Hedonic Home Value Index

1 October 2021

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EMBARGOED UNTIL 10AM AEST

Australian housing values rising at the fastest annual pace since June 1989, but the monthly rate of growth continues to lose steam

CoreLogic's national home value index rose another 1.5% in September, taking Australian housing values 17.6% higher over the first nine months of the year and 20.3% higher over the past 12 months. The annual growth rate is now tracking at the fastest pace since the year ending June 1989.

The monthly change in housing values remains positive across every capital city and broad rest of state region, with Hobart (2.3%) and Canberra (2.0%) recording the largest growth, while Darwin (0.1%) and the recently revised Perth index (0.3%) recorded the softest growth conditions across the capitals.

Across regional Australia, regional NSW (2.0%), regional Tasmania (1.7%) and Regional Queensland (1.7%) led September's capital gains.

Although growth conditions remain positive, it is becoming increasingly clear the housing market moved past its peak rate of growth in March when nationally dwelling values increased by 2.8%. Since that time, the monthly rate of growth has eased back to 1.5%.

CoreLogic's research director, Tim Lawless, believes the slowing growth conditions are the result of higher barriers to entry for non-home owners along with fewer government incentives to enter the market.

"With housing values rising substantially faster than household incomes, raising a deposit has become more challenging for most cohorts of the market, especially first home buyers. Sydney is a prime example where the median house value is now just over $1.3 million. In order to raise a 20% deposit, the typical Sydney house buyer would need around $262,300. Existing home owners looking to upgrade, downsize or move home may be less impacted as they have had the benefit of equity that has accrued as housing values surged.

"The slowdown in first home buyers can be seen in the lending data, where the number of owner occupier first home buyer loans has fallen by -20.5% between January and July. Over the same period, the number of first home buyers taking out an investment housing loan has increased, albeit from a low base, by 45%, suggesting more first home buyers are choosing to 'rent vest' as a way of getting their foot in the door," Mr Lawless continued.

Despite worsening affordability, house values are still generally rising faster than unit values; a trend that has been evident throughout most of the COVID period to-date, especially across the capital cities. Hobart and Darwin are the only capital cities where this trend has not occurred, with unit values rising 5.4 percentage points and 4.8 percentage points more than house values respectively over the past 12 months.

Index results as at September 30, 2021

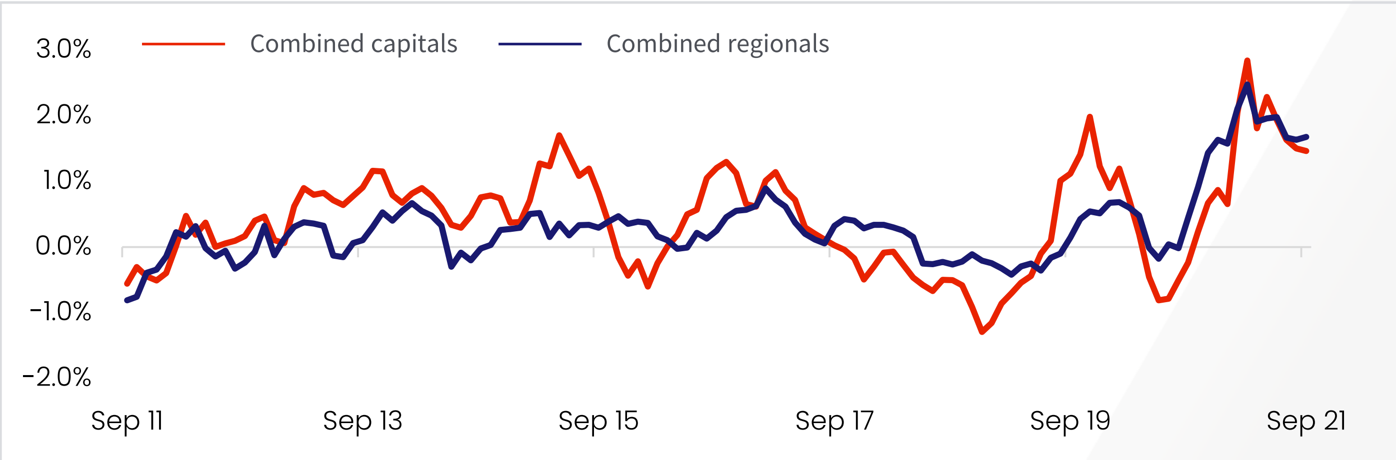
	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	1.9%	5.7%	23.6%	26.5%	$1,056,093
Melbourne	0.8%	3.3%	15.0%	17.9%	$775,142
Brisbane	1.8%	5.9%	19.9%	24.7%	$625,291
Adelaide	1.9%	5.5%	19.1%	24.0%	$529,376
Perth	0.3%	1.2%	18.1%	23.2%	$524,589
Hobart	2.3%	6.4%	26.8%	32.5%	$659,622
Darwin	0.1%	1.7%	20.2%	26.8%	$481,767
Canberra	2.0%	6.9%	24.4%	29.0%	$838,904
Combined capitals	1.5%	4.7%	19.5%	22.9%	$759,753
Combined regional	1.7%	5.1%	23.1%	28.6%	$503,609
National	1.5%	4.8%	20.3%	24.1%	$674,848

