25 August, 2022

Australian unit market update
August 2022

By Kaytlin Ezzy, Economist at CoreLogic

With national dwelling values falling for the third consecutive month, selling conditions across Australia's unit markets have continued to weaken. **Falling a further -0.9% over the month, and -1.4% over the three months to July, national unit values are now -0.2% lower over the year to date.** While national houses have recorded deeper monthly (-1.4%) and quarterly (-2.2%) declines, stronger growth over the first four months of the year means that house values are still 1.2% higher than they were at the beginning of this year. As we move further into the downwards phase of the cycle, the annual performance gap between national houses (9.0%) and units (4.6%) has continued to narrow. Annual house growth has fallen below double digits for the first time since April 2021 (9.3%).

CoreLogic Economist Kaytlin Ezzy **says the impacts of consecutive rate hikes are now becoming more wide spread, with the pace of growth easing or falling into negative territory across most market segments.**

"Units are relatively more affordable and attract strong investor activity, meaning value changes across the medium to high density sector are proving to be less volatile than the house segment," Ms Ezzy said.

"However, market factors including increased interest rates, lower consumer sentiment and higher cost of living, mean selling conditions for units have also shifted in favour of buyers."

Figure 1 compares the median days on market over the three months to July to the median days on market over the three months to April for Australian unit markets. **With the exceptions of South Australia and the Northern Territory, each unit market saw the average selling time increase, as vendors take longer to negotiate a sale.** Compared to the three months to April, units across Hobart and regional Tasmania are now taking approximately three times as long to sell, while nationally, the median time on market has increased by six days. Vendors are also having to offer larger discounts in order to secure a sale, with median vendor discounting nationally increasing from 2.9% over the three months to December to 3.8% over the three months to July.

