

THE YIELD CURVE



The Inside Perspective

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The Yield Curve

by Jodie Walker and Richard Rossman

When deciding to invest in the property market, most of us will first obtain approval for a loan, find a suitable property to buy and then pay off the mortgage accordingly, dealing with any rate rises as they come. It can be that simple.

A more clever way to invest would be to consider how mortgage rates are likely to change in the near future, prior to making the decision to purchase.

In this report, Secret Agent decided to explore a topic that is less commonly talked about amongst first time investors. This is the bond market and a graph known as the yield curve. Investing in property is commonplace these days, yet many investors do not realise the importance of the yield curve when transacting in the property market. The yield curve can be used to make general predictions about mortgage rates as we will uncover.

What is the yield curve?

One type of fixed income investment is a treasury bill, note or bond. This is a loan to the government that matures after different amounts of time. If purchased under a stable government, this is a relatively risk free investment. On maturity you will receive your money back as well as interest based on the rate locked in at the time of purchase. The difference between bills, notes and bonds is the duration until maturity. Bills are loans for less than 1 year; notes for less than 10 years; and bonds for more than 10 years. For simplicity, the rest of this report will use treasury bonds, but the same principles can be applied to notes and bills.

The yield curve depicts returns on investments with the same credit rating (or risk), such as government bonds, but with different maturity dates. Basically, it shows the interest rates you will receive in a risk free setting for lending money to the government over different timespans. The yield varies with maturity and is meant to increase the longer the bond duration. This is not always the case and situations where long term rates are less than short term rates are also possible. Both the shape and the steepness of the curve can change depending on investors' expectations.

The 3 shapes of a yield curve

A normal yield curve is upward sloping (Figure 1). This is an indicator of a stable economy, where interest rates are anticipated to rise in the future. Under these normal circumstances, yields rise as the duration of the bond maturity increases because investors will require a higher yield for the greater risk of investing money for a longer length of time. In other words, long term bonds have a higher rate than short term bonds.

A flat yield curve indicates that there is not a lot of difference between the yields for long term and short term bonds (Figure 2). It happens when market conditions are uncertain and investors are unsure which direction interest rates will move in the future. A flat yield curve is often seen during bear markets, when economic growth is slow and stock returns are low.

An inverted yield curve happens when the yields for bonds with short term maturities are higher than the yields for long term bonds (Figure 3). This happens under extraordinary market conditions and shows very low investor confidence. An inverted yield curve suggests falling inflation and economic conditions. Banks, who borrow money at short term rates and lend out money at long term rates, now have a disincentive to lend to businesses and individuals. This could lead to a 'credit crunch', as it did in 2008, when liquidity in the economy dried up as funds became unavailable. This is very dangerous for the economy and often leads to government intervention. The most common response is for the Reserve Bank to cut short-term interest rates.

Why is the yield curve important?

The shape of the yield curve is important because it reflects the market's expectations of future interest rates given the current conditions in the economy. The steeper the curve, the more likely interest rates will increase and the better the economic outlook. On the other hand, an inverted yield curve is often a signal of an impending recession.

Currently, the yield curve for Australian Government securities is partially inverted and flattening. While 10-year government bond yields are higher than yields on 90-day bills, meaning the curve is upward sloping, yields on medium term bonds (2, 3 and 5 year maturities) are lower than short term rates as shown in Figure 4. If yield curves over the past three months are compared, it can be observed that long term yields are falling, while short term rates remain at about the same level. In other words, the yield curve is flattening.

Figure 1
Normal Yield Curve, Australian Treasury Bonds



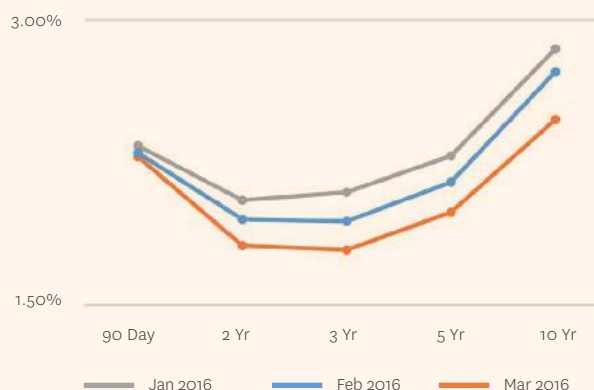
Figure 2
Flat Yield Curve, Australian Treasury Bonds



Figure 3
Inverted Yield Curve, Australian Treasury Bonds



Figure 4
Australian Treasury Bond Yield Curve, Jan - Mar 2016



The yield curve and property

The yield curve can be used as an indicator in the property market because there is a strong relationship between bond yields and interest rates. As shown in Figure 5, the 90-day bill yield (bond) yield is almost identical to the cash rate.

The cash rate is a special interest rate set by the Reserve Bank of Australia which is charged when banks borrow funds from each other. The Reserve Bank will often cut the cash rate to reduce short term yields, which in turn leads to a steeper yield curve. Figure 6 compares the changes in the target cash rate with the shape of the yield curve (difference between 90-day yields and 10-year yields).

Whenever the blue line is above 0%, the yield curve has a normal shape. The higher the percentage, the steeper the yield curve. If the blue line is below 0%, the yield curve is inverted: long term yields are lower than short term yields. The orange line depicts changes in the official cash rate. If the red line stays at 0%, interest rates remained on hold that month, while an upward or downward movement means interest rates were changed by that percentage.

The yield curve was inverted (negative yield spread) during economic downturns in 2001, 2007/08 and 2012. Notice that whenever the bond yield spread is negative, it is followed by interest rate cuts.

Once the yield curve begins to flatten, it continues on a downward trajectory until the RBA cuts interest rates. All major downturns since 2000 forced the RBA into cutting interest rates.

Interest rates were never cut before an inversion of the yield curve, but always as a corrective measure afterwards. Since mid-2015, the yield curve has again been flattening, which could be a very strong indicator that interest rates will again be cut in the near future.

Figure 5
Australian Cash Rate and 90-day Bill Yield
Sources: AFMADData; RBA

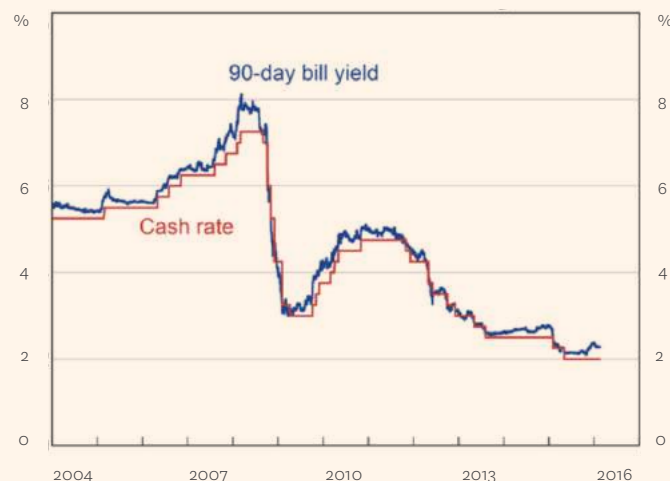


Figure 6
The Yield Curve and RBA Cash Rate Policy



The yield curve and mortgage rates

One of the most important inferences from the yield curve for the property market is the fact that bond yields have a direct impact on mortgage repayment rates. The mortgage rate is determined by banks as a combination of the risk-free cash rate plus a risk premium, which is different for each individual. Generally speaking, the variable mortgage rate is 2-3% above the risk-free cash rate. If interest rates (i.e. yields) rise for a bond with a certain maturity, then lenders including banks can charge more interest for mortgages with the same maturity date. If long term yields are declining, then banks have to lower their rates, meaning their profit margins reduce and they are less willing to lend out money.

