more than money

First Half Property Update 2023:

Keeping brokers informed

Brought to you by
NAB and CoreLogic

CoreLogic®

Contents

Foreword

Australia's property market is constantly evolving. In the first half of 2023, market activity moved through a positive inflection with housing prices and auction clearance rates rising compared with the slowdown of the previous year. In commercial property sectors, buyers are still looking for quality, while keeping a watchful eye on economic uncertainty.

In today's increasingly competitive environment, buyers are looking to brokers for guidance on securing a property loan that will allow them to achieve their goals. Meanwhile, many homeowners are looking to refinance their mortgages as fixed rate loans reach their expiry and cost of living pressures prompt customers to look for a better deal on their home loans.

NAB's latest figures show 61.3% of NAB mortgage drawdowns are originated in the broker channel, up from 55.1% a year ago. This material uplift illustrates the trend towards consumers appreciating the strong and growing value of the broker proposition in a dynamic environment.

The refinance market is a key focus for NAB, especially the retention of existing customers. We've been increasing our engagement with customers and making proactive pricing offers to those who are about to roll off their fixed rates. Importantly, the call to action for broker-originated customers is always to contact their broker to discuss their options.

As NAB's Group Economics team notes, the impact of cash rate rises continues to flow through and the economy is softening after a very strong period of growth in 2022. The labour market remains tight, but unemployment is likely to rise over the coming year as growth slows.

NAB Broker's First Half Property Update 2023: Keeping Brokers Informed outlines the state of play in residential and commercial property markets around Australia. The paper is a combination of bespoke insights from NAB's Group Chief Economist, Alan Oster, and Head of Behavioural and Industry Economics, Dean Pearson, and NAB Economist Robert De Iure, as well as analysis from CoreLogic. You'll also find a handy summary guide of key points towards the end of this report.

Supporting you and your customers

Reinforcing NAB's commitment to supporting brokers and their customers, this report is designed to help you navigate the opportunities and challenges in today's market and ahead.

We remain firmly focused on our goal to be the most reliable bank for brokers and we continue invest to bring clarity, transparency, and simplicity to home lending.

Brought to you by NAB: the bank behind the broker.

About NAB – Broker Distribution

NAB's Personal Bank is the front door for millions of customers. We're here to serve customers well and help our communities prosper. We want to deliver simple and digital products and services, supported by flexible and professional bankers. We're making it easier for customers by delivering a simple and digital everyday banking experience and an ambition to build Australia's simplest home loan. We have more than 530 branches and 830 ATMs nationally. In addition to this, customers also have access to 3,500 Bank@Post outlets. Alongside the 19,000 brokers we partner with, NAB continues to invest in its 32,000 people to maintain positive momentum.

NAB Broker Distribution is committed to assisting brokers in providing the best customer outcomes possible and is supported by a national network of experienced BDMs and Relationship Managers who provide support at every stage of a customer's home lending journey. We continue to invest in the broker channel as the bank behind the broker to give brokers the tools and assistance they need to help their customers, empowering them to develop success on their own terms.

About CoreLogic

CoreLogic is a leading, independent provider of property data and analytics. We help people build better lives by providing rich, up-to-the-minute property insights that inform the very best property decisions. With an extensive breadth and depth of knowledge gathered over the last 30 years, we provide services across a wide range of industries, including Banking and Finance, Real Estate, Government, Insurance and Construction. Our diverse, innovative solutions help our clients identify and manage growth opportunities, improve performance and mitigate risk. We also operate consumer-facing portals – **onthehouse.com.au** and **propertyvalue.com.au** – providing important insights for people looking to buy or sell their home or investment property. We are a wholly owned subsidiary of CoreLogic, Inc – one of the largest data and analytics companies in the world with offices in Australia, New Zealand, the United States and United Kingdom. For more information visit **corelogic.com.au**.

Section 1

Update on the economy

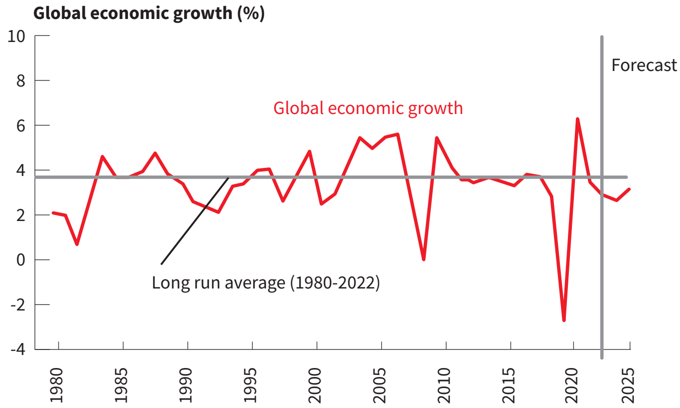
Key points

- Australia's economy is expected to slow materially in the second half of 2023.
- The labour market remains tight but unemployment is likely to rise over the coming year.
- NAB expects the cash rate target to peak at 4.6% in 2023 before easing towards neutral from mid-2024.

Alan Oster,
NAB Group Chief Economist

There are increasing signs that Australia's economy is slowing sharply after a very strong period of growth in 2022. Consumer spending slowed in the first half of 2023 and NAB's business survey has shown business conditions easing over recent months. Growth is likely to slow further as higher interest rates continue to flow through to households with the chance of a recession increasing – though a severe downturn remains unlikely at this stage.

Figure 1: Global growth to slow further into 2024



Source: IMF, NAB Group Economics

Global context: battles against inflation and a weak outlook

Global economic growth was relatively robust in early 2023 – driven in a large part by the boost in China after abandoning its damaging zero-COVID policies late last year along with stronger than expected growth in India. However, we anticipate weaker conditions across the remainder of 2023, as tighter monetary policy constrains economic activity.

This reflects the majority of global central banks lifting their policy rates to address high rates of inflation. While inflation has slowed from peaks recorded in the latter part of 2022, it has proved to be sticky – persisting at rates well above central bank targets for longer than anticipated.

This means that most major central banks remain on a tightening bias. At the time of writing, financial market expectations suggest that both the US Federal Reserve and European Central Bank are near the peak of the current hiking cycle (with one further hike priced in for both institutions). However, given the persistence of inflation, there remains the risk of further hikes (which adds downside risk to our forecasts).

We expect the global economy to expand by 2.8% in 2023, before slowing to 2.6% in 2024. Excluding the outliers of the Global Financial Crisis and initial wave of COVID-19, this would be the slowest rate of growth since 2001. We expect a modest upturn in 2025 (to 3.1%), however growth over our outlook period is forecast to fall below the long run average.

Australia: easing inflation but not without risk

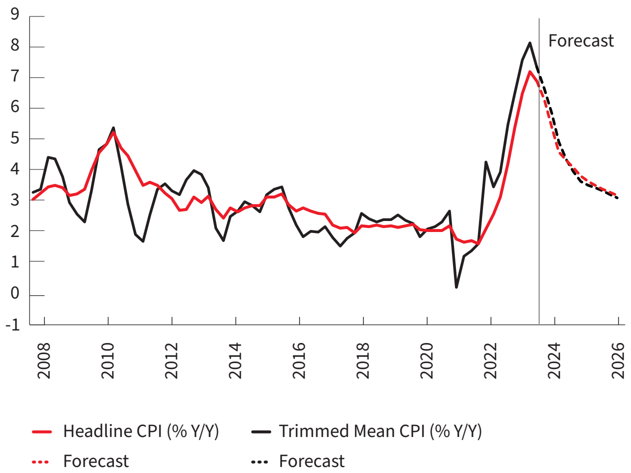
For Australia, very high inflation remains the key challenge shaping the outlook. We expect the quarterly pace of inflation in Australia to ease gradually from here – to around 4% year-on-year by the end of 2023 and 3% by the end of 2024 – but this will be highly dependent on how goods disinflation is passed through and the extent to which domestic services pressures continue to build.

