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Hedonic Home Value Index

1 March 2021

CoreLogic: Momentum builds across Australian housing markets as values rise at the fastest rate in seventeen years

Australian home values surged 2.1% higher in February; the largest month-on-month change in CoreLogic's national home value index since August 2003. Spurred on by a combination of record low mortgage rates, improving economic conditions, government incentives and low advertised supply levels, Australia's housing market is in the midst of a broad-based boom.

Housing values are rising across each of the capital city and rest of state regions, demonstrating the diverse nature of this housing upswing.

According to CoreLogic's research director, Tim Lawless, a synchronised growth phase like this hasn't been seen in Australia for more than a decade. "The last time we saw a sustained period where every capital city and rest of state region was rising in value was mid-2009 through to early 2010, as post-GFC stimulus fueled buyer demand."

Sydney and Melbourne were among the strongest performing markets, recording a 2.5% and 2.1% lift in home values over the month respectively, as Australia's two largest cities caught up from weaker performance through 2020. The quarterly trend however, is still favouring the smaller cities; Darwin housing values rose 5.5% over the past three months, Hobart values rose 4.8% and Perth was up 4.2%.

"Whether this new found growth in Sydney and Melbourne can be sustained is unclear. Both cities are still recording values below their earlier peaks, however at this current rate of appreciation it won't be long before Australia's two most expensive capital city markets are moving through new record highs. With household incomes expected to remain subdued and stimulus winding down, it is likely affordability will once again become a challenge in these cities," Mr Lawless said.

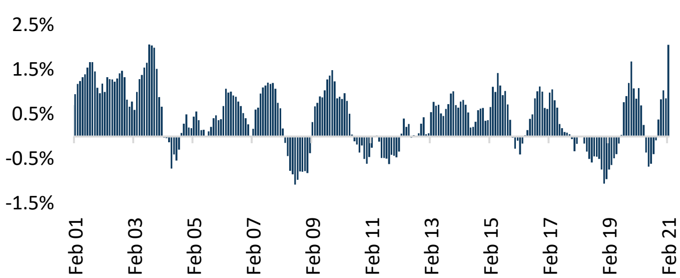
Regional markets (up +2.1% over the month) have continued to show a higher rate of capital gain relative to the capital cities (up +2.0%), however the performance gap has narrowed compared with the earlier phase of the growth cycle. Regional areas generally recorded less of a decline in housing values through the worst of the COVID period last year, while also showing an earlier and stronger growth trend through the second half of last year. This regional preference is reflected in the annual growth trend, where the combined regionals index is 9.4% higher while the combined capital city index is up a much smaller 2.6%.

A housing market trend that has persisted through the COVID period to-date is the weaker performance of unit markets relative to detached housing. Across CoreLogic's combined capitals index, house values (+4.4% over the past three months) have recorded a growth rate more than three times higher than that of its unit counterparts (+1.4%). There are some tentative signs this trend could become less obvious, with Sydney unit values recording their first month of growth since April last year and Melbourne unit values recording their largest gain since late 2019.