Note: CoreLogic has released a revised index series for Western Australia to stabilise some volatility in property attribute data. This has resulted in an uplift in the hedonic index for Perth and Regional WA.

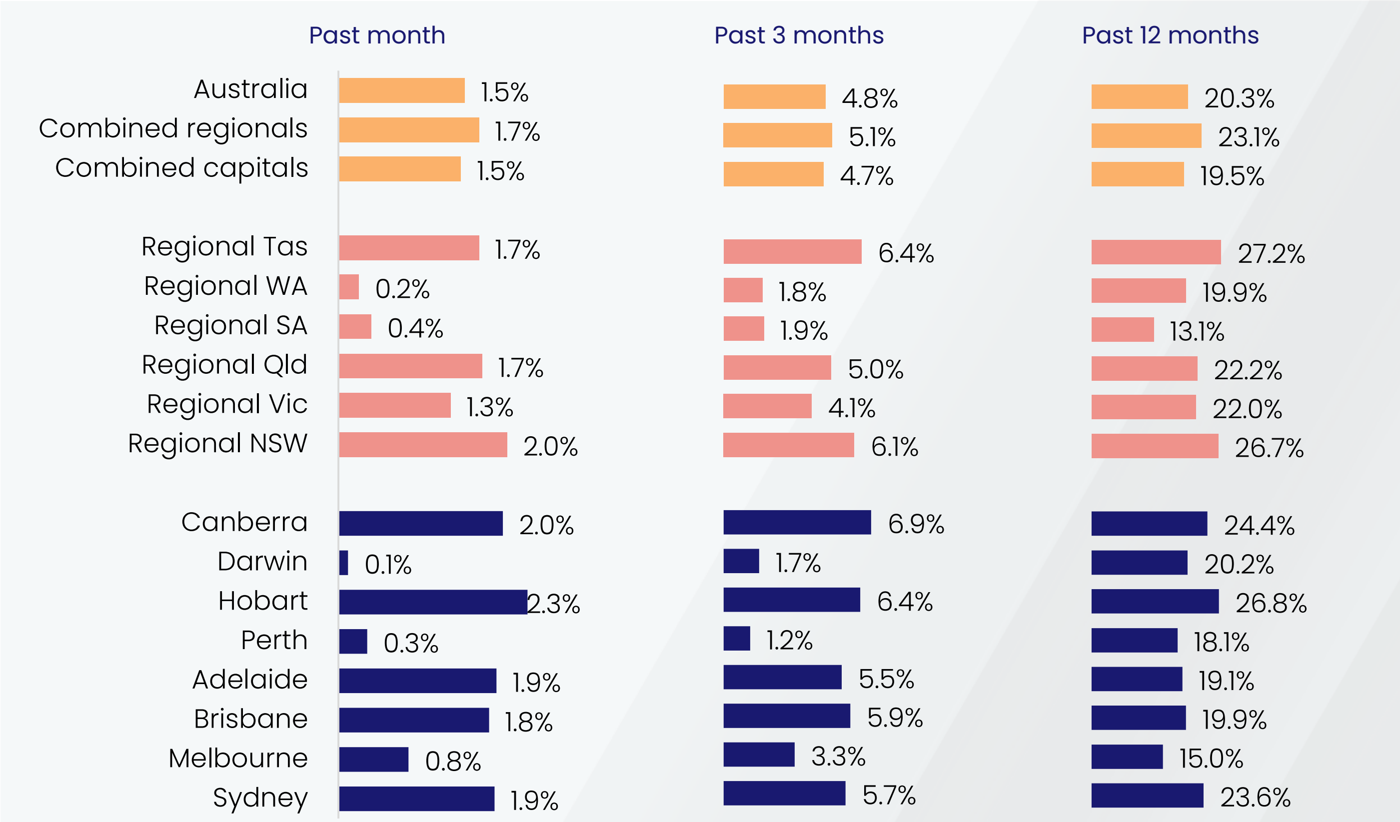
According to Mr Lawless, "The reasons for the outperformance of the Hobart and Darwin unit markets look to be quite different. In Hobart, demand is skewed towards a slightly older demographic that may be looking to downsize or for lower maintenance housing options against a backdrop of scarce unit supply. In Darwin, the unit sector has moved through a long running over-supply that has driven prices lower. While the median value of a Darwin unit is the lowest of any capital city, unit rents have surged 20.3% higher over the year, driving gross rental yields to 6.9%.

