NAB RESIDENTIAL PROPERTY SURVEY Q3-2020

HOUSING MARKET SENTIMENT BOUNCED IN Q3, BUT STILL WEAK AS VIC CONTINUES TO WEIGH HEAVILY. CONFIDENCE ALSO LIFTED ACROSS THE COUNTRY, EXCEPT VIC AMID PREDICTIONS OF FALLING HOUSE PRICES OVER NEXT 1-2 YEARS. MARKET SHARE OF FHBs RISES TO NEW SURVEY HIGH IN Q3 IN NEW AND ESTABLISHED HOUSING MARKETS, BUT FOREIGN BUYERS CONTINUE TO RETREAT. NAB HAS CHANGED ITS VIEW ON HOUSE PRICES, AND NOW EXPECTS RISES OF AROUND 5% OVER 2021 & 6% OVER 2022.

NAB Behavioural & Industry Economics

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Survey highlights…

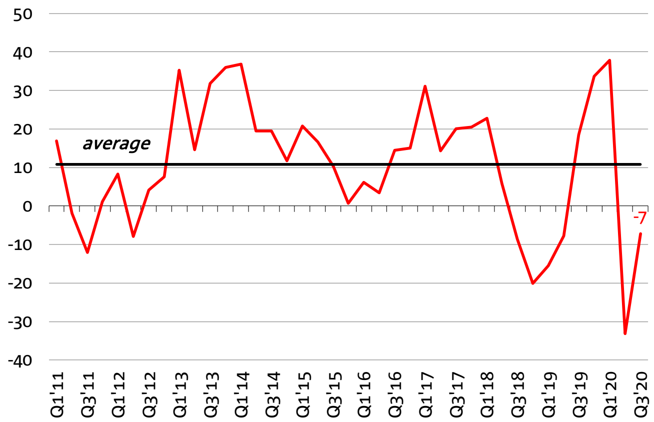
Housing market sentiment bounced in Q3 but remains weak. The NAB Residential Property Index recovered to -7 points from a survey low of -33 points in Q2. The index was weighed down heavily by a deterioration in VIC (the only state to go backwards) amid stage 4 lockdown in Melbourne and only a modest improvement in NSW. This offset sharply higher sentiment in other states, particularly WA and SA/NT. Confidence bounced in all states except VIC, where the outlook for prices and rents is now much weaker than in other states. With prices softening and interest rates at ultra-low levels, first home buyer levels rose to new highs in both new and established housing markets. But coronavirus and border closures may have further impacted foreign buyer numbers, with their numbers halving in VIC and all but disappearing in NSW.

The view from NAB…

We have changed our view on property prices for the next year and now expect rises of around 5% over 2021 and 6% over 2022 - with house price growth likely to be stronger than the apartment segment. This change in NAB's housing market outlook comes after substantial upgrades to our forecasts for near-term activity and unemployment, as well as the fact that activity in the housing market has held up substantially better than we initially expected. We expect that lower interest rates for an extended period will be a key support to the housing market over the next couple of years, seeing a boost to prices across the country. While the deterioration in the labour market would normally weigh on prices, the significant government support has mitigated the rise in unemployment and hit to household incomes. We see the sharp slowdown in population growth due to border closures as the key risk to house prices, particularly for Sydney and Melbourne.

VIEW FROM PROPERTY EXPERTS

NAB RESIDENTIAL PROPERTY INDEX



RESIDENTIAL PROPERTY INDEX BY STATE

	Q2'20	Q3'20	Next 1yr	Next 2yrs
VIC	-50	-53	-41	-1
NSW	-47	-16	2	27
QLD	-9	12	22	29
SA/NT	-26	24	53	68
WA	-8	60	65	77
AUST	-33	-7	7	30

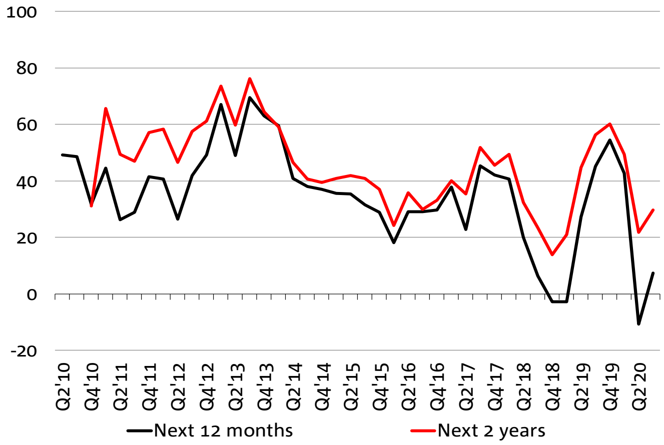
VIEW FROM NAB ECONOMICS

NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020f	2021f	2022f
Sydney	5.3	2.2	4.4	6.0
Melbourne	5.3	-2.2	3.6	5.4
Brisbane	0.3	3.2	7.4	7.4
Adelaide	-0.2	4.6	7.4	7.4
Perth	-6.8	0.1	5.0	5.8
Hobart	3.9	5.1	7.4	7.4
Cap City Avg	3.0	1.0	5.0	6.1

*% change represent through the year growth to Q4 SOURCE: CoreLogic, NAB Economics

