Quarterly Economic Review

A review of the Australian residential property market and economy

April Quarter
Released May 2021

CoreLogic

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Introduction

Value of Australian assets

$8.1 Trillion
Residential real estate

$964 Billion
Commercial real estate

$2.7 Trillion
Australian listed stocks

$3.0 Trillion
Value of superannuation

Source: CoreLogic, APRA, RBA, ABS, ASX
Data as at May 2021

The start of 2021 has seen extraordinary growth and activity in the Australian housing market, with values rising rapidly, sales volumes elevated on previous years and total listings stock generally lower than in previous years.

As of April 2021, the combined value of the Australian housing market climbed to $8.1 trillion, and the CoreLogic Home Value Index was 7.6% above its previous high in October 2017. At the capital city level, Perth and Darwin were the only locations where dwelling market values were not at record highs. However, low interest rates, more favourable migration trends and an uplift in mining activity is supporting a recovery trend in many markets across these regions.

The uplift in dwelling values is very broad based across Australia. The vast majority of sub-markets analysed (97% of SA3 markets) saw a lift in dwelling values in the 12 months to April. Growth trends suggest that houses are still in higher demand than unit stock, and while the prospect for continued growth in regional Australian dwelling markets is strong, the performance gap between the combined capital cities and regional markets is closing.

The recovery trend also includes the markets considered to present more 'risk' during the height of the COVID-19 pandemic, including inner city Sydney and Melbourne unit markets. Even a sharp decline in rents appears not to have deterred buyers. In the Victoria section of this report, we note that while rental values remain -20.1% lower across the SA3 'Melbourne City' unit market, purchase prices are 2.0% higher in the same period.

Another trend of note is the return of the investor in 2021. While growth in the Australian housing market has been dominated by owner occupier and first home buyer purchases in the past 12 months, ABS data suggests the profile of the buyer is changing, with investor financing growing quickly in recent months.

With international borders expected to be closed until mid-2022, *internal* migration has been important in supporting housing demand. Queensland has the most favourable internal migration numbers, with inter-state arrivals increasing from Sydney and Melbourne in the December 2020 quarter, compared with previous quarters. Tasmania has also seen positive interstate migration, as well as a surge in overseas migration prior to the pandemic.

With such a positive, broad-based picture of the housing market, attention is now turning to how long this upswing can last. Currently, CoreLogic views the major headwinds for housing market performance are affordability constraints (which is likely already putting downward pressure on rates of capital growth), or a tightening of housing lending conditions (where there are already signs of 'soft' enforcement of more prudential lending standards). At the national level, CoreLogic anticipates there will be minimal impact on the housing market resultant from the recent end of the JobKeeper program. Dwelling values are expected to continue increasing through the rest of 2021, though with less momentum than what has been observed in the start of the year.

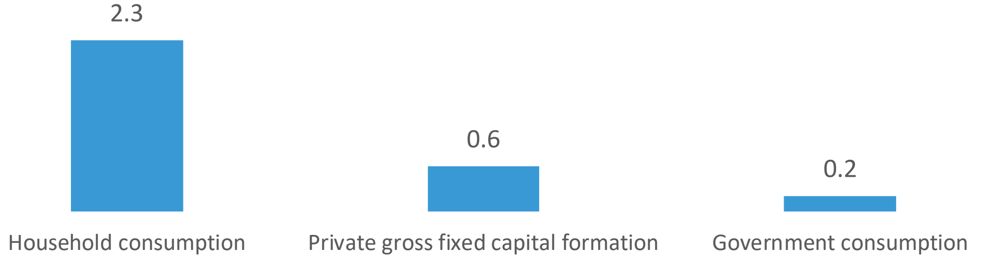
National economic and property update

The Australian economy is recovering strongly from a COVID-induced recession. Alongside other factors, this has furthered momentum in Australian dwelling values. However, a mixture of headwinds and tailwinds remain in place for the continuation of property value increases, and the economic rebound, with particular regions being more exposed to risk than others.

COVID-19 in Australia saw an overall GDP decline of -1.1% over 2020. This was comprised of a -7.3% contraction in economic activity over the first half of 2020, and a 6.6% recovery in the second half.

ABS national accounts data shows household consumption provided the largest contribution to GDP growth through the December 2020 quarter, at 2.3 percentage points. The easing of COVID-related restrictions relinquished some of the unusually high household savings built up through stringent periods of social distancing. This includes purchasing of large items, such as purchases of vehicles, which increased 31.8% over the quarter (though was still down -5.0% in the calendar year). Similarly, accumulated savings may also explain some of the momentum behind dwelling value increases as social distancing restriction eased.

Select contributions to GDP growth, December 2020 qtr (percentage points)



Source: ABS

Minimal social distancing measures amidst fewer COVID outbreaks and the promise of a vaccine through April contributed to a 6.2% uplift in the Westpac-Melbourne Institute consumer sentiment index, the highest level since August 2010, and suggests household expenditure would continue to support an uplift in GDP.

Through May however, the index declined -4.8%, which may have been a factor of JobKeeper expiring (particularly across the arts where sentiment declined 33%), and a reaction to federal budget results[1]. Consumer confidence has fallen from an extremely high level, but continued uncertainty around the economy and housing could have further implications for housing demand.

Additionally, consumption patterns may revert back to more short-term orientated purchases amid eased social distancing. This is particularly the case for first home buyers, where accumulating a deposit may become more challenging due to a combination of higher housing prices, low wages growth and fewer incentives. Whereas consumer sentiment has historically been weakly, positively correlated with dwelling sales counts, consumption may now pivot from 'big-ticket' items such as cars and dwellings, to services that were impacted by COVID-19 such as hospitality and recreation services, as social distancing stringency remains low. Furthermore, rising prices may deter some property purchases; the 'time to buy a dwelling' sub-index of the consumer sentiment index fell a further -3.4% through May, following a -7.8% decline through April. This suggests affordability will weigh on some buyer decisions.

National accounts data from the ABS shows private sector investment lifted 3.6% through the December quarter. This was driven by machinery and equipment and dwelling investment. This uplift was partly spurred by targeted fiscal stimulus, such as the HomeBuilder Scheme. With the recent announcement of extensions to commencements of dwellings eligible for the scheme, more housing starts can be realised, and housing construction is likely to remain a significant component of private sector activity through 2021.

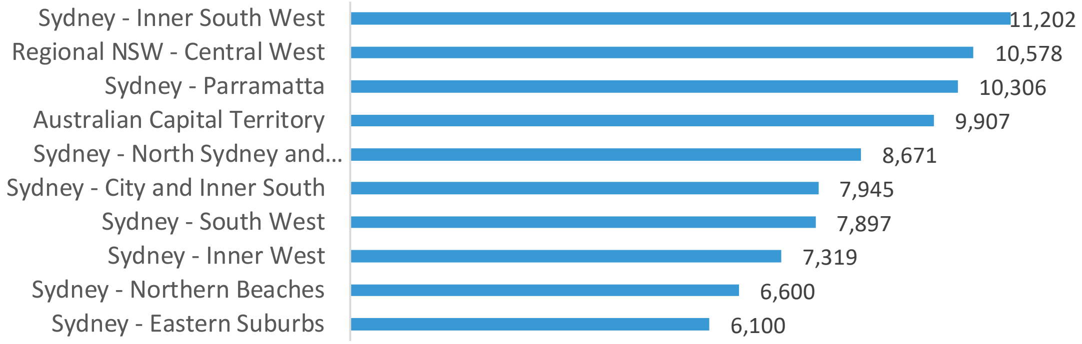
However, the Federal Budget papers for 2021-22 did note that the significant uplift in construction also signalled demand being 'brought forward' from future purchasing decisions. The dwelling construction boom is expected to wind down during the 2022-23 financial year.

The end of JobKeeper

While the Australian economic recovery has been impressive, the end of the JobKeeper stimulus in March may be a test for business and household consumption in the coming months.

[1] Westpac. May 2019. Consumer sentiment pulls back from an eleven year high. Westpac economic releases. Accessed online here: https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20210519BullConsumerSentiment.pdf

Highest count of JobKeeper extension applications through January 2021 by SA4 location



Source: Treasury, derived

National housing market summary, April 2021

		Combined 8 capital cities	Combined regional areas	National
Dwellings	Month	1.8%	1.9%	1.8%
	Quarter	6.8%	6.6%	6.8%
	YTD	7.5%	8.3%	7.7%
	Annual	6.4%	13.0%	7.8%
	Total return	9.8%	18.2%	11.4%
	Gross yield	3.2%	4.7%	3.5%
	Median value	$705,375	$457,938	$624,997
Houses	Month	2.0%	2.0%	2.0%
	Quarter	7.7%	6.8%	7.5%
	YTD	8.6%	8.6%	8.6%
	Annual	8.0%	13.5%	9.3%
	Total return	11.4%	18.5%	13.0%
	Gross yield	3.0%	4.6%	3.4%
	Median value	$761,051	$473,433	$655,557
Units	Month	1.2%	1.6%	1.2%
	Quarter	4.2%	5.7%	4.4%
	YTD	4.3%	6.9%	4.7%
	Annual	1.8%	10.6%	3.1%
	Total return	5.7%	16.3%	7.1%
	Gross yield	3.7%	5.1%	3.9%
	Median value	$597,978	$397,335	$553,992

Unemployment may rise through the June quarter, where Treasury estimates around 88,000 individual JobKeeper recipients had few or no working hours at the start of 2021[2]. Demand for new business loans remained subdued, and household spending may ease[3]. Risks of business insolvency seem highest for small-to-medium sized enterprises in industries such as tourism, transport, hospitality and arts.

Insolvency may be concentrated in parts of Sydney and Melbourne, which generally had the highest portion of firms reliant on JobKeeper through the start of 2021[4]. The highest number of applications for an extension to receive the JobKeeper supplement were across NSW.

[2] Kennedy, S. March 2021. *Opening statement - Economics Legislation Committee*, Parliament House, Australia. Accessed online here: https://treasury.gov.au/speech/opening-statement-economics-legislation-committee-2021.
[3] Reserve Bank of Australia. April 2021. *Minutes of the Monetary Policy Meeting of the Reserve Bank Board*. Accessed online here: https://www.rba.gov.au/monetary-policy/rba-board-minutes/2021/2021-04-06.html.
[4] Reserve Bank of Australia. April 2021. *Financial Stability Review*. Accessed online here: https://www.rba.gov.au/publications/fsr/2021/apr/contents.html.

The end of JobKeeper may also impact some pockets of the housing market, due to the tenure of JobKeeper recipients. Data on household financial resources from the ABS suggests more than half of households (50.4%) receiving a JobKeeper payment had a mortgage, while less than a quarter were renting. This compares to just 31.3% of the JobSeeker Coronavirus supplement recipients having a mortgage, where almost half were renting.

Without additional government stimulus, savings accumulated for mortgage prepayments, or other household liquidity buffers may be eroded, triggering more decisions to sell property in parts of the market.

However, the survey of housing tenure for JobSeeker recipients was for the September 2020 quarter. Since then, JobKeeper had already been significantly reduced, and for some recipients was halved through the December 2020 quarter, and labour market conditions have since rapidly improved. Due to the strength in the labour market recovery, we view end of JobKeeper as having little impact on housing market values.

A similar assessment can be made for the rental market, though there may be pockets of risk across Melbourne. CoreLogic hedonic rental value indices rose across every capital city and regional market through April 2021, with the exception of greater Melbourne, where unit rents declined -0.2% and overall rental values were flat over the month.

National rental rates rose by 2.7% over the three months to April 2021, and were 4.9% higher over the year. This marked the highest annual rate of growth since December 2010. Combined capital city dwelling rents rose 2.4% in the rolling April quarter, while regional rents were up 3.6% in the period.

Rental stock added to the market remained low at the national level in the 28 days ending 23rd of May.

48,106 new rent listings were added nationally in the 28 days to May 23rd, which is -16.5% below the previous 5-year average. New listings have not seen a significant, or beyond seasonal, uplift in listings since the end of the JobKeeper supplement. This suggests that at least at the national level, there has not been an influx of rent listings from broken rental arrangements.

