CoreLogic

Hedonic Home Value Index

1 February 2022

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CoreLogic: January results surprise to the upside, as Sydney and Melbourne growth rates stabilise

CoreLogic's national measure of housing values rose by 1.1% in January, up 10 basis points from the December result, when the national index was up 1.0%. Five of the eight capital cities recorded a modest uptick in the monthly rate of growth, including Melbourne, which had posted a slight decline in values in the previous month. However, the quarterly change continued to soften, reflecting the longer-term trend of slowing growth across most regions of Australia.

CoreLogic's Research Director, Tim Lawless, notes housing stock is thinly traded during January and it will be important to monitor the trend as transactional activity picks up.

"As the volume of home sales moves out of seasonal lows, we should get a firmer reading on how 2022 is shaping up," he said.

"The early indication is that housing markets are starting 2022 with a similar trend to what we saw through late last year. Values are still broadly rising, but nowhere near as fast as they were in early 2021."

"A softening in growth conditions has been influenced by less government stimulus, worsening affordability, rising fixed term mortgage rates and, more recently, a slight tightening in credit conditions, and a surge in new listings through the final quarter of last year."

The annual change in national housing values reached a new cyclical high in January, with Australian dwellings up 22.4% over the year; the highest annual rate of growth since June 1989. In approximate dollar value terms, the typical Australian home is now worth $131,236 more than it was a year ago. Brisbane has recorded the highest annual growth rate across the capital cities, with housing values up 29.2% (approx. $159,763).

Continuing a pattern seen over recent months, the January results showed greater diversity, with Brisbane (2.3%) and Adelaide (2.2%) leading the pace of gains ahead of Hobart (1.2%) while growth in Melbourne (0.2%), Darwin (0.5%), Sydney and Perth (both 0.6%) recorded substantially softer outcomes.

Regional markets have again shown a substantially stronger result for housing values, with the combined regionals index up 1.8% over the month and 6.3% over the rolling quarter. This compares with a 0.8% and 2.6% rise respectively across the combined capital cities over the same periods.

Similar to the capital cities, it was regional Queensland (2.0%) and regional South Australia (2.1%) that led the pace of growth over the month, however every broad 'rest of state' region recorded at least a 1.2% gain, demonstrating a depth of demand for regional housing.

Regional Australia's outperformance relative to the capitals has been a feature through most of this cycle to date, driven by a combination of higher demand and low levels of advertised supply.

Houses are still recording a higher rate of growth than units. Nationally house values were up 1.3% in January compared with a 0.3% rise in unit values; a trend that has been apparent throughout the pandemic.

Three of the eight capital cities are now recording a median house value over the $1 million dollar mark. Melbourne's median house value surpassed $1 million for the first time in January, while it was the second month in a row Canberra's median house value passed $1million. In Sydney, the median house value climbed to just under $1.39 million. The difference between the national median house and unit value reached a new record high of 28.3% in January. This may see demand gradually deflect towards the more affordable medium-to-high density sector of the market.

Index results as at January 31, 2022

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.6%	1.8%	25.5%	28.3%	$1,106,279
Melbourne	0.2%	0.8%	14.9%	17.7%	$798,881
Brisbane	2.3%	8.3%	29.2%	33.7%	$706,594
Adelaide	2.2%	7.4%	24.8%	29.5%	$584,629
Perth	0.6%	1.2%	11.2%	16.0%	$531,243
Hobart	1.2%	3.4%	27.6%	32.9%	$707,087
Darwin	0.5%	0.7%	12.6%	19.7%	$496,476
Canberra	1.7%	3.7%	25.5%	30.0%	$906,529
Combined capitals	0.8%	2.6%	21.3%	24.4%	$801,570
Combined regional	1.8%	6.3%	26.1%	31.1%	$551,887
National	1.1%	3.4%	22.4%	25.8%	$718,146

