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more than money

NAB residential property survey Q2-2023

NAB Residential Property Survey Q2-2023

The **NAB Residential Property Index** rose sharply in Q2, underpinned by rising home prices and solid rental growth. Confidence levels also bounced, with recovery expectations now much firmer. New survey findings point to substantial undersupply of rental property across much of the country. New research also reveals that 2 in 3 property professionals believe fast tracking planning permissions and developments would be most effective in reducing Australia's housing shortage, 6 in 10 financial incentives (such as low interest rates, tax incentives), and 1 in 2 creating incentives for older Australians to downsize, building more affordable or public housing, allowing more sub-divisions, or making negative gearing more attractive.

NAB has revised up our outlook for property prices with the demand/supply imbalance offsetting the drag from reduced borrowing power and affordability as rates rise. We see the RBA lifting rates to 4.6% by September, then staying on hold until 2024. That sees property prices rise by 4.7% this year and around 5% next year as rate cuts begin to add some support.

Survey highlights

The NAB Residential Property Index bounced sharply in Q2, supported by rising home values in most capital cities during the quarter, and solid rental growth amid below average vacancy and supply shortages. Overall, the Index climbed to +33 pts in Q2 (from +9 pts in Q1 and +29 pts at the same time last year) and printed well above the long-term survey average (+17 pts).

Housing market sentiment improved in most states in Q2, and was highest in WA (+81 pts), with solid uplifts also recorded in SA (+53 pts), VIC (+29 pts) and NSW (+20 pts). It remained very weak in the ACT (-100 pts) and TAS (-11 pts) - but from a smaller sample.

Confidence also lifted sharply with recovery expectations now much firmer. Overall, NAB's one-year confidence measure lifted visibly to +46 pts, with the 2-year measure also stronger at +48 pts, with both confidence measures printing above survey average levels for the first time since late-2021/early-2022. Confidence in the next 12 months is highest in WA (+79 pts) and the NT (+75 pts), and improved most in VIC (+51 pts).

Average survey forecasts for national house prices for the next 1-2 years printed positive in Q2 for the first time since Q1'22. Property professionals now see national home values rising 0.6% in the next 12 months, with longer-term expectations at 1.7%. Expectations for the next 12 months improved across the country led by WA (3.2% and still sliding in TAS (-1.5%).

With Australia still experiencing very low rental vacancy and strong demand for rental property (and an overwhelming number of property professionals assessing rental markets in their local areas as undersupplied), rental expectations remain elevated. The average survey forecast in the next 12 months and in 2 years' time was unchanged at a healthy 4.0%. With rental growth outpacing home values, gross rental housing yields should also continue to rise. Survey expectations for rents are positive in most states over the next 1-2 years with VIC leading the way (5.4% & 5.5%).

The market share of all First Home Buyers (FHBs) in new property markets was unchanged at a below average 35.9% in Q2, as stronger activity among FHB owner occupiers (25.2%) was offset by lower sales to FHB investors to a near 2-year low 10.7%. Market share of sales to resident investors also fell to 15.2% in Q2, and now well below levels seen in Q1 2022 prior the start of the current interest rate cycle in May 2022. Market sales to owner occupiers (net of FHBs) continued to grow in Q2, reaching a 10-year high 39.4%. Foreign buyers were also more prominent, with their market share rising for the third straight quarter to 8.5%.

NAB now counts the number of property professionals who identify barriers to starting new residential developments. 8 in 10 see construction costs as the main barrier, with 2 in 3 pointing to rising interest rates. The next most common according to 1 in 2 property professionals were delays in obtaining planning permits and labour availability.

In established housing markets, buying activity continued to be dominated by owner-occupiers (net of FHBs), though market share fell to a below average 45.8% in Q2. The overall share of FHBs in this market however rose to an above average 33.3%, driven by FHB owner occupiers (25.6%). The total share of local investors was unchanged at a below average 17.0% in Q2, while that of foreign buyers dipped to a well below average 3.1% in Q2.

Rising interest rates were again seen as the biggest constraint for buyers of existing property nationally in Q2. It was also the biggest impediment for buyers in all states bar WA, where lack of stock was considered most problematic (and more so than any other state). Access to credit was the next biggest hurdle and deemed "significant" in all states (bar WA). Lack of stock and price levels also had a bigger influence on buyers in Q2, with house prices having a bigger influence on home buyers in NSW and VIC.

In Q2, property professionals were asked to assess the current balance between supply and demand in housing rental markets in their area, and for their views on what policies they thought would be most effective in reducing Australia's housing shortage.

Nationwide, the number that said rental market were undersupplied heavily out-weighed those that said it was oversupplied. Specifically, 30% said it was "extremely" undersupplied, 27% "very" undersupplied, 17% "quite" undersupplied and 13% "somewhat" undersupplied. Only 4% said market conditions were "neutral", 3% "somewhat" oversupplied and 1% "quite" oversupplied. The number who said markets were "extremely" or "very" undersupplied was highest in WA (97%), SA (69%) and VIC (61%), and lowest in NSW (44%) and QLD (55%).

When surveyed Australian property professionals were also asked for their opinions about what policies would be most effective in reducing Australia's housing shortage, around 2 in 3 overall singled out fast tracking planning permissions and developments. Next most effective according to almost 6 in 10 was financial incentives (such as low interest rates and tax incentives), while around 1 in 2 said providing incentives for older Australians to downsize, building more affordable or public housing, allowing more sub-divisions, or making negative gearing more attractive would be most effective.

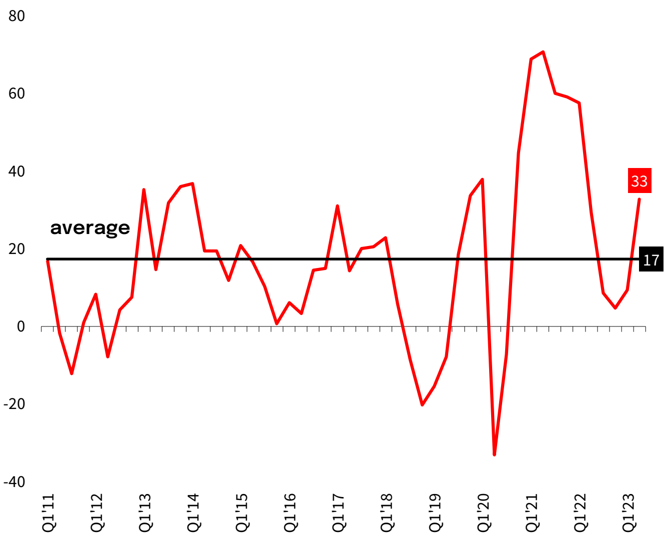
The view from NAB

We have revised up our expectation for dwelling prices based on the recent resilience and outlook for strong housing demand in the near term, while supply growth continues to be challenged by higher rates and supply side pressures. That said, we see the pace of price growth slowing in H2 2023, with prices remaining broadly flat but ending the year around 4.7% higher based on price gains in the year to date.

More broadly, we expect economic growth to have slowed further in Q2 and see flat outcomes for GDP in the second half of the year. Household consumption is the big driver – with the impact of rates and inflation continuing to weigh on spending. Slower growth will likely see the unemployment rate drift up to around 5% by the end of 2024 – though this should ease some wage pressure in the labour market. Inflation has peaked, but how quickly it moderates will be important for policy from here. Policy is now clearly slowing activity, but inflation is expected to remain above target until 2025 – we continue to see two further hikes taking the cash rate to 4.6% by September, with little moderation in the quarterly pace of inflation expected in the near term. With the RBA beginning to normalise rates in 2024, we see some support for dwelling price growth – pencilling in a gain of around 5% over the year.

