

NAB Property Insight Report



Market sentiment: is it a good time to buy, sell, renovate & other property intentions

NAB Behavioural & Industry Economics

Q3 Update - October 2022

Despite further falls in prices, the number of Australians who think now is a good time to buy a home is rising. But it's getting harder and more expensive to complete a renovation and concern around interest rate rises is lifting.

The housing market has softened further, and this looks set to continue as the impact of higher rates continue to flow through. Higher rates are expected to impact all regions, particularly where affordability constraints are most binding. We continue to see the price declines stemming from an adjustment to borrowing capacity as interest rates rise - rather than a fundamental over-supply of housing. Indeed, the rental market has tightened significantly with vacancy rates falling to low levels in all capitals through 2022.

Interestingly, against this backdrop the Q3 survey saw a sharp uptick in the number of Australians who believe **now is a good time to buy a home** (to 23% from 18% in Q2). Sentiment around buying an investment property was basically unchanged (at 21% from 20% in Q2).

Home buying intentions improved in all states in Q3 except the ACT where those who felt it was a good time to buy fell sharply to 20% (27% in Q2). It was highest and increased most in VIC (to 27% from 21% in Q2) and NSW (to 25 from 18% in Q2), was broadly unchanged in WA (25%), and increased moderately in QLD (19%), SA (19%) and TAS (18%).

Responses also diverged around home buying intentions in next 12 months - falling sharply in the ACT to 8% (25% in Q2) and also down (and lowest) in SA (at 4% from 7% in Q2). Buying intentions were highest (and basically unchanged) in NSW (13%) and WA (13%), and ranged from 12% in VIC to 10% in QLD and TAS.

The share of Australians who thought it was a **good time to buy an investment property** fell noticeably in the ACT and TAS to 10% (from 34% and 24% respectively in Q2). Intentions also softened a little to 21% in WA (24% in Q2), but were a little higher in VIC (20%), SA (18%) and QLD (18%). WA was the only state or territory where intentions to buy investment property in the next 12 months lifted in Q3 - albeit to a still very modest 5%. Intentions to buy were highest (and unchanged) in NSW (12%). The number intending to buy in the next 12 months fell to 5% in VIC (7% in Q2) and QLD (6% in Q2), to 3% in TAS (6% in Q2) and 2% in SA (4%) where they were lowest in the country.

Around 3 in 10 Australians think now is also a **good time to sell** a home (32%) or investment property (30%). Sentiment around selling was strongest in SA for both a home (53%) and investment property (45%). Noticeably more people in QLD, WA and TAS agreed it was a good time to sell, especially compared to VIC and NSW, where just 1 in 4 people thought it was a good time to sell a home or investment property

Slightly fewer Australians were **renovating a property** in Q3 (10% vs. 11% in Q2). But this varied considerably by state - it was highest in QLD at 12% (11% in Q2) and NSW at 11% (unchanged). It rose a little in VIC to 10% (9% in Q2), but fell in WA and SA to 8% (from 12% and 14% respectively in Q2).

On balance -44% of Australians renovating a property said it was harder to complete the renovation (-35% in Q2). This was highest and increased noticeably in SA (-72% vs. -62% in Q2), but increased most in VIC (-47% vs. -18% in Q2). It was lowest in NSW (at -31% vs. -28% in Q2).

When renovators were asked if it had become more expensive or cheaper to complete a renovation in Q3, on balance -60% agreed it had (vs. -55% in Q2), with those in agreement doubling in SA to -90% (-45% in Q2), and highest of all states by some margin, ahead of QLD (unchanged at -75%). It was also more expensive according to significantly more people in VIC (-65% up from -38% in Q2). Relatively fewer renovators in WA (-44%) and NSW (-54%) thought it had become more expensive.

The number of people who think it is a good time to renovate fell (or was unchanged) across the country, ranging from 25% in QLD and SA to 15% in TAS.

The number of Australians who thought now was a **good time to get a mortgage** also fell further to just 13% in Q3 (from 19% in Q2 and 27% at the start of the year). Fewer Australians in all states think now is a good time to get a mortgage, ranging from 15% in QLD to just 7% in the ACT.

The level of concern over home loan debt should interest rates rise further also lifted. Over 4 in 10 (42%) Australians believe rate hikes would cause "high" stress (i.e. 8+ pts), up from 30% in Q2. Concern rose in all states, particularly VIC (48% from 29% in Q2), NSW (45% vs. 33%) and WA (41% vs. 31%). It also jumped sharply in regional areas (48% from 28%) and capital cities (41% vs. 29%). By income, 56% of lower income earners reported "high" stress compared to 39% of those on higher incomes.

Is now a good time to buy property.....

