NAB RESIDENTIAL PROPERTY SURVEY Q4-2019

NAB RESIDENTIAL PROPERTY INDEX RISES TO A NEAR 6-YEAR HIGH AND IS NOW POSITIVE IN ALL STATES. CONFIDENCE ALSO LIFTS, LARGELY SUPPORTED BY A BRIGHTER OUTLOOK FOR PRICES. FHBS EMERGE AS KEY PLAYERS IN THE MARKET AS FOREIGN BUYING ACTIVITY REMAINS SUBDUED.

NAB Behavioural & Industry Economics

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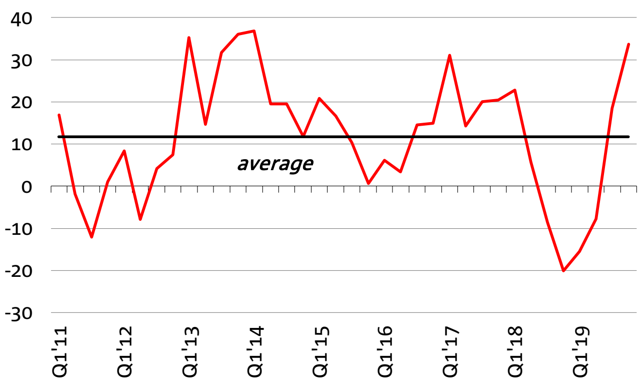
The Australian housing market ended 2019 on a firm footing, with **NAB's Residential Property Index** climbing to its highest level in nearly 6 years. The Index rose a further 16 points to +34 after moving into positive territory in Q3 for the first time since mid-2018. Stronger sentiment was supported by rebounding dwelling values in the last 3 months of the year, and was positive in all states for the first time since early-2018. Sentiment was highest in VIC, but improved most in NSW. Confidence also lifted further, particularly in WA suggesting the local market could be emerging from its long downturn. The survey expectation is for price growth to accelerate in all states in 2020-2021, led by NSW and VIC. Property professionals also see price growth overtaking rents for the first time in 2 years, suggesting yields will compress in the future. With mortgage rates falling and the new First Home Buyers Loan Deposit Scheme taking effect from January 2020, FHBs dominated sales in new housing markets and increased their market share in established markets. Foreign buying activity was again relatively subdued. Tight credit remains the biggest constraint on new housing development, and access to credit the biggest impediment for buyers of existing property, but property professionals indicated their impact on the market was less severe in Q4.

NAB's view is that while prices have rebounded more strongly than expected in the second half of 2019, dwelling price growth will slow in an underlying sense in 2020 and 2021 in Sydney and Melbourne. Outcomes for the other capitals are likely to be more mixed, driven by state specific factors. Overall, we expect nationwide dwelling prices to rise by around 4% in 2020 before growth slows to around 2½% in 2021. Low interest rates are expected to continue to provide support, as is the low level of unemployment and still healthy population growth in Sydney and Melbourne, however affordability constraints will arise as prices reach their previous peak.

VIEW FROM PROPERTY EXPERTS

NAB RESIDENTIAL PROPERTY INDEX



RESIDENTIAL PROPERTY INDEX BY STATE

	Q3'19	Q4'19	Next 1yr	Next 2yrs
VIC	40	47	65	59
NSW	2	31	53	57
QLD	29	30	47	57
SA/NT	24	21	50	65
WA	-8	16	56	78
AUST	18	34	54	60

VIEW FROM NAB ECONOMICS

NAB HEDONIC HOUSE PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-10.0	6.1	7.4	3.7
Melbourne	-9.1	4.6	7.4	3.7
Brisbane	0.4	0.4	1.2	1.2
Adelaide	1.3	-0.3	-0.8	1.2
Perth	-4.3	-6.7	-1.1	0.0
Hobart	8.3	4.0	1.8	1.8
Cap City Avg	**-6.7**	**2.9**	**4.1**	**2.7**

NAB HEDONIC UNIT PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-6.3	3.4	4.9	2.4
Melbourne	-2.3	6.5	7.4	3.7
Brisbane	-0.7	0.1	-0.8	0.6
Adelaide	1.7	0.5	-1.2	1.2
Perth	-6.5	-7.2	-1.5	0.0
Hobart	10.2	3.9	1.2	1.2
Cap City Avg	**-4.3**	**3.4**	**4.5**	**2.4**

*percentage changes represent through the year growth to Q4
SOURCE: CoreLogic, NAB Economics

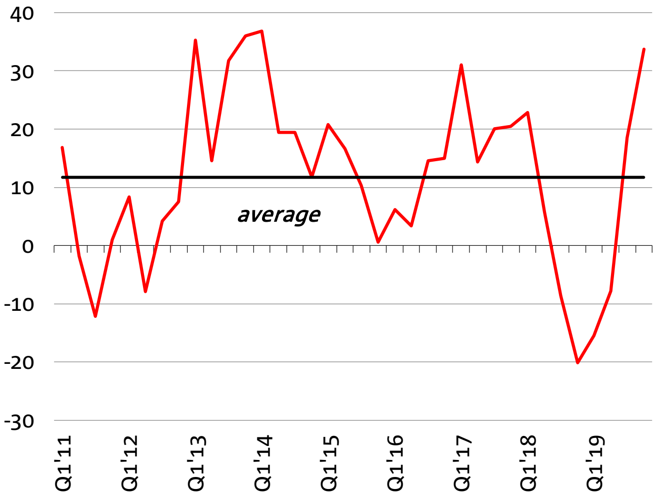
Date **January 2020** | **Author: NAB Behavioural & Industry Economics**

HOUSING MARKET GATHERS MORE STEAM

The NAB Residential Property Index (a gauge of housing market sentiment based on expectations of property professionals for prices and rents) gained more steam in the final quarter of 2019, after moving back into positive territory in Q3. Overall, the Index climbed 16 points to a near 6-year high +34, to remain well above the survey average (+12).

