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NAB residential property survey Q1-2023

NAB Residential Property Survey Q1-2023

NAB's Residential Property Index recovers some lost ground in Q1 2023 but is still relatively weak as house prices continue to slide through the early part of the year. FHBs appear to have pulled back heavily in new housing markets, as foreign buyers begin to re-emerge as key players, particularly in NSW.
NAB sees a further small fall in property prices in the near term, before prices rise in 2024 as rates fall. Rates are likely to continue to weigh, though strong population growth, a tight rental market and healthy labour market are key offsets.

NAB Behavioural & Industry Economics

Survey highlights

The NAB Residential Property Index recovered slightly to +9 pts in Q1'23 (+5 pts in Q4'22), but is still well below the survey average (+17 pts) and down sharply from +58 pts at same time last year. With home values continuing to slide across the country, the positive index result is being supported by solid rental growth.

Housing market sentiment is currently highest in the NT (+67 pts), WA (+51 pts) and SA (+41 pts). In VIC, sentiment turned positive (+5 pts) after falling in the previous 2 quarters, with the QLD state index steady (+6 pts). In NSW, where housing values have fallen most in the past year, it moved deeper negative (-7 pts).

Confidence levels improved a little in Q1, but continue to point to a relatively slow housing market recovery over the next few years. NAB's one-year confidence measure lifted modestly to a well below average +15 pts, with the 2-year measure also still printing at a well below average +33 pts.

The average survey forecast for national house prices in the next 12 months is broadly unchanged at -2.3%. Longer-term expectations are also largely unchanged at -0.3%. Expectations for the next 12 months are highest in the NT (1.5%) and WA (1.2%), with house prices falling across the rest of the country, led by VIC (-3.6%), the ACT (-3.3%) and NSW (-3.2%).

With Australia still experiencing a period of very low rental vacancy and high demand, rental expectations remain elevated and well above survey average levels. The average survey forecast is for national rents to grow 4.0% next year and in 2 years' time. With rental growth continuing to outpace dwelling values, gross rental yields should also continue to rise. Expectations for the next year are positive in all states, led by WA (4.7%), the NT (4.6%), VIC (4.5%), SA (4.3%) and NSW (4.2%).

First home buyers (FHBs) pulled back in new property markets during Q1, with their share of total sales dipping to a near 6-year low 35.7%. This was attributed to a sharp fall in the market share of FHB owner occupiers to a 5½ year low 23.7%. The overall market share of foreign buyers in new property markets however rose to 7.9% in Q1, underpinned by steep increase in NSW to 16.2% - the highest read since Q1'15. The share of foreign buyers in VIC however fell to a 2-year low 4.0%.

Construction costs are still being highlighted as the biggest constraint for new housing development in Australia, and considered to be a "very" significant constraint. But with the official cash interest rate lifted a further 25 bps in both February and March 2023 to a near 11-year high 3.60% (and widely tipped to continue rising), interest rates are now also viewed as a "very" significant constraint nationally.

In established housing markets, buying activity continued to be dominated by owner-occupiers (net of FHBs), accounting for 46.1% of all sales. The overall share of FHBs in established housing markets slipped to 31.9%, but continues to trend slightly above the survey average.

Rising rates are also becoming a bigger constraint for buyers of existing housing across the country - and now also considered a "very" significant constraint. Rising rates are also viewed as the biggest constraint for home buyers in all states (led by NSW and VIC). WA is the exception where lack of stock is having the biggest impact on buyers. Access to credit is the next biggest hurdle for buyers, and also deemed "significant" in all states (bar WA).

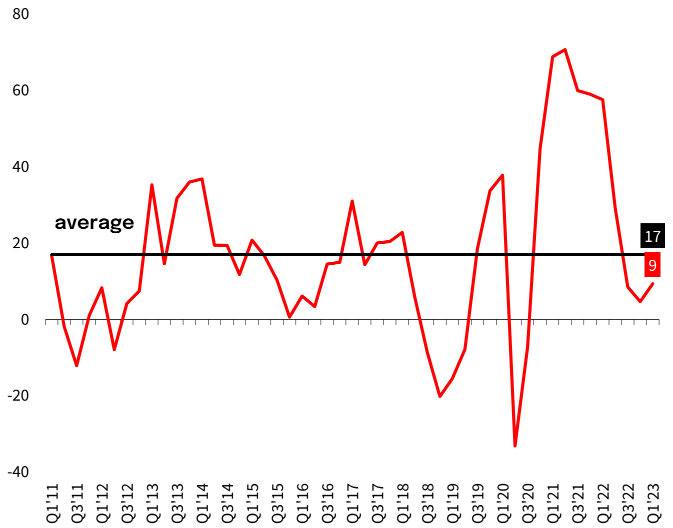
The view from NAB

Our view is that house prices see a further small fall from here, around -3.5%, and then a period of flat prices which will see prices end the year around 4% lower. This would be a peak-to-trough decline of around 12% compared with our previous expectation of a decline of around 20%. The key driver of the decline to date in dwelling prices has been the very big reduction in borrowing power as rates have risen. However, stronger population growth, a tight rental market and strong labour market are key offsets.

More broadly, we see the economy slowing from here, as the impact of higher rates and inflation weigh on household consumption. This will see a deterioration in the unemployment rate, albeit from a very low base, and ultimately see wage growth remain consistent with "at target" inflation. Therefore, with global factors continuing to wane, inflation will continue to moderate and the RBA is likely to remain on hold after pausing its sequence of cash rate increases in April at 3.6%.

View from property experts

NAB residential property index



Residential property index by state

	Q4'22	Q1'23	Next 1yr	Next 2yrs
VIC	-6	5	10	38
NSW	-6	-7	2	21
QLD	6	6	10	23
SA	21	42	31	38
WA	44	51	54	63
ACT	-50	-71	-29	-21
NT	10	67	67	67
TAS	6	-29	7	29
AUST	**5**	**9**	**15**	**33**

