NATIONAL MEDIA RELEASE
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CoreLogic: Home values continue to rise but the pace of growth loses steam in April

Australian housing values lifted by 1.8% in April according to CoreLogic's national home value index, with the monthly pace of capital gains easing from a 32-year high in March (2.8%). Although growth conditions have slowed, housing values are still rising at a rapid pace, up 6.8% over the past three months to be 10.2% higher than the COVID low in September last year.

CoreLogic's research director, Tim Lawless, says the pace of capital gains could slow further over the coming months as inventory levels rise and affordability constraints dampen housing demand.

"The slowdown in housing value appreciation is unsurprising given the rapid rate of growth seen over the past six months, especially in the context of subdued wages growth. With housing prices rising faster than incomes, it's likely price sensitive sectors of the market, such as first home buyers and lower income households, are finding it harder to save for a deposit and transactional costs."

There is already some evidence of fewer first time buyers in the market, with the Australian Bureau of Statistics reporting a -4.0% fall in the value of first home buyer home loans through February, the first drop since May last year.

Despite the slowdown, positive housing market conditions remain geographically broad-based with every capital city and 'rest-of-state' region continuing to record a lift in dwelling values over the month. Darwin (2.7%) and Sydney (2.4%) recorded the largest month-on-month rise in dwelling values, while Perth values recorded the lowest rate of growth amongst the capital cities at 0.8%.

The four smallest capital cities recorded double digit annual growth (Adelaide 10.3%, Hobart 13.8%, Darwin 15.3% and Canberra 14.2%), reflecting a smaller COVID-related disruption and an earlier start to the growth phase last year. Melbourne is recording the lowest level of annual growth (2.2%) due to a larger downturn, attributable to the extended lockdown period last year.

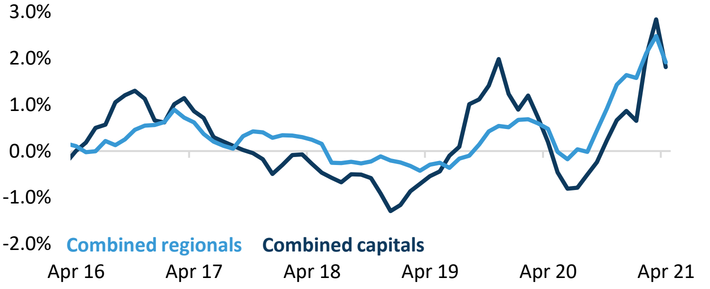
The broad trend of houses outperforming the unit sector continued through April as higher density styles of housing experienced less demand amidst elevated supply across some inner city precincts. At the combined capital city level house values (8.6%) have risen at double the pace of unit values (4.3%) over the first four months of the year.

"A preference shift away from higher density housing during a global pandemic is understandable, however a rise in flexible working arrangements also seems to be supporting greater demand for houses around the outer-fringes of capital cities. Relatively weak investor activity, compounded by a supply overhang in some high-rise precincts, is also dampening price growth in unit markets," Mr Lawless said.

