

NAB RESIDENTIAL PROPERTY SURVEY Q1-2018



OVERALL MARKET SENTIMENT ROSE IN Q1 AS STRONG GAINS IN WA & QLD OFFSET FALLS IN NSW & VIC. CONFIDENCE UP SHARPLY IN WA, BUT FELL AGAIN IN NSW AMID EXPECTATIONS FOR BIGGER PRICE FALLS. NAB ALSO LOWERS HOUSE PRICE FORECAST FOR 2018 ON CONTINUING WEAKNESS IN SYDNEY & SOFTER MELBOURNE MARKET.

NAB Behavioural & Industry Economics

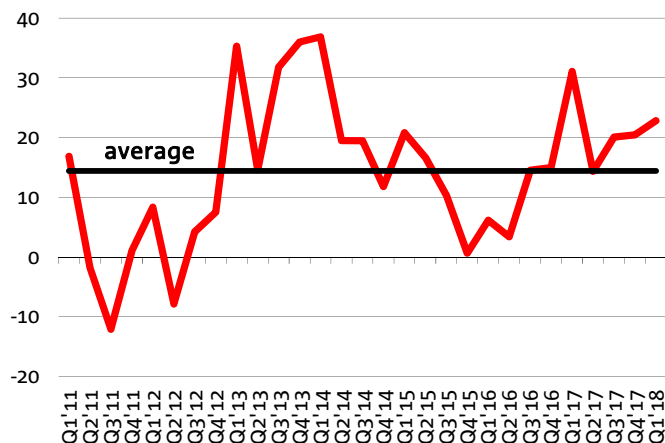
Embargoed until: 11.30 am Friday 6 April 2018

National housing market sentiment (measured by the **NAB Residential Property Index**) rose a little in Q1 2018 and remains above long-term average levels. But we are continuing to see a shift across states. Sentiment again fell in VIC and NSW, but it rose strongly in WA (positive for the first time in 4 years) and was also higher in QLD. Overall confidence levels are broadly unchanged, but have risen strongly in WA and softened in NSW. House price expectations mirror these trends. Property experts are predicting bigger falls in NSW and have scaled back their outlook for VIC. But property experts in WA are much more bullish with stronger growth also expected in QLD. The overall market share of first home buyers climbed to new survey high in Q1, as resident investors hit a new low. Surprisingly, the share of foreign buyers in new property markets increased, after having fallen to a 6-year low in the previous quarter, led by NSW and WA. Access to credit is still viewed as the biggest constraint on new housing development in the country and the biggest impediment for buyers of existing property. But concerns over interest rates are also growing. **NAB's view** for 2018 now has a small fall in house prices in 2018 (now -0.8% was +0.7%). This is largely related to continuing weakness in the Sydney market (-3.4% now expected) and a softer Melbourne market (was +3.7% now +0.1%) with little improvement now expected during 2018. The only markets to strengthen recently have been Hobart and regional markets. For 2019, the house price forecasts remain broadly unchanged at +0.8% with only Sydney expected to fall (albeit modestly). Apartment forecasts are broadly unchanged (-0.8% in 2018 & -1.8% in 2019) reflecting large stock additions and softer outlook for foreign demand.

VIEW FROM PROPERTY EXPERTS

Composition of Index continuing to shift - lower in NSW, VIC & SA/NT, but rising further in QLD and finally turning positive in WA after 4 years.

NAB RESIDENTIAL PROPERTY INDEX



RESIDENTIAL PROPERTY INDEX BY STATE

	Q4'17	Q1'18	Next 1yr	Next 2yrs
VIC	36	30	54	51
NSW	18	15	21	31
QLD	18	31	47	55
SA/NT	38	31	38	50
WA	-13	7	43	66
AUST	20	23	41	49

VIEW FROM NAB ECONOMICS

NAB's view for 2018 now has a small fall in house prices for 2018 relating to continuing weakness in Sydney and a softer Melbourne market.

NAB HEDONIC HOUSE PRICE FORECASTS (%)*

	2015	2016	2017f	2018f	2019f
Sydney	15.5	10.7	2.1	-3.4	-1.2
Melbourne	15.8	9.5	9.1	0.1	2.2
Brisbane	6.9	2.7	3.1	1.7	2.0
Adelaide	3.8	3.8	3.3	0.0	1.7
Perth	-4.2	-2.9	-2.6	1.0	1.2
Hobart	7.0	9.6	12.9	6.5	1.7
Cap City Avg	11.2	7.3	4.0	-0.8	0.8

NAB HEDONIC UNIT PRICE FORECASTS (%)*

	2015	2016	2017f	2018f	2019f
Sydney	13.1	5.8	5.4	-1.6	-2.4
Melbourne	7.5	4.7	8.4	1.2	-1.8
Brisbane	1.1	-3.0	-1.2	-2.0	-1.2
Adelaide	2.4	0.6	0.5	1.2	0.5
Perth	-2.8	-6.3	-0.9	-1.2	0.7
Hobart	1.1	6.4	9.1	6.6	1.2
Cap City Avg	8.2	3.5	5.1	-0.8	-1.8

