

PCA-ANZ PROPERTY SURVEY

AUSTRALIAN ECONOMIC UPDATE

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PROPERTY SECTOR CONFIDENCE EASES, BUT REMAINS BUOYANT

KEY POINTS

- The Australian Property Confidence Index fell 1 point to 131 in the September Quarter. While this is down from the high of 140 in Q1 of this year, it remains higher than a year ago (121) and well above the levels recorded for much of the past three years (see Figure 1). **Confidence across the residential and non-residential property sectors remains strong**, is more positive than broader business confidence, and is in stark contrast to the recent weakness in consumer confidence.
- **NSW remains the stand out State for property industry confidence.** It rose 3 points to 143 and is just shy of the high of 147 recorded in Q1. Confidence in Queensland and Tasmania also rose in the quarter and both States have index readings above the national average (see Figure 1). The ACT is the only region experiencing soft confidence with an index reading of 101. Most indicators of confidence and activity in the ACT weakened in the quarter, consistent with the reception to the Commonwealth Budget delivered in May.
- **The survey shows some moderation in housing market sales in recent months.** Nonetheless, the housing market outlook remains positive, reflecting elevated auction clearance rates and home sales, solid house price gains and strong dwelling approvals. In addition, the latest Property Council-ANZ Survey also reveals solid foreign investor housing sales, particularly in New South Wales and Victoria.
- The detail within the report remains strong. All questions relating to firms' own activity, such as hiring intentions and forward work schedule, are all at high levels. This is consistent with expected **strong construction activity in the major metropolitan centres over the next year.** This should support employment growth and eventually a broadening of the non-mining recovery.

COMMENT

"Confidence across the property industry hardly moved at all through the winter months and remains at a high level. With hiring intentions and work yet to be done still strong, the survey highlights the critical role the construction industry is playing in leading the recovery in the non-mining economy. We expect construction activity to take up some of the slack being generated by the downturn in mining and energy investment. This might be referred to as the first phase of the non-mining recovery. Phase two would be a broadening of non-mining business investment and job creation beyond construction. The residential sector is still the strongest part of the industry with construction activity and price expectations buoyant even though price expectations have softened this quarter in line with lower auction clearances. House prices now appear to be settling down to more sustainable growth rates. House prices are expected to rise over the next 12 months in every State except the ACT.

The industry uniformly expects the next move in interest rates to be up. The majority expect the RBA to raise interest rates within 12 months, in line with ANZ expectations. This is at odds with market pricing, which has a rate cut priced as the most likely next move. This expectation of rising interest rates across the property industry is unchanged over the last nine months."

TABLE 1. PROPERTY COUNCIL-ANZ PROPERTY CONFIDENCE SURVEY: SUMMARY INDICES

	Confidence	Residential Prices	Residential Construction	Employment	Forward Work Schedule
Sep 13	121	14.3	28.8	3.6	38.1
Dec 13	132	41.8	53.2	12.6	29.9
Mar 14	140	46.4	63.8	18.2	25.7
Jun 14	132	42.0	64.3	21.6	29.9
Sep 14	131	21.7	55.2	17.5	28.4

Source: Property Council-ANZ

ANALYSIS

Despite moderating in the September quarter, national property sector confidence remained buoyant and continues to lead a positive outlook for the non-mining economy in the year ahead. Reflecting the combined dampening impact of softer housing market sentiment, home price falls and a sharp fall in consumer confidence in recent months, property sector confidence eased moderately in the quarter.

