

# NAB RESIDENTIAL PROPERTY SURVEY Q2-2018



CURRENT MARKET SENTIMENT AMONG PROPERTY PROFESSIONALS AT ITS LOWEST LEVEL IN 2 YEARS AS HOUSE PRICES IN NSW & VIC COME UNDER MORE PRESSURE. CONFIDENCE (NEXT 1-2 YEARS) ALSO FALLS TO NEW LOWS. ON A POSITIVE NOTE, FIRST HOME BUYERS ARE OFFSETTING REDUCED DEMAND FROM FOREIGN BUYERS.

NAB Behavioural & Industry Economics

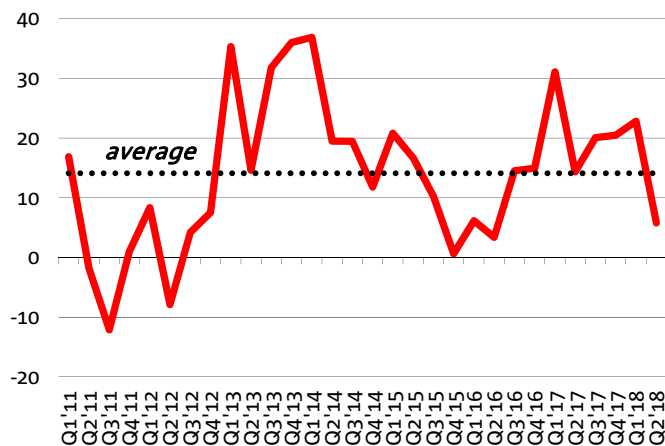
Embargoed until: 11.30am 12 July 2018

**NAB's Residential Property Index** (a measure of sentiment among property professionals based on expectations for house prices and rents) fell 17 points to +6 in Q2 - its lowest level since mid-2016 and well below average (+14). Sentiment waned in all states, with the biggest falls in WA and NSW. QLD and VIC were also much softer. Confidence (based on future expectations for house prices and rents) also fell to a new survey low, pulled down mainly by NSW and VIC where the outlook for house prices was scaled back sharply. The outlook for rents remains positive in all states and is likely placing upward pressure on yields. Also on a positive note, housing demand from first home buyers continued to offset a reduction in demand from foreign buyers in new and established housing markets, with state government incentives and moderating house prices likely helping these buyers move onto the property ladder. Property professionals also said credit constraints are impacting housing markets more than they have for a number of years amid intensified lending scrutiny by banks and APRA-inspired tighter credit policies. **NAB's view** is that the weakness in dwelling prices seen over the past year is likely to persist in 2018 and 2019 - though we expect moderate rather than sharp price falls. The declines over 2018 to date have been more significant than initially expected and this is reflected in our revised forecasts for 2018 and 2019. We now expect a slightly larger decline in 2018 and a small fall in 2019 (was a small increase), driven by continued weakness in Sydney and Melbourne as well as a sharper decline in unit prices in Brisbane. We also expect house prices to flatten in aggregate in 2020 - implying a peak to trough fall of 6.5% and 2.5% in Sydney and Melbourne respectively.

## VIEW FROM PROPERTY EXPERTS

NAB's Residential Property Index now below average for first time in 2 years, with weaker sentiment reported in all states.

## NAB RESIDENTIAL PROPERTY INDEX



## RESIDENTIAL PROPERTY INDEX BY STATE

	Q1'18	Q2'18	Next 1yr	Next 2yrs
VIC	30	17	19	23
NSW	15	-12	-9	4
QLD	31	14	37	49
SA/NT	31	23	60	67
WA	7	-26	16	55
<b>AUST</b>	<b>23</b>	<b>6</b>	<b>20</b>	<b>32</b>

## VIEW FROM NAB ECONOMICS

NAB now expects a larger decline in 2018 and small fall in 2019, driven mainly by weaker outlook for Sydney and Melbourne.

## NAB HEDONIC HOUSE PRICE FORECASTS (%)\*

	2015	2016	2017	2018f	2019f
Sydney	15.5	10.7	2.1	-3.7	-0.7
Melbourne	15.8	9.5	9.1	-2.3	0.0
Brisbane	6.9	2.7	3.1	0.1	0.0
Adelaide	3.8	3.8	3.3	1.5	1.7
Perth	-4.2	-2.9	-2.6	-0.7	-0.2
Hobart	7.0	9.6	12.9	8.4	1.7
<b>Cap City Avg</b>	<b>11.2</b>	<b>7.3</b>	<b>4.0</b>	<b>-1.8</b>	<b>-0.1</b>

## 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	-1.4	-1.9
Brisbane	1.1	-3.0	-1.2	-2.4	-4.5
Adelaide	2.4	0.6	0.5	1.4	0.5
Perth	-2.8	-6.3	-0.9	-5.0	-0.2
Hobart	1.1	6.4	9.1	5.3	1.2
<b>Cap City Avg</b>	<b>8.2</b>	<b>3.5</b>	<b>5.1</b>	<b>-1.7</b>	<b>-2.2</b>

