

# NAB Residential Property Survey: Q2 2015

## by NAB Group Economics

Embargoed until: 11.30am Tuesday 21 July 2015

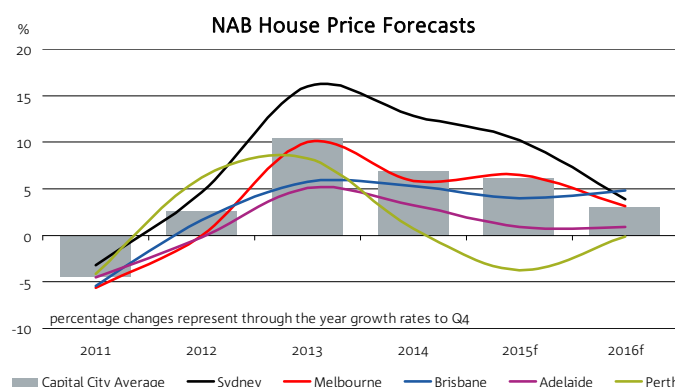
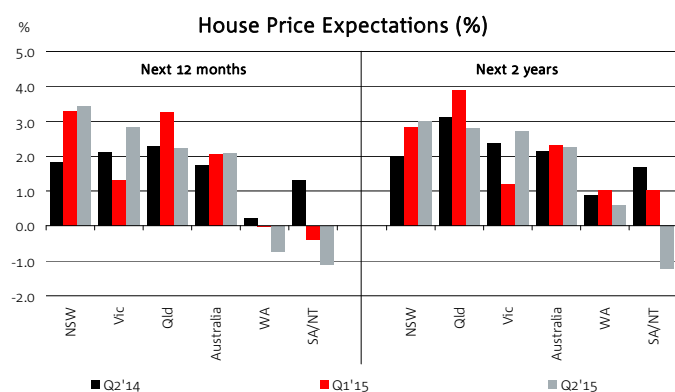


NAB Residential Property Index (of prices and rents) fell slightly in Q2, dragged down by rents. VIC rebounds, but NSW to lead price and rental growth in next 1-2 years with WA lagging. Foreign buyers less active in new markets, but increased their presence in established markets despite tougher restrictions on investment in this sector. New data suggests foreign buyers bought 16% of new apartments & 11½% of houses and 11.4% of established apartments & almost 1 in 10 houses. Foreign buyers most active in VIC.

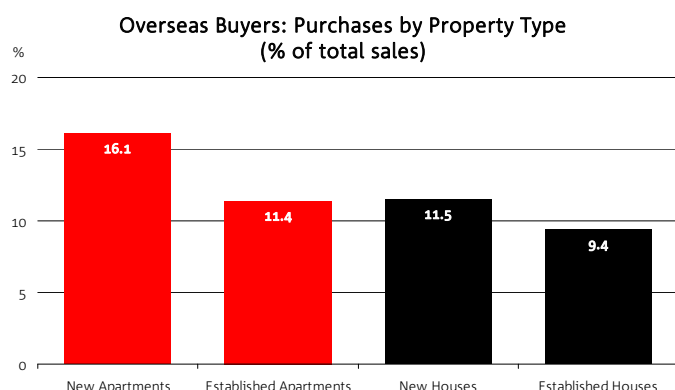


### Survey highlights:

- NAB's Residential Property Index fell -4 to +17 points in Q2. Sentiment improved in VIC & remains solid in NSW, but fell in all other states (heavily in SA & WA). NSW most optimistic going forward and WA the most pessimistic.
- NSW & VIC to provide the best capital returns in the next year, with bigger price falls tipped for WA & SA/NT. NSW also expected to lead in 2 years time and modest growth to resume in WA. NAB expects prices to slow in the next 2 years, with price growth led mainly by Sydney, Melbourne & Brisbane, with Perth & Adelaide lagging.
- Faster capital growth likely to push yields lower over the next 1-2 years as expectations for rental growth were scaled back in all states (except NSW).
- First home buyers (investors) & owner occupiers (net of FHBs) more active in new property markets. Foreign buyers pulled back a little to 12.8% (15.6% in Q1) and were less active in both VIC (18.1%) & NSW (13.1%).
- Owner occupiers (net of FHBs) increased their presence in established markets as FHBs (owner occupiers & investors) retreated. Foreign buyers more active and now buying more than 1 in 10 properties in VIC & NSW.
- New survey data suggests foreign buyers bought 16.1% of all new apartments and 11.5% of houses in Q2, led by VIC (28.3% of apartments & 16.7% of houses). Despite tougher restrictions on foreign investors looking to buy in established property markets, property professionals estimate these buyers accounted for 11.4% of all apartment & 9.4% of all house sales. In VIC, their market share was 17.5% for apartments & 16.1% for houses.



	Q4 2014	Q1 2015	Q2 2015	Next Qtr	Next 1 yr	Next 2 yrs
VIC	21	36	49	50	54	51
NSW	29	42	50	56	59	56
QLD	28	33	11	24	42	41
SA/NT	-25	-5	-42	-17	0	25
WA	-34	-34	-56	-50	-25	16
<b>Index</b>	<b>12</b>	<b>21</b>	<b>17</b>	<b>24</b>	<b>35</b>	<b>42</b>



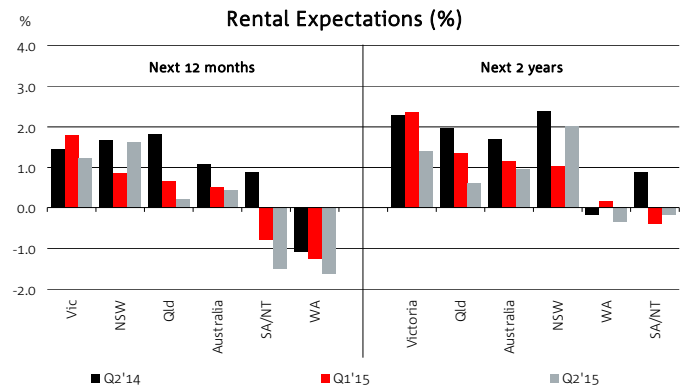
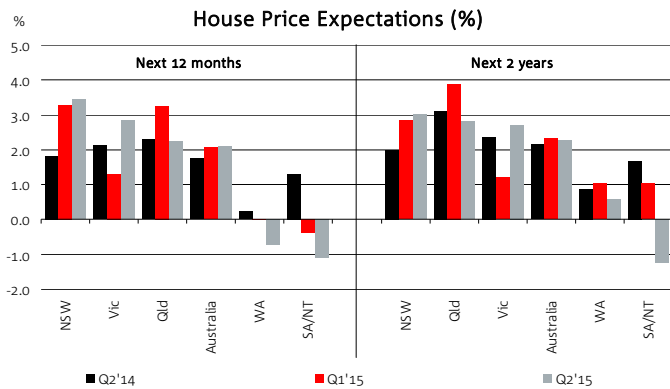
# 1. Residential Property - Market Performance

