24 April, 2023

Australian unit market update
April 2023

By Kaytlin Ezzy, Economist at CoreLogic

CoreLogic's national unit index increased 0.6% over March, rising for the first time in 11 months. Following last month's flat result, March's uptick took unit values just -0.4% lower over the quarter and saw the annual decline trend reduce from -5.6% over the 12 months to February to -5.3% over the year to March. The subtle increases seen in Sydney unit values in February became more geographically broad-based, with six of the eight capitals recording a monthly rise in unit values.

CoreLogic Economist Kaytlin Ezzy said excess demand from the extremely tight rental market, strong overseas migration, and the tonal shift and subsequent pause in rate hikes from the RBA, had likely put upward pressure on demand while total unit listing levels remain well below average. With a similar monthly rise recorded in national house values (0.6%), the uptick has many wondering if we have passed through the bottom of the market downturn.

"It's looking increasingly like we have moved through a trough in unit values, however a number of headwinds are still apparent, including further rate rises, an expectation for weaker economic activity through the year and the potential for a lift in advertised stock levels. However, as we move through a possible inflection point, it can be useful to compare the current unit downswing to both previous periods of value decline and to the cumulative value drops seen in the house market," Ms Ezzy said.

In January, the cumulative decline in national dwelling values overtook the 2017-2019 downswing as the largest decline on record, with the trend in dwelling values pulled down by the -9.7% fall in house values seen through the first nine months of the downswing (increasing to a -9.9% decline over the first 10 months). By comparison, the -6.1% drop in national unit values between April 2022 and January 2023 was moderate relative to both the house value falls and to previous unit peak-to-trough declines.

Figure 1 displays the cumulative decline in national unit values compared to previous peak-to-trough declines on a months-since peak basis. Unlike the house and broader dwelling market, the decline seen in unit values since April 2022 is behind both the 1989-91 downswing (-8.3%) and 2017-19 drop (-7.0%) in terms of cumulative decline, and also behind 1989-91 in terms of speed.

"If this month's improvement in values isn't a false start, it's likely we won't see much momentum in the recovery phase until a catalyst for a new growth phase becomes apparent," said Ms Ezzy.

"For example, a decrease in interest rates, renewed fiscal stimulus such as first home buyer incentives, or an easing in credit policies such as a reduction to APRA's serviceability buffer could see an increase in housing demand."

Figure 1 – Comparison of previous peak to trough declines in unit values- combined capitals

