



REA Group Property Demand Index

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The REA Group Property Demand Index is produced by the REA Group, owner and operator of realestate.com.au – the leading source in Australia for residential property with a total average unique audience of more than 5.9 million (Nielsen Digital Ratings (Monthly), April-September 2016).

The REA Group Property Demand Index provides data and insights relating to demand for residential dwellings across Australia, at a national level and per state and territory according to site visit data on realestate.com.au. It calculates the number of online visits in the past month (including at least one interaction with a property) against the average number of property listings. This metric is seasonally adjusted to negate the effect of spikes in any given month, and it is indexed to a point in time (February 2013).

This report details the key findings of the REA Group Property Demand Index for the period March to September 2016 inclusive. For the purpose of this report, the top 10 Most In Demand Suburbs refers to the suburbs with the highest ratio of people viewing properties in those suburbs, compared to the number of properties listed as observed on site.

Foreword

A common misconception among the plethora of offshore observers tracking the Australian property market is that the downturn in domestic mining and resources activity is having the same impact in Sydney and Melbourne, as it is in more traditional mining markets like Brisbane and Perth. However, many of the same experts are puzzled by the sustained strength of the Australian housing sector.

Yet, other international market analysts make valid observations of the local sector. Among those is the fact that Australian property is unaffordable based on average salary levels relative to median property prices.

Furthermore, the prevailing view is that Australian property is unprofitable based on rental yields. Yet demand keeps rising and prices continue to climb.

In virtually every developed country, sound economic growth means a strong residential sector. This is because people are employed, confident about their future and of their ability to re-pay loans. Markets like the US and Australia are experiencing growth and housing markets are strong. Contrast this to post-Brexit Britain and the southern European economies where economic growth is weak.

Government policy also plays a role. The Chinese Government regularly introduces policies to calm speculation and over-heating. Vancouver in Canada, recently introduced a 15% tax on foreign property buyers which led to a drop in property listings. Prices, however, have shown very little sign of declining.

In Australia, Australian Prudential Regulation Authority (APRA) has limited bank lending to property investors. To date, the impact on house prices has been immaterial. While housing demand remains high, it has come off slightly from a peak in April 2016. Nonetheless, REA Group analysis points to an overall rise in demand of 17% over the past 12 months.

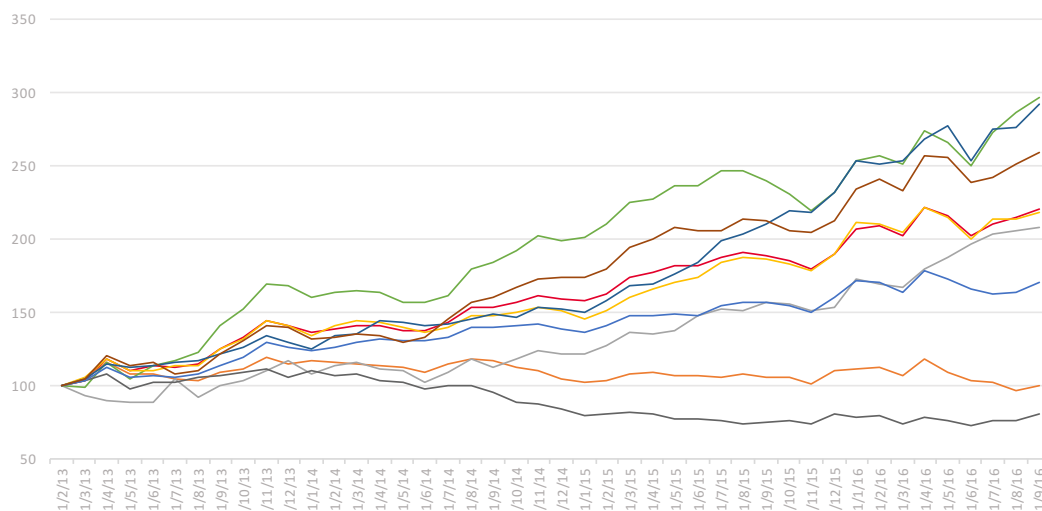
Data & Insights

Demand at all-time high in NSW, Victoria, ACT, Tasmania; Subdued conditions prevail for WA, NT.

