BLUE WEALTH PROPERTY

AUSTRALIAN PROPERTY MARKET

State Of Play

2021

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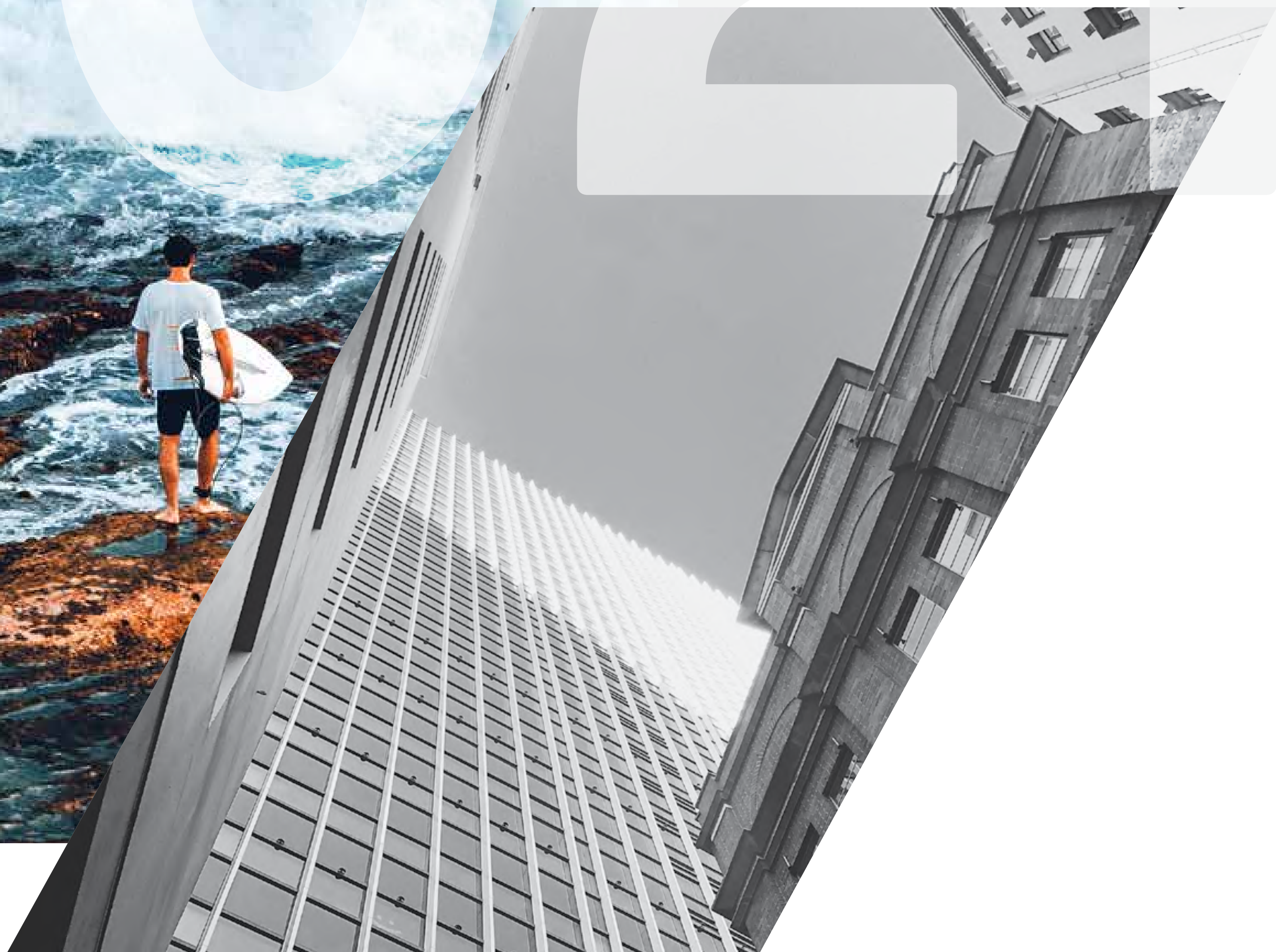
STATE OF PLAY

Introduction

Welcome to our 2021 State of Play. To say the least, 2020 was a unique year. Although the national residential real estate market performed well, it wasn't exactly what we had expected prior to the pandemic taking hold of global economies and the movement of people. Nevertheless, the fallout of Coronavirus has led to stronger macroeconomic conditions in favour of residential property performance. This means that the strong pre-COVID performance we predicted in our last State of Play will likely turn into a turbocharged 2021.

In this year's State of Play, we look at how the Coronavirus pandemic worked in favour of some markets and against others through a confusing year. As always, we have also offered our outlook for 2021 in each market. A common theme you will pick up is strong fundamentals in areas with a prevalence of long-term residents, as well as affordability. We would encourage our readers to keep in mind that residential property is a long-term asset, meaning that they shouldn't get too swept up in the immediate time horizon. Although Coronavirus has changed the world as we know it, many of these changes are temporary. We have begun debunking Coronavirus-related fallacies in our weekly research blog. Be sure to check it out.



Coming off the back of a memorable year...

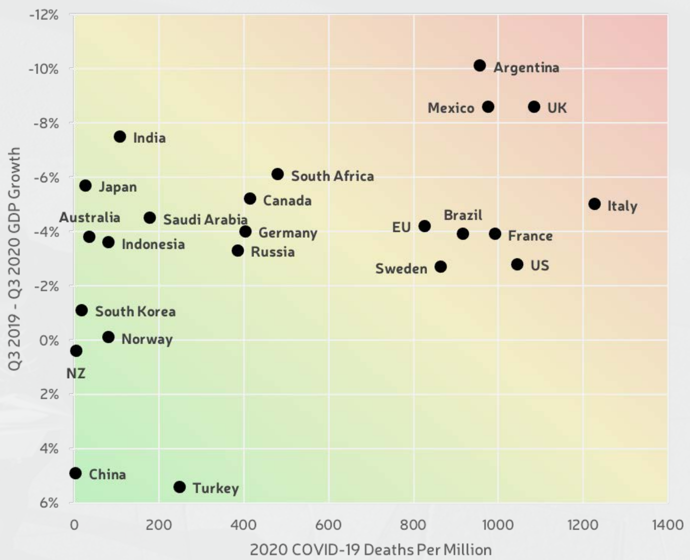
A lot has changed in the 12 months since our last State Of Play

Economies around the world have since been shaken by the impacts of the Coronavirus pandemic, but Australia performed particularly well from both a mortality and economic perspective. As we return from an unusual summer holiday, the Coronavirus isn't quite behind us, but a light at the end of the tunnel exists in the form of vaccines at varying stages of development and approval. In some of the more affected countries such as the US and UK, millions of citizens have been vaccinated so far.

How did Australia handle the pandemic?

In 2020, Australia enjoyed one of the lowest rates of COVID-19 mortality per million residents among advanced economies. Of the G20 nations, Australia experienced the fourth-lowest mortality rate—behind the nations of China, South Korea and Japan. From an economic perspective, Australia reported the sixth-strongest GDP performance of the G20 nations. Over the 12 months between Q3 2019 and Q3 2020, Australian GDP contracted by 3.8 percent. Prior to the surge of COVID-19 cases in Melbourne during Q3 2020, Australia was one of the world's best pandemic-era economic performers.

