NAB RESIDENTIAL PROPERTY SURVEY Q1-2020

NAB RESIDENTIAL PROPERTY INDEX RISES TO SURVEY HIGH IN Q1, BUT CONFIDENCE SHAKEN BY CORONAVIRUS IMPACT ON ECONOMY. NAB BELIEVES DWELLING PRICES WILL LIKELY SEE SIGNIFICANT FALLS OVER THE NEXT 12-18 MONTHS, WITH HOUSE PRICES ACROSS THE CAPITAL CITIES TO FALL BY 10-15%.

NAB Behavioural & Industry Economics

Embargoed until: 11.30am Thursday 7 May 2020

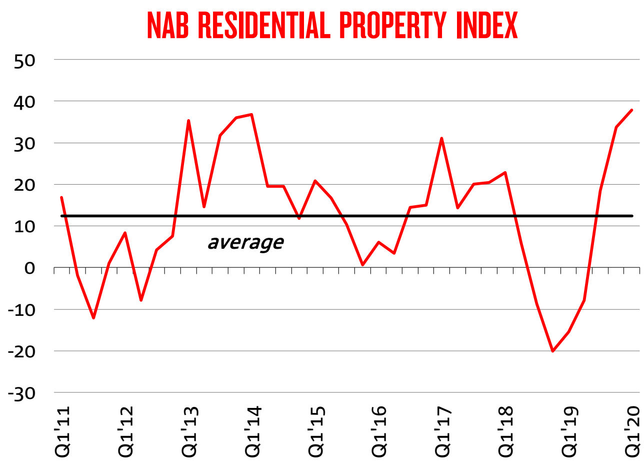
Survey highlights

The trend in NAB's Residential Property Index for the March quarter remained positive, with the Index rising 4 points to a survey high +38 to remain well above average (+12). Confidence however moderated, perhaps reflecting early fears regarding the coronavirus impact on housing markets. It is important to note the survey was conducted between 25 February and 23 March 2020, prior to more restrictive social isolation measures, and bans on open homes and on-site auctions. It is unlikely to reflect sharp falls in consumer and business confidence, economic activity and employment evident since then, which is likely to impact house prices moving forward. Consequently, we expect sentiment and confidence to be much lower in the June survey.

The view from NAB...

Our view is that dwelling prices will likely see significant falls over the next 12-18 months. We expect house prices across the capital cities to fall by 10-15%. While both the depth and duration of the downturn underway remain uncertain - and will depend on the evolution of the spread of COVID-19 - we expect a sharp fall in economic activity in the near-term, followed by a rebound in growth but slower recovery in activity levels. Consequently, we see a sharp rise in unemployment to 11.7% by mid-year and partial recovery to 7.3% by end 2021. While interest rates are very low and will act to support prices, rising unemployment, slower wage growth and weak confidence will weigh on prices. Also, while we do not see a fundamental over-supply in the market (with construction continuing to decline), a slowing in migration will see demand for housing soften somewhat.

VIEW FROM PROPERTY EXPERTS



RESIDENTIAL PROPERTY INDEX BY STATE

	Q4'19	Q1'20	Next 1yr	Next 2yrs
VIC	47	45	49	51
NSW	31	36	38	47
QLD	30	36	39	41
SA/NT	21	7	27	43
WA	16	40	50	59
AUST	34	38	43	49

VIEW FROM NAB ECONOMICS

NAB HEDONIC UNIT PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-10.0	6.1	-2.9	-3.6
Melbourne	-9.1	4.6	-4.8	-3.6
Brisbane	0.4	0.4	-3.7	-8.6
Adelaide	1.3	-0.3	-3.9	-7.0
Perth	-4.3	-6.7	-1.2	-3.5
Hobart	8.3	4.0	0.5	-2.4
Cap City Avg	-6.7	2.9	-3.4	-4.5

NAB HEDONIC HOUSE PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-6.3	3.4	-8.8	-4.0
Melbourne	-2.3	6.5	-10.0	-4.0
Brisbane	-0.7	0.1	-5.5	-8.6
Adelaide	1.7	0.5	-2.7	-7.0
Perth	-6.5	-7.2	-1.5	-3.5
Hobart	10.2	3.9	-3.3	-2.4
Cap City Avg	-4.3	3.4	-8.2	-4.6

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

HOUSING MARKET STILL POSITIVE

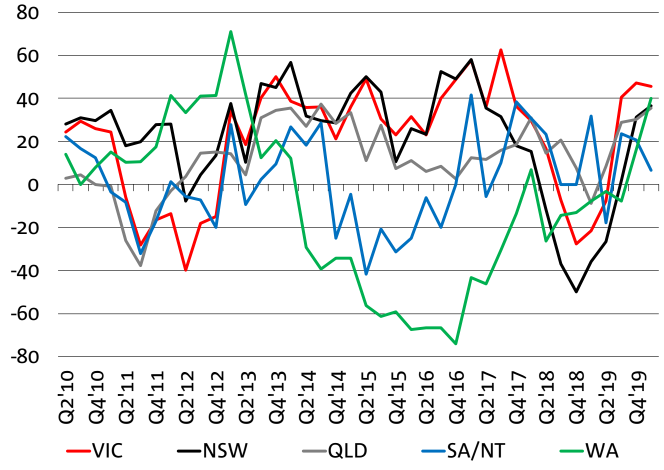
The trend in NAB's Residential Property Index remained positive in the March quarter, with the Index rising 4 points to a survey high +38 to remain well above the survey average (+12).

