

# NAB Residential Property Survey: Q3 2014

by NAB Group Economics

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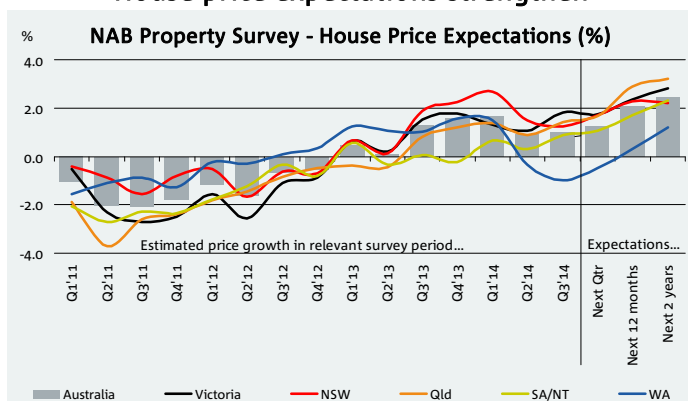


NAB Residential Property Index unchanged with stronger house price expectations offset by weaker rental prospects. Sentiment continues to soften in WA (an all time low). Big pick-up in foreign buying activity in new property (especially VIC) and tipped to rise further. Foreign buyers account for 1 in 6 new properties nationally (1 in 4 in VIC). First home buyers less active, local investors unchanged.

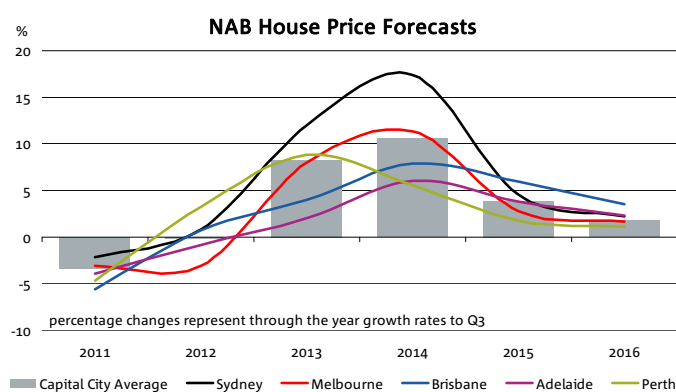
## Survey Highlights:

- NAB Residential Property Index unchanged at +19 points in Q3. Picture mixed across country. QLD overtakes VIC as strongest state; biggest gains in SA/NT; sentiment weakest and still falling in WA.
- Outlook for national house prices for next 1-2 years improves. Outlook stronger in all states. Rental expectations wound back in all states except SA/NT.
- NAB expects house price increases to be more modest than in recent times because of rising unemployment, sluggish household income growth, affordability issues and cost of living pressures.
- First home buyers less active in established markets (16.4%). Local investors broadly unchanged (25%).
- Housing affordability biggest constraint in new housing market (nationally). Construction costs and sustainability of house price gains replace credit availability as next biggest concerns. Employment security identified biggest impediment to buying existing property nationally and in most states.
- For the first time, individual state reports for the 5 main states are now available (on request).

