NAB residential property survey Q2-2022

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National housing market sentiment fell sharply in Q2 as house prices weakened, but still positive supported by strong rents. Confidence levels also sagged as survey outlook for house prices revised down across the country - and very negative in VIC & NSW.

NAB now sees a larger peak to trough fall of around 18% in dwelling prices over the next 18 months as rates rise more quickly.

NAB Behavioural & Industry Economics

Survey highlights

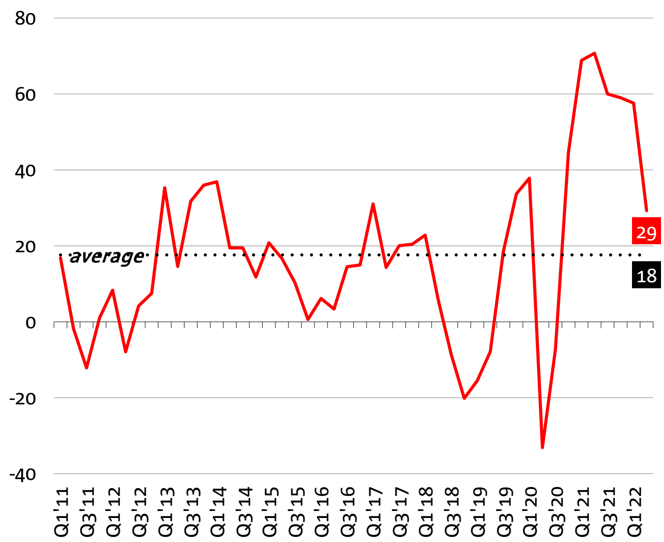
NAB's Residential Property Index fell sharply in Q2 amid weakening house prices. The Index fell to +29 pts (+58 in Q1), but still trending well above average (+18 pts) supported by solid rents. Sentiment was lower in most states, with the biggest falls in NSW and VIC where house prices were under most pressure in Q2. Confidence levels continued to sag, with both the short and longer-term measures falling for the fifth straight quarter and well below survey averages. The survey forecast on average now has national house prices falling over the next 1-2 years, led by sharp falls in VIC & NSW. The outlook for rents softened a touch, but the survey suggests rents will continue growing at well above average rates in next 1-2 years across the country. With supply chain issues, high raw material prices and labour shortages persisting, construction costs were again seen as the biggest impediment for new housing development, with its impact more disruptive than in Q1. And, with the RBA having also raised the cash rate at its last two meetings by a total of 75 bps and warning of more to come, property professionals for the first time identified rising interest rates as the biggest (and a growing) impediment for buyers of existing property across the country.

The view from NAB

We have revised down our outlook for property prices, and now expect a larger peak to trough fall of around 18%. Sydney and Melbourne are expected to lead the declines, though the impact of higher rates is expected to impact all capitals. That sees the 8-capital city dwelling price index end 2022 down 3.7% (previously +2.5%) before falling a further 14% in 2023 (was -9.3%). The economy and labour market are expected to remain healthy in the near-term, though we expect rates to rise more quickly than previously, reaching 2.1% by year's end with more to come in 2023. We largely see the adjustment in prices coming through reduced borrowing power, which will bind more in the larger capitals that have larger affordability issues, but do not expect the decline to be disorderly, with no fundamental over-supply at present.

View from property experts

NAB residential property index



Residential property index by state

	Q1'22	Q2'22	Nxt 1yr	Nxt 2yrs
VIC	41	6	10	18
NSW	58	10	4	8
QLD	63	46	33	28
SA	73	74	56	50
WA	75	52	41	27
ACT	60	17	17	17
NT	75	100	100	90
TAS	43	36	21	7
AUST	**58**	**29**	**22**	**22**

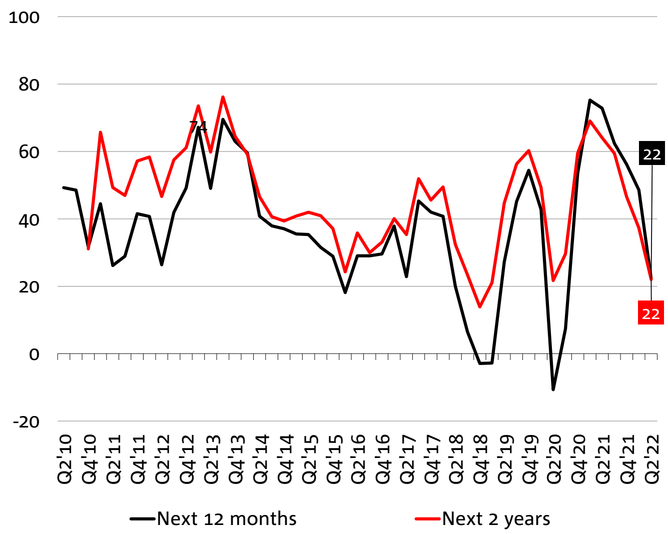
View from NAB economics

NAB hedonic dwelling price forecasts (%)*

	2020	2021	2022f	2023f
Sydney	2.7	25.3	-8.8	-13.4
Melbourne	-1.3	15.1	-7.7	-14.1
Brisbane	3.6	27.4	7.4	-16.2
Adelaide	5.9	23.2	9.0	-16.3
Perth	7.3	13.1	2.5	-13.9
Hobart	6.1	28.1	-1.6	-16.6
Cap City Avg	**2.0**	**21.0**	**-3.7**	**-14.0**