However, the survey pre-dates coronavirus measures that have changed how real estate agents can operate (e.g. restrictions of open homes and on-site auctions contributing to a slowdown in market activity), as well as stricter public isolation rules and shutdowns that have impacted employment and consumer and business confidence.

Sentiment remained positive in all states in Q1. It was strongest in VIC, although the state index moderated a little (down 2 to +45). It improved sharply in WA (up 24 to +40), it highest read since mid-2013, as the economy was boosted by the mining sector and rental markets showed more signs of improvement. Sentiment was also higher in NSW (up 5 to +36) and QLD (up 6 to +36).

In contrast, sentiment fell for the second straight quarter in SA/NT (down 14 to +7), with Adelaide and Darwin also recording the lowest quarterly gains in dwelling values in March according to CoreLogic data.

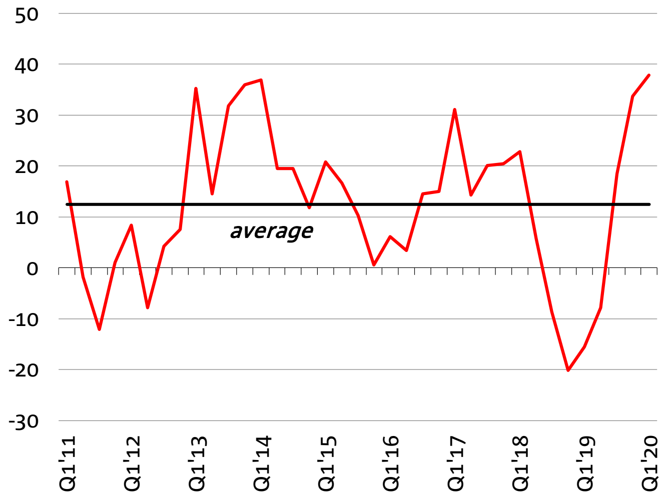
NAB RESIDENTIAL PROPERTY INDEX BY STATE



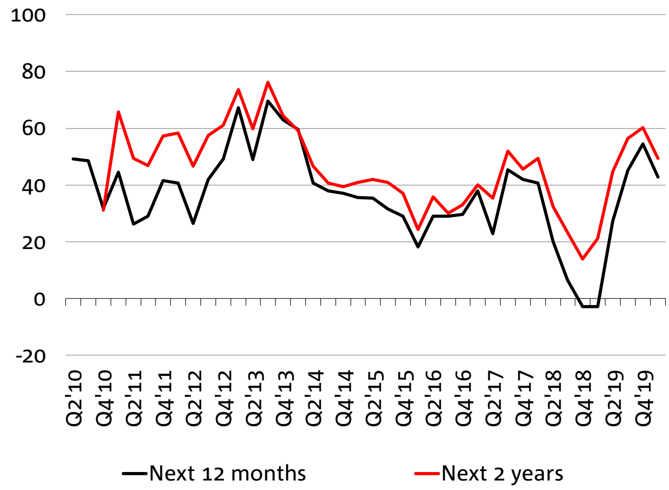
Overall housing market confidence (based on future expectations for prices and rents) moderated in Q1. The NAB Residential Property Index is now expected to fall to + 43 in the next 12 months (+54 forecast in Q4), and +49 in 2 years' time (+60 in Q4).

However, with Q1 survey pre-dating much of the major economic disruption from coronavirus and the magnitude of the economic downturn now occurring, housing markets are unlikely to be untouched, so confidence could be much weaker in the next Survey.

NAB RESIDENTIAL PROPERTY INDEX



NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



RESIDENTIAL PROPERTY INDEX BY STATE

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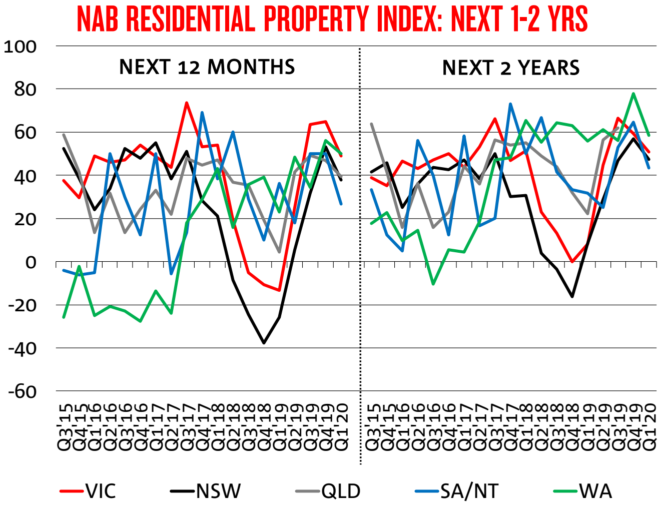
Confidence among surveyed property professionals for the next 12 months slipped in all states, as market data in March starting to show a slowdown in activity - although the magnitude was much less severe than seen in consumer confidence and NAB's business survey. In Q2, confidence was highest in WA. (down 6 to +50) and VIC (down 16 to +49). It was also down in QLD (down 8 to +39), with sharper falls recorded in SA/NT (down 23 to +7) and NSW (down 15 to +38).

