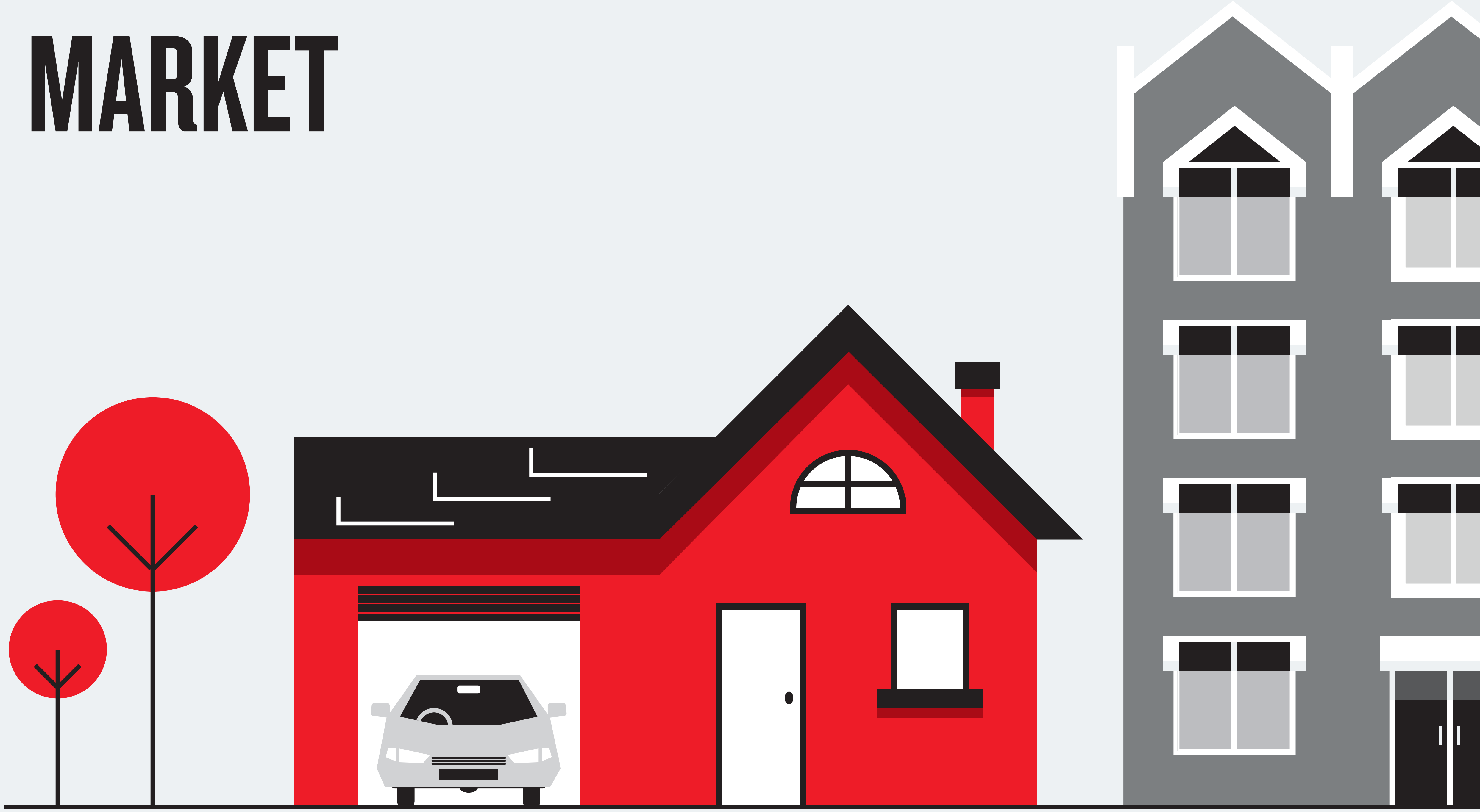
HOUSING MARKET REPORT

Autumn 2017 Edition

CoreLogic's view of what's happened over the last 12 months, as well as NAB's expectations of where house prices are headed in the near future.



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 including data sourced up to March 2017

WELCOME

The Housing Market Report is your guide to the current home value trends in Australia.

You'll find information about what's happened over the last 12 months, as well as NAB's expectations of where prices are headed in the near future.

We've used information from a few different sources to put this report together.

Here's how it works:

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.

Important information

You can find more detail about the sources we've used for this report in the 'Important Information' section at the end of this document.

References to 'NAB' in this report are to National Australia Bank Limited ABN 12 004 044 937.

NATIONAL OVERVIEW

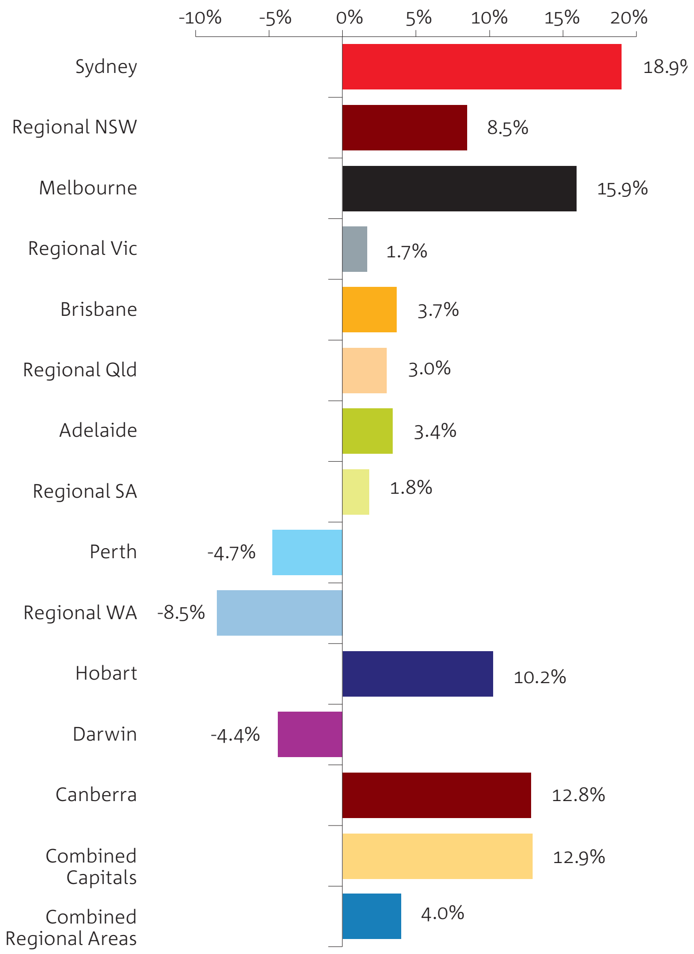
CoreLogic's view:

