13 March 2023

Three years on from the pandemic: is the housing market going 'back to normal'?

By Head of Research Eliza Owen

The World Health Organisation declared a global pandemic on 11 March, roughly corresponding with Australia's 100th diagnosed case of COVID-19. While this crisis in health had little direct implications for the housing market, there were plenty of responses to the pandemic that did.

Unprecedented expansionary fiscal and monetary policy (and subsequent tightening), heavy border closures (and reopening) and the normalisation of remote work amid lockdowns were pandemic bi-products that influenced housing markets. Housing market performance in the past three years shows extraordinary, record-breaking figures. While some metrics are pointing in the direction of pre-pandemic norms, other parts of the housing market have seen lasting changes. Below, CoreLogic has unpacked how the housing market has evolved since March 2020.

1. National housing values are 14.8% higher than where they were in March 2020

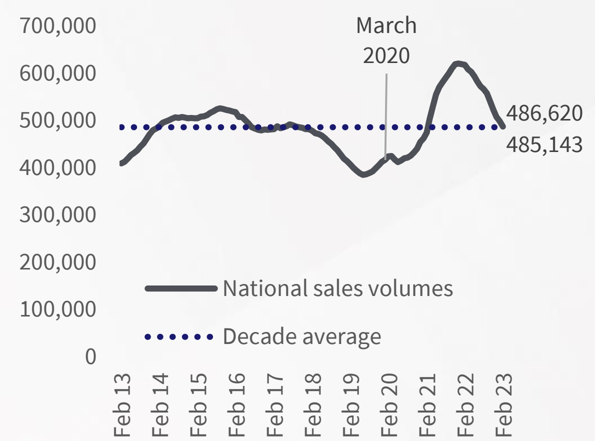
Australian home values initially declined at the onset of the pandemic. The initial uncertainty around the pandemic, lockdowns, and a sharp decline in economic activity put downward pressure on residential sales and listings volumes, and home values fell -1.9% between April and September of 2020.

This brief drop in housing values was followed by the sharpest upswing in home values on record. National dwelling values rose 28.6% from September 2020 to April 2022. An enormous, three-pronged monetary policy expansion, and stimulus payments of around $120 billion, helped to turn around a sharp decline in economic activity, and shift sentiment in favour of the housing market. Sales volumes surged, peaking at 619,915 in the 2021 calendar year.

From May 2022, interest rates started on the fastest consecutive uplift on record, and national home values recorded a -9.1% fall through to the end of February (the largest downswing on record). Annual sales volumes are down -21.5% from a peak in December. Despite the recent volatility, home values remain 14.8% higher overall.

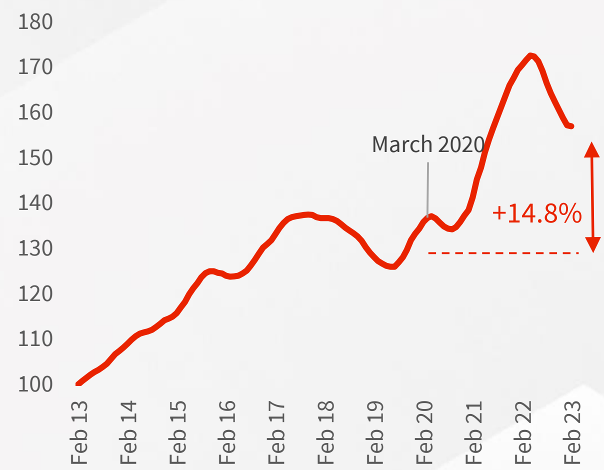
Figure 1. extreme economic conditions have created larger-than-usual fluctuations in home values and sales volumes

Rolling annual sales volumes



Source: CoreLogic. Note sales in recent months are based on modelled volumes, and are subject to revision over time.

