

## Quarterly Australian Residential Property Survey: Q2 2014

Housing market sentiment falls as house price growth slows and rental pressures continue to weaken. Local investors step up and foreign buyers less prevalent.

### NAB Residential Property Index falls in Q2 to its lowest print since mid-2013...

With capital and income growth slowing the index fell -17 to 19 points in Q2.

### Sentiment down in all states (especially WA)...

VIC overtakes NSW as current best performing state with WA now clearly weakest. VIC and QLD most confident over next 1-2 years, with WA and SA/NT least optimistic.

### The outlook for prices scaled back across the board...

Growth tipped to be fastest in QLD (2.3%) and VIC (2.1%) next year, slowest in WA (0.2%). QLD (3.1%) and VIC (2.4%) strongest for capital gains in 2 years time. WA (0.9%) and SA/NT (1.7%) weakest.

### NAB's analysis also suggests average capital city house prices will cool further...

Brisbane, Sydney and Perth to lead the market next year, with Melbourne and Adelaide lagging.

### Rental pressures weaken across the country...

Rental growth slowed in VIC (0.7%) and NSW (0.5%), but they remain the strongest states for income returns. In contrast, sagging house prices and rising vacancies continue to impact rents in WA (-2%).

### Lower returns forecast in all states in next 1-2 years...

NSW (1.7% & 2.4%) and QLD (1.8% & 2%) expected to provide the best income returns over the next 1-2 years; WA the worst (-1.1 & -0.2%).

### Local investors much more active in the new property market...

Local investors much more active in new housing market in Q2 accounting for nearly 1 in 3 of all new property sales. Local investors also continue to play a key role in the established market (25% of all buyers).

### Nationally, foreign buyers were less prevalent in both new & established property markets...

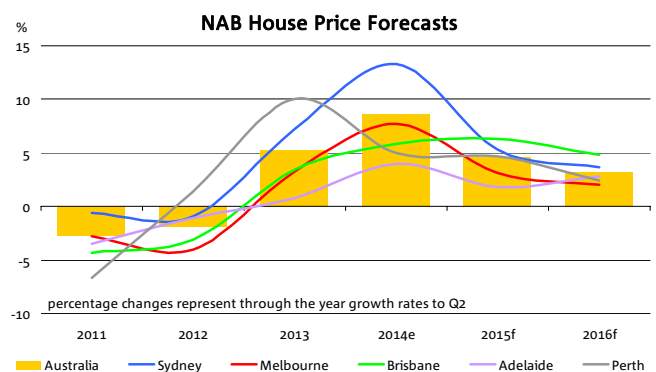
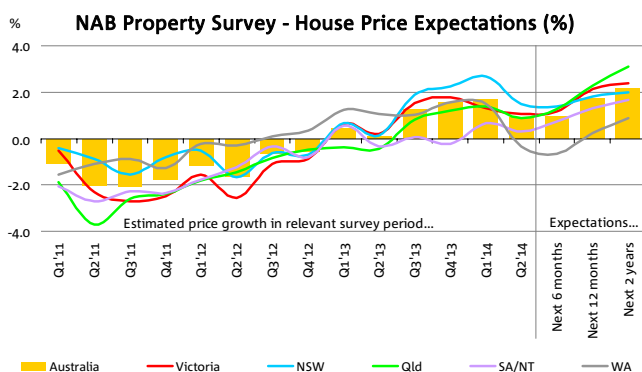
The overall share of foreign buyers in established property Australia-wide fell from 13.9% in Q1 to 10.2% in Q2 (lowest in 2 years). In the new property market, it fell to 7.2% from a high of 9.5% in Q1.

### VIC bucks the trend with a strong pick up in foreign demand for new property...

Foreign buyers reached a new high of 17% in VIC (around 1 in 6 new properties). Conversely demand pulled back sharply in QLD and was flat in NSW.

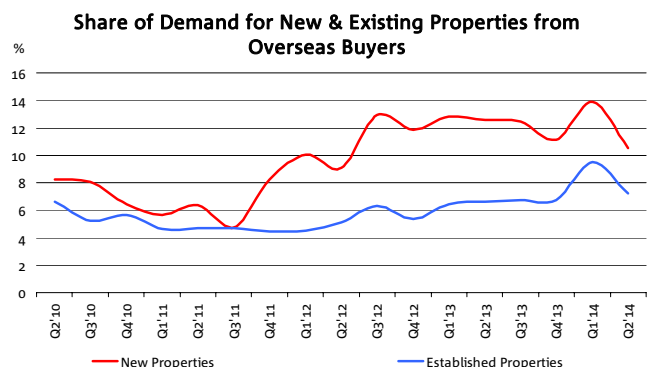
### Housing affordability (new property) and employment security (established property) the biggest concerns for buyers...

Housing affordability has replaced credit availability as the key concern for buyers of new property. Employment security is still the biggest impediment in the established market in most states (especially SA/NT). NSW is the exception, with house prices and lack of stock the biggest obstacles.