## House price expectations

National house price expectations unchanged in Q2 with improved outlooks in NSW & VIC offsetting weaker expectations in all others states. National prices to rise 2.1% in the next year, led by NSW (3.4%) & VIC (2.8%). Outlook for QLD (2.2%) scaled back, with bigger price falls also tipped for WA (-0.7%) & SA/NT (-1.1%). National prices to grow 2.3% in 2 years time, with NSW (3%) best, followed by QLD (2.8%) & VIC (2.7%). Modest growth to resume in WA (0.6%) but prices to fall in SA/NT (-1.2%).

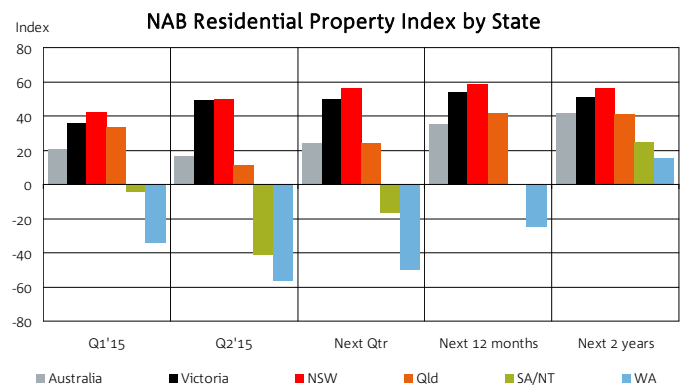
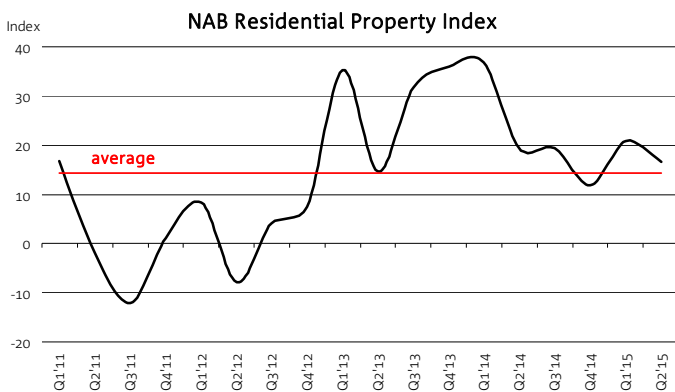
## Rental expectations

Faster capital growth likely to push yields lower as rental growth slows further next year (0.4%). Weaker rental growth expected in all states, except NSW (1.6%) where returns are also expected to lead the country, followed by VIC (1.2%) & QLD (0.2%). Rental growth to remain very weak in SA/NT (-1.5%) & WA (-1.6%) next year. National outlook in next 2 years scaled back to 1%, with NSW (2%) providing the best returns. Negative rental returns to persist in SA/NT (-0.2%) & WA (-0.4%).



## NAB Residential Property Index

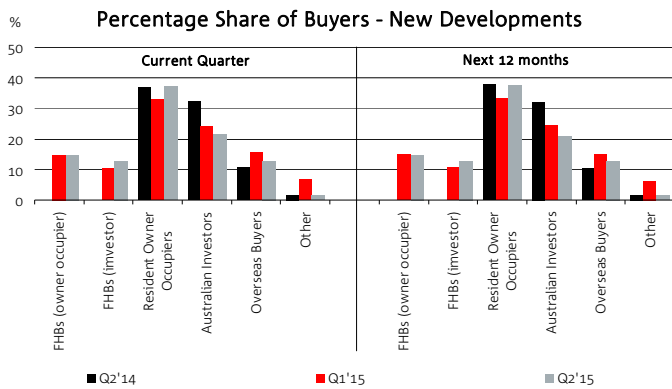
The NAB Residential Property Index fell to +17 points in Q2 (+21 in Q1), dragged down by weak rents, but the index still sits above its long-term average (+14 points). Market sentiment improved in NSW (+50 points) & VIC (+49 points), but deteriorated in all other states. Sentiment fell very heavily in SA/NT (-42 points) & WA (-56 points), with both states printing their weakest index result since the survey began. NAB's Residential Property Index is expected to rise to +35 points next year and +42 points in 2 years time. Property professionals in NSW are now the most optimistic in the country (replacing QLD), closely followed by VIC. In contrast, property professionals in WA are by far the most pessimistic in the country (and more so than in Q1).



## 2. Residential Property - New Developments

### Demand for new properties by buyer

FHBs (investors) were more active in new property markets in Q2, with their share of total demand rising to 12.8% nationally (10.1% in Q1). This was mainly led by increased buying activity in NSW (12.5%) & QLD (17.5%). In contrast, the share of FHBs (owner occupiers) in total demand was unchanged at 14.7%, despite higher activity by FHB (investors) in VIC (17.9%). In total, FHBs accounted for 27.5% of all new property demand (24.8% in Q1).



Owner occupiers or upgraders (net of FHBs) were more active in Q2. Their share of national demand for new property rose to 37.2% (33.1% in Q1) with these buyers significantly more active in NSW (45.6%).

The market share of resident investors (net of FHBs) in new property markets however fell to 21.3% (24.1% in Q1), largely reflecting their reduced presence in NSW (16.3%) & QLD (21%), which offset increased activity in VIC (20.7%).

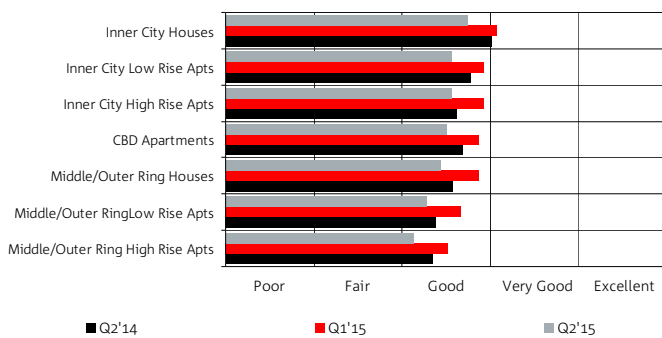
Foreign buyers also pulled back a little in Q2. Overall, they accounted for 12.8% of total new property demand (15.6% in Q1), with buyers less active in VIC (18.1%), NSW (13.1%) and WA (10.1%).

