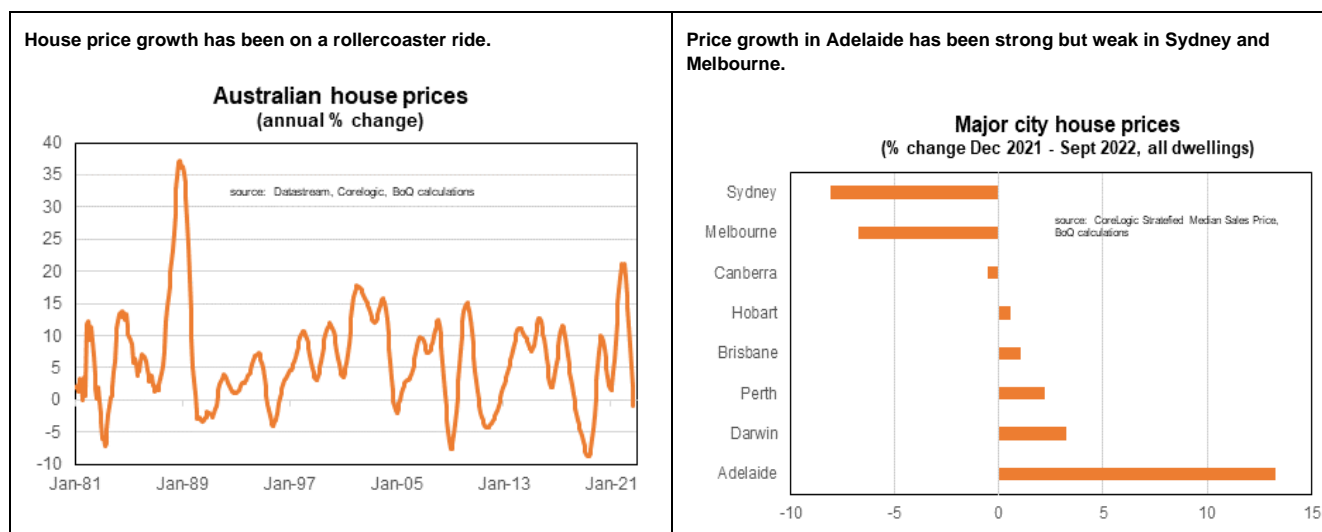


Key points

- **House prices are declining in most capital cities;**
- **As at the end of September house price valuations were below average only in Perth and Darwin;**
- **The probability of further cash rate rises means house prices are likely to decline further;**
- **The peak-to-trough decline in house prices in this cycle is likely to be around 16%.**

What has happened to house prices so far this year

House prices declined across Australia in the year to September 2022. They have been on a big roller-coaster ride over the past few years. Three years ago, house prices declined, and this was quickly followed by a period where they then grew at their fastest rate in twenty years. Now they are falling again. The largest declines have been in Sydney and Melbourne. Prices have been modestly up (Canberra is the exception) in most other capital cities. The exception has been Adelaide where price growth has been strong. But even in Adelaide there have been clear signs of the slowing of price growth over the past three months.



Regions have outperformed cities in NSW, Victoria and Tasmania, a reflection of affordability and the working from home trend. In the cities the performance of houses and units have generally been about the same. This suggests a combination of slowing demand and some increase in supply (although surveys suggest a lack of stock remains a problem in Adelaide and Perth). That has not been the case in the regions where units have generally done better.

Dwelling price % change since end 2021 to Sept 2022

	City		Region	
	Houses	Units	Houses	Units
NSW	-6	-6	1	1
Vic	-4	-7	4	9
Qld	4	7	5	8
SA	12	9	13	6
WA	3	3	3	6
Tas	-2	0	3	14
ACT	-2	2	na	na
NT	0	-3	0	14

Source: CoreLogic, BoQ calculations

Financing Trends

Affordability worries have created a substantial decline in the proportion of home loans taken out by first-home buyers over the past year. That proportion has plateaued in recent months to around its twenty-year average. Whether that proportion declines further will depend upon the interaction of house prices, interest rates and unemployment. There has also been a dramatic jump in refinancing activity. Refinancing will remain a significant driver of home loan activity over the next year given the large number of fixed-rate loans that are due to roll off by the end of next year.

The combination of strong demand and rising stock, led to an increase in the number of existing homes sold. Sales volumes have declined more recently as buyers have turned more cautious, although the number of sales remains relatively high by historical standards. With interest rates likely to head higher (and house prices to decline further) a further slowdown in sales is probable. One reason to expect a decline in sales is that there has been a reduction in the number of home loans approved for both owner occupiers and investors.

