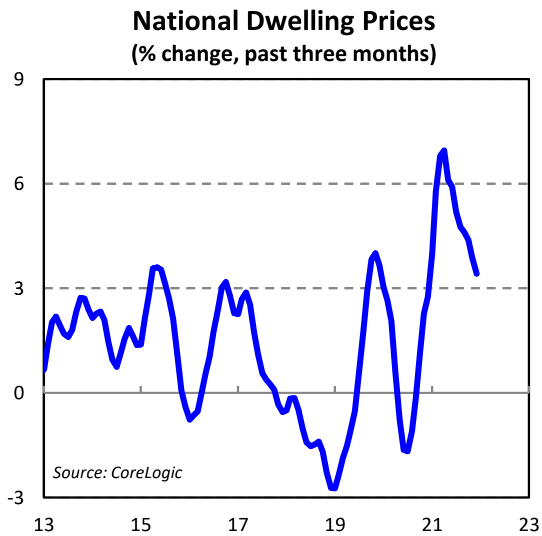
Data Snapshot

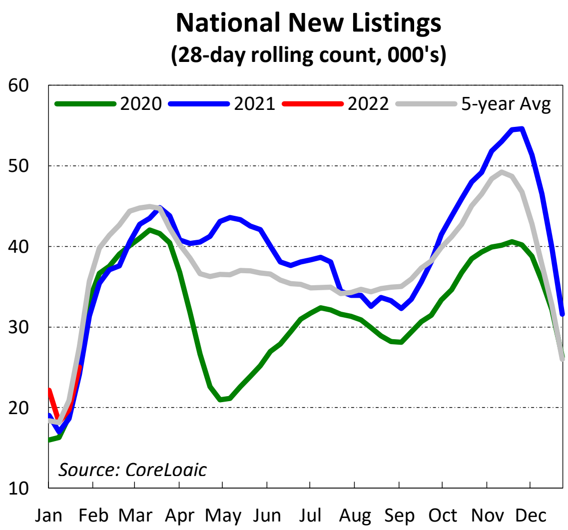
Tuesday, 1 February 2022

Dwelling Prices and Housing Finance

Demand Solid But Headwinds Growing

- **Dwelling prices recorded another month of solid growth in January, up 1.1% in the month. However, momentum is continuing to slow. The three-month growth rate slipped to 3.4%, its lowest level since January 2021. Stretched affordability, a lift in supply and a rise in fixed interest rates are taking the steam out of the market.**
- **Despite the moderation, demand is still solid underpinned by low interest rates. Indeed, housing finance data rose 4.4% excluding refinancing in December, and edged to a new high. The uptick is consistent with the lift in sales and dwelling prices after the Delta lockdowns.**
- **Lending to owner-occupiers rose 5.3% in December. Lending to investors was up 2.4% and also hit a new record.**
- **Transaction activity in January is usually thin so the data over this period needs to be treated with some caution. In addition, the surge in COVID-19 cases may have weighed on activity. That said, there is evidence of more supply hitting the market. New listings were 5.7% higher in January than the same period a year ago.**
- **The Brisbane and Adelaide property markets continued to outperform their peers in January, as the divergence in house prices across capital cities persisted. Regional markets continued to outshine capital cities while house price growth outstripped units.**
- **We expect dwelling price growth and housing lending will slow over 2022. There are already several headwinds in play, but the key driver will be when the Reserve Bank lifts the cash rate. We expect lift-off in August, after which there is clearly a risk of a more material slowdown.**





