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MEDIA RELEASE

- **Sentiment towards the Australian housing market in Q2 fell to its lowest level in 2 years and is well below average**
- **Confidence also at a new survey low, pulled down mainly by NSW and Victoria**
- **NAB sees dwelling price weakness persisting in 2018 and 2019, but expects moderate rather than sharp price falls**
- **First Home Buyers' presence continues to grow**

The NAB Residential Property Index fell sharply in the June quarter 2018, down 17 points to +6 to sit at its lowest level since mid-2016 and well below its long-term average (+14).

"Weaker sentiment was evident in all states," NAB Chief Economist Alan Oster said.

"It turned negative in WA and NSW amid falling house prices and rents. Victoria was also noticeably softer, but remained positive as a pick-up in rents helped offset falling prices.

"Overall confidence levels fell to a new survey low, driven down mainly by NSW and Victoria where capital city house prices declined," said Mr Oster.

Consequently, property professionals in NSW and Victoria are now the least confident in the country by some margin.

Property professionals scaled back their expectations for house prices in all states in Q2.

They now expect prices to fall in both NSW and Victoria, with housing markets in Queensland and WA to lead the country for capital growth over the next 1-2 years.

The outlook for rents remains positive in all states and is likely placing upward pressure on yields.

"Income returns are expected to be strongest in Victoria, where rapid population growth is contributing to low rates of residential vacancy," said Mr Oster.

Among other key survey findings, housing demand from first home buyers continued to offset a reduction in demand from foreign buyers in new and established housing markets.

According to Mr Oster: "State government incentives and moderating house prices are likely helping first home buyers move onto the property ladder."

Property professionals also said credit constraints are impacting housing markets more than they have for a number of years amid intensified lending scrutiny by banks and APRA-inspired tighter credit policies.

NAB's forecasts on residential prices

NAB's view is that the weakness in dwelling prices seen over the past year is likely to persist in 2018 and 2019 - although we expect moderate rather than sharp price falls.

The declines over 2018 to date have been more significant than initially expected and this is reflected in our revised forecasts for 2018 and 2019.

We now expect a slightly sharper decline in 2018 and a small fall in 2019 (was a small increase), driven by continued weakness in Sydney and Melbourne as well as a sharper decline in unit prices in Brisbane.

NAB also expects house prices to flatten in aggregate in 2020 - implying a peak to trough fall of 6.5% and 2.5% in Sydney and Melbourne respectively.

“But any further tightening in lending standards or additional changes to government or prudential policy to address affordability or financial stability concerns are likely to have an impact on these forecasts” said Mr Oster.

NAB Hedonic House Price Forecasts (%)*

	2016	2017	2018f	2019f
Sydney	10.7	2.1	-3.7	-0.7
Melbourne	9.5	9.1	-2.3	0.0
Brisbane	2.7	3.1	0.1	0.0
Adelaide	3.8	3.3	1.5	1.7
Perth	-2.9	-2.6	-0.7	-0.2
Hobart	9.6	12.9	8.4	1.7
Cap City Avg	7.3	4.0	-1.8	-0.1

SOURCE: CoreLogic, NAB Economics

NAB Hedonic Unit Price Forecasts (%)*

	2016	2017	2018f	2019f
Sydney	5.8	5.4	-1.6	-2.4
Melbourne	4.7	8.4	-1.4	-1.9
Brisbane	-3.0	-1.2	-2.4	-4.5
Adelaide	0.6	0.5	1.4	0.5
Perth	-6.3	-0.9	-5.0	-0.2
Hobart	6.4	9.1	5.3	1.2
Cap City Avg	3.5	5.1	-1.7	-2.2

SOURCE: CoreLogic, NAB Economics

About 300 property professionals participated in the Q2 2018 survey.

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