National Media Release

National dwelling values post first annual decline since 2012

The May CoreLogic home value index results out today confirm that national dwelling values dipped by 0.1% over the month, fueled by weaker conditions in Melbourne and Sydney while regional dwelling values continued to tick higher.

Australian dwelling values slipped 0.1% lower in May, taking the annual change (-0.4%) into negative territory for the first time since October 2012. In a sign the housing market downturn is becoming more entrenched, May marked the eighth consecutive month-on-month fall since the national market peaked in September last year, taking the cumulative fall in dwelling values to 1.1% through to the end of May 2018. Similar to the current softening in housing market conditions, the previous downturn, which ran briefly from late 2015 to early 2016, was also driven by tighter credit conditions. It lasted for only five months nationally, with national dwelling values falling by 97 basis points before surging higher again on the back of two 25 basis point cuts to the cash rate which led to a rebound in housing credit growth.

Commenting on the May results, CoreLogic head of research Tim Lawless said, "The negative headline growth rate is a symptom of weakening housing conditions across the capital cities, led by Melbourne and Sydney where previously, capital gains were nation-leading. Sydney and Melbourne comprise approximately 60% of Australia's housing market by value, and 40% by number, so the performance of these two cities has a larger effect on the headline market performance."

Dwelling values continue to rise across the regional markets "The combined regional markets have helped to offset a broader decline, with dwelling values consistently rising, albeit at a much lower pace relative to the growth seen in Sydney and Melbourne over the previous growth phase. Dwelling values outside of the capital cities nudged 0.2% higher over the month to reach a new record high in May."

Melbourne has taken over from Sydney as the weakest performing housing market over the past three months Drilling down across the individual capitals shows Melbourne has taken over from Sydney as the weakest housing market, recording a 0.5% fall in values over the month to be 1.2% lower over the three months ending May. This is the largest decline in Melbourne dwelling values over a three month period since February 2012. Melbourne's housing market was previously looking more resilient to value falls relative to Sydney. Recently however, auction clearance rates have been deteriorating, inventory levels are rising and transaction activity is tracking 12.9% lower than one year ago.

Dwelling values slipped lower over the month across five of Australia's eight capital cities. Apart from Melbourne, dwelling values recorded a month-on-month fall in Sydney (-0.2%), Perth (-0.1%), Darwin (-0.2%) and Canberra (-0.1%), however, Sydney was the only capital city other than Melbourne to record a decline in dwelling values over the past three months, with a 0.9% fall.

Hobart's impressive run of capital gains continued and is showing little signs of slowing down with dwelling values jumping 0.8% over the month to be 3.7% higher over the rolling quarter and 12.7% higher year-on-year.

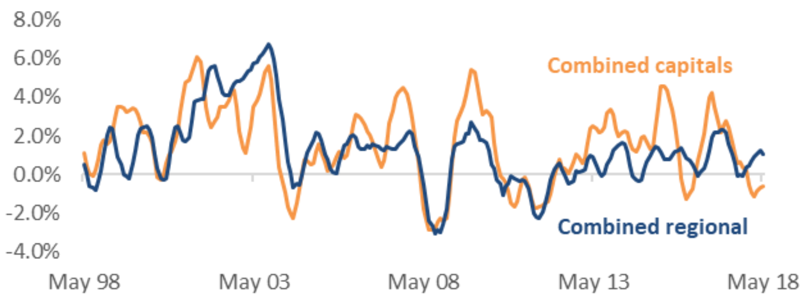
Index results as at May 31, 2018

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.2%	-0.9%	-4.2%	-1.3%	$871,454
Melbourne	-0.5%	-1.2%	2.2%	5.2%	$717,020
Brisbane	0.2%	0.2%	0.9%	5.0%	$494,038
Adelaide	0.5%	0.3%	0.6%	4.9%	$437,234
Perth	-0.1%	0.1%	-1.8%	2.0%	$463,319
Hobart	0.8%	3.7%	12.7%	18.4%	$430,429
Darwin	-0.2%	1.3%	-7.9%	-2.7%	$434,134
Canberra	-0.1%	0.8%	2.3%	6.9%	$592,954
Combined capitals	-0.2%	-0.6%	-1.1%	2.2%	$654,710
Combined regional	0.2%	1.0%	2.2%	7.4%	$365,792
National	-0.1%	-0.3%	-0.4%	3.2%	$555,274

