

AUSTRALIAN PROPERTY AUSTRALIAN ECONOMIC UPDATE

17 OCTOBER 2013

CONTRIBUTORS

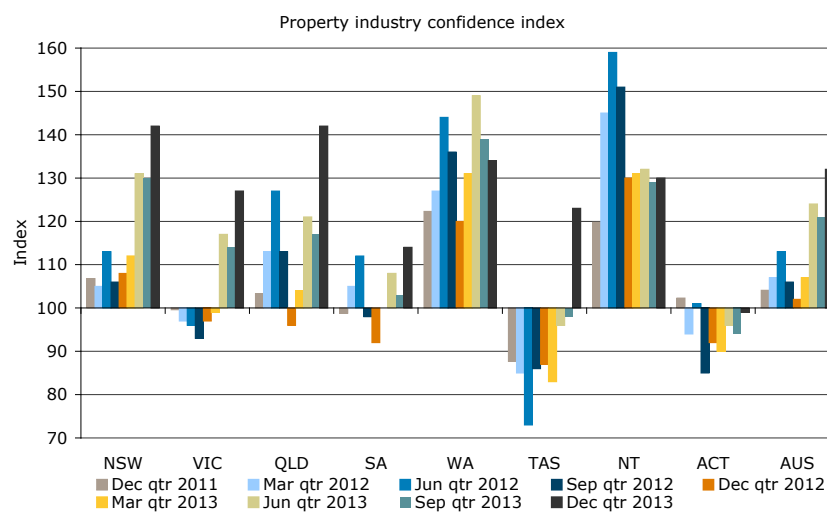
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PROPERTY INDUSTRY CONFIDENCE STRENGTHENS

- **Property industry confidence increased sharply in the most recent Property Council-ANZ Property Survey.** Low interest rates continue to gain traction with the housing market, supporting a positive outlook for dwelling investment and house prices. **This is a positive sign for the broader economy as property will be critical in driving the transition from mining investment towards more interest rate sensitive sectors in the coming year.**
- **Property industry confidence was positive in all states and territories in the December quarter except the ACT,** likely reflecting concerns about the outlook for public sector employment and office property following the change of federal government in September. While the states with the greatest exposure to the mining industry (Western Australia and the Northern Territory) continued to report elevated confidence, property industry confidence increased sharply in New South Wales, Victoria and Queensland. Notably, **this was the first time since 2011 that a non-mining state reported the highest confidence,** with NSW and Queensland posting the strongest confidence across all states and territories in the December quarter (both at 142).
- The December quarter survey polled approximately 3,000 property industry professionals – by far the most comprehensive survey of Australian property industry views – and revealed positive expectations for house price growth, debt finance availability and property construction.

FIGURE 1. PROPERTY INDUSTRY CONFIDENCE REMAINS BUOYANT



Source: Property Council of Australia, ANZ

PROPERTY CONFIDENCE PICKS UP, LED BY HOUSING MARKET STRENGTH

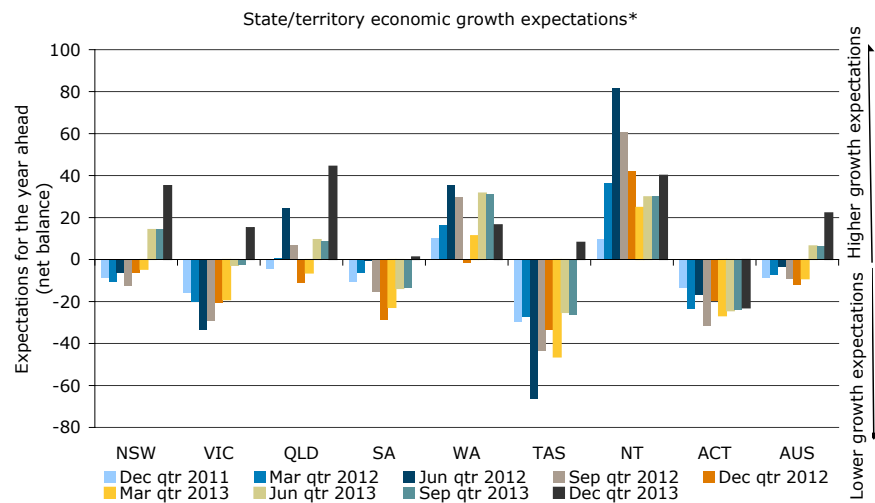
Property industry confidence strengthened in the December quarter. Low interest rates are gaining traction with the housing market in particular, with both dwelling investment and house prices expected to strengthen in the year ahead. **This is a positive sign for the broader economy as property will be critical in driving the transition from mining investment towards more interest rate sensitive sectors in the coming year.**

