

NAB Residential Property Survey: Q1 2016

by NAB Group Economics

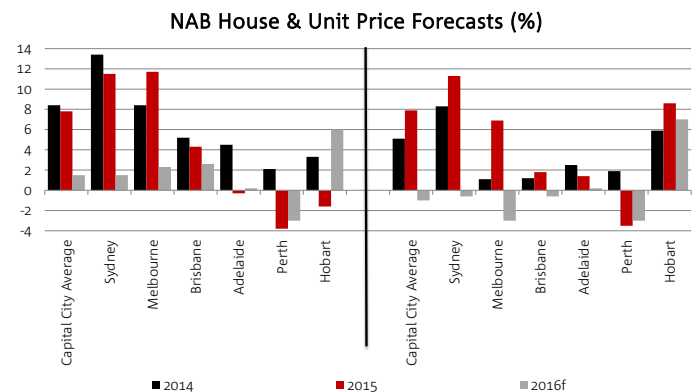
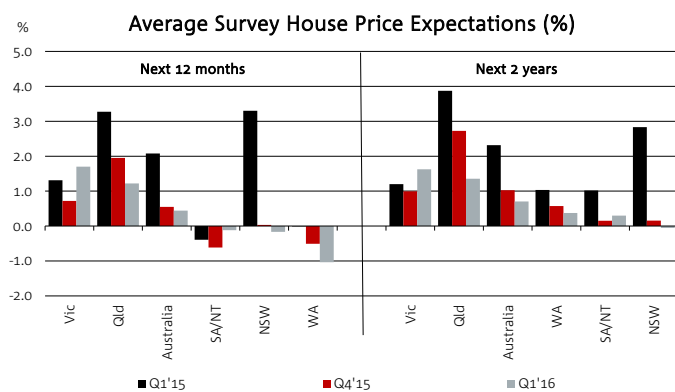
Embargoed until: 11.30am Wednesday 20 April 2016



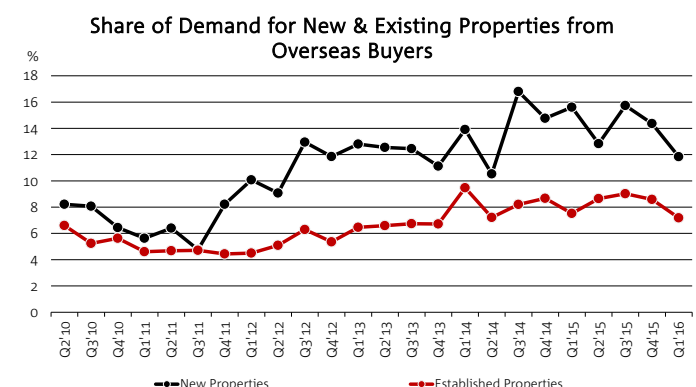
NAB's Residential Property Index reverses its recent slide as sentiment improves in all states except WA. VIC expected to lead the country for capital growth in the next 1-2 years, with NSW lagging. Foreign buyers less prevalent in all markets except QLD where their presence continues to grow.

Survey Highlights

- **National housing market sentiment improved in Q1'16**, with NAB's Residential Property Index rising to +6 (+1 in Q4'15) - reversing a trend of three consecutive quarterly falls. Sentiment improved in most states, led by NSW, but remains strongest in VIC. Sentiment improved in QLD and SA/NT (but negative), but fell to a new Survey low in WA.
- **Survey expectations for house price growth over the next year strengthened in VIC (1.7%) and SA/NT (-0.1%)**, but were pared back in QLD (1.2%), NSW (-0.2%) & WA (-1%). VIC (1.6%) & QLD (1.4%) expected to provide the highest capital returns in 2 years' time, with small gains also forecast for WA (0.4%) & SA/NT (0.3%). Prices in NSW however are expected to fall (-0.1%).
- Our average, **NAB's national house price forecast in 2016 has been increased marginally to 1.5%** (from 1%). Unit price forecasts a broadly unchanged at -1% (see pages 8-9 for more detail).
- **First home buyers (owner occupier and investors) were more active in new property markets** in the March quarter (around 1 in 3 of all sales) **but pulled back a little in established markets** (around 29% total sales).
- **Local investors (net of FHBs) played a bigger role in both new and established property markets**, accounting for almost 1 in 4 new property sales and 1 in 5 established property sales nationally. Owner occupiers (net of FHBs) were less active in new property markets (27.6%), but more active in established markets (42.5%).
- **Foreign buyers played a smaller role in new Australian property markets with their share of total demand falling to a 2½ year low 11.8%**. They were again less prominent in VIC (10.7%), and in NSW (11.1%) and WA (2.9%), but played a bigger role in QLD (21.9%). **In established markets, their share fell to 7.2%** (8.6% in Q4) and they were less active in all states (bar WA).
- By property type, foreign buyers accounted for 15.1% of demand for new apartments (17.9% in Q4) and 12.2% of new houses (14.6% in Q4). In established markets, it was 9.7% of apartments (11.2% in Q4) and 7.6% of houses (9% in Q4).
- Around 3 in 10 apartments purchased by foreigners were valued below \$500,000 and 4 in 10 between \$500,000-\$1 million. Around 1 in 20 foreign buyers bought apartments above \$5 million. In the house market, two-thirds of foreign purchases were for properties valued less than \$1 million, 23% in the \$1-2 million range and 15% over \$5 million.
- **Housing affordability has replaced tight credit as the biggest constraint for new housing development**, but **employment security is still identified as the biggest impediment to buying existing property** nationally and in most states.