We have shown that the cash rate and 90-day bill yield are nearly identical (Figure 5). A similar relationship exists between repayment rates on mortgages and long term bond yields. There is a positive correlation between these two longer term debt instruments.

Current average variable mortgage rates share the strongest positive correlation with 10-year bond yields from 8 months earlier. On a scale of -1 (strongly move in opposite directions) to 1 (strongly move in the same direction), these two variables share a correlation of 0.7.

This means that 10-year bond yields can be used to predict mortgage rates 8 months into the future.

This relationship is depicted in Figure 7.

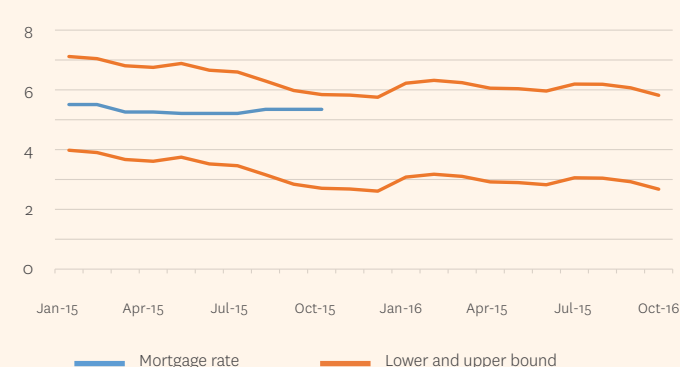
For the majority of the period, the mortgage rate sits a few percentage points above the bond yield. To estimate the average variable mortgage rate 8 months from now, upper and lower bounds are set up based on the standard deviation of the difference between the two variables. This prediction band (in orange) is depicted in Figure 8. The average variable mortgage rate will fall in this range 96.3% of the time. Using this band, the average variable mortgage rate until October 2016 can be predicted.

Since the spread between the band is quite wide (about 3%), the main observation to make is the general upward and downward movement of the band. From January 2015, the range dropped by about one percent and it remains at current levels until October 2016. This is creating downward pressure on mortgage rates, which have not shifted down. As the blue line shows, they are currently sitting near the top of the prediction band.

Figure 7
Average Variable Mortgage Rate and 10 Yr Treasury Bond Yield 8 Months Earlier (%)



Figure 8
Average Variable Mortgage Rate Prediction (%)



Conclusion

Variable mortgage rates and access to credit are two of the biggest drivers of demand in the property market. Knowledge about mortgage rates is important for buyers and sellers alike. Given the strong relationship of the yield curve with mortgage rates, if you invest in real estate you should also pay attention to the bond market. The yield curve provides a general idea of whether mortgage rates are likely to move, and in what direction, in the near future.

Lower mortgage rates mean more buyers are able to enter the market and bid on property. If too many people take out loans while interest rates are low, there may be problems when interest rates rise again.

Secret Agent's analysis on the current bond market shows that the shape of the yield curve is changing. It can be concluded that credit will be readily available and mortgage rates will dip slightly, with a cut in the cash rate likely towards the end of 2016 or early 2017. ♦

Market Review

by Richard Rossmann

Easter has arrived quickly. So far, the early parts of this year have been impacted by public holidays; this has reduced listing numbers and overall choice, which have been strong contributors to healthy clearance rates and strong competition by bidders.

Overall prices were down at the start of 2016 relative to the end of last year, which is mostly due to the cyclical nature of the property market. The month of March alone reveals signs of the trend reversing and property prices swinging up again. Many suburbs have left the "Bust" list, with only CBD apartments experiencing four consecutive rolling quarters of negative price growth.

Similar to last month, average house prices in the inner suburbs were down 2% over the rolling quarter. However, compared to March 2015, all inner regions saw increases in real prices: 8% in the inner South, 8.5% in the inner North and 14% in the inner West. Due to several multimillion dollar property sales in the inner East this month, real median prices are up over 33% since this time last year. As pointed out in Secret Agent's recent blog post, these large fluctuations show the limitations of analysis using medians and averages within concentrated areas.

Prices of townhouses remained nearly unchanged this quarter compared to last, dropping by less than half a per cent. The average price per square metre was also identical to last month's figure of \$6,300, but is still well below levels seen towards the end of last year. Standalone houses on the other hand are closing the gap, with their median price per square metre nearing \$5,900.

Median apartment prices are about 4% lower than at the end of 2015, while total listings are down slightly, remaining at over 3,200 combined across all inner regions. The market for apartments did not adjust correctly to the much lower

demand for property at the start of the new year, which means the price decline is most likely due to an oversupply. Compared to March last year, CBD apartments have gained a slither of real value, with median prices up 0.16%. Northcote and West Melbourne have seen two consecutive rolling quarters of negative growth. Collingwood was the only area to buck the trend, with apartment prices rising consecutively since November last year.

Secret Agent still believes that value in the property market is easier to leverage at the top end of the market and many buyers seem to share this sentiment: nearly 16% of all houses sold this quarter had a price tag of \$2 million or more, with \$7 million and \$5 million value properties in South Yarra and Hawthorn having no trouble finding a buyer happy to exchange fortunes for keys. However, true value may still be much harder to find. For properties above \$3 million, buyers on average paid \$7,200 per square metre, which is well above the average for houses in the inner suburbs. Larger homes are increasingly being sold to developers who are optimistic about creating further value on these sites.

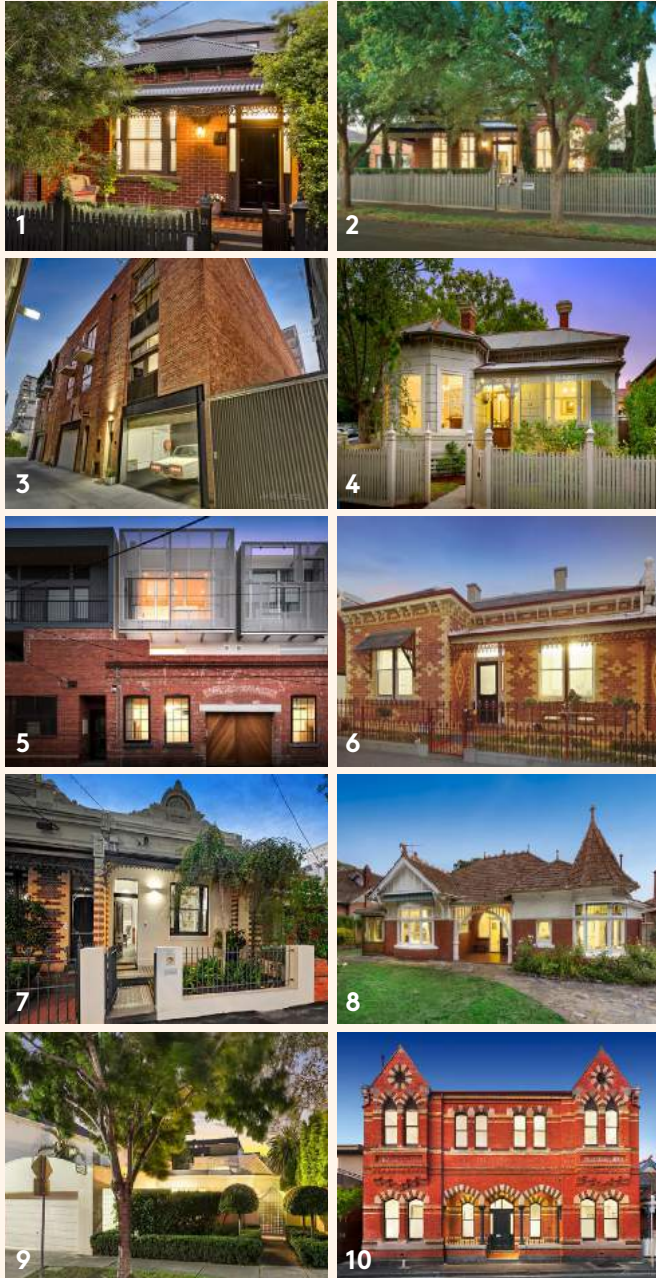
Secret Agent plans to investigate true capital growth more deeply. We believe that many figures that can be found readily on the web do not offer home buyers the real insights into the property market. Whenever a property undergoes change between sales, the price reflects the value added by the owners as well as the appreciation of the property itself. We're excited to bring these findings to you over the coming few months.

