

NAB Residential Property Survey: Q3 2015

by NAB Group Economics

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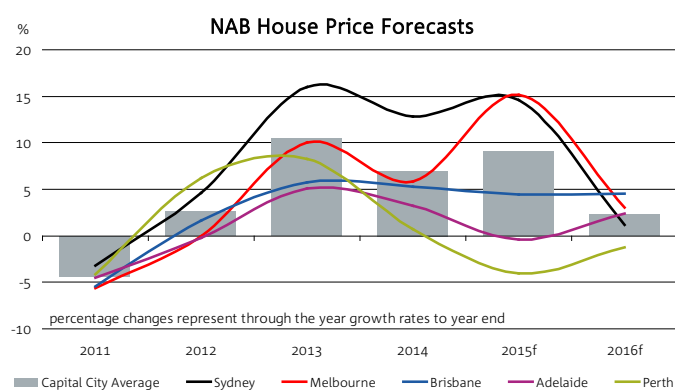
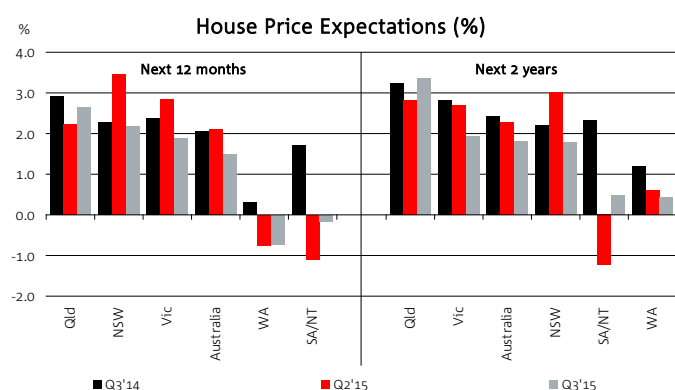


Housing market sentiment softens as expectations for future price growth and rents are scaled back in most states. Queensland the exception, replacing NSW as the most optimistic state for residential property and also tipped to lead the country for price and rental growth in the next 1-2 years. Foreign buyers overall were more active in new (15.7%) and established (9%) housing markets in Q3. They accounted for 19% of new apartment, 14.9% of new house, 11.3% of established apartment and 9.5% of established house sales. Foreign buyers continue to play a far bigger role in Victoria relative to all other states.

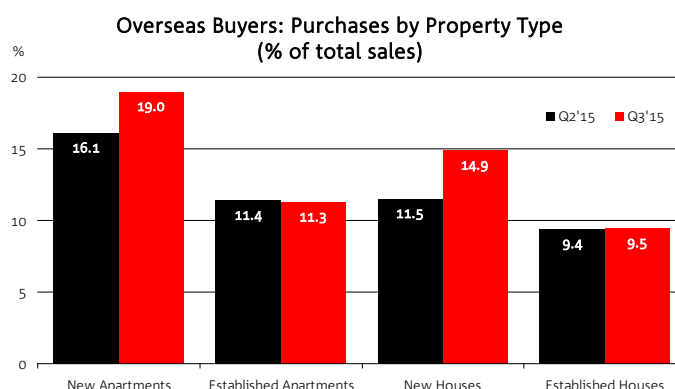


Survey highlights:

- NAB Residential Property Index fell -7 to +10 pts in Q3. Improvements in SA/NT (but still negative) & QLD. Lower in VIC & NSW (but strongest overall). WA hits new low. QLD most optimistic in next 1-2yrs. WA most pessimistic.
- House price expectations softer in all states bar QLD (now strongest overall) & SA/NT (but under-performing). NAB sees house price growth easing in Melbourne & Sydney in 2016, rising in Brisbane & Adelaide and falling in Perth.
- Yield compression to persist as capital growth outpaces rents in all states. Outlook for rental growth improves in QLD (best overall) and SA/NT & WA (but still very weak). Lower returns forecast for VIC and NSW.
- Foreign buyers more active in new property markets in Q3 (15.7% vs. 12.8% in Q2), with notable increases in VIC (25.2%) and QLD (17.7%). FHBs (owner occupiers) and local investors also increase their market share.
- FHBs (owner occupiers & investors) more active in established markets in all states (bar QLD FHB investors). Local investors and upgraders pull back a little. Foreign buyers up in VIC (15%) & QLD (7.6%); lower in NSW (9.7%).
- Foreign buyers accounted for nearly 1 in 5 new apartments sold in Q3, almost 15% of new houses and around 1 in 10 established apartments and houses. Foreign buyers significantly more in new and established property markets in VIC than any other state. More foreign buyers purchased higher priced properties (especially in NSW), which may have reflected continued house price growth and weaker AUD.
- Tight credit has re-emerged as the biggest (and growing) constraint for new housing development, but employment security is still considered the biggest impediment to buying existing property.



