Property Market Outlook

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Housing in Australia: A recap & outlook

National property prices increased 2.3% over the first six months of 2023, signalling a shift in the housing market and reversing the declines experienced in the prior six months. Despite the better-than-expected price growth, home prices declined 0.1% over the financial year.

Recent increases in sales volumes, relative to the second half of last year, coupled with limited supply of properties available for sale and few new listings coming to market, have contributed to the bounce back.

Property prices increased despite rising interest rates and reduced borrowing capacities. The frequency and magnitude of cash rate increases have slowed, but official interest rates have continued to rise, and it is not clear if they have peaked.
From here, the direction of the housing market will likely be influenced by the volume of housing stock available for sale. Low volumes of new and existing properties persisted in June, but this may soon change.

A large cohort of fixed-rate borrowers’ mortgages are set to expire from their current interest rates of around 2% and reset to around 6%. The possible impact of higher repayments on these borrowers won’t be seen until 2024.

In the meantime, we expect property prices to increase slowly for the remainder of this year, with the outlook for prices in 2024 much less clear.
How much higher will prices rise?

National property prices increased by 34.9% 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 March 2022 when national property prices reached a peak, they have fallen by 1.9%, with the falls occurring between April and December 2022 and a rebound in prices since.

Although there has been a significant increase in interest rates, with potential further rises to come, we anticipate moderate price increases to continue over the coming months. The rebound has largely been driven by an uptick in transaction volumes, and the ongoing low volume of stock available for sale.

Adelaide and Perth, along with regional WA, are the only regions in which home prices are currently at their peak. At the same time, home prices are furthest from their peak in Hobart (-7.2%), Canberra (-5.5%) and Melbourne (-5.2%).
By the end of 2023, we are forecasting home prices will be between 2% and 5% higher. Forecasts for 2024 are considerably more difficult, given the uncertainty of many factors.

Interest rate changes act with a lag and given the significant and rapid increases in rates over a very short period, households will continue to experience the impact of those increases into next year. Further to this, a significant number of borrowers are currently on fixed rate mortgages that are set to expire and reset to substantially higher rates. This will inevitably have an impact on household budgets and spending.
The Reserve Bank is forecasting a slowing of economic growth, but as always, the magnitude and impact of that slowdown is unclear. It is uncertain if and when the forecast slowdown will necessitate interest rates to ease, but we expect cuts to commence in 2024.

Of course, there are many other factors that will influence property prices in 2024. Two notable considerations include the supply of stock for sale and whether the banking regulator reduces the serviceability assessment buffer from its current 3%.

At this stage, we are forecasting modest price growth in 2024. However, significant changes to the overall economic performance, interest rates or lending conditions, could result in vastly different price growth outcomes.
### Dwelling price forecasts
#### 2023 and 2024 calendar year

<table>
<thead>
<tr>
<th>Region</th>
<th>Previous forecast for Dec-23</th>
<th>Current forecast for Dec-23</th>
<th>Current forecast for Dec-24</th>
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<tr>
<td>Sydney</td>
<td>-9% to -12%</td>
<td>3% to 6%</td>
<td>-1% to +2%</td>
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<tr>
<td>Melbourne</td>
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<td>0% to +3%</td>
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<td>Brisbane</td>
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<td>-2% to +1%</td>
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<tr>
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<tr>
<td>Perth</td>
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<td>0% to +3%</td>
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<td>Hobart</td>
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<td>-1% to -4%</td>
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<tr>
<td>Darwin</td>
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<td>-3% to 0%</td>
<td>-1% to 2%</td>
</tr>
<tr>
<td>Canberra</td>
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<td>0% to 3%</td>
<td>-2% to 1%</td>
</tr>
<tr>
<td>Combined capital cities</td>
<td>-7% to -10%</td>
<td>3% to 6%</td>
<td>0% to 3%</td>
</tr>
<tr>
<td>National</td>
<td>-7% to -10%</td>
<td>2% to 5%</td>
<td>0% to 3%</td>
</tr>
</tbody>
</table>
Median selling prices

The national median house price over the three months to June 2023 was $770,000, while the median unit price was $590,000. Across the combined capital cities, median house prices were $856,000, while units were $610,000. By comparison, regional median house prices were $625,625 and regional unit prices were $526,000.
The last few years of exceptional price growth have 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 (83%) and Adelaide (57%). It is very close to historical wide premiums in Melbourne (50%) and Perth (45%). In Brisbane (52%), Hobart (36%), Darwin (58%) and Canberra (65%) the differential is not at historic highs, but it is higher than the long-term average.

