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Property Market Outlook

Feb 2023

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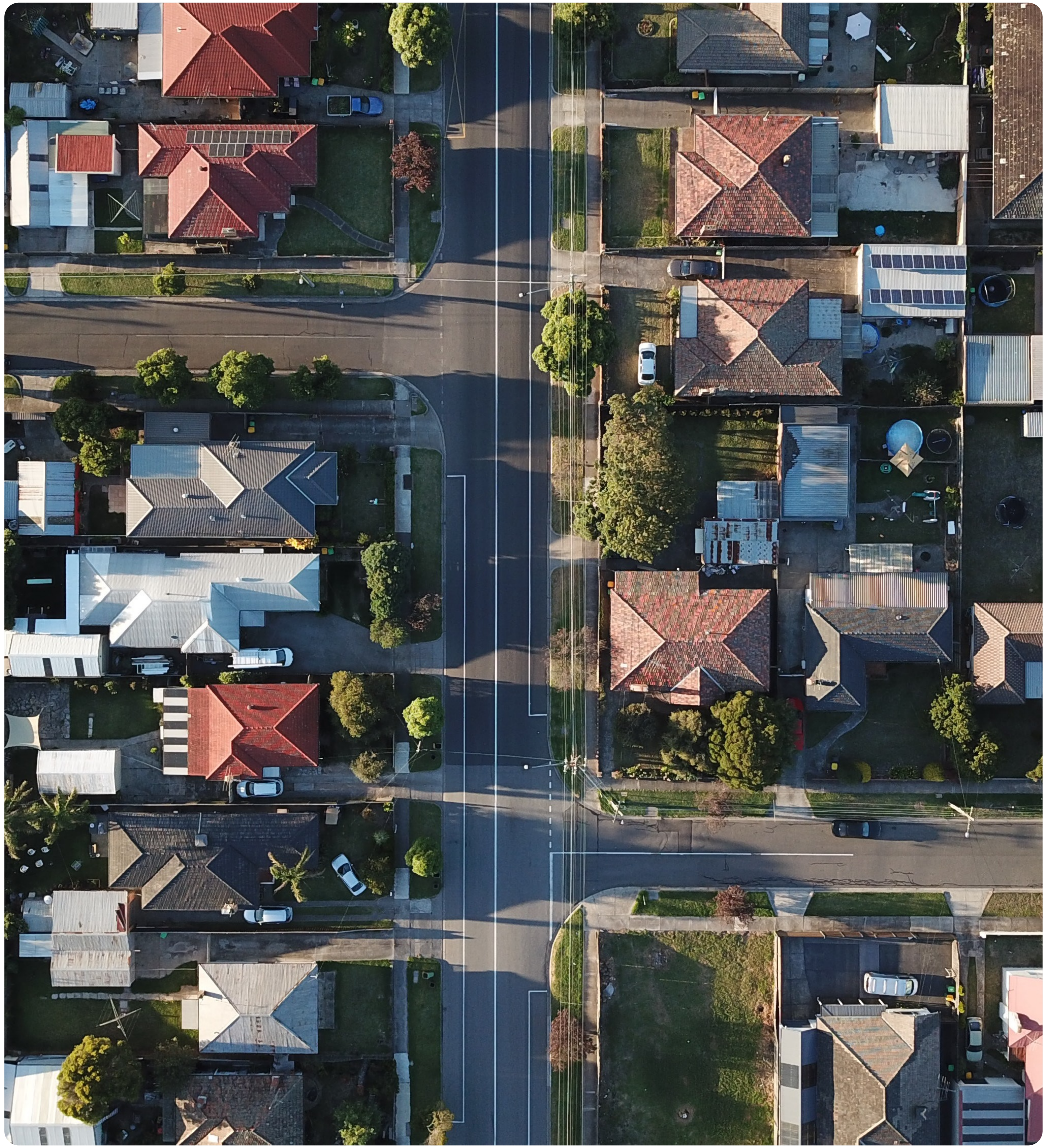
Housing in Australia: A recap & outlook

National property prices declined over the second half of 2022, along with sales volumes. Despite a low volume of new listings, the total volume of properties available for sale has trended higher as properties are taking longer to sell. The ongoing shift in housing market conditions from the strength early-on in the pandemic is being driven by the rapid and aggressive lift in interest rates to combat surging inflation. At the beginning of May 2022, official interest rates were sitting at 0.1%. By the end of 2022, the cash rate had increased to 3.1%. As a result of the fastest and most significant interest rate tightening cycle in many decades, the cash rate is the highest it has been since November 2012. While we don't expect interest rates to rise as fast and high as they did in 2022, we are expecting some additional increases in early 2023.

Importantly, the slowing of housing market conditions pre-dates the first interest rate increase in May 2022. The increase in interest rates and subsequent reduction in borrowing capacities exacerbated the slowing and led to declines in prices and sales.



From their peak in March 2022, national property prices had declined 4.3% by December 2022, with houses recording a larger decline (-4.6%) than units (-2.6%).

As prices have fallen and the cost of borrowing has risen, the urgency to sell and purchase has reduced significantly. This is highlighted by fewer properties coming to market for sale and the ongoing fall in the number of property sales. This suggests that most homeowners aren't in a position where they have to sell, and that buyers aren't under pressure to purchase. It will be interesting to see how this evolves in 2023 once interest rates peak and as those on fixed rates due to expire face the reality of much larger mortgage repayments.

How long and how far will prices slide in 2023?

National property prices increased by 34.7% from the start of the pandemic in March 2020 to their recent peak in March 2022, one of the fastest periods of price growth on-record. Since the peak in March 2022, national property prices had fallen 4.3% by December 2022.

Prices had fallen from their peak across each capital city by the end of the year, with declines ranging from as much as 7.2% in Sydney to as little as 0.2% in Adelaide, Perth and Darwin.

With borrowing costs continuing to rise and the subsequent reduction in borrowing capacities, property price falls are likely to continue and accelerate in 2023, with the more expensive cities likely to see the largest price falls. Nationally, we are forecasting prices to fall by a further 7% to 10% by the end of this year. This forecast is based on the assumption that the cash rate will increase 50 basis points from its December 2022 level (3.1%).

Should interest rates increase by less or more than this, it would impact our forecasts, as would other factors such as interest rate reductions (potentially late in 2023) or changes to macroprudential settings. The much sooner than expected rise in interest rates and the resulting reduction in borrowing capacities is a key driver of our forecasts.

We are expecting a further two 25 basis point increases in the cash rate. Thereafter, we expect rates to remain on hold, with the potential for them to be reduced in late 2023 or early 2024. We anticipate these further interest rates rises will push prices lower. However, a lower interest rate peak and earlier than expected interest rate cuts could ease price falls.

Demand for regional properties is also likely to slow and, given prices have seen stronger growth in these areas than within the capital cities, we expect to see price falls in these markets too.

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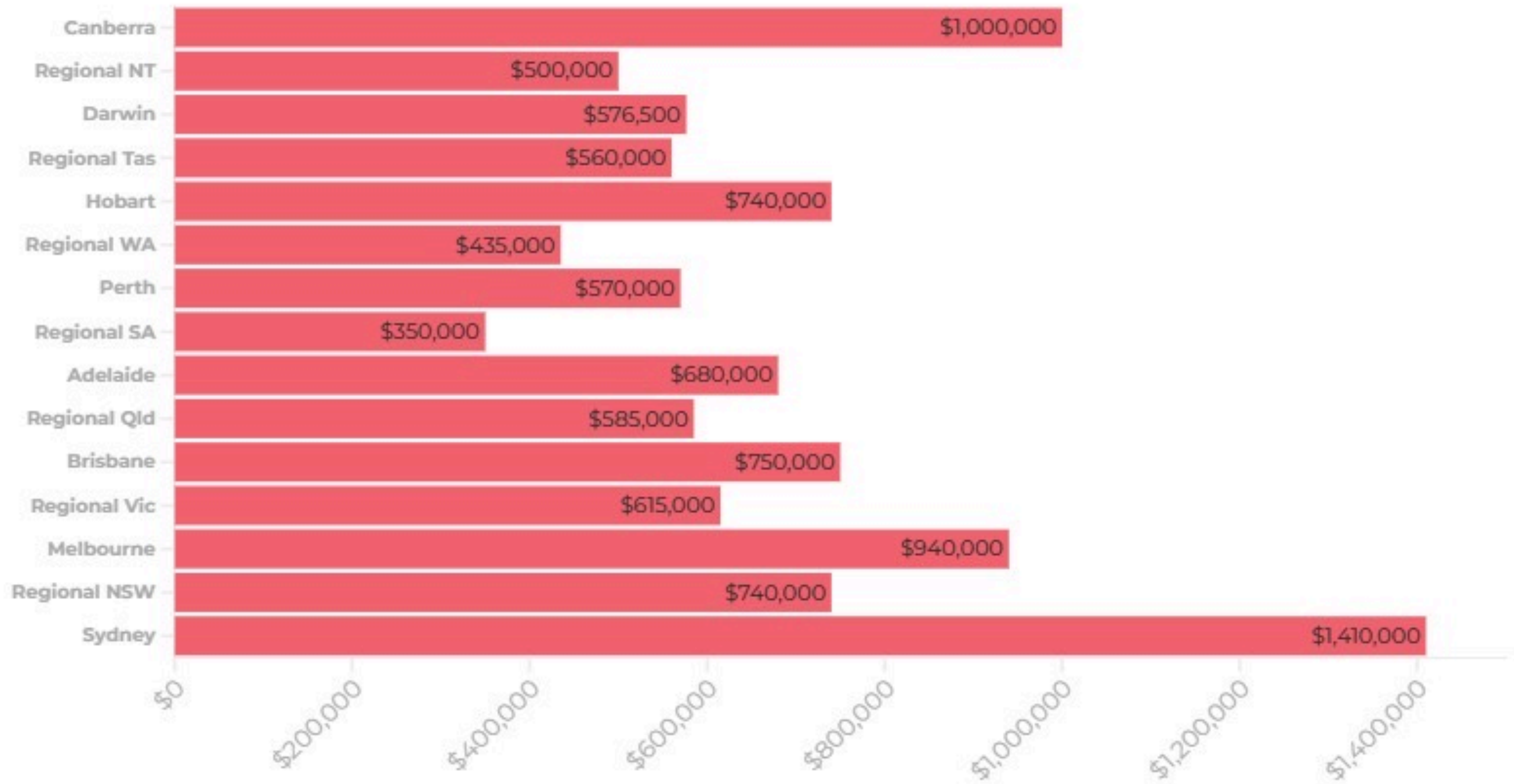
Dwelling price forecasts
2023 calendar year

Region	Change in prices 2022	Previous forecast for Dec-23	Current forecast for Dec-23
Sydney	-7.0%	-9% to -12%	-8% to -11%
Melbourne	-5.2%	-9% to -12%	-7% to -10%
Brisbane	2.2%	-6% to -9%	-8% to -11%
Adelaide	9.6%	-3% to -6%	-3% to -6%
Perth	3.9%	-2% to +1%	-5% to -8%
Hobart	0.0%	-7% to -10%	-7% to -10%
Darwin	1.4%	-4% to -7%	-3% to -6%
Canberra	-2.6%	-7% to -10%	-8% to -11%
Combined capital cities	-4.0%	-7% to -10%	-7% to -10%
National	-2.3%	-7% to -10%	-7% to -10%

Property prices

The national median house price over the three months to December 2022 was $765,000, while the median unit price was $575,000. Across the combined capital cities, median house prices were $870,000, while for units they were $595,000. By comparison, regional house prices were $615,000 and regional unit prices were $505,000.

