

# Australian unit market update

## November 2022

By Kaytlin Ezzy, Economist at CoreLogic

Continuing the trend seen over the past six months, **CoreLogic's national unit value index declined by -0.8% in October**, taking the median value to \$598,417, -3.8% below the peak recorded in April. This saw the annual growth trend for national unit values fall into negative territory for the first time in almost three years, with unit values now -1.4% below the level recorded this time last year. By comparison, national house values (\$779,369) fell -1.3% over the month, taking house values -6.6% below the April peak and -0.8% lower over the 12 months to October.

**CoreLogic Economist Kaytlin Ezzy** said house values continue to be more sensitive to rising interest rates compared to units.

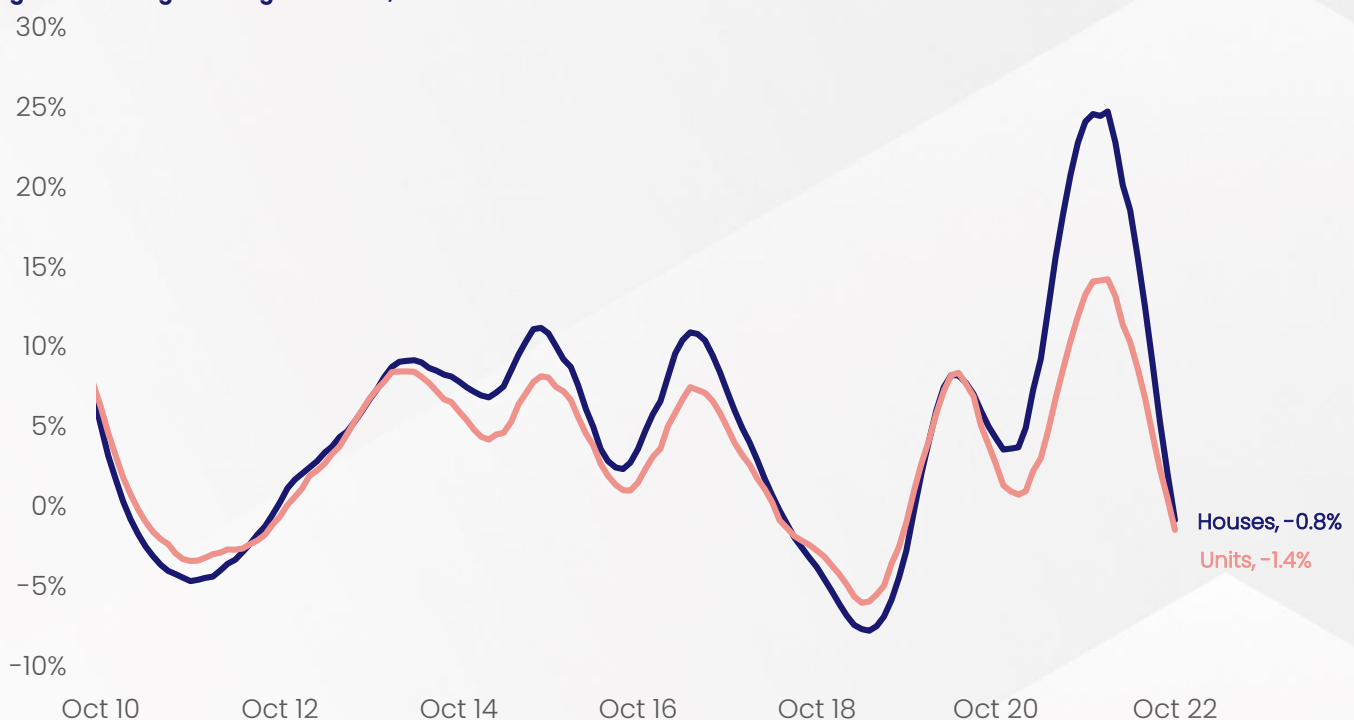
"As the larger monthly increases in house values recorded over the final quarter of last year fall out of the annual calculation, we'll likely see the annual growth trends intersect before the performance gap between house and unit values inverts in favour of units," she said.

