BLUE WEALTH
PROPERTY

AUSTRALIAN
PROPERTY MARKET

# State Of Play

2020



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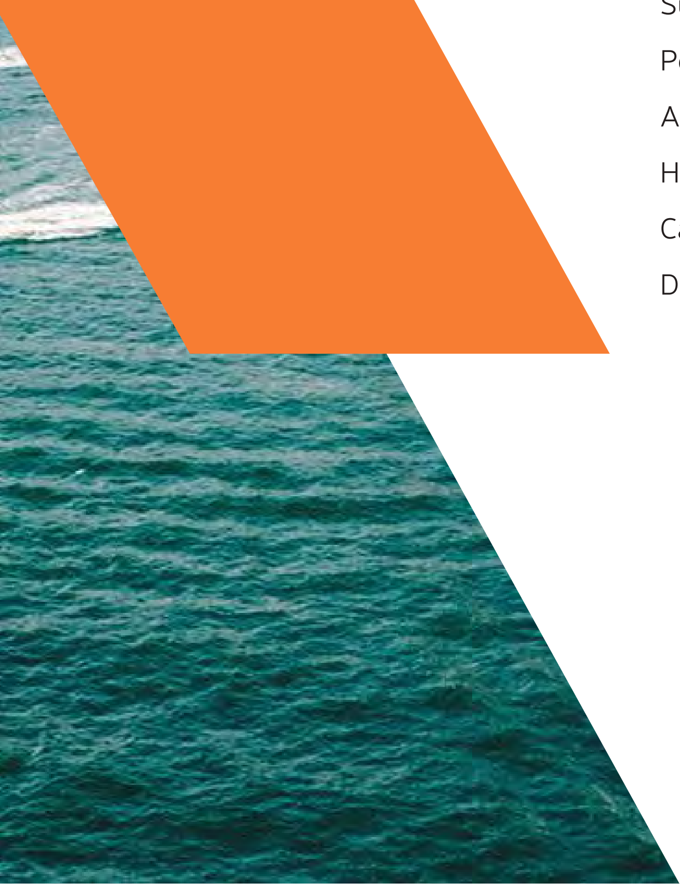

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# STATE OF PLAY

## Introduction

Welcome to our 2020 State of Play. The last few years have delivered mixed results in the Australian property market, but we have rarely been so optimistic about a year ahead as we are today. Inevitably, the property market operates in cycles. There are many factors that contribute to these cycles, which is why we developed our research model. The challenge most property investors face is waiting too long to take action, bolstered more by the actions of others than objective market insights. A few years ago, we saw this play out in Sydney. It was very difficult to articulate that Sydney was a viable investment before its most recent boom, and just as difficult to dissuade people from investing as the boom was reaching its peak. In essence, we follow the logic that it's better to be too early than too late.

In this year's State of Play, we have provided up-to-date insights on how the market has transformed over recent years and in 2019 more specifically. We have also introduced an assessment of a number of popular regions which were not part of previous reports. As always, we have also offered our outlook for 2020 in each of the major markets. A common theme you will pick up is a strengthening of housing affordability due to major macroeconomic transformation that occurred through the course of 2019.

# 2020's Triple Treat

**A number of political and macroeconomic changes took hold throughout 2019 which are expected to have a continuing positive impact on the Australian property market in 2020. The three most significant are:**

## Federal Election Upset

On 18 May 2019, the Australian electorate offered an overwhelming upset victory to the Liberal / National Coalition headed by Prime Minister Scott Morrison. Morrison's miracle win endowed him with an enviable status among former leaders of his party. In our 2019 State of Play, we detailed how proposed Labor changes to residential property investment would, and wouldn't, impact the market. Although we saw that buyers of brand-new property would be affected by these changes minimally, political uncertainty nevertheless took its toll on market sentiment at a time when sentiment was already on shaky ground. Resultantly, property investors and industry professionals worried about Labor's proposed changes rejoiced on the night of 18 May 2019. Regardless of your political persuasion, it is difficult to deny the boost to market sentiment when the coalition were announced as the 46th parliament majority. This observable phenomenon emphasises Blue Wealth Property's argument of not falling victim to the herd mentality, whether that be in a bull or bear market.

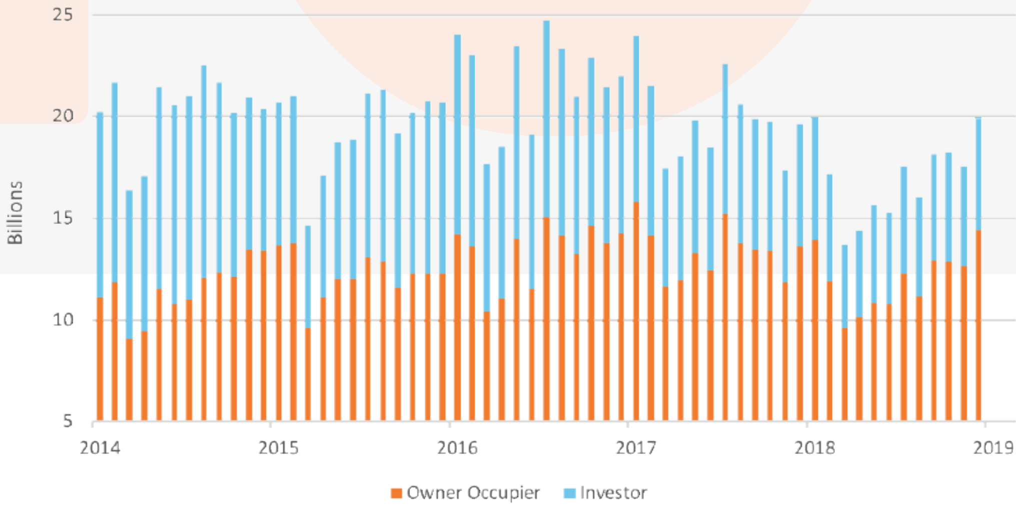
## Plummeting Interest Rates

Over the course of 2019, the Reserve Bank of Australia (RBA) cash rate effectively halved, from 1.5 percent to 0.75 percent over three rate drops of 25 basis points in June, July and October respectively. Many lenders passed on these rate cuts, meaning mortgage interest rates are also at historic lows. Housing affordability is influenced by credit, incomes and prices. This means a friendlier credit environment can lead to stronger property performance. Interest rate drops were correlated with the last Sydney price boom of 2011-17, a period which saw the cash rate drop from 4.75 percent to 1.5 percent. It is very possible Sydney's upswing could have continued if it weren't for market interventions that began taking effect in 2015.

