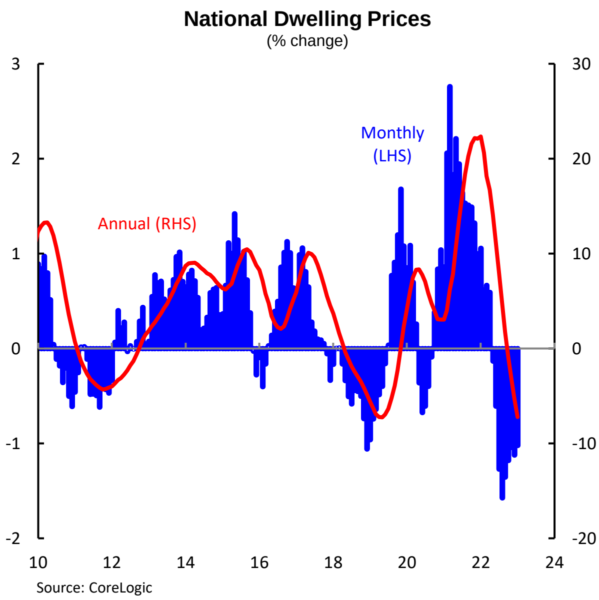
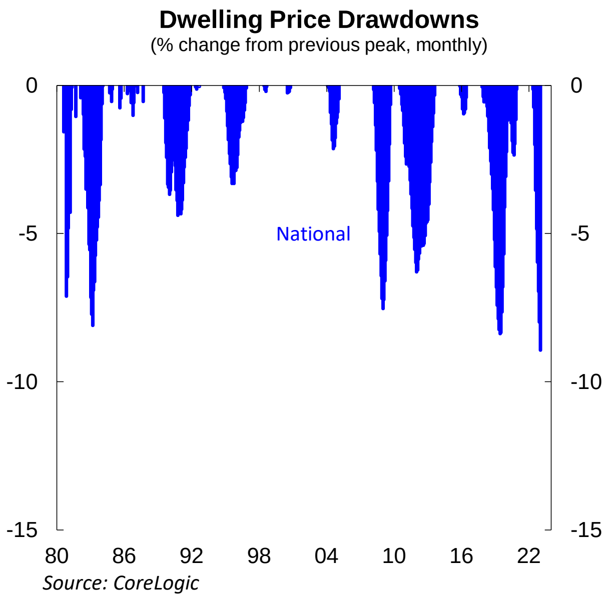
Wednesday, 1 February 2023

Dwelling Prices

No New Year Reprieve As Falls Continue

- **The New Year provided little reprieve to homeowners as prices continued to decline in January. National dwelling prices fell 1.0% in the month, taking the run of consecutive declines to nine months. In annual terms, dwelling prices fell 7.2% over the year to January. This was an acceleration from the 5.3% annual drop over the 2022 calendar year.**
- **However, momentum is shifting as the pace of falls across the largest markets moderated. The monthly drop improved from December (-1.1%) and the August 2022 low (-1.6%).**
- **The downturn has been rapid and is the fastest and largest since the series began. Dwelling prices are 8.9% below their April 2022 peak. However, it is important to put this into context. The falls follow an incredible run up in prices across all capital cities and regional areas during the pandemic boom.**
- **The stock and flow of listings, in addition to sales remain weak. However, the balance between the two has been shifting over recent months, as sales volumes increase relative to listings.**
- **Prices are likely to continue to decline over coming months. While we are nearing the end of the Reserve Bank's rate hiking cycle, further increases are expected as inflationary pressures remain elevated. Mortgage holders rolling from fixed rates to variable rates will also pose a headwind.**
- **On the other side of the ledger, a strong labour market, low stock levels, and demand from a rapid return of overseas migration will provide some support to the market.**





The New Year provided little reprieve to homeowners as prices continued to decline in January. National dwelling prices fell 1.0% in the month, taking the run of consecutive monthly declines to nine months. Additionally, the monthly pace of falls has been running at 1.0% or more for the past seven months.