As the downward phase of the cycle continues and falling values have become more widespread, the quarterly pace of decline has eased slightly. Across the combined capitals, the quarterly change in unit values has eased from a -2.7% decline in the September quarter to -2.4% over the three months to October.

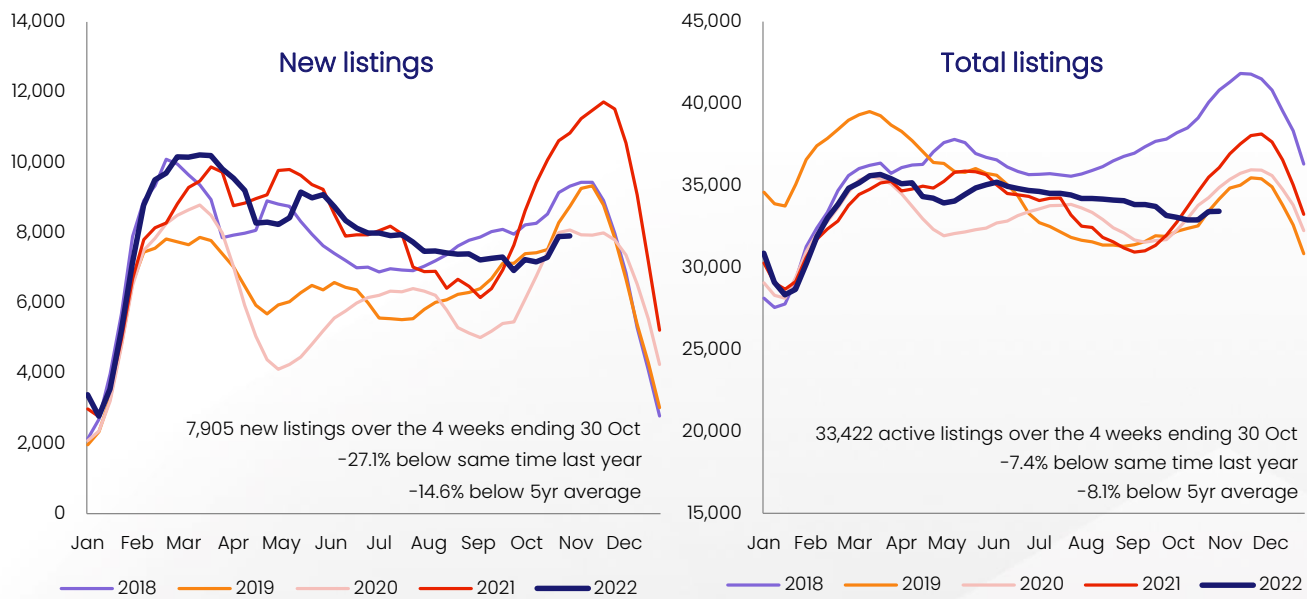
"Several factors may have helped influence this deceleration," Ms Ezzy said. "Not least the smaller increases in the official cash rate between October and November, as well as a lack-luster spring selling season."

On average the flow of freshly advertised capital city unit listings surge by approximately 37.1% each year between the end of winter and the spring peak in October. However, in 2022, weaker selling conditions and lower vendor confidence saw the flow of fresh unit listings *fall* by -3.6% over the same period. This has helped to keep total advertised supply below the previous five-year average, despite a slowdown in buyer demand.