"The stronger performance of house values relative to unit values is less obvious outside of the capital cities. The differential between annual house and unit growth rates in the combined capital cities was 12.3 percentage points in the 12 months to September, compared to 1.9 percentage points across regional Australia. In fact, the September quarter saw unit values rising faster than house values across regional Australia. This is probably a reflection of stronger demand for downsizing options and holiday homes in popular coastal markets," said Mr Lawless.

Month-on-month change in dwelling values



Change in dwelling values



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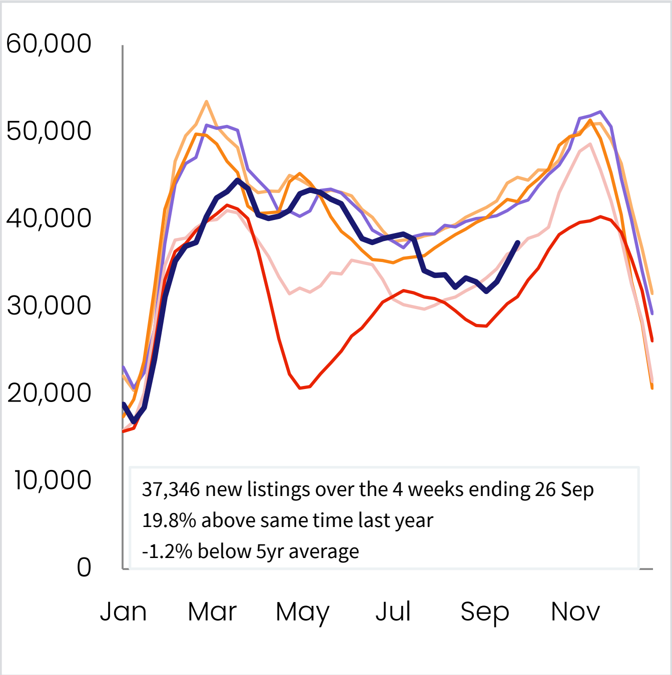
Persistently low advertised supply remains a key factor placing upwards pressure on housing values across the country. In a positive sign, the trend in new listings added to the market is rising, albeit from a low base. Nationally, based on a rolling four-week count, the number of new listings is up 15.7% since the recent low point in mid-August. While positive, this trend remains -1.2% below the five-year average for this time of the year.

Although new listings are ramping up, the trend in total active listings remains extremely low, continuing to reflect the rapid rate of absorption seen amidst high buyer demand. Nationally, total advertised supply levels are -28.1% below the five-year average and every capital city is recording a below average amount of advertised supply.