Median house prices
December 2022



Median unit prices
December 2022

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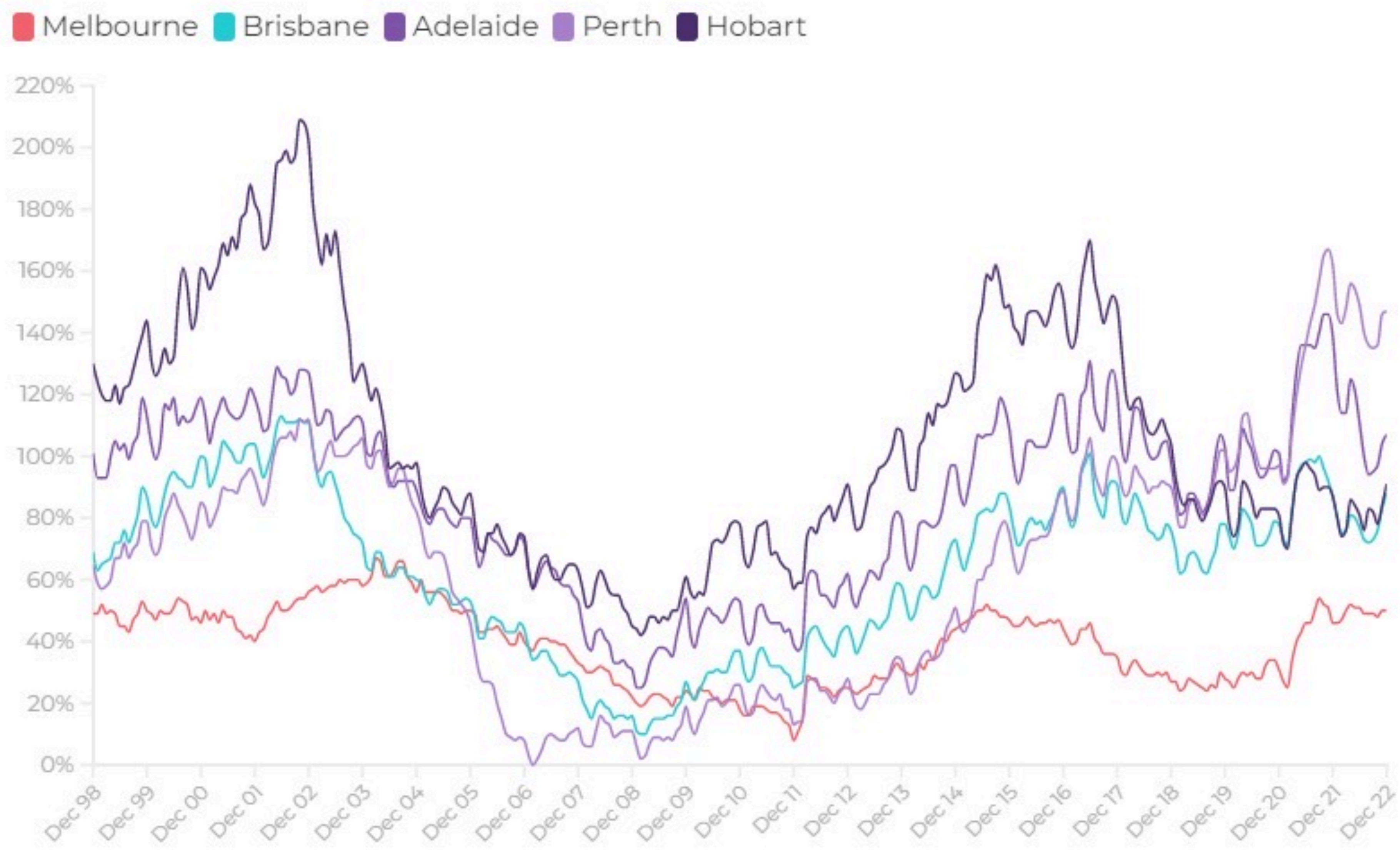
Median house price premium in Sydney relative to other capital cities



Sydney price premium

Sydney property prices are the most expensive in the country and the gap in pricing relative to other capital cities has widened over recent years. Although the gap has narrowed a little over the past year, it remains historically high.

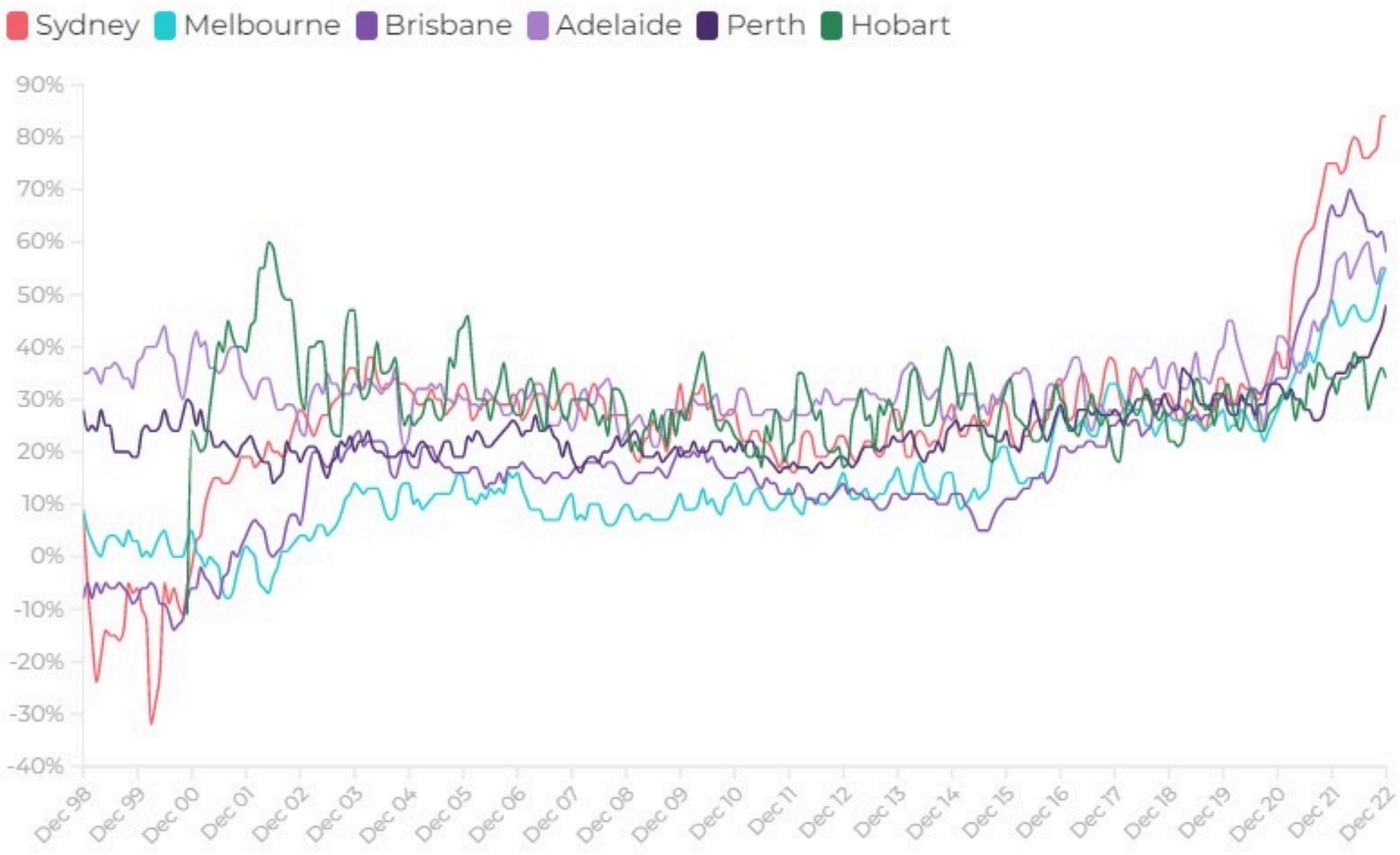
Focusing on median house prices, Sydney has a 50% premium compared to Melbourne. Sydney has the strongest premium compared to Perth (147%), followed by Darwin (145%), Adelaide (107%), Hobart (91%), Brisbane (88%) and Canberra (41%). It is a similar story when looking at unit premiums, although they typically aren't quite as large as they are for houses.

The Sydney price premium is well above the long-term average in all capital cities except for Hobart where it is much lower than the average.

For units, the Sydney premium is well above the long-term average in Brisbane, Perth and Darwin. It is slightly lower than average in Melbourne and Canberra and much lower than average in Adelaide and Hobart.

Sydney houses maintain a significant median price premium relative to house prices elsewhere in the country, however we expect that there will be a reversion towards the average this year. This is likely to happen due to larger price falls in Sydney relative to the other capital cities.

Median house price premium relative to median unit price



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House price premium relative to units

The last few years of exceptional price growth has resulted in house price rises significantly outpacing increases in unit prices, particularly in the capital cities. The median house price premium relative to the unit price is currently the widest on record in Sydney (84%), Melbourne (55%) and Perth (48%). It is close to historic highs in Brisbane (58%), Adelaide (55%) and Canberra (72%), while still being greater than the long-term average in Hobart (34%) and Darwin (48%).

Interest rate rises and the subsequent reduction in borrowing capacities for new buyers, coupled with ongoing increases in rental rates, will likely see unit demand and prices hold-up better than those of houses over the coming years.

Inner-city living also became less attractive to many while COVID-19 lockdowns and other restrictions were in place. With life now largely back to normal, this trend is already reversing and expected to continue to do so, driving more demand for higher density housing types. The strength of the rental market may also drive interest from investors in CBD inner- and middle-ring units.

Price changes over the 2022 financial year

Throughout the 2022 calendar year, national property prices fell by 2.3% compared to an increase of 23% in 2021, indicating a very rapid slowdown in prices throughout the year. The 2.3% annual fall in prices was the largest decline since July 2019.

In 2022, capital city property prices fell 4% after recording price growth of 20.8% in 2021. Regional prices declined by a lower 2.1%. Capital city prices are now 5.2% lower than their peak and regional prices are 2.4% lower.

National house prices recorded a larger fall (-2.4%) compared to unit prices (-1.7%) over the period, with house prices now 4.6% below their peak and unit prices down 2.4%.

Looking at individual capital city markets, Sydney (-7%), Melbourne (-5.2%) and Canberra (-2.6%) recorded price falls over the past year, with no change in Hobart.

Annual change in dwelling prices
(capital cities vs regional areas)

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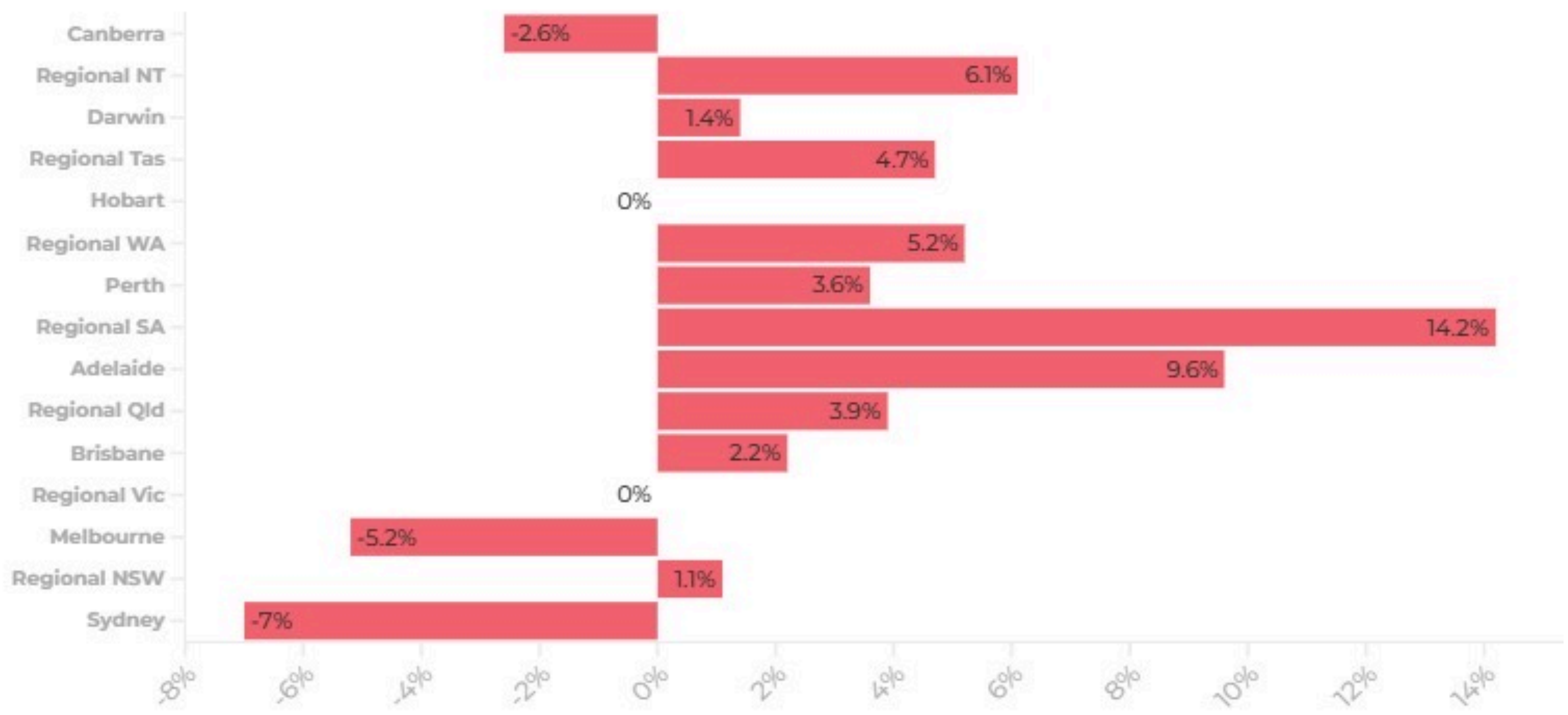
Annual change in dwelling prices
December 2022



Prices were still higher over the past year in Brisbane (2.2%), Adelaide (9.6%), Perth (3.6%) and Darwin (1.4%). However, each city experienced a rapid slowing of price growth throughout 2022.

Prices were higher over the year in most regional areas, with regional Victoria (0%) the exception. Regional NSW (1.1%) and regional Queensland (2.2%) recorded slower annual growth than regional SA (14.2%), regional WA (5.2%), regional Tasmania (4.7%) and regional NT (6.1%). Like capital city markets, the slowing of price growth regionally has been rapid over the past year, falling from a 29.1% increase in 2021 to a 2.1% increase in 2022.

Property price growth was already slowing late in 2021 but the ongoing lift in borrowing costs each month from May 2022 exacerbated the slowing, a trend we expect will continue in 2023.

While it may seem that lower prices are positive for housing affordability, higher mortgage rates have seen borrowing capacities reduce by around a quarter compared to more moderate falls in price.