Goods price inflation continues to moderate on the back of healing supply chains and pressure should ease further as global growth slows, but how far prices correct remains uncertain. Further, as was the case on the way up, businesses often reset prices at fixed intervals and therefore any passthrough may be delayed.

In addition, significant domestic cost pressures remain, including around labour and energy as well as rents. This is likely to mean services inflation remains 'sticky', as has been the case overseas, making progress on inflation only gradual despite the goods-side improvements.

Given these upside risks around inflation, we expect the Reserve Bank of Australia (RBA) to raise the cash rate as high as 4.6% over coming months to ensure inflation returns to target, and see rates remaining well into restrictive territory until mid-2024. From there, rates are likely to ease back towards a more neutral level of around 3%. Of note is that, as of June, around 75 basis points of hikes that the RBA had delivered were yet to flow through to mortgage payments.

Figure 2: Inflation has peaked but how quickly it moderates is uncertain



Source: ABS, NAB Economics

Slower economic growth ahead

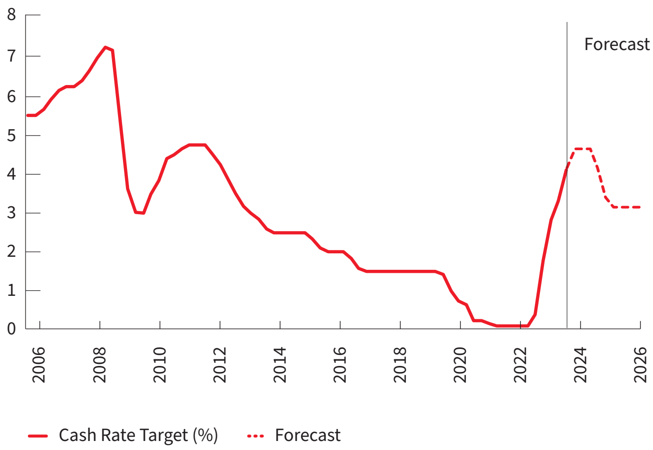
As the full impact of rate rises continues to flow through, we are seeing increasing signs that activity is slowing sharply after a very strong period of growth in 2022. This is likely to continue over the months ahead, with overall economic growth expected to be just 0.5% for 2023 and only marginally stronger in 2024.

The impact of higher interest rates and inflation on household budgets is increasingly evident. Consumption of essentials was up 1.1% in the first quarter of 2023, including a 5.2% increase in utilities. However, discretionary consumption fell 1% – the first quarterly fall in the discretionary category since the lockdowns of 2021 – including a 2.5% fall in household goods.

The household savings rate has also declined to 3.7% – now clearly below its pre-COVID levels after a period of very elevated saving during the pandemic. Higher interest costs are weighing on disposable income, while inflation and the resilience of underlying demand have ensured that the nominal amount of consumption has continued to grow, squeezing the residual that households can save. Importantly, this aggregate measure obscures a large diversity of experiences across households with some likely already seeing negative savings rates.

With the cash rate now expected to reach a higher peak of 4.6% by August, we see further slowing in consumption through the second half of the year and into 2024, with a series of quarters of slightly negative real consumption growth penciled in. Given the strength of population growth, this implies a significant contraction in per-capita consumption. Still, these forecasts remain highly uncertain as households will be able to draw down the existing stock of savings and will also be supported by a strong labour market and wage growth.

Figure 3: The cash rate is now expected to peak at 4.6%



Source: RBA, NAB Economics

The slowing in consumption is beginning to be seen by businesses with business conditions in the NAB Monthly Business Survey easing over recent months. Confidence is also weakening, and the forward orders index has fallen into negative territory. Forward orders reflect the pipeline of demand that businesses can see for the period ahead and can give an early signal of a turning point in activity. The weakness has been broad-based across industries (and led by the retail and wholesale sectors), pointing to a growing risk that conditions will turn down over the months ahead.

Unemployment likely to return to pre-COVID levels

The strong rebound from COVID has left Australia with a very tight labour market with the unemployment rate at historic lows in the mid-3% range and job vacancies very elevated. As the economy slows, however, we expect this will gradually change with the unemployment rate likely to reach around 5% by the end of 2024 (around its pre-COVID level).

Importantly, we continue to see this as primarily the result of population growth beginning to outpace employment growth, with outright falls in the level of employment likely to be limited. This would be in contrast to the experience during more severe economic downturns in the past.

In the near-term, the tightness in the labour market should continue to translate into stronger wage growth, with incomes at the lower end also supported by the very significant increase in the minimum and award wage rates for 2023 announced by the Fair Work Commission.

Hourly wages are already tracking at 3.7% year-on-year although the National Accounts showed average earnings per hour grew 2.8% over the past year. We see hourly wage growth peaking around 4% before easing slightly through 2024 and 2025 as the labour market softens – albeit this is likely to coincide with a return to positive real hourly wage growth as inflation moderates over the period ahead.

Slowing dwelling investment as rates weigh

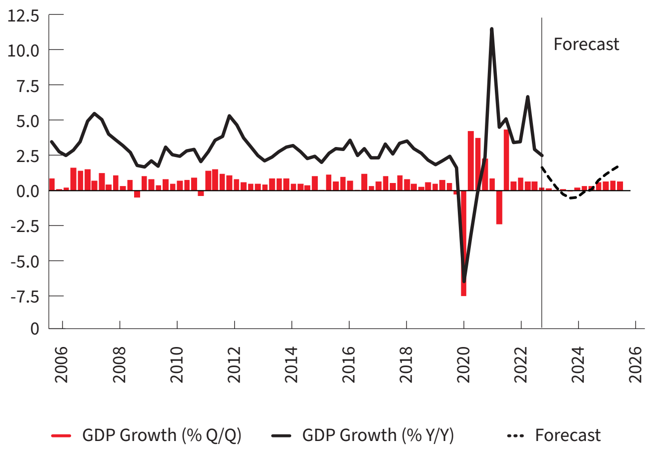
The National Accounts confirmed that dwelling investment continued to decline in the first quarter despite the very large pipeline of outstanding work and improving supply chains. Investment in both new dwellings (-1.2%) and alterations and additions (-2.5%) declined in the quarter, with dwelling investment now down 6.2% from its peak in mid-2021. Dwelling investment declined in Victoria, Queensland, and NSW, and rose in Western Australia, Tasmania and South Australia.

Recent building approvals data points to further weakness in construction activity over the period ahead, with new approvals continuing to trend lower as the impact of higher interest rates weighs. As of April, total approvals were 50% lower than their peak in early 2021.

Still, an elevated pipeline of work remains with around 272,000 dwellings approved and under construction as of April – a legacy of the recent period of significant supply constraints as well as weather and pandemic-related disruptions. Based on Q4 data, there was around 6.4 quarters of outstanding work to be done, at current rates of work done.

On balance, we see dwelling investment falling through 2023 and 2024 as the pipeline is worked through and the downward trend in approvals flows through to activity. The most significant quarterly declines will likely occur in late 2023 and into 2024. Notably, this decline in activity is despite a significant period of population growth and ongoing tightness in the housing market which is already putting upward pressure on rents and house prices.

Figure 4: Australia is expected to experience slowing growth into 2024 before stabilising from 2025



Source: ABS, NAB Economics

Section 2

Residential property market overview

Key points

- Housing values have been rising across most regions of Australia since March, following a 9.1% decline between May 2022 and February 2023.
- This upswing is ‘different’, occurring through a rate hiking cycle and amid low sentiment. A mismatch between supply and demand explains the upwards pressure on housing values.
- Although the trend in values has turned positive, the outlook remains uncertain.
- Higher interest rates and weakening economic conditions could take some heat out of the growth trend.

