more than money

NAB residential property survey Q4 2023

NAB Residential Property Survey Q4 2023

The **NAB Residential Property Index** continued on an upward trajectory in the December quarter as dwelling values grew in most capital cities and regional areas and rental growth remained elevated. The market share of foreign buyers in new housing markets climbed to a 6½ year high and has now risen almost five-fold since the COVID lows in mid-2021. Construction costs and higher rates still considered the main barriers to starting new housing projects in Australia.

NAB's outlook for property prices is unchanged. We continue to expect a 5% rise over 2024 and a slightly smaller gain in 2025. The demand/supply imbalance is likely to remain a key support in the short term, while expected rate cuts in late 2024 will provide additional support in 2025. More broadly, the economy has remained healthy despite a slowing in growth and with the unemployment rate remaining relatively low, we see a soft landing and the RBA cutting rates by around 125bps over 2025.

Survey highlights

The NAB Residential Property Index continued its recent upward trajectory as dwelling values grew in all capital cities and regional areas over the 3-months to December (except in Melbourne), and rental growth remained elevated across much of the country. Overall, the Index rose to +46 in Q4, from +40 in Q3 and +5 at the same time last year. The Index is now at its highest level since Q1 2022 and trending well above average (+18).

Headline gains however masked diverse conditions across states. The state index slipped deeper into negative territory in TAS (-63) and the ACT (-42), and also softened in the NT (+25), VIC (+29) and SA (+41). Conditions were however stronger in NSW (+44), QLD (+54) and WA (+96) where it was also highest in the country supported by out-performing capital and rent growth.

Confidence levels lifted in Q4, with expectations for a housing market recovery also a little higher in the next few years. NAB's one-year confidence measure rose to +55 and the 2-year measure to +56, putting housing market confidence at their highest levels in 2 years and well above long-term survey averages. Property professionals in WA are the most confident about the future, and TAS least so.

Despite CoreLogic data showing a slowdown in quarterly dwelling price growth to 1.5 % in Q4 (2.1% in Q3), average survey forecasts for national prices were revised up to 1.8% in the next 12 months and 2.6% in 2 years' time. Expectations for stronger growth in the next year reflected upward revisions to the outlook in WA (6.0%), QLD (2.7%) and NSW (1.3%). Housing prices are expected to grow in most other parts of the country though more slowly in the NT (1.5%), SA (1.4%) and VIC (0.2%), with property professionals predicting bigger falls in both the ACT (-2.7%) and TAS (-2.0%) in the next year. Property professionals also expect prices in WA to out-perform by a large margin in 2 years' time (5.1%).

With the Q4 NAB survey still showing an overwhelming number of property professionals characterising rental markets in their local areas as undersupplied, average survey forecasts for rent growth in the next 12 months and 2 years' time rose to 3.9% in Q4. The average survey forecast for rents in the next 12 months is positive (and higher) in most states, led by WA (5.8%), NT (3.9%) NSW (3.9%), VIC (3.8%) and QLD (3.5%). Growth in 2 years' time is expected to be highest in the NT (5.6%), VIC (4.7%), WA (4.4%) and NSW (4.1%), and lowest in TAS (0.9%).

The overall market share of all First Home Buyers (FHBs) in new property markets increased to 31.8% in Q4 from a near 8-year low 30.3% in Q3 but continued to track below average. The share of sales to owner occupiers (net of FHBs) slipped to 38.5% in Q4, but remained above average. The market share of total sales to domestic investors rose to 17.7% but is still well below levels seen in Q1 2022 prior the commencement of the current interest rate cycle in May 2022, and well down on the average (21.6%).

Though national construction cost indices slowed in Q3, they continued to grow. Consequently, most survey participants (75%) still saw construction costs as a barrier to starting new residential projects in Q4 - though somewhat higher in QLD (89%) and VIC (83%). With policy rates also rising in November, a higher number identified rising interest rates as a barrier (59%), with this reaching 72% in VIC. Nearly 1 in 2 (46%) overall identified delays in obtaining planning permits, but 2 in 3 (67%) in QLD and NSW.

In established housing markets, owner-occupiers (net of FHBs) continued to account for the lion's share of sales - though their overall share fell to a below average 43.8% in Q4. The share of FHBs however rose to an above average 34.2%, boosted by FHBs buying for owner occupation. The share of local investors in the market fell to 16.8%, with local investors underpinning around 1 in 5 sales in QLD and NSW, compared to just over 1 in 10 in VIC.

Rising interest are still the biggest constraint for buyers of existing property - and it weighed a little more heavily on buyers as policy rates increased in November. Access to credit was the next biggest constraint for buyers, but viewed as more problematic in SA and NSW. Price levels were a "significant" constraint in all states - but more so in QLD, NSW and VIC. Lack of stock weighed more heavily on buyers in WA where it was a "very significant" constraint for buyers, but only "somewhat significant" for buyers in VIC.

The market share of foreign buyers in new housing markets in Q4 rose for the fifth straight quarter to a 6½ year high 11.0% - and printed above average (9.1%). This reflected an increase in market share in NSW (15.0%) and WA (14.2%). In VIC, it fell to 10.0% with property professionals having now reported below average levels of market share since Q2 2020. The market share of foreign buyers in QLD was unchanged at a below average 6.3%.

The overall result suggests there has been a near five-fold rise in foreign buyer market share in new Australian home markets since hitting a low of just over 2% during the COVID-pandemic in mid-2021. Recovery has occurred against record migration and reports of China's post-pandemic reopening sparking a surge of foreign interest in Australian housing, with international agents reporting a rise in enquiries of over 400% (*source: AFR*).

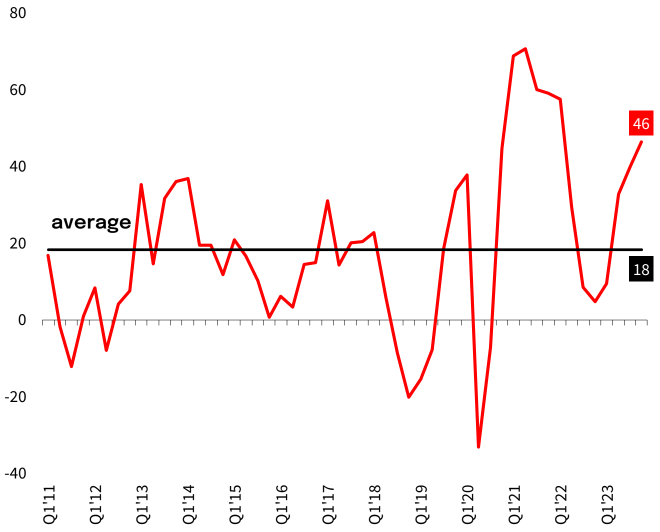
The view from NAB

Our outlook for property prices is broadly unchanged. We expect dwelling prices across the capital cities to grow by around 5% this year and 4% next year. The common factors supporting prices across the states are likely to persist in the near term, while an eventual easing in interest rates will add additional support further out as the labour market softens somewhat.

