CoreLogic: Australian dwelling values finish the financial year 13.5% higher, but a loss of momentum is clear

National home values rose 1.9% in June, taking annual growth to 13.5% for the financial year. The growth in Australian dwelling values was led by houses, which rose 15.6% over the year, compared to a 6.8% lift in unit values.

CoreLogic Head of Research for Australia, Eliza Owen noted "This is the highest annual rate of growth seen across the Australian residential property market since April 2004, when the early 2000's housing boom was winding down after a period of exceptional growth. However, there are some markets where performance is starting to ease more notably."

Each of the capital cities saw an uplift in dwelling values in June, ranging from a 3.0% rise in Hobart to a more subdued 0.2% lift in Perth. The performance gap has narrowed between regional Australia and the capital cities, though regional Australia did outperform slightly in monthly growth terms, rising 2.0% through June compared to 1.9% across the combined capital cities.

Darwin maintained the highest *annual* rate of growth across the capital cities, increasing 21.0% in value over the financial year, followed by Hobart (19.6%). Across regional Australia, regional NSW had the highest annual growth in dwelling values (21.1%), followed by regional Tasmania (20.8%).

Ms Owen reaffirmed the strong demand-side factors underlying growth. "Before the recent uncertainty of growing COVID-19 case numbers, there were plenty of demand-side factors driving housing market growth through the first half of 2021.

"In May, the unemployment rate fell to 5.1%, and the underutilisation rate fell to 12.5%, the lowest level since February 2013. Consumer confidence remained elevated through June, although down from the recent April highs. Elevated savings accumulated through COVID-restrictions last year, along with a more confident consumer sector, has encouraged consumption of larger goods, such as housing. This has all occurred against a back-drop of continued low mortgage rates, which is one of the most significant demand drivers."

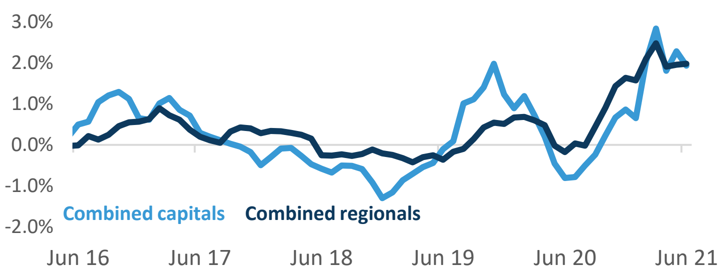
In addition to these strong demand conditions, Ms Owen noted total advertised stock remains relatively low. "The latest listings count from CoreLogic indicates that in the 28 days to June 27th, total advertised stock remained 24.4% below the five-year average. This dynamic of strong consumer demand, and low housing supply, continues to create some urgency among buyers."

Despite another month of strong gains, there are signs that some heat is coming out of the market.