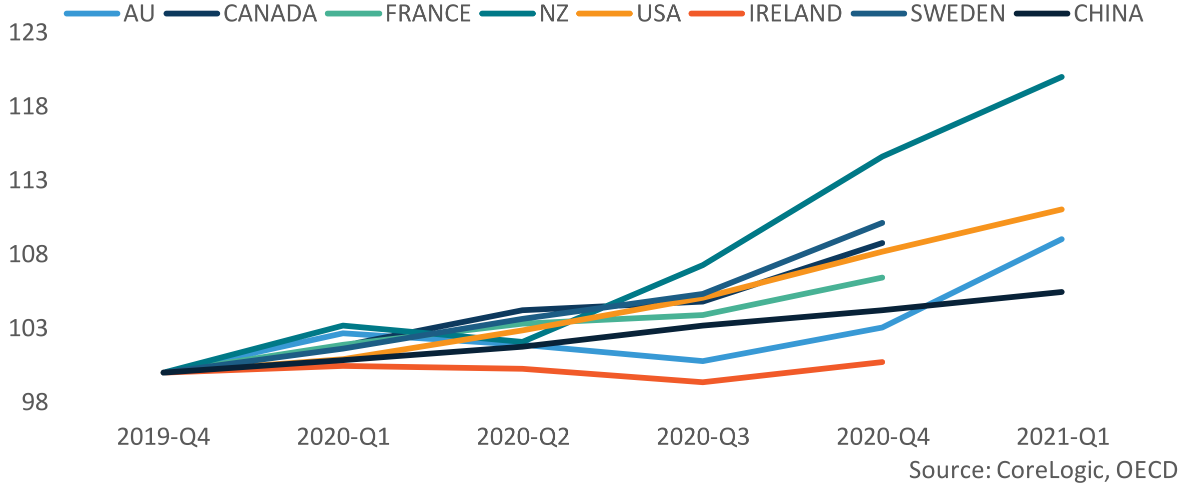
The housing market reached extraordinary momentum through March, with growth slowing through April

Housing market performance had been strong through the December quarter, and the start of 2021. The national CoreLogic home value index hit a fresh record high through April 2021, with total dwelling stock valued at around $8.1 trillion at the end of the month.

While increasing dwelling values may be surprising amid a global pandemic, the increase is largely a function of loose monetary policy settings. The RBA has held the cash rate target at 0.1% through the start of 2021, while regularly reinforcing the message that rates would not be lifted until 2024 at this stage.

Central banks around the world have taken a similar, coordinated response to the economic downturn by lowering interest rates, which has resulted in rising dwelling values (and other asset prices) across many regions. This is demonstrated in the chart below, which shows multiple countries demonstrating even higher growth in dwelling values than Australia through 2020.

Dwelling value index movements - select countries



Source: CoreLogic, OECD

Momentum has been particularly strong in the Australian housing market over the first few months of 2021. In the calendar year to date, national housing values have increased 7.7%. The rapid growth in values has been corroborated by several indicators, including;

- The combined capital cities auction clearance rate, which averaged 76.9% in the four weeks to the 23rd of May. It is worth noting clearance rates have eased from the March average of 81.0%. In the week of March 28th, the final auction clearance rate hit a record high of 83.1%;
- A fall in the time taken to sell property, with median days on market nationally down to 29 in the 3 months to April, down from 37 days over the same period last year;
- Vendor discounting rates have shrunk to -2.7% in the 3 months to April, down from -3.7% in the same period last year; and,
- Buyer activity remains strong, with national sales volumes in the April quarter 50.0% higher than in the same time last year.

The lift in dwelling values has been very broad-based. CoreLogic measured dwelling value changes across 286 SA3 regions where there were at least 500 sales over the year. Of these regions, around 97% had seen an increase in values over the past 12 months, and all but five markets had seen dwelling values increase in the three months to April.

Some emergent trends through 2020 have also carried into the first few months of 2021. National house values increased more rapidly through the April quarter (7.5%) than units (4.4%), and likely remain a more desirable stock type as people have generally spent more time at home.

The rise of the regions

There has been a stark difference between capital city and rest of state dwelling value changes over the year. While the combined capital city market has been resilient through the pandemic, increasing 6.4% in the 12 months to April, the growth rate in the combined regions was more than twice this, at 13.0%.

Through 2020, it is likely that COVID-19 deterred the usual migration from regions to cities, which has contributed to a net internal increase of almost 43,000 additional residents from cities through the year. This is more than double the average net gain observed over the ABS series of internal migration.

The charts below show that while there was a marginal uplift in arrivals from capital cities to regions through 2020, the net position was exacerbated by a lack of departure from the regions.

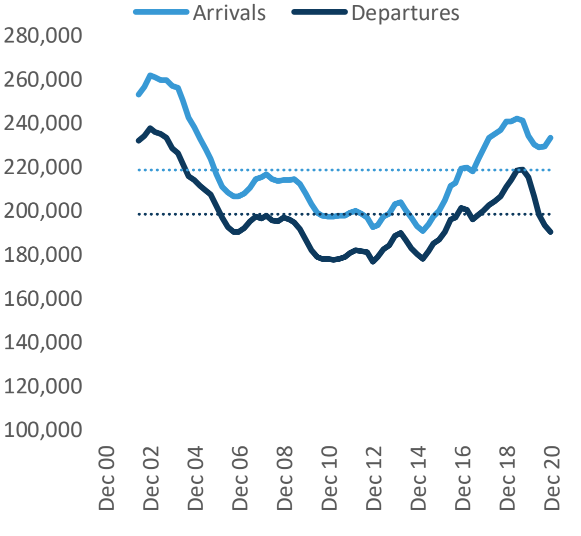
Subdued regional departures likely contributed to the very low listings levels observed across regional Australia through COVID-19.

As of May 23rd, total listings for sale in regional Australia totalled 60,141, compared to an average in the previous 5 years of 102,717. The lack of supply amid increased demand for regional property has contributed to the acceleration in property values.

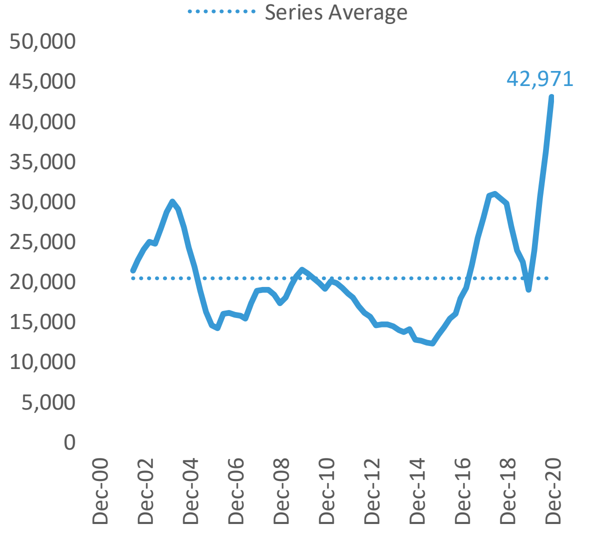
It is difficult to ascertain whether this trend can continue. As restrictions eased in late 2020, the December quarter already saw a significant uplift in regional departures from capital cities, bringing the net position down slightly on a quarterly basis.

Assuming COVID-19 remains well contained, and life in Australia returns to some kind of pre-COVID 'normality', more people may make the move to cities through 2021.

Arrivals vs departures to regional Australia (rolling annual)



Net internal migration to the combined rest of state region



Source: ABS

On the other hand, increased affordability pressure in capital cities, combined with a new normalisation of remote work for some, may create longer-term interest in regional Australian housing markets, especially those within commuting distance of the larger capital cities.

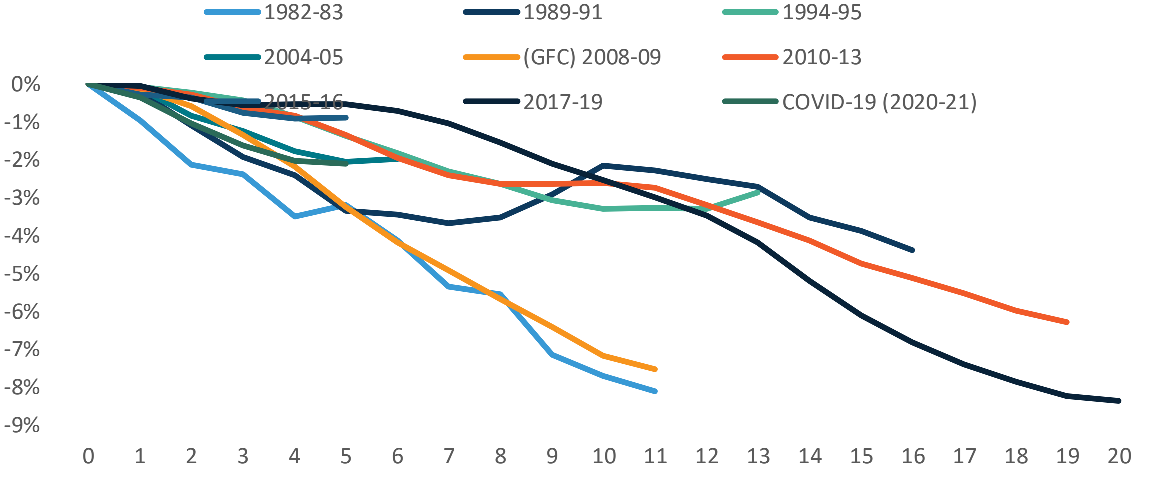
In any case, the growth rate gap between the regions and cities has started to narrow on a monthly basis. March marked the first month since the onset of the pandemic that the increase in combined capital city dwelling values (2.8%) outpaced combined regional dwelling values (2.5%). In April, combined capital city market values rose 1.8%, with combined regionals eclipsing this monthly rise by just 10 basis points at 1.9%. The two markets have rarely shown inverse performance, meaning both capital cities and regional markets could see increased dwelling values through to the end of 2021.

What will trigger the next downswing?

With housing market values at record highs, and strong demand driving above-average levels of buyer activity, CoreLogic has found engagement with industry stakeholders frequently surfacing questions around what will trigger the next housing market downturn, and when.

Before examining current headwinds for the current housing market upswing, it is insightful to examine what has happened historically at the national level. Going back to 1980, CoreLogic has observed 9 periods of sustained housing market value decline. The average downturn has lasted 12 months, with an average peak-to-trough decline of -4.8%. This compares with fairly long periods of upswing, in which values have increased on average 33% historically.

Periods of peak to trough decline in national CoreLogic home value index



Source: CoreLogic

Several of these downturns occurred around negative economic shocks, including the global recession of the early 1980's, the Australian recession in the early 1990's, the GFC and the COVID-downturn. However, there are longer periods of decline such as from 2010 and 2017, that were triggered by a more restrictive stance on monetary policy or bank lending.

At this stage, the most likely triggers of another housing market downswing would be a change in mortgage lending rates, or lending conditions. These are discussed in more detail of the next section of this report. Other possibilities that may induce a downturn would be an increase in COVID-19 cases, or an influx of new listings supply off the back of deteriorating economic conditions, although this scenario looks less likely as the vaccine rollout continues and Australia's economy gathers some momentum.

It is also worth noting that there is a ceiling to the recently observed market momentum that simply comes from constraints on affordability and willingness to pay. Through April, growth in the national housing market fell to 1.8% from 2.8% over March, and every capital city but Adelaide and Darwin, saw a slowdown in the monthly growth rate through April. While the change in dwelling values is expected to remain positive in a low interest rate environment, the coming quarters are unlikely to match what was observed through the three months to March.

Housing Finance Overview

Housing Finance Overview

Over the start of 2021, ABS housing finance data has corroborated the momentum in housing market conditions. Since the official cash rate target was lowered to 0.1% in November, the average new lending rate for owner occupier mortgages has fallen 15 basis points, and 12 basis points for an average property investment loan. This has created a surge in mortgage activity over the year. The month of February showed interesting dynamics in secured housing for the purchase of property which may point to some broader trends to be expected over 2021.

Finance lent for the purchase of Australian dwellings totalled $274.6 billion in the 12 months to March 2021, up 25.9% on the previous year.

Through the year to March 2021, owner occupier finance secured, excluding refinancing, increased 32.4% on the previous year, including a 47.4% uplift in first home buyer finance. Finance for the purchase of investment property also grew in the period, but by a more modest 9.1%. For this reason, investors have remained a proportionately low part of the market. A summary of secured finance by borrower type is presented below, showing first home buyer participation remained elevated relative to the past decade.

Interestingly, the months of February and March saw a -4.8% reduction in first home buyer borrowing. Property investor financing was up 17.7% in March compared with January, pushing up the share of financing secured by investors to 25.9% in the month, compared with a recent low of 23.1% in January. It is likely that this trend of declining first home buyer participation, and increased investor participation, will continue over 2021. This is because first home buyers are likely to face more affordability constraints.