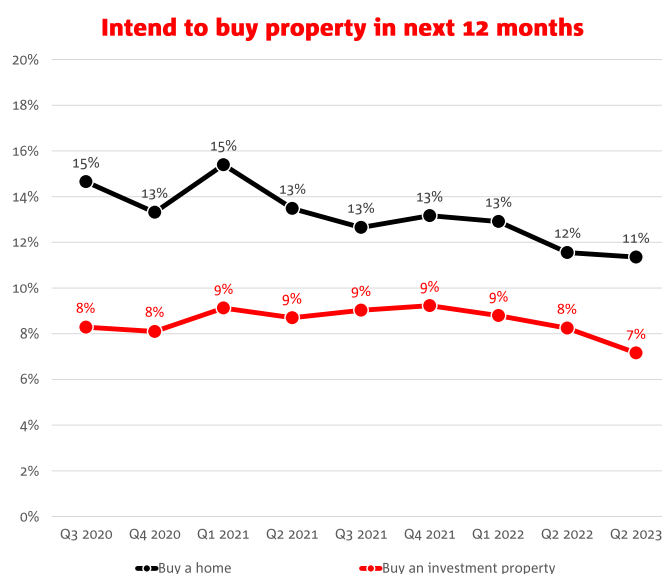
The housing market softened further in Q3, and this looks set to continue through Q4 as the impact of higher rates continues to flow through. Dwelling price falls accelerated in the quarter, with the CoreLogic 8-Capital City Dwelling Index falling 4.3% q/q and the PropTrack house price index falling 1.8% q/q. Regional prices also fell, though at a slightly slower rate than capital cities. Activity indicators also softened, with both building and loan approvals falling (though the latter remains elevated). Auction clearance rates continue to track at relatively low levels, while other high frequency measures of turnover - including new and total listings as well as time-on-market - have weakened. The decline in house prices broadened out across the states in the quarter, with all states now recording declines. Of note was Brisbane where the rate of decline has accelerated sharply after prices had initially held up in the state.

NAB’s forecast for prices is broadly unchanged, with dwelling prices expected to decline by around 20% across the capital cities (from their peak in April 2022). Higher rates are expected to impact all regions, but particularly where affordability constraints are most binding. We continue to see the price declines as stemming from an adjustment to borrowing capacity as rates rise - rather than a fundamental over-supply of housing. Indeed, the rental market has tightened significantly with vacancy rates falling to low levels across all capitals through 2022.

In our view, higher interest rates have been the key driver in the fall in property prices, with the rapid increase since May seeing a significant reduction in borrowing power - and more increases are expected. Indeed, the two capital cities most bound by affordability constraints - Sydney and Melbourne - have fallen the most. However, strong economic conditions have likely mitigated some of the impact. Employment growth has been strong, wage growth is picking up and unemployment is low.

A tightening rental market, where vacancy rates are now at low levels across the capitals, has seen rents growth accelerate. Newly advertised house rents are now tracking well above 10% y/y in Adelaide and Brisbane and around 10% y/y in Sydney and Perth while Melbourne and Hobart are tracking at a slower but still solid pace. Apartment rents are growing most strongly in Sydney and Melbourne - where declines were largest, but are also up well over 10% y/y in Brisbane and Adelaide.

We expect the economy to remain resilient in the near-term, but for growth to slow over the next two years as the rebound from lockdowns continues to fade and higher rates and inflation begin to weigh on household consumption. We see GDP growth of around 1.75% in each of the next two years. Below trend growth will see some easing in labour market tightness with the unemployment rate drifting higher after troughing around the 3.4% level, reaching 4.3% by end 2024. Importantly for interest rates, we see inflation peaking in Q4 2022 at over 6.3% in trimmed-mean terms, but easing through 2023-2024 back into the RBA’s target band. We expect the RBA will continue to lift rates in the near-term, reaching 3.1% by early-2023, before pausing to assess the impact on the economy as a cumulative 3 ppts of rate hikes are passed through to the economy.

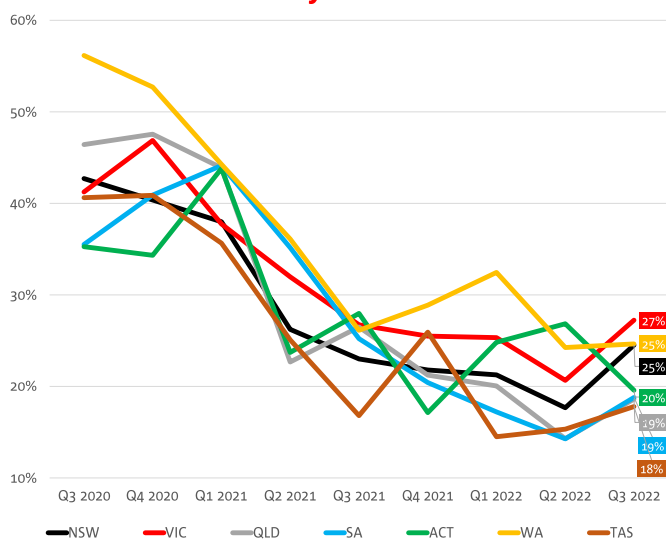


Against this backdrop of falling prices (and rising mortgage interest rates), Q3 saw a sharp uptick in the number of surveyed Australians who think now is a good time to buy a home to 23%, from 18% in Q2. The number who thought now was a good time to buy an investment property however was basically unchanged at 21% (20% in Q2) and the second weakest result since first tracking this data in Q3 2020.

