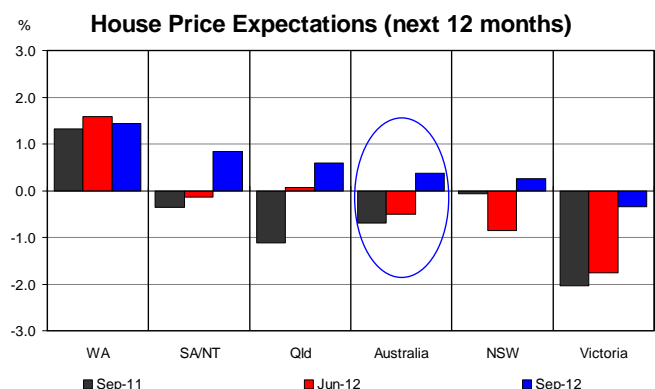
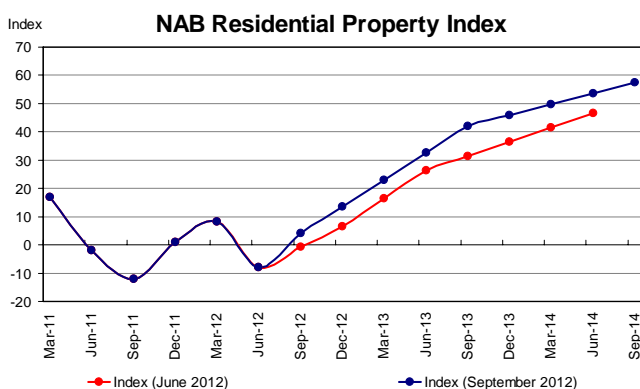


## Quarterly Australian Residential Property Survey: September 2012

**NAB Residential Property Index turns positive in Q3'12 as property professionals see downward correction in national house prices slowing. Market expected to recover in the next year, with prices rising 0.4% nationally. Prices to rise in all states except Victoria.**

- NAB's Residential Property Index rose to +4 points in Q3'12 (-8 points in Q2'12). WA the strongest state, but Queensland improving rapidly. State index also turns positive in NSW, but still negative in SA/NT and Victoria. Queensland and SA/NT to be the strongest states in next 2 years. Victoria the weakest but gaining ground.
- National house prices fell -0.7% in Q3'12 (-1.6% in Q2'12). All states bar WA (0.1%) reported negative growth but the rate of decline slowed in all states. Victoria still the weakest market (-1.1%). Prices also down in Queensland (-0.8%), NSW (-0.6%) and SA/NT (-0.3%). National house prices expected to grow 0.4% over next year and 1.7% over next 2 years. WA joined by Queensland and SA/NT as most optimistic states for price growth in next 2 years. Victoria still the weakest state, but prices to resume growing modestly.
- National rents rise 0.2% in Q3'12 but state performance varies. Victoria (-0.5%) softest market with Melbourne having highest vacancy rates among capitals. Rents also down in SA/NT (-0.4%), but up in NSW (0.2%), Queensland (0.6%) and WA (1.1%) where influx of transient workers is keeping vacancies low. Property professionals see rents growing 2.1% in next year and 3.4% in next 2 years with rents growing in all states.
- Overseas buyers emerging as important players in the market for new developments. Demand for new property strongest for inner city low rise apartments and townhouses and inner city houses but only assessed as "fair".
- Tight credit and housing affordability still seen as the main obstacles to new building, but concern also rising over construction costs.
- Lower interest rates and rental growth are boosting local investor demand in the existing property market. Overall demand for existing property is strongest in the inner city and capital growth prospects best in the sub-\$500,000 range. Buying activity is much more cautious in the prestige market, with capital growth expectations for that sector considered to be "poor" in both the housing and apartment markets in all state markets.
- Employment security has become entrenched as the biggest impediment to purchasing existing property according to our survey panel, especially in Victoria and Queensland. Access to credit also identified as a "significant" impediment to purchasing existing property.