## Regulatory Easing

From mid-2015, the Australian Prudential Regulation Authority (APRA) expressed concern with the growth in investment property lending by imposing tightened requirements on Australian lenders. Some of these included serviceability calculations which required borrowers to prove capacity to make repayments at considerably higher interest rates, as well as changes to what income and outgoings would be factored into a loan application. Almost overnight, home buyers reported their borrowing capacity plummeting. This mostly impacted hot markets such as Sydney, but it also stalled many inner-city developments in Sydney, Melbourne and Brisbane. In 2019, this market intervention was eased which has allowed more buyers into the residential market. The Australian Bureau of Statistics (ABS) have reported a stable increase in housing finance since mid-2019 when these changes took place. This means Australians are once again borrowing more to buy homes.

Total Monthly Housing Finance: Owner Occupiers and Investors (excluding refinancing)




*Source: Blue Wealth Property, Australian Bureau of Statistics*

# Sydney

Sydney began 2019 by continuing its downward trajectory experienced in 2018. By the third quarter of 2019, the ABS reported Sydney's median house price to be at a similar level as it was four years earlier, prior to the peak of the market. The downward rate of correction slowed toward the latter half of 2019, with data from CoreLogic suggesting this period of correction may be over. In the final quarter of 2019, Sydney was reporting a month-on-month median price increase of 2.7 percent, indicating a mild recovery.

In the scenario where Sydney prices continue their positive trend through 2020, this would signify the end to Sydney's 2017-19 correction. Therefore, the total peak-to-trough (June 2017 to March 2019) drop in median house price would be 16.7 percent. This diverges considerably from the alarmist predictions made in the media during 2018 and 2019, some of which warned of price drops of up to 50 percent.

Nevertheless, Sydney's performance over recent years suggests that it is highly responsive to changes in mortgage access and affordability. Property investors interested in the Sydney market should therefore be particularly cautious of purchasing assets which already push the limits of affordability in this record-low interest rate environment. To illustrate, consider that even after a correction, Sydney's median household income (2016 census) as a multiple of current median house price is 9.73. In contrast, Melbourne's is 8.6 and Brisbane's just 6.5.

**2010**
**Population: 4,189,855**
**Median house price: $583,000**

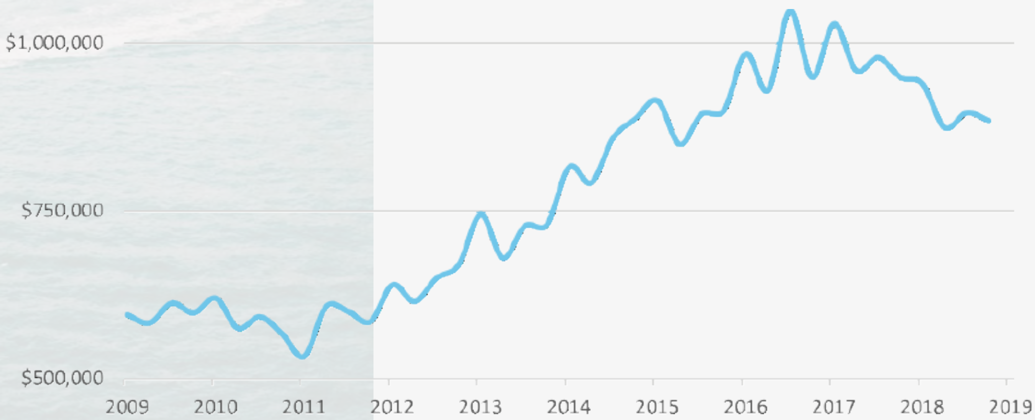
**2020**
**Population: 5,361,123**
**Median house price: $885,000**


Throughout 2019, Sydney's rental vacancy rate sat around 3.2 percent which is double the figure of early 2017. Nevertheless, 3.2 percent still represents a figure approximating equilibrium of supply and demand. The upward trend of vacancies can be attributed to a number of factors, including a stronger supply of new property over recent years and a persistently negative rate of net interstate migration (NIM). In 2018-19, negative NIM reached its highest level in more than a decade. Some of this was caused by the highly publicised brain drain Sydney has experienced, whereby young talent relocate interstate where their income has more purchasing power.

## Outlook for 2020

Most signs are pointing to a positive 2020 in Sydney, with macroeconomic forces working together more significantly than at any other time in recent years. Since Sydney buyers tend to push the limits of affordability in this highly competitive market, we expect that to play out in higher-demand markets throughout the year. Property investors should be weary of being pulled into the kind of market hysteria Sydney experienced between 2013 and 2017. As the most recent correction taught us yet again, it can be very detrimental to pay excessive premiums in areas pushing the limits of affordability, despite the fact this is when most buyers are active in the market.

Sydney 10Y Median House Price




*Source: Blue Wealth Property, Australian Bureau of Statistics*

# Newcastle

Newcastle, located approximately two hours north of Sydney, is more populous than three state or territory capitals, earning itself commentary in this year's State of Play. Newcastle and surrounds were beneficiaries of Sydney's recent housing price boom, but also benefited from major infrastructure projects over recent years that have transformed both the demographic and the city itself. This was spearheaded by the NSW Government's "Revitalising Newcastle" initiative which included removing the train line splitting the city in half and replacing it with light rail, which was opened in early-2019.

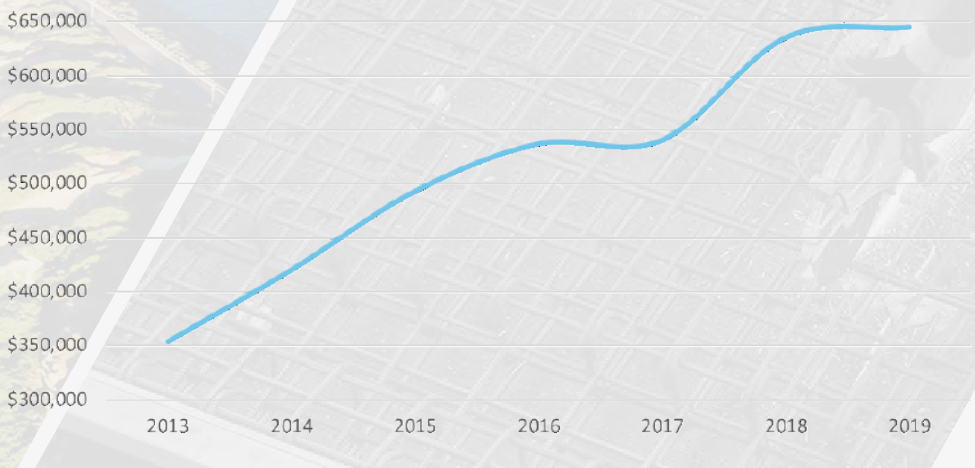
Building activity in inner-Newcastle higher-priority development areas have caused major rental vacancy volatility, with the designated "West End" precinct experiencing vacancy rate fluctuations between 0.5 percent and 11.5 percent over the last three years. At the end of 2019, vacancies in this area were notably high at 6.4 percent. Unit prices in this area have continued to surge despite tighter credit conditions and Sydney's correction, with the 2019 median price reaching $644,750.

