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more than money

NAB residential property survey Q3 2023

NAB Residential Property Survey Q3 2023

The **NAB Residential Property Index** maintained its upward momentum in Q3 as home prices continued to recover across most of the country, and national rents continued to grow amid very tight rental availability. Expectations for a housing market recovery over the next few years have also strengthened, with confidence levels among surveyed property professionals rising to their highest levels in around 2 years. NAB's latest survey results also suggest foreign buyers have been playing an increasingly bigger role in Australian housing markets in recent quarters.

NAB has revised up its outlook for property prices which continue to be supported by a significant supply-demand imbalance amidst rising rates and reduced borrowing power. Strong population growth and a healthy labour market are expected to persist in the near term as the RBA reaches the peak for rates, before eventually beginning to cut rates in H2 2024.

Survey highlights

The NAB Residential Property Index maintained its upward momentum in Q3 as home prices continued to recover across most of the country, and national rents continued to grow at above average levels amid historically low vacancy. Overall, the Index climbed for the third straight quarter to +40 pts (+33 pts in the previous quarter and +9 pts at the same time last year) and well above the survey average (+18 pts).

Housing market sentiment continued to diverge across the country. It slipped deeper into negative territory in TAS (-50 pts) and remained negative in the ACT (-31 pts). It lifted in VIC (+31 pts), NSW (+32 pts), QLD (+42 pts) and the NT (+75 pts), but softened in WA (+77 pts) and SA (+50 pts) - though both states continued to out-perform the national average.

Expectations for a housing market recovery over the next few years strengthened, with confidence levels among surveyed property professionals rising to their highest levels in around 2 years. NAB's one-year confidence measure lifted to +50 pts in Q3, with the 2-year measure at +54 pts. Property professionals operating in WA and the NT are the most confident, and in the ACT and TAS the least confident.

With the August CoreLogic house price data pointing to an entrenched recovery in the Australian housing market, survey forecasts for national house prices have also been revised up. Property professionals on average now see national home values rising 1.5% in the next 12 months and 2.4% in 2 years' time. Expectations for house price growth over the next 1-2 years are strongest in WA and the NT.

CoreLogic data also suggests the pace of rental growth is losing momentum in most parts of the country, but still growing almost three times faster than the decade average. Against this backdrop, the average survey forecast for rents in the next 12 months and in 2 years' time eased slightly to a still healthy 3.0% in Q3 (with 4.0% forecast for both periods in the Q2 survey), with rents to continue growing across most of the country.

Property professionals are still reporting very tight supply conditions in housing rental markets in Q3, with a net 79% assessing the balance between supply and demand in housing rental markets in their area as undersupplied (83% in Q2). Property professionals also indicated rental markets were undersupplied in all states, ranging from 97% in WA to 63% in NSW in Q3.

The overall market share of First Home Buyers (FHBs) in new housing markets fell to a near 8-year low 30.3% in Q3, with a fall also in the number of FHB owner occupiers (20.9%) and investors (9.4%). The market share of sales to resident owner occupiers (net of FHBs) however continued to grow in Q3, reaching a near 11-year high 41.8%. Domestic investors also played a bigger role, with their market share increasing to 16.5% - though still well below levels seen prior the start of the current interest rate cycle.

Construction costs continued to be viewed as a barrier to starting new residential development projects by most property professionals - around 8 in 10 (78%), with rising interest rates (55%) and delays in obtaining planning permits (46%) the next most common impediments, according to around 1 in 2 survey participants.

Buying activity in established housing markets is still being dominated by owner-occupiers (net of FHBs), with their market share unchanged at a below average 45.8% in Q3. The overall market share of FHBs also fell to a below average 31.0% in Q3, with the share of FHB owner occupiers dipping to 23.5% and investors to a survey low 7.5%. The market share of local investors however inched up to 17.9% but remains well below average.

Rising interest rates continues to be identified as the biggest constraint for buyers of existing property nationally in Q3 - though weighing a little less heavily on buyers than in Q2. Lack of stock is now seen as the next biggest hurdle for buyers overall, particularly in WA. Access to credit and price levels were next and assessed as a "significant" impediment for buyers in all states (bar WA). Employment security and returns from other investments continue to have the least influence on home buyers, with their impact considered only "somewhat significant" in all states.

NAB's latest survey results also suggest foreign buyers have been playing an increasingly important role in Australian housing markets in recent quarters.

Property professionals estimate the share of total market sales to foreign buyers in new housing markets increased for the fourth straight quarter to a 5½-year high 10.1% in Q3 and lifted above the survey average for the first time since mid-2018. This was mainly due to noticeably higher activity levels in NSW, where market sales increased to 14.9% (9.2% in Q2) and VIC where it also lifted to 11.3% (7.4% in Q2). In established housing markets, the share of foreign buyers rose to a 4-year high 4.1% in Q3 and increased in all states led by VIC (5.0%).

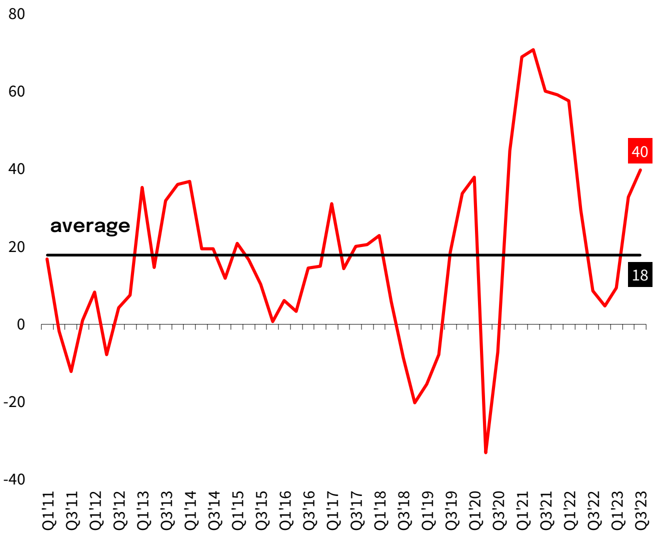
The view from NAB

We have revised up our expectation dwelling prices in the near-term, and after accounting for stronger than expected outcomes over the past three months, now see capital city dwelling prices finishing the year around 8% higher. We continue to see prices rising a further 5.5% in 2024 with ongoing strength in housing demand relative to supply outweighing the impact of the ongoing passthrough of higher rates.

On rates, we continue to expect the RBA to lift rates to 4.35% at the November meeting with the likely upside in the Q3 CPI a key driver. From there we continue to see rates on hold for an extended period before the RBA begins to ease rates back towards neutral in H2 2024. More broadly, we expect the impact of higher rates and inflation to continue to see sluggish growth in consumer demand and below trend growth to see some easing labour market pressures and for inflation to continue to moderate back towards the RBA's target band over the next year or so.

