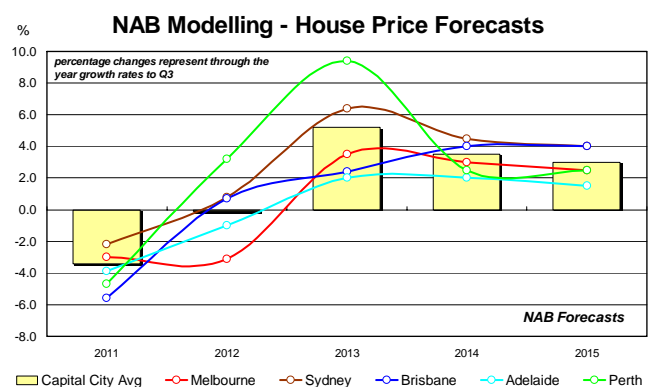
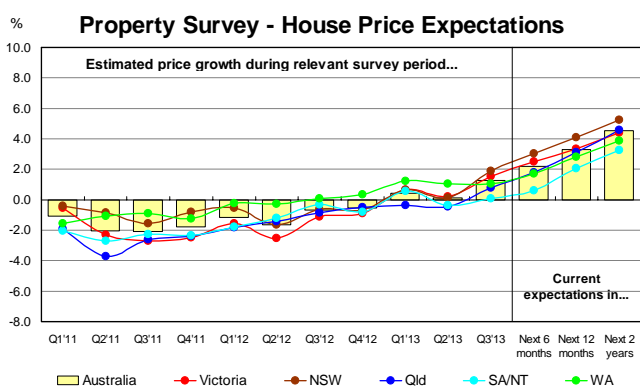


Quarterly Australian Residential Property Survey: Q3 2013

Housing market sentiment strengthened notably in Q3, underpinned by an acceleration in house price growth in all states (bar WA). The Survey is pointing to faster price growth ahead (led by NSW and Queensland), but gains are expected to be relatively modest. Demand has improved for all types of new and established property. Property professionals continue to cite tight credit and employment security as the key obstacles to buying property.

- NAB's Residential Property Index rose 17 to +32 points in Q3 (second best result since survey began). NSW (+47) saw the biggest improvement, with Victoria (+40) the next best state. A big improvement was also noted in Queensland (+31). WA (+13) was the only state reporting weaker sentiment. Queensland (+79) and Victoria (+79) are set to emerge as the strongest states in the next 2 years. Sentiment weakest in WA (+71), but at relatively elevated levels.
- National house prices rose 1.3% in Q3, with faster growth in all states (except WA). Capital values up most in NSW (1.9%) and Victoria (1.5%) - Australia's two largest housing markets. Property professionals are also more optimistic in regards to future house price growth. National house prices are now tipped to rise 3.3% in the next year and 4.5% in next 2 years, with stronger outcomes in all states. NSW to out-perform.
- **NAB's view of the market is slightly less optimistic than the survey**, with rising unemployment expected to dampen house price growth over the outlook period. NAB sees capital city house prices rising by 3½% in the year to September 2014 and 3% in the year to September 2015. More detail is contained in Appendix 1.
- A combination of slow rental growth and faster capital appreciation suggest rental yields are eroding. Rents increased just 0.2% in Q3'13. Rents fell in WA (-1%) and SA/NT (-0.3%), but increased in NSW (0.9%), Queensland (0.7%) and Victoria (0.3%). Queensland and NSW are expected to be the standouts for income growth in the next 1-2 years, with returns weakest in SA/NT.
- There was a big jump in demand for new property from owner occupiers in Q3 (led by Victoria and WA). First home buyers retreated from the market with demand from Australian investors also slightly lower (except in NSW). Foreign investment activity rose in NSW but slowed in Victoria. There was a big improvement in demand for all types of new property in Q3, with the inner city seen as the best location in all states. Credit availability continues to be cited as the most "significant" constraint for new housing developments.
- The established property market continues to be dominated by up-graders. Resident investors were slightly less active in the market in Q3 in all states (except NSW). Demand for established property strengthened in all market segments in Q3 (and in all states) and was strongest for houses and inner city low rise apartments. Capital growth expectations over the next 12 months improved at all price points for established houses and apartments, but the bulk of growth is still expected to come from less expensive stock. Employment security is still seen as main impediment to buying existing property, but concerns over lack of stock also rising.



NAB Residential Property Index: Q3 2013

	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q1'14	Q3'14	Q3'15
Victoria	-6	-28	-16	-14	-40	-18	-15	34	18	40	56	74	79
NSW	18	20	28	28	-8	5	13	38	10	47	62	72	74
Queensland	-26	-38	-12	-3	4	15	15	14	4	31	61	73	79
South Australia/NT	-8	-32	-17	1	-6	-7	-20	28	-9	2	29	67	76
Western Australia	10	11	18	41	33	41	41	71	42	13	38	58	71
Residential Property Index	-2	-12	1	8	-8	4	8	35	15	32	52	70	76

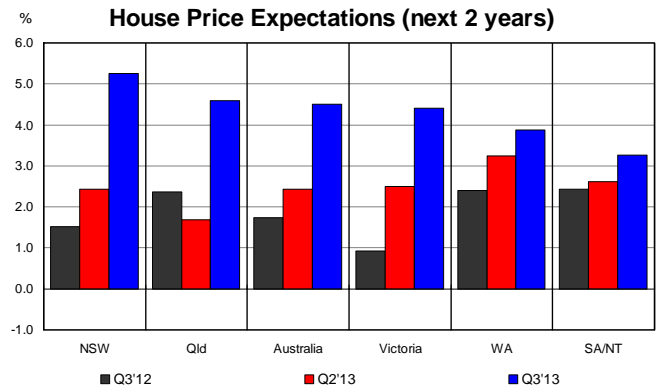
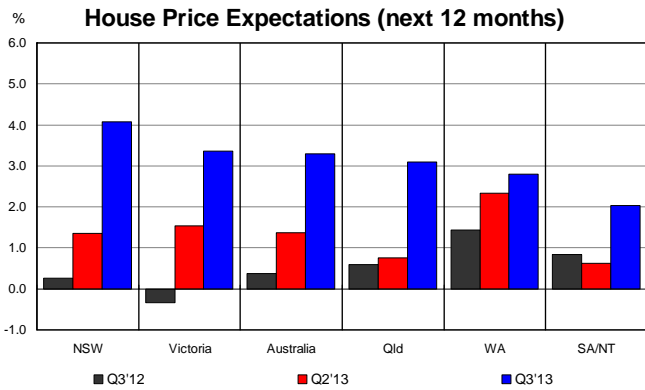
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Residential Property - Market Performance

House price expectations have strengthened in all states, led by NSW.



