# National Media Release

## CoreLogic Hedonic Home Value Index, March 2017 Results

Released: April 3, 2017 www.corelogic.com.au/news **EMBARGOED UNTIL 10AM ADEST**

# *Capital city dwelling values increasing at fastest annual rate since May 2010 while Sydney values rise at fastest annual pace since November 2002*

***Capital city dwelling values moved 1.4% higher over the month, taking the combined capital city index to an annual growth rate of 12.9%; the highest annual rate of growth since the twelve months ending May 2010. Four of Australia's eight capital cities are now showing an annual growth rate in dwelling values higher than 10%, while Perth and Darwin values continue to trend lower on an annual basis.***

According to CoreLogic head of research Tim Lawless, the March results highlight the continued resurgence in the pace of capital gains.

He said, "This became evident through the second half of 2016, fueled largely by lower mortgage rates and a rebound in investment activity. Since June last year, the CoreLogic capital city hedonic index has increased by 9.3%."

"While Sydney and Melbourne recorded the strongest growth conditions, the annual rate of capital gains has also moved into double-digit growth in both Hobart (+10.2%) and Canberra (+12.8%)."

**Conditions remain diverse across regions and housing types**

Demonstrating the diversity across capital city markets, on an annual basis, dwelling values in Perth fell by -4.7% and by -4.4% in Darwin where economic conditions and migration trends remain weak across both cities. Adelaide and Brisbane also saw dwelling values continue to trend higher at a sustainable pace with increases of 3.4% and 3.7% respectively in these cities over the past twelve months.

According to Mr Lawless the diversity of performance between houses and units is also a current key feature of the housing market. Across the combined capitals index, house values were 13.4% higher over the past twelve months compared with a 9.8% rise in unit values.

He said, "The disparity in growth rates is more significant in those cities where high new unit supply is more apparent. In Melbourne, house values were 17.2% higher over the past twelve months compared with a 5.2% increase across the unit sector. Similarly, in Brisbane, house values were 4.0% higher over the past twelve months compared with a 0.2% rise in unit values over the same period."

"The weaker growth conditions within the unit markets' sector reflect heightened levels of new supply across specific inner city precincts and also suggests that consumer confidence has been negatively affected by the warnings of a potential unit oversupply."

**Whether such strong growth conditions can be sustained much longer is yet to be seen according to Mr Lawless.**

"Given the recent policy announcements from the Australian Prudential Regulation Authority (APRA) are aimed at dampening investment related credit demand, we can expect lending conditions for investment purposes will tighten, particularly for investors with small deposits or those applying for an interest only loan. Additionally, higher mortgage rates handed down by Australia's major banks may contribute towards cooling some of the exuberance being seen in the largest capital city housing markets."

"Furthermore, organic constraints in the market are becoming more pronounced. As examples, record-low rental yields, which imply dwelling values are out of balance with rents, and heighted affordability constraints are preventing some prospective buyers from participating in the market."

"Record-high levels of apartment supply are also likely to act as a brake on capital gains in those precincts where supply levels are high."

**Index results as at March 31, 2017**

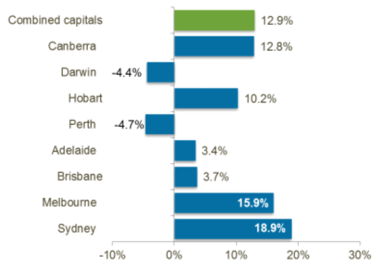
| Region | Change in dwelling values: Month | Qtr | YOY | Total gross returns | Median dwelling price |
|---|---|---|---|---|---|
| Sydney | 1.4% | 5.0% | 18.9% | 22.6% | $805,000 |
| Melbourne | 1.9% | 4.2% | 15.9% | 19.4% | $605,000 |
| Brisbane | 0.2% | 0.0% | 3.7% | 8.1% | $480,000 |
| Adelaide | 0.4% | 1.6% | 3.4% | 7.7% | $439,000 |
| Perth | 1.0% | -1.3% | -4.7% | -1.0% | $475,000 |
| Hobart | 3.1% | 5.6% | 10.2% | 16.1% | $355,000 |
| Darwin | 3.1% | -3.1% | -4.4% | 0.4% | $490,000 |
| Canberra | 1.4% | 5.1% | 12.8% | 17.5% | $586,500 |
| Combined capitals | 1.4% | 3.5% | 12.9% | 16.7% | $585,000 |
| Rest of State* | 0.8% | 1.4% | 4.0% | | $380,000 |

