Australian housing boom continues to lose steam as national home values rise another 1.5% in August

Australian housing values continued to record a broad-based rise despite the disruption from lockdowns. According to CoreLogic's national home value index, dwelling values rose 1.5% in August; a rate of growth that is still well above average, but the lowest monthly rise since January.

The lift in housing values continues to be broad-based, with every capital city, apart from Darwin (-0.1%) recording a rise in values throughout the month, although it is important to note CoreLogic has withheld the Perth and Regional WA index results pending the resolution of a divergence from other housing market measurements in WA.

The August home value index provides further confirmation that the rate of price growth is moderating after moving through a peak in March of this year. At that time, national home values had risen 2.8% in a month, led by Sydney where dwelling values were up 3.7%. According to CoreLogic's research director, Tim Lawless, the slowing rate of growth probably has more to do with worsening affordability constraints than ongoing lockdowns.

"Housing prices have risen almost 11 times faster than wages growth over the past year, creating a more significant barrier to entry for those who don't yet own a home. Lockdowns are having a clear impact on consumer sentiment, however to date the restrictions have resulted in falling advertised listings and, to a lesser extent, fewer home sales, with less impact on price growth momentum. It's likely the ongoing shortage of properties available for purchase is central to the upwards pressure on housing values."

The August update takes Australian housing values 15.8% higher over the first eight months of the year and 18.4% above levels a year ago. In dollar terms, the annual increase in national dwelling values equates to approximately $103,400, or $1,990 per week. In comparison, Australian wages are rising at the average annual rate of 1.7%.

According to Tim Lawless, this is the fastest annual pace of growth in housing values since the year ending July 1989. "Through the late 1980's, the annual pace of national home value appreciation was as high as 31%, so the market isn't quite in unprecedented territory. The annual growth rate at the moment is trending higher, in fact, it is 3.6 times higher than the thirty-year average rate of annual growth."

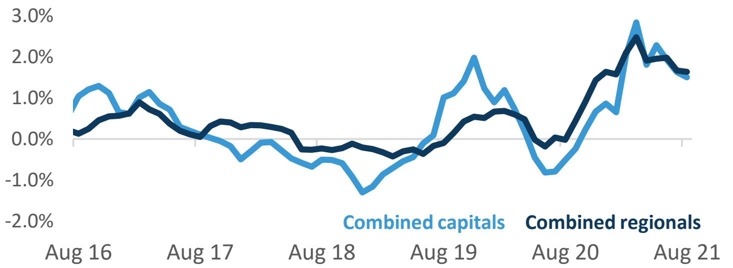
Capital city houses are continuing to record a stronger growth rate relative to units, however the performance gap does appear to be narrowing. Throughout the first quarter of the year, capital city house values were rising approximately 1.1 percentage points faster than units each month. By August the average performance gap reduced to 0.7 percentage points. Mr Lawless believes the convergence of growth in house values and unit values could be another demonstration of affordability becoming more challenging.

Index results as at August 31, 2021

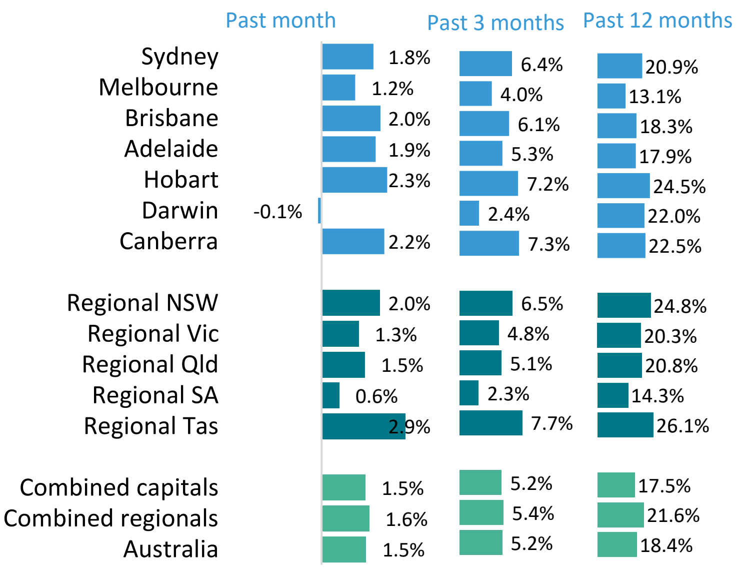
	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	1.8%	6.4%	20.9%	23.8%	$1,039,514
Melbourne	1.2%	4.0%	13.1%	16.0%	$769,968
Brisbane	2.0%	6.1%	18.3%	23.1%	$612,377
Adelaide	1.9%	5.3%	17.9%	22.7%	$522,180
Hobart	2.3%	7.2%	24.5%	30.2%	$639,219
Darwin	-0.1%	2.4%	22.0%	29.0%	$486,248
Canberra	2.2%	7.3%	22.5%	26.8%	$816,644
Combined capitals	1.5%	5.2%	17.5%	20.9%	$751,014
Combined regional	1.6%	5.4%	21.6%	27.1%	$493,925
National	1.5%	5.2%	18.4%	22.1%	$666,514