SOURCE: CoreLogic, NAB Economics

## OVERALL MARKET SENTIMENT FALLS SHARPLY IN Q2 2018

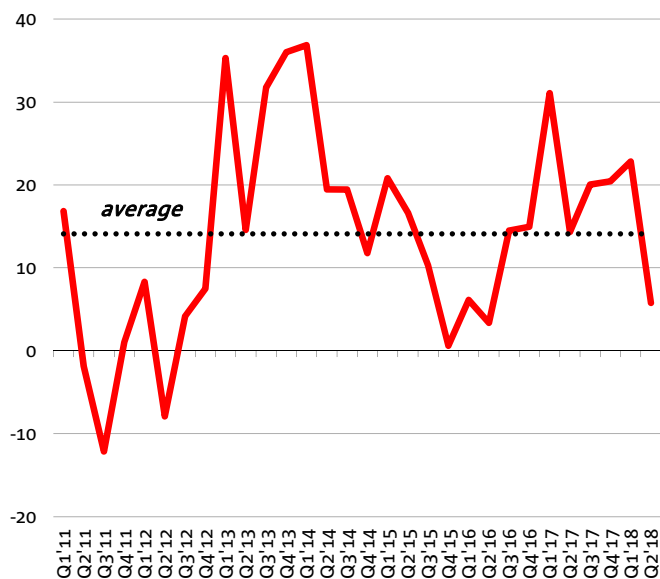
The NAB Residential Property Index - a measure of sentiment based on property professionals expectations for capital growth and rents - fell sharply in Q2 2018. Overall, the index fell 17 points to +6 and sits at its lowest level since mid-2016 and well below its long-term average (+14).

Sentiment fell in all states. The biggest fall was reported in WA (down 33 to -26) after posting its first positive read in 4 years in the last survey. Sentiment in NSW also fell heavily (down 27 to -12) amid falling house prices and rents.

In QLD, sentiment fell 17 to +14. VIC was also noticeably softer (down 13 to +17), although a pick-up in rents helped offset falling prices.

In SA/NT, the decline was less severe (down 8 to +23) and it was the strongest of all states, supported by modest house price growth and strengthening rents.

## NAB RESIDENTIAL PROPERTY INDEX

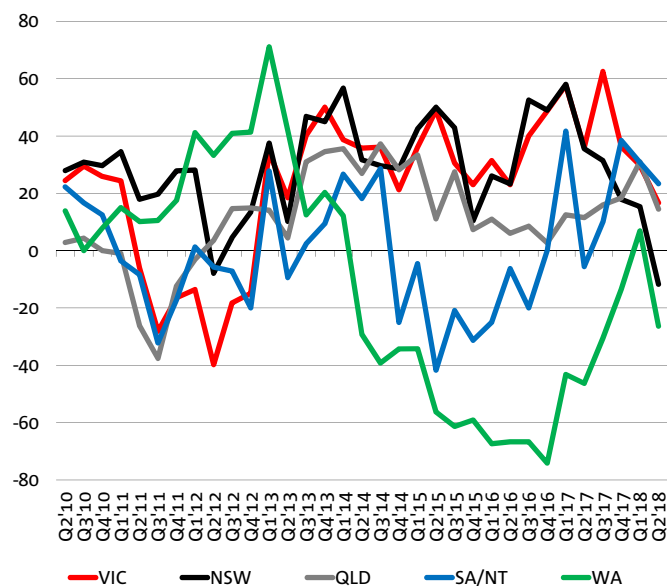


## RESIDENTIAL PROPERTY INDEX BY STATE

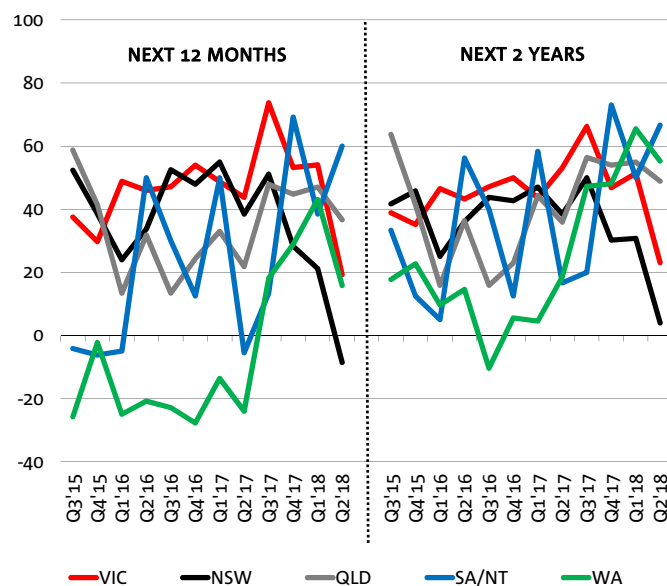
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## RESIDENTIAL PROPERTY INDEX: STATE

NAB Residential Property Index fell in all states with WA and NSW negative ...



Confidence levels were also pared back in all states except SA/NT ...



Confidence (based on future expectations for house prices and rents) also fell in Q2, with NAB's Residential Property Index tipped to fall to +20 in the next year (+41 in the last survey) and +32 in two years' time (+49 in Q1). These are new survey lows.

This weakness is mainly attributed to NSW and VIC where capital city house prices continue losing momentum. In VIC, confidence slipped 35 points to +19 - its lowest read in nearly 6 years. In NSW, our confidence measure was negative (down 30 to -9) for the first time amid expectations for bigger house

price falls and slower rental growth. Consequently, property professionals in NSW and VIC are now also the least confident in the country by some margin

In other states, confidence in WA (down 27 to +16) and QLD (down 10 to +37) also softened as expectations for house prices and to a lesser extent rents were pared back. In SA/NT, however, confidence lifted (up 22 points to +60) on the back of an upward revision to the outlook for rental growth.

Longer-term confidence (in 2 years' time) was also much lower in VIC (down 28 to +23) and NSW (down 27 to +4), with modest falls in WA (down 10 to +55) and QLD (down 6 to +49). Property professionals in SA/NT were however more confident (up 17 to +67).