Major public and private investment has led to gentrification which has also positively impacted inner-city suburbs. Mayfield, until recently known as a cultural backwater suburb, reached a median house price of $600,000 in 2018 but has since cooled off. This trend is consistent with neighbouring suburbs such as Carrington and Islington.

**2010**
**Population: 447,384**
**Median house price: $451,500**

**2020**
**Population: 498,159**
**Median house price: $732,500**

Newcastle West Median Unit Price




*Source: Blue Wealth Property, REA*

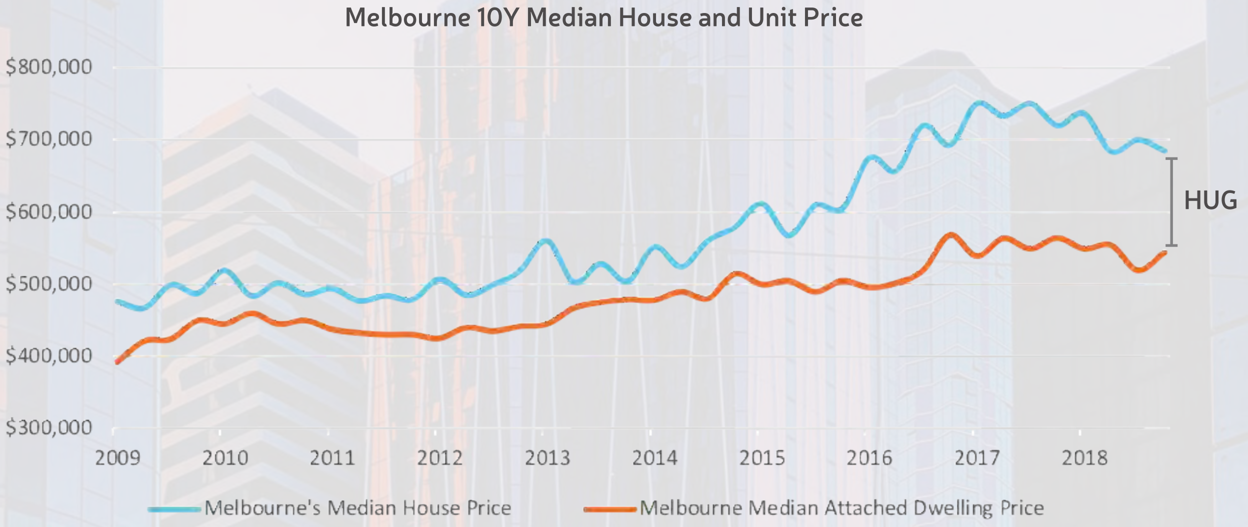
## Outlook for 2020

2019 was Newcastle's worst performing year in recent history, however the aforementioned triple treat is likely to breathe some fresh air into the market. Newcastle tenants will increasingly find that mortgages are more affordable than what they're paying in rent which may lead to a surge in activity from first home buyers. As the grants available to first home buyers in NSW are limited to homes under $800,000, Newcastle buyers have more purchasing power than their Sydney counterparts. Rental vacancies continue to be a risk in the inner-city.

# Melbourne

During the Sydney property price correction of 2017-19, some pundits also applied scrutiny to Melbourne. By comparison, however, Melbourne came out comparatively unscathed with a peak-to-trough median house price drop of just 8.8 percent. In the recent past, a growth rate of equal magnitude has been achieved in as little as one or two quarters. Suburb-to-suburb variations are inevitable, which implies some areas would have experienced stagnation or even growth over this period. For instance, data provided by REA shows that Mickleham house prices (to the city's north) remained stable over this period and Heidelberg apartments (in the city's north-east) grew in median price by 6.7 percent. This emphasises the importance of selecting markets by more than just macro (citywide average) trends.

In recent years, Blue Wealth Property have been reporting on the large house-unit gap (HUG) in Melbourne. Such a significant house price premium over units would inevitably lead to forces working to reduce that gap as time progressed. Some of these forces include a growing inclination for young families to have less children and accept higher density living. Others include affordability, lifestyle, amenity, gentrification, population growth and maintenance. Melbourne's most recent median unit price from the ABS is just 4.7 percent below its peak in 2017, noting again that many submarkets actually grew in value over that period. As a result, the HUG had begun to reduce over the course of 2018 and 2019. This trend is expected to continue in the mid-term.



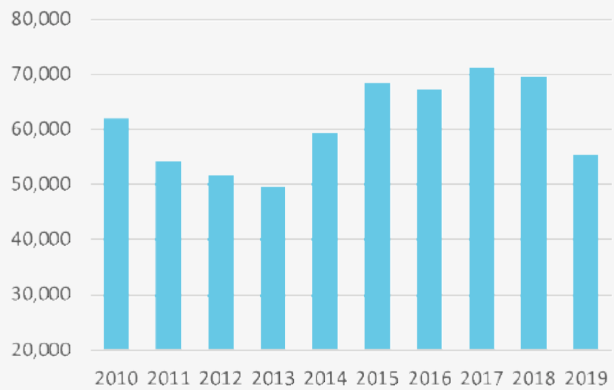

*Source: Blue Wealth Property, Australian Bureau of Statistics*

**2010**
**Population: 3,965,582**
**Median house price: $468,000**

**2020**
**Population: 5,099,975**
**Median house price: $685,000**

Melbourne and Victoria's tale of a booming population over recent years has persisted. The state's 2018-19 financial year population growth was the country's highest by both percentage (2.1% on the previous year) and quantity (approximately 132,800 people). At this rate, Victoria would require an additional 51,000 homes each year. Melbourne is feeling much of this pressure, with rental vacancies reaching as low as 1.6 percent in 2019. Melbourne has been forecast to overtake Sydney as Australia's most populous city for some years now, but an initial forecast that this would occur in 2051 has been revised and brought forward by more than two decades to 2026 in the event that current trends persist. By 2050, Melbourne's population size is set to resemble present day London and New York. To put this timeline into perspective, consider that we are as far from 2050 as we are from 1990.

Victoria Building Approvals
2010-2019




*Source: Blue Wealth Property, Australian Bureau of Statistics*

Melbourne's growing national and international significance is evidenced in various ways. The University of Melbourne has again been ranked as Australia's top university by Times Higher Education and number two by QS Top Universities. Other globally competitive universities in the city include Monash, RMIT, Deakin and Swinburne, which contribute to Melbourne's status as the third-ranked student city in the world (behind London and Tokyo). For several years, Melbourne gained considerable publicity for ranking as the Economist Intelligence Unit's world's most liveable city, now second place behind Vienna (Austria).

In 2018, Melbourne was ranked among the likes of Frankfurt (Germany), Toronto (Canada), Kuala Lumpur (Malaysia) and Zurich (Switzerland) as an "alpha" global city by the Globalization and World Cities Research Network. As Victoria's capital, Melbourne also benefits from the state's position as the country's best performing economy, as determined by CommSec's State of the States report from late-2019. Victoria boasts Australia's highest level of economic growth and lowest level of unemployment. According to the RBA, Victoria accounts for almost a quarter of the entire country's economic output. These factors combine to offer a glowing assessment of not just Melbourne's current circumstances, but also its future.

