Welcome to CoreLogic’s housing market update for October 2021.

CoreLogic’s national home value index rose another 1.5% last month, taking Australian housing values 17.6% higher over the first nine months of the year and 20.3% higher over the past 12 months. The annual growth rate is now tracking at the fastest pace since the year ending June 1989.

The monthly change in housing values remains positive across every capital city and broad rest of state region, with Hobart and Canberra recording the largest growth, while Darwin and the recently revised Perth index recorded the softest growth conditions across the capitals.

Across regional Australia, regional NSW, regional Tasmania and regional Queensland led September’s capital gains.

Although growth conditions remain positive, it is becoming increasingly clear the housing market moved past its peak rate of growth in March when national dwelling values increased by 2.8%. Since that time, the monthly rise in values has eased back to 1.5%. The slowing momentum can be attributed to higher barriers for non-home owners along with fewer government incentives to enter the market.

With housing values rising substantially faster than household incomes, raising a deposit has become more challenging for most cohorts of the market, especially first home buyers. Sydney is a prime example where the median house value is now just over $1.3 million. In order to raise a 20% deposit, the typical Sydney house buyer would need around $262,300. Existing home owners looking to upgrade, downsize or move home may be less impacted as they have had the benefit of equity that has accrued as housing values surged.

The slowdown in first home buyer activity can be seen in lending data, where the number of owner occupier first home buyer loans has fallen by -23% between January and August. Over the same period, the number of first home buyers taking out an investment housing loan has increased, albeit from a low base, by 43%, suggesting more first home buyers are choosing to ‘rent vest’ as a way of getting their foot in the door.

Despite worsening affordability, house values are still generally rising faster than unit values; a trend that has been evident throughout most of the COVID period to-date, especially across the capital cities. Hobart and Darwin are the only capital cities where this trend has not occurred, with unit values rising 5.4 percentage points and 4.8 percentage points more than house values respectively over the past 12 months.

The reasons for the outperformance of the Hobart and Darwin unit markets look to be quite different. In Hobart, demand is skewed towards a slightly older demographic that may be looking to downsize or for lower maintenance housing options against a backdrop of scarce unit supply. In Darwin, the unit sector has moved through a long running over-supply that has driven prices lower. While the median value of a Darwin unit is the lowest of any capital city, unit rents have surged 20.3% higher over the year, driving gross rental yields to 6.9%.

The stronger performance of house values relative to unit values is less obvious outside of the capital cities. The differential between annual house and unit growth rates in the combined capital cities was 12.3 percentage points in the 12 months to September, compared to 1.9 percentage points across regional Australia. In fact, the September quarter saw unit values rising faster than house values across regional Australia. This is probably a reflection of stronger demand for downsizing options and holiday homes in popular coastal markets.

Persistently low advertised supply remains a key factor placing upwards pressure on housing values across the country. In a positive sign, the trend in new listings added to the market is rising, albeit from a low base. Nationally, based on a rolling four-week count, the number of new listings is up 28% since the recent low point in early September, taking the trend in new listings 3% above the five-year average for this time of the year.

Although new listings are ramping up, the trend in total active listings remains extremely low, continuing to reflect the rapid rate of absorption seen amidst high buyer demand. Nationally, total advertised supply levels are -28.1% below the five-year average and every capital city is recording a below average amount of advertised supply.

While inventory levels remain low, the number of home sales is well *above* average. CoreLogic estimates the number of dwelling sales across Australia was 25.5% higher than the five-year average and 41.9% higher year-on-year at the end of September.

Such low levels of available supply along with high demand is keeping selling conditions skewed towards vendors. Nationally, homes are selling in 35 days, up from 29 days in April, and vendor discounting levels remain around record lows at -2.8%. Another factor pointing to strong selling conditions is the bounce back in auction clearance rates as restrictions relating to one-on-one property inspections were eased mid-month across Melbourne and Canberra. By the end of September, the combined capitals clearance rate had returned to 80.5%, its highest since late March.

