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CoreLogic Hedonic Home Value Index, August 2018 Results
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National Media Release

Housing correction deepens in August with dwelling values falling across five of Australia's eight capital cities

National dwelling values were down for the eleventh consecutive month suggesting spring selling conditions may deliver a challenge amidst rising advertised stock levels, tight credit and indications that mortgage rates are tracking higher.

Australia's housing market correction continued through August with the CoreLogic national home value index tracking 0.3% lower over the month. Since peaking in September last year, dwelling values have been consistently tracking lower, down a cumulative 2.2% through to the end of August.

CoreLogic head of research Tim Lawless said, "Weaker housing market conditions can be tied back to a variety of factors, foremost of which is the tighter credit environment which has slowed market activity, especially amongst investors. Fewer active buyers has led to higher inventory levels and reduced competition in the market. Collectively, these factors have been compounded by affordability challenges, reduced foreign investment and a rise in housing supply."

Five of the eight capital cities recorded a fall in dwelling values over the month, highlighting the weak housing market conditions are broad-based. The only cities where dwelling values edged higher in August were Adelaide (0.3%), Darwin (0.1%) and Canberra (0.5%).

Focusing on the three month trend shows **Melbourne is now Australia's weakest capital** city housing market, with dwelling values falling 2.0% over the three months ending August; the weakest rolling quarterly result since the three months ending January 2012. Perth isn't far behind, with values down 1.9% over the past three months, reversing the temporary positive movements recorded earlier in the year.

Adelaide rose to the top of the quarterly performance stakes over the three months to the end of August, taking over from Hobart where values have posted two consecutive months of subtle falls. Adelaide dwelling values were half a percent higher over the past three months, with quarterly gains also recorded in Canberra (+0.4%) as well as Hobart and Brisbane, both up +0.1%.

Over the year to date, the **weakest housing market conditions are concentrated in Sydney and Melbourne** where dwelling values were previously rising the fastest, but have now fallen 3.5% and 3.3% respectively over the first eight months of the year. Considering the sheer size of the cities; Sydney and Melbourne comprise approximately 60% of Australia's housing market by value, and 40% by number, the weaker performance in these cities has a significant drag down effect on the combined capitals and national reading of the market.

The regional markets have also continued to weaken, with values slipping lower for the second consecutive month across the combined rest of state index to be down 0.2% over the month and 0.6% lower over the rolling quarter. Regional areas of the mining states continue to deliver the most significant drag on the headline growth rates, with values down 3.5% over the past three months across regional WA and 1.0% lower across regional Queensland.

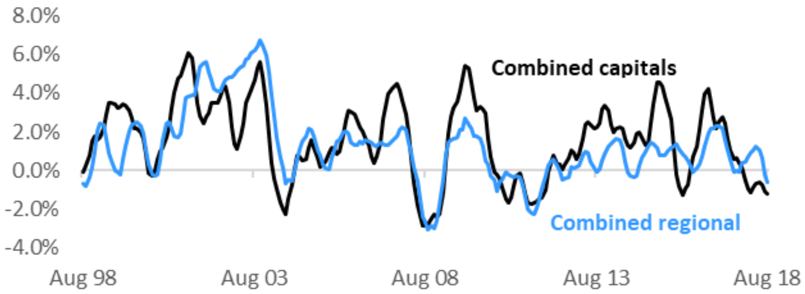
Index results as at August 31, 2018

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.3%	-1.2%	-5.6%	-2.7%	$855,287
Melbourne	-0.6%	-2.0%	-1.7%	1.2%	$703,183
Brisbane	-0.2%	0.1%	0.9%	5.0%	$493,922
Adelaide	0.3%	0.5%	1.0%	5.2%	$438,466
Perth	-0.6%	-1.9%	-2.1%	1.8%	$454,007
Hobart	-0.1%	0.1%	10.7%	16.2%	$437,254
Darwin	0.1%	-0.7%	-4.0%	1.5%	$439,718
Canberra	0.5%	0.4%	2.3%	6.9%	$593,886
Combined capitals	-0.4%	-1.2%	-2.9%	0.3%	$646,020
Combined regional	-0.2%	-0.6%	1.6%	6.6%	$368,336
National	-0.3%	-1.1%	-2.0%	1.5%	$552,141

