

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.

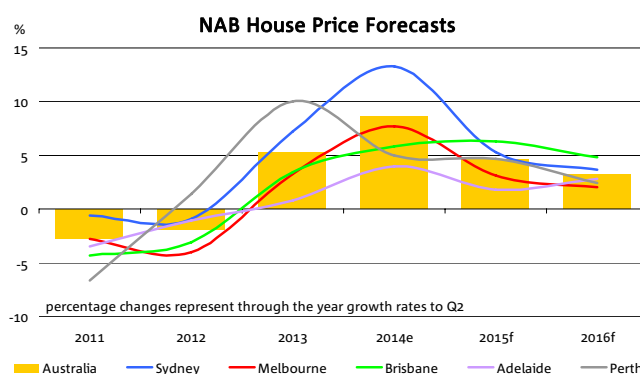
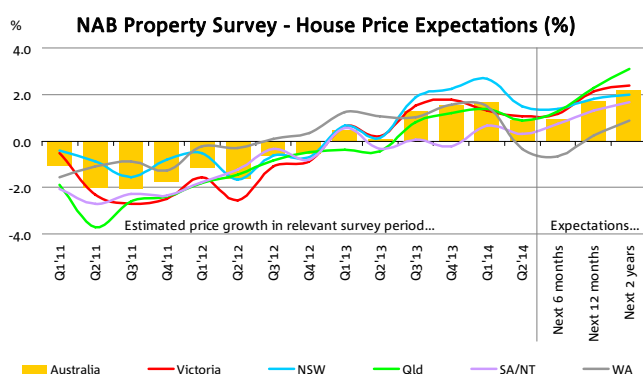
VIC bucks the trend with a strong pick up in foreign demand for new property...

Foreign buyers reached a new a 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...

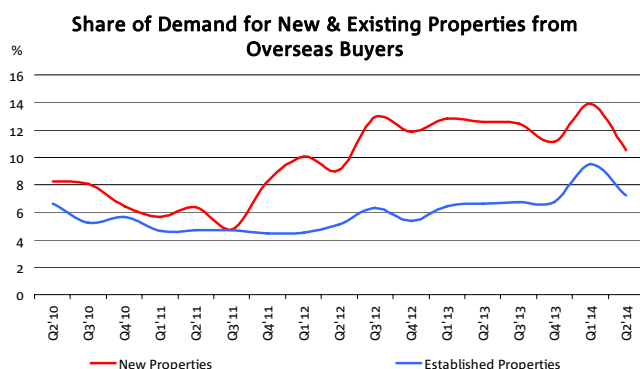
Housing affordability has replaced credit availability as the key concern for buyers of new property.

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.



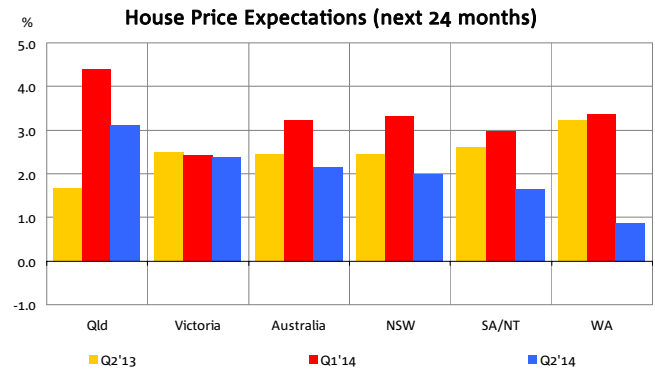
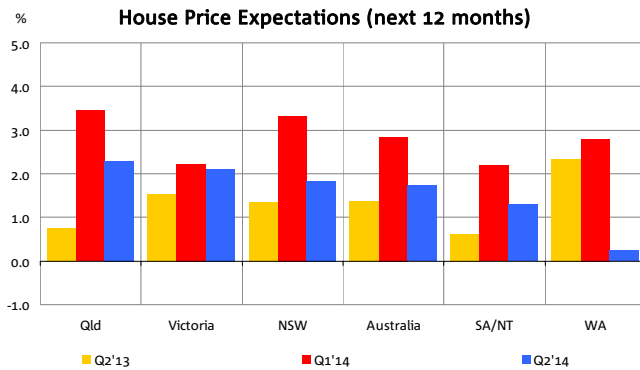
NAB Residential Property Index

