

NAB Residential Property Survey: Q1 2015

by NAB Group Economics

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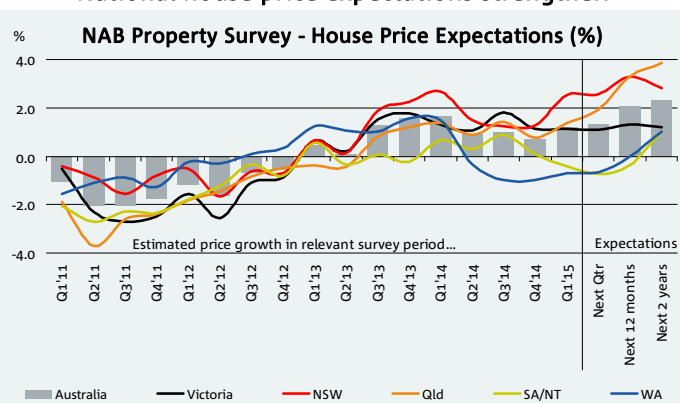
NAB Residential Property Index rises as stronger house price growth offsets falling rents. Sentiment up in all states (bar WA). QLD & VIC most optimistic looking forward. National demand stronger for all types of property and in all locations. Around 25% of all property is being purchased by first home buyers (FHB) - 15% are FHB owner occupiers and 10% are FHB "investors". Foreign buyers more active in NSW (1 in 5 new sales), but pull back in VIC. Almost 70% of all foreign sales are below \$1mn, but 42% of all purchases in NSW are above \$1mn.



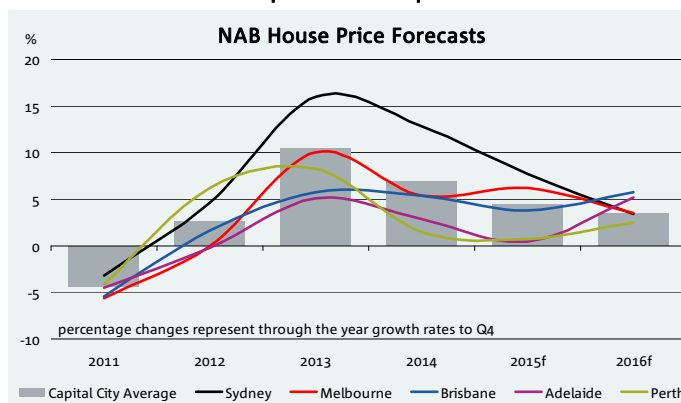
Survey highlights:

- The NAB Residential Property Index rose to +21 points in Q1 (above long-term average). Sentiment strongest in NSW, VIC & QLD and still negative in WA & SA/NT. QLD & VIC most optimistic in next 1-2 years. WA most pessimistic (but much less than in Q4).
- National price expectations ramp up with QLD & NSW to lead country for capital gains in next 1-2 years; Price growth slowing in VIC and lagging in SA/NT & WA. (NAB sees national house prices slowing, but considerable variance between states). Expectations for rents soften, with improved outlook in VIC & NSW offset by softer expectations in other states.
- Foreign buyers more active in new housing markets with 15.6% of all sales, but activity shifts by location. Foreign buyers rise to high of 21% in NSW, but fall to 20.7% in VIC. FHBs account for 1 in 4 sales - 14.7% owner occupiers; 10.1% investors.
- Around 53% of foreign purchases are apartments, 30% houses and 17% for re-development. Foreigners most invested in apartments in NSW (58%), houses in VIC (34%) and redevelopment in WA (22%). Around 70% of all foreign sales were under \$1mn. Around 85% of sales in QLD were sub-\$1mn, whereas 42% of purchases in NSW were above \$1mn.
- National demand improves for all types of new property and in all locations. Interestingly, demand for new CBD apartments improves in all states, including VIC despite continued reports of a supply glut in the Melbourne CBD.
- Housing affordability, sustainability of price gains, construction costs and lack of development sites the biggest impediments to buying new property. Employment security and price levels biggest impediments for established property.
- Demand for existing property now strongest for houses in mid/outer ring with demand up notably in NSW and VIC (where some buyers may be priced out of inner city markets). Capital growth expectations stronger in all price ranges next year both in established housing and apartment markets. Expectations strongest in NSW and weakest in WA at all price points.

National house price expectations strengthen



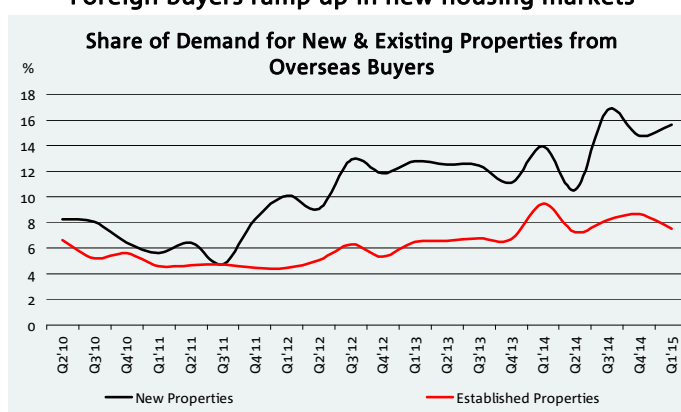
NAB also expects house prices to cool



NAB Residential Property Index

	Q3 2014	Q4 2014	Q1 2015	Next Qtr	Next 1 yr	Next 2 yrs
VIC	36	21	36	45	48	47
NSW	30	29	42	41	40	39
QLD	37	28	33	38	53	50
SA/NT	29	-25	-5	5	23	36
WA	-39	-34	-34	-30	-5	25
Index	19	12	21	25	36	41