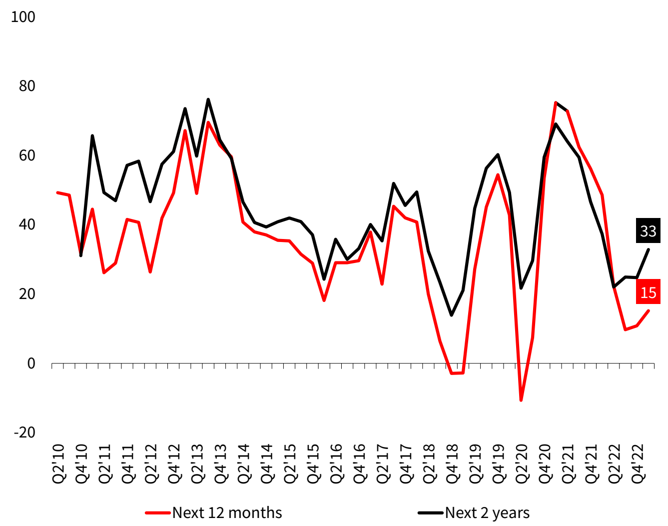
View from NAB economics

NAB hedonic dwelling price forecasts (%)*

	2021	2022	2023f	2024f
Sydney	25.3	-12.1	-2.2	4.9
Melbourne	15.1	-8.1	-5.8	6.2
Brisbane	27.4	-1.1	-7.3	2.4
Adelaide	23.2	10.1	-1.5	3.7
Perth	13.1	3.6	0.1	1.2
Hobart	28.1	-6.9	-13.9	0.0
Cap City Avg	**21.0**	**-6.9**	**-3.8**	**4.3**

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

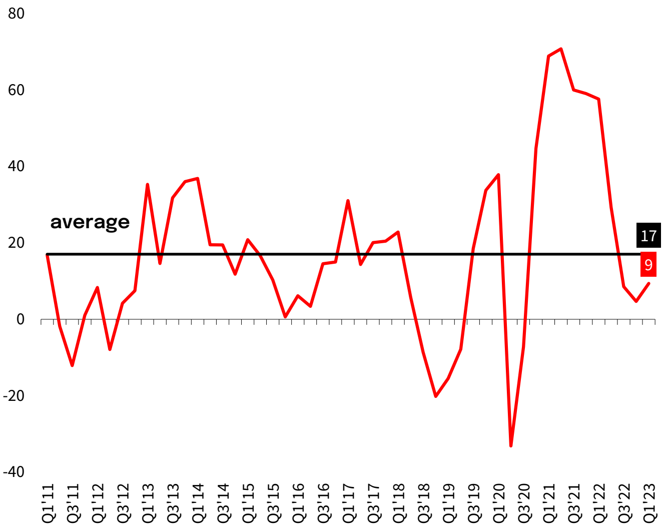
NAB residential property index: Next 1-2 yrs



NAB residential property index

The NAB Residential Property Index recovered slightly to +9 pts in Q1'23, from +5 pts in Q4'22, but remains below average (+17 pts) and well down from +58 pts at same time last year. With home values continuing to slide across the country, the positive index result was underpinned by solid rental growth.

NAB residential property index



Housing market sentiment improved and was highest in the NT (+67 pts), followed by WA (+51 pts) and SA (+42 pts). In VIC (+5 pts), sentiment turned positive after falling in the previous 2 quarters, while the QLD state index was unchanged (+6 pts). Sentiment moved deeper into negative territory in the ACT (-71 pts), and also turned negative in TAS (-29 pts). In NSW, where housing values have fallen most over the past year, sentiment also moved deeper negative (-7 pts).

Residential property index by state

	Q4'22	Q1'23	Next 1yr	Next 2yrs
VIC	-6	5	10	38
NSW	-6	-7	2	21
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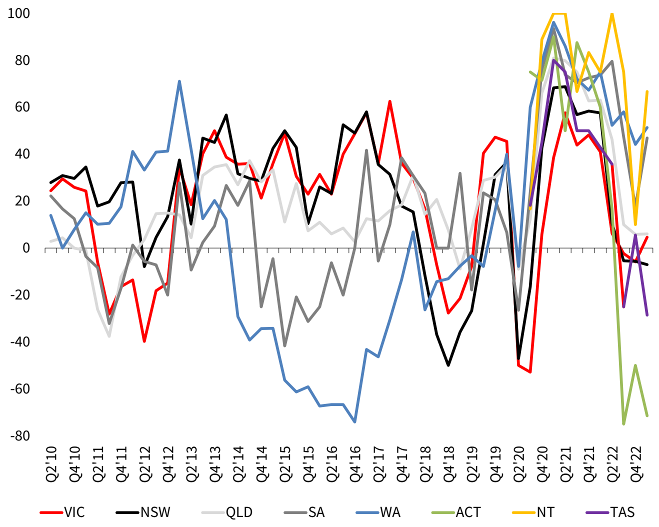
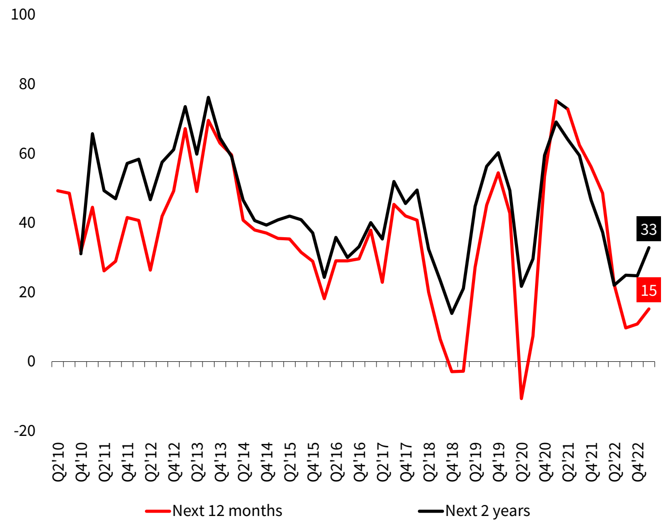
SA	21	42	31	38
WA	44	51	54	63
ACT	-50	-71	-29	-21
NT	10	67	67	67
TAS	6	-29	7	29
AUST	**5**	**9**	**15**	**33**

Residential property index: states



Confidence levels among surveyed property professionals improved a little in Q1, but continues to point to a relatively slow housing market recovery over the next few years. NAB's one-year confidence measure lifted modestly to a well below average +15 pts (+11 pts in Q4'22), with the 2-year measure also lifting to a well below average +33 pts (+25 in Q4'22).