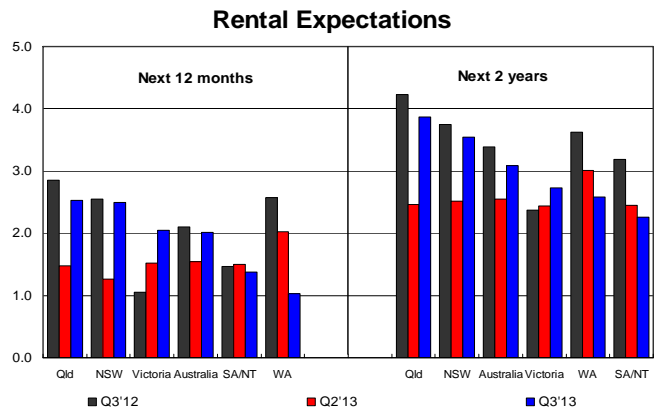
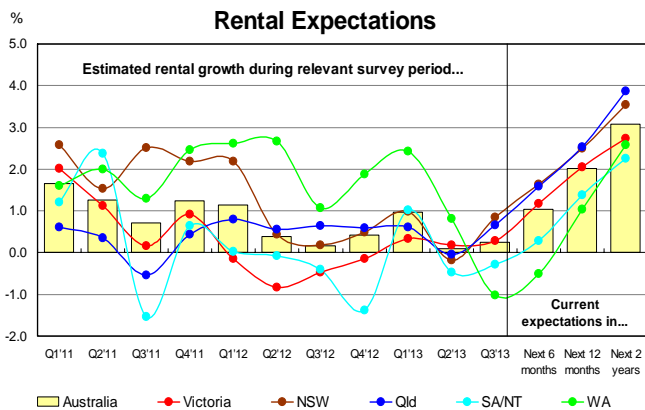
National house prices increased by an estimated 1.3% in Q3, up from 0.1% in Q2. House price growth accelerated in all states, except WA where price growth was unchanged at 1%. Capital values grew fastest in NSW (1.9%) and Victoria (1.5%) - Australia's two largest housing markets - with modest growth also resuming in Queensland (0.8%) and SA/NT (0.1%).

Survey respondents are significantly more optimistic with regards to future house price growth. National house prices are now tipped to rise by 3.3% in the next year (1.4% previously) with bigger gains forecast in all states. NSW (4.1%) replaced WA (2.8%) as the most optimistic state, followed by Victoria (3.4%) and Queensland (3.1%). Expectations remain weakest in SA/NT (2%), although much stronger than the 0.6% gain forecast in Q2.

The pace of national house price growth is expected accelerate to 4.5% in the next 2 years (2.4% forecast in Q2), underpinned by much stronger expectations in NSW (5.3% from 2.4% in Q2), Queensland (4.6% from 1.7% in Q2) and Victoria (4.4% from 2.5% in Q2). Expectations were slightly stronger in WA (3.9% from 3.3% in Q2) but it appears that the slow down in mining investment has dented housing market confidence.

NAB's view of the market is slightly less optimistic than the survey, with rising unemployment expected to dampen house price growth over the outlook period. NAB sees capital city house prices rising by 3½% in the year to September 2014 and 3% in the year to September 2015. More detail is contained in Appendix 1.

Incremental income growth dampening rental yields.

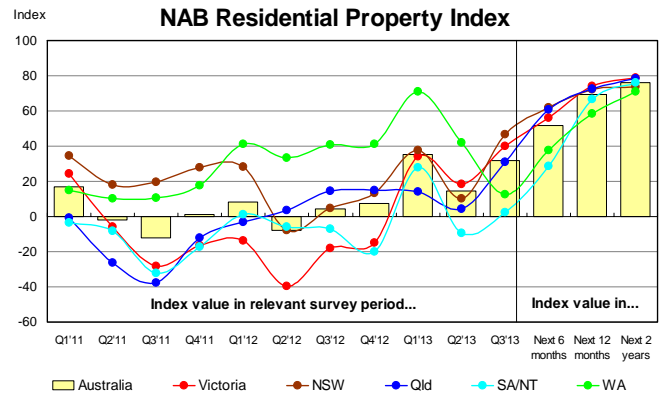
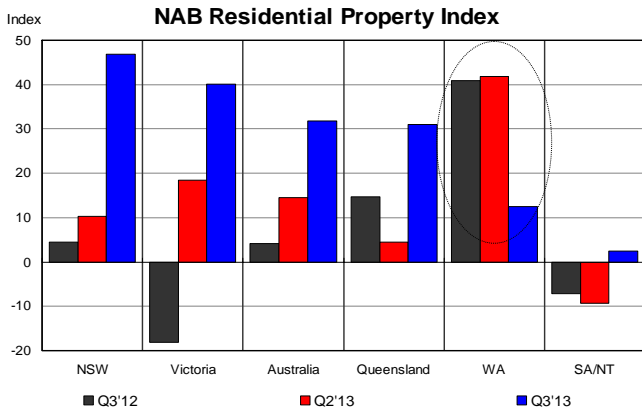


Income growth stalled with national rents up just 0.2% in Q3 (0.1% in Q2). This is especially true in WA where the survey estimates rents fell -1% as the employment impact of the mining slowdown reduced demand for accommodation. Rents also fell in SA/NT (-0.3%), but rose in NSW (0.9%), Queensland (0.7%) and Victoria (0.3%). The combination of slow rental growth and faster capital appreciation suggests rental yields have also eroded.