More broadly, the economy remains healthy, though growth slowed sharply in H2 2023. We continue to see a relatively soft landing for the economy with inflation moderating without the RBA having to drive a more significant downturn, and while unemployment is expected to rise to around 4.5% it will remain close to a level consistent with "full-employment". That will allow the RBA to begin normalising rates in late 2024, cutting the cash rate by around 125bps over 2025.

View from property experts

NAB residential property index



Residential property index - states

	Q3'23	Q4'23	Next 1yr	Next 2yrs
VIC	31	29	41	53
NSW	32	44	52	58
QLD	42	54	56	47
SA	50	41	45	41
WA	77	96	98	81
ACT	-31	-42	0	33
NT	75	25	75	75
TAS	-50	-63	-13	25
AUST	**40**	**46**	**55**	**56**

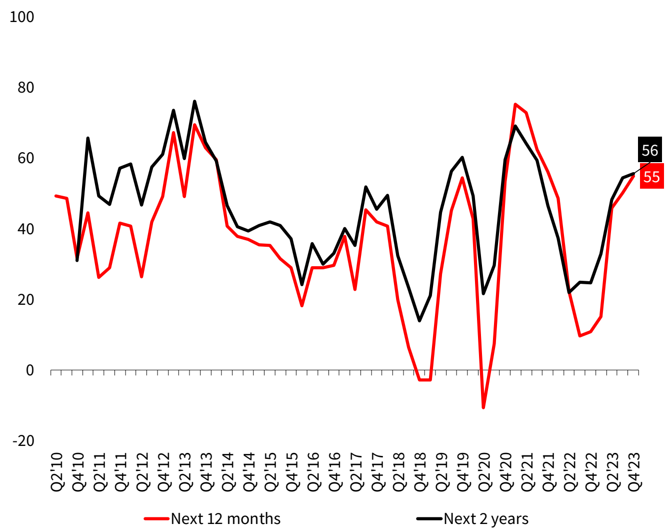
View from NAB economics

NAB hedonic dwelling price forecasts (%)*

	2022	2023	2024f	2025f
Sydney	-11.4	11.1	4.7	3.7
Melbourne	-7.1	3.5	2.6	3.7
Brisbane	-1.9	13.1	7.7	3.0
Adelaide	9.3	8.8	6.4	4.6
Perth	4.2	15.2	9.9	6.2
Hobart	-6.8	-0.8	0.0	2.4
Cap City Avg	**-6.4**	**9.3**	**4.9**	**3.7**

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

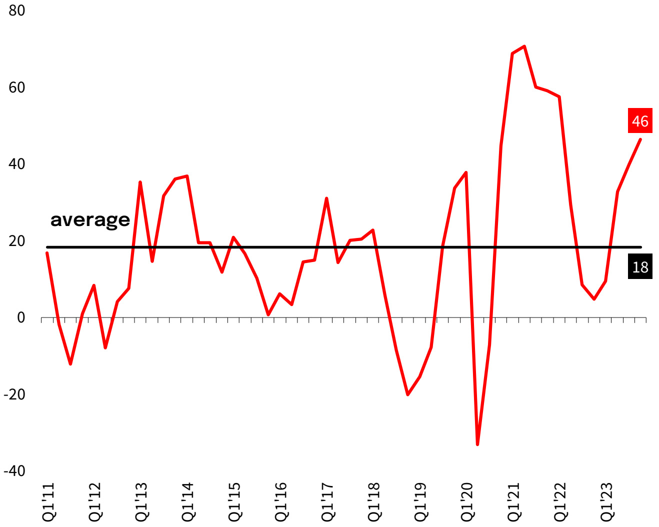
NAB residential property index - next 1-2 yrs



NAB residential property index

The NAB Residential Property Index continued its recent upward trajectory as dwelling values grew in all capital cities and regional areas over the 3-months to December (except in Melbourne), and rental growth remained elevated across much of the country. Overall, the Index rose to +46 in the December quarter, from +40 in the previous quarter and +5 at the same time last year. The Index now sits at its highest level since Q1 2022 and trending well above the survey average (+18).

NAB residential property index

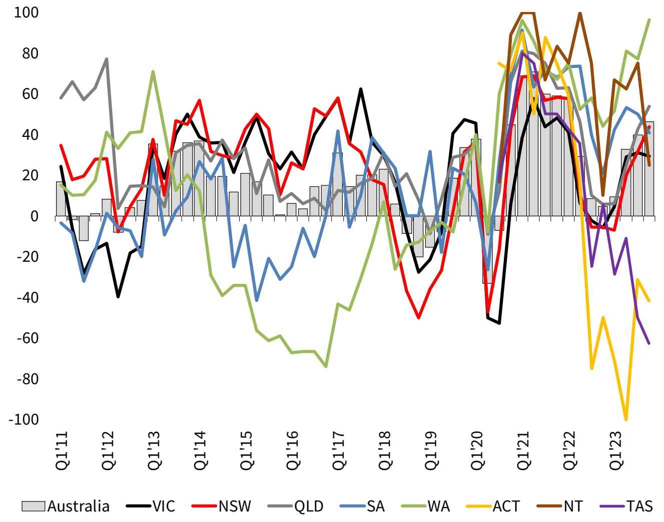


The headline gains however masked diverse conditions across states. The state index slipped further into negative territory in TAS (-63 from -50) and the ACT (-42 from -31) and also softened in the NT (+25 from +75), VIC (+29 from +31) and SA (+41 from +50). In contrast, state indices climbed in NSW (+44 from +32), QLD (+54 from +42) and WA (+96 from +77) where it was highest in the country supported by out-performing capital and rent growth.

Residential property index - states

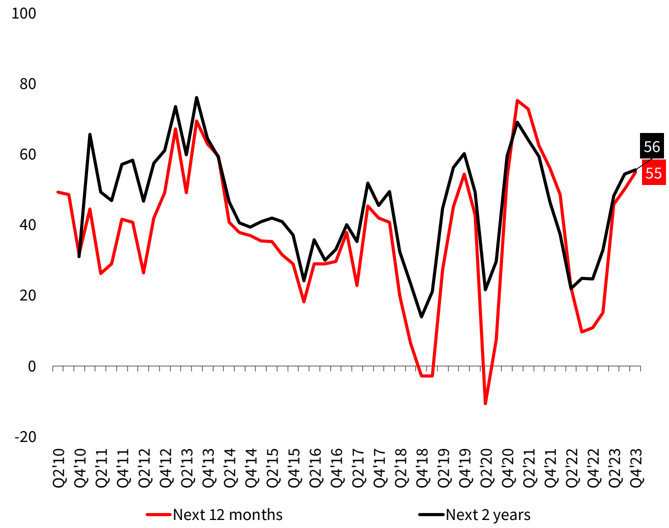
	Q3'23	Q4'23	Next 1yr	Next 2yrs
VIC	31	29	41	53
NSW	32	44	52	58
QLD	42	54	56	47
SA	50	41	45	41
WA	77	96	98	81
ACT	-31	-42	0	33
NT	75	25	75	75
TAS	-50	-63	-13	25
AUST	**40**	**46**	**55**	**56**

NAB residential property index - states



Confidence levels among surveyed property professionals also lifted, with expectations for a housing market recovery a little higher in the next few years. NAB's one-year confidence measure lifted to +55 (+50 in Q3), and the 2-year measure to +56 (+54 in Q3). Consequently, housing market confidence levels are now at their highest levels in 2 years and well above long-term survey averages (+37 & +45 respectively).