	Q1 2015	Q2 2015	Q3 2015	Next Qtr	Next 1 yr	Next 2 yrs
VIC	36	49	31	28	38	39
NSW	42	50	43	43	52	42
QLD	33	11	28	40	59	64
SA/NT	-5	-42	-21	-13	-4	33
WA	-34	-56	-61	-50	-26	18
Index	21	17	10	16	32	41



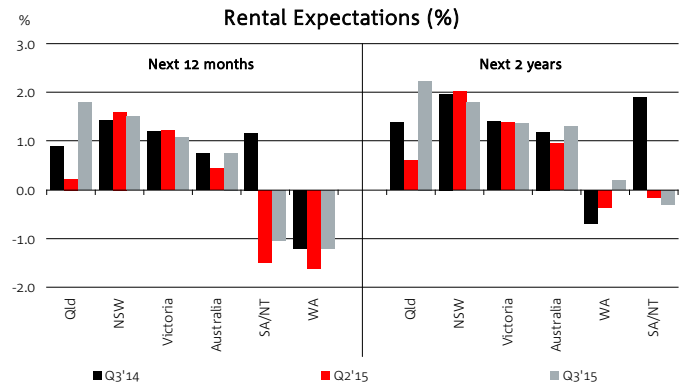
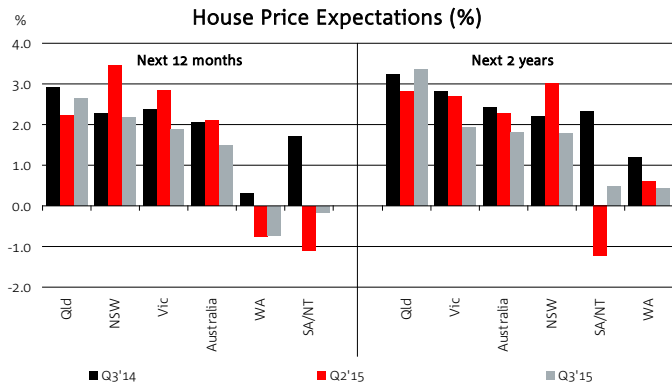
1. Residential Property - Market Performance

House price expectations

Nationally, house prices are expected to slow to 1.5% in the next year (2.1% in Q2 Survey). Outlook stronger in QLD (2.6%) and now best overall, with smaller losses tipped in SA/NT (-0.2%). In contrast, expectations scaled back in NSW (2.2%) and VIC (1.9%) and unchanged in WA (-0.7%). National house prices expected to grow 1.8% in 2 years time (2.3% in Q2 Survey), led by QLD (3.4%), VIC (1.9%) and NSW (1.8%). Modest price growth to also resume in SA/NT (0.5%) and WA (0.4%).

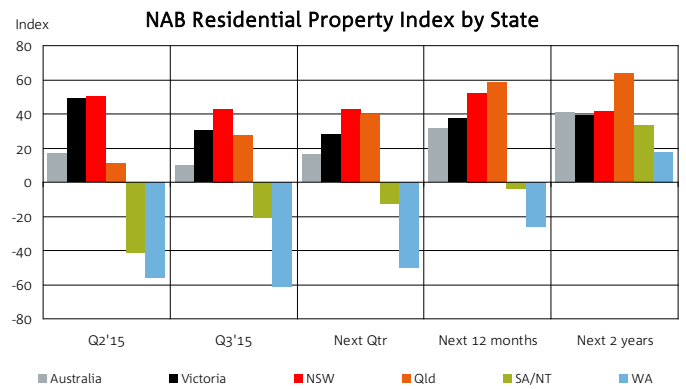
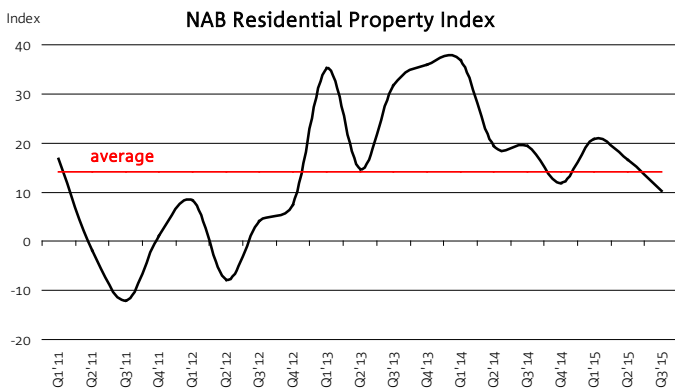
Rental expectations

Yield compression to persist as capital growth outpaces rents in all states. Rental growth expected to accelerate in QLD (1.8%), with the pace of contraction tipped to slow in SA/NT (-1%) and WA (-1.2%). Income returns in NSW (1.5%) and VIC (1.1%) expected to moderate, but remain among the best yielding states. National outlook in 2 years time stronger at 1.3%, largely reflecting the impact of a big upward revision in expectations for rental growth in QLD (2.2%) and to a lesser extent WA (0.2%).



NAB Residential Property Index

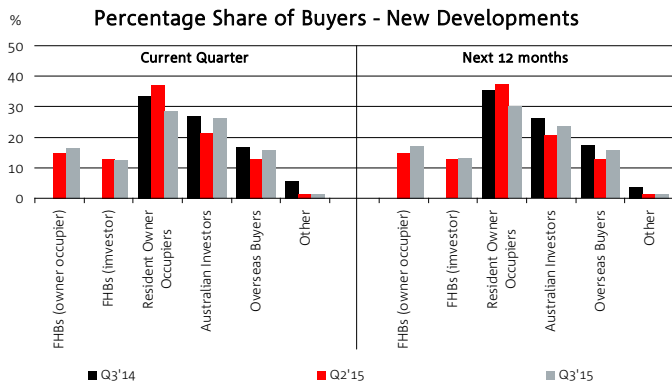
The NAB Residential Property Index fell to +10 points in Q3 (+17 in Q2), dragged down by softening price expectations and continued weakness in rents in most states. The index has fallen in the last two quarters and is now below its long-term average (+14 points). Market sentiment improved most in QLD (+28 points) and SA/NT (but still negative at -21 points). In contrast, sentiment fell in VIC (+31 points) and NSW (+43 points), although they remain the strongest states overall with sentiment tracking well above their respective long-term averages (+15 in VIC and +29 in NSW). Sentiment in WA fell to a new low of -61 points. NAB's Residential Property Index is expected to rise to +32 points next year and +42 points in 2 years time, with property professionals in QLD the most optimistic in the country (replacing NSW). Property professionals in WA remain the most pessimistic (but mildly positive in 2 years time).



