NAB Australian Housing Market Update–Sept. 23

Presented by CoreLogic

CoreLogic's

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

The national Home Value Index rose 0.8% in August marking a sixth consecutive month in this growth phase.

The monthly gain was a slight acceleration from the 0.7% increase in July, interrupting a two-month trend of slowing capital gains. Since bottoming out in February, the national home value index is up 4.9%, adding approximately $34,301 to the median dwelling value.

September Housing Market

The recovery trend remains broad-based, with every capital city except Hobart recording a rise in dwelling values over the month. Gains were led by a 1.5% increase across Brisbane, followed by Sydney and Adelaide where home values were up 1.1%.

The recovery trend to-date has been led by Sydney, with a gain of 8.8% since the market found a floor in January. Brisbane has also posted a strong recovery with values up 6.2% since bottoming out in February.

At the other end of the scale, some other capital cities are better described as flat, with Hobart home values unchanged since stabilising in April, while values across the ACT have risen only mildly, up 1.0% since a trough in April. These are also the only two capital cities where advertised supply is tracking higher than a year ago, suggesting a rebalancing between buyers and sellers is a key factor contributing to the stability of values in these regions.

Within the capital cities, it is generally house values rather than unit values that have showed a sharper recovery trend. At the combined capital cities level, house values are up 6.3% since bottoming out in February, compared with a 4.9% rise in unit values. The more significant rise in house values comes after a larger drop through the preceding downturn, where house values were down -10.7% compared with a -6.5% drop in unit values.

With internal migration trends normalising across regional Australia, and less demand side pressures from net overseas migration than in capital cities, regional markets generally aren't seeing the same level of recovery. Home values across regional Australia are up 1.6% since a trough in February, compared with a 6.0% rise across the combined capitals.

Conditions across each of the regional housing markets were mixed, with values down over the month across the non-capital city regions of NSW and Victoria, rising firmly across regional Queensland and SA, and holding relatively flat in regional WA and Tasmania.

Lower than average advertised supply levels remain a key factor supporting upwards pressure on home values. Unusually, the flow of new listings has lifted through winter, however total advertised supply levels remain -15.5% lower than a year ago across the combined capitals and almost -19% below the previous five-year average.

Across the capital cities, the most substantial rise in total advertised stock levels over the past two months has been in the ACT, where listings are 10.2% higher. Sydney and Melbourne have also recorded a noticeable lift in total advertised supply, up 9.8% and 8.3% respectively, although both cities continue to record stock levels lower than a year ago.

Advertised supply remains remarkably low in Perth, Adelaide and Brisbane where total listing counts are more than -40% below the previous five-year average and continues to trend lower.

The trends across each of the capital cities remains diverse:

The pace of growth in housing values stepped up a notch in Sydney, rising from 0.9% in July to 1.1% in August, reversing a two-month period where the pace of growth had been easing. The subtle rise came despite an increase in fresh stock listed for sale.

The flow of new listings increased by 25% between the first week of June and last week of August, however a strong rate of absorption has kept total advertised supply levels relatively low, rising just 7% over the same period and holding 5% below the five-year average. Strong selling conditions could also be seen in shorter selling time and clearance rates holding slightly above the long run average through the second half of August.

Melbourne has maintained a relatively mild rate of recovery, with values rising half a percent in August to be up 3.2% from the recent trough in February. The relatively soft conditions have been accompanied by a rebalancing in advertised supply levels. The flow of listings was tracking almost 11% higher than at the same time last year, pushing total advertised supply 7% above the previous five-year average. A more even balance between supply and demand is likely to be a key factor damping the upwards pressure on housing prices across Melbourne.

The rate of growth in Brisbane housing values accelerated to a nation-leading 1.5% over August, taking local values 6.2% or approximately $43,000 above the recent low in February. While sales transactions are tracking 1.2% above the previous five-year average, advertised supply levels have continued to trend lower through winter to be -40% below the five-year average. With demand outpacing available supply, homes are selling in a median 23 days with a discounting rate of just -3.1%, the second smallest vendor discount after Perth.

Adelaide housing values were up a further 1.1% in August to a new record high. Over the past five years, Adelaide home values have increased by 49%, the largest across the capitals. Low advertised supply levels are a key factor supporting local prices, with listings almost 42% below the five-year average for this time of the year. Adelaide is also recording the lowest vacancy rate of any capital city, at just 0.4%. Such tight rental conditions is probably incentivising more purchasing activity amid an ongoing rental crisis.

