CoreLogic

Seven ways COVID changed housing trends

11 March 2024 I By Tim Lawless, research director Asia Pacific

It was four years ago when the World Health Organisation declared COVID-19 a worldwide pandemic. Since that time economic trends, including housing metrics, have been on a roller coaster ride. Although lockdowns and the uncertainty of vaccination programs are well behind us, the legacy of COVID will be with us for a long time yet.

This report provides a retrospective of housing and peripheral economic and demographic trends through the pandemic to-date.

Housing values have surged since the onset of COVID. CoreLogic's national Home Value Index (HVI) surged 32.5% between March 2020 and February 2024, adding approximately $188,000 to the median value of an Australian dwelling.

Despite the strength in the headline figures, the housing market has moved through distinct cycles punctuated by changes in policy, interest rates and demographic shifts.

Housing values initially dipped by 1.7% between March 2020 and June 2020 before surging 30.8% higher, finding a cyclical high in April 2022. The market slumped 7.5% as interest rates rose from their emergency lows, but as inventory dried up and migration boomed, housing values commenced a new growth cycle in February 2023, rising 9.5% through to the end of February this year.

Rental markets have tightened substantially with vacancy rates holding around 1% and rental growth surging.

Nationally, rents have jumped 32.4% since March 2020, adding approximately $150/week to the median dwelling rent.

Monetary policy has played a key role in both stimulating housing demand, but also temporarily quelling activity as interest rates rose from mid-2022. A record portion of borrowers took advantage of fixed mortgage rates falling below 2% through the middle of 2022, fueling speculation of a 'fixed rate cliff' as the wave of fixed rate lending terms expired. So far borrowers have navigated higher mortgage rates much better than expected with mortgage arrears holding below pre-pandemic levels.

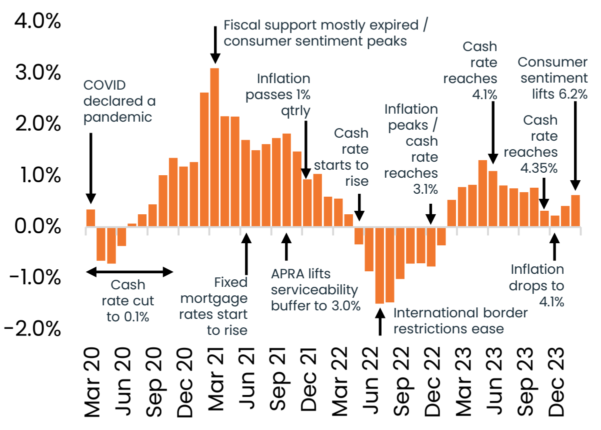
Inflation surged on the back of unprecedented peacetime fiscal stimulus and low interest rates as well as global supply chain disruptions that were amplified by the war in Ukraine. As COVID-related restrictions eased global demand strengthened. Inflation is now beating forecasts, fueling speculation we could see rate cuts later this year.

Once lockdowns and social distancing measures eased, labour markets tightened significantly. Although labour markets are now loosening, RBA forecasts have the unemployment rate holding below 4.5% through to at least mid-2026.

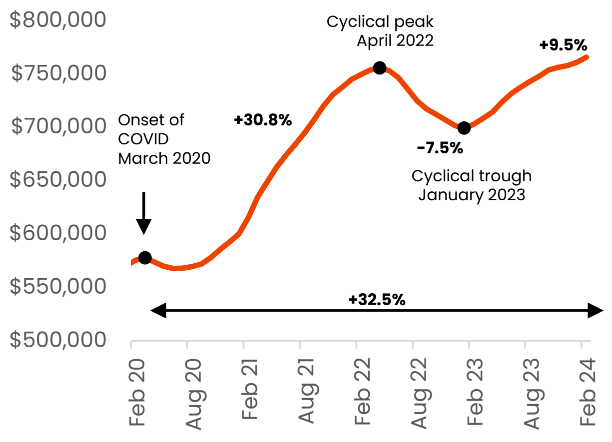
Demographic factors have influenced housing trends. Housing demand remained strong through the pandemic despite closed borders due to a diminishment in household size. Internal migration trends favoured regional markets through the pandemic but have since largely normalised, and open international borders saw overseas migration spike to record highs.

Despite unprecedented housing demand, a supply response is yet to be seen. Dwelling completions have held relatively flat through the pandemic to-date, with supply chain constraints, materials and labour shortages, and a surge in construction costs creating a challenging environment for delivering new housing supply.

