The Changing House Market

ABS Dwelling Transfer Statistics

The housing market changed during the pandemic. This had a material effect on many hardware retailers. While much of the focus has been on the housing market "boom" (and we'll find out if it is really a "bubble" when interest rates hit 3.0%), there were significant shifts in the type of dwellings bought, and where those dwellings were located.

The Australian Bureau of Statistics (ABS) has released stats for the number of dwellings transferred for the March quarter of 2022. The ABS publishes these in categories that break out location by state capitals and rest of the state, as well as whether the property is "attached" – apartments, flats, townhouses, "granny" flats, etc. – or an unattached house.

Looking into these stats, and tracking how they changed through the course of the COVID-19 pandemic, can give us an insight into both the extent of any change, and the timing of the changes.

One reason why HNN has sought to present this particular data is that there is a debate about what the pandemic-driven changes "mean" for the future of the property markets.

While many changes the COVID-19 pandemic brought were "catastrophic" (in the sense of "a sudden and large-scale alteration in state"), the debate is whether these are incidental, and will fade out over the next couple of years, or if they are more foundational. If the latter is true, the suggestion is, what is really happened is that somewhat inevitable change has been brought forward.

In simpler terms, if we were absolutely certain there would be no more lockdowns for the next five years, would property buying habits revert to those of 2018, or would they retain much from 2021 instead?

AUSTRALIA

This data varies substantially from state to state, and the meaning of the data also changes with geography and demographics. For example, property transfers outside of Sydney in New South Wales (NSW) incorporate several major urban areas such as Newcastle, the Central Coast and Wollongong. Similarly, for Queensland (QLD), outside of Brisbane there are dense regional areas such as the Sunshine Coast, Townsville and Cairns. In contrast, Victoria (VIC) is a far more centralised state: its second city, Geelong, has only 4% of the population of greater Melbourne.

That variance also means that aggregated data about Australia-wide trends has less meaning. However, we can look at another statistic, which is the median value for houses and attached dwellings (apartments, flats, townhouses, etc.) across the nation, to see broader, more general trends.

Chart 1 shows the median values for these two categories in the states most affected by the pandemic on the east coast, for both greater capital city areas, and the rest of the state.

The narrative of the graph on the left is well-established, especially the steep rise in the median value of houses for the Sydney area, echoed by a similar climb in values for the greater Melbourne area. If there is a surprise, it is in the rise in values for

NSW outside of Sydney, with those values climbing steeply enough to overtake values for Brisbane. There is an echo of that increase for median value in VIC outside Melbourne.

The graph on the right, which shows median values for attached dwellings, contains a few more surprises. While the comparatively lower rises in median values for attached dwellings in both Melbourne and Sydney is well-understood, the sharp rise in those values outside the urban areas has been under-reported. Values for rest of NSW have risen so steeply that they have overtaken those in urban Melbourne. Rest of VIC values have also increased substantially.

Chart 2 shows the median values for these two categories in the rest of Australia, for both greater capital city areas, and regional areas. Again, the graph on the left, for houses, is not surprising.

The median value in the most urban area of Canberra has increased steeply, as it has for Hobart, and to a lesser extent for Adelaide. The one unexpected data point is that the median value for houses in Tasmania (TAS) outside of Hobart, which previously had been close to that for Darwin, has increased steeply as well.

The graph on the right shows the median value for attached dwellings. TAS is again the surprise here, as it shows a steep rise for Hobart, with Darwin also showing growth.

Finally, we have Chart 3, which charts the percentage growth in these categories. This takes the December 2019 quarter as a baseline, then compares that to the maximum value taken from all the subsequent quarters through to December 2021.

In houses – the left graph – the top three are rest of VIC, rest of NSW and rest of TAS. In attached dwellings – the right graph – the top three are rest of NSW, rest of VIC, and rest of Western Australia (WA). In fact, the biggest surprise is the extent to which rest of WA has outperformed Perth.

What these charts of median values indicate is the balance between supply and demand across these areas. The unusually high values for more regional areas are likely driven by both direct and indirect pandemic effects. The direct effect is families seeking to avoid difficult lockdowns in urban areas. The indirect effect is that as the urban median values rose, many households would have found themselves priced out of urban areas, and have elected to live in more regional areas.

NUMBER OF TRANSFERS

Moving from the median values to the numbers of transfers, we shift from supply and demand in the market, to looking at how the supply

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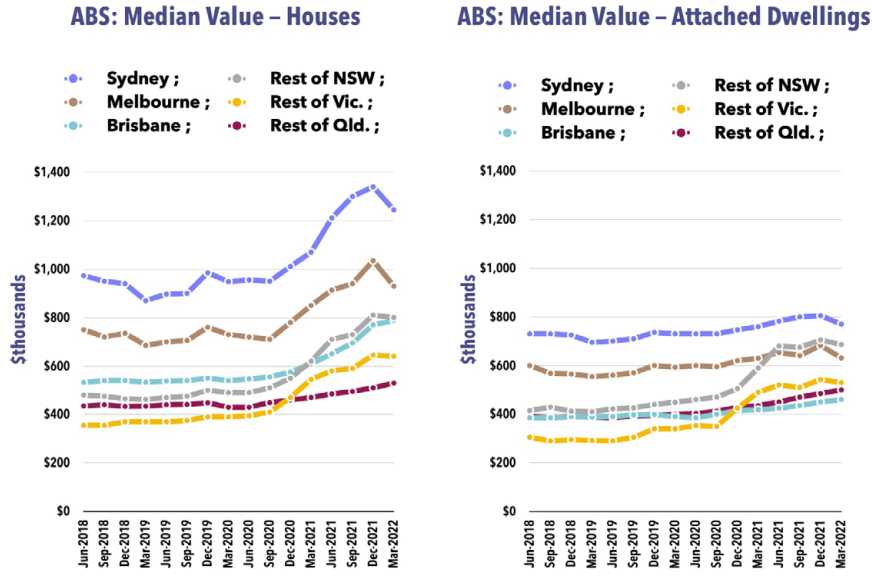

