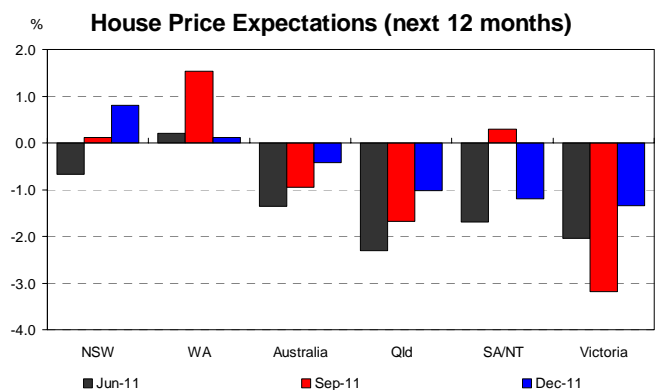
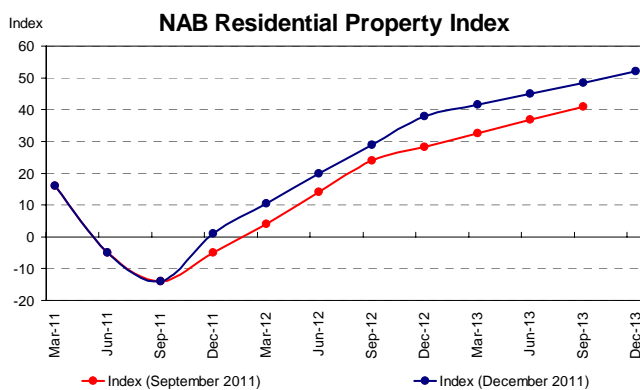


Quarterly Australian Residential Property Survey: December 2011

The NAB Residential Property Index turns slightly positive in the December quarter as the pace of national house price decline slows and rental growth accelerates.

- Moderating house price declines and stronger rental growth saw NAB's Residential Property Index move just back into positive territory in the December quarter (+1 point) after two consecutive quarters of negative results. Although conditions improved in all states, there is considerable variation in state performance. Conditions are still weakest in Victoria (-22) and Queensland (-18) and strongest in NSW (+31) and WA (+18). Forward expectations have also strengthened since our last survey, with the index now forecast to record a bigger increase on the back of stronger house price and rental growth expectations.
- National house prices are still falling, but the pace of decline slowed to -2% (-2.4% in Q3). NSW (-0.3%) was the most resilient market while prices fell most in Queensland (-3.2%) and Victoria (-2.8%). House prices are expected to fall by -0.4% over the next year (-1% in Q3). Modest growth is expected to resume in NSW (0.8%) and WA (0.1%), but the national average will be held down by continued price weakness in Victoria (-1.3%), SA/NT (-1.2%) and Queensland (-1%). National house prices are forecast to increase by 1.2% by December 2013 (0.5% previously). WA (3.2%) is expected to significantly out-perform, with house price growth forecast to be slowest in Victoria at 0.3% - although this represents a marked turnaround from -2.1% forecast in Q3.
- Rental growth is accelerating and forward expectations have been revised up. Rents increased by 1.2% in the December quarter (0.7% in Q3), with rents improving in all states bar NSW. Rental growth was softest in Victoria (0.4%) and Queensland (0.4%), and strongest in WA (2.5%) and NSW (2.2%). Average rents are expected to rise by 3.2% over the next year (2.5% in Q3). Rental expectations are strongest in NSW (4.5%) and WA (4.4%) and weakest in Victoria (1.8%) and Queensland (2.2%). Over the next two years, nationwide rents are tipped to rise by 4.6% (4% in Q3), led by WA (6.5%), SA/NT (6.5%) and NSW (5.6%).
- There was a notable increase in first home buyer activity in the new property market, likely reflecting a more benign interest rate outlook and softer house prices. Investors and overseas buyers were also more prominent in this market. Demand for new property remains strongest for inner city housing and low rise CBD apartments and townhouses. Resident owner occupiers continue to dominate the market for existing properties, but there was also a small increase in first home buyer activity in this market. Demand for all types of existing property strengthened slightly in all locations and the best prospects for capital growth continue to be identified in sub-\$500,000 markets. Access to credit, interest rates and employment security continue to be seen as the biggest impediments to purchasing existing property, but slightly less problematic than in September.



