more than money

NAB Australian Housing Market Update–July 24

Presented by CoreLogic

CoreLogic's

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

Australian dwelling values increased a further 0.7% in June, taking growth to 8.0% across the 2023/24 financial year, the equivalent of a $59,000 increase in the median value.

July Housing Market

The annual rise for the financial year 2023/2024 of 8% was in stark contrast to the previous financial year when CoreLogic's national index was down -2.0%. In that year, annual growth was weighed down by a -7.5% drop in values in the nine months following May 2022, when the cash rate target started to rise.

Despite the strong annual gain, the quarterly rate of growth has eased since the highs of mid-2023 when the pace of gains peaked at 3.3%. The most recent June quarter saw dwelling values rise by 1.8% which is roughly in line with the March quarter at 1.9% and December quarter last year at 1.8%.

It seems the national index has found a groove, rising between 0.5% to 0.8% month on month since February. The persistent growth comes despite an array of downside risks including high rates, cost of living pressures, affordability challenges and tight credit policy. The housing markets resilience comes back to tight supply levels which are keeping upwards pressure on values.

Beneath the national headline numbers the market is running at different speeds, but most regions are trending higher in value. Melbourne and regional Victoria were the exceptions, with values down -0.2% and -0.3% respectively over the month. Hobart has also shown weaker conditions, although values were relatively flat in June. Hobart joined Melbourne and regional Victoria recording a subtle decline in values over the June quarter, and down 0.1% over the financial year. Regional Victoria was the only other broad region to record a fall in values over the year, down half a percent.

Strong conditions have remained a feature of the mid-sized capitals, especially Perth where values surged another 2.0% in June to be almost 24% higher over the year. Adelaide values increased 1.7% in June to be 15.4% higher over the financial year and

Brisbane values were 1.2% higher over the month and 15.8% higher over the year.

Regional markets have shown a similar trend to the capitals, with the regional areas of WA, SA and Queensland leading the pace of capital gains while regional Victorian dwelling values fell by half a percent over the year and regional Tasmania recorded a mild 0.7% rise.

The growth trends are reflected in advertised stock levels, with the strongest markets continuing to show a severe shortage of homes available for sale. In June, the number of homes advertised for sale in Perth were 23% lower than at same time last year and 46% lower than the previous five-year average. Adelaide and Brisbane are also recording real estate listings that are significantly below average for this time of year.

On the other hand, Melbourne listings have risen to be 14% above the five-year average and Hobart listings have been elevated for several years, tracking 47% above average.

Demand side factors have also been influential, especially with interstate migration rates tracking well above average in WA, Queensland and, previously, SA.

Strong housing demand, despite downside factors, is also evident in the estimated volume of home sales. Nationally, the annual number of homes sold was 8.6% higher than a year ago and 4.8% above the previous five-year average. The largest jump in annual sales relative to the historic five-year average has been in Perth, where the number of homes sold last year was 29% above average levels.

Moving to the rental market, growth is generally easing but remains well above average with CoreLogic's national rental index recording a monthly rise of 0.4%, the lowest since September last year, and an annual rise of 8.2%, the lowest since November last year.

The slowdown in rental growth is most evident across the unit sector of Australia's three largest capitals. Sydney's unit market has recorded the largest drop in annual rental growth over the past financial year, reducing by 10 percentage points to 7.1%. The annual change in Melbourne unit rents has eased from 14.9% to 7.5% in the period, and growth in Brisbane unit rents has dropped by 6.8 percentage points to 8.5%.

Despite the slowdown in rental growth across some markets, rents are still rising at an above average pace across most regions and housing types.

Nationally, the decade average rate of annual rental growth prior to the pandemic was just 2.0%
Now let's take a tour of the capital city housing trends.

Sydney dwelling values reached a new record high in June, surpassing the previous Jan 2022 peak with a 0.5% rise over the month. It took the market 12 months to find a trough, with values falling 12.4% between January 2022 and January 2023. Since then, it has taken 17 months for values to recover and reach new record highs. Although Sydney home values have been consistently rising over that time, the pace of growth has eased. A year ago, Sydney dwelling values were rising at nearly 2% month on month, but in today's market the pace of gains has slowed to half a percent or the equivalent of about $6k per month. Rental markets have also seen an easing in the growth trend, with the annual pace of rental growth slowing from 11.1% a year ago to 7.9% in the 2023/24 financial year.

Melbourne was the only capital city market to record a decline in dwelling values in June, down -0.2% and -0.4% lower through the first half of the year. Growth in house values have acted as a drag on the headline growth rate, with a -0.3% decline in the month of June offsetting a 0.2% rise in unit values. Similarly, it is the upper quartile of Melbourne's housing market that is showing the weakest trend, with values down a further -0.5% in June while lower quartile values rose 0.3%. Listing numbers have also picked up, tracking 17.5% higher than a year ago and 13.5% above the five-year average. More listings imply more choice and opportunities for buyers to negotiate.