Now let’s take a look at each of the capital city housing markets in more detail.

Sydney housing values continue to rise at a faster pace than the capital city average, with the market up 1.9% in September. The latest results take annual growth in Sydney home values to nearly 24% which was the highest annual gain since 1989. Although the annual growth rate is yet to peak, the monthly rate of increase has been easing since moving through a cyclical high of 3.7% in March. Across the sub-regions of Sydney, the Northern Beaches and Central Coast stand out as the strongest markets with housing values up 37% and 32% respectively over the year. The softest markets have been Parramatta along with the City and Inner South region where housing values are 16% higher. Listings activity is starting to rise across Sydney, with the number of new listings now tracking 6% higher than the five-year average for this time of the year. Higher stock levels could be another factor working to dampen the rate of price growth.

Melbourne housing market conditions have been consistently softer than the capital city average, with housing values rising 0.8% in September to be 15.0% higher over the year, which is the lowest annual gain across the capital cities, but still the highest annual growth rate recorded in Melbourne since 2010. The unit market has been a drag on the headline growth rates, with unit values up 8.3% over the year compared with an 18% lift in house values. Across the sub-regions of Melbourne, the Mornington Peninsula stands out with the highest annual rate of gain at 31%, followed by Melbourne’s Outer East where values are up 17.6%. The softest sub-regions have been Melbourne West and the Inner City where housing values are up 9.4% and 10.4% respectively. As the spring listing season gathers pace, new listings being added to the Melbourne market are now tracking 18.3% above the five-year average and total listings are 2.9% above average. Higher stock levels could take some further heat out of the market over the coming months.

Brisbane housing values have continued to increase, rising by 1.8% in September. Although the monthly rate of growth has eased since posting a 2.4% rise in March, there is less evidence of the market losing momentum. The quarterly growth rate is now the highest amongst the major capitals, with values up 5.9% over the September quarter. Brisbane home sales are tracking 42% higher than the five-year average for this time of the year, but active listings are -33% below the five-year average. Clearly buyer demand is continuing to outweigh advertised supply which is keeping housing market conditions skewed in favour of sellers over buyers. Across Brisbane’s sub-regions, the annual growth rate ranges from a 14.9% lift in dwelling values across Ipswich to a 21.1% rise in Moreton Bay South. Looking at the change in values between houses and units, house values are continuing to increase at more than twice the pace of the unit sector, demonstrating stronger demand for low density housing options.

Adelaide home values have continued to track higher with little evidence of a slowdown in the pace of capital gains. Housing values were up 1.9% in September, only slightly down from the cyclical peak rate of growth, recorded in April when values increased by 2% over the month. Dwelling values are up 19.1% over the past 12 months, which is the highest rate of capital gain since 2004. Market conditions remain in favour of the seller, with advertised stock levels tracking -31% below the five-year average, while the number of home sales was 44% above the five-year average in September. Across the sub-regions of Adelaide, the annual change in dwelling values ranged from a 4.5% lift in values across Adelaide City through to a 31.9% rise in Burnside.

Perth’s home value index was revised higher in September, with the refreshed series reporting an 18.1% annual gain in housing values. The strong annual capital gain comes as the monthly rate of growth consistently eases from a high in February of 2.7% to 0.3% in September. The slowing of growth in housing values has occurred alongside a 10% reduction in the value of home lending since February this year, led by a 39% reduction in first home buyer lending. Stock levels remain low, tracking almost -27% below the five-year average, but new listings added to the market are now almost 7% above average as vendors take advantage of the strong selling conditions. Across the sub-regions of Perth, the annual rate of growth has ranged from a 13.6% rise in values at Armadale to a 21.8% lift in values across the Cottesloe-Claremont region.

