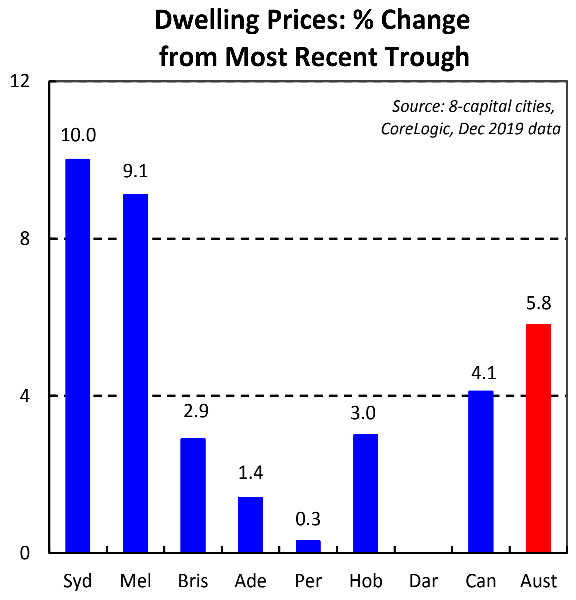
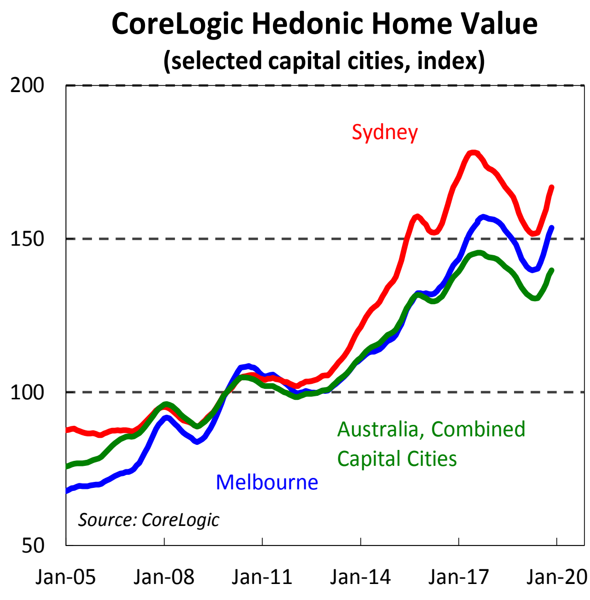
Dwelling Prices

Housing Price Growth Continues to Ramp Up

- **Dwelling prices recorded another strong gain in December, according to CoreLogic data. Dwelling prices across the combined capitals recorded a gain of 1.2%, which is the sixth straight month of gains.**
- **On a year ago, dwelling prices in the capital cities rose 3.0%, which is the second consecutive month of growth.**
- **Record low mortgage rates, very low stock levels and 2019's relaxation of macro-prudential measures have continued to ignite dwelling prices.**
- **Sydney and Melbourne continued to record a very fast pace of growth in December. In both cities, growth of house prices outweighed those for units. Sydney dwelling prices jumped 1.7% in December, which is the fastest of all capital cities. Melbourne recorded a rise of 1.4%.**
- **Premium markets experienced the fastest rate of capital gains; the top quartile of capital-city dwelling prices rose by 5.6% in 2019 compared with a 1.1% rise across lower quartile properties.**
- **The rental market held reasonably firm. The national rental index rose 0.1% in December, however, rental yields continued to compress.**
- **Dwelling prices should continue to ramp up over the year ahead, especially in Sydney and Melbourne. More rate cuts from the Reserve Bank are likely this year. Low levels of housing stock should also continue to contribute to higher prices, although stock levels should improve from current levels as the year progresses.**





Dwelling prices across Australia recorded another strong gain in December. Dwelling prices across the combined capitals recorded a gain of 1.2%, which is the sixth straight month of gains. On a year ago, dwelling prices in the capital cities rose 3.0%, which is the second month of growth recorded annually. Nationally (i.e. including regional areas), dwelling prices gained 1.1% in December and were up 2.3% over 2019.

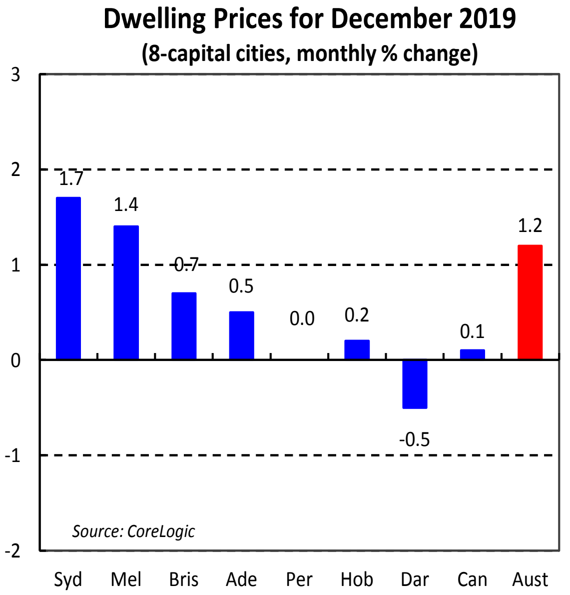
A combination of very low mortgage rates, very low stock levels and a gradual relaxation of macro-prudential measures have continued to ignite dwelling prices.

