CoreLogic

Housing market

October 2024

Residential Real Estate Underpins Australia's Wealth

Source: CoreLogic, RBA, APRA, ASX

NUMBER OF DWELLINGS
11.2 Million

OUTSTANDING MORTGAGE DEBT
$2.3 Trillion

HOUSEHOLD WEALTH HELD IN HOUSING
56.3%

TOTAL SALES P.A.
522,317

GROSS VALUE OF SALES P.A.
$480.3 Billion

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Multi-speed housing conditions

- Nationally, home values have been consistently rising over the 20 months to September, with dwelling values up a cumulative 14.3%

- Although the headline numbers remain positive, momentum is leaving the growth trend and conditions are increasingly diverse from city to city.

The macro view: nationally, home values are up 14.3% after 20 months of growth since the January 23 trough

Housing values have been on a solid growth trend despite an array of headwinds. but momentum is leaving the market as advertised stock levels rise and affordability pressures bite.

Month-on-month change in dwelling values, National

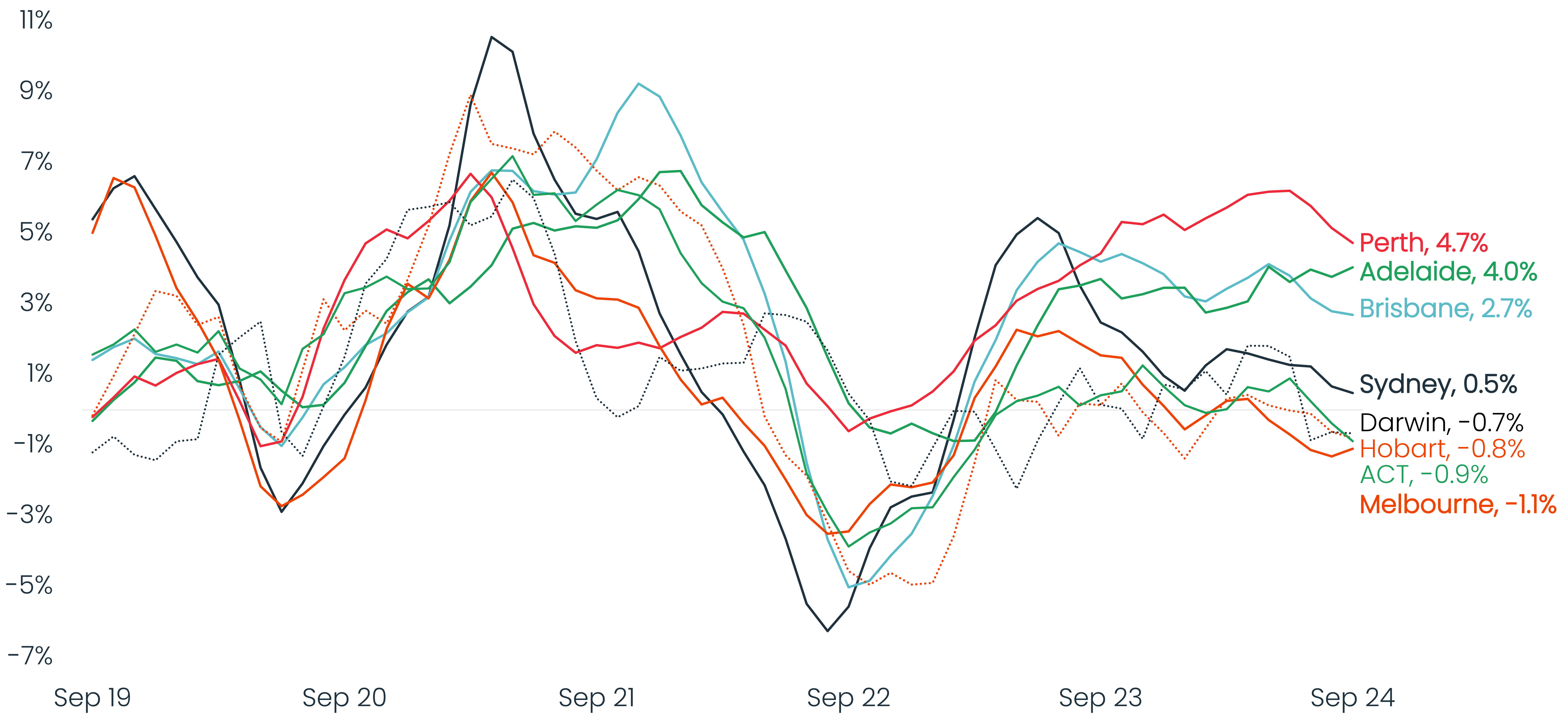
Source: CoreLogic

CoreLogic

Multi-speed conditions and a loss of momentum in the pace of growth across most regions.

The mid-sized capitals have led the pace of capital gains, but the rate of growth looks to have peaked. The remaining capitals are recording milder conditions, ranging from a 0.5% quarterly rise in Sydney to a 1.2% decline across Melbourne.

Rolling quarterly change in dwelling values



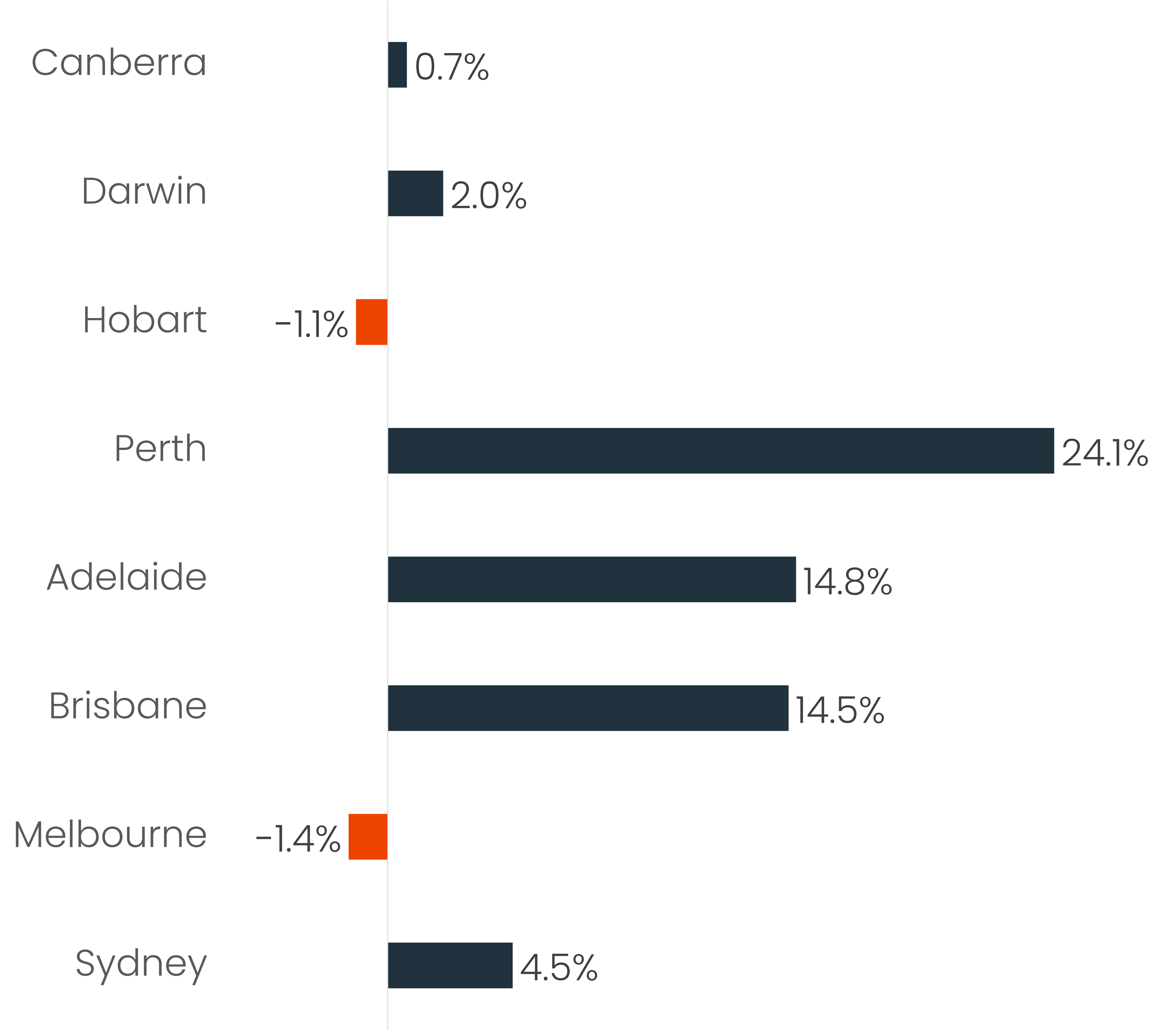
Source: CoreLogic

CoreLogic

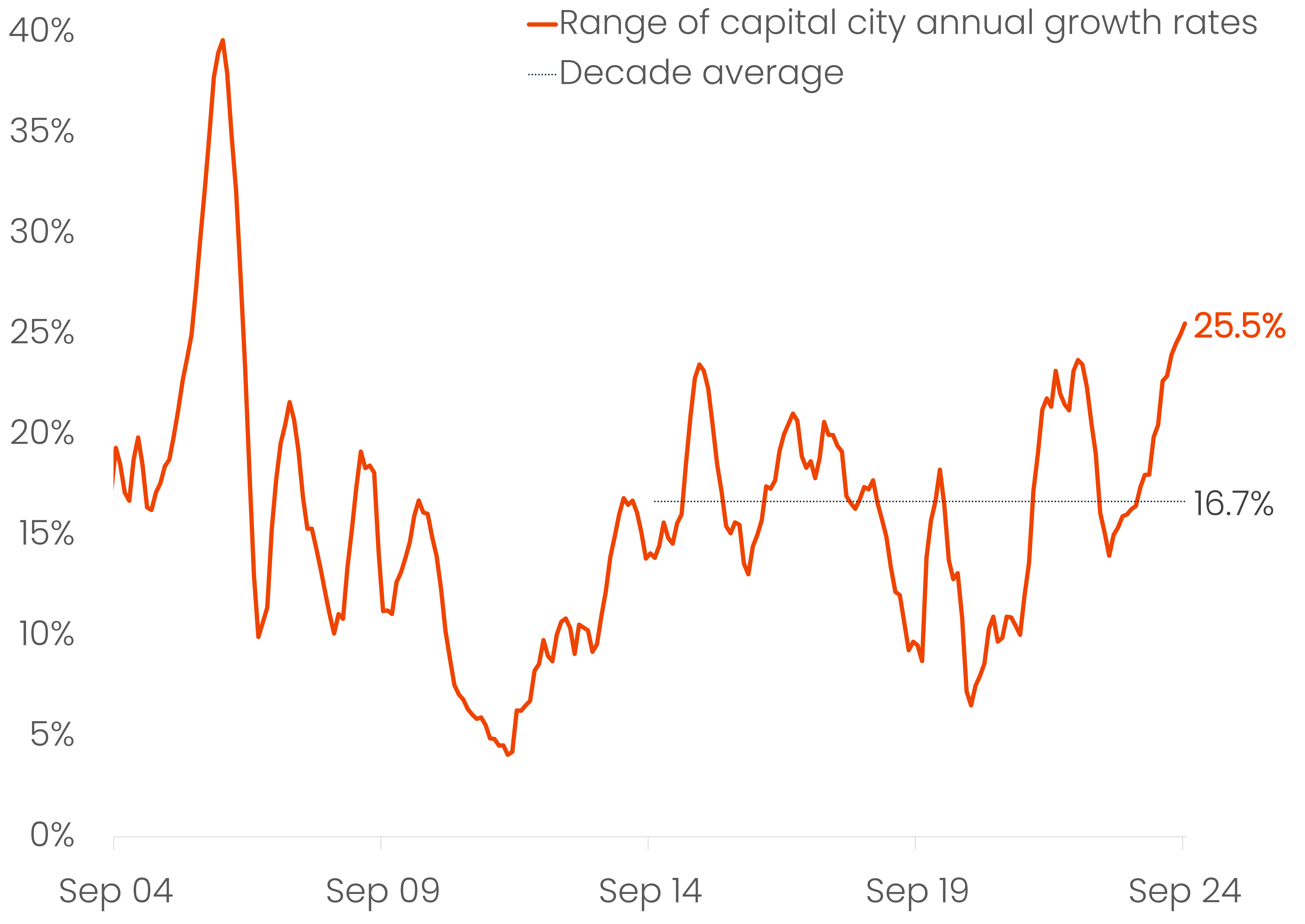
We haven’t seen such diversity in annual growth outcomes since the mining boom.

A 25.5 percentage point difference between the strongest and weakest annual change in capital city dwelling values, bookended by Perth (+24.1%) and Melbourne (-1.4%).

Annual change in capital city dwelling values



Range in annual growth across the capital cities (percentage points)



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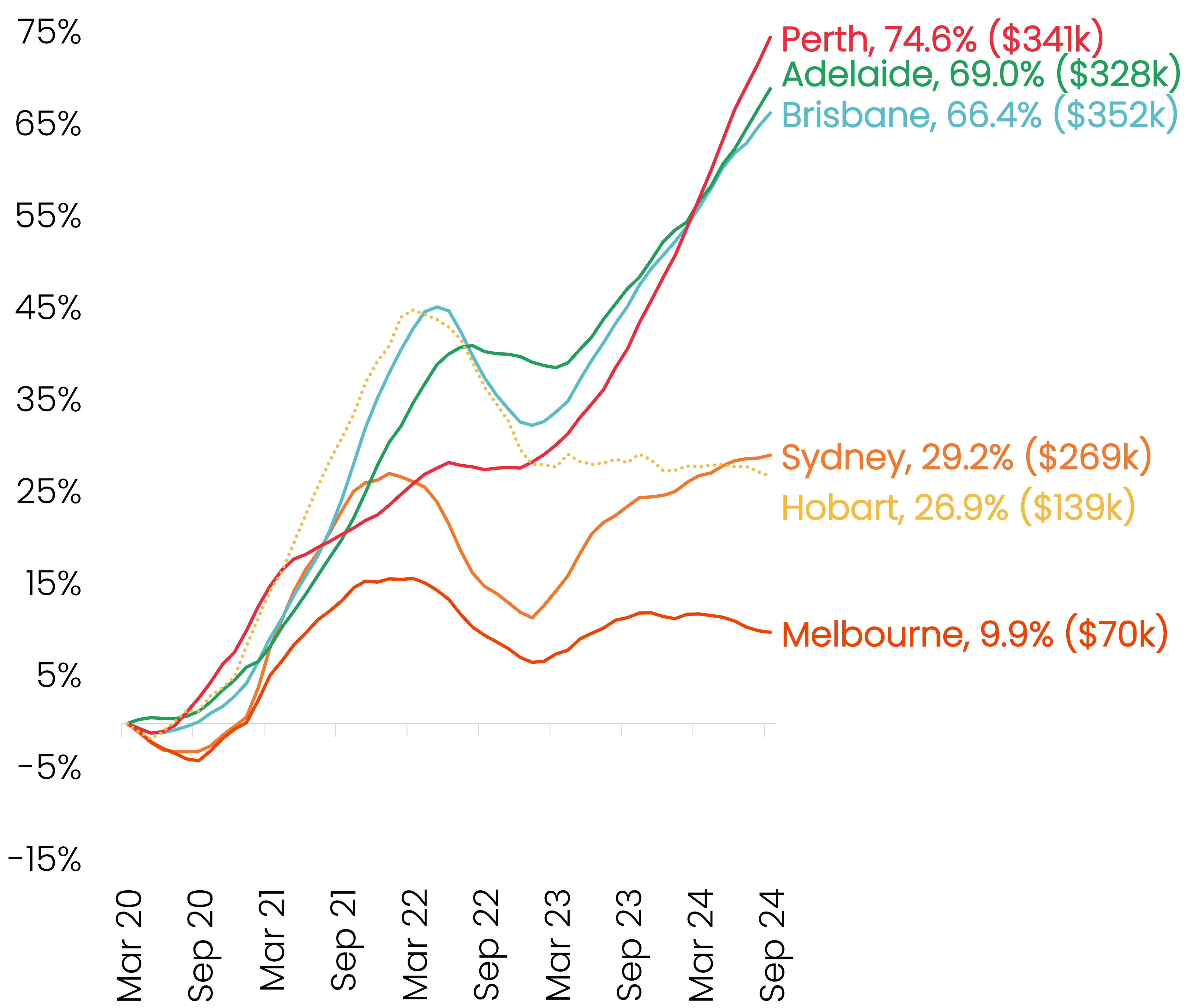
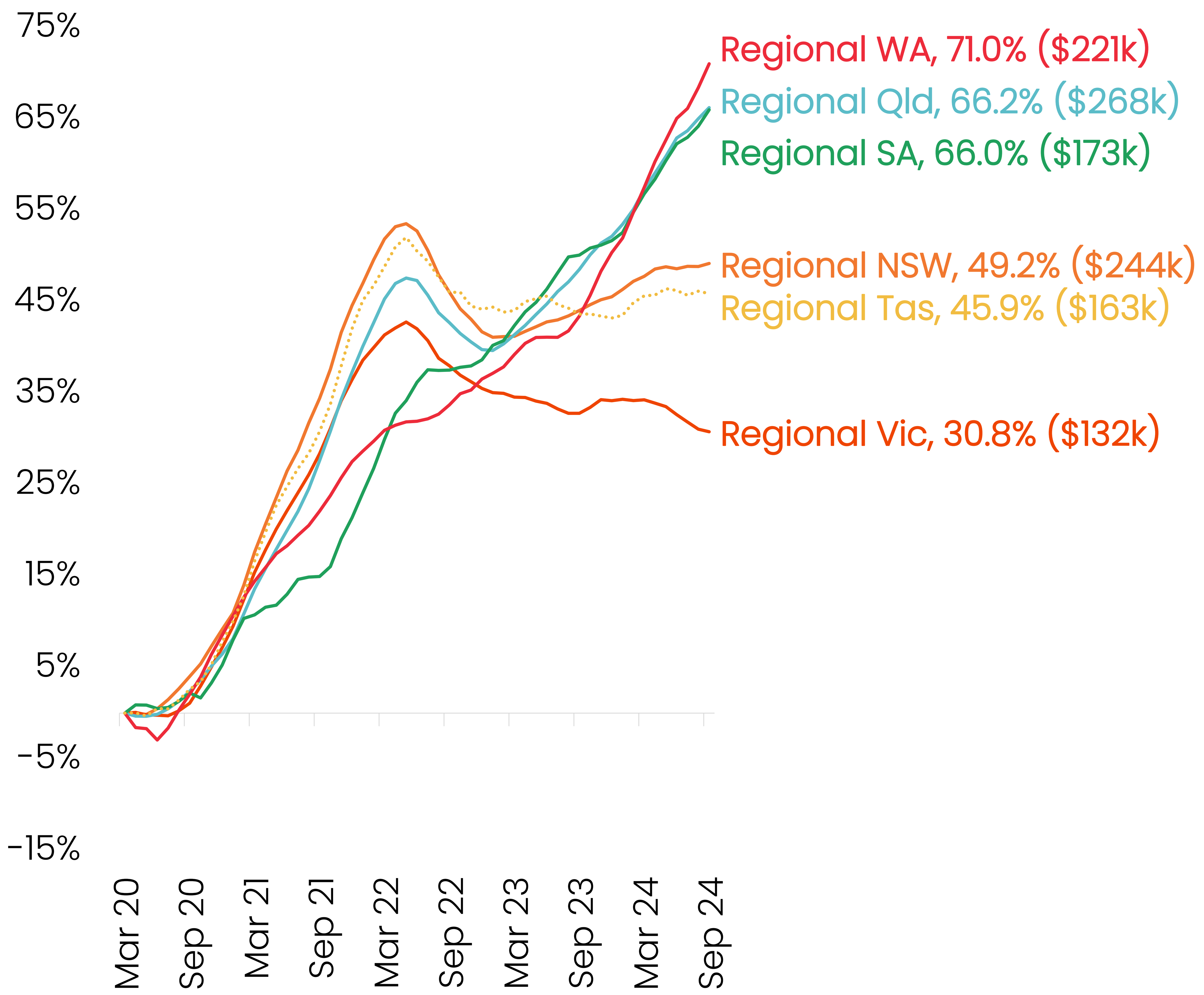
Source: CoreLogic

Most home owners have accrued a strong equity position since the onset of COVID in March 2020…

Cumulative change in capital city dwelling values, Pandemic to-date



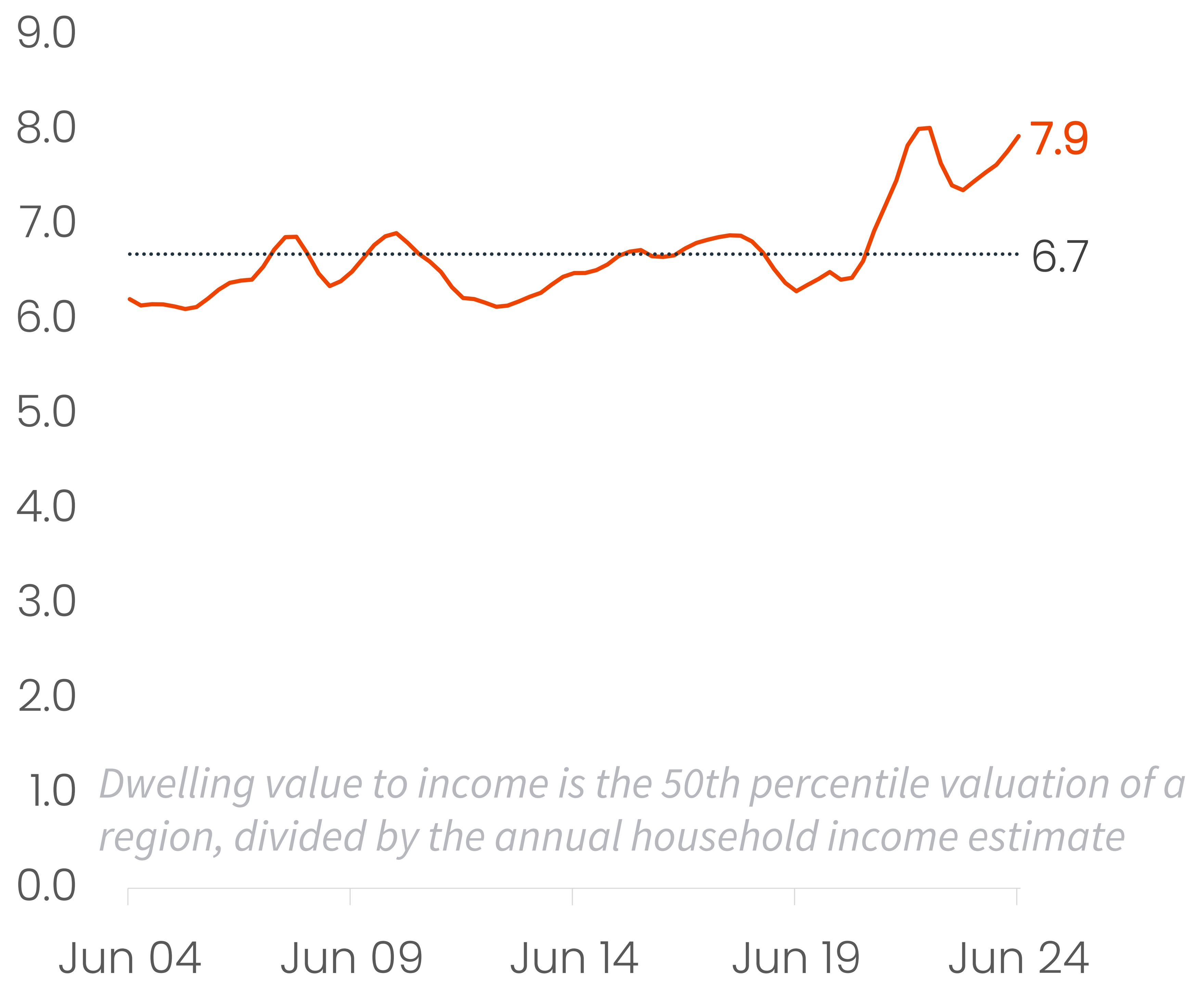
Cumulative change in regional dwelling values, Pandemic to-date



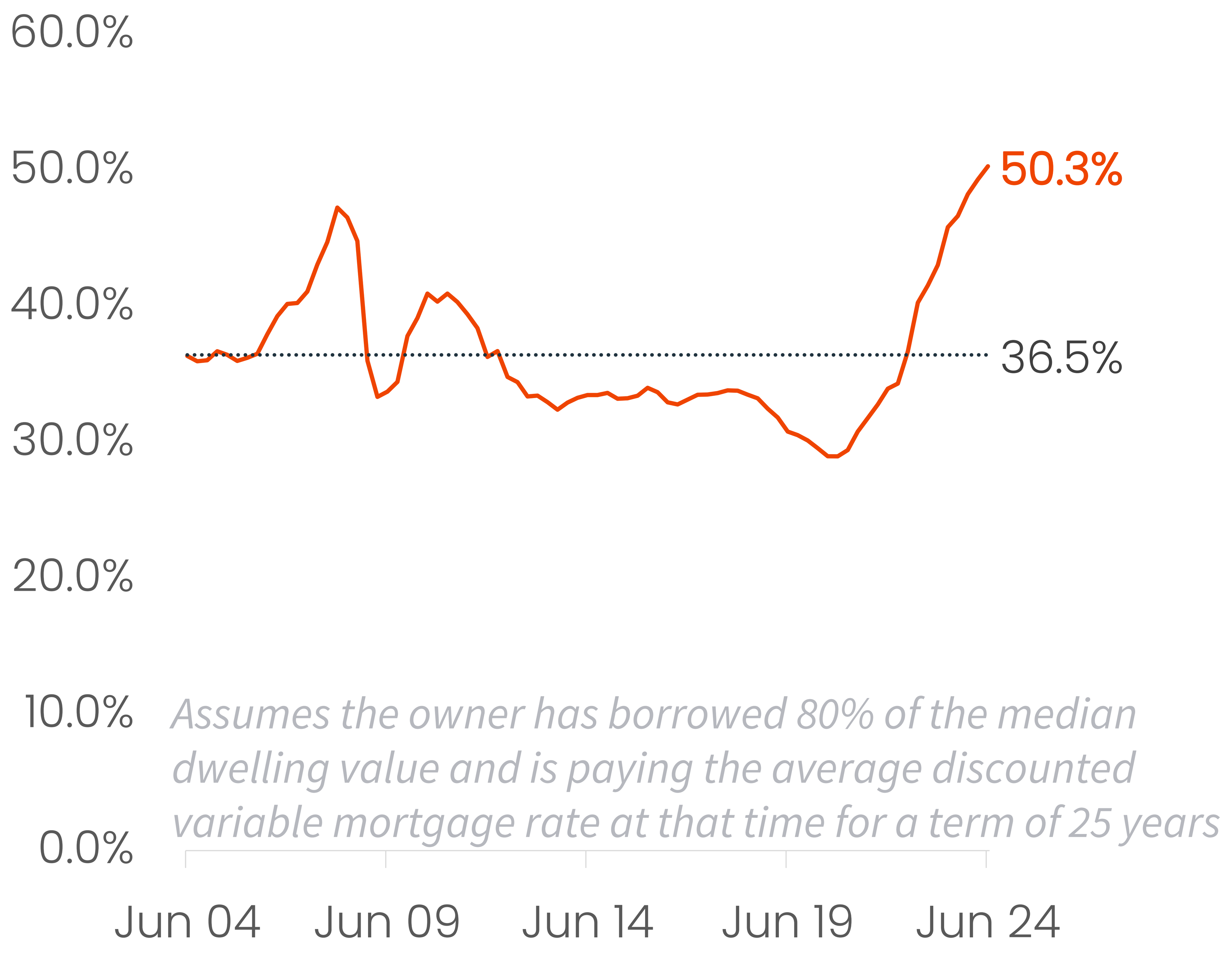
Source: CoreLogic

Affordability challenges and lower borrowing are capacity deflecting demand towards lower price points

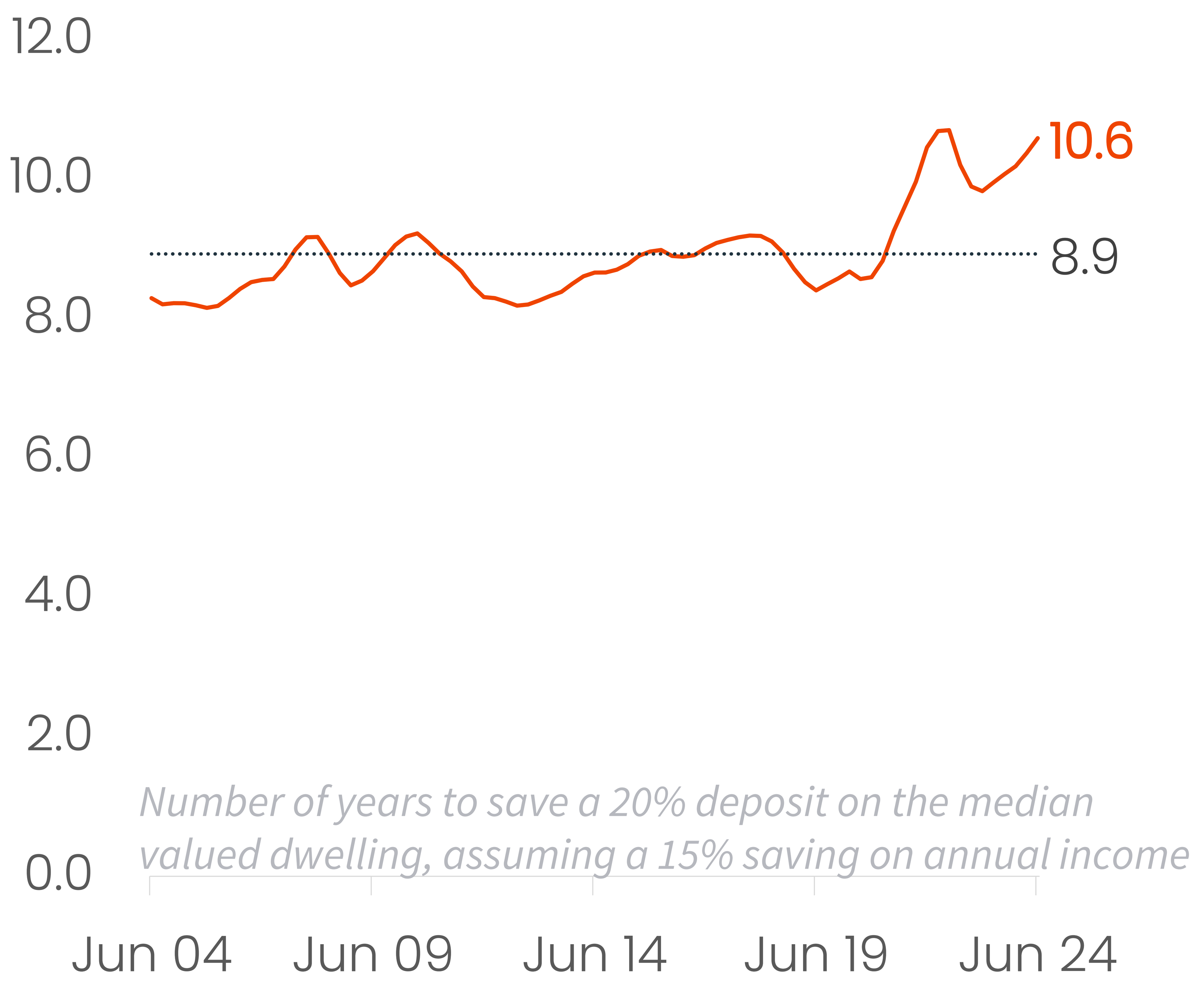
Dwelling value to income ratio



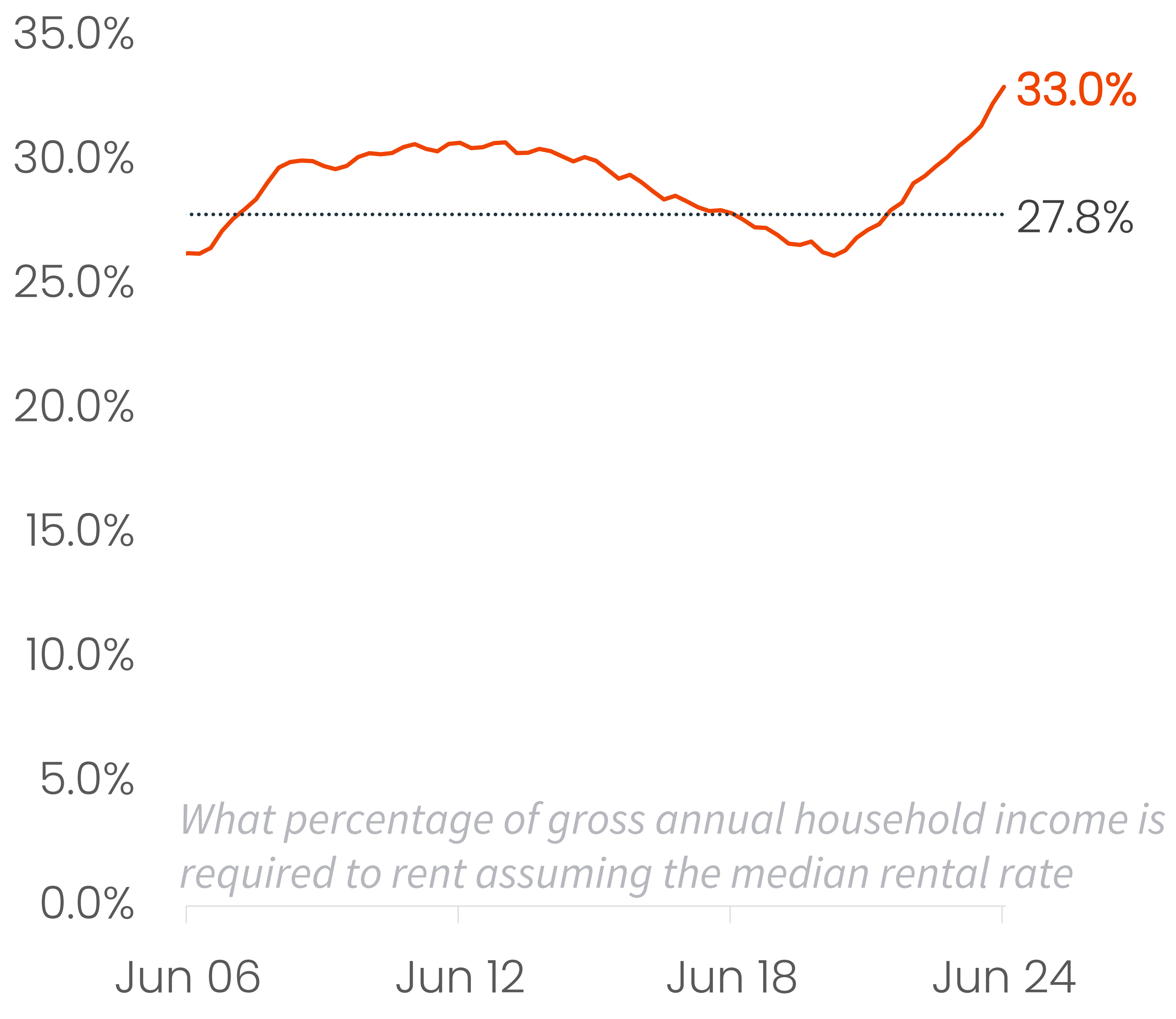
% of income required to service a new mortgage