### Demand for new property by type and location

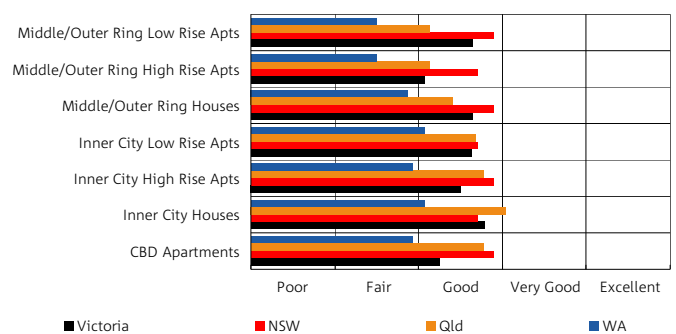
Demand for new property pulled back in all categories in Q2, but was still rated “good”. Demand eased most for houses and high rise apartments located in the middle/outer ring. New houses in the inner city were most sought after, although property professionals scaled back their demand rating to “good” (“very good” in Q1). High and low rise apartments located in the middle/outer ring were least sought after. Despite a notable pullback, demand for new property remained strongest in NSW in most categories, except for inner city houses where demand was rated strongest and “very good” in QLD. In contrast, demand was clearly softest in WA, especially for new apartments in the middle/outer ring.

The outlook for new property demand was scaled back in all categories, but is expected to remain “good”, with inner city property the standout. Interestingly, demand in VIC is expected to weaken across all categories relative to current levels, while a modest improvement is forecast for inner city and CBD properties in NSW.

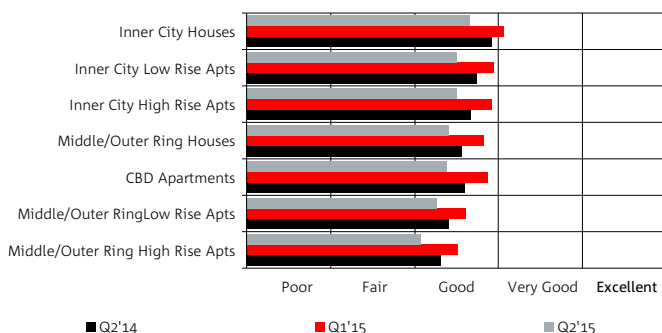
#### Demand for New Residential Developments (current)



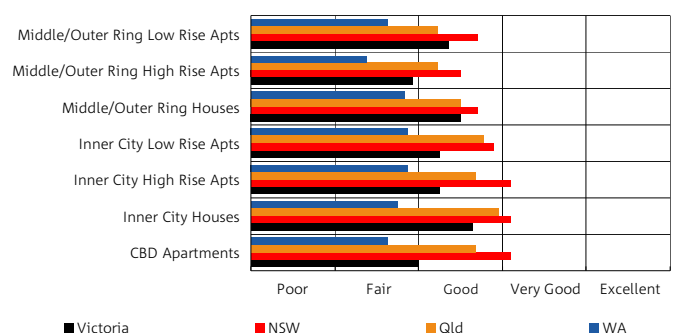
#### Demand for New Residential Developments by State (current)



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



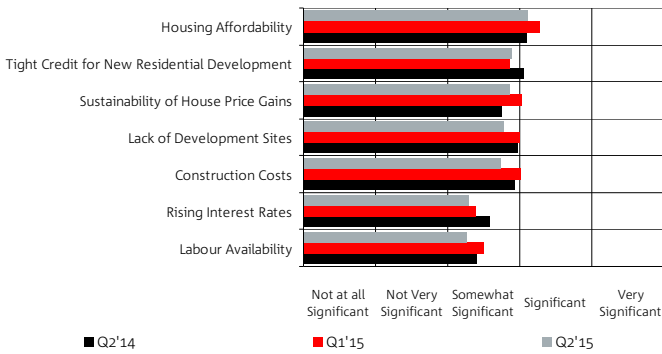
#### Demand for New Residential Developments by State (next 12 months)



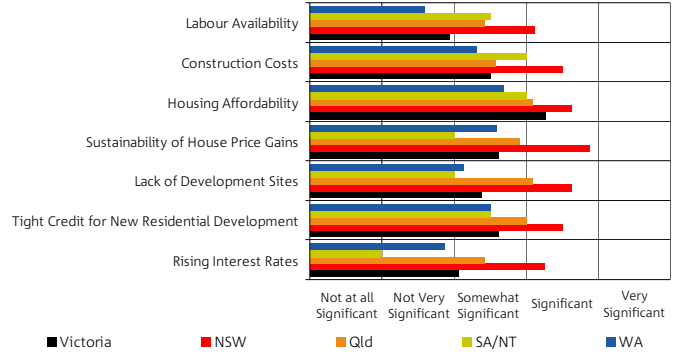
### Constraints on new housing development

Housing affordability continues to be seen as a “significant” constraint on new housing development across the country (although slightly less so than in Q1) and by far the biggest constraint in VIC. Tight credit was the next biggest concern (led by NSW & QLD). The sustainability of house price gains was rated the next biggest worry nationally, but was the biggest concern in NSW where house price growth also continues to lead the country. A lack of development sites (especially in NSW & QLD) and construction costs (NSW & SA/NT) were also considered to be “somewhat significant” constraints for new housing developments.