Foreign buyers ramp up in new housing markets



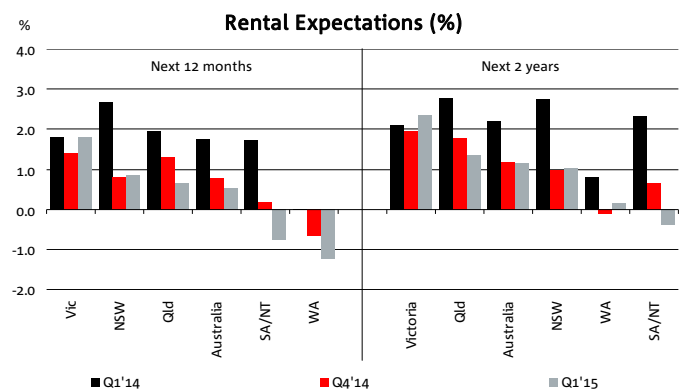
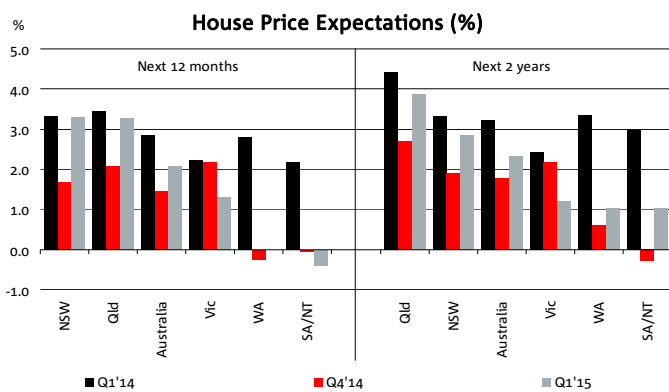
Residential Property - Market Performance

House price expectations

National price expectations ramp up, but picture mixed across states. National prices tipped to grow 2.1% in the next year (1.5% in Q4), with expectations up in NSW (3.3%) and QLD (3.3%). Outlook for VIC (1.3%) and SA/NT (-0.4%) scaled back, but prices flat in WA. National house prices to grow 2.3% in 2 years time (1.8% in Q4), with QLD (3.9%) and NSW (2.8%) best. Property professionals in WA (1%) and SA/NT (1%) more optimistic, but expectations scaled back in VIC (1.2%).

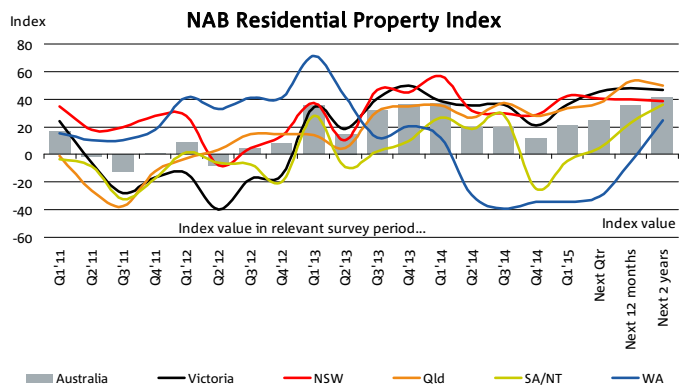
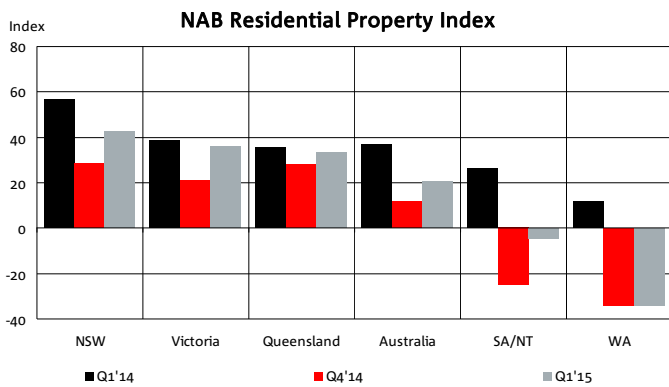
Rental expectations

With new housing supply growing and strong investor housing demand, national rent expectations softened and are now tipped to grow just 0.5% next year (0.8% in Q4). State variance is however significant with stronger outlook in VIC (1.8%) and to a lesser extent NSW (0.9%) offset by weaker prospects in QLD (0.6%), SA (-0.8%) and WA (-1.2%). National outlook in next 2 years unchanged at 1.2%, with improvement in VIC (2.4%), NSW (1%) and WA (0.2%) masking softer growth in other states.



