

NAB RESIDENTIAL PROPERTY SURVEY Q3-2021



HOUSING MARKET SENTIMENT EASES FROM RECORD HIGHS AND CONFIDENCE TICKS DOWN FURTHER AS HOUSE PRICES START TO SLOW. CONSTRUCTION COSTS NOW SEEN AS THE BIGGEST CONSTRAINT ON NEW HOUSING DEVELOPMENTS IN THE COUNTRY, AND LACK OF STOCK FOR BUYERS OF ESTABLISHED PROPERTY. **NAB HAS REVISED ITS DWELLING PRICE FORECAST - 23% IN 2021 & 5% IN 2022 – AS IMPACT OF LOW RATES AND STRONG INCOME SUPPORT BEGIN TO FADE.**

NAB Behavioural & Industry Economics

Survey highlights...

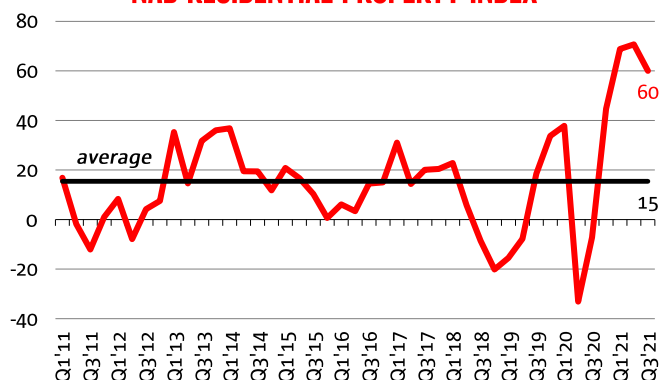
The NAB Residential Property Index dipped to +60 pts in Q3 from a survey high +71 pts in Q2. With market data showing house prices slowing, sales easing, and building approvals falling, the survey is also pointing to a market that has passed its peak. Sentiment softened in most parts of the country (and still lowest in VIC), and confidence fell again (but still above average). With the survey expectation for house prices in the next 12 months to outpace rents, gross yields should fall before leveling out in 2 years' time as prices and rents rise at a similar pace - though based on survey forecasts some states (WA, the NT and ACT) may see yields rise. With strong building demand and shortages of materials reportedly causing building costs to rise strongly, construction costs surpassed a lack of development sites as the biggest impediment for new housing development. In established markets, property professionals identified a lack of stock as the biggest constraint facing buyers (and in all states). The survey also found that though foreign buyers are still bit players in local housing markets, a significant net number of property professionals now expect their market share to rise in the next 12 months, especially in new residential markets.

The view from NAB...

We have slightly revised up our forecast for dwelling prices in 2021 based on stronger than expected outcomes in recent months as well as small upgrade to our expectations for Q4 and early-2022. Overall, that sees a very strong print for house prices in 2021 but a sharp slowing in 2022 as the impact of lower interest rates fades and affordability constraints begin to bind. Our outlook is generally similar across states, but the relative performance in the year to date sees Sydney and Hobart print very strong outcomes, with Melbourne and Perth seeing softer (but still strong) outcomes. Overall, the property market held up remarkably well despite the disruptions to the economy with strong support provided by policy makers and little labour market fallout through the pandemic.

VIEW FROM PROPERTY EXPERTS

NAB RESIDENTIAL PROPERTY INDEX



RESIDENTIAL PROPERTY INDEX BY STATE

	Q2'21	Q3'21	Nxt 1yr	Nxt 2yrs
VIC	58	44	48	50
NSW	69	57	64	64
QLD	80	75	64	57
SA	63	71	76	60
WA	86	72	80	74
ACT	50	88	100	100
NT	100	67	83	83
TAS	75	50	44	39
AUST	71	60	62	59

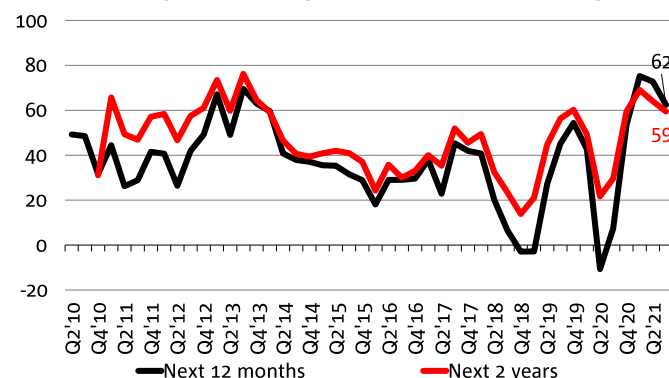
VIEW FROM NAB ECONOMICS

NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020	2021f	2022f
Sydney	5.3	2.7	27.5	5.4
Melbourne	5.3	-1.3	18.8	4.9
Brisbane	0.3	3.6	23.2	4.9
Adelaide	-0.2	5.9	20.4	3.9
Perth	-2.8	7.3	14.5	3.9
Hobart	3.9	6.1	28.4	4.3
Cap City Avg	3.0	2.0	22.7	4.9

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

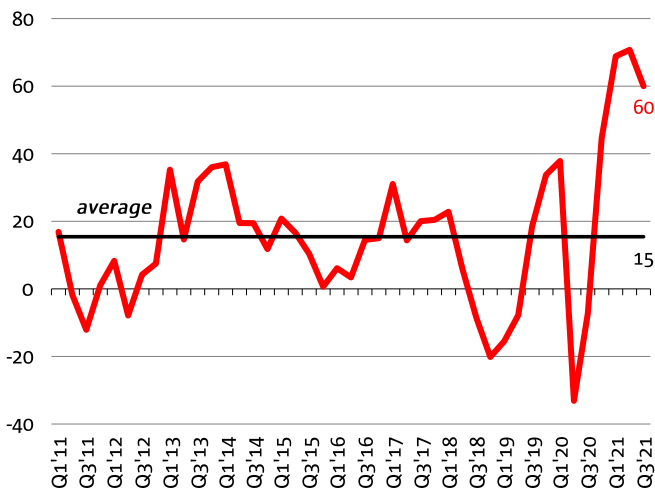
NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



NAB PROPERTY INDEX PASSES PEAK...

