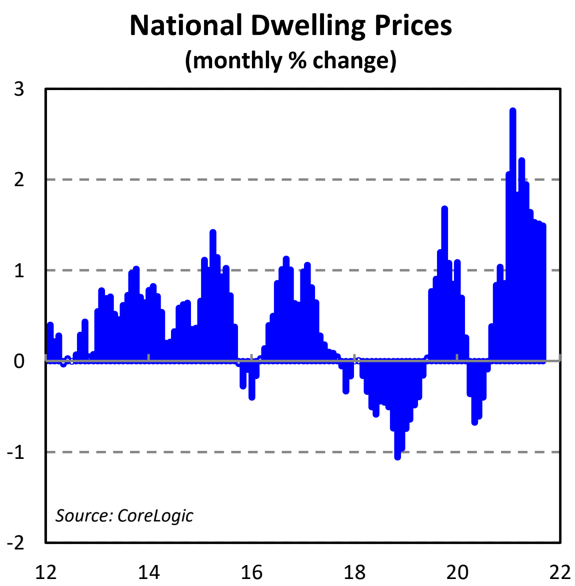
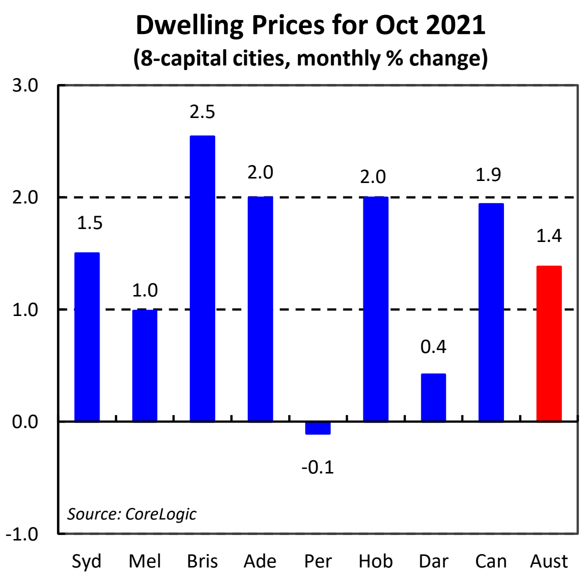
Monday, 1 November 2021

Dwelling Prices

Boom Continues, Listings Tick Up As Restrictions Ease

- **Housing prices continued to advance in October, growing by 1.5%. Prices grew by 21.6% over the year. This is the strongest annual growth since 1989.**
- **Momentum has eased since the monthly peak of 2.8% in March 2021. However, monthly price growth remains strong and well above the decade average of 0.4%. Early signs of a divergence across regions are emerging, as Perth prices fell (-0.1%) for the first time since June 2020.**
- **In recent months, Delta lockdowns underpinned a fall in new listings, with restrictions in place for inspections and auctions in NSW and Victoria. As restrictions eased, listings have increased. New listings rose over the four weeks to 24 October to be 5.2% above the five-year average. However, total listings remain well below historical averages, reflecting strong demand.**
- **Other metrics of market strength, including auction clearance rates and vendor discounting rates remained above average. This suggests that demand remains strong.**
- **By city, dwelling price growth was generally stronger in the smaller capital cities. Brisbane (2.5%), Adelaide (2.0%) and Hobart (2.0%) outperformed. Growth was also solid in Canberra (1.9%), Sydney (1.5%) and Melbourne (1.0%).**
- **We expect dwelling prices to continue to increase for the remainder of 2021 and in 2022. However, momentum is likely to slow as affordability constraints weigh on buyers. A more material tightening in macroprudential policy is likely in the coming year, which would also dampen price growth.**





Housing prices continued to advance in October, growing by 1.5% over the month. This is the third consecutive month of 1.5% monthly growth. Dwelling prices have now grown for 13 uninterrupted months following five months of falls at the onset of the COVID-19 pandemic in mid-2020. On an annual basis, prices grew by 21.6% over the year to October. This is the strongest annual growth since 1989.

Momentum has eased since the monthly peak of 2.8% in March 2021. However, monthly price growth remains strong and well above the decade average of 0.4%.

