NAB RESIDENTIAL PROPERTY SURVEY Q2-2021

HOUSING MARKET SENTIMENT LIFTS TO A NEW HIGH AS HOUSE PRICES AND RENTS CONTINUE TO GROW ACROSS THE COUNTRY. BUT THE SURVEY IS TIPPING SLOWER GROWTH IN PRICES OVER THE NEXT 1-2 YEARS, WITH RENTS REMAINING STABLE. NAB HAS ALSO UPGRADED ITS FORECASTS FOR DWELLING PRICES - NOW EXPECTED TO GROW AROUND 19% IN 2021 AND 4% IN 2022. LOW RATES AND STRONG INCOME SUPPORT HAVE SEEN STRONG PRICE GROWTH IN 2021, BUT THIS IMPACT WILL BEGIN TO FADE.

NAB Behavioural & Industry Economics

Survey highlights…

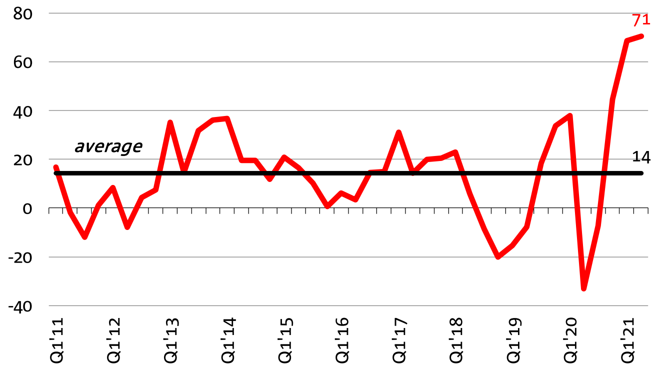
Continued strong growth in house prices across the country and further gains in rents lifted the NAB Residential Property Index to a survey high +71 pts in Q2, with above average outcomes reported in all markets. Housing market confidence among property professionals was also elevated but softened a touch. With housing affordability starting to weigh heavily (particularly on FHBs), new NAB research shows government incentives have been only 'moderately' significant in helping FHBs get into the market earlier, led by VIC. Rising house prices have had a bigger (negative) impact, particularly in NSW. The survey found FHBs are now also more willing to build or buy new builds now compared to two years ago, especially in the NT and in TAS, but less so in NSW and VIC.

The view from NAB…

We have revised up our outlook for dwelling prices in 2021 and slightly lowered our expectations for 2022 to now 18.5% and 3.6%, respectively. Faster than expected outcomes in recent months see a higher starting base, and while we see a slowing in the monthly pace of growth from here, we still see solid growth over the next 6 months. The upgrade to our forecast is relatively uniform across capital cities. The better than expected recovery in the economy and labour market alongside very low interest rates has supported the strong rebound in the property market. Affordability constraints will likely begin to bind over the year and see a slowing in price growth as the impact of lower rates fades.

VIEW FROM PROPERTY EXPERTS

NAB RESIDENTIAL PROPERTY INDEX



RESIDENTIAL PROPERTY INDEX BY STATE

	Q1'21	Q2'21	Nxt 1yr	Nxt 2yrs
VIC	39	58	64	65
NSW	68	69	74	64
QLD	81	80	75	63
SA	91	63	63	43
WA	96	86	82	74
ACT	90	50	42	33
NT	100	100	83	67
TAS	80	75	80	70
AUST	69	71	73	64

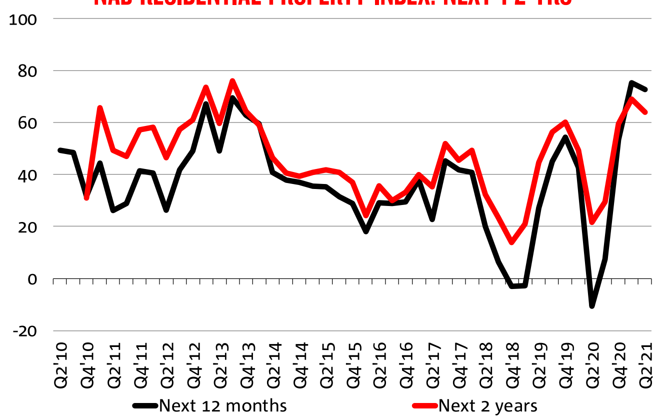
VIEW FROM NAB ECONOMICS

NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020	2021f	2022f
Sydney	5.3	2.7	21.6	3.1
Melbourne	5.3	-1.3	17.6	3.5
Brisbane	0.3	3.6	19.5	4.4
Adelaide	-0.2	5.9	17.4	3.9
Perth	-6.8	1.9	11.6	3.9
Hobart	3.9	6.1	23.5	4.3
Cap City Avg	3.0	2.0	18.5	3.6

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

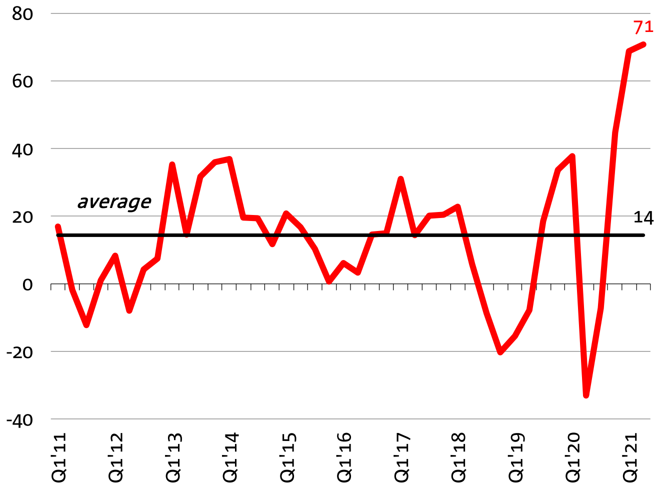
NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



SENTIMENT IMPROVES FURTHER

Continued strong growth in house prices across the country combined with further gains in rents helped lift market sentiment to a new survey high during the June quarter, with the NAB Residential Property Index climbing to +71 pts (+69 pts in Q1).