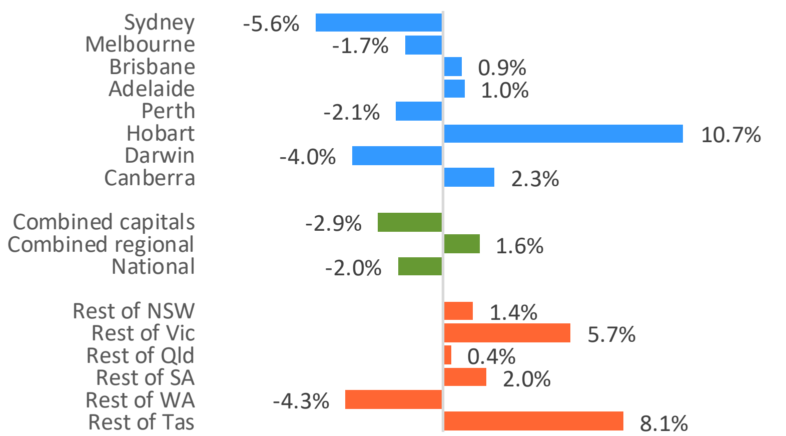
Highlights over the three months to August 2018

- Best performing capital city: **Adelaide +0.5%**
- Weakest performing capital city: **Melbourne -2.0%**
- Highest rental yield: **Darwin 5.6%**
- Lowest rental yields: **Melbourne 3.1%**

Rolling quarterly change in dwelling values



Annual change in dwelling values



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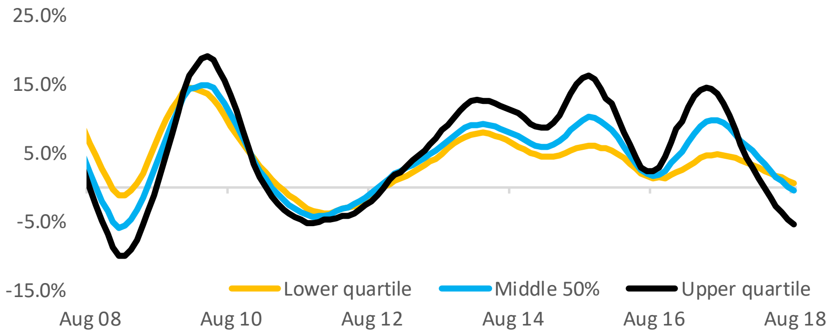
Geelong remains the best performing regional market in the country, with dwelling values up 11.8% over the past twelve months. Regional areas of Tasmania are second and third on the regional leagues tables, with dwelling values up 9.9% across the South East region of Tasmania and 9.3% higher across Launceston and the North East region of Tasmania. Geelong was the only regional market that recorded double-digit value growth over the past 12 months while a year ago, eight regional markets had recorded double-digit value growth.

According to Tim Lawless, **the overall housing market weakness is heavily concentrated across the premium sector of the market**. The CoreLogic stratified hedonic index recorded a 5.4% fall in values across the upper quartile of the combined capitals over the past twelve months, while the broad middle of the market is down 0.5% over the year and the most inexpensive quartile has recorded a 0.6% rise in values. This trend towards weaker premium housing market conditions is largely attributable to larger falls across Sydney and Melbourne's most expensive quarter of properties where values are down 8.1% and 5.2% over the past twelve months.

Rolling annual change in dwelling values across broad valuation segments, combined capitals



Melbourne is showing the most significant variation across the broad valuation segments, with the most affordable quarter of the market recording a 6.0% rise in values over the past year, while the most expensive quarter is down 5.2%.

