NAB Australian Housing Market Update – June 23

Presented by CoreLogic

CoreLogic's

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

The national measure of dwelling values recorded a third consecutive rise last month, with the pace of growth accelerating sharply to 1.2%.

After finding a floor in February, dwelling values nationally have increased 2.3% in the three months to May, following a 9.2% drop.

June Housing Market

Sydney continues to lead the recovery trend, posting a 1.8% lift in values over the month, the largest monthly gain since September 2021. Since moving through a trough in January, home values have risen by 4.8%, or by roughly $48,000 in dollar terms.

Brisbane and Perth were the only other capitals to record a monthly gain of more than 1.0%, however, the rise in values through May was broad-based with the rate of growth accelerating across every capital city.

The positive trend is a symptom of persistently low levels of available housing supply running up against rising housing demand.

Advertised listings trended lower through May with roughly 1,800 fewer capital city homes advertised for sale relative to the end of April. Inventory levels are -15% lower than they were at the same time last year and -24% below the previous five-year average for this time of year.

With such a short supply of available housing stock, buyers are becoming more competitive and there looks to be an element of FOMO creeping back into the market. Amid increased competition, auction clearance rates have trended higher, holding at 70% or above over the past three weeks. For private treaty sales, homes are selling faster and with less vendor discounting.

The trend in regional housing values has also picked up, with the combined regionals index rising half a percent in May, following a 0.2% and 0.1% rise in March and April.

Although regional home values are trending higher, the rate of gain hasn't kept pace with the capitals.

Over the past three months, growth in the combined capitals index was more than triple that of the combined regionals at 2.8% and 0.8% respectively.

Although advertised housing supply remains tight across regional Australia, demand from net overseas migration is less substantial. Historically, regional Australia accounts for around 15% of Australia's net overseas migration. Additionally, a slowdown in internal migration rates across the regions has helped to ease the demand side pressures on housing.

Premium housing markets in Sydney continue to lead the recovery trend. After recording a larger drop in values, Sydney's most expensive quarter of the market stands out with the highest rate of growth, gaining 5.6% over the past three months compared with a 2.6% rise in more affordable lower quartile values.

Interestingly buyers targeting the premium sector of the market are still buying at well below peak prices. Although values across more expensive homes are rising more rapidly, at the end of May, dwelling values across Sydney's upper quartile remained almost 12% below the January 2022 peak. This is the equivalent to a saving of around $213,000 from the cyclical high.

The same can be said for other housing markets. In fact, despite the recent gains most capital city markets are still recording housing values that are well below recent peaks. Perth is the only capital city where dwelling values have returned to record highs. At the other end of the spectrum is Hobart, where values remain the lowest relative to the city's recent cyclical peak in May last year, down -12.6%.

While advertised supply remains well below average, home sales have shown some subtle upwards movement, with the number of capital city dwelling sales rising over the past three months to the highest level since July last year. While capital city home sales are well below the recent highs recorded in late 2021, they are roughly in line with the previous five-year average, with the number of home sales outstripping new listings in the past three months.

With selling conditions improving, we could see more home owners test the market. The flow of new listings is normally subdued through the winter months, before trending higher into spring. It will be interesting to see if more vendors take advantage of the improving housing market conditions, and look to beat the spring rush when competition to sell could be more intense.

Now let's take a look around the capital cities:

Sydney moved into a fourth straight month of growth in May, with housing values up 1.8%. Following a sharp 13.8% drop in values between February last year and January this year, home values have increased by 4.8% adding approximately $48,000 to the median value. The number of home sales across Sydney was estimated to be 10% below the five year average over the three months ending May. Meanwhile *advertised* stock levels were 17% below average, demonstrating a gap between supply and demand levels. With buyers feeling a renewed sense of urgency, auction clearance rates have been holding above 70% through May, reaching 75% over the final week of the month.

Melbourne dwelling values recorded a third consecutive rise in May, taking the market 1.6% above its recent low point in February. The positive trend over the past three months follows a 9.6% drop in values, and despite the recent trend higher, Melbourne home values remain 8.2% below their February 2022 peak. A key factor placing upwards pressure on Melbourne home values is low availably supply. The number of homes advertised for sale across Melbourne was holding 7% below the five year average in May. With demand rising and stock levels tight, selling conditions have also picked up, with auction clearance rates holding around the 70% mark since mid-April.

Following an 11% drop in values from a peak in June last year, Brisbane's housing market has now recorded three consecutive monthly rises in value. The latest 1.4% lift in values through May takes the recovery trend 1.8 percentage points higher since finding a floor in February. Advertised stock levels remain extremely low, tracking 40% below the previous five year average at the end of May. At the same time, the number of home sales have risen to be 6.1% above the five year average. With supply being outweighed by demand, selling conditions have picked up. Clearance rates held well above average through May while the median number of days on market and vendor discounting rates have also improved.