The REA Group Property Demand Index for all dwellings in Australia increased 2.9% in September 2016, and 17% over the past 12 months supporting continual price growth. According to REA's data:

- The REA Group Property Demand Index for housing increased by 3.1% nationally over the month and 1.9% for apartments as people viewing houses continues to outpace growth in the number of listings.
- Demand remains strongest in NSW and Victoria, and is at the highest level ever recorded by REA Group. Tasmania is seeing similarly high levels of demand.
- Demand has increased the most over the past 12 months in Tasmania, ACT, NSW and Victoria. Demand in WA continues to decline, dropping by 5.4% over the same time period.
- For houses, demand is strongest in Victoria, Tasmania and NSW. For apartments, it is NSW, Tasmania and Queensland.
- Since we commenced tracking the REA Group Property Demand Index in 2013, for houses, the index is now slightly below the level recorded in April 2016, primarily due to relatively soft conditions in Perth. However, for apartments, the index is now at its highest ever level recorded.

All Dwellings: National & State
2013 – 2016

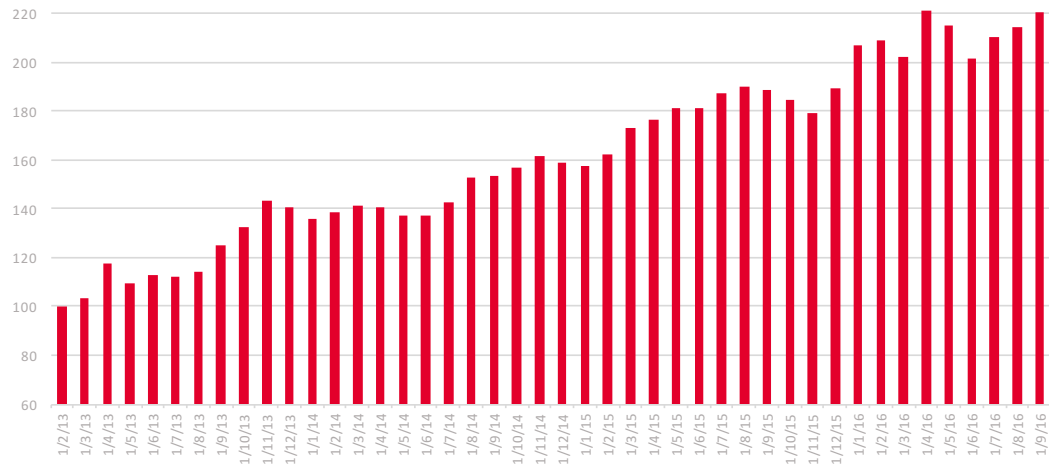


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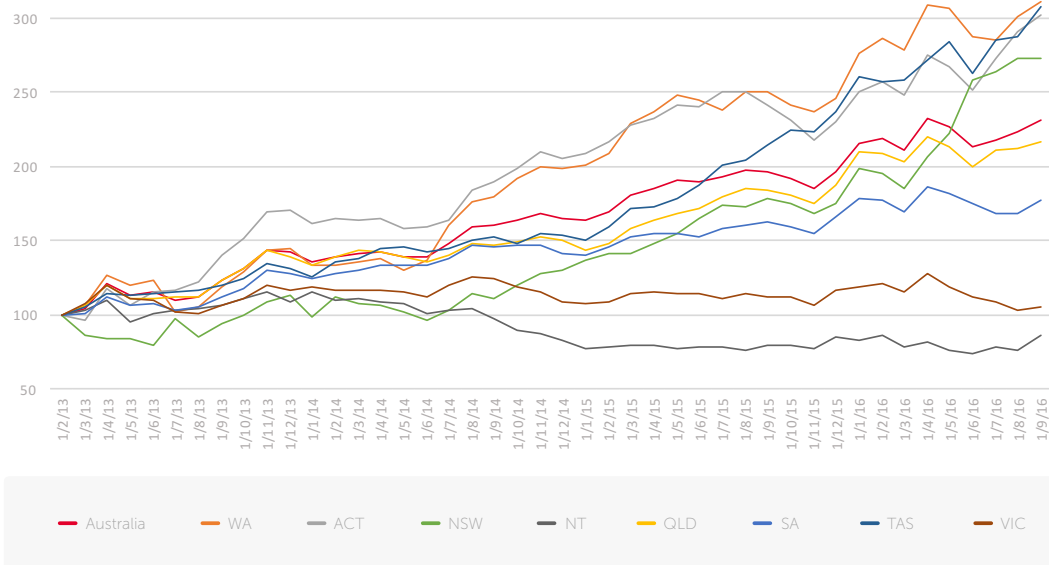
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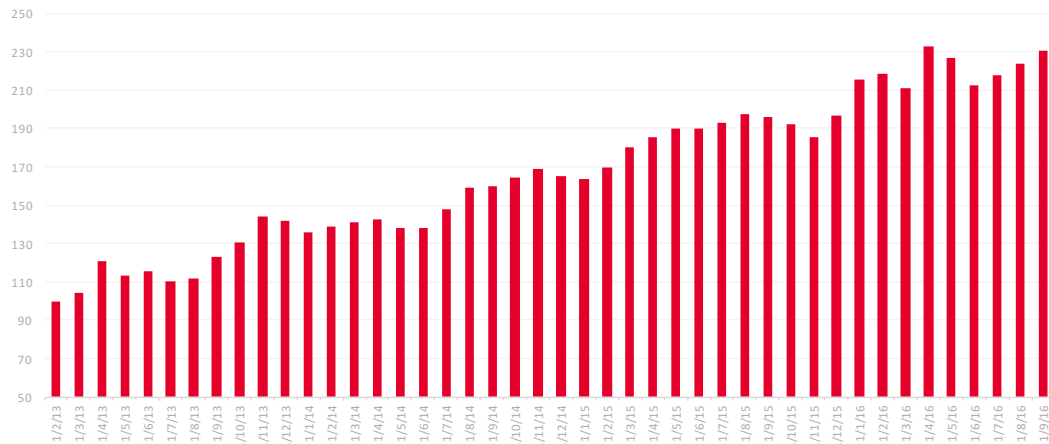
All Dwellings: National
2013 — 2016



