HOUSING MARKET REPORT

Autumn 2017 Edition

New South Wales overview

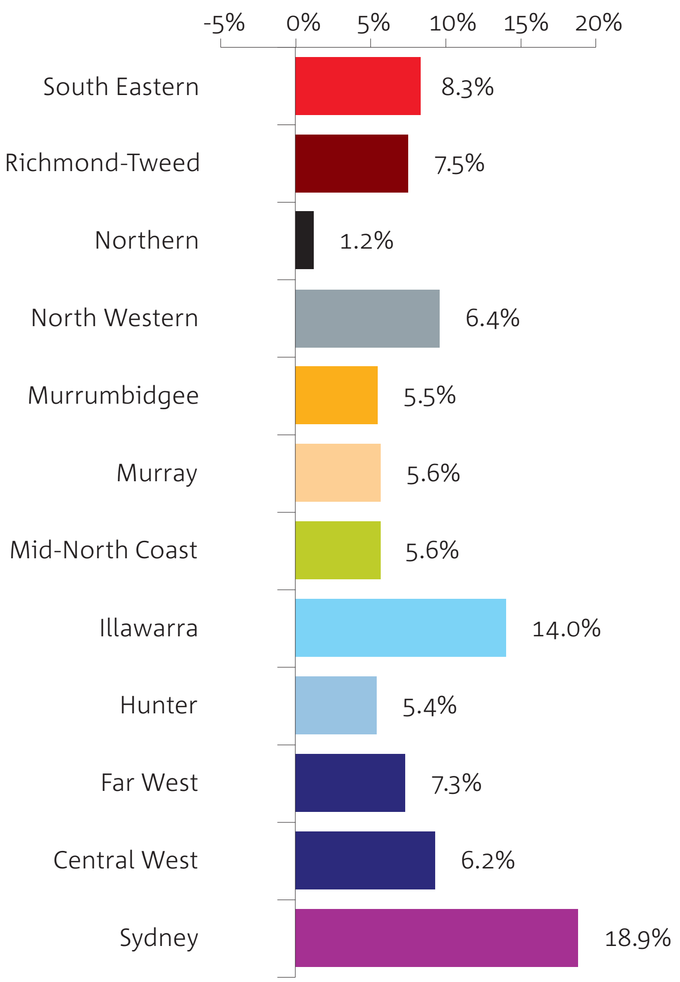
CoreLogic's view:

The New South Wales housing market stands out from other states, showing substantially higher rates of capital gain across both the capital city region and the regional markets. The housing market is being driven by a combination of factors, including a history of undersupply, strong population growth and healthy economic conditions. Additionally, investors are boosting housing demand across the state, with the latest Australian Bureau of Statistics data indicating that investors were comprising more than half of new mortgage demand across the state.

Sydney home values have surged almost 19% higher over the past twelve months; the highest annual growth rate since 2002. The strong growth conditions have a broad base, with both houses and units recording high rates of capital gain, while geographically, most areas of Sydney are experiencing double digit annual growth rates. While home owners have seen a great deal of wealth created via the Sydney housing market, those households who don't own a home are finding affordability barriers more challenging due to home values rising at a substantially faster pace than household incomes.

The regional areas of New South Wales recorded an 8.5% rise in house values over the past twelve months, with most regions recording annual value growth of at least 5% over the year ending March 2017. The Illawarra region has benefited from a ripple of housing demand away from the Sydney metropolitan region, with home buyers looking further afield for more affordable property prices.

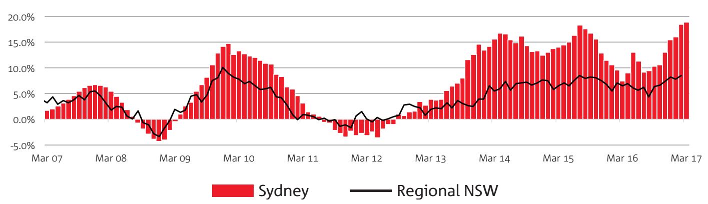
Annual change in home values over past year*



*Data for homes in capital cities, houses in regional areas. Data to Mar-17 for capital cities, Feb-17 for regional areas

Source: CoreLogic

Annual change in home values, Sydney and Regional NSW



Important information

See next page for details regarding source data used in this report.