National home value index



Source: CoreLogic

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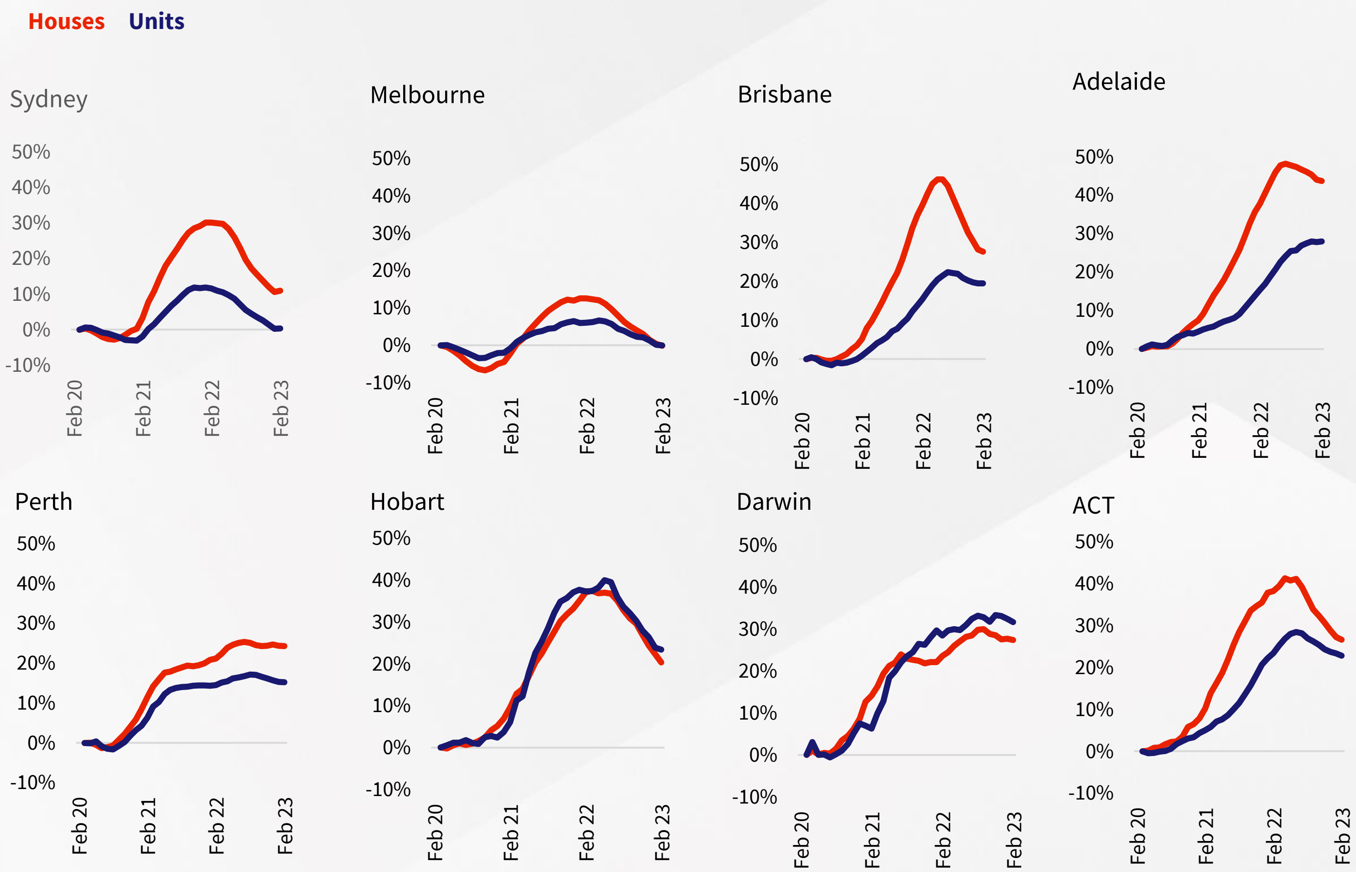
In recent weeks, there has been yet *another* surprising turn in housing market performance: the market has shown signs of stabilising. The monthly rate of decline in home values nationally shrank to just -0.1% in February, the smallest monthly drop since the national index started to trend lower in May last year. Clearance rates are trending higher than at the end of last year, and prices across some of the more expensive Australian housing markets have shown signs of an increase. It may be too early to call the ‘bottom’ of the downswing due to further rate increases, and a looser labour market, expected in the coming months. However, as the rate hiking cycle slows to a pause later this year, it is possible the housing market will revert to slower, steadier growth patterns.