	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
Index	37	19	26	41	47



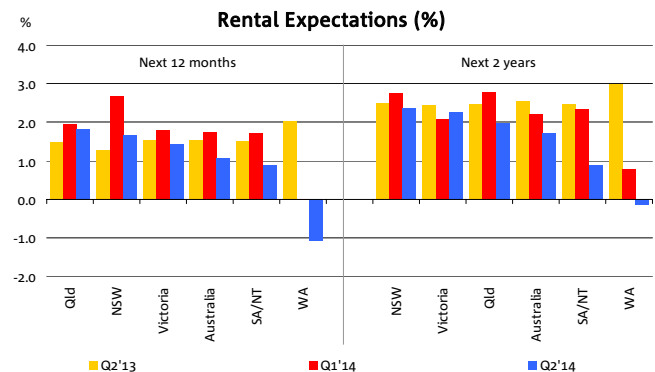
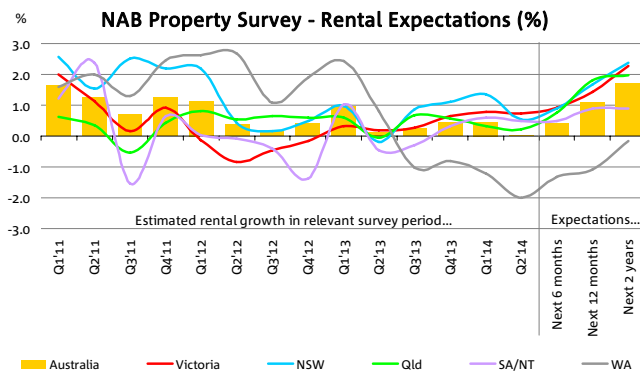
Residential Property - Market Performance

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%).

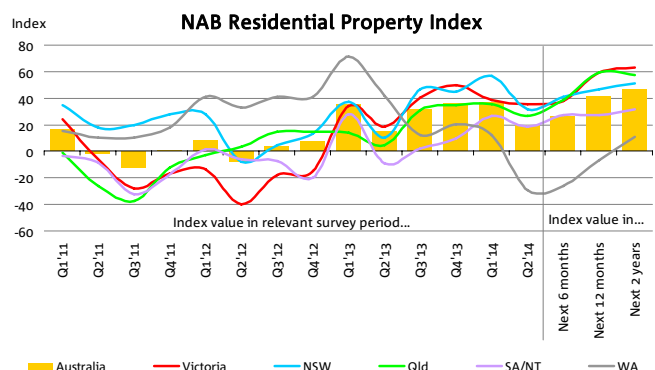
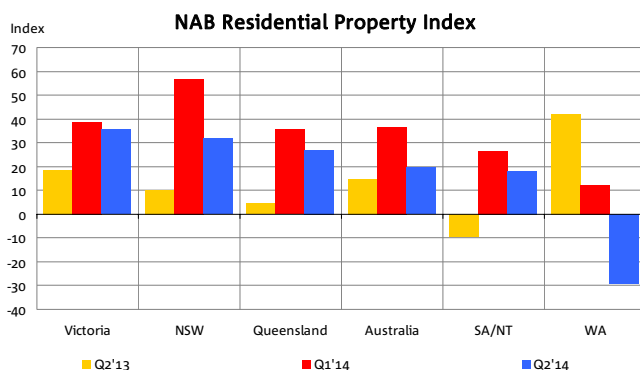


Rental pressures weakened across the country in Q2. Rental growth slowed in Victoria (0.7%) and NSW (0.5%), but they remain the strongest states for income returns. In contrast, sagging house prices and rising vacancies continue to impact rents in WA, which fell -2% after falling -1.2% in Q1.

