NAB Australian Housing Market Update–Nov 24

Presented by CoreLogic

CoreLogic's

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

Nationally, dwelling values rose a further 0.3% in October, the 21st month of growth since the cycle commenced in February last year however as we approach the end of the year, there are signs the housing market is losing momentum and conditions are becoming more diverse from region to region.

The subtle positive movement was supported by the mid-sized capitals, led by Perth with a 1.4% rise over the month, offsetting declines in Darwin, Canberra, Melbourne and Sydney, as well as regional Victoria (-0.2%).

While the mid-sized capitals are still leading the charge when it comes to value growth, these markets are also losing momentum. Perth continues to lead the nation with a 1.4% rise in values over the month, but this is well down from the growth seen over the February to June period earlier in the year when monthly gains averaged more than 2%.

Adelaide values have risen by more than 1% each month since March, but conditions look to be slowing here as well with October's 1.1% gain marking the lowest monthly rise since June. Brisbane's monthly gain of 0.7% was the lowest since July.

The annual growth trend has continued to ease, reducing to 6.0% over the 12 months ending October, down from a recent peak annual growth rate of 9.7% in February.

Slower growth in home values has been accompanied by a rise in advertised stock levels – meaning more choice for buyers. Based on a rolling four-week count of listings to November 3rd, advertised inventory has increased 14% since the end of winter across the combined capitals, with the largest increase occurring in Perth where listings are 24% higher... albeit from an exceptionally low base.

Total listings are now 12% above the previous five-year average in Sydney and Melbourne, helping to explain the weaker conditions in these markets as buyers benefit from more choice and less urgency in their decision-making.

Despite the rise in listings across the mid-sized capitals, Perth, Adelaide, and Brisbane are still seeing advertised stock levels more than -20% below the five-year average for this time of the year. Unlike other markets, sellers are in a more favourable position here... although the balance is starting to gradually improve.

Alongside the rise in advertised supply, the number of home sales looks to be fading. Estimates for capital city sales over the three months ending October were down -7.5% from three months earlier and -1.6% lower than at the same time last year.
With higher levels of advertised supply and less purchasing activity, selling conditions have loosened. Capital city auction clearance rates held below the 60% mark through most of October, while private treaty metrics are showing a subtle rise in median days on market, especially in cities where advertised stock levels are above average.

Rental growth is also slowing down. Annual rental growth has dropped to 5.8% nationally, the smallest annual rise in the national rental index since the 12 months ending April 2021.

The easing in rental growth is good news for inflation, with rents comprising one of the largest weights within the CPI basket. The annual change in the rental component of CPI has already started to trend lower, falling to 6.7% in the September quarter, down from a recent high of 7.8% in Q1 this year.

Weaker rental trends across the unit sector have weighed on rental growth, with rents slipping across the unit markets of Sydney, Melbourne, Brisbane, Hobart and Canberra over the three months ending October 24.

Although rental trends are easing more visibly across the unit sector, some cities have also seen a decline in house rents over the rolling quarter. Sydney house rents were down -0.1% over the rolling quarter and in the ACT house rents were down -0.4%.

Softening rental conditions are likely symptoms of slowing net overseas migration, which peaked through the first quarter of 2023, as well as changes in household formation as the average household size gradually increases following the pandemic shrink.

Now let's take a tour around each of the capital city housing markets.

The -0.1% fall in Sydney home values was the first monthly decline since January 2023, following a short but sharp -12.4% drop in values between February 2022 and January 2023. Weaker conditions have been led by the most expensive areas of the market, with a -0.6% fall in upper quartile house values over the month and a -1.1% drop over the past three months. In comparison, Sydney's lower quartile house and unit values both recorded a half a percent rise in values in October. A rise in advertised stock levels has been a key factor in Sydney's slowdown, with listings now 12% above average for this time of year.

Melbourne's housing market has recorded seven consecutive months of decline, with the market down a further 0.2% in October, taking values 0.8% lower over the rolling quarter to be down 1.9% over the past 12 months. The unit sector has been more resilient to the downturn, but not immune. Values across the unit sector have fallen by 0.6% over the past three months while house values are down by a larger 1.0%. We have also seen weaker conditions across the more expensive sector of the market, with upper quartile values down 1.2% over the past three months while lower quartile values have fallen by a smaller 0.3%. Rental trends have levelled out, with house rents nudging only 0.1% higher over the past three months while unit rents have slipped 0.4%.

Brisbane remains one of the strongest housing markets around the country, but momentum is leaving the upswing. Dwelling values rose a further 0.7% in October to be 2.4% higher over the rolling quarter and 13.0% higher over the year. Only Perth and Adelaide have recorded a higher annual rate of growth. The unit market continues to drive the strongest capital gains, with values increasing 1.0% in October while house values rose 0.7%. Similarly, the lower quartile of housing values has recorded a stronger growth outcome, with values up 3.9% over the past 3 months while upper quartile values have increased by less than half that rate, up 1.8%. Rental conditions have levelled out over recent months, with Brisbane rents down 0.1% over the past three months.