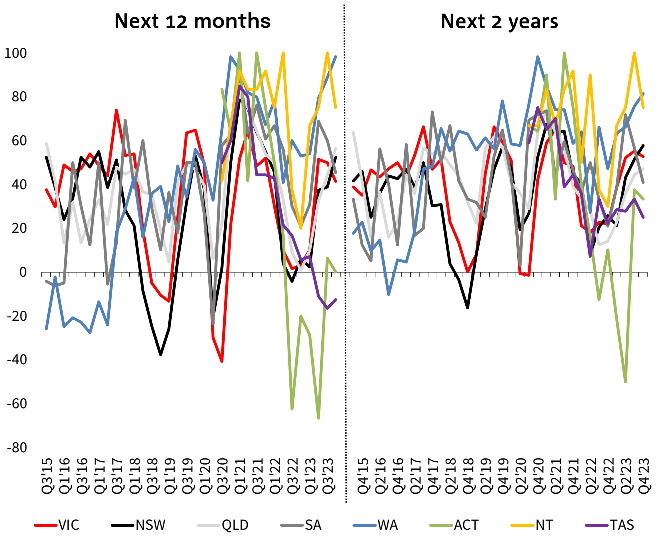
NAB residential property index - next 1-2 yrs



Housing market confidence in the next 12 months was highest in WA (and lifted) to +98 (+89 in Q3) followed by the NT where it eased to a still strong +75 (+100 in Q3). Confidence also lifted in QLD (+56 vs. +44) and NSW (+52 vs. +39), but moderated in VIC (+41 vs. +50), SA (+45 vs. +60) and the ACT (0 vs. +6). It remained negative in TAS (-13 vs. -17).

The 2-year measure printed positive in all states in Q4. It was highest in WA (+81 up from +76 in Q3) and the NT (+75 vs. +100). Longer-term confidence improved in NSW (+58 vs. +51) and QLD (+47 vs. +44). Property professionals were however less confident about longer-term housing market conditions in SA (+41 vs. +57), with confidence also fading in VIC (+53 vs. +55), the ACT (+33 vs. +38) and TAS (+25 vs. +33).

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



Survey house price expectations

Despite CoreLogic data showing a slowdown in quarterly dwelling price growth to 1.5 % in the December quarter (2.1% in the September quarter), average survey forecasts for national house prices in the next 1-2 years lifted.

Property professionals on average now see national home values gaining 1.8% in the next 12 months (1.5% forecast in Q3), and 2.6% in 2 years' time (2.4% forecast in Q3) - **see section below for NAB's View on Dwelling Prices**.

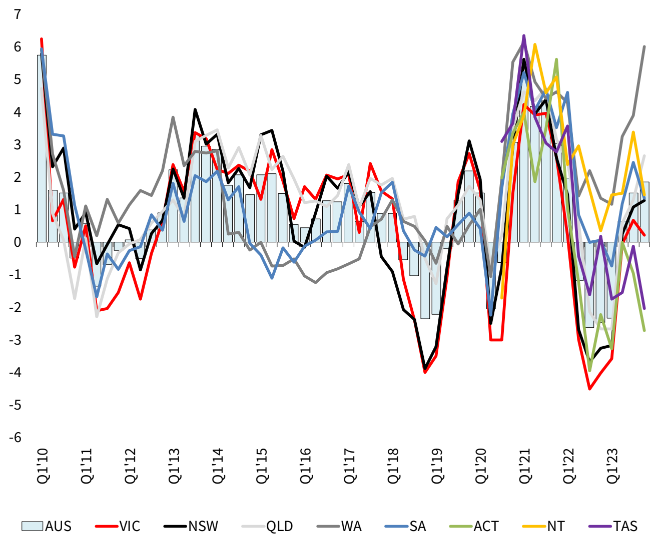
Avg survey house price forecasts (%)

	Next 1 year	Next 2 years
VIC	0.2% (0.7%)	1.9% (1.8%)
NSW	1.3% (1.1%)	2.6% (2.4%)
QLD	2.7% (1.3%)	2.4% (2.0%)
SA	1.4% (2.4%)	1.7% (2.8%)
WA	6.0% (3.9%)	5.1% (3.2%)
ACT	-2.7% (-1.0%)	-1.0% (0.1%)
NT	1.5% (3.4%)	2.9% (5.6%)
TAS	-2.0% (-0.1%)	0.4% (2.5%)
AUS	**1.8% (1.5%)**	**2.6% (2.4%)**

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

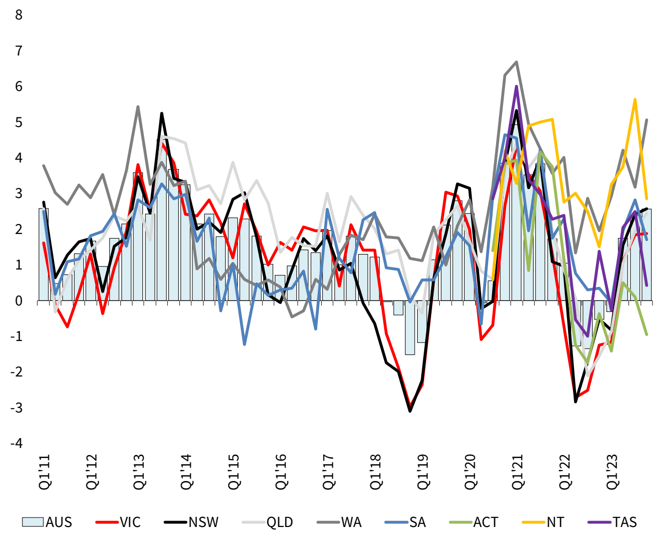
Expectations for stronger house price growth in the next 12 months reflect upward revisions to the outlook in WA (6.0% from 3.9% in the previous quarter), QLD (2.7% up from 1.3%) and NSW (1.3% vs. 1.1%). House prices are still expected to grow in most other parts of the country but more sedately in the NT (1.5% down from 3.4%), SA (1.4% down from 2.4%) and VIC (0.2% down from 0.7%). Property professionals however expect bigger price drops in the ACT (-2.7% down from -1.0%) and TAS (-2.0% from -0.1%) in the next 12 months.