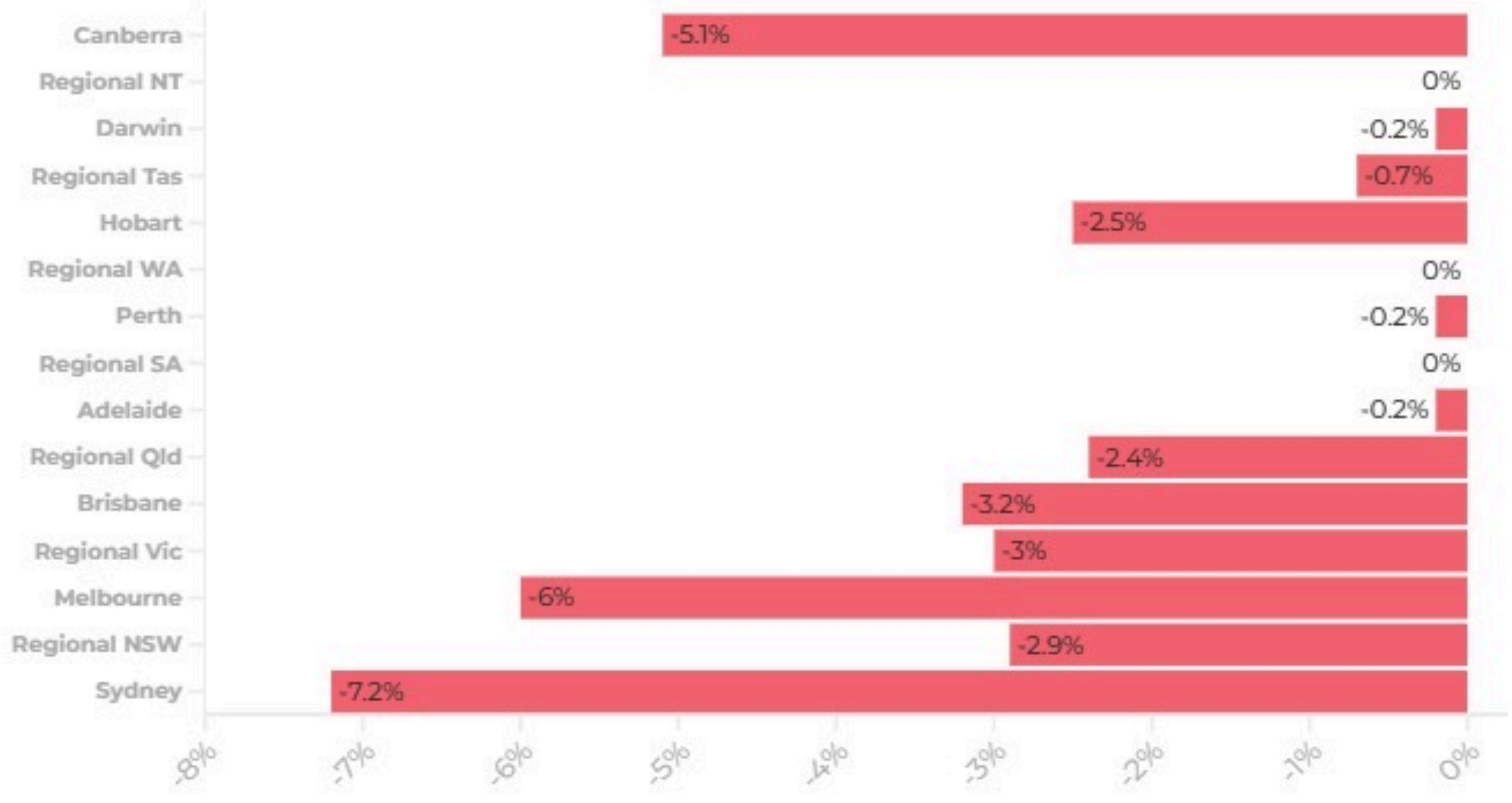
Furthermore, renting remains significantly cheaper than repaying a mortgage in most areas of the country, despite the rapid increases in rental costs.

The expectation that prices will continue to decline means that household equity and wealth will continue to reduce.

Those on variable mortgage rates and those ending fixed terms will incur higher mortgage interest costs and will need to dedicate a greater share of their income to housing, and less towards discretionary spending. Even though this hasn't happened immediately, it will be an increasing consideration for many as rates continue to rise and fixed-rate mortgages expire.

Offsetting this to some degree is the strong household savings many accumulated throughout the pandemic, although they have reduced rapidly as the cost of living has surged. On average, homeowners are two years ahead on their mortgage and have significant equity in their properties due to the recent price growth. Low unemployment and wages growth will also counterbalance price falls.

Total change in dwelling prices relative to their peak December 2022



Empty regions are 0% indicating they are at their peak

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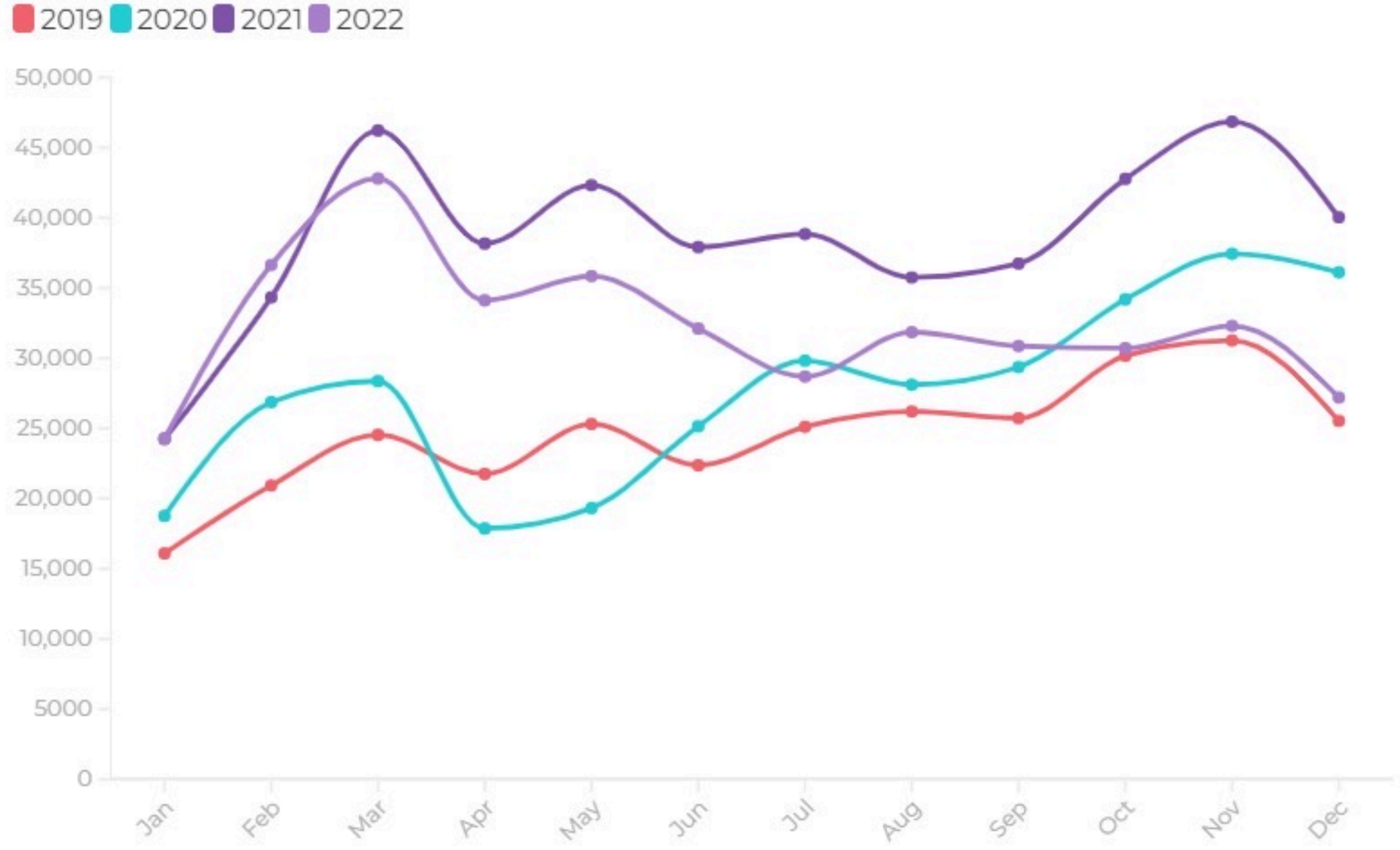
Monthly count of preliminary sales of properties listed on realestate.com.au (national)



Sales volumes

Preliminary sales volumes looks at the number of sales reported by real estate agents on realestate.com.au each month. It provides a real time glimpse of sales trends and excludes data from the Valuer-General which can take a varying length of time to become available.

In December 2022, the number of preliminary sales nationally was 32.1% lower year-on-year. Sales volumes were 24.7% lower compared to December 2020 but 6.5% higher than December 2019. Throughout 2022, preliminary sales volumes were 16.5% lower compared to 2021 but were 31.3% and 16.9% higher respectively compared to 2019 and 2020.

Sales volumes started the year stronger than they were over previous years but since March 2022, there has been an ongoing slowdown.

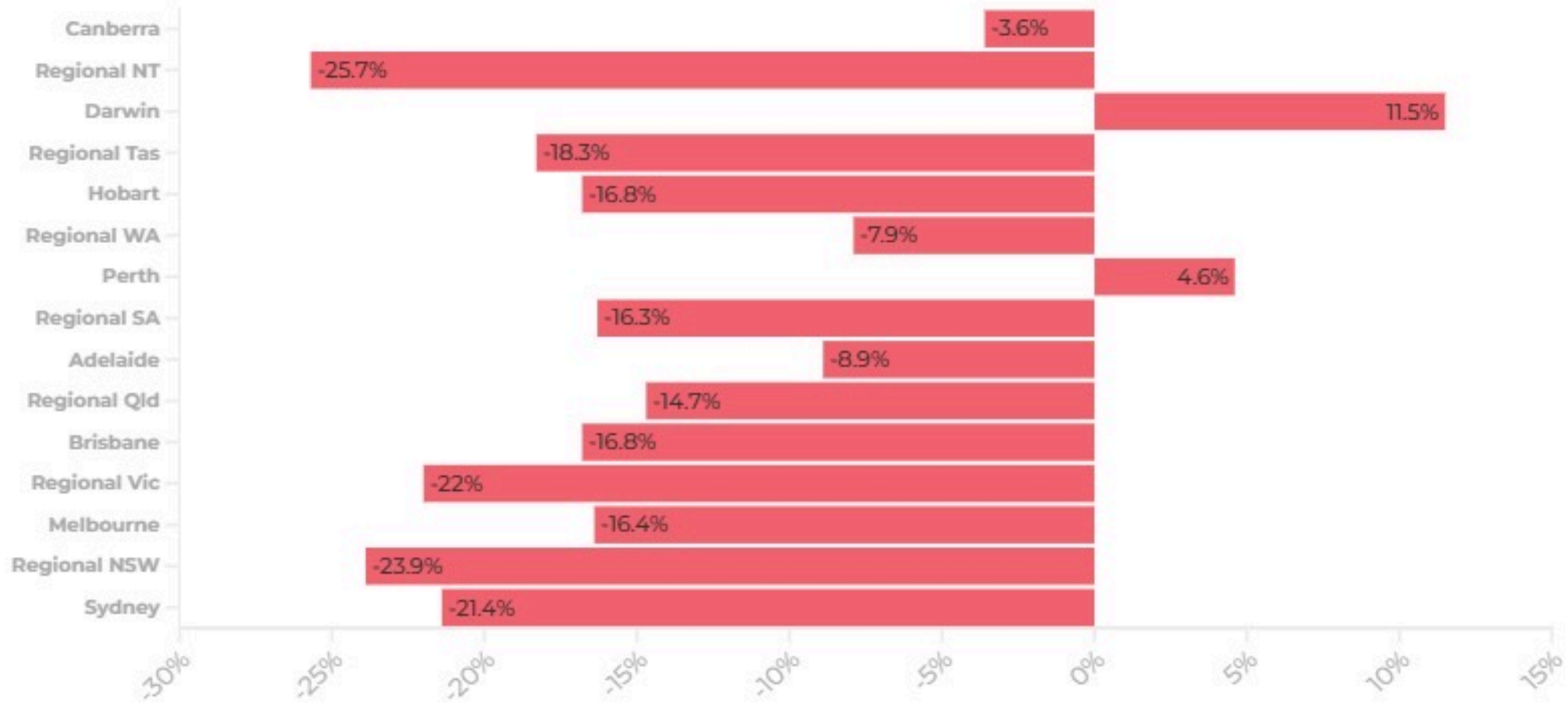
Across every capital city and regional area, except for Darwin, preliminary sales volumes were lower than the previous year in December 2022.

Looking over 2022, Darwin (+11.5%) and Perth (+4.6%) were the only regions with more sales than in 2021, while Canberra (-3.6%) saw only a marginal decline. The biggest declines in sales over the year were in regional NT (-25.7%), regional NSW (-23.9%) and regional Victoria (-22%).

Regional areas and the more populous capital cities have tended to see the largest declines in sales over the past year. For regional areas, it is reflective of the reduced impetus to leave the capital cities. In the larger capital cities, it reflects homeowners' reduced confidence to sell as interest rates have continued to climb and prices have fallen.

It's unclear what will happen with sales in 2023. Volumes have fallen significantly and are sitting back at 2019 levels (the last year not affected by the pandemic) as interest rates have risen and property prices have fallen, along with new listings. With interest rates likely to stabilise over the coming months, we expect the slide in sales to stop as interest rate certainty brings about greater preparedness for vendors and purchasers to transact.