## SURVEY HOUSE PRICE EXPECTATIONS

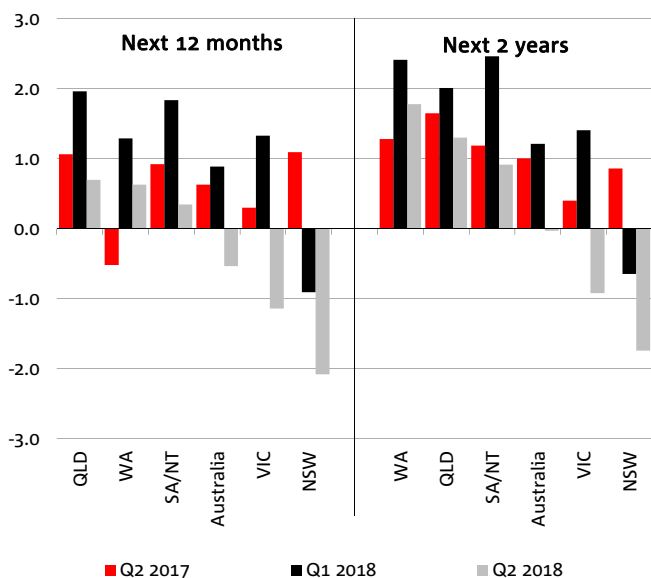
Average survey expectations for national house prices over the next 12 months were cut significantly, with national house prices now tipped to fall by -0.5% (0.9% in Q1 2018).

While expectations for house price weakened in all states, this negative result was fuelled mainly by weaker conditions in NSW, where house prices are now tipped to fall by a much larger -2.1% (-0.9% forecast in Q1 2018) and in VIC, where prices are now expected to fall by -1.1% (1.3% in Q1 2018).

QLD is expected to lead the country for capital growth in the next 12 months, although expectations were pared back to 0.7% (2.0% in Q1 2018). WA is next best at 0.6% (1.3% in Q1 2018), followed by SA/NT (0.3% vs. 1.8% in Q1 2018).

## SURVEY HOUSE PRICE FORECASTS

House price expectations for the next 1-2 years have been cut back, led by NSW & VIC ...



Longer-term prospects were also shaved, with the downturn in house prices expected to be sharper than previously anticipated. Overall, the average survey expectation has prices remaining remain flat in 2 years' years' time (1.2% in the last survey).

Prospects remain weakest in NSW, with average expectations for house prices cut back to -1.7% (from -0.6% in Q1 2018). In VIC, prices are now also tipped to fall by -0.9% (1.4% in Q1 2018).

WA is expected to lead country for capital growth in 2 years' time, although expectations were shaved back to 1.8% (2.4% in Q1 2018). Property professionals were also a less optimistic in QLD (1.3% vs. 2.0%) and in SA/NT (0.9% vs. 2.5%).

## SURVEY RENTAL EXPECTATIONS

Despite the weaker outlook for house prices, the outlook for rents is holding up.

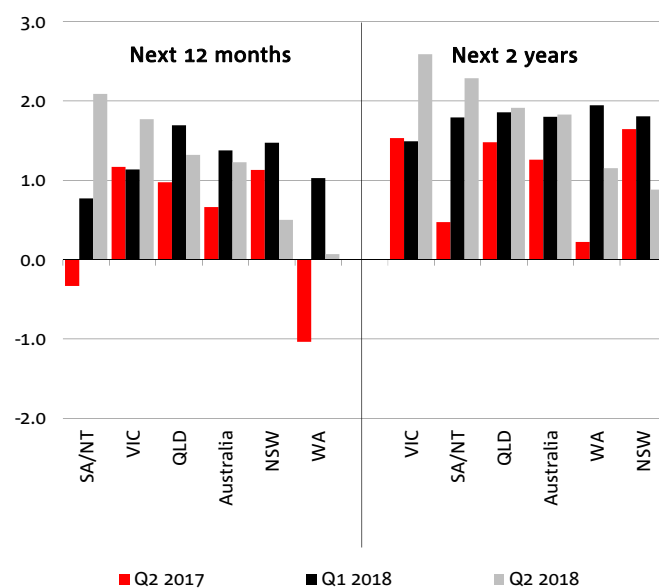
Overall, the average survey expectation for rental growth in the next 12 months was little changed at 1.2% (1.4% in the previous survey). With national rents rising faster than house prices growth, this is likely placing upward pressure on yields.

SA/NT leads the way for rents (2.1% vs. 0.8%), but from a smaller sample size, followed by VIC (1.8% vs. 1.1%) where rapid population growth is contributing to low rates of residential vacancy.

Property professionals were somewhat less bullish about the rental growth in QLD (1.3% vs. 1.7%), and also scaled back their expectations for growth in NSW (0.5% vs. 1.5%) and WA (0.1% vs. 1.0%).

## SURVEY RENTAL GROWTH FORECASTS

National rental growth is holding up well, led by mainly by SA/NT, VIC and 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.

