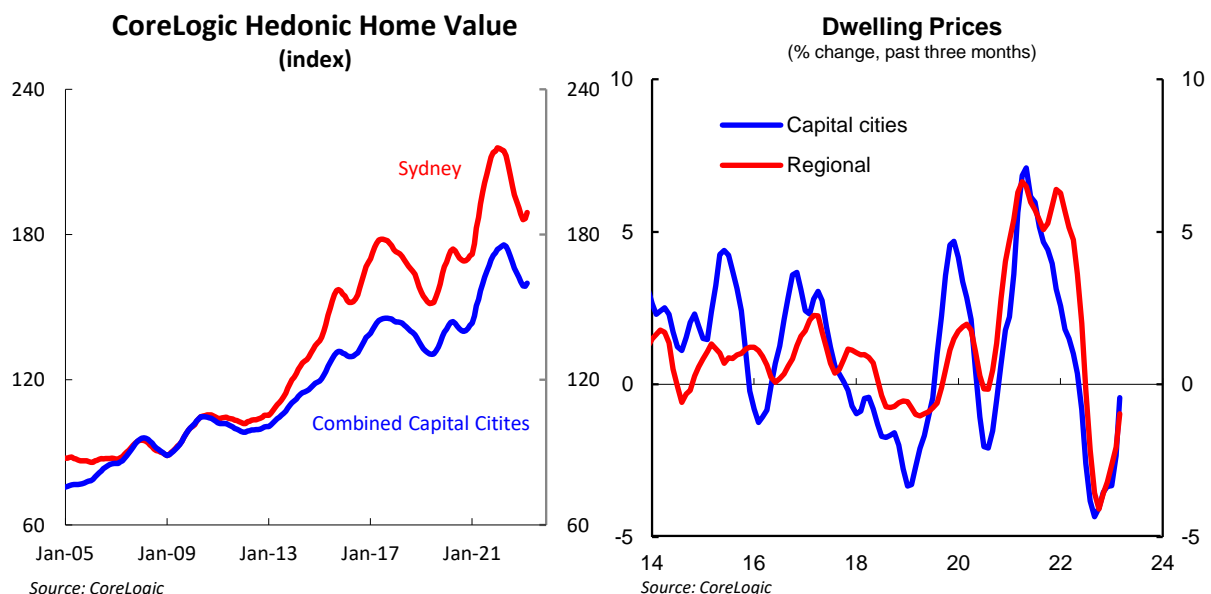


Monday, 3 April 2023

Dwelling Prices Trough or Trap?