Figure 1 –Median time on market (3m) - units

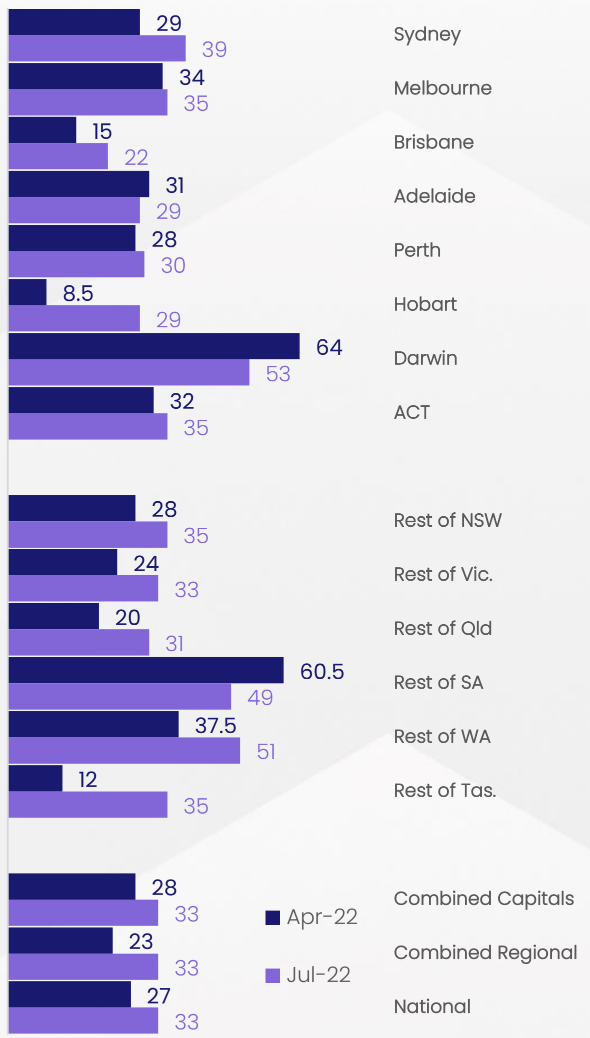

Figure 2–Rolling annual growth rate, National houses and units

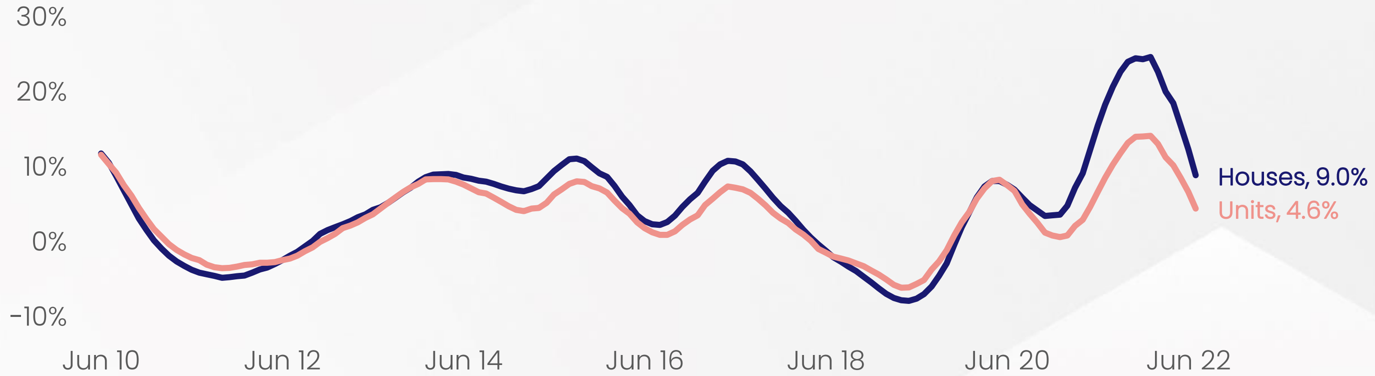

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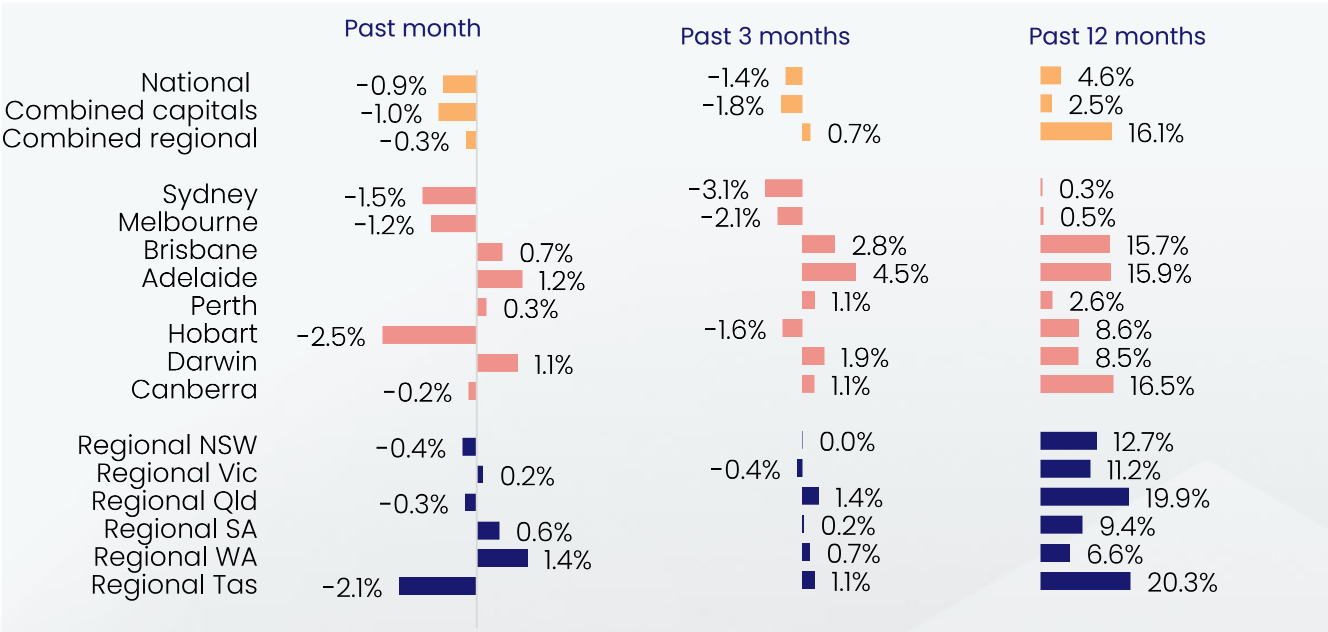
Figure 3–Change in unit values by region (as at end of July 2022)