### NAB Residential Property Index: September Quarter 2012\*

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep12	Mar-13	Sep-13	Sep-14
Victoria	24	-6	-28	-16	-14	-40	-18	-6	16	42
NSW	35	18	20	28	28	-8	5	31	47	59
Queensland	-1	-26	-38	-12	-3	4	15	35	60	71
South Australia/Northern Territory	-4	-8	-32	-17	1	-6	-7	11	54	71
Western Australia	15	10	11	18	41	33	41	59	55	59
<b>Residential Property Index</b>	<b>17</b>	<b>-2</b>	<b>-12</b>	<b>1</b>	<b>8</b>	<b>-8</b>	<b>4</b>	<b>23</b>	<b>42</b>	<b>57</b>

\*We have revised this series to include responses from property developers in order to improve sample stability. This has not affected the direction of the index, although the magnitude may be slightly different from previously published.

### For more information contact:

Alan Oster, Chief Economist  
(03) 8634 2927 0414 444 652

Robert De lure, Senior Property Economist  
(03) 8634 4611

Dean Pearson, Head of Industry  
(03) 8634 2331

## Residential Property - Market Performance

The latest NAB Residential Property survey suggests that the downward correction in national house prices may be slowing, with prices falling -0.7% in Q3'12, following a -1.6% decline in Q2'12.

All states (bar WA) reported negative growth in Q3'12 but the rate of decline slowed in all states. Victoria is still the weakest market, with prices falling -1.1%. House prices were also down -0.8% in Queensland with NSW (-0.6%) and SA/NT (-0.3%) also falling. WA was the only state where property professionals saw house price growth in the quarter with values up 0.1%.

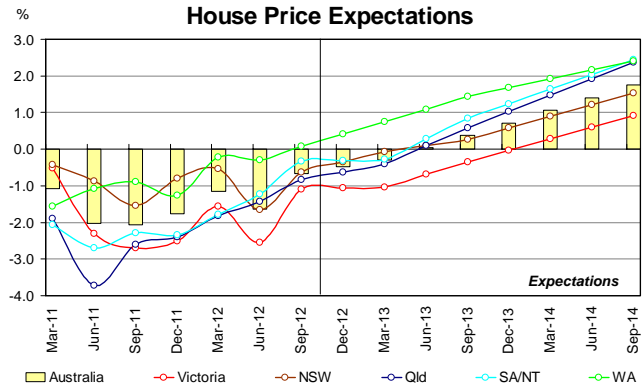
A modest recovery in capital values is expected over the next year, with national house prices tipped to rise 0.4%. WA is the most optimistic state with prices expected to rise by 1.4%. SA/NT (0.8%) and Queensland (0.6%) are the next best states, with NSW participants also expecting a small rise of 0.3%. Victoria remains the least optimistic state with prices tipped to fall -0.3%.

Our survey panel sees national house prices rising modestly by 1.7% in the next 2 years - although expectations this quarter are slightly stronger than 1% forecast in Q2'12. The mining-states are set to out-perform, led by a 2.4% increase in WA (this was scaled back from 4.1% previously possibly due to concerns the mining sector may be slowing), 2.4% in Queensland and 2.4% in SA/NT. House prices in NSW are expected to grow 1.5%.

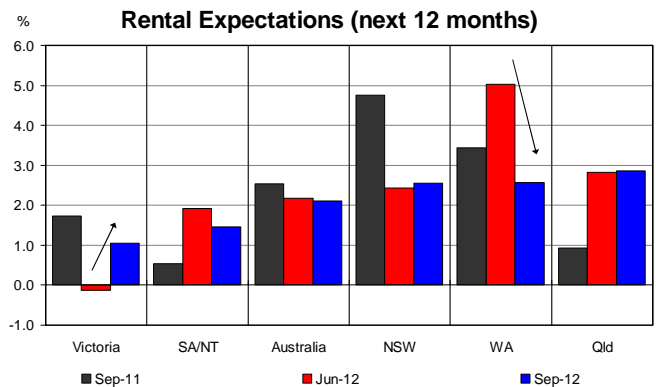
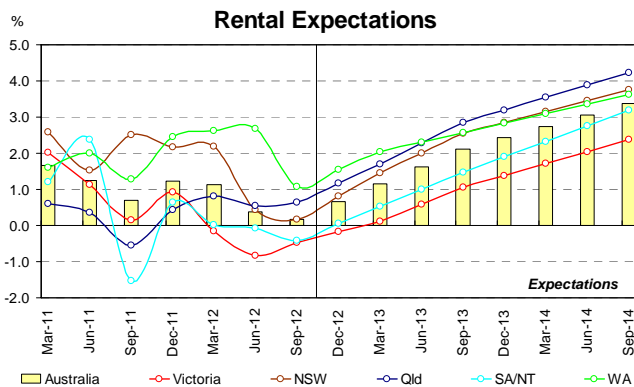
Victoria is still the most pessimistic state, but prices are now tipped to rise 0.9% in the next two years (-0.7% previously). Although the outlook for the Victorian economy is comparatively weak, we suspect lower interest rates and improved affordability may have contributed to improved housing sentiment in that state.

