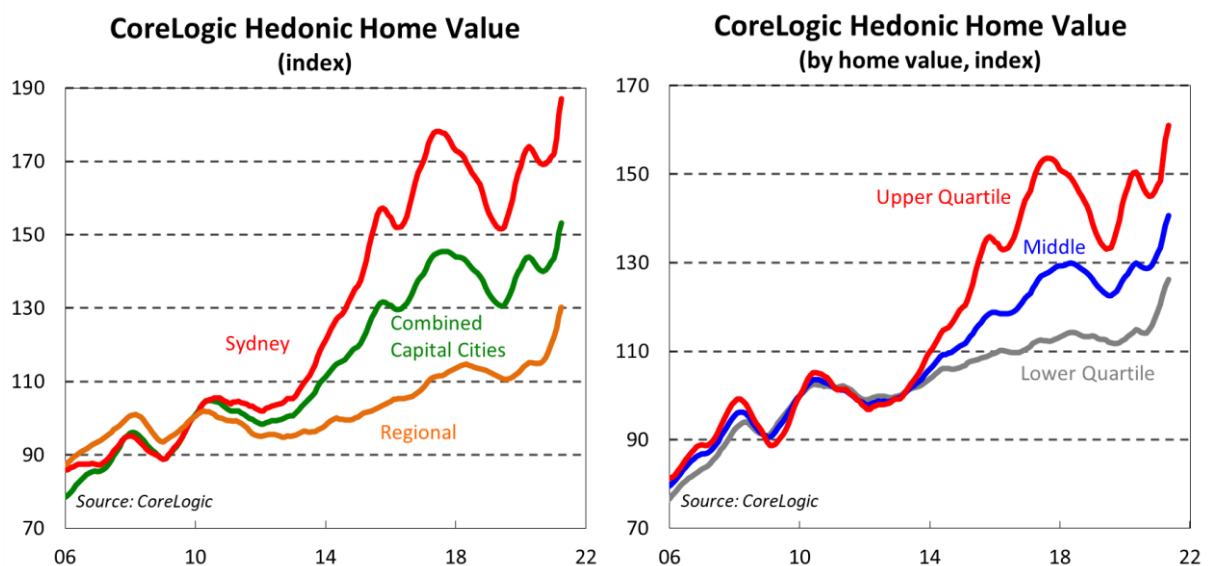


Monday, 3 May 2021

Dwelling Prices

Tempering but Still Hot

- The housing market is still running hot, although there are early signs that the heat is tempering. CoreLogic's national home value index increased by 1.8% in April. Growth slowed from 2.8% in March – the fastest pace in 32 years.
- We are still in the midst of a boom. The median number of days to sell a home fell to 26 days for the combined capitals – a record low. Auction clearance rates remain well above long-run averages.
- As life starts to return to normal, the pace of growth in the capital cities is beginning to overtake regional areas. Sydney is re-emerging as the nation's housing hotspot – dwelling prices are up 8.8% in the past three months – higher than any other capital city or state regional area.
- The upturn in dwelling prices has been led by the top end of town. In the past three months, the top quartile of dwellings by value has increased in price by 8.5% while the bottom quartile has risen 4.5%.
- We expect house prices will grow around 20% over 2021 and 2022, supported by ultra low interest rates, the ongoing recovery in the labour market and low supply.
- The rapid run up in prices combined with stagnant wage growth will see affordability pressures begin to bite, which is likely to take some steam out of price growth. Looking further ahead, we see a risk authorities could to tighten macroprudential controls in 2022, which would lead to a more material slowing in price growth.



The housing market is still running hot, although there are early signs that the heat is tempering. CoreLogic's national home value index increased by 1.8% in April. Growth slowed from 2.8% in March – the fastest pace in 32 years. Dwelling prices are now up 7.8% on their pre-COVID peak in April 2020.