Following the national trend, unit values across the combined capitals decreased for the third consecutive month, down -1.0%, taking capital city unit values -1.8% lower over the three months to July. Coupled with the weaker monthly increases recorded over the first quarter of the year, these declines have seen the annual change in values weaken from 12.7% over the year to January, to just 2.5% over the 12 months to July. Over the same period, annual growth in regional unit values has decreased from 23.7% to 16.1%.

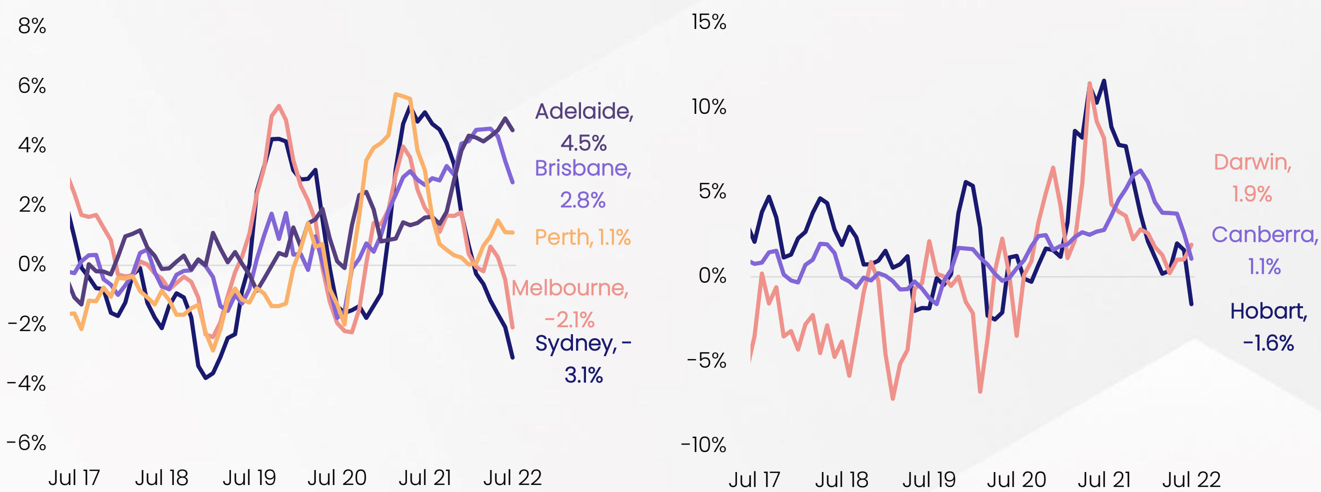
"Across the individual capital city and rest of state unit markets**, Hobart and Regional Tasmania recorded the largest decline in values over July, down -2.5% and -2.1% respectively**. The sharp deceleration in value growth was likely caused by an increase in newly advertised unit listing across Tasmania in July. While still well below the previous five-year average, this increase saw total advertised unit supply across Hobart rise 51.0% above the levels recorded in July 2021," Ms Ezzy said.

Unit values across Sydney (-1.5%) fell for the sixth consecutive month, taking values approximately $35,000 lower over the year to date, while unit values across Melbourne fell -1.2% in July and -2.1% over the quarter.

"With consecutive rate hikes and high total listing supply, unit values across Sydney and Melbourne are now just 0.3% and 0.5% above the levels recorded this time last year," Ms Ezzy said. "Looking at CoreLogic's daily index, it's likely Sydney and Melbourne's annual trend will fall into negative when the August results are reported."

Regional NSW units decline by -0.4% over the month, taking values back to the levels seen in April, while Regional QLD (-0.3%) and Canberra (-0.2%) recorded the first monthly fall in unit values since August 2020 and April 2020 respectively.

