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National Australia Bank

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MEDIA RELEASE

- **Current market sentiment among property professionals dips to a 7-year low and confidence collapses as weakening house prices in NSW and Victoria weigh heavily on the market.**
- **NAB's view is the orderly correction in house prices will continue over the next 18-24 months, driven mainly by Sydney and Melbourne, particularly apartments.**
- **Accessing credit remains a significant impediment in the market according to surveyed property professionals (not consumers), but concerns over interest rates are now also rising.**

The NAB Residential Property Index fell sharply for the second straight quarter in Q3 2018, down 15 to a 7-year low -9 points, and its first negative read since mid-2012.

Sentiment was dragged lower by big falls in NSW and VIC, which offset gains in QLD (the only state reporting a positive result).

Confidence also dipped to new lows, pulled down mainly by NSW and VIC where property professionals scaled back their outlook for prices, particularly in VIC where house price falls are now tipped to be much bigger.

Property professionals expect house price growth to be fastest in QLD and WA in the next 1-2 years.

The outlook for rents is holding up relatively well, but is also a little softer. But as national house prices continue falling faster than rents, yields should improve.

First home buyers remain key players in local housing markets, but their market share fell in Q3.

Owner occupiers picked up the slack as tougher restrictions on investment lending saw the number of local investors in the market fall.

The boom in Australian housing sales to foreign investors has also run its course, with their share of total sales falling to a 7-year low 8.1% in new markets and a survey low 4.1% in established markets.

Property professionals believe that accessing credit is impacting housing markets more now than for a number of years - and in all states - with the level of concern over interest rates now also rising.

NAB's forecasts on residential prices

NAB's view is the orderly correction in house prices will continue over the next 18-24 months with Sydney falling around 10% peak to trough and Melbourne 8%.

This reflects a bigger fall than previously expected but would still leave house prices well up on 2012 levels.

Weakness in dwelling prices will continue to be driven by Sydney and Melbourne, particularly apartments, although it's likely Brisbane and Perth will also contribute.

Overall, we see this as a healthy correction which will help offset some of the risk in the household sector against a backdrop of a relatively healthy economy and labour market.

Our central scenario does not include a credit crunch event leading to disorderly falls in house prices.

NAB HEDONIC HOUSE PRICE FORECASTS (%)

	2016	2017	2018f	2019f	2020f
Sydney	10.7	2.1	-5.7	-1.6	0.1
Melbourne	9.5	9.1	-5.9	-2.2	-0.6
Brisbane	2.7	3.1	0.2	0.0	0.0
Adelaide	3.8	3.3	0.9	1.7	1.7
Perth	-2.9	-2.6	-2.4	-0.2	0.0
Hobart	9.6	12.9	6.4	1.8	1.8
Cap City Avg	**7.3**	**4.0**	**-3.7**	**-1.0**	**0.0**

NAB HEDONIC UNIT PRICE FORECASTS (%)

	2016	2017	2018f	2019f	2020f
Sydney	5.8	5.4	-3.6	-5.5	-0.9
Melbourne	4.7	8.4	-2.7	-3.4	-1.0
Brisbane	-3.0	-1.2	-0.5	-4.5	-2.2
Adelaide	0.6	0.5	1.2	0.5	0.5
Perth	-6.3	-0.9	-6.9	-2.3	-0.8
Hobart	6.4	9.1	5.9	1.2	1.2
Cap City Avg	**3.5**	**5.1**	**-3.0**	**-4.4**	**-1.0**

SOURCE: CoreLogic, NAB Economics

Over 300 property professionals participated in the Q3 2018 survey.

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