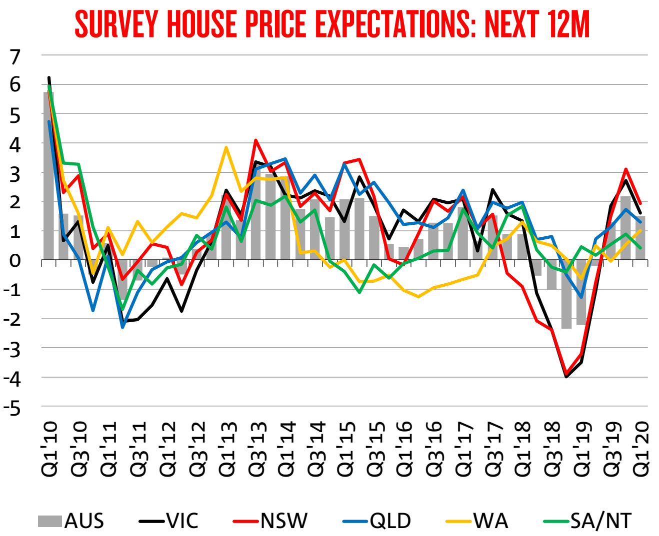


Longer-term confidence (2 years' time) has also fallen, with particularly sharp falls in WA (down 19 to +58) but still highest overall, SA/NT (down 21 to +43) and QLD (down 16 to +41). The fall in confidence among property professionals in VIC (down 8 to +51) and NSW (down 10 to +47) is less severe.

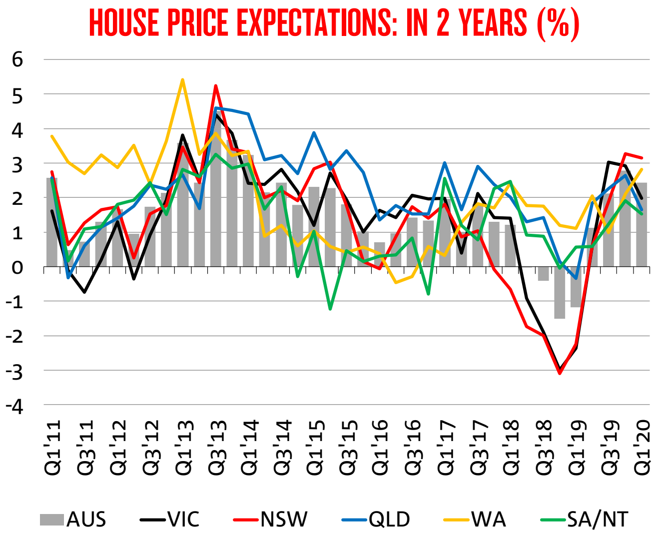
SURVEY HOUSE PRICE EXPECTATIONS

Australian house prices remained positive in the first quarter of 2020, according to CoreLogic data, but the monthly gain in March (0.7%) was the weakest result since the market commenced growing in July 1019.

Against early signs that coronavirus may have already started to impact the market, property professionals on average revised down their forecasts for national house price growth to 1.5% over the next 12 months, after predicting a rise of 2.2% in the previous survey.



Downside risks to the market are significant, and property professionals have revised down their expectations for price growth in all states, bar WA where they are expected to grow 1.0% (0.5% forecast in the Q4 2019 survey). NSW (1.9% vs. 3.1% in Q4) and VIC (1.6% vs. 2.7% in Q4) are expected to grow fastest, with gains also forecast in QLD (1.3% vs. 1.7% in Q4) and SA/NT (0.4% vs. 0.9% in Q4).



Longer-term prospects for house prices are also somewhat less optimistic. Overall, the average survey expectation now has house prices growing by 2.4% in 2 years' time (2.8% in the last survey).

Prospects for house prices in 2 years' time are positive according to property professionals in all states.

Capital gains are expected to be highest in NSW (3.1% vs. 3.3% in Q4), with WA also out-performing the national average (2.8% vs. 2.1%). Housing prices in VIC are tipped to grow on average by 2.0% (2.9% in Q4) and by 1.7% in QLD (2.7% in Q4).

Gains are expected to be lowest in SA/NT (1.5% vs. 1.9% in Q3).

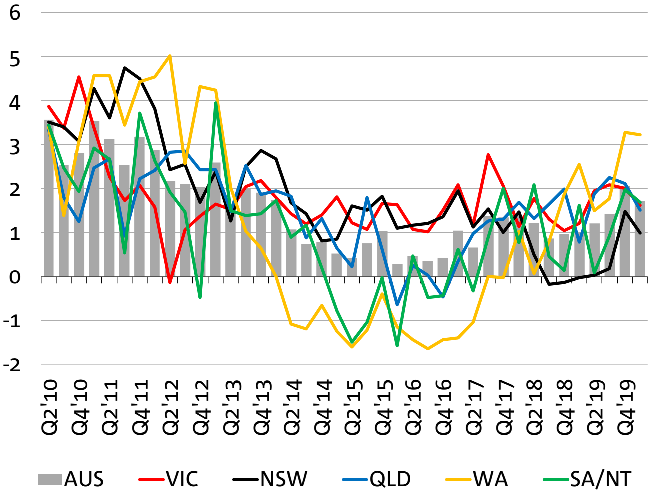
SURVEY RENTAL EXPECTATIONS

Nationwide, the average survey expectation is for rents to grow 1.7% over the next 12 months (2.1% in Q4) and 2.5% in 2 years' time (2.7% in Q4). Expectations for rental and capital growth are now broadly the same.

