Welcome to CoreLogic's housing market update for November 2022

CoreLogic's national home value index moved through its sixth month of decline last month, with values down a further 1.2%, taking the cumulative drop from the market peak to 6.0%.

The geographic scope of Australia's housing downturn broadened through October with every capital city and rest-of-state region, apart from regional South Australia, recording a drop in housing values.

Across the capital cities the month-on-month decline ranged from a -2.0% fall in Brisbane to Perth where dwelling values nudged only -0.2% lower. Across the rest-of-state regions, monthly falls of more than -1% were recorded across New South Wales, Victoria and Queensland.

Although more regions are recording a fall in housing values, the rate of decline remains diverse. The pace of falls has eased over the past two months across Sydney and past three months in Melbourne but has gathered momentum in Brisbane where home values are now falling the most rapidly of any capital city or rest-of-state region. The changing dynamic across the largest cities has seen the rate of decline across the combined capitals index ease from a -1.6% drop in August to -1.4% in September and -1.2% in October.

Despite the easing in the pace of decline, it's probably still too early to claim the worst of the decline phase is over. Australian borrowers are facing the double whammy of further interest rate hikes along with persistently high and rising inflation. There is a genuine risk we could see the rate of decline re-accelerate as interest rates rise further and household balance sheets become more thinly stretched.

To-date, the housing downturn has remained orderly, at least in the context of the significant upswing in values. This is supported by a below-average flow of new listings that is keeping overall inventory levels contained. There's also tight labour market conditions, an accrual of borrower savings and a larger than normal cohort of fixed interest rate borrowers, who have so far been insulated from the rapid rise in interest rates.

Housing values across most of the broad regions remain well above pre-COVID levels, implying many home owners remain in a positive valuation position relative to their purchase price.

Focussing on the spring trend in advertised listings, the flow of new listings started to trend higher in October, but the traditional spring selling season remains well below levels at the same time last year and relative to the previous five-year average. Over the four weeks ending October 30th, the number of newly listed capital city dwellings was tracking -25.2% below a year ago and almost -19% below the previous five-year average.

If anything, the low number of freshly advertised properties is probably helping to contain price falls to some extent. So far, we haven't seen any evidence of panicked selling or forced sales.

On the demand side, the estimated number of home sales has held reasonably firm through the first two months of spring. Based on modelled sales over the three months ending October, capital city home sales were approximately -17% lower than a year ago and 4% above the previous five-year average for this time of the year.

The number of home sales during spring is well down from the highs recorded last year, however the fact that sales activity is still above the five-year average over the past three months suggests demand for housing remains.

Focusing on the trends across each of the capital cities continues to highlight the diversity across the housing market.

The rate of decline in Sydney home values eased further in October. After housing values fell by -2.3% in August, the pace of falls reduced to -1.8% in September and most recently -1.3% in October. Although the rate of decline has eased, we are still expecting Sydney home values to reduce over the coming months as interest rates rise. The easing in the rate of decline has been most apparent across the upper quartile of the market, where the quarterly rate of decline has reduced from -7.5% in August to -6.2% in October. This is also the sector where housing values have fallen the most significantly from their recent peak, down 13.5% compared with a smaller 4.9% drop in values across the lower quartile of the market.

Housing values were down 0.8% across Melbourne in October, the eighth consecutive month-on-month decline, but the smallest monthly drop since May. The rate of decline has been easing over the past three months, but it’s likely housing values will continue to trend lower while interest rates trend higher. The easing in the rate of decline can be seen across the upper quartile of the market, where the quarterly drop in values has lifted from a recent low of -5.0% in August to -3.6% in October. Since peaking February, Melbourne housing values are down 6.4%, leaving the market only 3.6% above pre-COVID levels.

With a 2.0% fall in dwelling values through October, Brisbane recorded the largest monthly decline of any capital city or broad rest of state region. Since values peaked in June, the market is down 6.2%, or in dollar terms, down about $48,300. The decline comes after a dramatic run up, where values increased by almost 43% during the growth phase. Brisbane’s unit market is recording a substantially milder decline, with values down 1.2% since peaking, compared with a 7.2% drop in house values. While values are falling, rents are surging. House rents are up 13.6% over the past year and unit rents are up 13.1%.

The decline in Adelaide home values has been mild to date, with values slipping 0.3% lower in October to be 0.6% down from their July peak. Adelaide has recorded the most significant rise in values across the capital cities, with the dwelling index up 44.7% through the growth phase, adding approximately $203,200 to the median dwelling value. One factor helping to keep a floor under Adelaide home values is the shortage of advertised supply, which was tracking 43% below the five year average at the end of October. Adelaide is also showing the tightest rental market conditions, with a vacancy rate of just 0.3%, which is likely to keep upwards pressure on rents for the foreseeable future.