## House price expectations strengthen



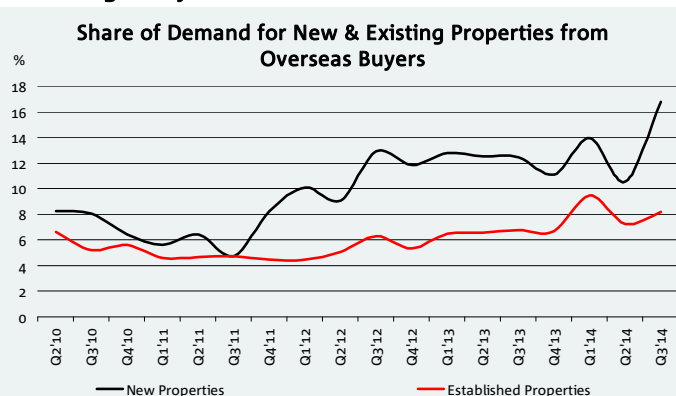
## NAB expects house prices to cool



## NAB Residential Property Index

	Q1 2014	Q2 2014	Q3 2014	Next Qtr	Next 1 yr	Next 2 yrs
VIC	39	36	36	43	43	45
NSW	57	32	30	41	45	45
QLD	36	27	37	40	54	50
SA/NT	27	18	29	46	50	57
WA	12	-29	-39	-28	-1	12
<b>Index</b>	<b>37</b>	<b>19</b>	<b>19</b>	<b>28</b>	<b>38</b>	<b>41</b>

## Foreign buyers much more active in the market



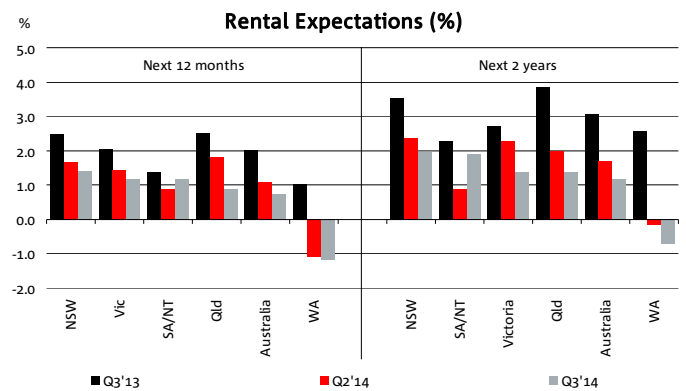
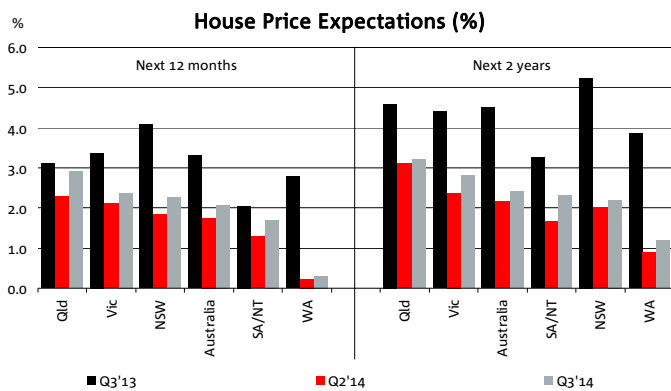
# Residential Property - Market Performance

## House price expectations

House price expectations strengthened in Q3. National house prices now expected to grow 2.1% in the next year (1.7% in Q2). Outlook for house prices stronger in all states, led by QLD (2.9%), VIC (2.4%) and NSW (2.3%). WA (0.3%) clearly lagging. Average national house prices to grow 2.4% in 2 years time, with QLD (3.2%) and VIC (2.4%) to lead the country for capital gains. Biggest improvement expected in SA/NT (2.3%), while capital gains slowest in WA (1.2%).

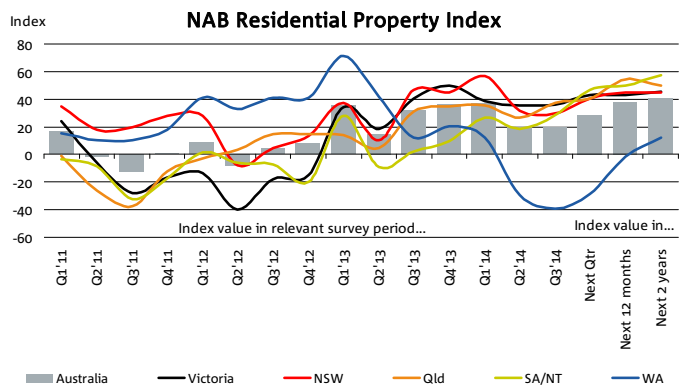
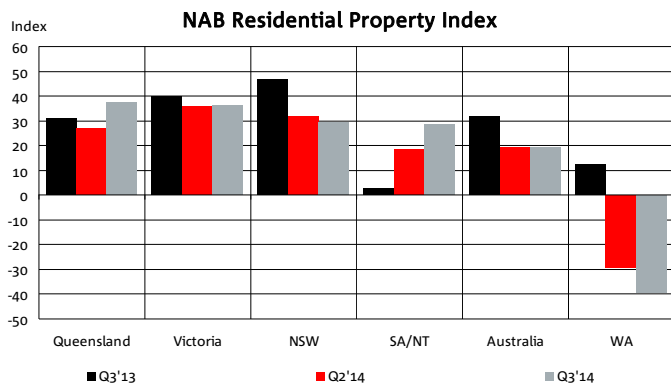
## Rental expectations