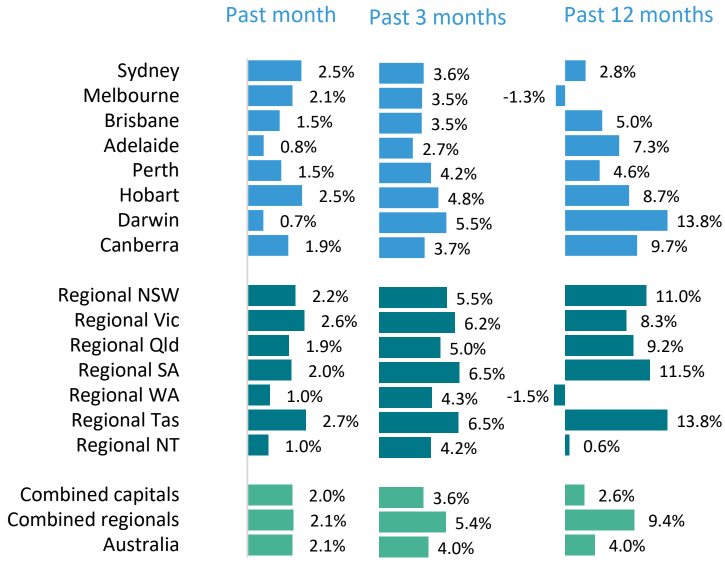
Index results as at February 28, 2021

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	2.5%	3.6%	2.8%	5.3%	$895,933
Melbourne	2.1%	3.5%	-1.3%	1.8%	$717,767
Brisbane	1.5%	3.5%	5.0%	9.3%	$535,618
Adelaide	0.8%	2.7%	7.3%	11.8%	$478,587
Perth	1.5%	4.2%	4.6%	9.3%	$491,795
Hobart	2.5%	4.8%	8.7%	14.0%	$535,994
Darwin	0.7%	5.5%	13.8%	19.4%	$438,645
Canberra	1.9%	3.7%	9.7%	14.6%	$706,454
Combined capitals	2.0%	3.6%	2.6%	5.9%	$675,014
Combined regional	2.1%	5.4%	9.4%	14.4%	$438,185
National	2.1%	4.0%	4.0%	7.6%	$598,884

Month-on-month change in national dwelling values



Change in dwelling values



One of the factors driving housing prices higher is low advertised supply levels. CoreLogic's most recent measure of total listing numbers continues to see advertised supply significantly below that of recent years. The number of properties advertised for sale nationally remained 26.2% below 2020 levels over the 28 days ending February 21.

Whilst available supply remains at historically low levels, the quarterly number of home sales is estimated to be up 35.3% on 2020 levels, with regional dwelling sales 40.6% higher compared with a 32.0% lift in capital city sales.

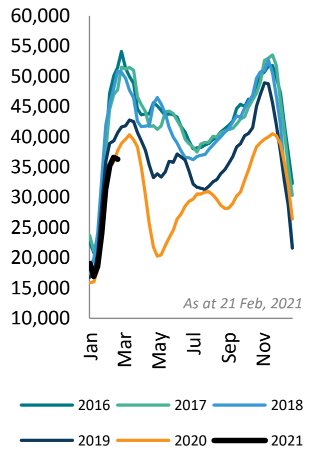
The past six months has seen CoreLogic's estimate of settled house sales rise to be 17.9% above the decade average. Settled unit sales have also trended higher, but remain slightly below the decade average (-0.8%) again reflecting the falling demand for higher density styles of properties.

Mr Lawless believes the mismatch between supply and demand is a central factor pushing prices higher. "Housing inventory is around record lows for this time of the year and buyer demand is well above average. These conditions favour sellers. Buyers are likely confronting a sense of FOMO which limits their ability to negotiate. Vendor discounting rates were estimated at a record low of 2.6% in February, and auction clearance rates have consistently been in the high 70% to low 80%, which is well above average."

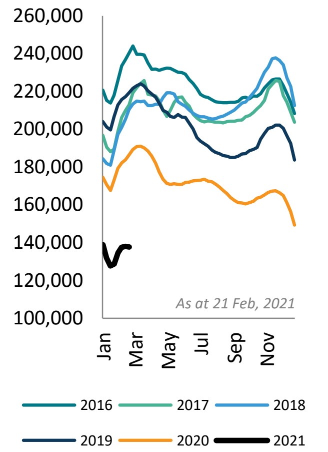
New listing numbers could see a more substantial lift in March, with CoreLogic's real estate platform data indicating agents are becoming more active. Towards the end of February CMA reports, which are used by real estate agents to prepare a property for listing, were up 19.5% on 2020 levels. Historically there has been a strong correlation between real estate agent activity across the RP Data platform and new listings, albeit with around a two week lag.

"Although new listings are likely to track higher over coming months, if buyer demand continues to lift it's likely overall advertised stock levels will remain low," Mr Lawless said. "Serious buyers would be well advised to have their financing pre-approved and be ready to act fast in order to secure a property under such tight supply conditions."

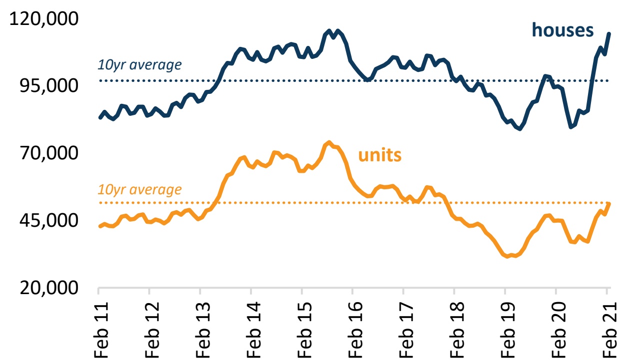
New listings, rolling 28 day count, national