National housing market sentiment (measured by the NAB Residential Property Index) fell in Q3, though remains well above the survey average. Overall, the Index (based on property professionals' view of housing prices and rents) dipped to a still elevated +60 pts, from a survey high +71 pts in Q2. Although housing markets are still strong, market data shows house price growth and sales are easing (with lockdowns a short-term negative as well), and building approvals are falling. In line with this, the survey is also pointing to a market that has passed its peak rate of growth after the COVID-led dip in 2020.

NAB RESIDENTIAL PROPERTY INDEX

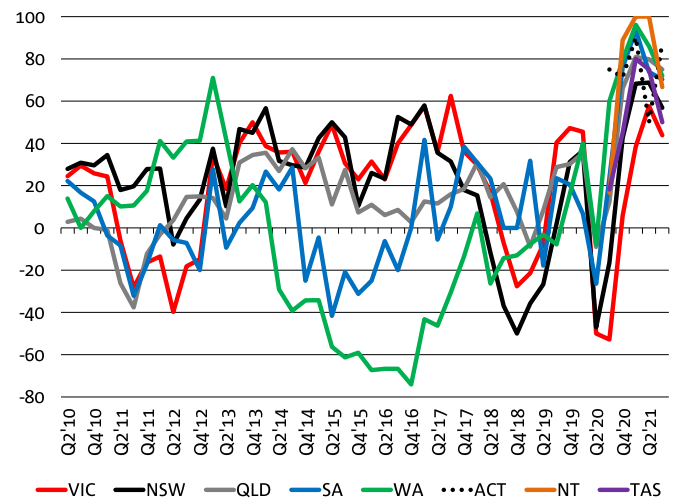


Sentiment softened in most parts of the country in Q3, except SA where the state index climbed to +71 pts and the ACT where it rose to +88 pts to be highest in the country (but from a smaller sample size). Despite easing somewhat, sentiment is still very strong in QLD (+75 pts), WA (+72 pts) and the NT (+67 pts). It remains lowest in VIC (+44 pts), followed by TAS (+50 pts), with NSW (+57 pts) also falling below the national average.

RESIDENTIAL PROPERTY INDEX BY STATE

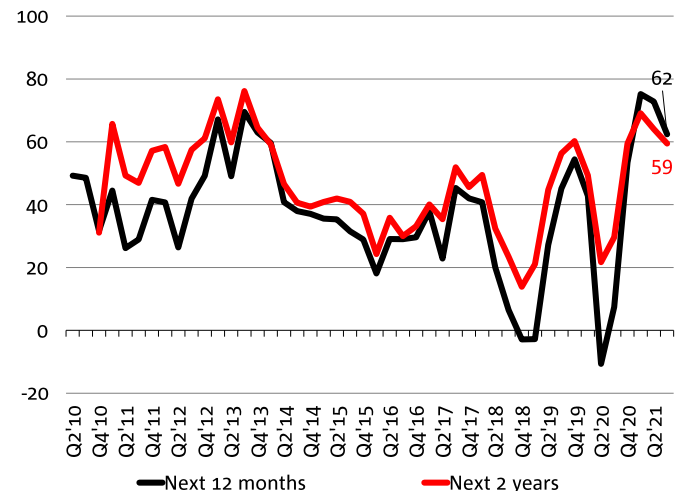
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NAB RESIDENTIAL PROPERTY INDEX BY STATE



With the housing market losing steam, market confidence among property professionals also fell further. In Q3, the 12 month confidence measure fell for the second consecutive quarter to +62 pts (+73 pts in Q2) and the 24-month measure to +59 pts (+64 pts in Q2) - though both measures continue to trend well above average.

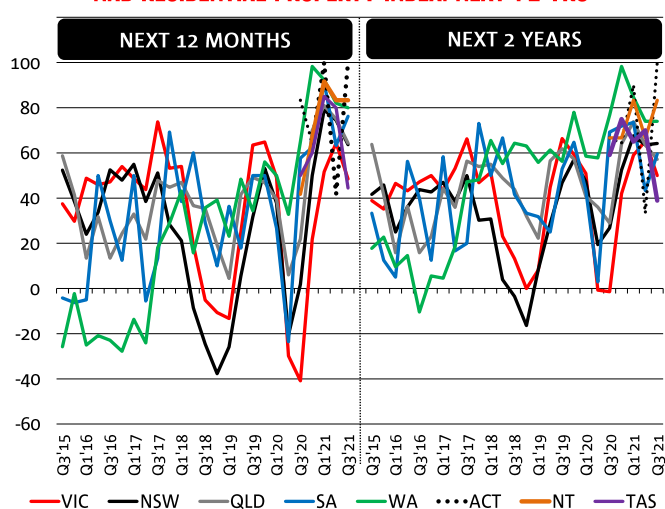
NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



Housing market confidence levels in the next 12 months were highest in the ACT (+100 pts) and NT (+83 pts), but from smaller sample sizes. Property professionals in WA also continued to report high (and basically unchanged) levels of confidence at +80 pts, with a noticeable uplift in confidence also reported in SA (+76 pts). Confidence levels fell sharply in TAS (+44 pts) and replaced VIC (+48 pts) as the least confident state.