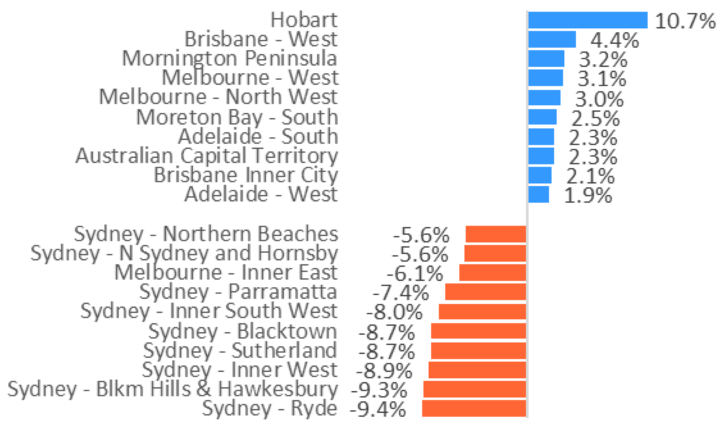
Mr Lawless said, "The trend towards more robust housing market conditions for affordable properties can be seen geographically as well, with the top ten capital city sub-regions, based on an annual capital gain, generally located in more affordable areas such as Hobart, the outskirts of Melbourne and parts of Brisbane and Adelaide.

"On the other hand, the weakest performing sub-regions are primarily located across Sydney as well as Melbourne's prestigious Inner East."

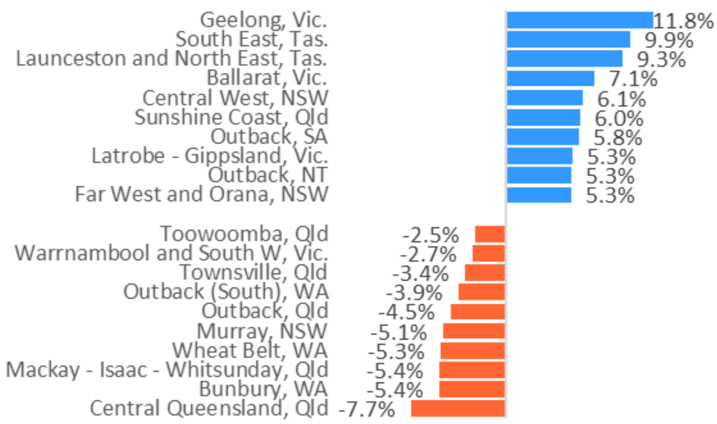
"Stronger market conditions across Australia's more affordable areas are likely attributable to a rise of first home buyers in the market as well as changing credit policies focused on reducing exposure to high debt-to-income ratios.

"In the higher value cities like Sydney and Melbourne, we're seeing typical dwelling prices remain more than 8 times higher than median household incomes, suggesting tighter credit conditions for borrowers with a high debt-to-income ratio will likely impact on demand more in these cities over others."