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NAB's view:

The Sydney market continues to see solid growth, prompting an upward revision to forecasts. However, momentum is still expected to slow.

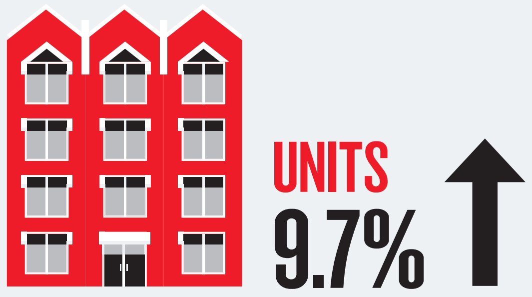
The Sydney property market continued to see solid price gains into 2017, defying expectations that a shift in market fundamentals would see price momentum much weaker this year. Rising prices and lower transaction volumes suggest inadequate supply is playing a part, although underlying demand has also been quite buoyant. Investor interest appears to have regained traction of late, despite banks tightening credit conditions for these buyers, but it is still too soon to gauge the full effect of higher interest rates and tougher prudential controls recently introduced by regulators. Investor credit is much more prevalent in NSW than other markets, suggesting it will be particularly susceptible to policy changes.

Sydney housing market again performing better than expected. Price forecasts have been revised higher, but previously flagged risks still linger.

In terms of foreign demand, the **NAB Residential Property Survey** shows that foreign buyer activity in NSW is still well down on its previous peaks, consistent with tighter credit conditions for foreign buyers and stricter capital controls in China. Despite these headwinds, however, NAB's Survey showed a jump in overall market sentiment for NSW to its highest level since the Survey began.

While we see property prices in Sydney remaining much more resilient than previously thought, we remain somewhat concerned about how affordability, high household leverage and credit constraints could impact demand in NSW going forward. Support from additional RBA cuts to interest rates are no longer expected either, while the risks from record levels of apartment construction continue to linger – although very low vacancy rates and solid auction clearance rates in Sydney suggest the problem is yet to manifest.

Overall, we think prices will perform better than previously expected this year, with further (albeit more modest) gains into 2018. House prices are forecast to grow by 10.5% (revised up from 4.5%) in 2017, before lifting by a further 4.9% in 2018. Additional headwinds to the unit/apartment market coming from the supply side will keep price growth more moderate for this segment, at 9.7% in 2017 (revised from 1%) and 0.5% in 2018.



This report is prepared by RPData Pty Ltd ("trading as CoreLogic Asia Pacific") ABN 67 087 759 171 and National Australia Bank Ltd ABN 12 004 044 937
Published June 2017.

Important information about this report

The information on the white background (headed CoreLogic's view) is about the housing market in the 12-month period to March 2017 for information about capital cities and to February 2017 for information about regional areas.

It was provided by RP Data Pty Ltd, which trades as CoreLogic Asia Pacific, but is referred to in this report as CoreLogic.

The information on the grey background (headed NAB's view) is provided by NAB Group Economics, taking into account data sourced until March 2017. It's our economists' view about the national capital city house and unit price growth over the next 9 months to December 2017.

NAB's view takes into consideration the March 2017 NAB Residential Property Survey of property market professionals. The survey asked participants to give their views on where they think house prices are expected to move.

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2.4 The NAB Residential Property Survey

The NAB Residential Property Survey referenced in this report consists of extracts from data obtained by NAB from a March 2017 survey of property professionals. This reflects the surveyed property professionals' views about what they think will happen to the housing market in Australia in a 24 month period up to March 2019. The views in the survey do not necessarily reflect NAB's views except where expressly called out in this report.