Figure 3– Rolling quarterly growth rate - Capital City units



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At the other end of the scale, units across Regional WA (1.4%), Adelaide (1.2%) and Darwin (1.1%) all saw monthly rises of more than 1%, while values across Brisbane, regional SA and Perth rose by 0.7%, 0.6% and 0.3% respectively. After falling for three consecutive months, unit values across regional Victoria rose by 0.2% in July.

The quarterly pace of growth across Adelaide's unit market has started to ease, from a peak rate of 4.9% over the June quarter to 4.5% over the three months to July. While this could mark the start of an easing trend, selling conditions remain strong across Adelaide's high-density sector.

"Advertised unit supply across Adelaide is still -45.0% below the previous five-year average, while Adelaide was one of the few markets to see its median time on market decline over the three months to July," Ms Ezzy noted.

Unit listing levels across the combined capitals have continued to normalise over the four weeks to July 31st, rising 4.8% over the listing levels seen this time last year and 2.0% over the previous five-year average.

While unit listing levels remain tight across Brisbane and Adelaide, total advertised supply across Perth, Darwin and Canberra are now above the levels recorded this time last year.

"Over winter, the flow of new advertised listings has trended downwards, while the count of overall listings has increased, reflecting a lower rate of absorption across the market," Ms Ezzy said.

"In Brisbane and Adelaide, listings are being absorbed faster than they're being added, with a sale to new listing ratio of 1.43 and 1.81 respectively. Meanwhile total listing supplies across Sydney and Melbourne are now 17.0% and 19.7% above the previous five-year average as new listings are being added faster than they're being absorbed.

"With housing demand already trending lower, its likely total listing levels will rise as we move into the spring selling season. Increased supply implies more choice for buyers and more competition for vendors, which could put further downwards pressure on unit values."

Figure 4– Four week rolling count of new and total advertised listing – Combined capital - unit

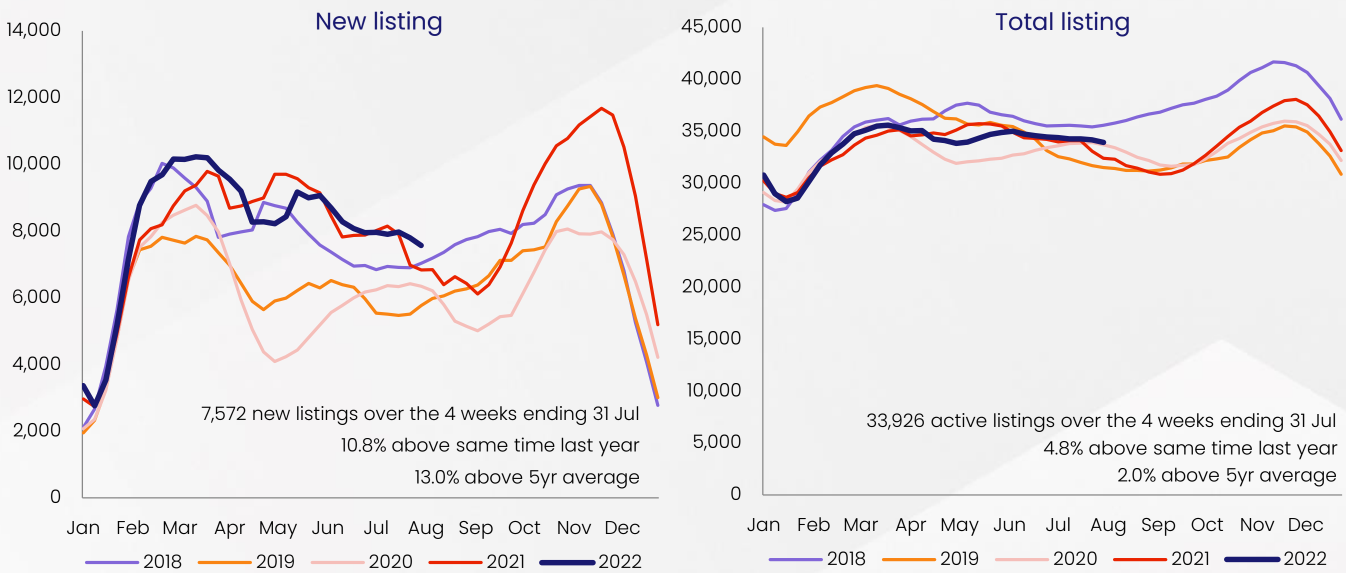

Figure 5 - Total unit listings, change from previous year and previous 5-year average - 4 weeks ending 31/7/2022