Looking ahead, NSW (2.5%) and Queensland (2.5%) have replaced WA (1% and now expected to show the weakest returns) as the standouts for income growth in the next year. In Victoria, rents are expected to grow 2% (1.5% in Q2) with SA/NT revised down slightly to 1.4% (1.5% previously).

National rents are forecast to grow 3.1% in the next 2 years (2.6% previously), with returns highest in Queensland (3.9%) and NSW (3.5%) and weakest in SA/NT (2.3%) and WA (2.6%).

NAB Residential Property Index climbs in all states except WA.



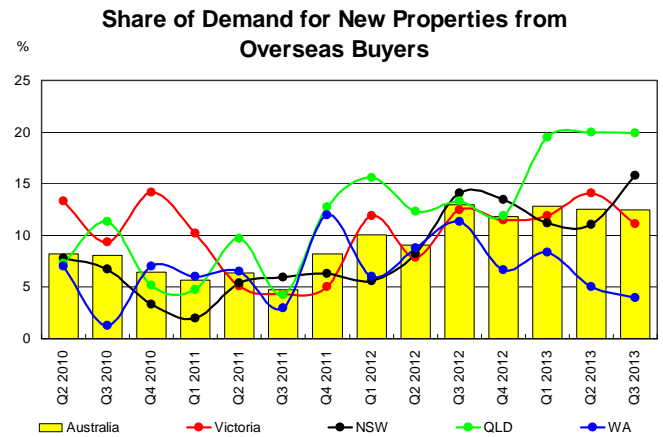
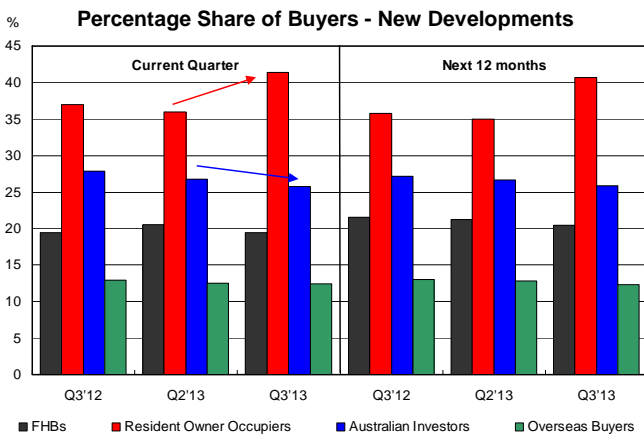
With a higher net balance of survey respondents reporting positive capital and income growth, overall sentiment in the Australian residential property market improved in Q3. Consequently, the NAB Residential Property Index rose 17 points to +32 points, its second highest reading since the survey began in Q1'2011.

NSW reported the biggest improvement in sentiment with the state index rising 37 points to +47 points. Victoria was the next best state, with the state index rising to +40 points. A big improvement in housing market sentiment was also noted in Queensland, where the state index climbed 27 to +31 points. Sentiment also improved in SA/NT (+2 points) but it remains the weakest state overall. WA was the only state to report weaker housing market sentiment, with the state index down -29 to +13 points.

With more property professionals raising their expectations for capital and income growth in the next 1-2 years, the NAB Residential Property Index is expected to rise to +70 points by Q3'14 and +76 points by Q3'15 - a substantially stronger outcome than predicted in the last survey. Queensland (+79 points) and Victoria (+79 points) emerge as the strongest states in the next 2 years, followed by SA/NT (+76 points) and NSW (+74 points). Overall sentiment is weakest in WA, but at relatively elevated levels (+71 points).

Residential Property - New Developments

Owner occupiers more active in new property market; investment activity down slightly.



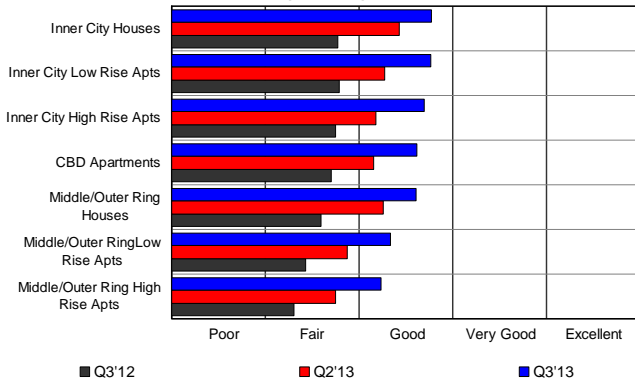
There was a big jump in owner occupier activity in the new property market in Q3, with their share of total new property demand rising above 41% (36% in Q2'13). Owner occupiers were identified as most active in Victoria (48%) and WA (47%). At the same time, the share of first home buyer activity (FHB) retreated from 21% to 19% with first home buyers least active in Queensland (9%) and most active in WA (26%).

Demand from Australian investors slipped to 26% in Q2, although investors were more active in NSW (24% up from 21% in Q2), likely reflecting solid yields, rising rents and low vacancy rates. In contrast, investor activity fell in Victoria where lower rental yields may have acted to dampen enthusiasm. Nevertheless, Victorian investors are still the most active overall with their share of demand for new property at around 30% (34% in Q2).

