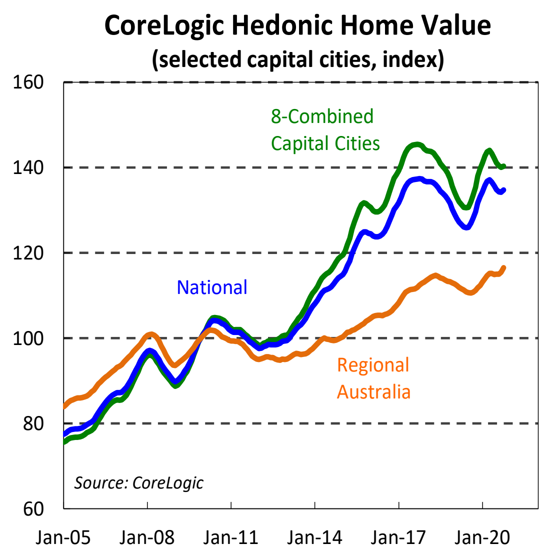
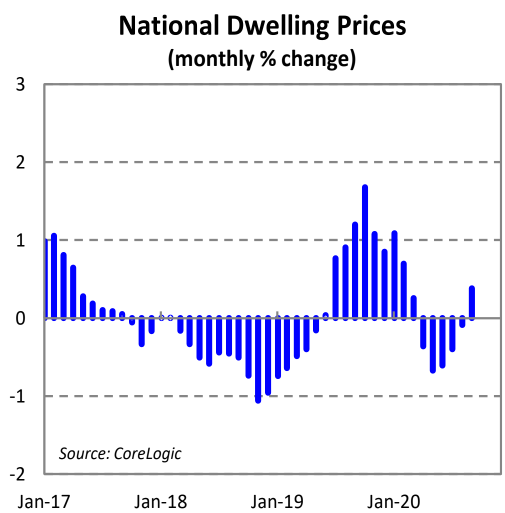
Monday, 2 November 2020

Dwelling Prices
Green Shoots Sprouting

- **The start of a housing upturn has arrived. For the first time in six months, dwelling prices rose in October with a lift of 0.4% nationally and a rise of 0.2% across the combined capital cities.**
- **The gain in the month was widespread; Melbourne was the only capital city to record a decline in October but even in Melbourne the pace of the downturn slowed.**
- **Today's data underscored the flight away from cities to regional areas. Australians are flocking to regional areas and smaller cities, as the popularity and necessity of working from home continues and as Australians search for more affordable homes in less densely populated areas.**
- **Regional Australia posted a gain of 0.9% in October. Regional NSW and regional QLD were most in demand. Furthermore, the smallest capital cities recorded the fastest gains in October, including Adelaide (+1.2%), Darwin (+1.2%), Canberra (+1.0%) and Hobart (+1.0%).**
- **House prices continued to outperform unit prices and we expect this divergence of performance to widen further in coming months. House prices lifted 0.5% in October and unit prices were flat.**
- **Earlier this year (in April), we predicted dwelling prices would return to growth of 2% in 2021. We think the risks for dwelling prices are tilting to a growth rate of greater than 2% next year with lower rates likely after tomorrow's Reserve Bank meeting. The trough in this housing downturn also appears to have passed.**
- **Low interest rates will continue to support demand, but there are still downside risks to the outlook. In particular, the lack of immigration, low population growth and elevated unemployment are strong headwinds to the outlook for housing. An improvement in any of these three factors would see the housing upturn deepen and quicken next year.**





The beginnings of a housing upturn are here. For the first time in six months, dwelling prices rose in October with a lift of 0.4% nationally and an increase of 0.2% across the capital cities, according to data published by CoreLogic. The gain in the month was widespread; Melbourne was the only capital city to record a decline in the month. Encouragingly, the pace of downturn in Melbourne dwelling prices slowed for the second straight month.

Today's data also underscored the flight away from cities to regional areas. Australians are flocking to smaller cities and regional areas, as the popularity and necessity of working from home continues and as Australians search for more affordable homes in less densely populated areas.

The smallest capital cities recorded the fastest gains in October. Adelaide (+1.2%), Darwin (+1.2%), Canberra (+1.0%), Hobart (+1.0%) each recorded gains of 1.0% or more in the month.

The bigger cities recorded rises of 0.6% (Perth), 0.5% (Brisbane) and Sydney (0.1%).

Dwelling prices in regional Australia rose 0.9% in October, continuing to outperform the capital cities. Even regional Victoria recorded a solid gain in the month of 0.5%, which is the fastest pace in 6 months.