In contrast, expectations for rents continue to be wound back. Average national rents now expected to grow just 0.7% next year (1.1% in Q2). Expectations softer in all states, except SA/NT (1.2%) which joins NSW (1.4%) and VIC (1.2%) as the best states for income returns, while WA (-1.2%) remains the weakest. Lower income returns forecast in all states in next 2 years, bar SA/NT (1.9%), which joins NSW (2%) as the best state for income growth. Negative returns to persist in WA (-0.7%).



## NAB Residential Property Index

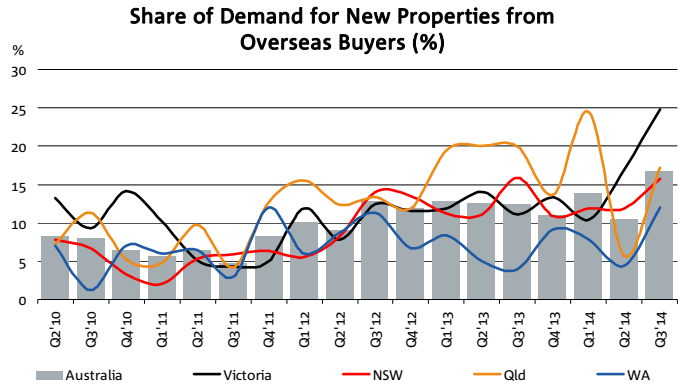
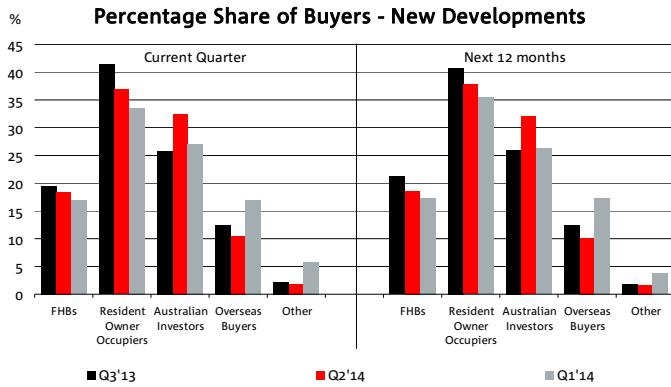
With stronger house price expectations offset by weaker rents, the NAB Residential Property Index was unchanged at +19 points in Q3 and remained above of its long-term average (+14 points). QLD (+37 points) overtook VIC (+36 points) as the strongest state, but the biggest improvement was seen in SA/NT (+29 points). Sentiment continues weaken in WA, with the state index falling to -39 points - a new all time low. Property professionals in QLD and SA/NT are now the most confident over the next 1-2 years. Sentiment in VIC and NSW is expected to remain broadly unchanged at relatively elevated levels, but remain well below the national average in WA.