Total listings, rolling 28 day count, national

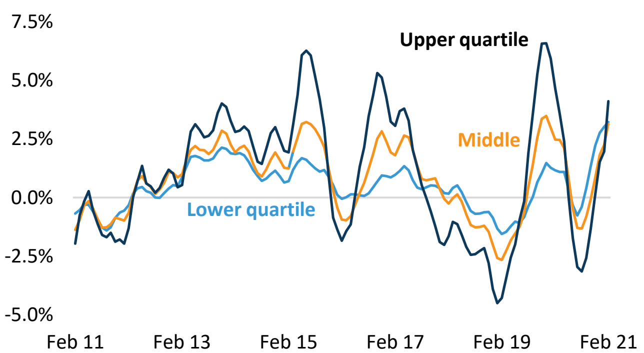


Rolling six month sales volume, combined capitals



Most recent months of sales volumes are estimates and will revise

Rolling three month change in dwelling values across broad valuation cohorts, combined capitals



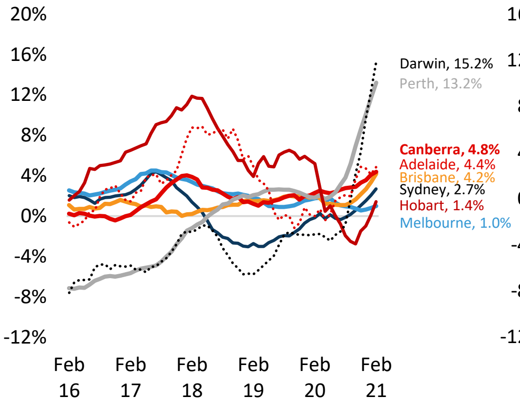
After under-performing the market through the period of value decline, upper quartile properties are now leading the growth rebound. Upper quartile dwellings, which represent the most expensive quarter of the market, have overtaken the other broad valuation bands in the pace of capital gains.

Between March and September last year, upper quartile dwelling values across the combined capitals declined by -4.3% while lower quartile values were virtually unchanged (+0.1%). The past three months has seen momentum gathering across the premium sector, with capital city values up 4.1% compared with a 3.2% rise across the lower quartile.

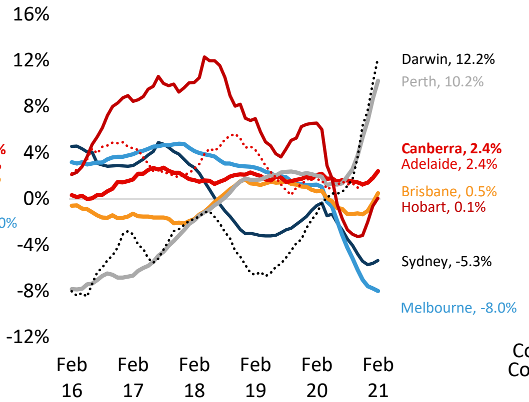
The only cities bucking the trend are Hobart, where the lower quartile remains the strongest sector of the market, and Perth, where upper and lower quartile values are showing a similar level of value growth.

According to Mr Lawless, this pattern of premium sector under-performance during the downswing-phase and stronger performance through the upswing-phase has been seen over previous cycles. "High value property markets have shown greater volatility over time, and appear to be more reactive to changes in the environment. We saw this same trend through the previous mid-2017 to mid-2019 correction, where premium housing values fell more than other sectors of the market, but also outperformed other sectors across the prior growth phase."

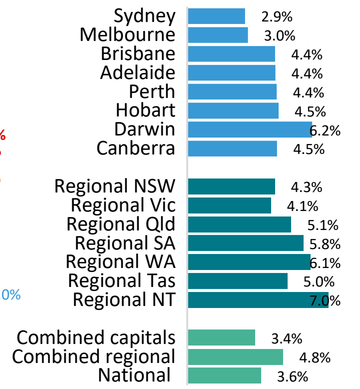
Annual change in rents, Houses



Annual change in rents, Units



Gross rental yields, dwellings



The disparity in rental markets across Australia has been extreme. At one end of the spectrum we have extremely tight rental conditions in cities such as Perth and Darwin where both house and unit annual rental growth is above 10%. At the other end are the unit rental markets of Sydney and Melbourne where rents have plunged over the last year, down -5.3% in Sydney, and -8.0% lower in Melbourne. In a similar vein to housing values, rental markets are stronger within the detached housing sector relative to the unit sector.

"The strength in Perth and Darwin's rental sector can be attributed to a mix of low supply, due to a recent history of low investor participation, and rising demand as interstate migration trends move into positive territory. The opposite trends in Sydney and Melbourne have seen rental markets weaken; higher rental supply due to a recent history of investor exuberance, weaker demand from negative interstate migration and, more recently, a demand shock from closed international borders where Melbourne and Sydney were the primary recipients of migrant arrivals," Mr Lawless said.