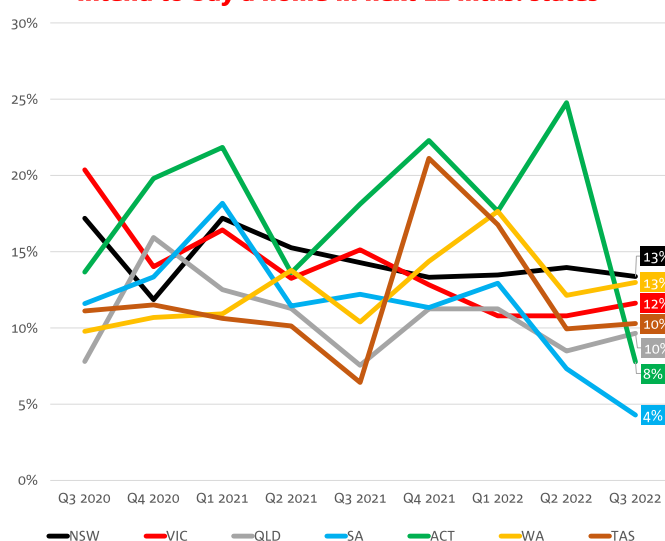
Overall perceptions that now was a good time to buy a home improved in all states in Q3 except the ACT where the number who thought now was a good time to buy fell sharply to 20% (27% in Q2). It was highest and increased most in VIC (to 27% from 21% in Q2) and NSW (to 25% from 18% in Q2) - where Melbourne and Sydney led the downswing in home values. The number who thought now was a good time to buy was broadly unchanged in WA (25%), and increased moderately in QLD (19%), SA (19%) and TAS (18%) - and lowest overall.

The survey also revealed divergent trends between states in terms of the number of people intending to buy a home in the next 12 months. In the ACT, the number who intended to do so fell sharply to 8% (25% in Q2). It also reduced (and was lowest) in SA at 4% (7% in Q2). Intentions to buy a home were highest (and basically unchanged) in NSW (13%) and WA (13%), and also little in all other states, ranging from 12% in VIC to 10% in QLD and TAS.

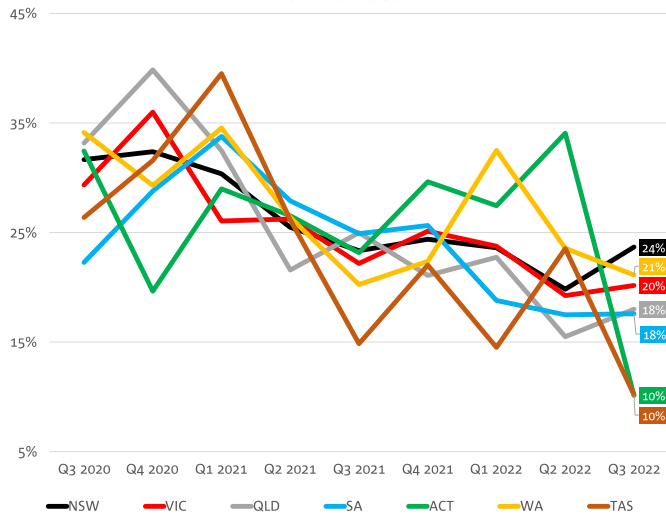
Good time to buy a home now: states



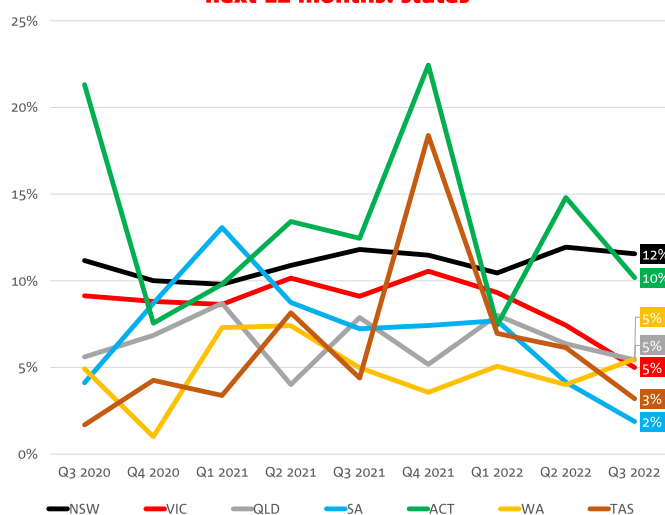
Intend to buy a home in next 12 mths: states



Good time to buy an investment property now: states



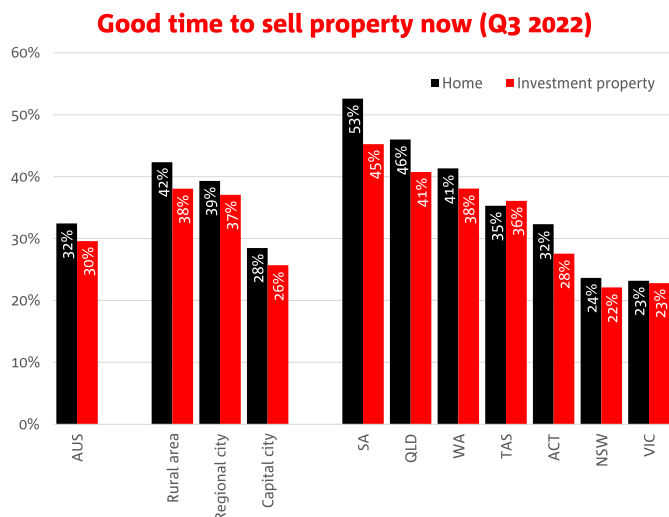
Intend to buy an investment property in the next 12 months: states



