

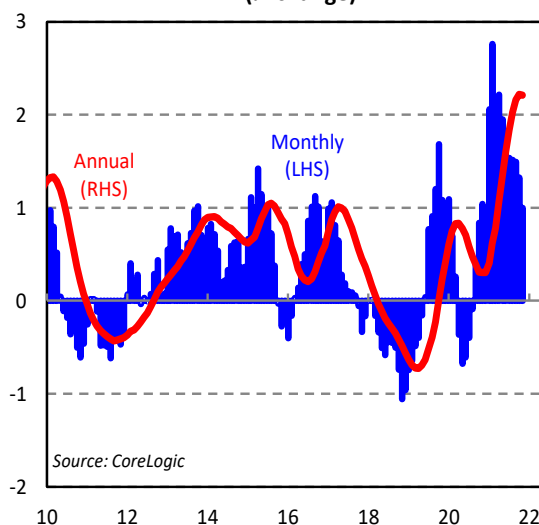
Wednesday, 5 January 2022

## Dwelling Prices

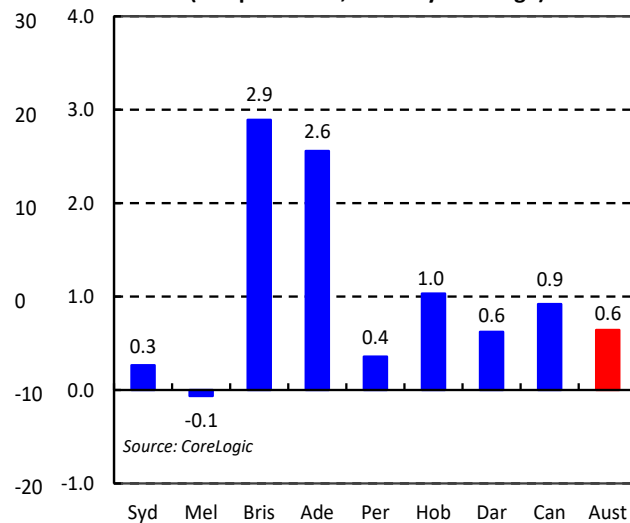
### 2021 Record Year Since Late-1980s

- The booming housing market extended its growth streak in December. Dwelling prices rose by 1.0% over the month, marking the fifteenth consecutive monthly rise.
- The monthly pace of growth slowed further in December and has consistently softened since a peak of 2.8% in March 2021. Monthly growth is now at its slowest pace since January 2021.
- In annual terms, prices grew by 22.1% over the year to December. This is a slight pull-back on the 22.2% annual increase reported in November. Annual growth over the 2021 calendar year was the highest since the late-1980s.
- A divergence across regions continued. Conditions across the most expensive markets are slowing and even turned negative in Melbourne. While growth in the more affordable cities of Brisbane and Adelaide continues to accelerate.
- House price growth has continued to outrun growth of apartment prices. Indeed, the gap between the two across Australia using median prices is at its widest ever.
- Looking forward, we expect prices to continue to grow in 2022. However, the pace of growth is likely to continue to slow. Price growth is expected to turn in 2023 as record low interest rate settings begin to be unwound.
- Surging COVID-19 case numbers are a key risk to the outlook and could disrupt the housing market. However, demand remains strong amid an environment of low interest rates.

**National Dwelling Prices**  
(% change)



**Dwelling Prices for Dec 2021**  
(8-capital cities, monthly % change)



The booming housing market extended its growth streak in December. Dwelling prices rose by 1.0% over the month, according to the latest data from CoreLogic. The December result marked the fifteenth consecutive monthly rise.

While growth remains strong, the housing market continued to lose momentum. The monthly pace of growth slowed further in December and has consistently softened since a peak of 2.8% in March 2021. Monthly growth is now at its slowest pace since January 2021, however, remains well above the decade average of 0.5%.

In annual terms, prices grew by 22.1% in December. This is a slight pull-back on the 22.2% annual increase reported in November and the first-time annual price growth has softened since November 2020. Despite the minor pull-back, annual price growth is at the second highest level since June 1989.

