Home prices bounce in February as downturn loses momentum, with limited supply and sustained buyer demand supporting property values

Key findings:

- The pace of home price falls has eased in recent months, with the housing market downturn now stalling. National home prices were up 0.18% in February 2023.
- Prices bounced in every capital city, except Hobart (-0.29%), with Adelaide (+0.44%), Sydney (+0.36%) and Melbourne (+0.18%) recording the largest jumps.
- These dynamics have been influenced by the availability of properties for sale, with lower stock levels underpinning home prices.
- While activity in the housing market has fallen as interest rates have quickly risen, the limited stock available for sale has led to a pickup in competition among potential buyers, insulating home values.
- This is the case for every capital city except Hobart, where total listings are up more than 30% in comparison to the previous five-year average. That increase in choice has eased competition between buyers.
- While home prices have fallen from their peak in most markets, prices nationally are still 29.4% above their pre-pandemic levels.

In recent months, the housing market correction has lost momentum, with the pace of price falls easing in most markets. After revised national home prices recorded a small (0.09%) uplift in January, prices increased a further 0.18% in February 2023.

However, it is too early to call an end to the downturn. While interest rates have been the primary driver of home price falls to date, there are factors beyond interest rates at play. Sellers in market now are benefitting from low competition with other vendors, as buyers vie for available stock. The constrained level of properties available for sale is "putting a floor" under home prices and has concentrated buyer demand.

The longevity and depth of the current downturn will be influenced by the level of supply, as well as the trajectory of interest rates, in the months ahead.

A further 25bp rate rise in March, taking the cash rate to 3.60%, is widely expected, which will weigh on borrowing capacities further. However, if supply remains limited, this will help counter the downward pressure on home prices. Positive demand drivers stemming from the shortages in rental supply and rebound in international migration also remain.

**PropTrack Home Price Index**

<table>
<thead>
<tr>
<th>All dwellings</th>
<th>Monthly growth</th>
<th>Annual growth</th>
<th>Change from peak</th>
<th>Change since March 2020</th>
<th>Median value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>0.36%</td>
<td>-6.64%</td>
<td>-6.64%</td>
<td>22.2%</td>
<td>$983,000</td>
</tr>
<tr>
<td>Melbourne</td>
<td>0.18%</td>
<td>-5.99%</td>
<td>-6.09%</td>
<td>13.9%</td>
<td>$791,000</td>
</tr>
<tr>
<td>Brisbane</td>
<td>0.12%</td>
<td>-1.61%</td>
<td>-3.49%</td>
<td>42.5%</td>
<td>$716,000</td>
</tr>
<tr>
<td>Adelaide</td>
<td>0.44%</td>
<td>7.87%</td>
<td>At peak</td>
<td>44.7%</td>
<td>$648,000</td>
</tr>
<tr>
<td>Perth</td>
<td>0.13%</td>
<td>2.49%</td>
<td>-0.24%</td>
<td>28.0%</td>
<td>$565,000</td>
</tr>
<tr>
<td>Hobart</td>
<td>-0.29%</td>
<td>-3.63%</td>
<td>-4.09%</td>
<td>42.1%</td>
<td>$713,000</td>
</tr>
<tr>
<td>Darwin</td>
<td>0.04%</td>
<td>1.82%</td>
<td>At peak</td>
<td>28.7%</td>
<td>$491,000</td>
</tr>
<tr>
<td>ACT</td>
<td>0.00%</td>
<td>-5.20%</td>
<td>-5.88%</td>
<td>35.0%</td>
<td>$839,000</td>
</tr>
<tr>
<td>Capital Cities</td>
<td>0.26%</td>
<td>-4.65%</td>
<td>-4.86%</td>
<td>23.5%</td>
<td>$781,000</td>
</tr>
<tr>
<td>Rest of NSW</td>
<td>-0.08%</td>
<td>-1.73%</td>
<td>-3.17%</td>
<td>46.8%</td>
<td>$710,000</td>
</tr>
<tr>
<td>Rest of Vic.</td>
<td>0.09%</td>
<td>-1.88%</td>
<td>-2.64%</td>
<td>42.0%</td>
<td>$592,000</td>
</tr>
<tr>
<td>Rest of Qld</td>
<td>-0.01%</td>
<td>1.03%</td>
<td>-1.63%</td>
<td>48.1%</td>
<td>$603,000</td>
</tr>
<tr>
<td>Rest of SA</td>
<td>0.60%</td>
<td>11.85%</td>
<td>At peak</td>
<td>44.5%</td>
<td>$380,000</td>
</tr>
<tr>
<td>Rest of WA</td>
<td>0.24%</td>
<td>4.96%</td>
<td>-0.07%</td>
<td>36.0%</td>
<td>$455,000</td>
</tr>
<tr>
<td>Rest of Tas.</td>
<td>0.16%</td>
<td>1.65%</td>
<td>-1.33%</td>
<td>51.7%</td>
<td>$495,000</td>
</tr>
<tr>
<td>Rest of NT</td>
<td>0.16%</td>
<td>5.63%</td>
<td>At peak</td>
<td>16.7%</td>
<td>$436,000</td>
</tr>
<tr>
<td>Regional Areas</td>
<td>0.01%</td>
<td>-0.47%</td>
<td>-2.14%</td>
<td>45.8%</td>
<td>$616,000</td>
</tr>
<tr>
<td>National</td>
<td>0.18%</td>
<td>-3.44%</td>
<td>-3.90%</td>
<td>29.4%</td>
<td>$730,000</td>
</tr>
</tbody>
</table>
Sydney
Sydney home prices recorded a 0.26% increase in January. That uplift continued in February and prices rose a further 0.36%. Despite the recent stall in the downturn, prices are down 6.64% over the past year, with Sydney seeing the largest falls of any market. However, price declines in Sydney have reversed in recent months, with fewer homes on the market. The total number of properties listed for sale in Sydney is down close to 20% on previous five-year averages, meaning potential buyer interest is being concentrated. The lower stock levels are likely underpinning home prices to a certain extent.

