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Is the housing market faring better through lockdowns in 2021?

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The past 16 months have seen remarkable levels of adaption in the real estate sector, government stimulus and economic decline and recovery. Amid renewed and extended lockdowns, some indicators suggest the housing market has been even *more* resilient to lockdowns in 2021 than through 2020. But there is some suggestion not all pockets of the housing market remain robust.

This article unpacks a few ways housing market performance has evolved through lockdown in 2021 compared with 2020.

Consumer confidence has been more resilient

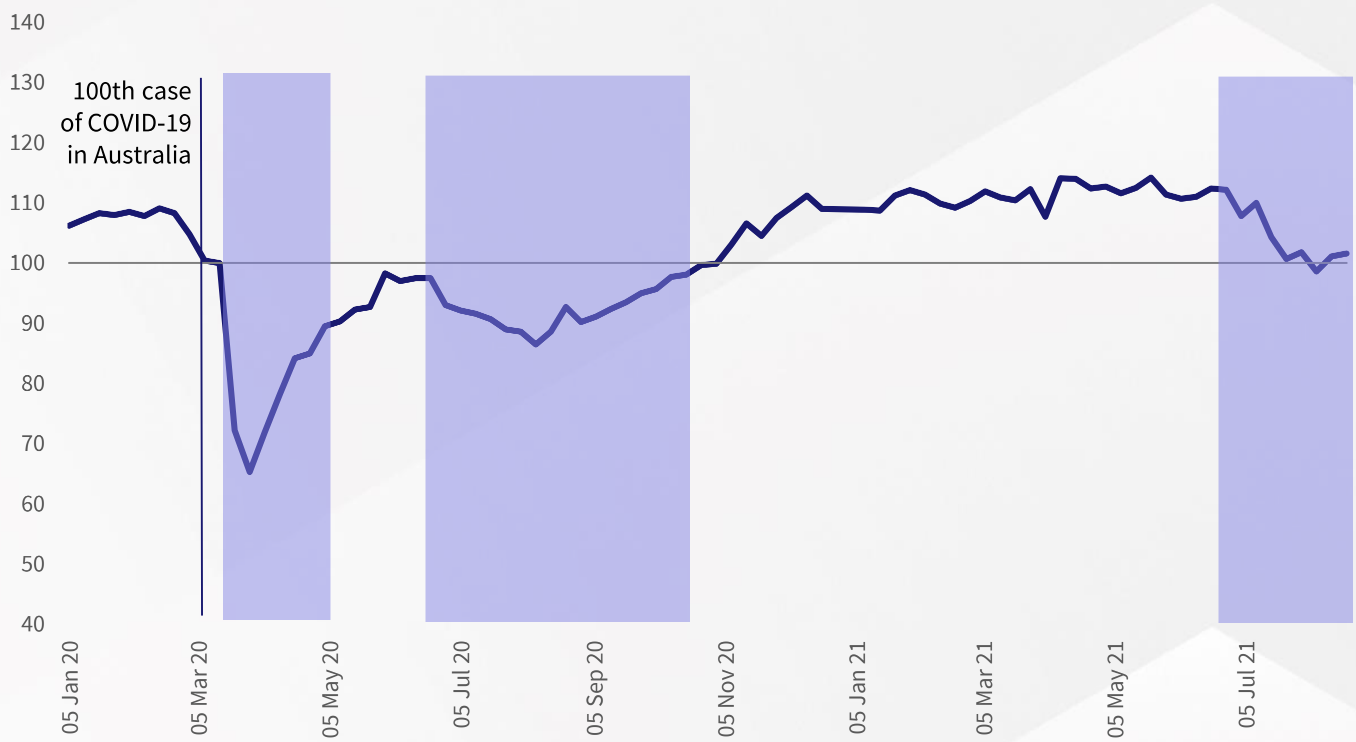
Consumer sentiment is an economic indicator that is generally positively correlated with home sales. This makes sense, given consumers would presumably be optimistic about their own financial situation when deciding to make a large financial commitment like a home purchase.

The consumer sentiment response has changed with each new set of extended lockdowns through COVID-19, with the decline in sentiment in 2021 becoming shallower, but lasting longer.

Figure 1 compares the ANZ Roy Morgan weekly consumer sentiment index through various lockdowns since March 2020, represented by the shaded areas in the chart.

