

NAB Residential Property Survey: Q4 2014

by NAB Group Economics

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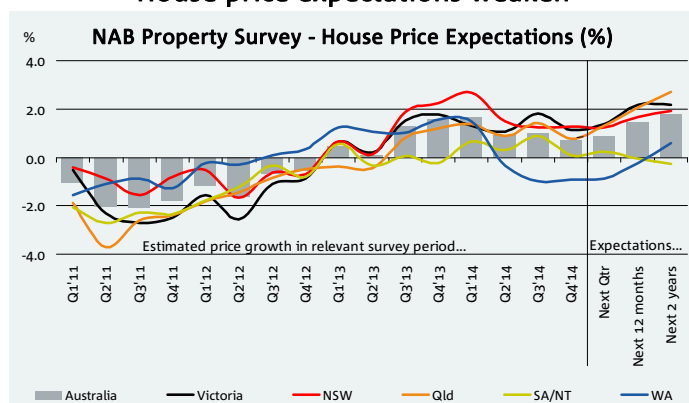
NAB Residential Property Index falls as house price expectations pared back and rents weaken. Sentiment softer in all states (and still deeply negative in WA). Almost 10% of all property is being purchased by first home buyers as an “investment”. Foreign buyers less active all states except VIC (now 1 in 3 of all new property sales). Over half of all foreign transactions are apartments, one-third houses and the balance re-development. Around 70% of all foreign purchases are properties valued less than \$1mn; 5% in excess of \$5mn.



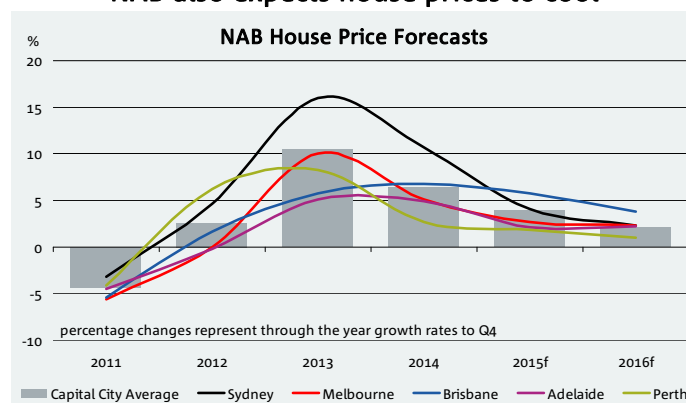
Survey highlights:

- NAB Residential Property Index fell to +12 points in Q4 (+19 in Q3). NSW overtook QLD as strongest state; sentiment notably lower in SA/NT and still deeply negative in WA. QLD and VIC most optimistic looking forward and WA weakest by some margin.
- Outlook for house prices over next 1-2 years pared back in all states (NAB also expects price growth to slow). Expectations for rents unchanged, with mildly stronger expectations in VIC and QLD masking softer outlooks in NSW and SA/NT.
- Foreign buyers in new property markets less active in all states, except VIC where they accounted for 32.5% (or 1 in 3) of all sales - a new high. Around 17% of FHBs in the new property market were for owner occupation and 8% for investment.
- Around 53% of foreign purchases were for apartments, 31% for houses and 16% for re-development. By price point, 40% of purchases were between \$500k to <\$1mn and 29% less than \$500k. Around 5% were for premium property (+\$5mn).
- Housing affordability, construction costs and a lack of development sites seen as the biggest constraints in new housing market, while employment security and price levels the biggest impediment to buying established property.
- Established property dominated by owner occupiers (42.6%). Local investors account for 22% of total demand, with FHBs (owner occupier) 16.1% with FHBs (investor) 9.3%. Foreign buyers more active (8.7%), led by NSW (11.3%) and VIC (12.8%).
- Prospects for capital growth over the next 12 months were pared back at all price ranges in both the established housing and apartment markets in Q4, except for apartments valued between \$1-2mn.

House price expectations weaken



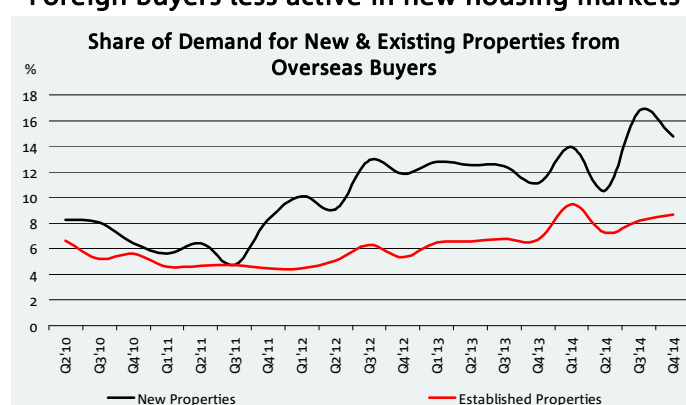
NAB also expects house prices to cool



NAB Residential Property Index

	Q2 2014	Q3 2014	Q4 2014	Next Qtr	Next 1 yr	Next 2 yrs
VIC	36	36	21	30	51	49
NSW	32	30	29	29	37	32
QLD	27	37	28	46	58	58
SA/NT	18	29	-25	13	31	44
WA	-29	-39	-34	-20	-3	16
Index	19	19	12	22	37	39

