Welcome to CoreLogic’s update on housing market conditions for Mach 2022.

CoreLogic’s national Home Value Index posted a 0.6% gain last month, taking Australia’s housing market into the 17th consecutive month of increasing values. While housing prices are still generally rising, the pace of growth in the national index has been easing since April last year. February’s growth of 0.6% marks the lowest monthly growth reading since October 2020 and is down from 1.1% in January and a cyclical peak of 2.8% in March 2021.

Every capital city and broad ‘rest of state’ region is now recording a slowing trend in value growth, albeit with significant diversity. Sydney and Melbourne have shown the sharpest slowdown, with Sydney posting the first decline in housing values since September 2020, while Melbourne housing values were unchanged over the month, following a similar relatively flat outcome in December and January.

Conditions are easing less noticeably across the smaller capitals, especially Brisbane, Adelaide and Hobart, where housing values rose by more than 1% in February.

Similarly, regional markets have been somewhat insulated to slowing growth conditions, with five of the six rest-of-state regions continuing to record monthly gains in excess of 1.2%. Over the past three months, housing values across the combined rest-of–state regions increased at more than three times the speed of housing values across the combined capital cities; 5.7% and 1.8% respectively.

Regional housing markets aren’t likely to be immune from the higher cost of debt as fixed-term mortgage rates rise. These markets are also increasingly impacted by worsening affordability constraints as housing prices consistently and substantially outpace incomes. However, demographic tailwinds, low inventory levels and ongoing demand for coastal or treechange housing options is keeping upwards pressure on housing prices.

Advertised inventory levels help explain the some of the divergence in housing growth trends. In Melbourne advertised stock levels are now above average, tracking 5.5% higher than a year ago and 4.7% above the previous five-year average. The trend is similar but not quite as advanced in Sydney, with total advertised stock 6.3% higher than last year but still 4.7% below the previous five-year average. More choice translates to less urgency for buyers and some empowerment at the negotiation table.

The cities where housing values are rising more rapidly continue to show a clear lack of available properties to purchase. Total listings across Brisbane and Adelaide remain more than 20% lower than a year ago and more than 40% below the previous five-year average. Similarly, advertised supply across the combined rest-of-state markets was 24.9% below last year and almost 45% below the five-year average.

As housing conditions evolve we are seeing more diversity across each of the capital cities.

Sydney home values recorded a subtle decline over the month, the first negative movement since September 2020. The 0.1% fall in Sydney home values could better be described as a levelling out, however the trend is pointing towards a further softening in market conditions. We will know over the coming the months if February marks the start of a downturn in housing values across Australia’s largest city. The unit market was the main driver of lower values, with values across this sector down 0.3% over the month compared with flat reading for house values. Analysing the trends by broad valuation cohort shows lower values are confined to the upper quartile of both the house and unit market over the month, following a period of substantially stronger growth through the upswing.

The growth trend in Melbourne housing values has levelled out over the past three months, with values down slightly in December before rising slightly in January and remaining unchanged in February. Over the, change in housing values over the past three months is just 0.2%, well down from the recent peak quarterly rate of growth recorded in April last year at 5.8%. Melbourne is facing some demographic headwinds, as more people seek out regional or interstate housing options along with advertised supply levels now tracking above the five year average. Weaker conditions are most evident across the upper quartile of the market where both house and unit values were down over the month, following a period of stronger performance.

Brisbane has once again recorded the highest monthly and quarterly pace of growth amongst the capitals, with dwelling values up 1.8% over the month and 7.2% higher over the past three months. The annual rate of growth is approaching the 30% mark, mostly fuelled by houses where values are 32.8% higher over the past year compared with a 14.4% lift in unit values. The South East Queensland market more broadly stands out as one of the strongest growth regions for housing values, with demand being fuelled by a high rate of interstate migration. While demand is well above average, advertised inventory levels remained almost 43% below the five-year average at the end of February.

Adelaide housing values continue to record one of the strongest growth readings across the country, with the market rising another 1.5% in February. Over the past year, the median value of a house has increased by roughly $143,000. Despite the significant rise in Adelaide housing values through the latest growth cycle, the median house value remains the third lowest of any capital, after Darwin and Perth, a factor which helps to explain the high demand for housing. Home sales over the past twelve months were estimated to be 36% above the previous five year average, while total advertised stock levels are estimated to be 44% below the five year average. This mismatch between advertised supply and demonstrated demand is the main factor pushing prices upwards at such as rapid rate.

