Home price rebound gathers pace with widespread gains; Prices up 2% across the capital cities this year, led by Sydney and Perth

Key findings:

- National home prices increased in May, rising 0.33% as the rebound gathered pace. This brings prices up 1.55% from the low point recorded in December 2022.
- Home prices in the combined capital cities have risen 1.34% in the past three months, the strongest quarterly growth since the December quarter of 2021.
- Price rises accelerated and broadened in May, with every capital city except Darwin recording increases. Canberra and Hobart joined the rebound as their recent falls reversed. All regional markets saw prices rise in May except regional NSW and regional Victoria.
- Canberra and Perth recorded the largest increases in May. Sydney, the market which led the downturn, has also led the recovery, with prices up 3.03% from their November 2022 low and now down less than 2% from levels seen in the same period last year.
- Home price growth has been stronger in the capital cities than regional areas this year. This trend continued in May, with regional areas lifting a small 0.03% and capital city prices lifting 0.45%. However, regional markets have outperformed on an annual basis.

The decision by the Reserve Bank to lift the cash rate in May has not deterred the current home price rebound. The rise in prices seen so far this year gathered pace in May, broadening and accelerating across markets.

Supply constraints have eased slightly with respect to total stock for sale, but the flow of new listings remains soft. This is keeping a floor under prices, with sellers benefitting from less competition with other vendors.

Market conditions have improved following five consecutive months of price growth, driven by stronger housing demand relative to stock on market. Auction activity has improved and clearance rates remain firm after rising above levels seen in the second half of 2022. This was a period when interest rates were rising rapidly and prices were falling in most markets.

Although they are at or close to peak levels, interest rates may still rise further and the economy is also expected to slow. These factors may weigh on home prices in the months ahead. However, the continued tightness in the labour market, stronger housing demand and the limited supply environment are likely to support an ongoing recovery.

<table>
<thead>
<tr>
<th>PropTrack Home Price Index May 2023</th>
<th>Monthly growth</th>
<th>Annual growth</th>
<th>Change from peak</th>
<th>Change since March 2020</th>
<th>Median value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>0.58%</td>
<td>-1.96%</td>
<td>-4.38%</td>
<td>25.4%</td>
<td>$1,019,000</td>
</tr>
<tr>
<td>Melbourne</td>
<td>0.22%</td>
<td>-4.32%</td>
<td>-5.58%</td>
<td>14.9%</td>
<td>$797,000</td>
</tr>
<tr>
<td>Brisbane</td>
<td>0.33%</td>
<td>-1.30%</td>
<td>-1.50%</td>
<td>45.1%</td>
<td>$725,000</td>
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<tr>
<td>Adelaide</td>
<td>0.58%</td>
<td>5.60%</td>
<td>At peak</td>
<td>33.1%</td>
<td>$571,000</td>
</tr>
<tr>
<td>Perth</td>
<td>0.64%</td>
<td>4.21%</td>
<td>At peak</td>
<td>39.2%</td>
<td>$663,000</td>
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<tr>
<td>Hobart</td>
<td>0.07%</td>
<td>-5.70%</td>
<td>-9.94%</td>
<td>26.2%</td>
<td>$497,000</td>
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<tr>
<td>Darwin</td>
<td>-0.01%</td>
<td>-0.93%</td>
<td>-5.64%</td>
<td>35.6%</td>
<td>$836,000</td>
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<tr>
<td>ACT</td>
<td>0.65%</td>
<td>-4.63%</td>
<td>-3.16%</td>
<td>26.0%</td>
<td>$796,000</td>
</tr>
<tr>
<td>Capital Cities</td>
<td>0.45%</td>
<td>-1.94%</td>
<td>-3.16%</td>
<td>26.0%</td>
<td>$796,000</td>
</tr>
<tr>
<td>Rest of NSW</td>
<td>-0.08%</td>
<td>-2.95%</td>
<td>-3.24%</td>
<td>46.7%</td>
<td>$706,000</td>
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<tr>
<td>Rest of Vic.</td>
<td>-0.20%</td>
<td>-3.32%</td>
<td>-3.58%</td>
<td>40.9%</td>
<td>$599,000</td>
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<td>Rest of Qld</td>
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<td>Rest of SA</td>
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<td>10.55%</td>
<td>At peak</td>
<td>49.0%</td>
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<tr>
<td>Rest of WA</td>
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<td>6.58%</td>
<td>At peak</td>
<td>40.8%</td>
<td>$461,000</td>
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<tr>
<td>Rest of Tas.</td>
<td>0.27%</td>
<td>-0.29%</td>
<td>-0.73%</td>
<td>52.9%</td>
<td>$499,000</td>
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<tr>
<td>Rest of NT</td>
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<td>At peak</td>
<td>17.3%</td>
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<tr>
<td>Regional Areas</td>
<td>0.03%</td>
<td>-1.26%</td>
<td>-1.55%</td>
<td>46.8%</td>
<td>$617,000</td>
</tr>
<tr>
<td>National</td>
<td>0.33%</td>
<td>-1.74%</td>
<td>-2.56%</td>
<td>31.4%</td>
<td>$741,000</td>
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</tbody>
</table>
**Sydney**
Sydney home prices are up 2.94% this year. Prices rose for the sixth consecutive month in May – up a further 0.58% – and are now up 3.03% from their low in November 2022. Sydney led the recent downturn and saw the largest correction, with home prices falling 7.19% from their February 2022 peak to the November 2022 low. Positive demand drivers stemming from the shortages in rental supply and strong rebound in net overseas migration have buoyed housing demand. The sustained softness in new listing volumes is also keeping a floor under prices.

**Brisbane**
Home prices in Brisbane have risen for five consecutive months after increasing 0.33% in May. Strong housing demand and constrained supply are offsetting the substantial deterioration in affordability from rising interest rates. As the rebound has gathered pace, home prices in Brisbane are now up 1.99% this year and down only 1.50% from their peak in April 2022.

**Perth**
Perth home prices bucked the falling price trend seen nationally for much of last year and have continued to climb this year. So far in 2023, prices are up 3.07%, making Perth the strongest performing capital city market year-to-date. Prices rose 0.64% in May to reach a new peak. After Darwin, Perth is the cheapest capital city market in terms of dwelling values. The relative affordability of the city’s homes and tight supply has supported prices.

**Melbourne**
Home prices in Melbourne rose 0.22% in May, which was the city’s fastest monthly growth since February 2022. Home prices in Melbourne are now up 0.38% from their low point in January 2023 after four consecutive months of gains. With the end of interest rate tightening in sight, much of the uncertainty buyers have experienced with respect to borrowing capacities and mortgage servicing costs is subsiding. Given the rebound in migration and tight rental markets, prices have been resilient to the reduction in borrowing capacities.

**Adelaide**
Adelaide saw home prices rise to a new peak in May, up 0.58% compared to April and 2.64% year-to-date. Adelaide maintains its top spot as the strongest performing capital city market over the past year, with home prices up 5.60%. The comparative affordability of the city’s homes has seen prices holding up better as interest rates have quickly risen. Low stock levels are also helping to insulate home values, intensifying competition.

**Hobart**
After several years of outperformance, Hobart recorded 13 consecutive months of price falls continuing into 2023. Housing market conditions have improved this year, with rising auction clearance rates and stronger housing demand relative to stock on market. Hobart has now joined the national price rebound, lifting 0.07% in May.

**ACT**
Home prices in Canberra rose 0.65% in May, the fastest monthly growth of all markets and its fastest pace of growth since March 2022. With stronger market conditions, home prices in Canberra have risen for three consecutive months and are up 1.00% from their low recorded in February 2023.
Methodology
The PropTrack HPI model uses a hybrid methodology that combines repeat sales and hedonic regression. Both of these methodologies are commonly used to measure housing price movements in Australia and overseas. These methodologies are designed to estimate the change in home prices in a way that is not affected by the quality and location of the sample of homes that transact in a given period.

Repeat sales regression matches transactions of identical properties over time. This uses the fact that the change in price of a given property over time should only reflect changes in market prices (assuming no significant alteration or renovation was undertaken between sales). Hedonic regression breaks down the value of homes into observable characteristics (e.g. size, location) to account for differences in characteristics of sold properties over time.

The PropTrack HPI uses a hybrid methodology, which starts with a repeat sales regression, but allows transactions for non-identical, but closely located properties of the same type to be matched together. Sales of properties of the same type (house, unit) in the same ABS Statistical Area Level 1 are matched together. There are over 57,000 spatial SA1 regions across Australia, with a population generally between 200 and 800 people. This increases the number of matches that can be used to estimate home price growth and uses the fact that nearby properties are generally similar. Hedonic regression is used to account for differences in the size of properties that are matched together, using the number of bedrooms in each property.

In this way, the hybrid methodology augments the repeat sales methodology for home price growth to be estimated where there might not be sufficient volume of repeat sales transactions.

The PropTrack HPI estimates home price growth in a robust and flexible manner, which is revised each month, allowing each estimate to best reflect the available data on Australian home prices over time.

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