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Australian unit market update
September 2022

By Kaytlin Ezzy, Economist at CoreLogic

Consecutive rate hikes, low sentiment and reduced lending capacity continue to weigh heavily on housing demand as declining unit values become more widespread. Since peaking in April, CoreLogic's national unit index has decreased by -2.3%, with values declining by approximately $14,400 over the past four months. Making up 78.3% of Australia's unit supply, the combined capitals recorded a larger decline in unit values relative to the regional areas, falling -2.7% or around $17,500 since April. By comparison, regional units, with a more affordable median value (approximately $110,000 below the capitals), have been somewhat more resilient, with values falling -1.3% since peaking in June, equivalent to approximately -$7,000. As we continue to move through the downward phase of the cycle, we can start to understand how the current downswing compared to previous periods of value decline.

Figure 1 compares the current cumulative decline in unit values across the combined capitals to previous peak-to-trough declines on a month since peak basis. With capital city unit values falling -0.9% in August**, the current downswing has now overtaken the pace of decline seen at the onset of the Global financial crisis (GFC)**, to be the fasted decline in unit values in 40 years.

CoreLogic Economist Kaytlin Ezzy says "The current tightening cycle has seen the cash rate rise 2.25% in just five months, the fastest increases seen since 1994. While Australia's unit market has been somewhat more resilient to falling values than the detached housing segment, it has not been immune, with many households being sensitive to increased interest rates due to high debt levels along with high inflation."

"Despite the current decline being the fastest on record, it's important to remember the context of the past two years. **While capital city unit values are just 0.5% higher than this time last year, they are still 7.7% above pre-COVID levels.**"

Across the combined capitals, the annual performance gap between houses and units has narrowed, from 12.3 percentage points in September 2021 to just 2.2 percentage points in August, while the national performance gap has fallen from 10.9 percentage points to 3.0 percentage points over the same period

Figure 1 - Comparison of previous peak to trough decline in unit values- combined capitals

