20 March, 2023

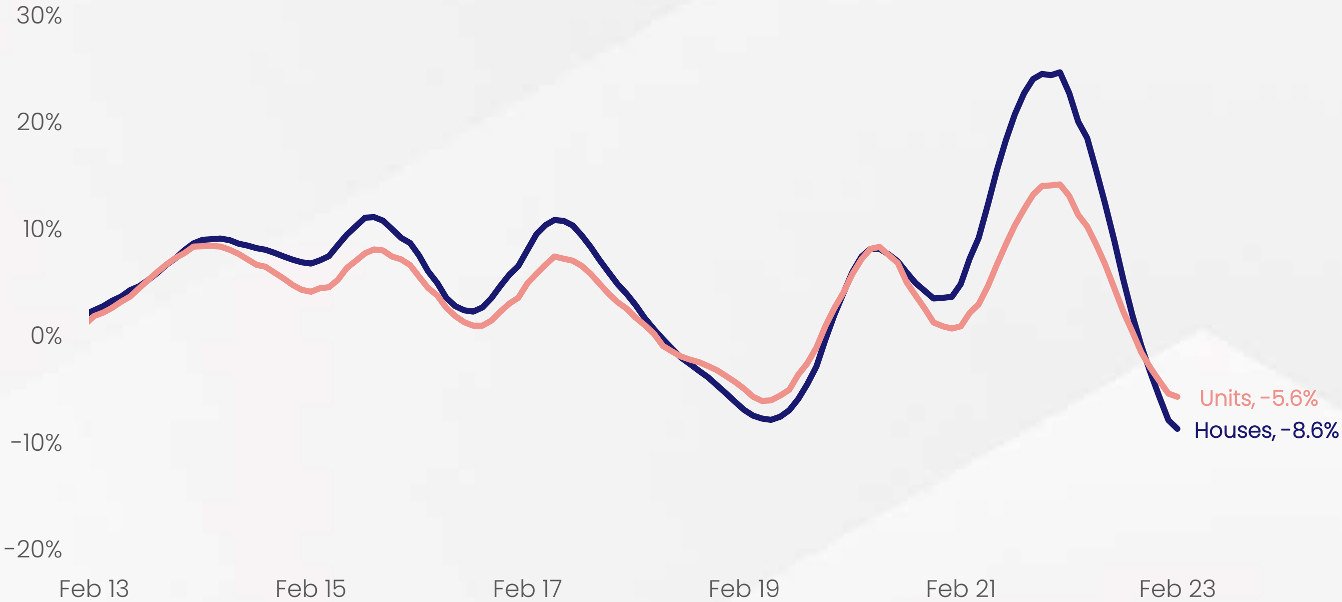
Australian unit market update
March 2023

By Kaytlin Ezzy, Economist at CoreLogic

After the monthly rate of decline re-accelerated through December and January**, CoreLogic's national unit index was flat in February (0.0%), marking a pause in the downward trend seen over the previous nine months.** The stable result was led by a mild increase in Sydney and Adelaide unit values (0.1%) and a moderating in the rate of decline across most of the other capitals. With unit values flat in February, the quarterly trend eased to the smallest decline over a rolling three month period since July last year (-1.4%), with national unit values down just -1.8% over the three months to February. However, the annual trend fell further in February, down -5.6% over the year, with positive monthly growth from the beginning of 2022 falling out of the annual calculation.

National house values also saw the pace of decline decelerate, from -1.0% in January to -0.2% in February, taking the quarterly and annual trend to -2.4% and -8.6%, respectively.

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



CoreLogic Economist Kaytlin Ezzy said the stabilisation of unit values mirrors the broader trend seen across the detached dwelling market, with more expensive unit markets leading the reversal of value falls. While each of the broad value based cohorts are still recording negative growth on a quarterly basis, the sharp uptick in the upper quartile trend, easing from -3.9% over the September quarter to -2.1% in February, suggests that the more expensive end of the unit market has moved past its peak rate of decline. At the same time, the resilience in the more affordable lower quartile of the market has seen both upper and lower quartile unit values rise 0.1% in February, while the broad middle of the market recorded a mild -0.1% decline.