Top Sales

MAR 2016

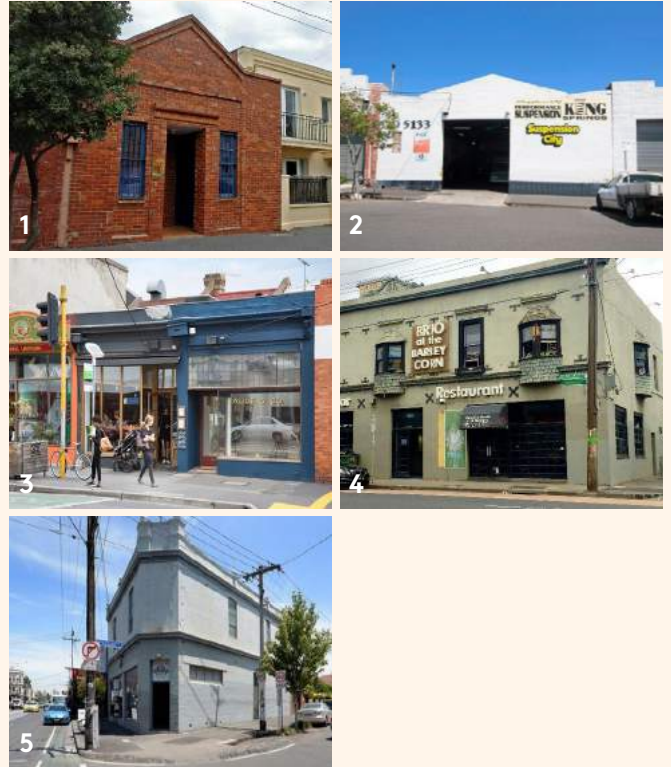
The Yield Curve
Vol.42 April 2016

Residential



- 1 **\$1,681,000** 21 Paterson Street, Abbotsford
- 2 **\$4,860,000** 1 Royal Crescent, Armadale
- 3 **\$1,640,000** 11 Byron Street, Collingwood
- 4 **\$1,650,000** 46 Brighton Street, Flemington
- 5 **\$2,020,000** 15 Kent Street, Fitzroy
- 6 **\$2,860,000** 66 Reed Street, Albert Park
- 7 **\$3,010,000** 267 Richardson Street, Middle Park
- 8 **\$5,000,000** 26 Linda Crescent, Hawthorn
- 9 **\$7,150,000** 68 Avoca Street, South Yarra
- 10 **\$4,850,000** 39 Duke Street, Windsor

Commercial





- 1 **Undisclosed** 40 Stokes Street, Port Melbourne
- 2 **\$1,950,000** 43 Provost Street, North Melbourne
- 3 **\$1,220,000** 159 Brunswick Street, Fitzroy
- 4 **Undisclosed** 177-181 Johnston Street, Collingwood
- 5 **\$1,202,000** 367 St Georges Road, Fitzroy North

Quarterly Scorecard

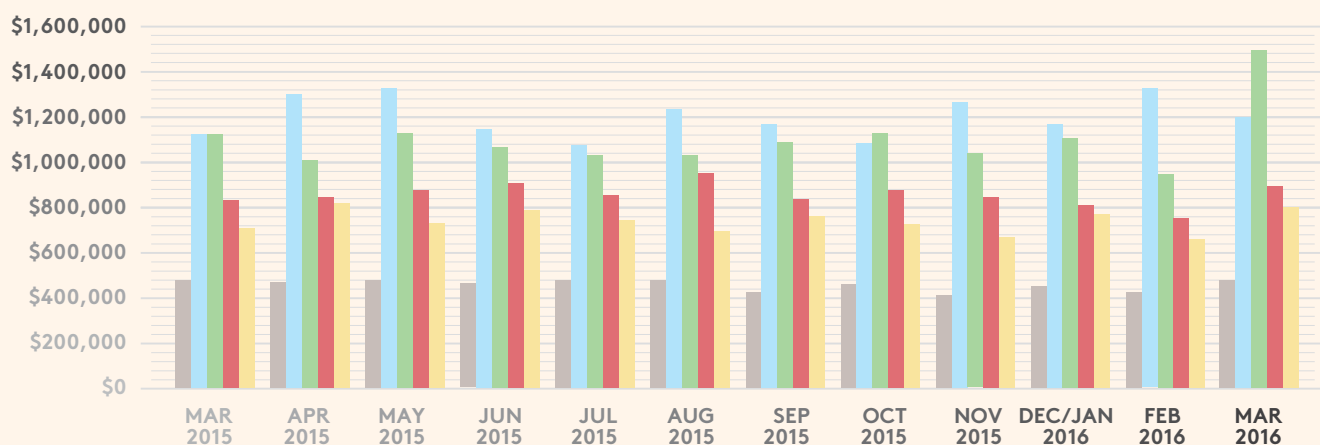
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Vol.42 April 2016

JAN - MAR 2016

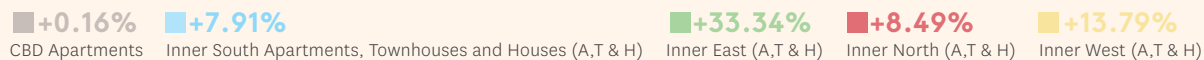
| | Apartments | | | Houses | | | Townhouses | | |
|--|-----------------------|---------------|---|---------------------|----------------|---|---------------|----------------|---|
| QUARTERLY GROWTH/DECLINE | -4.05% | | ↓ | -2.01% | | ↓ | -0.35% | | ↓ |
| MEDIAN PRICE | \$509,000 | | | \$1,195,500 | | | \$850,000 | | |
| AVERAGE PRICE | \$568,992 | | | \$1,415,623 | | | \$998,308 | | |
| MEDIAN SQM | - | | | \$5,860 | +16.25% | ↑ | \$6,296 | -12.53% | ↓ |
| STOCK INVENTORY | 3207 | -1.35% | ↓ | 278 | -26.65% | ↓ | 95 | -18.80% | ↓ |
|  BOOM | Collingwood | | ↑ | Flemington | | ↑ | - | | |
|  BUST | Melbourne | | ↓ | Carlton | | ↓ | - | | |
| | Northcote | | ↓ | Clifton Hill | | ↓ | - | | |
| | West Melbourne | | ↓ | Cremorne | | ↓ | - | | |

YEAR ON YEAR LOOK

Median Prices



MAR 2015 - MAR 2016
GROWTH/DECLINE



NOTES

- Due to several multimillion dollar property sales in the inner East this month, real median prices are up over 33% since this time last year. This includes the sale of two development sites in South Yarra and St Kilda which have been marketed as homes.
- Nearly 16% of all houses sold this quarter had a price tag of \$2 million or more.
- Many suburbs have left the "Bust" list, with only CBD apartments experiencing four consecutive rolling quarters of negative price growth.

