CoreLogic

Unpacking Multi-Speed Conditions in Australia's Housing Markets

Special Report

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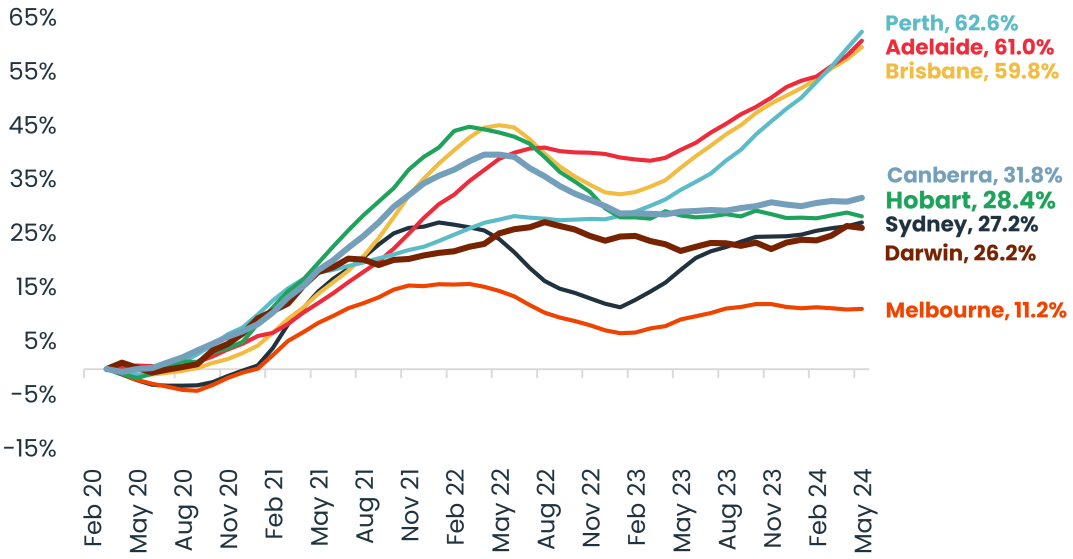
Unpacking Multi-Speed Conditions in Australia's Housing Markets

Australian home values have risen 35.6% since the COVID-19 pandemic hit Australia in March 2020. The market saw a strong cycle of growth through the pandemic, and a short-but-sharp drop in values following the commencement of the rate hiking cycle, and made a full recovery in value by November 2023, hitting fresh record highs each month since.

Below the headline figure, the market has been driven higher by multiple 'speeds' of growth across the capital cities and regional markets. This diversity in housing trends has many asking why cities like Perth, Brisbane and Adelaide are continually in high demand, while at the other end of the spectrum, Melbourne and Hobart are in the doldrums.