NAB Residential Property Index: December Quarter 2011

	Mar-11	Jun-11	Sep-11	Dec-11	Jun-12	Dec-12	Dec-13
Victoria	23	-16	-35	-22	-3	13	41
NSW	39	18	21	31	40	54	59
Queensland	-5	-27	-40	-18	4	32	47
South Australia/Northern Territory	-8	-6	-36	-17	28	50	67
Western Australia	12	5	11	18	45	55	63
Residential Property Index	16	-5	-14	1	20	38	52

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Residential Property - Market Performance

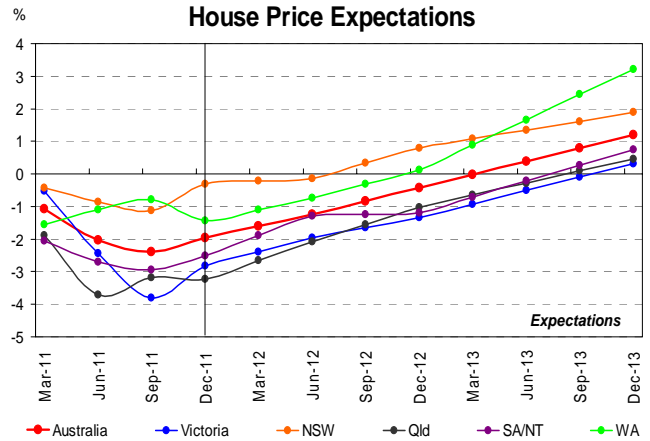
National house prices continued falling in December, but the pace of decline moderated. Based on our survey results, house prices fell by -2%, marginally better than the -2.4% fall recorded in Q3. There is still considerable divergence across the states. NSW was the most resilient market with prices down by -0.3%. WA was the next best, with prices falling by -1.4% (-0.8% in Q3). In contrast, house prices corrected by -3.2% in Queensland, -2.8% in Victoria and -2.5% in SA/NT.

House price expectations improved but remain subdued. Prices are now tipped to fall by -0.4% over the next year, compared with a -1% decline forecast in Q3. Price growth is expected to be strongest in NSW at 0.8% (0.1% in Q3), presumably reflecting the underlying lack of housing and associated costly rental market. Modest price growth is also expected in WA, but with global uncertainty impacting on buyer confidence, expectations were revised down from 1.5% to 0.1%. Instead, national prices will be held down by persistent weakness in Victoria (-1.3%), SA/NT (-1.2%) and Queensland (-1%).

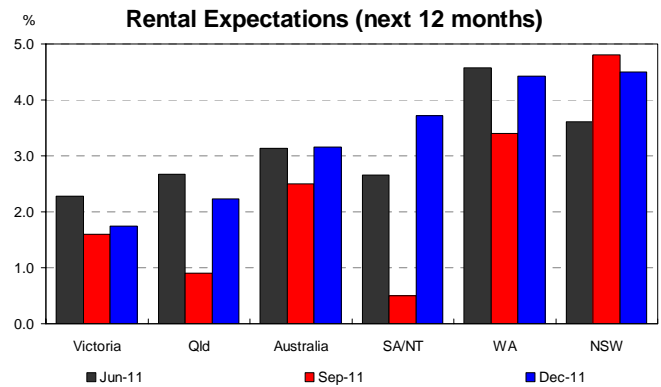
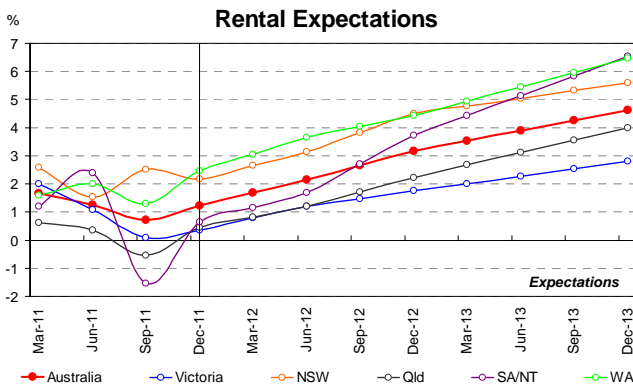
National house prices are expected grow by 1.2% by December 2013 (0.5% previously). WA is expected to significantly out-perform the other states, with prices rising by 3.2%. In NSW, prices are forecast to rise by 1.9%, with growth of 0.8% and 0.5% tipped for SA/NT and Queensland respectively. House price growth is forecast to be slowest in Victoria at 0.3%, but this represents a marked turnaround from a -2.1% decline forecast in September.

