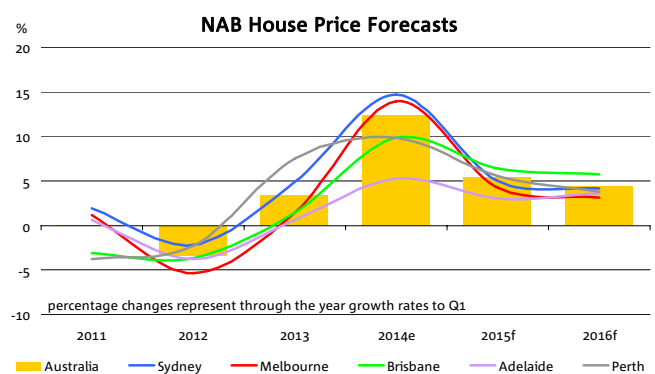
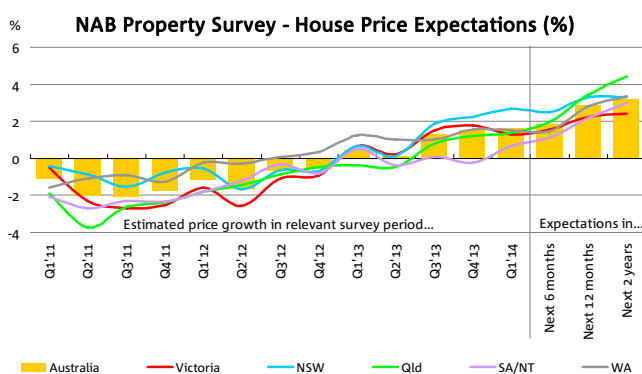


Quarterly Australian Residential Property Survey: Q1 2014

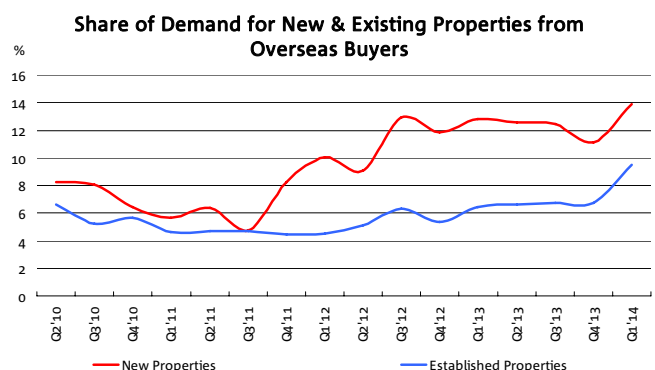
Housing market sentiment lifted slightly in Q1 2014 as sentiment improved in SA/NT and NSW, but softened in Victoria and WA. The outlook for house prices strengthened in all states except Victoria, with Queensland showing the biggest gains in the next 1-2 years. A big pick up in foreign buying activity was noted in the market for new property (especially in Queensland) and for established housing (especially in NSW). In terms of total demand, foreign buyers now account for just over 1 in 7 new properties and around 1 in 10 established homes.

- NAB Residential Property Index rose +1 to a high of +37, with strong gains in SA/NT and NSW offsetting declines in Victoria and WA. Queensland is the most optimistic state in the next 1-2 years, with confidence scaled back most in Victoria and weakest in WA.
- The outlook for house prices in the next year (end-March 2014) improved in all states, bar Victoria. Price growth tipped to be fastest in Qld (3.5%) and NSW (3.3%) and slowest in Victoria (2.2%) and SA/NT (2.2%). Qld (4.4%) set to lead the country for capital gains in 2 years time, with Victoria (2.4%) slowest. Continuing modest rental growth indicates that yields are falling.
- NAB also sees house prices rising fastest in Brisbane (6.4%) and Perth (5.6%), while lagging in Adelaide (3%) and Melbourne (4.3%) in the year to March-2015 (see Appendix 1 for more detail).
- The influence of foreign buyers rose significantly in both new and established property markets, reaching a high of 13.9% and 9.5% of total demand respectively in Q1 2014. Foreign buyers were especially active in Queensland (accounting for an estimated 24.4% of new property market demand) and in NSW (12.7% of demand in the established property market).
- Demand for all types of new property weakened slightly, although it is still very strong in NSW. Credit availability and housing affordability continue to be identified as the biggest impediments to buying new property, but concerns over interest rates are beginning to rise.
- Demand for established property was stronger in all market locations and segments, except for middle/outer ring low rise apartments. Demand for established property is expected to soften slightly next year in all markets, except for CBD apartments and inner city houses.
- Capital growth expectations improved at the premium end of housing market, led by NSW and Victoria, but overall prospects are strongest for houses and apartments worth less than \$5000,000.
- Employment security is still identified as the biggest impediment to buying existing property in all states except NSW, where a lack of stock is seen as the biggest impediment in the market place.