The uptick in sentiment was largely supported by rebounding dwelling values through the last 3 months of the year, with CoreLogic's national home value index also recording its fastest rate of quarterly growth since November 2009.

NAB RESIDENTIAL PROPERTY INDEX



Housing market sentiment was positive among property professionals in all states for the first time since Q1 2018. It was again highest in VIC (up 7 to +47), but improved most in NSW (up 29 to +31) as positivity around state house prices improved. In WA, the index recorded its first positive read in almost two years (up 24 to +16) supported mainly by an improved outlook for rents, but continued to be lowest of all states. In QLD (up 1 to +30) the index was largely unchanged, while sentiment in SA/NT was slightly lower (down 3 to +21).

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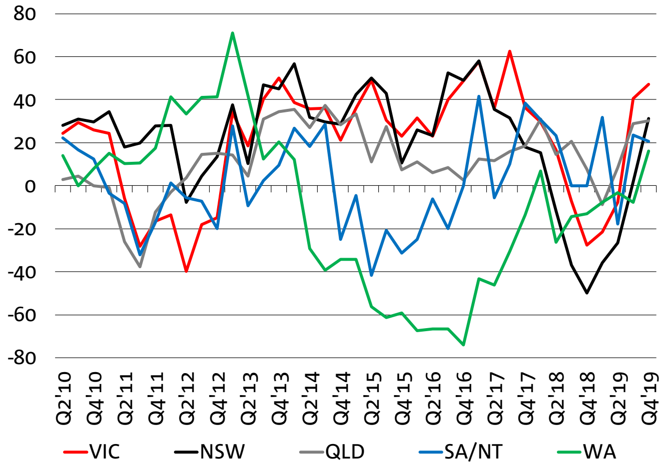
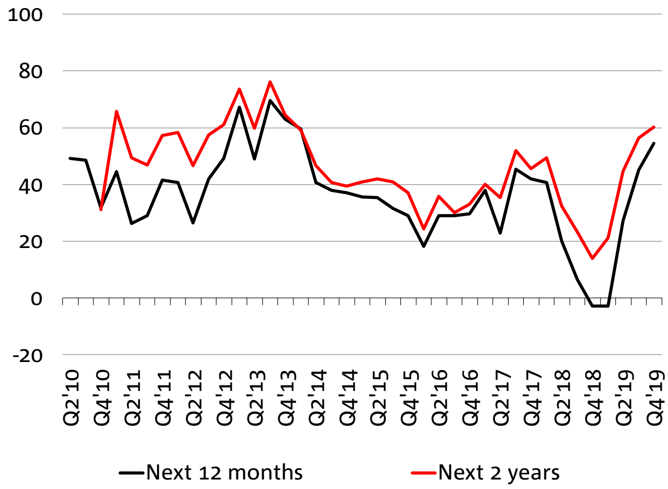


Overall housing market confidence (based on future expectations for prices and rents) improved, with the survey pointing to a further increase in the number of optimists exceeding pessimists around future price and rental growth.

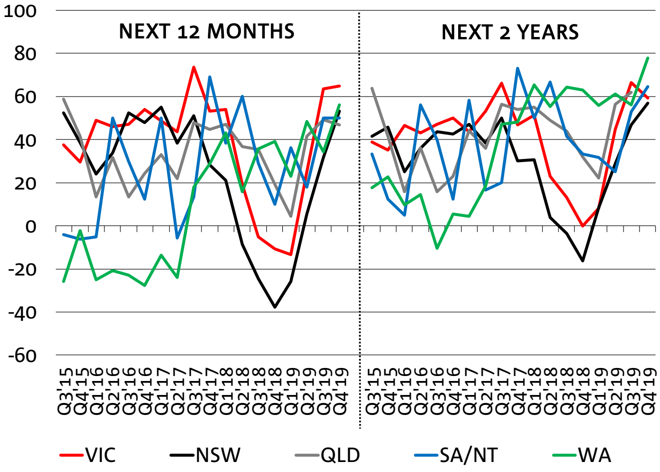
Consequently, the NAB Residential Property Index climbed to +54 in the next 12 months (+45 forecast in Q3), and to +60 in 2 years' time (+56 points in Q3 2019), with both measures now at multi year highs.

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



Confidence among surveyed property professionals for the next 12 months were highest in VIC (up 2 to +65). However, it improved most in WA (up 22 to +56) suggesting property professionals in that state think the worst of the market downturn may be over. Confidence in NSW also climbed sharply (up 21 to +53), following a large upward revision in the outlook for state house prices and rents. In QLD, confidence moderated (down 2 to +47), and was lowest of all states, albeit at above average levels. In SA/NT, confidence was unchanged at a healthy +50.

