NAB RESIDENTIAL PROPERTY SURVEY Q1-2021

HOUSING MARKET SENTIMENT HAS LIFTED SHARPLY ACROSS THE COUNTRY, ALTHOUGH VIC IS STILL LAGGING. CONFIDENCE ALSO BUOYED AS PROPERTY EXPERTS AGAIN UP THEIR EXPECTATIONS FOR HOUSE PRICE GROWTH AND RENTS. NAB HAS ALSO UPGRADED ITS FORECASTS FOR DWELLING PRICES, WHICH ARE NOW EXPECTED TO RISE 14% IN 2021 AND 6% IN 2022. LOWER RATES WILL BE A KEY DRIVER OF PRICES, ALONGSIDE A STRONG RECOVERY IN THE ECONOMY AND LABOUR MARKET.

NAB Behavioural & Industry Economics

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Survey highlights…

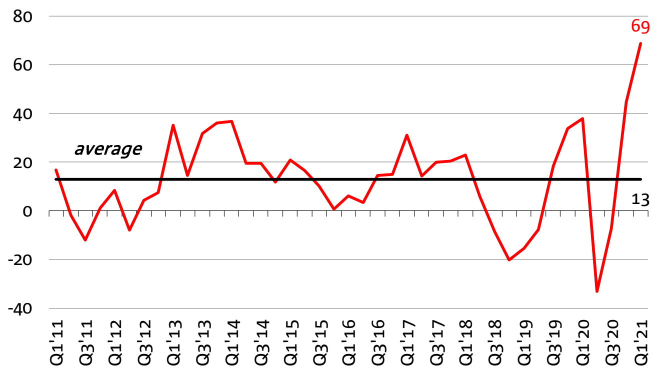
The NAB Residential Property Index climbed to a new survey high +69 pts in Q1 2021. Market sentiment was very strong in all states except VIC - although the state index is now tracking at its highest level since Q1 2020 and well above average. Confidence levels were also more buoyant across the country, led by WA and TAS where expectations for rents and prices are strongest (with improved expectations also recorded in all other states). The survey continues to highlight FHBs as key players in both new and established housing markets and also pointed to increased activity among resident investors. But the role of foreign buyers in local housing markets continued to recede in both new and established markets, with their overall share of sales falling to new survey lows.

The view from NAB…

On the back of ongoing low interest rates alongside a significantly better than expected recovery in the economy and labour market we now expect strong gains in dwelling prices of around 14% this year, followed by a more moderate but solid gain of around 6% next year. The upgrade to our forecast is relatively uniform across capital cities - reflecting rates as the primary driver. That said we expect apartment prices, particularly in the largest cities, to lag house prices as a result of weaker population growth. More broadly we expect the economy to continue to recover strongly, but for rates to remain low on the back of low inflation and weak wage growth. Only once spare capacity in the economy erodes and inflation sustainably returns to target, will the RBA begin lifting rates.

VIEW FROM PROPERTY EXPERTS

NAB RESIDENTIAL PROPERTY INDEX



RESIDENTIAL PROPERTY INDEX BY STATE

	Q4'20	Q1'21	Nxt 1yr	Nxt 2yrs
VIC	6	39	52	59
NSW	43	68	79	68
QLD	66	81	81	74
SA	69	91	91	74
WA	79	96	92	85
ACT	71	90	100	90
NT	89	100	92	83
TAS	45	80	85	65
AUST	45	69	75	69

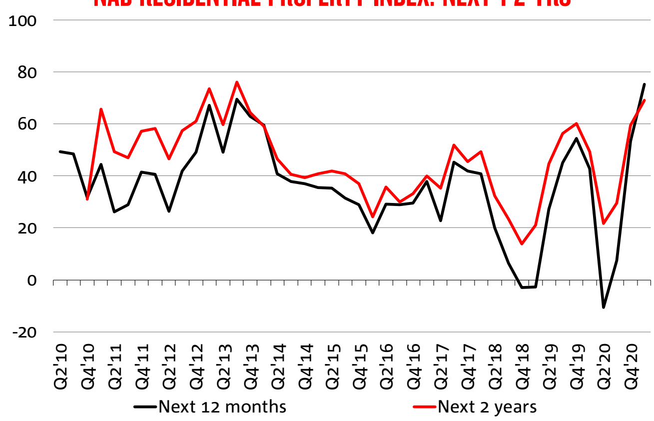
VIEW FROM NAB ECONOMICS

NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020f	2021f	2022f
Sydney	5.3	2.7	14.0	6.0
Melbourne	5.3	-1.3	16.2	5.5
Brisbane	0.3	3.6	15.2	6.2
Adelaide	-0.2	5.9	11.2	6.0
Perth	-6.8	1.9	13.1	5.6
Hobart	3.9	6.1	19.1	6.1
Cap City Avg	3.0	2.0	14.1	5.8

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

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS

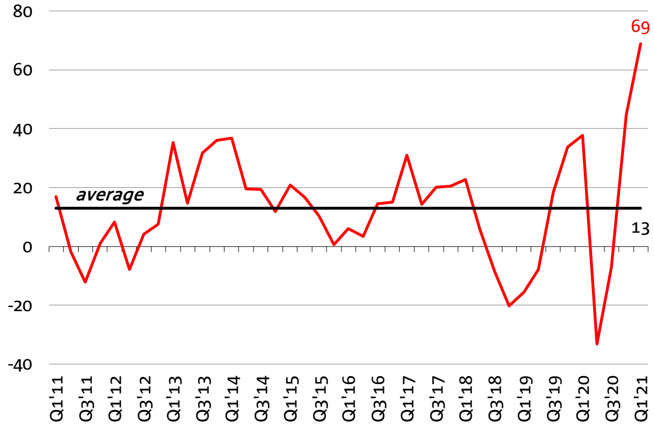


SENTIMENT CONTINES TO CLIMB

The Australian housing market continued to strengthen during the March quarter, with the latest lending data also showing solid increases in both owner-occupier and investor loan approvals.