Adelaide is showing little signs of losing momentum, with housing values rising a further 1.1% in October, the eighth month in a row where values have risen by more than 1% month on month. The latest rise has added approximately $8,540 to the median dwelling value across the city. The local unit market is driving the most significant gains, with values up 18.5% over the past 12 months while house values have gained 14.5%. Similarly, the lower quartile of the market is driving the strongest value gains, up 21.2% over the past year, while upper quartile values have increased at almost half this rate, up 12.0%. Rental markets are slowing down, but rents are still rising. The past three months saw Adelaide rents rise by 0.9%, the first sub-1% change in rents over a rolling three-month period since Sep 2020.

Perth home values rose another 1.4% in October, adding approximately $10,790 to the median value of a dwelling. This was the 22nd month in a row where values have increased and the 18th straight month where values have risen by more than 1%. Although values are consistently rising, there is growing evidence that conditions are losing steam, with the rolling quarterly pace of gains, at 4.1%, the lowest since the three months ending July last year. The slowdown in growth comes as advertised stock levels rise from winter lows; based on listings data for the four weeks ending November 3rd, total listings have risen by 24% across Perth, providing more choice and less urgency for buyers.

Hobart home values posted a rare rise in October, up 0.8% over the month but remaining 0.1% lower over the rolling quarter to be 1.2% lower over the past 12 months. The monthly rise was fueled by a 1.2% lift in house values while unit values fell 0.7%. The rise in home values comes as listing numbers trend lower across Hobart, falling 2.5% since the end of winter to be down nearly 12% relative to the same time a year ago. Although listings are reducing, total advertised stock levels remain 30% above the five-year average for this time of the year, suggesting market conditions are likely to remain relatively subdued until advertised stock levels reduce further.

Darwin dwelling values fell 1.0% in October, continuing a recent trend of weakness that has pushed values 1.3% lower over the past three months. The past year has seen values hold reasonably flat, down 0.1%, but with a weaker outcome across the unit sector where values are down 2.4% while house values are up 1.0% over the year. The relatively flat housing conditions come despite Darwin offering up the lowest median values of any capital and by far the highest gross rental yields of any capital city at 6.8%.

ACT home values are down 0.3% in October, the fourth month in a row where values have fallen. The unit market has weighed on housing values, which are down 3.2% over the past 12 months, while house values have posted a 1.5% rise over the same period. ACT rents have fallen over the past six months, showing an ongoing imbalance between rental supply and demand, especially across the unit sector where rents have risen only 1.2% over the past 12 months compared with a 3.2% rise in house rents.

The housing outlook looks a little dimmer than it did a few months ago amid rising advertised stock levels, a slowdown in purchasing activity and a clear loss of momentum in value growth.

On the upside, there is a trend towards lower inflation, meaning a cut in interest rates is looking likely, potentially in the first quarter of next year, while labour markets are holding tight and low levels of new housing supply persist. Each of these factors should help to keep a floor under prices.

The inflation update for Q3 was encouraging, with core inflation now at 3.5%. Based on the trimmed mean, consumer prices are now rising at the slowest quarterly pace since Q3 2021.

The annual increase in the housing component of inflation fell to just 2.8%, the lowest reading since Q3 2021 thanks to a sharp -7.6% decline in utility costs attributable to energy rebates. However, a slowdown in rents and the cost of newly built homes has supported the lower inflation outcome as well.

The annual change in CPI rents, at 6.7%, is the lowest in five quarters, and likely to fall further given the downtrend in advertised rents. Additionally, the cost to purchase newly built housing rose by a relatively small 4.8%, down from a COVID high of 20.7% to be the lowest outcome since Q3 2021. A similar drop in the growth of construction costs can be seen in the Cordell Construction Cost Index (CCCI) which increased by 3.2% over the year to September, well below the pre-COVID decade average of 4.1%.

The weak trend in new housing construction looks entrenched, with dwelling approvals holding below average, commencements trending lower and the number of dwellings under construction diminishing.

A material turnaround in residential construction activity over the coming year remains unlikely given feasibility challenges and tight labour supply. Supply-side policies aimed at improving project feasibility, such as funding infrastructure costs, are likely to be well received and should provide some immediacy in kickstarting shovel-ready projects.

While the delivery of new housing supply remains insufficient, it's hard to see housing values move through a material downturn.

On the downside, affordability challenges persist across most sectors of the Australian housing market. Economic activity is soft and households have largely drawn down their savings buffers built up during the pandemic.

Looking at affordability measures, debt servicing ratios were at a record high in the June quarter and dwelling values relative to household incomes were also close to record highs.

While lower interest rates will help to improve serviceability and boost sentiment, a tightening in credit regulations is another potential risk if household debt levels rise as interest rates come down.

There is plenty to keep up to date with as spring selling season concludes and end of year approaches.