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



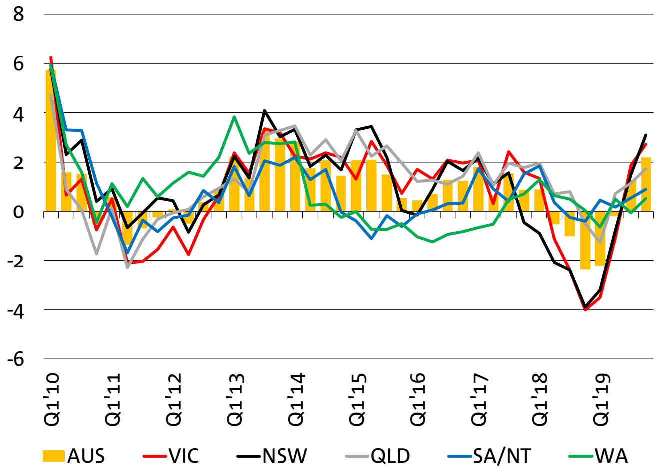
Longer-term confidence (2 years' time) rebounded sharply in WA and was highest in the country (up 22 to +78). Optimism in WA is likely being fuelled by a resurgence in mining sector activity, falling unemployment and population growth. Confidence also lifted in SA/NT (up 12 to +65), where the state economy and jobs are also expected to receive a boost from major infrastructure projects.

Confidence was lowest in the Eastern seaboard states, but at relatively elevated levels. Interestingly, property professionals were somewhat less confident in VIC (down 7 to +59) and QLD (down 5 to +57), but more confident in NSW (up 10 to +57) despite fears rising prices will see affordability worsen again.

SURVEY HOUSE PRICE EXPECTATIONS

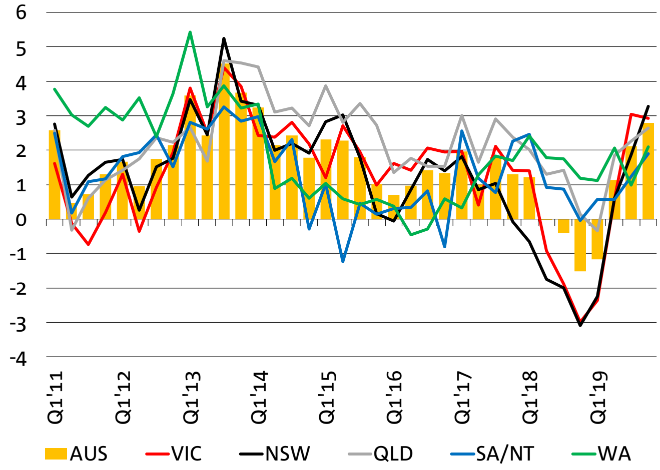
Australian house prices turned up sharply late last year and the survey expectation is for rapid gains to continue. On average, property professionals see national house prices growing 2.2% in the next 12 months, after predicting a rise of 1.3% in Q3. Price expectations have not been this high since Q1 2014.

SURVEY HOUSE PRICE EXPECTATIONS: NEXT 12M



Property professionals see house prices growing in all states, and growing faster. NSW (3.1%) and VIC (2.7%) are expected to lead the way, with property professionals also significantly upgrading their predictions since the last survey (1.5% and 1.9% in NSW and VIC respectively). Faster growth is also being predicted for QLD (1.7% vs. 1.1% in Q3) and SA/NT (0.9% vs. 0.5% in Q3). In WA, property professionals also now see house prices growing in the next 12 months (0.5% vs. -0.1% in Q3).

SURVEY HOUSE PRICE EXPECTATIONS: NEXT 2Y



Longer-term prospects for house prices are also more optimistic. Overall, the average survey expectation now has house prices growing by 2.8% in 2 years' time (2.1% in the last survey).

Prospects for house prices in 2 years' time are positive according to property professionals in all states, and were revised higher in all states bar VIC (2.9% vs. 3.0% in Q3) - although it is expected to be the second best state for capital growth after NSW (3.3% vs. 1.9% in Q3). QLD is expected to be the next best performer (2.7% vs. 2.3% in Q3), followed by WA (2.1% vs. 1.0% in Q3) and SA/NT (1.9% vs. 1.2% in Q3).

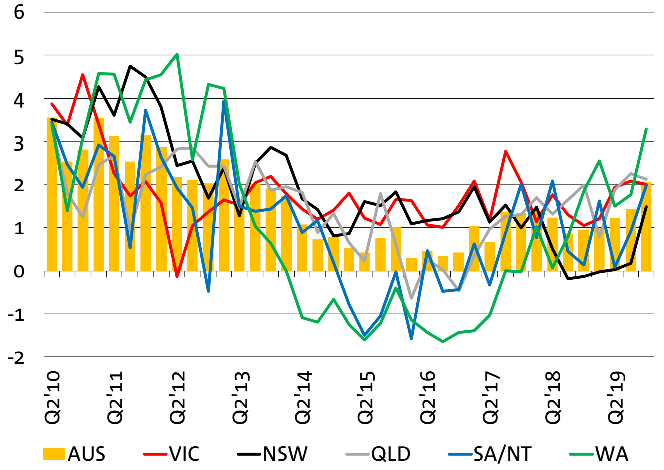
SURVEY RENTAL EXPECTATIONS

Nationwide, the average survey expectation is for rents to grow 2.1% over the next 12 months (1.4% in Q3) and 2.7% in 2 years' time (2.4% in Q3). Expectations for rental growth are weaker than that for rents for the first time since Q4 2017, suggesting yields will compress in the future.