2. Australia’s housing market remains a very ‘mixed bag’

While CoreLogic’s national Home Value Index (HVI) is still well above pre-COVID levels, results vary by region. In the three years to the end of February, the Regional SA HVI increased 47.6%, while values across Melbourne have virtually returned to pre-pandemic levels (which also sees Melbourne home values close to where they were at the peak of the previous cycle, in November 2017).

Figure 2 shows the cumulative change in housing values over a three-year period across houses and units in the capital city dwelling markets. In the past three years, Adelaide houses have come out on top across the capital cities, sitting 43.7% higher than at the end of March 2020. This is the equivalent of a $211,097 increase on the median house value across the city, which is currently sitting at $694,653. Such dollar value gains are much stronger than the equivalent median house value gain in Sydney (which has risen the equivalent of $119,830), and Melbourne house values have actually seen a *decline* since March 2020, down the equivalent of -$1,009 at the median house value level.

Figure 2. Cumulative change in house and unit Home Value Indices, March 2020 - February 2023



Source: CoreLogic

Perth has also proven extremely resilient to the current downturn, with values down just -0.9% from a peak in July 2022. Since March 2020, house values across the city have risen 24.2%, while unit values increased 15.2%. However, due to especially large fluctuations in resource-based markets, Perth home values are still only 6.5% higher than where they were 15 years ago. Weak economic and demographic conditions after the resources boom has hampered capital growth in this market over time, but the relative affordability of Perth home values has now become an advantage of this market.

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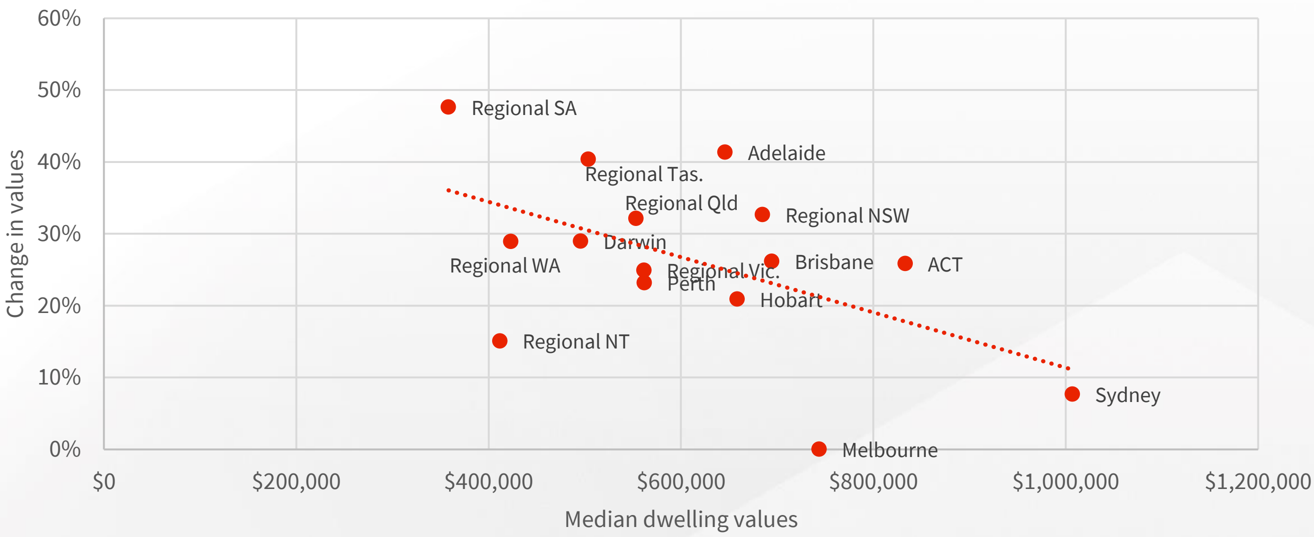
Why have the results been so mixed? Broadly speaking, high cumulative gains three years on from the pandemic are more common across relatively affordable markets (figure 3). This may be because expensive markets often require more debt to buy into, and therefore may be more sensitive to rate hikes.