LEGEND

1. Inner Melbourne is defined by suburbs falling into the 8km radius of the CBD.
2. Overall growth/decline is based on changes in median price between quarters.
3. A boom! is recorded when a category records three consecutive quarters of positive growth.
4. A bust! is recorded when a category records two consecutive quarters of negative growth.

Quarterly Turnover

JAN - MAR 2016

The Yield Curve
Vol.42 April 2016

| | | PREVIOUS QUARTER (OCT, NOV, DEC 2015) | | | | CURRENT QUARTER (JAN, FEB, MAR 2016) | | | |
|--------------------|-----------------|---------------------------------------|-------------------------|------------------------|-------------------------------------|--------------------------------------|-------------------------|------------------------|-------------------------------------|
| | | Apartments | Apartments (by area) | Houses & Townhouses | Houses & Townhouses (by area) | Apartments | Apartments (by area) | Houses & Townhouses | Houses & Townhouses (by area) |
| Central | Docklands | 3.57% | | 0.00% | | 2.15% | | 0.00% | |
| | Melbourne | 1.76% | 1.99% | 0.00% | 0.00% | 1.19% | 1.36% | 0.00% | 0.00% |
| | Southbank | 1.83% | | 0.00% | | 1.41% | | 0.00% | |
| Inner North | Brunswick | 1.44% | | 1.19% | | 1.18% | | 0.63% | |
| | Brunswick East | 2.17% | | 1.20% | | 1.04% | | 0.76% | |
| | Carlton | 1.04% | | 1.21% | | 0.78% | | 0.38% | |
| | Carlton North | 0.95% | | 1.48% | | 1.14% | | 0.62% | |
| | Clifton Hill | 0.80% | | 1.03% | | 1.40% | | 0.65% | |
| | Collingwood | 2.12% | 1.31% | 0.96% | 1.22% | 1.41% | 0.92% | 0.77% | 0.63% |
| | Fitzroy | 1.32% | | 1.14% | | 0.87% | | 0.57% | |
| | Fitzroy North | 1.41% | | 0.93% | | 0.75% | | 0.45% | |
| | North Melbourne | 1.25% | | 1.46% | | 0.66% | | 0.68% | |
| | Northcote | 1.14% | | 1.48% | | 0.98% | | 0.73% | |
| | Parkville | 1.17% | | 1.15% | | 0.82% | | 0.43% | |
| Princes Hill | 0.83% | | 0.32% | | 0.00% | | 0.32% | | |
| Inner East | Abbotsford | 1.56% | | 2.07% | | 1.91% | | 0.64% | |
| | Burnley | 0.00% | | 0.49% | | 0.68% | | 0.00% | |
| | Cremorne | 0.55% | | 1.38% | | 0.00% | | 0.39% | |
| | East Melbourne | 1.38% | 1.66% | 1.78% | 1.73% | 0.69% | 1.15% | 1.07% | 0.82% |
| | Hawthorn | 1.40% | | 1.50% | | 0.99% | | 0.90% | |
| | Prahran | 2.08% | | 2.30% | | 1.38% | | 0.97% | |
| | Richmond | 1.71% | | 1.56% | | 1.19% | | 0.80% | |
| | South Yarra | 1.77% | | 1.86% | | 1.23% | | 0.80% | |
| Inner South | Albert Park | 1.38% | | 0.80% | | 0.20% | | 0.56% | |
| | Middle Park | 0.63% | | 1.36% | 1.14% | 1.26% | | 0.77% | |
| | Port Melbourne | 1.82% | 1.50% | 1.41% | | 1.03% | 1.00% | 1.02% | 0.76% |
| | South Melbourne | 1.23% | | 1.14% | | 1.08% | | 0.64% | |
| Inner West | Flemington | 0.65% | | 1.22% | | 0.54% | | 1.01% | |
| | Kensington | 1.59% | | 1.26% | 1.30% | 1.43% | 1.27% | 0.99% | 0.92% |
| | Travancore | 1.87% | 1.05% | 0.74% | | 2.29% | | 0.74% | |
| | West Melbourne | 0.59% | | 2.00% | | 1.89% | | 0.40% | |

Total sales for the period against total housing supply. Table compiled from data collected from October 2015 to March 2016.
Total private dwellings information from the 2011 Census Report from the Australian Bureau of Statistics.