View from property experts

NAB residential property index



Residential property index by state

	Q1'23	Q2'23	Next 1yr	Next 2yrs
VIC	5	29	51	52
NSW	-7	20	37	43
QLD	6	25	33	36
SA	42	53	69	72
WA	51	81	79	66
ACT	-71	-100	-67	-50
NT	67	63	75	75
TAS	-29	-11	-11	28
AUST	**9**	**33**	**46**	**48**

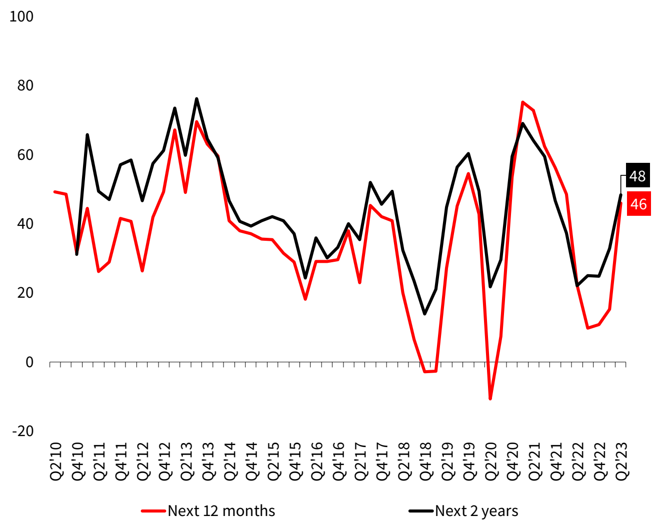
View from NAB economics

NAB hedonic dwelling price forecasts (%)*

	2021	2022	2023f	2024f
Sydney	25.3	-12.1	6.9	4.9
Melbourne	15.1	-8.1	2.0	7.4
Brisbane	27.4	-1.1	5.4	2.9
Adelaide	23.2	10.1	3.0	3.7
Perth	13.1	3.6	6.0	6.2
Hobart	28.1	-6.9	-6.4	0.0
Cap City Avg	**21.0**	**-6.9**	**4.7**	**5.0**

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

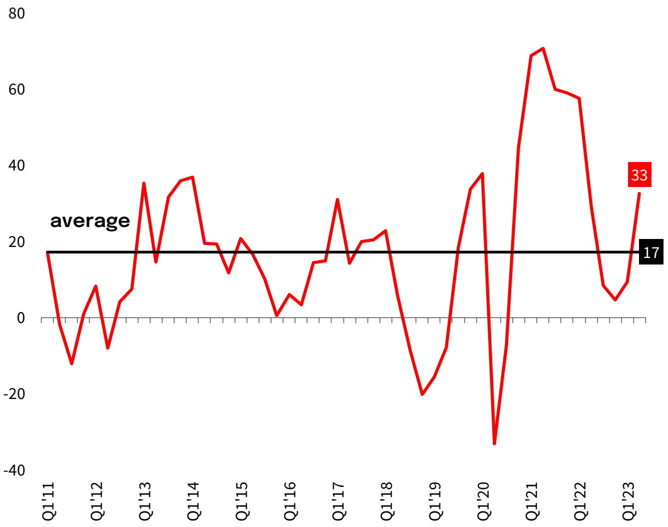
NAB residential property index: next 1-2 yrs



NAB residential property index

The NAB Residential Property Index bounced sharply in Q2, supported by rising home values in all capital cities during the quarter (bar Darwin), and solid rental growth amid below average vacancy and supply shortages. Overall, the Index climbed to +33 pts in Q2 (from +9 pts in Q1 and +29 pts at the same time last year) and printed well above the long-term survey average (+17 pts).

NAB residential property index

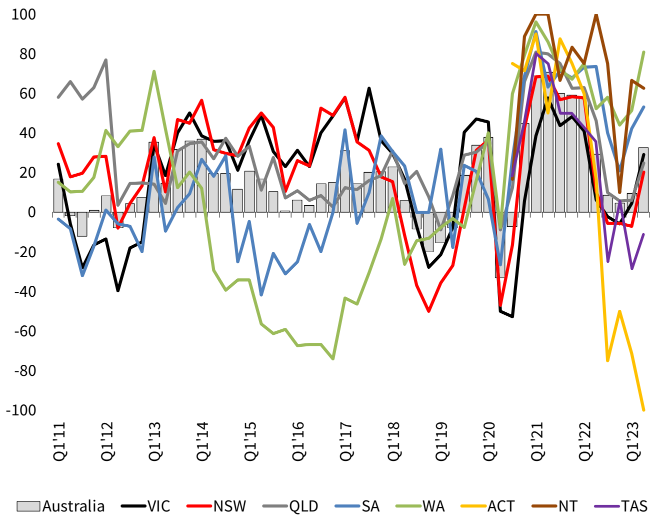


Housing market sentiment improved in all states in Q2, apart from the NT (where it slipped slightly to a still very solid +63 pts), and the ACT (where it fell sharply to -100 pts and was weakest overall by a large margin). Sentiment was highest and improved most in WA (up 30 pts to +81 pts), with solid uplifts also recorded in SA (up 11 pts to +53 pts), NSW (up 27 pts to +20 pts) and VIC (up 24 pts to +29 pts). Sentiment in TAS also improved but continued to print negative at -11 pts (–29 pts in Q1).

Residential property index by state

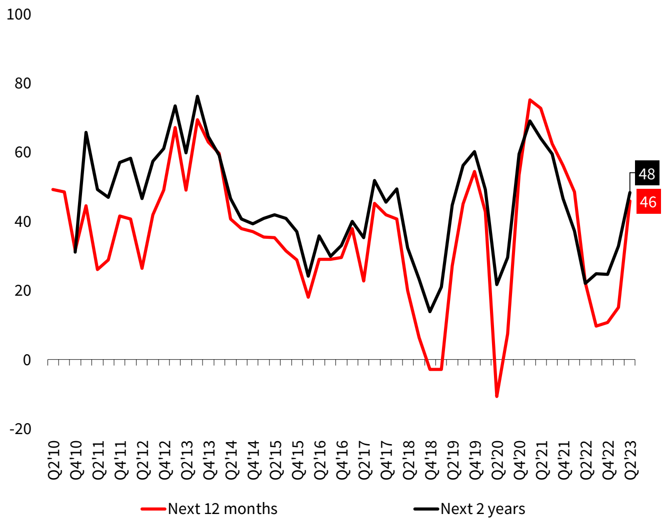
	Q1'23	Q2'23	Next 1yr	Next 2yrs
VIC	5	29	51	52
NSW	-7	20	37	43
QLD	6	25	33	36
SA	42	53	69	72
WA	51	81	79	66
ACT	-71	-100	-67	-50
NT	67	63	75	75
TAS	-29	-11	-11	28
AUST	**9**	**33**	**46**	**48**

Residential property index: states



Confidence levels among surveyed property professionals also improved sharply in Q2, with expectations for a housing market recovery in the next few years now more robust. NAB's one-year confidence measure lifted noticeably to +46 pts (from a below average +15 pts in Q1), with the 2-year measure also stronger at +48 pts (+33 pts in Q1). Both confidence measures in Q2 printed above long-term average levels for the first time since late-2021/early-2022.