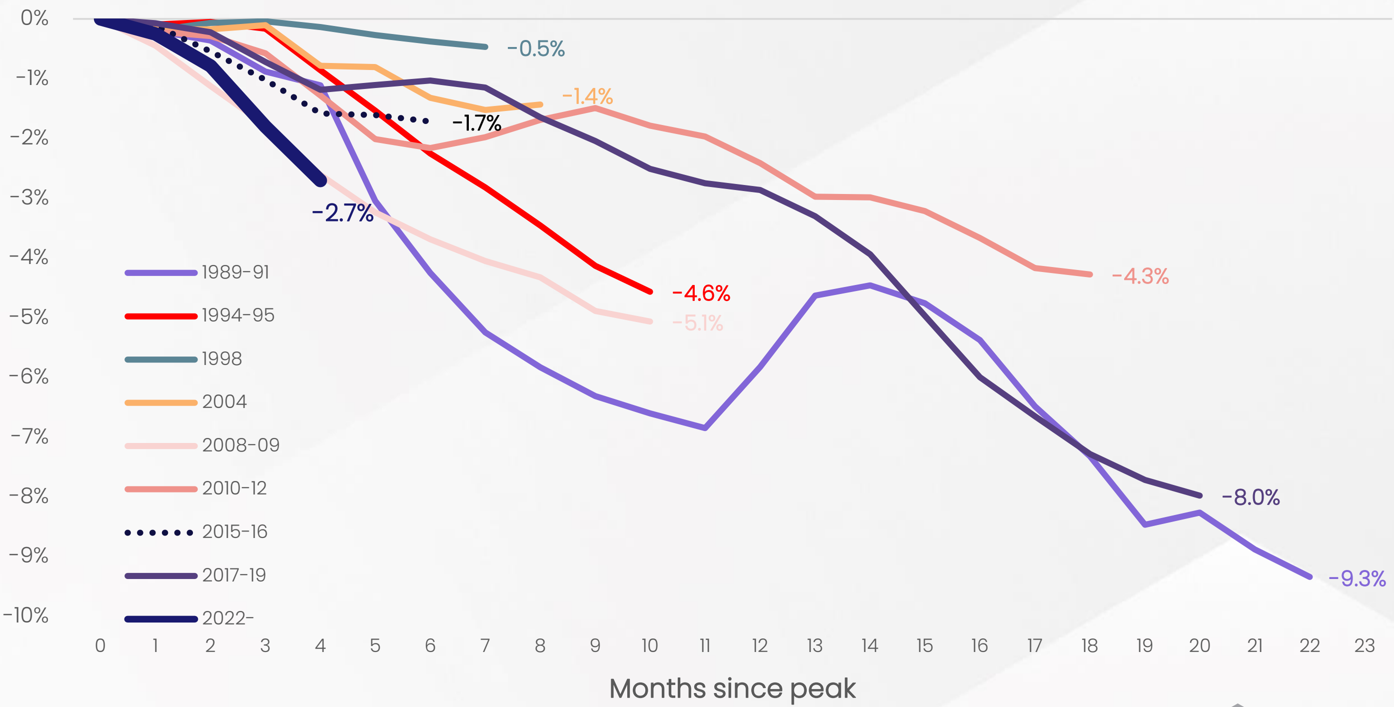

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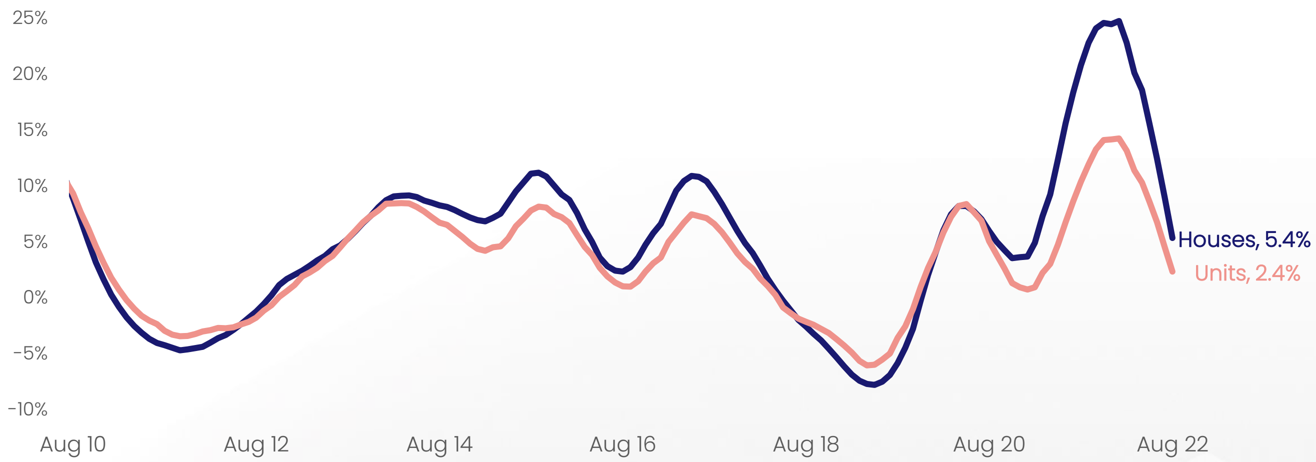
Figure 2 –Rolling annual growth rate, National houses and units



Looking across the individual capitals, Hobart and Sydney recorded the largest monthly declines in unit values, falling -1.7% and -1.5% respectively, while values across Melbourne declined by -0.6%. The cumulative decline in unit values seen has seen Sydney's (-2.5%) and Melbourne's (-0.6%) annual trend fall into negative territory for the first time since February 2021, while Hobart's values have fallen -2.5% below the levels recorded at the beginning of the year.

As the rising cost of living and increased interest rates put further downwards pressure on demand, the declines initially seen across Sydney and Melbourne unit values are now becoming more widespread. Canberra's medium to high-density sector recorded its second month-on-month decline, taking values -1.2% below the peak levels recorded in June, while Brisbane units saw values fall for the first time since October 2020, decreasing -0.2% over the month.

Unit listing levels across Canberra have continued to normalise over the past few months, which has put further downwards pressure on values.