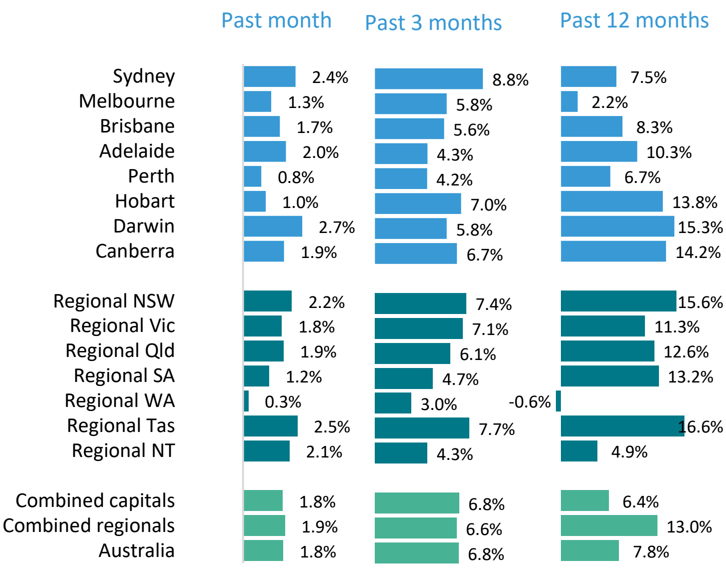
Index results as at April 30, 2021

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	2.4%	8.8%	7.5%	10.1%	$950,457
Melbourne	1.3%	5.8%	2.2%	5.3%	$744,679
Brisbane	1.7%	5.6%	8.3%	12.8%	$558,295
Adelaide	2.0%	4.3%	10.3%	14.9%	$492,285
Perth	0.8%	4.2%	6.7%	11.5%	$513,598
Hobart	1.0%	7.0%	13.8%	19.2%	$561,254
Darwin	2.7%	5.8%	15.3%	21.4%	$465,976
Canberra	1.9%	6.7%	14.2%	18.7%	$734,107
Combined capitals	1.8%	6.8%	6.4%	9.8%	$705,375
Combined regional	1.9%	6.6%	13.0%	18.2%	$457,938
National	1.8%	6.8%	7.8%	11.4%	$624,997

Month-on-month change in dwelling values



Change in dwelling values



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New listings added to the market are now well above average, but strong demand is keeping overall advertised stock levels low.

The number of fresh listings added to the housing market has shown a substantial lift relative to the past two years. 40,630 new residential property listings were added to the market nationally over the four weeks ending April 25; substantially higher relative to the previous two years and almost 14% above the five year average.

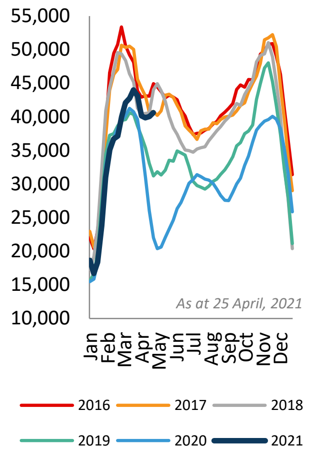
According to Mr Lawless, the rise in new listing numbers signals an improvement in vendor confidence. "More home owners are taking advantage of strong selling conditions while they remain skewed towards vendors rather than buyers. Total advertised stock levels were 25% below the five year average in late April. Such low total listing numbers, at a time when new listings are above average, reflects the strength of buyer demand, fueling the current rapid rate of absorption.

"Prospective vendors are likely becoming more motivated to test the market thanks to such strong selling conditions as well as housing prices pushing to new record highs in most areas," Mr Lawless said.

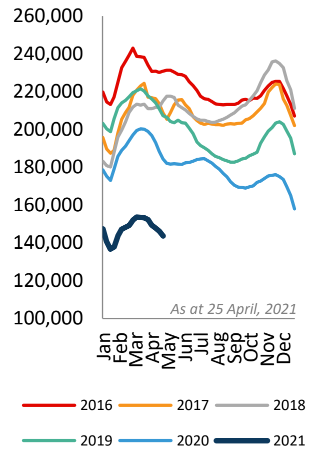
The strong selling conditions can be seen in **auction clearance rates,** which have held in the upper 70% range throughout April, alongside the fall in median selling times and vendor discount rates which have reduced to a record low median of just 26 days to sell a home along with a median discounting rate of just 2.7% (also a record low) across the combined capitals.

"Auction clearance rates have cooled a little since Easter, with the combined capital city clearance rate reducing from a recent high of 83% at the end of March to around 77% in late April. Sydney clearance rates edged below 80% at the end of the month for the first time since the beginning of February, while Melbourne clearance rates are holding in the lower 70% range," Mr Lawless said.

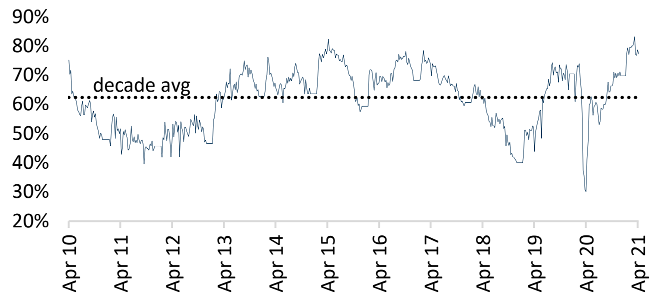
New listings, rolling 28 day count, national