Through early 2020, which saw the first COVID-19 induced lockdowns in Australia, consumer sentiment had a peak-to-trough decline of -40.1% that lasted six weeks. The second decline, which coincided with rising case numbers and renewed lockdowns across Melbourne, was a peak-to-trough fall of -11.3% that lasted seven weeks. The current lockdown has so far seen a peak-to-trough fall in consumer sentiment that has lasted seven weeks, with a fall of -12.3%.

Figure 1. ANZ-Roy Morgan Australian consumer confidence index



Source: CoreLogic

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It is likely the hit of lockdowns to consumer sentiment has become 'shallower' given consumers now have more information about the economic impact of lockdowns, and importantly, the strong recovery trend that followed stage 2 restrictions last year.

Interestingly, the ANZ Roy Morgan index seems to have stabilised above 100, which indicates more people are providing favourable answers to questions around economic and financial conditions. As discussed in the next section, this may also reflect the various monetary and fiscal support provided from 2020 through to early 2021, which has indirectly supported sales and listings of residential real estate.

Transaction activity has declined, but not as heavily as last year

Initial stage 2 restrictions in 2020 coincided with a drop in sales volumes nationally through April of -33.9%. This included a fall in Sydney sales of -36.7%, and -40.3% across Melbourne. The fall in sales was associated with transactions being harder to carry out amid restrictions, low levels of consumer confidence, and the level of employment falling by about 600,000 jobs through the same month, which may have disrupted intentions to purchase property.

While social distancing restrictions have been reinstated across much of the country, other factors are much more conducive to property sales still taking place. Through 2020, lockdown periods saw the accumulation of household savings (which skyrocketed to 21.6% through the June 2020 quarter, and remains elevated). The cash rate was set to a record low 0.1% in November, and the average cost of debt has continued to decline. Sydney lockdowns have also seen a much milder decline in employment levels, with the number of people employed falling -0.9% across NSW over July 2021, as opposed to -5.9% through April 2020.

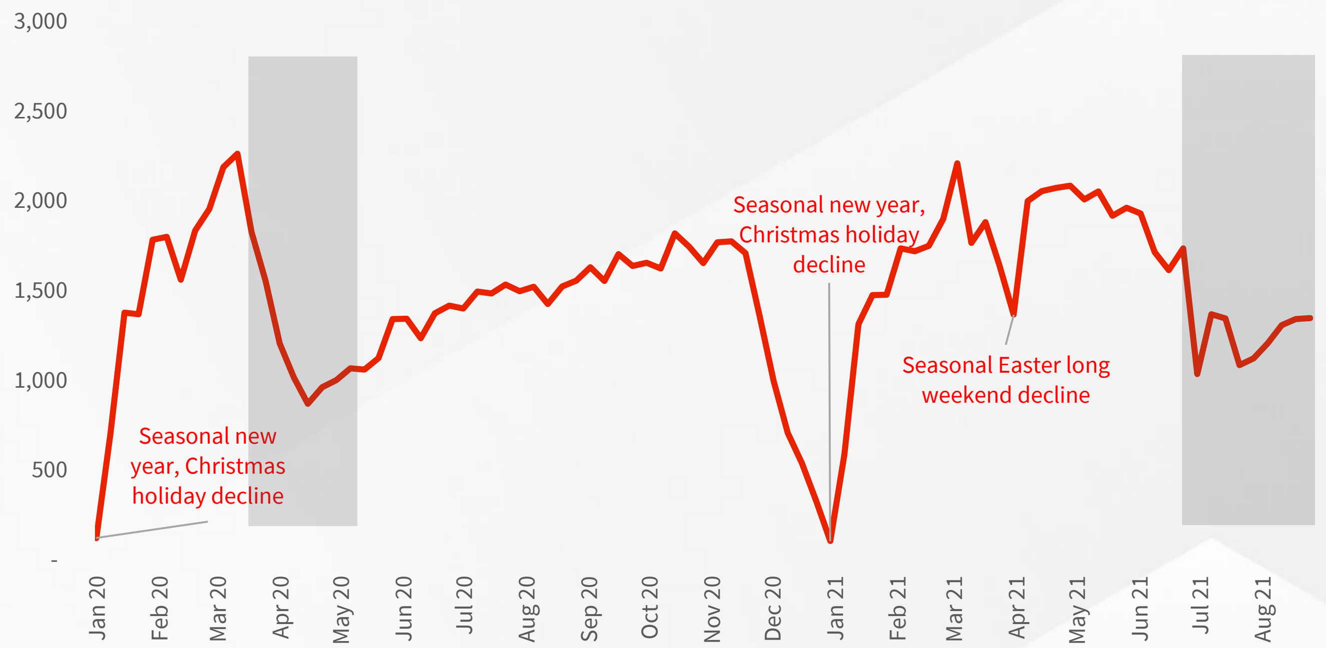
Amid these factors, sales volumes have seen a far milder decline through lockdowns. In the month of July, CoreLogic estimates sales volumes have fallen -3.7% in Sydney. However, the longer lockdowns are extended, the further sales volumes are likely to fall.

