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NAB Australian Housing Market Update–August 23

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CoreLogic's

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

The national Home Value Index rose 0.7% in July marking a fifth consecutive month in the recovery trend to-date.

Since finding a floor in February, the national index is up 4.1%, following a -9.1% decline from record highs in April 2022.

August Housing Market

The rise in values since February has recovered about $29,000 from the recent downturn.

Nationally, home values are still -5.3% below the April 2022 peak, with only Perth, Adelaide and Regional South Australia recording a new cyclical high in dwelling values through July.

While housing values are continuing to record a broad-based rise, the rate of growth has lost momentum over the past two months, slowing from a 1.2% increase in May and 1.1% in June.

After leading the upswing, Sydney is recording the most substantial slowdown in growth, with the city's monthly pace of growth in housing values halving from a recent high of 1.8% in May to 0.9% in July. Sydney has also seen a significant rise in the number of fresh listings added to the market, 9.9% higher than the same time last year and 18.0% above the previous five-year average. An increased flow of new listings provides more choice and may be working to reduce some of the urgency felt among prospective buyers.

Brisbane and Adelaide saw the monthly pace of growth *accelerate* in July, leading the pace of gains across the capitals with housing values up 1.4% across both cities. Although the trend in new listings has risen in these cities, the number remains well below levels from a year ago and the previous five-year average.

Canberra was the only capital city to record a decline in values in July, down -0.1%, while Hobart values were unchanged.

Regional values continued to lag behind the capitals with the combined regionals index rising 0.2% in July compared with a 0.8% increase across the combined capitals. Every rest-of-state region recorded a smaller change in dwelling values through July relative to the respective capital city, reflecting milder housing demand across regional Australia as demographic patterns normalise.

The largest rise in regional housing values over the three months ending July has been the Gold Coast at 4.0%, the South East region of Tasmania with a 3.1% rise, and the Newcastle/Lake Macquarie region, up 3.0%. On the flipside, the weakest conditions over the rolling quarter were confined to areas of Regional Victoria, with Bendigo down 3.7%, followed by Shepparton at -2.3% and the Warrnambool/South West region of Victoria dropping -2.3%.

The flow of new capital city listings lifted by almost 4% over the four weeks ending July 30, bucking the usual seasonal trend where new listings would generally reduce through winter. Most of the capitals have recorded a rise in the number of fresh listings through July, although Sydney was the only city where the flow of new stock to hit the market was higher than a year ago.

There may be a few reasons why vendors are becoming more active at a time that is normally seasonally subdued.

The flow of new listings has held at below average levels since September last year. With total stock levels still low and selling conditions reasonably strong, it may be the case that more home owners are picking the current market conditions as a good time to sell, rather than waiting until spring when stock levels might be higher. Another possibility is that we are seeing the first signs of motivated selling as the rapid rate hiking cycle catches up with household balance sheets. Realistically, it's likely to be a combination of both these factors.

Although new listings have trended higher, overall capital city advertised stock levels remain low, tracking -18% below the same time last year and -23% below the previous five-year average.

The fact that total stock levels are still trending lower implies demand is keeping up with the increased flow of new listings coming to market. Total listings were holding below the previous five-year average across every capital city except Hobart.

While total inventory levels are well below average, national sales were estimated to be 2.2% *above* the previous five-year average over the rolling quarter. Capital cities have driven this above average level of sales, tracking 5.2% above the five-year benchmark, while regional sales were estimated to be -2.9% below the previous five-year average.

The positive inflection in housing values coincides with roughly average levels of buying activity. If we do see the volume of listings increase further, which is likely as we approach spring, that could take some further heat out of the market *unless* that is offset by a more substantial lift in active buyers.

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

In Sydney, the monthly pace of capital gains has decelerated over the past two months, halving from 1.8% in May to 0.9% in July. Since housing values found a floor in January, the market is up 7.6%, or in dollar terms about $104,000. The slowdown in the pace of gains comes as the number of new listings added to the market recorded a rise, up 14% relative to the last week of June. Although the flow of new listings has picked up through winter, total inventory levels were only 4% higher, implying a healthy rate of absorption. Sydney home sales over the past three months were estimated to be 1% lower than at the same time last year and 8% below the previous five year average.

Melbourne returned a relatively soft result for housing values in July, up 0.3% over the month to be 2.7% higher relative to the February 2022 low point. House and unit values are showing a similar recovery trend so far, with both sectors of the market finding a floor in February. Since then, Melbourne house values have risen 2.6% and unit values are up 2.7%. Both sectors remain below the record highs of last year, with house values down 8.9% on the January 2022 peak, while unit values, where the recent downturn was much shallower, are only 3.7% off recent highs. Total listings have edged a little higher through July, but remained 10.8% lower than a year ago at the end of July.

Brisbane housing values were up 1.4% in July, adding approximately $10,200 to the median dwelling value. Together with Adelaide, this was the fastest pace of monthly gains among the capital cities. Since bottoming out in February, Brisbane housing values are up 4.6%, led by a 5% gain across the unit sector. While most cities have recorded a deceleration in the pace of growth, Brisbane's growth rate stepped up from 1.3% in June. New listings have picked up a little across Brisbane, however the stock of advertised properties was holding nearly 23% below the same time last year and 41% below the five-year average.