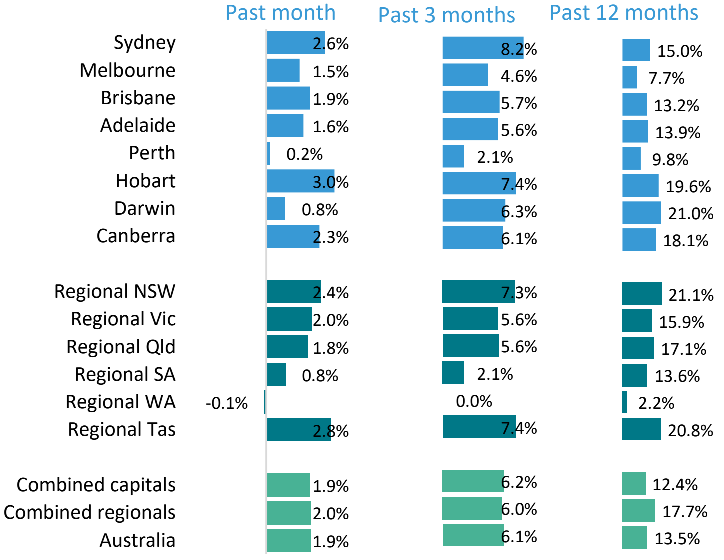
Index results as at June 30, 2021

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	2.6%	8.2%	15.0%	17.8%	$994,298
Melbourne	1.5%	4.6%	7.7%	10.7%	$753,100
Brisbane	1.9%	5.7%	13.2%	17.9%	$586,142
Adelaide	1.6%	5.6%	13.9%	18.5%	$508,712
Perth	0.2%	2.1%	9.8%	14.7%	$526,166
Hobart	3.0%	7.4%	19.6%	25.3%	$607,960
Darwin	0.8%	6.3%	21.0%	27.6%	$475,083
Canberra	2.3%	6.1%	18.1%	22.5%	$770,873
Combined capitals	1.9%	6.2%	12.4%	15.9%	$727,427
Combined regional	2.0%	6.0%	17.7%	23.1%	$478,212
National	1.9%	6.1%	13.5%	17.3%	$645,454

Month-on-month change in dwelling values



Change in dwelling values



The monthly change in Australian home values of 1.9% sits well above the decade average (which is 0.4%). However, this month's growth rate is down 30 basis points from May 2021, and 90 basis points from a recent peak in March 2021. The only capital city to see a further increase in the monthly growth rate was Canberra, where dwelling values were 2.3% higher over June, compared with a 1.7% gain in May.

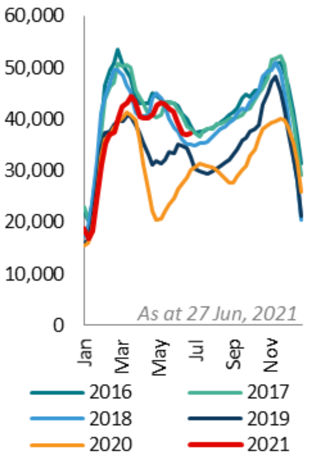
Across the capital cities, a loss of momentum was most evident across Perth and Darwin. For Perth dwellings, the monthly growth rate in values had averaged 1.4% between January and May 2021, but fell to 0.2% through June. Across Darwin, the monthly growth rate in dwelling values averaged 2.1% between January and May, but was just 0.8% through June.

"The key to understanding the softer performance in these resource-based markets may be a slightly different supply-demand dynamic compared to the other capital cities and regions," says Ms Owen.

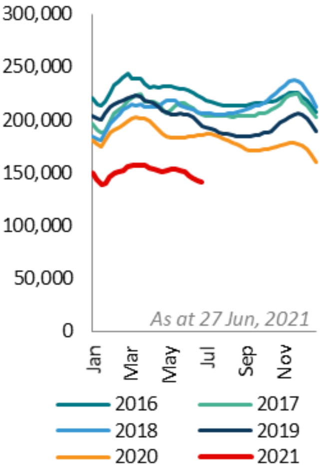
"CoreLogic monitors a 'sales to new listings' ratio, which divides the monthly volume of settled sales by new listings brought to market. For the past three months, the sales to new listings ratio has averaged 1.1 across Darwin and Perth. While the implication is that there is 1.1 sales for each new listing, which could be enough to elicit further growth in dwelling values, these are the lowest sales to new listings results of the capital city markets."

Softer growth rates are also emerging at the 'high end' of the market. Across the top 25% of dwelling values in the combined capital cities market, growth in dwelling values in the June quarter was 8.0%, down from 9.2% in the three months to May. While this 8.0% uplift was still the highest seen among the value tiers analysed, the growth rate also had the largest month-on-month deceleration. According to Ms Owen "This easing in the pace of growth at the top end of the market is another clear sign of a shift in momentum. The rest of the market tends to follow movements at the high end, and this is the first time in nine months that the high-tier growth rate has not accelerated."

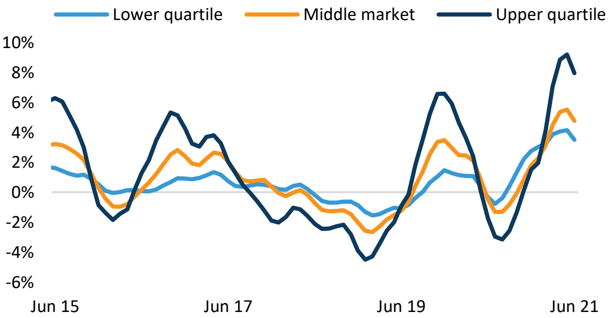
New listings, rolling 28 day count, national



Total listings, rolling 28 day count, national



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



Sales volumes have remained elevated through to the end of the financial year. CoreLogic estimates that in the year to June 2021, there were approximately 582,900 transactions nationally. This is the highest annual sales volume observed since February 2004. Across the greater capital city and rest of state markets, modelled sales volumes were highest across Sydney (110,064), Melbourne (89,234) and regional Queensland (80,549).