When thinking about buying investment property, the number of Australians who thought it was a good time to buy now fell noticeably in Q3 in the ACT and TAS to 10% (from 34% and 24% respectively in the previous quarter). Intentions also softened a little to 21% in WA (24% in Q2), but were a little higher in VIC (20%), SA (18%) and QLD (18%).

WA was the only state or territory where the number of people with intentions to buy investment property in the next 12 months lifted in Q3 - albeit to a still very modest 5%. Intentions to buy were highest (and unchanged) in NSW (12%). The number intending to buy in the next 12 months reduced to 5% in VIC (7% in Q2) and QLD (6% in Q2), to 3% in TAS (6% in Q2) and 2% in SA (4%) where they were lowest in the country.

Is now a good time to sell property



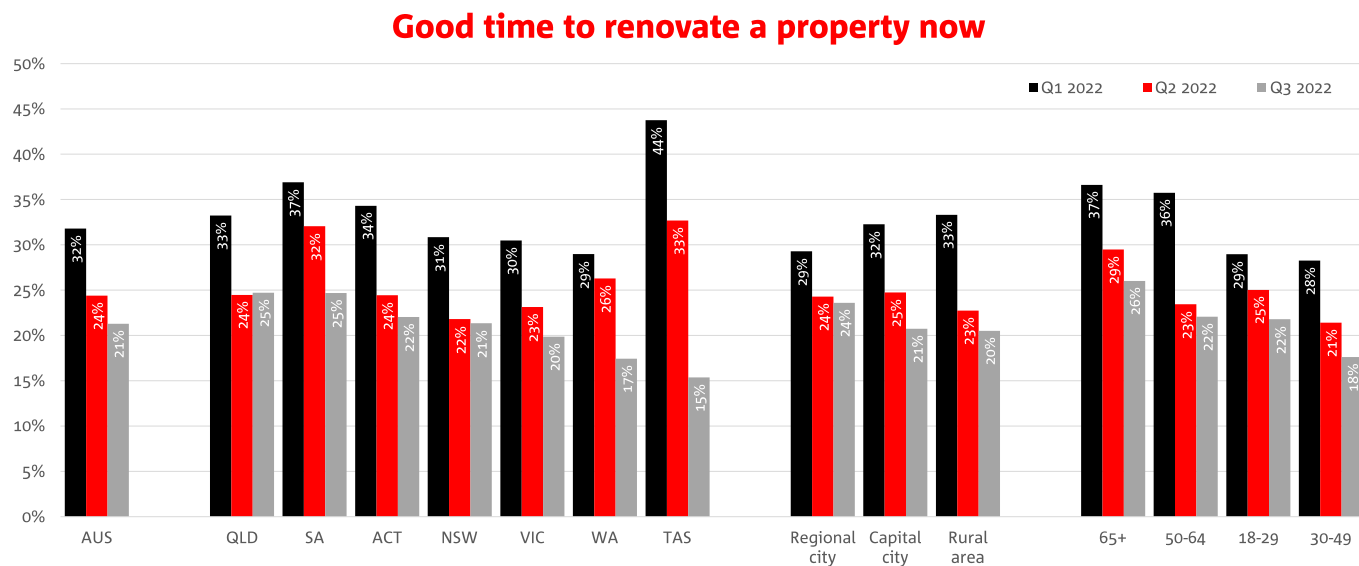
Around 3 in 10 Australians overall think now is also a good time to sell a home (32%) or investment (30%) property.

By region, the number who thought it was a good time to sell a home ranged from 42% in rural areas to 28% in capital cities, and investment property from 38% in rural areas to 26% in capital cities.

By state, the highest number who thought it was a good time to sell a home (53%) or investment property (45%) were in SA. Noticeably more people in QLD, WA and TAS agreed it was a good time to sell any type of property, especially when compared to VIC and NSW (where markets have turned down hardest), where just 1 in 4 people thought it was a good time to sell either a home or investment property

