Data snapshot

Bank of Melbourne

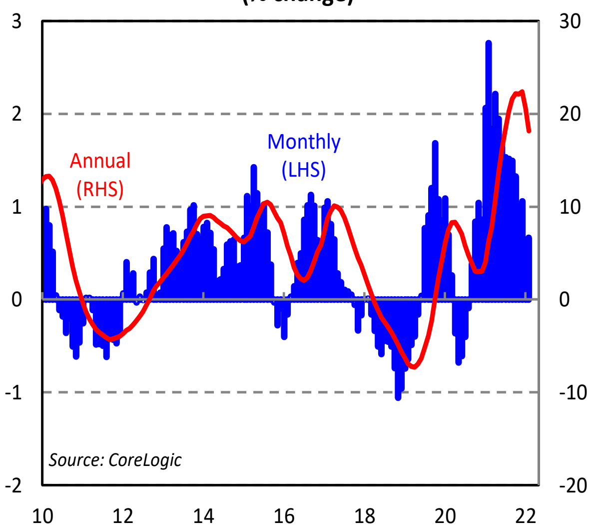
Friday, 1 April 2022

Dwelling Prices and Housing Finance

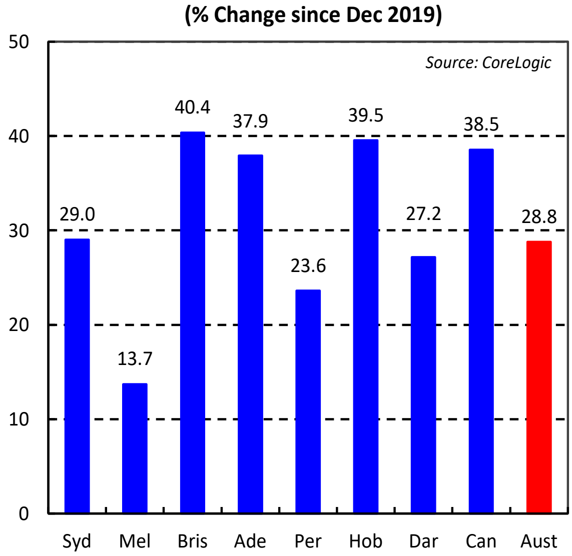
Two-Speed Market Diverges Further

- **Dwelling prices grew 0.7% in March as momentum in the smaller capital cities and regional areas outweighed falls in Sydney and Melbourne. The boom has moderated as affordability pressures rise, supply lifts and fixed rates increase. In annual terms, growth slowed to 18.2%.**
- **The slowdown in momentum is broad-based across the country but particularly concentrated in the big cities. Dwelling values declined in Sydney and Melbourne in March by 0.2% and 0.1%, respectively. March is the second consecutive month that prices have declined in Sydney. Price growth in Brisbane and Adelaide continued to outperform, at 2.0 and 1.9%, respectively.**
- **Prices have risen by more than 10% across all geographies since December 2019. However, there has been some variation across the country. Regional areas (up 41.5%) have outperformed. Across the capital cities, growth ranged from 13.7% in Melbourne, to 40.4% in Brisbane.**
- **Housing finance approvals, excluding refinancing, fell in February for the first time since October. Approvals sank 3.7% in the month, from a record high in January. The decline may reflect some ongoing softness in activity caused by Omicron. Additionally, activity may be cooling in line with slowing price growth momentum and stretched affordability.**
- **The decline in approvals was broad-based across investor and owner-occupier lending. However, the slump was more pronounced among owner-occupiers.**
- **We expect conditions to continue to moderate as worsening affordability, rising supply, and the eventual lift in the cash rate weigh on dwelling price growth. However, a strong economy, low unemployment, and policies announced in the 2022-23 Federal Budget will support demand.**

National Dwelling Prices
(% change)



Dwelling Prices for Mar 2022
(% Change since Dec 2019)



Dwelling Prices

Dwelling prices grew by 0.7% in March as momentum in the smaller capital cities and regional areas outweighed falls in Sydney and Melbourne. Dwelling prices rose by 0.7% in March, following 0.6% growth in February. Monthly growth has been trending down since its peak of 2.8% in March 2021. However, growth remains above the 10-year average of 0.5%.

