CoreLogic

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Hedonic Home Value Index

2 November 2020

CoreLogic October home value indices: Australian housing values move into recovery mode

Following five months of consistent declines in residential property values, CoreLogic's national home value index moved back into positive month-on-month growth through October, posting a 0.4% rise. The lift in home values was broad based, with every capital city apart from Melbourne posting a rise in values over the month.

Over the month dwelling values increased by more than 1% in each of the smallest four capital cities with Brisbane, Adelaide, Hobart and Canberra housing values reaching new record highs.

Although values were lower across Melbourne through October, the trend rate of decline has been easing since mid-September. With a drop of 0.2%, this was the smallest month on month drop in values since the COVID-19 related downturn commenced in April.

Since the announcement that private home inspections were once again permitted across Melbourne, new property listings have surged, clearance rates have lifted and buyer activity is recovering. Based on this recent trend in housing values and activity, it seems likely we will see Melbourne follow the other capital cities towards a recovery over the coming month.

According to CoreLogic's Head of Research, Tim Lawless, the October results show early evidence of a divergence between house and unit market performance. "The rise in capital city housing values over the month was entirely attributable to a 0.4% lift in house values which offset the 0.2% fall in unit values. Through the COVID period so far, unit values have actually shown a smaller decline in values than houses, but this is likely to change."

"Almost two thirds of Australian units are rented, and rental conditions have weakened, especially in the key inner city precincts of Melbourne and Sydney. These areas have a higher concentration of unit stock, and historic exposure to demand from overseas migration. Low levels of investment activity, relatively high supply of unit stock in inner-cities and international border closures are key factors that imply units will under-perform relative to houses over the medium term" he said.

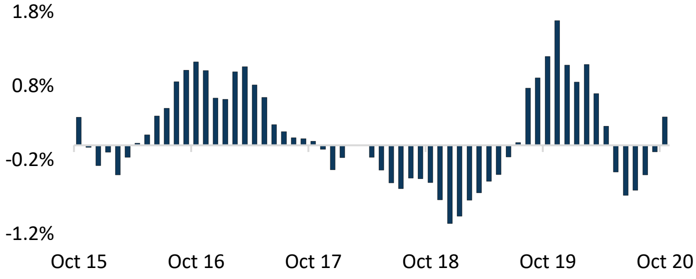
Regional housing markets continued to outperform the capital cities. Broadly, CoreLogic's combined regionals index has held relatively firm through the worst of the COVID-related downturn. According to Mr Lawless, "the past two months have reversed the previous mild falls across the combined regional areas. In the seven months since March, regional dwelling values are up 1.7% while values across the combined capitals index have fallen by 2.3%."

"The newfound popularity of working from home is only one factor helping to support regional home prices. More affordable price points, lower densities and lifestyle factors, are also under-pinning the relative strength across many regional areas of the country," Mr Lawless added.

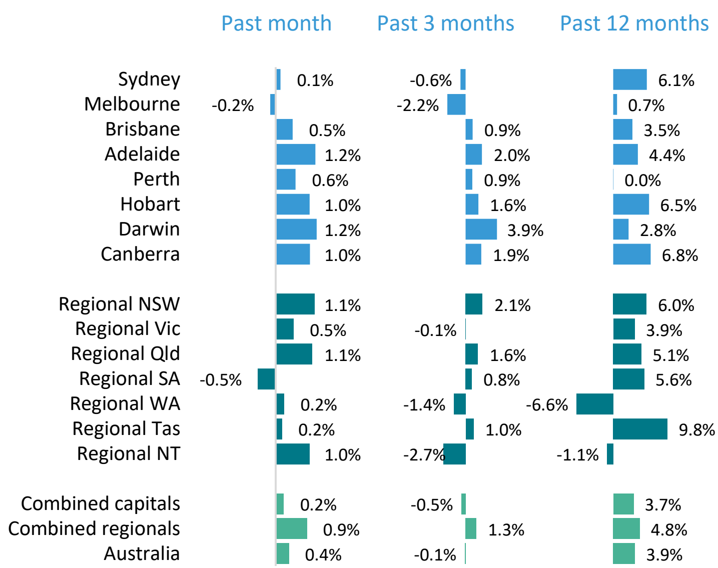
Index results as at October 31, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.1%	-0.6%	6.1%	8.8%	$860,955
Melbourne	-0.2%	-2.2%	0.7%	4.1%	$666,240
Brisbane	0.5%	0.9%	3.5%	7.5%	$510,353
Adelaide	1.2%	2.0%	4.4%	8.5%	$455,425
Perth	0.6%	0.9%	0.0%	4.3%	$456,267
Hobart	1.0%	1.6%	6.5%	11.9%	$498,073
Darwin	1.2%	3.9%	2.8%	9.4%	$398,910
Canberra	1.0%	1.9%	6.8%	11.8%	$656,739
Combined capitals	0.2%	-0.5%	3.7%	7.1%	$638,264
Combined regional	0.9%	1.3%	4.8%	9.6%	$403,181
National	0.4%	-0.1%	3.9%	7.6%	$559,254