2. Residential Property - New Developments

Demand for new properties by buyer

FHBs (owner occupiers) were more active in new property markets in Q3, with their share of total demand rising to 16.4% nationally (14.7% in Q2), largely due to increased activity in NSW (16.8%). The share of FHB (investors) was however slightly lower at 12.5% (12.8% in Q2), despite modestly higher activity from these buyers in NSW (14.5%) and VIC (6.8%). In total, FHBs accounted for 28.9% of total new property demand in Q3 (27.5% in Q2).

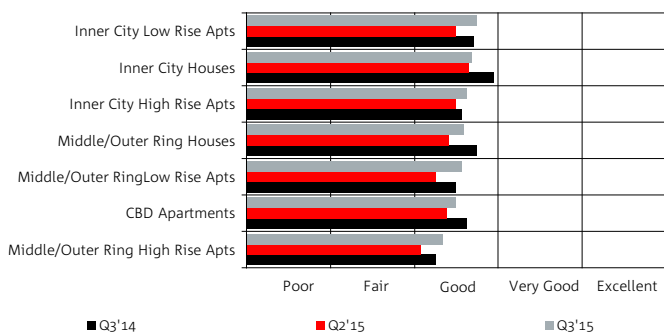


Owner occupiers (net of FHBs) pulled back from new property markets in Q3, with their share of national demand falling to 28.6% (37.2% in Q2). These buyers pulled back most in NSW (29.2%) and VIC (25.2%). The market share of resident investors (net of FHBs) in new property markets rose to 26.3% (21.3% in Q2), mainly reflecting a bigger presence in NSW (27.9%) and VIC (26.2%). Foreign buyers were also more active in new property markets in Q3. Overall, they accounted for 15.7% of new property demand (12.8% in Q2), with foreign buyers significantly more active in VIC (25.2%) and QLD (17.7%), up modestly in NSW (13.6%) and down in WA (8.3%).

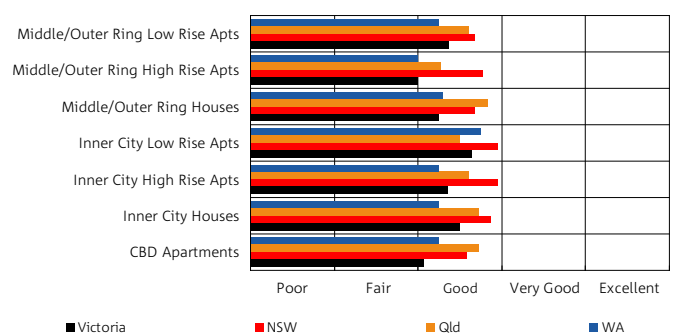
Expected demand for new property by type and location

Demand for new property is expected to improve in all categories over the next 12 months, with expectations rated "good". Demand is tipped to be strongest for inner city properties and weakest for CBD apartments and high rise apartments in the middle/outer ring. By state, overall demand for most property types is tipped to be strongest in NSW, except for houses in the middle/outer ring and CBD apartments, where expectations are stronger in QLD. Property professionals in VIC are anticipating "good" demand for inner city and CBD apartments, despite fears of a looming over-supply of apartments in the Melbourne inner city region.

Demand for New Residential Developments (next 12 months)



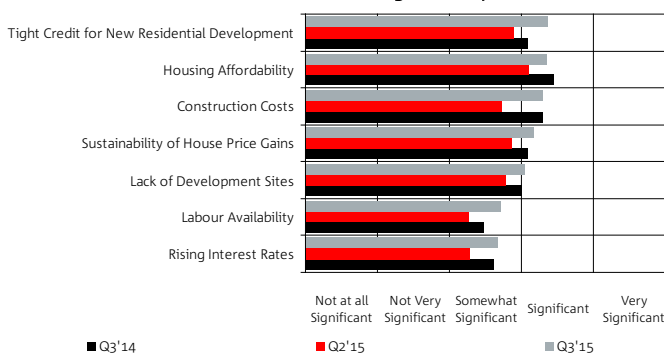
Demand for New Residential Developments by State (next 12 months)



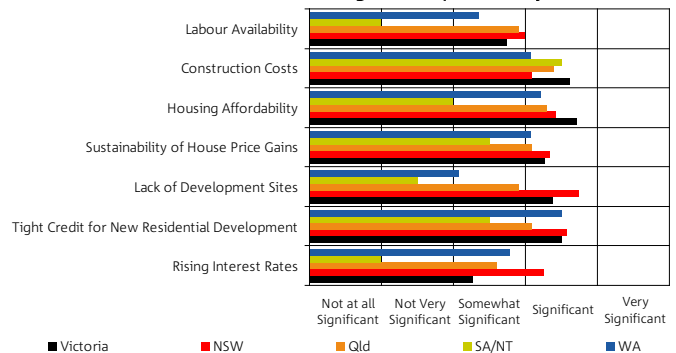
Constraints on new housing development

Tight credit has re-emerged as the biggest (and growing) constraint for new housing development (led by NSW, WA & VIC). Housing affordability (especially in VIC & NSW) and construction costs (mainly VIC, SA/NT & QLD) are the next biggest constraints, with the level of concern also somewhat higher than in Q2.