Foreign buyers less active in new housing markets



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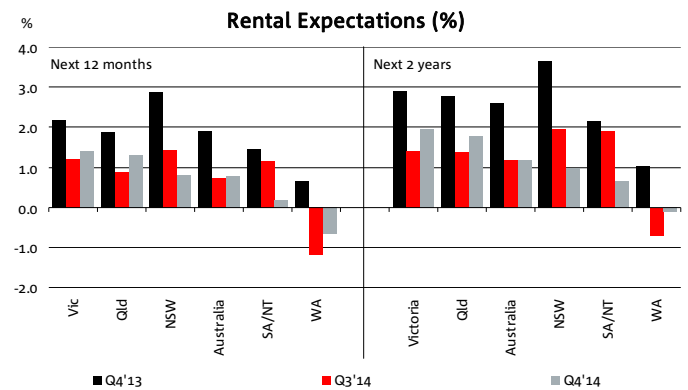
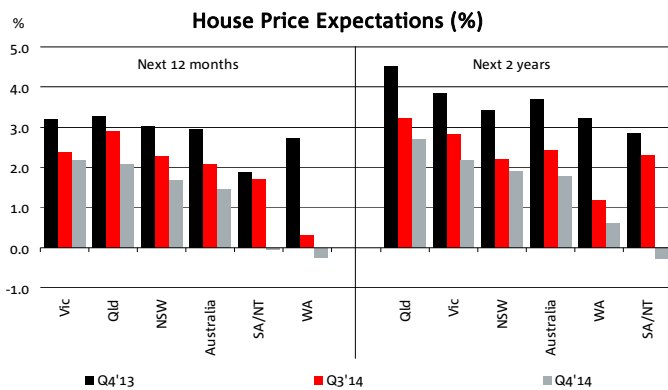
Residential Property - Market Performance

House price expectations

The housing market is losing steam as house price expectations soften in all states. National house prices now expected to grow just 1.5% in the next year (2.1% in Q3). Outlook strongest in VIC (2.2%), QLD (2.1%) and NSW (1.5%), with prices flat in SA/NT and falling in WA (-0.2%). Average national house prices to grow 1.8% in 2 years time (2.4% in Q3), with best prospects in QLD (2.7%), VIC (2.2%) and NSW (1.9%). House prices tipped to rise just 0.6% in WA and fall -0.2% in SA/NT.

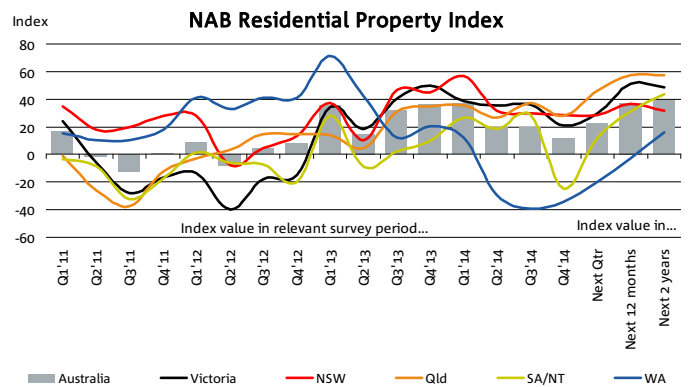
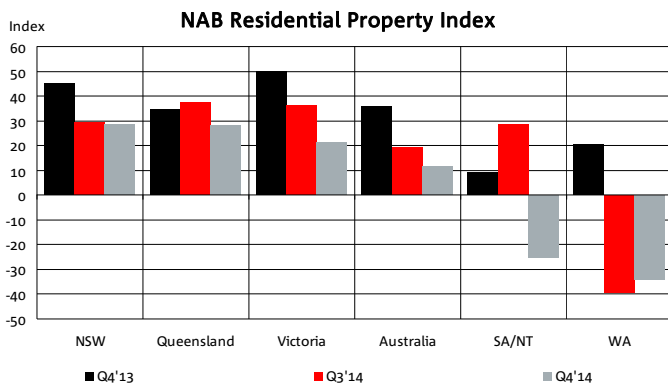
Rental expectations

Overall expectations for rents improved a little in Q4, but are still fundamentally weak. National rents now tipped to rise 0.8% next year (0.7% in Q3), led by mildly stronger expectations in VIC (1.4%) and QLD (1.3%). Prospects weakest in SA/NT (0.2%) and WA (-0.7%). National outlook for rents in next 2 years unchanged at 1.2%, with improvements in VIC (2%) and QLD (1.8%) masking softer outlooks in NSW (1%) and SA/NT (0.7%), and negative returns in WA (-0.1%).