The 2-year confidence measure was also highest in the ACT (+100 pts) and the NT (+83 pts), followed by WA (+74 pts) and NSW (+64 pts). It was lowest in TAS (+39 pts) and VIC (+50 pts) with confidence levels in QLD (+57 pts) also below the national average.

NAB RESIDENTIAL PROPERTY INDEX: NEXT 1-2 YRS



SURVEY HOUSE PRICE EXPECTATIONS

Despite recent data pointing to a continuation of strong (albeit moderating) house price growth across the country in Q3, the average survey expectation for house price growth over the next year is basically unchanged.

On average, survey respondents expect national house prices to rise by a still solid 4.3% over the next 12 months (previously 4.2%), but at a slightly faster 3.8% in 2 years' time (previously 3.5%).

AVG SURVEY EXPECTATIONS: HOUSE PRICES (%)

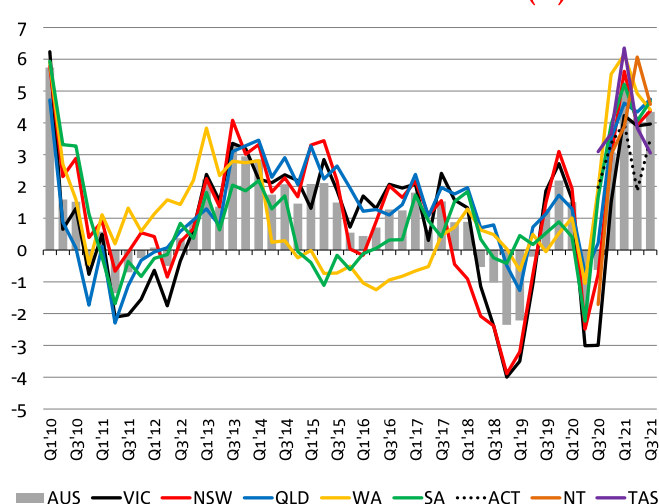
	Next 1 year	Next 2 years
VIC	4.0% (3.9%)	3.1% (3.5%)
NSW	4.4% (3.9%)	4.0% (3.2%)
QLD	4.7% (4.3%)	4.2% (3.7%)
SA	4.7% (4.1%)	4.2% (2.0%)
WA	4.4% (4.9%)	4.3% (4.9%)
ACT	3.5% (1.9%)	4.2% (0.8%)
NT	4.6% (6.1%)	5.0% (4.9%)
TAS	3.1% (3.8%)	3.0% (3.4%)
AUS	4.3% (4.2%)	3.8% (3.5%)

*figures in parentheses refer to forecasts in previous survey

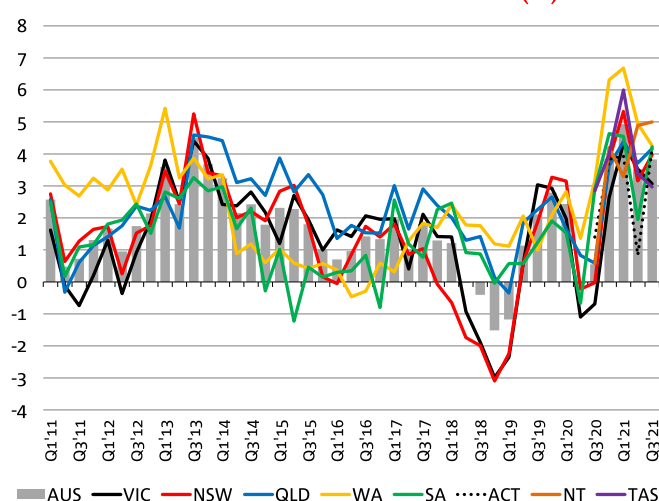
Expectations for the next 12 months increased and were highest in QLD at 4.7% (4.3% in Q2) and SA (4.7% vs. 4.1% in Q2). Expectations also lifted in NSW (4.4% vs. 3.9% in Q2) and the ACT (3.5% vs. 1.9% in Q2). In the NT, the outlook was pared back to 4.6% (6.1% in Q2), with TAS also cut back (3.1% vs. 3.8% in Q2) and lowest of all states. The outlook for VIC was basically unchanged at 4.0% (3.9% in Q2).

Property professionals in the NT are the most optimistic for price growth in the next 2 years at 5.0% (4.9% forecast in Q2), followed by WA at 4.3% (though revised down from 4.9% in Q2). The average house price expectation lifted sharply to 4.2% in both the ACT (0.8% in Q2) and SA (2.0% in Q2), with a modest lift to 4.2% also expected in QLD (3.7% in Q2). A relatively strong increase of 4.0% was forecast for NSW (3.2% in Q2), but expectations were revised down to 3.0% in TAS (3.4% in Q2) and 3.1% in VIC (3.5% in Q2), with both states expected to underperform the national average.

HOUSE PRICE EXPECTATIONS: NEXT 1 YEAR (%)



HOUSE PRICE EXPECTATIONS: IN 2 YEARS (%)



SURVEY RENTAL EXPECTATIONS

Over the next 12 months, the survey average is for housing rents to increase by 3.1% (3.3% forecast in Q2) and 3.8% in 2 years' time (3.5% forecast in Q2). With average growth in house prices in the next 12 months expected to continue to outpace rents, gross yields will remain under downward pressure in the short-term, before leveling out in 2 years' time as prices and rents increase at a similar pace.