12 month change in dwelling values
Top and bottom 10 capital city sub-regions



12 month change in dwelling values
Top and bottom 10 regional sub-regions



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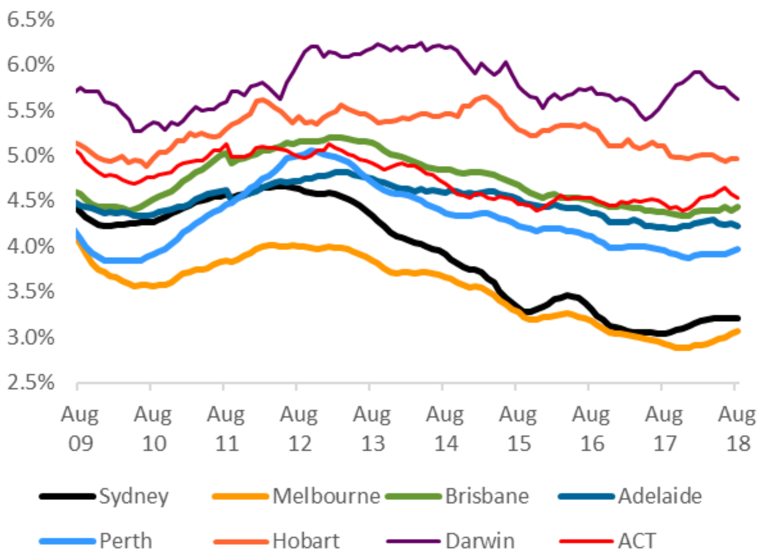
Rental markets remain relatively subdued across Australia, likely the result of an increase in rental supply due to the earlier surge in investment activity, as well as a reduction in demand as first home buyer numbers have risen and population growth has slowed. Rents are still rising though, albeit at a slower pace than inflation. National rents were 1.5% higher over the past 12 months which is equal to the five year annual average rate of growth.

Sydney renters are the biggest winners, with rental rates down 0.9% over the past twelve months. Every other capital city has seen rents rise at less than 3% per annum, apart from Hobart where weekly rents have surged 9.7% higher over the year and Canberra where rents are up 5.0%. The rate of annual rental change has slowed over the past year in Sydney, Melbourne, Adelaide and Canberra and accelerated elsewhere.

With rental rates generally rising at a faster rate than housing values, or in the case of Sydney, not falling as fast, **gross rental yields have continued to trend higher.** The national gross rental yield is tracking at 3.73%, up from a record low of 3.61% in late 2017, but still 54 basis points lower than the decade average of 4.27%. We expect rental yields will continue their sluggish recovery, with rents continuing to edge higher while values edge lower or rise at a slower rate.

Rental yields could rise in importance if negative gearing policies are changed under the Labor government policy platform. Investors have generally focused on the prospects for capital gains, largely ignoring the low yield profile evident in markets like Melbourne and Sydney. Cities with healthier yield profiles as well as prospects for capital gains could become a more popular option amongst investors if negative gearing policies are changed. The highest rental yields amongst the capital cities can be found in Darwin (5.6%), Hobart (5.0%), Canberra (4.5%) and Brisbane (4.4%).

Gross rental yields, capital city dwellings



Looking forward there are a few ‘wildcards’ that could create some headwinds for housing market conditions.

Higher mortgage rates The news that the first of the Big Four banks will lift variable mortgage rates in September is likely to send a chill through the housing market. To-date only smaller lenders have responded to higher funding costs by pushing mortgage rates up. The 14 basis point lift announced by Westpac is only a minor adjustment to rates that have been at fifty year lows, however the rise could shake buyer confidence, especially if other lenders follow suit. With household debt at record highs, borrowers are likely to be sensitive to small movements in the cost of debt and this upwards shift in mortgage rates is a negative for housing market conditions.

Credit to remain tight The ongoing credit reform and focus on reducing household debt exposure implies that credit availability will remain tight for the foreseeable future. Lenders are likely to remain competitive for high quality borrowers, however premiums on interest only loans and investment loans look set to stay for the time being which will continue to quell market activity.

The federal election could have a negative impact on buyer confidence A federal election will be held sometime before May 18th next year. The political uncertainty has been heighted with the recent leadership spill which could dampen both consumer and business confidence; remember housing is one of the highest commitment decisions a household will make. A dent to confidence could place further downwards pressure on market activity.

Additionally, changes to taxation policy around negative gearing and capital gains tax concessions could also impact on buyer sentiment, especially investment decisions.

We could also see the national debate on migration ramp up as we lead into a federal election. Strong population growth has supported housing demand and a lower rate of population growth would have a negative impact on housing demand.