There are several key factors driving the dynamics in the Australian housing market. We have seen housing demand being impacted by rising affordability pressures, alongside surging prices. This is especially the case in the more expensive markets of Sydney and Melbourne. Meanwhile, fixed home loan rates have risen, on average, across lenders as swap rates have increased from their lows last year. In addition, macroprudential policy settings have been tightened to support robust lending standards in an environment of increasing loans to highly indebted households, particularly those with high debt-to-income ratios.

Accompanying the slowing demand has been an increase in housing supply from low levels. This is the case in Sydney and Melbourne, where new listings have recovered as Delta lockdowns lifted. Anecdotes also suggest there has been a rise in off-market sales. However, supply levels remain low in other cities.

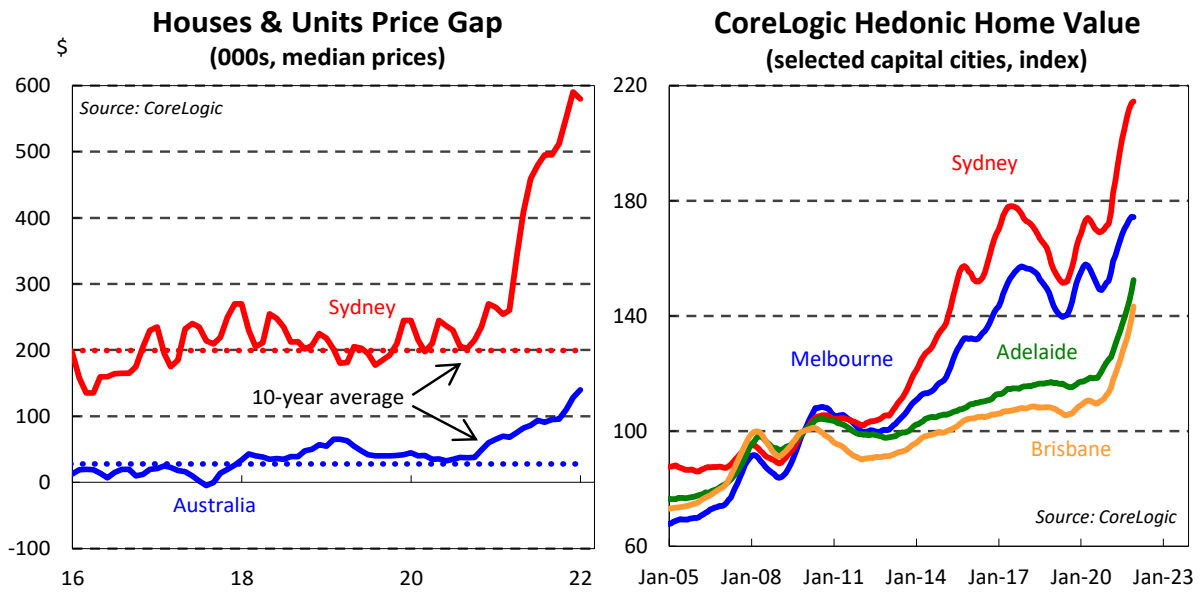
Despite these factors, selling conditions in the market are strong. Critically, interest rates are around record lows and housing demand remains robust.

Varying combinations of these supply and demand factors have led to a divergence in price activity across regions. Conditions across the most expensive markets of Sydney and Melbourne are slowing, as factors such as deteriorating affordability and a greater influx of supply are constraining growth. In contrast, monthly price growth is accelerating in the more affordable capital cities of Brisbane and Adelaide, where there has not been as strong a catch up in supply. Indeed, monthly price growth in Adelaide hit its fastest rate since 1993 and monthly price growth in Brisbane was the fastest since 2003.

By city, dwelling price growth in December was generally stronger in the smaller capital cities. Brisbane (2.9%), Adelaide (2.6%), Hobart (1.0%) and Canberra (0.9%) were the outperformers. Growth was more muted across Sydney (0.3%), and Perth (0.4%) and Darwin (0.6%). Meanwhile, Melbourne reported a monthly decline in dwelling prices for the first time since October 2020, falling by 0.1% in December.