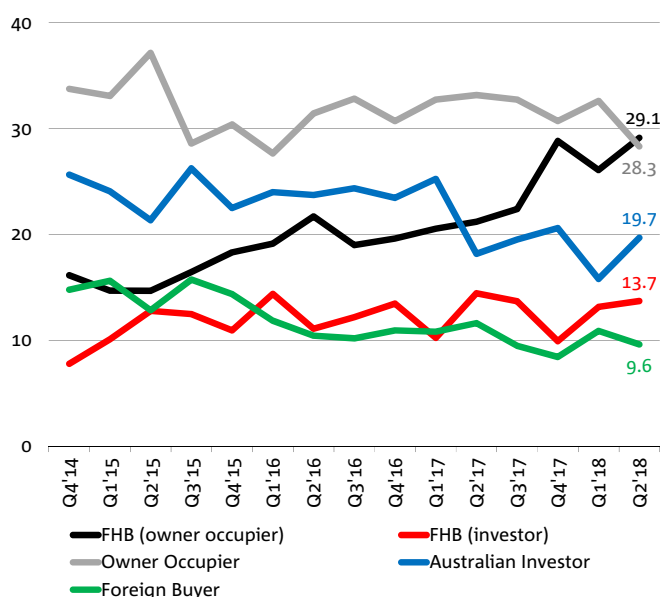
Expectations were revised up and are now strongest in VIC (2.6% vs. 1.5%), followed by SA/NT (2.3% vs. 1.8%). They were unchanged in QLD (1.9%) and cut back in WA (1.2% vs. 1.9%) and NSW (0.9% vs. 1.8%) where overall vacancy in Sydney has been reportedly trending up but remains healthy amid strong population growth.

## NEW DEVELOPMENTS

First home buyer (FHB) demand continues to offset a reduction in demand from owner occupiers and foreign buyers, with state government incentives and moderating prices also likely playing a role in helping FHBs move onto the property ladder.

In Q2 2018, the share of FHB owner occupiers) rose to a survey high 29.1%, up from 26.1% in the previous quarter. At the same time, the share of FHB investors also increased slightly to 13.7% (13.1% in Q1 2018). In total, FHBs accounted for a survey high 42.9% of new property sales in Q2 2018 (39.2% in Q1 2018) - a new survey high.

## SHARE OF NEW PROPERTY SALES (%)



Despite tougher restrictions on housing investment, the number of local investors in new property markets also climbed to 19.7% (15.8% in Q1 2018), with buyers in this market especially active in QLD (32.2%).

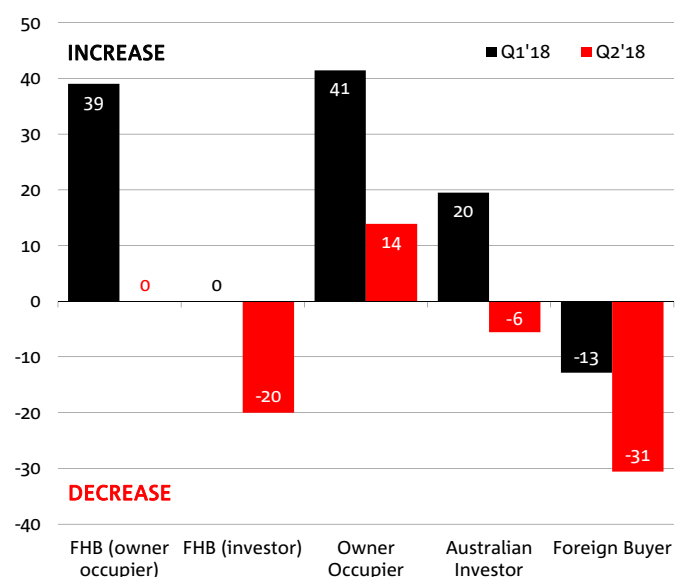
Owner occupiers (net of FHBs) or 'upgraders' were less active in this market accounting for 28.3% of

total sales in Q2 2018 (32.6% in Q1 2018). These buyers were most active in SA/NT (34.0%) and least active in VIC (26.9%).

The share of foreign buyers in new property markets also fell 9.6% (10.9% in Q1). They remain down on survey average levels of 11% and well below survey high levels of almost 17% seen in Q3 2014.

Foreign buyers were less prevalent in the key markets of VIC (11.7% vs. 12.1% in the previous quarter) and NSW (7.4% vs. 11.8%). However, their market share in QLD increased to a 4-year high 22.8% (11.5% in Q1 2018) - see section on foreign buyers below for more detail.

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



Property professionals were asked whether they thought the share of new residential property buyers would increase or decrease in the next 12 months across each market segment.

On balance, they expected the share of owner occupiers (net of FHBs) to increase and the share of FHB owner occupiers to be unchanged. Conversely, a lot more property professionals expected the share of foreign buyers to fall than increase, with the share of investors (both FHBs and domestic) also falling.

## NEW HOUSING MARKET CONSTRAINTS

For the ninth consecutive quarter, property experts identified tight credit as the biggest constraint on new housing development in the country.

Moreover, they believe that tight credit is as big an issue as it has been at any time since late-2012 amid

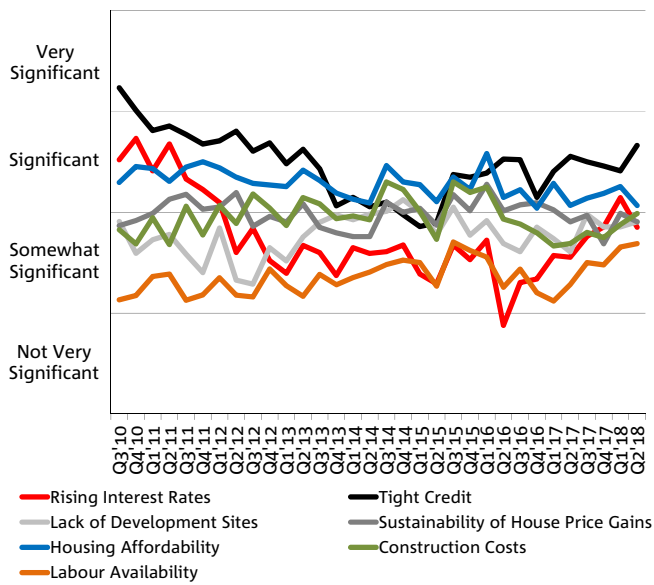
intensified lending scrutiny by banks and APRA-inspired tighter credit policies.