View from property experts

NAB residential property index



Residential property index - states

	Q2'23	Q3'23	Next 1yr	Next 2yrs
VIC	29	31	50	55
NSW	20	32	39	51
QLD	25	42	44	44
SA	53	50	60	57
WA	81	77	89	76
ACT	-100	-31	6	38
NT	63	75	100	100
TAS	-11	-50	-17	33
AUST	**33**	**40**	**50**	**54**

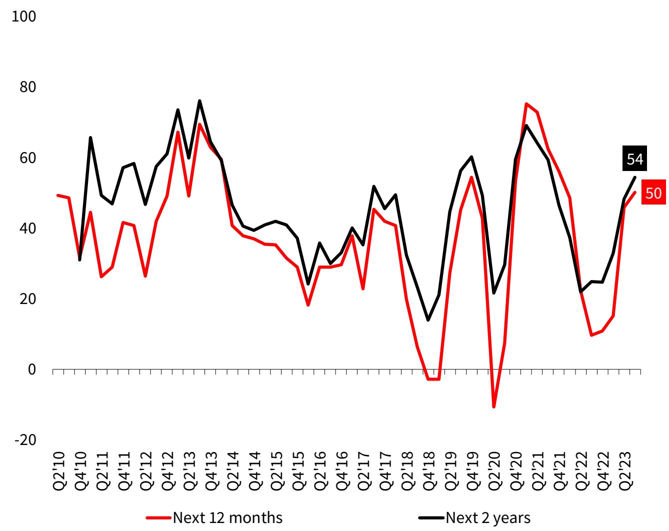
View from NAB economics

NAB hedonic dwelling price forecasts (%)*

	2021	2022	2023f	2024f
Sydney	26.9	-11.4	11.6	5.0
Melbourne	16.1	-7.1	4.7	5.5
Brisbane	31.5	-1.9	12.1	6.5
Adelaide	22.3	9.3	8.6	6.2
Perth	13.9	4.1	11.9	6.2
Hobart	32.6	-6.9	-3.3	0.0
Cap City Avg	**23.1**	**-6.4**	**7.9**	**5.4**

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

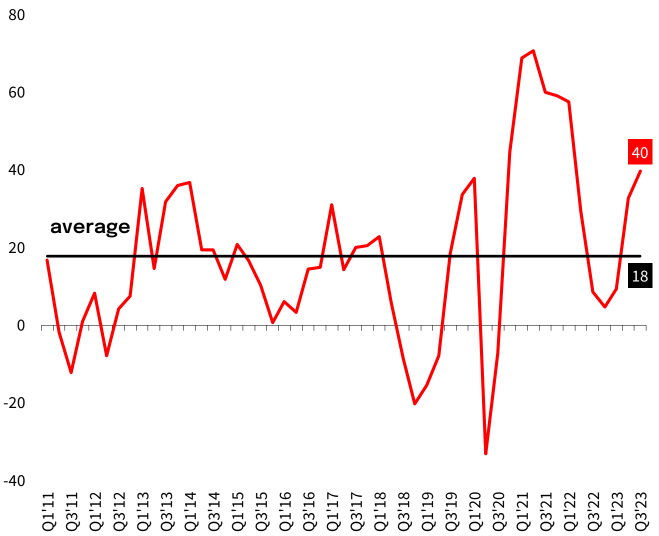
NAB residential property index - next 1-2 yrs



NAB residential property index

The NAB Residential Property Index lifted further in Q3 as home prices continued to recover across most of the country, and national rents continued to grow at above average levels amid historically low vacancy. Overall, the Index climbed to +40 pts, from +33 pts in the previous quarter and +9 pts at the same time last year. The Index has recovered to its highest level since Q1'22 and is now trending well above the survey average (+18 pts).

NAB residential property index



Housing market sentiment however continues to diverge across states. It slipped deeper into negative territory in TAS (-50 pts) as house prices continued to slide, and also remained negative in the ACT (-31 pts) though less so than in Q2. Sentiment lifted in VIC (+31 pts), NSW (+32 pts), QLD (+42 pts) and the NT (+75 pts) in Q3 but softened in WA (+77 pts) and SA (+50 pts), though both states continued to out-perform the national average.

Residential property index - states

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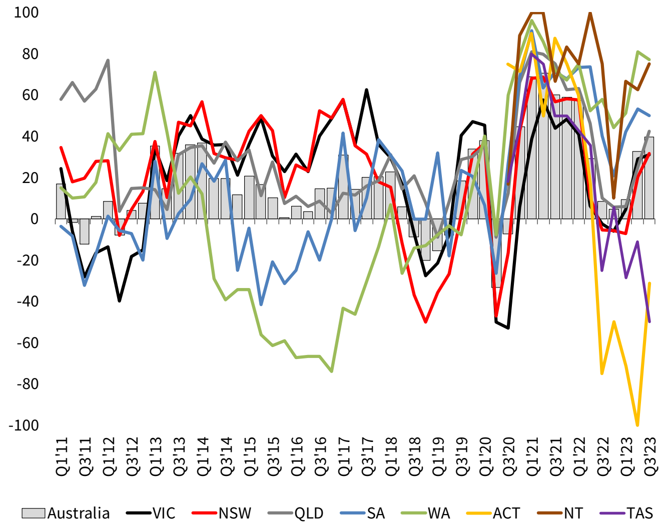
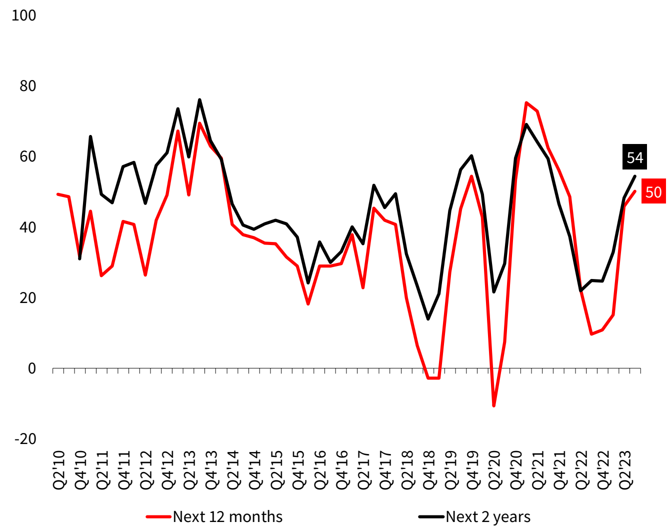
NAB residential property index - states



Confidence levels among surveyed property professionals also continued to grow in Q3, with heightened expectations for a housing market recovery in the next few years. NAB's one-year confidence measure lifted +50 pts in Q3 (+46 pts in Q2), with the 2-year measure also stronger at +54 pts (+48 pts in Q2). Both measures also printed at their highest levels in around 2 years and well above long-term average levels (+35 pts & +45 pts respectively).