Additionally, some incentives such as the HomeBuilder grant, and certain state-based offerings, have ended or will end over the course of the year.

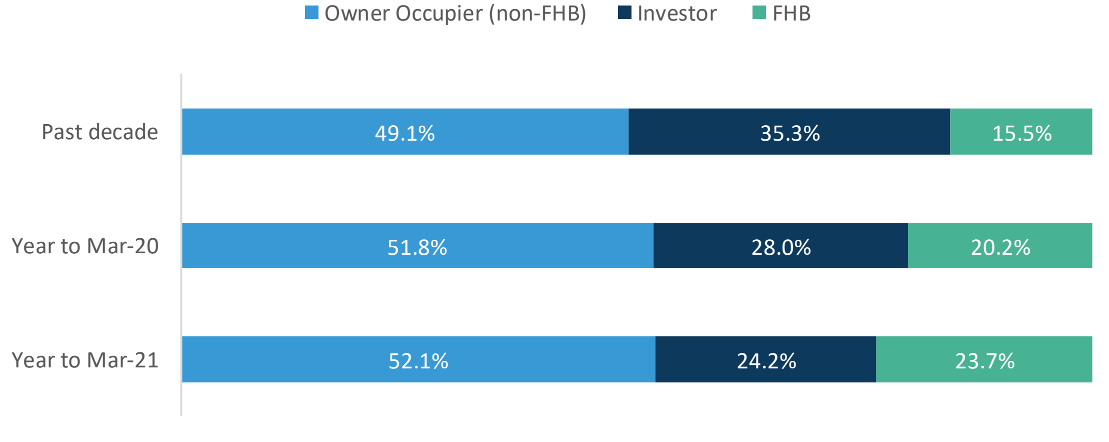
With first home buyer participation already declining over the past few months, housing affordability is likely to be a renewed challenge over the year.

Average mortgage lending rates as at March 2021

Buyer type	Loan purpose	Outstanding loans % per annum	QOQ Change	New loans % per annum	QOQ Change
Owner-Occupier	Interest only	3.72%	↓	3.17%	↓
	Principal & interest	2.89%	↓	2.40%	↓
Investor	Interest only	3.55%	↓	2.97%	↓
	Principal & interest	3.18%	↓	2.73%	↓

Source: RBA. Note data is indicator lending rates for loans across all institutions

Secured finance for the purchase of property - borrower type



Source: ABS, derived

The 2021-22 federal budget has outlined some targeted measures to address this, which include a renewed focus on the 'leg-up' over the deposit hurdle. Measures include:

- **The Family Home Guarantee:** the government will guarantee 18% of a home loan for 10,000 eligible single parents – essentially enabling property purchases with a 2% deposit without paying lenders mortgage insurance. The 10,000 places are to be provided over 4 financial years;
- **The New Homes Guarantee:** The First Home Loan Deposit Scheme (FHLDS) (new homes) will be re-deployed and re-branded, enabling eligible FHBs to purchase new property with as little as a 5% deposit;
- **Expanded eligibility of age for downsizer contributions by 5 years**: From July 2022, Australians 60 and older (as opposed to 65 and older) will be able to access the downsizer contribution to superannuation of up to $300,000; and,
- **Changes to the Super Savings Scheme:** the maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme will increase from $30,000 to $50,000.

While borrowings for property purchases have risen fairly consistently since May last year, refinancing activity has been a little more volatile. The value of external refinances peaked through the start of the pandemic, off the back of two cash rate target reductions in March 2020. Between May and November, refinancing values declined to pre-COVID levels, then rose again off the back of a further cash rate reduction in November.

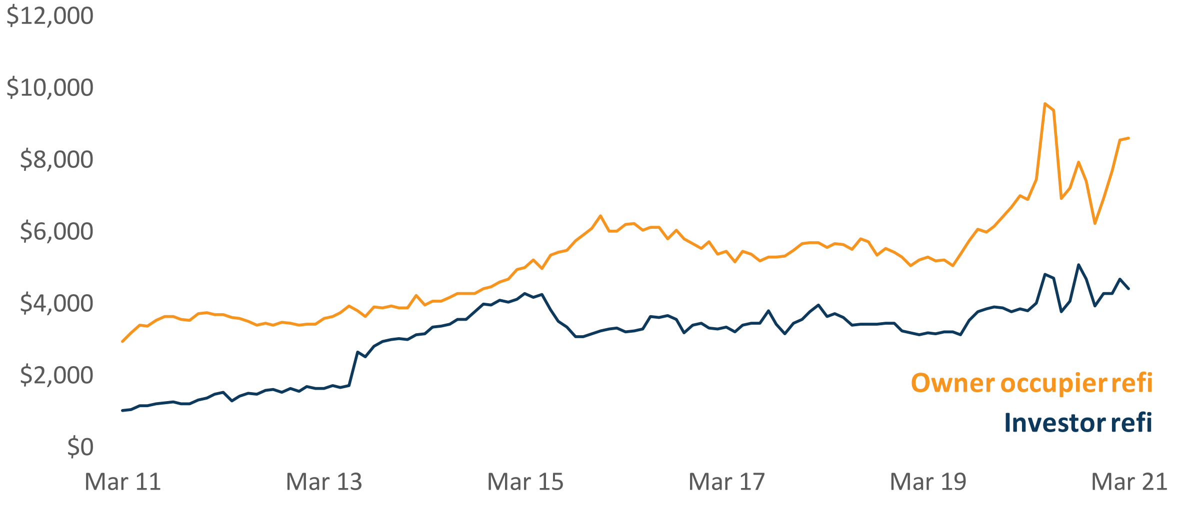
Finance conditions could be the tipping point for the housing market in 2021, and will be closely watched

In the previous section of this report, it was noted that one of the triggers for a housing market downturn seems more likely to be a change to lending conditions than another large negative economic shock. With housing values sitting at a record high, constrains to the volume of lending, or lower demand for lending through higher mortgage rates, may cause a downswing in housing values.

A change in lending conditions, or some other macro-prudential regulation, would likely stem from a rise in potentially riskier lending conditions. An example was the national housing boom in the mid-to-late 2010s, during which interest-only housing loans comprised over 50% of new loans funded in June 2015. Most of that interest-only lending was being borrowed for property investment. While some metrics of lending risk have increased along with house prices through the December quarter, investment participation remains relatively low, and interest only lending remained well below previous highs at 19.2% of new loans funded through the December 2020 quarter.

Other metrics such as the portion of high debt to income ratios, high loan to income rations and high loan to valuation ratios also rose in the December quarter. However, the messaging from the Council of Financial Regulators is that this is not a concern; partly because the ratios are still at a reasonable level, and also because the ratio increases reflect increased participation of first home buyers. First home buyers are considered to be less risky than investors as mortgage holders because they tend to pay down debt more quickly[5].

Value of external refinancing ($,000)



Source: ABS

[5]RBA, April 2021, *Financial Stability Review*, Accessed online here: https://www.rba.gov.au/publications/fsr/2021/apr/contents.html

Due to investors remaining a fairly low portion of housing lending, the nature of enforcing more prudent lending standards may look different to previous years. There may be more focus on loan to valuation ratios, serviceability assessment or increased capital requirements for the banking sector around mortgages. There are also 'softer' signs of regulators trying to reinforce strong lending standards. Deputy Chair of APRA, John Lonsdale recently flagged a "notable" increase in high LVRs among mutual bank lenders, which may prompt more conservative lending measures in this space[6].

Another factor that could shift the Australian housing market into a downswing would be an increase in bank lending rates. As of May, bank funding costs remained very low. In a recent address, deputy RBA Governor Guy Debelle noted that while the cash rate target is at 10 basis points, other expansive monetary policy measures, which has led to a very high supply of cash in exchange settlement accounts, has put the actual cash rate at closer to 3 basis points[7]. The Bank Bill Swap Rate, which is a major determinant of housing and business lending rates, is at a similarly low level.

While other funding costs may prompt an increase in mortgage rates, the increases are unlikely to cause instability in the housing market. Many lenders have begun increasing longer-term fixed interest rates, but even a full 100 basis point rise in fixed rates to owner occupiers would still put rates lower than where they were mid-2019, at the start of a strong market upswing. Furthermore, Australians entered the current upswing with relatively prudent lending standards. This is in part because of a more cautious lending approach following the Financial Services Royal Commission, and a 2.5 percentage point buffer on mortgage serviceability assessments.

Overall, lending conditions and the cost of debt seem the most likely factor in cooling housing market conditions over the next few years.

[6]See address here: https://www.apra.gov.au/news-and-publications/deputy-chair-john-lonsdale-speech-to-customer-owned-banking-association-0

[7]Speech by Debelle, Guy, May 2021, Shann Memorial Lecture, 'Monetary Policy During COVID', accessed online here: https://www.rba.gov.au/speeches/2021/sp-dg-2021-05-06.html

New South Wales

New South Wales

NSW housing market summary, April 2021

		Sydney	Regional NSW
Dwellings	Month	2.4%	2.2%
	Quarter	8.8%	7.4%
	YTD	9.3%	9.0%
	Annual	7.5%	15.6%
	Total return	10.1%	20.3%
	Gross yield	2.7%	4.2%
	Median value	$950,457	$555,885
Houses	Month	2.8%	2.3%
	Quarter	10.5%	7.6%
	YTD	11.2%	9.3%
	Annual	10.4%	16.3%
	Total return	12.9%	21.1%
	Gross yield	2.4%	4.1%
	Median value	$1,147,352	$576,514
Units	Month	1.3%	1.8%
	Quarter	4.7%	6.0%
	YTD	4.6%	7.0%
	Annual	0.9%	11.1%
	Total return	4.4%	16.0%
	Gross yield	3.2%	4.6%
	Median value	$771,859	$467,139

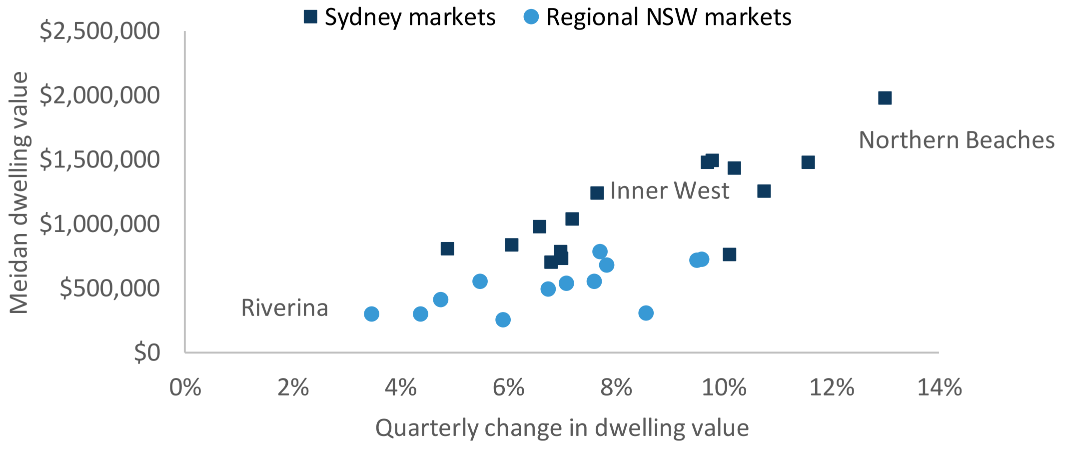
Sydney and regional NSW have been among the 'top performing' housing markets through the start of 2021 in terms of value change. This follows a peak-to-trough fall in Sydney values of -2.9% between April and September of 2020, and a dip of just -0.1% in May 2020 across regional NSW.

Through the calendar year to April 2021, Sydney dwelling values have risen 9.3%, and regional NSW dwelling values are up 9.0%. Both dwelling markets are at record highs.

Within these regions, growth has largely been driven by the 'high end' of the market. This is reflected in CoreLogic tiered hedonic indices, which show the top 25% of Sydney values have increased 12.0% compared with a 5.4% rise at the 'low' end of the market since the start of 2021 through to April. It is also reflected regionally, where quarterly increases have been positively correlated with median dwelling values.

