



Housing Market Report

Summer 2016 Edition



Prepared by RPDData Pty Ltd ABN 67 087 759 171 and National Australia Bank Ltd ABN 12 004 044 937
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Welcome to our Summer 2016 Edition

The Housing Market Report is your guide to the current home value trends in Australia.

You'll find information about what's happened over the last 12 months, as well as NAB's expectations of where prices are headed in the near future.

We've used information from a few different sources to put this report together.

Here's how it works:

The information on the white background (headed **Corelogic RP Data's view**) is about the housing market in the 12-month period to December 2015 for information about capital cities and to November 2015 for information about regional areas.

It was provided by RP Data Pty Ltd, who trade as CoreLogic Asia Pacific, but are referred to in this report as CoreLogic RP Data.

The information on the grey background (headed **NAB's view**) is provided by NAB Group Economics. It's our economists' view about the national capital city house and unit price growth over the next 12 months to December 2016.

NAB's view takes into consideration the December 2015 NAB Residential Property survey of property market professionals. The survey asked participants to give their views on where they think house prices are expected to move.

Important information

You can find more detail about the sources we've used for this report in the 'Important Information' section at the end of this document.

References to 'NAB' in this report are to National Australia Bank Limited ABN 12 004 044 937.

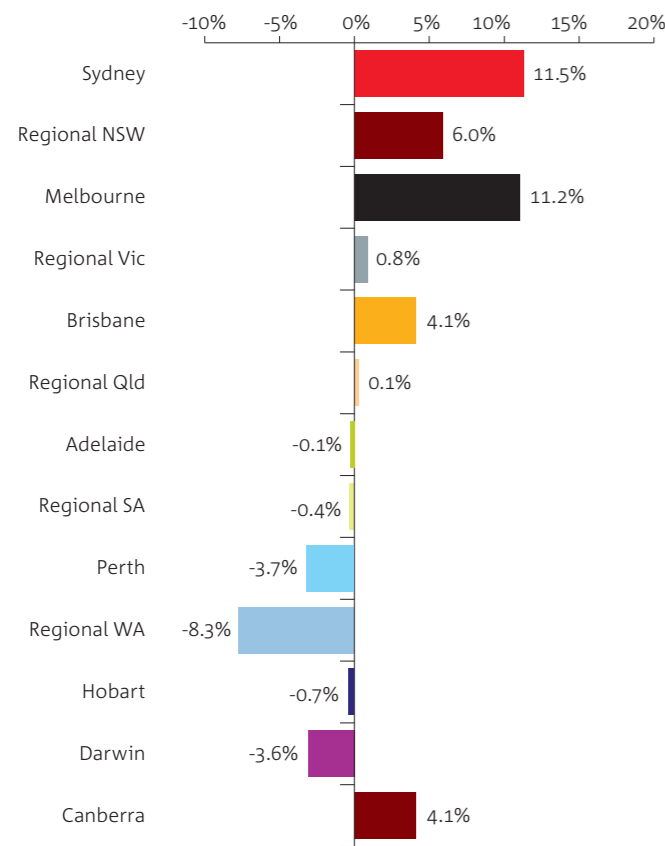
National overview

CoreLogic RP Data's view:

Across the combined capital cities last year we saw home values rise by 7.8%, however, digging a bit deeper, we can see the rate of growth ranged from values rising by over 11% in Sydney and Melbourne last year through to capital cities where values were tracking backwards.

The final quarter of 2015 saw housing market conditions start to soften, particularly in Sydney and Melbourne where growth conditions had previously been very strong.

Annual change in home values over past year*



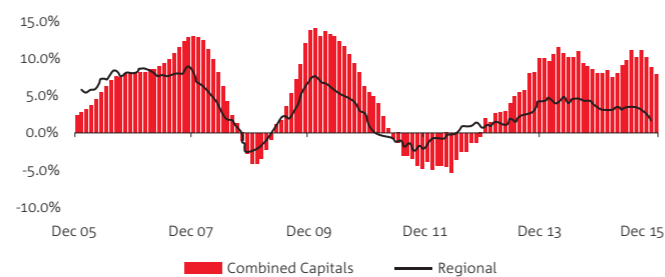
*Data for homes in capital cities, houses in regional areas. Data to Dec-15 for capital cities, Nov-15 for regional areas

Source: CoreLogic RP Data

The slowdown in housing market conditions can most likely be attributed to both weaker housing demand as well as record levels of new housing supply approved for construction last year.

Weaker housing demand relates to a number of factors including slower migration rates, tighter finance requirements due to changes in the prudential regulatory framework as well as affordability challenges in cities such as Sydney where the median house value is approaching one million dollars.

Annual change in home values, Combined capitals and Regional Aust.



Key definitions

Home value is the value of dwellings which is the combination of both house and unit values

Median value utilises Core Logic RP Data's automated valuation model (AVM) to determine the middle value of all properties in a suburb. The change in median value is measured by the percentage difference between the current median value and the median value over a stated time period (12 months/3 years/5 years)

NAB's view:

Housing market set to slow as Sydney and Melbourne show signs of cooling

Going into 2016, momentum in the market is expected to flatten out as credit restrictions on investors and worsening affordability bites in Sydney and – to a lesser extent – Melbourne, where foreign investment is a larger element.