NAB Residential Property Index

	Q4'13	Q1'14	Q3'14	Q1'15	Q1'16
Victoria	50	39	47	58	53
NSW	45	57	58	63	59
Queensland	35	36	57	78	79
South Australia/NT	9	27	57	57	57
Western Australia	20	12	14	39	49
Index	36	37	46	60	59



For more information contact:

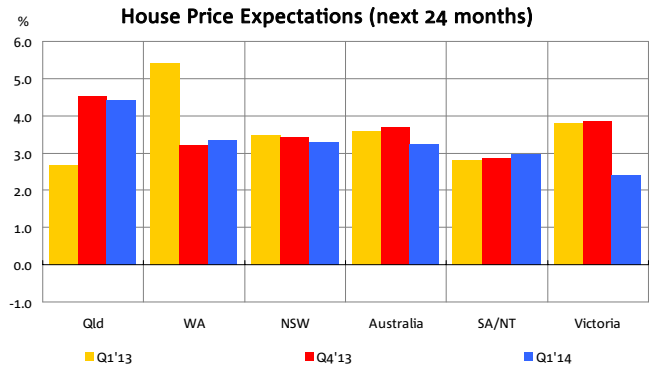
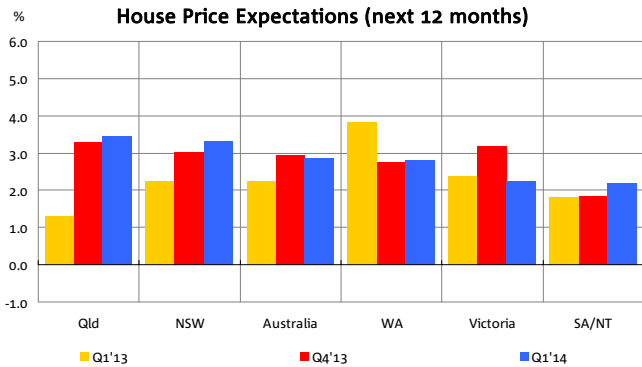
Alan Oster, Chief Economist
(03) 8634 2927 0414 444 652

Robert De Iure, Senior Economist - Industry
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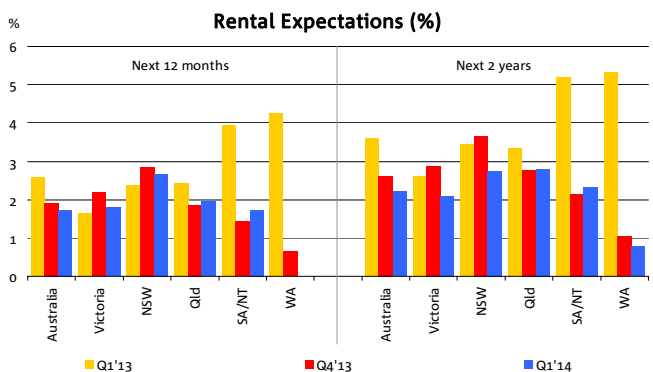
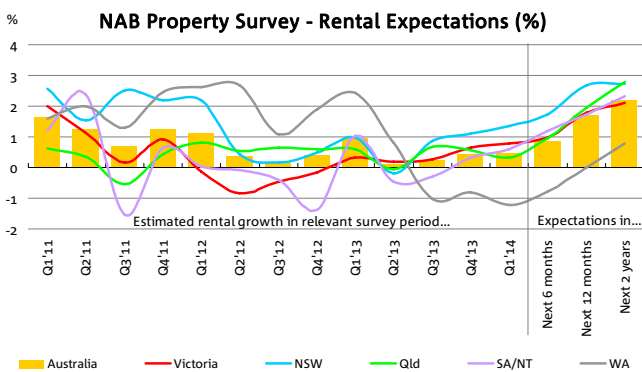
Dean Pearson, Head of Industry Analysis
(03) 8634 2331

