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ADELAIDE, SA

LAY OF THE LAND

Residential price growth slows in Metropolitan Adelaide as property prices face a correction

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Contents

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A market correction

PointData analysis is showing preliminary signs that the Adelaide housing market is beginning to slow. While most areas of Metropolitan Adelaide continued to demonstrate positive growth over the past 6 months (see page 5), some pockets are starting to recede and have falling prices, especially in the past three months (see page 3). Early indications are that the areas which have starting to recede are those that have benefited greatly from growth over the previous two years; therefore, at this stage we are calling this a 'market correction' rather than a 'crash'.

It was only going to be a matter of time before we started seeing 'unprecedented' property value increases begin to contract. The growth of the previous two years has been staggering, however what the coming months holds for our property market is being painted on a new canvas, and while the picture may not look as rosy, the gains made over the past 2 years should still result in a 'net gain position' for homeowners.

Analysis shows that much of the leafy inner-metropolitan areas have seen 12-month growth at nearly +30%, with some suburbs even above +40% growth. Burnside led in the 1-year growth statistic across Adelaide, with the median house price growing by a truly staggering 52.3%, meaning that the average home now costs over $1.4M. However, it wasn't just the inner-city that saw their property prices grow at exponential rates in 2022. Outer suburban areas such as Onkaparinga in the south, or Salisbury and Playford in the north have also seen strong 12-month growth upwards of 20% on average. These gains are unlikely to be 'wiped-out' but may be somewhat wound-back.

Recent commentary has been around Adelaide outperforming the bigger cities of Melbourne and Sydney, but there is an expectation that this is temporary. While Adelaide does somewhat follow the trends observed in property prices of our eastern state compatriots, it tends to occur significantly later and of a much smaller magnitude. It is likely however that Adelaide will broadly see slower growth and a return to a more balanced market with some areas rising and some falling. This is already being observed, with the patterns being explored within the pages of this report.

The reasons for recent (and likely future) negative growth must be explored, especially in the context of the preceding 24 months. Government and regulatory policy including home building incentives, all-time lows in interest rates and general economic stimulus all contributed to a perfect storm for increasing property prices. Many people also found themselves with more disposable income or increased savings as international travel and recreational spending was halted due to Covid restrictions which allowed them to fund moving or purchasing a new house. However, these conditions are shifting. The key reason for muted or negative growth is due to recent interest rate rises of 0.25% in May and 0.5% in June (with further rises expected). Furthermore, with new state and federal governments taking office, both of whom have markedly different housing policies to their predecessors, the next 3-6 months will truly be fascinating to watch.

Global impacts on financial markets also will be of significant interest. The US Federal Reserve, who our own Reserve Bank watches closely, is taking drastic actions to quell inflation. Just this month, it increased the US cash rate by 0.75%. Whilst the US has a higher inflation rate than Australia, we are not necessarily immune from these levels of cost pressures. It would not be surprising to see the Reserve Bank increasing interest rates by another 0.5% in July, taking the cash rate up to 1.35% - and taking mortgage interest rates up to a base rate in the mid-to-high-3% mark, up from rates of 1.99% which could be found just a handful of months ago. This will continue to impact borrowers in terms of their borrowing capacities and should continue to slow the housing market.