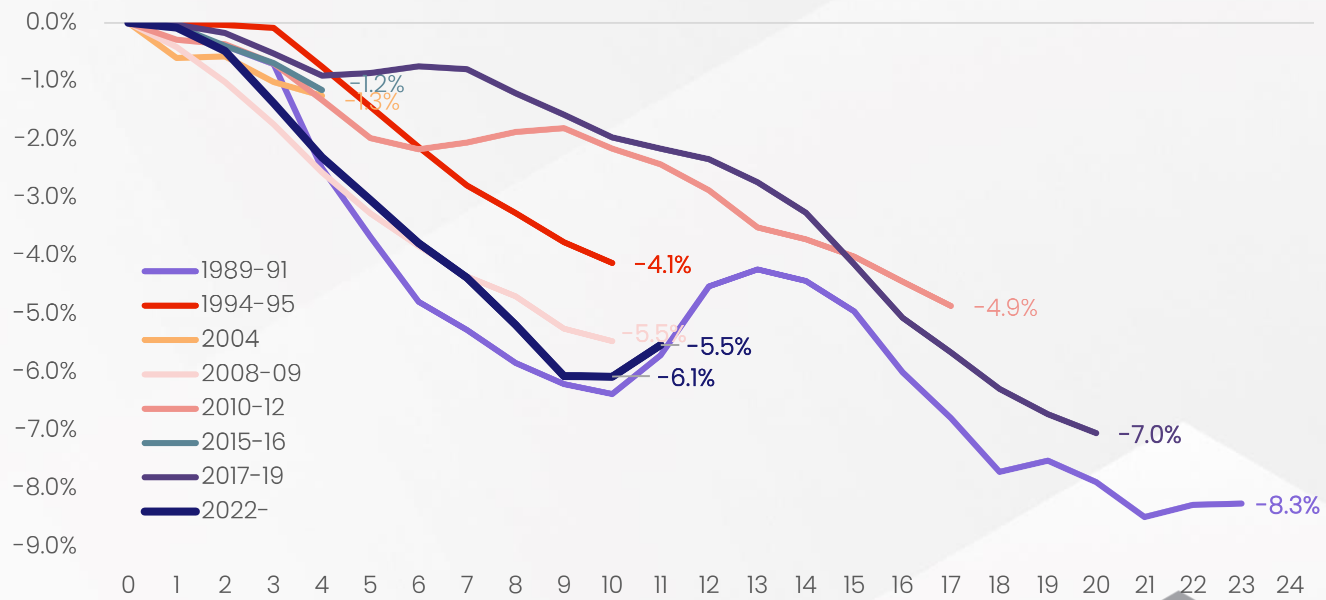

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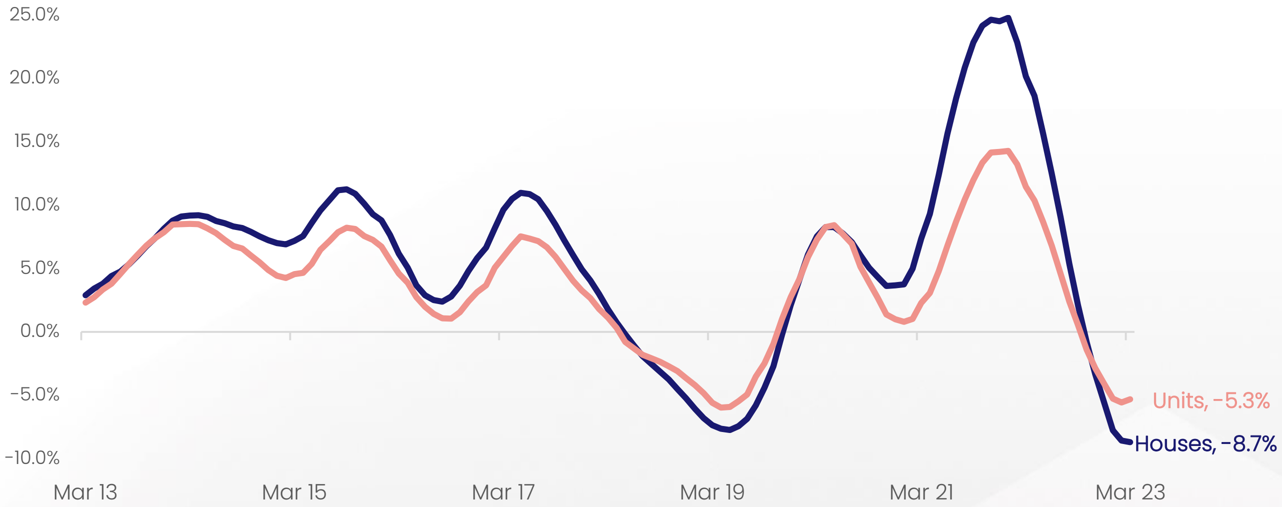
Figure 2 – Rolling annual change in values, national houses and units

