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NAB Australian Housing Market Update–June 24

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CoreLogic's

NAB Australian Housing Market Update

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

Australian dwelling values rose 0.8% in May, the 16th consecutive month of growth and the largest monthly gain since October last year.

June Housing Market

The mid-sized capitals continued to lead the pace of growth, with Perth home values up 2.0% in May, Adelaide rising 1.8% and Brisbane up 1.4%. In dollar terms, it's the equivalent of the median dwelling value rising by more than $12,000 month-to-month in each of these cities.

The remaining capital cities recorded milder conditions, ranging from a 0.6% lift in Sydney values to a monthly decline of -0.5% in Hobart and a -0.3% fall in Darwin.

Differences in the levels of available supply provide the best explanation for the variation in growth rates, with the number of properties available for sale in Perth and Adelaide holding more than -40% below the five-year average for this time of the year, while Brisbane listings are -34% below average. Inventory levels in these markets remain extremely low despite vendor activity lifting relative to this time last year. Fresh listings are being absorbed rapidly by market demand, keeping stock levels low and upwards pressure on prices.

Conversely, listings across Hobart are tracking 41% above the five-year average, a consequence of lower demand, with home sales -6.4% below the previous five-year average over the rolling quarter.

The May updates also brought a changing of the guard, with Brisbane replacing Canberra to record the second highest median dwelling value of any capital city, a position Brisbane hasn't held since 1997. With values climbing rapidly, Brisbane overtook Melbourne's median value in December last year and the gap with Sydney values hasn't been this narrow since October 2013.

The Sydney market also reached a new milestone in May, with values posting a nominal recovery to be equal with the earlier record high set in January 2022. Sydney dwelling values dropped by -12.4% following the January 2022 peak, finding a floor a year later. The market has since posted a 14.1% rise through the cycle to-date.

Upper quartile home values have generally shown the lowest rate of growth over the past year. This trend is apparent across every capital city except Darwin, demonstrating stronger conditions across the more affordable price points of the market. The softer performance comes after upper quartile values recorded a higher rate of gain through the early months of the growth cycle. Conditions have faded across the upper quartile as borrowing capacity reduced and affordability constraints deflected demand towards middle-and-lower-priced properties.

The pace of growth across Australian rental markets has eased over the past few months, with CoreLogic's national rental index rising 0.7% in May, the lowest monthly change since December last year. Most markets have seen a reduction in rental growth relative to the first quarter of the year, when rental demand tends to be seasonally higher. However, the annual pace of rental growth has also eased across most cities, especially within the unit sector where rental growth had been more severe.

Although rental growth has eased a little, gross rental yields have continued to trend higher, rising to 3.56% across the combined capitals, the highest gross yield since August 2019.

For most investors, higher yields will be welcome considering variable interest rates for investor loans are averaging 6.7%. Given the high cost of debt, a large portion of leveraged investors are probably recording a cash flow loss despite the substantial rise in rental income.

Now let's take a tour of the capital city housing trends.

Sydney home values posted a nominal recovery in May, following a 14.1% rise in values since the market bottomed out in January last year. The sharp rise in home values came after a 12.4% decline in values between January 2022 and January 2023. Sydney dwelling values have been rising for 16 straight months, however the pace of growth is now much lower than it was at the same time last year when values were up 2.1% over the month. The monthly rate of change has held below the 1% mark since August last year. With a median house value of $1.44 million and median unit value of almost $849,000, Sydney remains by far the highest value capital city.

Melbourne's housing market has continued a trend of relatively flat conditions, with dwelling values rising by 0.1% in May, a lift from the past two months where values edged lower. The rolling quarterly trend has been in negative territory since the beginning of the year, with values down -0.3% through the year-to-date. The unit sector has performed a little better, with values up 0.7% over the month to be 1.7% higher over the first five months of the year compared with houses, where values were unchanged over the month but -0.3% lower over the year-to-date. In some good news for renters, annual rental growth is losing some steam, easing back to 9.0% over the year to May 2024, the lowest annual change since February 2023.

The ongoing strength in Brisbane's housing market has seen the median dwelling value rise to be the second highest across the capitals, overtaking Canberra in May after overtaking Melbourne's median at the end of last year. Brisbane values were up 1.4% in May, adding approximately $12,000 to the median dwelling value. Growth in unit values is showing a clear divergence from houses, with values up 5.4% and 2.1% over the year-to-date respectively. The stronger conditions across the unit sector probably reflect a combination of affordability constraints deflecting demand towards lower priced housing options as well as persistently low levels of available supply, where unit listings are holding more than 40% below the previous five-year average for this time of the year.