Residential property index: next 1-2 years

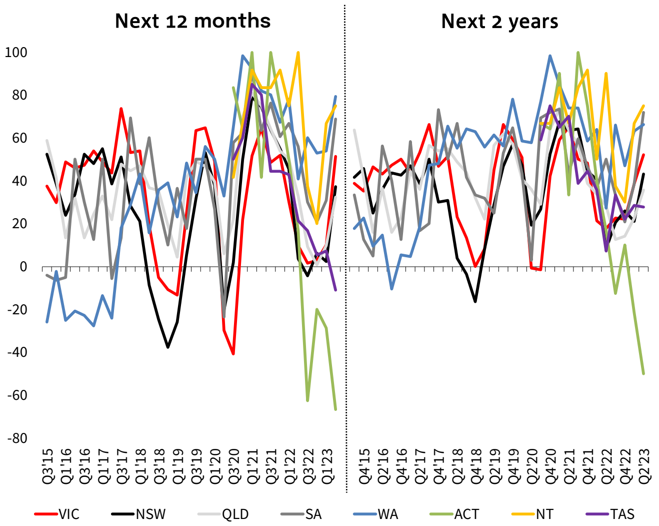


Housing market confidence in the next 12 months is highest in WA (+79 pts) and the NT (+75 pts). Confidence levels were also positive and improved in SA (+69 pts), VIC (where it rose most to +51 pts), NSW (+37 pts) and QLD (+33 pts). Confidence printed lowest and was deeper negative in the ACT (-67 pts from -29 pts) and was unchanged and negative in TAS (-11 pts).

The 2-year confidence measure printed positive in all states, apart from the ACT where it dipped further to -50 pts (-21 pts in Q1).

Confidence was highest and rose to +75 pts in the NT (+67 pts in Q2), marginally ahead of SA where the confidence index rose sharply to +72 pts (+38 pts in Q1). Confidence levels in WA inched up to +66 pts (+63 pts in Q1) but printed much higher in VIC at +52 pts (+38 pts in Q1), NSW (+43 pts from +21 pts) and QLD (+36 pts from +23 pts). Longer-term confidence in TAS was unchanged over the quarter at +28 pts.

Residential property index: next 1-2 years



Survey house price expectations

Average survey forecasts for national house prices over the next 1-2 years printed positive in Q2 for the first time since Q1'22. Property professionals on average now see national home values rising 0.6% in the next 12 months (-2.3% forecast in Q1), with longer-term expectations now at 1.7% (-0.3% forecast in Q1) - **See section below for NAB's View on Dwelling Prices**.

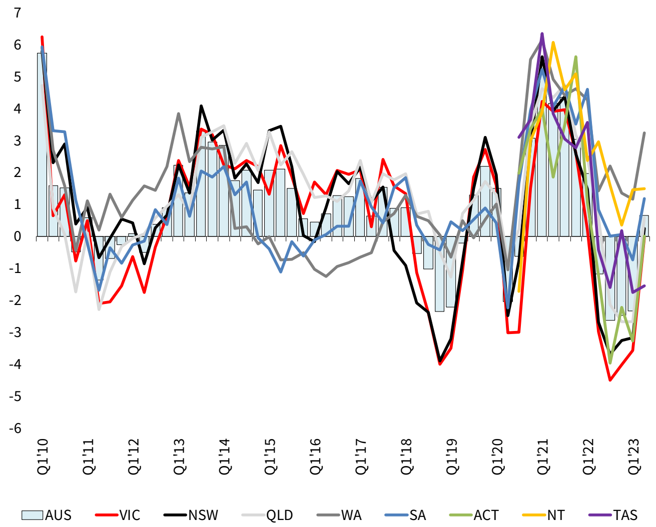
Avg survey house price expectations (%)

	Next 1 year	Next 2 years
VIC	-0.1% (-3.6%)	1.1% (-1.2%)
NSW	0.3% (-3.2%)	1.5% (-0.8%)
QLD	0.6% (-2.7%)	1.0% (-0.9%)
SA	1.2% (-0.7%)	2.0% (-0.1%)
WA	3.2% (1.2%)	4.2% (2.9%)
ACT	0.0% (-3.3%)	0.5% (-1.4%)
NT	1.5% (1.5%)	3.8% (3.3%)
TAS	-1.5% (-1.8%)	2.0% (-0.3%)
AUS	**0.6% (-2.3%)**	**1.7% (-0.3%)**

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

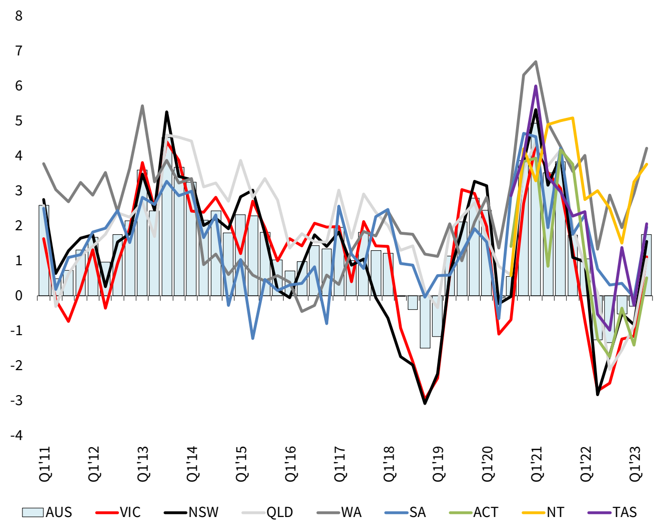
Expectations for the next 12 months improved across the country but ranged sharply. House prices are forecast to grow fastest in WA (3.2% revised from 1.2% in Q1), followed by the NT (unchanged at 1.5%) and SA/NT (1.2% from -0.7%). Home values are expected to rise more modestly in QLD (0.6% from -2.7% in Q1) and NSW (0.3% from -3.2% in Q1). Expectations improved sharply in the ACT (0.0%) and VIC (-0.1%) and are now flat (reversing expectations for heavy falls in Q1). They are weakest in TAS with prices on average expected to slide -1.5% (-1.8% in Q1).

Survey house price expectations: next 1y (%)



Property professionals in WA (4.2%) and the NT (3.8%) are still the most positive about house price growth in 2 years' time (and by some margin). Expectations were revised up and are now also positive in all other states, led by SA (2.0%), TAS (2.0%) and NSW (1.5%). Broadly similar outcomes are expected in VIC (1.1%) and QLD (1.0%), with price growth slowest in the ACT (0.5%).

Survey house price expectations: in 2y (%)



Survey rental expectations

With Australia still experiencing a period of very low rental vacancy and strong demand for rental property (and an overwhelming number of survey respondents also assessing rental markets in their local areas as undersupplied - see special survey question on page 11), rental expectations remained elevated in Q2 at well above survey average levels. The average survey forecast for rents in the next 12 months and in 2 years' time was unchanged at a healthy 4.0% - roughly twice their respective survey average levels. With rental growth outpacing dwelling values, gross rental housing yields should also continue to rise.