Years to save a 20% deposit



% of income required to pay rent

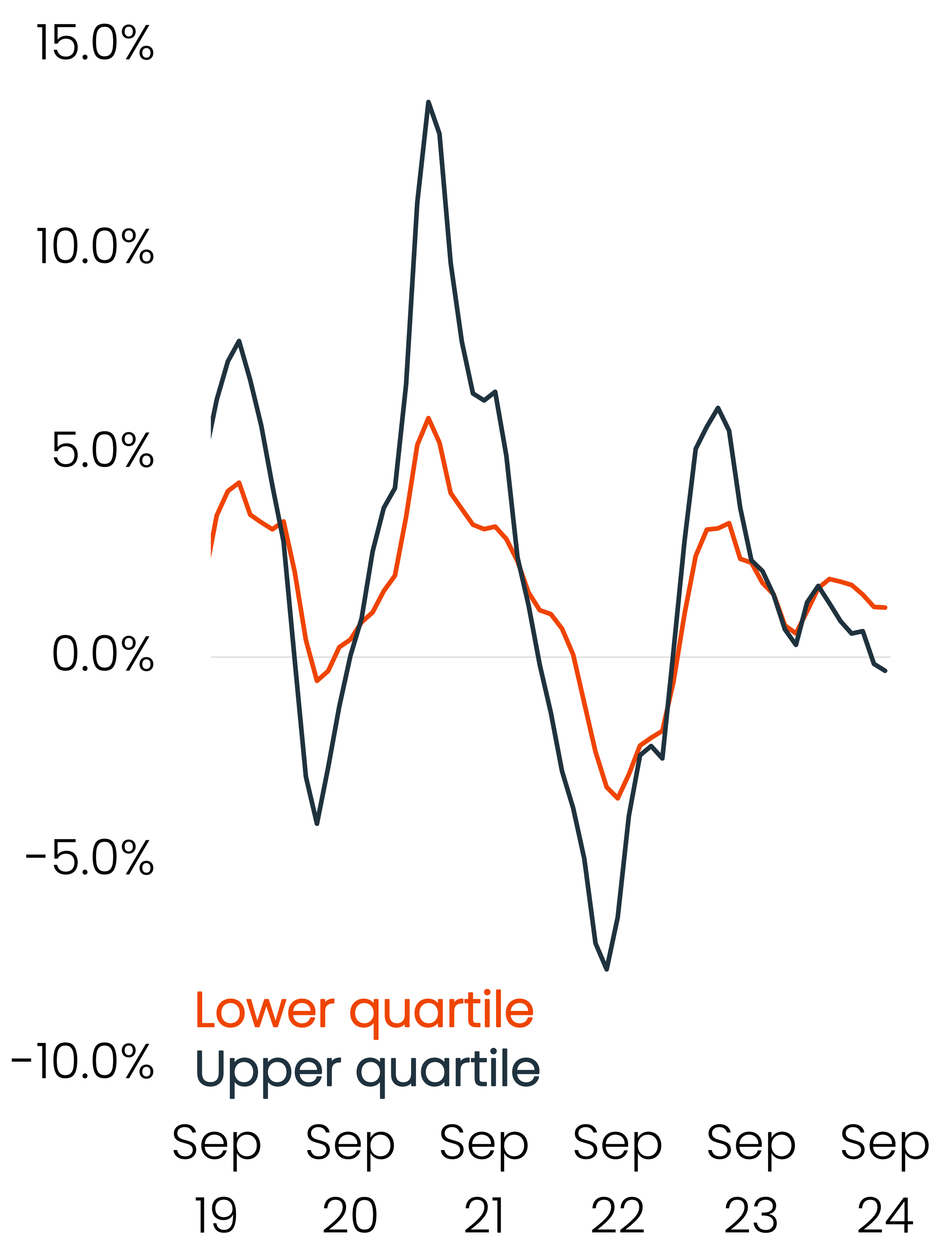


Source: CoreLogic, ANU

Properties across the lower quartile of the value range are now leading the pace of growth

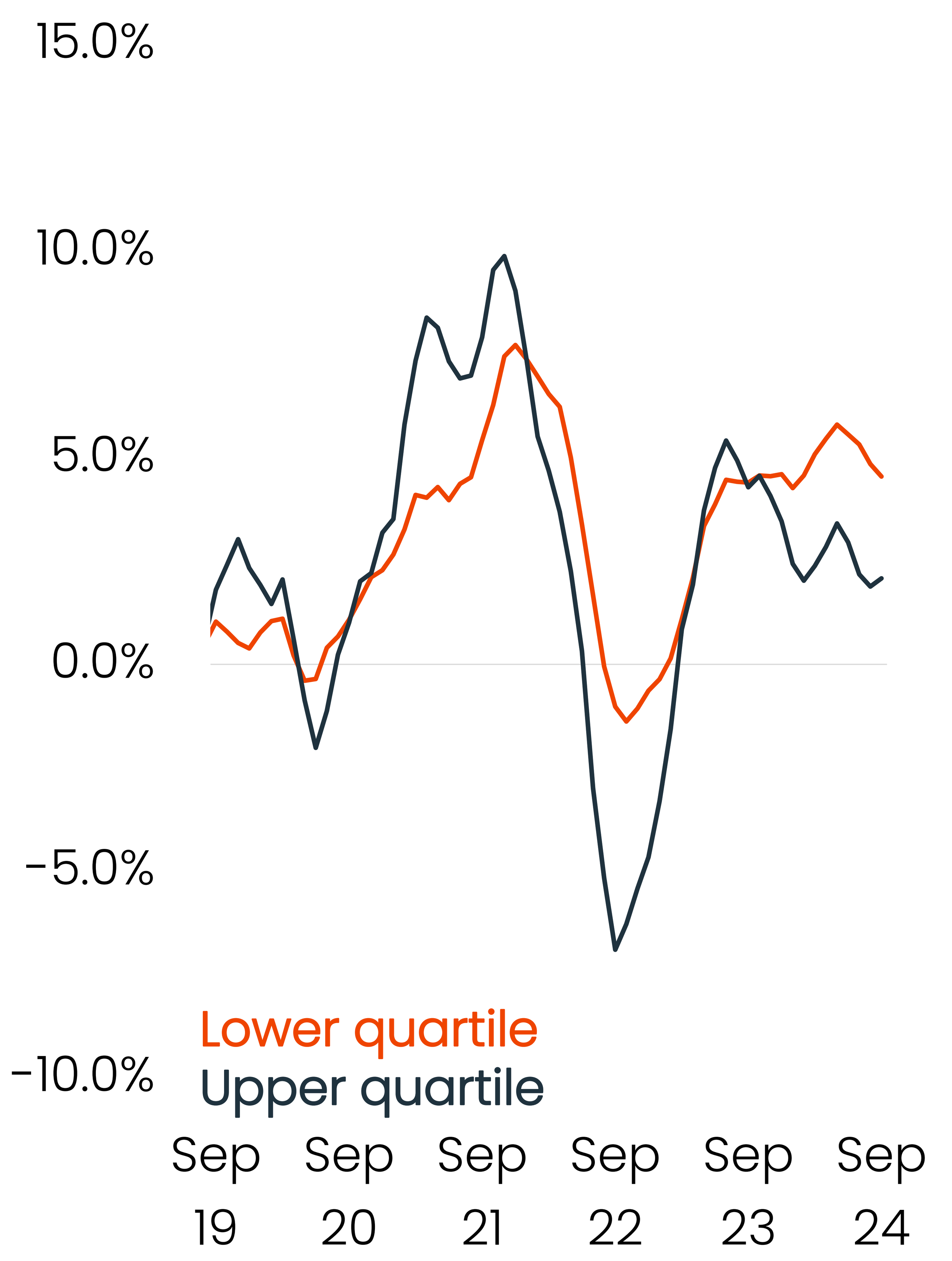
After the upper quartile led the 2023 upswing, lower quartile values are now recording a stronger rate of appreciation as demand is deflected towards lower prices points.

Quarterly change in dwelling values, Sydney

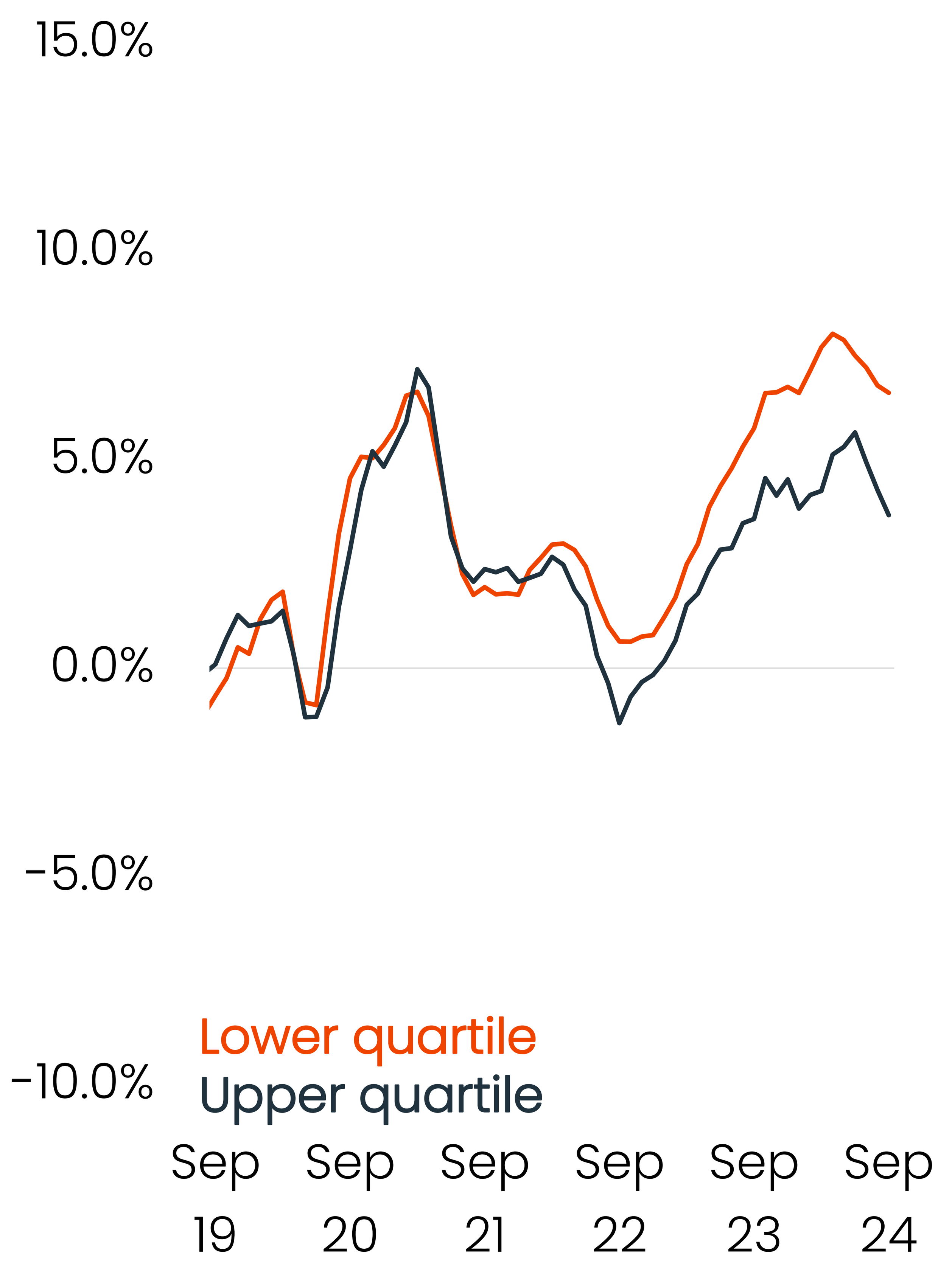


Quarterly change in dwellings values, Melbourne

Quarterly change in dwelling values, Brisbane



Quarterly change in dwelling values, Perth



Source: CoreLogic

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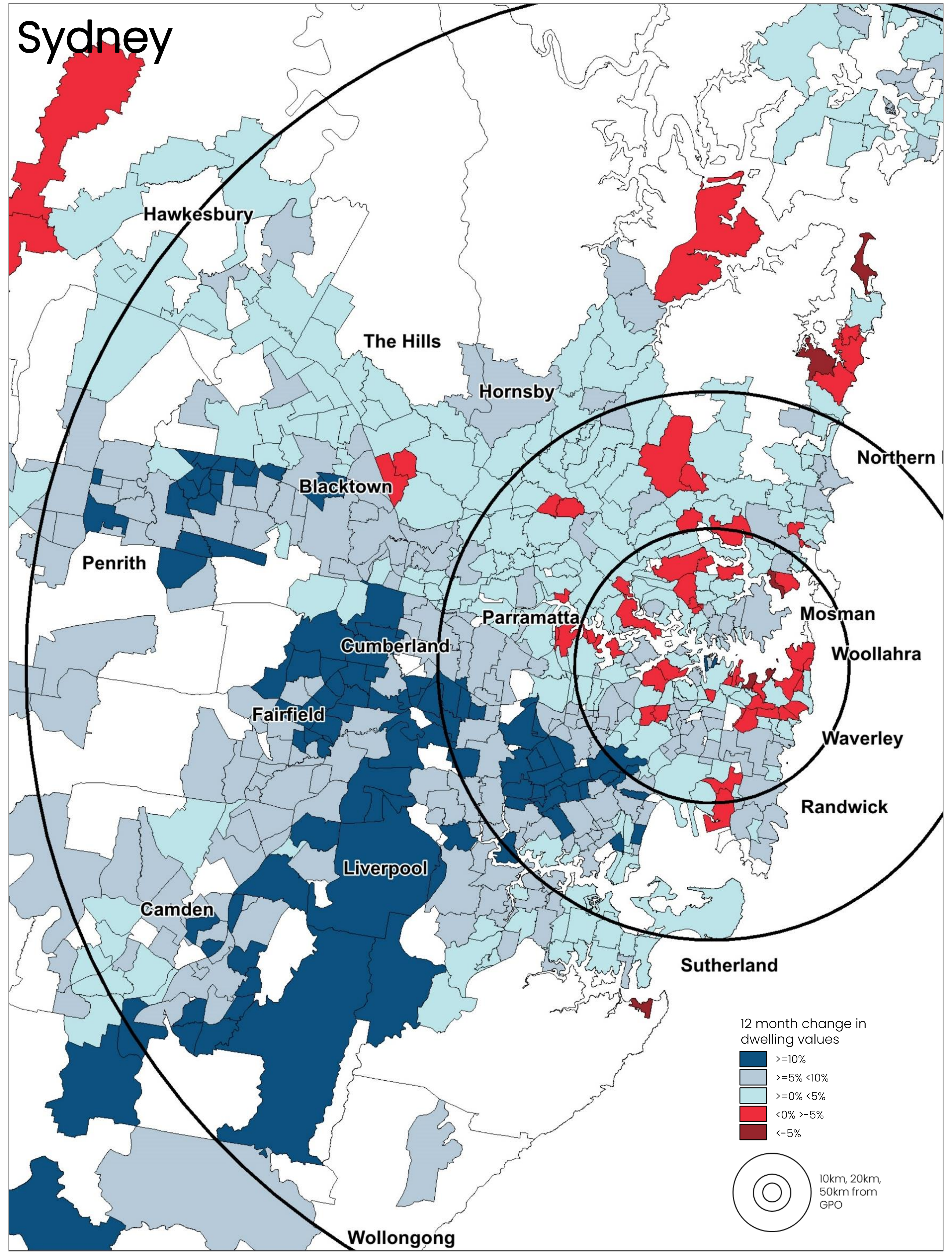
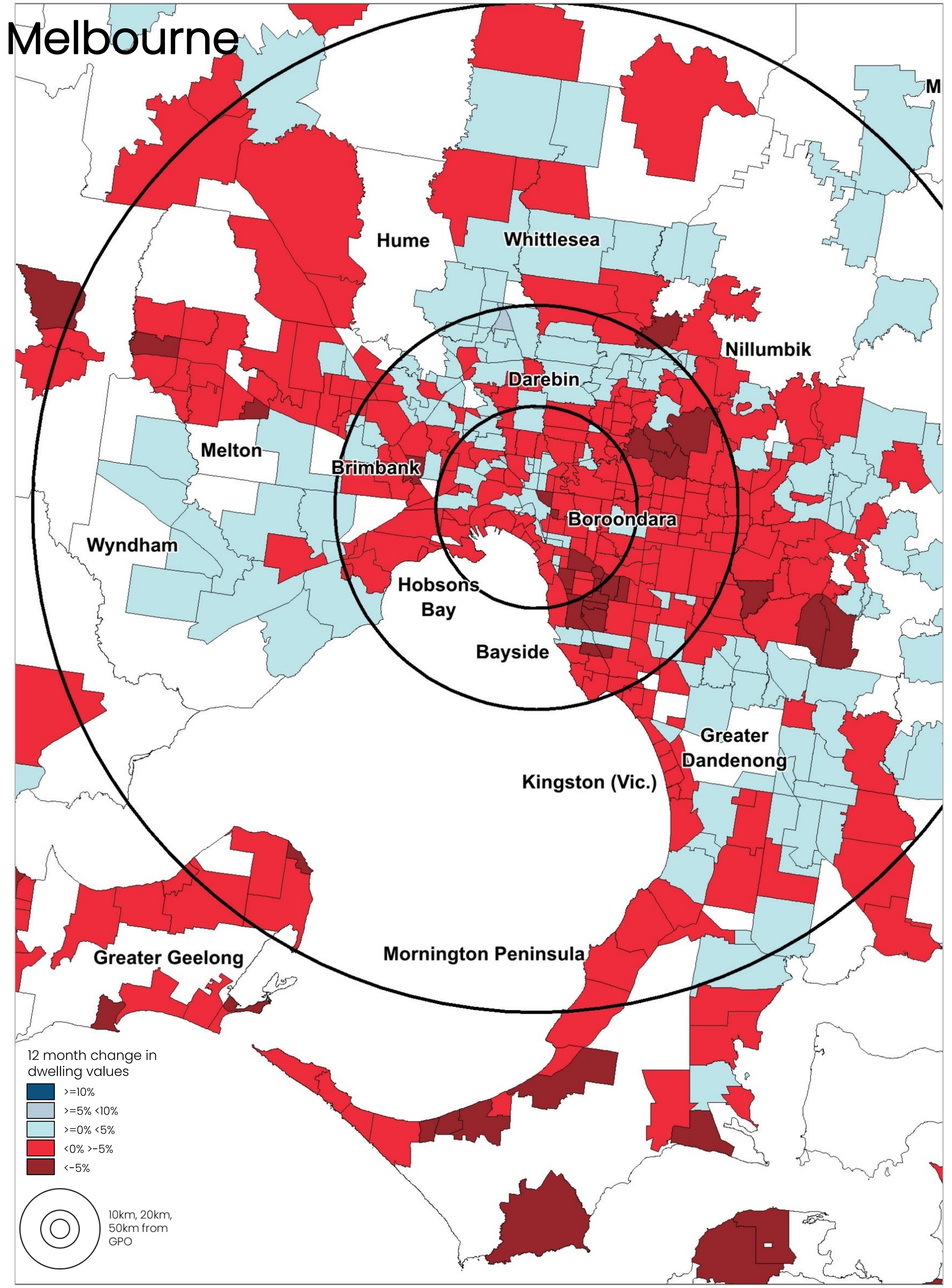
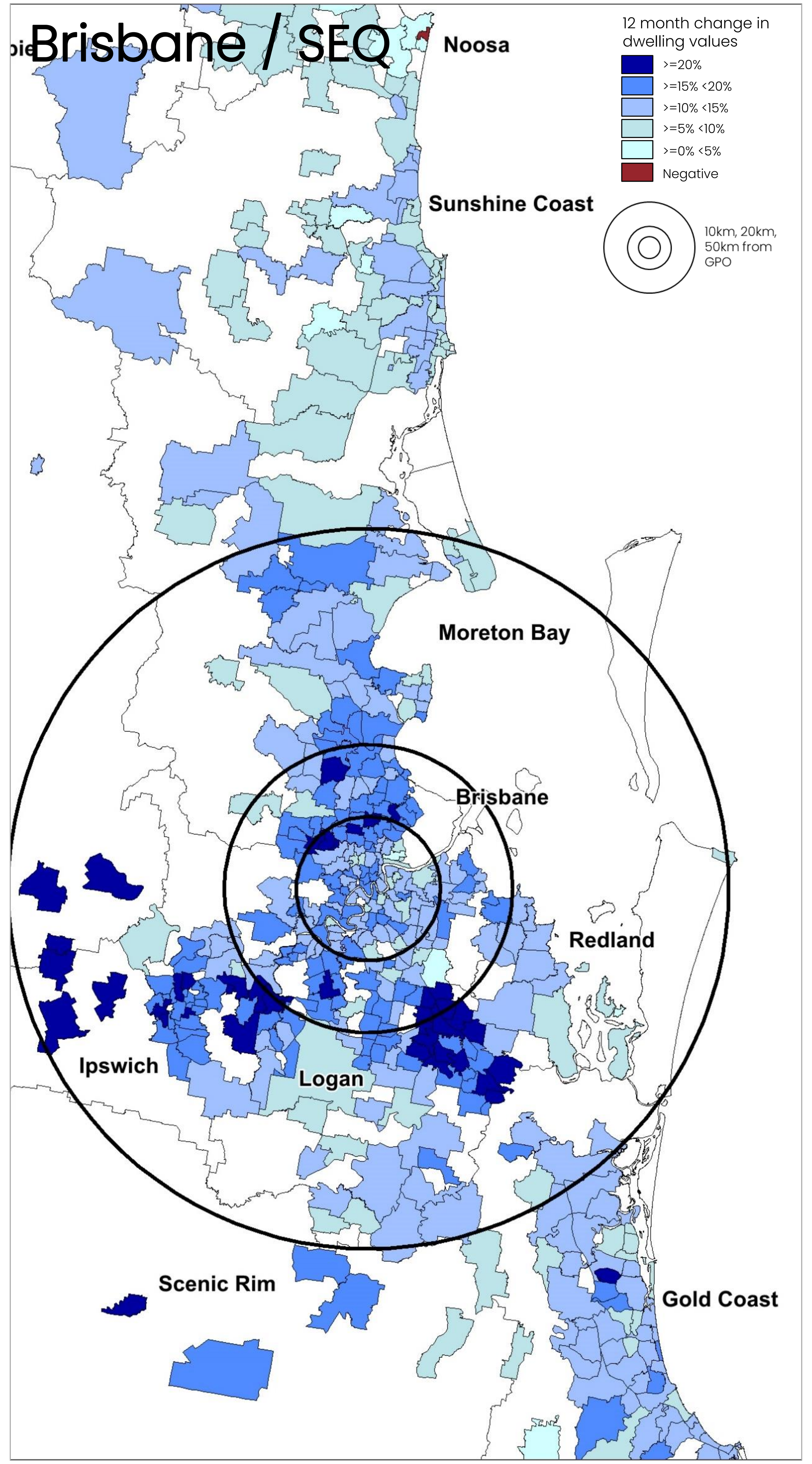
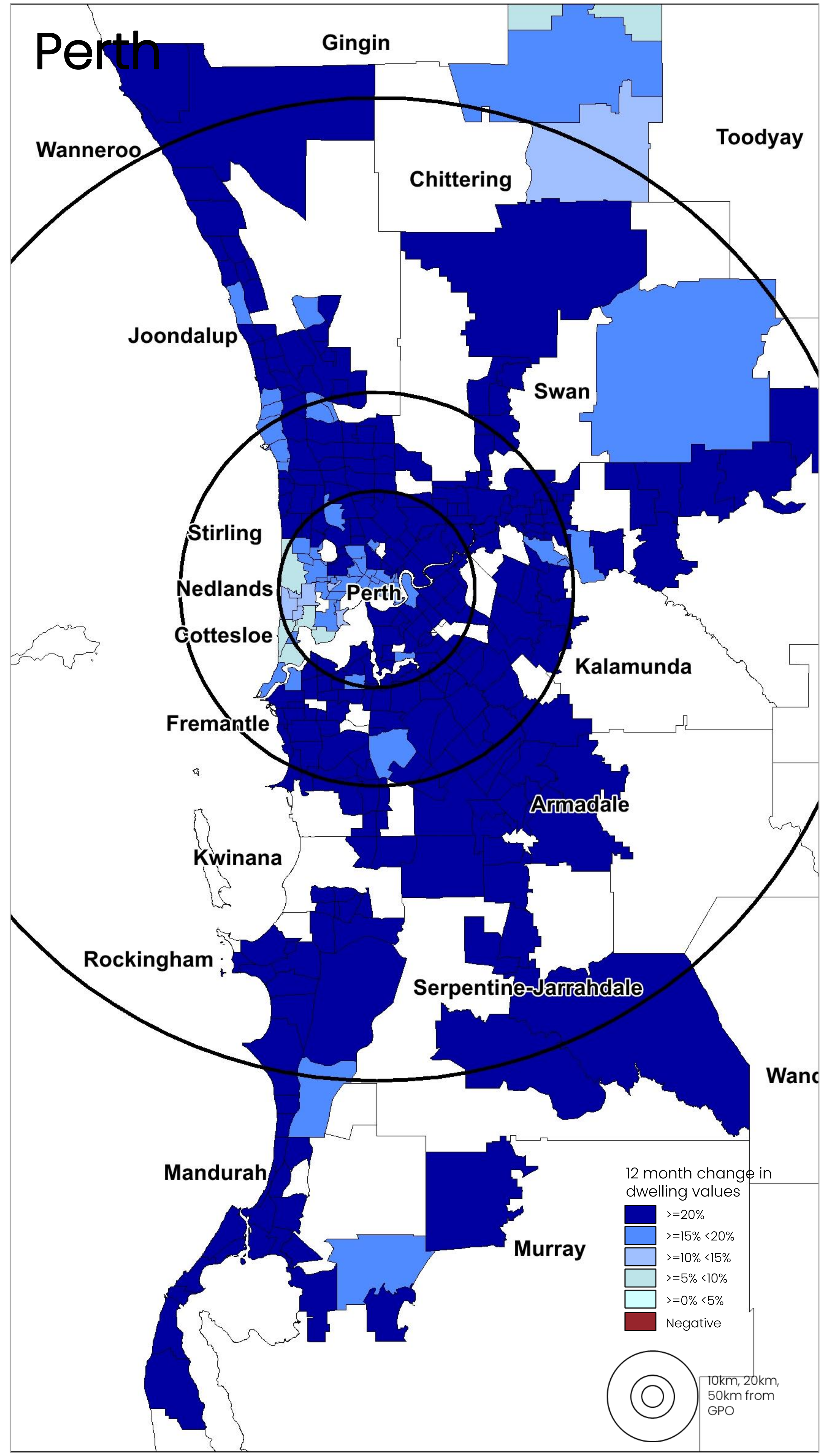
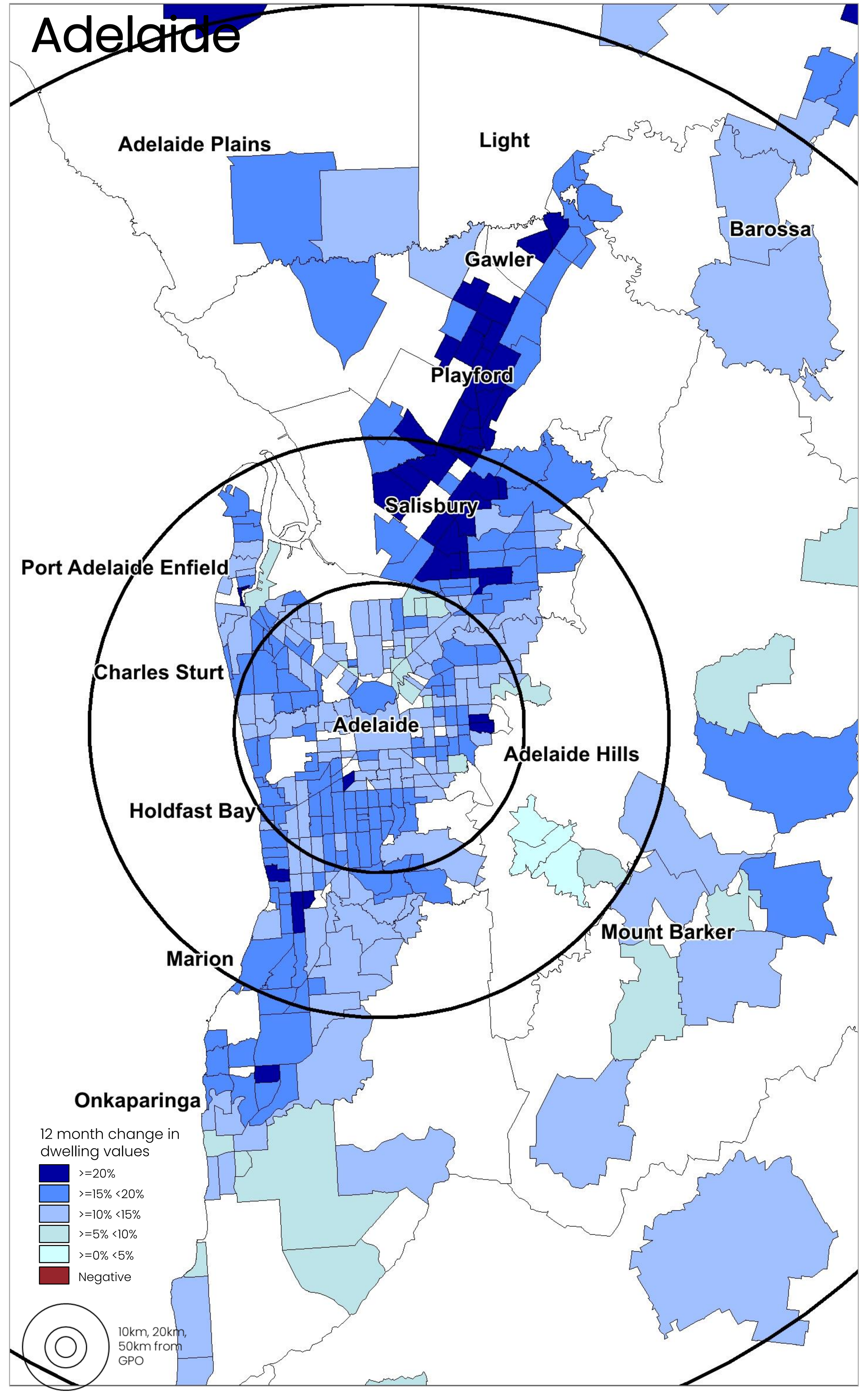






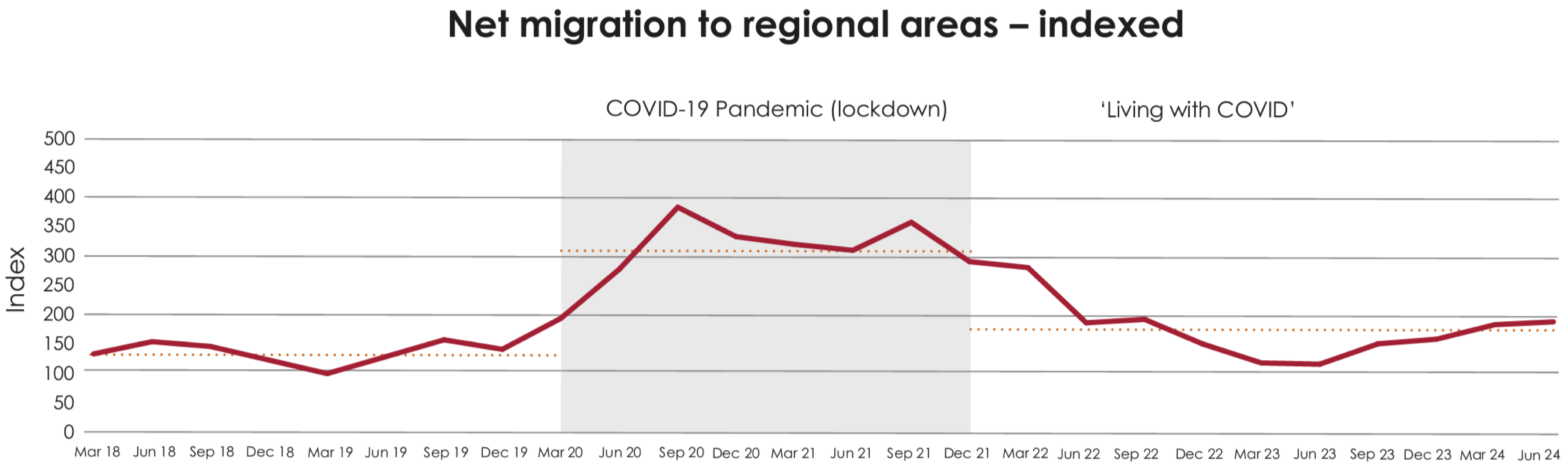




 Source: CoreLogic

The demographic shift that favoured regional Australia through the worst of the pandemic has eased

Migration to regional Australia 'boomed' through the pandemic due to a combination of more people leaving the cities but also fewer people leaving the regions. Although the trend temporarily normalised, it looks like internal migration is once again gathering some pace across regional Australia. The regional migration index was 42.5% higher than the pre-COVID average in the June quarter.



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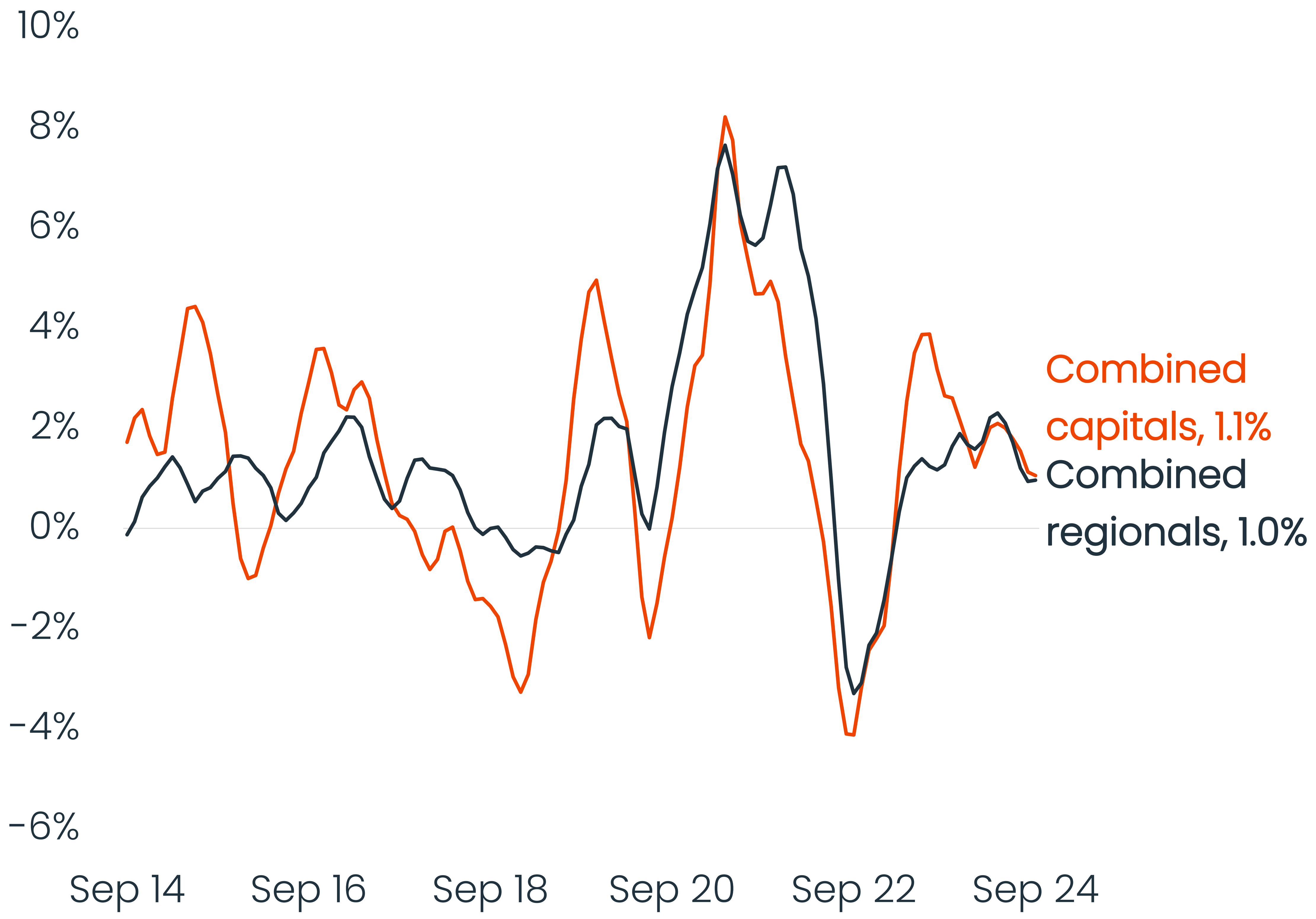
Source: Regional Australia Institute Regional Movers Index

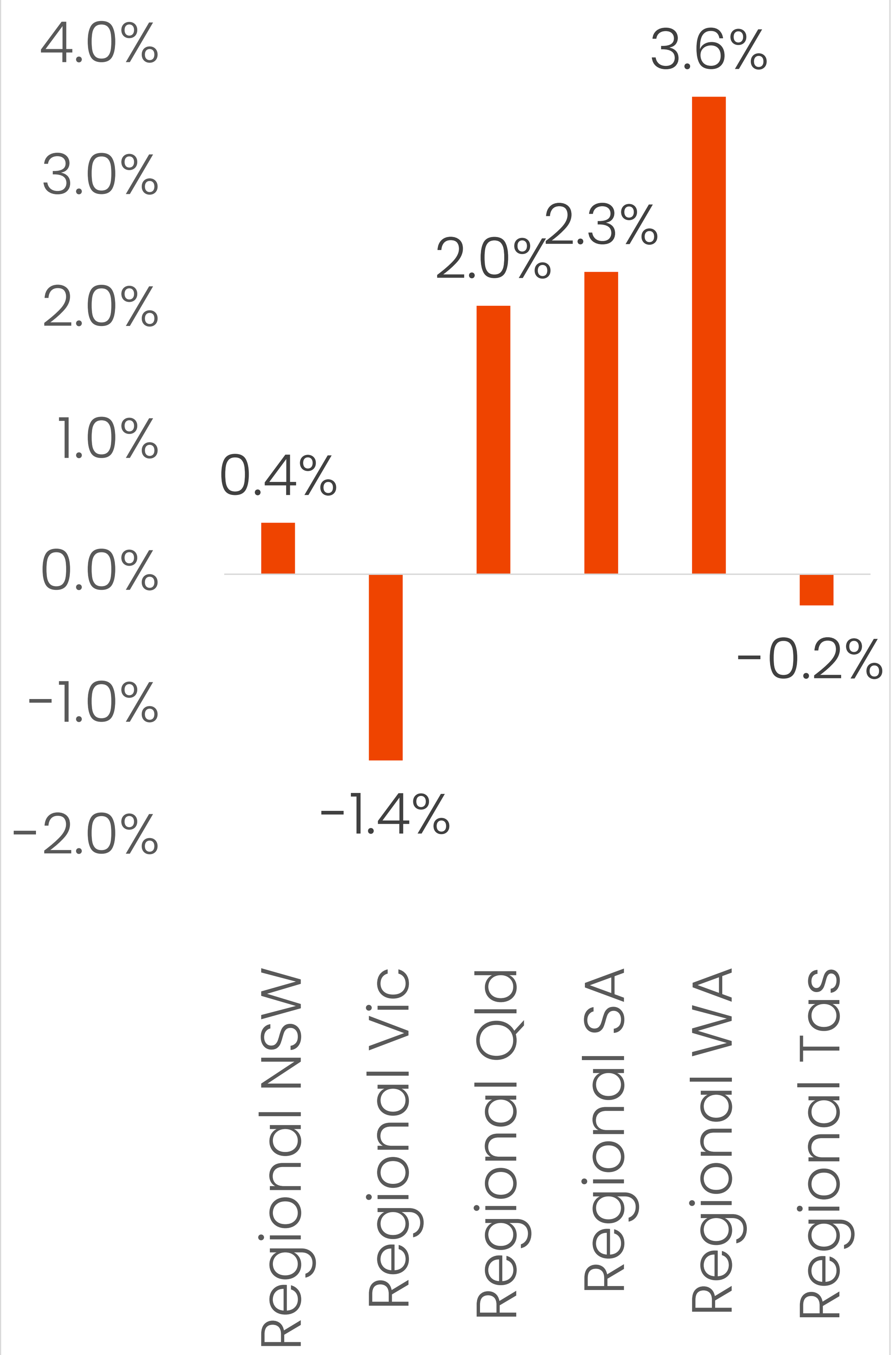
With less migration, regional housing trends have lagged the capital cities through the early phase of the current upswing

Momentum now looks to be leaving the value growth trend across both the capitals and regional areas of Australia, albeit with weaker conditions across regional Vic and regional Tas.

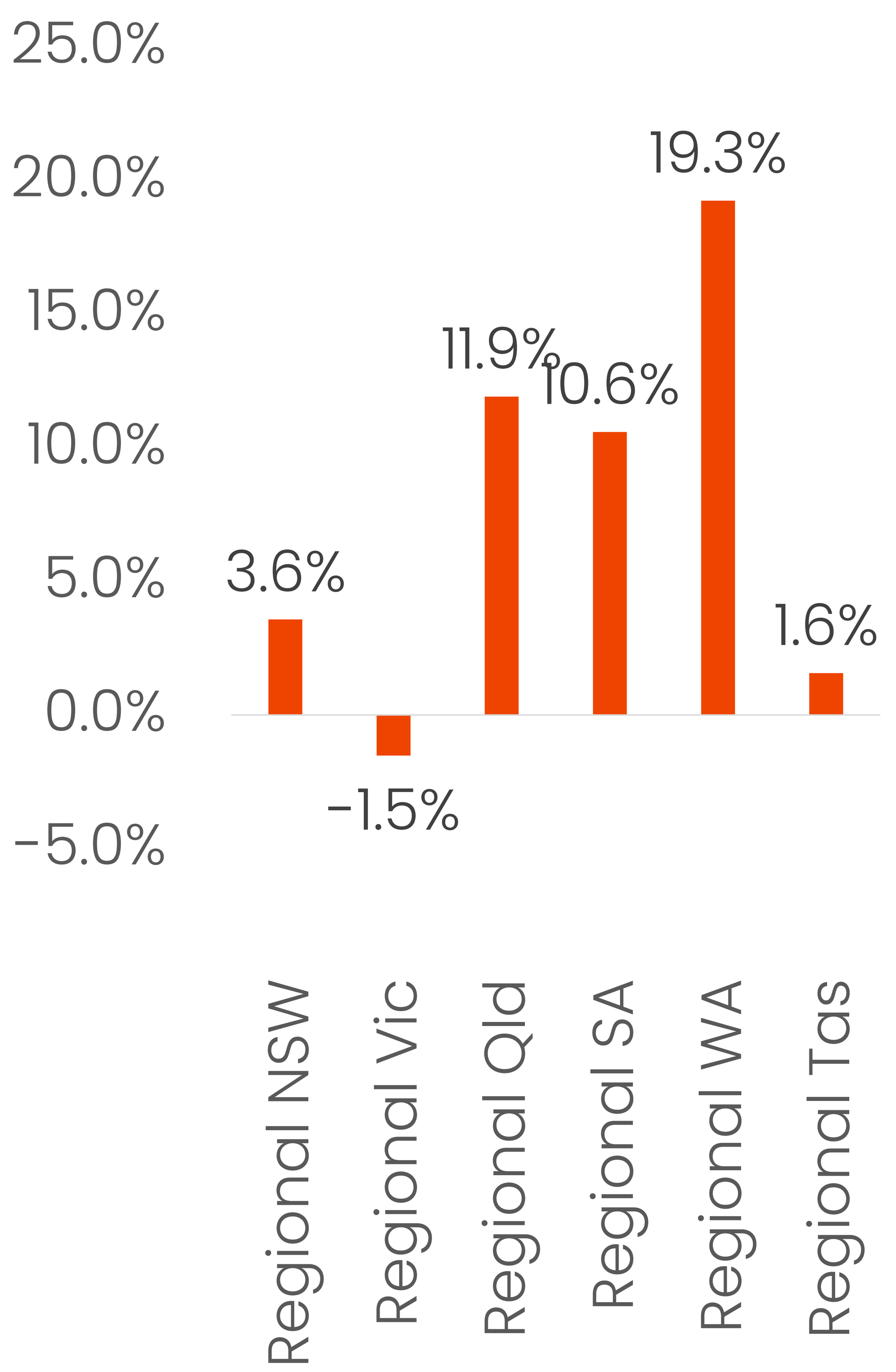
Rolling three month change in dwelling values – combined capital cities v combined regional areas



Three month change in values



Twelve month change in values



Source: CoreLogic

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Advertised supply and purchasing demand are rebalancing.

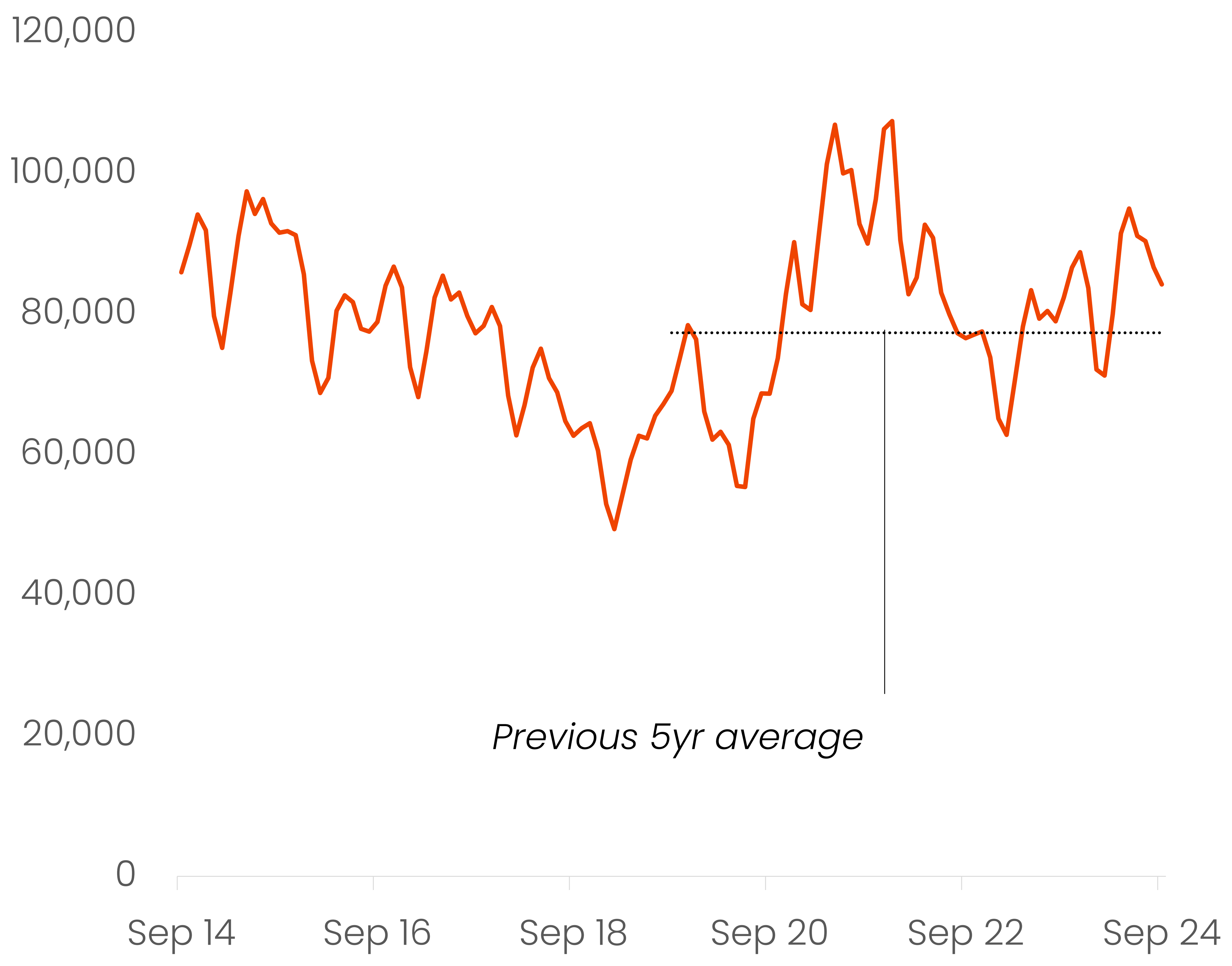
- Purchasing activity has held above the decade average despite an array of headwinds including high interest rates, cost of living pressures and near record levels of housing un-affordability.

- However the recent trend is showing a fade in purchasing activity at a time when advertised stock levels are rising.

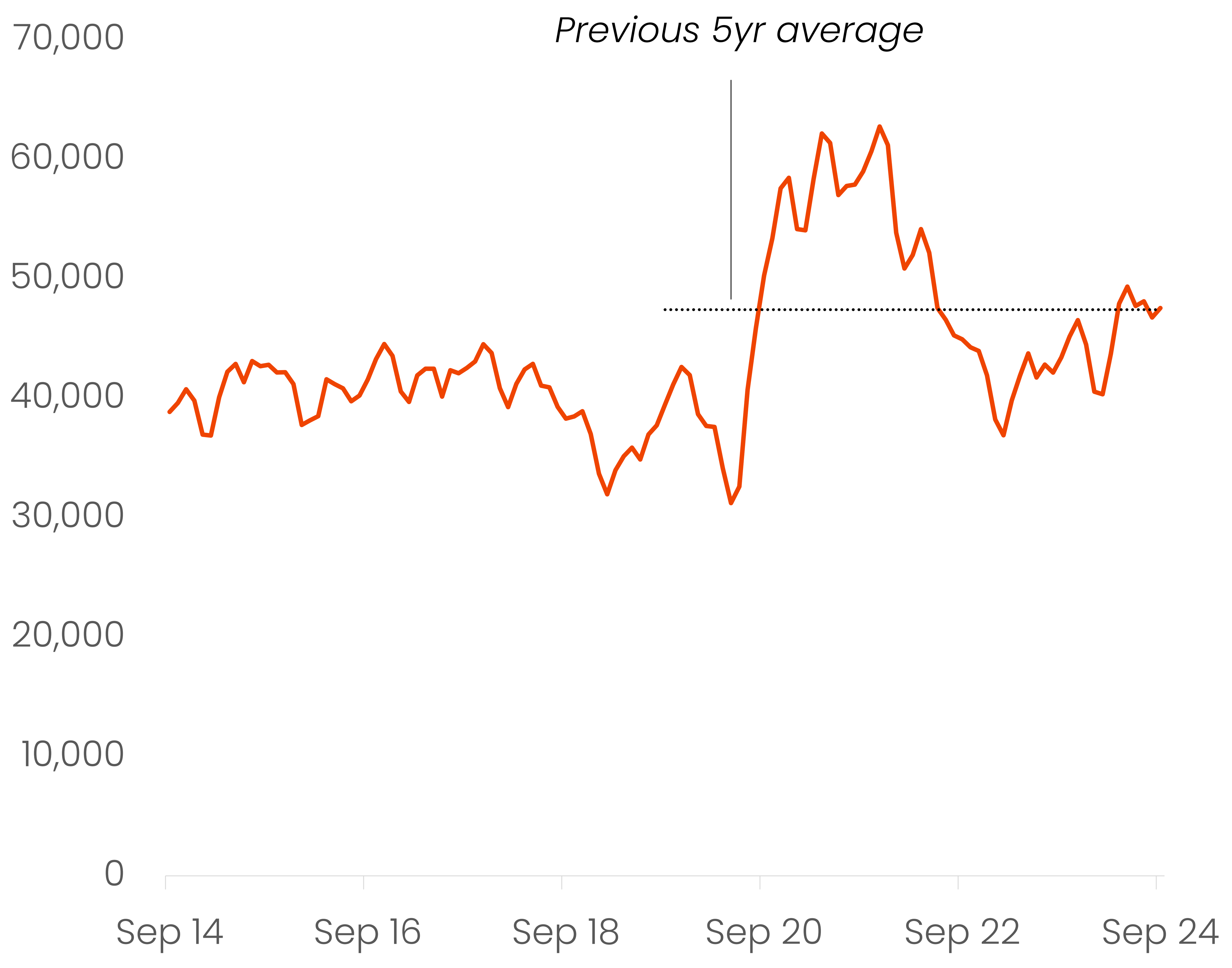
Despite an array of headwinds, purchasing activity has held above average levels over the past year.

The more recent trend has shown a reduction in purchasing since May.

Rolling quarterly volume of dwelling sales, combined capitals



Rolling quarterly volume of dwelling sales, combined regionals



Source: CoreLogic Note recent months are estimates and will revise

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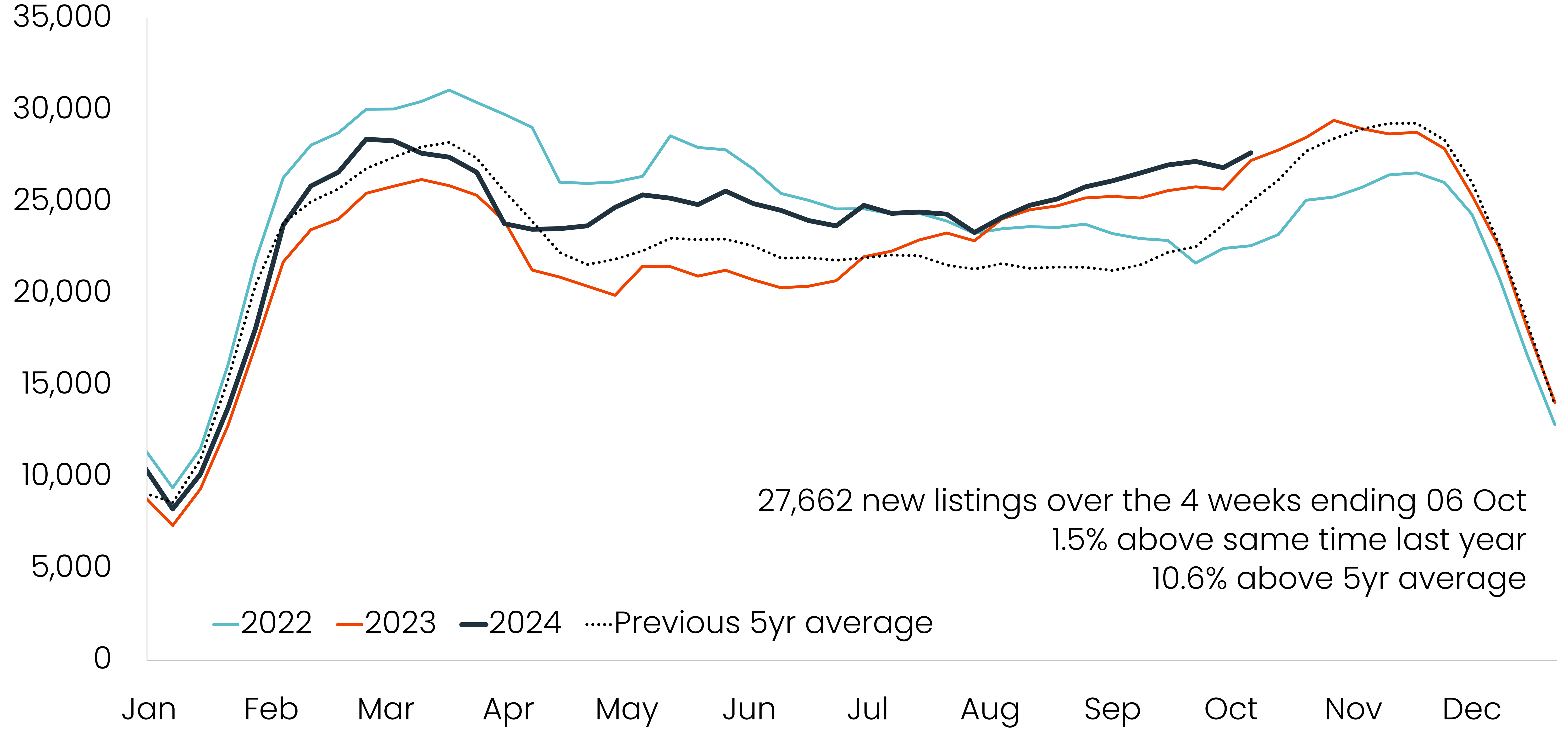
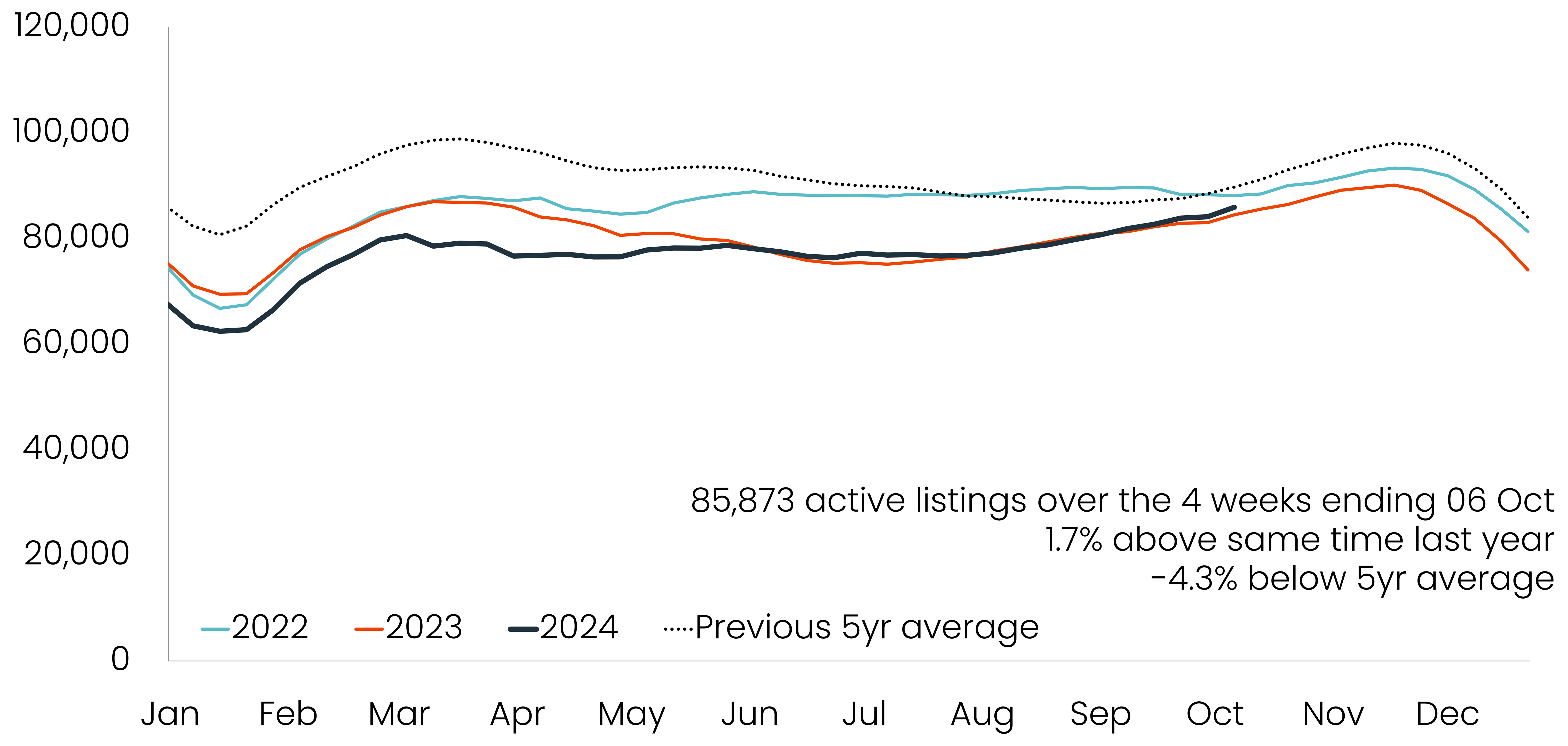
Low advertised stock levels help to explain the broad upwards pressure on values

But vendor activity is ramping up, with the flow of fresh capital city listings now tracking about 13% above the previous five year average. Purchasing activity isn't keeping pace, resulting in a rise in total inventory.

Number of new listings, Combined capital cities Dwellings



Number of total listings, Combined capital cities Dwellings



Source: CoreLogic

Vendor activity is now tracking at above average levels in most cities… a turnaround from early 2023…

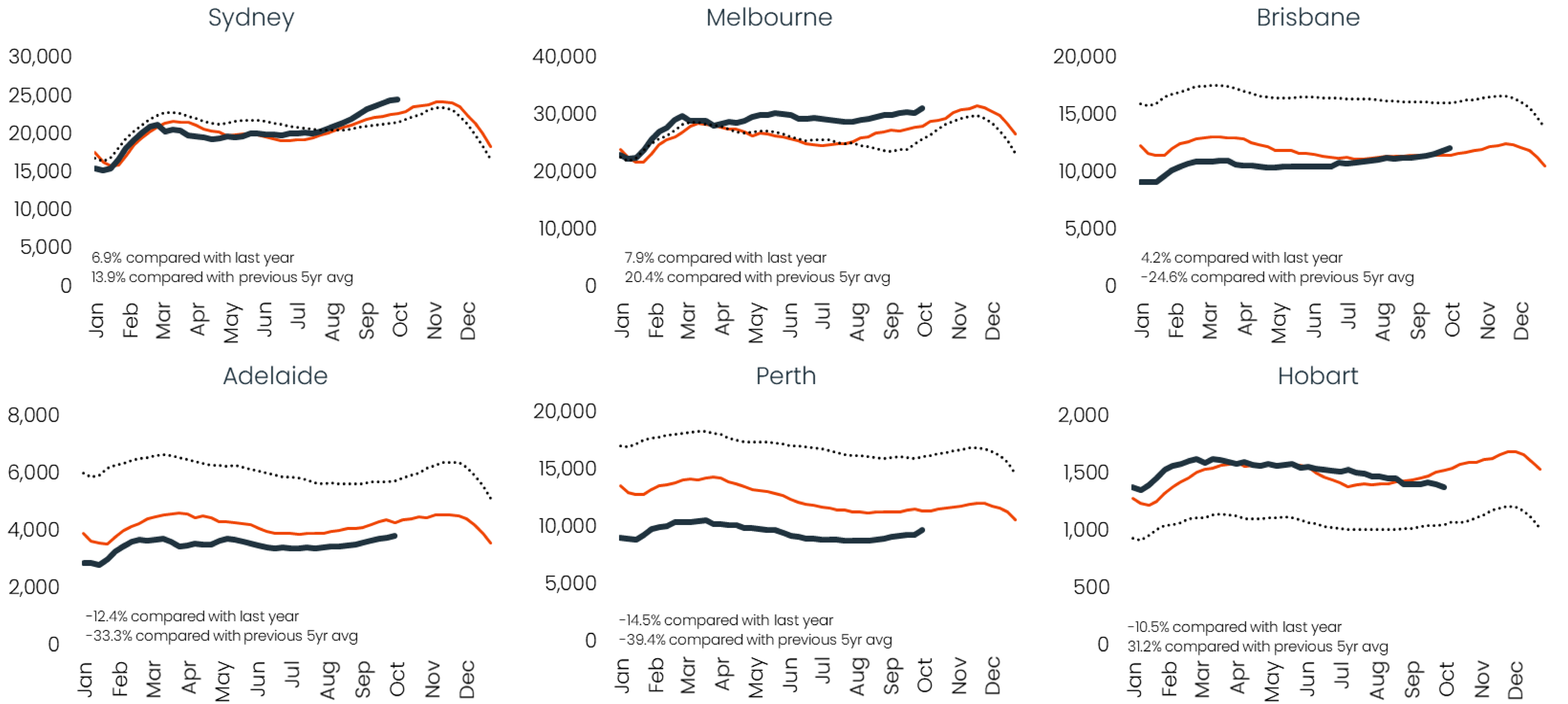
New listing trend relative to previous years, as at 06 Oct

2023 **2024** Previous 5yr avg

…but total advertised stock levels remain well below average across the strongest markets

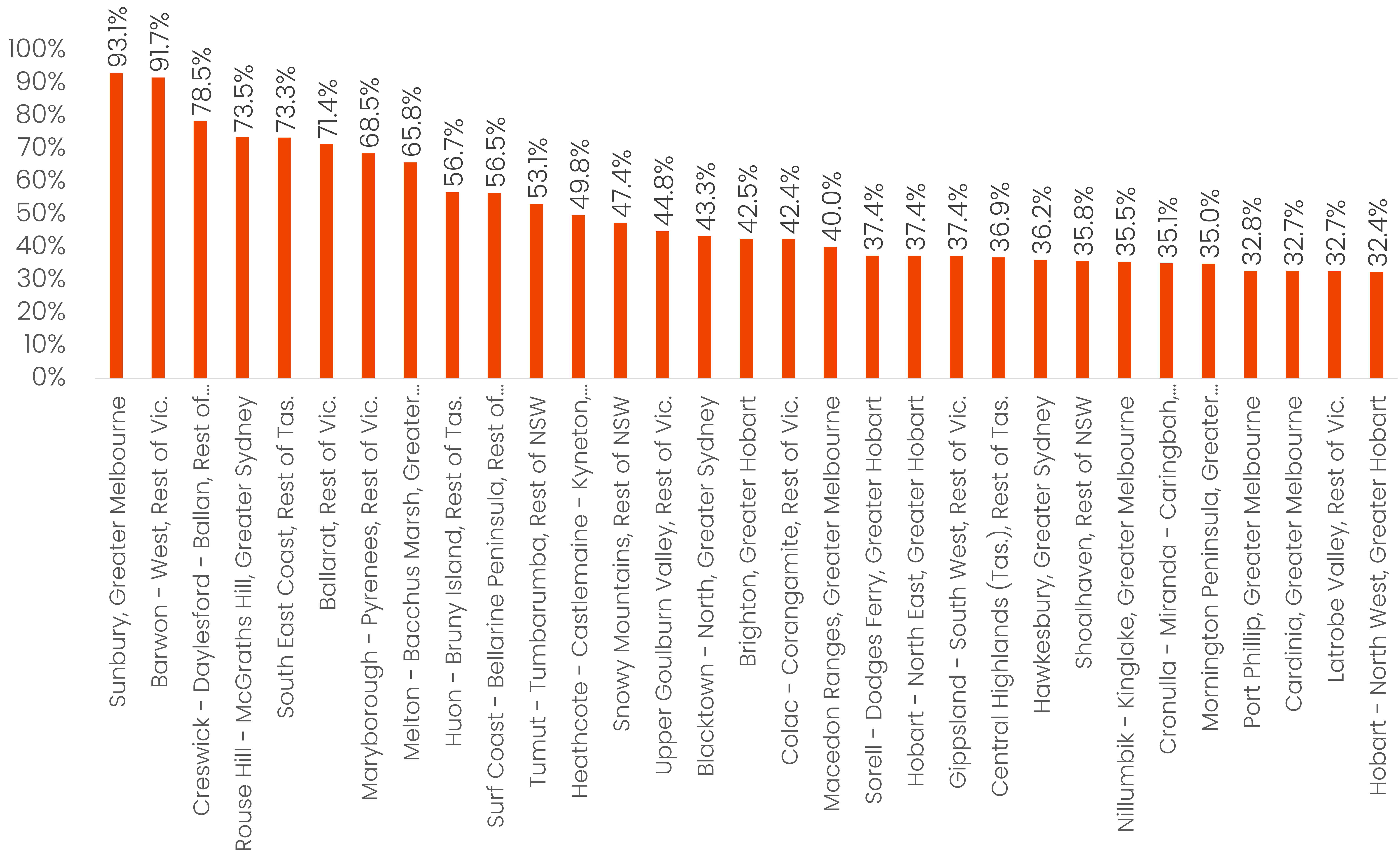
Total listing trend relative to previous years, as at 06 Oct

2023 **2024** Previous 5yr avg



Source: CoreLogic

Top 30: SA3 regions where listings are the highest against the previous 5yr average



Where is advertised supply the most elevated relative to the previous 5yr average?