Tight credit was also identified as the biggest constraint for new housing development in all states bar VIC (construction costs) and a 'very significant' constraint in SA/NT and NSW.

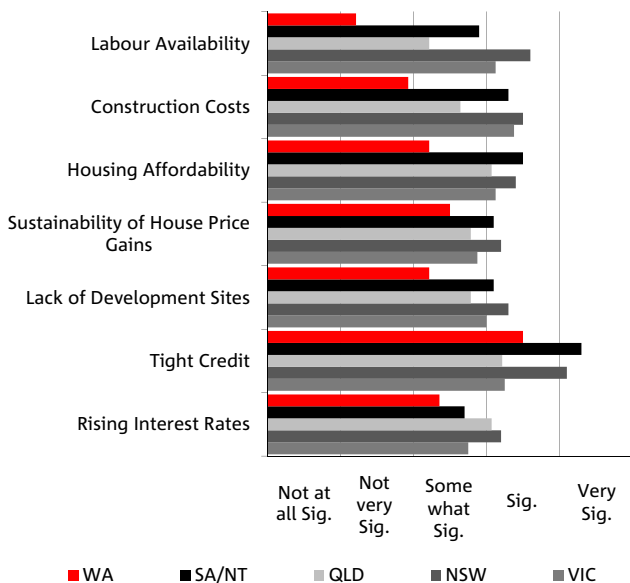
Property professionals also continued to single out housing affordability as a 'significant' constraint (and in all states except WA).

But the level of concern over rising interest rates reduced in Q2 2018, with recent market data suggesting interest rates rises may now also be delayed.

## KEY CONSTRAINTS - OVERALL



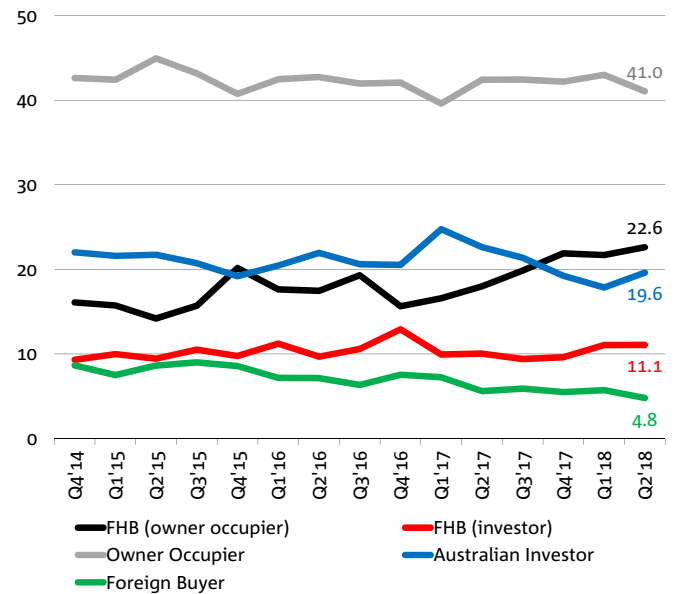
## KEY CONSTRAINTS - STATE



## ESTABLISHED PROPERTY

Mirroring the trend in new property markets, the market share of FHB (owner occupiers) in established housing markets also grew, reaching a survey high 22.6% in Q2 2018 (21.7% in Q1 2018). But the market share of FHB (investors) was unchanged at 11.1%. In all, FHBs accounted for 33.7% of established property sales in Q2 2018 (32.8% in the previous quarter) - a new survey high.

## SHARE OF EST. PROPERTY SALES (%)



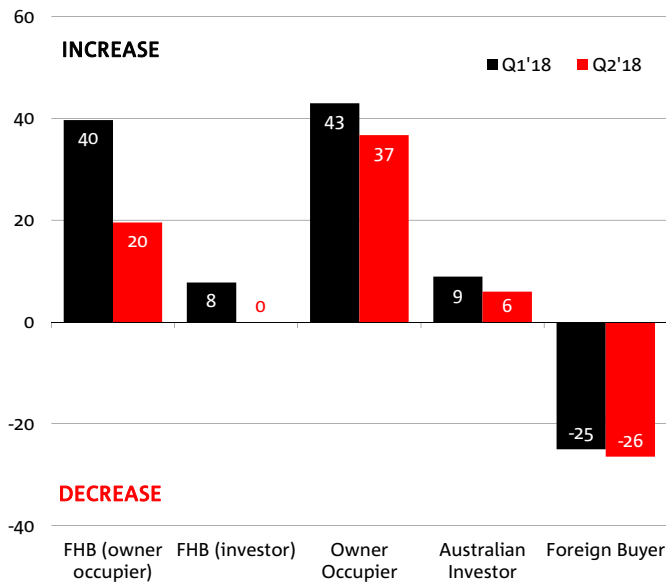
Owner occupiers (net of FHBs) continue to account for the biggest share of buyers in established housing markets in Australia, although their share of total sales fell slightly to 41.0% in Q2 2018 (43.0% in Q1 2018). However, this ranged from 57.0% in WA to just under 40% in both NSW and VIC.

Somewhat surprisingly, the share of local investors (net of FHBs) in established housing markets increased to 19.6% in Q2 2018 (17.9% in Q1 2018) - after having fallen for four straight quarters. This occurred amid attempts by APRA to curb investor lending and the possible impact on credit growth of more cautious lending standards.

