Welcome to CoreLogic’s housing market update for March 2021. Momentum continued to build across Australian housing markets last month, as values rise at the fastest rate in seventeen years. Our national index showed housing values surged 2.1% higher in February, which was the largest month-on-month rise since August 2003. Spurred on by a combination of record low mortgage rates, improving economic conditions, government incentives and low advertised supply levels, Australia’s housing market is in the midst of a broad-based boom.

Housing values are rising across each of the capital city and rest of state regions, demonstrating the diverse nature of this housing upswing. A synchronised growth phase like this hasn’t been seen in Australia for more than a decade. The last time we saw a sustained period where every capital city and rest of state region was rising in value was mid-2009 through to early 2010, as post-GFC stimulus fueled buyer demand.

Sydney and Melbourne were among the strongest performing markets, recording a 2.5% and 2.1% lift in home values over the month respectively, as Australia’s two largest cities caught up from a weaker performance through 2020. The quarterly trend however, is still favouring the smaller cities; Darwin housing values rose 5.5% over the past three months, Hobart values rose 4.8% and Perth was up 4.2%.

Whether this new found growth in Sydney and Melbourne can be sustained is unclear. Both cities are still recording values below their earlier peaks, however at this current rate of appreciation it won’t be long before Australia’s two most expensive capital city markets are moving through new record highs. With household incomes expected to remain subdued and stimulus winding down, it is likely affordability will once again become a challenge in these cities.

Regional markets have continued to show a higher rate of capital gain relative to the capital cities, however the performance gap has narrowed compared with the earlier phase of the growth cycle. Regional areas generally recorded less of a decline in housing values through the worst of the COVID period last year, while also showing an earlier and stronger growth trend through the second half of last year. This regional preference is reflected in the annual growth trend, where the combined regionals index is 9.4% higher while the combined capital city index is up a much smaller 2.6%.

A housing market trend that has persisted through the COVID period to-date is the weaker performance of unit markets relative to detached housing. Across CoreLogic’s combined capitals index, house values have recorded a growth rate more than three times higher than that of units. There are some tentative signs this trend could become less obvious, with Sydney unit values recording their first month of growth since April last year and Melbourne unit values recording their largest gain since late 2019.

One of the factors driving housing prices higher is low advertised supply levels. CoreLogic’s most recent measure of total listing numbers continues to see advertised supply significantly below that of recent years. The number of properties advertised for sale nationally remained 25.3% below 2020 levels over the 28 days ending February 28th.

Whilst available supply remains at historically low levels, the quarterly number of home sales is estimated to be up 35.3% on 2020 levels, with regional dwelling sales 40.6% higher compared with a 32.0% lift in capital city sales.

Housing inventory is around record lows for this time of the year and buyer demand is well above average. These conditions favour sellers and buyers are likely confronting a sense of FOMO which could limit their ability to negotiate. Vendor discounting rates were estimated at a record low of 2.6% in February, and auction clearance rates have consistently been in the high 70% to low 80% range, which is well above average.

Let’s take a look at housing market conditions across each of the capital cities.

Sydney dwelling values surged 2.5% higher in February, with house values rising by 3.0% while unit values continued to record a strong but slower pace of growth, up 1.2%. The trend towards a faster rate of appreciation in house values over unit values can be seen around the country, with demand shifting towards lower density styles of housing. As housing values rise, buyer demand has also increased, with CoreLogic estimating there were almost 24,000 sales across the Sydney metro area over the past three months, which is a 34% increase on the same time last year. The rise in buyer numbers has occurred while advertised stock levels remain 17.5% below the five year average. Such strong demand at a time of low available supply is contributing to the upwards pressure on housing prices. Sydney housing values remain 1.1% below their July 2017 peak, however at this rate of growth it won’t take long for Sydney housing values to reach new record highs.

Melbourne housing values recorded a 2.1% lift last month, with stronger capital gains skewed towards the detached housing sector. House values are 4.2% higher over the past three months compared with a 1.9% lift in unit values. Although values are on a consistent and strong recovery trend, Melbourne housing values remain 1.7% below their pre-COVID peak. Buyer activity has also been rising rapidly, with CoreLogic estimating the number of settled dwellings sales over the past three months was tracking 38% higher than a year ago. Listing numbers are only 2% higher than a year ago, implying demand is outpacing supply, contributing to the upwards pressure on prices. Across the sub-regions of Melbourne, the Mornington Peninsula stands out with the strongest capital gains, with values up 9.3% over the past twelve months. The Inner Eastern suburbs and Inner Melbourne have recorded the largest decline in values over the past year, however more recently the growth trend has turned positive.

The Brisbane housing market has continued to rise in value, with CoreLogic’s all dwellings index rising 1.5% over the month to be 5.0% higher over the past year. Similar to other cities, growth in values has been skewed towards houses, which have risen 5.9% compared with a 1.1% lift in unit values in the 12 months to February. House values reached a new record high in February, however units remain 10.3% below their 2010 peak value and roughly in line with 2007 levels. As market conditions improve, buyer demand has been rising. Our estimate for home sales over the past three months is tracking 25% higher than a year ago. This rise in demand is occurring while listing numbers remain 28% below last year’s level, demonstrating a mismatch between supply and demand. With market conditions favouring sellers, the median vendor discounting rate has fallen to a new record low of 2.8%, demonstrating a tough negotiating environment for buyers amidst such tight supply levels.

