Australian Housing Market Update: December 2022

Presented by CoreLogic

07/12/22

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

CoreLogic's national Home Value Index moved through a seventh month of decline last month with values dropping -1.0%. That takes values -7.0%, or approximately -$53,400, below April's peak. The decline comes after national housing values surged almost 29% through the recent upswing, adding roughly $171,000 to the value of the average dwelling.

In good news for home owners, although values are continuing to trend lower, the rate of decline has been consistently moderating since the national index dropped by -1.6% in August.

The easing in the rate of decline is mostly emanating from Sydney and Melbourne, but is also evident across many of the smaller capitals and most regional markets. Three months ago, Sydney housing values were falling at the monthly rate of -2.3%. That has now reduced by a full percentage point to a decline of -1.3% in November. In July, Melbourne home values were down -1.5% over the month, with the monthly decline almost halving last month to -0.8%.

The rate of decline has also eased across the ACT and is no longer accelerating in Brisbane. Most of the broad rest-of-state markets have also seen the pace of declines decelerate.

Potentially we are seeing the initial uncertainty around buying in a higher interest rate environment wearing off, while persistently low advertised stock levels have also contributed to this trend towards smaller value falls. However, it's fair to say housing risk remains skewed to the downside while interest rates are still rising and household balance sheets become more thinly stretched.

There is still the possibility the pace of declines could reaccelerate, especially if the current rate hiking cycle persists longer than expected. Next year will be a particular test of serviceability and housing market stability, as the surge in fixed rate loans secured in 2020 and 2021 start to expire.

Across the broad housing types, unit markets have continued a run of relative resilience. In November, capital city unit values were down -0.6%, while house values declined at twice the pace with a -1.2% drop. This trend has been seen throughout the downturn to-date, with capital city unit values down -4.7% from the recent peak, while house values are down -8.4%.

Every capital city except Hobart is recording a more resilient outcome for unit values relative to houses. This trend can at least partially be attributed to the more moderate gains recorded during the upswing, but probably also reflects the unit sector's more affordable price point at a time when borrowing capacity has reduced.

Sydney remains the only city where housing values have fallen by more than -10% from their peak. Through the upswing, Sydney values increased by 27.7% before topping out in January. Despite the sharp -11.4% fall in values through the downturn to-date, Sydney home values remain 10.3% above pre-COVID levels at March 2020.

Due to a weaker upswing, Melbourne values are only 2.8% above where they were at the onset of COVID. Most of the other capital cities and broad rest-of-state regions are still recording dwelling values at least 25% above March 2020 levels.

The trend in new listings added to the housing market drifted higher through November, however this year's spring listing season has been mild. Over the four weeks ending November 27, the flow of new capital city listings was about -31% lower than a year ago and -14% below the previous five-year average.

The lower-than-normal number of new listings coming onto the market has helped to keep total advertised stock below average as well. Across the capitals, total listings haven't been this low at this time of the year since 2010, and regional listings are at their lowest level since 2007. Such low stock levels are likely a key factor offsetting the negative impact of higher interest rates and low consumer sentiment.

While advertised supply levels are lower than normal, so too is housing demand. Capital city home sales were estimated to be -23% lower than a year ago and almost -2% below the previous five-year average over the three months to November.

Given the trend in new listings has recently moved through a seasonal peak, we are likely to see activity from both a listing and buying perspective record a sharper decline around the middle of December through to late January as the festive season disrupts the home buying and selling process.

Now let's check out the housing trends in each capital city.

After recording a 27.7% rise in housing values between October 2020 and January 2022, Sydney home values are down -11.4% since peaking, taking roughly $132,000 off the median value of a dwelling. Larger declines have been evident for houses, with values down -12.6%, while unit values have fallen by a smaller -8.3% after recording a milder upswing as well. We are also seeing larger falls across the upper quartile of the market, with upper quartile house values down -15.1% from the peak compared with a -9.1% drop across lower quartile house values. Housing transaction activity has also fallen relatively sharply, with home sales over the three months to November down -39% relative to the same time last year.

Melbourne housing values have fallen through 10 of the past 12 months, taking the cumulative decline to -7.1%. With a -0.8% drop in values in November, the rate of decline has been easing since a -1.5% monthly drop in July. At the end of November, Melbourne dwelling values were only 2.8% above March 2020 levels coinciding with the onset of COVID. If the current rate of decline persists, we could see Melbourne housing values back to pre-COVID levels by March next year. Home sales over the past three months were estimated to be about a third lower than at the same time last year, reflecting less demand, but advertised supply has also trended lower, down about -12% relative to last year.

Brisbane housing values were down a further -2% in November, on par with Hobart as the largest monthly decline and consistent with October. Since peaking in June, Brisbane home values have dropped by -8.1%, the second largest fall from peak after Sydney where values are down -11.1% since peaking in January. Reflecting the enormity of the recent upswing, Brisbane housing values remain 30.4% above pre-COVID levels. Home sales have reduced by about -18% relative to last year, but remained 14% above the five-year average over the past three months. Advertised stock levels are also lower, tracking one third below the five-year average in November.

