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NAB Australian Housing Market Update–March 25

Presented by CoreLogic

CoreLogic's

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Welcome to CoreLogic's housing market update for March 2025.

CoreLogic's national Home Value Index posted a 0.3% rise in February, ending a short-lived three-month downturn.

The February rise was subtle but broad based, with every capital and 'rest-of-state' region, except Darwin and Regional Victoria, recording a rise in values.

The largest month-on-month change across the capitals was recorded in Melbourne and Hobart, both up 0.4%. These are also the markets where home values have previously been among the weakest. For Melbourne, the lift breaks a streak of ten consecutive months of falling values.

Conversely, the mid-sized capitals of Brisbane, Perth and Adelaide have lost their mantle as the strongest growth markets. With a monthly change of 0.2% to 0.3%, the mid-sized capitals were outpaced by Melbourne and Hobart. Adelaide and Brisbane are still leading the rolling quarterly growth trend, up 1.2% and 0.9% respectively, but Perth's value growth has slowed more sharply with a quarterly change to just 0.3%.

The return to growth across Sydney and Melbourne was driven by the more expensive end of the market, with the upper quartile leading the monthly gains in both cities after recording the sharpest declines. This stronger performance is in line with historical trends, where premium housing markets in Sydney and Melbourne have been the most sensitive to rate cuts.

Along with the modest rise in values, we have also seen an improvement in auction clearance rates, which have returned to long-run average levels across the major auction markets in February.

Regional housing conditions continued to show a stronger growth trend relative to their capital city counterparts in February, with values across the combined regionals index rising 0.4% over the month and 1.0% over the rolling quarter - compared to the 0.3% monthly rise and -0.4% quarterly fall seen in capital city values. However, there has been some diversity in these trends, with the monthly change favouring Sydney, Melbourne and Hobart over their regional counterparts.

Improved market conditions may also be supported by a slowdown in the flow of freshly advertised 'for sale' listings. Counts of new listings coming to market across the combined capitals were tracking -3.9% lower than a year ago over the four weeks to March 2nd and -2.8% below the previous five-year average. Total listings are up 2.6% on a year ago, but holding around 7% below the previous five-year average.

On rental market trends, national rents rose by 0.6% in February, the strongest monthly gain since May last year, but well below the 0.9% rise recorded in February last year or the 1.2% gain seen in February 2021 at the height of the rental boom. The pickup in rental growth through the first quarter is likely driven by seasonal factors, with the broader trend pointing to a slowdown in rental growth as households become larger and net overseas migration normalises.

We can see the slowdown in rental growth more clearly in the annual trend, where rents rose by 4.1% over the past 12 months, the slowest annual gain since March 2021. Despite the slowdown, the annual change in rents is tracking about double the pre-pandemic decade average of 2.0%.

Now let's take a look at housing conditions across each of the capital cities.

After four months of consistent declines, where values dropped 1.9%, Sydney home values edged 0.3% higher in February. The rise was a little stronger for houses, up 0.3%, than units at 0.2% and was also more noticeable across the upper quartile of the market where values rose by a larger 0.4% in February compared with a 0.1% rise in lower quartile values. The lift in housing values was accompanied by an improvement in auction clearance rates, rising to the mid-60% range. Prior to February clearance rates were tacking in the mid-to-low 50% range. Buyers still have more choice than normal, with advertised stock levels tracking 7.6% above the five-year average.

Melbourne's housing market has ended a ten-month run of value declines, posting a 0.4% rise in values in February. Along with Hobart, Melbourne's monthly rise was the highest of any capital city. The rise in values was driven by houses, up 0.4%, while the unit sector recorded a smaller 0.2% rise. Similarly, the upper quartile of the Melbourne housing market has recorded a larger rise, up half a percent in February compared with a 0.3% lift in values across the lower quartile. Stronger housing conditions can also be seen in the higher clearance rate, which rose to mid-60% range in February. Melbourne housing values remain 6.4% or approximately $52,500 below their March 2022 record high.

Brisbane housing values moved through a 25th month of consistent growth in February, but the 0.2% monthly gain was one of the smallest of the growth cycle to-date. The rise was mostly supported by a 0.7% lift in unit values, while Brisbane house values were unchanged over the month. Similarly, the upper quartile of the market has been the main drag on growth with values falling -0.2% in February compare with a 0.7% rise in values across the lower quartile of the market. Over the past five years, Brisbane dwelling values have surged 69.7% or by around $367,000, fuelling affordability and serviceability challenges that are likely to be deflecting demand towards the lower price points.

The 0.3% rise in Adelaide dwelling values was the 23rd straight month of growth, but it was also one of the smallest in the growth cycle to date, a reminder that momentum is leaving the upswing as affordability challenges become more pressing and population growth winds down. The trend has been favouring more affordable housing markets, including the unit sector where growth conditions haven't slowed quite as much. The upper quartile of Adelaide home values saw values rise by just 0.2% in February compared with a 0.6% increase in values across the lower quartile of the market.