The survey results are broadly in line with NAB's own view of national house prices with NAB forecasting flat growth in 2012 and increasing by around 2% in 2013.

**Downward correction in national house prices slows; modest recovery in house prices predicted over next 1-2 years**



**National rental market steady in Q3'12 but some wide divergences between the states**

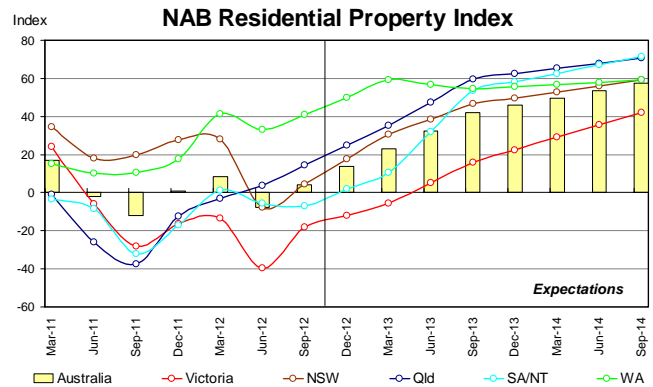
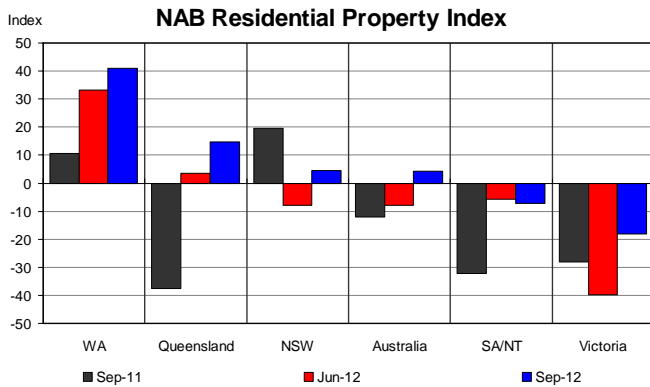


The leasing market continued to grow in the September quarter, with low rental vacancies driving a 0.2% increase in national rents (0.4% in Q2'12). However, there is still significant divergence among state rental markets. The rental market is softest in Victoria, where rents fell -0.5% as Melbourne continues to have the highest vacancy rates among the capital cities. Rents also fell -0.4% in SA/NT, but increased in NSW (0.2%), Queensland (0.6%) and WA (1.1%) where the continued influx of transient workers is keeping vacancies low.

National rental expectations for the next year are broadly unchanged at 2.1% (2.2% previously). However, this masks a weaker outlook in WA, where rents are now tipped to grow by just 2.6% (5% previously). It seems the negative impact of falling commodity prices and scrutiny surrounding the mining investment pipeline may have also impacted housing market sentiment in that state. In contrast, Victorian respondents are much more optimistic, with rents forecast to grow by 1.1% (-0.2% previously). The outlook for the other states is largely unchanged.

National rents are forecast to grow by 3.4% over the next 2 years (3.5% previously). Expectations have softened in WA (3.6% from 6.7% in Q2'12) and SA/NT (3.2% from 3.5% in Q2'12), but have strengthened in Queensland (4.2% from 3.8% in Q2'12), NSW (3.8% from 3.4% in Q2'12) and Victoria (2.4% from 1.4% previously).

