National Media Release

Australia’s housing correction marks its twelve month anniversary with values down 2.7% since peaking in September last year

The CoreLogic September home value index results released today reported that half of Australia’s capital cities saw values track lower over the past twelve months. The remaining capital cities, as well as regional markets, have recorded a slowdown in the annual pace of growth as the housing downturn becomes more broadly based.

The Australian housing market continued to weaken in September, with national dwelling values falling 0.5% over the month, marking twelve months of consistently falling values across CoreLogic’s national hedonic home value index. Dwelling values tracked lower across five of the eight capital cities in September while five of the seven ‘rest of state’ regions recorded a fall in values over the month.

Since the national index peaked twelve months ago, dwelling values have fallen by 2.7%; hardly a crash, and a slower rate of decline relative to the previous housing market downturn (Jun 2010 to Feb 2012) when national dwelling values fell by 3.0% over the first twelve months, declining 6.5% from peak to trough.

CoreLogic head of research Tim Lawless said, “While the housing market downturn is well entrenched across Darwin and Perth where dwelling values remain 22.1% and 13.2% lower relative to their 2014 peak, Sydney and Melbourne are now the primary drag on the national housing market performance.

“We’ve seen Sydney dwelling values drop 6.1% over the past twelve months and Melbourne values are 3.4% lower. Not only are these amongst the largest annual falls across the capital cities, but considering Sydney and Melbourne comprise approximately 60% of the national value of housing, the weak conditions in these cities have a substantial drag down effect on the overall national housing market performance.”

Although dwelling values are still rising on an annual basis in Brisbane, Adelaide, Hobart and Canberra, the rate of capital gain has slowed noticeably in these regions. One year ago, the annual gain in Brisbane was tracking at 2.9% and has since slowed to just 0.8% over the past twelve months. Adelaide values were rising at the annual rate of 5.0% a year ago, slowing to 0.7%, while the annual growth rate has slowed from 14.3% in Hobart to 9.3% and Canberra has seen annual gains slide from 7.8% to 2.0%. The only capitals to see an improvement in the annual change in housing values were Perth and Darwin where the annual rate of decline has eased off.

Regional markets, where housing values have generally been more resilient to falls than in the capital cities, are now showing more challenging conditions. Despite regional Western Australia being the only ‘rest of state’ region to record a decline in dwelling values over the past twelve months, the September quarter saw values dropping in Regional NSW (-1.3%), Regional Vic (-0.2%), Regional Qld (-0.6%), Regional SA (-0.3%) and regional WA (-3.4%).

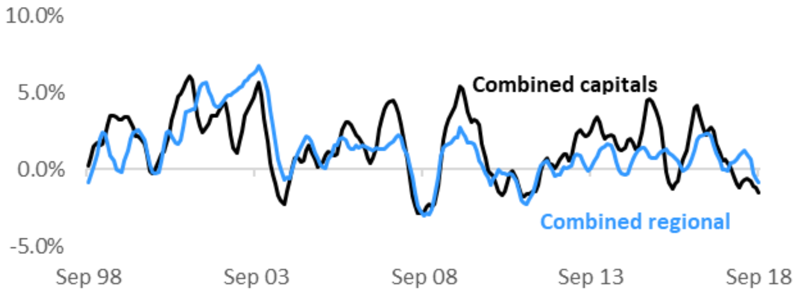
Index results as at September 30, 2018

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.6%	-1.5%	-6.1%	-3.2%	$847,948
Melbourne	-0.9%	-2.4%	-3.4%	-0.5%	$697,457
Brisbane	0.2%	0.1%	0.8%	4.9%	$495,474
Adelaide	-0.2%	0.0%	0.7%	4.9%	$438,570
Perth	-0.6%	-2.0%	-2.8%	1.0%	$452,138
Hobart	0.4%	0.3%	9.3%	14.7%	$443,711
Darwin	-0.4%	0.1%	-3.7%	1.8%	$436,936
Canberra	0.3%	1.0%	2.0%	6.6%	$598,326
Combined capitals	-0.6%	-1.5%	-3.7%	-0.6%	$642,531
Combined regional	-0.2%	-0.9%	1.2%	6.2%	$368,441
National	-0.5%	-1.4%	-2.7%	0.7%	$550,610

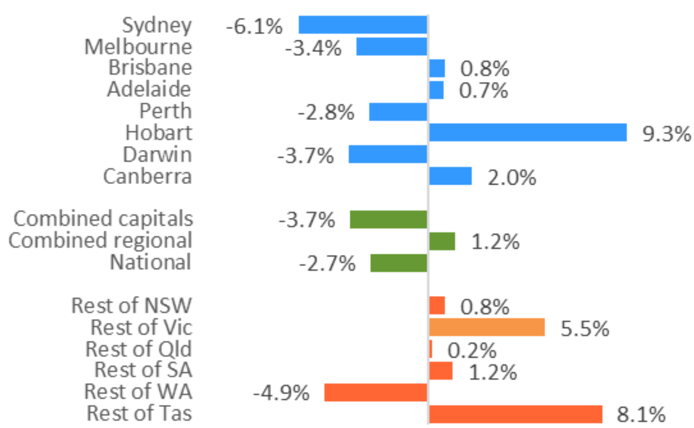
Highlights over the three months to September 2018