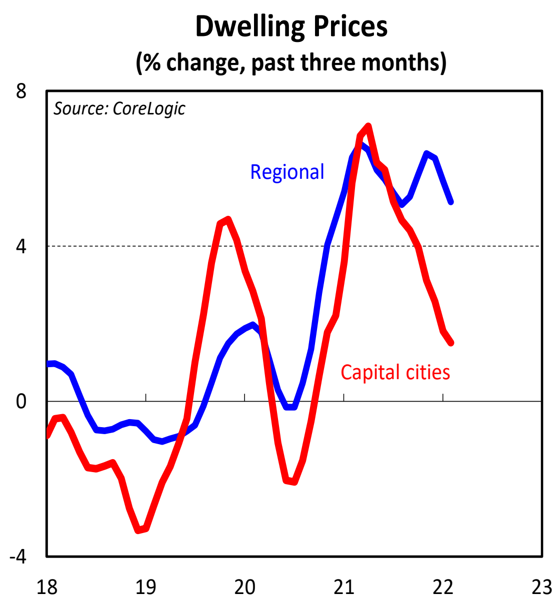
In annual terms, growth slowed to 18.2% over the year to March, down from 20.6% over the year to February. This is the first time since August 2021 that the annual growth rate has been below 20%. Annual growth will continue to slow in future months in line with the slowing in monthly momentum that was seen over the past year.

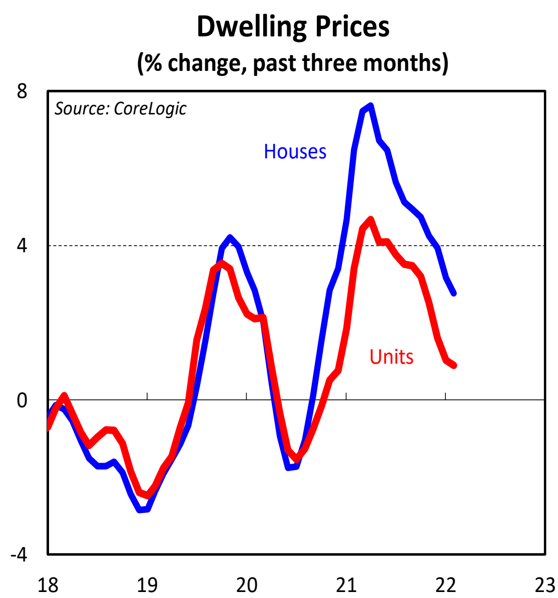
The slowdown in momentum is broad-based across the country but particularly concentrated in the big cities. Dwelling values declined in Sydney and Melbourne in March by 0.2% and 0.1%, respectively. March is the second consecutive month that prices have declined in Sydney. Momentum in our largest capitals has slowed considerably as affordability pressures mount and additional supply hits the market. The three-month growth rate peaked at 9.3% in Sydney in May 2021 and fell to 0.3% in March. Similarly, the three-month growth rate in Melbourne slowed from 5.8% in April 2021 to just 0.1% in March.

Price growth in Brisbane and Adelaide continued to outperform. Dwelling values were up 2.0% and 1.9% across the two cities, respectively. In annual terms, dwelling prices were up 29.3% in Brisbane and 26.3% in Adelaide. In fact, annual growth in Adelaide hit an all-time high. Momentum has remained robust across Brisbane and Adelaide through late-2021 and into 2022, as buyers benefit from better affordability relative to the largest capital cities of Sydney and Melbourne. Supply is also relatively more constrained in Brisbane and Adelaide.

Conditions also remained strong in Perth and the ACT, where prices jumped 1.0% in March, as well as Darwin, where prices increased 0.8%. Prices rose a more modest 0.3% in Hobart.

Prices have risen by more than 10% across all geographies since December 2019. However, there has been some variation across the country. Regional areas have been the outperformer, as prices have accelerated by 41.5%. Across the capital cities, the strongest performers have been the smaller capital cities of Brisbane (40.4%), Hobart (39.5%), Canberra (38.5%) and Adelaide (37.9%). The weakest growth was seen in Melbourne (13.7%) and Perth (23.6%).