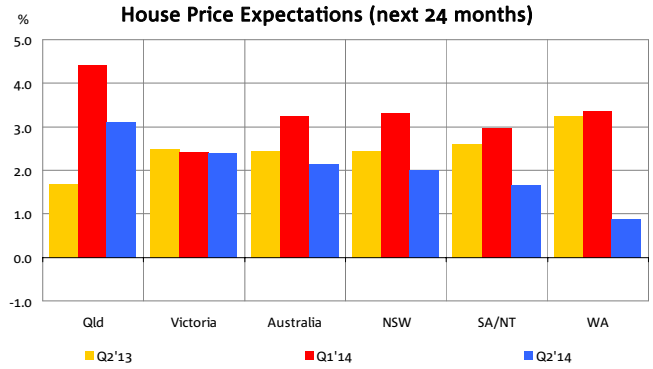
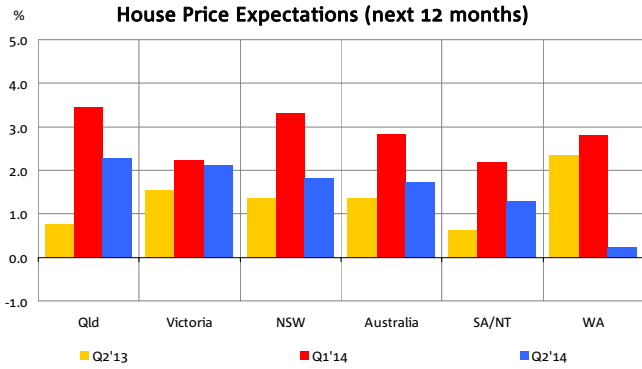
### NAB Residential Property Index

	Q1'14	Q2'14	Q4'14	Q2'15	Q2'16
Victoria	39	36	38	60	63
NSW	57	32	41	47	51
Queensland	36	27	38	59	58
South Australia/NT	27	18	27	27	32
Western Australia	12	-29	-26	-7	11
<b>Index</b>	<b>37</b>	<b>19</b>	<b>26</b>	<b>41</b>	<b>47</b>



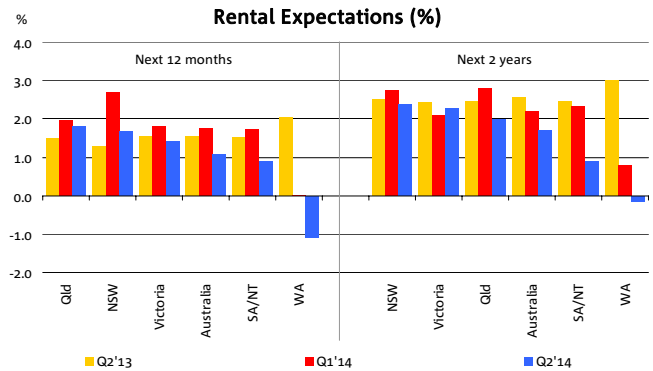
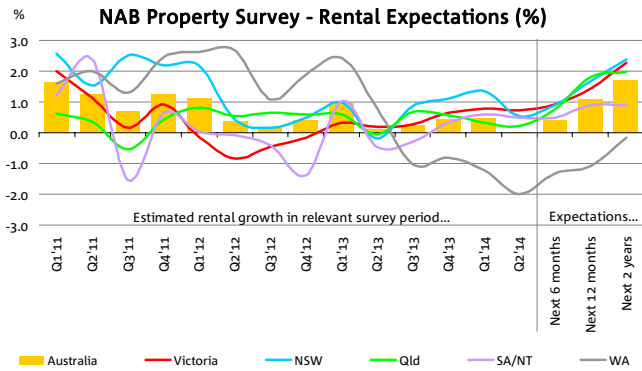
# Residential Property - Market Performance

National house price growth eased in Q2 (0.9%; 1.7% in Q1) and the outlook for growth was pared back in all states. House price growth over the next year is tipped to be fastest in QLD (2.3%; 3.5% previously) and VIC (2.1%; 2.2% previously) and slowest in WA (0.2%; 2.8% in Q1). QLD (3.1%) and VIC (2.4%) are also expected to lead the country for capital gains in 2 years time, with expectations weakest in WA (0.9%) and SA/NT (1.7%).

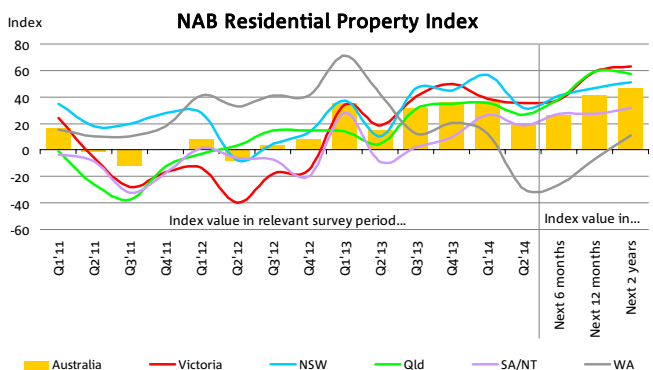
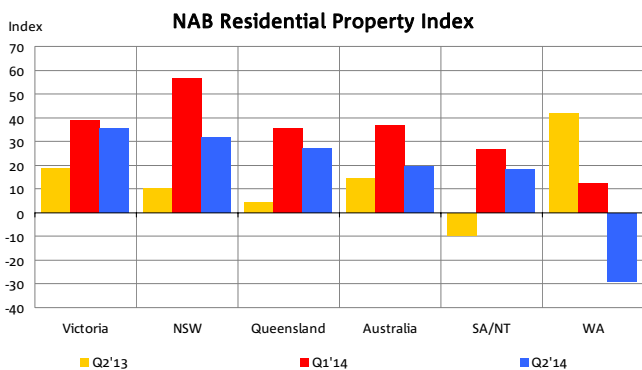


