more than money

NAB Australian Housing Market Update – May 23

Presented by CoreLogic

CoreLogic's

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Welcome to CoreLogic's housing market update for May 2023.

It's looking increasingly likely that Australian housing values have bottomed out, with CoreLogic's national Home Value Index having posted a second consecutive monthly rise.

April's half a percent increase, follows a 0.6% lift in March, leaving the Home Value Index 1.0% higher over the past three months.

May Housing Market

It's becoming more evident the housing market has moved through an inflection point after falling -9.1% between May 2022 and February 2023. Not only are we seeing housing values stabilising or rising across most areas of the country, a number of other indicators are confirming the positive shift. Auction clearance rates are holding slightly above the long run average, sentiment has lifted and home sales are trending around the previous five-year average.

Sydney increased 1.3% in April and is leading the positive turn in housing conditions, with dwelling values rising each month since February. In further evidence that a positive growth trend has emerged, the four largest capital cities all recorded a rise in housing values over the rolling quarter.

The more positive trend in housing values comes amid a worsening imbalance between supply and demand, with a significant lift in net overseas migration running headlong into a lack of housing supply. While overseas migration would normally have a more direct correlation with rental demand, with vacancy rates holding around 1% in most cities, it's reasonable to assume more people are fast tracking a purchasing decision simply because they can't find rental accommodation.

On the supply side, many prospective vendors have stayed on the sidelines through the downturn, keeping inventory at below average levels and providing sellers with some leverage at the negotiation table.

There is also the growing expectation the rate hiking cycle is over, or nearly over, following the most rapid and significant cycle of interest rate hikes on record. A consensus view that interest rates have peaked amid a sharp drop in home values could be contributing to a broader perception that the housing market has bottomed out. If interest rates stabilise from here, there is a good chance consumer sentiment will improve, bolstering housing market activity from both a purchasing and a selling perspective.

Notably, the trend towards more positive housing market conditions has occurred while interest rates remain well above average. The last time we saw housing values trending higher through a rising interest rate environment was during the mid-to-late 2000's when the mining boom was underway. This period was also characterised by surging net overseas migration that contributed significantly to housing demand.

The trend among regional markets is one of diversity. While values are generally stabilizing or rising in most areas, Regional NSW and Regional Victoria were the only rest of state regions last month to record a fall in housing values. However, the quarterly trend indicates these regions are on a clear trajectory towards a stabilisation in values.

Persistently low levels of advertised supply is a key factor in supporting housing values. The flow of newly listed properties has held below the previous five-year average since September 2022, with the rolling four-week trend holding around -14% below average for this time of the year towards the end of April.

With the flow of new listings holding lower than normal, total advertised inventory was tracking -21.8% below the previous five-year average for this time of the year. Advertised supply was well below average across every capital city over the four weeks ending April 23, apart from Hobart where listing numbers have been rising, albeit from a low base.

The flow of new listings is highly seasonal, typically trending lower through winter before rising into spring and early summer. At the moment it looks like this seasonal trend is holding true, with the flow of new listings once again falling into winter. This will be an important trend to watch. As market conditions improve we could see prospective vendors becoming more willing to test the market and beat the spring rush when competition among vendors is likely to be more apparent.

While listings have trended lower, demand (based on the estimated number of home sales) looks to have stabilised. The rolling six-month trend in capital city home sales is tracking about -28.6% below the recent high, but has held firm through the year-to-date. On a rolling quarterly basis, estimated capital city home sales were approximately -2.4% below the previous five-year average for this time of the year.

If we see a further lift in consumer sentiment there is a good chance housing activity will trend higher. This has certainty been the case historically, where measures of consumer sentiment and the number of dwellings sales have shown a high correlation.
Now let's take a tour around each of the capital city housing markets.

Sydney's housing market is once again leading the cycle, posting a third consecutive month-on-month rise, taking housing values 3% off their recent low point. The turn in market conditions follows a 13.8% drop in values. In dollar terms, from peak to trough Sydney home values were down approximately $160,000. Advertised supply levels held well below average through April, finishing the month nearly 17% below the five-year average for this time of the year. Rental conditions also remained extremely tight with the vacancy rate holding at 1.2% over the month, pushing rents to a new record high.

Housing values across Melbourne posted a second consecutive month of growth in April, although with a lift of just 0.1% over the month, conditions would be better described as a stabilisation in values following a 9.6% downturn. In dollar terms, housing values in Melbourne fell by roughly $79,000 from their peak in March 2022, to what looks to be trough, 12 months later, this March. Advertised supply levels held nearly 7% below the previous five-year average through April, providing vendors with relatively strong selling conditions. The median number of days it takes to sell a property reduced back to 30 days after hitting 42 days in February, discounting rates tightened a little and auction clearance rates ended the month at 71.8% which is a few percentage points above the long run average.

Brisbane home values have posted a subtle rise over the past two months, up 0.3% in April following a 0.1% rise in March. With values nudging higher over the past two months, the rolling quarterly rate of change moved back into positive territory for the first time since July 2022. Advertised supply levels remain extremely low, tracking 39% below the five-year average at the end of April, helping to bring the median selling time down a little to 28 days while discounting rates also reduced back to 3.9%. Rental markets remain extremely tight, with a vacancy rate of just 1.1%, only slightly off a record low of 1.0% recorded in July last year.