With such rapid growth rates across already expensive markets, affordability constraints are likely to become most pressing across Sydney. When adjusted for the median dwelling value, the rate of increase since the start of the year equates to a rise of over $80,000 in the median Sydney dwelling value, and almost $46,000 for the rest of NSW. The uplift is also very broad-based. The only SA3 market across NSW recording a loss in the three months to April were Liverpool units, where values declined -0.8% in the period.

Change in values, 3 months to April 2021 vs median value at April 2021



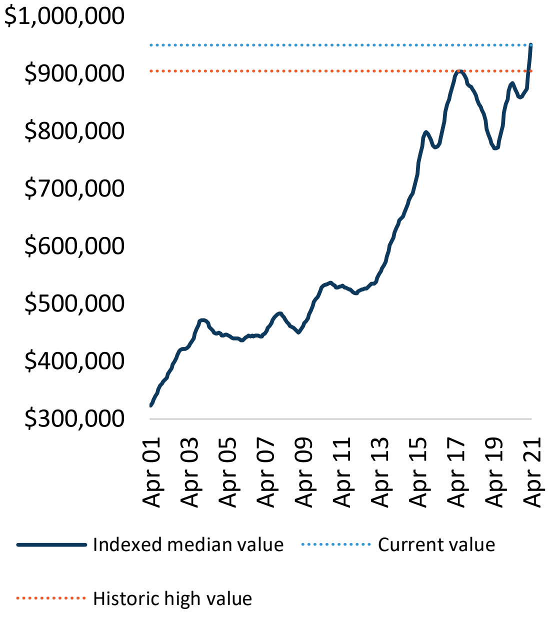
Source: CoreLogic

Sales activity has remained strong across the state. In the twelve months to April, CoreLogic estimates there were 96,505 transactions across Sydney, up 18.0% from the previous year. This included a 13.2% uplift in unit sales, and a 21.6% lift in house sales.

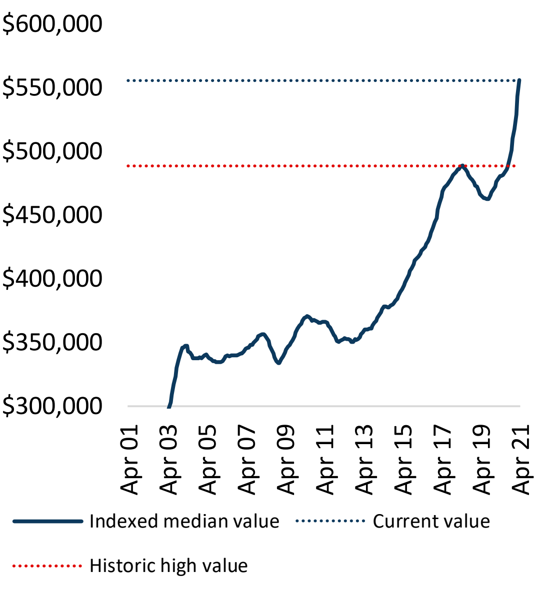
Regional NSW saw an even more impressive uplift in sales volumes, with a 32.6% increase in transactions over the 12 months to April, totalling 71,032 transactions over the year. The rate of increase in sales across regional NSW was actually higher across the unit segment (34.2%) than houses (32.3%).

However, dwelling value growth in NSW did ease over the month of April (2.4%) compared with March (3.5%). One sign of a potential easing in conditions across the NSW housing market is a recent surge in properties newly advertised for sale. This is particularly pronounced in Sydney, where the count of new listings added to market increased from 6,974 in the four weeks to 18th of April, to 7,969 in the four weeks to 23rd of May. The chart below shows the relative surge in supply this represents relative to previous years.

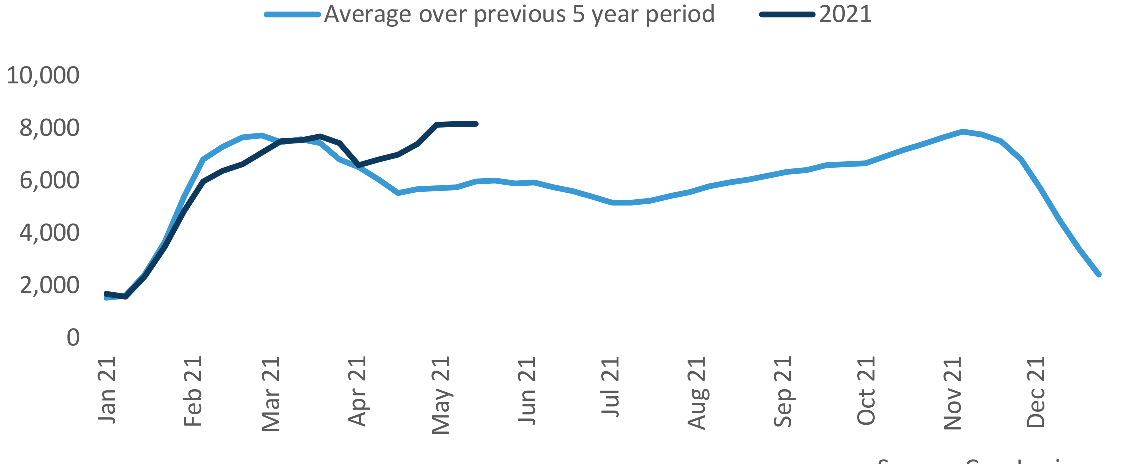
Sydney Dwellings



Rest of NSW Dwellings



Count of properties newly advertised for sale in a rolling 28-day period - Sydney



Source: CoreLogic

The markets with the biggest uplift in new listings over this period were the Sydney Inner City market (which saw an additional 105 listings), Campbelltown (with 80 additional listings), and Warringah (with 61 additional listings over the period). The increase in listings is most likely a mix of vendors responding to strong selling conditions, though ongoing weakness in some rental markets may also be prompting an investment sale.

The momentum in the NSW housing market is largely the result of Australian monetary policy settings, alongside COVID-19 remaining well contained in the state. Unlike Victoria, where social distancing has slowed the economic recovery and demand for inner city housing, the industries impacted by stage 2 restrictions last year in NSW are now starting to benefit from pent-up demand for discretionary spending. However, affordability constraints and a recent uplift in vendor activity may result in slower value increases for the second half of 2021.

Victoria

Victoria

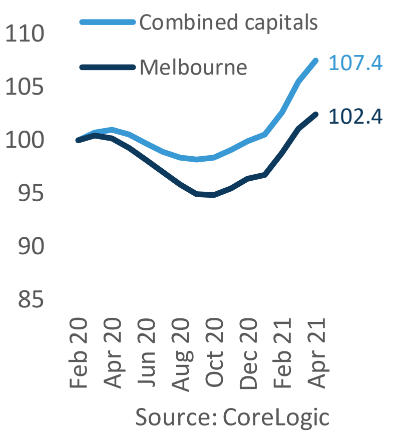
VIC housing market summary, April 2021

		Melbourne	Regional Vic
Dwellings	Month	1.3%	1.8%
	Quarter	5.8%	7.1%
	YTD	6.3%	8.9%
	Annual	2.2%	11.3%
	Total return	5.3%	16.3%
	Gross yield	2.9%	4.1%
	Median value	$744,679	$457,194
Houses	Month	1.4%	1.8%
	Quarter	6.5%	7.1%
	YTD	7.1%	8.8%
	Annual	2.2%	11.0%
	Total return	4.9%	15.9%
	Gross yield	2.6%	4.0%
	Median value	$869,676	$481,633
Units	Month	1.0%	1.6%
	Quarter	4.0%	7.5%
	YTD	4.1%	9.2%
	Annual	1.9%	13.6%
	Total return	5.6%	19.3%
	Gross yield	3.5%	4.7%
	Median value	$599,234	$337,745

The Melbourne economy has undoubtedly been the most impacted by COVID-19 in Australia, both because of the second major outbreak in case numbers through the September quarter, and because international migration has been a key component of population growth across the state, and thus an important contributor to aggregate demand, and housing demand.

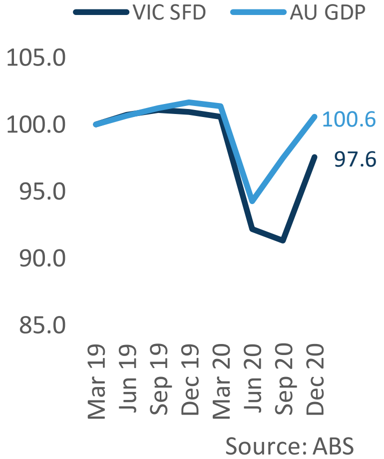
The charts below compare various economic indicators across Australia and Victoria. State final demand fell -3.4% over the 2020 calendar year compared with a -1.1% decline in National GDP. Employment levels are higher in Victoria compared with pre-COVID levels, more so than the whole of Australia, but the state suffered a larger contraction in employment through late 2020. Housing values across the combined capital cities are now 7.4% above February 2020, and while Melbourne property values are at record highs, they have not made the same gains as other capital cities, sitting just 2.4% higher due to the more significant reduction in housing values through the extended lockdown period.

CoreLogic home value index (set at 100 from February 2020)



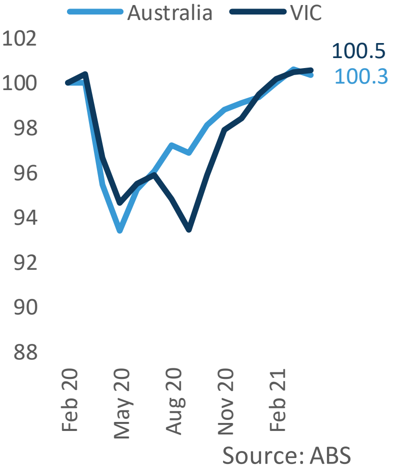
Source: CoreLogic

VIC SFD versus AU GDP (set to 100 at March 2019 quarter)



Source: ABS

Total employed (indexed at 100 at February 2020)



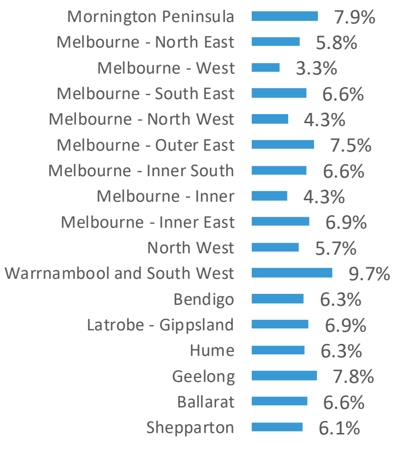
Source: ABS

Overall, various indicators suggest that while a second spike in COVID cases has weighed on the Victorian economy, the state has bounced back strongly amid eased restrictions since the December quarter.

Housing markets have been no exception, with many parts of the Victorian housing market at record high values, and every market showing a recovery trend.

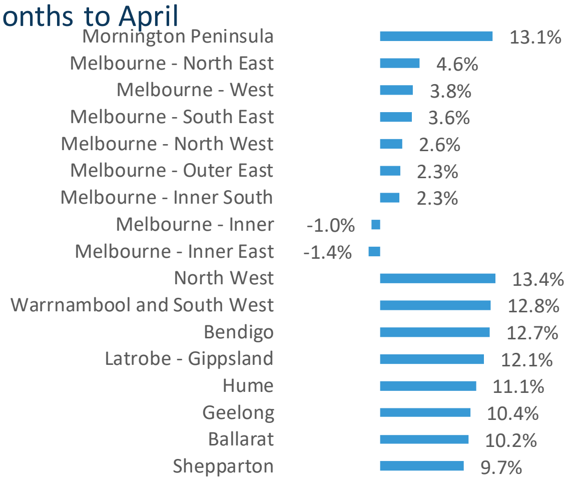
The chart below summarises sub-market performance of dwellings across SA4 regions of Victoria. Each region has seen an increase in values in the 3 months to April, and all but two markets are higher in value over the year. Regional Victoria continued to show a significantly faster pace of growth in housing values relative to Melbourne over the past twelve months.