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



The longer-term outlook for house prices improved in WA (5.1% from 3.2% forecast in Q3), NSW (2.6% from 2.4%), QLD (2.4% from 2.0%) and VIC (1.9% from 1.8%). It was wound back in most other states, though still positive in SA (1.7% from 2.8%), the NT (2.9% from 5.6%) and TAS (0.4% from 2.5%). Property professionals in the ACT however now expected house prices to fall -1.0% in 2 years' time (0.1% forecast in the previous quarter).

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



Survey rental expectations

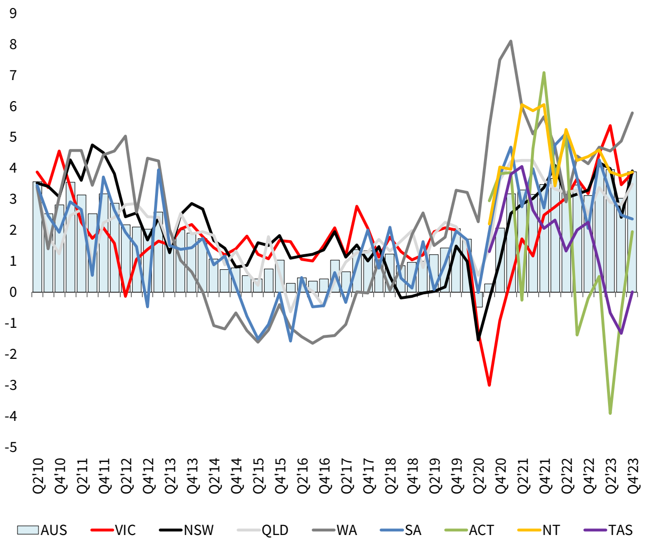
According to the latest data from CoreLogic, rents were up 8.3% nationally in 2023, a reduction from the 9.5% rise recorded last year and 9.6% rise in 2021. Despite the slowdown in annual rent growth, the 2023 result was still more than four times the pre-COVID decade average of 2.0% per annum. With NAB survey data still showing an overwhelming number of property professionals still assessing rental markets in their local areas as undersupplied (see below), the average survey forecast for rental growth in the next 12 months and in 2 years' time increased to 3.9% in Q4 (3.0% forecast in both years in the Q3 survey) and higher than their respective survey average levels.

Avg survey rental forecasts - rents (%)

	Next 1 year	Next 2 years
VIC	3.8% (3.5%)	4.7% (3.3%)
NSW	3.9% (2.4%)	4.1% (2.7%)
QLD	3.5% (2.8%)	3.1% (3.0%)
SA	2.4% (2.5%)	2.8% (2.9%)
WA	5.8% (4.9%)	4.4% (3.6%)
ACT	2.0% (-0.6%)	2.4% (1.1%)
NT	3.9% (3.8%)	5.6% (5.0%)
TAS	0.0% (-1.3%)	0.9% (1.2%)
AUS	**3.9% (3.0%)**	**3.9% (3.0%)**

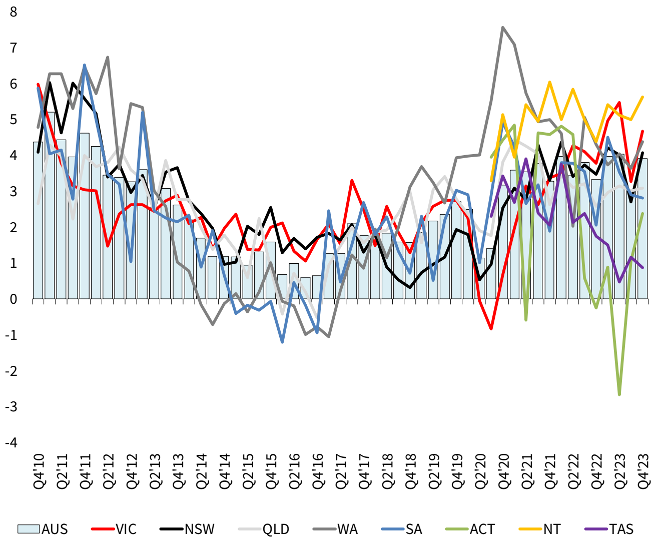
**figures in parentheses refer to forecasts in the previous survey*

Avg survey rental forecast - next 1 year (%)



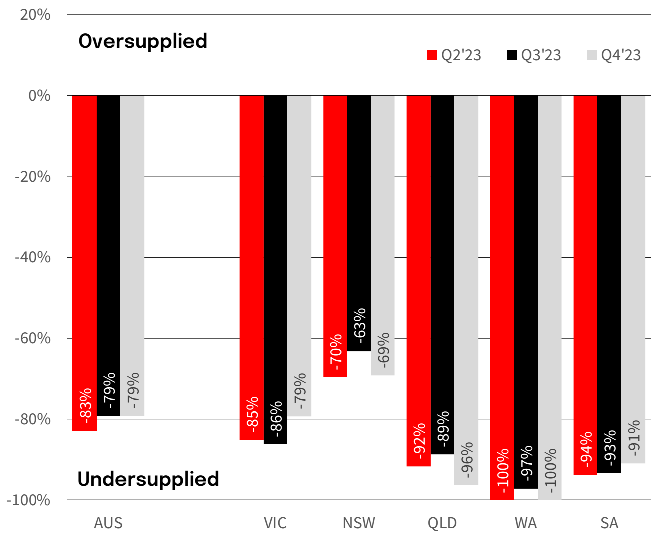
The average survey forecast for rental growth is positive (and stronger) in all states in the next 12 months bar TAS (flat) and SA (down slightly to 2.4% from 2.5%). Rental growth is expected to be strongest in WA (5.8% up from 4.9% in Q3), followed by the NT (3.9% from 3.8%) NSW (3.9% from 3.4%), VIC (3.8% from 3.5%) and QLD (3.5% from 2.8%), with solid returns now also expected in the ACT (2.0% from -0.6%).

Avg survey rental forecasts - in 2 years (%)



Longer term expectations for rents also lifted in all states bar SA. Rental growth in 2 years' time is now expected to be highest according to property professionals in the NT (5.6%), VIC (4.7%), WA (4.4%) and NSW (4.1%). Expectations are also quite solid in QLD (3.1%), with modest gains forecast for SA (2.8%), the ACT (2.4%) and TAS (0.9%).

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



Property professionals continued to report very tight supply conditions in housing rental markets in Q4, with an unchanged 79% (in net terms) assessing the balance between supply and demand in housing rental markets in their area as undersupplied.

