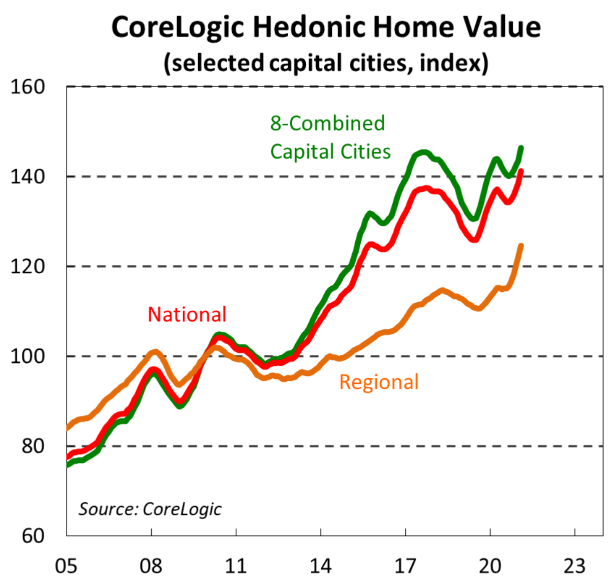
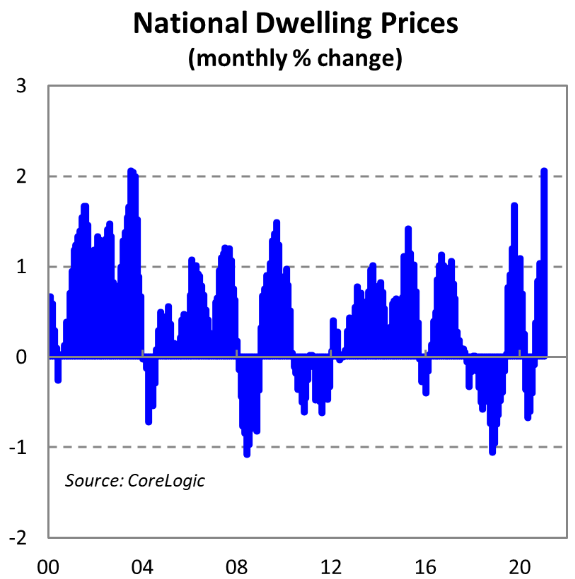
Data Snapshot

Monday, 1 March 2021

Dwelling Prices
Fastest Growth in 17 Years

- **House prices are gaining momentum. Housing supply is constrained, mortgage rates are at record lows and there are large government incentives supporting first-home buyers. Unemployment has been declining and consumers are more confident about the outlook.**
- **Dwelling prices increased 2.1% nationally in February, according to data from CoreLogic. This is the fastest month-on-month increase since 2003 and took prices to a new record high. It is occurring against a background of zero immigration and low population growth.**
- **All capital cities and regional areas recorded increases in prices. Capital cities across Australia gained 2.1% whilst regional Australia rose 2.0% in February. Sydney and Hobart dwelling prices saw the strongest growth in the month, each increasing by 2.5%. Regional Tasmania rose at the fastest clip during the month at 2.7%.**
- **Annual growth in regional areas continues to be significantly faster than capital cities (9.4% vs 2.6%). Over the past year, the shift to working from home has led to greater demand for housing in regional areas. Regional areas are also more affordable and not as densely populated.**
- **The divergence in the prices of houses and units continued. House prices grew 2.3% nationally versus 1.3% for units.**
- **We expect dwelling prices to increase around 10% in 2021 and again in 2022. Low rates are here to stay for an extended period and the labour market should continue to improve. There will be more heat in the market once international borders reopen and immigration resumes, but an uplift in residential construction will also help to address supply issues.**





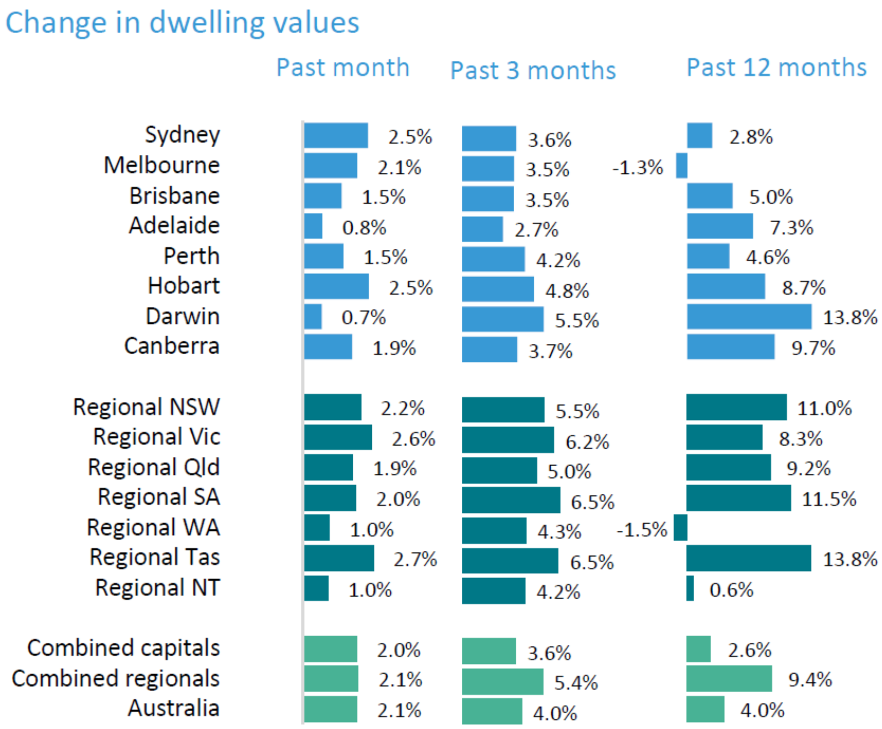
House prices are continuing to pick up steam. The increase in national house prices since October last year aligns with rebound in consumer sentiment and the recovery in the labour market. This followed the reopening of the economy after lockdowns around the country. Other factors have also put upward pressure on prices: advertised housing for sale is very low, the RBA is holding rates at record lows until 2024 and there are large government incentives supporting first-home buyers. Unemployment, while elevated, is under 7% and falling, and the economic recovery continues to progress.