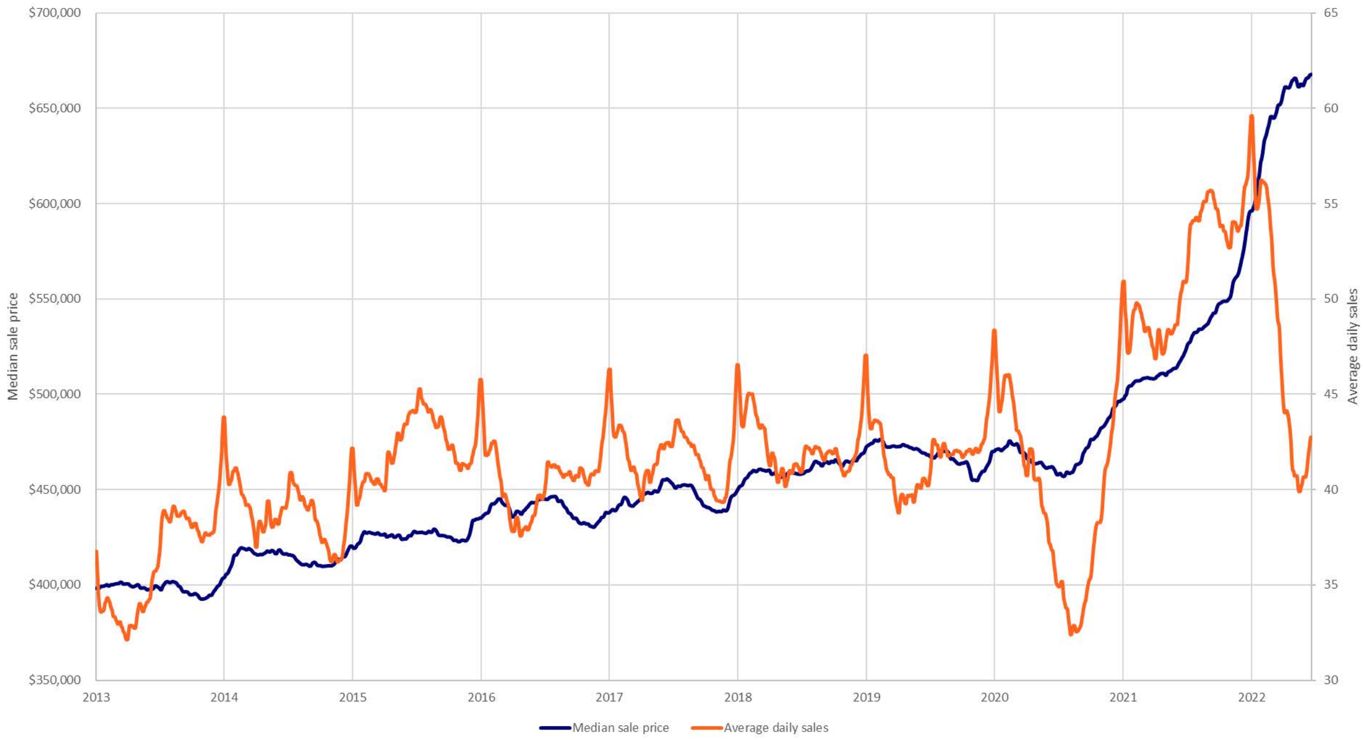
It will take a brave commentator to predict what will happen over the next year or two and what the growth or perhaps negative-growth might look like for South Australian properties.

What can be said though, is that 2021/2022 was a period unlike we've seen before in the property market and is unlikely to be replicated soon. A return to more "normal" market conditions might appear to be jarring when analysing property price shifts, however at this stage it should be seen as moderate (and perhaps needed) corrections.

Market overview

Adelaide's residential real estate market is becoming more volatile, however we are likely in the midst of a correction. Figure 1 projects a clear picture of how the market was behaving prior to the pandemic hitting at the start of 2020 - a gradual but significant increase in both median sales prices and average daily sales, with clear micro-level swings from season-to-season.