NAB believes these expectations may be a touch pessimistic. A structural shortage of housing remains, commencements are still weak, interest rates are falling and the unemployment rate is still comparatively low. These factors should continue to maintain a floor under house price growth, which we see resuming at below 4% in 2012 after drifting down in 2011.

National house prices continued falling in the December quarter, but the pace of decline moderated



Rental growth is accelerating and forward expectations have been revised up



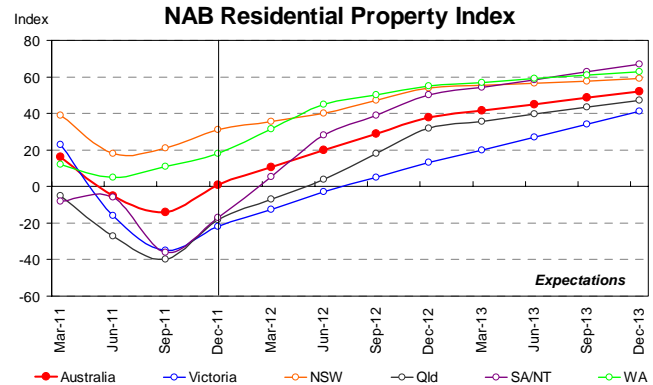
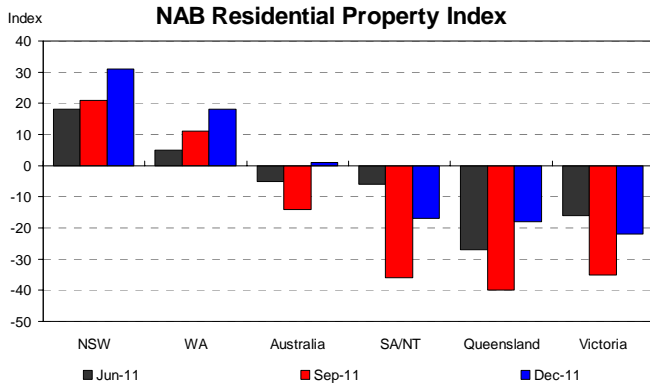
While national house prices contracted in the December quarter, survey respondents continued to report positive rental growth, suggesting that gross rental yields are rising. Indeed, nationwide house rents increased by 1.2% in the December quarter, up from 0.7% in September.

Rental markets were softest in Victoria (0.4%) and Queensland (0.4%), and strongest in WA (2.5%) and NSW (2.2%) where vacancy rates are falling amid reports of shortages of available property relative to demand.

Forward rental expectations have also strengthened. In our September survey, respondents were predicting a 2.5% increase in national house rents over the next year. However, the latest survey is now pointing to average rental increases of 3.2% across the country. Rental expectations over the next 12 months are strongest in NSW (4.5%) and WA (4.4%) and weakest in Victoria (1.8%) and Queensland (2.2%).