The share of foreign buyers in established Australian housing markets however fell to just 4.8% of total sales (5.7% in Q1 2018) - its lowest level since Q1 2012 and well down on their long-term average share of 6.5%

Foreign buyers were less active in all markets in Q2 2018. Market share was highest in VIC (6.2% vs. 8.2% in Q1 2018) and QLD (5.4% vs. 5.6%) and lowest in WA (2.2% vs. 4.7%) and NSW (4.8% vs. 5.4%) - see section below for more detail on foreign buyers.

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



On balance, more property experts believe the share of FHB (owner occupiers), owner occupiers and local investors buying existing homes will increase in the next 12 months. But noticeably more property experts said they expect share of foreign buyers in the market to decrease relative to the previous quarter, while the market share of FHB investors is expected to remain the same.

## ESTABLISHED HOUSING MARKET CONSTRAINTS

Access to credit remains the most 'significant' impediment for buyers of existing property according to surveyed property professionals. It was also seen as a much bigger issue than in the last survey and more so than at any time since Q3 2011.

Property experts in all states (bar WA) considered access to credit to be the most significant issue in their state, led by SA/NT.

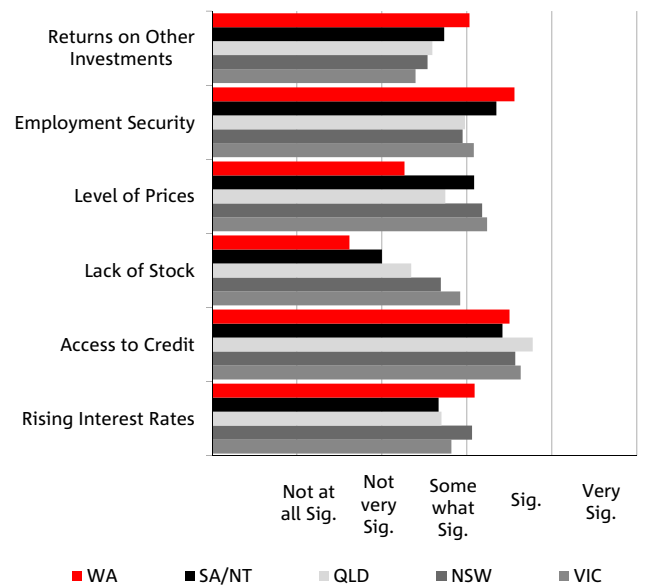
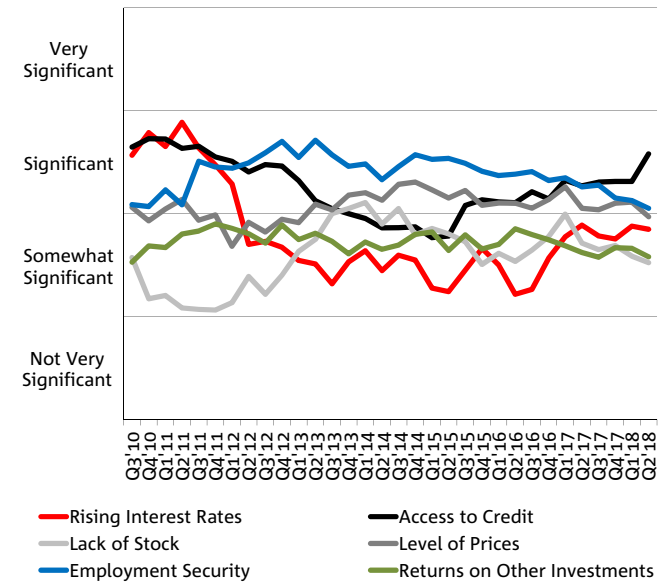
Employment security was identified as the next biggest barrier, but somewhat less so than in the previous survey. In WA, however, employment security continued to be seen as the biggest impediment to buyers of existing property.

While the level of concern over house prices has fallen, it is still considered to be a 'significant' impediment in NSW and VIC (where average house prices still lead the country), as well as in SA/NT.

Rising interest rates was the next biggest constraint, but less so than in the last survey. Property professionals were also less worried about a lack of

stock, although this continues to be a bigger issue in VIC and NSW than in other states.

## KEY CONSTRAINTS - OVERALL & STATE

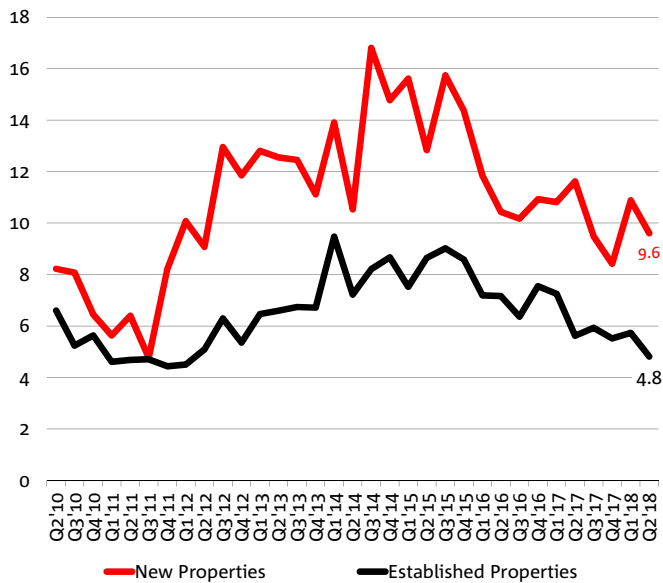


## FOREIGN BUYERS

NAB's survey results have highlighted to a trend decline in foreign buying activity in recent quarters resulting from policy changes in China on foreign investment outflows and tighter restrictions on foreign property buyers in Australia.