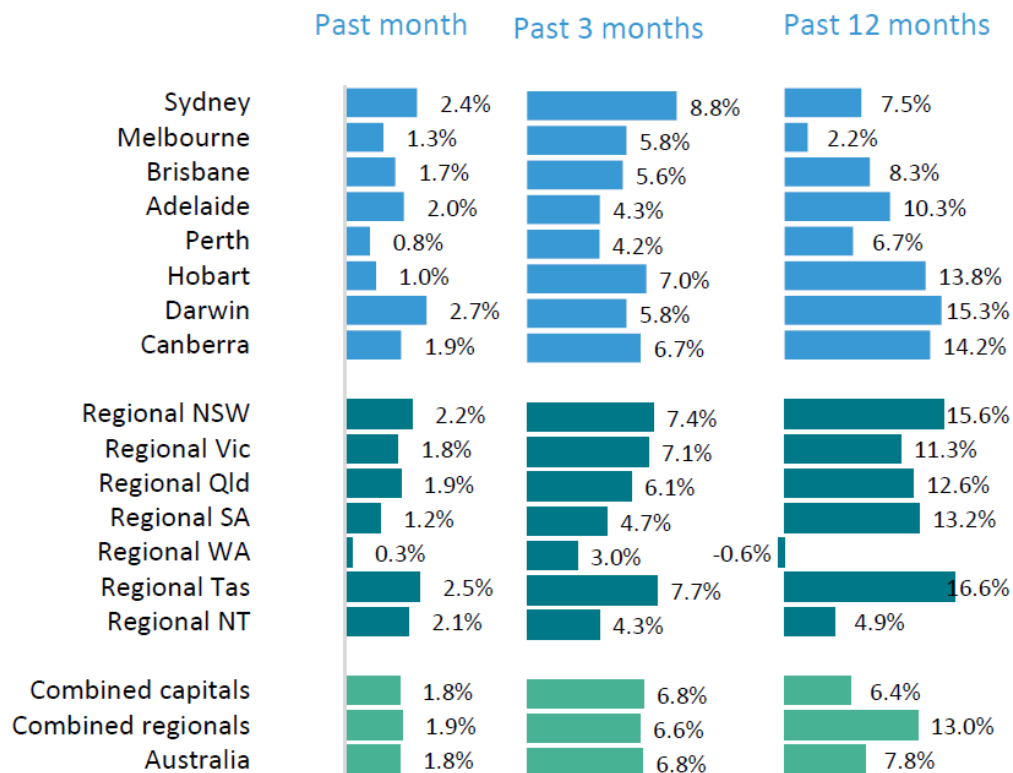
Some moderation in growth was inevitable after the remarkable figures we have seen in the past few months.

However, we are still in the midst of a boom. The median number of days to sell a home fell to 26 days for the combined capitals – a record low. Auction clearance rates have edged down after peaking at the end of March but still remain well above long-run averages.

Home owners are being drawn to the market by the strong selling conditions. The number of fresh listings on the market has lifted considerably relative to the past two years. However, buyers are snapping up the new listings so quickly that the overall advertised stock is still low.

The pandemic underpinned strong demand for regional housing over properties in capital cities but there are growing signs that this trend is fading as life starts to return to normal. The pace of growth in the capital cities is beginning to overtake regional areas. Over the past three months, the combined capital cities index has increased 6.8% while the combined regional index has risen 6.6%.

Change in dwelling values



Source: CoreLogic

Amongst the capitals, Darwin led the pack with 2.7% growth in April followed closely by Sydney with 2.4% growth. Across regional markets, Tasmania was the strongest with 2.5% growth in the month. Sydney is re-emerging as the nation's housing hotspot, with dwelling prices up 8.8% in the past three months – higher than any other capital city or regional area. Growth has been weakest in WA. In Perth, dwelling prices rose 0.8% in April. Regional WA limped up 0.3% and is down 0.6%

over the year.

The upturn in dwelling prices has been led by the top end of town. In the past three months, the top quartile of dwellings by value increased in price by 8.5% while the bottom quartile has risen 4.5%. Over the past five years or so, the price fluctuations in the more expensive end of the market have been much larger than the middle and low end.

House prices increased 2.0% in April, continuing to outperform units, which rose 1.2%. The shift away from higher density housing, relatively weak investor activity and excess supply in some areas are all weighing on unit prices.

In addition, rents on Sydney and Melbourne apartments have tumbled, partly due the closure of international borders and the sharp drop in foreign students. International students are an important source of demand for inner-city high-rise apartments, especially in Sydney and Melbourne. These cities take the bulk of overseas migrants.

Outlook

The housing boom has much further to go, although there are early signs that it is starting to moderate.

We still expect house prices will grow around 20% over 2021 and 2022.

Price growth will continue to be supported by ultra low interest rates and the ongoing recovery in the labour market. While building approvals are surging, it will take some time for this to come on the market and so low supply will also continue to push up prices.

Some significant short-term risks have abated. The labour market is looking solid, despite the conclusion of JobKeeper. In addition, the value share of home loans on repayment deferrals had fallen to 0.7% by the end of February after peaking at 11% in May 2020.

The rapid run up in prices combined with stagnant wage growth will see affordability pressures begin to bite, which is likely to take some steam out of price growth. First home buyers will be most impacted, as they are more price sensitive than other sectors of the market. They tend to have lower incomes and lower wealth.

Looking further ahead, the key question is whether authorities will tighten prudential controls. While so far policymakers have underscored that lending standards remain sound, we believe authorities will intervene in 2022, which will lead to material slowing in price growth in 2023.

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