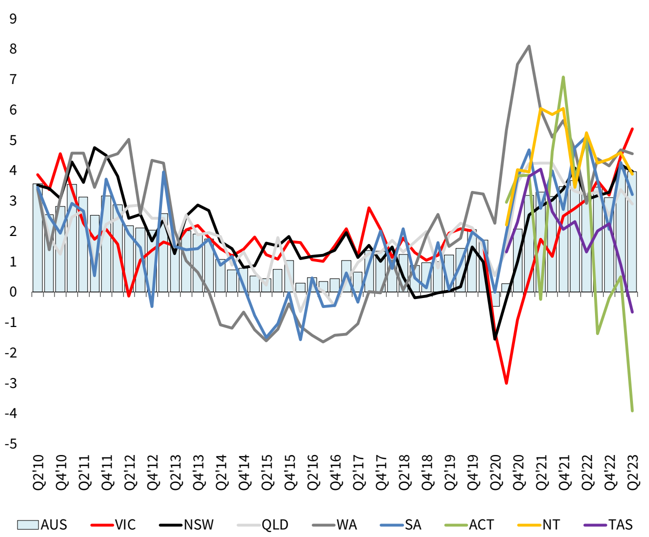
Avg survey expectations: rents (%)

	Next 1 year	Next 2 years
VIC	5.4% (4.5%)	5.5% (5.0%)
NSW	4.0% (4.2%)	4.0% (4.2%)
QLD	2.9% (3.4%)	3.2% (3.0%)
SA	3.2% (4.3%)	3.5% (4.5%)
WA	4.6% (4.7%)	4.0% (3.7%)
ACT	-3.9% (0.5%)	-2.7% (0.9%)
NT	3.9% (4.6%)	5.1% (5.4%)
TAS	-0.7% (0.9%)	0.5% (1.5%)
AUS	**4.0% (4.0%)**	**4.0% (4.0%)**

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

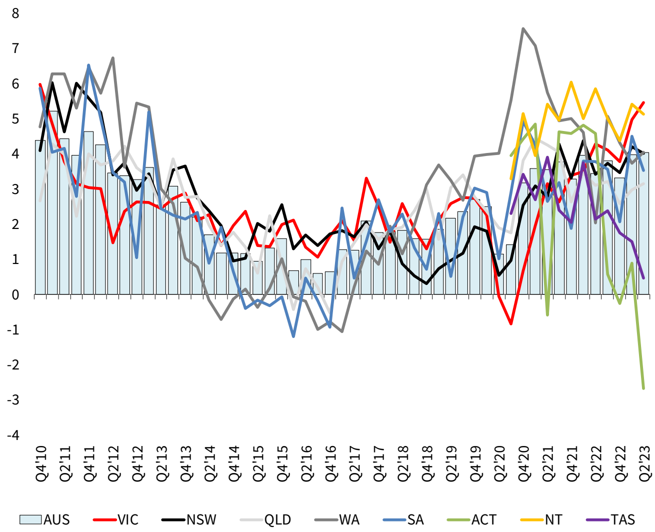
Survey expectations are positive in most states in the next 12 months, with VIC leading the way (5.4%) followed by WA (4.6%) and NSW (4.0%). Solid returns are also forecast in the NT (3.9%), SA (3.2%) and QLD (2.9%), with property professionals expecting rents to fall quite sharply in the ACT (-3.9%) and TAS (-0.7%).

Survey rental expectation: next 1y (%)



Rental growth in 2 years' time is expected to remain highest according to property professionals in VIC (5.5%) and the NT (5.1%), with solid expectations also for NSW and WA (4.0%), SA (3.5%) and QLD (3.2%). Modest rental growth is forecast for TAS (0.5%) with rents expected to fall sharply in the ACT (-2.7%)

Survey rental expectation: in 2y (%)



New housing markets

The market share of all First Home Buyers (FHBs) in new property markets was broadly unchanged in Q2 at 35.9% (35.7% in Q2) and continued to trend below the survey average (38.7%). Though the overall market share of FHB owner occupiers in new housing markets lifted to 25.2% (23.7% in Q1), the share of FHB investors fell to a near 2-year low 10.7% (12.0% in Q1).

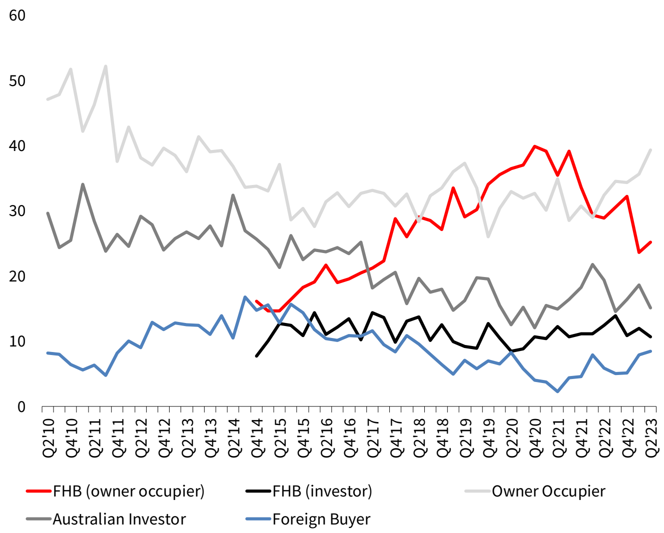
Overall, the share of FHBs was lowest and fell heavily in WA (24.2% from 49.3% in Q1), and highest in SA (50.0%), followed by NSW (41.7%) and VIC (35.0%)- though market share in both these states continued to shrink (from 48.3% & 45.6% respectively in Q1).

FHB owner occupiers accounted for the smallest share of total sales in WA (15.0%) and QLD in (20.0%) and remained highest by some margin in SA (45.0%). FHB investors however accounted for the smallest share of sales in SA (5.0%) and VIC (7.8%), and the biggest in NSW (18.3% up from 13.3% in Q1).

On average, the market sales to owner occupiers (net of FHBs) continued to grow in Q2, reaching a 10-year high 39.4% (35.7% in Q1), and now trending well above the survey average (35.5%). These buyers accounted for the largest share of market sales in all states, ranging from 45% in SA and WA to 34.2% in NSW.

The market share of sales to resident or domestic investors in new housing markets fell to 15.2% in Q2 (18.6% in Q1). This is well below levels seen in Q1 2022 prior the commencement of the current interest rate cycle in May 2022, and well below the survey average (21.8%). The market share of domestic investors in Q2 was highest in QLD and WA (17.5%). They were followed by VIC (15.6%) and NSW (15.0%) - with market share in NSW down sharply from 21.7% in Q1.

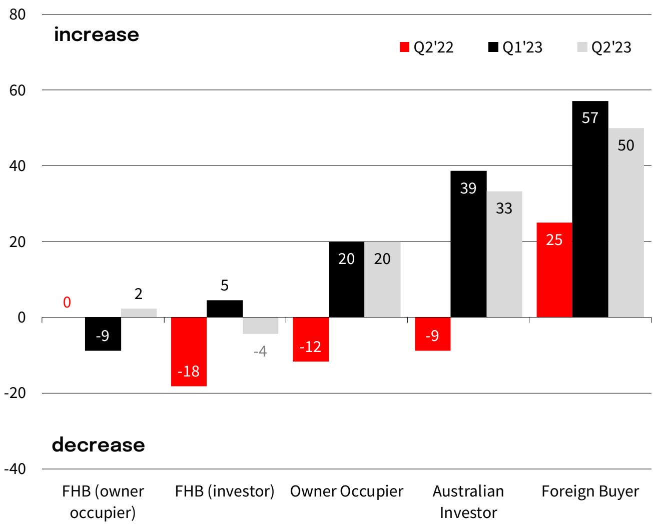
Buyers: new developments (% share)



Market share of foreign buyers in new Australian housing markets rose for the third consecutive quarter to 8.5% in Q2 (7.9% in Q1). It was highest and rose in WA to 11.7% (from 7.9% in Q1), and to 10.0% in QLD (7.5% in Q2) and 7.4% in VIC (4.0% in Q1) - though still trending below survey average levels in both these states. Market share in NSW fell to 9.2% in Q2 (16.2% in Q1) - 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.