- Best performing capital city: **Canberra +1.0%**
- Weakest performing capital city: **Melbourne -2.4%**
- 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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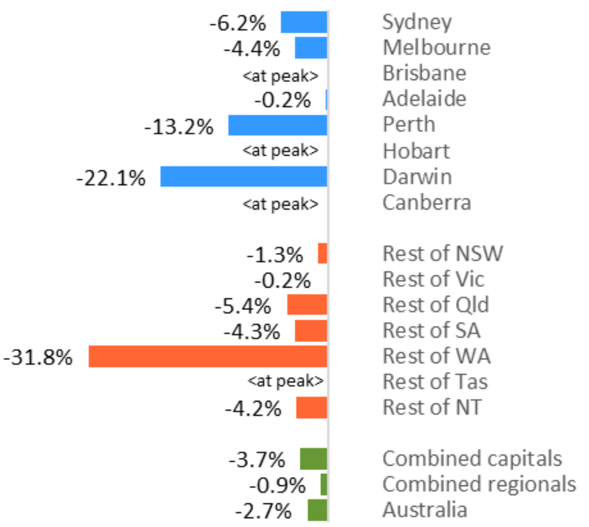
How far have dwelling values fallen from their respective historic peaks



Most regions of Australia have seen dwelling values trend lower from their peaks, ranging from a 31.8% fall across regional Western Australia to a 0.2% slip across Regional Victoria. Four regions continue to see dwelling values at record highs: Brisbane, Hobart, Canberra and Regional Tasmania.

The largest declines from the market peak have been in those markets where housing values have been impacted by the downturn in the mining sector. Regional Western Australia reached a historic high in January 2008, and dwelling values are currently at roughly the same level they were in 2005. Darwin dwelling values remain 22.1% lower than their 2014 high, with unit values down substantially more than house values and Perth values are 13.2% below their 2014 peak.

Mr Lawless said, “The decline in dwelling values across the remaining regions, where economic and demographic conditions have been stronger and more diverse, is far less severe. Sydney values are down a cumulative 6.2% since peaking in July 2017 and Melbourne values are down 4.4% since peaking in November 2017.”

Despite the recent falls in Sydney and Melbourne, dwelling values remain 46% and 40% higher than they were five years ago, highlighting that most home owners in these cities continue to benefit from a substantial lift in wealth from the boom in housing.

Weak housing market conditions across the most expensive quarter of properties in Sydney and Melbourne are a key driver of the housing downturn.

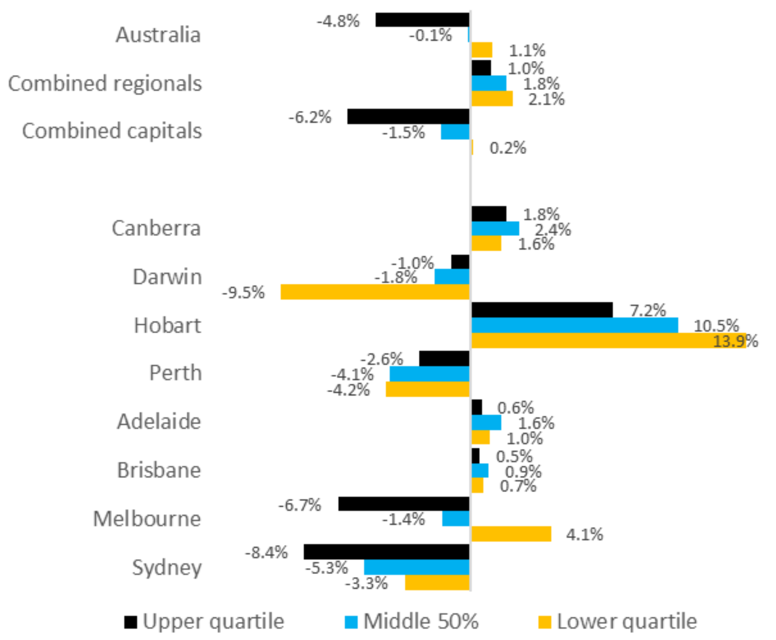
Dwelling values across Sydney’s most expensive quarter of the market are down 8.4% over the past twelve months while the least expensive quarter of the market is down only 3.3%. The divergence in performance across the broad valuation cohorts is even more significant in Melbourne, where the highest value quartile has seen values reduce 6.7% over the past twelve months while the lowest value quartile has actually recorded a 4.1% annual gain in values.

