CoreLogic

Hedonic Home Value Index

1 November 2021

NATIONAL MEDIA RELEASE
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CoreLogic: Housing values 1.5% higher in October as growth trends ease and downside risk builds

Australian housing values rose 1.5% in October, a similar result to August and September. However, taking the monthly change out another decimal point shows the market is continuing to slowly lose momentum since moving through a peak monthly rate of growth in March (2.8%). Nationally, the monthly growth rate eased to 1.49% in October from 1.51% in the previous month.

Although nationally the headline growth reading remains virtually unchanged over the month, across the broad regions of Australia market conditions are starting to show some diversity. Perth recorded its first negative monthly result since June last year, with values nudging -0.1% lower. At the other end of the spectrum, Brisbane has taken over as the fastest growing market with housing values up 2.5% in October. This was followed by Adelaide and Hobart, with both dwelling markets increasing 2.0% in value over the month. In Sydney and Melbourne, the monthly rate of growth has more than halved since the highs seen in March 2021, when they reached a monthly growth rate of 3.7% and 2.4% respectively.

Across the regional markets, New South Wales (2.1%) and Queensland (1.9%) led the pace of capital gains while Western Australia was the only broad rest-of-state region to record a marginal fall in housing values (-0.1%).

According to CoreLogic's research director, Tim Lawless, slowing growth conditions are a factor of worsening housing affordability, rising supply levels, and less stimulus. "Housing prices continue to outpace wages by a ratio of about 12:1. This is one of the reasons why first home buyers are becoming a progressively smaller component of housing demand. New listings have surged by 47% since the recent low in September and housing focused stimulus such as HomeBuilder and stamp duty concessions have now expired. Combining these factors with the subtle tightening of credit assessments set for November 1, and it's highly likely the housing market will continue to gradually lose momentum."

Although the monthly pace of growth is easing, the annual trend has continued to rise, which is a factor of the stronger growth conditions throughout early 2021. Nationally home values are up 21.6% over the year to October, with half the capitals recording an annual growth rate in excess of 20%. Across the broad regions of Australia, regional Tasmania has led the nation for the pace of annual capital gains with dwelling values rising by 29.1%.

Unit markets have generally continued to record a lower rate of growth relative to houses, with this trend most evident in the annual results. In the largest capitals, Sydney house values are up a stunning 30.4% compared to a 13.6% rise in unit values, while in Melbourne house values rose 19.5% over the year compared with a 9.2% gain in unit values. This trend is less evident across regional areas of Australia where the performance gap between houses and units is relatively small.

