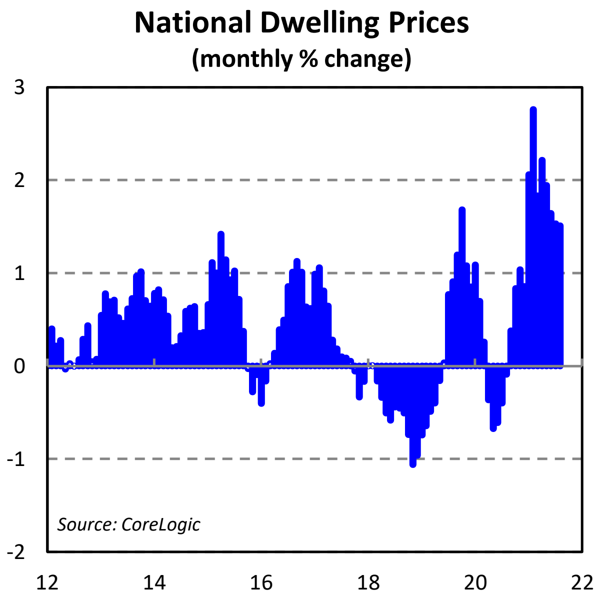
Data snapshot

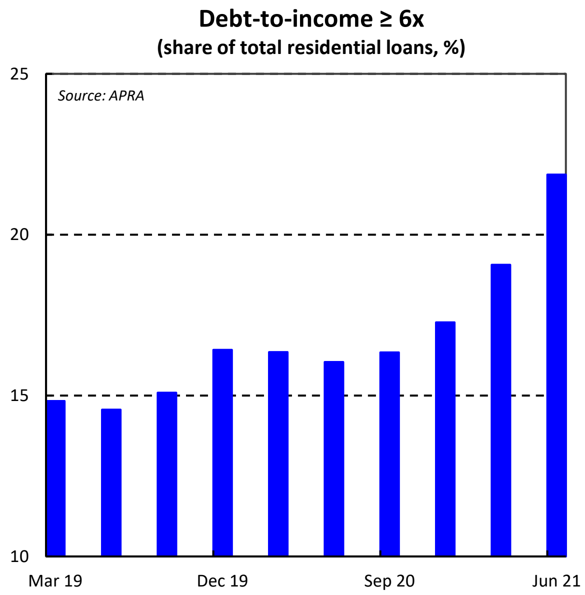
Friday, 1 October 2021

Dwelling Prices

Boom Moderates, Macropru Looks More Likely

- **There was another month of solid growth in dwelling prices in September, but the market has cooled off since earlier this year. Dwelling prices rose 1.5% in September. Monthly growth remains well above the decade average of 0.4%. Over the year, dwelling prices were 20.3% higher. This marks the strongest annual growth since 1989.**
- **However, monthly growth has trended down since its peak of 2.8% in March. The moderation reflects growing affordability pressures for first home buyers. In particular, saving for a deposit is becoming a more challenging hurdle.**
- **Demand is high and selling conditions remain very strong. While new listings have risen since the lows in mid-August as Delta lockdowns hit, they are being snapped up incredibly quickly. This has contributed to sales volumes remaining well above the 5-year average.**
- **By city, monthly growth was strongest in Hobart (2.3%), Canberra (2.0%), and Sydney & Adelaide (1.9%).**
- **A tightening in macroprudential policy is looking increasingly likely. Regulators have been sending stronger signals that action will need to be taken to manage risks of excessive household debt. Comments from the Reserve Bank and the Treasurer suggest the focus will be on highly indebted borrowers (particularly high debt-to-income ratios, which have risen of late).**
- **Low rates and constrained supply will continue to underpin strong growth in housing prices. However, worsening affordability and the growing likelihood of a tightening in credit policies will cause growth to moderate over 2022.**





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Dwelling prices rose 1.5% in September. Monthly growth remains well above the decade average of 0.4%. Over the year, dwelling prices were 20.3% higher over the year. This marks the strongest annual growth since 1989.