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Hedonic Home Value Index

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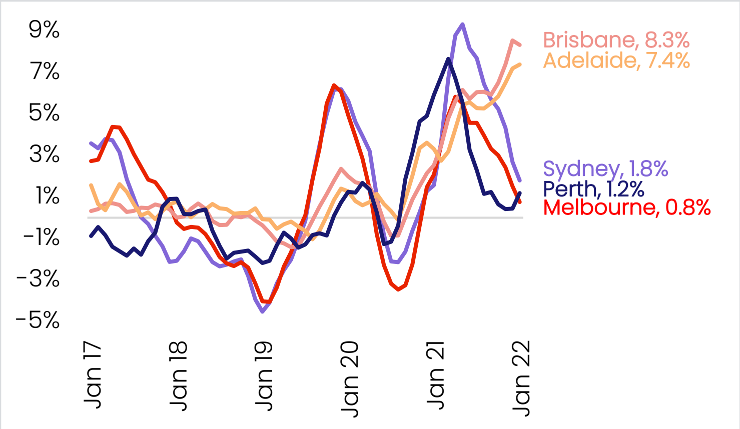
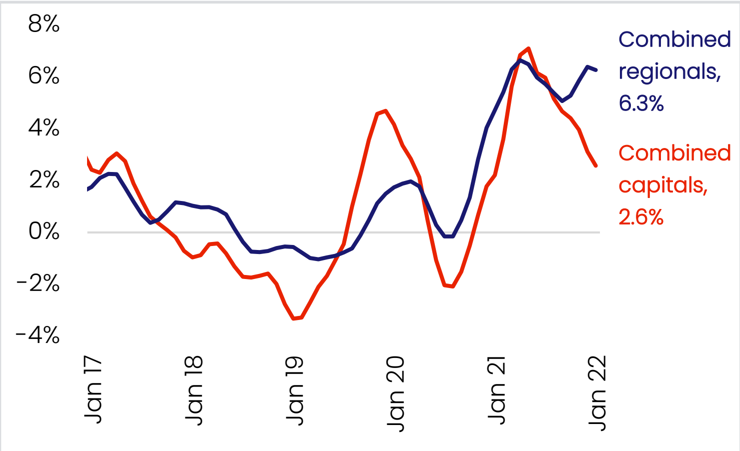
Rolling three month change in dwelling values
State capitals



Rolling three month change in dwelling values
Combined capitals v Combined regionals



A multi-speed dynamic has emerged across the capital cities. After capital city housing values moved through a synchronised and broad-based upswing through most of the current growth phase, a new trend of diversity is emerging as the cycle matures.

Brisbane and Adelaide stand out amongst the capital cities, with housing values continuing to rise at more than 2% month-on-month while growth conditions across the remaining capital cities has slowed.