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



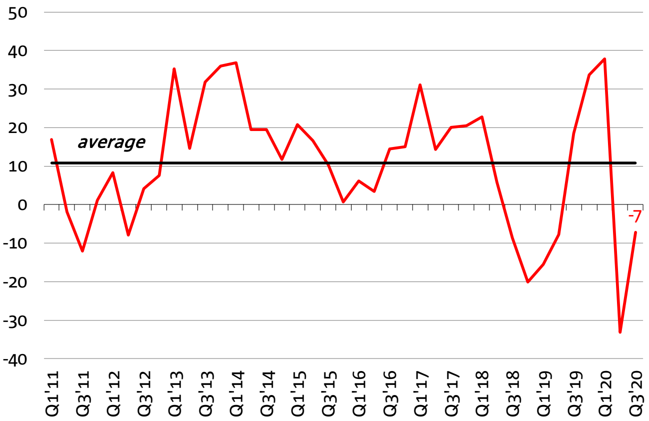
HOUSING MARKET SENTIMENT COLLAPSES

Housing market sentiment (measured by NAB's Residential Property Index) bounced in the September quarter, but is still relatively weak. Overall, the Index recovered to -7 points, after falling to a survey low -33 points in Q2. The turn in sentiment reflected moderation in the rate of quarterly house prices over the quarter, although the market in VIC (and to a lesser extent NSW) continued to weigh heavily on overall sentiment.

Sentiment in VIC remained deeply negative (down 3 points to a new survey low -53), as tough border restrictions and coronavirus lockdown impacted the market (survey predates emergence from lockdown). As shown in the chart on the right, VIC was also the only state that went backwards during the quarter and trailed all other states by a significant margin. In NSW, sentiment improved but was also negative (up 31 points to -16), as house prices drifted lower during the quarter.

In WA however, sentiment climbed steeply. The state index lifted 68 points to +60 to record its strongest result since the height of the state mining investment boom in early-2013. Sentiment also climbed to above average levels in SA/NT (up 50 points to +24), and recovered in QLD (up 21 points to +12), although still below average.

NAB RESIDENTIAL PROPERTY INDEX



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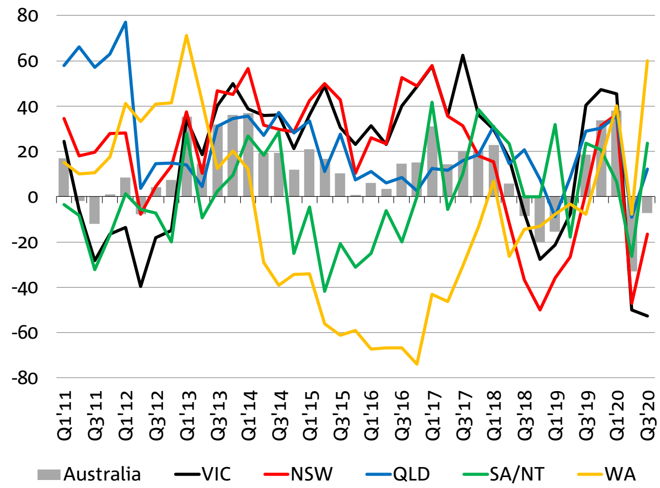
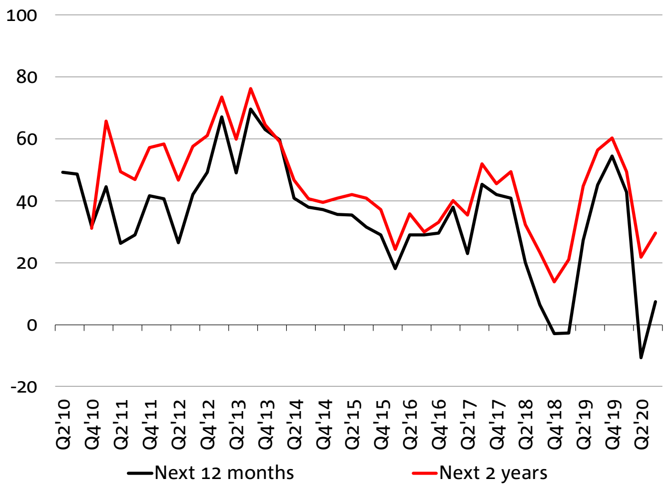
NAB RESIDENTIAL PROPERTY INDEX BY STATE



Overall, confidence among surveyed property professionals also lifted in Q3 amid improved expectations for both house prices and rents. In the next 12 months, the NAB Residential Property Index is expected to increase to +7 (from a survey low -11 points forecast in Q2). Longer-term confidence also improved, rising to +30 points (from +22 forecast in Q2).

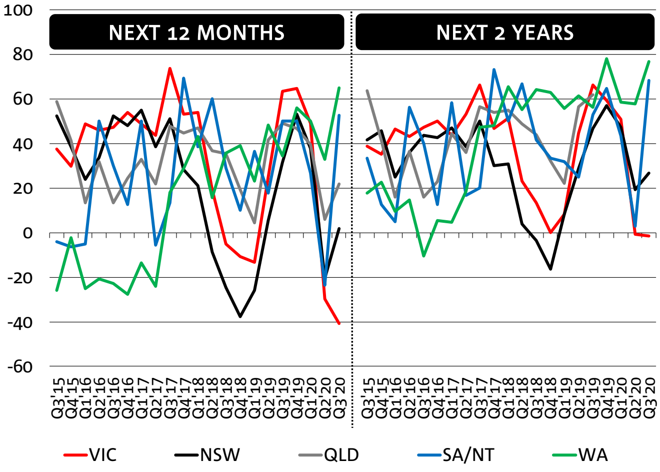
Confidence levels are however still well below survey averages, which may be reflecting potential risks to housing markets going forward from ongoing economic uncertainty, increased unemployment and defaults as support measures are wound back.