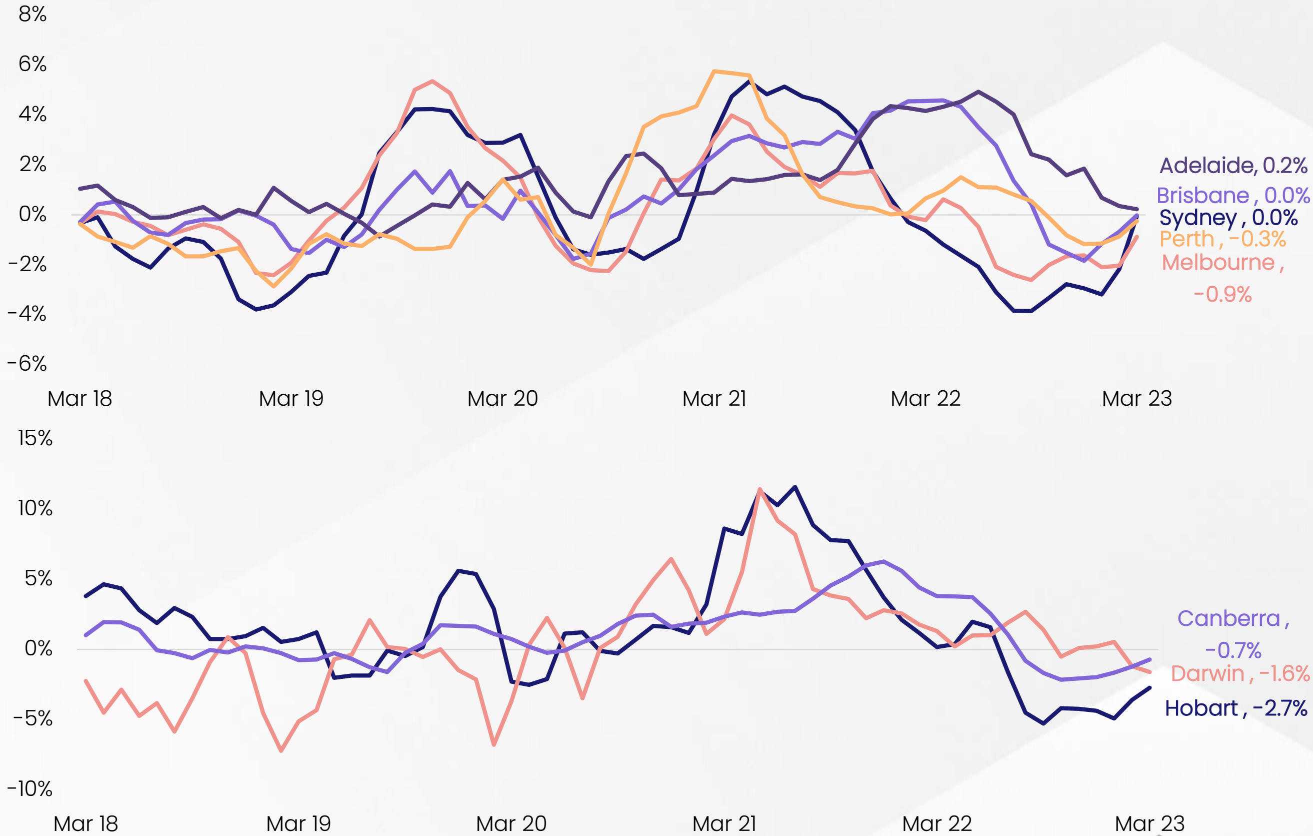


The shift to a more positive trend in unit values was geographically broad-based, with both the combined capitals (0.6%) and combined regional (0.2%) markets recording a monthly rise in values.

After recording a mild 0.1% increase in unit values through February, Sydney recorded the strongest monthly growth in unit values across the capitals, up 1.0%, followed by a 0.4% lift in Melbourne. Brisbane, Adelaide, and Perth unit values all saw a 0.2% rise in March, while Canberra recorded a mild 0.1% increase. Hobart (-0.4%) and Darwin (-0.6%) were the only capitals to record a monthly decline in unit values, with the pace of decline holding steady with the previous month.

"Given that upper quartile markets typically lead both the up and down swing, it's unsurprising that Sydney unit values are recording the strongest growth among the capitals. With a median value of more than $775,000, units across Sydney are more expensive than the median house values of Brisbane ($772,020), Adelaide ($694,818), Hobart ($691,859), Perth ($593,385) and Darwin ($582,415)."

Figure 3– Rolling quarterly growth rate - capital city units



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Across the rest-of-state regions, Regional Tasmania (1.5%) and Regional NSW (0.7%) both saw unit values rise in March. Unit values across Regional Queensland held flat over the month, while Regional WA, Regional Victoria and Regional SA recorded declines of -0.8%, -0.1% and -0.1% respectively.

Despite the flow of newly advertised capital city unit listings rising 1.7% above the previous five-year average over the four weeks to April 2nd, the total stock of capital city unit listing held approximately -10.7% below average.

"**While it's typical to see the flow of new listings rise ahead of Easter, the four weeks to April 2nd was the first time the capital city unit trend rose above the previous five-year average since mid-September last year.** This is likely to be a seasonal peak in the new listing trend, with listing activity typically cooling through winter before ramping up again in spring," Ms Ezzy said.