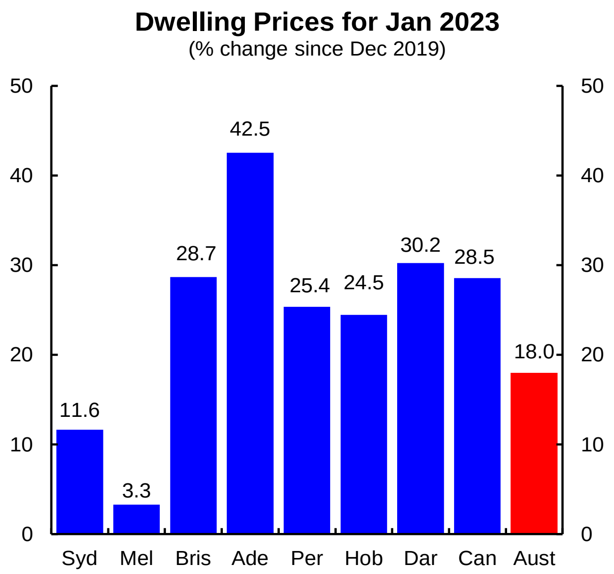
In annual terms, national dwelling prices declined by 7.2% over the year to January. This was an acceleration from the 5.3% annual fall over the 2022 calendar year.

However, despite the continued declines, momentum is shifting as the pace of falls across the largest markets moderated. The 1.0% monthly drop was down from the 1.1% decline in December and the biggest monthly drop of this cycle of 1.6% in August 2022.

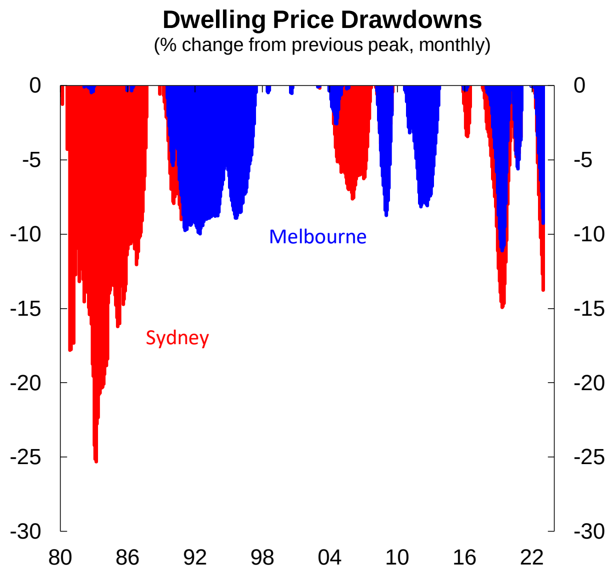
The cash rate is still expected to rise over coming months as the Reserve Bank seeks to address elevated inflationary pressures. However, with 300 basis points of hikes in 2022, from a record low of 0.10% to the current rate of 3.10%, we are nearing the peak of the cash rate in this cycle. This has likely contributed to the moderating pace of declines.

The downturn has been rapid to date. Dwelling prices are 8.9% below their April 2022 peak. This is the fastest and sharpest decline since the series began, in 1980. The largest capital cities of Sydney and Melbourne have also experienced rapid declines, down 13.8% and 9.3%, respectively.

However, it is important to put the current downturn into a broader context. The recent falls follow an incredible run up in prices across all capital cities and regional areas during the pandemic boom. In fact, prices are still more than 20% above their pre-pandemic levels (as of December 2019) across all capital cities, except for Sydney and Melbourne, where values are 11.6% and 3.3% above pre-pandemic levels, respectively.