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



The Q3 survey also highlights a growing divergence in confidence between VIC and other states. In VIC, short-term confidence slipped further (down 11 points to a new survey low -41). Confidence lifted and was positive in all other states, led by WA (up 32 points to +65) and SA/NT (up 77 points to +53). It rose 16 points to +22 in QLD, and 23 points to +2 in NSW.

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



A broadly similar pattern was evident around longer-term confidence (2 years' time). In VIC, confidence levels were unchanged at -1 point. In contrast, confidence improved in WA (up 19 points to +77), SA/NT (up 65 points to +68) and NSW (up 8 points to +27). In QLD however, longer-term confidence moderated a little but remained positive (down 7 points to +29).

SURVEY HOUSE PRICE EXPECTATIONS

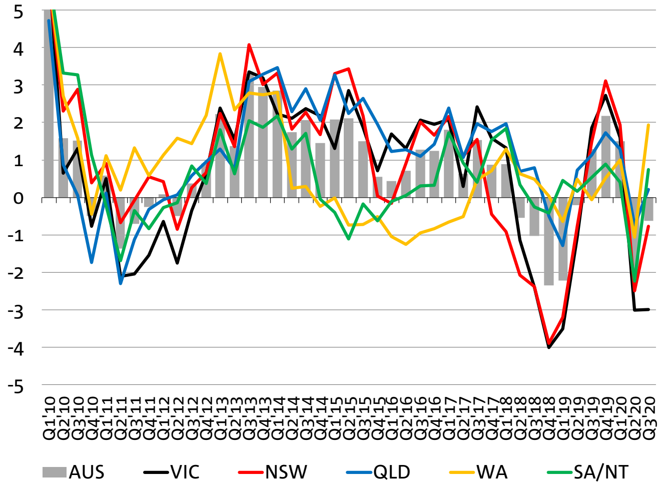
Despite the worst economic downturn in almost 100 years and challenges going forward, the outlook for house prices among property professionals improved in Q3, with confidence likely buoyed the prospect of an extended period of ultra-low interest rates. In Q3, the average survey expectation was for national house prices to fall 0.6% over the next 12 months (compared to a 2.0% decline predicted in Q2).

AVG SURVEY EXPECTATIONS: HOUSE PRICES (%)

	Next 1 year	Next 2 years
VIC	-3.0	-0.7
NSW	-0.8	0.0
QLD	0.2	0.6
SA/NT	0.8	2.3
WA	1.9	3.2
AUST	**-0.6**	**0.5**

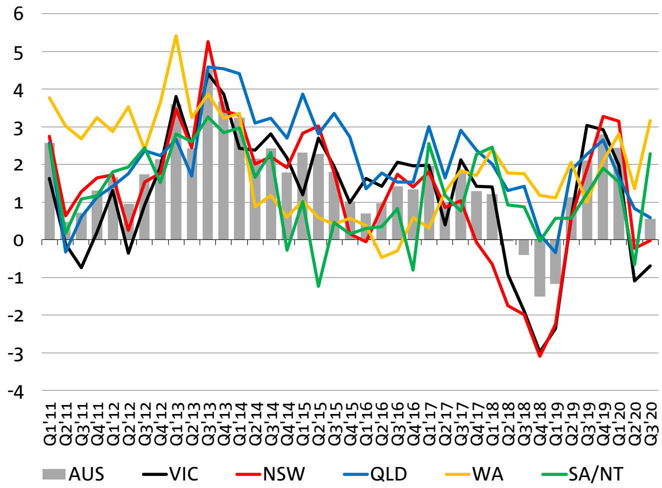
Property professionals lifted their expectations for price growth in all states, except VIC where they were unchanged (-3.0%). Elsewhere, the outlook was strongest in WA (1.9% now vs. -1.1% in Q2), followed by SA/NT (0.8% now vs. -2.2% in Q2). Modest gains are predicted in QLD (0.2% now vs. -0.7% in Q2), with prices tipped to fall by -0.8% in NSW (against a much heavier fall of -2.5% predicted by property professionals in the Q2 survey).

HOUSE PRICE EXPECTATIONS: NEXT 1 YEAR (%)



Property experts also revised up their longer-term expectations for price growth in most states. Expectations are strongest in WA (3.2% now vs. 1.4% in Q2), followed by SA/NT (2.3% now vs. -0.7% in Q2). In NSW prices are expected to be flat (-0.2% forecast in Q3), while in VIC, the pace of decline is expected to slow to -0.7% (-1.1% forecast in Q2). Prices are forecast to grow in QLD, but at a slower rate than predicted in Q2 (0.6% now vs. 0.8% in Q2).

HOUSE PRICE EXPECTATIONS: IN 2 YEARS (%)



SURVEY RENTAL EXPECTATIONS

The outlook for nationwide rents has improved. Over the next 12 months, the survey average is for rents to increase 0.3% over the next 12 months (-0.5% forecast in Q2), and to grow 1.4% in 2 years' time (1.1% forecast in Q2).

