CoreLogic

Hedonic Home Value Index

1 December 2021

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CoreLogic: Housing values continue to rise in November, but conditions are diversifying as stock levels rise and affordability pressures mount.

Australian housing values were 1.3% higher in November marking the 14th consecutive month where CoreLogic's national home value index recorded positive value growth. The November update takes national housing values 22.2% higher over the past 12 months, adding approximately $126,700 to the median value of an Australian home.

Although values are continuing to rise, the November result was the softest outcome since January when values rose 0.9%. Since a cyclical peak in the rate of growth in March, when housing values rose at 2.8%, there has been a notable trend towards milder price growth.

Tim Lawless, CoreLogic's research director, says the slowdown in the pace of growth is due to a number of reasons. "Virtually every factor that has driven housing values higher has lost some potency over recent months. Fixed mortgage rates are rising, higher listings are taking some urgency away from buyers, affordability has become a more substantial barrier to entry and credit is less available."

The capital city trends are showing greater diversity, with Brisbane and Adelaide now recording the fastest pace of growth, while conditions across Sydney and Melbourne have slowed more sharply.

Brisbane and Adelaide are the only capital cities yet to experience a slowdown, with the monthly rate of growth reaching a new cyclical high across both cities in November. Brisbane home values were up 2.9% in November (highest since Oct 2003) while Adelaide values were up 2.5% (highest since Feb 1993). In dollar terms that equates to a monthly rise of approximately $18,500 and $13,500 respectively based on median values.

"Relative to the larger cities, housing affordability is less pressing, there have been fewer disruptions from COVID lockdowns and a positive rate of interstate migration is fueling housing demand," Mr Lawless said. "On the other hand, Sydney and Melbourne have seen demand more heavily impacted from affordability pressures and negative migration from both an interstate and overseas perspective."

Different supply dynamics are also creating divergent trends across Australian capital cities. In the four week period to November 28, total stock available for sale across Adelaide was -32.0% lower than the five year average, and -33.9% lower across Brisbane. Across Sydney and Melbourne however, stock levels have become far more normalised in recent weeks, with Sydney total listings sitting just -2.6% below the five year average, while stock levels across Melbourne are 7.9% above the five year average.

Houses have continued to outperform units, with capital city values up 1.2% and 0.7% respectively over the month. However, the quarterly rate of growth is now the narrowest it has been since October last year, with 1.6 percentage points between the two broad housing types.

Index results as at November 30, 2021

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.9%	4.3%	25.8%	28.8%	$1,090,276
Melbourne	0.6%	2.4%	16.3%	19.0%	$788,484
Brisbane	2.9%	7.4%	25.1%	29.8%	$662,199
Adelaide	2.5%	6.5%	21.4%	26.5%	$558,179
Perth	0.2%	0.4%	14.5%	19.5%	$528,540
Hobart	1.1%	5.5%	27.7%	33.0%	$676,595
Darwin	-0.4%	0.2%	16.7%	23.5%	$493,047
Canberra	1.1%	5.0%	24.5%	29.1%	$882,519
Combined capitals	1.1%	4.0%	21.3%	24.6%	$783,557
Combined regional	2.2%	5.9%	25.2%	30.4%	$527,322
National	1.3%	4.4%	22.2%	25.8%	$698,170

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Based on median values, capital city houses are now 37.9% more expensive than capital city units – the largest difference on record. In dollar value terms, a capital city house is averaging approximately $240,500 more than a capital city unit. In Sydney, where the gap between house and unit values is the widest, a house costs $523,000 more on average than a unit.