NAB Residential Property Index

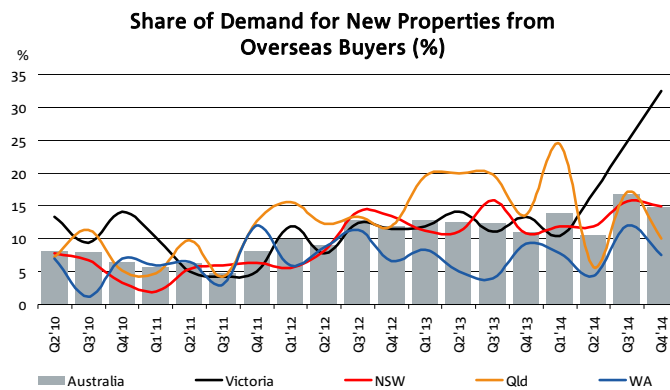
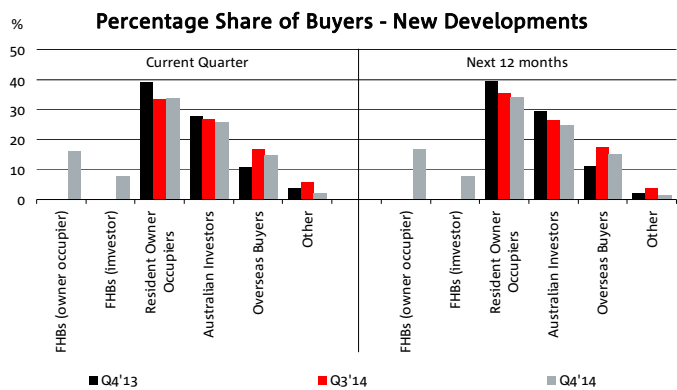
With house prices weakening and rental growth sitting at its lowest level since the survey was first compiled, the NAB Residential Property Index fell to +12 points in Q4 (+19 points in Q3) to now sit below its long-term average (+14 points). Market sentiment weakened in all states in Q4, but was overall strongest in NSW (+29 points), QLD (+28 points) and VIC (+21 points). Sentiment weakened notably in SA/NT (-25 points) and is still deeply negative in WA (-34 points). The NAB Residential Property Index is expected to rise to +37 points next year and +39 points in 2 years time. Respondents from QLD and VIC are still the most optimistic overall, with sentiment among property professionals in WA tipped to remain weakest in the country - and by some margin.



Residential Property - New Developments

Demand for new properties by buyer

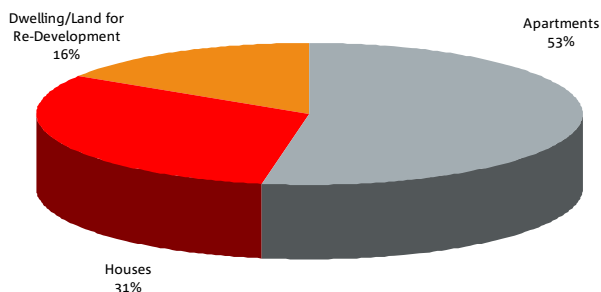
Foreign buyers less prevalent in new housing markets in Q4. Foreign buyers accounted for 14.8% of demand (16.8% in Q3) with this share to remain broadly unchanged at 15% over the next year. Foreign buyers less active in all states, except VIC where they accounted for a record high 32.5% (or 1 in 3) of all sales - a new high. For the first time, we have split first home buyers (FHBs) into owner occupiers and investors. While around 17% of FHBs in new property were for owner occupation, around 8% (or about 1 in 12) of FHB purchases were for investment.



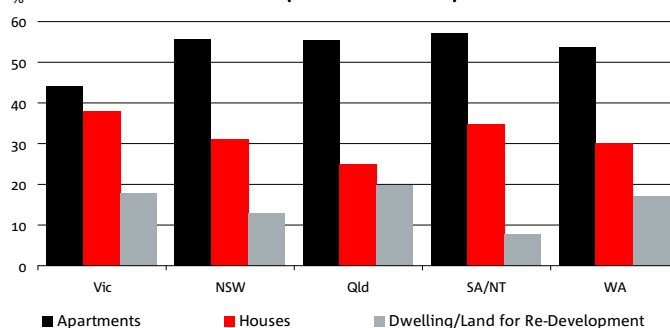
Type of Property Purchased by Foreign Buyers

In this survey, we asked what type of property foreigners were buying. Nationally, 53% of foreign purchases were apartments, 31% houses and 16% for re-development. Interestingly, apartments made up just 44% of all purchases in VIC (54-57% in other states), with foreigners buying more houses in VIC (38%) than in other states.