AVG SURVEY EXPECTATIONS: RENTS (%)

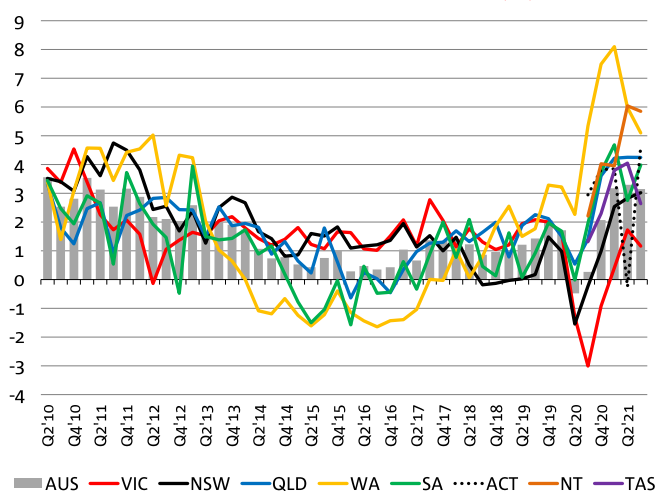
	Next 1 year	Next 2 years
VIC	1.2% (1.7%)	2.6% (3.1%)
NSW	3.0% (2.8%)	4.3% (2.8%)
QLD	4.2% (4.3%)	4.0% (4.3%)
SA	4.0% (2.8%)	3.2% (2.7%)
WA	5.1% (6.0%)	4.9% (5.7%)
ACT	4.6% (-0.3%)	4.6% (-0.6%)
NT	5.9% (6.0%)	5.0% (5.4%)
TAS	2.6% (4.1%)	2.4% (3.9%)
AUS	3.1% (3.3%)	3.8% (3.5%)

Noticeable disparities around the outlook for rents are still evident across states. In the next 12 months, rents are expected to grow fastest in the NT (5.9%) and WA (5.1%) due to tight supply and rising demand. But whereas the outlook in the NT was unchanged, property professionals in WA were less bullish about rents (6.0% forecast in Q2). Rental expectations were also revised up heavily in the ACT (4.6% vs. -0.3% forecast in Q2) and SA (4.0% vs. 2.8% previously), while expectations in QLD (4.2% vs. 4.3% in Q2) and NSW (3.0% vs. 2.8% in Q20) were broadly unchanged.

In contrast, property professionals in TAS (2.6% vs. 4.1% in Q2) and VIC (1.2% vs. 1.7%) now see rents growing more slowly.

Survey expectations for house prices and rents also suggest that gross rental yields will fall in VIC, NSW, SA, QLD and TAS over the next 12 months, but increase in the NT, ACT and WA.

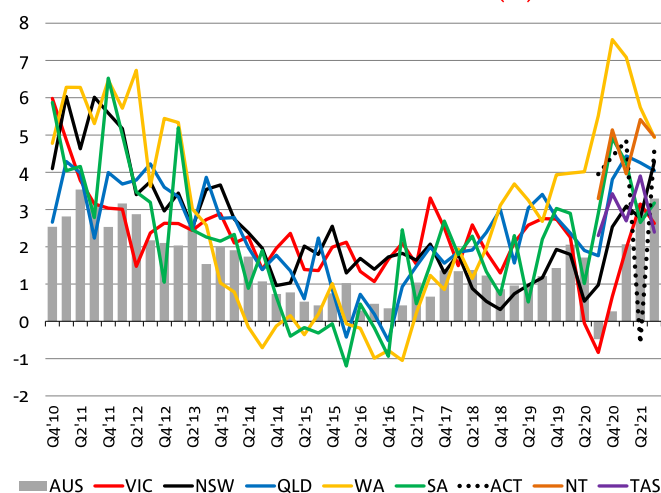
RENTAL EXPECTATIONS: NEXT 1 YEAR (%)



Rental growth is expected to remain highest in the NT (5.0%) and WA (4.9%) in 2 years' time, with the ACT (4.6%), NSW (4.3%) and QLD (4.0%) also out-

performing the national average. Rental growth is expected to be slowest (and was revised down) in TAS at 2.4% (3.9% forecast in Q2) and VIC at 2.6% (3.1% forecast in Q2). Property professionals in SA however scaled up their expectations to 3.2% (2.7% forecast in Q2), but remains below the national average.

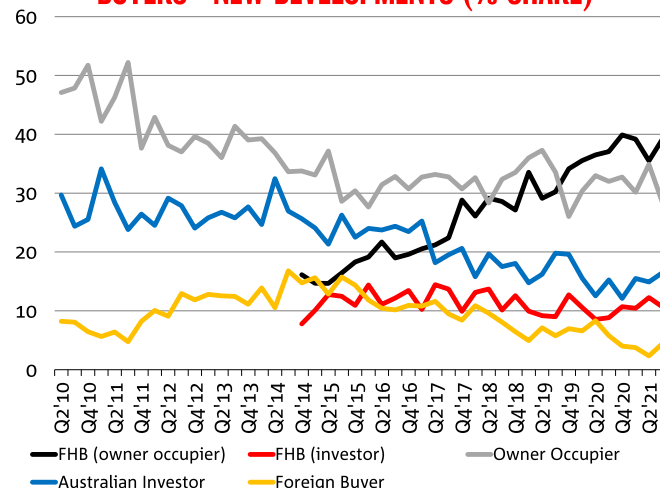
RENTAL EXPECTATIONS: IN 2 YEARS (%)



NEW DEVELOPMENTS

First Home Buyers (FHBs) continued to be the most active participants in new housing markets in the September quarter, accounting for 1 in 2 (49.8%) of all sales (47.8% in Q2). FHB owner occupiers accounted for 39.1% of total sales (35.5% in Q2), and FHB investors 10.7% (12.3% in Q2). Overall, the market share of FHBs was highest in WA (61.3%) and lowest in NSW (39.4%). FHB owner occupiers accounted for the highest share of sales in WA (52.5%) and lowest in NSW (32.2%). FHB investors were most prevalent in SA (17.5%) and QLD (15.8%), and least active in NSW (7.2%) and WA (8.8%).

