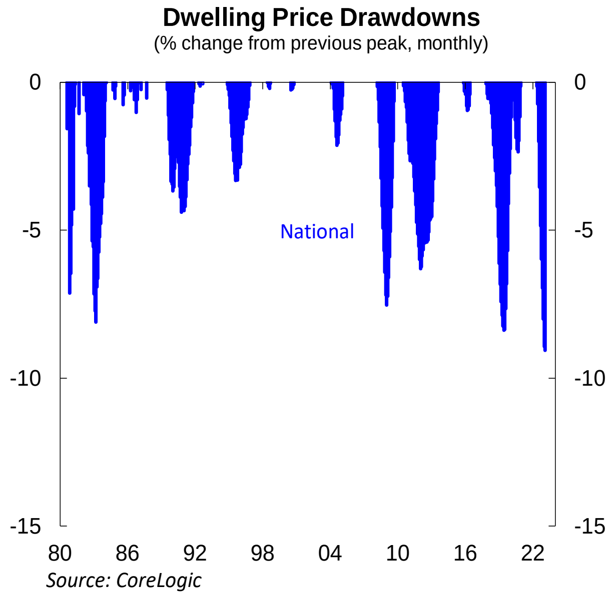
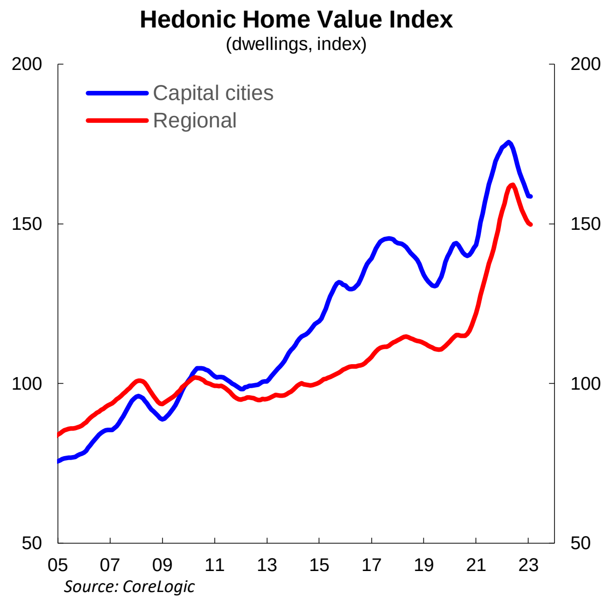
Wednesday, 1 March 2023

Dwelling Prices
Unit Market and Sydney Buck the Trend

- **Dwelling prices racked up their tenth consecutive fall in February, recording a national decline of 0.1%. A notable feature of February's data was that the decline of 0.1% was the smallest fall since May, when the Reserve Bank (RBA) began hiking rates.**
- **Sydney prices rose 0.3% – the first lift in 13 months.**
- **Unit prices nationally also ceased declining – recording a flat outcome in February.**
- **Dwelling prices across other major cities continued to fall but the data suggests that the pace of declines is slowing.**
- **Indeed, prices have already unwound a lot. In fact, the national decline in dwelling prices from the peak in April last year to now is 9.1%. This is the deepest since before the 1980s.**
- **The strong growth in rents (we predict record growth of 11.5% this year), a ramp up of net overseas migration (we expect 300k to be breached this financial year) and a shortage of stock (building approvals and construction activity contracting sharply and listings are lacklustre) could result in a mix where prices look to find a bottom beyond just Sydney and units.**
- **However, further rate rises from the RBA may stall the process of prices finding a bottom until later this year and a resumption of declines in Sydney and the unit market can't be ruled out.**



Source: CoreLogic



Source: CoreLogic

Dwelling prices racked up their tenth consecutive fall in February, recording a national decline of 0.1%. A notable feature of February's data was that the decline of 0.1% was the smallest fall since May. Back in May, the RBA kicked off its rate hiking cycle.

Moreover, the 0.1% decline is well off the deepest monthly fall in this current down cycle, which was 1.6% in August 2022.