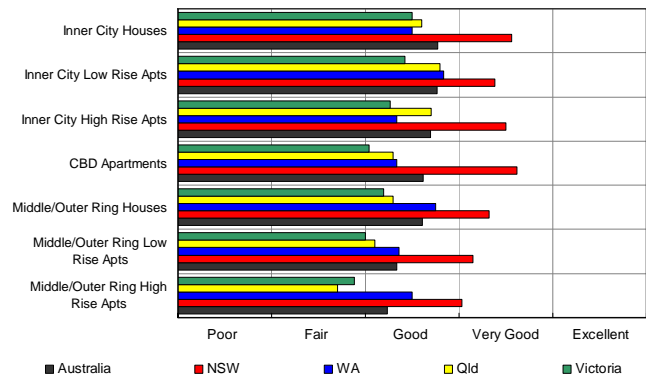
Foreign buyer activity in the new property market also seems to have levelled out at around 12½%. Queensland remains the preferred location for foreign investors, who accounted for 20% of new property demand in Q3. Property professionals also noted a pick up in foreign investor activity in NSW (16%), which offset a decline in foreign investment activity in Victoria (11%).

There was a big improvement in demand for all types of new property in Q3'13, with the inner city still the most preferred location for new property in all states.

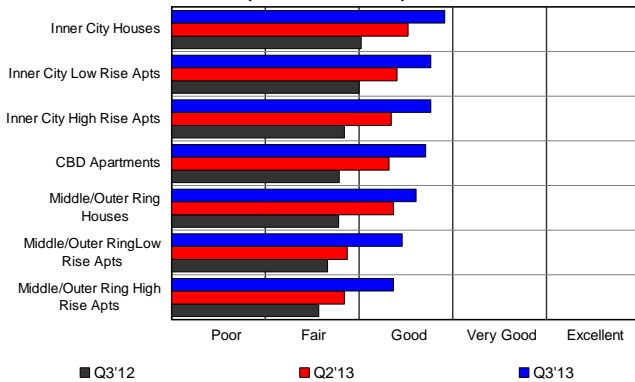
Demand for New Residential Developments (current)



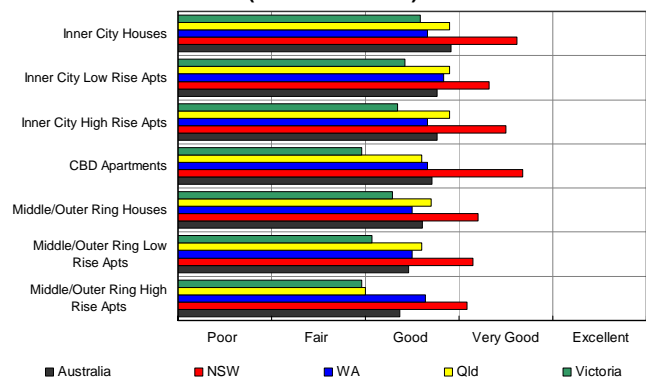
Demand for New Residential Developments (current)



Demand for New Residential Developments (next 12 months)



Demand for New Residential Developments (next 12 months)



Property professionals identified a big improvement in demand for all types of new property in Q2 and in all locations, with overall demand considered to be “good” in all segments.

However, the trend in national demand does obscure significant variance in demand across the states.

Overall, demand for new property was significantly stronger in NSW, with overall demand classified as “very good” for all property types and in all locations, especially for CBD apartments and inner city houses.

Property professionals from WA also reported “good” demand for new property across the board.

In Queensland, demand for new property was assessed as “good” for all property types except for middle/outer ring high rise apartments, where demand was considered to be only “fair”. Demand for new property in Queensland was typically strongest for all types of property located in the inner city.

Demand for new property was most subdued in Victoria across most segments. Property professionals in Victoria assessed demand for new property as “good” for inner city houses, high and low rise apartments, middle/outer ring houses and CBD apartments. However, demand was assessed as only “fair” for both high and low rise apartments located in the middle/outer ring.

Looking forward, national demand for all types of new property is expected to strengthen slightly over the next year (except middle/outer ring houses and inner city low rise apartments which are unchanged). Demand is expected to remain strongest in NSW for all types of new property, although property professionals in NSW see slightly weaker demand for middle/outer ring houses and inner city low rise.

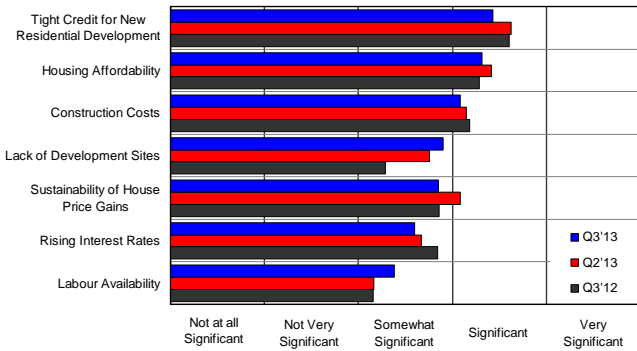
In Queensland, demand for all types of new property is expected to strengthen, with demand assessed as “good” across all market segments.

In WA, property professionals also see demand strengthening for all types of new property, except middle/outer ring housing, although demand is expected to be “good”.

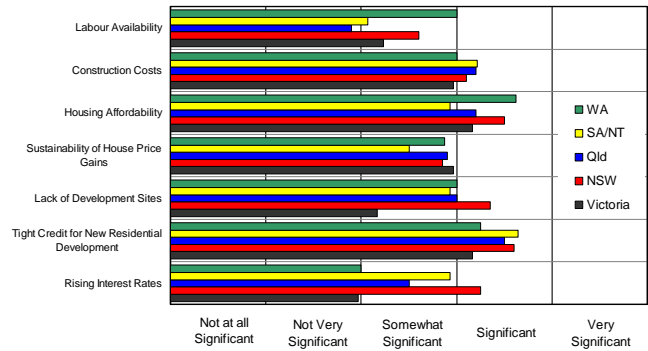
In Victoria, demand for new property is forecast to improve across all property types, except for CBD apartments, where demand is expected to be only “fair”. This may possibly reflect the well-documented supply issues currently facing the Melbourne CBD apartment market.

Tight credit and housing affordability still key concerns, but falling.

Major Constraints on New Housing Developments



Major Constraints on New Housing Developments



We ask surveyed property professionals to rate how specific factors constrain new housing development in the country. At the national level, credit availability was cited as the most “significant” constraint for new developments, although less so than in Q2. Concerns about credit were highest in SA/NT and NSW, while it was also the leading concern in Queensland.

