NAB Australian Housing Market Update–Apr. 24

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CoreLogic's

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

Last month's 0.6% lift in national home values marked the 14th consecutive month-on-month rise, taking the index 1.6%, or about $12,000 higher in the March quarter.

Since declining -7.5% in the downturn between April 2022 and January 2023, the national HVI has increased 10.2%, adding approximately $72,000 to the median value of a home and pushing to new record highs each month since November last year.

The national quarterly pace of growth accelerated from 1.4% in Q4 last year to 1.6% in Q1 this year.

Although housing values are rising faster than at the end of last year, the quarterly trend has halved relative to the middle of last year when home values were rising 3.3% quarter-on-quarter.

Rate hikes, cost of living pressures and worsening housing affordability are all factors that have contributed to softer conditions since mid-last year. However, an undersupply of housing relative to demand continues to keep upwards pressure on home values despite these headwinds.

The monthly movements in housing values across our cities continue to be punctuated by diversity. At one end of the scale we have Perth, where values were up 1.9% over the month, followed by Adelaide and Brisbane with 1.4% and 1.1% monthly growth respectively. The remaining capitals are showing much lower rates of change, although Melbourne is the only capital city to record a negative quarterly movement, down -0.2% over the first three months of the year.

After being led by the upper quartile most of last year, the strongest growth conditions have migrated to the lower quartile across most capital city markets. Across the combined capitals, lower quartile home values increased 3.1% in the first quarter of the year compared with a 0.7% rise across the upper quartile of the market. This trend of stronger conditions across the lower value sector was evident in each of the major capitals.

With housing affordability becoming more challenging and borrowing capacity lower than a year ago, it's no surprise to see demand being skewed towards the middle-to-lower end of the value spectrum.

Regional housing markets are also recording a rise in values, with similar levels of diversity as their capital city counterparts. Regional Victoria stands out with the softest growth conditions, with values down -0.3% in the first quarter of the year; the only broad 'rest of state' region to record a decline in values in the year-to-date.

Demand for housing has been holding up well despite the higher cost of debt and low sentiment. Home sales through the first quarter of the year was estimated to be 9.5% higher relative to Q1 last year, although the comparison with a year ago is from a relatively low base, with the housing market bottoming out from the downturn at the beginning of last year. Compared to the previous decade average for this time of the year, dwelling sales are estimated to be 3.7% higher.

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

After slipping lower in November and December last year, Sydney home values have recorded three consecutive months of growth, taking values 0.9% higher over the first quarter of the year, adding roughly $10,000 to the median dwelling value. Growth in unit values has been slightly stronger over the quarter, up 1.0% compared with a 0.9% rise in house values. Lower quartile house values led the pace of capital gains, rising 1.9% over Q1. Demand for housing, based on the estimated number of home sales, was 1.8% higher than a year ago, but tracking -5.4% below the previous five-year average for this time of the year.

Melbourne has continued a relatively weak run of growth in housing values, with the market down -0.2% over the March quarter. The unit market is a little weaker, with values down -0.3% compared with a -0.1% fall in house values. Across the sub-regions of Melbourne, quarterly growth has been most pronounced across Melbourne City where values are up 3.3% in Q1, reflecting strong conditions across the high density inner city precinct. Despite the soft growth conditions, the number of homes sales was tracking 18% higher than a year ago and almost 6% above the previous five-year average, although rising from a relatively low base.

Brisbane has continued a run of solid growth, with values rising 1.1% in March to be 3.0% higher through the past three months, adding approximately $25,000 to the median house value and $23,000 to the median unit value in Q1. Across the broad value based cohorts of the market, it is the mid-level and lower quartile unit values that are recording the fastest rate of capital gain, with these two sectors up 5.2% and 4.4% in value in the March quarter. Home sales have remained strong, estimated to be 6.2% higher than a year ago through the March quarter and almost 4% above the previous five-year average.

Adelaide home values were 1.4% higher in March, a step up from the 0.9% rise recorded in both January and February. This took values 3.3% higher over Q1, adding approximately $23,000 to the median dwelling value. The unit sector has been a little stronger than houses since September last year, with values up 3.9% and 3.3% respectively over the March quarter. Growth has been strongest across mid-value units, up 4.8% over the quarter, followed by lower quartile house values, up 4.4%. In a demonstration of strong demand, sales activity was estimated to be 26% above the previous five-year average through the March quarter.