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

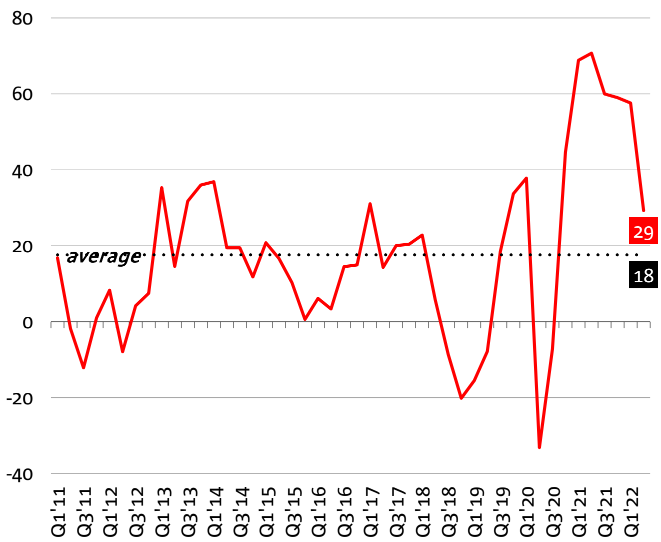
NAB residential property index: Next 1-2 yrs



NAB residential property index

National housing market sentiment (measured by the NAB Residential Property Index) fell sharply in Q2 amid weakening house prices and rising interest rates. Overall, the Index (based on property professionals' view of housing prices and rents) fell to +29 pts (+58 pts in Q1 2022). The index is however still trending well above average (+18 pts), and is now being supported largely by strengthening rents.

NAB residential property index

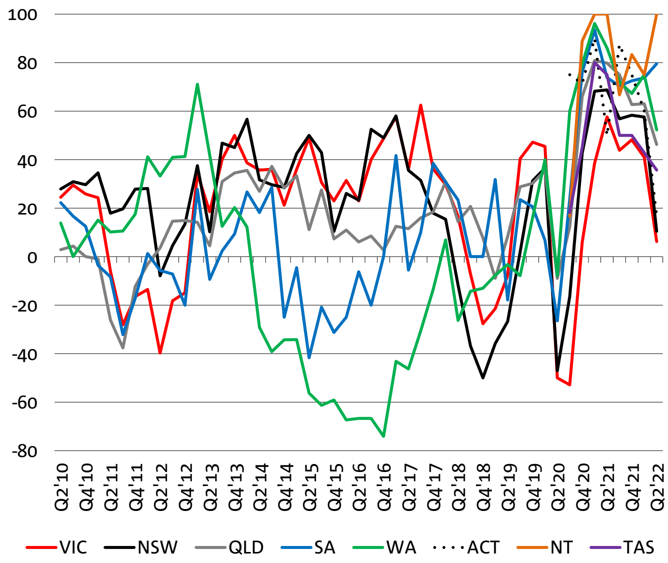


Housing market sentiment fell in most states. The biggest falls were seen in NSW (down 48 pts to +10) and VIC (down 35 pts to +6), where house prices were under most pressure with dwelling values falling in Sydney and Melbourne during Q2. Sentiment was also sharply lower in the ACT (down 43 pts to +17) and WA (down 23 pts to +52), with smaller falls in QLD (down 17 pts to +46) and TAS (down 7 pts to +36). The NT and SA were the exceptions, with sentiment up 25 pts to 100 in the NT (from a smaller sample size), and up 1 pt in SA to +74 pts, where dwelling price growth also led the country.

Residential property index by state

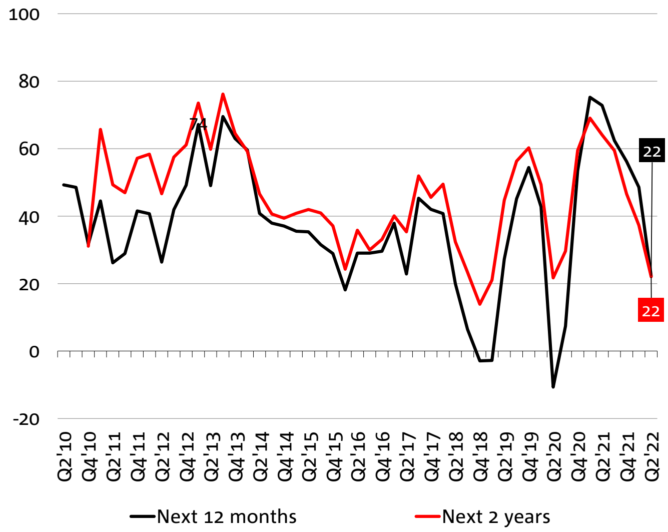
	Q4'21	Q1'22	Nxt 1yr	Nxt 2yrs
VIC	41	6	10	18
NSW	58	10	4	8
QLD	63	46	33	28
SA	73	74	56	50
WA	75	52	41	27
ACT	60	17	17	17
NT	75	100	100	90
TAS	43	36	21	7
AUST	**58**	**29**	**22**	**22**

Residential property index by state



Housing market confidence levels also continued to sag. In Q2, the short-term 12 month confidence measure fell for the fifth straight quarter to a near 2-year low +22 pts (+49 pts in Q1), and has now also fallen well below the survey average (+38 pts). The 2-year measure also fell for the fifth straight quarter to +22 points (+37 pts in Q4) and continues to sit well below the survey average (+46 pts).

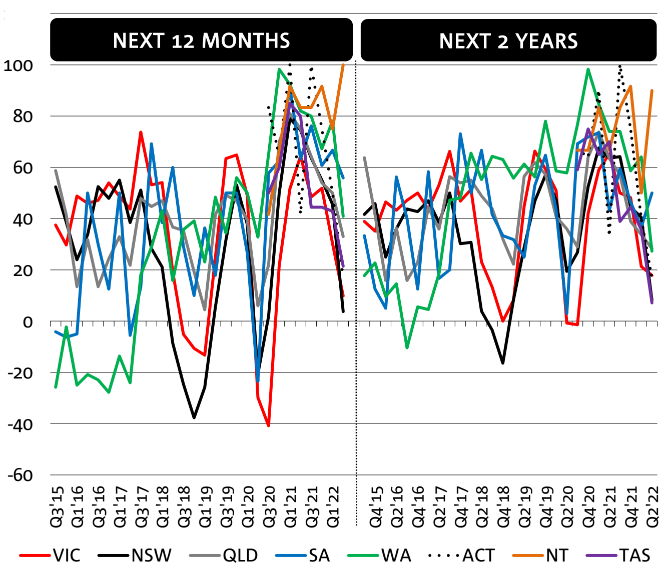
Residential property index: Next 1-2 yrs



Housing market confidence in the next 12 months was highest in the NT (up 25 pts to +100) but from a limited sample size, and it was the state or territory where short-term confidence levels improved. In contrast, confidence levels slipped down in all other states, with the biggest fall noted in NSW (down 42 pts to +4) where it was also lowest in the country. Confidence was also well below the survey average in VIC (down 21 pts to +10), the ACT (down 33 pts to +17) and TAS (down 21 pts to +21). It was highest in SA (down 11 pts to +56), WA (down 37 pts to +41) and QLD (down 17 pts to +33).