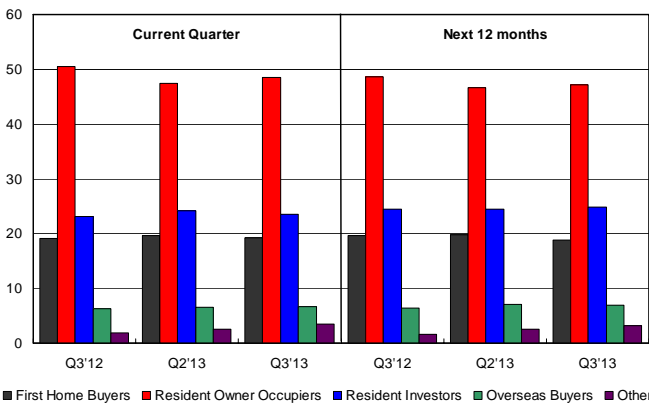
Despite rising property prices, the level of concern over housing affordability reduced slightly in Q3 as interest rates continued to fall, although they were still “significant”. Housing affordability concerns were highest in WA (where house price growth has been relative rapid) and in NSW (where median house prices are highest in the country). Housing affordability (along with tight credit) was also the number one concern in Victoria, whereas respondents from SA/NT (where the market has under-performed) were much less concerned about affordability.

The impact of construction costs on new developments was again seen as “significant” although less so than in Q2. SA/NT and Queensland were the most pessimistic states for construction costs and Victoria the least pessimistic. Concern about a lack of development sites also increased in Q3 and were “somewhat significant” nationally, but “significant” in NSW. Concerns about labour availability also rose, led by growing concerns in both WA and Queensland.

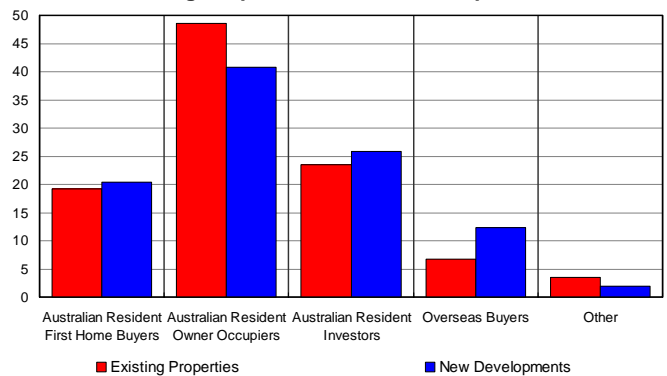
Residential Property - Existing Properties

Owner-occupiers (up-graders) dominate the established property market

Percentage Share of Buyers - Existing Properties



Percentage Share of Buyers (Current) Existing Properties vs New Developments

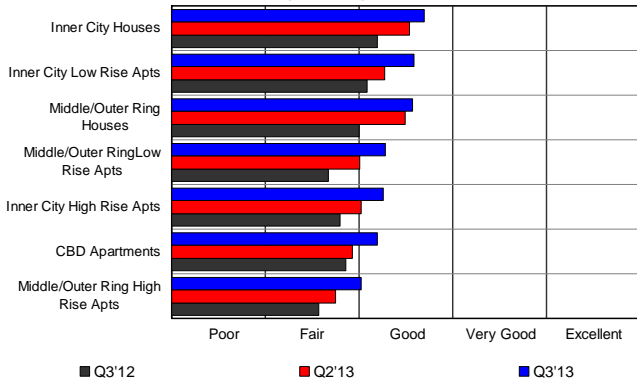


The market for established property continues to be dominated by resident owner occupiers (up-graders), who accounted for between 46% (NSW) and 53% (SA/NT) of total demand in all states. The share of first home buyers in the established property market was also unchanged at around 19% nationally, although a fall in demand from first home buyers in NSW (from 19% to 15%) was offset by an increase in Victoria (from 20% to 23%). Investors were also slightly less active this quarter, especially in Victoria (20% down from 26%) and Queensland (24% from 27%), but were much more prominent in NSW where their share of total demand increased to 30% (26% in Q2'13). Overall, property professionals are expecting the share of total demand from first home buyers and up-graders to fall slightly next year, while investment activity increases, especially in Victoria (23%) and Queensland (27%).

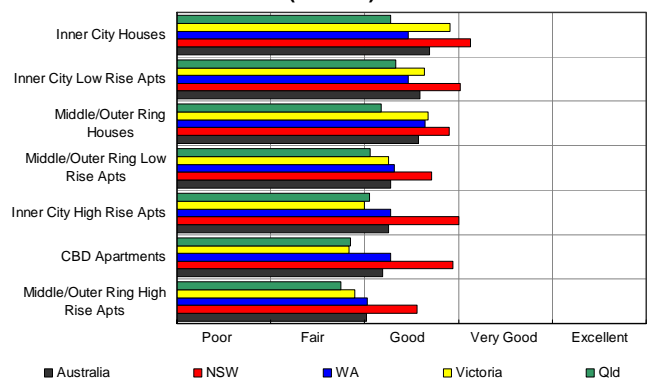
We are still seeing a big divide in the key drivers for demand for established property versus new property. A much higher proportion of up-graders continue to be attracted to the established property market, but more first home buyers and investors (both domestic foreign) are still seeking to buy new developments.

Demand for established property improved in all market segments in Q3'13; there remains a strong preference for established houses and inner city low rise apartments.