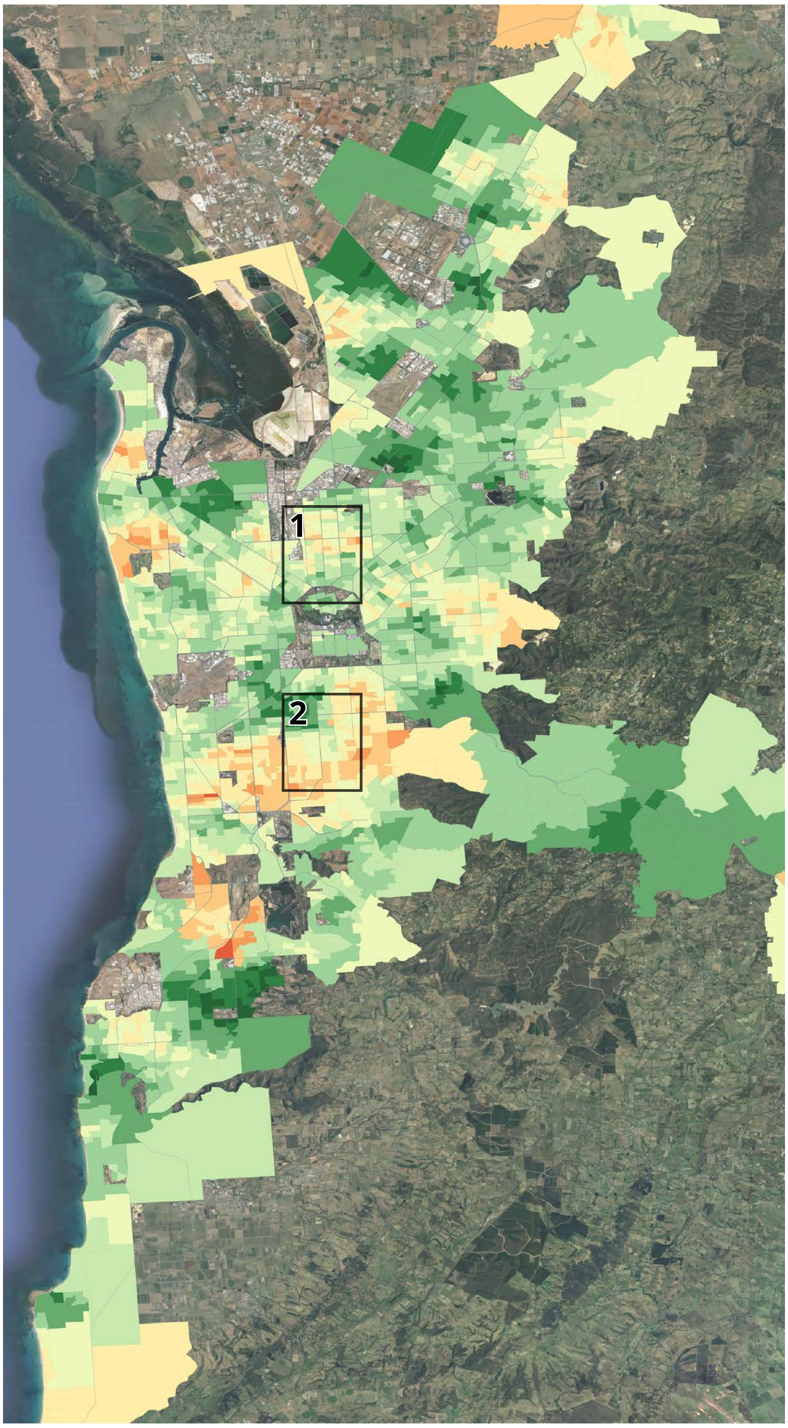
Figure 1: Median sales price and average daily sales, Metropolitan Adelaide, 2013-present



The incredible plummeting of sales through 2020 constricted market supply and as a result sent median sale prices on a steep trajectory upwards ($200,000 higher). Since the start of 2022 (the point where almost all pandemic-related restrictions were eased) however, the number of sales has corrected to levels seen in the last pre-pandemic winter of 2019. A slight uptick in the last few months may bring into question whether or not we will get back to the usual season-based sales swings, but in general the patterns and levels of sales appear to be returning to some degree of normality.

As for median sale prices, it is still too early to say for certain what effects these changing market conditions will have on them. PointData's analytics clearly show some areas beginning to recede, but to what degree they do so and if these areas become more widespread is difficult to predict. The new ability to track the market in near real-time however places PointData in the best position to analyse these movements as they happen.

3 month growth to June averaged by SA1



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-4.5% to -3%
-6% to -4.5%
-6% or lower

The growth patterns observed in the three months to June are beginning to contrast those seen over the last two years, with nuanced distribution of high and low performing areas taking shape. This change in the market comes at a time of broader change in South Australia, with two new governments, accelerating interest rates, and a change of seasons contributing to price shifts.

While Adelaide's residential market may be moving away from pandemic-normalities, the geographical areas of 'high' performance have shifted substantially away from the previously dominant affluent areas, namely the city's east and inner-south. The introduction of higher interest rates is tempering buyers' maximum potential outlay, and reducing the pool of buyers (ie reducing demand).