The Property Council-ANZ Property confidence index increased sharply in the December quarter to post the highest confidence reading in the two-year history of the survey.

Buoyant property sector sentiment aligns with improved business sentiment in recent months in the broader economy. However, commercial property capital growth and construction expectations remain more subdued, reflecting challenging business conditions.

Surveyed national economic growth expectations for the year ahead increased in the December quarter, likely reflecting increased confidence in the non-mining sector's ability to offset the looming decline in mining investment. The net balance of survey respondents expect Australian economic growth to accelerate in the year ahead underpinned by low interest rates and improved debt finance availability.

FIGURE 2. STATE/TERRITORY ECONOMIC GROWTH EXPECTATIONS CONSOLIDATE

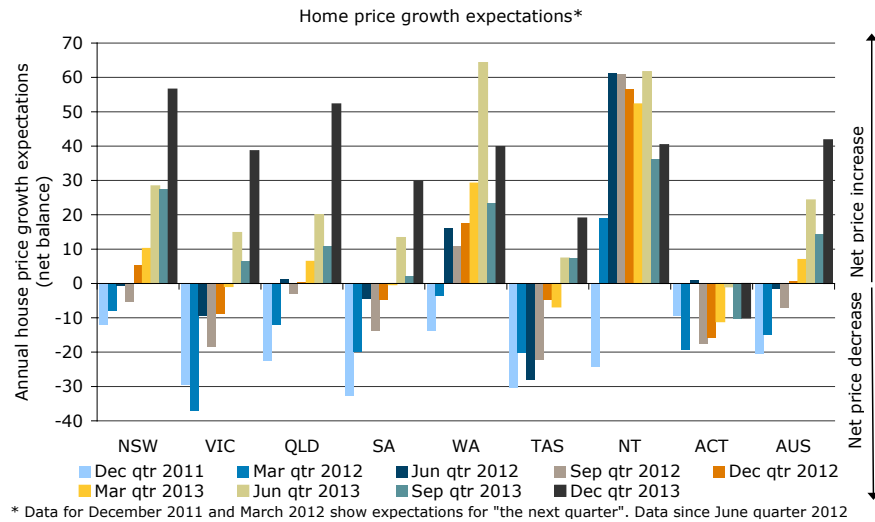


* Data for December 2011 and March 2012 show expectations for "the next quarter". Data since June quarter 2012