The fall in newly advertised stock has also been milder through 2021. For the week ending August 29, there were around 1,350 new properties added to the market across Sydney. This is about -23% lower than the five year average prior to COVID-19, but the number has been climbing. Assuming new listing volumes continue to climb, this marks a peak-to-trough decline of -37.5% of new listings added to market since the onset of the Sydney lockdowns, compared to a peak to trough decline of -52.4% through restrictions in early 2020.

This can be seen in Figure 2A, which shows new listings added to the market, with periods of lockdown shaded. Listings have not declined as sharply through current lockdown conditions across Sydney when compared to 2020.

Figure 2B shows that Melbourne has seen a steeper decline in new listings amid the start of the lockdown since August. However, the city has also seen more *volatility* because lockdowns have been more frequent. On average, weekly new listings across Melbourne (1,765) have actually been higher than in Sydney (1,577), and are higher than the average weekly listings added across Melbourne through the whole of 2020 (1,345).

Figure 2A. Weekly new listings volumes, Sydney



Source: CoreLogic

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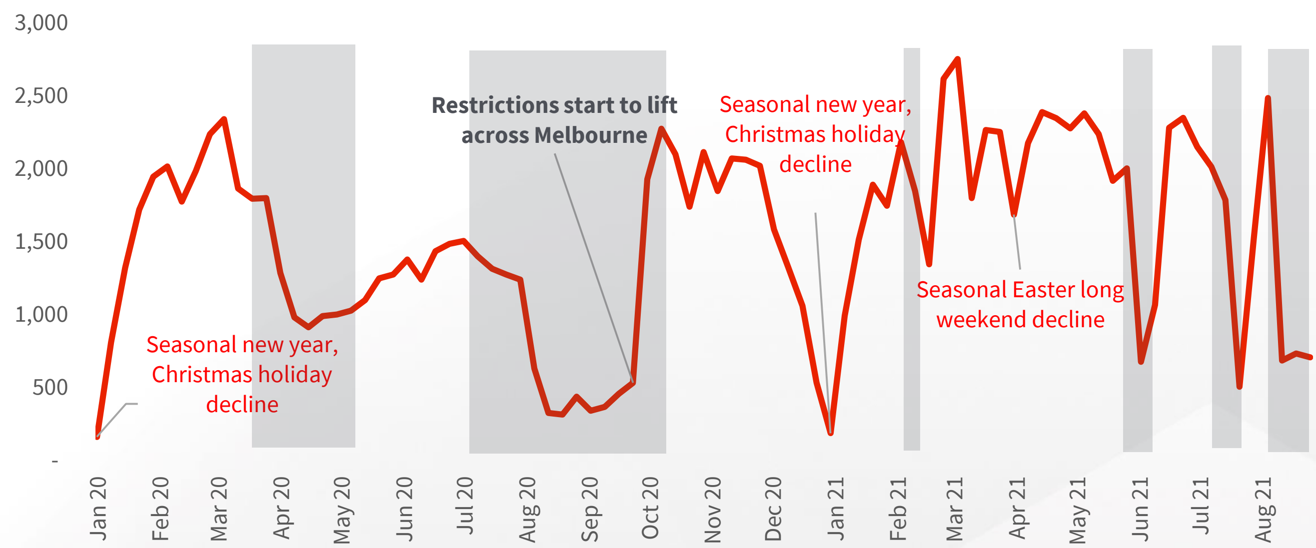
Figure 2B. Weekly new listings volumes, Melbourne



Source: CoreLogic

Auction results are diverging between Sydney and Melbourne

Sydney auction results have remained high through lockdown conditions. Since the week starting 28th of June, when a city-wide lockdown was in place, the auction clearance rate has averaged 75.9% through to late August. The volume of properties clearing at auction have averaged 474 per week, which is actually the highest average of weekly auction sales for the period since 2015.

