# Unit values underperform house values for the first time in 13 months

## Australian Unit Market Update – June 2023

By Kaytlin Ezzy, Economist, CoreLogic

**After outperforming house values since May 2022, national unit values recorded a milder monthly increase compared to houses in May.**

Unit values increased 0.9% compared to houses, which rose 1.2% while the quarterly trend also switched in favour of houses, up 2.4% over the three months to May, compared to a 2.2% quarterly rise for units.

While units (-4.0%) are still recording a milder annual decline compared to houses (-7.6%), the annual performance gap has narrowed from 3.9 percentage points in April to 3.6 percentage points in May.

**CoreLogic's Monthly Australian Unit Market Update shows** a similar bias towards houses across five of the eight capitals, with only Perth and Hobart recording stronger monthly growth in unit values, while results across Melbourne were consistent across both property types.

**CoreLogic Economist Kaytlin Ezzy** said it's unsurprising to see units take a backseat to houses as the recovery phase progressed further.

"Historically, unit values are less volatile compared to houses as their relative affordability making them less sensitive to market conditions," she said.

"Although units still offer a sizable affordability advantage over houses, gentler declines through the downswing (-6.1% compared to -9.9% for houses) has seen that gap shrink from around $205,000 in April 2022 to approximately $160,000 in February. This narrowing, coupled with the prospect of stronger capital gains, has likely seen some demand shift back in favour of houses, leading to higher monthly increases."

Perth (1.7%), Sydney (1.1%) and Brisbane (1.1%) all saw unit values increase by more than 1% over the month, while Melbourne and Hobart units recorded milder rises of 0.9% and 0.6% respectively. After reaching a new cyclical peak in April, unit values across Adelaide fell -0.2% in May, while relatively high supply levels across Canberra and Darwin saw unit values fall -0.1% and -2.0%.

Ms Ezzy warned that further rate hikes could stall the recovery, with the June rate hike re-setting expectations for where interest rates would land.

"Although values are currently being propped up by low listing levels, further increases to the cost of debt could both reduce demand and increase the occurrence distressed listings, which could push values back into negative territory," she said.

**Capital city unit rents** continue to see new record growth rates, despite further easing in the monthly trend.

The monthly trend in capital city unit rents continued to ease for the second consecutive month, with rents rising 1.4% in May, compared to April's 1.6% increase and a 1.9% lift in March. Despite the easing, the cumulative strength in unit rental growth saw the combined capitals record a new peak growth rate in both the quarterly and annual trends, with unit rents rising 5.0% over the three months to May and 16.5% over the year.

Ms Ezzy said the slight easing in rental growth is likely driven by an easing in demand, with vacancy rates loosening from 0.8% in March, 0.9% in April and 1.0% in May, while rental stock levels are approximately -40% below the levels typically expected this time of year.

“With capital city unit rents up $80 per week, or almost $4,200 per year, it's likely some prospective tenants are coming up against their affordability ceiling,” she said.

"In the absence of a supply response, some renters only option will be to increase their household size by letting out the spare room or home office, while others may have opted to delay moving out of home."

Across the individual capitals, Perth recorded the stronger rise in unit rents, up 1.7% in May, followed by Melbourne (1.6%) and Sydney (1.5%). At the other end of the scale, a pick up in supply levels across both Canberra and Hobart saw unit rental values fall -0.4%.

"Despite the mild easing in growth and vacancy rates, the continued shortage in rental unit listings and strong demand from international students and workers retuning to the city, will likely see capital city unit rents continue to increase at well above the monthly average seen over the past decade (0.2%)," she said.