From the peak in April 2022, dwelling prices are 9.1% lower, which is the biggest drawdown since before the 1980s. It opens up the idea that perhaps psychologically the peak to trough fall is nearing.

On a year ago, dwelling prices are off 7.9%.

A breakdown reveals dwelling prices fell 0.1% across the eight combined capital cities while prices in regional Australia fell 0.3%. In year-on-year terms, prices are 9.1% lower across the combined capital cities and are 4.2% weaker in regional Australia.

Shifting Sands

For several months now, we have flagged in customer presentations that there is a risk dwelling prices could trough in pockets of Sydney, Melbourne and Brisbane in 2023, led by the apartment market.

Strong growth in rents (we predict record growth of 11.5% this year), a ramp up of net overseas migration (we predict a breach of 300k this financial year) and a shortage of stock (building approvals and construction activity falling and listings are lacklustre) could result in a mix where prices look to find a bottom. The size of declines from the peak has also been sizeable already, suggesting a trough could be possible, provided we are nearing a peak in the cash rate.

Index results as at 28 February, 2023	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.3%	-2.4%	-13.4%	-11.2%	$1,006,923
Melbourne	-0.4%	-2.7%	-9.6%	-6.6%	$743,554
Brisbane	-0.4%	-3.2%	-6.8%	-2.8%	$694,495
Adelaide	-0.2%	-1.4%	5.1%	8.6%	$645,812
Perth	-0.1%	-0.2%	2.4%	7.0%	$561,740
Hobart	-1.4%	-4.9%	-11.8%	-8.4%	$658,470
Darwin	-0.3%	-1.0%	2.9%	9.1%	$495,712
Canberra	-0.5%	-2.7%	-6.7%	-3.2%	$833,155
Combined capitals	**-0.1%**	**-2.3%**	**-9.1%**	**-6.0%**	**$761,674**
Combined regional	**-0.3%**	**-2.1%**	**-4.2%**	**-0.3%**	**$575,916**
National	**-0.1%**	**-2.3%**	**-7.9%**	**-4.8%**	**$702,136**

Source: CoreLogic

Unit Market

Dwelling prices for units (or apartments) were unchanged in February nationally – the first time prices have not fallen in ten months. In contrast, prices for houses fell 0.2% in the month. Higher mortgage rates have impacted borrowing capacity and apartment prices had not risen as much in the recent upturn as stand-alone houses. These factors meant any nearer-term turnaround in dwelling prices would begin with apartments first.