Note hedonic indices for Perth and WA have been temporarily withdrawn while we investigate a divergence from other housing market measurements. Aggregate indices (combined capitals, combined regional and national) include a relatively small weighting from WA, therefore please make some allowance for this information in your interpretation until the issue is resolved.

Month-on-month change in dwelling values



Change in dwelling values



“The narrowing gap between house and unit value growth is most noticeable in Australia’s most expensive city, Sydney, where the monthly growth rate for houses was 2 percentage points higher than units in March. That ‘gap’ has now reduced to 0.6 percentage points in August. Based on median values, Sydney units cost almost $470,000 less than a house. At the same time, the growth gap between houses and units in Melbourne and Brisbane has widened.”

Both advertised supply and housing demand have been negatively impacted over recent months.

In early May, newly advertised properties were tracking 19.7% above the five-year average, however due to both lockdowns and seasonal factors, the number of new listings through August dropped to -5.8% below the five-year average and total active listings were -29.4% below average.

The estimated number of home sales has also been impacted, dropping by -9.0% nationally over the three months ending August when compared to the previous three-month period. Despite the fall in sales, housing market activity remains well above average levels.

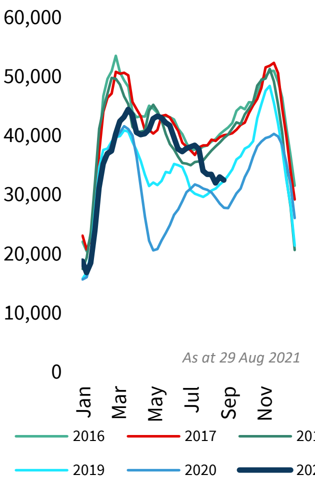
“Although there has recently been a trend towards fewer buyers, the past three months has seen the number of home sales remain 30% above the five-year average at a time when active listings are -29% below average,” Mr Lawless said. “We are still seeing a disconnect between advertised supply and housing demand, even in the cities where lockdown restrictions are active which is keeping upwards pressure on housing prices despite challenges faced by both buyers and sellers.”

Strong selling conditions can also be seen in auction clearance rates and private treaty measures.

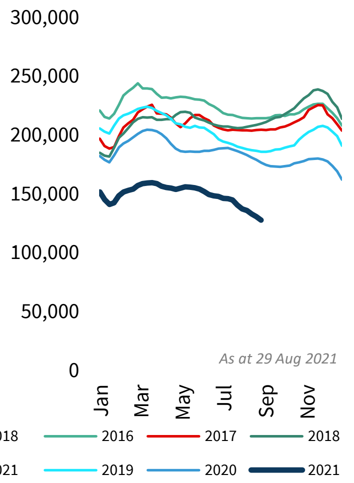
“Auction clearance rates have trended lower, especially in Melbourne where a large proportion of auctions have been withdrawn from the market. However, where properties have proceeded to market, the large majority are recording a successful result, albeit with a large proportion selling prior to the auction rather than under the hammer,” Mr Lawless said.