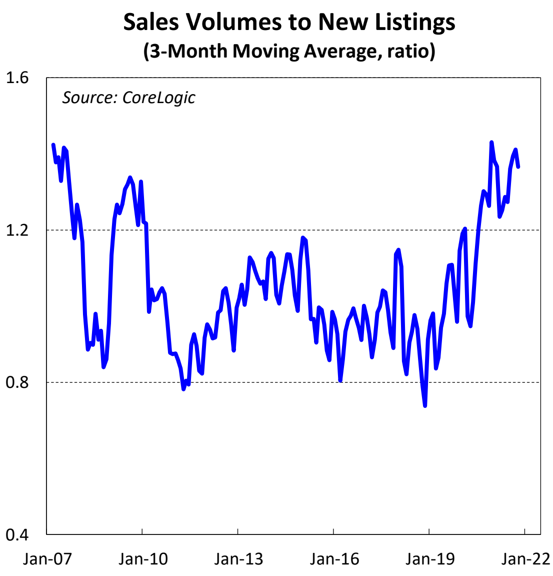
Early signs of a divergence across regions are emerging, as Perth prices recorded their first monthly fall since June 2020 of -0.1%. Growth across the two largest markets of Sydney and Melbourne has also slowed from the pace seen earlier in the year.

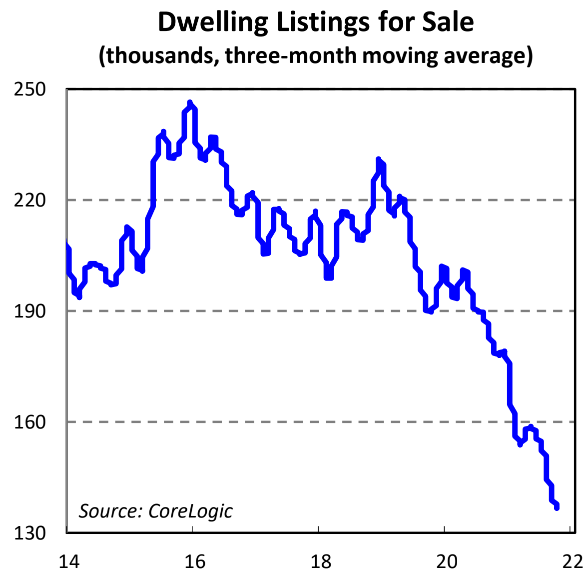
A continued deterioration of affordability has contributed to the slowing in momentum, in addition to contributing to the reduction in the number of first home buyers in the market.

October saw the Australian Prudential Regulation Authority (APRA), Australia's banking regulator, announce a tightening in macroprudential regulation. APRA announced an increase in the serviceability buffer from 2.5 to 3.0 percentage points. This increases the buffer that lenders must use to assess the borrowing capacity of prospective borrowers. However, the measure did not formally come into place until 1 November 2021. This measure is a small step to contain housing risks and is only expected to have a modest impact.

In recent months, Delta lockdowns underpinned a fall in new listings, with restrictions in place for inspections and auctions in NSW and Victoria. Notably in Melbourne, physical property inspections were banned. As restrictions have eased, listings have increased from a low base. New listings rose over the four weeks to 24 October to their highest level since the four weeks to 17 November 2019. New listings are 5.2% above the five-year average.

Total listings increased marginally over the month, as new listings were not snapped up quite as quickly as previously. As a result, the sales volumes to new listings ratio ticked down slightly. However, total listings remain well below historical averages, reflecting the strong demand in the market and that changes in new listings take time to flow through to total listings.