Rental pressures weakened across the country in Q2. Rental growth slowed in Victoria (0.7%) and NSW (0.5%), but they remain the strongest states for income returns. In contrast, sagging house prices and rising vacancies continue to impact rents in WA, which fell -2% after falling -1.2% in Q1.

Lower income returns are forecast for all states in the next 1-2 years (bar a small pick up in VIC in the next 2 years), with NSW and QLD expected to provide the best returns and WA the worst.

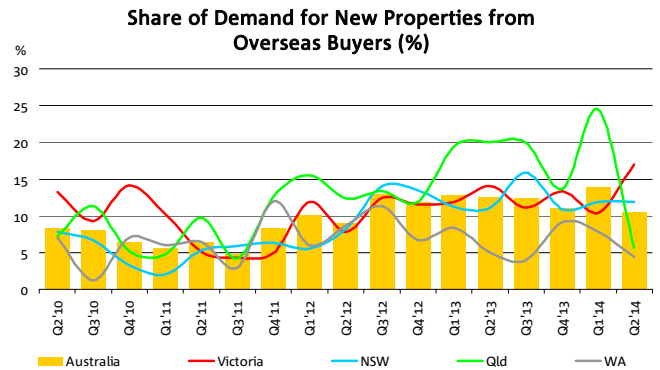
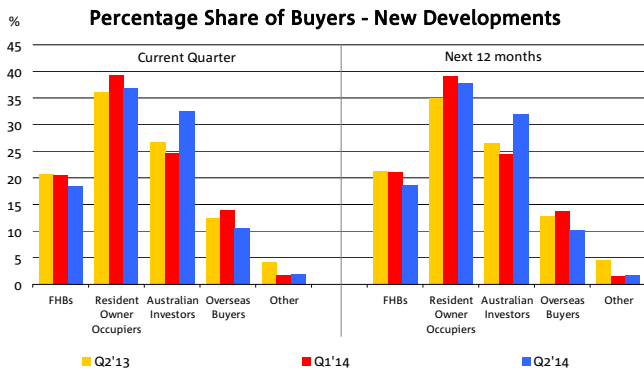


With capital and income growth slowing, the NAB Residential Property Index fell -17 to 19 points in Q2 - its lowest print since mid-2013 - with all states reporting weaker results. VIC (+36) overtook NSW (+32) as the best performing state in Q2, with WA (-29) now clearly the weakest with the state index at an all time low. Property professionals from VIC and QLD remain the most confident over the next 1-2 years, with WA and SA/NT the least optimistic.



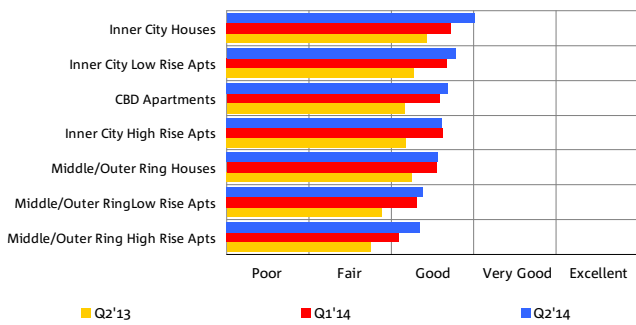
# Residential Property - New Developments

Local investors were much more active in the new housing market in Q2 (nearly 1 in 3 of all new property sales). Conversely, the overall share of foreign buyers fell from a high of 13.9% in Q1 to 10.2% in Q2 - the lowest share in 2 years. That said, foreign buyers accounted for a new high of 17% of demand in VIC (or around 1 in 6 new properties), but pulled back sharply in QLD (5.7%).

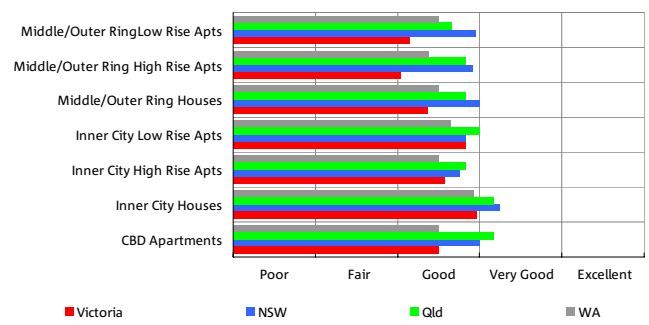


New property demand improved across the board, with demand strongest for inner city properties. Demand conditions generally strongest in NSW and QLD across most types of new property.