Figure 4 - Total unit listings, change from previous year and previous five-year average - 4 weeks ending 02/4/2023

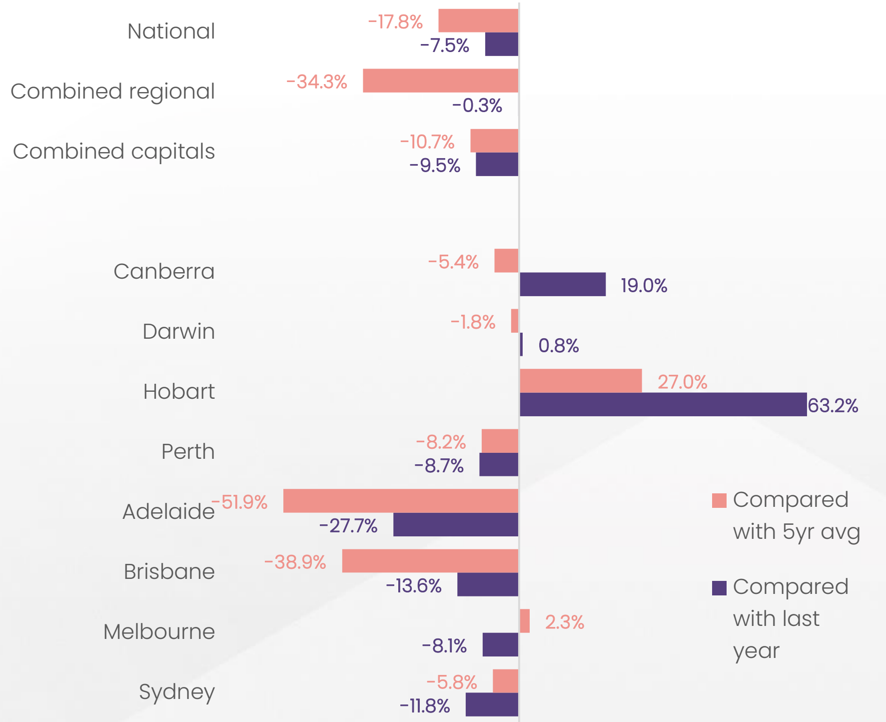

Figure 5– Change in unit values by region (as at end of March 2023)