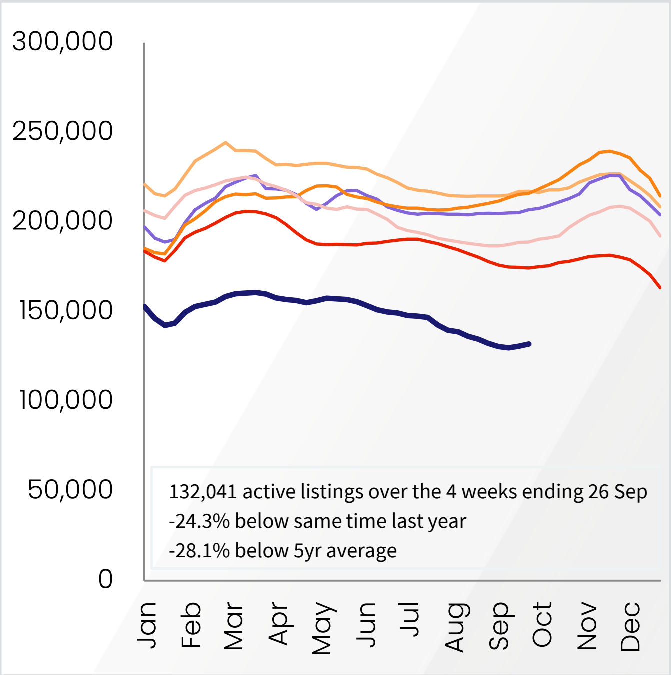
While inventory levels remain low, the number of home sales is well above average. CoreLogic estimates the number of dwelling sales across Australia was 25.5% higher than the five-year average and 41.9% higher year-on-year at the end of September.

According to Mr Lawless, such low levels of available supply along with high demand is keeping selling conditions skewed towards vendors. "Nationally, homes are selling in 35 days, up from 29 days in April, and vendor discounting levels remain around record lows at -2.8%. Another factor pointing to strong selling conditions is the bounce back in auction clearance rates as restrictions relating to one-on-one property inspections were eased mid-month across Melbourne and Canberra. By the end of September, the combined capitals clearance rate had returned to 80.5%, its highest since late March."

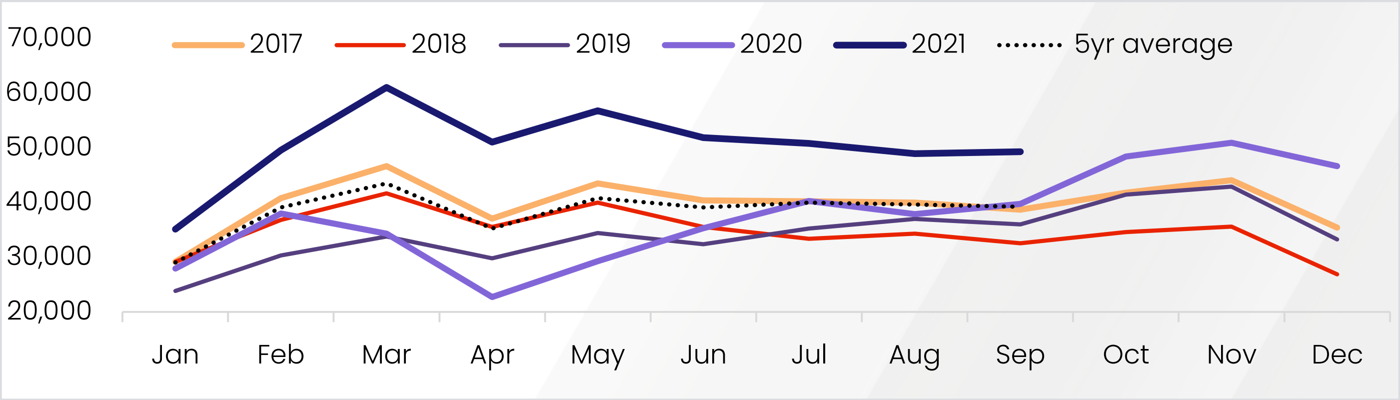
New listings, rolling 28 day count, national



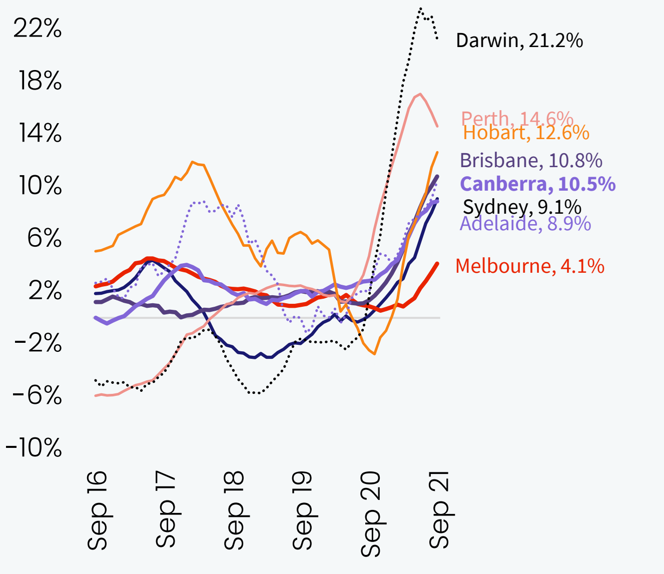
Total listings, rolling 28 day count, national