Regional NSW and regional QLD posted the fastest increases in the month of 1.1% each. It was the fastest monthly pace for NSW since early 2017 and the quickest for QLD since September 2007. Regional SA was the only regional area to not record growth in October with a decline of 0.5%, but it follows very strong growth of 1.5% in September.

Anecdotal evidence suggests this trend will continue with enquiries very strong for regional areas and rental vacancy rates lower in the regional areas compared with the capital cities. Some regional areas such as the central coast in NSW, south-western Victoria and Cairns in QLD are currently recording super-tight rental markets.

Another trend that is developing is there is greater demand for houses compared with units. In October, unit prices were flat while house prices lifted 0.5%. So far in this pandemic, house prices have outperformed unit prices. We expect this outperformance to widen further over the year ahead. Since the April peak, unit prices are down 2.0% whilst house prices are down 1.6%.

Low interest rates are spurring dwelling prices higher. Dwelling prices are still 1.7% below their April peak nationally (and 2.5% under) across the capital cities, but a return to levels prior to the pandemic is likely before the middle of next year. For some capital cities, home values have already reached pre pandemic levels and even reached new records. Indeed, Brisbane, Adelaide, Hobart and Canberra reached new record highs for (hedonic) dwelling values in October.

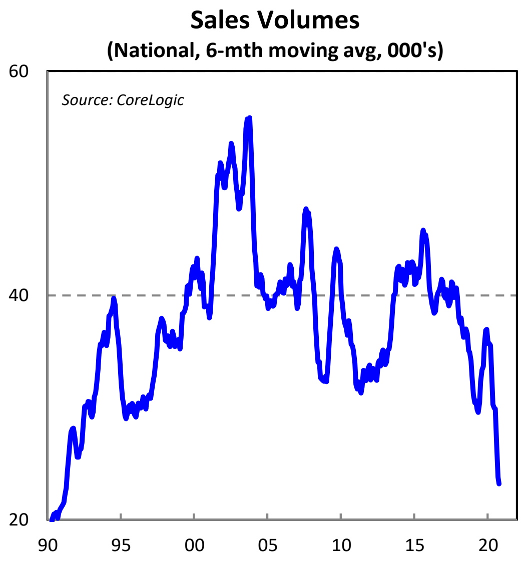
Tomorrow, the Reserve Bank is widely expected to deliver another rate cut, as well as other stimulus measures, so borrowing rates are likely to drop further and underpin housing demand.

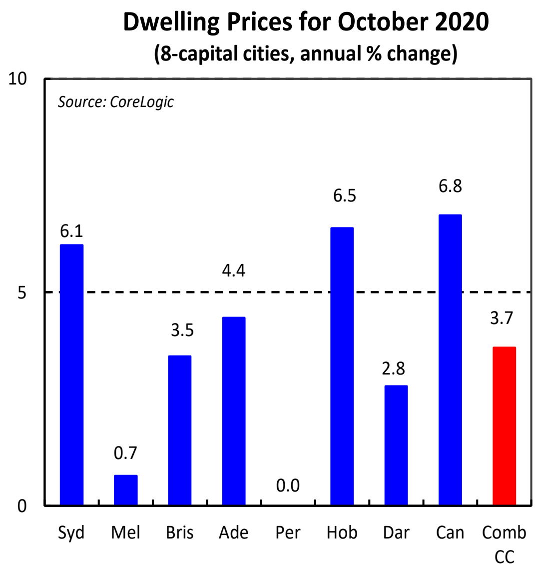
Earlier this year in April, we published our outlook for the property market and predicted next year prices would be 2% higher. The upturn that is unfolding suggests the growth in dwelling prices will be stronger than 2% over next year. Leading indicators of housing are pointing to the upturn developing, including auction rates and housing finance. The decline in building approvals suggests new supply will fall over at least the next twelve months.

In periods of economic slowdowns, the available stock of housing advertised for sale tends to drop, which also supports prices. According to CoreLogic, total advertised inventory levels stayed close to record lows in October, despite a surge of 25.2% in the past four weeks.

With no vaccine yet available, COVID-19 remains far from over, despite the recent improvement in daily infection rates Australia-wide. It means that whilst we anticipate an upturn for next year in dwelling prices, there are downside risks. In particular, the lack of immigration, low population growth and elevated unemployment are strong headwinds to the outlook for housing.

The banking industry has provided mortgage holidays to those households in need and these are due to roll off soon, which also has the potential to create some disruption to the housing market.





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