In the next 12 months, rents are expected to grow fastest in WA (3.2%) and well ahead of house prices (1.0%). Rental growth (2.9%) is also expected to significantly exceed house price growth in SA/NT (0.4%) suggesting yields in these states may widen.

In other states, rents are expected to grow by around 1.6% in VIC, 1.5% in QLD, and 1.0% in NSW.

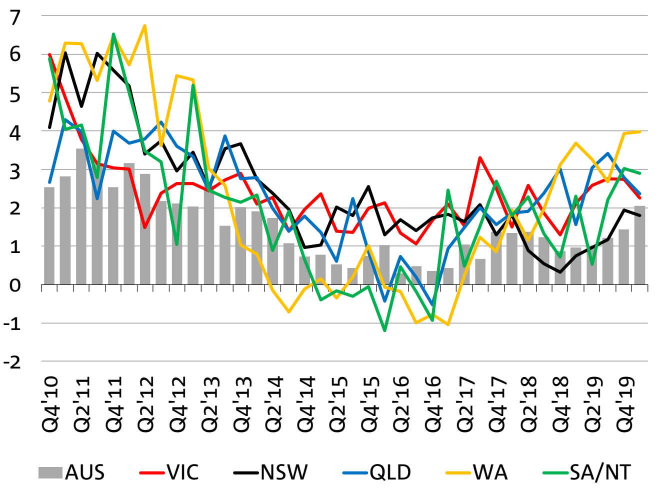
RENTAL EXPECTATIONS: NEXT 12 MONTHS



The outlook for rents in 2 years' time is highest by some margin in WA (4.0% vs. 3.9% Q4), followed by SA/NT (2.9% vs. 3.0% in Q4). In both states, expectations for income growth remain noticeably higher than for capital growth, suggesting yields will increase, and potentially boost investor activity (particularly in an environment of record low interest rates). Property professionals were next most positive about the outlook in QLD (2.4% vs. 2.8% in Q4) and VIC (2.3% vs. 2.7%). Rental growth is expected to slowest in NSW (1.8% vs. 1.9% in Q3).

The risk clearly remains that rents could come under greater pressure if unemployment remains elevated and difficult economic conditions persist for longer than expected.

RENTAL EXPECTATIONS: IN 2 YEARS (%)



NEW DEVELOPMENTS

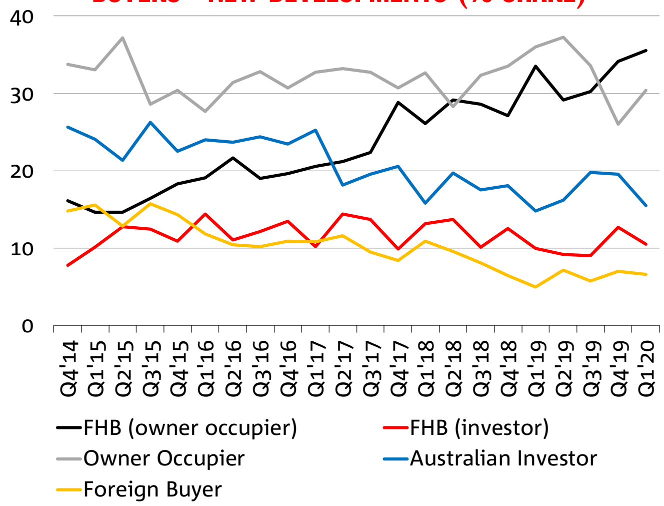
First Home Buyers (FHBs) remain the most active participants in buying new property. In Q1 2020, the market share of FHB owner occupiers reached a survey high 35.5% (34.1% in Q4). FHB investors were however, somewhat less active with their market share dropping to 10.5% (12.7% in Q4). In total, FHBs accounted for 46.1% of all sales in this market (46.8% in Q4). The survey also suggests FHB owner occupiers were most active in SA/NT (49.5%) and NSW (42.1%), with FHB investors leading the way in QLD (20.0%).

Owner occupiers (net of FHBs) accounted for 30.4% of all sales in Q1 2020 (up from a survey low 26.0% in Q4). These buyers were most active in SA/NT (37.0%) and VIC (31.8%) and least active in QLD (26.7%).

Despite record low interest rates, the market share of resident investors in the market fell to just 15.5% (19.6% in Q3) to be well below the survey average (23.6%). Investors were most active in VIC (21.6%) and QLD (20.0%), and least active in SA/NT (5.5%).

Foreign buying activity fell to 6.6% of total sales (7.0% in Q3), and was well below average (10.1%) Foreign buyers continue to be most active in VIC, with their estimated market share at a below average 12.4%. Market share is also below average in QLD (9.7%) and NSW (4.6%). It has almost halved in WA (4.0% vs. 7.5% in Q4) and well below average.