NAB Residential Property Index						
	Q3 2015	Q4 2015	Q1 2016	Next Qtr	Next 1 yr	Next 2 yrs
VIC	31	23	31	43	49	47
NSW	43	10	26	28	24	25
QLD	28	7	11	7	13	16
SA/NT	-21	-31	-25	-15	-5	5
WA	-61	-59	-67	-63	-25	10
Index	10	1	6	10	18	24



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

Dean Pearson, Head of Behavioural & Industry Economics
(03) 8634 3221 0457 517 342

Robert De Lure, Senior Economist - Behavioural & Industry Economics
(03) 8634-4611 0477 723 769

Brien McDonald, Senior Economist - Behavioural & Industry Economics
(03) 8634-3837 0455 052 520

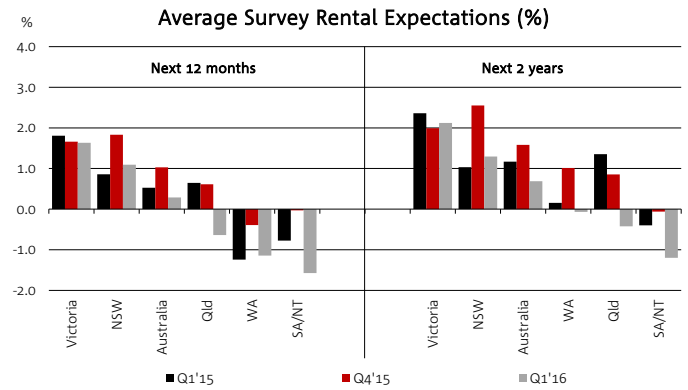
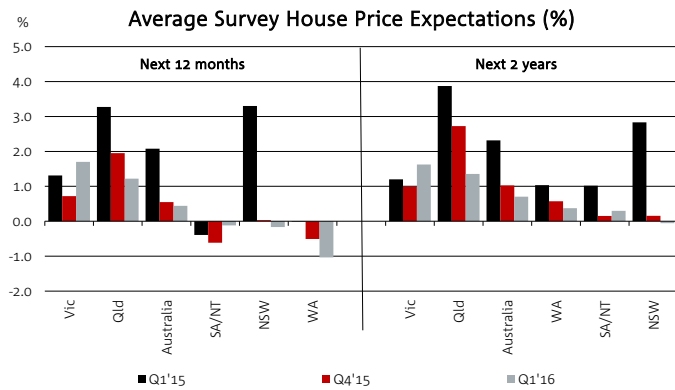
1. Residential Property - Market Performance

House price expectations

Expectations for national house price growth next year are broadly unchanged at 0.4% (0.5% in Q4'15). Expectations strengthened in VIC (1.7% vs. 0.7%) & SA/NT (-0.1% vs. -0.6%), but were cut back in QLD (1.2% vs. 1.9%), NSW (-0.2% vs. 0%) & WA (-1% vs. -0.5%). Property professionals on average see house prices rising 0.7% in 2 years' time (1% in Q4), led by VIC (1.6%) & QLD (1.4%). Smaller gains are tipped for WA (0.4%) & SA/NT (0.3%), with prices expected to fall in NSW (-0.1%).

Rental expectations

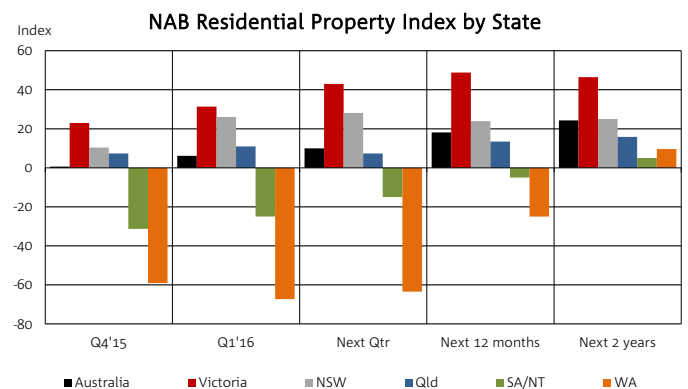
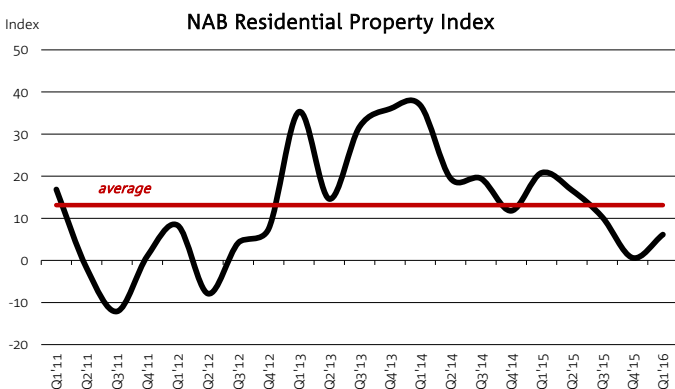
Expectations for rental growth over the next year softened in all states except VIC (broadly unchanged at 1.6%). On average, surveyed property professionals expect rents to increase by 1.1% in NSW (1.8% in Q4) and fall in all other states, led by SA/NT (-1.6%), WA (-1.1%) & QLD (-0.6%). VIC is expected to provide the best income returns in 2 years' time (2.1%) followed by NSW (1.3%), with rents predicted to fall by -0.1% in WA, -0.4% in QLD & -1.2% in SA/NT.



NAB Residential Property Index

National housing market sentiment improved in Q1'16, with the NAB Residential Property Index rising to +6 (+1 in Q4'15). This reverses a trend of three consecutive quarterly falls, although the index is still well below its long-term average (+13). Market sentiment improved in most states, led by NSW (up 16 to +26), but VIC continues to lead the country (up 8 to +31) and is also the only state tracking above its long-term average. Sentiment improved in QLD (up 4 to +11) and in SA/NT but remains negative (up +6 to -25). In contrast, sentiment among property professionals in WA fell to a new Survey low (-67) and well below its long-term survey average (-1).