Lower interest rates, government HomeBuilder grants, stamp duty discounts and a solid rebound in economic recovery have been the key supports to the housing market and seem to have done enough to offset the impact of pandemic-driven job losses, weak rents and falling migration. Against this background, the NAB Residential Property Index continued to climb, reaching a new survey high +69 pts (+45 pts in Q4 2020).

NAB RESIDENTIAL PROPERTY INDEX

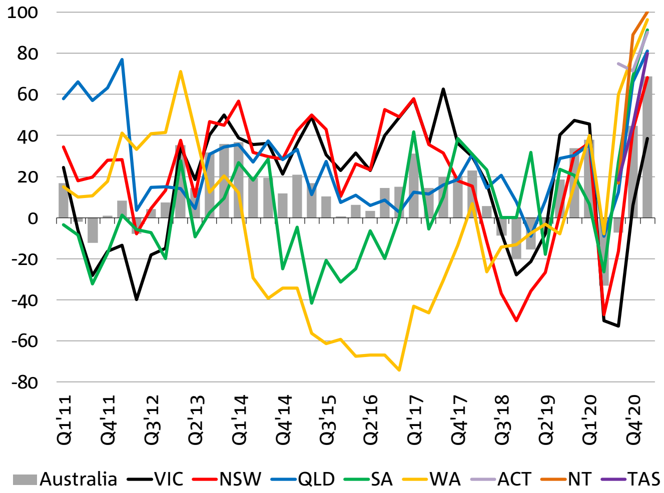


Market sentiment moved higher in all states in Q1. It was particularly strong in NT (+100 pts but from a small sample), WA (+96 pts), SA (+91 pts), ACT (+90 pts), QLD (+81 pts) and TAS (+80 pts). The state index was lowest In VIC (+39 pts) where annual house price growth in Melbourne was also weakest of all capital cities. In NSW the state index stood at +68 pts, broadly in line with the national average.

RESIDENTIAL PROPERTY INDEX BY STATE

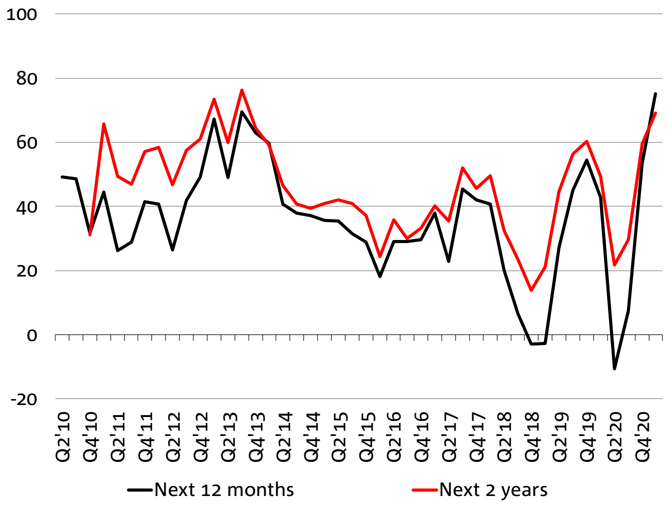
	Q4'20	Q1'21	Nxt 1yr	Nxt 2yrs
VIC	6	39	52	59
NSW	43	68	79	68
QLD	66	81	81	74
SA	69	91	91	74
WA	79	96	92	85
ACT	71	90	100	90
NT	89	100	92	83
TAS	45	80	85	65
AUS	45	69	75	69

NAB RESIDENTIAL PROPERTY INDEX BY STATE



Confidence levels among surveyed property professionals also rose sharply, with the 12-month measure rising to a survey high +75 pts (+53 in Q4'20) and the 2-year measure to a 7½ year high +69 pts (+59 in Q4'20). Optimism was fuelled by upgraded expectations among property professionals for both house prices and rents.

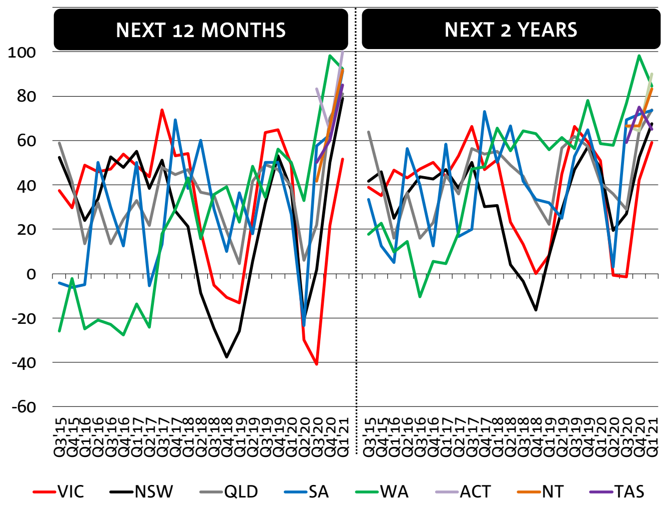
NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



Confidence levels lifted in all states bar WA where it fell slightly from exceptionally high levels in Q4'20. Despite this, confidence in WA are still among the highest in the country (+92 pts in 12 months and +85 pts in 2 years' time).