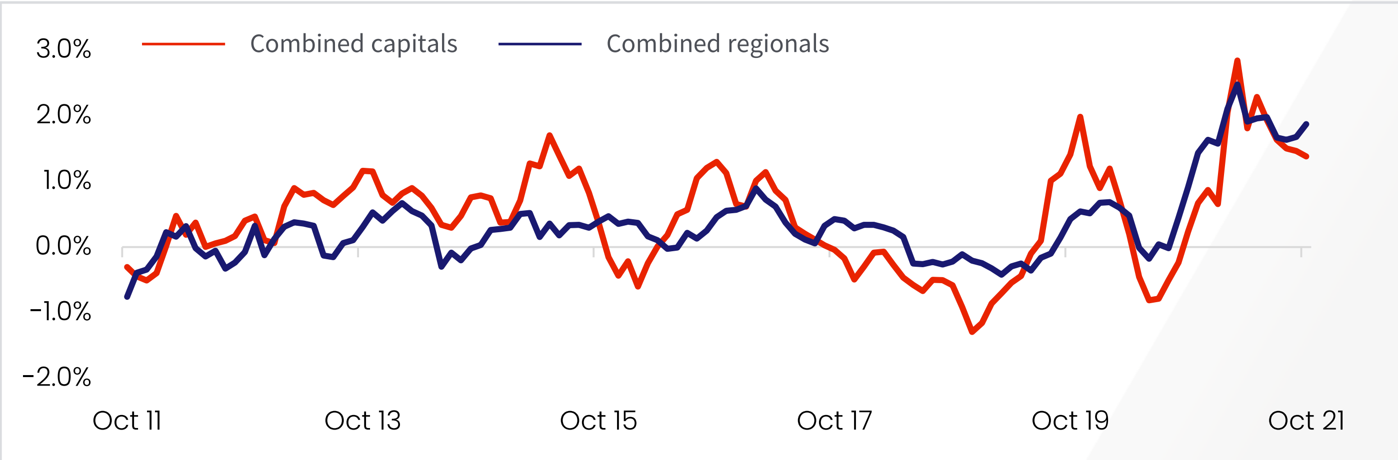
Index results as at October 31, 2021

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	1.50%	5.24%	25.23%	28.22%	$1,071,709
Melbourne	0.99%	3.01%	16.37%	19.22%	$780,303
Brisbane	2.54%	6.50%	22.30%	27.07%	$642,097
Adelaide	2.00%	5.86%	20.07%	25.08%	$543,265
Perth	-0.11%	0.65%	16.37%	21.42%	$526,625
Hobart	2.00%	6.66%	28.06%	33.75%	$678,170
Darwin	0.42%	0.41%	19.28%	26.15%	$490,236
Canberra	1.94%	6.18%	25.52%	30.12%	$864,909
Combined capitals	1.38%	4.41%	20.82%	24.24%	$771,264
Combined regional	1.87%	5.28%	24.29%	29.67%	$514,308
National	1.49%	4.60%	21.58%	25.35%	$686,339

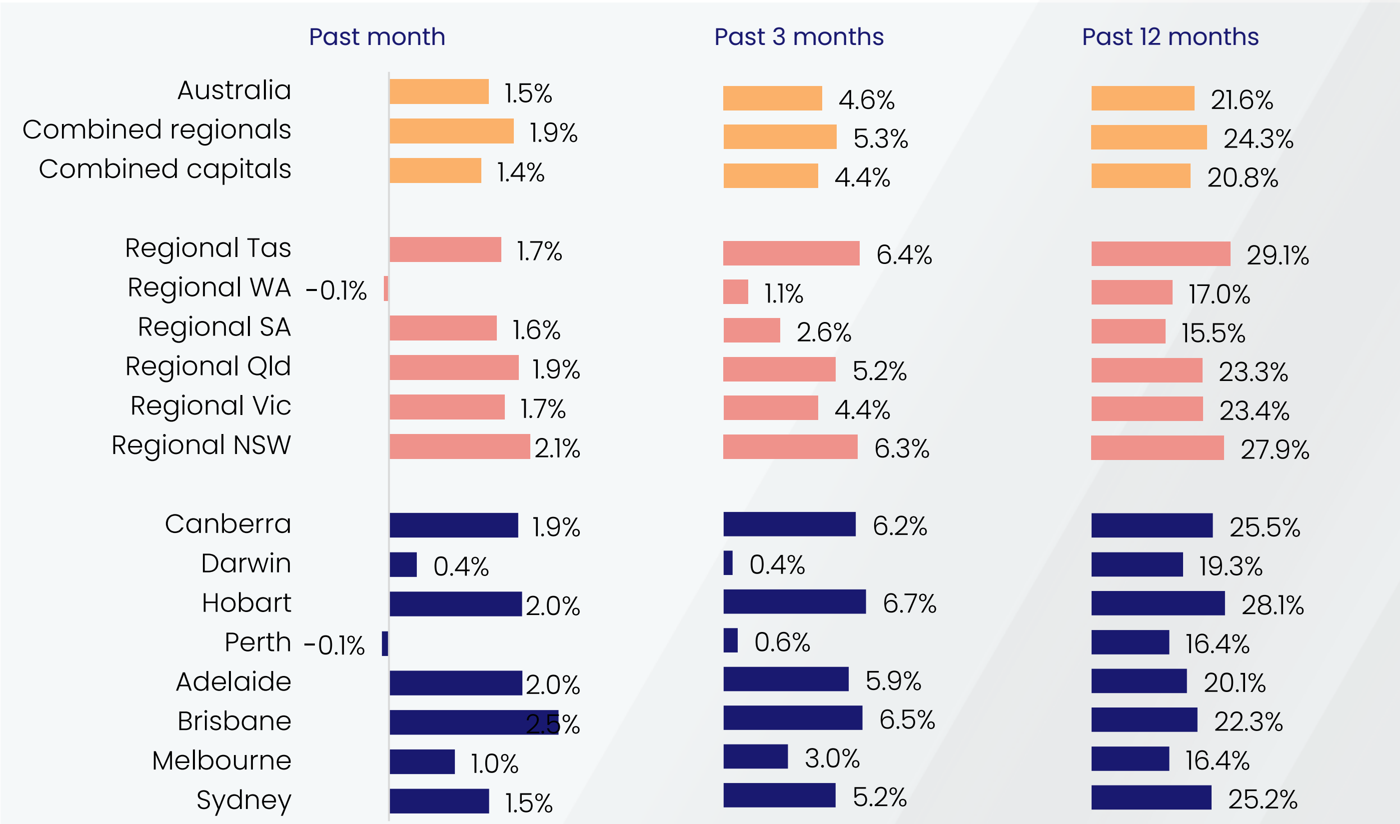
According to Mr Lawless, “As housing becomes less affordable, we expect to see more demand deflected towards the higher density sectors of the market, especially in Sydney where the gap between the median house and unit value is now close to $500,000. With investors becoming a larger component of new housing finance, we may see more demand flowing into medium to high density properties. Investor demand across the unit sector could be bolstered as overseas borders open, which is likely to have a positive impact on rental demand, especially across inner city unit precincts.”