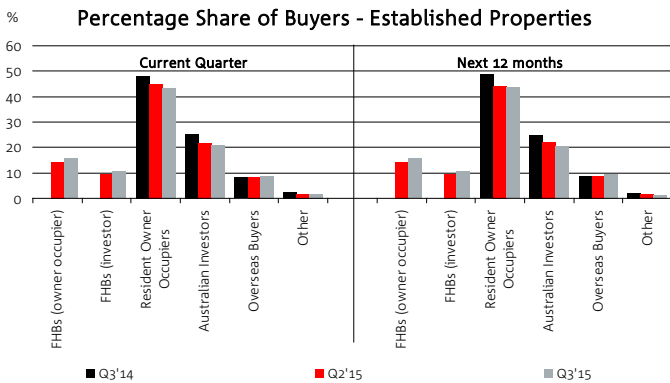
Constraints on New Housing Developments



Constraints on New Housing Developments by State



3. Residential Property - Established Property



Demand for established property by buyer

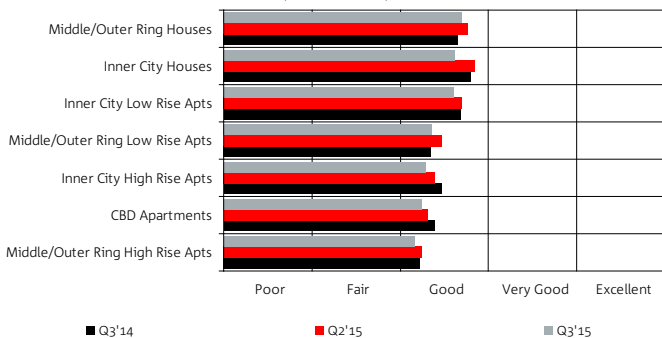
FHBs (owner occupiers), increased their share of total demand in established property markets to 15.7% in Q3 (14.2% in Q2), with these buyers more active in all states. FHBs (investors) were also more active in all states bar QLD, with their market share rising to 10.5% (9.5% in Q2), led by NSW (12.9%), VIC (12.6%) and WA (9%). Owner occupiers (net of FHBs) saw their share of total demand fall to 43.2% (45% in Q2), with owner occupiers less active in all states except QLD. The share of local investors (net of FHBs) in the national market also fell slightly to 20.7% in Q3 (21.7% in Q2), with lower activity in this buyer group in VIC and QLD offsetting an increase in market share in NSW and WA.

In contrast, foreign buyers were more active in established property markets in Q3, with their share of national demand rising to 9% (8.6% in Q2). The share of foreign buyers rose in established property markets in VIC to a new high of 15% of total sales (11.2% in Q2) and in QLD (7.6%). Foreign buyers were however somewhat less active in NSW where their market share declined to 9.7% from 11.2% in Q2, and in WA (6.6% vs 6.8% in Q2).

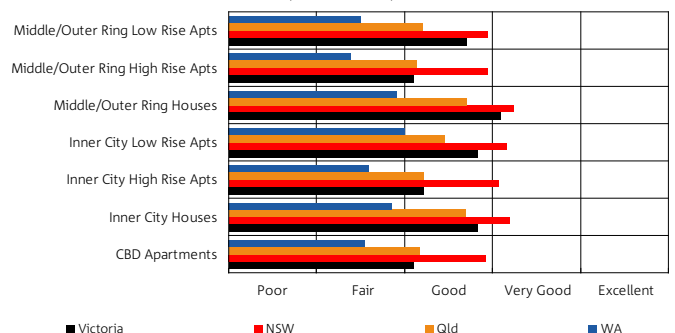
Expected demand for established property by type and location

The outlook for demand for established property next year was scaled back for all types of property and in all locations, but demand is still expected to be “good” across the board. By state, survey participants in NSW and VIC expect “very good” demand for houses in the middle/outer ring. NSW participants also anticipate “very good” demand for inner city houses, high and low rise apartments. In contrast, market professionals in WA are expecting only “fair” demand for all types of property next year.

Demand for Established Residential Property (next 12 months)



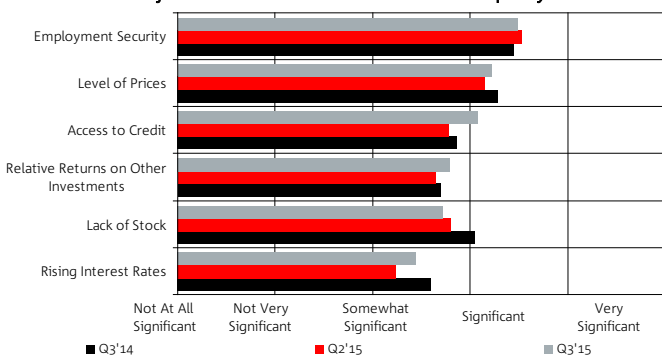
Demand for Established Residential Property by State (next 12 months)