Economic Impact and COVID-19 Mortality in 2020

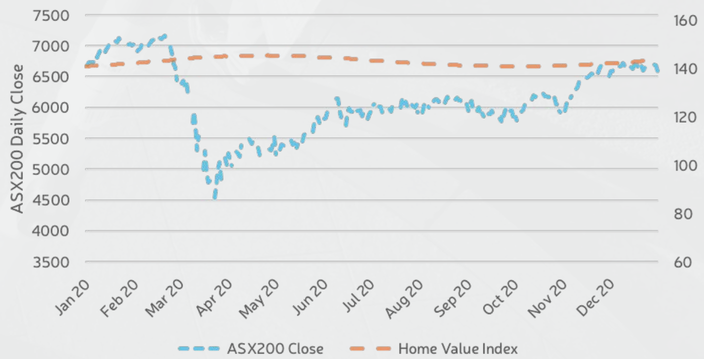


Source: Blue Wealth Property, OECD, Our World in Data

The stability of residential property

On 20 February 2020, the Australian Securities Exchange (ASX) reached a peak, followed by a substantial crash over the following month. This included Australian Real Estate Investment Trusts (A-REITs), which are predominantly invested in commercial assets such as retail, industrial and office space. According to the CoreLogic Daily Home Value Index, however, residential property in our major capitals was considerably more resilient. Throughout the pandemic, many Australian homeowners would have found their home was worth more than it was just 12 months earlier. There are a number of reasons for this. First, demand from the existing population did not decline. We still need to live somewhere. Second, unemployment mostly impacted workers unable to fulfil their duties remotely. This demographic tends to be made up of renters. Third, the government and private enterprise introduced initiatives that both directly and indirectly supported the residential property market. Examples include the JobKeeper payment, mortgage holidays, the HomeBuilder grant, loosening of lending regulations by APRA and cuts to the RBA cash rate.

2020 ASX and Residential
Property Market Performance

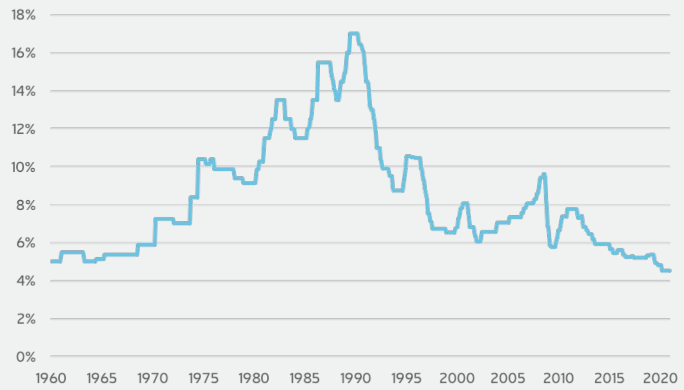


Source: Blue Wealth Property, Yahoo Finance, CoreLogic

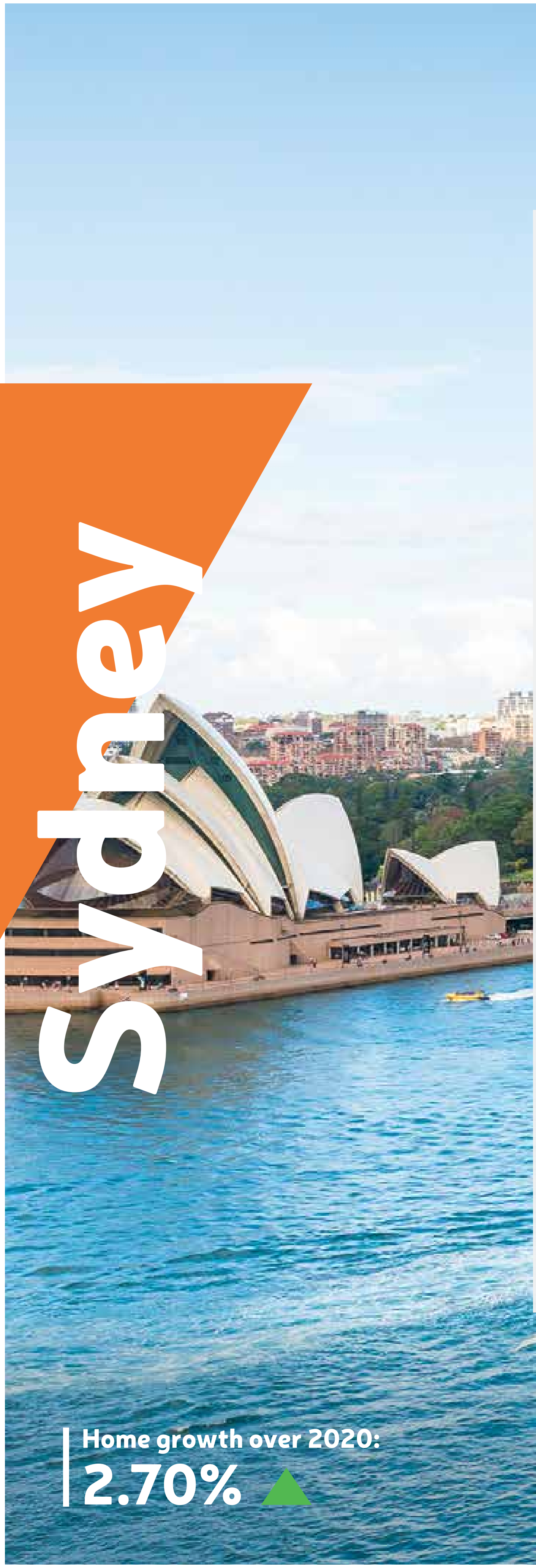
The lowest interest rates since records began

The 65-basis point decrease of the RBA cash rate in 2020 contributes to a decade of progressive cash rate decreases from 4.75 percent to a record low 0.10 percent. With major lending institutions passing on these cuts, Australian mortgagees are now accessing the lowest mortgage interest rates since records began. As a result of declining interest rates and comparatively stable rental yields in many cities, an increasing number of property investors are finding themselves in a superior cash flow position.

Standard Variable Mortgage Interest Rate



Source: Blue Wealth Property, RBA



Sydney

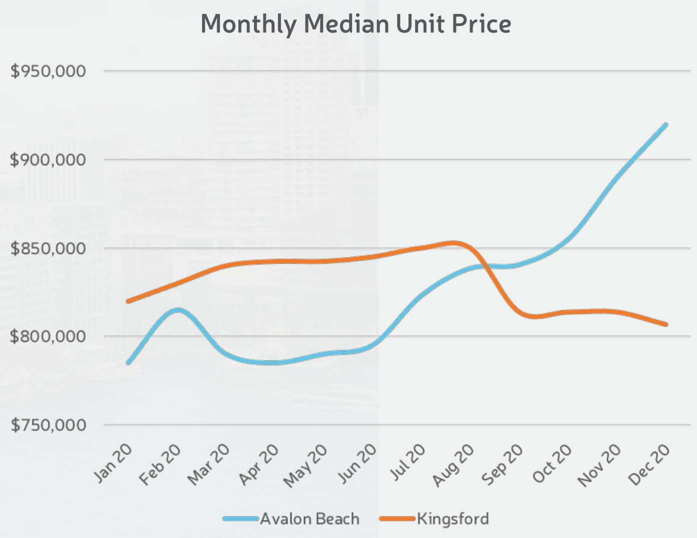
Home growth over 2020:
2.70%

At the beginning of 2020, Sydney was showing promise for strong performance over the year on the back of relaxed regulations and interest rate cuts. Bouncing back from a tough few years of difficult borrowing conditions, the likelihood of a new Sydney boom was increasing.