BUYERS - NEW DEVELOPMENTS (% SHARE)



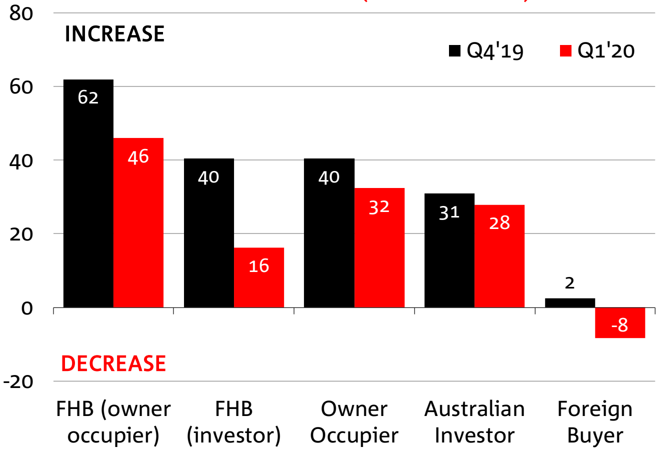
Property professionals were asked if they thought the share of new property buyers would increase or decrease over the next 12 months in each buyer segment.

In net terms, there was a large decline in the net number who said the share of FHB owner occupiers (+46% vs. +62% in Q4) and FHB investors (+16% vs. +40% in Q4) will increase in the next 12 months.

Slightly fewer property professionals also expect the net number of owner occupiers (+32% vs. +40% in Q4) and local investors (+28% vs. +31 vs. in Q4) in new property markets to increase over the next 12 months.

On balance, more property professionals (-8%) now expect the number of foreign buyers to fall in the next 12 months, after slightly more predicted their numbers would rise in the last survey (+2%).

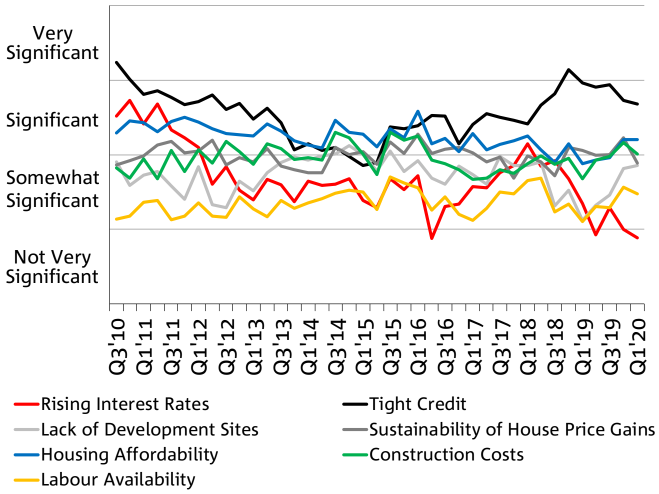
EXPECTED CHANGE IN SHARE OF NEW PROPERTY BUYERS (NET BALANCE)



NEW HOUSING MARKET CONSTRAINTS

Tight credit is still the single biggest constraint on new housing development in the country, but it's impact on the market has softened further. It remains however, the single biggest constraint for new housing development in all states, except SA/NT.

CONSTRAINTS ON NEW HOUSING DEVELOPMENTS



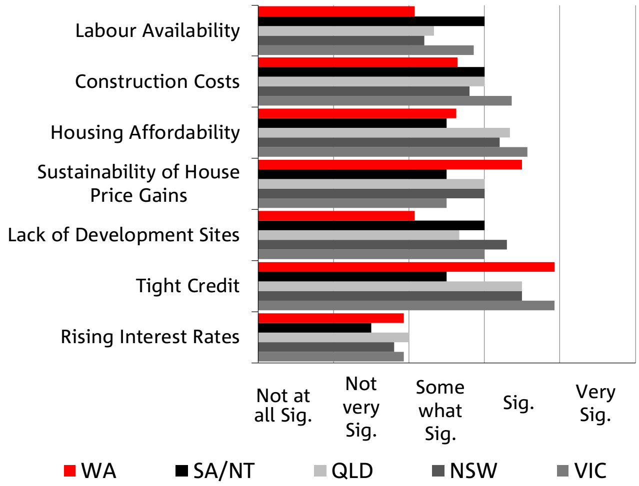
With house prices climbing through the quarter, property professionals identified housing affordability as the next biggest constraint on the market. Property professionals said it was a bigger constraint in VIC, QLD and NSW.

Construction costs were identified as the next biggest market constraint, led by VIC, QLD and SA/NT.

The sustainability of house price gains was identified by noticeably more property professionals in WA, and a lack of development sites in NSW. The overall level of concern over labour availability eased a little, and was highest in SA/NT and VIC.

With interest rates now at record lows (and widely tipped to remain low for some time), property professionals in all states don't expect rising rates to unduly constrain the market.

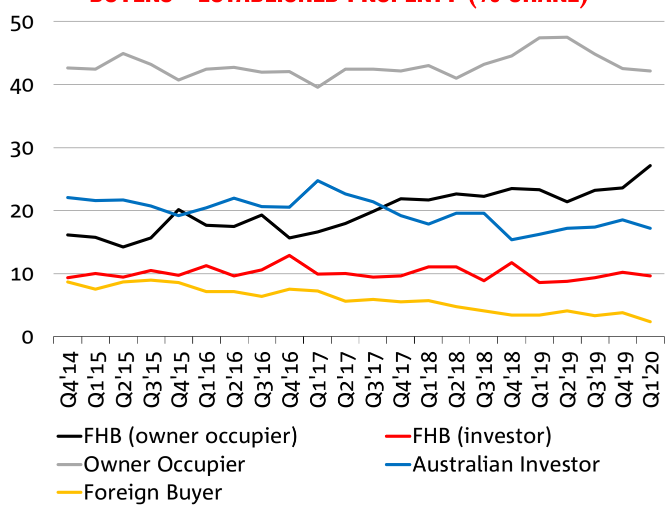
CONSTRAINTS ON NEW HOUSING DEVELOPMENTS - STATES



ESTABLISHED PROPERTY

In established housing markets, buying activity continues to be dominated by owner-occupiers (net of FHBs), and their market share of total sales was basically unchanged at 42.1% (42.5% in Q4) and well below average (46.9%). Owner occupiers accounted for the lion's share of total sales in all states. Market share was highest in SA/NT (52.1%), QLD (49.3%) and WA (43.4%) and lowest in NSW (36.6%) and VIC (38.5%).