Figure 1. Cumulative change in capital city dwelling values
Pandemic to-date



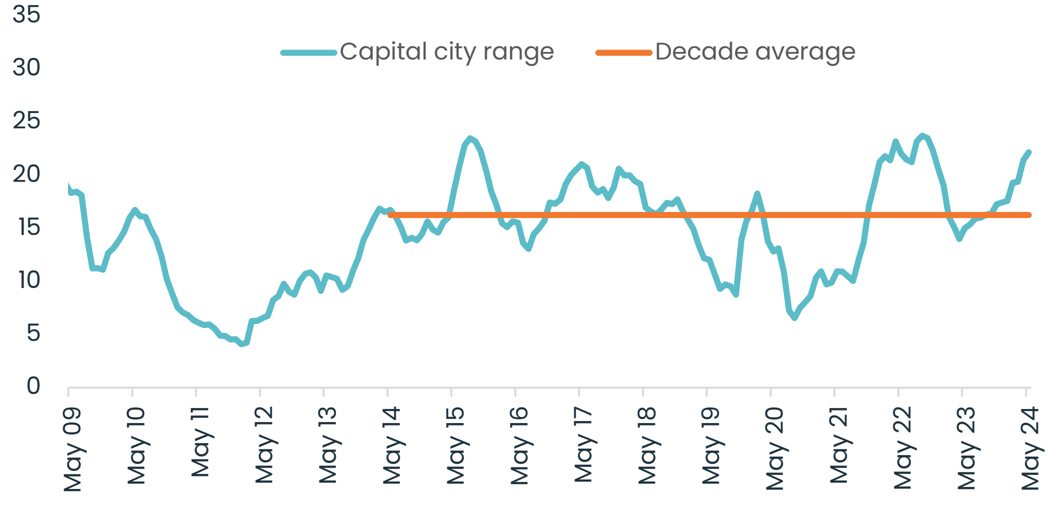
Source: CoreLogic

The highest-performing markets have generally come off a low base, with housing conditions and demographic trends relatively weak over the years preceding the pandemic. Differences in capital growth trends are marked by the varied supply / demand balances of each city, and in turn migration, affordability factors and dwelling completions influence that supply and demand dynamic.

What is the range of growth right now?

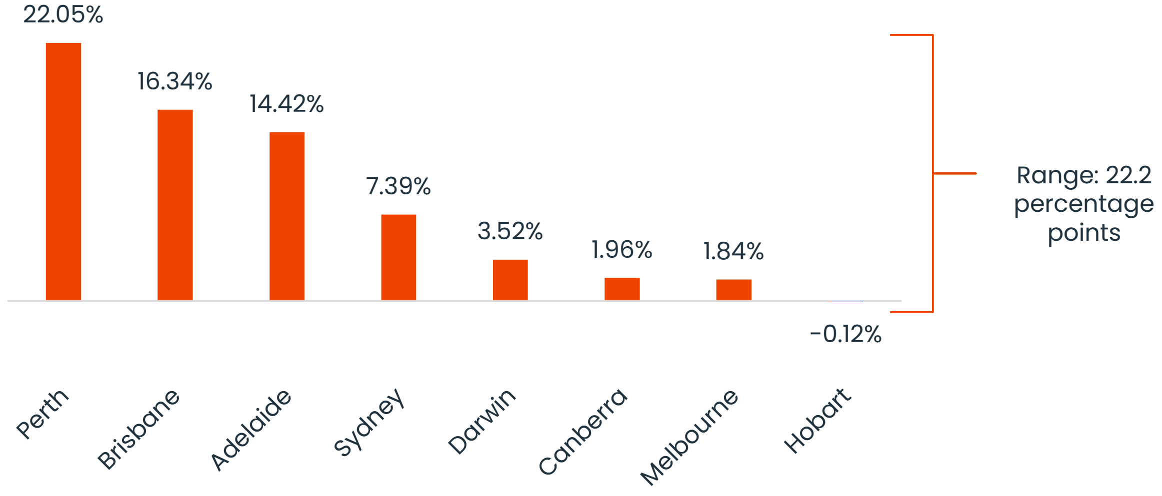
Figure 2 shows the 'range' of annual capital growth across greater capital city markets of Australia. The 'range' of a dataset is calculated by subtracting the lowest growth rate from the highest growth rate. In the year to May, growth ranged from a 22.05% uplift in Perth dwellings to a -0.12% fall across Hobart, taking the range to 22.17 percentage points (above the decade average of 16.3 percentage points).

Figure 2a. Range of annual growth, greater capital city dwelling markets (percentage points)



Source: CoreLogic

Figure 2b. Range of quarterly growth, greater capital city dwelling markets (May 2024)



Source: CoreLogic

The annual growth range tends to peak around the inflection point of annual gains for the combined capital city market. In the past 15 years for example, the biggest range of growth was 23.7 percentage points in the year to September 2022, when the combined capital city market was just moving into an annual decline off the back of rate rises. At this time, Adelaide home values were still surging, up 17.1%, compared with a 6.6% decline in Sydney home values.

It could be that when shifts in the market happen, such as a negative demand shock from rate rises, that some cities are more responsive than others, creating a more dramatic range in capital growth outcomes in the short term. In the case of interest rate rises, it is understandable that an expensive, highly indebted market like Sydney would see a quicker response in value changes.