Expected change in share of new property buyers in next 12m (net balance)

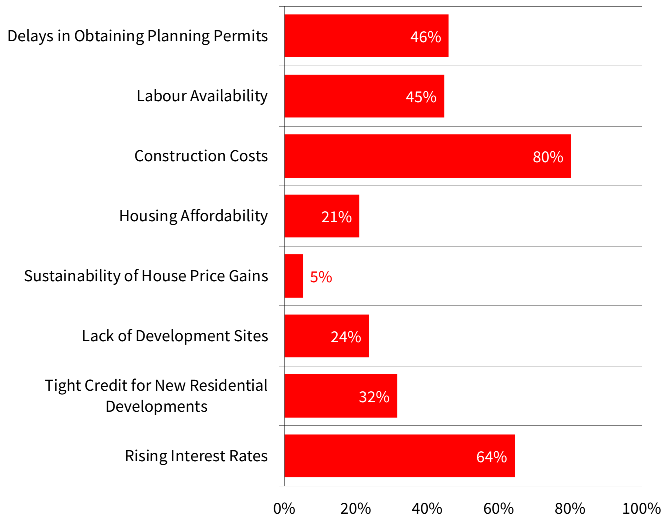


The net number who said market share would rise out-weighed those predicting it would fall for FHB owner occupiers (+2), reversing exceptions from Q1 when more said it would fall (-9). But more property professionals on balance now also think the market share of FHB investors will fall (-4 from +5 in Q1). Expectations are unchanged for owner occupiers (+20). Though moderating in Q2, the net number of property professionals that expect the market share of local investors (+33) and foreign buyers (+50) to increase continues to significantly out-weigh those that expect their market share to fall.

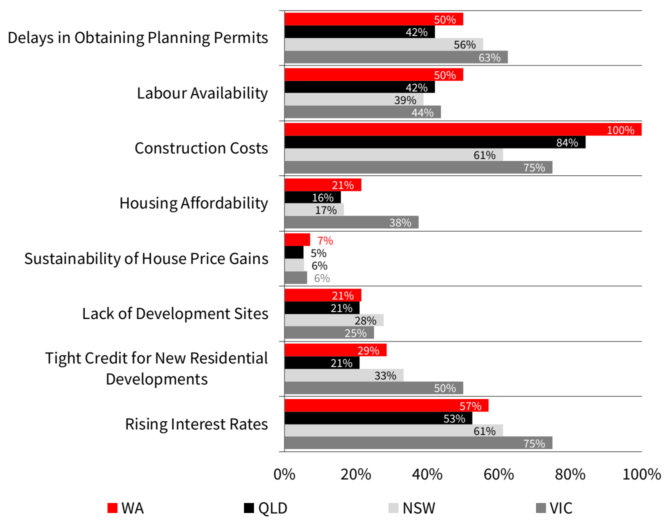
Barriers to starting new housing projects.

NAB previously asked survey participants to rate what constraint several factors place on new housing development (on a scale of “not at all” to “very significant”). NAB has expanded this list and now counts the number of property professionals who identified the main barriers to starting new residential developments.

Main barriers to starting new housing developments



Main barriers to starting new housing developments - states



8 in 10 (80%) surveyed property professionals identified construction costs as the main barrier (led by WA). With official cash rates rising to 4.1% in early-June, 2 in 3 pointed to rising interest rates (64%), with this number climbing to 75% in VIC.

The next most common barriers according to around 1 in 2 property professionals were delays in obtaining planning permits (46%) - rising to 63% in VIC - and labour availability (45%). Around 1 in 3 highlighted tight credit for new residential developments (32%), 1 in 4 (24%) lack of development sites (e.g., land release, supply constraints), and 1 in 5 overall housing affordability (18%), but rising to 38% in VIC.

Established property

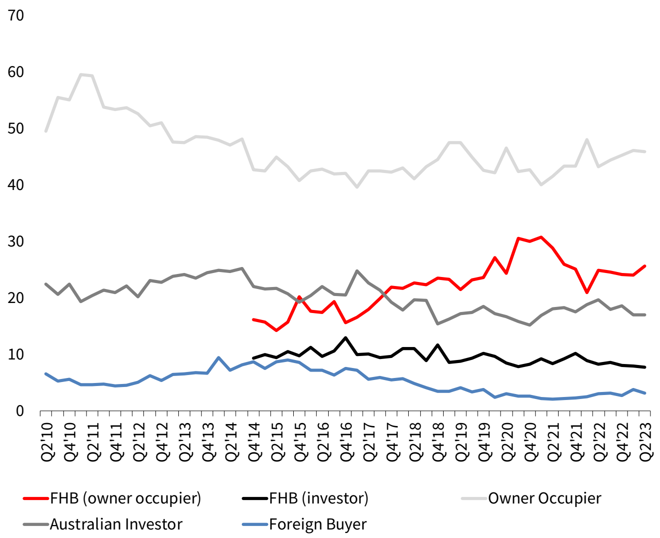
In established housing markets, buying activity continued to be dominated by owner-occupiers (net of FHBs). In Q2, their overall market share however fell to a below average 45.8% (46.1% in Q1). Owner occupiers continued to account for the largest share of established home sales in all states, ranging from 51.1% in WA to 39.6% in SA.

The overall share of FHBs in established housing markets increased to 33.3% in Q2 (31.9% in Q1) and trended above the survey average (31.7%). The overall share of FHBs was highest in NSW (39.1%) and lowest in WA (24.8%).

When broken down by buyer type, the overall share of FHB owner occupiers increased to an above average 25.6% (24.0% in Q1) and ranged from 29.5% in SA to 18.7% in WA. The overall share of FHB investors however inched down to a survey low 7.7% (7.9% in Q1) and trended well below average (9.5%). The market share of buyers in this market segment was highest in NSW (10.1%) and lowest in WA (6.0%).

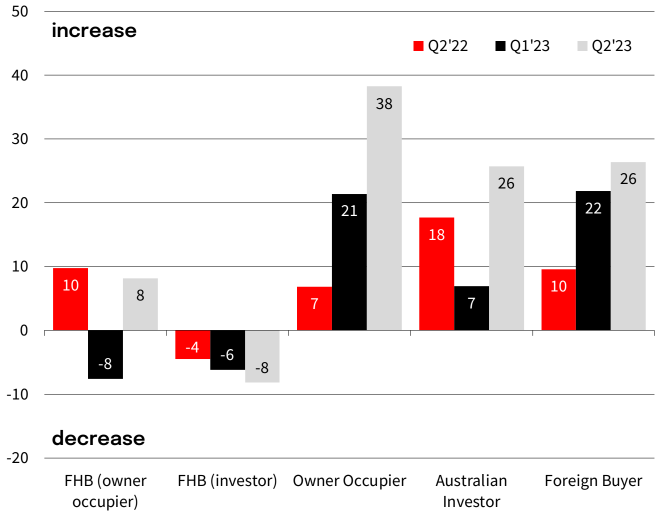
The total share of local investors in established Australian housing markets was unchanged at a below average 17.0% in Q2, with local investors supporting a noticeably larger share of total sales in SA (22.1%) and WA (20.2%) than in QLD (15.8%), VIC (16.0%) and NSW (16.2%).

Buyers - established property (% share)



The share of foreign buyers in established housing markets dipped to 3.1% in Q2 (3.8% in Q1) and was well down on the survey average (5.2%). Foreign buyers accounted for the highest market share in VIC (4.0%) and the lowest n NSW (2.8%) but continued to trend below survey average levels in all states - see Foreign Buyers section below for more detail.

Expected change in share of established property buyers in net 12m (net balance)



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 in all buyer segments, except FHB investors, with the net number expecting their share to fall rising slightly to -8 (-6 in Q1).