BUYERS - ESTABLISHED PROPERTY (% SHARE)

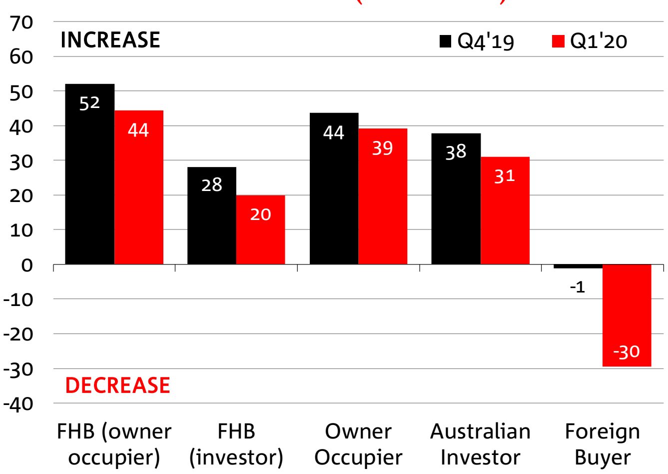


The share of FHB owner occupiers in established housing markets in Q1 2020 increased to a survey high 27.2% (23.6% in Q4) and now stands well above the survey average (19.9%). These buyers were particularly prevalent in VIC (33.4%). In contrast, the share of FHB investors fell to a below average 9.7% (10.2% in Q4), despite record low interest rates. This buyer group was noticeably more active in NSW (12.1%) than any other state. In total, the market share of FHBs reached a new survey high 36.9% (33.8% in Q4), led by VIC (41.8%) and NSW (40.5%).

Local investors accounted for 17.2% of all sales in the market, down from 18.5% in the previous quarter and below average (21.1%). The Survey suggests investors accounted for between 18.5% of all sales in NSW to 14.6% in WA.

The share of foreign buyers in established housing markets also fell to a survey low 2.4% (3.8% in Q4) to be well below average (6.0%). The overall market share of foreign buyers in established housing markets fell to survey low levels in VIC (2.3%), NSW (2.8%) and QLD (1.6%). In WA, market share fell to 3.8% (4.8% in Q4). This is a big turnaround from peak foreign buyer levels in all states, particularly in the key states of VIC (15.0% peak in Q3 2015) and NSW (12.7% peak in Q1 2014).

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



The net number of property professionals expecting the share of buyers to rise outweighs those expecting them to fall in all buyer categories (except foreign buyers), although the net number expecting them to rise has fallen in all categories.

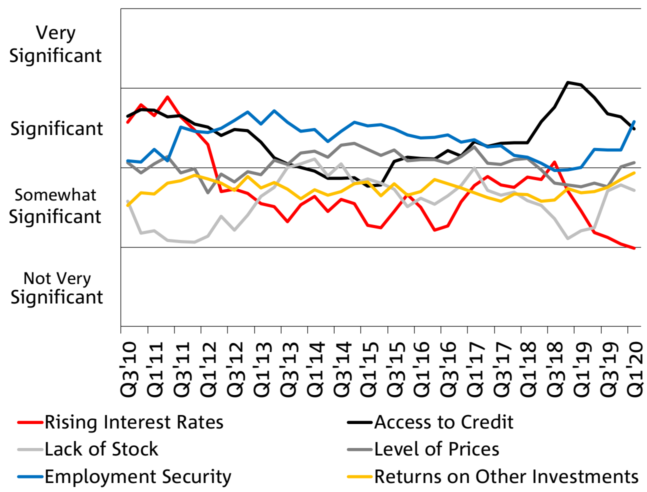
The biggest increase is expected in the FHB owner occupier category (+44% vs. +52% in Q4), followed by resident owner occupiers (+39% vs. +44% in Q4), local investors (+31% vs. +38%) and FHB investors (+20% vs. +28%). The net number expecting the share of foreign buyers to decrease than increase has however fallen sharply (-30% vs. -1% in Q4).

ESTABLISHED HOUSING MARKET CONSTRAINTS

Amid rapidly rising unemployment because of the coronavirus impact on the economy, employment security has overtaken access to credit as the main impediment for buyers of existing property. It is also the biggest constraint in VIC, QLD and WA.