Annual growth has also started to slow in recent months across the combined capital cities, as ongoing high interest rate settings, weakening economic conditions and affordability constraints gradually weigh on the pace of home value increases. This could mean a slowdown in growth across Brisbane, Perth and Adelaide is on the horizon, and could see the range of growth eventually narrow across the capital cities.

Supply and Demand

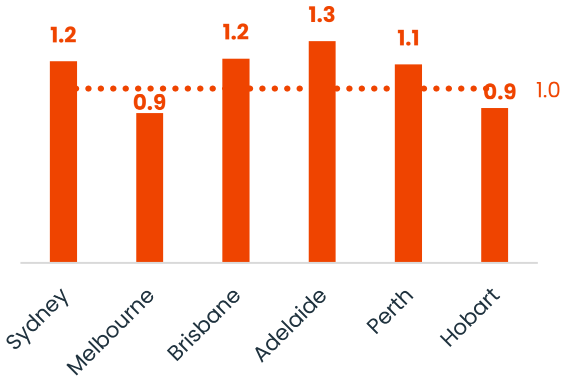
Different market speeds can most easily be explained by the number of home purchases happening (demonstrated demand), versus the number of homes available for sale (available supply) – or, the old adage of 'supply and demand'.

One way to show this relationship is the 'sales to new listings ratio', which is calculated by dividing the number of sales that have taken place over a given period by the number of new listings added to the market.

When the ratio is 1, it implies buyer demand and advertised supply is balanced: for every property listed for sale, there is one purchase. A sales to new listings ratio *greater than 1* suggests strong selling conditions, as there is more than one transaction taking place for every new unit of supply. A sales to new listings ratio of *less than 1* implies a weaker market, where there are more properties listed for sale in a period than purchased.

Figure 3 shows the sales to new listings ratio for the 12 months to May 2024 across the state capitals, as well as the number of sales and listings. Sure enough, stronger market performers like Adelaide, Brisbane, Perth and Sydney have a sales to new listings ratio greater than 1. Melbourne and Hobart, where price growth has been subdued in the past year, have a sales to new listings ratio of less than one. The ratio is weakest in Melbourne, where there were 98,223 properties added to the market for sale in the past 12 months (the highest of any capital city), compared to 84,452 sales.

Figure 3a. sales to new listings ratio, 12 months to May 24



Source: CoreLogic

Figure 3b. Modelled sales versus new listings, 12 months to May 24

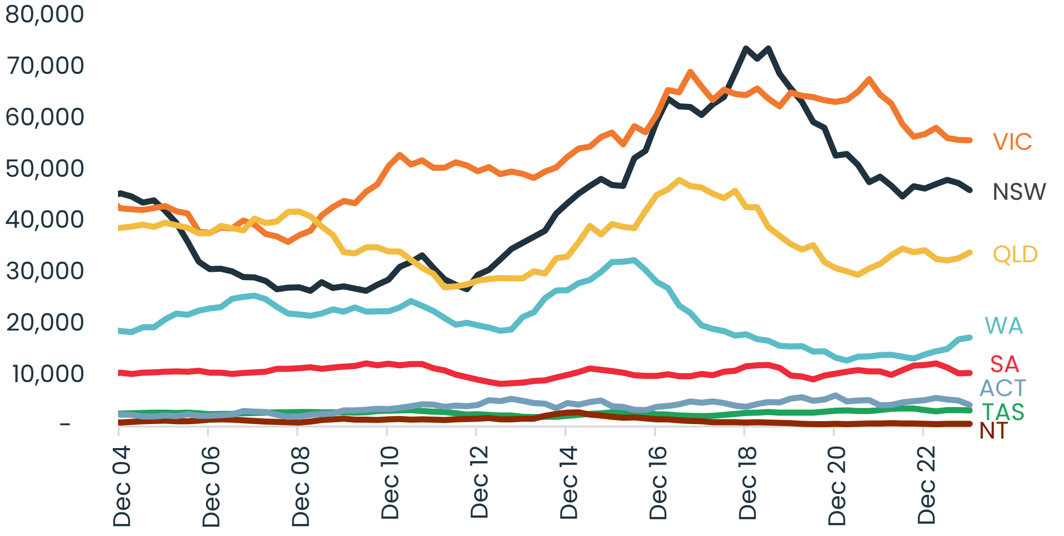
Source: CoreLogic

The additional supply of Melbourne dwellings is also reflected in total advertised stock levels at the start of June, which were trending 13% above the historic five-year average. Pockets of the city have seen a build up of listings, which may be related to more motivated selling on the periphery of the metropolitan.