# Residential Property - New Developments

## Demand for new properties by buyer

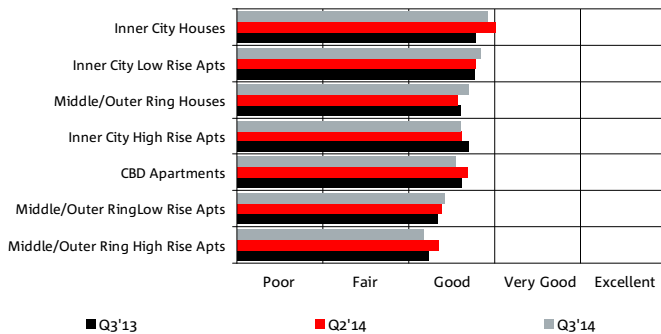
Foreign buyers were more prevalent in new housing markets in Q3. Foreign buyers accounted for 16.8% of total demand (about 1 in 6 of all buyers), and this share is tipped to rise further next year (17.3%). Foreign buyers were more active in all states, especially VIC where they accounted for an estimated 24.8% of demand (or 1 in 4 sales). In contrast, local investors were less active in Q3, with their share of national demand falling to 27% (32.5% in Q2). Local investors accounted for a smaller share of demand in all states (see state sheets for detail).



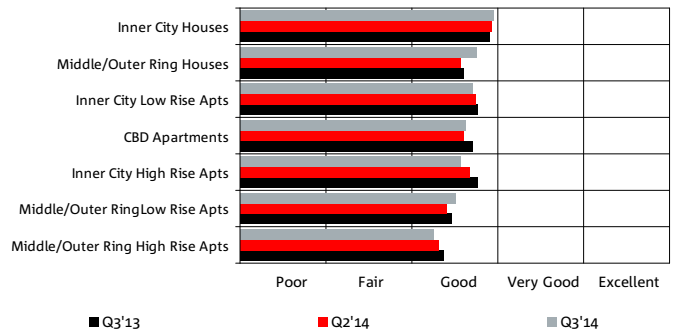
## Demand for new property by type and location

National demand for new property higher for inner city low rise apartments and middle/outer ring houses and low rise; weaker in all other categories. Demand to rise slightly for all new property in next 12 months relative to Q3.

Demand for New Residential Developments (current)



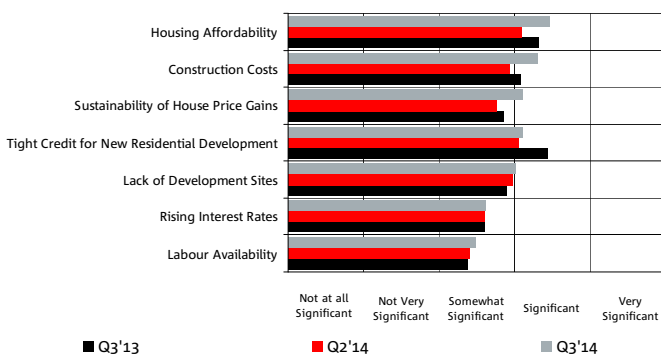
Demand for New Residential Developments (next 12 months)



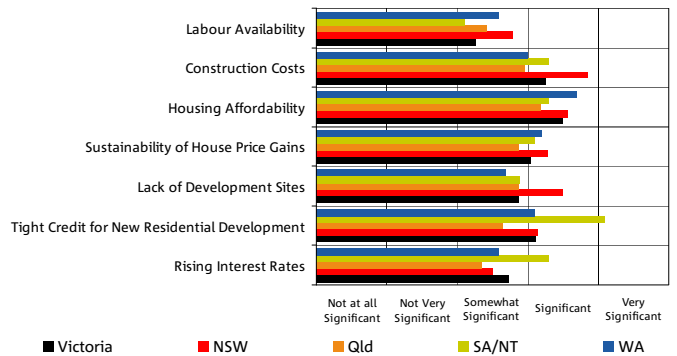
## Constraints on new housing development

Housing affordability is still the biggest constraint in new housing markets (nationally) and more so than in Q2. Construction costs (especially in NSW) and sustainability of house price gains have replaced credit availability as next biggest constraints. Tight credit is still a "significant" concern nationally, but "very significant" in SA/NT.