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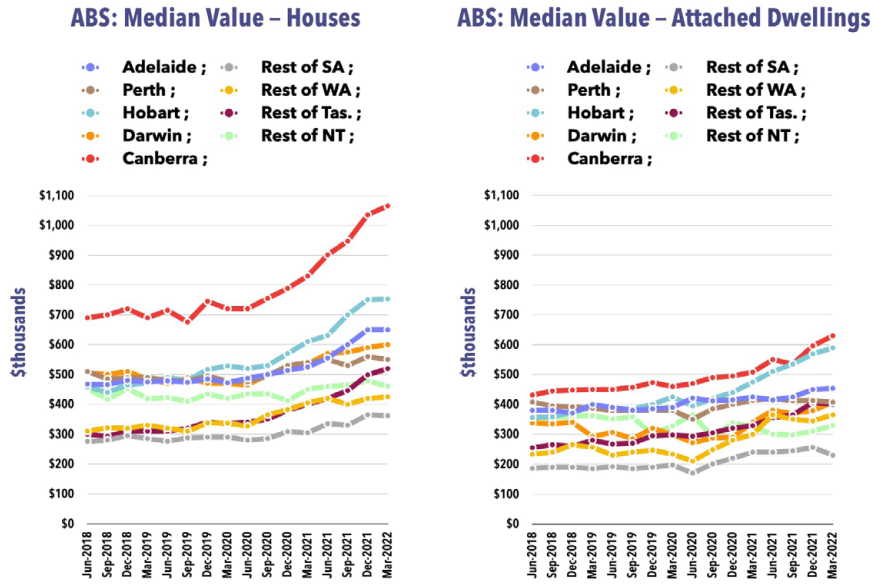


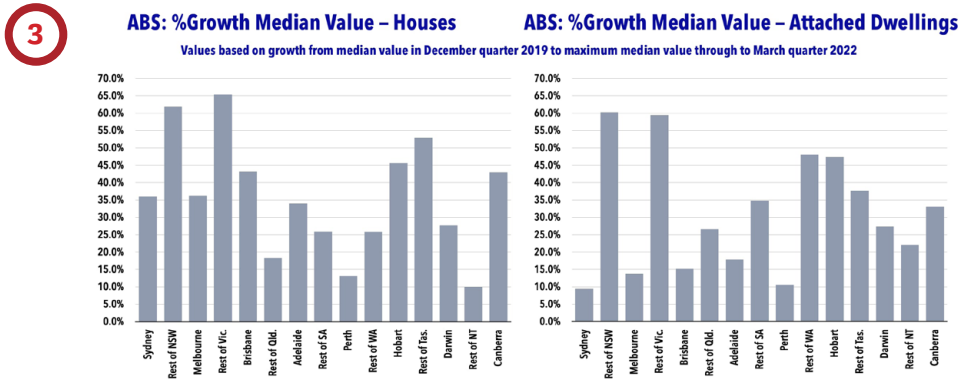
side of the equation has played out across Australia. For the most part, there is a balancing of forces at work here. Some of these are directly pandemic-related, and others – as mentioned above – are secondary effects stemming from the pandemic.

One dominant set of forces could be thought of as a revaluation of space. In a paper sponsored by the Australian Council of Social Service and UNSW Sydney, entitled "Housing Market Impacts and Housing Policy Responses – an International Review", authors Hal Pawson, Chris Martin, Fatemeh Aminpour, Kenneth Gibb and Chris Foye borrow from a study by the Bank of England to refer to this as "the race for space". The study identifies three types of changes to dwelling buying patterns caused by the pandemic:

> The first is compositional in nature: the pandemic has changed the type of properties being traded, increasing transactions for detached houses and decreasing transactions for flats. Because, on average, the former are worth more than the latter, this has increased the average value of properties being transacted ...
> The second dimension of the "race for space" also relates to property type, but this time the argument is that the pandemic not only changed the types of properties being transacted but also changed the amount that people were willing to pay for certain aspects of a property ... The Bank of England analysis suggests the pandemic increased the price that buyers were willing to pay for a house compared to a flat with similar characteristics (e.g. similar area, number of bedrooms) and this partial increase in demand explains about 20 percent of the overall house price growth ...
> The final dimension of the race for space was spatial, and relates to the type of location people wanted to live in. For those who want to remain close to the city, but who no longer need to commute regularly, it appears to have led to a "doughnut effect" as demand shifted from the centre to the suburbs. Others, including those can work entirely from home, or who can no longer gain employment in the city, have moved even further away from the city.

Housing Market Impacts and Housing Policy Responses

This is an interesting approach, as it moves away from the absolute of families deciding "we must have a house", to their basing their decisions on a revaluation of some aspects. For example, in some regions the transfer of attached dwellings outside capital cities has risen, due both to price and a greater certainty that the space outside the dwelling will remain available, and not taken away by a lockdown.



As a brief note on HNN's approach to aggregating statistics, HNN has consolidated the quarterly data into 12-month periods, ending with the March quarter. These are designated with a "p" prefix. So the period p2020 would include June 2019 quarter, September 2019 quarter, December 2019 quarter, and the March 2020 quarter.

NEW SOUTH WALES

The outstanding characteristic of NSW dwelling transfers is the increase in transfers outside of Sydney. This is most directly indicated in Chart 4, which shows the raw number of dwelling transfers across the periods:

The number of transfers for houses in Sydney initially increases in p2021, up to the level of p2018, but then declines for p2022. In contrast the transfers outside Sydney in NSW increase sharply for both p2021 and p2022.

The number of transfers for attached dwellings follows a similar pattern. The Sydney transfers increase marginally, then fall, while the transfers outside Sydney increase so sharply that they are almost the same – the Sydney transfers are ahead by less than 1400.

This is clearly shown in Chart 5, which charts the growth for these categories between periods. Attached dwellings outside Sydney grow strongly, while houses outside Sydney grow by around 35%, then decline back to 25% growth. Meanwhile for p2022 Sydney houses and attached dwellings decline by more than 10%.

Chart 6 shows the proportion of each category for a period:

This clearly shows the marked swing to areas outside of Sydney. For example, contrasting p2020 with p2022, transfers for attached dwellings outside Sydney increased by 10%, while those for houses outside Sydney increased by 5%.