  For media enquiries, contact: media@corelogic.com.au

**Figure 1 – Rolling annual change in values, national houses and units**

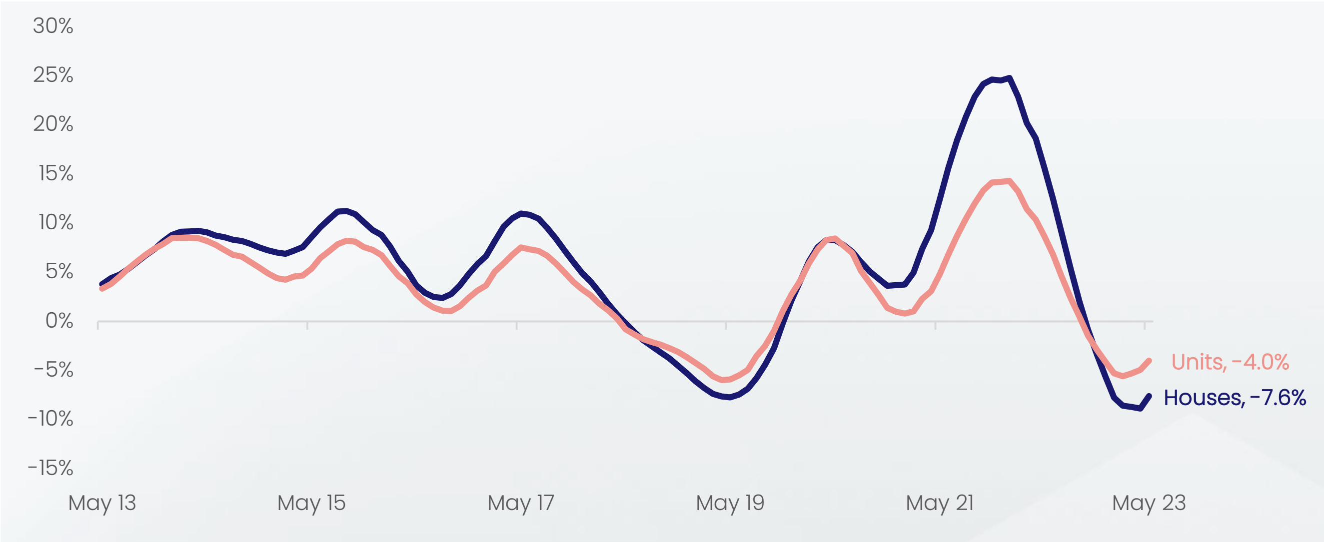


**Figure 2 - Total unit listings, change from previous year and previous five-year average - 4 weeks ending 