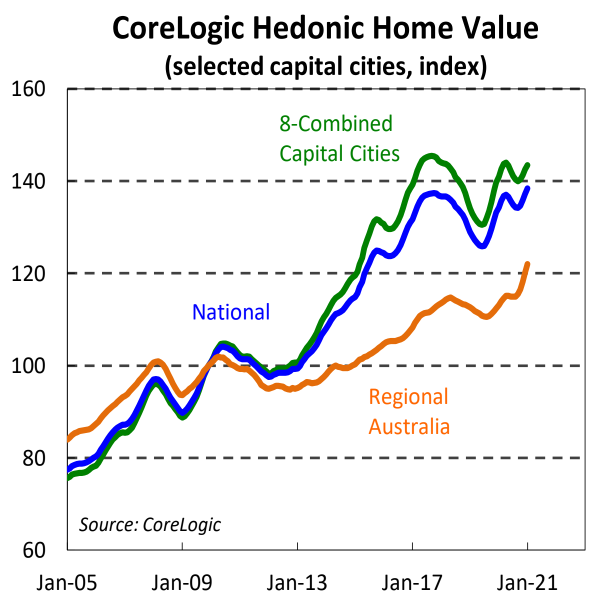
Data Snapshot

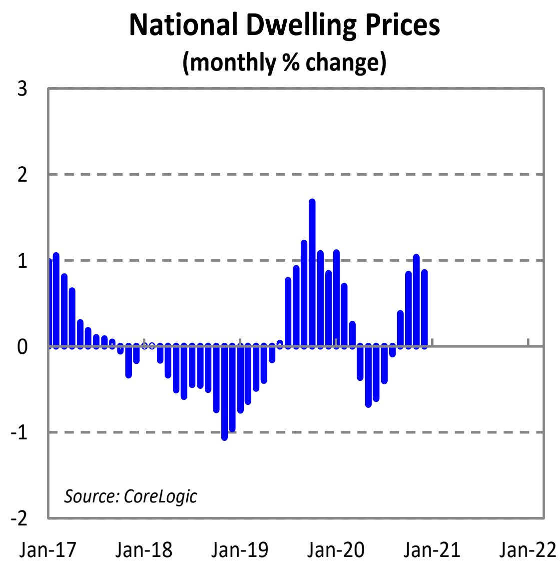
Monday, 1 February 2021

Dwelling Prices

Changing from Amber to Red

- **The upturn in dwelling prices has gathered momentum and the lights are changing from amber to red. When immigration lifts and international borders reopen, a red-hot housing market could be in store. Very low rates of interest and low inventory is underpinning the lift in prices.**
- **Dwelling prices rose by 0.9% nationally in January to a new record high. Home values across capital cities rose 1.7% and rose to new peaks in Adelaide, Brisbane, Canberra and Hobart.**
- **A couple of emerging trends continued in January, as Australians rethink the way they work, live and live. Regional dwelling prices grew faster than capital city prices, house prices grew faster than unit prices and the larger states of NSW and Victoria were witnessing the strongest shift of demand to regional areas.**
- **Regional dwelling prices grew more than twice the clip than capital cities in January at a rate of 1.6%, as the popularity of working from home continues and as Australians search for more affordable homes in less densely populated areas.**
- **Dwelling prices have also recovered earlier and stronger in regional Australia than capital cities from their COVID-19-related troughs last year. Regional Australia troughed in June and has lifted 6.2% since then. In contrast, capital cities troughed in September and have recovered by a lesser 2.4% since then.**
- **House prices rose by 1.1% in January versus 0.2% for units, as Australians increasingly are looking for larger homes for home offices and bigger kitchens for eating in.**





My eight-year old this morning asked me if I knew what makes the sun so hot. I had to turn to google for the answer – the fusion of hydrogen to create helium atoms! I can, however, explain why the housing market is heating up and will shift from amber to red once immigration resumes and international borders lift. It is the very low rates of interest in the economy that will continue for the next few years. There is also the shortage of supply. Advertised inventory is around record lows. Moreover, unemployment while elevated is under 7% and the economy is in recovery mode.

Back in early 2020, we predicted the downturn in housing would be short lived. Past economic downturns since the 1980s have shown that housing price declines do not last long. This pandemic crisis has not proved to be an exception. We can expect dwelling prices to rise by around 5% nationally this year, and possibly by more, depending on the success of the vaccine rollout.