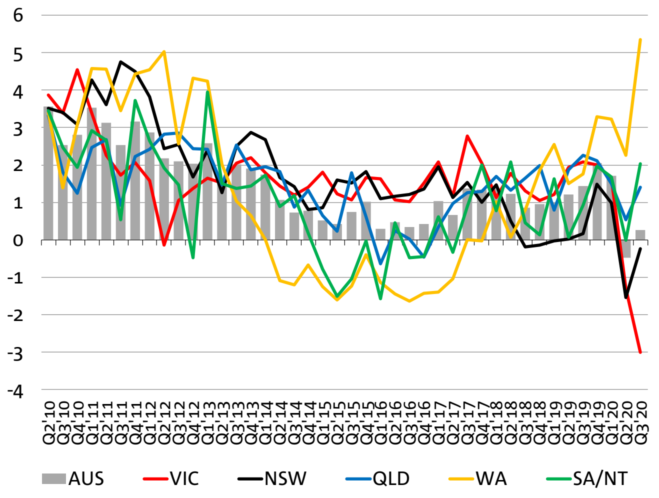
AVERAGE SURVEY EXPECTATIONS: RENTS (%)

	Next 1 year	Next 2 years
VIC	-3.0	-0.8
NSW	-0.2	1.0
QLD	1.4	1.8
SA/NT	2.0	3.0
WA	5.3	5.5
AUST	**0.3**	**1.4**

VIC is the outlier and the most pessimistic state (by far). With the closure of international and state borders impacting demand, property professionals in VIC now seen rents falling 3.0% in the next 12 months (-1.3% forecast in Q2).

Rents in NSW are also predicted to fall, but by a more sedate -0.2% (-1.5% forecast in Q2). In WA, the outlook remains very positive, with rents expected to grow 5.3% (2.3% forecast in Q2). Property professionals in SA/NT (2.0%) and QLD (1.4%) also see rents growing.

RENTAL EXPECTATIONS: NEXT 1 YEAR (%)



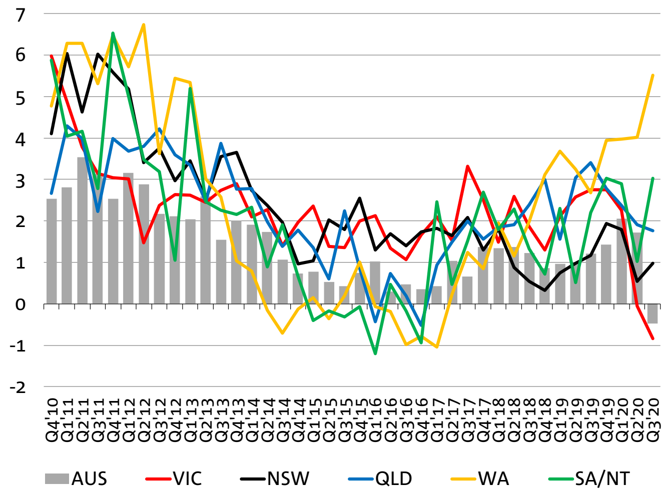
Property professionals in VIC are also more pessimistic about the outlook for rents in 2 years' time, with a survey average -0.8% fall (from -0.1% forecast previously).

The outlook is basically unchanged in QLD (1.8% now compared to 1.9% in the last survey).

Expectations have risen (and remain strongest) in WA at 5.5% (4.0% forecast in Q2), followed by SA/NT at 3.0% (up from 1.0% in the Q2 survey).

Property professionals in NSW were also more optimistic, with rents now expected to grow 1.0% (0.5% forecast in Q2).

RENTAL EXPECTATIONS: IN 2 YEARS (%)

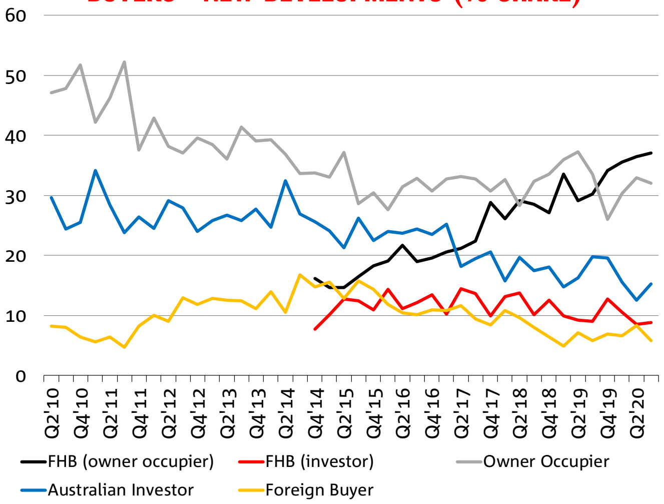


NEW DEVELOPMENTS

First Home Buyers (FHBs) remain the most active participants in new property markets. In Q3, the total market share of FHB owner occupiers reached a new survey high 37.1% (36.5% in Q2), with the share of FHB investors also up slightly to 8.8% (from a 6½ year low 8.5% in Q2).

In total, FHBs accounted for 45.9% of all sales in this market (45.0% in Q2). FHB owner occupiers were most active in SA/NT (50.0%), and least active in WA (31.4%) and QLD (32.2%), with FHB investors leading the way in QLD (12.8%) and WA (12.1%), and lowest in SA/NT (2.0%) and VIC (4.1%).

