NAB Australian Housing Market Update–Sept 24

Presented by CoreLogic

CoreLogic's

NAB Australian Housing Market Update

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

National dwelling values rose +0.5% in August, This was the nineteenth straight month of rising values at a national level, but the rate of growth is clearly slowing and is now less than half the rate recorded at the same time last year.

September Housing Market

At a high level, there is still more demand for housing than available supply, but the flow of advertised supply and demand are becoming increasingly balanced. Supply levels vary markedly from region to region, with total listings in Melbourne now almost 30% above the previous five-year average, while total listings in Perth and Adelaide are tracking close to 40% below the five-year average for this time of year.

Capital growth across the cities remains diverse but continues to be led by the mid-sized capitals where values are rising at 1 to 2% each month. The monthly pace of gains across Sydney has slowed to 0.3%, while Melbourne, Hobart, Canberra and Darwin recorded a monthly decline in home values.
The quarterly trend rate of growth eased in most capital cities through winter which can be attributed to a combination of seasonality but also worsening affordability constraints, persistently low sentiment and lower borrowing capacity.

While affordability is improving in markets like Melbourne and Hobart, where values are trending lower, it's hard to see housing values continuing to rise at the same pace in the mid-sized capitals as affordability becomes increasingly stretched, particularly in the context of elevated interest rates, loosening labour market conditions and cost of living pressures.

The ongoing outperformance of 'cheaper' markets reiterates a strain on demand. The lower quartile of the combined capital city market, which makes up the most affordable 25% of dwellings, rose 2.7% in the three months to August, compared to a 0.3% lift across the upper quartile.

In a similar demonstration of demand being deflected towards lower price points, the quarterly change in unit values was higher than houses in five of the eight capital cities as buyer demand shifts towards the lower-priced segment of the market, supporting values at the more affordable end of the pricing spectrum.

August also marked a few changes in the hierarchy of housing values across the capitals, with the median *dwelling* value in Melbourne overtaken by Adelaide and Perth, making Melbourne's median the third lowest among the capital city markets. This is the first time that Perth's median dwelling value has been higher than Melbourne's since February 2015, when the city was coming off the highs of the mining boom. It is also the first time in CoreLogic's forty-year median dwelling value series that Adelaide has had a higher median than Melbourne.

The higher median dwelling value in Perth and Adelaide relative to Melbourne is attributable to a combination of values moving in different directions – rising rapidly in Perth and Adelaide while falling in Melbourne, but also the compositional difference in housing stock where a high proportion of medium to high density stock in Melbourne tends to weigh down the median dwelling value. In Melbourne, about a third of homes are units, compared with about 16% of homes in Perth and Adelaide.

Switching focus to the rental sector, relief for renters is in sight as growth slows to a halt. Our national rental index was unchanged for a second consecutive month in August, and rents declined in Sydney for a second consecutive month.

While rental trends are typically softer through the middle of the year, the annual growth trend is also showing a consistent slowdown in rent rises. Nationally, rent values were up 7.2% in the year to August, which is still more than twice the pre-COVID average but the lowest annual growth rate since May 2021. Annual rent growth is now slowing in every capital city market, except for Hobart, which is coming off a dip in rent values through 2023.

The slowdown in rent growth is attributable to a combination of supply and demand factors. On the demand side, net overseas migration has dropped, with ABS data showing a decline from 165,000 in the March quarter of 2023 to 107,000 in December quarter, and overseas arrivals data is pointing to a further fall in international student arrivals.

Additionally, the latest RBA reporting on average household size showed a slight uptick, suggesting share housing or multi-generational family homes may be back on the rise in response to high rents.

On the supply side, investor trends vary from state to state, but nationally investor loans secured were up 10.7% in the year to June. Dwelling completions remain an issue, with a strained construction sector keeping a floor under both rent and purchase prices.

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

The pace of growth across the Sydney housing market has remained in positive territory for the 19th consecutive month, with values up 0.3% in August, adding approximately $3,800 to the median dwelling value. Although values are rising, the pace of growth has lost a lot of momentum since moving through a cyclical high in May last year when values were rising at the monthly pace of 2.1%. Alongside the slowdown in growth conditions, advertised supply levels are starting to rise and estimates of purchasing activity have slowed to the lowest level since 2018. We are also seeing rental markets moving into what could be the early phase of a downturn, with Sydney's rental index down 0.3% in August, the second consecutive monthly fall in rents.

The downturn across Melbourne's housing market has become entrenched, with values falling over the past six months to be 1.4% lower through the first eight months of the year and 1.0% down over the past 12 months. Both house and unit values are trending lower, down 1.1% and 0.9% over the past 12 months, with annual falls confined to the upper quartile of the market where values have dropped 2.6% over the year. Weak housing conditions have been accompanied by a rise in advertised stock levels, with Melbourne listings now 29% above the previous five year average. Rental growth is flattening, with Melbourne rents up just 0.1% in August, the smallest month on month movement in Melbourne's rental index since June 2021.

