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CoreLogic Hedonic Home Value Index, February 2019 Results
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National Media Release

Australian housing values continued to trend lower in February with CoreLogic's national index down 0.7%

According to the CoreLogic home value index results released today, the pace of declining property values eased slightly over the month relative to the previous two months. However, housing values continued to trend lower with six of the eight capitals and four of the seven 'rest of state' markets recording a drop in values over the month.

The 0.7% decline in national dwelling values in February takes the cumulative decline to -6.8% since values peaked in October 2017. National dwelling values have returned to levels last seen in September 2016, and have fallen over fourteen of the last sixteen months.

Although home values have been falling for almost a year and a half, nationally dwelling values remain 18% higher than they were five years ago highlighting that most home owners remain in a strong equity position.

On a positive note, CoreLogic head of research Tim Lawless said, "The national rate of decline eased relative to January and December, when dwelling values were down by around 1%, however the February results remain overall weak, with the geographic scope of negative conditions broadening."

Hobart (+1.1%) was the only capital city to record a rise in values over the past three months, while Canberra values were flat and the remaining capital cities recorded lower values over the rolling quarter.

Mr Lawless said, "The fact that we are seeing weakening housing market conditions across regions where home values were previously rising at a sustainable pace and economic conditions are relatively healthy is a sign that tighter credit conditions are having a broad dampening effect on buyer activity."

The CoreLogic estimates of national settled sales activity were down 12.8% year-on-year, with steeper falls in settled sales activity recorded in Sydney (-20.6%) and Melbourne (-22.1%).

On an annual basis, only three of Australia's eight capitals have recorded a rise in values over the past twelve months, led by Hobart where values were up 7.2%. Brisbane (-0.5%) now shows a negative annual change for the first time since 2012 and Sydney's housing market moved into double digit annual declines for the first time since the early 1980's. Mr Lawless said, "If Melbourne's downturn continues at a similar pace we are likely to see the annual decline move into double digit falls over the coming months as well, with values currently 9.1% lower over the year."

Both Perth and Darwin appear to have caught a second wind in the market downturn with the annual pace of decline previously improving but now worsening. This renewed downwards pressure on home values coincides with a softening in labour market conditions, with weaker housing market results likely compounded by credit scarcity.

Regional housing market values are generally holding firmer than capital city markets, with dwelling values down 1.4% over the past twelve months compared with a 7.6% fall in capital city dwelling values.

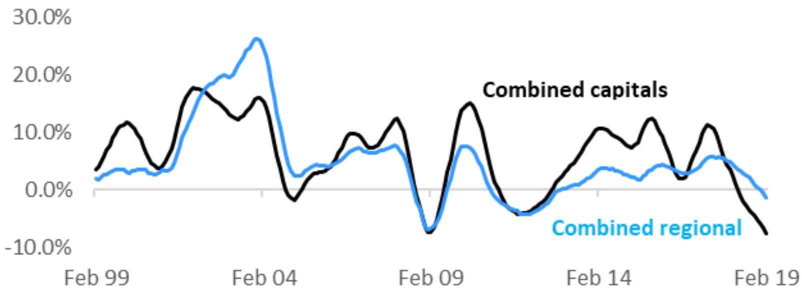
Index results as at February 28, 2019

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-1.0%	-4.1%	-10.4%	-7.2%	$789,339
Melbourne	-1.0%	-4.1%	-9.1%	-6.0%	$629,457
Brisbane	-0.3%	-0.7%	-0.5%	3.3%	$490,635
Adelaide	0.0%	-0.1%	1.0%	5.4%	$432,946
Perth	-1.5%	-3.5%	-6.9%	-3.2%	$438,952
Hobart	0.8%	1.1%	7.2%	12.6%	$457,186
Darwin	-1.7%	-5.1%	-5.3%	0.4%	$397,867
Canberra	-0.2%	0.0%	3.4%	8.1%	$594,351
Combined capitals	-0.9%	-3.3%	-7.6%	-4.2%	$599,612
Combined regional	-0.3%	-0.8%	-1.4%	3.4%	$374,929
National	-0.7%	-2.7%	-6.3%	-2.7%	$524,478