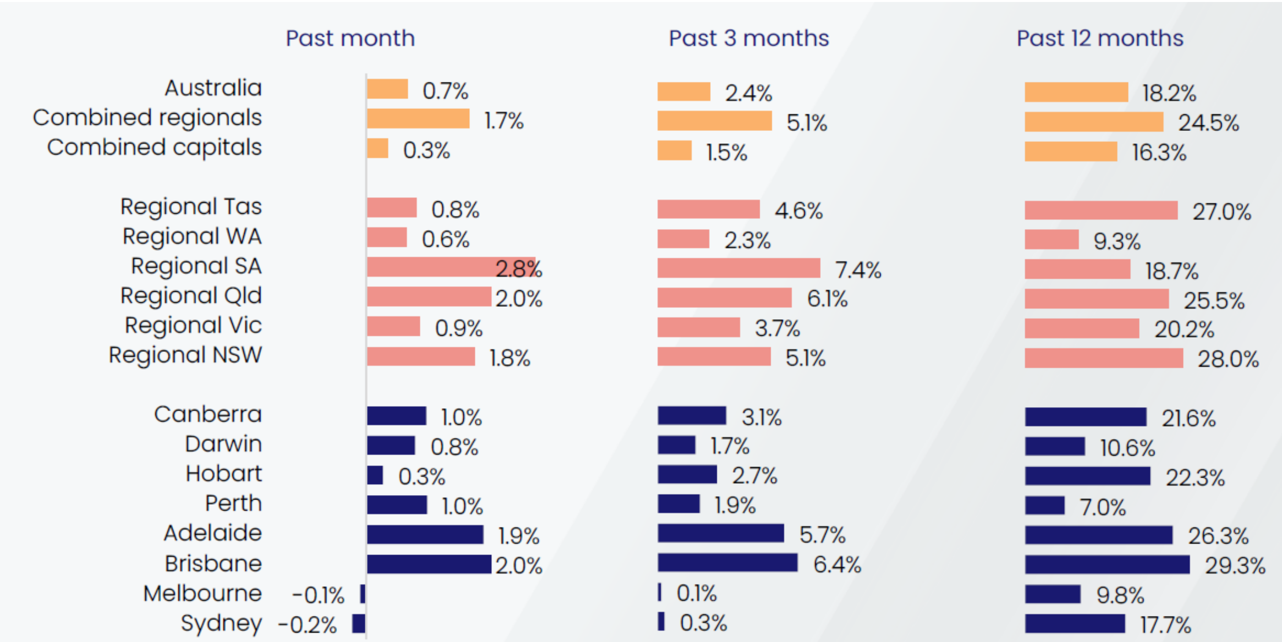




Regional areas continue to outperform capital cities. However, momentum is slowing. Over the three months to March, regional areas grew by 5.1%. This is down from the 5.7% three-month growth rate recorded to February. Conversely, dwelling prices across capital cities grew by 1.5% over the three months to March, down from 1.8% over the three months to February.

House price growth also continued to outpace unit price growth. House prices grew by 0.8% in March, up from 0.7% in February. On the other hand, unit prices grew by 0.3% for a third consecutive month. However, momentum is slowing across both categories. In three-month terms, house prices grew by 2.8% to March, down from the 3.2% growth to February. Unit prices were also weaker in three-month terms, down from 1.0% to February to 0.9% to March.

The supply of dwellings is increasing slowly as new listings (ie. the flow) are tracking above levels seen in recent years. However, total listings (ie. the stock) remain around 30% below the five-year average as demand remains strong and listings are snapped up quickly. But when looking deeper, we can see that supply conditions vary across markets. Total listing levels are low across cities with continued strong dwelling price momentum, such as Brisbane and Adelaide. Supply levels are higher in the more expensive capital cities of Sydney and Melbourne, as sellers are returning to the market and buyer demand is impacted by stretched affordability, higher fixed interest rates, and the prospect of interest rate increases on the horizon.



Housing Finance

Housing finance approvals, excluding refinancing, fell in February for the first time since October. Finance approvals sank 3.7% in the month, from a record high level in January. Although the fall only partly unwound the 13.5% run-up in approvals over the three-months to January. The monthly decline may reflect some delayed softness in housing activity caused by the spread of Omicron over December and January. Additionally, housing market activity may be cooling in line with slowing price growth momentum and stretched affordability.