Since the middle of May, Canberra's total advertised supply has improved from -23.3% below the previous 5-year average to just -6.0% below average at the end of August

Over the same period, Brisbane listings levels have seen a milder increase, rising from -39.7% below average to -33.2% below average.

"Despite the monthly change in Adelaide's house values falling into negative territory (down -0.2% in August), value growth across Adelaide's medium to high-density market remain positive, with values up 1.1% over the month. While still recording positive monthly growth, the quarterly growth trend has eased further, from a peak rate of 4.9% over the June quarter to 4.0% over the three months to August," noted Ms Ezzy.

The pace of quarterly growth across Perth has eased from 1.5% over the three months to May to 0.8% over the three months to August, while the quarterly trend in Darwin's unit values has accelerated, rising from 1.0%, to 2.7% over the same period.

Figure 3– Rolling annual growth rate - Capital City units

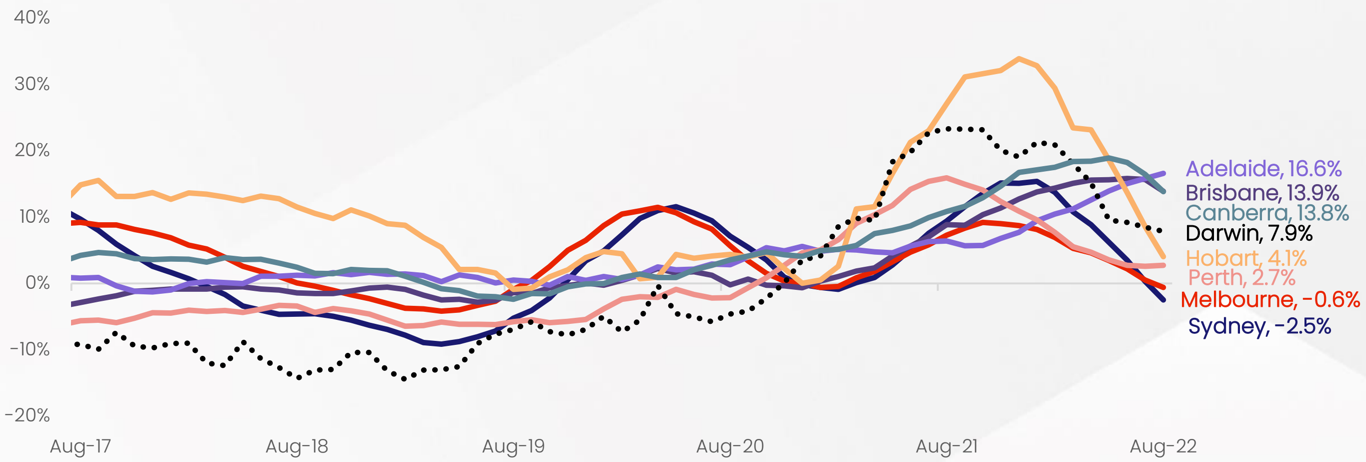


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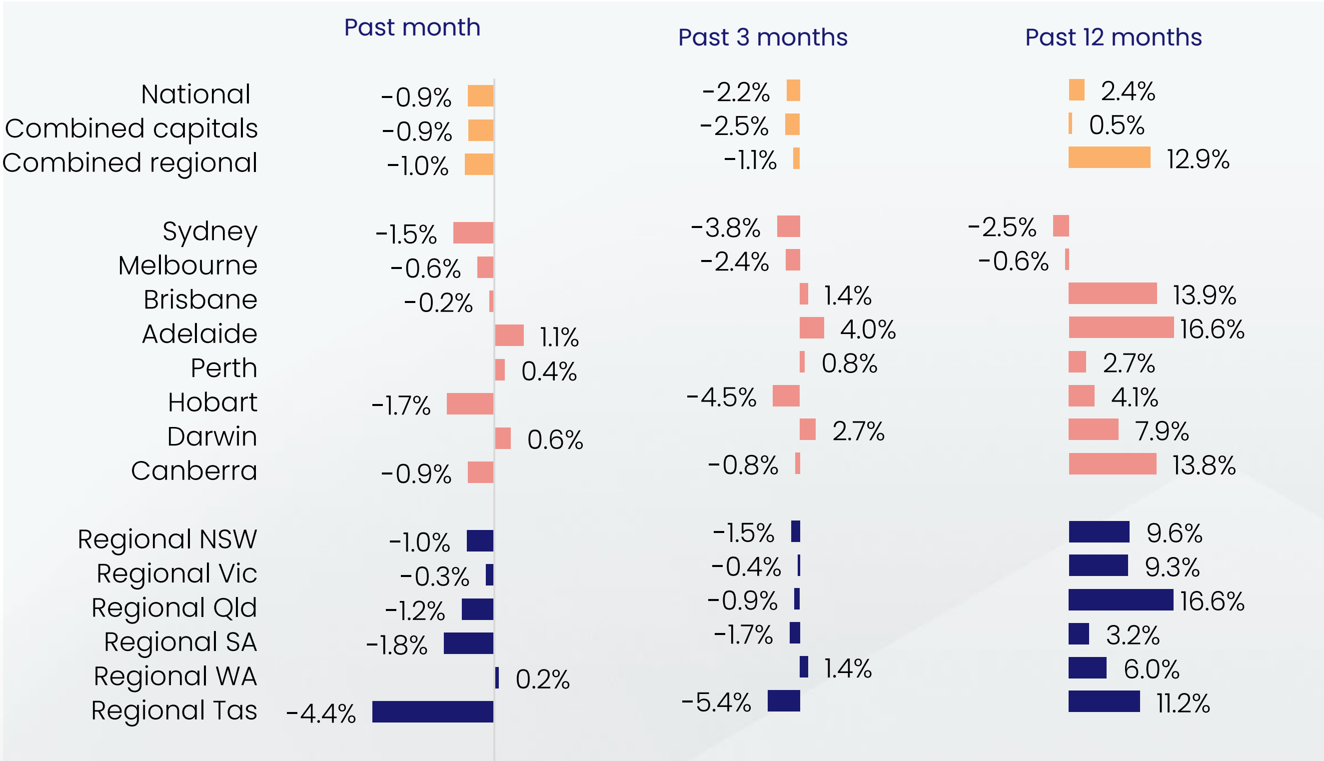
Figure 4– Change in unit values by region (as at end of August 2022)

