Data Snapshot

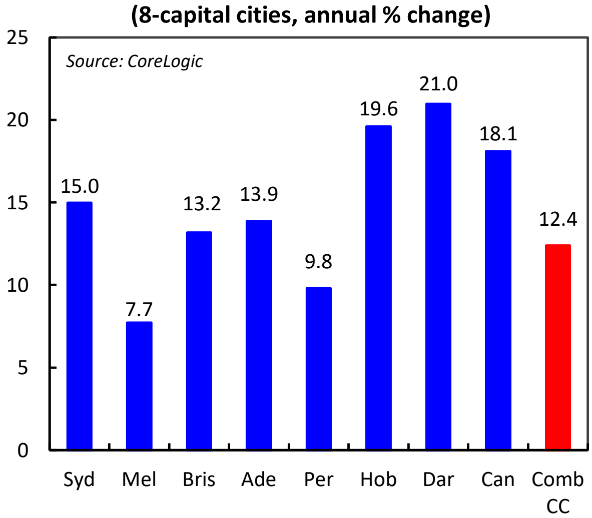
Thursday, 1 July 2021

Dwelling Prices

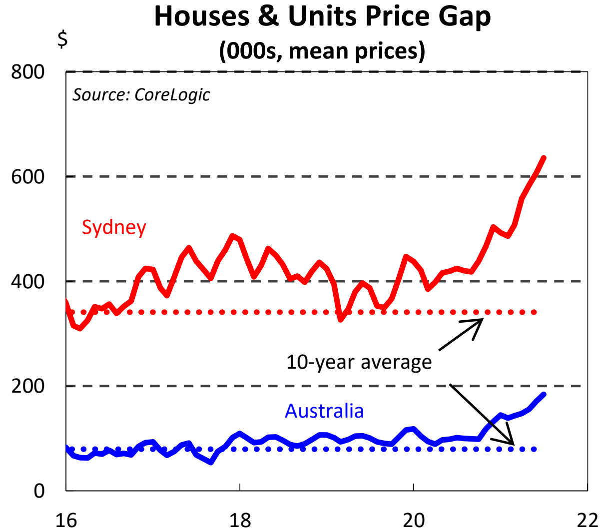
Boom to Persist Despite Short Lockdowns

- **The housing boom marched ahead in June, with CoreLogic's national home value index increasing 1.9%. Subsequently, annual growth in dwelling prices hit 13.5% in the month, marking the highest reading in 15 years!**
- **Annual growth rates in the capital cities were no less impressive. Annual growth was the strongest on record in Darwin (21.0%), where data dates back to 1999. It was also the fastest in around 17 years in Hobart (19.6%) and Canberra (18.1%). Growth in Adelaide (13.9%) and Brisbane (13.2%) hit its strongest pace in 13 years while Sydney (15.0%) reached its fastest clip since 2017.**
- **The gap in the performance of regional areas and capital cities has narrowed, but house price growth continues to outstrip growth in apartment prices. The widening gap between house and unit prices, especially in Sydney where it is at a record high, and stretching affordability, suggests the outlook for unit price growth is improving.**
- **The lockdowns implemented around the country will likely cause sales volumes to decline over the coming weeks. However, after previous circuit breaker lockdowns, activity recovered quickly as restrictions were eased. If the lockdowns remain relatively short, the impact on the housing market will likely be limited.**
- **In the medium term, prices growth will continue to be supported by low rates, the ongoing recovery in the labour market and low supply. We continue to expect that dwelling prices will increase by up to 20% this year, followed by more moderate growth in 2022.**

Dwelling Prices for June 2021
(8-capital cities, annual % change)



Houses & Units Price Gap
(000s, mean prices)