Additionally, the existing pipeline of residential construction remains large, especially in the unit/apartment market, which will more than offset new demand. It is also unclear just how restricting the investor regulatory changes will be, given that to-date, at least, there seems to have been some shifting in credit growth from investors to owner-occupiers. In response to these factors, the expectation for average national house price growth in 2016 has been lowered further to just 1%, from 2.3%.

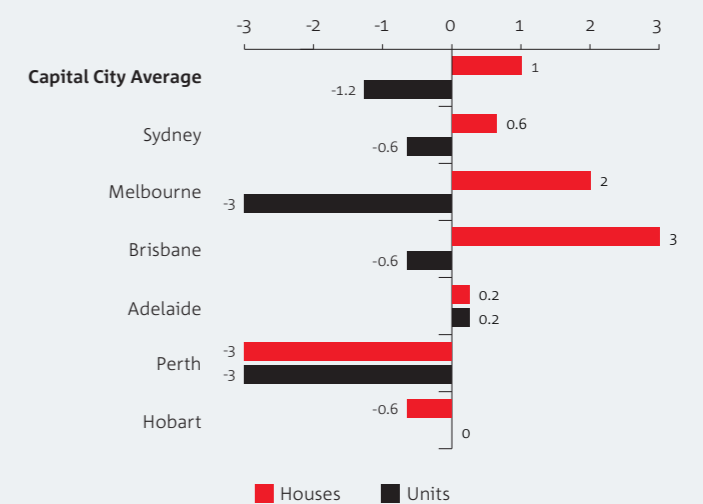
However, given that much of the imminent new supply is going into large unit/apartment blocks (currently a small proportion of the housing stock), negative price pressures will be stronger for this market. Consequently, unit prices are expected to fall 1.2% over 2016.

Expectation for average national house price growth in 2016 has been lowered further to just 1%, from 2.3%.

Aside from the strong supply response in the unit/apartment sector, however, greater reliance on foreign buyers adds a degree of unpredictability to the outlook (both positive and negative). This outlook is consistent with NAB's Residential Property Survey, which showed that industry sentiment fell to its lowest level since mid-2012, while participants downgraded their expectations for prices gains over the next 2 years – Queensland's still expected to be an outperformer.

The relative size of the housing market and the limited availability of data make it difficult to reliably produce forecasts for property values in the ACT/NT. For this reason, there are no ACT/NT expectations shown in the graph above.

Expectations until December 2016



Source: NAB Group Economics

New South Wales overview

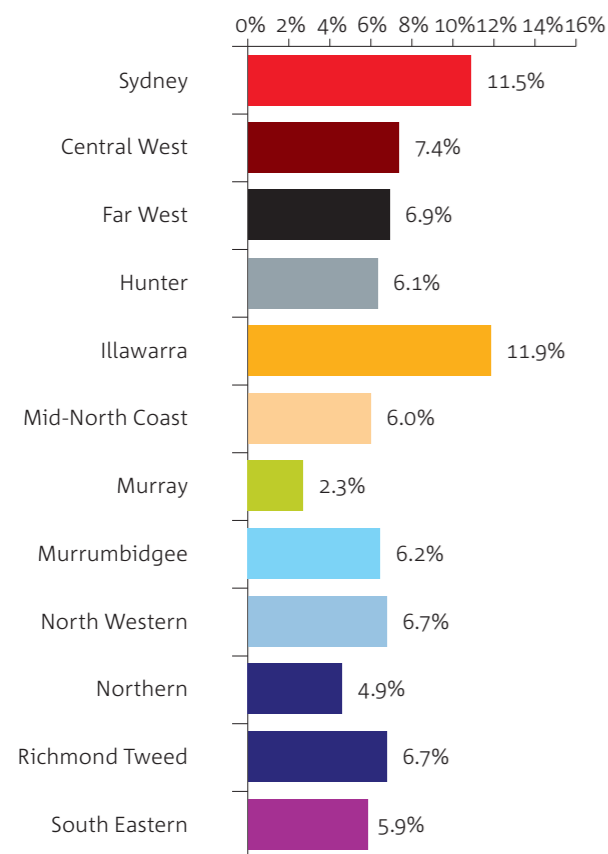
CoreLogic RP Data's view:

The 2015 calendar year saw **Sydney home values rise by a total of 11.5%**. Strong economic conditions together with high rates of migration have driven the strength in the New South Wales housing market.

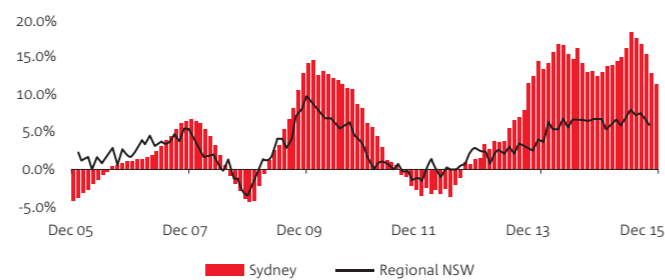
Sydney has recorded the **highest rate of growth, with home values rising by a cumulative 42.1%** over the past five years.