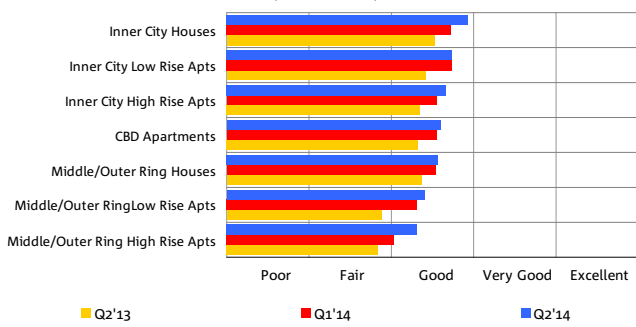
Demand for New Residential Developments (current)



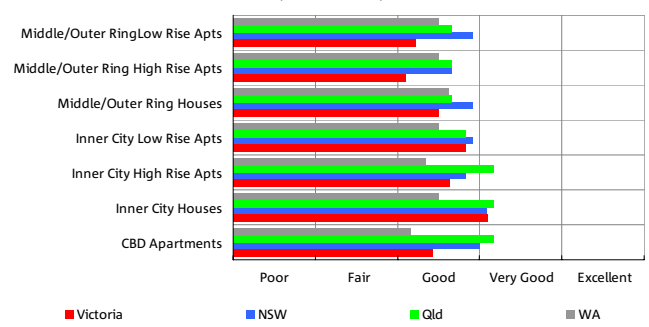
Demand for New Residential Developments by State (current)



Demand for New Residential Developments (next 12 months)

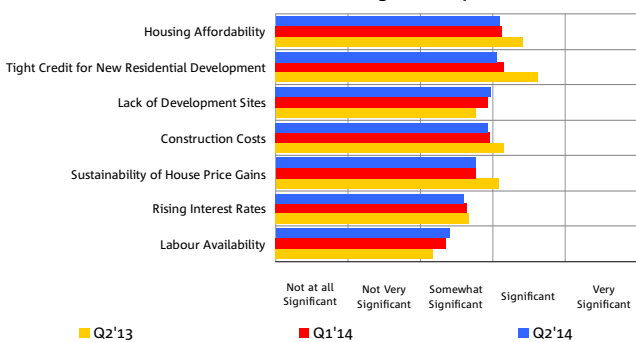


Demand for New Residential Developments by State (next 12 months)

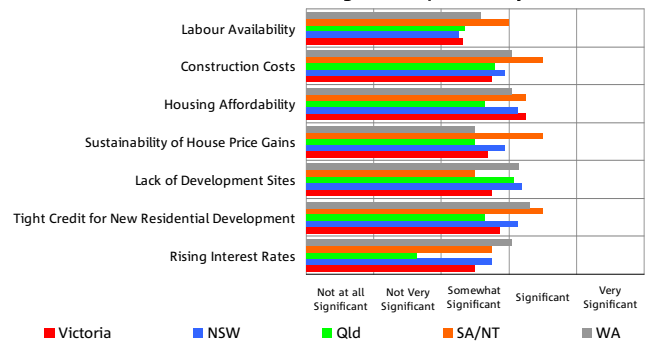


Housing affordability now the biggest concern in new property market, ahead of credit availability.

Constraints on New Housing Developments



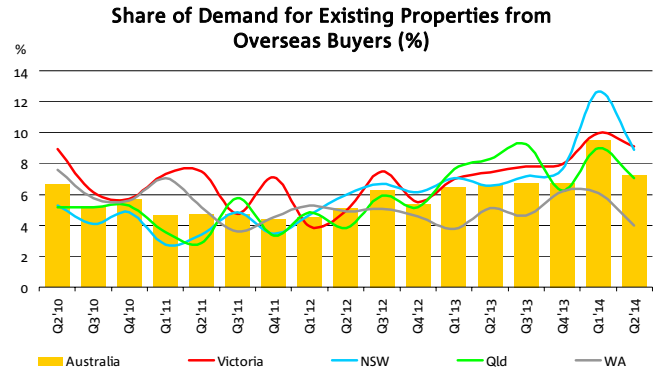
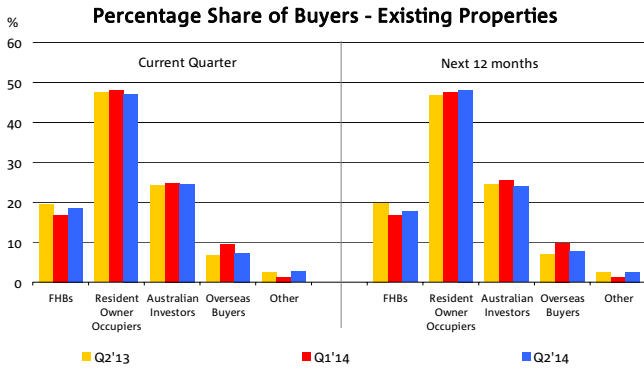
Constraints on New Housing Developments by State



# Residential Property - Existing Properties

First home buyers were more active in the established property market in Q2 (18.5% of total demand; 16.8% in Q1), and were most prevalent in WA (23%) and VIC (22%). Local investors continue to play a key role in the market (25% of all buyers), with investment activity highest in QLD (29%) and NSW (28%), while lagging considerably in WA (18%).