Constraints on New Housing Developments

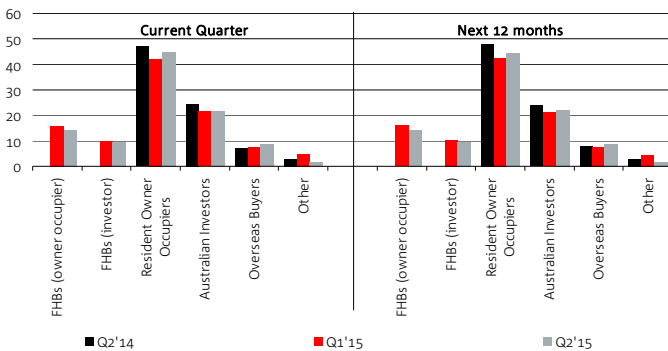


Constraints on New Housing Developments by State



## 3. Residential Property - Established Property

Percentage Share of Buyers - Established Properties



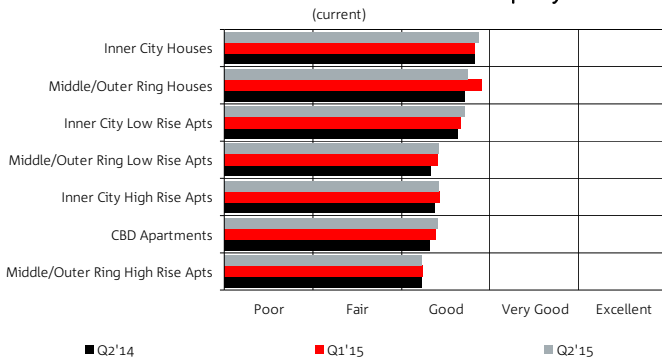
### Demand for established property by buyer

Owner occupiers (net of FHBs) increased their share of demand for established property to 45% in Q2 (42.4% in Q1), with these buyers more active in all states. The share of local investors (net of FHBs) in the national market was broadly unchanged at 21.7%, but rose in VIC (23%) & QLD (26.1%). FHBs (owner occupiers & Investors) fell slightly to 14.2% and 9.5% respectively. Foreign buyers were more active in established property markets in Q2, with their share of national demand rising to 8.6% (7.5% in Q1). Foreign buyer demand rose in VIC (11.2%), QLD (5.7%) & WA (6.8%), but was unchanged in NSW (11.2%). Overall, these patterns are expected to remain broadly unchanged next year.

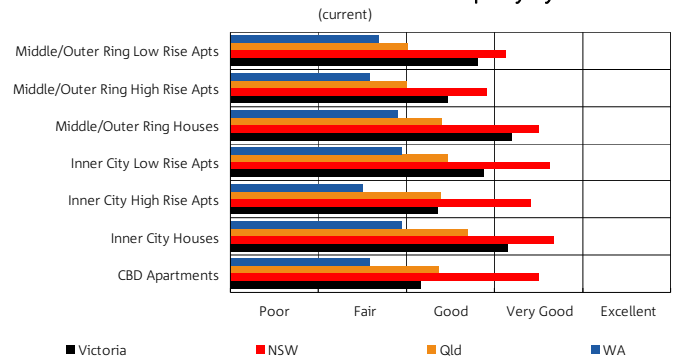
### Demand for established property by type and location

Nationally, demand for established property was assessed as “good” in Q2 for all property types and in all locations. Demand for inner city houses was strongest overall, replacing houses in the middle/outer ring where demand softened somewhat this quarter. Overall demand also improved for established CBD apartments and low rise apartments located in the inner city and middle/outer ring. Established houses in the inner city and middle/outer ring continue to enjoy the best demand in most states, with demand rated “very good” in both NSW & VIC (albeit somewhat softer in VIC). It is now clearly evident that the downturn in the property market in WA is being reflected in much weaker demand for established property (except inner city low rise) with demand rated just “fair”.

Demand for Established Residential Property



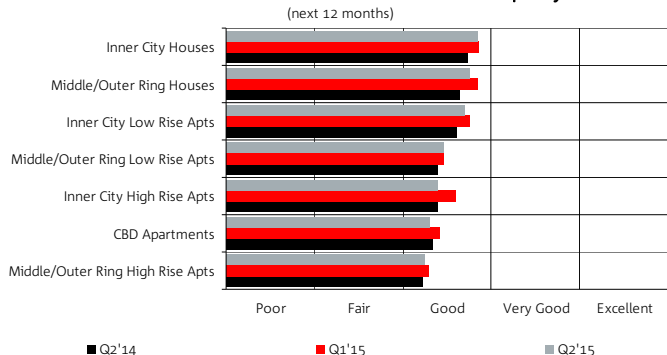
Demand for Established Residential Property by State



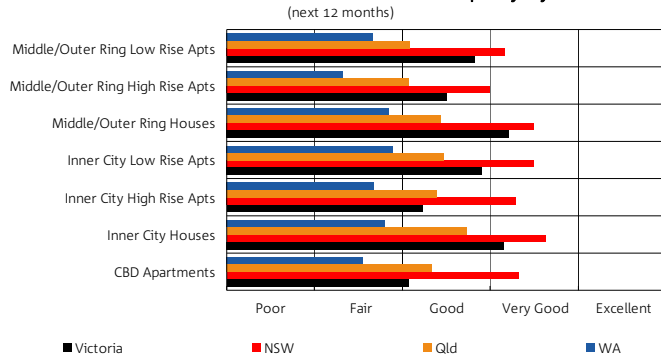
The outlook for demand for established property was scaled back for all types of property and in all locations, except for low rise apartments in the middle/outer ring (unchanged). Expectations were cut back most for inner city high rise apartments (led by weaker demand in NSW & VIC) and CBD apartments (again led by NSW & VIC).

By individual state, property professionals anticipate that demand for all types of established property will remain strongest in NSW, with demand assessed as “very good” in all categories. In contrast, difficult market conditions in WA are expected to be reflected in only “fair” demand for all types of established property next year.