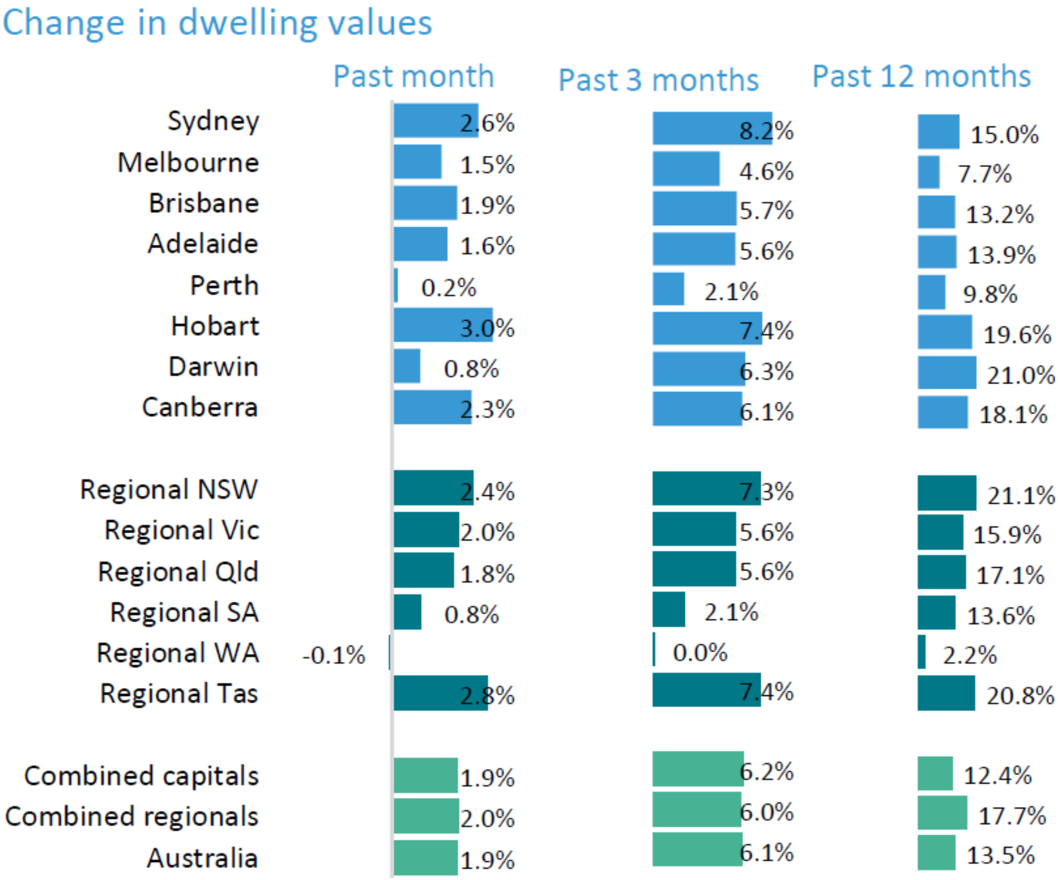


The housing boom marched ahead in June, with CoreLogic's national home value index increasing 1.9%. Clearly, chilly June weather has not been enough to deter eager buyers.

Monthly growth averaged 0.4% over the past 10 years. The pace of growth is still running well above this rate, supported by ultra-low rates, the ongoing recovery in the labour market, and constrained housing supply.

Subsequently, annual growth in dwelling prices hit 13.5% in June, marking the highest reading in 15 years! The last time price growth was stronger was in April 2004. Annual growth rates in the capital cities were no less impressive. Annual growth was the strongest on record in Darwin (21.0%), where data dates back to 1999. It was also the fastest in around 17 years in Hobart (19.6%) and Canberra (18.1%). Growth in Adelaide (13.9%) and Brisbane (13.2%) hit its strongest pace in 13 years while Sydney (15.0%) reached its fastest clip since 2017.

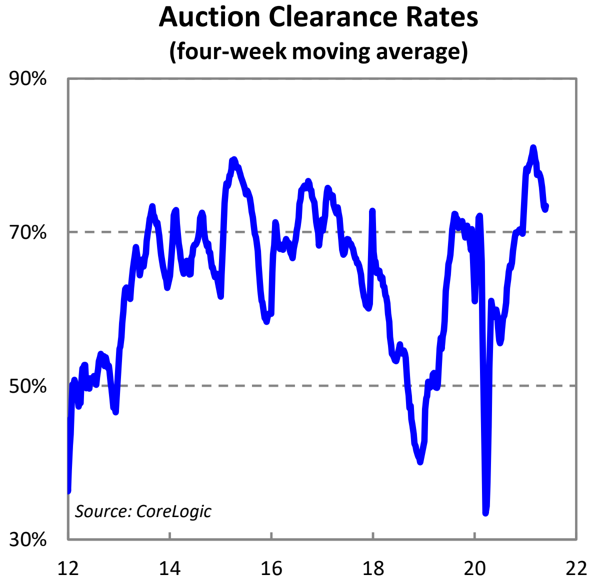
Monthly growth in June ranged from 3.0% in Hobart to 0.2% in Perth. Sydney followed close behind Hobart, with prices up 2.6% in the month.