The rise in interest rates, and subsequent reduction in borrowing capacities, coupled with ongoing increases in rental rates, saw unit demand and prices initially hold-up better than houses. According to the PropTrack Home Price Index, unit prices have increased at a faster pace than houses so far this year.

Inner-city living became less attractive to many during COVID-19 lockdowns and restrictions. With life now largely back to normal, this trend is already reversing and expected to continue to do so. These factors, plus the affordability gap, should drive 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. However, the differential in pricing between houses and units is likely to remain large.
Price changes over the 2022-23 financial year

Throughout the 2022-23 financial year, national property prices fell by 0.1%, while over the previous financial year they increased by 9.6%. The 2022-23 financial year was a tale of two halves, with prices falling 2.3% over the first six months before rebounding 1.5% over the second half.

Capital city property prices increased by 0.1% over the financial year, with a decline of 2.8% over the first six months. The second half of the year saw an increase of 3%, leaving prices 2.2% below their March 2022 peak. In regional areas, prices fell 0.6% over the year, sitting 1.5% below their April 2022 peak. Regionally, property prices have grown 0.8% over the past six months, following a 1.3% fall over the first half of the year.

The unit market has seen prices hold up much better over the past year than houses. Unit prices rose 0.9%, while house prices fell 0.3%. Compared to their previous peak, unit prices are 0.2% lower and house prices are down 2.2%.
Over the 2022-23 financial year, dwelling prices increased in Sydney (1%), Brisbane (0.1%), Adelaide (5.3%) and Perth (5.7%) with falls across all other capital cities. The largest falls were in Hobart (-6.4%), Canberra (-3.5%) and Melbourne (-2.9%). Only Hobart and Darwin have recorded price falls over the past six months.

Regionally, prices increased year-on-year in regional Queensland (2.6%), regional SA (8.9%), regional WA (6.8%) and regional NT (3.1%). At the same time, prices fell over the year in regional NSW (-2.4%), regional Victoria (-2.6%) and regional Tasmania (-0.7%). Prices have continued to fall over the past six months in regional Victoria, and were unchanged in regional NSW, while they have risen elsewhere.
Higher interest rates are making it more expensive to service mortgage debt, and lenders are offering less finance to would-be buyers. However, a rebound in sales this year and a low volume of stock for sale continues to support prices. The rapid rise in national population is also fueling housing demand, which in turn supports prices. While these conditions persist, we expect moderate price growth to continue.

The potential headwinds for property prices include further interest rate increases. Additionally, mortgage arrears increasing from historic lows as many borrowers reset from extremely low fixed mortgage rates, and the potential for more stock to hit the market due to these factors and rising prices, may influence the market.
Preliminary sales volumes look at the number of sales each month, as reported by real estate agents across the country on realestate.com.au. 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 be available.

In June 2023, the number of preliminary sales nationally was 3.7% lower year-on-year. However, sales volumes were higher than over any of the final six months of 2022. Sales volumes in June 2023 were 18.4% lower compared to June 2021, but 23% higher than June 2020 and 38.2% higher than in June 2019. Throughout the first half of this year, sales volumes have consistently been higher than they were over the second half of last year.
Preliminary sales volumes in June 2023 were higher than a year ago in Sydney (13.5%), Perth (1.7%), Hobart (0.7%) and Canberra (8.5%) and were unchanged in regional NT. Elsewhere, sales volumes were lower than last June, with the greatest falls in Darwin (-22.8%), regional WA (-22.6%) and Adelaide (-12.7%).

The trends are quite diverse in terms of sales, with most regions seeing a rebound in sales so far this year. The rebound in sales has generally reflected the more recent bounce in prices. With more buyers and stock levels still low, quality properties listed at a competitive price are being snapped-up quickly.