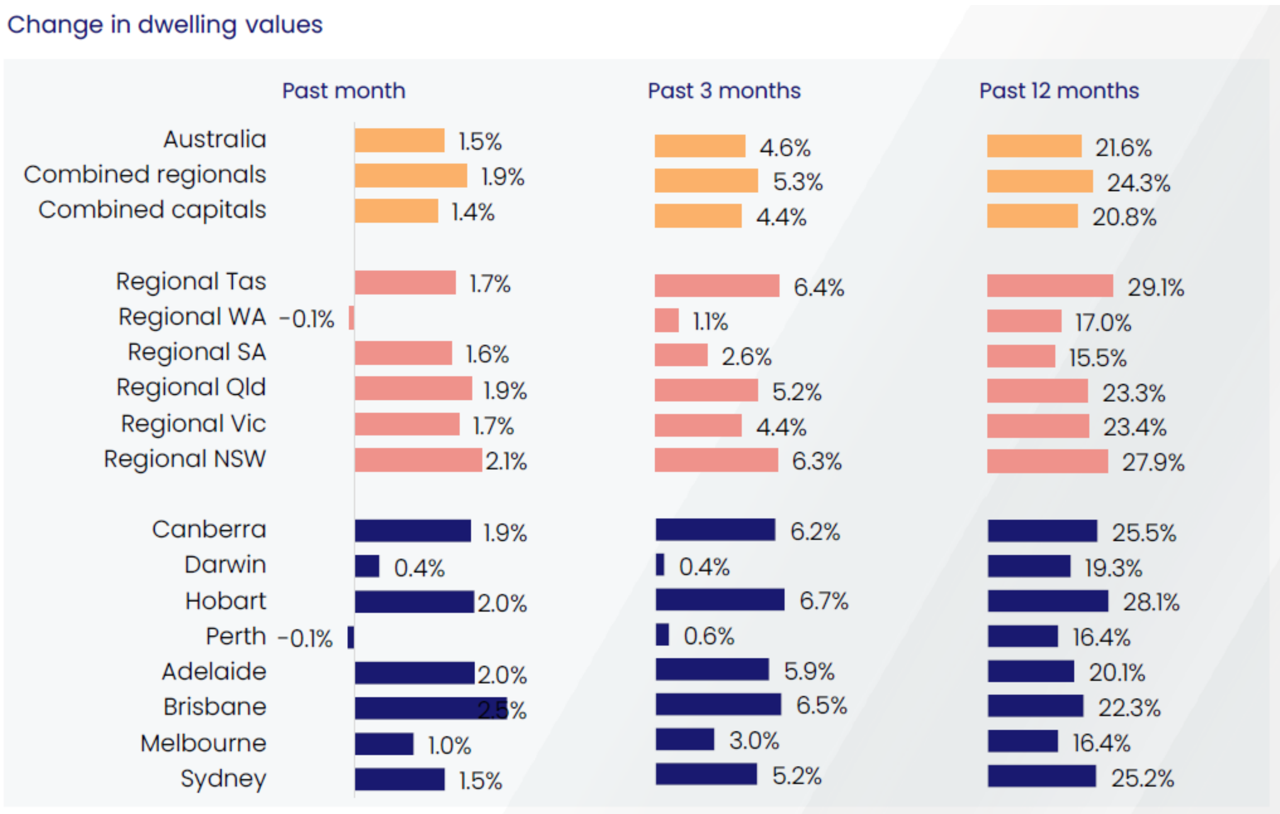
Other metrics of market strength, including auction clearance rates and vendor discounting rates remained at above average levels. This suggests that demand remains strong in the market amid tight supply.

House prices continued to outperform unit prices. This trend has been evident throughout the pandemic as people look to secure larger living spaces while they are working more from home. However, the divergence between growth across the two categories continues to narrow, likely reflecting increasing affordability constraints as house prices have continued to grow. Easing restrictions, and the move to learning to live with the virus, may also be contributing to a rebalancing in demand towards apartments. Nationally, house prices rose by 1.6% in October while unit prices were 1.2% higher in the month. Over the year to October, house prices were 24.2% higher while units were 13.3% higher. These are the highest annual growth rates since May 1989 and October 2002, respectively.

By city, dwelling price growth was generally stronger in the smaller capital cities. Brisbane (2.5%), Adelaide (2.0%) and Hobart (2.0%) were the outperformers. Growth was also strong in Canberra (1.9%), Sydney (1.5%) and Melbourne (1.0%). Darwin (0.4%) and Perth were the weakest performers, with Perth prices falling by 0.1% over the month.

On an annual basis, growth was above 15% across all cities. Perth and Melbourne recorded the weakest annual growth rates (both 16.4%). Hobart, Canberra, and Sydney were the strongest, recording incredible growth rates of 28.1%, 25.5%, and 25.2%, respectively.

The outperformance of regional areas continued in the month. Dwelling prices rose 1.9% in regional areas and 1.4% in capital cities. On an annual basis, dwelling prices were 24.3% higher in regional areas and 20.8% higher in capital cities. The relative outperformance of regional areas has been another defining characteristic of this housing boom. As people are increasingly able to work from home, there has been a desire for city-dwellers to move to the country and the coast. Additionally, the usual pattern of people in regional areas moving to the capital cities has been weaker than before the pandemic.



Outlook

Low interest rates, constrained supply, the fast recovery in the labour market and government support have been key contributors to the strength of the housing market since the onset of the pandemic.

However, some early signs are evident that conditions are beginning to change.

The pace of monthly growth has continued to slow, but it remains strong. Affordability constraints are impacting buyers. And APRA has implemented the first stage of macroprudential policy tightening in this cycle. Listings have increased from a low base after being subdued for much of the period since the pandemic, although it will likely take some time for supply constraints to materially ease.

Looking forward, we expect prices to continue to grow for the remainder of 2021 and expect growth of 8% over 2022. However, we expect momentum to slow considerably as affordability constraints weigh on buyers. Additionally, macroprudential tightening measures may begin to have an impact on credit availability, and APRA has left the door open to further macroprudential tightening in the future.

We continue to expect the cash rate will increase in 2023, which in turn will underpin a 5% correction in dwelling prices in the year.

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