"Looking at monthly changes across the SA4 regions, some of the most expensive regions that were among the steepest peak to though declines through the current downturn are now starting to return a lift in values," Ms Ezzy said.

In Sydney, the North Sydney and Hornsby, and Eastern Suburbs regions, which have a median unit value over $1 million rose 1.0% and 0.6% over the month. Melbourne's most expensive unit region, the Inner East ($706,548), saw values rise 0.1% in February, while four of Brisbane's five most expensive unit regions saw values rise or hold steady. A similar trend can be seen in the February edition of CoreLogic's Mapping the Market, with some of the country's most expensive unit suburbs now recording positive quarterly growth.

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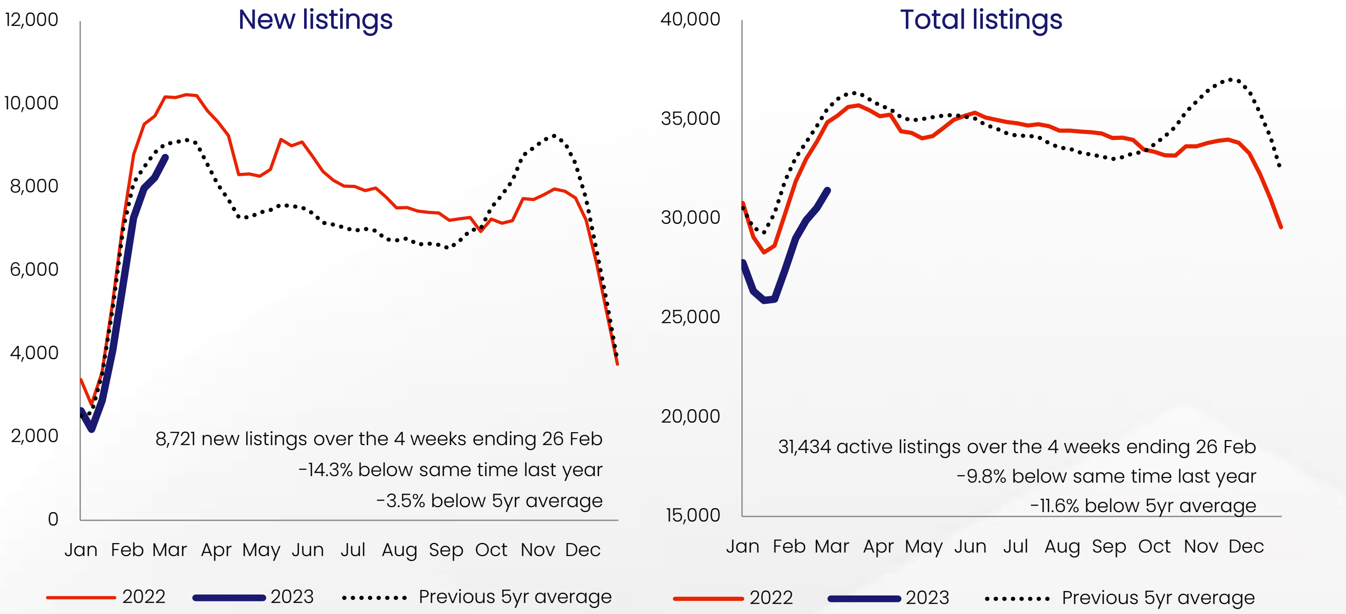
Figure 2 – Four-week rolling count of new listings and total advertised listing - combined capital units



One of the main factors helping to support the current flattening in values is the tight advertised supply. Figure 2 displays the four-week rolling counts for new and total advertised supply capital city units compared to 2022 and the previous 5-year average. Total advertised unit listings rose above average through the middle of 2022 as the first few rate hikes began to impact buyer demand. However, the flow of fresh unit listings has fallen well below average through the final quarter of 2022 and through 2023 to date, reducing total listing levels and helping to support unit values.

Over the four weeks to February 26th, total capital city unit listings were -9.8% below this time last year and down -11.6% compared to the previous five-year average.