SOURCE: CoreLogic, NAB Economics

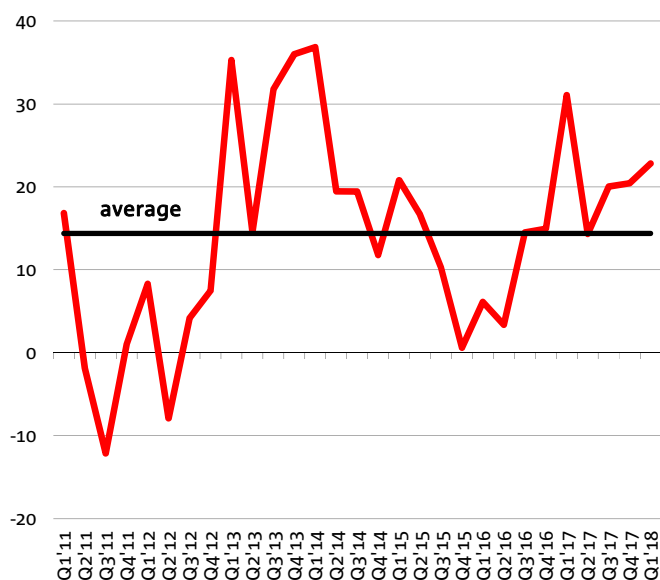
OVERALL MARKET SENTIMENT STEADY, BUT STATE DYNAMICS CHANGING

The NAB Residential Property Index - based on property experts' expectations for capital growth and rents rose a little in Q1 2018 - up 3 to +23 - and remains well above its long-term average (+14).

Market sentiment continues to shift across states. It fell again in VIC (down 6 to +30) and NSW (down 3 to +15), driven down by weakening house prices. Sentiment also fell in SA/NT but remains relatively strong (down 8 to +31).

In contrast, market sentiment rose strongly in WA (up 20 to +7), recording its first positive read since Q1 2014 as the rate of decline in house price growth continued to taper. Sentiment also continued to strengthen in QLD (up 13 to +31).

NAB RESIDENTIAL PROPERTY INDEX

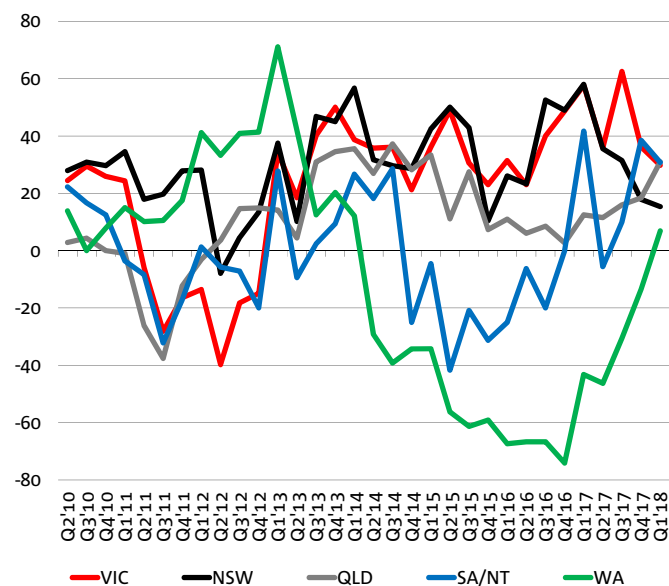


RESIDENTIAL PROPERTY INDEX BY STATE

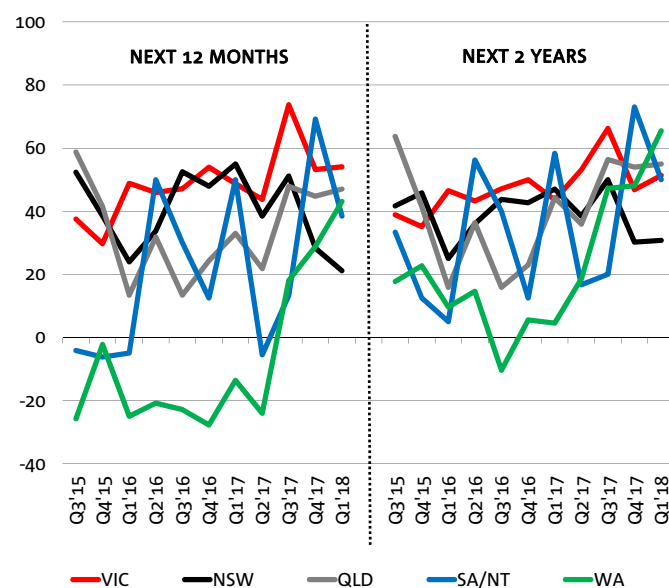
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RESIDENTIAL PROPERTY INDEX: STATE

Further weakening in NSW & VIC offset by solid gains in WA and QLD...



Confidence levels continue to improve sharply in WA ...



Overall confidence levels among surveyed property experts were broadly unchanged in Q1. NAB's Residential Property Index is now expected to reach +41 in the next year (+42 in the last survey) and +49 in two years' time (+46 previously).

The chart above shows that confidence 12 months forward improved most in WA (up 14 to +43), reaching its highest level since late-2013. Small improvements were also reported in QLD (up 2 to +47) and VIC (up 1 to +54) - the highest of all states. In contrast, sentiment fell in SA/NT (down 31 to +38).

It also fell in NSW (down 7 to +21) to its lowest level since the survey began in 2010.

Longer-term confidence (in 2 years' time) also lifted strongly among property professionals in WA (up 17 to +66), and was highest in the country. It also improved a little in VIC (up 5 to +51), QLD (up 1 to +55) and NSW (up 1 to +31) but was lowest of all states. Confidence fell in SA/NT but is still relatively high (down 23 to +50).