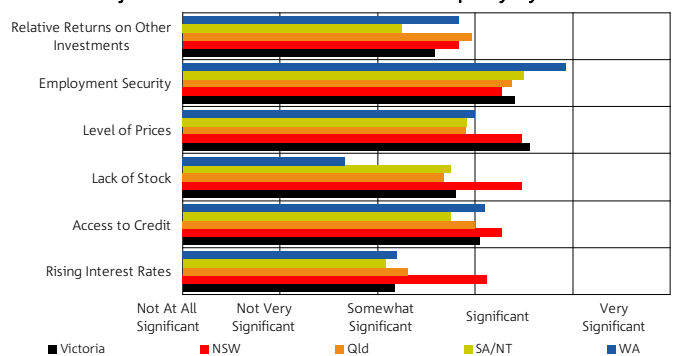
Constraints on established property

Employment security is still being identified as the biggest impediment to buying existing property nationally and in most states, especially WA (which is facing considerable employment challenges as the state mining investment boom unwinds). Not surprisingly, house price levels were seen as a “significant” impediment to buying existing property nationally, led by NSW and VIC where the rate of house price growth continues to lead the country. Access to credit has also re-emerged as a “significant” constraint, led by heightened concerns in NSW, WA and VIC.

Major Constraints on Established Property



Major Constraints on Established Property by State



4. Foreign Buyers

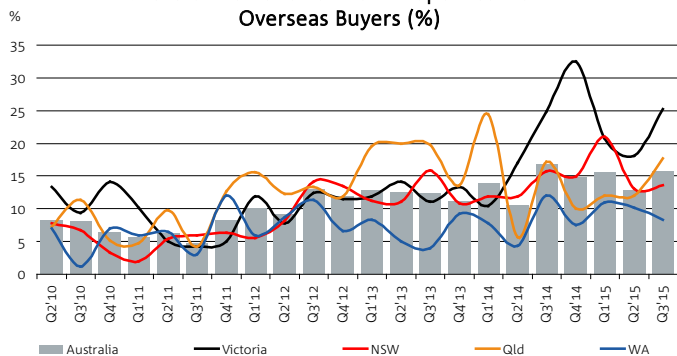
Overall foreign buying activity

Foreign buyers were more prominent in Australian property markets in Q3. Overall, foreign buyers accounted for 15.7% of total demand in new property markets (12.8% in Q2) and 9% of total demand in the established housing market (8.6% in Q2).

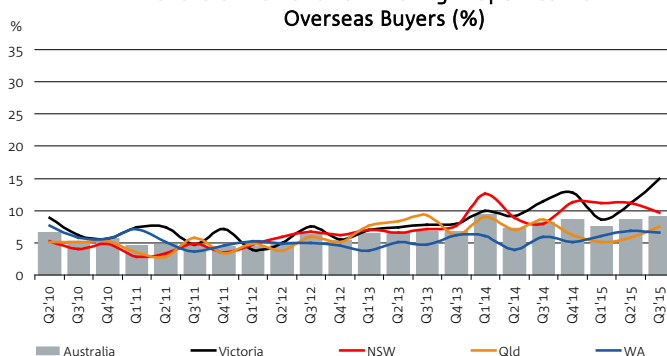
In new property markets, foreign buyers increased their overall market share to 25.2% in VIC (18.1% in Q2), 17.7% in QLD (12% in Q2) and 13.6% in NSW (13.1% in Q2). In WA, however, their share of total demand fell to 8.3%, down from 10.1% in the previous quarter.

The overall increase in foreign buying activity in established housing markets was led by VIC, where foreign buyers made up 15% of total demand for established property - a new high (11.2% in Q2) and in QLD, where they accounted for 7.6% of total demand (5.7% in Q2). In contrast, foreign buyers were less prevalent in NSW (9.7%) and WA (6.6%).

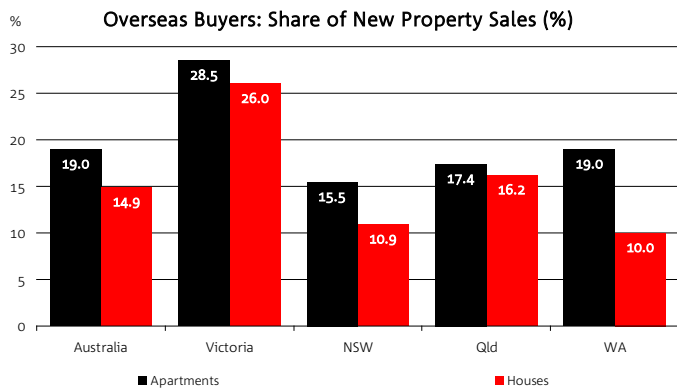
Share of Demand for New Properties from Overseas Buyers (%)



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

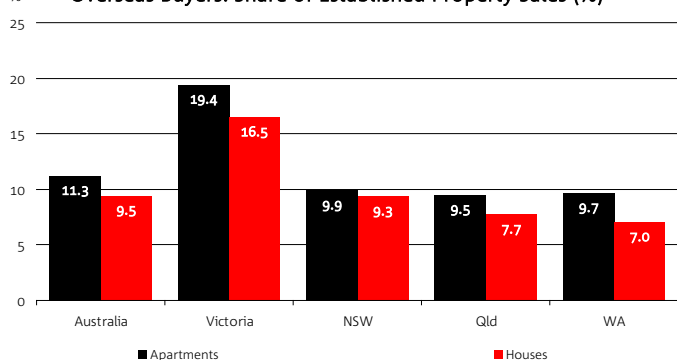


Overseas Buyers: Share of New Property Sales (%)



also saw an increase in foreign buying activity in new housing markets (from 8.7% of total demand to 16.2% in QLD and 8.3% to 10% in WA). In contrast, foreign buyers were less active in the NSW new apartment market (down from 16.5% in Q2 to 15.5% in Q3) and new housing markets (14.6% to 10.9%).

