

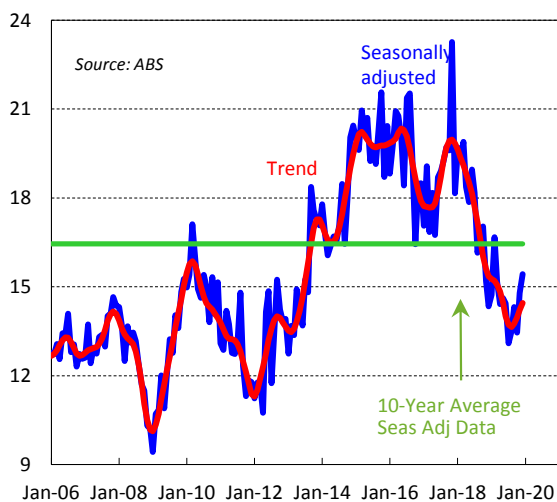
Wednesday, 1 April 2020

Dwelling Prices & Building Approvals

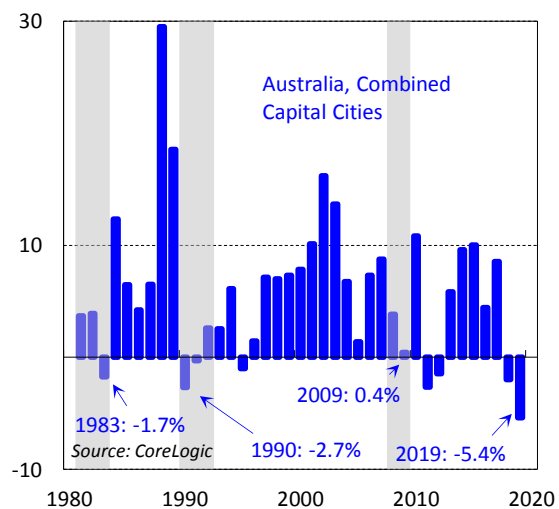
Signs of Promise Before COVID-19

- The housing market has shown signs of promise before the outbreak of COVID-19 hit hard. There was both an increase in house prices and dwelling approvals in March and February, respectively.
- Dwelling prices rose in March, despite disruptions to the housing market that ramped up in the second half of the month. Prices rose 0.7% across the nation's capital cities, following a 1.2% increase in January.
- All capital cities except for Hobart saw monthly price gains over the month. In March, Sydney prices growth remained robust at 1.1% while Melbourne's growth rate slowed to 0.4%.
- Building approvals jumped 19.9% in February, reversing a 15.1% fall in January. Approvals have been volatile in recent months, driven by large swings in high-rise approvals.
- The ramp up in measures to contain the spread of COVID-19 from the middle of March is delivering a significant blow to the key drivers of the housing market.
- Mandatory restrictions on auctions and open homes add further restrictions on housing activity. The uncertainty associated with the virus on the economy and jobs market is also causing potential buyers to pull back.
- Auction rates have fallen for four straight weekends and point to softer growth in dwelling prices over the next few months while the virus outbreak grips Australia.

Number of Building Approvals
(In Thousands)



Annual Change in Average Prices
(Percent change, average yearly prices)



The housing market was showing signs of promise before COVID-19 was declared a global pandemic, according to the latest dwelling prices and building approvals data. Dwelling prices rose 0.7% across capital cities in March while there was a 19.9% increase in the value of building approvals in February.

The uplift in dwelling prices since the middle of last year appears to have flowed through to building approvals. Meanwhile, a further increase in house prices, despite significant social-distancing disruptions that ramped up throughout March, suggests that momentum was building.