Melbourne auctions have played out differently since the start of the 6th lockdown across the city. The final auction clearance rate has averaged 59.4% so far through the current lockdown.

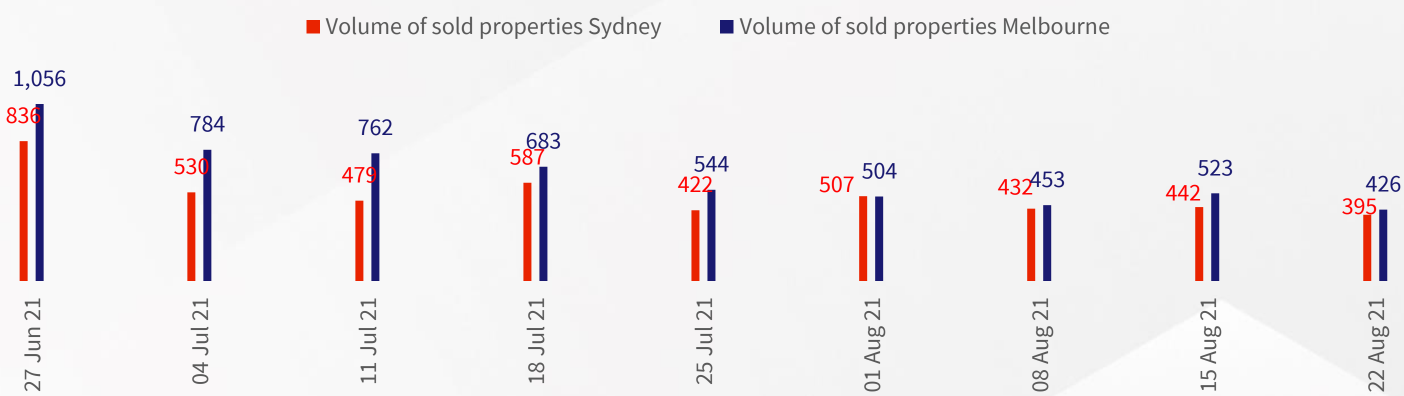
Importantly, the low clearance rate across Melbourne is largely due the portion of properties being withdrawn from auction altogether, amid a relatively high volume of auctions scheduled before lockdowns.

From the 5th to the 22nd of August, it is estimated around a third of properties scheduled to go to auction have been 'withdrawn', which means the auction has essentially been cancelled (rather than postponed). Withdrawn properties are counted as a non-sale, and as such weigh down the clearance rate.

It is important not to dismiss the portion of auctions withdrawn as merely 'distorting' the clearance rate, because it does reflect a loss in demand and vendor confidence. Part of the reason rates of withdrawn auctions may be higher across Melbourne is because private physical property inspections had been prohibited, which was not the case across Sydney.

However, when looking at just the number of properties sold at auction each week, there have actually been a higher number of successful auction results across Melbourne than in Sydney for eight of the past nine weeks. The clearance rate across Melbourne is likely to 'normalise' as a smaller number of properties are scheduled for sale in the coming weeks.