The 2-year confidence measure suggests market conditions will soften further across most of the nation, with the exception of the NT (up 40 pts to +90). The longer-term confidence measure was weakest in TAS (down 29 pts to +7) and NSW (down 33 pts to +8), and fell most in WA (down 37 pts to +27), though still above the national average. Confidence also softened noticeably in the ACT (down 23 pts to +17), with the smallest falls reported in VIC (down 3 pts to +18) and QLD (down 5 pts to +28). Confidence levels were also lower in SA (down 13 pts to +50), but still well above the national average.

Residential property index: Next 1-2 yrs



Survey house price expectations

The average survey forecast now sees national house prices falling over the next 1-2 years. On average, property professionals expect prices to fall -1.2% in the next 12 months (2.0% forecast in in Q1), with the pace of decline accelerating slightly to -1.3% in 2 years' time (previously 1.0%) as housing market conditions remain challenging (see below for NAB's View on Dwelling Prices).

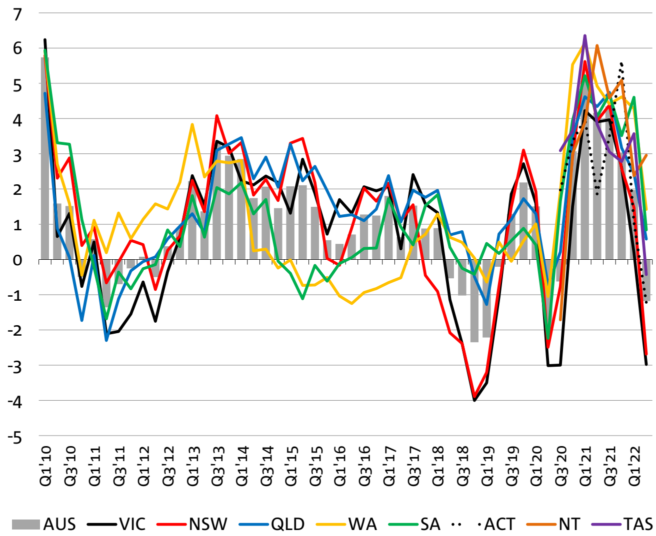
Avg survey expectations: house prices (%)

	Next 1 year	Next 2 years
VIC	-3.0% (0.2%)	-2.7% (-0.7%)
NSW	-2.7% (1.5%)	-2.8% (1.0%)
QLD	0.6% (2.4%)	0.1% (0.9%)
SA	0.8% (4.6%)	0.8% (2.3%)
WA	1.4% (4.3%)	1.3% (4.0%)
ACT	-1.2% (1.0%)	-1.3% (1.1%)
NT	3.0% (2.4%)	3.0% (2.8%)
TAS	-0.4% (3.6%)	-0.5% (2.4%)
AUS	**-1.2% (2.0%)**	**-1.3% (1.0%)**

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

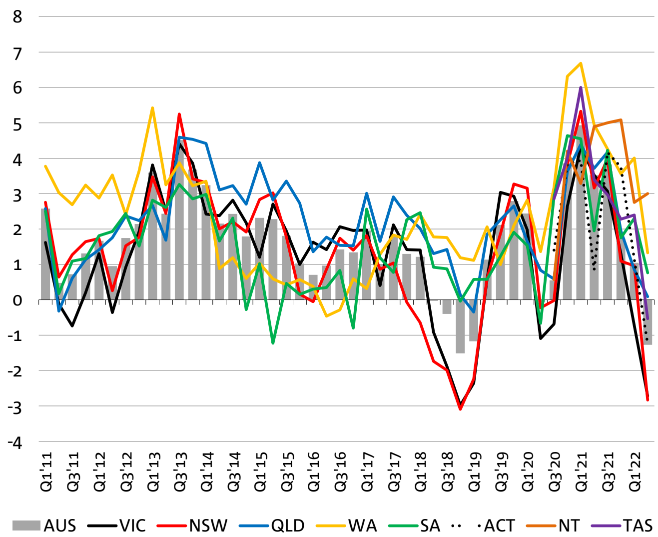
House price expectations for the next 12 months were revised down in all states except the NT - now 3.0% from 2.4% in Q1. Property professionals on average still see prices growing (but at much slower rates) in WA (1.4% vs. 4.3% forecast in Q1), SA (0.8% vs. 4.6%) and QLD (0.6% vs. 2.4%). But they are now forecasting sharp falls of -3.0% in VIC (0.2% forecast in Q1) and -2.7% in NSW (from 1.5% in Q1), with more moderate falls in the ACT (-1.2% from 1.0% in Q1) and TAS (-0.4% from 3.6% in Q1).

Avg survey expectations: Next 1 year (%)



Property professionals in the NT were the most positive for dwelling price growth in the next 2 years at 3.0% (and revised up slightly from 2.8% in Q1). Expectations were however pared back (but remain positive) in WA at 1.3% (4.0% in Q1), SA at 0.8% (2.3% in Q1), and basically flat in QLD at 0.1% (0.9% in Q1). Prices are now expected to fall steeply in NSW (-2.8%) and VIC (-2.7%), with moderate falls also anticipated in the ACT (-1.3%) and TAS (-0.5%), after predicting modest gains in all states bar VIC in the Q1 survey.