SURVEY HOUSE PRICE EXPECTATIONS

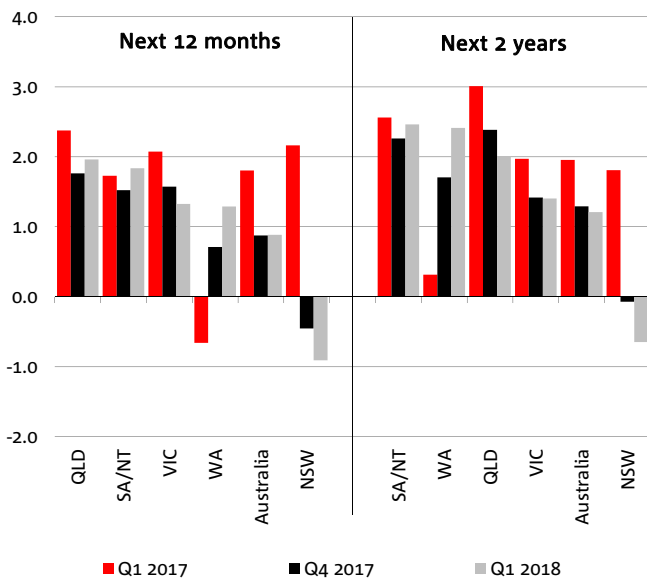
Average survey expectations for national house prices over the next 12 months were unchanged at 0.9%. But this masks some significant changes across states.

Property experts now predict even bigger price falls in NSW (-0.9% vs. -0.5% previously) over the next year - and it is the only state where prices are tipped to fall. Expectations were also scaled back in VIC but remain positive (1.3% vs. 1.6%).

But property professionals in WA were significantly more bullish about the outlook, with prices now tipped to rise 1.3% (0.7% previously). Faster growth is also expected in SA/NT (1.8% vs. 1.5%) and QLD (2.0% vs. 1.8%) which is expected to lead the country for capital growth.

SURVEY HOUSE PRICE FORECASTS

QLD, SA/NT & WA to lead the way for price growth over the next 1-2 years. VIC slowing and NSW negative...



Longer-term prospects were pared back a little with average survey expectations now pointing to house

price growth of 1.2% in 2 years' time (1.3% in the last survey).

Property professionals in SA/NT are the most optimistic, with average expectations for house prices upgraded to 2.5% (2.3% previously). WA was the big improver (2.4% vs. 1.7%) and QLD next best, albeit scaled back (2.0% vs. 2.4%). Expectations for house price growth in VIC were unchanged at 1.4%. But in NSW, the fall in house prices is to be expected to be deeper (-0.6% vs. -0.1%).

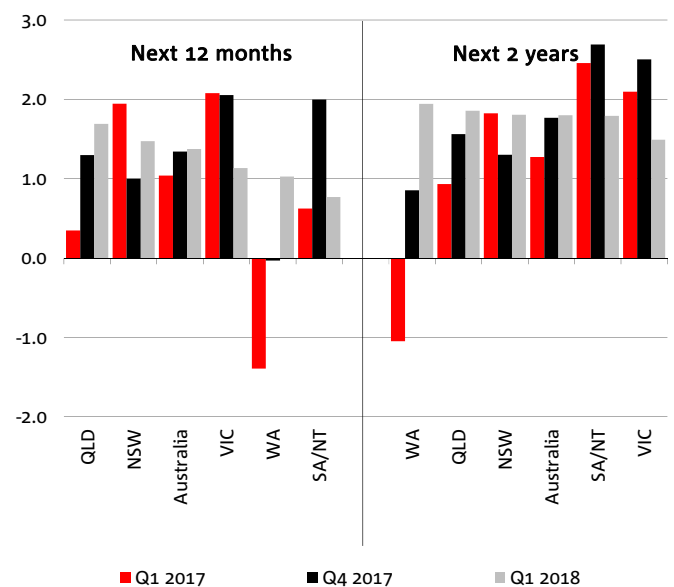
SURVEY RENTAL EXPECTATIONS

The average survey outlook for rental growth in the next 12 months was also little changed in Q1 (1.4% vs. 1.3% in the previous survey). But with the pace of national rental growth still exceeding house price growth, this is pointing to further improvement in rental yields.

Expectations for rental growth were mixed across states. On average, property professionals in QLD expect the highest returns (1.7% vs. 1.3% previously), followed by NSW (1.5% vs. 1.0%). Property professionals in WA were also notably more bullish about the outlook for rents (1.0% vs. 0.0%). But in VIC, the average outlook was scaled back significantly (1.1% vs. 2.1%). It was also cut back in SA/NT (0.8% vs. 2.0%)

SURVEY RENTAL GROWTH FORECASTS

Rental growth fastest in QLD & NSW over the next year, but WA expected to lead the way in 2 years' time ahead of QLD...



The average survey outlook for rental growth in 2 years' time was unchanged at 1.8%. But this again

masks some significant changes to the rental outlook across states.

Expectations were revised up and are now strongest in WA (1.9% vs. 0.9%) and QLD (1.9% vs. 1.6%). They were also lifted in NSW (1.8% vs. 1.3%), but were cut back in SA/NT (1.8% vs. 2.7%) and in VIC (1.5% vs. 2.5%).

NEW DEVELOPMENTS

First home buyers (FHB) continued to lift their profile in new property markets, but this was mainly driven by investment buyers in Q1.

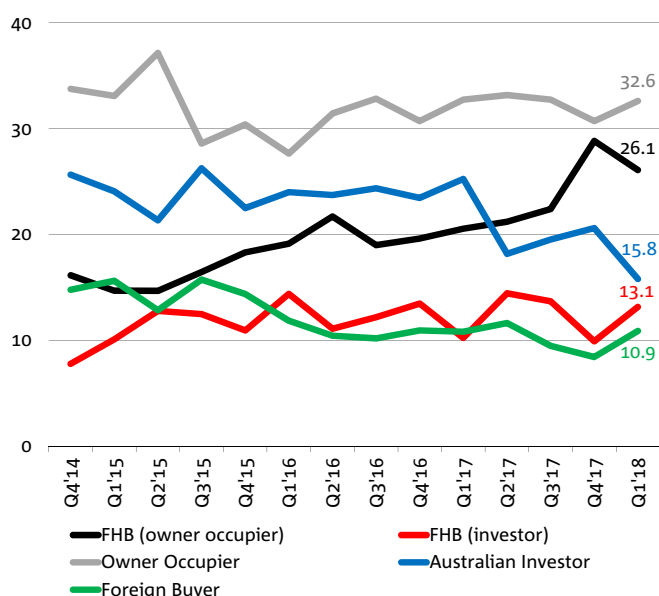
In Q1, the share of FHB investors in the market rose to 13.1%, up from 9.9% in the previous survey.