The pace of capital gains has eased off a bit across Adelaide. After the monthly growth rate reached 1.3% in November last year, conditions have eased back to a monthly gain of 0.8% in February. Houses have been leading the growth trend, rising in value by 3.1% over the past three months while unit values have recorded a lower 0.8%. Both house and unit values were at record highs in February. Across the sub-regions of Adelaide, the outer southern region of Onkaparinga has recorded the highest capital gains, up 10.8% over the past twelve months, while at the other end of the spectrum, Adelaide City is the only sub-region to record a decline over the past year, with values down 1.2%. Our estimate of sales activity over the past three months is tracking 19% higher than a year ago, but listing numbers are down 32% on last year. With demand high and supply low, we are expecting the market will continue to favour sellers over buyers, with further upwards pressure on housing prices.

Perth housing values have been rising at more than 1% each month over the past four months, resulting in the strongest three month trend in capital gains since 2009. While values are rising rapidly for both houses and units, it’s the detached housing sector recording the strongest capital gains. House values are up 5.0% over the past twelve months while unit values are 1.9% higher. The surge in housing values has been accompanied by a substantial lift in buyer activity, with CoreLogic estimating the number of home sales to be 44% higher than a year ago over the past three months. With conditions so tight, the amount of time it takes to sell a property is now averaging just 28 days compared with 51 days a year ago and discounting rates have reduced to just 2.9% compared with 4.0% at the same time last year. With demand so high and listing numbers tracking about 29% lower than last year, it looks likely that Perth’s housing market will continue to provide strong selling conditions in 2021.

Hobart housing values rose 2.5% in February, equal with Sydney as the fastest monthly rate of appreciation. According to CoreLogic listings data, there were only 743 homes for sale at the end of February, a drop of 24% compared with a year ago. Such tight supply levels are contributing to the upwards pressure on housing prices and contributing to quick selling times and low discounting rates. The typical home is taking just 27 days on average to sell, and discounting rates are at a record low of 1.6%. Similar to other cities, growth in the market is being led by Hobart houses where values are up 10.2% over the past year, while unit values have recorded a lower annual rise of 2.6%.

Darwin housing values have been on a solid recovery trajectory, rising 5.5% over the past three months to be 13.8% higher over the year, by far the strongest appreciation in housing values across the capital cities. While housing values surge higher, so too are rents. House rents rose 15.2% over the past year and unit rents are up 12.2%. With rents rising faster than housing values, yields have also pushed higher, reaching 6.2% gross in February; only one basis point off the record high yields of 6.3% achieved in 2014. Although values are rising quickly, the market has a long way to go before recovering, with dwelling values remaining 23.4% below their earlier highs.

Canberra’s housing market has navigated the COVID period with hardly any disruption. Housing values have been rising for nineteen months straight. The quarterly trend in home sales is tracking 4.2% higher than a year ago, demonstrating a lift in demand while advertised supply levels have dropped by 31% relative to last year. The tight market conditions have pushed house prices 11.3% higher over the past year, while unit values are up a smaller 5.2%. Across the sub-regions of Canberra, it’s the most expensive area, Woden Valley, where housing prices have shown the largest lift, up 13.5% in a year.

Overall, Australia’s housing market is now well entrenched in one of the strongest growth phases on record. For housing values and activity to be surging during a global pandemic seems counter intuitive, however the factors driving this growth are significant and diverse.

Record low mortgage rates look set to remain in place for a prolonged period of time, providing confidence to buyers and historically low interest payment to income ratios.

Economic conditions are consistently beating forecasts, with the RBA acknowledging Australia’s economy is likely to recover six to twelve months earlier than originally expected. The economic recovery is feeding into a solid rebound in consumer sentiment and encouraging households to reduce their savings buffer and spend more.

Advertised supply remains around record low levels, at a time when buyer demand is rising swiftly to above average levels. This mismatch between demand and supply looks set to remain a feature of the housing market for some time.

There are some headwinds ahead in the form of a reduction in fiscal support from the federal government, home loan deferral arrangements expiring and migration remaining stalled. The intensity of these headwinds have lessened over recent months. The economy navigated the earlier fiscal cliff relatively seamlessly, however the wind-up of JobKeeper and the COVID supplement for JobSeeker is likely to cause a temporary slowdown in the economic recovery which could slow some of the housing market exuberance.

Similarly, there has been a substantial drop in deferred home loans. Down from $195 billion, or 11% of all home loans in May last year, to $32 billion or 1.8% of all mortgages at the end of January. As the deferral program expires at the end of March we could progressively see a rise in forced sales across some sectors of the housing market.

Housing price momentum looks to be skewed towards the upside, with the tailwinds of low rates, improving economic conditions and consumer confidence, low supply and high consumer demand likely to outweigh the headwinds associated with the coming wind-down of fiscal support.

No doubt the coming months will provide more clarity on how Australia’s economy and housing market navigate the wind back of government support. You can keep up to date with all the housing centric news at [www.corelogic.com.au](http://www.corelogic.com.au)