**Figure 1 – Rolling annual growth rate, national houses and units**



**Figure 2 – Four-week rolling count of new listings and total advertised listing – combined capital units**

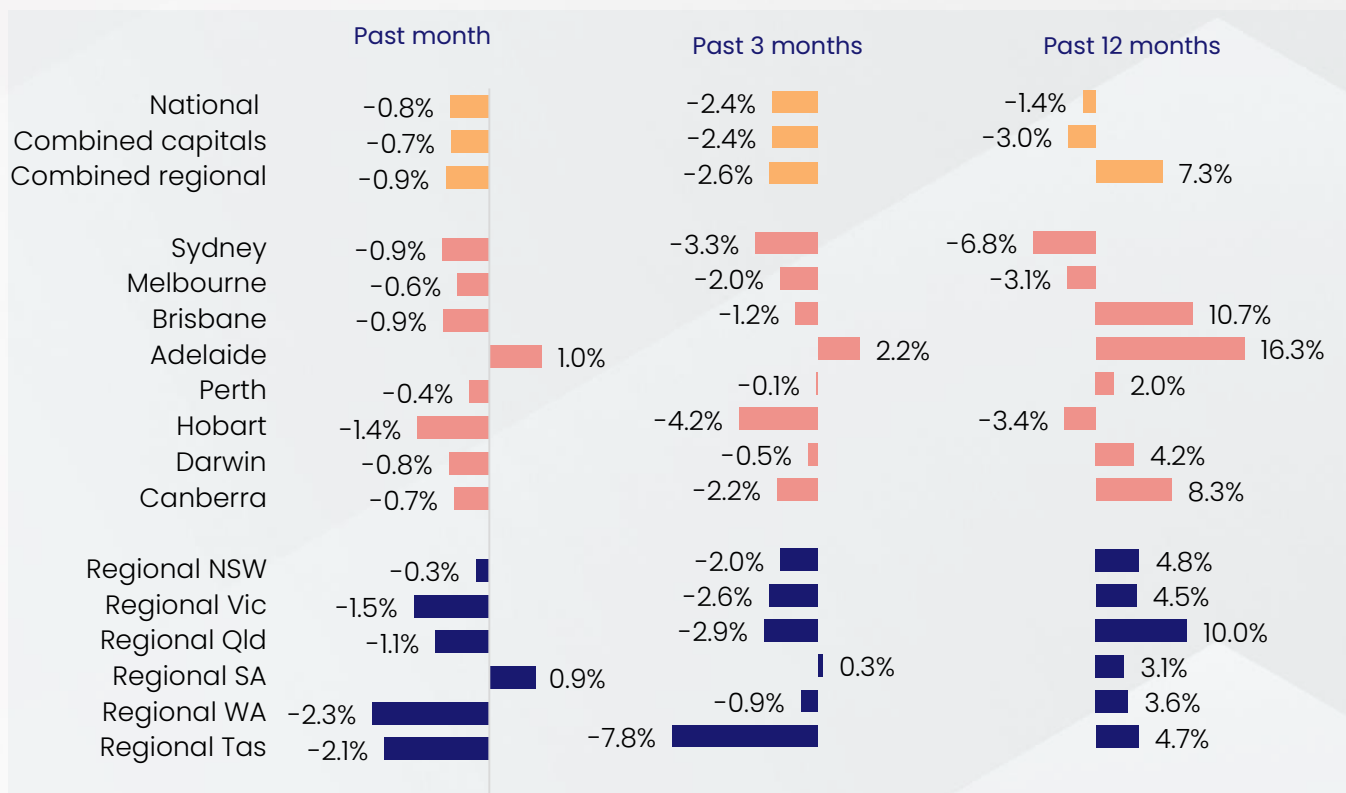


Over the four weeks to October 30th, newly advertised unit listings across the combined capitals were -14.6% below the previous five-year average, while total advertised supply was -8.1% below the average listings level for this time of year, indicating vendors were not dumping unit stock or rushing to exit the market, Ms Ezzy said.

“There has been no material increase in the number of distressed unit listings, in fact, total listings have remained fairly flat, with many prospective sellers choosing to wait for more favourable market conditions rather than sell during a downturn,” she said.

Unit values across Adelaide and Regional SA continue to be resilient to the current market conditions, recording monthly increases of 1.0% and 0.9%, respectively. At \$239,856, Regional SA's median unit value is the cheapest amongst the greater capitals and rest of state regions, while the average unit in Adelaide (\$436,462) is more than \$150,000 cheaper than Melbourne (\$597,533) and almost \$350,000 cheaper than Sydney (\$783,406).

