Welcome to CoreLogic’s housing market update for May 2021.

Australian housing values lifted by 1.8% in April according to CoreLogic’s national home value index, with the monthly pace of capital gains easing from a 32-year high in March. Although growth conditions have slowed, housing values are still rising at a rapid pace, up 6.8% over the past three months to be 10.2% higher than the COVID low in September last year.

The slowdown in housing value appreciation is unsurprising given the rapid rate of growth seen over the past six months, especially in the context of subdued wages growth. With housing prices rising faster than incomes, it’s likely price sensitive sectors of the market, such as first home buyers and lower income households, are finding it harder to save for a deposit and fund transactional costs.

There is already some evidence of fewer first time buyers in the market, with the Australian Bureau of Statistics reporting a 4.8% fall in the value of first home buyer home loans through February and March.

Despite the slowdown, positive housing market conditions remain geographically broad-based with every capital city and ‘rest-of-state’ region continuing to record a lift in dwelling values over the month. Darwin and Sydney recorded the largest month-on-month rise in dwelling values, while Perth values recorded the lowest rate of growth amongst the capital cities at 0.8%.

The four smallest capital cities recorded double digit annual growth, reflecting a smaller COVID-related disruption and an earlier start to the growth phase last year. Melbourne is recording the lowest level of annual growth due to a larger downturn, attributable to the extended lockdown period last year.

The broad trend of houses outperforming the unit sector continued through April as higher density styles of housing experienced less demand amidst elevated supply across some inner city precincts. At the combined capital city level, house values have risen at double the pace of unit values over the first four months of the year.

A preference shift away from higher density housing during a global pandemic is understandable, however a rise in flexible working arrangements also seems to be supporting greater demand for houses around the outer-fringes of capital cities and regional locations. Relatively weak investor activity, compounded by a supply overhang in some high-rise precincts, is also dampening price growth in unit markets.

In a further demonstration of the preference shift away from higher density styles of housing, the past six months has seen house sales tracking 19% above the decade average. Unit sales have also risen over the past six months but are only 6% above the decade average.

Strong selling conditions can be seen in auction clearance rates, which have held in the upper 70% range throughout April, alongside the fall in median selling times and vendor discount rates which have reduced to a record low median of just 26 days to sell a home along with a median discounting rate of just 2.7% across the combined capitals.

Let’s move on to the capital city trends.

Sydney continued to lead the pace of growth in housing values across the major capitals, recording a 2.4% rise in April. Recall Sydney housing values were up 3.7% in March, so the April reading marks a slowdown in the pace of growth, albeit from the fastest rate of growth since 1988. Sydney’s rapid pace of appreciation in skewed towards houses over units. Although values are rising across both sectors of the market, house values have surged 13.4% over the most recent six month period compared with a 3.7% lift in unit values. We are also seeing stronger growth conditions across Sydney’s premium valued properties. For houses, the most expensive quarter of the market recorded a 12.2% lift in values over the past three months compared with a 7.9% rise. The trend is similar, but less substantial for units, with the upper quartile recording a 6.0% lift in values over the past three months while lower quartile unit values were only 2.9% higher.

In Melbourne the pace of capital gains slipped from 2.4% in March to 1.3% in April. Considering housing values have risen at the average monthly pace of 0.4% over the past decade, the current growth environment can still be described as rapid. House and unit values are rising, but unevenly. House values have increased by 9.0% over the past six months compared with a 5.4% gain in unit values. Similarly, growth has been broad-based but diverse across the sub-regions of Melbourne, with the Mornington Peninsula substantially outpacing other areas of the city, with dwelling values up 13.1% over the past year. The next best performing region was the north eastern suburbs where values were up a smaller 4.6%.

Brisbane housing markets continued their upswing with housing values rising a further 1.7% in April to be 8.3% higher over the past twelve months. In line with the national trend, house values have been rising at a much faster pace than units, up 9.6% over the past year compared with a 2.4% lift in unit values. Selling conditions are well skewed towards vendors, with homes taking just 26 days on average to sell while discounting rates hold at record lows of just 3.0%. The tight selling conditions can be attributed the number home sales tracking 25% above the five year average at a time when total listing numbers remain 27% below average.

Adelaide was one of the few capital city housing markets where the pace of capital gains accelerated in April, rising from 1.5% in March to 2.0% in April. April marked the fastest pace of monthly appreciation since December 2007, just prior to the GFC induced downturn. Like every other capital city, Adelaide’s unit market has underperformed through the upswing. Unit values are 4.8% higher over the past year while house values have risen at more the double the rate, up 11.1%. Estimated sales volumes were tracking 36% above the five year average in April, while advertised listings were about 30% below the five year average. With demand strong and advertised supply levels so low, it’s likely we will continue to see housing values rise across the Adelaide housing market.

