NAB Australian Housing Market Update-Oct. 23

Presented by CoreLogic

CoreLogic's

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

CoreLogic's national Home Value Index recorded a 0.8% rise in September as the recovery trend moved through an eighth consecutive month of growth.

The rise takes the quarterly pace of growth to 2.2%, easing from a 3.0% gain in the June quarter. This slowdown in growth has occurred as advertised stock levels rise, helping to take some heat out of the market.

October Housing Market

The September quarter saw Adelaide recording the highest capital gain at 4.3%, followed by Brisbane at 3.9% and Perth at 3.6%. At the other end of the growth spectrum is Hobart where values were down 0.2% over the quarter, taking the southern capital to a new cyclical low.

The performance of the housing market in each city reflects the underlying supply dynamic. The three capitals recording the highest capital gain each have advertised supply levels that are around 40% below their previous five-year average. Advertised supply levels across Hobart, where values are still trending lower, have been holding at above average levels since June last year and were 41% above the five-year average.

Since finding a trough in January, the national index has recovered by 6.6%, and home values remain 1.3% below record highs recorded in April last year. At the current rate of growth, we are likely to see the national HVI recover to a new nominal high by the end of November.

We have already seen dwelling values reach new record highs in Perth and Adelaide. Brisbane looks set to reach a new record high in October, while Hobart and Canberra have the furthest to go before staging a nominal recovery.

Regional markets are continuing to lag the capitals with every 'rest of state' region recording weaker growth conditions relative to their capital city counterpart over the September quarter. At a broad level, the combined regional markets recorded a 1.1% rise in dwelling values through the September quarter which was less than half the gain across the combined capital city market, at 2.5%.

Softer housing conditions across regional Australia look to be more demand-driven, with the estimated number of home sales 6.5% lower than a year ago and 9.2% lower relative to the previous five-year average. In contrast, the estimated volume of home sales across the combined capital cities was 1.9% higher than a year ago and 6.3% above the five-year average.

The trend in advertised stock levels is a key influence on housing values, with the flow of new listings on an upwards trajectory since early June, bucking the normal seasonal trend where new listings are typically flat to falling through winter.

As the number of freshly advertised properties increases, there has also been an upswing in the total number of homes advertised for sale. Although total capital city listings remain below last year and less than the five-year average, there is a clear upswing in available supply. The rolling four week count of total listings is up almost 6% from the low point in late June.

More listings imply more choice for buyers, and more choice means less urgency, more time to deliberate on the purchase and negotiate with the vendor. The total listing trend remains diverse, with an above average number of homes on the market in Hobart, Canberra and Melbourne. At the other extreme is Perth where total advertised supply was 43.8% below the previous five-year average for this time of the year.

Now let's take a look at the housing trends across each of the capital cities.

After leading both the downturn and the recent upswing, Sydney is recording a slowdown in the pace of growth. Dwelling values surged 5.2% through the March quarter, but have more than halved to 2.2% growth in the September quarter. The slowdown comes as advertised supply levels rise and affordability constraints become more apparent. Although listings are rising, stock levels are still below the five-year average and selling conditions favour sellers, with homes taking a median of 27 days to sell and discounting rates reducing to just 3.3%. Sydney dwelling values are still 3.1% below their record highs.

Melbourne has posted a relatively timid upswing since the trough in January. Since then values have risen by 4.3%, adding roughly $32,000 to the median dwelling value. The relatively mild upswing is occurring against advertised stock levels that have tracked above the five-year average since early August. The increase in advertised stock comes despite the volume of sales rising to be 1.7% higher than a year ago. The lift in new listings has been larger, tracking 12% above a year ago. Melbourne house and unit values remain 4.8% and 2.2% below their record highs respectively.

Brisbane housing values rose 3.9% in the September quarter to be only 0.6% off record highs. At the current rate of growth, it's likely Brisbane values will reach a new record high in October. Although values are still rising rapidly, the rolling quarterly rate of growth has eased a little since moving through a recent high over the three months ending July when values were up 4.5%. Advertised stock levels were tracking 40% below the previous five-year average in early October, while the number of home sales is trending roughly in line with the five-year average. This disconnect between supply and demand is supporting strong selling conditions and upwards pressure on prices.

With a 4.3% rise in housing values in the September quarter, Adelaide is now leading the capital cities for growth. Such strong conditions are occurring while advertised supply levels are 39% below the five-year average for this time of the year and estimated purchasing activity is 10% above the five-year average. Such low supply in the face of above average demand is a key factor supporting value growth. Adelaide's market has been at record highs since June after recovering from a mild 1.7% drop in values through its fleeting downturn. With advertised stock levels showing no signs of a rise, we can expect Adelaide home values to continue rising.