Every greater capital city and rest of state region saw double digit growth in annual sales volumes, with the exception of Hobart (where sales volumes fell -0.6% over the year), and regional Tasmania (where annual growth in sales volumes was 8.6%).

New listings have risen alongside prices, but total stock on the market remains low. CoreLogic estimates that there were approximately 126,320 fresh listings advertised for sale in the three months to June, 7.9% above the previous five-year average for the June quarter. However, in the same period, there were 167,450 sales nationally. This shows there was more than one sale for every new listing added to market.

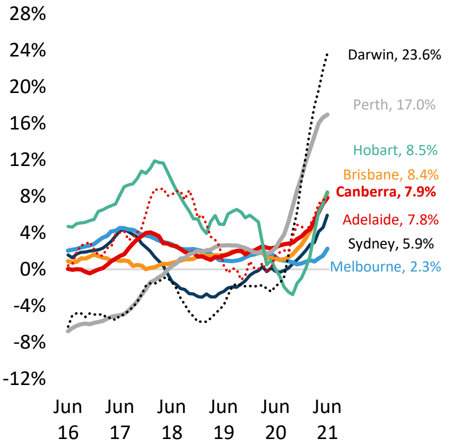
The dynamic of sales out-stripping new listings has been a persistent trend through 2021. The result is total advertised stock levels remaining approximately -25% below the five-year average.

As noted last month, the current state of housing supply and demand has seen relatively high auction clearance rates, and favourable selling conditions. At the national level, typical days on market increased slightly to 29 (up from a recent low of 25 days) in the three months to June, and vendor discounting rates remained very tight at -2.7%.

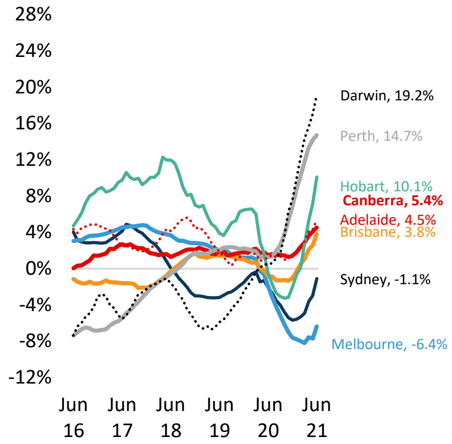
Ms Owen says "It is difficult to say whether this dynamic will be maintained in the coming weeks amid lockdown conditions in parts of Australia. Sales volumes are likely to decline, but new listings added to market also tend to decline during lockdowns, as properties are harder to sell. The current dynamic in supply and demand is more likely to be shifted by significant changes to demand, whether from a change in lending conditions, or weaker economic outcomes amid the current rise of COVID-19 case numbers."

Rent values continue to see strong growth, though gross rental yields are compressing. In the year to June, Australian rent values increased 6.6%; the strongest annual appreciation in rents since February 2009. The highest annual growth in rent values was across Darwin, where rents have increased 21.8% across the dwelling market. This was followed by Perth (16.7%).

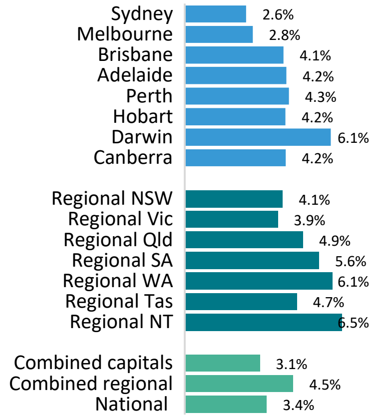
Annual change in rents, Houses



Annual change in rents, Units



Gross rental yields, dwellings



"As with national home values, much of the increase in rental rates may be associated with government stimulus, increased household savings and a strong economic recovery from COVID restrictions. Rent value increases may also be a function of more subdued investor activity between late 2017 and mid-2020, and the resulting lower rental supply, as well as more demand deflecting towards rental markets in areas where home ownership has become less attainable due to affordability challenges.