While growth in home values across Sydney has been substantial, the second half of 2015 has shown the first signs that Sydney's strong run of capital gains is losing steam; the final quarter of 2015 saw auction clearance rates slip to the lowest levels since 2012 and home values were down by 2.3% over the quarter.

Annual change in home values over past year*



Annual change in home values, Sydney and Regional NSW



*Data for homes in capital cities, houses in regional areas. Data to Dec-15 for capital cities, Nov-15 for regional areas

Source: CoreLogic RP Data

NAB's view:

House values in Sydney expected to increase by **0.6%**, while **units** expected to fall by **0.6%** in 2016

The Sydney housing market has been undersupplied for a number of years, leading to a substantial accumulation of pent up demand. While the undersupply of housing – in conjunction with other factors including strong foreign demand and low interest rates – have been highly supportive of prices, a significant deterioration in affordability is likely to pose more of a constraint on price gains going forward.

help to alleviate the pent up demand for housing that has accumulated over time, reducing a key source of support for the market. Similar to elsewhere, more subdued population growth and tighter credit conditions from prudential regulatory changes will likely slow demand, and may have a particularly large impact on Sydney given the large contribution from investors.

NAB has lowered its expectation for house price growth to just 0.6% in 2016 (from 11.5% in 2015)

The NAB Property Survey showed that market sentiment weakened considerably in the last quarter of 2015, foreign demand eased off moderately, and participant's expectations for price gains in the next 2 years were also heavily reduced. Consequently, NAB has lowered its expectation for house price growth to just 0.6% in 2016 (from 11.5% in 2015). Given the additional headwinds to the unit/apartment market, prices for this type of housing are expected to fall 0.6% in 2016.

Additionally, a record large pipeline of residential buildings approved for construction is now (and will continue to)



Houses
0.6% ↑



Units
0.6% ↓

Victoria overview

CoreLogic RP Data's view:

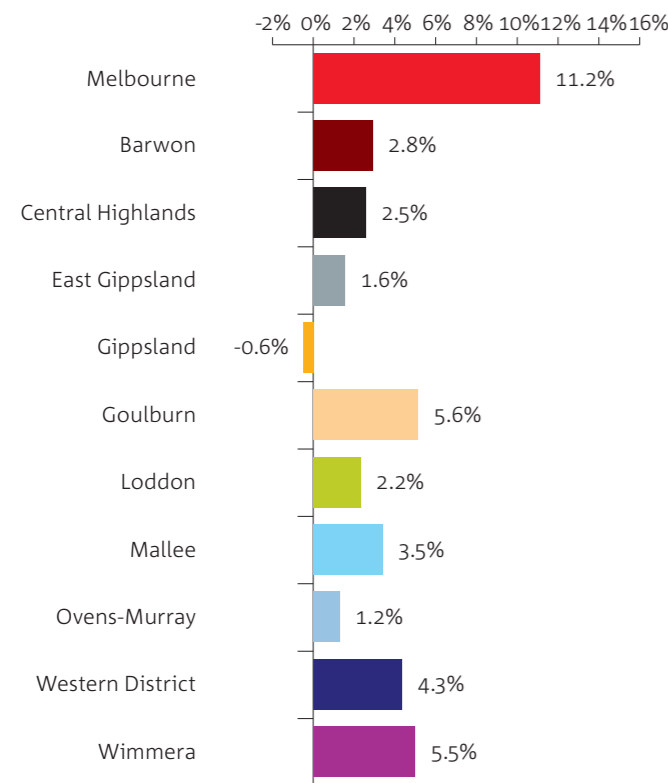
Home values across Melbourne have substantially outperformed the regional areas of the state.

While Melbourne home values rose by 11.2% over the past twelve months, the next best performing regions across the state were the primarily agricultural regions of Goulburn and Wimmera, where home values increased by 5.6% and 5.5% respectively.

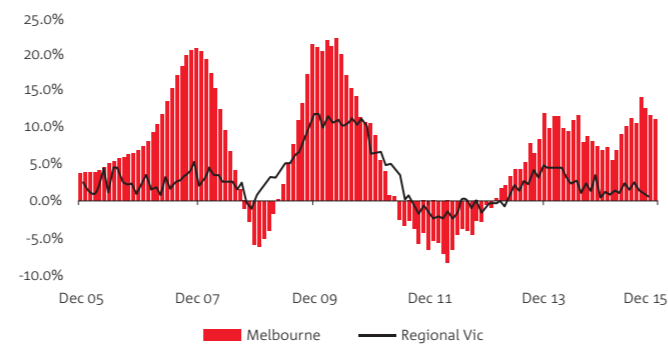
Melbourne's strong rate of growth started to show some tentative signs of easing over the final quarter of 2015, with home values slipping 1.9% lower.

At the same time auction clearance rates moderated from the high 80% range down to the mid 60% range indicating some rebalancing towards buyers in what has been a strong sellers' market since mid-2012.