Housing market conditions remained diverse over the first quarter of 2017, with Sydney and Melbourne continuing to drive the high headline rates of capital gain, while growth conditions accelerated across Hobart and Canberra. Each of these four capital cities are recording an annual growth rate of at least 10%, led by Sydney, where the annual rate of capital gain is tracking at the fastest pace since 2002. Growth conditions across Adelaide and Brisbane have been more sustainable, with home values rising by around 3.5% over the past twelve months. Perth and Darwin remain the only capital cities where home values are trending lower after peaking in 2014.

The broad regional areas of the states have generally shown a more sedate housing market performance compared with the capitals, however values have pushed higher across the 'rest of state' regions in each state, except regional Western Australia, where house values were 8.5% lower over the twelve months ending March 2017. The strongest regional growth conditions were in regional New South Wales, where house values were 8.5% higher over the twelve months ending March 2017.

While the headline results across the housing market remain strong, recent regulator policy announcements could contribute to a slowdown in what have been exuberant housing market conditions in some regions. Lenders are now required to reduce the proportion of interest only loans to less than 30% of new mortgage originations. Along with several other policy announcements, market factors are also likely to contribute to a slowdown in housing market conditions. Mortgage rates are starting to edge higher, rental yields are finding new record lows each month, concerns of oversupply in some inner city unit markets is heightened and affordability constraints are preventing some prospective buyers from participating in the housing market.

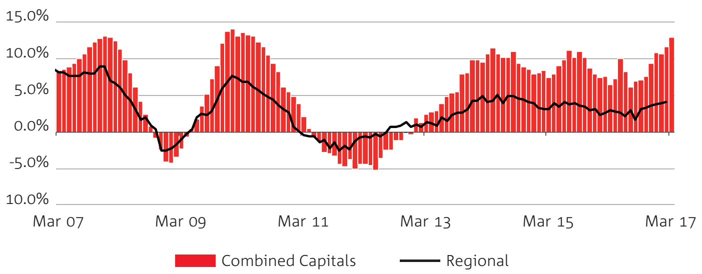
Annual change in home values over past year*



*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, Combined capitals and Regional Aust.



Key definitions

Home value is the value of homes which is the combination of both house and unit values

Median value utilises CoreLogic's automated valuation model (AVM) to determine the middle value of all properties in a suburb. The change in median value is measured by the percentage difference between the current median value and the median value over a stated time period (12 months/3 years/5 years)

NAB's view:

Strong housing market performance has continued. Further gains expected, but at a more measured pace.

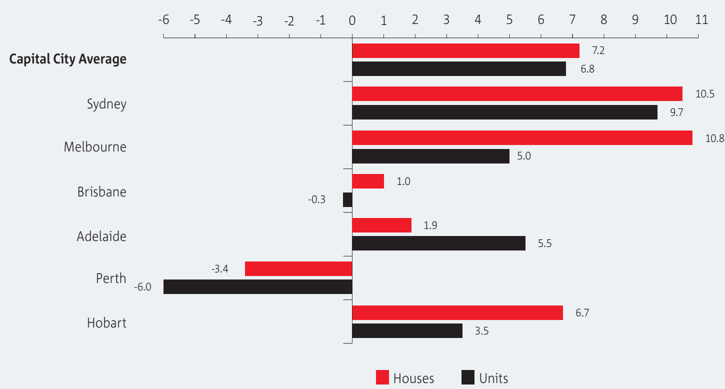
Property markets have proven to be more resilient than previously expected, led by very strong price growth in Sydney and Melbourne, shrugging off concerns around affordability and an oversupply of new apartment developments. Annual home price growth has accelerated again since mid-last year, and while last year's cuts to the RBA's cash rate likely contributed to the strength, gains have continued unabated despite the recent tightening in credit conditions – suggesting other factors such as the strength in underlying demand are playing a role. That said, renewed demand from investors is raising some concerns and has recently prompted additional macro prudential measures from regulators. These policies are expected to have a modest dampening impact on the market and housing credit growth in the near term, but the longer term impacts remain to be seen – although regulators might step-up their campaign further to address perceived market risk.

Ongoing strength in housing demand is expected to help offset supply concerns, although policy responses are creating additional uncertainty.

Wages growth is expected to remain subdued, making affordability a constraint as prices rise. This fact, along with prudential tightening and solid supply additions (mainly apartments) could limit future price gains. Meanwhile, indicators of foreign demand have eased from their peaks. On a more positive note, population growth is expected to remain solid, especially in Victoria, helping to drive underlying demand and soak-up some of the feared excess of housing stock.

On balance, conditions are expected to soften, contributing to more moderate price growth in the major property markets this year and next. That said, solid market sentiment in the **NAB Residential Property Survey** and better than expected price gains so far this year has prompted us to revise up our 2017 forecasts. House prices are forecast to rise 7.2% (previously 3.4%) in 2017, while unit prices are forecast to increase 6.8% (was -0.8%). The factors mentioned above are then expected to cool the market from late 2017, resulting in more modest price growth of 4.3% for detached houses and -0.4% for units in 2018.