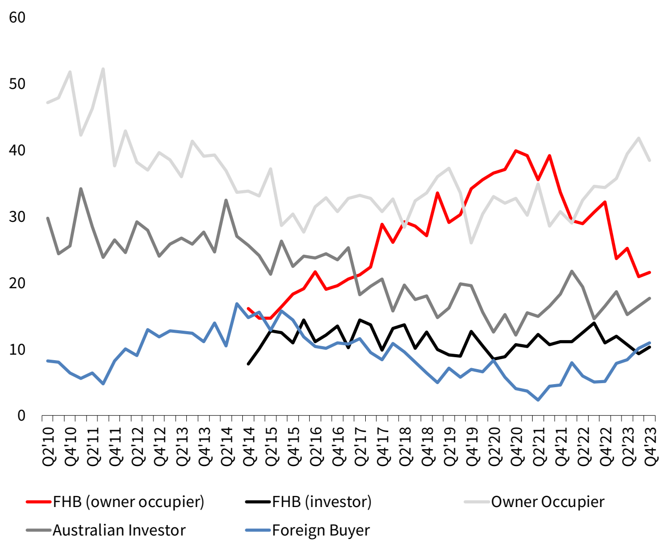
Though the net number of property professionals who said housing rental markets were undersupplied continued to heavily outweighed those who said it was oversupplied in all states, this ranged from 100% in WA to 69% in NSW. Moreover, supply conditions tightened further in WA, QLD and NSW relative to the previous quarter, but eased slightly in SA and more significantly in VIC (79% from 86% in Q3).

New housing markets

The overall market share of all First Home Buyers (FHBs) in new property markets increased to 31.8% in Q4 from a near 8-year low 30.3% in Q3 but continued tracking well below the survey average (38.3%). This reflected modest increases in market share for both the FHB owner occupiers (21.5% up from 20.9% in Q3) and FHB investors (10.3% up from 9.4%) in new housing markets.

Overall, the share of FHBs was lowest and fell heavily in QLD in Q4 (21.3% from 33.8% in Q3). Market share was highest in SA (55.0% up from 52.5%) and also increased in NSW (29.7% from 24.6%), VIC (31.3% from 29.4%) and WA (34.2% from 31.0%). FHB owner occupiers accounted for the smallest share of total sales in QLD (7.5%) and highest in SA (47.5%). FHB investors however accounted for the biggest share of sales in QLD (13.8%) and the smallest in VIC and SA (7.5%).

Buyers: new developments (% share)



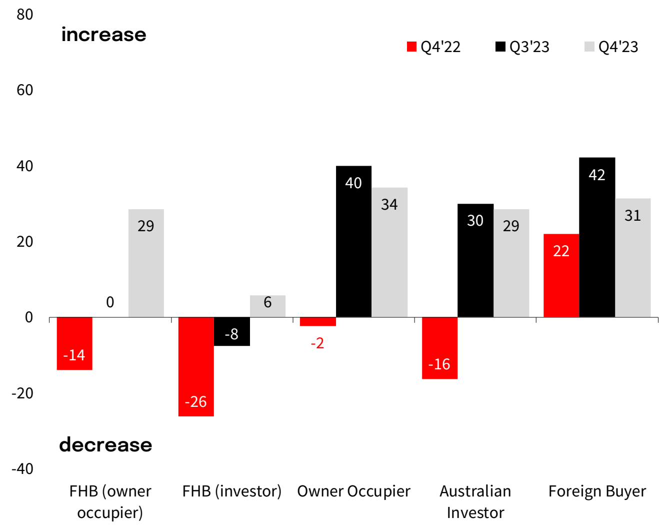
On average, the market share of sales to owner occupiers (net of FHBs) slipped to 38.5% in Q4, after reaching a near 11-year high 41.8% in Q3, but continued to trend above average (35.6%). These buyers were most prominent in VIC (44.4%) and least active in NSW (32.5%).

The market share of total sales to resident or domestic investors in new housing markets increased to 17.7% in the December quarter (from 16.5% in Q3) but was 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 (21.6%). The market share of domestic investors in new housing markets in Q4 however varied widely across key markets, ranging from over 1 in 3 (33.8%) sales in QLD to just 1 in 20 (5%) in SA.

The market share of foreign buyers in new Australian housing markets rose for the fifth straight quarter to a 6½ year high 11.0% in Q4 (10.1% in Q3) and also printed above average (9.1%). Foreign buyers in Q4 were most prevalent in NSW (15.0% up from 14.9% in Q3) and more than doubled in WA (14.2% up from 6.6%). Market share in QLD was unchanged at a below average (6.3%), and fell in VIC to 10.0% (11.0% in Q3) to remain below average (12.0%) - **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)

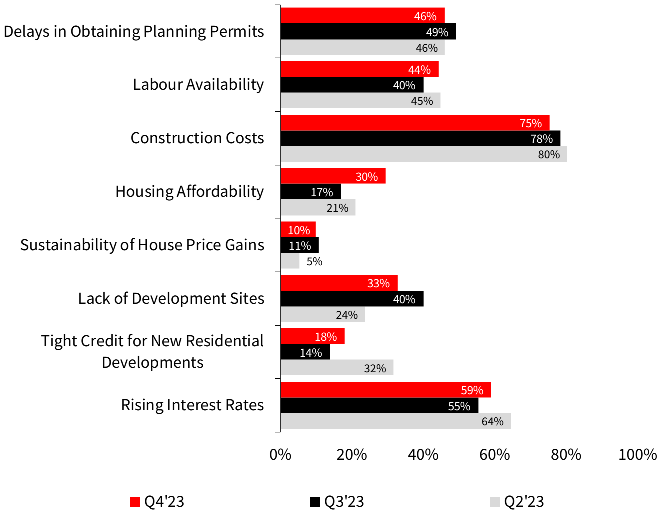


The net number who said market share would rise again heavily outweighed those predicting it would fall for owner occupiers (+34% but down from +40% on Q3), foreign buyers (+31% down from +42%) and Australian investors (broadly unchanged at 29%). We also noted a sharp turnaround in the net number expecting FHBs to account for a bigger market share of sales - particularly FHB owner occupiers (+29% up from 0%) but also FHB investors (+6% from -8% in Q3).

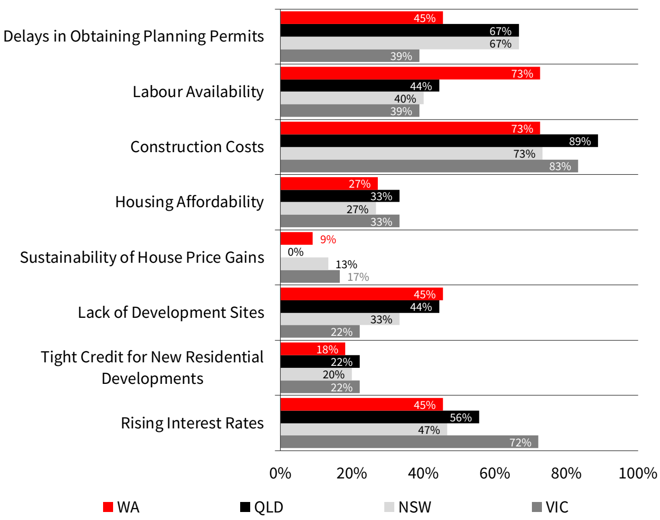
Barriers to starting new housing projects.

