



The QBE Australian Housing Outlook Update 2018

First home buyers enticed back as population swells and investors remain subdued

The influence of first home buyer incentives, population growth and limits on investor lending are now driving the Australian housing market, affecting median price growth across capital cities and regional areas.

Prices

Weakened investor demand caused a reduction in Sydney's median house price in the second half of 2017, while a softening in price growth has occurred in Melbourne.

Slowing investor demand has had a larger effect on median unit price growth, with many cities - Sydney, Brisbane, Perth, Canberra, and Darwin - recording falls in the six months to December 2017.

Regionals

Regional centres in New South Wales and Victoria have benefited from first home buyer stamp duty exemptions introduced in July 2017.

Population

Strong net overseas migration inflows into New South Wales and Victoria continued during the September quarter of 2017, while net interstate migration into Queensland was stronger than anticipated in 2017.

Loan Activity

There were 104,100 loans approved to first home buyers nationally during 2017. This is stronger than was expected and is the highest annual total since immediately after the Global Financial Crisis when the First Home Owner's Grant Boost Scheme was introduced.

Investor activity weakened through 2017 as bank lending to investors tightened in response to Australian Prudential Regulation Authority (APRA) guidelines.

Welcome to the QBE Australian Housing Outlook Update 2018

What will Australia be like in 30 years? According to the latest projections, we're heading towards a population of 36 million by 2050 with our two largest cities, Sydney and Melbourne, already on the way to super city status and eight million people.

Population growth from migration, whether international or interstate, is a major driver of our housing market. While many of the forecasts from last year's QBE Australian Housing Outlook still stand, there have been changes to some of the underlying assumptions, including population figures, which underpin the forecasts put together by BIS Oxford Economics.

I'm pleased to welcome you to the inaugural QBE Australian Housing

Outlook Update report - a snapshot of what's changed since our major Housing Outlook report launched in October 2017.

First home buyers have surged into the market in Sydney and Melbourne, taking advantage of last year's stamp duty concessions. Our own lenders' mortgage insurance data is bearing out the positive outlook for first home buyers, with 70% more first home buyers taking out LMI in 2017 compared to 2016. Meanwhile, investor activity has been subdued in the wake of regulator speed limits on lending.

I hope you enjoy this update report and look forward to sharing our next QBE Australian Housing Outlook report with you later this year.

Supporting Mission Australia

Despite steady economic growth in Australia, homelessness increased 14% between the 2011 and 2016 censuses, with more than 116,000 people now without a safe, secure home on any given night.

We're honoured to work with Mission Australia, one of Australia's premier homelessness charities, to help address the drivers of this growing crisis and work towards ending homelessness.

Through the QBE Foundation, we're supporting Charcoal Lane, a Mission Australia social enterprise restaurant in Melbourne's

Fitzroy. Charcoal Lane provides opportunities and support to vulnerable Aboriginal young people, who face homelessness at a rate almost 10 times that of non-Indigenous Australians.

The program provides leadership and mentoring to help young people to reach their potential, develop skills to succeed in the hospitality industry, and achieve long-term independence.

To find out more about Mission Australia and Charcoal Lane visit: charcoallane.com.au



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Capital cities

Weaker investor demand has had a large effect on median unit price growth, with many cities (Sydney, Brisbane, Perth, Canberra, and Darwin) recording falls in the six months to December 2017.

The fall in investor demand in Sydney is driving the decline in prices for both houses and units. Unit prices (-3%) may be holding up a little better than houses (-4%) as they are more likely to fall under the price threshold for the first home buyer stamp duty exemption in New South Wales (\$650k to \$800k), which has helped to support demand.

Unit price growth in Melbourne performed better than expected in the latter half of 2017 (+2%). Challenges remain in inner Melbourne but this was offset by rises in middle and outer Melbourne, reflecting the impact of the first home buyer stamp duty exemption in Victoria. This will likely continue to provide some support to median unit prices.

There has been less first home buyer impact on Melbourne's more expensive housing market (+2%). The strains on affordability and reductions in investor demand also appear to be having a larger influence than expected on the median house price.



Hobart has been the standout city for median house (+8%) and unit (+7%) price rises in the six months to December 2017. With Hobart being the main beneficiary of increased migration into Tasmania, price growth has been higher than anticipated and this is expected to continue to drive higher house and unit price growth in coming years.

More modest increases in house prices have come through in Adelaide (+3%), Canberra (+2%), and Brisbane (+1%). The resource centre of Perth (0%) may have finally bottomed out, while price falls are still playing out in Darwin (-5%).

