

AUSTRALIA ECONOMIC REPORT

FIRST HALF OF 2014

**HEALTHY MARKET
ATTRACTS CONFIDENCE**



PRDnationwide

PRDnationwide is an acknowledged industry real estate leader. We've been in the business of selling and managing properties since 1976 and have a network of over 115 franchise offices spanning nationally and internationally (and still counting).

PRDnationwide Research is home to the latest property knowledge in Australia and beyond, establishing us as the leading property and real-estate related research provider. Through a series of research products we provide a wide range of direct and indirect stakeholders with the most up to date data and analysis, monetary and fiscal policy movements, local government initiatives; and relevant residential, commercial, and infrastructure project developments.

We contribute to innovative research and topical discussions relevant to local, regional, and national interests through a series of reports, conference papers, and regular media commentary; in collaboration with a multiple stakeholders – academics, organisations, communities, and government departments.



WELCOME

A wise man once said: A regular check-up gives you the power to decide what and how to manage your body, and subsequently your life.

Welcome to a detailed report of our economic indicator check-up, empowering your property knowledge.

In our new and improved Australia Economic Snapshot we emphasise the domino effect of positive attributes; strong macroeconomic climate, foreign exchange and commodity market, low interest rates, and many others – in the property market. We provide you with comprehensive graphical data sets and break down key trends, further informing you of the market's health status. Watch out for our simple 'so what does this mean for you' focus boxes and we hope you enjoy the read.

I look forward to discussing these trends with you and how current market health makes it all fair in love and property,

Yours in research,

Dr Diaswati (Asti) Mardiasmo
National Research Director
PRDnationwide



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OVERVIEW

It is without a doubt that the level of 'white noise' surrounding the property market has increased in the first half of 2014; with an abundance of first home buyers, seasoned investors, market speculators and researchers, and government influencers actively commenting on the state of our housing availability and affordability.

The Australian economy has struggled to pick up any dramatic velocity throughout 2013, however, can anticipate a turnaround in 2014. Shaping the economic landscape in 2014, Australia can anticipate an increase in residential construction and mining exports to fill the void that the slowing mining construction market has left.

2014 forecasts suggest the property market will continue to benefit from the sustained access to affordable cash.

Similarly, there is a hushed expectation that a supportive interest rate will continue to maintain affordability; especially within markets where price growth proves to climb at a rapid rate and demand outweighs supply rate.

The role foreign investors play has also come under scrutiny, as they continue to take advantage of Australia's low cash rate and subsequently decreasing loan interest rates. Couple this with the depreciation of Australian dollar, ease in foreign board investment policies, and innovative construction design; our shores have increasingly attracted investors from foreign land.

Active foreign investment participation has planted a seed of unrest in the nation, particularly in regards to "driving up property prices to inexplicable levels"; however the 'behind-the-scenes' fact is that these investments also fuel development and thus answer our low housing stock supply predicament.

Not only does this contribute to answering our housing stock supply predicament, it also forces a more even playing field between demand and supply. Without their force of demand our supply would have increased at a slower rate (and perhaps stagnated), increasing the possibility of even higher prices than what the current market offers.

The trend focused on increased residential density and inner-city apartment living is expected to continue across all demographics as Australians look to shift within proximity to larger economic hubs at the most affordable rate. This is driven by Sydney and Melbourne where apartment approvals have exceeded houses and investors were most active in 2013. Looking ahead, robust price growth and flat rents may lead investors north to markets like Brisbane where gross rental yields remain well above the national average as a result of more moderate price growth.

As with 2013, increased demand across all dwelling types from both local and foreign investors have outweighed the economic input from owner occupants. The heightened housing market sentiment has been supported by increased house price growth in all states (excl. SA and NT) however at a rate slower than first anticipated; with Queensland being the only exception. Hence Queensland is expected to lead the way in terms of capital gains through 2014.

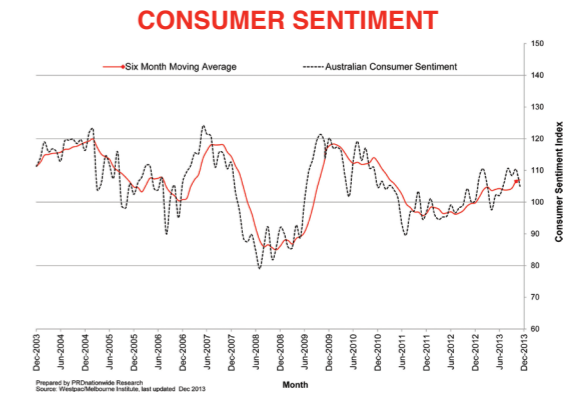
2014 forecasts suggest the property market will continue to benefit from the sustained access to affordable cash.

CONFIDENCE

Business confidence and consumer sentiment continues to soar.

Australian business confidence has continued to surge to the end of 2013 recording an index score of 7.8, equating to an 8.3 point increase from June 2013. This is the largest bi-annual increase in confidence since the period ending December 2009; taking into account the immediate aftermath of the Global Financial Crisis.

Despite the confidence surrounding Australian business and positive indicators evident across most industries, Australian Consumer Confidence witnessed a marginal correction of 5.6 points. However this remains up five per cent on the period ending December 2013.



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KEY FACTS DECEMBER 2013:

- CPI: 2.7 per cent.
- SVHL Rate: 5.95 per cent.
- Unemployment Rate: 5.9 per cent.
- Average AUS Fuel Price: \$1.55/L.

2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- After a brief slump confidence has returned, with the expectation of further growth.
- Improving business conditions and incentives.
- Strengthened consumer sentiment translating into further future increases in demand for goods and services, including housing.