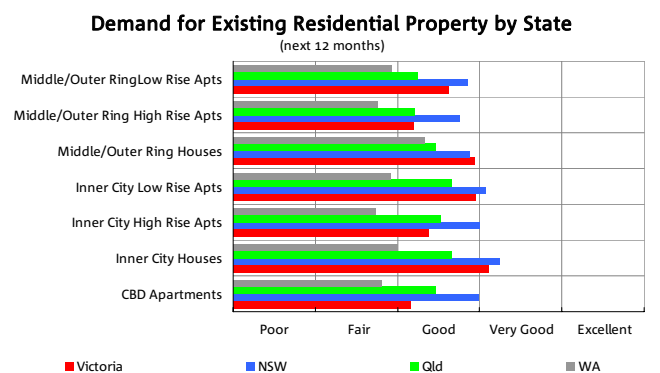
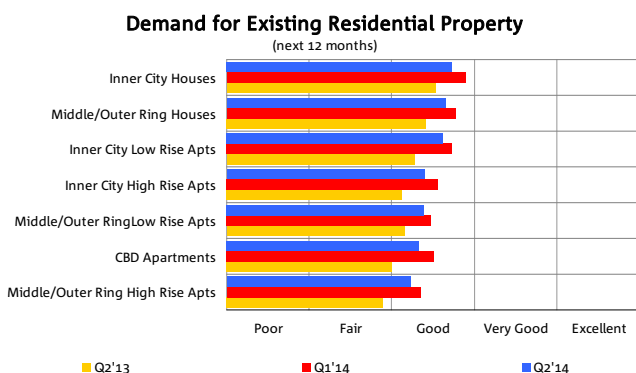
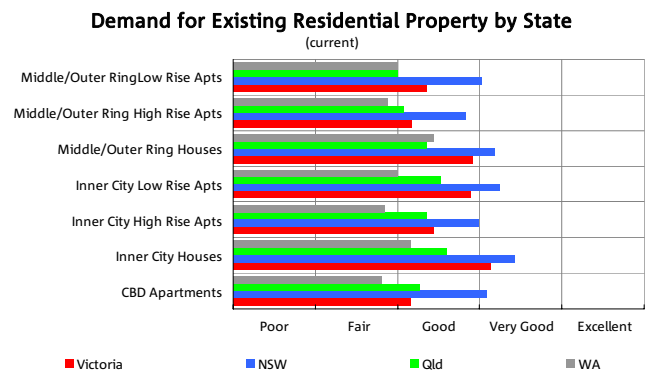
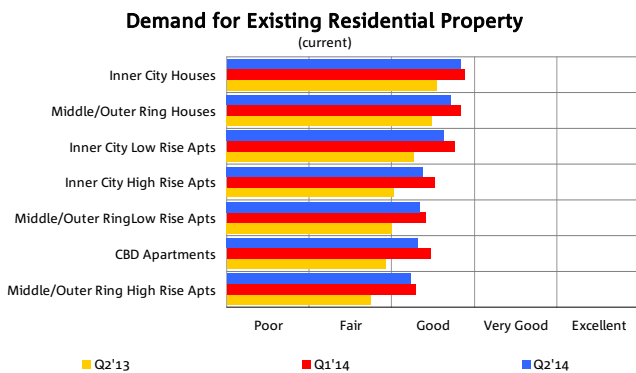
After rising strongly in Q1, foreign buyers were notably less active in the market in Q2 according to surveyed property professionals, with their share of total demand falling to 7.2% from a high of 9.5% in Q1. Foreign buyer demand fell in all states, but was strongest in VIC (9.1%) and NSW (8.9%).



Demand for all types of established property fell in Q2, but the preference for inner city and middle/outer ring houses is still strongest overall. Demand is expected to soften mildly across most market segments next year, except middle/outer ring low rise, inner city high rise and CBD apartments which should see a very modest improvement.

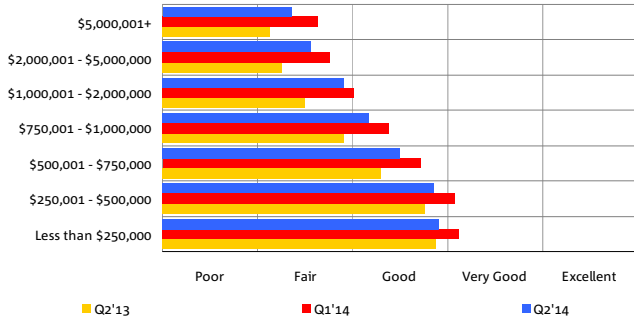
Demand weakened for nearly all property types in NSW, but was still significantly stronger relative to all other states, with property professionals recording “very good” demand in all segments, except middle/outer ring high rise apartments.