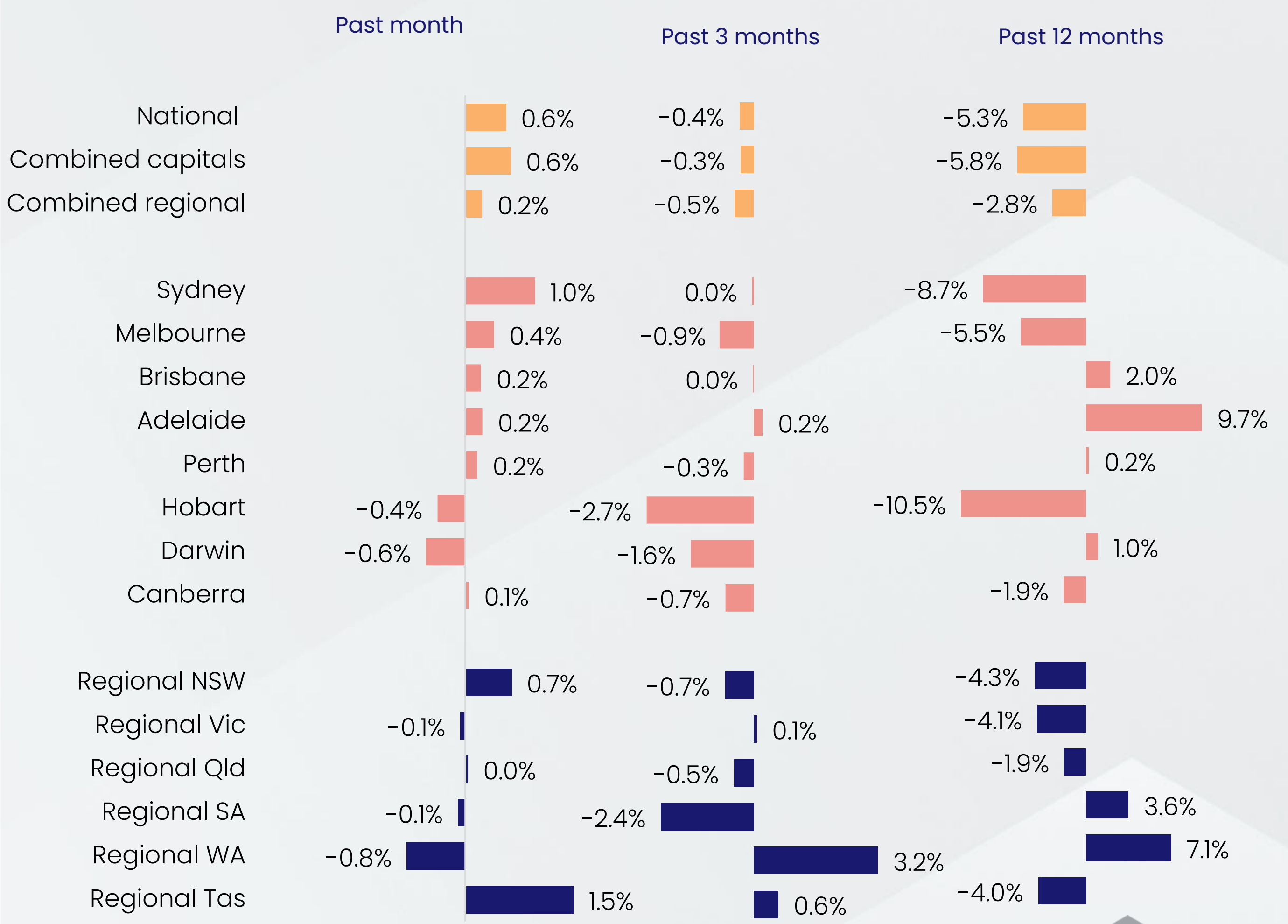

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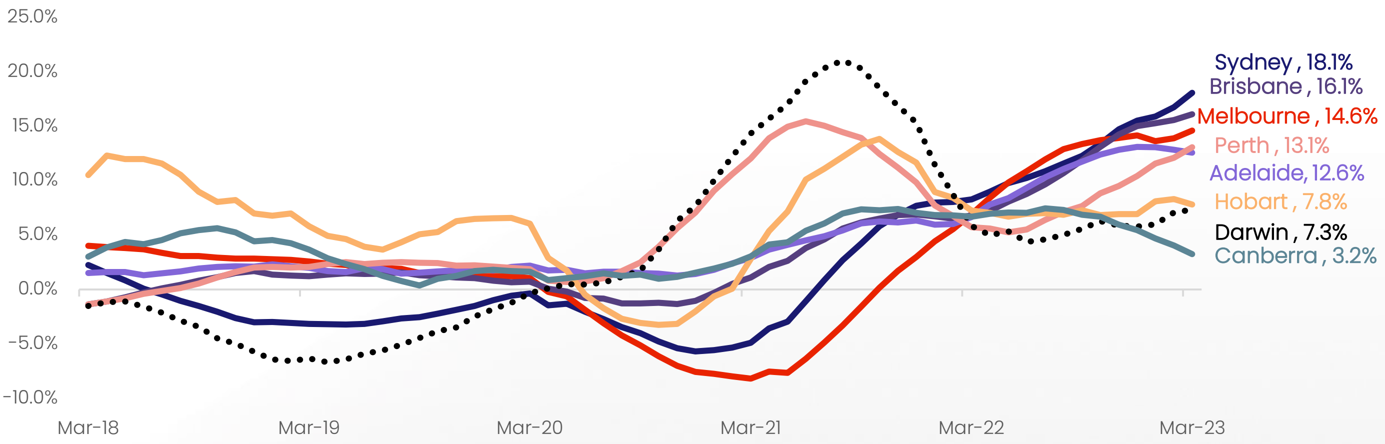
Figure 6 – Rolling annual rental growth rate –capital city units



National unit rents continue to rise at roughly twice the pace of house rents, up 1.6% and 0.8% over the month and 3.9% and 2.0%, respectively, over the first quarter. Driven by the strong return of overseas migrants and international students, the combined capitals recorded its strongest quarterly increase in unit rents on record, rising 4.4% over the three months to March, equivalent to a $23 per week increase in the average rental value ($550).

