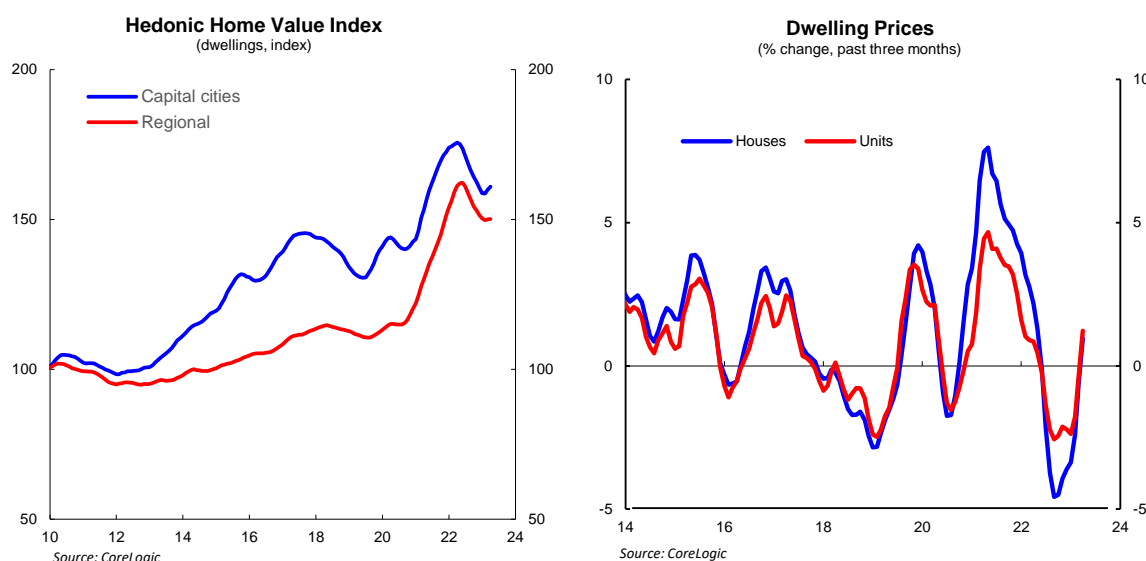


Monday, 1 May 2023



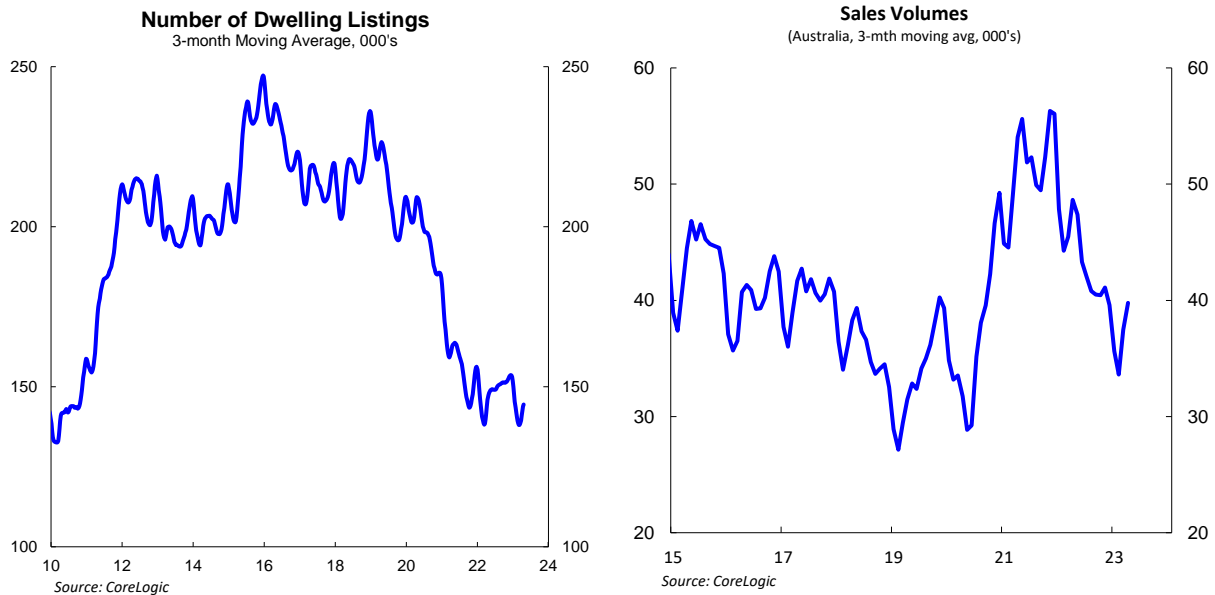
Dwelling Prices Bottoming Out

- Dwelling prices increased by 0.5% in April, following an increase of 0.6% in March. Remarkably, dwelling prices are now 1.0% higher over the past three months – a period which included two 25 basis points rate hikes by the Reserve Bank (RBA).
- Price increases in the month were concentrated in Sydney (+1.3%), Perth (+0.6%) and Brisbane (+0.1%). Melbourne also recorded an increase (+0.1%) – the capital cities across the east coast of Australia have experienced the largest influx of net overseas arrivals.
- Today's data provides further evidence that the housing market has stabilised and passed the trough for this cycle. Unlike most previous hiking cycles, house prices have started to stabilise while the RBA was hiking rates.
- Reporting suggests that demand for dwellings has been supported by the record surge in net overseas arrivals, with some migrants looking to skip the rental queue and purchase instead – Census data suggest that in the past it would typically take a migrant 4-7 years to buy a dwelling. There could also be cashed up investors getting into the market, speculating that prices have bottomed out from here. At the same time, persistently low levels of advertised supply remain a key factor supporting housing values.
- The outlook for dwelling prices largely depends on these supply and demand factors – our view is that supply will remain relatively tight while demand will continue to be supported by strong population growth. On balance, we expect house prices to finish the 2023 calendar year unchanged. We expect house prices to increase by 5% over the 2024 calendar year as the RBA starts cutting the cash rate on the back of a slowing economy.



Dwelling prices increased by 0.5% in April, following an increase of 0.6% in March - prices are now 1.0% higher over the past three months. Except for Darwin, dwelling values across the capital cities either increased or were flat. This suggests that the stabilisation has now spread across most capital cities.