Tim Lawless,
CoreLogic Executive Research Director, Asia-Pacific

Australian housing values moved through a trough in February, following a short but sharp downturn where home values declined 9.1% between May 2022 and February 2023. Since finding a floor in February, the national measure of housing values has gained 3.4% but remains 6.0% below peak levels recorded in April 2022.

The drop in housing values was mostly due to the sharp rise in interest rates, but other factors such as housing affordability constraints, a trend towards lower consumer sentiment and an expiry of COVID-related fiscal support were also at play before interest rates started to rise in May last year.

Although most regions around the country are still recording housing values below their earlier highs, most homeowners who have owned their home for a few years remain in a solid equity position. At the end of June 2023, CoreLogic's combined capitals index remained 15.0% above levels recorded at the onset of COVID in March 2020 and the combined regionals index was 32.3% higher relative to the onset of COVID.

The current upswing in housing values is quite different relative to earlier growth cycles, which have typically been predicated by policy changes such as a loosening in monetary policy, greater access to credit or fiscal stimulus such as additional first home buyer incentives. Growth in housing values has been occurring in the absence of these factors and is attributable to low available housing supply running up against rising housing demand.

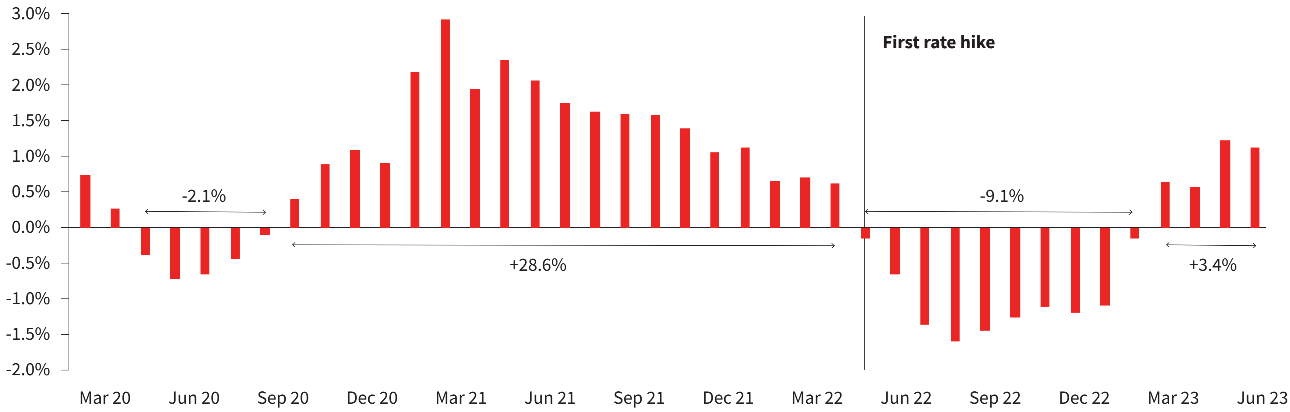
Housing in recovery mode

Every capital city except Darwin saw dwelling values rise in the June quarter, demonstrating the broad-based nature of the recent upswing. Sydney and Brisbane have led the pace of gains, up 4.9% and 3.0% through the quarter, while it is generally the smaller capitals such as Hobart and Darwin, where housing supply and demand are more evenly matched, that are recording softer conditions.

Regional areas of Australia are also rising in value, with only regional Victoria recording a further decline in values through the second quarter of the year. Dwelling values across Regional South Australia and Regional Western Australia were both at cyclical highs at the end of June 2023.

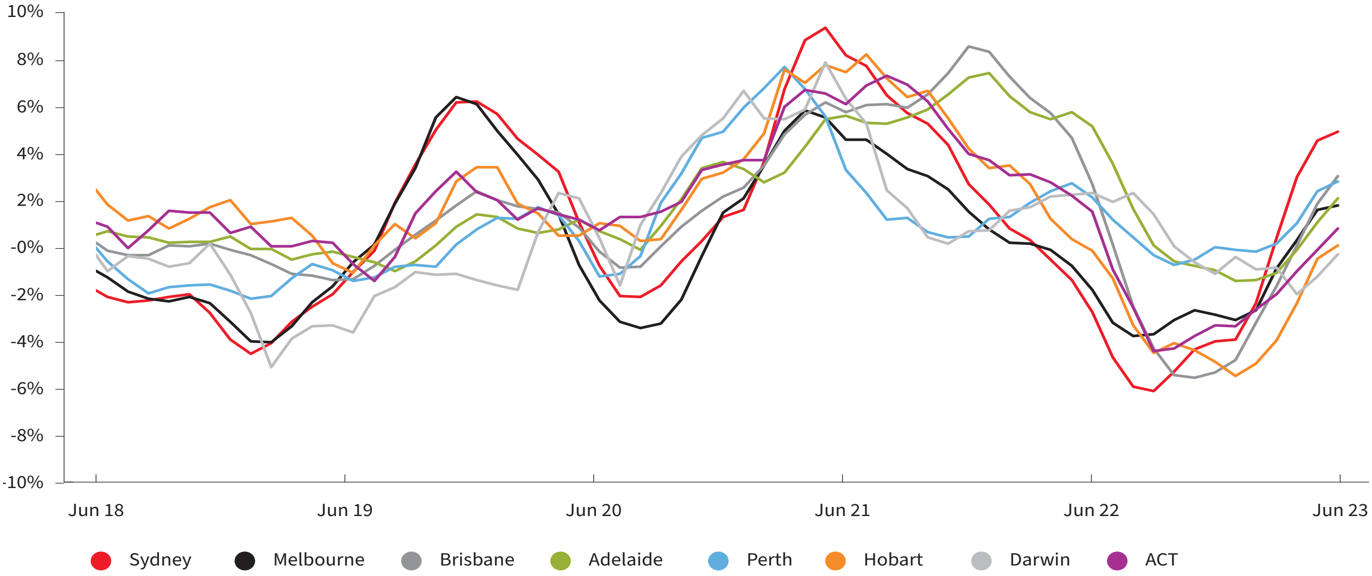
A lack of available supply is the main factor supporting housing values. In early July, capital city advertised housing stock levels were 25.9% below the previous five-year average. Simultaneously, the June quarter estimate of capital city sales was tracking 2.1% above the previous five-year average. It's this disconnect between available supply and demonstrated demand that is placing upwards pressure on home values.

Figure 5: Month-on-month change in national dwelling value index



Source: CoreLogic

Figure 6: Rolling quarterly change in dwelling values



Source: CoreLogic

Outlook for residential property

Although the recovery trend has become entrenched over the past four months, the outlook for housing values remains uncertain amid an expectation of higher interest rates, weaker economic conditions and stretched household balance sheets.

The trajectory of interest rates will be a critical factor in housing market performance, even after the RBA's July decision to hold the cash rate at 4.1%. There is still potential for an August rate hike and forecasts on where the cash rate will land and how long it will stay elevated vary.

Additionally, the coming months will see an unprecedented peak in the number of fixed rate borrowers refinancing to significantly higher mortgage rates. The RBA has previously estimated that 880,000 fixed rate mortgages will expire in 2023, refinancing from mortgage rates around 2% to around 6% or higher.

Another key risk for housing conditions is the potential for a rise in advertised housing stock. Low inventory levels have arguably been the most important factor placing upwards pressure on housing prices. A change in the supply dynamic could become evident in spring when the flow of listings would typically ramp up. We could also see more listings flow onto the market if mortgage stress becomes widespread.