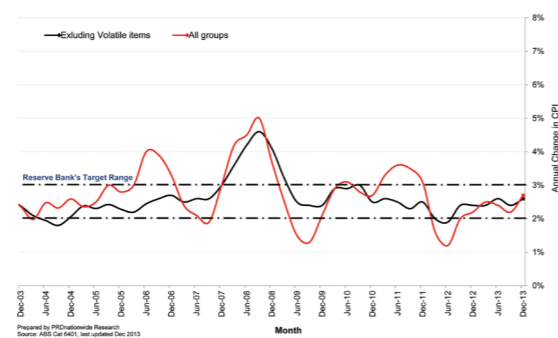
MACROECONOMIC CLIMATE

Continual lowering of the official cash rate had translated into attractive housing loan interest rates.

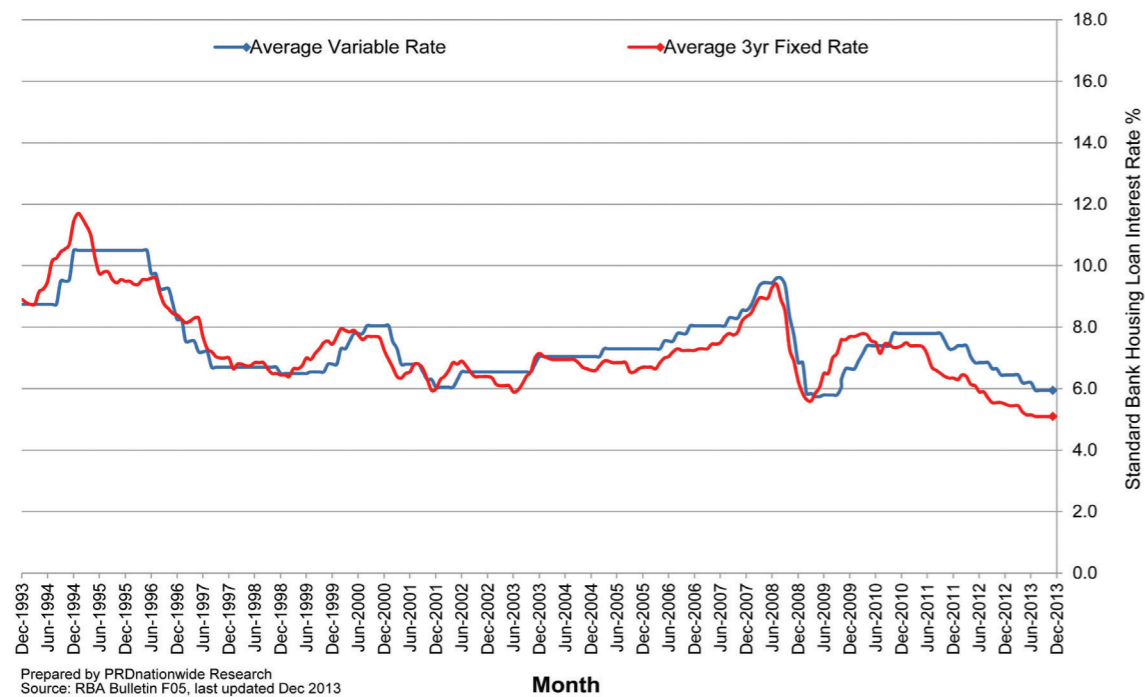
The Australian official cash rate remained stable at 2.5% heading into 2014, as the US Federal Reserve began the curtailing of stimulus measures. As previously mentioned, the firming of consumer demand and inflation was higher than expected to the end of December 2013 suggesting a likely period of stable interest rates.

With cash rates kept at a stable level Australia's larger lenders should be well positioned to roll over debt in the year ahead. This will improve these banks' cost of debt and if passed on to the consumer will force competition amongst lenders, resulting in continued low rates. Any rate cuts independent of the official cash rate will be applauded by the property industry.

INFLATION



INTEREST RATE

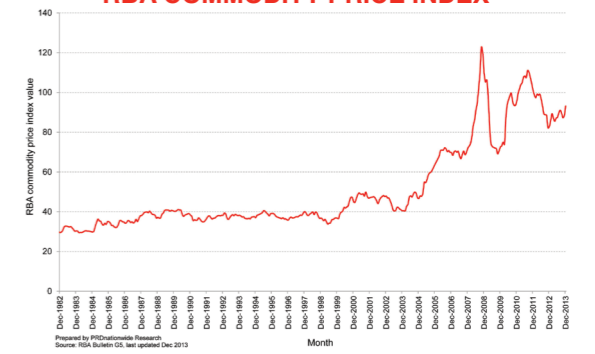


FOREIGN EXCHANGE AND COMMODITY MARKET

Primary commodities drives economic robustness whilst a more affordable AUD attracts trading partners.

The Australian Dollar Exchange rate Index decreased by 0.9 from November 2013 to register an index value of 68.9 in December 2013. The commodity price index improved by 12.5 percent in the December 2013 quarter.