NAB RESIDENTIAL PROPERTY INDEX



While results were mixed across states and territories, the survey continued to show above average outcomes in all markets.

Housing market sentiment was again strongest in the NT (+100 pts but from a small sample). It was next highest in WA (+86 pts), QLD (+80 pts) and TAS (+75 pts) but moderated slightly in all 3 of these markets from very high levels.

Sentiment was broadly unchanged in NSW (+69 pts) and fell noticeably in the ACT (+50 pts) and SA (+63). Sentiment improved most in VIC (up 19 pts to +58) but remains below the national average.

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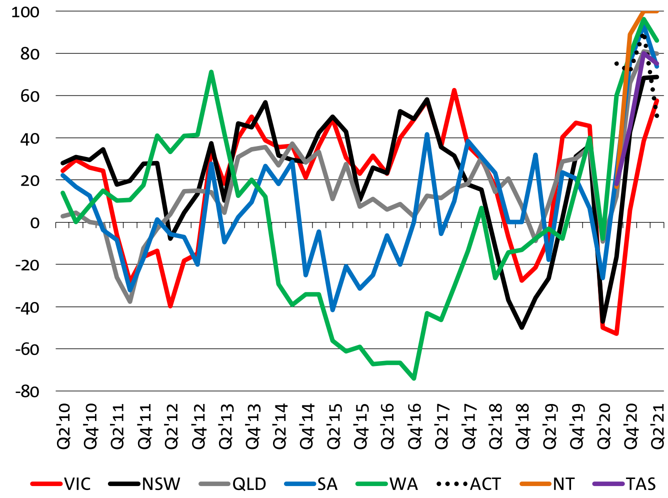
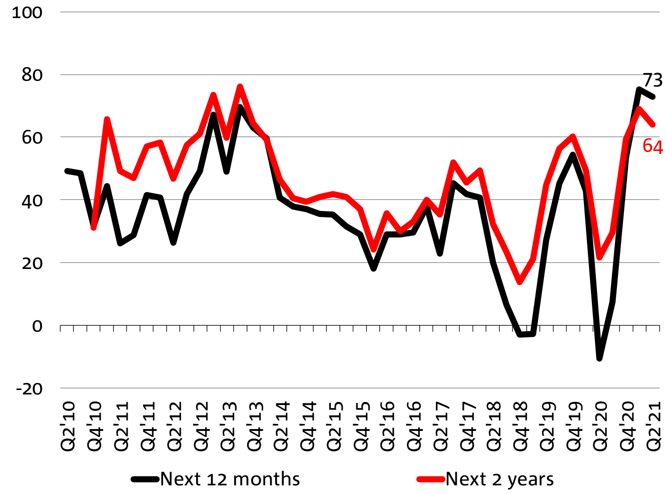
NAB RESIDENTIAL PROPERTY INDEX BY STATE



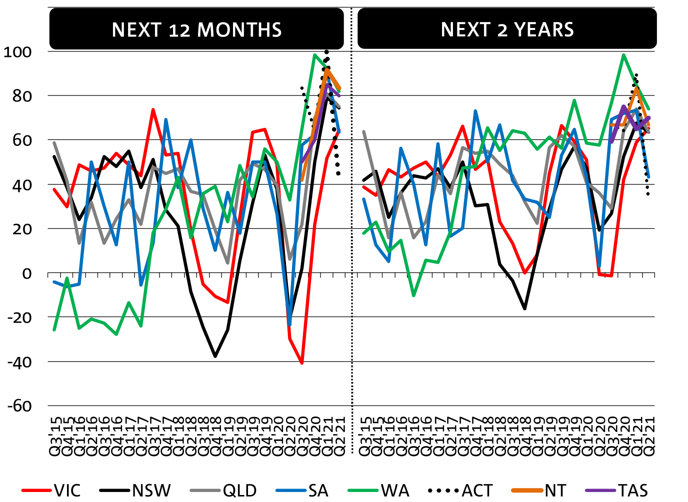
With the Australian economy in a much better position than expected even 6 months ago, a strong labour market and low interest rates, confidence levels among property professionals remained elevated at +73 pts for the 12 month measure and +64 pts for the 24 month measure - although both measures eased slightly from survey high levels reported in the previous survey (75 pts and +69 pts respectively).

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



Confidence edged lower in most states and territories but was comparatively strong across the country. VIC and TAS were the exceptions, with confidence in VIC up 12 pts to +64 in the next 12 months and up 6 pts to +65 in the next 24 months, while in TAS the two-year measure rose 5 pts to +70. Confidence levels in the next 12 months were however highest in the NT (+83 pts) just ahead of WA (+82 pts), and in WA in 2 years' time (+74 pts in 24 months). It was weakest in the ACT and down sharply to +42 in 12 months (+100 pts in Q1) and +33 pts in 2 years' time (+90 pts in Q1).

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



SURVEY HOUSE PRICE EXPECTATIONS

Despite recent data pointing to a continuation of strong house price growth across the country, the average survey expectation for future growth moderated. On average, survey respondents now see national house prices rising by a still solid 4.2% over the next 12 months (previously 5.1%) and 3.5% in 2 years' time (previously 4.9%).

Expectations for the next 12 months were pared back in all states and territories except the NT where prices are expected to rise 6.1% (3.9% forecast in Q1). WA was next (4.9% vs. 6.1% in Q1), followed by QLD (4.3% vs. 4.6% in Q1) and SA (4.1% vs. 5.2% in Q1). Price growth is expected to be slowest in TAS (3.8% vs. 6.4% in Q1), VIC (3.9% vs. 4.2% in Q1) and NSW (3.9% vs. 5.6% in Q1).