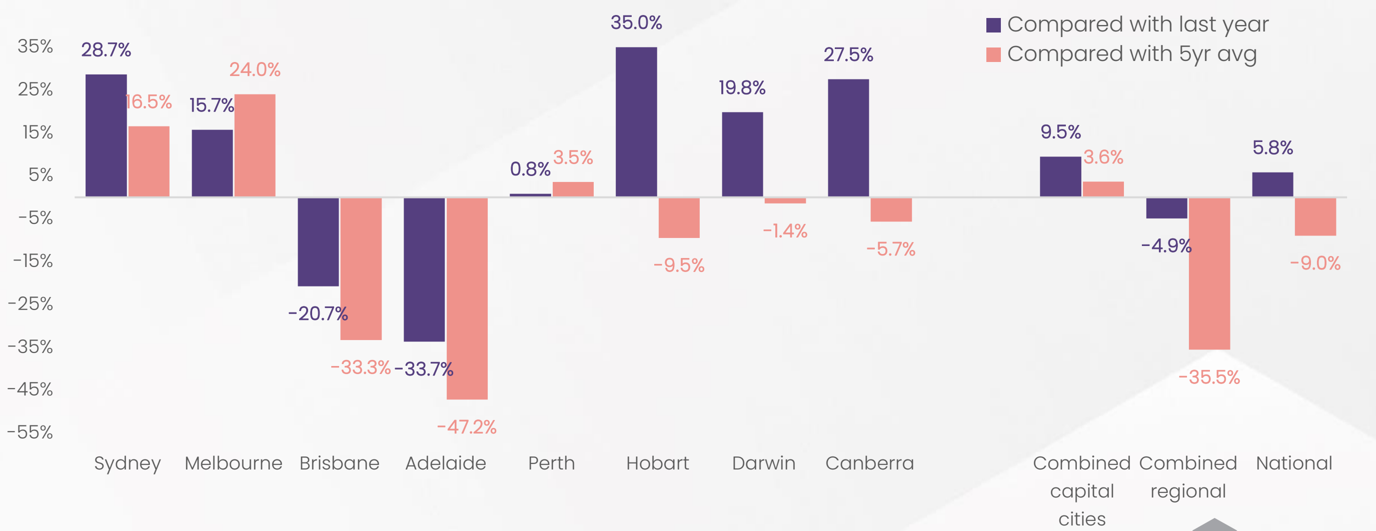


Similarly, the downward shift in values has continued to spread amongst the regional markets, with only Regional WA recording a small rise in unit values over the month (0.2%). Across the individual SA4 regions, nine of the 23 regional SA4's analysed are now seeing unit values fall over the quarter. Units across Queensland's Sunshine Coast recorded the largest quarterly decline, down -5.5%, followed by Richmond- Tweed (4.4%) in NSW.

"Listings continue to be an important factor affecting values. Limited supply across Adelaide has helped support value growth while above average listing levels in Sydney and Melbourne have contributed to skewing selling conditions in favour of buyers."

Ms Ezzy says, "Despite the variance across the individual capitals, listing levels across the combined capitals have held relatively steady over the four weeks to the 28th of August. As we move further into spring we would typically expect to see a rise in freshly advertised stock. If a rise in listings isn't met with a subsequent rise in demand we could see a glut in supply, which would add additional downward pressure on values."

Figure 5 - Total unit listings, change from previous year and previous 5-year average - 4 weeks ending 28/8/2022



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Surging unit rents continue to outpace capital gains, with only regional SA (-0.3%) and regional Tasmania (-0.4%) seeing rental values decline over the month. Up 1.1% over the month and 3.6% over the three months to August, national unit rents are now 11.3% higher than this time last year. National vacancy rates have continued to tighten, from 1.4% in July to 1.3% in August.

"A number of factors help create the current rental climate, including a decrease in the average rental household size, below average investor participation through 2020 and 2021, and relatively low levels of building activity across the medium to high-density sector since 2015. Additionally, we are seeing a larger that average proportion of listings coming to market where the owner is an investor, which is likely to be another factor keeping rental supply so tight."

Across the capitals, **Brisbane has seen the strongest rise in unit rental values over the three months to August, rising 4.6%, equivalent to a $21 rise in weekly rents.** This was followed by Sydney (4.1%), Darwin (4.0%), Adelaide (3.9%) Melbourne (3.9%) and Perth (2.1%). Quarterly growth in unit rents across Hobart and Canberra slowed to 1.5% over the three months to August, after recording stronger growth through 2021 and early 2022.

"A recent analysis by CoreLogic, utilising household income estimates from ANU found in June, **the median weekly rental value for national units made up a record high 28.6% of the average household wage,** up from 27.6% the same time last year. As worsening rental affordability, coupled with high non-discretionary inflation puts further pressure on tenants' balance sheets, we could see the average household size revert back to pre-pandemic levels, as renters attempt to share the additional rental cost burden."

"While a trend towards larger rental household would likely have the effect of reducing rental demand, it's possible this decrease could be offset by a rise in demand from international sources, as overseas migration returns to pre-COVID levels."

National gross rental yields for units expanded further in August, rising eight basis points to 4.07%. Two basis points above the yields recorded this time last year, Darwin (6.96%) continues to record the highest rental yields, followed by Perth (5.63%), Adelaide (4.98%) and Canberra (4.95%). Yields across Sydney (3.53%) and Melbourne (3.92%) are now 49 and 48 basis points above the yield recorded this time last year respectively, while yields across Brisbane (4.84%) and Hobart (4.23%) are still below the levels record a year ago.