At the same time, the share of FHB owner occupiers eased to 26.1%. While this was down from a survey high 28.8% in the previous quarter, it remains well above the average level of 19.9% since NAB started compiling this data in Q4'14.

In total, FHBs accounted for almost 2 in 5 (39.2%) new property buyers in Q1 (38.7% in Q4 2017) - a new survey high.

It also reinforces recent trends in official data also showing an improvement in FHB activity, largely on the back of recent stamp duty concessions in NSW and VIC to help improve affordability.

SHARE OF NEW PROPERTY SALES (%)



Owner occupiers (net of FHBs) or 'upgraders' were more active in this market accounting for 32.6% of total sales (30.7% in Q4). They were most active in SA/NT (45.0%) and WA (41.9%) and least active in VIC (15.3%).

The share of local investors (net of FHBs) fell to a survey low 15.8% in Q1 (20.6% in Q4), with their market share falling heavily in NSW (13.3% vs. 20.0%) and also lower in QLD (17.1% vs. 20.0%), SA/NT (15.0% vs. 16.3%) and WA (12.5% vs. 24.5%). It was a little higher in VIC (19.4% vs. 19.1%).

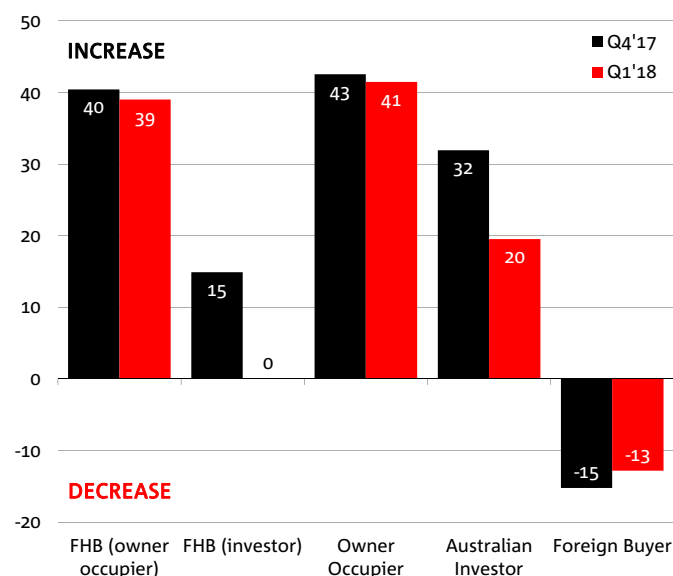
Surprisingly, the share of foreign buyers in new property markets increased to 10.9% in Q1, after having fallen to a 6-year low of 8.4% in the previous quarter.

However, the share of foreign buyers in new property markets was still below the series average of 12.0% since Q2 2010 and well down on survey high levels of almost 17% in Q3 2014.

The increase in foreign buyer activity in new property markets was mainly attributed to much higher levels of activity in NSW, where their market share increased to 11.8%, from 6.5% in the previous quarter. Foreign buyers also lifted their market share in WA (8.8% vs. 3.6%).

Foreign buyers did however continue to pull back in VIC (12.1% vs. 13.8%) and also retreated in QLD (11.5% vs. 13.6%) - see section on foreign buyers below for more detail.

COMPOSITION OF NEW PROPERTY BUYERS NEXT 12 MTHS (NET BALANCE)



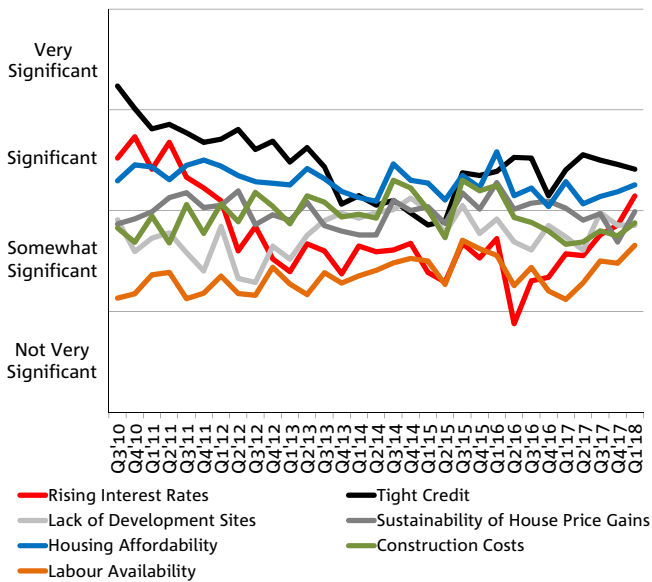
When asked what they expect the proportion of buyers of new residential property would do in the next 12 months, on balance more property experts said they expected the proportion of buyers to increase in the FHB (owner occupier), owner occupier or 'upgrader' and resident investor categories and remain the same in the FHB (investor category). Conversely, more property experts still expect the share of foreign buyers to fall than increase.