In the next 12 months, rents are expected to grow fastest in WA (3.9% vs. 2.7% in Q2) where the market is benefitting from population growth and reduced supply. Rental growth is also expected to accelerate in SA/NT (2.0% vs. 0.9% in Q3) and NSW (1.5% vs. 0.2% in Q3). In VIC (2.0% vs. 2.1% in Q3) and QLD

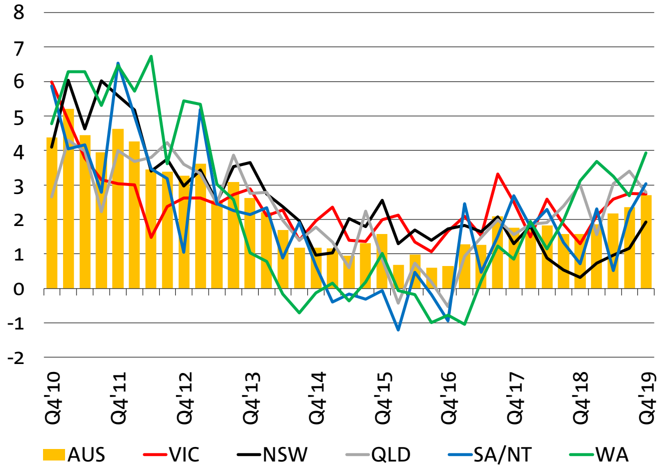
(2.1% vs. 2.3%) expectations were scaled back for the next 12 months.

SURVEY RENTAL EXPECTATIONS: NEXT 12M



The outlook for rents in 2 years' time is highest in WA (3.9% vs. 2.7% in Q3), followed by SA/NT (3.0% vs. 2.2% in Q3). In both states, rental growth is expected to exceed price growth, suggesting yields will increase, potentially boosting investor activity. Property professionals were also more positive about the outlook in NSW (1.9% vs. 1.2% in Q3), although it remains lowest of all states. In VIC, expectations were slightly weaker (2.7% vs. 2.8% in Q3). They were also scaled back in QLD (2.8% vs. 3.4% in Q3), and are running slightly ahead of price expectations.

SURVEY RENTAL EXPECTATIONS: NEXT 2Y



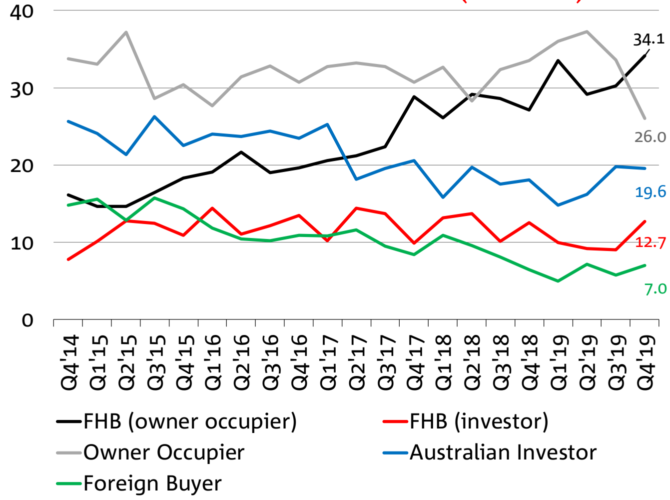
NEW DEVELOPMENTS

Ahead of the new First Home Buyers Loan Deposit Scheme effective from the start of 2020, buying activity in new housing markets was dominated by FHB owner occupiers, with their market share of total sales rising to a survey high 34.1% (30.2% in Q3). FHB investors were also more prominent in the market, with their share of total sales reaching 12.7% (9.0% in Q3). In total, FHBs accounted for a survey high 46.8% of all sales in this market in Q4. The survey also suggests FHB owner occupiers were most active in WA (48.3%) and NSW (38.7%), with FHB investors leading the way in QLD (24.0%).

Overall, owner occupiers (net of FHBs) accounted for a survey low 26.0% of all sales in Q4 (33.6% in Q3). These buyers were most active in SA/NT (47.5%) and least active in WA (20.8%) and QLD (21.0%).

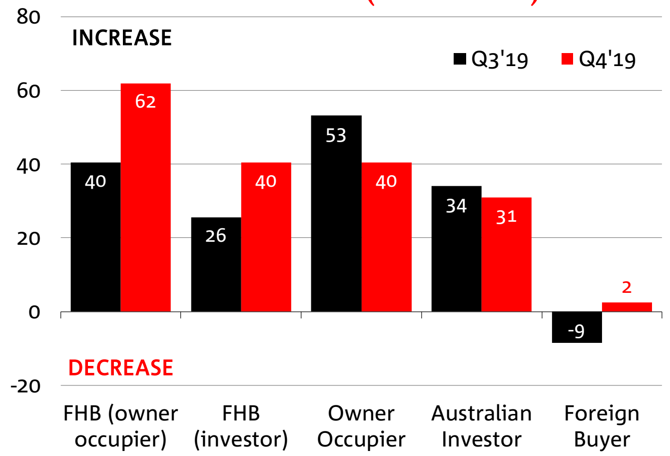
With mortgage rates moving lower, during the survey period, resident investors continued to play a key role in the market, accounting for 19.6% of all sales. Investment activity was highest in VIC, with 24.3% of all sales, followed by QLD (20.0%) and NSW (18.6%).