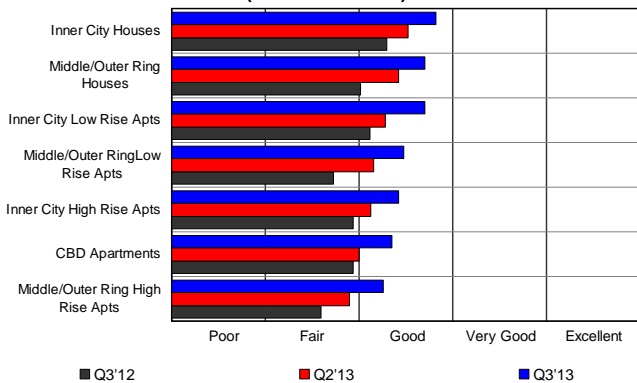
Demand for Existing Residential Property (current)



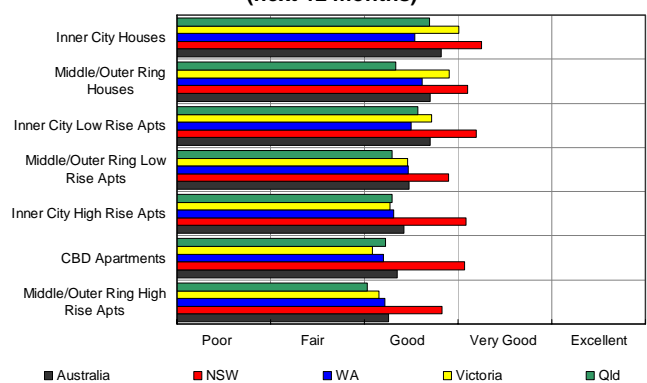
Demand for Existing Residential Property (current)



Demand for Existing Residential Property (next 12 months)



Demand for Existing Residential Property (next 12 months)



Demand in the existing property market improved across all property types and in all locations in Q3. Nationally, there was a clear preference for established housing in both the inner city and middle/outer ring) and for inner city low rise apartments, with demand for these types of properties assessed as “good”. However, the trend in national demand does obscure significant variance in demand for established residential property across the states.

Overall, demand for established property was significantly stronger in NSW, with overall demand classified as “very good” for inner city houses and inner city low and high rise apartments. Property professionals in WA also reported “good” demand for established property across the board.

In Victoria, there was a clear preference for established housing in both the inner city and middle/outer ring and low rise properties in the inner city and middle/outer ring, with demand in these locations assessed as “good”. Demand for established high rise apartments in the inner city and middle/outer ring was assessed as “fair”. Overall demand was weakest for CBD apartments where it seems that the glut of new supply that has entered the market may be adversely impacting demand in the established apartment market.

In Queensland, demand for established property was assessed as “good” across all segments except high rise apartments in the middle/outer ring and for CBD apartments, where demand was seen as only “fair”, which may also be indicative of an emerging over-supply of new inner city apartments.

Looking forward, national demand for all types of established property is expected to strengthen slightly over the next year, with demand expected to be “good” across the board.

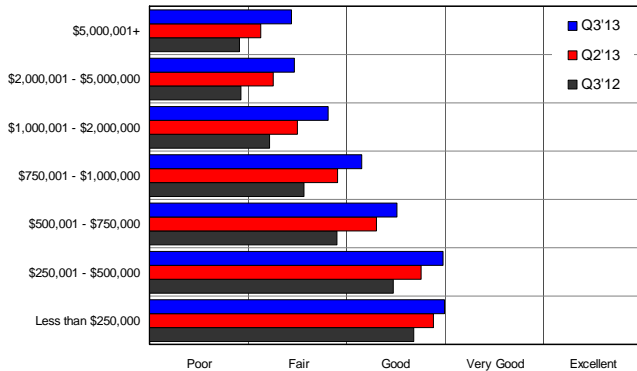
Overall demand for established property is expected to be strongest in NSW for all types of property, with demand expected to be “very good” across all market segments except low and high rise apartments in the middle/outer ring.

Property professionals in Victoria are also anticipating “good” demand for established property next year across all market segments, except for inner city houses, where demand is expected to be “very good”.

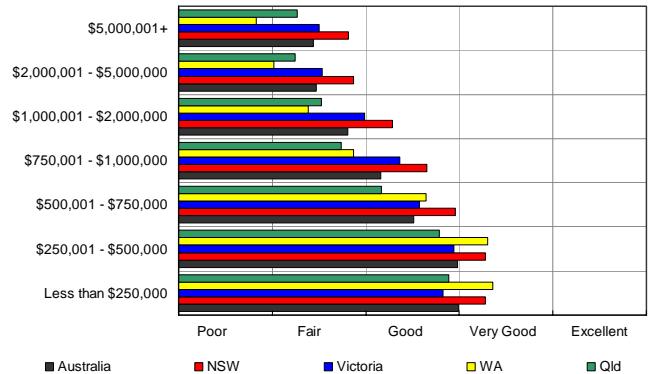
Demand for all types of established property is also expected to be “good” across the board in Queensland and WA next year. Demand for property in WA is expected to be strongest for established housing in the inner city and outer ring, while demand in Queensland will be led by inner city housing and low rise properties.

Capital growth expectations strengthened across all price points for both established houses and apartments in Q3'13.

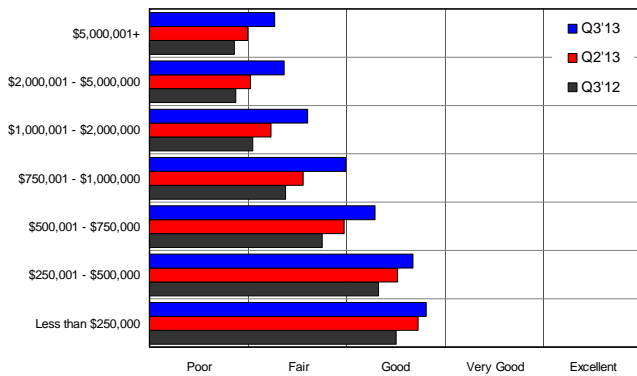
Capital Growth by Price - Established Houses (next 12 months)



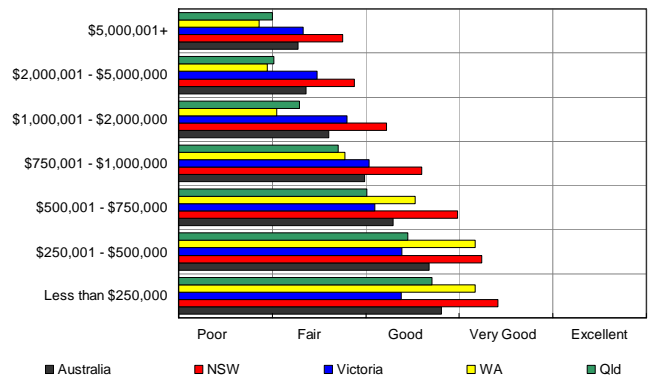
Expected Capital Growth: Established Houses (next 12 months)



Capital Growth by Price - Established Apartments (next 12 months)



Expected Capital Growth: Established Apartments (next 12 months)



Property professionals are asked for their expectations for capital value growth over the next year by price point in both the established housing and apartment markets. At the national level, expectations strengthened across all price points for both houses and apartments in Q3.