Month-on-month change in dwelling values, National



Key milestones in the National HVI



Sources: CoreLogic

Housing values

Nationally, home values have surged 32.5% since the onset of COVID, adding approximately $188,000 to the median value of a home.

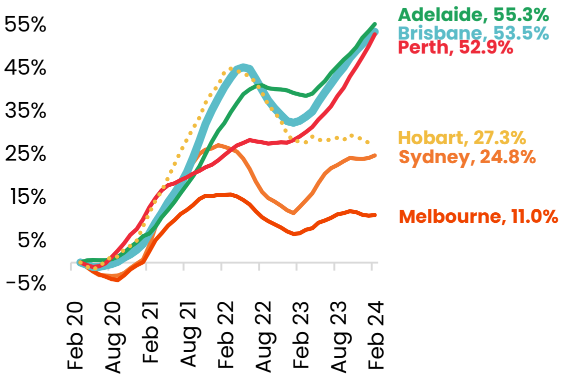
House values have increased by more than double the amount of units, up 37.9% and 16.5% respectively since March 2020. The significant difference in growth rates reflects a new found preference for 'space' through the pandemic, especially across the capital cities where the difference in growth between house and unit values was the most pronounced.

A similar contrast was evident between regional and capital city housing markets, with growth in regional housing values substantially outstripping growth in capital city values, particularly through the first two years of the pandemic. Regional dwelling values have increased by 47.6% (approx. $197,300) since March 2020 compared with a 28.5% (approx. $186,900) in capital city dwelling values.

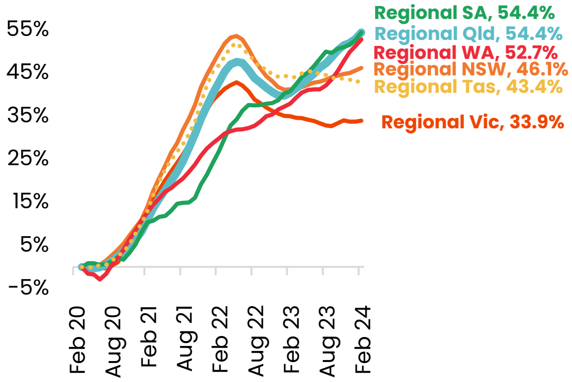
Across the broad regions of the country, Adelaide and Regional South Australia have recorded the most significant increase in dwelling values, rising 55.3% and 54.2% since March 2020. The capital cities and regional markets of Queensland and Western Australia also stand out with values rising more than 50% through the pandemic to-date.

At the other end of the spectrum is Melbourne where values are up by 'only' 11.0%. The subdued performance across Melbourne can be attributed to more frequent lockdowns through the pandemic alongside weak demographic trends. Although overseas migration remains extremely high across Victoria, interstate migration remained in negative territory based on data to June last year.

Cumulative change in capital city dwelling values Pandemic to-date



Cumulative change in regional dwelling values Pandemic to-date



Change in dwelling values since onset of COVID to Feb 2024

	Change since onset of COVID	Change same period of time prior to COVID	Median value Feb 2024	$ value change since onset of COVID
Sydney	24.8%	11.8%	$1,128,155	$224,391
Melbourne	11.0%	19.4%	$778,941	$77,386
Brisbane	53.5%	8.6%	$805,593	$280,881
Adelaide	55.3%	10.0%	$727,142	$259,070
Perth	52.9%	-12.8%	$687,004	$237,678
Hobart	27.3%	37.4%	$652,645	$140,089
Darwin	24.6%	-21.2%	$499,834	$98,528
ACT	31.0%	16.3%	$840,103	$198,924
Rest of NSW	46.1%	24.1%	$719,032	$227,016
Rest of Vic.	33.9%	23.1%	$568,772	$143,966
Rest of Qld	54.4%	6.3%	$616,576	$217,133
Rest of SA	54.4%	-3.8%	$399,339	$140,669
Rest of WA	52.7%	-14.8%	$479,540	$165,557
Rest of Tas.	43.4%	20.7%	$503,051	$152,172
Combined capitals	28.5%	10.5%	$842,109	$186,867
Combined regionals	47.6%	13.5%	$612,096	$197,288
Australia	32.5%	11.1%	$765,762	$188,039

Sources: CoreLogic

Rental markets

Rental vacancy rates trended sharply lower through the pandemic and were holding well below average levels at the end of last year. Such a severe tightening in rental supply can be attributed to a combination of smaller households that amplified rental demand, followed by a surge in net overseas migration once international borders reopened.