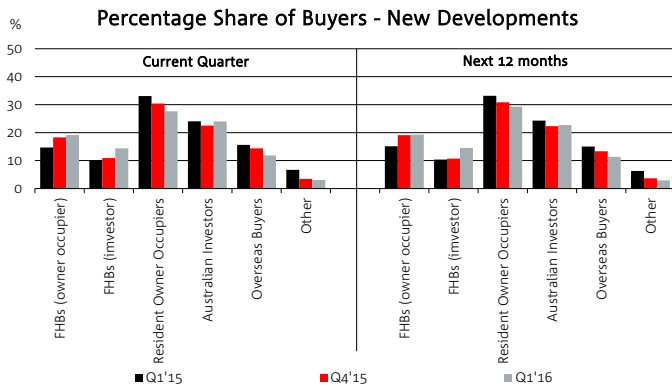
Forward expectations have however softened, with the NAB Residential Property Index expected to rise to just +18 next year (+29 in Q4), with property professionals in VIC (+49) the most optimistic in the country and WA the most pessimistic (-25). The index is expected to climb to +24 in 2 years' time (+37 in Q4), with VIC again leading (+47), SA/NT (+5) under-performing and WA (+10) the big improver.



2. Residential Property - New Developments

Demand for new properties by buyer

First home buyers - FHBs - (owner occupiers) increased their presence in new property markets in Q1'16, with their share of total demand rising to 19.1% nationally (18.3% in Q4), with these buyers more active in NSW (21.9%) & QLD (12.9%). The share of FHB (investors) also rose to 14.4% (10.9% in Q4) and increased in NSW (17.9%), QLD (16%) & VIC (8.2%). In total, FHBs accounted for 33.5% of all new property demand in Q1'16 (29.2% in Q4).

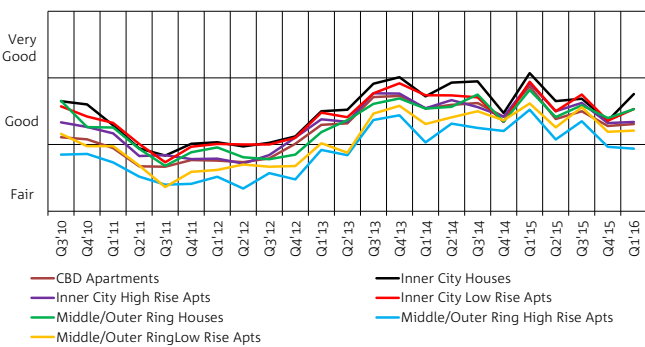


Owner occupiers (net of FHBs) were less active in all states (except WA) with their share of national demand falling for new property falling to 27.6% (30.4% in Q4). In contrast, local investors (net of FHBs) were more active, accounting for 24% of new property demand (22.5% in Q4). They were particularly active in VIC where they accounted for 43.8% of total demand (25% in Q4). The share of foreign buyers in new property markets continued to recede, falling to 11.8% of total demand - its lowest level since mid-2014. Foreign buyers were notably less prominent in VIC (10.7%), NSW (11.1%) & WA (2.9%), but played a bigger role in QLD (21.9% vs. 20.9% in Q4).

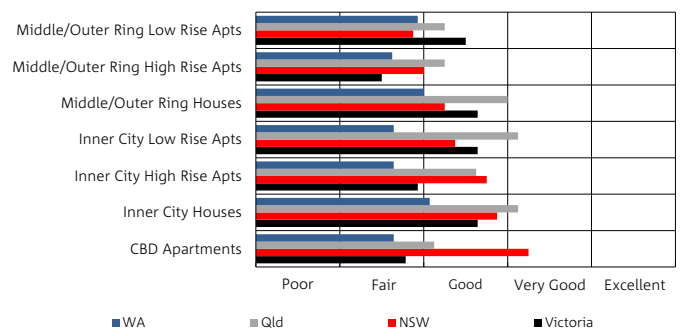
Expected demand for new property by type and location

Expectations for new property demand in the next year are stronger for most types of property and in all locations (except middle/outer ring high rise apartments) but weaker than year earlier levels. Property professionals are anticipating “good” demand across the board, except for apartments located in the middle/outer ring (“fair”). By state, property professionals see “very good” demand for CBD apartments in NSW and for inner city low rise apartments and houses in QLD. In contrast, their expectations for all types of new property demand in WA are “fair” (except inner city houses). They are also anticipating “fair” demand for CBD and high rise apartments in the middle/outer ring and inner city VIC, and for low rise apartments in the middle/outer ring in NSW.

Demand for New Residential Developments (next 12 months)



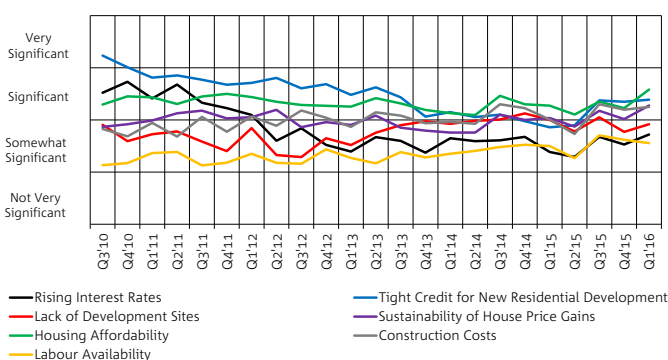
Demand for New Residential Developments by State (next 12 months)