* Rest of state change in values are for houses only to end of February 2017

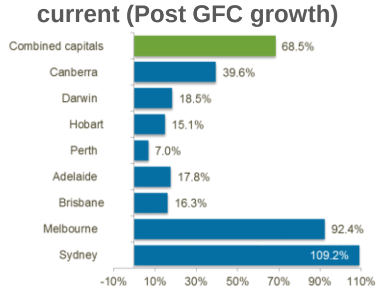
**Highlights over the three months to March 2017**

- **Best performing capital city: Hobart** +5.6%
- **Weakest performing capital city**: **Darwin -3.1%**
- **Highest rental yields**: **Hobart & Darwin** with gross rental yield of 5.0% and **Hobart Units** at 5.6%
- **Lowest rental yields: Sydney & Melbourne houses** with gross rental yield of 2.7% and **Sydney units** at 3.7%
- **Most expensive city: Sydney** with a median dwelling price of $805,000
- **Most affordable city: Hobart** with a median dwelling price of $355,000

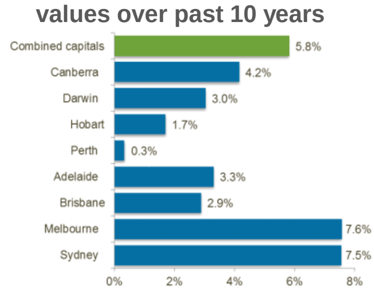
**Change in dwelling values over past twelve months**



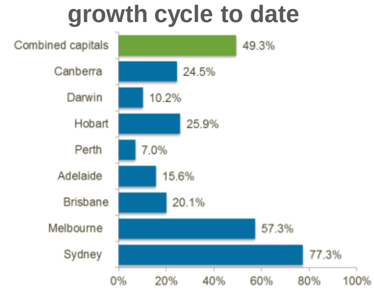

**Cumulative change in dwelling values from Jan 2009 to current (Post GFC growth)**




**Annual change in dwelling values over past 10 years**




**Change in dwelling values over growth cycle to date**




CoreLogic®

# National Media Release cont'd

## CoreLogic Hedonic Home Value Index Results

**Rental conditions have shown a subtle improvement across most cities but yields slip to new record lows in Sydney and Melbourne**

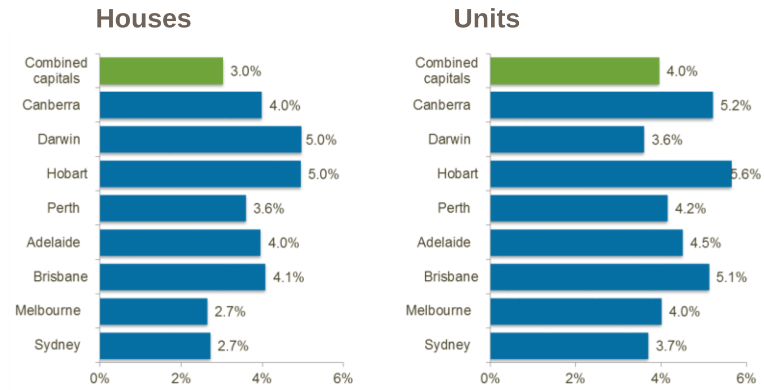
While some rental markets have recently seen a rise in the pace of rental growth, generally, the trend in rental appreciation remained soft in comparison with the rate of capital gains; growth in dwelling values is substantially outpacing rental growth in Sydney and Melbourne and gross rental yields have again slipped to record lows in these cities. As a consequence, Mr Lawless said, "This result has dragged the combined capitals yield profile to a new record-low. The gross yield on a Melbourne dwelling is now 2.8% while the gross yield on a Sydney dwelling is similarly low at 2.9%."

