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NAB Australian Housing Market Update–Feb. 24

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CoreLogic's

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Welcome to CoreLogic's housing market update for February 2024.

Australia's housing upswing continued through the first month of 2024 with CoreLogic's National Home Value Index rising 0.4% in January. Up from the 0.3% increases seen in November and December, this marks the 12th straight month of value rises.

Beneath the headline result, housing trends remains diverse around the country. Melbourne, Hobart and the ACT all recorded a subtle decline over the month, while Perth, Adelaide and Brisbane values continued to rise at the monthly rate of 1% or more. The remaining capital cities recorded relatively flat conditions over the month.

House values have continued rising at a faster rate than unit values in January, with the gap between median capital city house and unit values rising to a record high of 45.2% in January. Such a wide gap is the result of house values recording more than three times the capital gain of units since the onset of the pandemic. Since March 2020 capital city house values have surged 34% higher compared with an 11% rise across the unit sector. This trend has continued in January with house values up half a percent over the month, adding around $4,800 to the median house value while units increased a small 0.1%, equivalent to a $900 lift. It seems that most Australians are willing to pay a higher premium than ever for a detached home.

Regional markets are now showing a stronger trend in value growth relative to the capital cities. The combined regional index rose 1.2% over the rolling quarter compared with a 1.0% rise across the combined capitals index. Both the combined capitals and combined regional markets are losing momentum in the pace of value growth, but the capital city trend is experiencing a sharper slowdown, due to the flattening of growth conditions in Melbourne and Sydney. Across the other states, regional WA, SA and Queensland continue to record a slower pace of growth relative to their capital city counterparts; these are also the three regional markets where dwelling values are at record highs.

Despite worsening housing affordability, the volume of home sales has held slightly above average over the past three months. CoreLogic estimates there were over 115,000 dwellings sold over the three months ending January; 11.9% higher than the same period last year and 0.5% above the previous five-year average for this time of the year.

Although households are dealing with ongoing cost of living pressures, high interest rates, low consumer sentiment and affordability constraints, homes are still selling. Housing demand has been buoyed by high migration, but also tight rental markets that have probably incentivised renters to transition towards home ownership if they can afford to do so.

Now let's take a look at each of the capital city housing markets.

The trend in Sydney dwelling values has virtually stabilised over the past three months, with the market up 0.1% over the rolling quarter but 11.4% higher over the past 12 months. The annual rise has been much stronger for houses than units, with values up 12.8% and 7.7% respectively. The annual rise has added about $158,000 to the median house value and $59,000 to the median unit value. With housing affordability becoming more pressing, and such a substantial gap between house and unit values, we could see more demand deflected towards the medium to high density sector where unit values, based on the median, are nearly $570,000 lower relative to houses.

Melbourne dwelling values have been drifting lower since November, falling nearly 1% over the past three months. The unit market has worn the brunt of value falls, down 1.3% over the rolling quarter compared with a 0.8% fall in house values over the same period. It has been the upper quartile of the market where values have fallen the most over the past three months, with the most expensive quarter of the unit market down 2.0% and upper quartile house values down 1.6%. The most resilient housing cohort has been lower quartile house values which continued to trend slightly higher, up 0.1% over the past three months.

Brisbane remains one of the strongest capital city markets for value rises, with dwelling values up 1.0% in January and nearly 15% higher over the past 12 months. The monthly rise has added approximately $7,800 to the median dwelling value. Although values continue to rise rapidly, the pace of gains is clearly easing, with the monthly change peaking in May last year at 1.7%. House and unit values have been rising at a fairly similar pace over recent months, with both sectors up 3.2% in value over the past three months, although house values, based on the median, are attracting a 56% premium over unit values.

Housing momentum across the Adelaide market has carried into 2024 with dwelling values continuing to rise at more than 1% month on month – a trend that has been evident since May last year. The June and November rate hikes haven't taken much heat out of the market so far, but with affordability constraints mounting for local households it's likely this pace of growth is not sustainable. Adelaide has recorded the most significant capital gains since the onset of COVID of any capital city with values up 52.3%. While this is likely to be positive news for home owners, affordability metrics now put Adelaide close to the top of the most unaffordable cities relative to household incomes.

Perth stands out among the capital cities for its persistent rapid rate of capital gains, with values climbing a further 1.6% in January, on par with the city's growth trend in November and December and only slightly lower than the recent high of 1.8% recorded in October. The western capital continues to see housing demand outweigh supply, pushing values 16.7% higher over the past 12 months. While high capital gains are evident across the city, it is the more affordable precincts of Perth that have seen the most significant rises. Mandurah tops the list with a 21.2% gain over the past 12 months. Despite such rapid growth, housing prices remain relatively affordable compared with most capital cities, with the median dwelling value sitting just under $677,000.