NAB Residential Property Index

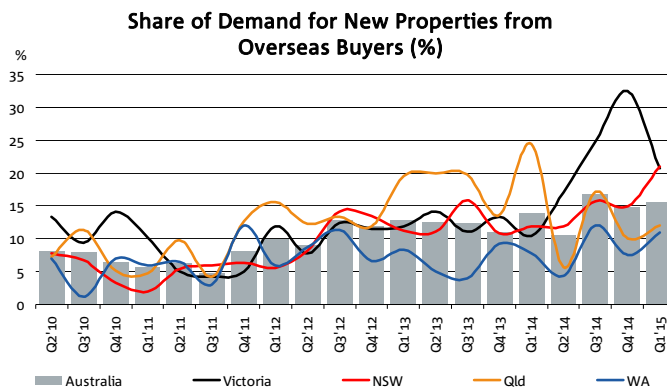
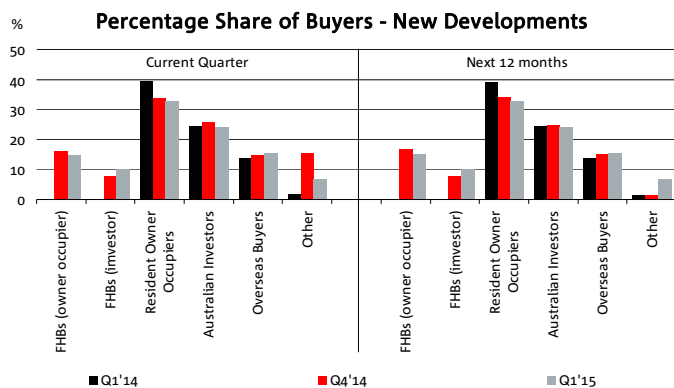
The NAB Residential Property Index rose to +21 points in Q1'15, up from +12 points in Q4'14 and sits comfortably above its long-term average (+14 points). Market sentiment improved in all states (except WA), although it continues to vary significantly across states. Overall sentiment remains strongest in NSW (+42 points), followed by VIC (+36 points) and QLD (+33 points). Sentiment improved in SA/NT but was still negative (-5 points), and unchanged in WA at deeply negative levels (-34 points). NAB's Residential Property Index is expected to rise to +36 points next year and +41 points in 2 years time. Property professionals in QLD and VIC continue to be most optimistic, while those in WA are most pessimistic, although less so than in Q4 (especially in 2 years time).



Residential Property - New Developments

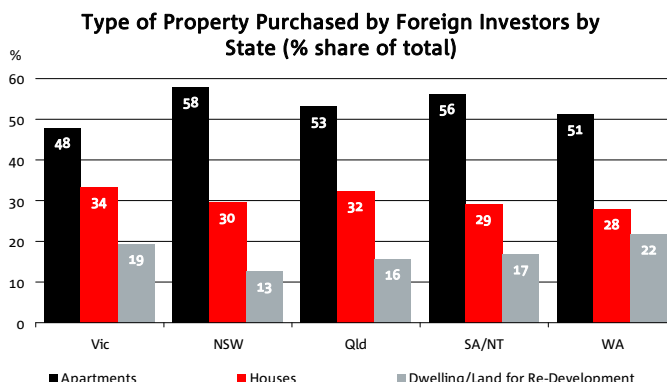
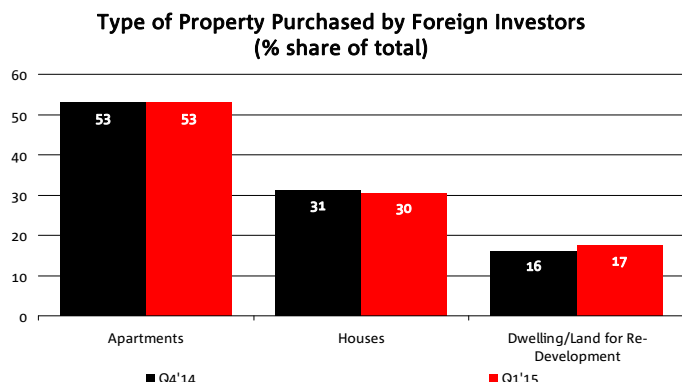
Demand for new properties by buyer

Foreign buyers overall were more active in new housing markets, accounting for 15.6% of demand (14.8% in Q4'14). There was however a notable shift in activity by location with the share of foreign buyers in NSW rising to a new high of 21% (14.9% in Q4'14) and falling to 20.7% in VIC (32.5% in Q4'14). FHBs still accounting for around 1 in 4 of all new property sales, but share of demand from FHBs (owner occupiers) fell to 14.7% while FHBs (investors) reaches 10.1%. Owner occupiers broadly unchanged at 33.1%. Investors down slightly to 24.1%.



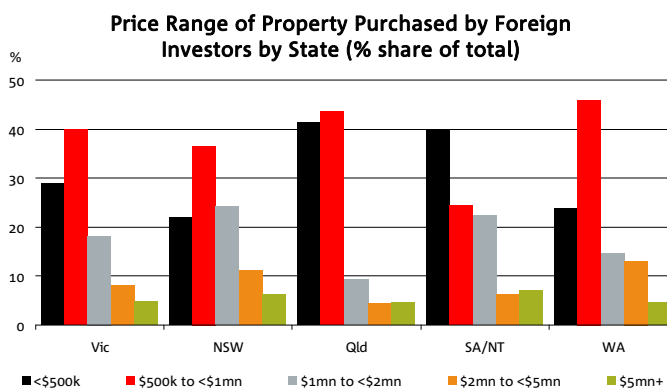
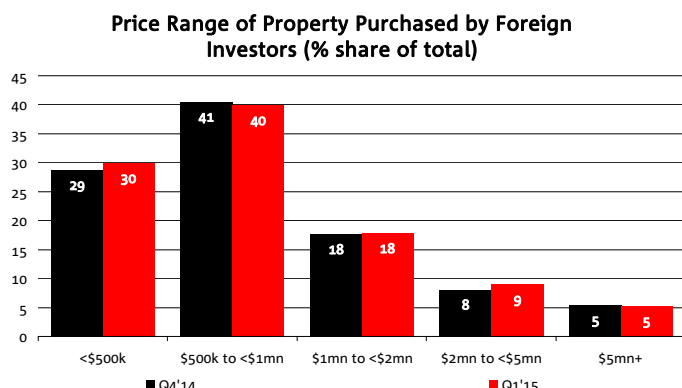
Type of Property Purchased by Foreign Buyers

Nationally, 53% of foreign purchases were for apartments, 30% houses and 17% for re-development. Apartments made up 48% of all purchases in VIC, compared to 58% in NSW. In contrast, foreigners buying more houses in VIC (34%) and QLD (32%). More than 1 in 5 foreign purchases in WA for re-development, just ahead of VIC (19%).