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



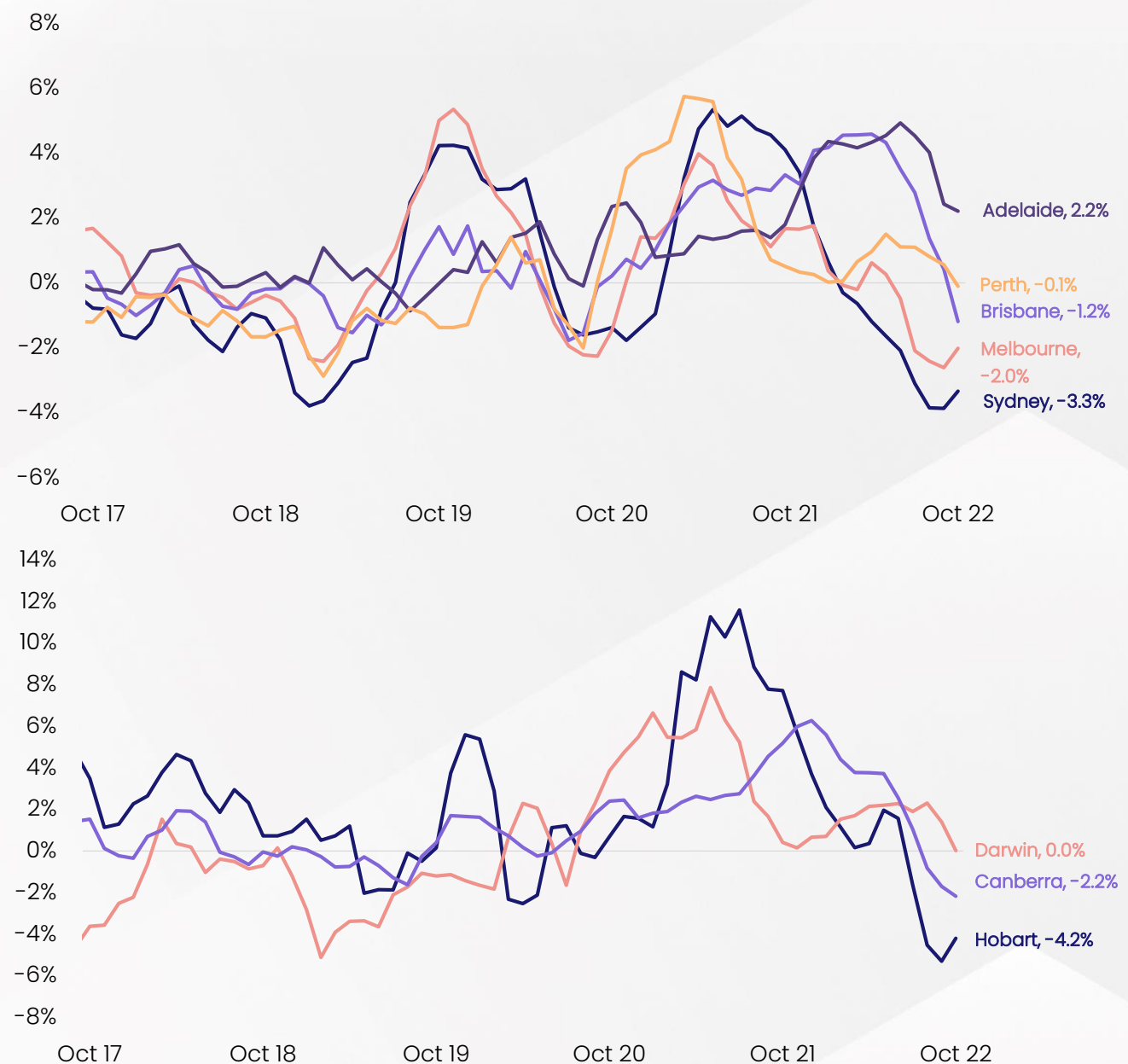
"The current downturn has been fairly orderly so far, with declines first emerging in the most expensive markets before flowing through to the broad middle and more affordable markets," Ms Ezzy said. "Given their relative affordability and below-average listing levels, it's unsurprising that SA's unit values are still increasing. However, the pace of growth across these markets has shown some signs of easing."