Property professionals in VIC remain the least confident in the country, although confidence levels improved sharply to +52 pts in 12 months (+22 pts in Q4) and +59 pts in the next 2 years (+42 pts in Q4). This represents a significant turnaround from the middle part of 2020 when confidence levels in VIC were languishing in negative territory.

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



SURVEY HOUSE PRICE EXPECTATIONS

With house price growth not showing any signs of letting up in the March quarter, average survey expectations for future growth also rose. On average, survey respondents now see national house prices rising 5.1% over the next 12 months (previously 3.1%) and 4.9% in 2 years' time (previously 3.9%).

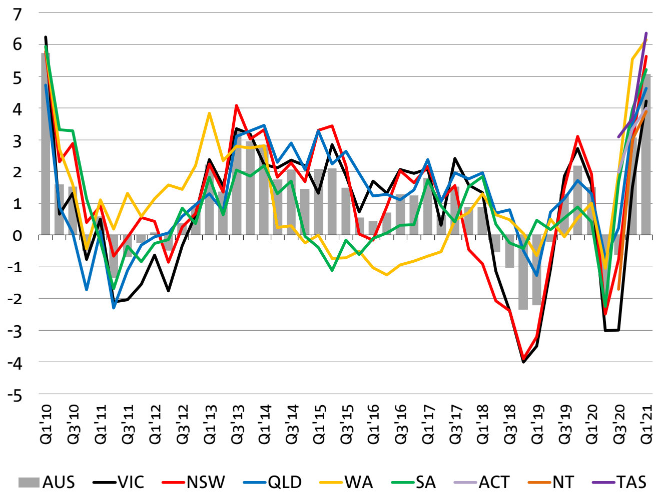
Expectations among property professionals lifted and were positive in all states for the next 12 months. The outlook is brightest among property professionals in TAS (6.4% vs. 3.7% in Q4'20) and WA (6.1% vs. 5.5% in Q4'20). Price growth is expected to be slowest according to property professionals in the NT (3.9% vs. 3.0% in Q4'20), ACT (4.0% vs. 3.4% in Q4'20) and VIC (4.2% vs. 1.5% in Q4'20).

AVG SURVEY EXPECTATIONS: HOUSE PRICES (%)

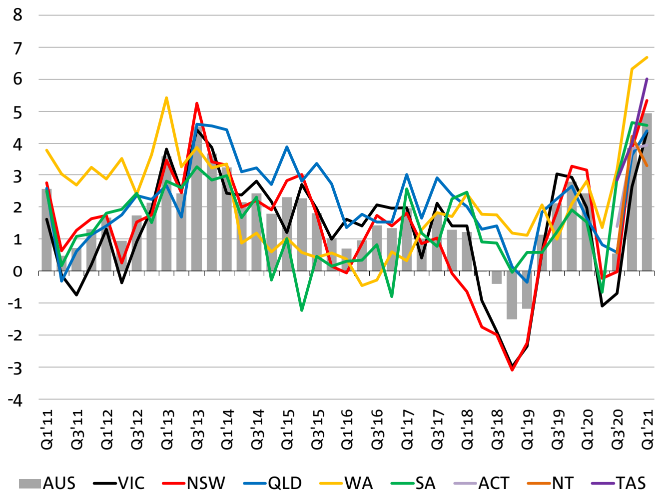
	Next 1 year	Next 2 years
VIC	4.2%	4.3%
NSW	5.6%	5.3%
QLD	4.6%	4.4%
SA	5.2%	4.5%
WA	6.1%	6.7%
ACT	4.0%	3.9%
NT	3.9%	3.3%
TAS	6.4%	6.0%
AUS	5.1%	4.9%

The outlook in 2 years' time is somewhat mixed. Property professionals in WA see prices in their home state growing fastest (6.7%) and somewhat faster than predicted in Q4'20 (6.3%). TAS is the next most optimistic (6.0% vs. 4.0% in Q4'20). Very rapid growth is also being forecast in NSW (5.3% vs. 3.8% in Q4'20). In SA (4.5% vs. 4.6% previously) and the ACT (3.9% vs. 3.8% previously) the outlook is basically unchanged, but expectations were revised down in the NT (3.3% vs. 4.2% in Q4'20). Property professionals in QLD (4.4% vs. 3.6% in Q4'20) and VIC (4.3% vs. 2.6% in Q4'20) were however somewhat more optimistic.