**NAB's Residential Property Index turns positive in September quarter as the rate of decline in national house prices slows and rents continue growing**



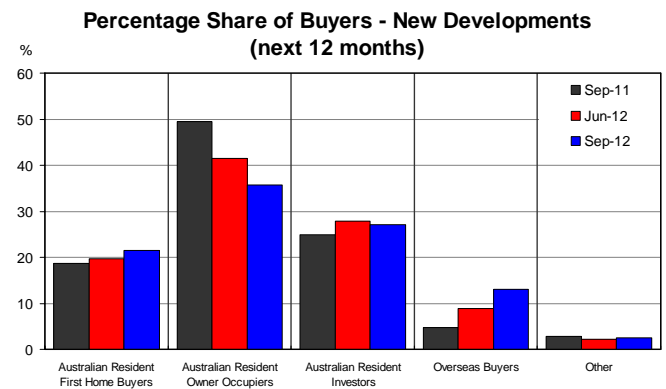
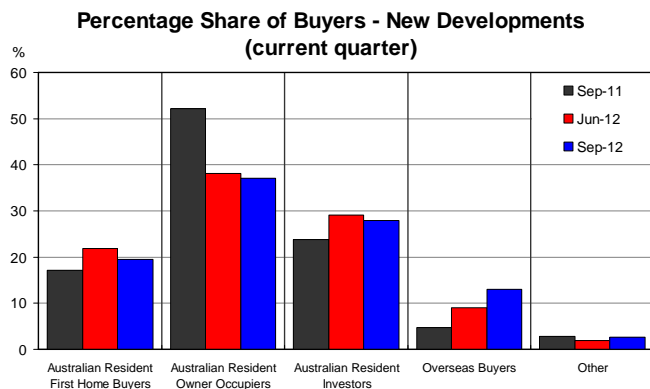
With national house prices falling at a slower rate and rental growth continuing, the NAB Residential Property Index rose to +4 points in Q3'12 (-8 points in Q2'12). By individual state, overall conditions were strongest in WA where the state index rose to +41 points (+33 points in Q2'12). Conditions also continue to improve rapidly in Queensland, with the state index rising to a high of +15 points. In NSW, the state index also rose to +5 points (-8 points in Q2'12). In contrast, overall conditions were negative in Victoria (-18 points), although this was a marked improvement from Q2'12 (-40 points). In SA/NT, the state index fell slightly to -7 points (-6 points in Q2'12).

The NAB Residential Property Index is expected to climb to +42 points by Q3'13 and +57 points by Q4'14. Despite the challenges facing the state's tourism industries, the survey suggests that Queensland will out-perform, with the state index rising to +60 points by Q3'13 and +71 points by Q3'14. Respondents also have an optimistic view about SA/NT, where the state index is expected to rise to +71 points by Q3'14. Property market sentiment is also much stronger in NSW, where the state index is expected to rise to +59 points by Q3'14 (+35 points in Q2'12) and in Victoria, where the state index is expected to rise to +42 points in 2 years (+13 points previously).

In contrast, the outlook for WA has moderated since our last survey. However, overall housing market sentiment in WA is still strong, with the state index forecast to reach +59 points by Q3'14 (+87 points forecast in Q2'12) as WA's economy continues to benefit from the strong growth in the state's resources sector and associated industries.

**Residential Property - New Developments**

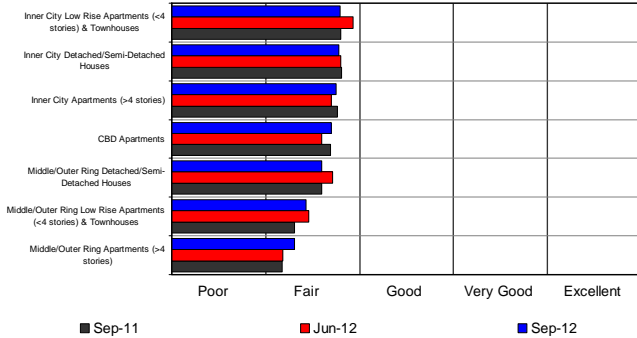
**Owner occupier demand is falling, but interest from overseas buyers is growing**



