NAB Australian Housing Market Update – April 23

Presented by CoreLogic

CoreLogic's

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

After a six-month period where the downwards trend in housing values consistently lost steam, CoreLogic's national Home Value Index posted the first month-on-month rise since April 2022, up 0.6% in March. Dwelling values were higher across the four largest capital cities and most of the broad 'rest-of-state' regions, led by a 1.4% gain in Sydney.

April Housing Market

Although interest rates are high and there is an expectation the economy will slow through the year, it is clear other factors are now placing upwards pressure on home prices. The rise in values can be put down to a combination of low advertised stock levels, extremely tight rental conditions and additional demand from overseas migration.

Advertised supply has been below average since September last year, with capital city listing numbers ending March almost -20% below the previous five-year average.

Additionally, with rental markets extremely tight, it's likely we are seeing some spillover from renting into purchasing, although, with mortgage rates so high, not everyone who wants to buy will be able to qualify for a loan. Borrowing power too has been eroded leaving many without enough funds to move from tenant to home buyer.

Similarly, with net overseas migration at record levels and rising, there is a chance more permanent or long-term migrants who can afford to, will skip the rental phase and fast track a home purchase simply because they can't find rental accommodation.

The lift in housing values has been most evident across the upper quartile of Sydney's housing market. House values within the most expensive quarter of Sydney's market were up 2.0% in March. The same sector of the market recorded a -17.4% fall in values from their peak in January 2022 to a recent low in January 2023, the largest drop from the market peak of any capital city market segment. We may now be seeing some opportunistic buyers coming back into the market where prices have fallen the most.

Regional housing markets have mostly shown firmer housing conditions as well, with the combined regionals index rising 0.2% over the month. The best performing regional markets are quite different to what we were seeing through the recent growth cycle. In today's

market it is mainly rural areas that are seeing the strongest increases in housing values, rather than the commutable coastal and lifestyle markets that were booming through the upswing. However, we are seeing some subtle growth return to regions within commuting distance of the major capitals, after many recorded a sharp drop in values. Again, possibly due to opportunistic buyers or grateful purchasers relishing a lack of competition.

But housing values aren't rising everywhere. Hobart recorded the largest drop in home values among the capital cities, down -0.9% over the month. Housing values across the southern most capital have fallen -12.9% since peaking in May last year; overtaking Sydney as the largest cumulative fall from peak across the capital cities. However, the pace of decline has been easing across Hobart over the past three months.

Canberra, Darwin and Adelaide also recorded a decline in values over the month, as did Regional Victoria and Regional Tasmania.

Looking at the housing cycle since the onset of the pandemic, values across every capital city and broad rest-of-state region remain higher relative to where they were in March 2020. Melbourne dwelling values are the closest to pre-COVID levels, with only a 0.6% buffer. At the other extreme is Adelaide where housing values are a stunning 41% above the levels recorded at the onset of COVID, and Regional SA where values remain at a record high, 49% above March 2020 levels.

Rental markets are becoming increasingly diverse but vacancy rates across most areas of the country remain extremely tight. The general trend across the largest capitals is towards an acceleration in rental growth, especially across the unit sector, but slowing growth across the smaller capitals, particularly for houses.

Across each of the capital cities, unit rents are outpacing house rental growth. The quarterly rise in unit rents over the March quarter was at a record high across Sydney and Melbourne.

There is likely to be two factors at play here. With growth in house rents previously much stronger through the worst of the pandemic, it's likely more and more tenants have no choice but to seek out more affordable options in the medium to high density sector. Additionally, the surge in overseas migrants and students is likely to be funneling demand into inner city areas and precincts close to universities, transport and amenity hubs.

Now let's take a tour around the each of the capital city housing markets:

Sydney recorded a second consecutive monthly rise in housing values through March, surging 1.4% over the month, pushing the quarterly change back into positive territory for the first time since March last year. The rise in values follows a 28% rise in values through the upswing and a 13.8% drop in values from the market peak in January 2022 to what could be the trough in January this year. The largest gains were influenced by Sydney's upper quartile, where the highest value quarter of the market recorded a 1.3% rise through the March quarter compared with a -0.7% fall across the lower quartile of the market.

Melbourne housing values were up 0.6% in March, the first month on month rise since February last year. The March figures put Melbourne housing values 9.1% below their cyclical peak, comprised of a 10.7% decline in house values and a 5.9% fall in unit values. Advertised supply is continuing to hold at below average levels helping to keep a floor under housing values. At the same time, overseas migration is adding pressure to housing demand, amplified by a lack of available rental stock. This is nowhere more apparent than in Melbourne's vacancy rate, which dropped to a record low of just 0.7% in March, down from 2% at the same time last year.

Brisbane home values were virtually flat last month, but with a 0.1% change, this was the first monthly rise since June last year. Both house and unit values recorded a modest lift over the month at 0.1% and 0.2%, but unit values have generally held much firmer than houses through the downcycle to-date, down 2.1% since peaking compared with a 12.6% drop in house values. Available supply remains extremely low, with the number of listings in Brisbane tracking 35% below the five-year average at the end of March.

