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

Australia's housing market records the weakest conditions since the Global Financial Crisis

The release today of the CoreLogic November hedonic home value index results confirmed that national dwelling values slipped by 0.7% over the month, led by Sydney where the drop was double the national average – www.corelogic.com.au/news

Headlining the November results, the CoreLogic hedonic home value index recorded its weakest month-on-month change in dwelling values since the Global Financial Crisis; national dwelling values slipped 0.7% lower in November, led by larger falls in Sydney (-1.4%) and Melbourne (-1.0%) where the pace of decline has accelerated over the past month. Nationally, dwelling values are down 4.2% since peaking in October last year, with dwelling values retracing back to levels last seen in December 2016.

Commenting on the results, CoreLogic head of research Tim Lawless said, "The downwards pressure on national dwelling values is largely confined to Sydney and Melbourne which together, comprise approximately 55% of the value of Australia's housing asset class," he said.

Since peaking in July last year, Sydney's housing market is down 9.5% which is on track to eclipse the previous record peak-to-trough decline set during the last recession when values fell 9.6% between 1989 and 1991. Melbourne dwelling values peaked four months later than Sydney, in November 2017, and have since fallen by 5.8% through to the end of November 2018.

Although the weaker housing market conditions in Sydney and Melbourne are under the spotlight, Tim Lawless said, "Conditions across the Australian housing market are increasingly diverse. Dwelling values are trending higher across five of the eight capital cities, albeit at a relatively slow pace compared with the previous surge in Sydney and Melbourne. Hobart and regional Tasmania continue to be the standouts for capital gain, with values up 1.7% across both regions over the past three months".

Tim Lawless points towards several factors that are influencing the downwards trend in Sydney and Melbourne, while other regions continue to see some level of growth. The tightening in finance conditions has been more pronounced across the investor segment of the market, where Sydney and Melbourne have recorded much higher concentrations of investment demand.

He said, "Additionally, housing affordability constraints are more pronounced in these markets and rental yields are substantially lower, indicating an imbalance between rental values and dwelling values. The ramp up in housing supply has been more pronounced in these markets against a backdrop of slowing demand, and Sydney and Melbourne have also been more affected by the reduction in foreign buying activity."

As a consequence of less market activity, advertised listings have surged higher, providing buyers with ample choice which provides for a strong negotiation position on price. Tim Lawless said, "The rebalancing towards buyers over sellers in Sydney and Melbourne is clear across CoreLogic's vendor metrics, with clearance rates tracking in the low 40% range while private treaty sales are showing substantially longer selling times and larger rates of discounting than they have over recent years."

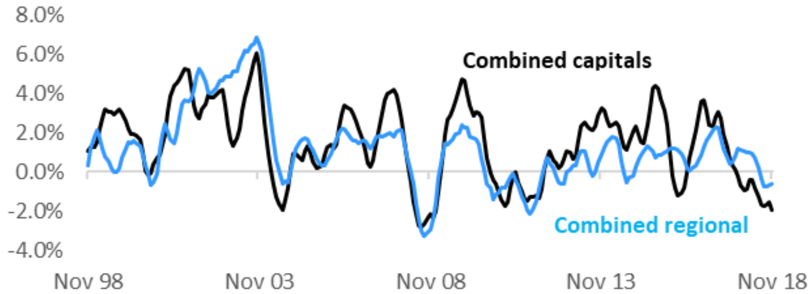
Index results as at November 30, 2018

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-1.4%	-2.8%	-8.1%	-5.0%	$821,438
Melbourne	-1.0%	-2.4%	-5.8%	-2.6%	$656,163
Brisbane	0.1%	0.1%	0.3%	4.2%	$493,041
Adelaide	0.1%	0.2%	1.4%	5.9%	$433,464
Perth	-0.7%	-2.1%	-4.2%	-0.4%	$448,336
Hobart	0.7%	1.7%	9.3%	15.0%	$451,039
Darwin	0.7%	0.2%	-0.8%	4.9%	$426,141
Canberra	0.6%	1.5%	4.0%	8.8%	$596,141
Combined capitals	-0.9%	-2.0%	-5.3%	-1.9%	$619,391
Combined regional	-0.1%	-0.6%	0.3%	5.4%	$375,488
National	-0.7%	-1.7%	-4.1%	-0.5%	$535,481

