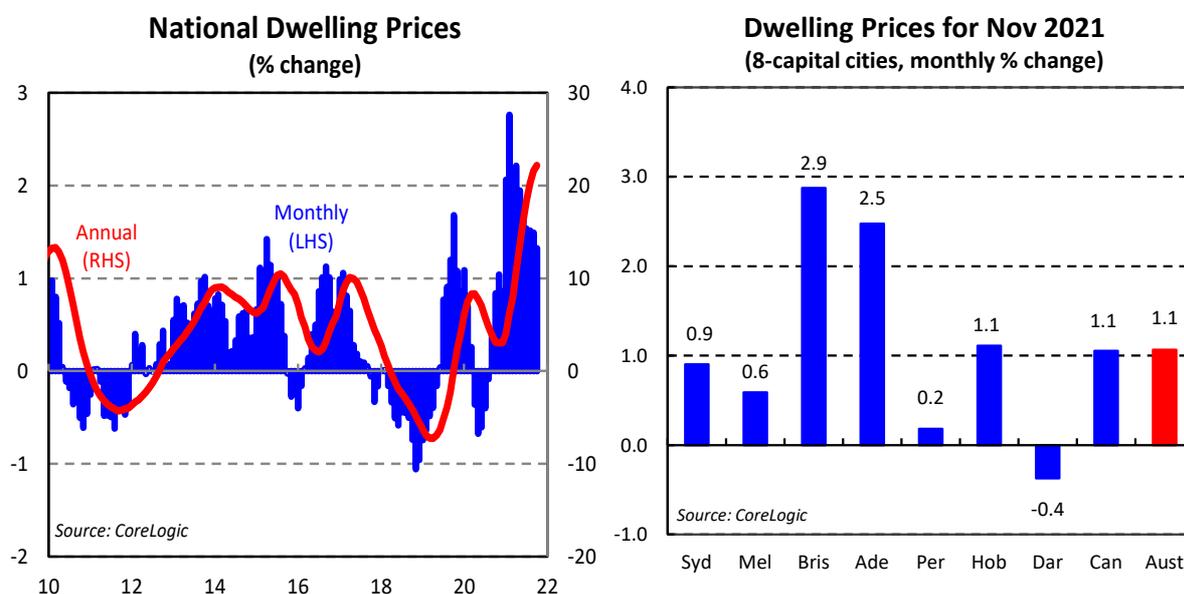


Wednesday, 1 December 2021

Dwelling Prices

Boom Continues But Headwinds Build

- The housing price boom has continued. Dwelling prices recorded another month of solid, above-average growth of 1.3% in November. However, the monthly pace of growth has slowed from the peak of 2.8% in March. In fact, monthly price growth was at its softest since January.
- In annual terms, dwelling prices surged 22.2% in November. Annual price growth has accelerated for 12 consecutive months and is at its highest in over 32 years.
- Several factors are contributing to the pace of growth continuing to slow. On the demand side, buyers are facing increasing headwinds, such as rising affordability pressures, higher fixed home loan rates and a tightening of macroprudential regulation.
- On the supply side, new listings have increased as lockdowns lifted. Anecdotes suggest off-market sales have also risen. As a result, auction clearance rates have fallen and the number of average days it takes to sell a dwelling has risen from low levels.
- A divergence across regions continues to emerge. Conditions across the most expensive markets are slowing, while growth in the more affordable cities of Brisbane and Adelaide accelerated.
- House prices growth has continued to outrun growth of apartment prices. Indeed, the gap between the two using median prices is at its widest ever and especially wide in Sydney.
- Looking forward, while buyers face some headwinds, we expect prices to continue to grow for the rest of 2021 and 2022. Dwelling prices falls could be in store in 2023 when we expect the Reserve Bank to start raising rates.



The housing boom continued in November. Dwelling prices recorded another month of solid, above average growth of 1.3% in November according to fresh CoreLogic data released today.

