NAB Australian Housing Market Update–Mar. 24

Presented by CoreLogic

CoreLogic's

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

Housing values posted a broad-based rise in February with CoreLogic's national Home Value Index up 0.6% in February. This was a 20 basis point acceleration from the 0.4% increase seen in January, and strongest monthly gain since October last year.

Each of the capital cities and rest-of-state regions recorded a lift in values over the month, except Hobart where the market eased -0.3%.

Housing values have been more than resilient in the face of high interest rates and cost of living pressures. The ongoing rise in values reflects a persistent imbalance between supply and demand which varies in magnitude across our cities and regions.

Perth continues to stand out with a substantially higher rate of growth compared to any other region, up 1.8% over February, with Adelaide, Brisbane and the regional areas of South Australia, Western Australia and Queensland also showing a consistently high rate of capital growth month-to-month. These regions are generally benefiting from a combination of comparatively lower housing prices and positive demographic factors that continue to support housing demand.

Although growth rates in Sydney and Melbourne home values have leveled out, the monthly trend also recorded a pick up. Melbourne emerged from a three-month slump of negative monthly movements to record a subtle 0.1% rise in February. Similarly, Sydney dwelling values have moved back into positive territory over the past two months after recording a subtle decline in November and December.

Potentially we are seeing some early signs of a boost to housing confidence as inflation eases and expectations for a rate cut, or cuts, later this year firm up. The re-acceleration in value growth has been accompanied by a bounce back in auction clearance rates and consumer sentiment. Auction results and sentiment have both shown a historically strong relationship with housing trends. The rise in clearance rates from the mid 50% range late last year to the high 60% range in February points to a better fit between buyer and seller pricing expectations. A rise in sentiment suggests households will have a better ability to make decisions around large financial commitments, like a property purchase.

Although the pace of gains has shown some uplift, most regions are still recording value growth well below the highs of last year when the national index rose 1.3% in May. Last years' rate hikes clearly dented capital gains, but higher interest rates haven't been enough to extinguish growth entirely. The shortfall of housing supply relative to housing demand is continuing to place upwards pressure on home values across most regions.

Housing turnover is tracking higher than at the same time a year ago, but slightly below the previous five-year average. Nationally, the estimate of dwelling sales over the three months ending February was 4.7% above last year, with the capital cities a little stronger tracking 6.0% higher than a year ago. Relative to the previous five-year average for this time of the year, home sales are down -5.0% nationally and down -1.5% across the combined capitals. However, we could see the volume of home sales picking up later this year if sentiment continues to improve.

Growth in rental values has also re-accelerated through early 2024 with the monthly pace of change rising to 0.9% in February, the highest reading since March last year. This re-acceleration also saw the rolling quarterly change in rents rise to 2.4%, the highest since May last year.

The pick-up in rents is mostly a seasonal phenomenon, with the first quarter of the year historically showing an accelerating trend. However there has also been a pick up in the annual growth trend for rents, with the national rental index up from a recent low of 8.1% in October last year to 8.5% over the 12 months ending February.
Now let's take a tour of the housing trends across each of the capital cities.

The monthly pace of growth in Sydney home values inched a little higher in February, up 0.5% following a mild 0.2% rise in January. These gains over the past two months followed a subtle decline in values through November and December. The lift in growth was accompanied by a pick up in auction clearance rates through February, with the month averaging a clearance rate of 73%, up from 55% at the end of last year. Stronger conditions are now evident across the lower quartile of the market where values rose 1.4% over the rolling quarter compared with a 0.2% rise in upper quartile values. Despite the pick-up in values, the volume of homes sales over the past three months was estimated to be -8.5% lower than at the same time last year suggesting affordability constraints are starting to bite.

Housing values across Melbourne increased by 0.1% in February. Although the monthly change was virtually flat, this was the first positive movement in Melbourne home values since October last year. The monthly gain was slightly higher for units than houses, but the longer-term trend has favoured the detached housing sector where values are up 4.4% over the past year compared with a 3.0% rise in unit values. Across the broad value-based cohorts of the market, the lower quartile of the unit sector has been the only segment to record a rise in values over the past three months, with values up 0.4%. The largest decline has been across the upper quartile of the unit market, down -1.1% over the quarter followed by a -0.9% decline in values across the upper quartile for houses.

