COVID-19 Implications for the Residential Market

June 2020
Overview

There are many factors impacting supply and demand for residential property at current. With government announcements changing daily, the direction of supply and demand is difficult to predict. We expect low population growth, high unemployment rates and government safety and stimulus initiatives, to have an impact on all residential indicators. Based on our expectations for these indicators and assuming we avoid a second wave of the virus as state borders re-open, we have forecast the supply-demand gaps and median prices for the major markets.

Supply

Residential dwelling supply will depend mainly on policies, planning and market conditions within each State. Key factors influencing supply across the States at current include:

» Projects delivered over the next 12 months from supply approved prior to COVID-19
» Short-stay property owners converting premises to long-term accommodation
» Planning applications fast-tracked to stimulate state economies and provide employment opportunities
» Supply chain issues which could extend building times for some projects
» Difficulties to fund projects due to soft presale markets and increased cost of capital
» The longevity of the medical/economic crisis.

Demand

Key Demand Driver- Population Growth

Population growth in Australia has been relatively consistent, ranging from 1.1% to 2.1% per annum since June 1999. This steady growth was a contributing factor in Australia avoiding recession during the GFC and major housing markets experiencing good growth over the years.

The chart on the right shows forecasts for the key components of population growth. Following the announcement of the COVID-19 pandemic, borders were closed and net interstate and overseas migration forecasts were significantly impacted. As a result of the pandemic, the following forecasts have been adopted in our analysis:

- Migration from May until October 2020 significantly slows. Government forecasts 30% fall in FY2020
- Significant slow down post FY2020, with a fall of 85% in FY2021, compared to FY 2019
- The recovery is unlikely to be immediate after State borders open due to underlying employment conditions, which will take time to return to normality
- Net migration is forecast to improve, returning to levels achieved pre COVID-19 in July 2021.

Applying the same assumptions to the States, the expected population growth rates by State change substantially for FY2020 and FY2021. For the year to June 2021, the Australian Capital Territory tops the forecast annual population growth with Victoria traditionally having been the highest growth State.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Capital Territory (ACT)</td>
<td>5,008</td>
<td>3,506</td>
<td>751</td>
<td>4,767</td>
</tr>
<tr>
<td>Victoria (VIC)</td>
<td>105,335</td>
<td>73,735</td>
<td>15,800</td>
<td>94,028</td>
</tr>
<tr>
<td>Queensland (QLD)</td>
<td>54,294</td>
<td>38,006</td>
<td>8,144</td>
<td>53,200</td>
</tr>
<tr>
<td>New South Wales (NSW)</td>
<td>88,881</td>
<td>61,657</td>
<td>13,212</td>
<td>78,638</td>
</tr>
<tr>
<td>Western Australia (WA)</td>
<td>7,131</td>
<td>4,992</td>
<td>1,070</td>
<td>17,236</td>
</tr>
<tr>
<td>South Australia (SA)</td>
<td>6,143</td>
<td>4,300</td>
<td>921</td>
<td>7,581</td>
</tr>
</tbody>
</table>

Australia is forecast to see overall population growth of 207,000 people during year to June 2021 a reduction of 220,000 people in comparison to pre COVID-19 forecasts.
Demand Supply Gap

New South Wales
Demand in NSW is likely to match supply by mid-2021 and start to outstrip supply from early 2022. Given reduced migration over 2020 and early-2021, and economic uncertainty, demand is set to remain lower than dwelling supply in these years. The 2022 and 2023 financial years are forecast to witness undersupply levels accelerate. However, the NSW Government’s Planning System Acceleration Program is now likely to see this undersupply reduced. The Government Program includes fast-tracking of over 50 major projects in stage one and two that can be approved and underway in six months. Stage one will contain more than 5,400 dwellings and tranche two over 3,500 new homes.

Victoria
Victoria is expected to continue to be undersupplied over the next three years with the demand-supply gap likely to start reducing by mid-2021 before widening again from early 2022 when we begin to see the population growth returning back to previous forecasts. Given the reduced migration forecast over the remainder of 2020 and early-2021, demand is set to decline. The 2022 and 2023 financial years are forecast to witness undersupply levels accelerate.

Queensland
After peaking during FY2017, the number of dwellings supplied per year in Queensland has steadily reduced. The slowdown is forecast to continue until FY2021 before widening again from early 2022 when we begin to see the population growth returning back to previous forecasts. Given the reduced migration forecast over the remainder of 2020 and early-2021, demand is set to decline. The 2022 and 2023 financial years are forecast to witness undersupply levels accelerate.

South Australia
SA is set to remain in a state of undersupply in FY2020, before supply outstrips demand in FY2021 due to reduced population growth, resulting from declines in overseas migration estimates. A minor state of oversupply will remain through FY2022 and FY2023 as the market absorbs the excess supply of stock that entered the market over the previous year. However, increased population growth over this period (2022–2023), together with the average number of people per household trending downwards, is likely to support healthy demand levels.