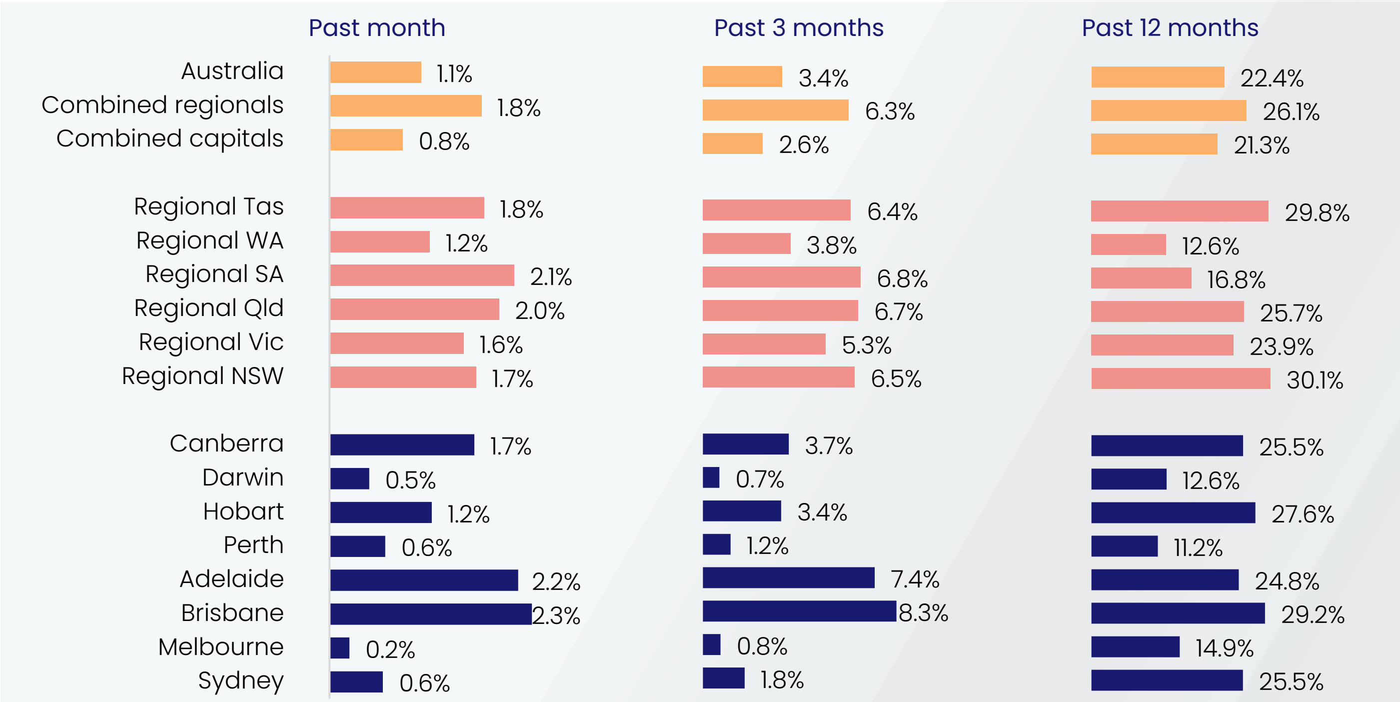
The slowing trend in Sydney and Melbourne can at least partially be explained by a larger deposit hurdle caused by higher housing prices alongside low income growth, along with higher advertised inventory levels and weaker demographic trends.

Slower conditions across Perth's housing market may be more attributable to the disruption to interstate migration caused by the extended closure of state borders, which has had a negative impact on housing demand. In Brisbane and Adelaide, housing affordability is less challenging, advertised stock levels remain remarkably low and demographic trends continue to support housing demand, especially across South East Queensland.

The performance gap between regional Australia and the capitals widened in January. Over the past three months, the combined regionals index has recorded growth of 6.3% compared with a 2.6% rise in the combined capital city index. The differential of 3.7 percentage points is now at a cyclical high as growth across Australia's regional markets remains high while the capital city trend slows.

Over the past 12 months, the strongest regional markets have been areas generally popular as commutable markets with lifestyle characteristics such as the Southern Highlands and Shoalhaven (+37.6%), Sunshine Coast (+34.4%) and the Hunter Valley (excluding Newcastle) (34.0%). However, over the most recent three months, more rural regional markets such as the Central West and Capital Region of NSW have climbed the ranks.