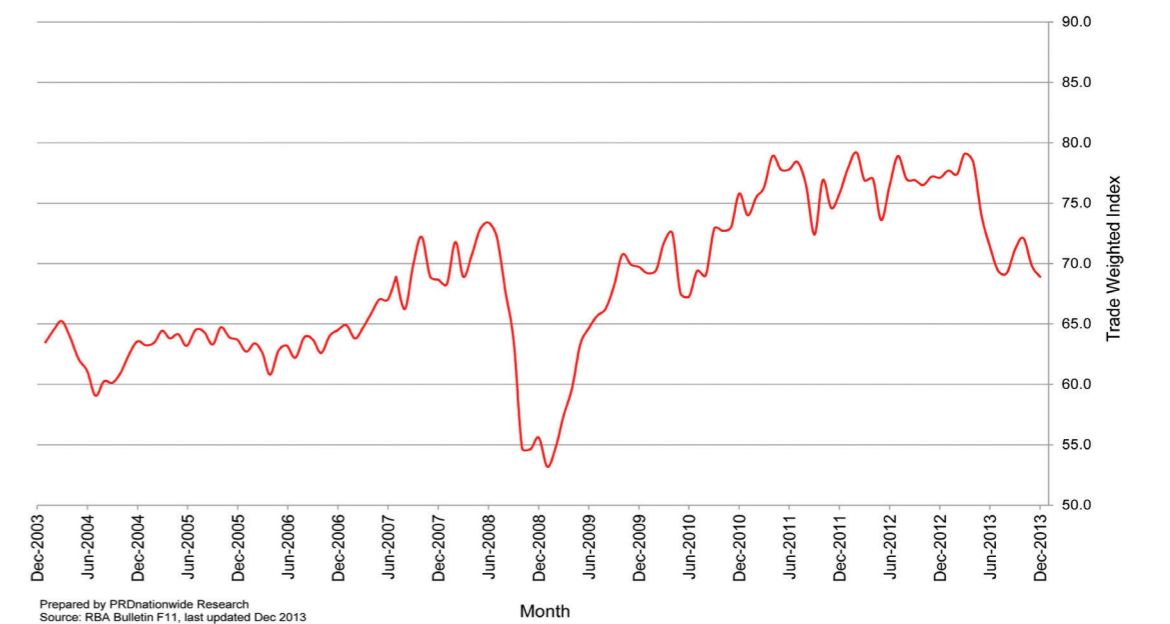
RBA COMMODITY PRICE INDEX



TRADE WEIGHTED EXCHANGE RATE INDEX

	Japan	USA	EU	NZ	UK	Hong Kong	China	Singapore	Malaysia
	Yen	Dollar	Euro	Dollar	Pound	Dollar	Renimbi	Dollar	Ringgit
Dec-2012	89.46	1.0384	0.7868	1.2608	0.6428	8.0491	6.4687	1.2694	3.1765
Dec-2013	93.95	0.8948	0.6485	1.0879	0.5429	6.9385	5.4147	1.1323	2.9363
% Change	5.0	-13.8	-17.6	-13.7	-15.5	-13.8	-16.3	-10.8	-7.6

EXCHANGE RATES



2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- Continuous expansionary monetary policy evident in RBA holding low cash rates steady.
- Increasing inflation rate is as a result of higher metropolitan household spending.
- Multiplier effect into lower housing loan interest rates will attract further on and offshore players into seemingly more affordable property industry.

2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- A falling exchange rate and an increasing commodity price will only augur well for the mining industry in Australia.
- For the housing market, a falling exchange rate serves as a big incentive for potential foreign investors.
- Coupled with the natural resource industry boom, employment and population growth, spurs demand for housing and rental accommodation, particularly in neighbouring resource rich regions.

LABOUR MARKET ●●○

Unemployment rate remains at a steady level.

In December 2013 the national unemployment rate increased 1.7 per cent over the previous month. This follows the trend of marginal growth, which is expected to continue. However, there's minimal cause for concern as most other market indicators increased.

A decrease of 3.9 per cent in residential construction works completed was recorded, which left the total works completed at approximately \$11 million. This is a 4.7 per cent increase over the previous year. This suggests supply is constricting.

States such as the ACT, VIC and NSW, which have recently been bullish, have slowed down while cities that have been subdued are reporting increases. South Australia reported the largest increase of 4.9 per cent while Queensland followed with an increase of 2.3 per cent.

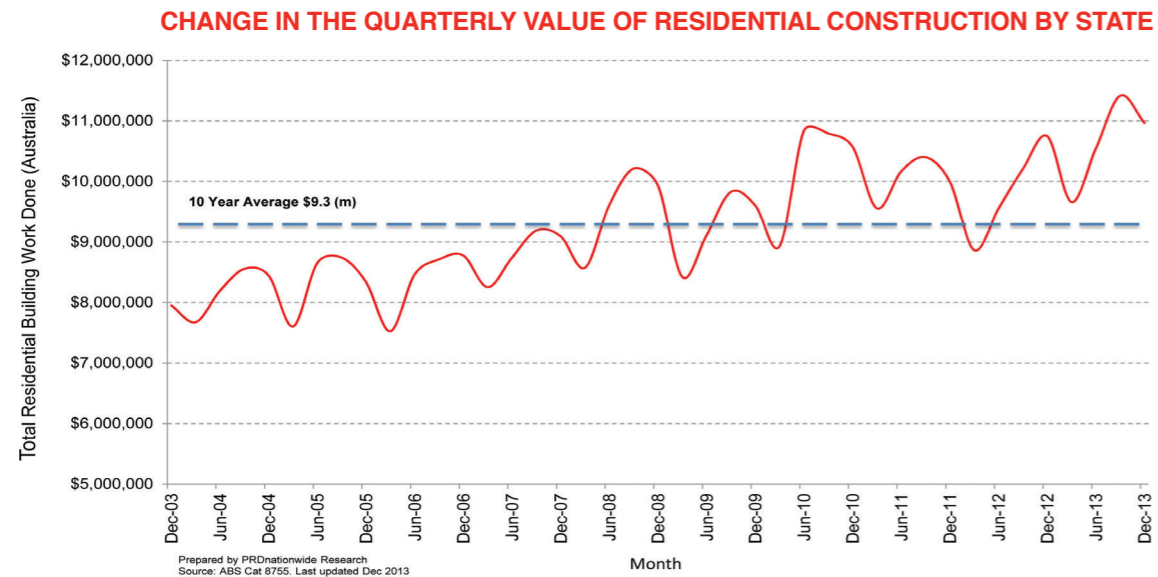


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CONSTRUCTION MARKET ●○●

Previously underdeveloped states record strong construction growth.



2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- Unemployment figures will be fluctuating as the economy recovers.
- Residential construction is stabilising after a strong year.
- Smaller, less established markets such as SA and QLD reported the biggest increases.

HOUSE FINANCE ●●○

Lenders are committing finance for the purchase of housing at a higher level; increasing numbers of investors and owner occupiers entering the market.