Brisbane dwelling values have continued to rise at a solid pace, up 1.2% in June which is on par with the previous two months. In dollar terms, dwelling values are rising just over $10k per month. The unit sector is showing substantially stronger growth conditions with values up 10.3% through the first half of the year compared with a 6.5% rise in house values. Rental pressures have eased a little over the past year, with the annual growth rate in rents falling from 9.4% a year ago to 8.0% in the 2023/24 financial year, driven entirely by slowing growth in unit rents. Meanwhile, the annual pace of growth in house rents increased slightly from 7.7% in FY23 to 7.8% in FY24.

Adelaide home values rose another 1.7% in June, the second fastest pace of growth after Perth, taking the market 15.4% or almost $103K higher over FY24. The strongest growth conditions are skewed towards some of Adelaide's lowest price markets, with Playford values rising 19.9% over the year and Salisbury values up 19.0%. Advertised stock levels remain in extremely short supply with listings tracking 43% below the five-year average for this time of the year. Rents are still rising rapidly, although the annual pace of change has cooled a little over the year, down from a lift of 9.5% last year to 8.5% in FY24.

Perth is showing little evidence of a slowdown, recording a 2.0% rise in values in June and a 23.6% increase in FY24. The annual gain is equivalent of values rising by almost $145,000. Despite persistently strong growth conditions, Perth dwelling values remain relatively low compared with the eastern capitals. Although the median value is at a record high of $757K, only Hobart and Darwin have lower medians. Extremely low real estate listings demonstrate the scarcity of supply, with Perth inventory levels holding almost 47% below the previous five-year average. Homes are selling in a median of just 10 days, down from 14 days a year ago.

Hobart home values edged 0.1% higher in June after falling -0.9% in May. Reading through the monthly volatility, conditions are generally flat with values rising by just 0.2% through the first half of the year but down 0.1% in FY24. Advertised stock levels remain well above levels recorded through the pandemic, tracking 46% above the five-year average. With such high stock levels, homes are taking a median of 52 days to sell, the longest days on market figure of any capital city. While home values are broadly flat, rental growth has reaccelerated over the year, from a 0% change in FY23 to a 2.0% rise in FY24.

Darwin dwelling values were unchanged in June but have increased by 1.6% through the first half of the year to be 2.4% higher in FY24, well below the combined capital cities average of 8.3% growth. The unit sector continues to act as the main drag on growth, with values down 1.6% in the first half of 2024 while house values have increased by 3.3%. With relatively modest growth conditions, Darwin home values are yet to stage a nominal recovery from the record highs recorded a decade ago in May 2014. The June update puts Darwin dwelling values 5.7% below the record high. Rental conditions have eased a little through FY24 with the annual pace of rental growth slowing from 3.5% in FY23 to 3.1% in FY24.

ACT home values have been on a relatively soft trajectory, rising 0.3% in June to by 1.2% higher through the first half of 2024 and 2.2% higher in FY24. Values remain 5.4% below the record highs recorded in May 2022. The unit sector has been the main drag on growth rates, with values down 1.1% over the past year while house values have risen 3.2%. Rental markets have re-accelerated over the past 12 months, with rents 2.5% higher in FY24, a sharp turnaround from the 3.0% fall in rents in the previous financial year.

An undersupply of housing remains the primary factor keeping upwards pressure on home values despite a growing element of downside risk. We can loosely categorise housing supply into advertised listings, which provide a measure of available supply, newly built homes and rental supply. We could also add social housing to the list. Each of these components remain insufficient to varying degrees, to cater for housing demand which is why we are seeing values persistently rising at a time when interest rates and inflationary pressures are high, sentiment is deeply pessimistic and credit policy is tight.

Most cities are now seeing more new listings coming to market as vendors become more active. Nationally, the flow of freshly advertised stock was tracking 10% higher than a year ago and 7% above the previous five-year average. However, most of these homes are being purchased as fast as they are added to the market, with total advertised supply levels nearly 17% below the previous five-year average.

The rise in new listings could be a signal that more homeowners are motivated or needing to sell. It is clear that savings accrued through the pandemic are being drawn down for some households due to the combination of a high cost of living and elevated debt levels running up against interest rates that look set to remain higher for longer.

Despite what is likely to be an increased level of financial hardship among households, the latest data from APRA for the March quarter shows mortgage arrears are rising but contained. The combined arrears rate reached 1.6% in the first quarter of the year, but slightly lower than arrears at the onset of COVID which were at 1.8%.

With inflation remaining high and the risk of another rate hike or a longer period before interest rates come down, its likely mortgage stress and arrears will rise further. The risk of financial stress is amplified by a combination of high household debt levels and loosening labour market conditions.

Given the strong and broad based rates of capital gain over the past four years, most homeowners who need to sell should be able to clear their mortgage debt. CoreLogic's latest Pain & Gain report highlighted the vast majority of vendors are selling their homes for a gross profit on resale, with only 5.7% of homes selling at a gross loss, the lowest portion in 14 years. Similarly, the RBA's latest Financial Stability Review estimated only around 1% of home loans had a debt level higher than the asset value.

Although the risks facing the housing sector are growing, we are still expecting home values to rise, at least in the near term. A material rise in new dwelling supply is likely to be a long time coming, considering approvals are holding well below average and barriers to construction, including compressed profit margins and scarce labour supply, remain significant. Until supply and demand rebalance there is likely to be further upwards pressure on home values.

We will be keeping an eye on these trends along with any policy updates that could influence housing trends as we move through winter.