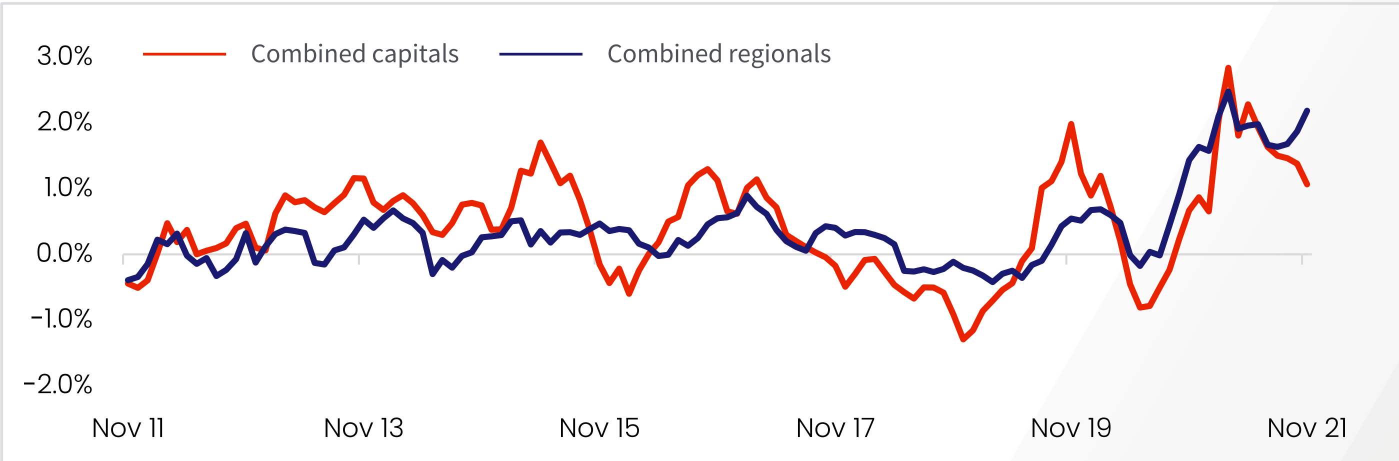
"With such a large value gap between the broad housing types, it's no wonder we are seeing demand gradually transition towards higher density housing options simply because they are substantially more affordable than buying a house," Mr Lawless said.

The slowdown in housing market conditions is less obvious across the regional areas of Australia, where the monthly pace of capital gains has accelerated over the past three months. Across the combined 'rest-of-state' regions of Australia, housing values were up 2.2% in November, double the monthly rate recorded across the combined capital cities (1.1%). Regional Tasmania (2.5% month / 29.8% year) and regional New South Wales (2.4% month / 29.1% year) have been the standouts from a capital growth perspective.

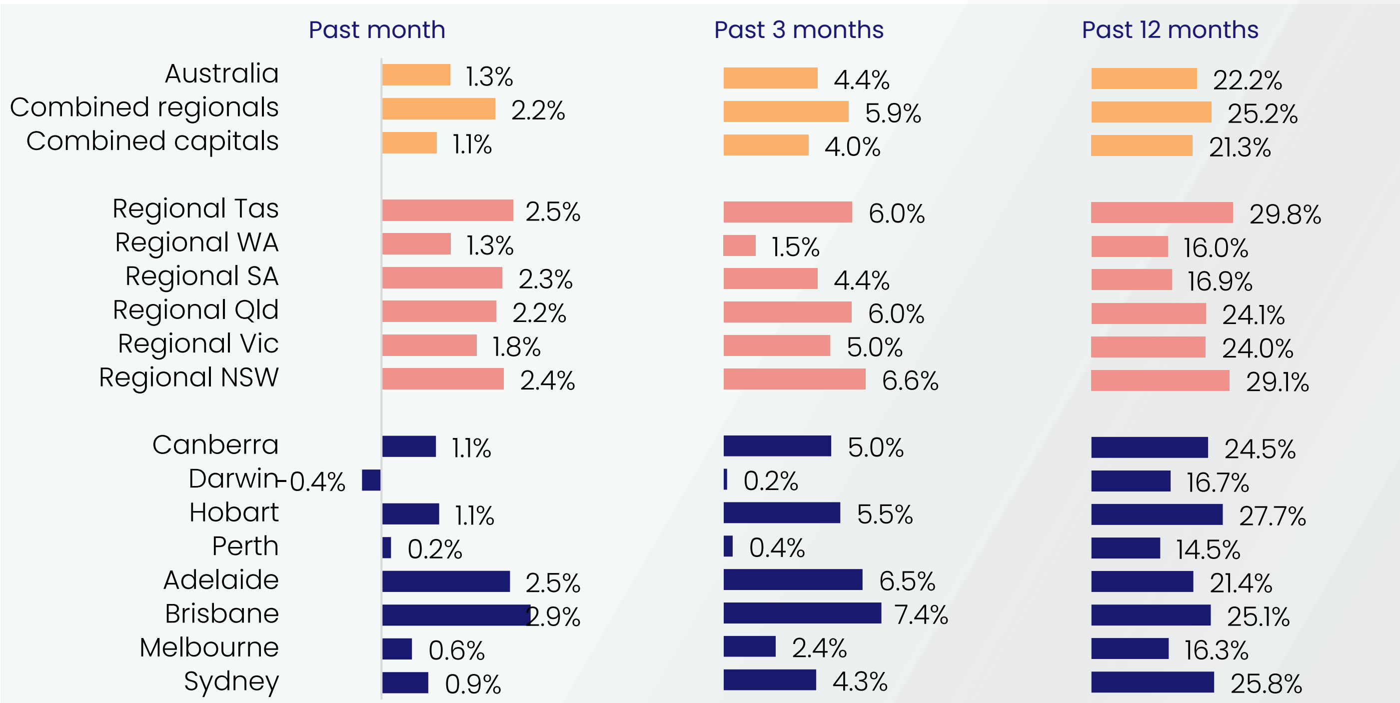
Across regional Australia, the strongest growth trends remain skewed towards the coastal and lifestyle markets with NSW's Southern Highlands and Shoalhaven recording the highest quarterly growth rate (9.7%) followed by the Hunter Valley (excluding Newcastle) (8.9%) and Tasmania's Launceston and North East region (7.7%).

