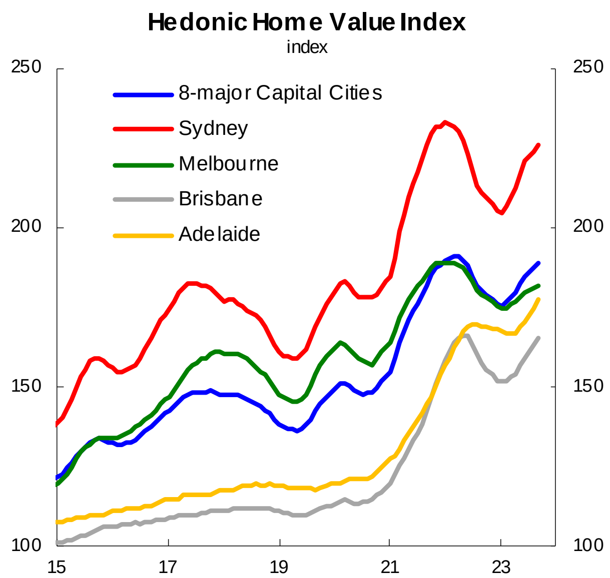
Data Snapshot

Tuesday, 3 October 2023

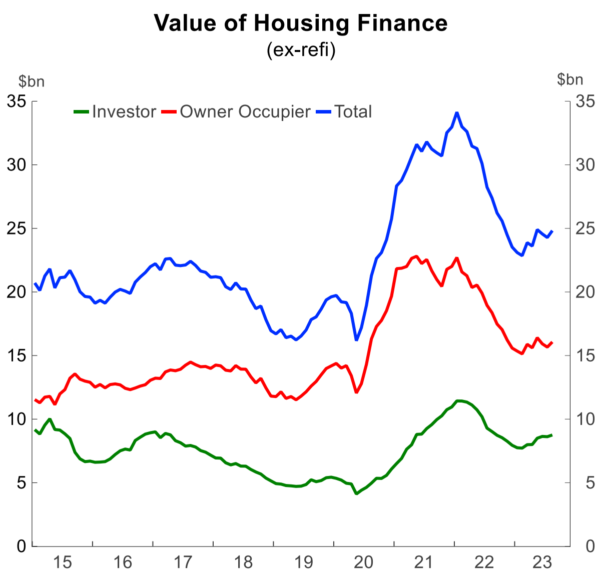
Housing Market Update

Prices Defy Gravity, But For Good Reason

- **Dwelling prices rose 0.8% in August, accelerating from a 0.7% increase over both July and August. Prices are now just 1.3% shy of their peak in April 2022 – ahead of the rate hike cycle.**
- **The outcome is a familiar one. Despite headwinds to affordability, supply and demand fundamentals in the housing market remain out of kilter. An out-of-season rise in new listings has been evident since early June and so far, the market has easily soaked up the additional supply. A sustained rise in listings could represent the first test for the price rally.**
- **When looking through the volatility of recent months, the value of new housing finance (excluding refinancing) has risen 8.6% since bottoming out in February. This is an impressive rate given that annual growth in housing lending has averaged 6.1% over the last decade.**
- **This highlights that while limited supply has been the bedrock of dwelling price growth, it takes two to tango and demand is certainly contributing to the strength of price growth.**
- **Volatility in building approvals continued in August, as approvals rose 7.0%. However, approvals appear to be stabilising on a trend basis. But this is at very low levels, with private sector house (-12%) and high-rise (-35%) approvals both well below their respective 10-year averages.**
- **A meaningful supply response is needed to meet record population growth and address the existing undersupply. A raft of challenges have meant the response to date has not been significant. While approvals are showing signs of bottoming, this is at very low levels. Discouragingly, a meaningful supply response is likely still some time away.**