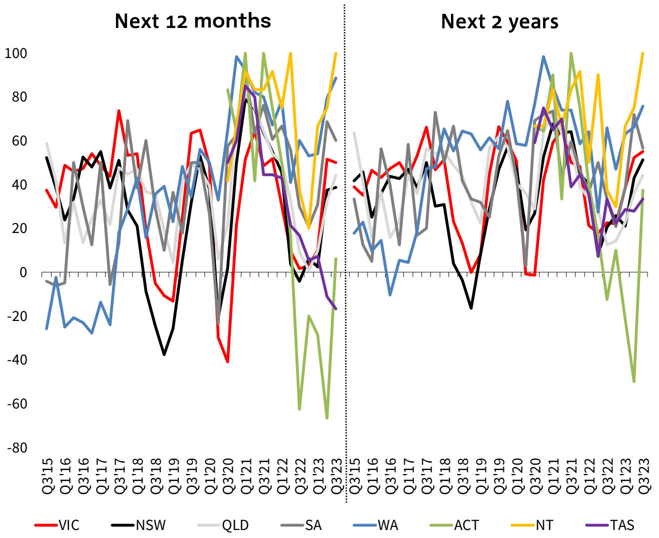
NAB residential property index - next 1-2 yrs



Housing market confidence in the next 12 months remained highest (and lifted) in the NT (+100 pts) and WA (+89 pts), followed by SA where it moderated to +60 pts (+69 pts in Q2). Confidence levels were broadly steady in VIC (+50 pts) and NSW (+39 pts), but property professionals in QLD were somewhat more buoyant about the market (+44 pts from +33 pts in Q2). Confidence levels rebounded sharply in the ACT to +6 pts (-67 pts in Q2) but printed lowest and deeper negative in TAS at -17 pts (-11 pts in Q2).

The 2-year measure printed positive in all states in Q3. It was highest in the NT (+100 pts up from +75 pts in Q2), ahead of WA (+76 pts up from +66 pts). Longer-term confidence lifted sharply in the ACT (+38 pts from -50 pts) and inched up in VIC (+55 pts from +52 pts) and TAS (+33 pts from +28 pts). Property professionals were somewhat more confident in NSW (+51 pts from +43 pts) and QLD (+44 pts from +36 pts). Confidence in SA however faded but remained relatively strong at +57 pts (+72 pts in Q2).

Residential property index - next 1-2 yrs (%)



Survey house price expectations

With the latest CoreLogic house price data pointing to an entrenched recovery in the Australian housing market, average survey forecasts for national house prices in the next 1-2 years were also revised up in Q3. Property professionals on average now see national home values rising 1.5% in the next 12 months (0.6% forecast in Q2), and 2.4% in 2 years' time (1.7% forecast in Q2) - **see section below for NAB's View on Dwelling Prices**.

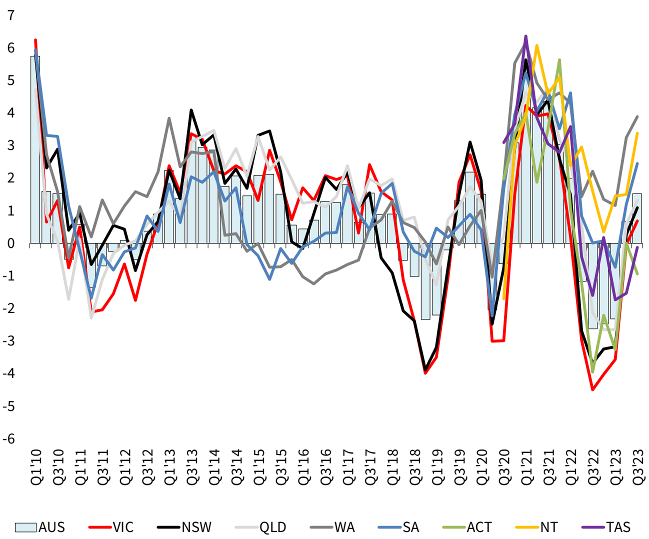
Avg survey house price forecasts (%)

	Next 1 year	Next 2 years
VIC	0.7% (-0.1%)	1.8% (1.1%)
NSW	1.1% (0.3%)	2.4% (1.5%)
QLD	1.3% (0.6%)	2.0% (1.0%)
SA	2.4% (1.2%)	2.8% (2.0%)
WA	3.9% (3.2%)	3.2% (4.2%)
ACT	-1.0% (0.0%)	0.1% (0.5%)
NT	3.4% (1.5%)	5.6% (3.8%)
TAS	-0.1% (-1.5%)	2.5% (2.0%)
AUS	**1.5% (0.6%)**	**2.4% (1.7%)**

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

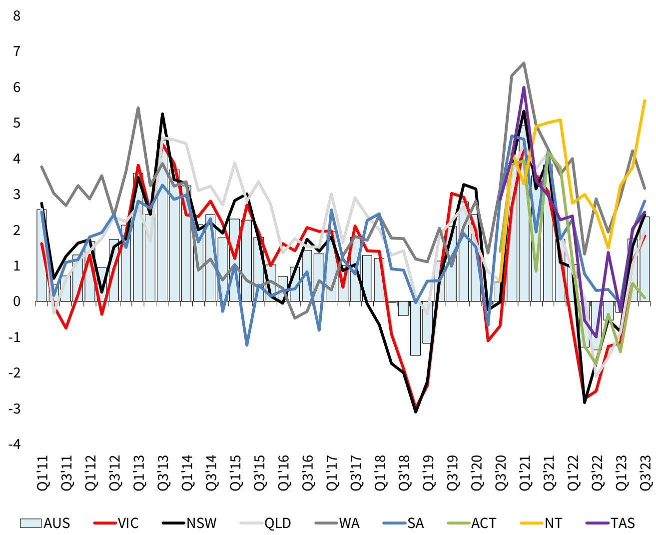
Expectations for house price growth in the next 12 months improved across the country, except in the ACT (-1.0% now from 0.0% forecast in Q2). House prices are still forecast to grow fastest in WA (3.9% revised down from 3.2% in Q2), followed by the NT (3.4% up from 1.5%) and SA/NT (2.4% up from 1.2%). Expectations were also revised up noticeably in QLD (1.3% from 0.6% in Q2), NSW (1.1% from 0.3%) and VIC (0.7% from -0.1% in Q2). Property professionals in TAS however still see house prices sliding in the next 12 months, but by a slower -0.1% (-1.5% forecast in Q2).

Avg survey house price forecast - nxt 1yr (%)



The longer-term outlook for house prices was wound back in WA (3.2% from 4.2% forecast in Q2), but it is still expected to be among the best performed markets. The outlook is strongest in the NT (5.6% up from 3.8%), with faster growth also forecast in SA (2.8% from 2.0%), TAS (2.5% from 2.0%), NSW (2.4% from 1.5%), QLD (2.0% vs. 1.0%) and VIC (1.8% vs. 1.1%). Property professionals in the ACT however are forecasting a smaller increase (0.1% from 0.5%).