However, capital growth expectations continue to vary widely between price points and across states, expectations remain slightly stronger for houses than apartments across all price points.

In the housing market, national capital growth expectations for properties valued at up to \$1 million were assessed as “good” in Q3, suggesting that much of the expected house price growth next year will come from less expensive stock.

Indeed, expectations for price growth for houses below \$500,000 were assessed as “very good” in both NSW and WA, whereas capital growth prospects for houses valued at between \$750,000 to \$1 million were judged as only “fair” in WA and Queensland.

NSW is the only state reporting “good” prospects for houses valued between \$1-2 million, with demand in this price range assessed as “fair” in all other states.

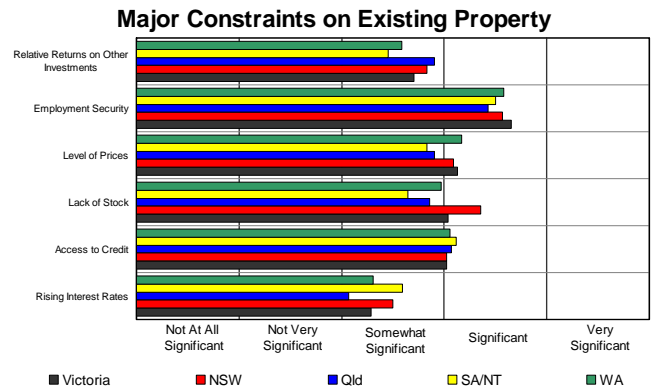
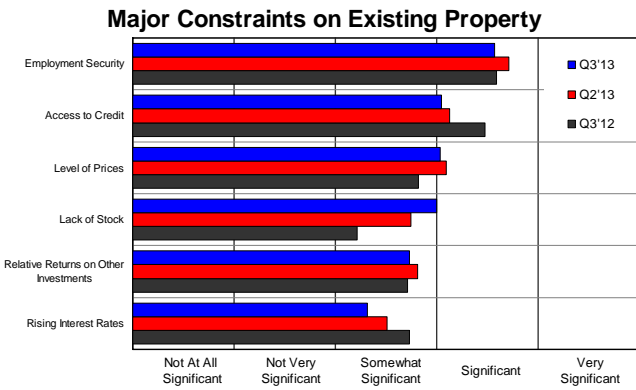
Significantly, there was also an improvement at the premium end of the market with capital growth prospects for established houses above \$2 million seen as “fair” in all states except Queensland, where the outlook for houses over \$5 million was considered to be “poor”.

Survey respondents were also more bullish about capital growth prospects for apartments at all price points in Q3. Capital growth prospects for apartments below \$500,000 were considered to be “very good” in both NSW and WA, with “good” prospects reported in all other states.

Capital growth prospects for apartments valued at between \$500,000 to \$750,000 were considered to be “good” in all states, with “good” prospects for apartments valued at \$750,000 to \$1 million also seen in NSW and Victoria. In the \$1-2 million range, prospects were “good” in NSW, but only “fair” in the other states.

At the luxury end of the market, capital growth prospects for apartments valued at more than \$2 million were seen as only “fair” in all states except WA, where prospects at these price points were judged as “poor”.

Employment security still viewed as the biggest impediment to buying existing property in all states, but concerns growing about a lack of stock.



When asked to identify the biggest constraints facing buyers of existing property, respondents from all states overwhelmingly pointed to employment security - although the level of concern fell slightly in Q2. This is not surprising given the recent deterioration in employment conditions and rising unemployment. Victoria was the most pessimistic state, undoubtedly influenced by an under-performing state economy and widespread job losses and cut backs, especially in the large state manufacturing sector. Employment concerns were next highest in WA, where state employment growth has stalled as the mining investment boom slows.

Access to credit was the next most “significant” concern in all states, but property professionals were less concerned about credit availability than in Q2. With property prices climbing since Q1'13, property professionals also saw house price levels as a “significant” concern. Property professionals in WA were the most concerned and SA/NT the least worried.

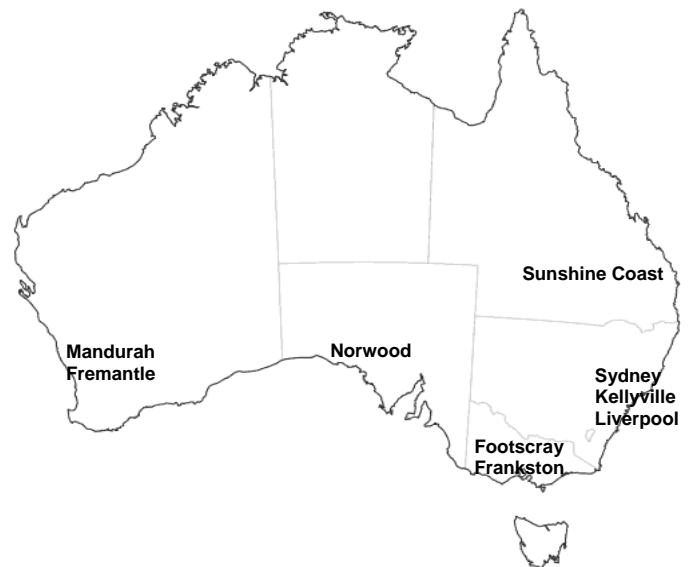
A lack of stock has also emerged as a key impediment to purchasing established property (especially in NSW). This is consistent with recent reports that stock availability moving into Spring is down significantly from that seen in recent years, with high auction clearance rates in major capital cities also indicative of lower sales volumes.