BUYERS - NEW DEVELOPMENTS (% SHARE)

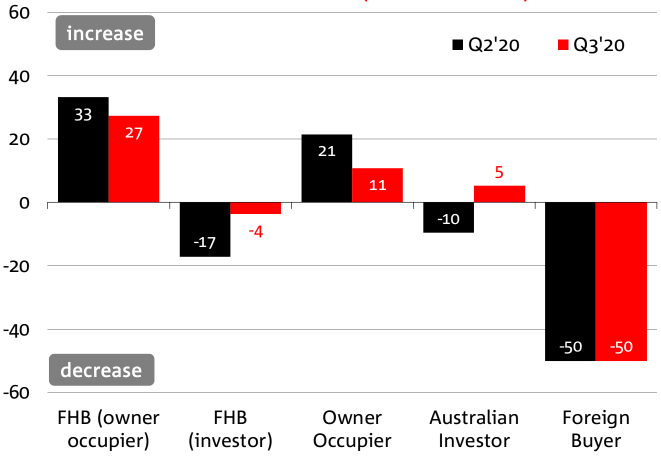


Owner occupiers (net of FHBs) accounted for 32.0% of all sales in Q3 (down from 33.0% in Q2). These buyers were most active in SA/NT (46.0%) and VIC (36.6%) and least active in QLD (19.4%).

In an environment of record low rates, the market share of resident investors in the market climbed to 15.2% in Q3 (from a survey low 12.6% in Q2), but is still well below the survey average (20.2%). Domestic investors were most active in QLD (25.9%) and WA (17.7%), and least active in SA/NT (2.0%), followed by VIC (9.8%) where investment activity is down over half since the start of COVID in Q1 (21.6%).

The market share of foreign buyers in new property markets dipped to 5.8% of total sales (8.3% in Q2), to be well below the survey average (10.0%). In VIC, their number halved to 10.0% (19.3% in Q2), and they were almost non-existent in NSW, falling to a survey low 1.0% (2.5% in Q2). Foreign buyers were however more prevalent in QLD (7.4% from 6.4% in Q2) and WA (4.4% from 1.7% in Q2).

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, the number who said the share of FHB owner occupiers would increase out-weighed those expecting them to decrease, but the net balance fell to +27% (+33% in Q2).

The net number expecting FHB investors to fall however out-weighed those predicting an increase (-4%), but much improved from Q2 (-17%).

Fewer property professionals expect the net number of owner occupiers to increase than decrease (+11% now compared to +21% in Q2).

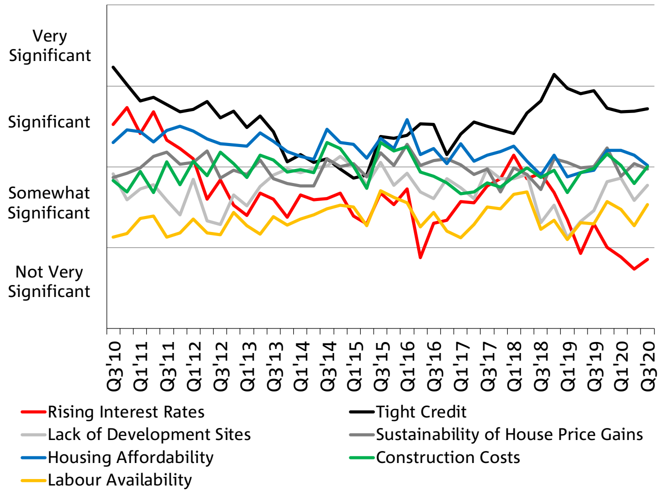
In net terms, slightly more property professionals (+5) now expect the market share of local investors in the market to increase than decrease, after more predicted their numbers would fall in the last survey (-10%).

Many property experts also still expect the market share of foreign buyers in the market to fall over the next year (-50%, unchanged from Q1).

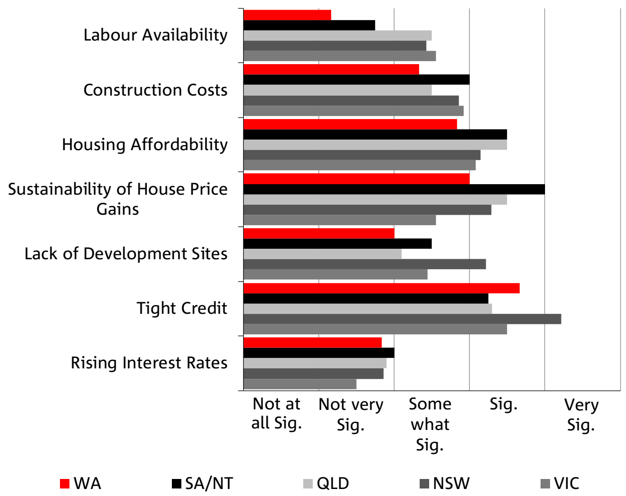
NEW HOUSING MARKET CONSTRAINTS

Tight credit is still the biggest constraint for new housing development in the country, with perceptions about accessing credit rising for the second straight quarter. Tight credit is also the biggest constraint (and "significant") in all states bar QLD (assessed as a "very significant" constraint).