Expectations until December 2017



NEW SOUTH WALES OVERVIEW

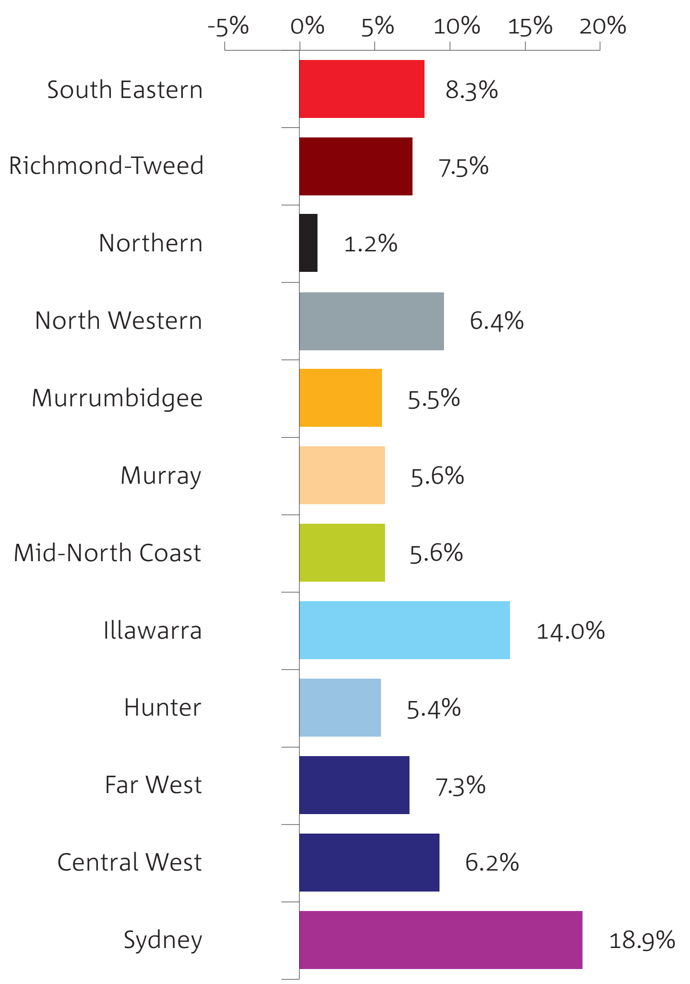
CoreLogic's view:

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.

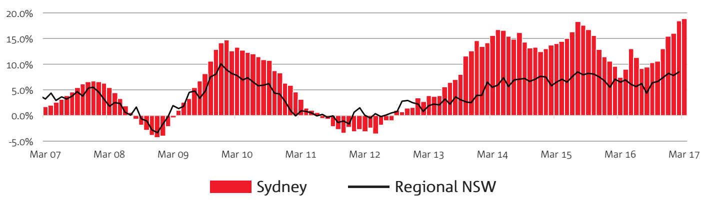
Annual change in home values over past year*



*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



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.

VICTORIA OVERVIEW

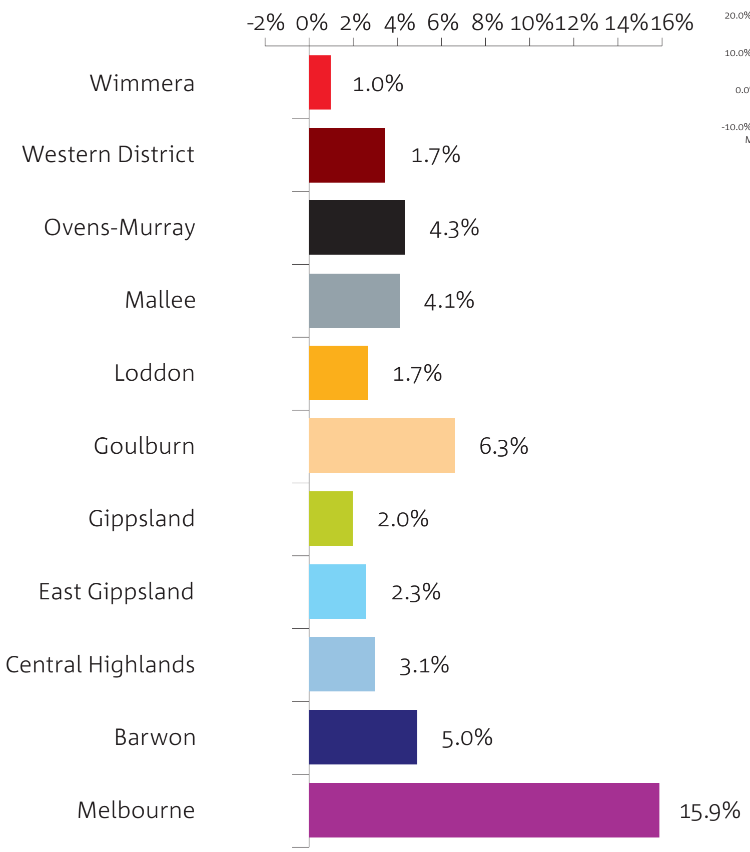
CoreLogic's view:

Melbourne home values are showing a substantial rise, increasing by 15.9% over the twelve months to March 2017. The strong headline results hide a widening gap between the performance of houses and units, with house values increasing 17.2% over the past twelve months while unit values have recorded a modest 5.2% capital gain. The different capital gain profile can likely be attributed to growing concerns about the level of unit supply across Melbourne. While value growth has generally been strong across Melbourne and some regions of the state, rental conditions have been relatively soft. The net result of values shifting almost 16% higher over the past year while weekly rents have risen by less than 3% is that rental yields have been substantially compressed. The typical Melbourne house is now recording a gross rental yield of 2.7% while unit yields are moderately higher at 4.0%.