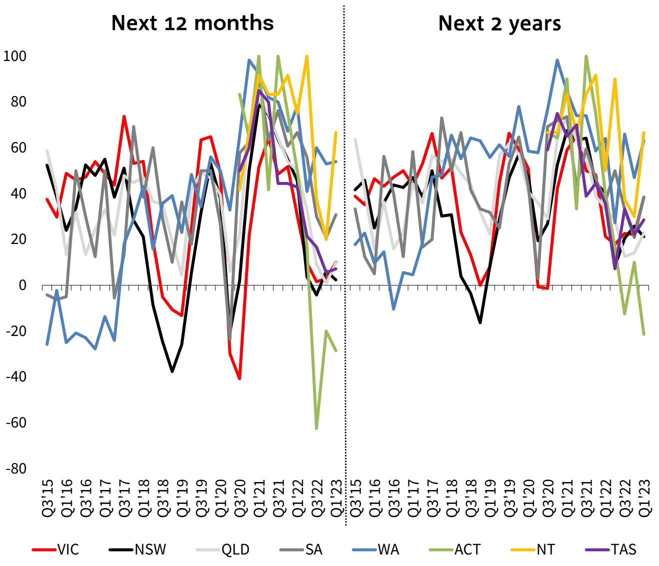
Residential property index: next 1-2 years



Housing market confidence in the next 12 months is highest in the NT (+67 pts), ahead of WA (+54 pts). Confidence levels are positive in most other states, ranging from +31 pts in SA to +2 pts in NSW. Confidence is lowest (and a moved deeper negative) in the ACT at -29 pts (-20 pts in Q4'22).

The 2-year confidence measure was also positive in all states, except the ACT (-21 pts). Confidence is highest in the NT (+67 pts), marginally ahead of WA (+63 pts). It lifted in SA (+38 pts), VIC (+38 pts), QLD (+23 pts) and TAS (+28 pts), but softened in NSW (+21 pts down from +26 pts in Q4'22).

Residential property index: next 1-2 years



Survey house price expectations

The average survey forecast for national house prices in the next 12 months was broadly unchanged at -2.3% (-2.5% forecast in Q4'22). Longer-term expectations were also broadly unchanged at -0.3% (-0.5% in Q4'22). See below for NAB's View on Dwelling Prices.

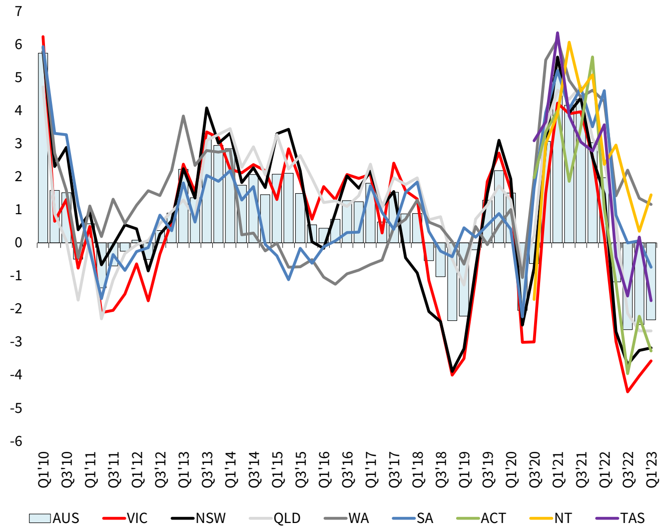
Avg survey expectations: house prices (%)

	Next 1 year	Next 2 years
VIC	-3.6% (-4.0%)	-1.2% (-1.3%)
NSW	-3.2% (-3.3%)	-0.8% (-0.5%)
QLD	-2.7% (-2.7%)	-0.9% (-1.6%)
SA	-0.7% (0.1%)	-0.1% (0.3%)
WA	1.2% (1.3%)	2.9% (2.0%)
ACT	-3.3% (-2.2%)	-1.4% (-0.4%)
NT	1.5% (0.4%)	3.3% (1.5%)
TAS	-1.8% (0.2%)	-0.3% (1.4%)
AUS	-2.3% (-2.5%)	-0.3% (-0.5%)

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

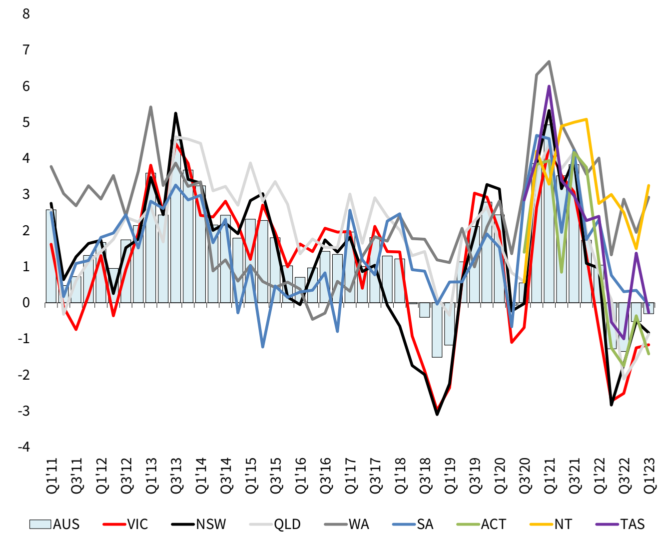
Expectations for the next 12 months are highest (and lifted sharply) in the NT (1.5%) and WA where expectations were broadly unchanged (1.2%). Property professionals expect house prices to continue falling across the rest of the country, led by VIC (-3.6%), the ACT (-3.3%) and NSW (-3.2%). Expectations in QLD were unchanged (-2.7%), but were cut sharply in TAS (-1.8%). Property professionals in SA see local house prices sliding by a relatively modest -0.7%, after predicting a flat outcome in Q4'22 (-0.1%).

Avg survey expectations: next 1 year (%)



Property professionals in the NT (3.3%) and WA (2.9%) are also the most positive for house price growth in 2 years' time (and by some margin). Dwelling prices are expected to be remain basically flat in SA (-0.1%) and TAS (-0.3%). Price growth in 2 years' time is now expected to be lowest in the ACT (-1.4%), followed by VIC (-1.2%), QLD (-0.9%) and NSW (-0.8%).

House price expectations: in 2 years (%)



Survey rental expectations

With Australia still experiencing a period of very low rental vacancy and strong demand, rental expectations remain elevated at well above survey average levels. The average survey forecast is for national rents to grow 4.0% next year and in 2 years' time (3.1% & 3.3% forecast in Q4'22), or roughly twice the survey average. With rental growth continuing to outpace dwelling values, gross rental yields should also continue to rise.