CONSTRAINTS ON NEW HOUSING DEVELOPMENTS



CONSTRAINTS ON NEW HOUSING DEVELOPMENTS - STATES



Housing affordability was the next biggest constraint, albeit somewhat less problematic than in Q2 amid continued low interest rates. The impact of housing affordability was biggest in SA/NT and smallest in WA. Construction costs were the next biggest constraint, with the level of concern lifting noticeably from the previous quarter. Concerns were highest for property professionals in located QLD and VIC, and lowest in WA.

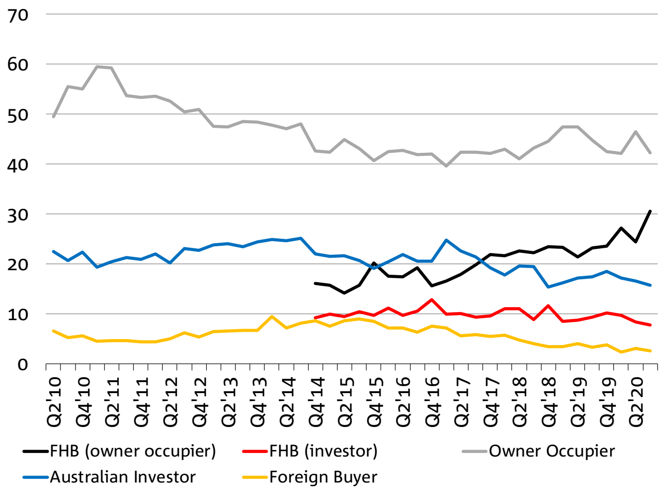
Sustainability of house price gains was highlighted by noticeably more property professionals in QLD, with those in VIC the least concerned. Concerns over a lack of development sites increased this quarter, and was most problematic in QLD (replacing NSW). Overall concern over labour availability also rose, but was somewhat higher in QLD and WA than other states.

With interest rates now at record lows (and widely predicted to stay low for some time), the impact on the market from rising interest rates is still viewed as "not a very significant concern" by property experts in all states.

ESTABLISHED PROPERTY

In established housing markets, buying activity continues to be dominated by resident owner-occupiers (net of FHBs), but their overall market share fell to 42.3% in Q3 (46.5% in Q2). Owner occupiers accounted for the lion's share of total sales in all states, with market share highest in SA/NT (47.7%), WA (44.9%), NSW (42.1%) and VIC (41.7%), and lowest in QLD (39.8%).

BUYERS - ESTABLISHED PROPERTY (% SHARE)



The share of FHB owner occupiers in this market in Q3 however increased to a survey high 30.6% (24.4% in Q2). These buyers were most prevalent in VIC (35.1%) and least prevalent in NSW (26.8%). In contrast, the market share of FHB investors fell for the third straight quarter to a survey low 7.9% (8.4% in Q2).

Buyers in this segment were most active in NSW (10.7%) and least active in VIC (5.5%). In total, the market share of FHBs rose to a survey high 38.4% (32.8% in Q2), led by VIC (40.6%) and SA/NT (40.5%), with WA (35.9%) lowest.

The total share of local investors in the market eased to 15.8% of all sales (16.7% in Q2), their lowest share since Q4'18. Property professionals estimated these buyers accounted for between 18.0% of all sales in QLD to just 9.7% in SA/NT.

The share of foreign buyers in overall established housing markets fell to 2.6% (3.1% in Q2), to be well below the survey average (5.8%).

Market share in this buyer segment was highest in VIC (3.5%), ahead of NSW (2.8%), QLD (2.6%) and WA (2.1%), with market share below average in all states.

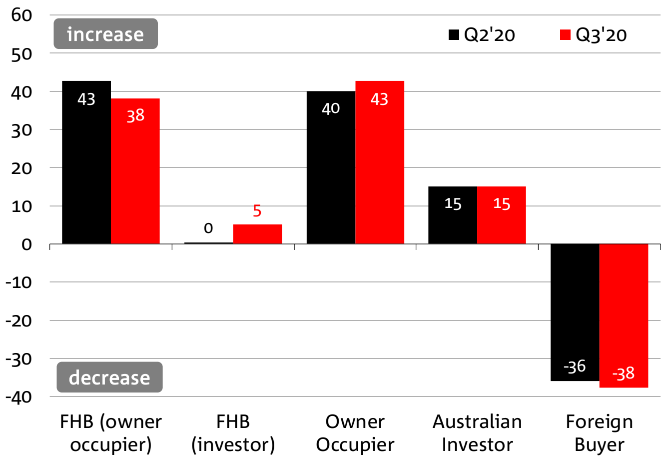
While expectations around market share in new property markets changed considerably, expected changes were less radical in established housing markets.

Overall, the net number expecting the share FHB owner occupiers to increase in Q3 fell a little (+38 compared to +43 in Q2). Expectations around FHB investor activity was however a little higher (+5 compared to 0 in Q2).

Resident owner occupiers are expected to be somewhat more active in the market (+43 against +40 in Q2), with the share of resident invertors unchanged (+15).

The net number expecting the market share of foreign buyers in this market to decrease fell a little further to -38% (-36% in Q2).