AVG SURVEY EXPECTATIONS: HOUSE PRICES (%)

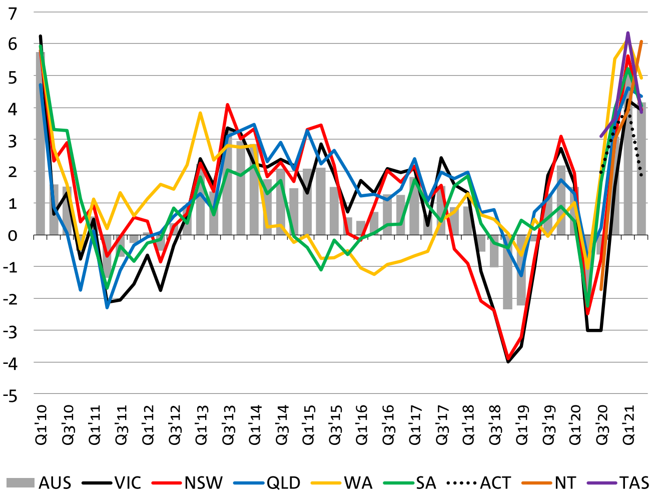
	Next 1 year	Next 2 years
VIC	3.9% (4.2%)	3.5% (4.3%)
NSW	3.9% (5.6%)	3.2% (5.3%)
QLD	4.3% (4.6%)	3.7% (4.4%)
SA	4.1% (5.2%)	2.0% (4.5%)
WA	4.9% (6.1%)	4.9% (6.7%)
ACT	1.9% (4.0%)	0.8% (3.9%)
NT	6.1% (3.9%)	4.9% (3.3%)
TAS	3.8% (6.4%)	3.4% (6.0%)
AUS	4.2% (5.1%)	3.5% (4.9%)

**figures in parentheses refer to forecasts in previous survey*

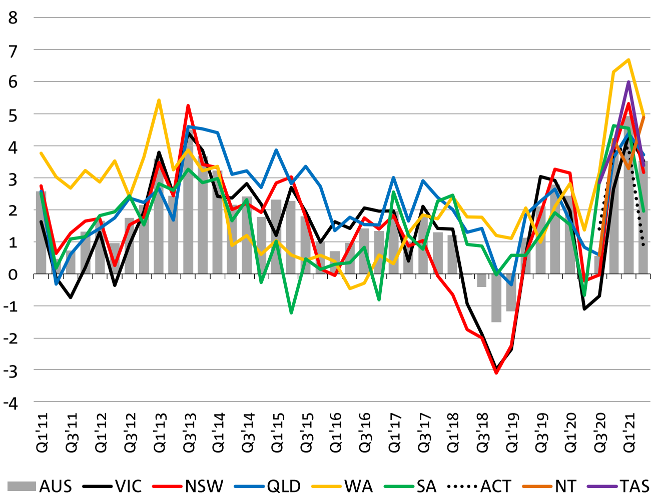
Property professionals in all states and territories (bar the NT) also expect price growth to be slower in the next 24 months. Property professionals in WA are still the most optimistic (4.9% vs. 6.7% in Q1) but have now been also been joined by the NT (4.9% vs. 3.3% in Q1).

Relatively strong outcomes are also forecast for QLD (3.7% vs. 4.4% in Q1), VIC (3.5% vs. 4.3% in Q1), TAS (3.4% vs. 6.0% in Q1) and NSW (3.2% vs. 5.3%), with the outlook weakest in the ACT (0.8% vs. 3.9%) and SA (2.0% vs. 4.5%).

HOUSE PRICE EXPECTATIONS: NEXT 1 YEAR (%)



HOUSE PRICE EXPECTATIONS: IN 2 YEARS (%)



SURVEY RENTAL EXPECTATIONS

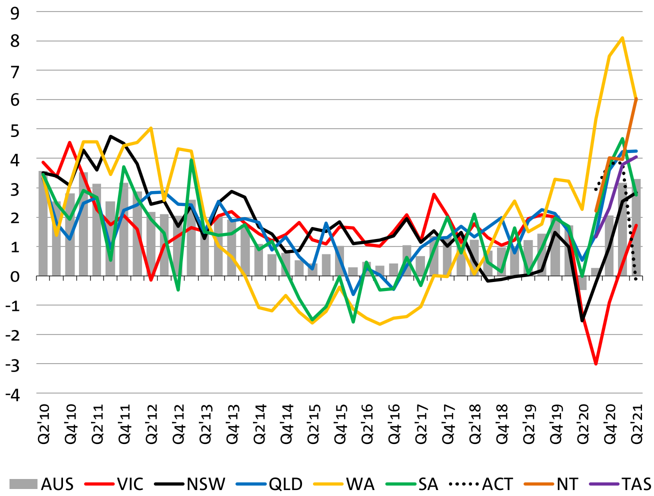
While the outlook for prices has softened, the outlook for nationwide rents is unchanged. Over the next 12 months, the survey average is for rents to increase 3.3% (3.2% forecast in Q1) and 3.5% in 2 years' time (3.6% forecast in Q1). With average house price growth still expected to outpace rents in the next 12 months, yields are likely to remain under downward pressure in the short-term.

