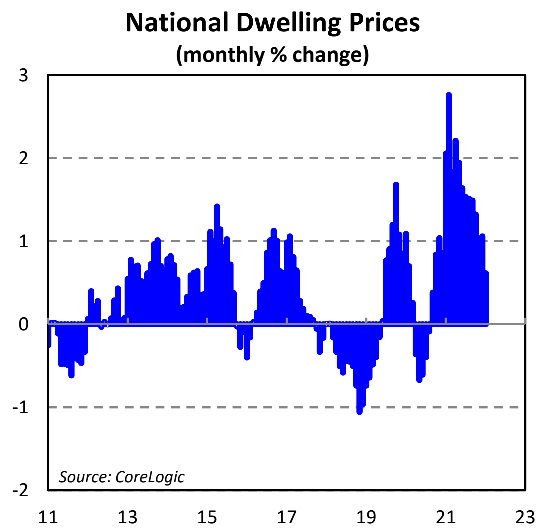
Data Snapshot

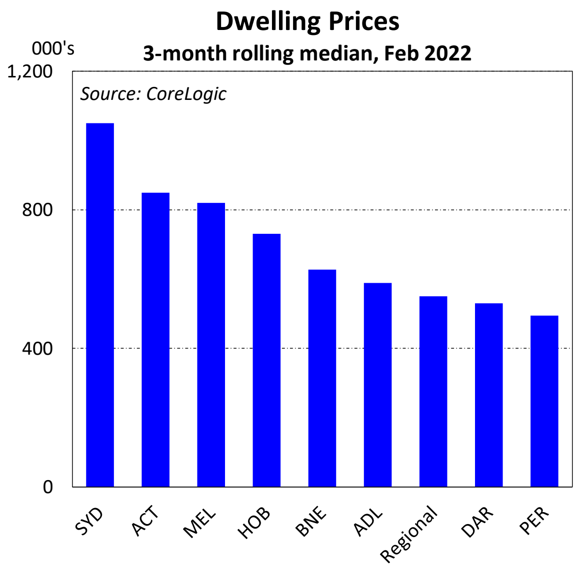
Tuesday, 1 March 2022

Dwelling Prices and Housing Finance

First Fall in Sydney Prices in 17 Months

- **The housing market continued to lose momentum in February; dwelling prices lifted 0.6% – the slowest monthly growth rate since March 2020. Annual growth is still continuing at a fast clip, but is softening. It slowed to 20.6% in February and the peak is likely now behind us.**
- **The pace of growth began to moderate over 2021, as fixed rates started to move up and affordability became more stretched. Supply remains relatively low, but is increasing, which is also taking steam out of the market.**
- **Notably, dwelling prices declined slightly in Sydney in January for the first time since September 2020, while prices were effectively flat in Melbourne. Momentum has slowed considerably at the top end of the town, which typically sees larger fluctuations in growth than other segments of the market.**
- **Dwelling price growth moved lower across all major capital cities in February, however, the smaller, more affordable capital cities continued to outperform. The median dwelling price is currently at, or around, record highs in all capital cities and regional areas.**
- **Housing finance, excluding refinancing, rose 2.6% in January, and hit a new high of $33.7 billion. Disruptions from Omicron clearly didn't dissuade buyers. The increase in lending in January was led by investors, up 6.1% in the month. Lending to owner-occupiers rose 1.0% in the same period.**
- **We anticipate the housing boom will continue to moderate alongside growing headwinds. We expect the RBA to begin hiking rates from August, after which, we expect dwelling prices will decline. However, we expect prices will bottom out well above their pre-pandemic levels.**