House price expectations: In 2 years (%)



Survey rental expectations

The outlook for rents softened a little in Q2, but the survey suggests rents will continue to grow at above average levels in the next 1-2 years across the country. In the next 12 months, the survey average is for national rents to grow a solid 3.2% (3.7% forecast in Q1) and 3.4% in 2 years' time (4.0% forecast in Q1). With rental growth outpacing value growth in the next 1-2 years, rental yields should also rise.

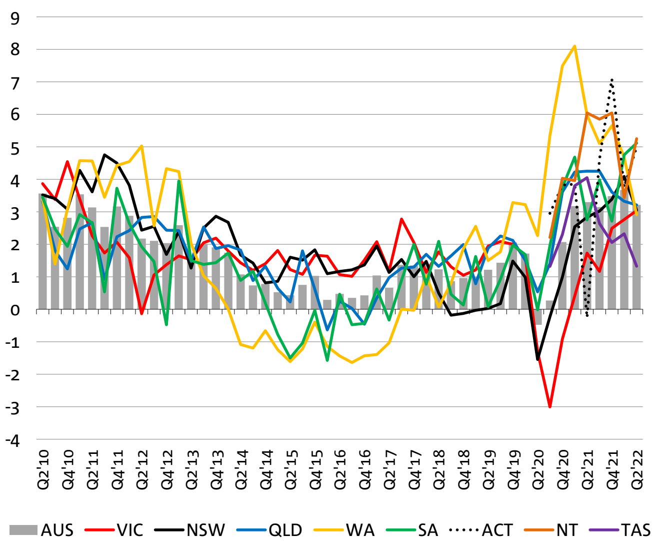
Avg survey expectations: Rents (%)

	Next 1 year	Next 2 years
VIC	3.0% (2.8%)	4.3% (3.5%)
NSW	3.0% (4.1%)	3.4% (4.4%)
QLD	3.2% (3.3%)	3.1% (3.5%)
SA	5.1% (4.8%)	3.8% (3.8%)
WA	2.9% (4.7%)	2.0% (4.6%)
ACT	5.0% (3.8%)	4.6% (4.8%)
NT	5.3% (3.4%)	5.9% (5.0%)
TAS	1.3% (2.3%)	2.1% (3.8%)
AUS	**3.2% (3.7%)**	**3.4% (4.0%)**

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

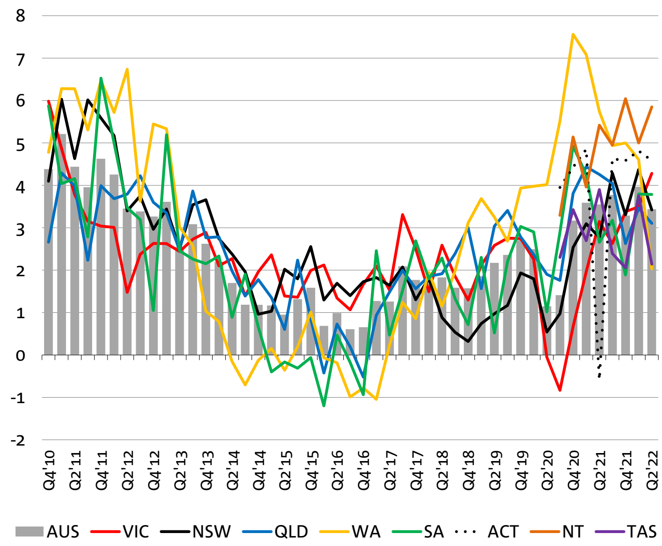
Expectations for rents vary across states, but exceed price growth expectations in all states. The average survey expectation for the next 12 months lifted (and was highest) in the NT at 5.3% (3.4% in Q1), followed by SA at 5.1% (4.8% in Q1) and the ACT at 5.0% (3.8% in Q1). They were also scaled up slightly in VIC to 3.0% (2.8%) in Q1, and basically unchanged in QLD (3.2%). Property professionals however were less optimistic in NSW (3.0% down from 4.1% in Q1), WA (2.9% vs. 4.7%) and TAS (1.3% vs. 2.3%).

Rental expectations: Next year (%)



Rental growth is still expected to be fastest in the NT at 5.9% in 2 years' time (5.0% forecast in Q1), followed by the ACT (4.6% vs. 4.8%). Property professionals in VIC were also noticeably more bullish at 4.3% (3.5% in Q1), with expectations unchanged in SA (3.8%). Expectations were however revised down in all other states, with rental growth in 2 years' time now expected to be slowest in WA (2.0% vs. 4.6% forecast in Q1) and TAS (2.1% vs. 3.8%).

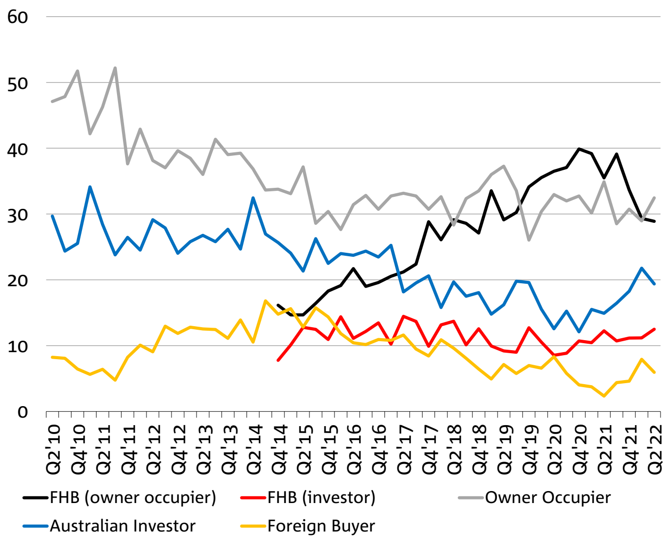
Rental expectations: In 2 years (%)



New developments

First home buyers (FHBs) were still the key players in new housing markets in Q2 with a 41.4% share of all sales - up from a near 3-year low 40.5% in Q1. This was attributed to an increased number of FHB investors in the market to an above average 12.5% (11.2% in Q1). The market share of FHB owner occupiers however dipped further to a 3½ year low 28.9% in Q2 (29.3% in Q1) - though still above the survey average (27.3%).