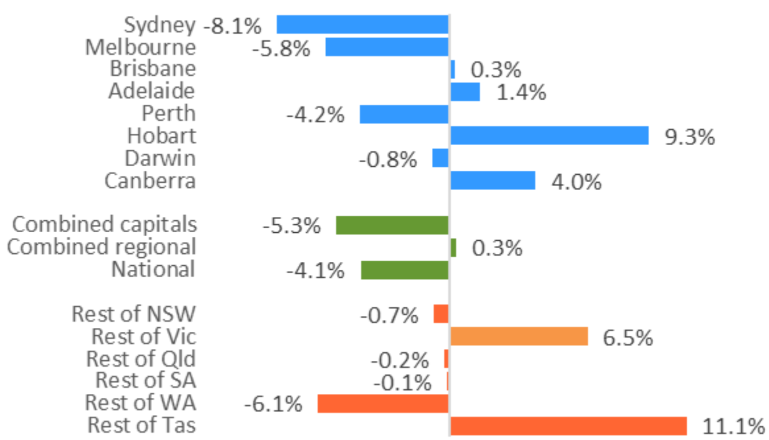
Highlights over the three months to November 2018

- Best performing capital city: **Hobart +1.7%**
- Weakest performing capital city: **Sydney -2.8%**
- Highest rental yield: **Darwin 5.7%**
- Lowest rental yields: **Sydney 3.3%**

Rolling quarterly change in dwelling values



Annual change in dwelling values



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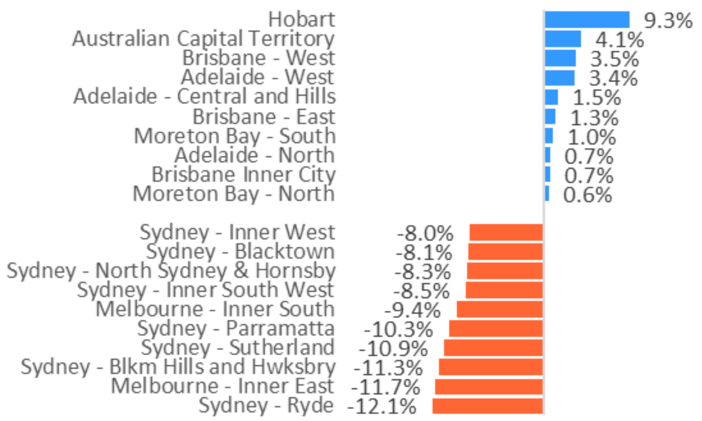
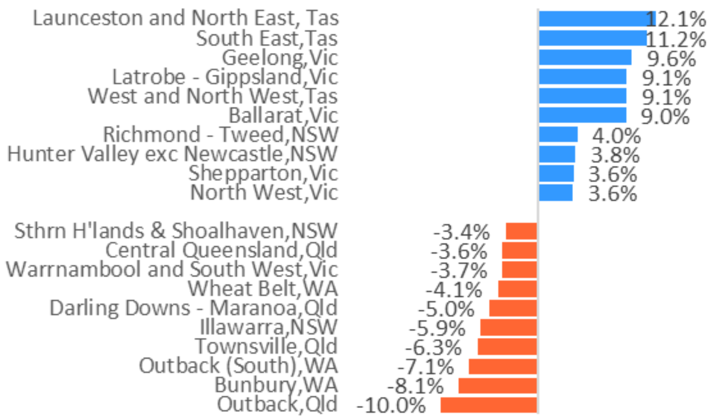
Top ten and bottom ten sub-regions for annual change in dwelling values, Capital city SA4 regions



Top ten and bottom ten sub-regions for annual change in dwelling values, Non capital city SA4 regions



Across the broader valuation cohorts, the premium end of the housing market continues to act as the greatest drag on market conditions. With dwelling values in Sydney and Melbourne substantially higher than other cities, a large part of this underperformance across the top quartile at the national and combined capital city level can be explained by the weaker conditions across Sydney and Melbourne housing markets.