While the downside risks to the housing sector are clear, there are some mitigating factors, including record levels of net overseas migration, a burgeoning undersupply in newly built housing, and an expectation that labour markets will hold reasonably tight.

Net overseas migration is forecast to peak at around 400,000 for the 2022-23 financial year, almost 27% above the previous record high recorded in 2008.

At the same time, the pipeline of approved housing supply is around decade lows and trending lower, setting the housing sector up for an undersupply of newly built homes over the medium term. The National Housing Finance and Investment Corporation is forecasting Australia's housing sector will be undersupplied to the tune of around 175,000 dwellings by 2027.

With the unemployment rate expected to remain well below the long run average, most borrowers should be able to maintain their mortgage repayments, albeit with some pull back in discretionary spending and a further depletion of savings. The latest forecasts from the RBA have Australia's unemployment rate rising from 3.6% in May to 4.5% by the end of the next year.

Overall, there is some risk that growth in housing values will moderate as interest rates rise and economic conditions weaken. Although a rapid rate of population growth and tight housing supply will help to keep a floor under housing values, the potential for a 'double-dip' downturn in housing values remains, depending on how high interest rates go and how long rates remain elevated.

Section 3

Around the country

Each housing market around Australia has its own unique trends and influences. Here's a detailed look at what's happening around the country.

Sydney

After dropping by 13.8%, Sydney housing values have recorded a rapid rise in values through the first half of the year, up 5.3%.

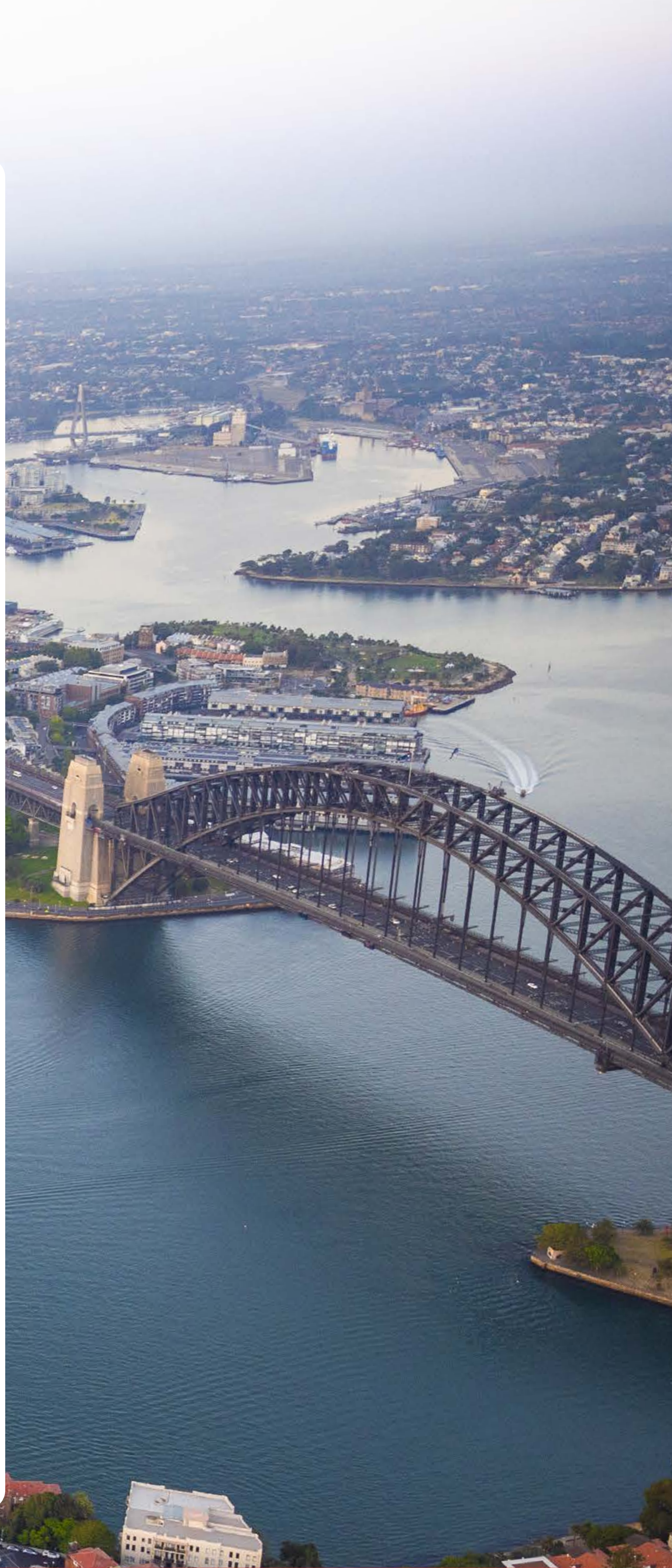
Sydney housing values peaked in January 2022, well before interest rates started to rise, dropping almost 14% before finding a floor in January 2023. The downturn came as consumer sentiment trended lower and affordability constraints became more challenging, accelerating as interest rates moved off emergency lows.

The downturn followed a significant rise, with Sydney home values surging by 24.5% between March 2020 and the January 2022 peak. Some regions of Sydney recorded substantially larger gains, including the Central Coast (+45.8%) and the Northern Beaches (+35.2%), while higher density markets such as Paramatta (+14.6%) and Sydney City and Inner South (+15.6%) recorded less significant growth through the upswing.

Recent growth conditions have been skewed towards Sydney's premium housing market, with upper quartile home values rising 5.7% through the June quarter compared with a 3.0% rise in lower quartile values. The stronger growth conditions for more expensive housing comes after a larger drop across the upper quartile, where values remained 9.9% below peak levels, while lower quartile values are down a smaller 4.5% from the 2022 peak.

The upswing in housing values through the first half of the year is occurring while advertised supply levels finished the first half of the year approximately 16.7% below the previous five-year average. Housing demand, based on the estimated number of homes sales through the June quarter, was also below average, but by a lesser 10.9%.

Rental markets remain tight across Sydney, with the rental vacancy rate reducing from 1.9% a year ago to 1.5% in June 2023. Unit rents have increased by 18.8% over the financial year, doubling the pace of growth for house rents at 9.4% as demand transitions towards higher density rental options.



SYDNEY STATISTICS	
In the June quarter, Sydney dwelling values rose by	4.9%
Over the first half of the year Sydney dwelling values are up	5.3%
Over the 2022-23 financial year, Sydney dwelling values are down	-5.1%
Sydney dwelling values remain -8.0% below the record high, which was in January 2022.	

Melbourne

Dwelling values in Melbourne have been trending higher since March, rising 2.3% to the end of June.

Housing values are up 0.8% over the first half of the year, comprised of a 1.5% fall in values over January and February followed by a 2.3% rise from the start of March to the end of June, taking the annual change to -5.7%. The recent positive change in housing values follows a 9.6% drop, with the market remaining 7.5% below the February 2022 peak.

The pandemic cycle to date has been milder in Melbourne relative to the other capitals. Housing values fell more sharply during the early stages of the pandemic and didn't rise much through the upswing (values were up 10.7% between March 2020 and the February 2022 peak). The softer conditions reflect a demographic shift through the pandemic characterised by interstate and overseas migration turning sharply negative while internal migration trends favoured regional parts of the state. Demographic trends are now looking more favourable for housing demand across Melbourne, with interstate and internal migration trends normalising while overseas migration surges.

The June quarter has seen the rate of growth in housing values skewed towards Melbourne's premium housing sector. Upper quartile home values were up 2.1% over the quarter compared with a 1.5% rise across lower quartile values. Premium markets also wore the brunt of the recent downturn, with upper quartile home values remaining 10.1% below the 2022 peak while lower quartile home values are a smaller 4.4% below last year's high.

