**Housing Market Update July 2021 Transcript**

Welcome to CoreLogic’s housing market update for July 2021. The housing market ended the financial year on a high note, with Australian dwelling values rising 1.9% over the month, taking housing values 13.5% higher over the year; the highest annual rate of growth since April 2004, when the early 2000’s housing boom was winding down after a period of exceptional growth.

Each of the capital cities saw an uplift in dwelling values in June, ranging from a 3.0% rise in Hobart to a more subdued 0.2% lift in Perth. Values also trended higher across the regional areas of each state, apart from regional Western Australia where the market slipped 0.1%.

Darwin maintained the highest *annual* rate of growth across the capital cities, increasing 21.0% in value over the financial year, followed by Hobart at 19.6% and Canberra where values were up 18.1%. Melbourne recorded the softest annual growth, reflecting a larger downturn in housing values through the third quarter of 2020 due to the extended lockdown period, along with a softer growth trajectory in 2021.

Across regional Australia, regional NSW recorded the highest annual growth in dwelling values, up 21.1%, followed by regional Tasmania at 20.8%. Regional Western Australia recorded the softest conditions with a rise of 2.2% over the year.

Despite another month of strong gains, there are signs that some heat is coming out of the market.

The 1.9% rise in Australian home values through June sits well above the decade average of 0.4%. However, this month’s growth rate is down 30 basis points from the previous month, and 90 basis points lower relative to the recent peak rate of monthly growth in March earlier this year.

The deceleration in housing value growth can be seen across most of the capital cities and regional markets. It can probably be attributed to worsening affordability as housing values rise at a substantially faster pace than household incomes. Saving for a deposit and funding transactional costs are becoming larger barriers to entry for many prospective buyers.

Softer growth rates are also emerging at the ‘high end’ of the market. Across the top 25% of capital city dwelling values, growth in the June quarter was 8.0%, down from 9.2% in the three months to May. While this 8.0% uplift was still the highest seen among the value tiers, the growth rate also had the largest month-on-month deceleration. This easing in the pace of growth at the top end of the market is another clear sign of a shift in momentum. The rest of the market tends to follow movements at the high end, and this is the first time in nine months that the high-tier growth rate has not accelerated.

Sales volumes have remained elevated through to the end of the financial year. CoreLogic estimates there were approximately 582,900 house and unit transactions nationally over the financial year, which is the highest number of sales annually since February 2004.

Every greater capital city and rest of state region saw double digit growth in annual sales, with the exception of Hobart, where sales activity fell -0.6% over the year, and regional Tasmania where annual growth in sales was 8.6%.

New listings have risen alongside prices and buying activity, but total stock on the market remains low. CoreLogic estimates that there were approximately 130,000 fresh listings added to the market over the three months to June; almost 8% above the five-year average. However, in the same period, there were around 170,000 sales. The dynamic of sales out-stripping new listings has been a persistent trend through the year. The result is total advertised stock levels remaining approximately -25% below the five-year average.

With demand from buyers outweighing advertised supply, the market dynamic continues to favour vendors over buyers. Auction clearance rates remain well above average, although they have reduced from the highs of late Mach. Typical selling time for homes sold by private treaty remains close to record lows, averaging 29 days, up from a recent low of 25 days, and vendor discounting rates remain very tight at -2.7%.

As always, the market dynamic remains diverse from region to region.

The pace of capital gains remains nation leading across Sydney, with housing values rising a further 2.6% in June, taking the typical value of a Sydney dwelling 15% higher over the financial year. House values were up 19.3% over the year compared with a much softer 5.1% lift in unit values. Such a significant surge in house values has pushed the median to just over $1.2 million. With affordability pressures mounting, its reasonable to assume housing demand will be deflected back towards the medium-to-high density sector where values are substantially lower. The difference between Sydney’s median house and unit value has never been this wide, at a bit over $430,000. There are signs that some steam is coming out of the market though. Monthly growth in dwelling values has eased back from 3.7% in Mach earlier this year to 2.6% in June, clearance rates have reduced from the mid 80% range to mid 70% range and new listing numbers are tracking about 24% above the five-year average which should help to gradually lift advertised inventory levels if buyer activity slows.

Melbourne housing values were up 1.5% in June, slightly below the capital city average of 1.9%, however the financial year growth rate, at 7.7%, was the lowest of any capital city and well below the combined capitals average of 13.5%. House values have been rising at a faster pace than units, ending the financial year 8.9% higher compared with a 4.7% lift in unit values. The softer performance across Melbourne over the year can only partly be attributed to the extended lock down which ended in October last year. Housing values did fall through this period, but growth in housing values over the first six months of 2021, at 9.7%, has also been below average. The softer trajectory can probably be attributed to a variety of factors, including Melbourne’s larger exposure to stalled overseas migration and an outflow of residents to other states and regional areas of the state.

Brisbane housing values were up 1.9% in June, taking the financial year growth rate to 13.2%, which is slightly higher than the capital city average of 12.4% growth over the year. Like most capitals, Brisbane’s unit market has returned a softer result than houses. Unit values were up 5.7% over the financial year, while house values were up more than double that, increasing 14.8%. Sales activity has been trending well above average, demonstrating strong buyer demand. Our latest estimate of sales activity showed sales were 48% above the five-year average in June and 44% higher year on year. In fact, annual home sales haven’t been this high across Brisbane since the onset of the GFC in 2008. Such strong demand has empowered vendors, with private treaty homes taking only 25 days to sell on average with discounting rates at a record low of 2.7%.