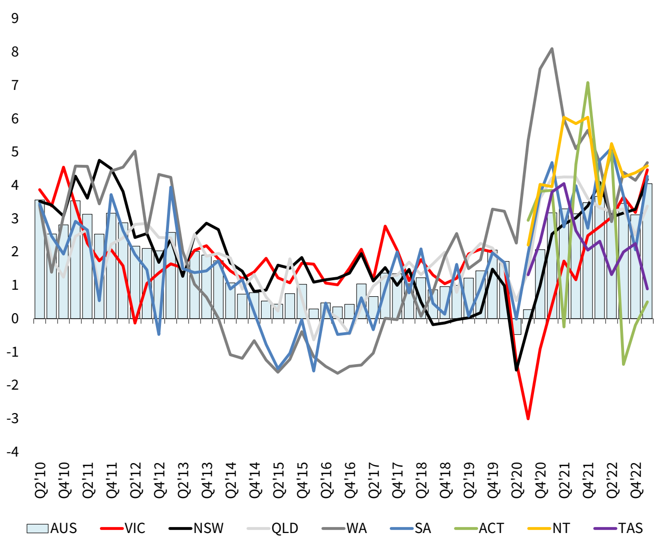
Avg survey expectations: rents (%)

	Next 1 year	Next 2 years
VIC	4.5% (3.2%)	5.0% (3.8%)
NSW	4.2% (3.3%)	4.2% (3.5%)
QLD	3.4% (2.5%)	3.0% (2.6%)
SA	4.3% (2.1%)	4.5% (2.1%)
WA	4.7% (4.1%)	3.7% (4.3%)
ACT	0.5% (-0.2%)	0.9% (-0.3%)
NT	4.6% (4.4%)	5.4% (4.4%)
TAS	0.9% (2.3%)	1.5% (1.8%)
AUS	4.0% (3.1%)	4.0% (3.3%)

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

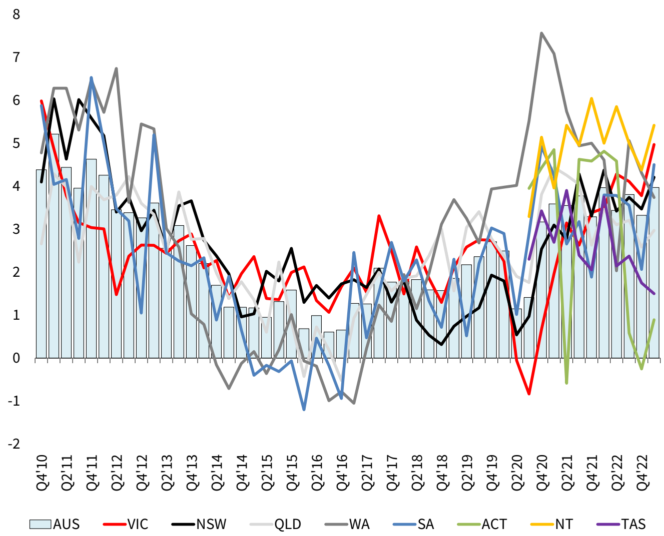
The average survey expectation is positive in all states for the next 12 months, and was revised up in all states except TAS. Rental growth is expected to be highest in WA (4.7%), followed by the NT (4.6%), VIC (4.5%), SA (4.3%) and NSW (4.2%). Relatively strong growth is also forecast in QLD (3.4%), with rents expected to grow more modestly in TAS (0.9%) and the ACT (0.5%).

Rental expectations: next 1 year (%)



Rental growth in 2 years' time is expected to be fastest according to property professionals in the NT (5.4%) and VIC (5.0%), with expectations also revised up from 4.4% & 3.8% respectively in the previous survey. Expectations are also quite strong in SA (4.5%) and NSW (4.2%), and higher than in Q4'22 (2.1% & 3.5% respectively). In QLD, expectations were lifted to 3.0% (2.6% in Q4'22), and turned positive in the ACT (0.9% up from -0.3% in Q4'22). Expectations are positive in WA (3.7%) and TAS (1.5%), but were revised down from 4.3% & 1.8% respectively in the previous survey.

Rental expectations: In 2 years (%)

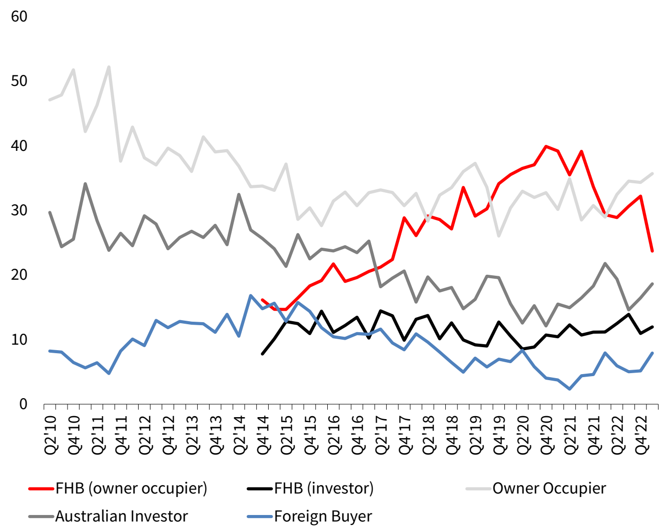


New developments

First home buyers (FHBs) pulled back in new property markets during Q1, with their share of total sales falling to a near 6-year low 35.7% (43.2% in Q4'22), and dipped below the survey average (38.8%). The decline was attributed to a sharp drop in the number of FHB owner occupiers to a 5½ year low 23.7% (32.2% in Q4'22). In contrast, the number of FHB investors in the market increased slightly to 12.0% (10.9% in Q4'22).

Overall, the share of FHBs was lowest and fell heavily in VIC to 25.5% (45.6% in Q4'22) and NSW to 27.5% (48.3% in Q4'22). It was highest in SA (55.0%) and WA (49.3%). FHB owner occupiers accounted for the lowest share of sales in NSW (14.2%) and the highest in SA (50.0%), while FHB investors were by far least active in VIC (6.5%) and most active in WA (24.3%).

Buyers: New developments (% share)



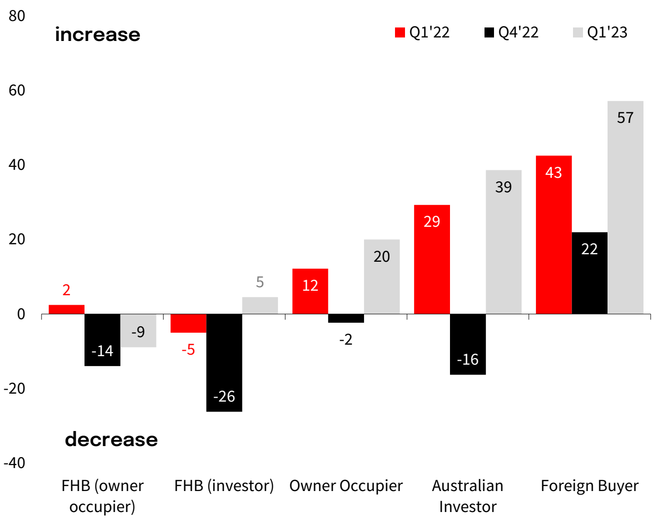
On average, sales to owner occupiers (net of FHBs) increased a little to 35.7% (34.3% in Q4'22), and trended basically in line with the survey average (35.4%). These buyers were most prevalent in VIC (47.5%) and least active in WA (28.6%).