Source: Property Council of Australia, ANZ

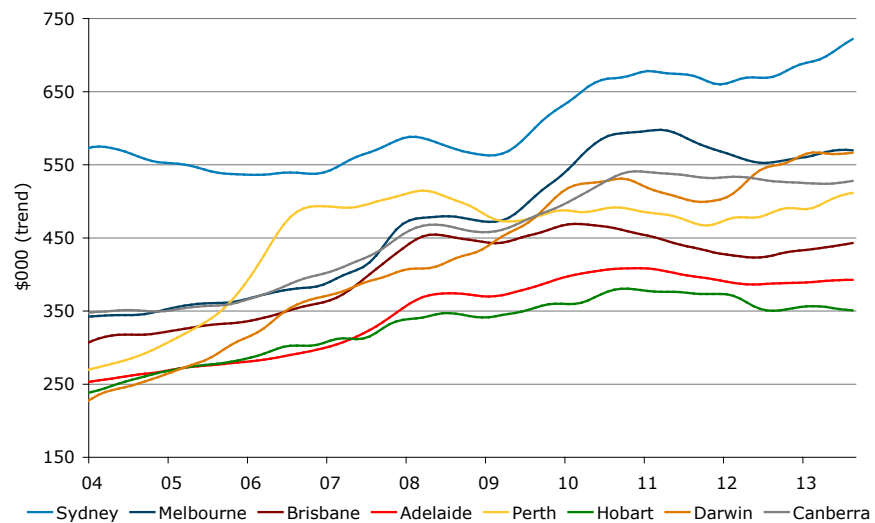
The housing market has strengthened significantly in recent months, led by improved auction clearance rates, volumes and home prices particularly in Sydney and Melbourne. **The December quarter result reflects an increasingly positive outlook for the housing market;** with the property industry expecting higher house prices and a positive outlook for dwelling construction in the year ahead.

FIGURE 3. HOUSE PRICE OUTLOOK MORE BUOYANT



Source: Property Council of Australia, ANZ

FIGURE 4. HOUSE PRICES INCREASING ACROSS MOST CAPITAL CITIES



Source: Residex, ANZ

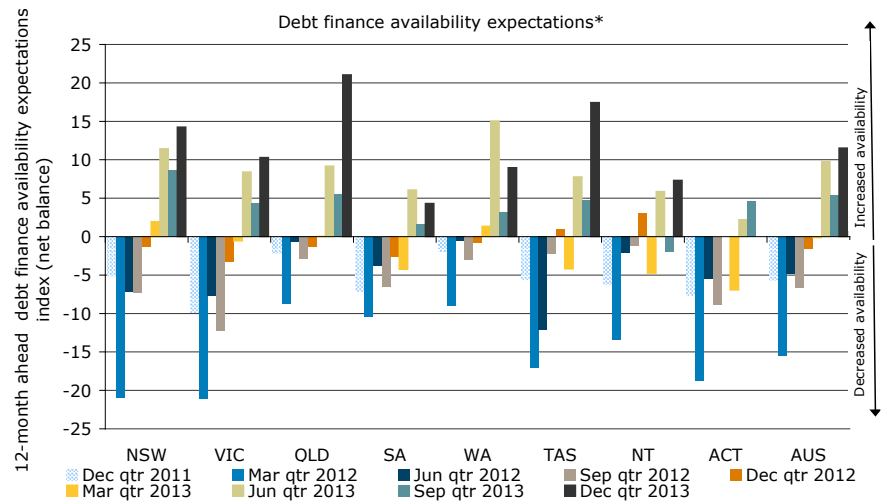
In contrast, commercial property market fundamentals remain soft with commercial property capital growth expectations increasing moderately in the December quarter. Weakening physical demand and increased vacancies and incentives are weighing on the office property market in particular, with secondary properties looking increasingly vulnerable.

Property industry confidence remained positive in all states and territories in the December quarter except the ACT, likely reflecting concerns about the outlook for public sector employment and office property following the change of federal government in September. While the states with the greatest exposure to the mining industry (Western Australia and the Northern Territory) continued to report elevated confidence, property industry confidence increased sharply in New South Wales, Victoria and Queensland.

Notably, **this was the first survey a non-mining state reported the highest confidence**, with NSW and Queensland posting the strongest confidence across all state and territories in the December quarter.

The December quarter survey shows a more positive property industry view on the availability of debt finance, likely reflecting expectations of increased availability of intermediated credit and improved access to direct debt markets in the coming year.