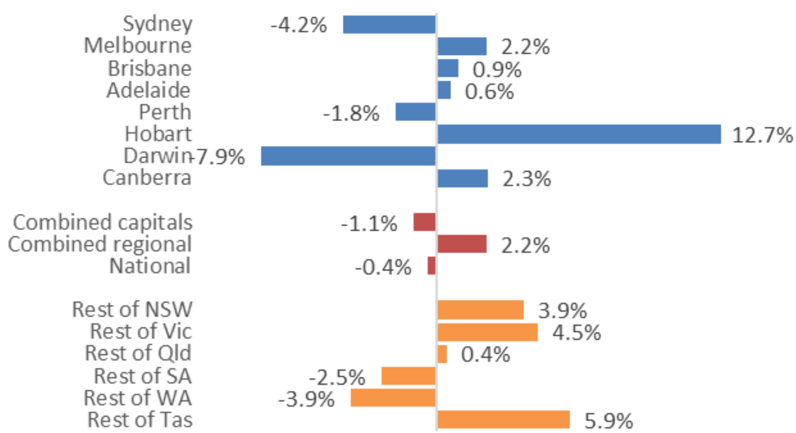
Highlights over the three months to May 2018

- Best performing capital city: **Hobart +3.7%**
- Weakest performing capital city: **Melbourne -1.2%**
- Highest rental yield: **Darwin 5.8%**
- Lowest rental yields: **Melbourne 3.0%**

Rolling quarterly change in dwelling values



Annual change in dwelling values



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Perth and Darwin showing signs of levelling In Perth and Darwin where dwelling values have been trending lower since 2014, both cities recorded a subtle fall in values over the month, however, in a further sign that conditions are levelling out, dwelling values were up over the past three months across both cities. The annual rate of decline across Perth, at -1.2%, was the smallest annual fall in two years.

The more expensive end of the housing market was the primary driver for weaker conditions. Nationally, the only value-based segment of the housing market to record an annual decline has been the most expensive quarter of the market where values were down 1.3% over the past twelve months. Simultaneously, the most affordable quarter of the market saw values rise by 1.0% and the broad middle of the market recorded a 2.3% rise in dwelling values over the year.

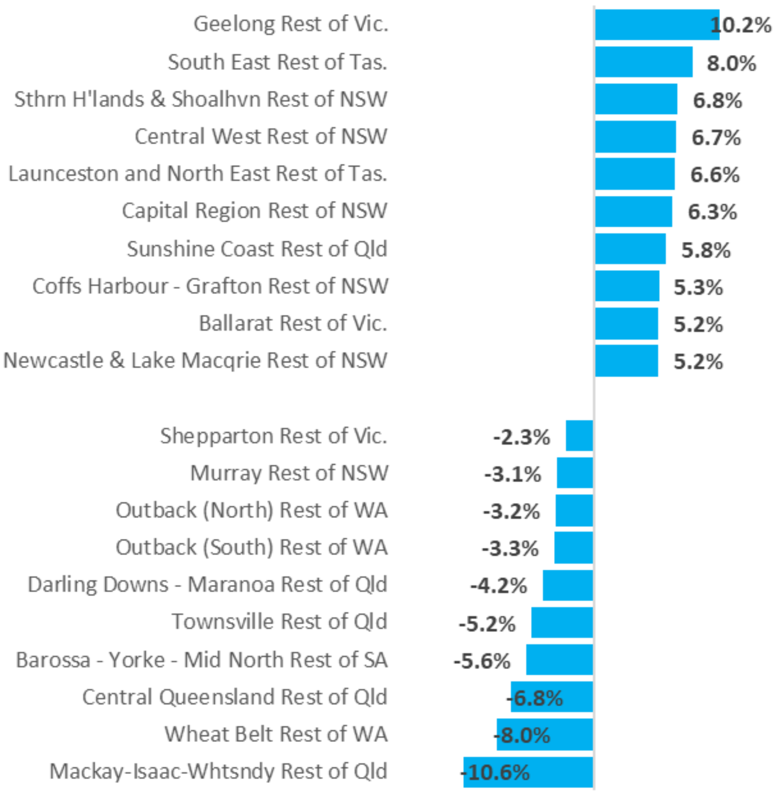
At a national level, the weakness across the most expensive properties is heavily influenced by the Sydney and Melbourne markets where dwelling values are higher than other cities.

In Sydney, the most expensive quarter of the market has seen dwelling values fall by 7.1% since peaking compared with a 1.4% fall across the least expensive quarter of the market and a 3.3% decline across the broad 'middle' of the market. Similarly, in Melbourne, the most expensive quarter of the market is down 3.3% since peaking, while the broader middle market saw dwelling values fall by 0.8%. The most affordable quarter of properties did not decline at all, remaining at record high values. The resilience across the most affordable quarter of the market in Sydney and Melbourne is likely attributable to the higher proportion of first home buyers, which, since the middle of 2017, appear to be propping up demand across the lower price points.