Buyers - New development (% share)



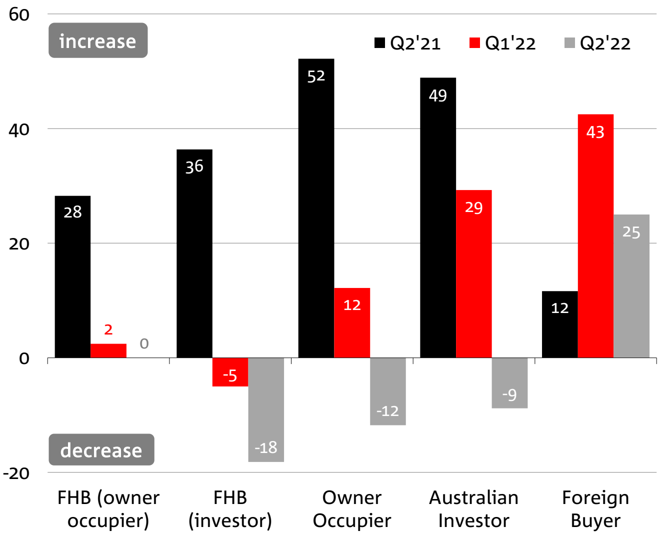
Overall, the market share of FHBs was highest in SA (65.0%), followed by VIC (45.0%) and WA (45.0%). It was lowest in QLD (28.9%) and NSW (33.8%). FHB owner occupiers accounted for the highest share of sales in SA (40.0%) and the lowest in QLD (17.4%), while FHB investors were most active in SA (25.0%) and least so in WA (11.3%) and QLD (11.4%).

On average, property professionals also estimated that sales to owner occupiers (net of FHBs) increased to 32.5% (29.0% in Q1), but continued trending well below the survey average (35.4%). These buyers were most prevalent in QLD (42.1%) and NSW (35.0%) and least prevalent in SA (17.5%).

The share of resident investors in new housing markets fell to a below average 19.4% in Q2 after hitting a 5-year high 21.8% in Q1. Domestic investors were most active in NSW (25.6%) and QLD (22.3%), and least active in SA (10.0%) and WA (16.3%).

Market share of foreign buyers in new property markets eased back to 5.9% in Q2, after having ticked up to a near 2-year high 7.9% in the previous quarter. The market share of foreign buyers increased and was highest in WA (10.0%), and also rose in QLD to 6.7% (5.0% in Q1). In VIC, their market share fell to 6.7% (from 7.3% in Q1), with a much larger decline reported in NSW to just 3.5% (10.3% in Q1). Foreign buyer market share in VIC and NSW is now currently tracking at around half their survey average levels.

Expected change in share of new property buyers (Net balance)

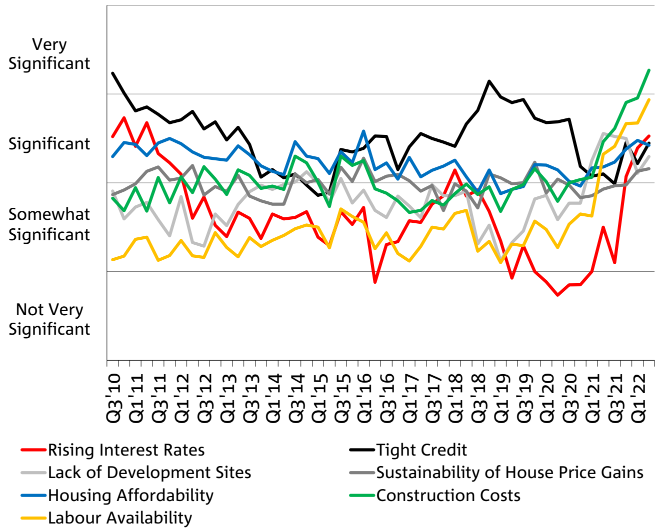


Property professionals were also asked whether the share of new buyers in new housing markets would rise or fall in the next 12 months in each buyer group. In net terms, the number who said it would increase out-weighed predicting it would fall for foreign buyers only (+25% but down from +43% in Q1). It was even for FHB owner occupiers (0% down from +3% in Q1). With interest rates climbing, more property professionals said the market share of FHB investors (-18% vs. -5% in Q1) and domestic investors (-9% vs. +29% in Q1) in the market would fall than rise. More property professionals on balance now also expect the market share of owner occupiers in new property markets to decrease than increase (-12% from +12% in Q1).

New housing market constraints

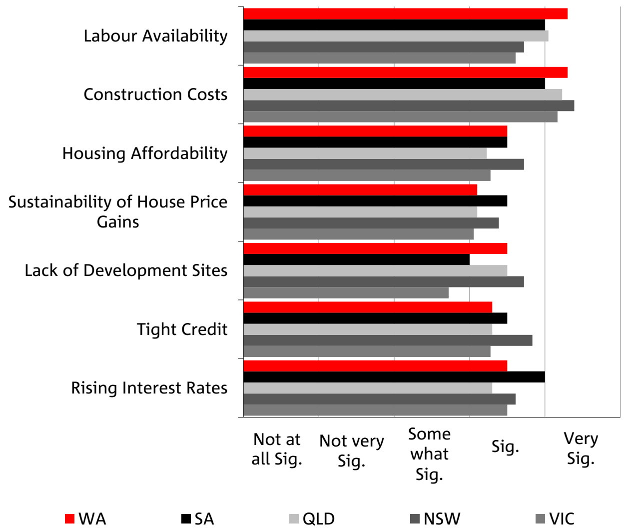
With supply chain issues, high raw material prices and labour shortages persisting, construction costs and not expected to ease soon. Against this backdrop, construction costs in Q2 were again highlighted as the main impediment for new housing development, with its impact more disruptive than in Q1. Construction costs were rated a "very significant" impediment nationally in Q1 and in all states bar SA.