Year-on-year change in cumulative monthly preliminary sales, 2021 vs 2022



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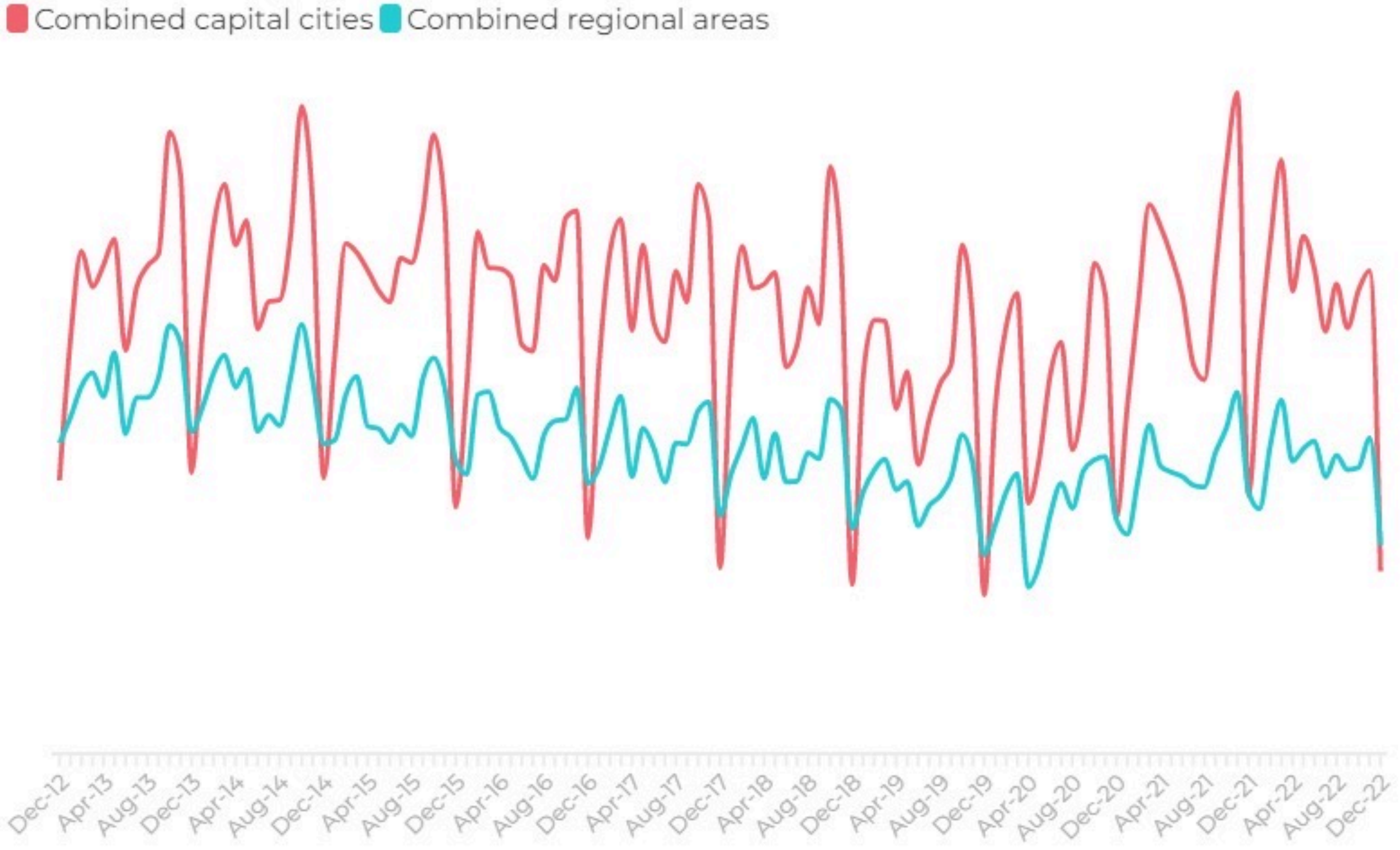
Monthly new listings
(capital cities vs regional areas)



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New listings

New listing volumes are highly seasonal and volatile on a month-to-month basis. New listing volumes were very strong throughout early 2022. However, as prices began to fall and fewer buyers were active in the market, the number of new listings has continued to reduce.

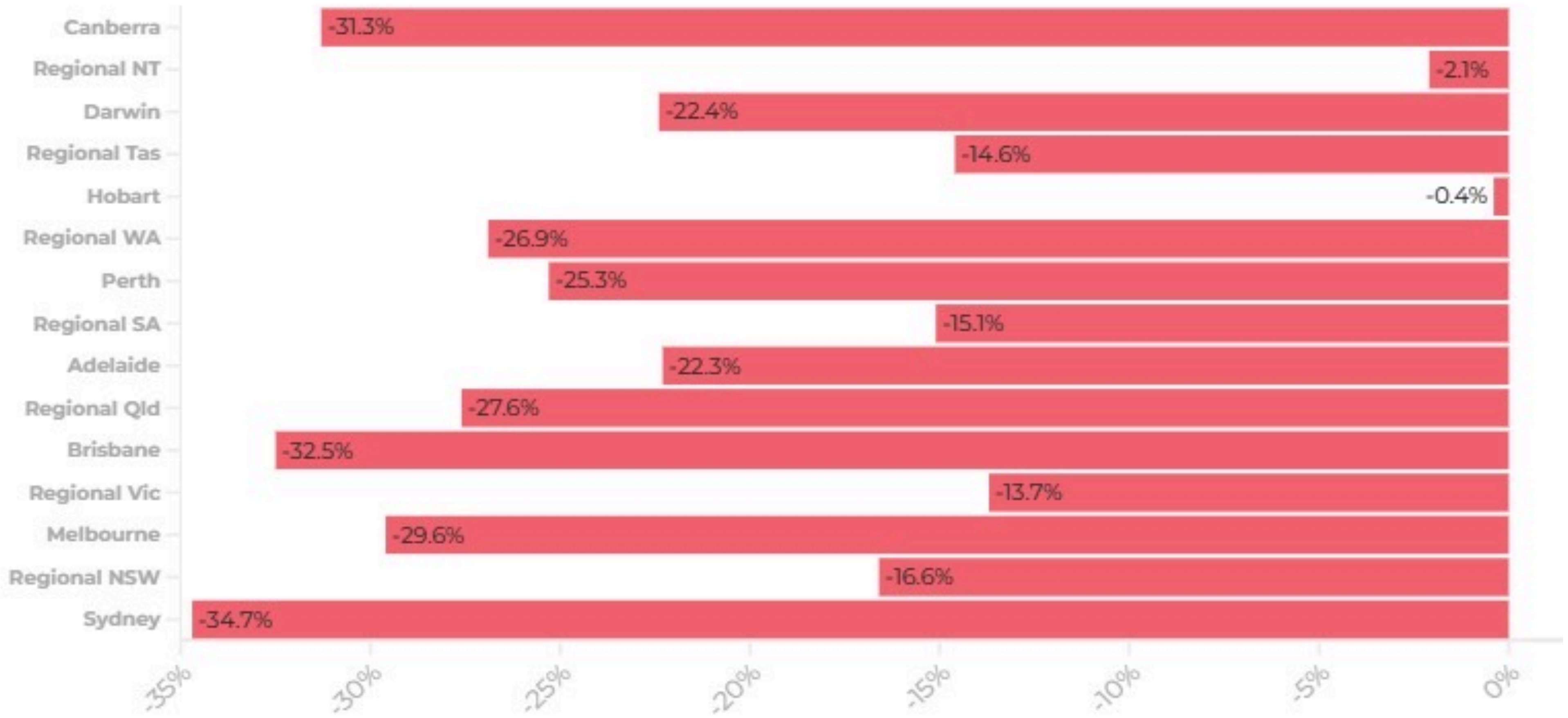
The number of new listings peaked in March 2022 and has trended lower since, with low new listing volumes throughout the final quarter of 2022. In December 2022, new listing volumes were 24.8% lower compared to December 2021. Going back to 2004, only 2019 saw fewer new listings than in December last year.

Across the combined capital cities, new listings in December 2022 were the lowest they've been since December 2019 and 29.3% lower year-on-year. In the combined regional markets, new listings were the lowest they've been since May 2020 and 20.4% lower year-on-year.

Throughout each capital city and regional market, new listings were lower in December 2022 than in December 2021, with the greatest falls recorded in Sydney (-34.7%), Brisbane (-32.5%) and Melbourne (-29.6%). The most moderate declines were recorded in Hobart (-0.4%), regional NT (-2.1%) and regional Victoria (-13.7%).

The low volume of stock coming to market reflects a lack of urgency to sell and suggests that few borrowers are in a position whereby they must exit the market at this stage. For would-be buyers, it means there are fewer new purchase options coming to market. Vendors will need to set compelling price points and be willing to adjust their price expectations to those of the market if they want to sell.

Year-on-year change in new listings
December 2022



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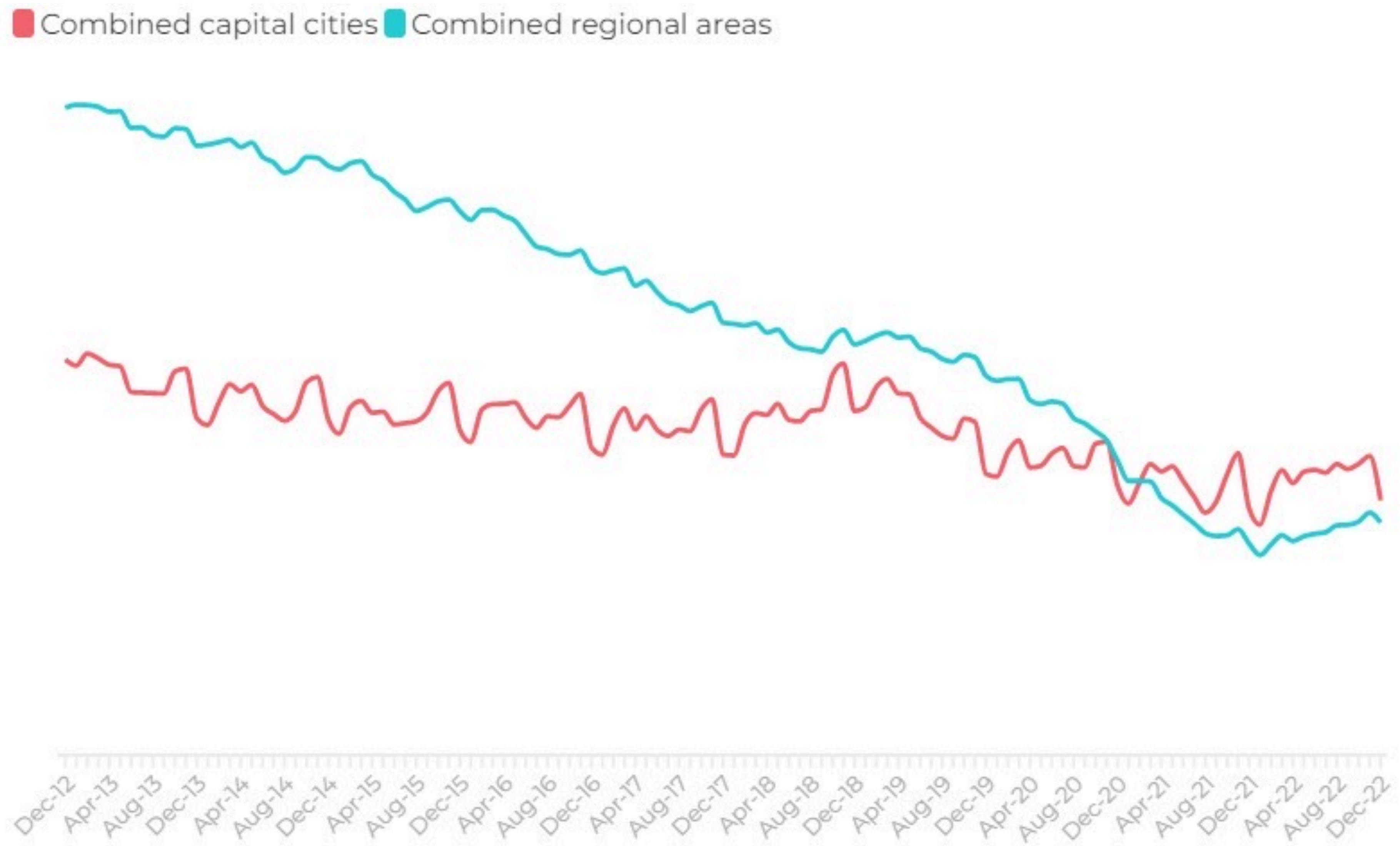
Monthly total listings
(capital cities vs regional areas)



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Total listings

Although new listing volumes are historically low, total listing volumes have increased throughout the year as transaction volumes and prices have fallen, reflecting relatively few active purchasers. For those looking to purchase, there is less competition and more choice, meaning they have strong negotiating power in this market.