Brisbane
Prices recorded a very slight uptick (+0.02%) in Brisbane in January, with a further increase in February (+0.12%). Conditions in Brisbane quickly shifted last year due to the substantial tightening in interest rates and prices are now 3.49% below their peak recorded in April 2022. However, the total number of properties listed for sale in Brisbane is down close to 30% on previous five-year averages and although the number of potential buyers per listing has fallen from peak levels, there has been an increase relative to spring 2022. With fewer properties listed for sale, buyer demand for available stock has been concentrated.

Perth
Perth home prices recorded a slight increase (+0.08%) in January. The bounce continued in February, with prices rising a further 0.13%. This relatively affordable market has held up better than other capitals over the past year, with prices increasing 2.49% to now sit just 0.24% below peak levels recorded last year. In addition, potential buyer demand per listing is at a record high in Perth.

Melbourne
The downturn in Melbourne lost momentum in January. In February the correction stalled, with home prices rising 0.18%. Prices are now down 5.99% over the past 12 months and remain 6.09% below their March 2022 peak.

Adelaide
Adelaide, the strongest performing capital city market over the past year, saw home prices rise to a fresh peak, lifting a further 0.44% in February. Home prices are up close to 8% on an annual basis. The comparative affordability of the city’s homes has seen prices holding up better as interest rates have quickly risen. Low stock levels are also helping to insulate home values, with buyer demand per listing sitting at a record high in January 2023.

Hobart
Home prices in Hobart fell 0.29% in February and are now 4.09% below their peak recorded in April 2022. The magnitude of price declines in Hobart has eased in recent months from the faster pace seen in June and July last year when interest rates first started rising. Total listings are up more than 30% compared to the five-year average in Hobart, with buyers now enjoying more choice.

ACT
Price falls in Canberra have eased in recent months from the faster pace seen mid-last year. In February, prices were flat and remain 5.88% below their peak in March 2022.

Darwin
Darwin home prices increased 0.04% in February, rising to a fresh peak. Home prices have increased 1.82% over the past year and remain 28.7% above pre-pandemic levels.
Methodology
The PropTrack HPI model uses a hybrid methodology that combines repeat sales and hedonic regression. Both of these methodologies are commonly used to measure housing price movements in Australia and overseas. These methodologies are designed to estimate the change in home prices in a way that is not affected by the quality and location of the sample of homes that transact in a given period.

Repeat sales regression matches transactions of identical properties over time. This uses the fact that the change in price of a given property over time should only reflect changes in market prices (assuming no significant alteration or renovation was undertaken between sales). Hedonic regression breaks down the value of homes into observable characteristics (e.g. size, location) to account for differences in characteristics of sold properties over time.

The PropTrack HPI uses a hybrid methodology, which starts with a repeat sales regression, but allows transactions for non-identical, but closely located properties of the same type to be matched together. Sales of properties of the same type (house, unit) in the same ABS Statistical Area Level 1 are matched together. There are over 57,000 spatial SA1 regions across Australia, with a population generally between 200 and 800 people. This increases the number of matches that can be used to estimate home price growth and uses the fact that nearby properties are generally similar. Hedonic regression is used to account for differences in the size of properties that are matched together, using the number of bedrooms in each property.

In this way, the hybrid methodology augments the repeat sales methodology for home price growth to be estimated where there might not be sufficient volume of repeat sales transactions.

The PropTrack HPI estimates home price growth in a robust and flexible manner, which is revised each month, allowing each estimate to best reflect the available data on Australian home prices over time.

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