NATIONAL MEDIA RELEASE
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Hedonic Home Value Index

2 March 2020

The CoreLogic February 2020 Home Value Index results released today confirmed that nationally, housing values surged by 1.1%, with values across five of Australia's eight capital cities reaching a record-high.

A rebound in the pace of capital gains across the Australian housing market throughout February saw the national index rise by 1.1% over the month, with the strongest capital gains continuing to emanate from Sydney (+1.7%) and Melbourne (+1.2%), while the remaining capital cities recorded a more modest rise, with Darwin the exception where home values were down 1.4% over the month.

On an annual basis, both Sydney and Melbourne moved back into double-digit annual growth rates, with values up 10.9% and 10.7% respectively over the twelve months ending February.

The latest results continue the recovery trend that has been running since June last year, following a peak-to-trough decline of 8.4% in the national index, with larger falls in Sydney (-14.9%) and Melbourne (-11.1%).

While there is large variability in capital growth from region to region and across the product types, every capital city excluding Darwin is showing an upwards trajectory, demonstrating a geographic broadening in the recovery as low mortgage rates and better access to housing credit fuel buyer demand.

Since finding a trough last year, the national index finished February only 1.2% below its 2017 peak. According to CoreLogic head of research Tim Lawless, "At the current run rate of growth, the national index is likely to reach a new nominal high over the next two months."

Melbourne was the most recent city to stage a nominal recovery with housing values surpassing the September 2017 peak last month. Melbourne has joined with Brisbane, Canberra, Hobart and Adelaide where housing values are also tracking at record highs.

Despite posting the most rapid recovery trend amongst the capitals, Sydney housing values remain 3.7% below the 2017 peak; based on the rate of growth over the past three months, Sydney housing values could stage a nominal recovery by the end of May this year.

Further evidence that the long-running downturn is over for the Perth housing market was revealed, with dwelling values increasing by 0.3% in February, marking four consecutive months where dwelling values have avoided a fall; a trend not seen since the market peaked in mid-2014. Tim Lawless said, "Although Perth values are now trending higher, the recovery period is likely to be a long one, with Perth housing values remaining 21.0% below their peak."

Regional markets are generally lagging behind the capital cities, with housing values only 1.4% higher over the past twelve months compared with a 7.3% rise across the combined capital city markets. Tim Lawless said, "The diversity across regional Australia is extreme, with drought affected areas impacting the regional index. Meanwhile, the regional centres adjacent to the largest capitals, as well as coastal lifestyle markets, show a stronger performance.

Index results as at February 29, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	1.7%	4.6%	10.9%	14.4%	$872,934
Melbourne	1.2%	3.9%	10.7%	14.3%	$689,088
Brisbane	0.6%	1.7%	1.9%	6.5%	$503,265
Adelaide	0.1%	0.8%	0.4%	4.9%	$439,453
Perth	0.3%	0.4%	-4.0%	0.1%	$442,691
Hobart	0.8%	1.9%	5.0%	10.5%	$488,968
Darwin	-1.4%	-1.8%	-7.8%	0.1%	$386,345
Canberra	0.8%	1.1%	4.1%	8.9%	$631,862
Combined capitals	1.2%	3.4%	7.3%	11.1%	$637,710
Combined regional	0.7%	1.9%	1.4%	6.3%	$391,460
National	1.1%	3.0%	6.1%	10.1%	$549,918

Highlights over the 3 months to February 2020

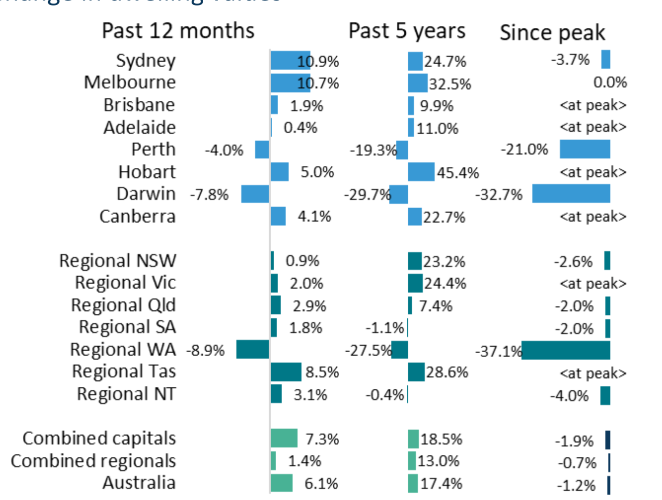
Sydney
+4.6%
Best performing capital city