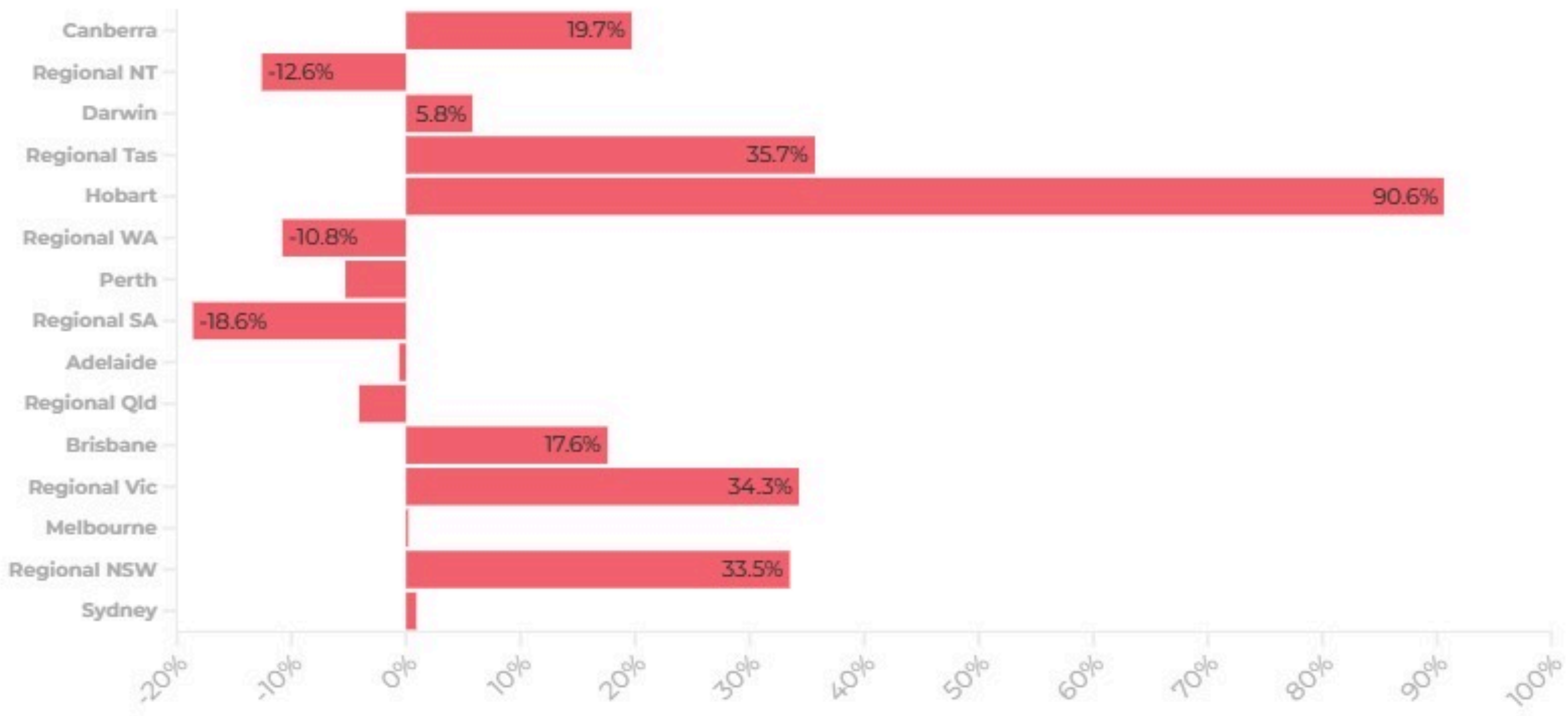
December 2022 experienced a typical seasonal decline in total listings. However, total listings were 6.3% higher than they were in December 2021. Total listing volumes have been consistently higher than they were in 2021 since July 2022. It should be noted that while they are higher year-on-year, they remain historically low.

The number of total properties listed for sale throughout the combined capital cities was 3.2% higher year-on-year in December 2022, while it was 9.9% higher across the combined regional markets.

Hobart (90.6%), regional Tasmania (35.7%) and regional Victoria (34.3%) recorded the greatest year-on-year increases in total listings across capital city and regional areas, while regional SA (-18.6%), regional NT (-12.6%) and regional WA (-10.8%) saw the largest falls.

While the number of properties listed for sale is higher than it was at the end of 2021, the volume of stock for sale remains historically low. Nevertheless, the volume of people purchasing properties is also low which means that vendors will need to set appropriate prices and be willing to adjust prices to market expectations if they want to transact in the current market.

Year-on-year change in total listings
December 2022



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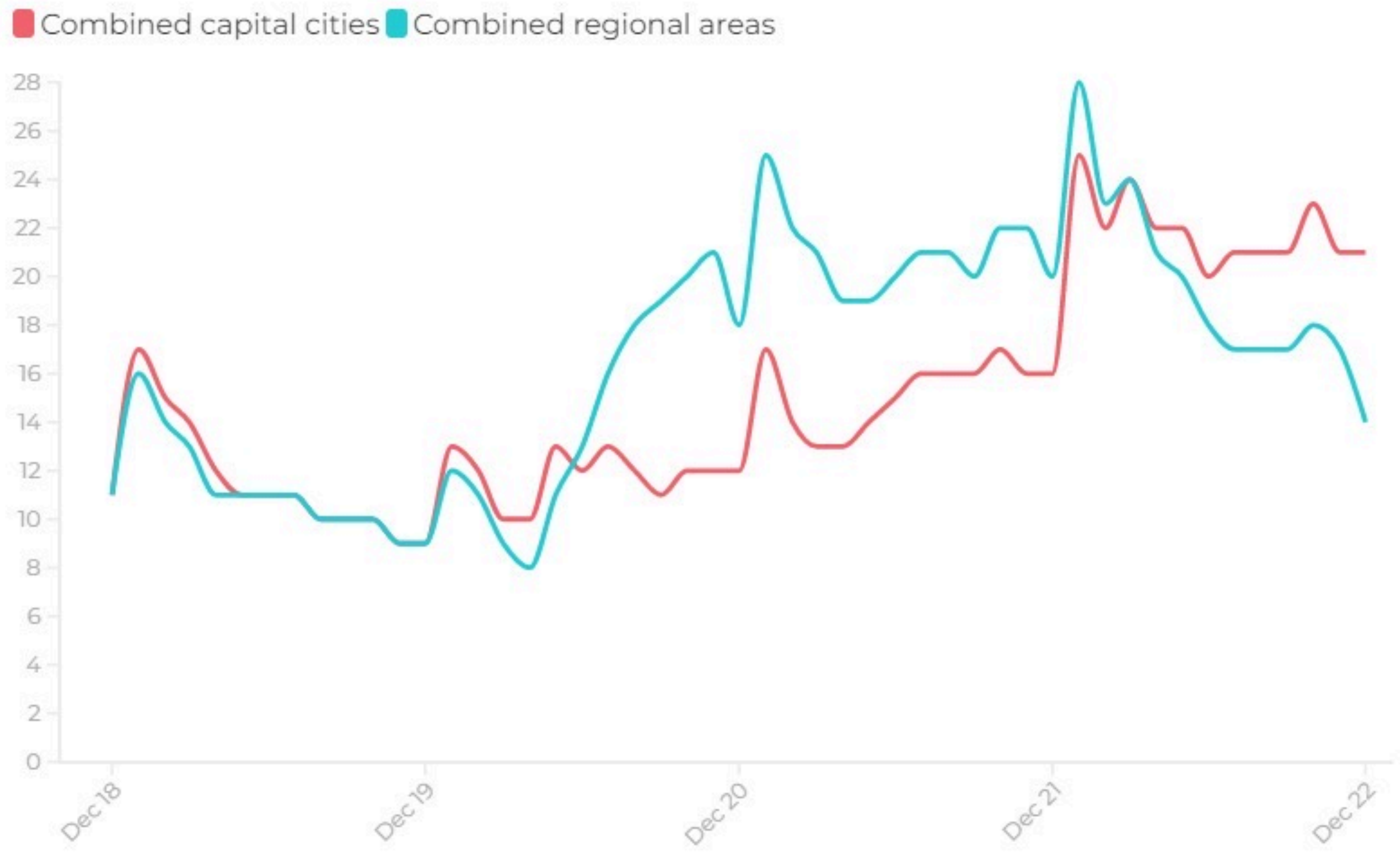
Average enquiry per listing
(capital cities vs regional areas)



Enquiry per listing

Enquiry per listing looks at the number of enquiries made on a property via email, phone call, SMS, as well as key actions including saving inspection times, to indicate the volume of people getting in contact with agents about properties.

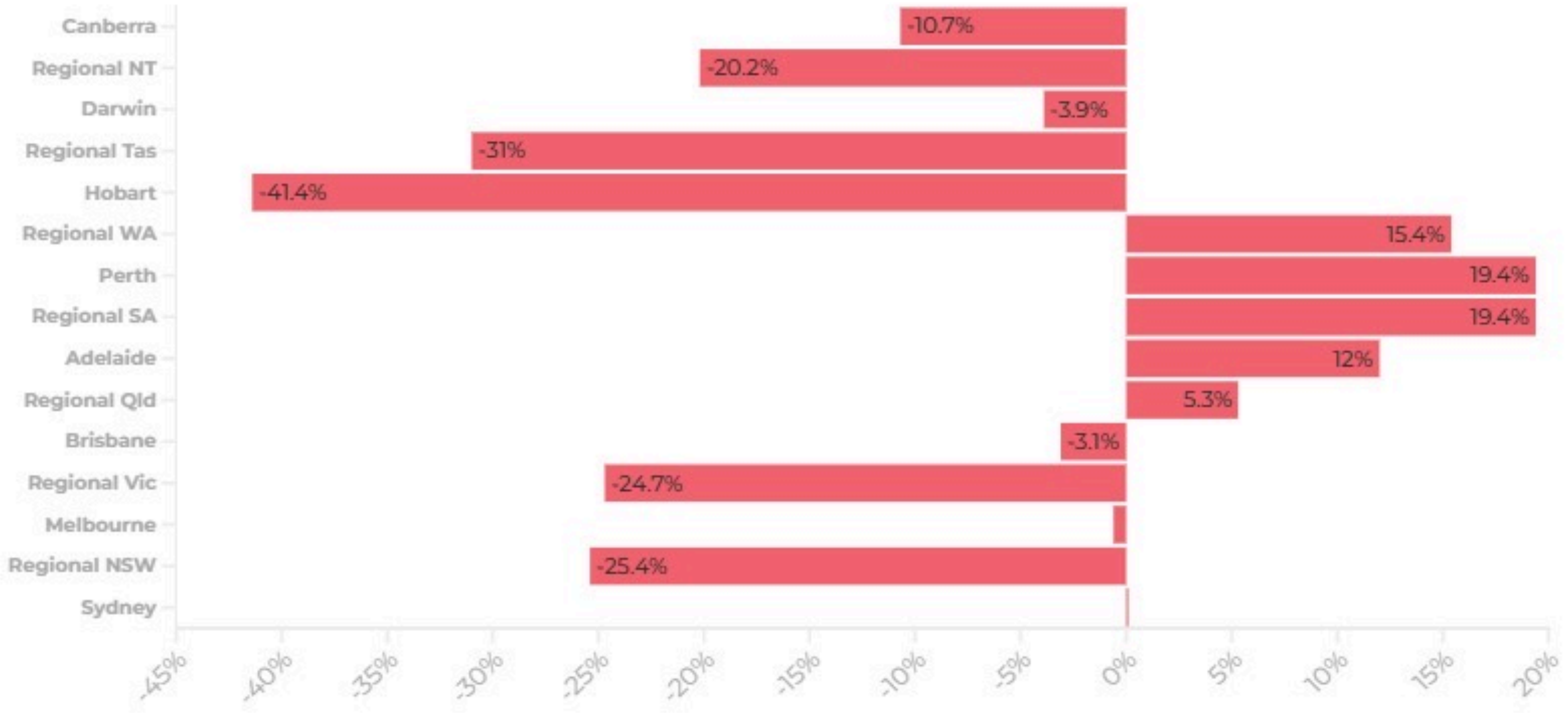
In December 2022 the average property listed for sale across the country was receiving seven enquiries, compared to an average of 11 enquiries a year earlier, which represents a 34.6% fall over the year.

The typical property listing in a capital city received nine enquiries in December 2022, 30.8% lower compared to a year earlier. In regional markets, enquiries halved over the year. There has been a large decline in the number of enquiries per listing from its peak throughout the pandemic and it is now marginally higher than it was at the start of the pandemic.

Most capital city and regional markets recorded a year-on-year decline in enquiries per listing, with only regional SA, Perth and regional WA unchanged over the year. The greatest declines in average enquiry per listing over the year were in regional NSW and regional Victoria (both -66.7%) and regional Tasmania (-62.5%). Enquiry per listing is currently lower than it was at the beginning of the pandemic in Sydney, Melbourne, Hobart and regional Tasmania but remains marginally higher or unchanged elsewhere.

With fewer buyers and falling sales volumes, it's little surprise that the number of enquiries per listing has fallen. As interest rates peak and there is more stability for buyers and sellers, we may see an increase in enquiries, especially if the volume of stock for sale remains quite low.