Constraints on New Housing Developments



Constraints on New Housing Developments by State

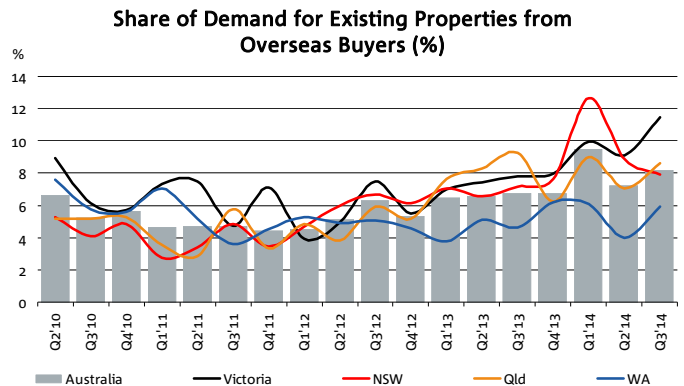
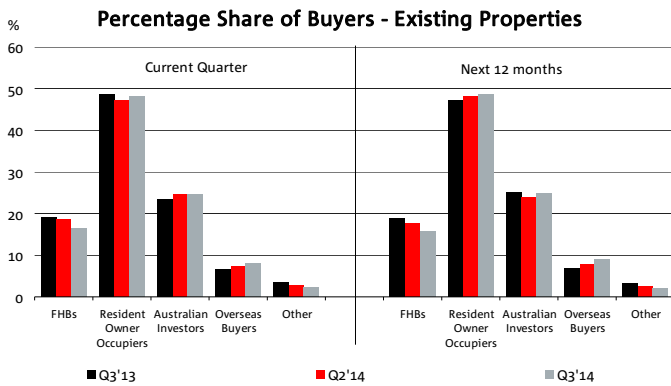


# Residential Property - Existing Developments

## Demand for existing property

First home buyers (FHBs) less active in established property markets in Q3 (16.4% of total national demand; 18.5% in Q2), with share of FHBs falling most sharply in VIC to 15% (22.5% in Q2). The share of local investors in the market was broadly unchanged at around 25%, with investors most active in QLD, NSW and VIC with a market share of 28% in each state, and least active in SA/NT (20%) and WA (17%).

Foreign buyers were slightly more active in established property markets in Q3, with their share of total national demand rising to 8.2% (7.2% in Q2). Foreign buyer demand for established property increased in all states except NSW. VIC led the way, with foreigners accounting for a record high 11.5% of established property demand.

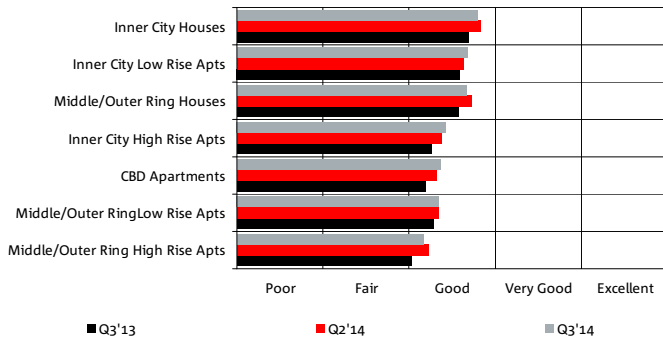


## Demand for existing property by type

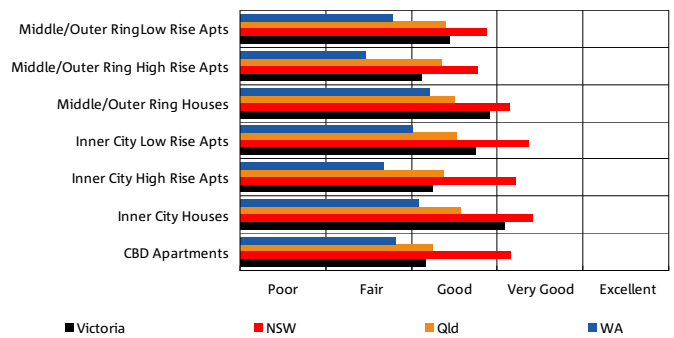
At the national level, demand for all types of established property was assessed as “good” in Q3, with a clear preference for inner city houses and low rise apartments and middle/outer ring houses. Demand for existing residential property is expected to strengthen across most segments next year, except established apartments located in the middle and outer ring.