## Outlook for 2020

Melbourne survived the credit crunch and negative market sentiment of 2015-19 much more effectively than northern rival, Sydney. This illustrates a lower level of sensitivity to these negative market forces which is promising for Melbourne both in 2020 and the long term. As construction activity continues in Victoria, the balance of supply and demand will be key to determining which areas perform better than others. This has been a common trend in Melbourne, with all-too-familiar areas like Docklands and the City of Melbourne experiencing double-digit rental vacancies while neighbouring suburbs were experiencing undersupply. Due to positive price growth in some areas over recent years, the viability of some suburbs will begin to fade as others emerge.

# Brisbane

Brisbane has endured an interesting and somewhat frustrating decade for some property investors. At the beginning of 2011, the city experienced a major flooding event which shook market sentiment at a time the country's economic confidence was also unstable. In the following years, Brisbane's comparatively slow price growth combined with strong household incomes increasingly contributed to the city's status as one of the country's most affordable.

Undeniably, Brisbane's theme of the 2010s was transforming from an oversized town with an unhealthy dependence on the resources sector to a global city in its own right, and the self-styled gateway to Asia. This transformation required an infrastructure and economic revolution, which certainly took place and is continuing. Brisbane Airport's second runway began construction in 2012 and is scheduled to open in 2020. This major infrastructure project is accompanied by others that have, or are expected to, radically transform the city. Some of these include the Queen's Wharf, Brisbane Quarter, Northshore Hamilton and Howard Smith Wharves developments.

Market timing has proven to be a challenging endeavour in some parts of Brisbane. During the city's prolonged period of major transformation, heavier levels of residential development have also been underway in some select areas. Often, this has been concentrated in government-designated priority development areas. This led to temporary periods of price stagnation and higher rental vacancies, particularly in the inner city. The sudden end to inner Brisbane's apartment development pipeline over 2018 and 2019 was accompanied by sharp declines in rental vacancies.

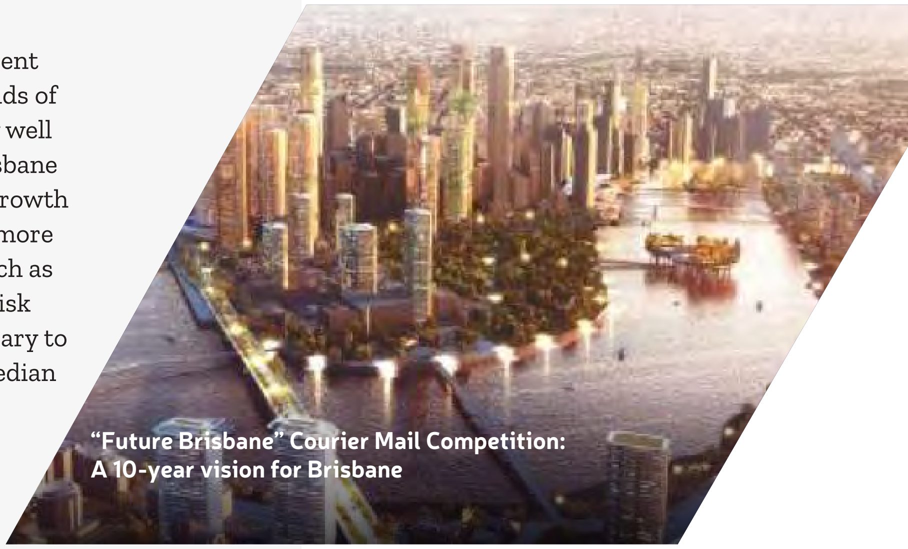
**2010**
**Population: 2,038,737**
**Median house price: $460,000**

**2020**
**Population: 2,517,501**
**Median house price: $535,000**

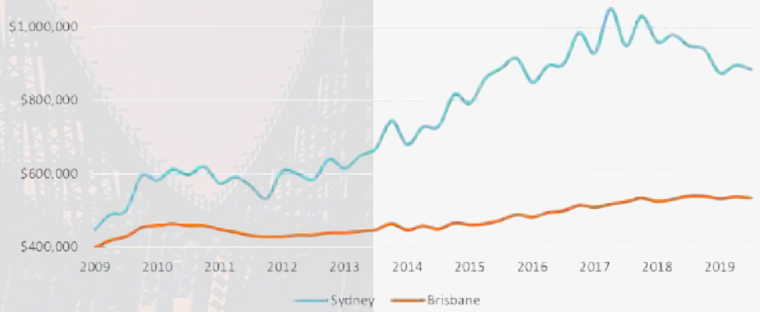
In West End, rental vacancies fell from 7 percent in November 2018 to 2.8 percent in February 2019. On the opposite side of the CBD in Fortitude Valley, rental vacancies fell from 6.1 percent in October 2018 to 3.3 percent in April 2019.

Despite inner-Brisbane's supply fluctuations over recent years, the city offers some of the strongest rental yields of any major market. This means investors are typically well equipped to withstand the prolonged stagnation Brisbane has experienced over the past decade. Stabler price growth over the past decade also means that Brisbane is far more immune to the affordability issues plaguing cities such as Sydney. This is useful when developing a long-term risk mitigation strategy. To illustrate, consider that contrary to what was being experienced in Sydney, Brisbane's median house price actually increased by 13 percent between late-2015 and late-2019. Since units stagnated over that period, their affordability has correspondingly strengthened more so.


Brisbane aerial shot in 2005


"Future Brisbane" Courier Mail Competition:
A 10-year vision for Brisbane

Sydney v Brisbane
Median House Price 2009 - 2019




*Source: Blue Wealth Property, Australian Bureau of Statistics*

## Outlook for 2020

In 2020, the right ingredients are coming together to fuel Brisbane's long-anticipated surge in property performance. Supply of new housing is lower than at any point in recent years, the population is continuing to boom, and the city continues to be one of Australia's most affordable. Once finance is again made more readily available to property developers in the city, priority development areas will likely experience a new injection of housing supply, enabling the city to continue balancing supply and demand in one of Australia's fastest growing cities. Until then, rental vacancies will become increasingly tighter as demand outstrips supply. In current conditions, the cost of Brisbane housing and the accompanying lifestyle benefits will further fuel near-record level migration to the sunshine state. This will see Brisbane transition from a buyer's market to a seller's market in the short-medium term.