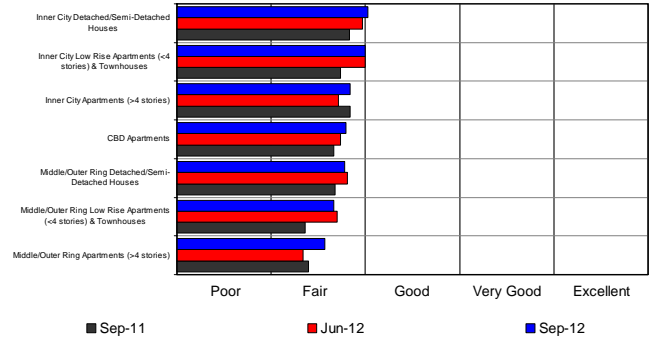
Resident owner occupiers are still the biggest players in the new property market, but their share of total demand fell to 37% in Q3'12 (38% in Q2'12 and 52% one year earlier). Owner occupiers were most active in NSW (43%) and Victoria (40%) and least active in Queensland (31%). Australian investors accounted for the next biggest share of demand at 27% (28% in Q2'12 and 25% in Q3'11). Investor activity was strongest in Queensland (37%). The share of first home buyers in the market fell to 19% (22% in Q2'12), with buyers least active in Queensland (15%) where recently announced changes to first home owner handouts may have caused buyers to delay purchasing their first homes. In contrast, overseas buyers are emerging as important players in the market, accounting for a new high of 13% of total demand, with the strongest levels of buying activity in NSW (14%) and Queensland (13%). Rising demand is reportedly being led by Asian (mostly Chinese) buyers looking for secure places abroad to invest.

**Demand for all new property types seen as only “fair” in Q3’12. Stronger demand is anticipated for most property types in next 12 months led by inner city developments**

**Demand for New Residential Property Developments (current)**



**Demand for New Residential Developments (next 12 months)**



National demand for new residential property is still seen as only “fair” across all new property types. In relative terms, demand is strongest for new inner city low rise apartments and townhouses and inner city houses (led by NSW) and weakest for middle ring/outer low and high rise apartments, mainly reflecting weaker demand for this property type in Queensland and Victoria.

Although national property market conditions improved this quarter, our survey respondents reported slightly weaker national demand for new inner city properties and for middle/outer ring houses and low rise apartments in Q3’12 compared to the previous quarter. In contrast, demand for inner city and middle/outer ring high rise apartments improved. National demand for CBD apartments also strengthened led by NSW and WA, while demand for CBD apartments in Victoria was much weaker than the national average amid continued reports of a supply glut.

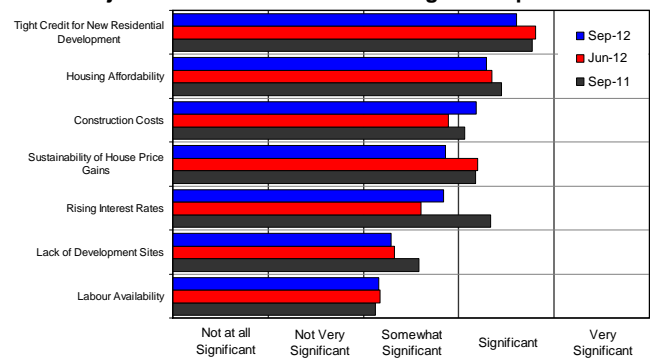
Demand for new residential property is expected to improve across most property types in the next 12 months, led by inner city houses where demand is expected to be “good” in all states. “Good” demand is also forecast for inner city low rise apartments and townhouses in all states except Victoria and Queensland. National demand for high rise inner city apartments and CBD apartments is also seen as strengthening, led by “good” demand in NSW and WA, although overall demand is expected to remain “fair”. The biggest boost to demand nationally is seen in middle/outer ring high rise apartments (led by “good” demand in WA), with much weaker demand for this property type anticipated in Victoria.

Survey respondents nationally (and in all states bar Victoria) are still citing tight credit conditions as the most “significant” constraint on new housing development - but slightly less problematic than in Q2’12.

**Tight credit still main obstacle to building; concerns about construction costs rising**

Housing affordability was identified as the next biggest constraint, but also less “significant” than in Q2’12 as falling interest rates begin to positively impact affordability. Concerns over housing affordability are most pronounced in SA/NT and NSW, while Queensland remains the most optimistic state.