Chart 7 shows the quarter-on-corresponding-quarter growth for the categories:

As this indicates, the big surge in transfers took place from the September 2020 quarter through to the December 2021 quarter, with a peak in growth for the June 2021 quarter. It's also worth noting that all categories went into negative growth for the March 2021 quarter.

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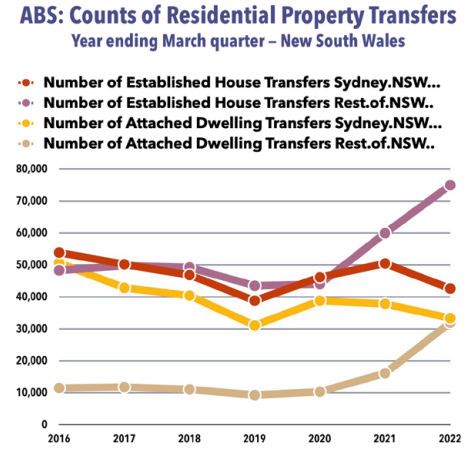

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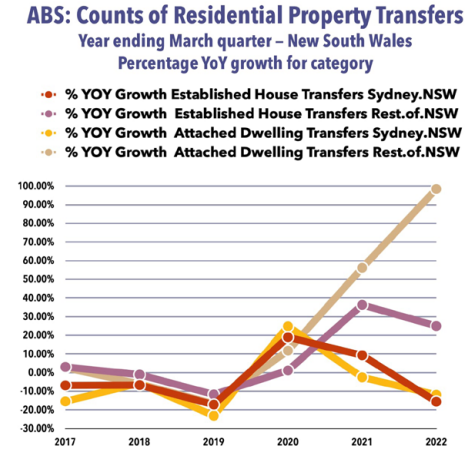

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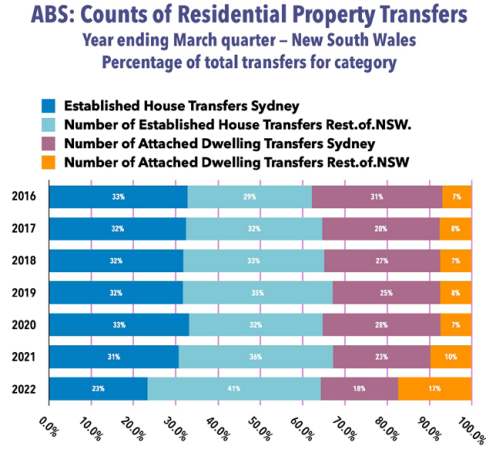

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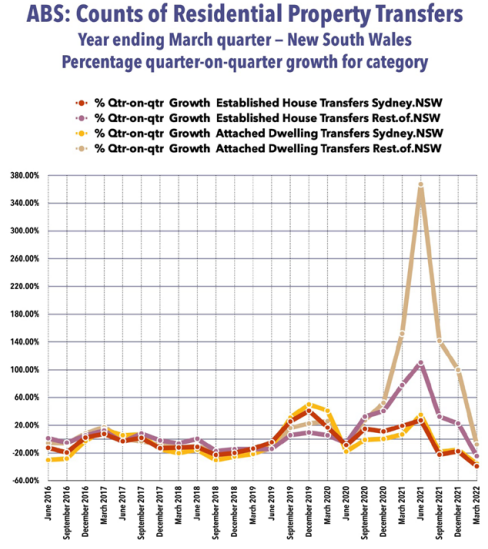

VICTORIA

VIC shows trends that are similar to NSW, but in an environment with generally lower growth. Chart 8 charts the number of transfers by category for periods.

This shows a pattern of mild decline for both houses and attached dwellings in Melbourne, while houses and attached dwellings outside Melbourne show increased transactions.

One difference with NSW is that growth in attached dwellings outside Melbourne remains relatively subdued, while the number of house transactions outside Melbourne increases to be only1440 below houses in Melbourne.

Chart 9 shows the growth in transfers. This shows that while the attached dwellings outside Melbourne transfers are numerically low, the growth rate has been high through p2021 and p2022.

That is indicated in Chart 10, which shows the proportion of overall transfers taken by each category:

After standing at 4% and under in the past, the attached dwellings outside Melbourne category grew to 13% overall in p2022. Both houses and attached dwellings in Melbourne shrunk by 5%.

At first glance, the chart for the percentage change quarter-on-corresponding-quarter for VIC looks broadly similar to that for NSW, but there are key differences, as shown in Chart 11.

While the attached dwellings outside Melbourne and houses outside Melbourne categories indicate growth similar to its NSW counterpart, the rate of growth is substantially higher.

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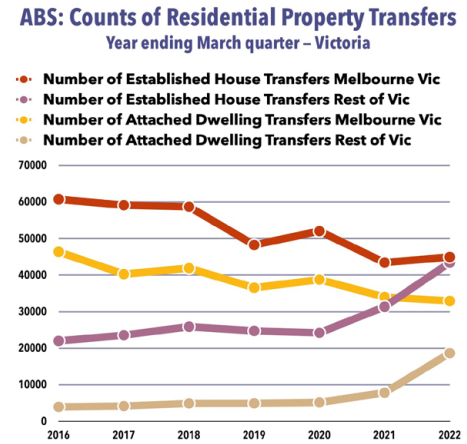

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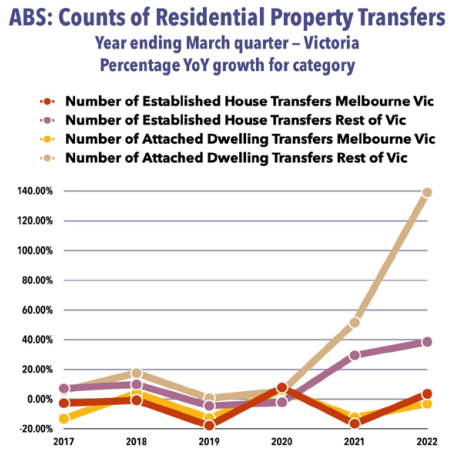