Month-on-month change in national dwelling values



Change in dwelling values



Mr Lawless noted that the lift in home values coincides with a range of other indicators that have also improved over recent months. "Consumer confidence has consistently improved since the virus curve has once again flattened and Australians respond positively to measures announced in the federal budget. In October we saw an 11.9% surge in the Westpac-Melbourne Institute consumer sentiment index, rising clearance rates and an increase in valuation for purchase orders. Alongside this we are seeing persistently low advertised stock, which has supported price growth. "

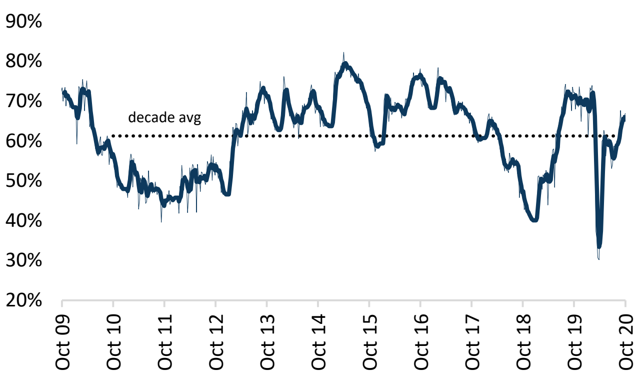
Despite a surge in new listing numbers, total advertised inventory levels remain close to record lows. The number of new listings added to the Australian housing market over the past four weeks rose by 25.2%, while total stock levels grew by less than 1%. This trend was most exemplified by Melbourne, where new listings numbers increased almost fivefold as lockdown restrictions eased, while total advertised stock levels were only 38.2% higher.

Persistently low total stock levels in the face of surging new listing numbers point to a strong rate of absorption, as buyer demand exceeds advertised supply levels.

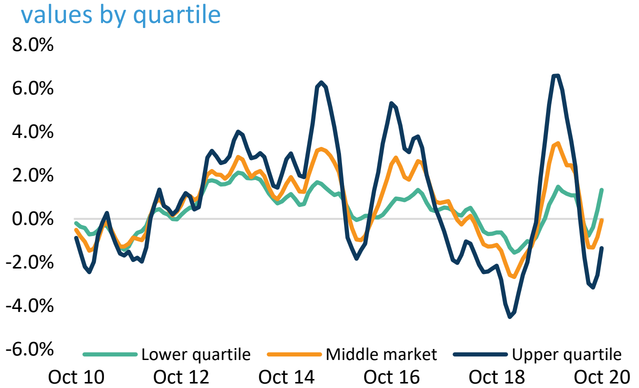
Home sales were also higher through October with CoreLogic estimating a 7.0% rise in home sales nationally over the month. Over the past three months, nation-wide sales activity was roughly 1.5% lower than the same time last year, weighted down by an 18.2% drop in sales across Melbourne over the same period.

Auction results have also been strengthening with CoreLogic consistently reporting clearance rates above 60% over the past two months. "Sydney's clearance rate breached the 70% mark in late October for the first time since early March, and auction volumes have been at similar levels as last year. Melbourne, which is normally the largest auction market, saw the number of auctions held rise from virtually nothing in September to around 600 auctions over the final week of October," Mr Lawless said.