Though the benchmark Cordell Construction Cost Index (which tracks the cost to build a typical new dwelling) slowed in the September quarter, it remained elevated at 4.0% y/y from a peak of 4.7% y/y a year ago. Consequently, most surveyed property professionals (3 in 4 or 75%) again highlighted construction costs as a barrier to starting new residential development projects in Q4 (78% in the Q3 survey). With policy interest rates also rising further in November, a higher number also pointed to rising interest rates as a barrier (59% up from 55%). Delays in obtaining planning permits was identified as a barrier by slightly fewer property professionals in Q4 (46% down from 49% in Q3), as were delays in obtaining planning permits (46% down from 49%). However, a higher number said labour availability was problematic (44% up from 40%). Fewer highlighted lack of development sites (33% down from 40%), but almost twice as many pointed to housing affordability (30% up from 17%). More property professionals also said tight credit for new residential developments was a barrier to staring new housing projects (18% up from 14% in Q3).

Main barriers to starting new housing developments (%)



Main barriers to starting new housing developments - states

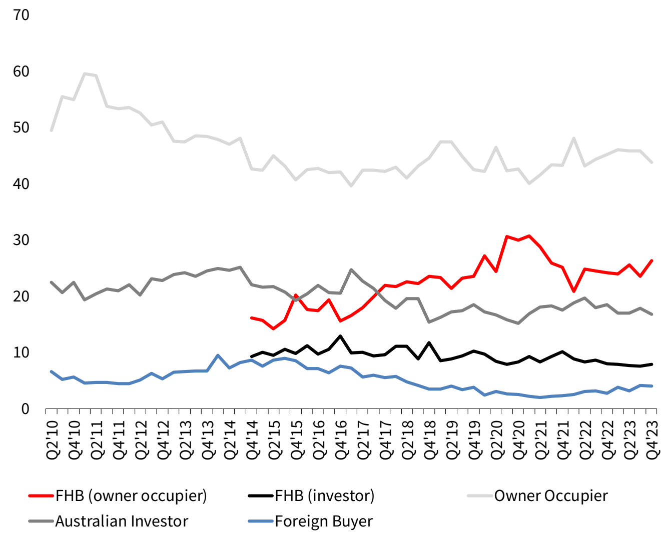


By state we noted a significantly higher number in QLD (89%) and VIC (83%) that said construction costs was a barrier, and in WA labour availability (73%). Delays in obtaining planning permits was an problem according to noticeably more property professionals in QLD and NSW (67%) and lack of development sites in WA (45%) and QLD (44%). Rising interest rates played a much bigger role in VIC (72%) and QLD (56%). Around 1 in 5 in all states pointed to tight credit for new residential developments.

Established property

In established housing markets, buying activity remained dominated by owner-occupiers (net of FHBs). In Q4, however their overall market share fell to 43.8% (45.8% in Q4) and printed below average (46.1%). Owner occupiers continued to account for the lion's share of established home sales in all states led by WA (47.7%) and VIC (47.2%). It was lowest in NSW (39.9%).

Buyers - established property (% share)



The overall share of FHBs in established housing markets rose to an above average 34.2% in Q4 (31.0% in Q3), boosted mainly by FHB owner occupiers (26.3% up from 23.5% in Q3) and well above average (22.3%). A smaller increase was reported for FHB investors (7.9% vs. 7.5%) and below average (9.4%).

By state, sales to FHBs overall were highest in SA (37.1%), VIC (35.8%) and NSW (35.5%) and lowest in QLD (30.4%). By FHB buyer type, the overall share of FHB owner occupiers ranged from 28.5% in VIC to 22.2% in QLD. The market share of FHB investors in established housing markets however was highest in SA (10.6%) and lowest in WA (7.2%) and VIC (7.3%).

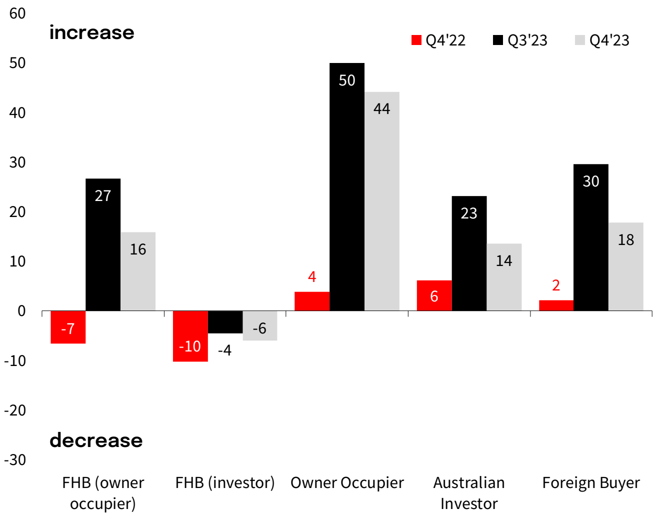
The total share of local investors in established Australian housing markets fell to 16.8% in Q4 (17.9% in Q3) and was well down on the survey average (20.1%). Local investors underpinned a noticeably larger share of total sales in QLD (19.4%) and NSW (19.0%), and was almost twice higher than in VIC (11.1%) where market share was lowest.

The overall share of foreign buyers in established housing markets was a little lower at a still below average 4.0% in Q4 (4.1% in Q3). The share of foreign buyers remained highest in VIC but fell to 4.3% (5.0% in Q3), just ahead of NSW where it increased modestly to 4.2% (4.0% in Q3). In QLD, their market share was unchanged at 4.1%, but it fell to 3.3% in WA (4.3% in Q3), with all states reporting below average outcomes - **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 - with the net number expecting their market share to fall increasing to -6% (-4% in Q3).

In contrast, significantly more property professionals on balance saw the share of owner occupiers in the market increasing - though it fell to +44% (+50% in Q3). A lower net number also expect the market share of sales to increase for foreign buyers (+18% from +30%), FHB owner occupiers (+16% from +27%) and local investors (+14% from +23%) in the next 12 months.

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



Established housing market constraints

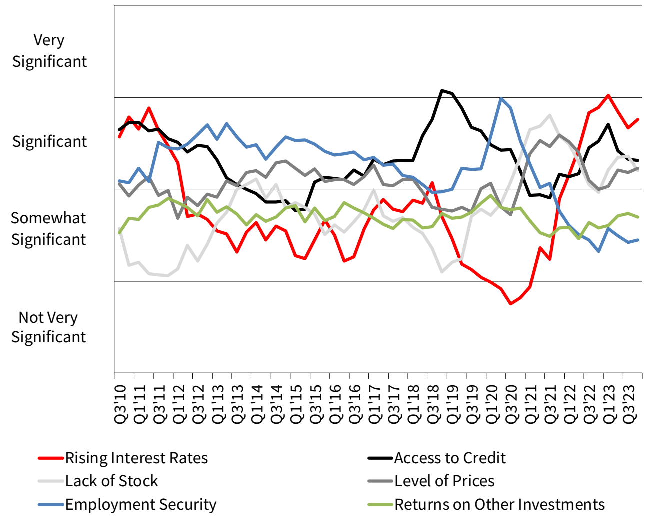
Rising interest are still seen as the biggest constraint for buyers of existing property nationally in Q4 - and it weighed a little more heavily on buyers as policy interest rates increased again in November 2023. It was also highlighted as the biggest constraint in all states (bar WA) and a "very significant" constraint on buyers in VIC and NSW.