By state, demand for all types of established property strongest in NSW across all categories, with demand notably stronger for CBD and inner city high and low rise apartments.

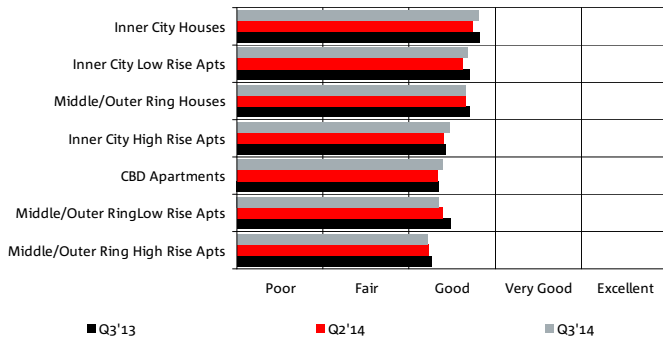
Demand for Existing Residential Property (current)



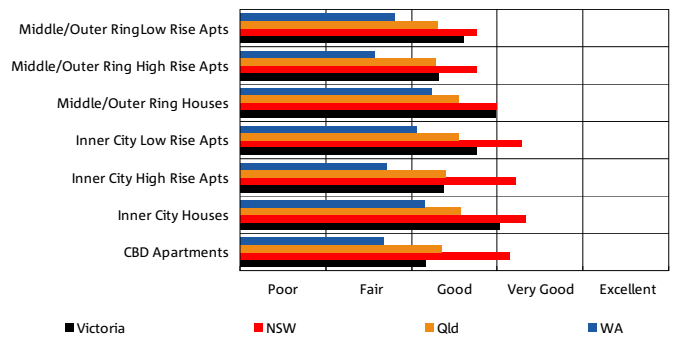
Demand for Existing Residential Property by State (current)



Demand for Existing Residential Property (next 12 months)



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

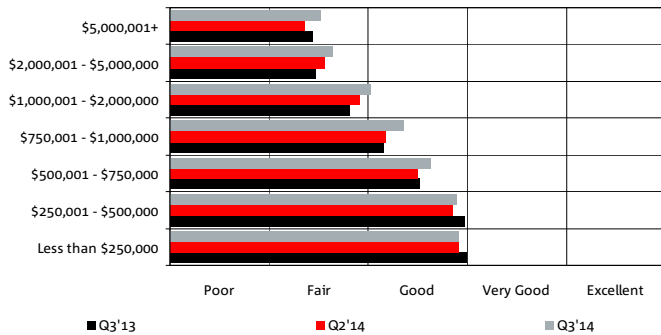


### Capital growth expectations

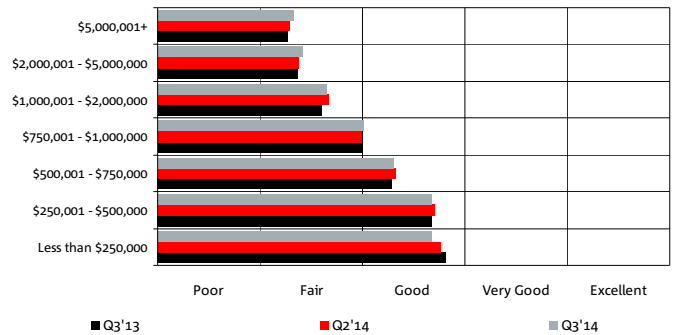
Capital growth expectations over the next 12 months strengthened at all price points in the housing market, but were pared back slightly for apartments valued at less than \$750,000. Capital growth expectations were assessed as “good” for houses less than \$2 million and for apartments less than \$1 million. Expectations for capital growth at all other price points were assessed as “fair”.