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

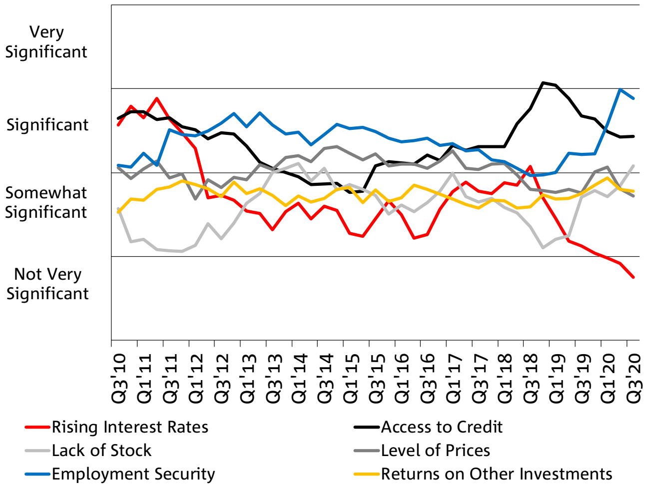


ESTABLISHED HOUSING MARKET CONSTRAINTS

With rising unemployment and ongoing job uncertainty still weighing heavily on many Australians, employment security was again identified by property experts as the biggest impediment for buyers of existing property, although the level concern reduced a little in Q3.

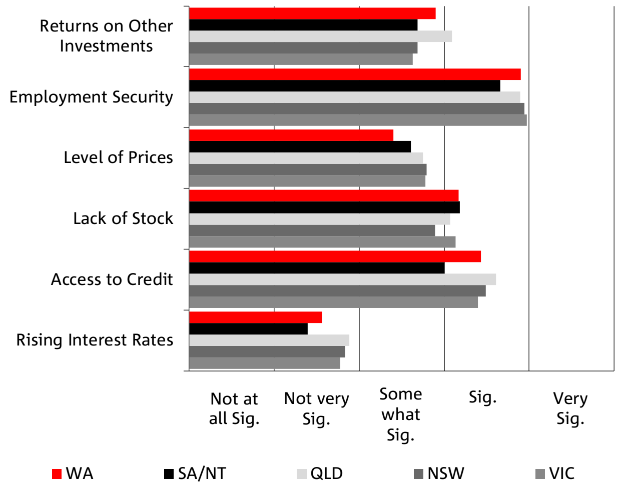
Employment security was also highlighted as the biggest constraint in all states, led by VIC, NSW and WA.

CONSTRAINTS ON ESTABLISHED PROPERTY



Access to credit was next, although the perceived impact on the market was unchanged from the previous survey, and it remained at its lowest level since early-2018. Access to credit was however highlighted as a bigger constraint in QLD than in all other states, and rated lowest by property professionals SA/NT.

CONSTRAINTS ON ESTABLISHED PROPERTY - STATES

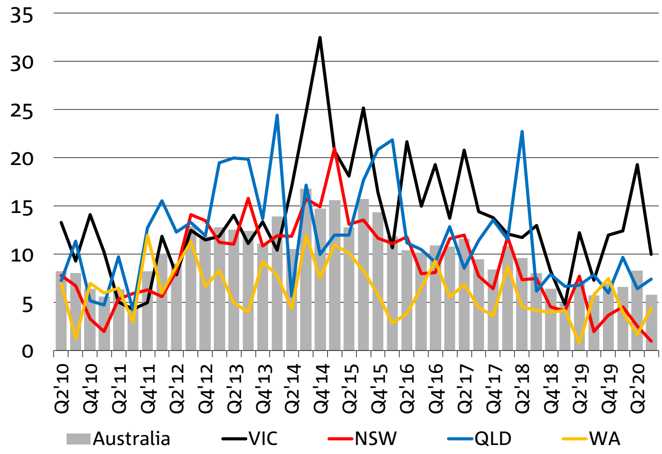


The level of concern over rising interest rates in this market continued to fall, and remains "not very significant" in all states.

FOREIGN BUYERS

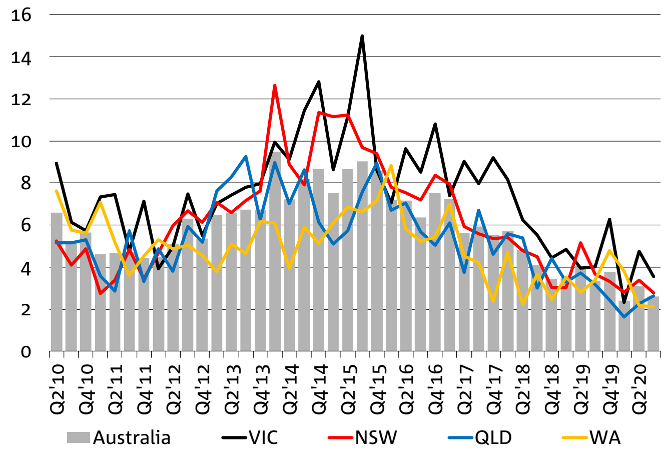
The role of foreign buyers in Australian housing markets remains well down on the highs seen in 2014-15 in both new and established housing markets - and the coronavirus impact on the economy and international borders is likely to have added further impetus to the downturn in buyer numbers.