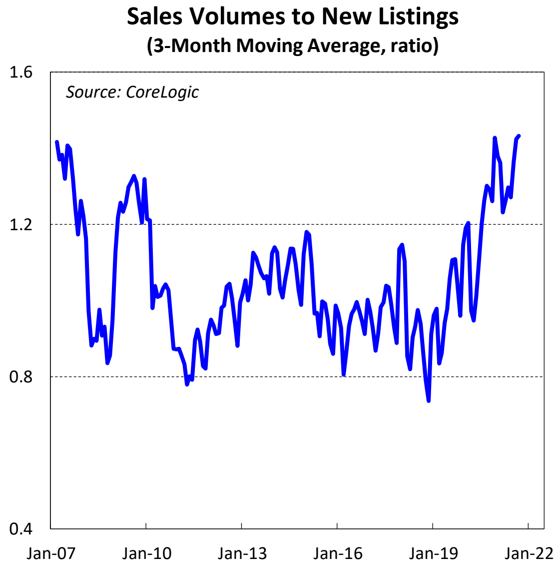
However, monthly growth has trended down since its peak of 2.8% in March. The moderation reflects growing affordability pressures for first home buyers. In particular, saving for a deposit is becoming a more challenging hurdle. Existing homeowners may be less impacted since they benefit from the equity in their current home. The median dwelling price is now over $1 million in Sydney and not far off $800,000 in Melbourne. Indeed, lending to first home buyers has been falling since early 2021.

Dwelling price growth continues to be driven by low mortgage rates supporting strong demand, and constrained supply.

The Delta lockdowns did lead to a fall in new listings, as sellers may have opted to delay listing their property given the additional challenges of selling under health restrictions. Notably in Melbourne, physical property inspections were banned.

New listings have increased since mid-August. However, overall listings remain around 30% below their average over the past five years, reflecting that supply remains tight.

Amid this environment of tight supply, demand remains high. New listings that are added to the market are snapped up quickly. This has contributed to sales volumes remaining well above the five-year average.



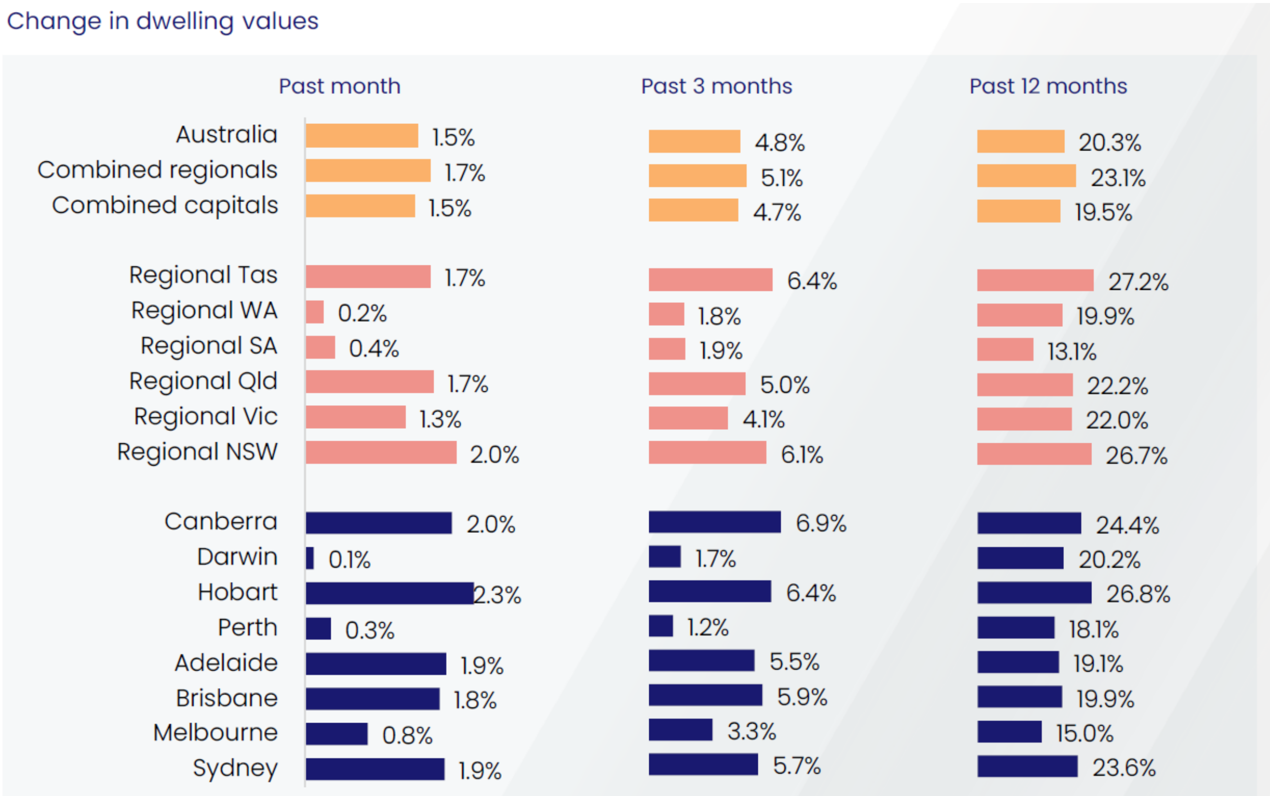
Auction clearance rates also point to ongoing strong demand. Across the capital cities, auction clearances rates had increased above 80% by the end of September after dipping in recent months.