QLD is the only state expecting stronger demand for all types of established property next year. In contrast, demand in NSW is expected to cool notably for all types of property, but will still lead the country for all property types, except middle/outer ring houses, where demand is strongest in VIC.

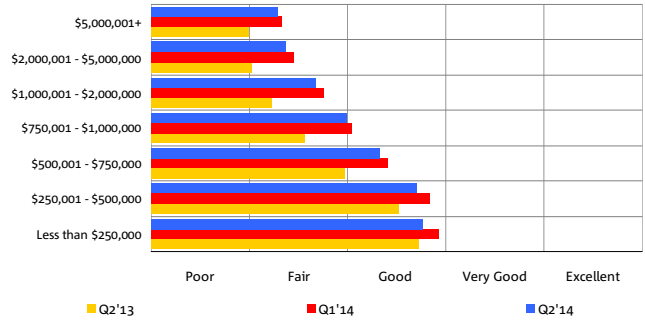


Capital growth expectations softer at all price points for houses and apartments. Prospects for apartments strongest in NSW at all price points, but prospects for houses over \$750,000 best in VIC.

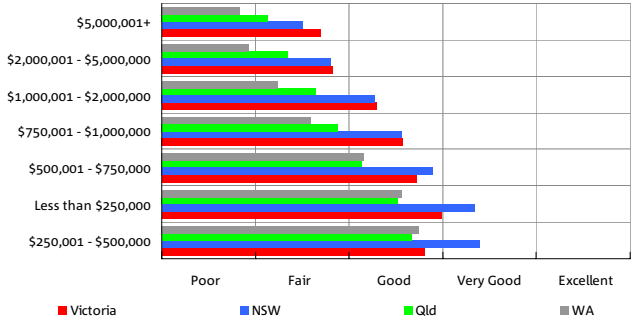
**Capital Growth by Price Band - Established Houses**  
(next 12 months)



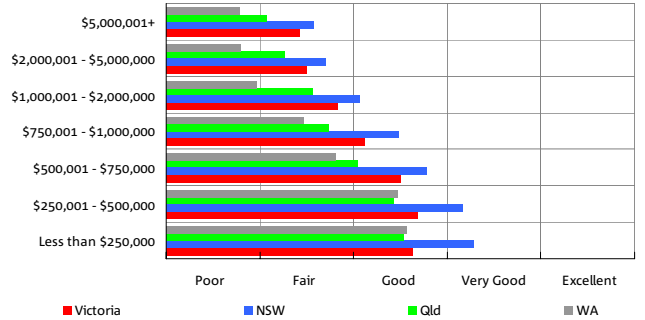
**Capital Growth by Price - Apartments**  
(next 12 months)



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

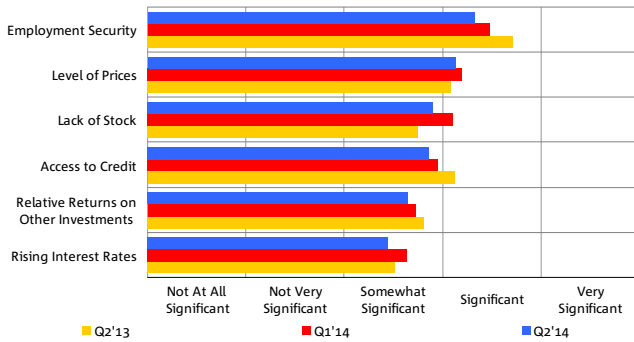


**Capital Growth: Established Apartments by State**  
(next 12 months)

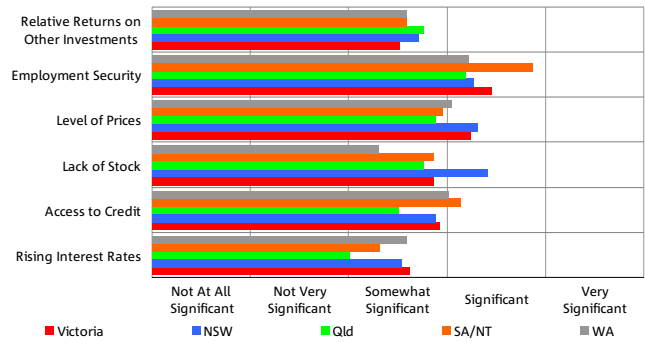


Employment security is still seen as biggest impediment to buying existing property in most states (especially SA/NT). NSW the exception, with house prices and lack of stock the biggest obstacles.

