CoreLogic Property Pulse

08/04/2021

How do dwelling values compare with previous highs?

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Low mortgage rates, a swift economic recovery, which has spurred consumer sentiment, and low listing volumes have catapulted national housing values to new record highs. At the end of March, the CoreLogic national home value index increased a further 2.8%, placing values 5.6% above the previous market peak in October 2017. The combined value of Australian dwellings hit $7.9 trillion dollars over the month, according to CoreLogic. This cements residential property as an extremely large and important asset class.

Comparing current capital city values with previous peaks adds some perspective to the current upswing – particularly in Perth and Darwin, where values remain substantially below their record highs from 2014. It also highlights the very different dynamics across capital cities – such as in the ACT, where dwelling values have hit a new record high every month for 19 months.

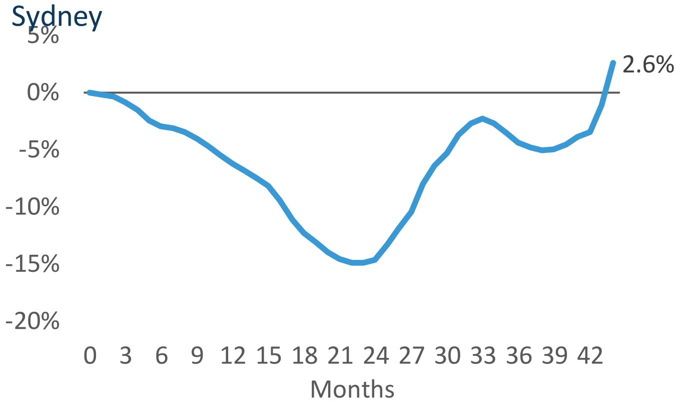
The following charts plot the change in capital city dwelling values from previous peaks, and the number of months it has taken for values to surpass the previous peak. The subsequent downturn and recovery trends vary, and are unpacked below.

Sydney

Sydney dwelling values took 44 months to reach a new record high value. While values have lifted a relatively high 8.1% since the COVID-induced decline (which bottomed out in September 2020), the total value of the dwelling market is actually only 2.6% higher than the previous peak, which was in July of 2017.

In 2017, a property price downturn was likely catalysed by changes to lending conditions. Cash rate reductions, along with a relaxation in borrower serviceability assessment rules, spurred the start of a recovery trend through 2019. COVID-19 interrupted this upswing, but a recovery in economic conditions, and increased consumer confidence, has pushed values above the previous peak.

Change in value from previous peak - Sydney

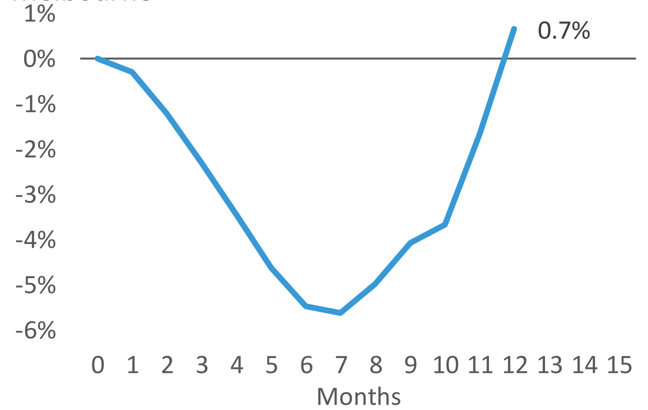


Melbourne

Melbourne values reached a peak in March 2020, after staging a recovery from the earlier 11.1% drop in values between late 2017 and mid-2019. The Melbourne housing market was the most impacted of any capital city by COVID-19, due to extended social distancing restrictions through 2020, and a high exposure to overseas migration as a source of housing demand. Closed borders created a negative shock, with a more significant and direct impact on inner city rental demand. Since bottoming out in October 2020, as stage 4 lockdowns began to ease, Melbourne dwelling values have climbed 0.7% above the pre-COVID high.

As the value of Melbourne housing nudges over its previous peak, it is worth noting the market has not recovered evenly. House values remain -1.8% below the previous November 2017 high due to a larger correction through the recent downturns. Within different price segments, there is also variation.

Change in value from previous peak - Melbourne



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As of March, the 'high' end of the market (measured as the top 25% of values in Melbourne) was still -4.0% below its record high, which was in October 2017. Meanwhile, low and middle tier values have increased beyond their pre-COVID highs by 4.9% and 2.2% respectively, reflecting a smaller decline turn recent downturns, as well as strong demand from first home buyers who typically target properties around the middle-to-lower end of the market.