Melbourne's rental market is recording one of the lowest vacancy rates across the capital cities, at just 0.8% in June, down from 1.7% a year ago and a decade average of 2.3%. Such tight rental conditions have pushed house rents 10.6% higher over the financial year, while unit rents are up a larger 15.5%.

MELBOURNE STATISTICS	
In the June quarter, Melbourne dwelling values rose by	1.8%
Over the first half of the year Melbourne dwelling values are up	0.8%
Over the 2022-23 financial year, Melbourne dwelling values are down	-5.7%
Melbourne dwelling values remain -7.5% below the record high, which was in February 2022.	

Brisbane

In Brisbane, dwelling values have been on a recent recovery trend after dropping by 11% between July 2022 and February 2023.

Brisbane housing values recorded one of the largest gains of any capital city through the pandemic upswing, surging 41.8% between the onset of COVID in March 2020 to the peak in June 2022. In dollar terms, the growth phase added approximately $234,000 to Brisbane's median dwelling value. Although Brisbane home values trended higher over the four months to June 2023, the market remains 8.2% below the June 2022 peak following an 11% drop in values.

Despite the substantial drop in values, given the extent of the earlier upswing, Brisbane dwelling values remain 30.1% above the level recorded at the onset of COVID. Across the sub-regions of Brisbane, the cumulative change in housing values from March 2020 to June 2023 ranges from a 51.0% rise across the Caboolture Hinterland to a 10.6% lift in Inner Brisbane dwelling values. The disparity reflects the stronger demand for lower density and outer fringe housing options through the pandemic.

More recently, through the June quarter, stronger growth conditions have returned to areas within the Brisbane council area, with the sub-regions of Nathan (+6.9%), Chermside (+5.3%) and Holland Park-Yeronga (+5.1%) topping the growth charts over the June quarter, while many of the markets that were previously strongest are towards the bottom of the tables.

Rental conditions across Brisbane remain in favour of landlords, with the rental vacancy rate recorded at 1.2% in June, well below the decade average of 3.3%. The vacancy rate across the unit sector is even lower at just 0.8%, driving a 16.3% surge in unit rents over the past 12 months.

The vacancy rate for Brisbane houses has trended a little higher, up from 1.2% a year ago to 1.4% in June 2023. The slight easing in the vacancy rate for houses was accompanied by a slowdown in rental appreciation, with the quarterly rise in rents falling from 4.0% a year ago to 1.6% over the June quarter this year.

Considering the rapid rate of rental growth and little evidence of an immediate rental supply response, its likely rental conditions will remain tight through the second half of the year.

BRISBANE STATISTICS	
In the June quarter, Brisbane dwelling values rose by	3.0%
Over the first half of the year Brisbane dwelling values are up	1.3%
Over the 2022-23 financial year, Brisbane dwelling values are down	-8.2%
Brisbane dwelling values remain -8.2% below the record high, which was in June 2022.	

Adelaide

The strongest capital city housing market since the onset of COVID, Adelaide dwelling values were up 44.2% to the end of June 2023.

Adelaide home values have been relatively resilient in the face of higher interest rates, falling by just 2.4% between August last year and March 2023. Since finding a floor in March, Adelaide home values have risen 2.1% to be just 0.3% below the 2022 record high.

Despite such strong appreciation in housing values since 2020, the median value of a house in Adelaide, at $712,421, and the median value of a unit ($450,569) in June remain well below most of the other capitals.

Such a resilient outcome has generally been driven by Adelaide's more affordable markets, with the city's North and South regions both recording values at record highs in June 2023, while values across the Adelaide Central and Hills region are down 4.9% from a peak in July last year.

Dwelling values across each of Adelaide's sub-regions have returned to a growth trajectory through the June quarter, however stronger growth conditions remain skewed towards the more affordable markets to the north and south of the city.

Adelaide rental markets are the tightest of any capital city with a vacancy rate of just 0.4%, with the vacancy rate for units (0.3%) at a record low in June and slightly lower than that for houses (0.5%). Even with vacancy rates this low, the rate of rental growth is slowing. The annual change in rents has reduced from a recent record high of 13.0% in October last year to 9.6% through the 2022-23 financial year. The loss of momentum in rental appreciation, despite such low vacancy rates, could be a sign that rental affordability pressures are starting to stymie growth in rents.

ADELAIDE STATISTICS	
In the June quarter, Adelaide dwelling values rose by	2.1%
Over the first half of the year Adelaide dwelling values are up	1.0%
Over the 2022-23 financial year, Adelaide dwelling values unchanged	0.0%
Adelaide dwelling values remain -0.3% below the record high, which was in July 2022.	

Perth

Perth has the distinction of being the only capital city where housing values are at a record high.

Following a paltry 0.9% reduction in values, Perth home values have risen over six of the past eight months to June. Although the market has recovered to new record highs, median values remain well below most other capitals, reflecting relatively affordable price points; a biproduct of the long downturn where Perth housing values dropped by 20.0% between 2014 and 2019. This affordability, along with strong migration from interstate and overseas, persistently low advertised stock levels and tight rental conditions are all factors supporting the local market.

At $615,793 and $417,643, Perth has the second-lowest median house value and median unit value of any capital city, after Darwin.

Stronger growth conditions through the pandemic to date have been skewed towards the more affordable markets of Perth. The largest capital gains since March 2020 have been in Kwinana (+41.4%), Rockingham (+40.4%) and Armadale (+35.0%) while the lowest gains were recorded across Perth Inner at 19.6% and South Perth at 20.3%.

Rental conditions remain extremely tight with Perth's vacancy rate holding below 1% since September last year. With vacancy rates so tight, Perth house rents are up 13.1% over the 2022-23 financial year, the highest of any capital city. Unit rents are up more substantially, at 15.4% over the year, the third highest of any capital city.

Perth rental listings were tracking 49% below the previous five-year average in early July, suggesting rental supply is likely to remain tight over the coming months at least.

PERTH STATISTICS	
In the June quarter, Perth dwelling values rose by	2.8%
Over the first half of the year Perth dwelling values are up	2.9%
Over the 2022-23 financial year, Perth dwelling values are up	2.5%
Perth dwelling values were at a record high in June 2023.	

Hobart

Housing values in Hobart have stabilised after dropping 13.0% from their record high.

Housing values across Hobart surged 37.6% through the recent growth phase, a rate of growth that was substantially higher relative to the total combined capitals index (22.3%). However, the strong growth conditions were followed by a 13.0% drop in values, the second-largest decline from peak across the capitals (after Sydney at -13.8%).

The downwards trend levelled out through the June quarter with Hobart home values nudging 0.1% higher; a relatively mild outcome compared with the combined capitals benchmark which saw dwelling values increase by 3.3% over the quarter.

Hobart's recovery trend may be less significant than other cities considering interstate migration has once again turned negative, advertised stock levels are tracking 37% above the previous five-year average and sales activity through the June quarter was estimated to be almost 17% below the previous five-year average.

Less housing demand is also evident in rental markets where the vacancy rate has increased from 1.6% a year ago to 2.7% in June; the highest of any capital city and above the decade average of 2.3%. With vacancy rates trending higher, the June quarter saw Hobart rents fall by 1.0%, the first decline over a rolling three-month period since November 2020.

HOBART STATISTICS	
In the June quarter, Hobart dwelling values rose by	0.1%
Over the first half of the year Hobart dwelling values are down	-3.9%
Over the 2022-23 financial year, Hobart dwelling values are down	-12.7%
Hobart dwelling values remain 12.9% below the record high, which was in May 2022.	

Darwin

Australia's most affordable capital city, Darwin was also the only capital to record a decline in values through the June quarter.

The trend in Darwin housing values has been a little volatile, rising over the past two months after falling over six of the past seven months. The net result is Darwin housing values were down 0.3% in the June quarter and remain 3.3% below their cyclical high point in August last year.