Dwelling Prices

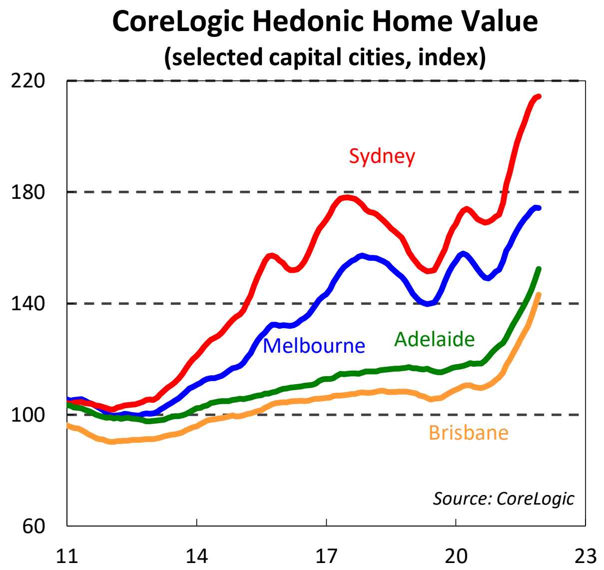
The housing market recorded another month of solid growth in January, with prices up 1.1% in the month. However, momentum is continuing to slow. The three-month growth rate slipped to 3.4%, its lowest level since January 2021. However, monthly growth remains well above the long-run average of 0.5%. In annual terms, growth edged up to 22.4%, its highest level since the late 1980s.

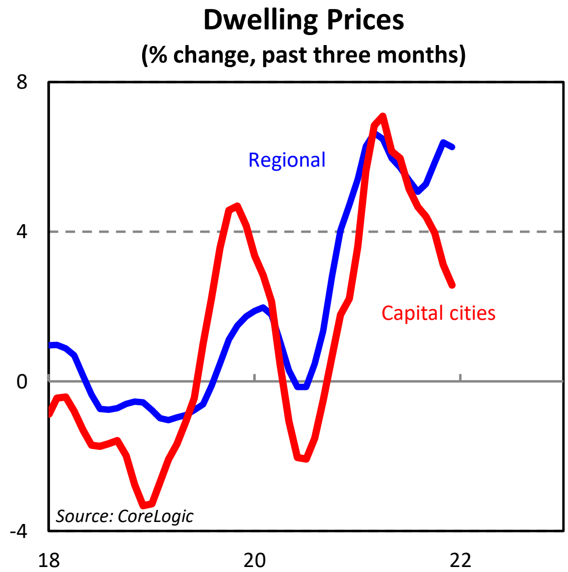
Demand remains solid underpinned by low interest rates. However, the housing market is facing several headwinds which are putting the breaks on dwelling price growth. Stretched affordability, a lift in supply and higher fixed interest rates are all factors which are taking the steam out of the market.

Transaction activity in January is usually thin, alongside the holiday period. Similarly, new listings are typically lower at this time of year. In addition, the surge in COVID-19 cases may have weighed on activity. That said, there is ongoing evidence that more supply is coming on the market with new listings in the four weeks to 30 January were 5.7% higher than the same period a year ago. However, new listings remain down on the five-year average. So, while supply remains tight, there are signs of normalisation.

The Brisbane and Adelaide property markets continued to outperform their peers in January, as the divergence in house prices across capital cities persisted. In January, prices jumped 2.3% and 2.2%, respectively in Brisbane and Adelaide. Year-on-year growth in Adelaide reached an all-time high of 24.8%, while annual growth in Brisbane increased to 29.2% – the fastest pace in almost 22 years.

Price growth in the larger markets of Melbourne and Sydney picked up. Prices in Sydney rose 0.6% in January and 25.5% in annual terms. In Melbourne, dwelling price growth returned to positive territory. Prices increased by 0.2% in the month, to be up 14.9% year on year. Monthly price growth also firmed in Canberra (1.7%), Hobart (1.2%) and Perth (0.6%), while monthly growth slowed slightly in Darwin (0.5%). Annual price growth pulled back in each city, apart from Canberra, where annual growth hit a record high 25.5%.

