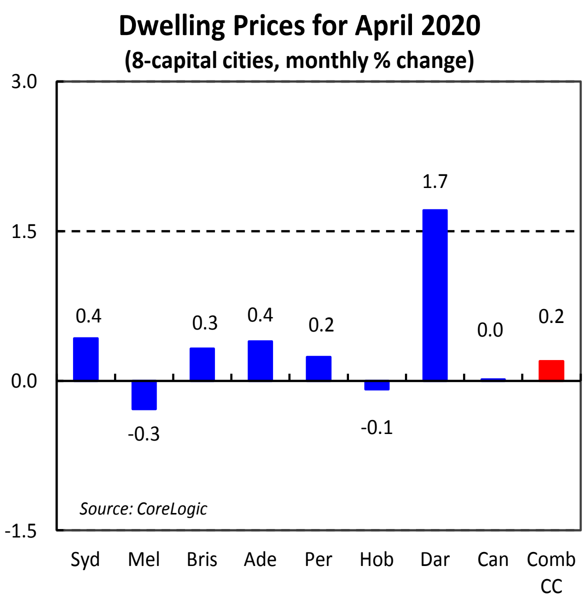
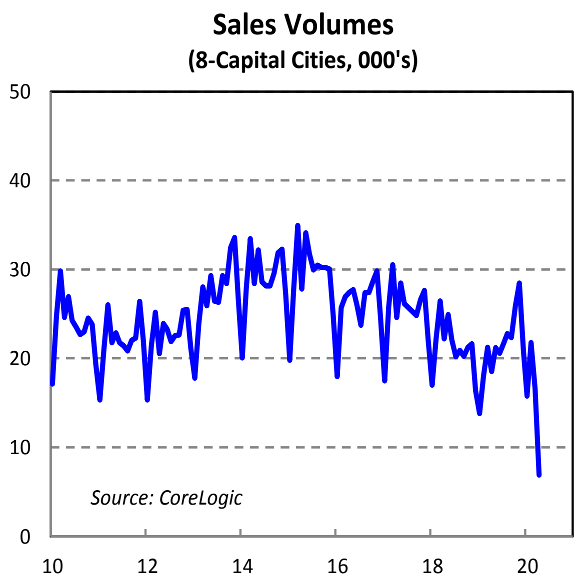
Friday, 1 May 2020

Dwelling Prices

Where is the Zombie Apocalypse?

- **Dwelling prices continued to grow in April, despite the widespread restrictions imposed to stop the spread of COVID-19 and the heightened uncertainty around the economic outlook. The 8-capital cities index rose by 0.2% in the month. Over the year, the annual pace of growth lifted to 9.7% in April, from 8.9% previously.**
- **However, the monthly gain was the weakest increase in nine months, reflecting a softening of housing demand.**
- **Unsurprisingly, housing turnover fell sharply, given the country-wide guidance to stay at home and the banning of physical auctions. April sales volumes across the 8 capital cities was 63% weaker compared to April of last year.**
- **Dwelling prices, did not increase in all capital cities. Melbourne (-0.3%) and Hobart (-0.1%) dwelling prices edged lower in the month. Sydney prices rose 0.4% in April, but it was the softest gain in nine months.**
- **The support measures from banks, the Reserve Bank and the government are providing immense support to the economy and also the housing market. A large scale fall in prices appears less likely as a result, but we continue to expect some fall in prices.**
- **Higher unemployment, falling incomes and a significant slowdown in population growth continue to suggest a softening in prices is likely. Investors will be particularly vulnerable, as rental vacancies are expected to rise as migration inflows have grinded to a halt.**
- **CoreLogic also reported a fall in rents in April in all capital cities, except for Perth.**





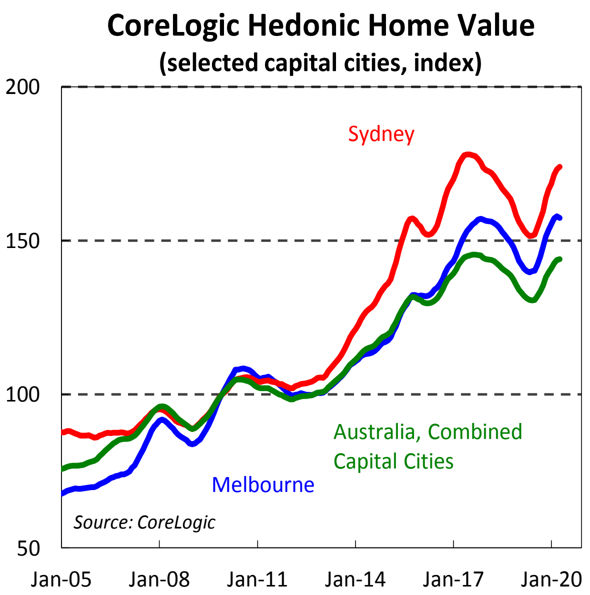
Dwelling prices continued to grow in April, despite the widespread restrictions imposed to stop the spread of COVID-19 and the heightened uncertainty over the economic outlook. The 8-capital cities index rose 0.2% in the month. Over the year, the annual pace of growth lifted to 9.7% in April, from 8.9% previously.