The share of resident investors in new housing markets rose for the second consecutive quarter to 18.6% (16.5% in Q4'22), but is still well below the survey average (21.9%). Domestic investors in Q1 were most active in QLD (26.7%) and least so in SA (5.0%).

The overall market share of foreign buyers rose to 7.9% in Q1 (5.2% in Q4'22), but continues to trend below average (9.0%). Market share in Q1 was highest and jumped steeply in NSW to 16.2% - the highest read since Q1'15 (21.0%). The share of foreign buyers also increased in WA (7.9%) and QLD (7.5%), but fell to a 2-year low in VIC (4.0%) - see Foreign Buyers section below for more detail.

Property professionals were also asked if they thought the market share of buyers in new housing markets would increase or decrease in the next 12 months in each buyer group. In net terms, the number who said market share would rise out-weighed those predicting it would fall in all groups, except FHB owner occupiers where the number who said it would fall exceeded those that said it would increase (-9). Interestingly, the number of property professionals expecting foreign buyers to increase their market share in new property markets significantly out-weighed those expecting their market share to fall (+57).

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

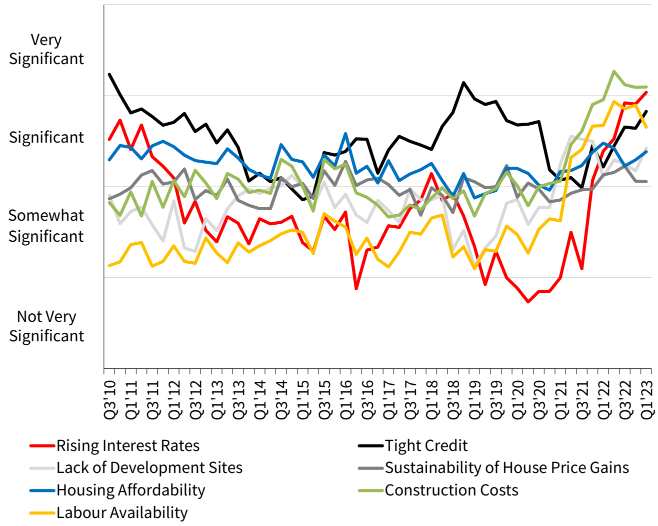


New housing market constraints

Construction costs continue to be identified as the main constraint for new housing development in Australia, and it is considered to be a "very" significant constraint overall. It was also highlighted as the leading constraint in NSW, QLD and WA.

With the official cash interest rate raised a further 25 bps in both February and March 2023 to a near 11-year high 3.60% (and widely tipped to continue rising), interest rates are now also being viewed as a "very" significant constraint nationally, and is the biggest constraint overall in VIC.

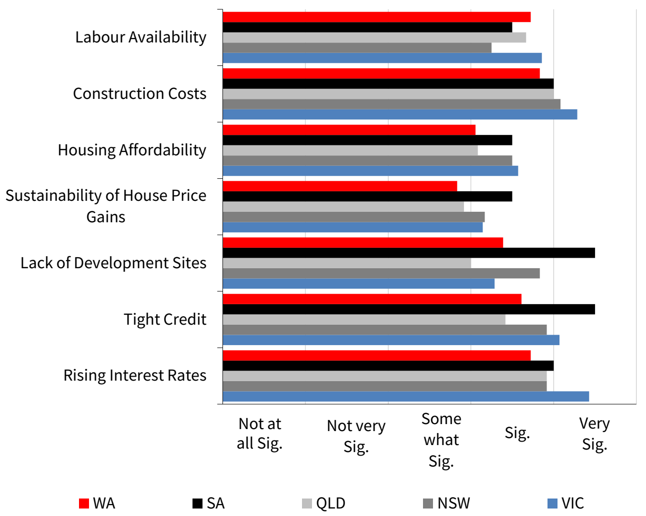
Constraints on new housing developments



Tight credit was highlighted by property professionals as the next biggest hurdle for new property development in Australia, and considered more troublesome in SA and VIC than in all other states and territories.

The impact of labour availability on the market however moderated somewhat during Q1, with the impact most prominent in NSW and WA. Property professionals overall however highlighted a somewhat bigger impact on new housing developments from a lack of development sites, led by SA and NSW. The sustainability of house price gains continued to have the least negative impact on new housing developments in Q1.

Constraints on new housing developments - states



Established property

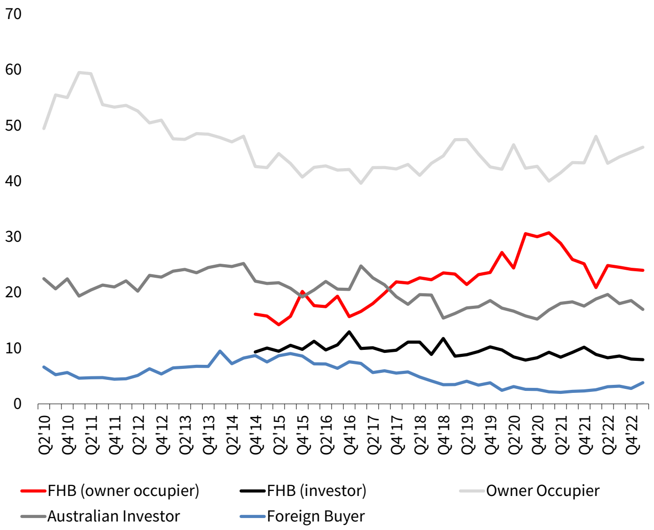
In established housing markets, buying activity continued to be dominated by owner-occupiers (net of FHBs). In Q1, their overall market share increased for the third straight quarter to 46.1% (45.2% in Q4'22), and tracked the survey average (46.2%). Owner occupiers accounted for the biggest share of total sales in all states, ranging from 49.2% in QLD to 42.1% in NSW.