Figure 3. Weekly count of properties sold at auction



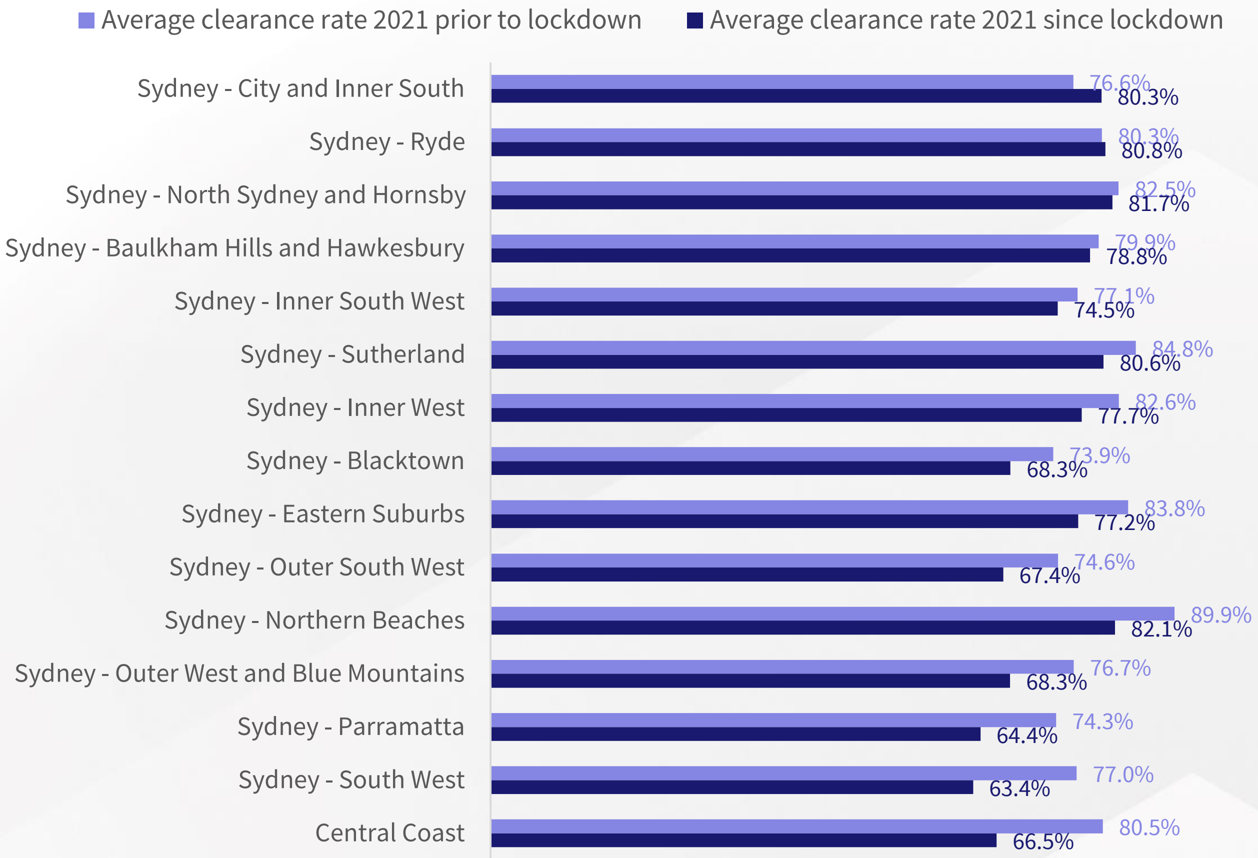
Source: CoreLogic

Auction results are diverging *within* Sydney

While the Sydney clearance rate has shown resilience through strict lockdowns, there are differences in housing market performance across *regions* of Sydney.

Average clearance rates over 2021, before and after the introduction of lockdowns in June, show varied impacts on clearance rates across different SA4 regions (Figure 4).

Figure 4. Average clearance rates before and after 2021 lockdowns, Sydney SA4s



Source: CoreLogic

Clearance rates since the June lockdown have declined most significantly across the Central Coast, as well as regions encompassing 'LGAs of concern', such as the South West, Parramatta and the Outer West and Blue Mountains (where Penrith is partially in stricter lockdown).

Not every market will be impacted in the same way

COVID-19 restrictions may not have impacted confidence in housing market decisions in a uniform way through 2021, particularly when considering the diversity of the population across large cities like Sydney and Melbourne.

For example, about a third of the employed Australian workforce was working from home in the second half of 2020. Across particular industries, an average of five or more days of work was being conducted from home[1]. These industries were:

- Financial and Insurance Services;
- Information Media and Telecommunications;
- Professional, Scientific and Technical Services; and,
- Rental, hiring and real estate services.