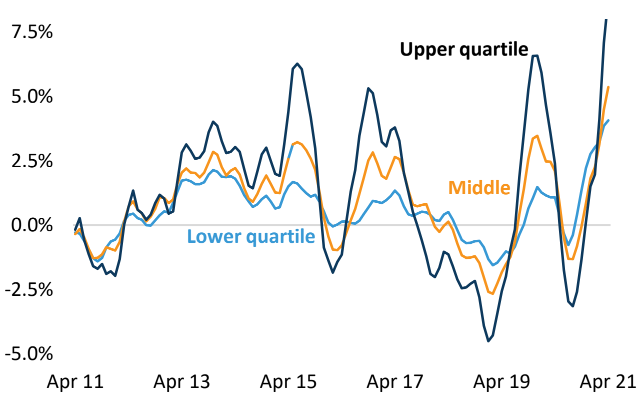
Total listings, rolling 28 day count, national



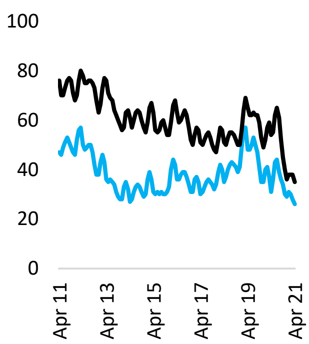
Combined capital cities weighted average auction clearance rate



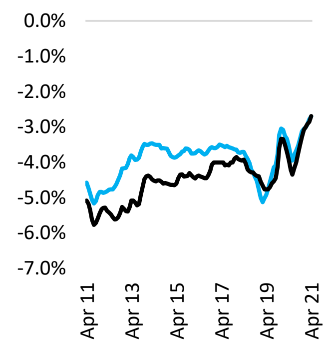
Rolling three month change in dwelling values across broad valuation cohorts, combined capitals



Median days on market



Median vendor discount



Median days on market and median vendor discount are calculated over a rolling three month period

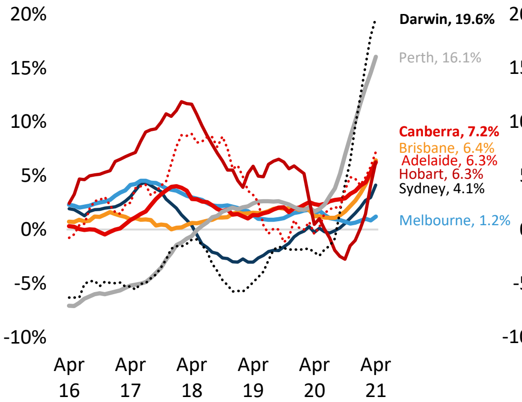
After recording a larger decline throughout earlier downturns, the upper quartile of the housing market continues to lead the growth phase. The past three months has seen the upper quartile of capital city housing markets record an 8.8% rise in dwelling values compared with the 4.1% lift in values across the lower quartile.

This pattern of stronger performance at the more expensive end of the market is evident in Sydney, Melbourne, Brisbane and Adelaide while the remaining capitals are recording a more even performance across the valuation quartiles.

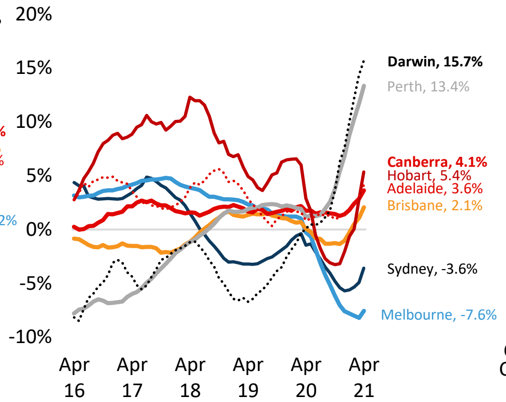
The largest gap in the performance between the upper and lower quartile is in Sydney where upper quartile housing values have increased by 11.4% over the past three months while lower quartile values are up by less than half this amount with only a 5.0% growth.

The large differential is partly explained by the stronger pace of growth in house values over unit values, however the trend is also evident across housing types with both upper quartile house values and upper quartile unit values driving a stronger performance.

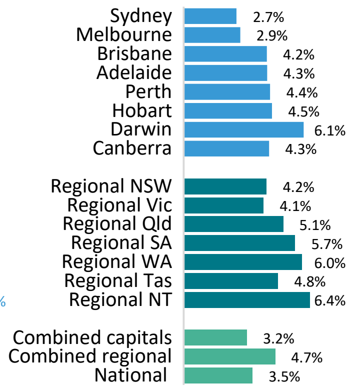
Annual change in rents, Houses



Annual change in rents, Units



Gross rental yields, dwellings



Rental indicators have shown a significant divergence over the past year. Geographically, the strongest rental conditions are outside of Sydney and Melbourne, with Darwin and Perth showing the most significant lift in rents while Melbourne and Sydney rents are rising at the slowest pace.