Adelaide housing values were up 0.9% in May, the second consecutive lift in home values following eight months of decline. With the market up 1.2% since March, Adelaide home values are only slightly off record highs, reflecting only a relatively mild downturn in housing values through the interest hiking cycle to date. Relatively affordable housing prices, especially for interstate buyers, and tight stock levels are key factors supporting the upwards pressure on values. Adelaide's median dwelling value, at $655,000, is the third most affordable of all the capitals, ahead of Darwin and Perth.

With a 1.3% rise in housing values through May, Perth's housing market is back to record highs. Values held reasonably firm through the rate hiking cycle to-date, falling by less than 1% between August and February. Although Perth is the only capital city to stage a nominal recovery, housing values across Australia's fourth largest capital remain remarkably affordable, with only Darwin showing a lower median dwelling value. Advertised stock levels were 41% below average at the end of May, reflecting extremely low levels of available supply. At the same time, the number of homes sales was estimated to be above average, helping to explain the upwards pressure on housing values.

Hobart home values were up half a percent in May, the first month on month rise in a year. The subtle rise comes after a 13% peak to trough decline. Local values remain 12.6% below their record highs from last year, or in dollar terms Hobart's median value is about $94,000 lower. Hobart is the only capital city where advertised listings have risen to above average levels, while home sales are trending at below average levels. This imbalance may keep a lid on any material growth in housing values over the coming months.

After trending lower over seven of the past eight months, Darwin housing values posted a 0.4% rise in May. With only one month of growth and the trend still showing a negative quarterly change, its probably too early to call a bottom in the Darwin market. With 726 sales over the past three months, activity is a little higher than a year ago. At the same time, advertised listings were 3.4% lower than at the same time last year. Jobs growth remains strong across the Territory and unemployment is low. Strong economic conditions coupled with very affordable housing prices sounds like a good recipe for a further rise in home values.

Canberra home values were 0.4% higher in May, breaking a 12 month cycle of falls. Dwelling values were 9.5% below their 2022 peak, equating to a drop of about $83,000. With some signs that values may be rising again, vendor activity has picked up a little. Freshly advertised stock additions were tracking 8.2% above the five year average across the nation's capital in May and total listings have risen to be 11% higher than a year ago. The lift in advertised stock levels could help to keep buyers and sellers reasonably balanced over the coming months.

With housing values moving through a third month of growth, it is clear the market has moved past a short but sharp downturn. Capital city home values dropped -9.7% in the space of 10 months; not quite the largest drop on record, but it was the sharpest. Since finding a floor in February, capital city home values are up 2.8%, but still -7.1% below their peak in April 2022.

The recovery trend is looking increasingly entrenched based on the past three months, however, the outlook for housing remains highly uncertain given the possibility of further rate hikes, the potential for higher levels of mortgage stress and persistently low levels of consumer sentiment.

The upwards momentum in housing prices may induce a renewed 'wealth effect' – if households are feeling wealthier, they could be inclined to spend more, which is an upside risk for inflation. While trends in housing markets fall well outside of the Reserve Bank's mandate, as highlighted by the RBA last month, rising asset prices need to be considered with respect to inflation. This trend towards higher housing values could be a factor placing upwards pressure on interest rate decisions.

If interest rates do rise further, it remains uncertain if this would be enough to reverse the positive trend in housing values. While higher interest rates might quell some of the demand side pressures as borrowing capacity and sentiment reduce further, demand from record levels of net overseas migration will remain.

With rental vacancy rates remaining close to record lows and listing numbers well below average, it is hard to see where this additional housing demand will reside without a material and immediate supply response.

Another risk relates to the potential for increased mortgage stress. The coming months will see a sharp rise in the number of fixed rate home loans reaching term. As more borrowers refinance we should get a better understanding of how well borrowers are placed to service their debt at a substantially higher interest rate.

Helping to offset these risks are tight labour market conditions and a healthy level of household savings accrued.

With labour markets expected to remain tight, the risk of distressed selling should be contained. Despite rising to 3.7% in April, unemployment continues to track around generational lows, well below the pre-COVID decade average of 5.5%. Public and private sector forecasts have the unemployment rate rising, but remaining well below the decade-average benchmark.

The outlook for housing markets largely rests with the trajectory of interest rates. Economists are divided on the cash rate outlook, highlighting the sheer uncertainty about whether we have moved through a peak in the cash rate or not. Even if the rate hiking cycle is over, the timing of a rate cut also remains highly uncertain. Once interest rates start to reduce, we could see more sustained momentum gather in housing markets.

One certainty is that we will always see a great deal of interest in housing market trends here in Australia.