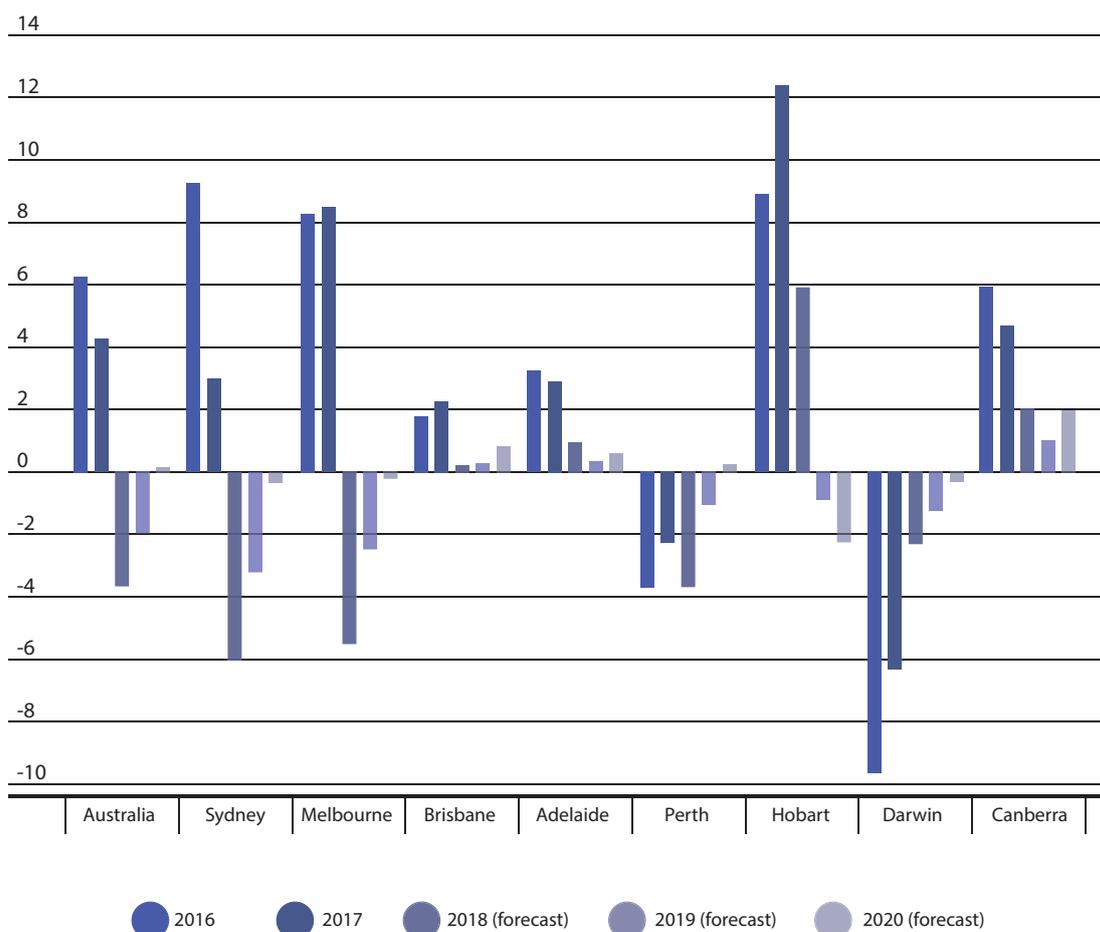
“I do not believe the Australian housing market is going to crash,” he wrote on Twitter.

“Sydney and Melbourne are significantly overvalued but I take the view the overvaluation will likely unwind over a longer period of time. [2]

House prices, auction results, housing finance, and credit growth are all soft and suggest further weakness is in store over the coming months in areas where prices have arisen dramatically.