NEW HOUSING MARKET CONSTRAINTS

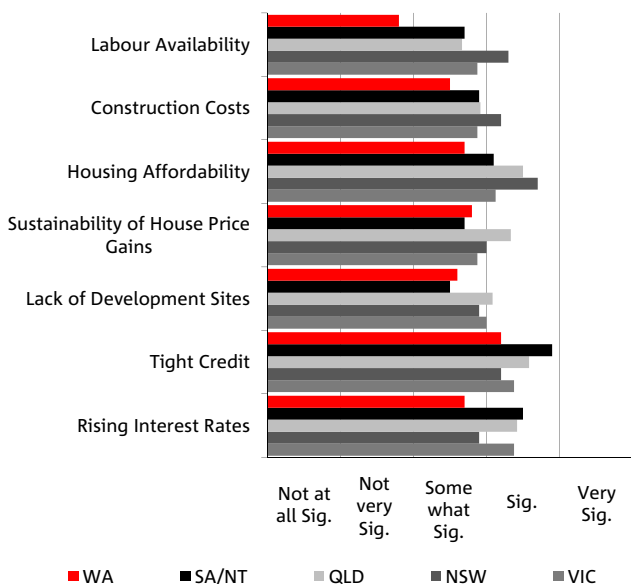
For the eighth consecutive quarter, property experts identified tight credit as the biggest constraint on new housing development in the country, but slightly less so than in the previous survey. It was also seen as the main barrier in all states except NSW (housing affordability), and was rated 'significant' in all states.

Property professionals also singled out housing affordability as a 'significant' constraint - and in all states except WA. The level of concern around rising interest rates continued to grow, and is now identified as 'significant', with property experts in SA/NT, QLD and VIC the most worried.

KEY CONSTRAINTS - OVERALL



KEY CONSTRAINTS - STATE



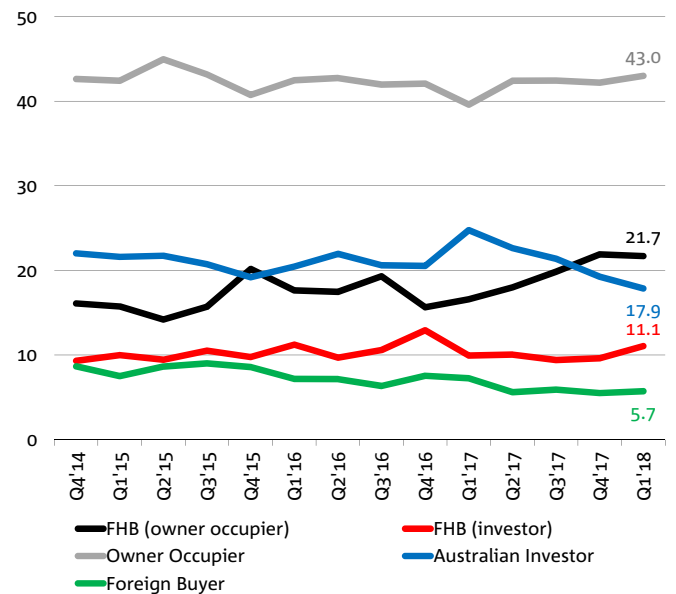
ESTABLISHED PROPERTY

The market share of FHB (owner occupiers) in established housing markets remained at relatively elevated levels (21.7% vs. 21.9%) in the previous quarter.

FHB (investors) however were more active, accounting for 11.1% of all sales (9.6% in Q3).

In all, FHBs accounted for 32.8% of established property sales in Q1 (31.5% in the previous quarter) - a new survey high.

SHARE OF EST. PROPERTY SALES (%)



Owner occupiers (net of FHBs) still account for the biggest share of buyers in established housing markets in Australia with their share of total sales broadly unchanged at 43% (42.2% in Q4'17).

This ranged from 54.1% in WA and 50.9% in SA/NT to just 37.8% in NSW and 38.4% in VIC.

The share of local investors (net of FHBs) in established housing markets fell for the fourth straight quarter to a new survey low 17.9% (19.2% in Q4).

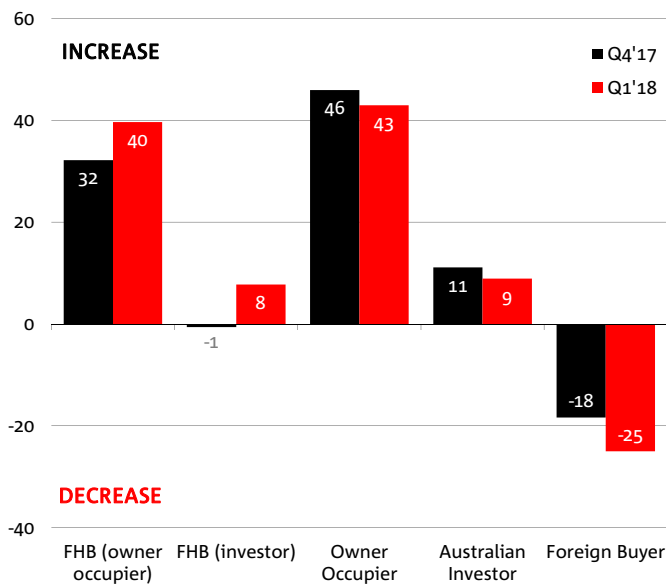
Clearly, attempts by APRA to curb investor lending activity are biting.

The share of foreign buyers in established Australian housing markets lifted a little, with their overall share of sales reaching 5.7% (5.5% in Q3).

Foreign buyers increased their market share in QLD (5.6% vs. 4.6% in Q4), NSW (5.4% vs. 5.3%) and WA (4.7% vs. 2.4%). In VIC however, their market share fell to 8.2% (9.2% in Q4).

For more detail see section on foreign buyers below.

COMPOSITION OF EST. PROPERTY BUYERS NEXT 12 MTHS (NET BALANCE)



On balance, more property experts believe the share of FHB (owner occupiers and investors), owner occupiers and local investors buying existing homes will increase in the next 12 months.

But noticeably more property experts also said they expect share of foreign buyers to decrease relative to the previous quarter.

ESTABLISHED HOUSING MARKET CONSTRAINTS

Access to credit remains the most 'significant' impediment for buyers of existing property according to surveyed property experts.