Constraints on new housing developments



Labour availability was the next biggest hurdle overall, reaching new survey highs in Q2. Labour availability was rated a "significant" disruption nationally, but "very significant" in WA, SA, and QLD.

Constraints on new housing developments - States



With the RBA lifting interest rates in May and June this year and strongly hinting at more to come, property professionals said rising interest rates was a bigger impediment for new housing development across the country in Q2. The impact on the market was rated more "significant" in all states, and a "very significant" issue in SA.

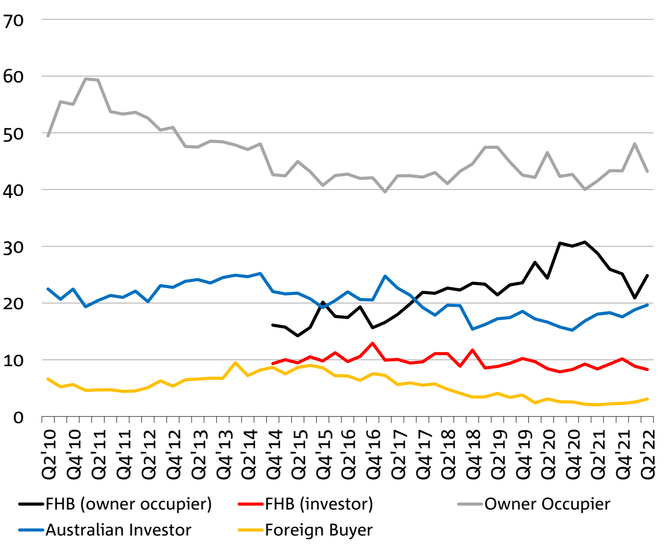
Tight credit was also highlighted as a growing impediment in the Q2 survey, and was somewhat more problematic according to property professionals in NSW and SA.

But with house price growth now slowing or falling across most of the country, the negative impact of housing affordability on new housing development eased in Q2. It is however still considered a "significant" impediment for new housing development in all states, and a somewhat bigger impediment in NSW than in other states.

Established property

In established housing markets, buying activity was dominated by owner-occupiers (net of FHBs). In Q2, however their overall market share fell to a below average 43.2% after having reached a 7½-year high 48.0% in Q1. Owner occupiers accounted for the biggest share of sales in all states, though it ranged from 51.2% in WA to 38.5% in NSW.

Buyers – Established property (% Share)

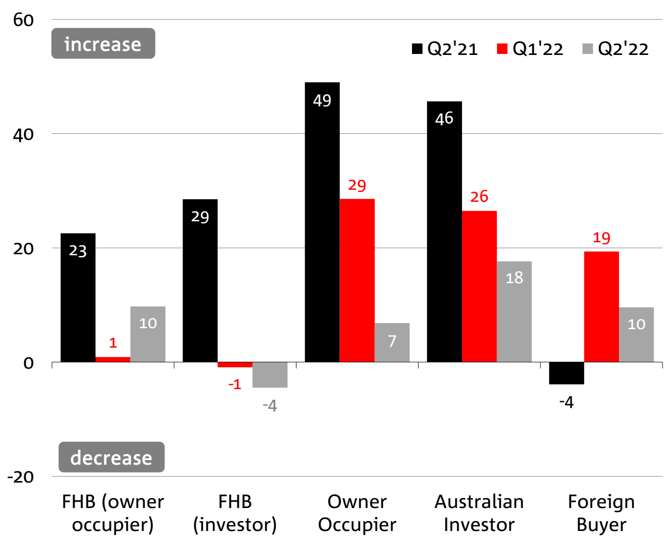


The overall share of FHBs in this market however increased to an above average 33.1% in Q2 (29.8% in Q1). Overall, FHBs accounted for around 1 in 3 sales in all states, ranging from 34.6% in NSW to 29.9% in both SA and WA. When broken down by FHB buyer type, the overall share of FHB owner occupiers increased to 24.8% in Q2 (20.9% in Q1), and ranged from 25.4% in NSW and QLD to 22.7% in SA. The share of FHB investors in this market reduced to an equal survey low 8.3% (8.9% in Q1), with market share highest in NSW (9.2%) and lowest in WA (6.1%).

The total share of local investors in established housing markets climbed to 19.6% in Q2 (18.8% in Q1), but remains below the survey average (20.4%). Resident investors were again most prolific in NSW (22.9%) and QLD (22.2%) and least active in VIC (15.1%) and WA (15.6%).

The share of foreign buyers in overall established housing markets increased to a 2½ year high 3.1% in Q2 (2.5% in Q1), but was well below average (5.3%). Foreign buyer numbers increased and was highest in VIC (5.1% up from 2.9% in Q1), followed by WA (3.3% up from 2.0% in Q1) and NSW (3.2% vs, 2.9% in Q1). They were broadly unchanged in QLD (2.2%).

Expected change in share of established property buyers (Net balance)



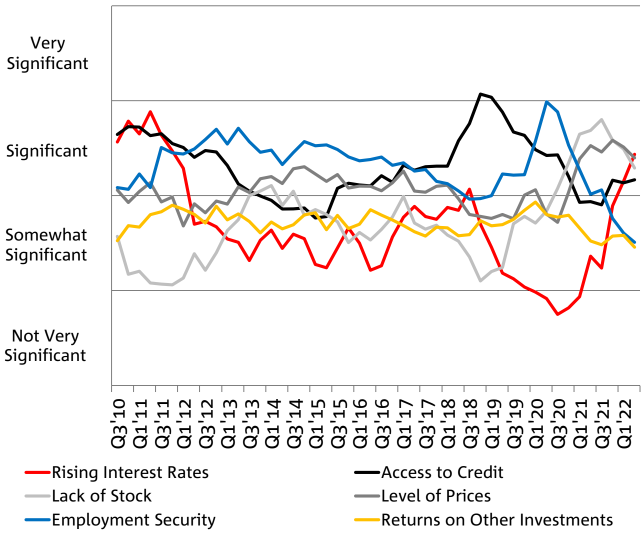
In net terms, property professionals said they expect market share to increase than fall in the next 12 months in all buyer groups, except FHB investors were more expect market share to fall (-4% vs. -1% in Q1). Most property professionals on balance believe domestic investors will increase their market (+18% but down from +26% in Q1). The number expecting market share to increase for foreign buyers was positive but fell to +10% (+19% in Q1), but it grew for FHB owner occupiers to +10% (+1% in Q1).