BUYERS - NEW DEVELOPMENTS (% SHARE)



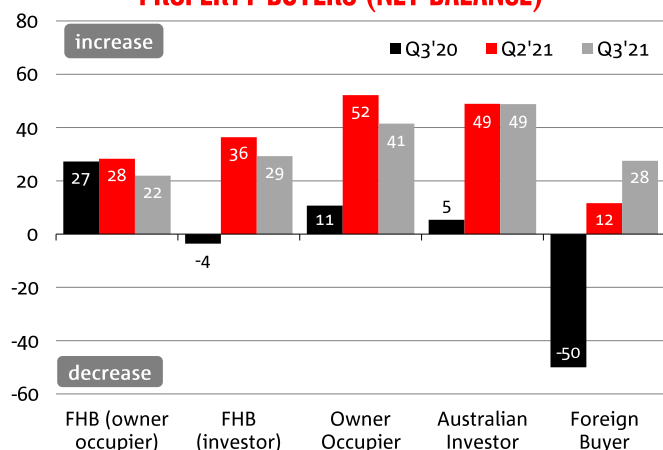
On average, property professionals estimated that sales to owner occupiers (net of FHBs) fell to a near 2-year low 28.5% in Q3 (34.9% in Q2) to be well below the survey average (35.7%). Buyers in this segment were most active in NSW (36.7%) and least active in SA (15.0%).

Amid low investor mortgage rates, the market share of resident investors rebounded to 16.5% (14.9% in Q2), but is still below the survey average (22.4%). Domestic investors were most active in NSW (18.9%), followed by SA (17.5%), VIC (17.2%) and QLD (16.7%), and least active in WA (12.5%).

The market share of foreign buyers in new property markets also ticked up slightly to a 12-month high 4.4% (2.3% in Q2). Foreign buying activity rose in most states and was highest in VIC (5.6%), followed by QLD (5.0%) and NSW (3.9%). WA (1.5%) was the only state to report lower activity in Q3.

Property professionals were asked whether the share of new property buyers in the market would rise or fall in the next 12 months in each buyer segment. In net terms, the number who said it would increase out-weighted those who said it would fall in all buyer groups led by resident investors (+49%) and owner occupiers net of FHBs (+41%). Noticeably more property professionals (+28%) also said they expect the share of foreign buyers to increase than decrease in the next 12 months - a big reversal from expectations at the same time last year when significantly more expected their number to decrease than increase (-50%).

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



NEW HOUSING MARKET CONSTRAINTS

With strong building demand and shortages of building materials reportedly causing building costs to increase rapidly, construction costs overtook lack of development sites as the biggest impediment for new housing development in the country during Q3.

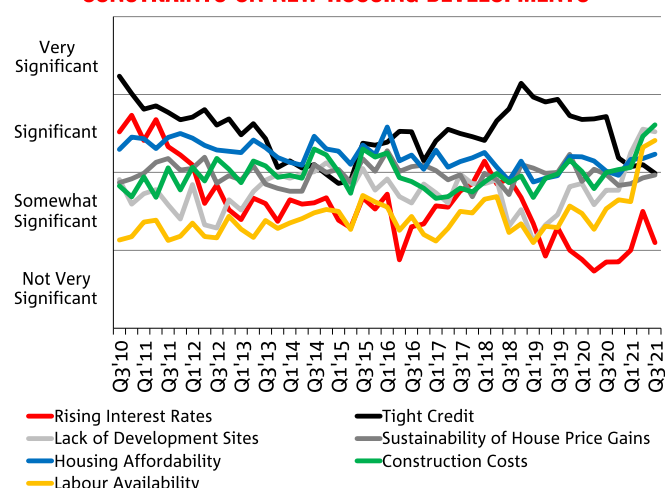
Building costs were also identified as a “significant” impediment in all states except VIC.

A lack of development sites was the next biggest impediment to new developments nationally, but and was highlighted as the biggest impediment by property professionals in NSW and VIC (along with housing affordability). Labour availability was also considered to be a “significant” constraint nationally but “very significant” in SA and WA.

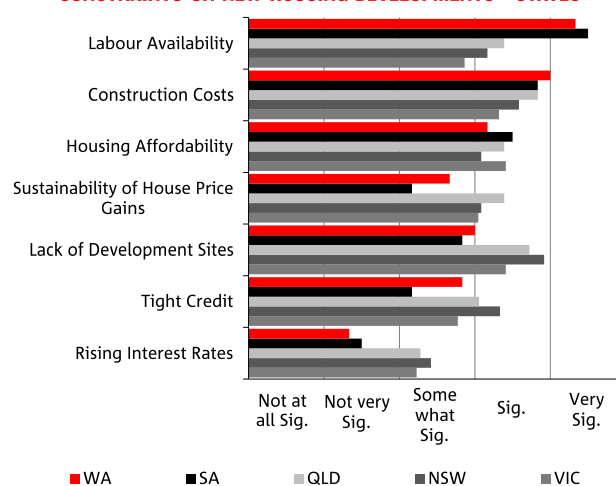
The negative impact of housing affordability on new housing development climbed for the third straight quarter, with property professionals in SA, VIC and QLD highlighting this issue as a bigger impediment than in other states.