Change in dwelling values



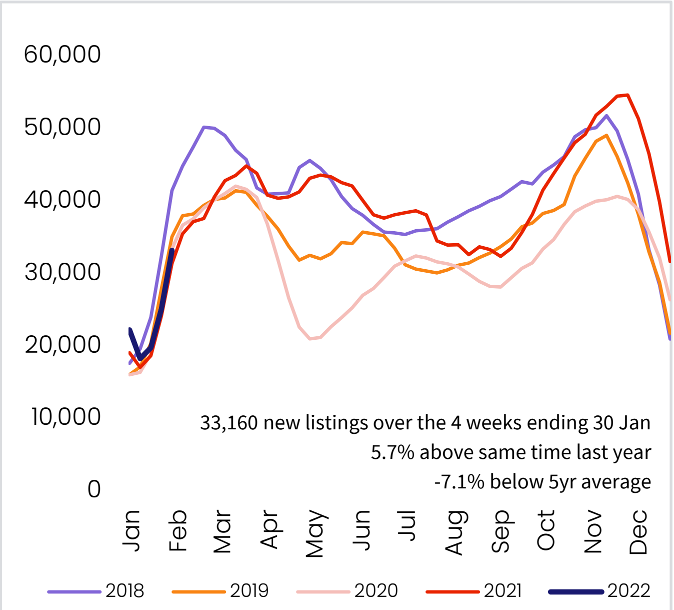
The trend in new listings is higher relative to the same period last year, but freshly advertised supply remains below average nationally. A count of newly advertised listings over the four weeks to 30 January shows the trend in fresh stock was 5.7% higher than a year ago but still 7.1% below the previous five-year average. Darwin was the only capital city where the trend in new listings was above the previous five-year average, however across the state capitals, the trend in new listings was closest to average levels in Melbourne (-0.1%) and Sydney (-0.9%). Hobart remained the market where the trend in new listings was the tightest, with newly listed stock 20.6% below the five-year average in January.

With newly advertised stock additions generally low, total inventory levels remain in short supply. Nationally, total advertised supply levels were 20.0% lower than a year ago and 36.9% below the previous five-year average. Melbourne is the only capital where total advertised stock levels are above the five year average (+1.7%) and Sydney (-11.8%) has the second highest stock levels relative to the previous five year average. At the other end of the spectrum is Adelaide (-50.1%) and Brisbane (-46.8%) where inventory levels remains exceptionally low.

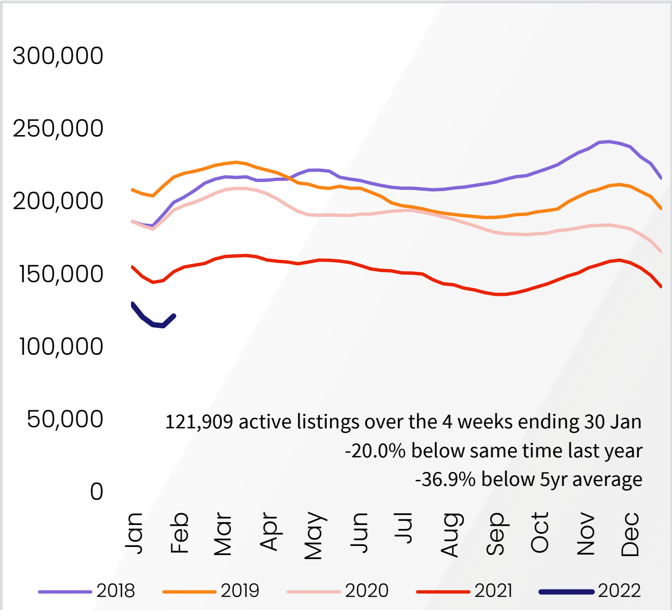
"The trends in advertised supply levels go a long way towards explaining the performance of housing values. Melbourne and Sydney have seen inventory levels normalise over recent months, taking some urgency out of the market as supply and demand become more evenly balanced. The situation in Adelaide and Brisbane is very different; supply remains tight and buyer competition is a key factor supporting the upwards pressure on prices," Mr Lawless said.

Although January is typically the quietest month for home sales, activity across Australia was estimated to be 15.1% higher than January last year and 39.4% above the previous five-year average. Demonstrating the strength of demand across regional Australia, the January estimate of home sales was 57.9% above the previous five-year average compared to the capital cities, where the sales activity was estimated to be 26.6% higher than average.

