Welcome to CoreLogic’s housing market updated for February 2021

After the housing market finished last year with strong foundations, h**ousing values continued to rise through the first month of 2021 with CoreLogic’s national home value index up nine tenths of a percent over the month**. The January movement takes Australian home values to a fresh record high, surpassing pre-COVID levels by 1.0% and national home values were 0.7% higher than the previous September 2017 peak.

Every capital city and broad rest-of-state region recorded a rise in housing values over the month, ranging from a 2.3% surge across Darwin to a relatively mild 0.4% rise in Sydney and Melbourne.

**Continuing a trend that became evident early in the pandemic, regional housing values rose at more than twice the pace of the capital city markets**. CoreLogic’s combined regionals index was up 1.6% over the month, while capital city values were 0.7% higher. Since the onset of COVID-19 in March last year, regional housing values have surged 6.5% higher while capital city housing values are down -0.2% over the same time frame.

The largest states are seeing regional home values rising at more than three times the pace of their capital city counterparts. Home values across Regional Victoria and Regional New South Wales rose 1.6% and 1.5% respectively in January compared with a 0.4% increase in home values across Melbourne and Sydney.

Internal migration data shows more people are leaving Sydney and Melbourne for regional areas, resulting in a pivot of activity from the metro regions to the outer fringe and regional markets. This demographic trend is further compounded by the demand shock of stalled overseas migration. As Melbourne and Sydney historically receive around 75% of overseas migration to the capital cities, these metro areas in particular have been the hardest hit by restrictions to overseas travel.

Better housing affordability, an opportunity for a lifestyle upgrade and lower density housing options are other factors that might be contributing to this trend, along with the new found popularity of remote working arrangements.

**Another broad trend that is becoming increasingly evident is the outperformance of houses over units.** At a national level, house values have risen by 3.5% over the past six months while unit values are unchanged. More recently, the past three months has seen every capital city record a stronger result for houses over units.

Demand for units has diminished through COVID-19 amidst record low levels of investor participation and changing living preferences. At the same time supply levels are heightened in some precincts. While demand and supply remain imbalanced we are likely to see units continue to underperform relative to detached housing markets.

**The rise in housing values is occurring against a backdrop of low advertised supply and rising buyer activity.** Inventory levels started 2021 in a tight position. The number of fresh listings added to the market nationally in January was 2.4% lower than the same period a year ago and 12.9% below the five year average.

**Although fresh stock being added to the market is close to the same levels a year ago, total advertised inventory started the year around record lows.** Nationally, total listing numbers, which include new listings plus re-listed properties, were 26.4% lower than this time last year, tracking 28.3% below the five year average. Melbourne was the only city to record total listing numbers that were higher than last year, up 11.9%.

**Another factor impacting available housing supply has been a strong rate of absorption from rising home buyer activity**, especially in the detached housing space. CoreLogic estimates the number of national home sales over the past three months was 23.9% higher than the equivalent three month period from a year ago. The volume of regional home sales was estimated to be 26.8% higher than a year ago while capital city sales were up 22.1%.

On the latest estimates, the volume of capital city house sales were 11.8% above the decade average over the past six months while the volume of capital city unit sales were rising but remained 8.1% below the decade average.

With housing activity continuing to rise at above average levels while listing numbers remain well below average, the natural consequence is upwards pressure on housing prices.

Now let’s take a closer look at each of the capital city markets.

Sydney recorded a fourth successive month of rising home values, with the index for combined houses and units up 0.4% over the month. Although housing values are rising, Sydney home values remain 3.5% their mid-2017 low, indicating homes are more affordable than they were four years ago. The trend towards higher values is confined to houses where the market is up 3.1% since finding a floor in September. In contrast, unit values have continued to fall, down a cumulative 3.7% since the onset of COVID. The diverging trend between houses and units can be attributed to stronger demand for lower density housing options, along with supply constraints outside of the unit sector. The Sydney sub-regions showing the strongest capital gains are the Northern Beaches, where values are up 4.4% over the past three months, and the Central Coast with a 4.1% lift in values over the same time frame.

Melbourne’s housing market is in recovery mode after the double lockdown contributed to a 5.6% drop in values through the COVID related downturn. Since prices stopped falling in October last year, they have recovered by 2.1%. House values are up 2.4% since bottoming out, while unit values are showing a milder trend, up 1.5%. The market still has some way to go before recovering, with dwelling values remaining 3.7% below the pre-COVID high at the end of January. Annual sales activity slipped 7.9% lower compared with the previous twelve month period, however this was mostly a reflection of extended lockdown period. The past three months has seen market activity playing catch up, with home sales 26.1% higher than a year ago. Across the sub-regions of Melbourne, the Mornington Peninsula stands out as one of the strongest markets nationally with values surging 7.4% higher over the past three months to be 8.0% higher over the year.