And it was considered to be a significant issue in all states, led by SA/NT.

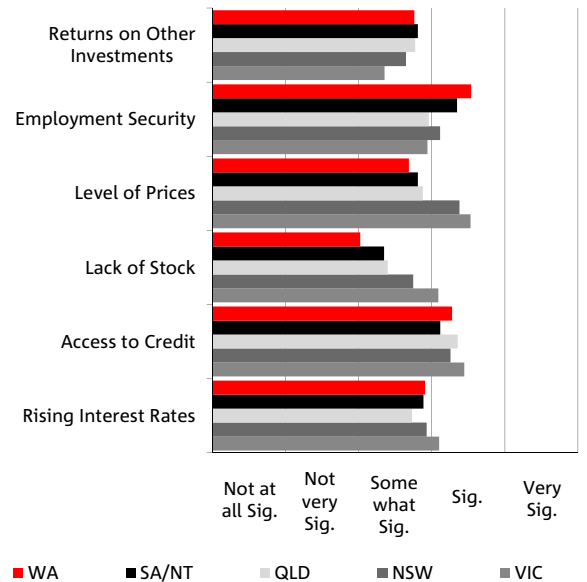
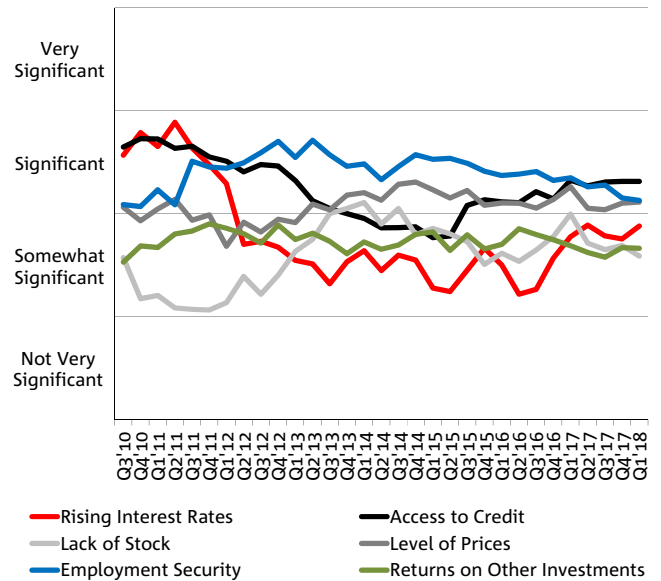
Employment security and house price levels were identified as the next biggest barriers.

Not surprisingly, concerns over employment security were highest in WA and SA/NT, while house price levels were seen as being a bigger barrier in VIC and NSW.

Rising interest rates was the next biggest worry and a little more so than in the previous survey. Rising interest rates were considered to be a bigger issue in VIC and NSW than in all other states, likely reflecting higher house prices and mortgage levels.

Overall, property experts were least worried about a lack of stock (although this was still a 'significant' concern in VIC) and relative returns on other investments.

KEY CONSTRAINTS - OVERALL & STATE



FOREIGN BUYERS

The share of foreign buyers in Australian residential property markets increased in Q1 2018 to 10.9% in new property markets, after dropping to a 6-year low 8.4% in Q4, and to 5.7% in established housing markets (5.5% in Q4).

The increase came in spite of a crackdown by the Chinese government on foreign investment outflows and tighter restrictions on foreign property buyers in Australia which has caused buying activity to moderate in recent quarters.

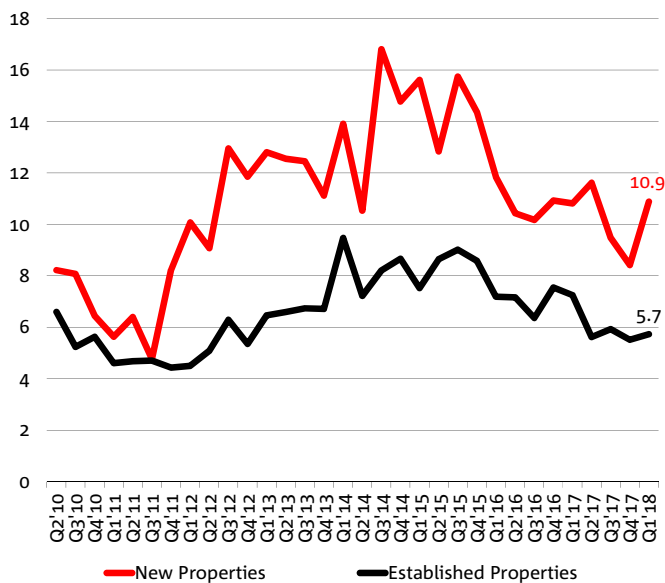
In new property markets, the increase was driven mainly by NSW, where the share of foreign buyers increased to 11.8% from 6.5% in Q1 (possibly reflecting renewed buyer interest as house price

growth in Sydney loses momentum). Foreign buyers were also more active in WA, where their market share lifted to 8.8% (3.6% in Q4), possibly also being driven by better affordability.

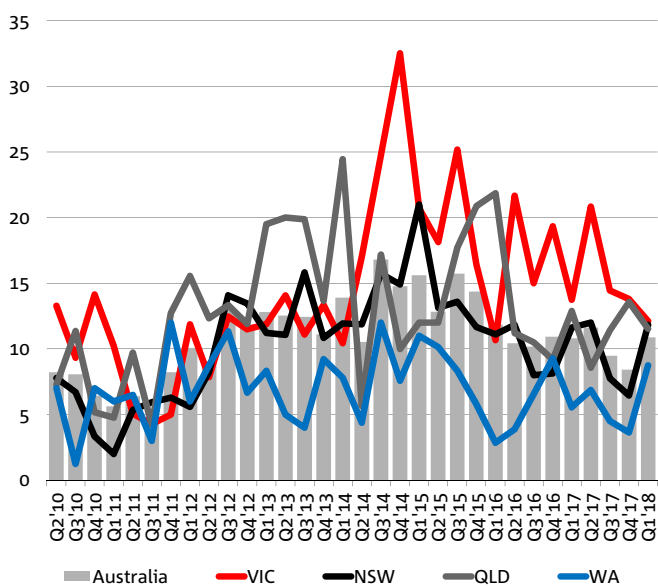
In contrast, foreign buyers of new property were less active in VIC, where they accounted for 12.1% of all sales (13.8% in Q4), but still the biggest share of any state. Foreign buyers were also less active in QLD (11.5% vs. 13.6%).