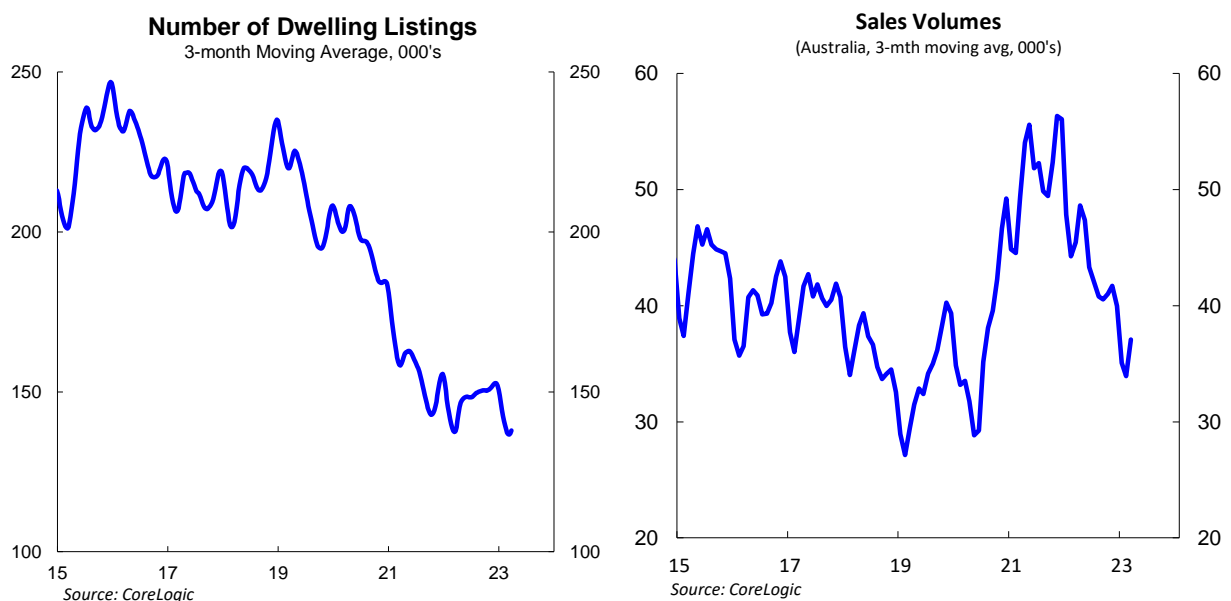
- Dwelling prices rose 0.6% in March, the first monthly increase since the start of the Reserve Bank's (RBA) hiking cycle. Price increases were concentrated in Sydney (+1.4%), Melbourne (+0.6%) and Brisbane (+0.1%).
- Limited advertised supply has underpinned the orderly fall in dwelling values since April and is a huge driver behind the tick-up in prices recorded in March. But supply is only part of the story.
- We are beginning to see signs that demand is firming. Estimates of purchasing activity rose in March, while auction clearance rates are back to average levels and the median number of days on the market looks to be plateauing.
- The highest quartile of the market, particularly in Sydney, is leading the uptick in prices. The Sydney upper quartile declined the most during the downturn. Additionally, buyers in this segment are typically less constrained by interest rates and borrowing capacity.
- Surging rents and low vacancy rates may be driving some spill over from renting to purchasing and long-term migrants may be skipping the rental phase simply because they are unable to find any rental accommodation. Speculation that we are nearing the end of the RBA's rate hike cycle may also be at play, giving some prospective purchasers confidence to re-enter the market.
- The outlook for dwelling prices largely depends on whether these supply and demand factors are temporary or more permanent. It is too early to call a trough in the market given the uncertainty that lies ahead.



Dwelling prices rose 0.6% in March, the first monthly increase since the start of the Reserve Bank's (RBA) hiking cycle in May 2022. However, conditions vary considerably across markets and the unique set of circumstances which contributed to the result make it difficult to call a trough.

A feature of the recent cycle has been the extraordinarily low levels of advertised supply making it onto the market. As demand cooled and prices descended, many sellers have opted to wait on the sidelines for better conditions. As a result, total advertised listings are below their 5-year average in every capital city except Hobart. Limited supply has underpinned the orderly fall in dwelling values since April and is a huge driver behind the tick-up in prices recorded in March.

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 rose 10.4% in March, while auction clearance rates are back to average levels and the median number of days on the market looks to be plateauing.



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. 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 simply because they are unable to find any rental accommodation.

Another reason 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. The Westpac-Melbourne Institute consumer confidence survey reported a surprise jump in house price expectations in March. Stronger price expectations support demand and may entice cashed-up buyers back into the market to snap up a relative 'bargain'.

The outlook largely depends on whether these supply and demand factors are temporary or more permanent. If the status quo is maintained a floor may be forming. However, the market is particularly vulnerable to a rise in new supply. This could be triggered by many factors, including sellers that have been waiting out the storm coming back into the market as conditions plateau.