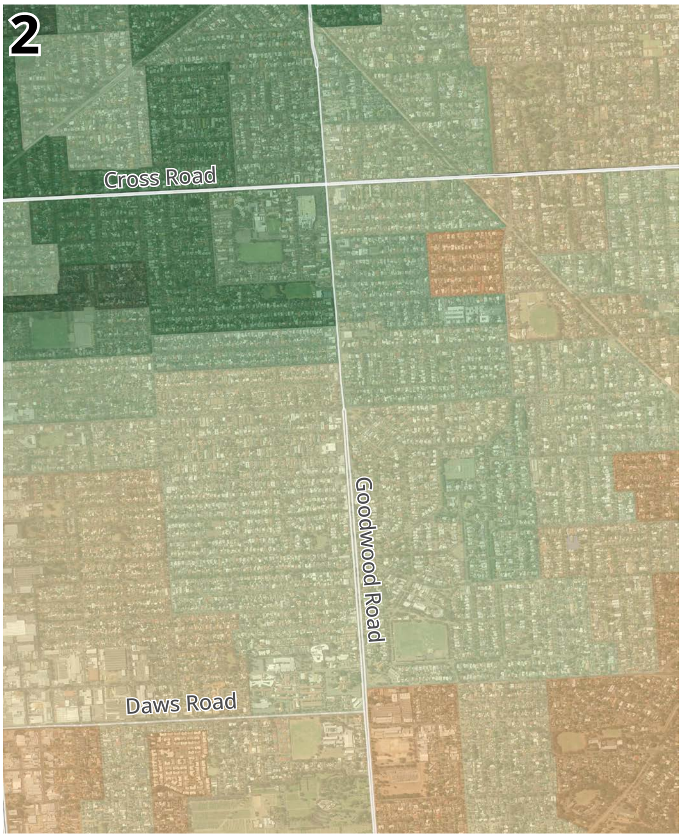
Isolated patches of the middle and outer-ring areas are continuing the trend of price growth previously widespread across the metropolitan area. While the general area these patches are located in largely consists of older housing stock, it is the neighbourhoods that have seen comparatively higher urban infill (with the resultant new homes fetching higher prices) that are continuing to grow.

The broad patchwork growth patterns observed in the metropolitan area are indicative of a market in transition. Future iterations of this report will likely see the market become more homogeneous, with much lower positive or potentially negative values becoming the widespread norm.

3 month growth snapshots

Prospect LGA

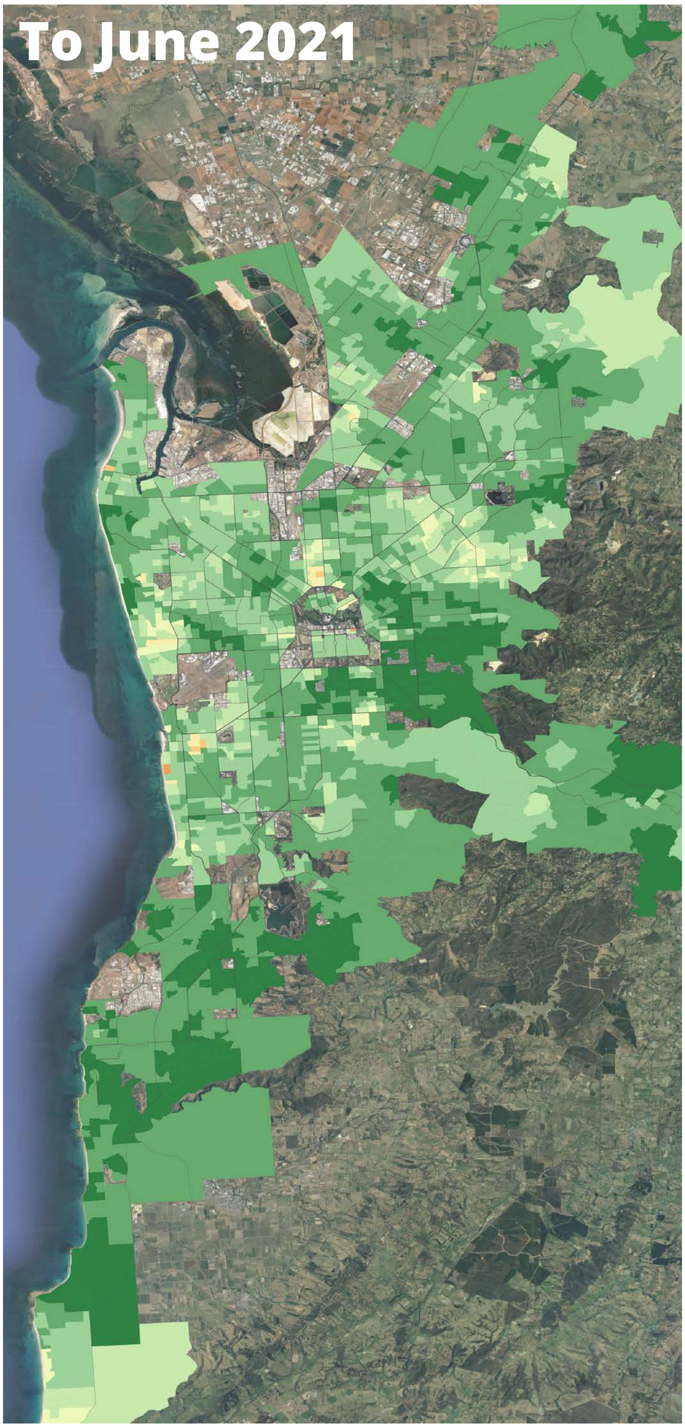
- Areas within the City of Prospect generally decrease in housing quality from south to north and therefore follow a similar pattern with price. Observed across all metrics, it is these areas that are the tier below the most expensive areas that are experiencing negative growth. It is typically these price-points that many extend beyond their means to achieve, with buyers therefore withdrawing as a result of increasing interest rates.
- With the dwelling stock being relatively homogeneous in bands running east-west, it would come as little surprise if the observed bands of lower price growth push south in a similar pattern.