However, the weak conditions across Sydney and Melbourne unit markets look to be turning. Sydney's rental index for units has recorded two successive months of mild rises, while Melbourne unit rents edged higher in February after falling for nine of the previous ten months. The improvement in unit rents across Australia's two largest cities is likely to be at least partially seasonal as demand from domestic students generally rises early in the year, but could also be attributable to more people returning to work in the inner cities as well as workers in some of the hardest hit industries such as hospitality, food and accommodation services returning to employment. Until international borders re-open and migration rates return to their pre-COVID levels, a more substantial improvement in inner city apartment rents is unlikely.

Weaker rental conditions in Sydney and Melbourne relative to rising home values is evident in the gross rental yields, with yields across both cities falling to fresh record lows in February. Gross rental yields in Sydney were recorded at 2.9% at the end of February, while in Melbourne yields averaged 3.0%. Every other capital city is recording gross rental yields around the mid-4% mark or higher, implying positive cash flow opportunities are more likely in these markets.

Overall, Australia's housing market is now well entrenched in one of the strongest growth phases on record. For housing values and activity to be surging during a global pandemic seems counter intuitive, however the factors driving this growth are significant and diverse.

Record low mortgage rates look set to remain in place for a prolonged period of time, providing confidence to buyers and historically low interest payment to income ratios.

Economic conditions are consistently beating forecasts, with the RBA acknowledging Australia's economy is likely to recover six to twelve months earlier than originally expected. The economic recovery is feeding into a solid rebound in consumer sentiment and encouraging households to reduce their savings buffer and spend more.

Advertised supply remains around record low levels, at a time when buyer demand is rising swiftly to above average levels. This mismatch between demand and supply looks set to remain a feature of the housing market for some time.

There are some headwinds ahead in the form of a reduction in fiscal support from the federal government, home loan deferral arrangements expiring and migration remaining stalled. The intensity of these headwinds have lessened over recent months. The economy navigated the earlier fiscal cliff relatively seamlessly, however the wind-up of JobKeeper and the COVID supplement for JobSeeker is likely to cause a temporary slowdown in the economic recovery which could slow some of the housing market exuberance.

Similarly, there has been a substantial drop in deferred home loans. Down from $195 billion (11% of all home loans) in May last year, APRA reported that $32 billion or 1.8% of all mortgages were still deferred at the end of January. As the deferral program expires at the end of March we could progressively see a rise in forced sales across some sectors of the housing market.

Housing price momentum looks to be skewed towards the upside, with the tailwinds of low rates, improving economic conditions and consumer confidence, low supply and high consumer demand likely to outweigh the headwinds associated with the coming wind-down of fiscal support.

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CoreLogic Home Value Index tables