Both house and unit values are trending higher across Brisbane, although houses increased at more than twice the pace of units over the past three months, up 2.4% compared with a 1% lift in values across the unit sector. Rising home values have been accompanied by a significant lift in buyer activity at a time when available housing stock is close to record lows. While home sales were 11.8% higher than a year ago over the past three months, listing numbers in Brisbane are 29% below last year’s level. The mismatch between demand and supply is creating some urgency in the market and contributing to the lift in prices. Across the sub-regions of Brisbane, the strongest growth conditions over the past three months have been in the Moreton Bay region and Ipswich with both areas recording a rise in values around 3.5%.

Adelaide’s housing market has been extremely resilient to any downwards pressure on values. Apart from a 0.1% dip in home values last June, the market has been consistently rising to new record highs each month. The past six months has seen house values rising at almost double the pace of units, up 5.8% compared with a 3.2% lift in unit values. Home sales in the three months to January are tracking almost 23% higher than a year ago while total listing numbers are down 35% on last year. Such low supply is creating some urgency amongst buyers, and empowering sellers, which can be seen in faster selling times. Adelaide homes are averaging 37 days to sell compared with 43 days a year ago. Looking across Adelaide’s sub-regions, it’s the northern and southern suburbs that are driving the strongest growth rates, with home values across Adelaide’s North up 3.9% over the past three months while the south is up 3.6%.

Perth home values surged 1.6% higher in January which was the fastest monthly pace of growth in this market since 2006. Both house and unit values are rising across the western capital, but house values have risen at double the rate of units over the past year. House values were up 3.6% annually compared with a 1.8% rise in unit values. Despite the strong gains recently, Perth home values remain 18.6% below their 2014 peak, providing a relatively affordable entry point to a rapidly recovering market. Buyer demand has risen substantially over the past year, tracking 23.5% higher than a year ago. While buyer numbers have surged, stock levels have slumped. Total listing numbers were 29% below last year’s level at the end of January. With demand high and supply low, homes are averaging just 26 days to sell which is the fastest time on market for a January period since at least 2006.

Hobart housing values are continuing to rise rapidly, up 1.6% over the month of January to be 3.7% higher over the rolling quarter and 6.8% higher over the past twelve months. Similar to the other capitals, the strongest capital gain conditions are emanating from the detached housing market. House values are 4.4% higher over the past three months while unit values are up a more moderate 1.2%. Despite the strength in housing values, the number of home sales over the past 3 months is 12.9% lower than a year ago, which likely reflects tight supply levels rather than a lack of demand. Listing numbers were 27% lower than a year ago at the end of January.

Darwin has gone from the weakest housing market to the strongest over the past twelve months. Housing values have surged by 6.6% over the three months ending January and Darwin is the only capital city to record double digit annual growth, up 11.4%. Housing values are still 24% lower than their previous 2014 peak, providing an affordable entry point for first home buyers who are very active across the Darwin market, comprising almost 40% of owner occupier demand. Tight rental conditions are pushing yields higher to a nation leading 6.0%. With such strong capital gains and high rental yields, the total annualised return across the Darwin is a stunning 17.3%.

Canberra housing values haven’t fallen since mid-2019, recording consistently higher home values throughout the worst of the pandemic. Local values are now 11.7% above their previous cyclical high in April 2019. Houses are driving the most substantial capital gains, lifting 6.1% over the past six months compared with a 4.3% lift in unit values over the same period. Listing numbers remain extremely tight, with 40% fewer homes for sale at the end of January compared with a year earlier. The shortage of advertised supply is likely a key factor dragging the number of sales down by 4.0% over the three months ending January compared with the same period a year ago.

**Overall, the January results from CoreLogic show the housing market has started the year on a firm footing, setting the scene for further price rises throughout the year.**

Many of the housing market headwinds have dissipated as the Australian economic recovery consistently outperforms forecasts. Labour markets are continuing to improve even though JobKeeper is winding down, mortgage repayment deferrals have reduced to just 2.4% of all mortgages (down from 11% in May last year) and buyer activity is well above average, even though overseas migration has virtually stopped.

**Low interest rates have been a key factor in supporting the housing market recovery**. Mortgage rates are likely to remain at record lows for the foreseeable future, with little chance interest rates could rise this year. This is because inflation and unemployment are still a long way from reaching the RBA’s objectives of full employment and returning the annual inflation rate to the target range of between 2 and 3%.

**New headwinds for the housing market could be seen in the form of tighter lending policies**, however a trigger for another round of macroprudential intervention is not apparent. A rise in lending activity regarded as ‘riskier’, such as higher proportions of interest only lending, loans with high debt, or loan value to income ratios, and loans to borrowers with small deposits, could be the catalyst for a tightening in credit rules.

**The most significant risk to housing markets remains further outbreaks of the virus.** The recent series of outbreaks, and subsequent border closures and restrictions through late December and January, had an immediate negative impact on consumer sentiment. As we know from the Melbourne example, a sustained period of restrictions focused on containing the virus would likely see economic activity, including home buying and selling, temporarily stall. This could result in renewed downwards pressure on housing prices.

Looking forward, we are expecting housing values to continue trending higher, however the performance will depend on the course of the virus amidst the vaccination program, as well as evolving economic and demographic trends. You can keep up to date on all the twists and turns in the market via CoreLogic’s research pages at www.corelogic.com.au