By state, capital growth expectations are strongest in NSW in both the housing and apartment markets at all price ranges. Capital growth prospects remain weakest in WA, especially for top end houses (+\$5 million) and apartments valued at more than \$2 million, where prospects are considered to be “poor”. More detail is available in the individual State reports.

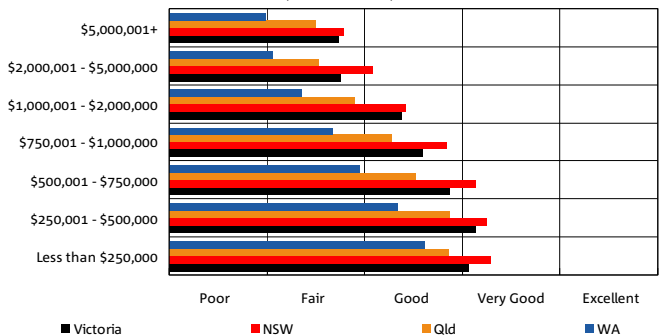
**Capital Growth by Price Band - Established Houses**  
(next 12 months)



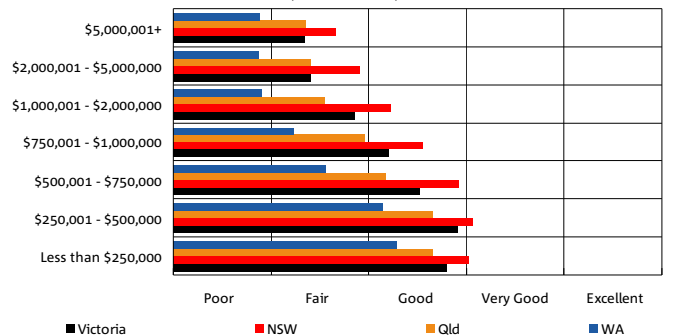
**Capital Growth by Price - Apartments**  
(next 12 months)



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



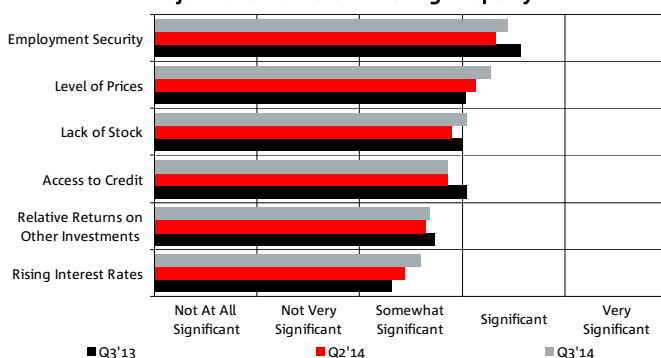
**Capital Growth: Established Apartments by State**  
(next 12 months)



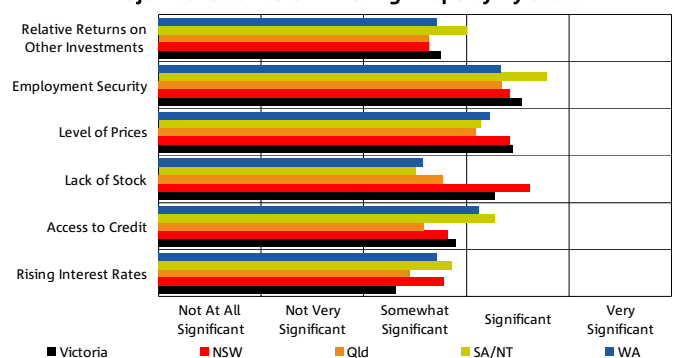
### Constraints on existing property

With trend unemployment rising, employment security continues to be seen as biggest (and rising) impediment to buying existing property nationally and in most states, especially SA/NT and VIC where local unemployment rates are also among the highest of the mainland states. House price levels (especially in VIC and NSW) and lack of stock (especially in NSW) were also identified as “significant” (and rising) obstacles in the market place, with concerns over rising interest rates also notably higher.