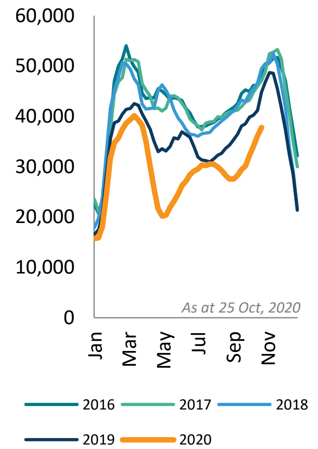
Auction clearance rate, combined capitals



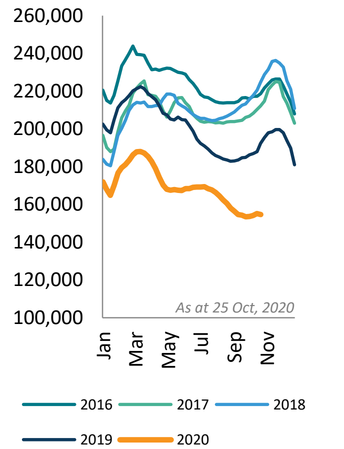
Rolling three month change in capital city dwelling values by quartile



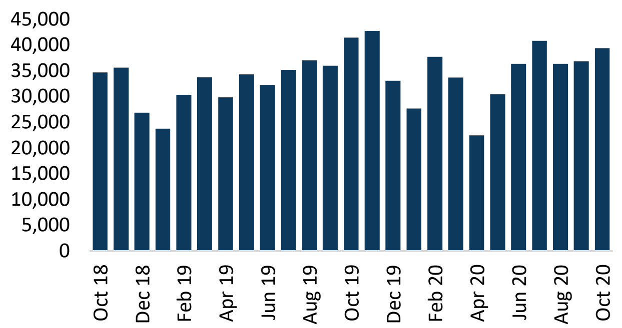
New listings, rolling 28 day count, national



Total listings, rolling 28 day count, national



Estimated volume of sales, national



Most recent months of sales volumes are estimates and will revise

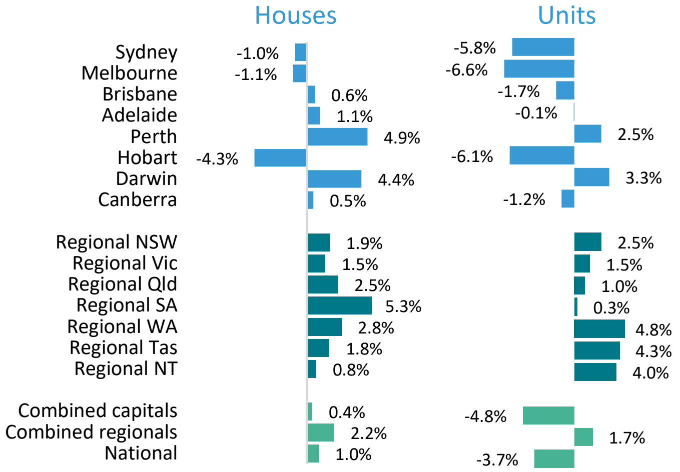
CoreLogic indices are showing a turn-around across each of the broad valuation cohorts. At a combined capital city level, dwelling values increased across all segments of the market over the month, including the lower quartile (+0.7%), the broad middle of the market (+0.3%) and the upper quartile (+0.1%). Over the past three months however, the lower quartile of the market is the only broad value cohort to record a rise, up 1.3% while upper quartile values fell by 1.3%. These results are partly reflective of stronger conditions across the smaller capitals, where housing values are generally lower relative to the larger cities, but also point to above average demand from first home buyers who tend to focus their activity around the middle to low end of the pricing spectrum.

Most Australian capitals are continuing to show a stronger performance for properties within the lower quartile valuation cohort. The exceptions are Sydney and Brisbane, where the upper quartile of the market has recorded a larger rise in values than the lower quartile.

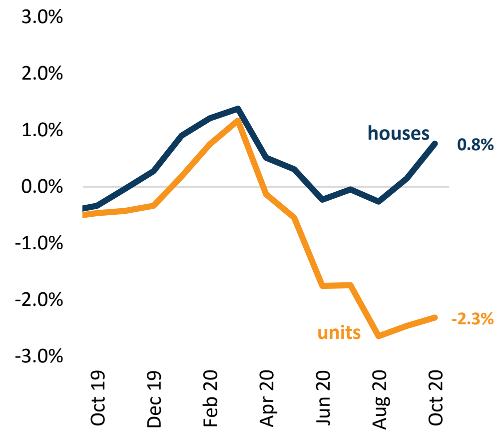
In Sydney, through the COVID period to-date, the upper quartile of the market has under-performed relative to the lower end and middle of the market. However, the October monthly results showed the upper quartile led the rise in Sydney home values for the first time since February this year, up 0.3% compared with a 0.2% lift across the lower quartile. Dwelling values across Brisbane's upper quartile were up 0.6% compared with a 0.4% rise across the lower quartile.

"While this is only one month of data, it has often been the case that premium housing markets lead both the downturn and the upswing, so it will be interesting to see if higher value properties gather further momentum over coming months," Mr Lawless commented.

Change in rents, March 31 to October 31



Rolling three month change in rents, houses v units, combined capitals



Through the COVID period to-date CoreLogic has recorded a substantial divergence between house rents and unit rents. Between the end of March 2020 and October 2020, capital city unit rents are down a cumulative 4.8%, while houses have recorded a 0.4% rise in rents. This divergence has continued through October with the monthly data showing a 0.7% drop in capital city unit rents while house rents are up 0.5%.

Every capital city region has seen house rents either rise more than unit rents, or fall by a smaller amount. The difference between house and unit rental performance is most significant in Melbourne and Sydney where, since March, unit rents are down 6.6% and 5.8% respectively while house rents have seen a more mild reduction of around 1%.

According to Mr Lawless, the divergence can be explained by the combination of supply and demand factors. "Both cities have a multi-year history of significant supply additions to the high-rise unit sector where the large majority of properties are owned by investors. From a demand side, the evaporation of overseas migrants, including foreign students, has led to a sudden and material drop in the number of renters requiring accommodation. Additionally, weaker labour market conditions across industries where workers are more likely to rent than in any other sector have further impacted rental demand."

Hobart has also seen a significant reduction in rents, although the drop in house and unit rents is more uniform than in Sydney and Melbourne. The drop in Hobart rents comes after several years of significant rises; despite the recent drop, house rents are up 27.2% over the past five years and unit rents are 30.7% higher. The previously strong rental conditions across Hobart were a reflection of low supply relative to demand; a situation that was compounded by low levels of new rental stock additions as well as a reduction in permanent rental supply as short term rentals such as AirBnB became popular with investors.

Perth and Darwin stand out with the tightest rental market conditions. Both house and unit rents are up through the COVID period to-date. The stronger rental conditions come after a long period of weakness in rental markets; dwelling rents in Perth have only increased by 0.4% over the past five years while Darwin rents are 11.4% lower than they were five years ago. The latest rise in rents can be attributed to the recent history of low private sector investment which has kept rental supply levels low.

In summary, it is clear that housing markets are responding to the stimulus of low mortgage rates and improved sentiment related to measures announced in the federal budget and the low number of new virus cases.

Housing values are either rising or stabilising across each of the broad regions around the country. The volume of home sales is rising and inventory levels are being absorbed faster than the rate of new additions.

Market activity is on the rise, with measures of real estate agent activity across CoreLogic's RP Data platform up 11.5% over the month and the number of valuations for home purchasing across the Valex platform 11.2% higher over the month.

Further Interest rate cuts are on the horizon as the RBA board meets tomorrow. Record low mortgage rates are a key factor supporting housing market activity. Historically, reductions in interest rates have provided a positive flow-through to housing demand. If mortgage rates move to new record lows, we expect this will further incentivise home purchasing activity.

The recent housing market growth trajectory comes amidst the winding down of fiscal support programs such as JobKeeper and coinciding with the majority of home loan repayment deferrals expiring. So far, this period of uncertainty hasn't impacted on housing market performance, however it will be important to monitor changes in inventory levels and vendor metrics at a geographically granular level, watching for any sign of distressed stock.

We remain cautious about inner city high rise unit precincts, especially in Melbourne and Sydney, where rental conditions have deteriorated sharply and supply levels remain high. Falling rents and occupancy rates are likely to weigh heavily on investor balance sheets at a time when purchasing demand is likely to be low. Sellers in these areas looking for a quick sale could be facing significant pricing discounts until rental markets and supply additions stabilise.