Houses: National & State
2013 — 2016



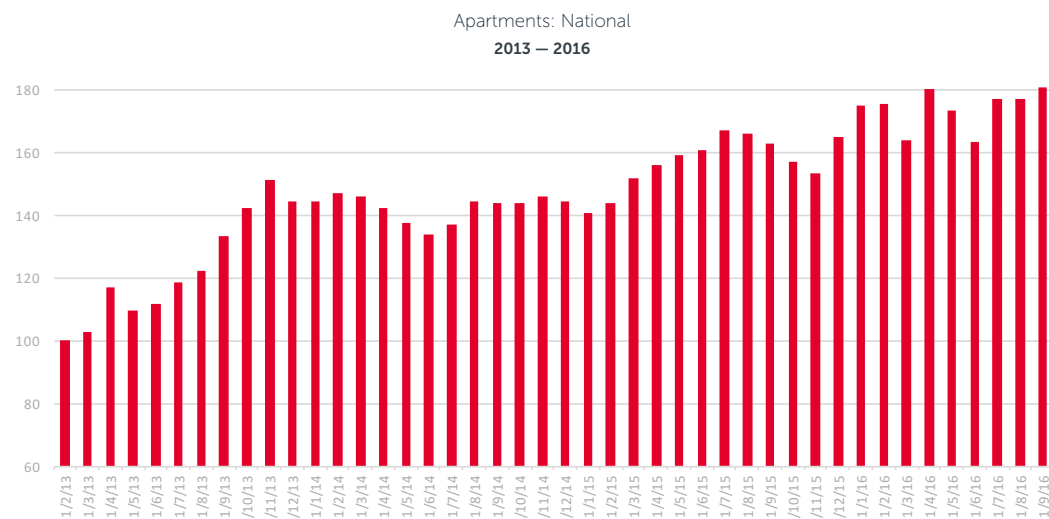
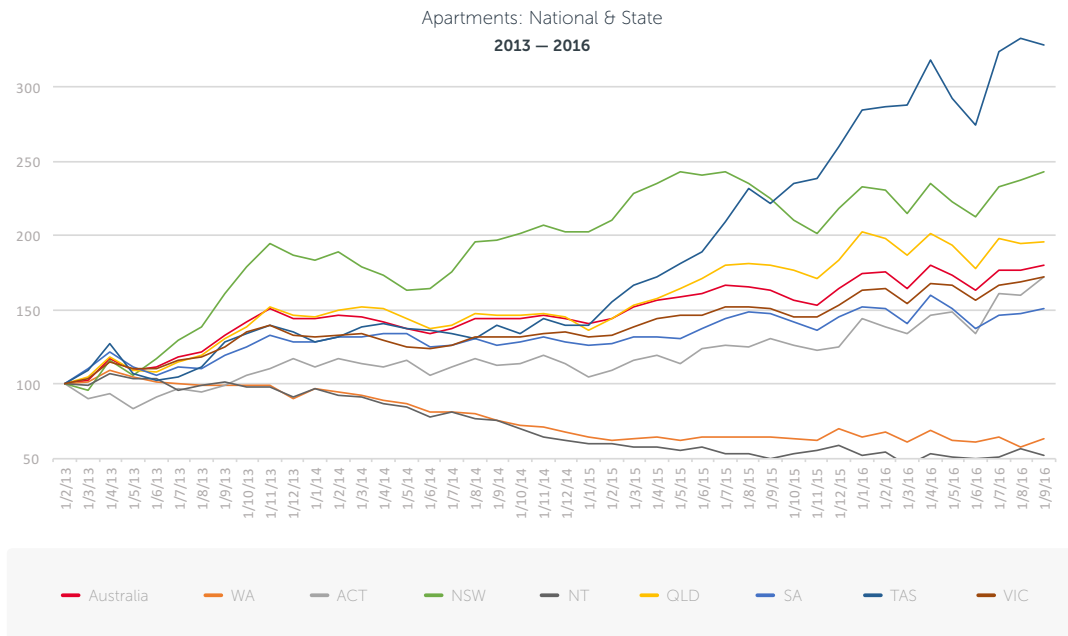
Houses: National
2013 — 2016