Perth housing values have been on a rocket, rising by an average of 1.6% month-on-month since May last year. The quarterly pace of growth, at 5.6%, has accelerated through the March quarter, recording the fastest increase in values since the three months ending April 2021. In dollar terms, Perth housing is rising by approximately $37,000 a quarter. The unit market recorded a slightly stronger outcome through Q1, with values up 6.2% compared with a 5.5% rise in house values; the first time we have seen a faster quarterly rate of growth in unit values over houses since June 2021.

Hobart dwelling values stabilised through the March quarter, rising 0.1% to be just 0.3% higher over the 12-month period. The subtle lift was driven by a 0.5% rise in house values, helping to offset a -1.8% decline in unit values over the quarter. Similarly, the number of homes sales through Q1 was estimated to be slightly higher than a year ago, up 1.6%, but holding almost -12% below the previous five-year average. Hobart is also the only capital city to record a fall in rents over the past year, with house rents -0.8% lower and unit rents down -1.8%.

Darwin was the only capital city to record a fall in values in the month of March, down -0.2% to be 0.4% higher over the quarter. The relatively steady housing trend has been in place for the past year, with values moving only half a percent higher over the past 12 months. House values led the quarterly gains, up 0.7%, helping to offset a -0.2% fall in unit values over the quarter. Although values have been relatively steady, the volume of home sales has held well above the pre-COVID lows. Annual sales were estimated to be 44% above the previous five-year average in the March quarter.

Canberra dwelling values were 0.8% higher in the March quarter, which was an acceleration from the 0.2% rise in the December quarter and the strongest quarterly outcome since Q1 2022. Housing values across the nation's capital have been relatively sedate since moving through a short but sharp -7.8% downturn that found a floor in January last year. Since bottoming out, ACT home values have recovered 1.8% and remain -6.1% below record highs. House values are showing a stronger growth trend, up 2.5% over the past year compared with a -0.1% fall in unit values.

Overall, it looks as though housing markets are continuing to traverse the high interest rate and high cost of living environment better than most would have expected. Values and rents are recording broad-based rises, albeit with significant diversity across the capitals and regional markets.

The outlook for housing values remains positive amid a growing expectation that interest rates will start to fall later this year, providing a boost to borrowing capacity and consumer sentiment.

The fundamentals of housing supply and demand remain out of balance in most regions, placing upwards pressure on the cost of housing. The supply side of the housing equation continues to be insufficient. As we approach the July 1st starting point for the federal government's 1.2 million new 'well-located' homes target, dwelling approvals are yet to show any meaningful uplift.

12,850 homes were approved for construction in January, roughly -25% below the decade average and well below the 20,000 average monthly run-rate of approvals required to see 1.2 million homes in five years. At the same time, the residential construction sector continues to run up against shortages in labour, high material costs and depressed profit margins.

On the demand side, the rate of growth in Australia's population reached 2.5% over the year ending September 2023, the fastest pace of annual growth since the commencement of the ABS national population series in 1981.

In raw numbers, this equates to approximately 660,000 new residents requiring housing in some shape or form. Over the same period, about 174,000 new dwellings were completed, equating to approximately 3.8 people per home, well above the ABS estimate of average household size at 2.5 people per home.

With overseas migration having peaked in the first quarter of last year, we should see the rate of population growth easing, however without a catch up in supply, Australian housing markets are likely to be navigating an undersupply for a few years yet. While we expect housing values to continue trending higher, with the potential for conditions to accelerate as interest rates come down, some headwinds are present.

Housing affordability is deteriorating as home values, rental rates and the cost of servicing a mortgage rise faster than household incomes. With fewer buyers able to purchase a home at the median value, we could see demand deflecting towards lower price points, potentially favouring outer-fringe detached housing markets and the multi-unit sector where price points tend to be lower.

Also, economic conditions are easing and labour markets are gradually loosening. The RBA is expecting economic conditions to ease further through the middle of the year and the unemployment rate to gradually rise from its current low base, implying lower wages growth. Although inflation has been lower than forecasted, cost of living pressures remain a key challenge for many households, resulting in lower savings rates, ongoing low sentiment and heightened uncertainty when it comes to making high commitment financial decisions such as purchasing a residential property.

As we navigate the second quarter of the year there will be plenty to keep an eye on from a property market perspective.