	Capitals								Rest of state regions							Aggregate indices		
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Regional NT	Combined capitals	Combined regional	National
Dwellings — All Dwellings																		
Month	2.5%	2.1%	1.5%	0.8%	1.5%	2.5%	0.7%	1.9%	2.2%	2.6%	1.9%	2.0%	1.0%	2.7%	na	2.0%	2.1%	2.1%
Quarter	3.6%	3.5%	3.5%	2.7%	4.2%	4.8%	5.5%	3.7%	5.5%	6.2%	5.0%	6.5%	4.3%	6.5%	na	3.6%	5.4%	4.0%
YTD	2.9%	2.5%	2.4%	1.6%	3.1%	4.1%	3.1%	3.1%	3.7%	4.3%	3.5%	4.4%	3.1%	4.2%	na	2.7%	3.7%	2.9%
Annual	2.8%	-1.3%	5.0%	7.3%	4.6%	8.7%	13.8%	9.7%	11.0%	8.3%	9.2%	11.5%	-1.5%	13.8%	na	2.6%	9.4%	4.0%
Total return	5.3%	1.8%	9.3%	11.8%	9.3%	14.0%	19.4%	14.6%	15.6%	13.3%	14.8%	17.0%	4.5%	19.8%	n a	5.9%	14.4%	7.6%
Gross yield	2.9%	3.0%	4.4%	4.4%	4.4%	4.5%	6.2%	4.5%	4.3%	4.1%	5.1%	5.8%	6.1%	5.0%	na	3.4%	4.8%	3.6%
Median value	$895,933	$717,767	$535,618	$478,587	$491,795	$535,994	$438,645	$706,454	$527,673	$436,154	$421,432	$258,068	$347,031	$358,415	na	$675,014	$438,185	$598,884
Houses																		
Month	3.0%	2.4%	1.6%	0.8%	1.6%	2.5%	1.3%	2.2%	2.3%	2.6%	1.9%	2.0%	1.2%	2.9%	1.1%	2.3%	2.1%	2.3%
Quarter	4.8%	4.2%	3.8%	3.1%	4.4%	5.2%	7.5%	4.2%	5.8%	6.2%	5.2%	6.7%	4.3%	7.2%	3.6%	4.4%	5.6%	4.7%
YTD	3.7%	3.0%	2.6%	1.9%	3.3%	4.2%	5.0%	3.5%	3.9%	4.2%	3.6%	4.5%	3.0%	4.6%	0.8%	3.2%	3.8%	3.4%
Annual	4.4%	-1.8%	5.9%	7.6%	5.0%	10.2%	16.3%	11.0%	11.5%	8.1%	9.5%	11.6%	-1.5%	14.6%	4.7%	3.6%	9.7%	5.0%
Total return	6.7%	0.9%	10.2%	11.9%	9.6%	15.7%	22.1%	15.6%	16.2%	13.0%	14.9%	17.3%	4.4%	21.1%	12.2%	6.8%	14.6%	8.5%
Gross yield	2.6%	2.7%	4.1%	4.2%	4.3%	4.5%	5.6%	4.1%	4.3%	4.1%	5.0%	5.8%	6.0%	4.8%	6.9%	3.2%	4.7%	3.5%
Median value	$1,061,229	$829,509	$593,232	$509,148	$513,566	$572,188	$508,410	$797,421	$546,986	$459,787	$432,348	$263,189	$360,861	$372,657	$440,571	$723,607	$452,910	$624,250
Units																		
Month	1.2%	1.2%	1.0%	0.5%	1.2%	2.3%	-0.6%	0.7%	1.8%	2.8%	1.9%	2.8%	-1.7%	0.6%	na	1.1%	1.9%	1.3%
Quarter	1.0%	1.9%	1.8%	0.8%	3.2%	3.2%	1.1%	1.9%	3.9%	6.3%	4.1%	3.1%	5.1%	-0.3%	na	1.4%	4.2%	1.9%
YTD	1.1%	1.3%	1.4%	0.3%	2.0%	3.5%	-1.2%	1.6%	2.7%	4.5%	3.1%	2.4%	5.1%	0.7%	na	1.2%	3.1%	1.5%
Annual	-0.9%	-0.4%	1.1%	5.2%	1.9%	2.6%	8.6%	5.2%	7.6%	9.8%	8.2%	7.1%	-0.6%	7.0%	na	-0.1%	7.9%	1.0%
Total return	2.5%	3.2%	6.3%	10.7%	7.3%	7.4%	13.9%	11.3%	12.4%	15.5%	14.4%	8.3%	6.6%	11.5%	na	3.7%	13.5%	5.0%
Gross yield	3.3%	3.7%	5.2%	5.3%	5.4%	4.9%	7.5%	5.5%	4.7%	4.8%	5.5%	5.7%	8.0%	5.7%	na	3.8%	5.2%	4.0%
Median value	$738,254	$582,833	$396,183	$349,913	$374,053	$421,143	$289,789	$479,934	$442,250	$323,391	$393,579	$211,709	$228,639	$277,696	na	$581,652	$380,543	$537,106

CoreLogic is the largest independent provider of property information, analytics and property-related risk management services in Australia and New Zealand.

Methodology

The CoreLogic Hedonic Home Value Index

is calculated using a hedonic regression methodology that addresses the issue of compositional bias associated with median price and other measures. In simple terms, the index is calculated using recent sales data combined with information about the attributes of individual properties such as the number of bedrooms and bathrooms, land area and geographical context of the dwelling. By separating each property into its various formational and locational attributes, observed sales values for each property can be distinguished between those attributed to the property's attributes and those resulting from changes in the underlying residential property market. Additionally, by understanding the value associated with each attribute of a given property, this methodology can be used to estimate the value of dwellings with known characteristics for which there is no recent sales price by observing the characteristics and sales prices of other dwellings which have recently transacted. It then follows that changes in the market value of the entire residential property stock can be accurately tracked through time. The detailed methodological information can be found at:

https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/

CoreLogic is able to produce a consistently accurate and robust Hedonic Index due to its extensive property related database, which includes transaction data for every home sale within every state and territory. CoreLogic augments this data with recent sales advice from real estate industry professionals, listings information and attribute data collected from a variety of sources.

** The median value is the middle estimated value of all residential properties derived through the hedonic regression methodology that underlies the CoreLogic Hedonic Home Value Index.*

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