Regional markets have once again recorded a stronger trajectory than the capitals, with housing values up 1.9% in October compared to a 1.4% rise in capital city values.

Month-on-month change in dwelling values



Change in dwelling values



Property listings are finally starting to lift, albeit from an extremely low base. Persistently low levels of housing inventory have been a central factor in the upwards pressure on housing prices. Vendors have enjoyed extremely strong selling conditions while buyers have had limited opportunities to deliberate on a purchasing decision or negotiate on price. Those conditions are gradually starting to change, with new listings trending sharply higher through spring and total advertised stock levels lifting from recent record lows.

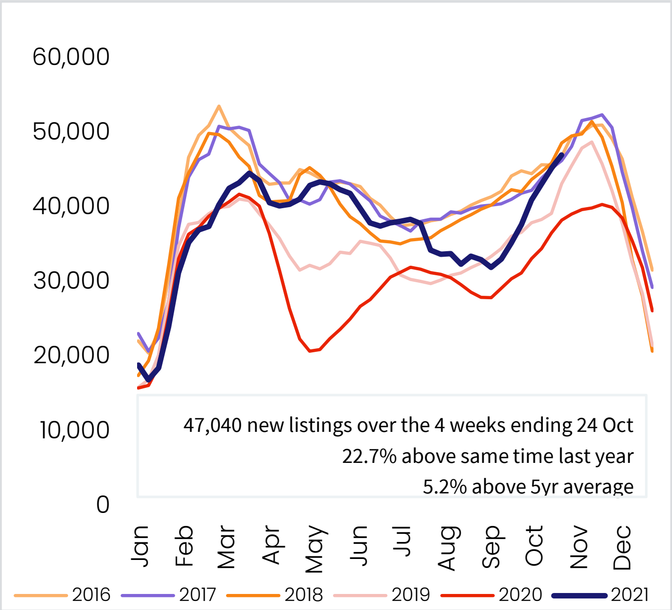
Nationally, CoreLogic counted 47,040 newly advertised properties entering the market over the four weeks ending October 24th, up 22.7% on last year and 5.2% above the five-year average. New listings are up 47.0% from their recent low over the four weeks ending September 5th.

The rise in new listings has outweighed buyer demand, pushing the total number of houses and units available for sale to 141,786; a 6.8% increase in active listings from the recent mid-September low.