AVG SURVEY EXPECTATIONS: RENTS (%)

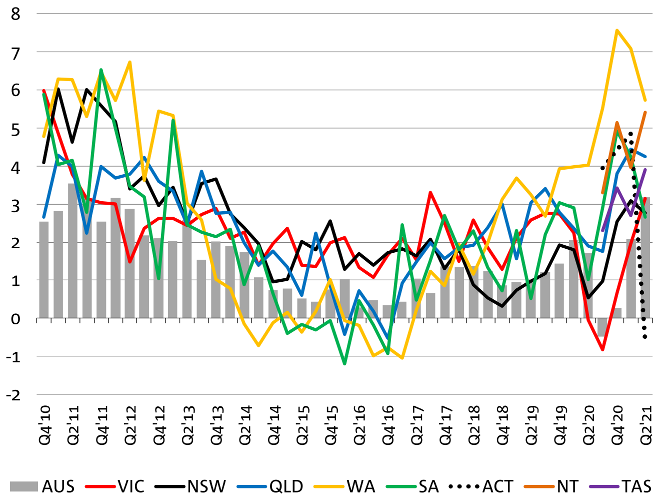
	Next 1 year	Next 2 years
VIC	1.7% (0.4%)	3.1% (2.0%)
NSW	2.8% (2.5%)	2.8% (3.1%)
QLD	4.3% (4.2%)	4.3% (4.4%)
SA	2.8% (4.7%)	2.7% (4.3%)
WA	6.0% (8.1%)	5.7% (7.1%)
ACT	-0.3% (3.9%)	-0.6% (4.9%)
NT	6.0% (4.0%)	5.4% (4.0%)
TAS	4.1% (3.8%)	3.9% (2.7%)
AUS	3.3% (3.2%)	3.5% (3.6%)

There are still big disparities around the outlook for rents in Australia. Rents are expected to grow fastest in WA and the NT where they are currently surging due to tight supply and rising demand. But whereas the outlook in WA has softened relative to the previous survey, property professionals in the NT are more bullish about rents in their home market.

RENTAL EXPECTATIONS: NEXT 1 YEAR (%)



RENTAL EXPECTATIONS: IN 2 YEARS (%)



At the other extreme, rents are expected to fall in the ACT (-0.3% in the next 12 months and -0.6% in 2 years' time). Property professionals in SA also scaled back their expectations to just 2.8% in 12 months and 2.7% in 2 years' time, from almost 5% in the last survey.

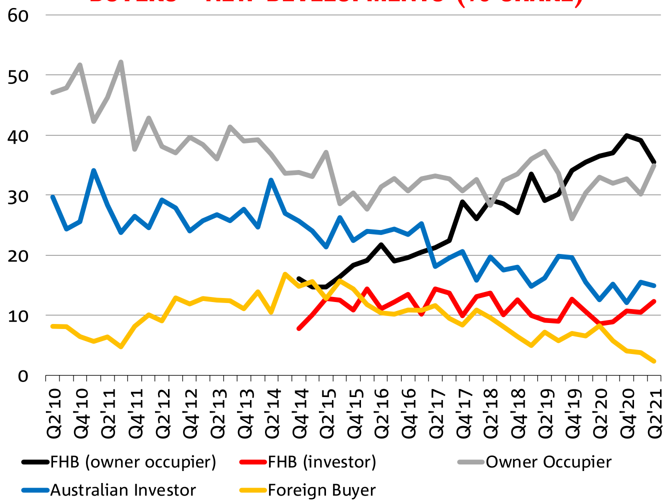
The outlook for QLD rents was basically unchanged at a solid 4.3% over the next 12 and 24 months, while in NSW they are expected to grow by a below average 2.8% over this period.

In VIC where the unit market has been particularly hard hit by reduced rental demand arising from international border closures, property professionals are more optimistic and now see rents growing by 1.7% in 12 months and 3.1% in 2 years - a significant improvement on Q1 survey expectations.

NEW DEVELOPMENTS

First Home Buyers (FHBs) remain the most active participants in new housing markets - although the total market share of sales to FHB owner occupiers slipped to 35.5% in Q2 (39.2% in Q1), while that of FHB investors rose to 12.3% (10.4% in Q1). Overall, total FHBs accounted for 47.8% of all new property market sales during the quarter, down from 49.6% in Q1'20, and at its lowest level since Q2'20 (but still well above survey average levels of 37.8%).

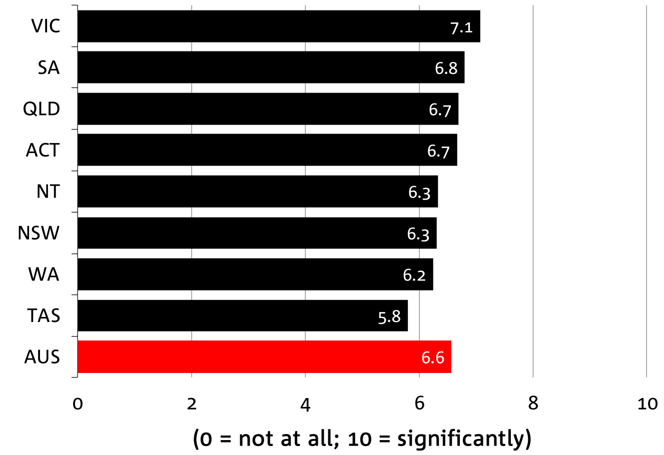
BUYERS - NEW DEVELOPMENTS (% SHARE)



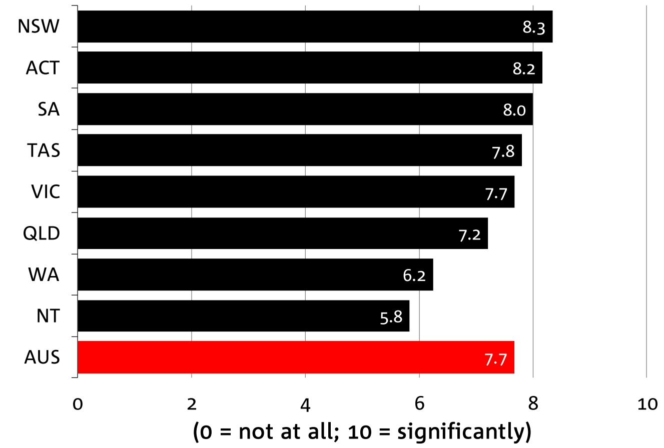
The NAB Residential Property Survey shows that FHBs have become significant players in new property markets in recent years, with their total share of sales having doubled since we first started tracking this data in late-2014.