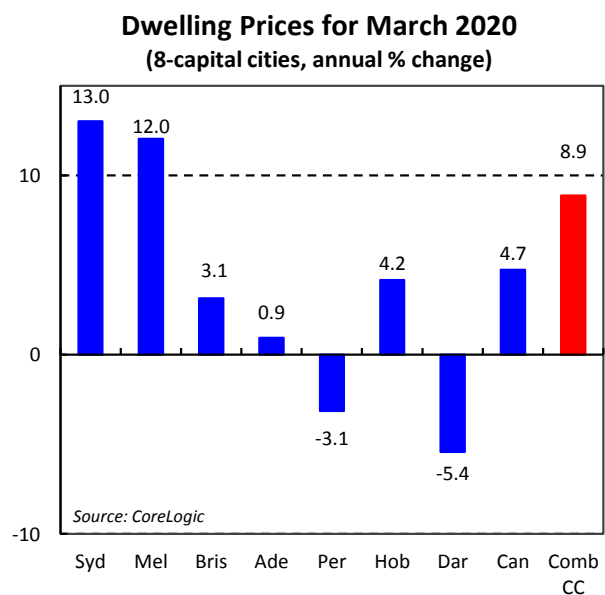
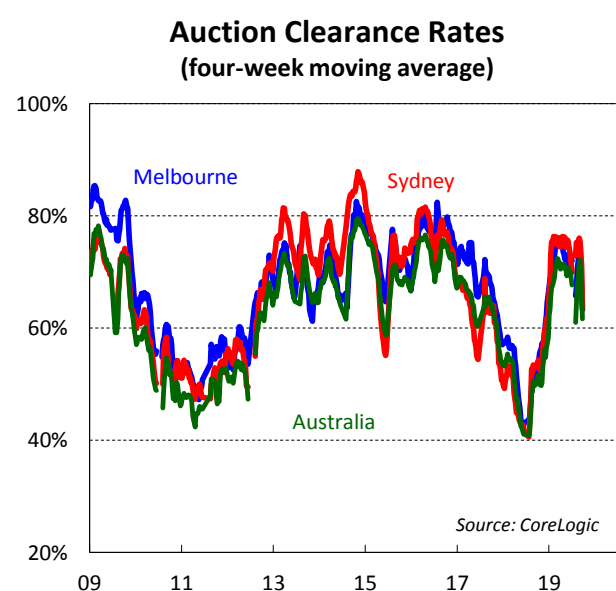
The pick up in the pipeline of residential construction activity and positive signs of demand for dwellings is almost certain to show signs of being halted when the next data batch is released. Auction rates have fallen sharply in recent weeks and many construction projects have been delayed. We are unlikely to see this positive upward trend in dwelling prices or approvals continue in the near term.

Dwelling prices

Dwelling prices rose in March, despite the significant disruption to activity in the latter half of the month due to containment measures to stem the spread of COVID-19 in Australia. Data from CoreLogic showed that prices rose 0.7% across the combined capitals in February, following a 1.2% increase in January. On an annual basis, prices rose 8.9%, which is the fastest pace since August 2017.

Sydney's housing market showed continued momentum, with prices up 1.1% in March. Meanwhile the pace of growth cooled somewhat in Melbourne, which saw a 0.4% increase over the month. Darwin saw the fastest monthly price growth of the capitals, registering a 2.0% jump in prices, its fastest monthly increase since April 2009. Prices in the NT have been weighed down over the past few years by a lull in economic activity following the mining downturn.

Prices in all other capital cities rose, except Hobart which saw a 0.2% fall in February (although prices in Hobart remain positive on an annual basis. Brisbane and Canberra both posted a 0.6% increase over the month while prices in Perth rose 0.5% and Adelaide prices increased 0.3%.



The latest monthly increase in prices across the combined capital cities was the ninth in a row, and leaves prices tantalisingly close to their previous peak; indeed dwelling prices are just 1.2% away from the peak. However, they are unlikely to make much more ground towards this milestone. Weekly auction rates have fallen sharply in recent weeks while the government's restrictions on

physical auctions and open home inspections is set to slow turnover dramatically. Preliminary data for the week ending 29 March show the weighted-average clearance rate across capital cities plunged to 51.4% from 61.3% in the previous week and a high this year of 73.9%.

Aside from the added logistical difficulties in transacting in the property market amid the current social distancing measures, a fall in economic activity is likely to further hamper buyer demand. A rising unemployment rate and lower economic activity will put downward pressure on prices and volumes. Additionally, migration inflows are expected to slow dramatically, easing the requirement for new homes to satisfy population growth.