Over the course of 2020, the average Sydney home increased in value. However, different suburbs experienced different outcomes. While some suburbs experienced six-figure increases to their median dwelling prices over the calendar year, others saw stagnations and even mild corrections. Causes of these contrasts in performance include the demographics of local residents, affordability and recent levels of supply.

Avalon Beach in the Northern Beaches is an example of a strong performer over 2020. Contrary to the usual suburb within a greater city area, Avalon Beach has a high proportion of Australian-born residents who stay put for extended periods of time. Avalon Beach also has a large white-collar workforce and high rate of home ownership—population segments which CoreLogic identified as being less impacted by the pandemic through a greater likelihood of being able to work from home. After the lockdown-induced a slump in sales volumes in mid-2020, SQM Research data indicates the number of homes listed for over 90 days was consistently declining, with most homes listed for less than 30 days. The second half of the year also saw rental vacancy rates plummet from 5.8 percent to 2 percent by October. The median unit price in Avalon Beach surged from $795,000 to $920,000 in the second half of the year.

Kingsford in the inner-south of Sydney is an example of a market which did not enjoy an equal level of positive performance. With a considerably younger population, half of which are attending an educational institution, Kingsford's working age population was at a higher risk of termination during the pandemic if employed at all. With just 36 percent of Kingsford's population being born in Australia, it is clear the suburb was impacted significantly by the closure of borders and absence of international students. Over 2020, rental vacancy rates increased from 3.4 percent to a high of 8.4 percent, remaining at that approximate level by year-end. The median unit price in Kingsford decreased by $13,000 over this time. A loss of rental income would have been a greater concern for landlords in that suburb, who represent more than half of the suburb's dwelling stock.



Source: Blue Wealth Property, REA

Sydney's performance over recent years suggests that it is Australia's most responsive city 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.

Outlook for 2021

In the final months of 2020, Sydney property prices returned to their state 12 months earlier of trending upward. With record breaking levels of low interest rates and mortgage availability, Sydney is likely to experience significant upswings in median dwelling prices over 2021 and beyond. With this said, the Blue Wealth Property research team will be approaching Sydney with extreme caution. Australia's largest city (for now) has notoriously low rental yields and flirts dangerously with housing affordability in most areas, meaning a short-term surge in value might come at the expense of negative equity and negative cash flow in the longer term.

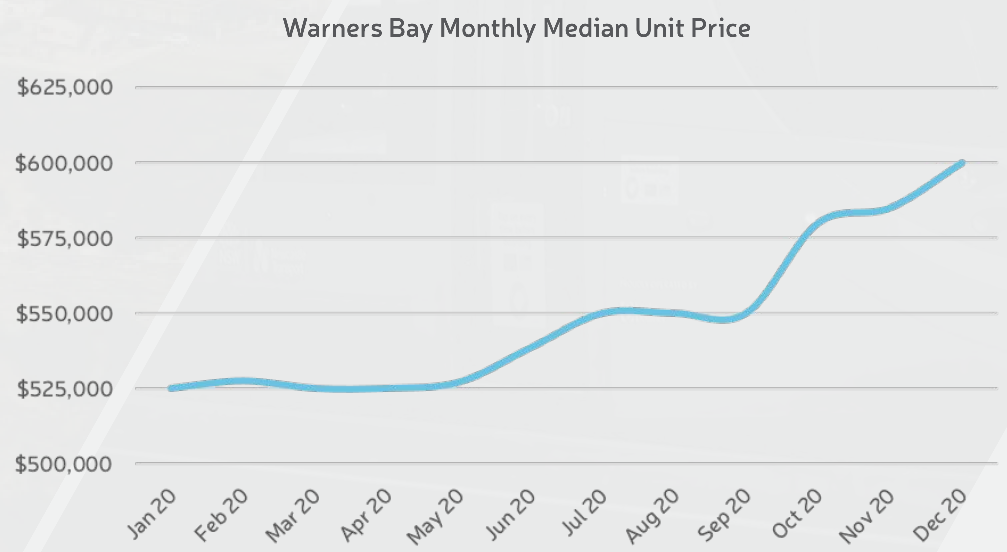
Newcastle

Newcastle is more populous than three state or territory capitals, and is one of the most populous regional centres in the country. 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.

High levels of rental market volatility in Newcastle's West End precinct over recent years continued into 2020. This saw the rental vacancy rate peak at 9.2 percent in April, before finishing the year at a more welcome 3.7 percent.

This market volatility came through in Newcastle West's median unit price, which progressively declined from $632,500 to $555,500 over the course of the year. This put an end to several years of consistently strong sales performance in the suburb.

Suburbs within the Newcastle and Hunter region performed better than the city centre over 2020. One such example is the Lake Macquarie suburb of Warners Bay, which experienced a median unit price increase from $525,000 to $600,000 over the year. As was the case for Sydney, demographic contrasts between Newcastle West and Warners Bay can be partly attributed to the 2020 contrasts in property price performance. While Newcastle West is home to a high proportion of students and young renters, Warners Bay residents tend to be older homeowners.



Source: Blue Wealth Property, REA

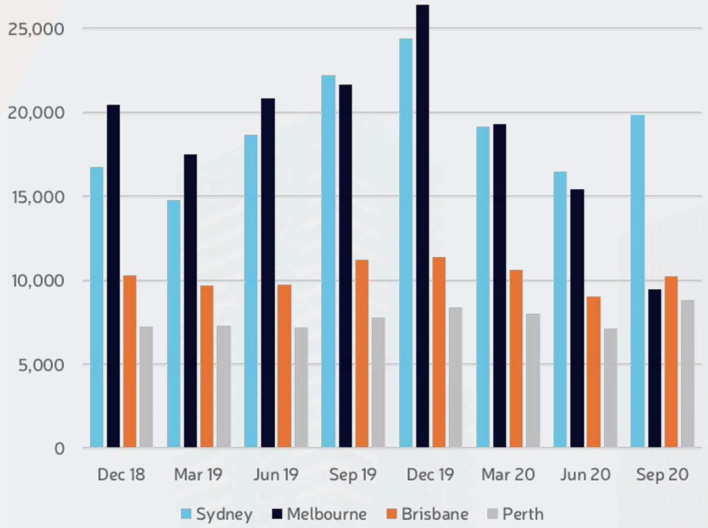
Outlook for 2021

2020 was a mixed bag for Newcastle, however levels of affordability, availability of credit and first home buyer incentives are likely to fuel activity in many parts of the market. In addition, price movements in Sydney are likely to encourage a growing number of Sydneysiders to make the move north as was the case during the city's last boom. If improvements continue to be made to remote working arrangements, Newcastle may find itself undertaking a considerable demographic transformation in coming years.

Melbourne

As the hotbed of Australia's second (and more severe) Coronavirus wave, Melbourne's economic and property performance have faced greater challenges than other areas. Among other outcomes, the mid-2020 lockdown led to a significant decline in sales volumes. In Q3 2020, the number of homes sold in Melbourne was less than half of the number sold a year earlier. In fact, there were fewer sales in Melbourne than in Brisbane—the first time this has occurred since records began two decades ago. Comparatively, sales volumes in the other major capitals were much more stable throughout 2020.