Apartments

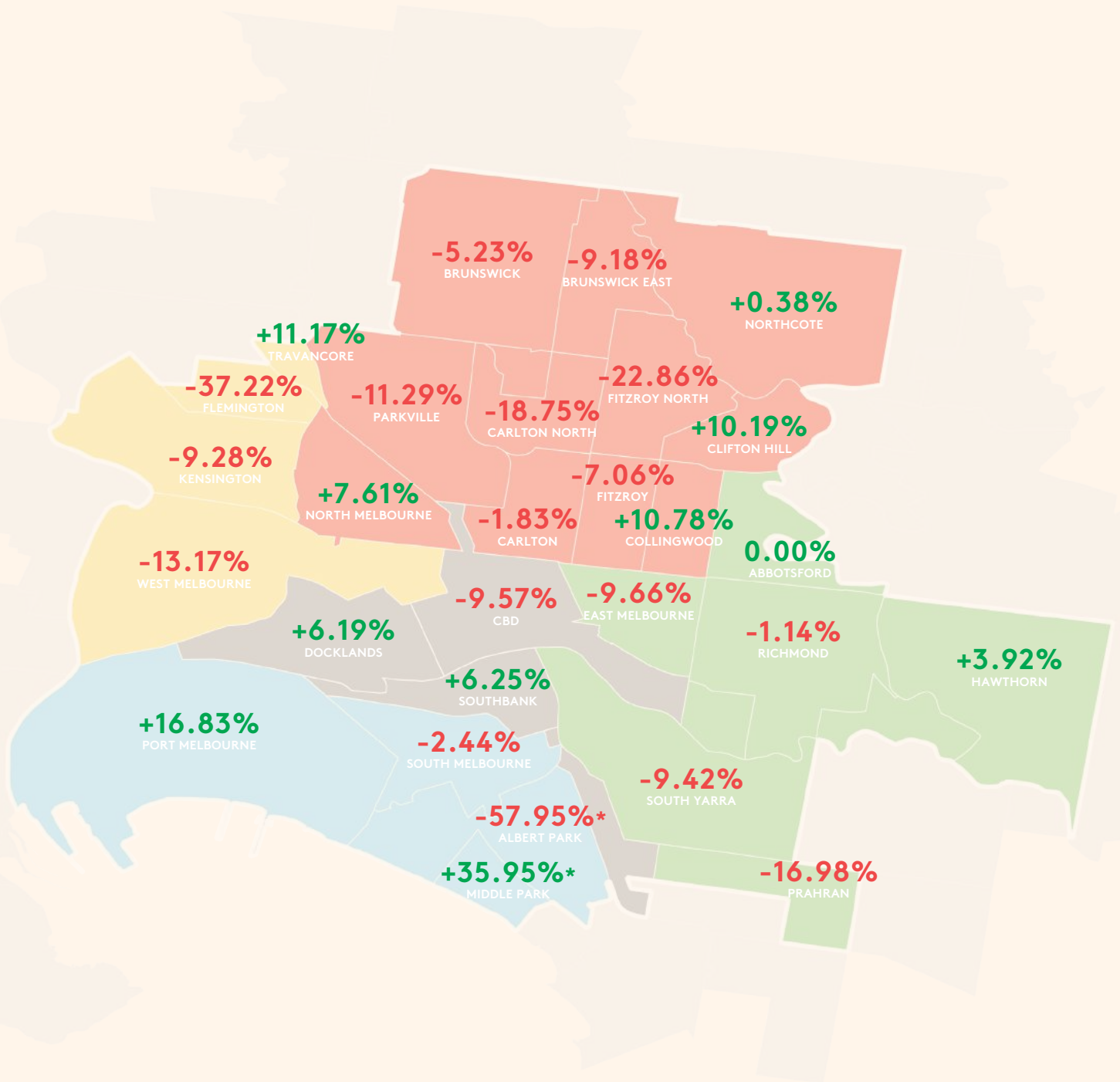
PRICE COMPARISONS BY ROLLING QUARTERS

| | PREVIOUS QUARTER (OCT, NOV, DEC 2015) | | | | CURRENT QUARTER (JAN, FEB, MAR 2016) | | | | | |
|-----------------|---------------------------------------|--------------|-------------|--------------|--------------------------------------|-----------|--------------|-----------|-------------|--------------|
| | Average Price | Median Price | Lowest Sale | Highest Sale | Average Price | % change | Median Price | % change | Lowest Sale | Highest Sale |
| Docklands | \$654,688 | \$565,000 | \$135,000 | \$1,850,000 | \$720,729 | ↑ 10.09% | \$600,000 | ↑ 6.19% | \$340,000 | \$1,810,000 |
| Melbourne | \$539,905 | \$470,000 | \$180,000 | \$3,900,000 | \$471,604 | ↓ -12.65% | \$425,000 | ↓ -9.57% | \$129,000 | \$2,500,000 |
| Southbank | \$642,549 | \$560,000 | \$294,000 | \$2,050,000 | \$668,212 | ↑ 3.99% | \$595,000 | ↑ 6.25% | \$390,000 | \$2,830,000 |
| Brunswick | \$489,257 | \$488,000 | \$136,000 | \$835,000 | \$465,350 | ↓ -4.89% | \$462,500 | ↓ -5.23% | \$216,000 | \$892,000 |
| Brunswick East | \$478,514 | \$490,000 | \$270,000 | \$665,000 | \$493,556 | ↑ 3.14% | \$445,000 | ↓ -9.18% | \$350,000 | \$793,000 |
| Carlton | \$381,974 | \$280,000 | \$165,000 | \$1,250,000 | \$359,582 | ↓ -5.86% | \$274,888 | ↓ -1.83% | \$144,000 | \$1,100,000 |
| Carlton North | *\$627,700 | *\$640,000 | \$570,000 | \$667,500 | \$587,000 | ↓ -6.48% | \$520,000 | ↓ -18.75% | \$301,000 | \$970,000 |
| Clifton Hill | *\$542,875 | *\$493,250 | \$365,000 | \$820,000 | \$544,500 | ↑ 0.30% | \$543,500 | ↑ 10.19% | \$320,000 | \$1,000,000 |
| Collingwood | \$667,325 | \$580,000 | \$137,500 | \$2,180,000 | \$766,531 | ↑ 14.87% | \$642,500 | ↑ 10.78% | \$140,000 | \$1,700,000 |
| Fitzroy | \$640,643 | \$659,000 | \$287,500 | \$999,000 | \$707,522 | ↑ 10.44% | \$612,500 | ↓ -7.06% | \$350,000 | \$2,000,000 |
| Fitzroy North | \$626,531 | \$619,000 | \$207,000 | \$1,200,000 | \$486,688 | ↓ -22.32% | \$477,500 | ↓ -22.86% | \$326,000 | \$715,000 |
| North Melbourne | \$524,483 | \$492,500 | \$150,000 | \$1,420,000 | \$515,983 | ↓ -1.62% | \$530,000 | ↑ 7.61% | \$160,000 | \$669,000 |
| Northcote | \$464,316 | \$460,000 | \$312,000 | \$692,000 | \$448,504 | ↓ -3.41% | \$461,750 | ↑ 0.38% | \$270,000 | \$672,500 |
| Parkville | \$663,667 | \$700,000 | \$440,000 | \$912,500 | \$567,571 | ↓ -14.48% | \$621,000 | ↓ -11.29% | \$337,000 | \$695,000 |
| Princes Hill | *\$650,000 | *\$650,000 | \$640,000 | \$660,000 | - | - | - | - | - | - |
| Abbotsford | \$706,667 | \$630,000 | \$415,000 | \$1,205,000 | \$645,700 | ↓ -8.63% | \$630,000 | 0.00% | \$415,000 | \$975,000 |
| Burnley | - | - | - | - | *\$470,000 | - | *\$470,000 | - | \$470,000 | \$470,000 |
| Cremorne | *\$510,000 | *\$510,000 | \$510,000 | \$510,000 | - | - | - | - | - | - |
| East Melbourne | \$651,472 | \$668,000 | \$269,500 | \$940,000 | \$829,400 | ↑ 27.31% | \$603,500 | ↓ -9.66% | \$180,000 | \$2,275,000 |
| Hawthorn | \$551,597 | \$510,000 | \$110,000 | \$1,250,500 | \$602,222 | ↑ 9.18% | \$530,000 | ↑ 3.92% | \$232,000 | \$1,550,000 |
| Prahran | \$519,462 | \$530,000 | \$130,500 | \$1,000,000 | \$518,011 | ↓ -0.28% | \$440,000 | ↓ -16.98% | \$155,500 | \$1,305,000 |
| Richmond | \$547,700 | \$526,000 | \$280,000 | \$1,210,000 | \$555,095 | ↑ 1.35% | \$520,000 | ↓ -1.14% | \$301,000 | \$852,000 |
| South Yarra | \$687,502 | \$557,500 | \$315,000 | \$3,675,000 | \$586,222 | ↓ -14.73% | \$505,000 | ↓ -9.42% | \$210,000 | \$1,900,000 |
| Albert Park | \$801,464 | \$832,250 | \$517,000 | \$1,009,286 | *\$350,000 | ↓ -56.33% | *\$350,000 | ↓ -57.95% | \$350,000 | \$350,000 |
| Middle Park | *\$636,250 | *\$636,250 | \$400,000 | \$872,500 | *\$815,600 | ↑ 28.19% | *\$865,000 | ↑ 35.95% | \$706,000 | \$880,000 |
| Port Melbourne | \$856,385 | \$646,250 | \$225,000 | \$4,050,000 | \$767,710 | ↓ -10.35% | \$755,000 | ↑ 16.83% | \$410,000 | \$1,350,000 |
| South Melbourne | \$611,891 | \$615,000 | \$296,000 | \$1,260,000 | \$738,353 | ↑ 20.67% | \$600,000 | ↓ -2.44% | \$300,000 | \$2,200,000 |
| Flemington | \$462,920 | \$433,250 | \$250,000 | \$790,000 | \$324,688 | ↓ -29.86% | \$272,000 | ↓ -37.22% | \$163,000 | \$501,000 |
| Kensington | \$478,658 | \$474,000 | \$274,000 | \$928,000 | \$457,583 | ↓ -4.40% | \$430,000 | ↓ -9.28% | \$332,500 | \$705,000 |
| Travancore | \$349,500 | \$342,500 | \$265,000 | \$435,000 | \$414,850 | ↑ 18.70% | \$380,750 | ↑ 11.17% | \$342,500 | \$566,000 |
| West Melbourne | *\$495,500 | *\$501,000 | \$330,000 | \$650,000 | \$467,769 | ↓ -5.60% | \$435,000 | ↓ -13.17% | \$335,000 | \$680,000 |

Table compiled from data collected from October 2015 to March 2016. A dash indicates no recorded sales for the quarter, inability to show a quarterly change or no quarterly change. Directional arrows indicate change in comparison to the previous rolling quarter. * indicates an average or median value calculated using 5 sales or less.