Victoria has also seen a relatively high level of dwelling *completions* compared to other states and territories since the GFC, which may have helped to better absorb increases in housing demand without pushing prices as high as in other states and territories. Figure 4 shows Victoria maintained the highest number of annual dwelling completions between June 2009 and June 2018, and again from March 2020 to December 2023.

Higher completion levels may reflect stronger take up in Victoria of the temporary boost to the first home buyer grant for new homes, the HomeBuilder scheme, as well as high levels of inner-city apartment completions from a property investment boom in the mid-to-late 2010s.

Figure 4. Dwelling completions by state, rolling annual



Source: ABS

Interstate migration trends

Another area of drastic difference between states and territories which helps to explain the demand side for housing is interstate migration flows. Figure 5 shows the rolling annual volume of net interstate migration (arrivals versus departures) across the states and territories. The range between the largest and smallest net interstate migration results blew out enormously through the pandemic period, though it is starting to normalise.

Part of the reason housing purchase demand may be softer across markets like Sydney and Melbourne, relative to Brisbane, Perth and Adelaide, could be because net interstate migration plunged to deep losses through 2021 and 2022 in NSW and VIC. QLD in particular attracted a lot of the outflow from the southern states, with additions to the QLD population from net interstate migration totalling a record 51,517 in the year to March 2022. In QLD, WA and SA, net interstate migration eased from pandemic highs in 2023 (and has turned negative in SA), but is still well above historic averages.

Figure 5. Rolling annual net interstate migration

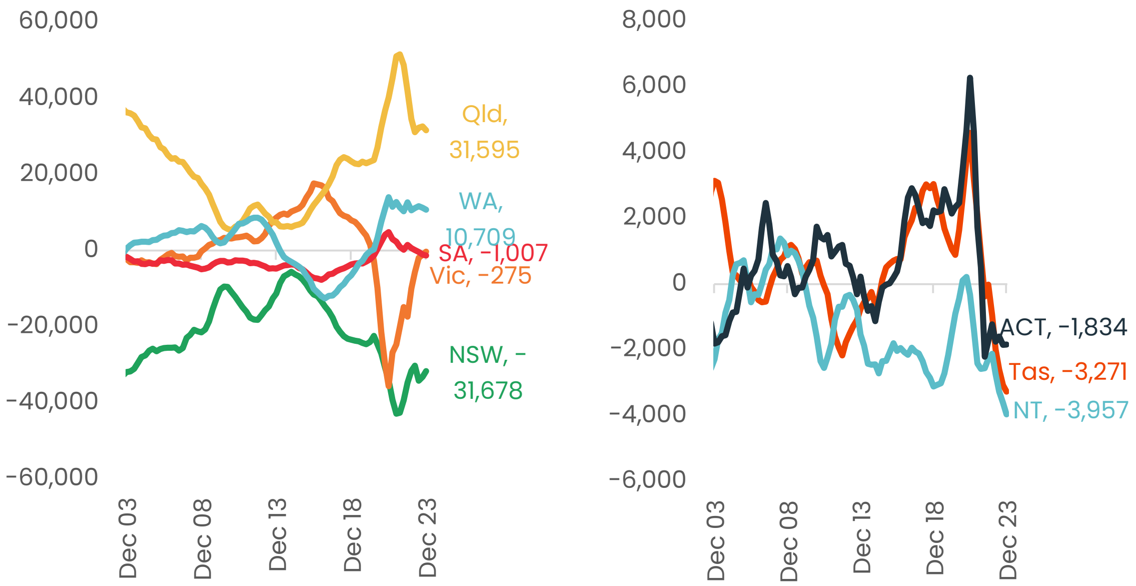
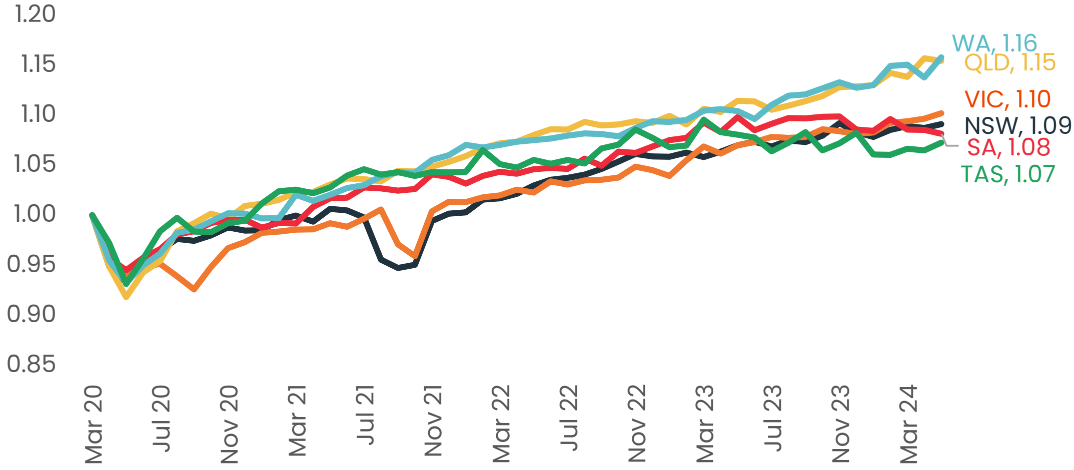