DEMAND FOR PROPERTY FROM FOREIGN BUYERS (% OF TOTAL)

Share of foreign buyers falling...

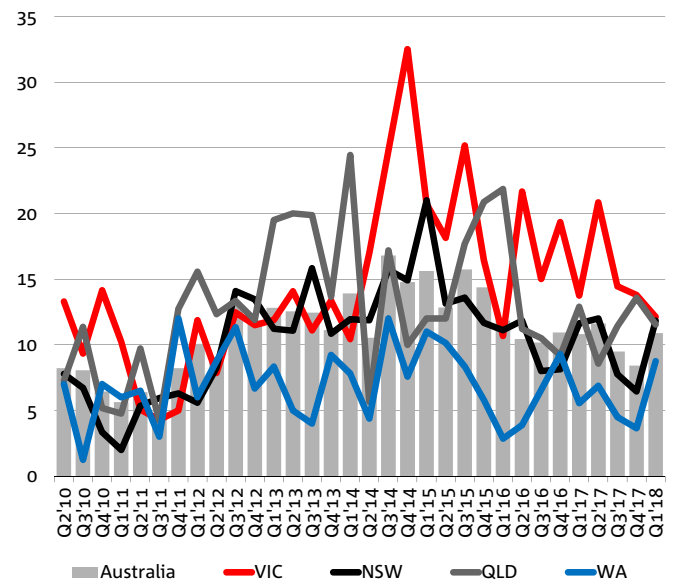


DEMAND FOR NEW PROPERTY FROM FOREIGN BUYERS (% OF TOTAL)



In established markets, the increase was driven by NSW (5.4% vs. 5.3%), QLD (5.6% vs. 4.6%) and WA (4.7% vs. 2.4%). In VIC, the share of foreign buyers fell to 8.2% (9.2% in Q4) but was still highest of all states.

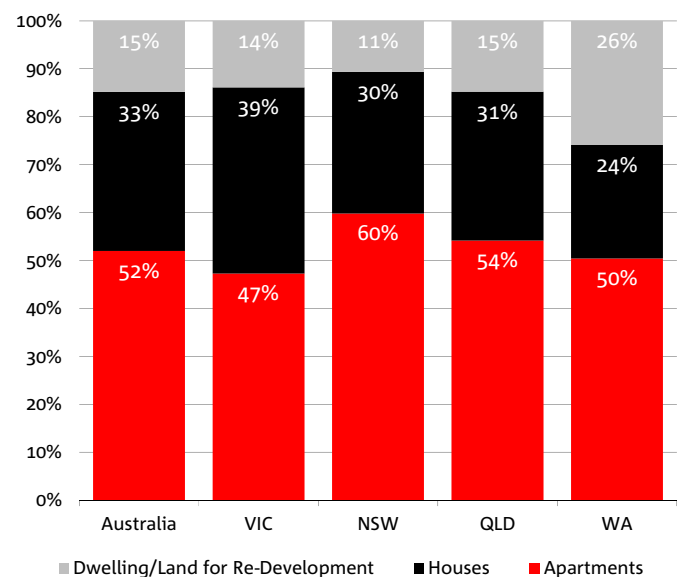
DEMAND FOR ESTABLISHED PROPERTY FROM FOREIGN BUYERS (% OF TOTAL)



TYPE OF PROPERTIES BOUGHT BY FOREIGN BUYERS

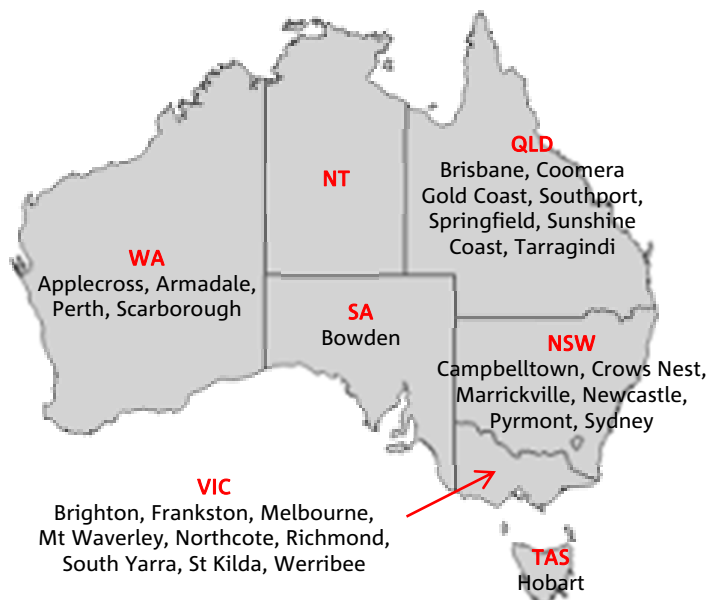
Just over 1 in 2 (52%) foreign property sales in Australia in Q1 were apartments - ranging from 47% in VIC to 60% in NSW.

FOREIGN PURCHASES - STATE (%)



Houses made up 33% of sales nationally, with this ratio highest in VIC (39%) and lowest in WA (24%). Around 15% of properties consisted of land or dwellings for re-development, led by WA (26%).

