

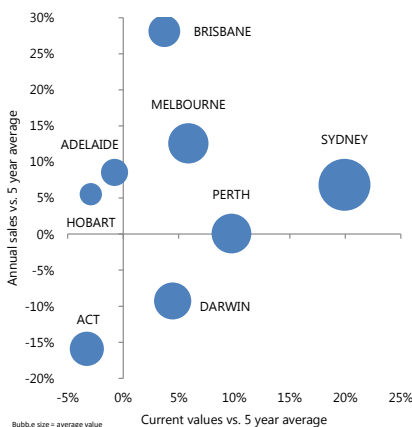
DRIVING GROWTH - PROPERTY OR THE ECONOMY?

The Australian and global economy are continuing to grow at a moderate rate, but what impact will economic factors have on the property market?

Latest figures suggest that Australian GDP increased by 0.5% in the September 2014 quarter and by 2.7% over the past year. The rate of inflation (CPI) rose by a benign 1.7%. The CPI recorded the lowest increase for several years in 2014, driven predominately by the sharp decline in oil prices at the end of the year and the removal of the price on carbon (which has detracted around 0.5%-0.7% from headline inflation). The lower energy prices will act to strengthen global output and “temporarily” lower CPI inflation rates. Falling oil prices, due to both lower demand growth and, more importantly, significant increases in supply are providing huge savings to individual households and businesses alike.

Growth in the economy has been accompanied by slight increases in unemployment. Australia's unemployment rate increased 0.3% to 6.4% in January 2015 (seasonally adjusted), with the number of unemployed persons increasing by 34,500 to 795,200. However, although this data points towards rising unemployment, the rate of positive or negative growth varies across all states.

FIGURE 1
Residential Sales & Transactions



Source: Knight Frank, Residex

The positive economic cycle is increasing the demand for Australian real estate investments, across all sectors, and especially from overseas investors. The key for those who own property portfolios and/or for those who want to pick up assets is to be mindful of those locations which are far ahead of the curve or are lagging behind the curve.

Australia's population was also estimated to have grown by 1.6% during the year ending June 2014. Importantly for property markets, especially residential, net overseas migration contributed 58% to total population growth for the year. All states have recorded positive growth, with Western Australia continuing to record the fastest growth, supporting demand for services and housing, with similar future growth levels projected. With inflationary pressures in the

Those Capital Cities which are experiencing the greatest population and employment growth are those seeing the greatest increase in residential values, and are where annual transactions are above their medium term average (see Figure 1).

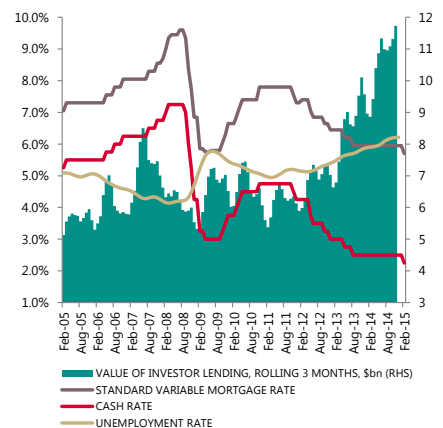
economy dissipating, notwithstanding a substantially lower currency, the RBA were “able” to cut rates down to a 59-year low of 2.25%. There are expectations of another rate cut, as early as next month, which will put rates at record lows, and some economists are even forecasting a cash rate as low as 1.5% being attained by the end of 2015. This has implications for property investors, especially as historically low interest rates has the potential to inflate

residential prices further, especially in Sydney and Melbourne where demand is strongest.

Australia's banks are taking advantage of cheaper global credit and the drop in interest rates to cut fixed term mortgage rates. After falling to 5.95% in August 2013 the standard variable mortgage rate had remained constant for the past 17 months but has now dropped further with most banks passing on the full 0.25% interest rate cut, leaving rates some 175 bps below the 20 year average of 7.5%. These favourable rates have been reflected in the number of housing investor loans being at cyclical highs.

Although credit has become relatively cheaper, loans to first home buyers (FHB) remain well below their 2009 market peak, recording their lowest annual total since December 2011, at around 94,500 loans in the twelve months to December 2014. These newly revised statistics reflect increasing domestic and international investor competition, capital value growth and larger deposit requirements.

FIGURE 2
Economic Influences



Source: Knight Frank, ABS



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For more information or for forecasts on any other aspect of the Australian property market including alternative asset classes, please contact Matt Whitby, Paul Savitz or Luke Crawford.

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