The overall share of FHBs in established housing markets slipped to 31.9% (32.2% in Q4'22), but continued to trend just above the survey average (31.7%). The overall share of FHBs was highest in WA (36.5%) and lowest in QLD (25.8%).

When broken down by buyer type, the overall share of FHB owner occupiers was broadly unchanged at an above average 24.0% (24.2% in Q4'22), and ranged from 27.1% in SA to 18.8% in QLD. The overall share of FHB investors inched down to a 2½-year low 7.9% (8.0% in Q4'22), with market share highest in WA (10.6%) and lowest in VIC (6.7%).

The total share of local investors in established housing markets also fell to a below average 17.0% in Q1 (18.6% in Q4'22). These investors were most prolific in QLD (18.4%), and least active in WA (15.3%).

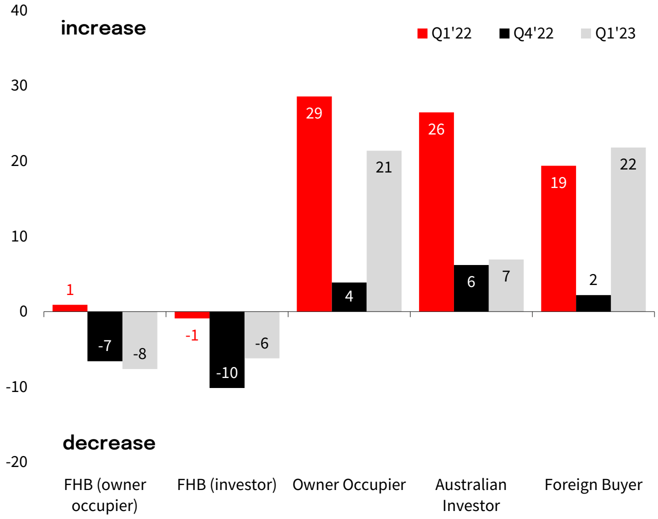
Buyers - established property (% share)



The share of foreign buyers in established housing markets lifted slightly to 3.8% in Q1 (2.8% in Q4'22), but remains well down on the survey average (5.2%). Foreign buyer market share increased in all states in Q1. It was highest in QLD (4.6%), followed by VIC (4.2%), and lowest in WA (2.9%) and NSW (3.7%), but continued to trend below survey average levels in all states - see Foreign Buyers section below for more detail.

In net terms, more property professionals expect the market share of buyers in established housing markets to rise than fall in the next 12 months for foreign buyers (+22 from +2 in Q4'22), owner occupiers (+21 from +4 in Q4'22) and local investors (broadly unchanged at +7). More property professionals however expect the market share of total sales to fall than increase for FHB owner occupiers (broadly unchanged at -8) and investors (-6 from -10 in Q4'22).

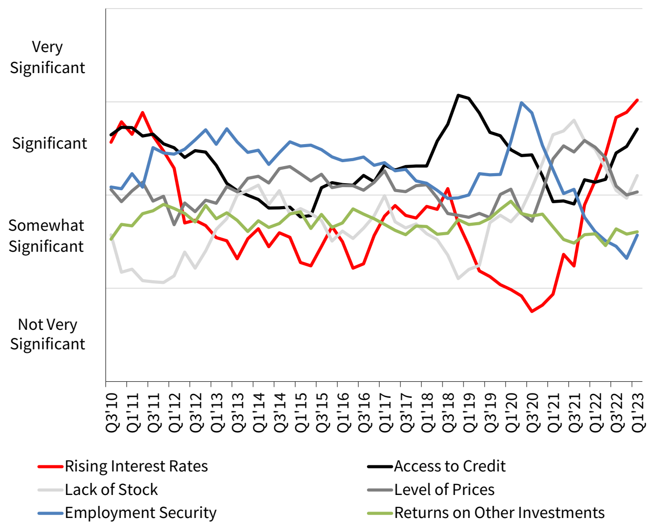
Expected change in share of established property buyers (net balance)



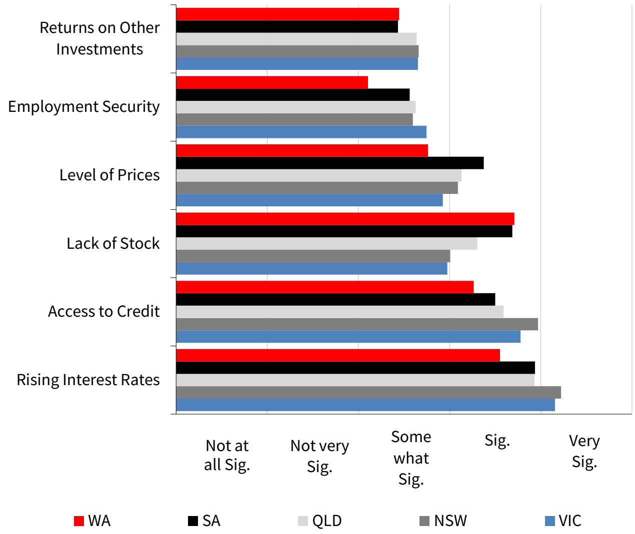
Established housing market constraints

As interest rates continue to climb, they are becoming an ever bigger (and growing) constraint for buyers of existing property across the country - and now considered to be a "very" significant constraint. Rising rates were also identified as the biggest constraint for home buyers in all states (particularly NSW and VIC). WA was the exception where lack of stock was having the biggest impact on buyers.

Constraints on established property



Constraints on established property - states

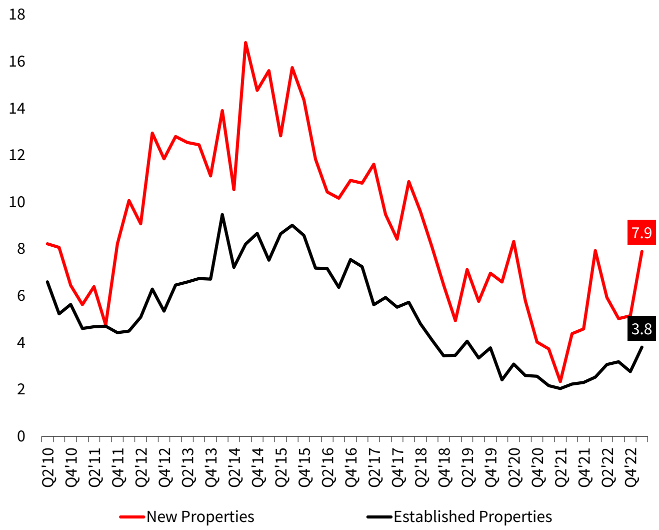


Access to credit was the next biggest hurdle for buyers, and deemed "significant" in all states (bar WA). It was most problematic for buyers in NSW and VIC. Lack of stock and price levels also had a bigger influence on buyers in Q1, and seen as a "significant" constraint for buyers, particularly in WA and SA. Employment security and returns from other investments continue to have the least influence on home buyers across the country, with their impact rated only "somewhat" significant.