Adelaide dwelling values were up 0.2% in April, continuing a run of resilience despite the higher interest rate environment; in fact, Adelaide home values are only 2.4% below their peak in July last year. The market has been supported by persistently low stock levels, with advertised supply ending last month 42% below the five-year average for this time of the year, while sales activity tracked approximately 15% above the five-year average. Rental markets have also held tight, with vacancy rates the lowest of any capital city, recorded at just 0.4% in April.
Perth housing values recorded a 0.6% increase in April, following a 0.5% rise in March and pushing housing values to a new record high over the month. The market continues to be supported by a relatively healthy level of affordability, with the median dwelling value the second lowest of any capital city after Darwin. Advertised supply was also a key factor supporting prices, with listings ending the month almost 40% below the previous five-year average. Rental markets are recording a vacancy rate of just 0.6%, contributing to the largest annual rise in rents of any capital city, up 13.2%.

Hobart home values held firm in April, breaking 10 consecutive months of decline. Home values remain at a cyclical low, down 13% since peaking in May last year. Although the drop in housing values looks to have stabilised, advertised stock levels have shown a substantial rise, albeit from near record lows a year ago. At the end of April, listings were 44% above the five-year average for this time of the year. Higher supply is likely to be factor dampening prospects for price growth at a time when most of the other capital cities are recording a subtle rise in values.

Darwin housing values have recorded a fall in values over six of the past seven months, with the downwards tend in values actually gathering some momentum, bucking the trend seen in the other capitals where home values are generally stable to rising. Although Darwin is Australia's most affordable capital city and listings are holding at below average levels, we aren't seeing the same demographic drivers as other markets. The latest population estimates showing a slight fall amid negative interstate migration offsetting a positive overseas migration trend.

Housing values across the ACT flattened out in April, continuing a trend towards stabilisation that has been evident since the trend rate of decline started to ease in October last year. Since peaking in June last year, housing values in the nation's capital are down 9.5%, taking approximately $88,000 off the median value of a dwelling. Although advertised supply is up 11% on the same time last year, we are still seeing inventory tracking about 7% below average for this time of the year. In good news for renters, vacancy rates have been trending higher since April last year, supporting a mild 0.7% reduction in rents over the past 12 months.

Overall, it looks like the Australian housing market has moved through what has been a relatively short but sharp downturn. For combined capital city dwelling values, the -9.7% drop from the April 2022 peak to a trough in February 2023 was the second largest on record as well as the steepest decline relative to previous downturns. The -10.2% value decline recorded through 2017-19 is the largest decline since CoreLogic records began in 1980.

Typically, we wouldn't see housing values start a new growth cycle until monetary policy started to ease, credit policies loosened or some level of fiscal support was introduced. The shift towards more positive conditions has come about in the absence of these factors.

The key drivers of this positive inflection seem to be the larger than expected rise in net overseas migration which has created additional housing demand at a time of extremely tight rental conditions and well below average levels of advertised supply.

While the bottom of the downturn looks quite convincing, we aren't expecting housing values to rise materially until interest rates reduce, credit policies ease or housing focused stimulus is introduced, or potentially a combination of these factors.

This scenario, where interest rates fell and credit policy eased, was exactly what occurred around the middle of 2019 following the Federal election; a drop in interest rates that was shortly followed by an easing in APRA's serviceability assessment rules. This saw housing values trend higher before being interrupted by the onset of the global pandemic. While the outlook for housing is looking more positive, it's important to acknowledge some of the headwinds that are likely to dampen any material momentum building in this upswing.

While interest rates have either peaked or are close to peaking, the cost of debt remains 130 basis points above the pre-COVID decade average against a backdrop of near record levels of household indebtedness. The combination of a high cost of debt and high level of debt, as well as cost of living pressures is likely to keep sentiment at below average levels, at least until interest rates come down.

Although values have fallen, the housing market remains unaffordable for many. Even with a recent sharp drop in values, the median value of a capital city dwelling remains 12.0% or roughly $83,000 higher than it was at the onset of COVID in March 2020. The dwelling value to income ratio was just under 8 at the end of September last year, compared with a ratio of 7.2 at the onset of COVID. Serviceability costs have continued to rise, with approximately 42% of the median capital city household income required to service a new mortgage on the median value home in September last year; a figure expected to rise when updated later this month.

Additionally, we are yet to see the full impact of the rapid rate hiking cycle flow through to household balance sheets. Arguably the lag of rate hikes hitting the household sector will be longer than normal due to the larger portion of fixed rate borrowers who have, so far, been insulated from rate hikes. As more borrowers feel the impact of higher interest rates it's likely we will see more evidence of distress, including a rise in mortgage arrears (albeit from record lows) and potentially a lift in motivated listings.

With labour markets expected to remain tight, the risk of distressed selling should be contained. Unemployment continues to track around generational lows, holding in the mid 3% range since June last year compared with a pre-COVID decade average of 5.5%. Public and private sector forecasts have the unemployment rate rising, but remaining well below the decade average benchmark.

The outlook for housing markets largely rests with the trajectory of interest rates. The timing of a rate cut remains highly uncertain, however once we see rates coming down, that is when we could see more sustained momentum gather in housing markets.