Over the next two years, demand for rental property is expected to strengthen further, with nationwide rents tipped to rise by 4.6% (4% in Q3). Rental expectations during this period are strongest in WA (6.5%), SA/NT (6.5%) and NSW (5.6%) and weakest in Victoria (2.8%) and Queensland (4%).

With house prices falling at a slower pace and rental growth accelerating, NAB's Residential Property Index turned positive in the December quarter



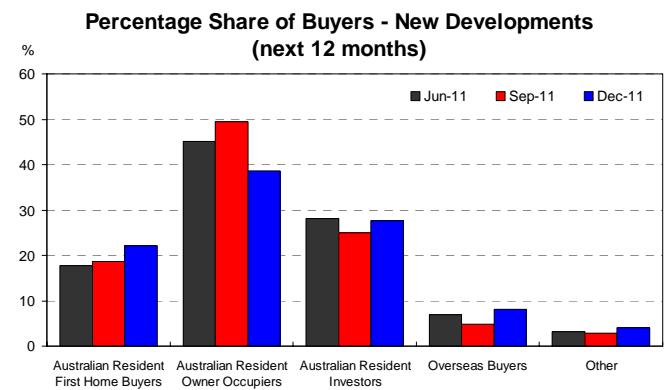
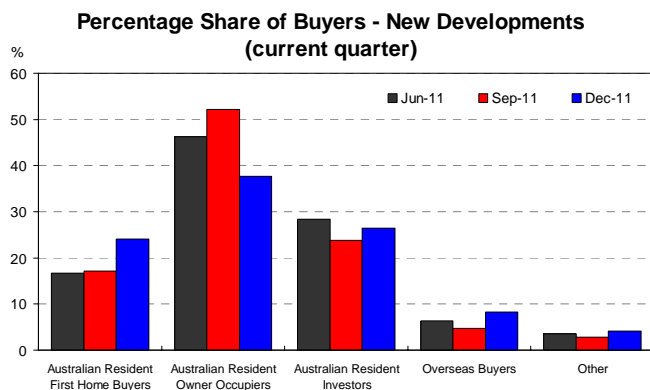
Reflecting the moderation in the pace of house price decline and the acceleration in rental growth, NAB's Residential Property Index - which is derived from house price and rental expectations - moved back into positive territory in December with a reading of +1 point, after negative readings of -14 points in Q3 and -5 points in Q2. This turnaround was supported by an improvement in overall market conditions in all states.

By state, NSW (+31 points) and WA (+18 points) were the only markets recording a positive index. Victoria (-22 points) was the weakest market, but this was up from -35 points in Q3. In Queensland, the index stood at -18 points (-40 points in Q3), with the impact from last year's disasters still being felt in that market.

NAB's Residential Property Index is now forecast to rise to +38 points over the next 12 months, led by a strong pick up in WA (+55 points) and NSW (+54 points) where capital and income growth are expected to run ahead of national averages. Conditions are expected to remain weakest in Victoria (+13 points). By December 2013, the national index is forecast to reach +52 points, led by SA/NT (+67 points) albeit from a limited sample size. WA (+63 points) and NSW (+59 points) are the next strongest states. Victoria (+41 points) remains the weakest state, although expectations are much stronger than in our last survey.

Residential Property - New Developments

First home buyers, investors and overseas buyers are playing a much bigger role driving demand in the market for new residential property

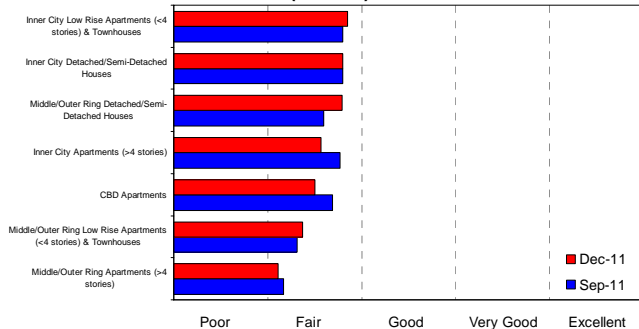


The December survey showed a notable drop off in the number of resident owner occupiers underpinning demand for new property, while demand from first home buyers, Australian investors and overseas buyers increased.