With official cash rates widely tipped to remain on hold for some time, the impact from rising interest rates continued to moderate. The impact on new housing development arising from tight credit also fell to its lowest level since mid-2015, though it was still seen as a “significant” impediment to new housing development by property professionals in NSW and QLD.

CONSTRAINTS ON NEW HOUSING DEVELOPMENTS



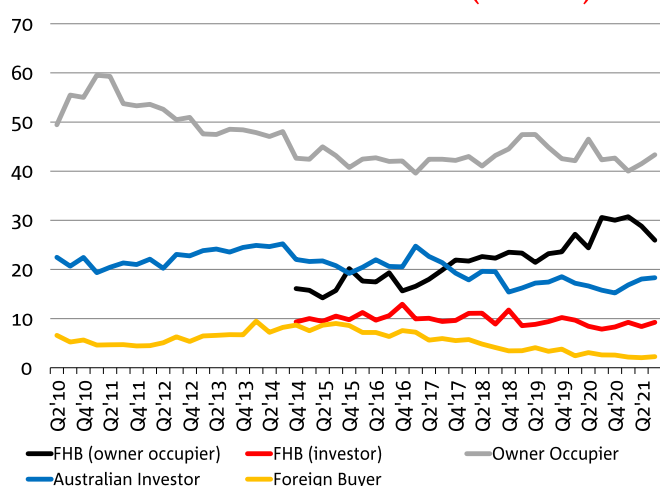
CONSTRAINTS ON NEW HOUSING DEVELOPMENTS - STATES



ESTABLISHED PROPERTY

In established housing markets, buying activity continues to be dominated by resident owner-occupiers (net of FHBs). In Q3, the overall market share of these buyers increased for the second straight quarter to 43.3% (from 41.5% in the previous quarter) but remains below the survey average (46.4%). Owner occupiers accounted for the biggest share of sales in all states, with broadly similar numbers across the country - ranging from 47.8% in SA to 42.7% in NSW.

BUYERS - ESTABLISHED PROPERTY (% SHARE)



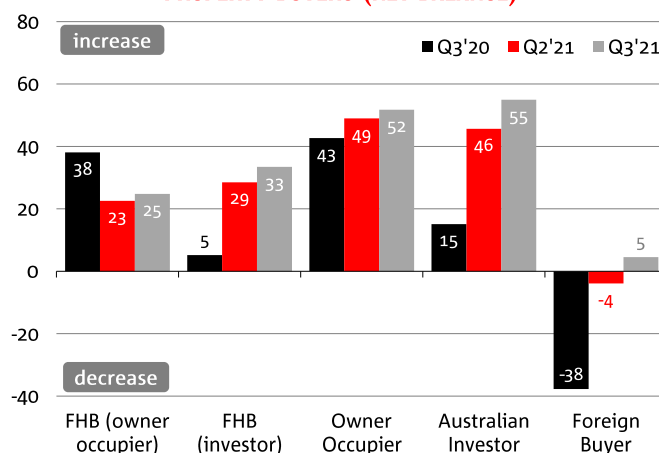
The overall share of FHBs in established housing markets however dipped for the second straight quarter to 35.2% (37.2% in Q2) but continues to trend above the survey average (31.5%). Overall, FHBs were most active in WA (36.9%) and VIC (36.7%), and least active in SA (29.9%).

When broken down by buyer type however, the overall share of FHB owner occupiers fell to 25.9% (28.8% in Q2), while FHB investors increased to 9.2% (8.4% in Q2). FHBs owner occupiers were most prevalent in WA (29.3%) and VIC (27.8%), and FHB investors in QLD (10.2%) and NSW (10.1%).

The total share of local investors in established housing markets increased for the third consecutive quarter to 18.3% (18.0% in Q2), but their market share was still below the survey average (20.6%). Resident investors accounted for around 1 in 5 of total sales in this market in SA (19.9%), QLD (19.3%) and NSW (19.3%), but only 15.0% in WA and 15.9% in VIC.

The share of foreign buyers in overall established housing markets was broadly unchanged at 2.2% (up slightly from a survey low 2.0% in Q2), and less than half the survey average level (5.5%). A small increase in foreign buyer numbers was reported in all states bar WA, and was led by VIC (2.8%), followed by WA (2.6%), QLD (2.2%) and NSW (2.3%).

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

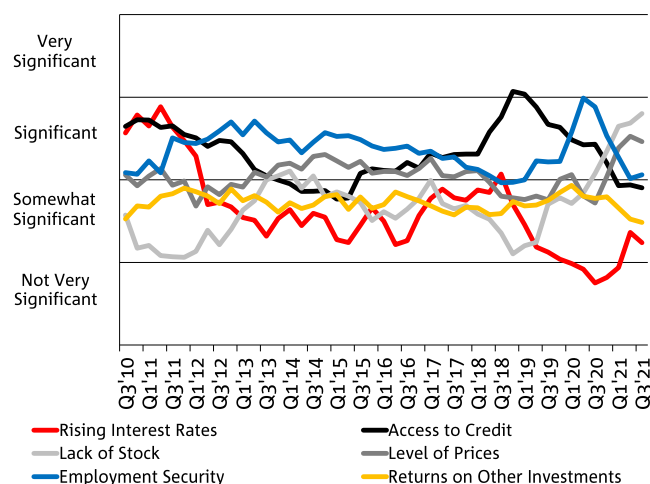


In net terms, more property professionals expect market share among buyer types to increase than decrease in the next 12 months. Expectations were strongest for domestic investors (+55%) and resident owner occupiers (+52%), followed by FHB investors (33%) and FHB owner occupiers (+25%). Overall, the number of property professionals who expect the proportion of foreign buyers to increase (+5%) was mildly positive, representing a significant turnaround from the same time last year (-38%).