But in the current environment of rising rents and house prices, housing affordability is once again starting to weigh heavily, particularly on FHBs. In this survey we asked property professionals to estimate the extent they believe government incentives were helping FHBs into the market earlier, the extent rising house prices are starting to impact FHB activity, and whether FHBs were more or less willing to build or buy new builds now compared to two years ago.

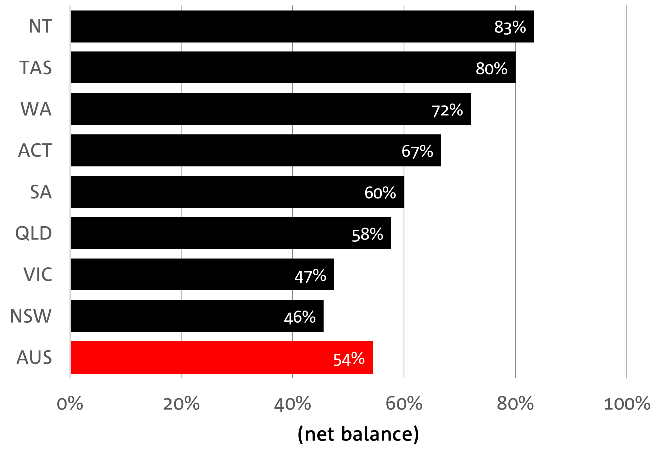
EXTENT GOVERNMENT INCENTIVES ARE HELPING FHBs INTO THE MARKET EARLIER



EXTENT RISING HOUSE PRICES ARE STARTING TO IMPACT FHB ACTIVITY



EXTENT FHBs ARE MORE OR LESS WILLING TO BUILD/BUY NEW BUILDS COMPARED TO 2 YRS AGO



The first chart on the left shows that government incentives - such as the Federal Government Home Loan Deposit Scheme and Commonwealth HomeBuilder Grant and various state-based government support measures - are playing only a 'moderately' significant role in helping FHBs get into the market earlier. On average, property professionals rated the extent they were helping 6.6 pts out of 10 (where 10 = 'significant'). Responses suggest they were helping most in VIC (7.1 pts) with their impact least helpful in TAS (5.8 pts).

The middle chart shows that rising house prices are having a more significant impact, with property professionals on average scoring 7.7 pts out of 10. Not surprisingly, its impact was biggest in NSW (8.3 pts) and the ACT (8.2 pts), where house prices are growing rapidly, and median house prices are also highest in the nation. The impact of house prices for FHBs was lowest in the NT (5.8 pts) where median house prices are also the lowest in the country.

Finally, property professionals were asked to rate the extent which FHBs were more or less willing to build or buy new builds now compared to two years ago. In net balance terms, the overall number who said they were more willing to do so significantly outweighed those who said they were less willing to do so (+54%). Again however, we noted large discrepancies across states and territories, ranging from +83% in the NT and +80% in TAS to just +46% in NSW and +47% in VIC.

Among other tends in new property markets in the June quarter, property professionals estimated the overall market share of sales to owner occupiers (net of FHBs) rose to a 2-year high 34.9% (30.1% in Q1). Buyers in this segment were most active NSW (38.5%) and QLD (37.5%) and least active in WA (30.0%) and SA (30.0%).

The market share of resident investors however receded a little 14.9% (15.5% in Q1) and remains well below the survey average (19.5%). Domestic investors were most active in WA (18.3%) and VIC (16.8%).

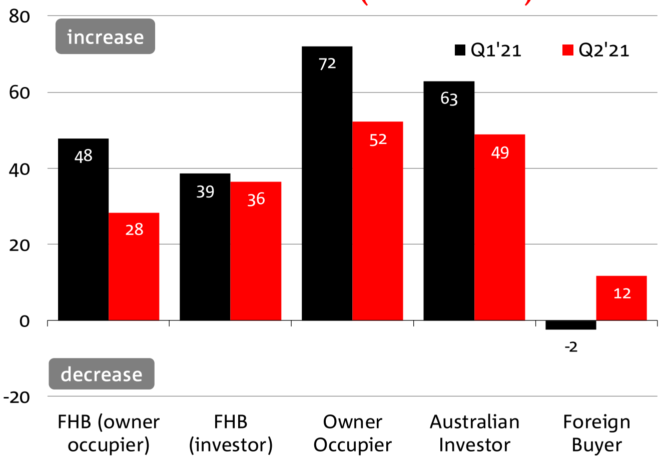
The market share of foreign buyers in new property markets also continued to fall, dipping to a survey low 2.3% (3.7% in Q1). Foreign buying activity was highest in VIC at 3.6%, but down heavily from 9.1% in Q1. Foreign buyers were also less prevalent in all other main states, with their market share lowest in NSW (1.3%).

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

In net terms, the number who said the share of total sales to FHB owner occupiers and investors would increase out-weighed those expecting their share to fall, although the net number who thought so fell from +48% to +28% and from +39% to +36% respectively. Fewer property professionals also expect the number of resident owner occupiers and investors in the market to increase, with their numbers falling from +72% to +52% and to +63% to +49% respectively.

In contrast, more property professionals in net terms now expect the share of foreign buyers to increase than decrease (+12%) - a reversal of expectations in the previous survey when more expected their number to fall than increase (-2%).