Access to credit was the next biggest constraint for buyers overall, but viewed as somewhat more problematic for buyers in SA and NSW. Price levels were a "significant" constraint for buyers in all states - though more so in QLD, NSW and VIC.

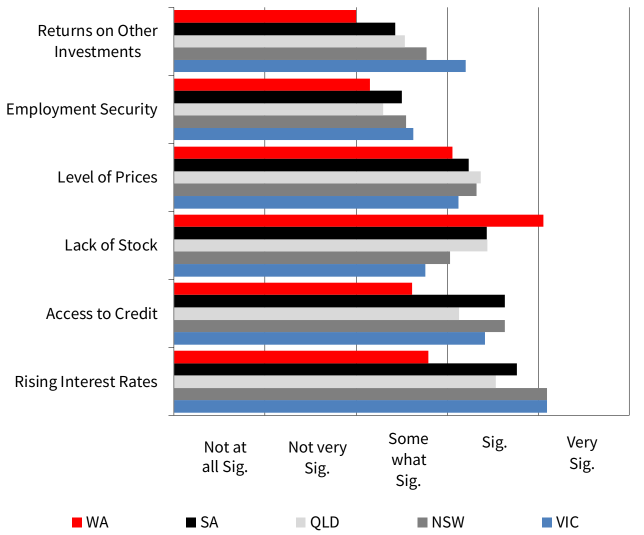
Lack of stock was the next biggest hurdle. However, it weighed much more heavily on buyers in WA where it was a "very" significant" constraint, but much less so in VIC where it was viewed as only "somewhat significant."

Returns on other investments had only a "somewhat" significant" impact on buyers overall, though it played a much bigger role in VIC where property professionals said it was having a "significant" impact on buyers. Employment security continued to have the least influence on home buyers across the country.

Constraints on buyers of established residential property



Constraints on established property - states

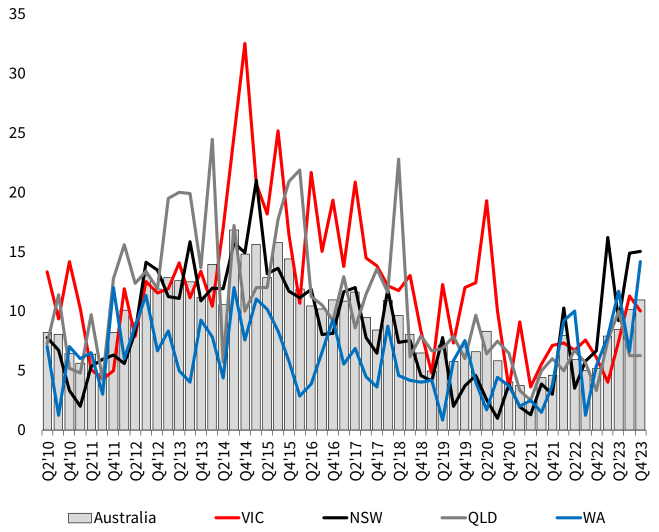


Foreign buyers

The market share of foreign buyers in new Australian housing markets in Q4 grew for the fifth straight quarter to a 6½ year high 11.0% - from 10.1% in Q3 and above the long-term survey average (9.1%). This points to a near five-fold increase in market share from a low of just over 2% during the COVID-pandemic in mid-2021. Recovery has occurred against record migration and reports of China's post-pandemic reopening sparking a surge of foreign interest in Australian housing, with international agents reporting an increase in enquires of over 400% (*source: AFR*).

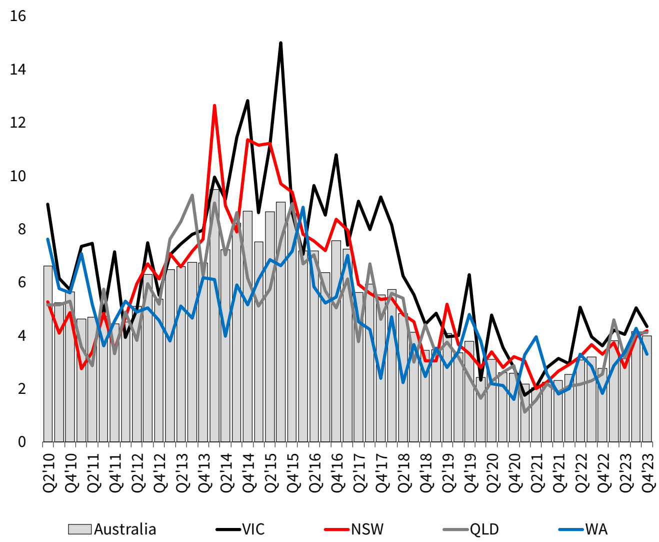
The increase in the overall market share of foreign buyers in Q4 was underpinned by NSW, where it increased to 15.0% (14.9% in Q3) and trended at around twice survey average levels (8.6%). Foreign buyers were also much more prevalent in WA, where market share doubled to 14.2% (6.6% in Q4). It was unchanged over the quarter in QLD (6.3%), and continued to trend below average (10.4%). VIC was the only state to report lower levels of activity from foreign buyers during Q4, with their overall market share dipping to 10.0% (11.3% in Q3). Property professionals in VIC have now reported below average levels of foreign buyer market share (12.0%) since Q2 2020.

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



In established housing markets, the share of foreign buyers fell slightly to 4.0% (4.1% in Q3) and continued to trend below average (5.1%). Market share increased marginally in NSW (4.2% up from 4.0% in Q3), and was unchanged in QLD (4.1%). It declined in VIC (4.3% down from 5.0%) and WA (3.3% down from 4.3%). The market share of foreign buyers in established housing markets in Q4 continued to print below long-term survey average levels in all states.

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



NAB's view on dwelling prices

Overall dwelling prices rose by 9.3% across the capital cities in 2023. Prices in Perth and Brisbane continue to rise at a relatively brisk pace, ending the year 15% and 13% high respectively. Sydney (up 11% y/y) and Adelaide (up 8% y/y) also saw solid gains. Melbourne (up 3%) saw a more modest gain and Hobart (-0/8%) recorded a small fall.

Price growth slowed in late 2023, led by a slowing in Sydney while Melbourne saw some small falls. Growth has held up in Perth, Brisbane and Adelaide though it has also slowed somewhat.

Our outlook for dwelling prices is broadly unchanged. We expect prices to rise by around 5% over each of the next two years. This follows the strong growth in prices over 2023 – where the sheer strength in housing demand more than offset the sharp deterioration in affordability as interest rates reached a decade high. Later in the year, it is likely interest rates will likely become less of a headwind as the RBA begins to normalise the cash rate.