With a monthly rise of 0.9%, Brisbane continues to stand out as one of the strongest markets for housing values, but the pace of growth has been losing momentum since moving through a cyclical high in April last year at 1.7%. The past 12 months has seen Brisbane dwelling values rise by 15.6%, adding just over $108,000 to the median value. Unit values have generally underperformed relative to houses through the recent growth cycles, however the past three months has seen unit values rise faster than houses at 3.6% and 2.8% respectively. Potentially we are starting to see affordability constraints deflect more demand towards unit sector.

Adelaide dwelling values were up 1.1% in February, continuing a strong run of growth where the market has recorded a monthly change of more than 1% through nine of the past 10 months. The unit market has recorded stronger gains over both the rolling quarter and past 12 months which may be an indication that housing affordability is pushing more demand towards higher density options where values are around $285,000 lower based on the median house and unit value. Adelaide has seen the most substantial rise in dwelling values across the capital cities since COVID, with dwelling values up 55.3%.

The rapid rate of capital gains across the Perth housing market is showing no sign of slowing down, with values rising a further 1.8% in February, on par with the cyclical high recorded in October last year. Rents are also rising substantially faster relative to other cities with house rents up 13.5% and unit rents 16.5% higher over the past year. Demand is continuing to substantially outweigh supply and this dynamic doesn't look to be changing any time soon. Despite the solid growth in values, Perth is still a relatively affordable housing market compared with the other capital cities.

Hobart was the only capital city to record a fall in home values last month, continuing a trend of weakness that has been evident since April 2022, the month before interest rates started rising. The weak conditions go well beyond higher interest rates, with population growth turning negative last year as an outflow in interstate migration weighed on the demographic trend. Despite the current weakness, Hobart has recorded one of the highest growth rates over the past decade with values up 82.4%. Such a high rate of growth historically has added to affordability challenges across the market. The weak conditions also extend to the rental sector where rents have trended lower over the past year as demand eases.

Darwin housing values were virtually flat over the month, up 0.1% which is similar to the annual change where housing values were down -0.1%. The market has been in a holding pattern since September 2022 with the monthly change hovering either side of neutral. The relatively soft conditions come despite very affordable housing prices and high rental yields, however interstate migration remained deeply in negative territory which is likely to be weighing on demand despite a strong overseas migration trend which continues to place upwards pressure on rents.
Housing values across the ACT rose 0.7% last month, breaking a two-month run of negative movements. The monthly gain was enough to push the rolling quarterly change into positive territory with values up 0.3%. The unit sector has been recording a weaker trend, with values falling 0.4% over the past 12 months compared with a 2.3% rise in values for houses. We have also seen relatively soft conditions across the rental sector with house rents down 0.7% over the past year while unit rents were up 0.9%. Demand for housing is relatively balanced compared to supply, helping to keep a lid on price and rental growth.

The outlook for values has improved a little since the end of last year, with a subtle re-acceleration in the pace of value gains through the first two months of the year.

Indicators of a positive shift in market conditions go beyond a lift in value growth, including a rise in consumer sentiment, lower than forecast inflation and a growing consensus that interest rates will reduce later this year.

An improvement in consumer spirits has historically played out positively for housing activity, with higher sentiment generally accompanied by a lift in home sales and vice versa. Even with the February rise, sentiment remains in deeply pessimistic territory, but given strong demand side pressures, we have seen a divergence between home sales and sentiment through 2023. This suggests that any lift in confidence could be amplified amid an ongoing mismatch of housing supply relative to demand.
The lower than forecast inflation outcome for the December quarter looks to have carried into 2024, with the monthly inflation indicator showing a further reduction in CPI. The slower rate of growth in cost of living has supported the boost in confidence and brought forward forecasts of a rate cut.

Although the timing of rate cuts remains uncertain, lower interest rates should see a more substantial lift in sentiment, but also deliver a boost to borrowing capacity and lower the serviceability assessment hurdle. How sensitive the market is to rate cuts remains a key unknown. We would need to see a bit more than seven cash rate cuts of 25 basis points each before interest rates returned to the pre-COVID decade average of 2.6%.

With housing affordability an ongoing challenge and lenders generally cautious towards borrowers with high debt to income or loan to income ratios, it's hard to see a material lift in housing values until interest rates come down significantly.
A trend that seems more certain going forward is the sheer diversity in market conditions that have emerged through the second half of 2023 and into 2024.

At one end of the spectrum is the Perth market, where the underlying fundamentals look set to drive housing prices and rents higher for some time yet. Western Australia is likely to be a favourite among investors. At the other end of the spectrum is Hobart where housing values have been flat to falling since the market peaked in March 2022. In between we are seeing a range of performance depending on the balance between supply and demand.

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