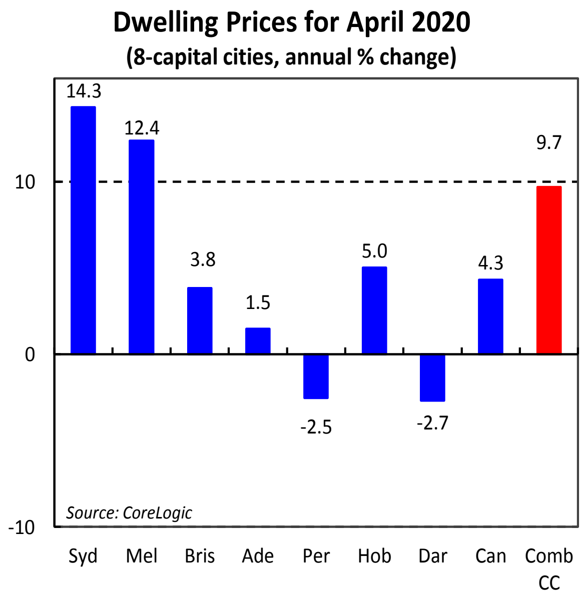
However, the monthly gain was the weakest increase in nine months, reflecting a softening of housing demand.

Given that some of the restriction measures included a banning of physical auctions, it was unsurprising that sales turnover fell sharply. Indeed, April sales volumes across the 8 capital cities was 63% weaker compared to April of last year. As we have stated in previous commentary, while buyers may be reluctant to buy now, given increased uncertainty about the outlook and their employment situations, sellers may also be reluctant to sell unless they are forced to. Therefore, while it was clear that housing activity would drop sharply, it was less apparent that we would see a large scale collapse in prices.

Mortgage relief offered by banks along with the massive stimulus from the Reserve Bank (RBA) and government are limiting the need for home owners to sell. Moreover, while cases of COVID-19 have decreased and there is talk of easing restrictions, potential sellers may opt to wait until the market picks up again.

However, dwelling prices, did not increase in all capital cities. Melbourne (-0.3%) and Hobart (-0.1%) dwelling prices edged lower in the month. Both cities have had relatively strong upswings in the past few years. Sydney prices rose 0.4% in April, but it was the softest gain in nine months. Prices in Adelaide also grew 0.4%.





There was some good news for the Darwin housing market, where prices have gained for two consecutive months, after undergoing a significant downturn. In April, Darwin's increase of 1.7% was the strongest of all capital cities and followed a 2.0% increase in March. COVID-19 may have stopped the outflow of residents – population growth was negative prior to the crisis escalating.

Among other capital cities, Brisbane (0.3%) and Perth (0.2%) recorded modest gains in dwelling prices rose, while prices in Canberra were flat.

On an annual basis, price growth was the strongest in Sydney (14.3%), reflecting an ongoing upswing which has lasted 11 months. It is the strongest annual growth rate since July 2017. Today's data provides some evidence of that upswing slowing, and price growth is likely to weaken further.

Melbourne also had double-digit annual growth at 12.4%. There was modest annual growth in Canberra (4.3%), Brisbane (3.8%) and Adelaide (1.5%). Annual price declines were in Darwin (-2.7%) and Perth (-2.5%).

Outlook

Today's data suggests some resilience in housing prices,despite the sharp fall in housing activity and the big loss in confidence as indicated by surveys. Consumer confidence had its sharpest fall on record in April and sentiment around the housing market was similarly dire.

The support measures from banks, the RBA and the government are providing immense support to the economy and also the housing market. A large scale fall in prices appears less likely as a result, but we continue to expect some fall in prices. Higher unemployment, falling incomes and a significant slowing in population growth continue to suggest in time, a further softening in prices.

However, very low interest rates and sellers refraining from selling unless they have to, will limit the extent of potential price declines.

Investors will be particularly vulnerable as rental vacancies are expected to spike as migration inflows have ground to a halt. CoreLogic also reported a fall in rents in April, across all capital cities except for Perth.

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