Adelaide housing values finished the financial year 13.9% higher, with house values substantially outpacing the unit sector with a growth rate of 15.2% and 5.6% respectively over the year. Adelaide has earned a reputation as a consistent performer, with dwelling values rising over 21 of the past 24 months. Buyer demand has remained high, with annual sales activity tracking about 31% above the five-year average in June. While buyer demand is well above average, advertised supply remains extremely low. Approximately 5,200 homes were available for sale in June, almost 30% below the five-year average and equating to only 1.8 months of supply based on the run rate of sales.

The Perth housing market has shown a distinct softening trend over recent months, with the monthly pace of home value appreciation easing from a recent peak of 1.8% in March earlier this year, to just 0.2% in June. The slowdown is evident across both the house and unit market, and is relatively uniform across the upper and lower quartile of the market, implying a broad-based slowdown in the rate of appreciation. The easing in capital gains comes as housing market activity remains strong, with annual home sales up almost 60% compared with the previous financial year. A few factors that help to explain the slowdown are the sales to listing ratio and trends in housing credit. Over the June quarter, the sales to new listings ratio was recorded at 1.1, the lowest of any capital city, implying buyer demand and fresh stock levels were more evenly balanced than the other capitals. Home lending trends have also eased across WA, with the value of lending falling over two of the past three months.

Hobart once again recorded the highest rate of monthly growth amongst the capital cities in June, with dwelling values rising a further 3.0%. The latest update takes Hobart housing values a stunning 15.5% higher over the first six months of 2021 and almost 20% higher over the financial year. The last time annual growth was this strong was in 2004. In fact, during the 2000-2004 boom in housing values, Hobart’s annual growth rate reached an eye watering 45.5% at its peak. While housing values are surging, housing market activity has actually fallen over the year, down 0.6% compared with the previous financial year. The lack of sales activity has more to do with low advertised stock levels than buyer demand. Advertised supply is tracking around record lows and almost 40% below the five-year average. With listings low and demand high, the natural outcome is a substantial rise in values.

Darwin recorded a relatively soft monthly growth reading, with values up 0.8% in June, roughly half the national average. However, considering Darwin is a small market, with only around 150 sales each month, the trend provides a better reading on conditions. The quarterly rate of growth across Darwin remained strong over the second quarter, with housing values up 6.3%. The financial year saw Darwin housing values surge 21% higher to record the highest annual growth rate of any capital city. Houses and units are showing similar performance, with values up 21.4% and 19.8% respectively over the year. With such strong selling conditions, vendors are piling into the market. New listings are up 133% on last year and 55% above the five-year average, which is leading to a rise in overall advertised stock levels that could gradually take some heat out of the market.

Canberra housing values were up a further 2.3% in June taking the values 18.1% higher over the financial year. Only Darwin and Hobart recorded a larger capital gain over the year. The local market recorded a much stronger result for house price appreciation than units. House values were up 20.7% over the year, while unit values increased by less than half this rate, up 8.7%. With such as significant gain in house values over units, the percentage difference in values between the two housing types has grown to 70%, which is by far the largest difference between median house and unit values amongst the capitals. With affordability becoming more challenging, its likely more housing demand will gradually divert towards the medium to high density sector where the entry point is lower and home ownership more achievable.

Overall, the housing market has shown a remarkable turnaround from a year ago when uncertainty was rife and housing values were under downwards pressure. The housing market has surged on the back of a stronger and earlier than expected economic recovery, along with record low mortgage rates and a range of stimulus measures that have now mostly expired.

However, the housing market has clearly lost some growth momentum. Persistently high rates of home price appreciation are proving to be unsustainable, from both an affordability perspective, and amidst renewed headwinds associated with outbreaks and spot lockdowns.

We know that COVID-19 restrictions will impact transactional activity, but housing values have been relatively immune to the impact from the virus. Based on observations through previous circuit-breaker lockdowns, we can expect to see sharp falls in sales and listings, followed by a swift recovery in buyer and seller activity. There has been little impact observed on prices.

Outcomes for the housing market will depend upon how *long* lockdown conditions last across parts of the country, and whether some of the institutional responses offered through 2020 are reinstated if an extended lockdown occurs.

Affordability constraints and the potential for tighter lending conditions along with higher mortgage rates down the track, remain the primary headwinds for property market performance.

Even without recent developments of COVID-19 in Australia, it is clear that the housing market is losing momentum as affordability constraints build.

Through June, several of the major banks have forecast cash rate increases earlier than has previously been indicated by the RBA. A sooner-than-expected uplift in the cash rate would bring forward mortgage rate rises, and reduce demand for credit, as would other policy considerations such as higher serviceability buffers. More expensive credit, or credit that is harder to obtain, could further shift market dynamics back to more normal levels.

There’s a lot going on at the moment in the property sector. If you would like to stay up to date, make sure you are visiting the news and research pages at corelogic.com.au.