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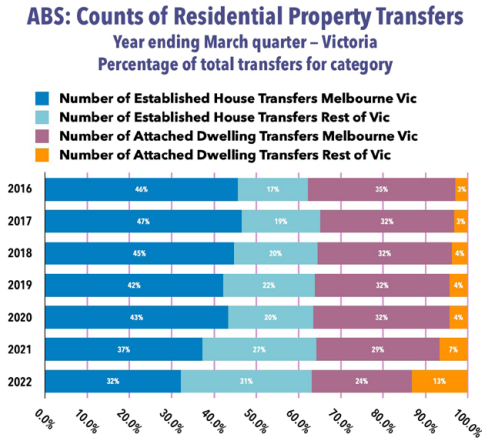

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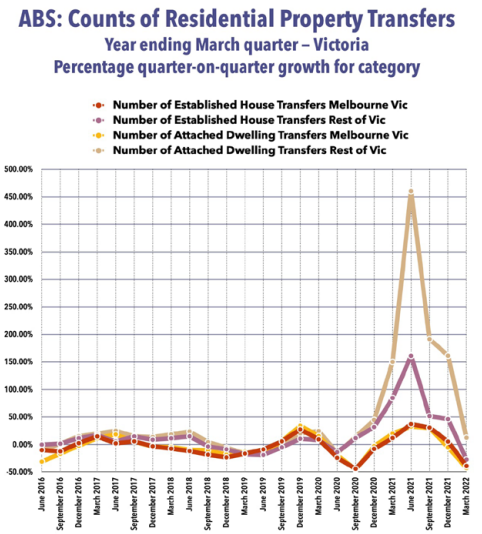

QUEENSLAND

As was noted above, QLD has a unique composition, with a more distributed population – though it is important to know that the ABS includes the Gold Coast area in the statistical area for greater Brisbane.

Chart 12 shows the raw numbers for transfers. The first thing that attracts attention is the lift in the number of transactions for houses outside Brisbane. But it turns out that this graph is somewhat deceptive – largely because while the curve near the bottom of a chart will be similar to one above it, the bottom curve, due to proportionality, will show a higher level of growth. That is clearly seen in Chart 13, which shows the growth percentages. Unexpectedly, the category with the highest level of growth is actually attached dwellings in Brisbane, while that with the lowest level of growth is for houses in Brisbane. That "swap" can be seen in Chart 14, which shows the changing proportions for each category. The proportions of house transfers outside of Brisbane and attached dwellings inside Brisbane have both grown, along with attached dwellings outside Brisbane, while houses in Brisbane has shrunk.

The quarter-on-corresponding-quarter growth shown in Chart 15 reflects this. While the timing of the peak in the June quarter of 2021 is the same as for NSW and VIC, this chart differs from those by having detached dwellings through QLD as the main categories.

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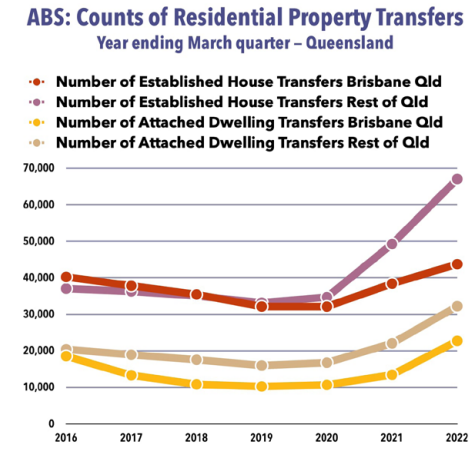

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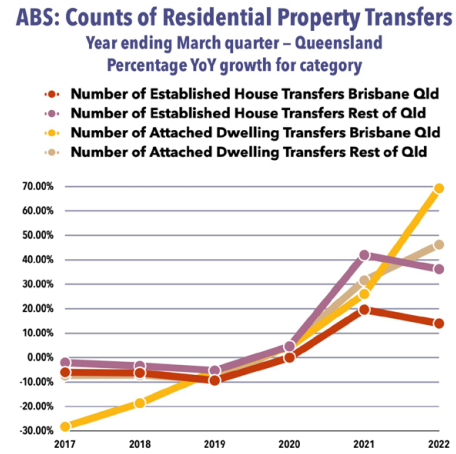

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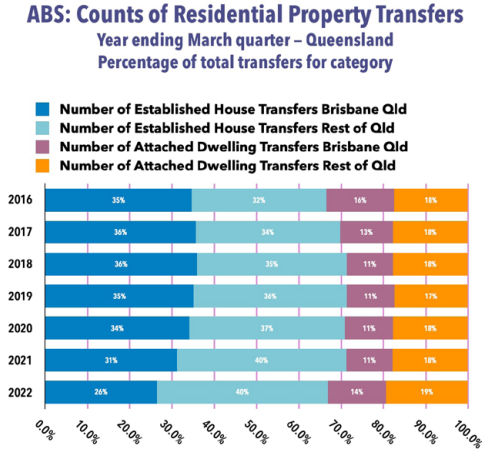

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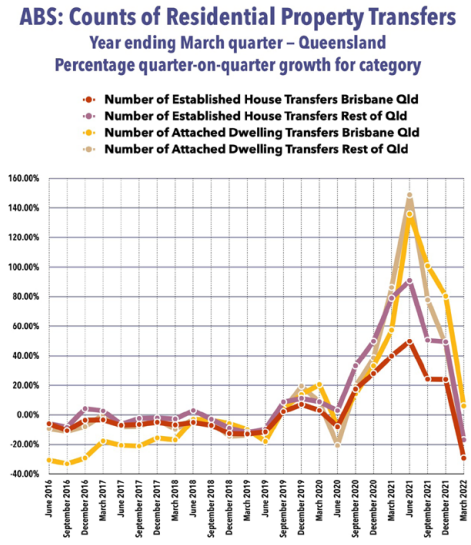

SOUTH AUSTRALIA

The South Australia (SA) market shows as relatively static from p2016 to p2020, but then grows in all categories for p2021 and p2022, as shown in Chart 16. Notably the number of house transfers outside Adelaide increases to equal transfers of attached dwellings inside Adelaide. The growth pattern is shown clearly in Chart 17. Houses in Adelaide show the slowest growth, while attached dwellings outside Adelaide have the highest growth.

Chart 18 shows a relatively modest shift in the proportions of the categories. Houses in Adelaide slip by 6% between p2020 and p2022, while houses outside Adelaide grow by 5%. Attached dwellings outside Adelaide grow by 2% over the same periods.