Type of Property Purchased by Foreign Investors (% share of total)



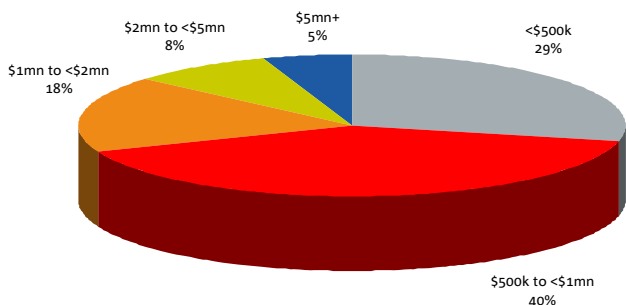
Type of Property Purchased by Foreign Investors by State (% share of total)



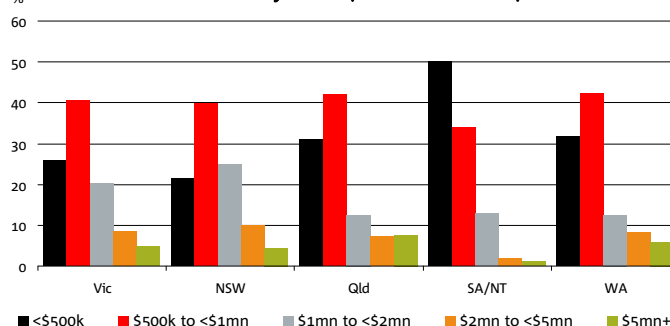
Price Range of Property Purchased by Foreign Buyer

The majority of foreign buyers (40%) bought properties between \$500k to <\$1 million, with 29% buying properties less than <\$500k. Around 5% of all sales were for premium property (+\$5 million). There was however some variance between states. Whereas 18% of all sales nationally were in the \$1-2 million range, it was as high as 25% in NSW. Also notable was the higher proportion of top end (+\$5mn) property bought in QLD (7.6%).

Price Range of Property Purchased by Foreign Investors (% share of total)



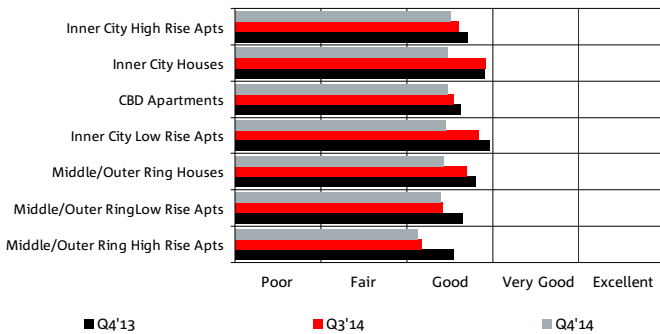
Price Range of Property Purchased by Foreign Investors by State (% share of total)



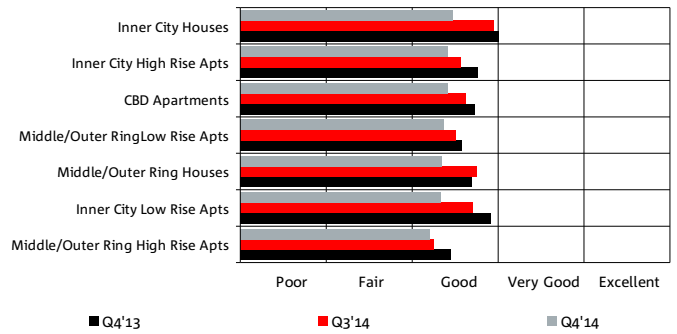
Demand for new property by type and location

National demand for all types of new property softened in Q4, with a notable weakening in demand for new inner city houses (especially in VIC and WA) and low rise apartments (VIC and WA) and for houses in the middle/outer ring (VIC). Overall demand for new property was strongest for inner city high rise apartments (led by NSW and QLD), marginally ahead of inner city houses (NSW and QLD) and CBD apartments (NSW). Overall demand remains weakest for new high rise apartments located in the middle/outer rings, with demand for this property type especially weak in VIC. Looking forward, property professionals are anticipating a further softening in national demand for all types of new property next year. However, overall demand is still expected to remain “good” across all new property types and locations. More detail is available in the individual State reports.

Demand for New Residential Developments
(current)



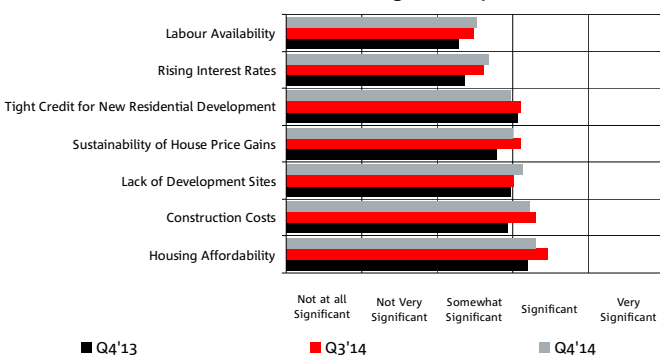
Demand for New Residential Developments
(next 12 months)



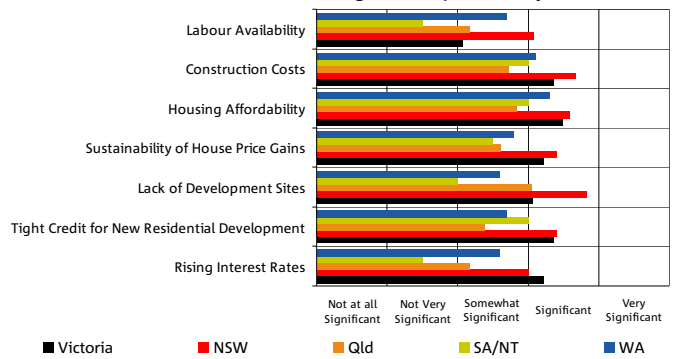
Constraints on new housing development

Housing affordability continues to be identified as the biggest constraint in new housing markets nationally, although slightly less so than in Q3. Construction costs (especially in NSW and to a lesser extent VIC) and a lack of development sites (mainly in NSW) are also considered to be “significant” constraints. With house prices slowing, concern over the sustainability of house price gains has moderated somewhat, although it is still a “significant” issue in NSW and VIC where median house prices are also highest in the country. Also notable was the “significant” and growing concern over the level of interest rates in VIC and labour availability in NSW.