It seems likely that sales volumes will remain strong over the coming months, and we anticipate a stronger spring sales period this year.
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 fell over the second half of 2022 and continued to reduce in early 2023. The number of new listings peaked in March 2022 and has trended lower since. While new listings remain much lower than they were a year ago, they are now back to average levels for this time of year. In June 2023, new listing volumes were 14.8% lower compared to June 2022, but remain 1.5% higher than the June average over the past five years.
Across the combined capital cities, new listings in June 2023 were 14.6% lower year-on-year, although they were 2.1% higher than the June average over the past five years. In the combined regional markets, new listings were 15% lower year-on-year to be 0.4% higher than the June average over the past five years.

In each capital city, new listings were lower year-on-year. Regional NT was the only non-capital city market with more new listings. Regional SA (-3.1%) and regional Victoria (-6.2%) saw moderate declines in new listings, while Perth (-25.7%), Brisbane (-23.2%) and Hobart (-22.6%) saw the largest falls.

The number of new listings coming to market is much lower than a year ago. However, they sit at around average levels over recent years. There are now some signs that vendors are increasingly prepared to list. Should the lift in new listings occur, it would afford buyers more choice and may result in a slowing of price increases.
With new listing volumes in June 2023 rising to recent average levels, the volume of total listings on the market is lower than a year ago and historically low.

In June 2022, the number of properties available for sale was 1% lower than in June 2022. While total listings were marginally lower over the year, they remained historically low and were 30% lower than the average for June over the past five years.

The number of total properties listed for sale throughout the combined capital cities was 9.6% lower year-on-year in June 2023, and 17.8% lower than the June average over the past five years. Across regional markets, the number of total listings was 10.2% higher over the year but still 39.5% lower than the five-year June average.
Regional Tasmania (43.6%), Hobart (43.3%) and regional Victoria (39.5%) recorded the greatest year-on-year increases in total listings across capital city and regional areas. At the same time, Perth (-20.6%), Sydney (-15%) and regional WA (-11.1%) had the largest declines in total listings.

Melbourne (0.8%), Hobart (1.2%) and Canberra (11.3%) were the only regions with total listings higher than the five-year average. Regional WA (-57.5%), regional SA (-56.3%) and regional Queensland (-48.6%) had the greatest decline in stock, relative to the five-year average.

The volume of stock for sale remains historically low. Although sales volumes are higher, buyers remain discerning, meaning 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. A significant number of properties have been listed for a long time but have not adjusted prices lower in order to sell. This means that new listings are an increasingly important driver of sales.
Enquiry per listing looks at the number of enquiries made on a property, via email, phone call or SMS. As well as key actions, including saving inspection times, to indicate the volume of people contacting agents about properties.

In June 2023, the average property listed for sale across the country was receiving 10 enquiries. This was compared to an average of 9 enquiries a year earlier.

The typical property listing in a capital city, received 14 enquiries in June 2023, up 27.3% from 11 enquiries a year earlier. In regional markets, enquiries have fallen 16.7% over the year, from an average of 6 to an average of 5. There has been a large decline in enquiries per listing from their peaks throughout the pandemic, however, it remains higher than pre-pandemic levels.
Sydney (37.5%), Brisbane (20%), regional Queensland (14.3%), Adelaide (5.9%) and Perth (57.1%) were the only markets nationally to record an increase in enquiry per listing over the year. There was no change in Melbourne and regional WA. At the same time, regional Tasmania and regional NT (both -50%) and Darwin (-40%) recorded the biggest falls.

The overall volume of enquiry per listing was highest in Sydney, followed by Brisbane and Adelaide. It was lowest in regional NT, followed by regional Victoria, regional WA, regional Tasmania and Darwin.

With sales volumes rebounding and the volume of stock remaining low, there has been a recent rebound in the number of enquiries per listing. With more buyers competing for a relatively low volume of stock for sale, if stock levels remain low, we are likely to see enquiry per listing rise further over the coming months.
The median length of time a property is listed on realestate.com.au before selling is higher than a year ago but has remained relatively steady for most of the past 12 months. In June 2023, the median days on site was 43 days, unchanged from the previous month and higher than the 39 days a year earlier.

Sydney was the only capital city or rest of state market in which days on site in June 2023 was lower than it was a year earlier.

