NAB Australian Housing Market Update – July 23

Presented by CoreLogic

CoreLogic's

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

Australian housing values have moved through a fourth month of recovery with CoreLogic's national Home Value Index rising 1.1% in June, decelerating slightly from the 1.2% gain recorded in May.

Since finding a floor in February, the national measure of housing values has gained 3.4%, but remains -6.0% below peak levels recorded in April 2022. That is the equivalent of the median dwelling value being about -$46,000 below record highs seen last year.

July Housing Market

Every capital city except Hobart saw dwelling values rise in June, with Sydney continuing to lead the cycle, up another 1.7% in June to be 6.7% higher since values found a floor in January. In dollar terms, Sydney's median dwelling value is rising by roughly $4,262 a week.

A lack of available supply continues to be the main factor keeping upwards pressure on housing values. Through June, the flow of new capital city listings was nearly -10% below the previous five-year average and total inventory levels are more than -25% below average. Simultaneously, our June quarter estimate of capital city sales is tracking 2.1% *above* the previous five-year average.

Although housing values continue to record a broad-based upswing, the pace of growth across most capitals eased in June, potentially reflecting a change in sentiment as interest rate expectations revise upwards. Higher interest rates and lower sentiment will likely weigh on the number of active home buyers, helping to rebalance the disconnect between demand and supply.

Regional housing values have also trended higher, albeit at a slower pace relative to the capitals. The combined regionals index has risen by a total of 1.2% since the recent low in February. The softer housing trend relative to the capitals aligns with a shift in demographic factors. After regional population growth boomed through the worst of the pandemic, internal migration trends have normalised over the past year, resulting in less housing demand across regional markets. Additionally, housing demand from overseas migration is traditionally skewed towards the capital cities rather than the regions.

Despite the recent uptick, most regions continue to see housing values below their recent cyclical highs. Hobart housing values have recorded the largest cumulative decline, holding -12.9% below the record high in May last year.   Across the capital cities, Perth is the only capital where home values are at record highs, having recovered from the relatively mild -0.9% decline through the downturn. Adelaide home values are only -0.3% below record highs and likely to reach a new record high in July.

The imbalance between supply and demand has seen selling conditions turn in favour of vendors rather than buyers. Auction clearance rates across the combined capitals held in the high 60% range through June, in stark contrast to late last year when clearance rates were generally below 60%. Outside of auction markets, vendors have become less flexible when it comes to their price expectations, with capital city discounting rates tightening from -4.3% late last year to -3.6% in June.

Rental conditions remain diverse across the nation, but there is growing evidence that the growth in rents is easing. The national rental index increased a further 0.7% in June, which is still well above the pre-COVID decade average of 0.2% month-on-month, however that rate is a continued deceleration and the smallest monthly rise since January 2023.

Similarly, the annual growth trend in capital city rents has eased from 11.7% in April to 11.5% June, while the combined regional areas of Australia has seen a more significant reduction in annual rental growth, slowing to 4.9% from the record high of 12.5% over the year to September 2021.

While rental vacancy rates have generally ticked a little higher over recent months, they remain well below average levels. Higher vacancy rates are most evident across regional Australia, rising from 1.3% in February 2022 to 1.5% in June, however, even at 1.5%, the current rate is less than half the decade average of 3.3%. Vacancy rates across the combined capitals have risen from 1.0% earlier this year to 1.1%, but are holding well below the decade average of 2.8%.

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

Sydney homes values continued along a rapid recovery trajectory in June with housing values up 0.7% over the month. Although the rate of growth was down from the 1.8% rise in May, Sydney is recording the fastest rate of appreciation in housing values across the capitals by some margin. The strongest growth conditions are evident across the upper quartile of the market, where housing values rose 5.7% through the June quarter compared with a 3.0% gain across lower quartile values. Geographically, quarterly gains ranged from a 6.7% jump in dwelling values across Sydney's Northern Beaches to a 2.5% gain across the Central Coast.

Melbourne housing values have been trending higher over the past four months, rising by 2.3% after declining 9.6% through the recent downturn. Low levels of advertised supply are a key factor supporting Melbourne's growth, with advertised stock levels tracking 7.3% below the previous five-year average. House and unit values are showing a similar performance through the recovery phase so far, up 2.4% and 2.3% respectively since finding a floor, however house values have further to recover after dropping 11.2% compared with a smaller 6.2% decline in unit values. Across the sub-regions of Melbourne, the quarterly change in values ranged from a 2.6% rise across the North Eastern suburbs to 0.6% across Melbourne's West.

Brisbane home values posted the second largest monthly rise of any capital city in June, with a 1.3% lift. Since finding a floor in February, Brisbane dwelling values are up 3.1%, however the market has further to go before recovering the 11.0% drop in values it recorded through the downturn. Most home owners remain in a very strong equity position, with Brisbane housing values still 30.1% higher than at the onset of COVID in March 2020. With advertised stock levels holding 42% below the previous five-year average, buyers don't have a great deal of choice, supporting a reduction in median selling time to 27 days and a narrowing of vendor discounting rates to 3.6%.