Like most markets, advertised stock levels remain low, tracking 7% below the five-year average while estimates of demand, based on home sales, are holding above average. This imbalance, together with the sheer affordability of housing, may help to keep a floor under housing prices.

Vacancy rates across the Darwin rental market are holding well below the decade average of 4.4%, especially across the unit sector where the vacancy rate fell to an all-time low of 1.2% in March. Although vacancy rates are very low, rental growth has eased, which could be a sign of affordability pressures mounting across the rental sector. House rents were up 3.5% over the financial year and unit rents were 5.8% higher.

Although rental appreciation is not as significant as some of the larger capitals, gross rental yields in Darwin are far higher than any other capital city. The gross yield for a Darwin house is 5.8%, which is more than a percentage point higher than Perth (4.7%) which has the second highest gross yields of any capital. The unit sector is recording a gross yield that is even higher, at 7.5%.

DARWIN STATISTICS	
In the June quarter, Darwin dwelling values fell by	-0.3%
Over the first half of the year Darwin dwelling values are down	-1.2%
Over the 2022-23 financial year, Darwin dwelling values are down	-1.0%
Darwin dwelling values remain 2.3% below the cyclical high, which was in August 2022.	

Australian Capital Territory

After values dropped by 9.5%, the ACT housing market has moved into a mild recovery, up 0.8% through the June quarter.

Housing values lifted by 38.3% through the recent growth cycle, adding approximately $252,190 to the median dwelling value between March 2020 and a peak in June 2022. Since peaking, housing values fell by 9.5% and, since finding a floor in April, have recovered by a modest 0.8%.

Growth conditions were broad-based across the ACT through the June quarter, with every sub-region recording a rise in value, ranging from a 3.8% lift at Molonglo to a 0.1% rise in Gungahlin and Tuggeranong.

The recent rise in values has been skewed towards the premium sector of the market, where upper quartile dwelling values were 1.5% higher in the June quarter, while lower quartile values were virtually flat, up 0.1%. The larger rise in upper quartile values comes after a more substantial decline. Over the past year, upper quartile housing values are down 10.8%, more than double the 4.4% drop in lower quartile values.

Rental conditions have loosened over the past 12 months, with the rental vacancy rate rising from a record low of 0.7% in March last year to 2.2% in June. Vacancy rates are getting close to the decade average of 2.5%.

As the vacancy rate has trended higher, rental growth has dropped into negative territory. On a monthly basis, ACT rents have fallen over 11 of the past 12 months to be down 2.8% over the 2022-23 financial year.

AUSTRALIAN CAPITAL TERRITORY STATISTICS	
In the June quarter, ACT dwelling values rose by	**0.8%**
Over the first half of the year ACT dwelling values are down	**-1.3%**
Over the 2022-23 financial year, ACT dwelling values are down	**-8.8%**
ACT dwelling values remain 8.8% below the record high, which was in June 2022.	

Section 4

Commercial property in the spotlight

Key points

- Economic uncertainty and rising interest rates are weighing on commercial property market sentiment.
- Industrial property stands out among the commercial property sectors, with strong confidence levels and rising rents due to under-supply and strong demand. The outlook for the Office and Retail sectors is weaker, and the outlook for CBD Hotels is also subdued.
- Development activity is slowing and funding conditions remain difficult across commercial property sectors.

Dean Pearson and Robert De Iure,
NAB Behavioural and Industry Economics

Commercial property market sentiment moderated during the June quarter 2023 amid growing economic uncertainty and rising interest rates, with NAB's Commercial Property Index inching deeper negative to -7 points. This was down from -6 points in the previous quarter and continues to languish below the long-term survey average of -2 points.

The overall Index was largely weighed down by fading sentiment in Office markets (-28 points) as Industrial (+26 points) and CBD Hotels (+38 points) property markets continued to outperform. Sentiment in the Retail property sector lifted but remained very weak (-17 points).

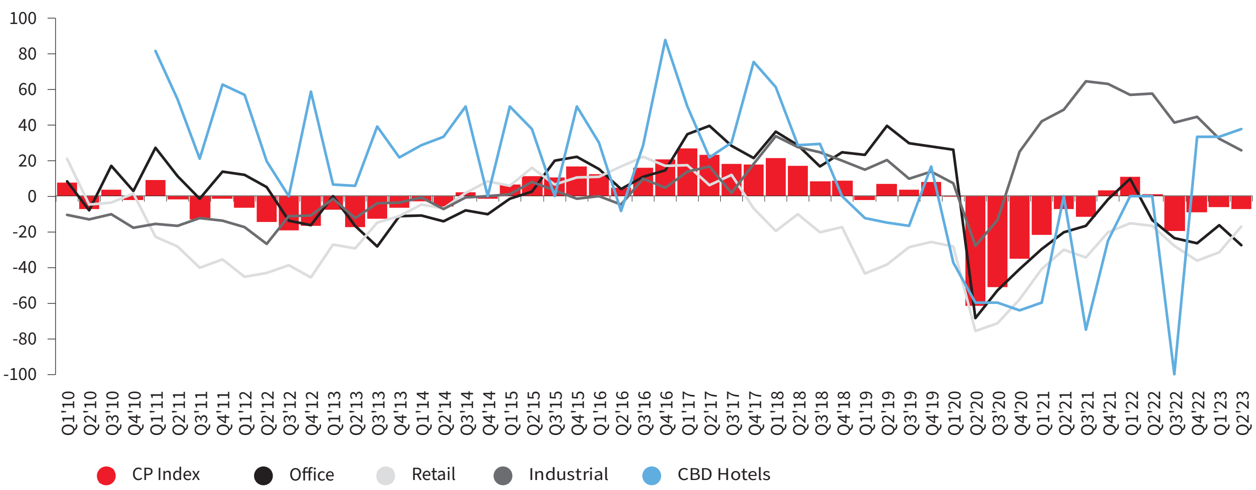
Overall, commercial property market sentiment in the second quarter (Q2) was negative in all states bar Queensland (+8 points), and lowest in Victoria by a large margin at (-22 points).

A slowdown after strong growth

We are now seeing increasing signs that economic activity is slowing sharply in Australia after a very strong period of growth in 2022. And with interest rates also moving higher, the risks to growth continue to rise.

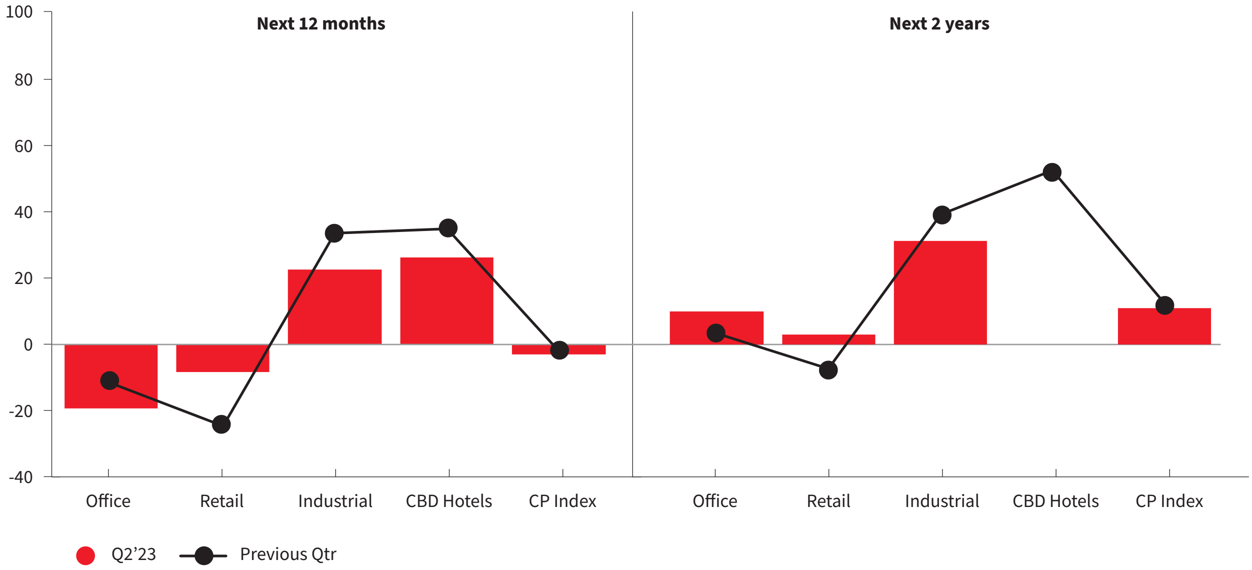
Against this backdrop, commercial property confidence levels eased in Q2 with the 12-month measure falling to -3 points and two-year measure to +11 points. Short-term confidence is highest for CBD Hotels (+25 points) and Industrial (+22 points) property, and lowest in the Office sector (-18 points). Longer term confidence is highest for Industrial property (+30 points).

