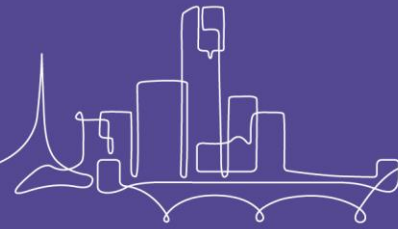


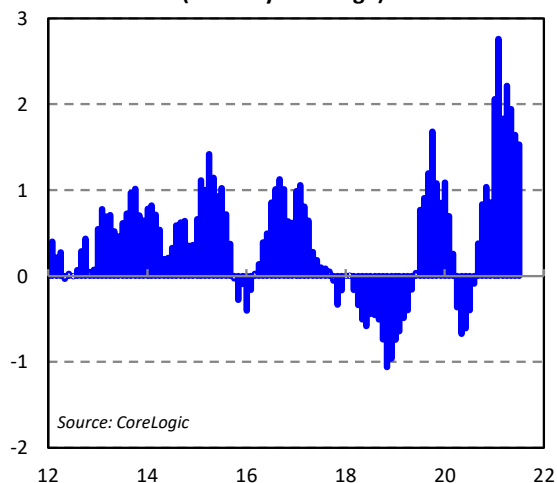
Wednesday, 1 September 2021



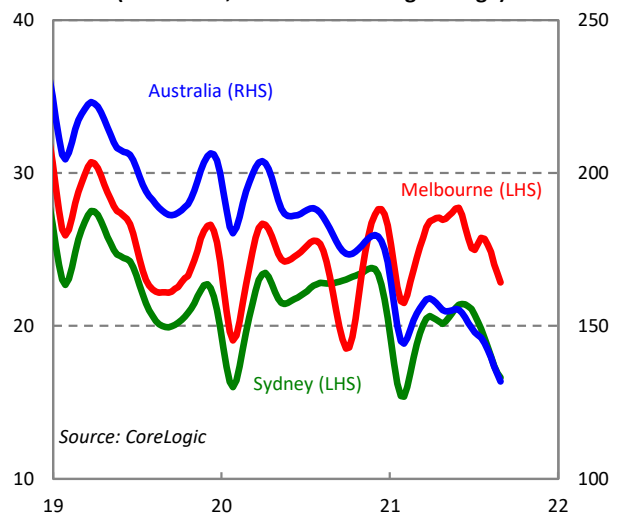
Dwelling Prices Boom Continues But Pace Slowing

- The housing boom continued to push ahead in August, albeit at a slower pace, despite disruptions from lockdowns.
- CoreLogic’s national home value index increased 1.5% in the month. In annual terms, dwelling prices increased 18.4%. This is a huge figure, marking the strongest growth since the late 1980s, or over 32 years.
- The monthly rate of growth slowed for the fourth consecutive month, likely reflecting affordability constraints pushing price-sensitive buyers out of the market following the dramatic run up in prices. Indeed, lending to first home buyers has dropped off over recent months.
- Lockdowns have underpinned a fall in listings, and to a lesser extent a decline in sales volumes, but there has not been a clear impact on prices.
- The broad-based strength in price gains continued in August. Every capital city, aside from Darwin, posted growth in the month. On an annual basis, dwelling price growth is in the double digits across all capital cities and regional areas.
- The housing market continues to march ahead despite the headwinds facing the economy. However, some signs of a slowing in the market are beginning to emerge. Affordability constraints will continue to impact buyers and result in a slowing in future price growth.

National Dwelling Prices
(monthly % change)



Total Dwelling Listings
(thousands, four-week moving average)



The housing boom continued to push ahead in August, albeit at a slower pace, despite disruptions from lockdowns. CoreLogic's national home value index increased 1.5% in the month.

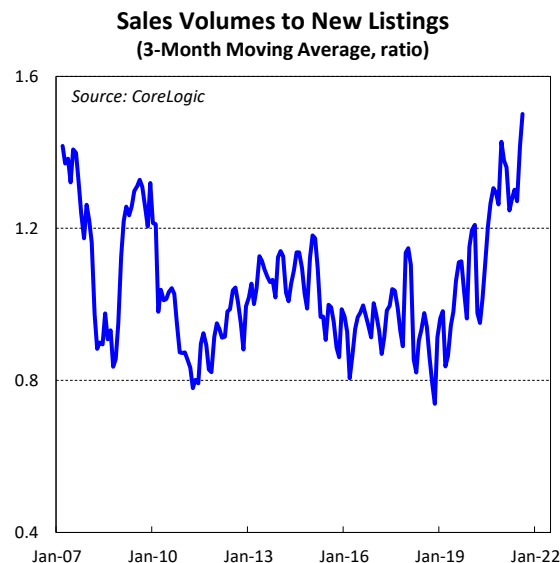
In annual terms, dwelling prices increased 18.4%. This is a huge figure, marking the strongest growth since the late 1980s, or over 32 years. This partly reflects base effects following the decline in property prices early in the pandemic. But even still, property prices are up 16.0% relative to their April 2020 level, where they peaked before trending downwards for a several months.

The monthly rate of growth slowed for the fourth consecutive month, likely reflecting affordability constraints pushing price-sensitive buyers out of the market following the dramatic run up in prices. Indeed, lending to first home buyers has dropped off over recent months.

Dwelling price growth continues to be driven by low mortgage rates and constrained supply.

Lockdowns have underpinned a fall in listings, and to a lesser extent a decline in sales volumes, but there has not been a clear impact on prices. This is consistent with the adjustment in the housing market in previous lockdowns. Total advertised listings are around 30% lower than their average over the past five years.