Established housing market constraints

With the RBA having raised the cash interest rate at its last two meetings by a total of 75 bps and warning of more to come (NAB sees the cash rate at around 2.6% by the end of 2023), property professionals for the first time identified rising interest rates as the biggest (and a growing) impediment for buyers of existing property nationally in Q2. It was also seen as the main impediment for buyers in VIC and NSW.

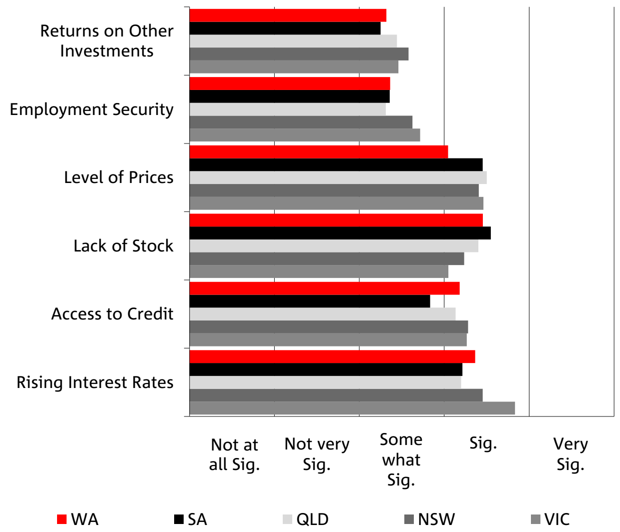
Price levels were the next biggest for issue for buyers, followed by a lack of stock - but the impact on buyers moderated somewhat in Q2. Price levels were highlighted by property professionals in QLD as the biggest impediment for buyers, and lack of stock by property professionals in SA and WA.

Constraints on established property



The survey also suggests that access to credit is still a "significant" impediment for buyers of established housing across the country. Employment security and returns from other investments continued to have the lowest influence on home buyers across the country.

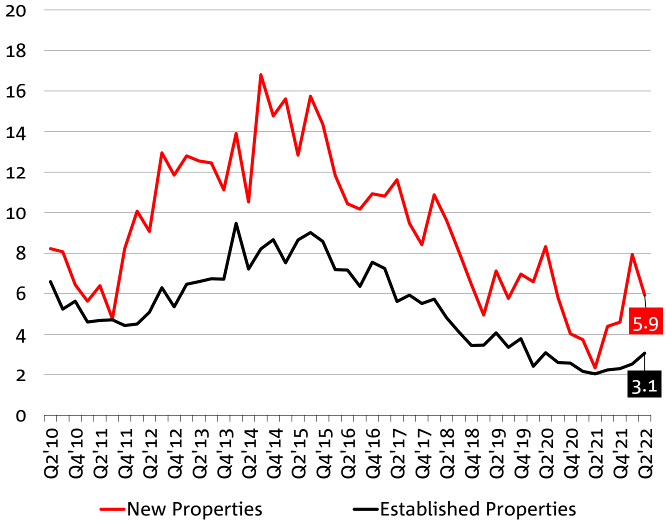
Constraints on established property - States



Foreign buyers

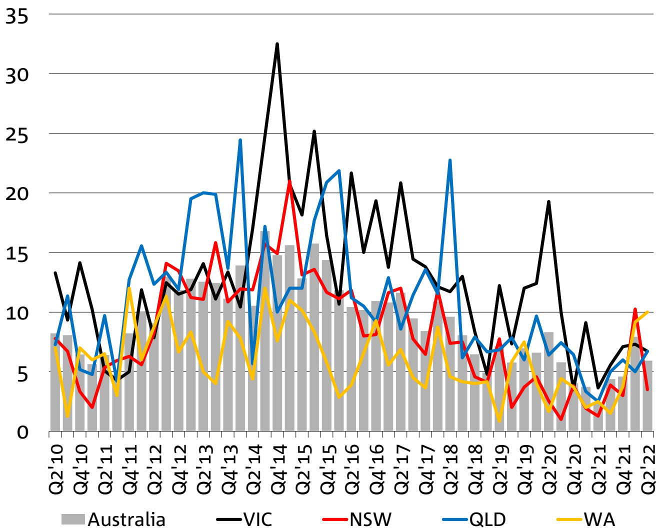
The overall share of market sales to foreign buyers fell back to 5.9% in Q2, after having risen to a near 2-year high 7.9% in the previous quarter. Consequently, the market share of foreign buyers in new housing markets continues to trend well below the survey average (9.2%). In contrast, the share of foreign buyers in established housing markets increased slightly to 3.1% (2.5% in Q1), but also continued to trend well below the survey average (5.3%).

Share of total demand for new & established property: Foreign buyers (%)



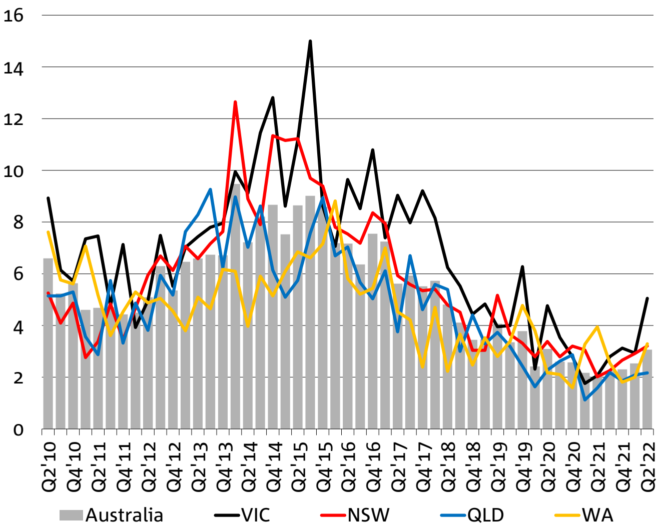
Market share of foreign buyers in new housing markets was highest in WA in Q2, and it rose to an above average 10.0% (9.2% in Q1) - the first time since the survey began it exceeded all other states. Elsewhere, market share lifted to 6.7% in QLD (5.0% in Q1), but fell slightly to 6.7% in VIC (7.3% in Q1), with buyer share in both markets well below survey averages - QLD (10.9%) and VIC (12.6%). In NSW, market share dipped sharply to just 3.5%, down from a 4-year high 10.3% in Q1, and well below average (8.2%).