Overall, these indicators point to it remaining a sellers' market.

House prices grew 1.6% in September, continuing to outstrip growth in unit prices, which rose 1.1% in the same period. The divergence in growth between houses and units has narrowed considerably over recent months, potentially reflecting affordability constraints pushing prospective home buyers to the unit market.

By city, growth was strongest in Hobart (2.3%), Canberra (2.0%) and Sydney & Adelaide (1.9%) in September. Similarly, over the year, Hobart (26.8%), Canberra (24.4%) and Sydney (23.6%) have seen the largest price increases. Regardless, the big price gains have been broad-based. Even in Melbourne, which saw the slowest annual growth (15.0%), price growth was still robust.

Over the past year, regional areas (23.1%) have outperformed capital cities (19.5%) as Australians reassessed the way they lived and worked. Australians wanted more space given they were spending more time at home, and there was also a significant shift in the acceptance of remote working. More recently, the divergence between these series has narrowed as we move to learn to live with the virus. Regional areas grew 5.1% in the past three months, while the combined capitals were not far behind at 4.7%.



Note: CoreLogic has released a revised index series for Western Australia to stabilise some volatility in property attribute data. This has resulted in an uplift in the hedonic index for Perth and Regional WA.

A key consideration for housing prices in the period ahead is that a macroprudential tightening is looking more likely. Regulators have been sending increasingly strong signals that action will need to be taken to manage the risks of excessive housing debt. Last week, the Treasurer threw his support behind stricter credit policies for home lending. It was also recently announced that the Australian Prudential Regulation Authority will publish a paper on its framework for implementing monetary policy over the next few months.

Comments from the Reserve Bank and the Treasurer suggest the focus will be on highly indebted borrowers (particularly high debt-to-income ratios), rather than investors or interest only lending.

Outlook

Low rates and constrained supply will continue to underpin strong growth in housing prices. However, growing affordability pressures will take some of the heat out of the market.

Key questions for the outlook include whether a macroprudential tightening will be implemented, the form it would take and the timeline for implementation. A tightening in credit policies looks increasingly likely and could lead to a slowdown in dwelling price growth, depending on the exact policies authorities choose to implement.

Taking into consideration affordability constraints and the likelihood of a tightening in credit policies, we expect growth will moderate over 2022.

Matthew Bunny and Jarek Kowcza
Ph: (02) 8254 0023

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
Jarek.kowcza@bankofmelbourne.com.au
(02) 8254 3251

Research Assistant (Secondment)
Sonali Patel
Sonali.patel@bankofmelbourne.com.au
(02) 8254 0030