Welcome to CoreLogic's housing market update for April 2022.

Housing values are still rising at the national level, however, with a rise of just 0.6% over the month, April's growth rate was the lowest reading since October 2020.

Sydney and Melbourne were the main drag on the headline growth rates. Sydney housing values recorded the third consecutive month-on-month decline, down 0.2%, while Melbourne home values were virtually flat with a decline of just 0.04%. Technically values are down over three of the past five months in Melbourne. Hobart also recorded a negative monthly change, down 0.3%, which was the city's first monthly fall in 22 months.

The weakening state of the market has taken the rolling quarterly trend into negative territory across Sydney and Melbourne for the first time since these cities were in the midst of the first extended lockdowns of 2020.

Demonstrating the diversity in housing conditions across the broad regions of Australia, half of the capitals are still recording a monthly growth rate above 1%. Adelaide, at 1.9%, led the monthly pace of capital gains, followed by Brisbane, Canberra, and Perth.

Although monthly growth rates remain high in these markets, the trend rate of growth is easing in these areas as well. Perth and Darwin are the exceptions, where the rolling quarterly trend has gathered some steam since late last year. A rebound in migration rates as state and international borders re-opened could partially explain the renewed exuberance, along with persistently low advertised stock levels and strong economic conditions, especially in WA.

Regional Australian housing markets have been somewhat insulated from the slowdown, with housing values up 1.4% in April across the combined regionals index, compared with a 0.3% gain across the combined capitals. Advertised stock levels remain 42% below the previous five-year average across the regions, while the volume of home sales is holding 20% above the previous five-year average. The imbalance between available supply and demonstrated demand is a key factor supporting growth in housing prices across regional Australia, however the trend rate of growth is generally slowing as affordability constraints become more challenging.

Stretched housing affordability, higher fixed term mortgage rates, a rise in listing numbers across some cities and lower consumer sentiment have been weighing on housing conditions over the past year. With the RBA cash rate now rising, we are likely to see a further loss of momentum in housing conditions over the remainder of the year and into 2023. As the cash rate rises, variable mortgage rates will also trend higher, reducing borrowing capacity and impacting borrower serviceability assessments.

While the macro trends are clearly softening, conditions remain diverse across the major regions of Australia.

In Sydney, housing values slipped lower over the past three months, taking the rolling quarterly change in dwelling values into negative territory for the first time since late 2020. The drop in values is currently confined to Sydney's premium markets, with upper quartile house values down 1.5% over the past three months compared with a 2.5% rise across lower quartile house values. A similar trend can be seen in the unit sector where values are down 2.2% across the upper quartile but rose by 0.3% across the lower quartile of the market. Its normal for the more expensive sector of the market to lead the cycle, so it wouldn't be surprising to see lower quartile housing values starting to slip over comings months as well. With advertised stock levels now roughly in line with the five year average, homes are taking a bit longer to sell and auction clearance rates have reduced to below average levels, providing an improvement in buying conditions over recent months.

Melbourne dwelling values held reasonably firm last month, marking the fifth consecutive month where values have been flat to falling. The unit market is showing slightly stronger conditions relative to houses, with unit values continuing to rise at the rolling quarterly pace of 0.6% while house values were down half a percent over the past three months. The stronger performance across the unit sector is quite the turn of events. The growth rate in unit values was less than half the growth rate of houses over the past 12 months. With Melbourne property listings now tracking 5.5% above the five year average, buyers are moving into a stronger position, resulting in longer vendor selling times and lower auction clearance rates.

Brisbane remains one of the nation's hottest housing markets, with housing values rising a further 1.7% in April, taking the three month growth rate to 5.7% which is the fastest quarterly pace of growth in housing values amongst the capitals. Despite the strong capital gain conditions, our estimate of home sales has reduced by 15% compared with the same period a year, which may be a reflection of both slowing demand, but also diminished supply following the wide spread floods in late February. Although sales activity has reduced, the number of sales over the past three months was 21% above the five year average while listings remain about 40% below average. This ongoing imbalance between supply and demand is likely to keep some upwards pressure on housing prices in the face of higher interest rates, at least until advertised supply levels start to normalise.