"Even the worst affected rental markets showed a more defined recovery trend through June. Across Sydney, unit rents were -1.1% lower over the year to June. This is up from a recent trough in the annual growth rate of -5.7% in the year to December 2020. In Melbourne, the annual change in unit rent values was -6.4%, recovering slightly from year-on-year declines of -8.2% in the 12 months to March 2021," says Ms Owen.

Due to property value increases outpacing rents, gross rental yields have compressed further through June. Across the combined capital cities, gross rental yields hit a record low 3.1%, and combined regional Australia has also seen a fresh record low of 4.5%. ABS housing finance figures to April have shown a strong lift in investor financing since the start of the year, albeit off low levels. The return of investors to the Australian dwelling market may help to gradually ease rental conditions.

Overall, the housing market has shown a remarkable turnaround from initial expectations around COVID-19. However, the housing market has clearly lost some growth momentum. Persistently high housing value growth rates are proving unsustainable, from both an affordability perspective, and renewed headwinds amid a lockdown in Sydney and other parts of the country.

COVID-19 restrictions will impact transaction activity. Observation of CoreLogic analytics through the pandemic has revealed trends around housing market performance which can inform expectations for the coming weeks.

Firstly, there has been resilience in property values. Nationally, values saw a peak-to-trough decline of just -2.1% through 2020, before a recovery trend in October 2020. This was due to low interest rates, fewer listings, and institutional responses. For example, mortgage repayment deferrals were likely a key factor in reducing new listings added to the market, which may have otherwise been fuelled by an inability to make mortgage payments.

Secondly, transaction activity was more volatile. From March to April of 2020, the volume of sales nationally fell -33.9%. New listings added to the market fell -44.7%. However, sales across Australia rose sharply from May 2020, as social distancing restrictions began to ease nationally, and soared through the final quarter of 2020, as restrictions across Melbourne also started to lift. The housing sector seems to have demonstrated 'catch-up' consumption as social distancing restrictions have eased.

Through circuit-breaker lockdowns, CoreLogic has observed short, sharp falls in sales and listings, followed by a swift recovery in transaction activity. There has been little impact observed on prices.

Ms Owen concludes "The question is not what impact short lockdowns have on the housing market; there seems to be relatively little impact. Instead, outcomes for the housing market and industry will depend upon how *long* lockdown conditions last across parts of the country, and whether some of the institutional responses offered through 2020 are reinstated if an extended lockdown occurs."

Affordability constraints and the potential for tighter lending conditions and rising mortgage rates remain the primary headwinds for property market performance. Even without recent developments of COVID-19 in Australia, it is clear that the housing market is losing momentum as affordability constraints build. More expensive credit, or credit that is harder to obtain, could further shift market dynamics. Already through June, several of the major banks have forecast cash rate increases earlier than has previously been indicated by the RBA. A sooner-than-expected uplift in the cash rate would bring forward mortgage rate rises, and reduce demand for credit. Furthermore, off the back of APRA writing to major lenders to ensure proactive risk management in home lending, there have been early signs of more conservative home loan assessments. Any reduction in credit availability is likely to contribute to a downside shift in market conditions.