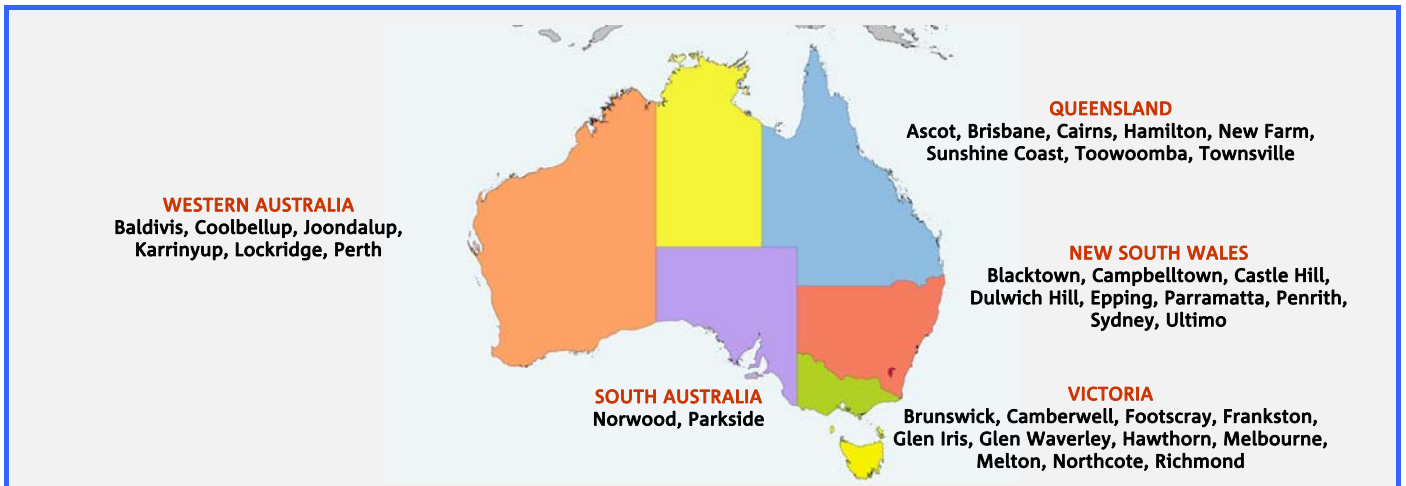
**Major Constraints on Existing Property**



**Major Constraints on Existing Property by State**



Suburbs tipped to enjoy above average capital growth over the next year...



## Survey Respondents' Expectations

### House Price Expectations (%)

	Current Survey Quarter										Next 6mth	Next year	Next 2yrs
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14			
Victoria	-1.6	-2.5	-1.1	-0.9	0.6	0.2	1.5	1.8	1.3	1.0	1.2	2.1	2.4
NSW	-0.5	-1.7	-0.6	-0.7	0.6	0.1	1.9	2.3	2.7	1.5	1.4	1.8	2.0
Queensland	-1.8	-1.4	-0.8	-0.5	-0.4	-0.5	0.8	1.2	1.4	0.9	1.3	2.6	3.1
South Australia/NT	-1.8	-1.2	-0.3	-0.8	0.5	-0.4	0.1	-0.2	0.6	0.3	0.7	1.3	1.7
Western Australia	-0.2	-0.3	0.1	0.4	1.2	1.0	1.0	1.5	1.5	-0.3	-0.7	0.2	0.9
<b>Australia</b>	<b>-1.2</b>	<b>-1.6</b>	<b>-0.7</b>	<b>-0.6</b>	<b>0.4</b>	<b>0.1</b>	<b>1.3</b>	<b>1.6</b>	<b>1.7</b>	<b>0.9</b>	<b>1.0</b>	<b>1.7</b>	<b>2.2</b>

### Rental Expectations (%)

	Current Survey Quarter										Next 6mth	Next year	Next 2yrs
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14			
Victoria	-0.1	-0.8	-0.5	-0.2	0.3	0.2	0.3	0.6	0.8	0.7	0.9	1.4	2.3
NSW	2.2	0.4	0.2	0.5	1.0	-0.2	0.9	1.1	1.4	0.5	0.9	1.7	2.4
Queensland	0.8	0.6	0.6	0.6	0.6	0.0	0.7	0.6	0.3	0.2	0.7	1.8	2.0
South Australia/NT	0.0	-0.1	-0.4	-1.4	1.0	-0.5	-0.3	0.3	0.6	0.5	0.5	0.9	0.9
Western Australia	2.6	2.7	1.1	1.9	2.4	0.8	-1.0	-0.8	-1.2	-2.0	-1.3	-1.1	-0.2
<b>Australia</b>	<b>1.1</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>1.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.4</b>	<b>0.5</b>	<b>0.0</b>	<b>0.4</b>	<b>1.1</b>	<b>1.7</b>

## Appendix 1: NAB's View of Residential House Prices

There are now clear signs that the momentum in the dwelling market has eased, with dwelling prices slowing in nearly all capitals in the June quarter (RP Data-Rismark). NAB expects average capital city house prices to cool further over the next 2 years towards more sustainable levels and is forecasting average house price growth of 4.6% through the year to June 2015 and 3.2% in the year to June 2016.

Brisbane (6.3%), Sydney (5.3%) and Perth (4.9%) are expected to lead the market in the next year, with slower growth forecast in Melbourne (3.1%) and Adelaide (1.8%). Brisbane (4.8%) and Sydney (3.7%) are forecast to remain the strongest cities for capital gains in the 12 months June 2016, with house prices rising 2.8% in Adelaide, 2.4% in Perth and 2% in Melbourne.