Perth housing values continued to move through what has been a relatively mild downturn to-date. Dwelling values were 0.2% lower in October, which was the smallest decline across the capitals, and since peaking in July, the local market is only 0.7% lower in value. Demand seems to be holding up despite higher interest rates, with our estimate of home sales over the past three months tracking 10% higher than a year ago, while total listings are down 14% on last year and trending lower. Rental markets remain extremely tight, with a vacancy rate of just 0.6% that is likely to keep upwards pressure on rents.

The rate of decline in Hobart housing values has eased over the past few months, but values are still falling by more than 1% month-on-month to be down 5.7% since the market peaked in May. The decline comes after a solid period of growth, where Hobart home values surged 37.7% higher through the recent growth phase. Amid higher interest rates and less demand, Hobart listings have risen substantially, up 69% compared with last year, but still well below the highs of 2012 to 2015 when total listing were more than double what they are now.

Darwin housing values dropped 0.8% in October, the first month-on-month decline since the rate hiking cycle commenced. The decline comes after a 31.1% rise in home values, but that hasn't been enough to take values to a new record high, with Darwin house values still 4.1% below their 2014 peak and unit values 26.3% below the 2010 peak. Housing activity is continuing to track higher than a year ago, and was 67% above the five year average for this time of the year, reflecting a relatively low base in sales activity through the early part of the five year average.

Canberra housing values have declined over five of the past six months, taking values 5.4% below their monthly peak in June. Although values are consistently falling from month-to-month, the rate of decline has lost some momentum since recording a 1.7% drop in August, which has since reduced to a 1.0% fall in October. Along with lower values, the number of home sales has also reduced. Home sales over the past three months where 8.8% lower than at the same time last year. With less demand, the number of listings available across the Canberra market has trended higher to be almost 25% higher than this time last year.

Overall, with interest rates likely to rise further, we are expecting housing values are likely to continue trending lower. The bad news for home owners is most economists have recently revised their cash rate forecasts upwards due to higher than expected inflation outcomes. Mainstream forecasts for the terminal cash rate range from 3.1% to 3.85%, while financial markets are pricing in a peak cash rate closer to 4%.

At the low end of these forecasts, a 3.1% cash rate implies an average variable owner occupier mortgage rate of around 5.41% for new borrowers and 5.86% for existing borrowers, adding approximately $1,290 to $1,500 a month to mortgage repayments relative to pre-rate hike mortgage costs on a $750,000 principal and interest loan on a 30-year term.

Since the rate hiking cycle commenced in May the cash rate is up 275 basis points. Considering mortgage serviceability tests assess a borrower's ability to repay a mortgage at 300 basis points higher than the origination rate, it will not be long before these serviceability limits are tested.

Although housing risks remain skewed to the downside, there are a few tailwinds that should help to keep this downturn orderly and stave off a material rise in distressed listings.

Tight labour markets are a key factor in keeping borrowers on track with their mortgage repayments. The RBA has previously hypothesised that a substantial lift in mortgage defaults would be dependent on a 'double trigger', defined as a combination of negative equity and an inability to pay the loan. With housing values down only -6.0% nationally to the end of October and labour markets remaining extremely tight, we are yet to see either of these circumstances appear.

Although the recent federal budget highlights labour markets are likely to loosen over the coming year, the unemployment rate is forecast to remain a full percentage point below the pre-COVID decade average of 5.5%. Strong labour market conditions and higher incomes should help to contain any material rise in distressed listings or forced sales.

Net overseas migration has bounced back quicker than expected, initially adding to rental demand, but also supporting housing demand more broadly over the medium term.

Persistently tight rental markets and rising yields should help to incentivise investors returning to the market. Once interest rates and housing prices stabilise, it is likely investors will become more active, positioning for medium-to-long term capital gains and taking advantage of strong rental conditions. Higher rents could also act as a natural incentive for renters to consider buying.

Household savings and a history of higher than required mortgage repayments should also provide a buffer to higher mortgage rates and cost of living pressures. The RBA recently noted the median variable mortgage rate borrower had enough in their offset/redraw accounts to cover 20 months of mortgage repayments (as at August).

The silver lining to falling home values is a more affordable entry point to the market for buyers. In the most expensive capital city, Sydney, the median house value has fallen by approximately $160,000 since moving through a peak. House values in Melbourne are roughly $76,000 lower and $64,000 lower in Brisbane. Although borrowing capacity has also reduced sharply, the lower entry point to the market is likely to be a welcome outcome for those looking to buy.

With advertised stock levels normalising in some regions, along with fewer home sales, prospective buyers have more stock to choose from, less competition from other buyers, an improved negotiation position and more time to make their purchasing decision.

For vendors, homes are taking longer to sell, auction clearance rates are generally below average and vendor discounting rates have become more substantial. Vendors will need to be realistic about price expectations and be ready to negotiate. A high quality marketing campaign will be important to reach the right audience and help the property to stand out from other listings.

Although we are approaching the end of the year, there is still plenty going on in the housing market! You can stay up to date with all the trends at the research pages of corelogic.com.au