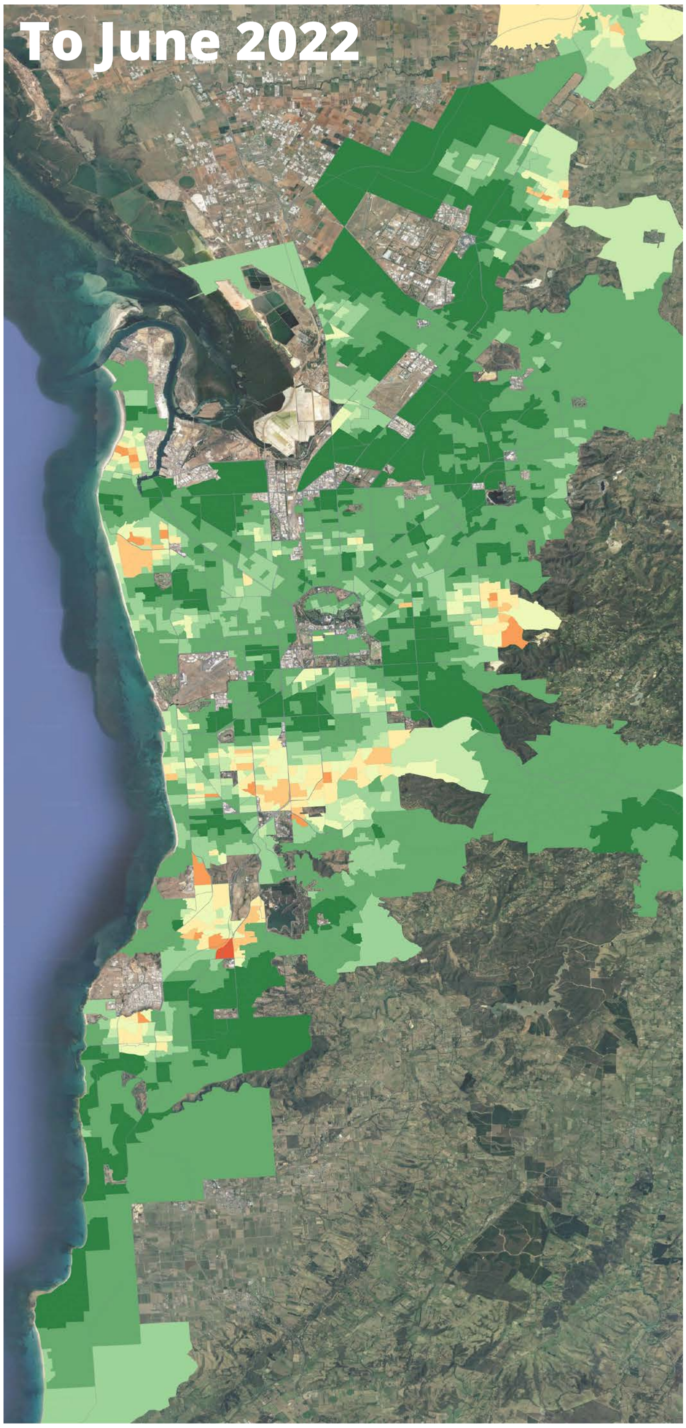


Inner and middle south

- Areas showing the first signs of negative growth are adjacent to some of Adelaide's most affluent areas (with highly desirable lifestyles). These slightly more affordable options that were previously attainable by stretching ones finances are now drifting out of reach with the introduction of higher interest rates.
- Sections still showing strong positive growth to the north west include some of Adelaide's most expensive housing, as well as connections to key train and tram corridors. Owners of these higher value properties are less likely to be borrowing beyond their means, and as such the area hasn't seen the impacts of higher interest rates yet. In addition the gradual reintroduction of in-office working arrangements is raising the importance of these public transport connections.