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.

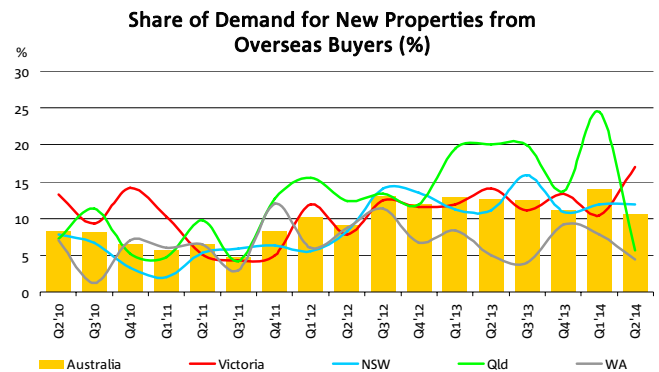
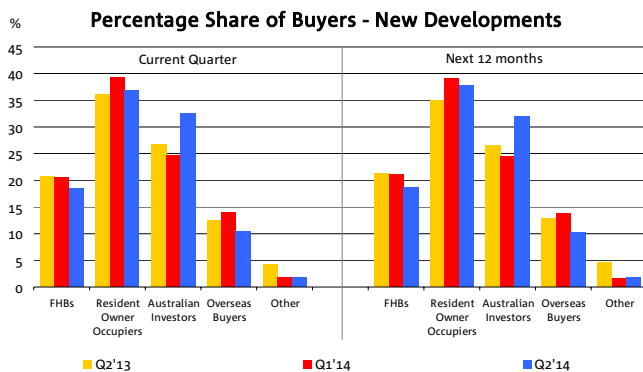


With capital and income growth slowing, the NAB Residential Property Index fell -17 to 19 points in Q2 - its lowest print since mid-2013 - with all states reporting weaker results. VIC (+36) overtook NSW (+32) as the best performing state in Q2, with WA (-29) now clearly the weakest with the state index 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.

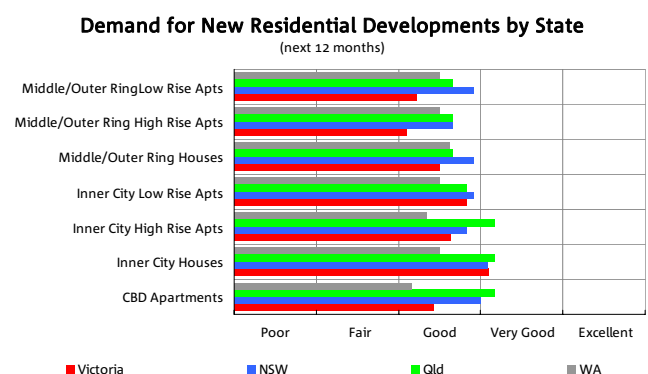
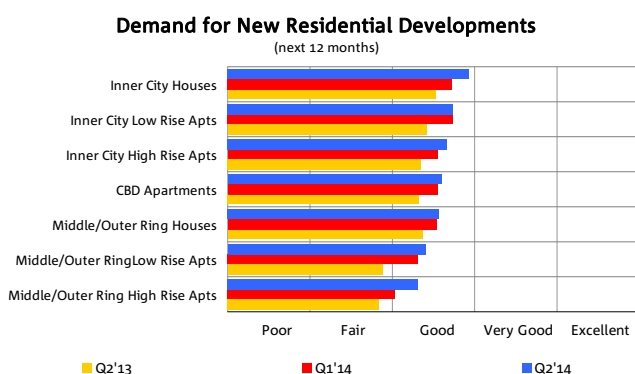
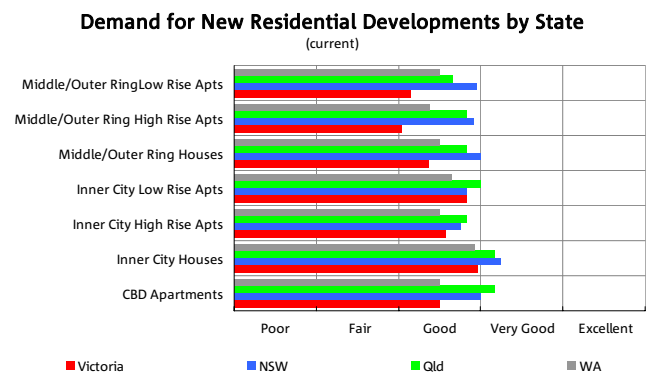
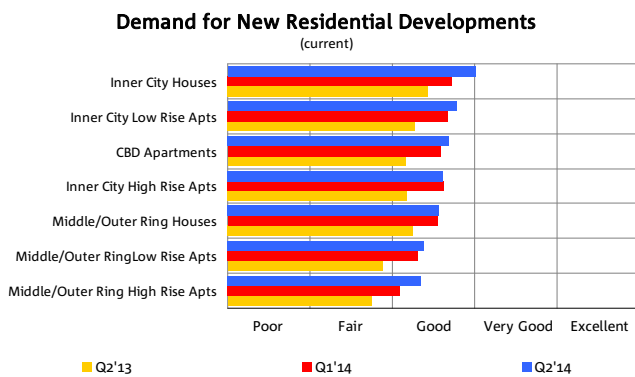