**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** **Rents**

	Q1	Q2	Q3	Next	Next	Next
	2014	2014	2014	Qtr	1 yr	2 yrs
VIC	1.3	1.0	1.8	1.8	2.4	2.8
NSW	2.7	1.5	1.3	1.7	2.3	2.2
QLD	1.4	0.9	1.4	1.7	2.9	3.2
SA/NT	0.6	0.3	0.9	1.1	1.7	2.3
WA	1.5	-0.3	-1.0	-0.5	0.3	1.2
<b>Australia</b>	<b>1.7</b>	<b>0.9</b>	<b>1.0</b>	<b>1.3</b>	<b>2.1</b>	<b>2.4</b>

	Q1	Q2	Q3	Next	Next	Next
	2014	2014	2014	Qtr	1 yr	2 yrs
VIC	0.8	0.7	0.3	0.8	1.2	1.4
NSW	1.4	0.5	0.2	0.9	1.4	2.0
QLD	0.3	0.2	0.4	0.6	0.9	1.4
SA/NT	0.6	0.5	-0.1	0.6	1.2	1.9
WA	-1.2	-2.0	-1.6	-1.5	-1.2	-0.7
<b>Australia</b>	<b>0.5</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.3</b>	<b>0.7</b>	<b>1.2</b>

**NAB’s View of Residential House Prices**

NAB Economics expects average capital city house prices to cool to around 4% over the year to September 2015 and around 2% in the following year. We don't believe we have a housing bubble, but our outlook is that increasing house prices will be more modest than they have been in recent times because of rising unemployment, sluggish household income growth, affordability concerns, cost of living pressures and high levels of household debt. Brisbane (5.9%) and Sydney (4.5%) are expected to lead the market for capital growth in the next year, followed by Adelaide (3.8%) and Melbourne (2.8%), with Perth (1.7%) lagging. Brisbane (3.5%), Adelaide (2.3%) and Sydney (2.2%) are forecast to remain the best cities for capital gains in the 12 months September 2016, with house prices up 1.6% in Melbourne and 1.1% in Perth.

NAB Capital City House Price Forecasts\*

	Year to end-September			Year to end-December		
	2014f	2015f	2016f	2014f	2015f	2016f
Sydney	17.4	4.5	2.2	10.7	3.7	0.6
Melbourne	11.3	2.8	1.6	6.7	2.3	0.5
Brisbane	7.9	5.9	3.5	7.6	5.4	2.2
Adelaide	6.0	3.8	2.3	6.2	1.3	0.8
Perth	5.6	1.7	1.7	3.1	2.1	-0.1
<b>Capital City Average</b>	<b>10.6</b>	<b>3.9</b>	<b>1.7</b>	<b>7.4</b>	<b>3.6</b>	<b>0.5</b>

\*percentage changes represent through the year growth rates

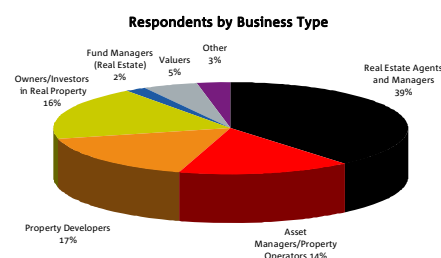
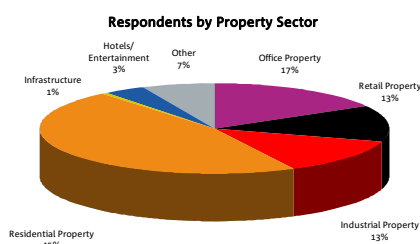
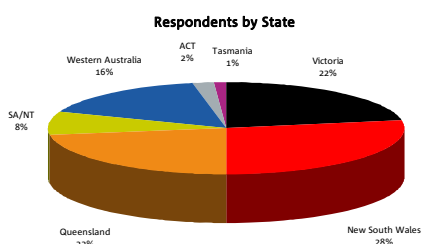
## About the Survey

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 300 panellists participated in the Q3 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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