NAB Australian Housing Market Update–Oct 24

Presented by CoreLogic

CoreLogic's

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

The latest housing data shows values are still rising - at least at a macro level - but the pace of growth is losing steam and conditions are becoming more diverse from region to region.

National dwelling values rose +0.4% in September, the twentieth straight month of rising values at a national level.

Nationally, housing values rose 1.0% in the September quarter, the lowest growth in the national Home Value Index over a rolling three-month period since March 2023 when the market was moving through the early phases of the current upswing.

Demonstrating the diversity of housing conditions, four capital cities recorded a fall in dwelling values through the September quarter, led by Melbourne where values were down -1.1%. Canberra, Hobart and Darwin also recorded declines over the quarter. Sydney home values have continued to rise however the 0.5% increase through the September quarter was the lowest growth result since the three months ending February 2023 when values were down -0.3%.

The mid-sized capitals, which have led the pace of capital gains through most of the upswing, are also losing momentum, although growth continues to significantly outpace other capitals. Perth values were up 4.7% through Q3, easing from 6.2% in the June quarter. The quarterly gains in Adelaide looks to have reached a peak with a 4.0% rise through the quarter and Brisbane's quarterly growth has eased back to 2.7%, the lowest rise over a rolling three-month period since April last year.

The slowdown in the pace of growth comes as home owners increasingly look to sell. The flow of new listings coming onto the market was tracking 3.2% higher than a year ago nationally to be 8.8% higher than the previous five-year average for this time of the year.

The rise in real estate inventory is a seasonal trend, with spring and early summer one of the busiest periods of the year for selling. However, the flow of freshly advertised housing stock hasn't been this high at this time of the year since 2021.

Alongside the rise in real estate listings, we have also seen vendor metrics soften, signalling weaker selling conditions. Auction clearance rates have wound back to the low 60% range across the combined capital cities, which is about 4 percentage points below the decade average. Similarly, homes sold by private treaty are staying on the market longer, with a median of 32 days to sell nationally through the September quarter, up from 29 days in the June quarter and 27 days a year ago.

Growth conditions across regional housing markets have also eased, with the quarterly trend in the combined regionals index reducing from 2.3% in the three months ending April to 1.7% in the June quarter, and more recently to 1.0% over the September quarter. Similar to the capital city trends, regional parts of Western Australia, South Australia and Queensland are leading the regional housing trends, while values are trending lower across regional Victoria and Tasmania.

Rental growth is also settling down, with our national rental index rising by just 0.1% over the September quarter, the smallest change over a rolling three-month period in four years.

Sydney, Brisbane and Canberra all recorded a reduction in rents over the quarter and rental growth is clearly losing steam in most other capitals.
The slowdown in rental growth is likely to be a factor of both easing net overseas migration alongside rental affordability pressures forcing a restructuring of demand.

Net overseas migration has reduced by 19% from the record highs in the first quarter of 2023 helping to take some pressure off rental demand.

With the portion of household income dedicated to rental payments at a record high, it's likely the average household size has continued to increase as group households and multi-generational households become more common, further reducing demand.
Now let's have a closer look at each of the capital city housing trends

Sydney home values lifted a further 0.2% in September, the 20th straight month of growth, but with values up just half a per cent through the quarter, this was the smallest rise over a rolling three-month period since February 2023. With one month of spring now behind us, Sydney listings are rising, tracking 7% above levels at the same time last year and 14% above the previous five-year average.
Higher stock levels are good news for buyers and can be seen in clearance rates slipping to below-average levels and homes are taking longer to sell by private treaty with a median of 32 days on market compared with 28 days a year ago.

Melbourne continues to move through what has so far been a reasonably shallow downturn, with values falling 1.1% through the September quarter. Since moving through a cyclical high in November last year, the market is down 1.9% to be 5.1% below the record high set in March 2022. Listing numbers have tracked higher through spring, 8% higher than a year ago and 21% above the previous five-year average. With market conditions favouring buyers, auction clearance rates have fallen to below average levels and homes are taking longer to sell by private treaty, with a median of 41 days on market compared with 27 days a year ago.

Brisbane's housing market has moved through a 20th straight month of growth, with dwelling values up 0.9% in September to be 14.5% higher over the past 12 months. Although values are consistently trending higher, the pace of growth is clearly losing steam, with the quarterly gain of 2.7% the smallest since the three months ending April last year. Listings are also trending higher through spring, tracking 4% above levels at the same time last year but still holding 26% below the previous five-year average. Despite the rise in listings, sellers remain in a strong position with homes selling in a median of just 20 days through the September quarter.