HOUSE PRICE EXPECTATIONS: NEXT 1 YEAR (%)



HOUSE PRICE EXPECTATIONS: IN 2 YEARS (%)



SURVEY RENTAL EXPECTATIONS

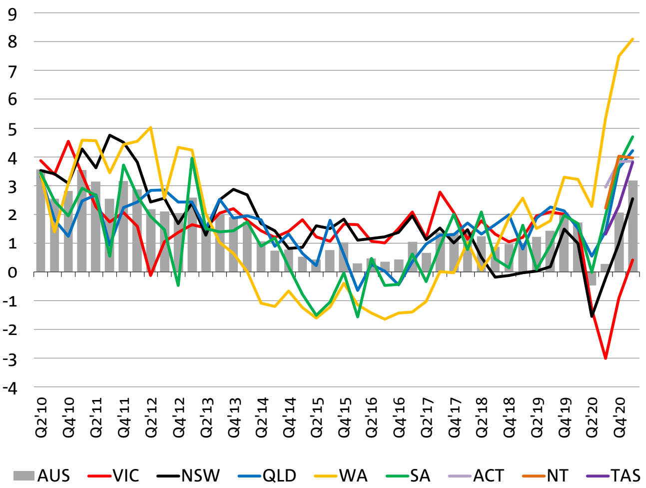
The outlook for nationwide rents has also improved. Over the next 12 months, the survey average is for rents to increase by 3.2% (2.1% forecast in Q4'20), and 3.6% in 2 years' time (3.2% forecast in Q4'20). With housing capital values expected to grow at a much faster rate than rental incomes, this suggests that the Australian housing market is likely to experience a period of yield moderation over the next 1-2 years.

AVG SURVEY EXPECTATIONS: RENTS (%)

	Next 1 year	Next 2 years
VIC	0.4%	2.0%
NSW	2.5%	3.1%
QLD	4.2%	4.4%
SA	4.7%	4.3%
WA	8.1%	7.1%
ACT	3.9%	4.9%
NT	4.0%	4.0%
TAS	3.8%	2.7%
AUS	**3.2%**	**3.6%**

There was however considerable disparity around the outlook for rental markets across Australia. In WA, property professionals on average expect rents to grow by 8.1% over the next 12 months (up from 7.5% forecast in Q4'20) and by 7.1% in in 2 years' time (down slightly from 7.6% forecast in Q4'20). With rental growth outpacing price growth over the next 1-2 years, income yields in WA are also likely to increase.

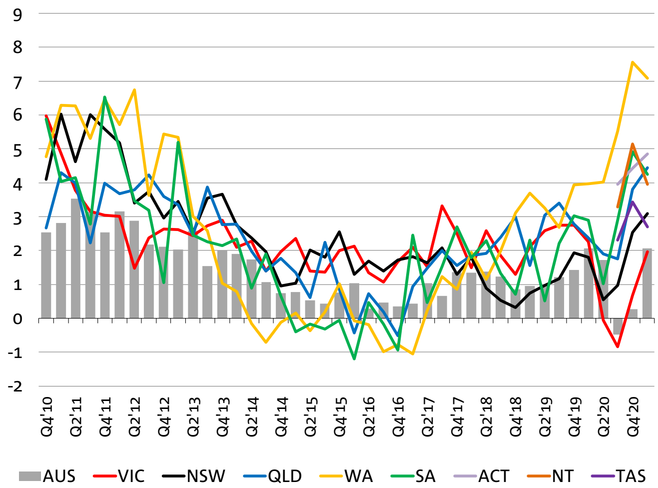
RENTAL EXPECTATIONS: NEXT 1 YEAR (%)



At the other extreme, rental growth is forecast to be slowest in VIC at just 0.4% in the next 12 months and NSW at 2.5%, where rents are being pulled down by significant over-supply in the apartment market. That said, property professionals in both states are somewhat more optimistic about the outlook than in the last survey (-0.9% forecast in VIC & 1.0% in NSW).

Looking 2 years ahead, property professionals remain least optimistic for rental growth in VIC (2.0% vs. 0.7% forecast in Q4'20) and TAS (2.7% vs. 3.4% forecast in Q4'20).

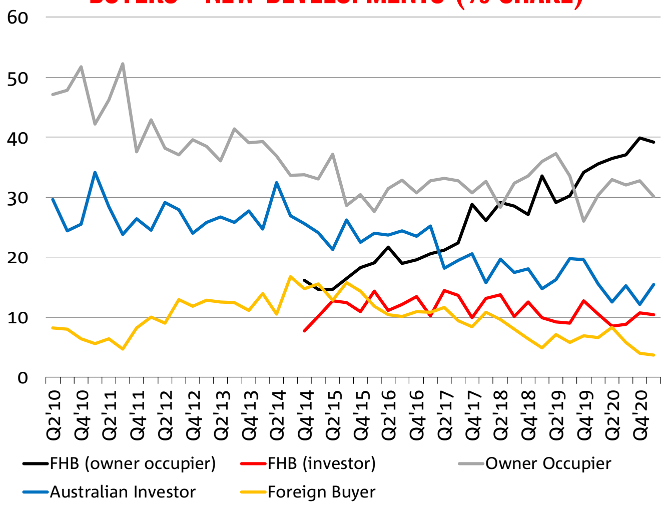
RENTAL EXPECTATIONS: IN 2 YEARS (%)



NEW DEVELOPMENTS

First Home Buyers (FHBs) remain the most active participants in new housing markets. According to property professionals, the total market share of sales to FHB owner occupiers was 39.2% in Q1 (39.9% in Q4'20), and that of FHB investors 10.4% (10.7% in Q4'20). Overall, total FHBs accounted for 49.6% of all new property market sales (50.6% in Q4'20).