"Although February's flattening in values is a positive sign, it's too soon to call the end of the downturn," says Ms Ezzy. "While CoreLogic's daily index has seen a number of markets report [positive growth throughout March to date](), a number of headwinds still lie ahead for the broader housing market, including the potential for further rate rises, a larger than normal portion of borrowers refinancing from very low fixed mortgage rates to higher variable rates, and a likelihood of weaker economic conditions and looser labour markets. Additionally, we could see a rise in new listing, as vendors who had previously been waiting out the downturn return to the market, which could add further downward pressure on values if it's not met with a corresponding rise in demand."

Figure 3– Rolling quarterly growth rate - capital city units

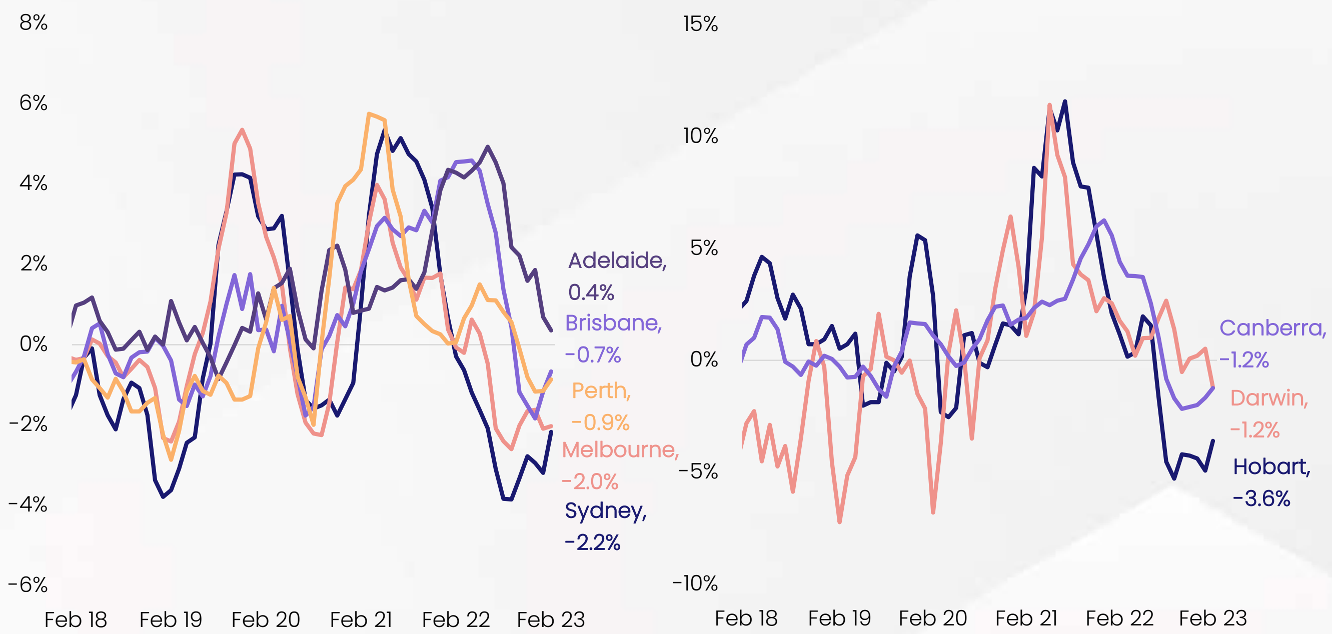


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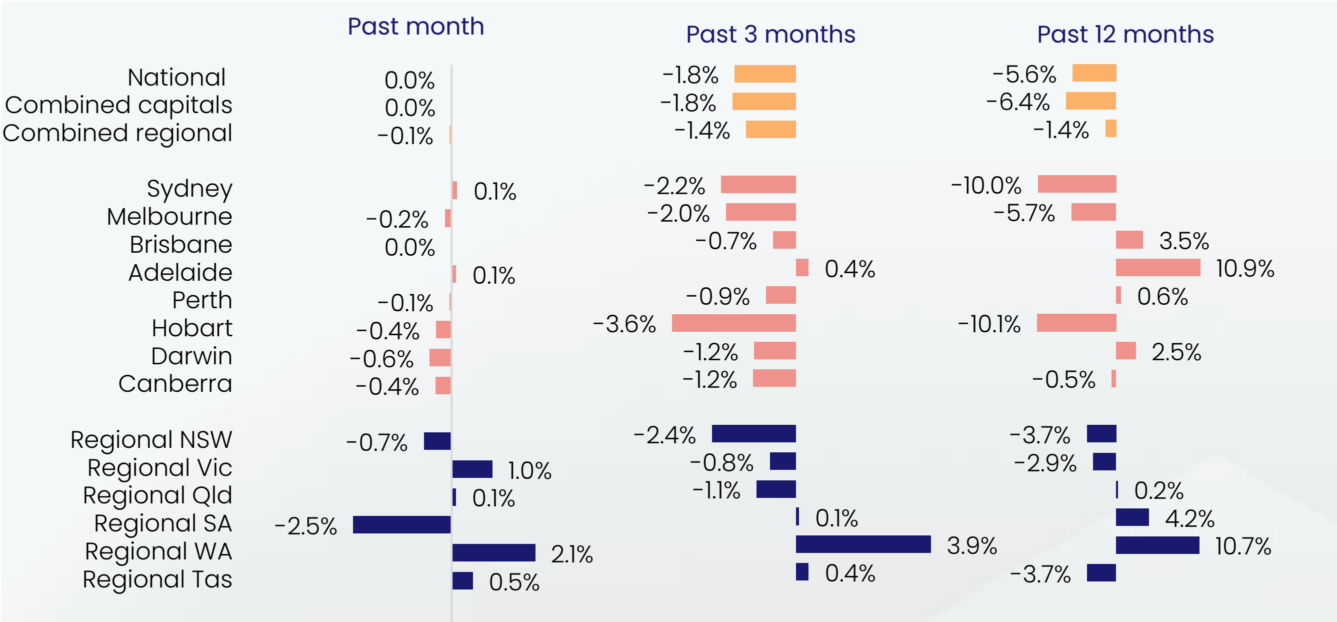
Figure 4– Change in unit values by region (as at end of February 2023)



Across the individual capitals, Sydney and Adelaide recorded the strongest monthly growth in unit values, both rising 0.1%. By comparison, Sydney house values rose 0.3%, while Adelaide houses recorded a -0.3% monthly decline. Brisbane's unit values remained flat over the month, and Perth's values fell -0.1%. At the other end of the scale, Darwin recorded the largest monthly decline in unit values at -0.6%, accelerating from the -0.5% decline seen the previous month, while the monthly rate of decline in Canberra unit values held steady at -0.4%. Hobart also saw unit values fall -0.4% over the month, down from a -2.0% drop recorded in January, while Melbourne values declined -0.2%.

"A more moderate upswing, coupled with the -6.2% decline seen since the April 2022 peak has seen Melbourne unit values return to the levels recorded in March 2020. Melbourne's low-density segment recorded a similar fall, down -0.2%, making Melbourne the only capital city region to lose all of the capital gains accumulated over the COVID period."

Total unit listing supply across the capitals remained fairly tight over the four weeks to February 26th, with most capitals recording advertised listing levels well below the previous 5-year average. The two exceptions are Melbourne, 2.2% above the previous 5-year average, and Hobart, 24.6% above the average.

"Hobart's advertised stock has held well below the usual supply levels for the last five years. Despite being roughly 25% higher than the five-year average, listing volumes are approximately half the average recorded between 2012 and 2016 for this time of year. "

Across the rest of state regions, Regional WA (2.1%), Regional Victoria (1.0%), Regional Tasmania (0.5%) and Regional Qld (0.1%), all saw unit values rise in February, while Regional NSW and Regional SA recorded declines of -0.7% and -2.5%, respectively.