Figure 6. Index of number of people employed by state (set at 1.0 in March 2020)



Source: ABS

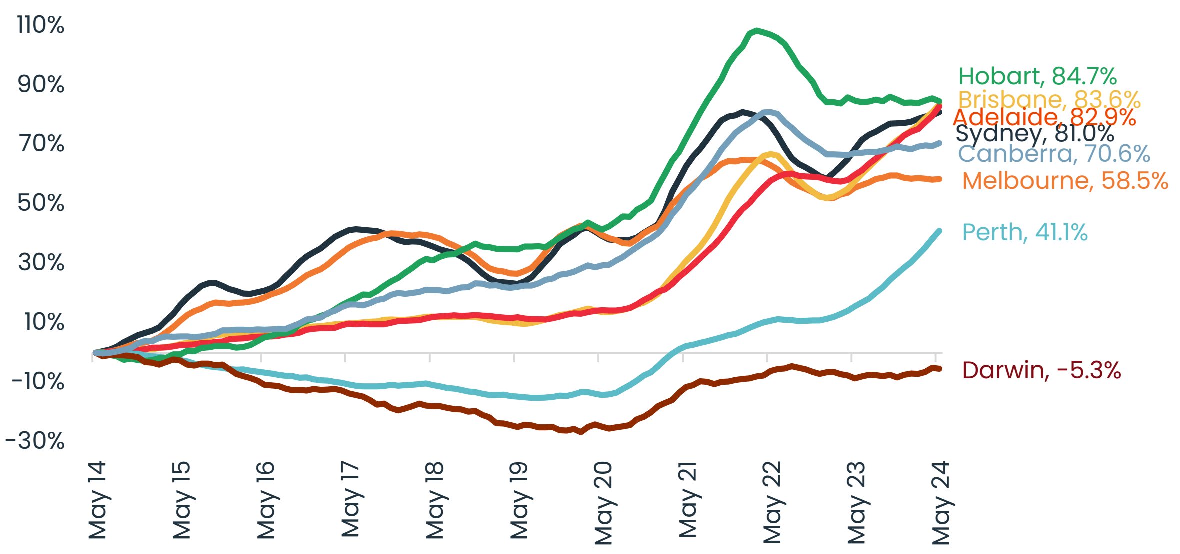
While migration data is somewhat lagged, monthly labour force data also points to ongoing strength in employment growth across WA and QLD in particular, which may be a function of more people moving to the states for job opportunities (figure 6).