Residential Property - New Developments

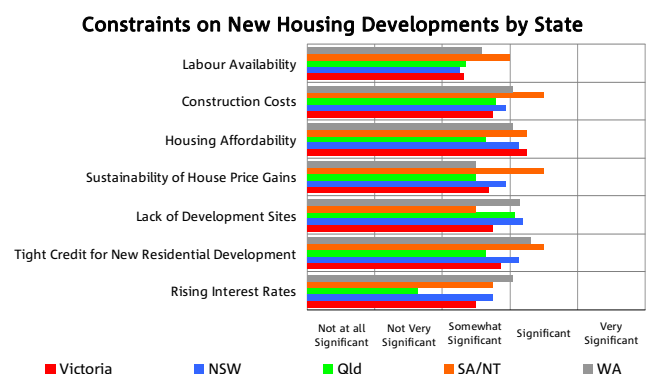
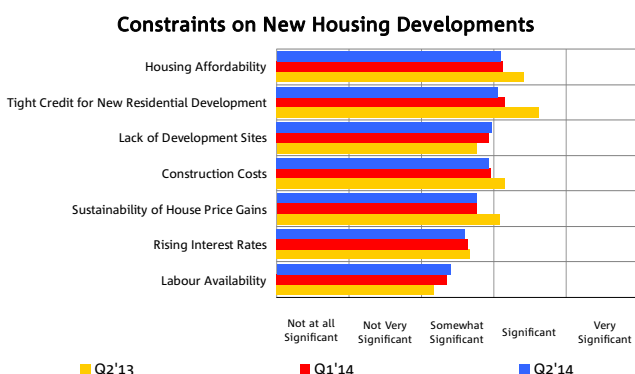
Local investors were much more active in the new housing market in Q2 (nearly 1 in 3 of all new property sales). Conversely, the overall share of foreign buyers fell from a high of 13.9% in Q1 to 10.2% in Q2 - the lowest share in 2 years. That said, foreign buyers accounted for a new high of 17% of demand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



