Welcome to CoreLogic’s housing market update for November 2020

Following five months of consistent declines in residential property values, CoreLogic’s national home value index moved back into positive month-on-month growth through October, posting a 0.4% rise. The lift in home values was broad based, with every capital city apart from Melbourne posting a rise in values over the month.

Dwelling values increased by more than 1% in each of the smallest four capital cities with Brisbane, Adelaide, Hobart and Canberra housing values reaching new record highs.

Although values were lower across Melbourne through October, the trend rate of decline has been easing since mid-September. With a drop of 0.2%, this was the smallest month on month fall in values since the COVID related downturn commenced in April.

The October results show early signs of a divergence between house and unit market performance. The rise in capital city housing values over the month was entirely attributable to a 0.4% lift in house values which offset the 0.2% fall in unit values. Through the COVID period so far, unit values have actually shown a smaller decline in values than houses, but this is likely to change.

Almost two thirds of Australian units are rented, and rental conditions have weakened, especially in the key inner city precincts of Melbourne and Sydney. These areas have a higher concentration of unit stock, and historic exposure to demand from overseas migration. Low levels of investment activity, relatively high supply of unit stock in inner-cities and international border closures are key factors that imply units will under-perform relative to houses over the medium term.

Regional housing markets continued to outperform the capital cities in October. Broadly, CoreLogic’s combined regionals index has held relatively firm through the worst of the COVID related downturn. The past two months have reversed the previous mild falls across the combined regional areas. In the seven months since March, regional dwelling values are up 1.7% while values across the combined capitals index have fallen by 2.3%.

The newfound popularity of working from home is only one factor helping to support regional home prices. More affordable price points, lower densities and lifestyle factors, are also under-pinning the relative strength across many regional areas of the country.

The recent lift in home values coincides with a range of other indicators that have also improved over recent months. Consumer confidence has consistently improved since the virus curve has flattened and Australians have responded positively to measures announced in the federal budget. In October we saw a surge in consumer sentiment, rising clearance rates and an increase in valuations for property purchases. Alongside this we are seeing persistently low advertised stock, which has supported price growth.

Despite a surge in new listing numbers, total advertised inventory levels remain close to record lows. The number of new listings added to the Australian housing market over the past four weeks rose by 25.2%, while total stock levels grew by less than 1%. Persistently low total stock levels in the face of surging new listing numbers point to a strong rate of absorption, as buyer demand exceeds advertised supply levels.

Home sales were also higher through October with CoreLogic estimating a 7.0% rise in settled sales nationally over the month. Over the past three months, nation-wide sales activity was roughly 1.5% lower than the same time last year, weighted down by an 18% drop in sales across Melbourne over the same period.

Auction results have also been strengthening with CoreLogic consistently reporting clearance rates above 60% over the past two months. Sydney’s clearance rate breached the 70% mark in late October for the first time since early March, and auction volumes have been at similar levels as last year. Melbourne, which is normally the largest auction market, saw the number of auctions held rise from virtually nothing in September to around 600 auctions over the final week of October.

Rental market trends are showing a more significant divergence between houses and units. Between the end of March 2020 and October 2020, capital city unit rents are down a cumulative 4.8%, while houses have recorded a 0.4% rise in rents. Every capital city region has seen house rents either rise more than unit rents, or fall by a smaller amount. The difference between house and unit rental performance is most significant in Melbourne and Sydney where, since March, unit rents are down 6.6% and 5.8% respectively while house rents have seen a more mild reduction of around 1%.

The divergence in Sydney and Melbourne can be explained by a combination of supply and demand factors. Both cities have a multi-year history of significant supply additions to the high-rise unit sector where the large majority of properties are owned by investors. From the demand side, the evaporation of overseas migrants, including foreign students, has led to a sudden and material drop in the number of renters requiring accommodation. Additionally, weaker labour market conditions across industries where workers are more likely to rent than in any other sector have further impacted rental demand.

Perth and Darwin stand out with the tightest rental market conditions. Both house and unit rents are up through the COVID period to-date. The stronger rental conditions come after a long period of weakness in rental markets; dwelling rents in Perth have only increased by 0.4% over the past five years while Darwin rents are 11.4% lower than they were five years ago. The latest rise in rents can be attributed to the recent history of low private sector investment which has kept rental supply low.

Let’s take a deeper look at housing market conditions across each of the capital city regions

Sydney posted its first monthly gain in housing values after five months of consistent falls. The October result was only slightly positive, up 0.1% over the month, with house values driving the gains, rising half a percent. Meanwhile, unit values continued to fall, down half a percent. Through the COVID downturn, Sydney home value peak-to-trough decline was just -2.9%, but values are still 5% lower than their mid-2017 peak. This is a stark reminder of the two year downturn Sydney’s housing market experienced prior to mid-2019. Home sales are up 18% over the rolling quarter and roughly level with the same time a year ago based on the three month trend in settled sales estimates.

Although values were lower across Melbourne through October, the trend rate of decline has been easing since mid-September. With a drop of 0.2%, this was the smallest month on month fall in values since the COVID-19 related downturn commenced in April. Since the announcement in late September that private home inspections were once again permitted, new property listings have surged, clearance rates have lifted and buyer activity is recovering. Based on this recent trend in housing values and activity, it seems likely we will see Melbourne follow the other capital cities towards a recovery over the coming month. The impact of the lockdown has been severe on market activity over the past three months, with CoreLogic estimates showing a 34% drop in settled sales compared with the same period a year ago.