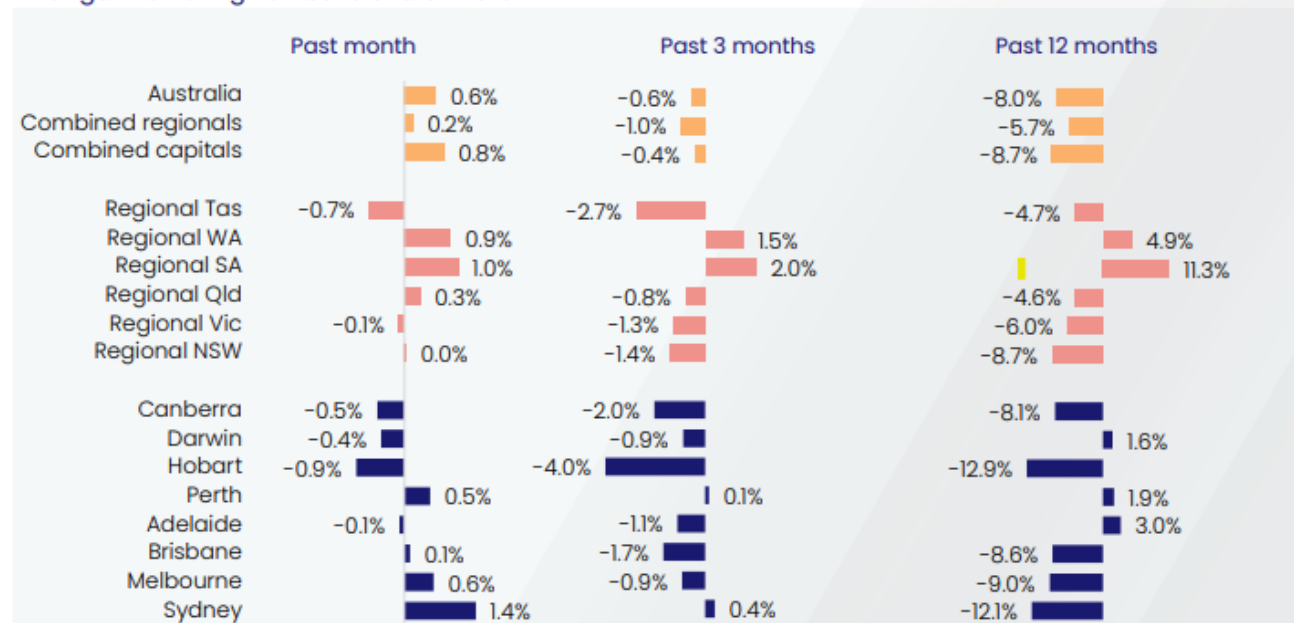
Capital Cities and Regions

Given the majority of new overseas arrivals find their way to the major cities on the East Coast, it is unsurprising that dwelling price increases in March were concentrated in Sydney (+1.4%), Melbourne (+0.6%) and Brisbane (+0.1%). This was the second consecutive monthly increase in prices in Sydney, while Melbourne and Brisbane reported their first lift in prices since February and June 2022, respectively. Perth (+0.5%) was the other capital city to report an increase in March. However, Perth has generally diverged from the broader trend over recent months.

Hobart (-0.9%) reported the largest fall in dwelling prices in March, overtaking Sydney with the largest cumulative fall in prices at 12.9%. Canberra (-0.5%), Darwin (-0.4%) and Adelaide (-0.1%) also reported a fall in prices in March. However, the pace of price declines moderated in Adelaide, Hobart and Canberra.

A turn in fortunes was also apparent in regional areas. Prices in regional SA (1.0%), WA (0.9%) and Queensland (0.3%) were all positive, while the pace of price declines continued to moderate in regional NSW (0.0%), Victoria (-0.1%) and Tasmania (-0.7%).

Change in dwelling values to end of March 2023



Source: CoreLogic

Outlook

House prices appear to be stabilising following a steady run of declines since April. However, it is too early to call a trough in the market given the uncertainty that lies ahead, and that headwinds and tailwinds exist across both supply and demand factors.

The full impact of interest rate hikes is yet to be felt by households and a slowing economy through 2023 is expected to translate to a softer jobs market. This raises questions about whether the current low level of listings is sustainable.

For demand, weak activity, and tighter credit (via stretched borrowing capacity) are expected to remain as headwinds, while surging migration will provide some offset. The path of the cash rate will ultimately prove key with marginal buyers expected to take their cue from the RBA.

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