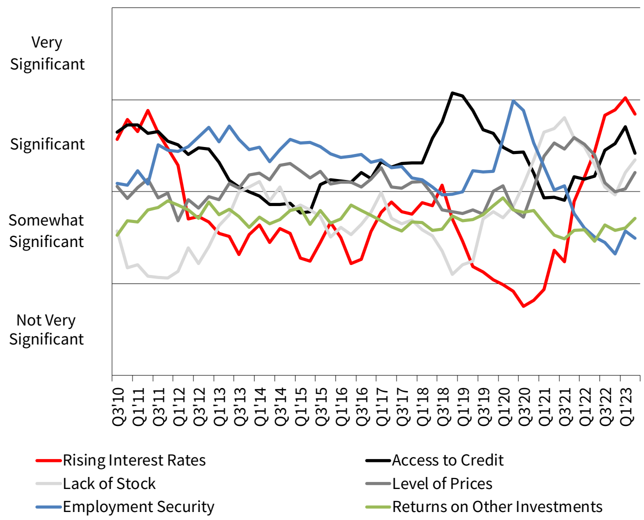
In contrast, significantly more property professionals on balance see owner occupiers (+38 up from +21 in Q1) and resident investors (+26 up from +7) increasing their market share in the next 12 months, with slightly more also predicting higher participation from foreign buyers (+26 from +22). Expectations around FHB owner occupiers also turned positive, with the number expecting their market share to increase now out-weighing those who expect it to fall (+8 from -8 in Q1).

Established housing market constraints

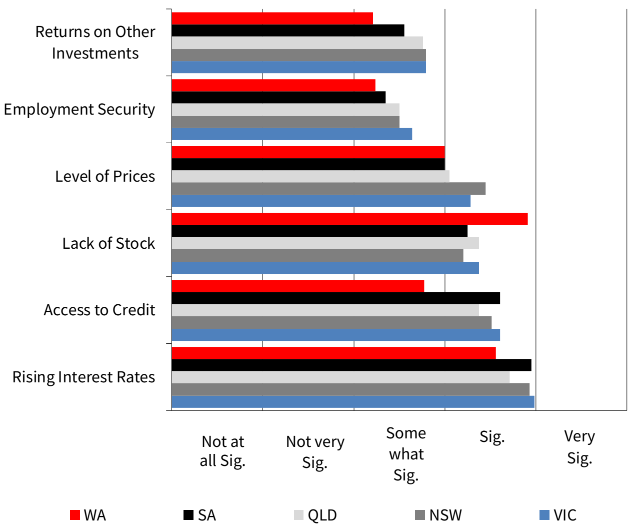
Rising interest rates were again highlighted as the biggest constraint for buyers of existing property nationally in Q2 and was also the biggest impediment for buyers in all states except WA, where a lack of stock was considered most problematic and much more so than in any other state.

Access to credit was the next biggest hurdle for buyers and deemed "significant" in all states (bar WA). Lack of stock (particularly in WA) and price levels had a bigger influence on buyers and considered a "significant" impediment in all states - with still relatively high house price levels having a somewhat bigger influence on home buyers NSW and VIC. Employment security and returns from other investments continue to have the least influence on home buyers across the country, with their impact on buyers only "somewhat significant" in all states.

Constraints on established property



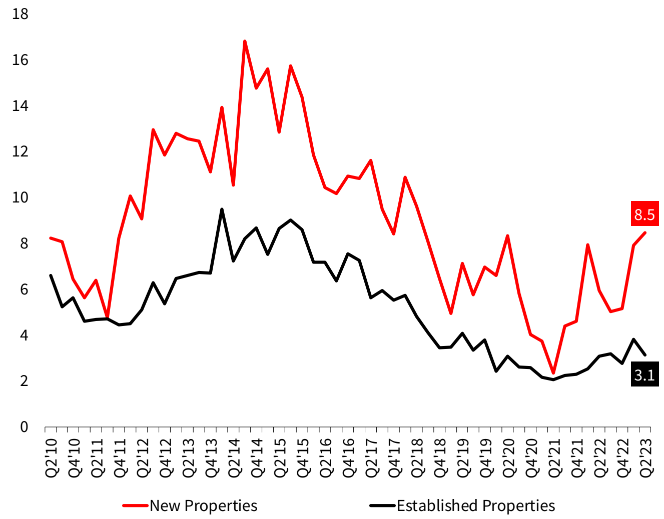
Constraints on established property - states



Foreign buyers

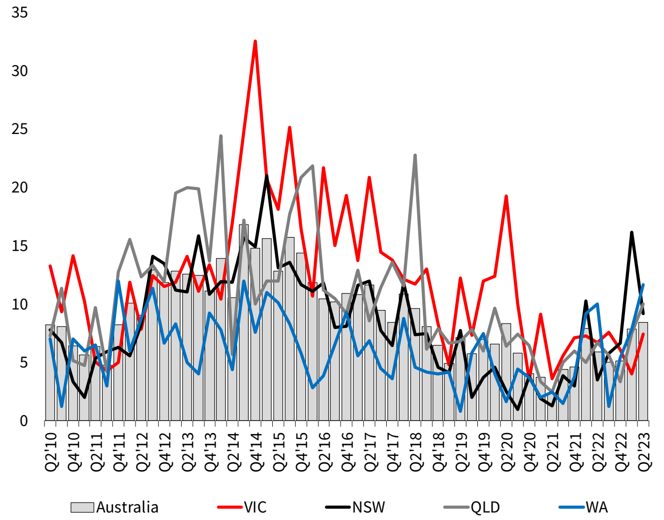
Trends in foreign buyer activity in Australian housing markets diverged in Q2. In new housing markets, their overall share of sales rose for the third consecutive quarter to 8.5% (7.9% Q1) and moved closer back to survey average levels (9.0%). In established housing markets, foreign buyer market share however fell to 3.1% and was well below the survey average (5.2%).

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



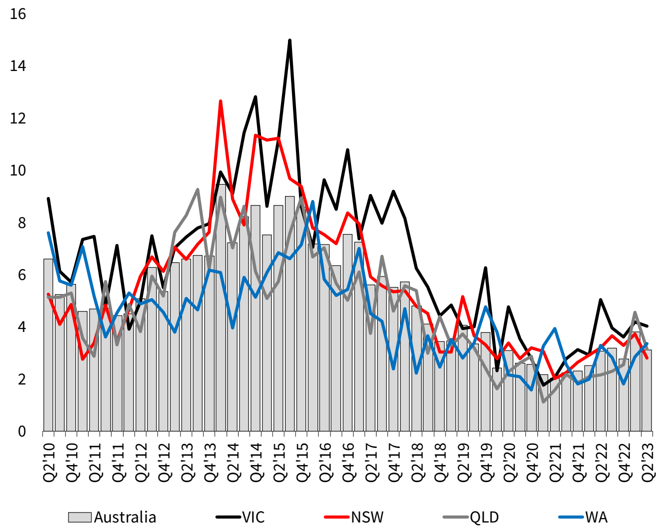
Trends in new housing markets diverged across states. In NSW, market share of foreign buyers fell sharply to 9.2%, after climbing to an 8-year high 16.2% in Q1 but continued to trend above the survey average (8.3%). Market share however increased in all other states. In WA, it lifted to a well above average 11.7% (7.9% in Q1). It also rose in QLD (10.0% from 7.5% in Q1) and VIC (7.4% from 4.0% in Q1) but continued to trend below average in both states (10.6% and 12.1% respectively).