Darwin
-1.8%
Weakest performing capital city

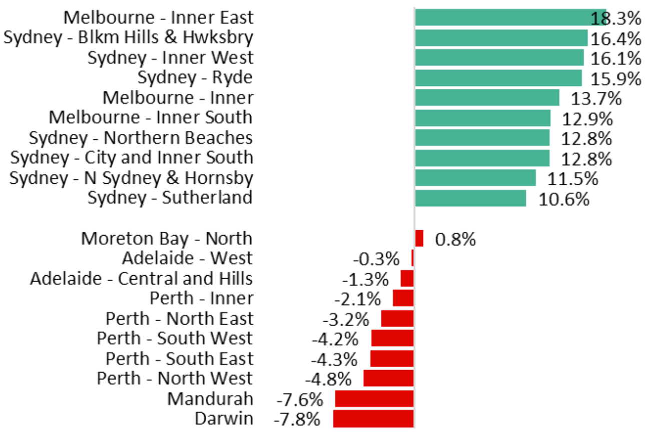
Darwin
5.9%
Highest rental yield

Sydney
3.0%
Lowest rental yield

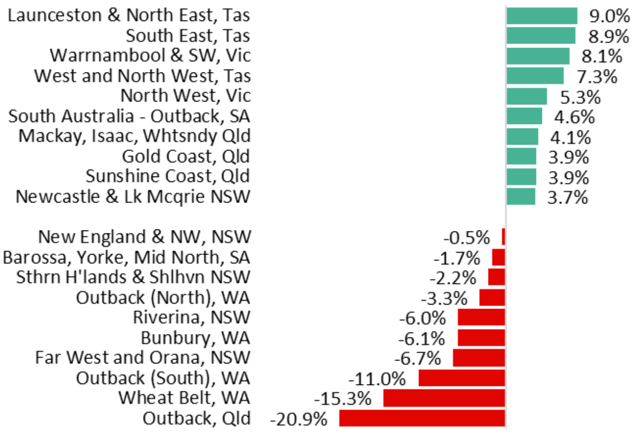
Change in dwelling values



Top ten and bottom ten sub-regions for annual change in dwelling values, capital city SA4 regions



Top ten and bottom ten sub-regions for annual change in dwelling values, non capital city SA4 regions



The trend towards a stronger performance across premium markets is most evident in Sydney and Melbourne, and to a lesser extent, Brisbane.

Sydney's top quartile market has recorded a 13.3% lift in dwelling values over the past twelve months compared with a 5.6% rise across the lower quartile. Similarly, Melbourne's top quartile is up 14.2% in value over the past year compared with a 7.6% rise in lower quartile values. Brisbane's upper quartile values are 2.2% higher over the year and lower quartile values are up 1.3%.

The stronger performance across the more expensive end of the market comes after a larger correction during the downturn. However, Tim Lawless said, "structural factors may also be at play, including a rise in borrowing capacity following changes to serviceability assessment from APRA in July 2019, and the dominance of owner occupier buyers (rather than investors) through the recovery phase to date."

"With lenders favouring 'high quality' borrowers, buyers with a large deposit and low level of debt relative to their incomes, are likely to be those who receive the lowest mortgage rates - another factor that could be supporting demand at the more expensive end of the market."

Only nine of the forty six capital city sub-regions recorded a decline in housing values over the past twelve months, with these areas confined to Darwin and regions of Perth and Adelaide.

On a rolling quarterly basis, only four of the capital city sub-regions have recorded a fall in housing values, with the Inner region and South West region of Perth moving back into positive quarterly growth as the market moves out of a long down-phase.