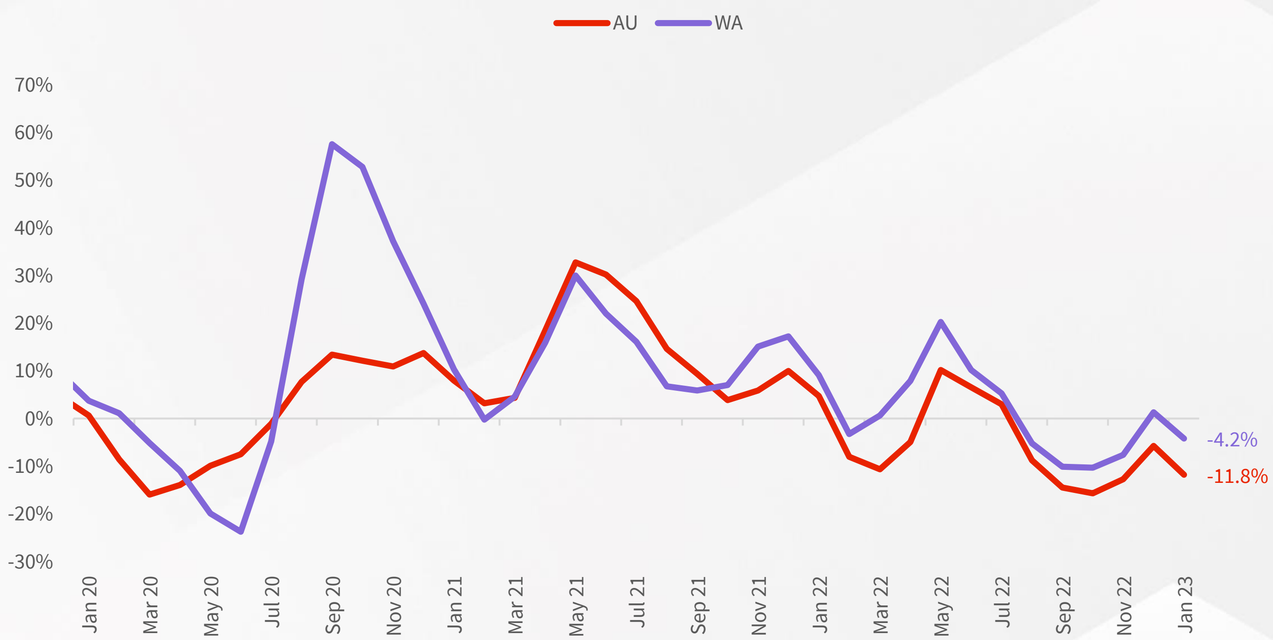
Figure 3. Cumulative capital growth since pandemic versus median dwelling value, GCCSA regions



Source: CoreLogic

However, there are other factors at play, such as migration trends, and the relative rental return of different markets. Western Australia, where gross rent yields were relatively high at 5.0% in February, has seen outperformance in the volume of investment purchases relative to the rest of the country. This is shown in figure 4 where quarterly change in the number of new investment property loans secured has largely outperformed the national trend through the cycle to-date.