The average household size reduced from 2.55 persons in late 2020 to an historic low of 2.48 people in August 2022. Although the reduction in average household size may not seem significant, when applied across the population, smaller households are estimated to have added approximately 120,000 households to overall housing demand. The diminishment in average household size helps to explain why the rental vacancy rate plunged despite flat population growth and closed borders through the pandemic.

In line with such tight rental vacancies, rental values have surged across the country, with national rents rising by almost a third since the onset of the pandemic (+32.4%). In contrast, the four years prior to the onset of COVID saw national rents rise by only 4.6%.

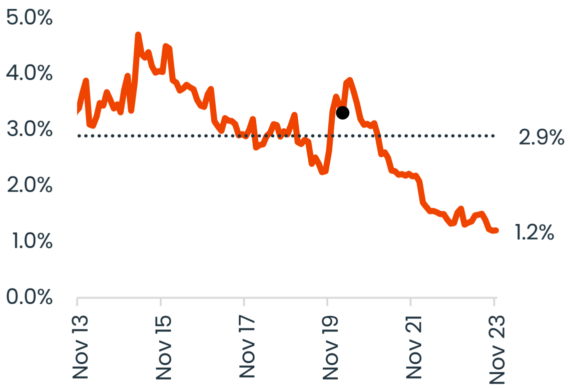
The median rental value nationally is now about $150 higher per week than at the onset of COVID in March 2020.

The most significant rise in rents has been recorded across Perth where weekly rents are up 53.8% through the pandemic to-date, adding approximately $226/week to the median rental value.

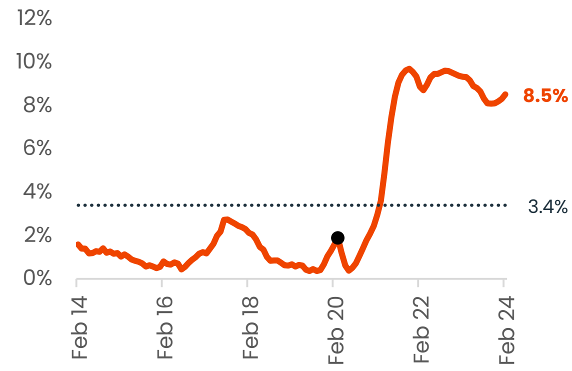
Early in the pandemic house rents were rising substantially faster than unit rents, however this trend has reversed since international borders re-opened, with unit rents consistently outpacing house rents since early 2022.

Through the pandemic to-date, national house rents have increased by 33.4% and unit rents are up 30.4%.

Rental vacancy rate, Australia



Annual change in rents, Australia



Change in dwelling rents since onset of COVID to Feb 2024

	Change since onset of COVID	Change same period of time prior to COVID	Median rent Feb 2024/weekly	$ value change in rents since onset of COVID/weekly
Sydney	28.6%	3.6%	$751	$167
Melbourne	23.0%	12.3%	$574	$107
Brisbane	37.0%	2.7%	$640	$173
Adelaide	38.5%	4.3%	$581	$162
Perth	53.8%	-12.2%	$648	$226
Hobart	14.0%	30.0%	$546	$67
Darwin	34.2%	-16.8%	$610	$155
ACT	14.2%	18.2%	$666	$83
Rest of NSW	29.5%	8.3%	$553	$126
Rest of Vic.	26.4%	8.1%	$459	$96
Rest of Qld	41.9%	7.8%	$608	$179
Rest of SA	34.7%	1.8%	$409	$105
Rest of WA	47.0%	-10.5%	$548	$175
Rest of Tas.	32.6%	13.6%	$439	$108
Combined capitals	**31.5%**	**3.8%**	**$644**	**$154**
Combined regionals	**35.2%**	**6.8%**	**$531**	**$138**
Australia	**32.4%**	**4.6%**	**$614**	**$150**

Sources: CoreLogic

Interest rates

Changes in monetary policy and subsequently mortgage rates have been a key factor influencing housing trends. The cash rate was already low leading into the pandemic, recorded at just 0.75% in February 2020.