Focusing specifically on the Sydney and Melbourne markets, it's clear that that most expensive quarter of the market in these cities is weaker relative to the lower end of the value range. Sydney's most expensive quarter of properties has recorded a 9.3% drop in values over the past year while the most affordable quarter is down a lower 5.7%. Tim Lawless said, "The trend is more exemplified in Melbourne where premium dwelling values are down 9.9% over the past year while the most affordable quarter of the market has recorded a 1.7% rise in values."

Deeper analysis of the capital city SA4 sub-regions highlights the strongest conditions are confined to Hobart, Canberra and areas of Brisbane and Adelaide. Over the past twelve months, Hobart dwelling values rose by 9.3%; by far the strongest conditions across any of the capital cities, while Canberra values are up 4.1%.

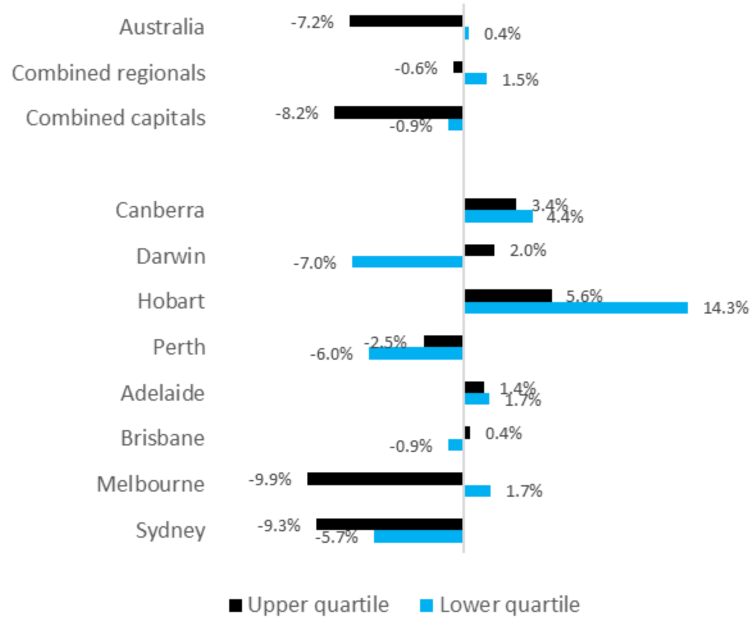
The remaining top performing capital city sub-regions have all seen annual capital gains at 3.5% or less, highlighting that although values are still rising in some capital city regions, the rate of growth is generally modest.

The weakest capital city sub-regions are centered across Sydney and Melbourne, with five of the ten largest value declines now in double-digit territory over the past twelve months. The SA4 region of Ryde in Sydney has seen the largest fall over the year. Values in this area are now down 14.4% since peaking in August last year, mostly driven by lower detached housing values where the market is down 17.1% since peaking.

The top performing regional markets have generally seen stronger growth rates, with two of Tasmania's regional SA4 locations recording double digit growth over the past year while areas of regional Victoria are also common across the top ten leagues tables. Strong growth in these areas is starting to erode the affordability advantages of these markets, although lifestyle factors are also a strong driver of demand in many of these locations.

The weakest regional areas show some diversity, however, Mr Lawless noted that we are still seeing a hangover from the previous downturn in the resources sector impacting on the performance of some markets. Drought affected agricultural regions are also showing weaker conditions.