Year-on-year change in enquiry per listing
December 2022



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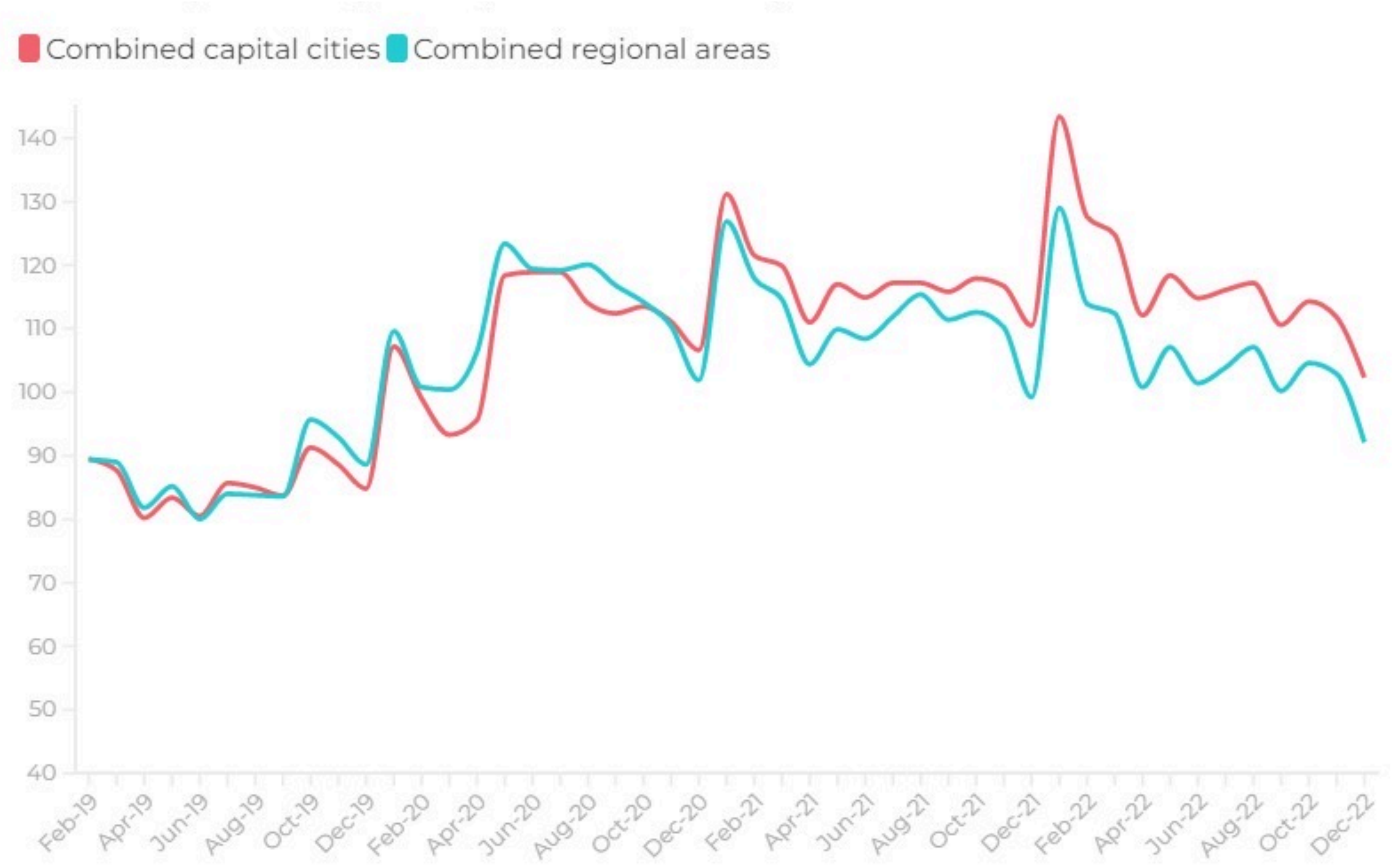
Monthly change in potential buyers
(capital cities vs regional areas)



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Potential buyers

Potential buyers measures the number of people looking at properties on realestate.com.au that are showing a high level of interest and considered motivated buyers. This is based on actions such as enquiring about a property and how they interact with a listing.

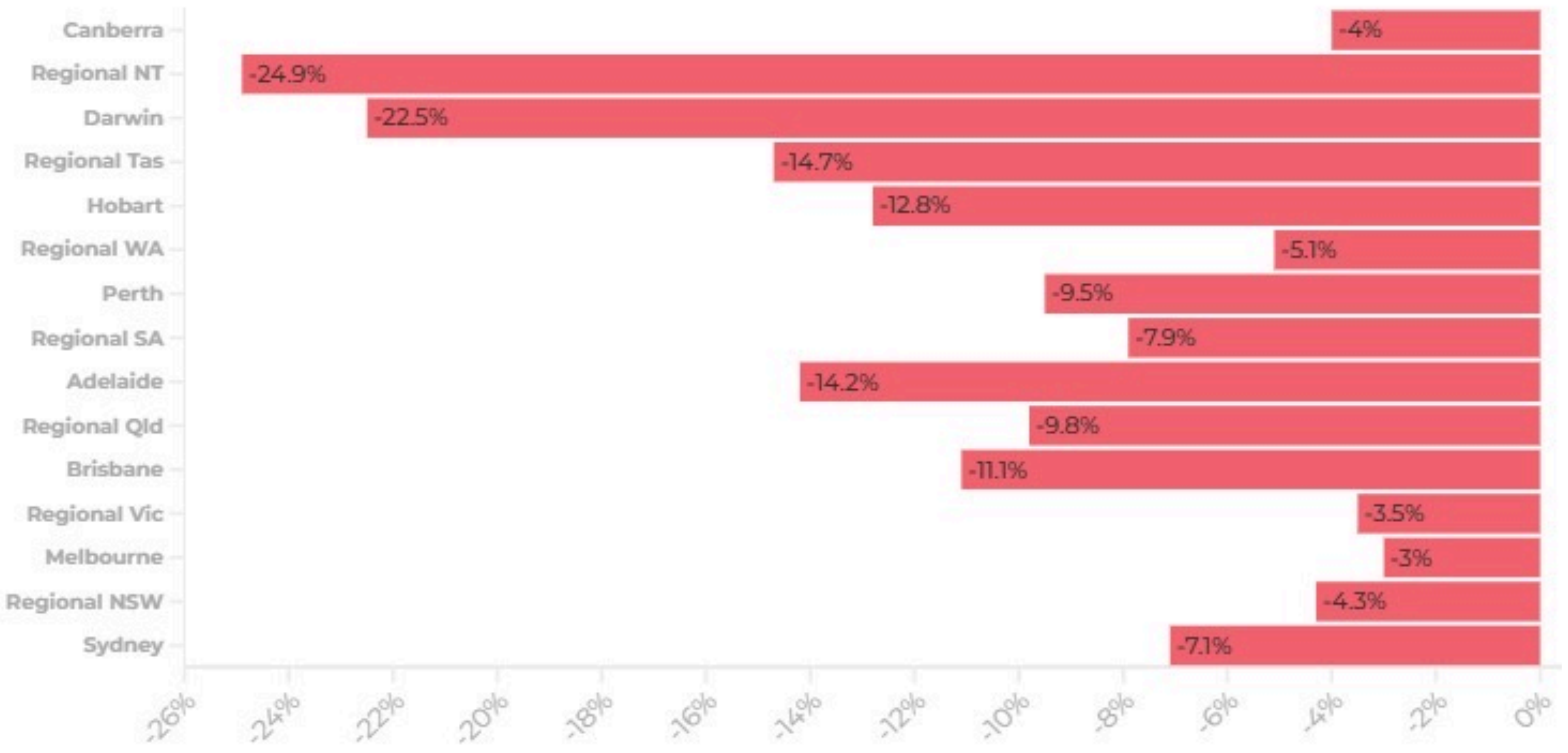
The number of potential buyers continued to fall in December 2022. This was partly seasonal but also reflective of the ongoing pull-back in sales activity. The number of potential buyers nationally in December 2022 was down 4.3% compared to a year earlier and 20.3% below its peak.

Across the combined capital cities, potential buyer numbers were down 4.6% over the year and 22.2% below their peak. In the combined regional markets, they fell 4.7% year-on-year and were 21.1% below their peak. While potential buyer numbers have fallen from their peak, they remain higher than pre-pandemic volumes.

Regional NT (-17.5%), regional SA (-9.4%) and Melbourne (-8.9%) recorded the greatest year-on-year falls in potential buyers, while Hobart (+6.5%), Perth (+1.9%), Canberra (+1.5%) and Darwin (+0.2%) were the only regions with increases over the year.

Potential buyers will likely stabilise somewhat once the uncertainty around interest rate changes eases as each month passes. However, demand is likely to be much lower than it was throughout the pandemic due to the higher cost of servicing a mortgage reducing buyer numbers.

Year-on-year change in potential buyers December 2022



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Monthly potential buyers per listing
(capital cities vs regional areas)

Potential buyers per listing

This data looks at our potential buyers metric but adjusts it on a per listing basis to provide an indication of how many potential buyers there are per property listed for sale on realestate.com.au. This only includes listings that potential buyers have engaged with. If no one deemed a potential buyer has shown interest in a listing, it is not included.

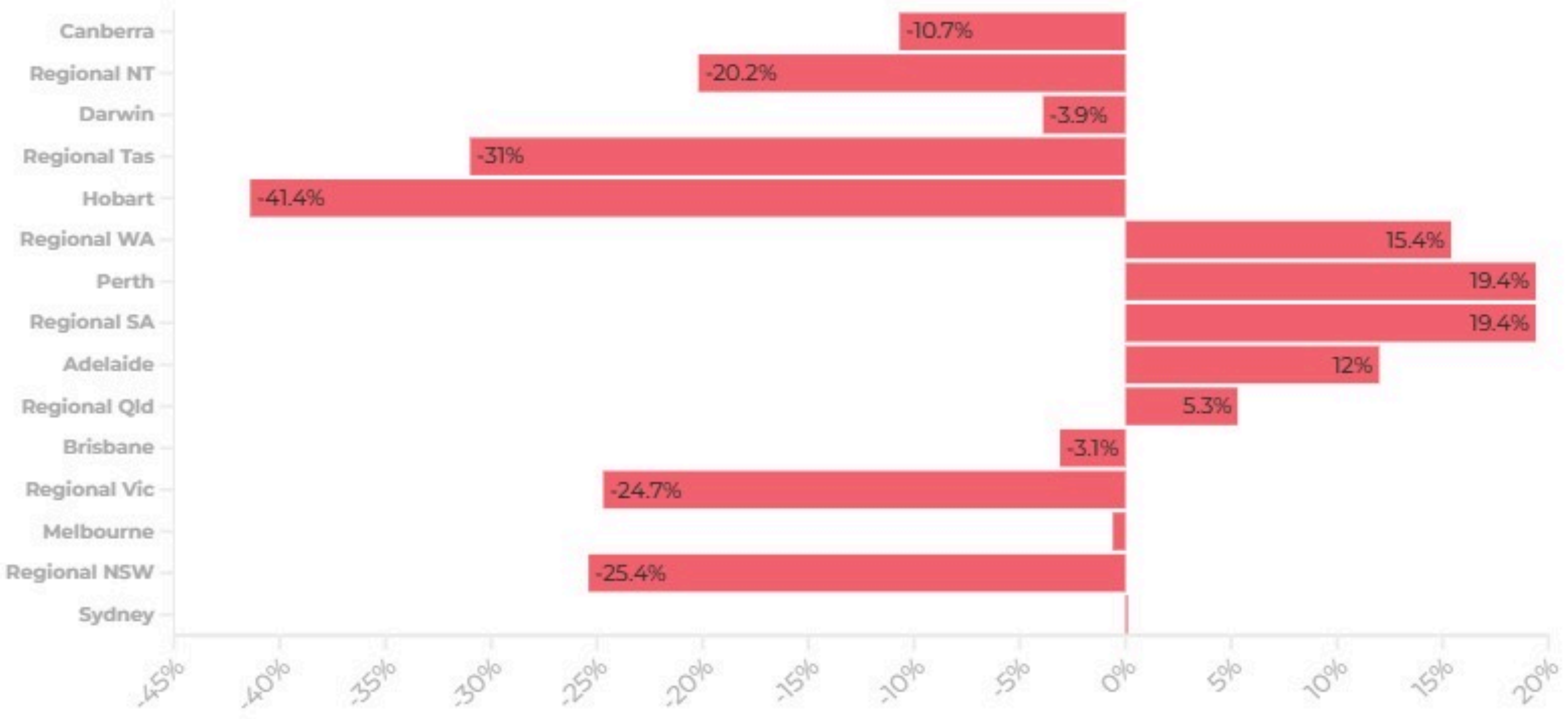
Across the nation, the number of potential buyers per listing fell 2.5% year-on-year in December and was 20.8% below its peak.

We are seeing divergent trends across capital cities and regional markets, with capital city potential buyers per listing 1.8% higher year-on-year, despite being 1.9% lower than their peak. In regional areas, potential buyers per listing were 9.2% lower year-on-year and 22.3% below their peak.

The greatest year-on-year increases in potential buyers per listing were recorded in regional SA and Perth (both +19.4%) and regional WA (+15.4%). Hobart (-41.4%), regional Tasmania (-31%) and regional NSW (-25.4%) recorded the largest falls.

Although potential buyers per listing remains elevated, we can see that shifting. With sales volumes lower and properties taking longer to sell, we expect that the volume of total listings will lead to further falls in potential buyers per listing.