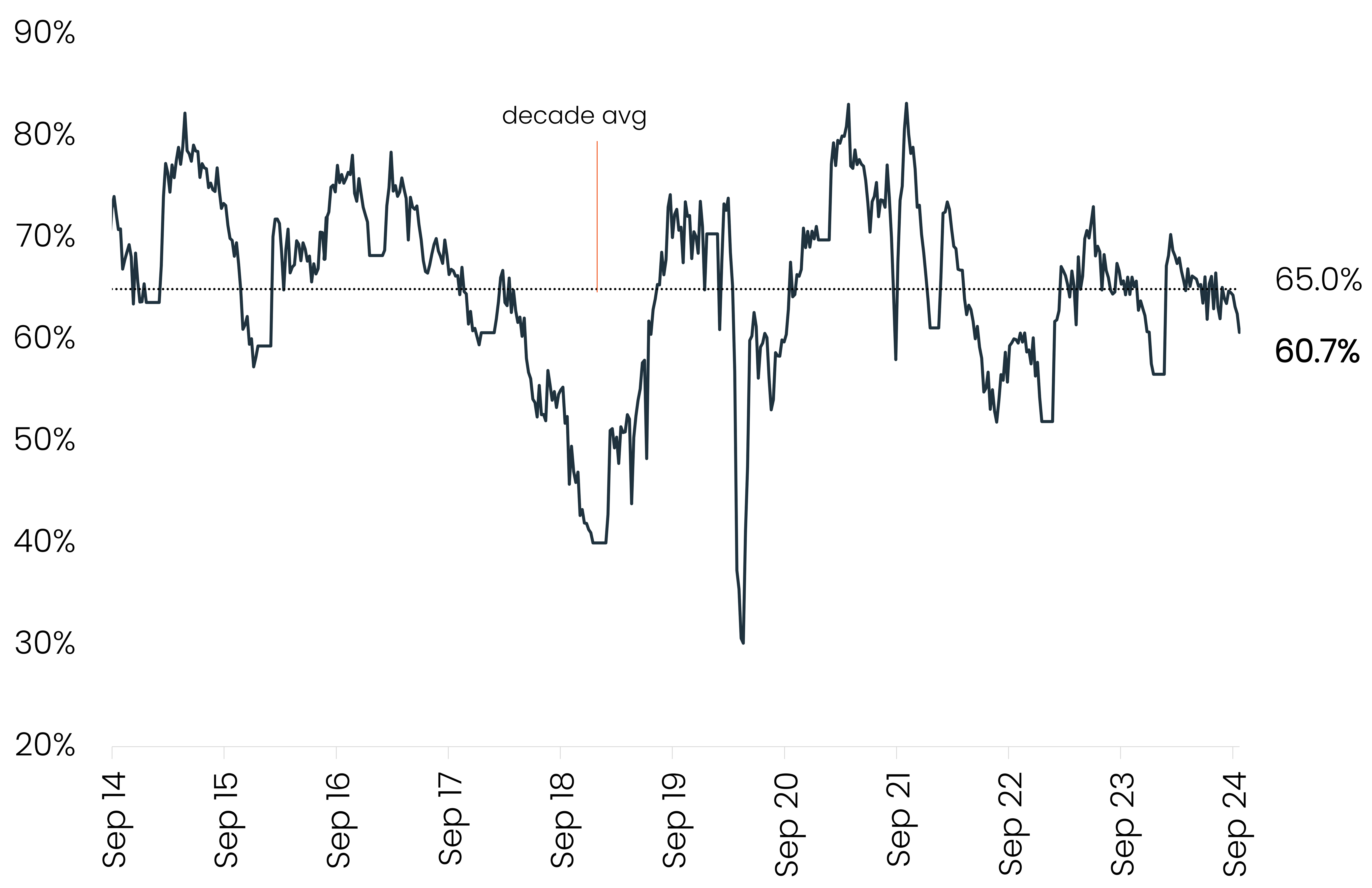
Areas of Victoria comprise the 6 of the top ten areas, while areas of Tasmania are also heavily represented.

Source: CoreLogic

Selling conditions are starting to favour buyers as stock levels rise

Auction clearance rates have fallen to the low 60% range across the major auction markets, well below the decade average.

Final auction clearance rate, combined capitals



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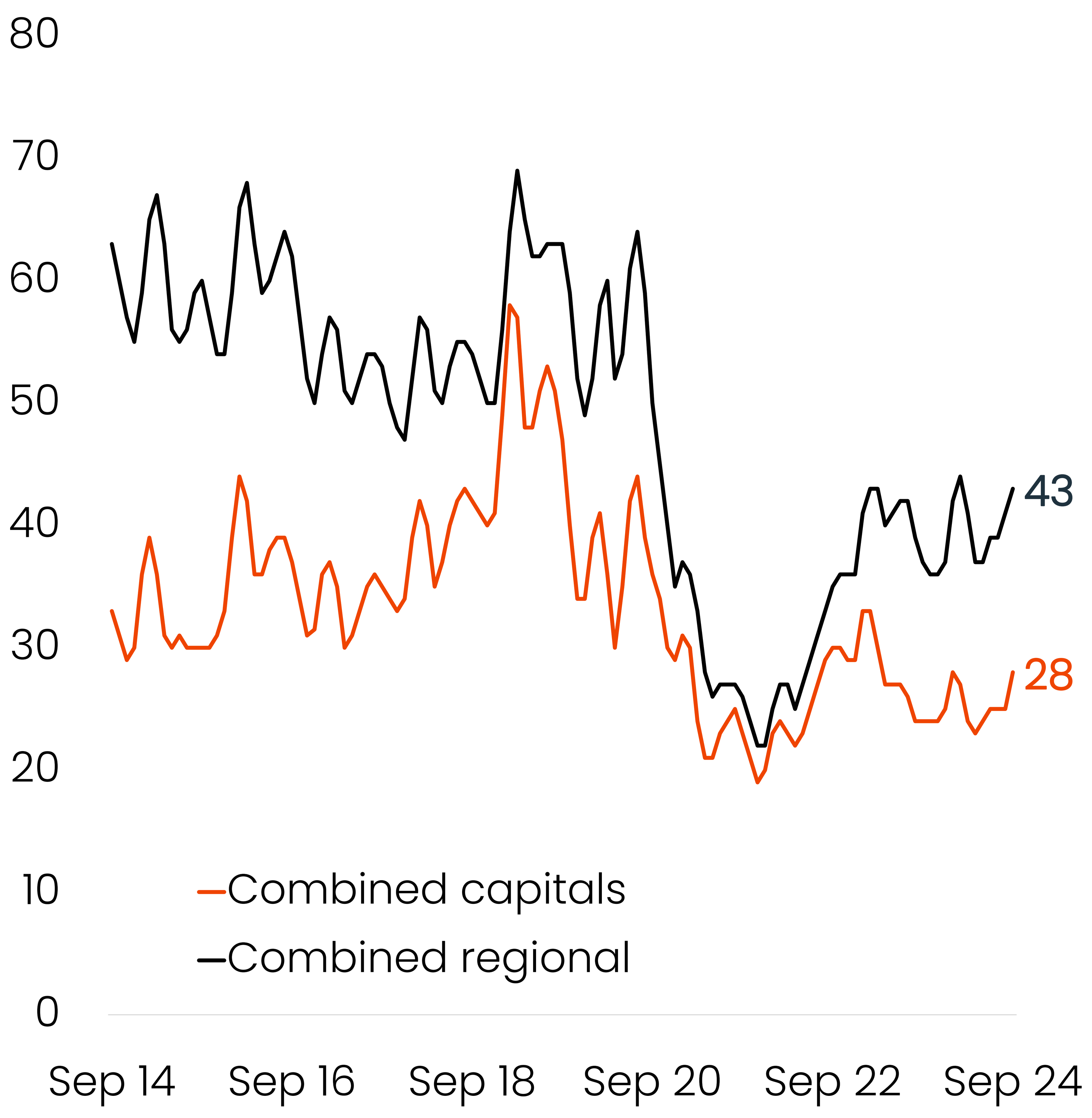
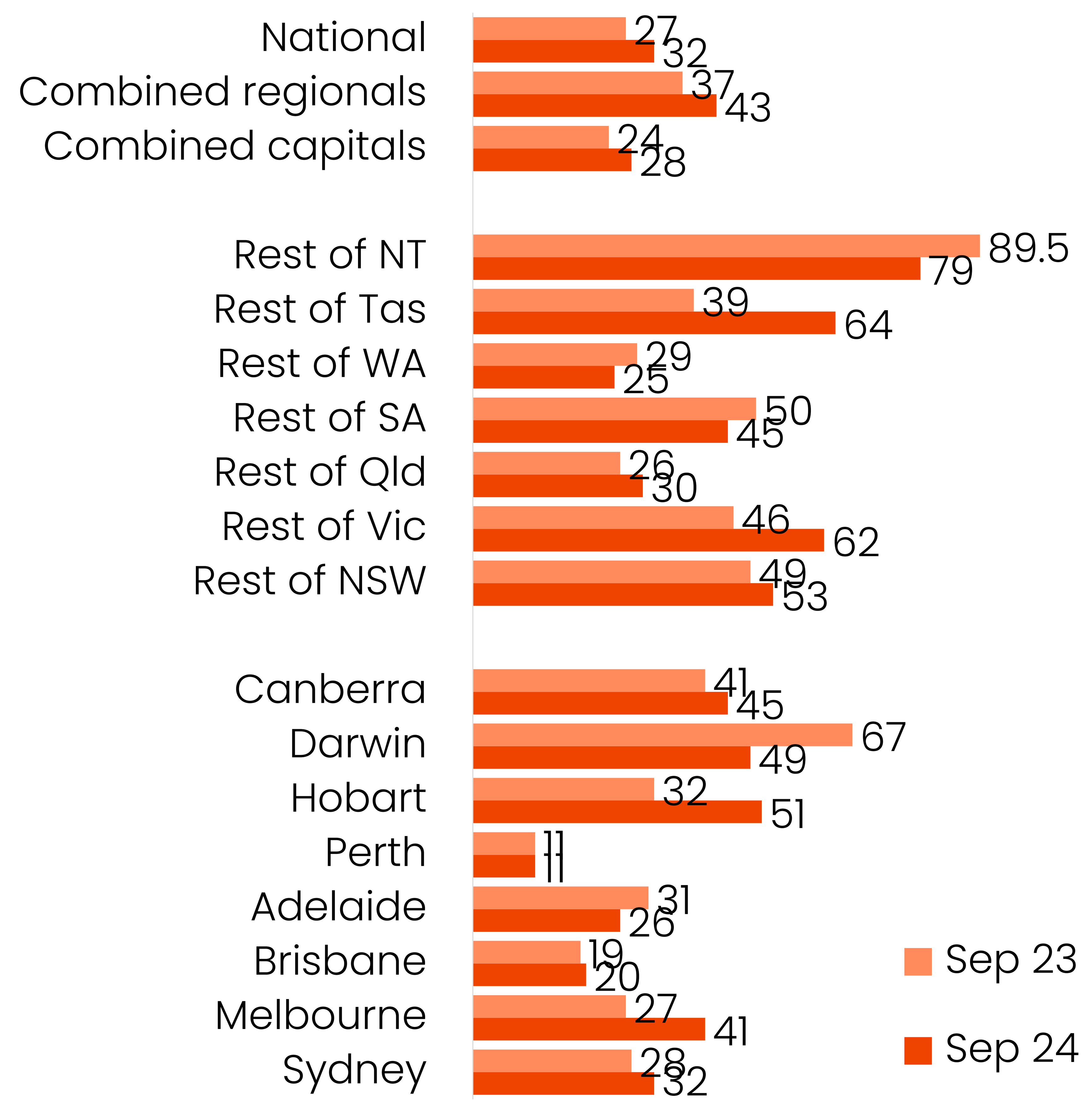
Source: CoreLogic

Capital city homes are selling in a median of 28 days, up from 24 days a year ago

Median days on market

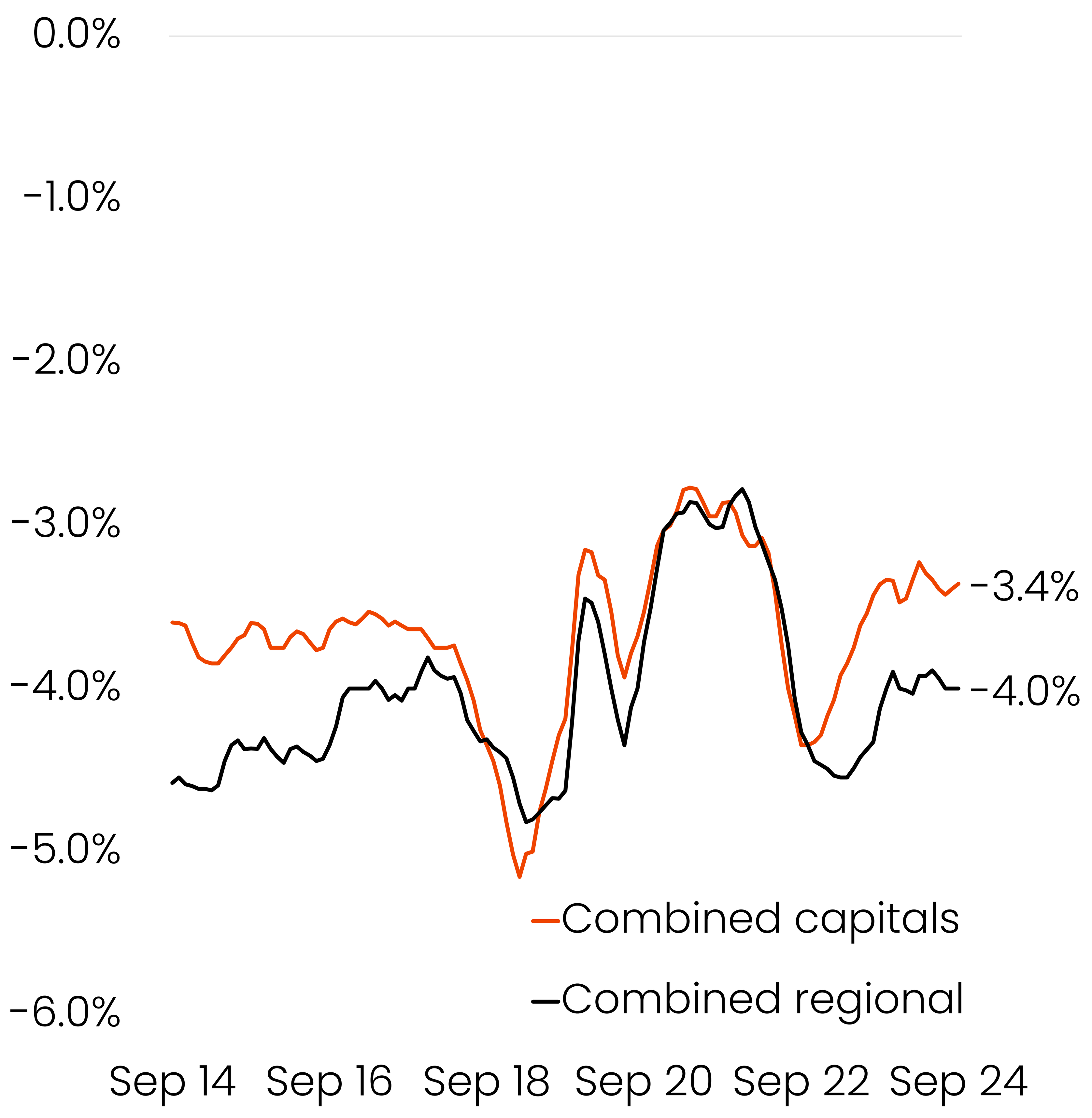


Median days on market

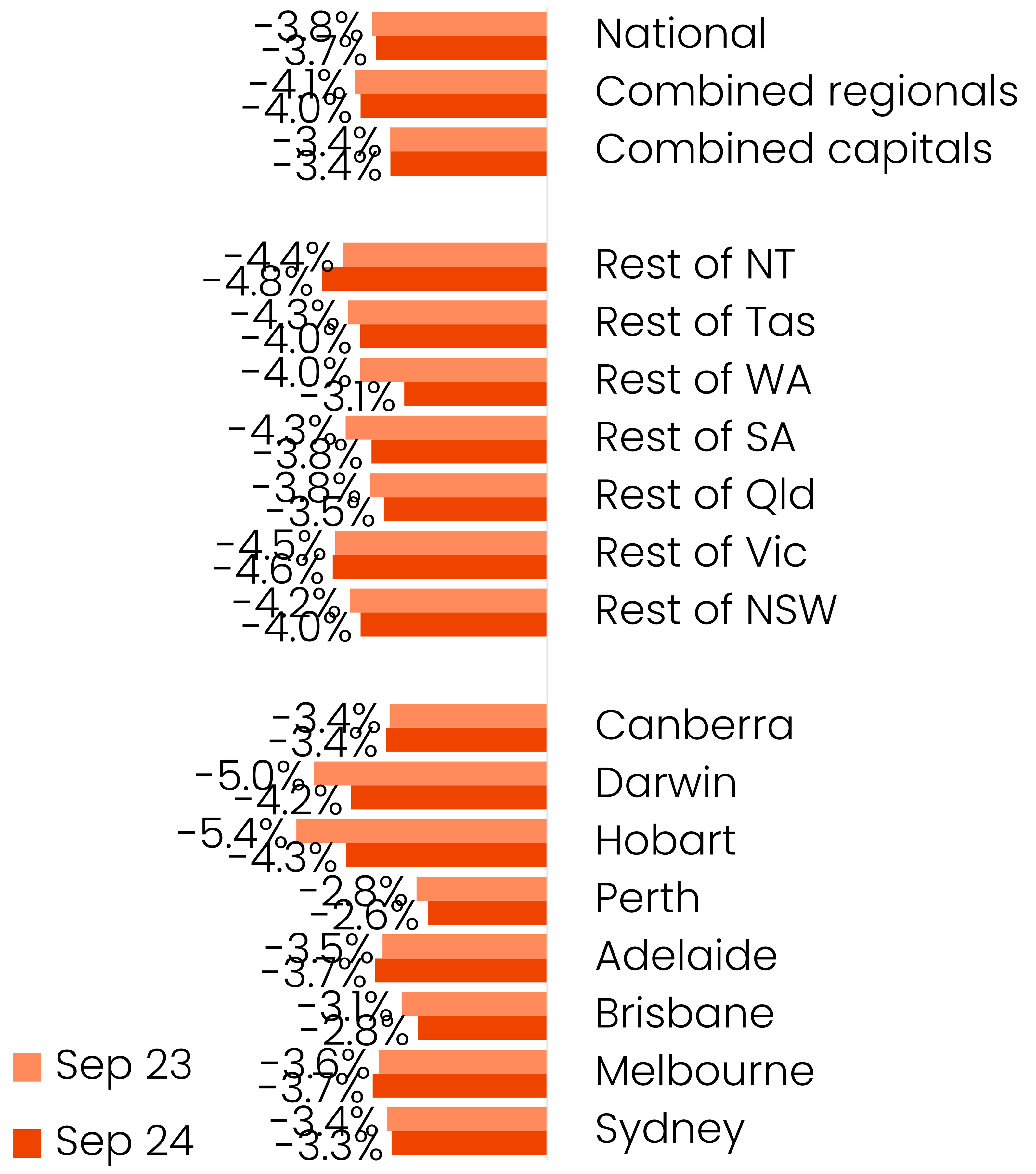


Discounting rates looks to have bottomed out as listings rise and homes take longer to sell.

Median vendor discount



Median vendor discount



Source: CoreLogic

CoreLogic

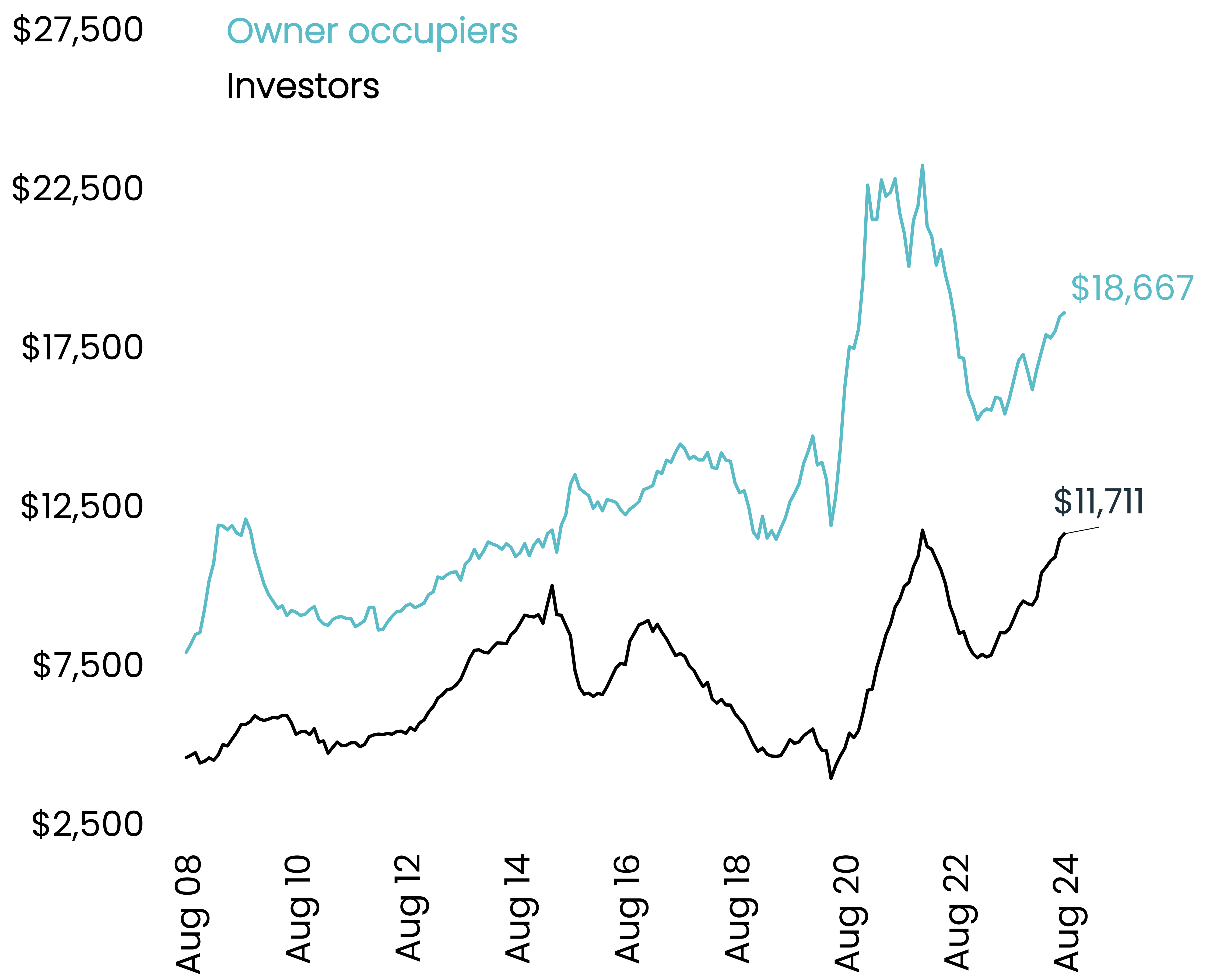
Trends in housing finance

- An upswing in the value and volume of lending has accompanied the rise in housing values, with the growth trend led by investors.
- The value of lending for investment purposes was up 34% over the past 12 months, more than double the annual rate of growth in owner occupier lending at 16.8%.
- Investors now comprise 39% of mortgage demand, well above the decade average of 34%.

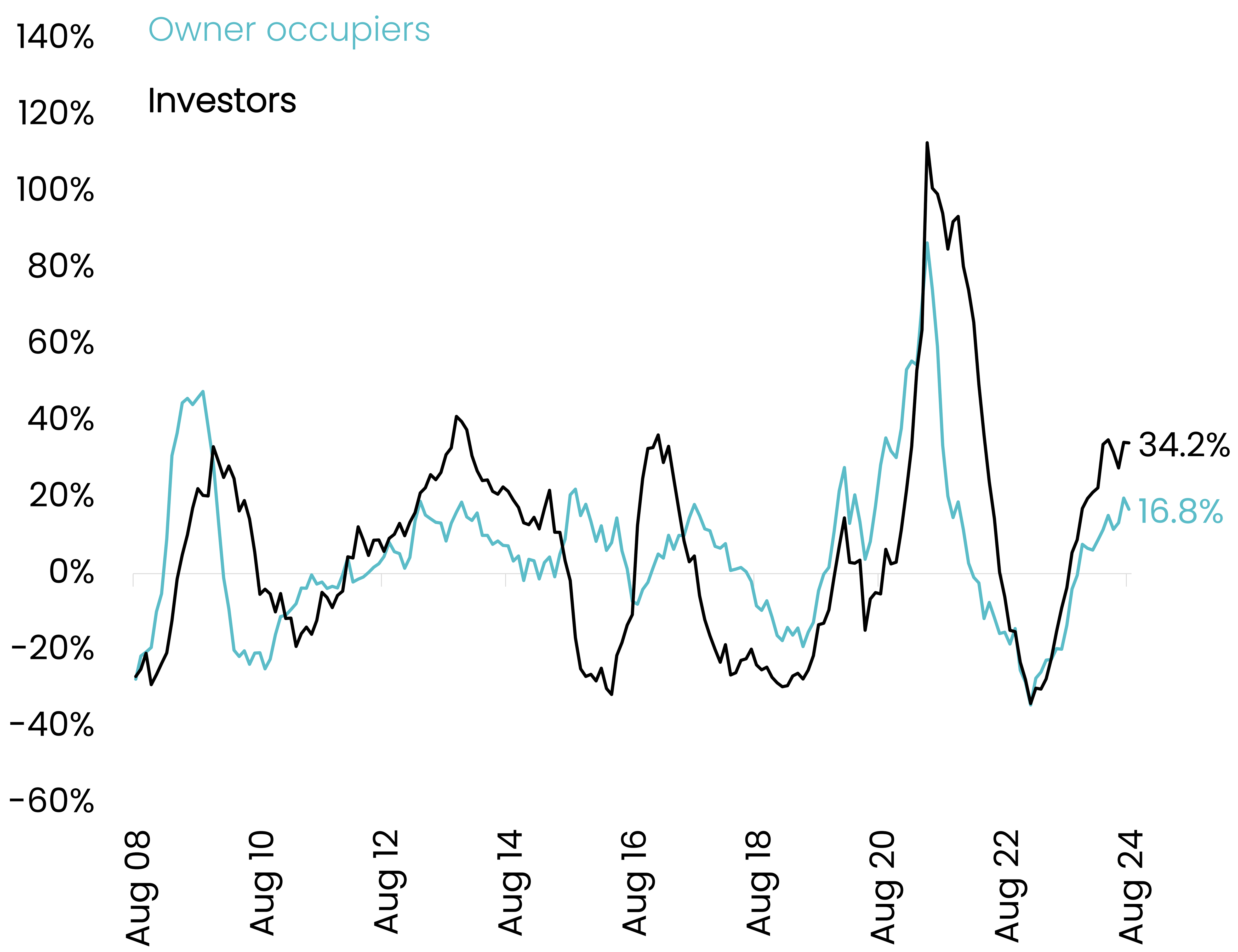
The value of home lending is up 23.0% over the year to July, led by investors.

The value of investor lending jumped 34.2% in the past 12 months, more than double the annual growth in owner occupier lending at 16.8%. Investors now comprise 38.6% of mortgage demand by value, the highest portion of lending since April 2017.

Monthly value of owner occupier v investor housing finance commitments ($ million)