Figure 5 - Total unit listings, change from previous year and previous five-year average - 4 weeks ending 25/12/2022

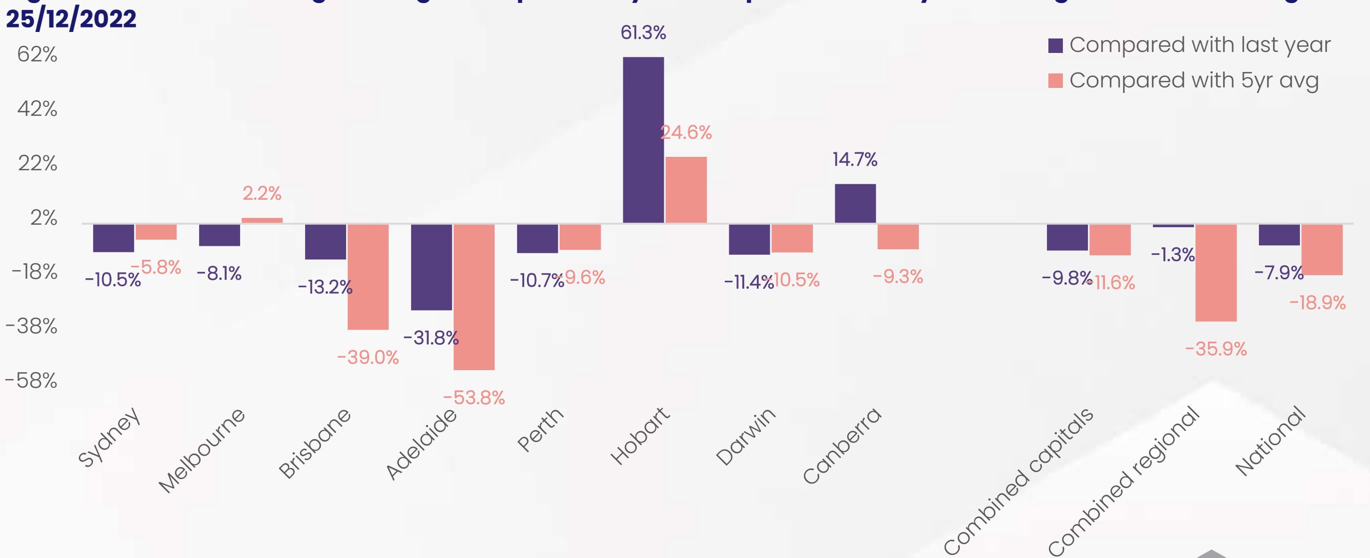


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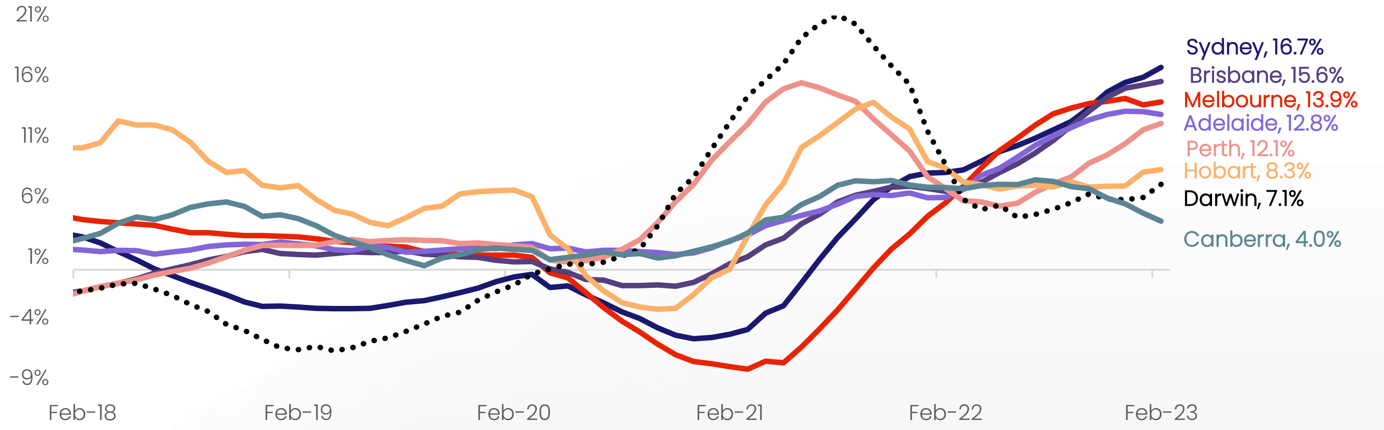
Figure 6 – Rolling annual rental growth rate –capital city units



The pace of monthly rental growth continues to accelerate across Australia's unit market, from a 1.0% increase in January to a 1.2% rise in February. **The continued surge in unit rents saw the national trend record its highest annual growth on record (13.7%), overtaking the month prior for the eighth month in a row.**

Ms Ezzy says, "The surge in rents seen since the onset of COVID is unusual. In the decade prior to 2020, annual growth in unit rents averaged just 2.3% nationally. However, in just under three years, unit rents have risen almost 20%, equivalent to an additional $87 per week, or roughly $4,500 per year."

