Welcome to CoreLogic's housing market update for October 2022.

CoreLogic reported a further fall in housing values through the first month of spring, with our national Home Value Index recording a -1.4% decline. Although values are still falling quite rapidly, the rate of decline eased from a -1.6% fall in August.

The loss of momentum in the pace of value decline was evident across most of the capital cities and broad rest-of-state regions, with a few exceptions, including Adelaide and Perth where housing values have only recently started to edge lower.

Although the downwards trend in housing values has decelerated, it's probably too early to suggest the housing market has moved through the worst of the downturn. Possibly we have seen the initial shock of a rapid rise in interest rates pass through the market and most borrowers and prospective home buyers have 'priced in' further rate hikes. However, if interest rates continue to rise as rapidly as they have since May, we could see the rate of decline in housing values accelerate once again.

The reduction in the rate of decline occurred just as other indicators recorded improvements. Auction clearance rates trended upwards, albeit subtly, in September and consumer sentiment nudged a little higher as well on the back of strong labour market conditions. Unusually for this time of year we've also seen the flow of fresh listings continue to decrease during the first month of spring, helping to keep a lid on overall advertised supply levels.

After rising 25.5% over the recent growth cycle, housing values across the combined capitals index are now -5.5% below the recent peak, or in dollar terms, down approximately -$46,100. The combined regionals index, which recorded stronger growth conditions through the upswing rising by almost 42%, peaked in June with values down -3.6% through to the end of September. This equates to a dollar value fall of approximately -$21,700 for the combined regional dwelling values.

Most cities continue to see a substantial buffer between current housing values and where they were at the onset of COVID in March 2020. At the combined capital city level, housing values would need to fall a further -13.5% before wiping out the gains of the recent growth cycle, while Melbourne, which saw a softer upswing than other regions, with values rising 17.3% from trough to peak, would only need to see a -4.3% fall in values before returning to pre-COVID levels.

At a time when the flow of new listings is typically ramping up, Australia's 'spring selling season' is off to a slow start. The number of new listings added to capital city housing markets through September was -12% lower than the same period a year ago and -10% below the previous five-year average.

It seems prospective vendors are prepared to wait out the housing downturn, rather than try to sell under more challenging market conditions. We haven't seeing any evidence of distressed sales or panicked selling through the downturn to date; in fact, it has been the opposite, with the trend in newly listed properties continuing to diminish at a time when freshly advertised stock levels would normally be moving through a seasonal ramp up. The reduced flow of new listings to the market could be a key factor helping to keep a floor under larger price falls, supporting the subtle reduction in the rate of decline through September.

While the flow of freshly advertised housing stock has slowed, so too has buying activity. Capital city sales activity through the September quarter was estimated to be -12.2% lower than a year ago, but still 6.5% above the previous five-year average for this time of the year. Fewer buyers can be put down to a combination of factors including a substantial reduction in borrowing capacity as interest rates rise, low consumer sentiment and a fear of paying too much as prices fall.

CoreLogic's national rental index increased by 0.6% in September, the lowest monthly rise in rents since December 2021. At the national level, rental growth moved through a peak in May 2022 with a 1.0% rise; since that time, the monthly pace of rental growth has been easing. This trend in rents is evident across most regions, but has been clearest across regional Australia where monthly rental increases have reduced from a peak of 1.4% in January 2021 to just 0.3% in September 2022.

A gradual slowdown in rental growth in the face of such low vacancy rates could be an early sign that renters are reaching an affordability ceiling. Since the onset of COVID, capital city rents have risen 16.5% and regional rents are up 25.1%. It's likely renters will be progressively seeking rental options across the medium to high density sector, where rents are cheaper, or maximising the number of people in the tenancy in an effort to spread higher rental costs across a larger household.

Now let's take a look at housing trends across each of the capital cities.

Sydney housing values dropped a further -1.8% in September, which was an improvement on the -2.3% reduction recorded in August. Since peaking in January, housing values are down -9% equating to approximately $104,000. House values are falling faster than unit values, down -9.9% since peaking compared with a -6.6% fall in unit values through the downturn to-date. The weaker performance for houses follows a substantially larger rise through the upswing, where house values surged by 34% compared with a 15% rise in unit values. Sydney has recorded the sharpest drop in home sales across the capital cities, with estimated sales through the September quarter down -31% compared with a year ago and -21% below the five-year average.

After recording a relatively soft upswing, where dwelling values increased by 17.3%, Melbourne housing values are down -5.6% since peaking in February. The market was down -1.1% in September, which was a slight improvement from the -1.2% decline in August and a -1.5% drop in values through July. Through the recent growth cycle, Melbourne house values increased by 21% compared with a 10.5% rise in unit values. This stronger performance for house values through the upswing has moved into reverse, with house values down -6.7% since peaking, while unit values are down -3.5%. Home sales through the September quarter were estimated to be -2.9% lower relative to last year, when Melbourne was navigating its sixth lockdown, however sales activity over the quarter was still about 4.8% above the previous five-year average, demonstrating home buyers are still active despite higher interest rates and weaker market conditions.

After recording one of the most significant upswings across the capitals, Brisbane housing values have moved into a decline phase, with values falling -4.3% since peaking in May. Despite the sharp adjustment from growth to decline, the monthly rate of change actually eased a little last month, from -1.8% in August to -1.7% in September. Brisbane's unit sector is holding up much better, with housing values only -0.3% below their recent peak, while house values are down -5.2%. Home sales are also trending lower, with estimates for the September quarter indicating a -19% drop in sales relative to the same period a year ago. Rents are still rising rapidly, but the rate of rental growth has also eased over recent months, from a monthly change of 1.5% in July to 1.0% in September. Despite a slowdown in rental growth, rental yields continue to rise due to lower housing values against higher rental rates.