**Major Constraints on New Housing Developments**



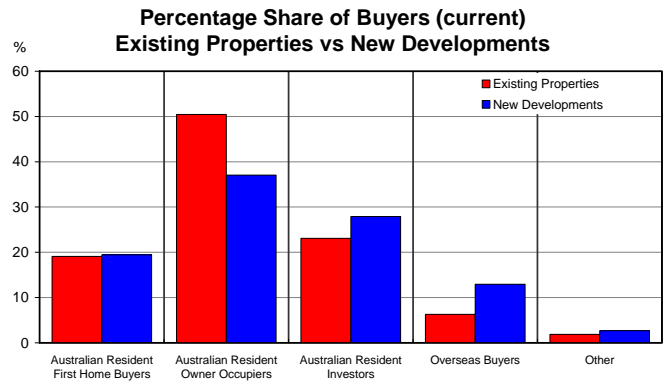
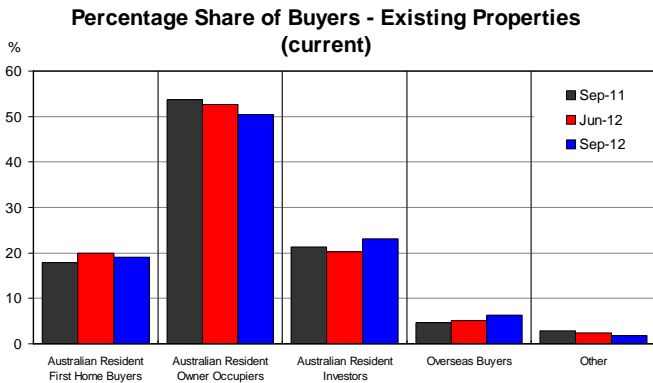
Our survey respondents also identified construction costs as a “significant” constraint to new housing developments (especially in SA/NT and NSW). This appears to be consistent with recent reports of expanding wages and input prices.

Surprisingly, the extent of national concern over rising interest rates increased in Q3’12 with respondents from NSW and WA most pessimistic. However, the perceived impact of interest rates on new housing developments is still seen as “somewhat significant” and well below the level of concern in the Q3’11 following four official rate cuts since that time. Around 10% of our survey panel anticipate higher interest rates over the next 12 months (4% in Q2’12), with survey respondents on average expecting rates to fall by around 25 bps in the next year.

NAB also now expects to see another RBA interest rate cut in November (25 bps) - provided inflation numbers remain subdued. And it is possible that another rate cut in early-2013 may emerge if activity and the labour market deteriorate further.

# Residential Property - Existing Properties

**Owner occupiers dominate existing property demand; local investors more active**

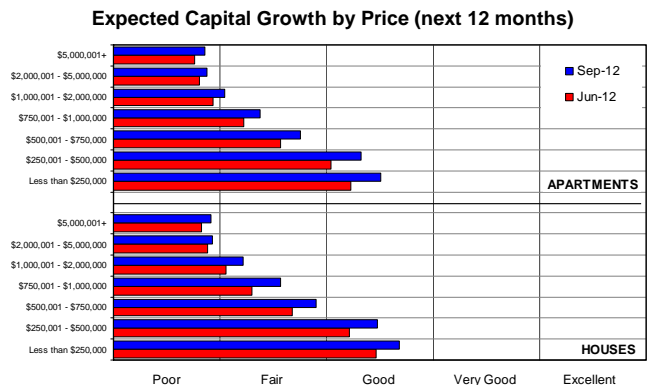
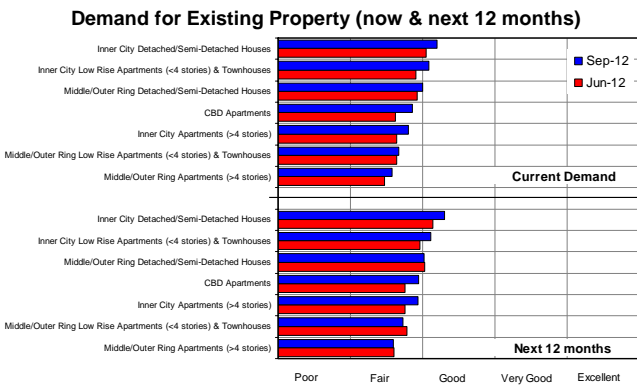


Resident owner occupiers continue to underpin demand for existing property and significantly more so than for new properties. In Q3'12, owner occupiers accounted for 51% of total demand for existing properties (37% for new properties), but this share has been falling steadily since reaching a high of 60% in March 2011.

Resident investors were bigger players in the existing property market, with demand likely influenced by lower interest rates, falling house prices and growing rents. Resident investors accounted for 23% national demand for existing property in Q3'12 (the highest proportion since this data was first compiled) with local investors most active in Queensland (30%) and least active in WA (17%).