Sydney (28 days), Adelaide (29 days) and Melbourne (31 days) had the shortest days on site in June 2023, while regional NT (106 days), Darwin (86 days) and regional WA (77 days) had the longest.
Days on site fell 5 days over the year in Sydney and was unchanged in Melbourne. Darwin (+36 days), regional Tasmania (+29 days) and Hobart (+25 days) have seen the largest increases in days on site over the year.

It is surprising we haven’t seen more significant declines in days on site so far this year, given the increase in sales volumes and low supply relative to a year ago. Should prices continue to lift, and supply remain constrained, we may see a reduction in days on site over the coming months.
Through the initial stages of the pandemic, demand for new homes surged. This was due to extremely limited number of new listings in the established market, as well as significant demand brought on by the HomeBuilder Grant for first-home buyers. New home enquiry volumes reached historic highs in late 2021, but we have seen enquiry volumes moving back in line with pre-pandemic levels.

The HomeBuilder Grant has created a backlog of work for builders, and many continue to face increases in the costs of materials and labour. The most recent producer price indices data shows that the cost of inputs into housing construction increased 7.4% year-on-year to June 2022 and was up 32.5% from March 2020 to June 2023. Cost escalations slowed and were lower over the year.
The number of new properties under construction remains historically high. However, the number of new commencements has slowed and is expected to reduce further. Higher interest rates and increased costs are making it more challenging for developers to access finance, and to obtain enough presales to press-on with new projects.

Given the escalating costs and uncertainty around delivery times for new housing, we are already seeing demand for new homes slowing. Moving forward, we expect that a greater share of buyers will seek existing stock. Longer-term, there will undoubtedly be higher demand for new homes once cost escalations subside, and rapid immigration continues.
Owner-occupiers making subsequent purchases remain the greatest source of mortgage demand, and that seems unlikely to change any time soon. While owner-occupier subsequent buyers are expected to continue to represent the greatest share of mortgages, the share of lending to this cohort has been drifting lower.

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 in early 2017. This rose to a peak of $17.4 billion in January 2022, although demand slowed quickly thereafter, both prior to and as interest rates increased. The monthly value of lending to owner-occupier subsequent buyers fell 33.2% between January 2022 and February 2023. Between February 2023 and May 2023, the monthly value of lending to owner-occupier subsequent buyers rose 4.9%. 
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. The monthly value eclipsing previous historic highs. Since peaking in January 2021, the value of lending to first-home buyers fell by 50.3%, to a recent low in January 2023. 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 and subsequent reduction in borrowing capacities.

Between January 2023 and May 2023, the value of lending to first home buyers has risen by 18.5%. The share of new lending to first home buyers (16.7%) is now above its long-term average (16.1%). With rental markets extremely tight, and major capital city rents expected to rise further and interest rates seemingly nearing their peak, the recent rebound in lending to first home buyers is anticipated to continue. The high cost of renting, and the uncertainty and competition, paired with a peak in the interest rate cycle, is likely to encourage more people to shift from renting to buying their first home. This comes despite the fact that in most instances it remains cheaper to rent than service a mortgage.
After the monthly value of lending to investors peaked in February 2022, the value fell by 32.4% up until its recent low in February 2023. Between February 2023 and May 2023, the monthly value of lending to investors has increased by 10% and is the highest it has been since October 2022.

While there has been a rebound in lending to investors over recent months, the share of total new lending to investors in May 2023 was 34.2%. This remains below its long-term average share of 35.8%, as it has consistently done so since June 2017.
The tightness of the rental market has been well documented, and the higher rental rates and relatively lower rate of price growth is pushing gross rental yields higher from their historic lows. Higher rental returns and price growth returning in many areas should be making investment in residential more attractive. However, for would be investors, risk-free returns are improving as interest rates shift higher. Further, land taxes are increasing, and there are concerns about the possible introduction of rental caps. These are discouraging higher levels of investment and encouraging a heightened number of investors to continue to exit the market.

Although the increase in investor purchasing has been moderate to date, we would expect the recent moderate rebound to continue. Particularly as the interest rates hiking cycle likely peaks shortly.
External refinancing

The monthly value of external mortgage refinancing has surprisingly fallen slightly from its record highs over recent months. With interest rates changing on a regular basis currently, and a large cohort of pandemic-era borrowers seeing their fixed rate periods expiring, we expect external refinance lending to remain heightened over the coming months.
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