The proportion of home loans going to first-home buyers has declined substantially over the past year.

Proportion of home loans going to first home buyers (excl refinancing)



Refinancing is currently a big part of the home loan market.

External refinancing (proportion of all loans)



HOUSING UPDATE

PETER MUNCKTON – CHIEF ECONOMIST
WEEK ENDING 21 OCTOBER 2022



Home sales have declined from a very high level over the past six months.

Dwelling sale volumes
(modelled CoreLogic numbers, 6-month sum)



There has been a decline in the number of new home loans (excl refinancing) for both owner occupiers and investors.

Number of home loans approved to owner occupiers
(excl external refinancing)



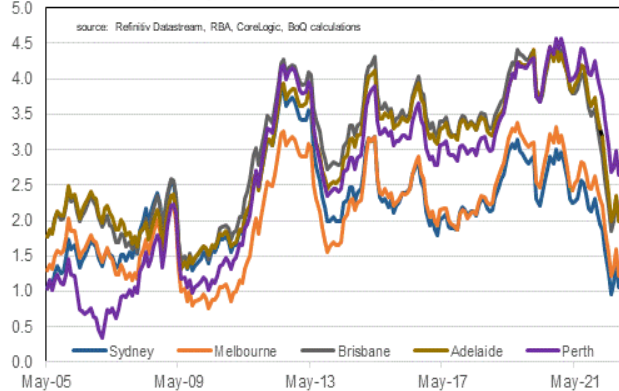
Valuation

Over the next year, the strong chance that interest rates will head higher will remain the most significant driver of house prices. At the time of writing this, the cash rate was 2.6%. Financial market pricing for the peak cash rate in this cycle has fluctuated between 3.5-4.5%. How much house prices decline will vary across regions and will depend upon a variety of factors including the strength of the local economy, regional variations in population growth, and supply response as well as valuations.

There are various measures used when considering the 'value' of house prices in a city. Rental yields is one, and they are currently near their historical cyclical lows in Sydney, Melbourne, Brisbane and Adelaide. That is not the case in Perth. The proportion of incomes spent on mortgage payments is another. Payments are above average for what most capital cities have historically experienced. Perth and Darwin are the exceptions.

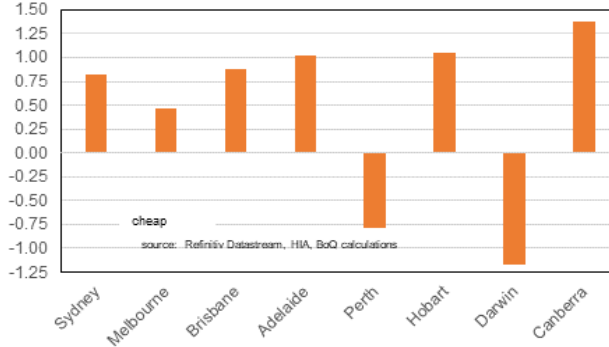
Rental yields are low in most major cities apart from Perth.

Rent yield premia for 5 largest capital cities
(rental yield - Cth Govt index bond yield)



Mortgage repayment to income ratios are above average in most capital cities.

Repayment ratio relative to city average
(% income spent on mortgage payments, standard deviation from average)



House price outlook by city

The probability of rising interest rates means that further declines in house prices are probable in coming months. Relative to last quarter, I have downgraded the outlook for most cities (Darwin is the exception). The cash rate is projected to head higher than I anticipated three months ago. The most significant downgrades have been to Brisbane and Adelaide. In the case of Brisbane, it is partly about marking-to-market, as house prices have declined a lot sharper than I had expected. But for Brisbane and Adelaide it also reflects that house price valuations now look more stretched than was the case earlier in the year.

Projected peak-to-trough house price declines by capital city

City	% decline from peak to Sept 2022	% June quarter forecast peak-to-trough decline	% Updated expected peak-to trough decline
Sydney	-9	-15	-15 to -20
Melbourne	-7	-11	-10 to -15
Brisbane	-6	-8	-10 to -15
Adelaide	-	-6	-8 to -13
Perth	-1	-3	-3 to -8
Hobart	-4	-12	-12 to -17
Darwin	-	-4	-2 to -7
Canberra	-6	-10	-10 to -15

Source: BOQ Economic forecasts

We live in interesting times.

Regards

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