Annual change in dwelling values across upper and lower value quartiles



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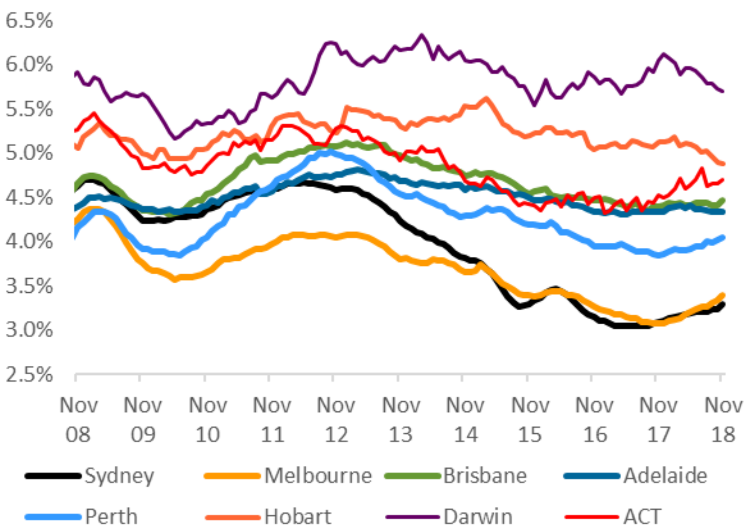
Rental markets continued their sluggish run in November with national rents up by only 0.7% over the past twelve months. The decade average is quite a low benchmark, with annual rental growth of just 2.0%, however the recent rental market performance is clearly sub-par even with such a low benchmark.

Across the capital cities, weekly rents were up only 0.4% over the twelve months ending November while regional rents are up 2.0% which is spot on the long term average.

Amongst the capital cities, Darwin and Sydney are recording the weakest rental conditions, with landlords typically receiving 5.1% and 2.7% less rent relative to a year ago. The tightest rental markets are in Canberra (+6.9%) and Hobart (+6.1%) where strong rental demand hasn't been accompanied by a sufficient rise in supply. Anecdotally, a larger proportion of rental properties moving into the short-term rental pool is likely to also be supporting some upwards pressure on rents in these markets as well.

Gross rental yields, capital city dwellings



Despite the relatively sluggish rental conditions, most areas are seeing some upwards pressure on rental yields as dwelling rents outperform dwelling values. The recovery in gross rental yields across Sydney and Melbourne is clearly underway, however gross rental yields in these markets remain in the low 3% range, highlighting that most investors would be utilising a negative gearing strategy in these low yielding markets.

According to Tim Lawless, the weaker November housing reading comes amidst tightening credit conditions which are now spreading to the owner occupier segment of the market, coupled with a deterioration in consumer sentiment relating to housing market conditions.

The annual pace of credit growth slowed to 5.1% in October, according to the latest data from the Reserve Bank of Australia, which is the slowest rate of annual credit growth since October 2013. While annual credit growth for investment purposes has trended down to new record lows for some time, owner occupier credit is now rising at the slowest annual rate since November 2015.

Mr Lawless cites a winding down in credit growth since early 2015, however, he noted that the recent trends have gathered some momentum after mortgage rates for owner occupiers stepped 15 basis points higher through September and October with investor rates up 10 basis points. The disincentive of higher mortgage rates has been compounded by tighter credit policies and increased scrutiny of borrower overall debt levels, incomes and expenses.

Weaker consumer sentiment towards housing is also a factor in slowing the level of participation in the housing market. Westpac's House Price Expectations Index tracked to an equal record low over the past three months. Such a weak level of sentiment is likely to be weighing on the decision making process for high commitment purchases such as purchasing a residential property.

Tim Lawless said, "Potentially investor sentiment is being weighed down by the potential for changes to taxation policies related to housing should there be a change of government.

"A negative gearing rollback looking to exclude established dwellings could diminish demand across the resale market with less investment demand for properties with low rental yields. The halving of capital gains tax concessions would likely provide further disincentive to investment, on top of weak prospects for capital gains, premiums on investment mortgage rates, low rental yields and fewer depreciation benefits.

In closing, Tim Lawless points out the difference in the current downturn to previous down cycles.

He said, "Typically, the catalyst for a turn in the housing market is a result of changes in interest rates or economic conditions. This time around however, the market has been most affected by credit policies and availability of finance, despite very low mortgage rates and relatively strong economic conditions."

Tim Lawless said, "Despite the recent out-of-cycle 15 basis points rise in mortgage rates, the cost of debt remains at the lowest level since the 1960's.

"From an economic perspective, GDP growth is tracking above expectations, unemployment is tracking well below average and at the lowest level since 2012, population growth remains strong (albeit showing signs of slowing) and wages growth is slowly lifting from a low base. These factors should help to support housing demand and offset a more material decline in dwelling values."