The pace of growth across Adelaide's housing values has regained some momentum in recent months, with values up 1.8% in May to be 4.3% higher over the rolling quarter, the fastest pace of growth over a three-month period since May 2022. From a dollar value perspective, Adelaide's median dwelling value has increased by approximately $95,400 over the past 12 months. Unit values are rising at a faster pace than house values, up 7.4% and 5.6% respectively over the first five months of the year. Extremely low supply levels remain a feature of the market, with advertised stock tracking -40.3% below the previous five-year average for this time of the year.

Perth continues to run its own race, with dwelling values up another 2.0% in May to be 9.7% higher over the first five months of the year. In dollar terms, the median value rose by $14,412 over the month to be $133,000 higher over the past year. Both house and unit values are rising rapidly, but the unit sector is diverging with a higher growth rate through the year-to-date. Units are up 11.2% compared with a 9.5% rise in house values over the past five months, potentially reflecting some affordability pressures deflecting more demand towards the lower priced unit market. We can also see stronger conditions across the lower quartile of the market, where values are up 29.4% over the past 12 months compared with a 17.0% rise in upper quartile values.

Hobart dwelling values were down half a percent in May, continuing a soft trend in housing conditions that has been evident since values moved through a record high in March 2022. Values are down -0.1% over the past 12 months and remain -11.5% below the record high; the largest decline in values across the capital cities. Listing numbers remain elevated, tracking 41% above the previous five-year average. With higher stock levels, buyers have more choice and less urgency in their decision making, which is supporting some downwards pressure on prices.

Darwin home were down -0.3% in May, partially reversing a stronger 1.5% rise in April. The past 12 months have seen Darwin home values rise by 3.5%, lower than the capital city average at 8.8%, but stronger than Melbourne, Hobart and Canberra. Listings remain low across Darwin, down -19% relative to the previous five-year average. At the same time, the quarterly volume of home sales is tracking well above the five-year average. This disconnect is likely to keep some upwards pressure on housing values, at least in trend terms.

Housing values were up half a percent across the ACT, more than offsetting a -0.1% decline a month earlier and pushing values 0.9% higher over the first five months of the year. Houses have been the major driver of growth, with values 1.2% higher so far this year compared with relatively flat conditions across the unit sector of just 0.1% growth over the year-to-date. The ACT's weaker conditions saw Canberra's median dwelling value drop back to third highest among the capitals, overtaken by Brisbane. Rental growth across the Capital has gathered some pace recently, with the annual growth rate in rents moving back into positive territory in March and rising to 2.1% over the past 12 months.

Overall, the trend in housing values and activity continues to be insulated from the combined effect of high interest rates, cost of living pressures and deeply pessimistic consumer sentiment levels.

The common denominator across markets where home values are rising is a mismatch between supply and demand. Available housing supply, based on the number of homes advertised for sale over the past four weeks, remains well below average. Capital city listings are -16% below the previous five-year average and nearly -2% lower than a year ago. On the demand side, the quarterly number of home sales was 7.2% above the previous five-year average and 2.8% higher than a year ago.

It's this disconnect between supply and demand that is trumping the downside pressures from interest rates, high inflation and low sentiment. Despite worsening affordability pressures, from both a purchasing and a rental perspective, Australian residents still need to keep a roof over their heads. A supply response still seems to be some way off, with new dwelling approvals once again dipping in April. National approvals are up 3.5% on the same time last year, but -23.5% below the decade average. Across the multi-unit sector, approvals are almost -44% below its decade average.

With the federal government target of 1.2 million homes going live from July 1, we have seen a raft of policy initiatives supporting a housing supply response from both the federal and state governments. These include significant funding for social and community housing, a further lift in infrastructure spending and focused infrastructure support for new housing, as well as more funding for training. However, considering the high cost of building, capacity constraints and scarcity of labour, it is likely to take some time to deliver a material rise in dwelling completions.

Measures of housing affordability are clearly worsening across most markets, with the national dwelling value to income ratio rising to 7.7 in March, and the time it takes to save for a 20% deposit rising to 10.3 years, assuming households can save 15% of their gross income.

Eventually housing demand and supply will converge, driven by slowing population growth and, eventually, a ramp up in residential construction activity. In the meantime, we can probably expect further upwards pressure on housing values alongside a further erosion in housing affordability, even as interest rates stay 'higher for longer'.

There is plenty to keep an eye on in the residential property space as we move through winter.