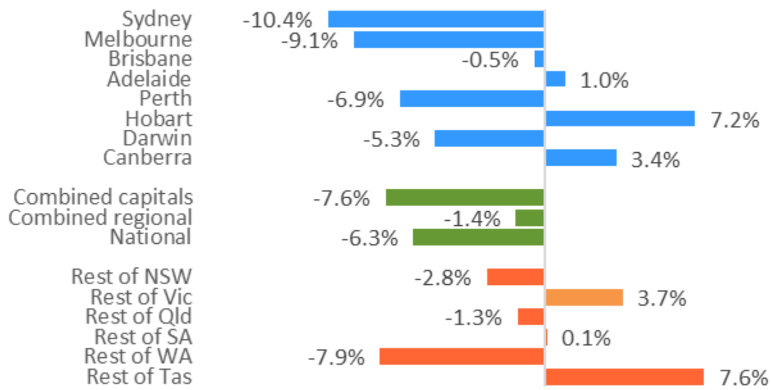
Highlights over the three months to February 2019

- Best performing capital city: **Hobart +1.1%**
- Weakest performing capital city: **Darwin -5.1%**
- Highest rental yield: **Darwin 6.0%**
- Lowest rental yields: **Sydney 3.4%**

Rolling annual change in dwelling values



Annual change in dwelling values



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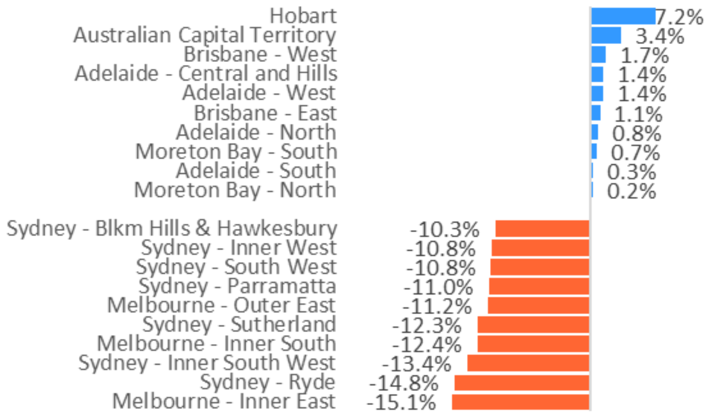
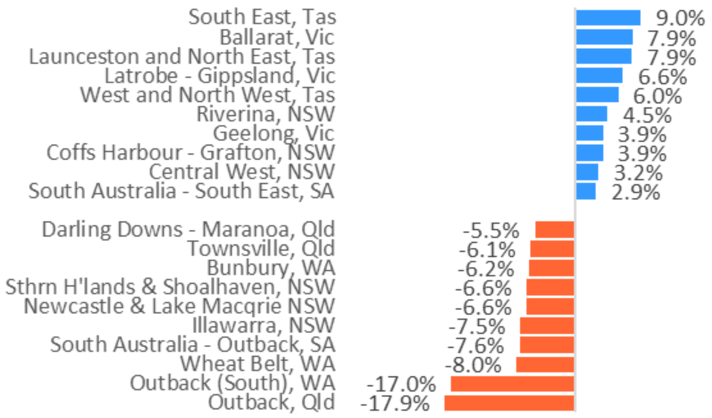
Top ten and bottom ten sub-regions for annual change in dwelling values, Capital city SA4 regions



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



Across the capital city sub-regions, the strongest housing market conditions are confined to the Hobart, Canberra, Adelaide and Brisbane markets. In a demonstration of generally weaker conditions, nine of the top ten best performing sub-regions have recorded a capital gain of less than 5% over the past twelve months.

At the other end of the spectrum, the weakest capital city sub-regions are exclusively within Sydney and, to a lesser extent, Melbourne. The weakest capital city sub-region is the Inner East of Melbourne where values are down 15.1% over the past year.

The largest declines tend to be centered across the more expensive half of the Sydney and Melbourne markets. Mr Lawless said, “Many of these regions saw larger capital gains during the upswing but also typically show higher ratios of dwelling values relative to household incomes, implying affordability is stretched in these markets.”