Source: CoreLogic



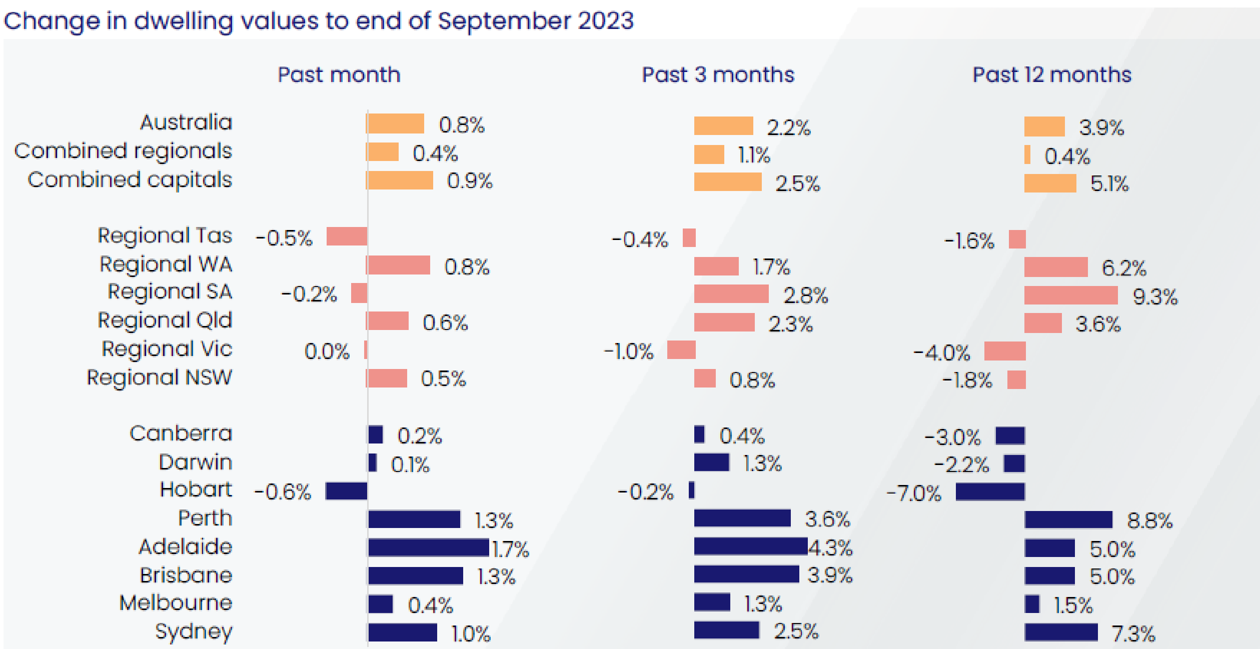
Sources: ABS; Macrobond

Dwelling Prices

The recovery underway in dwelling prices continued through September as the imbalance between supply and demand persisted. Nationally, dwelling prices rose 0.8% in the month, accelerating from a 0.7% increase over both July and August. In annual terms, dwelling prices are up 3.9% across the country, taking prices just 1.3% shy of their peak in April 2022 – ahead of the Reserve Bank's (RBA) rate hike cycle.

The outcome is a familiar one. Despite headwinds to affordability, supply and demand fundamentals in the housing market remain out of kilter. Surging population growth and chronic underdevelopment means there are more people vying for a limited stock of housing. The pressure is showing up in both the purchase and rental markets. Additionally, apartments and houses are slow to build (even without the current disruptions in the construction industry), while rapid population growth doesn't appear to be going away anytime soon, meaning it will likely be some time before these fundamentals return to better balance.

Just as important to dwelling price dynamics in the near-term is the volume of advertised supply available to the market. An out-of-season rise in new listings has been evident since early June, particularly in Sydney and Melbourne. So far, the market has easily soaked up the additional supply. This is reflected in the total stock of listings, which remains around 17% below the 5-year average despite a modest recent uptrend. A sustained rise in listings could represent the first test for the price rally and may drain some of the current momentum, however, we are not expecting prices to correct from here. The key question is whether the rise in new listings reflects marginal sellers re-entering the market alongside more favourable conditions, or whether broadening stress in the mortgage belt is underpinning some motivated selling. The Jury is still out on this, and measures of mortgage stress remain very low. However, an increase in motivated sellers would present a risk to the pace of the current price rally.