Annual change in value of housing finance commitments, Australia



Source: CoreLogic, ABS

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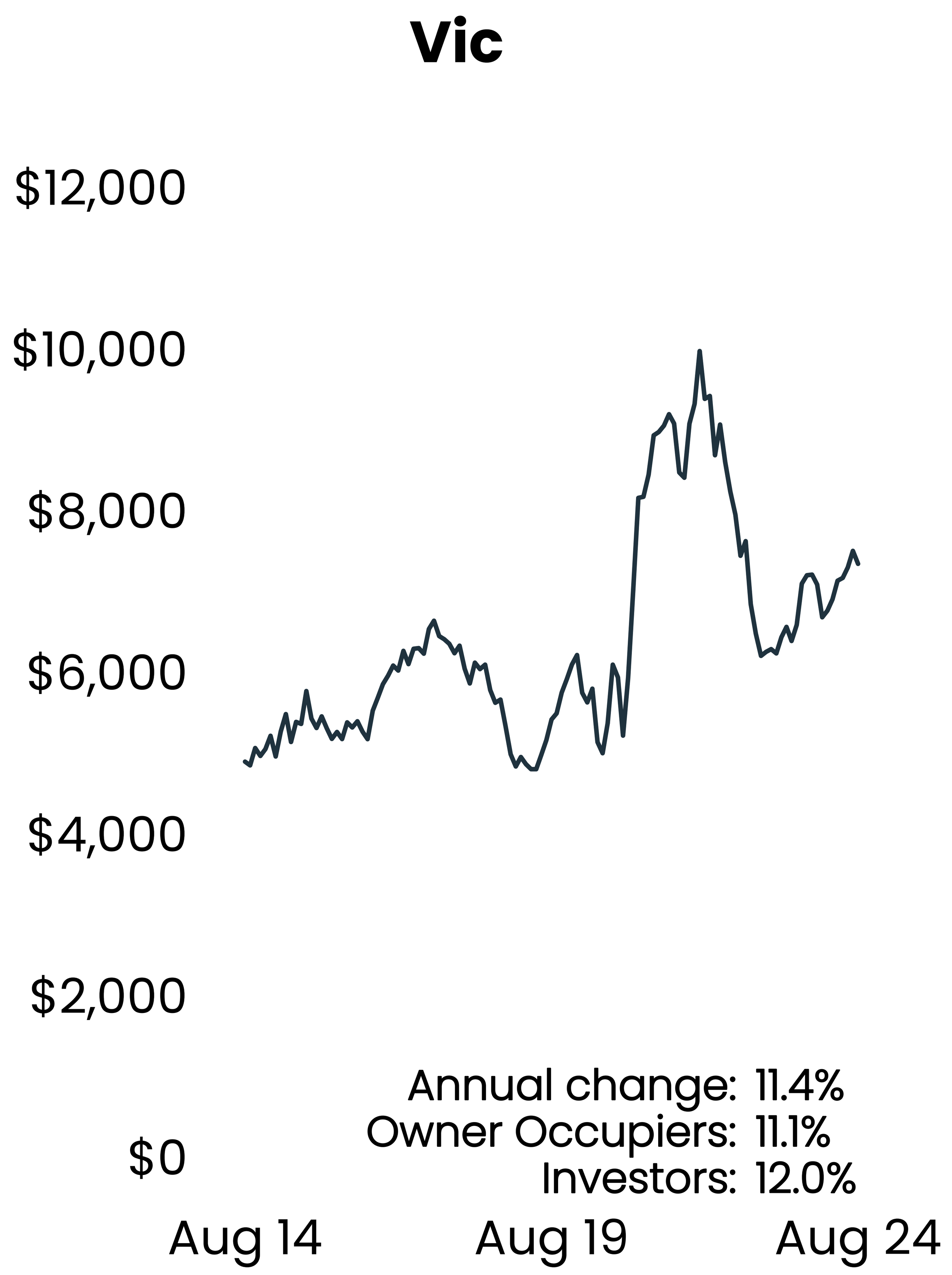
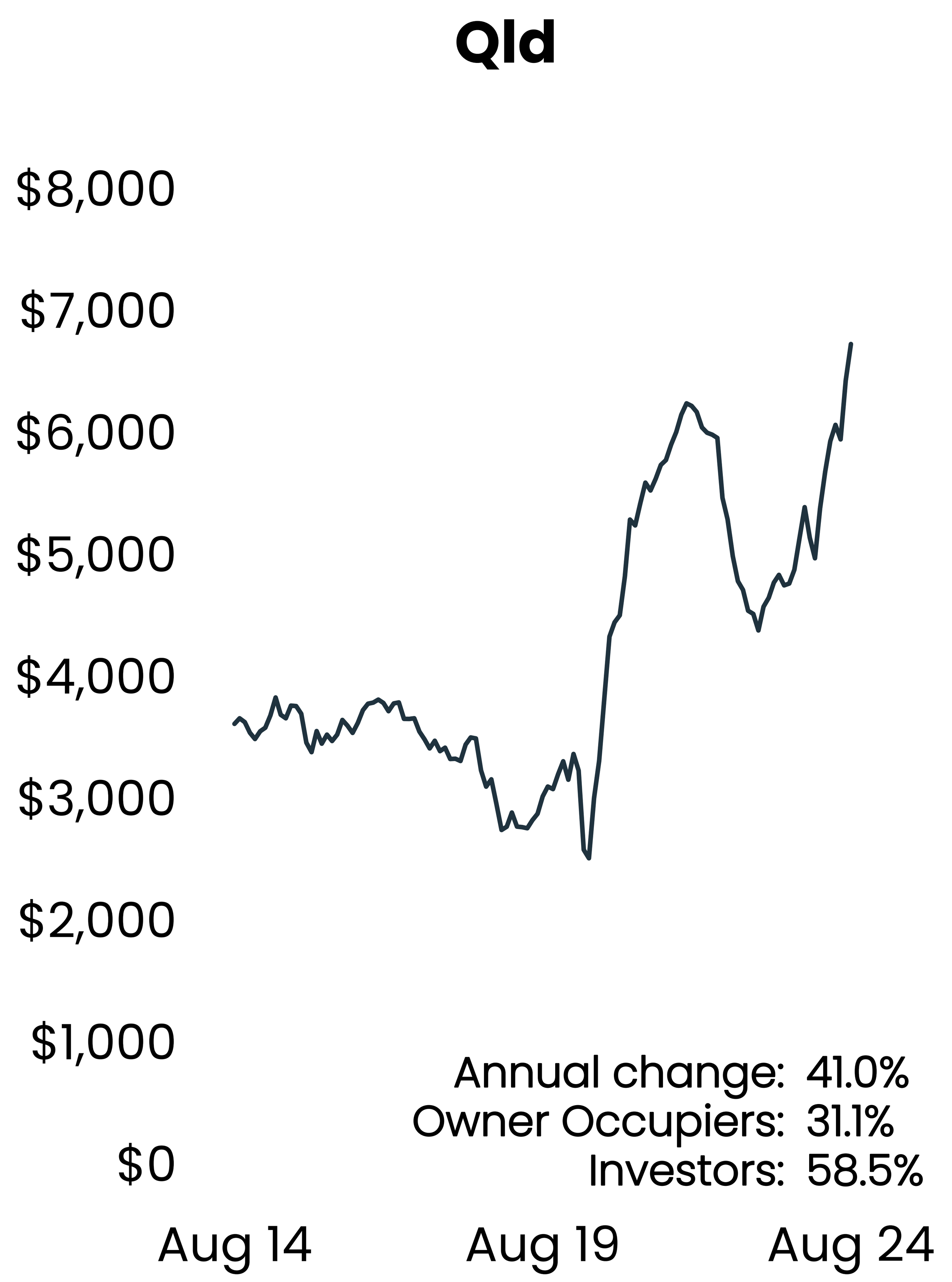
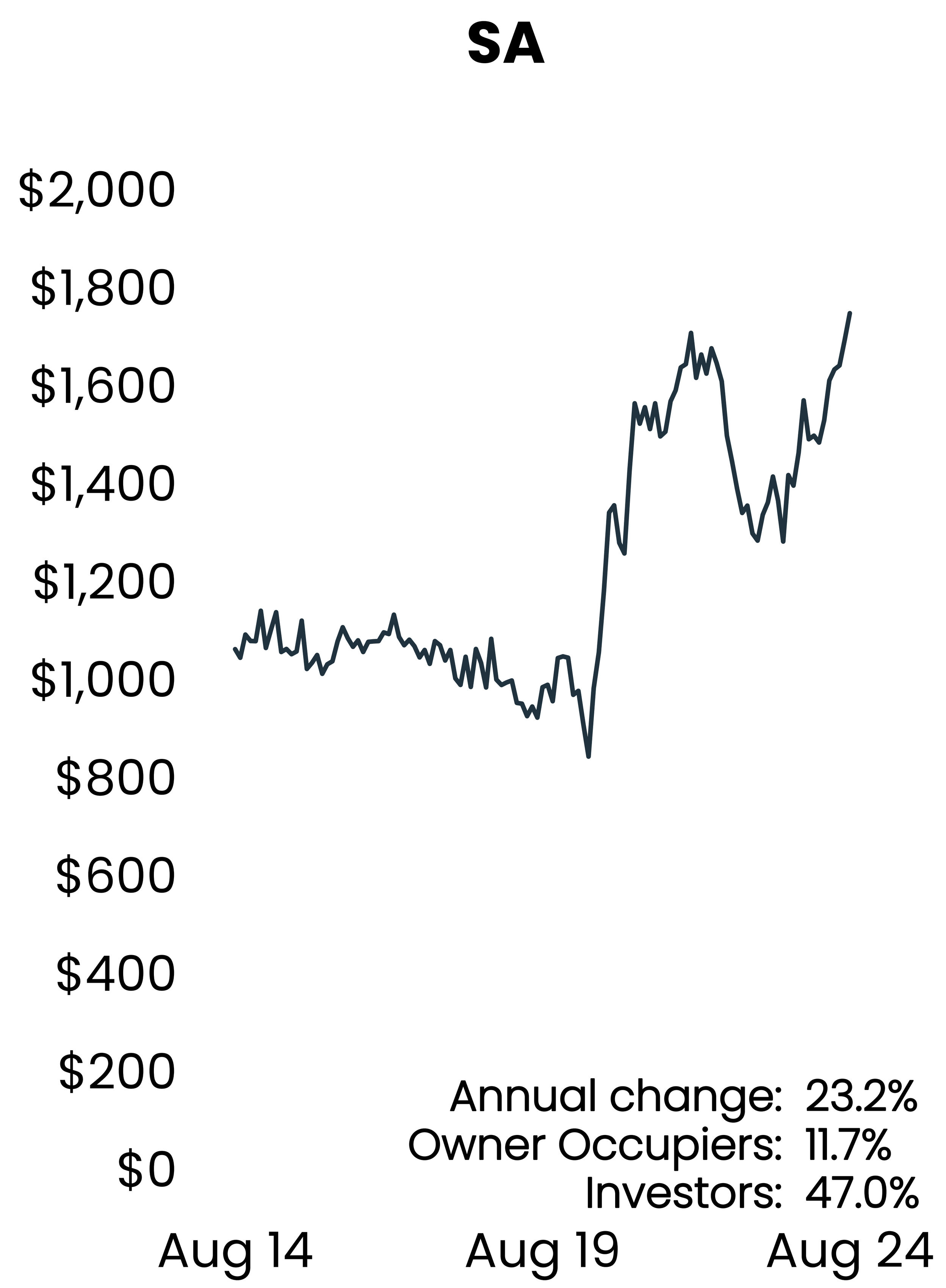
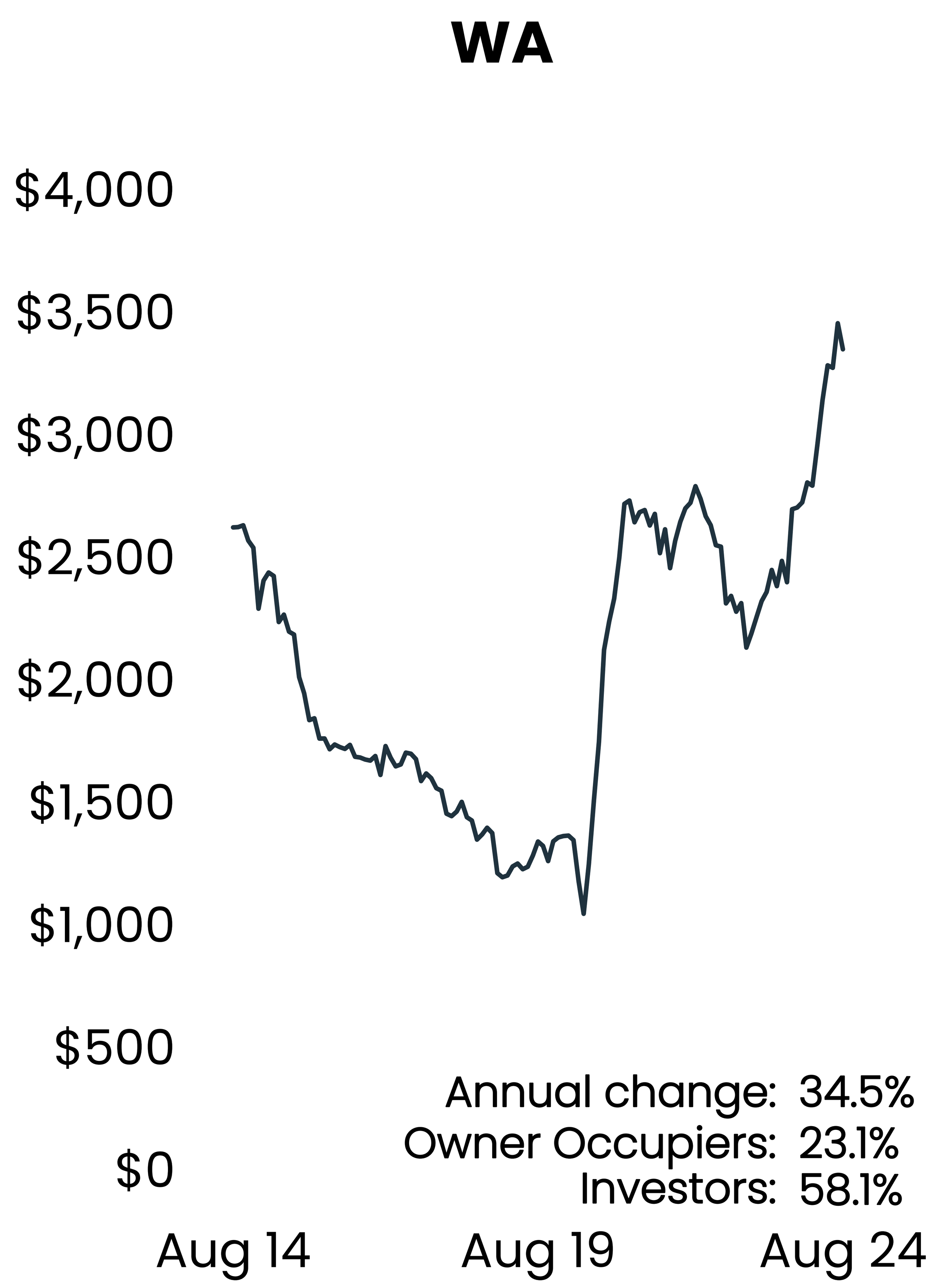
The value of lending has risen across all states… but the trends vary substantially in magnitude





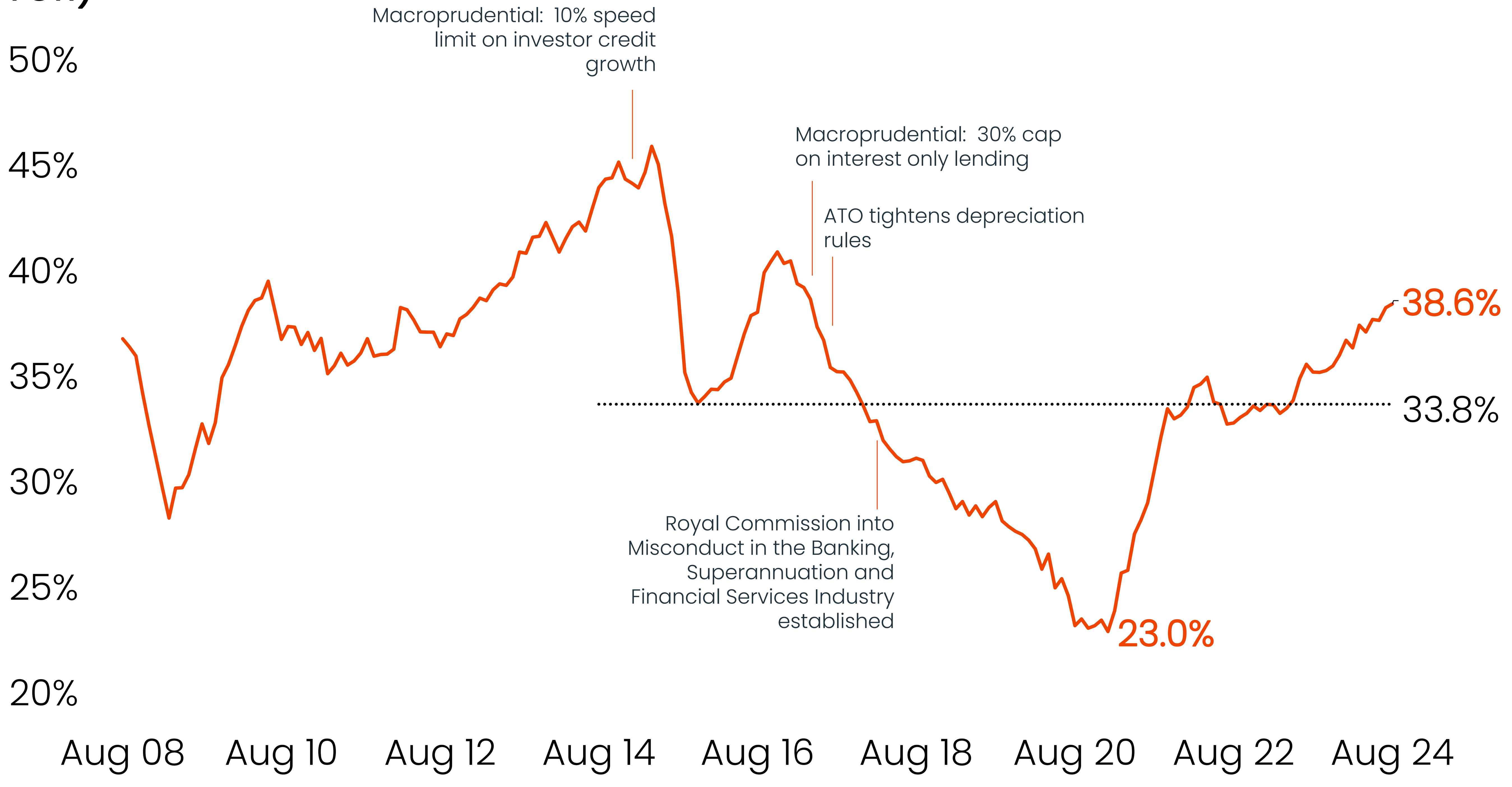




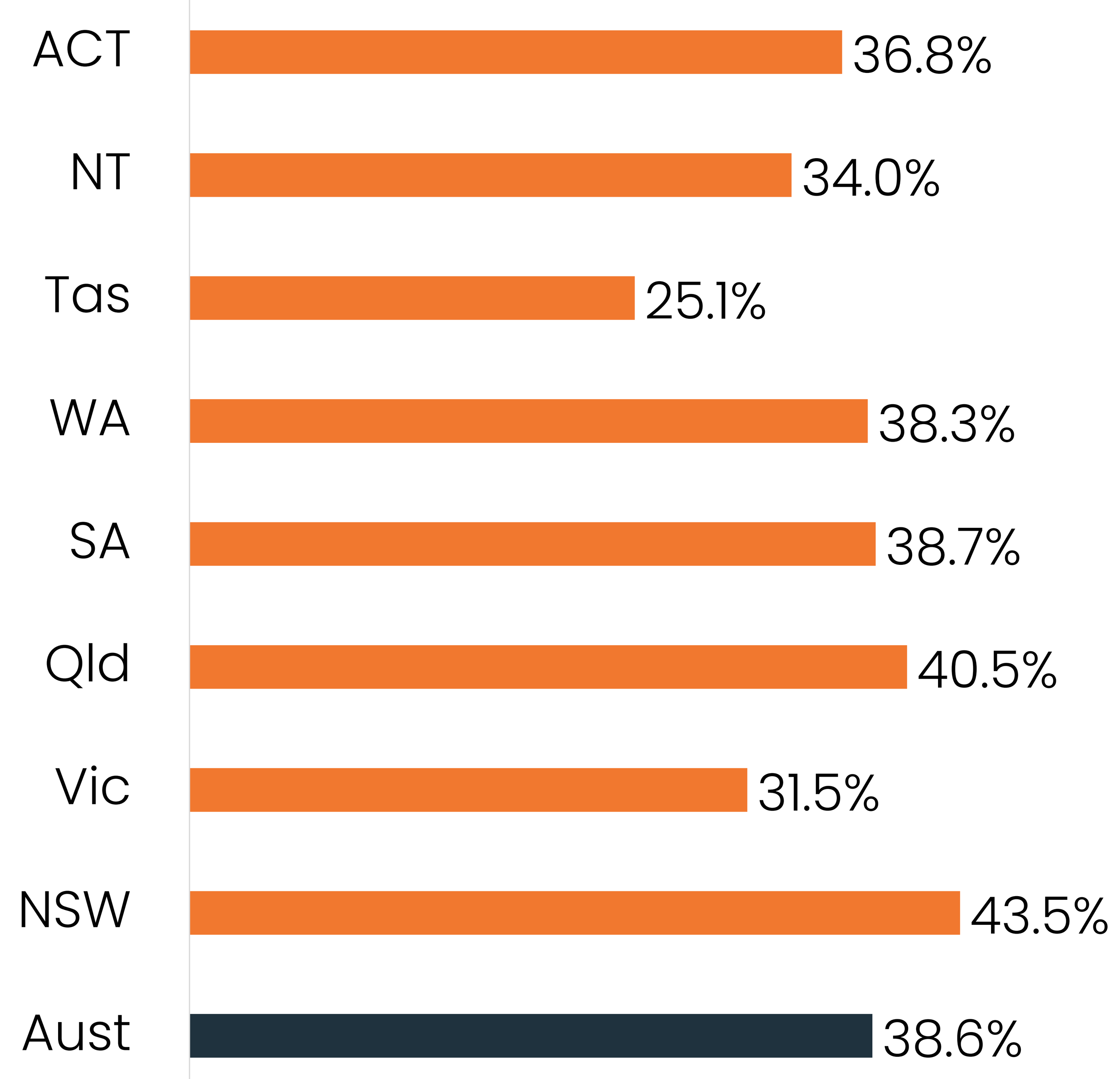
Source: CoreLogic, ABS

After comprising less than a quarter of mortgage demand in 2020/21, investors are now a larger than average portion of home lending.

Investor housing finance commitments as a % of total housing finance commitments (based on value exc-refi)



Investors as a % of housing finance commitments by state

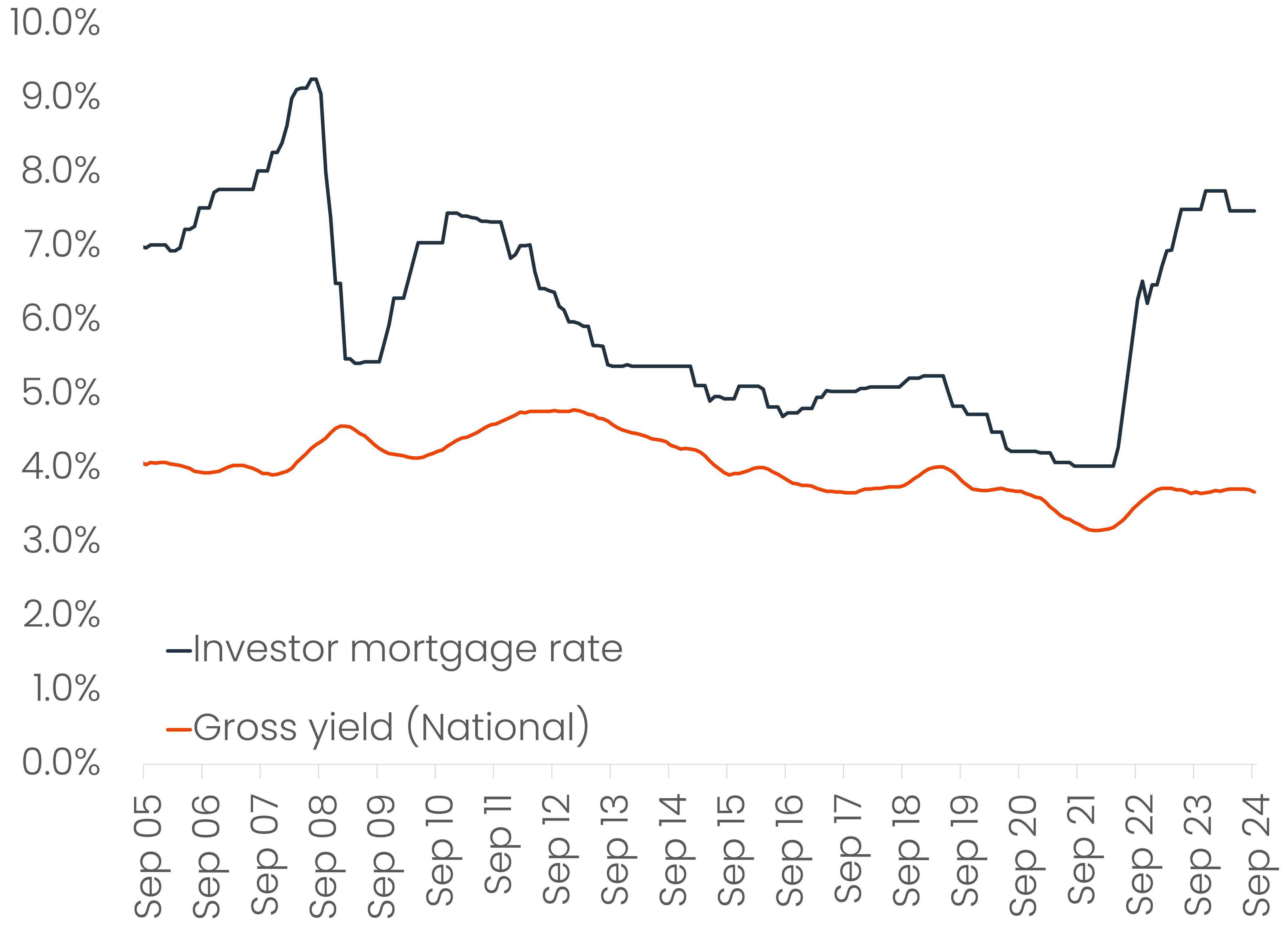


Source: CoreLogic, ABS

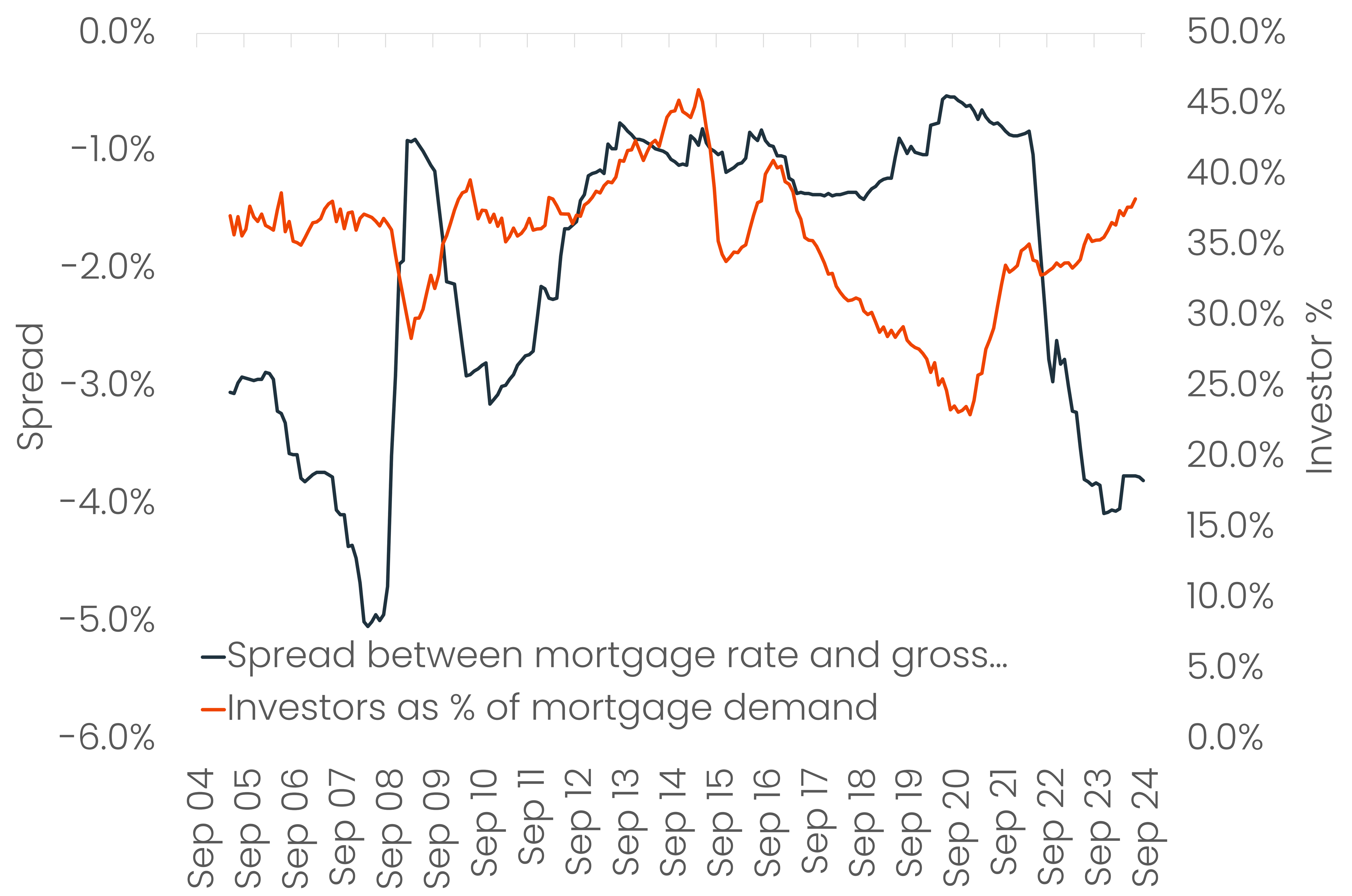
The spread between lending rates and rental returns has widened substantially since May 22

Despite the significant the nearly record gap between mortgage rates and rental returns, investors have increased as a portion of lending activity… historically there has been little evidence of a relationship between rental returns and investor participation in the housing market.

Mortgage rates v gross rental yields
Average discounted variable mortgage rate for investors vs national gross rental yield



Potential for cash flow v investor activity
Spread between mortgage rate and gross rental yield v investors as a portion of home lending



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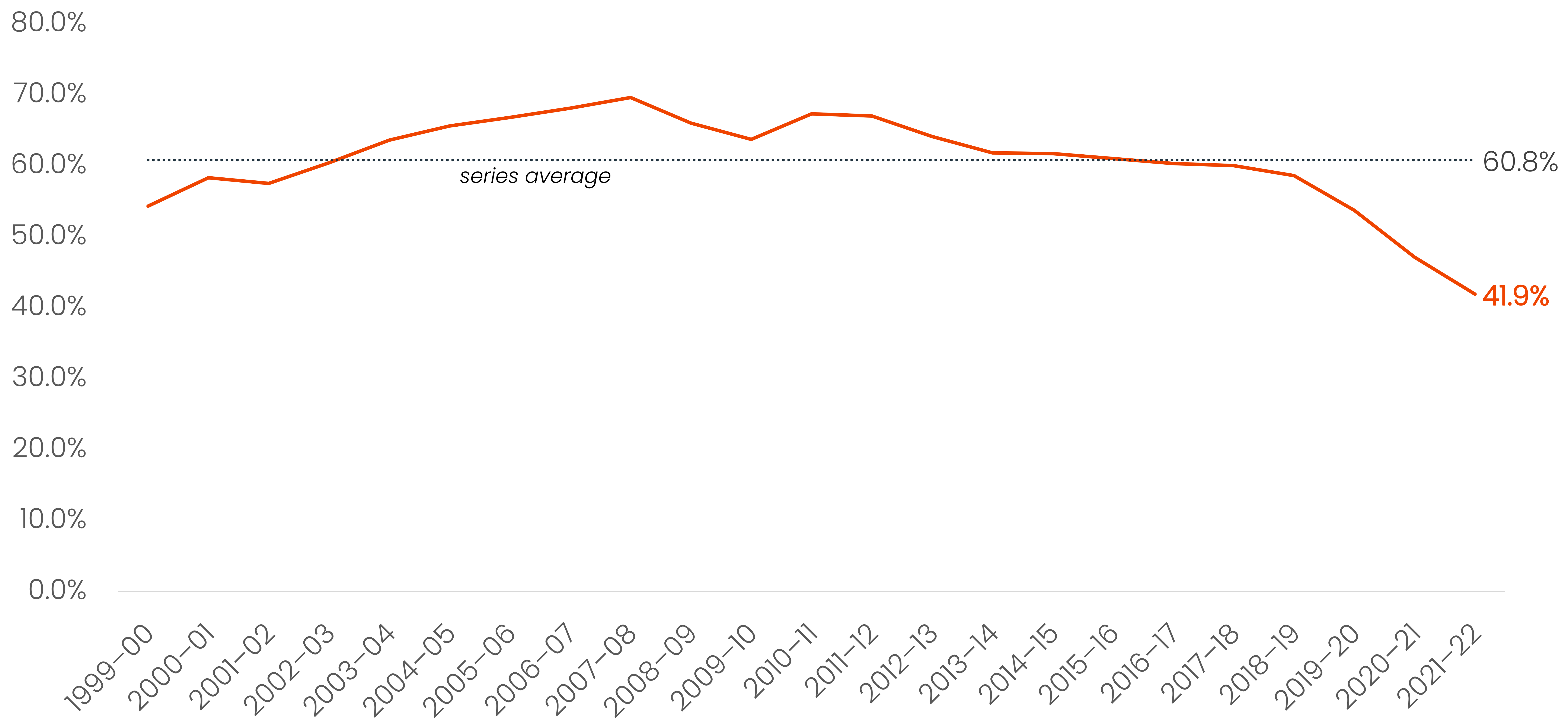
Source: CoreLogic, RBA, ABS Note: Prior to August 2015 investor mortgage rate is derived from the discounted owner occupier rate by adding 30 basis points.

The portion of investors incurring a net rental loss is likely to have increased substantially since mid-2022 due to such a large difference between rental yields and holding costs.

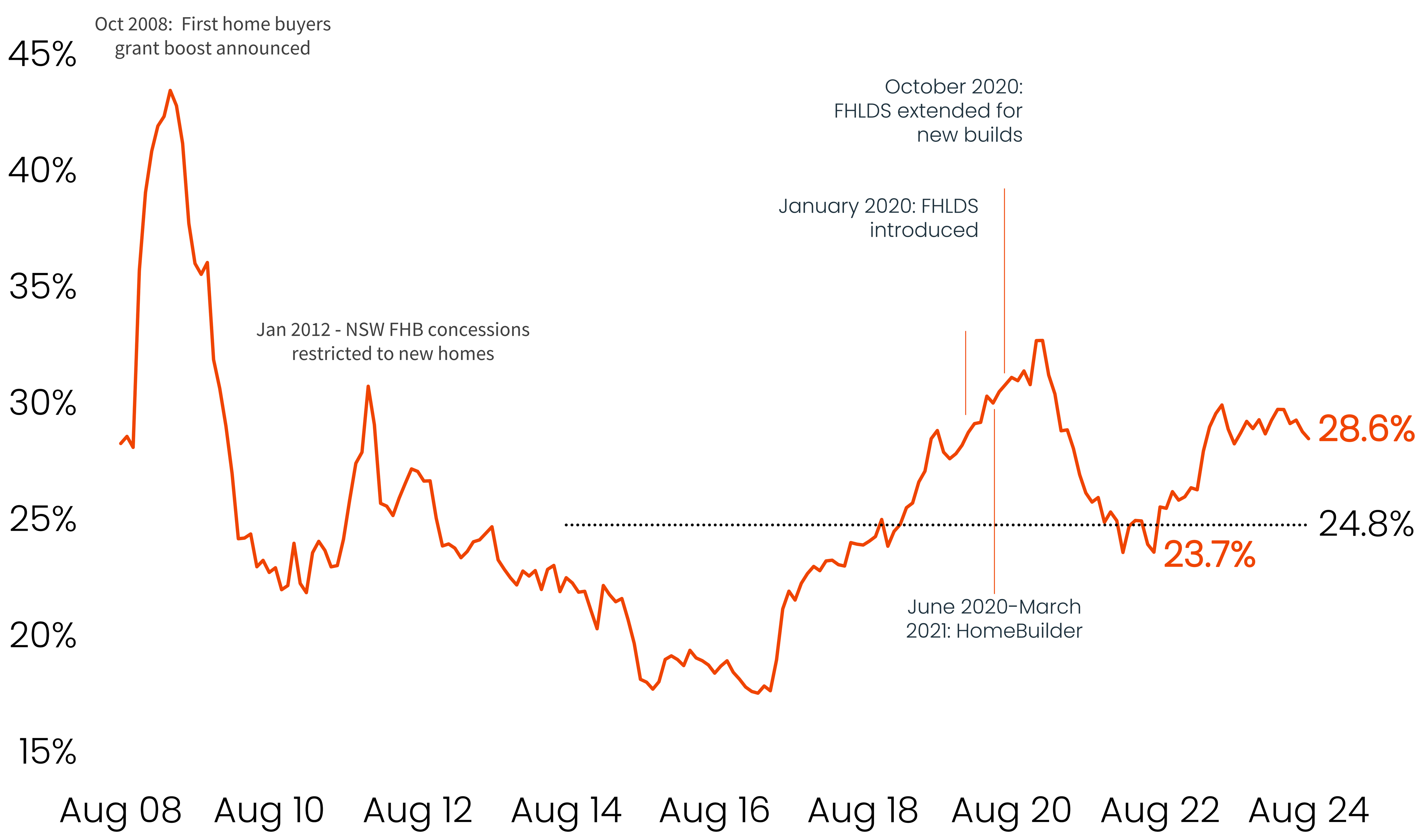
% of landlords making a net rental loss



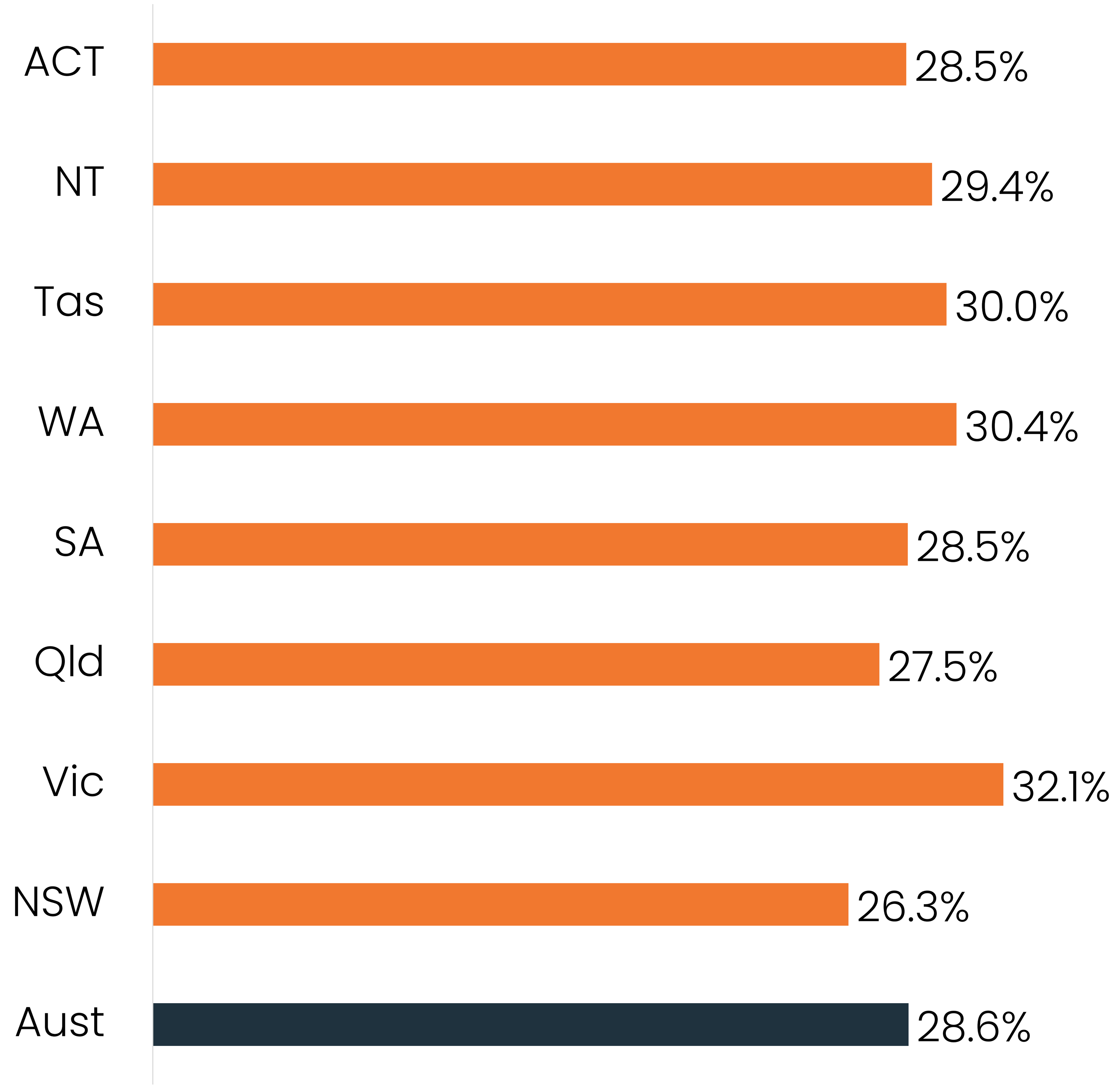
Source: CoreLogic, ATO

First home buyers as a share of owner-occupier lending is holding above average, but looks to have peaked as growth in investor lending outpaces first home buyer demand and affordability constraints mount.