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	2.6%	1.5%	1.9%	1.6%	0.2%	3.0%	0.8%	2.3%	2.4%	2.0%	1.8%	0.8%	-0.1%	2.8%	na	1.9%	2.0%	1.9%
	Quarter	8.2%	4.6%	5.7%	5.6%	2.1%	7.4%	6.3%	6.1%	7.3%	5.6%	5.6%	2.1%	0.0%	7.4%	na	6.2%	6.0%	6.1%
	YTD	15.4%	9.7%	10.8%	8.9%	7.2%	15.5%	12.1%	12.4%	14.4%	12.9%	11.8%	8.2%	4.8%	14.5%	na	12.1%	12.6%	12.2%
	Annual	15.0%	7.7%	13.2%	13.9%	9.8%	19.6%	21.0%	18.1%	21.1%	15.9%	17.1%	13.6%	2.2%	20.8%	na	12.4%	17.7%	13.5%
	Total return	17.8%	10.7%	17.9%	18.5%	14.7%	25.3%	27.6%	22.5%	26.1%	21.0%	23.2%	19.7%	8.5%	27.4%	na	15.9%	23.1%	17.3%
	Gross yield	2.6%	2.8%	4.1%	4.2%	4.3%	4.2%	6.1%	4.2%	4.1%	3.9%	4.9%	5.6%	6.1%	4.7%	na	3.1%	4.5%	3.4%
	Median value	$994,298	$753,100	$586,142	$508,712	$526,166	$607,960	$475,083	$770,873	$586,982	$483,870	$450,017	$273,150	$367,413	$411,711	na	$727,427	$478,212	$645,454
Houses	Houses																		
	Month	3.0%	1.8%	2.2%	1.8%	0.1%	2.8%	0.6%	2.7%	2.4%	1.9%	1.8%	0.9%	-0.1%	2.9%	0.9%	2.2%	2.0%	2.1%
	Quarter	9.5%	5.5%	6.3%	6.2%	2.1%	6.7%	4.9%	7.0%	7.4%	5.5%	5.6%	2.2%	0.3%	7.6%	6.1%	6.9%	6.0%	6.7%
	YTD	18.5%	11.4%	11.9%	10.0%	7.3%	14.5%	12.3%	14.4%	14.8%	12.8%	12.1%	8.5%	4.9%	15.0%	8.8%	13.9%	12.9%	13.6%
	Annual	19.3%	8.9%	14.8%	15.2%	10.0%	19.2%	21.4%	20.7%	21.9%	15.6%	17.8%	13.7%	2.3%	21.9%	14.0%	14.8%	18.2%	15.6%
	Total return	22.4%	11.7%	19.6%	19.9%	14.9%	25.0%	27.8%	25.1%	27.0%	20.6%	24.0%	19.9%	8.5%	29.1%	22.2%	18.4%	23.6%	19.6%
	Gross yield	2.3%	2.5%	3.9%	4.0%	4.2%	4.1%	5.6%	3.8%	4.0%	3.8%	4.8%	5.5%	6.1%	4.6%	6.4%	2.9%	4.4%	3.3%
	Median value	$1,224,613	$929,769	$657,551	$551,538	$550,099	$652,092	$567,842	$877,311	$609,640	$514,668	$458,839	$280,752	$380,968	$429,155	$459,586	$797,287	$494,405	$682,728
Units	Units																		
	Month	1.6%	0.7%	0.7%	0.7%	0.6%	4.0%	1.3%	0.9%	2.3%	2.4%	1.8%	0.7%	-0.1%	2.6%	na	1.2%	2.0%	1.3%
	Quarter	4.8%	2.5%	2.9%	1.4%	2.4%	10.3%	9.2%	2.7%	6.8%	6.1%	5.6%	-0.4%	-5.3%	5.0%	na	3.8%	5.8%	4.1%
	YTD	8.2%	5.6%	5.3%	2.3%	6.3%	19.8%	11.5%	5.1%	12.2%	14.0%	10.7%	2.2%	3.3%	10.0%	na	7.0%	11.3%	7.6%
	Annual	5.1%	4.7%	5.7%	5.6%	8.0%	21.3%	19.8%	8.7%	16.1%	18.1%	14.5%	11.0%	1.2%	11.0%	na	5.5%	15.0%	6.8%
	Total return	8.7%	8.5%	11.2%	11.3%	13.8%	26.7%	26.9%	14.6%	21.3%	23.7%	20.8%	17.7%	8.6%	17.2%	na	9.4%	20.9%	10.9%
	Gross yield	3.2%	3.5%	5.1%	5.2%	5.3%	4.5%	6.9%	5.5%	4.4%	4.5%	5.4%	6.3%	7.7%	5.2%	na	3.6%	5.0%	3.8%
	Median value	$794,193	$610,043	$415,536	$359,359	$395,979	$492,748	$337,048	$501,754	$495,329	$358,086	$425,528	$209,329	$237,007	$312,691	na	$611,117	$417,835	$568,853

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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