"The mismatch between rental supply and demand has seen capital city rental growth reaccelerate, which will be unwelcome news to many tenants already struggling to find affordable rental accommodation,“ she said.

Amid record levels of net migration, the total number of advertised capital city rental listings over the four weeks to April 2nd was -38.1% below the previous five-year average, equivalent to a shortfall of roughly 42,000 rental listings. Of this shortfall, approximately 65% are in the unit sector, with total capital city unit rental listings down -43.2% or 27,332 from the average level typically seen this time of year. This has seen capital city unit vacancy rates fall to a new record low of 0.8% in March, while houses recorded a similar record low vacancy rate of 1.1%.

Looking across the individual capital city unit markets, Sydney (5.3%) and Melbourne (4.3%) recorded new record peaks in their quarterly rental growth trend, with the majority of overseas migrants settling in the two largest cities. Unit rents in Perth, Brisbane, Hobart and Adelaide rose by 4.6%, 3.5%, 3.4% and 2.2% over the first quarter. Canberra recorded a mild increase of 0.5%, while Darwin saw unit rents decrease -0.4% over the three months to March.

"While units across each of the capitals and rest-of-state regions still offer a more affordable rental alternative compared to houses, the stronger rental growth seen in the medium to high-density sector, in part due to their relative affordability, has seen the gap narrow. At the capital city level, the gap between the median house and unit rental value has narrowed from $85 this time last year to $65 in March."

Figure 7 - Gross rental yields (units) – current vs one year prior

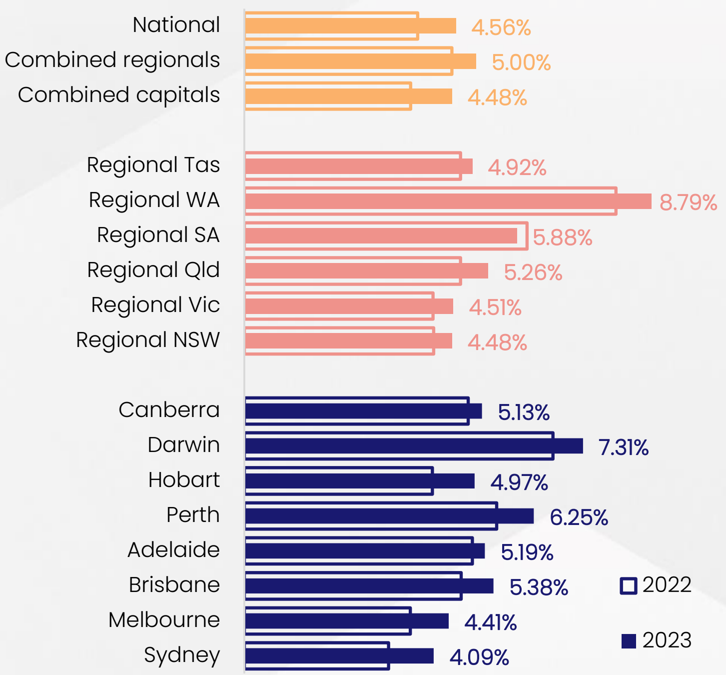
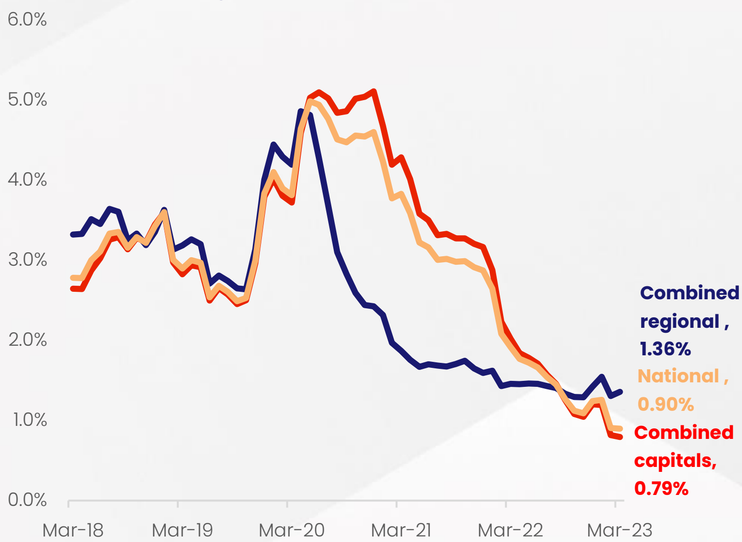