First home buyer housing finance commitments as a % of total owner occupier commitments (based on value exc- refi)



First home buyers as a % of owner occupier housing finance commitments



Source: CoreLogic, ABS

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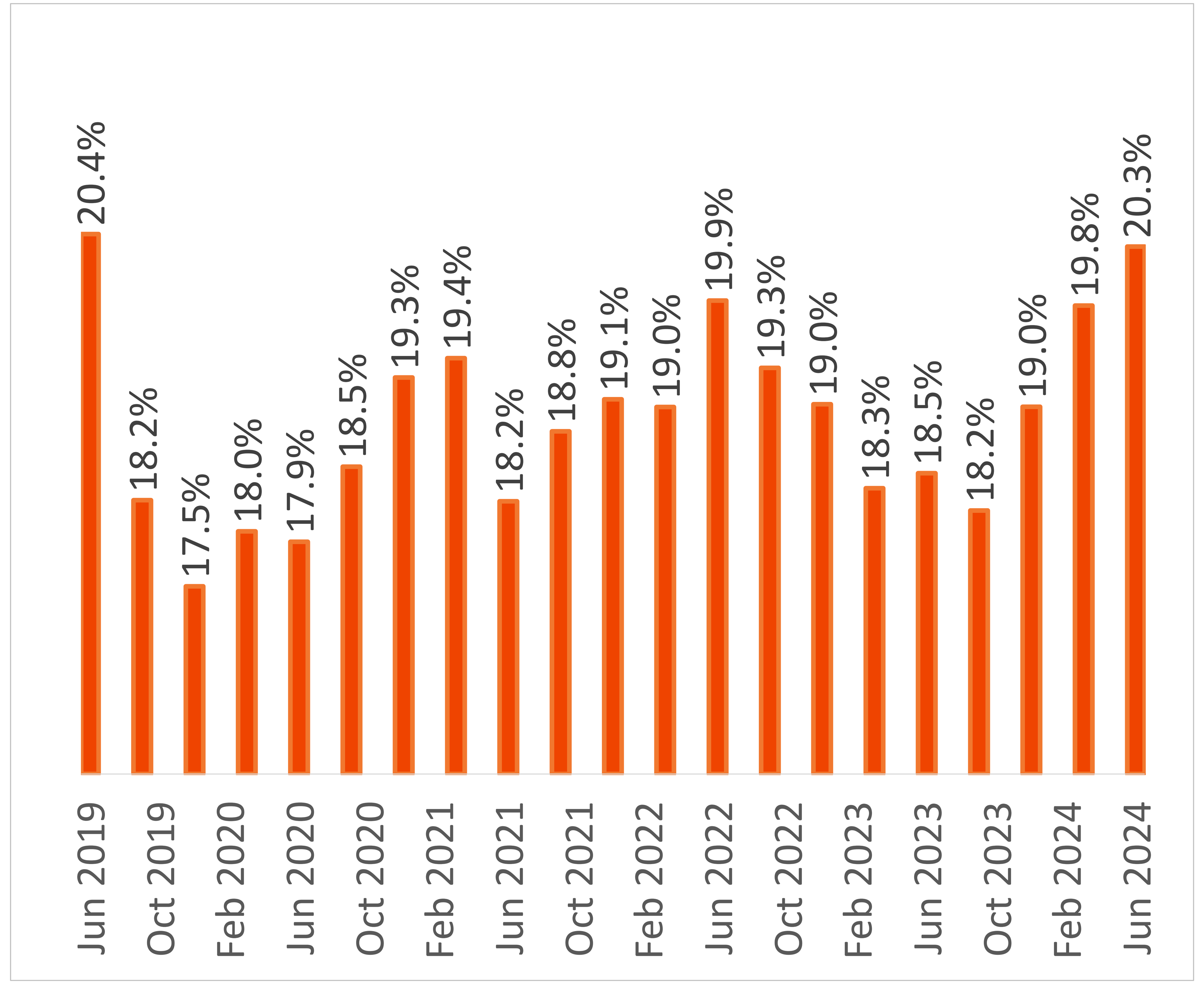
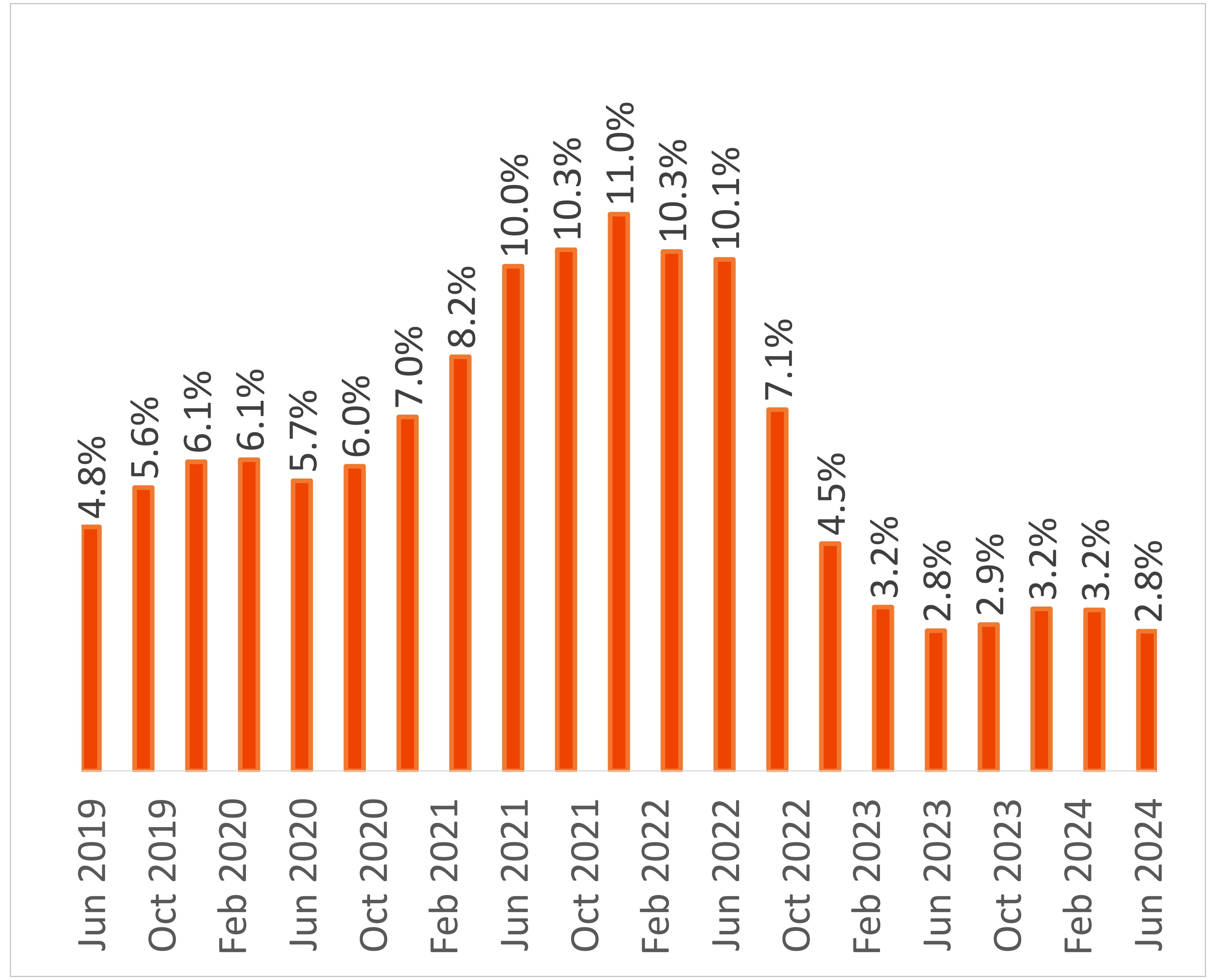
Mortgage originations for ‘riskier’ types of lending remain historically low, but some signs lending policies might be relaxing a little as the share of interest only and high LVR loans rises over the past 9 months.

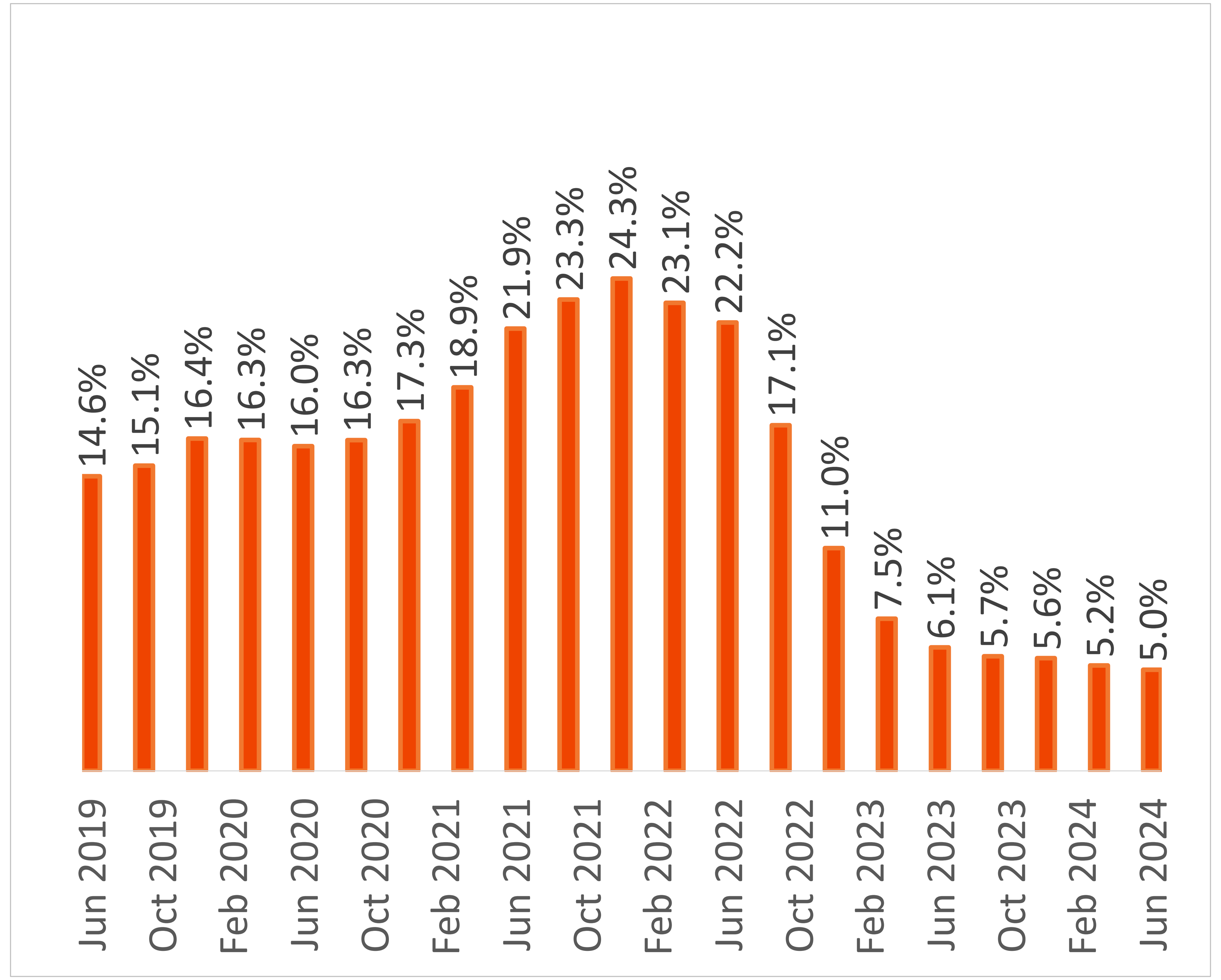
% of loans on interest only terms



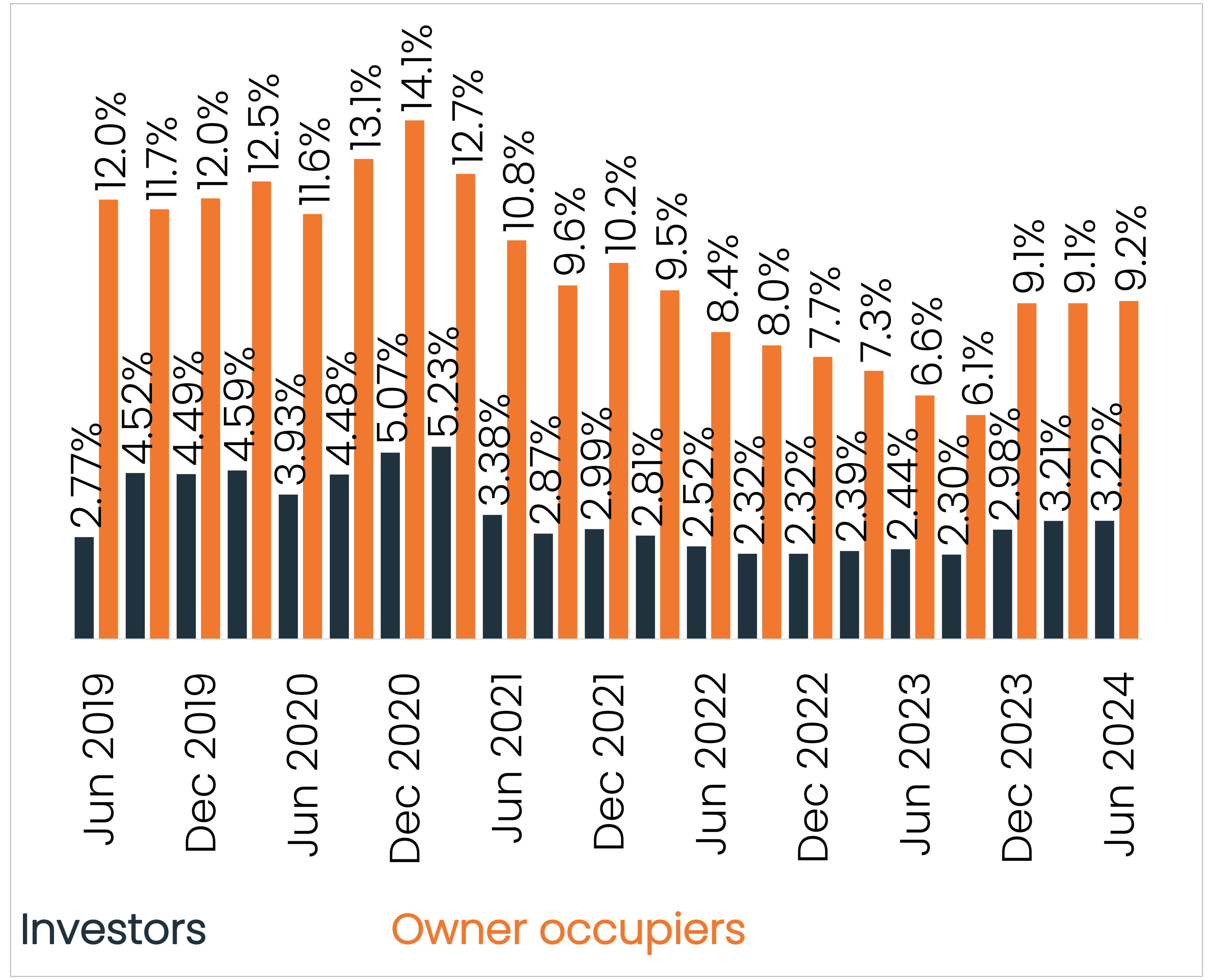
% of loans originated with a loan to income ratio >=6x



% of loans originated with a debt to income ratio >=6x



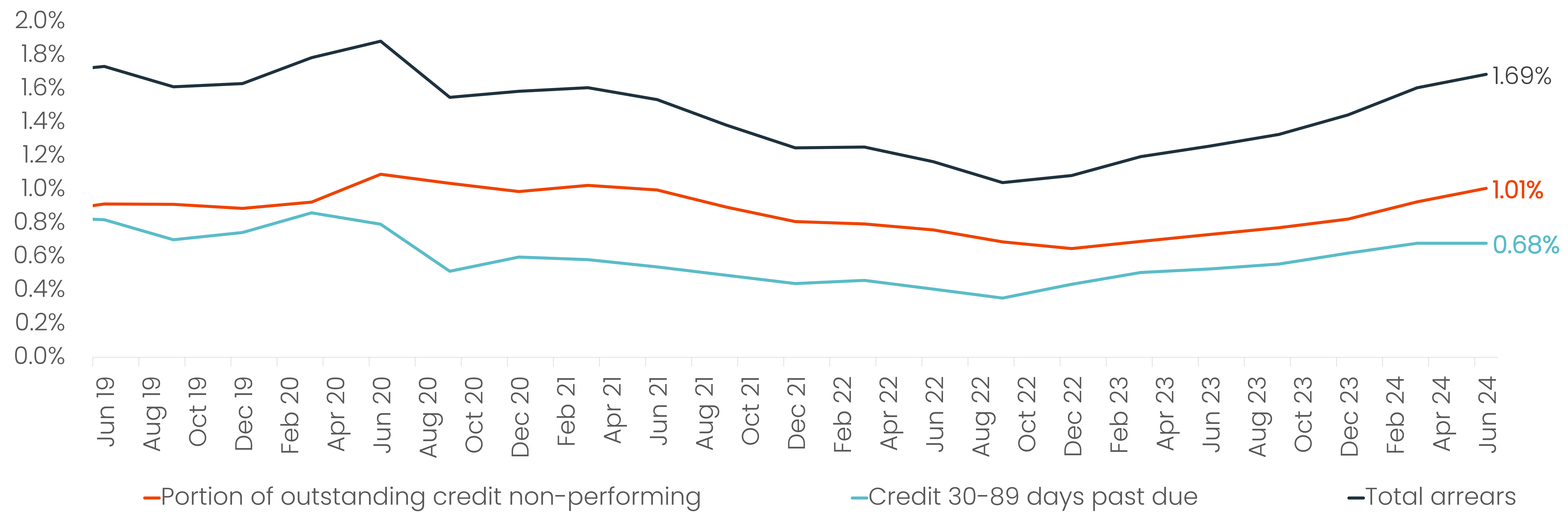
% of loans originated with an LVR >=90%

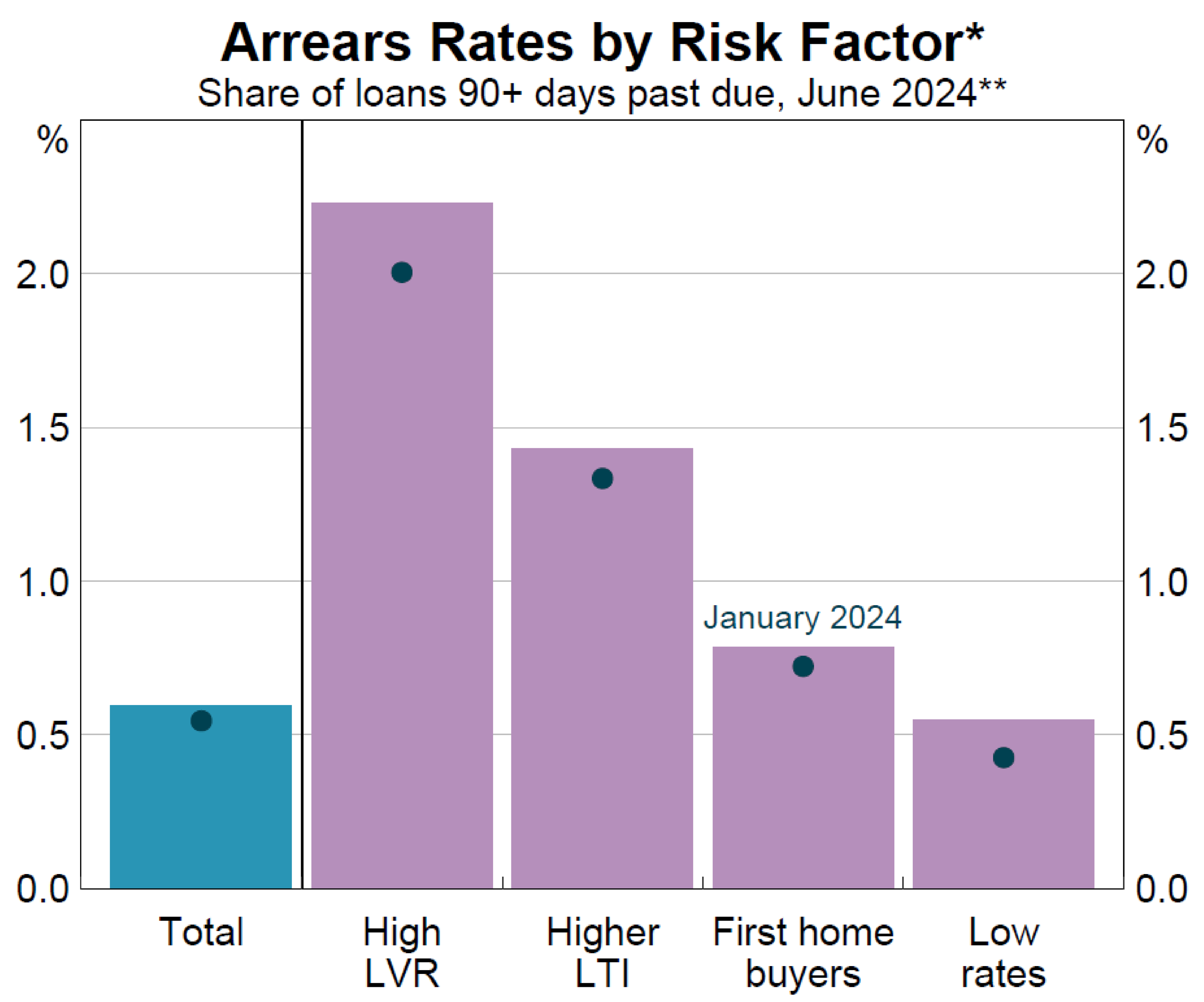


Source: CoreLogic, APRA

Mortgage originations for 'riskier' types of lending remain historically low, but some signs lending policies might be relaxing a little as the share of interest only and high LVR loans rises over the past 9 months.

Mortgage arrears



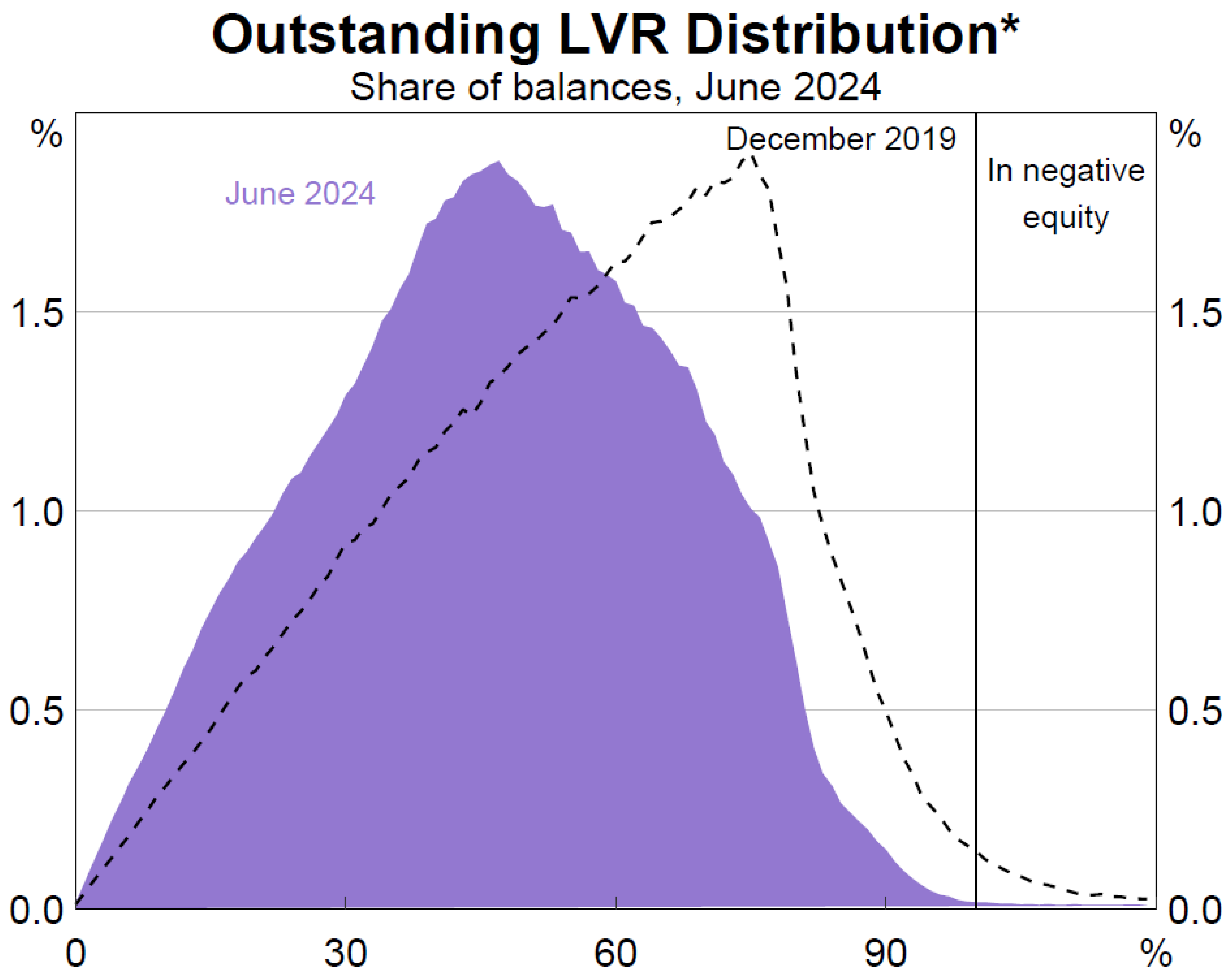


* Share of loans in arrears by number; excludes split loans. LVR is scheduled loan balance adjusted for redraw and offset account balances divided by an estimate of the current value of the property (over 80 is high). Property valuation at origination adjusted using house price changes at SA3 level. LTI is measured as the ratio of current loan value (net of offset and redraw balances) to an estimate of current income (higher LTI is LTI > 4). Low rate loans were originated between March 2020 and April 2022.

** As a share of variable-rate owner-occupier borrowers, around 2 per cent are high LVR, 10 per cent are higher LTI, 11 per cent are first home buyers and 15 per cent originated at low rates.

Sources: ABS; CoreLogic; RBA; Securitisation System.

Source: CoreLogic, APRA, RBA



* Loan balances adjusted for redraw and offset account balances; property prices estimated using SA3 price indices. As an illustration, in June 2024 1.9 per cent of the loan balances had an LVR of 47 per cent, while in June 2019 that figure was 1.3 per cent.

Sources: ABS; CoreLogic; RBA; Securitisation System.

Only a tiny % of loans in negative equity

- *The RBA estimates only around 0.1% of securitised loans are in negative equity and around 1% of all home loans are likely to be in negative equity…*
- *Most borrowers who are unable to keep up to date with the mortgage repayments should be able to sell their asset and repay their loan before defaulting.*

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The rental market

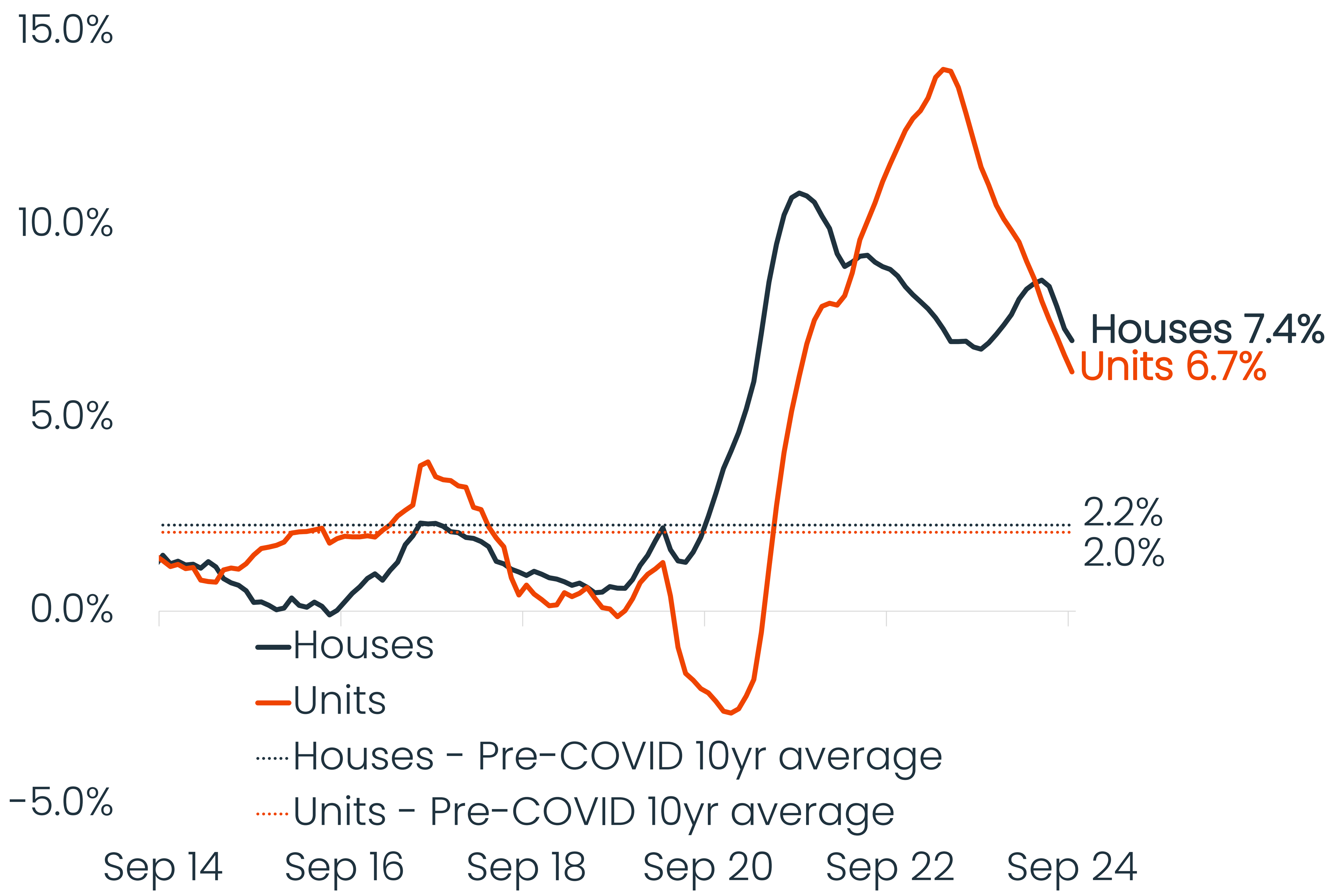
- The upwards pressure on rents has eased across most regions, especially in the unit sector.

- The slowdown in rents coincides with a combination of less net overseas migration and rental affordability challenges that are likely to be supporting a lift in the average household size.