Demand for housing across regional markets, especially those within commuting distance of the major cities, is continuing to benefit from the rise in popularity of remote working arrangements, along with renewed demand for coastal and lifestyle properties, and in many cases, more affordable housing options.

Month-on-month change in dwelling values



Change in dwelling values



A rise in the number of homes available for sale is a key factor driving the slowdown in capital growth. Nationally, the number of new listings added to the market over the four weeks ending November 28th was tracking 15.7% above the five year average - the highest level since late 2015.

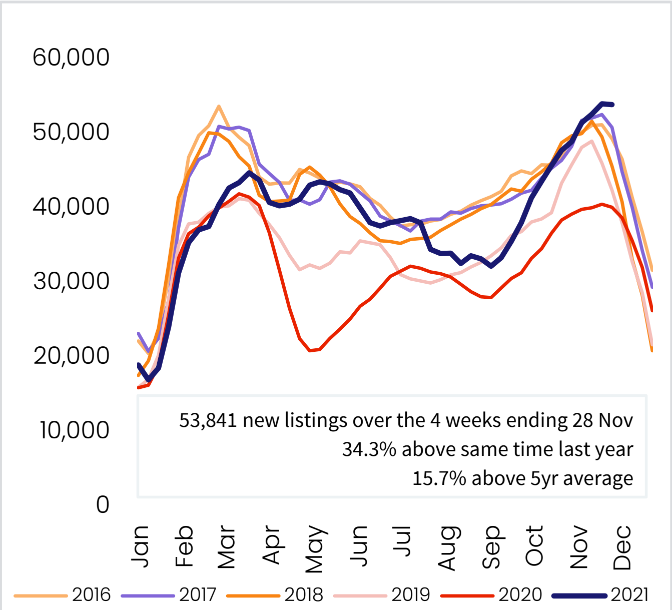
"Fresh listings are being added to the market faster than they can be absorbed, pushing total active listings higher. More listings imply more choice and less urgency for buyers," Mr Lawless said.

"Although inventory levels are rising, the upwards trend is from an extremely low base. The total number of active listings has increased by 67.3% since early September, but stock levels remain -24.0% below the five year average for this time of the year. We expect inventory levels will continue to normalise into 2022 which should see selling dynamics gradually shift away from vendors, providing buyers with some additional leverage at the negotiation table."