Source: CoreLogic

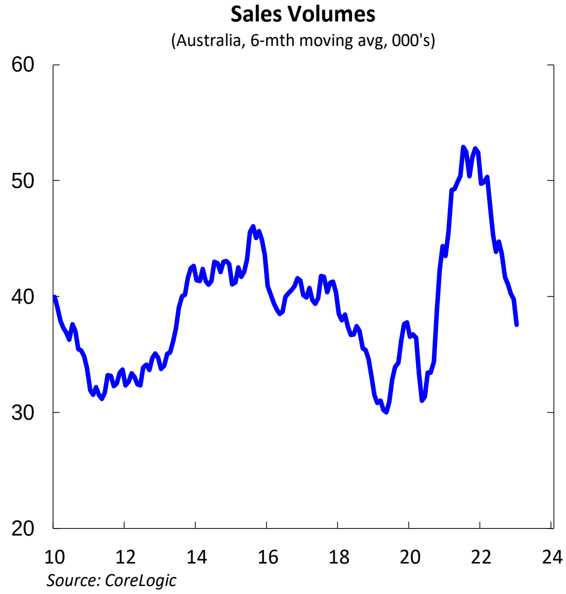


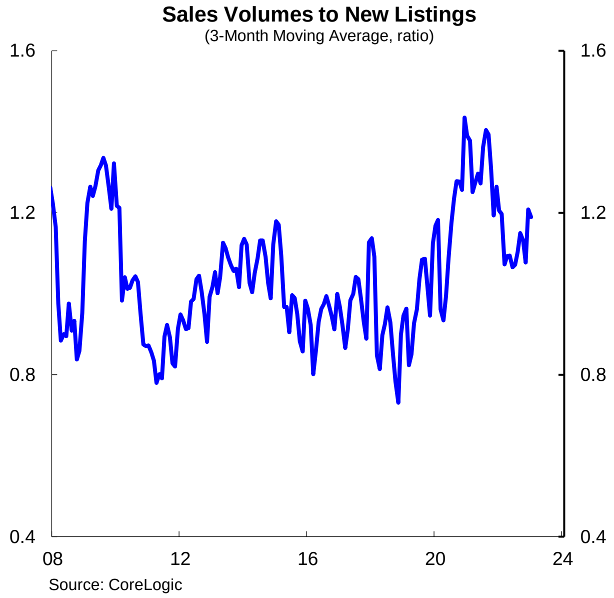
Source: CoreLogic

The balance between supply and demand continues to be a factor in the market, as both stock levels and sales remain weak. New listings (i.e. the flow) and total listings (i.e. the stock) remain well below average for this time of year. In fact, both are almost 25% below their respective five-year averages.

Housing is the largest asset for most households and no one likes to sell for less than they could have only a short while ago. As a result, many homeowners are choosing to wait for an improvement in conditions, rather than testing the market.

Sales volumes are also weak and have continued to decline over recent months. Modelled sales volumes for January 2023 were more than 20% below January 2021 and January 2022 levels. Looking further back, modelled sales volumes in January 2023 were 6% below January 2020 levels.



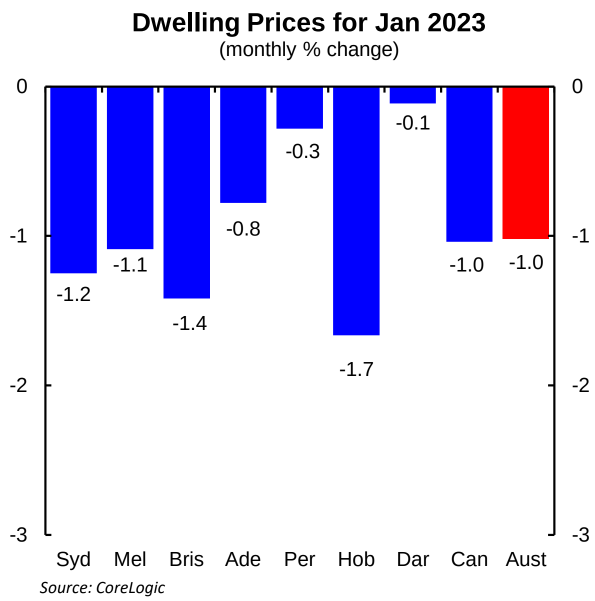


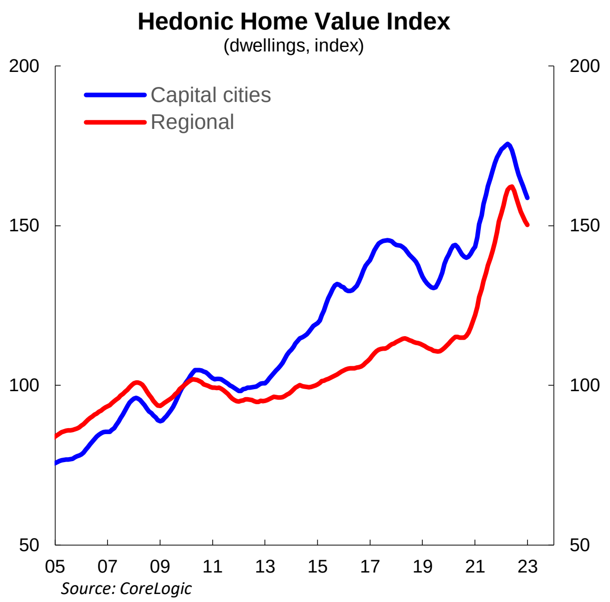
However, an important measure is how sales are tracking relative to listings. This provides some indication of the balance between supply and demand.

While both sales volumes and listings are weak, the balance between the two has been shifting over recent months, as sales volumes relative to listings have picked up. This is demonstrated in the absorption ratio, which measures sales volumes to new listings. This ratio has lifted from recent lows in mid to late 2022. This is likely to be providing some support to prices, which would have potentially fallen even further if supply levels were higher.