Similarly, the median number of days it takes to sell a property is showing a mild upwards trend, however most cities, including those navigating extended lockdowns, are continuing to see homes sell in 30-35 days or less. At the same time, vendor discounting rates remain at record lows implying most vendors aren’t budging much on their initial pricing expectations.

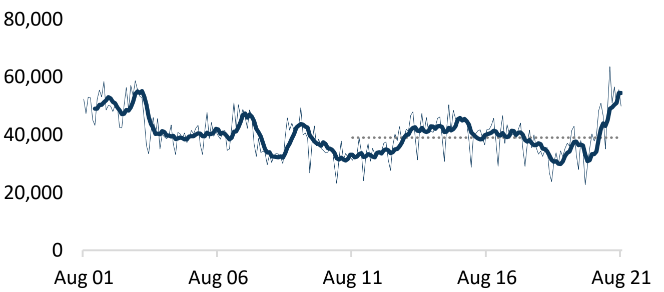
New listings, rolling 28 day count, national



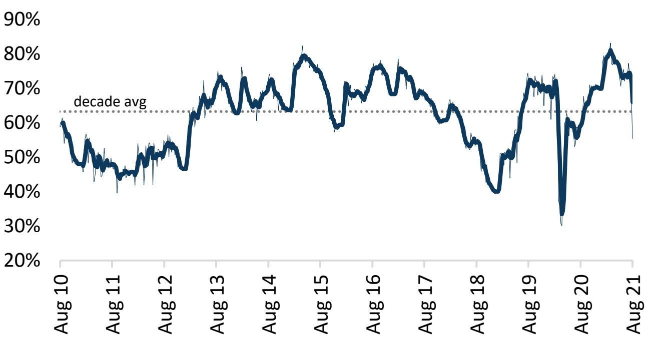
Total listings, rolling 28 day count, national



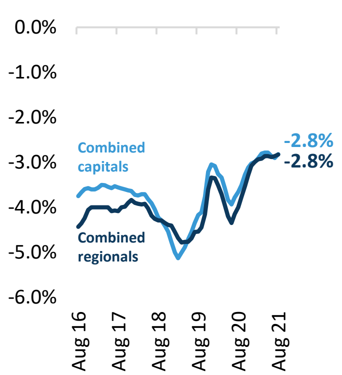
Monthly dwelling sales with six month trend, national



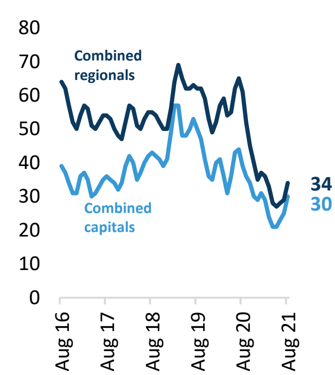
Auction clearance rate, combined capitals



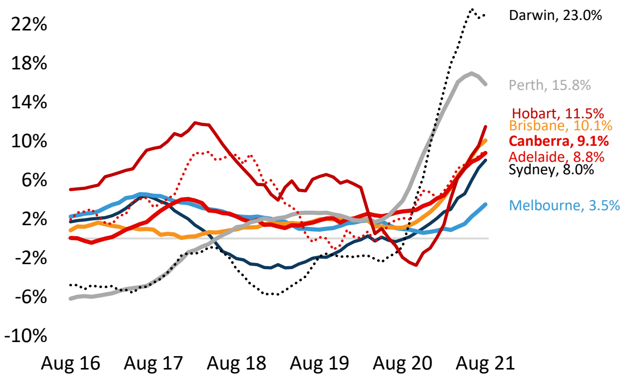
Median vendor discount



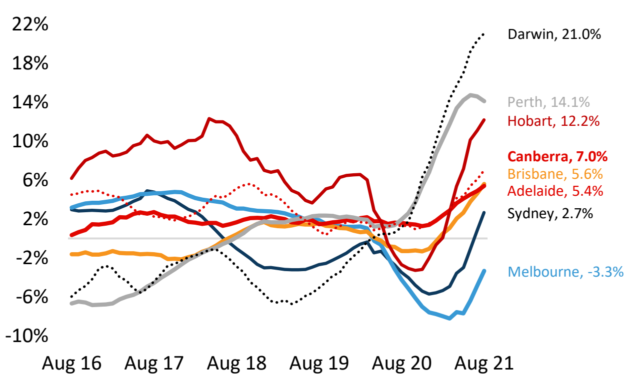
Median days on market



Annual change in rents, Houses



Annual change in rents, Units



The pace of rental growth has softened over recent months, but the trend in rising rents remains strong. Nationally, rents have lifted by 8.2% over the 12 months ending August, the largest rise in rents since 2008.