Despite the high supply level for units across key inner city precincts, population growth across Victoria is the fastest of any state which is underpinning housing demand. Additionally, jobs growth across the state has been strong and affordability constraints are substantially lower than what is evident in Sydney.

The regional markets of Victoria have recorded softer growth conditions compared with Melbourne. Overall, the broad 'rest of state' region of Victoria has recorded a 1.7% rise in house values over the past twelve months, with house values in Goulburn (6.3%) and Barwon (5.0%) rising the fastest of any regional Victorian areas.

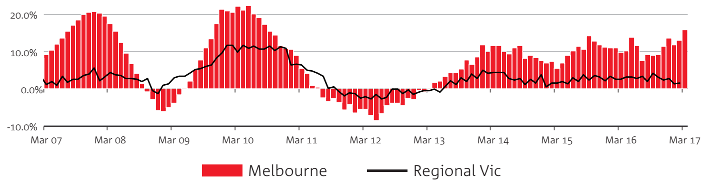
Annual change in home values over past year*



*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, Melbourne and Regional Vic



NAB's view:

The Melbourne housing market continues to perform well, led by detached homes. Supply concerns weigh on apartments, but prices are holding up.

Melbourne property price growth gained momentum from mid-2016, following additional monetary policy easing by the RBA. However, a clear gap has emerged in quality adjusted prices between detached houses and units. This divergence likely reflects mounting concerns of oversupply, namely in the CBD and inner city apartment markets, particularly as credit conditions are tightened for investors and foreign buyers.

Indeed, the **NAB Residential Property Survey** suggests that foreign demand for new developments is well down from early peaks, albeit holding at elevated levels (above all other states). However, that is counter to the Survey's read on market sentiment, which jumped in the first quarter of 2017 to its highest level since the Survey began. Additionally, lower vacancy rates and solid auction clearance rates suggest that oversupply is not an issue for the broader market just yet.

Meanwhile, demand fundamentals are solid with Victoria seeing the fastest rate of population growth in the country, while its economy is also performing well (although wages growth has been disappointing). Owner-occupier mortgage approvals have been steadily improving, while investor loan approvals have picked-up again – although in the context of very high levels of household leverage, this runs the risk of prompting a more severe response from regulators to contain the risks (beyond measures already taken). Very high levels of household debt might also limit purchasing power in the property market.

The Melbourne property market is performing well, although over-supply concerns drive a wedge between house and unit prices. This divergence is expected to continue.

Despite the risks for new apartment supply and prudential tightening, NAB is forecasting another good year for Melbourne property prices in 2017. House price are forecast to rise 10.8% in 2017 (revised from 5.6%), before easing to 5.5% in 2018. The divergence with unit prices is expected to continue, however, with unit prices forecast to rise 5% in 2017 (revised from -2.7%), before contracting by 2.4% in 2018 as supply additions and tougher credit conditions begin to bite.

QUEENSLAND OVERVIEW

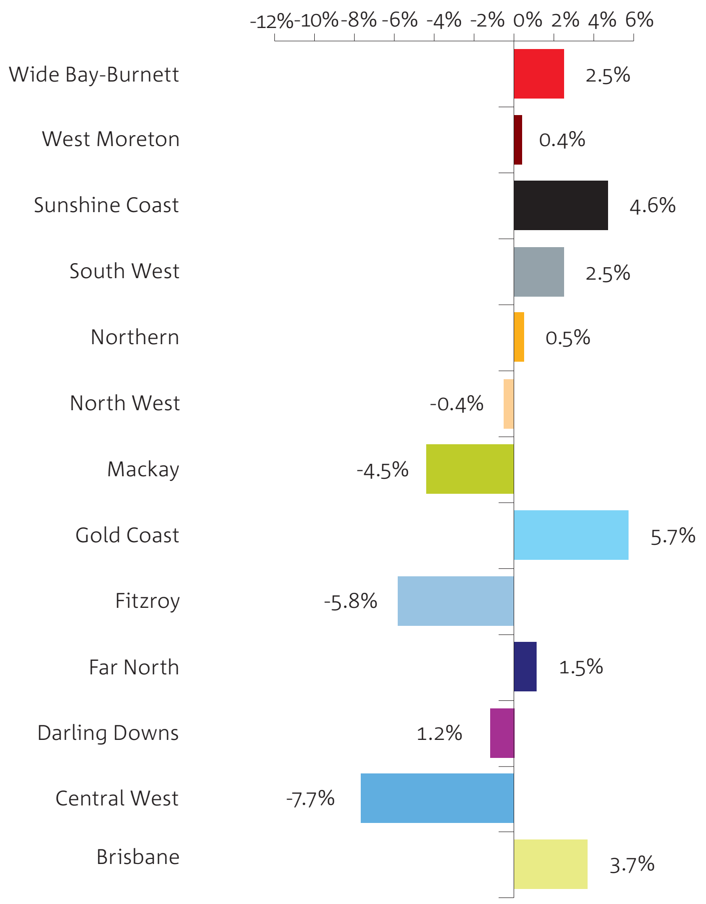
CoreLogic's view:

The Queensland housing market has recorded only modest growth since 2012, with home values across Brisbane rising 18.2% in total over the past five years, while regional house values have recorded a softer result with values 11.6% higher. While growth conditions have remained sedate relative to the larger capital cities, home values have been consistently rising on an annual basis. Recently, intestate migration into Queensland has been trending higher which should add to the upwards pressure on housing, however a relatively weak labour market remains as one of the primary barriers to higher growth in home values.

Higher levels of unit supply in key areas of Brisbane's inner city has contributed to a weaker result compared with detached houses. The past twelve months has seen unit values hold reasonably firm with a growth rate of just 0.2% while house values have increased by 4.0%. The Gold Coast and Sunshine Coast have seen some momentum gather, with home values rising 5.7% and 4.6% respectively in these coastal markets.