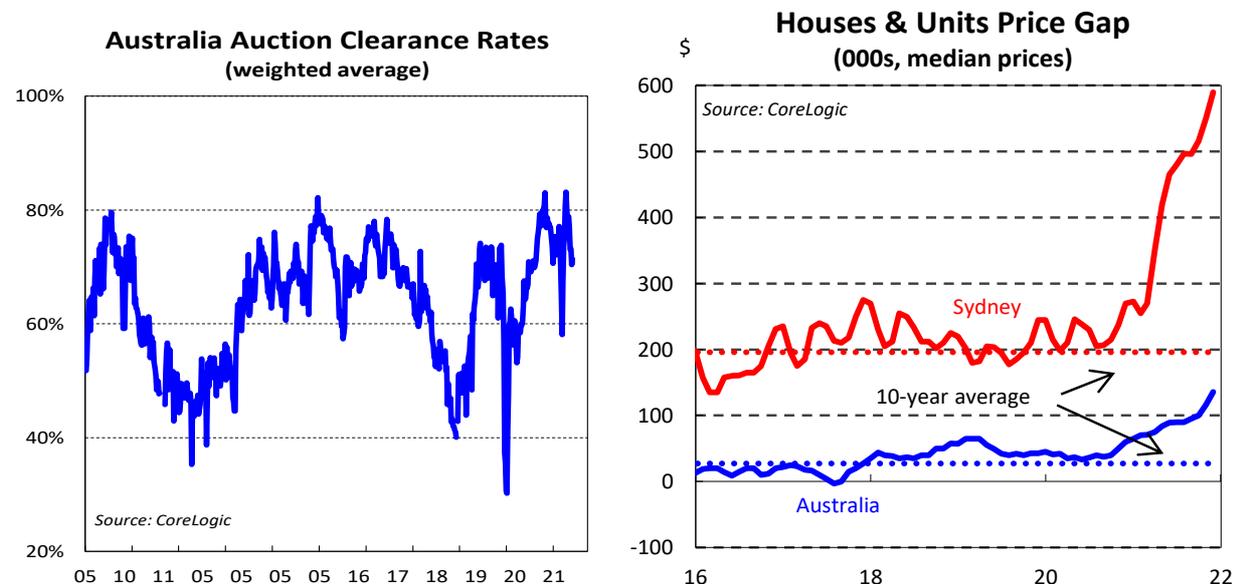
While dwelling prices continue to advance, the monthly pace of growth has consistently slowed from the peak of 2.8% in March. In fact, monthly price growth was at its softest since January.

Dwelling prices have now grown for 14 uninterrupted months following five months of falls at the onset of the COVID-19 pandemic in mid-2020. In annual terms, prices grew by 22.2% in November. Annual price growth has accelerated for 12 consecutive months and is at its strongest level in over 32 years (i.e. since June 1989).

Several factors are contributing to the monthly pace of growth continuing to slow. On the demand side, buyers are facing increasing headwinds from high prices and rising affordability pressures. Fixed home loan rates have increased, on average, across lenders as swap rates have moved up from their lows last year. In addition, the Australian Prudential Regulation Authority (APRA), the nation's banking regulator, imposed a tightening of macroprudential regulation last month. The serviceability buffer that lenders use to assess borrowing capacity was increased from 2.5 to 3.0 percentage points, although this is a modest step.

On the supply side, listings have increased as Delta lockdowns have lifted. In fact, new listings are at their highest level since December 2015, on a four-week rolling average basis. However, this is coming from a low base and the total number of listings on the market is still around 24% below the five-year average. Furthermore, anecdotes suggest there has been a rise in off-market sales (not picked up in the listings data). The increase in new supply on the market has contributed to a fall in the auction clearance rate and an increase in the number of average days it takes to sell a dwelling from low levels. The auction clearance rate has fallen from around 83% in early October to around 71% in late November.

However, despite these factors, selling conditions in the market are strong. Importantly, interest rates remain around record lows, contributing to robust housing demand.



As prices have increased rapidly over the past year, particularly for detached houses, affordability pressures have been impacting a greater proportion of buyers. The continued outperformance of house prices relative to unit prices has led to the difference between prices of houses and units to grow to its highest ever level. The price gap between the median sale price of homes and apartments over the past three months has grown to almost \$140,000 across Australia. The same

gap sits at \$590,000 in Sydney. The growth in the gap between these prices means that buyers are beginning to turn their attention towards apartments and higher density housing, as stand-alone houses become less affordable.

Nationally, house prices rose by 1.4% in November while unit prices were 0.9% higher in the month. Over the year to November, house prices were 24.6% higher while units were 14.2% higher. These are the highest annual growth rates since April 1989 and July 2002, respectively.

