Welcome to CoreLogic’s update on housing market conditions for December 2021, brought to you on behalf of National Australia Bank

Housing values continued to rise last month, but conditions are diversifying as stock levels rise and affordability pressures mount.

**Australian housing values were 1.3% higher in November** marking the 14th consecutive month where CoreLogic’s national home value index recorded positive value growth. The November update takes national housing values 22.2% higher over the past 12 months, adding approximately $126,700 to the median value of an Australian home.

**Although values are continuing to rise, the November result was the softest outcome since January** when values rose 0.9%. Since a cyclical peak in the rate of growth in March, when housing values rose at 2.8%, there has been a notable trend towards milder price growth.

Virtually every factor that has driven housing values higher has lost some potency over recent months. Fixed mortgage rates are rising, higher listings are taking some urgency away from buyers, affordability has become a more substantial barrier to entry and credit is less available.

Brisbane and Adelaide are the only capital cities yet to experience a slowdown, with the monthly rate of growth reaching a new cyclical high across both cities in November. Brisbane home values were up 2.9% in November while Adelaide values were up 2.5%. In dollar terms that equates to a monthly rise of approximately $18,500 and $13,500 respectively based on median values.

Relative to the larger cities, housing affordability is less pressing, there have been fewer disruptions from COVID lockdowns and a positive rate of interstate migration is fueling housing demand. On the other hand, Sydney and Melbourne have seen demand more heavily impacted from affordability pressures and negative migration from both an interstate and overseas perspective.

Different supply dynamics are also creating divergent trends across Australian capital cities. In the four week period to November 28, total advertised stock levels across Adelaide was -32% lower than the five year average, and -34% lower across Brisbane. Across Sydney and Melbourne however, stock levels have become far more normalised in recent weeks, with Sydney total listings sitting just -3% below the five year average, while stock levels across Melbourne are 8% above the five year average.

As listings rise we are also seeing a subtle softening in vendor metrics such as the median number of days it takes to sell a property and auction clearance rates. Capital city homes are showing a median time on market of 25 days, up compared with a recent low of just 21 days in May. At the same time, auction clearance rates have trended lower, with the capital city weighted average reducing from the low 80% range in early October to the high 60% range over the last week of November.

The rise in listings and softening of key vendor metrics implies the housing market may be moving through peak selling conditions, however it will be important to see if this trend towards higher listings continues after the festive season.

**Another trend that is evolving is that houses are no long outperforming units as substantially as they were earlier in the year. Houses continued to record a higher growth rate than units, however,** the quarterly rate of growth is now the narrowest it has been since October last year, with 1.6 percentage points between the two broad housing types.

Based on median values, capital city houses are now 38% more expensive than capital city units – the largest difference on record. In dollar value terms, a capital city house is averaging approximately $240,000 more than a capital city unit. In Sydney, where the gap between house and unit values is the widest, a house costs $523,000 more on average than a unit.

With such a large value gap between the broad housing types, it’s no wonder we are seeing demand gradually transition towards higher density housing options simply because they are substantially more affordable than buying a house.

**The slowdown in housing market conditions is less obvious across the regional areas of Australia, where the monthly pace of capital gains has accelerated over the past three months**. Across the combined ‘rest-of-state’ regions of Australia, housing values were up 2.2% in November, double the monthly rate recorded across the combined capital cities (1.1%). Regional Tasmania and regional New South Wales have been the standouts from a capital growth perspective.

Across regional Australia, the strongest growth trends remain skewed towards the coastal and lifestyle markets with NSW’s Southern Highlands and Shoalhaven recording the highest quarterly growth rate at 9.7% followed by the Hunter Valley at 8.9% and Tasmania’s Launceston and North East region at7.7%.

Demand for housing across regional markets, especially those within commuting distance of the major cities, is continuing to benefit from the rise in popularity of remote working arrangements, along with renewed demand for coastal and lifestyle properties, and in many cases, more affordable housing options.

**Across the capital cities we are seeing increasingly diverse conditions.**

Sydney housing values were up a further 0.9% in November. This is the first time we have seen the monthly pace of growth drop below 1% since January. The rate of growth has been easing since March when housing values were rising at 3.8% month on month. Considering housing values have risen by approximately $224,000 over the past year, housing affordability constraints are having a progressively larger impact on housing demand. Based on data to June, it takes an average of 13.5 years for the typical Sydney household to save a 20% deposit – the longest saving period of any capital city by several years. A lift in overall stock levels is another factor taking some heat out of the market. Since the first week of spring, total advertised stock levels have risen by 41% across Sydney, providing buyers with more choice and less urgency.

Melbourne housing values were up 0.6% in November taking the annual growth rate to 16.3% which is among the lowest annual rate of growth across the capital cities. The pace of capital gain has been slowing since March when values were rising at the monthly rate of 2.4%, with factors such as worsening affordability and higher advertised supply levels helping to take some heat out of the market. Melbourne is the only capital where total listings are now above the five year average, providing a broader consideration set for buyers and more competition for sellers. Across the sub-regions of Melbourne, the Mornington Peninsula stands out as the strongest market by some margin with housing values up 30.2% over the with the second highest annual growth rate recorded across the Outer East where values were up 19.2%.