Figure 4. Quarterly change in number of secured investment property loans

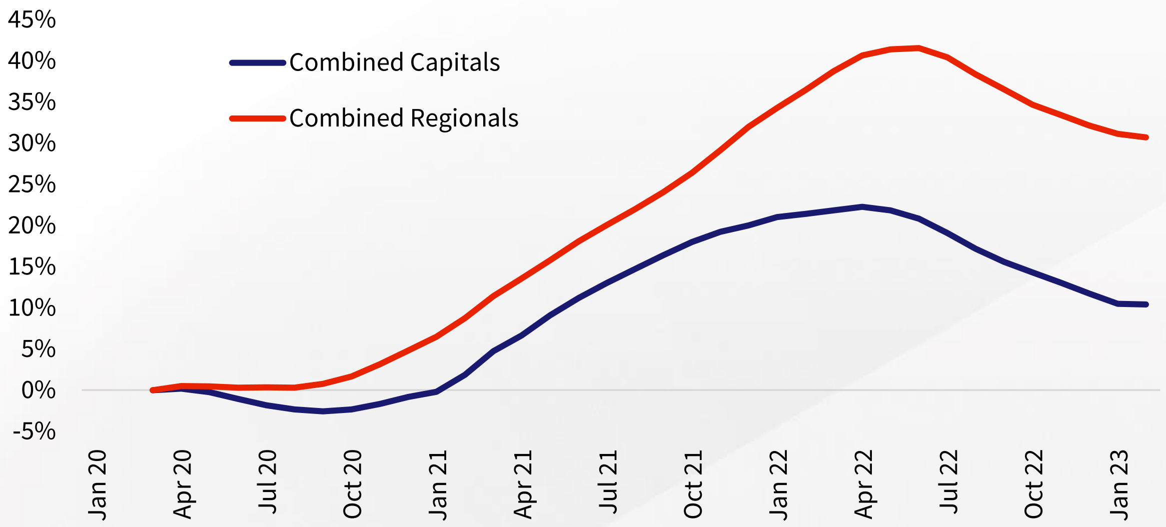


Source: ABS, CoreLogic

3. Regional values are generally high, but migration may be reverting to pre-pandemic trends

Across the combined regional dwelling market, values remain 30.7% higher than at the onset of COVID-19, compared with values sitting 10.4% higher across the combined capitals.

Figure 5. Cumulative change in dwelling values since the onset of COVID, Combined Capitals v Combined Regionals



Source: CoreLogic

Net internal migration to regional Australia hit a record high of 44,674 people in the year to March 2021, according to provisional data from the ABS. This was due to an uptick in internal arrivals from capital cities, as well as a marked drop-off in the volume of people *leaving* regional Australia relative to pre-pandemic trends. While provisional internal migration data is only reported to March 2021, joint research from CBA and the RAI shows the 'regional movers index' declining from pandemic highs. According to the research, net migration from capitals to regions is still higher on average than pre-COVID levels, but has been trending down for the past two years.

This slowdown of net regional migration is largely attributed to larger flows from regional Australia to capital cities, now that Australia is living with COVID, and has moved beyond lockdowns. Many push-and-pull factors, including the end of strict lockdowns, may be contributing to this change. Another factor may be the erosion of affordability in regions creating less incentive for locals to stay. The difference between the median capital city dwelling value compared to the median regional dwelling value has contracted from 63.4% in March 2020, to 32.3% in February 2023.

Figure 6. Top 10 SA4 markets with the highest growth in dwelling values since March 2020

Region	SA4 Name	Growth in dwelling values
Regional SA	South Australia - South East (SA4)	50.3%
Regional SA	Barossa - Yorke - Mid North (SA4)	47.9%
Greater Adelaide	Adelaide - North (SA4)	47.3%
Greater Adelaide	Adelaide - South (SA4)	46.0%
Regional NSW	New England and North West (SA4)	43.9%
Regional QLD	Wide Bay (SA4)	43.7%
Regional NSW	Coffs Harbour - Grafton (SA4)	43.7%
Regional NSW	Riverina (SA4)	43.6%
Regional NSW	Central West (SA4)	42.7%
Regional Tas	South East (SA4)	41.6%

Source: CoreLogic

While migration flows away from regional Australia may help to ease pressure on demand for some markets, it is clear that regional markets have retained the most value since the onset of the pandemic. Figure 6 shows the top 10 SA4 sub-markets by dwelling value gains since the onset of the pandemic, eight of which are in regional Australia. The normalisation of remote work among certain professionals, which is reinforced by current tight labour market conditions, may be contributing to this lasting value.