**Demand for Established Residential Property**



**Demand for Established Residential Property by State**

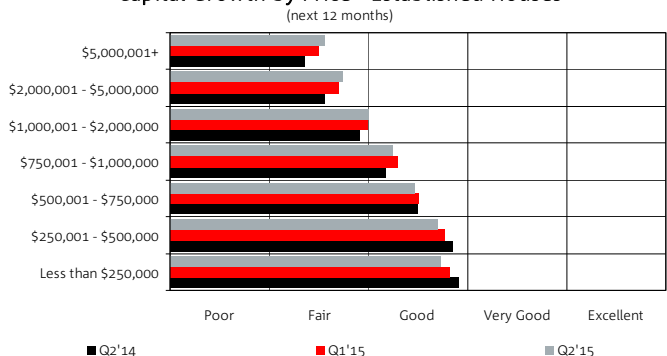


**Capital growth expectations for established property**

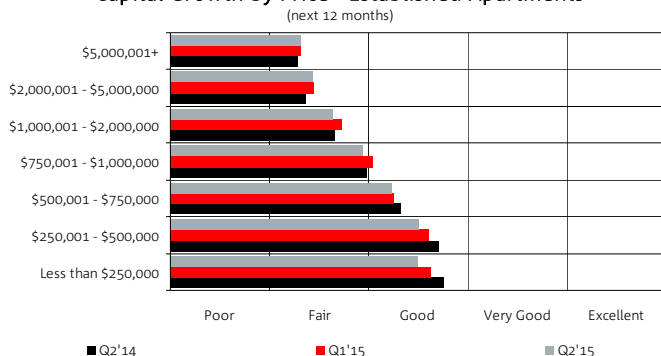
At the national level, capital growth expectations for the next 12 months are diverging in established housing markets. Whereas prospects for capital growth are still rated “good” at all price points below \$2 million (led by sub \$500,000 properties), prospects have weakened somewhat since Q1. In contrast, property professionals are more bullish about premium houses valued at more than \$2 million, although overall capital growth prospects are still rated only “fair”. Property professionals are less optimistic about capital growth prospects for established apartments, with expected price gains at all price points revised down, except in the premium apartment market above \$5 million where prospects were unchanged.

By state, expectations for capital growth are strongest in NSW across all price ranges in both housing and apartment markets, especially for houses above \$2 million and at all price points in the apartment market. In contrast, prospects in WA continue to lag at all price points in both markets, and are particularly weak for apartments and houses over \$1 million, where they are considered “poor”.

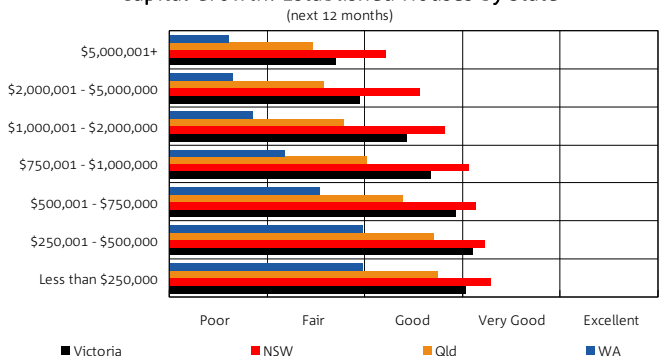
**Capital Growth by Price - Established Houses**



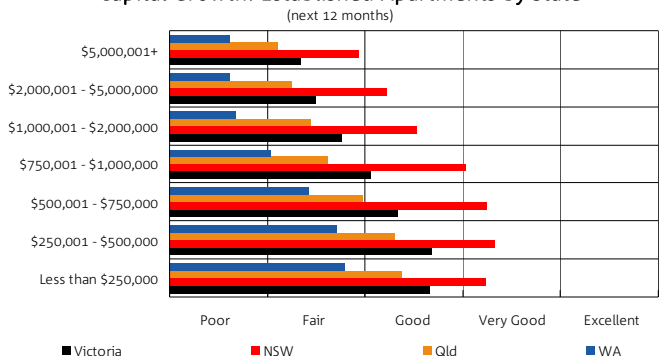
**Capital Growth by Price - Established Apartments**



**Capital Growth: Established Houses by State**



**Capital Growth: Established Apartments by State**

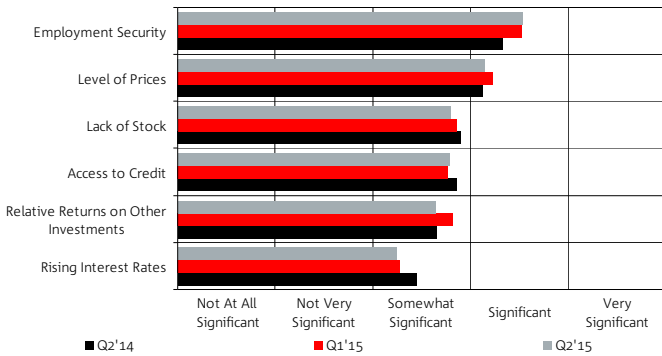




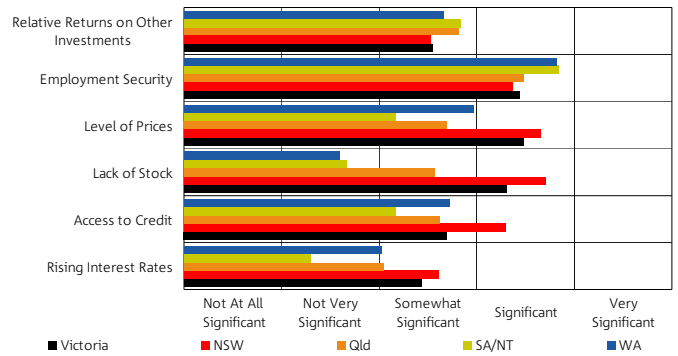
### Constraints on established property

Notwithstanding a recent improvement in headline unemployment data, employment security is still seen as the biggest impediment to buying existing property nationally and in most states, especially in SA/NT (where trend unemployment is also highest in the country) and WA (where jobs are being impacted by the mining investment slowdown). House price levels were also a “significant” impediment to buying existing property nationally and in NSW & VIC. A lack of stock was considered to be “somewhat significant” nationally, but “significant” in NSW & VIC, while access to credit was also seen as a “significant” constraint for buyers of existing property in NSW.

