Welcome to CoreLogic’s housing update for November 2021. Australian housing values rose 1.5% last month, a similar result to August and September. However, the trend shows the market is continuing to slowly lose momentum since moving through a peak monthly rate of growth in March 2021, when values were up 2.8%.

Across the broad regions of Australia, market conditions are starting to show some diversity. Perth recorded its first negative monthly result since June last year, with values nudging -0.1% lower. At the other end of the spectrum, Brisbane has taken over as the fastest growing market with housing values up 2.5% in October. This was followed by Adelaide and Hobart, with both markets increasing 2.0% in value over the month. In Sydney and Melbourne, the monthly rate of growth has more than halved since the highs seen in March 2021, when they reached a monthly growth rate of 3.7% and 2.4% respectively.

Across the regional markets, New South Wales and Queensland led the pace of capital gains while Western Australia was the only broad rest-of-state region to record a marginal fall in housing values.

Slowing growth conditions are a factor of worsening housing affordability, rising supply levels, and less stimulus. Housing prices continue to outpace wages by a ratio of about 12:1, which is one of the reasons why first home buyers are becoming a progressively smaller component of housing demand. New listings have surged by 47% since the recent low in September and housing focused stimulus such as HomeBuilder and stamp duty concessions have now expired. Combining these factors with the subtle tightening of credit assessments, which went live on November 1st, and it’s highly likely the housing market will continue to gradually lose momentum.

Although the monthly pace of growth is easing, the annual trend has continued to rise, which is a factor of the stronger growth conditions throughout early 2021. Nationally home values are up 21.6% over the year to October, with half the capitals recording an annual growth rate in excess of 20%. Across the broad regions of Australia, regional Tasmania has led the nation for the pace of annual capital gains with dwelling values rising by 29.1%.

Unit markets have generally continued to record a lower rate of growth relative to houses, with this trend most evident in the annual results. In the largest capitals, Sydney house values are up a stunning 30.4% compared to a 13.6% rise in unit values, while in Melbourne house values rose 19.5% over the year compared with a 9.2% gain in unit values. This trend is less evident across regional areas of Australia where the performance gap between houses and units is relatively small.

As housing becomes less affordable, we expect to see more demand deflected towards the higher density sectors of the market, especially in Sydney where the gap between the median house and unit value is now close to $500,000. With investors becoming a larger component of new housing finance, we may see more demand flowing into medium to high density properties. Additionally, investor demand across the unit sector could be bolstered as overseas borders open, which is likely to have a positive impact on rental demand, especially across inner city unit precincts.

From a supply perspective, property listings are finally starting to lift, albeit from an extremely low base. Persistently low levels of housing inventory have been a central factor in the upwards pressure on housing prices. Vendors have enjoyed extremely strong selling conditions while buyers have had limited opportunities to deliberate on a purchasing decision or negotiate on price. Those conditions are gradually starting to change, with new listings trending sharply higher through spring and total advertised stock levels lifting from recent record lows.

The rise in new listings has outweighed buyer demand, pushing the total number of houses and units available for sale to 141,786; a 6.8% increase in active listings from the recent mid-September low.

More listings mean more choice for buyers and less urgency in their purchasing decisions. FOMO is likely to remain a feature of the market while listings remain so far below average. There is a good chance however, that advertised supply will rise further through spring and early summer which, due to worsening housing affordability and a subtle tightening in credit availability, may not be met by a commensurate lift in demand.

Vendor metrics such as auction clearance rates, days on market and vendor discounting rates remain at above average levels, indicating this is still a sellers’ market, however conditions may start to rebalance towards buyers late this year or early next year.

Now let’s explore each of the capital city housing markets.

Sydney housing values continue to rise rapidly, but the monthly rate of growth has more than halved from a recent peak of 3.7% in March to 1.5% through October. Over the first ten months of the year Sydney dwelling values have increased by approximately $206,000. With such a large increase in the cost of housing, the slowdown in home value growth can be mostly attributed to extremely high prices that are progressively blocking more buyers from the market. A surge in new listings is also likely to be dampening price growth, with freshly advertised properties now 18% above the five year average for this time of the year. Across the sub-regions of Sydney, annual growth ranges from a stunning 39% rise in housing values across the Northern Beaches to a 17% lift in Paramatta housing values.

Melbourne’s housing market has continued to record a lower rate of growth than the capital city average, with housing values up 1% over the month to be 16.4% higher over the year. In dollar terms, house values have increased by about $159,000 over the past twelve months while unit values are up a smaller $53,000. The difference between the performance of houses and units has been stark, with house values rising 19.5% compared with a 9.2% gain in unit values, however more recently the performance gap has narrowed. Across the sub-regions of Melbourne, the Mornington Peninsula stands out with by far the highest rate of growth. Housing values have surged 31% across the region, which is twelve percentage points higher than Melbourne’s Outer East, which has recorded the second highest annual rate of growth at 19.1%.

Brisbane has overtaken Sydney to become Australia’s strongest housing market in October. While most cities are losing steam, Brisbane reached a new cyclical high point in March, with housing values up 2.5% for the month. Growth conditions remain skewed towards houses over units, with house values up 2.8% in October to be 24.8% higher over the year. In comparison, unit values were up 1.3% over the month and 10.4% higher over the year. It may come as a surprise to some, but Brisbane unit values are still 2.9% below their record high, set in March 2010. Brisbane’s Western suburbs are showing the highest rate of capital gain, up 27% over the year, while Ipswich is recording the lowest rate of growth at 18%.