According to Tim Lawless, the weaker rental conditions in Melbourne and Sydney can be attributed to the larger exposure to tenancy demand shocks from stalled overseas migration. “Prior to COVID, Melbourne and Sydney accounted for around three quarters of overseas migrants into the capital cities. With international borders remaining closed, rental demand in these cities, and in particular their unit market, has been materially impacted.”

Rental conditions have been stronger outside of Melbourne and Sydney where demand is less dependent on overseas migration and interstate migration trends have provided an additional lift. Rental supply has also been less substantial outside of Sydney and Melbourne due to historically lower levels of investment activity and less construction aimed at the investor segment of the market.

Weaker rental conditions are skewed towards higher density markets, especially in Melbourne and Sydney. The downwards shift in unit rents has been more severe in Melbourne where rents are down -7.6% over the past 12 months. However, rental rates in Melbourne’s apartment sector look to be stabilising, with CoreLogic’s measure of rents holding steady over three of the past four months. The monthly trend in Sydney apartment rents has recently turned positive, with unit rents consistently rising over the past four months to be 2.8% higher over the year to date.

As housing values generally rise at a faster pace than rents, yields have been falling across most regions of Australia. Nationally, the gross rental yield has fallen from 3.72% a year ago to a new record low of 3.50%. The trend towards lower yields is most evident in Sydney, where the gross yield is averaging just 2.69% (down from 2.92% a year ago) and Melbourne where gross yields are averaging 2.87% (down from 3.18% a year ago). Such low yields across Australia’s largest cities imply an imbalance between housing values and housing rents.

The only capital cities where rental yields are higher than a year ago are Darwin (where yields rose from 5.81% to 6.10%) and Perth (where yields rose from 4.28% to 4.40%).

Overall, although conditions remain strong, there are mounting signs the housing market has moved through a peak rate of growth. Growth conditions over the past six months have been unsustainable and are now succumbing to a gradual slowdown in demand due to worsening affordability constraints, a rise in fresh inventory, higher levels of new detached housing supply and less government stimulus.

We are expecting housing values will continue to rise throughout 2021 and into 2022, albeit at a gradually slower pace. Demand should be supported by an expectation that mortgage rates will remain at their record lows for an extended period of time, as well as ongoing high levels of consumer confidence as the economy expands at a faster than average pace.

The risks associated with the expiry of mortgage deferrals and less fiscal support have become far less significant. The proportion of home loans that remained on a deferral arrangement at the end of March was just 0.7%, comprising only 0.07% of bank mortgage books. Consequently, we are not expecting any material lift in distressed listings. For borrowers that remain in a distressed situation, the lift in housing values has reduced the risk of selling at a loss. In the most recent Financial Stability Review, the RBA estimates only 1.25% of Australian properties are in a situation where the loan amount exceeds the value of the home.

The trend in labour markets will provide an important bearing for housing market outlook. Labour markets have shown a ‘V’-shaped recovery through the COVID period to-date; although there may be some reversal in the trend due to the end of JobKeeper, this is likely to be temporary. Further tightening in labour markets post JobKeeper should help to keep consumer sentiment high and provide a positive flow-on effect for housing demand.

The possibility of tighter credit policies remains a key risk to the housing market outlook. The RBA and APRA have reiterated they are watchful for any signs of slipping credit standards, but have also noted there has been little evidence of a deterioration in lending standards to-date. A rise in the proportion of riskier types of lending or higher risk loans could be met with a new round of credit policies. We know from earlier periods of macroprudential intervention that this would likely dampen market activity and the pace of capital gains.