Annual change in home values over past year*



Annual change in home values, Melbourne and Regional Vic



*Data for homes in capital cities, houses in regional areas. Data to Dec-15 for capital cities, Nov-15 for regional areas

Source: CoreLogic RP Data

NAB's view:

House values in Melbourne expected to increase by 2%, while units expected to fall by 3% in 2016

The supply-demand fundamentals for the Melbourne housing market have not been as supportive as those in Sydney, despite strong population growth, due to relatively stronger construction rates over the years. Nevertheless, the NAB Residential Property Survey shows that foreign demand tends to be particularly strong in Melbourne, which in conjunction with low interest rates – contributing to local borrowing capability – has seen prices grow quite strongly.

NAB has lowered its expectation for house price growth to 2% in 2016 (from 11.7% in 2015)

Price momentum is expected to slow, however, as affordability has deteriorated considerably in an environment of little to no real household wage growth. NAB also anticipates an extremely large supply response to record high prices in Melbourne, particularly in the inner city unit/apartment market, which will outpace demand. In combination with a more subdued population growth outlook and tighter credit

conditions from prudential regulator changes, these factors will weigh on future price growth.

Nevertheless, improving economic conditions in the state are expected to maintain solid rates of employment that will provide underlying support to house prices, although price growth will be more modest than in recent years.

The NAB Property Survey reported a notable deterioration in market sentiment during the final quarter of 2015, although the deterioration was not as pronounced as that seen in the other major eastern markets, and Victoria is now the strongest state overall (replacing NSW). Additionally, respondent expectations for house price growth in the next 12 months roughly halved, despite an increase in rental expectations, while foreign buyer demand for both new and existing properties eased off. As a result, NAB has lowered its expectation for house price growth to 2% in 2016 (from 11.7% in 2015). Given the anticipated ramp up in supply of units/apartments, and uncertainties over foreign and investor demand, prices for this type of housing are expected to fall 3% in 2016.



Houses
2.0% ↑



Units
3.0% ↓

Queensland overview

CoreLogic RP Data's view:

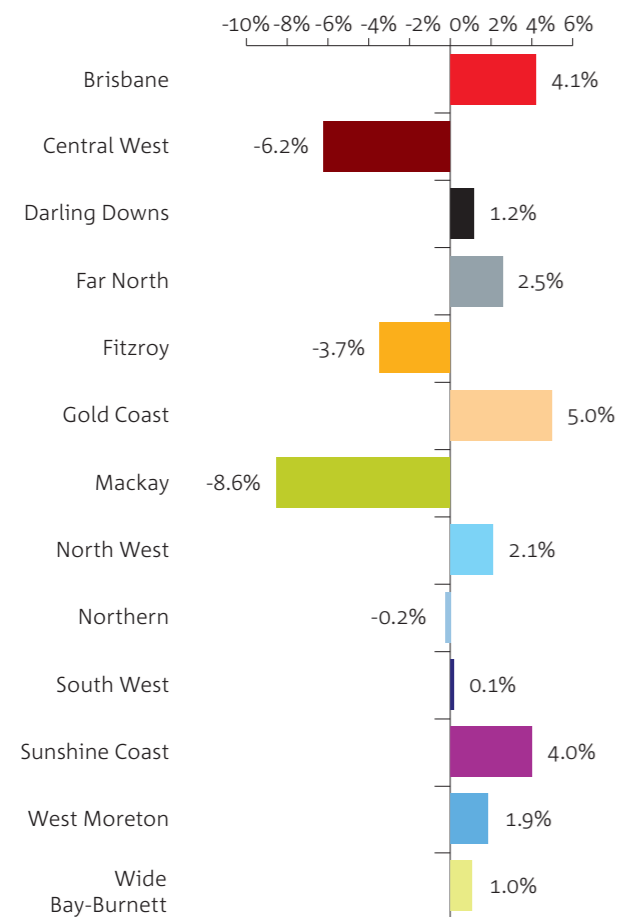
The pace of home value growth across **Brisbane has been improving, with dwelling values rising by 4.1% over the past twelve months**. Due to the higher pace of growth recorded in Sydney and Melbourne since 2009, Brisbane home values have become comparatively very affordable with the typical Brisbane house now showing a **median value that is approximately \$441,000** lower than Sydney's and \$144,000 lower than Melbourne's.

The slower conditions compared with the larger states of New South Wales and Victoria can likely be attributed to softer economic conditions as the mining sector winds down. **More recently though we have seen consistent improvements in the services sector of the Queensland**

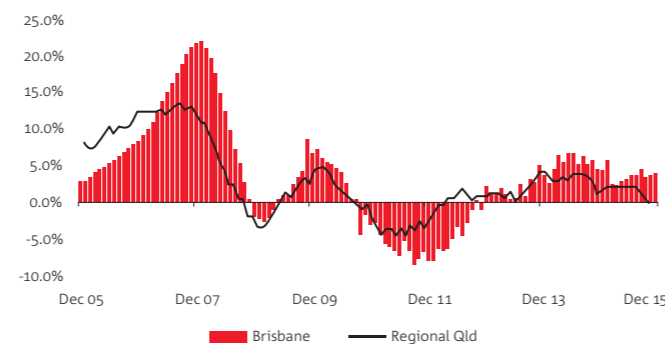
economy, with rising tourism numbers and retail spending providing support for coastal and lifestyle based housing markets as well as the Brisbane housing market.

