Welcome to CoreLogic’s housing market update for April 2021. The heat in the housing market intensified last month, with our national home value index recording a 2.8% rise, the fastest rate of appreciation since October 1988 when values were up 3.2% over the month. These exceptionally strong growth conditions remain broad-based, with values rising by at least 1.5% across each of the capital cities over the month.

Sydney led the pack for capital gains, with values surging 3.7% over the month and 6.7% higher over the first quarter of the year. The last time Sydney housing values recorded a quarterly trend this strong was in June and July 2015. Following this brief surge, the pace of growth rapidly slowed as limits on investor lending kicked in to slow the market.

March marked several inflection points across the market. Sydney and Melbourne have now staged a full recovery from earlier downturns. With the acceleration in capital gains across Australia’s two largest housing markets, the larger capitals have started to outpace many of the smaller cities that were previously leading the charge in growth.

Additionally, for the first time in a year, growth in capital city housing values outpaced the regional markets. CoreLogic’s combined capital cities index recorded a 2.8% lift in March compared with the 2.5% gain seen across the combined regionals index. Housing values in regional areas are 11.4% higher over the past year, demonstrating the higher earlier stronger growth trend. Capital city values are now 4.8% higher on an annual basis with an acceleration in growth evident in March.

Victoria was the only state where regional housing values rose at a faster pace than their capital city counterparts. Regional Victorian values were up 2.6% compared with a 2.4% rise across Melbourne over the month.

Lower density housing has continued to outpace higher density housing for capital gains. Nationally, house values were 3.0% higher over the month while unit values were up a more modest 1.9%. Across the combined capitals, the quarterly growth rate for houses, at 6.5%, is more than double that of units at 3.1%. Despite the underperformance, it looks although unit markets have turned a corner, with Sydney recording two consecutive months of rising values, while the Melbourne unit market has seen values consistently rising since October last year, with the trend accelerating over recent months.

At the heart of these strong housing market conditions is a disconnect between demand and supply.

On the supply side, total advertised listings remained extremely low throughout March. A count of national total listing numbers over the four weeks ending March 28 shows advertised stock levels were -25.5% below the five year average.

The main reason total listing numbers remain so low is that buyer demand is consistently outweighing new advertised supply. The ratio of sales to new listings is tracking at around 1.1, implying for every new listing added to the market, 1.1 homes are sold. Such a rapid rate of absorption is keeping overall inventory levels low and adding to a sense of FOMO amongst buyers.

The tight market conditions can also be seen in auction clearance rates, which have consistently held above 80% in March. This is also evident in rapid selling times, and lower discounting rates for private treaty sales.

Housing market conditions seem to be strong pretty much everywhere, but there is some diversity across the cities.

Sydney dwelling values are now 2.6% higher than their July 2017 peak, a remarkable recovery considering the -14.9% drop in values through to May 2019 and the further -2.9% fall throughout the COVID downturn. The strong recovery trend can be mostly attributed to houses, rather than units, where values are up 10.8% over the past six months. Unit values are 1.8% higher over the same period of time, and still 2.1% below their 2017 peak. The typical house value rose to slightly more than $1.1 million in March. Home sales are estimated to be 15% higher than a year ago across Sydney, while listing numbers were 15% lower, highlighting the lack of advertised supply relative to demand, which helps to explain the upwards pressure on home values.

Melbourne housing values recovered from the -11.1% fall between 2017 and 2019, and the -5.6% drop in values through the worst of the COVID related downturn, to set a new record high for dwelling values in March. The median house value is approximately $860,000 while the median unit value reached $593,000. Local market activity has ramped up over the past six months. Over the March quarter, the estimated number of home sales is tracking 17% higher than the same time last year. This surge in activity is happening across a relatively low supply levels, where total listing numbers are only 1.5% higher than a year ago. Across the sub-regions of Melbourne, the Mornington Peninsula stands out with the fastest rate of growth. Housing values across the Peninsula were 8.6% higher over the March quarter alone.

The pace of capital gains has been accelerating across the Brisbane market since the COVID downturn found a floor in September last year. Local housing values were down 0.9% through the worst of the COVID period and have surged 7.0% higher over the past six months. Like most other cities, the unit sector is recording a milder growth rate, with values up 2.8% since September last year compared with a 7.9% rise in house values. The growth is occurring while advertised supply levels remain 27% below the five year average. Against this low supply, the number of homes sales is tracking 8% higher through the March quarter than last year. Brisbane inner city house values have led the pace of capital gains, with values up 7.7% through the March quarter.