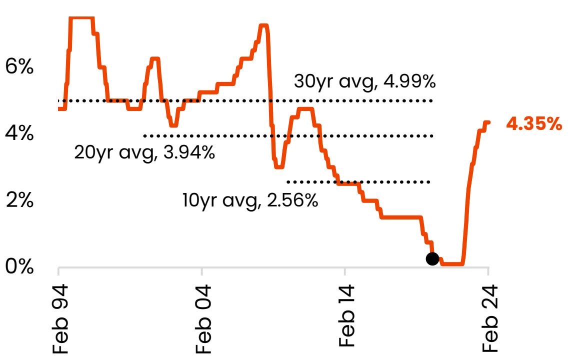
The cash rate was slashed to just 0.1% by November 2020 and the average variable mortgage rate on a new owner occupier loan reached a low of 2.41% in April 2022. Three year fixed rates fell even lower, finding a low point of 1.95% for owner occupier loans in May 2021.

Such low fixed mortgage rates saw an unprecedented swing in borrowing activity towards fixed rate loans; with 46% of all borrowers (including those refinancing) opting to fix.

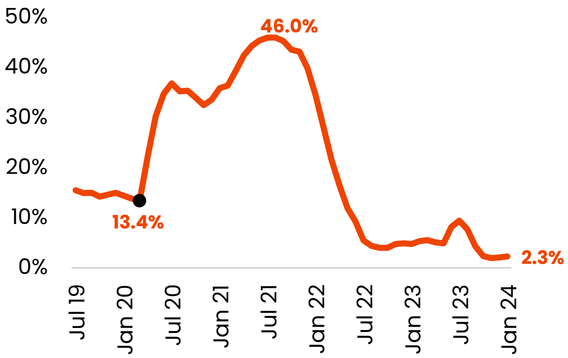
A large portion of these fixed rate borrowers saw their loan terms expire through the second half of last year. Despite concerns around the fixed rate 'cliff' mortgage arrears have held well below their pre-pandemic levels.

Interest rates have been on an upwards trajectory since May 2022, with the cash rate rising beyond the pre-COVID 20-year average, reaching 4.35% in November last year.

RBA cash rate target and pre-COVID averages



% of home mortgage commitments on fixed rates (includes refinanced loans)



Inflation

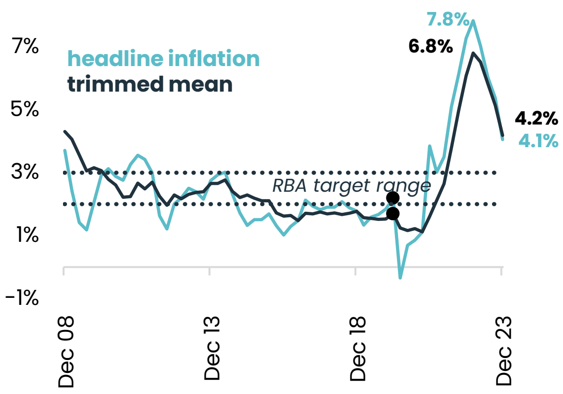
Inflationary pressures were well under control leading into the pandemic, mostly tracking below the RBA's target range of 2-3% between late 2014 and 2020. **The onset of COVID saw inflation temporarily fall amid lockdowns and plunging confidence, however inflation surged through the second half of 2020.** The quarterly trend peaked in March 2022 and the annual trend found a high point in December 2022 at 7.8%.

Early drivers of the inflationary trend were costs of household furnishings and equipment which peaked at 16.9% in mid-2021. Transport costs surged, peaking at 13.7% in early 2022. Housing inflation, including the cost of new buildings, rents and utilities peaked at 10.7% through the final quarter of 2022.

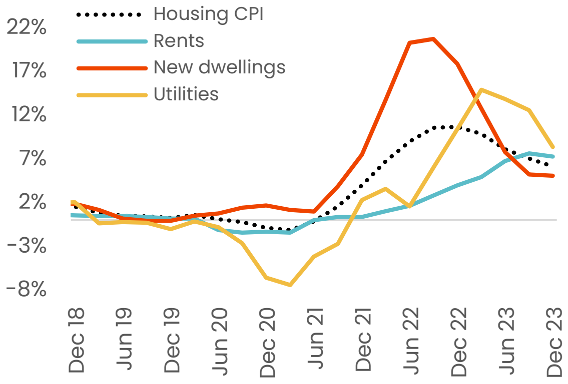
Unprecedented levels of peacetime stimulus, including fiscal support and a sharp drop in interest rates, the war in Ukraine, disruptions to global supply chains and strengthening global demand as COVID-related restrictions eased were all factors contributing to this recent period of high inflationary pressures.

Although inflationary pressures are now clearly easing, services inflation remains 'sticky', especially insurance and financial services and housing costs (especially rents). The RBA is forecasting headline inflation won't fall within the target range until 2025.