Other affordable unit markets, including Perth, Darwin, and Regional WA, recorded relatively mild value declines over the three months to October, down -0.1%, -0.5%, -0.9%, respectively. Brisbane recorded its first quarterly decline in two years, with unit values falling -1.2% over the three months to October.

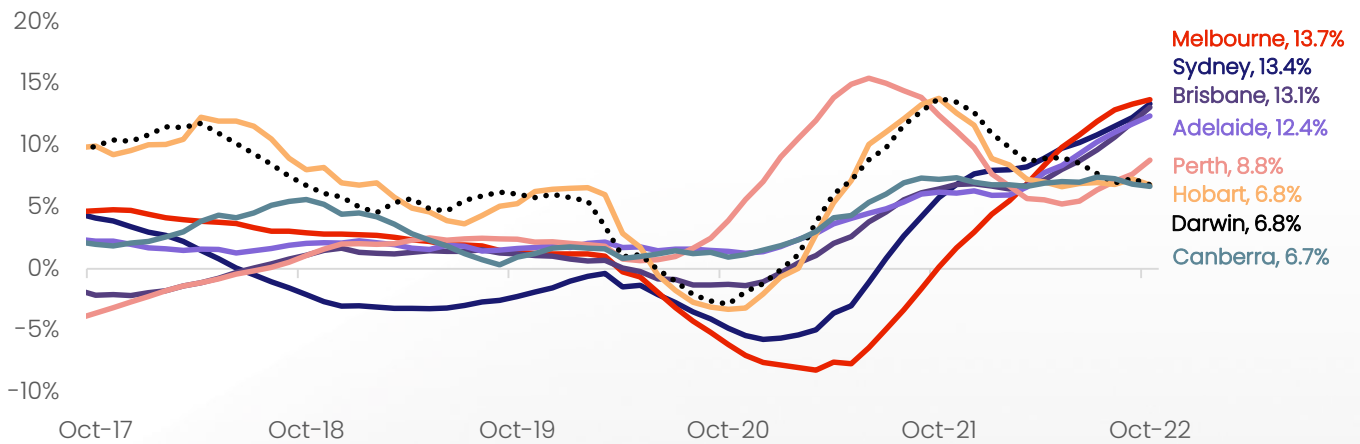
"As the most affordable capital on the east coast, Brisbane's unit market had been more robust. However, six consecutive rate hikes, worsening affordability, and an easing in the South East Queensland migration trend have weakened demand," Ms Ezzy noted. Regional Queensland recorded a larger quarterly decline in unit values (-2.9%) thanks to a stronger decline across the Gold and Sunshine Coasts (down -2.9% and -6.0%, respectively).

At the other end of the scale, Regional Tasmania units recorded the strongest decline in unit values, with the quarterly growth rate remaining steady at -7.8% for the second consecutive month. This was followed by units across Hobart (-4.2%) and Sydney (-3.3%), which both recorded a deceleration in the quarterly rate of decline, down from -5.3% and -3.9%, respectively, over the three months to September.