Avg survey house price forecast - in 2yrs (%)



Survey rental expectations

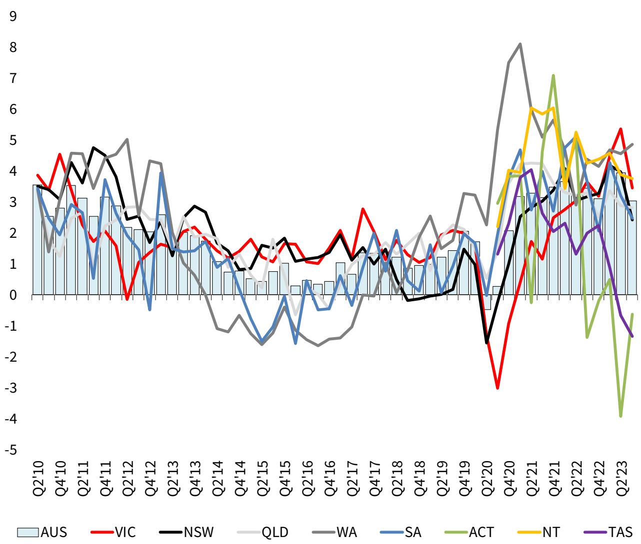
The latest CoreLogic data suggests most areas around the country are losing momentum in the pace of rental growth. In annual terms, national rents increased 9.0% in August - the slowest rate of growth since April 2022 but still almost three times above the decade average of 3.2%. But with NAB survey data also showing an overwhelming number of property professionals still assessing rental markets in their local areas as undersupplied (see below), survey rental forecasts remained relatively high in Q3 at well above survey average levels. The average survey forecast for rental growth in the next 12 months and in 2 years' time eased to a still healthy 3.0% in Q3 (4.0% forecast in both years in the Q2 survey) and remains above respective survey average levels.

Avg survey rental forecasts - rents (%)

	Next 1 year	Next 2 years
VIC	3.5% (5.4%)	3.3% (5.5%)
NSW	2.4% (4.0%)	2.7% (4.0%)
QLD	2.8% (2.9%)	3.0% (3.2%)
SA	2.5% (3.2%)	2.9% (3.5%)
WA	4.9% (4.6%)	3.6% (4.0%)
ACT	-0.6% (-3.9%)	1.1% (-2.7%)
NT	3.8% (3.9%)	5.0% (5.1%)
TAS	-1.3% (-0.7%)	1.2% (0.5%)
AUS	**3.0% (4.0%)**	**3.0% (4.0%)**

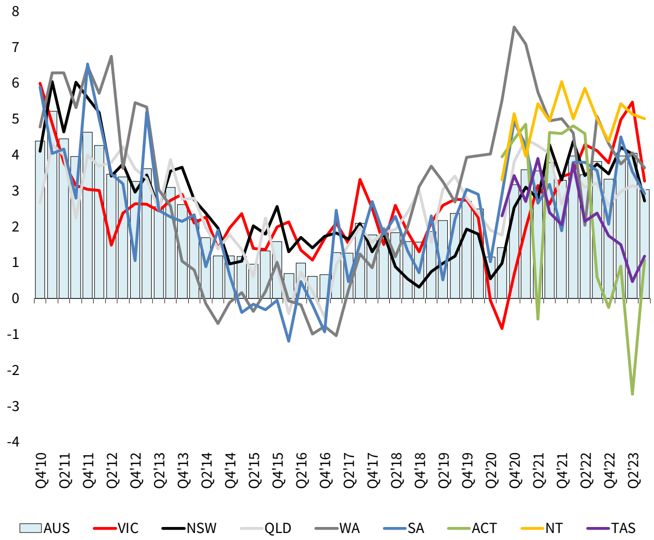
**figures in parentheses refer to forecasts in the previous survey*

Avg survey rental forecast - next 1 year (%)



The average survey forecast for rental growth is positive in most states in the next 12 months, with WA (4.9%), the NT (3.8%) and VIC (3.5%) leading the way. Solid returns are also forecast in QLD (2.8%), SA (2.5%) and NSW (2.4%). However, property professionals in TAS (-1.3%) and the ACT (-0.6%) on average see rental growth falling next year.

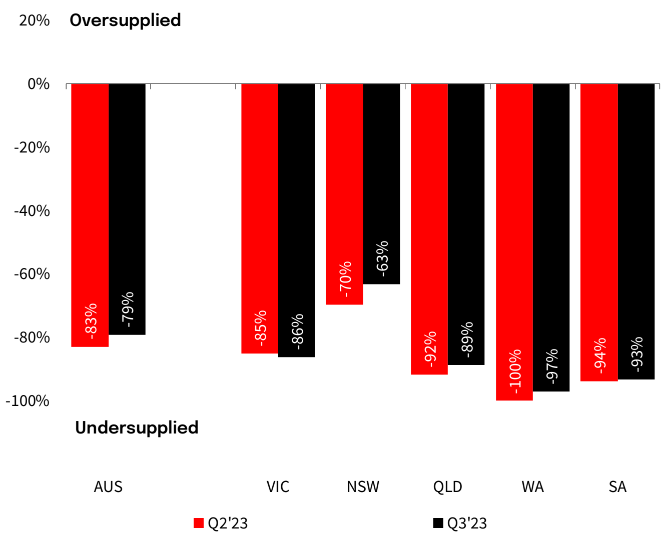
Avg survey rental forecasts - in 2 years (%)



Rental growth in 2 years' time is expected to be highest according to property professionals in the NT (5.0%), WA (3.6%) and VIC (3.3%). Expectations are also quite solid in QLD (3.0%), SA (2.9%) and NSW (2.7%), with modest gains forecast in TAS (1.2%). Rental markets in the ACT are now also expected to show positive returns in 2 years' time (1.1%), reversing expectations in the previous survey when rents were expected to fall (-2.7%).

Property professionals continue to report very tight supply conditions in housing rental markets in Q3, with a net 79% assessing the balance between supply and demand in housing rental markets in their area as under-supplied (83% in Q2).

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



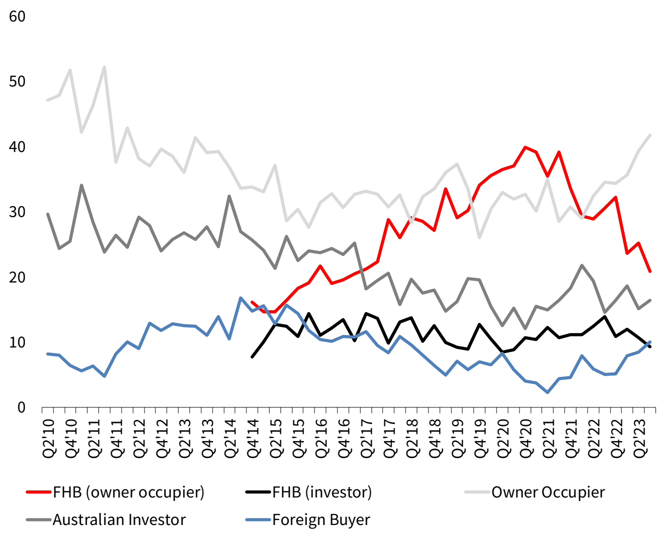
While the net number of property professionals who said housing rental markets were undersupplied heavily out-weighed those who said it was oversupplied in all states, it ranged from 97% in WA to 63% in NSW in Q3.

New housing markets

The overall market share of all First Home Buyers (FHBs) in new property markets fell to a near 8-year low 30.3% in Q3 (35.9% in Q2) and is now tracking well below the survey average (38.5%). This largely reflected a steep fall in the number of FHB owner occupiers in the market to 20.9% (25.2% in Q2) - the lowest share reported since Q1 2017. The share of FHB investors in new housing markets also fell further to a 3-year low 9.4% (10.7% in Q2 and 13.9% at the same time last year).