The median house price outlook has not changed significantly from that forecast in the Australian Housing Outlook 2017 to 2020. The main differences are that weaker investor demand is expected to see slightly stronger price falls in Sydney, while there is more upside to both house and unit prices in Hobart. Perth house prices are now expected to have bottomed out, although any recovery is still expected to remain slow.

Median unit price growth is also forecast to underperform median house price growth in all capital cities, with a little more downside on the forecasts made six months ago for Sydney and Brisbane. Significant median unit price falls in Darwin in the six months to December 2017 have also resulted in a weaker unit price outlook for the city.

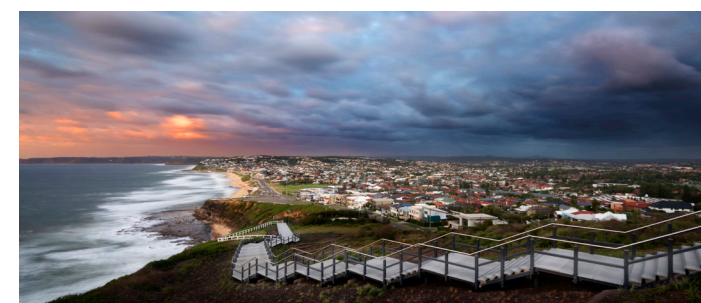


Forecast median price 2017-2020 change update

Sydney
Housing ▼ **-5.4%**
Units ▼ **-6.3%**

Melbourne
Housing ▲ **7.3%**
Units ▼ **-3.6%**

Brisbane
Housing ▲ **9.0%**
Units ▼ **-9.8%**



Regional centres

House prices in regional centres of New South Wales and Victoria have risen in response to first home buyer stamp duty exemptions introduced in July 2017.

In the six months to December 2017:

- Newcastle experienced strong house price growth as did Geelong and, to a lesser extent, Ballarat.
- In Tasmania, price growth accelerated in Launceston more than expected, as it rides on the coat tails of Hobart.
- In contrast, house prices declined in Wollongong, where the median price is well above the \$650,000 threshold for the first home buyer stamp duty exemption and close to the \$800,000 threshold where the concession is removed in its entirety.
- Prices were flat in Bendigo, which is less of a commuter town for Melbourne workers.
- Prices have also remained flat in Toowoomba, while price growth in the Gold Coast appears to be slowing.

For the regional centres, the forecast is still for modest house price growth, except for Launceston, Newcastle, Geelong and Ballarat, where more upside is expected. This is due to strong first home buyer demand in New South Wales and Victoria and some buyers looking to Launceston as a more affordable alternative to Hobart.

Loan activity

While still low, strong growth in first home buyer activity has occurred in New South Wales, and remains elevated in Victoria, likely driven by the stamp duty exemption for first home buyers introduced in these states in July 2017.

Growth in first home buyer activity was also solid in Queensland and Australian Capital Territory in 2017.

As a result of the tightened investor lending controls, investors have reduced buying power and are less able to outbid first home buyers, with both parties typically competing for the more affordable properties with

attractive yields. Except for Tasmania, investor activity weakened through 2017 in all states, and in December quarter 2017 was lower than the same quarter a year earlier. This is likely to have made room for the rise in first home buyer demand evident in 2017.

Loan approvals to non-first home buyers in December quarter 2017 have been relatively flat on a year earlier in most states. The exceptions have been Australian Capital Territory, and to a lesser extent Victoria, where there has been notable growth. In Western Australia, there has been a decline. However, at 351,000 loans nationally, activity remains elevated and remains at decade-high levels.

Loan activity 2017

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUS
Annual movement 2017									
FHB	34.4%	16.3%	15.2%	6.2%	7.1%	-7.3%	35.9%	32.8%	17.2%
Non-FHB	5.8%	8.9%	-0.5%	-5.9%	-1.0%	9.3%	13.4%	-4.0%	3.8%
Investor loans (value)	6.5%	8.7%	-10.9%	-10.8%	-5.0%	17.5%	6.1%	-20.7%	3.2%

Population growth

Australia's population growth has accelerated from 1.55% in the year to September 2016, to 1.63% in the year to September 2017.

Net overseas migration was the key driver, rising from 216,800 persons to 250,100 persons in the respective periods. This is the highest annual total since the year to September 2009, pointing to some upside to the forecasts for 2017/18 made six months ago. At that time a tightening in sub-class 457 visa requirements and net departures of New Zealanders was expected to impact net overseas inflows.