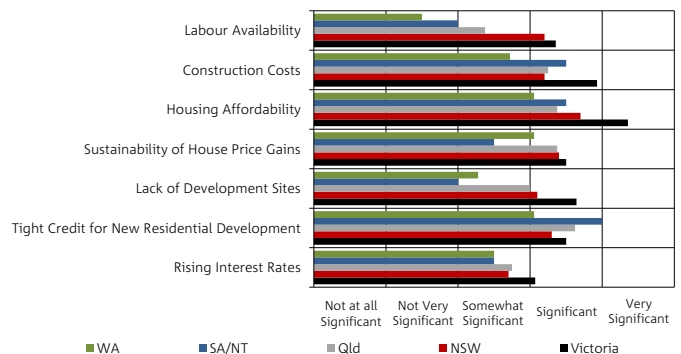
Constraints on new housing development

Housing affordability replaced tight credit as the biggest constraint for new housing development, particularly in VIC (“very significant”). Tight credit is the next biggest issue (especially in SA/NT), followed by sustainability of house price gains (mainly in VIC, NSW & QLD) and construction costs (mostly in VIC & SA/NT).

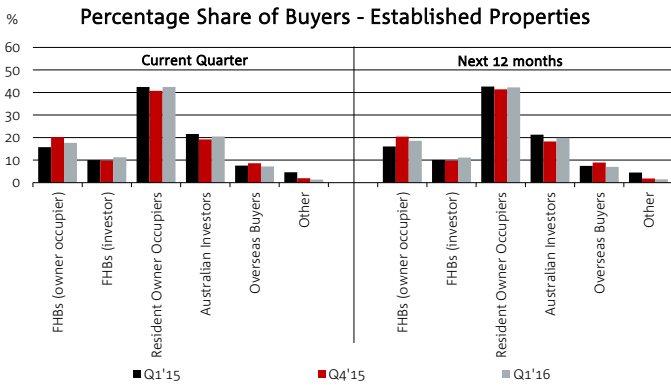
Major Constraints on New Housing Developments



Constraints on New Housing Developments by State



3. Residential Property - Established Property



Demand for established property by buyer

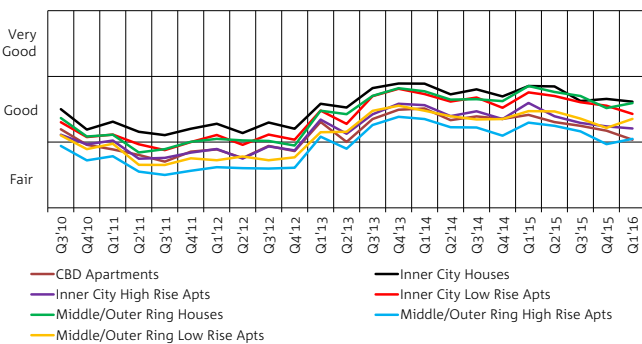
The share of FHBs (owner occupiers) in established property markets fell to 17.6% in Q1'16 (20.2% in Q4), with these buyers less active in all states except QLD. FHBs (investors) were, however, more active in all states (except WA), with their market share falling to 8% (8.7% in Q4). Owner occupiers (net of FHBs) accounted for 42.5% of total new property demand in Q1'16 (40.7% in Q4), with these buyers more active in all states except QLD. The share of local investors (net of FHBs) in the market also rose to 20.5% in Q1'16 (up from a Survey low 19.2% in Q4'15), with investors more active in all states except WA.

The share of foreign buyers fell to 7.2% in Q1'16 (8.6% in Q4). Moreover, these buyers were less prevalent in all states, except WA where they accounted for a survey high 8.8% of the market (7.2% in Q4). Elsewhere, their share of demand fell to 7.1% in VIC (8.6% in Q4), 7.8% in NSW (9.4% in Q4) and 6.7% in QLD (8.9% in Q4).

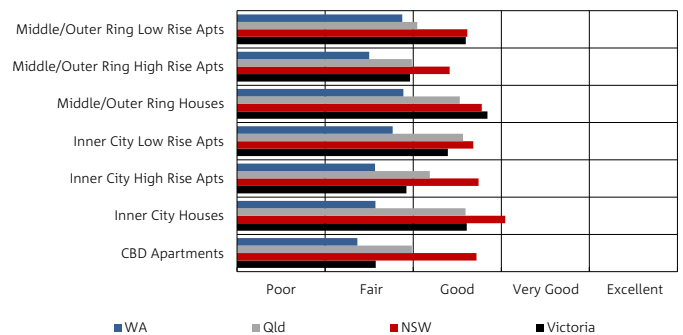
Expected demand for established property by type and location

Expectations for established property demand over the next year are mixed. They are tipped to strengthen for houses and low and high rise apartments located in the middle/outer ring, but weaken for all other properties. Overall demand is however expected to be "good" for all types of property. By state, property professionals see "good" demand in NSW for most types of property, except inner city houses ("very good"). In VIC, "good" demand is expected for all property except CBD apartments and high rise apartments in the inner city and middle/outer ring. In QLD, demand is tipped to be "good" except for CBD apartments and middle/outer ring high rise apartments ("fair"). Property professionals in WA anticipate "fair" demand for all types of established property in the next 12 months.