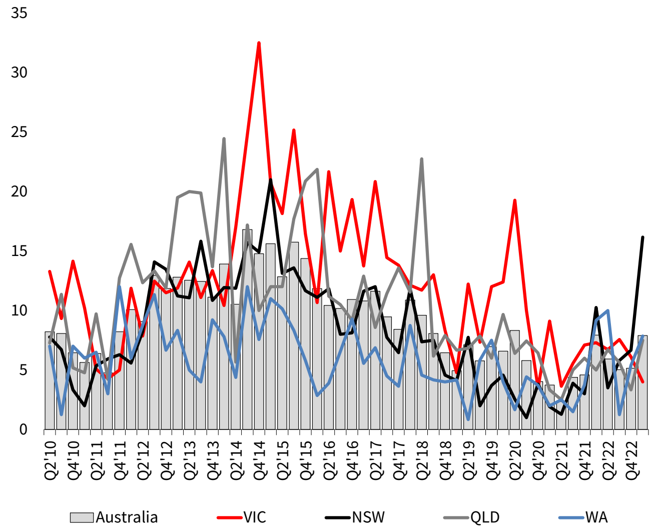
Foreign buyers

Foreign buyers were bigger players in Australian housing markets in Q1. In new housing markets, their overall share of sales rose to 7.9% in Q1 (5.2% in Q4'22), though still below average (9.0%).

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

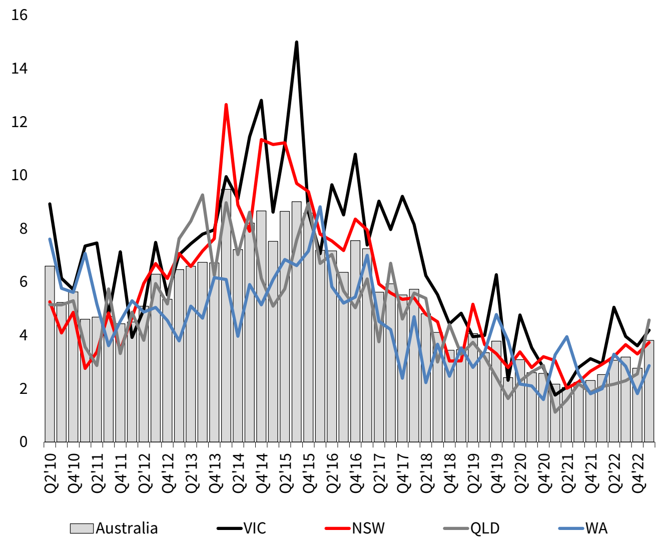


Share of demand for new property: Foreign buyers (%)



Trends in new housing markets diverged widely across states. In NSW, market share jumped sharply to 16.2% (6.7% in Q4'22) - the highest level in 8 years and double the survey average (8.3%). Foreign buyers were also more active in WA, with market share rising to an above average 7.9% (5.4% in Q4'22). In QLD, market share lifted to 7.5% (3.3% in Q4'22), but trended below average (10.6%). In VIC, however market share fell to a 2-year low 4.0% (6.1% in Q2'22), and was well down on average levels (12.2%).

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



In established housing markets, the market share of foreign buyers rose to 3.8% (2.8% in Q4'22), but remained below average (5.2%). Market share lifted in all states (but was below average in all states). It was highest in QLD (4.6% up from (2.6% in Q4'22) and VIC (4.2% up from 3.6% in Q4'22), and lowest in WA (2.9% up from 1.8% in Q4'22) and NSW (3.7% up from 3.3% in Q4'22).

NAB's view on dwelling prices

The pace of decline in house prices appears to have moderated in in early-2023 despite the ongoing passthrough of a rapid increase in interest rates over the past three quarters and ongoing rises in early-2023, which have seen a very large reduction in household borrowing power.

The CoreLogic 8-capital city dwelling price index rose by 0.8% in March, led by solid gains in Sydney (its second straight increase), Melbourne and Perth, while Brisbane also edged up. Adelaide edged lower in the month, while Hobart continues to decline at a solid clip, and prices further easing in Darwin and Canberra.

Since peaking in early-2022, the overall dwelling price index is now 9% lower, led by large falls in Sydney, Brisbane, Melbourne and Hobart where prices have fallen by around 10% or more from their respective peaks. Prices in Perth and Adelaide have held up significantly better to be down by 0.4% and 2.5%, respectively.

The price adjustment has largely been driven by a very large fall in borrowing power as rates have risen sharply. Increasingly, it appears the very rapid pickup in housing demand is offsetting this drag on prices with population growth rebounding more strongly than expected since borders reopened in early-2022. This is particularly evident in the rental market where vacancies have fallen to very low levels across the capitals, and rents are growing strongly in most areas. Prices also appear to be turning, with the pace of decline having moderated significantly in late-2022 and early signs of an inflection point in early-2023.

As such, we have revised up our expectations for house prices and no longer expect a peak to trough fall of 18%. We now see some further small falls in coming months – totalling around 3.5% - before prices level off for a period and then begin rising in 2024. That sees an annual fall of 4% in 2023 (previously 11%).

That said, there still remains some downside risk to house prices. Volumes and new listings are at low levels and the full impact of higher rates is yet to flow through which could well mean we see some further adjustment.

In the longer run however, the demand and supply balance favours upward pressure on prices. Population growth rebounded to 1.7% in Q3 and is expected to rise to rates not seen since the late-2010s at over 2%. Completions of new dwellings outpaced population growth pre-pandemic, but the balance has now shifted with the supply-side weakening as completions fall. Likely factors weighing on completions are supply chain disruptions, labour shortages and uncertainties over costs and interest rates. Approvals have also fallen by around 30% in the past year, so while the pipeline of work remains high it will be quickly eroded.