4. The preference for houses over units is easing

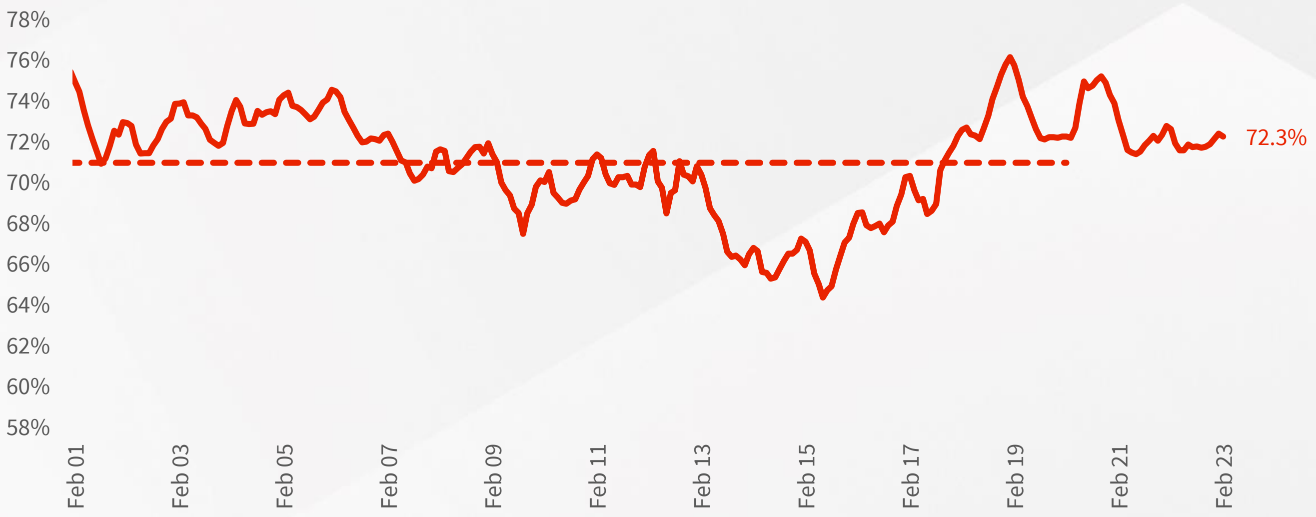
Through the height of lockdowns, purchase preferences seemed geared towards houses. This may have been because homebuyers sought more space in their homes as they were spending more time there. Investors, who tend to veer toward unit purchases, also made up a smaller part of the market since March 2020. Since the onset of the pandemic, investors accounted for a monthly average of 29.5% of new housing lending, as opposed to 36.8% in the decade prior.

The portion of residential sales that were detached houses increased through the pandemic period, peaking at 75.2% in October 2020 (figure 7). This was the highest portion of house sales since early 2019, when investor activity had been lower amid changes to lending policies for the segment. Notably, the surge in detached house sales through the pandemic also coincided with the introduction of the HomeBuilder scheme in June 2020. The design of this scheme better lent itself to the construction of detached houses, due to tight timelines around commencements. This may have shifted purchases forward among those that had detached housing preferences anyway, or may have increased preference for detached houses altogether.

Toward the end of the HomeBuilder scheme in 2021, the portion of residential purchases that were houses have trended lower, and are currently back toward pre-COVID levels. In 2022, there was also a peak in the premium on national house values relative to units. The median house in Australia reached a record 32.9% above the median unit value. This has also since trended lower, with the median house value sitting 28.3% higher in February 2023.

While this data indicates a slight rebalancing in preference back towards units, the premium on houses is still much higher than where it was at the onset of the pandemic (8.5% in March 2020).

Figure 7. Portion of residential sales that are houses (based on rolling quarterly sales volumes, Australia-wide)



Source: CoreLogic. Note recent sales data is based on modelled volumes and is subject to revision.