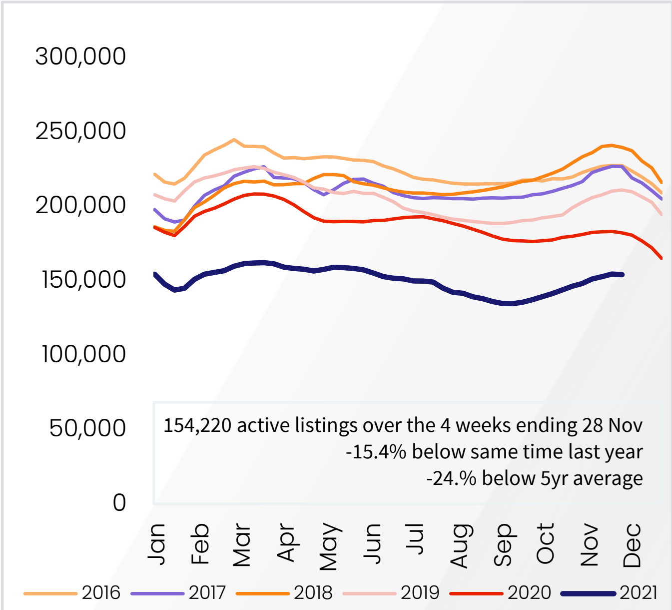
As listings rise we are also seeing a subtle softening in vendor metrics such as the median number of days it takes to sell a property and auction clearance rates. Capital city homes are showing a median time on market of 25 days, up compared with a recent low of just 21 days in May. At the same time, auction clearance rates have trended lower, with the capital city weighted average reducing from the low 80% range in early October to the low 70% range by late November.

"The rise in listings and softening of key vendor metrics implies the housing market may be moving through peak selling conditions, however it will be important to see if this trend towards higher listings continues after the festive season," Mr Lawless said.

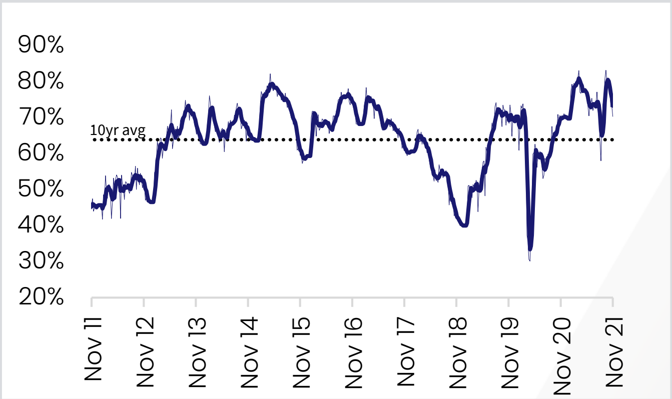
New listings, rolling 28 day count, national



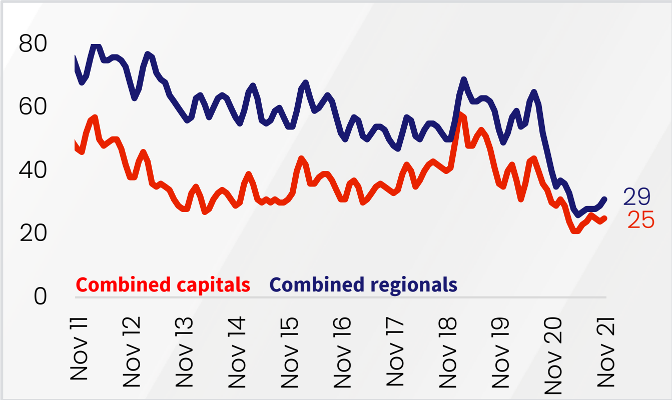
Total listings, rolling 28 day count, national