Adelaide topped the capital city growth tables in April with housing values rising by 1.9% in the month, adding approximately $11,500 to the value of the typical dwelling. Adelaide home buyers continue to face significant stock shortages, with advertised listings remaining more than 40% below the five year average. At the same time, our estimate of home sales over the past three months was tracking 40% above the five year average. It's this disconnect between available supply and housing demand that is continuing to drive up prices and will probably insulate Adelaide's housing market from lower prices, at least while supply is being outweighed by demand. The strong selling conditions are also evident in consistently high clearance rates which have remained around the 80% mark through April.

Perth's housing market has caught a second wind, with the rate of growth in housing values running counter cyclical to the other state capitals. Momentum has been building since the rate of growth moved through a recent low at the end of last year when the quarterly rate of growth virtually flatlined at 0.4%. The trend rate of growth has since lifted to 2.4% over the most recent three months and the monthly growth rate of 1.1% was at its highest level since May last year. Re-opened state borders, relatively affordable housing options, a sub-4% unemployment rate and strong jobs growth are likely to be the main factors driving the rebound in Perth housing values.

Hobart reported a rare month on month decline in housing prices through April, with the index dropping 0.3%. This was the first decline in housing values since the early stages of the pandemic. The fall in housing values was attributable to a 0.4% fall in house values, which was partially offset by a 0.6% rise in unit values. In fact, Hobart unit values have generally recorded stronger growth conditions throughout the pandemic cycle, lifting by 23.2% over the past twelve months compared with a 20.1% gain in house values. Hobart has stood out over the past five years as recording, by far, the highest rate of growth in housing values of any capital city, so no doubt affordability pressures are adding to the slower level of housing demand.

The pace of growth in Darwin housing values has lifted over recent months, with rolling three month change rising from just 0.2% in November last year to reach 2.2% growth over the most recent three month period. Sales activity has started the year on a strong footing, with around double the number of home sales over the past three months compared with the same period a year ago. While demand looks to be strong, listing numbers remain about 18% below the five year average, adding some urgency to buyer decision making.

Canberra posted another strong month for housing values, with CoreLogic's dwelling index rising 1.3% over the month, adding approximately $12,300 to the median value of a home. Its has been the unit market driving the strongest gains, where values are up 3.8% over the most recent three month period compared with a 2.5% gain in house values. Arguably high housing prices are deflecting more demand towards the medium to high density sector where prices are roughly $450,000 lower compared with houses.

At a macro-level, housing market conditions have been easing since moving through a peak rate of growth in March last year. With the cash rate now normalising, we expect this trend towards a gradual softening in the growth rate will become more pronounced over the coming months, before the national index starts to trend lower.

Although we are expecting the housing market to move into a downturn through the second half of the year, it is important to remember the context of the recent growth phase. Since the onset of the pandemic, national housing values have increased by 26.2%, adding approximately $155,380 to the median value of an Australian dwelling.

The RBA recently noted a 2-percentage point rise in interest rates could lower real housing prices by 15%. Under this scenario, national dwelling values would be at a similar level to where they were in April 2021. Those who purchased a home over the past year will likely see the value of their home fall below the purchase price, but considering most borrowers were purchasing with a loan to valuation ratio of less than 80%, instances of negative equity are likely to be infrequent.

The extent of any housing market downturn depends on how high and how fast interest rates rise, but also a variety of other factors will be at play. Labour markets are currently showing the lowest unemployment rate since the mid-1970's, and conditions are set to tighten further. Such a low unemployment rate, along with an expectation for higher income growth, should keep distressed listings at relatively low levels.

Additionally, as we enter a period of higher interest rates, borrowers are generally well ahead of their mortgage repayments. The RBA has recently noted the median repayment buffer for owner occupiers with a variable mortgage rate had grown to 21 months of scheduled repayments in February 2022, up from 10 months at the start of the pandemic. Even with a two percentage point rise in mortgage rates, the median repayment buffer would reduce back to 19 months, which is still substantial. With the median household well ahead of their mortgage repayments, the risk of households falling behind on their mortgage repayments is reduced.

Mortgage distress should also be minimised to some extent by mortgage serviceability assessments at the time of the loan origination. All borrowers would have been assessed to repay their mortgage under a scenario of mortgage rates being 2.5 percentage points higher than the origination rate, and since October last year, borrowers were being assessed at mortgage rates of 3 percentage points higher.

Under these serviceability scenarios, borrowers should be able to accommodate higher mortgage repayments costs, although such as rapid rate of inflation could create some challenges for borrowers with thinly stretched budgets.

As the housing market transitions towards softer conditions, we will be reporting on all the twists and turns in the market at the news and research pages of corelogic.com.au.