Mr Lawless said, “Evidence of stronger market conditions across the lower valuation quartile in these cities can likely be attributed to the surge in first home buyer numbers, as well as broader affordability constraints in these markets and, more recently, lenders aiming to reduce their exposure to high debt to income loans.

“If lenders have reduced their appetite for high debt to income ratio lending, this implies housing demand in expensive cities like Sydney and Melbourne, where dwelling prices remain more than eight times higher than gross household incomes, is likely being skewed towards the middle to lower value end of the market.

“Most other cities are generally showing less divergence between value changes across the broad valuation cohorts.”

Annual change in dwelling values across broad valuation segments



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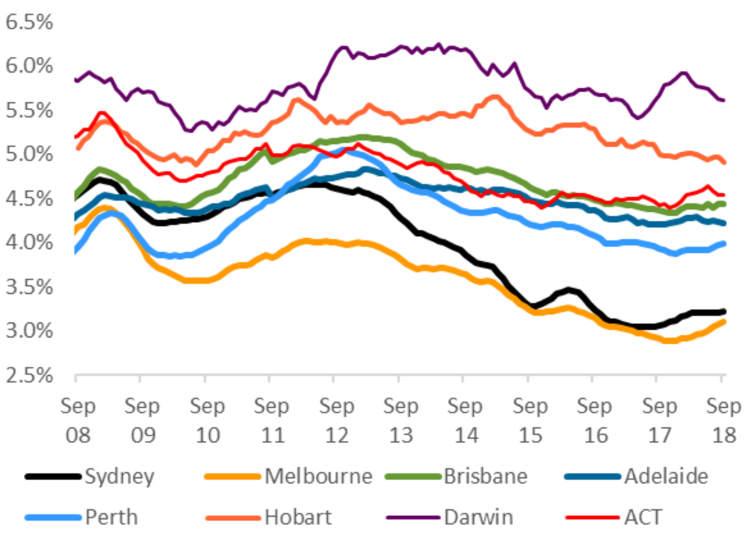
As national dwelling values trend lower and rental rates edge higher, gross rental yields have consistently improved, albeit from record lows. The gross rental yield nationally has consistently risen from a record low of 3.61% in September last year to reach 3.75% at the end of September.

Yields have trended higher in every capital city relative to a year ago, except in Hobart, where rents haven't been able to keep pace with the rapid rise in housing values, and in Darwin, where weekly rents have fallen at a slightly faster rate than dwelling values.

Gross rental yields remain the lowest in Melbourne, rising from a recent record low of 2.88% to reach 3.10% in September. Gross yields in Sydney come in a close second lowest, tracking at 3.22%, up from a recent record low of 3.04%.

The highest gross rental yields can be found across regional Northern Territory (6.9%) while the highest capital city yields are in Darwin (5.6%) and Hobart (4.9%).

Gross rental yields, capital city dwellings



Key drivers and challenges going forward

Mr Lawless notes that the housing market has slowed virtually in line with heighted levels of regulation across the finance sector and subsequently, tighter lending practices and a sharp reduction in investment. He said, "With the release of the banking commission interim report, there is a chance that already tight credit conditions could tighten even further."

"The constant theme from the report is that regulators should monitor and enforce existing policy much better, while lenders and brokers need to place client interests ahead of profits. This implies a more conservative lending approach going forward which is likely to impact further on credit availability."

The latest credit aggregates from the Reserve Bank show housing credit growth tracking at the lowest level in almost five years and investor related credit is growing at the slowest pace on record. Mr Lawless said, "If credit conditions do tighten further from here, we can expect housing market activity to follow suit. CoreLogic estimates on settled sales activity is down 10.0% year on year; substantially further in Sydney (-18.5%) and Melbourne (-15.8%)."

While credit availability is a key factor in the slowdown, other factors are also dampening housing market conditions.

Investors, who still comprise 41% of the value of new mortgage demand, are being disincentivised by higher mortgage rates and stricter servicing criteria, as well as low rental yields and weak capital gain prospects. Mr Lawless believes changes to taxation policies related to housing, should we see a change of government at the next federal election, could also weigh on investor sentiment.

Changes to demand side factors are also evident. Nationally, the rate of net overseas migration was down almost 9% over the twelve months to March 2018, which is detracting from housing demand. The slowdown is being most felt in New South Wales with a reduction of 13,100 net overseas migrants over the twelve-month period.

Interstate migration trends are also having an impact on housing demand. In NSW, the rate of net interstate migration outflow is the highest since March 2009 and net interstate migration into Victoria has been easing since reaching a peak in March 2017. The net result of fewer overseas migrants and less interstate migration is the lowest annual rate of population growth in these states since 2015.