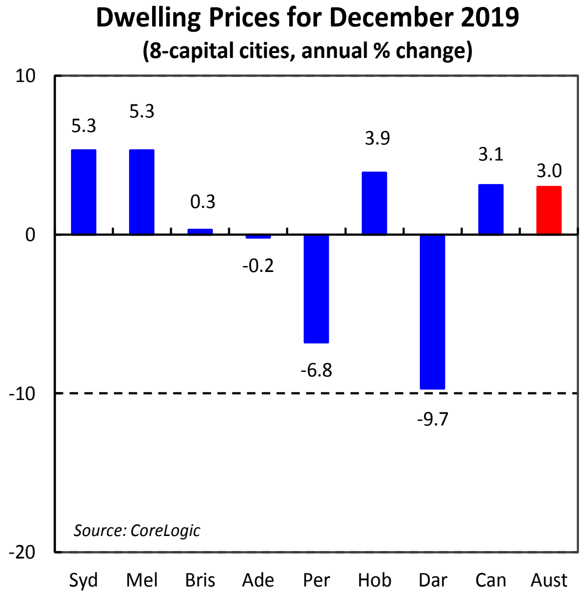
Much of the attention is on Sydney and Melbourne, the nation's biggest housing markets. These two cities continued to record a very fast pace of growth.

Sydney dwelling prices jumped 1.7% in December, which is the fastest of all capital cities. Sydney dwelling prices have lifted for seven consecutive months, stringing up a total gain of 10.0% over this seven-month period. The increase in Sydney prices in December was led by houses, up 2.0%, compared with units up 1.0%. There is a much lower stock of housing compared with units, which is causing the growth of house prices to outgain that of unit prices. On a year ago, Sydney dwelling prices rose by 5.3%, which is the strongest annual growth rate since October 2017.

Sydney's median price is $840,072 – well above all other capital cities, including Melbourne (at $666,883).

Melbourne dwelling prices jumped 1.4% in December, which is the sixth straight month of gains. Like Sydney, house prices were stronger than unit prices in Melbourne (1.7% versus 0.9%). On a year ago, dwelling prices increased by 5.3%, the strongest annual growth rate since March 2018. Since hitting a bottom in June this year, Melbourne dwelling prices have increased 9.9%.





Other capital cities also recorded gains in December with the exception of Darwin, which continues to suffer the aftermath of the mining investment downturn. The pace of gains in dwelling prices in other capital cities is not as fast as that of Sydney and Melbourne where population growth and employment growth are firm and where advertised dwelling stock is low.

In December, dwelling prices rose 0.7% in Brisbane, 0.5% in Adelaide, 0.2% in Hobart and 0.1% in Canberra. Darwin dwelling prices retreated 0.5% and have declined through most of 2019. Perth dwelling prices were flat in December, after 0.3% growth in November, which arrested the downturn in place since May 2018.

In annual terms, dwelling prices rose the fastest in Sydney and Melbourne at 5.3%. Hobart and Canberra followed with annual growth rates of 3.9% and 3.1%, respectively. Brisbane notched up a positive annual rate in December (of 0.3%), which is the first annual growth rate recorded in 11 months.

Other capital cities are still recording annual declines. Adelaide was down 0.2%, notching up seven months of annual rates of decline. Perth and Darwin were down 6.8% and 9.7%, respectively.

Turnover remains incredibly low across Australia and especially in Sydney and Melbourne. The low stock levels could see prices bid up not just on low interest rates but because more buyers are chasing low levels of stock. Stock levels should improve from February, although they might still remain relatively low.

An interesting feature of the data is that premium markets experienced the fastest rate of capital gains. The top quartile of capital-city dwelling prices rose by 5.6% in 2019 compared with a 1.1% across lower quartile properties. According to CoreLogic, this trend was most prominent in Sydney and Melbourne. Sydney and Melbourne's top quartile properties have recorded an increase of 7.0% and 7.6%, respectively, over the year.

In terms of the rental market, it held reasonably firm. The national rental index published by CoreLogic rose 0.1% in December and rose by 1.2% over 2019. However, rental yields continued to compress in December because the pace of dwelling price gains outweighed that of rents. Nationally, the rental yield slipped from 4.0% in 2018 to 3.8% in 2019.

Outlook

Dwelling prices should continue to ramp up over the year ahead, especially in Sydney and Melbourne. Mortgage rates are very low and more cash-rate cuts from the Reserve Bank are likely. Low levels of housing stock should also continue to contribute to higher prices, although stock levels should improve from current levels as the year progresses. The headwinds of low rental yields, high household debt and weak wages growth might constrain how far dwelling prices run, although so far dwelling prices have likely run up faster than policymakers have anticipated.

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