**Figure 4– Rolling quarterly growth rate – capital city units**



**Figure 5 – Rolling annual rental growth rate –capital city units**



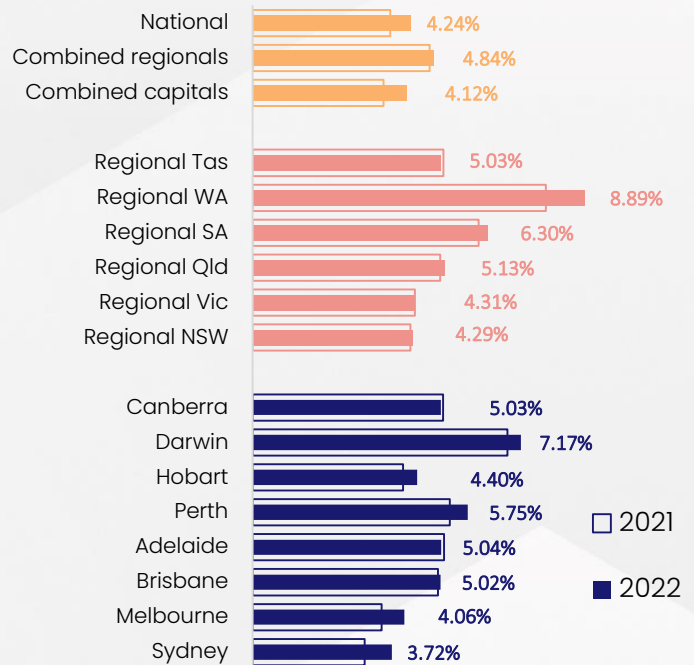
The monthly change in CoreLogic's national unit rental index remained steady, rising 1.1% for the third consecutive month. While the pace of quarterly rental growth has eased slightly from 3.7% over the July quarter to 3.3% over the three months to October, national unit rents are still increasing at twice the rate of house rents (1.6%). With the exception of Regional SA and Hobart, each capital city and regional area saw unit rents rise at a faster pace than their lower-density counterpart.

"With a median weekly rental value of \$510, national unit rents continue to be approximately \$50 per week cheaper compared to national house rents at \$561," Ms Ezzy said. "However, with the rate of growth in unit rents outperforming that of houses over the past year, the gap between house and unit rents has narrowed by around \$10. As the affordability benefit that unit rents offer diminishes, it's possible we could see some rental demand shift back in favour of the lower density sector."

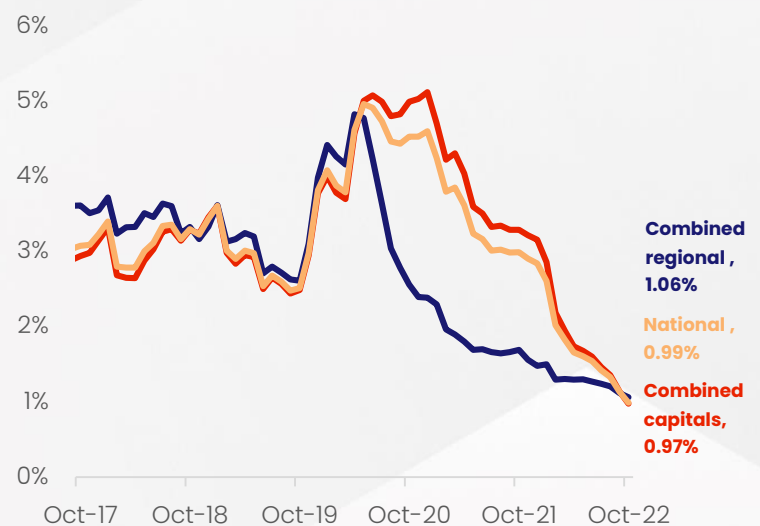
Across the individual capital city unit markets, the quarterly pace of rental growth across the capitals has continued to trend downwards. The exception was Sydney, which recorded a new cyclical peak of 4.3% over the three months to October, thanks to the strong return of overseas migration. Brisbane also recorded a 4.3% quarterly rise in rental values, down from 4.6% over the three months to September, while Darwin, Adelaide and Melbourne saw unit rents rise by 3.5%, 3.3% and 3.1%, respectively. Hobart (0.5%) and Canberra (0.2%) recorded milder rental growth, due partially to the stronger growth trends seen over the beginning of COVID.

National gross rental yields for units rose a further nine basis points in October to 4.24%, taking yields 58 basis points above the record lows recorded in December 2021 (3.66%). The strong yield recovery has seen each capital's unit yields rise above the levels recorded this time last year, with the exception of Adelaide and Canberra, where yields are still down eight and six basis points, respectively.