Apartments

QUARTERLY MEDIAN CHANGE BY SUBURB



Based on data collected from October 2015 to March 2016. Princes Hill, Burnley and Cremorne were omitted due to insufficient data.

* indicates a median value calculated using 5 sales or less.

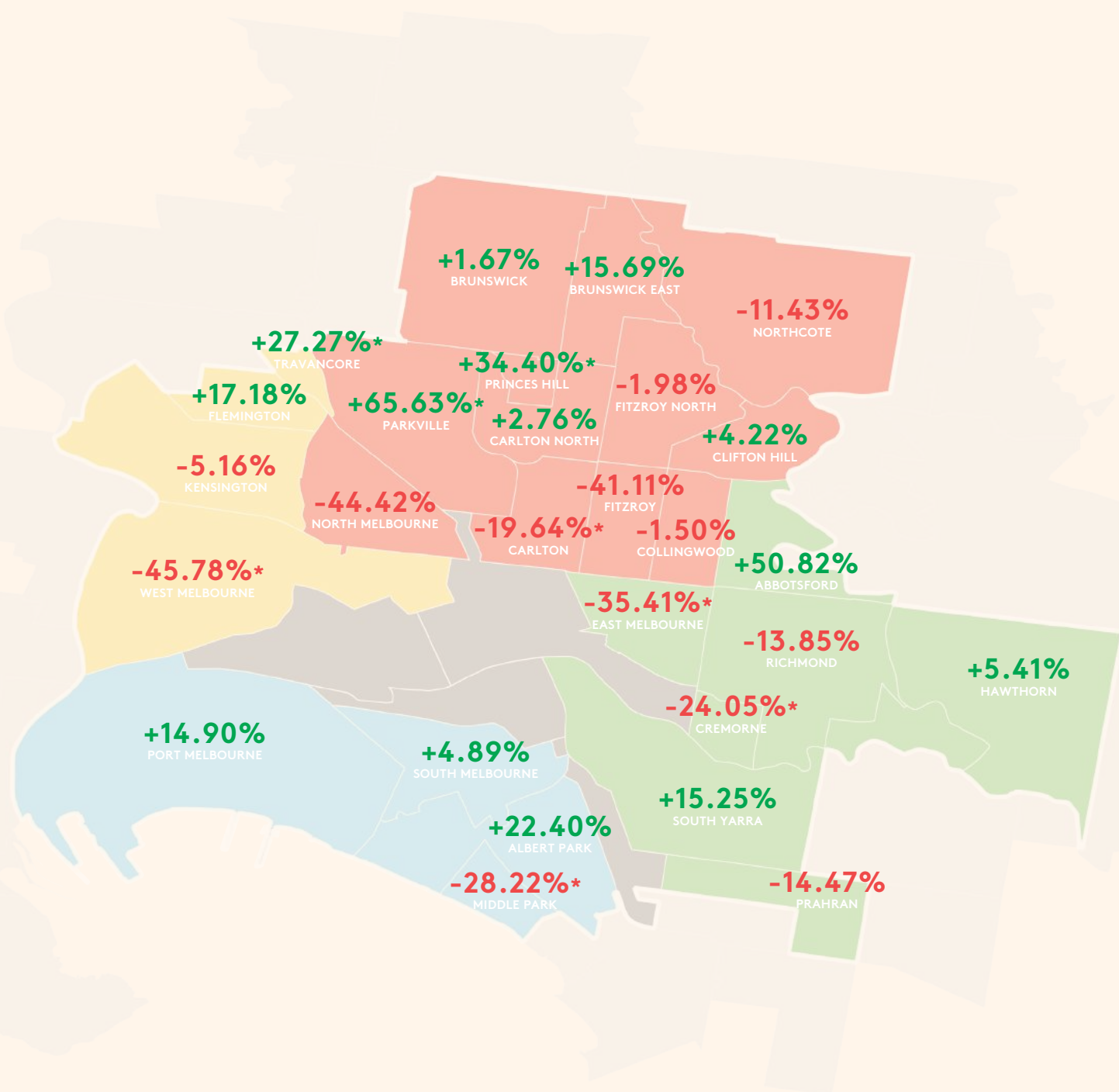
PRICE COMPARISONS BY ROLLING QUARTERS

| | PREVIOUS QUARTER (OCT, NOV, DEC 2015) | | | | CURRENT QUARTER (JAN, FEB, MAR 2016) | | | | | |
|-----------------|---------------------------------------|--------------|-------------|--------------|--------------------------------------|-----------|--------------|-----------|-------------|--------------|
| | Average Price | Median Price | Lowest Sale | Highest Sale | Average Price | % change | Median Price | % change | Lowest Sale | Highest Sale |
| Docklands | - | - | - | - | - | | - | | - | - |
| Melbourne | - | - | - | - | - | | - | | - | - |
| Southbank | - | - | - | - | - | | - | | - | - |
| Brunswick | \$957,977 | \$900,000 | \$633,333 | \$1,930,000 | \$1,019,241 | ↑ 6.40% | \$915,000 | ↑ 1.67% | \$650,000 | \$2,340,000 |
| Brunswick East | \$1,059,500 | \$1,020,000 | \$454,000 | \$1,770,000 | \$1,115,346 | ↑ 5.27% | \$1,180,000 | ↑ 15.69% | \$687,500 | \$1,600,000 |
| Carlton | \$1,315,846 | \$1,400,000 | \$830,000 | \$1,930,000 | *\$1,232,333 | ↓ -6.35% | *\$1,125,000 | ↓ -19.64% | \$1,050,000 | \$1,522,000 |
| Carlton North | \$1,277,121 | \$1,195,000 | \$765,000 | \$2,800,000 | \$1,356,917 | ↑ 6.25% | \$1,228,000 | ↑ 2.76% | \$900,000 | \$1,880,000 |
| Clifton Hill | \$1,409,067 | \$1,162,000 | \$795,000 | \$2,506,000 | \$1,159,500 | ↓ -17.71% | \$1,211,000 | ↑ 4.22% | \$730,000 | \$1,545,000 |
| Collingwood | \$985,375 | \$918,750 | \$775,000 | \$1,610,000 | \$1,003,188 | ↑ 1.81% | \$905,000 | ↓ -1.50% | \$737,500 | \$1,770,000 |
| Fitzroy | \$1,458,467 | \$1,580,000 | \$340,000 | \$2,220,000 | \$1,183,500 | ↓ -18.85% | \$930,500 | ↓ -41.11% | \$711,000 | \$2,036,000 |
| Fitzroy North | \$1,375,875 | \$1,224,250 | \$660,000 | \$4,700,000 | \$1,332,400 | ↓ -3.16% | \$1,200,000 | ↓ -1.98% | \$910,000 | \$2,110,000 |
| North Melbourne | \$1,316,100 | \$1,345,000 | \$475,000 | \$2,780,000 | \$1,089,188 | ↓ -17.24% | \$747,500 | ↓ -44.42% | \$595,000 | \$1,950,000 |
| Northcote | \$1,282,264 | \$1,117,750 | \$750,000 | \$3,052,000 | \$1,211,061 | ↓ -5.55% | \$990,000 | ↓ -11.43% | \$800,000 | \$3,000,000 |
| Parkville | \$1,709,875 | \$1,600,000 | \$726,000 | \$2,600,000 | *\$2,216,667 | ↑ 29.64% | *\$2,650,000 | ↑ 65.63% | \$750,000 | \$3,250,000 |
| Princes Hill | *\$1,250,000 | *\$1,250,000 | \$1,250,000 | \$1,250,000 | *\$1,680,000 | ↑ 34.40% | *\$1,680,000 | ↑ 34.40% | \$1,210,000 | \$2,150,000 |
| Abbotsford | \$966,265 | \$915,000 | \$617,500 | \$1,275,000 | \$1,456,000 | ↑ 50.68% | \$1,380,000 | ↑ 50.82% | \$900,000 | \$2,440,000 |