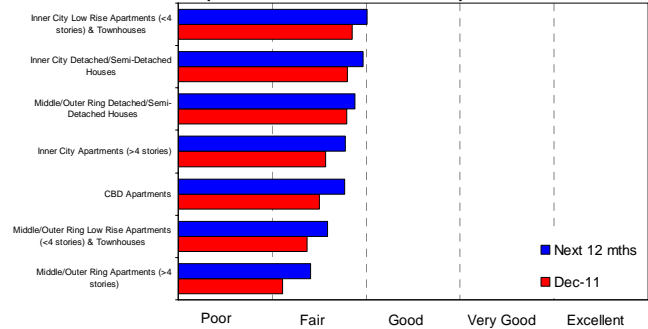
According to our survey, first home buyers accounted for 24% of total demand for new properties in the December quarter (17% in Q3) with first home buyers most active in Victoria and SA/NT. We suspect that stronger demand from this group most likely reflects the more benign interest rate outlook and softer house prices. Investors also seem to be taking advantage of lower borrowing costs and strong rental returns as their share of demand increased from 24% to 28%. We also noted a sharp jump in activity from overseas buyers (8%) relative to September (4%), which is consistent with some recent reports of strong foreign buying activity in the apartment market. In contrast, resident owner occupiers accounted for 38% of total demand in December, down from 52% in Q3. These trends are expected to stay broadly unchanged over the next 12 months.

Demand for new property is strongest for inner city low rise apartments and townhouses and inner city houses and this trend is expected to persist over the next year

Demand for New Residential Property Developments (current)



Demand for New Residential Property Developments (current vs next 12 months)



Survey respondents are asked to nominate demand conditions for various types of new residential property. At the national level, inner city low rise apartments and townhouses were identified as the preferred location for new property but demand was assessed as only “fair”. Demand for inner city detached housing was the next choice and strongest in NSW and Victoria. There was a slight improvement in demand for new residential houses and low rise apartments and townhouses in the middle/outer ring. In contrast, demand for all other types of new residential property weakened relative to our September survey.

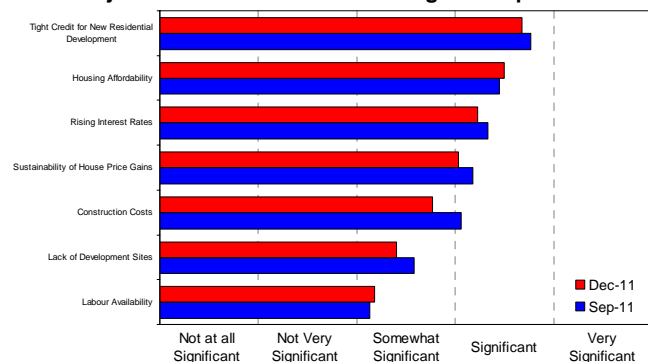
Demand for new residential property is expected to strengthen across all property types over the next 12 months, led by inner city low rise apartments and townhouses, where demand conditions are expected to be “good”. Demand for inner city houses is also expected to strengthen, especially in NSW, with demand conditions approaching “good”. Demand is expected to remain weakest for high rise apartments in the middle/outer ring, although somewhat stronger than in September, with demand for this property type weakest in SA/NT, Victoria and WA.

When asked to identify the severity of constraints on new residential developments, our survey respondents continue to cite tight credit conditions as their most “significant” concern. Overall, however, the extent of concern over tight credit conditions was marginally lower than in September.

Tight credit and housing affordability still seen as major impediments to new building

Housing affordability was seen as the next biggest constraint on new property developments, with these concerns assessed as “significant” and slightly more so than in Q3. Concerns over housing affordability were most pronounced in WA and Victoria.