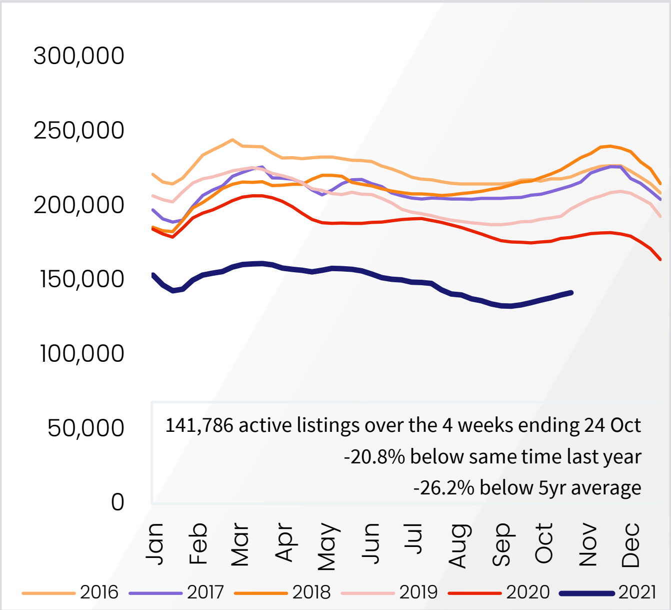
"More listings mean more choice for buyers and less urgency in their purchasing decisions. FOMO is likely to remain a feature of the market while listings remain so far below average. There is a good chance however, that advertised supply will rise further through spring and early summer which, due to worsening housing affordability and a subtle tightening in credit availability, may not be met by a commensurate lift in demand.

"Vendor metrics such as auction clearance rates, days on market and vendor discounting rates remain at above average levels, indicating this is still a sellers' market, however conditions may start to rebalance towards buyers late this year or early next year," Mr Lawless said.

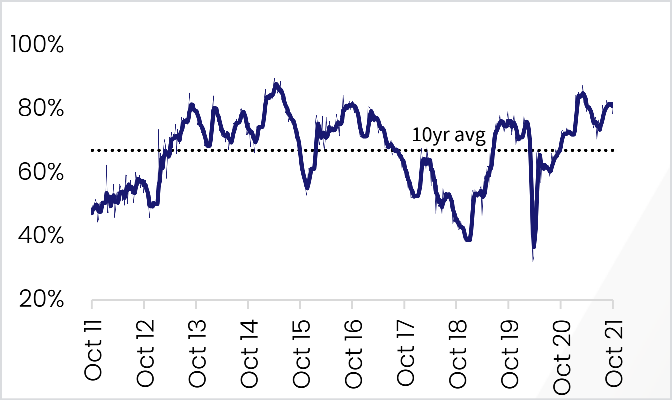
New listings, rolling 28 day count, national



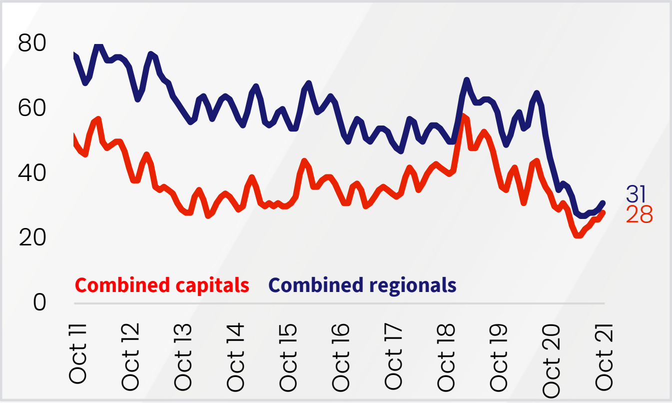
Total listings, rolling 28 day count, national



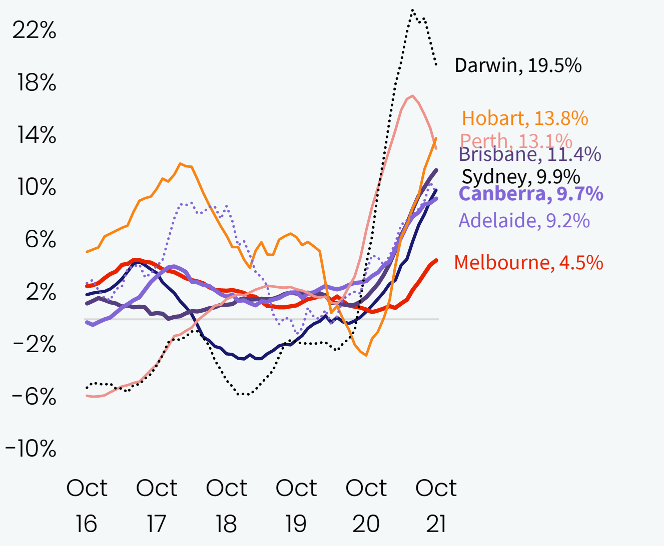
Combined capital city auction clearance rates