Perth home values have gathered some momentum over recent month, albeit of a low base. The monthly rate of growth was easing through most of last year, culminating in a 0.1% monthly decline last October. Since that time the trend in growth has picked up to reach a rolling three month increase of 1.3%, the highest quarterly trend since July last year. With state borders now open, we could see some upside for Perth housing demand. House values are the lowest of any capital city, rental markets are relatively tight, listings remain below average and the economy is strong. With these fundamentals, the Perth housing market should be recording a higher rate of growth.

Hobart housing values were 1.2% higher in February, the 14th straight month where values have increased by at least 1% in month. Housing values are 26% higher over the year, with the unit sector returning a 29.5% gain compared with houses at 25.1%. Hobart is the only capital city where unit values have risen at a faster rate than houses. The stronger conditions in the unit sector are likely to be a factor of short supply while demand for holiday homes and downsizing options is likely to be high. Over the past five years, Hobart is averaging an annual capital gain of 11.3% which is more than double the national average at 5.3%.

Growth in Darwin housing values slowed sharply through the second half of last year, averaging a monthly growth rate of 0.4% between July and December compared with an average of 1.9% month on month growth between January and June. The first two months of 2022 have shown a similar trend, with Darwin home values up 0.4% in February following a 0.5% lift in January. Rents are showing a similar trajectory to housing values, keeping the gross rental yield firm around the 6.0% mark. The past year has seen housing values rise by 12.3%, which is the lowest of any capital city, however with such as high yield, the total return, which includes annual growth in housing values plus the annualised gross yield, places the Darwin firmly in the middle of the pack for overall housing returns.

The pace of growth in Canberra housing values has slowed, but the market remains in positive growth territory. House values were up 0.3% last month but unit values posted a stronger 1.0% lift, highlighting the recent stronger performance across Canberra’s unit sector that was previously lagging the growth rate for houses. With the median house value in Canberra now over the million dollar mark, we may be seeing some deflection of demand towards the medium to high density sector where the median value is almost $430,000 lower.

Since the onset of the pandemic in March 2020 Australian housing values have risen by 24.6% adding, roughly $144,000 to the value of an Australian dwelling. Such a high rate of capital gain in a period of low income growth can be explained by many factors, including:

* record low interest rates
* improved affordability following the 2017-2019 reduction in housing values
* higher levels of housing sentiment
* a surge in household savings amid lockdowns
* an imbalance between demand and supply
* fiscal policies that supported or incentivised housing activity

But each of these factors are losing their potency to drive housing values higher.

Fixed-term mortgage rates have been trending higher since early 2021, with the upwards trend sharpening through the December quarter last year. Variable mortgage rates are set to rise in line with the cash rate, probably later this year, which is likely to weigh on borrowing decisions. While mortgage rates are expected to remain well below average for an extended period of time, households are likely to be more sensitive to a higher cost of debt, considering housing debt ratios are at record levels.

Housing affordability has been eroded by the high rate of growth in dwelling values alongside low income growth. Between March 2020 and December 2021 wages increased 3.3% compared to the 22.6% lift seen in housing values. Not only does worsening affordability restrict access to the housing market, especially first home buyers, it also erodes housing sentiment.

Measures of housing sentiment have been reducing since November 2020, reflecting a mix of affordability challenges and rising mortgage rates. More broadly, consumer sentiment could be further negatively impacted by Russia’s invasion of Ukraine, triggering a new wave of global uncertainty. Consumer sentiment and housing market activity have historically shown a strong correlation, so if sentiment does trend lower we could see that denting housing demand.  
  
The balance of housing supply and demand is also normalising. This trend is most advanced in Melbourne, where total listings are now above average, but also Sydney where listings are approaching average levels.

Additionally, the rollout of vaccinations and significant easing in social distancing restrictions is seeing increased foot traffic in cities like Sydney and Melbourne. As Australians cautiously emerge from social distancing, there is likely to be a shift in household spending and a slowdown in savings that may have previously supported gone towards a deposit on a home.

While the downside risks to housing are growing, there are some upsides that should help to insulate the market from a sudden downturn.

Open borders, both domestically and internationally, should support housing demand. While a return of overseas travel is not expected to boost home buying demand immediately, we are expecting stronger rental demand in key areas such as inner city precincts popular with foreign visitors and students. A lift in long term/permanent migration should provide a gradual boost to purchasing demand over time.

Improving economic conditions and higher wages growth should also help to keep a floor under housing demand and distressed property sales to a minimum.

Hopes that 2022 would deliver more certainty and less disruption are looking far-fetched at the moment, with the east coast of Australia encountering record levels of rainfall and extreme flooding, the invasion of Ukraine stoking global uncertainty and prospects for higher inflation and wages growth potentially forcing interest rates higher. Of course, we’ll be doing our best to measure the effect of all these factors on housing market dynamics. Youi can stay tuned to our research updates at corelogic.com.au.