# Gold Coast

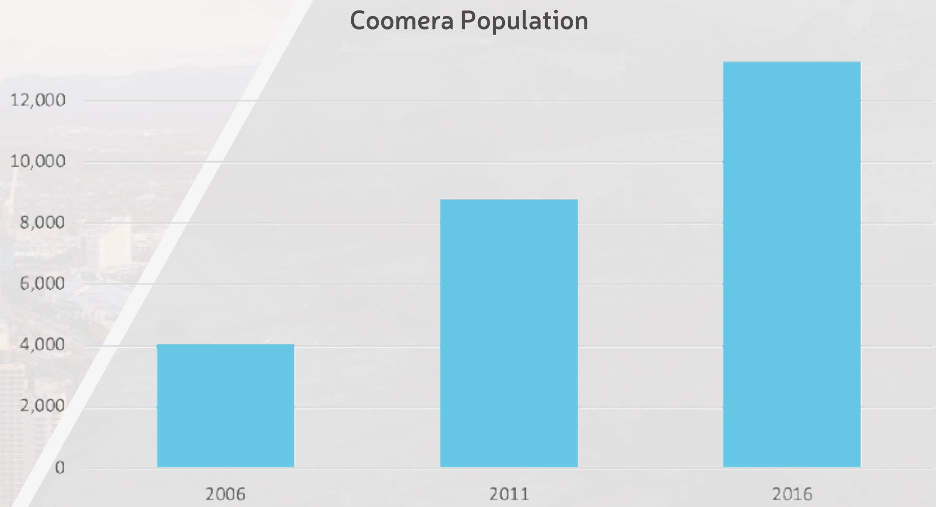
Combined with Brisbane, the Gold Coast and Sunshine Coast make up the vast majority of South-East Queensland's coastal region. The three neighbouring urban areas account for two-thirds of Queensland's population, despite representing a small fraction of total land mass. The Gold Coast is also the sixth largest urban area in the country, and the largest non-capital.

The Gold Coast has wrestled with reputational challenges for decades, particularly when it comes to culture broadly and the real estate industry specifically. It was also known for the presence of gangs before state government intervention. In truth, the Gold Coast is a dual personality region, with Surfers Paradise and surrounds contrasting significantly with the suburban population. Property performance contrasts also exist between these areas.

In 2018, the Gold Coast hosted the Commonwealth Games which was accompanied by an infrastructure and population boom. An area that experienced rapid growth around this time was the northern suburb of Coomera, where the population effectively tripled in the ten years to 2016. Coomera has reported steady property performance in recent years despite high levels of construction activity. The rental market has remained in a stable state of mild undersupply between 2018 and 2019, with the rental vacancy rate ranging between 1.5 percent and 2.8 percent. Surfers Paradise on the other hand, experiences seasonal volatility which can see vacancies increase beyond 7.5 percent during winter months. This has mellowed in recent years, but indicates a more short-term, transient population.

**2010**
**Population: 571,400**
**Median house price: $512,500**

**2020**
**Population: 699,822**
**Median house price: $667,500**




*Source: Blue Wealth Property, Australian Bureau of Statistics*

## Outlook for 2020

Over 2020 and the short-to-medium term, the Gold Coast is expected to experience cycles of supply and demand imbalance as government attempts to stay ahead of the region's booming population. This means brief periods of price stagnation and rental vacancy. However, the Gold Coast is a strong long-term investment due to the significant amount of infrastructure and economic activity that isn't directly linked to its traditional industry of tourism. Once new areas in the Gold Coast become matured markets, earlier entrants will benefit from a point of difference of lot size, premium location and purchasing before the completion of major infrastructure pushes up prices.

# Sunshine Coast

The Sunshine Coast in general is known as a much more stable market than the Gold Coast, and a more common favourite of South-East Queensland locals. This is reflected in demographic statistics, with almost three-quarters of Sunshine Coast residents having been born in Australia, as well as projected population growth of over 150,000 in the next two decades. The Sunshine Coast's appeal is also reflected in property market statistics, with much less seasonal deviations in vacancy and a vacancy rate almost consistently below 2 percent since 2012.

The Sunshine Coast local government are highly anticipating South-East Queensland's bid for the 2032 Olympic Games. The winner is expected to be announced in 2022. The SEQ Council of Mayors released a feasibility study into their bid in early-2019, which has since been supported by both the federal and state governments. It is expected that multiple venues would be located in the Sunshine Coast, which delivers an expectation of an ongoing financial injection and continued infrastructure upgrades in the region. Some already in the pipeline include the $7 billion Aura masterplanned city, $2.1 billion SunCentral, $400 million Sunshine Plaza upgrade and $700 million international broadband submarine connection (leading to the Sunshine Coast achieving Australia's fastest broadband).

**2010**
**Population: 265,622**
**Median house price: $429,500**

**2020**
**Population: 344,270**
**Median house price: $640,000**

The past decade has seen considerable infrastructure already added to the Sunshine Coast and nearby northern Brisbane. This has included improvements to freeways, town centre revitalisations, university expansions and the construction of a new hospital and healthcare facilities. In 2020, the $347 million Sunshine Coast airport expansion is expected to be completed, adding more than 1,500 operational jobs in the area and $4.1 billion to the local economy.

Property performance in suburbs near major infrastructure projects has been positive. The median house price in Birtinya increased by $120,000 between 2016 and 2018. It has since corrected mildly. The suburb's rental vacancy rate has barely surpassed equilibrium in over a decade, illustrating persistent rental demand. More than one in ten working residents in the suburb are employed in healthcare, a rate considerably higher than the national average and reflective of its proximity to Sunshine Coast University Hospital.

## Outlook for 2020

There have been considerable amounts of residential development in the Sunshine Coast, and still land left for this to continue as the region centre continues to grow in economic significance. As is the case for the growth areas of the Gold Coast, some parts of the Sunshine Coast will experience mild volatility as the market matures. There are still some opportunities to be found in this region, however investors should be cautious of further fuelling the boom experienced by some suburbs. Particularly those which have experienced double-digit growth over recent years.

# Perth

Western Australia's dependence on the resources sector has been both a blessing and a curse. In the 2018-19 financial year, mining alone accounted for 36 percent of Gross State Product (GSP). Iron ore is a major export for WA. As a result, the price and demand for iron ore influences the broader WA economy. Between 2002 and 2019, the price of iron ore and Perth's median house price followed a relatively similar trend. During periods of high iron ore prices, the property market was performing at its best. As the iron ore price weakened, so too did the property market. The correlation between these two variables was moderate-to-strong, with a coefficient of 0.66.