"In the remaining capital cities, there is also downwards pressure on gross yields as dwelling values outpace rents."

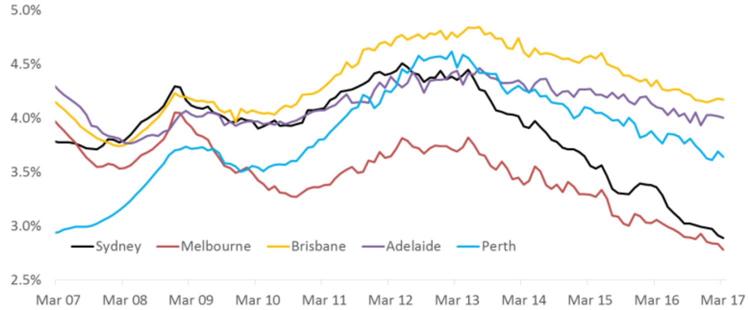
**Low rental yields, higher mortgage rates and stricter lending policies around serviceability could create budgetary challenges for investors**

With lenders tightening their serviceability models for all borrowers, having a negative cash flow on an investment property may become increasingly difficult to service. Mr Lawless said, "This is a particular concern where investor budgets are becoming thinly stretched by rising mortgage rates and low income growth."

**Gross rental yields, houses and units**




**Gross rental yields over time, largest capital cities**




**The ongoing strength in the housing market is apparent across a variety of other indicators such as settled sales**

CoreLogic estimates on settled sales volumes were 1.3% higher across the combined capitals region over the March quarter of 2017 compared with the first quarter of 2016, indicating an improvement in buyer demand compared with a year ago. Mr Lawless said, "Stronger buyer demand can be attributed to the rising number of investors participating in the market compared with a year ago as well as the lower cash rate stimulus and population growth. However, overall transaction numbers remain approximately 15.5% lower than their recent 2013/14 peaks."

**Low listing numbers continue to create urgency for buyers** With the number of properties being advertised for sale remaining low, Mr Lawless said this is creating a heightened sense of urgency in some markets.

Nationally, the number of residential properties advertised for sale was 6.9% lower than a year ago in March, and total listing numbers were 4.0% lower across the capital cities. Every capital city is now seeing fewer residential properties advertised for sale compared with a year ago. The largest declines have been in Hobart and Canberra where stock is being rapidly absorbed despite a rise in newly advertised properties.

Mr Lawless said, "A shortage of advertised stock can contribute to upwards pressure on prices, as prospective buyers experience FOMO (fear of missing out) which reduces a buyers ability or willingness to negotiate on prices and causes some urgency in the decision making process."

**Selling times, discounting rates and auction clearance rates remain strong across the 'hot' markets** The low stock numbers are also evident in an analysis of CoreLogic selling metrics. Auction clearance rates have remained in the mid-to-high 70% range across the combined capitals since early February; largely the result of the high clearance rates in the prime auction markets of Sydney, Melbourne and Canberra. Additionally, private treaty measures show that the average selling time remains low across the strongest markets. Homes are selling in approximately 30 days across Sydney and Melbourne, while discounting rates are well below 5.0% in these markets as well.

**Mortgage demand remains high** Mortgage demand has also been strong across the month of March, with the CoreLogic Mortgage Index rising 8.1% over the twenty-eight days ending March 26. CoreLogic mortgage platforms track mortgage related activity, accounting for more than 95% of lender valuation events, including refinancing. The index shows a strong correlation with the ABS housing finance data, indicating mortgage demand has remained strong over the first quarter of the year.

**How will the recently announced APRA supervisory measures impact on the market?** According to Mr Lawless the coming months will provide an indication about how investors and lenders respond to new APRA polices released to the market on March 31.

He said, "The additional APRA supervisory measures to reinforce sound residential mortgage lending practices in 'an environment of heightened risks' focus on dampening investment demand, but not quelling enthusiasm from this segment completely."