Western Australia
WA has witnessed a long period of oversupply brought about by reduced demand following the mining boom. Demand caught-up to supply in FY2019, and while oversupply remained, it was starting to be absorbed from the second half of 2019 to March quarter 2020. Reduced population growth is forecast to result in an oversupply of dwellings now until FY2022 in WA. Demand is then likely to start rising again, absorbing the excess supply and leading to undersupply over FY2023.

Australian Capital Territory
Undersupply is likely to generally continue in the ACT over FY2020 as the Government controls most of the land supply and land is released according to expected population growth. Further, with forecast population growth within the ACT likely to be higher than the other states over FY2021 and expected stimulus through government employment, demand should continue in the Territory, albeit tracking slightly below supply. A very slight oversupply is, therefore, forecast for FY2021 due to migration slowing population growth compared to pre-COVID-19 expectations and some of the employment created during the crisis being scaled back in that year.
Dwelling prices in May reflected a decline of -0.4% according to Core Logic’s house value index, however, this is based on early COVID-19 data with true impacts yet to materialise in the indicators. Interest rates are low and Australian Banks are trying to assist mortgage holders over the COVID-19 crisis period, which will result in less distressed properties coming to market in the short-term. However, once mortgage breaks end and unemployment impacts are known, dwellings may start to be offered to the market at discounted prices, it negatively impacting prices. The length of the crisis is going to determine the depth of the downturn.

<table>
<thead>
<tr>
<th>Year to</th>
<th>New South Wales</th>
<th>Victoria</th>
<th>Queensland</th>
<th>South Australia</th>
<th>Western Australia</th>
<th>Australian Capital Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>June - 2020</td>
<td>9% to 11% ▲</td>
<td>10% to 12% ▲</td>
<td>0 to 3% ▼</td>
<td>0% to 3% ▼</td>
<td>-1% to 1% ▼</td>
<td>-1% to 1% ▼</td>
</tr>
<tr>
<td>June - 2021</td>
<td>-6% to -9% ▼</td>
<td>-5% to -10% ▼</td>
<td>-3% to -5% ▼</td>
<td>-5% to 0% ▼</td>
<td>-3% to -5% ▼</td>
<td>-2% to -4% ▼</td>
</tr>
<tr>
<td>June - 2022</td>
<td>1% to 3% ▲</td>
<td>0% to 3% ▼</td>
<td>1% to 3% ▲</td>
<td>0% to 3% ▼</td>
<td>1% to 3% ▲</td>
<td>1% to 2% ▲</td>
</tr>
<tr>
<td>June - 2023</td>
<td>6% to 8% ▲</td>
<td>4% to 7% ▲</td>
<td>4% to 6% ▲</td>
<td>0% to 3% ▼</td>
<td>3% to 5% ▲</td>
<td>5% to 7% ▲</td>
</tr>
</tbody>
</table>

Median House Price Growth (Mar-2015 to Mar-2020)

|                         | 27.87%  | 43.84%  | 20.73%  | 13.74%  | -12.05%  | 30.06%  |

Outlook

<table>
<thead>
<tr>
<th>Period of Weak Market Conditions</th>
<th>12 - 18 months</th>
<th>12 - 18 months</th>
<th>12 - 18 months</th>
<th>6 - 12 months</th>
<th>12 - 18 months</th>
<th>6 - 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Exceeds Supply</td>
<td>FY 2023</td>
<td>FY 2021 *</td>
<td>FY 2023</td>
<td>FY 2020</td>
<td>FY 2023</td>
<td>FY 2023</td>
</tr>
</tbody>
</table>

- With supply being pushed forward by the NSW government and demand flat, FY2021 is likely to see an oversupply driven decline in median dwelling prices in Sydney.
- Strong median price growth is expected in FY2023 as vacancy declines.
- With demand supply gap increasing again, FY2022 is forecast to be a recovery year in Victoria, with dwelling prices expected to remain stable or have minimal growth.
- Price growth is expected when the undersupply expands again in FY2023.
- Most of the decline in median prices is expected in FY2021 when the bulk of potentially distressed properties come onto the market.
- By FY2022, the economic recovery should be underway, and unemployment rates are likely to be falling, resulting in a favourable market, stronger growth in dwelling prices is expected over the following year.
- The impact of COVID-19 is expected to be more restrained in SA when compared to the eastern states.
- SA markets have historically been less volatile, and while it has not witnessed the strong gains in values over recent years, it is also unlikely that it will experience strong falls over the forecast period.
- Canberra usually has relatively moderate cycles due to the considered release of land for development.
- However, the unexpected events over 2020 are likely to result in development land having been released based on expected larger population growth.
Conclusions

- NSW, QLD and WA are forecast to be in oversupply in FY2020. By FY2021 all states, are likely to be oversupplied, except Victoria, which will be in undersupply.

- Demand is likely to be weak in FY2021 due to economic uncertainty resulting in many people putting investment and house purchasing decisions on hold.

- The residential property market will be impacted by COVID–19 for the balance of 2020 and the first half of 2021. During this time, we anticipate residential prices will decrease, with a recovery not occurring until the latter half of 2021. This recovery will be impacted by the high level of unemployment, however, in part will be offset by improving population growth. Once market confidence is restored, we anticipate slow recovery. Growth is not expected until mid to late 2022 and is forecast to accelerate in FY2023.