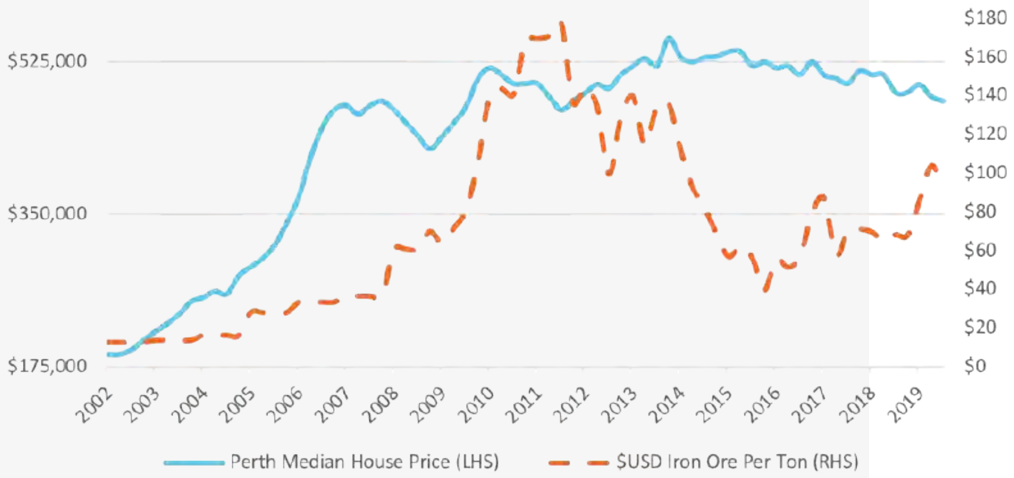
Weak conditions in the mining sector also influence WA's population growth. Over the financial year 2018-19, the state recorded an increase of just 27,499 residents. This is a mere fraction of the growth experienced by Victoria over the same period, but a promising improvement on the previous financial year. Last year's State of Play prediction that Perth's downturn would slow did eventuate. Over 2019, the median house price was essentially stagnant, with very mild variations reported each quarter. Rental vacancies have continued their downward trajectory which is great news for Perth landlords. By the end of 2019, the city's vacancy rate had reached a point below equilibrium, at 2.4 percent. In 2016, it was as high as 5.5 percent.

**2010**
**Population: 1,752,733**
**Median house price: $518,000**

**2020**
**Population: 2,087,288**
**Median house price: $480,000**

Perth's higher-level decline in rental vacancy was experienced in equal or greater proportions in suburbs such as North Coogee (2.2 percent), Fremantle (3.2 percent) and Cockburn (2.5 percent). Rental yields for units are strengthening in Perth, with the 2-bed average sitting at 4.8 percent at the beginning of 2020. With recent interest rate declines, increasingly more property investors in this city will find themselves neutrally or even positively geared. As a result, they will be better equipped to await stronger price performance in the future.

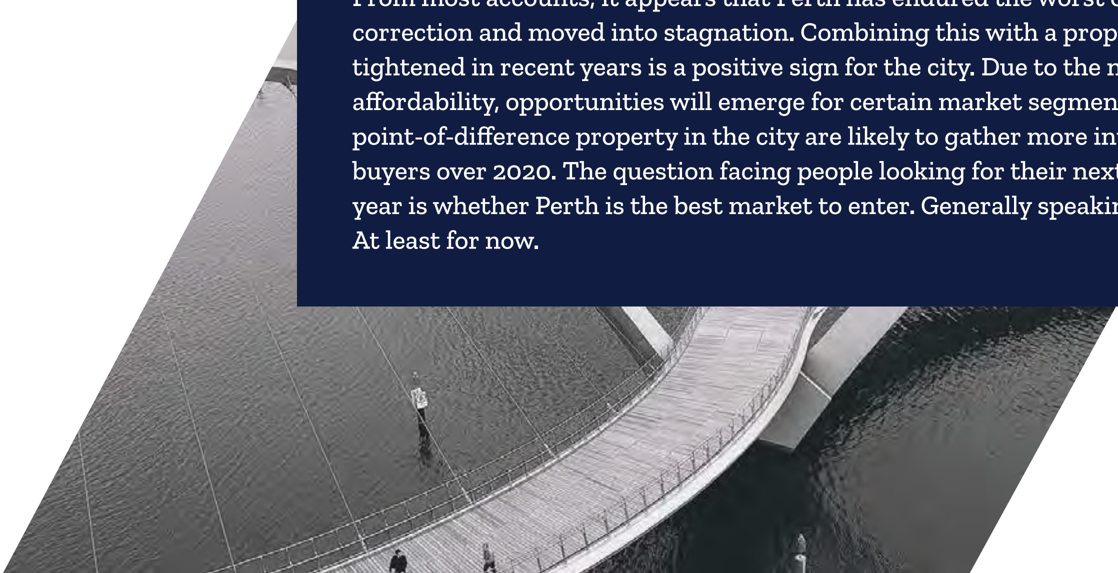
Perth Median House Price vs. Iron Ore Price




*Source: Blue Wealth Property, Australian Bureau of Statistics. MarketIndex.com.au*

## Outlook for 2020

From most accounts, it appears that Perth has endured the worst of the post-mining boom correction and moved into stagnation. Combining this with a property market that has tightened in recent years is a positive sign for the city. Due to the now-stronger level of affordability, opportunities will emerge for certain market segments. In particular, owners of point-of-difference property in the city are likely to gather more interest from tenants and/or buyers over 2020. The question facing people looking for their next investment property this year is whether Perth is the best market to enter. Generally speaking, our research suggests not. At least for now.



# Adelaide

Adelaide has been an interesting performer over the past decade. As Australia's fifth-largest city, it may come as a surprise that it's so often overlooked by property investors. From a demographic perspective, Adelaide's median age (39) is higher than the national figure (38) and several years higher than the four larger cities. Adelaide is also a much less populous city than the next largest city, Perth. The 2016 census reported a population of 1.3 million. Additionally, South Australia's population grew by just 15,166 in the 2018-19 financial year -- a little over half of Western Australia's already-lacklustre growth.

By factoring South Australia's average people per household from the most recent census, the annual demand for new housing across the entire state was just 6,320. Such a small market risks exposing Adelaide and broader SA to heavier supply and demand imbalances and fluctuations.

Despite Adelaide's risk of sensitivity to new property supply, the rental market has been progressively tightening over recent years. Between late-2016 and late-2019, Adelaide's rental vacancy rate dropped from 2.1 percent to 1.1 percent. Tight vacancies and stagnant property prices over recent years have led to a strengthening of rental yields, with apartments yielding approximately 5.5 percent and houses above 4 percent.

**2010**
**Population: 1,234,762**
**Median house price: $402,000**

**2020**
**Population: 1,356,066**
**Median house price: $468,000**


Adelaide house prices took 13 years to double, now at the approximate median of $470,000. Although this price is competitive in comparison to the Australian cities, the ratio of average annual household income to median house price doesn't make it the outstanding bargain investment that one may expect. In fact, Brisbane houses are more affordable by that metric despite being priced considerably higher.

Lower wages in Adelaide can be largely attributed to lacklustre economic performance. In late-2019, CommSec reported SA's unemployment rate to be 6.5 percent, which is much higher than the 4.8 percent reported of easterly neighbour, Victoria. SA has been quite consistently rated toward the bottom of Australia's states economically.

In 2020, construction commences in Adelaide on a $35 billion frigate contract to build nine *Type 26 Global Combat Ships* for the Royal Australian Navy. 1,500 jobs from this project will be created specifically in the SA-located shipyard, which involves 100 SA businesses. A new class of submarines, at an investment of $50 billion, are also expected to commence construction in the same shipyard in the coming years.