Sydney

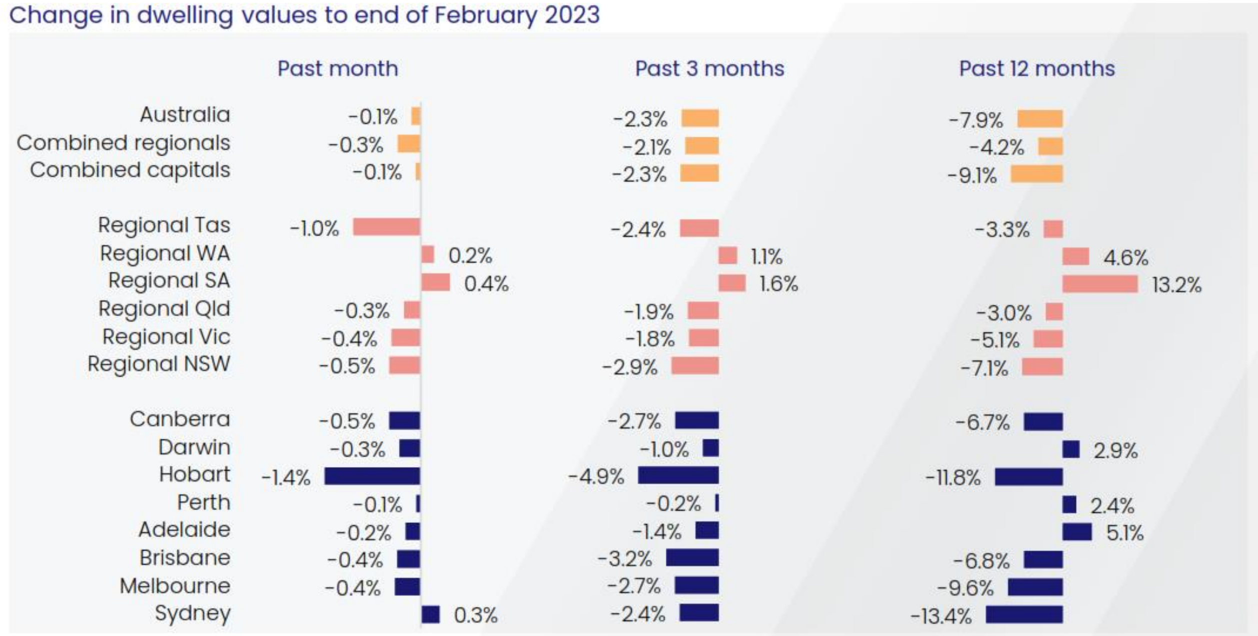
Sydney joined the unit market in bucking the trend. Dwelling prices rose 0.3% in February in Sydney – the first rise in 13 months – after prices fell 13.8% from the peak in January 2022 to January 2023. This is a sizeable drawdown and one has to go back to the 1980s to see a significantly sharper fall. Note, the drawdown during the downturn to 2019 was slightly larger than the current downturn, at just under 15%. The lift in Sydney prices was helped by tax changes for first-home buyers with the optionality around stamp duty and land tax. However, it is unlikely the story is solely about the tax changes. For example, while new listings (i.e. the flow) are starting to pick up, as is typical once we move past the new year lull, they remain well below the 5-year average. Total listings (i.e. the stock) are also very low relative to previous years.

Other capital cities

Other capital cities recorded falls, but even in these cities there were some signs that the downturn in dwelling prices was no longer accelerating.

Melbourne prices fell 0.4%, but that is one of the smallest falls in this current cycle. Brisbane prices dropped 0.4%, but that is well off the 2.0% back-to-back monthly declines recorded as recently as October and November. Adelaide's decline of 0.2% was the smallest in five months. Perth dropped 0.1%, continuing a mixed picture, with prices fell in just four of the past seven months. In Hobart, the price fall of 1.4% was the deepest across the nation but it was the third consecutive month the rate of decline had eased.

Across the territories, Canberra and Darwin recorded falls of 0.5% and 0.3%, respectively. Canberra's fall is a large improvement on the peak monthly fall in this cycle of 1.7% in August 2022 and Darwin's contraction is also not as large as what has been recorded last year.



Source: CoreLogic

Outlook

The prospect of more rate hikes from the Reserve Bank (RBA) makes an ongoing slowing in dwelling prices inevitable in coming months. In early February, the RBA met, hiked, and explicitly suggested at least two more rate hikes were likely. The debate is around how much more. We expect it is three more rate hikes, taking the cash rate to a peak of 4.10% before mid year. Interest-rate markets anticipate it will be between three and four more.

These rate rises are likely to place fresh downward pressure on dwelling prices nationally, including in Sydney. However, provided the cash rate is nearing a peak, it is possible that dwelling prices find a convincing bottom (or trough) later this year amid strong population growth, rapid rises in rents, low residential vacancy rates and low levels of stock. The downturn in approvals to build dwellings and the down leg in residential construction means there will be no rush of supply.

The tight labour market is also a consideration – the two biggest levers in housing are rates and jobs. Customer liaison and forward-looking indicators of jobs suggests the turning point for the jobs market is here. There are whispers in some industries of redundancies and outsourcing offshoring where a year ago there were none. Job advertisements and vacancies have also started to turn lower, albeit from very elevated levels. However, it will take time for the unemployment rate to lift markedly higher. At 3.7% currently, it is well under full employment of around the low 4s.

The bottom line is further rate rises from the RBA may stall the process of prices finding a bottom until later this year and a resumption of declines in Sydney and the unit market can't be ruled out.

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