Chart 19 shows the growth in quarter-on-corresponding-quarter terms. Once again there is a growth surge in the June quarter of 2021, dominated by the two categories outside of Adelaide, with attached dwellings leading over houses.

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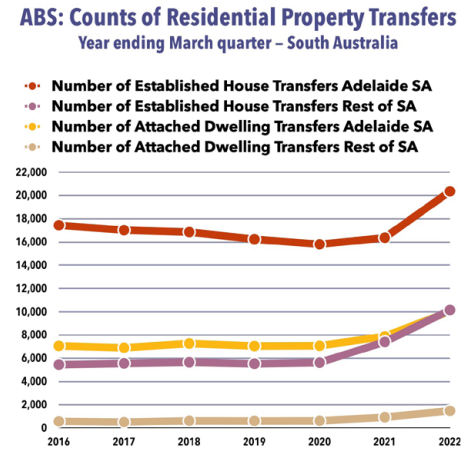

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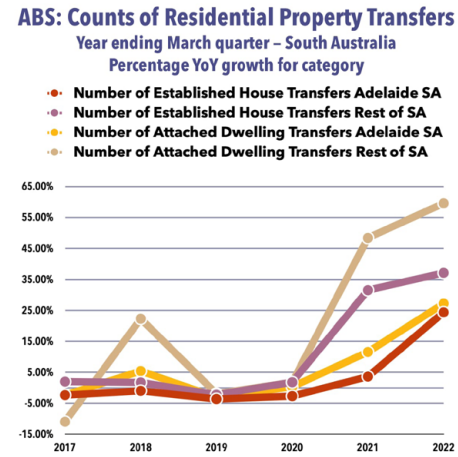

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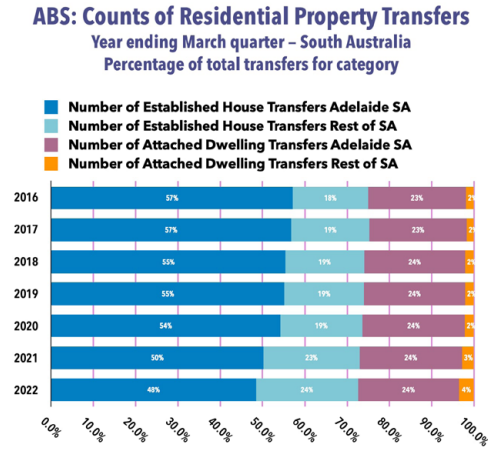

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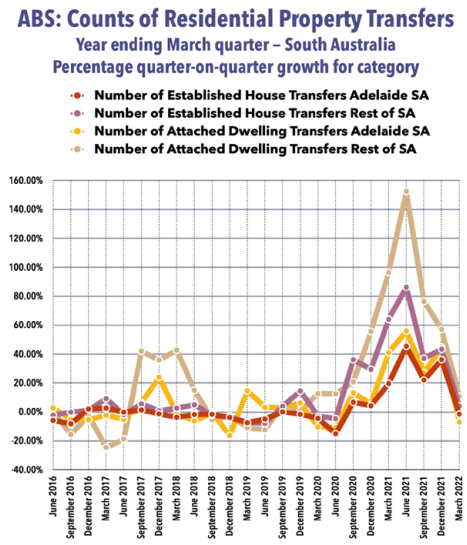

WESTERN AUSTRALIA

WA has some of the characteristics of SA, with the period from p2016 to p2020 mostly static in terms of growth of transfers, as shown in Chart 20.

Houses dominate the market, making up over 75% of all transfers during the static period. However, even though WA was insulated from most effects of the COVID-19 pandemic, transfers grew starting in p2021 and continued to grow in p2022, with the exception of houses in the Perth category.

Chart 21 indicates the pattern of that growth. This shows an unusual pattern, with a level of high growth for p2021, which then declines for p2022, and even goes negative for houses inside Perth. The exception to this is transfers for attached dwellings outside of Perth, which grows at a high rate through to p2022.

The consequence of that growth can be seen in Chart 22, which shows the proportion of transfers in each category by period

While attached dwellings are largely static in p2021, houses outside of Perth grow from 17% to 20%, even as the proportion of houses inside Perth declines by 4%. For p2022, there is a 4% growth in attached dwellings outside Perth, and further growth in houses outside Perth.

The details of that change can be seen in Chart 23, which shows the quarter-on-corresponding-quarter growth in categories.

There is a steeper entry into the peak period, which is still the June quarter of 2021, and primarily driven by attached dwellings outside Perth, with houses outside of Perth also peaking.

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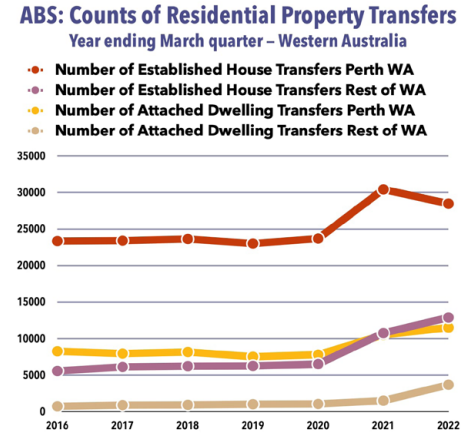

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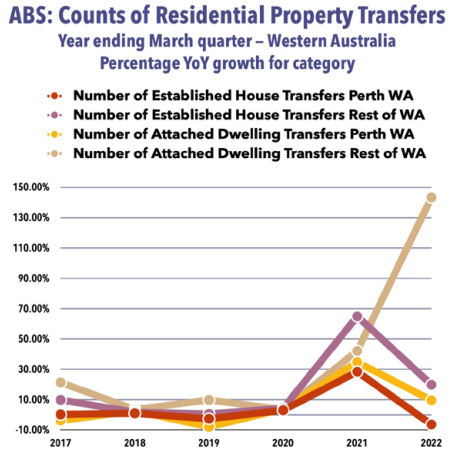