Constraints on New Housing Developments



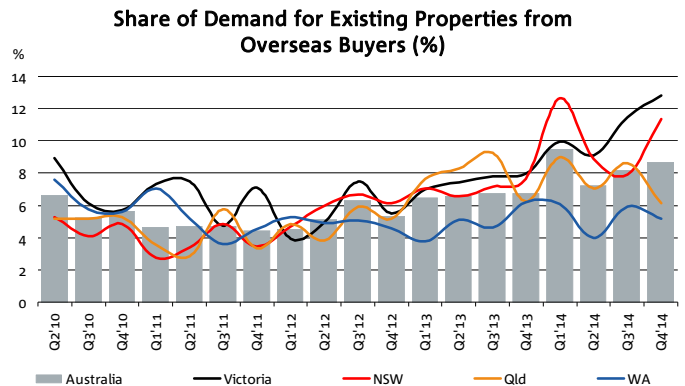
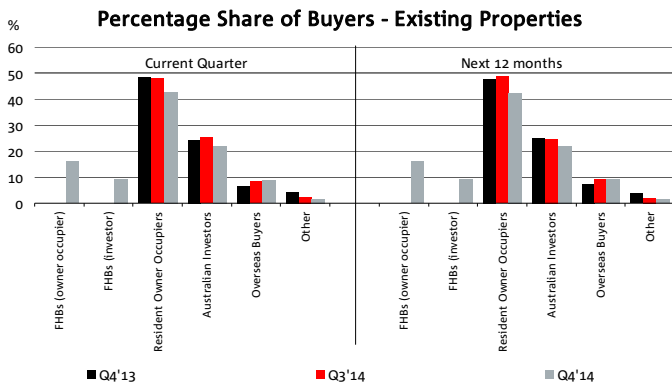
Constraints on New Housing Developments by State



Residential Property - Existing Developments

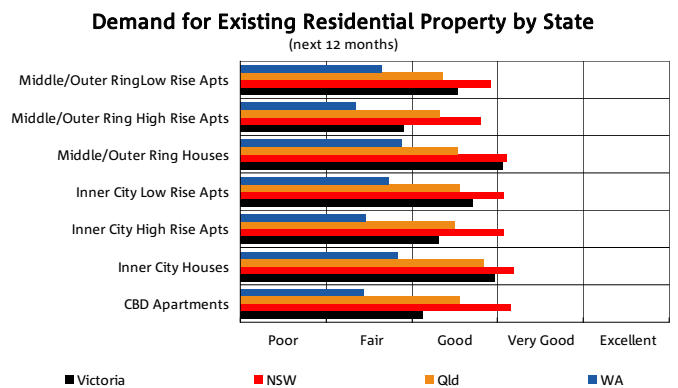
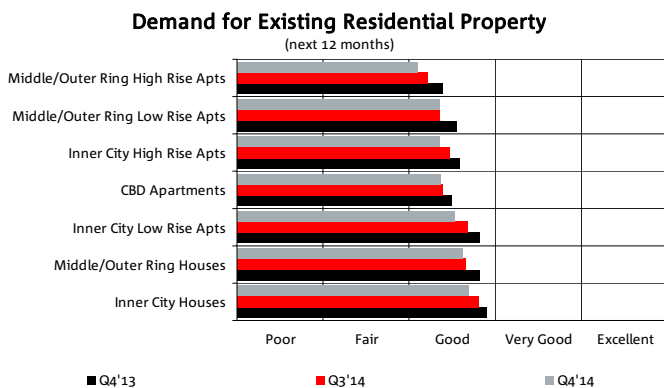
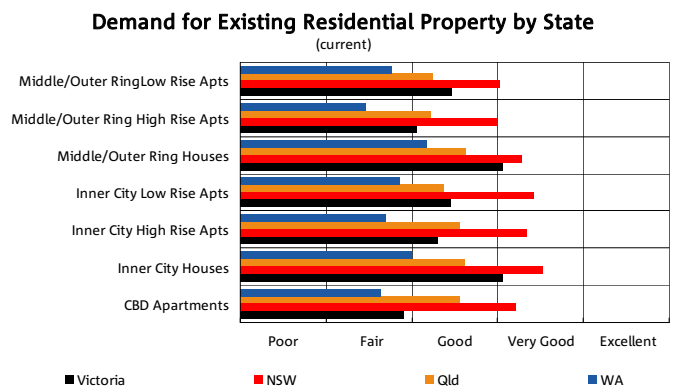
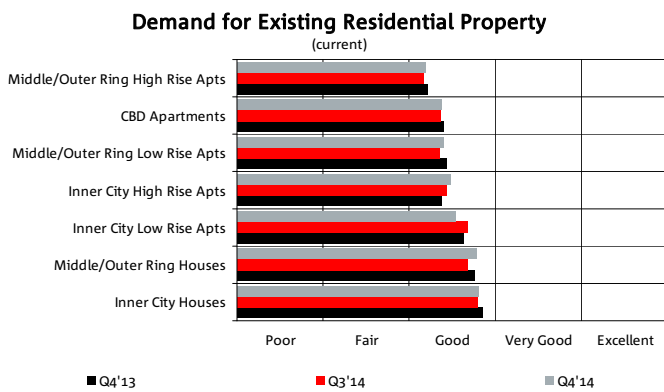
Demand for existing property