Perth housing values have been rising to new record highs since January this year, following a very brief downturn where local home values fell by only half a percent. Through the year to date, Perth housing values are up 8.7%, adding approximately $49,000 to the median value of a home. Despite the strong gains, Perth housing values remain quite affordable relative to other capital cities, with only Darwin showing a lower median dwelling value. With advertised stock levels nearly 45% below the five-year average and sales activity well above average, homes are selling with a median of just 13 days on market.

Hobart's housing market remains as the only capital city yet to record a recovery trend, with housing values trending lower since moving through a record high in March last year. With the market down 12.4% from its peak, housing values are roughly back to July 2021 levels and remain 27% above pre-COVID levels. The weakness is more on the demand side, where the number of home sales is tracking nearly 21% below the previous five-year average. Advertised stock levels have held above the five-year average since June last year, contributing to a significant lift in median selling time, which reached 45 days in the September quarter.

Darwin housing values moved into positive growth through the September quarter, with the market up 1.3%. This was the first quarterly rise since September last year, following a relatively small decline of 4.9% from the market peak in May last year to a trough in May. Stronger growth conditions have been evident across the unit sector, where values have risen 3.2% over the quarter compared with a 0.4% rise in house values. Stock levels across Darwin remain reasonably tight, tracking 4.6% below the five-year average and homes are selling in 60 days, which is slightly faster than the series average at 67 days.

Housing values across the ACT have held reasonably steady over the year-to-date, rising by only 0.4% in the September quarter to be 0.2% lower than the start of 2023. Since the downturn bottomed out in March, local housing values have risen by a little less than 1%. The prospects for a more substantial upswing remain muted, with advertised supply levels trending higher. At the beginning of October, listings were already 10% above the five-year average and trending higher. Houses have shown a slightly stronger outcome, rising 0.6% in the quarter, while unit values were down 0.4%.

Overall, Australia's housing recovery remains entrenched, with national dwelling values only 1.3% off record highs. Capital city values are 7.4% higher over the first nine months of the year and regional values are 2.6% higher. With values likely to rise further over the coming months, more regions are set to post a nominal recovery in home values before the end of the year.

Of the 87 SA4 regions nationally, 27 are already back to record highs and a further 16 are only 2% or less away from record highs.

While some sectors of the economy will be applauding higher housing values as a sign of increased wealth, non-home owners will be increasingly frustrated as affordability constraints worsen from both a purchasing and rental perspective.

CoreLogic's latest national affordability metrics to June this year show the ratio of dwelling values to household income and the time it takes to save a deposit is once again rising as housing values increase faster than nominal incomes. The portion of household income dedicated to servicing a new mortgage is approaching new record highs, as is the portion of income dedicated to paying rent on a new lease.

The outlook for housing values remains positive, albeit with some risks of a slowdown. Advertised supply levels are arguably the most important facet of the market to watch over the coming months. An acceleration in the flow of new listings is a normal feature of spring and early summer, however, if this trend continues we are likely to see buyers benefitting from more choice, less urgency and greater leverage to negotiate.

A lift in advertised supply isn't likely to be met with a material lift in purchasing activity until barriers to enter the housing market reduce. A rise in consumer sentiment, a drop in interest rates or an easing in credit constraints would all be factors supporting a rise in purchasing activity. However, we haven't seen any evidence of these events occurring. Households are still doing it tough amid high cost of living pressures and high interest rates. Although most borrowers have been exposed to the rate-hiking cycle, we probably haven't seen the full impact just yet. Although mortgage arrears have been fairly contained to-date, as some households draw down on, or deplete their savings, it's logical we will see mortgage arrears rise further.

Economic conditions are softer and labour markets are set to loosen further as businesses and households contend with high interest rates and a pullback in consumption. Despite the softer conditions, unemployment is forecast to remain well below the long run average. We don't see a material risk to mortgage default rates unless we see an unexpected rise in the jobless rate.

A housing undersupply looks set to worsen before it gets any better. Apart from the early COVID dip, annual dwelling approvals haven't been this low since 2013. Against a backdrop of record population growth that is forecast to remain at above average levels over the next five years, we are yet to see any early signs of a supply response. Federal and state policy initiatives focused on incentivising supply are well placed, but high construction costs and scarcity of trades remain a key challenge to deliver more housing supply. While an undersupply of housing is clearly negative, insufficient levels of housing are likely to support housing values over the medium term.

As always, there are plenty of trends to keep an eye on with regards to the housing market and factors influencing housing trends.