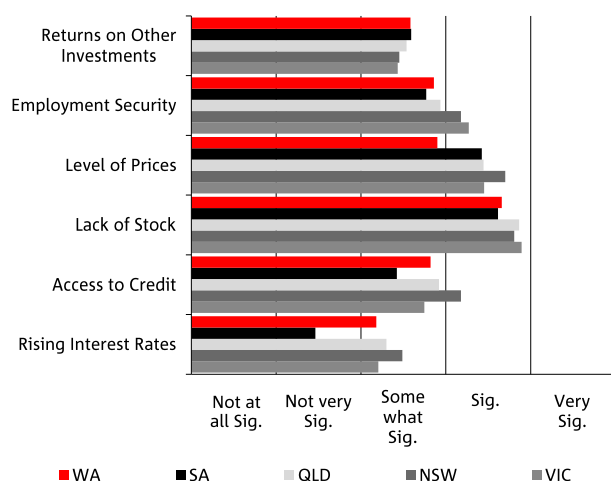
ESTABLISHED HOUSING MARKET CONSTRAINTS

Recent CoreLogic reports indicate that the number of newly advertised properties remains extremely low, with every capital city recording a below average amount of advertised supply - despite a recent ramping up in new listings. Amid this backdrop, property professionals again said a lack of stock was the biggest (and growing) impediment for buyers of existing property - and in all states.

CONSTRAINTS ON ESTABLISHED PROPERTY



CONSTRAINTS ON ESTABLISHED PROPERTY - STATES



With house prices also still rising solidly, property professionals said the next biggest impact on buyers came from house price levels, with the impact biggest in NSW and smallest in WA. Employment security was also cited as a “significant” constraint, led by VIC and NSW where hours worked in the September quarter were most impacted by lockdowns and restrictions.

With interest rates widely expected to remain low in the near future, property professionals did not see rising interest rates unduly impacting buyers of established property. They also said that access to credit was impacting buyers less than at any time since mid-2015.

FOREIGN BUYERS

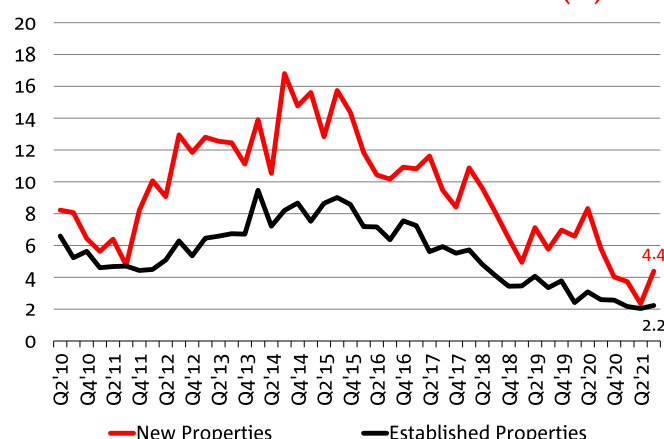
Foreign buyers in Australian housing markets were a little more prevalent in Q3 but buying activity from this group is still well down from the peak levels during the middle years of the 2010s. During the September quarter, property professionals estimate the overall share of total sales to foreign buyers lifted to 4.4% in new property markets (their highest share since Q3 2020 and up from a survey low 2.3% in the previous quarter), and to 2.2% in established housing markets (also up from a survey low 2.0% in the previous quarter).

In new housing markets, the market share of foreign buyers was highest in VIC at 5.6% and QLD at 5.0% - though both states are still trending well below survey average levels of 12.9% and 11.2% respectively. In NSW, foreign buyers accounted for 3.9% of all sales, up from 1.3% in Q2 but less than half the survey average (8.4%). In WA however, the number of foreign buyers fell to 1.5%, down from 2.5% in Q2 and a survey average 5.9%.

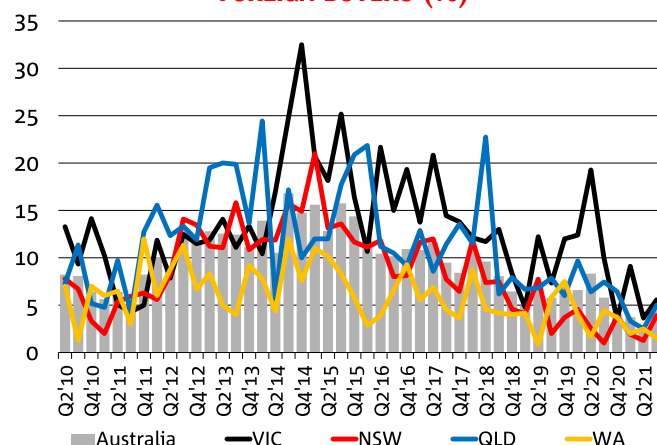
A similar trend was evident in established housing markets, with all states bar WA reporting higher outcomes (and all states trending below average). The share of foreign buyers in this market was

highest in VIC (2.8%), followed by WA (2.6%), NSW (2.3%) and QLD (2.2%).