The upturn is showing no signs of slowing down any time soon. We expect house prices to increase around 10% in 2021 and again in 2022. The vaccine rollout and subsequent relaxation of social-distancing restrictions will support the increase in prices. There will be more heat in the market once international borders reopen and immigration resumes.

Dwelling prices increased 2.1% nationally in February, according to data from CoreLogic. This is extraordinarily strong growth amid closed international borders and low population growth. It marks the fastest month-on-month increase since 2003 and took prices to a new record high. Prices increased by 4.0% in year-ended terms. National dwelling prices have now surpassed their 2020 peak by 3.0%. All capital cities and regional areas recorded increases in prices.

Capital Cities

In aggregate, dwelling prices in capital cities recorded a 2.1% increase nationally in February. Sydney and Hobart dwelling prices saw the strongest growth in the month, each increasing 2.5%. Melbourne also posted firm growth in the month of 2.1%. The smallest gains were in Darwin and Adelaide, where prices increased 0.7 and 0.8%, respectively. But these cities had recorded very solid growth rates in recent months. Dwelling prices increased 2.1% in Melbourne, 1.5% in Brisbane and Perth, and 1.9% in Canberra in the month.



Source: CoreLogic

While the increase in prices has been broad-based, the trend is still suggesting stronger growth in the smaller capital cities than the larger cities. In annual terms, Darwin and Canberra recorded their strongest annual price growth since 2010, 13.8% and 9.7% respectively. Perth saw its highest annual growth since 2014 at 4.6%. Dwelling prices still contracted in Melbourne in year-ended terms, although at a slower pace.

Regional Australia

Regional dwelling prices increased by 2.1% in February, close to the rate of capital cities and faster than the 1.6% growth recorded in January. Over the past year, regional prices have increased by 9.4%, while prices in capital cities are only up 2.6%. This divergence has been underpinned by changes in preferences as the pandemic made us rethink the way we live and work. In particular, the shift to working from home has led to greater demand for housing in regional areas. The greater sensitivity around health has also drawn Australians to regional areas that are less densely populated than the capital cities.

Prices growing at the same pace across capitals and regional areas in the last month could be an early sign that this divergence is beginning to taper. The performance across cities and regional areas is likely to slowly converge as social distancing and travel restrictions ease, particularly when international borders open.

Dwelling price growth remains remarkably strong in regional areas. Regional Tasmania recorded the strongest growth in the February at 2.7%, followed by regional Victoria at 2.6% and regional New South Wales at 2.2%. Regional Tasmania and regional South Australia both recorded their highest annual growth rates since 2004. The lowest increases were in regional Western Australia and regional Northern Territory, which both rose by 1%.

Houses vs Units

Another trend that which has emerged from COVID-19 is greater demand for houses over units. Rethinking the way we live and work has also meant demand for more living space to accommodate a home office, bigger kitchens and larger backyards. House prices grew 2.3% nationally versus 1.3% for units. This represents incredibly strong growth for house prices, marking the largest monthly increase since the 1980s.

Sydney and Melbourne high-rise markets have been particular areas of weakness. In a tentative sign of improvement, Sydney units recorded their first month of price growth since April last year and Melbourne units posted their largest gain since late 2019.

Rental Market

The rental market is mixed across states. In Sydney and Melbourne, rental markets have been weak, alongside high levels of supply and negative interstate migration. The closure of international borders has also weighed on these markets because Sydney and Melbourne were the primary recipients of migrant arrivals. In contrast, conditions have been tight in Perth and Darwin, due to low supply, low investor participation and net positive interstate migration.

The disparities across states are apparent in gross rental yields. In Sydney, gross rental yields were 2.9% at the end of February, while yields averaged 3.0% in Melbourne. All other capital cities are recording yields around 4% or higher.

Outlook

We expect the housing market to continue its recent momentum, supported by the rollout of vaccines and reopening of the economy. House listings are likely to lift over the coming months, but if buyer demand continues, stock levels will remain very low. The low level of housing stock available to buy will contribute to prices moving significantly higher. Further down the track, the resumption of immigration could also lead to even stronger price gains. There are potential headwinds for the housing sector, notably slow wage growth and low population growth which could weigh on prices in the longer term. A new 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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