A feature of the recent cycle has been the extraordinarily low levels of advertised supply making it onto the market. As demand cooled, many sellers have opted to wait on the sidelines for better conditions. This has seen the flow of newly listed properties holding below the previous five-year average since September 2022.



But supply is only part of the story. Since April, demand has slowed sharply as rising interest rates erode the borrowing capacity of prospective purchasers. The fall in demand has outstripped supply contributing to the fall in dwelling prices. But we are beginning to see signs that demand is firming. Estimates of purchasing activity held firm over the year to April – this suggests that demand has stabilised and is no longer falling. Notwithstanding this stabilisation, on a rolling quarterly basis, estimated capital city home sales were approximately 2.4% below the previous five-year average for this time of the year.

There are a few likely reasons behind this consolidation in demand. The most obvious is the surge in migration and remarkably tight rental market. Surging rents and low vacancy rates may be driving some spill over from renting to purchasing as the marginal cost between renting and purchasing narrows and as incredibly low vacancy rates make it difficult to secure a tenancy independent of financial position. However, the large increase in interest rates means this is likely not an option for most households. Similarly, long-term migrants with the means to purchase may be skipping the rental phase for the same reasons.

Another driver may be speculation that we are nearing the end of the RBA's rate hike cycle. In fact, financial markets are currently attaching a high probability to the tightening cycle being over. This may be giving prospective purchasers some confidence to re-enter the market. It may also be fuelling more positive expectations around future house prices.