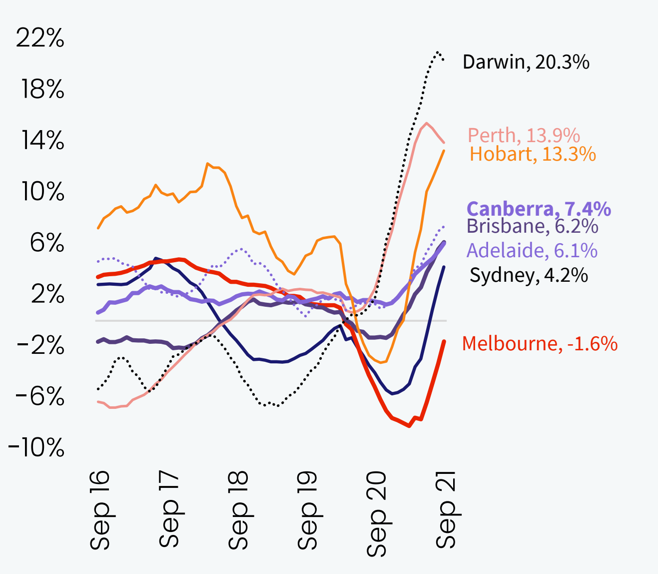
Monthly sales relative to previous years, National



Annual change in rents, Houses



Annual change in rents, Units



Similar to housing values, the rate of growth in national rents has continued to rise, although the pace of growth is also losing steam. On a quarterly basis, rental growth peaked in the March quarter at 3.2% and has consistently eased to 1.9% in the September quarter. However, the annual rate of growth is still rising, up 8.9% over the year to September.

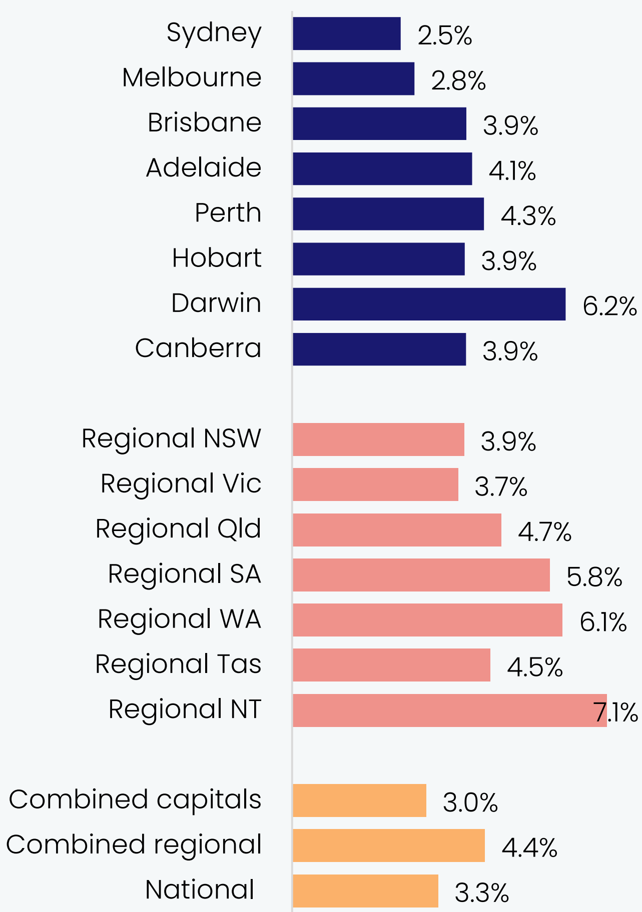
The easing rate of rental growth can mostly be attributed to a slowdown in house rents where the growth rate has softened from 3.5% in the March quarter to 1.9% in the September quarter. At the same time, growth in unit rents appear to have stabilised around 1.9% quarter-on-quarter, down from a recent peak of 2.5% in the three months to March.