28/5/2023**

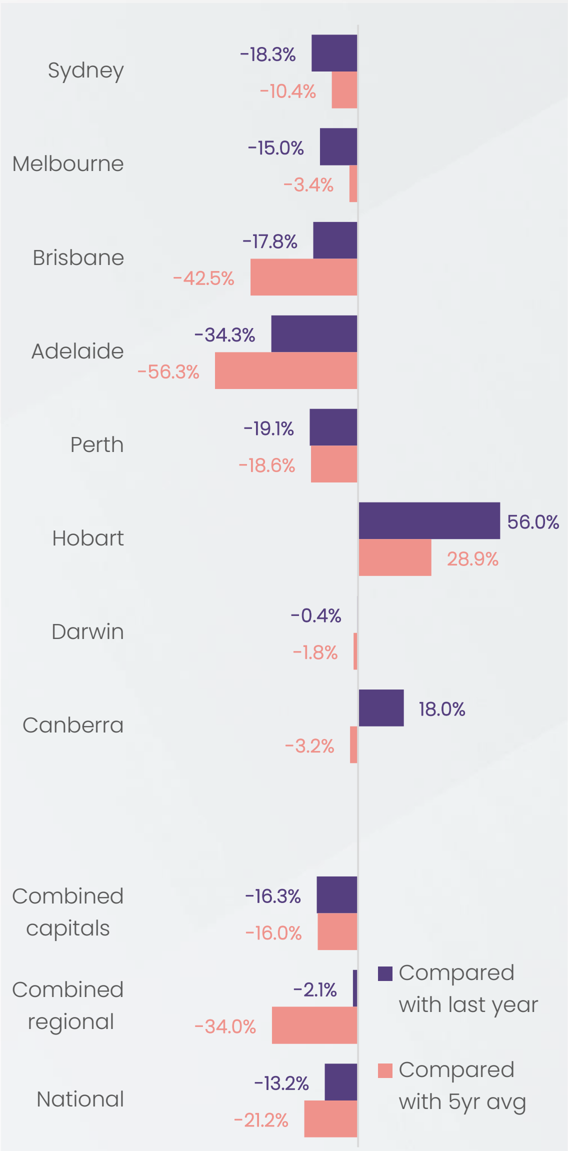


**Figure 3 – Rolling quarterly growth rate - capital city units**

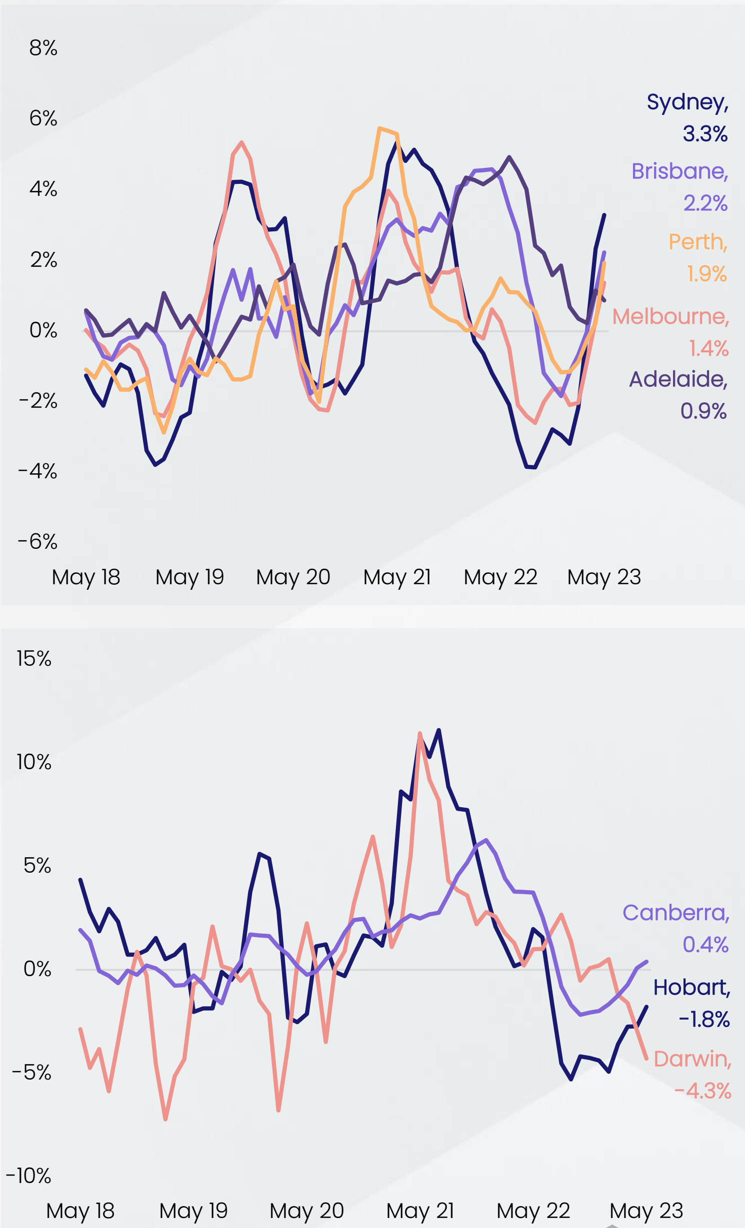


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**Figure 4 – Rolling annual rental growth rate – capital city units**