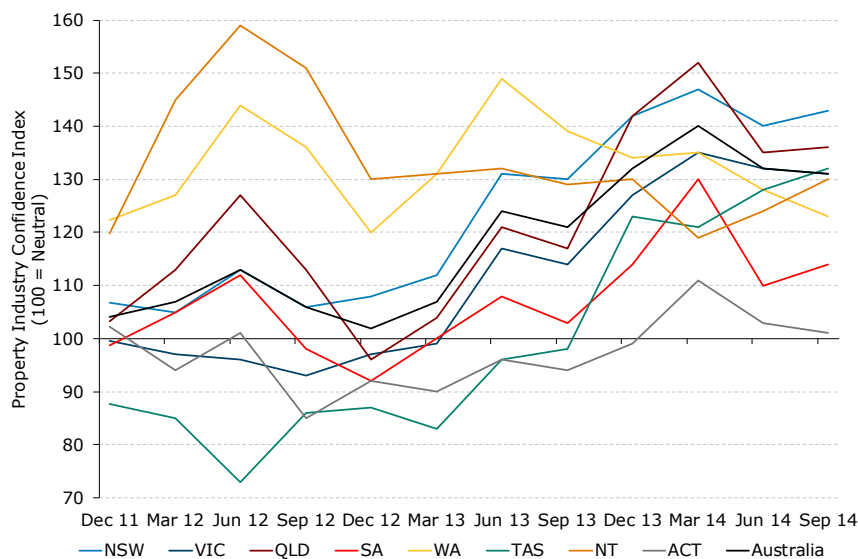
However, the **property sector maintains a broadly optimistic outlook for the coming year**, driven largely by strong underlying housing market demand, a solid pipeline of building activity and expectations of further cyclical improvement in economic conditions.

The latest Property Council of Australia-ANZ Survey reflects a housing market that has lost some momentum in recent months. Nonetheless, home sales remain well above the levels of recent years, supported by improved mortgage service affordability while positive developer sentiment has led a strong cyclical upswing in residential construction. In addition, strong foreign investor demand for Australian housing has also buoyed housing market sentiment, particularly in Sydney and Melbourne as reflected in data from the latest Property Council-ANZ Survey.

The outlook for commercial property also eased in the September quarter, reflecting subdued economic growth expectations. **Nonetheless, capital values are expected to increase across all commercial property sectors except office property**, reflecting soft office market fundamentals. However, solid investor demand for Sydney and Melbourne prime office property, in particular, is expected to drive capital growth and yield compression in these markets.

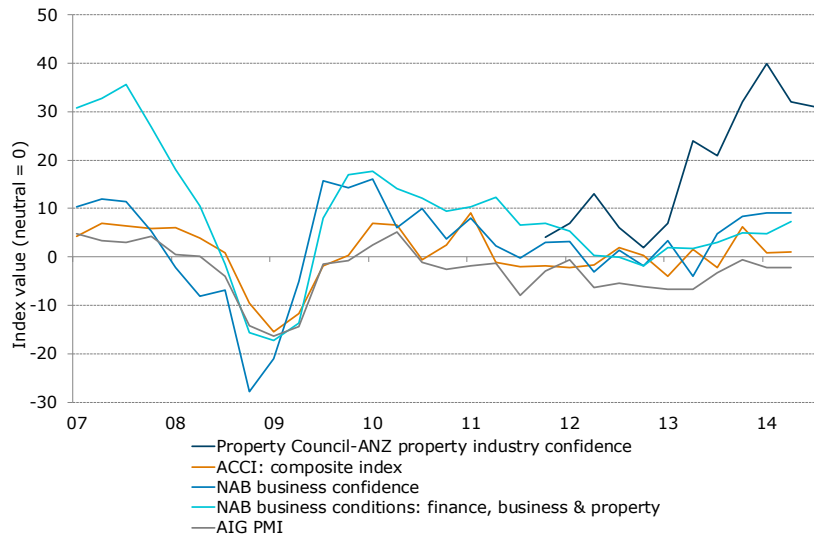
Across states and territories, the survey reflects a clear shift in property market momentum in the past 12-18 months towards New South Wales, Victoria and Queensland. Property sentiment was dominated by the Northern Territory and Western Australia until mid-2013, reflecting the strong state economic conditions associated with the mining investment boom. However, in more recent quarters, a more optimistic property sector outlook in New South Wales, Victoria and Queensland have reflected the combined positive impact of solid housing market sales, strong property investor demand and elevated planned building activity in these states.

FIGURE 1. PROPERTY INDUSTRY CONFIDENCE EASES, BUT REMAINS POSITIVE



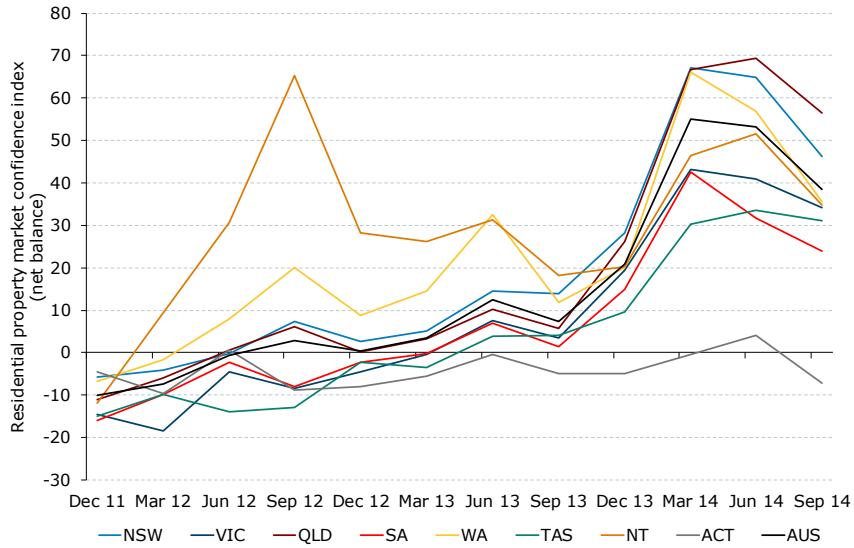
Source: Property Council-ANZ

FIGURE 2. PROPERTY CONFIDENCE REMAINS WELL ABOVE BUSINESS SENTIMENT



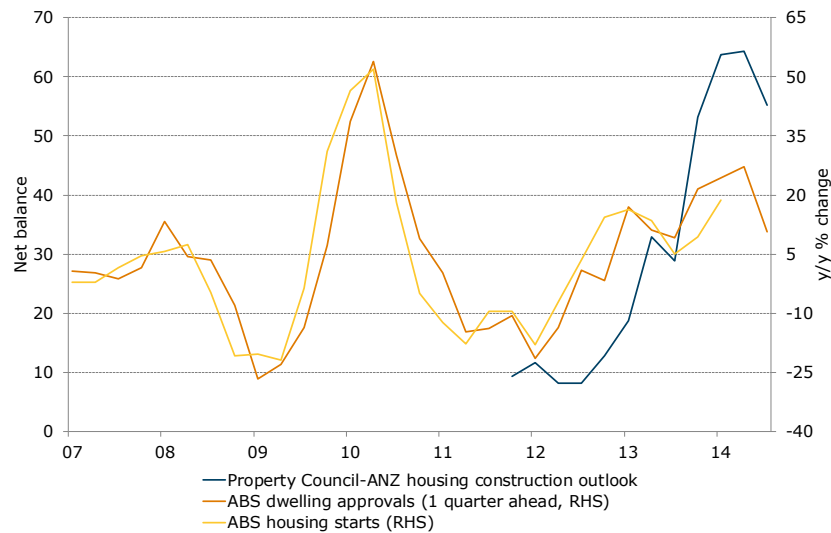
Source: ACCI, AIG, NAB, Property Council-ANZ

FIGURE 3. RESIDENTIAL PROPERTY CONFIDENCE: COMPOSITE STATE INDICES



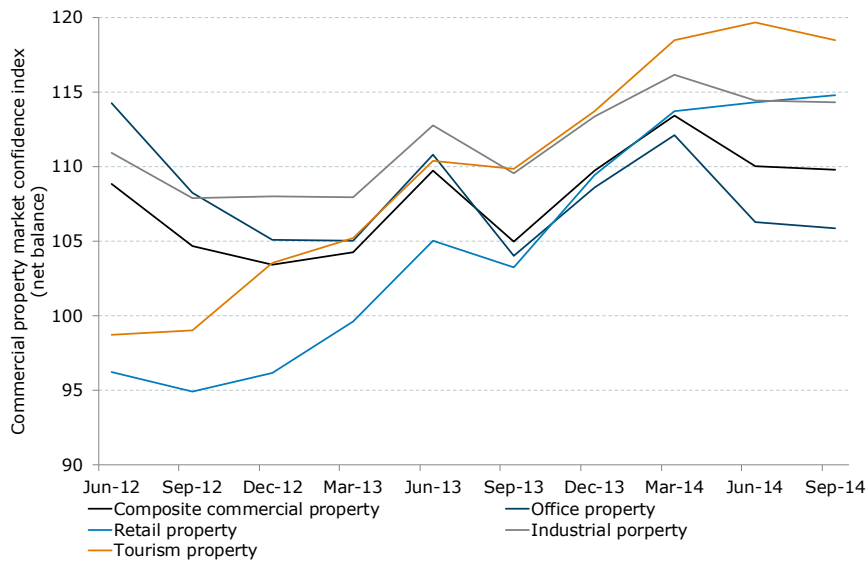
Source: ABS, Property Council-ANZ

FIGURE 4. HOUSING CONSTRUCTION OUTLOOK SOFTENS



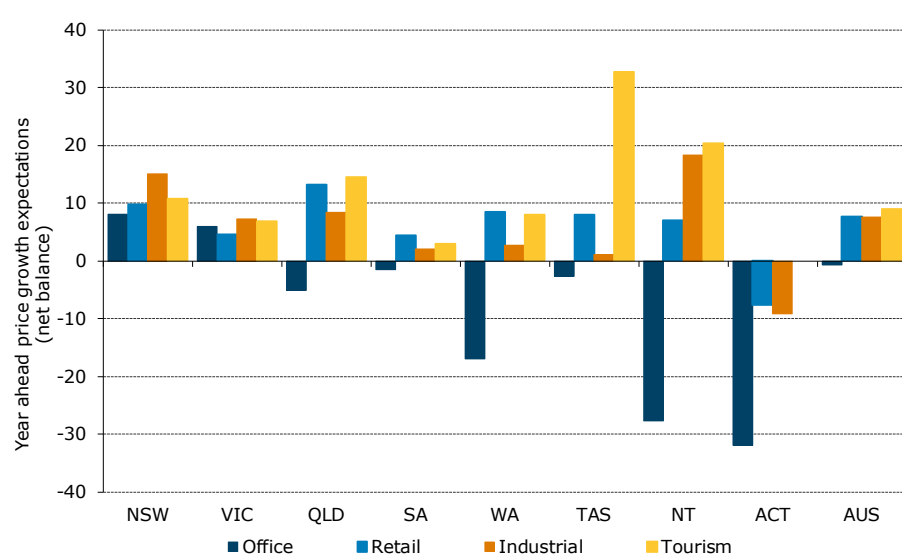
Source: ABS, Property Council-ANZ

FIGURE 5. COMMERCIAL PROPERTY CONFIDENCE: COMPOSITE INDICES



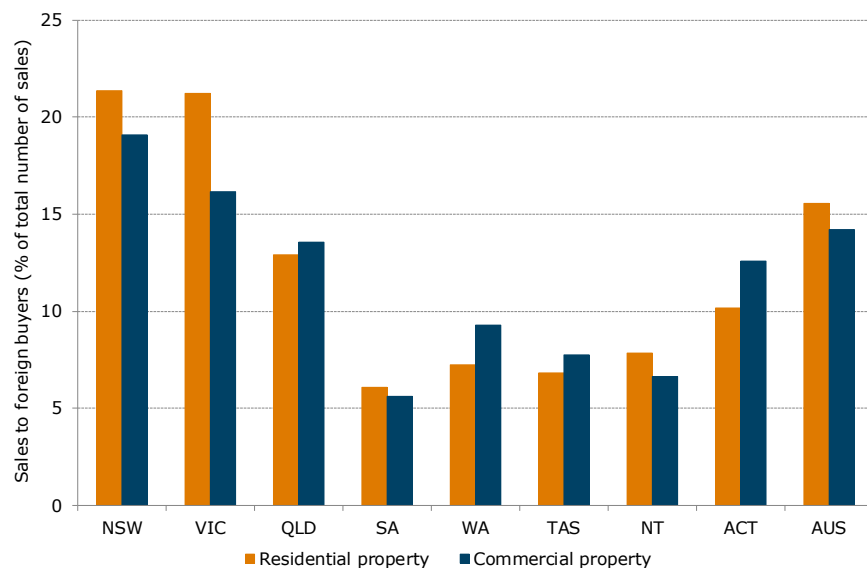
Source: Property Council-ANZ

FIGURE 6. COMMERCIAL PROPERTY PRICE EXPECTATIONS VARY ACROSS SECTORS



Source: Property Council-ANZ

FIGURE 7. FOREIGN INVESTOR SALES STRONG IN NSW & VICTORIA



Source: ABS, Property Council-ANZ

TABLE 2. PCA-ANZ PROPERTY INDUSTRY CONFIDENCE INDEX - AUSTRALIA

	Confidence index	Year ahead Australian economic expectations	Year ahead interest rate expectations
Dec-11	104	-13.9	-10.4
Mar-12	107	-7.5	-41.7
Jun-12	113	-4.9	-13.4
Sep-12	106	-8.5	-47.7
Dec-12	102	-13.3	-34.4
Mar-13	107	-10.7	-47.6
Jun-13	124	5.9	-7.0
Sep-13	121	6.0	-28.2
Dec-13	132	28.6	-4.8
Mar-14	140	23.6	4.9
Jun-14	132	14.3	7.5
Sep-14	131	7.6	7.0

* Property Industry Confidence indexed to base of 100.

TABLE 3. PROPERTY INDUSTRY EXPECTATIONS - AUSTRALIA

	Year Ahead Expectations		
	Employment	Forward Work Schedule	Debt Finance Availability
Dec-11	13.3	13.5	-5.7
Mar-12	11.3	16.3	-15.5
Jun-12	8.4	30.4	-4.9
Sep-12	3.6	24.2	-6.7
Dec-12	2.1	24.5	-1.6
Mar-13	2.5	24.6	-0.1
Jun-13	7.3	37.9	9.8
Sep-13	3.6	38.1	5.4
Dec-13	12.6	29.9	11.5
Mar-14	18.2	25.7	13.6
Jun-14	21.6	29.9	11.4
Sep-14	17.5	28.4	8.6

TABLE 4. CAPITAL VALUE EXPECTATIONS - AUSTRALIA

	Year Ahead Capital Value Expectations				
	Residential	Office	Retail	Industrial	Tourism
Dec-11	-20.6	2.1	-14.0	-14.0	-20.3
Mar-12	-15.0	3.1	-9.0	1.2	-17.4
Jun-12	-1.6	10.7	-11.0	5.1	-6.0
Sep-12	-7.1	4.1	-12.4	2.1	-6.3
Dec-12	0.8	-0.3	-10.6	2.0	-1.5
Mar-13	7.0	-0.4	-6.8	2.7	-0.2
Jun-13	24.3	5.4	-0.5	6.6	4.4
Sep-13	14.3	-1.2	-3.5	4.6	3.7
Dec-13	41.8	0.6	3.0	6.1	6.9
Mar-14	46.4	5.5	7.8	9.2	10.9
Jun-14	42.0	0.5	8.3	8.1	10.0
Sep-14	21.7	-0.7	7.7	7.6	9.0

TABLE 5. CONSTRUCTION ACTIVITY EXPECTATIONS - AUSTRALIA

	Year Ahead Construction Expectations				
	Residential	Office	Retail	Industrial	Tourism
Dec-11	9.3	n/a	n/a	n/a	n/a
Mar-12	11.7	n/a	n/a	n/a	n/a
Jun-12	8.1	17.7	3.5	16.7	3.5
Sep-12	8.2	12.4	2.3	13.7	4.4
Dec-12	12.8	10.5	3.0	14.0	8.5
Mar-13	18.8	10.4	6.1	13.1	10.7
Jun-13	33.0	16.1	10.6	19.0	16.4
Sep-13	28.8	9.2	10.0	14.5	16.0
Dec-13	53.2	16.5	15.9	20.6	20.5
Mar-14	63.8	18.7	19.7	23.1	25.9
Jun-14	64.3	12.1	20.3	20.8	29.3
Sep-14	55.2	12.3	21.9	21.0	27.9

TABLE 6. PCA-ANZ PROPERTY INDUSTRY CONFIDENCE INDEX – STATES AND TERRITORIES

	Property Industry Confidence Index							
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Dec-11	107	100	103	99	122	88	120	102
Mar-12	105	97	113	105	127	85	145	94
Jun-12	113	96	127	112	144	73	159	101
Sep-12	106	93	113	98	136	86	151	85
Dec-12	108	97	96	92	120	87	130	92
Mar-13	112	99	104	100	131	83	131	90
Jun-13	131	117	121	108	149	96	132	96
Sep-13	130	114	117	103	139	98	129	94
Dec-13	142	127	142	114	134	123	130	99
Mar-14	147	135	152	130	135	121	119	111
Jun-14	140	132	135	110	128	128	124	103
Sep-14	143	131	136	114	123	132	130	101

* Property Industry Confidence indexed to base of 100.

TABLE 7A. PROPERTY INDUSTRY EXPECTATIONS – STATES AND TERRITORIES

	Year Ahead Expectations		
	Staffing Level	Forward Work Schedule	Debt Finance Availability
New South Wales			
Mar-13	3.1	31.6	2.0
Jun-13	10.5	45.0	11.4
Sep-13	8.4	45.3	8.7
Dec-13	19.4	39.9	14.3
Mar-14	23.7	35.9	15.3
Jun-14	29.6	39.4	12.8
Sep-14	22.7	39.0	12.4
Victoria			
Mar-13	1.6	15.2	-0.6
Jun-13	7.3	31.7	8.4
Sep-13	4.4	31.8	4.4
Dec-13	11.9	25.9	10.3
Mar-14	16.8	24.0	8.8
Jun-14	24.7	26.2	10.6
Sep-14	23.1	30.7	6.7
Queensland			
Mar-13	-1.8	19.0	0.1
Jun-13	1.1	33.0	9.2
Sep-13	-3.7	32.7	5.6
Dec-13	14.3	31.4	21.1
Mar-14	23.7	22.9	29.3
Jun-14	17.4	29.4	21.0
Sep-14	14.6	26.5	15.7
South Australia			
Mar-13	1.8	19.5	-4.3
Jun-13	1.8	25.1	6.1
Sep-13	-2.7	25.7	1.6
Dec-13	1.4	15.9	4.3
Mar-14	10.9	10.1	9.7
Jun-14	4.8	11.5	4.0
Sep-14	5.8	9.9	3.8

TABLE 7A (CONT). PROPERTY SECTOR EXPECTATIONS – STATES AND TERRITORIES

	Year Ahead Expectations		
	Staffing Level	Forward Work Schedule	Debt Finance Availability
Western Australia			
Mar-13	10.5	49.2	1.4
Jun-13	17.0	60.4	15.1
Sep-13	6.9	60.6	3.2
Dec-13	17.8	36.2	9.0
Mar-14	14.4	31.0	9.0
Jun-14	23.3	31.0	8.5
Sep-14	16.5	24.6	3.7
Tasmania			
Mar-13	0.7	-4.1	-4.2
Jun-13	-4.9	18.9	7.8
Sep-13	0.0	17.9	4.7
Dec-13	5.4	28.6	17.5
Mar-14	2.5	2.2	15.9
Jun-14	6.6	19.7	12.4
Sep-14	9.1	25.4	3.4
Northern Territory			
Mar-13	7.1	47.1	-4.8
Jun-13	1.0	35.5	5.9
Sep-13	0.0	39.6	-2.0
Dec-13	-1.2	23.2	7.3
Mar-14	-2.0	15.5	9.1
Jun-14	2.7	11.6	2.7
Sep-14	3.6	12.3	1.2
ACT			
Mar-13	0.0	9.5	-6.9
Jun-13	3.0	15.1	2.2
Sep-13	1.3	15.8	4.6
Dec-13	2.9	10.4	0.0
Mar-14	11.4	4.4	0.5
Jun-14	6.0	8.1	0.0
Sep-14	6.5	11.4	3.5

TABLE 8. CAPITAL VALUE EXPECTATIONS – STATES AND TERRITORIES

	Year Ahead Capital Value Expectations				
	Residential	Office	Retail	Industrial	Tourism
New South Wales					
Mar-13	10.2	1.5	-10.5	5.3	-0.3
Jun-13	28.4	10.4	-4.4	9.0	3.7
Sep-13	27.4	6.2	-5.5	10.0	6.9
Dec-13	56.6	6.8	2.1	8.9	8.0
Mar-14	57.3	10.5	5.8	14.4	12.3
Jun-14	52.6	7.3	8.4	13.8	12.2
Sep-14	28.3	8.0	9.8	15.0	10.7
Victoria					
Mar-13	-0.9	-1.8	-9.5	-0.2	-2.6
Jun-13	14.9	3.8	-0.9	5.2	0.8
Sep-13	6.5	-0.4	-5.4	3.3	-0.6
Dec-13	38.6	4.7	1.6	5.0	4.2
Mar-14	34.8	9.7	6.6	6.8	6.9
Jun-14	32.4	8.6	9.6	6.4	11.9
Sep-14	18.9	6.0	4.6	7.2	6.8
Queensland					
Mar-13	6.4	-3.3	-4.9	4.0	-4.3
Jun-13	20.1	0.8	2.1	7.5	4.7
Sep-13	11.0	-5.7	-0.4	6.9	4.9
Dec-13	52.3	-6.4	9.7	9.9	14.5
Mar-14	58.3	0.0	14.6	10.9	18.1
Jun-14	59.6	-11.9	15.1	9.7	11.7
Sep-14	40.8	-5.2	13.1	8.4	14.4
South Australia					
Mar-13	-0.3	-5.9	-4.6	-4.2	-1.3
Jun-13	13.4	-1.1	-0.2	-1.1	0.6
Sep-13	2.2	-7.5	-0.4	-5.6	0.2
Dec-13	29.7	-2.7	1.6	1.2	1.8
Mar-14	40.0	4.9	5.9	4.4	8.6
Jun-14	24.6	-6.2	1.8	-2.3	1.5
Sep-14	15.7	-1.6	4.4	2.1	2.9
Western Australia					
Mar-13	29.2	13.8	1.5	12.3	14.5
Jun-13	64.3	18.8	6.3	14.9	22.2
Sep-13	23.4	-4.9	-0.1	6.0	8.1
Dec-13	39.9	-4.2	5.2	8.7	6.7
Mar-14	54.0	0.5	10.2	8.8	9.6
Jun-14	38.8	-9.9	9.2	3.2	9.8
Sep-14	12.3	-17.0	8.4	2.7	7.9
Tasmania					
Mar-13	-6.8	-15.4	-4.3	-8.7	-6.0
Jun-13	7.4	-9.5	-1.2	-12.9	-5.2
Sep-13	7.5	-6.6	-5.0	-10.9	-5.0
Dec-13	19.0	-4.3	8.7	-4.3	17.5
Mar-14	21.7	-1.4	8.0	-10.0	11.7
Jun-14	22.7	0.0	13.1	2.6	10.3
Sep-14	27.2	-2.7	7.9	1.1	32.7
Northern Territory					
Mar-13	52.3	19.2	14.3	32.8	12.4
Jun-13	61.7	14.5	13.0	33.4	9.7
Sep-13	36.3	-5.4	4.5	17.5	14.7
Dec-13	40.4	0.0	1.5	15.7	20.3
Mar-14	23.8	-5.4	21.8	37.4	12.5
Jun-14	31.7	-9.1	20.6	22.4	22.4
Sep-14	8.3	-27.8	6.9	18.2	20.3
ACT					
Mar-13	-11.1	-17.0	-16.4	-12.2	-1.2
Jun-13	-1.0	-19.3	-8.9	-7.8	1.0
Sep-13	-10.3	-20.9	-10.8	-17.5	-0.7
Dec-13	-10.0	-23.0	-13.5	-10.2	0.0
Mar-14	-5.4	-12.8	-8.1	-4.2	6.6
Jun-14	-3.5	-24.2	-9.8	-5.5	-1.3
Sep-14	-21.7	-31.9	-7.6	-9.3	0.0

TABLE 9. CONSTRUCTION ACTIVITY EXPECTATIONS – STATES AND TERRITORIES

	Year Ahead Construction Expectations				
	Residential	Office	Retail	Industrial	Tourism
New South Wales					
Mar-13	26.8	14.1	2.1	16.5	10.0
Jun-13	48.4	24.7	7.8	22.1	14.9
Sep-13	42.6	17.5	8.8	20.4	15.7
Dec-13	68.5	29.0	16.3	30.5	22.9
Mar-14	77.0	29.1	13.6	26.7	23.6
Jun-14	77.0	22.5	18.4	31.4	28.7
Sep-14	64.2	25.8	19.6	29.7	24.3
Victoria					
Mar-13	5.4	6.7	3.7	8.9	4.5
Jun-13	17.3	11.5	9.3	17.3	9.0
Sep-13	13.7	4.1	8.3	12.6	7.5
Dec-13	39.9	15.3	12.1	16.0	15.6
Mar-14	51.4	18.2	17.7	22.1	18.7
Jun-14	49.5	14.4	21.3	14.7	26.7
Sep-14	49.6	17.9	19.6	18.3	25.8
Queensland					
Mar-13	17.7	11.4	8.7	13.2	7.1
Jun-13	25.6	11.4	14.5	18.9	16.3
Sep-13	31.4	11.0	17.3	18.6	20.0
Dec-13	63.8	9.8	27.9	26.2	26.4
Mar-14	75.2	11.7	30.8	30.9	33.0
Jun-14	79.0	3.1	31.2	26.5	33.6
Sep-14	72.1	4.1	27.7	26.0	31.2
South Australia					
Mar-13	10.5	2.2	6.9	3.2	9.8
Jun-13	12.6	4.8	10.2	7.1	12.8
Sep-13	8.0	-1.2	5.0	1.8	10.1
Dec-13	39.1	6.4	12.9	7.5	11.6
Mar-14	44.9	10.3	18.7	15.3	17.9
Jun-14	38.7	0.7	9.6	2.5	15.7
Sep-14	32.2	-0.3	12.7	7.3	18.6
Western Australia					
Mar-13	46.8	26.5	16.9	27.2	38.0
Jun-13	74.5	35.1	18.9	34.3	48.7
Sep-13	55.9	14.4	13.4	17.1	43.1
Dec-13	70.1	22.8	19.4	29.1	33.6
Mar-14	78.1	21.2	31.9	24.0	44.0
Jun-14	74.9	9.3	30.5	17.0	51.3
Sep-14	59.1	9.6	41.1	20.9	42.7
Tasmania					
Mar-13	-2.6	-1.9	9.5	2.4	3.6
Jun-13	7.1	0.8	3.7	-3.0	2.1
Sep-13	1.2	-1.7	2.9	-2.5	14.0
Dec-13	24.5	5.1	16.2	4.3	18.3
Mar-14	38.9	6.2	10.8	0.9	26.2
Jun-14	44.4	8.3	18.7	9.0	30.3
Sep-14	34.9	0.0	14.3	6.8	73.2
Northern Territory					
Mar-13	70.5	24.7	31.8	58.6	13.0
Jun-13	80.1	16.6	31.9	60.2	20.4
Sep-13	64.6	27.0	34.9	61.2	27.2
Dec-13	71.6	37.2	20.9	34.4	23.9
Mar-14	68.9	21.8	29.5	53.1	37.4
Jun-14	71.4	18.1	32.7	61.2	50.1
Sep-14	61.1	8.3	36.1	65.6	52.8
ACT					
Mar-13	-1.9	-13.3	-6.3	-1.6	11.1
Jun-13	-2.2	-9.0	-3.1	-2.7	10.3
Sep-13	-5.4	-20.2	-2.2	-8.1	3.2
Dec-13	7.6	-3.6	-2.2	0.0	8.4
Mar-14	4.6	-2.5	-2.9	-5.0	15.3
Jun-14	11.6	-11.0	-0.7	1.6	10.4
Sep-14	7.4	-9.0	-1.9	-1.8	10.5

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