FIGURE 5. DEBT FINANCE AVAILABILITY EXPECTED TO INCREASE



* Data for December 2011 and March 2012 show expectations for "the next quarter". Data since June quarter 2012

Source: Property Council of Australia, ANZ

CONSTRUCTION OUTLOOK REMAINS POSITIVE

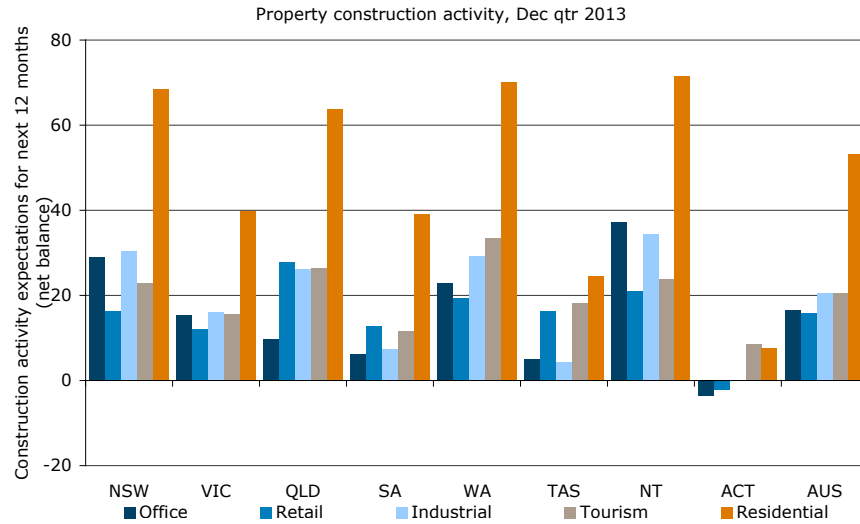
Building activity expectations remained positive across all sectors (in all states and territories except the ACT) in the December quarter with housing continuing to lead the charge.

This result likely reflects expectations for price gains, improved debt finance availability and rising building approvals. However, despite a tightening housing market balance, many of the issues that have restricted development activity in recent years remain in place (including the desynchronisation of state building cycles) and will likely constrain the upturn in home building.

In contrast, the outlook for non-residential construction remains patchy with soft commercial property market conditions creating divergent construction expectations across commercial property sectors. Nonetheless, growth in non-residential building approvals in the first half of 2013 foreshadows a positive outlook for total commercial building activity in the coming year.

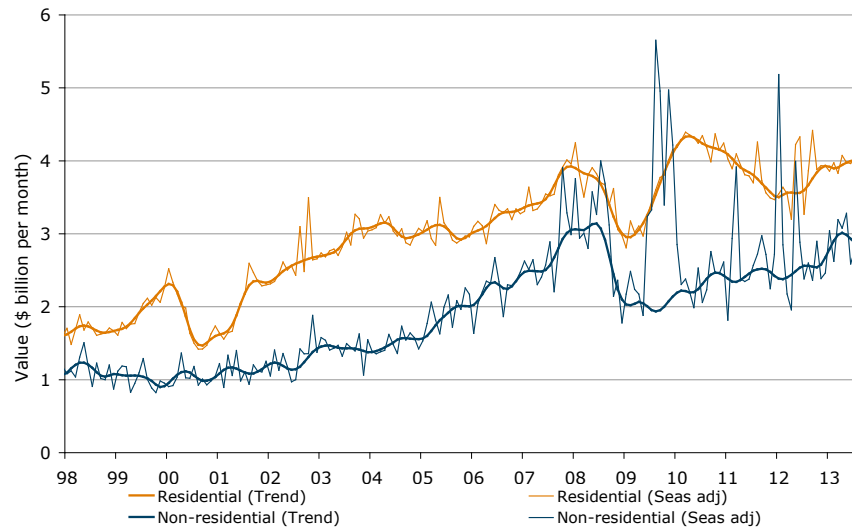


FIGURE 6. BUILDING ACTIVITY EXPECTED TO INCREASE



Source: Property Council of Australia, ANZ

FIGURE 7. COMMERCIAL PROPERTY CONSTRUCTION OUTLOOK IMPROVING



Source: ABS

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