The Perth housing market is starting to show some cracks in the growth trend with values rising by a relatively small 0.3%. Earlier growth readings have revised lower, with Perth values rising by just 0.3% in total over the past three months. Weaker conditions are more concentrated across the upper quartile of the market, with the top 25% of house values down -0.1% over the month. Lower quartile unit values are leading the growth trend, up 1.3% in February, demonstrating a skewing of demand towards lower price points. The softer conditions come after Perth values have surged 75.9% in five years to be approximately $349,000 higher.

Hobart posted a 0.4% rise in home values in February, with the quarterly trend rate of growth flattening out to be down 0.1%. As a relatively small market, the quarterly trend provides better guidance on the direction of housing values, which has been gently down since early 2023, following a sharper downturn through the early phase of rate hikes. Since the market peak in March 2022, local home values are down 11.9%, the largest fall of any capital city.

Despite the decline since early 2022, the past five years have seen Hobart home values rise by 29.2%, a reflection of the very strong growth conditions in 2020/21.

Darwin was the only capital city housing market to record a decline in home values in February, down 0.1%. Monthly changes can be volatile in a relatively small city like Darwin, with the smoother quarterly trend pointing towards some growth in values, up 0.7% over the past three months to be 1.5% higher over the past year. Stronger conditions continue to be seen for houses rather than units, with values up 1.0% across the detached housing sector over the past three months compared with a -0.1% change in unit values. House values are getting close to posting a nominal recovery from their earlier May 2014 record high, currently just 1.5% short of that mark, while unit values remain 16.1% below their record highs from October 2013.

ACT home values have fallen over six of the past eight months, with February marking a rare rise, up 0.2.%. The gain was driven by a 0.9% lift in unit values while house values held firm in February. The quarterly trend shows market weakness has been skewed towards the more expensive end of the ACT housing market, with values down 2.0% for upper quartile house values over the past three months, while the strongest gains have been for unit values within the lower quartile of the market which were up 0.4% over the past three months.

Although housing markets look to have moved past the recent downturn, the trends from city to city and region to region remain diverse.
The rate-cutting cycle is very fresh and is likely to be drawn out. Lower mortgage rates are clearly a net positive for housing markets, supporting a rise in borrowing capacity and serviceability assessments, but interest rate settings are likely to remain in restrictive territory for some time.

Financial markets are expecting the cash rate to be around 3.55% by the end of the year, implying that only two more twenty-five basis point cuts are priced in. Most economists suggest there could be up to three more cuts of a quarter per cent each this year. Even under this more bullish assessment, a seventy-five-basis point cut would take the cash rate to 3.35%, still well above the pre-pandemic decade average of 2.55% and higher than the RBA's estimated 'neutral cash rate' which was revised lower in the latest Statement on Monetary Policy. Until home loan serviceability improves more substantially, it's hard to see housing markets moving into a material growth trend.

Markets where housing values have experienced a more significant downturn could be primed for a stronger value growth performance, given their renewed affordability advantage. Hobart, ACT and Melbourne have all recorded substantial declines from their 2022 peaks. More specifically, it is the premium end of these markets that have taken the biggest hit, with the upper quartile of Hobart's market down -16.4% from peak levels, while ACT's upper quartile is down -9.8% and Melbourne's most expensive quarter has dropped -8.9% in value. Through previous rate cutting cycles it has been the premium markets of Sydney and Melbourne that have responded the earliest and most positively to rate cuts.

Also, a further lift in consumer sentiment would support purchasing activity. Historically, there has been a close relationship between measures of consumer sentiment and the volume of home sales. We have already seen a substantial rise in sentiment readings over the past 6 months or so, although the past few months have seen the trend flatten. If sentiment returns to more optimistic levels, along with the subtle improvement in serviceability provided by rate cuts, it's likely we will see buyer activity lifting.

A rise in demand for housing from lower interest rates and a sentiment boost will be partially offset by slower population growth. After peaking in the first quarter of 2023, the Centre for Population expects net overseas migration to reduce further as arrivals continue to moderate alongside a pickup in departures as visas from the temporary surge in migrants expire. Less migration is likely to flow through to a further easing in rental demand, and, over the medium term, reduced demand for home purchasing.

Low levels of newly built housing should also deliver some support to housing values in 2025. Residential construction activity has seen a subtle rise across the detached housing sector, but multi-unit dwelling commencements remain well below average, with little evidence of a pickup in activity due to feasibility challenges amid high construction costs and tight labour markets.

With this positive inflection in housing values quite fresh, it will be important to monitor the trends to see if this momentum can be sustained. We will keep you updated as the year unfolds.