The remaining areas of regional Queensland haven't been as strong. Regions associated with the mining sector continue to record falling home values over the past twelve months, with the largest declines recorded in the Central West (-7.7%), Fitzroy (-5.8%) and Mackay (-4.5%). While these areas remain in negative growth territory, the rate of decline has started to ease.

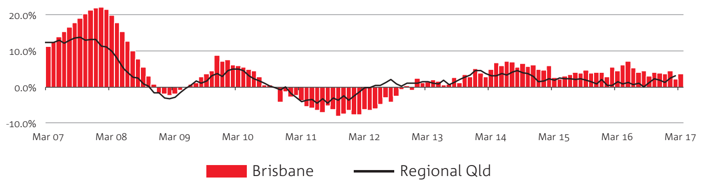
Annual change in home values over past year*



*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, Brisbane and Regional Qld



NAB's view:

Brisbane continues to experience muted, but relatively steady property price growth. Brisbane units are expected to underperform.

The Brisbane property market has been relatively subdued compared to the other major eastern capital cities, although it has still experienced relatively consistent price growth. The various cross winds from mining, tourism and agricultural sectors may have contributed to such a result, although weakness emanating from the mining sector is expected to subside, particularly if coal prices remain elevated.

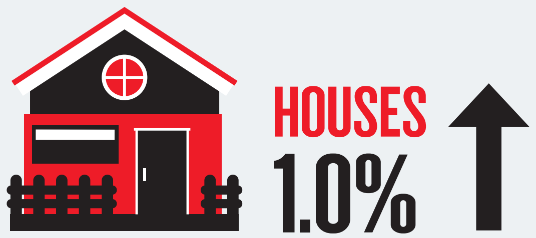
Divergent market conditions will see overall price growth remain relatively modest. Inner city apartments expected to underperform other segments.

The state's labour market remains soft, which is providing a barrier to strong property price growth. However, with the mining sector beginning to stabilise and the appeal of comparatively good affordability, the market may see further support from interstate migration – which has already shown an improved trend in recent years.

Solid population growth is needed to help offset additions to Brisbane's housing stock, most notably for inner city apartments. Supply concerns are already apparent in the relative price performance of apartments, while Brisbane vacancy rates also look to have risen in the back half of 2016 – pushing into oversupplied territory.

While we question whether improving demand conditions will be enough to fully head-off mounting supply risks, there were at least some encouraging signs for Qld from **NAB's Residential Property Survey** in the first quarter of 2017. Market sentiment jumped in the first quarter of 2017, and while it is still well below NSW and Victoria, it hit its highest level since 2015 – and respondents to the survey said they expect it to improve further in the next 12 months. Additionally, foreign buyer activity rose in the quarter, for both new and existing homes, although the level is still relatively subdued compared to past experience. Respondents also revised their expectations for property prices in the next 1-2 years higher.

Despite more encouraging signs, NAB expects prices growth to remain modest. House prices are forecast to rise by just 1% in 2017 and 1.9% in 2018. Supply concerns will continue to weigh on units/apartments, especially in the inner city, with prices forecast to fall 0.3% in 2017 and 1.8% in 2018.



SOUTH AUSTRALIA OVERVIEW

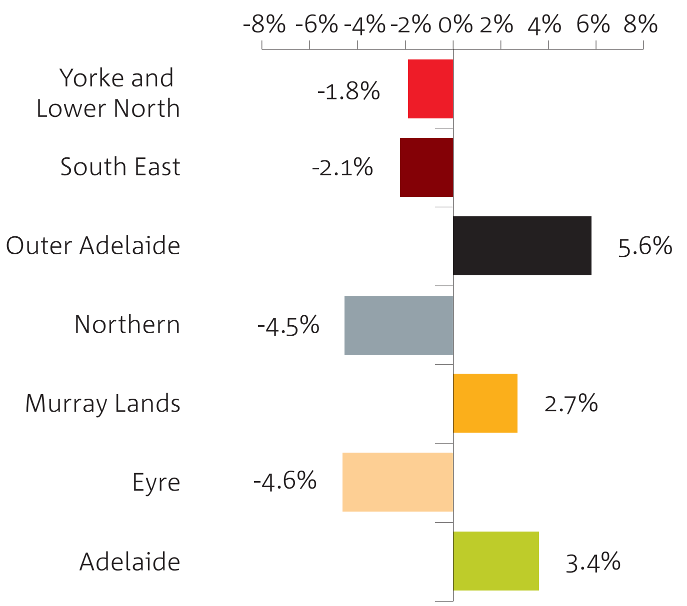
CoreLogic's view:

Adelaide's housing market has seen a relatively consistent rate of capital gains, with home values rising by around 3.5% to 5.0% per annum over the past few years. The detached housing market has generally shown a higher rate of capital gains compared with the unit sector, and this trend has held true over the past twelve months. House values were up 3.6% over the past year while unit values recorded a 1.7% rise.

Relatively soft economic conditions and migration rates are keeping a lid on the pace of capital gains, however, despite the relatively sedate economic conditions, home values have continued to consistently rise.

Outside of Adelaide the growth trend has been more volatile due to the small number of homes and diverse drivers of the regional economies. Four of the six regional areas tracked have shown a fall in home values over the past twelve months, with Outer Adelaide and Murray Lands the only regional areas to record a rise in housing values.

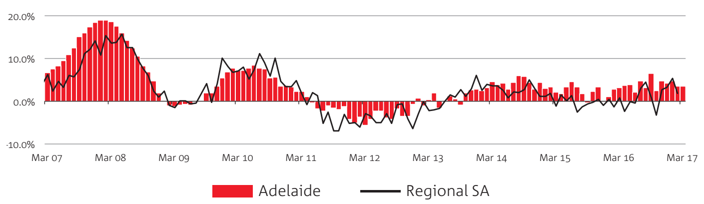
Annual change in home values over past year*



*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, Adelaide and Regional SA



NAB's view:

Property market has been steady and is expected to remain so. Economic conditions are challenging, but showing signs of improvement.