The key factors driving prices higher, including a significant demand/supply imbalance, healthy labour market and strong nominal income growth, are expected to persist in the near term. While the demand side pressure of rapid population growth is expected to ease somewhat over the 2024 and 2025, the supply side continues to be challenged by cost pressures and labour constraints. Indeed, while the pipeline of dwellings under construction remains elevated it has begun to be eroded. That said, completions have also continued to decline falling by around 10% in Q3 2023. While approvals have stabilised, they remain at a relatively low level – and point to some further easing in completions.

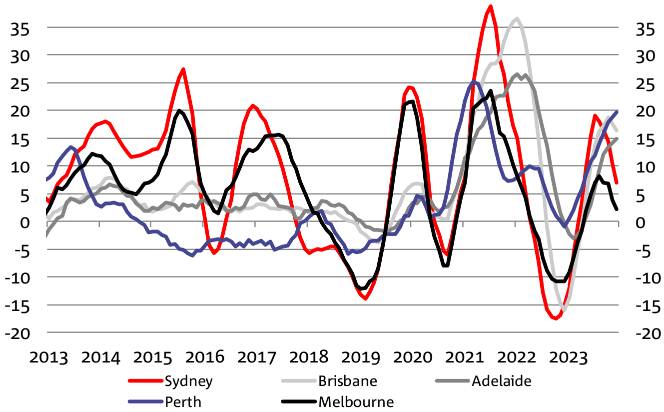
More broadly, the economy remains healthy. though growth slowed sharply in late 2023 and is expected to remain soft in H1 2024. The impact of both high rates and inflation on household budgets and spending is becoming more apparent in the data, with a clear adjustment to the rate of saving underway and a pull-back in spending. Our higher frequency indicators – including both the NAB Business Survey and our internal transactions data points to ongoing softness in late 2023 and early 2024. In the near term it is likely that we will see a further pull-back in dwelling investment, while the outlook for business investment is mixed.

Overall, we see below-trend growth of 1.7% this year and around trend growth of 2.25% next year. That sees labour demand cool relative to still strong population growth - enough for the unemployment rate to continue to drift up, reaching around 4.5% by end 2024. Therefore, we see an ongoing easing in labour market tightness and some easing in wage pressures – and expect wage growth to have peaked.

This, combined with the greater than expected easing in goods prices, is an encouraging sign that inflation will continue to moderate. We see underlying inflation falling to 3.2% by end 2023, and around 2.7% by end 2024.

This provides scope for the RBA to begin normalising rates in late 2024, and we expect cuts of around 125bps over 2025 as the RBA returns the cash rate to neutral.

Dwelling price growth (6-month ended annualised %)



NAB hedonic dwelling price forecasts (%)*

	2021	2022	2023f	2024f
Sydney	-11.4	11.1	4.7	3.7
Melbourne	-7.1	3.5	2.6	3.7
Brisbane	-1.9	13.1	7.7	3.0
Adelaide	9.3	8.8	6.4	4.6
Perth	4.2	15.2	9.9	6.2
Hobart	-6.8	-0.8	0.0	2.4
Cap City Avg	**-6.4**	**9.3**	**4.9**	**3.7**

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About the survey

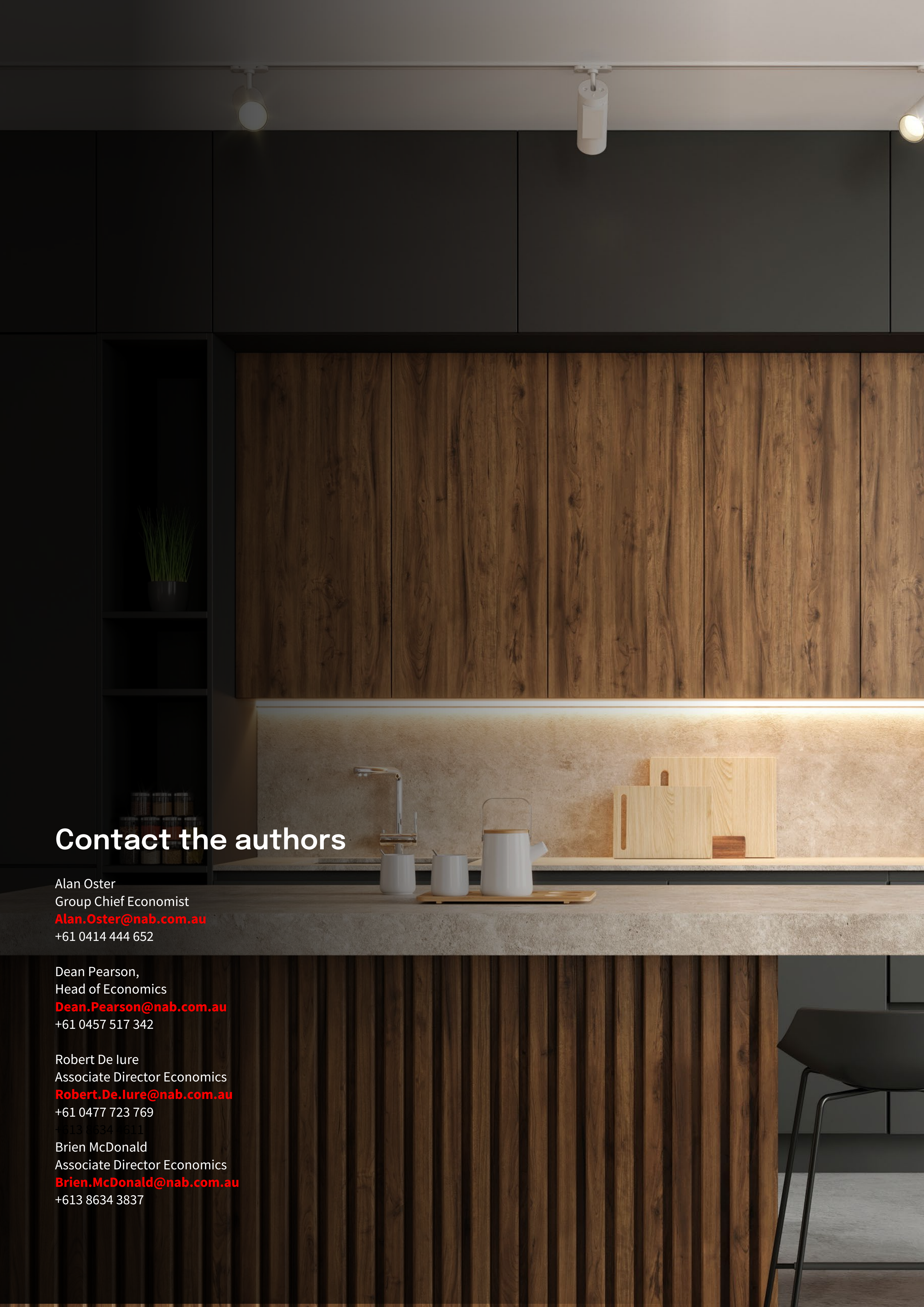
The NAB Quarterly Australian Residential Property survey was first launched in Q1 2011.

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 300 property professionals participated in the Q4 2023 survey.



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