Major Constraints on New Housing Developments



The extent of concern over rising interest rates continued to fall, but they are still being seen as “significant”. SA/NT was the most pessimistic state with concerns assessed as “very significant” - although we note this was from a limited sample size.

Our survey also pointed to a further softening in interest rate expectations, with just 9% of respondents now expecting interest rates to be higher over the next 12 months, compared with 20% in our September survey and 71% in our June survey. On average, our survey respondents see interest rates falling by around 40 bps over the next 12 months.

In NAB’s view, the weak underlying CPI result in the December quarter, coming on the heels of declining asset prices, soft credit demand and an apparent rise in discouraged workers, is likely to complete the case for a rate cut of 25 bps in February. In addition, the weaker growth and unemployment outlook, together with lower near-term inflation and uncertainties on the extent to which banks will fully pass on RBA cuts, mean that NAB now expects another cut in the current cycle - most likely in mid-year (say August). Tentatively, we then have the RBA on hold until mid/late-2013 when rising inflationary pressure together with the carbon tax could well see the RBA move the policy rate back to 4%.

Residential Property - Existing Properties

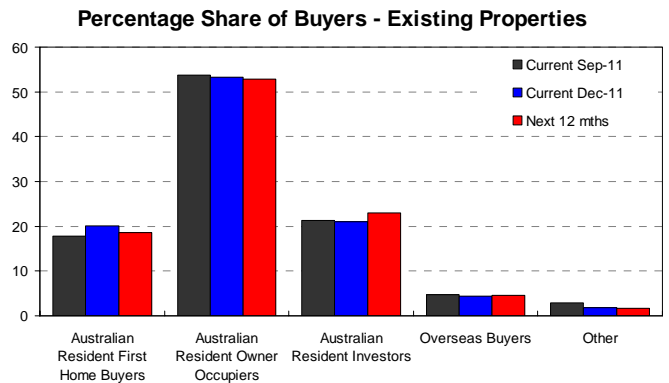
The share of resident owner occupiers in the market for existing property was broadly unchanged in the December quarter at 53% (54% in Q3), but was well ahead of that for new developments (38%).

The share of first home buyers rose slightly to 20% (18% in Q3) suggesting that lower interest rates and improved housing affordability may also be drawing new buyers into this market. First home buyers were seen as being most active in NSW and least active in SA/NT.

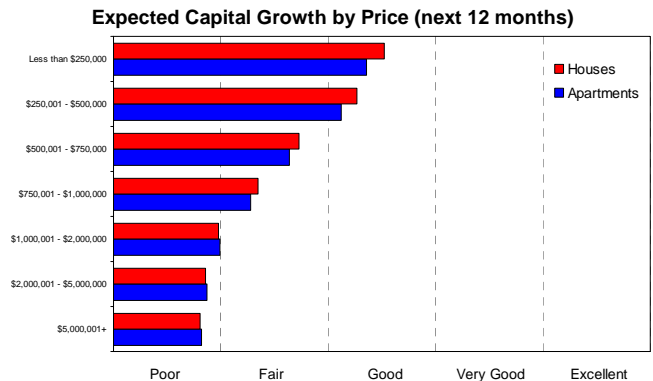
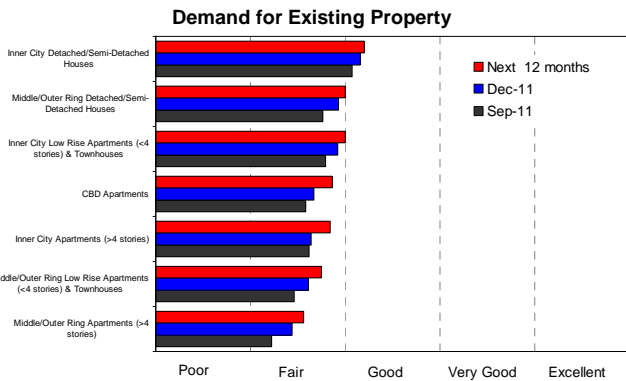
Demand from Australian resident investors was also unchanged at 21%, although investment demand was somewhat stronger in WA and Queensland.