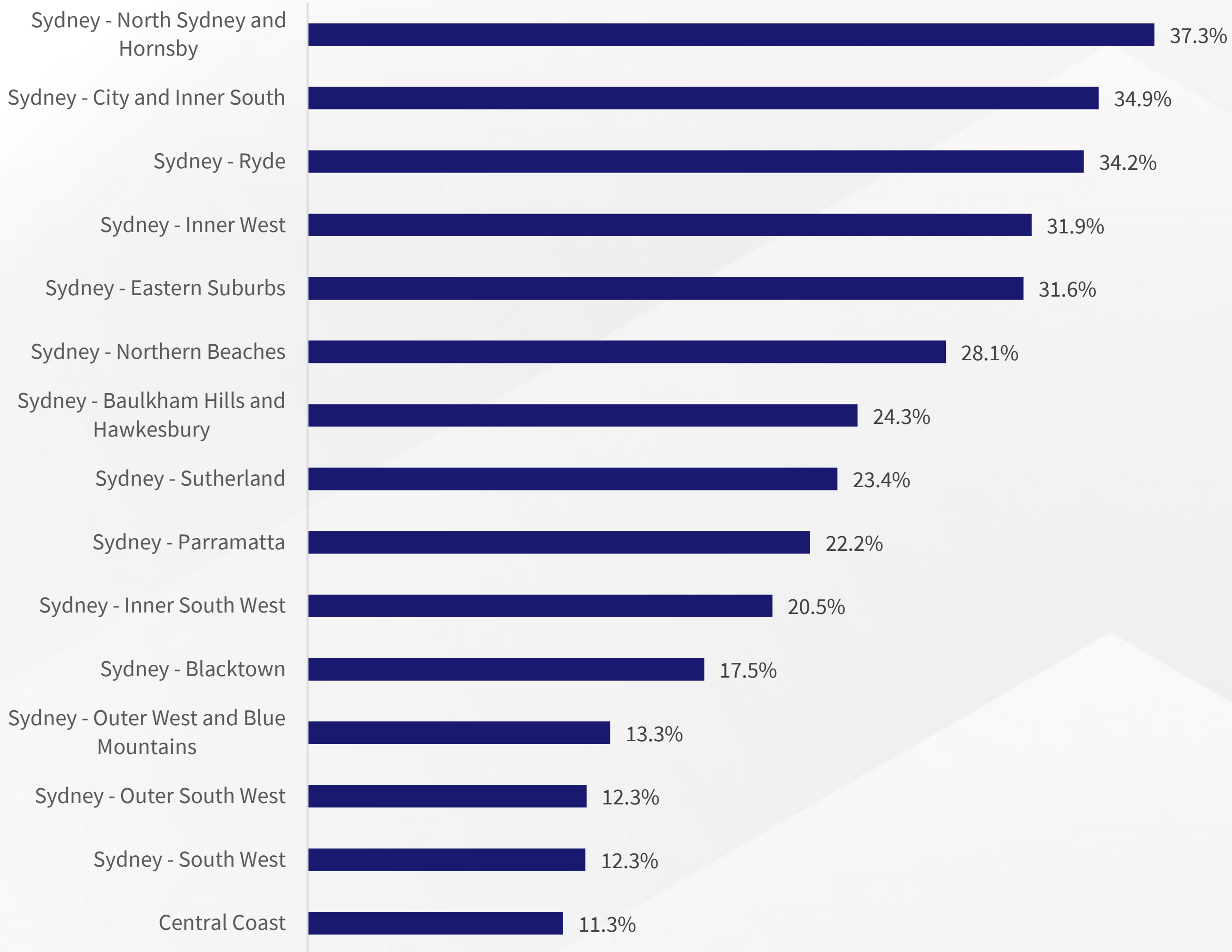
[1] Beck, M. J., & Hensher, D. A. (2021). Australia 6 months After COVID-19 Restrictions Part 2: The Impact of Working from Home. *Transport Policy*.

However, industries such as food and accommodation have not only seen workers largely unable to conduct work from home, but are far more likely to have lost work through each lockdown period.

Figure 5 ranks SA4 regions of Sydney by the proportion of employed people working in sectors where workers are far more likely to conduct their work from home, based on data over the year to May 2021 (derived from ABS detailed labour force data).

The data shows that almost 40% of employed people across the North Sydney and Hornsby region could be more likely to conduct their work from home, with COVID restrictions posing less disruption to their income.

Figure 5. Portion of employed people with a higher propensity to work from home based on industry of employment - as at May 2021, Sydney SA4s



Source: ABS

It is worth noting that while workers in some sectors may not be able to work from home, their employment and income may not be disrupted. An example would be across health care and social assistance, where the volume of work is likely to have *increased* since the onset of COVID-19.

However, this data does highlight that there are geographical differences in the extent to which remote work can be conducted through lockdowns, which could see varied performance in different housing markets of Sydney.