6 month growth averaged by SA1





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- -1.25% to 0%
- -2.5% to -1.25%
- -5% to -2.5%
- -10% to -5%
- -10% or lower

6 month growth shifts

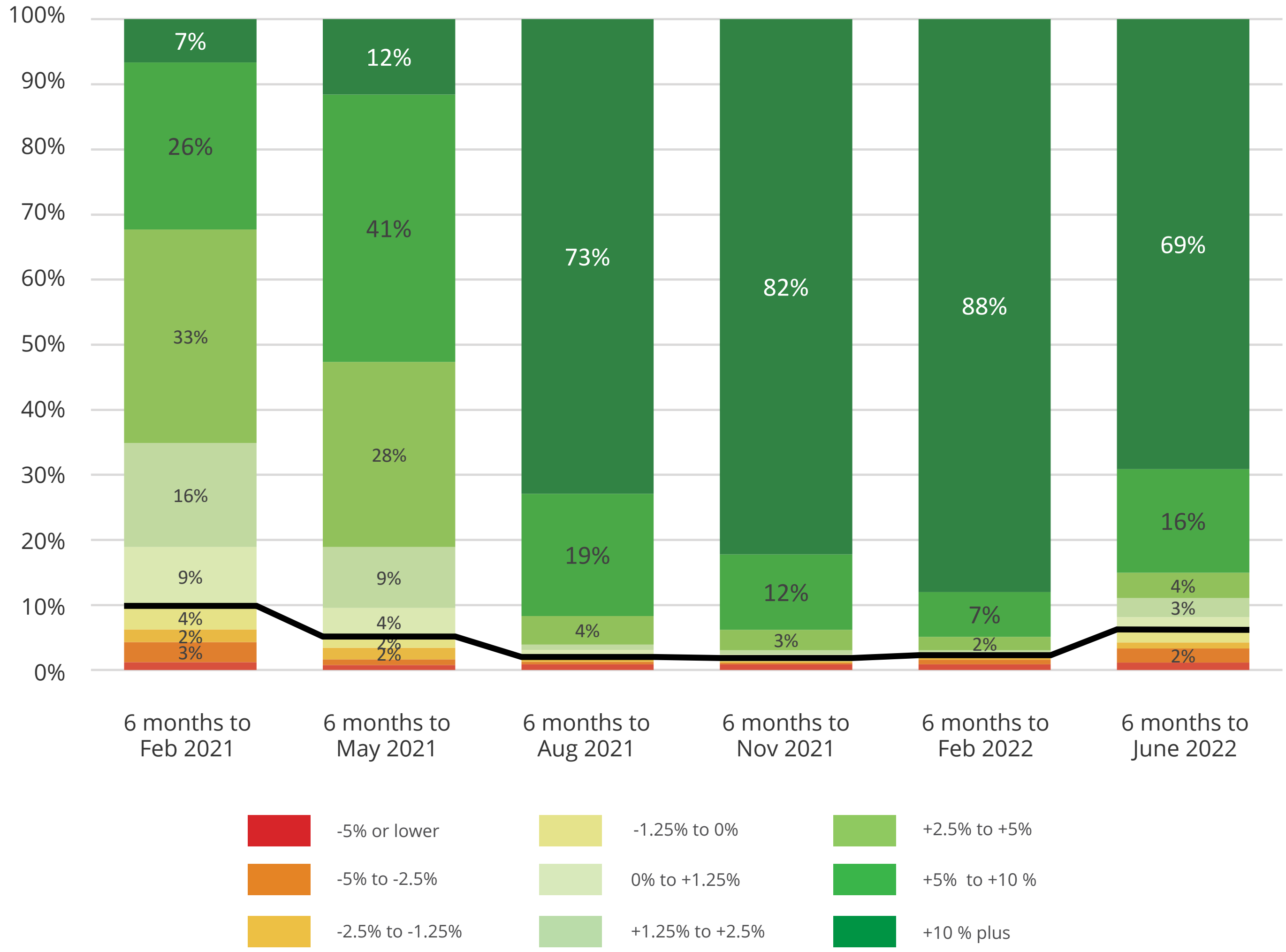
The comparison of growth to June 2022 compared to the same time period last year highlights the recent but moderate correction in the Adelaide residential property market. The shift towards a receding market observed in the shorter three month metric is still present, but the suburbs currently bucking this trend grew at a much faster rate than they did in the same period last year. Simply put, the extreme ends of the market have diverged further than they were 12-18 months ago.