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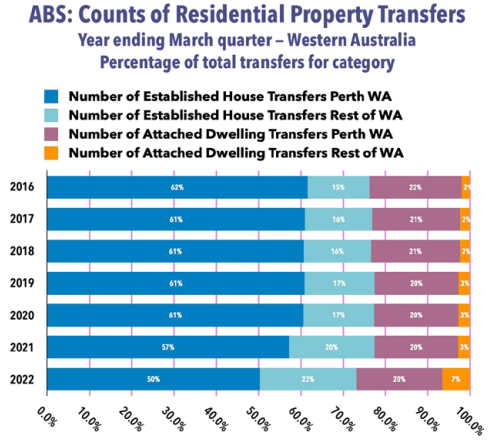

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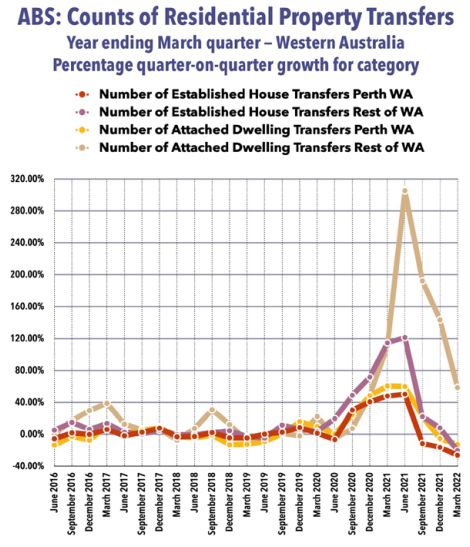

TASMANIA

TAS represents some interesting problems in interpretation. As we've seen from the median dwelling values at that start of this article, prices have been steadily rising for the state during the pandemic. However, transfer numbers have been largely flat to negative in the same period. That would indicate there is a problem with supply.

Chart 24 shows the raw numbers for transfers. Since p2018 most categories have been flat or declining, with only attached dwellings outside Hobart showing growth. The pandemic created a further reduction in transfers. Chart 25 shows the extent of the changes in the categories.

While p2021 saw the two categories for dwellings outside of Hobart leave negative territory to go mildly positive, in p2022 all categories are negative.

Chart 26 shows the established pattern for the proportion of the categories. This indicates how little effect the pandemic had. There is a historical trend towards a reduction in the houses in Hobart category, and a compensating increase in the houses outside Hobart.

Chart 27 shows that there is once again a strong peak for the June quarter of 2021, but the two subsequent quarters are very different from those of the other states.

The peak is strongest for houses outside Hobart, followed by attached dwellings outside Hobart. It's also a much milder peak than other states, topping out at less than a 50% increase. It is also followed by a series of declines for all the categories, culminating in negative growth of lower than -40% for every category.

One possibility is that transfers were drawn back from December quarter 2021 and March quarter 2022 into the June and September quarters of 2021.

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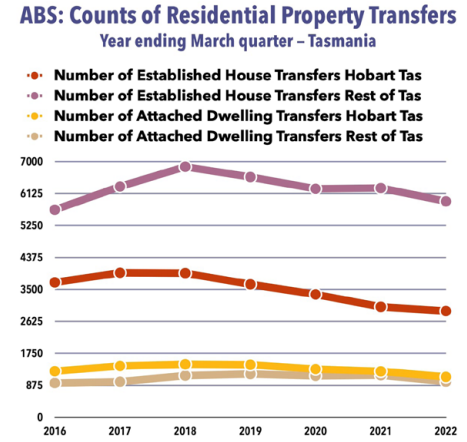

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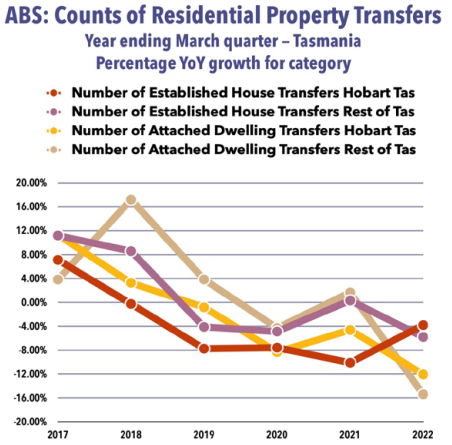

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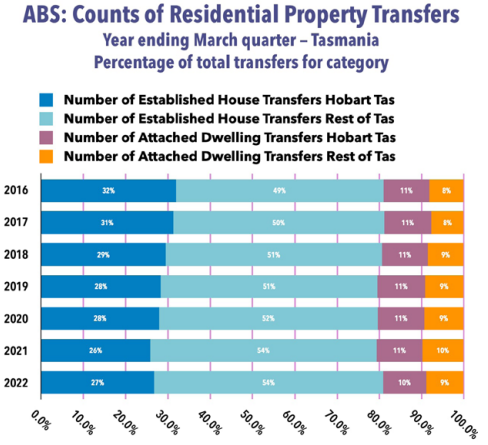

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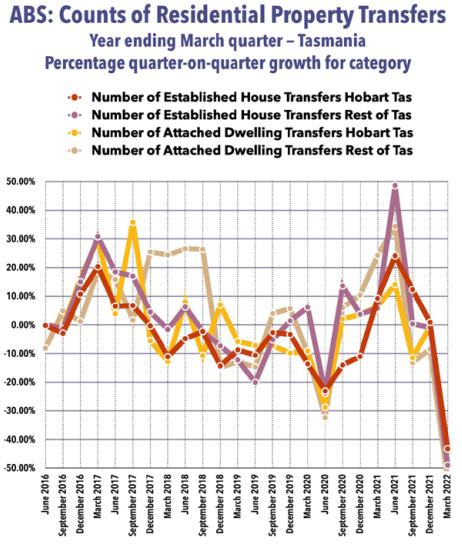

NORTHERN TERRITORY

Northern Territory (NT) shows a pattern where transfers for houses increased in both p2021 and p2022, while transfers for attached dwellings in Darwin fell for p2021, then rose in p2022. Chart 28 shows the raw data for transfers. It's notable that the most volatile category is for attached dwellings in Darwin, which started at parity with houses in Darwin in p2016, then declined through to p2019.

The trends for the categories are shown in Chart 29. This shows the highest level of growth was for attached dwellings in Darwin in p2022, though all four categories showed growth in that period. However p2021 shows that both house categories grew, while both attached dwelling categories declined.