“A 10 per cent fall sounds like a significant result but keep in mind Sydney is already halfway there”. However, these results are still in line with ANZ Research’s expectations for this stage in the cycle and the outlook is relatively unchanged. [3]

Housing price forecasts by state



Source: CoreLogic, ANZ Research

[3]

[2] Information from [HTTPS://THENEWDAILY.COM.AU/MONEY/PROPERTY/2018/09/17/HOUSING-CRASH-60-MINUTES/](https://thenewdaily.com.au/money/property/2018/09/17/housing-crash-60-minutes/)

[3] Information from <https://bluenotes.anz.com/posts/2018/10/housing-is-weak-but-it-wont-last-forever>

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 benefitting 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. [3]

FROM THE PAST

A search using Google between dates 01/01/1999 to 01/01/2014 using the search "fall in Sydney housing prices"...had generated more than 10 pages of hits. Here are some of the results...

Date: 11/10/2007

Headline: Data tables House Price Index for Sydney from 2002 to 2007. The index started at 78.2 in 2003 and by 2008 was **85.8** an increase of 9.7% over 6 years, with 3 of these years being negative.

Now: The index to 06/2018 was 169.8 growing 98% over the next 9 years, with 2 negative years.

Date: 09/03/2010

Headline: Brisbane house prices fast-catching Sydney

A humble abode in a leafy Sydney suburb was once considered completely unattainable by those living north of the border.

Now, however, things have changed with predictions South-East Queensland's population boom could see average Brisbane property prices outstrip Sydney by the end of the decade.

Earlier this week it was revealed the average Brisbane house price surged past half a million dollars for the first time.

Now: Medium House Price in Sydney **\$1.150m**, Brisbane **\$557,214** (03/2018). NB these are medium not average prices, source <https://www.domain.com.au/product/house-price-report-march-2018/>

Date: 29/04/2011

Headline: Home prices in biggest drop in 12 years... Capital city home prices continued their downward slide in March, posting their worst slump in at least 12 years as the property market showed more signs of sagging demand. Brisbane and Perth fell the most.... This week, real estate information group Australian Property Monitors said the national median house price had slumped 0.6 per cent to \$550,946 in the March quarter, while national unit prices sank 1.2 per cent to \$406,279.

Now: National median house price June 2018 is \$809,201, units are \$555,574, up 47% and 37% respectively.

Date: 23/10/2011

Headline:

House prices dip across Sydney's city...SYDNEY'S median house price has slumped \$30,000 to **\$580,000** after a year of sluggish sales.

Having peaked at \$610,000 just 10 months ago, figures compiled for The Sunday Telegraph by RP Data show the Sydney market has lost its shine by about five per cent....Despite falling prices in most areas, Real Estate Institute of NSW president Wayne Stewart said it wasn't all doom and gloom.

"The housing market from \$400,000 to \$600,000 is very strong," Mr Stewart said.

"Prices are going up in that sector, which means first-home buyers are out in force again especially, thanks to the stamp duty concessions that last until the end of the year.

Now:

Sydney Medium Property Price \$1.15m, **up 98% over this period.**

Date: 11/10/2012

Headline: Australia's housing market continues to weaken, despite its strong and resilient economy. The house price index for 8 capital cities dropped 2.1% (-3.2% inflation-adjusted) during the year to end-Q2 2012, according to the Australian Bureau of Statistics (Austats). House prices in Australia have been falling since Q2 2011. Sydney has the most expensive housing in Australia, with the median house price at **AU\$642,425**. The total dwelling units approved dropped 15.4% to 12,046 in August 2012 from a year earlier, according to Austats. Likewise, total dwelling units commenced dropped 10.4% y-o-y in Q2 2012.

Now: Australia's housing boom; crash avoided

The strength of Australia's housing market has amazed observers, who had predicted that Australia would suffer one of the worst housing market crashes, because of a perceived house price overvaluation.