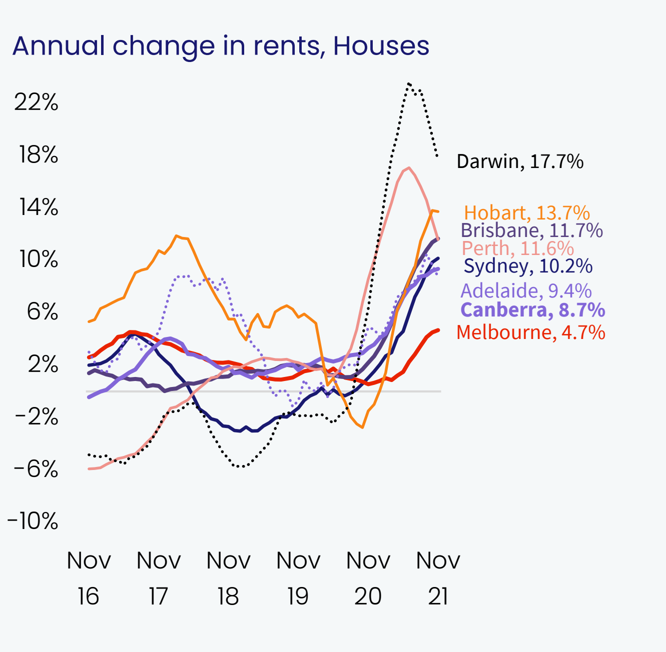


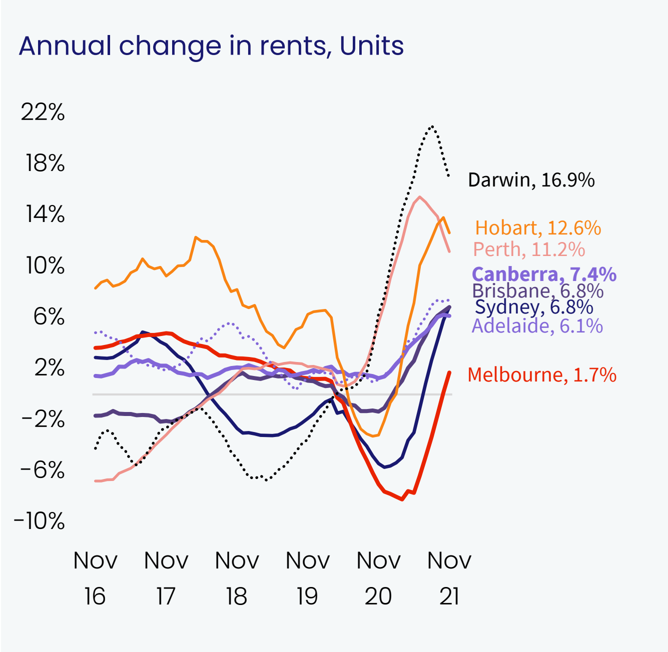
Combined capital city auction clearance rates



Median days on market







The trend in rental growth has held reasonably firm since April, with the monthly change in national rents holding between 0.6% and 0.7%, well above the decade average monthly movement of 0.2%.

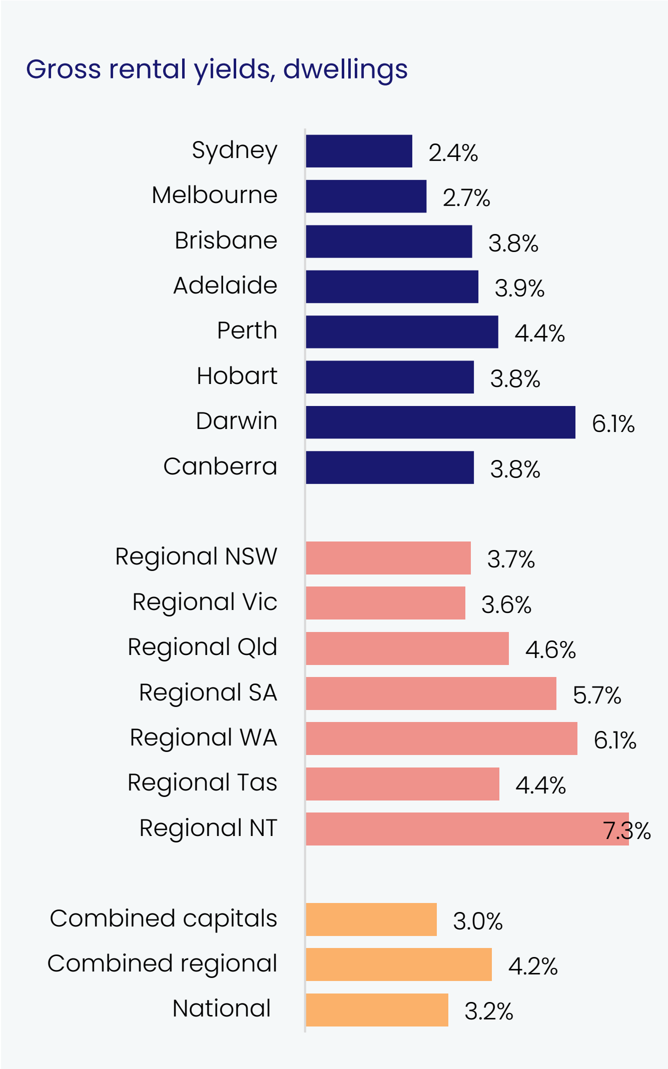
Every capital city and rest-of-state region recorded a rise in dwelling rents over the month, with house rents generally continuing to record a faster rate of growth than units. Melbourne is one of the few exceptions, where unit rents have risen at a faster pace than house rents over four of the past five months.

