# Research
Macquarie Wealth Management

## Economic Update

# Australian Housing Outlook – Near term headwinds

**1**

The longer the economic and social disruption from COVID-19 persist, the greater will be the risk of asymmetric effects on housing (and household finances). Macquarie believe the tipping point is longer than 6 months given most support measures are in place for *at least* that long.

**2**

Established housing sales volumes are falling sharply and will remain depressed at least until *"social distancing"* measures are relaxed. Macquarie has pencilled in a 50% decline in turnover, but this may prove too optimistic.

**3**

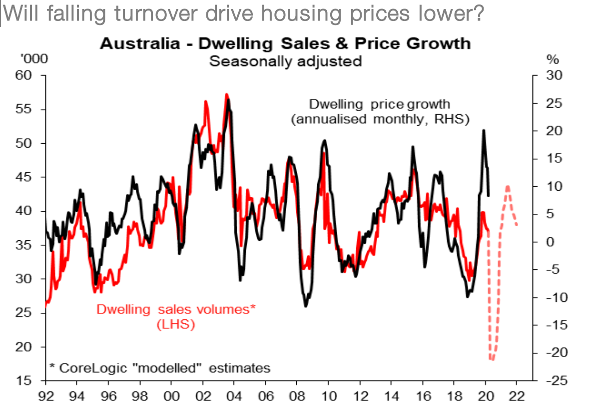
Dwelling price growth has always moved closely with turnover. If that correlation continues in coming months there will be sizeable price declines. Macquarie's economic team is now forecasting a 5% decline in national average prices through year end.

*These views are provided by Macquarie's Australian Economics' team and are an abridged version from a report titled: "COVID-19 & Aussie Housing – Near-term headwinds" 7th April 2020*

## Housing turnover will fall significantly

The volume of housing sales in Australia had already declined a little since the most recent peak in late 2019. More broadly speaking, the level of housing sales has been at low levels when compared with the overall stock of dwellings in Australia.

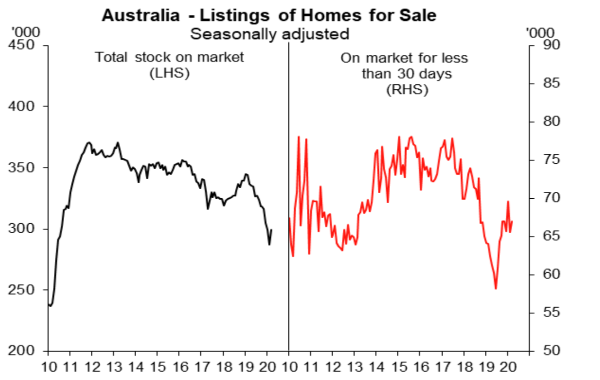
Will falling turnover drive housing prices lower?




Source: CoreLogic, RBA, Macquarie Macro Strategy, April 2020

Timely data show a sharp slowing in turnover as the coronavirus adversely affects both buyer confidence and the ability to host group open homes and in-person home auctions.

Total housing stock for sale had risen a little in March



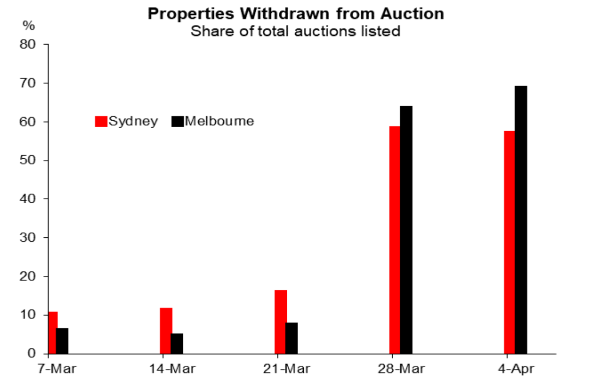

Source: SQM, Macquarie Macro Strategy, April 2020

CoreLogic recently reported that the number of real estate agent reports generated across CoreLogic's platforms in Australia have more than halved in recent weeks. CoreLogic also commented "that more than 60% of real estate agents have seen buyer and seller enquiries fall by more than 50% over recent weeks", and further declines are anticipated.

This suggests that there will be a significant drop in new home listings in coming weeks over and above that which would have already occurred given the declines in sales volumes to date

The relatively high share of home auctions, as opposed to private treaty sales, in Sydney and Melbourne means that the market could be particularly exposed to 'social distancing' measures. In those capital cities auctions have recently accounted for 20-25% of total housing sales volume and 25-30% by value. Home auctions are much less prevalent elsewhere in Australia.

Auctions withdrawn have already jumped sharply




Source: Domain, Macquarie Macro Strategy, April 2020

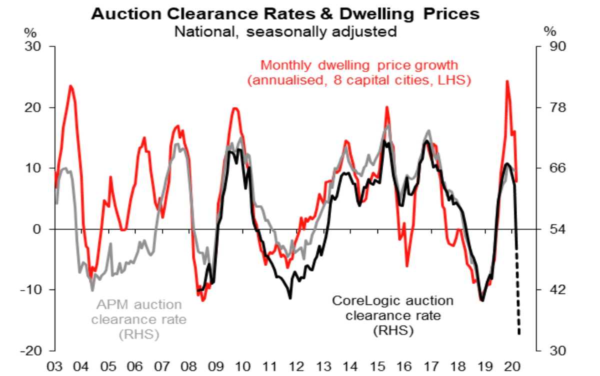
Macquarie's base case is that the volume of housing sales falls by roughly half in the near-term and remains at these lower levels for a few months, or when 'social distancing' measures are eased. The decline could be even sharper, at least initially. Macquarie have pencilled in a return to March sales volumes levels by the end of this year, but that assumption comes with significant uncertainty.