Quarterly Capital City Dwelling Sales Volumes



Source: Blue Wealth Property, ABS

Melbourne's unique experience of COVID-19 in 2020 put the city out of step with the rest of the country. A 6 percent peak-to-trough dip in the CoreLogic Daily Home Value Index took place between April and October, which had partly recovered by the end of 2020. Where the average Sydney home was worth more in December than it was in January, the average Melbourne home was worth marginally less. We expect this to be temporary, as Melbourne's median prices continue to trend upward in the wake of their lockdown.

Rental performance in Melbourne also came into the spotlight over 2020. The rental vacancy rate of Melbourne City reached a peak of 9.4 percent in October 2020 according to SQM Research. By the end of 2020, it was still at an alarmingly high 8.5 percent, but shows promising signs of decline. In stark contrast, the Mornington Peninsula saw rental vacancy rates fall throughout 2020, reaching a critical level of undersupply below 1 percent by the end of the year. This highlights the contrasting performance between urban environments and nearby alternatives during the pandemic, with media outlets reporting on anecdotes of city dwellers seeking a sea change. As one of the world's most liveable cities pre-COVID, this trend is also expected to be temporary. Reasons for this include planning, public amenity, cultural factors, as well as the ongoing need for centralised meeting places for business and education. Some of us might be able to work a little more from home in future, but that's a far cry from the end of cities and urban centres.

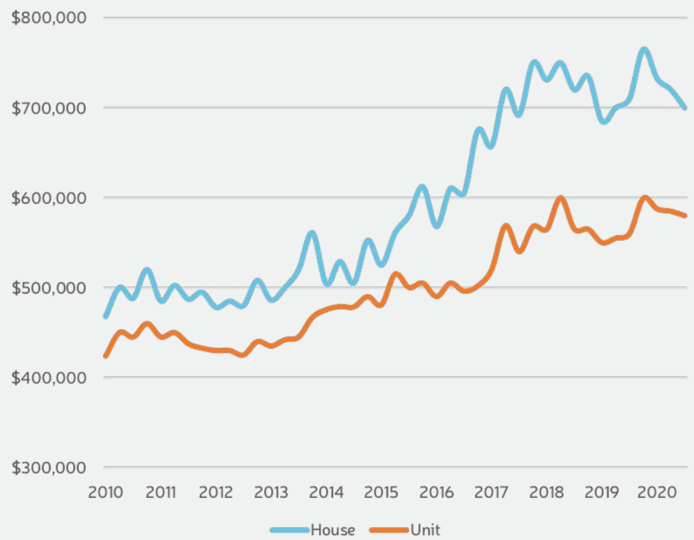
Although the population growth data for FY2019-20 was yet to be released upon this report being published, demographers at the University of Queensland's Centre for Population Research offered post-COVID scenarios of population growth recovery. In each of their light, moderate and severe scenarios, Victoria was forecast to be home to an increasing proportion of the Australian population. In addition, the state's population growth is still expected to increase by more than 2 million people in the coming two decades. With an average of 2.6 people per household, Victoria would still require a minimum of 38,461 new homes per year for its swelling population. In the 2019-20 financial year, Victoria was approximately 1,000 new dwellings short of the minimum required.

How about the house-unit gap?

In recent years, Blue Wealth Property have been reporting on the large House-Unit Gap (HUG) in Melbourne. From 2010 to 2015, Melbourne's median house price was generally about 10 percent higher than the median unit price. By 2016, strong house price performance had increased this premium to 30 percent where it hovered for a number of years. By late-2020, the HUG had decreased to its lowest level since 2016. This didn't take place as a result of units skyrocketing in value during the Coronavirus pandemic. Instead, it manifested through the resilience of unit values during the pandemic.

What does this mean? Property investors who took Melbourne's HUG into consideration when investing maintained the value of their asset through the pandemic while it was also likely returning a stronger rental yield. In fact, Melbourne units have now outperformed Melbourne houses for a number of years.

Melbourne Quarterly Median House and Unit Price



Source: Blue Wealth Property, ABS

Outlook for 2021

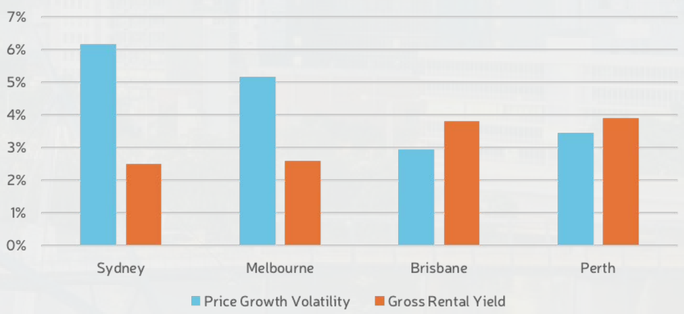
Although the Melbourne property market had mixed results in 2020, the downside can be largely attributed to the Coronavirus pandemic. In 2021, Melbourne is expected to continue its upward price growth it began to see by the end of 2020. Rental performance in the Melbourne CBD is expected to be lacklustre through 2021, due to its strong dependence on international arrivals. As is often the case for Melbourne, however, performance in adjacent suburbs will vary considerably. The extension of the HomeBuilder initiative into 2021 should stimulate activity in Melbourne's periphery, with a purchase cap of $850,000 enabling a variety of choices for home buyers in established growth corridors to the west, north, as well as further afield in the south-east. Low interest rates have improved housing affordability in Melbourne, but growing demand once international borders reopen will likely have a larger effect.

Brisbane

A decade ago, Brisbane was in the throes of 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 contributed to the city's status as one of the country's most affordable. Nevertheless, low price growth has come as a frustration for investors who have been waiting out an upswing for a number of years.

Although Brisbane's price growth performance has been below other major capitals, it has also been less volatile. This could be advantageous for investors seeking reduced volatility in larger and geographically diverse portfolios. A lower level of price growth volatility compared to the likes of Sydney, Melbourne and Perth means that Brisbane houses have offered their owners a relatively consistent average quarterly growth rate of 1.52 percent over the past couple of decades. Combined with some of the country's highest inner-city rental yields, having exposure to the Brisbane property market could contribute to stabilising the portfolio of investors exposed to volatile markets. As an increasing number of institutional investors seek this type of asset in their portfolios, Brisbane will be in their sights.