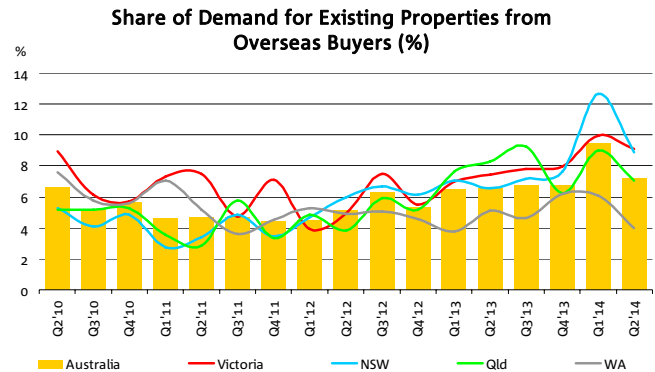
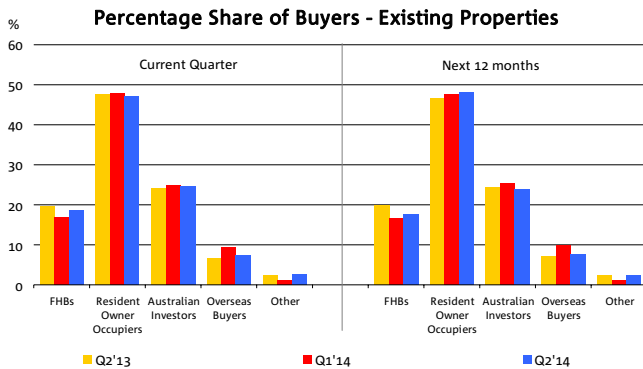
Housing affordability now the biggest concern in new property market, ahead of credit availability.



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%).

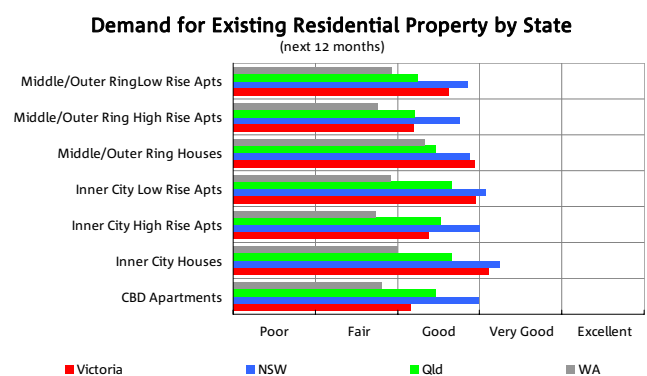
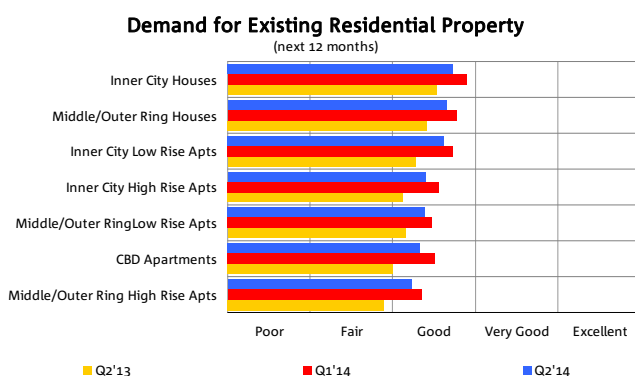
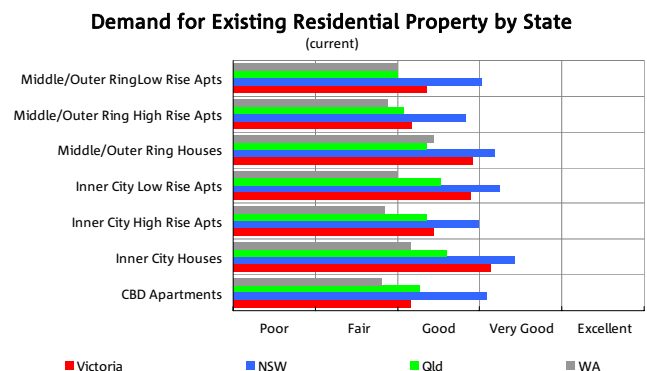
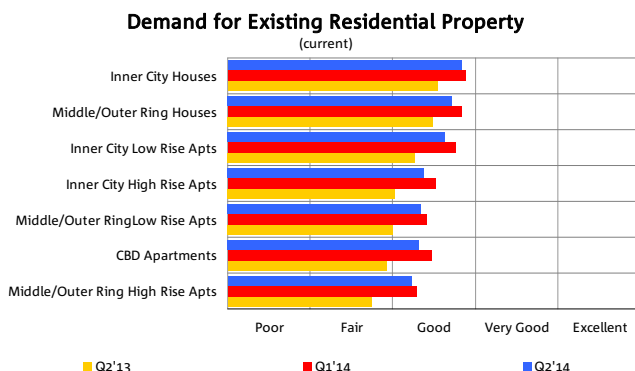
After rising strongly in Q1, foreign buyers were notably less active in the market in Q2 according to surveyed property professionals, with their share of total demand falling to 7.2% from a high of 9.5% in Q1. Foreign buyer demand fell in all states, but was strongest in VIC (9.1%) and NSW (8.9%).