The effect of this on the proportion of each category is shown in Chart 30. There is a clearly established trend where dwellings inside Darwin are increasing in proportion, though houses outside Darwin did surge in p2021. Most notably, in contrast to most states, the proportion of attached dwellings outside the capital city is declining.

Chart 31 which shows the quarter-on-corresponding-quarter growth for categories does depart from the pattern of the states. While the expected peak is yet again present in June quarter 2021, in this case including both houses in Darwin and outside Darwin as well. However, this is followed by a second, higher peak for attached dwellings inside Darwin for September quarter 2021. It is also noticeable that while the other three categories saw growth decline sharply for December quarter 2021 and March quarter 2022, this category maintained growth above 70% for both those quarters.

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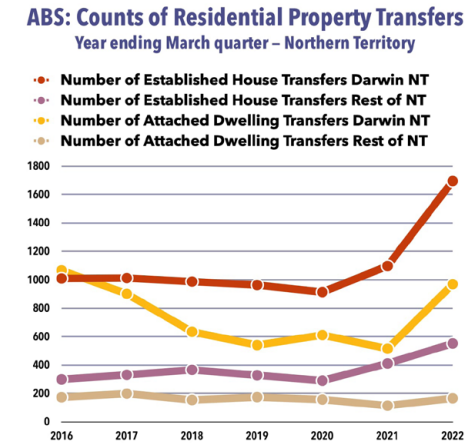

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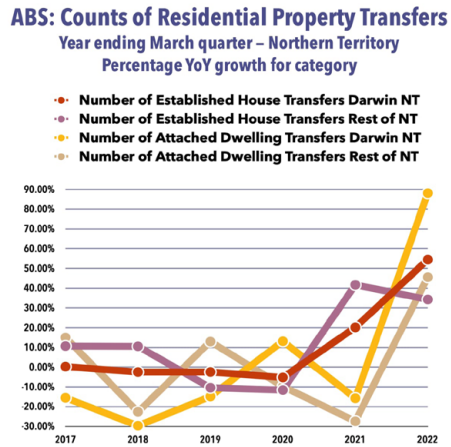

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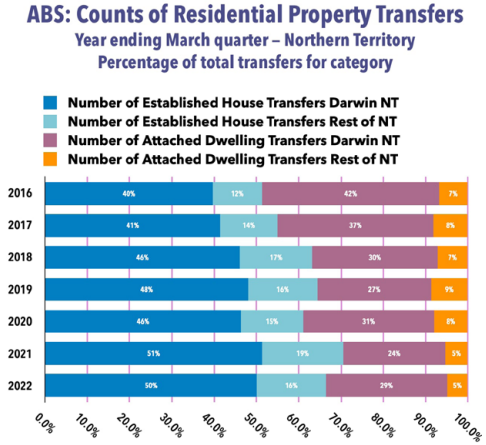

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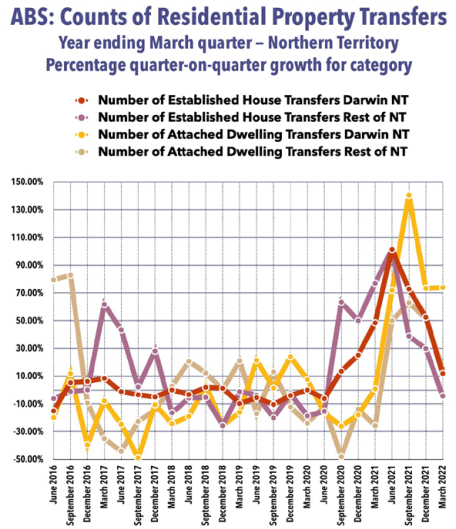


CONCLUSION

As HNN said in our introduction to this article, our intent in taking this deep dive into state-by-state ABS statistics on dwelling transfers was to provide some sense of how markets reacted to the stresses of the pandemic, in order to give a better picture of what is to come in FY2022/23.

The core issue, as was mentioned above, is whether the catastrophic change of the pandemic is a "blip" that will see markets gravitate back to conditions prior to the pandemic, or if it has instead resulted in fundamental change through the removal of established barriers – essentially a speeding up of inevitable changes.

The trigger

One identifiable trend across all of the states and territories has been a surge in transfers during the June quarter (April, May and June) of 2021. For the majority of regions, this was a peak, with the numbers of transfers in the adjoining quarters, March and September, rising as well.

The cause of this surge in transfers is likely a combination of factors. Firstly, this was right at the beginning of the advent of the Delta variant of COVID-19 into Australia – the first case was detected around 4 June 2021. This came about as the country moved through a succession of lockdowns as illustrated by this diagram from the ABS:

Secondly, this was also the time it became evident the Australian federal government had not obtained an adequate supply of COVID-19 vaccines. The early targets by the government, such as five million vaccinated by March 2021, had failed. It was not until October that Australia managed to vaccinate half its population – well after Delta had caused additional lockdowns.

Thirdly, the June quarter of 2021 was when it became evident that Australia was in the midst of a housing price boom, as illustrated by Chart 32.

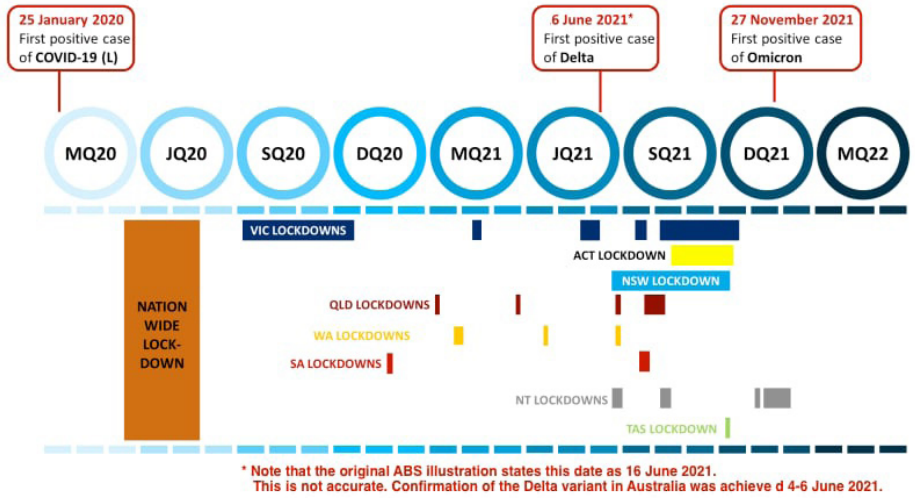
It's interesting to note that price index increases remained in a relatively tight band for both the March and June quarters of 2021, but from the September quarter of that year onwards there was a broader spread to price increases.