Perth home values increased by 0.9% in August, taking housing values in our western city to a new record high. Home values are up 5.3% over the past 12 months, led by a 4.7% rise in house values and followed by a 3.1% gain in unit values. Advertised supply levels remain extremely low, tracking 44% below the previous five-year average. With only 10,345 homes advertised for sale over the four weeks ending August 27th, inventory levels are at a record low. Strong selling conditions can be seen the median days on market, at just 14 days and vendor discounting rates at just -2.8%.

Hobart was the only capital city to record a fall in home values over the month, albeit only slightly, down -0.1%. Since finding a floor in April, Hobart housing values have virtually held flat amid rising inventory levels and softening selling conditions. Median days on market has rocketed higher, from just 18 days a year ago to 56 days, and discounting rates have expanded to -5.3%. With purchasing activity now below the five-year average while advertised stock levels are holding above average, the market is likely to remain flat to falling through spring.

Darwin housing values rose for the fourth straight month in August, posting a 08% gain to be 2% higher since finding a floor in April. The more volatile unit sector has led the gains over the past three months, with values up 3.3% compared with a 0.8% rise in house values. As a relatively small market, the trends in Darwin can be volatile, however the rate of growth, together with below average inventory levels and above average purchasing activity, indicates it's likely values will continue to trend higher.

The ACT housing market is looking more balanced than most of the capitals, with advertised supply levels rising above this time last year to be above the five-year average. More choice and less urgency for buyers has dampened value growth, with the market up only half a percent over the past three months, well below the combined capitals average of 3.1%. Canberra is also seeing a rebalancing in rental supply which has helped to brings rents down -3.2% over the past year. Over the same time frame rental vacancy rates rose from 1.4% to 2.1%, providing some rare reprieve for renters.

With housing values trending higher over the past six months, it's clear the Australian housing recovery is firmly entrenched, albeit with some diversity from region to region. Of the 85 SA4 sub-markets nationally, 65 or just over three quarters, recorded a rise in home values over the three months to August. Areas where values were down over the quarter are primarily regional with a skew towards regional Victoria and, to a lesser extent, regional NSW.

Additionally, three of the four Tasmanian SA4 regions were down in value over the rolling quarter. Although housing values are broadly rising, some headwinds remain apparent.
Rising stock levels will be one of the most important factors to watch over the coming months. The past two months saw a subtle rise in total listings in some regions which has supported a deceleration in value growth. Spring and early summer have historically been more active months for property listings, and if the winter months are anything to go by, the spring selling season is likely to be more active than last year.

The recovery trend has occurred against a backdrop of relatively thin levels of purchasing activity. Buyers continue to face hurdles in accessing the housing market especially from a credit perspective. Lending to borrowers with small deposits or high debt levels relative to their income has become an increasingly smaller portion of home lending. Additionally, borrowers continue to be assessed to service a new loan three percentage points above the current mortgage rate. For many borrowers this means demonstrating an ability to repay their loan at a mortgage rate of more than 9%.

Persistently low consumer sentiment is another factor dampening home buying activity. There is a strong positive correlation between consumer sentiment and home sales. Until consumer spirits show a substantial lift we aren't likely to see a material rise in active home buyers.

With interest rates unlikely to reduce until well into 2024, more households are likely to face mortgage stress. The most recent data has continued to show mortgage arrears remain only slightly above record lows, however the portion of borrowers falling behind on their mortgage repayments is likely to rise through the second half of the year and into 2024. This risk increases as more borrowers navigate the transition from low fixed home loan rates to substantially higher refinanced rates.

On the flipside, there are a range of tailwinds that should help offset these downside factors.

With inflation reducing faster than forecast, cost of living pressures are becoming less significant and the risk of higher interest rates has subsided. The combination of lower inflation and a growing expectation that interest rates have peaked should gradually boost consumer sentiment, helping to support high commitment decision making such as buying or selling a home.

Unemployment is forecast to hold below average levels. Although labour markets are forecast to loosen, unemployment is expected to remain well below the decade average of 5.4%.

Housing demand from strong population growth is set to remain a feature over the coming years, and we are yet to see any material supply response. Net overseas migration is expected to hold at above average levels over the coming years, underpinning housing demand against a backdrop of persistently low dwelling approvals. The latest estimates from NHFIC forecast Australia's housing sector will be undersupplied by around 175,000 dwellings by 2027 which will be another factor supporting housing prices over time.

Clearly there is a lot to stay on top of.