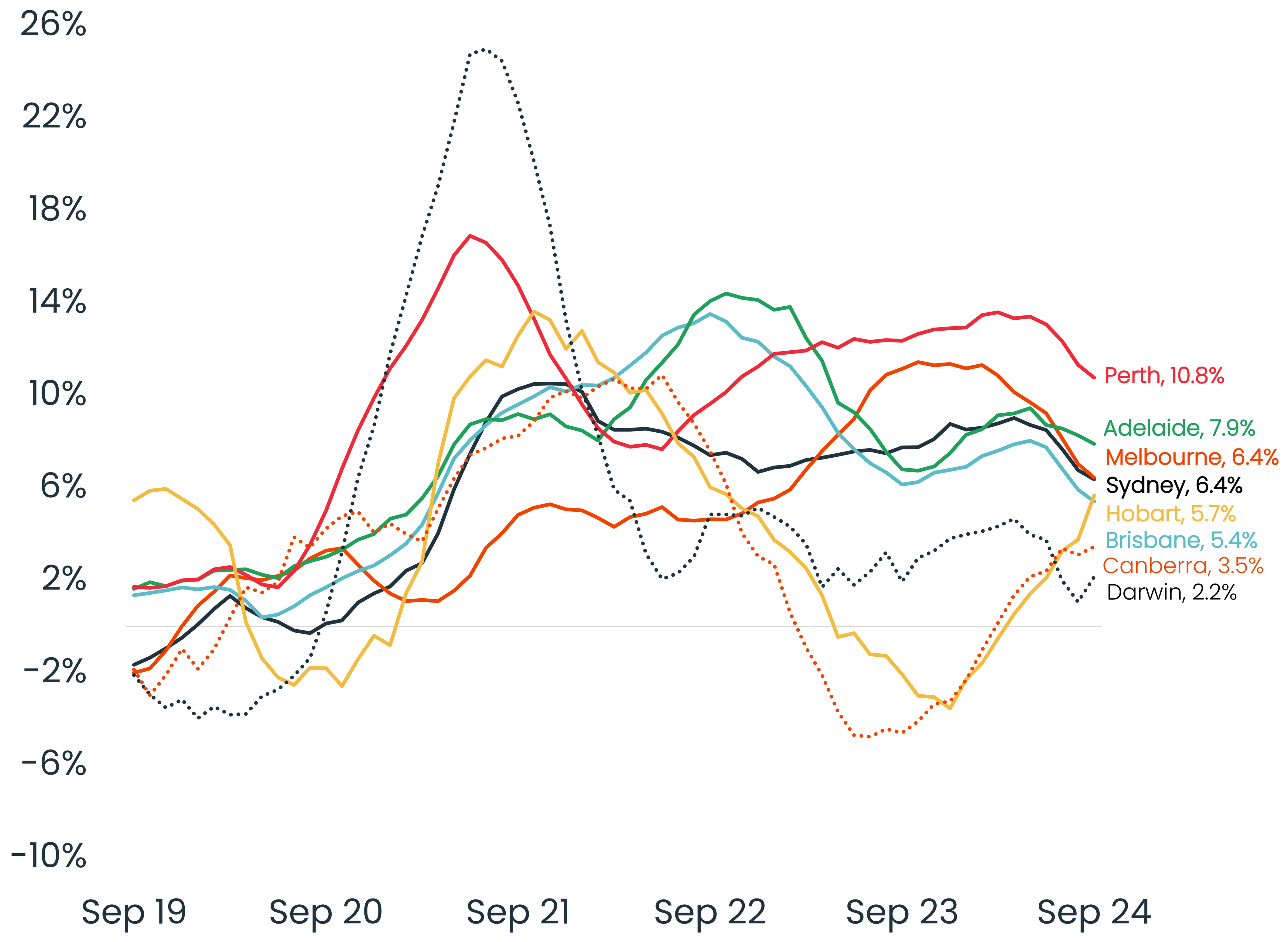
Rental pressures easing, but annual growth in rents remains well above average

A slowdown in unit rents aligns with the peak in net overseas migration but other factors including affordability pressures and changes in household formation are also likely to be at play.

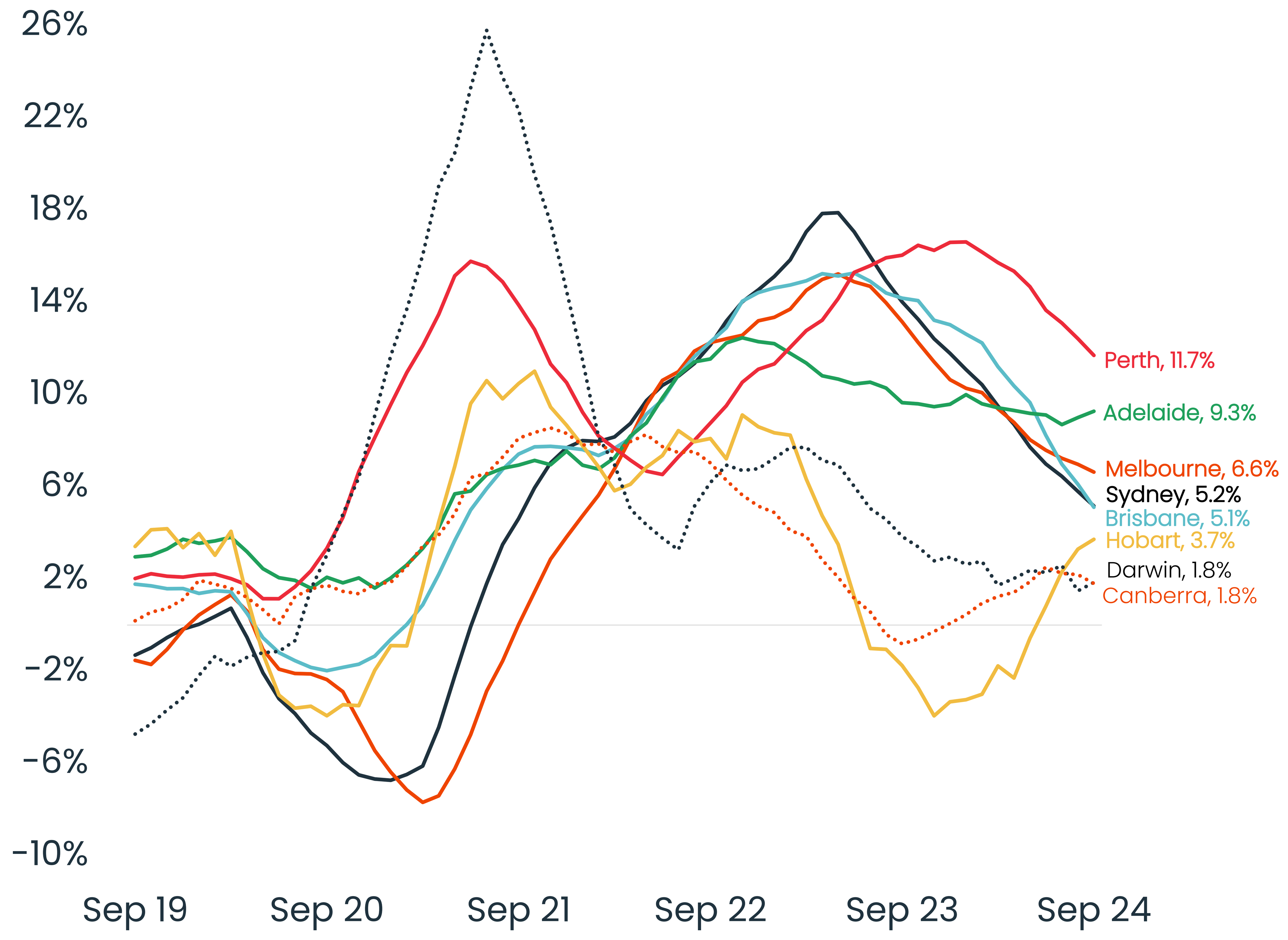
Rolling annual change in Australian rents



Annual change in house rents



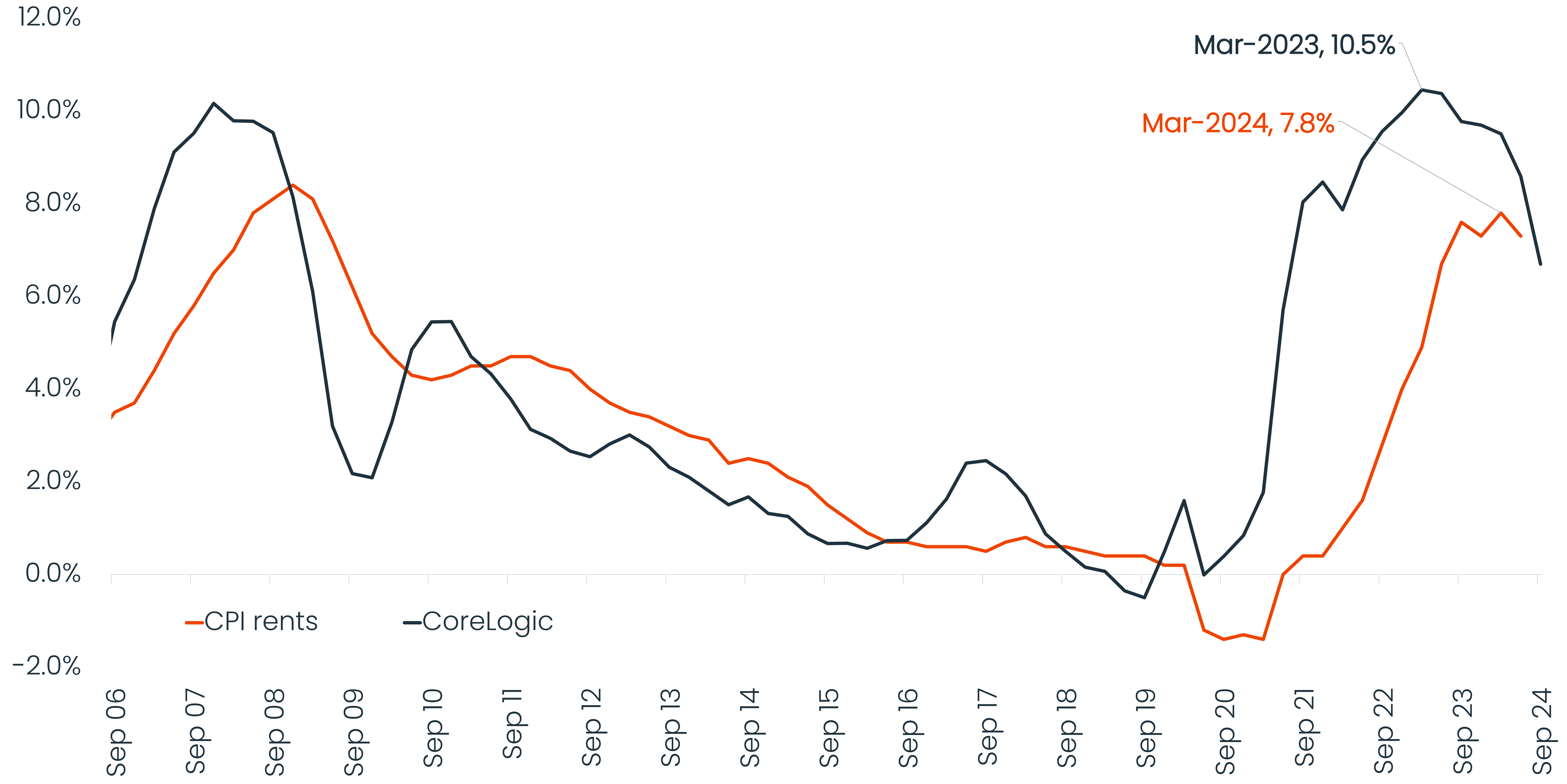
Annual change in unit rents



Source: CoreLogic

CoreLogic

Annual change in rents
CoreLogic rental index v CPI



Annual growth in CPI rents may have peaked?

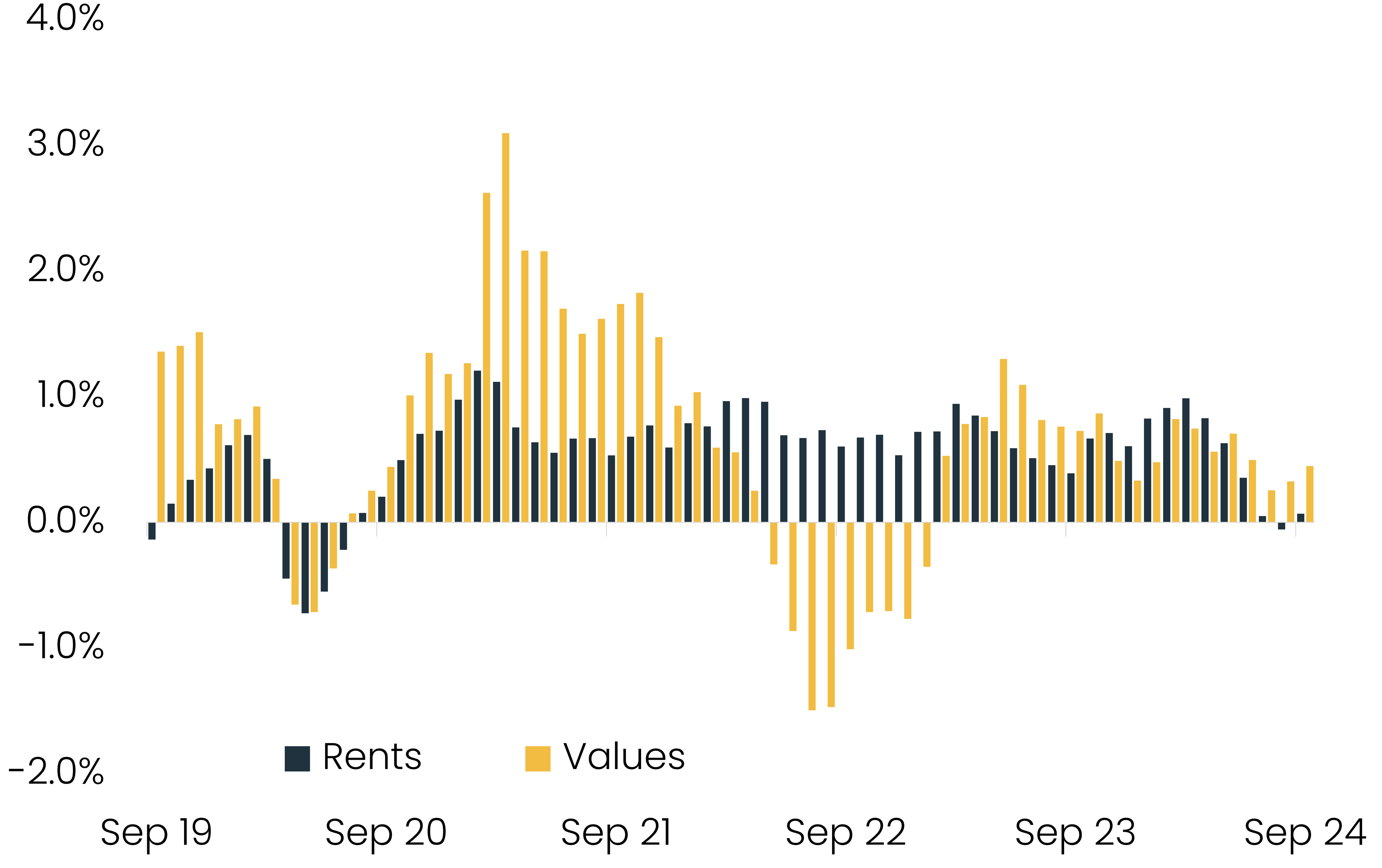
CoreLogic's rental index, where annual growth peaked in March last year, provides a lead indicator on CPI rents.

Source: CoreLogic

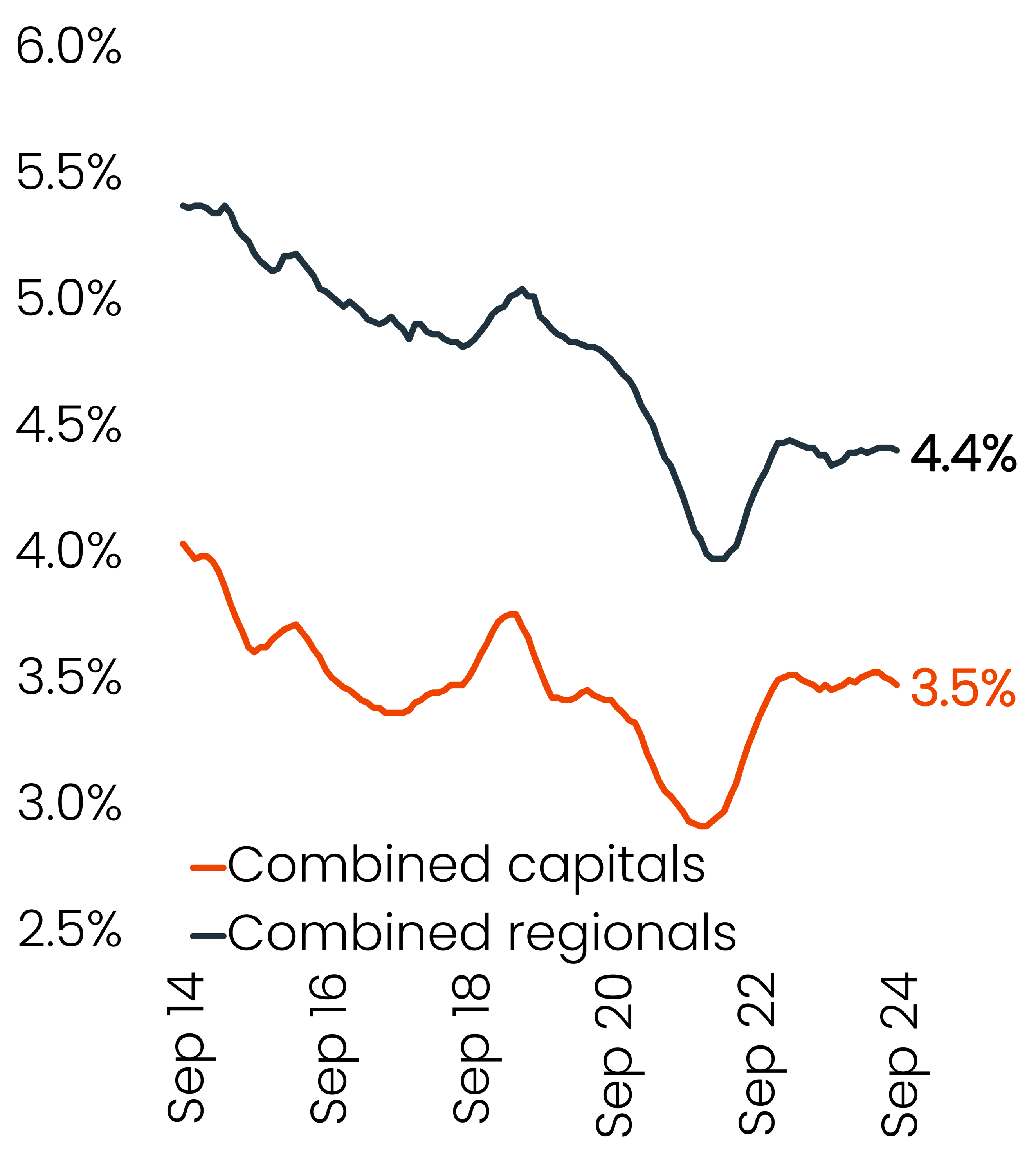
CoreLogic

Rental growth is once again being outpaced by value growth, leading to a stabilisation or reduction in rental yields in most markets.

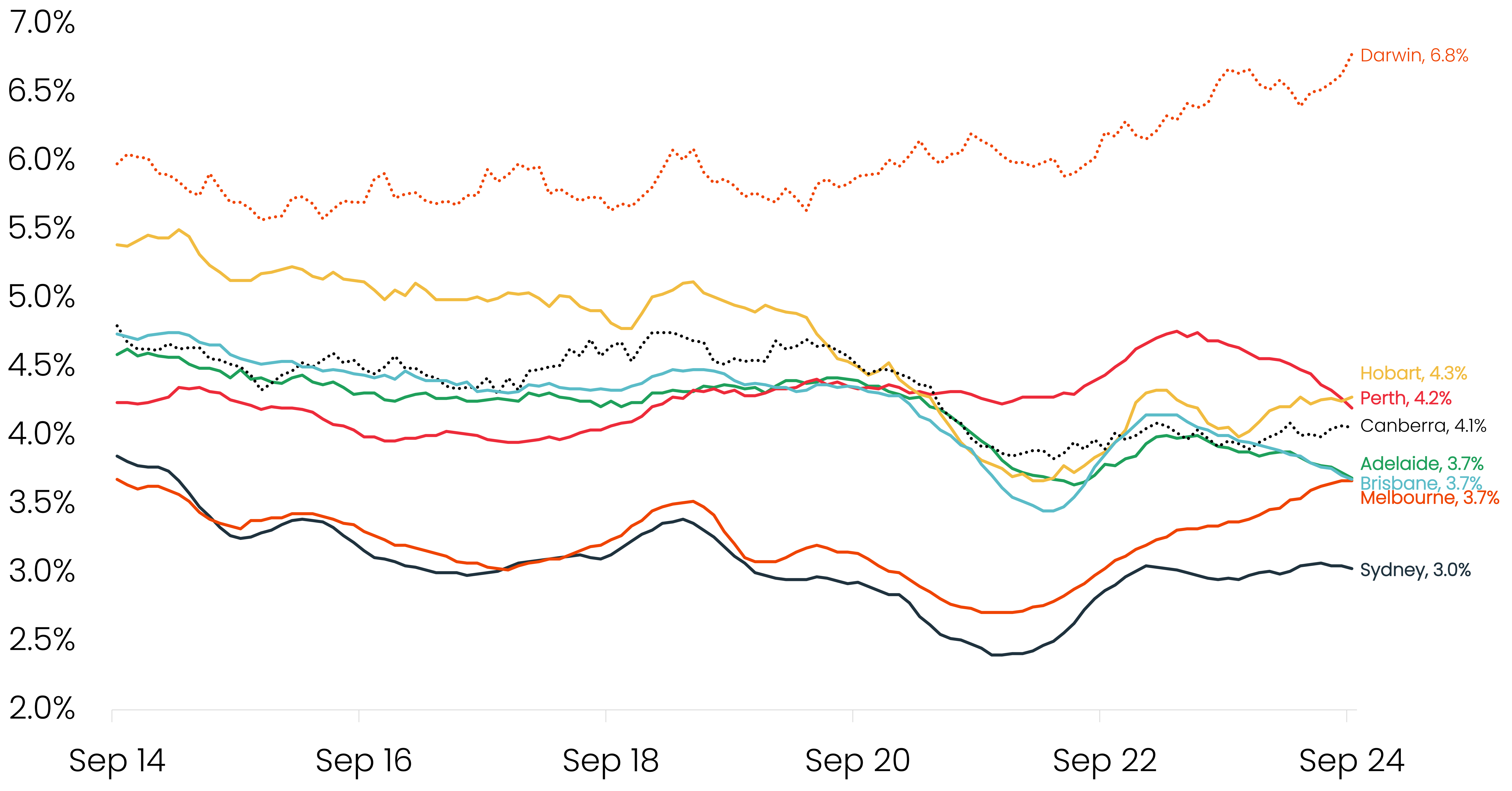
Monthly change in rents v values, National dwellings



Gross rental yields



Gross rental yields



Source: CoreLogic

CoreLogic

CoreLogic

Housing construction

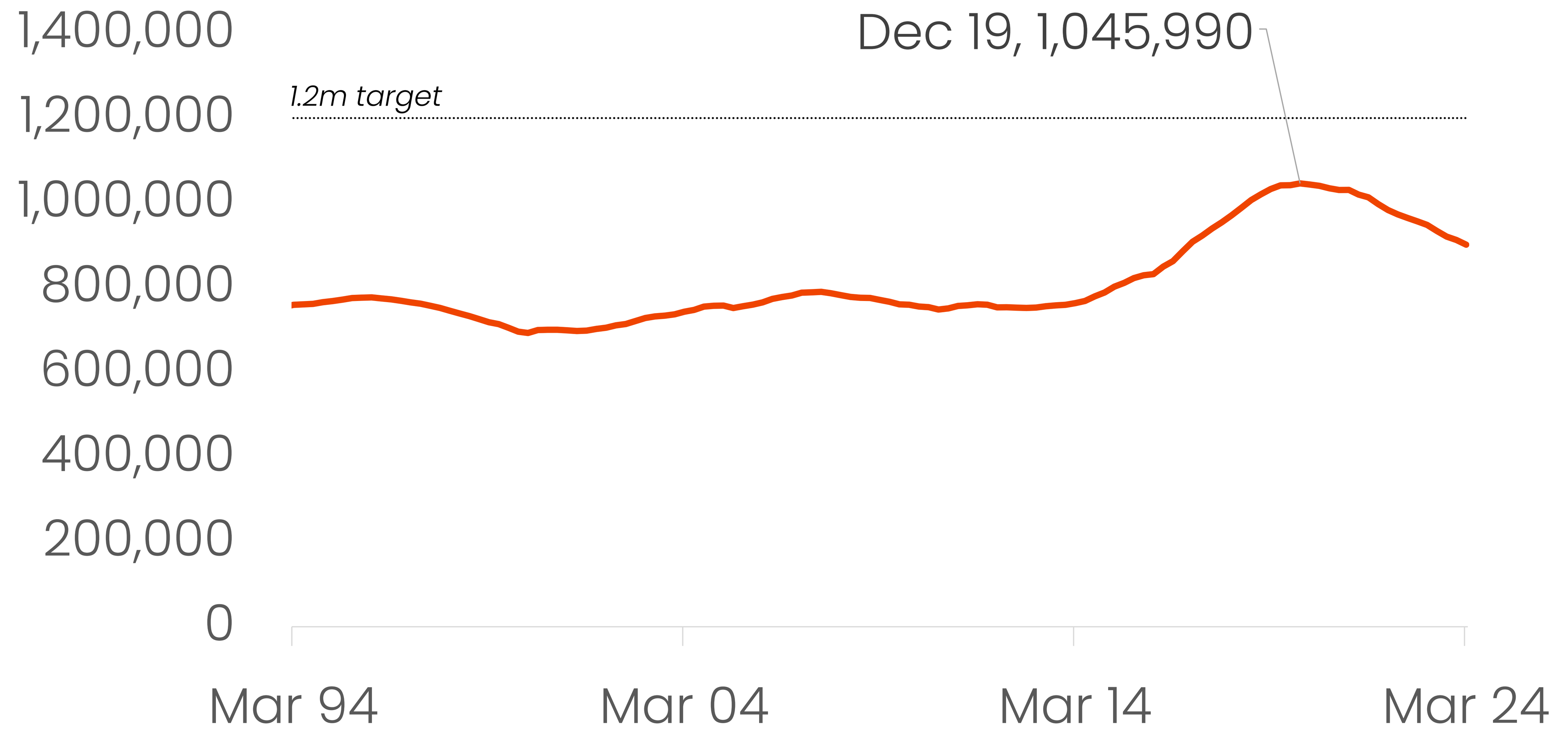
- Approvals for new dwellings have bottomed out, but are holding well below average levels.
- Commencements are trending lower and work under construction has peaked.
- Construction costs are still rising, but at a much slower pace relative to the past few years.
- The outlook for housing supply remains grim with builder profit margins compressed, labour in short supply and hefty competition for inputs from the public infrastructure sector.

National cabinet: 1.2 million 'well located' dwellings over 5yrs

National cabinet announced a target to build 1.2 million homes over the 5 year period commencing July 2024. Such a level of dwelling completions would be well above levels delivered over any five year period historically.

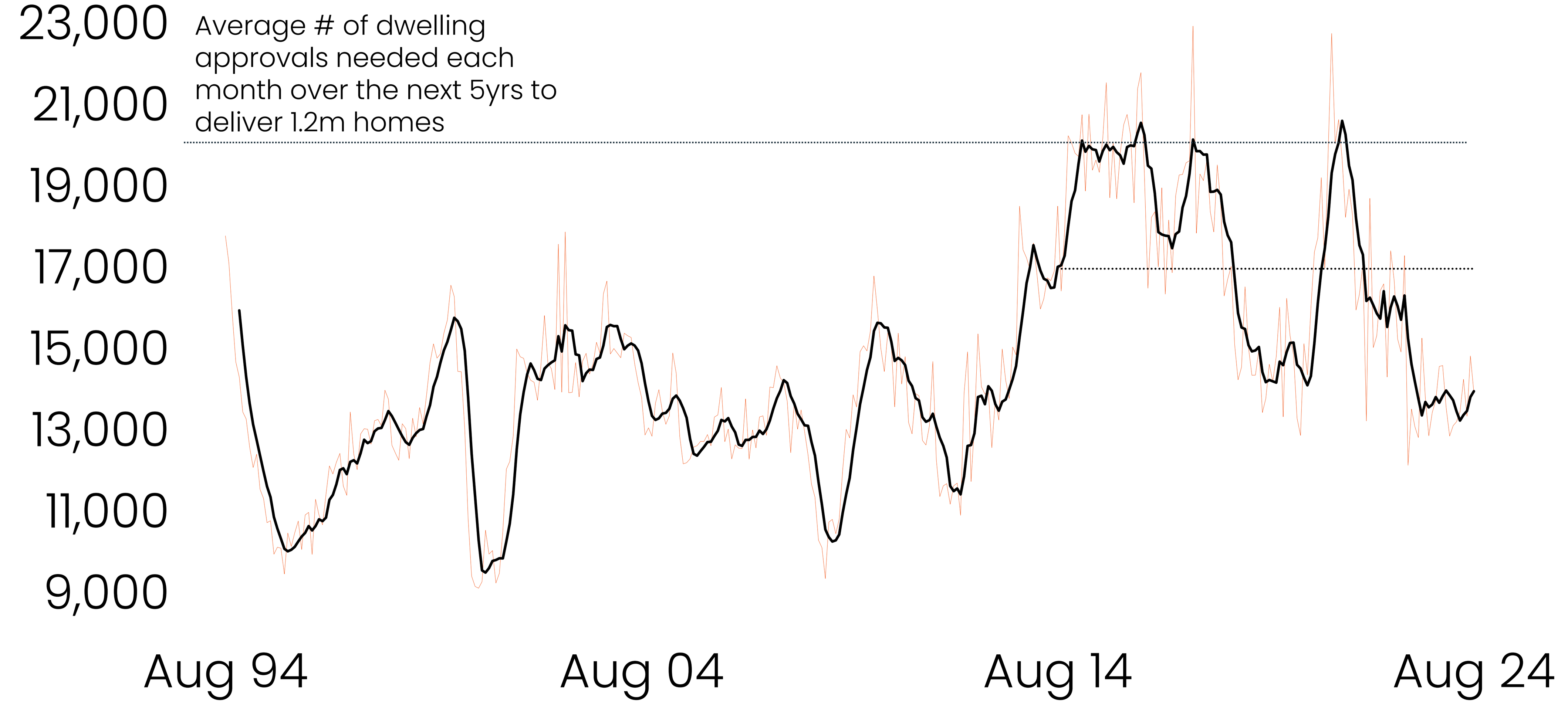
***The closest**: 5yrs ending Dec '19 when 1.045m dwellings were delivered during a high rise building boom that occurred across the largest capitals.*

Rolling 5yr count of dwelling completions, National



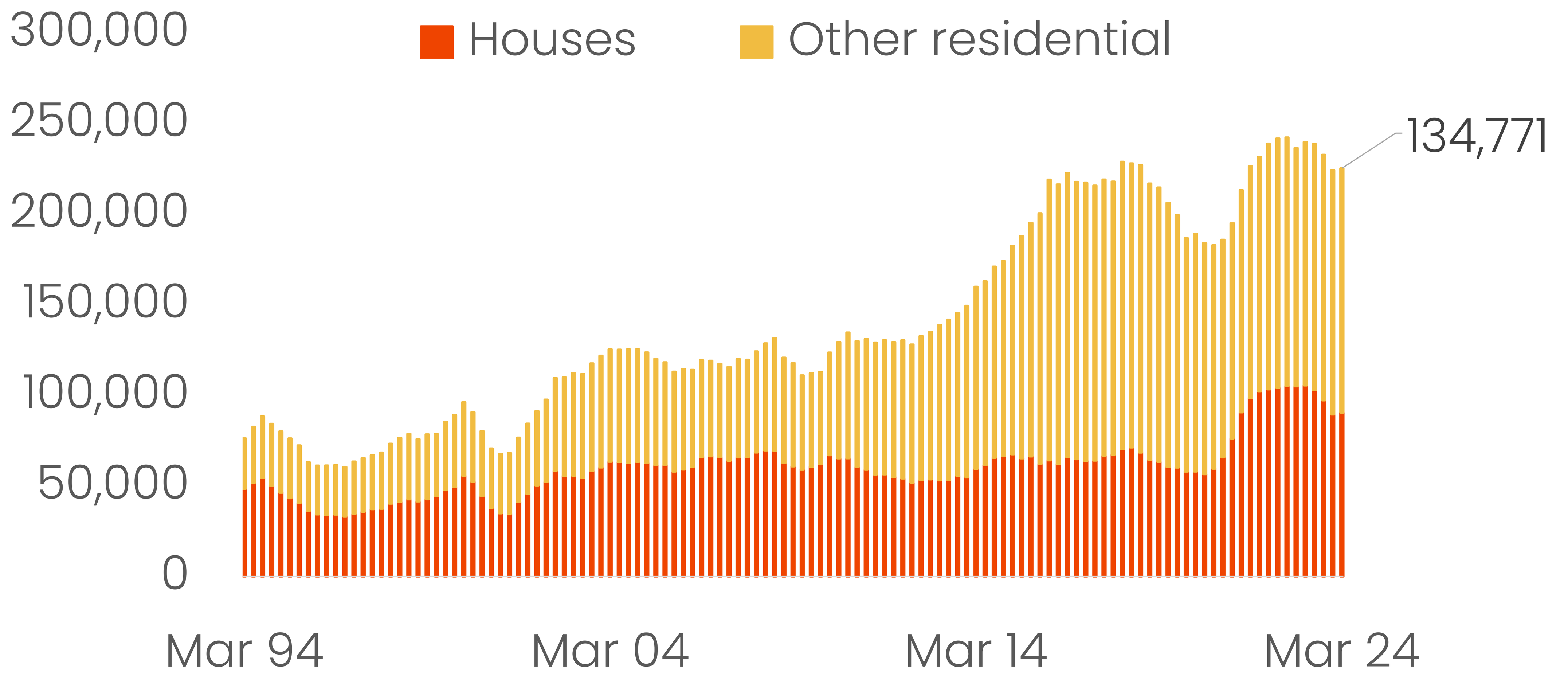
Considering the pipeline of dwellings approved for construction has plummeted since the end of HomeBuilder in March '21, alongside the time it takes to deliver housing supply from approval to completion, Australia will need to see a significant turn around in approvals in order to meet the 1.2m completions objective.