The middle ring southern suburbs show the most widespread transition away from the high growth status quo. However, observed negative growth is not exclusive to these areas. Pockets around West Lakes, Magill and Peterhead are also beginning to turn, with much more moderate positive growth within their immediate surrounds. These seemingly-dissimilar areas all present themselves as more-affordable alternatives to their direct neighbours (eg Magill compared to Kensington). They therefore represent values which might be feasible to stretch the finances to achieve the lifestyle that their relatively more-affluent neighbours offer. Those willing to borrow larger sums to break into these desirable markets are beginning to have this option extend beyond their reach with the observed and anticipated rises in interest rates.

Suburb	June 2019 median sale price	Dec 2021 median sale price	June 2022 median sale price	6 month growth to June 2022	June 2019 to June 2022 net position
Old Reynella	$365,000	$510,023	$480,907	-5.7%	31.8%
Skye	$830,000	$1,129,707	$1,089,094	-3.6%	31.2%
Panorama	$605,000	$872,935	$844,464	-3.3%	39.6%
Warradale	$610,750	$791,993	$766,816	-3.2%	25.6%
West Lakes	$592,500	$828,011	$802,603	-3.1%	35.5%
Bellevue Heights	$514,500	$696,133	$676,126	-2.9%	31.4%
Craigmore	$270,750	$342,171	$333,066	-2.7%	23.0%
Christie Downs	$285,000	$413,410	$402,571	-2.6%	41.3%
Magill	$630,000	$896,947	$873,829	-2.6%	38.7%
Peterhead	$480,000	$715,413	$697,182	-2.5%	45.2%

Listed above are the ten suburbs which contain the SA1s with the lowest six month growth to June 2022. As a standalone figure, the growth statistic may appear disheartening for homeowners, however it only represents a small part of the story. The broader context of median sale prices in the last three years (starting six months prior to the pandemic) show that while prices are no longer as high as they were six months ago, the net position in all cases listed indicates incredible asset growth upwards of 20%, with Peterhead nearing 50%. Given how unprecedented the growth observed over the past two years has been, it would take a significant collapse of property values to fall to what they were prior to the pandemic. Instead, this shift towards negative growth is more appropriately labeled a 'correction'.

Proportion of properties - 6 months to June



The clear trend of the proportion of properties experiencing rapid price growth increasing from one quarter to the next has begun to turn, with there now being 94% of properties experiencing positive growth, down from 98% in the previous three quarters. While the majority still clearly sits in high growth areas, it is a substantial shift to market behaviours not observed since this time last year. The proportion of properties experiencing greater than 5% growth has reduced significantly too, down to 85% from 95% in the previous quarter.

While it is not a direct shift from one category to the next, the expansion of the properties in negative growth areas from 2.3% to 6.3% should not be overlooked. This aptly illustrates the concept of these newly emerging patterns simply being a correction in the market. The proportion of properties experiencing positive growth has been relatively stable across the previous three quarters. The circa 4% of properties that have switched from positive to negative growth therefore will have experienced growth that far outstrips any new reduction in values. Homeowners can rest assured that as it currently stands, the net gain in their property value in the past few years remains substantial.

Suburb indices

It comes as a welcome change to many that areas achieving the highest property price growth aren't all million-dollar suburbs. Strong price growth can still be found at an affordable price-point, with half of the top ten sitting below Adelaide's median sale price - circa $680,000.

Suburb	Annualised 3 month growth	Annualised 6 month growth	1 year growth	Current median sale price
Woodcroft	31.2%	32.6%	24.3%	$578,344
Pennington	29.9%	28.2%	26.1%	$627,282
Elizabeth Grove	29.7%	38.2%	38.3%	$340,335
Ottoway	29.2%	25.6%	19.4%	$544,933
Mylor	28.5%	21.1%	14.0%	$956,916
Athol Park	27.7%	27.0%	25.0%	$612,534
Beaumont	26.5%	27.0%	27.9%	$1,744,957
Glandore	26.4%	26.1%	28.3%	$985,234
Bridgewater	26.2%	21.8%	18.2%	$993,535
Black Forest	25.9%	24.0%	27.8%	$1,151,708

To find out how property values in your suburb have changed recently, check the full suburb list available on *Our Insights* at pointdata.com.au.