Adelaide housing values have been relatively resilient to falls so far, down 2.4% since peaking in July. Having said that values have softened, albeit only slightly, over the past eight months. Relative to pre-COVID levels, Adelaide housing values remain 41% or about $188,000 above pre-COVID levels. The city is recording the tightest rental vacancy rate of any capital city, at just 0.3%, which has pushed rents 11.5% higher over the past year, equating to an increase of roughly $237 more each month for tenants. Low advertised supply is likely to help keep a floor under Adelaide home values, with listings tracking 39% below the five year average at the end of March.

Perth housing values have been the most resilient to falls of any capital city, with a 0.5% rise in values in March and the market only 0.4% below the recent July peak. The sheer affordability of the Perth housing market helps to explain its resilience, with house values the second lowest of any capital behind Darwin. We are also continuing to see low advertised supply levels which were 36% below average at the end of March. Rental

markets are also extremely tight with a vacancy rate of just 0.6%. Such a low vacancy rate has contributed to a 12.8% rise in rents over the past year, the largest increase in rents across the capitals.

Hobart as moved from being one of the strongest capital city housing markets to the weakest in the space of a year. While annual growth over the past decade has been nation leading at 5.9% per annum, the market has responded more negatively than other cities to higher interest rates. Dwelling values are down 12.9% from their peak in May last year, but remain 37.7% higher than they were at the onset of COVID. Adding to softer conditions, advertised stock levels were 43% above the five year average at the end of March. With more stock, the median days on market has risen from a stunningly low seven days to sell in August 2021 to 42 days in March.

Darwin housing values were down 0.4% in March, continuing a run of declines that has been evident over six of the past seven months. Although values have been consistently trending lower, the month on month change has been mild, with a cumulative drop of just 2.0%. Advertised supply is holding relatively tight across Darwin, at nearly 9% below average for this time of the year, which should provide some support for prices. In some relief for renters, Darwin rents are drifting lower, down 1.0% over the March quarter after surging more than any other capital through the worst of the pandemic.

Canberra's housing values have fallen over 10 of the past 11 months. Although the pace of monthly declines has eased from 1.7% in August last year to half a percent down over each of the past two months, we aren't seeing the same stabilising or rising trend in values that has become evident across the larger capitals. Similarly, rents are now trending lower across the ACT, down over eight of the past nine months. The weaker rental conditions are mostly being driven by falling house rents, down 0.8% over the past year compared with a 3.2% lift in unit rents over the year.

Although the recent trend in housing markets is looking increasingly positive, we are still cautious about calling a trough in the cycle. Households and the housing sector will still need to contend with an array of headwinds over the coming months:

For starters, the full impact of higher interest rates is yet to flow through to borrowers. While changes to the cash rate impact *new* lending rates almost immediately, there is typically a several month lag between cash rate movements getting passed on to existing borrowers. Additionally, with around 30% of outstanding housing credit on a fixed interest rate, a substantially larger than normal portion of borrowers are yet to be exposed to the 350 basis points of rate hikes to date.

Although it looks like we are close to the peak in the rate hiking cycle, interest rates are firmly in contractionary territory, and it's likely economic growth will slow through the middle of the year. If consumer sentiment remains low, we aren't likely to see a material or sustained improvement in housing market activity.

Additionally, credit isn't as easy to attain as it was a few years ago. Lending metrics from APRA show a record low portion of home lending is occurring to borrowers with small deposits or with high debt levels relative to their income. Additionally, borrowers are being assessed to repay their mortgage under a scenario where mortgage rates are three percentage points higher, making qualifying for a loan challenging.

There is also the potential for higher advertised supply without a lift in demand. With the flow of new listings holding consistently below average since September, there is likely to be an accumulation of vendors waiting on the side lines. If the number of listings showed a material lift in the absence of a pick up in purchasing activity, we could see some renewed downwards pressure on housing prices. There is no evidence that listings numbers are about to rise, but it's an important metric to follow.

Of course, there is also a range of more positive factors should help to at least partially offset these headwinds.

Inflation is winding down and a peak in the cash rate is probably around the corner. The monthly inflation indicator has lost a lot of momentum over the first two months of the year, dragging the annual headline reading lower, from 8.4% in December to 6.8% in February, sending a clear signal that inflation is on its way down. There is still a long way to go before inflation drops into the target range of 2-3%, however the lower than expected outcome is an encouraging sign that inflation is being tamed.

Net overseas migration is at record highs and set to rise further, adding pressure to housing demand. Surging migration is a double-edged sword. On one hand, high migration will support economic activity and ease tight labour markets, but on the other hand, the current surge in migration is occurring against a chronic shortage of housing, especially rental housing.

Although unemployment will probably rise through the year, it will do so off generational lows and is expected to hold well below the long run average. With most people gainfully employed, along with widespread positive equity in housing values, it's unlikely we will see a material rise in mortgage defaults over the year ahead, as long as unemployment holds below average.

The coming months should provide a greater level of clarity about whether we are actually moving through the bottom of what has been a sharp, but short downturn.