Across the Country

While conditions are generally weak, there is variation when looking at different cities and regional areas. The pace of declines slowed across the largest cities. Dwelling values were down 1.2% in Sydney, following a 1.4% drop in December. This was the slowest pace of declines since May 2022. Prices across Sydney have now fallen for 12 consecutive months, leading to the median dwelling price dropping to below $1 million for the first time since March 2021.





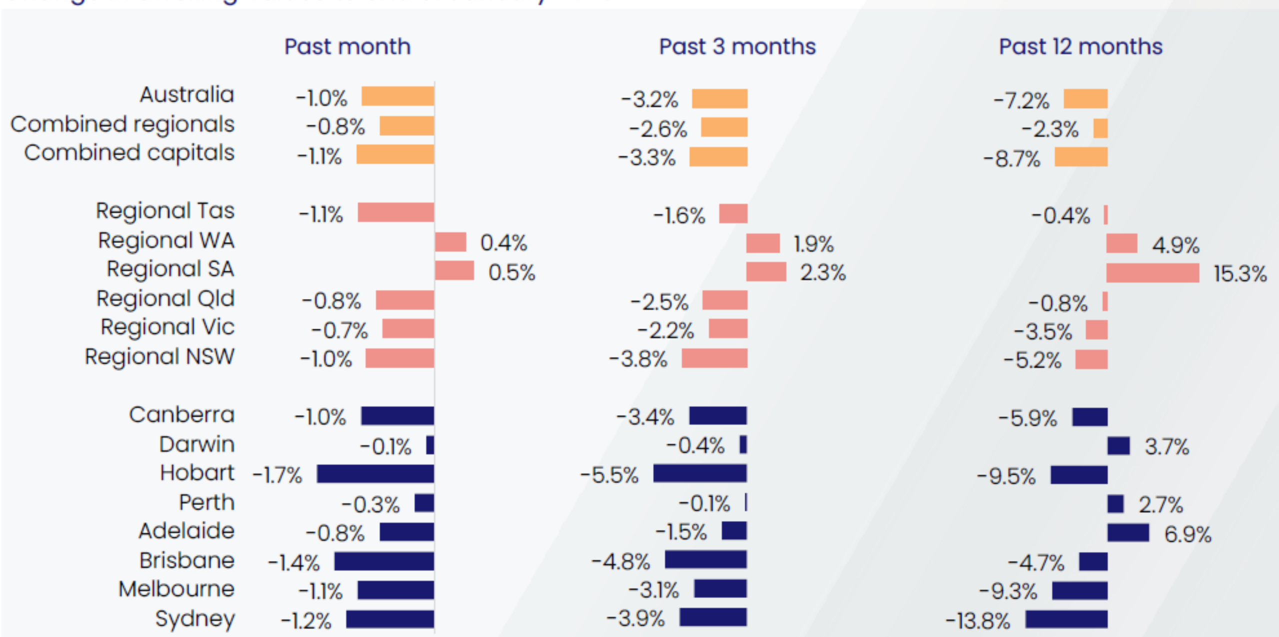
Prices in Melbourne fell 1.1% in January, following a 1.2% decline in December. The pace of declines also slowed in Brisbane, to 1.4% in January. This followed a 1.5% drop in December and record monthly falls of 2.0% in both October and November.

Falls in Adelaide accelerated in January (-0.8%) compared to December (-0.4%). The city has held up better than others over recent months, prices only being down 2.1% from the peak. However, the run of declines has still extended to six months. Perth also shifted back into a decline (-0.3%) after values rose modestly in December (+0.1%).

Hobart led the monthly falls (-1.7%), while Canberra was also weak (-1.0%). Darwin was the outperformer in January, with values only falling only modestly (-0.1%).

Regional areas (-0.8%) continued to outperform capital cities (-1.1%). Prices in regional areas rose further on the upswing and have been coming down more slowly during the downturn. Changing housing preference and working patterns have enabled more people to live in regional areas and led to a significant shift in demand. While some of these trends are likely to reverse over time, it is unclear where they will settle.

Change in dwelling values to end of January 2023



Outlook

Dwelling prices are expected to continue to decline gradually over coming months. While we are nearing the end of the RBA's rate hiking cycle, further cash rate increases are still expected as inflationary pressures remain elevated, as demonstrated by the December quarter consumer prices index (CPI) result.

Additionally, the expiry of the large stock of fixed rate loans over 2023 remains a headwind for the market. Around 35% of the stock of mortgages are on fixed rates and almost two thirds of these are expected to roll onto variables rates by the end of 2023.

On the other side of the ledger, a strong labour market, low stock levels, and demand from a rapid return of overseas migration will provide some support to the market.

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