Brisbane dwelling values were up a further 1.1% in August, adding approximately $9,200 to the median dwelling value. Although the pace of capital gains remains significant, the Brisbane housing market is losing some momentum, with the quarterly pace of capital gains slowing from 4.5% a year ago to the current rate of 2.9%. Brisbane's unit sector is now showing a substantially higher rate of growth than houses, with unit values up 5.0% over the past three months while house values rose at half that rate. Similarly, the lower quartile of Brisbane's housing market is recording more than double the quarterly gains across the upper quartile, at 5.0% and 1.8% respectively. The stronger performance across the unit sector and lower value quartile is probably a reflection of affordability constraints deflecting demand towards lower price points in the market.

Adelaide dwelling values increased by a further 1.4% in August, taking the market 14.9% higher over the past twelve months and adding just over $114,000 to the median dwelling value over the year. Despite worsening affordability constraints, there is little sign that value growth is slowing amid extremely low supply levels, where listings remain almost 40% below the previous five-year average and generally strong demand with estimated home sales over the past three months tracking 21% above the previous five year average. In some good news for renters, the Adelaide rental value index was up just 0.3% in August, the slowest monthly pace since December 2022.

The Perth housing market continues to run its own race, with values up 2.0% in August, adding approximately $15,100 to the median dwelling over the month. With values up 24.4% on an annual basis, this is the strongest annual growth trend in Perth since the 12 months ending February 2007. An ongoing shortage of properties is a key factor behind surging home values, with listings tracking 44% below the five-year average for this time of the year. Homes are selling in a median of just 11 days amid extremely strong selling conditions. In some good news for renters, monthly rental growth, at 0.1%, was the slowest since July 2021.

Hobart dwelling values nudged 0.1% lower in August as the southern capital moves through a prolonged period of flat to falling home values that has been evident since the market moved through record highs in March 2022. Since then, Hobart values have fallen by a cumulative 12.2% which has taken approximately $91,400 off the median dwelling value. Advertised supply levels remain high across Hobart, tracking almost 50% above the previous five year average for this time of the year, while at the same time our estimate of home sales over the past three months was 20.8% *down* on the previous five year average, demonstrating a lack of demand amid high available supply which is likely to keep some downwards pressure on prices.

Darwin dwelling values were down 0.2% in August, taking values 0.3% lower over the rolling quarter to be 1.6% higher over the past 12 months. The generally soft housing conditions are more evident across the unit sector where values are down 0.9% over the past 12 months compared with a 2.9% rise in house values. Advertised housing stock generally remains low across the northern capital, with listings tracking 11.2% below the previous five year average. Against this backdrop of low supply, our estimate of home sales is tracking at above average levels. If this disconnect between demand and supply persists, we could see some upwards pressure returning to home values through spring.

ACT home values slipped 0.4% lower in August, the third month on month decline over the past four months. The unit sector, where supply has been higher, has been the main drag on ACT values, with values down 2.3% over the past 12 months compared with a 2.6% rise in house values over the same period of time. Rental conditions have continued to languish, with both house and unit rents easing over the past three months, down 0.2% for houses and 1.2% lower across the unit sector. Canberra dwelling values remain 6.1%, or approximately $55,000, below the record high set in May 2022.

Looking forward, the national housing market should continue to see modest value increases to the end of 2024. While there is a clear slowdown in growth, housing values are underpinned by a longer-term lack of new supply, which has been exacerbated by ongoing constraints in the residential construction sector. The latest Statement on Monetary Policy from the RBA highlighted that finishing trades are in short supply, and the public infrastructure pipeline is creating greater competition for labour and input materials, especially in the multi-unit sector.
Tight job markets continue to support mortgage servicing, however a more substantial loosening than expected in the labour market is a key risk for housing values.

Tax cuts and energy rebates are improving household finances but may not translate to a boost in home buying. Consumer sentiment ticked a little higher in August, buoyed by stage three tax cuts, the cash rate remaining on hold for a sixth consecutive meeting and lower inflation expectations. However, sentiment around dwelling purchases continued to decline despite an ongoing expectation that housing prices will rise further.

Housing affordability continues to be a key factor impacting demand, with a widening gap between what would be considered an affordable home for a household on the median income and actual dwelling. CoreLogic puts the estimate of an affordable purchase price at about $500,000 for the median income household, against a median dwelling value that is currently at $802,000. This discrepancy has likely channelled demand towards markets with lower price points including the unit sector and housing markets located further from key amenities.

Spring sellers should be aware of differences market-to-market. Heading into the spring selling season, there is no guarantee that buyer numbers will rise to meet the seasonal uplift in listings. While total stock levels are generally low across the country, there are some markets, mainly across Victoria and Tasmania, where total listings are accruing.

In such a varied market, those looking to buy or sell this spring should be conscious of local conditions, such as the number of properties currently on the market, the amount of time properties take to sell, auction clearance rates and price movements.

With housing trends become more diverse we will keep you up to date during Spring.