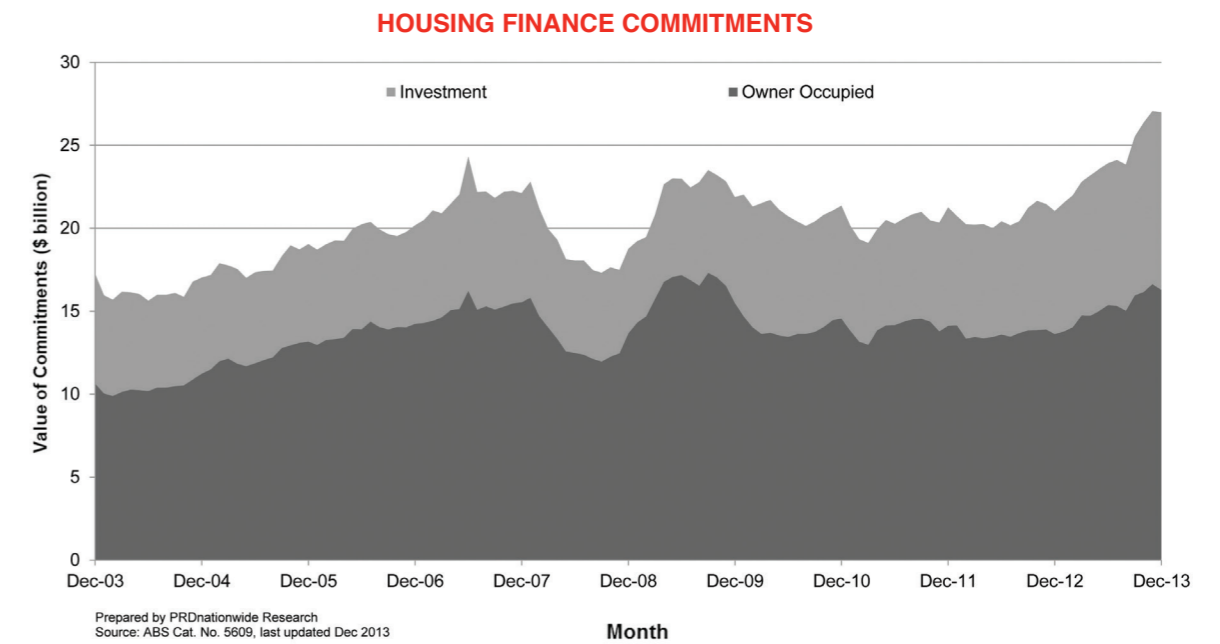
The gross spending on housing finance was \$27.0 billion in the month of December 2013. In the year prior, total spending has increased by 28.6 percent equating to \$6.0 billion more. Based on the ABS data, the seasonally adjusted number of monthly home loans granted to owner occupiers in December fell by 2.1 percent.

Compared to the previous year, investor spending increased to \$1.1 billion (up 44 percent) and is above the ten year long-term average of \$6.7 billion. In six months to December 2013, investor financial commitments improved by 1.9 billion.

The investor financed market now amounts to 40 per cent of the mortgage market, indicating an increase of 35 per cent in 12 months.

Owner occupier expenditure increased by \$2.7 billion whilst investor expenditure improved by \$3.3 billion in twelve months ending December 2013.

In a twelve month period ending December 2013, purchase of new dwellings shows an increase by 17.8 percent whilst purchase of established dwelling improved by 20 per cent.



The gross spending on housing finance was \$27.0 billion in the month of December 2013.

2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- Continued investment expenditure will supersede owner occupier expenditure as we move through 2014 suggestive that agent marketing need to begin to cast much wider nets.
- Support for increased home ownership could be viewed as a strategy to bridge the gap between the haves and the have-nots.
- There are more actors seeking housing finance, responded to positively by banks through increased finance commitments.

