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NAB Australian Housing Market Update–Dec. 23

Presented by CoreLogic

CoreLogic's

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

2023 is ending with increasingly diverse housing conditions. While our national Home Value Index reached a nominal recovery in November, the market from city to city and region to region is moving at very different speeds.

The 0.6% rise in the national index in November was the smallest monthly gain since the growth cycle commenced in February, however it was enough to push the index to new record highs. Following a 7.5% drop in values between the April 2022 peak and January 2023 trough, we've seen an 8.3% rise in values through to the end of November. Overall, it took nine months for the market to find a floor through the downturn and ten months to recover the losses, providing a 'V' shaped recovery in national home values.

Multi-speed conditions have become increasingly evident across the capitals, with three cities recording a decline in values over the month. These were Melbourne and Hobart, both down -0.1%, and Darwin, down -0.3%. Growth in Sydney home values also slowed sharply, reducing to just 0.3%, the smallest monthly gain through the recovery cycle to-date. Sydney home values slipped into negative growth over the last week of the month, hinting that we could see Sydney follow Melbourne's lead, stabilising or moving into negative territory in December.

On the flip side, Perth housing values accelerated in November, posting the largest monthly gain since March 2021 at 1.9%. Brisbane values were 1.3% higher and Adelaide values rose by 1.2%. Housing values in these three cities are at record highs and continue to show remarkably low levels of advertised supply while purchasing activity is holding above average levels.

The Melbourne Cup day rate hike has clearly taken some heat out of the market, but other factors like rising advertised stock levels, worsening affordability and persistently low consumer sentiment are also acting as a drag on value growth.

Outside of the capitals, the gap between regional and capital city growth rates has converged, with both the combined capitals and combined regionals index recording a 0.6% rise in values in November. The convergence comes after regional markets have lagged their capital city counterparts through the recovery phase to-date. While housing values across both of these broad regions found a floor in January, the combined capitals index has since increased by more than double the combined regionals index, up 9.6% and 4.3% respectively to the end of November.

A rise in advertised stock levels has played a key role in slowing housing market conditions in some cities. Vendor activity started to rise through early winter, which is seasonally unusual, following an extended period where new listings consistently tracked at below average levels. The persistent lift in selling activity since June has coincided with slower growth in home values. Total stock levels have been rising since July, indicating purchasing demand isn't quite keeping pace with the rise in vendor activity.

Over the four weeks ending November 26th, advertised stock levels were above the previous five-year average in Hobart, Canberra, Melbourne and Sydney. In these cities, market conditions are now in favour of buyers as higher stock levels provide more choice, less urgency and greater opportunities to negotiate.

The same can't be said for Perth, Brisbane and Adelaide, where advertised stock levels remain remarkably low. Perth listings are nearly -40% below their five-year average for this time of the year, while listings are more than -30% below average in Brisbane and Adelaide. Unsurprisingly, these cities are continuing to show a consistently high rate of growth amid strong selling conditions.
Now let's take a tour through each of the capital city housing markets.

Sydney home values were 0.3% higher in November, taking values 11.9% higher since January's trough. The pace of value gains across Sydney was leading the nation earlier in the year, however conditions have been easing since a cyclical peak rate of growth in May when home values were rising at the monthly pace of 2.0%. The sharp slowdown comes amid higher interest rates in November, but also a rise in advertised stock to above average levels and worsening affordability constraints. The trends are pointing towards a more sustainable rate of growth in home values leading into 2024, with the potential for a stabilisation or dip over the coming months.

Melbourne housing values edged 0.1% lower in November. The trend is better described as a stabilisation, however, technically this is the first month-on-month fall in values since January. The unit sector saw a dip of -0.3% and was the primary drag on values, while houses were stable over the month. On a rolling quarterly basis, Melbourne's upper quartile house values are showing the weakest result, with values down -0.2%, while house values across the broad middle of the market showed the strongest result, up 1.4%. The trend suggests housing demand is being deflected from the more expensive price points to the middle of the market as borrowing capacity reduces.

Brisbane remains one of the strongest capital city housing markets, with dwelling values consistently rising at more than 1% month-on-month since May. The market recovered in October from an 8.9% drop in values through the downturn, with the latest November update taking the cumulative growth trend since January's trough to 12.2%. Advertised stock levels remained -35% below the five-year average in late November, while from a demand side, the estimated volume of home sales is trending almost 5% above average levels. House values are showing a slightly stronger rate of appreciation through the upswing, rising 12.5% since the market bottomed out, compared with an 11.3% rise in unit values.

Adelaide has seen home values rising at more than 1% month-on-month over six of the past seven months. A 1.2% lift in November took the cumulative growth trend to 8.7% since the market found a floor in March. Since the onset of COVID in March 2020, Adelaide home values are up almost 51%, the largest rise of any capital city. While this is probably good news for home owners, affordability pressures are becoming more challenging across the city, with the latest affordability metrics placing Adelaide in second position for the worst housing affordability among the capital cities on most metrics.