Residential Property - Market Performance

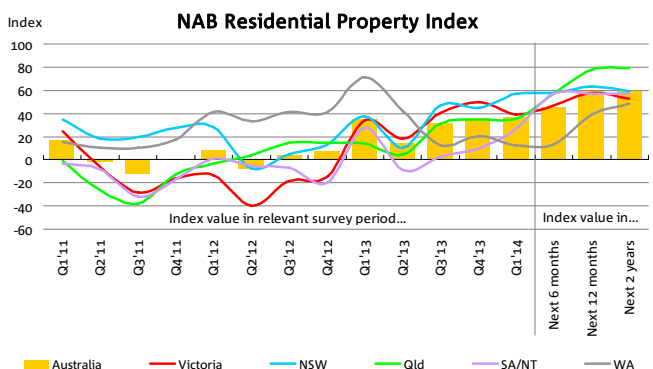
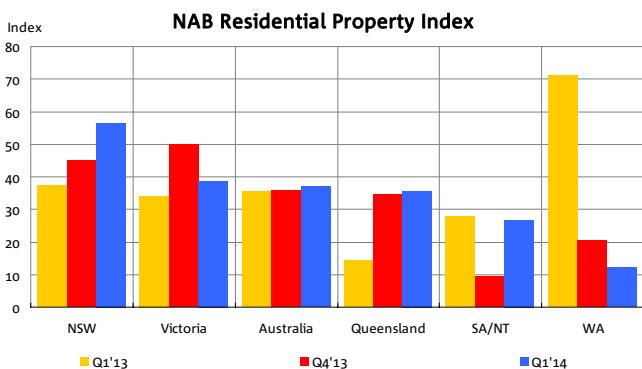
Outlook for house prices over next year stronger in all states, except Victoria. Price growth tipped to be fastest in Queensland (3.5%) and NSW (3.3%) and slowest in Victoria (2.2%) and SA/NT (2.2%). Queensland (4.4%) to lead the country for capital gains in 2 years time, with expectations pared back in Victoria (2.4%), where expectations are now weakest overall.



National rental growth was broadly unchanged in Q1 2014 (0.5%), but faster capital growth suggests that yields are still eroding. Rental growth was fastest in NSW (1.4%) and weakest in WA (-1.2%), where the leasing market is clearly feeling the pinch from the slow down in mining investment. Softer income returns are tipped for most states over the next 1-2 years, with NSW and Queensland expected to provide the best returns.

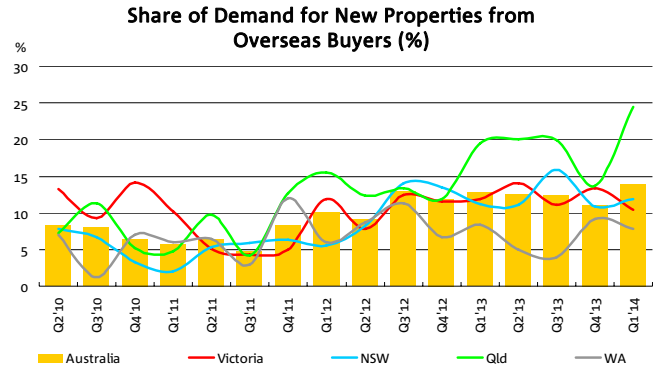
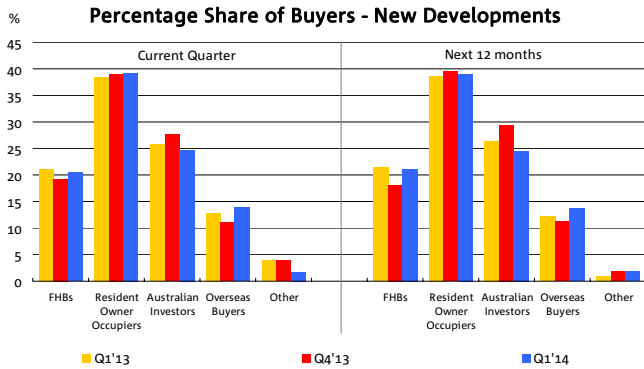


NAB Residential Property Index rose +1 to 37 points in Q1 2014, with strong gains in SA/NT and NSW offsetting declines in Victoria and WA (where housing market confidence has clearly waned over the past year). Respondents from Queensland remain most confident over the next 1-2 years, while confidence was scaled back most in Victoria and is weakest in WA.