There remains a stark difference between the pace of growth in house rents, where nationally the cost of renting has risen by more than double the pace of unit rents; 9.9% nationally for houses compared with 4.0% for units over the 12 months ending August. This difference between rising house rents and unit rents is most pronounced in Sydney and Melbourne, where unit markets have recorded a substantially lower growth rate. However, most of the capital cities are recording the same pattern, but in a less pronounced way.

"The weaker trend in unit rents across Australia's two largest cities is likely a reflection of their greater exposure to temporary overseas migrants as a source of rental tenancy, especially foreign students who would normally underpin inner city high rise rental demand. The sharp drop in demand due to closed borders has been exacerbated by high supply levels as both cities come out of an unprecedented surge in inner city apartment construction," Mr Lawless said.

Although Melbourne and, to a lesser extent, Sydney unit rents remain soft, unit rents are starting to rise in these cities. Sydney unit rents have consistently risen each month during 2021, while in Melbourne, unit rents have been rising since June.

The strongest rental markets remain in Perth and Darwin, however the annual rate of rental growth in these cities appears to have peaked, while rental growth across the remaining capitals is continuing to trend higher.

With national housing values rising by 18.4% and rents rising by a lower 8.2%, the result is ongoing yield compression. Nationally, gross rental yields have fallen to an all-time low of 3.32%. It is no longer just Sydney and Melbourne where rental yields are plumbing historic lows. Brisbane (3.99%), Hobart (4.01%) and Canberra (3.99%) have also seen gross rental yields fall to new record lows in August.

Australia's housing market appears to be navigating the uncertainties associated with the Delta outbreaks much the same as we have seen through previous lockdowns.

Supported by low advertised stock levels relative to buyer demand, housing values are continuing to rise, albeit at a slower pace relative to earlier this year.

Inventory levels have fallen sharply across the cities where lockdowns persist, but more broadly, advertised stock levels remain low across the country as demand continues to outweigh supply resulting in a rapid rate of absorption of new listings.

The volume of home sales has trended lower, mostly due to restrictions in Sydney and Melbourne, where the number of sales is estimated to have fallen by -19% and -34% respectively when compared with the prior three-month period. Rules associated with physical property inspections are stricter in Melbourne which probably helps to explain the larger reduction in sales activity.

With spring arriving, we would normally see new listing numbers starting to ramp up, and there is some evidence of this happening in Brisbane, Adelaide, Perth and Hobart. However, the same cannot be said for the cities where lockdown restrictions remain in place. The trend in new listings remains weak in Sydney, Melbourne and Canberra.

Housing market activity bounced back quite quickly following previous spot lockdowns and after Melbourne's extended lockdown late last year, and we are expecting a similar turn of events once restrictions are eventually lifted.

There is likely to be an element of pent-up-supply that is unleashed when restrictions ease which should see inventory levels rise. Arguably there is greater uncertainty about whether demand will rise at the same level following lockdowns.

Affordability constraints are likely to progressively dampen housing market activity, and further down the track there is the potential for credit tightening to also have a negative impact on demand. A lift in advertised supply in the absence of more buyers could be another factor that weighs on price growth later this year.

