

# Home Price Index

3 Jan 2023

## Home price declines deepen in December to close out the year, with further falls on the cards for 2023

### Key findings:

- Nationally, home prices declined by 0.21% over December, placing values 2.29% lower compared to 12 months ago.
- At a combined capital city level, prices fell by 0.22% in December, with every capital city bar Darwin and Hobart recording a drop.
- The largest monthly declines were seen in Canberra (-0.43%) and Melbourne (-0.34%). For Adelaide (-0.18%), this was the first monthly price drop seen post-pandemic.
- Regional price declines were more subdued, down 0.17% nationally. Regional Queensland (-0.33%) saw the largest drop, while regional Western Australia, Northern Territory, and South Australia defied the national trend to reach new peaks.
- Comparing year-on-year, regional markets have outperformed their capital city counterparts in every state.
- Despite recent falls, prices nationally remain 29% higher than their pre-pandemic levels.

At a national level, property prices have seen nine consecutive months of price declines, now sitting 4.25% below their peak. Performance has been mixed across markets, however the largest falls were recorded in the more expensive capital cities of Sydney, Melbourne, and Canberra, while more affordable markets have displayed greater resilience.

Rising interest rates were the primary driver of price declines in 2022. Interest rates increased for the eighth consecutive month in December, placing further strain on borrowers. The borrowing power of the average buyer has been slashed by around 25% due to the cumulative impact of these rate rises.

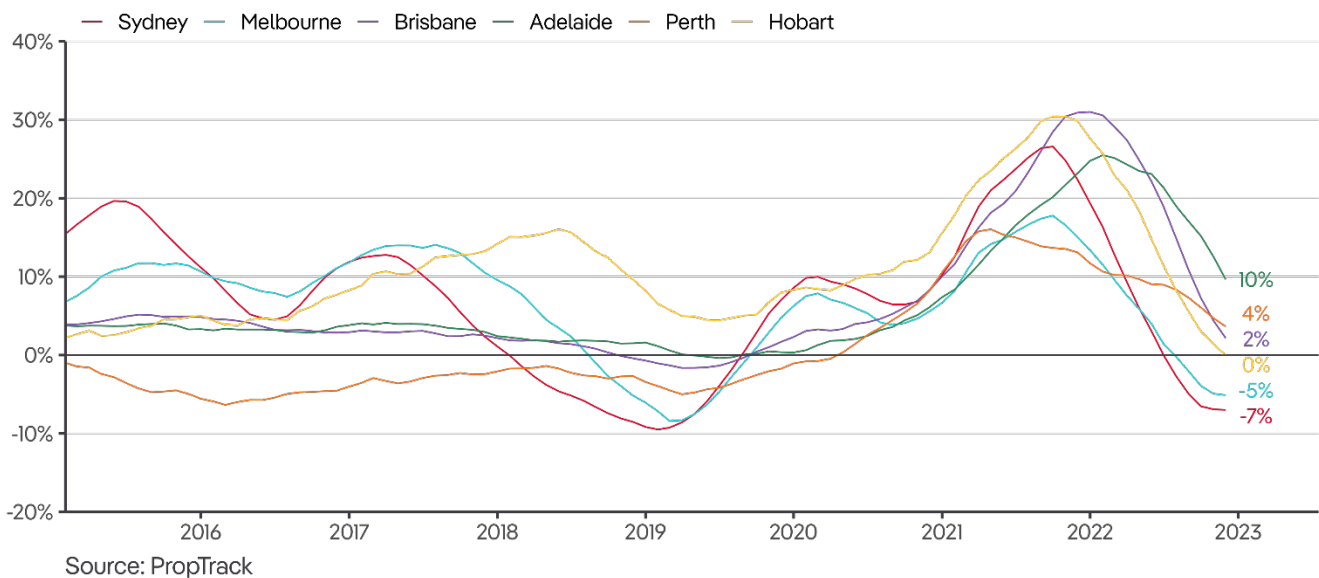
While interest rates are likely to be approaching their peak, the Reserve Bank has signalled the potential for more increases in 2023. Higher interest rates would further erode borrowing capacities and drive prices lower.

### PropTrack Home Price Index December 2022

All dwellings	Monthly growth	Annual growth	Change from peak	Change since March 2020	Median value
Sydney	-0.19%	-6.99%	-7.23%	21.4%	\$989,000
Melbourne	-0.34%	-5.16%	-5.96%	14.0%	\$802,000
Brisbane	-0.18%	2.18%	-3.20%	43.1%	\$716,000
Adelaide	-0.18%	9.63%	-0.21%	42.9%	\$646,000
Perth	-0.05%	3.61%	-0.23%	27.3%	\$560,000
Hobart	0.11%	-0.04%	-2.47%	44.4%	\$701,000
Darwin	0.32%	1.38%	-0.22%	27.7%	\$499,000
ACT	-0.43%	-2.60%	-5.05%	36.4%	\$847,000
<b>Capital Cities</b>	<b>-0.22%</b>	<b>-3.99%</b>	<b>-5.18%</b>	<b>23.2%</b>	<b>\$788,000</b>
Rest of NSW	-0.14%	1.15%	-2.90%	47.3%	\$715,000
Rest of Vic.	-0.13%	-0.02%	-3.02%	41.2%	\$595,000
Rest of Qld	-0.33%	3.86%	-2.42%	47.2%	\$612,000
Rest of SA	0.12%	14.24%	At peak	41.8%	\$374,000
Rest of WA	0.33%	5.18%	At peak	33.5%	\$444,000
Rest of Tas.	-0.11%	4.75%	-0.68%	52.9%	\$492,000
Rest of NT	0.20%	6.08%	At peak	17.6%	\$450,000
<b>Regional Areas</b>	<b>-0.17%</b>	<b>2.08%</b>	<b>-2.37%</b>	<b>45.6%</b>	<b>\$619,000</b>
<b>National</b>	<b>-0.21%</b>	<b>-2.29%</b>	<b>-4.25%</b>	<b>29.0%</b>	<b>\$739,000</b>

# Annual change in home prices

By capital city, all dwellings



## Sydney

Sydney home prices fell 0.19% in December and are now down 6.99% from 12 months ago. Prices have fallen persistently since March this year, with Sydney seeing the greatest falls of any market. As the most expensive capital city in Australia, the average loan size is highest in Sydney. As a result, the relative impact of interest rate rises has been more substantial. However, the magnitude of price declines has slowed in recent months compared to the price falls seen mid-year.

## Brisbane

Brisbane home prices fell by 0.18% in December, however, remain 2.18% higher compared to 12 months ago and a whopping 43.1% above pre-pandemic levels. This places Brisbane as the second strongest performing capital city (behind Hobart) post-COVID, with demand for real estate supported by high levels of interstate migration.

## Perth

Perth home prices have proved relatively resilient over 2022, having fallen just 0.23% from their peak. Over December, home prices declined by 0.05% in Perth, but remain 3.61% higher compared to 12 months ago, and 27.3% higher compared to pre-COVID.

## Darwin

Darwin was one of just two capital cities that saw home prices rise in December, up 0.32%. Despite the rise, prices remain 0.22% below their June peak, though are still up year-on-year.

## Melbourne

Melbourne home prices declined by 0.34% in December. This was among the smallest monthly declines recorded since prices started falling in April, however, reflected the second largest drop seen in any capital city over December. Prices are now 5.16% lower compared to 12 months ago, however, remain 14% higher compared to pre-pandemic levels.

## Adelaide

Adelaide has maintained position as the strongest performing capital city over the past 12 months, with home prices up 9.63% annually. Having largely bucked the trend of price declines seen in the other capital cities, Adelaide recorded its first price drop in December, falling 0.18%. Supporting resilience in Adelaide has been its comparative affordability, which has reduced the relative impact of rising interest rates in comparison to more expensive markets.

## Hobart

Hobart has been the strongest performing capital city post-COVID, with prices up a staggering 44.4%. Despite seeing a price rise of 0.11% over December, the city has not been immune to the impacts of rising interest rates and prices have fallen 2.47% from their peak in April.

## ACT

Home prices in Canberra saw the largest monthly drop of any capital city, down 0.43%. Prices are now down 2.6% year-on-year and 5.05% below their March peak.

## 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 SAI 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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### Author:

Anne Flaherty  
Economist, PropTrack

### Media enquiries:

Alex Quitt  
Media Relations Specialist  
0466 961 795  
[alex.quitt@rea-group.com](mailto:alex.quitt@rea-group.com)

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