Annual change in inflation



Annual housing inflation with key components



Sources: CoreLogic, RBA, ABS

Labour markets

The onset of COVID saw labour market trends move through a significant disruption, with unemployment spiking to 7.6%, jobs growth plummeting deeply into negative territory and participation in the workforce falling off a cliff.

The early phase of COVID saw the federal government provide $89 billion in JobKeeper payments to around 4 million workers and 1 million businesses, as well as additional payments to JobSeeker recipients. Without these initiatives, labour force outcomes would have been very different; the RBA estimated JobKeeper reduced total employment losses by at least 700,000 between April and July 2020.

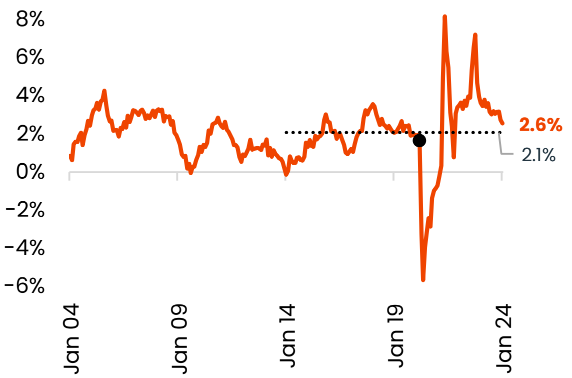
Once lockdowns became less frequent and social distancing measures eased, labour markets tightened significantly.

- Annual jobs growth has held above 2% since April 2021 (apart from a brief drop due to the sixth round of lockdowns in Melbourne).
- The unemployment rate plummeted from 7.6% in July 2020 to 3.4% in October 2022 (rising to 4.1% in Jan 2024).
- The participation rate has held above 60% since January 2021, moving through record highs in November last year.
- The portion of workers with multiple jobs held at record highs through 2023 with 6.7% of workers holding more than one job.

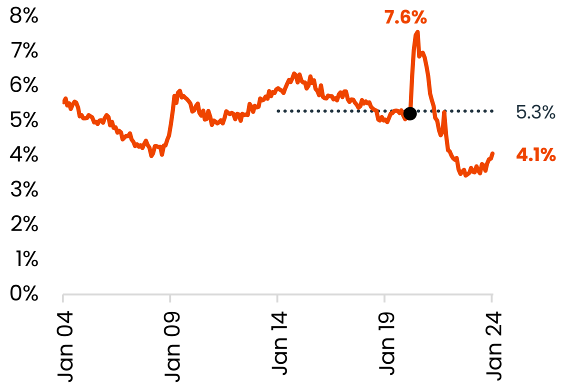
Although labour markets are loosening a little, RBA forecasts have the unemployment rate holding below 4.5% through to at least mid-2026.

Strong labour markets have been a key factor in keeping borrowers on track with their mortgage repayments in the face of high interest rates and cost of living pressures**,** with the 90-day mortgage arrears rate holding well below 1%.

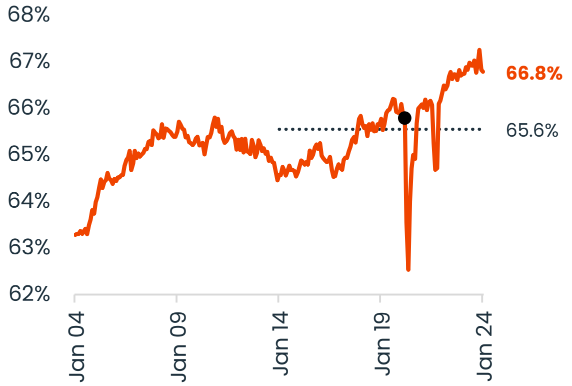
Annual jobs growth, Australia



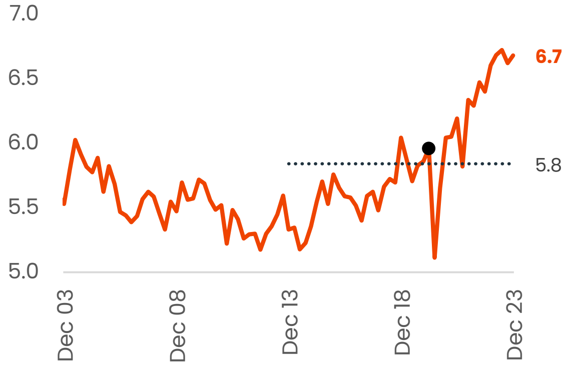
Unemployment rate, Australia



Participation rate, Australia



Multiple job-holding rate (%)



Sources: CoreLogic, ABS

Demographic factors

An important feature of housing trends through the pandemic to-date have been demographic factors.