BUYERS - NEW DEVELOPMENTS (% SHARE)



Foreign buying activity was relatively subdued at 7.0% of total sales (5.8% in Q3), and well below average 10.2%. Foreign buyers did however noticeably increase their presence in VIC (12.0% vs. 7.3% in Q3).

EXPECTED CHANGE IN SHARE OF NEW PROPERTY BUYERS (NET BALANCE)

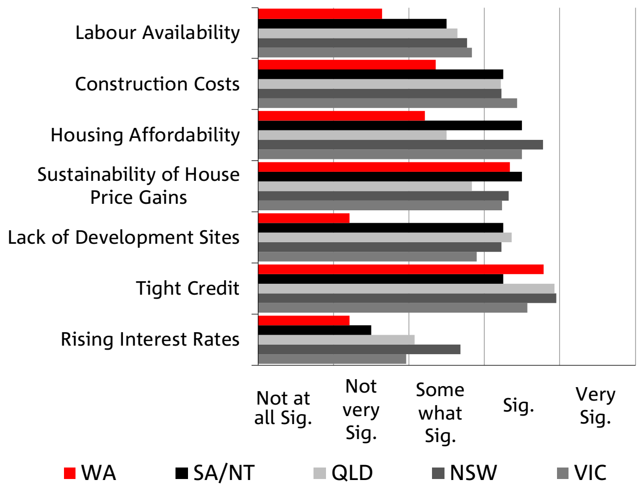


Property professionals were asked if they thought the share of new property buyers would increase or decrease over the next 12 months in each buyer segment. In net terms, there was a big increase in the net number who said the share of FHB owner occupiers (+62% vs. +40%) and FHB investors (+40% vs. +26%) will increase in the next 12 months.

However, fewer property professionals expect the net number of owner occupiers (+40% vs. +53%) and local investors (+31 vs. +34%) in new property markets to increase over the next 12 months.

On balance, slightly more property professionals (+2%) now expect the number of foreign buyers to increase in the next 12 months, after more had predicted them to be less active in Q3 (-9%).

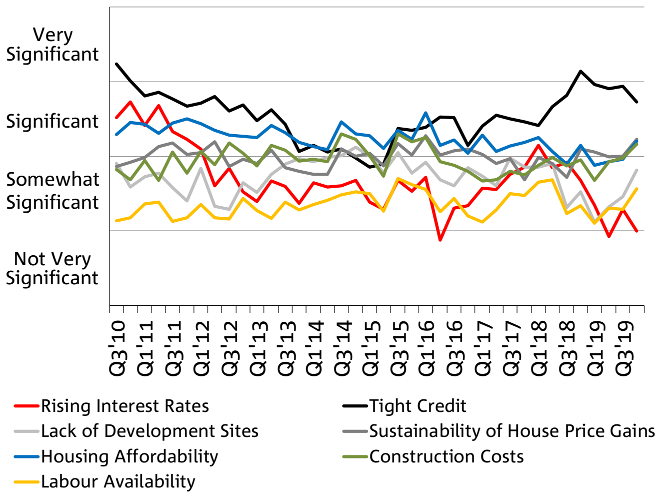
CONSTRAINTS ON NEW HOUSING DEVELOPMENTS - STATES



NEW HOUSING MARKET CONSTRAINTS

Tight credit is still the single biggest constraint on new housing development in the country. However, it's impact on the market has been downgraded from "very significant" to "significant" with the relaxation of mortgage serviceability requirements. That said, it continues to be singled out as the biggest constraint for new housing development in all states, except SA/NT (sustainability of house price gains and housing affordability).

CONSTRAINTS ON NEW HOUSING DEVELOPMENTS



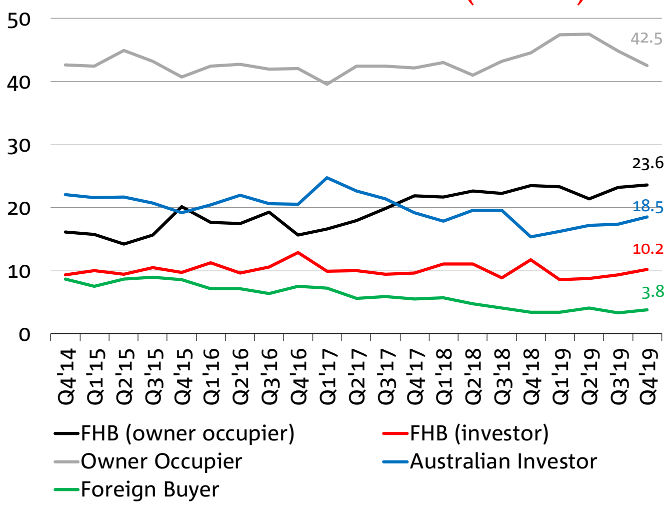
Property professionals have however upgraded their level of concern around the sustainability of house price gains, housing affordability and construction costs to "significant". The level of concern around the lack of development sites and labour availability have also grown, although they are still only "somewhat concerned" about these issues.

In the current environment, property professionals don't expect rising interest rates to unduly constrain the market.