Figure 7: NAB Commercial Property Index



Source: NAB Behavioural and Industry Economics

Figure 8: NAB Commercial Property Index (next 1-2 years)



Source: NAB Behavioural and Industry Economics

Office property

The National Office Index fell quite sharply in Q2 (-28 points), with property professionals reporting lower capital and rental growth. Conditions were challenging across most the country, with the Victoria printing at a very weak -57 points, and Queensland the only state with a positive Index read (+6 points).

Confidence levels for the next 12 months are subdued in all states bar Queensland (+22 points). The outlook for Office values for the next one to two years was scaled back and on average now expected to fall (-3.4% and -1.5%), with values lower in all states except in Queensland in two years' time (0.6%).

Office vacancy continued to trend above average in Q2 (9.6%) and expected to remain steady over next year before easing to 8.3% in two years' time. Vacancy is expected fall in all states bar NSW next year, with Victoria and NSW the only states still reporting above average vacancy over the outlook period.

With the national Office market expected to remain 'somewhat' over-supplied in the next one to three years, the outlook for rental growth in this market is subdued (-0.1% and 0.7%), with incentives remaining elevated. Rents are expected to be highest in Queensland (3.6% in both years), with Victoria a clear under-performer (-3.0% -1.9%).

Office property market index: states

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-57↓	-24↓	6↑	-50↓	-21↓	**-28↓**
Q2, 2024	-46↔	-19↓	22↑	-6↓	-21↓	**-18↓**
Q2, 2025	-25↑	10↑	44↑	17↓	29↓	**10↑**

Office capital values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-5.6	-3.3	-2.5	-2.4	-4.4	**-3.5**
Q2, 2024	-5.1	-3.3	-2.1	-1.9	-3.9	**-3.4**
Q2, 2025	-3.6	-1.3	0.6	-0.6	-2.0	**-1.5**

Office rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-3.2	-0.5	3.3	-1.6	2.6	**-0.2**
Q2, 2024	-3.0	-0.5	3.6	-0.7	2.3	**-0.1**
Q2, 2025	-1.9	0.8	3.6	0.0	1.6	**0.7**

Office vacancy rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	11.3	8.2	10.1	11.9	10.7	**9.6**
Q2, 2024	10.4	8.7	9.9	11.9	9.9	**9.6**
Q2, 2025	8.7	7.8	9.0	9.9	8.7	**8.3**

Source: NAB Behavioural and Industry Economics

Retail property

The National Retail Index bounced but was still very weak (-17 points), amid rising economic headwinds and sluggish consumer spending. Sentiment was particularly weak in South Australia/Northern Territory (-38 points). Confidence levels are also subdued but expected to print positive in two years' time (+3 points), and in all states apart from NSW and Victoria.

The outlook for capital growth was largely unchanged, with average values to fall -2.7% and -1.5% in the next one to two years and fall in all states bar Western Australia in two years' time (2.3%).

National vacancy rose to 7.0% in Q2 but ranged from 13.7% in South Australia/Northern Territory to 5.9% in Queensland. It is expected to rise next year (7.5%) but fall in two years' time (6.9%) – with above average vacancy in all states bar Western Australia.

Retail property markets were assessed as currently 'somewhat' over-supplied, and in most states bar NSW and Queensland ('neutral'). Modest supply overhangs are forecast in all state Retail markets next year, with most moving into balance in three years' time.

The survey was somewhat more buoyant about the outlook for rents – expected to now fall a more modest -0.4% and -0.1% in the next one to two years, with positive returns in all states except NSW and Victoria.

Retail property market index: states

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-28↑	-25↑	5↑	25↑	-38↓	**-17↑**
Q2, 2024	-13↑	-22↑	5↑	38↑	0↓	**-8↑**
Q2, 2025	-9↑	-19↓	5↑	88↑	25↔	**3↑**

Retail capital values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-2.9	-3.4	-1.8	-1.7	-2.4	**-2.7**
Q2, 2024	-2.4	-3.8	-2.8	-0.6	-1.6	**-2.7**
Q2, 2025	-1.7	-2.5	-1.9	2.3	-1.1	**-1.5**

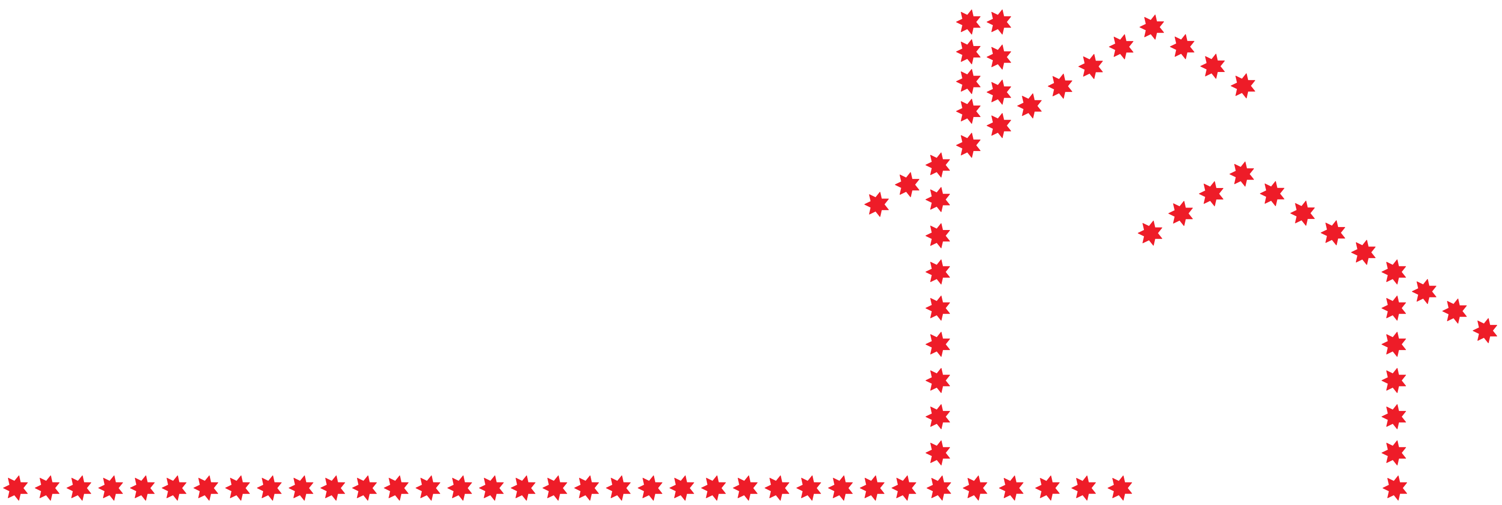
Retail rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-2.0	-1.2	1.3	2.9	-0.6	**-0.5**
Q2, 2024	-1.5	-1.5	1.4	3.4	0.4	**-0.4**
Q2, 2025	-0.6	-1.6	0.3	3.3	1.5	**-0.1**

Retail vacancy rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	6.7	6.5	5.9	7.5	13.7	**7.0**
Q2, 2024	7.0	7.2	6.8	7.5	14.3	**7.5**
Q2, 2025	6.4	6.1	8.1	5.0	13.0	**6.9**

Source: NAB Behavioural and Industry Economics



Industrial property

After significantly out-performing since late-2020, the Industrial index is starting to 'normalise', falling to a two-and-a-half-year low (+26 points) in Q2 – though still well above average as capital values and rents continue growing on the back of structural tailwinds associated with demand for warehousing and logistics.