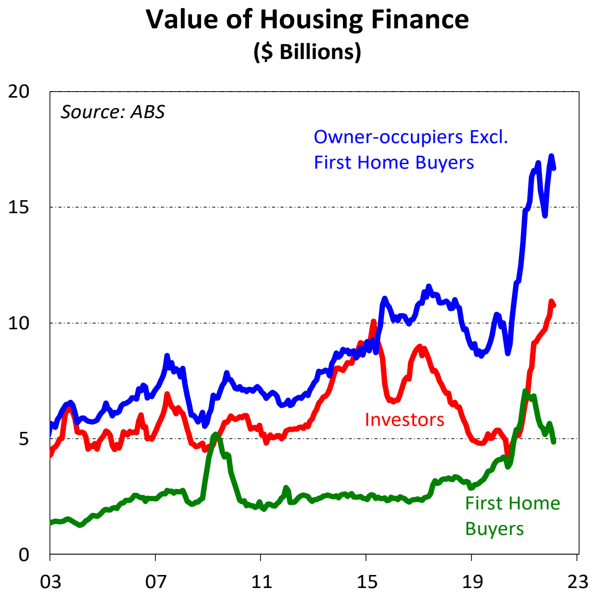
The decline in approvals over February was broad-based across both investor and owner-occupier lending. However, the slump in approvals was more pronounced among owner-occupiers.

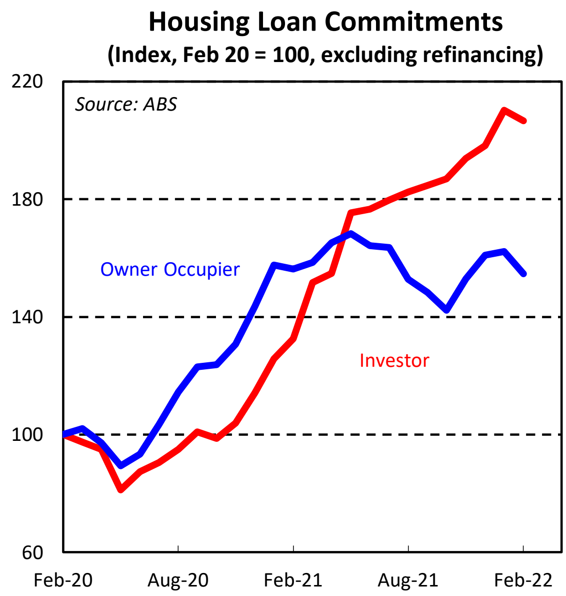
Lending to owner-occupiers dropped by 4.7% in February and is 1.0% lower in annual terms. The result marks the first time in around 2½ years that annual growth in owner-occupier lending has turned negative. Among owner-occupiers, lending to first-home buyers took a massive hit in February, accounting for almost half of the total decline in owner-occupier lending. This likely reflects growing affordability pressures as first-home buyers are increasingly being squeezed out of the market by higher prices.

Investor lending fell for the first time since October 2020, dropping 1.8% over the month. However, lending to investors is still 55.8% higher in annual terms, reflecting the incredible momentum in investor lending over the past 16 months.

Across the states, lending declined most sharply in the regions most disrupted by the spread of Omicron, including NSW (-8.6%), SA (-6.7%), Victoria (-3.7%) and Queensland (-2.9%). Each of these states reported a decline in both owner-occupier and investor finance approvals in February, although the fall was consistently more pronounced among owner-occupiers.

Tasmania and WA bucked the trend in February, approvals jumped 2.6% and 1.9%, respectively. Investor lending was relatively stronger across both WA (6.8%) and Tasmania (2.8%), while growth in owner-occupier lending was also positive in both states. In annual terms, approvals remain higher across all states and territories, save for WA, Tasmania and the NT. The annual performance reflects strong growth in investor lending over the past 12 months.





Outlook

We expect the housing boom to continue to moderate as worsening affordability, rising supply, higher fixed rates and the prospect of future interest rate rises act as headwinds to growth.

However, continued strength in the economy and an expected decline in the unemployment rate to below 4% will support the market. In addition, policies announced in the 2022-23 Federal Budget allowing more first-home buyers to enter the housing market with a lower deposit without paying Lenders Mortgage Insurance (LMI) will support demand.

We expect dwelling prices to fall more broadly once the RBA begins increasing interest rates. We continue to expect the first interest rate increase to come in August, however, we wouldn't rule out a move in June or July.

Price falls are expected to extend into 2023 and beyond as the RBA normalises interest rates alongside the economic recovery. However, despite the predicted declines, prices are expected to settle at high levels relative to before the pandemic.

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