Share of demand for new property: Foreign buyers (%)



In established housing markets, the share of foreign buyers in VIC rose to a 2½ year high 5.1% (2.9%), but continued to trend below the survey average (6.7%). The share of foreign buyers in WA also increased somewhat to 3.3% (2.0% in Q1), was also below average (4.6%). In NSW, market share lifted slightly to a below average 3.2% (2.9% in Q1), but it was basically unchanged in QLD at 2.2%, lowest of all states and trending at less than half the state survey average (4.8%).

Share of total demand for established property: Foreign buyers (%)



NAB's view on dwelling prices

The established housing market continued to soften through Q2, with price falls in Sydney and Melbourne accelerating and growth slowing across the other capitals. On the activity side, auction volumes eased while new listings growth also slowed. The median time on market also normalised somewhat after a period of very fast turnover.

We now expect a larger fall in house prices over the next 12-18 months, with prices across the capitals declining by 15-20%. That sees an overall peak-to-trough decline in the 8-capital city dwelling price index of around 18%. In an historical context, this would be a very large fall in nominal terms, but is expected to occur alongside a relatively steep increase in interest rates and comes after a 25% increase in prices through the pandemic alone.

By capital, Sydney and Melbourne are expected to lead the declines, falling by 20% by the end of 2023. That said, the other capitals are also expected to see solid falls of around 15-17%. Both Sydney and Melbourne have seen the most significant run-ups in prices over the past decade as rates have trended lower and most likely face the most binding affordability constraints.

That said, we do not expect a disorderly decline in prices with the revaluation coming through higher interest rates and lower borrowing power. While completions have remained high through the pandemic amidst a sharp slowing in population growth, ultimately we do not see a fundamental oversupply of housing.

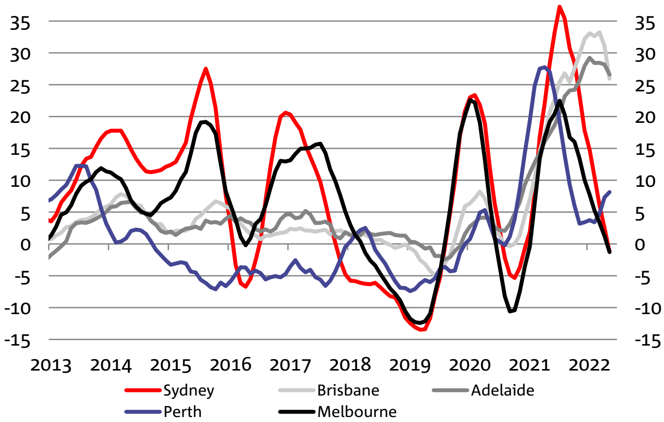
More broadly, we expect construction to remain elevated, despite the recent pull-back in approvals, with a large pipeline of work built up over recent years. Indeed, supply constraints for materials and labour may weigh on the pace at which the pipeline is worked through - suggesting the rate of work done will remain high, but likely see some volatility.

This adjustment in the housing market will come alongside a fairly healthy economy. GDP growth is expected to slow from the rates seen over the past year as the rebound fades, and while it is expected to fall below trend in 2023 it will stay well into positive territory.

We also expect the labour market to remain relatively strong, with the unemployment rate – already the lowest in 5 decades – falling further below 4%. This will see wage growth accelerate as employers compete for labour in a tight labour market and amidst stronger inflation expectations.

On inflation, we see both headline and underlying measures rising further, peaking in the second half of 2022 - but remaining well above the target band in 2023. While many of the transitory factors that have been a significant boost to prices will fade, or even unwind, a tighter labour market and faster wage growth will eventually see domestic inflation pressure build. As a result, we think the RBA will continue to normalise rates at a rapid pace, lifting the cash rate by 50 bps at each of the next two meetings, with a 25 bps follow up in November, taking the cash rate to 2.1% by year end. We see a further two 25 bps increases in 2023, taking the cash rate to a broadly neutral level at 2.6%.

Dwelling price growth (6-month ended annualised, %)



Author:

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

NAB hedonic dwelling price forecasts (%)*

	2020	2021	2022f	2023f
Sydney	2.7	25.3	-8.8	-13.4
Melbourne	-1.3	15.1	-7.7	-14.1
Brisbane	3.6	27.4	7.4	-16.2
Adelaide	5.9	23.2	9.0	-16.3
Perth	7.3	13.1	2.5	-13.9
Hobart	6.1	28.1	-1.6	-16.6
Cap City Avg	**2.0**	**21.0**	**-3.7**	**-14.0**

*percentage changes represent through the year growth to Q4

SOURCE: CoreLogic, NAB Economics

About the survey

The NAB Quarterly Australian Residential Property survey was first launched in Q1 2011.

The survey was expanded from NAB's Quarterly Australian Commercial Property Survey, which was launched in April 2010.

Given the large number of respondents who are also directly exposed to the residential market, NAB expanded the survey questionnaire to focus more extensively on the Australian residential market.

The large external panel of respondents consists of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 320 panellists participated in the Q2 2022 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
+61 0457 517 342

Robert De Iure
Associate Director Economics
Robert.De.Iure@nab.com.au
+610 0477 723 769
+613 8634 4611