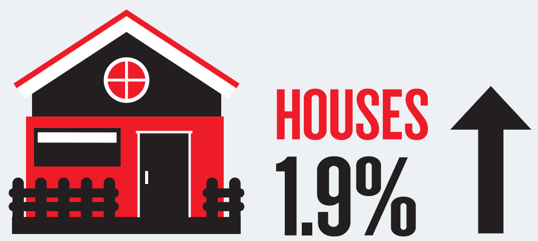
The property market in Adelaide has seen fairly consistent growth since early 2016, likely assisted by some more encouraging trends in the local economy – although there are still significant challenges, including an extremely soft labour market. The lower AUD had been supportive of areas such as hospitality and education exports, while policy announcements aimed at stimulating jobs and economic growth have been uplifting.

Steady price gains in Adelaide, despite economic challenges. A subdued economic outlook will keep prices contained, although we are seeing some encouraging signs.

There are, however, still a number of hurdles ahead for the SA economy, prompting NAB to maintain its expectation for fairly moderate economic performance for SA in 2017, which will limit employment and wage growth, with flow on effects for the local housing market. That said, some of the timely indicators of market activity are looking better. Vacancy rates appear to have dropped recently, while rents have started to tick up, helping keep rental yields steady – a welcome development for investors. Meanwhile, sales volumes are turning around and the average time on market is down from the same time last year.

These trends are consistent with a large jump in market sentiment for SA/NT in the first quarter of 2017 according to **NAB's Residential Property Survey** – reaching its highest ever level (although the index is volatile). The outlook for the next 1-2 years also improved substantially according to respondents, as did their expectations for future price growth. In terms of the outlook for investors, expectations for future rents improved as well.

Given NAB's expectations for the State's economic, population and household income growth to remain subdued, both house and apartment prices are forecast to grow modestly. Houses are expected to see price growth of 1.9% in 2017 and 1.7% in 2018. Units will see solid price gains of 5.5% in 2017, assisted by base effects, then rising a further 0.5% in 2018.



WESTERN AUSTRALIA OVERVIEW

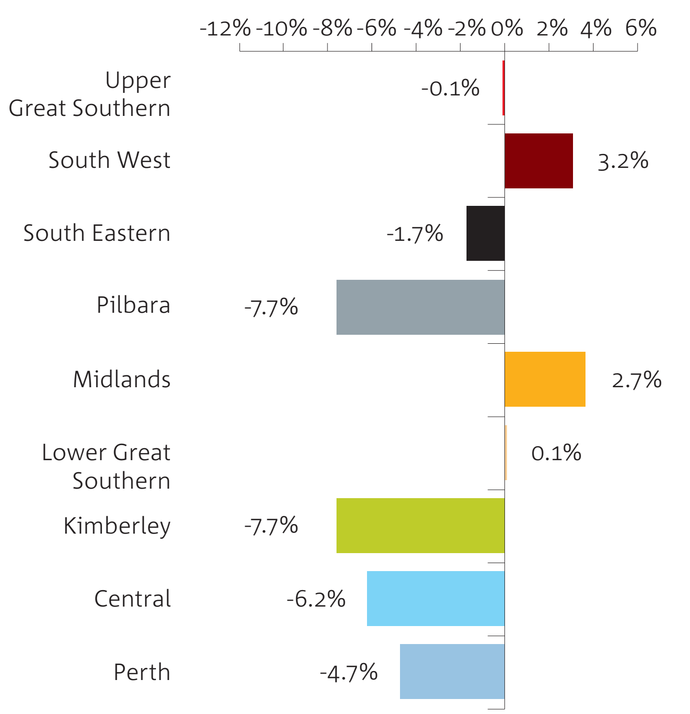
CoreLogic's view:

Since the peak in commodity prices and the subsequent wind down of major infrastructure projects, the Western Australian housing market has been weak. The state continues to experience negative net interstate migration which is detracting from housing demand, labour markets remain soft and the number of homes available for sale remains high, all of which adds to the weak housing market conditions.

Home values peaked in December 2014 across Perth and have been trending lower since that time. The last twelve months has seen Perth home values fall by a further 4.7%, with similar trends recorded across both detached housing (-4.6%) and the unit sector (-5.5%). A silver lining to the housing market downturn is that housing affordability has improved and buyers can negotiate hard on price and take their time in making their purchase decision.

The regional areas of the state have generally recorded lower home values over the past twelve months, with the weakest results coming from the key mining areas of Pilbara and Kimberly where home values are 7.7% lower over the past twelve months. Conversely, home values have increased in some areas not so heavily linked with the mining sector. The South West region of WA has recorded a 3.2% rise in home values over the past twelve months and Midland home values are 2.7% higher.

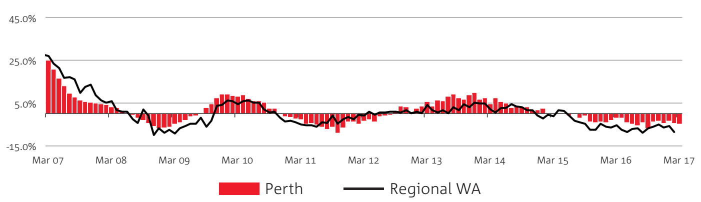
Annual change in home values over past year*



*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, Perth and Regional WA



NAB's view:

There are signs that mining headwinds are dissipating, but property prices are still dropping. More falls are expected before stabilising into 2018.

Perth's property market has felt the strain from falling mining investment as it weighs heavily on the local economy. The impact on the local labour market has been severe, contributing to an exodus of the local population interstate and sharply lower overseas inward migration. While there may be more pain to come as major LNG construction projects reach completion, the drag from lower mining investment on the WA economy does appear to be dissipating, while improvements in commodity prices appear to be having some positive flow on effects – which may help to stabilise the property market.