Brisbane has become Australia’s strongest housing market over recent months, with the monthly rate of growth reaching a new cyclical high of 2.9% in November, taking dwelling values 7.4% higher over the rolling quarter and 25.1% higher over the year. In dollar terms we have seen Brisbane dwelling values rise by approximately $127,000 over the past twelve months. Local demand is being supported by a high rate of interstate migration, along with relatively affordable housing prices. On the supply side, advertised listings remain tight, tracking 34% below the five year average at the end of November. Every sub-region of Brisbane has seen housing values rise by more than 20% over the past twelve months, however it is the coastal markets of South East Queensland where growth has led the state, with housing values surging 32% higher over the year across the Sunshine Coast and 30% higher on the Gold Coast.

The pace of capital gains reached a new cyclical high across Adelaide as house values rose a further 2.5% over the month adding approximately $13,500 to the median value of a home. Over the year Adelaide housing values have increased by 21.4% which is the highest annual growth rate on record. Market conditions have been far from even, with house values, which are up 23.9% over the year, rising at three and a half times the pace of unit values. There is also a remarkable difference in growth rates geographically, ranging from a 34.2% surge in dwelling values across Burnside to a 4.4% increase in Adelaide city where the performance has been weighed down by a weaker unit sector.

Perth’s housing market looks to have temporarily stabilised after a strong run of growth, with housing values edging 0.2% higher over the month and 0.4% higher over the rolling quarter. The slowdown in growth conditions has been quite sharp and is potentially attributable to closed state borders along with a rise in advertised stock levels. New listings added to the market were 24% above the five year average at the end of November, leading to a subtle rise in the number of days it takes to sell a home, which has risen from a recent low of just 14 days in April to a still rapid rate of sale at 21 days in November. Once state borders re-open we could see the growth trend rebound as demand from interstate migration resumes.

Hobart has been Australia’s strongest capital city market over the past twelve months, with housing values rising 27.7% over the twelve months to November. Values continued to trend higher in November, adding approximately $7,440 to the median value of a Hobart dwelling. Although the pace of capital gains remains high, the monthly rate of growth has been easing since moving through a cyclical high in March when the monthly growth rate was recorded at 3.3%. Since that time the pace of growth has eased back to 1.1% in November. Advertised stock levels remain in short supply, tracking 26% below the five year average. Such a low number of listings is likely to keep some competitive tension amongst buyers, supporting further price rises over coming months.

Darwin was the only market to record a negative monthly result in November with housing values down 0.4%, continuing a trend where the rate of growth has been trending lower since April. New listings added to the market are tracking 68% higher than a year ago and 32% above the five year average, which may help to explain the slower growth conditions. Although housing values are up almost 17% over the past twelve months, the market remains 15.3% below the previous high in mid-2014.

Canberra housing values were up a further 1.1% in November, matching the national average rate of growth. In a rare occurrence, Canberra unit values recorded a higher monthly growth rate than houses, adding some weight to the recent trend where the performance gap between the two housing types has been narrowing. The month of November may mark a changing of the guard for Canberra’s unit market, where the annual growth rate for units has been a bit less than half that for houses. With house values up 27.2% over the past twelve months, worsening affordability constraints could be channeling more demand towards the lower priced unit sector.

**The outlook for Australian housing markets remains positive,** however the pace of capital gains has lost momentum across most regions since April. This trend towards slowing growth is likely to continue into next year and beyond.

Most of the factors that have been pushing housing prices higher have either diminished or expired.

**Advertised inventory remains low but is now rising across most regions.** A further increase in available supply should help to take more heat out of the market as buyers have more choice and less urgency. Vendors may need to adjust their pricing expectations if homes take longer to sell.

**Fixed term mortgage rates are rising** which could act as a disincentive for some buyers. Although fixed rates are rising, variable mortgage rates are less inclined to rise until the cash rate lifts, which is still expected to be more than a year away. Low mortgage rates will continue to support housing demand, but probably not to the same extent as seen through 2021.

**Housing affordability is becoming more challenging from month to month.** The latest housing affordability metrics show the ratio of housing values to household incomes reached a new record high in June, as did the number of years it takes to save a deposit. With higher barriers to entry, especially for new home buyers who don’t have the benefit of accrued equity behind them, it’s likely housing demand will be progressively impacted as fewer households can afford to buy. A natural consequence of worsening affordability could see demand increase for more affordable higher density housing options such as townhomes and units.

**Tighter credit policies could also work to slow housing activity.** APRA has already lifted the serviceability buffer for new lending by fifty basis points. While this policy isn’t likely to have a material impact on home lending, APRA went on to release a macroprudential policy framework in November which calls out growth in asset prices (along with other factors including credit growth and lending conditions) as a key indicator of emerging systemic risks. The potential for tighter credit policies in the future remains a downside risk for housing.

**Although the housing headwinds are building, a variety of tailwinds should continue to support an upwards trajectory for home values in the short term.** Although mortgage rates are rising, the cost of debt is likely to remain well below long term averages, continuing to support demand for an extended period of time. Additionally, as more Australians are vaccinated, disruptions from COVID should become less frequent and shorter in duration, although the latest Omicron variant presents some additional risk. Open international borders, despite the recently announced delay, are also a net positive for housing markets, although the most immediate impact from resumed overseas migration will be seen in rental demand, while an uplift in purchasing a home from permanent migrants is likely to be more gradual.

As we approach the festive season we can expect the housing market to move into a period of semi-hibernation, picking up again towards late January. With a somewhat quieter few weeks ahead, I would like to take the opportunity to wish you all a very merry festive season and a prosperous new year. See you in 2022.