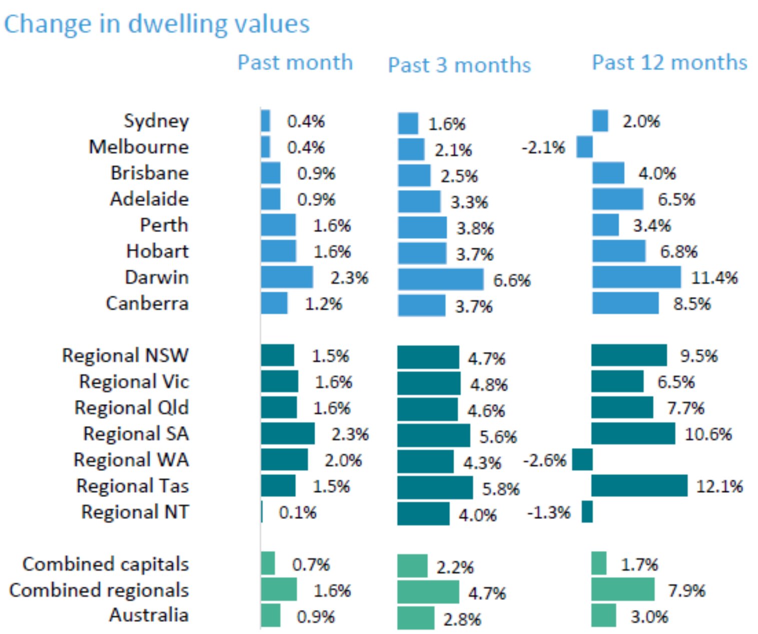
Dwelling prices nationally started recovering in October and are gathering pace. In January, dwelling prices rose 0.9% to take prices to a fresh record high, according to new data from CoreLogic. Dwelling prices have surpassed pre-COVID-19 levels by 1.0% and is 0.7% higher than the previous peak struck in September 2017. Adelaide, Brisbane, Canberra and Hobart reached new peaks in January.

Every capital city and broad rest-of-state region recorded a rise in dwelling prices in January.

Capital Cities

Across the capital cities, dwelling prices rose by 0.7% in January. The largest monthly gain of 2.3% occurred in Darwin, which also has the highest gross rental yield of any capital city at 6.0%. The smallest gain occurred in Sydney and Melbourne where prices each lifted by 0.4%.

Dwelling prices rose 0.9% in Brisbane, 0.9% in Adelaide, 1.2% in Canberra, 1.6% in Perth (the fastest since September 2006), 1.6% in Hobart.



Source: CoreLogic

Regional Australia

Regional dwelling prices rose by more than twice the pace of growth in the capital cities. The pandemic has unleashed changes to the way we work and learn and has caused Australians to rethink how they live and where they live. The shift to working from home has led to greater demand for housing in regional areas, especially in the larger States of Victoria and NSW. The regional areas often offer better lifestyle choices, lower density of population and more affordable housing.

Regional dwelling prices across Australia grew 1.6% in January, the same pace as December, and more than double the growth of prices across the capital cities. Dwelling prices have recovered earlier and stronger in regional Australia than capital cities from their COVID-19-related troughs last year. Regional Australia troughed in June and has lifted 6.2% since then. In contrast, capital cities troughed in September and have recovered by a lesser 2.4% since then.

Regional South Australia recorded the fastest pace of growth across the regional States in January at 2.3%. It is the fastest gain in 20 years. It was followed by regional Western Australia at 2.0%, the fastest clip since September 2006. Across the other regional areas, growth of 1.5% was recorded in NSW, 1.6% in Victoria, 1.6% in Queensland, 1.5% in Tasmania and 0.1% in Northern Territory.

The strongest shift in demand from the capital cities to the regional areas is occurring in the larger States of NSW and Victoria.

Houses vs Units

Another trend that emerged last year, and is persisting, is the greater demand for houses over units. The rethinking of our homes and way of working includes the desire for larger homes to accommodate a home-office space. The pandemic has also shone a light on the pitfalls of apartment living if the pandemic were to ravage communities as it has done in some parts of the world. Australians are now more sensitive to viruses and health in general. These influences have contributed to house prices growing faster than apartment prices. There is a greater supply of apartments than houses also. House prices grew 1.1% nationally versus 0.2% for units.

House prices also grew at a faster rate in the capital cities and regional areas. House prices rose 0.9% in the capital cities and 1.7% in regional Australia compared with 0.1% and 1.2%, respectively, for units.

Rental Market

Residential vacancy rates lifted during the height of the pandemic last year and rents came under downward pressure, but the rental market is showing signs of improvement. Renters are displaying a preference for detached and lower-density housing. But even the apartment rental market shows signs of levelling out. Sydney apartment rents rose 0.8% in January, which is the first rise since March 2020 and Melbourne apartment rents held firm over the month.

The largest rent increases in January occurred in Perth and Darwin and the highest gross rental yield is in Darwin (6.0%) and Hobart (4.6%). The lowest gross rental yields are in Sydney and Melbourne (2.9% and 3.1%, respectively).

Outlook

The widespread increase in dwelling prices comes at a time when immigration levels are historically low due to the closure of our international border. A successful rollout of the vaccines could lead to the resumption of immigration and potentially stronger price gains. There are potential headwinds for the housing sector. These include slow wage growth, elevated levels of unemployment and low population growth. A fresh wave of infections could also cause a disruption. However, we expect dwelling prices to rise over 2021 and 2022, driven by very low interest rates and a shortage of stock.

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