Overall, the share of FHBs was lowest and fell heavily in both NSW (24.6% down from 41.7% in Q2) and VIC (29.4% down from 35.0%). The overall share of FHBs in the market was highest and increased in SA (52.5% up from 50.0% in Q2). It also rose in QLD (33.8% from 28.8%) and WA (31.0% from 24.2%). FHB owner occupiers accounted for the smallest share of total sales in NSW (14.4%) and highest in SA (30.0%). FHB investors however accounted for the smallest share of sales in QLD (5.0%) and the largest in SA (22.5%).

Buyers: new developments (% share)



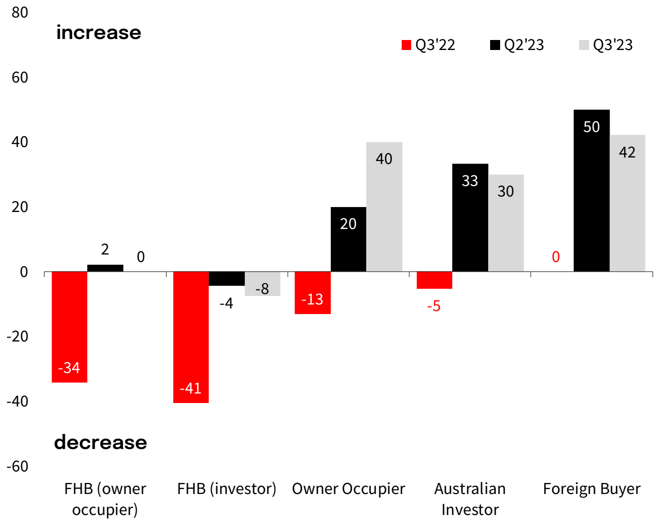
On average, the market share of sales to owner occupiers (net of FHBs) continued to grow in Q3, reaching a near 11-year high 41.8% (39.4% in Q2), and trending well above average (35.6%). These buyers accounted for the largest share of sales in all states, led by WA (46.0%) and NSW & QLD (42.5%).

Despite higher interest rates, the market share of sales to resident or domestic investors in new housing markets increased to 16.5% in Q3 (15.2% in Q2) but is still 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 (21.7%). The market share of domestic investors in Q3 in new housing markets was broadly similar across the country, ranging from 17.5% in QLD to 14.5% in SA.

The market share of foreign buyers in new Australian housing markets rose for the fourth consecutive quarter to 10.1% in Q3 (8.5% in Q2) and printed above the survey average (9.1%) for the first time in almost 5 years. Foreign buyers in Q3 were most prevalent in NSW (14.9% up from 9.2% in Q2) and VIC (11.3% up from 7.4%), with foreign buyers less active in both QLD (6.3% down from 10.0%) and WA (6.6% down from 11.7%) - **see Foreign Buyers section below for more detail.**

Property professionals were 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)

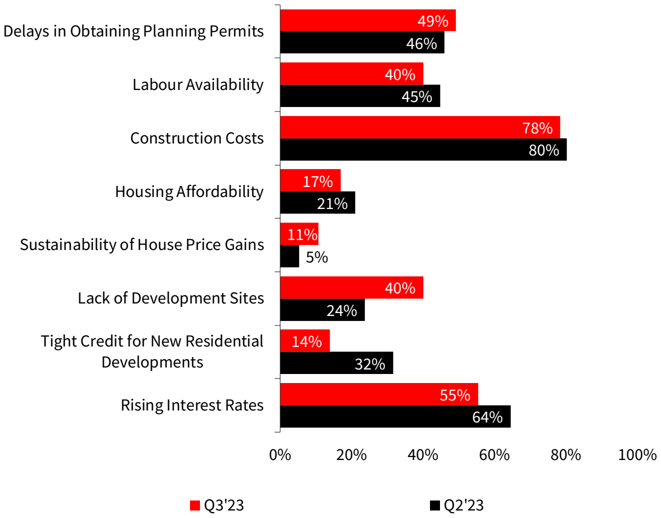


The net number who said market share would rise heavily out-weighed those predicting it would fall for foreign buyers (+42% but down from +50% in Q2), owner occupiers (+40% doubling from +20% in Q2) and domestic investors (+30% down slightly from +33%). However, more property professionals think the market share of FHB investors in this market will fall in the next 12 months (-8% from -4% in Q2), with expectations balanced for FHB owner occupiers (0%).

Barriers to starting new housing projects.

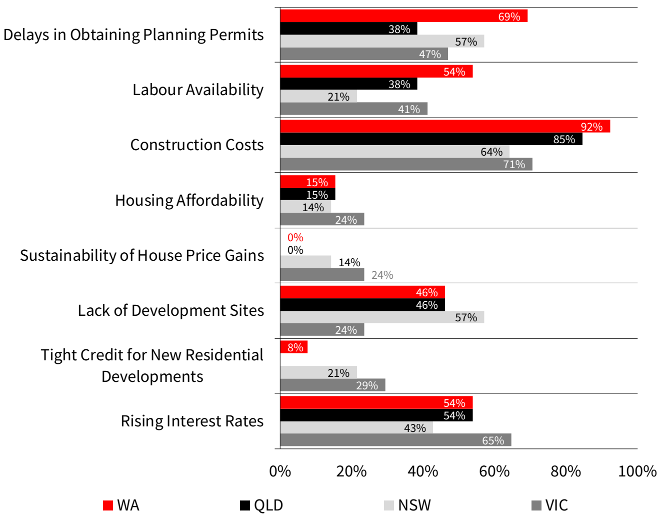
Most surveyed property professionals (around 8 in 10 or 78%) again identified construction costs as a barrier to starting new residential development projects in Q3 (80% in the Q2 survey). Rising interest rates were the next biggest barrier, though the number who said it was fell to 55% (64% in Q2). Delays in obtaining planning permits was key according to almost 1 in 2 (49%) property professionals (46% in Q2), while 4 in 10 identified labour availability (40% down from 45%) and lack of development sites (40% up from 24%) as barriers. Noticeably fewer property professionals however highlighted tight credit for new residential developments as a barrier to staring new housing projects (14% down from 32% in Q2).

Main barriers to starting new housing developments (%)



By state we noted a significantly higher number in WA (92%) and QLD (85%) that identified construction costs as a barrier, and in WA (69%) and NSW (57%) delays in obtaining planning permits. Rising interest rates (65%), tighter credit for new residential developments (29%), housing affordability (24%) and sustainability of house price gains (24%) were highlighted as barriers by noticeably more property professionals in VIC, and a lack of development sites in NSW (57%).