Dwelling Prices

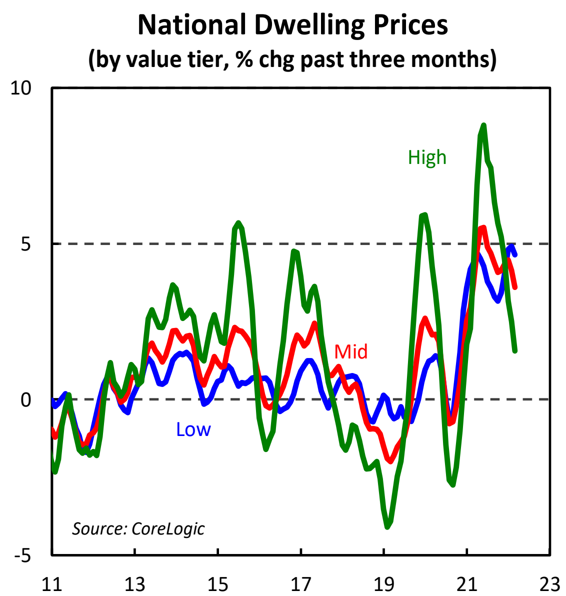
The housing market continued to lose momentum in February; dwelling prices lifted 0.6% – the slowest monthly growth rate since October 2020. Monthly growth peaked at 2.8% in March 2021. In annual terms, growth edged lower to 20.6%, suggesting annual growth likely peaked in January at 22.4%.

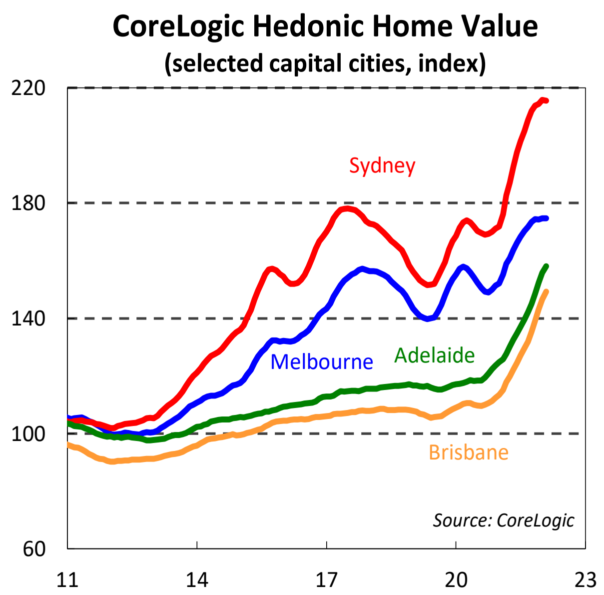
That said, growth is continuing at a decent clip, just not so red hot, and remains above the long-term average of monthly rate 0.5%. Demand continues to be underpinned by low interest rates. The pace of growth started to moderate over 2021, as fixed interest rates moved up and affordability became more constrained, especially in Sydney and Melbourne. Supply remains relatively low, but is increasing, which is also taking steam out of the market.

Evidence of the moderation is broad based. Notably, dwelling prices declined in Sydney in January for the first time since September 2020, while prices were effectively flat in Melbourne. Momentum has slowed considerably at the top end of the town, which typically sees larger fluctuations in growth than other segments of the market. The national three-month growth rate in high-value properties peaked at 8.5% in April 2021. This had fallen to 1.8% by February this year. Meanwhile, the three-month growth rate in mid- and low-value properties held up at 4.5% and 3.6% respectively in February, although have also come off their peaks.

The total advertised stock was more than 30% below its five-year average in the four weeks ending 27 February, and 13.3% below the same period last year. However, the level of stock is increasing, partly reflecting an increase in newly listed properties alongside softening demand.

House price growth has continued to outperform price growth of higher density dwellings. House prices rose 0.7% in the month, while unit prices rose only 0.3%. In year-ended terms, house values were up 22.9% while units rose a more modest 13.2%. The gap between median house and unit prices remains around its highest level on record across the country, although has started to narrow in some cities where affordability is more stretched, notably Sydney and Melbourne. Some buyers may be turning to units after being priced out of houses.





Dwelling price growth slowed across all major capital cities in February. However, differentials in price growth continues to be linked to affordability, as the smaller, more affordable capital cities outperform.

In Sydney, where affordability is most stretched, dwelling prices declined 0.1% in February, led by a 0.3% fall in unit prices and a flat result for houses. Sydney dwelling prices are 22.4% higher in annual terms, well down on the peak of 25.8% in November.