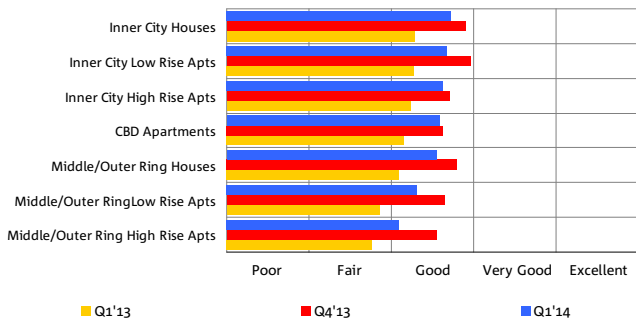
Residential Property - New Developments

Big increase in foreign buyer activity in new housing market, reaching all time high of 13.9% of national demand. Foreign buyers especially active in Queensland (24.4%). First home buyers also returning to the market (21% market share), especially in Victoria (29%) and NSW (25%).

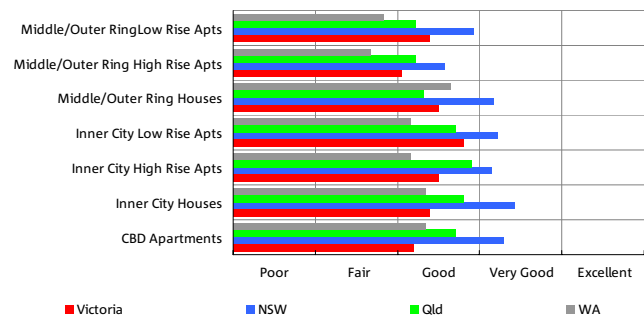


New property demand weaker across the board, but variance among states persisting (overall demand still much stronger in NSW). National demand predicted to be broadly unchanged next year.

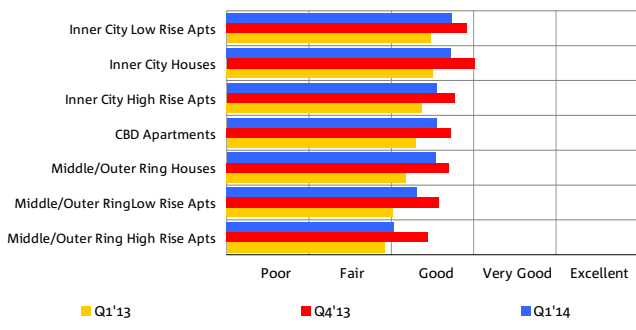
Demand for New Residential Developments (current)



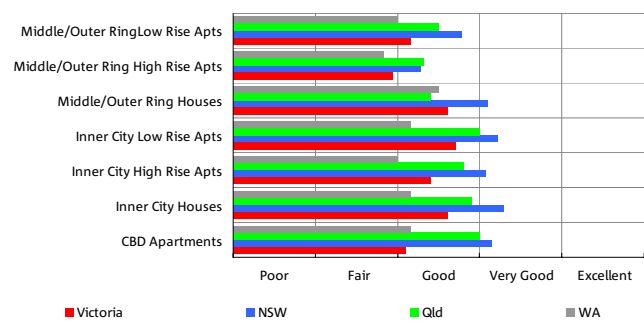
Demand for New Residential Developments by State (current)



Demand for New Residential Developments (next 12 months)

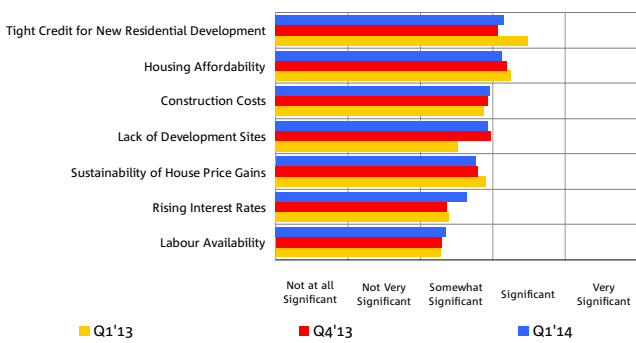


Demand for New Residential Developments by State (next 12 months)

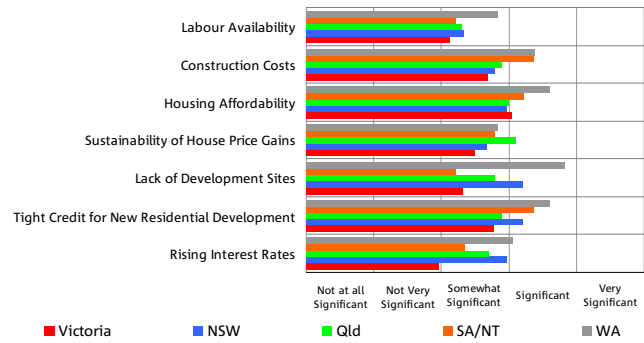


Credit availability and housing affordability still the biggest concerns in the new property market.

Constraints on New Housing Developments



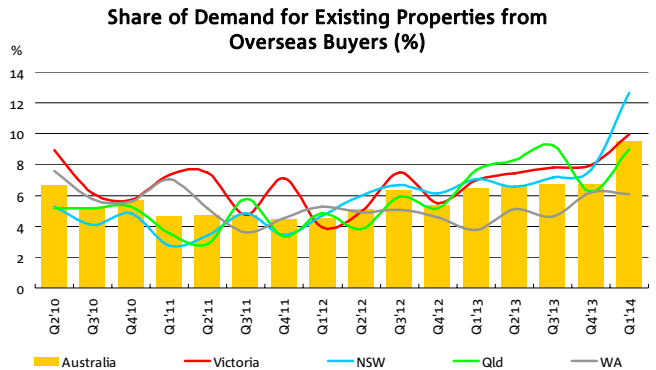
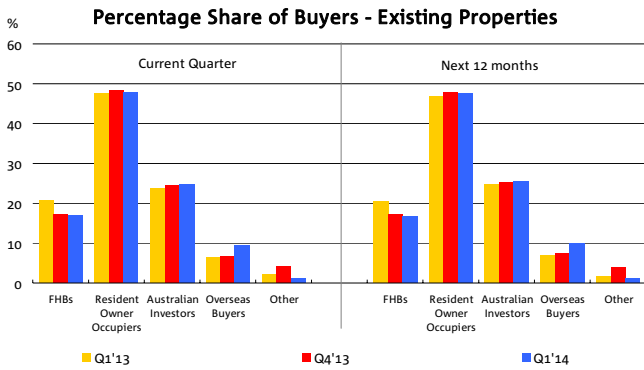
Constraints on New Housing Developments by State



Residential Property - Existing Properties

There was a big increase in foreign buyers in the established property market during Q1 2014, reaching all time high of 9.5% of total demand nationally. Foreign buyers were most active in NSW, with their involvement in the market rising from 7.6% in Q4 2013 to a high of 12.7%. Foreign buyers were also more active in the market in Victoria (10%) and Queensland (9%).

Australian resident investors also increased their exposure to established property during the quarter, despite a pullback in NSW (27.3%), with this mainly due to higher investment activity in Victoria (24.6%) and Queensland (26.7%).

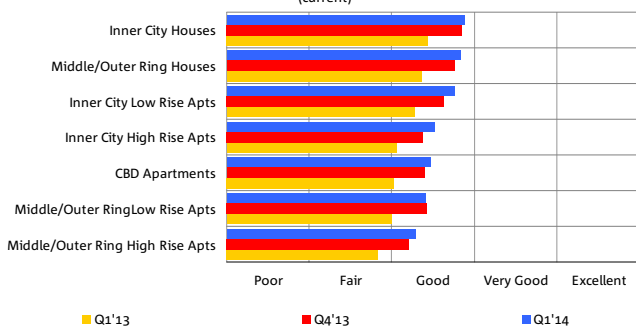


Demand for established property was stronger in all market locations and segments, except for middle/outer ring low rise apartments. Demand for existing property is expected to soften slightly across most market segments in the next year, except for CBD apartments and inner city houses.

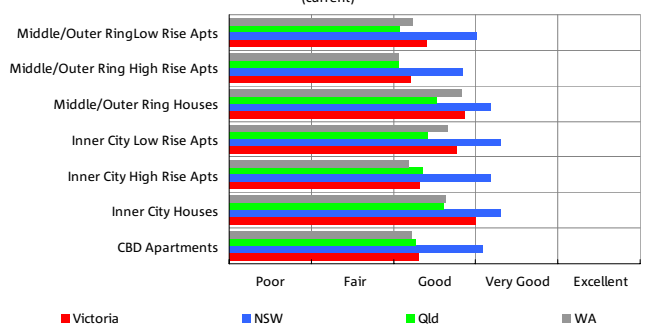
Demand for established property remains significantly stronger in NSW across all market segments and locations, with “very good” demand being recorded in all segments, except middle/outer ring low and high rise apartments.

Queensland and Victoria are the only states expecting stronger demand (albeit marginal) for all types of established property in the next year, but demand in NSW to still lead the country.