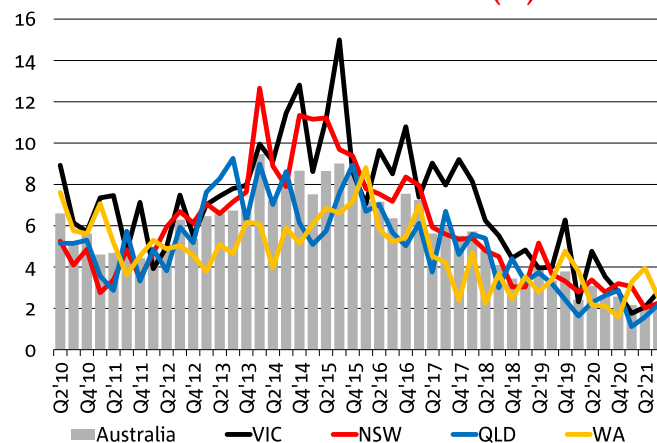
SHARE OF TOTAL DEMAND FOR NEW & ESTABLISHED PROPERTY - FOREIGN BUYERS (%)



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



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



NAB'S VIEW ON DWELLING PRICES

The housing market has remained remarkably resilient despite the ongoing lockdowns in the two largest capitals as well as a sharp slowing in population growth over the past year.

The market has been well supported by lower interest rates, the Federal Government's HomeBuilder program, as well as a range of state government incentives. Contributing to the strength seen in housing has also been the better-than-expected performance of the labour market despite the significant disruptions to the economy.

That said, house price growth has slowed recently (though it remains strong), activity has slowed (with time on market increasing and new listings normalising) and approvals for both construction and lending finance pulling back. Auction clearance rates have seen more mixed results, falling notably in Melbourne on the current lockdown but having since recovered - with all markets now at high levels. Rents have also begun to recover.

In terms of forecasts, we have revised them up slightly in both 2021 and 2022. This upgrade is driven by slightly stronger growth over recent months than we had expected as well as a small upgrade to our expectations for the rest of the year and early next year.

We expect a similar pattern of growth across all capitals from here, with the pace of growth slowing in the last quarter of 2021 before slowing further in 2022. Given the outcomes in the year to date, that sees Sydney and Hobart finish year around 28% higher, Brisbane and Adelaide also in the 20%+ range and Melbourne slightly softer. Perth sees the slowest but still strong growth at almost 15%.

More broadly we expect the economy to rebound relatively briskly as restrictions are eased in early-to-mid Q4 and for activity to continue to recover such that pre-lockdown GDP is reached by end H1 2022. The recovery will come via a rebound in household consumption (mostly services which are most impacted by lockdowns) as well as ongoing strength in both business and dwelling investment. Government spending is also expected to support growth alongside the stimulus provided to private demand.

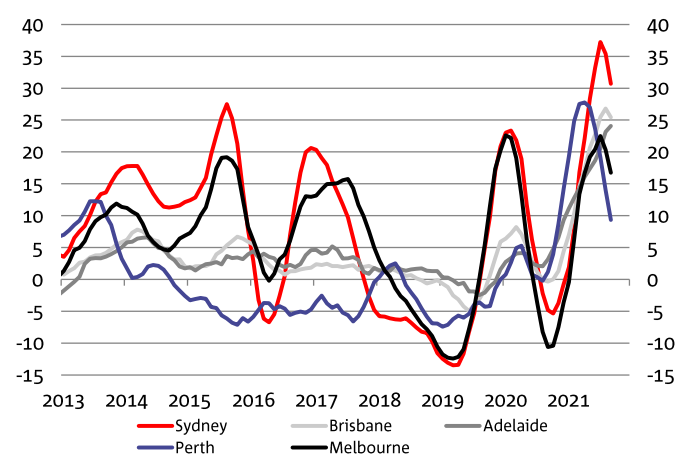
Alongside the rebound in activity we see a solid bounce in the labour market, with hours worked and participation coming back fairly quickly. A near term read on the unemployment rate remains difficult, with the timing of participation and employment gains likely to skew the headline measure – but for now we see unemployment peaking at around 4.9%.

Beyond, that we expect ongoing strength in labour demand to see the unemployment rate fall to 4.4% at end 2022 and near to 4% by end 2023. This will see

wage growth gradually lift, and then begin to flow through to consumer price inflation. However, the lags are likely to be long and therefore we do not see inflation back within the RBA's target band until H2 2023 and for the cash rate to rise in early 2024.

Importantly for the housing sector, policy makers are alert to a build-up of macroprudential risks amidst very low interest rates and the sharp rise in house prices. In early October the interest rate serviceability buffer was widened by 0.5ppt to 3.0% above the loan's interest rate. The impact of this will be to reduce the debt capacity of the typical borrower by 5% - and the assessment for now is that this will not see a large impact on lending or the property market. However, macro-prudential policies are rarely used in isolation and we remain alert to the possibility of further measures around the turn of the year, likely in the form of high DTI or LVR speed limits.

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



Author:

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020	2021f	2022f
Sydney	5.3	2.7	27.5	5.4
Melbourne	5.3	-1.3	18.8	4.9
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Adelaide	-0.2	5.9	20.4	3.9
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Hobart	3.9	6.1	28.4	4.3
Cap City Avg	3.0	2.0	22.7	4.9

*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 Q3 2021 survey.

CONTACT THE AUTHORS

Alan Oster
Group Chief Economist
Alan.Oster@nab.com.au
+61 0414 444 652

Dean Pearson,
Head of Economics
Dean.Pearson@nab.com.au
+613 8634 2331

Robert De lure
Associate Director Economics
Robert.De.lure@nab.com.au
+613 8634 4611

Brien McDonald
Associate Director Economics
Brien.McDonald@nab.com.au
+613 8634 3837

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