“As lenders become increasingly focused on reducing their exposure to borrowers with high debt levels relative to income, a natural consequence may be even tighter credit availability across these more expensive regions.”

The top performing regional areas continue to be centered around regional Tasmania and the larger cities/towns surrounding Melbourne. These areas often have a mix of lifestyle appeal, relatively affordable price points, access to amenity and transport options linking with major working precincts.

The weaker regional markets are a mix of agricultural areas, many of which are likely affected by drought and higher production costs for farmers, as well as the cities surrounding Sydney. The weakness in areas such as Newcastle and Illawarra is in direct contrast with the strength in regions surrounding Melbourne. Potentially some explanation for the difference is the relative affordability of the regions surrounding Melbourne, as well as stronger population growth (especially from interstate).

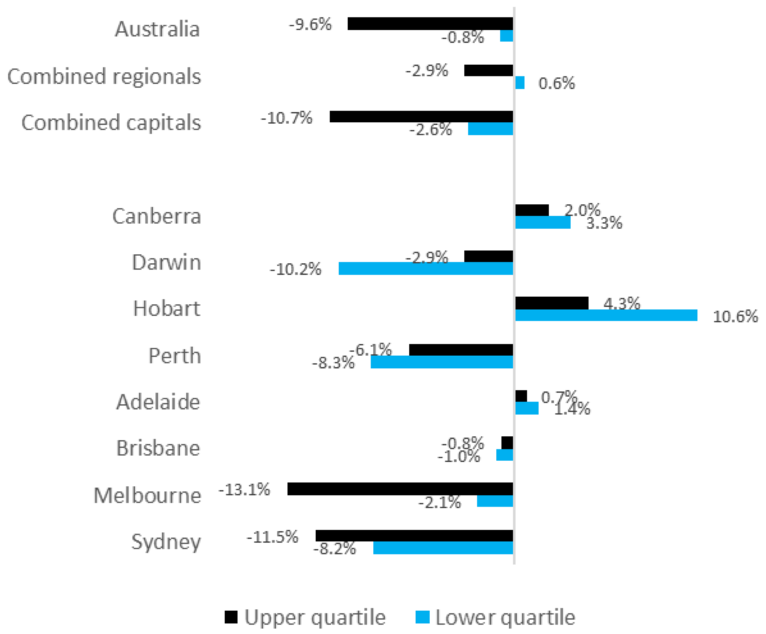
The most affordable end of the housing market is holding value better than the more expensive end. Across the combined capitals, the most expensive quarter of housing saw values fall by 10.7% over the past twelve months, while the most affordable quartile was down only 2.6%.

At the aggregated level, this large difference can be explained by the weaker performance of Sydney and Melbourne, where dwelling values are more expensive relative to other cities, and the stronger performance in cities with lower values such as Hobart and Adelaide.

Across each of the capital cities, Mr Lawless says that the trends are clearer, with an overt underperformance across Sydney and Melbourne’s upper quartile. “The stronger conditions across the more affordable properties can be explained by the surge in first home buyer activity in these cities, as these buyers take advantage of stamp duty concessions available in NSW and Vic.”

“Another factor could be that lenders are likely reducing their exposure to borrowers with high debt levels relative to their incomes which could be skewing demand towards the middle to lower end of the housing market in the most expensive cities.”