Figure 6 –Rolling quarterly rental growth rate – Capital City units

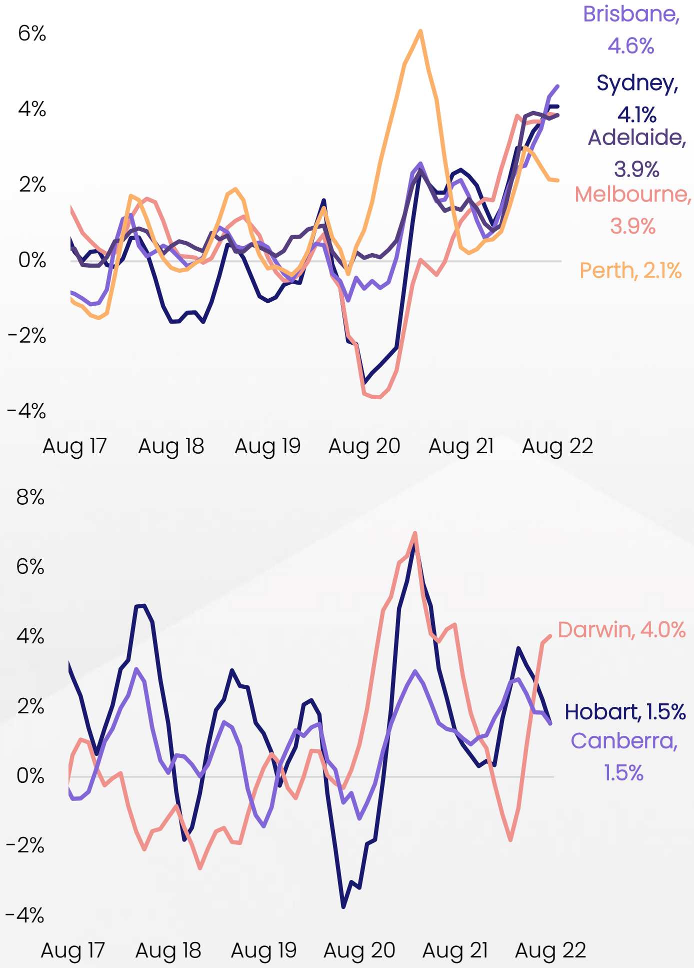
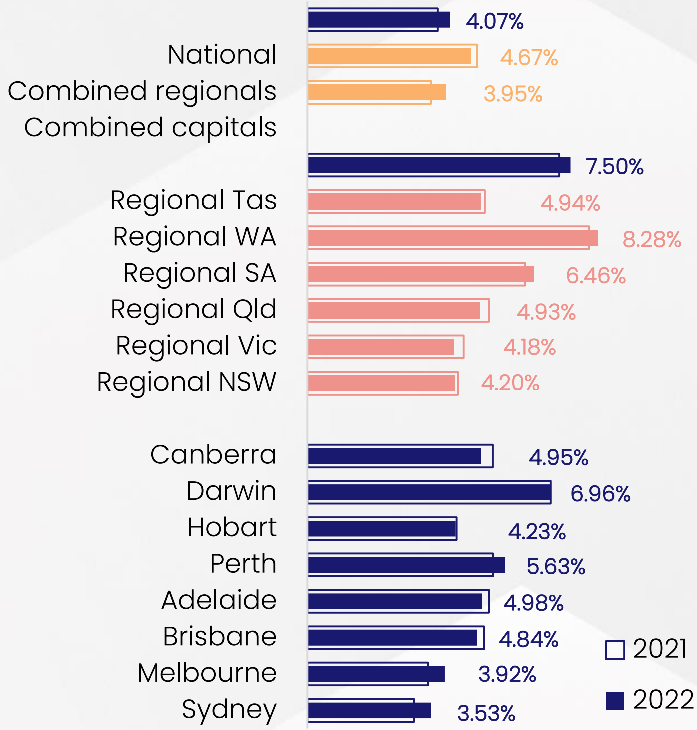


Figure 7 - Gross rental yields (units) – Current vs one year prior (as at end of August 2022)



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The outlook for the Australian unit market continues to be skewed to the downside, with the cash rate target rising an additional 50 basis points in September, and further rises expected through 2022 and into 2023. While the labour market remains strong and consumer sentiment has seen a small uptick in September, the outlook for values remains intrinsically linked to interest rates, **with the trajectory of values dependant on how fast and far the cash rate rises**. Additionally, as we move further into the spring selling season, its possible higher unit listings could add further downwards pressure on values, if the seasonal rise in advertised stock is not met with a subsequent rise in demand.