In Q2 2018, there were fewer foreign buyers in the market for Australian property, with their market share dipping to 9.6% (10.9% in Q1 2018) in new housing markets and to 4.8% in established housing markets (5.7% in Q1 2018 and their lowest share since Q1 2012).

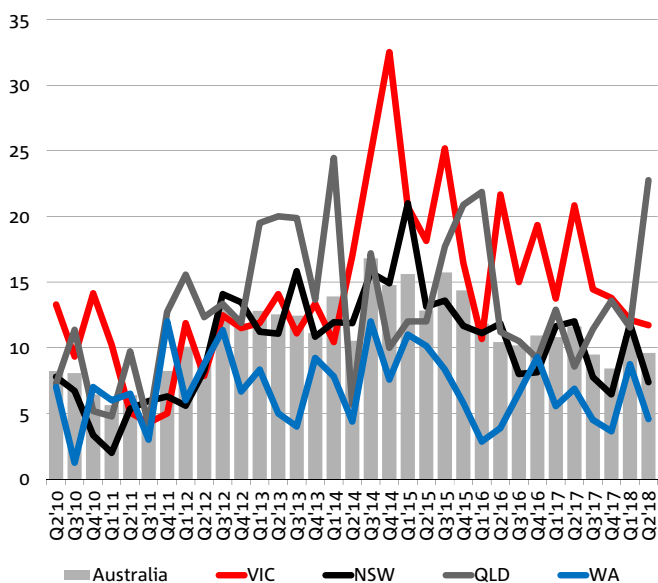
## DEMAND FOR PROPERTY FROM FOREIGN BUYERS (% OF TOTAL)



In new property markets, the share of sales to foreign buyers fell in all states except QLD where their share jumped to 22.8% (11.5% in Q1 2018). This may have reflected anecdotal reports of increased Chinese property investment associated with record numbers of Chinese student enrolments in the state.

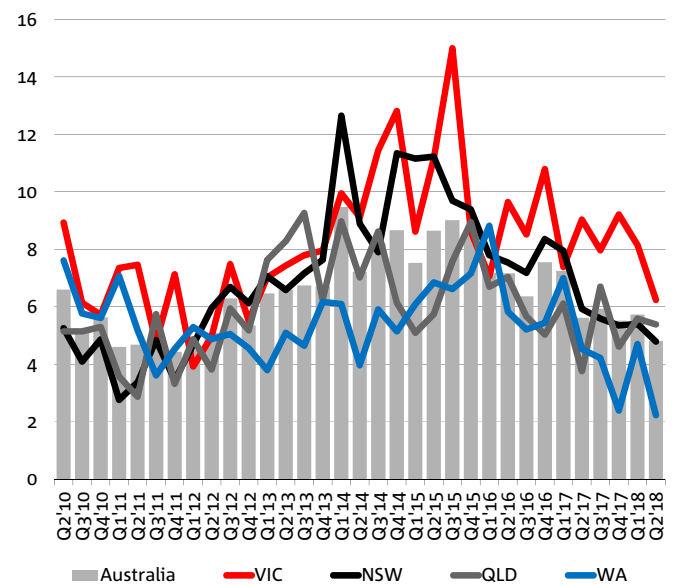
In contrast, the share of foreign buyers fell to 11.7% in VIC (down from an average of 14.4% since the survey started), 7.4% in NSW (from an average of 10.2%) and 4.6% in WA from an average of 6.8%.

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

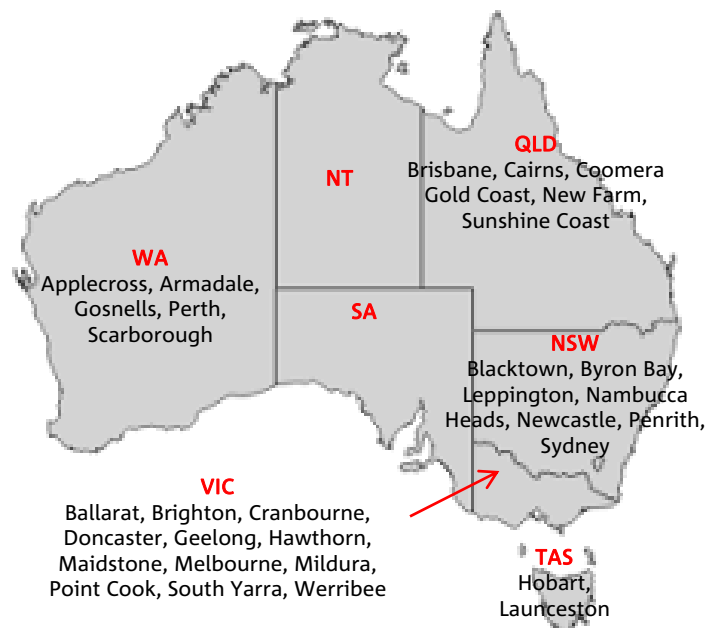


In established housing markets, the share of sales to foreign buyers fell in all states. They continued to be most active in VIC but their market share of total sales fell to a 4-year low of 6.2% (8.2% in Q1 2018). The decline was even more pronounced in NSW, where their market share fell to 4.8% (5.4% in Q1 2018) - the lowest level in over 6 years. In QLD, foreign buyers accounted for 5.4% of total sales (5.6% in Q1 2018), while in WA their share fell to 2.2% (4.7% in Q1 2018).