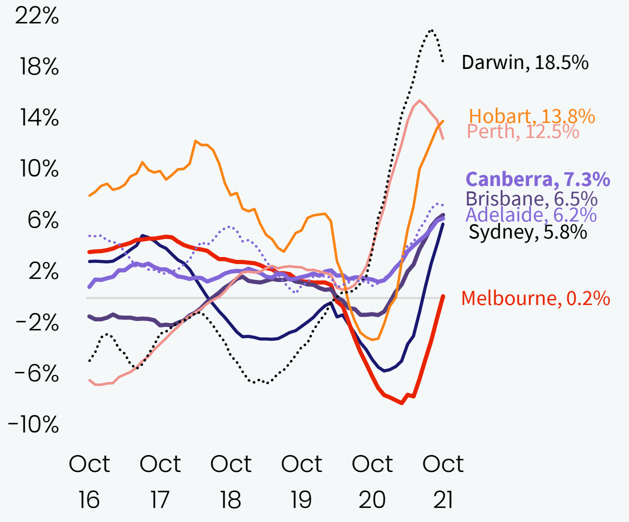
Median days on market



Annual change in rents, Houses



Annual change in rents, Units



National rents were up 0.7% in October, roughly equivalent to the September reading (0.6%), but lower than the trend rate of rental growth earlier this year. Some of the strongest rental markets, such as Perth and Darwin, are now seeing a clear easing in the annual trend of rents. In most other regions the trend in rents is generally holding firm or accelerating.

Over the past three months the largest rise in rents has come from Sydney, up 2.4%, followed by Brisbane, regional Queensland and regional New South Wales (all up 2.3%). At the lower end of the spectrum was Perth, where rental growth has slowed abruptly with rents only rising 0.6% over the three months ending October.

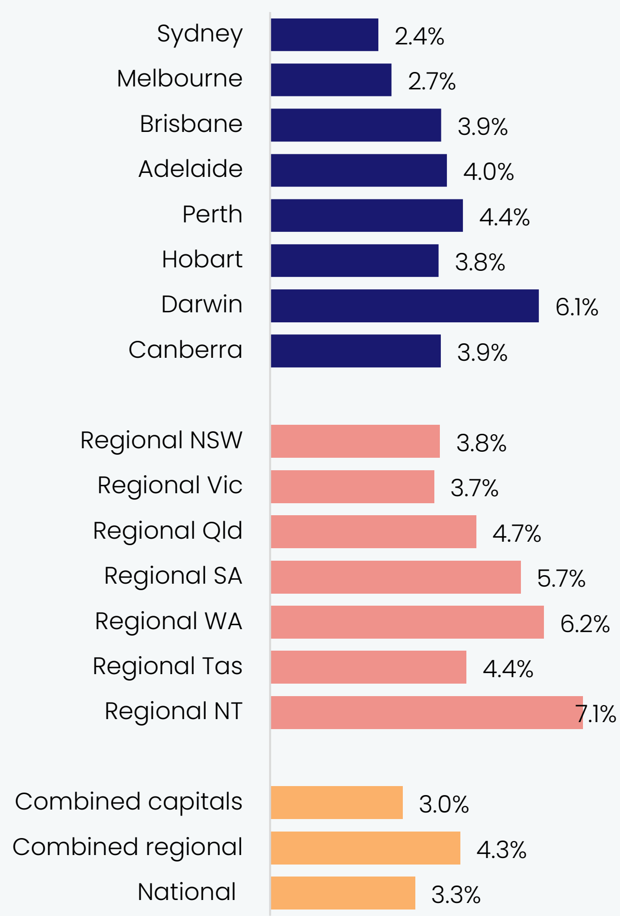
Across the combined capitals, unit rents have generally under-performed relative to houses, rising 1.9% and 1.6% respectively over the three months ending October. Across the regional markets, unit rents have shown a higher quarterly growth rate relative to houses (2.3% compared to 2.1%).