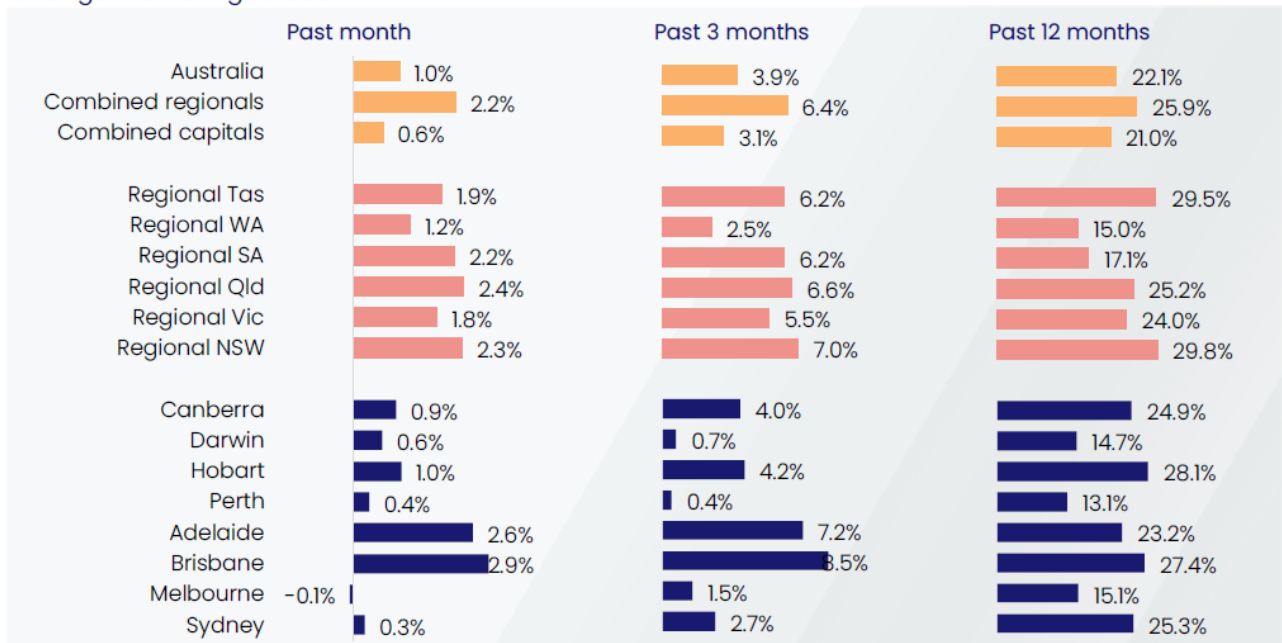
On an annual basis, growth was in the double digits across all cities. Perth recorded the weakest annual growth rate (13.1%). Hobart, Brisbane and Sydney all grew by more than 25% over the year, recording annual growth of 28.1%, 27.4% and 25.3%, respectively. Canberra (24.9%), Adelaide (23.2%), Melbourne (15.1%) and Darwin (14.7%) also grew strongly over the year.

The relative outperformance of regional areas accelerated further in December. Dwelling prices rose 2.2% in regional areas and 0.6% in capital cities. On an annual basis, dwelling prices were 25.9% higher in regional areas compared to 21.0% higher in capital cities. Demand for housing in regional areas remains high, as the popularity of working from home increases and buyer's transition from more expensive markets for lifestyle benefits.



The outperformance of house prices relative to unit prices also continued in December. Nationally, house prices rose by 1.2% in the month, while unit prices were 0.4% higher. Over the year to December, house prices were 24.5% higher, while units were 14.2% higher. The difference between house and unit prices across Australia has now grown to its highest ever level. The national price gap between the median sale price of houses and apartments over the past three months has grown to \$140,000. The same gap sits at \$580,000 in Sydney and \$315,000 in Melbourne. This growth in the gap may contribute to greater demand for apartments and higher density housing in the future, as stand-alone houses become less affordable.

Change in dwelling values



## **Outlook**

Housing conditions remain strong, especially in the smaller capital cities of Brisbane and Adelaide, and regional areas. Demand remains robust, supported by low interest rates. However, headwinds continue to build, particularly in the more expensive markets. This reflects a combination of rising affordability pressures, increasing levels of supply from a low base, and increases in fixed interest rates from record low levels.

Price growth is likely to continue to slow over 2022 and is expected to turn in 2023 as record low interest rate settings begin to be unwound.

Surging COVID-19 case numbers are a key risk to the outlook and could disrupt the housing market. However, demand remains strong amid an environment of low interest rates.

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