The early phase of COVID saw population growth reduce to virtually nothing as net overseas migration turned negative between June 2020 and September 2021.

Despite the lack of population growth, housing demand was strong on the back of extremely low interest rates, high consumer sentiment, a jump in households savings and a sharp drop in the average household size.

Regional markets saw additional demand flowing from a surge in internal migration rates, where more people were leaving the cities for regional markets and fewer regional residents were moving to the cities.

Recent data shows most of these trends are normalising, with overseas migration peaking in Q1 last year, households once again becoming larger as group households reform and internal migration reverting to more normal patterns.

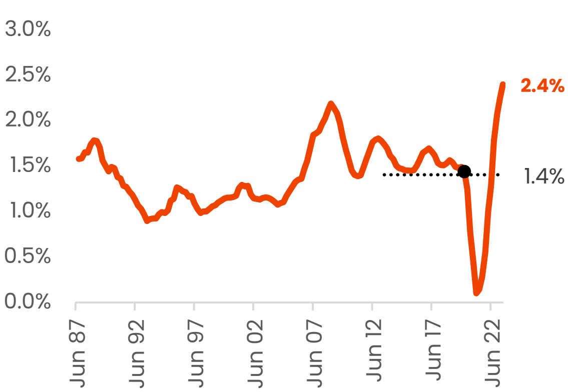
Although population growth is slowing, net overseas migration looks set to remain above pre-COVID levels over the coming years, placing further pressure on housing demand.

Net overseas migration tends to have a more immediate flow-through to rental demand and a lagged flow-through to purchasing demand.

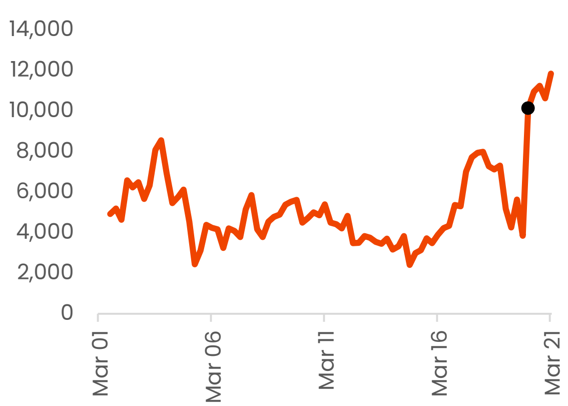
As net overseas migration slows, we should see rental conditions loosen, however with roughly 150,000 net permanent arrivals to Australia last year, we are likely to see a demand side legacy providing some upside for purchasing demand remain for several years at least.

The portion of employees who are working from home surged through the pandemic, with upper estimates from the ABS indicating more than 50% of employees were working from home between 2020 and 2022. Although the share of employees working remotely has reduced, it remained well above pre-COVID levels in August last year at 36.9%.

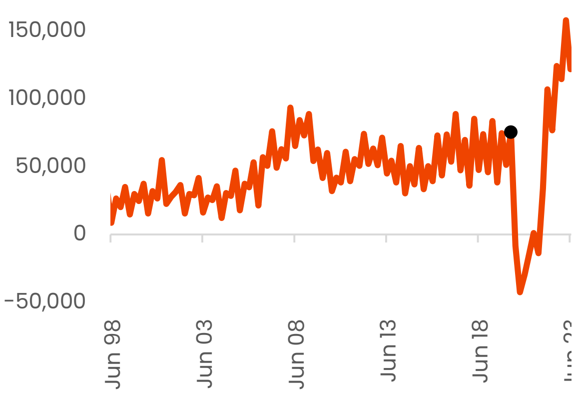
Annual change in population, Australia



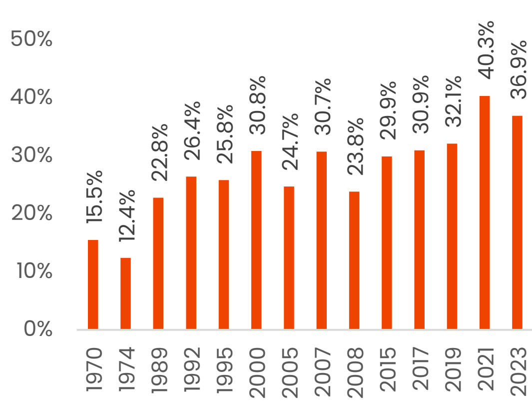
Net internal migration to regional Australia



Net overseas migration, quarterly, Australia



% of employees who worked from home



Sources: CoreLogic, ABS

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Supply response

Despite a surge in dwelling approvals and commencements, the number of completed homes has not increased, creating a significant undersupply of newly built housing amid a demand shock.