Overseas Buyers: Share of Established Property Sales (%)



established houses (16.1% in Q2). Foreign buyers also increased their market presence in established apartment markets in QLD (9.5% vs 6.9%) and WA (9.7% vs 9%) and in established housing markets in QLD (7.7% vs 5.3%) and WA (7% vs 5.8%). However, they pulled back in both established apartment (9.9% vs 12.6%) and housing markets (9.3% vs 10.2%) in NSW.

Foreign buying by property type: new property

By property type, survey estimates suggest that foreign buyers accounted for 19% of all new apartment sales in Q3 (up from 16.1% in Q2) and 14.9% of all new house sales (up from 11.5% in Q2).

Foreign buyers continue to play a far bigger role in new property markets in VIC relative to all other states. In Q3, they accounted for 28.5% of total demand in the new apartment market (28.3% in Q2) and 26% of new houses (16.7% in Q2).

There were also notable increases in foreign buying activity in new apartment markets in WA (19% vs 12.9% in Q2) and QLD (17.4% vs 13.1% in Q2). These two states

Foreign buying by property type: established property

Despite stricter restrictions on foreign investment in the established residential property market, our survey continues to suggest that foreign buyers also play a fairly significant role in this part of the market.

According to surveyed property professionals in Q3, foreign buyers accounted for 11.3% of all established apartment sales (11.4% in Q2) and 9.5% of established house sales (9.4% in Q2).

Foreign buyers also continue to play a far bigger role in established property markets in VIC. In Q3, foreign buyers accounted for 19.4% of total demand for established apartments (17.5% in Q2) and 16.5% of

Type of property purchased by foreign buyers

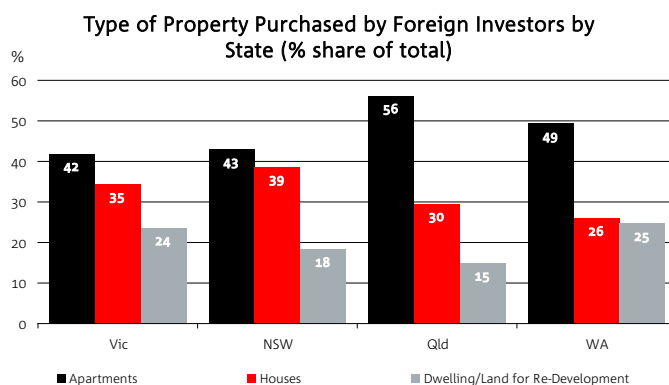
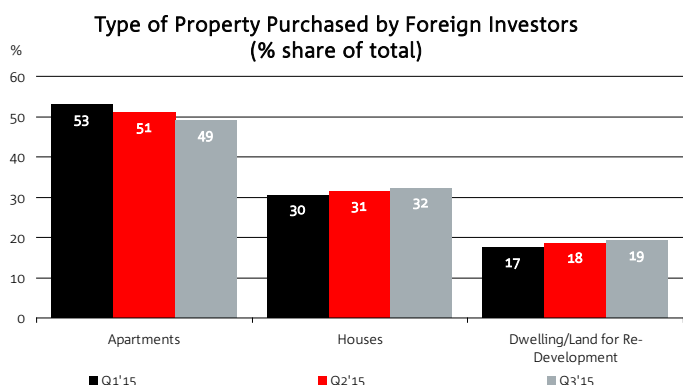
Overall, 49% of foreign purchases of Australian residential property were for apartments, 32% houses and 19% for re-development. However, these ratios differed significantly at the state level.

In the main foreign investment market of VIC, apartments accounted for 42% of all foreign purchases, 35% were houses and 24% for re-development. These ratios were broadly unchanged from Q2.

In NSW, however, there was a notable change in foreign buyer preferences in Q3. Around 43% of all properties purchased by foreigners were apartments (down from 52% in Q2) and 39% were houses (up from 32% in Q2). The share of property bought for re-development purposes also rose slightly to 18%.

In QLD, apartments accounted for 56% of all foreign purchases in Q3 (53% in Q2) - by far the biggest share among the main states. Houses accounted for 30% of foreign sales and re-development 15%.

In WA, there was notable increase in the share of property being purchased by foreign buyers for re-development purposes. These transactions accounted for around 1 in 4 of all sales in Q3, up from 16% in Q2. At the same time, the share of apartments fell to 49% (56% in Q2) and that of houses to 26% (28% in Q2).



Price range of property purchased by foreign buyers

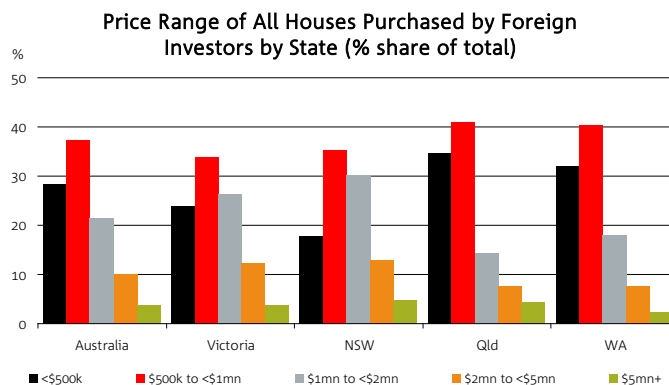
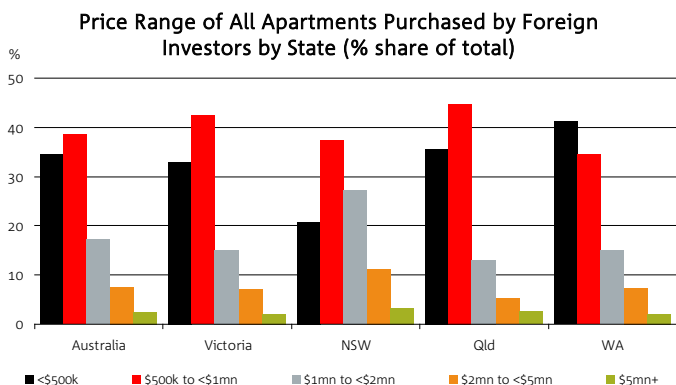
More foreign buyers purchased higher priced properties in Q3, which may have been influenced in part by continued house price growth in Australia and a depreciating AUD.