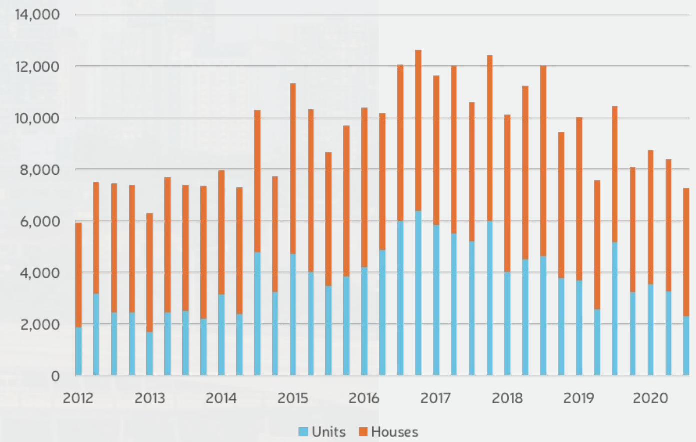
Quarterly House Price Volatility and Gross Rental Yield



Source: Blue Wealth Property, ABS, SQM Research

High levels of new home construction in inner-Brisbane were a concern for property investors in the mid-to-late 2010s. This came as a result of government-designated development areas in the CBD which offered expedited development approval processes in order to meet the future demands of Brisbane's swelling population. Long-term oriented investors were able to seize this opportunity by purchasing premium and/or unique assets with features such as direct views over the CBD, transport links, and mild modifications to design. JLL research indicates that inner-Brisbane apartment supply peaked in 2016 and has since declined by 85 percent. Consequentially, SQM Research data shows rental vacancy rates in Brisbane reached a peak of 4.1 percent in December 2016. By December 2020, vacancies had declined to 1.8 percent—a seven year low. In Q3 2020, the number of units constructed across the state of Queensland was the lowest since 2013.

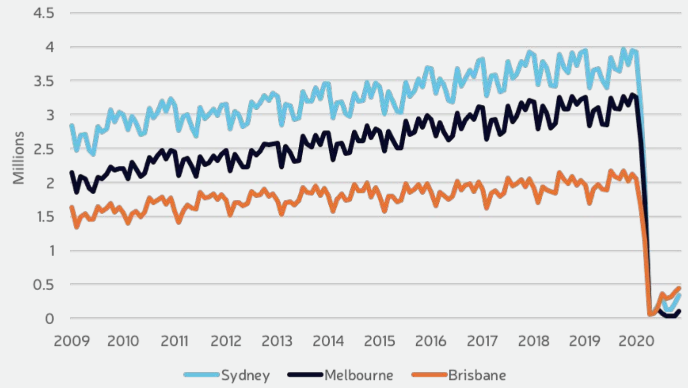
Quarterly Count of Queensland Dwellings Constructed



Source: Blue Wealth Property, ABS

In 2020, the Globalisation and World Cities Research Network (GaWC) conducted their biennial classification of world cities, upgrading Brisbane to Beta+ status alongside the likes of Vancouver, Washington DC and Berlin. This follows a series of classification upgrades for the city, which is the second-fastest growing Australian capital. 2020 also saw the inconveniently timed opening of Brisbane Airport's long anticipated new runway. This project was completed in order to manage the city's increased passenger volumes, which grew by 30 percent between 2009 and 2019.

Growth in Monthly Passenger Volume SYD, MEL, BNE



Source: Blue Wealth Property, ABS

Home growth over 2020:

3.61%

Outlook for 2021

In 2021, Brisbane remains one of the most affordable major housing markets in the country. This, alongside other factors, has led to multiple research houses forecasting Brisbane to lead national property performance over the coming years. Constrained supply over recent years has come at a convenient time for Brisbane. Higher levels of supply were largely absorbed before Coronavirus temporarily slowed migration levels, meaning that Brisbane is better positioned than other markets to tip the balance in favour of homeowners and sellers. In such an event, we expect pockets of Brisbane with higher levels of local demand to perform strongly in 2021. The city and its neighbouring regional centres will likely benefit from a Sydney diaspora due to the city's persistent affordability issues.

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.

Unlike most of Australia's urban centres, Gold Coast rental vacancies ended 2020 in significant undersupply at 0.7 percent. This can be partly attributed to Melbournians seeking a sea change, with preliminary interstate migration figures supporting this assertion. REA data indicates strong search volumes for suburbs such as Surfers Paradise, Broadbeach and Burleigh Heads. All three of these suburbs finished 2020 among the most undersupplied rental markets in the country.

Price performance in the Gold Coast has been less inspiring to date. Outer suburbs such as Coomera remained relatively stagnant over 2020, whereas Broadbeach saw modest gains. The notoriously volatile Surfers Paradise was a noteworthy performer in 2020, with gains in median house and unit prices.

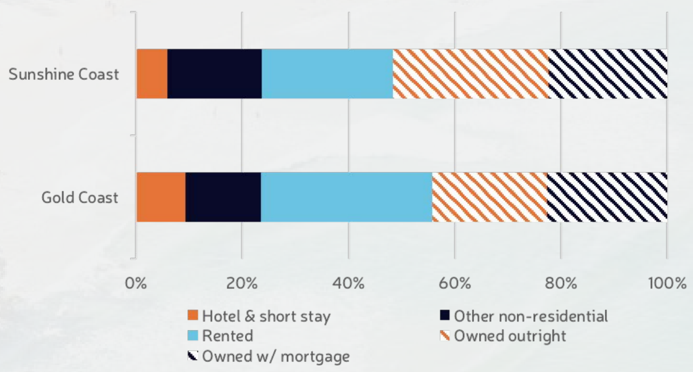
Outlook for 2021

Tight rental vacancies and affordable mortgages will likely prompt more activity in the Gold Coast sales market in 2021, however would-be buyers should be cautious of temporary Coronavirus-related impulses distorting the market. Buyers in some parts of the Gold Coast may find themselves in precarious negotiation positions in the event of increased sales activity, which could mean paying a premium which stalls performance in future years. For that reason, projects approved by Blue Wealth Property in the Gold Coast will meet supply and demand requirements that ensure clients are paying prices that make future performance viable.

Sunshine Coast

South-East Queenslanders often refer to the Sunshine Coast as the local's answer to the Gold Coast. The Sunshine Coast has a smaller population, but also a higher rate of home ownership and a lower proportion of holiday accommodation in tourist areas. As a result, the Sunshine Coast generally experiences a much more stable property market, with rental vacancies ranging between 1 and 2.5 percent over the past decade. In 2020, vacancies plummeted to 0.4 percent—indicative of severe undersupply.

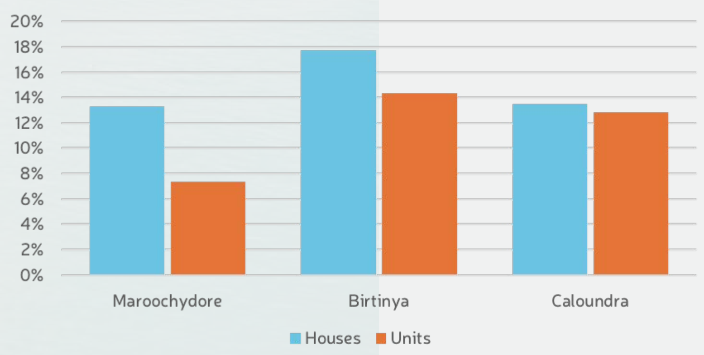
Housing Tenure and Short Term Accommodation



Source: Blue Wealth Property, ABS

High demand in the Sunshine Coast suggested by plummeting rental vacancy rates is also evidenced in property performance over 2020. With rental yields and dwelling prices concurrently rising over the year, some Sunshine Coast suburbs experienced combined (income and growth) returns approaching 20 percent. Alongside low mortgage interest rates, many property investors in the Sunshine Coast would have found themselves with a positive cash flow property that was also increasing in value over the year. It is likely that one driver of this exceptional regional performance is the capacity for the Sunshine Coast to act as a commuter hub to Brisbane. This is beneficial to those who have created the opportunity to commute to work on fewer days of the week.