DWELLING MARKET

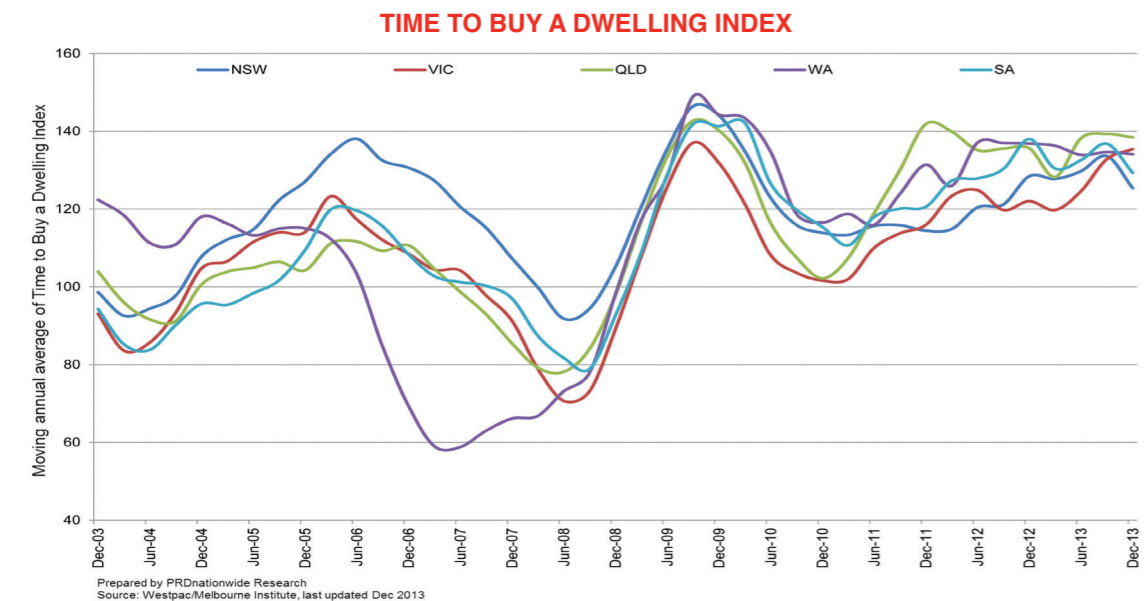
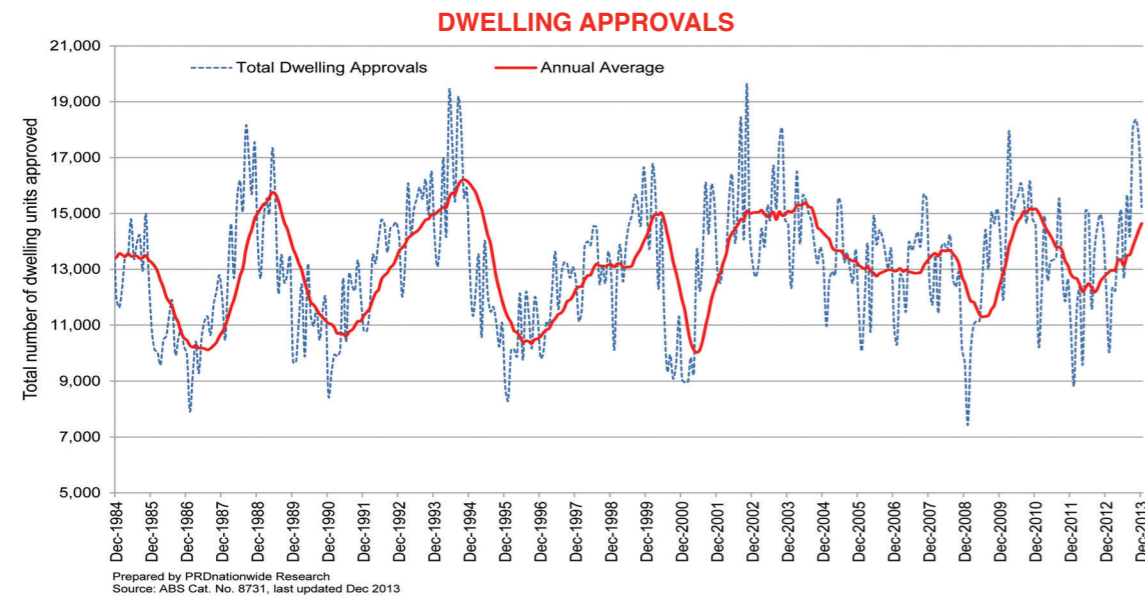
Sellers market: dwelling approvals increased, average days on the market at record lows.

The total number of dwelling approvals showed a quarterly increase of 8.25 per cent and an annual increase of 14.27 per cent. This indicates an improved development pipeline, securing medium term growth.

The average days on market figures for the combined capital cities are at record lows of 38 days for houses and 35 days for units. At the same time in 2012 the average

days on market for capital city houses was recorded at 56 days and for units, 53 days for houses.

Over the December quarter, the Time to Buy a Dwelling Index mainly reported minor decreases with VIC the only state to increase, rising 1.2 per cent. NSW decreased the most, falling 7.8 per cent followed by SA at 5.4 per cent. Both QLD and WA reported decreases of less than 1 per cent. This shows that the market is transitioning to a sellers' market.



2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

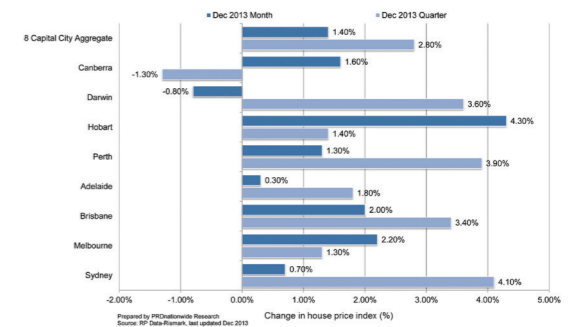
- Dwelling approvals increased which shows improved sentiment.
- Days on market has decreased by 42 per cent over the past year.
- The Time to Buy Index shows the shift towards a sellers' market.

DWELLING PRICES

Dwelling values of capital cities have largely improved.