Adelaide dwelling values are just 0.3% away from recovering the recent losses recorded during the downturn when values fell 2.4%. The market is up over the past three months, increasing 2.1% amid extremely low advertised supply and a relatively resilient level of purchasing activity. Advertised listings were 46% below the five-year average in early July while estimated sales activity was tracking above the five-year average. It's generally Adelaide's most affordable suburbs that have been the most resilient to falls through the rate hiking cycle to date, and that are leading the highest rate of gains in recent months. Based on value changes to June, Adelaide's lower quartile housing sector has recorded a 3.0% lift in values over the quarter and a 9.2% gain over the year. In contrast, upper quartile

values are up a smaller 1.4% over the quarter after declining by 5.1% over the past year.
Perth is the only capital city where housing values are at record highs. Following a paltry 0.9% reduction in values, Perth home values have risen over six of the past eight months. Although the market has recovered to new record highs, median values remain well below most other capitals, reflecting relatively affordable price points; a reflection of the long running downturn where Perth housing values dropped by 20% between 2014 and 2019. This affordability, along with strong migration from interstate and overseas alongside persistently low advertised stock levels and tight rental conditions are all factor supporting the local market. Across the sub-regions of Perth, the quarterly pace of growth ranged from a 5.6% gain at Armadale to flat conditions in Cottesloe-Claremont.

Hobart was the only capital city to record a fall in dwelling values through June, declining 0.3% over the month and virtually flat over the quarter with a 0.1% rise. Hobart is also the only capital city where advertised stock levels have trended higher and are above the five-year average. While advertised supply has risen, demand has fallen with our estimate of sales volume tracking 16.8% below the previous five-year average. With higher stock levels and less demand, selling conditions have become more challenging. Median selling time has risen from just 12 days a year ago to 50 days and discounting rates have also expanded from 3.3% to 5.0% over the past year.

The trend in Darwin housing values has been a little volatile, rising over the past two months after falling over six of the past seven months. The net result is Darwin housing values remain 3.3% *below* their cyclical high point in August last year. Like most markets, advertised stock levels remain low, tracking 7% below the five-year average while estimates of demand are holding above average. The imbalance may help to keep some upwards pressure on housing prices and as median values are the lowest of any capital city, it's a city that provides an affordable option compared to the larger cities.

Canberra home values recorded a second consecutive month of growth in June, providing the first quarterly gain in home values in a year. The market remains 8.8% below the 2022 record highs following a 9.5% drop in values between June and April. Growth conditions were broad-based across the ACT through the June quarter, with every sub-region recording a rise in value, ranging from a 3.8% lift at Molonglo to a 0.1% rise in Gungahlin and Tuggeranong.

Although the recovery trend has become entrenched over the past four months, the outlook for housing values remains uncertain amid an expectation of higher interest rates, weaker economic conditions and stretched household balance sheets.

The trajectory of interest rates will be a critical factor in the housing market's performance, even after the RBA's July decision to hold the cash rate at 4.1%. There is still potential for an August rate hike and forecasts on where the cash rate will land and how long it will stay elevated vary. It's hard to imagine the recent pace of growth in housing values are sustainable under a higher interest rate setting, especially while sentiment is close to the lows recorded during the GFC and the full rate hiking cycle has been experienced by all borrowers.

The coming months will see an unprecedented peak in the number of fixed rate borrowers refinancing to significantly higher mortgage rates. The RBA has previously estimated that 880,000 fixed rate mortgages will expire in 2023, refinancing from mortgage rates around 2% to higher than 6%. Higher interest rates also imply credit will be less available, especially considering new mortgage borrowers continue to be assessed at a rate three percentage points higher than the origination rate.

Additionally, lenders have become more cautious, with further reductions to high debt-to-income ratio and high loan-to-valuation ratio lending. As we saw through the periods of tighter macro-prudential policies and higher serviceability assessments between 2017 and 2019, credit availability plays an important role in housing markets.

Another key risk for housing conditions is the potential for a rise in advertised housing stock. Low inventory levels have arguably been the most important factor placing upwards pressure on housing prices. A change in the supply dynamic could become evident in spring, when the flow of listings would typically ramp up. We could also see more listing flow onto the market if mortgage stress becomes widespread.

At the moment we aren't seeing any signs that advertised housing stock is rising, at least at a macro level. Some areas, such as Hobart, have seen listings rise to above average levels, but from a low base. This will be a key trend to watch moving forward.

While the downside risks to the housing sector are clear, there are some mitigating factors, including record levels of net overseas migration, a burgeoning undersupply in housing, and an expectation that labour markets will hold reasonably tight.

Net overseas migration is expected to reach 400,000 this financial year, which is almost 27% above the previous record high recorded in 2008. While overseas migrants typically rent rather than purchase on arrival, the increase to overall housing demand will likely support values as demand spills over from the rental sector and long term migrants make a purchasing decision.

At the same time, the pipeline of approved housing supply is around decade lows and trending lower, setting the housing sector up for an undersupply of newly built homes over the medium term. NHIFIC is forecasting Australia's housing sector will be undersupplied to the tune of around 175,000 dwellings by 2027. Such a significant under-build is another factor likely to support housing prices.

With the unemployment rate expected to remain well below the long run average, most borrowers should be able to maintain their mortgage repayments, albeit with some pull back in discretionary spending and a further depletion of savings. The latest forecasts from the RBA have Australia's unemployment rate rising from 3.6% in May to 4.5% by the end of the next year. Although higher, this forecasted rate of unemployment is almost a full percentage point below the decade average.