The latest demographic data from the ABS indicates that any shortfall in net interstate migration has been more than offset by high levels of net *overseas* migration, led by NSW and VIC. However, purchasing intent among overseas migrants is usually low, with recent overseas arrivals more inclined to rent. This may partly explain why a market like Melbourne is seeing relatively strong and persistent growth in rent values, while housing values have actually fallen over the year to date.

Room to grow

Another reason for different dwelling value gains across capital cities in the past few years could come back to price point. Perth has seen the largest increase in home values since the start of the pandemic in March 2020 (up 62.6%). However, zooming out to a decade of growth (figure 7) shows value gains are still playing catch up with most other cities, following an extended downturn from 2014-2020.

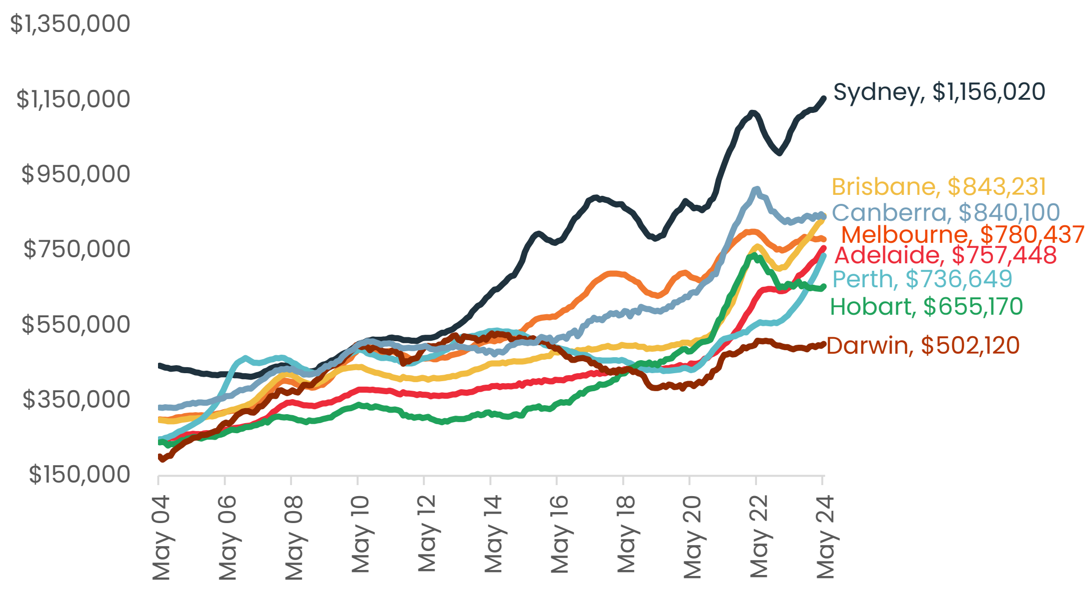
Figure 7. Cumulatuive change in home values, past 10 years



Source: CoreLogic

Cities like Perth and Adelaide have grown rapidly, but they started at a low price point. The median dwelling value in Perth is currently sitting at around $740,000, which is still only 6th highest among the 8 capital cities by median dwelling value (figure 8), and relative to local incomes it is one of the more affordable cities.

Figure 8. Median dwelling value by capital city



Source: CoreLogic

Adelaide has become unaffordable relative to local income levels, with the latest affordability metrics implying a price-to-income ratio of 8.2 on the median dwelling. For interstate buyers however, Adelaide may still seem relatively affordable, with the median dwelling value ranked 5th across the capital city markets, sitting just above Perth at $757,000.