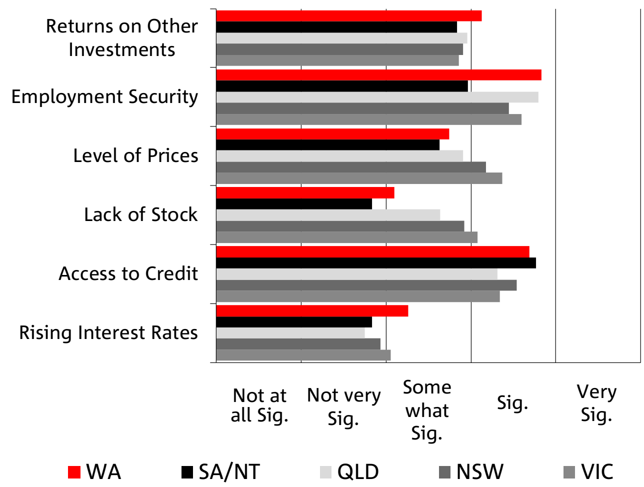
Access to credit is next, but property professionals have again marked down its impact on the market relative to the last survey, and concern is now at its lowest level since Q1 2018. However, access to credit continues to be highlighted as the biggest constraint by property professionals in SA/NT and NSW.

CONSTRAINTS ON ESTABLISHED PROPERTY



Overall concern relating to price levels (particularly in VIC and NSW), and relative returns from other investments (led by WA) increased a little. In contrast, concern over lack of stock fell, and remains highest in VIC and NSW.

CONSTRAINTS ON ESTABLISHED PROPERTY - STATES



With mortgage rates falling further, rising interest rates are "not a very significant" impediment in the market in any state.

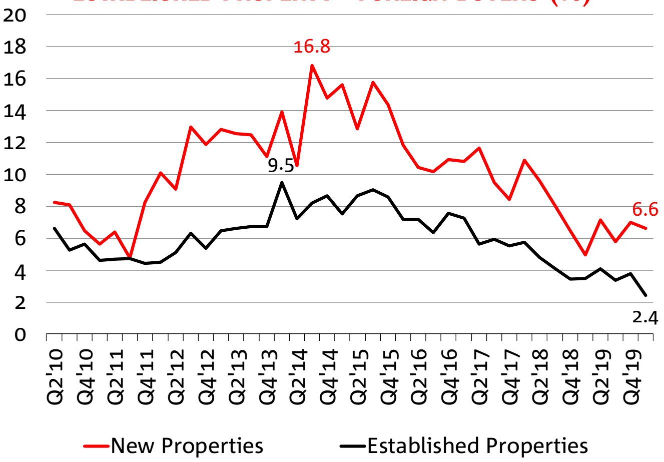
FOREIGN BUYERS

The prominent role played by foreigners in Australian housing markets has clearly dissipated.

In new property markets, their overall market share eased to 6.6% in Q1 2020, down from a survey peak of 16.8% in Q3 2014 and well down on survey average levels (10.1%).

The pullback has been even more severe in established markets, with foreign buyers now accounting for just 2.4% of all sales (a new survey low), or one-quarter of the peak level in Q1 2014 (9.5%) and less than half the survey average (6.0%).

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

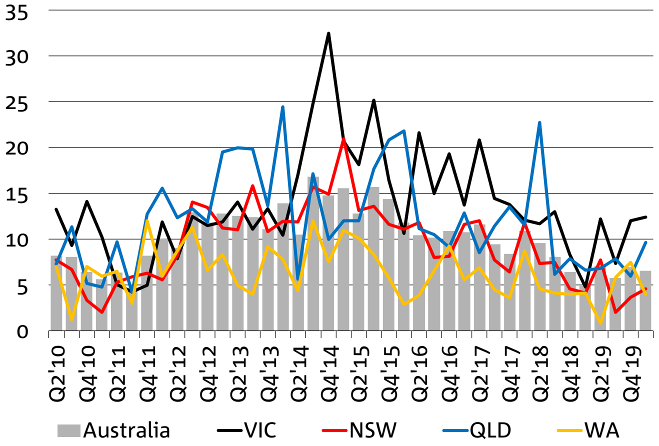


In new property markets, the share of sales to foreign buyers is well below average at 12.0% in VIC (and its market peak of 32.5% in Q4 2014). Market share is also below average in NSW at 4.6% and down from a high of 21% in Q1 2015, while in QLD market share now stands at a below average 9.7%, also well down from a high of 24.4% in Q1 2014. In WA, market share halved to 4.0% (7.5% in Q4) over the quarter.

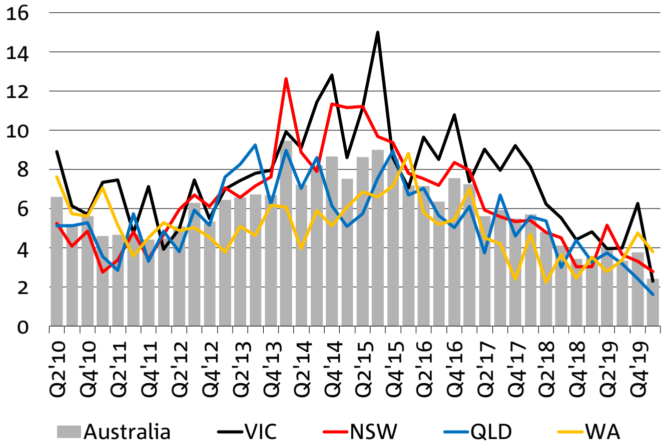
In established housing markets, the share of sales to foreign buyers fell to a survey low 2.4%, and is now also well below the peak seen in Q1 2014 (9.5%) and average (6.0%).