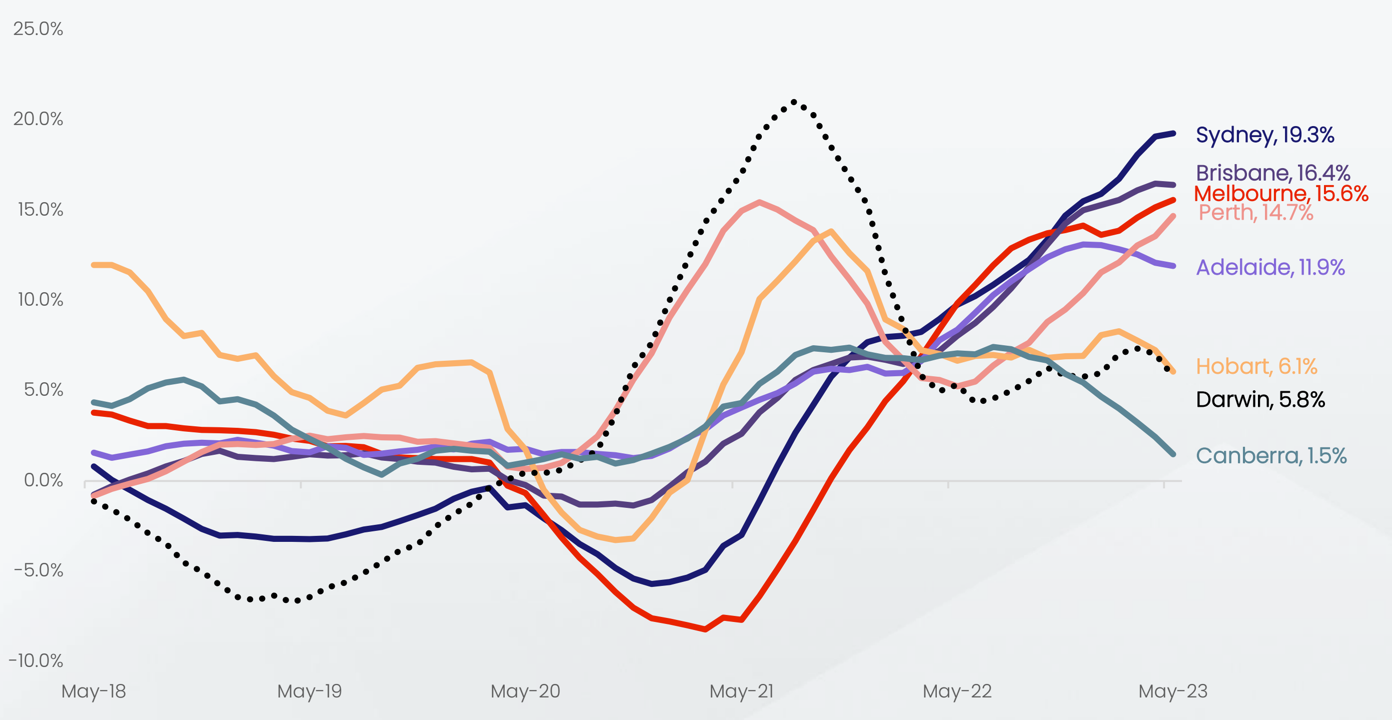



**Figure 5 – Unit vacancy rates – National, combined capitals