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



In established housing markets, the share of foreign buyers was highest in VIC but fell slightly to 4.0% (4.2% in Q1). Market share also shrank in QLD (3.2% down from 4.6% in Q1) and NSW (2.8% down from 3.7%), but lifted in WA to 3.4% (2.9% in Q1). Foreign buyer market share however continued to trend below survey average levels in all states in Q2.

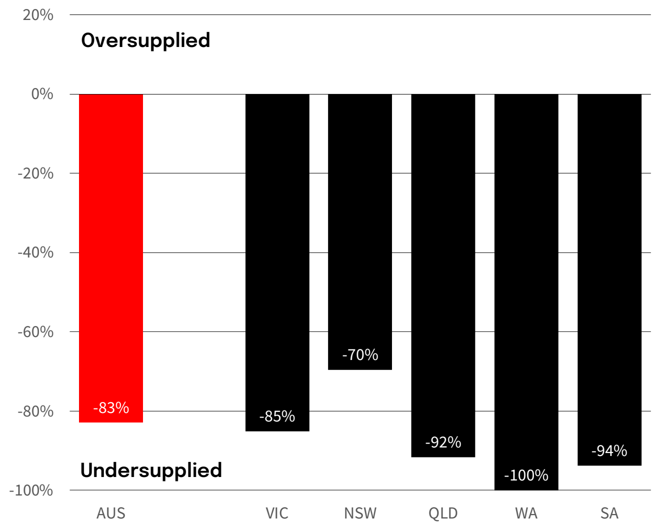
Share of total demand for established property: foreign buyers (%)



Special survey questions

In the Q2 survey, property professionals were asked to assess the current balance between supply and demand in housing rental markets in their area, and for their views on what policies they believed would be most effective in reducing Australia's housing shortage.

Housing demand/supply balance for rental properties (net balance)



Nationwide, the number of property professionals that said the rental market was undersupplied heavily out-weighed those that said it was oversupplied (-83%). Specifically, 30% said the market was "extremely" undersupplied, 27% "very" undersupplied, 17% "quite" undersupplied and 13% "somewhat" undersupplied. Only 4% said market conditions were "neutral", 3% "somewhat" oversupplied and 1% "quite" oversupplied in their area.

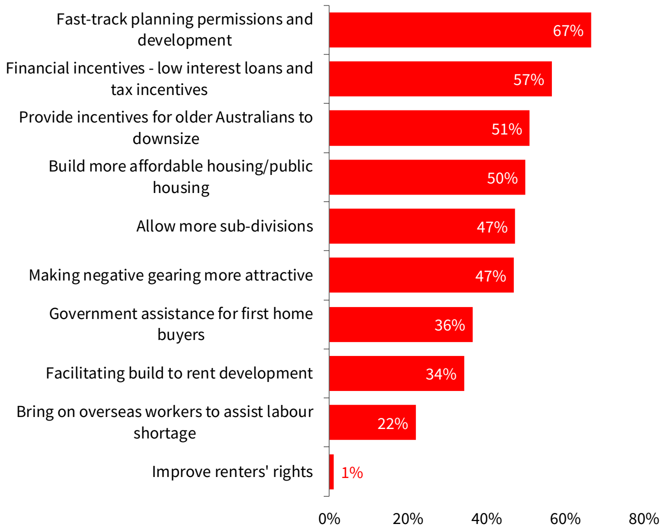
While the net number of property professionals who said housing rental markets were undersupplied heavily out-weighed those who said it was over supplied in all states, it ranged from -100% in WA to -70% in NSW. The number who said markets were "extremely" or "very" undersupplied was highest in WA (97%), followed by SA (69%) and VIC (61%). It was lowest in NSW (44%) and QLD (55%) see table below.

Housing demand/supply balance for rental properties (net balance)

	AUS	VIC	NSW	QLD	WA	SA
Extremely US	30%	33%	20%	28%	65%	25%
Very US	27%	28%	24%	27%	32%	44%
Quite US	17%	15%	19%	22%	3%	19%
Somewhat US	13%	12%	16%	15%	0%	6%
Neutral	4%	4%	8%	2%	0%	0%
Somewhat OS	3%	3%	8%	0%	0%	0%
Quite OS	1%	0%	3%	0%	0%	0%
Very OS	0%	0%	0%	0%	0%	0%
Extremely OS	0%	0%	0%	0%	0%	0%
TOTAL US	**87%**	**88%**	**80%**	**92%**	**100%**	**94%**
TOTAL OS	**4%**	**3%**	**10%**	**0%**	**0%**	**0%**
NET BAL	**-83%**	**-85%**	**-70%**	**-92%**	**-100%**	**-94%**

When surveyed Australian property professionals were also asked for their opinions about what policies would be most effective in reducing Australia's housing shortage, around 2 in 3 (67%) overall singled out fast tracking planning permissions and developments.

Policies most effective in reducing Australia's housing shortage (%)



Next most effective according to almost 6 in 10 (57%) respondents was financial incentives such as low interest rates and tax incentives, while around 1 in 2 believe providing incentives for older Australians to downsize (51%), building more affordable housing or public housing (50%), allowing more sub-divisions (47%), or making negative gearing more attractive (47%) would be most effective.

Around 1 in 3 highlighted government assistance for first home buyers (36%) and facilitating build to rent developments, and 1 in 5 (22%) bringing in workers to assist with labour shortage. Only 1% thought that improving renters' rights would be effective.

Fast tracking planning permissions and developments was seen as key by most property professionals in all states - ranging from 78% in TAS to 62% in WA. Noticeably more property professionals in SA (69%) and VIC (64%) thought financial incentives would be most effective in helping reduce housing shortages, and in WA (59%), NSW (57%) and SA (56%) providing incentives for older Australians to downsize. Around 9 in 10 in TAS (89%) and 7 in 10 in SA (69%) thought more affordable housing would help, compared to just 4 in 10 in NSW (38%).

Making negative gearing more attractive would be most effective in reducing Australia's housing shortage according to more property professionals in SA (63%), WA (51%) and VIC (50%), and fast tracking build to rent development (44%) and bringing in overseas workers to help with labour shortages (35%) in WA - see table below.

Policies most effective in reducing Australia's housing shortage (%): states

	Fast-track planning permissions and development	Financial incentives - low interest loans and tax incentives	Provide incentives for older Australians to downsize	Build more affordable housing/public housing	Allow more sub-divisions	Making negative gearing more attractive	Government assistance for first home buyers	Facilitating build to rent development	Bring on overseas workers to assist labour shortage	Improve renters' rights
AUS	**67%**	**57%**	**51%**	**50%**	**47%**	**47%**	**36%**	**34%**	**22%**	**1%**
VIC	69%	64%	48%	49%	49%	51%	30%	31%	21%	0%
NSW	68%	58%	57%	38%	52%	46%	33%	38%	24%	3%
QLD	63%	47%	45%	55%	55%	40%	38%	28%	17%	0%
WA	62%	44%	59%	50%	38%	50%	41%	44%	35%	3%
SA	63%	69%	56%	69%	19%	63%	50%	31%	13%	0%
TAS	78%	56%	44%	89%	33%	44%	44%	33%	0%	0%

NAB's view on dwelling prices

Dwelling prices have risen across most capital cities in recent months after the CoreLogic 8-Captial City Dwelling Price index reached a trough in February 2023, following a 9.6% decline over the preceding 10 months.

The gains have been led by a relatively strong uptick in Sydney prices which have risen 6.3% since February, though the other major capitals have also seen gains of 2-3%. Hobart has bucked this trend, with prices declining again in June after having been softer than the other capitals over recent months.