Price Range of Property Purchased by Foreign Buyer

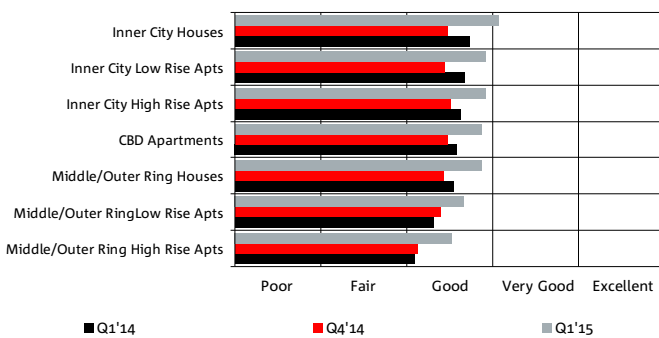
The bulk of foreign buyers (41%) bought properties between \$500k to <\$1 million, with 30% buying properties less than <\$500k. Around 5% of all sales were for premium property (+\$5 million). There are still some notable differences between states. Around 85% of sales in QLD were sub-\$1mn, compared to 58.5% in NSW. In contrast, 41.5% of all sales in NSW - where median house prices are the highest in Australia - were in the \$1-5mn range.



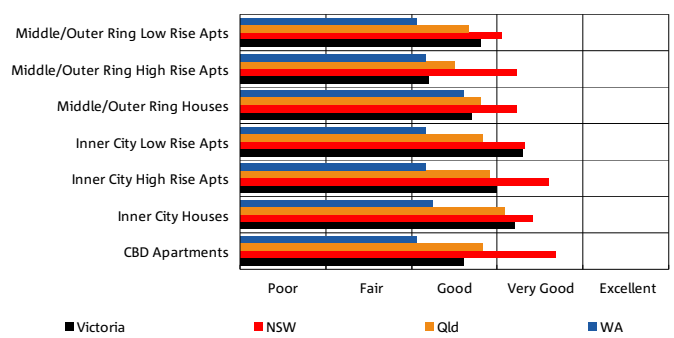
Demand for new property by type and location

National demand improved in Q1'15 for all types of new property and in all locations, with a clear preference for inner city locations. Overall demand was strongest for inner city houses and assessed as "very good". Demand for inner city houses improved most in VIC, which along with NSW and QLD, are now also enjoying "very good" demand. Demand was next strongest for new inner city low rise (led by stronger demand in VIC) and inner city high rise properties (VIC and WA). Interestingly, demand for new CBD apartments also improved in all states, including Victoria (where demand was assessed as "good") despite continued reports of a supply glut in and around the Melbourne CBD. Demand for new property in the middle/outer ring also improved but was weakest overall. Looking forward, property professionals are anticipating a further improvement in national demand for all types of new property next year. National demand is expected to be broadly unchanged across all types of new property and in all locations next year. However, this masks some significant changes in the strength of demand in each state, especially in NSW where demand is expected to soften for all types of property in the middle/outer ring, albeit remaining "very good". More detail is available in our individual State reports.

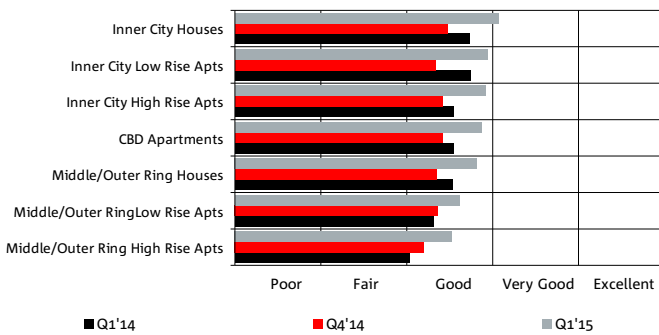
Demand for New Residential Developments
(current)



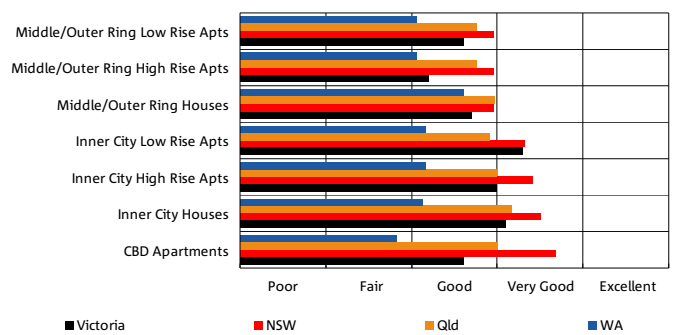
Demand for New Residential Developments by State
(current)



Demand for New Residential Developments
(next 12 months)