Main barriers to starting new housing developments - states

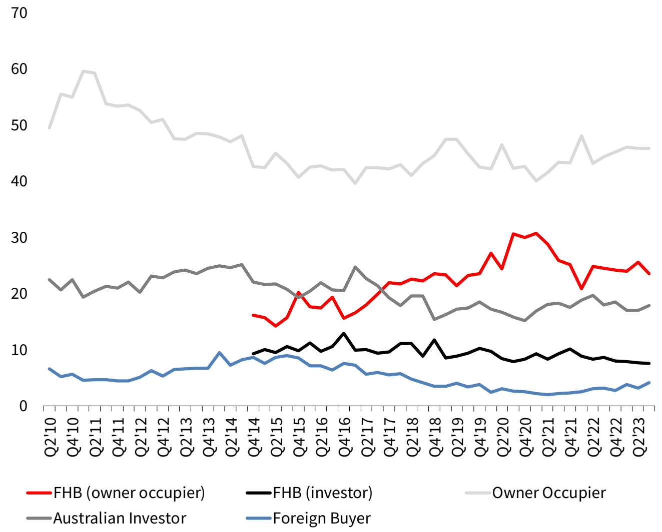


Established property

In established housing markets, buying activity continued to be dominated by owner-occupiers (net of FHBs). In Q3, their overall market share was unchanged at a below average 45.8%. Owner occupiers continued to account for the lion's share of established home sales in all states ranging from 47.9% in WA and 47.8% in QLD to 35.1% in SA.

The overall share of FHBs in established housing markets also fell to a below average 31.0% in Q3 (33.3% in Q2). By state, sales to FHBs were highest in SA (41.0%) and VIC (37.0%) and lowest in QLD (28.0%). By buyer type, the overall share of FHB owner occupiers fell to 23.5% (25.6% in Q2) and ranged from 30.6% in VIC to 18.2% in WA. The overall share of FHB investors in this market fell to a survey low 7.5% in Q3 (7.7% in Q2), with buyers in this segment most prevalent in WA (10.6%) and SA (10.4%) and least active in VIC (6.4%), QLD (7.0 pts) and NSW (7.3%).

Buyers - established property (% share)



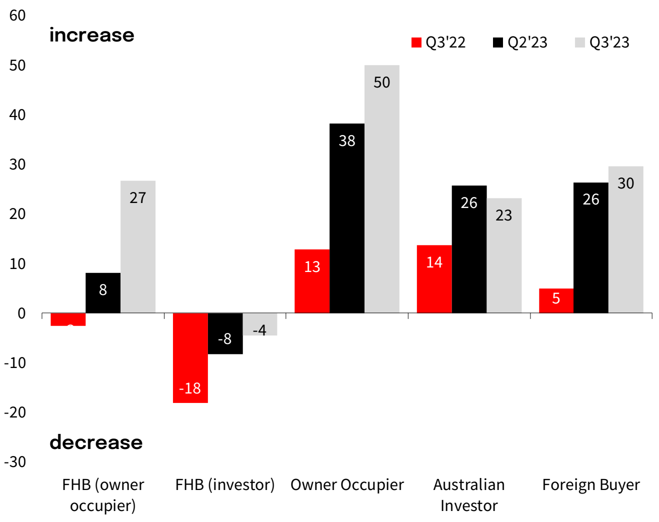
The total share of local investors in established Australian housing markets inched up to 17.9% in Q3 (17.0% in Q2) but remains well below the survey average (20.1%). Local investors underpinned a noticeably larger share of total sales in SA (20.8%) NSW (20.0%), WA (18.5%) and QLD (18.4%) than in VIC (13.7%).

The share of foreign buyers in established housing markets rose to a 4-year high 4.1% (3.1% in Q2). The market share of foreign buyers also increased in all state markets in Q3, with these buyers were most prevalent in VIC (5.0% up from 4.0% in Q2) and least so in NSW (4.0% up from 2.8% in Q2). However, the number of foreign buyers in the established housing market continued to trend below survey average levels in all states - **see Foreign Buyers section below for more detail.**

When property professionals were asked if they thought market share of buyers in established housing markets would increase or decrease in the next 12 months, on balance more said they expected it to rise than fall in the next 12 months in all buyer segments except FHB investors - though the net number expecting their market share to fall improved to -4% (-8% in Q2) - see chart below.

In contrast, significantly more property professionals on balance see owner occupiers (+50% up from +38% in Q2) and FHB owner occupiers (+27% up from +8%) increasing their market share in the next 12 months. Slightly more are also predicting a bigger share of sales coming from foreign buyers (+30% from +26%) in the next 12 months, but slightly less expect domestic investors to increase their market share over this period (+23% down from +26% forecast in Q2).

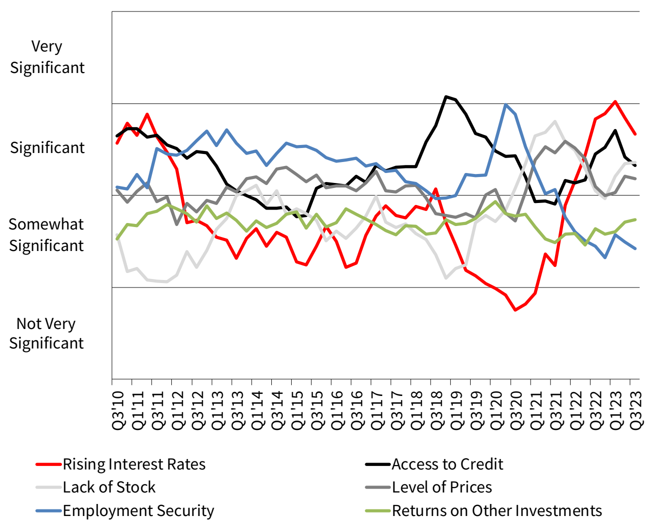
Expected change in share of established property buyers in next 12m (net balance)



Established housing market constraints

Rising interest continue to be identified as the biggest constraint for buyers of existing property nationally in Q3 - though weighing a little less heavily on buyers than in Q2. It was also highlighted as the biggest impediment for established home buyers in VIC, SA and NSW, and somewhat more so than in WA and QLD.

Constraints on buyers of established residential property



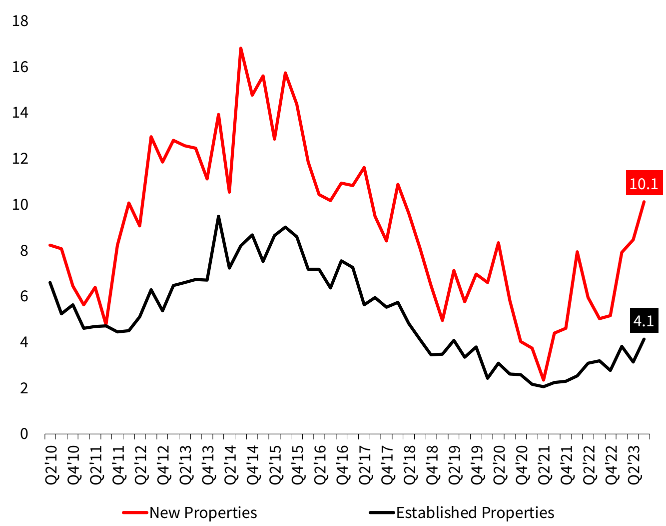
Lack of stock is now seen as the next biggest hurdle for buyers overall, but particularly in WA where it was assessed as a "very" significant impediment, and in QLD where it was also highlighted as the main impediment for home buyers. Access to credit was the next and deemed "significant" in all states (bar WA). Price levels also remain a "significant" constraint for buyers in all states, except WA. Employment security and returns from other investments continue to have the least influence on home buyers across the country, with their impact on buyers still only considered "somewhat significant" in all states.