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.

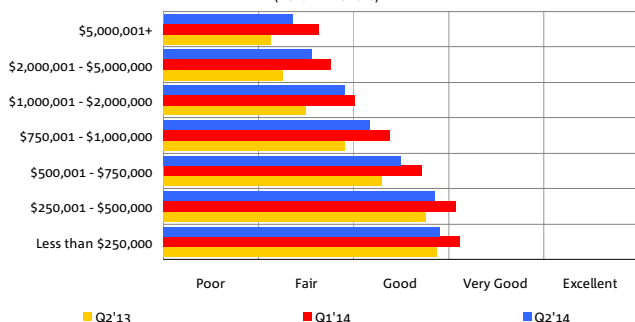
QLD is the only state expecting stronger demand for all types of established property next year. In contrast, demand in NSW is expected to cool notably for all types of property, but will still lead the country for all property types, except middle/outer ring houses, where demand is strongest in VIC.



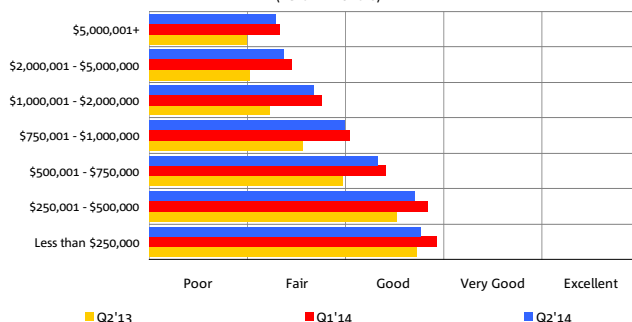
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Capital growth expectations softer at all price points for houses and apartments. Prospects for apartments strongest in NSW at all price points, but prospects for houses over \$750,000 best in VIC.

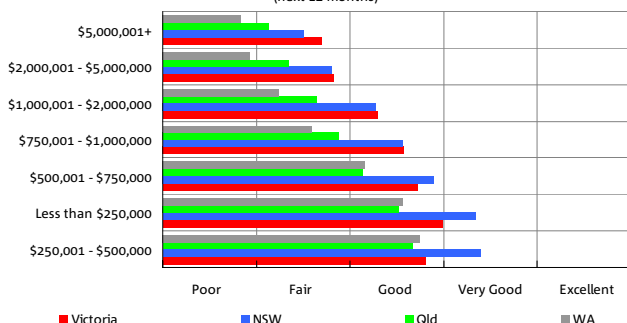
Capital Growth by Price Band - Established Houses
(next 12 months)