Foreign buyers in this market accounted for a smaller share of sales in VIC (2.3% vs. 6.3% in Q4), NSW (2.8% vs. 3.3%), QLD (1.6% vs. 2.4%) and WA (3.8% vs. 4.8%). Like in new property markets, the share of foreign buyers in established housing markets In Australia also remain below survey average levels in all states.

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



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



AVG SURVEY EXPECTATIONS: HOUSE PRICES (%)

	Q4'19	Q1'20	Next 1 year	Next 2 years
VIC	2.0	1.5	1.6	2.0
NSW	1.8	2.0	1.9	3.1
QLD	0.8	0.6	1.3	1.7
SA/NT	-0.5	-0.1	0.4	1.5
WA	-0.3	-0.1	0.4	1.5
AUST	**1.2**	**1.1**	**1.5**	**2.4**

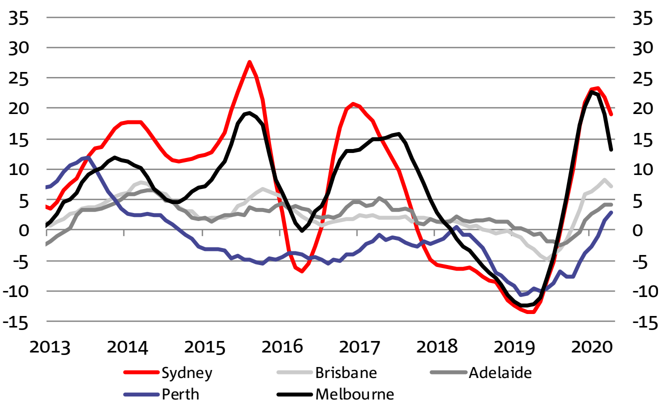
AVERAGE SURVEY EXPECTATIONS: RENTS (%)

	Q4'19	Q1'20	Next 1 year	Next 2 years
VIC	0.7	1.1	1.6	2.3
NSW	0.2	0.5	1.0	1.8
QLD	1.2	1.0	1.5	2.4
SA/NT	0.6	0.7	1.7	2.9
WA	1.8	2.2	3.2	4.0
AUST	0.9	**1.1**	**1.7**	**2.5**

NAB'S VIEW OF HOUSE PRICES

Since reaching a trough last May house prices have recovered strongly. The gains have been led by both Sydney and Melbourne which are now 14.3% and 12.4% higher than a year ago. While outcomes across the other capitals have been more mixed - there was evidence of a pre-COVID pickup in momentum. However, price growth has slowed more recently and activity in the established housing market has slowed sharply. Auction clearance rates have fallen to low levels and turnover has fallen away.

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



We expect dwelling prices to fall by around 10% this year and decline further in the first half of 2021 before levelling off. The declines will be led by Sydney and Melbourne - but the other cities will not be immune to rising unemployment and slower wage growth.

Alongside the decline in house prices, we expect dwelling construction to continue to fall. The pipeline of work yet to be done remains relatively elevated in NSW and VIC but this will be rapidly eroded with high rates of work done. Building approvals remain low and are expected to decline further, suggesting little replenishment of the pipeline of work.

Our outlook for the economy more broadly is unsurprisingly significantly weaker than 3 months ago. We expect quarterly GDP growth will fall by around 7% in Q2 following a small fall in Q1. Coronavirus containment measures have seen a significant fall in consumer and business confidence with an outright restriction on some forms of activity. Tourism and hospitality are likely to see the largest hits given the nature of measures in place - although the magnitude of the declines in business confidence is likely to see broad-based weakness in investment and hiring across the economy.

In line with this we expect a sharp deterioration in the labour market, with unemployment rising sharply to 11.7% by mid-year and only a partial recovery to 7.3% by end 2021.

While growth will rebound as restrictions are lifted we do not see the level of activity recovering until early-2022. The labour market will take longer to recover which should see a slowing in wage growth from already low levels. We see high debt levels and slow wage growth continuing to weigh on the consumer. Weak consumer demand and the sharp deterioration in business confidence will see business investment remain weak - resulting in a similar pre-COVID dynamic of weak domestic demand, somewhat offset by support in government spending.

With rising spare capacity in the economy and slow wage growth, we expect inflation to be muted. This will see the RBA keep the cash rate at record lows for an extended period, and a gradual shift to a tightening bias only when inflation appears to be heading sustainably back to target and there is a significant improvement in the labour market.

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NAB HEDONIC UNITS PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-10.0	6.1	-2.9	-3.6
Melbourne	-9.1	4.6	-4.8	-3.6
Brisbane	0.4	0.4	-3.7	-8.6
Adelaide	1.3	-0.3	-3.9	-7.0
Perth	-4.3	-6.7	-1.2	-3.5
Hobart	8.3	4.0	0.5	-2.4
Cap City Avg	-6.7	2.9	-3.4	-4.5

NAB HEDONIC HOUSES PRICE FORECASTS (%)*

	2018	2019	2020f	2021f
Sydney	-6.3	3.4	-8.8	-4.0
Melbourne	-2.3	6.5	-10.0	-4.0
Brisbane	-0.7	0.1	-5.5	-8.6
Adelaide	1.7	0.5	-2.7	-7.0
Perth	-6.5	-7.2	-1.5	-3.5
Hobart	10.2	3.9	-3.3	-2.4
Cap City Avg	-4.3	3.4	-8.2	-4.6

*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 320 panellists participated in the Q1 2020 survey.

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