"Based on housing finance commitments data for January from the Australian Bureau of Statistics (ABS), investors currently comprise slightly more than 50% of mortgage demand (excluding refinanced loans).

"Considering the unprecedented level of high-rise unit construction currently underway, a large portion of which is reliant on investors absorbing the supply, a material decline in investment activity could result in a growing level of settlement risk for newly developed unit projects."

**Media enquiries contact:** Mitch Koper, CoreLogic national communications manager:
1300 472 767 or media@corelogic.com.au

CoreLogic®

# National Media Release cont'd

## CoreLogic Home Value Index tables

| Capital Growth to 31 March 2017 | Sydney | Melbourne | Brisbane - Gold Coast | Adelaide | Perth | Australia 5 Capitals (ASX) | Hobart | Darwin | Canberra | Brisbane | Australia 8 Capitals |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Table 1A: All Dwellings** | | | | | | | | | | | |
| Month | 1.4% | 1.9% | 0.5% | 0.4% | 1.0% | 1.4% | 3.1% | 3.1% | 1.4% | 0.2% | 1.4% |
| Quarter | 5.0% | 4.2% | 0.6% | 1.6% | -1.3% | 3.5% | 5.6% | -3.1% | 5.1% | 0.0% | 3.5% |
| Year-to-Date | 5.0% | 4.2% | 0.6% | 1.6% | -1.3% | 3.5% | 5.6% | -3.1% | 5.1% | 0.0% | 3.5% |
| Year-on-Year | 18.9% | 15.9% | 4.6% | 3.4% | -4.7% | 12.9% | 10.2% | -4.4% | 12.8% | 3.7% | 12.9% |
| Total Return Year-on-Year | 22.6% | 19.4% | 9.2% | 7.7% | -1.0% | 16.7% | 16.1% | 0.4% | 17.5% | 8.1% | 16.7% |
| *Median price* based on settled sales over quarter* | *$805,000* | *$605,000* | *$490,000* | *$439,000* | *$475,000* | *$585,500* | *$355,000* | *$490,000* | *$586,500* | *$480,000* | *$585,000* |
| **Table 1B: Houses** | | | | | | | | | | | |
| Month | 1.6% | 2.0% | 0.4% | 0.1% | 1.1% | 1.4% | 2.6% | 1.6% | 1.7% | 0.1% | 1.5% |
| Quarter | 4.9% | 4.4% | 0.5% | 1.3% | -1.3% | 3.4% | 5.8% | -3.5% | 5.4% | -0.1% | 3.4% |
| Year-to-Date | 4.9% | 4.4% | 0.5% | 1.3% | -1.3% | 3.4% | 5.8% | -3.5% | 5.4% | -0.1% | 3.4% |
| Year-on-Year | 19.7% | 17.2% | 4.9% | 3.6% | -4.6% | 13.4% | 11.0% | -7.0% | 13.6% | 4.0% | 13.4% |
| Total Return Year-on-Year | 23.2% | 20.5% | 9.4% | 7.8% | -1.0% | 17.0% | 16.9% | -2.1% | 18.3% | 8.4% | 17.1% |
| *Median price* based on settled sales over quarter* | *$880,000* | *$677,000* | *$539,000* | *$460,000* | *$495,000* | *$620,000* | *$380,000* | *$529,700* | *$680,000* | *$512,000* | *$613,200* |
| **Table 1C: Units** | | | | | | | | | | | |
| Month | 0.7% | 0.8% | 1.7% | 4.0% | -0.7% | 0.9% | 7.8% | 9.2% | -3.2% | 1.6% | 0.9% |
| Quarter | 5.6% | 2.9% | 0.9% | 5.1% | -1.6% | 4.2% | 3.0% | -1.5% | 0.2% | 1.1% | 4.2% |
| Year-to-Date | 5.6% | 2.9% | 0.9% | 5.1% | -1.6% | 4.2% | 3.0% | -1.5% | 0.2% | 1.1% | 4.2% |
| Year-on-Year | 15.3% | 5.2% | 1.9% | 1.7% | -5.5% | 9.8% | 2.7% | 6.9% | 1.6% | 0.2% | 9.8% |
| Total Return Year-on-Year | 19.8% | 9.5% | 7.5% | 6.6% | -1.4% | 14.4% | 8.5% | 11.3% | 7.0% | 5.5% | 14.3% |
| *Median price* based on settled sales over quarter* | *$715,000* | *$482,000* | *$395,000* | *$365,000* | *$400,000* | *$510,000* | *$316,100* | *$422,500* | *$420,000* | *$385,000* | *$512,200* |
| **Table 1D: Rental Yield Results** | | | | | | | | | | | |
| Houses | 2.7% | 2.7% | 4.1% | 4.0% | 3.6% | 3.0% | 5.0% | 5.0% | 4.0% | 4.1% | 3.0% |
| Units | 3.7% | 4.0% | 5.2% | 4.5% | 4.2% | 4.0% | 5.6% | 3.6% | 5.2% | 5.1% | 4.0% |