Our survey suggests that these trends will continue over the next year, with a small fall in first home buyer demand being offset by slightly stronger investment demand.

Owner occupiers continue to dominate the market for existing properties



Demand for all types of existing property strengthened slightly in the December quarter, while prospects for capital growth continue to be significantly stronger in the sub-\$500,000 market compared to the higher end of the market



Demand for existing property strengthened slightly in all locations and for all property types in the December quarter. However, inner city housing remains the only property type where demand is considered to be “good” - albeit marginally - led by strong demand in NSW. Demand for all other property types was categorised as “fair”. The most notable improvement in demand for existing property was seen in middle/outer ring high rise apartments, but from a very low base.

Demand for existing residential property is expected to improve in all locations and by all property types over the next 12 months. According to our survey respondents, demand for inner city houses will remain “good”, and will be joined by “good” demand for low rise inner city apartments and townhouses and middle/outer ring houses.

Demand for all other property types is expected to remain “fair” but in all property categories demand is expected to be stronger than is the case now.

According to our survey respondents capital growth expectations remain strongest for existing property in the sub-\$500,000 price range. Sub-\$500,000 properties are tipped to remain the best performers over the next 12 months in both housing and apartment markets, with capital growth expected to remain “good”.

Capital growth expectations for existing property valued between \$500,000-1,000,000 are assessed as “fair” in both the housing and apartment market.

The premium housing market has been recording weaker results compared with the more affordable sectors of the economy and anecdotal evidence indicates that the market remains fairly stagnant. In this environment, capital growth expectations in the \$1 million+ are judged as “poor” in the next 12 months, with demand weakest in the \$5 million plus market for both houses and apartments.

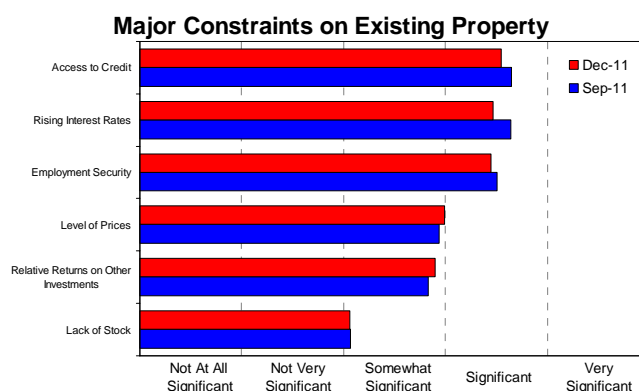
Access to credit continues to be identified as the biggest impediment to purchasing existing property across the country, but is now seen as being slightly less problematic than in Q3. Across the nation, access to credit was classified as a “significant” constraint.

Interest rates are also still viewed as a “significant” impediment to purchasing existing property, especially in SA/NT, but these concerns are diminishing as the outlook for interest rates continues to soften.

Concerns over employment security increased notably in our previous survey and continued to be identified as a “significant” concern in our latest survey, especially in Victoria.

Clearly, the recent weakening in domestic labour market is weighing on buyer sentiment in an environment where ongoing global economic uncertainty continues to cloud the domestic economic outlook.

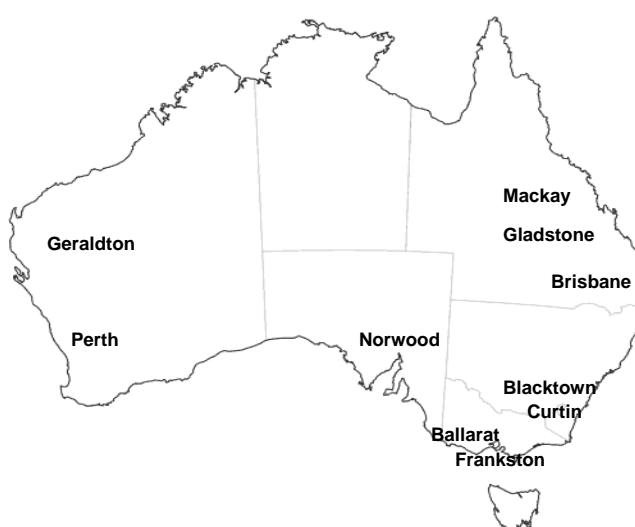
Access to credit, interest rates and employment security still seen as the biggest impediments for purchasing existing property



Gladstone (Qld) continues to be most nominated response with regard to capital growth expectations.