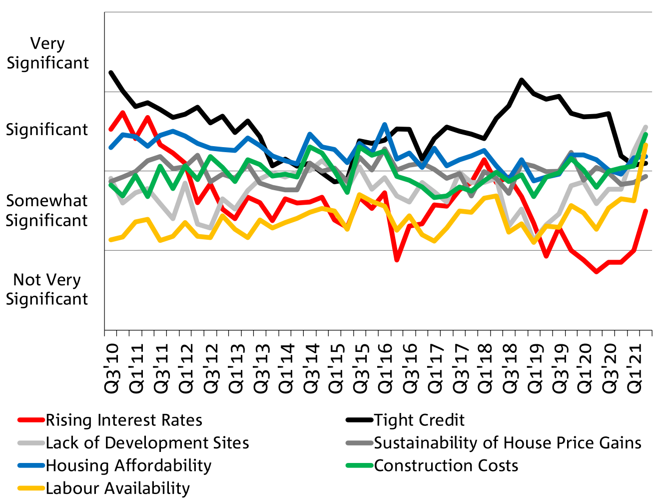
EXPECTED CHANGE IN SHARE OF NEW PROPERTY BUYERS (NET BALANCE)



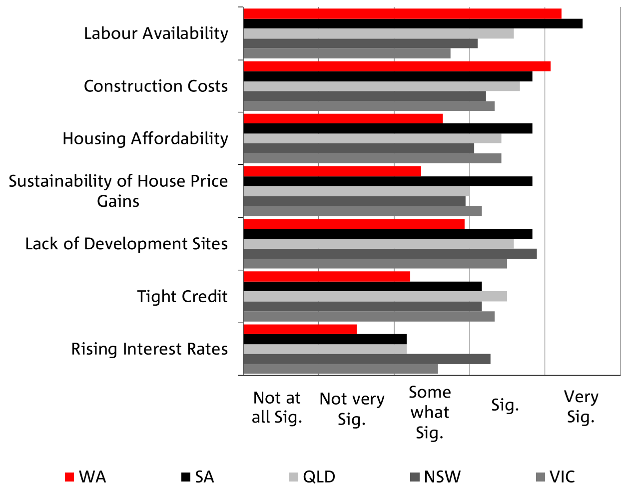
NEW HOUSING MARKET CONSTRAINTS

A lack of development sites was again the biggest impediment for new housing development in the country in Q2, led by VIC and NSW. The impact of construction costs climbed sharply, and it has now emerged as the next biggest constraint (and 'very significant' in WA). Issues arising from labour availability also jumped sharply, led by SA and WA.

CONSTRAINTS ON NEW HOUSING DEVELOPMENTS



CONSTRAINTS ON NEW HOUSING DEVELOPMENTS - STATES



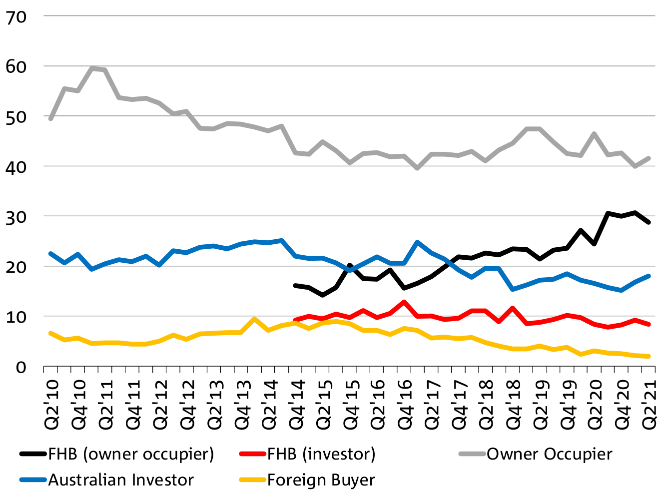
The overall impact from housing affordability was unchanged but played a bigger role in SA and VIC than in other states, particularly WA. The impact of tight credit was also largely unchanged at levels last seen in mid-2015, and was highest in QLD and VIC.

Despite an environment of record low interest rates (and still widely expected to stay low for some time), the impact of rising rates on new housing development increased to its highest level since late-2018, with concern highest in NSW.

ESTABLISHED PROPERTY

In established housing markets, buying activity continues to be dominated by resident owner-occupiers (net of FHBs). In Q2, the overall market share of these buyers increased slightly to 41.5% (40.0% in Q1) but remains below the survey average (42.9%). Owner occupiers accounted for the biggest share of sales in all states, with broadly similar numbers reported in all states.

BUYERS - ESTABLISHED PROPERTY (% SHARE)

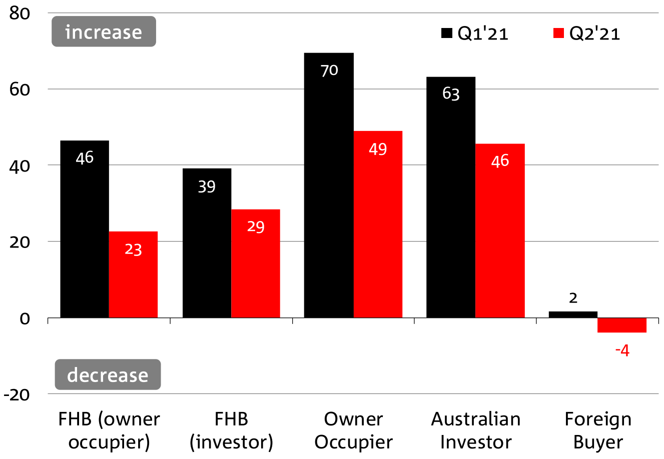


The overall share of FHBs in established housing markets however dipped to 37.2% (40.0% in Q1) but continued trending above the survey average (31.3%). Overall, FHBs were most active in SA (41.6%) and least active in NSW (34.8%). Both FHB owner occupiers (28.8% vs. 30.7% in Q1) and investors (8.4% vs. 9.3% in Q1) were less active in Q2, with owner occupiers most active in SA (32.5%) and investors in NSW and SA (9.1%).