Housing Finance

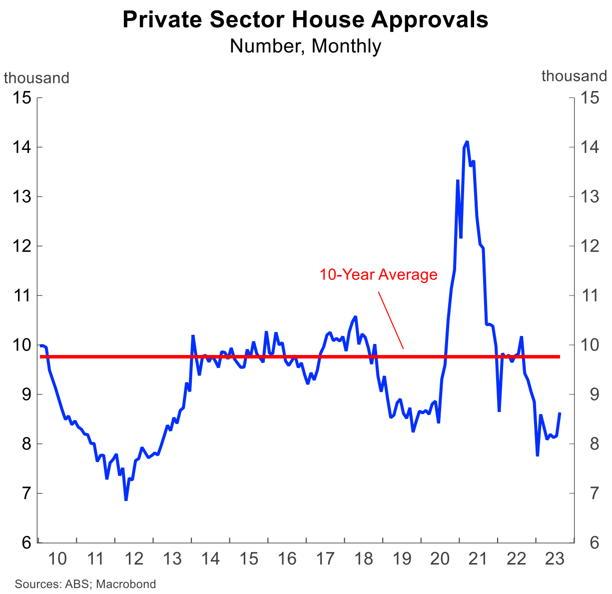
The value of new housing finance (excluding refinancing) rose 2.2% in August to $24.8bn. This follows two consecutive monthly falls in June (-1.4%) and July (-1.1%). Growth in new lending was broad-based across both investors (1.6%) and owner-occupiers (2.6%) with the strength among owner-occupiers concentrated in the purchase of existing dwellings (2.5%). There was also a welcome bounce in lending for the construction of new dwellings (1.4%).

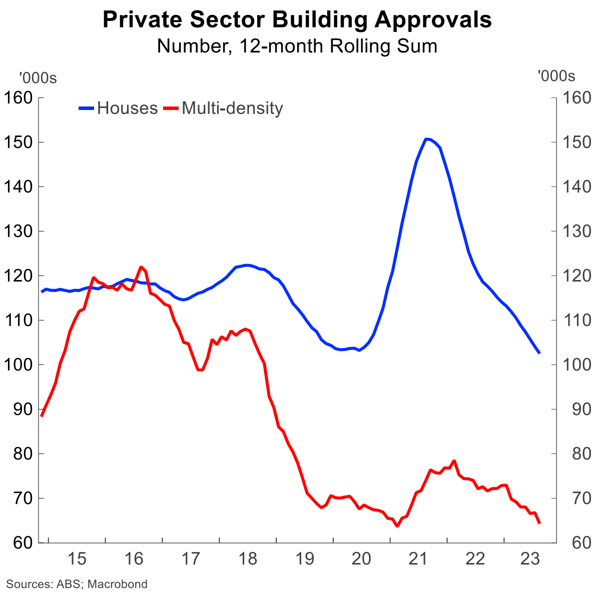
The rise in lending activity in August is more in line with what we would expect given the backdrop of rising prices. When looking through the volatility of recent months, the value of new housing finance (excluding refinancing) has risen 8.6% since bottoming out in February. This is an impressive rate given that annual growth in housing lending has averaged 6.1% over the last decade. This highlights that while tight supply has been the bedrock of rise in dwelling prices, it takes two to tango and demand is certainly contributing to the strength of price growth. This of course, is despite 400 basis points of interest rate hikes.

New Lending By State (Excluding Refinancing)	Owner-Occupier		Investor		Total	
	Monthly Chg. %	Annual Chg. %	Monthly Chg. %	Annual Chg. %	Monthly Chg. %	Annual Chg. %
New South Wales	2.1	-8.5	1.3	1.5	1.8	-4.8
Victoria	4.0	-16.8	0.2	-14.9	2.8	-16.2
Queensland	2.9	-11.8	-4.2	-1.4	0.2	-8.3
South Australia	12.9	-4.8	5.2	-2.9	10.3	-4.2
Western Australia	4.9	-10.8	14.1	23.9	7.7	-1.7
Tasmania	17.9	-15.4	-3.5	-22.5	11.3	-17.4
Australian Capital Territory	-3.3	-32.9	-8.1	-27.8	-5.0	-31.3
Northern Territory	30.4	-31.0	-14.7	21.1	12.1	-20.4
Total	2.6	-12.5	1.6	-3.0	2.2	-9.4