Total 2020 Returns (Houses and Units)



Source: Blue Wealth Property, REA, SQM Research

Outlook for 2021

High levels of demand and tight levels of supply will likely see the Sunshine Coast enjoying a 2021 very similar to 2020, meaning that property investors can continue to expect strong rental and price performance. Due to the high prevalence of local demand, investors should be mindful of purchasing dwellings that suit the current and future local demographic. In the event of Brisbane fulfilling expectations of a strong 2021 and beyond, ripple effects will influence the Sunshine Coast market. Particularly in the case of Brisbane residents refinancing their mortgages on stronger equity in order to purchase cash flow positive homes in the Sunshine Coast they could later use as a holiday home.

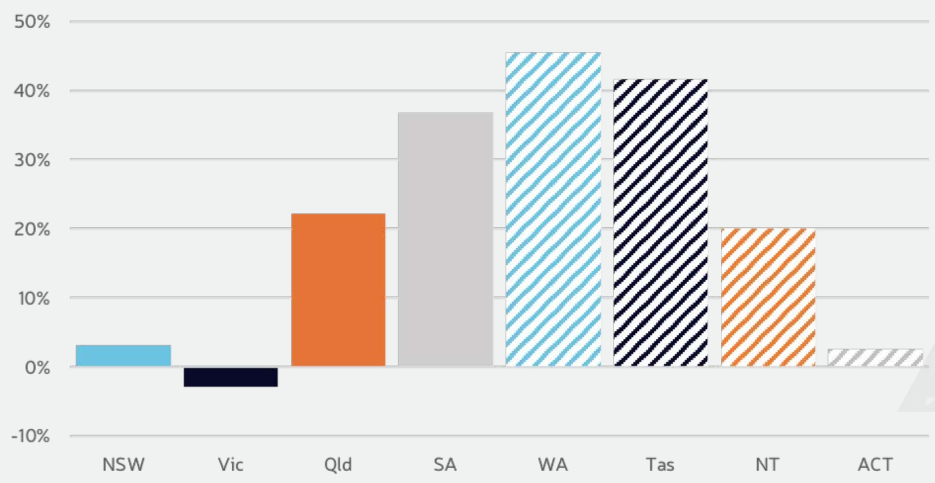
Perth

Home growth over 2020:
1.90%

In last year's State of Play, we said that Perth had endured the worst of the mining-related correction. We also said that property performance was expected to be strong, but that other markets showed stronger fundamentals. Despite the Coronavirus pandemic descending upon Australia mere weeks after the release of the State of Play, Perth indeed affirmed they had reached a property price trough in 2019. While Sydney and Melbourne experienced corrections and recoveries in median house prices over the year, Perth's was comparatively stable. According to the CoreLogic Home Value Index, the median Perth home was worth more at the end of 2020 than it was at the beginning.

Strengthening performance in Perth has been accompanied by strong performance in the labour market. By the end of 2020, Western Australia had the lowest unemployment rate of the six states, outperformed only by the two territories which had a favourable 2020 due to government employment. In November 2020, job vacancies in WA were 42 percent higher than they were 12 months earlier. This is linked to the resources sector, with the price of iron ore almost doubling over 2020.

Job Vacancy Growth November 2019 - November 2020



Source: Blue Wealth Property, ABS

Rental vacancy rates in Perth have been on a steep decline since 2017. By the end of 2020, vacancies had fallen below one percent, indicative of significant undersupply. This also applies to the south-west Perth area, where property investors were struggling with vacancies only three-to-four years earlier. Consequentially, SQM Research data indicates that rental yields in the city have trended upward over 2020, meaning that many Perth property investors are finding themselves in a superior equity and cash flow position than they were 12 months ago.

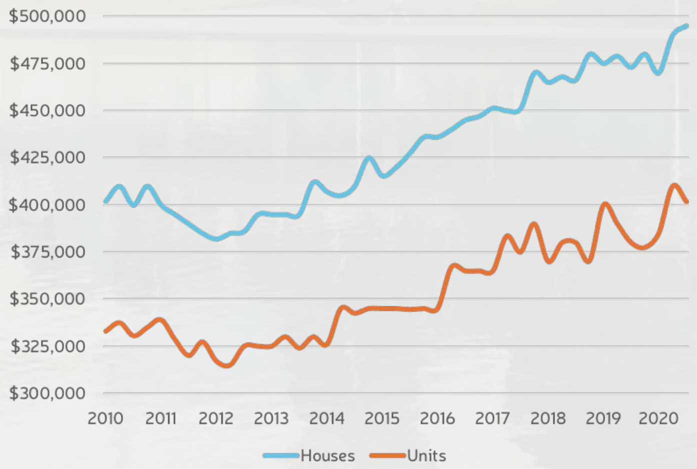
Outlook for 2021

Perth is in a better position now than it was before the pandemic. With significant levels of rental undersupply, Perth is going to need more housing supply to host its growing population as workers are attracted to high levels of job growth. When selecting particular submarkets worthy of investment within Perth, the status of the local resident population and the seasonal nature of their residence will be a primary consideration. Perth property investors should expect continued growth in rental income over 2021, as well as an increase in demand for homes which will have upward pressure on prices.

Adelaide

In recent years, Adelaide has shaken off the funk of the early-to-mid 2010s which saw negative and stagnant dwelling price performance over the space of five years. Since 2015, however, Adelaide prices have progressively fought their way upwards, with the median house price reaching a record high $495,000 by Q3 2020.

Adelaide Median Dwelling Prices



Source: Blue Wealth Property, ABS

Due to South Australia's lacklustre employment prospects in recent years, the Coronavirus pandemic didn't have as much of an impact as it did elsewhere. The state finished 2020 at an unemployment rate of 6.4 percent, just 10 basis points higher than it was in December 2019. Major infrastructure projects have worked in Adelaide's favour, with the Hunter Class Frigate program celebrating their 1,000th employee in 2020. This program expects to continue creating jobs for the Adelaide community for its nearly two-decade life. RM Williams have also recently flagged the possibility of expanding their North Adelaide operations to ensure all products are Australian made.

Outlook for 2021

Dwarfed by nearest rival, Perth, Adelaide is highly sensitive to both supply and demand shocks. This makes it a particularly unreliable market, with the Olympic Dam mine being an example of how sensitive the city can be to single projects. Although homeowners and investors have experienced positive returns in recent years, they are on shaky ground. Improvements to housing affordability and improved sentiment will likely lead to more price growth in 2021, but other cities represent stronger fundamentals.

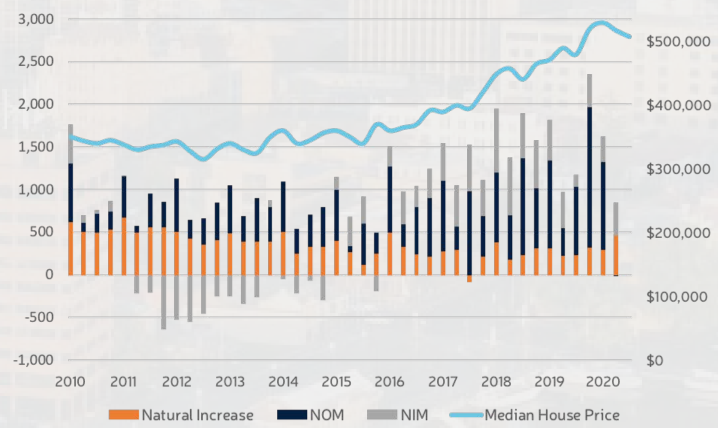
Home growth over 2020:

5.88%

Hobart

2020 saw Hobart lose status as the country's best performing market for capital growth, following a solid half-decade of price increases. Over this time, Tasmania was an attractive destination for overseas migrants who were the largest contributors to the state's population growth. Indian, Chinese, Nepalese and Pakistani immigration accounted for a quarter of Tasmania's total population growth in the 2018-19 financial year. Within Australia, new Hobart arrivals have largely come from elsewhere in Tasmania, as well as Melbourne and Sydney. Once immigration was stalled by the Coronavirus pandemic, the upward trajectory of Hobart's median house price ceased.