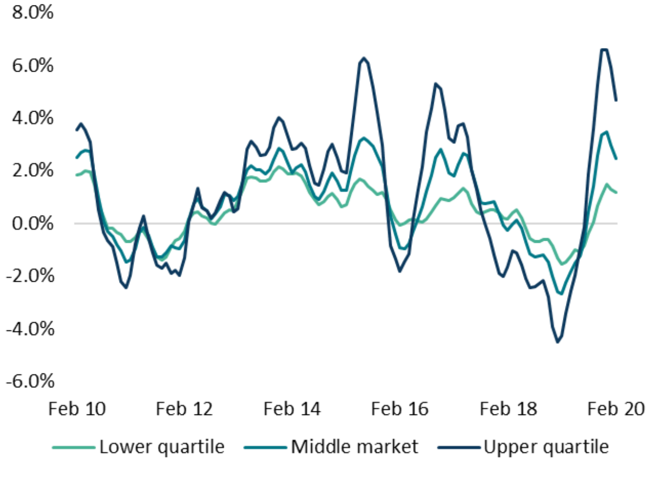
The top ten best performing capital city sub-regions are all located in Sydney and Melbourne, with each of these areas showing double-digit growth in home values over the past twelve months. Many of these regions recorded the largest correction through the downturn and are now showing an extremely rapid recovery.

Across the non-capital city sub-regions, thirteen of the forty two areas have recorded a fall in housing values over the past twelve months. The weakest conditions were typically in the rural agricultural areas where the drought has had an adverse effect on economic conditions and local housing demand. Outback Queensland, which covers most of the western portion of the state, has seen values drop by almost 21% over the year. Western Australia's Wheat Belt and southern Outback region also saw large falls.

Regional Tasmania is now home to three of the top four regional areas with the highest capital gains with areas of Victoria rounding out the top five. According to Tim Lawless, "Tasmania's home values have been rising swiftly, with housing values rising faster across regional Tasmania than Hobart."

The strongest value gains continue to be recorded across properties in the upper quartile value range. Across the combined capitals, the value of properties in the upper quartile rose by 1.6% in February compared with a 0.4% lift in value across the lower quartile. On an annual basis across the combined capitals, upper quartile property values are 11.4% higher while lower quartile property values are up 0.8%.

Rolling three month change across broad valuation cohorts, combined capitals

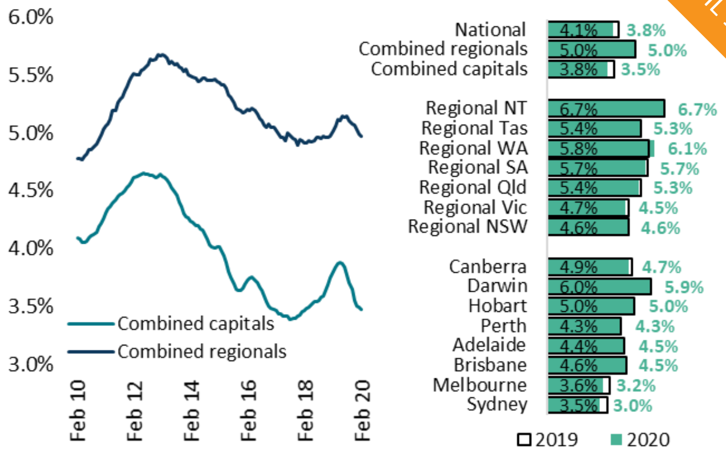


Nationally, rents were up four tenths of a percent in February, taking the annual change in rental rates to 1.4%. Rental growth generally remains weak across most markets, however the recent trend has been towards a subtle rise in rental appreciation. Twelve months ago, the national rental index was rising at an annual rate of just 0.4%.

The improvement in rental rates can be attributed to tightening rental supply. Housing finance data shows investor participation in the housing market is near record lows and new supply additions are tapering.

Hobart remains the tightest rental market, with rents up 5.5% over the past twelve months, followed by Adelaide (+2.3%) and Perth (+1.9%), while rents are still trending lower on an annual basis in Darwin (-1.6%) and Sydney (-0.3%).