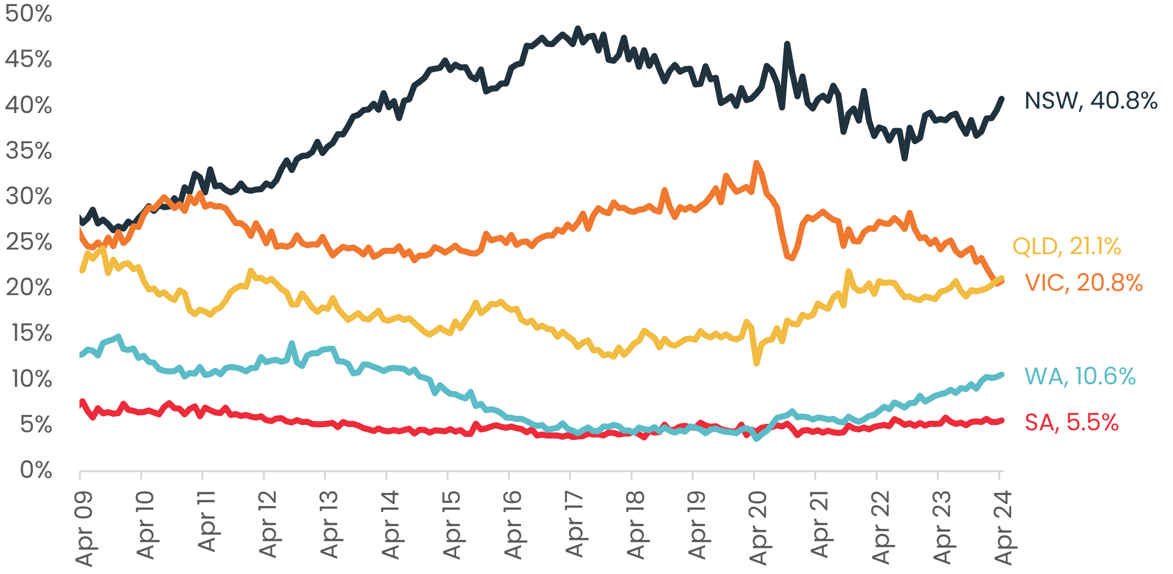
On the other end of the spectrum, Hobart, Canberra, Sydney and Melbourne experienced strong downturns around the time of rate hikes in 2022, but these capitals have come off a large run up in value. These markets were also generally more expensive heading into the rate hiking cycle, with higher interest costs potentially taking more of a toll on market performance. While Hobart home values are still -11.5% below the record high reached in March 2022, the city has seen the highest level of growth of any market over the past decade. Adelaide and Brisbane are close contenders for the top spot however, and will likely take the top spot for 10-year capital growth in the coming months.

Investor interest

ABS housing finance data reports the amount of new lending secured for investment property purchases by state on a monthly basis, with the state referencing the location of the property purchased. Figure 7 is another indicator of differences in demand across the states, which may feed through to the varying rates of capital growth in each market.

QLD and WA in particular have made up a growing share of the investment property finance pool since the onset of COVID. NSW has a slightly lower share of investment finance than at the onset of the pandemic, though this has been climbing in recent months.

Figure 7. Share of new lending for investment purchases by location of property



Source: ABS

Victoria has seen a more notable decline in the share of investor finance since October 2022. While many have pointed to additional investment property levies reducing investor demand in Victoria, such as an expansion to the vacancy tax, lower land tax thresholds and increased rates of land tax, it is worth pointing out that these were all announced from May 2023, so the drop off in investment activity preceded those announcements, and continued to decline further afterwards. In any case, the decline in investment activity across the state has likely contributed to weaker market performance across Victoria, which has also been accompanied by a rise in first home buyer participation.

Where to from here?

In the next few months the range of capital growth performance is likely to hold at relatively high levels. This is based on very strong fundamentals in the Perth market, and ongoing issues of over-supply in some pockets of Melbourne and Hobart putting downward pressure on values.

Longer term however, affordability may once again become a draw card in some of the cities where price growth has been more subdued in recent years, especially as the value gap closes between cities. This would help to stabilise capital growth trends in the likes of Melbourne, Hobart and Canberra, and possibly draw down the capital growth rate across Perth, Adelaide and Brisbane.

Considering the annual growth trend in the combined capital city market has also started to slow down, historic data trends suggests that the range of annual capital growth should also start to narrow. Weaker economic conditions may start to level growth across cities, alongside affordability constraints, interest rates holding 'higher for longer' and easing migration. The labour market is unwinding very gradually. A continuation of the loosening in the labour market could possibly add to listings supply at the margins as well, because of a small, but growing rate of mortgage arrears.

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