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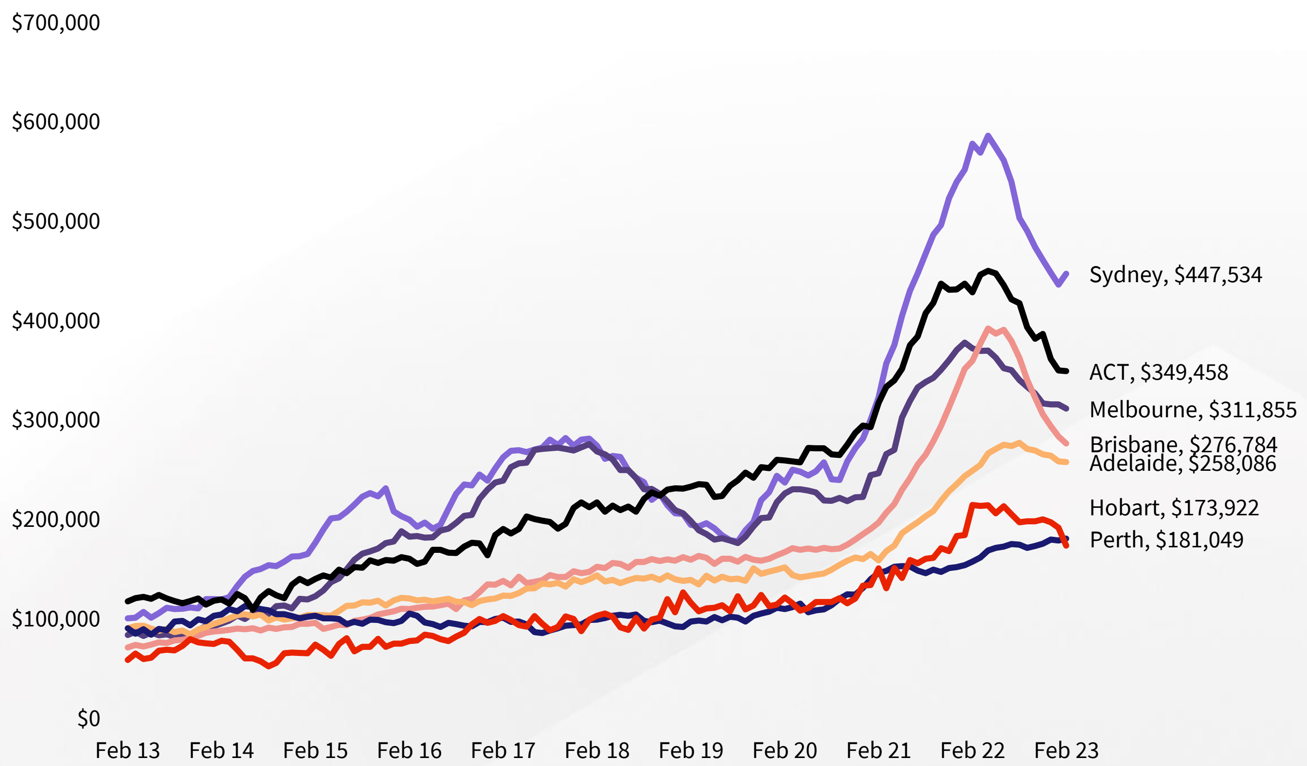
Figure 8. How much more expensive are houses than units?
$ difference between median house value and median unit value



5. The rental market has been rocked by the pandemic

The rental market has arguably sustained the most significant and lasting change from the pandemic. Figure 9 shows the change in the national hedonic rent value index from March 2020. Rent values initially declined -0.8% through to August 2020, as the closure of international borders cut off large flows of rental demand that would usually be seen in large, high density rental markets, particularly in Sydney and Melbourne. Through this period, unit rents declined -4.2% across Greater Melbourne and -3.9% across Greater Sydney.