The pandemic saw several key supply side initiatives, including the HomeBuilder program and an objective from the federal government to see 1.2 million 'well located' new homes delivered over the five years ending June 2029.

The HomeBuilder program was a $25,000 grant available for building a new home or substantially renovating an existing home between June 4th and December 31st 2020. The grant was extended until March 31st, but scaled down to a $15,000 grant.

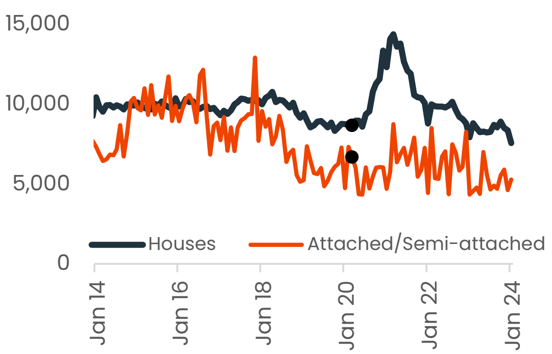
138,101 HomeBuilder grants were awarded with a total value of $2.52 billion, exceeding Treasury's initial forecast by 411% in number and 275% by value.

Despite the surge in approvals and commencements during the HomeBuilder program, the number of dwellings completed remains well below pre-pandemic levels and overall housing supply remains constrained.

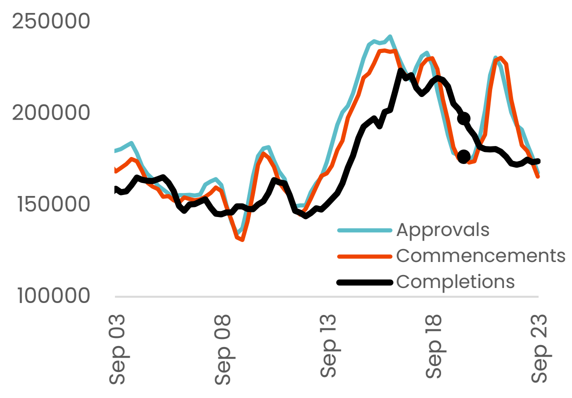
There have been a range of challenges for the building sector in delivering new housing supply to the market:

- The residential construction sector become 'overheated' due to the increase in construction activity associated with HomeBuilder program, creating supply side issues for land, materials and labour.
- Broader supply chain issues became significant with interruptions to logistics, materials availability and labour supply associated with the pandemic.
- Construction costs increased by approximately 27% since March 2020, according to the Cordell Construction Cost Index. This unprecedented jump in building costs created significant liquidity pressures for the residential construction sector, eroding profitability and sending many builders into administration.
- With ongoing capacity constraints and margin pressures, the time it takes to build a new dwelling has blown out, moving from a pre-pandemic average of 2.2 quarters to deliver a completed house to 3.1 quarters, and larger increases for higher density dwellings. Given the low number of completions to-date, it's likely these figures will increase materially over the coming year.

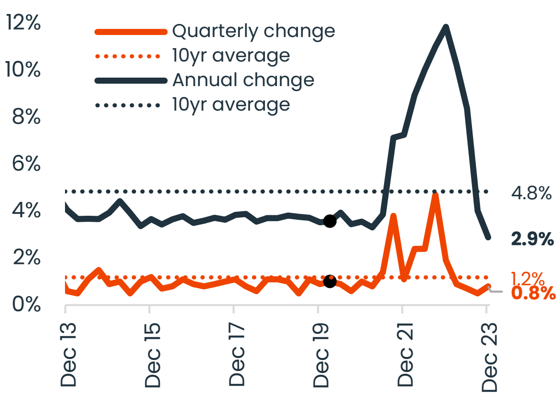
Monthly dwelling approvals



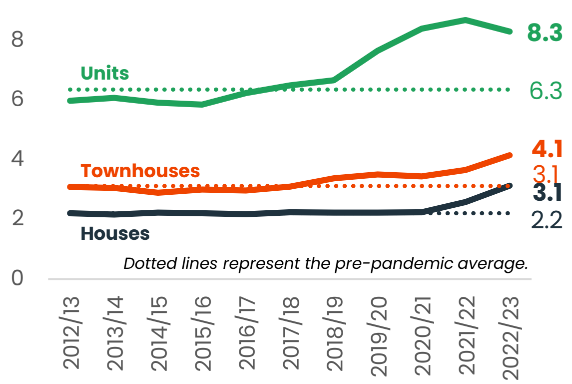
Annual dwelling approvals, commencements and completions