Figure 9 -Unit performance summary table (as at end of August 2022)

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Combined capitals	Combined regional	National
Values																	
Median value	**$799,150**	**$608,281**	**$501,396**	**$429,936**	**$413,545**	**$574,866**	**$380,580**	**$615,560**	**$588,822**	**$418,014**	**$555,987**	**$230,647**	**$256,288**	**$388,371**	**$629,588**	**$518,942**	**$608,313**
Monthly	-1.5%	-0.6%	-0.2%	1.1%	0.4%	-1.7%	0.6%	-0.9%	-1.0%	-0.3%	-1.2%	-1.8%	0.2%	-4.4%	-0.9%	-1.0%	-0.9%
Quarterly	-3.8%	-2.4%	1.4%	4.0%	0.8%	-4.5%	2.7%	-0.8%	-1.5%	-0.4%	-0.9%	-1.7%	1.4%	-5.4%	-2.5%	-1.1%	-2.2%
Annual	-2.5%	-0.6%	13.9%	16.6%	2.7%	4.1%	7.9%	13.8%	9.6%	9.3%	16.6%	3.2%	6.0%	11.2%	0.5%	12.9%	2.4%
Total return	0.5%	2.8%	19.2%	22.5%	8.3%	8.7%	15.1%	19.2%	14.0%	14.6%	22.3%	15.1%	15.8%	16.8%	4.0%	18.3%	6.2%
Rents																	
Median rents	**$587**	**$466**	**$477**	**$418**	**$457**	**$476**	**$495**	**$582**	**$472**	**$349**	**$549**	**$286**	**$437**	**$369**	**$504**	**$470**	**$499**
Monthly	1.4%	1.2%	1.6%	1.2%	0.7%	0.1%	1.6%	0.3%	0.4%	0.5%	1.0%	-0.3%	2.1%	-0.4%	1.2%	0.8%	1.1%
Quarterly	4.1%	3.86%	4.6%	3.87%	2.1%	1.5%	4.0%	1.5%	1.2%	1.3%	3.5%	1.8%	2.7%	2.5%	3.8%	2.6%	3.6%
Annual	11.6%	12.9%	10.7%	11.1%	7.1%	6.9%	5.0%	7.3%	8.8%	6.8%	13.4%	9.3%	9.4%	10.8%	11.3%	11.1%	11.3%
Gross yield	3.53%	3.92%	4.84%	4.98%	5.63%	4.23%	6.96%	4.95%	4.20%	4.18%	4.93%	6.46%	8.28%	4.94%	3.95%	4.67%	4.07%
Vacancy rates	1.50%	1.44%	0.74%	0.29%	1.03%	1.14%	1.62%	1.29%	1.06%	0.88%	1.12%	1.37%	1.85%	0.96%	1.30%	1.10%	1.26%

CoreLogic is the largest independent provider of property information, analytics and property-related risk management services in Australia and New Zealand.

Methodology

The CoreLogic Hedonic Home Value Index is calculated using a hedonic regression methodology that addresses the issue of compositional bias associated with median price and other measures. In simple terms, the index is calculated using recent sales data combined with information about the attributes of individual properties such as the number of bedrooms and bathrooms, land area and geographical context of the dwelling. By separating each property into its various formational and locational attributes, observed sales values for each property can be distinguished between those attributed to the property's attributes and those resulting from changes in the underlying residential property market. Additionally, by understanding the value associated with each attribute of a given property, this methodology can be used to estimate the value of dwellings with known characteristics for which there is no recent sales price by observing the characteristics and sales prices of other dwellings which have recently transacted. It then follows that changes in the market value of the entire residential property stock can be accurately tracked through time. The detailed methodological information can be found at:

https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/

CoreLogic is able to produce a consistently accurate and robust Hedonic Index due to its extensive property related database, which includes transaction data for every home sale within every state and territory. CoreLogic augments this data with recent sales advice from real estate industry professionals, listings information and attribute data collected from a variety of sources.

* The median value is the middle estimated value of all residential properties derived through the hedonic regression methodology that underlies the CoreLogic Hedonic Home Value Index.

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