Year-on-year change in potential buyers per listing
December 2022



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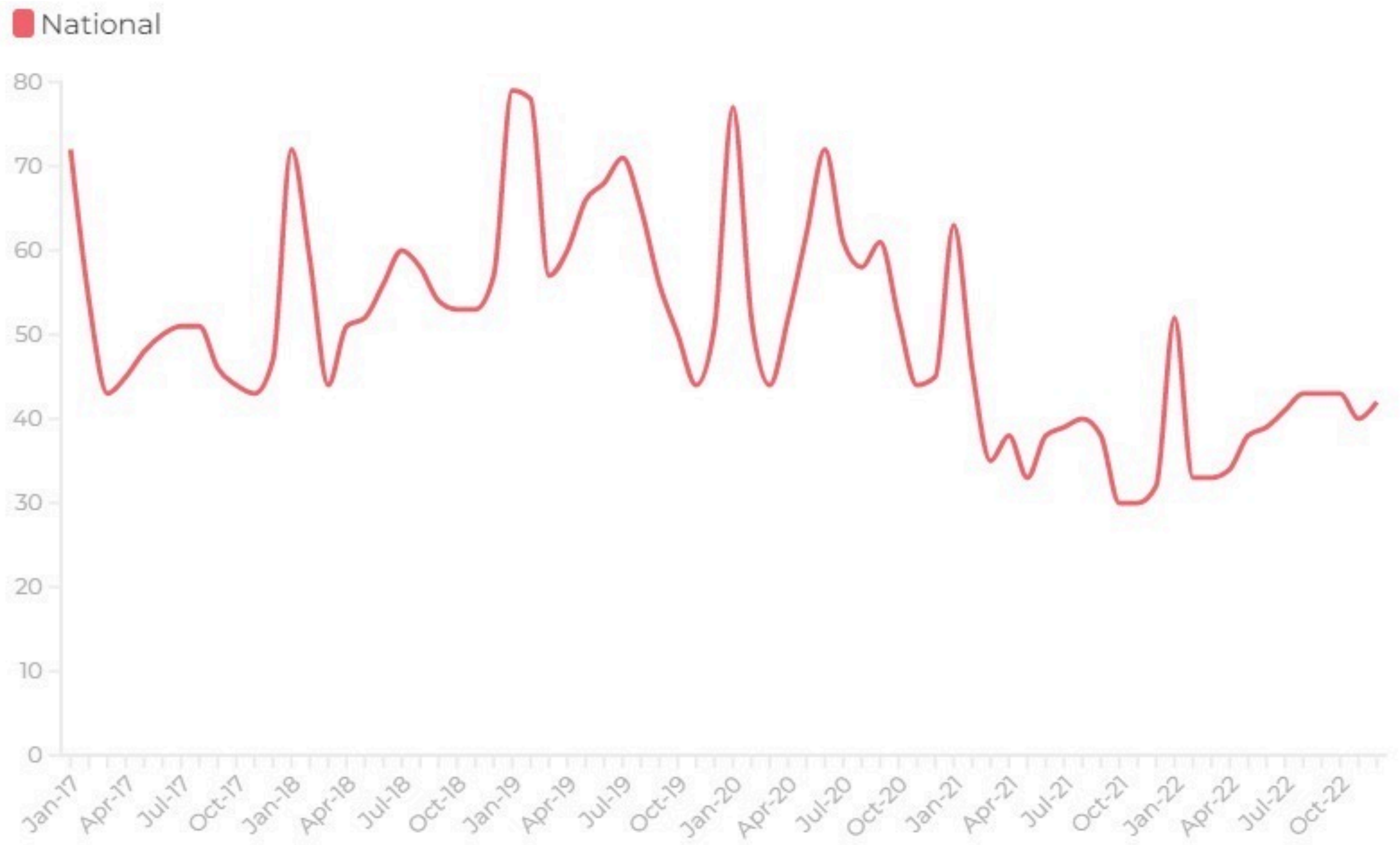
Monthly days on site (national)



Median days on site

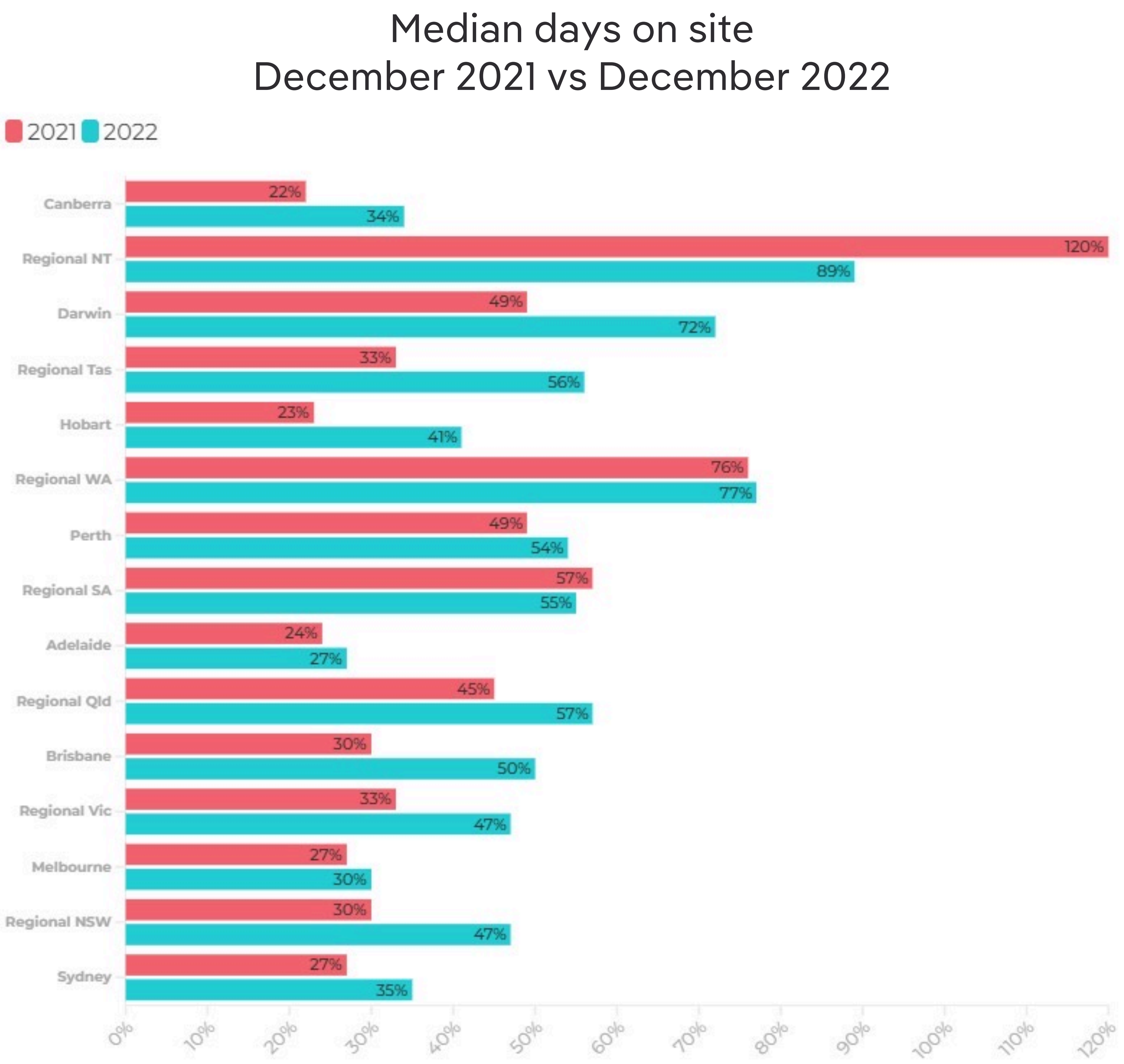
The median length of time a property is listed on realestate.com.au before selling has continued to climb as sales volumes fall and total listings mount. In December 2022, the median days on site was 42 days, up from 40 days the previous month and 32 days a year earlier.

The 32 days on site in December 2021 was a record-low. Across most capital cities and regional areas, days on site is higher than it was a year ago, with regional SA and regional NT the exceptions.

Adelaide (27 days), Melbourne (30 days) and Canberra (32 days) had the shortest days on site in December 2022, while regional NT (89 days), regional WA (77 days) and Darwin (72 days) had the longest.

The regions with the largest falls in days on site over the year were regional NT (-31 days) and regional SA (-2 days). Darwin (+23 days) regional Tasmania (+23 days) and Brisbane (+20 days) recorded the greatest increases in days on site over the year.

With sales rates slowing, total listings mounting, and enquiry per listing easing, there is less urgency for buyers. As a result, we expect to see a further increase in days on site over the coming months. Importantly, days on site is currently lower than it was before the pandemic across most regions.



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Quarterly number of house and unit commencements (national)

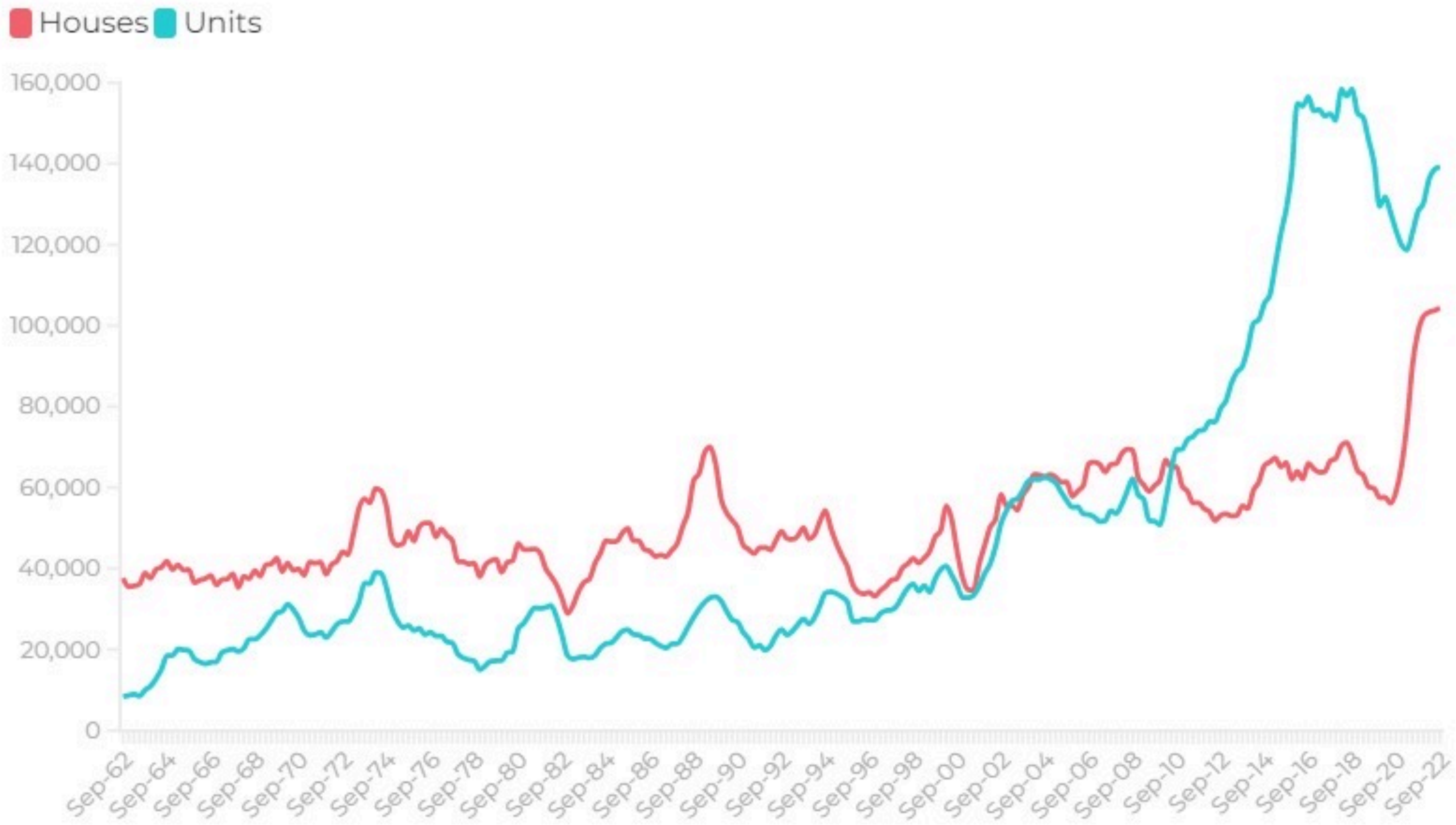
New homes market

Throughout the initial stages of the pandemic, demand for new homes surged due to an extreme lack of new listings in the established market and significant demand brought on by the HomeBuilder Grant for first home buyers. New home enquiry volumes reached historic highs in late 2021, but we saw enquiry volumes moving back in line with pre-pandemic levels in 2022.

HomeBuilder has created a backlog of work for builders, but many builders continue to face increases in costs of materials and labour. The most recent producer price indices data shows that the cost of inputs into housing construction increased by 16% year-on-year to September 2022. Cost escalations were starting to slow over the most recent quarter but were clearly still much higher over the year.

Most of these costs are being passed on to purchasers. Given the escalating costs and uncertainty around delivery times for new housing, we are already seeing that demand for new homes is slowing and we expect this trend will continue. With prices falling and the sales process becoming more difficult, we expect that a greater share of buyers will seek out the price certainty of existing stock. Longer-term, there will undoubtedly be higher demand for new homes once the rapid cost escalations subside.

Quarterly number of houses and units under construction (national)



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Monthly value of lending to owner-occupier subsequent buyers

Housing finance: Owner-occupier (subsequent purchasers)

Owner-occupiers making subsequent purchases remain the greatest source of mortgage demand, and that looks set to continue over the coming months. While owner-occupier subsequent buyers are expected to continue to represent the greatest share of mortgages, we expect the overall value of lending to this cohort will decline as prices and sales fall.