Monthly dwelling approvals, National



Low handing fruit? A significant level of housing stock has been approved and commenced… but hasn't reached completion. Australia recently moved through a record number of dwellings under construction, with a large portion of these attributable to either the HomeBuilder grant or a legacy of the earlier surge in high density construction activity. A significant overhang of unfinished construction projects remain in the pipeline.

Number of dwellings under construction, National

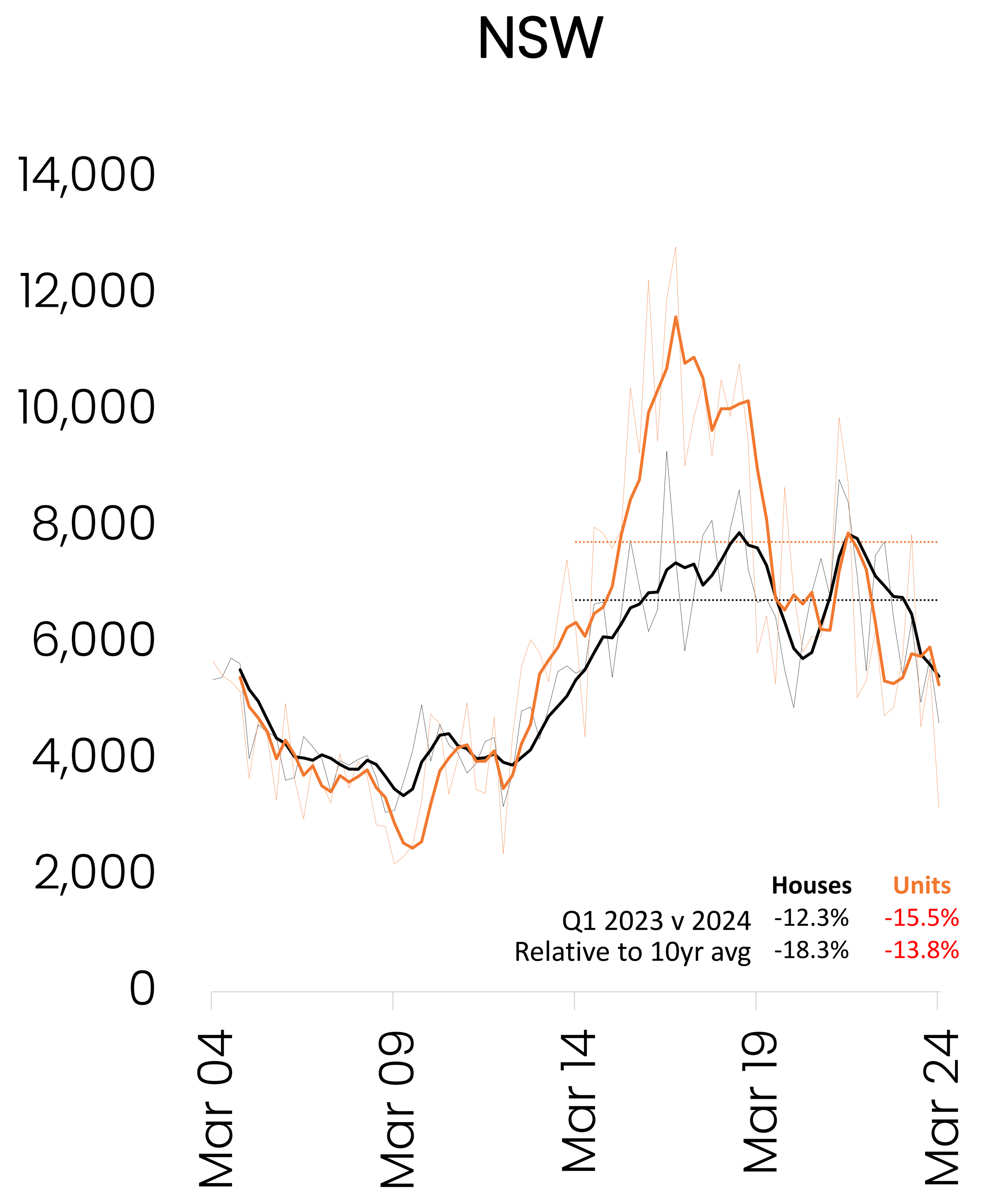


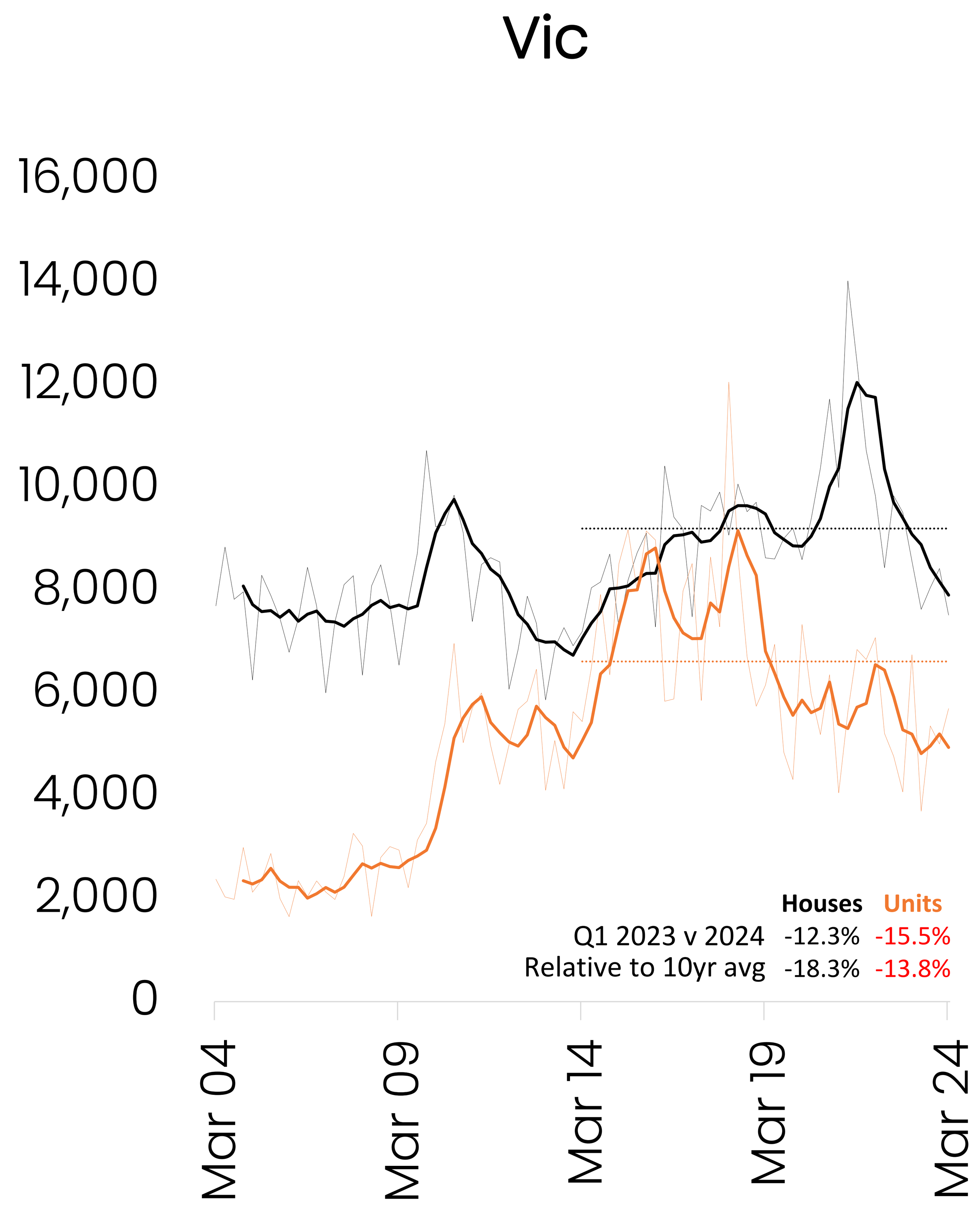
Source: CoreLogic, ABS

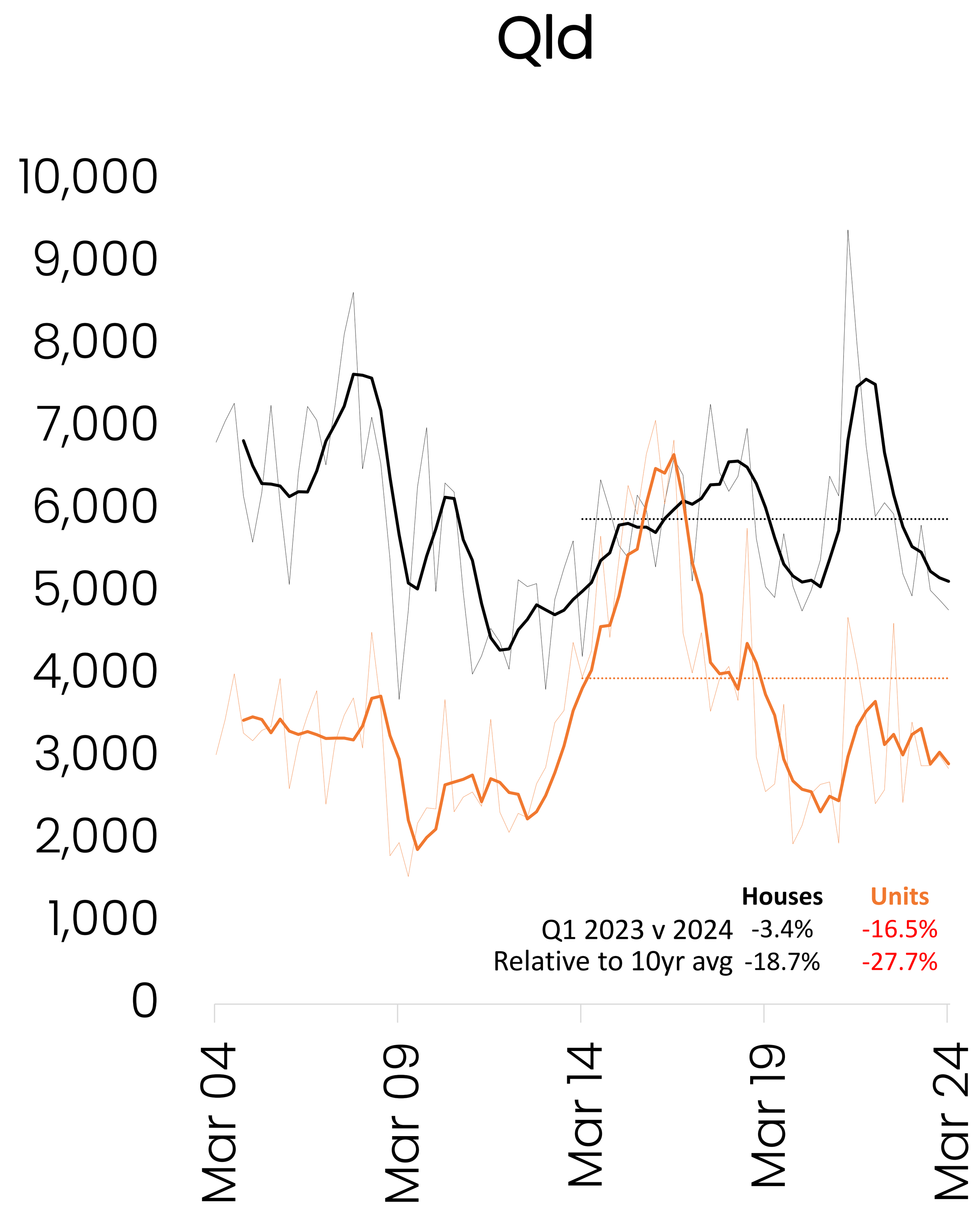
CoreLogic

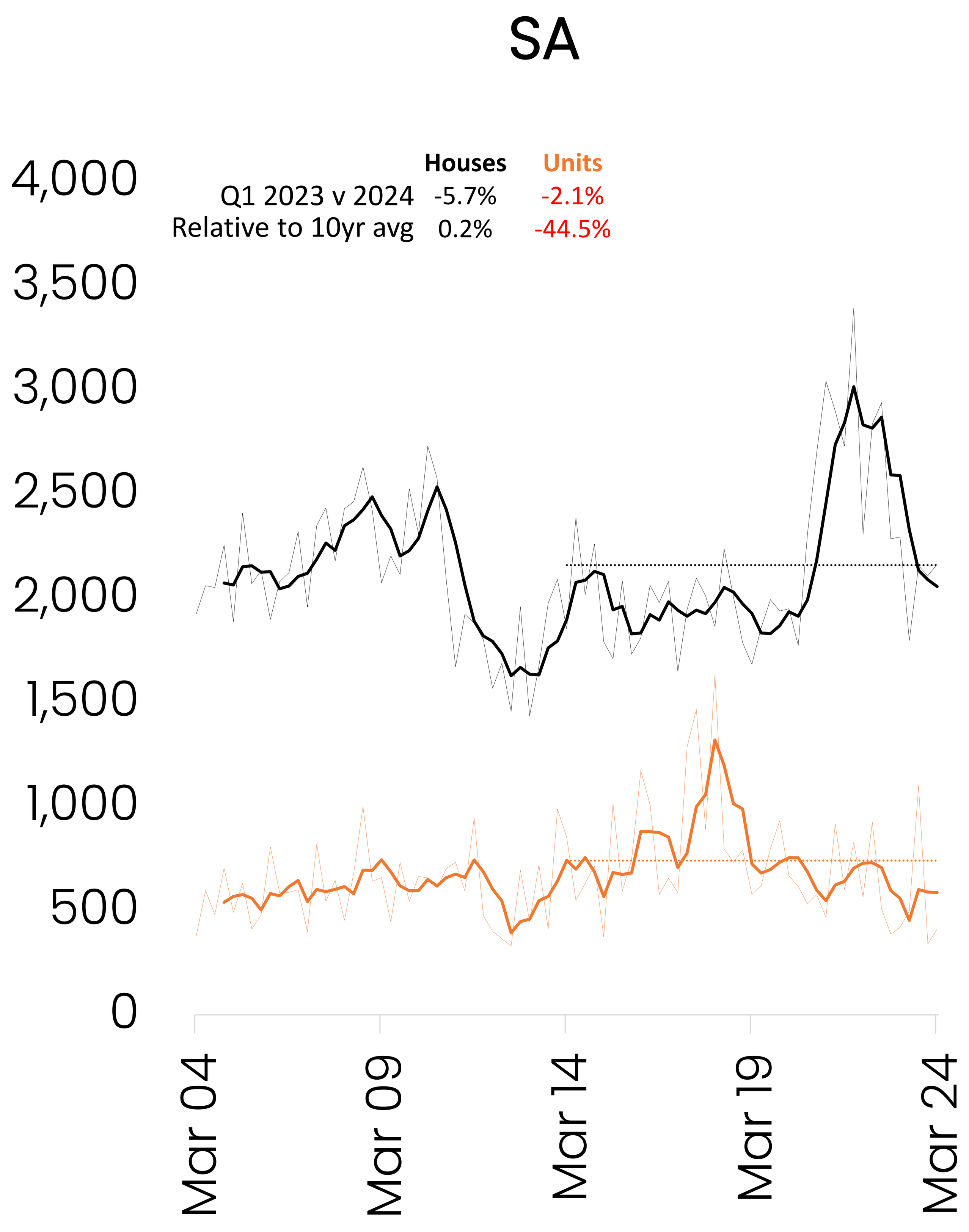
New dwelling commencements are generally trending lower…

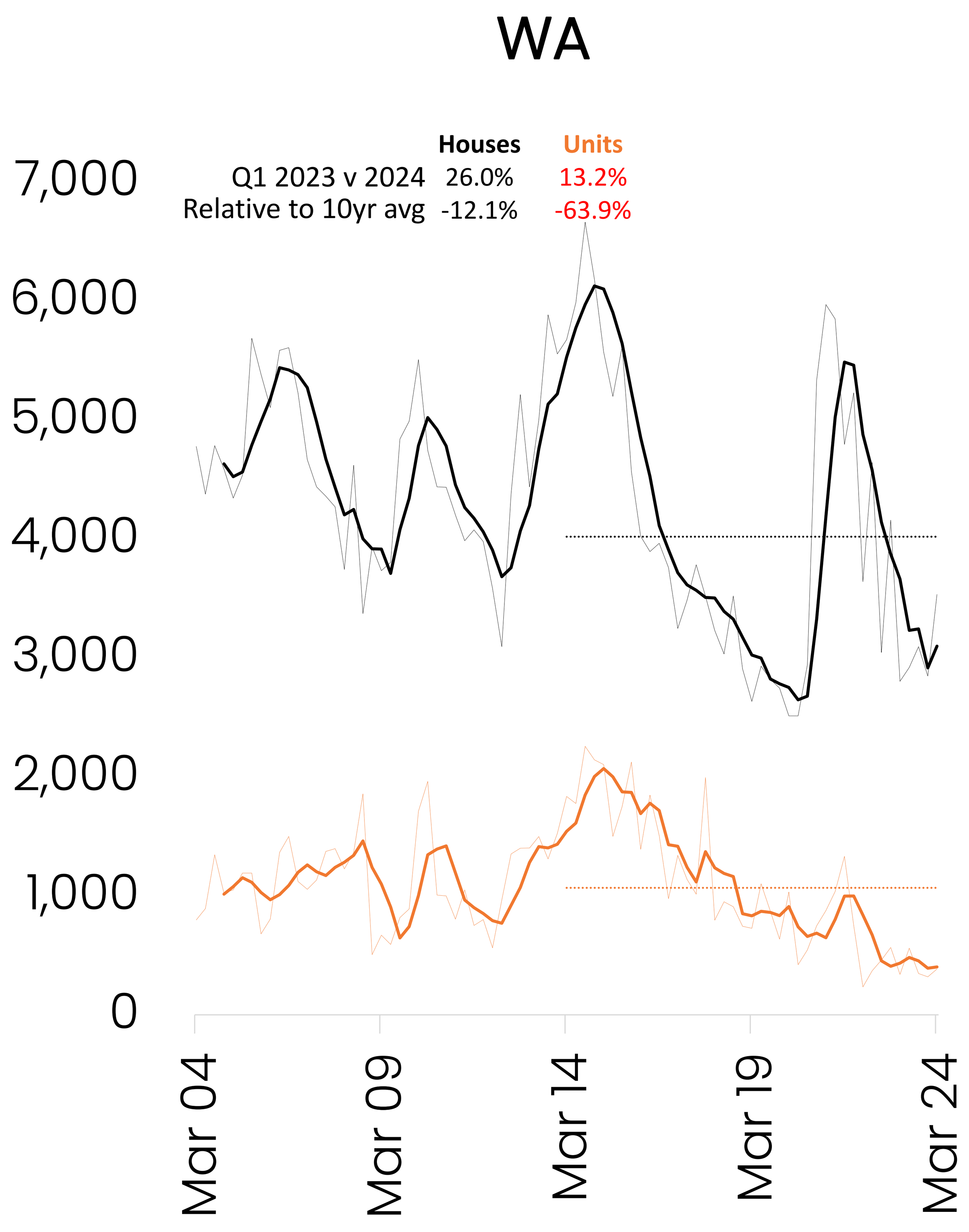
…from already low levels. With approvals yet to show a rise, its likely commencements will fall further through the second half of the year.











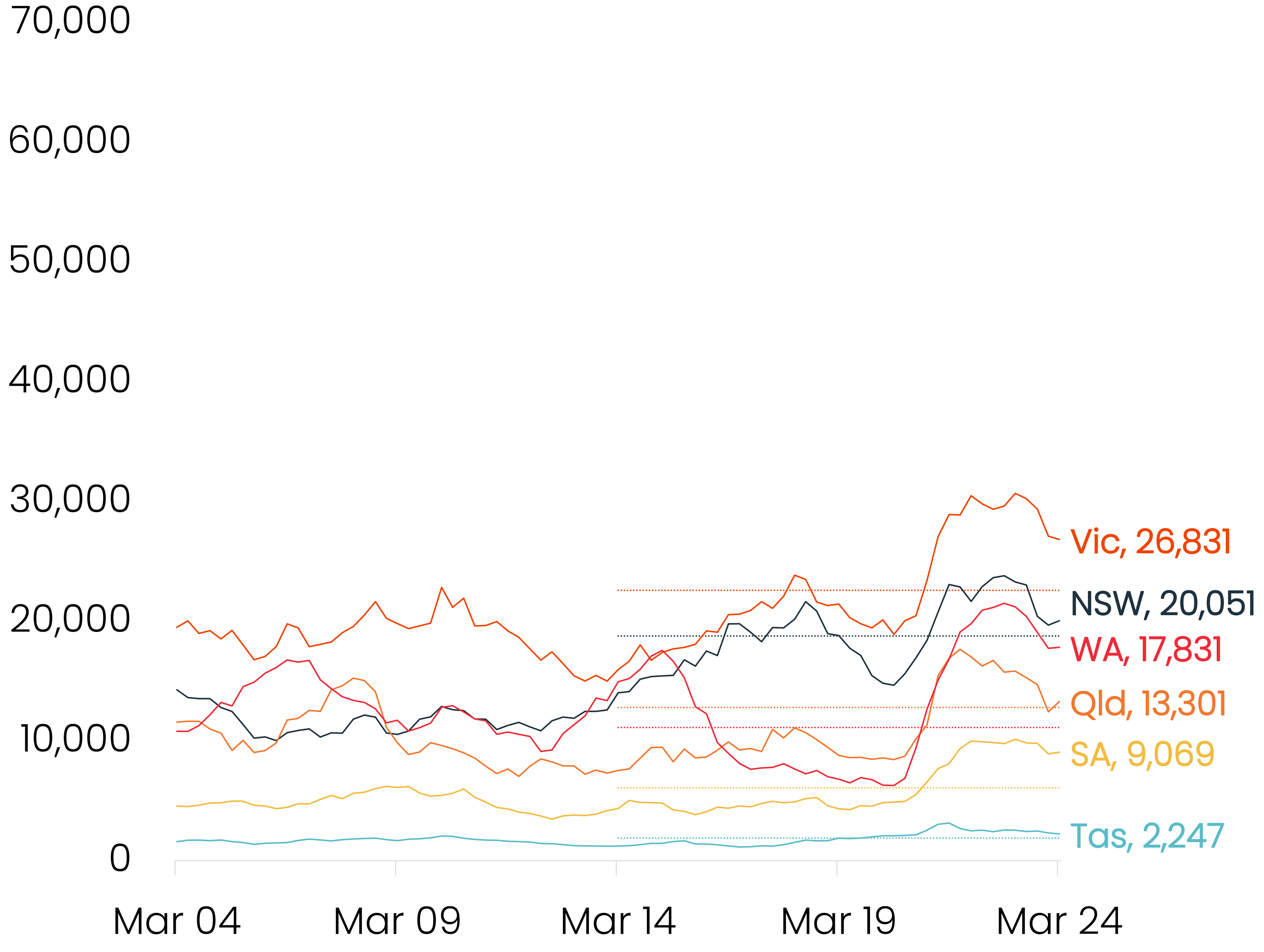
Source: CoreLogic, ABS

CoreLogic

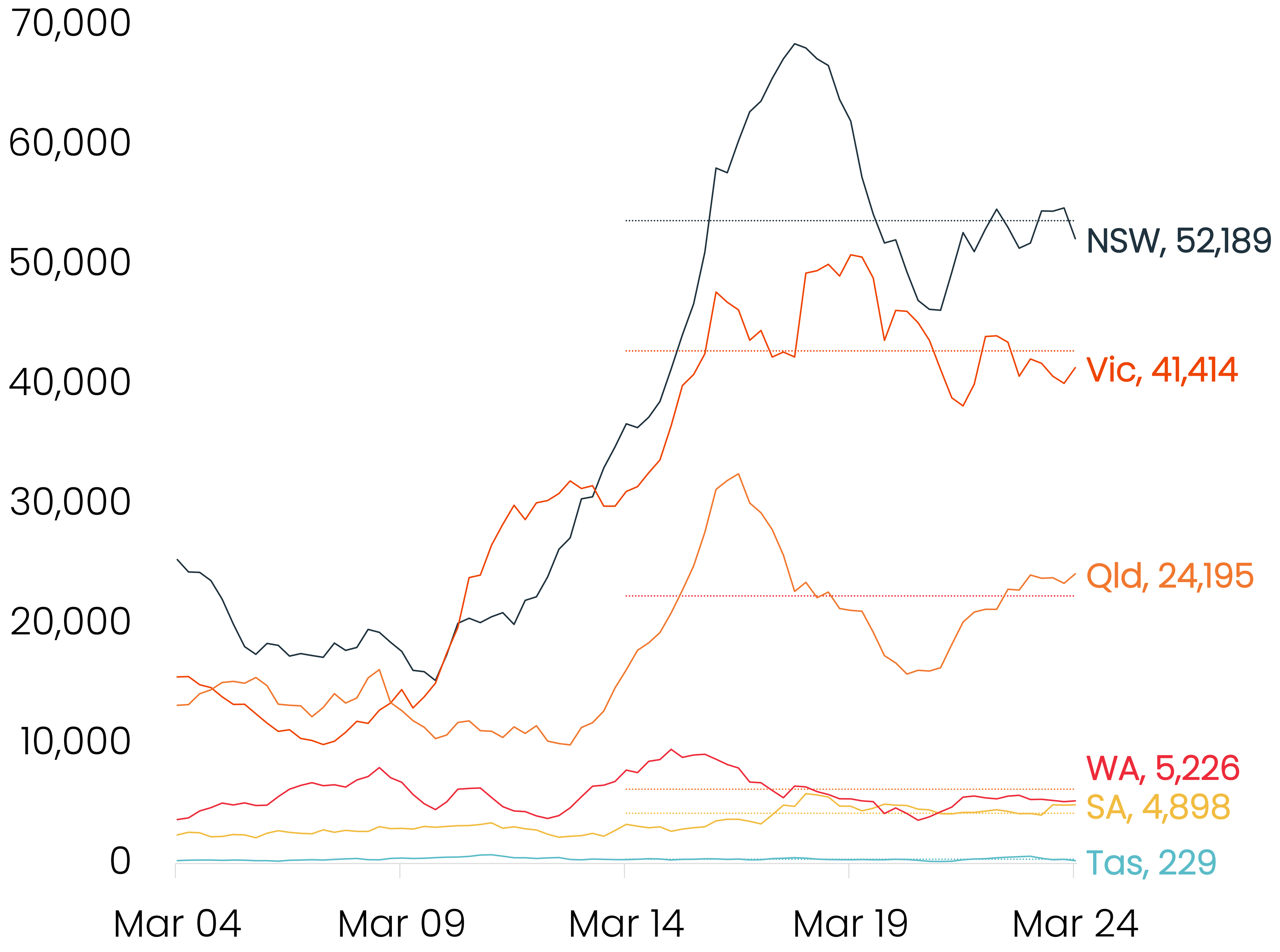
A significant number of dwellings remain under construction, especially across the unit sector

…however, the number of dwellings under construction has peaked. Once these residential projects are completed there isn't a great deal of approved supply in the pipeline.

Number of houses under construction, major states



Number of units under construction, major states

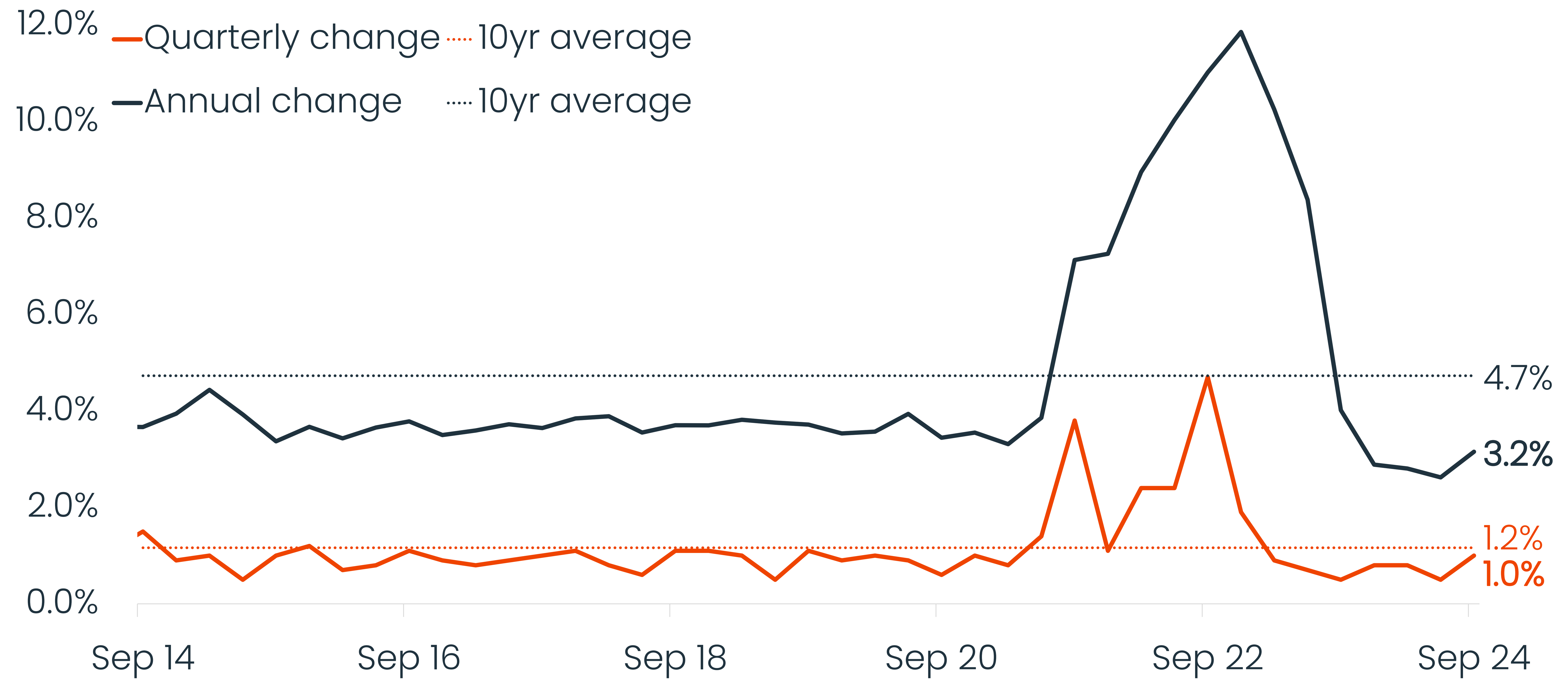


Source: CoreLogic, ABS

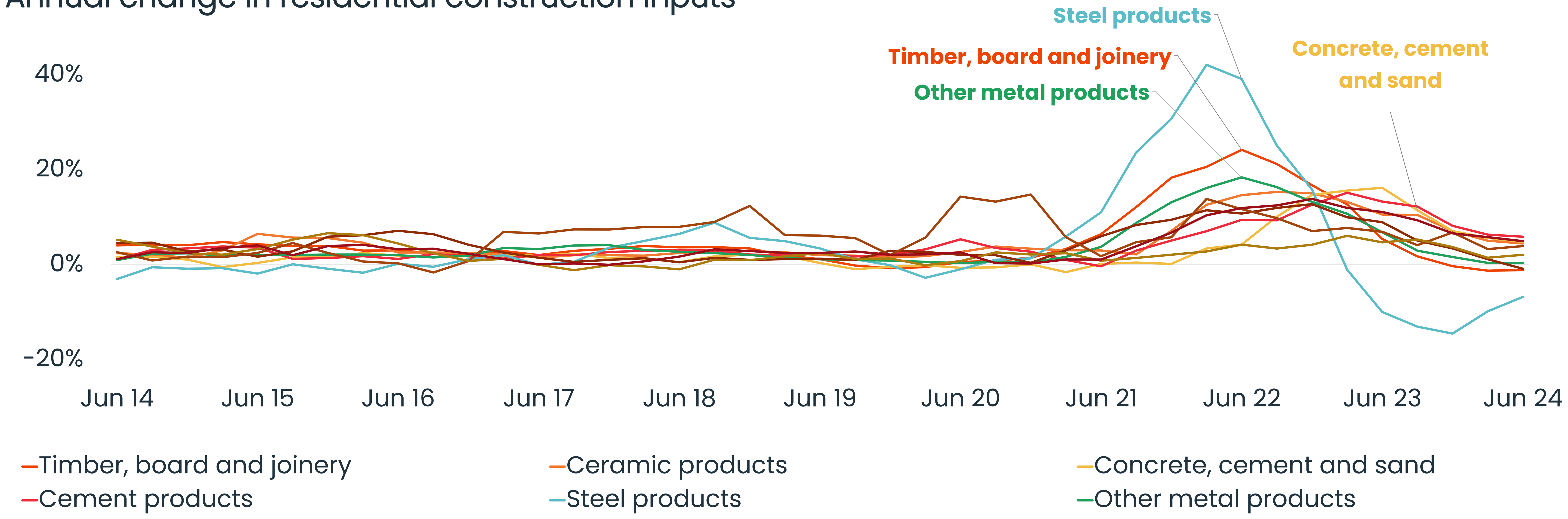
A surge in construction costs has been a key challenge for builders

Construction costs are now rising at a below average pace (but not reducing), providing more certainty around project feasibility and budgeting... But it will take some time for builder profit margins to recover from the 32% jump in construction costs over the past five years.

Cordell Construction Cost Index (CCCI)



Annual change in residential construction inputs



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Source: CoreLogic, ABS

2024: Housing values likely to rise further but with a further loss of momentum and greater diversity

Still some challenges ahead

- Core inflation is reducing but the 'last mile' remains challenging.
- Households savings have been drawn down over the past few years.
- Economic conditions are soft and labour markets loosening.
- Lenders & credit policy remains cautious.
- Consumer sentiment is persistently low.
- Housing remains unaffordable for many.

… but tailwinds evident

- Rate hiking cycle has peaked… but timing of the first cut remains uncertain.
- A burgeoning undersupply of newly built homes should support values, but watch for policy response / stimulus.
- Labour markets set to remain tight (despite a loosening).
- Above average migration (but slowing).

On balance …..

- Downside housing risks remain, but offset by low supply.
- A cut to rates should boost consumer sentiment and borrowing capacity, supporting activity… but regulators are likely to be watchful for excessive household / housing debt.
- Slowing migration and changes in household formation should see a further easing in rental demand.
- Federal and state governments are likely to be looking to stimulate home building.

Thank you!

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