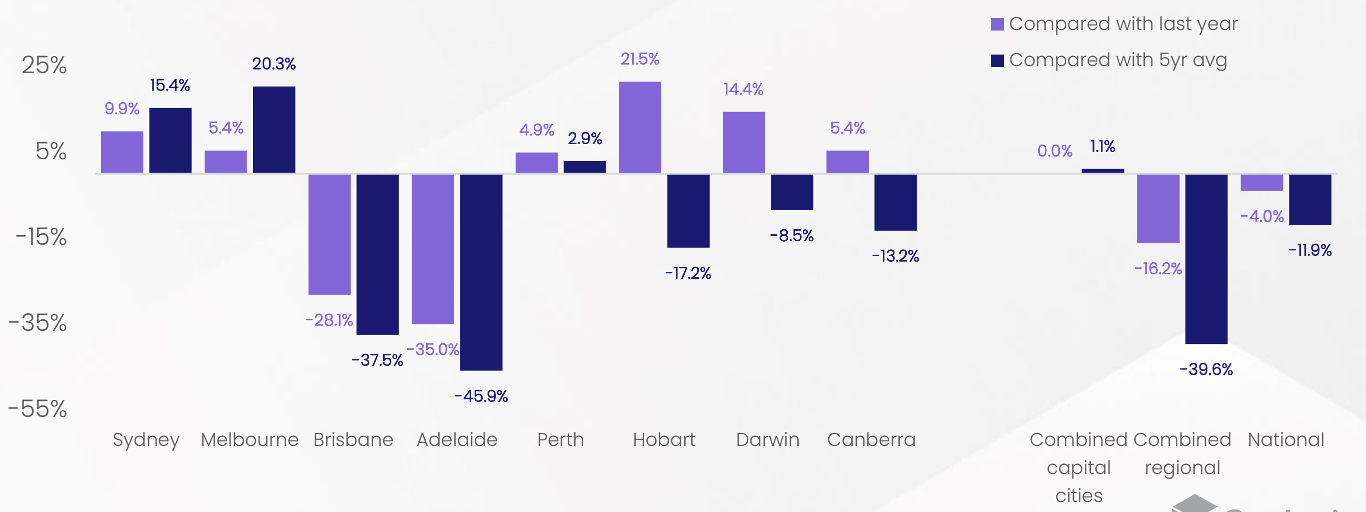

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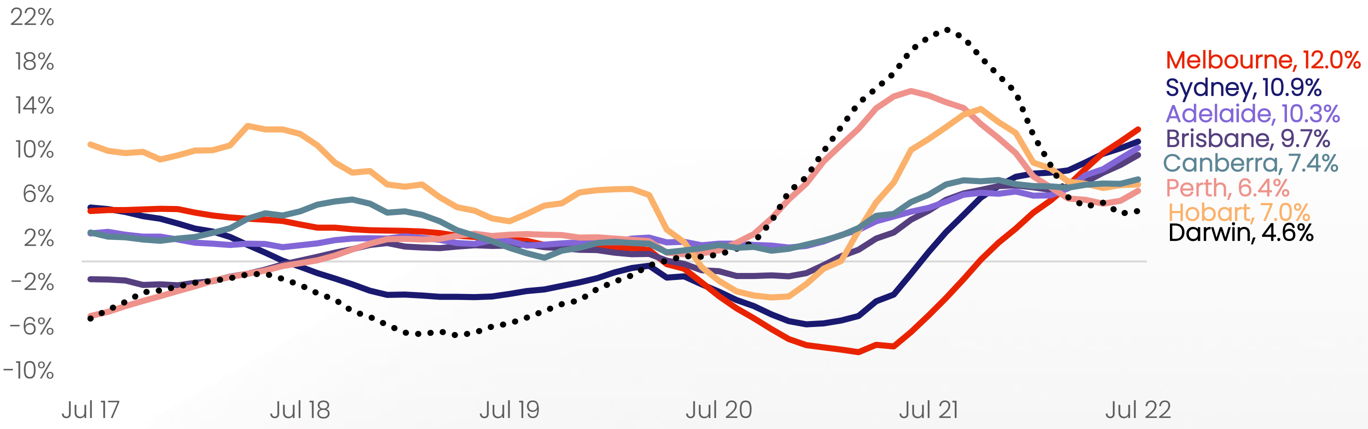
Figure 6 – Rolling annual rental growth rate – Capital City units