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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	0.1%	-0.2%	0.5%	1.2%	0.6%	1.0%	1.2%	1.0%	1.1%	0.5%	1.1%	-0.5%	0.2%	0.2%	na	0.2%	0.9%	0.4%
Quarter	-0.6%	-2.2%	0.9%	2.0%	0.9%	1.6%	3.9%	1.9%	2.1%	-0.1%	1.6%	0.8%	-1.4%	1.0%	na	-0.5%	1.3%	-0.1%
YTD	1.5%	-2.9%	2.0%	3.4%	-0.3%	3.9%	4.6%	5.0%	5.0%	2.4%	3.8%	4.8%	-5.8%	7.4%	na	0.4%	3.7%	1.1%
Annual	6.1%	0.7%	3.5%	4.4%	0.0%	6.5%	2.8%	6.8%	6.0%	3.9%	5.1%	5.6%	-6.6%	9.8%	na	3.7%	4.8%	3.9%
Total return	8.8%	4.1%	7.5%	8.5%	4.3%	11.9%	9.4%	11.8%	10.5%	8.8%	10.2%	11.3%	-0.2%	15.4%	n a	7.1%	9.6%	7.6%
Gross yield	2.9%	3.2%	4.4%	4.4%	4.4%	4.6%	6.0%	4.5%	4.5%	4.5%	5.3%	6.0%	6.3%	5.1%	na	3.5%	4.9%	3.8%
Median value	$860,955	$666,240	$510,353	$455,425	$456,267	$498,073	$398,910	$656,739	$483,683	$396,677	$390,607	$243,999	$313,444	$331,408	na	$638,264	$403,181	$559,254
Houses																		
Houses																		
Month	0.5%	-0.3%	0.6%	1.2%	0.6%	0.9%	1.0%	1.1%	1.2%	0.5%	1.1%	-0.3%	0.2%	0.2%	1.3%	0.4%	0.9%	0.5%
Quarter	-0.3%	-2.6%	1.0%	2.0%	0.9%	1.8%	4.2%	1.8%	2.3%	-0.2%	1.9%	0.5%	-1.5%	1.3%	-0.3%	-0.3%	1.5%	0.1%
YTD	1.9%	-3.7%	2.7%	3.2%	-0.2%	4.8%	7.6%	5.5%	5.3%	2.2%	4.1%	4.3%	-5.9%	7.3%	-0.9%	0.6%	3.8%	1.3%
Annual	7.2%	0.3%	4.3%	4.3%	0.1%	6.9%	5.4%	7.3%	6.4%	3.8%	5.7%	5.0%	-6.9%	9.9%	-0.4%	4.1%	5.0%	4.3%
Total return	9.7%	3.3%	8.2%	8.1%	4.3%	12.5%	11.4%	12.1%	10.8%	8.6%	10.6%	11.0%	-0.5%	15.6%	6.9%	7.3%	9.7%	7.8%
Gross yield	2.7%	2.9%	4.2%	4.2%	4.3%	4.5%	5.4%	4.2%	4.5%	4.4%	5.2%	5.9%	6.1%	5.0%	7.1%	3.3%	4.9%	3.7%
Median value	$993,927	$780,574	$564,531	$493,170	$475,199	$524,755	$483,719	$737,937	$498,999	$421,409	$399,609	$251,353	$326,080	$344,887	$406,797	$678,198	$415,457	$577,322
Units																		
Units																		
Month	-0.5%	0.1%	-0.1%	0.9%	0.4%	1.6%	1.6%	0.7%	1.0%	1.0%	0.9%	-3.9%	1.2%	-0.1%	na	-0.2%	0.9%	0.0%
Quarter	-1.4%	-1.5%	0.2%	2.4%	0.4%	0.7%	3.2%	2.4%	1.0%	0.7%	0.6%	6.8%	0.7%	-1.8%	na	-1.0%	0.7%	-0.8%
YTD	0.7%	-1.2%	-1.2%	4.6%	-0.8%	0.1%	-1.1%	3.2%	3.7%	3.5%	2.8%	13.5%	-4.2%	7.9%	na	0.0%	3.2%	0.5%
Annual	3.6%	1.5%	-0.3%	5.4%	-0.5%	4.7%	-2.2%	4.8%	4.0%	4.5%	3.3%	16.7%	-2.4%	9.5%	na	2.5%	3.8%	2.7%
Total return	7.2%	5.5%	4.7%	10.7%	4.4%	9.9%	5.6%	11.1%	9.0%	10.7%	9.0%	12.6%	5.3%	14.3%	na	6.6%	9.3%	6.9%
Gross yield	3.3%	3.8%	5.2%	5.3%	5.3%	4.7%	7.0%	5.5%	4.7%	4.9%	5.6%	6.4%	8.2%	5.8%	na	3.8%	5.3%	4.0%
Median value	$735,350	$561,881	$389,583	$334,339	$355,971	$408,829	$270,100	$462,367	$417,696	$296,212	$366,620	$190,926	$195,582	$263,116	na	$566,151	$355,320	$517,201

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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