**Figure 6 – Gross rental yields (units) – current vs one year prior (as at end of October 2022)**



**Figure 7 – Unit vacancy rates – National, combined capitals and combined regional**



While it is likely values across Australia's unit market will continue to decline over the coming months, a few tailwinds are starting to emerge.

"The de-deceleration in the quarterly growth trend could be an indication that we have moved passed the worst value declines. However, it's still early days, and any change to the outlook for interest rates could see declines accelerate once more," Ms Ezzy said.

"Additionally, Australia's labour market remains extremely tight, with the unemployment rate falling to 3.4% in October. Coupled with the strong wage growth seen over the September quarter, this should help keep a lid on distressed or forced sales."

On the flip side, the November rate rise (25 basis points) took the cumulative increase in the cash rate 275 basis points higher than the record lows seen over COVID (0.10%). For those who purchased before October 2021, interest rates have now risen by more than the 2.5% serviceability buffer they were assessed under, while those who purchased after October 2021 will soon reach their serviceability buffer (3.0%).

"Arguably, household budgets have already been stretched by persistently high non-discretionary inflation, and many may find it hard to accommodate higher mortgage repayments. As more borrowers move into uncharted territory, we could see an increasing number of households find it harder to service their loans," she said.

**Figure 8 - Unit performance summary table (as at end of October 2022)**

	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
<b>Values</b>																	
Median value	\$783,406	\$597,533	\$494,785	\$436,462	\$410,467	\$556,100	\$376,428	\$608,653	\$578,551	\$406,932	\$543,101	\$239,856	\$260,254	\$380,521	\$619,396	\$509,047	\$598,417
Monthly	-0.9%	-0.6%	-0.9%	1.0%	-0.4%	-1.4%	-0.8%	-0.7%	-0.3%	-1.5%	-1.1%	0.9%	-2.3%	-2.1%	-0.7%	-0.9%	-0.8%
Quarterly	-3.3%	-2.0%	-1.2%	2.2%	-0.1%	-4.2%	-0.5%	-2.2%	-2.0%	-2.6%	-2.9%	0.3%	-0.9%	-7.8%	-2.4%	-2.6%	-2.4%
Annual	-6.8%	-3.1%	10.7%	16.3%	2.0%	-3.4%	4.2%	8.3%	4.8%	4.5%	10.0%	3.1%	3.6%	4.7%	-3.0%	7.3%	-1.4%
Total return	-3.9%	0.3%	16.0%	22.1%	7.6%	0.7%	11.2%	13.4%	9.0%	9.6%	15.8%	15.2%	12.2%	10.0%	0.5%	12.6%	2.3%
<b>Rents</b>																	
Median rents	\$603	\$475	\$492	\$425	\$468	\$479	\$511	\$582	\$475	\$353	\$556	\$280	\$460	\$369	\$516	\$474	\$510
Monthly	1.6%	0.9%	1.3%	0.8%	1.1%	-0.5%	0.8%	0.0%	0.1%	0.2%	0.6%	-1.3%	2.0%	0.1%	1.2%	0.4%	1.1%
Quarterly	4.3%	3.1%	4.3%	3.3%	2.6%	0.5%	3.5%	0.2%	1.2%	1.1%	2.6%	-0.4%	5.4%	-0.5%	3.6%	2.0%	3.3%
Annual	13.4%	13.7%	13.1%	12.4%	8.8%	6.8%	6.3%	6.7%	8.0%	6.1%	13.3%	9.3%	11.6%	7.9%	12.8%	10.8%	12.4%
Gross yield	3.72%	4.06%	5.02%	5.04%	5.75%	4.40%	7.17%	5.03%	4.29%	4.31%	5.13%	6.30%	8.89%	5.03%	4.12%	4.84%	4.24%
Vacancy rates	1.12%	1.06%	0.64%	0.22%	0.64%	0.73%	1.45%	1.30%	1.03%	0.86%	1.04%	1.51%	2.07%	0.96%	0.97%	1.06%	0.99%

**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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