### NAB Capital City House Price Forecasts (%)\*

	year to end-December			year to end-June		
	2013a	2014f	2015f	2014e	2015f	2016f
Sydney	15.2	6.1	4.8	13.3	5.3	3.7
Melbourne	9.8	2.2	3.0	7.7	3.1	2.0
Brisbane	5.8	4.6	6.0	5.8	6.3	4.8
Adelaide	4.5	1.1	2.4	4.0	1.8	2.8
Perth	8.5	4.4	3.9	5.0	4.9	2.4
<b>Capital City Average</b>	<b>10.1</b>	<b>4.2</b>	<b>4.3</b>	<b>8.6</b>	<b>4.6</b>	<b>3.2</b>

\*percentage changes represent through the year growth rates (a = actual; e = estimate; f = forecast)

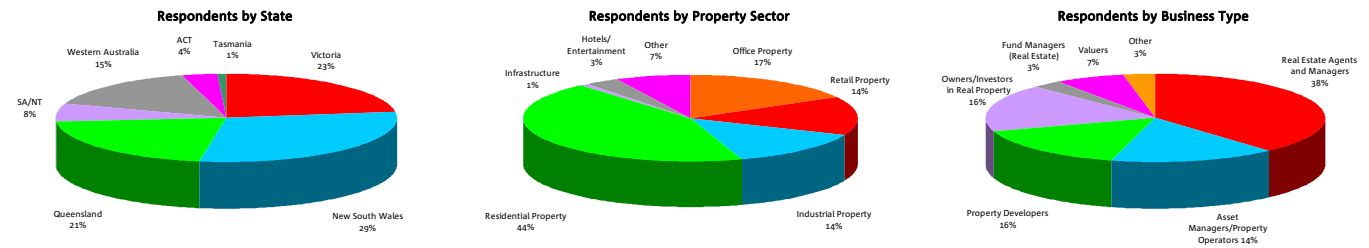
## About the Survey

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 280 panellists participated in the Q2 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.





## Group Economics

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Jacqui Brand  
Personal Assistant  
+61 3 8634 2181

### Australian Economics and Commodities

Rob Brooker  
Head of Australian Economics  
+61 3 8634 1663

James Glenn  
Senior Economist - Australia  
+(61 3) 9208 8129

Vyanne Lai  
Economist - Agribusiness  
+(61 3) 8634 0198

Karla Bulauan  
Economist - Australia  
+(61 3) 86414028

### Industry Analysis

Dean Pearson  
Head of Industry Analysis  
+(61 3) 8634 2331

Robert De lure  
Senior Economist - Industry  
Analysis  
+(61 3) 8634 4611

Brien McDonald  
Economist - Industry  
Analysis  
+(61 3) 8634 3837

Amy Li  
Economist - Industry  
Analysis  
+(61 3) 8634 1563

### International Economics

Tom Taylor  
Head of Economics, International  
+61 3 8634 1883

Tony Kelly  
Senior Economist - International  
+(61 3) 9208 5049

Gerard Burg  
Senior Economist - Asia  
+(61 3) 8634 2788

John Sharma  
Economist - Sovereign Risk  
+(61 3) 8634 4514

## Global Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406

### Australia

#### Economics

Spiros Papadopoulos  
Senior Economist  
+61 3 8641 0978

David de Garis  
Senior Economist  
+61 3 8641 3045

#### FX Strategy

Ray Attrill  
Global Co-Head of FX  
Strategy  
+61 2 9237 1848

Emma Lawson  
Senior Currency Strategist  
+61 2 9237 8154

#### Interest Rate Strategy

Skye Masters  
Head of Interest Rate  
Strategy  
+61 2 9295 1196

Rodrigo Catril  
Interest Rate Strategist  
+61 2 9293 7109

#### Credit Research

Michael Bush  
Head of Credit Research  
+61 3 8641 0575

Simon Fletcher  
Senior Credit Analyst – FI  
+61 29237 1076

#### Equities

Peter Cashmore  
Senior Real Estate Equity Analyst  
+61 2 9237 8156

#### Distribution

Barbara Leong  
Research Production Manager  
+61 2 9237 8151

### New Zealand

Stephen Toplis  
Head of Research, NZ  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Kymerly Martin  
Senior Market Strategist  
+64 4 924 7654

Raiko Shareef  
Currency Strategist  
+64 4 924 7652

Yvonne Liew  
Publications & Web  
Administrator  
+64 4 474 9771

### UK/Europe

Nick Parsons  
Head of Research, UK/Europe,  
and Global Co-Head of FX Strategy  
+44207710 2993

Gavin Friend  
Senior Markets Strategist  
+44 207 710 2155

Tom Vosa  
Head of Market Economics  
+44 207710 1573

Simon Ballard  
Head of Credit Strategy  
+44 207 710 2917

Derek Allassani  
Research Production Manager  
+44 207 710 1532

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