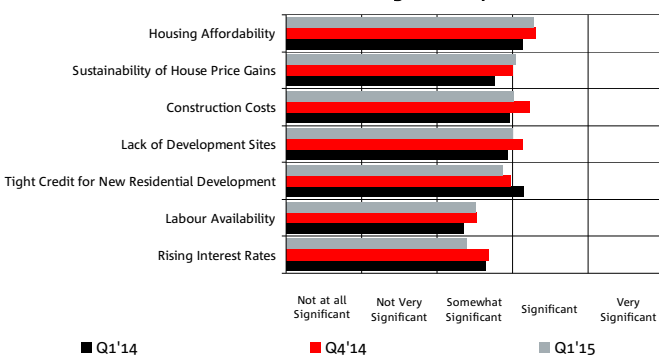
Demand for New Residential Developments by State
(next 12 months)



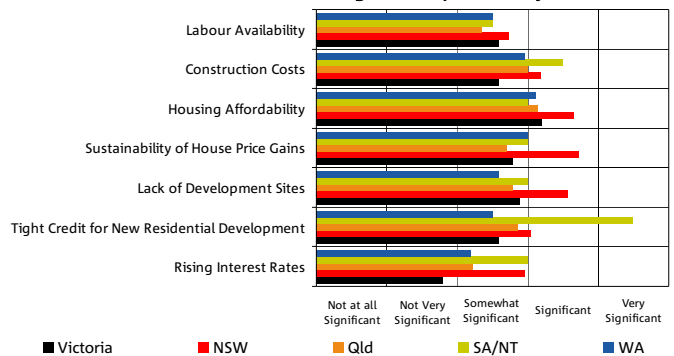
Constraints on new housing development

With house price growth continuing, housing affordability remains the biggest constraint in new housing markets nationally and the biggest worry in VIC, QLD and WA. The sustainability of house price gains is the next biggest worry (and biggest concern in NSW), followed by construction costs (especially in SA/NT and NSW) and lack of development sites (particularly in NSW). Also notable was the "very significant" concern over tight credit in SA/NT.

Constraints on New Housing Developments



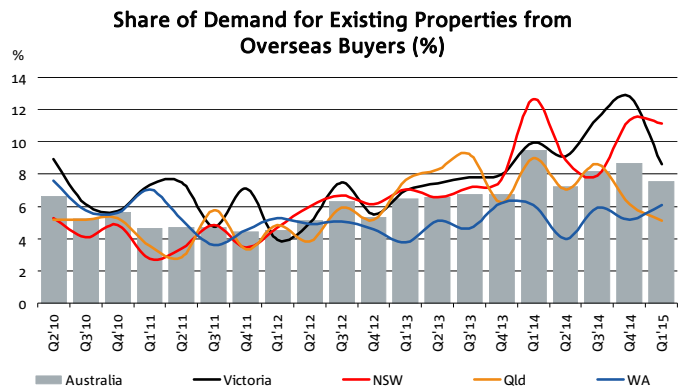
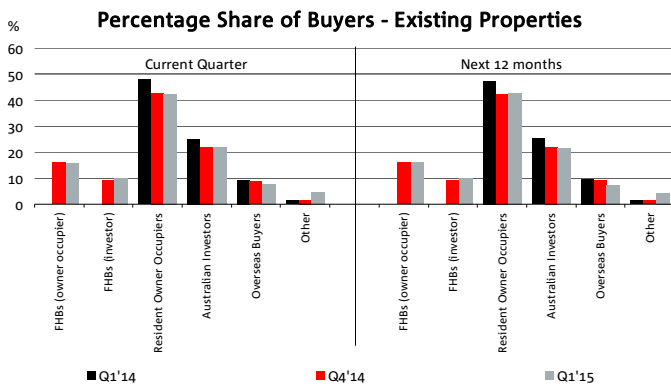
Constraints on New Housing Developments by State



Residential Property - Existing Developments

Demand for existing property

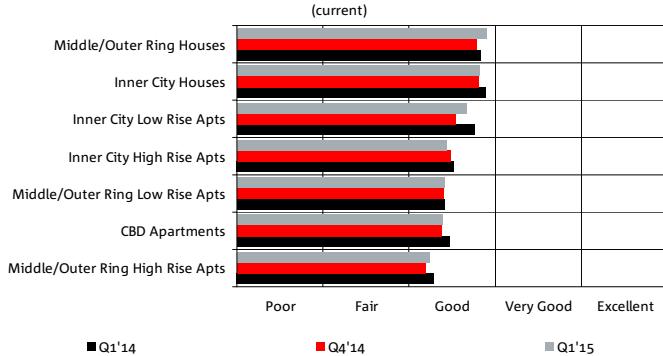
Owner occupiers are still dominating demand for established property with a market share of 42.4% (42.6% in Q4'14), followed by local investors with a 21.6% share (22% in Q4'14). Property professionals estimate FHBs (owner occupiers) accounted for 15.8% of total demand for established property in Q1'15 (16.1% in Q4'14), with FHBs (investors) making up 10% (9.3% in Q4'14). Foreign buyers were less active in this market in Q1'15, with their share of national demand inching down to 7.5% (8.7% in Q4'14). Foreign buyer demand fell notably in VIC (8.6%) and to a lesser extent in QLD (5.1%), but increased slightly in WA (6.1%) and was broadly unchanged in NSW (11.2%).