While listings have fallen over the past few months, sales volumes have not fallen to the same degree. In fact, sales over the past three months remain around 30% above their average over the past five years. As a result, the sales volumes to new listings ratio, a measure of how quickly the market is absorbing new stock that is added, has continued to increase. This is consistent with constraints on supply continuing to push up prices.



The lockdowns have also impacted auction clearance rates. This is particularly the case in Melbourne. Auction clearance rates in Melbourne have fallen to below 50% for the first time since September 2020, when the city was in the midst of its extended lockdown. This is in contrast to Sydney, which has been in lockdown since the end of June. Auction clearance rates there have remained high, hovering around 80%.

The divergence likely reflects stricter rules around physical property inspections in Victoria. In Melbourne, in-person inspections are banned while in Sydney one-on-one private inspections are still permitted. Relatedly, sales volumes are estimated to have fallen more sharply in Melbourne than Sydney.

House prices increased 1.6% in the month, outstripping the 1.2% growth in unit prices. House

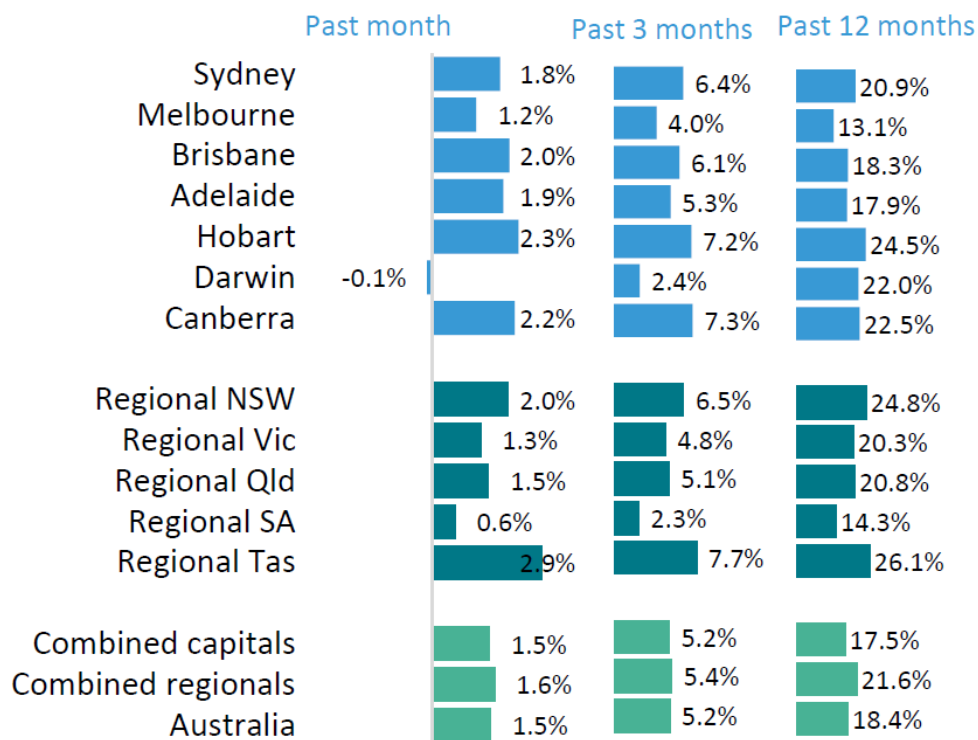
price growth has marched well ahead of unit growth since the onset of the pandemic, reflecting changes in the way we live and work. However, the divergence in growth between the two series has narrowed over recent months. The narrowing of price growth between houses and units partly reflects stretched affordability, as new entrants who may be priced-out of houses focus their attention on the unit market.

Similarly, the performance of regional areas and capital cities has converged this year after regional areas boomed as the pandemic hit. In August, dwelling prices in regional areas rose 1.6%, broadly in line with the 1.5% increase in capital cities.

The broad-based strength in price gains continued in August. Every capital city, aside from Darwin, posted growth in the month. On a monthly basis, Darwin dwelling prices fell by 0.1%. Prices across all other capital cities rose by over 1%. Melbourne was the second weakest, rising by 1.2%, as sales were impacted by lockdowns. Hobart grew by 2.3%, the fastest of all capitals. Perth and WA prices were not available this month due to measurement discrepancies.

On an annual basis, dwelling price growth is in the double digits across all capital cities and regional areas. Melbourne dwelling prices are up by 13.1%. Amazingly, this is the weakest price growth across the capital cities. Hobart is the strongest market, where dwelling prices are up an astonishing 24.5% over the year. Canberra, Darwin and Sydney are all also up more than 20% over the year.

Change in dwelling values



Source: CoreLogic

Outlook

The housing market continues to march ahead despite the headwinds facing the economy. However, some signs of a slowing in the market are beginning to emerge. Growth remains very strong but appears to be slowing gradually. Affordability constraints will continue to impact buyers and result in a slowing in future price growth. However, demand remains high amid an environment of low interest rates.

Lockdowns appear to be having some impact, particularly in Melbourne. The number of new listings has fallen as cities are impacted by lockdowns. Demand has also come off, but at a slower pace. Over the near term, the market is likely to continue to be impacted by lockdowns across Sydney and Melbourne. The typical bump in new listings heading into spring may be lower than in previous years as a result.

Looking forward, we expect that price growth will continue, however, at a slower pace. The strength seen over this year is likely to see prices grow by around 15-20% over 2021. Price growth in 2022 is expected to moderate, as affordability constraints continue to bite.

The prospect macroprudential controls being implemented by regulators to limit risky lending remains a possibility in the future. Investor lending, which has been targeted by regulators in the past, continued to pick up in July. Lending to investors grew by 0.3% in the month, to be 2.3% higher over the year. However, this remains well below levels seen during previous housing booms. Regulators have emphasised that lending standards currently remain sound. However, we cannot rule out the prospect of macroprudential controls being implemented in 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

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