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	2.4%	1.3%	1.7%	2.0%	0.8%	1.0%	2.7%	1.9%	2.2%	1.8%	1.9%	1.2%	0.3%	2.5%	na	1.8%	1.9%	1.8%
	Quarter	8.8%	5.8%	5.6%	4.3%	4.2%	7.0%	5.8%	6.7%	7.4%	7.1%	6.1%	4.7%	3.0%	7.7%	na	6.8%	6.6%	6.8%
	YTD	9.3%	6.3%	6.5%	5.2%	5.9%	8.7%	8.3%	8.0%	9.0%	8.9%	7.8%	7.2%	5.1%	9.3%	na	7.5%	8.3%	7.7%
	Annual	7.5%	2.2%	8.3%	10.3%	6.7%	13.8%	15.3%	14.2%	15.6%	11.3%	12.6%	13.2%	-0.6%	16.6%	na	6.4%	13.0%	7.8%
	Total return	10.1%	5.3%	12.8%	14.9%	11.5%	19.2%	21.4%	18.7%	20.3%	16.3%	18.5%	19.1%	5.4%	22.8%	n a	9.8%	18.2%	11.4%
	Gross yield	2.7%	2.9%	4.2%	4.3%	4.4%	4.5%	6.1%	4.3%	4.2%	4.1%	5.1%	5.7%	6.0%	4.8%	na	3.2%	4.7%	3.5%
	Median value	$950,457	$744,679	$558,295	$492,285	$513,598	$561,254	$465,976	$734,107	$555,885	$457,194	$436,120	$264,487	$360,455	$379,954	na	$705,375	$457,938	$624,997
Houses	Houses																		
	Month	2.8%	1.4%	1.8%	2.2%	0.9%	1.1%	2.7%	2.1%	2.3%	1.8%	1.9%	1.3%	0.5%	2.7%	2.0%	2.0%	2.0%	2.0%
	Quarter	10.5%	6.5%	6.2%	4.7%	4.3%	6.7%	6.0%	7.8%	7.6%	7.1%	6.3%	4.9%	3.2%	7.9%	4.9%	7.7%	6.8%	7.5%
	YTD	11.2%	7.1%	7.2%	5.8%	6.0%	8.5%	9.9%	9.1%	9.3%	8.8%	8.1%	7.5%	5.0%	9.7%	4.6%	8.6%	8.6%	8.6%
	Annual	10.4%	2.2%	9.6%	11.1%	6.9%	14.3%	18.2%	16.0%	16.3%	11.0%	13.2%	14.0%	-0.7%	17.8%	11.5%	8.0%	13.5%	9.3%
	Total return	12.9%	4.9%	14.2%	15.7%	11.6%	19.8%	24.4%	20.3%	21.1%	15.9%	19.0%	20.2%	5.3%	24.5%	19.3%	11.4%	18.5%	13.0%
	Gross yield	2.4%	2.6%	4.0%	4.1%	4.3%	4.4%	5.6%	4.0%	4.1%	4.0%	4.9%	5.6%	5.9%	4.7%	6.3%	3.0%	4.6%	3.4%
	Median value	$1,147,352	$869,676	$621,806	$526,155	$537,020	$600,774	$534,332	$833,080	$576,514	$481,633	$447,589	$270,892	$373,432	$395,198	$447,535	$761,051	$473,433	$655,557
Units	Units																		
	Month	1.3%	1.0%	1.0%	0.4%	0.6%	0.9%	2.7%	1.2%	1.8%	1.6%	1.7%	-1.6%	-3.0%	0.8%	na	1.2%	1.6%	1.2%
	Quarter	4.7%	4.0%	3.0%	1.4%	3.6%	8.2%	5.5%	2.6%	6.0%	7.5%	5.5%	1.3%	-1.1%	5.4%	na	4.2%	5.7%	4.4%
	YTD	4.6%	4.1%	3.4%	1.3%	4.4%	9.6%	4.9%	3.6%	7.0%	9.2%	6.6%	0.9%	5.7%	5.5%	na	4.3%	6.9%	4.7%
	Annual	0.9%	1.9%	2.4%	4.8%	4.8%	11.6%	9.5%	7.6%	11.1%	13.6%	10.6%	-2.8%	-0.2%	6.8%	na	1.8%	10.6%	3.1%
	Total return	4.4%	5.6%	7.6%	10.5%	10.4%	16.8%	15.6%	13.7%	16.0%	19.3%	16.9%	0.6%	7.0%	12.6%	na	5.7%	16.3%	7.1%
	Gross yield	3.2%	3.5%	5.1%	5.3%	5.4%	4.9%	7.2%	5.5%	4.6%	4.7%	5.4%	6.2%	8.0%	5.5%	na	3.7%	5.1%	3.9%
	Median value	$771,859	$599,234	$405,902	$352,239	$387,658	$449,442	$309,181	$492,968	$467,139	$337,745	$407,594	$209,509	$238,529	$296,302	na	$597,978	$397,335	$553,992

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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