ESTABLISHED PROPERTY

Buying activity in established housing markets continued to be dominated by owner-occupiers (net of FHBs) or 'upgraders', although their market share moderated further to 42.5% (44.9% in Q3). Owner occupiers accounted for the lion's share of total sales in all states, ranging from 52.3% in SA/NT to 36.8% in NSW.

BUYERS - ESTABLISHED PROPERTY (% SHARE)

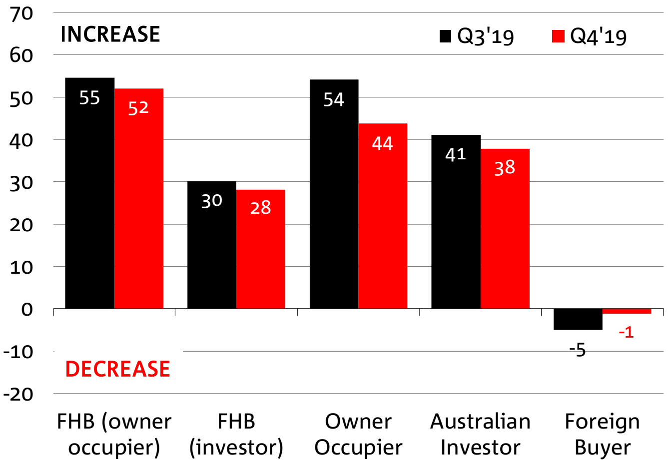


As in new property markets, the overall share of FHBs in established markets also increased to 33.8% (32.6% in Q3) and remains well above the survey average (29.6%). The share of FHB owner occupiers rose to 23.6% (23.2% in Q3), and that of FHB investors to 10.2% (9.4% in Q3). The overall share of FHBs in established housing markets was highest in NSW (37.7%) and lowest in SA/NT (23.4%). FHB owner occupiers were most active in WA (26.5%) and NSW (25.3%), and FHB investors most active in NSW (12.4%) and QLD (11.2%).

With a further reduction in mortgage interest rates and an easing in lending restrictions, the share of local investors (net of FHBs) in established housing markets increased to 18.5% (17.4% in Q3), but remains below average (19.9%). By state, the number of investors increased in NSW (20.6% vs. 17.9% in Q3) and VIC (18.5% vs. 17.4% in Q3), was unchanged in QLD (18.0%) and fell in WA (12.4% vs. 15.3% in Q3).

The share of foreign buyers in established housing markets inched up to 3.8% (3.4% in Q3), but remains well down on the survey average (6.1%). Increased activity was apparent in VIC (6.3% vs. 4.0% in Q3) and WA (4.8% vs. 3.4%), but market share declined in NSW (3.3% vs. 3.7% in Q3) and QLD (2.4% vs. 3.2%). All states are recording lower than average levels of foreign buying activity.

EXPECTED CHANGE IN SHARE OF ESTABLISHED PROPERTY BUYERS (NET BALANCE)



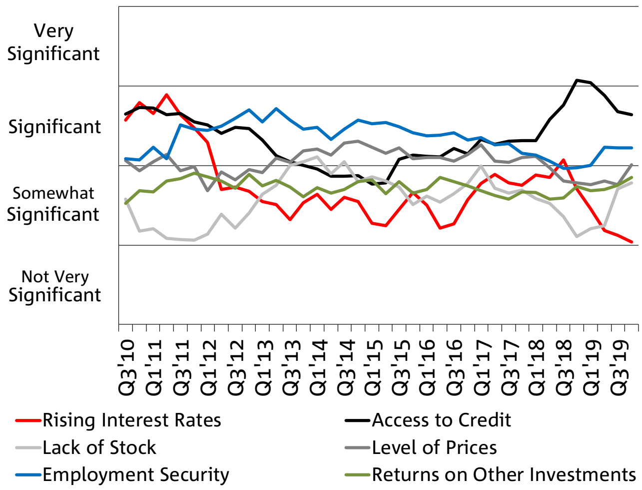
The net number of property professionals expecting the market share of buyers to increase continues to outweigh those expecting them to fall in all buyer categories, except foreign buyers. The biggest increase is expected in the FHB owner occupier category (+52%), followed by resident owner occupiers (+44), local investors (+38%) and FHB investors (+28%). The net number expecting the share of foreign buyers to increase and decrease is now broadly balanced (-1%).

ESTABLISHED HOUSING MARKET CONSTRAINTS

Access to credit is still seen as the main impediment for buyers of existing property in the country. But property professionals have further revised down its impact on the market relative to the last survey. Access to credit was also highlighted by surveyed property professionals as the biggest constraint for buyers in all states.

Employment security is the next biggest constraint for buyers in this market, and continues to be rated highest in WA, despite more positive signs in the local labour market.

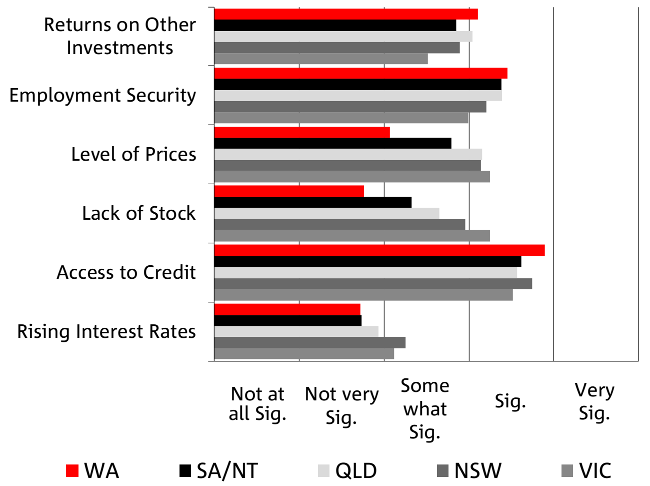
CONSTRAINTS ON ESTABLISHED PROPERTY



Lack of stock continues to emerge as a key market constraint, and was highlighted as a particular issue in both VIC and NSW, where advertised stock levels are reportedly very low.