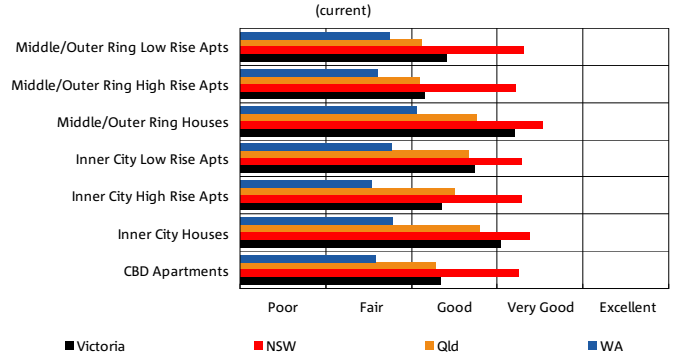
Demand for existing property by type

At the national level, demand for all types of established property was assessed as “good” in Q1'15. Overall demand for existing property is now strongest for houses located in the middle/outer ring, with demand notably stronger in NSW and VIC (where many buyers may have been priced out of the inner city housing market) and QLD. That said, demand for inner city houses was still “good”, led by a pick up in demand for established inner city houses in QLD, which offset small falls in demand in VIC and NSW. Demand for existing residential property is expected to remain broadly unchanged from their current levels in all market segments next year, except for established inner city high rise apartments where demand is expected to improve, with property professionals most buoyant in VIC and WA, albeit from lower bases than in NSW and QLD.

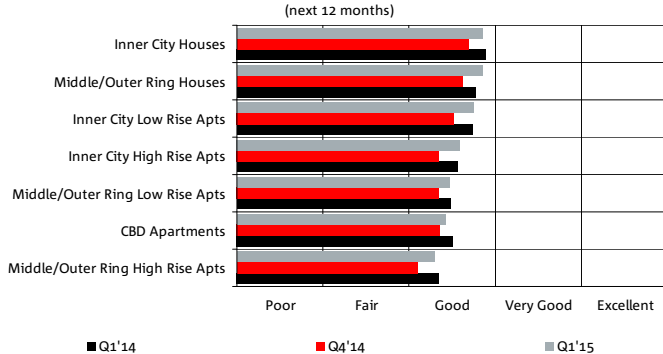
Demand for Existing Residential Property (current)



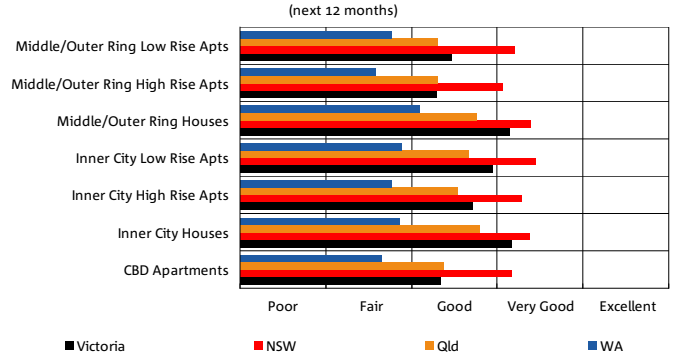
Demand for Existing Residential Property by State (current)



Demand for Existing Residential Property (next 12 months)



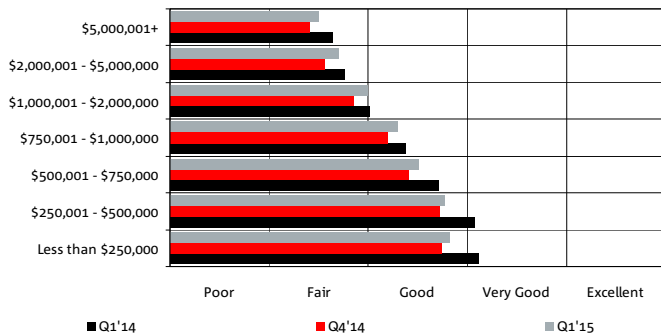
Demand for Existing Residential Property by State (next 12 months)



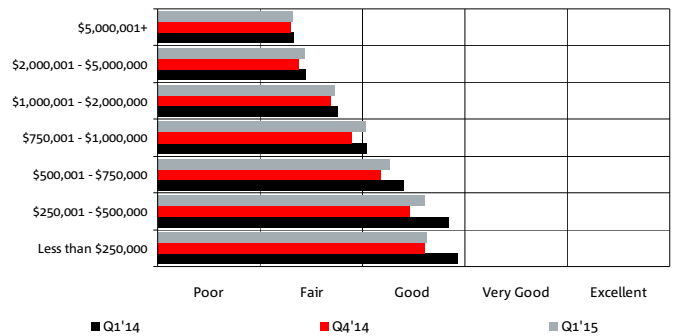
Capital growth expectations

At the national level, capital growth expectations for the next 12 months have strengthened in all price ranges in both the housing and apartment markets. Capital growth expectations are assessed as “good” for all houses below \$2 million and for apartments below \$1 million. Expectations for capital growth at all other price points are assessed as “fair”. By state, expectations for capital growth continue to be strongest in NSW at all price ranges in both the housing and apartment markets, and significantly stronger for apartments valued at below \$ 2million. In contrast, capital growth prospects are clearly lagging in WA at all price points, but especially at price points above \$2 million, where prospects are considered “poor”.