Change in SA4 dwelling values - 3 months to April



Source: CoreLogic

Change in SA4 dwelling values - 12 months to April



Source: CoreLogic

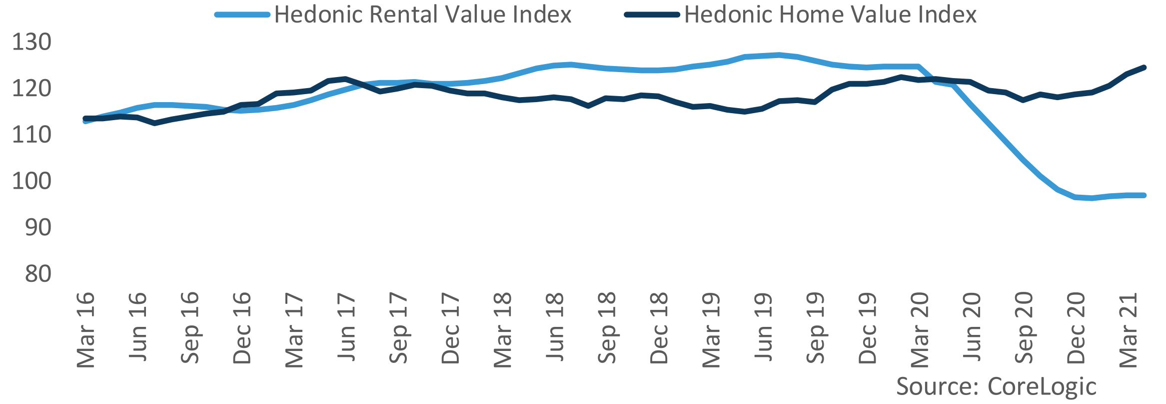
Sales volumes have also trended higher, and despite strict social distancing through much of 2020, total transactions across Melbourne rose 2.8% in the 12 months to April, recording around 77,000 transactions over the year. This was largely driven by a 3.8% increase in detached house sales.

In regional Victoria, sales volumes have increased 29.9% in the 12 months to April. At 33,169 transactions, CoreLogic estimates this could be the highest 12 month sales volume period on record for regional Victoria. Meanwhile, total for sale listings in Victoria remain depleted at 8,234 properties available for sale in 4 weeks ending 23rd of May (-36.9% below the 5-year average). This will likely keep upward price pressure strong over the coming quarters.

The opposite trend is being observed across Melbourne listings. New listings added to the market have surged in recent weeks, and as of the 23rd of May, CoreLogic counted 27,313 properties listed for sale across the city, which is 6.6% above the 5 year average level for this time of year.

The lingering impact of COVID-19 is felt geographically in the inner city region of Melbourne, where closed international borders has a significant negative impact on demand for rental property in particular. CoreLogic estimates that Inner Melbourne housing markets account for 45.9% of investment unit stock across the greater Melbourne metro.

Rents vs values - Melbourne City SA3 units



Source: CoreLogic

Interestingly, even as unit rents across the SA3 'Melbourne City' region remain -20.1% lower over the 12 months to April, unit purchasing values are estimated to be around 2.0% higher in the same period. This could be the result of expectations that demand and prices will increase once international travel resumes, lower mortgage rates, or more demand for unit stock for owner occupation. The chart below shows the unusual divergence between rent and purchase values taking place in this market since the onset of COVID-19.

Rent listing volumes across inner city Melbourne markets remain well above the long term average. CoreLogic maintains the view that these rental markets will not achieve a robust recovery until pre-COVID levels of international visitation return. However, dwelling values appear to be trending steadily higher across the city.

Queensland

Queensland

QLD housing market summary, April 2021

		Brisbane	Regional Qld
Dwellings	Month	1.7%	1.9%
	Quarter	5.6%	6.1%
	YTD	6.5%	7.8%
	Annual	8.3%	12.6%
	Total return	12.8%	18.5%
	Gross yield	4.2%	5.1%
	Median value	$558,295	$436,120
Houses	Month	1.8%	1.9%
	Quarter	6.2%	6.3%
	YTD	7.2%	8.1%
	Annual	9.6%	13.2%
	Total return	14.2%	19.0%
	Gross yield	4.0%	4.9%
	Median value	$621,806	$447,589
Units	Month	1.0%	1.7%
	Quarter	3.0%	5.5%
	YTD	3.4%	6.6%
	Annual	2.4%	10.6%
	Total return	7.6%	16.9%
	Gross yield	5.1%	5.4%
	Median value	$405,902	$407,594

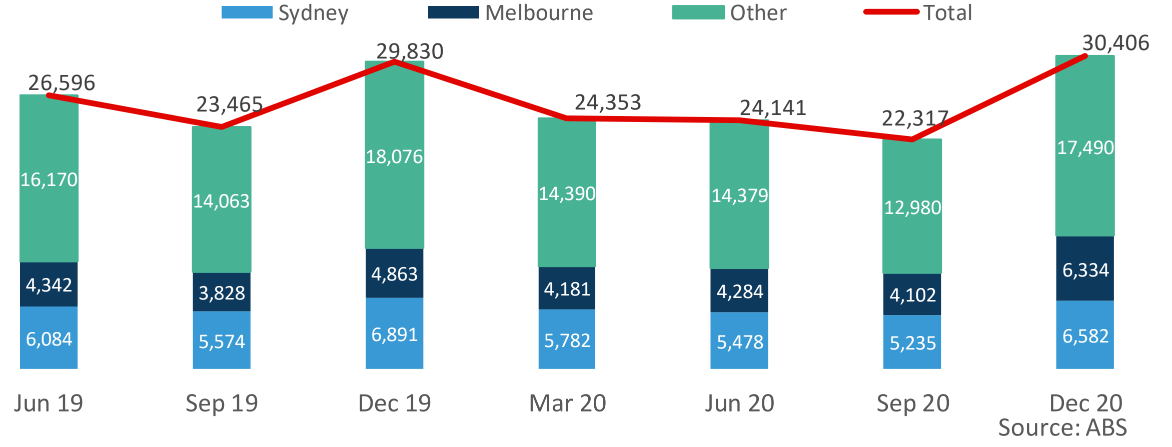
Queensland housing markets continue to show robust performance. Dwelling values across the state are currently 13.7% above the previous record high.

Across the 82 SA3 sub markets of Queensland, 77 saw an increase in dwelling values over the three months to April 2021. The highest quarterly increase was 10.2% across Nambour in the Sunshine Coast.

Across Brisbane, the largest quarterly increase was across the Kenmore - Brookfield – Moggill SA3 market. As with Sydney and Melbourne, there is a strong correlation between the prices of dwellings in markets and recent growth performance. This means the 'higher end' of the Brisbane market is generally making larger gains. CoreLogic tiered indices data suggests that across the top 25% of values in the Brisbane market, the change in values over the 3 months to April was 6.8%, compared to a 5.3% rise across the middle of the market, and gains of 3.2% across the bottom 25% of values. Areas with large, family homes have been particularly popular.

Strong sales volumes have also reflected the heightened demand across Queensland. Brisbane sales volumes increased 25.6% in the 12 months to April, and the rest of state saw annual sales volumes 40.4% higher over the year. There were 70,152 dwelling sales in the 12 months to April 2021 across Regional Queensland, which is the highest volume since May 2008.

Total interstate arrivals to Queensland

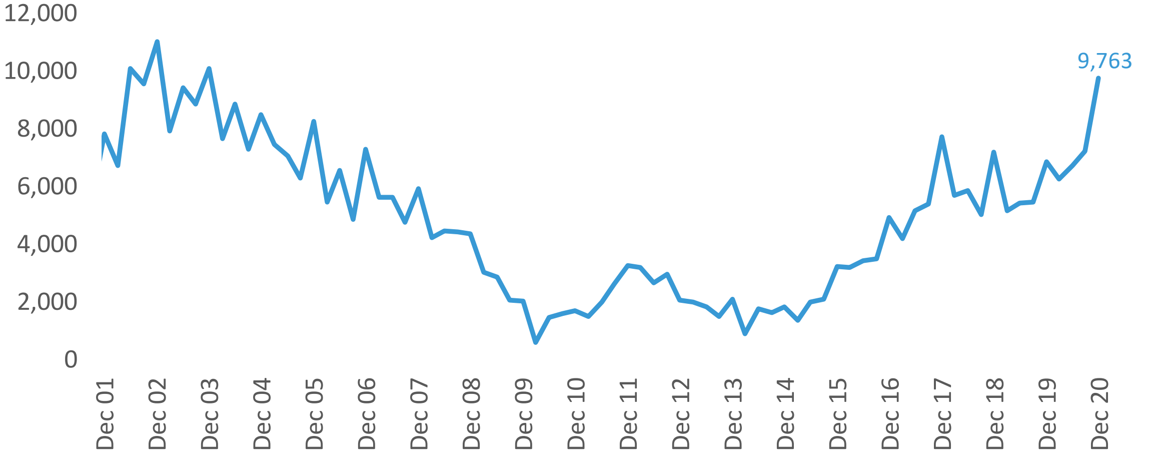


Source: ABS

There are multiple factors which have contributed to an increase in demand across the state alongside low mortgage rates. As discussed in previous quarters, interstate migration to Queensland has remained a tailwind for housing demand. Migration data suggests that the Sunshine state has been particularly popular since the onset of COVID-19. The latest (provisional) data for the December 2020 quarter suggests that net interstate migration to Queensland reached 9,763, the highest volume since December 2003.

More detailed data on recent quarters of interstate migration suggests that 27.5% of the quarterly increase in arrivals came from Melbourne. Together, Melbourne and Sydney departures accounted for 42.5% of interstate arrivals to Queensland in the December quarter.

Net interstate migration to Queensland

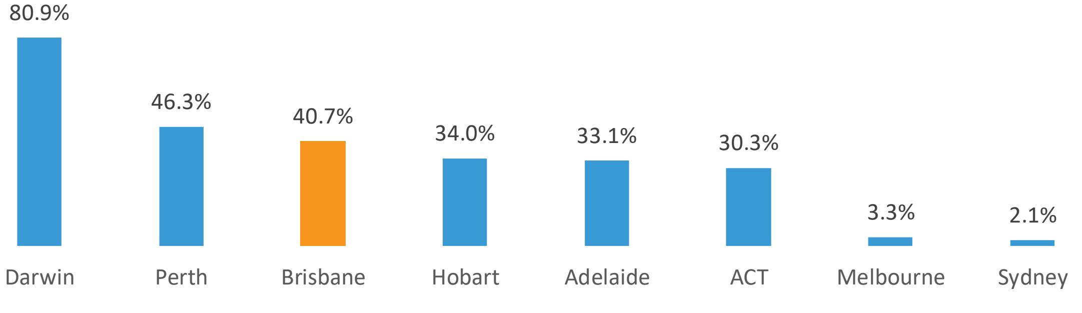


Source: ABS

Another appeal of housing markets across Brisbane and the rest of Queensland, is that values remain relatively low, particularly relative to recent acceleration of values across the other east coast cities of Canberra, Melbourne and Sydney.

With typical mortgage rates at record lows, CoreLogic estimates around 41 % of properties across Greater Brisbane would be cheaper to service a mortgage than rent[8]. This compares to 30.3% of properties across the ACT, and just 3.3% of properties across Melbourne, and 2.1% of properties across Sydney.

Portion of properties where monthly mortgage repayments are estimated to be cheaper than rent



Source: CoreLogic. Based on rental valuations and property valuations for individual dwellings across the greater capital city regions as of May 2021. Mortgage assumptions include a 10% deposit with a mortgage rate of 2.40% p.a., and monthly repayments. No other transaction costs are factored into the analysis.

[8] Mortgage assumptions include a 10% deposit with a mortgage rate of 2.40% p.a., and monthly repayments. No other transaction costs are factored into the analysis.

The high share of properties that may have cheaper mortgage serviceability than rent is also a function of fairly robust growth in rents across Brisbane, where house rents increased 6.4% in the 12 months to April, and unit rents increased 2.1%.

Strong economic conditions across the state have also helped to fuel demand in a range of housing markets. Across Wide Bay, a recent uplift in domestic tourism, coupled with a desirable lifestyle offering for owner-occupiers, has led to the highest year-on year uplift in sales volumes of the regional Queensland markets. As tourism operators try to attract staff to the region, vacancy has reportedly become so low that employers are trying to source rental accommodation for employee share house living arrangements[9].

The outlook for Queensland housing markets remains strong throughout the rest of 2021. There are pockets of relatively weak performance associated with resource markets, but these may eventually pick up amid the general rise in commodity values.