Adelaide housing values rose another 1.3% in September, on par with the rise in August, with little evidence growth conditions are slowing down. The 4.0% rise in values through the September quarter has added approximately $31,000 to the median value. Listings numbers are starting to track a little higher, but with advertised stock levels holding 12% lower than a year ago and 33% below the previous five-year average, the spring season remains in favour of sellers over buyers. Homes are selling with a median of just 26 days on market, down from 31 days a year ago.

Perth housing values continued to rise through September with values up a further 1.6% over the month, adding approximately $12,730 to the median value. Although values are rising rapidly, some heat has left the market, with the quarterly pace of growth easing from 6.2% in the June quarter to 4.7% in the September quarter. The subtle slowdown in value growth has been accompanied by a gradual rise in advertised stock levels, with fresh listings coming to market 3% higher than a year ago and 6.5% above the previous five-year average. Despite the lift in vendor activity, the market remains well in favour of sellers; total advertised supply is holding more than 40% below the previous five-year average, with homes selling in a median of just 11 days over the past three months.

Hobart dwelling values fell by a further 0.4% in September, continuing a run of weakness that has been evident since the market moved through a peak in March 2022. Since that time values have fallen by 12.5%, the largest decline from peak across the capitals. The weak conditions have been accompanied by a rise in advertised stock levels, where the number of homes for sale is tracking 33% above the previous five-year average, but 9% lower than at the same time last year. With advertised stock levels holding high, buyers have plenty of choice and not much in the way of urgency. Homes are selling in a median of 51 days, the longest selling time of any capital city.

Darwin home values nudged 0.1% higher in September, however the subtle rise wasn't enough to drag the quarterly trend back into positive growth territory, with values down 0.7% through the September quarter. Unit values continue to be the main drag on the market, with values down 1.2% in the September quarter compared with a 0.4% fall in house values. Darwin continues to show, by far, the highest gross rental yields, averaging 6.8% compared with a national average of 3.7%.

Canberra recorded a 0.3% fall in dwelling values in September, taking the market 0.9% lower through the September quarter which shaved approximately $7,500 from the median value. The unit market has been the weaker segment, with values falling -1.4% in the September quarter, double the rate of decline recorded for houses at -0.7%. Both house and unit rents fell over the quarter, down 0.5% and 1.6% respectively.

The immediate outlook for housing markets is for further growth in housing values, at least at the macro level, but a continuation in the gradual loss of momentum and increasing diversity across the cities and regions.

Upside factors for housing conditions include improving sentiment amid a slowdown in inflation, tight labour markets and a consensus that the next move in interest rates will be a cut. Household balance sheets are also benefitting from tax cuts and energy rebates that could help to lift sentiment and borrowing capacity, while real income growth would be supported by a further slowdown in inflation.

Additionally, constraints on new housing supply look to be entrenched due to squeezed profit margins for builders, scarcity of trades and significant competition with the public infrastructure sector. An ongoing under-supply of newly built homes will naturally keep a floor under housing prices and rents.

A cut to interest rates is looking likely either early next year or even late this year, which will provide a boost to borrowing capacity and should help to support a further lift in confidence for households to make high-commitment decisions like buying a home.

However, other downside factors may at least partially offset these upsides.

Housing remains unaffordable across every metric. The portion of household income required to service a new mortgage for the median income household was at record highs in the June quarter at 50.3%. The dwelling value to income ratio, at 7.9, is only marginally lower than record highs and it would take 10.6 years for a household on the median income to save a 20% deposit to buy the median value dwelling assuming they can save 15% of their income each year.

While lower interest rates will help to improve serviceability, mortgage rates or housing values would need to come down significantly, or incomes rise substantially, before affordability metrics return close to average levels.

A further rise in real estate listings is likely as the seasonal upswing in vendor activity continues. Higher advertised stock levels should provide buyers with some additional leverage at the negotiation table, a factor which is already dampening selling conditions and helping to take some heat out of the market.

If the first month of spring is anything to go by, purchasing activity isn't keeping pace with the flow of new listings. Markets where stock levels have lifted the most are unsurprisingly the weakest from a values perspective. A further rise in advertised supply is good news for buyers, but for vendors, it means more competition and the potential for a further softening in selling conditions.

There is plenty to keep up to date with as the spring selling season progresses.