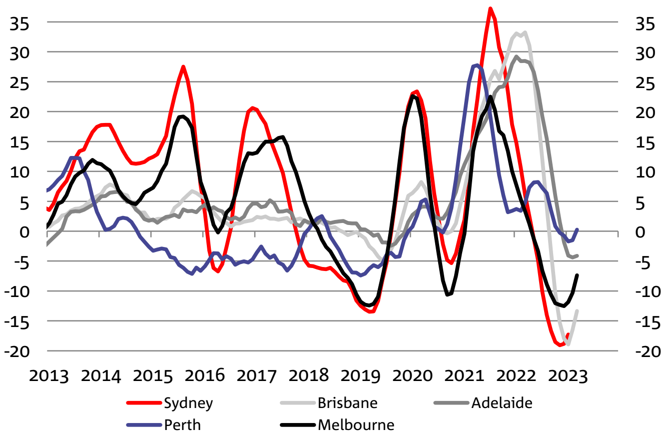
More broadly, we expect economic growth to slow sharply in 2023 and 2024 as the impact of higher rates and inflation weigh on household spending. Dwelling investment is expected to fall moderately, while business investment remains subdued. Government spending is expected to remain high while the contribution from trade will depend on the relative recovery between imports and exports in services.

Slower growth will feed through to the labour market with a lag but ultimately will likely see the unemployment rate begin to drift up in H2 2023, with unemployment reaching 4% by year's end. With growth remaining soft into 2024, we expect unemployment to rise further to 4.7% by the end of the year. While we see employment demand slowing, we don't see an outright fall in employment. Rather the rapid rebound in population growth (labour supply) will not be fully absorbed. Therefore we see wage growth strengthening in the near-term before pressures begin to ease in the out years.

This will be important for where inflation settles as global and transitory factors wane, alongside other domestic factors such as rents growth. Upstream and partial inflation indicators suggest inflation is now past its peak of 7.8% in Q4 2022. For now wage growth does not appear inconsistent with "at-target" inflation and therefore we expect inflation to moderate to around 4.5% by end 2023, and 3% by end 2024.

On rates, we see the RBA on hold from here at 3.6%, until H1 2024 where we see the RBA easing back to around neutral at 3.1%.

Dwelling price growth (6-month ended annualised %)



NAB hedonic dwelling price forecasts (%)*

	2021	2022	2023f	2024f
Sydney	25.3	-12.1	-2.2	4.9
Melbourne	15.1	-8.1	-5.8	6.2
Brisbane	27.4	-1.1	-7.3	2.4
Adelaide	23.2	10.1	-1.5	3.7
Perth	13.1	3.6	0.1	1.2
Hobart	28.1	-6.9	-13.9	0.0
Cap City Avg	**21.0**	**-6.9**	**-3.8**	**4.3**

*percentage changes represent through the year growth to Q4
SOURCE: CoreLogic, NAB Economics

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About the survey

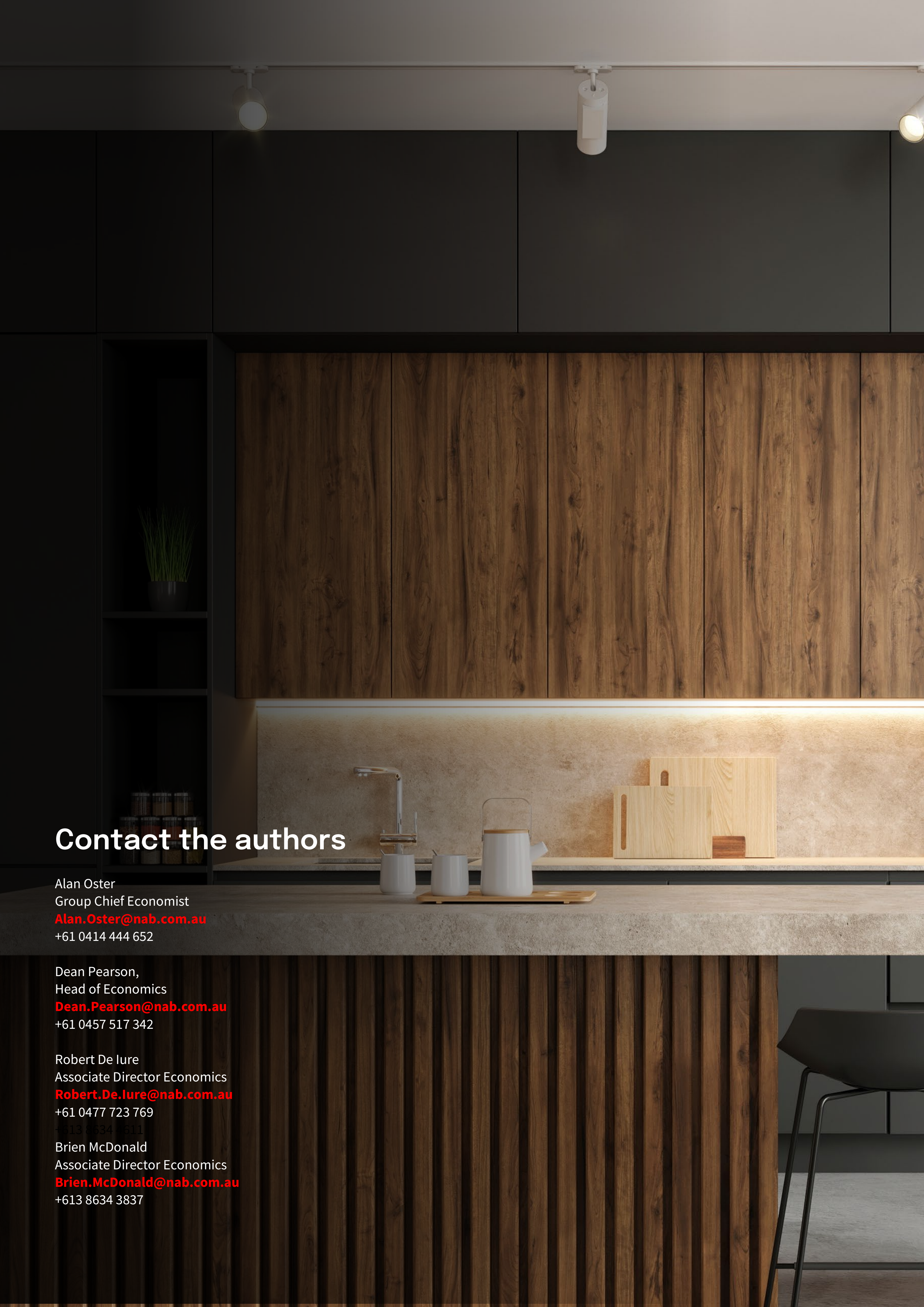
The NAB Quarterly Australian Residential Property survey was first launched in Q1 2011.

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 property professionals participated in the Q1 2023 survey.



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