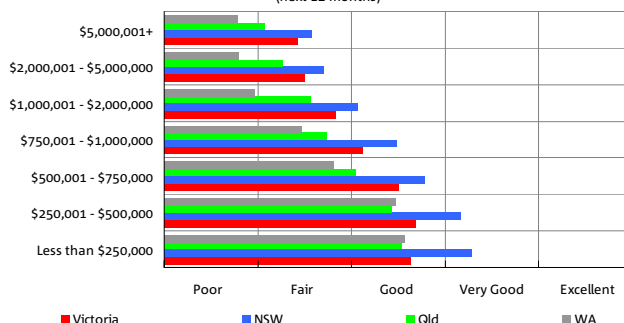
Capital Growth by Price - Apartments
(next 12 months)



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

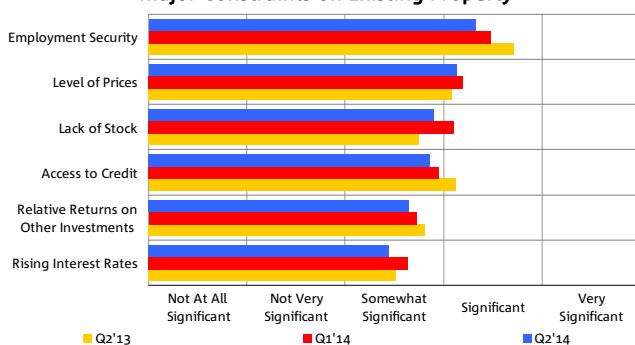


Capital Growth: Established Apartments by State
(next 12 months)

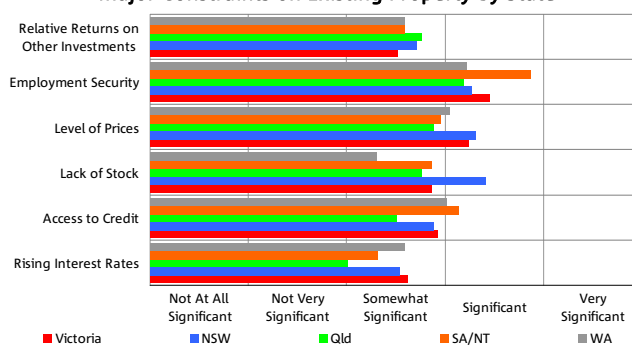


Employment security is still seen as biggest impediment to buying existing property in most states (especially SA/NT). NSW the exception, with house prices and lack of stock the biggest obstacles.

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
Australia	-1.2	-1.6	-0.7	-0.6	0.4	0.1	1.3	1.6	1.7	0.9	1.0	1.7	2.2

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
Australia	1.1	0.4	0.2	0.4	1.0	0.1	0.2	0.4	0.5	0.0	0.4	1.1	1.7

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
Capital City Average	10.1	4.2	4.3	8.6	4.6	3.2

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

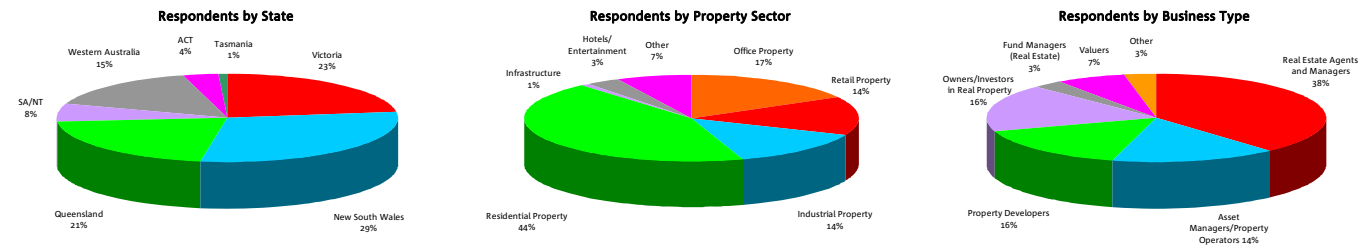
About the Survey

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.



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