Gross rental yields have continued to diminish in October, falling to a record low nationally of 3.27%. Sydney (2.44%) and Melbourne (2.74%) are showing the lowest rental returns due to lower rental growth relative to a high rate of capital gain.

The unit sector has historically shown a higher gross yield profile, and that remains the case, with the gross yield on a unit holding 55 basis points above houses nationally.

Although the rate of growth in both housing values and rents are easing, we are likely to see housing prices continue to rise faster than rents over the coming months. If this is the case, rental yields are likely to trend even lower. While low yields are not too concerning for investors at a time when interest rates are so low, a rise in interest rates could see a larger portion of investors facing ownership costs that higher than their rental income.

Gross rental yields, dwellings



Overall, Australia's housing market is continuing to record an above average rate of growth, but there are clear signs that the market is continuing to cool.

Not only is the rate of growth still easing, but we are also seeing more listings come on the market at a time when housing demand is likely to be dented by tighter credit conditions and wosening affordability.

Looking forward, downside risks for the housing sector are rising. Along with worsening affordability and higher supply, there is the potential for a further tightening in credit policy and, off the back of strong inflation readings, the possibility of an early rate hike is looking increasingly likely.

This month APRA's 50 basis point lift in the serviceability buffer comes into effect. While we do not expect this will have a remarkable impact on mortgage demand or housing activity, there is the risk that, in response to housing credit rising at faster pace than income growth, additional credit restrictions could be introduced down the track.

RBA credit aggregates to the end of September show the pace of housing credit growth has eased a little over recent months, which may help to ease the risk of tighter credit conditions. However, a further rise in high debt-to-income ratio lending or a further lift in the housing component of household debt could be the trigger for further tightening.

We know from previous rounds of macroprudential policy implementations, and broader credit tightening regime seen during and after the Banking Royal Commission, that the impact of tighter credit conditions on housing markets can be significant.

The trajectory of interest rates will be a central factor in the housing market's performance over the medium to longer term. Financial markets are already pricing in several rate hikes through 2022 and a growing number of economic forecasters are predicting the first rate hikes to be in late 2022 or early 2023, when inflation is expected to move sustainably within the RBA's target range of 2-3%.

Higher interest rates have typically been an inflection point for housing markets, with a lift in rates generally corresponding with less growth in housing values or the commencement of a downturn. With household debt near record highs, borrowers are likely to be more sensitive than normal to the cost of debt. A rise in interest rates is likely to be the cue for the housing market moving into a downswing.

Although housing risks are becoming more evident, the short-term view is for further growth in values, albeit at a slower rate than what has been seen over the previous 12 months.

As the economy continues to benefit form easing COVID-19 restrictions, current low interest rate should continue to support demand, along with tight advertised supply levels and improving consumer sentiment.