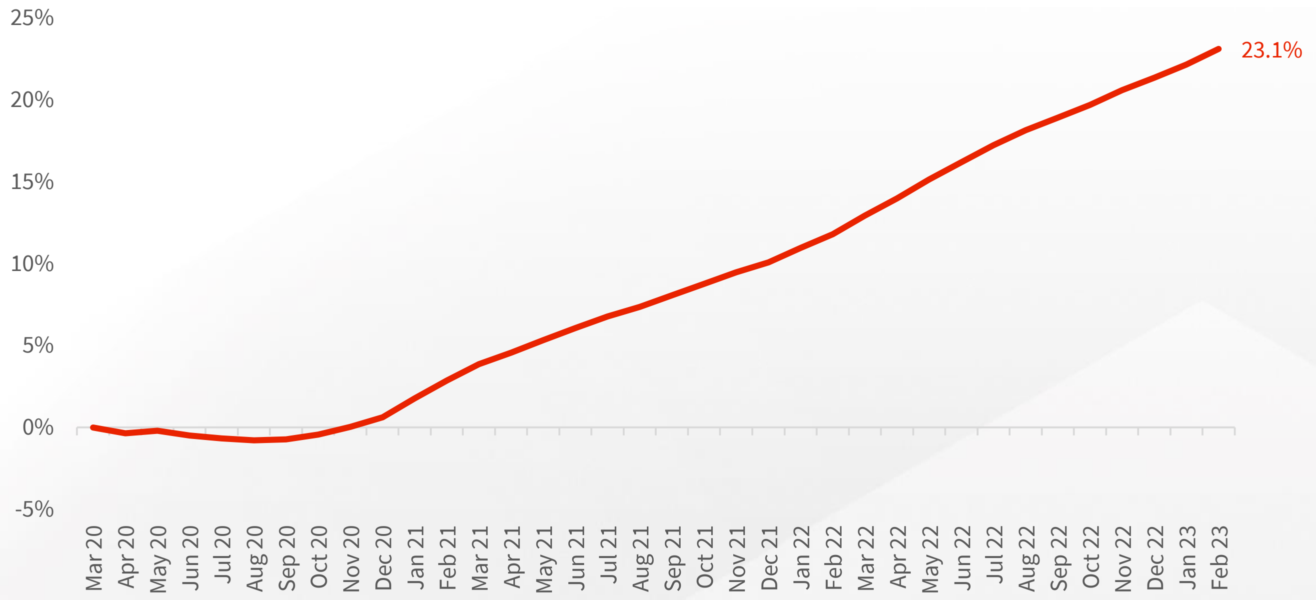
However, data presented by the RBA later revealed that the pandemic lockdowns had also triggered a notable reduction in share-housing, as tenants spread out across the housing market. This contributed to a wave of growth in rent values, as rental demand was amplified, supply was absorbed. Adding to this, relatively low levels of investor participation and the re-opening of international borders in 2022 has since led to a severe mis-match in supply and demand for rentals. With net inflows expected to return to pre-pandemic levels this year, and a rental vacancy rate of just 1.0% in February, there is no indication of rents going backwards nationally.

Cumulative growth in rent values since the onset of the pandemic nationally is 23.1%, though growth in dwelling markets is as high as 35.4% across Perth. This is likely to have come as a shock to long-term renters, where annual growth in rent values averaged just 2.1% nationally throughout the 2010s.

The supply of new rentals continues to be limited by high interest and building costs, which is hindering the development of large apartment projects, and reducing return on investment properties (despite ongoing rental values increases).

The squeeze on rentals has had cascading impacts for lower-income renter households, who are most at risk of falling into an insecure housing situation. The Productivity Commission reported a long-term increase in the number of Australians requiring specialist homelessness services since 2012, as well as around 114,000 requests for specialist homelessness services being unassisted in 2020-21.

Figure 9. Cumulative growth in national rent values since March 2020



Source: CoreLogic

The current rental market conditions have not only produced extraordinary growth in rents, but are forming a precedent for what could be lasting political and structural change in housing. Accommodations for built-to-rent housing, the banning of no grounds evictions and bans on rental bidding are just some of the recent reforms and proposals introduced in the past three years to shift the dial on rental conditions. Whether or not these reforms will be effective for alleviating pressure in the rental market may be seen in the data over the next few years.

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