Australian Housing Market Update

Presented by CoreLogic

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Welcome to CoreLogic's housing market update for February 2023.

The housing market started the year where it left off in 2022, chalking up the ninth consecutive monthly drop in Australian home values. The national Home Value Index was down -1% over the first month of the year following a larger -1.1% fall in December.

It looks like we may have moved through the eye of the storm in August last year, when our national index dropped -1.6% in a month. Since then the national monthly rate of decline has generally eased, however at -1.0% over the month and -3.2% over the rolling quarter, housing values are still falling quite rapidly compared to previous downturns.

The downturn remains geographically broad-based, with every capital city posting a decline in dwelling values through the month, led by Hobart and Brisbane, down -1.7% and -1.4% respectively, while the smallest drops were recorded in Perth and Darwin at -0.3% and -0.1%.

The most noticeable easing in value falls can be seen across the premium end of the housing market, where the country's most expensive properties have led both the recent upswing as well as the current downturn. Across the combined capitals, the rolling quarterly rate of decline in the upper quartile values has improved from a recent low of -6.1% over the September 2022 quarter to -4.0% over the three months to January.

This trend is most apparent in Sydney's detached house market, where quarterly declines eased from -7.7% in the three months to August, to -3.9% in the three months to January. The improvement could be reflective of more buyers taking advantage of larger price drops across the premium sector, where house values are down -17.4% since peaking in January 2022.

Despite easing rates of internal migration and a partial erosion of the pre-pandemic affordability advantage, regional housing values are holding up better than capital city markets so far**.** The milder decline comes after a substantially stronger upswing. Across the combined regional areas of Australia, housing values surged 41.6% higher through the upswing compared with a 25.5% rise in values across the combined capital cities. Since peaking in June, the combined regionals index is down -7.4%, while capital city values are now -9.6% below their April peak.

This will be an interesting trend to watch over the longer term, but at the moment it seems regional housing markets have seen a structural shift in the underlying demand profile. With more Australians willing to base themselves outside of the capital cities and remote working remaining a viable option across some sectors of the labour force, it's unlikely we'll see a mass exodus from regional markets.

January marked a new record for how much and how fast dwelling values have fallen in Australia. Based on the monthly index, the national home values are down -8.9% since peaking in April last year, making this the largest and fastest decline in values since at least 1980 when CoreLogic's records began.

However, it's important to understand this downturn in context. Record declines in home values follow a record upswing, both in magnitude and speed. The national HVI was up a stunning 28.6% in the space of just 19 months prior to the decline. Despite the recent sharp downswing, values in every capital city and rest-of-state region are still above pre-pandemic levels, although Melbourne's index would only need to fall a further -0.4% before equaling the March 2020 reading.

Low advertised supply remained a feature of the housing market through January, as the flow of new listings holds well below average for this time of the year. New capital city listings added to the market over the four weeks ending January 29 were -22.2% lower than over the same period last year and -24.5% below the previous five-year average. Every capital city recorded a below average number of new listings through January, reflecting an ongoing reluctance from prospective vendors to test the market.

Such a low number of new listings implies most home owners don't need to sell, rather, they seem to be prepared to wait this downturn out. This trend of lower than normal levels of new listings has been persistent through spring and early summer and looks to be continuing into 2023.

At the same time, housing demand has also fallen away. Capital city dwelling sales over the past three months were estimated to be -29.4% lower relative to the same period in 2022 and -11.5% below the previous five-year average.

It's unlikely listing and purchasing activity will return to average levels until consumer sentiment starts to improve. There is a strong relationship between consumer attitudes and the number of homes sales. With sentiment remaining around recessionary lows, it's harder for consumers to make high commitment decisions such as buying or selling a home.

Now let's take a tour around each of the capital cities.

After posting a -13.8% drop in values over the past year, Sydney's median dwelling value dropped below $1 million for the first time since March 2021. So far, Sydney has recorded the largest decline in values of any capital city, but Sydney also peaked the earliest, with values trending lower since January last year. With values down a further -1.2% in January, the rate of decline has eased from a recent low of -2.3% over the month of August, mostly driven by an improving rate of decline across the upper quartile of the market. Quarterly declines in Sydney house values eased from -7.7% in the three months to August, to -3.9% in the three months to January.

Melbourne dwelling values were down -1.1% in January taking its peak to trough decline to -9.3%. Like most cities, house values have fallen further than unit values, down -10.8% and -6.1% from their peaks respectively. As of January, Melbourne's index remained only 0.7% above pre-COVID levels and there is a good chance we will see values fall to below March 2020 levels over the coming weeks. Across Melbourne's sub-regions, since peaking, the largest drop in values has been a -15.5% fall across the Inner South house market, while at the other end of the spectrum, Inner Melbourne unit values are down the least, falling -4.1% since peaking in May last year.

With a cumulative decline of just over -10.8% since its peak, Brisbane home values have set a new record for the city's largest and fastest downswing, surpassing the previous record of -10.8% through the 2010-12 downturn. The falls come after a spectacular 43% rise through the upswing and, despite the swift and substantial drop since June, housing values remain 26.2% above where they were at the onset of the pandemic. Most of the weakness has been driven by houses rather than units, where values are down -12.3% and -2.3% since peaking respectively. The good news for home owners is that the rate of decline has been easing since November last year.