Figure 8 – Unit vacancy rates – National, combined capitals and combined regional



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National gross rental yields for units expanded a further four basis points in March to 4.56%. Despite the rise, it's likely net yields have continued to decrease, with increases in the cost of debt outpacing the rise in rental income. A closer look at rental performance over the March quarter is available in [CoreLogic's Quarterly Rental Review](#).

Moving forward, the outlook for Australian unit values is starting to look more positive, with this month potentially signaling a change in the direction of values, however there are still some challenges ahead. Arguably we are yet to see the full impact of interest rate rises, with many fixed-rate loans only now starting to expire, while three of Australia's four major banks still expect the cash rate to rise a further 25 basis points in the coming months. Additionally, while listing levels are currently holding low, we could see listing levels rise, which would add downward pressure on values if not met with an equivalent rise in demand.

On the flip side, we could see this month's rise in values become the start of a slow recovery phase, with inflation seemingly moving past its peak and consumer sentiment rising from near-record lows.

Figure 9 -Unit performance summary table (as at end of March 2023)

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Combined capitals	Combined regional	National
Values																	
Median value	**$776,780**	**$588,528**	**$492,415**	**$437,896**	**$409,253**	**$523,095**	**$374,071**	**$595,998**	**$570,467**	**$411,629**	**$542,783**	**$265,325**	**$276,827**	**$393,847**	**$612,755**	**$507,149**	**$591,965**
Monthly	1.0%	0.4%	0.2%	0.2%	0.2%	-0.4%	-0.6%	0.1%	0.7%	-0.1%	0.0%	-0.1%	-0.8%	1.5%	0.6%	0.2%	0.6%
Quarterly	0.0%	-0.9%	0.0%	0.2%	-0.3%	-2.7%	-1.6%	-0.7%	-0.7%	0.1%	-0.5%	-2.4%	3.2%	0.6%	-0.3%	-0.5%	-0.4%
Annual	-8.7%	-5.5%	2.0%	9.7%	0.2%	-10.5%	1.0%	-1.9%	-4.3%	-4.1%	-1.9%	3.6%	7.1%	-4.0%	-5.8%	-2.8%	-5.3%
Total return	-5.4%	-1.8%	7.2%	15.1%	6.0%	-6.6%	8.0%	3.0%	-0.2%	0.6%	3.5%	15.1%	16.0%	0.9%	-2.0%	2.1%	-1.4%
Rents																	
Median rents	**$648**	**$504**	**$523**	**$443**	**$505**	**$505**	**$505**	**$585**	**$486**	**$359**	**$579**	**$296**	**$483**	**$368**	**$550**	**$490**	**$540**
Monthly	2.2%	1.9%	1.4%	1.1%	1.8%	1.1%	-0.4%	0.3%	0.4%	0.5%	0.6%	2.0%	-0.2%	0.4%	1.9%	0.5%	1.6%
Quarterly	5.3%	4.3%	3.5%	2.2%	4.6%	3.4%	-0.4%	0.5%	0.9%	1.2%	1.8%	3.3%	2.8%	-0.7%	4.4%	1.5%	3.9%
Annual	18.1%	14.6%	16.1%	12.6%	13.1%	7.8%	7.3%	3.2%	5.9%	5.1%	11.5%	4.9%	15.2%	4.2%	15.6%	9.0%	14.3%
Gross yield	4.09%	4.41%	5.38%	5.19%	6.25%	4.97%	7.31%	5.13%	4.48%	4.51%	5.26%	5.88%	8.79%	4.92%	4.48%	5.00%	4.56%
Vacancy rates	1.0%	0.6%	0.7%	0.3%	0.7%	1.5%	1.8%	1.8%	1.5%	1.0%	1.2%	1.4%	2.3%	1.5%	0.8%	1.4%	0.9%

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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