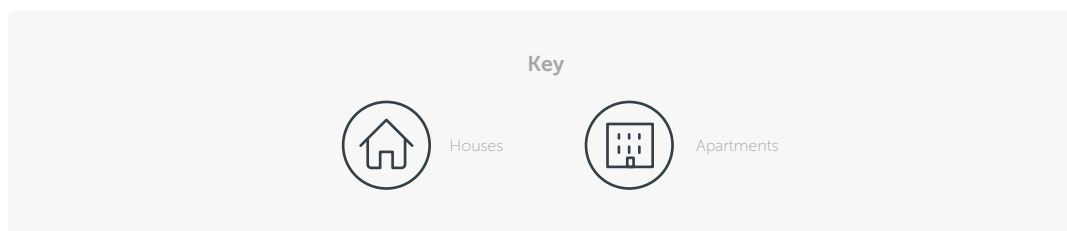
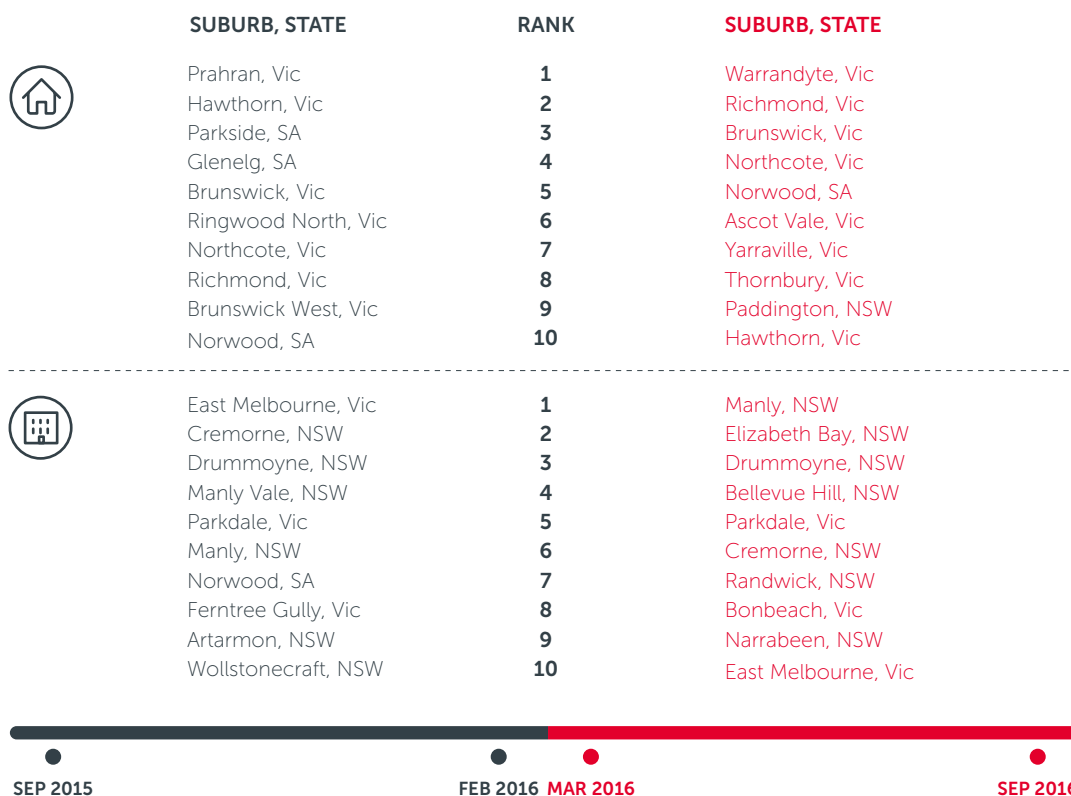


Over-supply of apartments? High demand suburbs show that some Sydney and Melbourne suburbs are bucking the trend. Based on REA Group's data and insights:

- NSW, Queensland, Victoria, ACT and Tasmania are showing the greatest increase in housing demand over the past 12 months, all exceeding 8% growth. For individual suburbs, Sydney and Melbourne dominate.
- The inner suburbs remain the top choices for houses and apartments, although there are some surprising additions with Warrandyte (Melbourne) now number one for houses, and the beachside suburbs of Bonbeach (Melbourne) and Narrabeen (Sydney) featuring among the top 10 for apartments.
- The top 10 list from the previous period is quite different from the current list, which suggests the areas experiencing high demand in the most recent Index are also seeing an increase in listings. Some suburbs that ranked highly in the previous period continue to experience strong demand for houses: Brunswick, Northcote and Richmond in Melbourne, and Norwood in Adelaide.
- For apartments, the top 10 features a mix of Melbourne and Sydney locations: East Melbourne, Cremorne, Drummoyne, Parkdale and Manly. Despite the view that there is an over-supply of apartments in some Sydney and Melbourne locations, this would suggest that demand is outstripping supply in the above-listed suburbs.



Australia's Most In-Demand Suburbs (REA Group data)



New South Wales

- For apartments, high demand areas are primarily in inner locations with Narrabeen (Sydney) the only location which is some distance from the CBD.