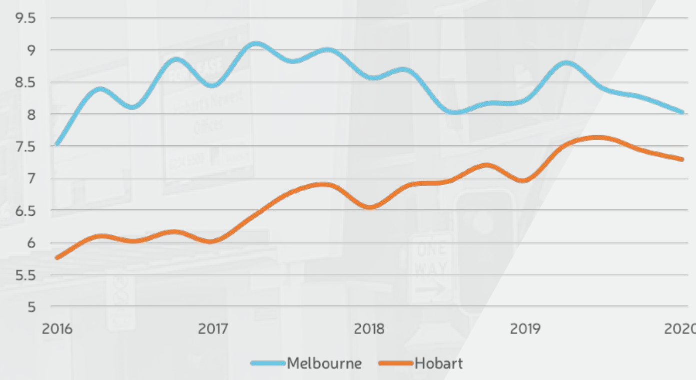
Tasmania's Quarterly Population Growth and Hobart Median House Price



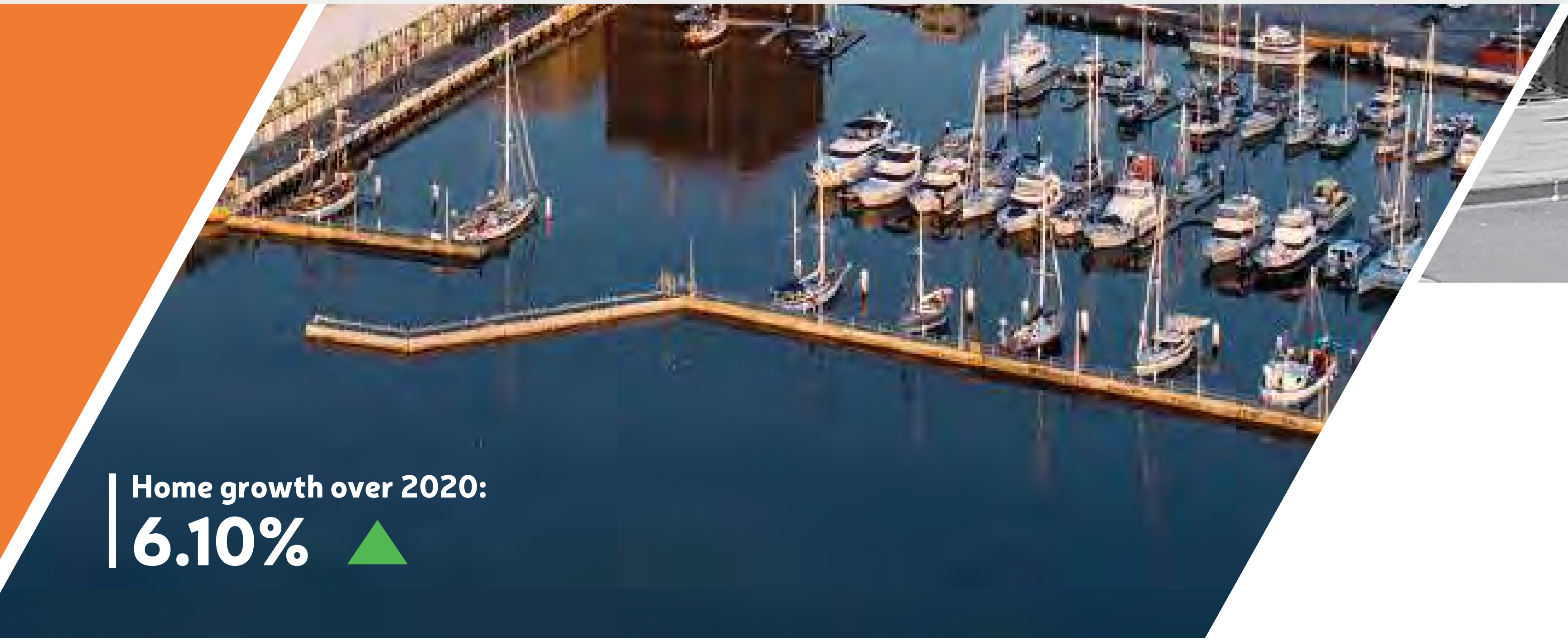
Source: Blue Wealth Property, ABS

Hobart's observable correlation between population growth and dwelling prices suggests that some of this price growth is inorganic. In other words, it appears that the established population is not the primary driver of dwelling price growth. Consequentially, housing affordability in Hobart has been in decline over the past five years, closing the gap of affordability with Melbourne. This could be problematic for the established population, leading to an exodus of those who are unable to compete with new arrivals from interstate and overseas. This will lead to a significant demographic transformation over the coming decades.

House Prices Relative to Household Incomes



Source: Blue Wealth Property, ABS



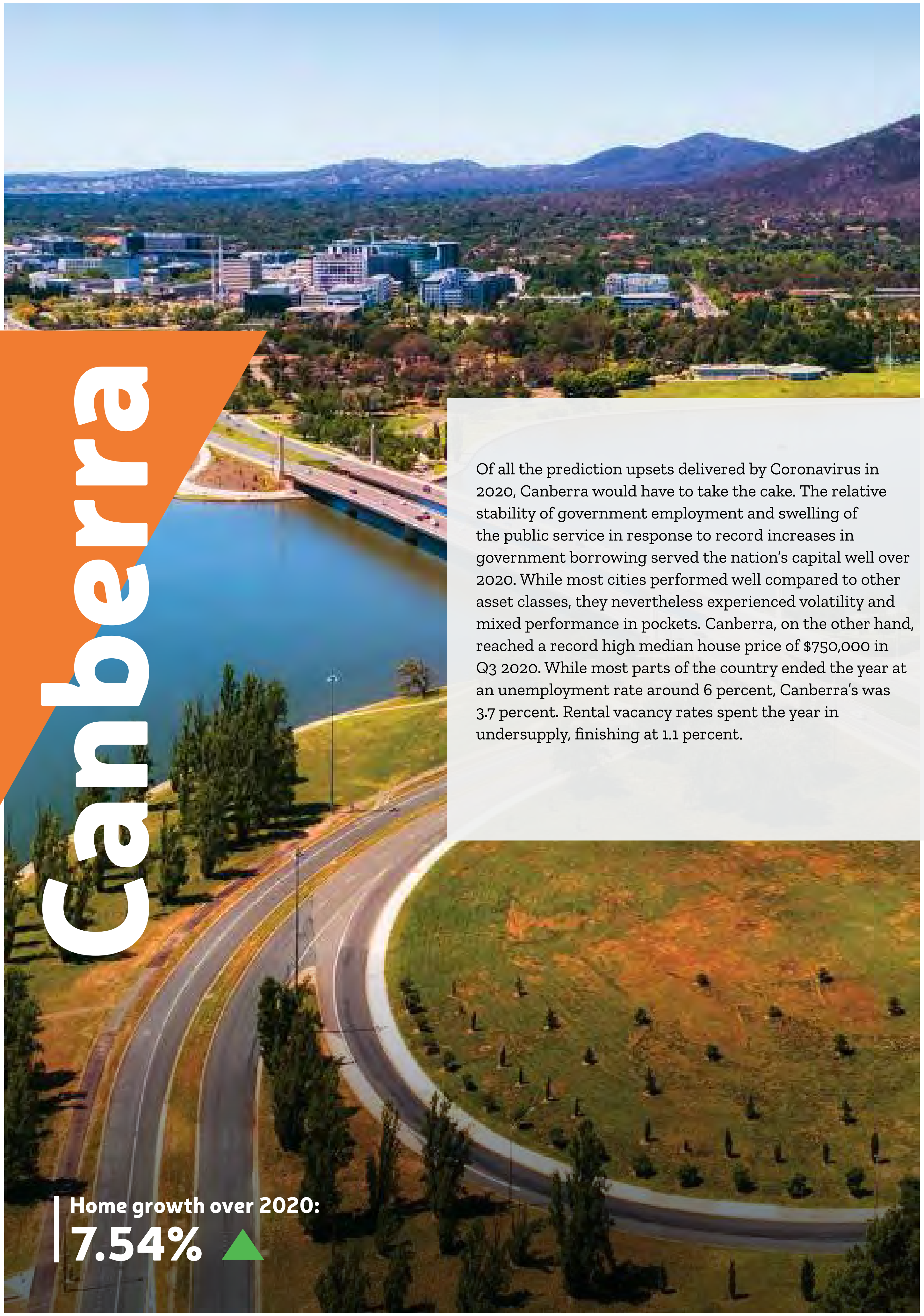
Home growth over 2020:

6.10%

Outlook for 2021

Hobart's recent property price performance appears to be heavily influenced by patterns in interstate and international migration. With such a small population size to support the city in times of reduced migration activity, Hobart investors are exposed to risks akin to what was experienced during the Coronavirus pandemic in 2020. Although future demographic trends appear to favour Hobart's future property performance, the foundations are shaky. Investors are likely to find a better balance between risk and return in more established property markets.

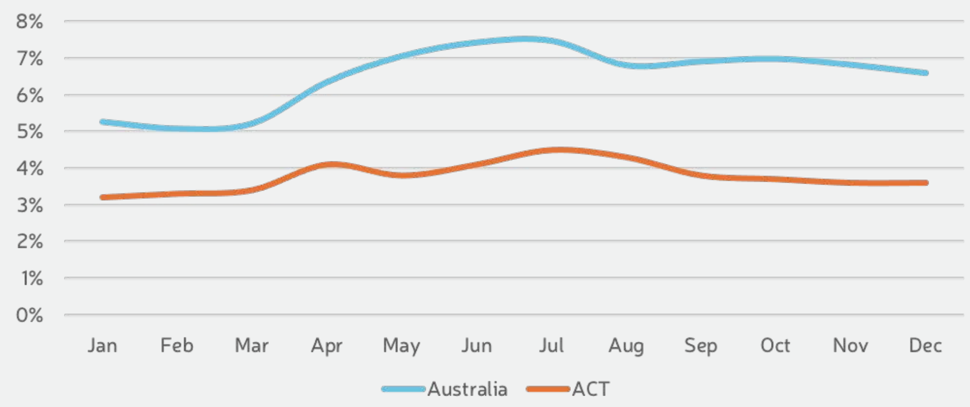
Canberra



Home growth over 2020:
7.54%

Of all the prediction upsets delivered by Coronavirus in 2020, Canberra would have to take the cake. The relative stability of government employment and swelling of the public service in response to record increases in government borrowing served the nation's capital well over 2020. While most cities performed well compared to other asset classes, they nevertheless experienced volatility and mixed performance in pockets. Canberra, on the other hand, reached a record high median house price of $750,000 in Q3 2020. While most parts of the country ended the year at an unemployment rate around 6 percent, Canberra's was 3.7 percent. Rental vacancy rates spent the year in undersupply, finishing at 1.1 percent.

Monthly Unemployment Rate 2020



Source: Blue Wealth Property, ABS

Outlook for 2021

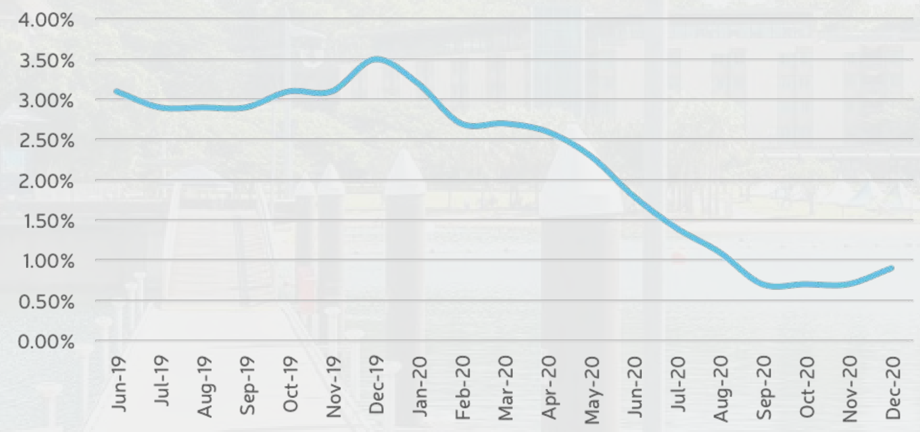
Although Canberra experienced enviable performance over 2020, this was due to its high level of dependence on government employment which can experience waves over election cycles. It is expected that this strong performance will continue in 2021, however this doesn't mean Canberra real estate represents strong long-term investment fundamentals. For this reason, we would approach Canberra with healthy scepticism when it comes to making a first or second property investment.

Darwin

In last year's State of Play, it might have seemed Darwin had little to lose heading into the Coronavirus pandemic. The Northern Territory had been ranked as Australia's worst state or territory in CommSec's late-2019 State of the States report. Unfortunately, this has not changed in 2021. CommSec attributes NT's recent poor performance to low levels of equipment spending, employment, and home construction against decade averages.

Some positive news for NT is that despite being lower than decade averages, some economic indicators are showing signs of improvement on a year-on-year basis. One example of this is a 91 percent increase in housing finance over the year. In addition, ABS data indicates that job vacancies have grown at a rate higher than the national average. This would be partly driven by government initiatives unique to the Northern Territory, such as the Home Improvement Scheme and Business Improvement Grants. Despite trouble in the top end, rental vacancy rates plummeted from equilibrium to undersupply over 2020. NT also has the country's second lowest unemployment rate as of December 2020, as well as the country's highest participation rate.

Darwin Rental Vacancy Rate



Source: Blue Wealth Property, SQM Research

Outlook for 2021

Darwin's strong household incomes still render it one of Australia's most affordable capital city markets. Although there are promising economic factors at play, there is too much uncertainty surrounding future growth drivers—hence the prevalence of government funded initiatives. It is highly unlikely a viable project will be recommended in this city in 2021.

Home growth over 2020:
8.99%

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