Australia has avoided a crash for these reasons:

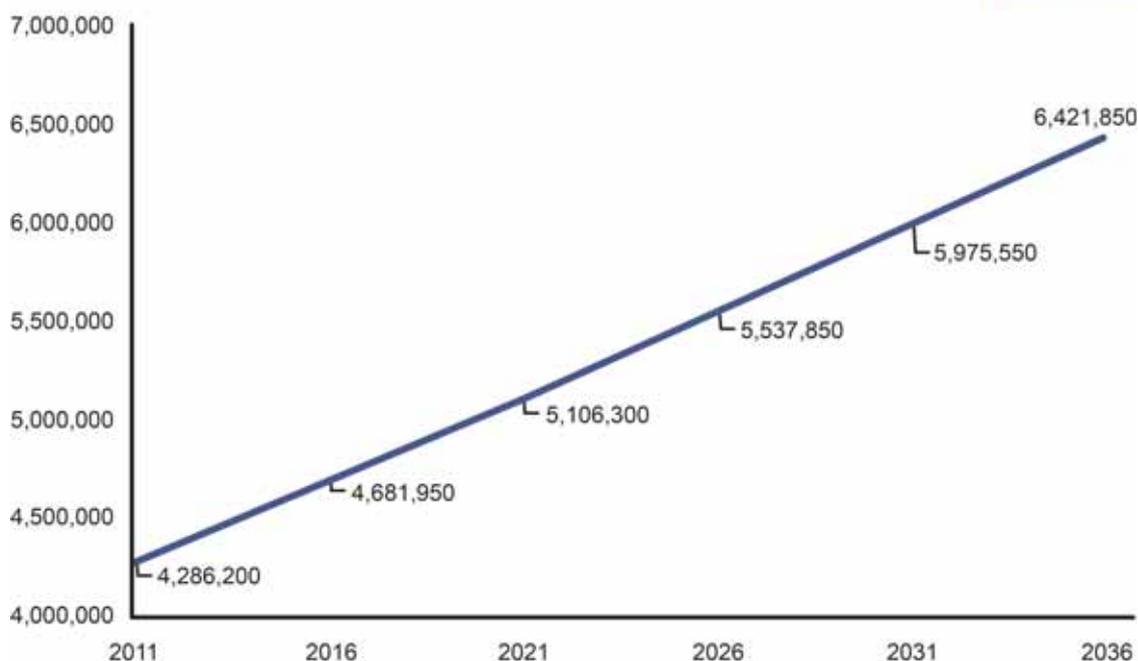
- There are housing shortages, due to a rapidly growing population
- Strong overseas migration from 2004 to 2007
- Australian household sizes are shrinking
- Lending standards are stricter than in the US
- Mortgage interest rates have been at record lows
- The government has helped first-time homebuyers, introducing a AU\$10.4 billion (US\$7.24 billion) stimulus package in October 14, 2008 - around 1% of GDP - which included the First Home Owner Boost Scheme (FHOB), which raised the First Home Owner Grant (FHOG) from AU\$7,000 (US\$6,419) to AU\$14,000 for existing dwellings, and to AU\$21,000 for newly constructed homes. However, the FHOG reverted back to \$7,000 in December 2009, in NSW, and that was reduced in other states.

KEY CAPITAL CITY RETURNS

	Total Returns (15 yrs)	15 yrs p.a. return	Return over 8 years	8 yrs p.a. return
Sydney Houses	165%	10.1%	103%	10.6%
Sydney Units	89%	6.0%	88%	9.0%
Melbourne Houses	239%	14.7%	94%	9.6%
Melbourne Units	89%	6.0%	50%	5.1%
Brisbane Houses	195%	12%	30%	3.1%
Brisbane Units	83%	5.7%	16%	1.7%
All Capital City Houses	187%	11.5%	69%	7.1%
All Capital City Units	86%	5.9%	65%	6.7%