Demand for Established Residential Property (next 12 months)



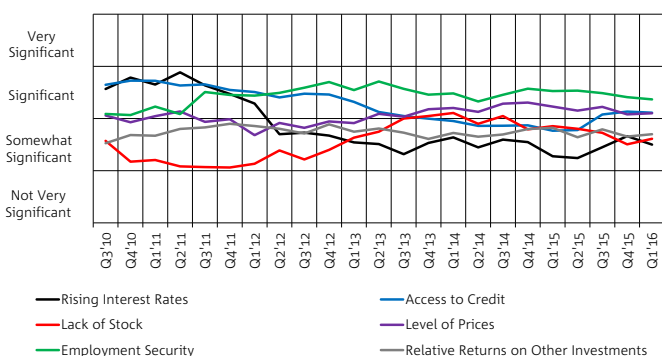
Demand for Established Residential Property by State (next 12 months)



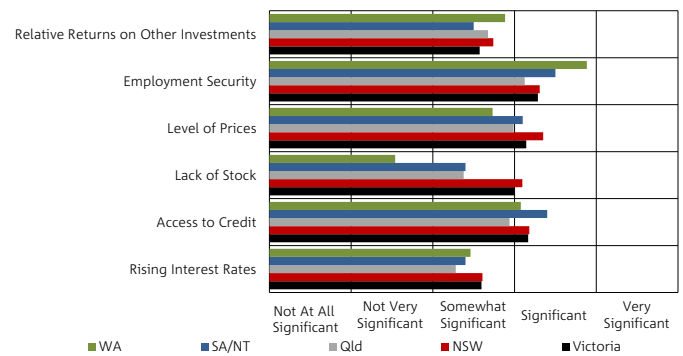
Constraints on established property

Property professionals continue to view employment security as the biggest impediment to buying existing property nationally and in most states (especially in WA & SA/NT) but somewhat less than in Q4. Access to credit was again identified as the second biggest constraint, led by SA/NT. Property professionals also saw house price levels as a "significant" constraint (especially in NSW, VIC and SA/NT), and more so than in Q4. Concerns about rising interest rates have however receded and are now considered only "somewhat significant" in all states.

Major Constraints on Established Property



Major Constraints on Established Property by State



4. Foreign Buyers

Overall foreign buying activity

The overall share of foreign buyers in Australian property markets fell to a 2½ year low in both new and established property markets in Q1'16. Foreign buyers accounted for just 11.8% of total new property sales (14.4% in Q4) and 7.2% in established property markets (8.6% in Q4).

In new property markets, foreign buyers fell to 10.7% in VIC (16.4% in Q4) - its lowest level in 2 years and significantly below Survey high levels of 32.5% in Q4'14.

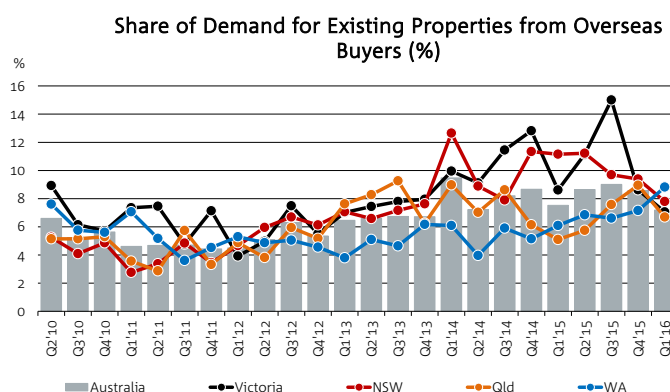
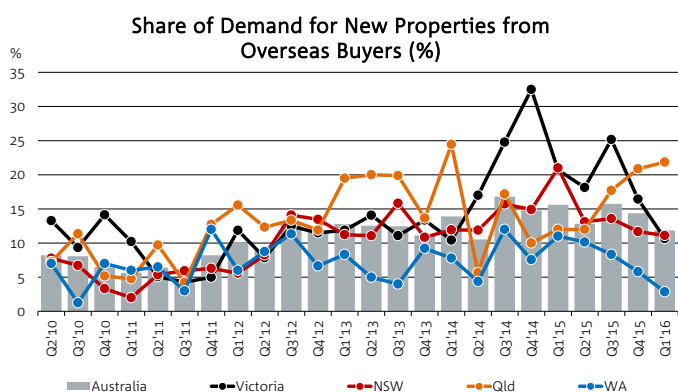
Foreign buyers were also less prevalent in NSW, where their market share fell to 11.1% (11.7% in Q4). This down from a Survey high 21% in Q1'15 and now at its lowest level since Q4'13.

In WA, foreign buyers of new property accounted for just 2.9% of total demand (5.8% in Q4) down from around 10-11% in the first half of 2015.

In contrast, the share of foreign buyers in new property markets in QLD continued to grow, rising to 21.9% in Q1'16 (20.9% in Q4). The market share of foreign buyers in new property markets has grown for three consecutive quarters and may suggest that they are being attracted by lower average prices there.

In established property markets, foreign buyers accounted for just 7.1% of total demand in VIC - a 3 year low and down from 8.6% in Q4.

Foreign buyers were also less active in NSW (7.8% vs. 9.4% in Q4) and QLD (6.7% vs. 8.9% in Q4), but they increased their market share in WA to a Survey high 8.8% (7.2% in Q4).