The southern suburb of Woodcroft sits atop the list, with growth exceeding 20% in all three metrics showing it is not just a flash in the pan. Glandore and Black Forest's inclusion indicates strong investment growth is achievable across numerous price points in the south. It is a similar story for the tight cluster of suburbs to the city's north west of Pennington, Ottoway and Athol Park which all exceeded 27% annualised growth over the past three months. Interestingly, these suburbs primarily lie in the middle ring, which is where the majority of the observed reduction in growth has been observed. This is particularly the case for the southern suburbs, again reinforcing the notion that what is being observed is a correction in prices.

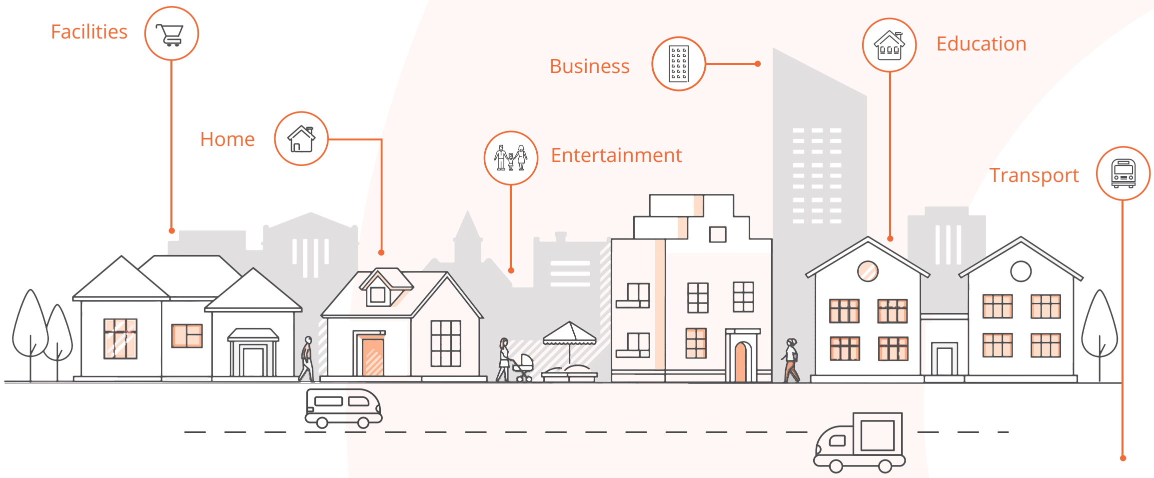
Elizabeth Grove stands out as the lone northern suburb, with the one year growth actually exceeding the three months annualised growth, alluding to this incredible 29.7% actually being a reduction from previous quarters. Maps explored in earlier sections of this report confirm that it is not alone in the north, with affordable price points proving a sound investment for the savvy investor.

Beaumont retains its spot from the previous edition, and is the only eastern suburb - incredibly rare for this metric. However it's $1.7 million median price tag ensures that it is out of reach for many. For those that can afford it, the 27.9% growth observed in the last year equates to an increase of $380,000 in their assets - truly remarkable.

PointData and land economics

Valeri

Valeri is our revolutionary property value and development potential intelligence platform. Valeri uses AI machine learning to constantly analyse city-specific data sets, including sales data and unique proprietary layers, to learn patterns and predict land and property values. What sets Valeri apart is her ability to convert difficult to value qualitative factors such as planning, property and market attributes into an equivalent dollar value. Valeri, combined with PointData's analytical expertise and local knowledge can help you identify opportunities in the Adelaide Real Estate market.



How do we calculate property price trends?

Property price trends are calculated by applying rolling medians for a given period and region to smooth out short-term fluctuations and highlight longer-term trends or cycles. Rolling medians and averages are commonly used to predict trends in property and share markets.

The data presented in this report focuses only on house prices, excluding units and apartments. However, houses come in a range of shapes and styles and on land parcels large and small. We present the average pricing and trends for small areas as indicators of the local market activity in the region.

For a 3-month rolling median to December 2020, PointData calculate the average of the three, 12-month periods to October, November and December 2020, for the subject SA1 region. PointData also applies our unique Dynamic Neighbourhood Scaling process to grow the area of influence surrounding each property irrespective of arbitrary boundary or suburb constraints. This ensures the model draws on a statistically significant sample of comparable sales while keeping the subject SA1 at the center of the sample area.