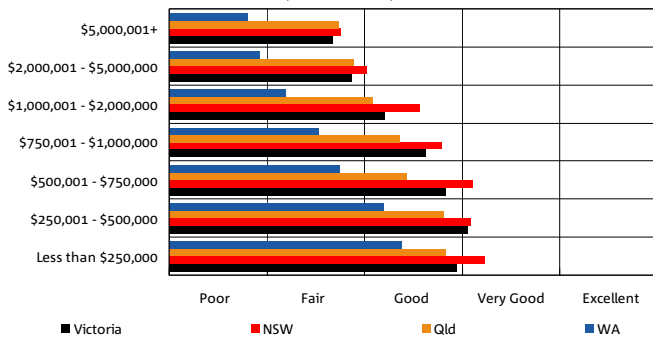
Capital Growth by Price - Established Houses
(next 12 months)



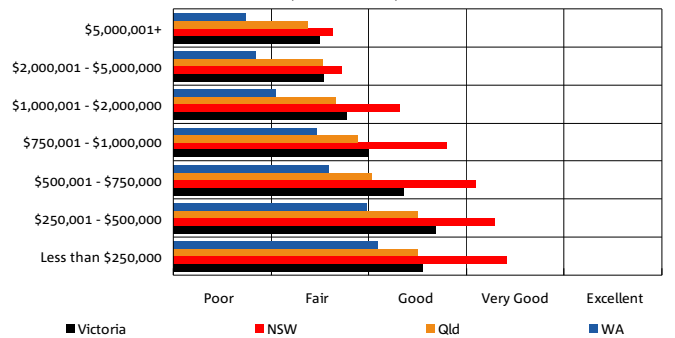
Capital Growth by Price - Apartments
(next 12 months)



Capital Growth: Established Houses by State
(next 12 months)



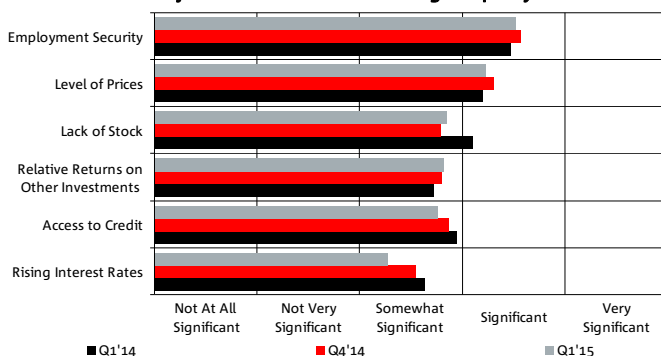
Capital Growth: Established Apartments by State
(next 12 months)



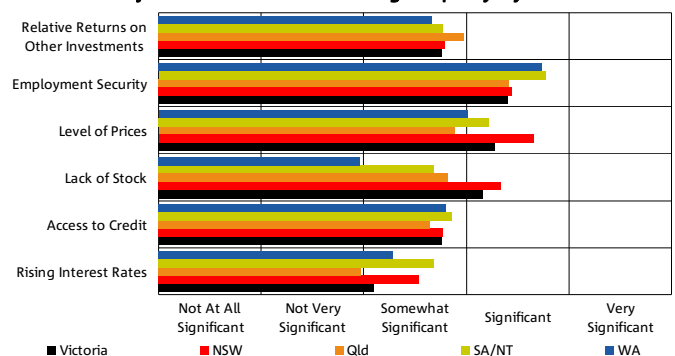
Constraints on existing property

With labour market softness persisting, employment security continues to be seen as biggest impediment to buying existing property nationally and in most states, especially in SA/NT (where the lack of economic momentum and contraction in the manufacturing sector has pushed state unemployment highest of any state or territory) and in WA (where employment is falling as the local economy transitions from labour-intensive mine construction to less labour intensive operation). NSW is the exception, with house price levels identified as the biggest impediment to buying an existing property in that state. House price levels were also identified as a “significant” factor in VIC and SA/NT. A lack of stock was seen as being “somewhat significant” nationally in Q1'15, but “significant” in both NSW and Victoria. Concerns over interest rates continue to wane following another rate cut in Q1.