Type of property purchased by foreign buyers

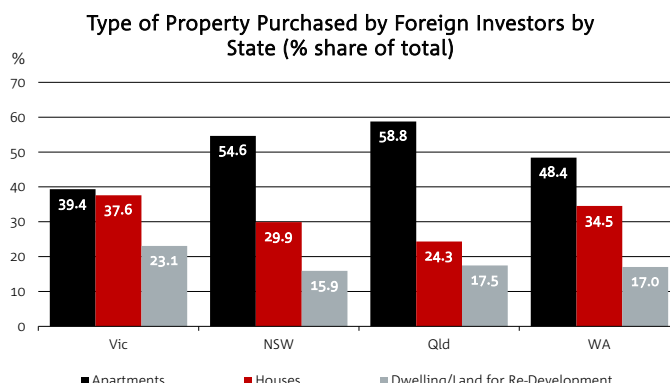
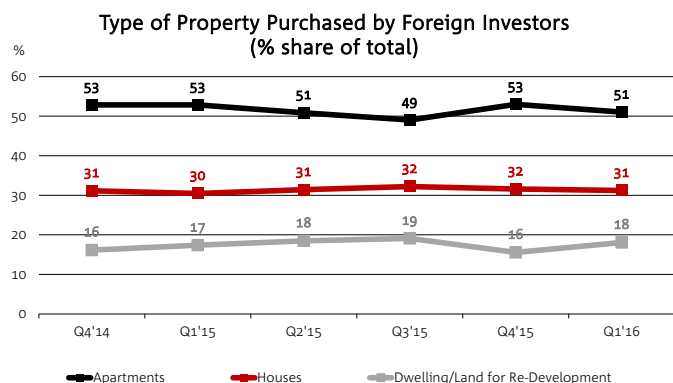
Overall, 51% of all foreign purchases of Australian residential property were for apartments (53% in Q4), 31% houses (32% in Q4) and 18% for re-development (16% in Q4). However, these ratios continue to vary widely by state.

In VIC, 39.4% of sales in Q1'16 were for apartments (down from 44.2% in Q4), 37.6% were houses (35.2% in Q4) and almost 1 in 4 (23.1%) was land for re-development (20.6% in Q4).

In NSW, 54.6% of all properties purchased by foreigners were apartments (53.9% in Q4) and 29.9% houses (32.4% in Q4). The share of property bought for re-development purposes rose to 15.9% (14.1% in Q4).

In QLD, apartments made up 58.8% of all sales (60.8% in Q4) - still by far the biggest share among the main states. Houses accounted for just 24.3% of foreign sales (26.4% in Q4), but purchases for re-development purposes climbed to 17.5% (12.8% in Q4).

In WA, apartment sales accounted for 48.4% of all foreign purchases (50.8% in Q4), houses for 34.5% (29.8% in Q4) and land for re-development 17% (19.4% in Q4).



Price range of property purchased by foreign buyers

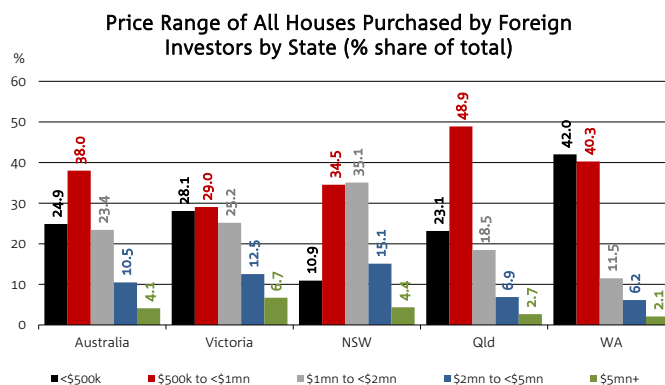
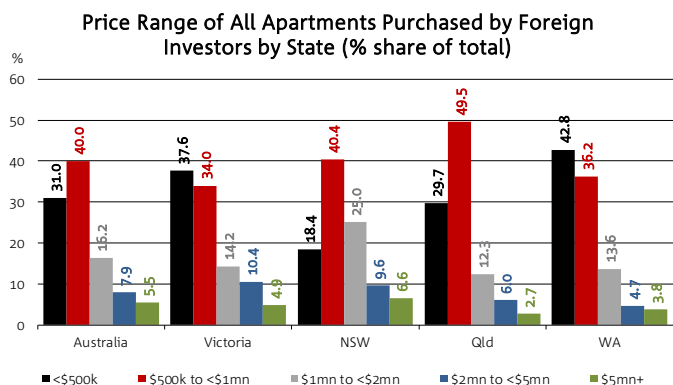
Around 31% of apartments purchased by foreigners were valued at less than \$500,000 (33.7% in Q4) while 40% were valued between \$500,000-\$1 million (41.7% in Q4). Just over 16% were in the \$1-2 million range (14.8% in Q4), with the number of sales in the \$2-5 million range unchanged at 7.9%. Just over 1 in 20 foreign buyers (5.5%) purchased apartments valued above \$5 million (3.3% in Q4).

There remain some interesting differences across states. In the apartment market, more foreign buyers in WA (42.8%) purchased properties worth less than \$500,000 than in any other state. In NSW, just 18.4% of apartment purchases were below \$500,000, probably reflecting a lower stock of apartments at this price level.