In the apartment market, around 73% of foreign buyers nationally purchased properties valued less than \$1 million in Q3 (78% in Q2), with around 34% buying apartments worth less than \$500k (41% in Q2) and 39% buying apartments in the \$500k-\$1 million range (37% in Q2). Just over 17% of all apartments bought by foreigners were in the \$1-2 million range, with the balance of sales above \$2 million.

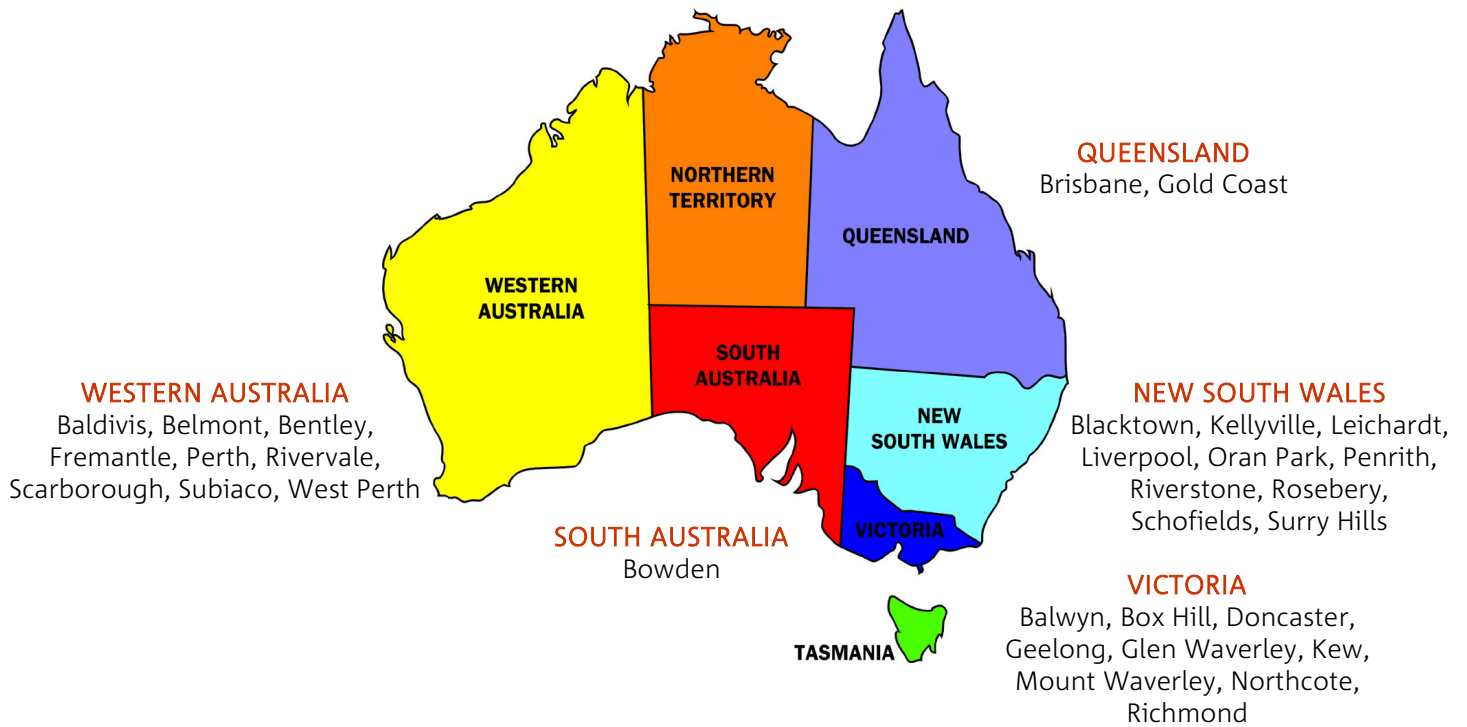
By state, around 80% of foreign apartment purchased were valued less that \$1 million in QLD, compared to around 76% in both VIC and WA. Not surprisingly, in NSW where median apartment prices are also highest in the country, only 58% of foreign purchases were valued below \$1 million. In contrast, around 27% of foreign apartment purchases in NSW were in the \$1-2 million range (compared to around 15% in VIC and WA and 13% in QLD), while 15% of new apartment sales in NSW were valued above \$2 million (compared to around 8-9% in all other states).

In the housing market, around 66% of foreign buyers nationally bought houses valued less than \$1 million (71% in Q2), with around 28% buying houses worth less than \$500k (32% in Q2) and 37% in the \$500k-\$1 million range (39% in Q2). Around 21% of all house sales were in the \$1-2 million range, with the balance of sales above \$2 million.