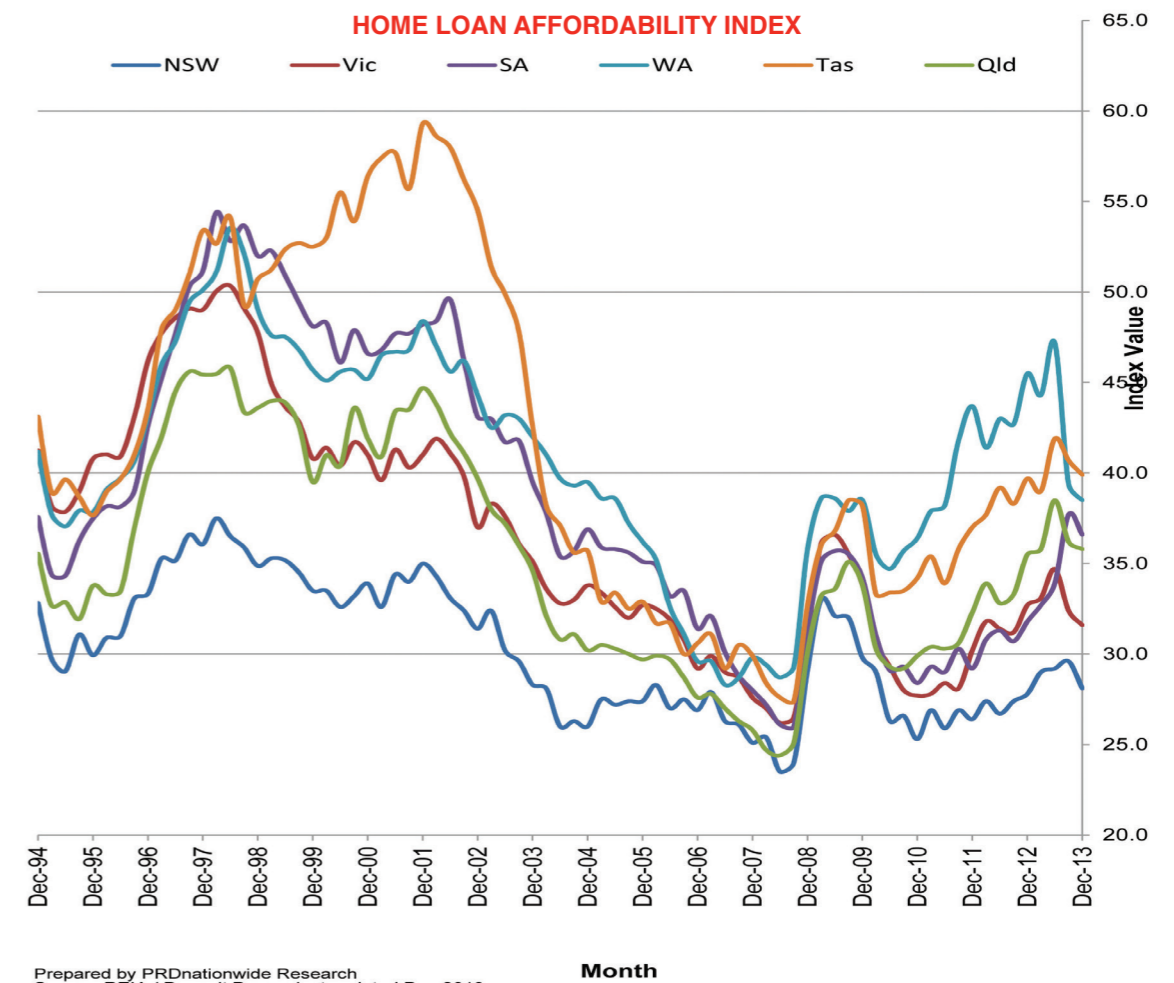
According to the RP Data-Rismark Combined Capital Cities Index, the combined city aggregate experienced a quarterly change of 2.8 per cent to December 2013. The largest improvement occurred in Sydney rising 4.1 per cent, followed by Perth, up 3.9 per cent and then Darwin up 3.6 per cent. Canberra was the only capital city to have recorded a contraction in home values, falling by 1.3 per cent.

RP DATA – RISMARK DWELLING HOME VALUE INDEX CHANGE BY CAPITAL CITY



HOME AFFORDABILITY

Fluctuation in line with economic cycle, with continuing overall trend of improvement.



2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- Dwelling prices rose an average of 2.5 per cent over the previous quarter.
- Sydney showed the biggest increase in prices, Canberra was the only city to record a decline.
- RBA's hold on lower cash rate is mirrored in improving overall trend of home loan affordability, however caution is issued in the form of a slight dip in the December 2013 quarter home loan affordability figures; due to increasing house prices and demand outweighing supply.

RENTAL MARKET

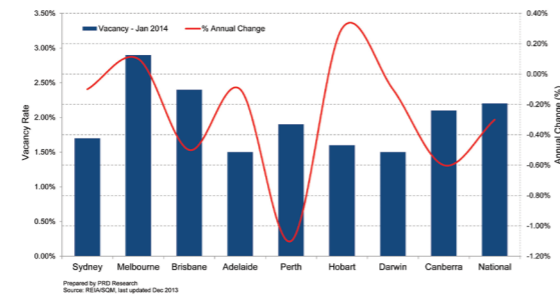
Median rental price on average increased, yet impressive decline in Australia's vacancy rates.

The Australian vacancy rate stood at 2.2 percent over the most recent December 2013 quarter. This is an impressive decline when compared to the June 2013 quarter. Over the December 2013 quarter, the annual change in the vacancy rate for a capital city rose the most in Melbourne by 0.1 percent whilst Brisbane, Adelaide and Perth registered a contraction. On a national level, Adelaide is the tightest capital with a vacancy rate of 1.5 percent followed by Sydney and Brisbane. Adelaide and Sydney have experienced contraction in vacancy each at 0.1 percent for the December 2013 quarter.

Weekly rental prices for a standard three bedroom house have decreased in Darwin (\$636), increased in Sydney (\$440) and Hobart (\$340) but remained steady in Brisbane (\$365). Adelaide and Hobart are now the most affordable cities to rent in, with a median rental price of \$333 per week.

According to the REIA, the median weekly rental price for a two bedroom unit is higher than a three bedroom unit in Sydney and Melbourne. The Sydney median has increased over the quarter by 4.8 percent. Sydney units now hold the highest median weekly price at \$490 with a growth rate of 4.1 percent over the fourth quarter of 2013.