After values fell by almost 1%, the past two months have seen Brisbane housing values rising. The recent increase has pushed dwelling values to a new record high, although we are still seeing some divergence between Brisbane houses and units in terms of growth. Unit values slipped 0.1% lower in October and remain 12% below their 2010 peak. Sales activity has also shown a lift with our estimate of settled sales rising almost 10% over the month. In trend terms, the number of home sales across Brisbane is still about 1.6% lower than year ago. The rise in sales activity can also be seen in the extremely low number of home available for sale across Brisbane. Total listing numbers have drifted lower despite an almost 80% rise in new listing numbers since early May.

Adelaide’s housing market has moved from strength to strength over recent months, with home values reaching a new record high in October. Dwelling values were 1.2% higher in October, which was the largest monthly gain since early 2008, just before the GFC induced correction. Relatively low housing prices, an effective flattening of the virus curve and the stimulus of low interest rates are likely to be the main factors behind the growth in housing values. From a geographical perspective, every sub-region of Adelaide has recorded a rise in values over the past three months. The strongest growth conditions were in Onkaparinga, where housing values are estimated to be 5.4% higher over the rolling quarter.

Perth’s housing market is back on a recovery trajectory, with home values posting a third straight month of rises. Values are up 0.8% over the past three months, which wasn’t enough to reverse the earlier 2.2% drop recorded through the early months of COVID. Housing market activity has also been tracking higher, with CoreLogic’s estimate of settled sales over the past three months 13% higher than a year ago. Perth continues to show the lowest median house value of any capital city, at $475,200. Such low housing prices, along with record low mortgage rates, improving economic conditions and government incentives are some of the factors supporting renewed price growth. Rental markets are amongst the tightest of any capital city, with the lift in rents through the COVID period to-date the highest amongst the capitals.

Hobart housing values continued to rise through October, up 1 percent over the month. The pace of capital gains has only seen a mild interruption through the COVID period to-date. Despite values falling in March, April and July, the recent run of growth has reversed the falls and pushed Hobart dwelling values to a new record high in October. Growth in home values has been most concentrated around the affordable end of the housing market, with the lower quartile of the market rising 3.8% over the rolling quarter. Meanwhile, the upper quartile has recorded a 0.3% lift in values. Rental markets have shown the opposite trend, with rents falling after a sustained run up in rents over the past five years. Since March, Hobart house rents are down 4.3% and unit rents are 6.1% lower.

Darwin’s housing market seems to have shaken off its pre-COVID weakness, with values rising by more than 1% each month over the past three months. The 3.9% lift in home values over the three months ending October places Darwin at the top of the list for capital gains over the rolling quarter. Both house and unit values were up over the three month period, while rents were also rising. House rents are 4.4% higher since March and unit rents are 3.3% higher. Housing market activity has stepped higher as well, with the estimated number of settled home sales 17% higher over the rolling quarter and 21% higher than the same time last year. Darwin property has a lot of gains to be made, following a 6-year correction that leaves values almost 30% below their 2014 peak.

Canberra is the only capital city where housing values haven’t recorded a single month of declines through the COVID period so far. In fact, values are up 3.3% since March and 5% higher over the year to date which is the largest rise of any capital city. House values reached a new record high in October, but, despite consistent rises over the past six months, unit values remain 1.2% below their 2010 peak. Sales activity is trending higher and is currently tracking roughly level with the same period last year.

In summary, it’s clear that housing markets are responding to the stimulus of low mortgage rates and improved sentiment related to measures announced in the federal budget and the low number of new virus cases.

Housing values are either rising or stabilising across each of the broad regions around the country. The volume of home sales is rising, and inventory levels are generally being absorbed faster than the rate of new additions.

Market activity is on the rise, with measures of real estate agent activity across CoreLogic’s RP Data platform up 11.5% over the month and the number of valuations for home purchasing across the Valex platform 11.2% higher over the month.

The announcement that interest rates have been cut even lower is likely to provide a further boost to housing activity. Record low mortgage rates are a key factor supporting housing market activity. Historically cuts to interest rates have fueled housing market activity and generally aligned with upwards pressure on dwelling prices. With the trend in housing values already rising around most areas of the country, there is a good chance lower rates could see momentum building across the nation’s most valuable asset class.

The recent housing market growth trajectory comes amidst the winding down of fiscal support programs such as JobKeeper and coinciding with the majority of home loan repayment deferrals expiring. So far, this period of uncertainty hasn’t impacted on housing market performance, however it will be important to monitor changes in inventory levels and vendor metrics at a geographically granular level, watching for any sign of distressed stock.

The stimulus of such extremely low interest rates, together with the initiatives announced in the federal budget and state level incentives like stamp duty concessions and building grants, are likely to be enough to outweigh the headwinds facing the market. Ultimately, we should get some clarity on how those opposing forces play out over the coming months.

You can stay up to date on how the trends evolve at the CoreLogic research pages at www.corelogic.com.au