Perth's property market continues to come under strain. Conditions are likely to remain weak in the near-term, but a more stable market is on the horizon.

While property prices are lower over the year, they have been looking relatively stable in recent months – although with WA increasing its first home owners grant this year, a more pronounced lift in prices might have been expected. Meanwhile, other timely indicators of market activity have been relatively disappointing. Rents were falling faster than prices over 2016, making property particularly unappealing for investors. Sales volumes are also down, while the time on market and average vendor discount is higher – suggesting buyer interest remains limited. At the same time, vacancy rates continue to rise, made worse by relatively elevated rates of home completions – left over from the construction boom of previous years.

Unsurprisingly, market sentiment in WA remains extremely weak according to the **NAB Residential Property Survey** (by far the weakest of any state), despite showing a sizeable improvement in the first quarter of 2017, to its highest level since 2015. That said, price expectations for the next 1-2 years saw little-to-no improvement, although they still point to a stabilisation in prices going forward.

Both house and apartment prices in Perth are expected to fall a further 3.4% and 6% respectively in 2017. However, tentative signs that both the local economy and property market may stabilise in the medium term suggests we could see flat-to-modestly higher prices from 2018.

HOUSES
3.4%

UNITS
6.0%

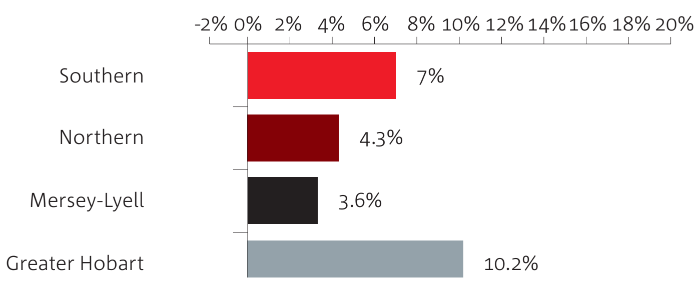
TASMANIA OVERVIEW

CoreLogic's view:

Hobart home values have been gathering momentum over the past year, increasing by 10.2% over the twelve months ending March 2017. The strong result for Hobart comes after many years of a flat to negative housing market performance. The relatively sedate historical performance of Hobart's housing market has kept prices extremely low relative to the other capital cities. This sheer affordability of housing is likely to be one of the key drivers of housing demand across Hobart, as well as the high rental yields and lifestyle appeal of the city.

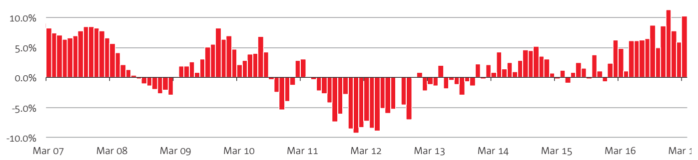
The regional areas of Tasmania have all shown some level of capital gain, however, growth rates have been less than what has been recorded in Hobart. The Southern region of the state has recorded the most substantial gain in home values, posting a 7.0% rise over the past twelve months.

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, Hobart



NAB's view:

Hobart has been the surprise performer this year, although we expect a more measured market going forward as prices realign with fundamentals.

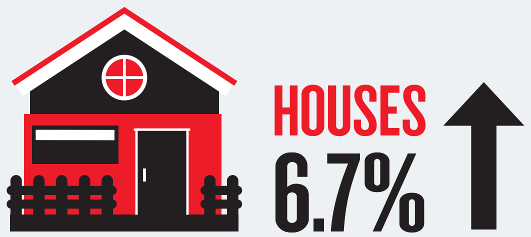
While strong performance seen in Hobart's property market comes as a surprise to many, it coincides with reasonably solid economic conditions in Tasmania for much of the past couple of years, and follows a prolonged period of very soft property market outcomes in previous years.

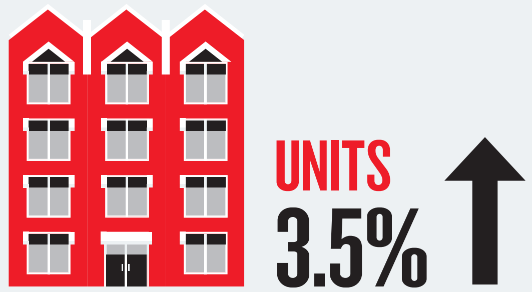
Prices in Hobart have been accelerating, supported by an improving economy and attractive affordability. Further gains are expected, but at a slower pace.

The relative affordability of property in Tasmania has made it a relatively attractive market for buyers, especially investors, given Hobart's relatively high rental yields. Consequently, population growth – albeit still very subdued – has steadily improved over recent years, largely driven by net interstate migration. That said, the appeal to owner-occupiers of working age may have been constrained by the state's soft labour market, although there have been noticeable improvements with the unemployment rate easing to around 6% at present, down from over 7% in previous years.

New housing construction approvals and commencements have stayed relatively low in Tasmania, despite the improving economic trends. When combined with stronger population trends, the restrained supply response has helped to keep vacancy rates fairly low – contributing to the much stronger gains in rents (and a higher rental yields) than in other states. Meanwhile, falls in the average time on market and vendor discounts in early 2017, compared to the same time last year, suggest the market remains quite tight.

On balance, both the demand and supply environment for housing is expected to remain reasonably good, although we are unlikely to see a repeat of the exceptionally strong price performance of late. Given our outlook for the state and the market performance to date, NAB is forecasting house prices in Hobart to rise 6.7% in 2017, but much more modest growth of 1.7% in 2018. Similarly, unit prices are expected to increase 3.5% in 2017 and 0.6% in 2018.