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



## SUBURBS TIPPED TO ENJOY ABOVE AVERAGE GROWTH IN NEXT 12 MONTHS



## AVG SURVEY EXPECTATIONS: HOUSE PRICES (%)

	Q1'18	Q2'18	Next 1 year	Next 2 years
VIC	0.6	-0.6	-1.1	-0.9
NSW	-0.4	-1.4	-2.1	-1.7
QLD	1.0	-0.1	0.7	1.3
SA/NT	1.2	0.1	0.3	0.9
WA	0.4	-0.1	0.6	1.8
<b>AUST</b>	<b>0.4</b>	<b>-0.5</b>	<b>-0.5</b>	<b>0.0</b>

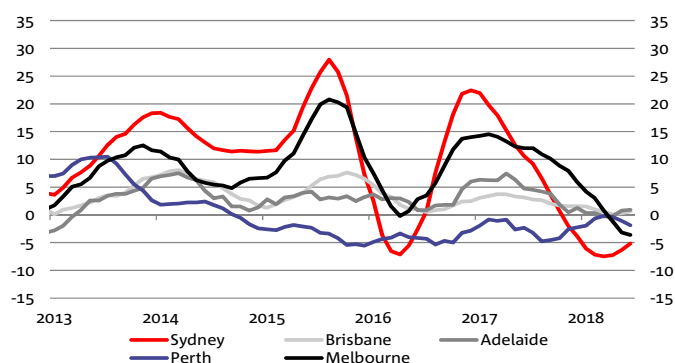
## RENTS (%)

	Q4'17	Q1'18	Next 1 year	Next 2 years
VIC	0.6	0.9	1.8	2.6
NSW	1.0	-0.2	0.5	0.9
QLD	0.7	0.4	1.3	1.9
SA/NT	0.3	1.1	2.1	2.3
WA	-0.1	-0.8	0.1	1.2
<b>AUST</b>	<b>0.7</b>	<b>0.4</b>	<b>1.2</b>	<b>1.8</b>

## NAB'S VIEW OF HOUSE PRICES

To date, the weakness in house prices has largely been driven by declines in the two largest markets - where tighter restrictions on investor and interest-only lending are likely to have weighed most. The declines in Sydney appear to have tailed off a little recently, while conditions appear to have weakened a little more significantly in Melbourne. In aggregate, investor credit growth has slowed over 2018 to date, while growth in credit to owner-occupiers has remained higher.

## DWELLING PRICE GROWTH (6-MONTH ENDED ANNUALISED, %)



The deterioration in Perth appears to have picked up pace recently while growth in Adelaide and Brisbane appears to have flattened out. Values in Hobart have surprisingly risen at double digit rates over the past year and continue to outpace the other capitals quite significantly.

We expect the weakness in house prices to persist over the next 18 months before prices flatten out in 2020. There is likely to be some further tightening in lending standards, while the confluence of relatively low wage growth, high debt levels and the outlook for gradually higher rates is likely to further restrain growth in prices as well. For Sydney and Melbourne slowing in foreign demand may also weigh at the margin.

We still expect a better outcome for GDP growth in 2018 (driven by a pickup in infrastructure and non-mining business investment as well as a rise in LNG exports).

With continued output and employment growth, unemployment should head toward 5% by end 2018 which we expect will see wages and inflation growth gradually pickup. Despite this, we expect the consumer to remain cautious.

As a result, we do not expect the RBA to think about rate rises to mid-2019. However, further rate increases are likely to be gradual and the timing is highly data dependent. It could be that (as noted in our [forecast review](#) yesterday) the timing could be even further delayed.

With the weaker than expected run of house price data and persistence of factors weighing on the established housing market, we have downgraded our outlook for house prices slightly.

Sydney will fall a little further over the next 18 months, while Melbourne will now decline in 2018 before flattening in 2019.

We expect prices for houses in Brisbane to remain broadly flat over the next two years, Perth to continue to ease modestly and Adelaide to edge slightly higher. Hobart has performed strongly in 2018 to date and will likely end 2018 well up on 2017 and then increase a little further in 2019.

Apartment prices have held up relatively well to date but we expect apartments to weaken and have downgraded our forecasts across most capitals - particularly for Brisbane which we now see falling notably over the next two years.

In aggregate, we see declines in apartments of around 2% in each of the next two years reflecting continued strong increases in supply in the eastern states amidst some weakening in demand from investors and foreign buyers as well owner-occupiers.



In aggregate we now expect a peak to trough fall in dwelling prices of 6.5% and 2.5% respectively in Sydney and Melbourne.

Any further tightening in lending standards as well as 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	-3.7	-0.7
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Brisbane	6.9	2.7	3.1	0.1	0.0
Adelaide	3.8	3.8	3.3	1.5	1.7
Perth	-4.2	-2.9	-2.6	-0.7	-0.2
Hobart	7.0	9.6	12.9	8.4	1.7
<b>Cap City Avg</b>	<b>11.2</b>	<b>7.3</b>	<b>4.0</b>	<b>-1.8</b>	<b>-0.1</b>

## NAB HEDONIC UNIT PRICE FORECASTS (%)\*

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Sydney	13.1	5.8	5.4	-1.6	-2.4
Melbourne	7.5	4.7	8.4	-1.4	-1.9
Brisbane	1.1	-3.0	-1.2	-2.4	-4.5
Adelaide	2.4	0.6	0.5	1.4	0.5
Perth	-2.8	-6.3	-0.9	-5.0	-0.2
Hobart	1.1	6.4	9.1	5.3	1.2
<b>Cap City Avg</b>	<b>8.2</b>	<b>3.5</b>	<b>5.1</b>	<b>-1.7</b>	<b>-2.2</b>

\*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 Q2 2018 Survey.

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