NAB Australian Housing Market Update–May 24

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CoreLogic's

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

Australian home values moved through a 15th straight month of growth in April with CoreLogic's national Home Value Index rising 0.6%, on par with the pace of gains recorded in both February and March.

May Housing Market

Multi-speed conditions have become increasingly evident, with the mid-sized capitals continuing to lead the pace of growth. Perth remains at the top of the growth charts with a 2.0% rise in April, followed by Adelaide at 1.3% and Brisbane at 0.9%. The monthly change in Sydney has held reasonably firm around the 0.4% mark each of the past three months, while Melbourne's market has broadly stabilised after recording a subtle -0.8% dip over the three months to January. The smaller capitals have emerged from relatively soft conditions, with both Hobart and ACT recording three months of consistent, albeit mild, rises in home values.

Almost every capital city is recording stronger growth conditions across the lower value range of the market. This shift towards stronger conditions across lower price points can also be seen between the housing types, with growth in unit values outpacing house values over the past three months.

Regional markets have shown slightly stronger quarterly growth over the past five months than their capital city counterparts, following a 10-month period where the combined capitals index was outperforming. Looking at value movements over the past three months, the strongest regional markets were aligned with the strongest capital cities.

Regional WA led the pace of gains, followed by Regional SA and Regional Queensland, while Regional Victoria was the only rest of state market to record a decline in values over the rolling quarter.

Home sales look to have moved through a cyclical peak in November last year. Although the monthly trend in home sales is highly seasonal, the less seasonal six-month trend has remained relatively flat since the November rate hike. Despite the flatter trend, estimated sales over the past three months are tracking 8.6% higher than at the same time last year, and about 5.1% above the previous five-year average.

However, it's likely a combination of worsening affordability and low sentiment will keep a lid on the volume of sales until interest rates start to track lower.

Nationally, rents were up 0.8% in April, a slightly lower rate of growth relative to February and March when the national rental index rose 0.9% and 1.0% respectively. The slowdown in rental growth is likely to be partly seasonal, with the first quarter of the year generally coinciding with a lift in student demand and new leases at the beginning of the year. Additionally, as we move through the peak in net overseas migration we could see rental demand gradually easing.

Although rental growth may be tapering, supply remains extremely short and the trend towards smaller households seen through COVID has been slow to reverse, further amplifying rental demand. It is likely rental growth will remain well above average for some time yet.

At a national level, rents have been rising at a faster pace than values since November last year, supporting a rise in gross rental yields. In April, the national gross rental yield rose to 3.75%, the highest reading since October 2019, up from a record low of 3.16% in January 2021.

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

Sydney home values have continued along a modest upwards trajectory, rising by 0.4% in April to be 1.3% higher over the first four months of the year. Although the change in home values remains in positive territory, growth conditions have slowed sharply relative to the first half of last year when values were consistently rising at more than 1% month-on-month. Lower quartile house values are now recording the fastest rate of growth, up 2.6% in the year to date, followed by a 1.9% rise in lower quartile unit values. Listing numbers remain in relatively short supply, tracking -10.6% below the previous five-year average at the end of April.

Melbourne is the only capital city where housing values fell over the first four months of the year, nudging -0.3% lower. The supply of homes is no where near as tight as other cities, with listings tracking almost 10% higher than at the same time last year and 7% higher than the five-year average. On the flipside, the softer growth conditions mean Melbourne is one of the few cities where housing affordability has shown some improvement. While housing values are relatively soft, rents continue to rise swiftly, up 10.2% for houses over the past year and 8.8% across the unit sector.

The pace of growth in Brisbane housing values remains at the high end of the spectrum across the capital cities, however the trend has been slowing since the rate hike in November last year. The monthly rise of 0.9% was the lowest in 12 months. The gradual slowdown in value growth has been driven by Brisbane houses, while the growth trend in Brisbane units has actually remained firm at 1.6% in April. Similar to other capitals, housing values are now rising the fastest across the lower quartile of the market where values are up 5.0% in the past three months compared with a 2.0% rise in upper quartile values.

Adelaide home values increased by 1.3% in April, a subtle slowdown relative to March when the monthly growth rate was 1.4%. The unit sector has led the pace of capital gains over the past year, with values up 14.5% in 12 months compared with a 13.9% increase in house values. Similarly, lower quartile home values have risen at double the pace of upper quartile values over the year to date, up 6.2% and 3.1% respectively. With housing affordability becoming more challenging, its likely more demand is being deflected to lower priced areas including the northern suburbs and outer south as well as the unit sector where the median value is almost -$290,000 lower than the median house value.