The loosening in vacancy rates seen in January reversed in February, taking the national unit vacancy rate to a new record low of 0.88%. Each of the capital and rest of state regions saw vacancy rates tighten over the month, with Sydney (0.96%), Melbourne (0.62%), Adelaide (0.24%), and Perth (0.65%) all recording new record low vacancy rates in February.

Among the capitals, Sydney and Melbourne recorded the strongest unit rental growth over the month, rising 1.6% and 1.4%, respectively, with overseas migration fueling rental demand for inner-city apartments. Hobart and Perth also saw unit rents rise 1.4% over the month, while Brisbane, Adelaide, Darwin and Canberra recorded monthly rental value growth of 1.0%, 0.8%, 0.7% and 0.3%, respectively.

"Despite the prospect for strong rental growth, we'll unlikely see much in the way of a supply increase over the short term. While capital city unit rents have increased 12.3% or approximately $256 per month since April 2022, investor mortgage repayments on a typical capital city unit have increased by roughly $826 per month*."

National gross rental yields for units rose a further five basis points in February to 4.52%, taking gross yields 86 basis points above the record lows recorded in December 2021 (3.66%).

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

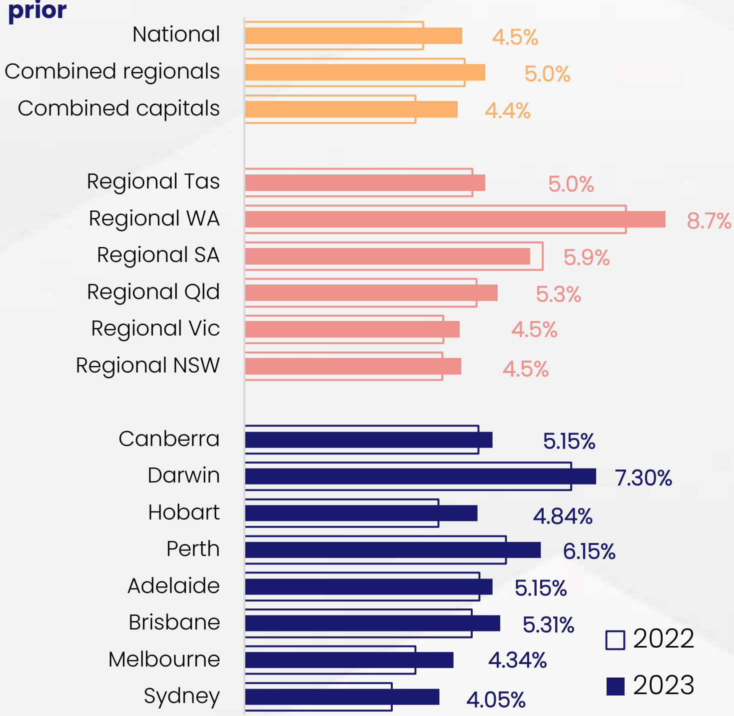
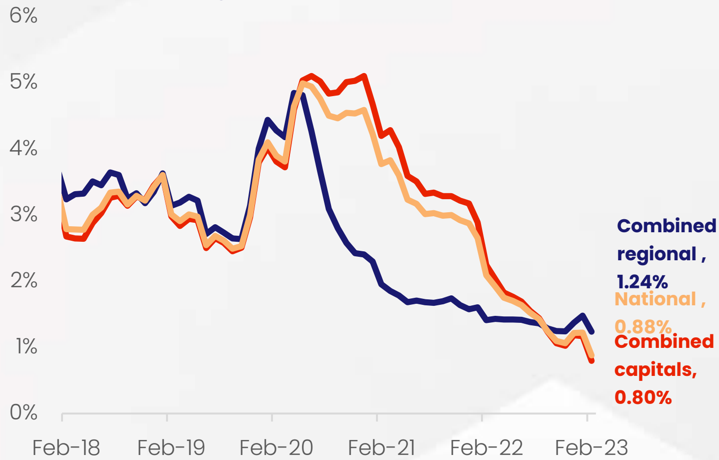


Figure 8 – Unit vacancy rates – National, combined capitals and combined regional



*The change in monthly mortgage repayment is calculated using 90% of the median capital city unit value in April 2022 and February 2023 and assumes average variable mortgage rates for investment loans with the most recent two rate rises passed on to investors in full.