| Burnley | *\$915,000 | *\$915,000 | \$915,000 | \$915,000 | - | | - | | - | - |
| Cremorne | \$1,342,250 | \$1,382,500 | \$933,500 | \$1,790,000 | *\$1,050,000 | ↓ -21.77% | *\$1,050,000 | ↓ -24.05% | \$955,000 | \$1,145,000 |
| East Melbourne | \$2,450,000 | \$2,167,500 | \$495,000 | \$4,600,000 | *\$1,708,000 | ↓ -30.29% | *\$1,400,000 | ↓ -35.41% | \$1,070,000 | \$3,600,000 |
| Hawthorn | \$2,361,028 | \$1,930,625 | \$853,000 | \$6,810,000 | \$2,181,867 | ↓ -7.59% | \$2,035,000 | ↑ 5.41% | \$1,077,000 | \$5,000,000 |
| Prahran | \$1,628,000 | \$1,520,000 | \$630,000 | \$2,975,000 | \$1,665,688 | ↑ 2.31% | \$1,300,000 | ↓ -14.47% | \$934,000 | \$3,650,000 |
| Richmond | \$1,347,411 | \$1,220,000 | \$782,500 | \$4,320,000 | \$1,230,946 | ↓ -8.64% | \$1,051,000 | ↓ -13.85% | \$615,000 | \$3,100,000 |
| South Yarra | \$1,706,081 | \$1,410,000 | \$380,000 | \$6,800,000 | \$2,171,833 | ↑ 27.30% | \$1,625,000 | ↑ 15.25% | \$700,000 | \$7,150,000 |
| Albert Park | \$1,853,905 | \$1,585,000 | \$985,000 | \$3,105,000 | \$2,147,308 | ↑ 15.83% | \$1,940,000 | ↑ 22.40% | \$1,300,000 | \$4,050,000 |
| Middle Park | \$2,689,143 | \$2,445,000 | \$1,140,000 | \$5,200,000 | *\$1,970,500 | ↓ -26.72% | *\$1,755,000 | ↓ -28.22% | \$1,260,000 | \$3,010,000 |
| Port Melbourne | \$1,419,900 | \$1,275,000 | \$765,000 | \$2,900,000 | \$1,468,639 | ↑ 3.43% | \$1,465,000 | ↑ 14.90% | \$920,000 | \$2,475,000 |
| South Melbourne | \$1,442,727 | \$1,410,000 | \$900,000 | \$1,955,000 | \$1,719,000 | ↑ 19.15% | \$1,479,000 | ↑ 4.89% | \$790,000 | \$3,970,000 |
| Flemington | \$932,233 | \$815,000 | \$504,000 | \$2,112,000 | \$1,115,083 | ↑ 19.61% | \$955,000 | ↑ 17.18% | \$655,000 | \$2,000,000 |
| Kensington | \$994,536 | \$920,500 | \$700,000 | \$1,805,000 | \$926,364 | ↓ -6.85% | \$873,000 | ↓ -5.16% | \$600,000 | \$1,875,000 |
| Travancore | *\$1,100,000 | *\$1,100,000 | \$1,100,000 | \$1,100,000 | *\$1,400,000 | ↑ 27.27% | *\$1,400,000 | ↑ 27.27% | \$650,000 | \$2,150,000 |
| West Melbourne | *\$1,356,250 | *\$1,660,000 | \$305,000 | \$1,800,000 | *\$900,000 | ↓ -33.64% | *\$900,000 | ↓ -45.78% | \$900,000 | \$900,000 |

Table compiled from data collected from October 2015 to March 2016. A dash indicates no recorded sales for the quarter, inability to show a quarterly change or no quarterly change. Directional arrows indicate change in comparison to the previous rolling quarter. * indicates an average or median value calculated using 5 sales or less.

Houses

QUARTERLY MEDIAN CHANGE BY SUBURB



Based on data collected from October 2015 to March 2016. Docklands, Melbourne, Southbank and Burnley were omitted due to insufficient data.

* indicates a median value calculated using 5 sales or less.