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



In new property markets, the overall market share of sales to foreign buyers fell to just 5.8% (8.3% in Q2), to stand well below the survey average (10.0%). In VIC, where restrictions have been toughest of all states, the number of foreign buyers halved to 10.0%, from 19.3% in the previous quarter. Foreign buyers of new property in NSW all but disappeared in Q3, with their market share falling to a record low 1.0% (2.5% in Q2 and well down from a survey average (8.5%). In QLD however, market share climbed slightly to a below average 7.4% (6.4% in Q2), with a small increase also noted in WA to a below average 4.4% (1.7% in Q2) but also below average.

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



In established housing markets, the overall share of foreign buyers fell to 2.6% in Q3 (3.1%) or around half the survey average level (5.8%). Foreign buyers accounted for a smaller share of sales in all states, except QLD where they increased slightly to 2.6% (2.3% in Q2). The share of foreign buyers in this market remained highest in VIC at 3.5% (4.8% in Q2), but well down from its long-term survey average (7.4%).

NAB'S VIEW ON DWELLING PRICES

We have revised up our expectations for dwelling prices and now see an overall increase of around 5% over 2021. We have also extended our forecast horizon to the end of 2022 and see prices rising by another 6% over 2022. We also see a bifurcation of markets, with apartment price growth to be weaker than house price growth, particularly for the larger cities.

We see dwelling prices in the two largest markets of Sydney and Melbourne increasing by slightly less than the other capitals. We forecast healthy gains of over 7% in each of Brisbane, Adelaide and Hobart in 2021, while Sydney and Melbourne should rise by 4.5% and 3.5% respectively.

The change to NAB's outlook is based on the upgrade to our forecasts for near-term economic activity and the expectation that lower interest rates will continue to support activity and prices in the housing market.

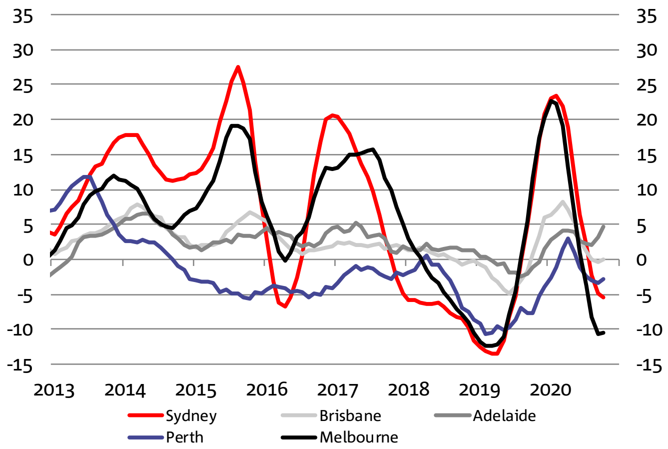
Indeed, the housing market has held up far better than expected at the onset of the pandemic. The CoreLogic 8-Captial City Dwelling Price index has declined by 2.5% since its peak in April. These declines have been driven by price falls in Melbourne (which saw an extended period of lockdowns) and Sydney. Perth has fallen more modestly, but has levelled off in recent months. Brisbane has been broadly flat. The other capitals - Adelaide and Hobart - have seen gains over this time. The softening in Sydney and Melbourne comes after a period of exceptional price growth in the preceding year.

The exceptional levels of fiscal policy support (as well as loan deferrals) are likely to have mitigated the impact of the sharp deterioration in the labour market by limiting job losses and providing a key support to household incomes. Lower mortgage rates will have also provided additional support to households.

However, we do see a number of risks around population growth and weakness in the labour market over the next couple of years. The slowest rate of population growth for a century will weigh on demand (particularly in Sydney and Melbourne), while the weaker labour market will see elevated unemployment for an extended period and softer wage growth. This is likely to impact all states.

Weakness in the rental market will also weigh on the investor segment - particularly for inner-city Sydney and Melbourne apartments. This will place some further downward pressure on prices there.

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



On the economy more broadly, our forecasts see activity having passed through its trough (likely Q2) with a solid rebound in Q3. We see a 4.0% increase in GDP in Q3, led by a large 7.5% rebound in consumption. From there, we see another notable pickup in activity in Q4 before growth slows.

The labour market which has seen a significant deterioration is likely to lag the recovery in activity. Indeed, from there we expect the unemployment rate to drift higher, peaking at around 7.4% in late-2020 before declining through 2021 and 2022. However, with the rate of unemployment still around 0.5ppt above pre-COVID levels at 5.7% (and well above a rate consistent with "full-employment") by the end of 2022, we expect wages growth to remain soft.

Support from both fiscal and monetary policy makers is likely to remain key, and we expect the high degree of policy support to continue over the next couple of years. We expect rates to remain on hold for at least the next 3 years and think it is likely the RBA will need to expand its QE program beyond the initial 6-month $100 billion goal.

With rates at very low levels, fiscal policy is likely to remain the key lever at play. The 2020/21 budget was highly expansionary, but does see a fiscal contraction the following year. We expect further action on this front too. Please see our updated forecasts for activity and the labour market also released today.

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NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020f	2021f	2022f
Sydney	5.3	2.2	4.4	6.0
Melbourne	5.3	-2.2	3.6	5.4
Brisbane	0.3	3.2	7.4	7.4
Adelaide	-0.2	4.6	7.4	7.4
Perth	-6.8	0.1	5.0	5.8
Hobart	3.9	5.1	7.4	7.4
Cap City Avg	3.0	1.0	5.0	6.1

*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 380 panellists participated in the Q3 2020 survey.

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