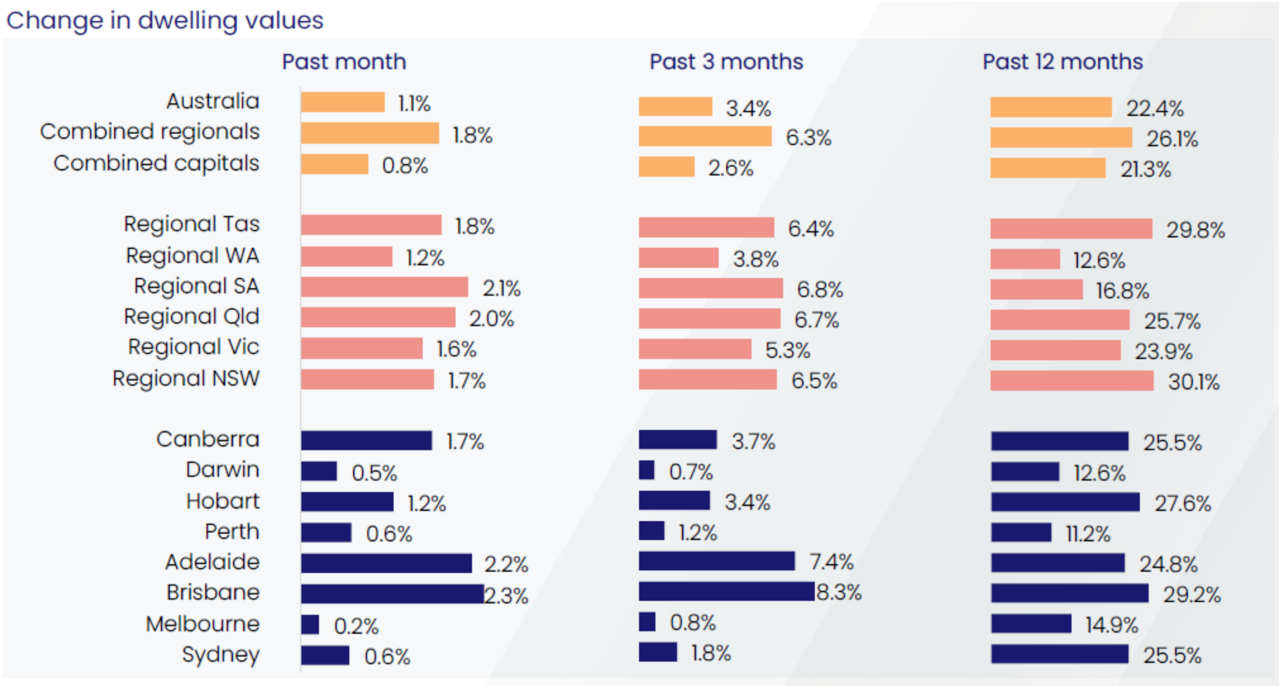




Regional markets continued to outperform of capital cities. Prices in regional areas jumped 1.8% over the month, while growth in capital cities was more muted, reporting a 0.8% rise. Over the past three months, regional areas were up 6.3% while the combined capitals rose only 2.6%. The outperformance of regional areas was broad-based across states. Indeed, regional areas outperformed capital cities in January in all states and territories, apart from the hot markets of

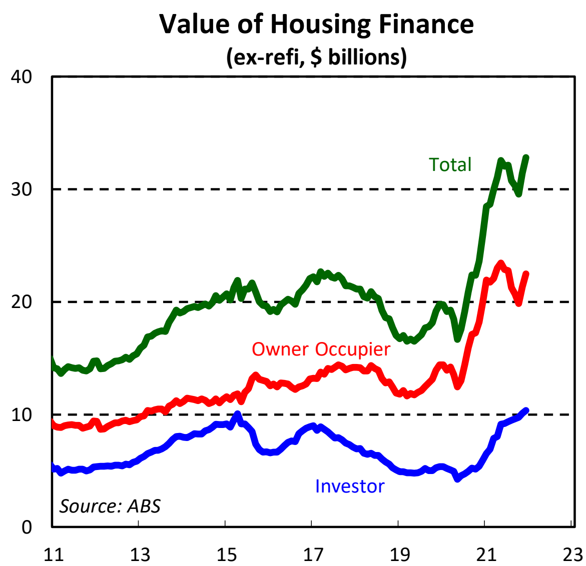
Queensland and South Australia.