and combined regional**

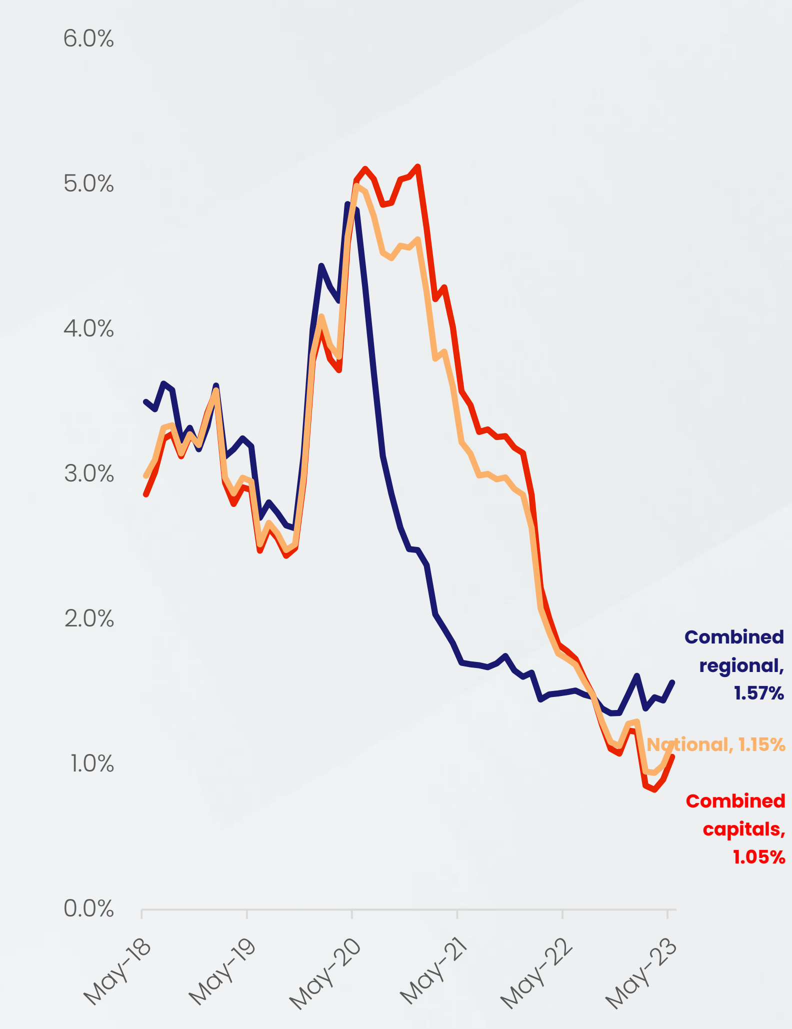
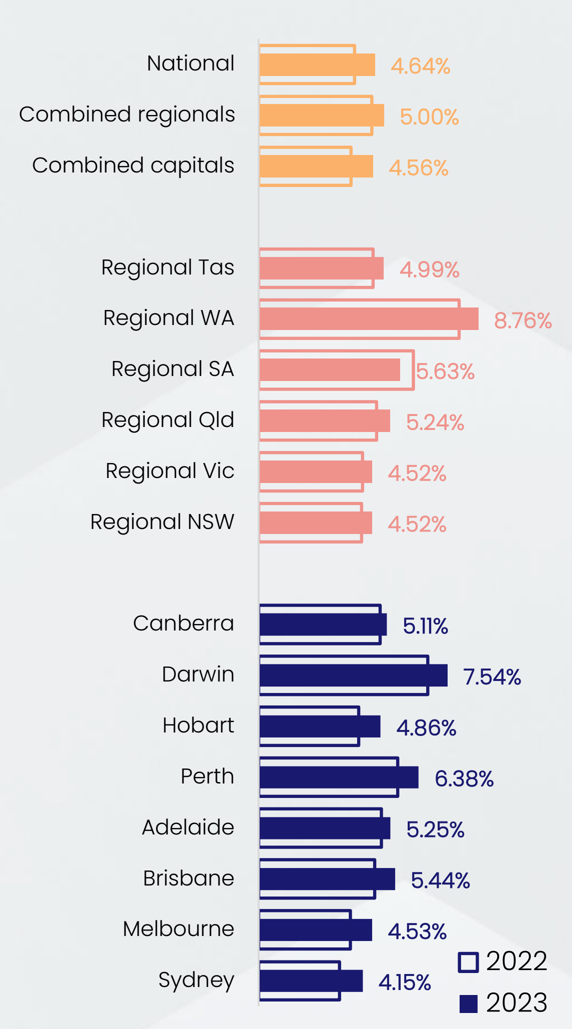