Adelaide remains one of the most resilient markets to a downturn, with housing values slipping only -0.3% in November to be -0.9% below their July peak. Home sales have also bucked the weakening trend, with sales over the past three months estimated to be almost 12% higher than a year ago. Relatively affordable housing prices are likely to be a factor in supporting housing demand, with Adelaide's median house value $541,000 lower than Sydney's and $213,000 lower than Melbourne's. Similar to other cities, Adelaide's unit market is recording stronger performance, with unit values remaining at record highs in November, while house values have dropped -1.4% the July peak.

Perth housing values were stable in November, breaking a three-month trend where values were edging lower. Along with Darwin, Perth was the only capital city to avoid a decline in values through the month. The number of home sales also held firm relative to last year, bucking the broader trend towards less transaction activity across the larger capitals. The resilience of the Perth market can be attributed to the relative affordability of housing, along with strong local economic conditions, tight labour markets and positive migration rates. Perth is recording the lowest median house value of any capital city and second lowest median unit value after Darwin.

After consistently being one of the nation’s strongest capital city housing markets, Hobart’s home values are now falling at the equal fastest pace, alongside Brisbane, with values down -2% in November. The decline comes as advertised stock levels adjust higher to be 18% above the five-year average in November, while at the same time, demand for housing reduces. Sales activity over the past three months was estimated to be -14% below levels a year ago. Hobart is also the only capital city where unit values are falling faster than house values, however this follows a more substantial upswing in values across the unit sector during the recent growth phase.

Darwin was the only capital city to record a rise in housing values last month, up 0.2% in November. The rise was driven by a 1.2% gain across the more volatile unit sector, while house values were down -0.3% over the month. Although housing values are generally trending lower, the pace of decline has been mild, and the volume of home sales remains higher than a year ago and substantially above the five-year average. With the lowest median house value and second lowest median unit value across the capitals, Darwin remains one of the most affordable markets to purchase a house or unit.

Canberra home values were down a further -1.2% in November taking the market -6.5% below the June 2022 peak. Falls have been steep for houses, where values are down -7.5% from the recent peak while unit values are down a smaller -3.2%. Although values are falling, demand looks to be holding up reasonably well, with sales over the past three months roughly in line with the same time last year and 15% above the five-year average.

The outlook for the housing market remains skewed to the downside with an expectation for further falls in home values, at least until interest rates find a ceiling.

The trajectory of interest rates is the most important factor for housing market conditions. The RBA has settled into a more moderate cadence of rate hikes, moving from 50 basis point increases in the cash rate to 25 basis points in October and November. Although the RBA could revert back to a more aggressive policy stance, there is a good chance Australian interest rates will peak in the first half of 2023, if not in the first quarter.

A cash rate of 3.1% takes the rate hiking cycle 300 basis points higher than the emergency lows recorded before the tightening cycle began on May 3rd. Importantly, this takes interest rates to the limit of mortgage serviceability assessments recent borrowers were tested on. To-date, bank reporting shows mortgage arrears have held around record lows, but 90-day arrears rates are likely to rise over time given the higher interest rate setting and elevated inflation against a backdrop of record levels of household indebtedness. If interest rates move materially beyond 3.1%, it is reasonable to expect a more substantial rise in mortgage distress, especially when considering the high cost of living pressures.

A lift in fixed mortgage rate refinancing activity from the second quarter of next year adds to the downside risk of higher mortgage distress. The RBA recently estimated around 35% of outstanding housing credit was on fixed term rates, which is higher than the historic average of around 20%. Further, the RBA expects about two thirds of these loan terms will expire by the end of 2023, with borrowers facing a three to four percentage point rise in their mortgage rate.

While mortgage arrears are likely to progressively rise from record lows, the risk of a material lift in defaults remains small.

Tight labour markets will be the key safety net helping to keep a lid on defaults. The unemployment rate, recorded at a generational low of 3.4% in October, is set to rise into 2023, but not to above average levels. Forecasts from Treasury and the RBA, along with the private sector, generally put unemployment around the mid-4% range in 2024, which is still well below the 10-year average of 5.5%.

Household savings and a history of higher than required mortgage repayments should also provide a buffer to higher mortgage rates and cost of living pressures. The RBA recently noted the median variable mortgage rate borrower had enough in their offset/redraw accounts to cover 20 months of mortgage repayments (as of August).

Persistently low inventory is helping to balance out the slump in housing demand. With advertised stock levels well below average across most markets, there is no evidence of an oversupply of homes available to purchase. A rise in advertised stock levels would be a warning sign for a reacceleration in the downturn, but this is looking unlikely, at least in the near term.

As housing values trend lower and incomes rise, some measures of housing affordability are easing. Across the combined capitals, the median dwelling value to income ratio reduced from 8.4 in the March quarter to 7.9 in Q3. The number of years estimated to save a 20% deposit also trended lower, from 11.1 in March to 10.6 in September. An improvement in these metrics implies lower barriers to entry for first home buyers.

The flipside to lower affordability barriers is worsening serviceability. The portion of household income required to service a new mortgage was already rising before interest rates moved from record lows. With interest rates trending higher, the portion of median household income required to service a variable rate mortgage is back to the highest level since Q3 2008 when the cash rate was 7.0%.

Well, that's a wrap for 2022. Our next monthly video update will be released in February next year, however our December Home Value Index will be released on our website on Tuesday January 4.

Thanks for tuning into all the property market twists and turns through the year. In the meantime, you can check out the research page at corelogic.com.au for the latest news and insights. On behalf of CoreLogic, have a safe and fun festive season.