Constraints on established property - states

Foreign buyers

NAB's latest survey results suggests foreign buyers have been playing an increasingly important role in Australian housing markets in recent quarters.

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



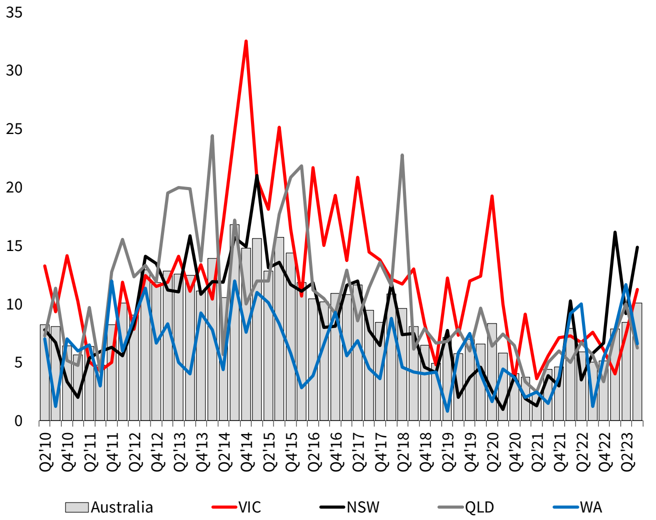
According to surveyed property professional estimates, their share of total market sales in new housing markets increased for the fourth consecutive quarter to a 5½-year high 10.1%. In addition, the overall share of sales to foreign buyers in new housing markets in Q3 climbed above the survey average (9.1%) for the first time since mid-2018.

The market share of foreign buyers in new housing markets in Q3 did however diverge across key states.

The increase in overall market share of foreign buyers in Q3 was supported by higher activity levels in NSW, where it increased to 14.9% (9.2% in Q2) and in VIC where it also lifted to 11.3% (7.4% in Q2). But while overall market share of foreign buyers in NSW has continued to trend above the survey average (8.4%) since Q1'23, property professionals in VIC have reported below average levels of foreign buyer market share (12.1%) since Q2'20.

In the other key states, market share of foreign buyers almost halved to 6.6% in WA in Q3 (11.7% in Q2) and was also considerably lower in QLD at 6.3% (down from 10.0% in Q2). Though the market share of foreign buyers in WA in Q3 continued to trend above the long term survey average (6.1%), it was significantly below average in QLD (10.5%).

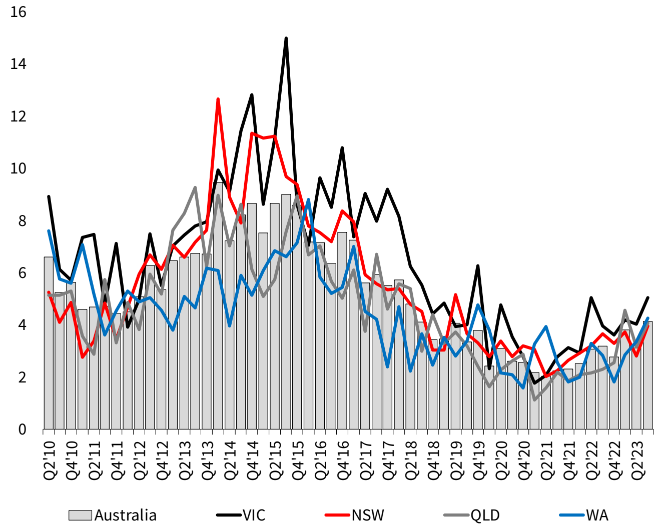
Share of total demand for new property - foreign buyers (%)



In established housing markets, the share of foreign buyers increased to 4.1% in Q3 (3.1% in Q2). Though rising to its highest level since mid-2019, it continued to trend below average (5.2%).

Foreign buyer activity increased in all states in Q3. It was highest in VIC at 5.0% (4.0% in Q2) but continued to trend below average (6.5%). In WA, market share lifted to 4.3% (3.4% in Q2), and while broadly in line with the state long-term average (4.4%) it also reached its highest level since Q4 2019. In QLD, foreign buyer market share lifted to 4.1% (3.2% in Q2) but continued to trend below average (4.7%). In NSW, foreign buyer market share rose to 4.0% (2.8% in Q2). Though still below average (5.5%), this was also represented the biggest market share since mid-2019.

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



NAB's view on dwelling prices

We have revised up our outlook for dwelling prices in the near-term, expecting the CoreLogic 8-capital city dwelling price index to end the year up around 8% following the slightly stronger than expected outcomes over recent months and the expectation that this will continue in the near-term. For 2024 we expect prices to rise by around 5% with population growth, rents growth and the labour market still supporting, offset by some pressure from the ongoing flow-through of higher interest rates.

Dwelling prices continued to rise at a relatively solid pace across the major capitals in Q3. The CoreLogic 8- Capital City dwelling price is now up around 8% since January, almost entirely reversing the fall seen over the preceding 9 months. Regional prices have risen by less, after turning later, resulting in a much weaker performance over the year.

By city, the recent strength has been particularly evident in the smaller mainland capitals. Between June and September, Adelaide (4.3%), Brisbane (3.9%) and Perth (3.6%) led the way. Sydney (2.5%) also recorded a solid gain but the pace of growth eased from the quarter. Price growth was more moderate in Melbourne (1.3%) and weakest in Tasmania where prices fell slightly in the quarter.

While there appears to have been little ongoing response to the sharp reduction in borrowing power (around 30%) - demand remains strong, with annual population growth rising to its highest rate since late-2008 in Q1 2023 (2.2%) and has likely accelerated further based on the higher frequency measure of the civilian population in the labour force survey.

Conditions on the supply side appear to be improving with some easing in both labour and material shortages evident in our business surveys, though the cost of materials remains around 30% higher than pre-pandemic. Completions data - though dated - shows little recovery to date, tracking at around 170k in rolling annual terms. This is well below the implied demand of 220k+ suggested by the change in population, at face value.

The rental market remains tight, with some apparent easing in vacancy rates reversing in recent months and remains around historic lows in most capitals. This has been mirrored in rents growth, where the pace has eased slightly over recent months, but it remains strong - up around 9% on average across the capitals over the past year.

Further, some of the uncertainty around the upward trajectory for rates appears to have also eased with the RBA having remained on hold for the past 3 months at 4.1%. We continue to see one further hike to 4.35% but the risks are balanced with the RBA taking a different approach to most other advanced economies.

The impact of rates on households, however, has become more evident over the past 3-6 months. Consumption growth has slowed in 2023, with real retail sales declining for three consecutive quarters. Broader spending has held up with overall consumption growth rising by 0.4% in both Q1 and Q2. Our internal transactions data suggests that consumption should see a further modest gain in Q3.

Dwelling approvals appear to have stabilised at a relatively low level, but the large pipeline of outstanding work will provide support in the near-term.