**Figure 6 – Gross rental yields (units) – current vs one year prior**

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## Figure 7 – Unit performance summary table – as at end of May 2023

| | Sydney | Melbourne | Brisbane | Adelaide | Perth | Hobart | Darwin | Canberra | Regional NSW | Regional Vic | Regional Qld | Regional SA | Regional WA | Regional Tas | Combined capitals | Combined regional | National |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Values** | | | | | | | | | | | | | | | | | |
| Median value | **$797,806** | **$596,413** | **$504,487** | **$444,157** | **$418,623** | **$518,570** | **$365,397** | **$597,370** | **$568,107** | **$414,216** | **$559,923** | **$276,415** | **$286,179** | **$396,686** | **$622,929** | **$512,986** | **$601,102** |
| Monthly | 1.1% | 0.9% | 1.1% | -0.2% | 1.7% | 0.6% | -2.0% | -0.1% | 0.0% | 0.6% | 1.2% | 0.7% | 2.0% | -0.8% | 1.0% | 0.7% | 0.9% |
| Quarterly | 3.3% | 1.4% | 2.2% | 0.9% | 1.9% | -1.8% | -4.3% | 0.4% | 0.7% | -0.2% | 2.2% | 1.7% | 2.9% | 0.1% | 2.3% | 1.4% | 2.2% |
| Annual | -5.5% | -4.7% | 1.4% | 7.0% | 1.0% | -13.5% | -2.8% | -3.7% | -5.1% | -3.8% | -2.5% | 5.2% | 9.6% | -8.5% | -4.1% | -3.4% | -4.0% |
| Total return | -2.0% | -0.9% | 6.7% | 12.4% | 7.0% | -9.5% | 4.2% | 1.0% | -0.9% | 0.7% | 2.8% | 17.8% | 18.5% | -4.0% | -0.1% | 1.5% | 0.2% |
| **Rents** | | | | | | | | | | | | | | | | | |
| Median rents | **$677** | **$524** | **$539** | **$451** | **$525** | **$490** | **$505** | **$584** | **$494** | **$366** | **$589** | **$299** | **$495** | **$375** | **$569** | **$497** | **$558** |
| Monthly | 1.5% | 1.6% | 1.2% | 0.9% | 1.7% | -0.4% | 0.3% | -0.4% | 0.5% | 0.5% | 0.7% | -0.5% | 0.9% | 0.8% | 1.4% | 0.6% | 1.3% |
| Quarterly | 5.7% | 5.2% | 3.8% | 3.1% | 5.2% | 1.1% | -0.3% | -0.1% | 1.2% | 1.9% | 2.1% | 2.2% | 1.9% | 1.1% | 5.0% | 1.8% | 4.4% |
| Annual | 19.3% | 15.6% | 16.4% | 11.9% | 14.7% | 6.1% | 5.8% | 1.5% | 4.6% | 5.2% | 10.3% | 5.0% | 15.5% | 3.6% | 16.5% | 8.0% | 14.8% |
| Gross yield | 4.15% | 4.53% | 5.44% | 5.25% | 6.38% | 4.86% | 7.54% | 5.11% | 4.52% | 4.52% | 5.24% | 5.63% | 8.76% | 4.99% | 4.56% | 5.00% | 4.64% |
| Vacancy rates | 1.36% | 0.77% | 0.85% | 0.34% | 0.83% | 2.69% | 1.23% | 2.21% | 1.72% | 1.14% | 1.53% | 1.00% | 1.90% | 2.05% | 1.05% | 1.57% | 1.15% |

## CoreLogic is the largest independent provider of property information, analytics and property-related risk management services in Australia and New Zealand.

### 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 into its various formational and locational attributes, observed sales values for each property can be distinguished between those attributed to the property's attributes and those resulting from changes in the underlying residential property market. Additionally, 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 entire residential property stock can be accurately tracked through time. The detailed methodological information can be found at:

https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/

CoreLogic is able to produce a consistently accurate and robust Hedonic Index due to its extensive property related database, 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.

* The median value is the middle estimated value of all residential properties derived through the hedonic regression methodology that underlies the CoreLogic Hedonic Home Value Index.

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