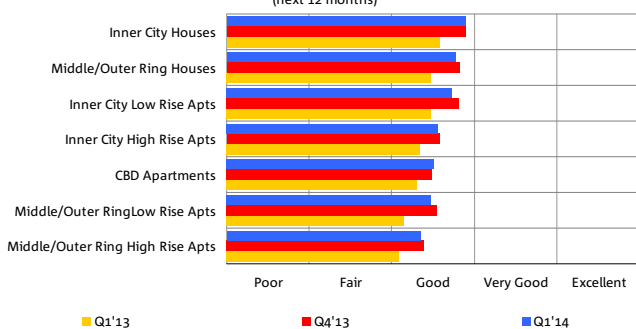
Demand for Existing Residential Property (current)



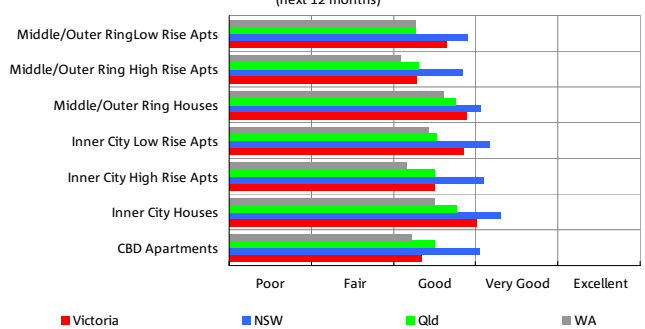
Demand for Existing Residential Property by State (current)



Demand for Existing Residential Property (next 12 months)



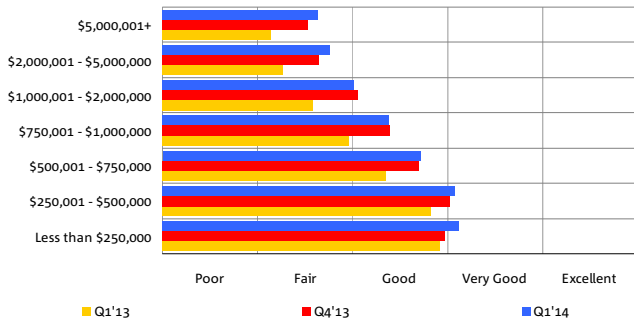
Demand for Existing Residential Property by State (next 12 months)



Capital growth expectations to improve at premium end of housing market, underpinned by NSW and Victoria. Prospects still strongest in the sub-\$5000,000 market for both houses and apartments.

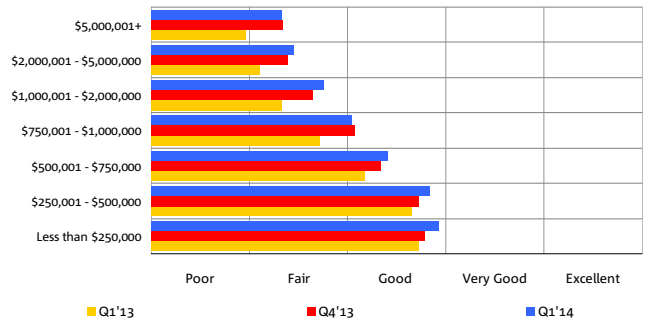
Capital Growth by Price Band - Established Houses

(next 12 months)



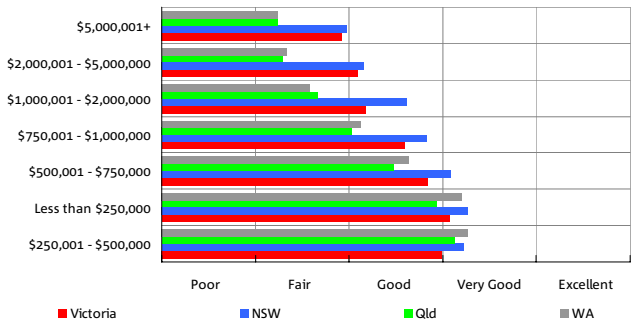
Capital Growth by Price - Apartments

(next 12 months)



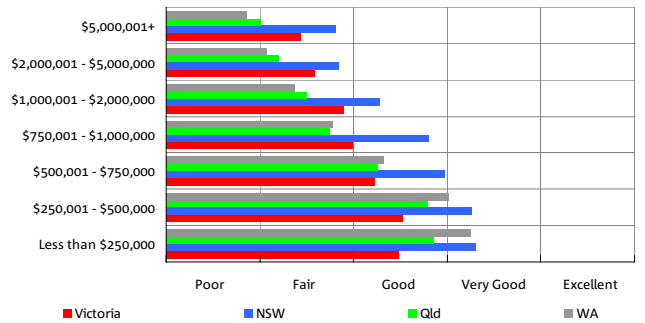
Capital Growth: Established Houses by State