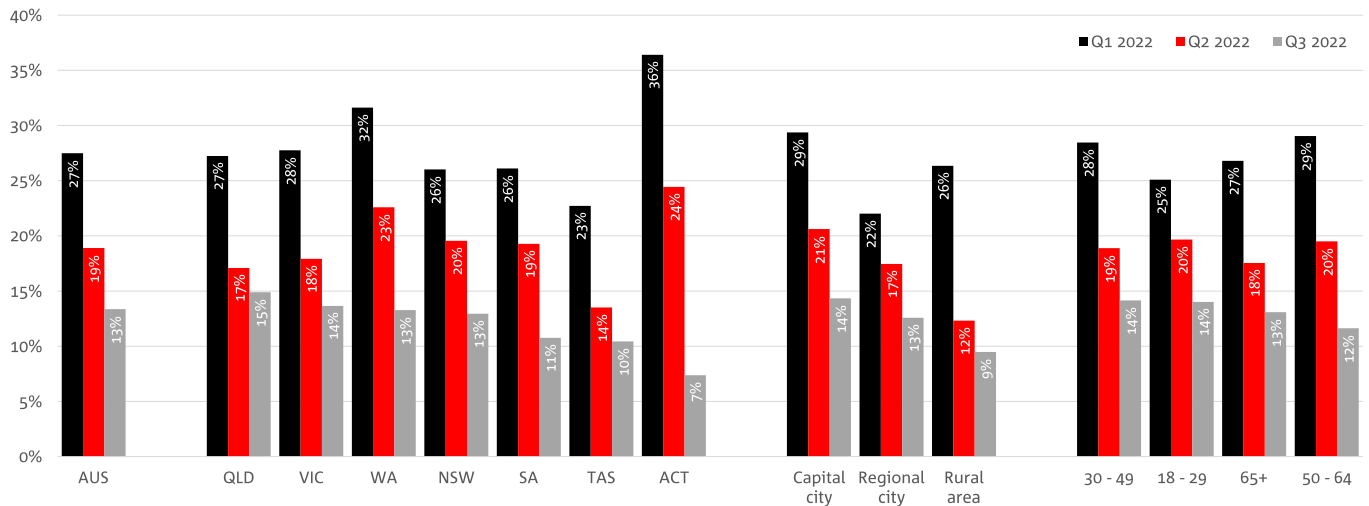
Is now a good time to renovate or get a mortgage.....

Though moderating a little, the latest ABS data showed a strong appetite for home renovations, with just under A\$1 billion worth of alterations and additions to homes approved in July 2022. However, with construction costs still rising rapidly due to labour and materials shortages, the number of Australians who believe now is a good time to renovate continued to fall in Q3, dropping to 21% (24% in Q2 and 32% at the start of the year). The number of people who think it is a good time to renovate fell (or was unchanged) across the country, ranging from 25% in QLD and SA to 15% in TAS by state, from 24% in regional cities to 20% in capital cities by region, and from 26% in the over 65 age group to 18% in the 30-49 group.



The number of Australians who thought now was a good time to get a mortgage also fell further to just 13% in Q3 (from 19% in Q2 and 27% at the start of the year). Fewer Australians in all states think now is a good time to get a mortgage, ranging from 15% in QLD to just 7% in the ACT. The number who thought it was a good time to do so by region was highest in capital cities at 14% (but down from 21% in Q2), and fell to just 9% in rural areas (12% in Q2). Responses by age did not vary materially ranging from 14% in the 30-49 and 18-29 age groups to 12% in the 50-64 group. A lower number of people in all age groups also thought it was a good time to get a mortgage compared to Q2 - see chart on following page.

Good time to get a mortgage

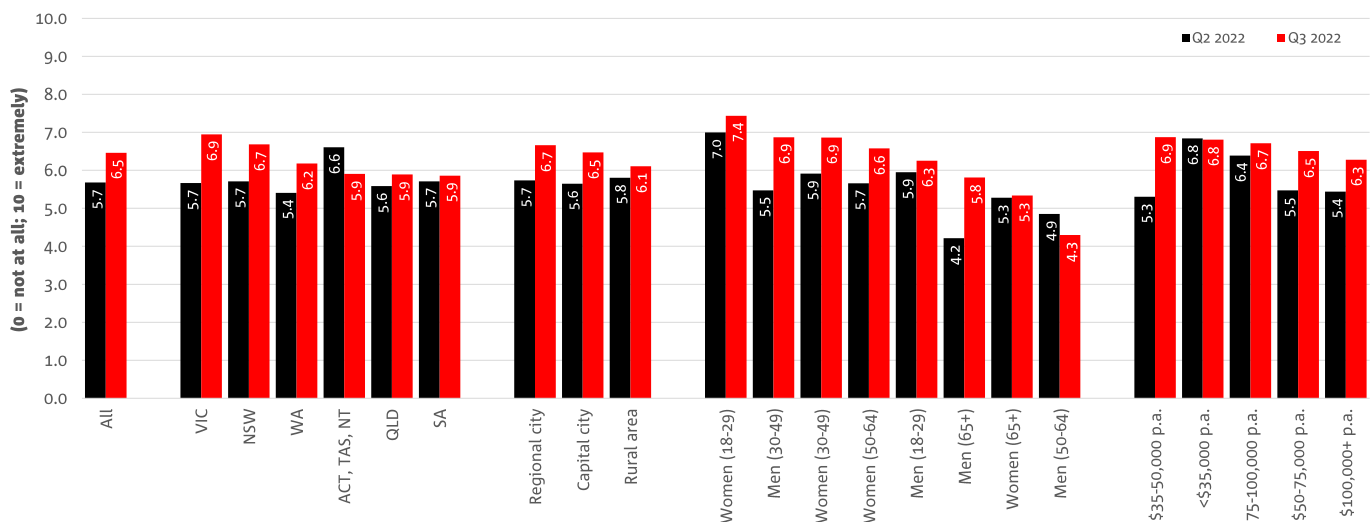


In September, the RBA lifted the cash rate by 50 bps to 2.35% and suggested there were further increases to come. The Governor’s recent speech reiterated similar statements around the outlook for interest rates. Nonetheless, after increasing rates by 2.25 pts over a 5-month period, the post meeting statement and the Governor’s speech acknowledged the full impact of recent rate increases are yet to be seen and that “all else equal, the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises.” This suggests the RBA will become more cautious as rates continue to track higher by reverting to the standard 25 bps increments as they enter restrictive territory.