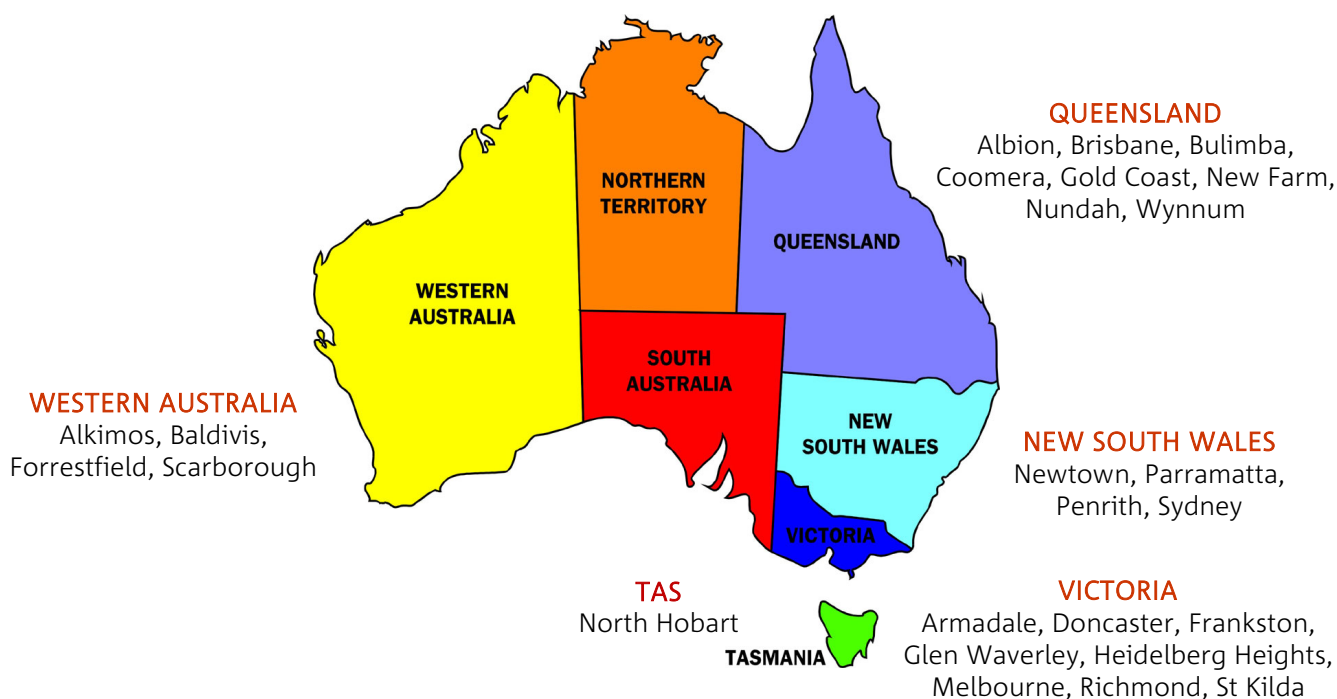
Almost 1 in 2 apartments purchased in QLD were in the \$500,000-\$1 million range, compared to just 34% in VIC. It was also notable that 1 in 4 purchases in NSW were in the \$1-2 million range, compared to around 12-14% in all other states. More foreign buyers in NSW (6.6%) and VIC (4.9%) purchased apartments valued over \$5 million than in any other state.

In the house market, around 63% of foreign purchases were valued below \$1 million. Around 25% were for properties below \$500k and 38% between \$500,000-\$1 million. Just over 23% of all house sales were in the \$1-2 million range, 11% in the \$2-5 million range and 4% over \$5 million.

By state, approximately 57% of houses sold to foreigners in VIC and 46% in NSW were valued below \$1 million, compared to 72% in QLD and 82% in WA. Around 35% of houses purchased in NSW and 25% in VIC were valued between \$1-2 million, with 15% and 13% of houses in NSW and VIC respectively valued between \$2-5 million. Almost 7% of houses in VIC and just over 4% of houses in NSW were sold for more than \$5 million.



5. Suburbs tipped to enjoy above average capital growth



6. Survey Respondents Expectations (average)

House Prices

	Q3 15	Q4 15	Q1 16	Next qtr	Next 1 yr	Next 2 yrs
VIC	1.5	0.9	1.0	1.2	1.7	1.6
NSW	2.1	-0.2	0.0	-0.1	-0.2	-0.1
QLD	0.9	0.4	0.5	0.9	1.2	1.4
SA/NT	-0.5	-0.5	-0.7	-0.3	-0.1	0.3
WA	-1.7	-2.0	-2.5	-2.3	-1.0	0.4
Australia	0.8	0.0	-0.1	0.1	0.4	0.7

Rents

	Q3 15	Q4 15	Q1 16	Next Qtr	Next 1 yr	Next 2 yrs
VIC	0.6	0.6	0.6	1.1	1.6	2.1
NSW	0.4	0.3	0.9	0.9	1.1	1.3
QLD	0.2	-0.6	-0.6	-0.8	-0.6	-0.4
SA/NT	-2.4	-2.0	-3.0	-2.1	-1.6	-1.2
WA	-2.2	-2.8	-3.2	-2.5	-1.1	-0.1
Australia	-0.4	-0.4	-0.4	-0.2	0.3	0.7

7. NAB's View of Residential House Prices

The Australian housing market got off to a better than expected start in 2016, with prices in the major Eastern capitals pushing higher, despite widely held concerns over affordability and a spike in supply (namely apartments). At this point in the housing cycle, it is not clear whether the gains over Q1 2016 are pointing to an ongoing trend, or if it is simply a flash in the pan before the market peak - perhaps triggered by external factors. Overall, the fundamentals still suggest that the best of the capital gains are probably behind us, with more muted growth in 2016 the most likely scenario - albeit with very mixed results across capital cities.

Following three years of double digit price growth, property prices in Sydney remain well above those in other cities, but in terms of price growth, Melbourne overtook Sydney late last year to be the best performer - helping to gradually narrow the gap in prices. House prices in Melbourne increased 10.7% over the year to Q1 2016, which compares to slightly more moderate growth of 7.5% in Sydney. Nevertheless, annual growth rates have eased in both cities, from 11.7% and 11.5% over 2015 respectively. Across the other capital cities, Brisbane (4.9%), Adelaide (3.3%) and Hobart (4%) all experienced solid growth over the past year, while the mining downturn has continued to have a particularly large impact on Perth, where house prices dropped 2%.

A swifter supply response in medium-density dwellings has contributed to a deterioration of market fundamentals that is driving a wedge between apartments and detached house price growth in many capital cities. There has been a particularly wide divide in price performance in Melbourne, where annual price growth for apartments in Q1 was 8.2 ppts lower than houses, at only 2.5%. The situation is similar in Brisbane, where unit prices were up just 0.5% (4.4 ppts lower than houses). In Sydney, despite also facing an exceptionally strong increase in the supply of apartments, annual unit price growth is currently similar to that seen by houses (at 7.3%). Elsewhere, apartment prices are generally growing at a similar pace to houses. Hobart is a notable exception, however, with unit prices growing more than 13% over the past year - albeit, units are a relatively small share of the market.