More suburbs in NSW expected to report above average capital growth in next 12 months

NSW nominated more suburbs to grow fastest in terms of capital values in the next 12 months. The Hills District suburb of Kellyville and the south western suburbs of Liverpool and Kellyville were the most favoured, along with Sydney city.

The inner western suburb of Footscray was the most nominated suburb in Victoria along with the seaside suburb of Frankston.

In Queensland, the Sunshine Coast was nominated as the best prospect for capital growth in the next 12 months. In South Australia, the inner city suburb of Norwood featured prominently, while in WA, the suburbs of Mandurah and Fremantle are expected to out-perform.



Survey Respondents' Expectations

House Price Expectations (%)

	Current Survey Quarter										Next 6mth	Next 12mth	Next 2yrs
	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13			
Victoria	-2.3	-2.7	-2.5	-1.6	-2.5	-1.1	-0.9	0.6	0.2	1.5	2.5	3.4	4.4
NSW	-0.9	-1.5	-0.8	-0.5	-1.7	-0.6	-0.7	0.6	0.1	1.9	3.0	4.1	5.3
Queensland	-3.7	-2.6	-2.4	-1.8	-1.4	-0.8	-0.5	-0.4	-0.5	0.8	1.8	3.1	4.6
South Australia/NT	-2.7	-2.3	-2.4	-1.8	-1.2	-0.3	-0.8	0.5	-0.4	0.1	0.6	2.0	3.3
Western Australia	-1.1	-0.9	-1.3	-0.2	-0.3	0.1	0.4	1.2	1.0	1.0	1.7	2.8	3.9
Australia	-2.0	-2.1	-1.8	-1.2	-1.6	-0.7	-0.6	0.4	0.1	1.3	2.2	3.3	4.5

Rental Expectations (%)

	Current Survey Quarter										Next 6mth	Next 12mth	Next 2yrs
	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13			
Victoria	1.1	0.2	0.9	-0.1	-0.8	-0.5	-0.2	0.3	0.2	0.3	1.2	2.0	2.7
NSW	1.5	2.5	2.2	2.2	0.4	0.2	0.5	1.0	-0.2	0.9	1.6	2.5	3.5
Queensland	0.4	-0.5	0.4	0.8	0.6	0.6	0.6	0.6	0.0	0.7	1.6	2.5	3.9
South Australia/NT	2.4	-1.5	0.6	0.0	-0.1	-0.4	-1.4	1.0	-0.5	-0.3	0.3	1.4	2.3
Western Australia	2.0	1.3	2.5	2.6	2.7	1.1	1.9	2.4	0.8	-1.0	-0.5	1.0	2.6
Australia	1.3	0.7	1.2	1.1	0.4	0.2	0.4	1.0	0.1	0.2	1.0	2.0	3.1

Appendix 1: NAB's View of Residential House Prices

NAB modelling indicates average capital city house prices will rise by around 3½% through the year to September 2014 and by 3% in the year to September 2015, which is slightly less bullish than the average survey forecast, reflecting our house view that rising unemployment over the next few years will put a ceiling on how high house prices will go. House price growth will vary with Sydney (4.5%) and Brisbane (3.5%) leading the way in 2014. Capital gains will be slowest in Adelaide (2.0%) and Perth (2.5%).

State variance will persist into 2015. Sydney (4%) and Brisbane (4%) will out-perform the national average underpinned. Modest price growth is forecast for Melbourne (2.5%) and Perth (2.5%), with Adelaide (1.5%) under-performing.

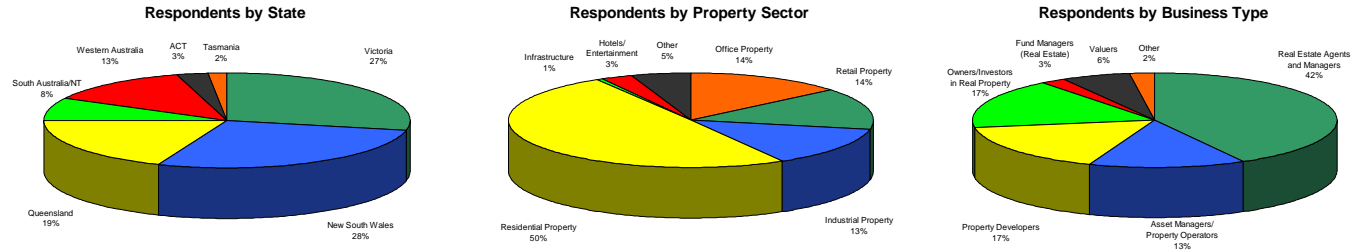
NAB Capital City House Price Forecasts (%)*

	2010	2011	2012	2013	2014	2015
Sydney	11.6	-2.2	0.8	6.4	4.5	4.0
Melbourne	13.3	-3.0	-3.1	3.5	3.0	2.5
Brisbane	3.6	-5.6	0.7	2.4	4.0	4.0
Adelaide	6.9	-3.9	-1.0	2.0	2.0	1.5
Perth	6.2	-4.7	3.2	9.4	2.5	2.5
Capital City Average	9.9	-3.4	-0.1	5.2	3.5	3.0

*percentage changes represent through the year growth rates to Q3

About the Survey

In April 2010, NAB launched the inaugural NAB Quarterly Australian Commercial Property Survey with the aim of developing Australia's pre-eminent survey of market conditions in the Commercial Property market. The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors. Given the large number of respondents who are also directly exposed to the residential market, NAB expanded the survey questionnaire to focus more extensively on the Australian Residential market. Around 320 panellists participated in the September 2013 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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