Major Constraints on Established Property



Major Constraints on Established Property by State

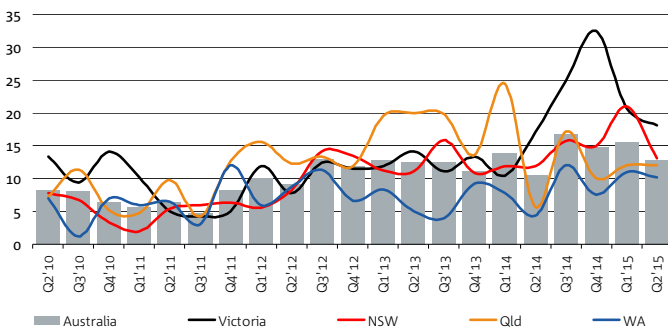


## 4. Foreign Buyers

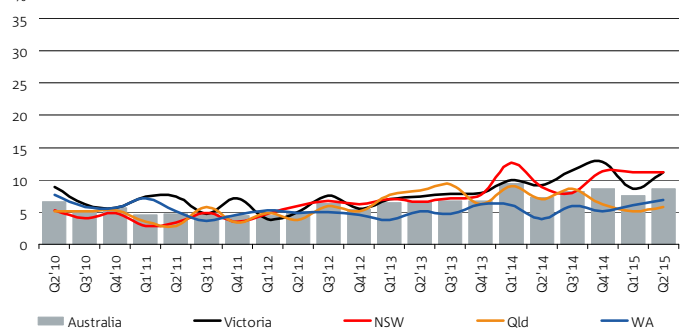
### Overall foreign buying activity

Our latest survey data shows that foreign buyers were less active in new property markets in Q2. Overall, foreign buyers accounted for 12.8% of total demand (15.6% in Q1), with foreign buyers less active in VIC (18.1%), NSW (13.1%) & WA (10.1%). In established housing markets, however, foreign buyers were more active with their share of national demand rising to 8.6% (7.5% in Q1). Foreign buyer demand rose in VIC (11.2%), QLD (5.7%) & WA (6.8%) and was unchanged in NSW (11.2%)

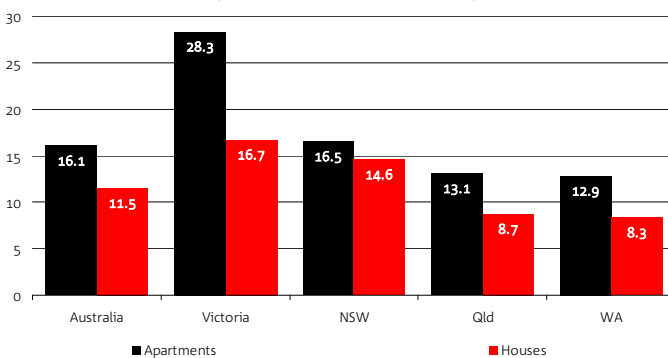
Share of Demand for New Properties from Overseas Buyers (%)



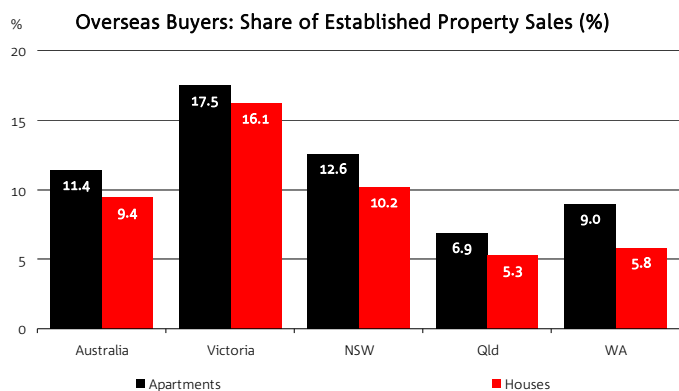
Share of Demand for Existing Properties from Overseas Buyers (%)



Overseas Buyers: Share of New Property Sales (%)



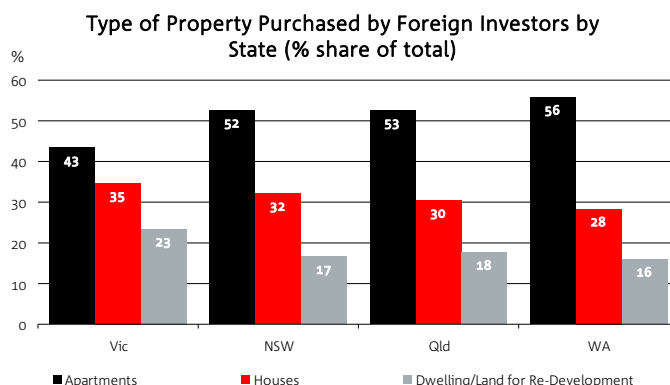
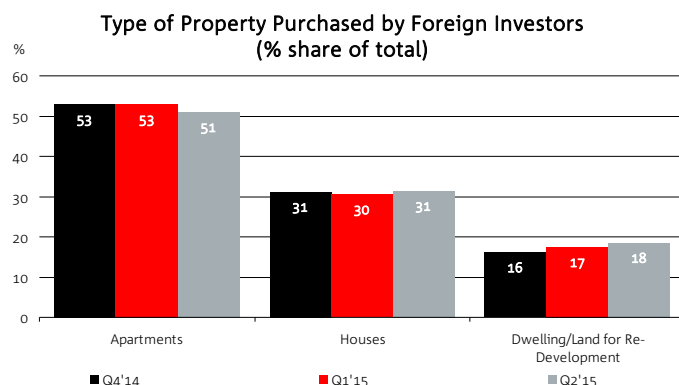
For the first time we asked the Survey panel to distinguish between foreign buyers in Australian apartment and housing markets. In the new property market, property professionals estimated that foreign buyers accounted for 16.1% of all apartment sales and 11.5% of house sales in Q2. There were, however, big differences between the states, especially in the apartment market where foreign buyers purchased more than 28% of all new properties in VIC, compared to 16.5% in NSW, 13.1% in QLD & 12.9% in WA. There was much less divergence in new housing markets, although foreign buyers were again most active in VIC (16.7%), ahead of NSW (14.6%), QLD (8.7%) & WA (8.3%).



Despite much stricter restrictions on foreign investment in the established residential property market, our survey suggests foreign buyers also play a fairly significant role in this part of the market. According to surveyed property professionals, foreign buyers accounted for 11.4% of all established apartment sales and 9.4% of house sales in Q2. More foreign buyers were attracted to established apartment markets in all states, led by VIC (17.5%) & NSW (12.6%). Foreign buyers also had a much bigger presence in the established housing market in VIC, with a 16.1% share of total demand in this market in Q2. This was significantly higher than in NSW (10.2%), WA (5.8%) & QLD (5.3%).