The primary beneficiary from interstate migration fueled housing demand is Queensland, where the number of residents moving from other states is at the highest level since 2007.

Against a slowdown in housing demand is higher levels of housing supply. A record high number of dwellings are under construction across Victoria and South Australia, while residential dwelling construction is only slightly off a record high in New South Wales.

With such a substantial pipeline of housing stock in the wings at a time when credit has become less available, investment and foreign buying activity has fallen materially and population growth is trending lower, this could create some headwinds for the market. "This may create some challenges for absorbing newly built housing stock, especially those dwellings targeted specifically towards investors," says Mr Lawless.

While the housing risk profile is heightened, economic conditions remain healthy and mortgage rates are set to remain low into 2020.

- Labour markets have strengthened with solid jobs growth, unemployment is continuing to trend lower and under-employment recently reached the lowest level since 2014. If labour market conditions remain firm, we could see wages growth continue to trend higher from a record low base, supporting further improvements in housing affordability and debt reduction.
- Although mortgage rates edged higher in September, the cost of housing debt remains at levels not seen since the 1960's. Low mortgage rates should help to support housing demand and keep a floor under housing prices.
- With dwelling values recording modest falls, or growth rates slowing, housing affordability is improving which should see first home buyers become more active in the housing market, helping to offset the reduction in investment activity.

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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	-0.6%	-0.9%	0.2%	-0.2%	-0.6%	0.4%	-0.4%	0.3%	-0.6%	-0.2%	-0.5%
	Quarter	-1.5%	-2.4%	0.1%	0.0%	-2.0%	0.3%	0.1%	1.0%	-1.5%	-0.9%	-1.4%
	YTD	-4.1%	-4.2%	0.4%	0.4%	-2.9%	6.1%	-0.8%	1.0%	-3.2%	0.8%	-2.4%
	Annual	-6.1%	-3.4%	0.8%	0.7%	-2.8%	9.3%	-3.7%	2.0%	-3.7%	1.2%	-2.7%
	Total return	-3.2%	-0.5%	4.9%	4.9%	1.0%	14.7%	1.8%	6.6%	-0.6%	6.2%	0.7%
	Gross yield	3.2%	3.1%	4.4%	4.2%	4.0%	4.9%	5.6%	4.5%	3.5%	4.9%	3.8%
	Median value	$847,948	$697,457	$495,474	$438,570	$452,138	$443,711	$436,936	$598,326	$642,531	$368,441	$550,610
Houses	Month	-0.8%	-1.1%	0.1%	-0.3%	-0.6%	0.3%	-0.5%	0.5%	-0.7%	-0.3%	-0.6%
	Quarter	-1.7%	-2.8%	0.1%	0.0%	-1.9%	-0.1%	0.8%	1.2%	-1.7%	-1.0%	-1.5%
	YTD	-4.9%	-5.1%	0.2%	0.3%	-2.1%	6.2%	4.8%	1.6%	-3.6%	0.8%	-2.6%
	Annual	-7.6%	-4.5%	0.8%	0.6%	-2.0%	9.4%	2.3%	3.1%	-4.3%	1.3%	-3.1%
	Total return	-5.0%	-2.1%	4.6%	4.8%	1.9%	14.8%	8.0%	7.4%	-1.5%	6.2%	0.1%
	Gross yield	3.0%	2.8%	4.2%	4.1%	3.9%	4.9%	5.2%	4.2%	3.2%	4.9%	3.6%
	Median value	$976,365	$799,657	$539,374	$466,636	$475,774	$464,515	$505,414	$686,582	$683,437	$374,852	$567,650
Units	Month	-0.2%	-0.2%	0.3%	0.3%	-1.0%	0.8%	-0.1%	-0.4%	-0.2%	0.2%	-0.1%
	Quarter	-1.0%	-1.2%	0.2%	0.1%	-2.2%	2.0%	-1.5%	0.0%	-1.0%	-0.3%	-0.9%
	YTD	-2.2%	-1.5%	1.3%	1.0%	-6.5%	5.4%	-11.4%	-0.8%	-2.0%	0.9%	-1.6%
	Annual	-2.6%	0.3%	0.7%	1.2%	-6.1%	8.9%	-15.0%	-1.4%	-1.7%	0.8%	-1.3%
	Total return	1.1%	4.3%	6.4%	6.3%	-2.5%	14.5%	-9.6%	4.1%	2.2%	6.1%	2.8%
	Gross yield	3.8%	4.1%	5.3%	5.2%	4.5%	5.0%	6.5%	5.6%	4.1%	5.2%	4.3%
	Median value	$734,900	$562,250	$380,866	$324,932	$390,326	$370,609	$309,654	$443,791	$564,290	$344,273	$511,187

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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