Gross rental yields



With housing values rising more rapidly than rental rates, gross rental yields are swiftly compressing. Across the combined capital cities the gross yield was tracking at 3.48% in February; the lowest yield reading since February 2018. The current gross rental yield is also only nine basis points away from record lows.

Gross rental yields in Sydney are tracking to new record lows each month, falling to just 2.99% in February. This is occurring as housing values surge higher against a backdrop of falling rents.

Despite overall weak housing market conditions, Darwin gross rental yields are the highest of any capital city at 5.9%. However, this is a reflection of housing values falling faster than rental rates, rather than growth in rental values.

The strongest yield dynamic is in Hobart where overall tight housing conditions have pushed gross rental yields to 5.0%, providing a total return (gross yield plus annual capital gain) of 10.5%.

Although gross rental yields are trending lower, so too are mortgage rates. At the end of January, the average three-year fixed rate for an investor mortgage was 3.48%. This is only marginally lower than capital city gross rental yields, implying investors will be finding it hard to locate a cash flow positive investment property in low yielding markets like Sydney and Melbourne.

The housing rebound has just moved through its eighth consecutive month of growth based on the national index, and housing values are 7.9% higher since they found a floor in June. Sydney and Melbourne have notched up a ninth month of growth, taking values 13.1% and 12.6% higher through the growth phase to date.

Tim Lawless said, "The primary factors driving this rebound remain in place and include an extremely low cost of debt and improved borrowing capacity. However, considering the sluggish pace of household income growth, housing affordability is eroding rapidly which is likely to see some parts of the market become less active."

In Sydney, Melbourne and (to a lesser extent) Hobart, affordability constraints are likely to gradually push demand towards the middle and outer ring suburbs, or towards cheaper price points in the medium to high density sector. These more affordable segments of the market have generally seen lower rates of capital gain over the cycle to date and offer lower barriers to entry, as well as higher rental yields for investors.

Affordability pressures are less pressing across the remaining capital cities. In regions such as South East Queensland and Perth, housing is very affordable relative to Sydney and Melbourne, jobs growth is trending higher and unemployment is reducing. These could be the markets to watch for a stronger performance later this year.

There are some early signs that the rate of growth may have already peaked late last year across Sydney and Melbourne, as affordability constraints dampen participation in the market and advertised supply levels increase.

Tim Lawless said, "A more significant downturn in consumer sentiment related to the coronavirus outbreak could become a determining factor that impacts the market over coming months.

"While housing demand is now relatively insulated from a downturn in foreign buyers, the economic impact on key export sectors such as education, tourism and commodities is likely to result in weaker economic conditions and lower consumer sentiment. Consumer sentiment readings are already low, and a further deterioration could see housing market activity start to slow."