Annual change in dwelling values across upper and lower value quartiles



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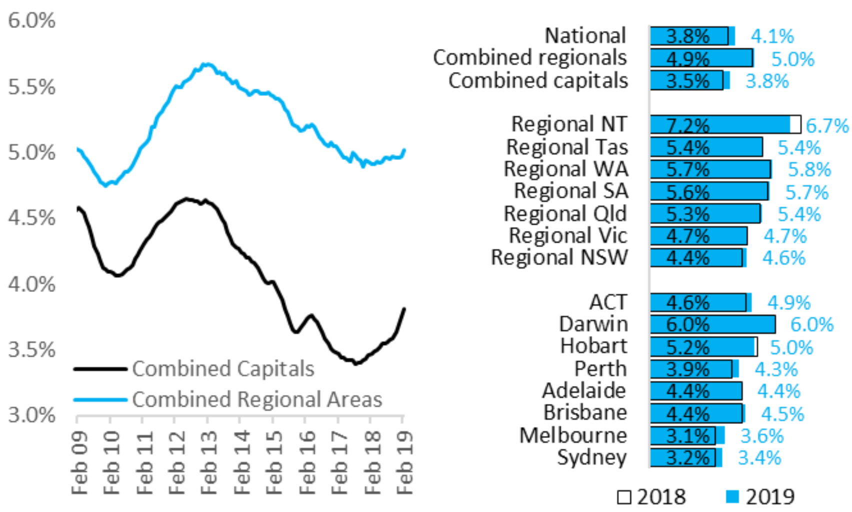
Rental conditions generally improved in February on the back of a seasonal rise in rental demand. Every capital city and broad 'rest of state' region, apart from Darwin, saw weekly rents edge higher over the month. The trend data continues to show sluggish rental conditions across most regions of Australia. Nationally, rental rates were 0.3% higher in February, but were up only 0.4% over the past twelve months.

Canberra and Hobart stand out as the tightest rental markets, with renters paying an extra 4.7% and 4.6% respectively compared with a year ago. The weakest rental conditions over the past year are in Darwin and Sydney where rents have slipped 6.1% and 2.9% lower.

Despite the relatively soft rental conditions, gross yields have continued to trend higher, especially across the capital cities where gross yields moved through record lows in August 2017, improving from 3.39% since that time to reach 3.81% at the end of February this year.

Gross rental yields



Yields have improved across most regions of the country relative to a year ago, with the trend mostly achieved via lower values rather than substantially higher rental rates. The outlier is Hobart, where dwelling values continue to rise at a faster annual rate relative to rents. Gross rental yields have fallen from 5.2% a year ago to reach 5.0% at the end of February 2019.

Overall, Mr Lawless said, "The February housing market results marked a subtle improvement in the rate of decline, however the housing market downturn is now more widespread geographically and we aren't seeing any indicators pointing to the market bottoming out just yet."

Credit aggregates from the RBA and housing finance data from the ABS have continued to show a consistent reduction in credit flows and mortgage activity, with a more pronounced downturn in owner occupier credit growth visible through the second half of 2018 and now into 2019. According to Mr Lawless, "While a slowdown in investment was a key driver of slowing housing markets since 2015, the recent decline in owner occupier lending is far more significant considering owner occupier lending is more than twice the value of investment lending."

"The long-running reduction in investment lending has understandably impacted the Sydney and Melbourne housing markets more than others, considering investment activity was heavily concentrated in these cities, however the reduction in owner occupier credit explains a lot about the broader softening in housing market conditions more recently."

"Stricter lending standards are a logical outcome following the royal commission and we are likely in the early phases of a 'new normal' for mortgage lending where borrowers will face closer scrutiny around their expenses and ability to service a loan and conversion rates on loan applications are likely to remain lower than they have been over prior years."

While credit availability seems to be the key driver of slowing conditions, Mr Lawless cites other factors are contributing to the downturn in housing market conditions.

Higher supply Construction activity across the residential sector has recently moved through unprecedented peaks, with new housing supply now weighing on some markets. Concerns around oversupply are generally confined to specific high-density precincts, and to a lesser extent, some greenfield detached housing markets.

A build-up of stock available for sale The number of properties advertised for sale has been consistently rising due to fewer buyers and longer selling times. Despite the surge in inventory, 'fresh' stock being added to the market was down 19% relative to last year, highlighting that vendor confidence is low. Buyers are firmly in the driver's seat and in a good position to take advantage of the strong buying position.

Fewer foreign buyers The latest Residential Property Survey from NAB showed foreign buyers comprised just 6.5% of new housing demand, down from almost 17% in late 2014. The reduction in foreign buying activity is likely to have a greater impact within the high-rise apartment sector where activity was previously most concentrated.

Reduced sentiment The Westpac/Melbourne Institute survey of consumer sentiment has consistently highlighted a pessimistic view from consumers around their expectations for house prices, which is likely to be another factor reducing market demand.

"Helping to offset these headwinds are mortgage rates which are still tracking around the lowest level since the 1960's and strong labour market conditions in NSW and Vic where unemployment rates are around record lows," Mr Lawless said.