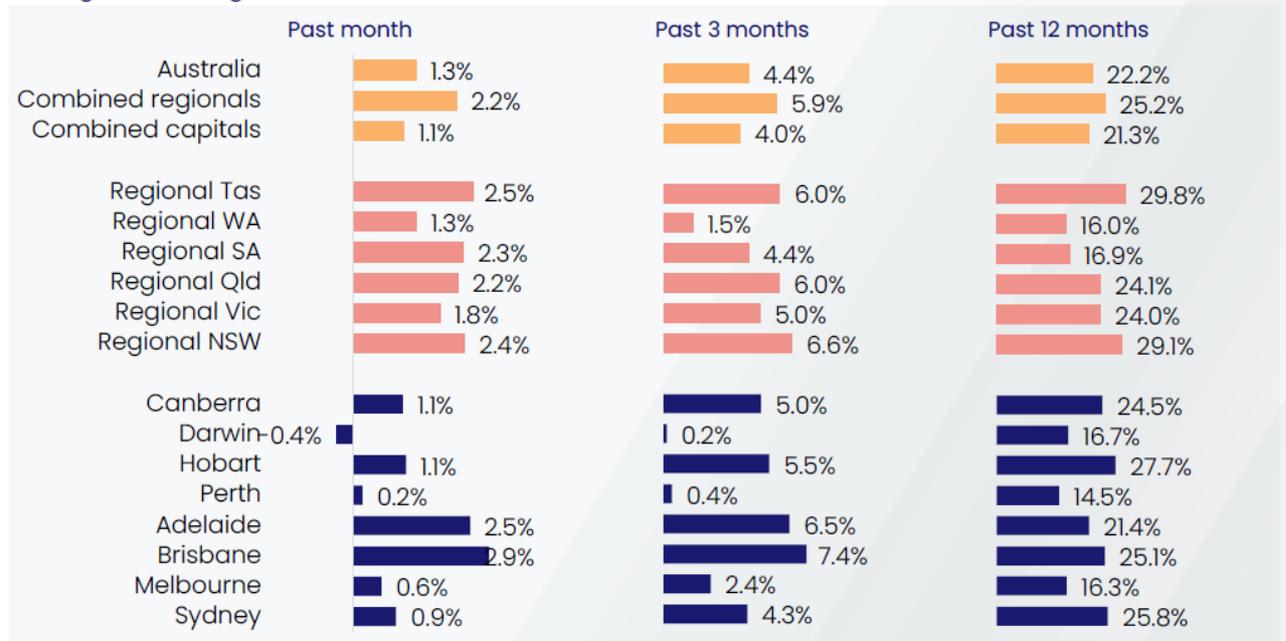
A divergence across regions continues to emerge. Conditions across the most expensive markets of Sydney and Melbourne are slowing, as factors such as deteriorating affordability are impacting buyers and slowing price growth. However, the more affordable capital cities of Brisbane and Adelaide continue to see monthly price growth accelerate. In fact, monthly price growth in Brisbane recorded its fastest pace since 2003 and monthly price growth in Adelaide was the fastest since 1993.

By city, dwelling price growth in November was generally stronger in the smaller capital cities. Brisbane (2.9%), Adelaide (2.5%), Hobart (1.1%) and Canberra (1.1%) were the outperformers. Growth was more muted across Sydney (0.9%), Melbourne (0.6%) and Perth (0.2%). Darwin prices fell by 0.4% over the month, its second monthly price fall over the past 16 months.

On an annual basis, growth was in the double digits across all cities. Perth recorded the weakest annual growth rate (14.5%). Hobart, Sydney and Brisbane were all above 25%, recording amazing growth of 27.7%, 25.8% and 25.1%, respectively.

The relative outperformance of regional areas accelerated in the month. Dwelling prices rose 2.2% in regional areas and 1.1% in capital cities. On an annual basis, dwelling prices were 25.2% higher in regional areas and 21.3% higher in capital cities. Regional areas close to capital cities continue to be highly in demand, as working from home increases the popularity of areas that provide lifestyle benefits, while still being relatively close to capital cities.

Change in dwelling values



Outlook

Housing market conditions continue to remain strong, leading to further price growth across capital cities and regional areas.

Looking forward, low interest rates, low levels of supply relative to demand, and a recovering domestic economy and improving labour market are expected to support housing demand.

However, headwinds continue to build for buyers as affordability pressures mount, fixed interest rates start to increase and the prospect of further macroprudential tightening weighs on the market. Supply is also expected to continue to increase over coming months from a low base.

We expect price growth to continue over the rest of 2021 and into 2022, however, at a slower pace. We anticipate annual price growth to slow to 8% over 2022 as the headwinds to demand impact growth.

Prices are not expected to fall until the Reserve Bank starts raising the cash rate. We expect this to occur in early 2023. We estimate the start of the rate-hike cycle could lead to a 5% fall in dwelling prices over 2023.

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