Change in residential construction costs



Average number of quarters between a dwelling commencement and completion



Sources: CoreLogic, ABS

% of suburbs recording a change in dwelling values, March 2020 to February 2024

	Negative change	Less than 25% growth	>=25% and <50% growth	>=50% and <75% growth	>=75% and <100% growth	At least 100% growth
Australian Capital Territory	0.0%	16.8%	78.9%	3.2%	1.1%	0.0%
Greater Adelaide	0.0%	0.3%	26.8%	63.1%	8.8%	0.9%
Greater Brisbane	0.0%	0.6%	27.4%	64.9%	7.1%	0.0%
Greater Darwin	0.0%	53.5%	46.5%	0.0%	0.0%	0.0%
Greater Hobart	0.0%	30.6%	53.1%	16.3%	0.0%	0.0%
Greater Melbourne	4.0%	88.1%	7.2%	0.7%	0.0%	0.0%
Greater Perth	0.0%	1.3%	30.9%	58.8%	8.3%	0.7%
Greater Sydney	0.6%	33.4%	62.2%	3.4%	0.3%	0.0%
Rest of NSW	0.0%	2.3%	51.4%	42.8%	2.9%	0.6%
Rest of NT	10.0%	80.0%	10.0%	0.0%	0.0%	0.0%
Rest of Qld	0.0%	3.2%	41.0%	47.6%	8.2%	0.0%
Rest of SA	0.0%	1.4%	22.5%	73.2%	2.8%	0.0%
Rest of Tas.	0.0%	0.0%	72.1%	26.2%	1.6%	0.0%
Rest of Vic.	0.0%	26.3%	58.1%	15.7%	0.0%	0.0%
Rest of WA	0.0%	3.1%	42.3%	43.1%	10.8%	0.8%
Combined capitals	0.9%	28.8%	37.5%	29.0%	3.7%	0.2%
Combined regionals	0.1%	6.4%	47.4%	41.0%	4.8%	0.3%
National	0.6%	20.1%	41.3%	33.7%	4.1%	0.3%

Top 20 suburbs for growth in dwelling values, March 2020 to Feb 2024

Suburb name	SA4 Name	GCCSA Name	Median value	COVID change in value	COVID $ value change
Gobbagombalin	Riverina	Rest of NSW	$844,313	115.7%	$452,826
Davoren Park	Adelaide - North	Greater Adelaide	$424,675	109.1%	$221,572
Elizabeth Park	Adelaide - North	Greater Adelaide	$461,632	108.0%	$239,707
Armadale (WA)	Perth - South East	Greater Perth	$455,895	103.4%	$231,794
Lochinvar	Hunter Valley exc Newcastle	Rest of NSW	$758,412	102.5%	$383,969
Elizabeth North	Adelaide - North	Greater Adelaide	$392,045	102.5%	$198,483
Kambalda East	WA Outback (South)	Rest of WA	$136,836	101.4%	$68,890
Brookdale (WA)	Perth - South East	Greater Perth	$508,098	100.2%	$254,340
Beechwood	Mid North Coast	Rest of NSW	$895,293	100.1%	$447,952
Rangeway	WA Outback (South)	Rest of WA	$241,916	99.9%	$120,891
Mount Morgan	Central Queensland	Rest of Qld	$206,270	99.4%	$102,821
Cleve	SA Outback	Rest of SA	$251,125	98.7%	$124,741
Eyre	Adelaide - North	Greater Adelaide	$520,197	98.1%	$257,618
Camillo	Perth - South East	Greater Perth	$488,890	97.9%	$241,890
Gundagai	Riverina	Rest of NSW	$410,291	97.6%	$202,645
Hillman	Perth - South West	Greater Perth	$523,913	96.5%	$257,241
Cooloongup	Perth - South West	Greater Perth	$527,746	95.9%	$258,322
D'Aguilar	Moreton Bay - North	Greater Brisbane	$780,213	95.7%	$381,538
Elizabeth East	Adelaide - North	Greater Adelaide	$480,910	95.6%	$235,009
Curra	Wide Bay	Rest of Qld	$631,182	95.0%	$307,558

Sources: CoreLogic, ABS