Resident owner occupiers continue to dominate demand for established property with a market share of 42.6% (48.1% in Q3), followed by local investors, with a market share of 22% (25.2% in Q3). Although lower than our previous survey, these results may have been influenced by the split of FHBs into owner occupiers and investors. Property professionals estimate that FHBs (owner occupier) accounted for 16.1% of total demand for established property in Q4, with FHBs (investor) making up 9.3%. Foreign buyers were also slightly more active in established property markets in Q4, with their share of total national demand inching up to 8.7% (8.2% in Q3). Foreign buyer demand fell in QLD (6.1%) and WA (5.1%), but climbed to 11.3% in NSW and reached a new high of 12.8% in VIC.



Demand for existing property by type

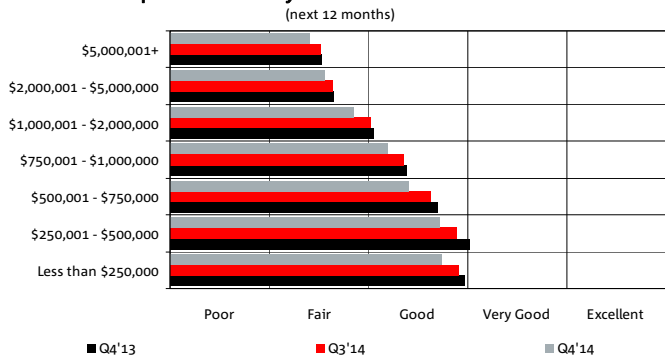
At the national level, demand for all types of established property was assessed as “good” in Q4 and broadly unchanged from Q3, with demand strongest for established houses located in the inner city and middle/outer ring. Demand for existing residential property is expected to weaken across all market segments next year, with demand expected to soften most for houses in the middle/outer ring and inner city apartments. By state, demand for all types of established property continues to be “very good” in NSW, led by inner city houses, low and high rise apartments and CBD apartments. In contrast, demand for all types of established property in WA was assessed as only “fair”, mirroring very weak sentiment also seen in that state.



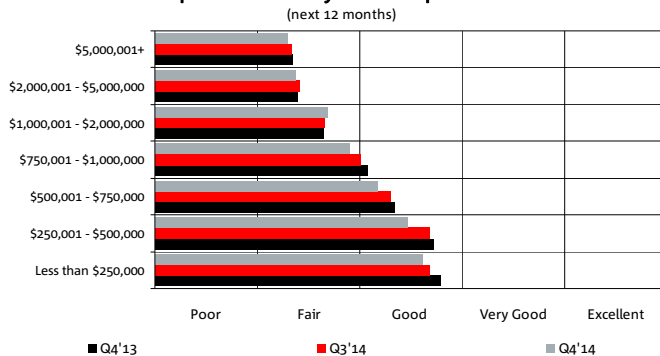
Capital growth expectations

At the national level, capital growth expectations for the next 12 months were pared back at all price ranges in both housing and apartment markets in Q4, except for apartments valued at between \$1-2 million where they improved slightly. Capital growth expectations were assessed as “good” for all houses <\$1million and for apartments <\$750k. Expectations for capital growth at all other price points were assessed as “fair”. By state, expectations for capital growth remain strongest in NSW across all price ranges, and significantly so in the apartment market. In contrast, capital growth prospects are now clearly weakest in WA at all price points, especially houses above \$1 million and for apartments above \$2 million, where prospects are considered “poor”.