Adelaide housing values were up another 2% in October, taking the monthly growth rate to a cyclical high and the fastest rate of growth December 2007. The monthly rise equates to a dollar value of approximately $10,650 and over the year Adelaide housing values have risen by about $90,800. A significant gap has opened up between house and unit values, with houses increasing in value by 22.5% over the year while unit values are up only 5.7%. Home sales are tracking 31% higher year on year while listings are 20% lower than a year ago, highlighting an ongoing imbalance between supply and demand. Across the sub-regions, Adelaide’s most expensive region, Burnside, has led the annual pace of gains, up 32.5% while the softest growth conditions have been in Adelaide City, where a weak unit sector has dragged the performance lower, achieving a 3.5% rise over the year.

Perth’s housing market has noticeably softened over recent months, moving from a recent peak rate of monthly growth in February, when values rose 2.7%, to a subtle 0.1% fall in values in October. This was the first month on month decline since June last year. The softening lines up with a drop in the value of home lending, a rise in new listings numbers that has provided buyers with more choice and a fall in housing related sentiment, which is now the lowest of any state. Closed state borders may be another factor limiting demand, however migration is likely to rebound once state borders relax. Despite the weakening in value appreciation, housing market activity has held reasonably firm at above average levels.

Hobart has been a consistently strong housing market performer with housing values rising at the average annual pace of 11.8% over the past five years. October was no exception, with Hobart remaining one of the strongest capital cities for value growth. Both house and unit values were 2% higher over the month, while over the past year Hobart is one of the few capitals where unit values have risen more than houses, up 31.6% and 27.2% respectively. A key factor pushing prices higher is the persistently low number of homes for sale. Over the four weeks ending October 31, there were only 661 residential properties advertised for sale across Hobart, down 34% on the five year average.

Darwin’s housing market has recorded a strong recovery trend, however the recent trend has lost momentum. Over the rolling quarter, Darwin housing values were up 0.4%, the lowest three monthly rate of growth since July last year. Values are up 19.3% over the year, led by a 23.2% jump in unit values and a 17.1% rise in house values. Annual sales are up 71% from twelve months ago, demonstrating a surge in demand albeit from a low base. Monthly sales are roughly in line with the highs recorded at the peak in the previous housing cycle in 2014. Vendors are taking advantage of the strong selling conditions, with new listings now almost 20% above the five year average.

Canberra housing conditions are holding to a consistently rapid pace of capital gains. The rolling quarterly rate of growth has held above 6% since March, although easing from a recent peak of 7.3% two months ago. The previously underperforming unit market is playing catch up with house values, with both sectors of the market recording a 1.9% lift in values in October. The performance gap between houses and units has been narrowing over recent months, which could be a sign of worsening affordability pushing more demand into the higher density sector of the market. Home sales are up almost 18% year on year, while active listings are rising, but still 28% below the five year average.

Overall, Australia’s housing market is continuing to record an above average rate of growth, but there are clear signs that the market is continuing to cool.

Not only is the rate of growth still easing, but we are also seeing more listings come on the market at a time when housing demand is likely to be dented by tighter credit conditions and worsening affordability.

Looking forward, downside risks for the housing sector are rising. Along with worsening affordability and higher supply, there is the potential for a further tightening in credit policy and, off the back of strong inflation readings, the possibility of an early rate hike is a possibility.

This month, APRA’s 50 basis point lift in the serviceability buffer comes into effect. While we do not expect this will have a remarkable impact on mortgage demand or housing activity, there is the risk that, in response to housing credit rising at faster pace than income growth, additional credit restrictions could be introduced down the track.

RBA credit aggregates to the end of September show the pace of housing credit growth has eased a little over recent months, which may help to alleviate the risk of tighter credit conditions. However, a further rise in high debt-to-income ratio lending or a further lift in the housing component of household debt could be the trigger for further tightening.

We know from previous rounds of macroprudential policy implementations, and the broader credit tightening regime seen during and after the Banking Royal Commission, that the impact of tighter credit conditions on housing markets can be significant.

The trajectory of interest rates will be a central factor in the housing market’s performance over the medium to longer term. Financial markets are already pricing in several rate hikes through 2022 and a growing number of economic forecasters are predicting the first rate hikes to be in late 2022 or early 2023, when inflation is expected to move sustainably within the RBA’s target range of 2-3%.

Higher interest rates have typically been an inflection point for housing markets, with a lift in rates generally corresponding with less growth in housing values or the commencement of a downturn. With household debt near record highs, borrowers are likely to be more sensitive than normal to the cost of debt. A rise in interest rates is likely to be the cue for the housing market moving into a downswing.

Although housing risks are becoming more evident, the short-term view is for further growth in values, albeit at a slower rate than what has been seen over the previous 12 months.

As the economy continues to benefit from easing COVID-19 restrictions, current low interest rates should continue to support demand, along with tight advertised supply levels and improving consumer sentiment.

No doubt we will be watching all these factors very closely over the rest of the year and into 2022. To keep up to date with the trends in-between our updates, make sure you are tuning into the research pages at corelogic.com.au.