BUYERS - NEW DEVELOPMENTS (% SHARE)



In the key states, FHB's were most active in SA (55.0%) and WA (53.0%), and least active in VIC (44.0%) and QLD (44.3%). FHB owner occupiers accounted for the equal biggest share of sales in WA and SA (45.0%), and the smallest share in NSW (31.2%). FHB investors however were most prominent in NSW (16.4%) and least active in VIC (4.6%).

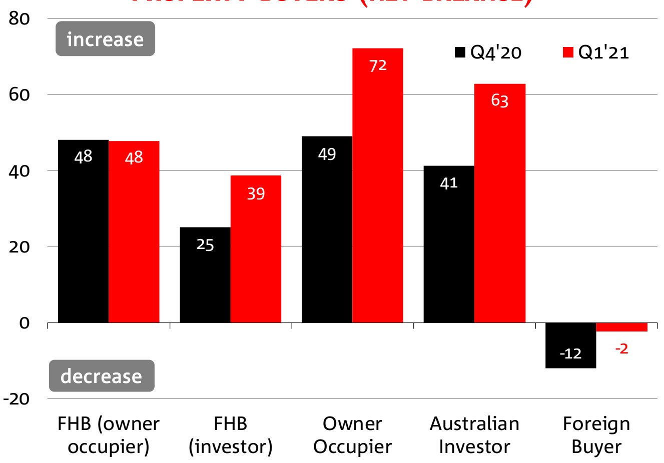
Property professionals also estimate the overall market share of sales to owner occupiers (net of FHBs) fell slightly to a below average 30.1% (32.7% in Q4'20). Buyers in this segment were most active QLD

(38.3%) and SA (35.0%) and least active in WA (29.0%) and VIC (29.4%).

The market share of resident investors recovered to 15.5% (12.1% in Q4'20) but remains below the survey average (19.7%). Domestic investors were most active in VIC (16.7%), WA (16.0%) and NSW (15.8%) and least active in SA (10.0%).

The market share of foreign buyers in new property markets continued to fall, dipping to a survey low 3.7% (4.0% in Q4'20). Foreign buying activity halved in NSW to 1.9% (3.8% in Q4'20), WA to 2.0% (3.7% in Q4'20) and QLD to 3.3% (6.4% in Q4'20). In VIC however the number of foreign buyers jumped sharply to 9.1% from 3.5% in Q4'20 but is still below the state survey average (13.3%).

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



Property professionals were asked whether the share of new property buyers would increase or decrease in the next 12 months in each buyer segment. The results suggest activity will be driven by local buyers.

In net terms, the number who said the share of total sales to FHB owner occupiers would increase out-weighed those expecting their share to fall (with the net number unchanged at +48%). However more property professionals (+39%) expect the share of FHB investors in the marketplace to increase relative to last quarter (+25%).

The net number of property professionals who believe owner occupiers will increase their market share in new property markets rose sharply to +72% (+49% in Q4'20), with the net number expecting local investors to play a bigger role also rising sharply to +63% (+41% in Q4'20).

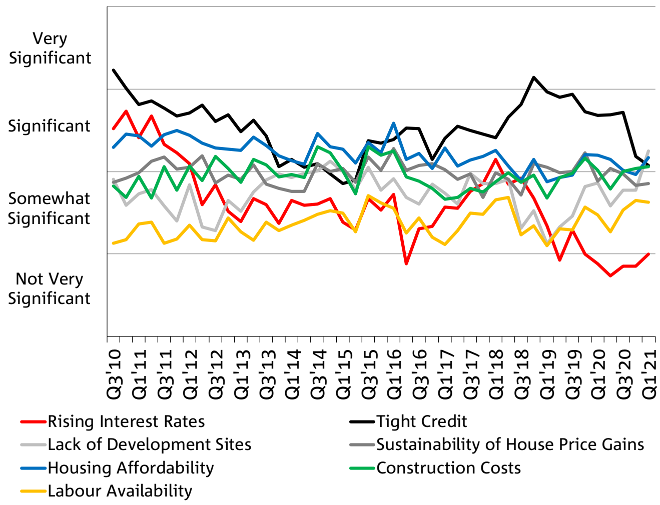
However, more property professionals in net terms still expect the share of foreign buyers to decrease than increase, but that number has fallen to just -2% (from -12% in the Q4'20 survey).

NEW HOUSING MARKET CONSTRAINTS

A lack of development sites overtook housing affordability as the biggest impediment for new housing development in the country in Q1. Lack of development sites was viewed as most problematic in SA and NSW, and least so in VIC. Housing affordability was also a bigger issue in SA and NSW and of least concern in WA and VIC.

While the level of concern over tight credit continues to abate, it ranked as the next biggest impediment for new housing development in the country along with construction costs. Tight credit was most worrisome in WA and construction costs in QLD.