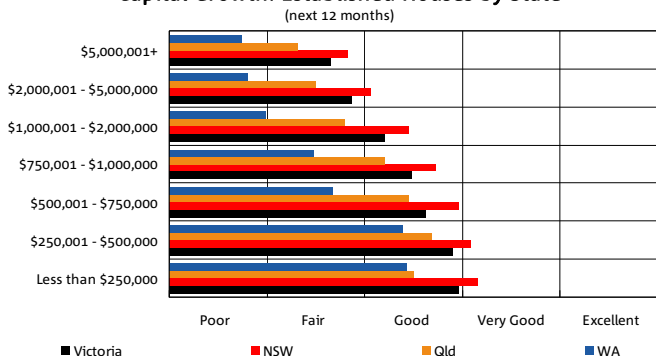
Capital Growth by Price - Established Houses



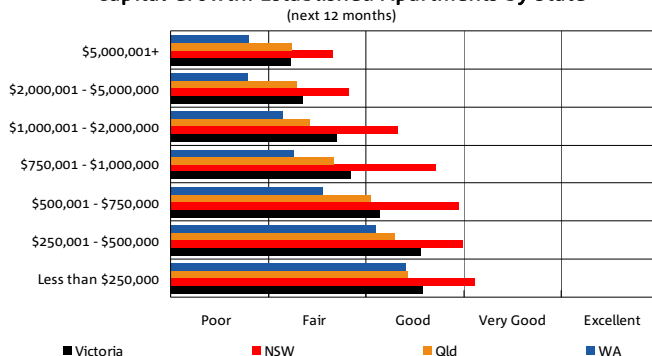
Capital Growth by Price - Apartments



Capital Growth: Established Houses by State



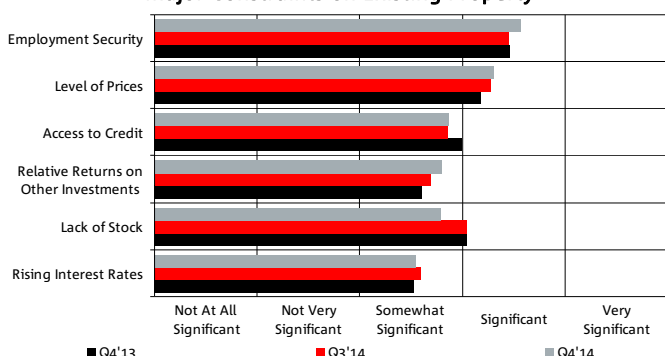
Capital Growth: Established Apartments by State



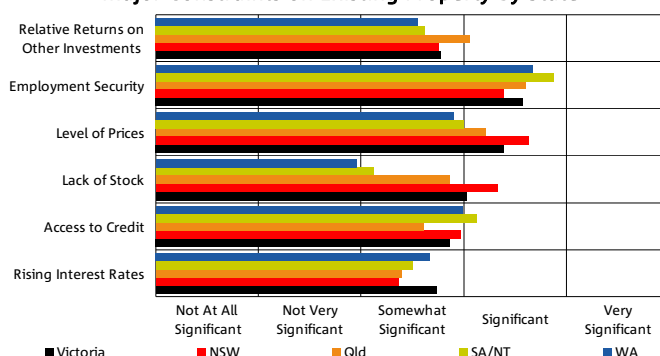
Constraints on existing property

With unemployment climbing and the economy slowing, employment security continues to be viewed as biggest (and growing) impediment to buying existing property nationally and in most states, especially in SA/NT and WA. NSW was the exception, with house price levels identified as the biggest impediment to buying an existing property. House price levels were also a “significant” factor nationally, led by NSW, VIC and QLD. In contrast, the level of constraint imposed on the market from a lack of stock was scaled back to “somewhat significant” in Q4, although it was still seen as a “significant” in NSW. The impact on the market from rising interest rates was unchanged in Q4, but property professionals saw relative returns from other investments as a bigger obstacle, especially in QLD.