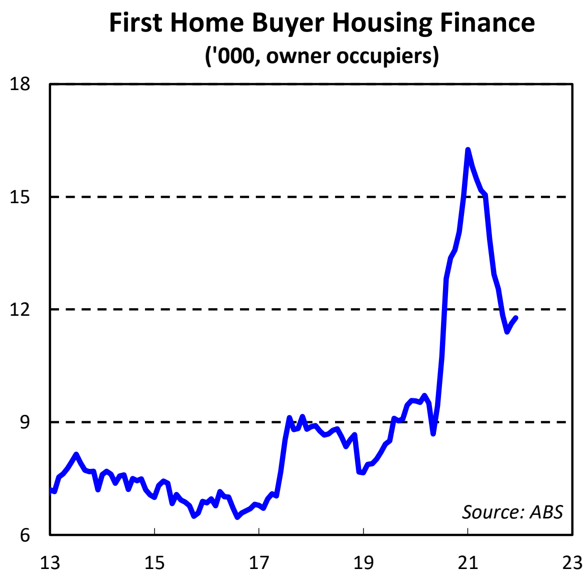
The divergence in house and unit prices continued in January, with house prices up 1.3% and unit prices rising only 0.3%. In annual terms house prices were up 24.8%, while unit prices rose 14.3%. The gap between median house and unit prices remains around its highest level on record. This may see a rotation towards apartments and higher density housing as stand-alone houses become less affordable.



Housing Finance

Housing finance, excluding refinancing, rose 4.4% in December, edging to a new record high of $32.8 billion. This marks the second month of growth after housing finance approvals took a hit during the Delta lockdowns. The uptick is consistent with the lift in sales and dwelling prices as restrictions eased. The drag from the unwind of HomeBuilder has also ended. More generally, low interest rates and the recovering economy continued to drive strong demand for housing finance.





The increase was broad-based across lender-types. Lending to owner-occupiers rose 5.3% in the month. Lending to investors was up 4.4% and hit a new record high of $10.3 billion. The number of lending approvals to first home buyers rose for the second consecutive month, despite mounting affordability constraints. However, approvals to first home buyers remain more than 27% down on the peak in January 2021.

Owner-occupier lending increased in all states, while lending fell in the ACT and the NT. The rise in owner-occupier lending was driven by strong growth in WA (7.1%), Victoria (5.2%) and Tasmania (3.7%). Lending to owner-occupiers in NSW and Queensland increased by 3.0% and 2.2%, respectively.

Investor lending was more mixed. In December, lending to investors picked up in NSW (1.1%), Victoria (3.4%) and the ACT (10.4%). Albeit at a slower pace compared to owner-occupier lending in both NSW and Victoria. Lending fell in Queensland (-0.8%), SA (-2.7%), WA (-3.7%), Tasmania (-3.5%) and the NT (-1.9%).

Outlook

Demand for housing remain strong, especially in the smaller capital cities of Brisbane and Adelaide, and regional areas. But we expect dwelling price growth and housing lending will slow over 2022. Affordability pressures, rising fixed rates and a lift in supply are already weighing on dwelling price growth but the key driver will be when the Reserve Bank lifts the cash rate. We expect lift-off in August, after which there is clearly a risk of a more material slowdown.

APRA could tighten the screws with additional macroprudential measures, after stepping in last October, but will this hinge on when the Reserve Bank (RBA) lifts interest rates. With higher interest rates, there will be less need for APRA to intervene to cool risks in the housing market.

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