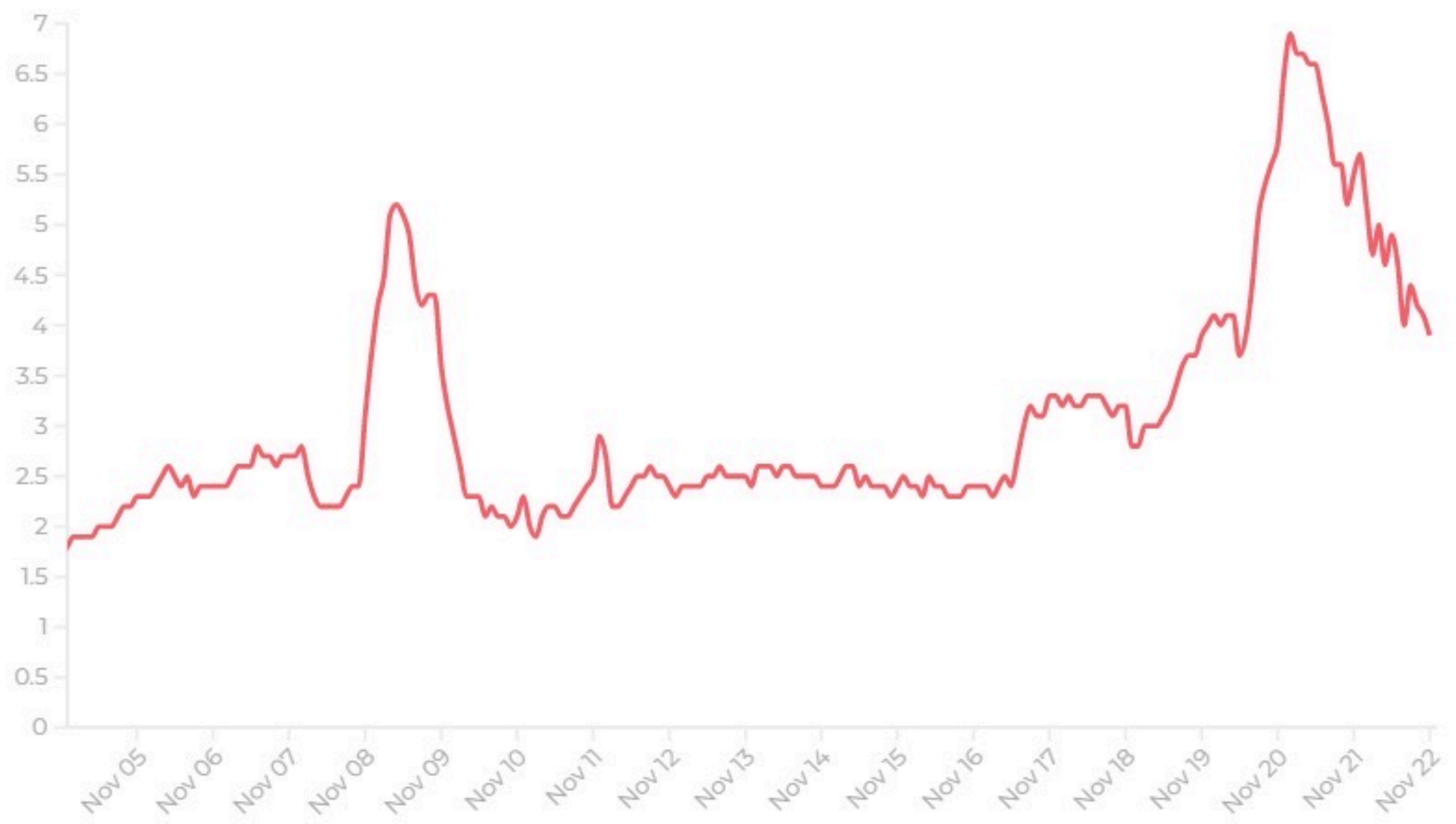
The escalation in lending to owner-occupier subsequent buyers was exceptional throughout the pandemic as many existing homeowners took advantage of historic low interest rates to trade-up. Prior to the pandemic, the historic monthly peak in lending to owner-occupier subsequent buyers was $11.4 billion back in early 2017. This rose to a peak of $16.9 billion in January 2022, although demand has slowed quickly. The monthly value fell 25.7% from its peak in November 2022. It seems likely that this will fall further over the coming months.

Owner-occupier (first home buyers)

The HomeBuilder Grant, which was available from mid-2020 until early 2021, led to a surge in lending to first home buyers and the monthly value eclipsing previous historic highs. Since the peak in January 2021, the value of lending to first home buyers has been trending lower and was 29.2% below its peak in November 2022. The major factors in the drop in lending have been the removal of the stimulus, the fact that property prices have increased at a much faster pace than wages, and the rapid rise in interest rates which has reduced borrowing capacities by much more than prices have fallen.

Although first home buyer lending has fallen, rental markets are extremely tight and are expected to tighten further in major capital cities. As a result, we expect that rental rates will continue to rise.

Monthly value of lending to owner-occupier first home buyers



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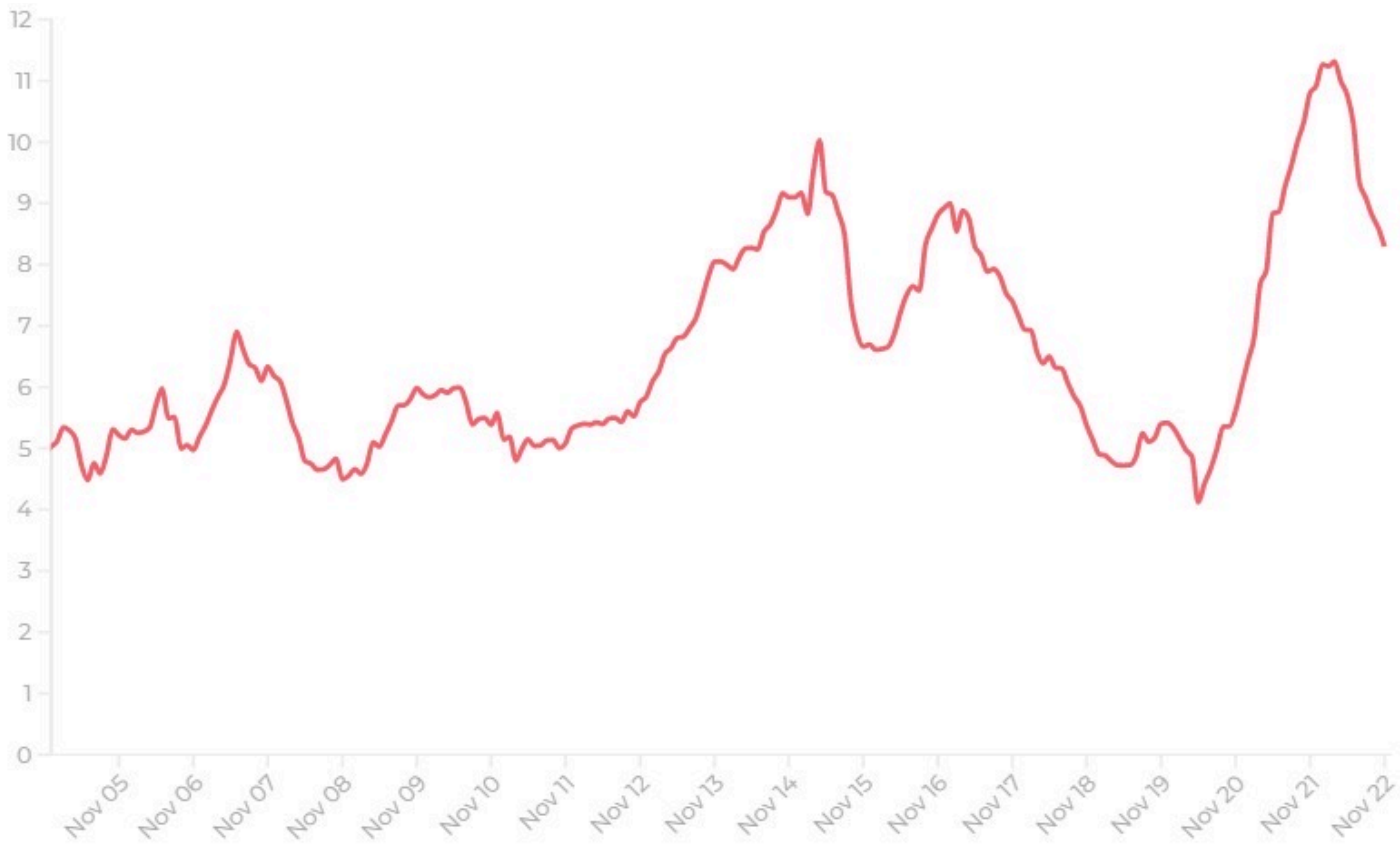
Along with expectations that property prices will fall and with significant incentives on offer from federal and state governments, this may create an impetus for a rebound in lending to first home buyers. In saying this, paying rent remains much cheaper than servicing a mortgage and with higher savings required as interest rates rise, potential first home buyers may choose to save for longer as property prices fall.

Investors

Lending to investors is trending lower. The value of lending to investors fell 23.2% over the 12 months to November 2022 and was 26.7% below its historic peak. The share of overall lending to investors is 33.5% and has remained below its long-term average share since early 2017.

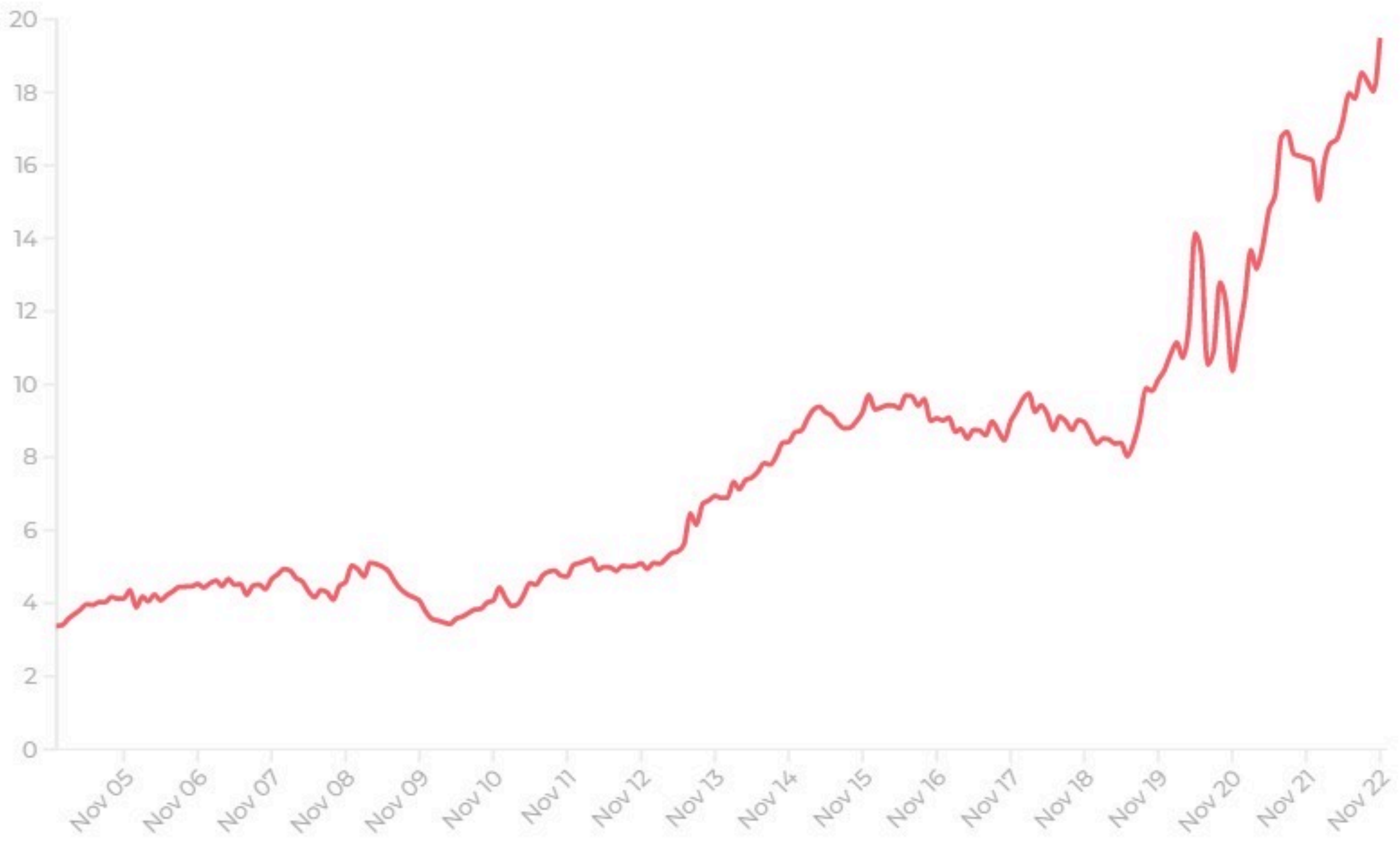
The tightness of the rental market has been well documented and with property prices expected to decline over the coming year, we expect rental markets will tighten, particularly in inner-city areas as supply reduces. This will increase the cost of renting. While investors are often seen as the reason for fewer first home buyers, the only conceivable ways in which to alleviate rental pressures are either more rental supply (which investors can provide) or affording renters the opportunity to enter home ownership (which government grants and schemes are also seeking to do).

Monthly value of lending investors



Although property prices are falling and rental rates are increasing, there are no signs as yet of investor purchases increasing. The significant serviceability hurdles to get an additional mortgage and attractive returns on some risk-free asset classes are likely to be key factors keeping residential property investors subdued. An increase in investor purchasing activity over the coming months would be key to alleviating rental supply shortages.

Monthly value of lending for refinances



External refinancing

The monthly value of external mortgage refinancing reached a new historic high in November 2022. Initially, refinancing activity was driven by the reductions in mortgage rates during the pandemic and the very low rates on fixed rate mortgages. With interest rates now reversing rapidly, borrowers on variable rates are refinancing as they search for better mortgage rates and those on fixed rate mortgages that are expiring are chasing the best rates possible. With interest rates likely to rise further and a large wave of fixed-rate mortgages expiring this year, we expect that refinance activity will remain elevated.

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