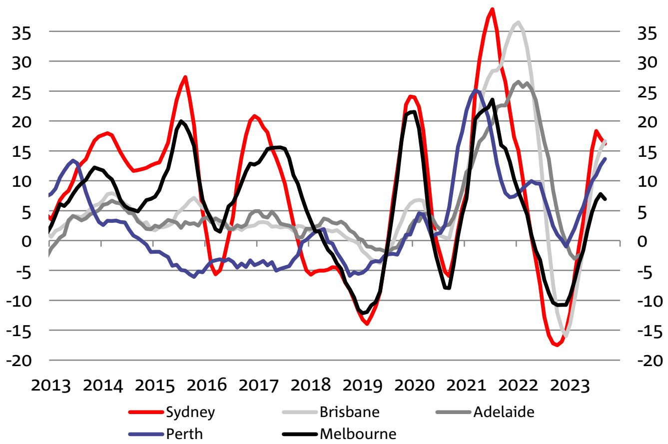
Elsewhere, business investment is likely to be mixed with the instant asset write-off (and other government incentives) coming to an end mid-year, while the outlook for investment in buildings & structures is relatively healthy with a large outstanding pipeline. There are likely to be some spill-overs to the equipment side from the large pipeline of public sector investment work underway.

While growth has slowed, the labour market has remained relatively resilient with labour demand absorbing most of the strong growth in population. The unemployment rate has continued to broadly hover around 3.5% - and remains tight. However, some of the broader pressure appears to have eased over the past year with job vacancies beginning to ease and employment growth slowing. Wage growth has accelerated to its strongest rate in around a decade but remains well below its peak prior to the GFC. However, there is upside risk to wage growth and labour cost pressure more broadly as the labour market remains tight.

More broadly, inflation has peaked and begun to moderate though it remains high and progress towards to the RBA's target band may be volatile. Nonetheless, it appears that the annual inflation rate will moderate relatively quickly to around the 4% mark, though progress beyond that is uncertain. Domestic factors will become increasingly important as global pressures ease, including the ongoing wage response in a tight labour market. However, other factors such as firms' response to slower consumer demand and other margin pressures will also be important.

On rates, we continue to see the RBA lifting the cash rate to 4.35% at the November meeting before remaining on hold until the second half of 2024. From there, we think the RBA can begin to ease policy back towards neutral of around 3% with growth below trend and the unemployment rate rising to around 5% by end 2024. However, the RBA is likely to retain a tightening bias in the near-term with clear upside risks to inflation and rates at a lower level than most other advanced economies.

Dwelling price growth (6-month ended annualised %)



NAB hedonic dwelling price forecasts (%)*

	2021	2022	2023f	2024f
Sydney	26.9	-11.4	11.6	5.0
Melbourne	16.1	-7.1	4.7	5.5
Brisbane	31.5	-1.9	12.1	6.5
Adelaide	22.3	9.3	8.6	6.2
Perth	13.9	4.1	11.9	6.2
Hobart	32.6	-6.9	-3.3	0.0
Cap City Avg	**23.1**	**-6.4**	**7.9**	**5.4**

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About the survey

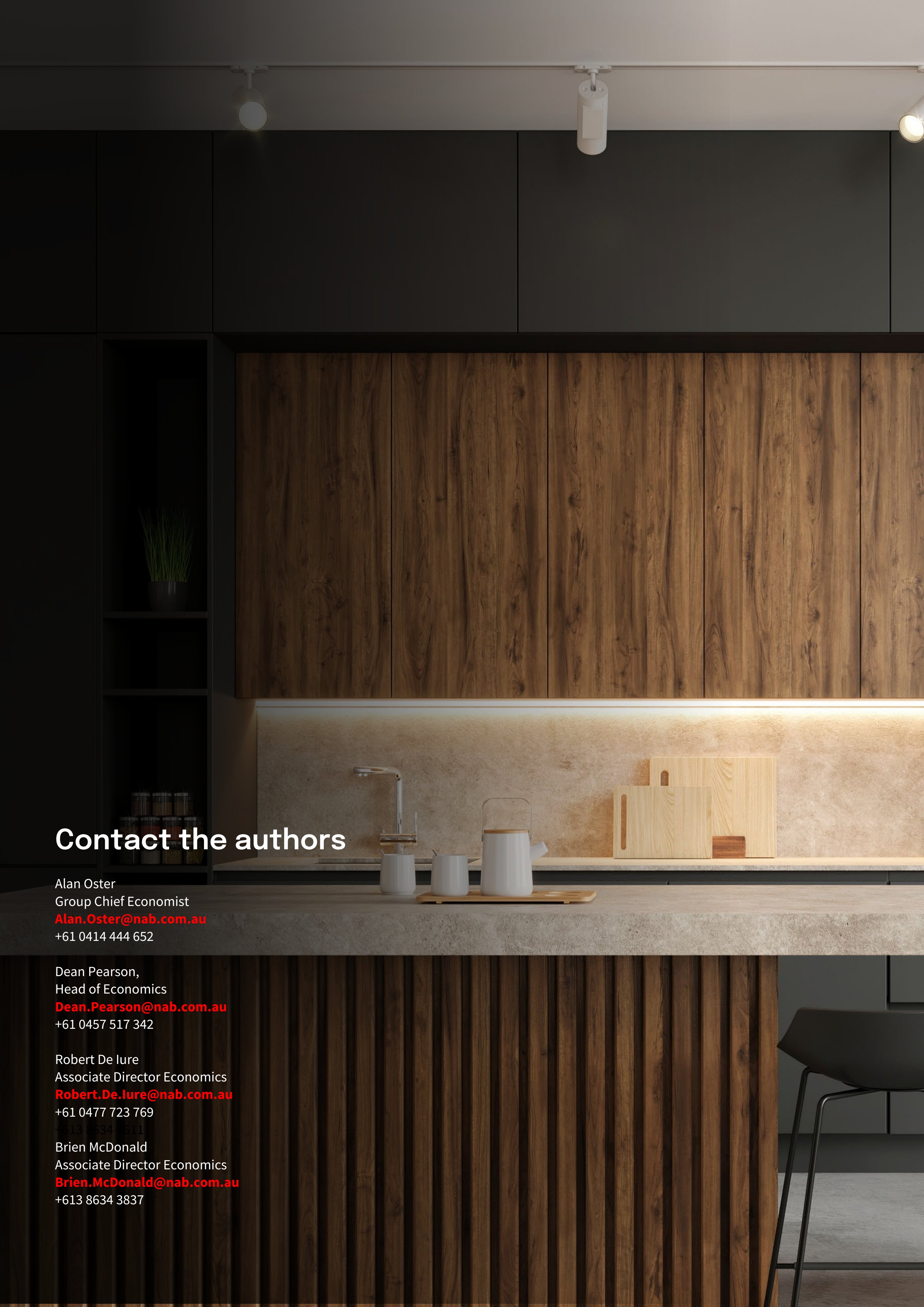
The NAB Quarterly Australian Residential Property survey was first launched in Q1 2011.

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 330 property professionals participated in the Q3 2023 survey.



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