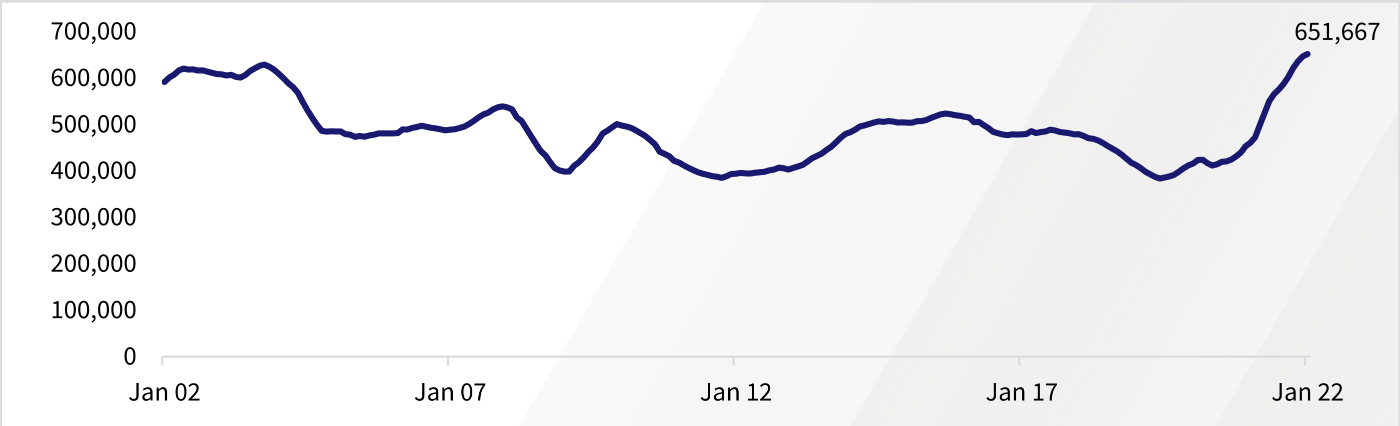
New listings, rolling 28 day count, national



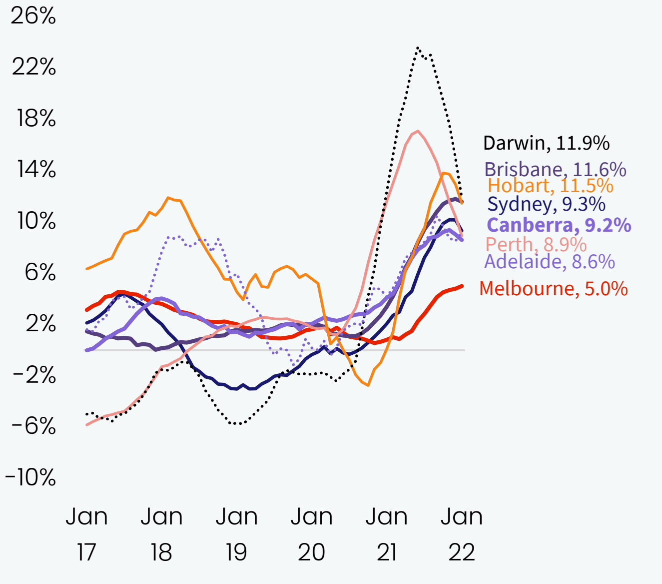
Total listings, rolling 28 day count, national