Perth continues to standout from the other capital cities, with the monthly pace of value growth accelerating through November to record its fastest rate of appreciation since March 2021. The strongest growth conditions are concentrated across lower price points, with Perth's lower quartile rising in value by 6.3% over the past three months compared with a 4.7% rise across the upper quartile. Extremely low stock levels, a relative level of affordability, high migration from both overseas and interstate and strong economic conditions are all factors supporting housing conditions. Demonstrating the severity of the supply-demand imbalance, Perth listings are holding almost -40% below the five-year average while estimated purchasing activity is a bit over 25% above the five-year average.

Hobart housing values remained relatively steady, down -0.1% over the month and only 0.1% higher over the rolling quarter. Through the first 11 months of the year, Hobart housing values are -0.8% lower, on par with Darwin as the weakest performance through 2023. The relatively sedate housing performance comes after a long period of strength; in fact, Hobart is still showing the second highest capital gain over the past ten years, up 88%, following gains in Sydney where values are 90% higher over the same period. Advertised stock levels were 50% above the five-year average in late November while purchasing demand was almost -11% below average levels. Darwin housing values have edged lower over each of the past three months, dragging the rolling quarterly change to -0.7%, the weakest reading since the three months ending May. Both house and unit values were down over the past three months, demonstrating relatively weak conditions amid an estimate of purchasing activity that was roughly -7% below average for this time of the year while listings were down -3.4% on average. While housing values remain soft, gross rental yields have been strong, rising from 5.7% at the onset of COVID to 6.5% in November, by far the highest gross yield across the capitals.

The ACT housing market continues to show a modest rise in values, up half a percent in November to be 1.1% higher over the rolling quarter. Most of the growth is emanating from houses rather than units where values are up 1.4% and 0.1% respectively over the past three months. Advertised stock levels have been on a consistent upwards trajectory, tracking 15% above average levels in late November. Rental conditions have tightened a little over recent months, with the rolling quarterly change in rents moving back into positive growth for the first time since February.

It is looking increasingly clear the housing market is moving through a new inflection point, with the rate of growth in home values becoming more diverse, but generally weakening. The upswing in housing values since February has been relatively thinly traded and occurred against a backdrop of low inventory. As advertised stock levels rise to above average levels in some cities, the housing upswing has lost momentum.

Downside risk factors have become more pronounced, including an expectation that interest rates could remain higher for longer, worsening affordability challenges, and deeply pessimistic levels of consumer sentiment that look to be entrenched. The monthly inflation indicator for October came in much lower than expected, which may help to allay fears of further rate hikes and lift consumer spirits a little, but it's unlikely we will see a material lift in housing activity until interest rates reduce, and that isn't likely until the second half of next year.

Adding further downside risk to housing activity is a worsening in housing affordability, with a deterioration across every affordability metric through 2023 to-date. The median dwelling value to income ratio rose to 7.5, the portion of household income required to service a new mortgage is close to record highs at 46.2%, it now takes an average of 10 years to save a 20% deposit and the portion of household income dedicated to rental payments has risen to 31.0%.

2024 is shaping up to be a very different housing market, with expectations that value growth will be lower and more diverse from region to region and across housing types. A few trends to watch for next year:

Expect to see a focused effort on delivering more supply to the Australian housing market. A burgeoning housing undersupply is widely acknowledged by government, policy makers and industry as a critical issue. Unfortunately, with dwelling approvals holding well below average levels in 2023, it is likely new housing starts will also remain low, despite the national objective of delivering 1.2 million well located homes by 2029. While capacity constraints across the residential construction sector are starting to ease, profit margins remain compressed. Delivering a material lift in housing supply next year is going to be a challenge.

Rental conditions are set to loosen. It's likely we are moving through a peak in net overseas migration, but other factors should see vacancy rates rise off record lows and rental growth slow further, including a gradual normalisation in household size, and reduced rental demand as HomeBuilder completions flow through. Build-to-rent developments should also help to gradually add to rental supply, however we aren't likely to see a material increase in built-to-rent supply until at least 2025.

Growth in housing values is likely to show greater diversity, both geographically and across housing types. We are already seeing a trend towards a stabilisation or even softening in capital growth in some cities, and overall we expect next year to be softer relative to 2023. WA and Queensland look well placed to outperform the rest of the country given solid interstate migration rates, low supply and less affordability challenges relative to Sydney and Melbourne. Unit values also are positioned to outperform relative to houses, given the cheaper price points and burgeoning undersupply across the medium to high density sector.

Climate change will be high on the housing policy agenda. With residential dwellings accounting for around 23% of Australia's energy usage and 11% of carbon emissions, policies aimed at reducing or improving the energy efficiency of Australian homes are likely to be a key area of focus for politicians, policy makers and the residential construction sector more broadly. Additionally, El Nino conditions are expected for 2024, which implies drier conditions and warmer temperatures. The risk of fire danger and drought are likely to be heightened in susceptible regions.

There is never a dull time when it comes to the property market and all the factors that influence housing trends.

Thank you for tuning into our updates in 2023, we will resume in February 2024. We wish you all the best through the festive season. Happy new year and see you in 2024.