With so many balls in the air, it’s likely the spring season will be a challenging one for the housing sector. Advertised stock levels are already 7.6% higher than the same time last year across the combined capitals, despite a 5.7% reduction in ‘fresh’ stock being added to the market. The rise in inventory is simply due to a lack of absorption; with fewer buyers, homes are taking longer to sell and clearance rates have trended into the mid to low 50% range.

Vendors will need to be realistic about their pricing expectations and ensure a high quality marketing campaign accompanies their property to market in order to make a successful sale.

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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	-0.3%	-0.6%	-0.2%	0.3%	-0.6%	-0.1%	0.1%	0.5%	-0.4%	-0.2%	-0.3%
	Quarter	-1.2%	-2.0%	0.1%	0.5%	-1.9%	0.1%	-0.7%	0.4%	-1.2%	-0.6%	-1.1%
	YTD	-3.5%	-3.3%	0.3%	0.6%	-2.3%	5.6%	-0.4%	0.8%	-2.6%	1.0%	-1.9%
	Annual	-5.6%	-1.7%	0.9%	1.0%	-2.1%	10.7%	-4.0%	2.3%	-2.9%	1.6%	-2.0%
	Total return	-2.7%	1.2%	5.0%	5.2%	1.8%	16.2%	1.5%	6.9%	0.3%	6.6%	1.5%
	Gross yield	3.2%	3.1%	4.4%	4.2%	4.0%	5.0%	5.6%	4.5%	3.4%	4.9%	3.7%
	Median value	$855,287	$703,183	$493,922	$438,466	$454,007	$437,254	$439,718	$593,886	$646,020	$368,336	$552,141
Houses	Month	-0.2%	-0.7%	-0.2%	0.4%	-0.6%	-0.2%	-0.2%	0.5%	-0.4%	-0.2%	-0.3%
	Quarter	-1.4%	-2.2%	0.1%	0.6%	-1.8%	0.0%	2.1%	0.4%	-1.3%	-0.7%	-1.2%
	YTD	-4.1%	-4.0%	0.1%	0.6%	-1.5%	5.8%	5.3%	1.1%	-2.9%	1.1%	-2.0%
	Annual	-7.1%	-2.7%	0.9%	1.0%	-1.5%	11.3%	0.6%	3.4%	-3.5%	1.8%	-2.4%
	Total return	-4.5%	-0.2%	4.7%	5.1%	2.4%	16.8%	6.2%	7.8%	-0.6%	6.7%	0.9%
	Gross yield	3.0%	2.7%	4.2%	4.1%	3.8%	4.9%	5.2%	4.2%	3.2%	4.9%	3.6%
	Median value	$989,984	$806,640	$538,009	$466,813	$477,538	$459,557	$508,081	$679,137	$686,578	$375,062	$568,972
Units	Month	-0.4%	-0.4%	-0.1%	-0.3%	-0.4%	0.1%	0.8%	0.7%	-0.3%	-0.2%	-0.3%
	Quarter	-0.8%	-1.3%	0.3%	-0.2%	-2.0%	0.7%	-6.3%	0.4%	-1.0%	-0.6%	-0.9%
	YTD	-2.0%	-1.3%	1.0%	0.7%	-5.5%	4.5%	-11.3%	-0.4%	-1.8%	0.7%	-1.4%
	Annual	-2.2%	1.5%	0.8%	0.8%	-4.4%	7.6%	-13.1%	-1.1%	-1.0%	0.9%	-0.7%
	Total return	1.5%	5.5%	6.5%	5.9%	-0.7%	13.1%	-7.6%	4.4%	3.0%	6.3%	3.4%
	Gross yield	3.8%	4.1%	5.3%	5.2%	4.5%	5.1%	6.6%	5.6%	4.1%	5.2%	4.2%
	Median value	$740,093	$566,148	$382,601	$324,477	$390,680	$366,126	$303,889	$441,787	$568,086	$343,381	$513,468

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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