For the fifth consecutive quarter, the harbour town of Gladstone (Qld) was the most nominated response as the location expected to grow fastest in terms of capital values over the next 12 months. Expectations continue to be driven by the perceived benefits from the massive investments in coal-seam gas in the area. Other nominations from Queensland also included Brisbane and Mackay.

Elsewhere, respondents identified Curtin (ACT), Blacktown (NSW), Norwood (SA), Ballarat (Vic), Frankston (Vic), Geraldton (WA) and Perth (WA) as other suburbs/cities that were expected to enjoy above average capital growth over the next year.



Forecasts

House Price Expectations (%)

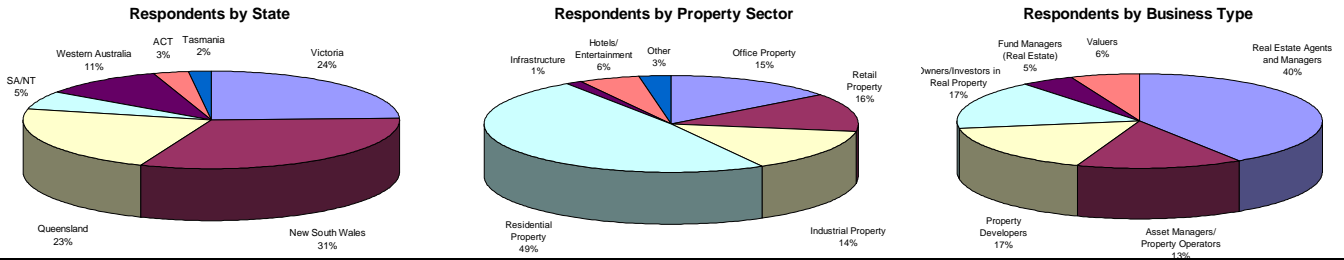
	Mar-11	Jun-11	Sep-11	Dec-11	Jun-12	Dec-12	Dec-13
Victoria	-0.5	-2.4	-3.8	-2.8	-2.0	-1.3	0.3
NSW	-0.4	-0.9	-1.1	-0.3	-0.1	0.8	1.9
Queensland	-1.9	-3.7	-3.2	-3.2	-2.1	-1.0	0.5
South Australia/NT	-2.1	-2.7	-2.9	-2.5	-1.3	-1.2	0.8
Western Australia	-1.6	-1.1	-0.8	-1.4	-0.8	0.1	3.2
Australia	-1.1	-2.0	-2.4	-2.0	-1.2	-0.4	1.2

Rental Expectations (%)

	Mar-11	Jun-11	Sep-11	Dec-11	Jun-12	Dec-12	Dec-13
Victoria	2.0	1.1	0.1	0.4	1.2	1.8	2.8
NSW	2.6	1.5	2.5	2.2	3.2	4.5	5.6
Queensland	0.6	0.4	-0.5	0.4	1.2	2.2	4.0
South Australia/NT	1.2	2.4	-1.5	0.6	1.7	3.7	6.5
Western Australia	1.6	2.0	1.3	2.5	3.7	4.4	6.5
Australia	1.7	1.3	0.7	1.2	2.1	3.2	4.6

About the Survey

In April 2010, NAB launched the inaugural NAB Quarterly Australian Commercial Property Survey with the aim of developing Australia's pre-eminent survey of market conditions in the Commercial Property market. The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors. 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. Around 270 panellists participated in the December 2011 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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