“Throughout the September quarter, we are now seeing unit rents rising at the same speed as house rents across Sydney (2.3%) and unit rents are rising faster than houses in Melbourne (1.3% for units and 1.1% for houses). This is a significant change in rental market trends, where previously the unit precincts, especially inner-city high-rise areas of Melbourne and Sydney, were acting as a drag on rental growth,” Mr Lawless said.

With growth in housing values continuing to outpace growth in rents, rental yields have reached new record lows across most regions. Gross yields across the combined capitals have fallen to 3.0% in September, with gross yields in Sydney (2.5%) and Melbourne (2.8%) well below the other capitals. Yields across regional Australia are higher at 4.4%, with regional NSW and Victoria the only ‘rest-of-state’ regions with a gross yield below 4.0%.

Although yields are low, so too are investor mortgage rates. In July, the average three-year fixed rate for a new investor loan was 2.38% while variable rates were averaging 3.01%. Considering the low mortgage rates, opportunities for positive cash flow investment properties remain plentiful outside of Sydney and Melbourne.

Gross rental yields, dwellings



Overall, housing trends around Australia remain positive. Growth in housing values is being supported by an expectation that mortgage rates will remain at record lows for an extended period of time, while strong demand is occurring alongside persistently low advertised supply levels.

This dynamic is changing as the barriers to enter the housing market become higher. Raising a deposit and funding transactional costs has become a significant challenge for some sectors of the market, especially first home buyers who have not had the benefit of home ownership as a source of wealth.

Another emerging risk factor is the potential for tighter credit conditions. This week we saw the federal treasurer endorse tighter credit policies for home lending. This is consistent with commentary from the Reserve Bank and APRA that they will be focusing on the quality of lending standards and trends in household debt.

In the year to June, RBA data showed housing credit increased 5.6%, alongside national accounts data showing an income increase of just 1.6% for the same period.

APRA reported that home loan originations with a debt-to-income ratio of at least 6 comprised 22% of home lending in the June quarter.

It is looking increasingly likely that any new credit restrictions will focus on minimising further accrual in household debt (specifically the housing component of household debt) and/or lifting the minimum interest rate serviceability assessment.

A further trend to watch will be how consumption patterns are impacted by a post-lockdown environment. High savings rates have likely been one of the key factors adding to housing demand throughout the pandemic, with the household savings rate jumping to 22.0% through the June 2020 quarter amid harsh restrictions. With 70% vaccination rates triggering greater freedoms across parts of the country, households may return to more normalised, pre-pandemic consumption patterns and spending, which could further ease housing demand.

Additionally, the coming months are likely to see advertised stock levels move higher. The spring selling season has been delayed to some extent by lockdowns in Sydney, Melbourne and Canberra, however the recent trend has shifted towards a rising number of new listings. As demand becomes more constrained from worsening affordability and potentially tighter lending conditions, advertised stock levels may start to normalise over the final quarter of the year. This could take further heat out of the market as buyers benefit from more choice and less urgency.

Despite the potential headwinds to house price appreciation, monetary policy remains accommodative of high housing demand. In its latest board meeting minutes, the RBA reiterated the cash rate was unlikely to move higher until 2024. Market momentum remains strong, with monthly growth in housing values nearly four times the decade average of 0.4% while indicators suggest it is still very much a 'seller's' market.