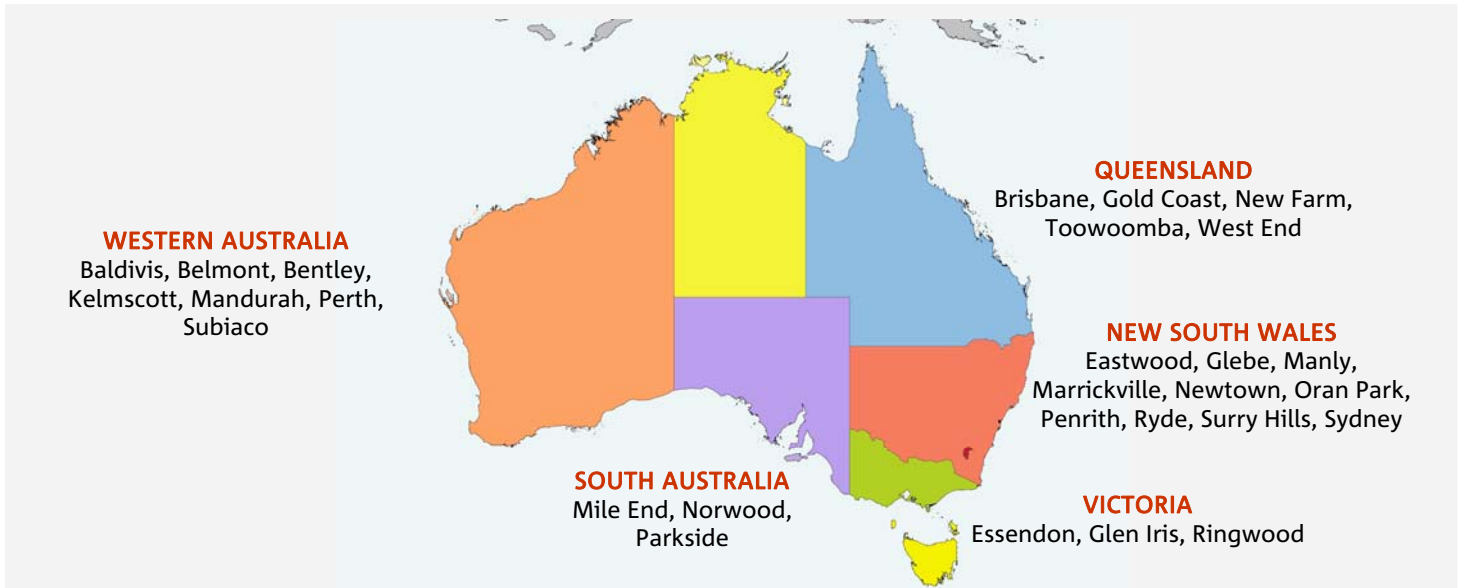
Major Constraints on Existing Property



Major Constraints on Existing Property by State



Suburbs tipped to enjoy above average capital growth



Survey Respondents Expectations

House Prices

	Q2 14	Q3 14	Q4 14	Next qtr	Next 1 yr	Next 2 yrs
VIC	1.0	1.8	1.1	1.4	2.2	2.2
NSW	1.5	1.3	1.3	1.3	1.7	1.9
QLD	0.9	1.4	0.8	1.3	2.1	2.7
SA/NT	0.3	0.9	0.1	0.2	0.0	-0.3
WA	-0.3	-1.0	-0.9	-0.9	-0.2	0.6
Australia	0.9	1.0	0.7	0.9	1.5	1.8

Rents

	Q2 14	Q3 14	Q4 14	Next Qtr	Next 1 yr	Next 2 yrs
VIC	0.7	0.3	0.0	0.3	1.4	2.0
NSW	0.5	0.2	-0.3	0.3	0.8	1.0
QLD	0.2	0.4	0.2	0.6	1.3	1.8
SA/NT	0.5	-0.1	-0.9	0.0	0.2	0.7
WA	-2.0	-1.6	-1.5	-1.2	-0.7	-0.1
Australia	0.0	-0.1	-0.3	0.1	0.8	1.2

NAB’s View of Residential House Prices

With more signs emerging that the residential housing market is losing steam, NAB Economics expects average capital city house prices to cool to around 4% over the year to end-2015 and 2% over the year to end-2016. Our assessment of the market remains that house price growth will continue to moderate because of rising unemployment, sluggish household income growth, affordability concerns, cost of living pressures and high levels of household debt. We are also forecasting two further interest rates cuts of 25 bps in March and 25 bps in August 2015 (bringing the official cash rate down to 2%) which should support house prices a little more than previously expected.

Brisbane (5.7%) and Sydney (4.1%) are expected to lead the market for capital growth over the year to end-2015, followed by Melbourne (2.7%), Adelaide (2.1%) and Perth (1.8%). Brisbane (3.8%), Sydney (2.3%) and Melbourne (2.3%) are forecast to remain the best cities for capital gains in the year to end-2016, with house prices rising by just 2.2% in Adelaide and 1% in Perth.

NAB Capital City House Price Forecasts*

	Year to end-December					
	2011	2012	2013	2014e	2015f	2016f
Sydney	-3.2	4.6	16.0	10.7	4.1	2.3
Melbourne	-5.6	0.0	10.0	5.1	2.7	2.3
Brisbane	-5.4	1.6	5.7	6.8	5.7	3.8
Adelaide	-4.5	-0.2	5.1	4.9	2.1	2.2
Perth	-4.1	6.2	8.3	2.7	1.8	1.0
Capital City Average	-4.4	2.6	10.5	6.4	3.9	2.1

*percentage changes represent through the year growth rates

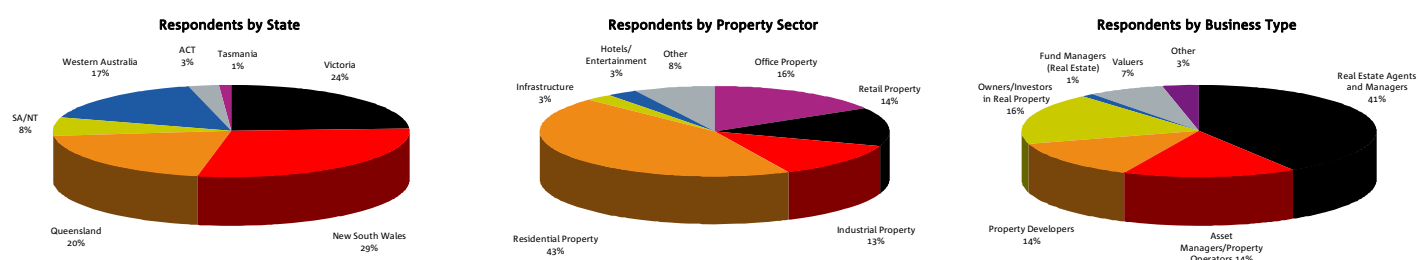
About the Survey

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 Q4 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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