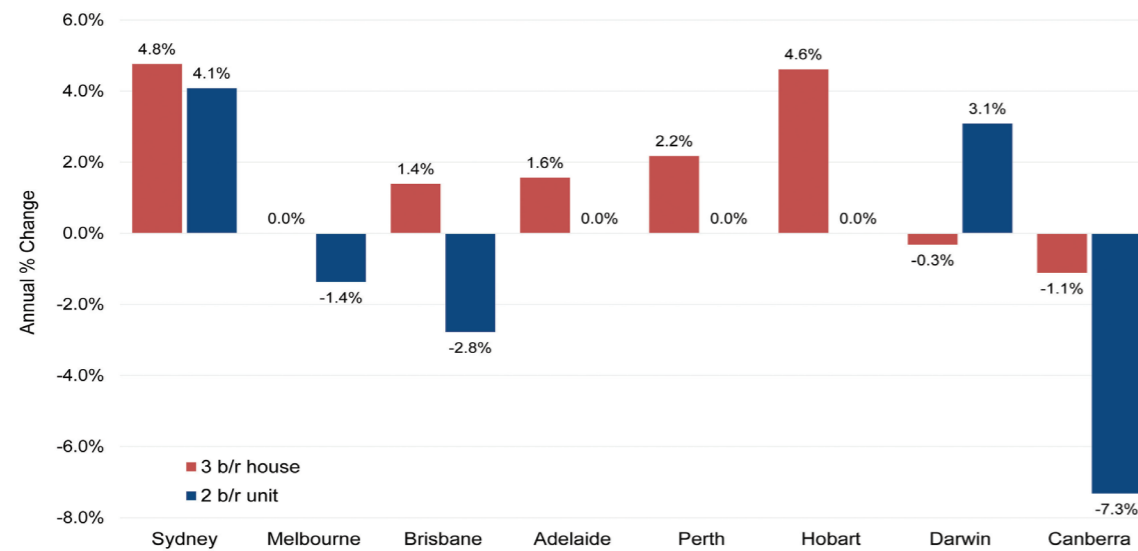
QUARTERLY VACANCY RATE



MEDIAN RENTAL PRICE

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	\$440	\$350	\$365	\$325	\$470	\$340	\$636	\$445
3 b/r Unit	\$490	\$365	\$360	\$280	\$450	\$270	\$486	\$410

MEDIAN RENTAL % CHANGE



Source: PRDnationwide Research Source: REIA
Last Updated: Dec 2013

2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- A fall in the national vacancy rate in Australia could be attributed to improved consumer confidence, investment growth and a healthy macroeconomic environment.
- Low interest rates and increased dwelling construction are activating the residential market nationwide
- Multiplier effect into the rental market, evident through positive percentage change in rental prices in almost all Australian capital cities.
- Increased rental prices to result in yields for the astute investor.

DEMOGRAPHICS

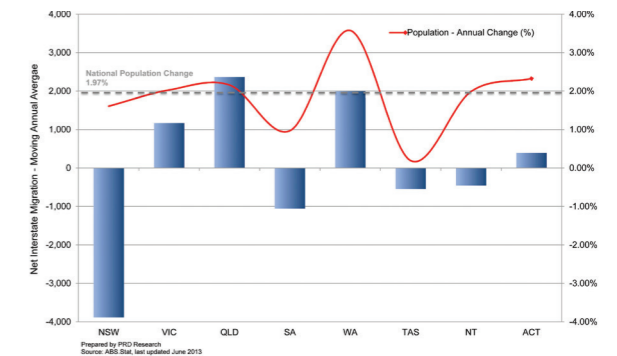
Disparity between the increase of property stock level and population is a recipe for healthy competition.

Over the twelve month period ending June 2013, the level of natural birth rate of Australia rose by 7.5 per cent. This figure has increased the most in New South Wales, up 14.6 per cent from the previous year, followed by Victoria and Western Australia (both 7.0%). South Australia and Tasmania experienced a decline in their rate of natural increase

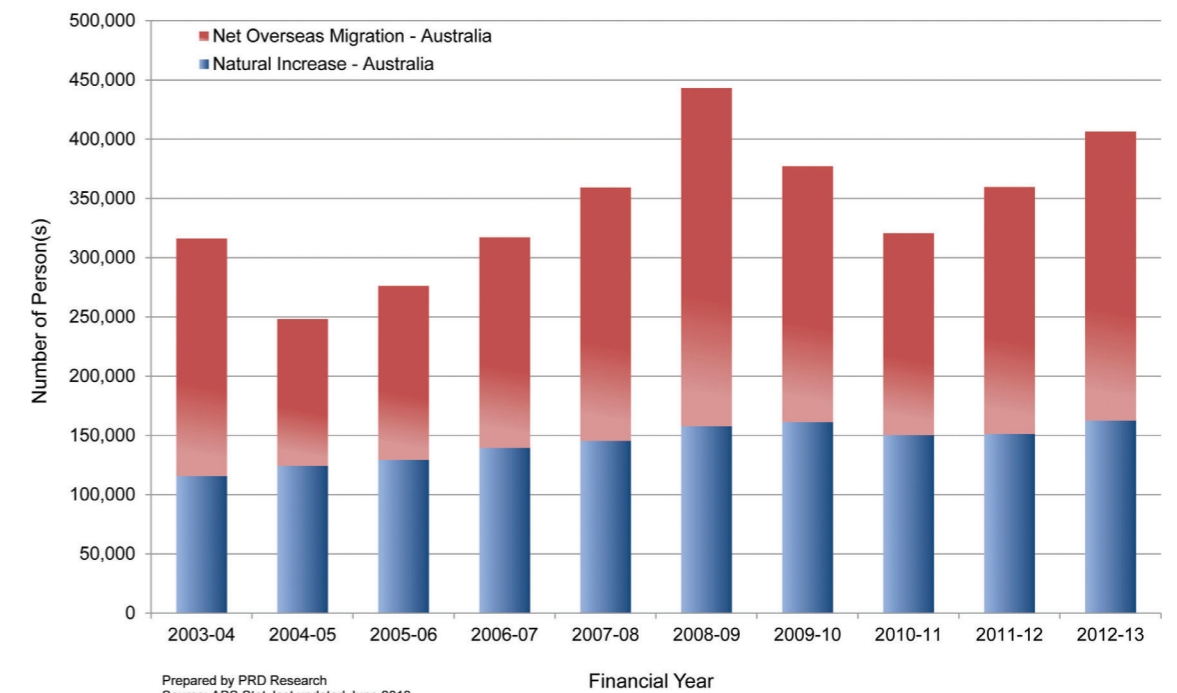
In the twelve month period ending June 2013, the national net overseas migration figure recorded a 17 per cent increase. New South Wales (+25.5%) and Victoria (+22.2%) have been the target destinations for overseas migrants, with a combined 79,851 additional residents arriving during 2013 financial year. Interestingly New South Wales also recorded the largest net interstate migration outflow, with South Australia and Tasmania also seeing a net outflow of persons to other states.

In the twelve month period ending June 2013, the national net overseas migration figure recorded a 17 per cent increase.