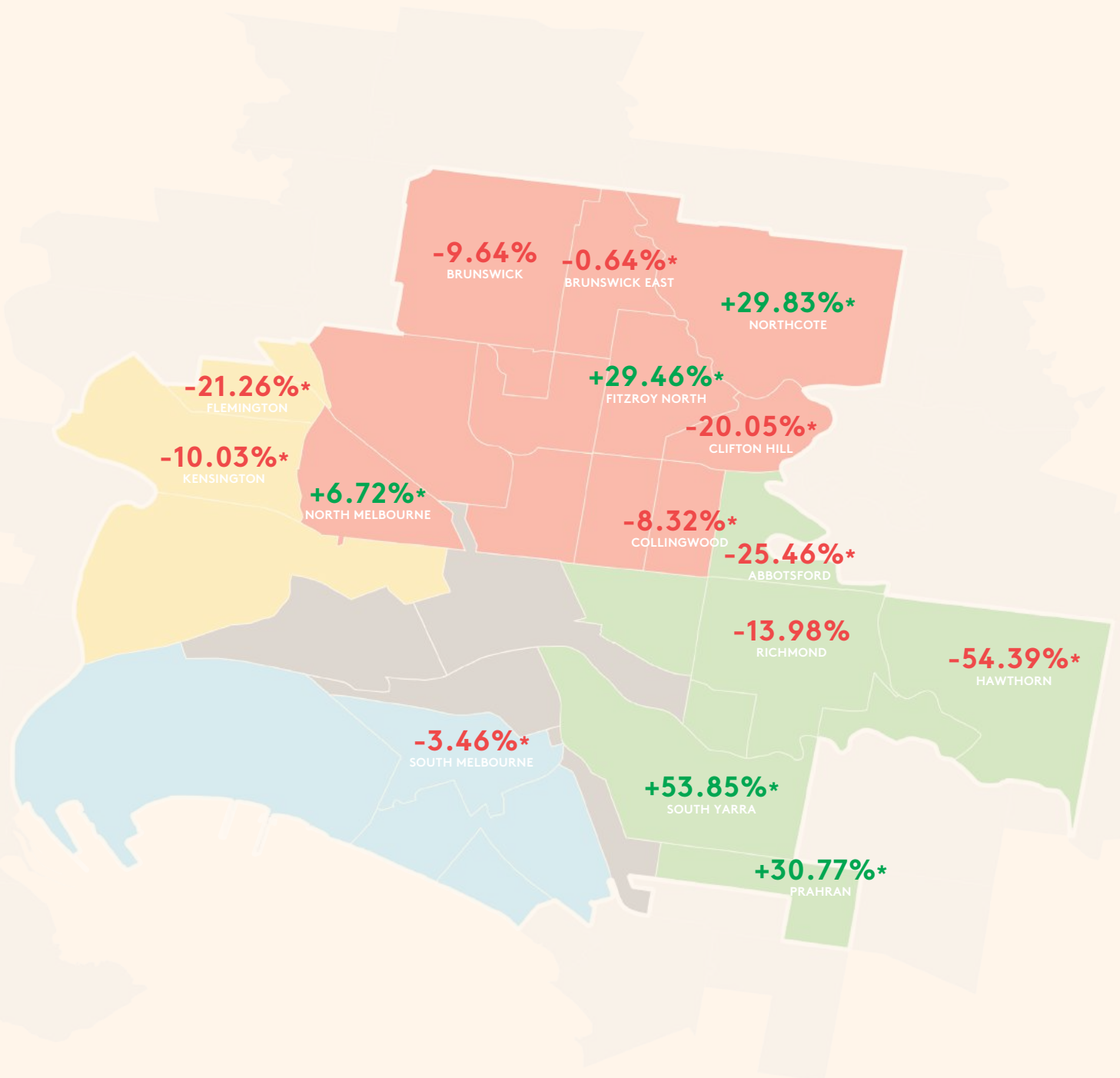
PRICE COMPARISONS BY ROLLING QUARTERS

| | PREVIOUS QUARTER (OCT, NOV, DEC 2015) | | | | CURRENT QUARTER (JAN, FEB, MAR 2016) | | | | | |
|-----------------|---------------------------------------|--------------|-------------|--------------|--------------------------------------|-----------|--------------|-----------|-------------|--------------|
| | Average Price | Median Price | Lowest Sale | Highest Sale | Average Price | % change | Median Price | % change | Lowest Sale | Highest Sale |
| Docklands | - | - | - | - | - | | - | | - | - |
| Melbourne | - | - | - | - | - | | - | | - | - |
| Southbank | - | - | - | - | - | | - | | - | - |
| Brunswick | \$764,440 | \$731,000 | \$512,000 | \$1,670,000 | \$696,500 | ↓ -8.89% | \$660,500 | ↓ -9.64% | \$535,000 | \$903,000 |
| Brunswick East | *\$786,200 | *\$780,000 | \$665,000 | \$866,000 | *\$763,000 | ↓ -2.95% | *\$775,000 | ↓ -0.64% | \$685,000 | \$825,000 |
| Carlton | - | - | - | - | *\$645,000 | | *\$645,000 | | \$645,000 | \$645,000 |
| Carlton North | *\$1,200,000 | *\$1,200,000 | \$1,200,000 | \$1,200,000 | - | | - | | - | - |
| Clifton Hill | *\$857,333 | *\$955,000 | \$640,000 | \$977,000 | *\$763,500 | ↓ -10.94% | *\$763,500 | ↓ -20.05% | \$665,000 | \$862,000 |
| Collingwood | *\$901,250 | *\$901,250 | \$892,500 | \$910,000 | *\$826,250 | ↓ -8.32% | *\$826,250 | ↓ -8.32% | \$727,500 | \$925,000 |
| Fitzroy | *\$918,000 | *\$918,000 | \$785,000 | \$1,051,000 | - | | - | | - | - |
| Fitzroy North | *\$658,750 | *\$560,000 | \$515,000 | \$1,000,000 | *\$725,000 | ↑ 10.06% | *\$725,000 | ↑ 29.46% | \$725,000 | \$725,000 |
| North Melbourne | *\$995,400 | *\$811,000 | \$731,000 | \$1,340,000 | *\$856,750 | ↓ -13.93% | *\$865,500 | ↑ 6.72% | \$705,000 | \$991,000 |
| Northcote | \$677,917 | \$694,000 | \$400,000 | \$1,010,000 | *\$889,200 | ↑ 31.17% | *\$901,000 | ↑ 29.83% | \$745,000 | \$1,080,000 |
| Parkville | \$926,429 | \$830,000 | \$500,000 | \$1,350,000 | - | | - | | - | - |
| Princes Hill | *\$1,325,000 | *\$1,325,000 | \$1,325,000 | \$1,325,000 | - | | - | | - | - |
| Abbotsford | *\$952,500 | *\$952,500 | \$705,000 | \$1,200,000 | *\$710,000 | ↓ -25.46% | *\$710,000 | ↓ -25.46% | \$710,000 | \$710,000 |
| Burnley | - | - | - | - | - | | - | | - | - |
| Cremorne | - | - | - | - | - | | - | | - | - |
| East Melbourne | - | - | - | - | *\$1,620,000 | | *\$1,620,000 | | \$1,620,000 | \$1,620,000 |
| Hawthorn | *\$1,269,050 | *\$1,337,500 | \$870,000 | \$1,531,200 | *\$610,000 | ↓ -51.93% | *\$610,000 | ↓ -54.39% | \$610,000 | \$610,000 |
| Prahran | *\$1,338,333 | *\$1,300,000 | \$960,000 | \$1,755,000 | *\$1,561,667 | ↑ 16.69% | *\$1,700,000 | ↑ 30.77% | \$1,195,000 | \$1,790,000 |
| Richmond | \$1,151,143 | \$1,080,000 | \$718,000 | \$1,575,000 | \$1,124,563 | ↓ -2.31% | \$929,000 | ↓ -13.98% | \$710,000 | \$1,900,000 |
| South Yarra | \$1,325,000 | \$1,300,000 | \$855,000 | \$1,650,000 | *\$1,573,000 | ↑ 18.72% | *\$2,000,000 | ↑ 53.85% | \$760,000 | \$2,200,000 |
| Albert Park | - | - | - | - | - | | - | | - | - |
| Middle Park | *\$1,300,000 | *\$1,300,000 | \$1,300,000 | \$1,300,000 | - | | - | | - | - |
| Port Melbourne | - | - | - | - | \$1,206,200 | | \$1,152,500 | | \$910,000 | \$1,585,000 |
| South Melbourne | \$1,296,667 | \$1,372,500 | \$960,000 | \$1,530,000 | *\$1,325,000 | ↑ 2.19% | *\$1,325,000 | ↓ -3.46% | \$850,000 | \$1,800,000 |
| Flemington | *\$715,000 | *\$715,000 | \$715,000 | \$715,000 | *\$563,000 | ↓ -21.26% | *\$563,000 | ↓ -21.26% | \$554,000 | \$572,000 |
| Kensington | \$791,000 | \$757,500 | \$725,000 | \$960,000 | *\$681,500 | ↓ -13.84% | *\$681,500 | ↓ -10.03% | \$613,000 | \$750,000 |
| Travancore | - | - | - | - | - | | - | | - | - |
| West Melbourne | *\$875,000 | *\$780,000 | \$690,000 | \$1,315,000 | - | | - | | - | - |

Table compiled from data collected from October 2015 to March 2016. A dash indicates no recorded sales for the quarter, inability to show a quarterly change or no quarterly change. Directional arrows indicate change in comparison to the previous rolling quarter. * indicates an average or median value calculated using 5 sales or less.

Townhouses

QUARTERLY MEDIAN CHANGE BY SUBURB



Based on data collected from October 2015 to March 2016. Docklands, Melbourne, Southbank, Carlton, Carlton North, Fitzroy, Parkville, Princes Hill, Burnley, Cremorne, East Melbourne, Albert Park, Middle Park, Port Melbourne, Travancore and West Melbourne were omitted due to insufficient data. * indicates a median value calculated using 5 sales or less.



The Yield Curve Report
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The data upon which this report is based was sourced from:
The Australian Bureau of Statistics (abs.gov.au/census),
REIV (reiv.com.au/property-data/auction-results),
The Department of Human Resources, Google Maps,
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