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
	All Dwellings																		
	Month	1.9%	0.8%	1.8%	1.9%	0.3%	2.3%	0.1%	2.0%	2.0%	1.3%	1.7%	0.4%	0.2%	1.7%	na	1.5%	1.7%	1.5%
	Quarter	5.7%	3.3%	5.9%	5.5%	1.2%	6.4%	1.7%	6.9%	6.1%	4.1%	5.0%	1.9%	1.8%	6.4%	na	4.7%	5.1%	4.8%
	YTD	22.0%	13.4%	17.4%	14.9%	12.6%	22.9%	14.0%	20.2%	21.4%	17.6%	17.4%	10.2%	12.2%	21.9%	na	17.4%	18.3%	17.6%
Dwellings	**Annual**	23.6%	15.0%	19.9%	19.1%	18.1%	26.8%	20.2%	24.4%	26.7%	22.0%	22.2%	13.1%	19.9%	27.2%	na	19.5%	23.1%	20.3%
	Total return	26.5%	17.9%	24.7%	24.0%	23.2%	32.5%	26.8%	29.0%	31.6%	27.1%	28.6%	19.4%	27.2%	35.0%	n a	22.9%	28.6%	24.1%
	Gross yield	2.5%	2.8%	3.9%	4.1%	4.3%	3.9%	6.2%	3.9%	3.9%	3.7%	4.7%	5.8%	6.1%	4.5%	na	3.0%	4.4%	3.3%
	Median value	$1,056,093	$775,142	$625,291	$529,376	$524,589	$659,622	$481,767	$838,904	$630,900	$509,451	$468,287	$277,914	$370,184	$443,058	na	$759,753	$503,609	$674,848
	Houses																		
	Month	2.0%	1.1%	2.0%	2.1%	0.4%	2.1%	-0.3%	2.0%	2.0%	1.3%	1.6%	0.5%	0.1%	1.7%	-1.1%	1.6%	1.6%	1.6%
	Quarter	6.2%	4.3%	6.5%	6.2%	1.3%	6.1%	0.5%	7.5%	6.2%	4.1%	4.8%	1.7%	1.6%	6.3%	-1.3%	5.2%	5.0%	5.1%
	YTD	25.8%	16.2%	19.2%	16.8%	12.8%	21.5%	12.9%	23.0%	21.8%	17.4%	17.5%	10.4%	12.2%	22.2%	7.4%	19.8%	18.5%	19.5%
Houses	**Annual**	28.9%	18.0%	22.2%	21.4%	18.5%	25.8%	18.5%	28.0%	27.4%	21.7%	22.5%	13.8%	20.0%	27.8%	12.8%	22.7%	23.4%	22.9%
	Total return	32.2%	20.9%	27.3%	26.6%	23.5%	31.5%	24.9%	32.8%	32.4%	26.7%	29.0%	20.3%	27.1%	36.1%	20.9%	26.3%	28.8%	26.9%
	Gross yield	2.2%	2.4%	3.7%	3.9%	4.2%	3.8%	5.7%	3.5%	3.8%	3.6%	4.6%	5.8%	6.0%	4.4%	7.1%	2.8%	4.3%	3.2%
	Median value	$1,311,641	$962,250	$709,136	$575,949	$548,351	$704,321	$563,357	$956,119	$655,774	$541,552	$472,585	$285,329	$383,889	$462,005	$435,589	$840,545	$519,814	$719,209
	Units																		
	Month	1.5%	0.2%	0.6%	0.4%	0.0%	2.9%	0.8%	1.8%	1.8%	1.4%	2.1%	-1.6%	2.4%	1.7%	na	0.9%	1.9%	1.1%
	Quarter	4.6%	1.1%	2.8%	1.4%	0.7%	7.8%	3.8%	4.6%	5.8%	4.3%	5.7%	4.7%	6.1%	8.0%	na	3.2%	5.5%	3.5%
	YTD	13.1%	6.8%	8.3%	3.8%	10.6%	29.1%	15.8%	9.9%	18.7%	19.0%	17.0%	7.0%	13.1%	18.8%	na	10.4%	17.5%	11.4%
Units	**Annual**	11.6%	8.3%	8.8%	5.7%	15.0%	31.1%	23.3%	11.6%	22.2%	23.6%	21.4%	1.3%	19.1%	21.5%	na	10.4%	21.5%	12.0%
	Total return	15.3%	12.1%	14.5%	11.3%	21.1%	36.9%	29.6%	17.7%	27.7%	29.4%	27.5%	6.7%	29.6%	27.9%	na	14.4%	27.4%	16.2%
	Gross yield	3.0%	3.5%	5.0%	5.2%	5.3%	4.2%	6.9%	5.2%	4.2%	4.4%	5.1%	6.3%	7.7%	5.0%	na	3.5%	4.8%	3.7%
	Median value	$824,860	$619,443	$430,000	$367,079	$398,502	$542,464	$353,158	$538,071	$530,348	$375,536	$456,356	$216,378	$256,457	$346,167	na	$625,485	$446,491	$586,993

Note: CoreLogic has released a revised index series for Western Australia to stabilise some volatility in property attribute data. This has resulted in an uplift in the hedonic index for Perth and Regional WA.

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.*