The share of demand from first home buyers in the existing property market fell slightly to 19% (20% in Q2'12). SA/NT (25%) dominated this market, with first home buyer demand weakest in Queensland (16%). In contrast, demand from overseas buyers rose slightly to 6% in Q3'12 (5% in Q2'12), with demand strongest in Victoria (7%). Overall, however, overseas buyers remain far less active in this market compared to the new property market.

**Demand for existing property rises in all locations and for all property types in Q3'12. Capital growth prospects improve across the board, but still "poor" for premium stock**



Demand for existing property strengthened in all locations and for all property types in Q3'12. Inner city houses and low rise apartments and townhouses are the most preferred property type, with demand assessed as "good". Demand for middle/outer ring houses was also "good", with demand strongest in WA and NSW. Demand for CBD apartments was considered "fair", although this masks a weaker result in Victoria. Demand for middle/outer ring low and high rise apartments improved in Q3'12, but it is still the least preferred property type, especially in Queensland and Victoria. Demand for existing property is expected to strengthen in all categories over the next 12 months, with inner city housing and low rise apartments and townhouses to be the most sought after property type.

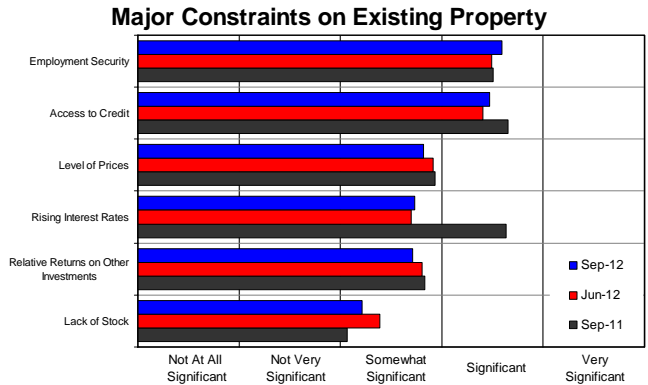
Capital growth expectations remain strongest in the sub-\$500,000 range, in line with reports that more affordable price brackets are seeing reasonable activity levels. Capital growth in the sub-\$500,000 range is expected to remain "good" in both housing and apartment markets over the next year, although houses will continue to enjoy a premium. Buying activity is much more cautious in the prestige market, with capital growth expectations for existing properties over \$2 million considered "poor" in both the housing and apartment markets in all state markets.

With Australian economic growth easing and business confidence remaining soft, employment security has become entrenched as the biggest impediment to purchasing existing property according to our survey panel. These concerns are most pronounced in Victoria and Queensland where unemployment rates have also been drifting up in recent months.

Access to credit was also identified as a “significant” impediment to purchasing existing property by our survey panel and marginally more so than in Q2’12. Respondents from SA/NT and WA are most pessimistic with regards to accessing credit, while NSW is the most optimistic state.

House prices levels are seen as “somewhat significant” nationally and in all states bar WA, where they are considered a “significant” constraint - consistent with the recent out-performance in state house price growth.

**Employment security and access to credit seen as the biggest concerns for existing home buyers**



**Gladstone (Qld) still the most popular town/city for capital growth**

Gladstone (Qld) was again the most nominated response as the location expected to grow fastest in terms of capital values over the next 12 months as rapid population growth underpinned by large mining and infrastructure projects continues to drive housing demand. Mackay was also identified as a standout prospect in Queensland.

In NSW, the inner western suburbs of Newtown and Marrickville and the south western satellite suburb Campbelltown again featured prominently in the survey.

In Victoria, the established inner city suburbs of Albert Park, St Kilda and Richmond were the most nominated suburbs as buyers begin seeing value in traditionally sought after prime inner city locations.

Elsewhere, Perth (WA) and Darwin (NT) are also tipped to enjoy above average capital growth in the next year.