[9]Source: Marsellos, B, Dowsett, D, May 2021, *Property boom means more than 100 applicants on some rentals in Wide Bay Burnett*, ABC News, accessed online here: https://www.abc.net.au/news/2021-05-20/property-boom-sees-100-applicants-on-some-rentals-wide-bay/100151630

South Australia

South Australia

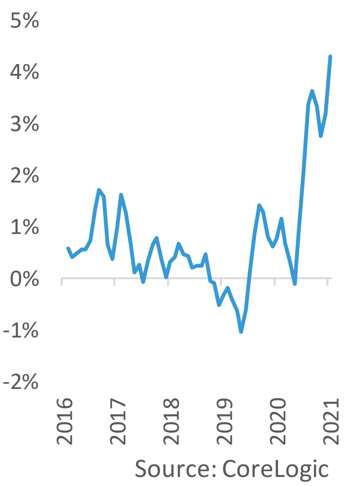
SA housing market summary, April 2021

		Adelaide	Regional SA
Dwellings	Month	2.0%	1.2%
	Quarter	4.3%	4.7%
	YTD	5.2%	7.2%
	Annual	10.3%	13.2%
	Total return	14.9%	19.1%
	Gross yield	4.3%	5.7%
	Median value	$492,285	$264,487
Houses	Month	2.2%	1.3%
	Quarter	4.7%	4.9%
	YTD	5.8%	7.5%
	Annual	11.1%	14.0%
	Total return	15.7%	20.2%
	Gross yield	4.1%	5.6%
	Median value	$526,155	$270,892
Units	Month	0.4%	-1.6%
	Quarter	1.4%	1.3%
	YTD	1.3%	0.9%
	Annual	4.8%	-2.8%
	Total return	10.5%	0.6%
	Gross yield	5.3%	6.2%
	Median value	$352,239	$209,509

The first few months of 2021 continued to show the SA dwelling market performance break away from historic averages. This once 'slow and steady' performer of the Australian housing market has seen a surge in demand for both new and established property.

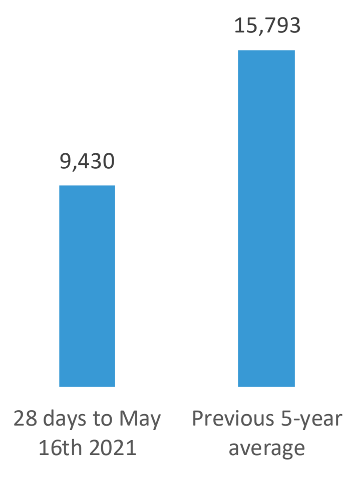
In the 3 months to April 2021, quarterly growth for Adelaide dwelling values was 4.3%, up on the 5-year average quarterly result of 0.8%. Sales volumes through April were an estimated 36.4% higher across Adelaide on the previous 5 year average for April, and regional SA saw sales volumes 79.2% higher. Across the state, total stock on market was -33.6% *below* the previous 5 year average as of the 23rd of May, with just 9,336 dwellings available for sale.

Quarterly growth in dwelling values - Adelaide



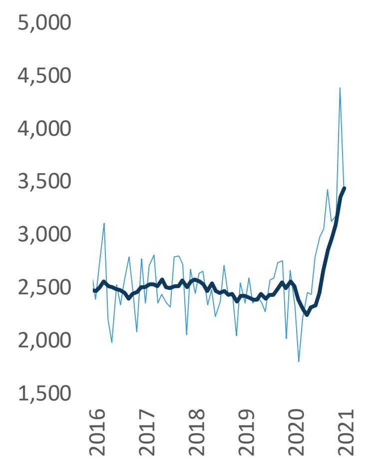
Source: CoreLogic

Total for sale listings - South Australia



Source: CoreLogic

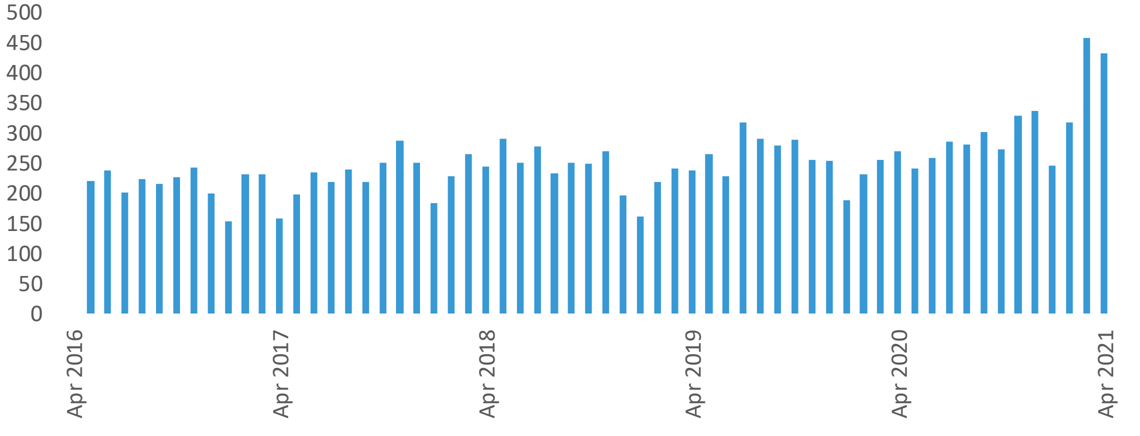
Monthly dwelling sales with 6-month rolling trend - South Australia



Source: CoreLogic

Within the lift in demand for dwellings across SA is an extraordinary uplift in new home sales and residential dwelling construction. Demand for new homes has skyrocketed since the introduction of HomeBuilder in June 2020, where SA saw 10,446 new build applications between June 2020 and early April. The HomeBuilder Scheme may have been utilised by many first home buyers, who could take advantage of an additional $15,000 grant for new, first home purchases. These schemes have complimented the demographics of the state, where there is a particularly sizable number of SA residents in the typical first home buyer age group of 25-34 year old's.

Number of first home buyer grants, South Australia



Source: Revenue SA

As with the national trajectory for housing market activity, the rate of value increases and momentum in sales volumes is expected to ease in the coming months.

While detached dwellings have proven particularly popular, unit demand across Adelaide is comparatively weak. Adelaide house values increased 4.7% in the three months to April, while units were up just 1.4%. The SA3 of Campbelltown, located in greater Adelaide, led a decline in unit values, at -3.5% over the rolling quarter.

Other economic indicators paint a positive story for the state. SA has exhibited a strong recovery in its labour market from COVID-19. Since the low point of total employment in May 2020, full time employment has risen to be above pre-COVID levels. Importantly, 64.6% of the jobs added since May 2020, to April 2021, were in full time employment, which is the second highest of the states and territories behind the Northern Territory. High demand for new homes will likely support further jobs in housing construction, and related vocations such as across finance, building materials, and homewares and furnishings.

Improved employment conditions may see elevated levels of interstate migration. June and September 2020 marked the first quarters of positive NIM for SA since September 2002. Unfortunately, modest gains in interstate migration were not enough to offset losses in net overseas migration. Through COVID, NOM to SA turned negative for the first time since 1994.

While SA has seen strong gains in full time employment, there are headwinds for ongoing housing demand. The state sees much of its population increase from overseas migration. With a large amount of first home buyer demand already brought forward through government incentives, housing market performance will be tested by closed international borders in the longer term.

Western Australia

Western Australia

WA housing market summary, April 2021

		Perth	Regional WA
Dwellings	Month	0.8%	0.3%
	Quarter	4.2%	3.0%
	YTD	5.9%	5.1%
	Annual	6.7%	-0.6%
	Total return	11.5%	5.4%
	Gross yield	4.4%	6.0%
	Median value	$513,598	$360,455
Houses	Month	0.9%	0.5%
	Quarter	4.3%	3.2%
	YTD	6.0%	5.0%
	Annual	6.9%	-0.7%
	Total return	11.6%	5.3%
	Gross yield	4.3%	5.9%
	Median value	$537,020	$373,432
Units	Month	0.6%	-3.0%
	Quarter	3.6%	-1.1%
	YTD	4.4%	5.7%
	Annual	4.8%	-0.2%
	Total return	10.4%	7.0%
	Gross yield	5.4%	8.0%
	Median value	$387,658	$238,529

Through the start of 2021, dwelling markets across Perth and regional WA have continued an upswing. April 2021 marked the 8th consecutive month of growth in state dwelling value increases, and the 19th consecutive month of growth in rents.

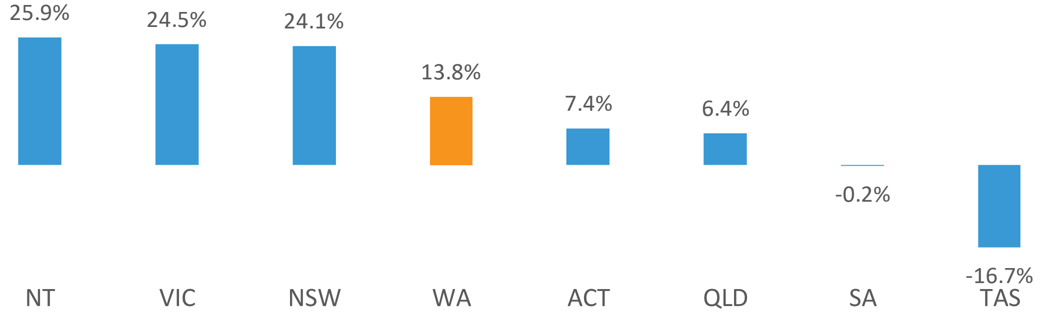
Sales volumes are also showing a remarkable uplift. Across the Perth market, around 41,000 residential real estate transactions occurred in the 12 months to April. This is the highest annual sales volume figure since March 2015, and represents an uplift in sales of 38.9% over the year, which is the highest of the capital cities.

Dwelling values are now -15.2% below the previous record high across the Perth market in June 2014, and are -36.8% below the previous high in regional Western Australia, which was reached in June 2008.

Though April marked another month in the recovery trend across WA dwelling markets, the pace of growth slowed to 0.8% across Perth, and 0.3% across regional WA, compared with increases of around 2% in these markets through March. This may be a result of a relatively large uplift in new listings volumes that has occurred in response to the turnaround in market performance.

The chart below shows where new listings volumes sat across the state relative to the previous 5-year average.

New listings volume count as at 23rd of May compared with previous 5-year average



Source: CoreLogic

Compared with other states and territories, Western Australia has seen a 13.8% uplift in the volume of new listings compared to where they would typically be this time of year. This is the fourth highest elevation of the states and territories, where VIC and NSW new listings are sitting 24.5% and 24.1% higher respectively. NT new listings were 25.9% higher on the 5-year average, but off a low base. In the 28 days to 23rd of May, CoreLogic counted 5,186 new listings added to the WA market for sale, around 80% of which were located in Perth. This elevated level of listings may be a factor taking some heat out of the market as buyers benefit from a large pool of properties available for sale.

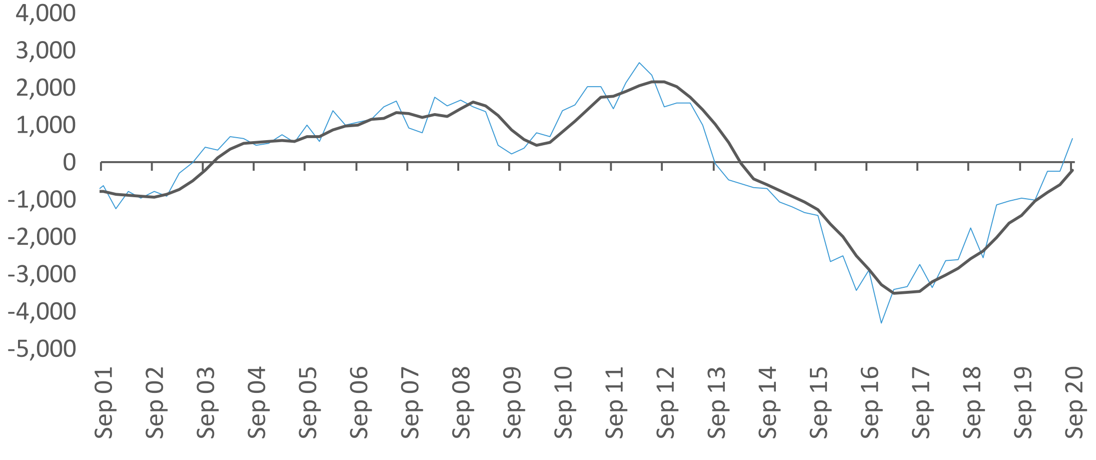
Across the 34 SA3 sub-markets of Western Australia, only 4 markets showed further value falls in the three months to April 2021. These were across the Kimberly (-0.2%), Albany (-1.4%), Wheat Belt – South (-2.7%) and West Pilbara (-4.2%).