Policies to reduce pressure on households impacted by the COVID-19 outbreak could ease some of these pressures, including the recently announced government stimulus measures. The initiatives by some banks to provide mortgage relief to affected borrowers could also limit the number of distressed properties being listed for sale.

Building approvals

Building approvals jumped 19.9% in February, reversing a 15.1% fall in January. Approvals have been volatile in recent months, being driven by large swings in high-rise approvals. Approvals remain lower on an annual basis, down 5.8% in February.

Approvals for private-sector houses fell by 0.8% in February, following a 0.4% increase in January. Multi-density dwellings saw a 63.7% increase in February, after plunging 35.6% in January. Despite the latest jump, multi-density dwellings were 6.7% lower over the year in February, reflecting continued concerns in the sector around oversupply and building-quality issues. Debt coverage requirements can also make it harder for huge multi-density projects.

Growth in building approvals was concentrated in Victoria; this State saw a 55.7% spike in approvals in February. The gain in Victoria was driven entirely by high-rise, which soared by 233.9% and offset a 6.1% decline in private-sector house approvals. New South Wales also saw an out-sized increase in “other” (which includes apartments) dwelling approvals. “Other” private sector dwelling approvals rose 17.1% in New South Wales and private-sector house approvals rose 2.8%, leaving overall approvals up 12.7% in the State.

South Australia (11.1%), Western Australia (6.2%) and Tasmania (12.8%) all recorded increases in February. Queensland was the only State to see a fall in approvals (-5.2%) in the month.

Outlook

The relatively firm outturns for dwelling prices and approvals today suggest that there was positive momentum in the housing market before the global outbreak of COVID-19. The ramp up in measures to contain the spread of the coronavirus from the middle of March is delivering a significant blow to the key drivers of the housing market and will show up in data that follows. The mandatory restrictions on auctions and open homes will physically prevent some buyers from transacting in their usual way and discourage buying, the impact to economic growth and employment will put further downward pressure on prices while the expected decline in population growth will limit the need for new dwellings and further reduce demand.

The Reserve Bank and governments at the State and Federal level have introduced a raft of stimulus measures to support lending and limit the impending economic downturn, however, it is highly unlikely that dwelling prices or approvals will continue to increase in the coming months.

History of annual change in house prices (Percentage change of average annual median house prices)			
	Sydney	Melbourne	Combined Capital Cities
1981	-3.8	11.0	3.7
1982	-2.0	4.3	3.9
1983	-8.4	6.8	-1.7
1984	9.1	21.3	12.3
1985	0.6	13.5	6.5
1986	3.9	6.1	4.2
1987	7.4	8.2	6.5
1988	39.8	20.9	29.5
1989	12.2	18.8	18.6
1990	-5.0	-3.5	-2.7
1991	1.0	-3.9	-0.3
1992	2.9	-0.1	2.6
1993	0.5	0.7	2.5
1994	8.3	2.3	6.1
1995	0.1	-1.5	-1.0
1996	3.7	1.2	1.4
1997	11.4	9.2	7.1
1998	8.3	10.4	7.0
1999	8.5	10.6	7.3
2000	8.8	9.4	7.9
2001	10.8	14.0	10.1
2002	17.8	14.0	16.2
2003	11.5	9.4	13.7
2004	3.5	3.9	6.8
2005	-3.4	3.0	1.4
2006	-0.1	4.5	7.3
2007	4.3	13.2	8.7
2008	1.5	8.0	3.8
2009	1.6	2.4	0.4
2010	11.2	18.0	10.8
2011	-0.4	-2.4	-2.7
2012	-0.2	-3.9	-1.5
2013	7.9	5.0	5.9
2014	14.7	8.4	9.6
2015	16.1	11.0	10.0
2016	5.8	7.3	4.4
2017	11.6	12.3	8.6
2018	-4.8	0.3	-2.0
2019	-6.7	-5.8	-5.4

Source: CoreLogic. Recessions & large economic shocks are shaded

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