Consequences

The belief that house buying has accelerated in response to the pandemic has some facts to back it up, especially in VIC. However, in both NSW and QLD, it is evident that attached dwellings continue to attract buyers.

What is almost universally true, however, is that there has been a substantial increase in transfers for dwellings in areas outside of state capital cities.

However, this is likely to be a complex effect. Moving outside of lockdown regions might be part of the stimulus, but it could also be the need to seek less expensive properties to buy. And, of course, part of what contributes to that move to the regions is another effect from the pandemic, the development of increased working from home, cutting down on commute times, and making more remote living possible.



The changes

The first quarter of FY2022/23 is likely to be a somewhat rough ride for the economy. It is entering the unlovely state where interest rates are set to rise by at least 0.75% and more likely close to 1.1%, while inflation continues at close to 5.0% and the supply chain, for petrol and groceries – especially vegetables – continues to be constricted. Added to that are expected higher prices for electricity.

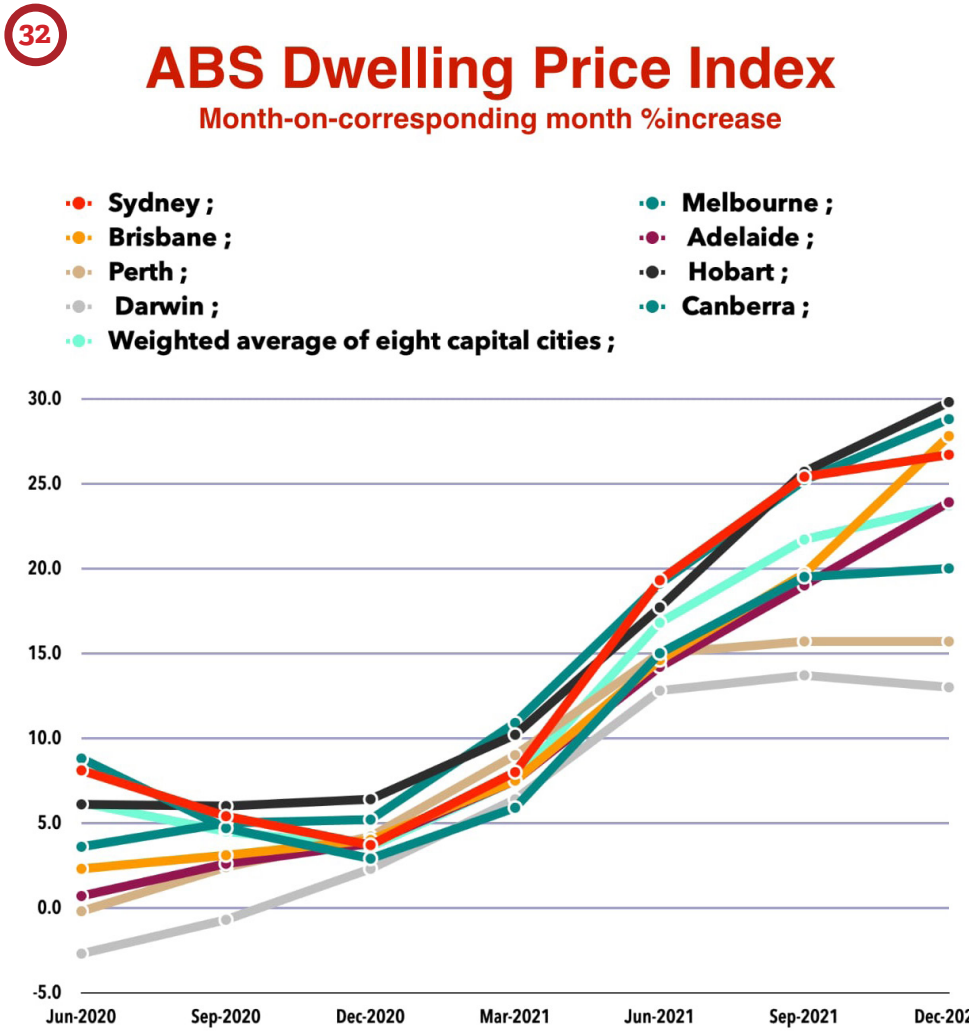
In those conditions, household formation may not only fall, but actually contract. Australia is also in the "hollow" of dwelling purchases through immigration – as the Australian Construction Industry Forum has pointed out, it takes about two years from arrival before immigrants are ready to buy a house, which means a decline from, roughly, March 2022 through to June 2024.

As house prices continue to drop through the rest of 2022 – as is probable – and families find themselves close to being "underwater" in terms of their mortgage valuation versus current valuation, it is likely there will an increase in forced sales into a market with lower demand, further deflating prices.

Additionally, in the near future of two years or so, if the pandemic remains contained, it's likely that many families will conclude they have over-invested in their homes. That will depend in part on what happens to wage rises. This has developed into a complex situation, with a number of micro-economic factors at work.

For example, many employers are operating in an under-staffed environment, because to attract new staff they would have to raise wages. However, wage rises for new staff would trigger wage rises for most existing staff – which have been held down for the past eight years – and employers cannot afford this.

The general prognosis would be that while growth in hardware retail revenues may slow, it's unlikely that they will fall by much from the highs of the past two years. However, that story may change sharply in FY2024/25, and the market may retreat, or diversify in unexpected ways.

The biggest problem facing the Australian economy at the moment – and therefore hardware retailers as well – is what we might term "persistency bias". Despite more than two decades of watching businesses and economic sectors persist in past practices until they fail in spectacular fashion, Australia and many other regions continue to not really believe in change until it has already happened. This failure to effectively forecast, listen to forecasts and plan consequentially has forced an enormous cost on the economy.

32