Brisbane

Brisbane dwelling values are 6.5% above the previous peak, which was in April 2020. Market values saw a peak-to-trough decline of -0.9% through COVID-19. The decline lasted just 4 months, before Brisbane dwelling values recovered to a new record high by October 2020.

As with Melbourne, the recovery in the Brisbane market has been varied. While house values climbed 7.6% above the previous peak through March, which was reached in May of 2020, unit values remain -9.4% below the record high value, which was in March 2010. Brisbane unit values are currently at similar levels as October 2007, reflecting a very affordable entry point to the market.

The weaker conditions across the unit sector are likely due to previously high levels of unit completions keeping values subdued, particularly in the later part of the 2010s. ABS dwelling completion data saw unit completions across Queensland rise 50.4% in the 5 years to September 2020, compared with a 17.4% uplift in house completions. However, strong internal migration flows to south-east Queensland, as well as other tailwinds for housing demand more broadly, has supported 5 consecutive months of growth in Brisbane unit values since November 2020.

Adelaide

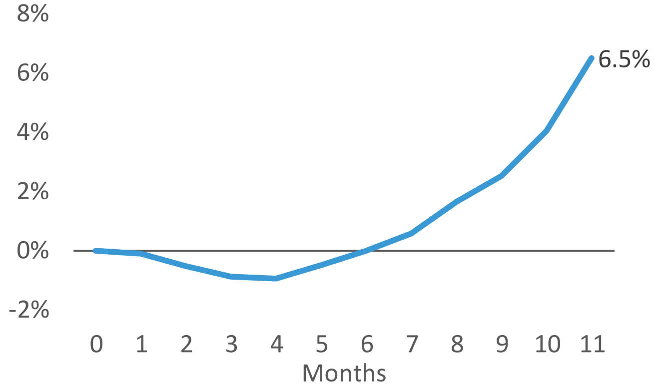
The Adelaide dwelling market was one of the least affected through COVID-19 in terms of values. Following a -0.2% dip from the previous high in May 2020, values had surpassed the previous peak by September last year. The rate of change in dwelling values jumped to a monthly increase of 1.5% over March 2021, which is the highest monthly growth rate seen across the city since December 2007. Both house and unit values across Adelaide are currently sitting at a record high. Although housing values are reaching new highs each month, relative to the larger capital cities, Adelaide housing values remain low.

Perth

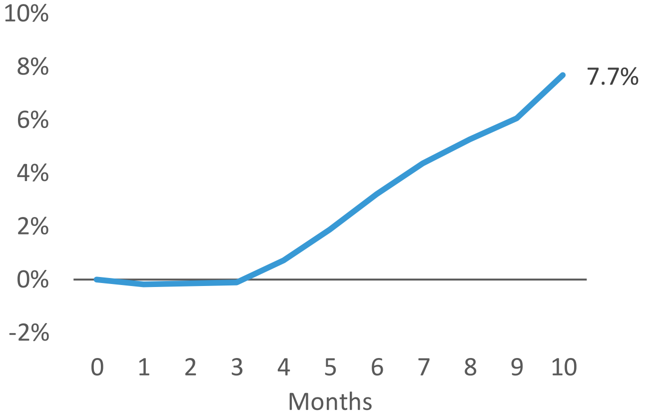
The CoreLogic home value index for Perth shows values -15.9% below the record high, which was in June 2014. The peak-to-trough decline, which was induced by the rapid withdrawal of mining investment, employment opportunity and migration, lasted around 67 months.

As the market started to recover in mid-2019, COVID-19 created an additional, negative shock, which pushed values down a further -2.2% between April and July of 2020.

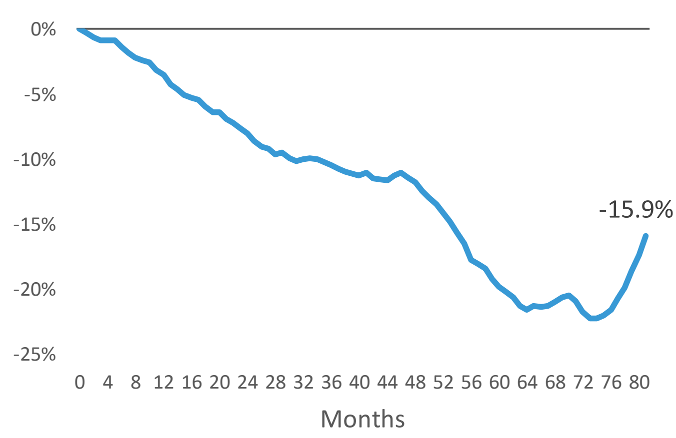
Change in value from previous peak - Brisbane



Change in value from previous peak - Adelaide



Change in value from previous peak - Perth



However, the Perth dwelling market has seen consecutive increases in value for the past 8 months. For the past 5 months, value increases have exceeded 1% a month, which is a strong growth rate and signals the start of what may be a sustained and rapid recovery. This coincides with rising interstate migration levels to Western Australia, and projected increases in already rising mining investment.