The share of net national overseas migration increased in Western Australia, Tasmania, Australian Capital Territory, and South Australia in September quarter 2017. After relatively weak net overseas migration inflows into Western Australia and South Australia in 2016/17, the

increased share suggests that some improvement in these states may be underway. Net interstate migration into Queensland has been stronger than anticipated, while net outflows from New South Wales are rising and are at their highest since 2011/12.

Tasmania's net interstate migration continues to strengthen, while Victoria's record net interstate migration inflows are starting to subside. The high net outflows from Western Australia and South Australia appear to have peaked and are now easing.

The Australian Capital Territory experienced a sizable net interstate outflow in September quarter 2017. This is expected to be the result of the New South Wales stamp duty concessions drawing first home buyers into Queanbeyan and surrounding New South Wales locations.

Australian migration moving annual total

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUS
Overseas migration									
Moving annual total									
Sep-17	98,782	88,521	31,374	13,800	11,263	1,948	3,492	940	250,127
Sep-16	84,181	76,803	27,497	12,813	10,853	1,336	2,408	865	216,758
Interstate migration									
Moving annual total									
Sep-17	-16,433	16,926	19,324	-11,581	-5,847	1,000	321	-3,710	
Sep-16	-11,733	17,185	12,966	-9,198	-6,484	-8	76	-2,804	

Capital city price overview

As at 31 December 2017

Houses

	Sydney		Melbourne		Brisbane		Perth		Adelaide		Hobart		Canberra		Darwin	
	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR
Forecast growth (%)																
2017-2020	-5.4%		7.3%		9.0%		3.9%		9.3%		18.3%		13.1%		-2.8%	
Forecast at June																
2020	1,135	1%	935	2%	595	3%	547	2%	535	3%	520	2%	760	3%	525	2%
2019	1,120	-2%	915	2%	575	3%	535	2%	520	2%	510	5%	740	5%	515	0%
2018	1,140	-5%	895	3%	560	3%	527	0%	510	4%	485	10%	705	5%	515	-5%
Prior																
Dec -17*	1,153	-4%	886	2%	554	1%	528	0%	505	3%	474	8%	684	2%	513	-5%
Jun-17**	1,200	15%	872	16%	546	1%	526	-6%	489	6%	439	10%	672	9%	540	-6%

Units

	Sydney		Melbourne		Brisbane		Perth		Adelaide		Hobart		Canberra		Darwin	
	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR
Forecast growth (%)																
2017-2020	-6.3%		-3.6%		-9.8%		-1.8%		2.5%		16.4%		2.3%		-19.1%	
Forecast at June																
2020	755	0%	540	0%	385	-3%	405	1%	372	2%	385	3%	450	1%	380	3%
2019	755	-3%	540	-3%	395	-2%	400	0%	365	0%	375	4%	445	1%	370	0%
2018	775	-4%	555	-1%	405	-5%	400	-3%	365	1%	360	9%	440	0%	370	-21%
Prior																
Dec -17*	783	-3%	569	2%	412	-3%	406	-2%	362	0%	355	7%	438	-1%	375	-20%
Jun-17**	806	9%	560	7%	427	-1%	412	0%	363	7%	331	-1%	440	1%	470	3%

* Six month change from June to December ** Revised from QBE Australian Housing Outlook 2017-2020

Regional house price overview

As at 31 December 2017

Houses

	Newcastle		Wollongong		Ballarat		Bendigo		Geelong		Gold Coast		Toowoomba		Launceston	
	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR	\$'000	% VAR
Forecast growth (%)																
2017-2020	9.2%		1.6%		7.2%		4.3%		9.4%		4.7%		6.3%		12.5%	
Forecast at June																
2020	640	2%	770	1%	370	1%	365	1%	525	1%	670	2%	425	4%	315	2%
2019	630	2%	765	-1%	365	1%	360	0%	520	1%	660	1%	410	3%	310	3%
2018	615	5%	770	2%	360	4%	360	3%	515	7%	655	2%	400	0%	300	7%
Prior																
Dec -17*	603	3%	752	-1%	353	2%	350	0%	505	5%	646	1%	400	0%	292	4%
Jun-17**	586	17%	758	17%	345	9%	350	4%	480	14%	640	8%	400	7%	280	3%

* Six month change from June to December ** Revised from QBE Australian Housing Outlook 2017-2020

Report sources: BIS Oxford Economics, Australian Bureau of Statistics, PriceFinder, Real Estate Institute of Northern Territory

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