The total share of local investors in the market increased for the second straight quarter to 18.0% (16.8% in Q1). Property professionals estimate these buyers were most active in NSW (18.8%), WA (17.8%) and VIC (17.6%), with their share of total market sales lowest in SA (14.1%).

The share of foreign buyers in overall established housing markets fell to a new survey low 2.0% (2.0% in Q1). A small increase in foreign buyer numbers in WA to 3.9% (3.3% in Q1), VIC to 2.1% (1.8% in Q1) and QLD to 1.6% (1.1% in Q1), was offset by a fall in NSW to 2.0% (3.1% in Q1).

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



In net terms, more property professionals still expect the share of local buyers in all established property markets to increase than fall than in the previous survey, but they are less bullish than in the last survey.

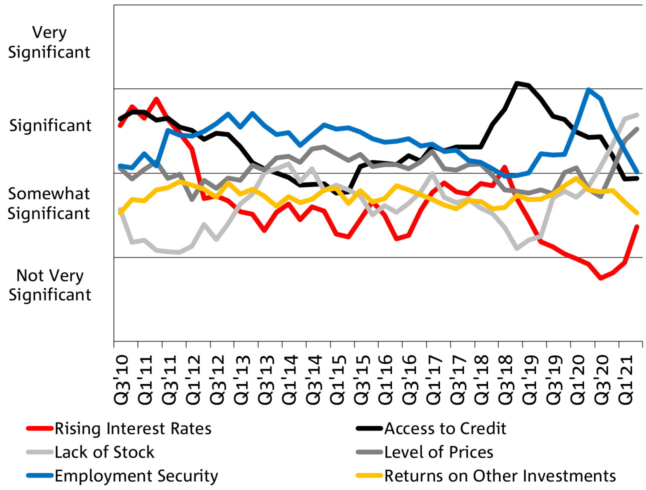
Overall, the net number expecting the share of non-FHB owner occupiers to increase fell to +49% (+70%) in Q1), and that of resident investors to +46% (+63% in Q1). The net number expecting FHB owner occupiers to increase their market share also fell to +23% (+46% in Q1) and FHB investors to +29% (+39% in Q1).

The number of property professionals who expect the proportion of foreign buyers in this market to fall over the next 12 months also outweighed those who expected it to increase (-4% vs. +2% in Q1).

ESTABLISHED HOUSING MARKET CONSTRAINTS

Amid continuing low advertised supply levels, property professionals continue to identify a lack of stock as the biggest impediment for buyers of existing property - and in all states except NSW where it is on par with house price levels.

CONSTRAINTS ON ESTABLISHED PROPERTY



CONSTRAINTS ON ESTABLISHED PROPERTY - STATES

With house prices also continuing to grow rapidly, there was a significant increase in the level of concern expressed over the impact on buyers coming from house price levels. The level of concern over house prices was highest in NSW and VIC and lowest in WA.

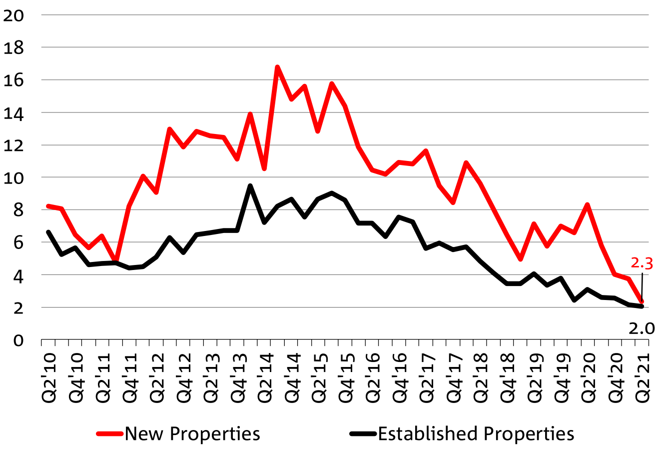
Employment security was identified as the next biggest impediment for buyers nationally, but property professionals further downgraded their level of concern as the labour market continues to recover strongly. By state, however employment security continued to be identified as a far bigger constraint by property professionals for buyers in VIC.

The better than expected economic recovery to date means the RBA cannot credibly commit to unchanged interest rates for the next three years on a rolling basis. Rather it will prefer a shift to conditional forward guidance. Indeed, the RBA has emphasised the path of the cash rate will be based on actual economic outcomes and will not be lifted until full employment has been achieved and inflation is sustainably at target. Both the RBA and NAB do not see these conditions occurring until 2024, although the risks are now more balanced than previously. Against this background, the level of concern over rising interest rates among property professionals rose quite steeply in Q2, although it still viewed as only "somewhat significant", with the level of concern highest in VIC and NSW.

FOREIGN BUYERS

Foreign buyers in Australian housing markets remain bit players after having played a very significant role during the middle years of the 2010s. In Q2, their overall market share of total sales fell to new survey lows in both new (2.3%) and established housing markets (2.0%).

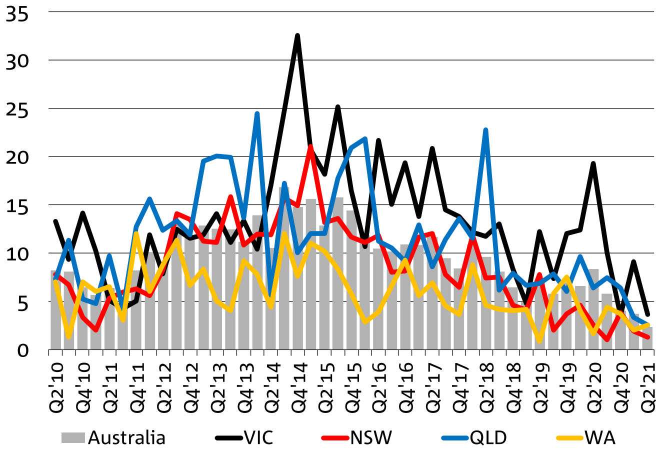
SHARE OF TOTAL DEMAND FOR NEW & ESTABLISHED PROPERTY - FOREIGN BUYERS (%)