Adelaide recorded a 1.4% rise in dwelling values in July, taking the market back to new record highs. The recent downturn was a relatively mild event for Adelaide, with housing values falling by only 2.4% from peak to trough. Since finding a floor in March, the market has lifted by 3.5%. The local unit market has bounced back more significantly, rising by 6.9% after moving through a trough in December. Advertised stock levels remain remarkably low, tracking 44% below the five-year average at the end of July. Such tight levels of available supply, against a backdrop of above average demand, is the key reason Adelaide prices continue to rise.

Perth dwelling values have been climbing to new record highs over the past few months, rising another 1% in July to be 4.3% above the recent February trough. Despite values being at a record high, Perth remains one of the most affordable capital cities, with a median dwelling value slightly below $600,000. The only capital city more affordable than Perth is Darwin. Perth's buoyancy is due to persistently low levels of advertised stock. At the end of July, the number of homes for sale across the city was tracking 45% below the previous five-year average, compared with a sales trend holding at well above the five year average.

Hobart dwelling values held firm in July, following a reasonably flat trend since home values found a floor and bottomed out in April after a 13% peak to trough decline. Since that time dwelling values are virtually unchanged, inching 0.1% higher. The unit sector has been a little stronger, with values rising by 1.3% since April. High stock levels are a key factor staving off a recovery trend. At the end of July, Hobart listings were 24% above levels a year ago and 35% higher than the five year average. With listings remaining high, homes are taking a while to sell, recording a median of 55 days on market compared with a median of just 14 days a year ago.

Darwin housing values have been on a subtle upwards trend since April, rising 0.3% in July to be up 1.2% over the past three months. Values remain 2.1% below the recent cycle high after dropping by a relatively mild 3.3% from the August 2022 peak. Darwin's unit sector is the main drag on growth rates, where values are down 3.8% over the past year and still trending lower, while house values are up slightly over the year and recording a mild rate of growth month to month. The relatively soft conditions come despite Darwin remaining the most affordable and the highest yielding capital city by some margin.

The ACT housing market appears to have stabilised, recording a subtle 0.1% fall in values in July. The market was up in May and June, keeping the rolling quarterly trend in positive territory, however we aren't seeing the same recovery trend that is evident across the larger capitals. The relatively stable conditions are likely due to a rise in new listings coming to market. Between the last week of June and last week of July, the flow of new listings increased by 16.5%, providing more choice and less urgency for buyers.

Overall, the housing market remains resilient to a double dip downturn, with housing values continuing to trend higher across most regions of the country. The past two months have seen a reduction in the rate of growth across most regions, but this follows a relatively rapid early recovery trend that was arguably unsustainable given the upwards trajectory of interest rates, low consumer sentiment and generally cautious lending environment.

The trend in advertised stock levels will be a key factor determining housing market outcomes. Very low levels of advertised supply have been vital in keeping a floor under housing prices and supporting a market recovery. With an increase in the flow of fresh listings coming to market, we could gradually see the supply side becoming more balanced if housing demand doesn't pick up at the same pace.

To date, the rise in new listings has been absorbed, with total stock levels remaining well below average, but this will be a trend to watch.

On the demand side, there is evidence that buyers have become more active despite the highest interest rates since 2012 and sentiment levels holding around GFC lows. Housing finance data to June showed the value of home loan commitments have risen since bottoming out in February earlier this year, up 7.6%. The lift in demand is also supported by higher sales activity, with CoreLogic's sales estimates over the past three months slightly above the previous five-year average.

With the RBA keeping the cash rate on hold in August and inflation coming in lower than expected for the June quarter, it's looking increasingly likely the interest rate cycle is at or near a peak. The June quarter inflation reading was the lowest since September 2021, which should help to lift consumer spirts. With sentiment and housing activity closely related, a rise in consumer sentiment should help to support a further lift in housing activity. However, we don't expect to see a material lift in purchasing activity until a cut in interest rates, which isn't likely until 2024.

Even with interest rates potentially stabilising, borrowers aren't yet out of the woods. The coming months will see more borrowers experience the full extent of rate hikes as variable rates follow the cash rate with a lag. Also, the transition of more than 800,000 home loans from very low fixed mortgage rates to variable rates at around 6% or higher is currently moving through a peak.

Mortgage arrears are likely to lift through the second half of the year, but from near record lows. The extent to which borrowers fall behind on their mortgage repayments will be dependent on labour market conditions, which are expected to loosen a little, but also how long interest rates remain elevated.

But a significant rise in mortgage defaults is unlikely considering the outlook for labour markets, which are set to loosen. The RBA's latest forecasts put the unemployment rate at 4.0% by the end of the year and 4.25% by mid-next year, well below the decade average of 5.4%.

Housing demand from strong population growth is set to remain a feature over the coming years, and we are yet to see any material supply response. Net overseas migration is expected to hold at above average levels, underpinning housing demand against a backdrop of persistently low dwelling approvals. The latest estimates from NHIFIC forecast Australia's housing sector will be undersupplied by around 175,000 dwellings by 2027 which will be another factor supporting housing prices over time.

The coming months will be an important period for the housing market. As we approach spring, a higher number of new listings is set to test the depth of housing demand. Additionally, we will be watchful for any signs of motivated selling or mortgage stress as more borrowers are exposed to the full rate hiking cycle to date.