Adelaide's housing market has been relatively resilient to price falls so far. Although January marked the sixth month in a row where dwelling values had fallen, the monthly falls have been substantially milder relative Sydney, Melbourne and Brisbane. That is starting to change a little though, with the pace of declines accelerating from month-to-month, reaching a -0.8% fall in January. Despite this, Adelaide stands out by some margin as recording the largest capital gains since the onset of COVID, with dwelling values 41.1% above what they were in March of 2020.

Perth remains one of the most resilient housing markets, with values down only -0.9% since peaking in July last year. The sheer affordability of Perth housing values, which have risen by just 6.4% in total over the past 15 years, helps to explain why the market has been less impacted by surging interest rates. Tight supply levels and extremely low vacancy rates have also insulated the city. Perth's median house value is just $585,300, the lowest of any capital city and about $620,000 lower than Sydney's median house value.

Hobart housing values are down -10.8% since peaking in May, however they remain almost 38% higher relative to values at the onset of COVID in March 2020. Hobart stands out as recording the highest capital gains over the past decade, with values up 83%, and over the past 20 years, where values are 217% higher. As the market weakens, advertised stock levels have risen from record lows to be 32% above the previous five-year average. At the same time, the median number of days on market has risen from a stunningly low nine days this time last year to 42 days, demonstrating the slowdown in selling conditions.

Darwin housing values have fallen over four of the past five months, however the scale of monthly declines has been small, taking the market only -1.3% below the cyclical high recorded in August. Australia's northern most capital remains remarkably affordable, with the second lowest median house value after Perth and the only capital city with a median unit value under $400,000. It's also the city with the highest gross rental yields by some margin, reflecting a significant gap between rents and housing values. Although values have been quite resilient to falls, the longer-term context is that Darwin dwelling values remain -11.2% below their 2014 peak.

The ACT housing market recorded a -1.0% drop in values through January, taking the cumulative decline to -8.6% from the recent peak in June. House values, which are down -9.9%, have driven the majority of the downturn, with unit values falling by a smaller -4.0% since peaking. We are seeing this trend of stronger resilience in the unit market across most capital cities, following a weaker performance through the growth phase. The monthly rate of decline in housing values has been slowing since moving through a peak in August when values were down -1.7% in the month.

Clearly there is a lot happening in the property market. Even though value falls have generally become less significant, it looks like this downturn still has some way to go.

The trajectory of housing values remains intrinsically linked with the path of interest rates. The good news is the cash rate may be approaching a ceiling as speculation mounts that inflation moved through a peak at the end of last year and retail sales fell sharply in December. However, it's fair to say there remains a substantial range between interest rate forecasters, highlighting the uncertainty about where and when interest rates might eventually land.

A few clues that inflation may have peaked can be seen in the quarterly CPI numbers. While the trimmed mean remains extremely high, the quarterly growth rate reduced in Q4, due in part to a sharp drop in the housing component of CPI, which carries the largest weight within the CPI 'basket'.

We can also see the main driver of inflation has switched from non-discretionary price rises to discretionary. As the recent spate of rate hikes eventually dampens consumer demand we are likely to see a pull back on discretionary spending, helping to push inflation lower.

Once interest rates move through a peak, it's likely that housing values will gradually stabilise, however there will need to be a spark to ignite another growth cycle. The most obvious stimulus would come from a drop in interest rates, but any cut to the cash rate probably won't occur until late this year at the earliest.

Other factors that could support housing activity would be a rise in consumer sentiment, an easing in credit policy, such as a reduction to APRA's serviceability buffer, or fiscal incentives aimed at stimulating housing demand.

Some downside risk from the large number of fixed rate mortgages due to expire later this year remains. Around two thirds of fixed rate home loans, which comprise a substantially larger portion of the loan book than historically normal, will expire in 2023, with many moving from interest rates around 2% to a rate closer to 6%.

It's likely mortgage arrears will rise from last year's record lows, but the risk of a material increase in mortgage arrears or defaults should be minimised as long as labour markets remain tight. Although labour markets are expected to loosen throughout 2023, it's unlikely the unemployment rate will rise above long-term average levels.

Advertised stock levels will be a key metric to keep an eye on. Inventory levels remain well below average, mostly due to persistently low levels of fresh stock coming on the market. Such low advertised supply has arguably helped to keep a lid on value declines, but a lift in supply without a commensurate rise in demand could prolong the downturn.

With overseas migration accelerating, especially among foreign students, rental vacancies are likely to remain extremely tight in some markets, leading to further upwards pressure on rents. The rental market is already imbalanced, with vacancy rates holding around record lows. At the same time there is little evidence of additional rental supply coming to market. The net outcome is likely to be a further lift in rents and a worsening in social issues associated with unaffordable accommodation costs.

With so much happening and some important policy decision coming up, you can stay in touch with the latest housing market trends at the research pages of corelogic.com.au or on the CoreLogic Australia LinkedIn page.