NAB expects the RBA will now raise the cash rate by 25 bps in both October and November, taking it to 2.85% - its highest level since 2013. NAB expects the RBA to pause there to allow an assessment of the impact on the economy of the rapid increase in rates over recent months, as well as the outlook for both the labour market (particularly wage growth) and how quickly current inflation pressures may resolve.

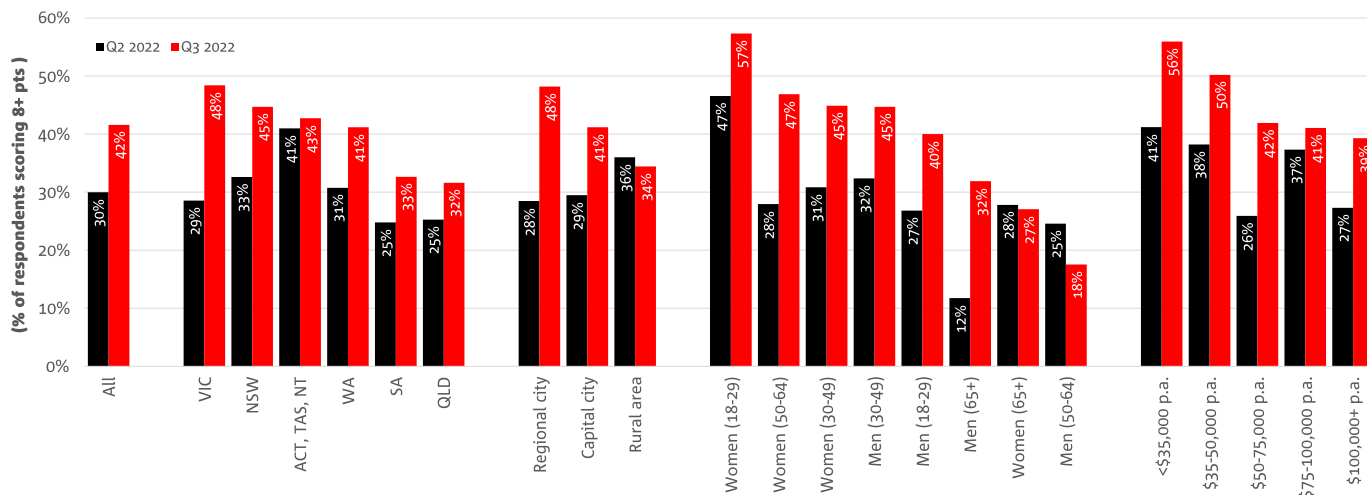
With predictions of further rate rises ahead, the level of concern Australians have over their home loan debt should interest rates rise also lifted to 6.5 pts in Q3 (5.7 pts in Q2). This did however vary by state. It was highest (and climbed most) in VIC to 6.9 pts (5.7 pts in Q2), with relatively large increases also reported in NSW (6.7 pts from 5.7 pts) and WA (6.2 pts from 5.4 pts). Stress levels eased in the ACT, TAS, NT, and were largely unchanged in QLD and SA. Stress rose in all regions and was highest in regional areas (6.7 pts). It was typically higher for women than men in all groups except the 30-49 group (same). Income was not influential, with stress levels broadly similar in all groups, though rose sharply in the \$35-50,000 p.a., \$50-75,000 p.a. and \$100,000+ p.a. income groups.