Sydney Metro Population Projections

Source: NSW Department of Planning & Environment



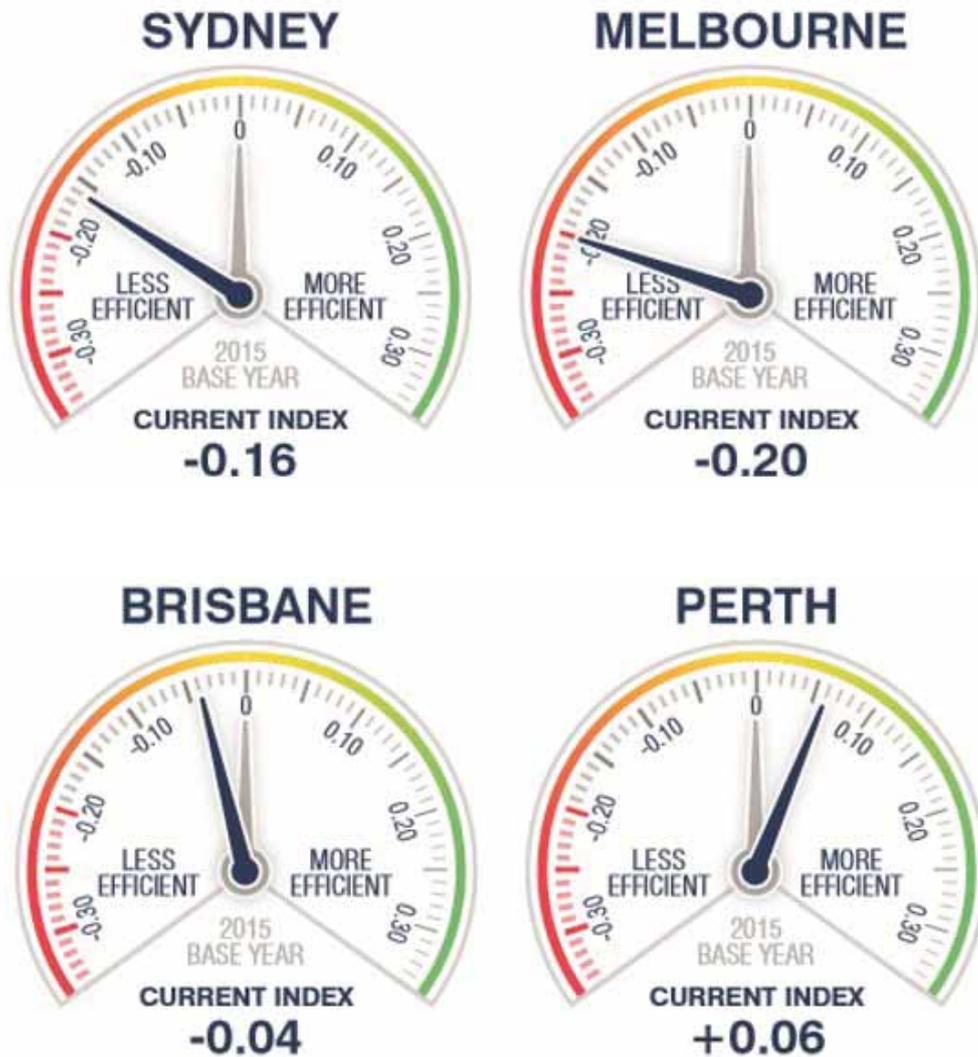
[4]

Sydney’s population is also projected to balloon by 87,000 people a year (1,650 people a week) for the next 20 years – equivalent to adding 4.5 Canberra’s to Sydney’s population:

Sydney’s road system, too, is struggling under the weight of the population influx.

Infrastructure Partnerships Australia’s latest report found that road network “efficiency” has followed the level of population growth. Melbourne, the population growth leader, has suffered the greatest efficiency loss, followed by Sydney (see below graphics).

Travel Time Index 2016 Q2



[5]

We have provided links to additional articles. These can be found on our research website at www.quantumresearch.com.au.



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