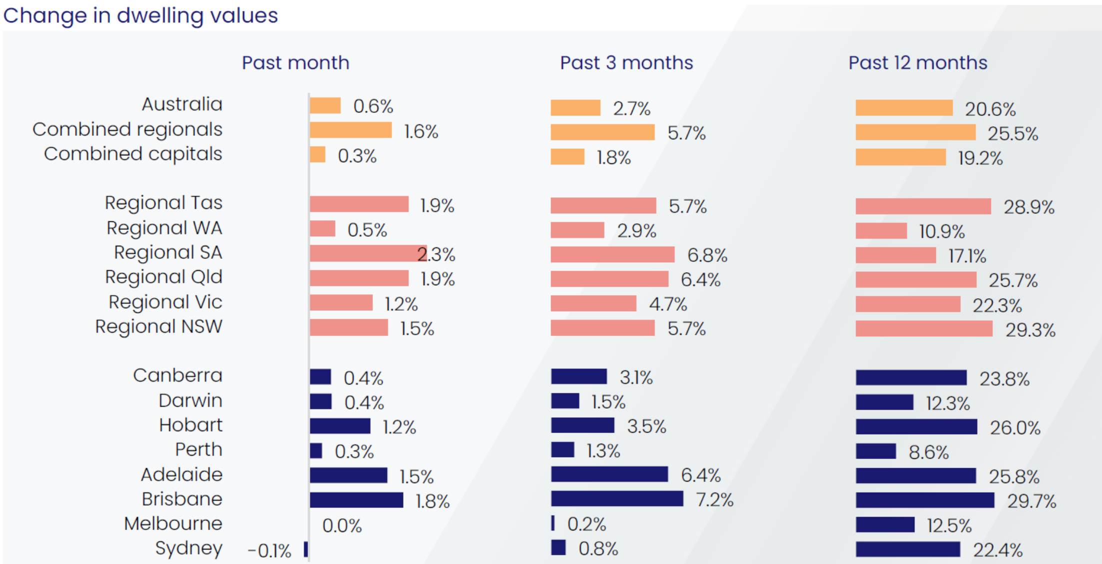
Dwelling prices ground to halt in Melbourne. House prices were unchanged in the month, while unit prices edged up 0.1%. Dwelling prices are 12.5% higher over the year to February, led by a 15.0% rise in house prices.

Brisbane and Adelaide reported another solid rise in dwelling prices over February. Dwelling prices in Brisbane bumped up 1.8% in the month, while house and unit prices increased 1.9% and 1.5%, respectively. Unit prices in Brisbane are not showing any signs of slowing – prices jumped 4.5% over the three months to February, the fastest pace since February 2008.

Adelaide notched up a 1.4% jump in dwelling prices in February, taking the annual pace to 25.8% - the fastest on record going back to 1994. Houses prices continue to run hotter than units, however, the gap is narrowing. Hobart (1.2%) also recorded a strong rise in prices over the month, while growth was more muted in Canberra (0.4%), Darwin (0.4%) and Perth (0.3%).

Price growth also appears to have peaked in regional areas, although the slowdown in growth is less pronounced than in capital cities. Regional areas grew by 1.6% in February, compared to a 0.6% rise in capital cities. Regional markets outperformed capital cities in all states and territories in February, apart from the NT. In annual terms, prices are 25.5% higher in the regions compared to 19.2% in capital cities.

The record housing boom experienced over 2021 has pushed prices to record highs, stretching affordability across the country as wages growth remained sluggish. The median dwelling price is currently at, or around, record highs in all capital cities and regional areas. The median dwelling price is highest in Sydney, where it has breached $1 million, followed by the ACT and Melbourne. The median dwelling price is lowest in Perth, where the market has underperformed over recent years, followed by Darwin.