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																		
Dwellings	**Month**	1.5%	1.0%	2.5%	2.0%	-0.1%	2.0%	0.4%	1.9%	2.1%	1.7%	1.9%	1.6%	-0.1%	1.7%	na	1.4%	1.9%	1.5%
	Quarter	5.2%	3.0%	6.5%	5.9%	0.6%	6.7%	0.4%	6.2%	6.3%	4.4%	5.2%	2.6%	1.1%	6.4%	na	4.4%	5.3%	4.6%
	YTD	23.8%	14.5%	20.3%	17.2%	12.4%	25.4%	14.4%	22.5%	24.0%	19.6%	19.7%	12.0%	12.1%	24.0%	na	19.0%	20.6%	19.3%
	Annual	25.2%	16.4%	22.3%	20.1%	16.4%	28.1%	19.3%	25.5%	27.9%	23.4%	23.3%	15.5%	17.0%	29.1%	na	20.8%	24.3%	21.6%
	Total return	28.2%	19.2%	27.1%	25.1%	21.4%	33.8%	26.2%	30.1%	32.7%	28.4%	29.7%	22.0%	24.0%	36.6%	n a	24.2%	29.7%	25.4%
	Gross yield	2.4%	2.7%	3.9%	4.0%	4.4%	3.8%	6.1%	3.9%	3.8%	3.7%	4.7%	5.7%	6.2%	4.4%	na	3.0%	4.3%	3.3%
	Median value	$1,071,709	$780,303	$642,097	$543,265	$526,625	$678,170	$490,236	$864,909	$644,880	$520,512	$480,441	$283,590	$367,563	$450,041	na	$771,264	$514,308	$686,339
	Houses																		
Houses	**Month**	1.6%	1.0%	2.8%	2.2%	-0.1%	2.0%	-0.2%	1.9%	2.2%	1.9%	1.9%	1.5%	0.0%	1.8%	0.0%	1.5%	1.9%	1.6%
	Quarter	5.7%	3.6%	7.1%	6.5%	0.7%	6.4%	-1.2%	6.4%	6.4%	4.5%	5.1%	2.4%	1.1%	6.4%	-0.7%	4.8%	5.3%	4.9%
	YTD	27.8%	17.4%	22.5%	19.3%	12.7%	23.9%	12.7%	25.4%	24.5%	19.6%	19.8%	12.0%	12.2%	24.4%	7.4%	21.5%	20.8%	21.3%
	Annual	30.4%	19.5%	24.8%	22.5%	16.7%	27.2%	17.1%	29.0%	28.6%	23.4%	23.5%	15.8%	17.3%	29.8%	11.4%	24.0%	24.6%	24.2%
	Total return	33.7%	22.4%	29.8%	27.9%	21.6%	32.9%	23.6%	33.9%	33.5%	28.4%	30.0%	22.5%	24.0%	37.9%	19.3%	27.6%	29.9%	28.1%
	Gross yield	2.2%	2.4%	3.6%	3.8%	4.2%	3.7%	5.6%	3.5%	3.8%	3.6%	4.5%	5.6%	6.1%	4.3%	7.1%	2.8%	4.2%	3.1%
	Median value	$1,333,767	$972,659	$731,392	$591,558	$550,044	$726,955	$567,056	$985,040	$671,673	$554,895	$485,182	$289,535	$382,563	$468,348	$433,409	$855,155	$531,850	$733,533
	Units																		
Units	**Month**	1.2%	1.0%	1.3%	1.0%	0.2%	2.0%	1.6%	1.9%	1.6%	0.7%	1.9%	3.8%	-1.1%	0.8%	na	1.1%	1.6%	1.2%
	Quarter	4.1%	1.7%	3.3%	1.8%	0.5%	7.7%	3.6%	5.2%	5.3%	3.6%	5.9%	6.4%	2.0%	6.0%	na	3.1%	5.4%	3.5%
	YTD	14.5%	7.8%	9.7%	4.8%	10.8%	31.7%	17.6%	12.0%	20.6%	19.8%	19.3%	11.1%	11.8%	19.7%	na	11.6%	19.4%	12.7%
	Annual	13.6%	9.2%	10.4%	5.7%	14.1%	31.6%	23.2%	13.0%	23.0%	23.4%	22.7%	9.4%	13.1%	22.6%	na	11.8%	22.5%	13.3%
	Total return	17.4%	12.9%	16.2%	11.4%	20.3%	37.5%	30.1%	18.8%	28.6%	28.7%	29.0%	14.6%	24.0%	28.7%	na	15.9%	28.4%	17.6%
	Gross yield	3.0%	3.5%	5.0%	5.1%	5.3%	4.0%	6.8%	5.1%	4.2%	4.3%	5.0%	6.0%	7.8%	5.1%	na	3.5%	4.7%	3.7%
	Median value	$837,262	$621,898	$437,086	$372,520	$402,525	$555,552	$356,024	$547,484	$535,720	$374,997	$467,562	$226,621	$250,975	$345,963	na	$631,776	$452,718	$593,430

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.*