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	1.8%	1.2%	2.0%	1.9%		2.3%	-0.1%	2.2%	2.0%	1.3%	1.5%	0.6%		2.9%	na	1.5%	1.6%	1.5%
Quarter	6.4%	4.0%	6.1%	5.3%		7.2%	2.4%	7.3%	6.5%	4.8%	5.1%	2.3%		7.7%	na	5.2%	5.4%	5.2%
YTD	19.8%	12.4%	15.3%	12.8%		20.2%	13.8%	17.9%	19.0%	16.0%	15.4%	9.8%		19.9%	na	15.7%	16.4%	15.8%
Annual	20.9%	13.1%	18.3%	17.9%		24.5%	22.0%	22.5%	24.8%	20.3%	20.8%	14.3%		26.1%	na	17.5%	21.6%	18.4%
Total return	23.8%	16.0%	23.1%	22.7%		30.2%	29.0%	26.8%	29.8%	25.4%	27.1%	20.5%		33.4%	n a	20.9%	27.1%	22.1%
Gross yield	2.5%	2.8%	4.0%	4.1%		4.0%	6.1%	4.0%	4.0%	3.8%	4.8%	5.7%		4.6%	na	3.0%	4.4%	3.3%
Median value	$1,039,514	$769,968	$612,377	$522,180		$639,219	$486,248	$816,644	$615,005	$501,140	$461,073	$274,179		$431,469	na	$751,014	$493,925	$666,514
Houses																		
Month	1.9%	1.4%	2.1%	2.1%		2.2%	-0.8%	2.4%	2.0%	1.3%	1.4%	0.4%		2.8%	0.3%	1.6%	1.6%	1.6%
Quarter	7.1%	5.0%	6.7%	5.9%		6.8%	1.4%	8.2%	6.5%	4.7%	5.0%	2.1%		7.5%	0.6%	5.7%	5.3%	5.6%
YTD	23.3%	14.9%	16.8%	14.4%		19.0%	13.2%	20.6%	19.4%	15.9%	15.6%	9.8%		20.2%	8.6%	17.8%	16.6%	17.5%
Annual	26.0%	15.6%	20.2%	19.8%		23.9%	21.2%	25.7%	25.6%	20.0%	21.2%	14.5%		26.7%	13.5%	20.5%	22.0%	20.8%
Total return	29.2%	18.4%	25.3%	24.9%		29.7%	28.1%	30.2%	30.7%	25.0%	27.6%	20.8%		34.4%	21.5%	24.1%	27.4%	24.9%
Gross yield	2.2%	2.4%	3.8%	3.9%		4.0%	5.6%	3.6%	3.9%	3.7%	4.7%	5.6%		4.5%	7.0%	2.9%	4.3%	3.2%
Median value	$1,293,450	$954,496	$691,214	$568,110		$684,737	$572,102	$933,960	$638,278	$534,809	$466,575	$281,384		$449,965	$441,590	$826,583	$510,286	$707,263
Units																		
Month	1.4%	0.5%	1.4%	0.4%		2.6%	1.2%	1.3%	1.8%	1.4%	1.7%	4.1%		3.4%	na	1.1%	1.7%	1.2%
Quarter	4.7%	1.6%	2.9%	1.6%		8.9%	4.3%	3.6%	6.3%	5.3%	5.4%	7.1%		8.9%	na	3.4%	5.7%	3.8%
YTD	11.5%	6.6%	7.7%	3.3%		25.4%	14.9%	7.9%	16.5%	17.3%	14.6%	8.7%		16.8%	na	9.3%	15.3%	10.2%
Annual	9.4%	7.3%	8.9%	6.4%		27.1%	23.3%	10.9%	19.9%	22.3%	19.5%	10.1%		20.6%	na	8.9%	19.6%	10.5%
Total return	13.1%	11.0%	14.7%	12.1%		32.7%	30.0%	16.8%	25.3%	27.9%	25.8%	16.1%		26.7%	na	12.9%	25.5%	14.6%
Gross yield	3.0%	3.4%	5.0%	5.2%		4.3%	6.9%	5.3%	4.3%	4.5%	5.2%	6.2%		5.1%	na	3.5%	4.8%	3.7%
Median value	$825,514	$615,909	$425,777	$364,575		$523,856	$349,698	$525,971	$516,257	$363,679	$445,845	$217,629		$337,577	na	$625,160	$435,177	$583,584

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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.*

Media enquires contact: Michelle McKinnon - 1300 472 767 or media@corelogic.com.au