Growth in rental values continues to surge across Australia's unit markets, with national rents rising 1.3% in July. **This month's result took national unit rents 3.7% higher over the three months to July and saw the 12 months to July (10.7%) overtake the year to June (10.0%) as the highest annual rental rise on record.** This month also marks the third consecutive month where units have outperformed houses in monthly, quarterly and annual growth, across both the combined capital and combined regional markets, as well as at the national level.

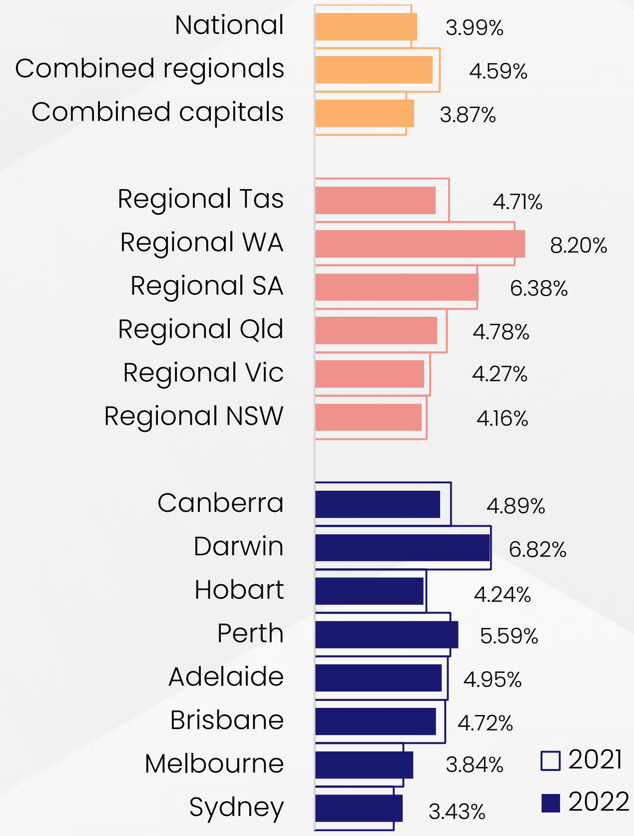
"A number of factors are driving demand for unit rentals including unit's relative affordability. At approximately $493 per week, the average unit rental is still nearly $60 a week cheaper than the average rental value for a house ($552). While national units (10.7%) recorded larger annual percentage rises in rents compared to houses (9.5%), in dollar terms both markets saw weekly rents rise by approximately $48."

A similar growth trend was seen across the individual capital cities, with each capital recording stronger monthly rental increases across the medium to high density segment compared to the lower density sector. Perth was the one exception, with both house and unit rents rising 0.8% over the month.

Brisbane recorded the strongest increase in unit rents, rising 4.4% over the three months to July, followed by Sydney (4.1%) and Melbourne (3.9%). Adelaide and Darwin both recorded a quarterly increase in rent of 3.8%, while Hobart and Perth saw rents rise 2.2% over the same period. Previously Australia's most expensive unit rental capital, Canberra recorded the smallest quarterly increase in rents, up just 1.8% over the three months to July. Stronger growth across Sydney, saw its median rental value ($579 per week) rise above Canberra's median ($578 per week) to become Australia's most expensive capital to rent a unit in.

Gross rental unit yields continue to improve as rental growth outpaces capital gains. Rising a further 12 basis points in July to 3.87%, unit yields across the combined capitals are now 39 basis points higher than the record low recorded in December 2021 (3.48%) and are 30 basis point higher then the yields recorded this time last year (3.57%).