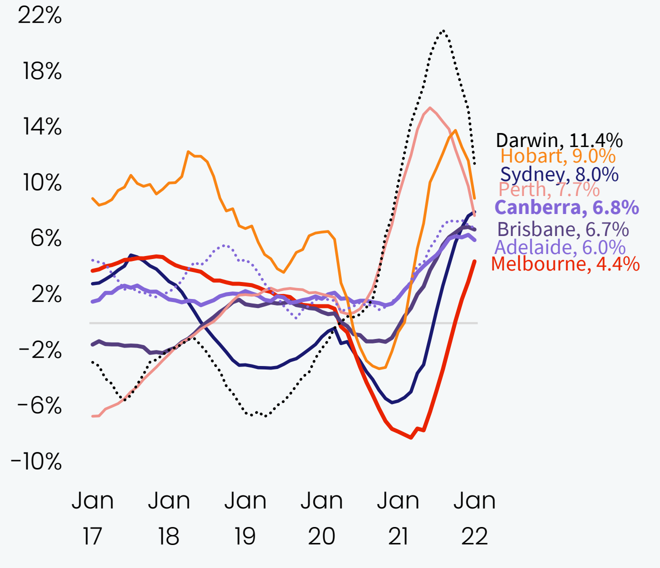
Rolling annual volume of dwelling sales, National



Annual change in rents, Houses



Annual change in rents, Units



The quarterly pace of growth in Australian rents has been easing since moving through a peak in March last year. At that time, the national rental index was up 3.2% in the March quarter, reducing to a quarterly growth rate of 2.0% over the three months ending January 2022. In annual terms, national rents are up 9.0%, which is slightly down on the recent peak annual rate recorded in November last year at 9.4%.

The annual trend highlights a broad slowing in rental growth conditions. This is most notable in Darwin and Perth. Annual growth in Perth rents peaked at 16.9% in June 2021, slowing to 8.8% in January. In Darwin, rental growth peaked at 22.3% in the year to August 2021, and was 11.7% in January. The slowdown in rental appreciation may reflect some disruption to rental demand due to closed borders in WA, along with renewed affordability pressures following the surge in rents.

Rental trends in Melbourne and Sydney have shown the opposite trend, especially in the unit sector. Rental demand has increased as house rents become more unaffordable.

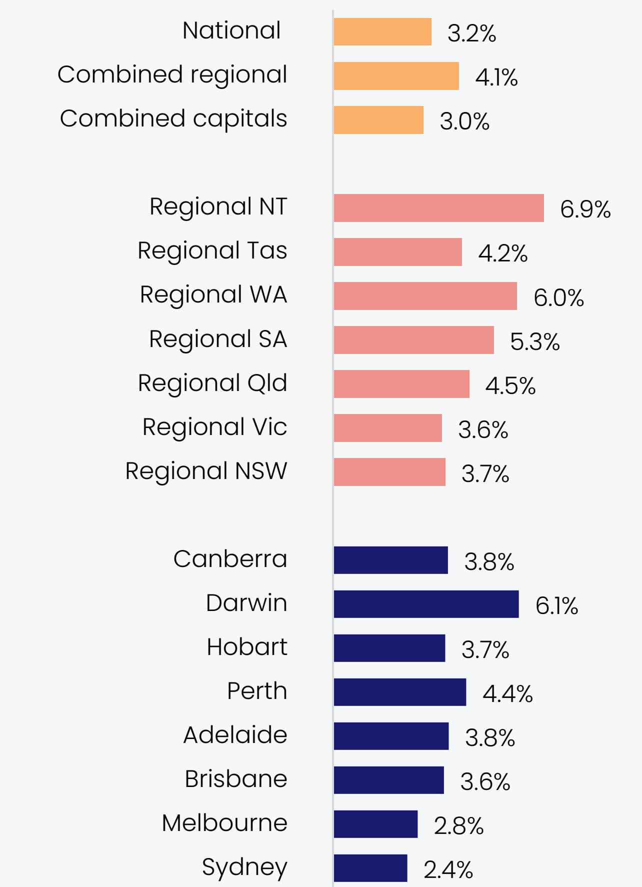
Brisbane and Canberra are now recording the fastest rise in rents. Over the three months ending January, dwelling rents in Brisbane and the ACT were both up 2.3%, while the markets where rents were previously rising the fastest, Darwin and Perth, recorded the slowest pace of rental growth at 0.2% and 1.4% over the rolling quarter.