The Perth housing market seems to be running its own race, with the quarterly rate of growth in home values rising to 6.0%, the largest increase since the first quarter of 2021 when interest rates were at generational lows. Despite such strong growth conditions, Perth's median value remains at the low end among the capital cities, a legacy of the long period of weak housing conditions prior to 2019. With values rising this rapidly, it won't be long before Perth records a higher median dwelling value than Adelaide. Perth rental growth is also the highest in the nation, with rents up 13.6% in the past 12 months.

Hobart's housing market has emerged from a near two-year slump, with the past three months recording a consistent although subtle rise in home values to be up 0.8% over the rolling quarter. Values remain -11.9% below their March 2022 peak, with house values down -11.5% and unit values down a smaller -9.9%. Alongside some renewed upwards

pressure on values, the number of homes for sale is now slightly lower than at the same time last year. Rental markets have also emerged from a period of weakness with Hobart rents rising over each of the past six months, however the annual trend remains slightly in negative territory, down -0.2%.
Darwin housing values were up 0.6% in April, in line with the national average. However, the monthly change can show some volatility in Darwin. The quarterly change, at 1.0% and annual change at 1.9% are well below the national trend, highlighting relatively flat housing conditions across the northern capital. Rental trends are also reasonably soft, especially in the unit sector where rents are up 1.4% over the past year compared with a 5.0% rise in house rents. Despite the relatively low rental growth, Darwin rental yields remain by far the highest of any capital city, averaging 6.5% gross.

Canberra housing values have recorded three months of consistent but subtle growth, with values up 1.0% over the rolling quarter to be 2.1% higher over the past 12 months. The relatively soft conditions have been evident through the second half of 2023 and into 2024 following a year of falling values through the early part of the rate hiking cycle. Lower quartile house values have seen the most significant rise through the year to date, up 1.5% compared with 0.8% growth across the overall market. Rents have also moved back into positive annual growth, with house rents up a mild 1.9% over the past year and unit rents rising by 1.5%.

The persistent rise in housing values, despite an array of downside factors that would normally act to push prices lower, can be drawn back to the insufficient supply of housing relative to demand.

There are a few ways to measure housing supply; one is to measure how many homes are available to purchase based on advertised listings. Over the four weeks ending April 28th, CoreLogic estimates there were 76,265 homes listed for sale across the combined capitals; -17.6% below the previous five-year average. At the same time, the number of residential sales in April was estimated to be 2.4% *higher* than the previous five-year average for this time of the year.

Such a mismatch between available supply and demonstrated demand is keeping markets skewed in favour of sellers in most cities. Capital city homes are currently selling in a median of 27 days compared with the decade average of 30.7 days and most cities are recording lower than average levels of vendor discounting.
We can also see evidence of low supply in the number of homes being built. In the 12 months to September 2023, roughly 174,000 new dwellings were completed compared with underlying demand for around 264,000 dwellings.

The undersupply of well-located housing is recognised as a national crisis, however the hurdles blocking a rapid and significant housing supply response remain substantial: high construction and holding costs as well as tight labour supply for construction related trades. Time frames between a dwelling commencement and completion have blown out and profit margins remain thin.

Eventually housing demand and supply will converge, driven by slowing population growth and, at some stage, a ramp up in residential construction activity. Given persistently low levels of dwelling approvals, the timeline for a material ramp up in completed housing supply is still a long way off, but there remains a substantial number of dwellings yet to be completed in the construction pipeline. Fewer dwelling commencements should help to increase capacity for completion of existing projects.

In the meantime, it looks as though interest rates could stay 'higher for longer'. The 1.0% rise in inflation through the March quarter has seen many economists, as well as financial markets, push their forecasted timing for rate cuts back, and reignited some speculation that interest rates could *rise* again. With high interest rates, the recent upside surprise on inflation, a gradual loosening in labour markets, growing housing affordability challenges and a slowdown in economic activity, the downside risk for housing markets is building.

Despite the worsening risk profile, housing values are likely to be propped up by the mismatch between housing supply and demand; a situation that doesn't look like it will change in the near future.

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.

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Eventually housing demand and supply will converge, driven by slowing population growth and, at some stage, a ramp up in residential construction activity. Given persistently low levels of dwelling approvals, the timeline for a material ramp up in completed housing supply is still a long way off, but there remains a substantial number of dwellings yet to be completed in the construction pipeline. Fewer dwelling commencements should help to increase capacity for completion of existing projects.

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With high interest rates, the recent upside surprise on inflation, a gradual loosening in labour markets, growing housing affordability challenges and a slowdown in economic activity, the downside risk for housing markets is building.

Despite the worsening risk profile, housing values are likely to be propped up by the mismatch between housing supply and demand; a situation that doesn't look like it will change in the near future.

As we through these influences there is plenty to keep an eye on from a property market perspective.