Adelaide recorded a 1.5% lift in home values in March, taking the annual growth rate to 8.6%; well above the combined capitals average of 4.8% growth. The recent trend has been a little softer than the other capitals, which could be a sign of earlier market heat starting to cool. The trend in home sales has been easing since December, however the March quarter recorded sales activity that was estimated to be almost 22% higher than year ago. Homes are selling in just 41 days, ten days shorter than a year ago, and discounting rates are around record lows at 3.0%. The latest data shows an acceleration in growth across the premium housing markets. For example, the sub-region of Burnside recorded the highest gains over the March quarter, where house values were up 6.8%.

The pace of capital gains has continued to accelerate across Perth, with dwelling values up 1.8% in March which was the fastest rate of appreciation since September 2006. Such a rapid pace of growth is seeing the market rapidly recover from the 22% peak-to-trough fall that ran between mid-2014 and mid-2019, followed by a 2.2% drop through COVID. Local housing values are still 15.9% below peak levels, highlighting the relative affordability of the market. The heat in the market is evident from our estimate of home sales over the March quarter, which is up 42% on last year’s numbers, while total advertised stock levels are down 23%. Homes are selling in just 27 days on average, the fastest rate of sale since 2014.

Hobart housing values have continued to rise at a rapid pace. Dwelling values were up 3.3% in March, which was the fastest monthly growth rate since 2003. The long term strength of the Hobart market is demonstrated through the 56% rise in housing values over the past five years. This is more than double the rate of growth in Sydney and Melbourne. It is also 22 percentage points higher than the capital city with the second highest growth rate, which is Canberra, at 34%. Hobart’s most affordable quarter of the market has been recording a higher rate of growth relative to other sectors, however the most expensive end of the market is accelerating, with the monthly rate of growth across the top quartile outpacing the lower quartile in March.

The housing trend in Darwin has been extremely strong. Housing values are 11.2% higher over the past six months which is the fastest half yearly growth rate of any capital. Market demand has shifted upwards from a low base in the past 3 months, with the estimated number of homes sales 46% higher than a year ago. Meanwhile, advertised supply is 36% lower than a year ago, and 42% below the five year average. Homes are averaging 47 days to sell, which is the fastest rate of sale since 2010. Despite the strong gains, a recovery to previous highs is still some way off, with Darwin housing values remaining 21.6% below their 2014 peak.

Canberra housing values have been consistently rising over the past 20 months. Over recent months, growth rates have accelerated to the highest level since June 1992. House values have shown a much stronger rate of growth than units, rising by 13.9% over the past year while unit values are up 5.8%. Sales activity has eased since November last year though, with the number of homes sold over the March quarter estimated to be 1.8% lower than year ago. This slowdown in sales could be at least partially related to short supply levels, with the number of listings 31% lower than last year.

Overall, housing markets are continuing to respond to a broad range of positive factors including record low interest rates and recent economic conditions that have consistently beaten forecasts. In response, Australians are feeling optimistic and confident in making high commitment decisions related to the property market.

The upswing in buyer demand has not been met with the same level of increase in inventory. This has resulted in strong selling conditions, amidst a palpable sense of urgency amongst buyers, putting upwards pressure on housing prices.

While we are expecting housing values to continue rising throughout 2021 and well into next year, it is reasonable to expect the pace of growth will slow. Earlier periods of similar exuberance have been previously quelled by factors such as rising interest rates, weaker economic conditions or changes to credit availability.

As the housing market hits record high values, speculation is mounting as to what will trigger the next downswing phase of the cycle.

Short term interest rates are unlikely to increase any time soon, and the economic recovery has some way to go. However housing affordability constraints, particularly for those who do not own a property, are mounting.

There will be substantially less fiscal support going forward for home owners and potential first home buyers, which will likely contribute to a tapering of demand. This is especially the case amongst first home buyers where demand has been brought forward by a range of incentives set to end this year.

The prospect of tighter credit policies is also on the radar, which we know from previous periods of credit tightening will likely have an immediate dampening effect on housing activity. The likelihood and timing of any change in credit policies is highly uncertain and largely dependent on a material lift in credit metrics such as debt to income ratios, loan to income ratios or high LVR lending.

According to APRA, although each of these metrics rose in the final quarter of 2020, lending standards remain healthy enough to keep any credit intervention at bay for now.

As the economy transitions away from fiscal support and housing affordability becomes more challenging for some sectors of the market, it’s an important time to keep an eye on the trends. You can keep up to date with all the housing market and twists and turns via the CoreLogic research pages at [www.corelogic.com.au](http://www.corelogic.com.au)