POPULATION GROWTH AND NET INTERSTATE MIGRATION



NET INTERSTATE MIGRATION



Prepared by PRD Research
Source: ABS.Stat, last updated June 2013

2014 FORECAST: WHAT DOES THIS MEAN FOR YOU?

- Western Australia and Queensland continue to lure interstate migrants strengthening their housing markets.
- An influx of overseas migration and investors since 2010-11 has built a strong footing for agencies to capitalise on the increasing numbers in residential markets.
- A steady increase in net overseas migration induces further population growth, indicating continuous demand for housing stock and other property development needs.

GLOSSARY

AUSTRALIAN CONSUMER SENTIMENT GRAPH

The Consumer Sentiment Index indicates short-run changes to consumer willingness to purchase goods in the forthcoming quarter. Based on a monthly survey of 1200 Australian households conducted by the Melbourne Institute and Westpac; it represents current and future perspectives of the broad economic climate and household financial state.

BUSINESS CONFIDENCE GRAPH

The Business Confidence Index indicates expectations of business conditions for the upcoming quarter. The Index is based on a survey of approximately 900 small to large business in the non-farm sectors and is conducted by the National Australia Bank (NAB).

DWELLING APPROVALS GRAPH

Dwelling approvals indicate the number of new dwellings that have been approved for: construction of new buildings; alterations and additions to existing buildings; approved non-structural renovation and refurbishment work; and approved installation of integral building fixtures.

A moving yearly average is used to filter out seasonal fluctuations in the number of dwellings commenced.

HOME LOAN AFFORDABILITY INDEX GRAPH

The Home Loan Affordability Index measures average loan repayments against median wages and tracks these values over time.

HOUSING FINANCE COMMITMENTS GRAPH

Housing finance commitments track the volume of finance commitments made by significant lenders to individuals for the purchase of housing.

This graph tracks the value of loans approved for both owner occupiers and investors.

HOUSING LOAN INTEREST RATE GRAPH

The housing loan interest rate is the average rate of interest being offered by housing lenders. It is higher than the RBA's target cash rate due to lending costs and profit margins.

INFLATION GRAPH

Inflation is measured as a change in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics as the price of a weighted 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households. The Reserve Bank of Australia (RBA) aims to constrain inflation in a long-run target range of 2-3 per cent. The underlying inflation figure (as measured by the RBA) removes volatile items such as fruit and fuel.

NATIONAL RESIDENTIAL CONSTRUCTION GRAPH

This data provides an early indication of trends in building and engineering construction activity. The data are estimates based on a response rate of approximately 85 per cent of the value of both building and engineering work done during the quarter.

NET INTERSTATE MIGRATION GRAPH

Net interstate migration tracks the net population change in each state attributable to interstate migration.

Net interstate migration figures fluctuate with the seasons, so a moving yearly average is shown to filter out these changes.

POPULATION GROWTH GRAPH

Population change tracks the change in population across the states and territories of Australia. Population growth is seen as the key driver of demand for housing.

QUARTERLY VACANCY RATES GRAPH

An industry benchmark for vacancy rates is considered to be 3 per cent. Vacancy rates lower than 3 per cent indicate strong demand for rental accommodation, whilst rates higher than 3 per cent reflect an oversupply of rental accommodation.

RBA COMMODITY PRICE INDEX GRAPH

The Reserve Bank's Commodity Price Index provides an indicator of primary commodity price movements. High commodity prices are one of the primary drivers behind Australia's robust economy, influencing real estate prices, demand for housing and rental accommodation; particularly in Western Australia, Northern Territory, Northern Queensland and as of late South Australia.

RP DATA – RISMARK DWELLING HOME VALUE INDEX GRAPH

The Rismark Dwelling home Value Index graph measures an annual & monthly change in dwelling values of the capital cities.

TIME TO BUY A DWELLING INDEX GRAPH

The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling. It is a component of the Melbourne Institute's Consumer Sentiment Index which is undertaken monthly.

UNEMPLOYMENT RATE GRAPH

Unemployment is calculated as the proportion of people in the labour force that were unemployed and actively seeking work during the survey period.

The labour force is defined as the number of people aged between 16 and 55 who were either employed or actively looking for work during the survey period.

This graph tracks the unemployment rate on a monthly and moving annual average basis over the last 30 years.

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ABOUT PRDnationwide RESEARCH

PRDnationwide's research division provides reliable, unbiased, and authoritative property research and consultancy to clients in metro and regional locations across Australia.

Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sound decisions about residential and commercial properties.

OUR KNOWLEDGE

Access to accurate and objective research is the foundation of all good property decisions.

As the first and only truly knowledge based property services company, PRDnationwide shares experience and knowledge to deliver innovative and effective solutions to our clients and stakeholders

We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections and strategic research collaborations. We focus on understanding new issues impacting the property industry; such as the environment and sustainability, government policy and initiatives, the economy, demographic and psychographic shifts, commercial and residential design; and forecast future implications around such issues based on historical data and fact.

OUR PEOPLE

Our research team is made up of highly qualified researchers who focus solely on property analysis.

Skilled in deriving macro and micro quantitative and qualitative information from multiple credible sources, we partner with clients to provide strategic advice and direction

regarding property and market performance. We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the best considered.

Our experts are highly sought after consultants for corporate, communities, and government bodies; and their advice has helped steer the direction of a number of property developments and secured successful outcomes for our clients and stakeholders.

OUR SERVICES

PRDnationwide provides a full range of property research services across all sectors and markets within Australia.

We have the ability and systems to monitor market movements, demographic changes and property trends. We use our knowledge of market sizes, price structure and buyer profiles to identify opportunities for clients and provide market knowledge that is unbiased, thorough and reliable.

OUR SERVICES INCLUDE:

- Advisory and consultancy
- Market Analysis including profiling and trends
- Primary qualitative and quantitative research
- Demographic and target market analysis
- Geographic information mapping
- Project Analysis including product and pricing recommendations
- Rental and investment return analysis
- Competitive project activity analysis
- Economic indicators
- Social science research, including empirical data collection methods