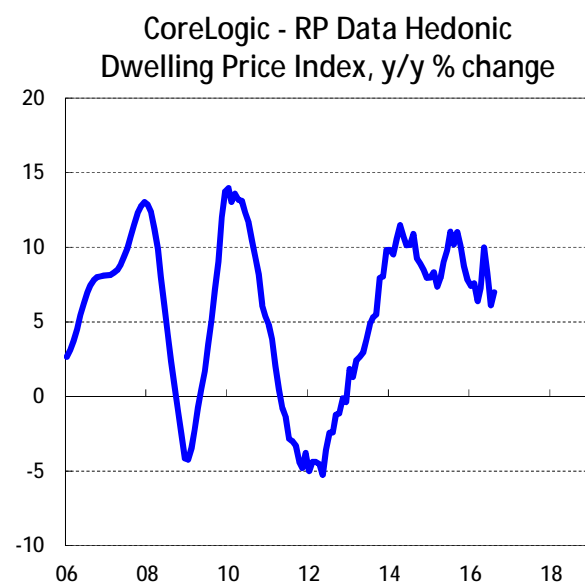
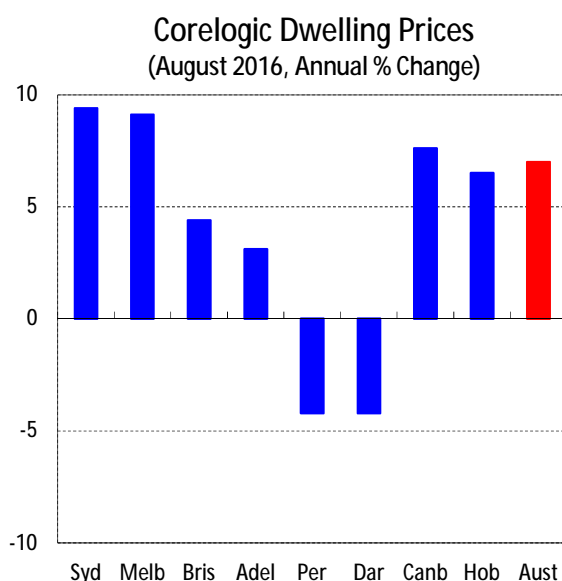


Dwelling Prices Rising In Most Capital Cities

- Australia-wide capital city dwelling prices grew for an eighth consecutive month, lifting 1.1% in August, according to CoreLogic. Not all capital cities saw gains.
- Over the year to July, dwelling prices continue to rise but not at the pace seen in earlier months. Growth in the year to August was 7.0%, a slight pick-up on the 6.1% in the year to July but below the gains seen in the second half of 2015 where the annual rate of growth reached a recent peak of 11.1%.
- Despite concerns expressed by the Reserve Bank over the supply of units in inner city Melbourne and inner city Brisbane, unit prices in Melbourne have risen for the past five months while in Brisbane they have risen in three of the past five months. Unit prices in Melbourne are up 4.1% on a year earlier while in Brisbane they are down 0.4%.
- Low interest rates, jobs growth and population growth will continue to exert upward pressure on dwelling prices but not to the same extent as seen earlier. Recent rate cuts from the RBA could boost house prices by more than we had anticipated. However, wage growth is sluggish and rental yields have fallen in many markets. Affordability remains an issue and foreign demand is facing more restrictions than previously.
- We expect further dwelling price growth into 2017. Further rate cuts by the RBA would lift investor appetite for housing.



Australia-wide capital city dwelling prices grew for an eighth consecutive month, lifting 1.1% in August according to CoreLogic. This was stronger than the 0.7% gain in July but still below the 1.7% gain in April and the 1.6% increase in May.

Over the year to July, dwelling prices continue to rise but not at the pace seen in earlier months. Growth in the year to August was 7.0%, a slight pick-up on the 6.1% in the year to July but below the gains seen in the second half of 2015 where the annual rate of growth reached a recent peak of 11.1%.

Most capital cities saw gains in August. Dwelling prices were strongest in Darwin (4.1%) followed by Canberra (2.8%), Melbourne (1.5%) and Sydney (1.4%). Brisbane (0.4%) and Perth (0.2%) saw only modest gains over the month. Prices in Adelaide fell 1.0% but this followed a strong 1.4% rise in July. It was a similar story in Hobart where prices fell 0.9% following strong gains in the previous three months.

Despite declining dwelling prices in Adelaide and Hobart during August, over the year, both capitals have seen price growth. Adelaide prices rose 3.1% in the year to August and prices in Hobart were up 6.5%. The strongest annual growth was again seen in Sydney (9.4%) followed by Melbourne 9.1%, and Canberra (7.6%). Prices in Brisbane rose 4.4% in the year to August.

Dwelling prices in Perth and Darwin are still declining in annual terms. Prices in both Perth and Darwin are down 4.2% on a year earlier. In both cases, prices have been falling in annual terms since early 2015 as their respective resource related construction booms wind down.

Despite concerns expressed by the Reserve Bank over the supply of units in inner city Melbourne and inner city Brisbane, unit prices in Melbourne have risen for the past five months while in Brisbane they have risen in three of the past five months. Unit prices in Melbourne are up 4.1% on a year earlier while in Brisbane they are down 0.4%.

Given the strong growth in house prices in Melbourne and Sydney over the past few years, rental yields have fallen. According to CoreLogic rental yields for houses in Sydney and Melbourne have fallen to 2.8%. Yields are firmer in Darwin (5.2%), Hobart (5.2%), Brisbane-Gold Coast (4.2%), Adelaide (4.0%), Canberra (3.9%) and Perth (3.7%).

Outlook

Low interest rates, jobs growth and population growth will continue to exert upward pressure on dwelling prices but not to the same extent as seen earlier. Recent rate cuts from the RBA could boost house prices by more than we had anticipated. However, wage growth is sluggish and rental yields have fallen in many markets. Affordability remains an issue and foreign demand is facing more

We expect further dwelling price growth into 2017. Further rate cuts by the RBA would lift investor appetite for housing.

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