The resilience in house prices has been somewhat surprising given the sheer impact of rising interest rates on borrowing power and affordability. Prices are up 16% from pre-COVID levels and have tracked above 1% m/m over the past two months.

A strong rise in housing demand appears to have been a key support with population growth rebounding very strong since international borders reopened in early 2022. Population growth rose to 1.9% by end 2023, its strongest rate since 2008 and higher frequency data points to growth peaking at over 2% this year. This combined with the demand for additional floor space during the pandemic – which will likely take some time to unwind has significantly added to demand while completions of new properties have fallen despite a large pipeline of work to be completed. The fall in completions reflects higher costs, rising rates and labour supply constraints.

While uncertainty is high, we have revised up our expectation for house prices, with flat-to-slightly positive outcomes (as compared to falls expected previously) for the rest of 2023. In addition to year-to-date gains, this would see prices end the year around 4.7% higher. We see prices rising by around 5% in 2024, - supported latter part of the year by rate cuts.

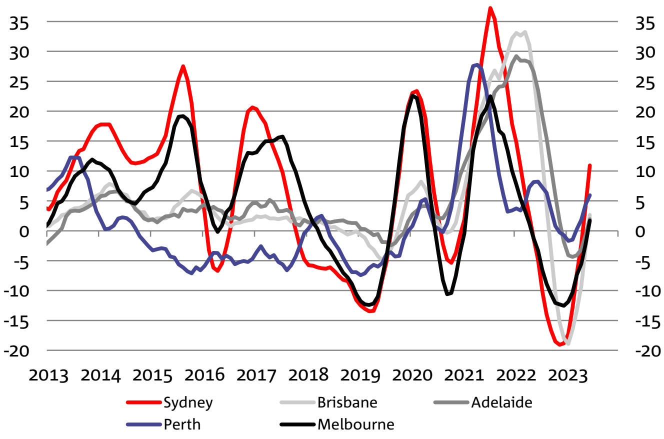
On interest rates we continue to see two further increases in the near term, before the RBA goes on an extended pause until Q2 2024. Rates are now clearly in restrictive territory and in combination with inflation are weighing on household budgets. Spending growth has slowed and we expect flat to negative outcomes for real spending growth over the remainder of 2023.

The slowing in household consumption will see GDP remain broadly flat over H2 2023, while dwelling investment is expected to decline somewhat owing to the fall in approvals and "work through" of the existing pipeline of work. Business investment is expected to also soft, though generally business conditions have held up and capacity utilisation is till high.

The slowing in economic activity will also see a slowing in labour demand. This in combination with faster population growth will see the unemployment rate drift higher over the next year – though with a lag. We see the unemployment rate reaching around 4% by end 2023 and 5% by end 2024.

This should ease of some wage pressure in the labour market and ultimately take some of the broader price pressures out of the economy. That said, while we expect inflation to moderate, we expect it to remain above the top of the RBA's target band until 2025. Underlying inflation is expected to moderate to 4.4% by end 2023, and 3.2% by end 2024. In the near term, services inflation is likely to pressure the RBA while the moderating (or deflation) in goods prices remains uncertain.

Dwelling price growth (6-month ended annualised %)



NAB hedonic dwelling price forecasts (%)*

	2021	2022	2023f	2024f
Sydney	25.3	-12.1	6.9	4.9
Melbourne	15.1	-8.1	2.0	7.4
Brisbane	27.4	-1.1	5.4	2.9
Adelaide	23.2	10.1	3.0	3.7
Perth	13.1	3.6	6.0	6.2
Hobart	28.1	-6.9	-6.4	0.0
Cap City Avg	**21.0**	**-6.9**	**4.7**	**5.0**

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About the survey

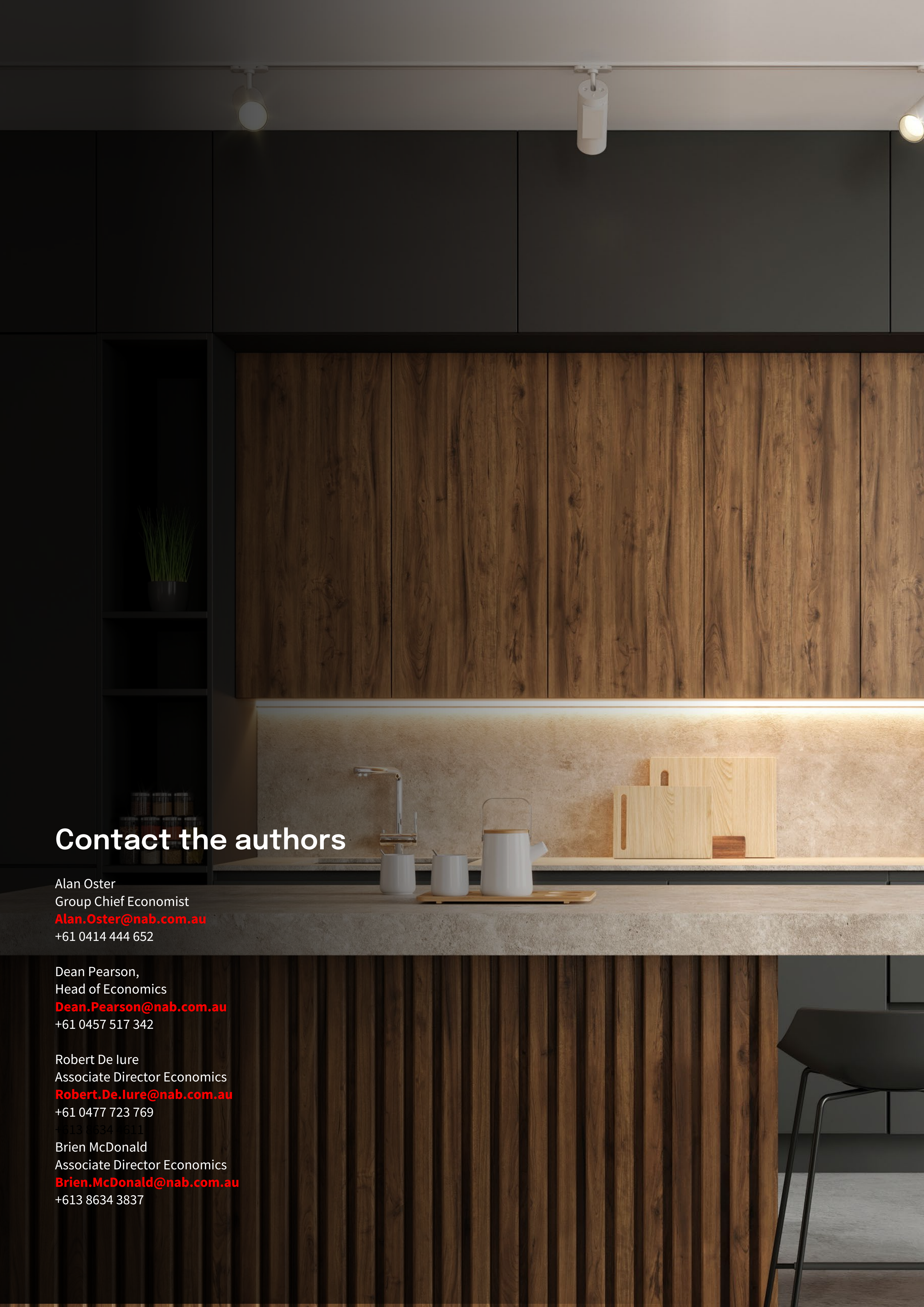
The NAB Quarterly Australian Residential Property survey was first launched in Q1 2011.

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 350 property professionals participated in the Q2 2023 survey.



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