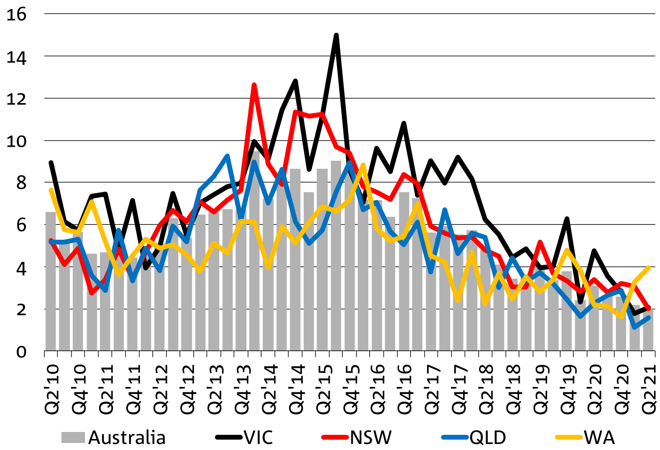
In new housing markets, the total share of foreign buyers in the market fell sharply in VIC to 3.6% (9.1% in Q1) and was also down in QLD (2.5% vs. 3.3% in Q1) and NSW (1.3% vs. 1.9% in Q1). WA bucked the trend, with foreign buyers accounting for 2.5% of all sales in this market, up slightly from 2.0% in Q1.

In established housing markets, the share of foreign buyers increased in WA to 3.9% (3.3% in Q1) and was also slightly higher in VIC at 2.1% (1.8% in Q1) and QLD at 1.6% (1.1% in Q1). This was offset by a reduction in foreign buyers in NSW to 2.0% (3.1% in Q1).

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



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



NAB'S VIEW ON DWELLING PRICES

NAB has revised up its forecast for house prices in 2021 based on the faster than expected growth in prices over recent months. From here we see the monthly pace of growth slowing - but continuing at a solid rate. Alongside the near term upgrade, we have pulled back the growth in prices in 2022 as affordability constraints begin to bind.

Overall, we see dwelling prices up around 18.5% in 2021 and 3.6% in 2022. We still expect prices for house prices to lift at a faster rate than for units, which have been more impacted in major cities by slowing population growth.

While we expect a gradual slowing in gains from here, dwelling prices continued to grow at a robust pace in June, with the CoreLogic 8-capital city dwelling price index rising 1.9% m/m. While slightly below the May pace, monthly growth remained in the range it has been in since February. This is also true of Melbourne, despite the lockdown over much of the first half of the month (with a partial easing of restrictions in the second half) suggesting that short-lived lockdowns are unlikely to significantly slow the market.

Since September 2020, capital city prices have risen by 14%, leaving them 12% higher than their pre-COVID-19 (February 2020) level. Over this period, price growth outside the capital cities has been even more rapid, but in recent months regional prices have been growing at around the same pace.

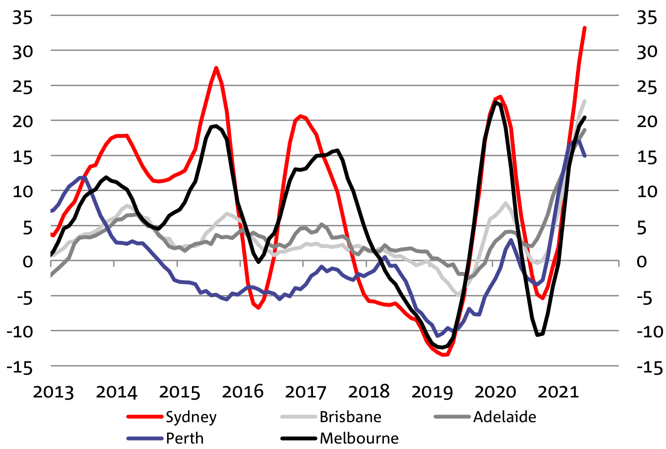
More broadly, the economy has continued to recover strongly in recent months with GDP having recovered its pre-COVID level in Q1 and looks to have risen in Q2. The labour market has also recovered strongly, with the unemployment falling to 4.9% in June, with under-utilisation at a relatively low level - notwithstanding the pickup in June.

The current lockdowns will have a sizeable fall in GDP in Q3, but we remain optimistic that as restrictions are eased activity will rebound as has been the case in previous lockdowns. It is possible unemployment will rise in the near term as a result of the current lockdowns, but we expect it to gradually recover over the next couple of years - reaching the low-to-mid 4s by the end of 2023.

Consequently, we expect interest rates to remain on hold until early2024 and a further $100bn of QE. With unemployment still above a level consistent with full employment wage growth is expected to pick up only gradually and longer for generalised price pressures to emerge.

We accept that there will likely be transitory bouts of both wage growth and inflation in the near-term as a result of border closures, supply chain disruptions and temporary boosts to demand for some products - however we expect these to be transitory. Should these factors spill over into other industries creating more generalised wage pressure or inflation expectations rise more rapidly it is possible that rates could move slightly earlier. Alternatively, the risk of a rate move could arise from the RBA becoming more forward looking (i.e. by stepping away from current guidance that it will not act on rates until inflation is sustainably back within the target band).

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



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NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020	2021f	2022f
Sydney	5.3	2.7	21.6	3.1
Melbourne	5.3	-1.3	17.6	3.5
Brisbane	0.3	3.6	19.5	4.4
Adelaide	-0.2	5.9	17.4	3.9
Perth	-6.8	1.9	11.6	3.9
Hobart	3.9	6.1	23.5	4.3
Cap City Avg	3.0	2.0	18.5	3.6

*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 370 panellists participated in the Q2 2021 survey.

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