CoreLogic Home Value Index tables

		Capitals								Rest of state regions							Aggregate indices		
		Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Regional NT	Combined capitals	Combined regional	National
	All Dwellings																		
Dwellings	Month	1.7%	1.2%	0.6%	0.1%	0.3%	0.8%	-1.4%	0.8%	0.8%	0.9%	0.5%	1.3%	-0.1%	1.1%	na	1.2%	0.7%	1.1%
	Quarter	4.6%	3.9%	1.7%	0.8%	0.4%	1.9%	-1.8%	1.1%	1.7%	2.5%	1.9%	1.7%	0.8%	3.5%	na	3.4%	1.9%	3.0%
	YTD	2.9%	2.4%	1.0%	0.3%	0.4%	1.7%	-1.3%	1.0%	1.3%	1.7%	1.3%	1.3%	0.8%	2.5%	na	2.1%	1.4%	1.9%
	Annual	10.9%	10.7%	1.9%	0.4%	-4.0%	5.0%	-7.8%	4.1%	0.9%	2.0%	2.9%	1.8%	-8.9%	8.5%	na	7.3%	1.4%	6.1%
	Total return	14.4%	14.3%	6.5%	4.9%	0.1%	10.5%	0.1%	8.9%	5.7%	7.0%	7.9%	8.2%	-3.4%	14.8%	n a	11.1%	6.3%	10.1%
	Gross yield	3.0%	3.2%	4.5%	4.5%	4.3%	5.0%	5.9%	4.7%	4.6%	4.5%	5.3%	5.7%	6.1%	5.3%	na	3.5%	5.0%	3.8%
	Median value	$872,934	$689,088	$503,265	$439,453	$442,691	$488,968	$386,345	$631,862	$462,591	$382,254	$381,817	$241,403	$306,545	$315,338	na	$637,710	$391,460	$549,918
	Houses																		
Houses	Month	1.8%	1.3%	0.6%	0.0%	0.2%	0.9%	0.4%	0.8%	0.8%	1.0%	0.7%	1.3%	-0.3%	1.0%	-1.8%	1.2%	0.8%	1.1%
	Quarter	5.4%	4.5%	2.0%	0.8%	0.2%	1.6%	0.9%	1.2%	1.9%	2.6%	2.3%	1.4%	0.4%	3.5%	1.6%	3.7%	2.0%	3.3%
	YTD	3.3%	2.7%	1.3%	0.2%	0.3%	1.8%	1.1%	1.2%	1.3%	1.7%	1.5%	1.0%	0.5%	2.3%	-1.0%	2.3%	1.4%	2.1%
	Annual	12.4%	10.8%	2.2%	0.4%	-4.1%	5.1%	-8.1%	5.0%	1.3%	1.3%	3.8%	1.4%	-8.9%	7.3%	-0.8%	7.5%	1.6%	6.1%
	Total return	15.9%	13.9%	6.6%	4.6%	-0.1%	10.7%	-0.4%	9.6%	6.1%	6.3%	8.6%	7.9%	-3.3%	13.0%	7.6%	11.0%	6.4%	9.9%
	Gross yield	2.7%	2.8%	4.3%	4.3%	4.2%	5.0%	5.4%	4.3%	4.6%	4.5%	5.2%	5.6%	6.0%	5.2%	6.9%	3.3%	4.9%	3.6%
	Median value	$1,001,357	$809,719	$551,766	$477,129	$458,582	$520,201	$469,526	$704,865	$475,917	$403,615	$391,446	$246,030	$317,098	$325,974	$402,479	$669,037	$403,243	$561,694
	Units																		
Units	Month	1.5%	1.0%	0.3%	0.2%	1.0%	0.2%	-4.7%	0.5%	0.5%	0.0%	0.0%	0.7%	3.9%	2.4%	na	1.2%	0.3%	1.0%
	Quarter	2.9%	2.7%	0.4%	0.6%	1.4%	2.9%	-6.8%	1.1%	1.0%	1.8%	0.5%	9.2%	7.2%	3.5%	na	2.4%	1.1%	2.2%
	YTD	1.8%	1.8%	-0.3%	0.7%	1.4%	1.0%	-5.7%	0.6%	0.9%	1.3%	0.7%	6.8%	5.5%	4.0%	na	1.5%	1.1%	1.5%
	Annual	7.4%	10.5%	0.5%	0.6%	-3.3%	4.5%	-7.3%	0.9%	-1.4%	5.7%	0.0%	9.9%	-4.5%	19.8%	na	6.9%	0.5%	5.9%
	Total return	11.5%	14.9%	5.9%	6.1%	1.3%	10.0%	0.8%	6.7%	3.5%	11.6%	5.9%	13.0%	0.6%	27.1%	n a	11.3%	5.9%	10.5%
	Gross yield	3.5%	4.0%	5.3%	5.5%	5.1%	5.2%	7.0%	5.8%	4.7%	4.8%	5.6%	6.3%	7.3%	5.6%	na	4.0%	5.2%	4.2%
	Median value	$763,962	$583,294	$384,396	$325,243	$357,593	$398,394	$271,847	$445,354	$400,177	$288,721	$358,977	$181,196	$225,474	$257,350	na	$577,800	$348,350	$518,845

CoreLogic is the largest independent provider of property information, analytics and property-related risk management services in Australia and New Zealand.

Note: As at November 1st, 2018, CoreLogic has revised the historical hedonic home value index series. The revisions reflect improvements to the underlying data following a major investment in additional data sources and improvements in the overall scope of CoreLogic data assets.

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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