Perth housing values continued to rise in April, but the pace of gains slowed relative to earlier months. House values were up 0.9% in April taking the annual growth rate to 6.9% while unit values rose by 0.6% over the month to be 4.8% higher over the year. Selling conditions are extreme, with homes averaging just 17 days to sell; the fastest rate of sale across the capital cities and an equal record low with 2006 when selling conditions were as tight as they are now. More home owners are taking advantage of the strong selling conditions, with new listings added to the market in April tracking almost 25% higher than the five year average. Across the sub-regions of Perth, Mandurah is leading the pack, with values up 11.0% over the past twelve months.

Hobart housing values rose by 1.0% in April; the lowest month on month rate of growth since December when values rose by 0.7%. Despite the slowdown in growth, other indicators still indicate plenty of heat in the market. Homes are selling in just 21 days and vendor discounting rates are just 1.8% which is the lowest of any capital city as well as the lowest discounting rate on record for Hobart. Such tight selling conditions can be at least partially explained by the fact advertised listing numbers remain 34% below the five year average. Sales are actually tracking lower than average, which is likely a symptom of short supply rather than weak demand.

Darwin’s housing market is rebounding at an extraordinary rate with housing values surging 2.7% higher in April to be 15.3% higher over the year; by far the fastest rate of growth across the capitals. House values are rising at about double the rate of unit values, up 18.2% over the past year while unit values are 9.5% higher. Demonstrating the recovery in housing demand, estimated home sales were tracking 31% above the decade average in April while total listing numbers are about 40% below average. Despite such tight market conditions, the median time on market, at 48 days, remains higher than other capitals, which is likely a reflection of the stock overhang that accrued through the long running downturn.

Canberra remains one of Australia’s strongest housing markets. Housing values rose 1.9% in April taking the annual rate of growth to 14.2%, which is the second fastest annual rate of growth across the capital cities after Darwin. Detached houses have been the primary driver of the strong capital gains, with house values up 16.0% over the past year compared with a 7.6% lift in unit values. Although housing values have been rising rapidly, the median house value in Canberra remains more than $300,000 lower relative to Sydney and almost $37,000 lower than Melbourne house values.

Overall, although conditions remain strong, there are mounting signs the housing market has moved through a peak rate of growth. Housing values over the past six months have been rising at an unsustainable rate and are now succumbing to a gradual slowdown in demand due to worsening affordability constraints, a rise in fresh inventory, higher levels of new detached housing supply and less government stimulus.

We are expecting housing values will continue to rise throughout 2021 and into 2022, albeit at a gradually slower pace. Demand should be supported by an expectation that mortgage rates will remain at their record lows for an extended period of time, as well as ongoing high levels of consumer confidence as the economy expands at a faster than average pace.

The risks associated with the expiry of mortgage deferrals and less fiscal support have become far less significant. The proportion of home loans that remained on a deferral arrangement at the end of March was just 0.7%, comprising only 0.07% of bank mortgage books. Consequently, we are not expecting any material lift in distressed listings. For borrowers that remain in a distressed situation, the lift in housing values has reduced the risk of selling at a loss. In the most recent Financial Stability Review, the RBA estimates only 1.25% of Australian properties are in a situation where the loan amount exceeds the value of the home.

The trend in labour markets will provide an important bearing for housing market outcomes. Labour markets have shown a ‘V’-shaped recovery through the COVID period to-date; although there may be some reversal in the trend due to the end of JobKeeper, this is likely to be temporary. Further tightening in labour markets post JobKeeper should help to keep consumer sentiment high and provide a positive flow-on effect for housing demand.

The possibility of tighter credit policies remains a key risk to the housing market outlook. The RBA and APRA have reiterated they are watchful for any signs of slipping credit standards, but have also noted there has been little evidence of a deterioration in lending standards to-date. A rise in the proportion of riskier types of lending or higher risk loans could be met with a new round of credit policies. We know from earlier periods of macroprudential intervention that this would likely dampen market activity and the pace of capital gains.

Clearly there are a lot of factors at play and uncertainty related to COVID-10, both here in Australia and abroad, will continue to exert some influence on economic activity. However I think it’s fair to say the risk factors have been become substantially less concerning amidst a faster than expected economic recovery.

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