Level of concern or stress over your home loan debt should interest rates rise



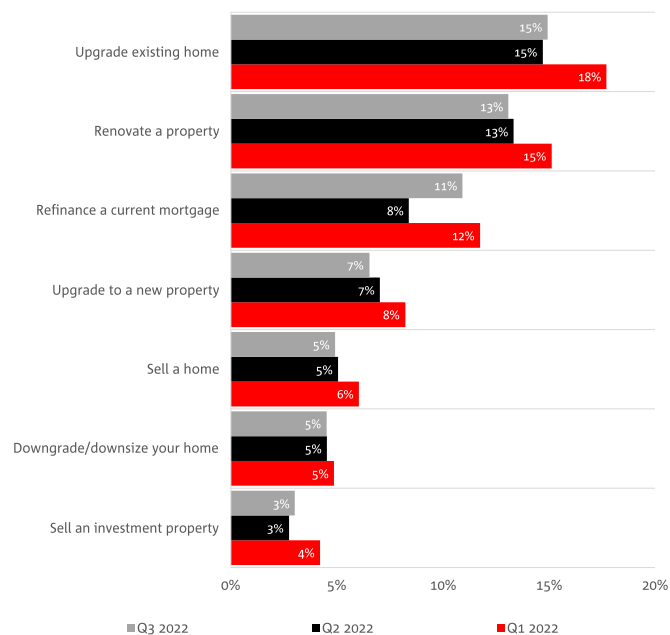
But averages scores hide a large number of Australians with “high” levels of concern about their home loan debt. Over 4 in 10 (42%) now think a rate hike would cause “high” stress (i.e. 8+ pts), up from 30% in Q2. The number who said it would cause “high” stress rose in all states, with very large increases reported in VIC (48% from 29% and highest in the country), NSW (45% from 33%) and WA (41% from 31%). It also jumped sharply in regional (48% from 28%) and capital (41% from 29%) cities. Almost 6 in 10 (57%) women in the 18-29 group said it would cause “high” stress, while the number of men over 65 who said it would nearly trebled to 32% (12% in Q2). More women in all age groups said a rate hike would cause “high” stress, except in the 65+ group (27% women; 32% men). By income, the number with “high” stress rose in all groups, but remained highest in the lowest income group (56%) and stepped down in each successive income bracket to 39% in the highest income group.

Percentage of Australians with "high" level of concern or stress over their home loan debt should interest rates rise



Other property intentions in next 12 months.....

Property intentions next 12 months: "yes"



Australians were again also asked about their intentions in the next 12 months in several other property-related areas. Overall, most still intend to upgrade their existing home in the next 12 months (unchanged at 15%), and 13% renovate a property (also unchanged).

With mortgage interest rates climbing, the number of Australians with plans to refinance a current mortgage increased to 11% (8% in Q2). An unchanged number (7%) however intended to upgrade to a new property (5%), sell a home (5%), downgrade or downsize their home (5%), or sell an investment property (3%).

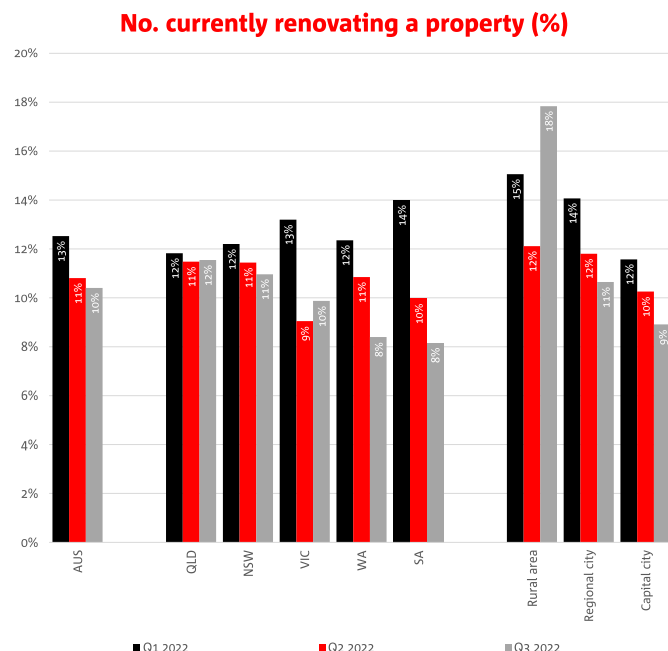
A broadly similar number of people in NSW (15%), QLD (15%) and VIC (15% & 13%) had intentions to upgrade their home or renovate, but a much larger number in TAS (20% vs. 16%) and the ACT (19% vs. 14%) planned to upgrade than renovate. Intentions to upgrade were also noticeably higher in rural areas (21%) than in other regions. Intentions to upgrade (19%) or renovate (18%) were also much higher in the 18-29 age group (19%) relative to other age groups.

Among other take outs were the larger number in under 50 age groups looking to refinance, and in the 18-29 group looking to upgrade to a new property - see chart below.

Other property intentions in the next 12 months: state & age

	Upgrade existing home	Renovate a property	Refinance your current mortgage	Upgrade to a new property	Sell a home	Downgrade/downsize home	Sell an investment property
AUS	15%	13%	11%	7%	5%	5%	3%
STATE							
NSW	16%	16%	12%	7%	4%	5%	3%
VIC	13%	11%	13%	7%	6%	4%	4%
QLD	15%	15%	9%	6%	5%	4%	3%
SA	13%	6%	6%	4%	1%	1%	1%
ACT	19%	14%	13%	3%	5%	5%	0%
WA	14%	9%	12%	7%	5%	4%	2%
TAS	20%	16%	5%	5%	3%	3%	0%
REGION							
Capital city	13%	12%	11%	7%	5%	5%	3%
Regional city	17%	15%	11%	8%	5%	5%	3%
Rural area	21%	15%	9%	4%	3%	4%	3%
AGE							
18-29	19%	18%	13%	14%	6%	8%	5%
30-49	14%	13%	17%	6%	6%	4%	3%
50-64	14%	12%	6%	3%	4%	3%	2%
65+	12%	9%	3%	2%	3%	4%	1%

Renovating property.....