Victoria

- Inner suburban locations feature strongly in areas seeing the most demand from buyers of houses. Warrandyte, which tops the list, is a notable exception.
- Warrandyte is a clear indicator that people are now looking for greater levels of affordability and bigger blocks of land – particularly young families. We know that buyers are still searching for houses with easy access to the city, but value for money and affordability are now major considerations.
- For apartments, the geographic locations are more varied. Inner Melbourne is seeing high levels of apartment supply so it is not surprising that few inner locations feature in the list.
- The bayside suburbs of Parkdale and Bonbeach recorded high demand for apartments. While the supply of apartments in Melbourne is on the rise, that data shows that in these areas more apartments are wanted.



South Australia

- Demand for houses in Adelaide remains stable and we are currently seeing elevated demand for inner, premium locations (Norwood).

Tasmania

- Tasmania has seen a rapid rise in popularity over the past 12 months. It is the most affordable state in Australia and is attracting strong interest as a result. There is currently a national push for affordable housing.

Contextualising the Data

Why do people sell?

The decision to sell is a complex one and although the strength of the market is a factor one way or the other, there are also other dynamics at play. To understand why people are not selling, or in other words, why supply is low, it's important to understand why they do sell. The main reasons are:

- Upgrading
- Downsizing
- Cashing-in
- Financial distress
- Divorce
- Deceased estate

The last two factors typically do not change significantly over a relatively short period. That is, the rates of death and divorce hold reasonably steady over a 12-month period. This leaves the other factors listed above, which means we are seeing fewer people upgrading, downsizing or cashing in on strong price growth, and there are fewer sales driven by financial difficulty.

Why aren't people selling right now?

Overall, the tendency to hold property for longer is not exclusive to the Australian residential market. Global commercial property transactions are tracked far better than global residential markets and we are seeing a similar dynamic in that segment of the market. Fewer people have been selling over the past 12 months and, given the relative ease of accessing finance, the apparent difficulty in redeploying capital is the main reason cited.

With strong residential market conditions, there are a number of reasons why people are not selling. This makes economic data as a proxy for changes in the number of listings difficult to interpret. For example, there is evidence in some quarters to suggest that listings go up when interest rates rise. Does that mean people seek to sell because they can no longer afford their mortgage repayments, or are they selling because economic conditions are generally better and they feel confident about upgrading?

Long-term decline in supply

Over the past decade, supply in Australia has declined. There are a number of structural changes that have contributed to this situation. Less supply means that people are holding property for a longer time, for the reasons outlined below. Most of these are unlikely to change in the current tax environment.



- For downsizers, moving to 'cheaper' accommodation is not an attractive option. The family home is not income-generating, and investing for income attracts tax. Holding on to the family home remains the most tax-effective option for many prospective down-sizers.
- Negative gearing makes investing in residential housing more attractive than other asset classes.
- Comparatively weak returns in other asset classes means property continues to be an attractive investment option.

When is supply likely to increase?

We know from the overseas experience that a major shock to the economy would likely lead to an increase in property supply – akin to what Brexit is doing in the UK and the impact of the GFC several years ago which pushed funding costs higher.

There is nothing to suggest that anything of this scale is on the immediate horizon. An increase in the number of residential property listings in Australia is more likely to be driven by:

- House prices in Sydney and Melbourne moderate and buyers see an opportunity to upgrade.
- Rental levels continue to fall and yields make them a less attractive investment, prompting owners to sell. This is likely to occur more quickly in areas where we have seen significant new supply, such as Melbourne.
- Property markets recover in Perth, Brisbane and Adelaide – prompting more sales. This is likely to occur more rapidly in Brisbane and Adelaide. Indeed, the rate of listing declines is lowest in those cities which might signal the beginning of a turnaround.

This report uses REA Group internal data that is current as at the time of publication. This report provides general information only and is not intended to constitute any advice or appraisal and should not be relied upon as doing so. If you wish to cite or refer to this report (or any findings or data contained in it) in any publication, please refer to the report as the 'REA Group Property Demand Index (Sept. 2016)'.