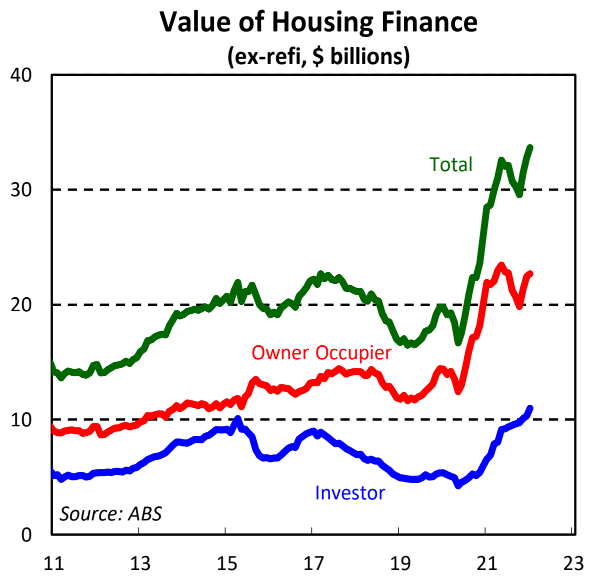
Housing Finance

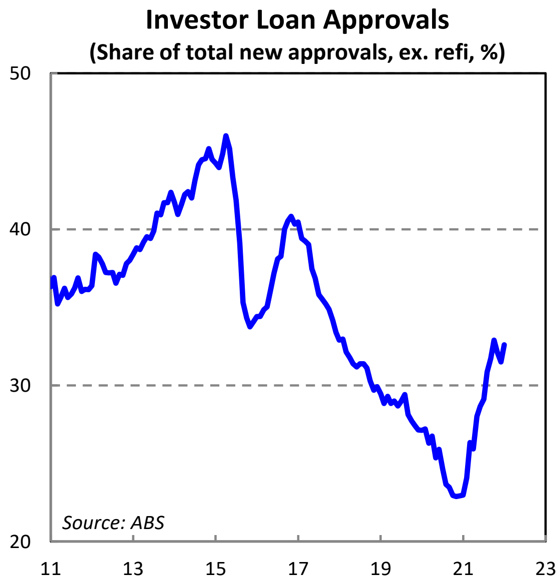
Housing finance approvals, excluding refinancing, rose 2.6% in January, and hitting a new high of $33.7 billion. The disruptions from Omicron clearly didn't dissuade buyers. This follows a 4.4% increase in December. Low interest rates and the economic recovery continue to drive strong demand for housing finance. Plus, the unemployment rate remains around its lowest level in more than a decade.

The increase in January was led by investors, with lending up 6.1% in the month. Lending to investors has increased for the past 15 consecutive months and hit a new record high in January.

In year-ended terms, lending to investors rose 18.2%.

Lending to owner-occupiers rose more modestly, up 1.0% in the month and 3.4% in year-ended terms, partly reflecting the rapid run-up in lending earlier in the pandemic. The housing boom has been led by owner-occupiers, although investors have been increasingly joining the market. The share of new lending accounted for by investors has been trending upwards since early 2021, and investors now account for around one third of new lending. Relatedly, lending to first-home buyers has been trending down since early 2021, including a 6.9% fall in January. First-home buyers tend to be more price sensitive than other buyers and have struggled with growing affordability pressures.





Lending was mixed by state in January. Owner-occupier declined in Tasmania (-5.3%), Queensland (-2.4%) and WA (-1.4%). Meanwhile, ACT reported a record 33.5% surge in owner-occupier lending, while growth was also strong in NSW (5.6%), SA (3.6%) and Victoria (3.2%).

The ACT also recorded a 22.8% boom in investor lending over January, followed by solid growth in Victoria (11.1%) and NSW (9.8%). Investor lending jumped 15.4% in the NT over the month, although this is a volatile series. Queensland (1.7%), SA (-2.5%) and Tasmania (-3.0%) dragged on investor lending growth.

Outlook

We expect the housing boom will continue to moderate. Affordability, rising supply and higher fixed rates are all headwinds for price growth. On the flip side, the reopening of international borders will provide support for rental demand in key inner city areas, which rely heavily on foreign students. This is unlikely to boost demand from buyers in the short-term, but higher permanent migration levels over the coming years will support home buying demand.

We expect the RBA to begin hiking rates from August. After this, we expect dwelling prices will begin declining. Indeed, sentiment surveys indicate consumers are wary of the impending first rate hike, which will be the first in more than a decade, with household debt at elevated levels. Inevitably, housing demand will take a hit. However, we expect prices will bottom out well above their pre-pandemic levels.

Matthew Bunny and Jameson Coombs
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
0481 476 436

Associate Economist
Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789