CONSTRAINTS ON NEW HOUSING DEVELOPMENTS



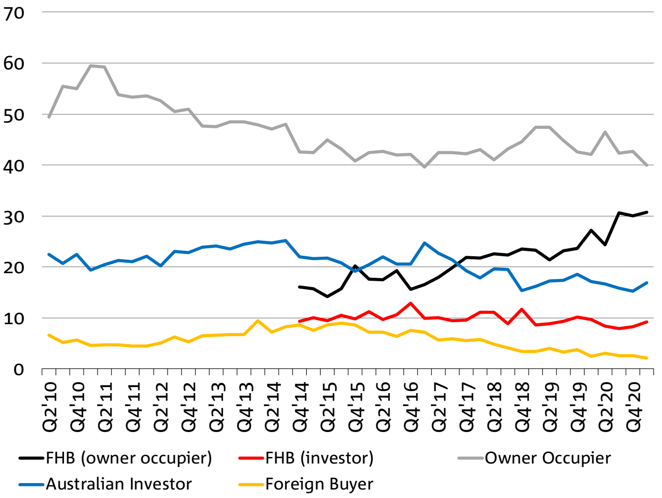
CONSTRAINTS ON NEW HOUSING DEVELOPMENTS - STATES

In an environment of record low interest rates (and expected to stay low for some time), the impact of rising rates on new housing development is still 'not very significant', although the level of concern was somewhat higher in NSW than in other states.

ESTABLISHED PROPERTY

In established housing markets, buying activity continues to be dominated by resident owner-occupiers (net of FHBs), although their overall market share dipped to a 4-year low of 40.0% (42.7% (in Q4'20). Owner occupiers accounted for the biggest share of sales in all states. It was highest in SA (47.1%), QLD (44.5%) and WA (41.4%) and lowest in NSW (36.7%) and VIC (39.2%).

BUYERS - ESTABLISHED PROPERTY (% SHARE)



The overall share of FHBs in the market however increased to 40.0% (38.3% in Q4'20), with these buyers most prevalent in VIC (43.7%) and NSW (41.0%). The share of FHB owner occupiers in the market rose slightly to 30.7% (30.0% in Q4'20) with buyers most active in VIC (36.1%) and WA (33.2%) and least active in SA (25.2%). The market share of FHB investors also rose to 9.3% (8.3% in Q4'20). Buyers in this segment were most active in NSW (12.7%) and least active in WA (5.5%).

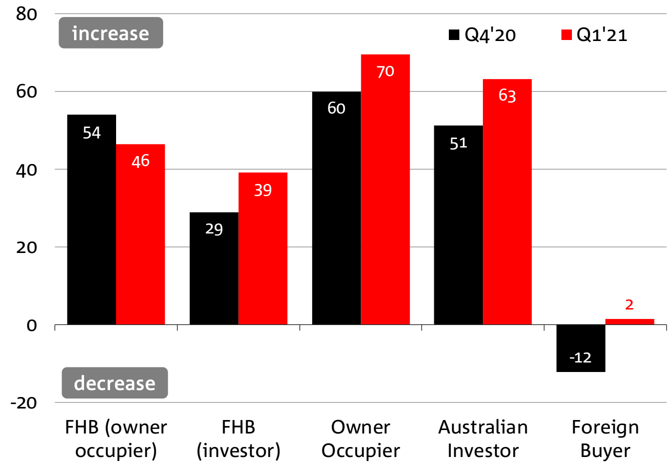
The total share of local investors in the market recovered to 16.8% in Q1, up from a survey low 15.2% in Q4'20. Property professionals estimate these buyers were most active in QLD (18.4%) and NSW (18.0%), with their share of total market sales lowest in SA (12.9%).

The share of foreign buyers in overall established housing markets however fell to a survey low 2.2% (2.6% in Q4'20) - less than half the survey average (5.7%). Market share in this segment was highest in WA (3.3%) and lowest in QLD (1.1%).

In net terms, significantly more property professionals still expect the share of local buyers in all established property markets to increase than fall than in the previous survey.

Overall, the net number expecting the share of non-FHB owner occupiers to increase in Q1 rose to +70% (+60% in Q4'20), and that of resident investors to +63% (+51% in Q4'20). However, the net number expecting FHB owner occupiers to increase their market share fell to +46% (+54%), although they expect FHB investors to play a bigger role (+39% vs. +29% forecast in Q4'20). Interestingly, the net number of property professionals who expect the proportion of foreign buyers in this market to increase outweighed those who expect it to fall for the first time since we first started collecting this data in Q2'17 - albeit only marginally (+2%)

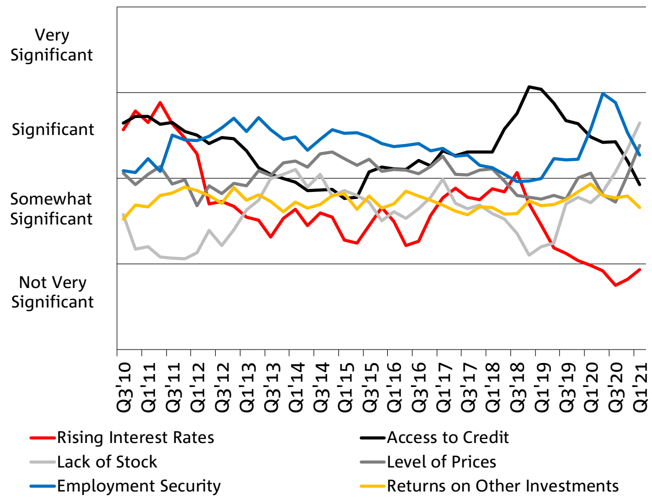
EXPECTED CHANGE IN SHARE OF ESTABLISHED PROPERTY BUYERS (NET BALANCE)