SUBURBS TIPPED TO ENJOY ABOVE AVERAGE GROWTH IN NEXT 12 MONTHS



AVG SURVEY EXPECTATIONS: HOUSE PRICES (%)

	Q4'17	Q1'18	Next 1 year	Next 2 years
VIC	0.9	0.6	1.3	1.4
NSW	-0.2	-0.4	-0.9	-0.6
QLD	0.4	1.0	2.0	2.0
SA/NT	0.9	1.2	1.8	2.5
WA	-0.4	0.4	1.3	2.4
AUST	0.3	0.4	0.9	1.2

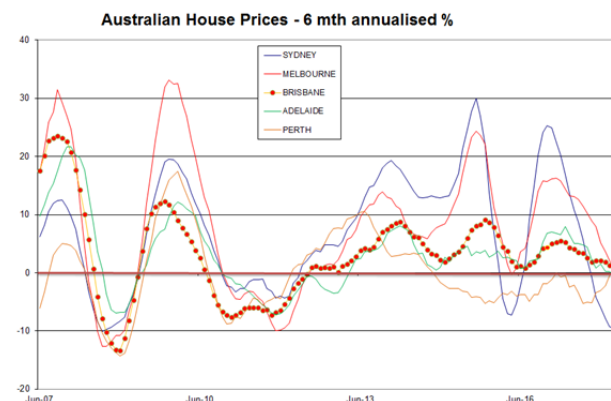
RENTS (%)

	Q4'17	Q1'18	Next 1 year	Next 2 years
VIC	1.2	0.6	1.1	1.5
NSW	0.3	1.0	1.5	1.8
QLD	0.6	0.7	1.7	1.9
SA/NT	0.8	0.3	0.8	1.8
WA	-1.3	-0.1	1.0	1.9
AUST	0.5	0.7	1.4	1.8

NAB'S VIEW OF HOUSE PRICES

Sentiment in NSW and Victoria continues to deteriorate in the face of APRA inspired crackdown in investor lending - which has also seen growth in investor credit slow to around 2.8% in the year to February. As the largest investor market Sydney house price momentum has slowed dramatically and now is also weakening in Melbourne.

The following chart shows this slowdown - when expressed in the latest 6 months to growth rates annualised.



Other mainland markets have been much less affected - with Perth improving back to a flat outcome. In contrast Hobart prices after running at around 5% year on year in mid to late 2017 are currently increasing at around 13% year on year.

The Melbourne and Sydney house price market no doubt has also been affected by a slowing to a 6 year low in foreign investors - albeit there was a small increase in foreign interest in the current quarter.

Looking forward it is hard to see a near term rebound in Sydney and Melbourne house prices - especially given consumer concerns about the cost of living and high levels of household debt. While it is unlikely that the RBA will be increasing rates anytime soon consumers remain very cautious. We do not expect that cautiousness will abate any time soon.

At this stage NAB still expects that a better GDP performance in 2018 (infrastructure, non mining business investment and LNG exports), unemployment approaching 5% by years end could see the RBA start increasing rates by late 2018. But that will only happen if wages growth strengthens. And any increase in rates will be very gradual.

In summary our slightly lower house price forecasts for 2018 reflect the current state of Sydney and Melbourne prices - and in the latter case less momentum going forward.

Strong performances in Tasmania (and to lesser extent regional prices), together with more confidence in the West and Queensland will not

offset the aggregate effects of the lower Sydney/Melbourne outlook. Nor will increased first home owner demand fill the gap

For 2019 the house price forecasts remain broadly unchanged at +0.8% - with only Sydney expected to fall (albeit modestly).

Apartment prices have if anything remained stronger than expected - with year on year growth of around 2.6% (year to March). That mainly reflects a much better than expected price performance in Melbourne (up 6.6%), Sydney (up 1.9%) and Hobart (up 10.8%). It could well be that affordability issues on the Eastern seaboard have seen more demand switching from traditional houses to more affordable apartment living.

That said we still see softer demand going forward. Apartments forecasts are broadly unchanged (-0.8% in 2018 and -1.8% in 2019) reflecting a large increase in stock and reduced foreign demand. For 2019 the weakness will likely be concentrated on the Eastern seaboard - with apartment prices expected to fall in Sydney, Melbourne & Brisbane by -2.4%, -1.8% and -1.2% respectively.

Naturally, any additional changes to government or prudential policy to address affordability or financial stability concerns are likely to have an impact on these forecasts.

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Sydney	15.5	10.7	2.1	-3.4	-1.2
Melbourne	15.8	9.5	9.1	0.1	2.2
Brisbane	6.9	2.7	3.1	1.7	2.0
Adelaide	3.8	3.8	3.3	0.0	1.7
Perth	-4.2	-2.9	-2.6	1.0	1.2
Hobart	7.0	9.6	12.9	6.5	1.7
Cap City Avg	11.2	7.3	4.0	-0.8	0.8

NAB HEDONIC UNIT PRICE FORECASTS (%)*

	2015	2016	2017	2018f	2019f
Sydney	13.1	5.8	5.4	-1.6	-2.4
Melbourne	7.5	4.7	8.4	1.2	-1.8
Brisbane	1.1	-3.0	-1.2	-2.0	-1.2
Adelaide	2.4	0.6	0.5	1.2	0.5
Perth	-2.8	-6.3	-0.9	-1.2	0.7
Hobart	1.1	6.4	9.1	6.6	1.2
Cap City Avg	8.2	3.5	5.1	-0.8	-1.8

*Percentage changes represent through the year growth to Q4

SOURCE: CoreLogic, NAB Economics

ABOUT THE SURVEY

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

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

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

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

Around 300 panellists participated in the Q1 2018 Survey.

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