Refinancing activity remains elevated but appears to have peaked alongside the heights of the fixed rate mortgage roll off and some cooling of competition in the mortgage market. The expiry of low-rate fixed mortgages peaked in June and July. In August the value of refinancing activity fell 3.9% to $20.6bn, likely corresponding with a slowdown in the pace of fixed mortgage expiries. As this continues to taper off over the coming months, refinancing activity is also likely to soften.

Building Approvals





Volatility in building approvals continued in August, as approvals rose 7.0% in the month. This partly unwound falls of 8.6% and 7.4% in June and July, respectively. However, approvals are still 9.5% below May 2023 levels – the high point of this year so far.

Despite significant month-to-month variation, approvals appear to be stabilising at low levels on a trend basis. Total approvals remain over 20% below their 10-year average, with private sector house approvals almost 12% below their respective 10-year average.

The gain in August reflected a 5.8% rise in private sector house approvals, in addition to a 9.4%

jump in private sector multi-density approvals (e.g. apartments and townhouses). Volatility in this high-rise sector continues. High-rise approvals were down 7.9% on a rolling three-month average basis and are a significant 35% below their 10-year average.

Private sector house approvals had been moving largely sideways over the past four months, but there are some tentative signs that demand may be picking up amid record population growth and a cooling in homebuilding inflation. This is even with interest rates remaining elevated and borrowing capacity remaining under pressure.

Despite these signs of some stabilisation, the home construction sector continues to face challenges. This includes labour market difficulties and a high level of material costs (although material cost inflation is slowing). In addition, insolvencies have continued to rise as cost pressures impact the profitability and viability of projects.

At a national level, private sector house approvals rose across the board. Gains were driven by WA (13.0%) and Victoria (9.9%). Other states reported smaller gains of under 5% each in the month. High-rise approvals were volatile, as Queensland and SA reported large falls, while Victoria and NSW recorded large gains.

Residential Building Approvals by State

	Total			Private Sector Houses			Private Sector Other		
State	**Number**	**Monthly Chg. %**	**Annual Chg. %**	**Number**	**Monthly Chg. %**	**Annual Chg. %**	**Number**	**Monthly Chg. %**	**Annual Chg. %**
NSW	3,802	12.5	-36.1	1,864	2.4	-22.6	1,889	27.9	-45.0
VIC	4,842	22.2	-7.3	2,807	9.9	-12.3	1,989	44.1	-0.1
QLD	2,004	-26.9	-39.7	1,770	3.1	-12.6	222	-78.0	-82.9
SA	922	-6.9	-20.9	773	4.7	-11.7	114	-53.3	-59.6
WA	1,242	12.3	-10.6	1,104	13.0	-6.8	77	4.1	-57.0
AUS	**13,647**	**7.0**	**-22.9**	**8,635**	**5.8**	**1.2**	**4,779**	**9.4**	**-7.9**

Record population growth continues to support dwelling demand. A meaningful supply response is needed to meet this demand and address the existing undersupply of dwellings. However, a raft of challenges facing the sector have meant that the supply response to date has not been significant. Elevated building and labour costs, in addition to high interest rates have been some of the headwinds faced.

There is a large backlog of work that remains in the pipeline from the boom in approvals during COVID. However, approvals have not kept pace since, meaning that work is expected to slow once that backlog is worked through.

Approvals appear to be showing signs of bottoming over recent months. Nevertheless, this is occurring at levels well below the 10-year average rate, showing that we are still a long way away from where we need to be. The sector is expected to continue to face challenges and a meaningful supply response is likely still some time away.

Jameson Coombs, Economist
Ph: +61 401 102 789

Jarek Kowcza, Senior Economist
Ph: +61 481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789