ESTABLISHED HOUSING MARKET CONSTRAINTS

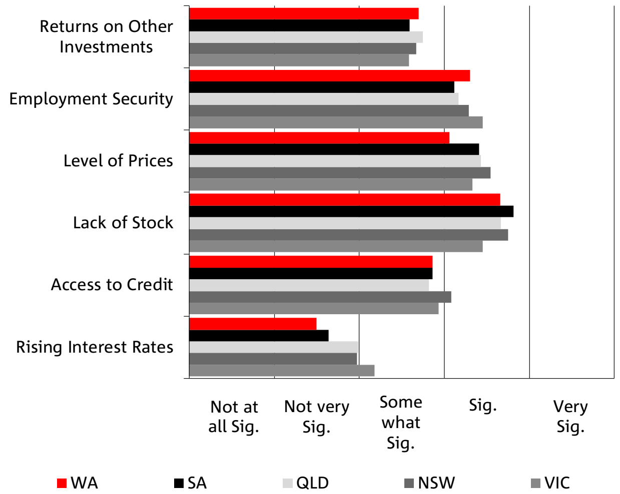
Amid continuing low advertised supply levels, property professionals identified a lack of stock as the biggest (and growing) impediment for buyers of existing property - and in all states.

CONSTRAINTS ON ESTABLISHED PROPERTY



With house prices growing across the country, property professionals also expressed higher concern this quarter over its impact on buyers. The level of concern over prices was highest in NSW and lowest in WA where house prices are still well down from their 2014 peak.

CONSTRAINTS ON ESTABLISHED PROPERTY - STATES



Employment security was identified as the next biggest impediment nationally, but property professionals further downgraded their level of concern as the economy continues to recover at a rapid pace and a labour market that is recovering much more quickly than initially expected. By state, however employment security ranked as the equal top concern (along with lack of stock) in VIC and of lowest concern in SA and QLD.

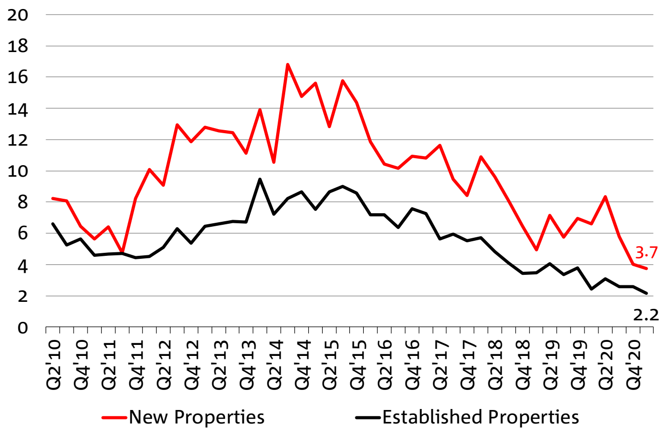
After having been the key impediment for buyers of existing property from mid-2017 to end-2019, access to credit has now been downgraded to only a ‘somewhat significant concern’ - and in all states bar NSW (‘significant’). With rates widely tipped to remain low for some time, the expected market impact from rising rates remains ‘not very significant’ in all states bar VIC (‘somewhat significant’).

FOREIGN BUYERS

The role of foreign buyers in Australian housing markets continued to recede in both new and established housing markets. In Q1, their overall share of total sales fell to new survey low levels in both new (3.7%) and established housing markets (2.2%).

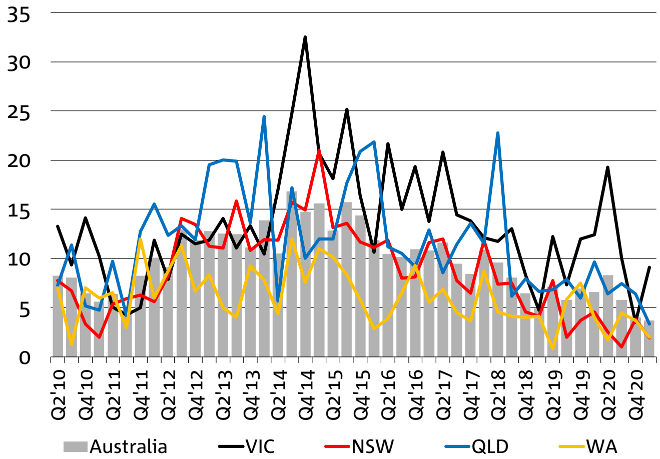
In new property markets, the market share of foreign buyers dipped to 1.9% in NSW (3.8% in Q4’20), 2.0% in WA (3.7% in Q4’20) and 3.3% in QLD (6.4% in Q4’20). VIC bucked the national trend, with the share of foreign buyers in that state market jumping to 9.1% (3.5% in Q4’20).

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

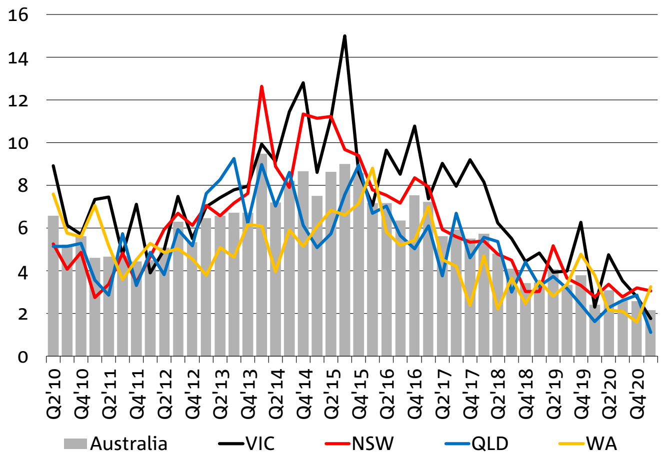


In established housing markets, the share of foreign buyers fell in all states except WA where it increased to a still below average 3.3% (1.6% in Q4’20). Market share fell to 1.1% in QLD (2.9% in Q4’20), 1.8% in VIC (2.8% in Q4’20) and was broadly unchanged at 3.1% in NSW (3.2% in Q4’20).