"Melbourne's unit sector was previously recording the weakest rental conditions of any capital city, with rents plunging -8.5% between March 2020 and May 2021. It seems that more tenants are taking advantage of the renewed affordability of unit rentals, especially across inner city precincts where rents had previously fallen sharply," Mr Lawless said.

Although rents are rising, gross rental yields have continued to reduce as housing values rise at a faster rate than rents. Nationally, gross rental yields fell to a new record low in November, reaching 3.23%.

"Gross rental yields reached a new record low across every capital city and broad rest-of-state region in November implying a growing imbalance between the costs associated with owning a home versus renting a home," Mr Lawless said.

"With mortgage rates also extremely low, such a small yield profile is not overly concerning at the moment, however as investment activity increases along with the growing potential for higher interest rates, we could see more investors once again relying on a negative gearing strategy over the medium to long term," Mr Lawless continued.



Hedonic Home Value Index

The outlook for Australian housing markets remains positive, however the pace of capital gains has lost momentum across most regions since April. This trend towards slowing growth is likely to continue into next year and beyond.

Most of the factors that have been pushing housing prices higher have either diminished or expired.

Advertised inventory remains low but is now rising across most regions. A further increase in available supply should help to take more heat out of the market as buyers have more choice and less urgency. Vendors may need to adjust their pricing expectations if homes take longer to sell.

Fixed term mortgage rates are rising which could act as a disincentive for some buyers. Although fixed rates are rising, variable mortgage rates are less inclined to rise until the cash rate lifts, which is still expected to be more than a year away. Low mortgage rates will continue to support housing demand, but probably not to the same extent as seen through 2021.

Housing affordability is becoming more challenging from month to month. The latest housing affordability metrics from CoreLogic and ANZ show the ratio of housing values to household incomes reached a new record high in June, as did the number of years it takes to save a deposit. With higher barriers to entry, especially for new home buyers who don't have the benefit of accrued equity behind them, it's likely housing demand will be progressively impacted as fewer households can afford to buy. A natural consequence of worsening affordability could see demand increase for more affordable higher density housing options such as townhomes and units.

Tighter credit policies could also work to slow housing activity. APRA has already lifted the serviceability buffer for new lending by fifty basis points. While this policy isn't likely to have a material impact on home lending, APRA went on to release a macroprudential policy framework in November which calls out growth in asset prices (along with other factors including credit growth and lending conditions) as a key indicator of emerging systemic risks. The potential for tighter credit policies in the future remains a downside risk for housing.

Although the housing headwinds are building, a variety of tailwinds should continue to support an upwards trajectory for home values in the short term. Although mortgage rates are rising, the cost of debt is likely to remain well below long term averages, continuing to support demand for an extended period of time. Additionally, as more Australians are vaccinated disruptions from COVID should become less frequent and shorter in duration, although the latest Omicron variant presents some additional risk. Open international borders, despite the recently announced delay, are also a net positive for housing markets, although the most immediate impact from resumed overseas migration will be seen in rental demand, while an uplift in purchasing a home from permanent migrants is likely to be more gradual.