## Outlook for 2020

Sentiment is often a stronger driver in Adelaide than what has been usual elsewhere. The aforementioned shipbuilding contracts are likely to inject some more optimism into the Adelaide market. Since the availability of credit is improving and rental vacancies are so tight, 2020 might just be a big year for first home buyers in Adelaide. It is possible Adelaide property prices will experience an upswing in the low-to-mid single digits. Levels of affordability will limit that growth into the future unless the supply and demand imbalance persists and more long-term employment prospects attract larger rates of population growth and investment.

# Hobart

The belle of the ball over the last couple of years has undoubtedly been Australia's southernmost state capital. Hobart, a city dwarfed by multiple Australian towns, comes in as the country's 12th most populous urban area. In fact, the entire state of Tasmania reported a population of just 269,893 people in mid-2019. To put this into perspective, Victoria's population grew by 50% of the entire Tasmanian population in a single financial year (2018-19). The median age of Hobart is 40 and broader Tasmania, 42. This makes the state's population considerably older than the national average of 38 which brings unique challenges including maintaining government revenue, infrastructure, public services and employment.

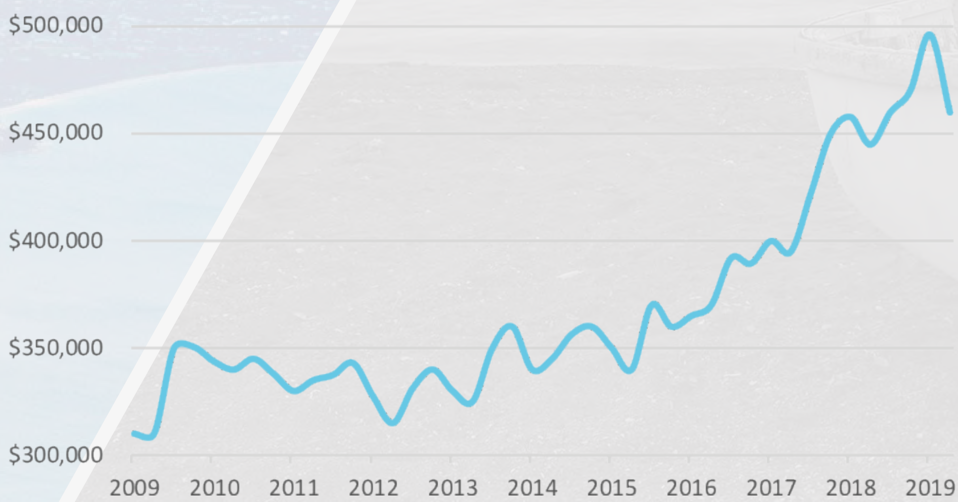
The recent attention garnered by Hobart is in big part attributed to its impressive property performance over recent years while many other parts of the country were experiencing a correction. In the six years between 2009 and 2015, Hobart's median house price had hardly moved at all, but between 2015 and 2019 it had skyrocketed 46 percent to a high of $496,300. During that time, quarterly dwelling commencements had also surged upward from a low of 504 in Q4 2016 to a high of 778 in Q2 2018 and 774 in Q2 2019. Many commentators attributed this to a surge of interest in relocations from the mainland, and the inability for the supply of new property to keep up.

It is important for property investors not to interpret Hobart performance the same as they would a larger city. Because of Hobart's miniscule size, resale statistics come from a small sample size. This means a disproportionate number of higher-end property sales (largely on the part of retiring baby boomers) can distort the median house price despite other price brackets having limited movement. As a result, some property types and price brackets in Hobart wouldn't be achieving the levels of growth reported by various sources.

**2010**
**Population: 197,020**
**Median house price: $350,500**

**2020**
**Population: 235,458**
**Median house price: $460,000**

Hobart Median House Price 2009 - 2019




*Source: Blue Wealth Property, Australian Bureau of Statistics*

## Outlook for 2020

Many are predicting that Hobart will continue an upward trajectory of price growth in the coming years, however improved affordability on the mainland will likely work to Hobart's disadvantage. As such a small market, investors should take note that the risk is akin to investing in a town of comparable size and not the same as buying somewhere like Sydney, Melbourne or even the Sunshine Coast. A single development in one of these cities is the equivalent of an entire three months of housing supply in Tasmania. Hobart is therefore considered to be too volatile for sustainable long-term investment. Although more price growth in some parts of Hobart is likely over 2020, investing would be the likely equivalent of investing in Sydney in 2016, when the city was well into its boom and showing signs of strain.

# Canberra

The nation's capital has been another market attracting attention over the last year. Since the beginning of Sydney's correction, Canberra's market has actually performed well. Median house prices peaked toward the end of 2018 at $720,000 and have ranged between the high-$600,000's and low-$700,000's since. Last year, it was observed that a surplus spike in housing supply could lead to a period of increased rental vacancy. This did eventuate but has been limited in magnitude so far.

In Q3 2018, the number of new dwelling commencements was the highest since records began in the 1980s, reaching 2,766. This is more than double the 10-year average of 1,196. In November 2019, Canberra's vacancy rate peaked at 1.7 percent. This still indicates a persistent undersupply of rental property.

Canberra's uniqueness as a capital city is largely attributed to its status as a major public service employment hub. Of the top five industries of employment in the Australian Capital Territory, three of them are government: central government administration, defence and state government administration. In total, these industries equate to more than a quarter of total employment in the territory. In the broader Australian community, this combined proportion is just 3.4 percent.

**2010**
**Population: 398,488**
**Median house price: $530,000**

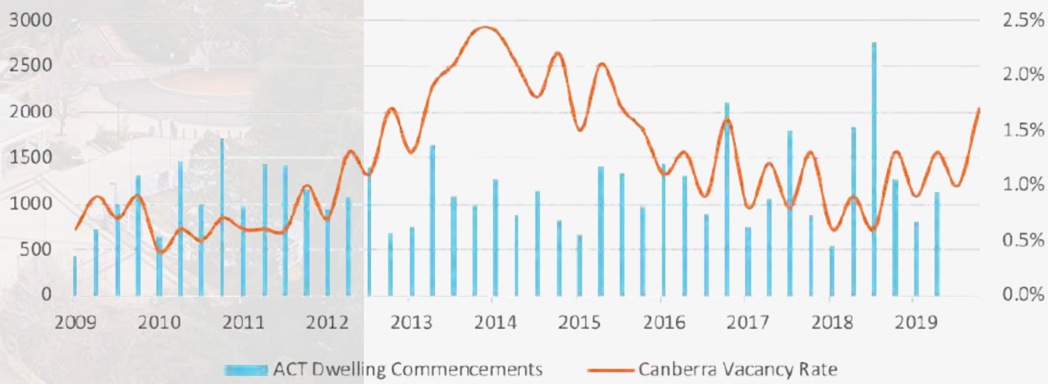
**2020**
**Population: 429,490**
**Median house price: $673,800**

## Outlook for 2020

With a landmark Coalition election upset achieved in 2019, it is unlikely Canberra will experience a swelling of federal government bureaucracy for the next three years. In addition, it is likely Canberra's recent upswing in rental vacancies hasn't met its peak. Through the beginning of 2020, Canberra landlords should expect a softening of the rental market which may also impact home values. As was the case in 2019, 2020 home prices in Canberra are likely to mildly fluctuate until the new supply is absorbed. With new property supply reaching the market, it will unlikely be a good time to sell.