The stronger rental growth in Brisbane and Canberra reflects an imbalance between rental supply and demand, especially for houses, where rental growth has been higher than across units.

Gross rental yields fell to new record lows in January. The gross rental yield at a national level fell to 3.21%, down from 3.69% a year ago. Although rents have been rising at an above average pace through the pandemic, dwelling values have risen more substantially, pushing yields in most cities to the lowest level on record.

Sydney (2.4%) and Melbourne (2.8%) remain the only capitals where gross yields are averaging sub-3%.

Gross rental yields, dwellings



Although the housing market is still moving out of the seasonal festive period slowdown, early indicators are showing housing market conditions are starting the year similar to where they finished in 2021. The pace of capital gains remains positive, but increasingly diverse and generally slowing.

The trend in advertised listings will be an important factor in housing market performance in early 2022. Real estate agent activity in January was 22.1% higher than a year ago across CoreLogic platforms, indicating the number of fresh listings added to the market is likely to be substantially higher over the coming month relative to previous years.

While new listings are likely to trend higher early this year, it is uncertain whether demand will keep pace. There are a range of factors that could weigh on housing demand including growing affordability constraints, tighter credit availability, rising interest rates and potentially an increasing level of caution amongst buyers wary of buying close to a market peak.

"If inventory levels rise and demand reduces, we should start to see vendors and buyers becoming more evenly balanced in the market, reducing the sense of FOMO that has been a key factor in pushing up prices through the pandemic," Mr Lawless said.

"We may already be seeing this trend evolve in markets like Melbourne where total listings have returned to above average levels and the pace of capital gains has cooled. "

Expect greater diversity in housing market trends this year. Labour markets, demographic patterns, supply levels and affordability will all play a key role in how housing markets perform around the country. The recent trends in housing values, listings and auction results have favoured the smaller cities such as Brisbane and Adelaide where housing is more affordable and demand continues to outweigh advertised supply.

Similarly, regional areas within commuting distance of the major capitals and those that offer a blend of affordability and livability are arguably well placed to outperform the broader market, although we are unlikely to see growth rates getting close to what was recorded in 2021.

The trajectory of inflation and interest rates will be critical for housing markets. With higher than forecast levels of inflation along with tighter labour market conditions, the prospect of rate hikes later this year is gaining consensus. A higher cash rate presents a clear downside risk for housing values.

Testing the correlation between the cash rate and the national CoreLogic Home Value Index between December 2001 and December 2021 shows an inverse correlation of 84.2%. Lagging the cash rate by up to a year increases the strength of the correlation, which suggests it takes some time for movements in the cash rate to have their maximum effect on the property market. Consecutive increases or reductions in the cash rate will also play a role in the correlation becoming stronger over time.