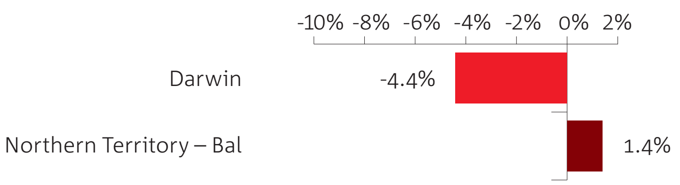
NORTHERN TERRITORY OVERVIEW

CoreLogic's view:

The Darwin housing market has eased from the strong growth conditions that were evident prior to 2012. A wind down of major infrastructure projects and a subsequent downturn in population growth has reduced housing demand across the city. Home values across the city have been trending lower since early 2014, however the downturn has been reasonably controlled and moderate to date.

The past twelve months has seen Darwin home values fall by 4.4% to be almost 10% lower since the market peaked in 2014. Homes are taking more than 100 days to sell across Darwin, which highlights the strong buying conditions for prospective buyers. Buyers should be able to negotiate hard in this market due to high stock levels and little in the way of buyer competition.

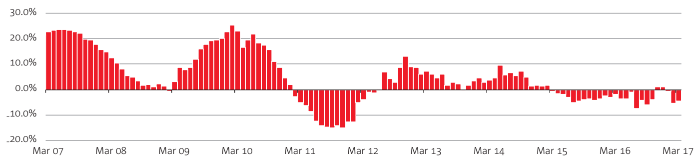
Annual change in home values over past year*



*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, Darwin



NAB's view:

The biggest hurdle ahead for Darwin's property market is negative flow-on effects as major LNG construction projects reach completion.

The Northern Territory has just under a quarter of a million residents and its economy, especially in Darwin, has spent several years highly dependent on the construction of a single LNG terminal. The Territory also has a substantial army, RAN and RAAF presence, as well as US marines. This sets it apart from most other states and territories.

Since construction on the Ichthys LNG terminal peaked last year, project employment has begun to slide, with significant knock-on effects for the NT economy. The main power generators were fired up in September, the pipeline was completed in November and this month the subsea installation was finished. Ichthys is on track to ship LNG this year and we do not expect the shock to be offset by other important sectors such as public sector/defence, tourism and agriculture.

The volatility emanating from the Territory's mining sector is having clear effects on Darwin's housing market. After seeing home prices fluctuate considerably during 2016, they are currently down nearly 4.5% (over the year to March 2017).

In addition, the previous apartment supply boom has contributed to very elevated vacancy rates in Darwin – reflected in very large drops in rents (falling by 12% over the year to the March quarter 2017; to their lowest level since late-2008).

Property prices in Darwin were volatile over 2016, but are down so far this year. Large economic headwinds are expected to keep substantial pressure on house prices.

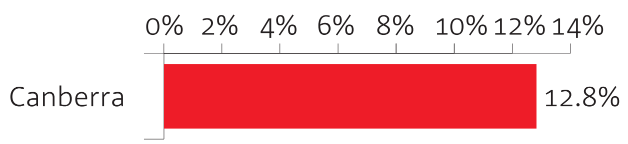
Given that major LNG projects are expected to have an ongoing destabilising effect on the housing market, the likely direction of property values in 2017 is difficult to predict – although NAB expects that the negative impact on the labour market once projects are completed will likely drive further price declines. That said, rental yields in Darwin are more attractive than most other capital cities, which might help to prop-up investor demand.

AUSTRALIAN CAPITAL TERRITORY OVERVIEW

CoreLogic's view:

The Canberra housing market has been gathering momentum since early 2016, with the pace of annual capital gains rising to 12.8% over the year ending March 2017. Homes are selling rapidly across the Canberra market, with the average property selling in less than 30 days. Additionally, auction clearance rates across the city have held strong around the mid 70% mark from week to week, indicating a tight fit between buyers and sellers.

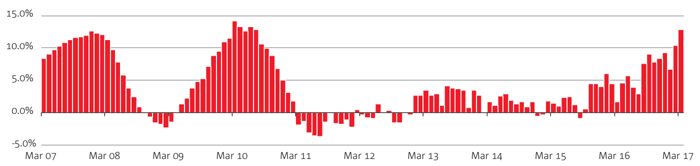
Annual change in home values over past year*



*Data for homes in capital cities to Mar-17 .

Source: CoreLogic

Annual change in home values, Canberra



NAB's view:

The local economy has strengthened further, which is reflected in the local housing market. In the longer-term, the focus is on supply concerns.

The relative size of the housing market and the overall significance of the public sector to the local economy make it difficult to reliably produce forecasts for property values in the ACT.

Better economic conditions are helping to drive the ACT's housing market. That support will continue, although there are mounting supply side concerns.

The ACT has emerged from large scale public sector job cuts in financial year 2013-14 to record stronger economic growth in 2015-2016. The labour market recovery continues to be under way, and wages growth has risen as well. This will support population growth and improved demand for housing. Building approvals strengthened noticeably over 2016, but have pulled back more recently in trend terms. Consequently, the supply side of the market continues to look relatively tight for now, which is seeing rents rise at a respectable pace and is keeping rental yields relatively steady.

These trends have been reflected in a much stronger property price performance of late, with home prices growth steadily accelerating over 2016 and into 2017 – although the strength has been driven almost entirely by detached houses, while unit prices are only modestly higher over the year to March 2017.

While the ACT property market is likely to remain sensitive to any savings measures in the public sector, NAB's current expectation is for the market to see ongoing support from a robust labour market and steady population growth. There are however a few concerns developing on the supply side as the pipeline of residential construction projects (under construction) hit record levels in late 2016, which clouds the outlook for apartment prices in particular. However, current tightness in supply should help to cushion the impact. Additionally, the ACT government's land release program is expected to further underpin housing construction activity, with a total of 17,780 new housing sites released over four years to 2019-20.

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