With mortgage rates falling further, rising interest rates are now considered "not very significant". Property professionals in NSW and VIC are however somewhat more concerned than in other states.

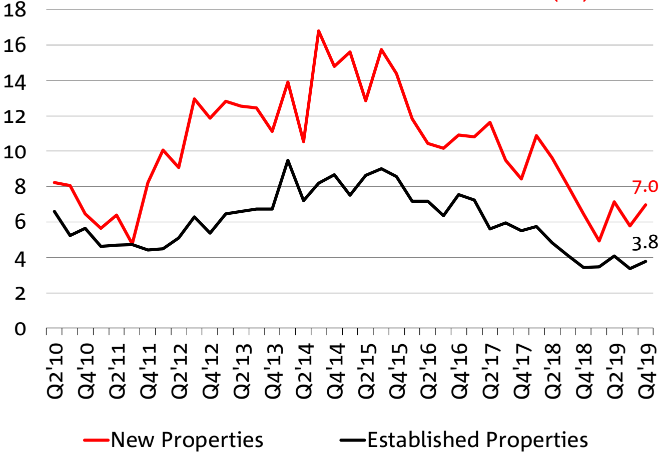
CONSTRAINTS ON ESTABLISHED PROPERTY - STATES



FOREIGN BUYERS

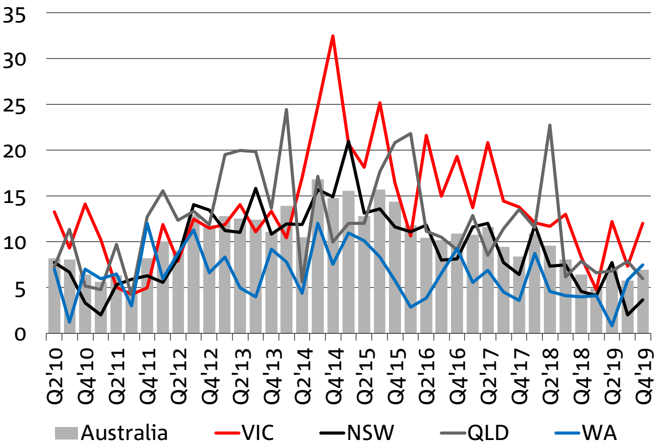
Despite a modest pickup in foreign buying activity in Q4 in new (7.0% vs. 5.8% in Q3) and established (3.8% vs. 3.4% in Q3) housing markets in Q4, activity levels remain well below average in both markets (10.2% in new and 6.1% in established markets).

SHARE OF TOTAL DEMAND FOR NEW & ESTABLISHED PROPERTY - FOREIGN BUYERS (%)



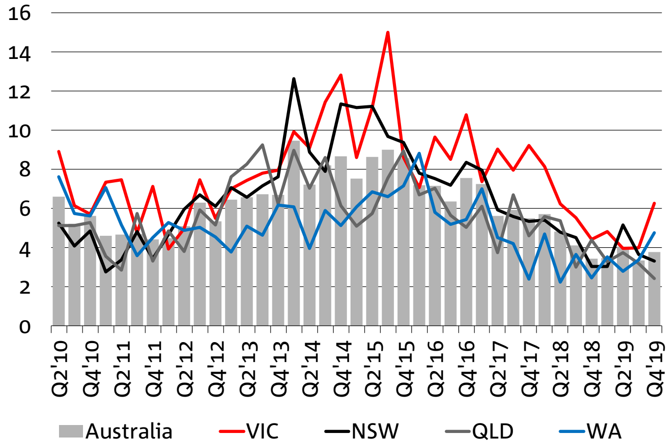
In new property markets, the share of sales to foreign buyers increased to 12.0% in VIC (7.3% in Q3). Their market share also increased in WA (7.5% vs. 5.8% in Q3) and NSW (3.7% vs. 2.0% in Q3), but fell in QLD (6.0% vs. 7.9%). The level of foreign buying activity in all states was however below average.

SHARE OF DEMAND FOR NEW PROPERTY: FOREIGN BUYERS (%)



In established housing markets, the share of sales to foreign buyers inched up to 3.8% (3.4% in Q3) but was still well below the survey average (6.1%). Foreign buyers in this market accounted for a bigger share of sales in VIC (6.3% vs. 4.0% in Q3) and WA (4.8% vs. 3.4% in Q3), but a smaller share in NSW (3.3% vs. 3.7% in Q3). In QLD, foreign buying activity fell to a survey low 2.4% (3.2% in Q3). Like in new property markets, the share of foreign buyers in established housing markets remains below survey average levels in all states.