### Type of property purchased by foreign buyers

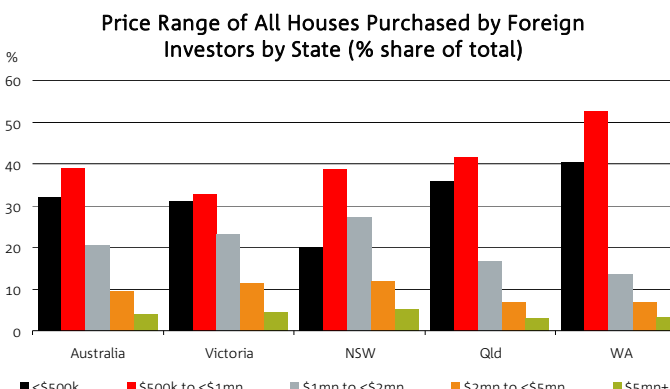
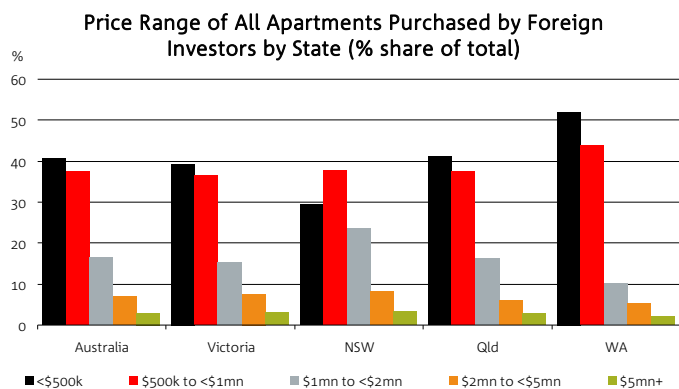
Nationally, 51% of foreign purchases were for apartments, 31% houses and 18% for re-development. These ratios have been broadly unchanged since we first started compiling this data in late-2014. However, there were some notable changes in these ratios by state. In the main foreign investment market of VIC, apartments accounted for around 43% of all foreign purchases (down from 48% in Q1). The share of houses was broadly unchanged at 35%, but almost 1 in 4 (or 23%) of all purchases were identified as being for re-development (up from 19% in Q1). In NSW, around 52% of all sales were apartments (also down from 58% in Q1), 32% were houses (30% in Q1) and 17% for re-development (13% in Q1). In NSW, around 52% of all sales were apartments (also down from 58% in Q1), 32% were houses (30% in Q1) and 17% for re-development (13% in Q1).



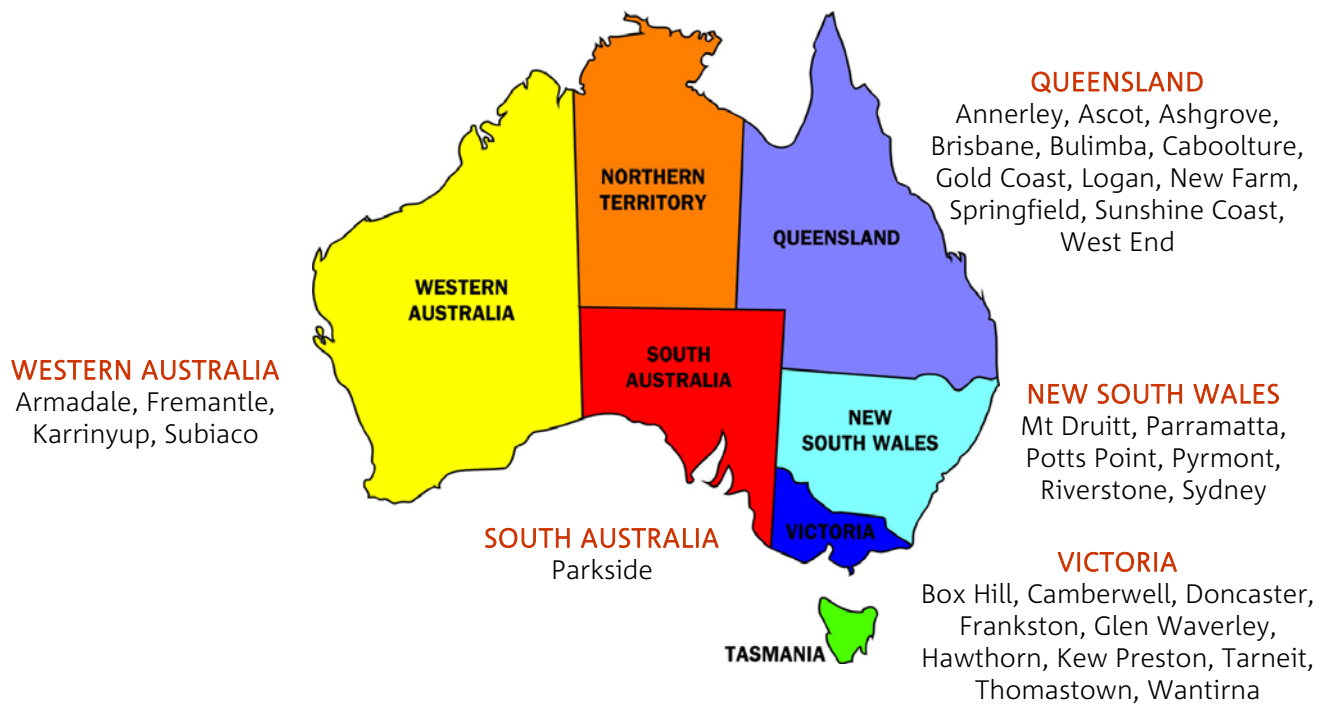
### Price range of property purchased by foreign buyers

Around 78% of foreign buyers bought apartments valued at less than \$1 million in Q2, with 41% buying apartments valued below \$500k and 37% in the \$500k-\$1 million range. Just over 16% of all apartment sales were in the \$1-2 million range, with the balance of sales above \$2 million. In NSW, almost 1 in 4 sales (23.6%) of all apartments were valued between \$1-2 million and almost 12% over \$2 million.

In the housing market, around 71% of buyers bought properties valued at less than \$1 million, but this ratio was as low as 58% in NSW. Around 21% of all house purchases were in the \$1-2 million range, with buyers in this price range playing a much bigger role in NSW (27.1%) & VIC (23.2%). In NSW, where median house prices are also highest in Australia, around 16% of all houses sold to foreigners were valued at more than \$2 million.