Adelaide home values trended lower for a second month, after peaking in July. The rate of decline remains mild, however, with values down just -0.2% in September, following a -0.1% decline in August. The mild decline is being driven by house values, which are down half a percent since peaking, while unit values remain at a record high so far. Home sales are also holding up better than most cities, with the number of home sales through the September quarter estimated to be 18.5%

higher than a year ago and almost 40% above the five-year average. Lower housing values relative to most of the larger capital cities is probably one of the factors supporting demand, along with a persistently low level of available supply, where total listings remain -41% below the five-year average.

Perth home values notched up a second consecutive month of falling home values, however the rate of decline remains mild relative to the larger cities. Home sales are also holding up, with estimates for the September quarter indicating buying activity was 5% higher than a year ago and 45% above the five-year average. At the same time, advertised stock remains in short supply, trending lower through September to be -15% below levels at the same time last year and -35% below the five-year average. Perth continues to show the lowest median house value of any capital city, at $585,000, which helps to explain why demand hasn't been as impacted by lower borrowing capacity amid higher inter rates.

Hobart is moving through a relatively sharp decline in home values, with our dwelling index down -1.4% over the month, taking the cumulative decline from the May peak to -4.7%; the third largest decline from the recent peak after Sydney and Melbourne. Like most cities, the pace of declines eased in September. Values were down -1.4% compared with a -1.7% drop in August and -1.5% decline in July. Hobart is one of the few cities showing a consistent rise in advertised stock levels, with the number of listings in market now 64% higher than year ago and 9% above the five-year average. At the same time, demand is falling away, with the number of home sales through the September quarter estimated to be -9.5% lower than a year ago and almost -20% below the five-year average.

As the only capital city yet to record a decline in home values, Darwin is the last one standing. Whether this resilience to falls can last much longer is doubtful, with the rate of growth flat in September. Although values remain at a cyclical high, the Darwin market is yet to recover from peak conditions recorded all the way back in May 2014. House values are still -3.2% below their all time high and unit values are down a more significant -25.7%, a stark reminder of the long term weakness seen across the Darwin housing market. Home sales are also holding up, with our estimate of sales volume for the September quarter tracking 4.8% higher than a year ago and 78% above the five-year average.

Canberra housing values were down -1.6% in September, the fourth monthly decline over the past five months. Since peaking in April, house values have lost -5.3% of their value, while the more affordable unit sector is down a -1.7% since peaking in June. The volume of home sales has also trended lower, estimated to be -9.2% lower through the September quarter compared with the same period a year ago. Canberra is one of the few capital cities where advertised supply levels are rising, with the flow of new listings 11% higher relative to the five-year average. With the flow of new listings rising while buyer activity reduces, the total number of homes for sale is normalising, recorded at -2.9% below the five-year average at the end of September.

The most important factor influencing housing markets will continue to be the trajectory of interest rates. The level at which interest rates will stabilise remains highly uncertain. The cash rate had surged 225 basis points between May and September. Interest rates have not risen at this fast a pace since 1994, when households were arguably less sensitive to a sharp rise in the cost of debt due to lower overall debt levels.

Financial markets are now pricing in a peak in the cash rate around 4.1% between June and August of next year, while private sector economists are generally less bearish, with Bloomberg recently reporting a median forecast of 3.35% as the peak cash rate in the first quarter of next year.

The good news is inflation may be moving through a peak. With the recent release of a monthly CPI indicator, it looks like headline inflationary pressures may have eased a little through the September quarter, with the ABS reporting a reduction in annual inflation from 7.0% over the year ending July to 6.8% over the year ending August. If inflation is slowing, we could see the RBA start to ease back on the aggressive rate hiking cycle that commenced in May.

Once interest rates stabilise, housing prices are likely to find a floor. Considering most economists are forecasting rates to peak through the first quarter of next year, the coming months are likely to feature further declines in home values.

Strong labour market conditions should help to contain any material rise in mortgage distress. With the national unemployment rate at 3.5% in August and wages growth picking up, we aren't expecting to see a material rise in distressed listings or forced sales.

We will be watching for any signs of market distress as the dual impact of higher interest rates and high inflation impact household budgets. To date, the flow of new 'for sale' listings has actually trended lower as vendors retreat to the sidelines, a good indicator that home owners are weathering the downturn.

As interest rates continue to rise and inflation remains high, it's reasonable to expect household spending will pull back. While we are yet to see any evidence that household spending is being reined in, it's likely that households will need to curtail their discretionary spending in order to maintain their debt servicing obligations while also dealing with higher prices on non-discretionary goods such as food and fuel.

For buyers, stock levels have normalised across the more expensive capital city markets, providing more choice and a better negotiation position. More broadly, the opportunity presented by lower housing prices and less competition is likely to become more attractive to buyers as the housing market downturn progresses.

For sellers, conditions have become more challenging amid less demand which means pricing expectations will need to be realistic. Vendors may need to be willing to negotiate on price and ensure they have a quality marketing campaign behind the property.

As we move through spring and into summer, it will be important to see if this deceleration in the rate of decline persists. You can keep up to date with housing market trends via the research pages at corelogic.com.au