Hobart

Hobart has seen the second-highest uplift in housing values from the previous peak, at 12.3%. The previous peak in dwelling values was at February 2020, before a brief, COVID-induced decline in total dwelling values of just -0.3%. Hobart dwelling values have seen extraordinarily strong growth, with the annualised capital growth return sitting at 9.4% for a 5 year period (+56.3% over the past five years). ABS building activity data suggests house commencements were 32.8% above the decade average through the September 2020 quarter in Tasmania. Combined with affordability constraints, additional stock should work to ease growth rates across the region in the coming months.

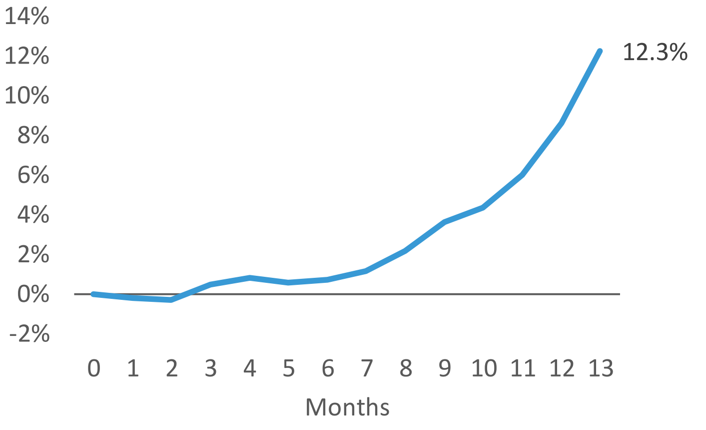
Darwin

Darwin dwelling values are the furthest from the previous peak of the capital city markets. A record high was reached across Darwin dwellings in May 2014. Similar to Perth, a decline in the resources related infrastructure sector saw a substantial decline in housing values, with the peak-to-trough fall extending to February 2020, at -32.7%. Since February 2020 however, Darwin dwelling values have increased 16.5% through to March 2021 which is the fastest growth rate amongst the capitals. This leaves values -21.6% below the record high, and shows the Darwin dwelling market firmly in a recovery trend.

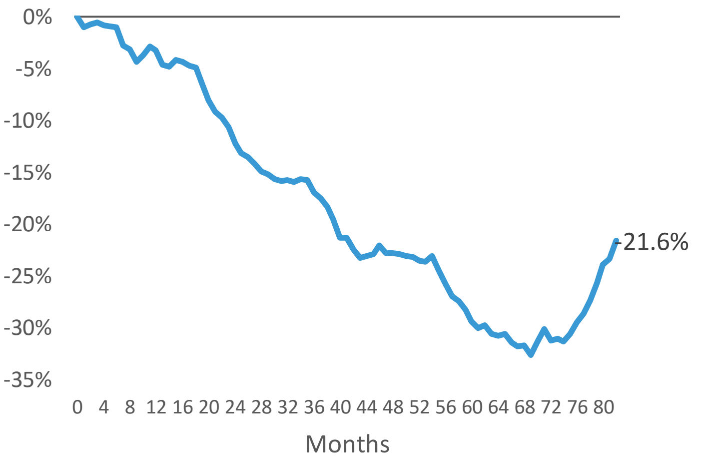
ACT

ACT dwelling values at the end of March were 16.9% higher than the previous peak, which was in April 2019. Following a -1.5% peak-to-trough decline, ACT dwelling values had recovered by September 2019, and have hit a new record high each month since. Rapid dwelling value growth across the capital has largely been driven by house values, which are 19.7% above the previous high in April 2019, compared with a 7.2% uplift in unit values since the previous high. Part of the strength in ACT dwelling value returns have been due to relatively high incomes across the Territory, along with resilient labour market performance through COVID-19. However, the fact that dwelling values have surged almost 17% in less than two years, highlights an increasing barrier to ownership for future first home buyer cohorts.

Change in value from previous peak - Hobart



Change in value from previous peak - Darwin



Change in value from previous peak - ACT