"Further cuts to the cash rate are looking like a growing possibility, however its uncertain how much stimulus lower rates may provide to the housing sector considering the tight servicing criteria and higher funding costs from lenders which would likely prevent any cuts being passed on in full.

"Over the coming months there is an expectation that values will continue to broadly decline.

"While the rate of decline in Sydney and Melbourne has slowed a little over the month, other cities have weakened. With values expected to fall further, the attention now turns to what impact this could have on future household consumption which accounts for around 60% of the economy.

"If households reduce their spending as the wealth effect continues to reverse, then interest rate cuts or other policy intervention could become more likely."

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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	-1.0%	-1.0%	-0.3%	0.0%	-1.5%	0.8%	-1.7%	-0.2%	-0.9%	-0.3%	-0.7%
	Quarter	-4.1%	-4.1%	-0.7%	-0.1%	-3.5%	1.1%	-5.1%	0.0%	-3.3%	-0.8%	-2.7%
	YTD	-2.3%	-2.6%	-0.6%	-0.3%	-2.5%	0.7%	-3.3%	0.0%	-2.0%	-0.6%	-1.7%
	Annual	-10.4%	-9.1%	-0.5%	1.0%	-6.9%	7.2%	-5.3%	3.4%	-7.6%	-1.4%	-6.3%
	Total return	-7.2%	-6.0%	3.3%	5.4%	-3.2%	12.6%	0.4%	8.1%	-4.2%	3.4%	-2.7%
	Gross yield	3.4%	3.6%	4.5%	4.4%	4.3%	5.0%	6.0%	4.9%	3.8%	5.0%	4.1%
	Median value	$789,339	$629,457	$490,635	$432,946	$438,952	$457,186	$397,867	$594,351	$599,612	$374,929	$524,478
Houses	Month	-1.1%	-1.2%	-0.3%	-0.1%	-1.4%	0.9%	-1.3%	-0.1%	-0.9%	-0.3%	-0.8%
	Quarter	-4.3%	-4.8%	-0.8%	-0.3%	-3.4%	1.2%	-4.0%	0.1%	-3.4%	-0.8%	-2.8%
	YTD	-2.5%	-2.9%	-0.5%	-0.5%	-2.5%	0.7%	-2.2%	0.2%	-2.1%	-0.6%	-1.7%
	Annual	-11.5%	-11.5%	-0.4%	0.9%	-6.7%	6.8%	0.2%	4.1%	-8.3%	-1.6%	-6.8%
	Total return	-8.7%	-9.0%	3.0%	5.2%	-3.2%	12.2%	5.3%	8.5%	-5.2%	3.1%	-3.4%
	Gross yield	3.2%	3.2%	4.3%	4.2%	4.1%	4.9%	5.5%	4.6%	3.6%	4.9%	3.9%
	Median value	$888,117	$729,392	$538,849	$467,684	$461,890	$489,811	$479,103	$665,701	$636,006	$385,049	$541,242
Units	Month	-0.8%	-0.6%	-0.4%	0.6%	-1.7%	0.5%	-2.3%	-0.4%	-0.7%	-0.2%	-0.6%
	Quarter	-3.6%	-2.4%	-0.4%	1.1%	-3.7%	0.5%	-7.2%	-0.3%	-2.8%	-0.5%	-2.5%
	YTD	-1.9%	-1.9%	-0.7%	0.6%	-2.7%	0.4%	-5.4%	-0.4%	-1.8%	-0.5%	-1.6%
	Annual	-7.8%	-3.7%	-0.9%	1.4%	-7.7%	8.8%	-14.4%	1.1%	-5.6%	-0.4%	-4.8%
	Total return	-4.4%	-0.1%	4.8%	6.3%	-3.0%	14.2%	-7.7%	7.0%	-1.8%	4.7%	-0.9%
	Gross yield	4.0%	4.4%	5.4%	5.3%	5.0%	5.1%	6.8%	5.8%	4.4%	5.3%	4.5%
	Median value	$693,350	$530,492	$378,945	$328,229	$360,221	$373,356	$289,236	$432,389	$530,831	$339,238	$484,739

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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