The outlook for until values and the broader market is looking more positive than last month. Although still around GFC and early pandemic levels, consumer sentiment held steady in February, and labour markets remained extremely tight. New data released from APRA showed that mortgage arrears remain near record lows, and a softening of language from the RBA along with recent banking sector uncertainty has the financial market predicting a pause in the rate-tightening cycle.

While a pause or peak in the rate hiking cycle could see values stabilise or even rise moving forward, several downside risks still exist. Arguably the full impact of interest rate rises is yet to be realised, with approximately 35% of mortgage holders still on a fixed rate. As the increased cost of debt begins to impact these borrowers, we could see the number of distressed listings increase, adding downward pressure on values. Additionally, we could see a larger portion of investors owned properties, which are typically in the medium to the high-density sector, hit the market as investors struggle against a negative cash flow.

Figure 8 -Unit performance summary table (as at end of February 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	**$769,773**	**$585,366**	**$490,997**	**$436,567**	**$406,225**	**$526,037**	**$375,349**	**$596,564**	**$561,132**	**$413,044**	**$537,084**	**$269,142**	**$279,730**	**$390,729**	**$607,545**	**$501,439**	**$587,275**
Monthly	0.1%	-0.2%	0.0%	0.1%	-0.1%	-0.4%	-0.6%	-0.4%	-0.7%	1.0%	0.1%	-2.5%	2.1%	0.5%	0.0%	-0.1%	0.0%
Quarterly	-2.2%	-2.0%	-0.7%	0.4%	-0.9%	-3.6%	-1.2%	-1.2%	-2.4%	-0.8%	-1.1%	0.1%	3.9%	0.4%	-1.8%	-1.4%	-1.8%
Annual	-10.0%	-5.7%	3.5%	10.9%	0.6%	-10.1%	2.5%	-0.5%	-3.7%	-2.9%	0.2%	4.2%	10.7%	-3.7%	-6.4%	-1.4%	-5.6%
Total return	-7.0%	-2.1%	8.6%	16.3%	6.4%	-6.3%	9.6%	4.5%	0.2%	1.9%	5.7%	15.9%	19.7%	1.4%	-2.7%	3.6%	-1.7%
Rents																	
Median rents	**$634**	**$493**	**$515**	**$436**	**$495**	**$499**	**$509**	**$585**	**$484**	**$358**	**$574**	**$288**	**$487**	**$368**	**$540**	**$487**	**$531**
Monthly	1.6%	1.4%	1.0%	0.8%	1.4%	1.4%	0.7%	0.3%	0.2%	0.6%	0.6%	-1.5%	1.6%	0.4%	1.4%	0.5%	1.2%
Quarterly	3.9%	3.1%	3.2%	1.9%	3.8%	3.0%	0.0%	0.2%	1.0%	1.1%	2.1%	1.1%	4.3%	-0.2%	3.4%	1.7%	3.0%
Annual	16.7%	13.9%	15.6%	12.8%	12.1%	8.3%	7.1%	4.0%	6.2%	5.2%	12.5%	2.6%	16.2%	4.1%	14.7%	9.7%	13.7%
Gross yield	0.96%	0.62%	0.72%	0.24%	0.65%	1.37%	1.84%	1.56%	1.33%	0.91%	1.16%	0.96%	2.31%	1.36%	0.80%	1.24%	0.88%
Vacancy rates	4.05%	4.34%	5.31%	5.15%	6.15%	4.84%	7.30%	5.15%	4.50%	4.46%	5.26%	5.93%	8.74%	4.99%	4.43%	4.99%	4.52%

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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