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



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



NAB'S VIEW ON DWELLING PRICES

We have revised up our expectation for house prices this year and next based on the ongoing impact of low rates, alongside a better than expected recovery in the economy and labour market. We now expect dwelling prices to rise by around 14% this year and 6% next year. Apartments - particularly in the large capital cities - are expected to rise slightly less. The upward revisions are relatively uniform across the capitals, but we still see some divergence in price growth. We also expect some divergence between unit prices in the larger capital cities and the regional capitals.

We also expect growth in the three largest cities (up over 15%) to outpace that of Adelaide and Perth - though these are also expected to post solid gains of 10%+. Hobart is expected to rise even more strongly over the year but has already risen significantly since December.

This upward revision to the outlook follows some already strong price growth and a lift in activity in the housing market. The 8-capital city dwelling price index increased by 2.8% m/m in March - the highest monthly gain since 1988 - to be 4.8% higher over the year. Prices rose in all eight capital cities, with the largest growth in Sydney. Notably, regional house prices are no longer outpacing capital city growth, but have continued to grow strongly too, increasing 2.5% m/m.

New housing finance (excluding re-financings) fell slightly in February (-0.4% m/m) but remained at an exceptionally high level. This is particularly the case for owner-occupiers, although new loans for investors are also well up on a year ago.

Amongst loans for owner-occupiers, the most rapid growth has been in the loans in the dwelling construction segment. The Q4 2020 national accounts indicated that dwelling investment rose by 3.1% q/q ending the downward trend evident since mid-2018.

Outside of the housing market, the economy continues to recover strongly. We expect GDP has recovered its pre-COVID level in Q1 and expect ongoing above trend growth for the next two years. While the recovery has been uneven across sectors, policy support from both fiscal and monetary policy makers alongside substitution towards domestic spending by households will provide support for some time. That said, sectors such as education and tourism will see ongoing impacts.

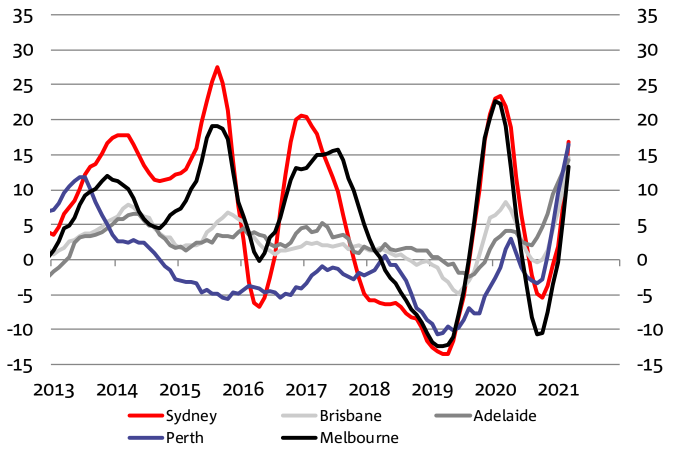
The labour market broadly reflects these trends, with employment also now having more than recovered its pre-COVID levels and the unemployment rate having recovered much more quickly than initially forecast. At 5.6% the unemployment rate is now around 0.5 ppt above its pre-COVID level. We forecast ongoing employment growth and further declines in unemployment. That sees the unemployment rate fall to around 5% by end-2021, 4.7% by end-2022 and around 4.4% by the end of our forecast horizon.

While the much faster than expected rebound in the economy is encouraging, spare capacity remains. We estimate the economy will have reached its potential output by around end-2022 and the unemployment rate will approach full employment sometime in 2023. This suggests that for now inflationary pressure will remain weak, driven primarily by soft wage growth.

This outlook warrants ongoing easy monetary policy, especially as some fiscal support is withdrawn. The level of full employment remains highly uncertain, especially with slower population growth as a result of the fall in migration. For some sectors this may see upward pressure on wages sooner than expected. That said, international experience over recent years suggests the labour market may need to fall well below estimates of full employment before wages pressures emerge.

With interest rates remaining low and prices expected to rise sharply over the next couple of years, it is likely that policy makers will be closely monitoring risks in the housing market. Macro-prudential tools may again be applied to cool the housing market (or segments) deemed to face rising risks. For now, credit growth remains relatively soft and driven by the owner-occupier segment and P&I loans. In aggregate, policy makers are yet to identify any degradation in lending standards.

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



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NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020f	2021f	2022f
Sydney	5.3	2.7	14.0	6.0
Melbourne	5.3	-1.3	16.2	5.5
Brisbane	0.3	3.6	15.2	6.2
Adelaide	-0.2	5.9	11.2	6.0
Perth	-6.8	1.9	13.1	5.6
Hobart	3.9	6.1	19.1	6.1
Cap City Avg	**3.0**	**2.0**	**14.1**	**5.8**

*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 Q1 2021 survey.

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