The regional areas of the state have shown a weakening in the rate of home value growth, dragged lower by value falls in the region's most heavily dependent on mining related activities. Values in Mackay were 8.6% lower over last year, while Fitzroy values had fallen 3.7% and values across the Central West region were down 6.2%. **Conversely, key lifestyle oriented markets such as the Gold Coast and Sunshine Coast are seeing home values trending higher.**

Annual change in home values over past year*



Annual change in home values, Brisbane and Regional Qld



*Data for homes in capital cities, houses in regional areas. Data to Dec-15 for capital cities, Nov-15 for regional areas
Source: CoreLogic RP Data

NAB's view:

House values in Brisbane expected to increase by **3%**, while **units** expected to fall by **0.6%** in 2016

The Brisbane housing market has been somewhat undersupplied in previous years, yet housing price performance has lagged notably behind that of Sydney and Melbourne. Consequently, the comparative affordability makes the Brisbane market an enticing alternative for foreign investors, while pent up demand will keep local buyers in the market. An improving outlook for the Queensland economy will be another factor supporting prices as low interest rates and AUD depreciation help to jump start non-mining segments of the economy, feeding into better labour market outcomes.

However, population growth is expected to continue slowing in Queensland, while the unemployment rate is likely to remain above 6% over the near-to-medium-term, which will limit gains in property prices. Also, similar to Sydney and Melbourne, residential construction is picking up rapidly in Brisbane, which should address some of the pent-up demand and cool the market.

Similar to what was seen across all three of the major eastern markets, the NAB Property Survey showed a sharp deterioration in market sentiment in Queensland for Q4

2015, although forward expectations suggests the weakness may be only temporary. Nevertheless, respondents downgraded their house price expectations significantly, as well as their rental expectations – in contrast to NSW and Vic where rental expectations rose.

NAB expects house price growth in Brisbane to outperform other capital cities, but to slow to 3% in 2016 (from 4.3% in 2015)

On a more positive note, foreign buyers are responding as expected to the relative affordability (and availability) of Brisbane property, with demand apparently picking up in the quarter according to the Survey. Overall, NAB expects house price growth in Brisbane to outperform other capital cities, but to slow to 3% in 2016 (from 4.3% in 2015). However, there are a number of risks stemming from the uncertainty around foreign demand and the impending spike in housing supply. These risks are particularly prevalent in the unit/apartment market, where prices are already expected to fall 0.6% in 2016 (from 1.8% in 2015).



Houses
3.0% ↑



Units
0.6% ↓

South Australia overview

CoreLogic RP Data's view:

The Adelaide housing market saw home values remain virtually unchanged in 2015, with the CoreLogic index recording a 0.1% slip in home values over the 2015 calendar year.

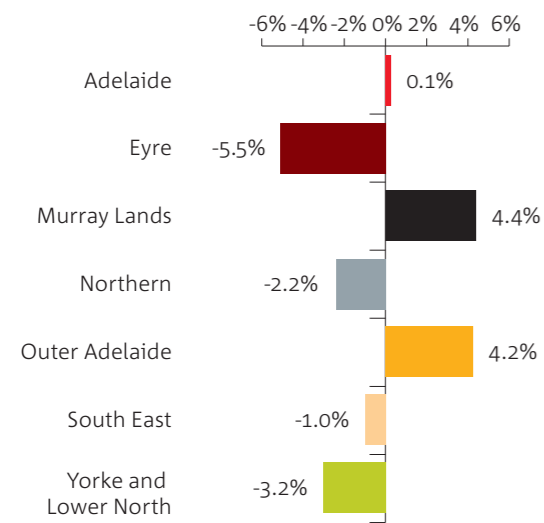
The relatively steady conditions across the South Australian capital have moderately outperformed the broad regional market across the state where values were down 0.4% over the year.

Longer term, however, the regional market (+2.1%) has outperformed the state's capital (+1.9%) over the past five years.

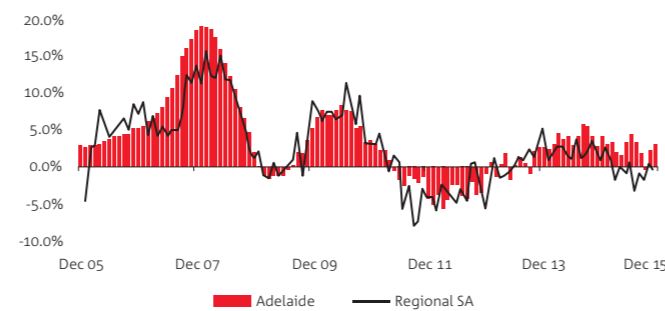
The fairly flat housing market conditions across Adelaide reflect relatively soft economic conditions where uncertainty is heightened due to the planned closure of the automotive manufacturing sector in the north of the City. Soft conditions across the mining and resources sector as well as low rates of population growth are contributing to the flat housing market conditions in Adelaide and across the regional housing markets of the state.