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
Dwellings	**All Dwellings**																		
	Month	0.9%	0.6%	2.9%	2.5%	0.2%	1.1%	-0.4%	1.1%	2.4%	1.8%	2.2%	2.3%	1.3%	2.5%	na	1.1%	2.2%	1.3%
	Quarter	4.3%	2.4%	7.4%	6.5%	0.4%	5.5%	0.2%	5.0%	6.6%	5.0%	6.0%	4.4%	1.5%	6.0%	na	4.0%	5.9%	4.4%
	YTD	24.9%	15.2%	23.8%	20.1%	12.7%	26.8%	14.0%	23.8%	26.9%	21.8%	22.3%	14.6%	13.6%	27.1%	na	20.3%	23.2%	20.9%
	Annual	25.8%	16.3%	25.1%	21.4%	14.5%	27.7%	16.7%	24.5%	29.1%	24.0%	24.1%	16.9%	16.0%	29.8%	na	21.3%	25.2%	22.2%
	Total return	28.8%	19.0%	29.8%	26.5%	19.5%	33.0%	23.5%	29.1%	33.5%	29.0%	30.5%	23.5%	22.9%	36.9%	n a	24.6%	30.4%	25.8%
	Gross yield	2.4%	2.7%	3.8%	3.9%	4.4%	3.8%	6.1%	3.8%	3.7%	3.6%	4.6%	5.7%	6.1%	4.4%	na	3.0%	4.2%	3.2%
	Median value	$1,090,276	$788,484	$662,199	$558,179	$528,540	$676,595	$493,047	$882,519	$667,577	$533,279	$487,722	$291,637	$375,573	$465,816	na	$783,557	$527,322	$698,170
Houses	**Houses**																		
	Month	1.0%	0.6%	3.2%	2.6%	0.2%	1.2%	-0.5%	0.8%	2.5%	1.9%	2.2%	2.3%	1.5%	2.3%	-0.1%	1.2%	2.2%	1.4%
	Quarter	4.7%	2.8%	8.2%	7.1%	0.4%	5.4%	-0.9%	4.8%	6.8%	5.1%	5.9%	4.3%	1.6%	5.8%	-1.1%	4.4%	5.9%	4.7%
	YTD	29.1%	18.1%	26.4%	22.4%	12.9%	25.4%	12.1%	26.4%	27.5%	21.8%	22.4%	14.6%	13.8%	27.2%	7.3%	23.0%	23.5%	23.1%
	Annual	30.4%	19.5%	27.9%	23.9%	14.8%	26.6%	14.8%	27.2%	29.9%	24.1%	24.3%	17.0%	16.5%	30.4%	10.3%	24.3%	25.6%	24.6%
	Total return	33.6%	22.3%	33.0%	29.3%	19.6%	31.9%	20.9%	32.1%	34.2%	28.9%	30.8%	23.7%	23.2%	38.0%	18.0%	27.8%	30.7%	28.4%
	Gross yield	2.2%	2.4%	3.5%	3.7%	4.2%	3.8%	5.6%	3.4%	3.7%	3.5%	4.5%	5.7%	6.0%	4.3%	7.4%	2.8%	4.1%	3.1%
	Median value	$1,360,543	$986,992	$757,194	$608,624	$552,158	$726,779	$562,900	$999,755	$695,251	$569,065	$491,219	$296,927	$388,903	$485,372	$432,992	$875,195	$545,063	$750,096
Units	**Units**																		
	Month	0.7%	0.5%	1.1%	1.4%	0.1%	0.6%	-0.2%	2.1%	1.7%	1.7%	2.1%	2.9%	-2.0%	5.0%	na	0.7%	1.9%	0.9%
	Quarter	3.4%	1.7%	3.0%	2.8%	0.3%	5.7%	2.2%	6.0%	5.2%	3.9%	6.3%	5.2%	-0.7%	7.6%	na	2.8%	5.6%	3.2%
	YTD	15.3%	8.4%	10.9%	6.3%	10.9%	32.5%	17.4%	14.4%	22.7%	21.9%	21.8%	14.3%	9.6%	25.6%	na	12.3%	21.7%	13.7%
	Annual	15.2%	9.0%	11.4%	6.8%	12.4%	32.1%	20.1%	14.7%	24.1%	23.9%	23.1%	15.1%	8.9%	24.5%	na	12.6%	23.1%	14.2%
	Total return	19.0%	12.6%	17.2%	12.5%	18.5%	38.0%	27.5%	20.5%	29.6%	29.7%	29.4%	20.7%	18.8%	30.6%	na	16.7%	29.1%	18.4%
	Gross yield	3.0%	3.4%	4.9%	5.0%	5.3%	4.0%	6.9%	5.0%	4.1%	4.3%	4.9%	5.8%	8.2%	4.9%	na	3.5%	4.7%	3.7%
	Median value	$837,169	$626,449	$443,981	$380,058	$400,831	$558,455	$368,635	$568,308	$551,738	$384,072	$478,149	$239,924	$244,907	$362,088	na	$634,846	$464,860	$599,069

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.*