Government employment is a major driver of employment performance in the ACT. Generally speaking, this means a larger federal government bureaucracy is a positive for the ACT, but a negative for other cities due to its regular association with higher property taxes and lower tax offsets (most recently contested in the 2019 federal election). To put political party and employment into context, consider that the 2011 census was conducted four years into Labor leadership. At that time, there were 39,346 central government-employed residents of the ACT. By the 2016 census, the Coalition had been in power for three years and the number of central government-employed residents of the ACT had fallen by more than 1,500. For the sake of comparison, 1,500 jobs is the number created in Adelaide for the $35 billion frigate construction project and Canberra's population is barely a third of Adelaide's.

ACT Dwelling Commencements and Rental Vacancy Rates




*Source: Blue Wealth Property, Australian Bureau of Statistics, SQM Research*

# Darwin

When people think of Darwin, many likely think of both heavy industry and defence. Few cities and towns in the country have such a presence from all three branches of the Australian Defence Force, and just as few are as close to foreign lands. 12.5 percent of Darwin's workforce are employed in defence or state government administration. As far as scale is concerned, however, Darwin is a small player. So small in fact that its population is less than a third of the Newcastle and Hunter region. Its disproportionately high representation in the media inevitably comes from its status as the capital of the Northern Territory, as well as the poor property performance it has experienced in recent years.

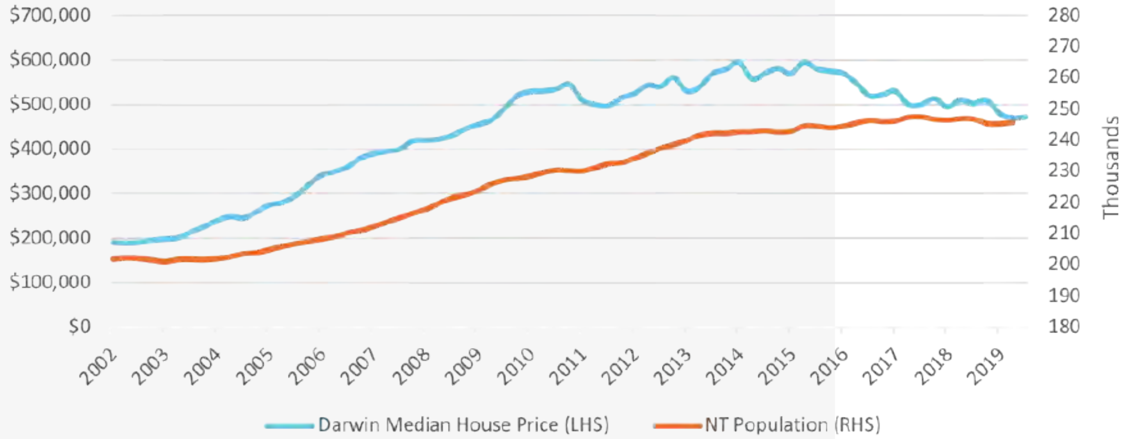
The lack of new employment opportunities in Australia's northernmost capital has led to a number of outcomes. One of these is NT's status as the country's economically worst performing state or territory according to CommSec's late-2019 State of the States report. NT is also one of few places in Australia with negative population growth, having reached a peak of 247,565 in mid-late 2017. The territory's population changes are very highly correlated with the performance of Darwin houses, with an almost-perfect coefficient of 0.92 (1 being the maximum).

**2010**
**Population: 116,047**
**Median house price: $529,000**

**2020**
**Population: 152,912**
**Median house price: $472,000**

NT's weak population growth contributes to a prolonged period of higher than average rental vacancies in Darwin. In late 2014, the city's vacancy rate surged from undersupply (1.4 percent) to equilibrium (3.3 percent), with further increases in 2015. Since this period, Darwin's vacancy rate hasn't dropped below 2.6 percent and reached as high as 4.3 percent. By comparison to cities and regions of equal size, these vacancy levels aren't particularly problematic. Nevertheless, they represent a prolonged shift in Darwin's rental market.

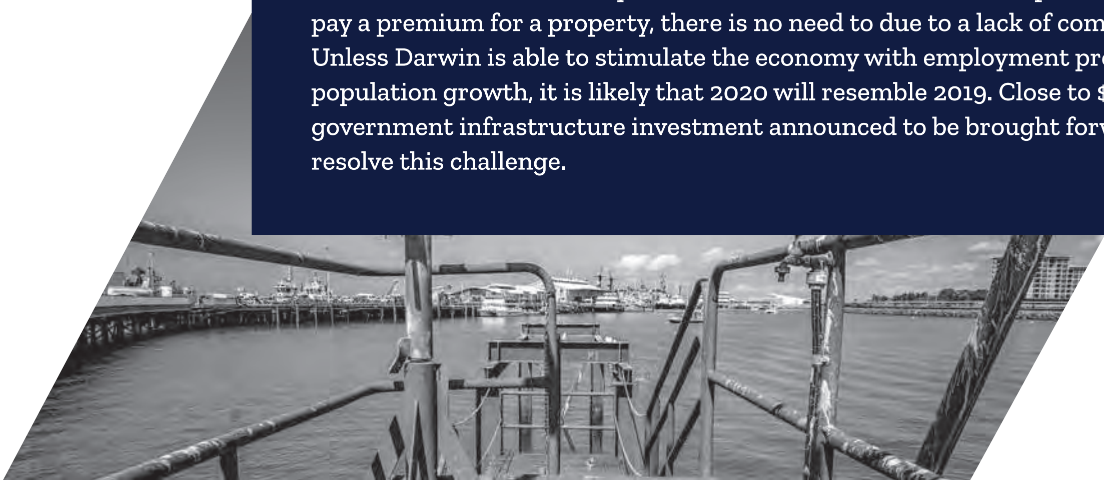
NT Quarterly Population Change and Darwin Median House Price




*Source: Blue Wealth Property, Australian Bureau of Statistics*

## Outlook for 2020

Darwin's strong household incomes and declining median house price render it one of Australia's most affordable capital city markets, however weak population growth is an evidently more influential driver of the city's 2020 outlook. This is because despite residents being able to afford to pay a premium for a property, there is no need to due to a lack of competition in the marketplace. Unless Darwin is able to stimulate the economy with employment prospects that in turn stimulate population growth, it is likely that 2020 will resemble 2019. Close to $200 million of federal government infrastructure investment announced to be brought forward in NT may help partially resolve this challenge.



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