SHARE OF DEMAND FOR ESTABLISHED PROPERTY: FOREIGN BUYERS (%)



AVERAGE SURVEY EXPECTATIONS: HOUSE PRICES (%)

	Q3'19	Q4'19	Next 1 year	Next 2 years
VIC	0.6	2.0	2.7	2.9
NSW	0.3	1.8	3.1	3.3
QLD	0.1	0.8	1.7	2.7
SA/NT	-0.2	-0.5	0.9	1.9
WA	-1.1	-0.3	0.5	2.1
AUST	**0.2**	**1.2**	**2.2**	**2.8**

AVERAGE SURVEY EXPECTATIONS: RENTS (%)

	Q3'18	Q4'19	Next 1 year	Next 2 years
VIC	1.1	0.7	2.0	2.7
NSW	-0.7	0.2	1.5	1.9
QLD	1.3	1.2	2.1	2.8
SA/NT	0.4	0.6	2.0	3.0
WA	0.5	1.8	3.3	3.9
AUST	**0.5**	**0.9**	**2.1**	**2.7**

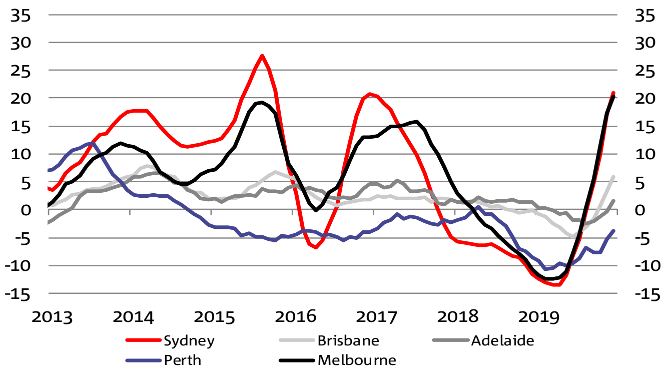
NAB'S VIEW OF HOUSE PRICES

Recent price growth has been significantly stronger than we expected, particularly in Sydney and Melbourne where prices have risen by 10% since reaching a trough in May 2019. The year 2019 saw prices in Melbourne and Sydney around 5.3% higher, with more mixed results across the other capitals. Hobart finished the year 3.9%, a slowing in growth from previous years, but still solid outcome. Outcomes in Brisbane (up 0.3%) and Adelaide (down 0.2%) were more muted. Perth ended the year 6.9% lower - and is now down around 22% from its peak in 2014. In aggregate the 8-capital city dwelling price index ended the year 3.0% higher, with unit price growth slightly outpacing that of houses.

We expect dwelling prices to continue to rise in 2020, continuing to be led by Sydney and Melbourne but for the pace of growth to moderate somewhat - with the aggregate index rising by 4%. In 2021 we expect price growth to ease further but rise by around 2½%. While Sydney and Melbourne will continue to drive growth, we expect growth across the other capitals to remain modest.

We expect the key drivers of price growth to continue with a rebound in confidence following the correction in recent years, the impact of low rates continuing to feed through the market and relatively low rates of unemployment and still healthy population growth. However, it is likely that the impact of these factors will moderate and the constraints of slow income growth and high debt levels will persist.

DWELLING PRICE GROWTH (6-MONTH ENDED ANNUALISED, %)



On the supply side we continue to see a fairly rapid adjustment with work done (and the broader national accounts measure of dwelling investment) to continue to decline over 2020. Following a 7% decline this year, we expect dwelling investment to level off.

This will serve to provide some support to prices with no fundamental oversupply.

Our expectations for the economy have softened since the last survey. We expect a further two interest rate cuts this year and the risk the RBA needs to do more by moving to unconventional policy should the labour market deteriorate more significantly than we expect.

The key dynamics behind our forecasts remain unchanged however. That is, we continue to expect weak outcomes for the private sector with consumption growth remaining soft, dwelling investment continuing to decline and only tepid growth in business investment.

Offsetting this weakness will be continued strength in public sector spending with a continued rollout of the NDIS and a significant infrastructure pipeline. The final ramp-up of LNG production will support growth in the near-term before we expect exports to level off.

Below trend growth is likely to see a moderate deterioration in the unemployment rate this year to around 5.5%. This would see significant spare capacity remain in the labour market, and little pressure on wages growth. Ongoing weakness in household income growth will likely see further restraint in consumption growth. Therefore, we think the RBA has an opportunity to provide further support to the economy, to see better outcomes in the labour market in its own right, as well as a sustainable move back to the RBAs target range for inflation which has consistently undershot in recent years.

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NAB HEDONIC HOUSE PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-10.0	6.1	7.4	3.7
Melbourne	-9.1	4.6	7.4	3.7
Brisbane	0.4	0.4	1.2	1.2
Adelaide	1.3	-0.3	-0.8	1.2
Perth	-4.3	-6.7	-1.1	0.0
Hobart	8.3	4.0	1.8	1.8
Cap City Avg	-6.7	2.9	4.1	2.7

*percentage changes represent through the year growth to Q4
SOURCE: CoreLogic, NAB Economics

NAB HEDONIC UNIT PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-6.3	3.4	4.9	2.4
Melbourne	-2.3	6.5	7.4	3.7
Brisbane	-0.7	0.1	-0.8	0.6
Adelaide	1.7	0.5	-1.2	1.2
Perth	-6.5	-7.2	-1.5	0.0
Hobart	10.2	3.9	1.2	1.2
Cap City Avg	-4.3	3.4	4.5	2.4

*percentage changes represent through the year growth 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 consists of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 330 panellists participated in the Q4 2019 survey.

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