**Survey Respondents' Expectations**

**House Price Expectations (%)**

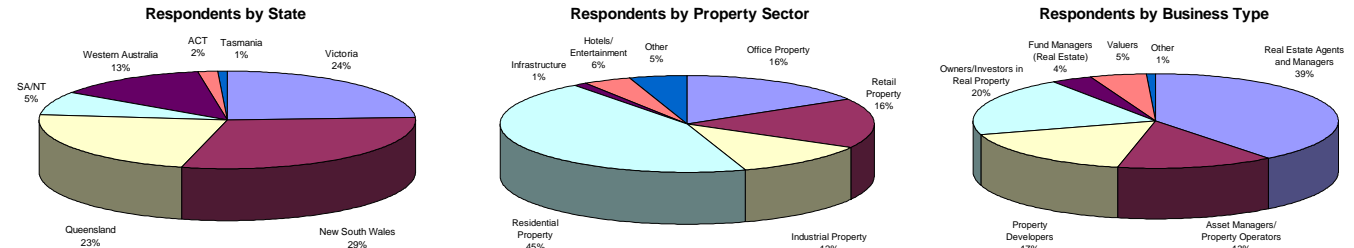
	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Mar-13	Sep-13	Sep-14
Victoria	-0.5	-2.3	-2.7	-2.5	-1.6	-2.5	-1.1	-1.0	-0.3	0.9
NSW	-0.4	-0.9	-1.5	-0.8	-0.5	-1.7	-0.6	-0.1	0.3	1.5
Queensland	-1.9	-3.7	-2.6	-2.4	-1.8	-1.4	-0.8	-0.4	0.6	2.4
South Australia/NT	-2.1	-2.7	-2.3	-2.4	-1.8	-1.2	-0.3	-0.3	0.8	2.4
Western Australia	-1.6	-1.1	-0.9	-1.3	-0.2	-0.3	0.1	0.7	1.4	2.4
<b>Australia</b>	<b>-1.1</b>	<b>-2.0</b>	<b>-2.1</b>	<b>-1.8</b>	<b>-1.2</b>	<b>-1.6</b>	<b>-0.7</b>	<b>-0.3</b>	<b>0.4</b>	<b>1.7</b>

**Rental Expectations (%)**

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Mar-13	Sep-13	Sep-14
Victoria	2.0	1.1	0.2	0.9	-0.1	-0.8	-0.5	0.1	1.1	2.4
NSW	2.6	1.5	2.5	2.2	2.2	0.4	0.2	1.5	2.6	3.8
Queensland	0.6	0.4	-0.5	0.4	0.8	0.6	0.6	1.7	2.9	4.2
South Australia/NT	1.2	2.4	-1.5	0.6	0.0	-0.1	-0.4	0.5	1.5	3.2
Western Australia	1.6	2.0	1.3	2.5	2.6	2.7	1.1	2.0	2.6	3.6
<b>Australia</b>	<b>1.7</b>	<b>1.3</b>	<b>0.7</b>	<b>1.2</b>	<b>1.1</b>	<b>0.4</b>	<b>0.2</b>	<b>1.1</b>	<b>2.1</b>	<b>3.4</b>

## 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 250 panellists participated in the September 2012 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



## Global Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406

### Australia

#### Economics

Rob Henderson  
Chief Economist, Markets  
+61 2 9237 1836

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

Ken Hanton  
Senior Credit Analyst  
+61 2 9237 1405

#### Equities

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

Jenny Khamphet  
Senior Real Estate Equity Analyst  
+61 2 9237 9538

## Group Economics

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

### New Zealand

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

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Markets Economist  
+64 4 474 6923

Mike Jones  
Currency Strategist  
+64 4 924 7652

Kymerly Martin  
Strategist  
+64 4 924 7654

### UK/Europe

Nick Parsons  
Head of Research, UK/Europe,  
and Global Co-Head of FX Strategy  
+ 44 207 710 2993

Gavin Friend  
Markets Strategist  
+44 207 710 2155

Tom Vosa  
Head of Market Economics  
+44 207 710 1573

Simon Ballard  
Senior Credit Strategist  
+44 207 710 2917

Derek Allassani  
Research Production Manager  
+44 207 710 1532

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

Rob Brooker  
Head of Australian Economics  
+61 3 8634 1663

Alexandra Knight  
Economist – Australia  
+(61 3) 9208 8035

Michael Creed  
Economist – Agribusiness  
+(61 3) 8634 3470

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

Robert De lure  
Senior Economist – Property  
+(61 3) 8634 4611

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

Gerard Burg  
Economist – Industry Analysis  
+(61 3) 8634 2778

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

James Glenn  
Economist – Asia  
+(61 3) 9208 8129

Tony Kelly  
Economist – International  
+(61 3) 9208 5049

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