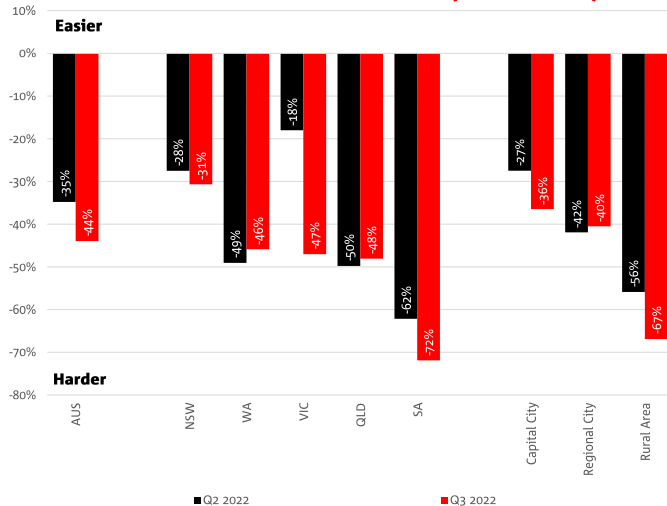
Slightly fewer Australians were renovating a property in Q3. NAB's latest survey results show the number doing so dipped to 10%, from 11% in Q2.

But this varied considerably by state (we have excluded the ACT, NT and TAS due to a limited sample size) and by region. It was highest in QLD at 12% (11% in Q2) and NSW at 11% (unchanged). The number renovating rose a little in VIC to 10% (9% in Q2), but fell in WA and SA to 8% (from 12% and 14% respectively in Q2).

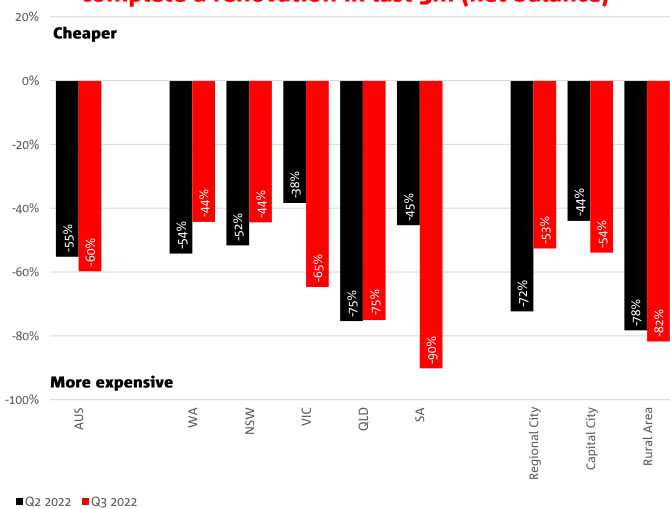
Also apparent was the much smaller number currently undertaking a renovation in VIC and SA than in the first quarter of the year, compared to QLD and NSW where the number doing so has been broadly steady.

The number of people currently renovating property increased sharply in rural areas to 18% in Q3 (12% in Q2). In contrast, it fell slightly to 11% in regional cities (12% in Q2) and 9% in capital cities (10% in Q1).

Has it become easier or harder to complete a renovation in the last 3 months (net balance)



Has it become cheaper or more expensive to complete a renovation in last 3m (net balance)



Renovation conditions have become increasingly difficult in Australia, with materials prices up (well above inflation), ongoing supply challenges and shortages of trades workers adding to these difficulties.

In this environment, the number of Australians who said it was harder to complete a renovation continued to heavily out-weight those who said it was easier in Q3. Moreover, the net number who said it was harder rose to -44% (-35% in Q2).

The net number who said it harder to complete a renovation was highest and increased noticeably in SA to -72% (-62% in Q2). However, it increased most in VIC to -47% (-18% in Q2). It was lowest in NSW by some margin at just -31% (-28% in Q2).

By region, the net number who said it was harder increased in rural areas (-67% from -56% in Q2) and was highest of all regions. It was lowest in capital cities (36% from -27% in Q2) and broadly unchanged in regional cities (-40% from -42%).

Though the net number who said it was harder to complete a renovation exceeded those who said it was easier in all regions, it was harder for significantly more people in rural areas (-56%) than in regional (-42%) and capital (-27%) cities.

Rising costs have also weighed heavily on Australians trying to complete a renovation. When renovators were asked if it had become more expensive or cheaper to complete a renovation in Q3, the net number who said it did rose to -60% (-55% in Q2).

The net number who said it was more expensive doubled in SA to -90% (-45% in Q2), and was highest of all states by some margin, ahead of QLD (unchanged at -75%). It was also more expensive according to significantly more people in VIC (-65% up from -38% in Q2). In contrast, the net number who said it was more expensive eased to -44% in WA and NSW (from -54% and -52% respectively in Q2).

By region, the net number who thought it was more expensive was highest and inched up slightly in rural areas (-82% from -78% in Q2). It also rose in capital cities (-54% from -44% in Q2), but fell sharply in regional cities (-53% from -72% in Q2).

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