### Near-term falls in dwelling prices are likely, but by how much is not clear

In December last year, Macquarie was forecasting that national dwelling prices would rise by 6-7% over 2020, with Sydney and Melbourne housing prices expected to rise by 8-10%. Those forecasts were on track before COVID-19 hit, with national dwelling prices up 2.6% over the three months to March; Sydney and Melbourne prices were 3.1-3.7% higher over that period. Those forecasts are now redundant.

**Growth in housing prices and turnover are highly correlated.** The key uncertainty now is whether that correlation remains relatively tight in coming months as COVID-19 depresses sales volumes due to weaker buyer confidence and 'social distancing' restrictions on home opens and inspections. (One issue, identified by CoreLogic, is that lower sales volumes could impact on the actual measurement of housing prices). If the correlation continues, rough figuring suggests a 50% fall in housing sales volumes could be associated with monthly declines in national housing prices of ~1½% or more. **Under our profile for housing sales volumes, that could imply price declines of 5-10% by the end of 2020**.

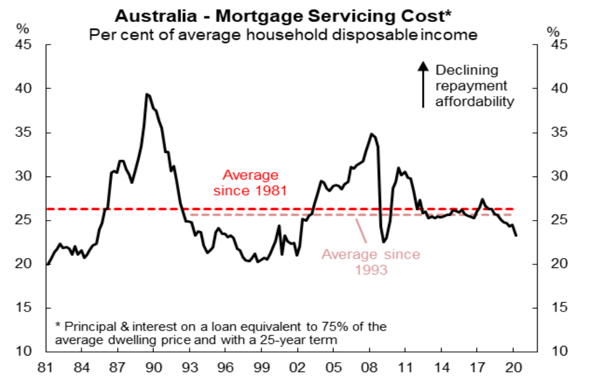
Will a fall in clearance rates led to home price declines?




Source: APM, CoreLogic, Macquarie Macro Strategy, April 2020

The sharp decline in auction clearance rates would also normally foreshadow sharp near-term declines in housing prices. However, expect price falls towards the lower end of the 5-10% range, partly because of the significant buffers put in place by Australia's authorities and banks for at least the next six months. This includes the ability for households to defer mortgage payments on owner-occupier and investor housing loans for six months if they have been adversely affected by COVID-19.

Lower rates support improving repayment affordability




Source: ABS, CoreLogic, RBA, Macquarie Macro, April 2020

It should also be highlighted that a scenario where housing prices fall sharply due to distressed selling is very different to modest price falls in an illiquid market due to 'social distancing'. The former could happen under a prolonged period of very high unemployment, but this is not Macquarie's base case.

Looking past the crisis, the significant easing in monetary policy, which is likely to be in place for a few years, could see a swift rebound in established housing activity and prices once the virus passes. Repayment affordability has improved markedly as interest rates have fallen

**Jason and the Investment Strategy Team**

The report was finalised on 15 April 2020

**Analyst certification:**
We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The Analysts responsible for preparing this report receive compensation from Macquarie that is based upon various factors including Macquarie Group Limited (MGL) total revenues, a portion of which are generated by Macquarie Group's Investment Banking activities.

**General disclosure:** This research has been issued by Macquarie Securities (Australia) Limited ABN 58 002 832 126, AFSL 238947, a Participant of the ASX and Chi-X Australia Pty Limited. This research is distributed in Australia by Macquarie Wealth Management, a division of Macquarie Equities Limited ABN 41 002 574 923 AFSL 237504 ("MEL"), a Participant of the ASX, and in New Zealand by Macquarie Equities New Zealand Limited ("MENZ") an NZX Firm. Macquarie Private Wealth's services in New Zealand are provided by MENZ. Macquarie Bank Limited (ABN 46 008 583 542, AFSL No. 237502) ("MBL") is a company incorporated in Australia and authorised under the Banking Act 1959 (Australia) to conduct banking business in Australia. None of MBL, MGL or MENZ is registered as a bank in New Zealand by the Reserve Bank of New Zealand under the Reserve Bank of New Zealand Act 1989.

Apart from Macquarie Bank Limited ABN 46 008 583 542 (MBL), any MGL subsidiary noted in this research, is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Australia) and that subsidiary's obligations do not represent deposits or other liabilities of MBL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of that subsidiary, unless noted otherwise.

This research contains general advice and does not take account of your objectives, financial situation or needs. Before acting on this general advice, you should consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research has been prepared for the use of the clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient, you must not use or disclose this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person.

Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. This research is based on information obtained from sources believed to be reliable, but the Macquarie Group does not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it.
Opinions expressed are subject to change without notice. The Macquarie Group accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. The Macquarie Group produces a variety of research products, recommendations contained in one type of research product may differ from recommendations contained in other types of research.

The Macquarie Group has established and implemented a conflicts policy at group level, which may be revised and updated from time to time, pursuant to regulatory requirements, which sets out how we must seek to identify and manage all material conflicts of interest. The Macquarie Group, its officers and employees may have conflicting roles in the financial products referred to in this research and, as such, may effect transactions which are not consistent with the recommendations (if any) in this research.
The Macquarie Group may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

The Macquarie Group's employees or officers may provide oral or written opinions to its clients which are contrary to the opinions expressed in this research.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures