

# National Media Release

## National dwelling values fall 0.3% in December, setting the scene for softer housing conditions in 2018

According to the CoreLogic December Hedonic Home Value Index results, national dwelling values slipped lower over the month, led by falls across Sydney, Darwin, Melbourne and Perth

The transition towards weaker housing market conditions has been clear but gradual and is likely to continue throughout 2018 according to CoreLogic head of research Tim Lawless.

Commenting on the results, Mr Lawless said, "From a macro perspective, late 2016 marked a peak in the pace of capital gains across Australia with national dwelling values rising at the rolling quarterly pace of 3.7% over the three months to November."

"In 2017 we saw growth rates and transactional activity gradually lose steam, with national month-on-month capital gains slowing to 0% in October and November before turning negative in December."

According to CoreLogic, the 0.3% fall in December was the catalyst for dragging the quarterly capital gains result into negative territory for the first time since the three months ending April 2016. Nationally, dwelling values were 4.2% higher over the 2017 calendar year which is a slower pace of growth relative to 2016 when national dwelling values rose 5.8% and in 2015 when values nationally were 9.2% higher.

Across Australia, Mr Lawless confirmed that the shift to falling national dwelling values is being driven by the capital cities, with the combined capitals tracking half a percent lower over the December quarter, while across the combined regional areas of Australia, values were half a percent higher over the quarter.

**Amongst the capitals, the weakest conditions are concentrated in Sydney and Darwin.**

Mr Lawless said, "Sydney's housing market has become the most significant drag on the headline growth figures."

**Sydney** dwelling values were down 0.9% over the month to be 2.1% lower over the December quarter and 2.2% lower relative to their August 2017 peak. The city's annual rate of growth is now tracking at just 3.1%; a stark difference to the recent cyclical peak when values were rising at the annual rate of 17.1% only seven months ago. Despite the reversal in growth rates since August 2017, Sydney dwelling values remain 70.8% higher than their cyclical low point in February 2012.

For **Darwin**, Mr Lawless believes the housing downturn is entrenched, with values trending lower since May 2014. The calendar year saw Darwin values down 6.5%. Since the 2014 peak, Darwin housing values have fallen by a cumulative 21.5%. While conditions for capital gains have been exceptionally weak across Darwin, rental prices are down by only 1.5% over the year. The substantial fall in values relative to rents has pushed Darwin rental yields to their highest level since July 2015 (5.9%) and Darwin rental yields are the highest of any capital city.

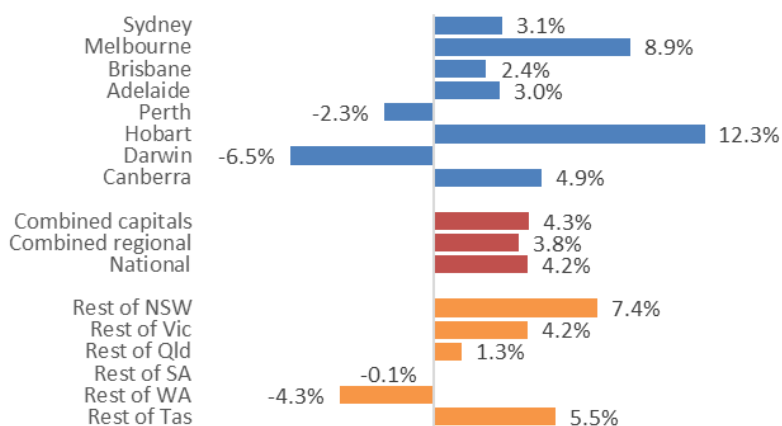
### Index results as at December 31, 2017

	Change in dwelling values			Total return	Median value
	Month	Quarter	Annual		
Sydney	-0.9%	-2.1%	3.1%	6.3%	\$895,342
Melbourne	-0.2%	0.9%	8.9%	12.1%	\$720,417
Brisbane	0.0%	0.3%	2.4%	6.5%	\$491,391
Adelaide	0.2%	0.3%	3.0%	7.4%	\$432,772
Perth	-0.1%	0.1%	-2.3%	1.6%	\$463,886
Hobart	1.5%	3.1%	12.3%	17.8%	\$403,800
Darwin	-0.9%	-2.9%	-6.5%	-1.3%	\$424,901
Canberra	0.2%	1.0%	4.9%	9.6%	\$591,011
Combined capitals	-0.4%	-0.5%	4.3%	7.8%	\$656,161
Combined regional	0.2%	0.5%	3.8%	9.2%	\$355,994
National	-0.3%	-0.3%	4.2%	8.1%	\$548,817

### Highlights over the three months to December 2017

- ▶ Best performing capital city: **Hobart +3.1%**
- ▶ Weakest performing capital city: **Darwin -2.9%**
- ▶ Highest rental yield: **Darwin 5.9%**
- ▶ Lowest rental yields: **Melbourne 2.9%**

### Annual change in dwelling values



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**Melbourne**, also posted a negative month-on-month change with dwelling values slipping 0.2% lower in December; the first monthly fall recorded since February 2016. Mr Lawless said, “The city’s housing market has been far more resilient to negative growth compared with Sydney due to factors such as stronger population growth, lower affordability hurdles and a higher rate of jobs growth, however the growth trend has been clearly moderating since late 2016 and Melbourne’s annual rate of capital gain, at 8.9%, has fallen below double digits for the first time in eleven months.”

For **Brisbane** the housing market continued along a steady growth trajectory with dwelling values unchanged in December and only 0.3% higher over the December quarter. Annual capital gains are only slightly higher than inflation, tracking at 2.4% over the calendar year. The performance gap between houses and units is stark across Brisbane, with house values up 3.1% over the year while unit values have slipped 1.2% lower. The decline in unit values can be attributed to concerns around over supply in key sectors of the Brisbane market.

Conditions across the **Adelaide** housing market remained stable with dwelling values continuing to edge higher, up 0.2% month-on-month and 0.3% over the final quarter of 2017 to be 3.0% higher over the year.

In **Perth**, the housing market remained soft, however, Mr Lawless noted that the rate of decline continued to improve with the annual fall at -2.3%; the smallest year-on-year drop since May 2015. The improving conditions are most visible across Perth’s unit sector, where values are up 0.4% over the December quarter and supply issues are generally healthier relative to Perth’s detached housing market.

The best performing capital city over the 2017 calendar year was **Hobart**, where dwelling values rose by 12.3%: almost five times higher than Hobart’s decade average annual rate of capital gain (2.5%). Despite the strong capital gains, housing prices remain extremely low in Hobart relative to the larger mainland capital cities, with the median house value tracking at

\$424,251; 54% (\$634,000) lower than Sydney values and 49% (\$408,000) lower than Melbourne.

**Canberra** dwelling values edged 0.2% higher in December to be up 1.0% over the final quarter of the year and 4.9% higher throughout 2017. Houses are rising at more than double the rate of unit values, with house values up 5.8% over the year while unit values are only just beating inflation at 2.1%.

## e SA4 region (+11.7%) of New Rental Market Activity:

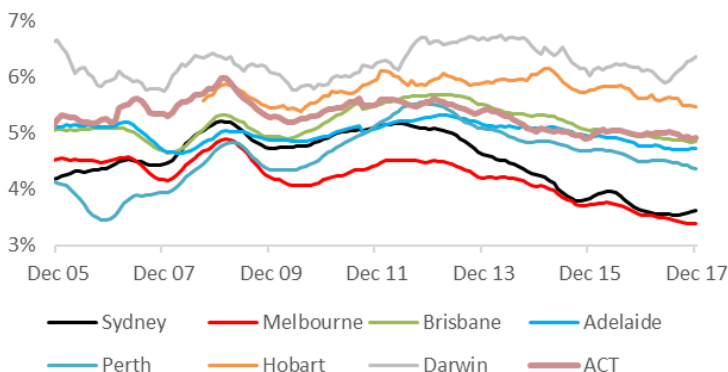
While the pace of capital gains is slowing, and in some cases turning negative, rents are gradually rising. According to Mr Lawless, evidence is mounting to suggest that rental yields may have bottomed out and are now on the rise. Nationally yields have edged slightly higher, but in Sydney, where yields reached a record low of 3.04% in July 2017, they are now at a twelve month high of 3.12%, but still well below the decade average of 4.10%.

With a subtle fall in dwelling values across Melbourne last month, gross rental yields have stabilised around their record lows of 2.89%; the lowest of any capital city. Mr Lawless said, “If housing market conditions continue to soften across Melbourne, particularly as rents rise at around 4.3% per annum, we could start to see yields firming.”

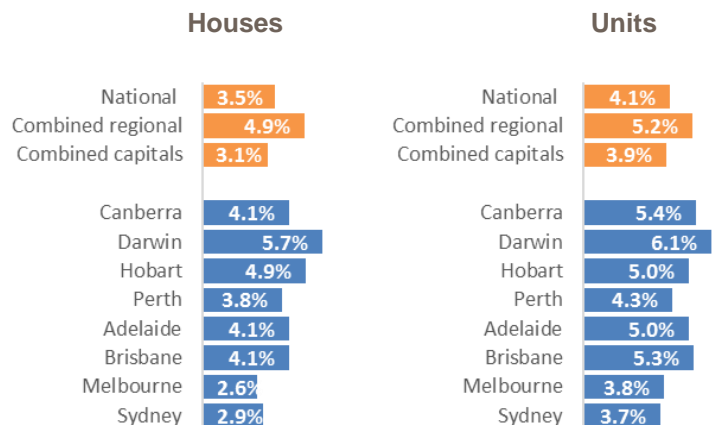
**Across the regional markets of Australia conditions remain diverse. Dwelling values continued to trend lower in 2017 across regional Western Australia (-4.3%) while values were steady across regional South Australia (-0.1%) and up across the remaining ‘rest of state’ areas.** Regional New South Wales stands out as offering up the best capital gains, with dwelling values up 7.4% over the calendar year while values across regional Victoria were 4.2% higher.

The Newcastle and Lake MacquariSouth Wales has seen the strongest capital gains of any regional market, followed by Southern Highlands and Shoalhaven (+10.3%) and Geelong (9.7%).

Gross rental yields, dwellings



Gross rental yields



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The weakest regional markets continue to be in Australia's outback regions and areas dependent on the mining sector. The largest fall in dwelling values over 2017 was recorded in Outback Queensland, a region which encompasses a vast but sparsely populated area of western Queensland, where dwelling values were down 14.3% in 2017. Rounding out the top five for largest value falls across the regional areas of Australia were Darling Downs–Maranoa in Queensland (-8.2%), Outback South and Outback North in Western Australia (-7.6% and -7.3%) and Townsville in Queensland (-5.6%).

Mr Lawless said, "In 2018, the housing market performance is likely to be significantly different relative to previous years. We're likely to see lower to negative growth rates across previously strong markets, more cautious buyers, and ongoing regulator vigilance of credit standards and investor activity."

"Previous downturns have seen the annual number of sales fall by around 20-25% from peak to trough; considering the cyclical peak in transactional activity occurred over the twelve months ending August 2015, year on year transactional activity is already 13.2% lower than the most recent peak."

Mr Lawless attributes tighter credit policies as the primary driver for a softer phase in the housing market cycle over the coming year. He said, "The trajectory of the housing market through 2017 has been similar to conditions in 2015/16 when the first round of macro prudential measures announced by APRA impacted the availability of credit for investment purposes. Capital city dwelling values fell by 1.6% between late 2015 and early 2016; with falls more substantial in Sydney where investment activity has been more concentrated. Growth rates rebounded in mid-2016 as lenders comprehensively achieved their APRA credit limits and interest rates were slashed by 50 basis points."

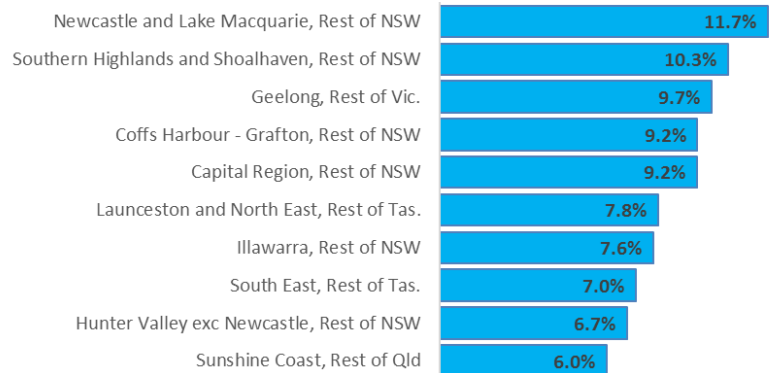
According to Mr Lawless, we're not likely to see a similar lifeline thrown to the housing market this time around via lower interest rates or loosening credit conditions. "Regulators are likely to be keeping a close eye on credit trends with particular focus on investment credit and interest only lending, and the next move in interest rates is more likely to be up not down."

"Although credit policies are likely to remain tight, we expect mortgage rates to remain low in 2018, providing a positive lending environment for those who are able to secure credit," Mr Lawless said.

In conclusion, Mr Lawless summarises key points that will underpin a slower but still relatively active housing market:

- **Regulators and policy makers** are likely to encourage households who hold high levels of debt to reduce their exposure while interest rates remain low. Household debt

## Top ten regional markets (SA4 regions) for capital gain, 12 months to December 2017



levels are at record highs, a factor which has been called out by the Reserve Bank repeatedly, as well as international institutions such as the OECD, BIS and IMF. With interest rates remaining low, the opportunity for households to pay down debt could come at the expense of broader spending on retail and discretionary items.

- **Prospective borrowers, particularly investors, may find securing a mortgage won't get any easier in 2018**, with APRA restrictions on both investment related credit growth and interest only loan settlements likely to remain in place. Lenders are likely to remain cautious around lending in higher risk areas such as inner city apartment markets where current and pending supply pipelines are substantial.
- **Labour markets have tightened**, with a renewed trend towards more full-time jobs rather than part-time. Jobs growth is becoming broader based, ramping up in the previously weak states of Queensland, Western Australia and South Australia. A firmer labour market will help to support consumer confidence and mortgage serviceability and potentially place some upwards pressure on the near record low level of wages growth. Strong labour markets and low rates of unemployment will support a continued trend of low mortgage arrears despite softer housing market conditions.
- **Migration rates have been trending higher** which is likely to continue into 2018, providing a driver for housing demand. Overseas migration into Victoria and New South Wales reached record highs in 2018 and interstate migration has been on a clear upwards trajectory across Victoria, Queensland, Tasmania and the ACT.

CoreLogic Australia is expecting softer housing market conditions through 2018, driven by a continuation of the slowdown that is clearly evident across Sydney and to a lesser extent, Melbourne.

Mr Lawless said, "While the headline figures are set to weaken, below the surface the individual cities and regions of Australia will continue to operate under their own distinct cycles which are subject to more localised forces of demand and supply."

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## CoreLogic Home Value Index tables

	Capitals								Aggregate indices			
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Combined capitals	Combined regional	National	
<b>Dwellings</b>	Month	-0.9%	-0.2%	0.0%	0.2%	-0.1%	1.5%	-0.9%	0.2%	-0.4%	0.2%	-0.3%
	Quarter	-2.1%	0.9%	0.3%	0.3%	0.1%	3.1%	-2.9%	1.0%	-0.5%	0.5%	-0.3%
	YTD	3.1%	8.9%	2.4%	3.0%	-2.3%	12.3%	-6.5%	4.9%	4.3%	3.8%	4.2%
	Annual	3.1%	8.9%	2.4%	3.0%	-2.3%	12.3%	-6.5%	4.9%	4.3%	3.8%	4.2%
	Total return	6.3%	12.1%	6.5%	7.4%	1.6%	17.8%	-1.3%	9.6%	7.8%	9.2%	8.1%
	Yield	3.1%	2.9%	4.3%	4.2%	3.9%	5.0%	5.9%	4.4%	3.3%	4.9%	3.6%
Median value	\$895,342	\$720,417	\$491,391	\$432,772	\$463,886	\$403,800	\$424,901	\$591,011	\$656,161	\$355,994	\$548,817	
<b>Houses</b>	Month	-1.1%	-0.4%	0.1%	0.3%	-0.1%	1.5%	-0.5%	0.4%	-0.5%	0.4%	-0.3%
	Quarter	-2.9%	0.6%	0.5%	0.3%	0.1%	3.0%	-2.4%	1.5%	-0.8%	0.6%	-0.5%
	YTD	2.1%	9.1%	3.1%	3.3%	-2.6%	12.9%	-5.3%	5.8%	4.0%	3.9%	4.0%
	Annual	2.1%	9.1%	3.1%	3.3%	-2.6%	12.9%	-5.3%	5.8%	4.0%	3.9%	4.0%
	Total return	5.0%	11.9%	7.2%	7.6%	1.3%	18.4%	-0.2%	10.2%	7.3%	9.3%	7.7%
	Yield	2.9%	2.6%	4.1%	4.1%	3.8%	4.9%	5.7%	4.1%	3.1%	4.9%	3.5%
Median value	\$1,058,306	\$832,735	\$531,248	\$458,806	\$484,562	\$424,251	\$469,083	\$669,642	\$693,736	\$361,236	\$562,294	
<b>Units</b>	Month	-0.6%	0.4%	-0.4%	-0.2%	-0.1%	1.4%	-1.7%	-0.3%	-0.2%	-0.5%	-0.3%
	Quarter	-0.4%	1.8%	-0.6%	0.2%	0.4%	3.4%	-4.0%	-0.6%	0.3%	-0.1%	0.3%
	YTD	5.4%	8.4%	-1.2%	0.5%	-0.9%	9.1%	-8.8%	2.1%	5.1%	3.6%	4.9%
	Annual	5.4%	8.4%	-1.2%	0.5%	-0.9%	9.1%	-8.8%	2.1%	5.1%	3.6%	4.9%
	Total return	9.3%	12.6%	3.7%	5.5%	3.1%	14.8%	-3.5%	7.5%	9.3%	9.0%	9.2%
	Yield	3.7%	3.8%	5.3%	5.0%	4.3%	5.0%	6.1%	5.4%	3.9%	5.2%	4.1%
Median value	\$774,124	\$574,052	\$383,752	\$331,325	\$408,488	\$335,289	\$356,992	\$431,048	\$580,485	\$337,049	\$516,551	

**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.

### Recent upgrade to the CoreLogic Hedonic Home Value Index – September 2017

As a result of the continued expansion of CoreLogic data assets, changing market dynamics and the availability of enhanced infrastructure, CoreLogic has undertaken an extensive exercise to overhaul its Hedonic Home Value Index. This change introduces numerous improvements to the methodology and its implementation to ensure it aligns with leading global best practice as endorsed by the International Monetary Fund and Bank for International Settlements. The full details of changes can be found at <https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/>. This change is part of CoreLogic's continued to endeavour to expand its data assets and identify opportunities to optimise its analytics in order to provide the market the most timely and accurate read on property market conditions. The changes are applied across the history of the series, providing a consistent methodology from the commencement through to the most recent values.

\* 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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