The Murray Lands, which is a very large, primarily agricultural region of eastern South Australia, has shown the largest increase in home values, with a 4.4% rise over the year.

Annual change in home values over past year*



Annual change in home values, Adelaide and Regional SA



*Data for homes in capital cities, houses in regional areas. Data to Dec-15 for capital cities, Nov-15 for regional areas
Source: CoreLogic RP Data

NAB's view:

House and unit values in Adelaide expected to slightly increase by 0.2% respectively in 2016

The underperformance of the Adelaide housing market has largely been a reflection of deteriorating economic conditions in South Australia. The local economy has been challenged by unfavourable demographic factors, weak commodity prices, as well as the long-term structural decline of its manufacturing base. It also lacks the industry mix and job opportunities to draw workers back to the state as the national economy rebalances towards non-mining activity, although the lower AUD is supporting tourism arrivals and expenditure.

Lacklustre economic performance is expected to continue over 2016, which will severely limit employment and wages growth, with flow on effects for the local housing market.

According to the NAB Property Survey, sentiment towards residential property in SA/NT is especially weak (SA/NT and WA are the only states where sentiment is negative), and deteriorated even further in the fourth quarter. Consequently, respondents are now expecting even larger declines in house prices than they reported in Q3 2015, although rental expectations posted a surprising improvement. Given NAB's expectation for the local economy, population and household income growth to remain subdued, both house and unit prices are expected to remain relatively flat in 2016.

House and unit prices are expected to remain relatively flat in 2016



Western Australia overview

CoreLogic RP Data's view:

Over the past twelve months we have seen **Perth home values drift 3.7% lower** while values across the combined regional markets of the state are down a larger 8.3%.

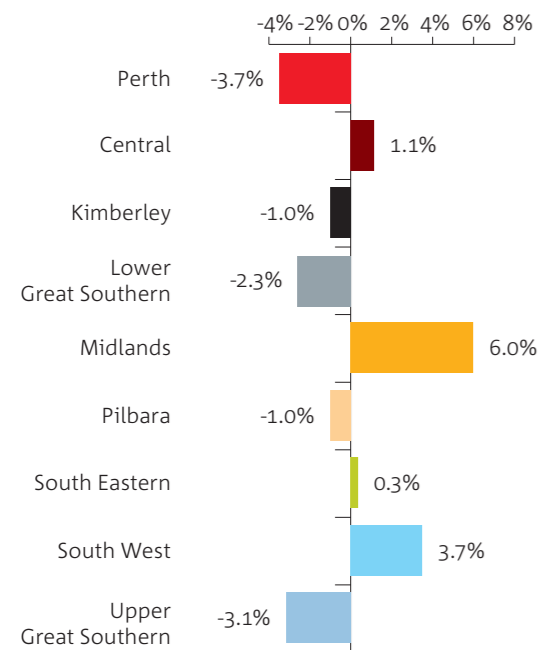
Home values across both the **metropolitan and regional areas of Western Australia reached a peak in late 2014**.

Since that time home values have fallen, although the declines have been more pronounced in key regional areas of the state associated with the mining sector.

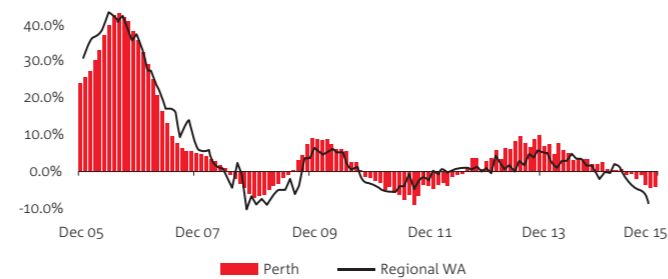
Not all regional markets are seeing falling home values; the South West region of the state, which includes towns such as **Margaret River, Bunbury and Busselton, has seen values rise by 3.7% over the past twelve months** while values across the Midlands are 6.0% higher over the year.

The Perth housing market hasn't been immune to the weaker state economy and wind down in the mining boom. Home values across Perth have fallen over the past year and rents are falling at a faster pace than values which is pushing rental yields lower as well.

Annual change in home values over past year*



Annual change in home values, Perth and Regional WA



*Data for homes in capital cities, houses in regional areas. Data to Dec-15 for capital cities, Nov-15 for regional areas

Source: CoreLogic RP Data

NAB's view:

House and unit values in Perth expected to decrease by 3% respectively in 2016

Spill over effects from significant mining headwinds are clearly evident in the broader WA economy. Wages have been in decline and population growth has returned to near pre-boom rates – primarily due to lower overseas migration, although interstate migration has now reversed. Climbing unemployment and falling incomes have impacted households, contributing to poor growth in household consumption, while property prices have fallen.

in the sector and slowing demand from large commodity producers such as China. This will severely limit employment and wage growth, with further flow on effects for demand in the local housing market. Additionally, the pipeline of residential construction remains relatively high in WA and looks set to outpace demand, placing additional downward pressure on prices.