Source: CoreLogic

The gap in the performance of regional areas and capital cities has narrowed. Dwelling prices in regional areas grew around the same rate as capital cities in June – 2.0% and 1.9%, respectively. Changes in the way we live and work saw regional areas outperform after the onset of the pandemic. However, this trend looks to be fading as life starts to return to normal, notwithstanding the recent snap lockdowns around the country.

There are some early signs that some of the heat is coming out of the market. Momentum has eased a little after monthly growth hit 2.8% in March – the fastest monthly clip in 32 years. Similarly, auction clearance rates remain elevated, although slipped into the low- to mid-70s through June. In March, clearance rates surged over 80%.



House price growth continues to outstrip growth in apartment prices. House prices rose 2.1% in June, to be up 15.6% over the year. Gains in unit prices look meagre in comparison – units were up 1.3% in June and 6.8% over the year. The gap is particularly wide in Sydney, where it has grown to a record $636k, measured by the difference in the mean house price and mean unit price. This is well above the 10-year average of $341k. The gap has also widened across the country more broadly, although by less of an extent to Sydney. It suggests that the outlook for unit prices should improve, especially as affordability is becoming stretched.

The deceleration in monthly growth rates was most pronounced at the top-end of town. By valuation segment, the most expensive quartile was up 8.0% in the three months to June, down from 9.2% in May. Despite the pullback in growth, prices are still increasing fastest in the most expensive tier of the market.

The level of advertised stock is still around 25% lower than the average over the past 5 years. While there is a solid pipeline of residential construction, partly reflecting the take up of HomeBuilder scheme, it will be some time before this flows through to housing supply.

Outlook

The lockdowns implemented around the country over the past week will impact transaction activity. Sales volumes are likely to decline over the coming weeks. However, after previous circuit breaker lockdowns, activity recovered quickly as restrictions were eased. If the lockdowns remain relatively short, the impact on the housing market will likely be limited.

There will be more material implications for the housing market if restrictions are extended. In this instance, the performance of the housing market will also depend on the response of policymakers and financial institutions. For example, mortgage repayment deferrals in 2020 likely reduced the number of forced sales fuelled by an inability to meet mortgage obligations.

We continue to expect that dwelling prices will increase by up to 20% this year, followed by more moderate growth in 2022.

In the medium term, prices growth will be supported by low rates, the ongoing recovery in the labour market and low supply. Affordability constraints are a growing headwind. Notably, lending to first home buyers, a price-sensitive cohort, has declined in recent months.

Over the longer-term, increases in mortgage rates from their current ultra-low levels will weigh on the property market. Some lenders have already lifted some fixed home loan rates following increases in swap rates since late 2020. Variable rates typically change when the Reserve Bank (RBA) moves the cash rate. We expect the cash rate will increase sooner than the RBA has previously indicated – we expect the Reserve Bank to begin hiking rates in early 2023, although would not rule out the possibility of a move in 2022.

Another key headwind is the possibility that policymakers will enforce tighter lending standards. Recently, the Australian Prudential Regulatory Authority wrote to large lenders to seek assurance they are proactively managing risk in their housing market portfolios. While policymakers have so far noted that lending standards remain sound, we cannot rule out a tightening in macroprudential policy in 2022.

Matthew Bunny, Economist
Ph: 02-8254-0023

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
Jarek.kowcza@banksa.com.au
(02) 8254 3251

Research Assistant (Secondment)
Sonali Patel
Sonali.patel@banksa.com.au
(02) 8254 0030