The indices in grey shading have been designed for trading environments in partnership with the Australian Securities Exchange (www.asx.com.au). Indices under blue shading (Hobart, Darwin, Canberra, Brisbane and the 8 capital city aggregate) are calculated under the same methodology however are not currently planned to be part of the trading environment.

*The median price is the middle price of all settled sales over the three months to the end of the final month. Median prices are provided as an indicator of what price a typical home sold for over the most recent quarter. The median price has no direct relationship with the CoreLogic Hedonic Index value. The change in the Index value over time reflects the underlying capital growth rates generated by residential property in the relevant region.

The CoreLogic Hedonic Index growth rates are not ordinarily influenced by capital expenditure on homes, compositional changes in the types of properties being transacted, or variations in the type and quality of new homes manufactured over time. The CoreLogic 'index values' are not, therefore, the same as the 'median price' sold during a given period. See the methodology below for further details.

**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 comprising the index into its various formational and locational attributes, differing observed sales values for each property can be separated into those associated with varying attributes and those resulting from changes in the underlying residential property market. Also, 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 stock of residential property comprising an index can be accurately tracked through time. CoreLogic owns and maintains Australia's largest property related database in Australia 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. For detailed methodological information please visit www.corelogic.com.au

Recent updates to the CoreLogic Hedonic Home Value Index – April/May 2016
CoreLogic's periodic audits of analytic methods and algorithms identified an improvement to the Hedonic Index sampling methodology in early 2016 which was applied throughout April. CoreLogic implemented a dynamic mechanism for excluding extreme (outlier) transactions. After rigorous back testing and validation, it was determined that dynamic price filters would deliver a more robust and precise output. As a result of these changes, the CoreLogic Hedonic Index recorded higher than normal intra-month volatility in the capital city index readings throughout April and May. This improvement will ensure that the Hedonic Home Value Index will continue to represent the timeliest and most precise measurement of housing market conditions available.

**For more information on the CoreLogic Indices, please go to http://www.corelogic.com.au**

**About CoreLogic** CoreLogic Australia is a wholly owned subsidiary of CoreLogic (NYSE: CLGX), which is the largest property data and analytics company in the world. CoreLogic provides property information, analytics and services across Australia, New Zealand and Asia, and recently expanded its service offering through the purchase of project activity and building cost information provider Cordell. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources and includes over 500 million decision points spanning over three decades of collection, providing detailed coverage of property and other encumbrances such as tenancy, location, hazard risk and related performance information.
With over 20,000 customers and 150,000 end users, CoreLogic is the leading provider of property data, analytics and related services to consumers, investors, real estate, mortgage, finance, banking, building services, insurance, developers, wealth management and government. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and geo spatial services. Clients rely on CoreLogic to help identify and manage growth opportunities, improve performance and mitigate risk. CoreLogic employs over 650 people across Australia and in New Zealand. For more information call 1300 734 318 or visit www.corelogic.com.au

**Media enquiries contact:** Mitch Koper, CoreLogic national communications manager:
1300 472 767 or media@corelogic.com.au

CoreLogic®