There are several factors which have led to the recent, strong performance in the WA housing market, and may support further price rises through 2021.

Alongside low interest rates are improving economic conditions in the state. The Chamber of Commerce and Industry for WA reported business confidence hitting a 13-year high across the state in the December 2020 quarter, before easing slightly through the start of 2021. The biggest barrier identified for future employment and expansion for businesses were a skills shortage, which is putting upward pressure of labour costs. Food services, wholesale trade and construction had the highest portion of businesses struggling to fill a skilled occupation [10].

Similar to SA, the improvement in business conditions has likely resulted in a more positive net interstate migration (NIM) trend, which in turn will continue to support housing demand. ABS migration figures show for the first time since June 2013, September 2020 marked a positive month for NIM, with an additional 631 people settling in WA. Economic confidence may also potentially be bolstered in the knowledge that as a vaccine is distributed, the WA border is likely to remain open as COVID-19 becomes more manageable.

Quarterly net interstate migration and rolling 4 month trend - Western Australia



Source: ABS

Recent strength in economic activity has come from the upswing in mining commodity values, particularly iron ore. Low interest rates, high levels of government spending and the emergence of economic activity from social distancing conditions have also supported the recovery. Although trade tensions with China have become apparent, iron ore exports remain an important factor in WA's economic profile. Chinese GDP lifted 18.3% in the year to March 2021. The ANZ China Commodity Index, which tracks prices of a basket of 22 commodities including iron ore, increased 46.5% between its trough in May 2020, and February 2021. Despite disruption early in the onset of COVID-19, iron ore supply from WA wound up 4% higher over 2020, and iron ore exploration expenditure increased 14%, compared with an annualised decline of 3% a year for the past 10 years [11].

[10] CCIWA. (2020). CCIWA Business Confidence Survey: March Quarter 2021). Accessed online here: https://cciwa.com/wp-content/uploads/2021/03/0321-business-confidence.pdf

[11] Source: WA State Government Department of Jobs, Tourism, Science and Innovation, February 2021, *Western Australia Iron Ore Profile,* accessed online here: https://www.wa.gov.au/sites/default/files/2021-03/WA%20Iron%20Ore%20Profile%20-%

It is also important to remember that the current upswing in commodities is cyclical, and another result of stimulus fuelling economic activity. CoreLogic analysis shows WA has had higher annualised volatility in dwelling value growth compared with growth in the national housing market for the past two decades. This is likely the result of fluctuations in mining conditions and infrastructure investment, which has implications for employment and migration, and subsequently housing demand.

Tasmania

Tasmania

TAS housing market summary, April 2021

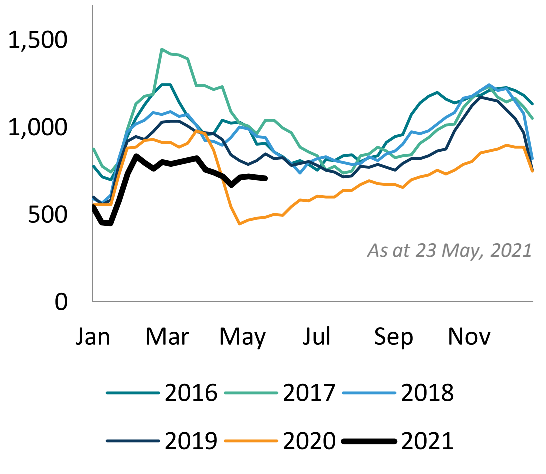
		Hobart	Regional Tas
Dwellings	Month	1.0%	2.5%
	Quarter	7.0%	7.7%
	YTD	8.7%	9.3%
	Annual	13.8%	16.6%
	Total return	19.2%	22.8%
	Gross yield	4.5%	4.8%
	Median value	$561,254	$379,954
Houses	Month	1.1%	2.7%
	Quarter	6.7%	7.9%
	YTD	8.5%	9.7%
	Annual	14.3%	17.8%
	Total return	19.8%	24.5%
	Gross yield	4.4%	4.7%
	Median value	$600,774	$395,198
Units	Month	0.9%	0.8%
	Quarter	8.2%	5.4%
	YTD	9.6%	5.5%
	Annual	11.6%	6.8%
	Total return	16.8%	12.6%
	Gross yield	4.9%	5.5%
	Median value	$449,442	$296,302

While the uplift in Australian housing and economic activity has been fairly broad-based, Tasmania stands out as leading in many indicators.

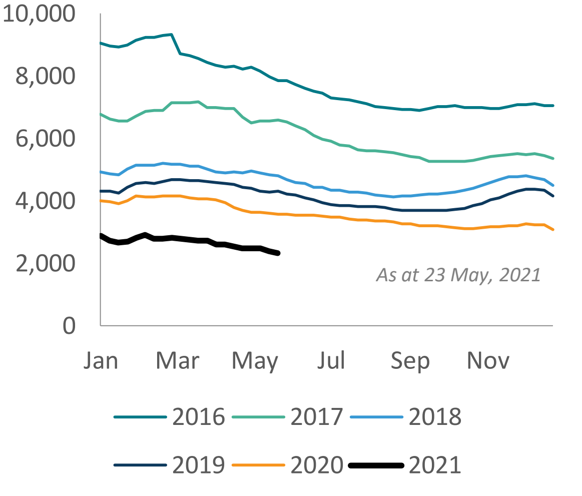
Hobart dwelling values increased 7.0% in the three months to April. This was the second-highest increase of the capital cities, behind the extraordinary uplift in Sydney values at 8.8%. In regional Tasmania, dwelling values increased 7.7% over the period, which was the highest uplift of any non-metropolitan market. The combined Tasmanian dwelling market has not seen a single quarter of value falls since a half-a-percent fall in August 2016.

Dwelling price increases across Tasmania have been particularly exacerbated by low listings levels. The charts below show that unlike other parts of Australia, 2021 has not seen a resurgence in new stock being added to market for sale.

Number of new listings, TAS Dwellings



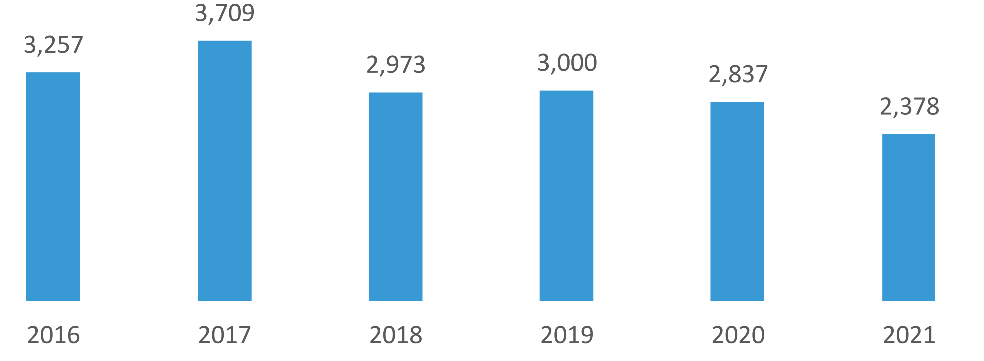
Number of total listings, TAS Dwellings



Source: CoreLogic

Through the March quarter of 2021, new listings levels were 8.0% lower than the previous 5-year average. As of the 23rd of May, the count of total listings on the market across Tasmania was -46.1% lower than where listings would typically be at this time of year. The extremely low levels of dwellings for sale across the state may also explain why sales volumes in the 12 months to April are lower than in the previous 12 month period (down -2.6% in the year). Tasmania is the only state where sales volumes have fallen over the year, despite exhibiting some of the highest price increases. This implies lower sales volumes are supply related, rather than demand related.

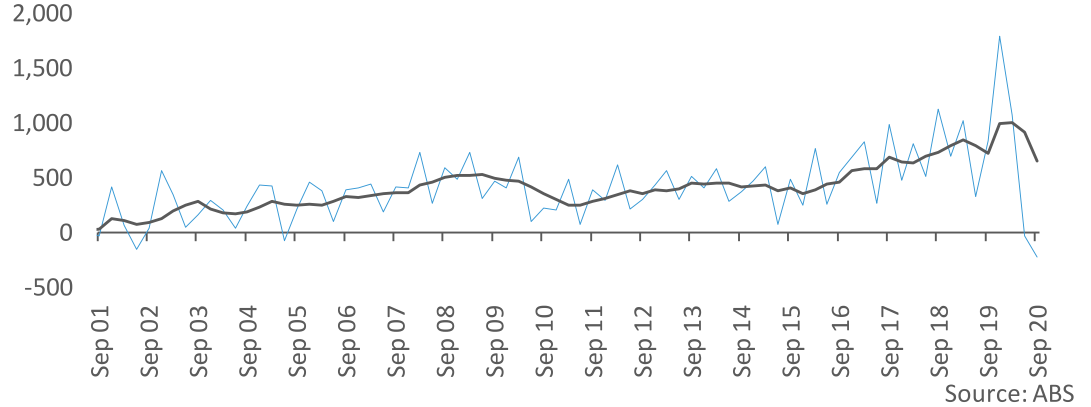
New for sale dwelling listings, Q1 Tasmania



Source: CoreLogic

Tasmania had seen substantial increases in population prior to the onset of the pandemic. In the December 2019 and March 2020 quarters, there was a particular surge in net overseas migration (NOM). During this time, an additional 2,867 people settled in the state from overseas, compared to the decade average of just over 1,000 people for two quarters.

Quarterly net overseas migration to Tasmania and rolling 4 month average



Source: ABS

This rush of overseas migration before international border closures may have had the effect of 'smoothing out' aggregate demand as NOM fell in the June and September 2020 quarters. June and September 2020 also marked the first instance of negative NOM since June 2005.

Between persistently positive interstate migration (which was sustained in part by a lack of migration to the mainland through COVID-19), and a rising trend in births, Tasmania leads the states and territories in terms of favourable demographics for economic growth. The high levels of migration in the lead up to the pandemic reflect an uplift in business confidence and employment conditions in the lead up to the pandemic[12].

Continued increases in dwelling values are expected across regions of Tasmania, as the economic recovery is supported by strong domestic tourism amid eased restrictions. However, this strength in the Tasmanian economy also presents a risk. If COVID-19 cases rise in the wait for wide-spread vaccinations, this relatively large segment within the economy would see a large shock to economic activity, which could subdue housing market conditions. Affordability constraints are also extremely pressing across the state, particularly in rental markets where vacancy remains extremely low.

[12] Eslake, S. (2020). Tasmania report 2020. Tasmania Chamber of Commerce and Industry, Hobart & Launceston.

Northern Territory

Northern Territory

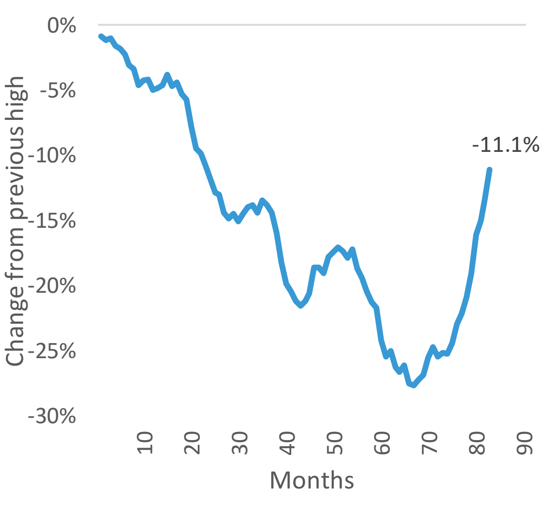
NT housing market summary, April 2021

		Darwin	Regional NT
Dwellings	Month	2.7%	na
	Quarter	5.8%	na
	YTD	8.3%	na
	Annual	15.3%	na
	Total return	21.4%	n a
	Gross yield	6.1%	na
	Median value	$465,976	na
Houses	Month	2.7%	2.0%
	Quarter	6.0%	4.9%
	YTD	9.9%	4.6%
	Annual	18.2%	11.5%
	Total return	24.4%	19.3%
	Gross yield	5.6%	6.3%
	Median value	$534,332	$447,535
Units	Month	2.7%	na
	Quarter	5.5%	na
	YTD	4.9%	na
	Annual	9.5%	na
	Total return	15.6%	na
	Gross yield	7.2%	na
	Median value	$309,181	na

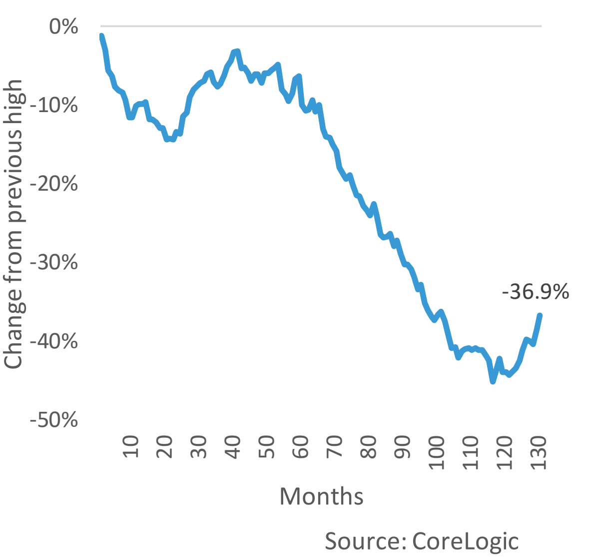
Similar to housing markets across WA, Darwin and parts of the NT have seen continued market momentum through the start of 2021. Darwin dwelling values had the highest annual growth rate of the capital cities in the 12 months to April at 15.3%. This was led by an 18.2% lift in house values and a 9.5% lift in Darwin units.