Unit markets have shown some resilience to falling values in Sydney and Melbourne With housing affordability remaining a challenge in the largest cities, Mr Lawless said demand is naturally transitioning to the medium and higher density sector, where the market entry point is typically more affordable and housing stock is often more strategically located along transport spines and close to major working nodes. He said, "This broader demand base has seen unit markets in Sydney and Melbourne outperforming the detached housing sector, despite the significant number of units that have been built over recent years."

"Most other cities, where affordability constraints aren't as pressing, continue to see house values outperform the unit sector," Mr Lawless said.

Top and bottom 10
Annual change in dwelling values, regional SA4 areas



Regional markets are outperforming the capital cities, with CoreLogic indices revealing a wider performance gap forming between the capital city growth trends compared with the regional areas of Australia.

Across the regional markets, Geelong retained its position as the best performing area outside of the capital cities with dwelling values up 10.2% over the past twelve months. Across the top ten performing regional markets is a mix of satellite cities such as Geelong, Ballarat and Newcastle, as well as lifestyle markets such as the Sunshine Coast, Southern Highlands, Shoalhaven and Coffs Harbour. Regional housing trends are also now seeing less drag from the mining regions. Although the weakest performing areas are generally still linked to the mining and resources industry, the declining trend has eased or even levelled across many of these markets.

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While dwelling values are trending lower, weekly rents are rising, albeit at a generally sluggish pace. Nationally, dwelling rents were 0.1% higher over the month and 1.9% higher over the past twelve months. Despite the slow pace of rental growth, most capital city markets are seeing rents rise faster than dwelling values which is placing some upwards pressure on rental yields after a long period of yield compression.

Across the combined capital cities, gross rental yields have consistently improved over the first five months of the year, gradually rising from their record lows of 3.3% recorded over the final quarter of 2017. With a current gross yield of 3.4%, capital city rental yields are now at their highest level since November 2016. Despite the improvement, rental yields have a long way to go before returning to their recent highs in 2009 of 4.6%. Hobart is the exception where rental yields are now being eroded by strong capital gains.

Despite weekly rents surging 11.2% higher over the past twelve months across Hobart, dwelling values are up 12.7%, which has placed further downwards pressure on the yield profile. Despite yields trending lower, Hobart rental yields remain amongst the highest of any capital city.

In summarising the May results, Mr Lawless confirmed that housing market conditions are now following a new trend, where regional markets are outperforming the capitals, affordable housing options are showing stronger conditions than expensive properties and the previously top performing regions are now the amongst the weakest. He noted that the trends are very different from city to city and region to region, with the headline indicators being heavily influenced by changed conditions in Sydney and Melbourne.

Tighter credit polices are the key factor in quelling housing market exuberance. In many ways, Mr Lawless believes the housing market is moving through a carefully managed slowdown. He said, "While previously, housing cycles have generally been influenced by changes in interest rates or economic conditions, the current easing in growth conditions is very much a factor of tighter credit policy.

"The most significant driver of this turnaround has been tighter credit availability, particularly for those borrowing for investment purposes. The concentration of investment activity has been heavily skewed towards Sydney and Melbourne, and it is these cities where market demand has fallen the most. Subsequently both cities have experienced more substantial declines in property values."

First home buyer demand has supported a reduction in investment activity "While the drop in the investor market was partially offset by an upswing in first home buyers, we are already seeing tentative signs that the stimulus of stamp duty concessions in New South Wales and Victoria is starting to wear off. First home buyer activity peaked in November last year."

A rebound in housing conditions is unlikely "With finance restrictions likely to remain tight, despite lifting the 10% growth cap on investment lending next month, the chances of a rebound in housing market conditions over the coming months is unlikely. Investors are still facing a premium on their mortgage rates of approximately 60 basis points; more if they are not paying down the principal."

"Add to that the fact that lenders have intensified scrutiny around a borrower's expenses and are now less willing to originate loans on interest only terms. Additionally, the prudential regulator, APRA, has advised banks to reign in lending on high debt to income ratios, which will more adversely affect the Sydney and Melbourne markets where housing is overall much more expensive than in other parts of the country. Lenders remain focused on keeping high loan to valuation ratio loans at low proportions of total lending, with the latest data indicating only 20.8% of new loans had a deposit of less than 20%," Mr Lawless said.