Hobart remains one of the hottest capital city housing markets, with values rising a further 2.3% in September, which was the largest monthly gain across the capitals. The September update takes Hobart dwelling values 26.8% higher over the past 12 months. In a deviation from the national trend, Hobart’s unit sector, where values have risen 31.1% over the past 12 months, is showing a higher rate of capital gain than houses. The strong unit market conditions reflect tight supply levels and strong demand for lower maintenance properties and downsizing option amidst a more mature aged demographic. With such strong growth in unit values, Hobart is now recording the third highest median unit value amongst the capital cities at just over $542,000.

Conditions across Darwin’s housing market have slowed, with the monthly pace of capital gains easing from 2.7% in April and May to just 0.1% in September. The Darwin index tends to show more volatility than other cities due to the small size, so it will be important to monitor the trends for further softening. The trend in the value of home lending has also been easing, with the value of owner occupier lending falling -4.9% from a recent high in May, but investor interest looks to be picking up, with investors now comprising 25.3% of mortgage demand, up from a recent low where investors were only 9% of demand. High rental yields and a relatively low entry price to the market are likely to be a central factor in attracting more investors to the local market.

Canberra housing values have hardly been disrupted through the current extended lockdown. The monthly rate of growth in dwelling values has held at 2% or higher over the past four months, with growth in house values continuing to substantially outpace growth in unit values. The number of home sales has also trended higher despite the lockdown conditions, with Canberra dwelling sales tracking 32% above the five-year average in September. Low advertised supply levels help to explain the ongoing upwards pressure, with the number of active listings remaining -31% below the five-year average, keeping market conditions in favour of sellers over buyers.

Overall, housing trends around Australia remain positive. Growth in housing values is being supported by an expectation that mortgage rates will remain at record lows for an extended period of time, while strong demand is occurring alongside persistently low advertised supply levels.

This dynamic is changing as the barriers to enter the housing market become higher. Raising a deposit and funding transactional costs has become a significant challenge for some sectors of the market, especially first home buyers who have not had the benefit of home ownership as a source of wealth.

Another emerging risk factor is the potential for tighter credit conditions. Through late September and early October, we saw the federal treasurer endorse tighter credit policies for home lending. This is consistent with commentary from the Reserve Bank and APRA that they will be focusing on the quality of lending standards and trends in household debt.

In the year to June, RBA data showed housing credit increased 5.6%, alongside national accounts data showing an income increase of just 1.6% for the same period. Additionally, APRA reported that home loan originations with a debt-to-income ratio of at least 6 comprised 22% of home lending in the June quarter. It is looking increasingly likely that any new credit restrictions will focus on minimising further accrual in household debt (specifically the housing component of household debt) and/or lifting the minimum interest rate serviceability assessment.

A further trend to watch will be how consumption patterns are impacted by a post-lockdown environment. High savings rates have likely been one of the key factors adding to housing demand throughout the pandemic, with the household savings rate jumping to 22.0% through the June 2020 quarter amid harsh restrictions. With 70% vaccination rates triggering greater freedoms across parts of the country, households may return to more normalised, pre-pandemic consumption patterns and spending, which could further ease housing demand.

Additionally, the coming months are likely to see advertised stock levels move higher. The spring selling season has been delayed to some extent by lockdowns in Sydney, Melbourne and Canberra, however the recent trend has shifted towards a rising number of new listings. As demand becomes more constrained from worsening affordability and potentially tighter lending conditions, advertised stock levels may start to normalise over the final quarter of the year. This could take further heat out of the market as buyers benefit from more choice and less urgency.

Despite the potential headwinds to house price appreciation, monetary policy remains accommodative of high housing demand. In its latest board meeting minutes, the RBA reiterated the cash rate was unlikely to move higher until 2024. Market momentum remains strong, with monthly growth in housing values nearly four times the decade average of 0.4% while indicators suggest it is still very much a ‘seller’s’ market.

It looks like there are plenty of trends to keep an eye on through October. We’ll have our next update out early in November, but in the meantime, you can keep up to date with the flow of housing market research at corelogic.com.au.