(next 12 months)



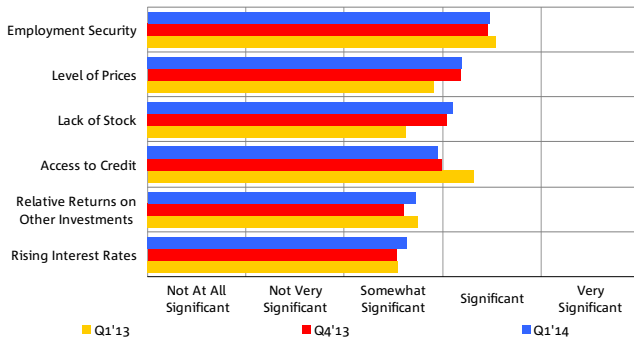
Capital Growth: Established Apartments by State

(next 12 months)

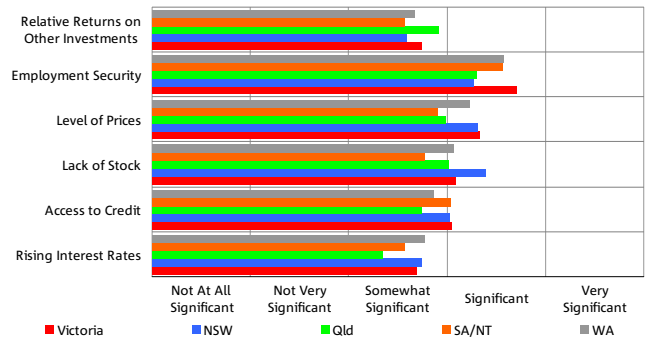


Employment security remains the biggest impediment to buying existing property in all states except NSW, where a lack of stock is seen as the biggest impediment.