Hobart has continued a run of relatively weak growth conditions, with values down 0.7% in January and 0.4% lower over the past 12 months. The weak conditions come after a long period where Hobart housing values were rising at a faster rate than other capitals. In fact, the annual growth rate of 6.3% over the past decade is the second highest of any capital city. Softer conditions currently stem from the fact that listings have held well above average levels since mid-2022 while demand has tapered amid a sharp reversal in intestate migration. At the same time, affordability pressures have become more challenging across the region.

Darwin housing values have held reasonably flat over the past twelve months, down 0.1%. House values have been a little stronger than unit values, posting a 0.3% rise while unit values were down 0.6%, but overall the most northern capital is recording steady conditions. Although overseas migration has been at record highs last year, interstate migration has fallen close to record lows, offsetting the demand side pressure of overseas arrivals. Rental yields across Darwin remains attractive for investor at 6.5% in gross terms.

The ACT recorded a second consecutive fall in January, down 0.2% - a sign the nation's capital is stabilising. The past twelve months have been relatively sedate compared with the larger capital cities, with housing values rising by 1.2%, well below the combined capitals average of 10.0% growth. Negative interstate migration has been a drag on housing demand, while supply has been more balanced with dwelling completions tracking at above average levels over the past year. House rents have also drifted lower over the past 12 months, down 1.9% while unit rents have recoded a rise of just half a percent.

The housing market has started the year on a similar footing to where it left 2023 with values generally trending higher, albeit with significant diversity across the regions and housing types. The key factors shaping the outlook for 2024 are also diverse, with the path of inflation, interest rates, credit policy, consumer sentiment and demographic trends central to the direction of housing markets.

Inflation has been moderating since moving through an annual 7.8% peak in 2022, falling to 4.1% in December last year, beating the RBA forecast of 4.5% inflation. The expectation is that CPI will continue to trend lower, with a good chance inflation will come in lower than the RBA's forecast of 4% annual headline CPI by the middle of 2024. Lower inflation should help to bring the cash rate down, but also provide some support for consumer sentiment as cost of living pressures subside.

The cash rate looks to have peaked at 4.35%, well above the pre-COVID decade average of 2.55%. A loosening in monetary policy settings is likely to be a cautious and gradual process, with most forecasts indicating the cash rate will reduce by 25 basis points towards the end of the year, with further moderation of rates in 2025. While lower interest rates will improve borrowing capacity and help to lift sentiment, we would need to see the cash rate drop by almost 1.8 percentage points, equivalent to more than seven 'standard' 25 basis point cuts, before rates return to the pre-COVID decade average.

Credit policy and macroprudential settings could be a key determinant of housing outcomes in 2024. One of the biggest hurdles in the way of a material lift in home purchasing demand is the 3 percentage point buffer applied to borrower's home loan serviceably assessments. Potentially we could see APRA adjust the buffer back to its previous setting of 2.5% as interest rates fall, however there is no guarantee this will be the case.

Holding the serviceability buffer at the current setting of three percentage points could provide APRA with some assurance of reduced credit risk. Although housing outcomes are outside of APRA's mandate, holding the serviceability buffer firm or pulling other policy levers such as loan-to-income ratio or debt-to-income ratio limits could minimise the chance of a home price surge as interest rates fall.

Consumer sentiment has been in deeply pessimistic territory since mid-2022. High cost of living pressures and high interest rates have been influential in keeping sentiment close to recessionary lows. Historically there has been a strong correlation between consumer confidence and home purchasing activity. Although this relationship has diverged a little in 2023, which is probably attributable to high migration and unusually tight rental conditions, any lift in consumer attitudes should play out positively for housing market activity. With inflation easing and the prospect of rates cuts later this year, we should eventually see sentiment improve.

Migration patterns are clearly changing, with a peak in overseas migration last year, a normalisation in regional migration trends and an easing in some of the more extreme interstate movements. Less overseas migration should help to ease rental demand, especially in the largest capitals where a higher portion of overseas migrants have settled historically. From a purchasing perspective, there is a lag in home buying activity from permanent migrants, suggesting we are likely to see the recent peak levels of migration flow through to purchasing activity over the coming years.

From a supply perspective, the new housing sector remains challenging. Although the trend in dwelling approvals looks to have found a floor, approvals remain well below average and no where near the level required to achieve the governments target of 1.2 million well located new homes over the next five years. Although construction costs are now rising at a below average pace, the previous surge in building costs has created significant margin pressures for the sector and labour supply remains scarce. The burgeoning undersupply of newly built homes is likely to keep a floor under housing values over the medium term at least.

The housing sector will be closely watched this year as policy makers grapple with affordability pressures and getting more housing supply underway. The prospect of lower cost of living pressures and falling interest rates is likely to be stimulatory for the housing sector through the second half of the year – an outcome that is likely to be met with a mixed response from home owners and non-home owners.