"We expect headwinds from tighter credit will continue for the foreseeable future and will continue to temper housing market activity. This will be especially the case for those markets where investment demand is most concentrated, and where housing costs are high relative to incomes, such as Sydney and Melbourne," he said.

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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	-1.4%	-1.0%	0.1%	0.1%	-0.7%	0.7%	0.7%	0.6%	-0.9%	-0.1%	-0.7%
	Quarter	-2.8%	-2.4%	0.1%	0.2%	-2.1%	1.7%	0.2%	1.5%	-2.0%	-0.6%	-1.7%
	YTD	-7.2%	-5.6%	0.4%	1.1%	-3.8%	8.2%	0.3%	3.3%	-4.8%	0.0%	-3.8%
	Annual	-8.1%	-5.8%	0.3%	1.4%	-4.2%	9.3%	-0.8%	4.0%	-5.3%	0.3%	-4.1%
	Total return	-5.0%	-2.6%	4.2%	5.9%	-0.4%	15.0%	4.9%	8.8%	-1.9%	5.4%	-0.5%
	Gross yield	3.3%	3.4%	4.5%	4.3%	4.1%	4.9%	5.7%	4.7%	3.6%	5.0%	3.9%
	Median value	$821,438	$656,163	$493,041	$433,464	$448,336	$451,039	$426,141	$596,141	$619,391	$375,488	$535,481
Houses	Month	-1.7%	-1.2%	0.1%	0.2%	-0.8%	0.5%	0.8%	0.8%	-1.0%	-0.2%	-0.8%
	Quarter	-3.3%	-3.2%	0.2%	0.3%	-2.1%	2.0%	-0.2%	1.9%	-2.3%	-0.6%	-1.9%
	YTD	-8.3%	-7.3%	0.7%	1.1%	-3.4%	7.8%	5.6%	3.7%	-5.4%	0.0%	-4.2%
	Annual	-9.2%	-7.6%	0.6%	1.4%	-3.8%	8.9%	5.1%	4.6%	-5.9%	0.3%	-4.5%
	Total return	-6.5%	-5.0%	4.2%	6.0%	-0.3%	14.6%	10.3%	9.1%	-2.8%	5.3%	-1.0%
	Gross yield	3.0%	3.0%	4.2%	4.1%	3.9%	4.8%	5.3%	4.4%	3.4%	4.9%	3.7%
	Median value	$935,713	$768,929	$542,273	$469,822	$475,067	$486,406	$510,650	$668,925	$659,542	$385,697	$553,829
Units	Month	-0.9%	-0.5%	0.0%	-0.5%	-0.6%	1.6%	0.5%	-0.1%	-0.7%	0.1%	-0.5%
	Quarter	-1.8%	-0.6%	-0.2%	-0.1%	-2.5%	0.7%	0.9%	-0.2%	-1.2%	-0.6%	-1.1%
	YTD	-4.6%	-1.8%	-1.0%	1.2%	-5.5%	10.0%	-8.6%	1.9%	-3.2%	0.1%	-2.8%
	Annual	-5.5%	-1.7%	-1.1%	1.3%	-5.8%	11.1%	-10.4%	2.1%	-3.7%	0.6%	-3.1%
	Total return	-2.0%	2.0%	4.4%	5.8%	-1.2%	16.6%	-3.3%	8.0%	0.1%	5.8%	0.9%
	Gross yield	3.8%	4.2%	5.3%	5.3%	4.7%	5.1%	6.5%	5.7%	4.2%	5.3%	4.3%
	Median value	$721,265	$550,389	$382,158	$325,976	$371,822	$366,251	$309,927	$438,695	$547,973	$344,177	$495,258

CoreLogic is the largest independent provider of property information, analytics and property-related risk management services in Australia and New Zealand.

Note: As at November 1st, 2018, CoreLogic has revised the historical hedonic home value index series. The revisions reflect improvements to the underlying data following a major investment in additional data sources and improvements in the overall scope of CoreLogic data assets.

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.

* 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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