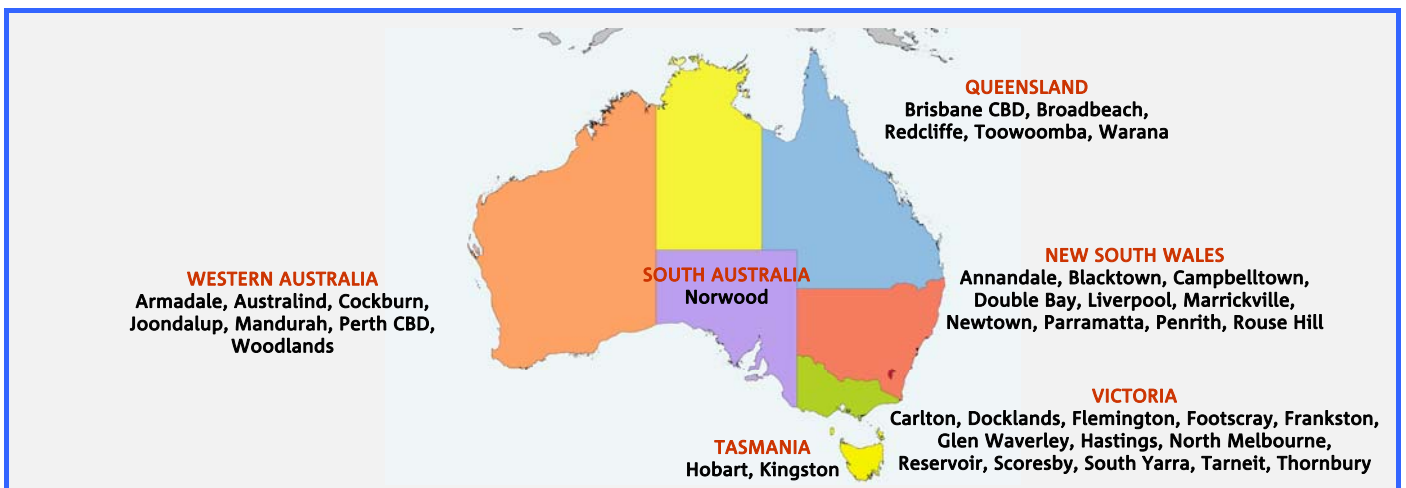
Major Constraints on Existing Property



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
	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q1'13			
Victoria	-2.5	-1.6	-2.5	-1.1	-0.9	0.6	0.2	1.5	1.8	1.3	1.6	2.2	2.4
NSW	-0.8	-0.5	-1.7	-0.6	-0.7	0.6	0.1	1.9	2.3	2.7	2.5	3.3	3.3
Queensland	-2.4	-1.8	-1.4	-0.8	-0.5	-0.4	-0.5	0.8	1.2	1.4	2.0	3.5	4.4
South Australia/NT	-2.4	-1.8	-1.2	-0.3	-0.8	0.5	-0.4	0.1	-0.2	0.6	1.1	2.2	3.0
Western Australia	-1.3	-0.2	-0.3	0.1	0.4	1.2	1.0	1.0	1.5	1.5	1.5	2.8	3.3
Australia	-1.8	-1.2	-1.6	-0.7	-0.6	0.4	0.1	1.3	1.6	1.7	1.8	2.8	3.2

Rental Expectations (%)

	Current Survey Quarter										Next 6mth	Next year	Next 2yrs
	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14			
Victoria	0.9	-0.1	-0.8	-0.5	-0.2	0.3	0.2	0.3	0.6	0.8	1.0	1.8	2.1
NSW	2.2	2.2	0.4	0.2	0.5	1.0	-0.2	0.9	1.1	1.4	1.7	2.7	2.7
Queensland	0.4	0.8	0.6	0.6	0.6	0.6	0.0	0.7	0.6	0.3	0.9	2.0	2.8
South Australia/NT	0.6	0.0	-0.1	-0.4	-1.4	1.0	-0.5	-0.3	0.3	0.6	1.2	1.7	2.3
Western Australia	2.5	2.6	2.7	1.1	1.9	2.4	0.8	-1.0	-0.8	-1.2	-0.8	0.0	1.8
Australia	1.2	1.1	0.4	0.2	0.4	1.0	0.1	0.2	0.4	0.5	0.9	1.7	2.2

Appendix 1: NAB's View of Residential House Prices

After a very strong 2013, NAB modelling indicates that average capital city house prices will cool over the next 2 years, with NAB Economics forecasting average national house price growth of 5.4% through the year to March 2015 and 4.4% in the year to March 2016. While sustained population growth, supply issues and foreign buying activity will put a floor under house prices, unemployment and the economy will limit gains.

Brisbane (6.4%) is expected to lead the market in the next year, followed by Perth (5.6%) and Sydney (5%), with slower growth forecast in Melbourne (4.3%) and Adelaide (3%).

Brisbane (5.7%) is expected to remain the strongest city for capital gains in the 12 months March 2016, followed by Sydney (4.2%). House price growth is expected to accelerate mildly in Adelaide (3.6%), but moderate in Perth (3.8%) and Melbourne (3.1%).

NAB Capital City House Price Forecasts (%)*

	year to end-December			year to end-March		
	2013a	2014f	2015f	2014e	2015f	2016f
Sydney	14.3	7.7	5.0	14.7	5.0	4.2
Melbourne	8.6	6.4	3.4	13.9	4.3	3.1
Brisbane	6.0	8.3	6.1	9.8	6.4	5.7
Adelaide	3.9	4.5	2.8	5.3	3.0	3.6
Perth	8.9	7.9	4.3	9.8	5.6	3.8
Capital City Average	9.5	7.7	4.8	12.4	5.4	4.4

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

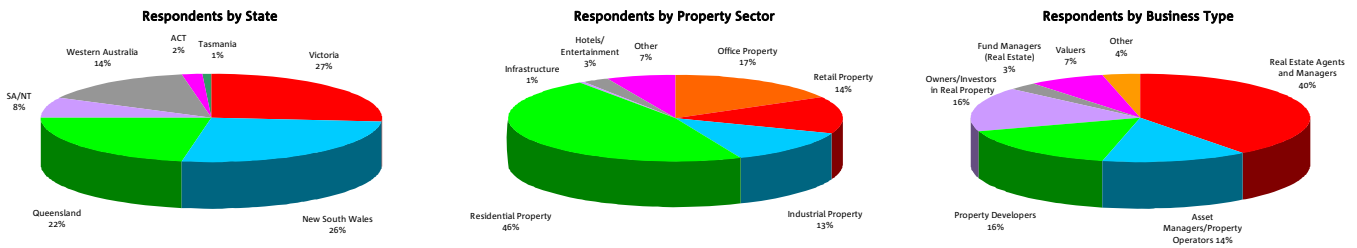
About the Survey

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 310 panellists participated in the Q1 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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