Figure 7 - Gross rental yields (units) – Current vs one year prior (as at end of July 2022)



"With rental markets expected to remain tight as we return to pre-COVID levels of overseas migration, and values expected to decline amidst further rate hikes, its likely unit yields will continue to improve throughout the second half of the year," Ms Ezzy said.

"While the prospects of higher rental returns could help motivate investors, upwards pressure on rents could be limited based on what prospective tenants are willing or able to pay. High energy prices, supply chain issues and extreme weather events has seen non-discretionary inflation soar in recent months, putting pressure on household budgets. As rental affordability worsens, we may see the average size of a rental household increase as rents look to share the burden of higher rents."

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The outlook for Australia's unit market over the short to median term remains pessimistic, with interest rates expected to rise throughout the second half of the year and into 2023, and a surge in fresh listings likely to add further downward pressure on values as we approach the spring selling season.

While strong rental growth and the lowest unemployment rate in nearly 50 years should help the broader housing market by bolstering investor demand and minimising distressed sales, it's likely dwelling values will continue to decline as interest rates rise. Despite unit values being historically less volatile than house values, thanks in part to their relative affordability, it's likely unit values will continue to decline as we move further into the downwards phase of the housing cycle.

Figure 9 -Unit performance summary table (as at end of July 2022)

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Regiona l NT	Combined capitals	Combined regional	National
Values																		
Median value	**$806,310**	**$614,351**	**$504,520**	**$431,409**	**$411,460**	**$577,307**	**$374,340**	**$626,128**	**$595,321**	**$416,530**	**$557,960**	**$237,813**	**$256,810**	**$405,650**	**na**	**$636,352**	**$520,661**	**$614,261**
Monthly	-1.5%	-1.2%	0.7%	1.2%	0.3%	-2.5%	1.1%	-0.2%	-0.4%	0.2%	-0.3%	0.6%	1.4%	-2.1%	na	-1.0%	-0.3%	-0.9%
Quarterly	-3.1%	-2.1%	2.8%	4.5%	1.1%	-1.6%	1.9%	1.1%	0.0%	-0.4%	1.4%	0.2%	0.7%	1.1%	na	-1.8%	0.7%	-1.4%
Annual	0.3%	0.5%	15.7%	15.9%	2.6%	8.6%	8.5%	16.5%	12.7%	11.2%	19.9%	9.4%	6.6%	20.3%	na	2.5%	16.1%	4.6%
Total return	3.3%	3.9%	21.1%	21.8%	8.1%	13.3%	15.8%	22.0%	17.2%	16.6%	25.8%	21.4%	16.3%	25.9%	na	6.1%	21.6%	8.4%
Rents																		
Median rents	**$579**	**$461**	**$469**	**$411**	**$454**	**$473**	**$486**	**$578**	**$471**	**$347**	**$546**	**$286**	**$430**	**$368**	**na**	**$498**	**$469**	**$493**
Monthly	1.4%	1.4%	1.6%	1.3%	0.8%	0.3%	1.4%	0.8%	0.3%	0.3%	1.2%	1.8%	0.7%	1.4%	na	1.4%	0.8%	1.3%
Quarterly	4.1%	3.9%	4.4%	3.8%	2.2%	2.2%	3.8%	1.8%	2.0%	1.2%	4.0%	2.4%	1.1%	3.7%	na	3.8%	3.0%	3.7%
Annual	10.9%	12.0%	9.7%	10.3%	6.4%	7.0%	4.6%	7.4%	8.8%	6.8%	13.4%	8.4%	8.3%	12.8%	na	10.6%	11.1%	10.7%
Gross yield	3.43%	3.84%	4.72%	4.95%	5.59%	4.24%	6.82%	4.89%	4.16%	4.27%	4.78%	6.38%	8.20%	4.71%	na	3.87%	4.59%	3.99%
Vacancy rates	1.63%	1.52%	0.68%	0.29%	1.14%	1.07%	1.04%	1.10%	1.10%	0.88%	1.04%	1.18%	1.98%	1.32%	na	1.36%	1.08%	1.31%

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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