While credit availability is arguably the major driver of the housing market slowdown, other factors are also at play, particularly in Sydney and Melbourne where the dwelling price to income ratio is 9.3 and 8.0 respectively – substantially higher than other capitals. With dwelling values so high relative to household incomes, and little in the way of income growth, saving for a deposit and funding high transactional costs are likely to be more challenging than servicing a mortgage for many prospective buyers.

Additionally, a high number of units remain under construction, with demand impacted by fewer foreign buyers and less domestic investment in the market.

Although the exuberance has left the housing market and conditions have been dampened, Mr Lawless said it is clear that values are not falling off a cliff.

He said, "Low mortgage rates are likely to persist for some time yet, and we're seeing high migration rates supporting housing demand. Although lower dwelling values will erode household wealth, falling home values will help to ease the affordability burden that has plagued the previously 'hot' markets of Sydney and Melbourne."

"While housing credit growth has slowed, the trends remain positive, especially for owner occupiers where housing credit is up 8%. Although the outlook for housing remains one where headline trends are likely to remain negative, we certainly don't see dwelling values declining significantly."

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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
Dwellings	Month	-0.2%	-0.5%	0.2%	0.5%	-0.1%	0.8%	-0.2%	-0.1%	-0.2%	0.2%	-0.1%
	Quarter	-0.9%	-1.2%	0.2%	0.3%	0.1%	3.7%	1.3%	0.8%	-0.6%	1.0%	-0.3%
	YTD	-2.3%	-1.4%	0.1%	0.1%	-0.4%	5.5%	0.3%	0.4%	-1.4%	1.7%	-0.8%
	Annual	-4.2%	2.2%	0.9%	0.6%	-1.8%	12.7%	-7.9%	2.3%	-1.1%	2.2%	-0.4%
	Total return	-1.3%	5.2%	5.0%	4.9%	2.0%	18.4%	-2.7%	6.9%	2.2%	7.4%	3.2%
	Yield	3.2%	3.0%	4.4%	4.3%	3.9%	5.0%	5.8%	4.6%	3.4%	4.9%	3.7%
	Median value	$871,454	$717,020	$494,038	$437,234	$463,319	$430,429	$434,134	$592,954	$654,710	$365,792	$555,274
Houses	Month	-0.2%	-0.6%	0.1%	0.5%	0.1%	0.9%	-0.1%	0.0%	-0.2%	0.2%	-0.1%
	Quarter	-1.2%	-1.6%	0.2%	0.2%	0.5%	4.0%	3.3%	1.0%	-0.8%	1.0%	-0.4%
	YTD	-2.8%	-1.9%	0.0%	0.0%	0.3%	5.8%	3.2%	0.7%	-1.6%	1.8%	-0.8%
	Annual	-5.9%	1.5%	1.2%	0.8%	-1.5%	13.6%	-6.3%	3.1%	-1.7%	2.3%	-0.8%
	Total return	-3.2%	4.2%	5.0%	4.9%	2.4%	19.3%	-1.1%	7.5%	1.3%	7.4%	2.5%
	Yield	3.0%	2.7%	4.2%	4.1%	3.8%	4.9%	5.4%	4.3%	3.2%	4.8%	3.5%
	Median value	$1,019,093	$821,006	$536,286	$464,459	$487,762	$452,289	$500,946	$678,322	$694,797	$372,205	$572,224
Units	Month	-0.4%	-0.1%	0.6%	0.7%	-1.4%	0.6%	-0.5%	-0.5%	-0.3%	0.0%	-0.3%
	Quarter	-0.2%	0.0%	0.6%	0.8%	-1.7%	2.4%	-2.5%	0.0%	-0.1%	0.8%	0.0%
	YTD	-1.2%	0.0%	0.7%	0.9%	-3.6%	3.8%	-5.4%	-0.8%	-0.8%	1.3%	-0.5%
	Annual	-0.3%	4.4%	-0.3%	-0.5%	-3.2%	8.3%	-11.3%	-0.4%	0.9%	1.8%	1.0%
	Total return	3.4%	8.4%	4.9%	4.5%	0.3%	13.9%	-5.9%	4.9%	4.8%	7.1%	5.2%
	Yield	3.8%	3.9%	5.3%	5.1%	4.5%	5.2%	6.4%	5.6%	4.1%	5.2%	4.2%
	Median value	$749,765	$573,673	$385,121	$328,878	$394,898	$353,917	$328,234	$435,846	$574,915	$342,523	$516,064

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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