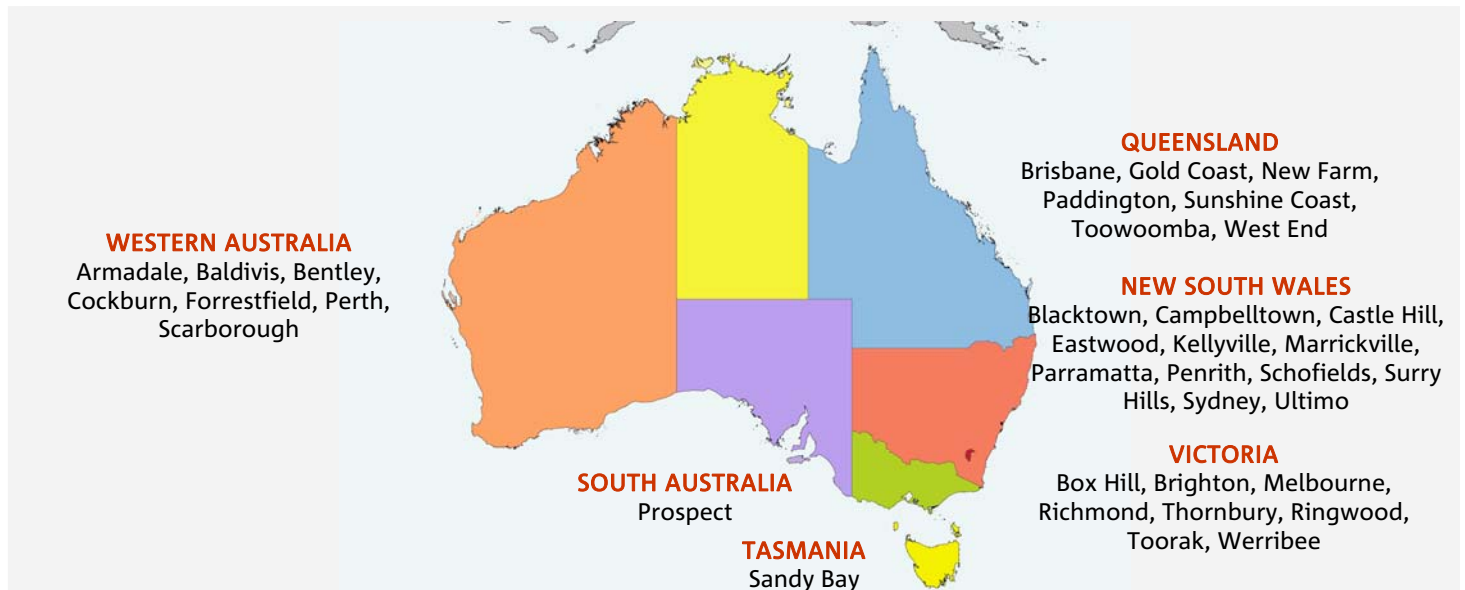
Major Constraints on Existing Property



Major Constraints on Existing Property by State



Suburbs tipped to enjoy above average capital growth



Survey Respondents Expectations

House Prices

	Q3 14	Q4 14	Q1 15	Next qtr	Next 1 yr	Next 2 yrs
VIC	1.8	1.1	1.1	1.1	1.3	1.2
NSW	1.3	1.3	2.5	2.6	3.3	2.8
QLD	1.4	0.8	1.4	1.9	3.3	3.9
SA/NT	0.9	0.1	-0.4	-0.7	-0.4	1.0
WA	-1.0	-1.0	-0.7	-0.7	0.0	1.0
Australia	1.0	0.7	1.2	1.3	2.1	2.3

Rents

	Q3 14	Q4 14	Q1 15	Next Qtr	Next 1 yr	Next 2 yrs
VIC	0.3	0.0	0.4	1.2	1.8	2.4
NSW	0.2	-0.3	0.5	0.7	0.9	1.0
QLD	0.4	0.2	0.2	0.2	0.6	1.4
SA/NT	-0.1	-0.9	-1.2	-0.9	-0.8	-0.4
WA	-1.6	-1.5	-2.6	-1.9	-1.2	0.2
Australia	-0.1	-0.3	-0.3	0.1	0.5	1.2

NAB’s View of Residential House Prices

NAB Economics is forecasting average national house price growth of 4.4% through the year to end-2015. Capital growth is expected to be led by Sydney (7.7%), where loan approval data indicates that a very strong investor market is unlikely to pull back any time soon. Melbourne (6.2%) and Brisbane (3.8%) are the next best markets followed by Perth (0.7%) and Adelaide (0.4%).

Average national house price growth is expected to moderate in 2016 to 3.4%, largely reflecting our forecasts for rising unemployment, sluggish household income growth, affordability concerns (especially in Sydney and Melbourne), cost of living pressures and still high levels of household debt. However, NAB Economics expects prices growth to accelerate in Brisbane (5.7%) and in the under-performing markets of Adelaide (5.2%) and Perth (2.5%), while slowing in Melbourne (3.5%) and Sydney (3.4%).

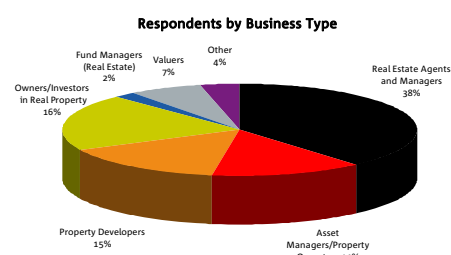
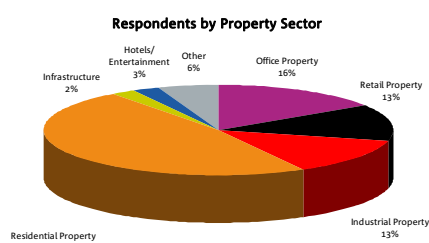
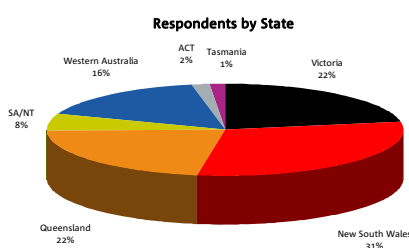
NAB Capital City House Price Forecasts*

	Year to end-December					
	2011	2012	2013	2014e	2015f	2016f
Sydney	-3.2	4.6	16.0	12.8	7.7	3.4
Melbourne	-5.6	0.0	10.0	5.4	6.2	3.5
Brisbane	-5.4	1.6	5.7	5.4	3.8	5.7
Adelaide	-4.5	-0.2	5.1	2.9	0.4	5.2
Perth	-4.1	6.2	8.3	1.5	0.7	2.5
Capital City Average	-4.4	2.6	10.5	7.0	4.4	3.4

*percentage changes represent through the year growth rates

About the Survey

The NAB Quarterly Australian Residential Property Survey was first launched in Q1 2011. The survey was expanded from NAB's Quarterly Australian Commercial Property Survey, which was launched in April 2010. The Quarterly Australian Commercial Property Survey was developed with the aim 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 300 panellists participated in the Q1 2015 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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