By state, around 53% of houses purchased by foreigners in NSW and 58% in VIC were valued below \$1 million, compared to 75% in QLD and 72% in WA. Around 30% of all houses purchased in NSW and 26% in VIC were valued between \$1-2 million, with 12-13% valued between \$2-5 million.



5. Suburbs tipped to enjoy above average capital growth



6. Survey Respondents Expectations

House Prices

	Q1 15	Q2 15	Q3 15	Next qtr	Next 1 yr	Next 2 yrs
VIC	1.1	2.3	1.5	1.5	1.9	1.9
NSW	2.5	2.6	2.1	1.9	2.2	1.8
QLD	1.4	1.1	0.9	1.2	2.6	3.4
SA/NT	-0.4	-1.8	-0.5	-0.4	-0.2	0.5
WA	-0.7	-1.6	-1.7	-1.5	-0.7	0.4
Australia	1.2	1.3	0.8	0.9	1.5	1.8

Rents

	Q1 14	Q2 15	Q3 15	Next Qtr	Next 1 yr	Next 2 yrs
VIC	0.4	0.7	0.6	0.7	1.1	1.4
NSW	0.5	0.4	0.4	0.8	1.5	1.8
QLD	0.2	-0.3	0.2	1.0	1.8	2.2
SA/NT	-1.2	-2.1	-2.4	-1.7	-1.0	-0.3
WA	-2.6	-3.0	-2.2	-1.9	-1.2	0.2
Australia	-0.3	-0.4	-0.4	0.1	0.8	1.3

7. NAB's View of Residential House Prices

NAB Economics is forecasting average national house price growth of 9.1% over 2015, which is much higher than expected earlier in the year.

The rapid pace of house price growth has not been experienced uniformly across the market. Capital growth has been led by Sydney and Melbourne, with house price growth forecast to be 14.6% and 15.2% respectively over 2015. Modest gains in 2015 are also forecast for Brisbane (4.4%), while Adelaide will be broadly flat. In Perth, house prices are expected to fall (-4%), with the slowdown in the mining sector and associated softening in population growth playing a negative role in the local market.

In an environment where income growth continues to be modest, these rates of growth are unlikely to continue, suggesting price growth will slow in 2016.

Additionally, regulatory changes to address perceived risks in housing credit (particularly investor credit) are likely to have at least some impact on housing demand (even if only at the margin).

The forecast for average national house price growth in 2016 has been lowered to 2.3%, from 3.0%. A strong supply response in the apartment sector, however, suggests a weaker outlook for this market, and greater reliance on foreign buyers adds a degree of unpredictability to the outlook.

In 2016, the slowdown in average national house price growth to 2.3% is largely driven by a moderation in both Sydney and Melbourne prices growth. NAB Economics expects house price growth to decelerate in Sydney to 1.2%, while price growth in Melbourne will ease to 3%. Brisbane is tipped to see the fastest house price growth (4.5%), and the Adelaide market is expected to improve (2.4%). Perth will remain weak, although price declines are forecast to ease (-1.2%).

Overall, our assessment is that the possibility of a sharp correction in the Australian housing market is remote, although continued rapid price growth in Sydney and Melbourne over the past 6 months suggests the risks have risen.

While it would take a sharp deterioration in the labour market and/or a large increase in interest rates to trigger a severe decline in house prices, worsening affordability will most likely cap price growth going forward.

Supply is also responding to higher prices - this may exert downward pressure on some segments of the market, although measures of pent-up demand (under-supply) vary across markets (e.g. still quite supportive for Sydney housing) and do not capture foreign demand. However, approvals for new apartments have been large in some areas (e.g. Melbourne CBD), which poses a risk in these segments.

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	14.6	1.2
Melbourne	-5.6	0.0	10.0	5.8	15.2	3.0
Brisbane	-5.4	1.6	5.7	5.3	4.4	4.5
Adelaide	-4.5	-0.2	5.1	3.2	-0.4	2.4
Perth	-4.1	6.2	8.3	0.7	-4.0	-1.2
Capital City Average	-4.4	2.6	10.5	7.0	9.1	2.3

*percentage changes represent through the year growth rates

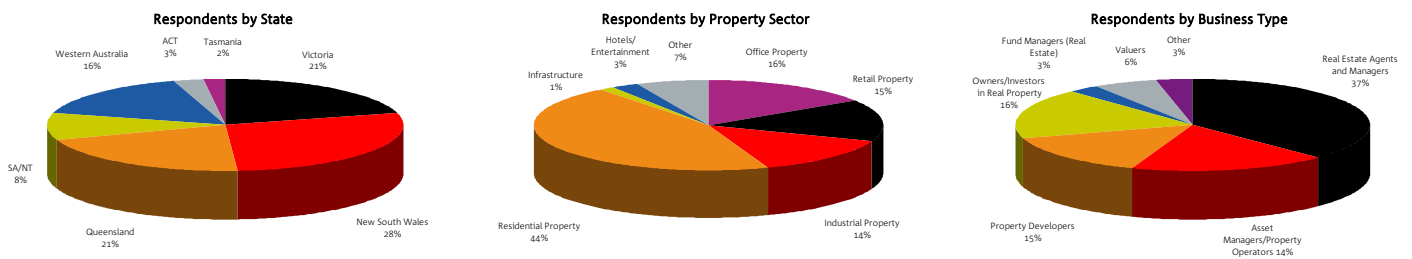
About the Survey

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 250 panellists participated in the Q3 2015 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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