Confidence levels in this sector remain high. Capital growth expectations were revised up to 0.8% and 1.4% in Q2, with growth prospects best in NSW (2.3% and 3.3%) and lowest in Victoria (-1.2% and -1.9%).

National Industrial vacancy was steady at a survey low 2.8% in Q2, with very low vacancy in all states – from 2.3% in NSW to 4.0% in South Australia/Northern Territory. Vacancy is expected to rise a little in the next one and two years (3.4% and 3.8%) but stay below average in all states.

Industrial property markets are currently 'quite' under-supplied and expected to remain so for the next one to five years – with available space lowest in NSW and Queensland.

The outlook for rents is favourable, albeit revised down nationally (2.5% and 2.0%). Rents are also forecast to continue growing in all states amid structural under-supply and strong demand. The highest returns are forecast for NSW (3.2% and 2.5%) and the lowest for Victoria (0.9% and 1.4%).

Industrial property market index: states

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-4↓	35↑	21↓	40↑	25↓	**26↓**
Q2, 2024	0↓	37↑	9↓	25↑	8↓	**22↓**
Q2, 2025	-4↓	48↑	21↓	25↓	25↓	**30↓**

Industrial capital values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	-0.5	1.2	-0.2	0.4	-1.5	**0.4**
Q2, 2024	-1.2	2.3	-0.1	0.5	3.8	**0.8**
Q2, 2025	-1.9	2.3	1.0	1.1	0.0	**1.4**

Industrial rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	0.6	3.3	3.5	1.9	2.8	**2.7**
Q2, 2024	0.9	3.2	2.1	2.6	2.3	**2.5**
Q2, 2025	1.4	2.5	1.3	2.1	2.3	**2.0**

Industrial vacancy rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2, 2023	3.2	2.3	3.1	2.6	4.0	**2.8**
Q2, 2024	3.7	3.3	3.4	3.4	4.5	**3.4**
Q2, 2025	4.0	3.7	3.5	4.4	4.0	**3.8**

Source: NAB Behavioural and Industry Economics

CBD hotel property

Market sentiment remains elevated and lifted further in the bouncy CBD Hotel sector in Q2 (+38 points), with property professionals reporting a big uplift in Revenue per Available Room (RevPAR) growth and solid occupancy rates.

The outlook for the sectors is, however, somewhat subdued, with confidence levels easing to +25 points in 12 months' and flat in two years' time (0 points), with expectations for capital values (-1.3% and -4.9%) and RevPAR (0.9% and -0.4%) now weaker.

Occupancy rates are also expected to slip a little to 72% over the next 12 months from 75% now. Supply conditions in this sector are currently assessed as 'neutral' and are expected to remain balanced in the next one to five years.

Commercial development and funding

NAB Survey findings for Q2 reinforce the continuing slow-down seen in construction and building approvals data, with the number of property developers looking to start new building works in the next six months falling a survey low 26% in Q2.

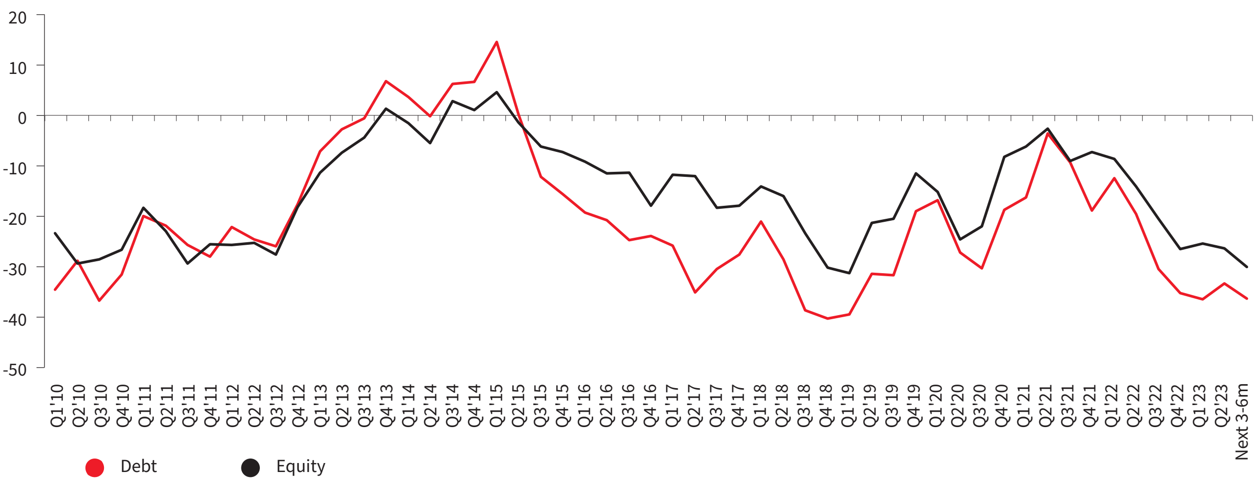
With a further 37% planning to start within six-to-18 months, a record low 63% plan to start within the next 18 months – below the previous low set during the height of COVID uncertainty in mid-2020 (68%).

Recent Australian Bureau of Statistics (ABS) building approvals data points to further weakness in construction activity/dwelling investment down the track, with total approvals now well below their early-2021 peak. NAB's survey results also highlighted a lower number of developers planning to start new building works in the residential sector in Q2 to 47%, and a below average 10% targeting Office and Retail space. But with ongoing shortages and strong demand still being reported for Industrial property, an above average one in five (18%) developers are looking to start new works in this sector.

Funding conditions remain difficult. In Q2, the net number of property professionals who said was harder to obtain debt to fund their businesses improved but remained elevated at -34% (-20% at the same time last year). The number who found it harder to get equity funding inched up to -27% (almost doubling from -14% at the same time last year).

Looking ahead to the next three-to-six months, more property professionals believe debt funding conditions will be worse than now (-37%), with the net number expecting equity funding conditions to be worse also higher (-31%). This would make both debt and equity funding harder than at any time since early-2019.

Figure 9: Ease of acquiring debt/equity (net balance)



Source: NAB Behavioural and Industry Economics

Section 5

Summary guide

Every day, brokers are there for their customers, helping Australians from first home buyers to investors to empty nesters, to get the best outcomes for their home lending needs. As always, NAB is here to help.

The next page contains a handy summary guide for you to use with your customers. Feel free to continue the conversation with your BDM or Relationship Manager.

First Half Property Update 2023

Keeping Brokers Informed

A slowing economy

Cash rate forecast to peak at 4.6%

Housing values up from the market floor

Supply-demand mismatch for homes

Funding challenges hamper development

Industrial stands out among commercial sectors

Risk of weaker housing market into 2024

An uncertain outlook weighs on sentiment

A173716-0723