Capital Cities and Regions

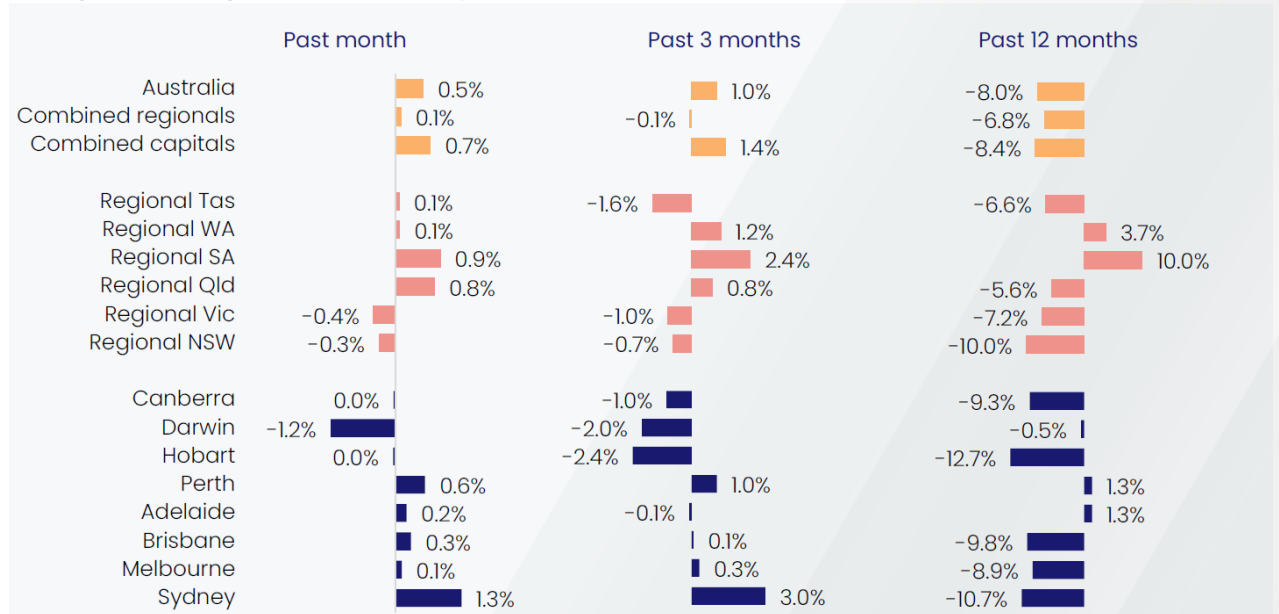
Given most new overseas arrivals find their way to the major cities on the east coast of Australia, it is unsurprising that dwelling price increases in April were concentrated in Sydney (+1.3%), Brisbane (+0.1%) and Melbourne (+0.1%). While Perth also reported a solid 0.6% bounce in prices.

Except for Darwin, dwelling values across the capital cities either increased or were flat. This suggests that the stabilisation has now spread across most capital cities.

Darwin (-1.2%) reported the largest fall in dwelling prices in April. Dwelling prices in Canberra and Hobart were flat.

A turn in fortunes was also apparent in regional areas. Prices in regional SA (0.9%), regional Queensland (0.8%), regional WA (0.1%) and regional Tasmania (0.1%) were all positive. Price declines continued to moderate in regional NSW (-0.3%) and Victoria (-0.4%).

Change in dwelling values to end of April 2023



Source: CoreLogic

Outlook

The outlook for dwelling prices largely depends on how supply and demand evolves – our view is that supply will remain relatively tight while demand will continue to be supported by strong population growth and confidence brought about by the end of the RBA’s hiking cycle. On balance, we expect house prices to finish the 2023 calendar year unchanged. We expect house prices to increase by 5% over the 2024 calendar year as the RBA starts cutting the cash rate on the back of a slowing economy.

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