Sentiment in the WA housing market remains incredibly weak, despite a modest improvement in Q4 2015, according to the **NAB Property Survey**. WA and SA/NT are the only states where residential property market sentiment is negative.

Surprisingly, the Survey suggests that market sentiment is expected to improve in the next 12 months, but despite this, prices are still expected to fall (albeit by less than in 2015). Given the soft survey outcomes and NAB's expectation for economic conditions to remain weak, both house and unit prices are expected to fall around 3% in 2016.

Market sentiment is expected to improve in the next 12 months, but despite this, prices are still expected to fall (albeit by less than in 2015)

Lacklustre economic performance is likely to continue over 2016 given the significance of the mining sector to the broader economy, expectations for much less investment



Houses
3.0% ↓



Units
3.0% ↓

Tasmania overview

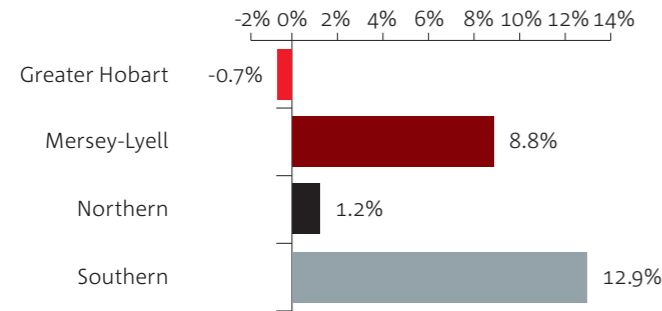
CoreLogic RP Data's view:

Housing market conditions in Hobart have remained relatively flat over the past year, **showing a 0.7% fall in Hobart home values over the past 12 months.**

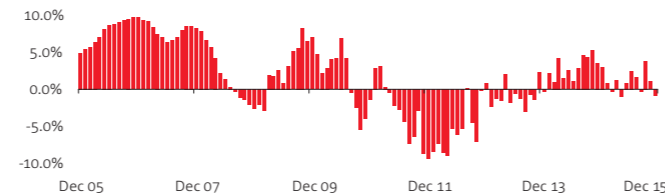
With Hobart home values down 4.0% over the past five years and rents consistently rising, **Hobart rental yields are now the highest of any capital city** which may attract higher levels of investment over the coming year.

The regional markets of Tasmania have seen a diverse performance with **the Southern region of the state showing a very strong 12.9% increase in home values over the past 12 months.** The strong reading aligns with a consistent rise in sold properties indicating rising demand for housing in the region.

Annual change in home values over past year*



Annual change in home values, Hobart



*Data for homes in capital cities to Dec-15.
Source: CoreLogic RP Data

NAB's view:

House values in Hobart expected to ease by **0.6%**, while **units** expected to remain stable in 2016

While the Tasmanian economic outlook has improved over the last year, thanks in large part to a pick-up in business investment and strong domestic tourism, recent data suggest that the recovery may be losing some steam.

Manufacturing continues its structural decline and the mining sector continues to struggle, but we are optimistic about some of Tasmania's biggest sectors. In particular, agriculture is becoming more important and enjoying favourable conditions thanks to a cool climate and expanding irrigation schemes (particularly for dairy). Likewise, the lower AUD should continue to boost tourism and agriculture, making domestic holidays more attractive for Australians and improving local prices for farmers. Nevertheless, even though

population trends in Tasmania have improved, population growth has generally lagged behind the rest of the nation.

NAB expects Hobart house prices to decline modestly by 0.6% in 2016 and unit prices are expected to be flat

On balance, the demand environment for housing is expected to improve moderately, but not enough to drive a meaningful turnaround in the housing market. Consequently, NAB expects Hobart house prices to decline modestly by 0.6% in 2016 – a more modest decline than in 2015 – and unit prices are expected to be flat.



Northern Territory overview

CoreLogic RP Data's view:

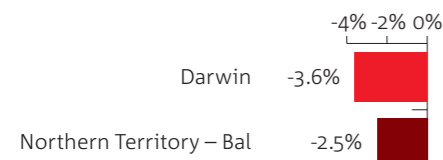
The Darwin housing market has been one of the standout performers in previous years, however **home values are down 3.6% over the past twelve months** and have fallen by a cumulative 3.7% over the past five years.

The softening in growth conditions is likely related to the wind down in major infrastructure spending and slower population growth, both of which have previously been strong drivers of housing demand in the past.