## 5. Suburbs tipped to enjoy above average capital growth



## 6. Survey Respondents Expectations

### House Prices

	Q4 14	Q1 15	Q2 15	Next qtr	Next 1 yr	Next 2 yrs
VIC	1.1	1.1	2.3	2.3	2.8	2.7
NSW	1.3	2.5	2.6	2.7	3.4	3.0
QLD	0.8	1.4	1.1	1.5	2.2	2.8
SA/NT	0.1	-0.4	-1.8	-1.8	-1.1	-1.2
WA	-1.0	-0.7	-1.6	-1.3	-0.7	0.6
<b>Australia</b>	<b>0.7</b>	<b>1.2</b>	<b>1.3</b>	<b>1.5</b>	<b>2.1</b>	<b>2.3</b>

### Rents

	Q4 14	Q1 15	Q2 15	Next Qtr	Next 1 yr	Next 2 yrs
VIC	0.0	0.4	0.7	0.8	1.2	1.4
NSW	-0.2	0.5	0.4	0.7	1.6	2.0
QLD	0.2	0.2	-0.3	0.0	0.2	0.6
SA/NT	-0.9	-1.2	-2.1	-1.5	-1.5	-0.2
WA	0.0	-2.6	-3.0	-2.4	-1.6	-0.4
<b>Australia</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.4</b>	<b>1.0</b>



## 7. NAB’s View of Residential House Prices

NAB Economics is forecasting average national house price growth of 6.1% through the year to end-2015, although wide variance in capital city performance will persist. Capital growth is expected to be led by Sydney (10.2%) and Melbourne (6.5%). Modest gains are also forecast for Brisbane (4%) and Adelaide (0.9%). In Perth, house prices are expected to fall -3.8%, with the slow down in the mining sector and associated slow down in population growth playing a negative role in the local market.

Average national house price growth is expected to moderate in 2016 to 3%. NAB Economics expects house price growth to accelerate in Brisbane (4.8%), remain steady in Adelaide (0.9%) and fall in Perth (-0.1%). In contrast, house price growth is forecast to slow in both Sydney (3.9%) and Melbourne (3.1%).

Overall, our assessment is that the possibility of a sharp correction in the Australian housing market is reasonably remote and would require a notable deterioration in the labour market and higher interest rates. However, the supply response to higher prices to date has been quite pronounced (particularly in apartments), which along with prudential measures by APRA and a persistently elevated unemployment rate (forecast to remain above 6% until mid-2017) will work to cap price gains going forward - although demand will remain robust while interest rates stay at record lows.

### NAB Capital City House Price Forecasts\*

	Year to end-December					
	2011	2012	2013	2014	2015f	2016f
Sydney	-3.2	4.6	16.0	12.8	10.2	3.9
Melbourne	-5.6	0.0	10.0	5.8	6.5	3.1
Brisbane	-5.4	1.6	5.7	5.3	4.0	4.8
Adelaide	-4.5	-0.2	5.1	3.2	0.9	0.9
Perth	-4.1	6.2	8.3	0.7	-3.8	-0.1
<b>Capital City Average</b>	<b>-4.4</b>	<b>2.6</b>	<b>10.5</b>	<b>7.0</b>	<b>6.1</b>	<b>3.0</b>

\*percentage changes represent through the year growth rates

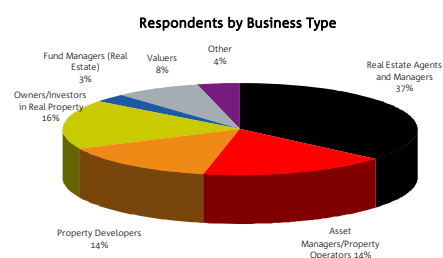
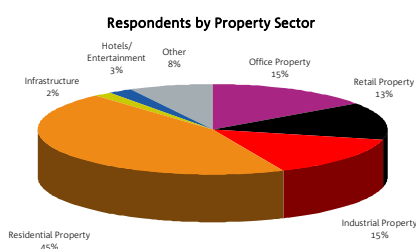
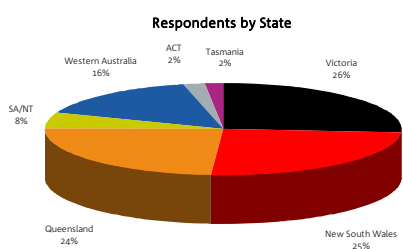
## About the Survey

The NAB Quarterly Australian Residential Property Survey was first launched in Q1 2011.

The survey was expanded from NAB's Quarterly Australian Commercial Property Survey, which was launched in April 2010. 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.

The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 300 panellists participated in the Q2 2015 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



## Group Economics

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Jacqui Brand  
Personal Assistant  
+61 3 8634 2181

### Australian Economics & Commodities

Riki Polygenis  
Head of Australian Economics  
+61 3 8679 9534

James Glenn  
Senior Economist - Australia  
+(61 3) 9208 8129

Vyanne Lai  
Economist - Australia  
+(61 3) 8634 0198

Amy Li  
Economist - Australia  
+(61 3) 8634 1563

Phin Ziebell  
Economist - Agribusiness  
+(61 4) 55 051 024

### Industry & Behavioural Economics

Dean Pearson  
Head of Industry & Behavioural  
Economics  
+(61 3) 8634 2331

Robert De Iure  
Senior Economist - Industry &  
Behavioural Economics  
+(61 3) 8634 4611

Brien McDonald  
Senior Economist - Industry &  
Behavioural Economics  
+(61 3) 8634 3837

Karla Bulauan  
Economist - Industry &  
Behavioural Economics  
+(61 3) 8641 4028

### International Economics

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

Tony Kelly  
Senior Economist - International  
+(61 3) 9208 5049

Gerard Burg  
Senior Economist - Asia  
+(61 3) 8634 2788

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

## Global Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406

### Australia

#### Economics

Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836

David de Garis  
Senior Economist  
+61 3 8641 3045

Tapas Strickland  
Economist  
+61 2 9237 1980

#### 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

Simon Fletcher  
Senior Credit Analyst - FI  
+61 29237 1076

#### Equities

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

#### Distribution

Barbara Leong  
Research Production Manager  
+61 2 9237 8151

### New Zealand

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

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Kymerly Martin  
Senior Market Strategist  
+64 4 924 7654

Raiko Shareef  
Currency Strategist  
+64 4 924 7652

Yvonne Liew  
Publications & Web Administrator  
+64 4 474 9771

### UK/Europe

Nick Parsons  
Head of Research, UK/Europe,  
and Global Co-Head of FX Strategy  
+44207710 2993

Gavin Friend  
Senior Markets Strategist  
+44 207 710 2155

Derek Allassani  
Research Production Manager  
+44 207 710 1532

### Asia

Christy Tan  
Head of Markets  
Strategy/Research, Asia  
+852 2822 5350

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