Despite Darwin seeing the highest growth in dwelling values of the capital cities in the past 12 months, the combined value of the dwelling market remains -19.5% below the record high in May 2014. The charts below show how the value of the house and unit market have tracked relative to previous highs.

Darwin house values: Change from previous high in May 2014



Darwin unit values: Change from previous high in May 2010



Source: CoreLogic

Darwin also had the second lowest median house value at $534,332 in April 2021. This is ahead of Adelaide, which had the lowest median house value at $526,155. Darwin maintained the lowest median unit value of the capital cities, at $309,181.

Dwelling value increases across the NT have likely been supported by an even more rapid increase in rents, which in turn has resulted from a long-term correction in investor participation in the property market. ABS housing finance data suggests the decade average portion of housing finance secured for investment property purchases is 26.2% across the Territory. For the past 2 years, the average has been just 15%.

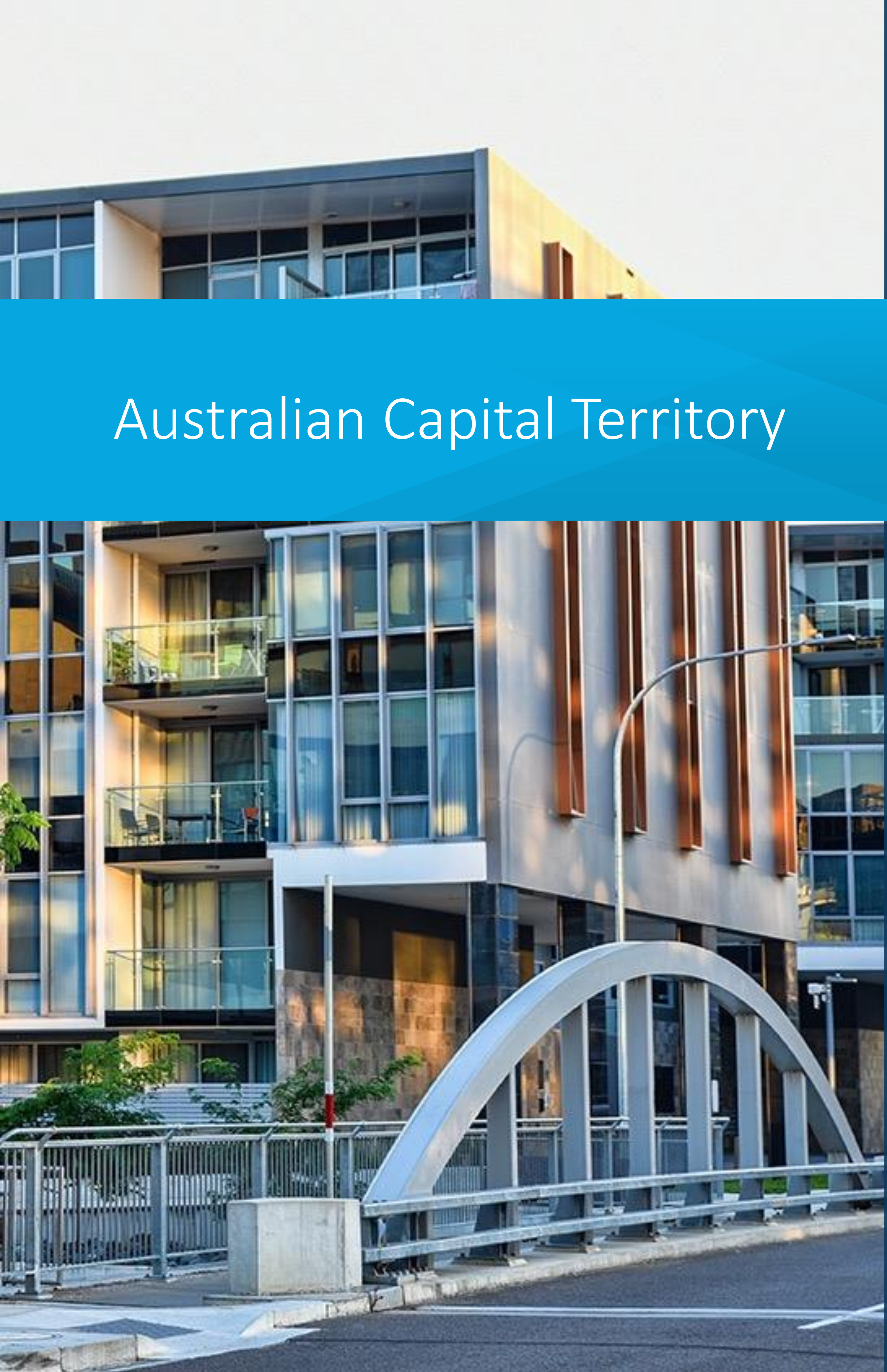
As the NT has seen (albeit weak) population growth in the past few years against low levels of new investment purchases, there has been strong upward pressure on rent markets. The CoreLogic hedonic rental index, which measures changes in the value of combined rental valuations whether a property is for rent or not, increased 18.0% in the year to April, compared with a national increase of 4.9%. The median asking rent across Darwin, which is the median of advertised asking rents, rose $70 per week in the same period. Combined with low interest rates, positive cash flow opportunities may be encouraging investors to come back to this market. Additionally, adverse rental conditions for tenants may be encouraging more potential first home buyers to buy instead of rent.

Interest in Northern Territory housing may create a virtuous cycle in economic conditions if jobs are created across fields such as construction, real estate, finance and furnishings. Both house and unit construction across the NT increased in the December 2020 quarter, with commencements up 83% on the previous quarter.

However, there are headwinds for the long term economic outlook across the NT. Gross state product across the Territory rose 5.3% over the 2019-2020 calendar year, but this was entirely attributable to the Ichthys LNG plant transitioning to full production in the period. The ABS noted that excluding this event revealed a decline in GSP over the year by -4.2%. The net interstate migration trend across the Territory remains negative, and the total number of people employed has declined -1.4%.

The major tailwinds for property market performance in the short term are persistently tight rental market conditions and low interest rates. In the longer term, it does appear that the negative interstate migration numbers are tightening. Eased social distancing and border restrictions may boost domestic tourism to the Territory, which would help to gradually recover this sector, and could have positive flow-on effects for pockets of the property market.

Australian Capital Territory



Australian Capital Territory

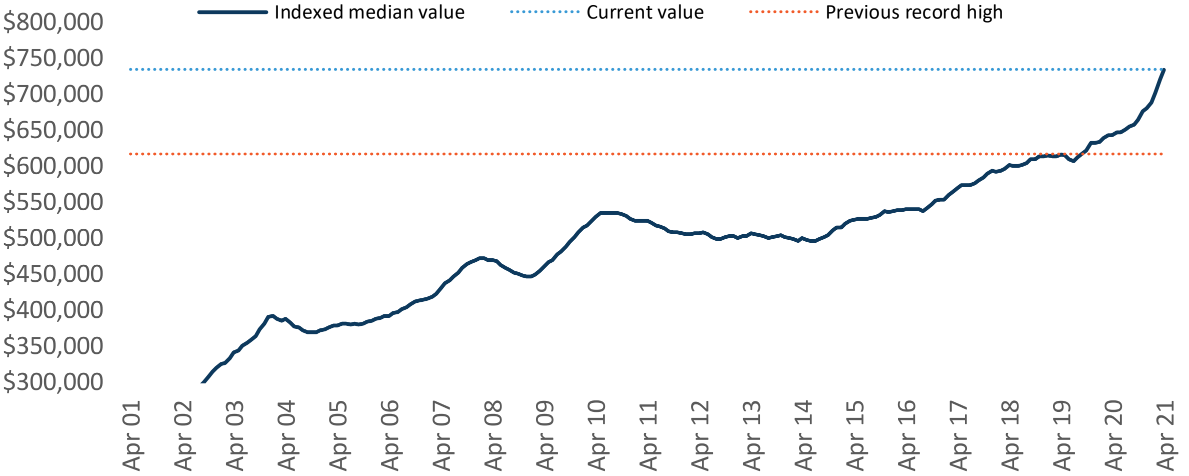
ACT housing market summary, April 2021

		ACT
Dwellings	Month	1.9%
	Quarter	6.7%
	YTD	8.0%
	Annual	14.2%
	Total return	18.7%
	Gross yield	4.3%
	Median value	$734,107
Houses	Month	2.1%
	Quarter	7.8%
	YTD	9.1%
	Annual	16.0%
	Total return	20.3%
	Gross yield	4.0%
	Median value	$833,080
Units	Month	1.2%
	Quarter	2.6%
	YTD	3.6%
	Annual	7.6%
	Total return	13.7%
	Gross yield	5.5%
	Median value	$492,968

The ACT housing market has continued to surge in value through the start of 2021. April marked the 20th consecutive month that ACT dwelling values hit a new record high, putting the market value 19.1% higher than the previous record level in April 2019.

The chart below emphasises the rapid increase in the market value through an 'indexed' median dwelling value, which adjusts the latest median value across Canberra for growth in the entire market. The indexed median value for Canberra has risen by $91,240 in a 12 month period, which is by far the largest uplift of the capital cities in dollar terms.

Australian Capital Territory Dwellings



Source: CoreLogic

Due to the strong conditions across the ACT relative to Victoria through the pandemic, the median Canberra dwelling value has almost eclipsed Melbourne over the year, with the differential in median dwelling value across the cities sitting at $10,572.

The acceleration of growth in the Canberra market is not just evident in property value increases. Sales volumes were elevated by around 10.7% over the 12 months to April 2021 compared to the previous period, and the auction clearance rate across the ACT has averaged 88.1% per week since the start of the year.

The extremely strong growth in demand for dwellings across the ACT, like many smaller capital cities and regional markets, has been exacerbated by low listings volumes. Total stock on the market as of 23rd of May were -23.9% below the five year average, with just 1,631 properties available for sale in the region. However, 613 of these had been added in the past 28 days, suggesting new listings volumes are rising and may eventually ease conditions for buyers in the Canberra market.

Strong seller conditions in the ACT have also been supported by a low unemployment rate. At just 3.4%, the ACT has the lowest unemployment rate of the capital cities against one of the highest participation rates (71.7% compared with the national figure of 66.0%). It is worth noting there has been a decline in the overall *number* of people employed since before the pandemic in February 2020, and the unemployment rate is also up 10 basis points from this period. But relative to the national position, the labour market is very tight.

While both houses and units are seeing an upswing across the ACT, growth in values is definitely being led by detached houses. House values increased 7.6% in the three months to April, compared to a 2.6% uplift in unit values in the same period.

In response to the strong demand in the house segment, alongside incentives such as HomeBuilder, house approvals for construction have risen to 1,392, or 18.7%, in the 12 months to March 2021. Surprisingly, the uplift in unit approvals was 17.4%, taking approvals to 4,041. The substantial lift in approved unit supply could see a further widening in the divergence between performance of the house and unit segment.

Demand for detached houses could be constrained by affordability pressures, where the house price to income ratio for the ACT was recorded at 6.1 through the September 2020 quarter, compared with 3.8 across units. However, given there are still sustained price increases across the Sydney market, where the house price to income ratio was 9.8 in the same period, suggests it will be some time before this affordability constraint materialises.

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