The regional area of Darwin, although relatively sparsely populated outside of Alice Springs, **has seen values fall by a similar 2.5% over the past twelve months.**

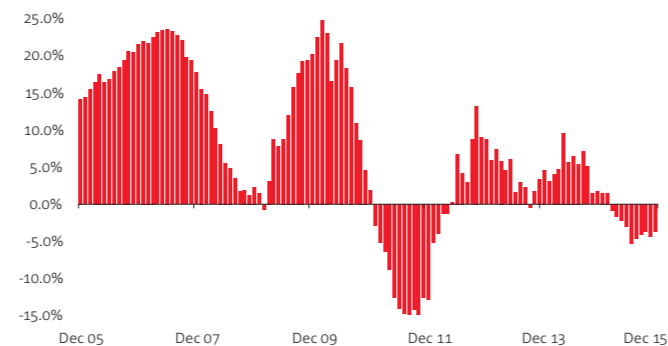
While home values are down 3.6% over the past year, rents are falling at a faster pace which is pulling rental yields lower in the northernmost capital city. Despite the recent yield compression, **gross rental yields remain amongst the highest of any capital city in Darwin.**

Annual change in home values over past year*



*Data for homes in capital cities to Dec-15.
Source: CoreLogic RP Data

Annual change in home values, Darwin



NAB's view:

Mining investment winds-down further, putting added pressure on the NT housing market

The relative size of the housing market and the limited availability of data make it difficult to reliably produce forecasts for property values in the Territory.

However, NAB Economics notes that the Northern Territory's economy is currently highly dependent on mining and mining-related construction (especially in LNG), which sets it apart from other states and territories. However, construction on major LNG projects in and near NT are three-quarters complete and showing signs of peaking or having already peaked. This suggests that the recent growth in employment is likely to come to an end upon project completion (likely to be in early 2017).

Indeed, wages, consumer spending, dwelling commencements and house prices are already under pressure. These trends are likely to continue as mining investment winds-down even further, putting added pressure on the housing market.

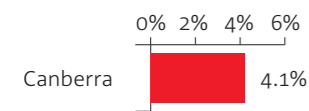
Australian Capital Territory overview

CoreLogic RP Data's view:

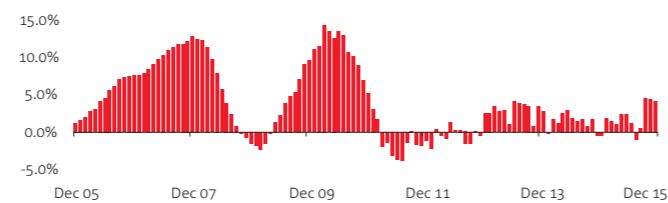
It appears that confidence is slowly returning to the Canberra housing market after conditions were relatively sedate since the 2010 federal election. **Last year the Canberra housing market recorded the strongest housing market conditions since 2011**, with dwelling values rising 4.1% over the full twelve months to be 5.6% higher over five years.

Growth conditions have been concentrated within the detached housing sector, **with house values rising 4.5% over the year compared with a 0.8% fall in unit values.**

Annual change in home values over past year*



Annual change in home values, Canberra



*Data for homes in capital cities to Dec-15.
Source: CoreLogic RP Data

NAB's view:

Dwelling investment likely to increase due to improving labour market and population growth

The relative size of the housing market, limited data and the overall significance of the public sector to the local economy makes it difficult to reliably produce forecasts for property values in the ACT.

Nevertheless, the ACT economy is gradually recovering from the recent fiscal tightening and public sector job cuts. NAB Economics expects economic growth to gradually improve and unemployment to stay low. With the improving labour market and population growth, dwelling investment is likely to improve as well in line with higher building approvals. Similarly, an improving economy will provide underlying support to property values.

Important information about this report

1. Important information about CoreLogic RP Data

The information in this report on a white background headed 'CoreLogic RP Data' is provided by RP Data Pty Ltd trading as CoreLogic Asia Pacific (referred to in this report as 'CoreLogic RP Data'). The following information relates to CoreLogic RP Data's information in the report. This information is referred to as 'CoreLogic Data'.

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Important

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- for the accuracy or completeness of any statements in this report whether as a result of new information, future events or results or otherwise; or**
- to update or revise any statement to reflect any change in the events, conditions or circumstances on which the forecast is based.**

2.3 NAB is not responsible for CoreLogic RP Data's information in this report

The information on the white background headed 'CoreLogic RP Data' in this report has been provided by RP Data Pty Ltd about the housing market in Australia for a 12 month period up to December 2015. NAB commissioned CoreLogic RP Data to prepare CoreLogic RP Data's information in this report. This was for the purpose of providing the report to NAB customers. CoreLogic RP Data has also permitted NAB to share CoreLogic RP Data's information with brokers who work with NAB and for the brokers to share RP Data's information in this report with their clients, provided that the information is provided to these clients without charge. NAB has not been involved in the preparation of RP Data's information in this report. The views in RP Data's information do not necessarily reflect NAB's views and to the maximum extent permitted by law, NAB does not make any representation or any warranty in relation to, or accept responsibility for the accuracy, completeness, currency or appropriateness of CoreLogic RP Data's information in this report.

2.4 The NAB residential property survey

The NAB Residential Property survey referenced in this report consists of extracts from data obtained by NAB from a December 2015 survey of property professionals. This reflects the surveyed property professionals' views about what they think will happen to the housing market in Australia in a 12 month period up to December 2016. The views in the survey do not necessarily reflect NAB's views except where expressly called out in this report.