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	0.6%	0.2%	2.3%	2.2%	0.6%	1.2%	0.5%	1.7%	1.7%	1.6%	2.0%	2.1%	1.2%	1.8%	na	0.8%	1.8%	1.1%
	Quarter	1.8%	0.8%	8.3%	7.4%	1.2%	3.4%	0.7%	3.7%	6.5%	5.3%	6.7%	6.8%	3.8%	6.4%	na	2.6%	6.3%	3.4%
	YTD	0.6%	0.2%	2.3%	2.2%	0.6%	1.2%	0.5%	1.7%	1.7%	1.6%	2.0%	2.1%	1.2%	1.8%	na	0.8%	1.8%	1.1%
	Annual	25.5%	14.9%	29.2%	24.8%	11.2%	27.6%	12.6%	25.5%	30.1%	23.9%	25.7%	16.8%	12.6%	29.8%	na	21.3%	26.1%	22.4%
	Total return	28.3%	17.7%	33.7%	29.5%	16.0%	32.9%	19.7%	30.0%	34.3%	28.5%	31.8%	23.9%	19.4%	36.7%	n a	24.4%	31.1%	25.8%
	Gross yield	2.4%	2.8%	3.6%	3.8%	4.4%	3.7%	6.1%	3.8%	3.7%	3.6%	4.5%	5.3%	6.0%	4.2%	na	3.0%	4.1%	3.2%
	Median value	$1,106,279	$798,881	$706,594	$584,629	$531,243	$707,087	$496,476	$906,529	$697,838	$556,003	$511,292	$300,197	$382,768	$494,236	na	$801,570	$551,887	$718,146
	Houses																		
Houses	Month	0.8%	0.5%	2.5%	2.3%	0.7%	1.4%	0.0%	1.8%	1.8%	1.5%	2.2%	2.3%	1.1%	2.0%	1.9%	1.1%	1.8%	1.3%
	Quarter	2.2%	0.9%	9.1%	7.9%	1.3%	3.7%	-0.2%	3.2%	6.9%	5.2%	7.1%	7.1%	4.0%	6.0%	3.2%	3.1%	6.5%	3.9%
	YTD	0.8%	0.5%	2.5%	2.3%	0.7%	1.4%	0.0%	1.8%	1.8%	1.5%	2.2%	2.3%	1.1%	2.0%	1.9%	1.1%	1.8%	1.3%
	Annual	29.8%	17.8%	32.3%	27.3%	11.4%	26.3%	8.4%	27.8%	31.0%	23.8%	26.1%	17.1%	13.2%	29.7%	11.2%	24.2%	26.6%	24.8%
	Total return	32.8%	20.7%	37.2%	32.4%	16.0%	31.6%	14.2%	32.5%	35.1%	28.3%	32.4%	24.4%	19.9%	36.6%	18.8%	27.4%	31.4%	28.3%
	Gross yield	2.2%	2.4%	3.4%	3.6%	4.2%	3.6%	5.7%	3.4%	3.6%	3.5%	4.3%	5.2%	5.9%	4.2%	6.8%	2.8%	4.0%	3.1%
	Median value	$1,389,948	$1,002,464	$809,813	$636,853	$555,851	$759,697	$562,729	$1,032,331	$729,334	$590,288	$518,305	$308,006	$395,372	$516,042	$440,923	$901,200	$571,327	$778,255
	Units																		
Units	Month	0.1%	-0.4%	1.4%	1.5%	0.0%	0.4%	1.3%	1.3%	1.2%	1.6%	1.3%	-1.2%	2.6%	0.1%	na	0.1%	1.2%	0.3%
	Quarter	0.7%	0.4%	4.2%	4.4%	0.0%	2.1%	2.6%	5.6%	4.1%	5.7%	5.1%	0.8%	0.2%	9.2%	na	1.0%	4.8%	1.6%
	YTD	0.1%	-0.4%	1.4%	1.5%	0.0%	0.4%	1.3%	1.3%	1.2%	1.6%	1.3%	-1.2%	2.6%	0.1%	na	0.1%	1.2%	0.3%
	Annual	15.4%	8.1%	13.8%	9.5%	9.6%	32.8%	21.3%	17.1%	24.4%	24.6%	24.0%	12.4%	1.5%	30.6%	na	12.7%	23.7%	14.3%
	Total return	19.1%	11.7%	19.5%	15.4%	15.5%	38.6%	29.9%	23.0%	30.0%	30.1%	30.1%	16.7%	10.8%	36.9%	na	16.7%	29.6%	18.5%
	Gross yield	3.0%	3.5%	4.8%	4.9%	5.4%	4.0%	6.7%	4.9%	4.1%	4.2%	4.8%	6.1%	7.8%	4.7%	na	3.5%	4.6%	3.7%
	Median value	$837,640	$624,158	$458,149	$393,036	$401,647	$574,993	$370,335	$594,992	$571,892	$402,051	$495,196	$235,693	$257,500	$390,398	na	$638,597	$484,943	$606,584

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.*