Despite the stronger than expected start to the year, the housing market is expected to continue losing momentum going forward as credit restrictions on investors and worsening affordability bites - particularly in Sydney and Melbourne, where foreign investment is a larger element. Indeed, the NAB Residential Property survey is already suggesting the foreign investors are diverting attention away from these markets and turning more towards Queensland. Additionally, the rapid build-up of residential construction work in the pipeline suggests the strong supply response is set to continue for some time - especially for apartments - which will help to significantly reduce

pent-up demand in the market. Regulatory changes will also work to constrain housing finance, especially for investors, although strong growth in investor credit 12 months ago provides scope for stronger growth in the near-term (and still satisfy APRA's 10% speed limit imposed on banks). Owner-occupier finance has also remained relatively strong, suggesting upside risk to the near-term outlook.

Overall, fundamentals have not changed sufficiently to prompt a significant revision to our price growth forecasts, although the stronger than expected outcomes in Q1 suggest a degree of upside risk. Our average national house price forecast in 2016 has been increased marginally to 1.5%, from 1%, but this is still well down on 2015. Unit price forecasts are broadly unchanged, with large additions to supply expected to contribute to a decline of 1% over 2016. However, the high degree of uncertainty facing investor and foreign demand provides an added degree of unpredictability to the outlook (both positive and negative).

By capital city, NAB Economics expects house price growth to broadly ease, but overall growth is forecast to be strongest along the Eastern seaboard, consistent with outcomes in the NAB Residential Property Survey and a relatively better outlook for local economies. Brisbane and Melbourne are expected to be the best performers, with Brisbane prices forecast to rise by 2.6% in 2016, while Melbourne increases 2.3% (still well down on 2015). Sydney house price growth is forecast to moderate significantly to just 1.5%. The Adelaide market is not expected to improve much in 2016 - an increase 0.2% roughly offsetting a similar fall in prices in 2015. Perth will remain very weak as prices decline by another 3%.

For apartments, flat to falling prices are expected across most capital cities. The worst declines are forecast to again be in Perth, as well as Melbourne (both -3%). The decline in Perth largely reflects economic conditions, while falls in Melbourne are expected as a result of added supply and weaker investor demand - Melbourne currently has the lowest rental yields for both units and houses. Sydney unit prices will also be weaker (-0.6%), while Brisbane unit prices are expected to decline by a similar amount.

Very strong growth in Australia's major property markets over recent years has increased the risks of a more severe moderation going forward. Nevertheless, our overall assessment is that the possibility of a more severe correction is still remote. A sharp correction will likely require an external catalyst, triggering a sharp deterioration in the local labour market and/or a wave of Chinese selling. The other possible trigger - a large increase in interest rates - looks highly unlikely in the current environment.

Authors:

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

Riki Polygenis (Head of Australian Economics)
+(61 3) 8679 9534

NAB House / Unit Price Forecasts (%)

	House Prices						Unit Prices					
	2011	2012	2013	2014	2015	2016f	2011	2012	2013	2014	2015	2016f
Capital City Average	-4.0	-0.5	9.9	8.4	7.8	1.5	-2.6	0.5	9.0	5.1	7.9	-1.0
Sydney	-2.6	1.3	15.2	13.4	11.5	1.5	-1.3	2.3	11.6	8.3	11.3	-0.6
Melbourne	-4.4	-2.9	8.5	8.4	11.7	2.3	-3.2	-2.5	8.7	1.1	6.9	-3.0
Brisbane	-7.0	-0.5	5.3	5.2	4.3	2.6	-2.0	-3.5	3.5	1.2	1.8	-0.6
Adelaide	-3.8	-0.8	3.0	4.5	-0.3	0.2	-8.0	-0.5	0.6	2.5	1.4	0.2
Perth	-3.4	0.6	10.2	2.1	-3.8	-3.0	-5.4	3.3	6.3	1.9	-3.5	-3.0
Hobart	-8.8	-0.5	2.9	3.3	-1.6	6.0	-5.6	4.2	-5.1	5.9	8.6	7.0

Percentage change represents through the year growth rates to Q4

SOURCE: Corelogic, NAB Economics

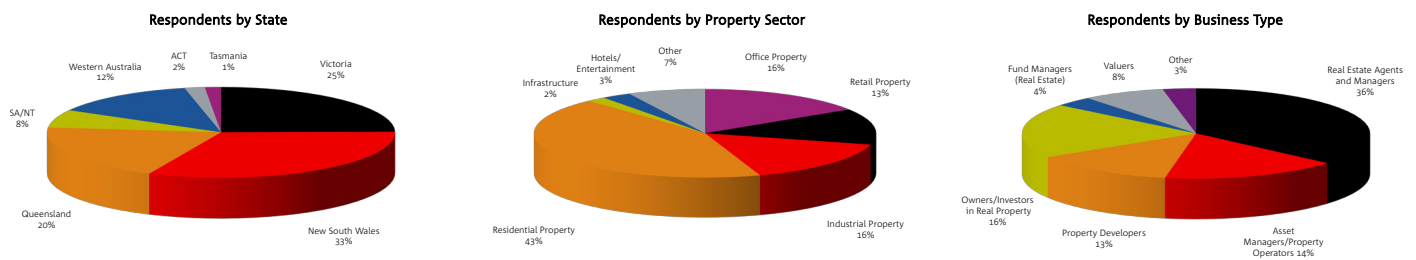
About the Survey

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 270 panellists participated in the Q1 2016 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

Behavioural & Industry Economics

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

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

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

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

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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.