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

Housing downturn loses some steam with CoreLogic national home value index down 0.6% in March

The CoreLogic hedonic home value index results released today reveal that the pace of declining property values has eased relative to the past four months. However, CoreLogic head of research Tim Lawless noted that the market downturn has become geographically more widespread, with housing values lower across six of the eight capitals and five of the seven 'rest of state' markets over the month.

Although the CoreLogic national hedonic index series trended lower in March, the actual rate of decline has been easing over the past three months. In fact, Mr Lawless confirmed that the 0.6% drop in March was actually the smallest of the month-on-month declines since values fell by 0.5% in October last year.

Commenting on the results, Mr Lawless said, "While the pace of falls has slowed in March, the scope of the downturn has become more geographically widespread."

Dwelling values were down across six of the eight capital cities, with Canberra values holding firm while Hobart values were 0.6% higher. Most of the 'rest of state' regions, which comprise the areas outside the capital cities, also recorded a fall in values; the exceptions being regional Tasmania (+0.5%) and regional South Australia (+0.3%).

The quarterly trend in dwelling values is showing a similar pattern, with six of the eight capitals recording a fall in values over the March quarter, led by Darwin (-3.9%), Melbourne (-3.4%) and Sydney (-3.2%).

National dwelling values have been trending lower for seventeen months and have fallen by a cumulative 7.4% since peaking in October 2017. Despite the broad based weakness, the national index remains 15.9% higher relative to five years ago, highlighting that most property owners remain in a strong equity position.

Markets where values peaked much earlier have shown a more substantial downturn. In Darwin and Perth, where weak housing market conditions were driven by post mining boom weaker economic and demographic conditions, dwelling values have fallen by a cumulative 27.5% and 18.1% respectively since peaking in 2014. Mr Lawless said, "The silver lining here is that housing is now very affordable and first home buyers are proportionally much more active relative to other areas of the country."

On the other hand, Mr Lawless noted that dwelling values remain at record highs across Hobart and regional Tasmania, and only marginally lower in Canberra (-0.2%), Adelaide (-0.5%) and Brisbane (-1.6%), as well as regional Victoria (-0.8%). Although housing market conditions remain relatively healthy in these regions, conditions have noticeably softened over the past twelve month with values either slipping or the pace of growth slowing materially.

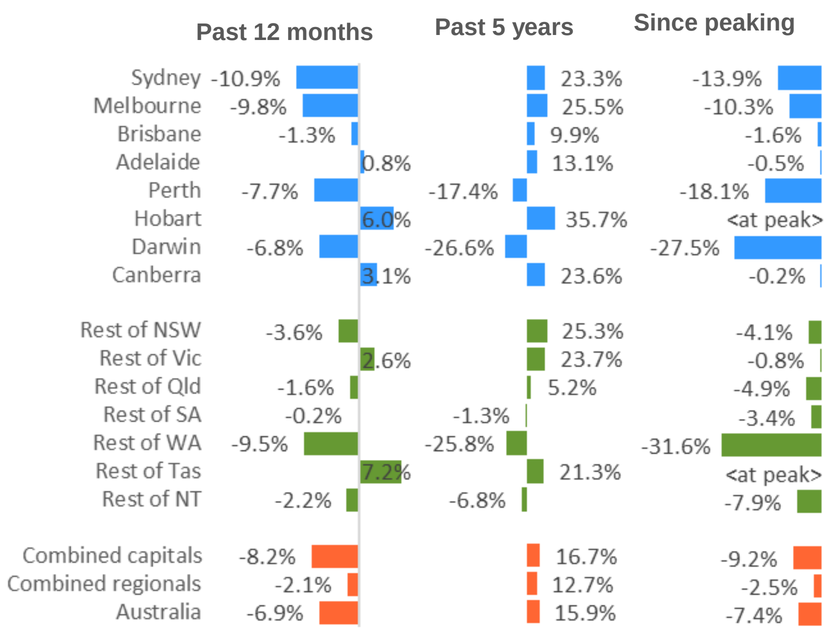
Index results as at March 31, 2019

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.9%	-3.2%	-10.9%	-7.8%	$782,473
Melbourne	-0.8%	-3.4%	-9.8%	-6.6%	$624,425
Brisbane	-0.6%	-1.1%	-1.3%	2.7%	$489,832
Adelaide	-0.2%	-0.5%	0.8%	5.1%	$426,990
Perth	-0.4%	-2.9%	-7.7%	-4.0%	$442,716
Hobart	0.6%	1.2%	6.0%	11.2%	$464,168
Darwin	-0.6%	-3.9%	-6.8%	-1.3%	$400,316
Canberra	0.0%	0.0%	3.1%	7.8%	$595,212
Combined capitals	-0.7%	-2.7%	-8.2%	-4.8%	$597,860
Combined regional	-0.4%	-1.0%	-2.1%	2.7%	$376,728
National	-0.6%	-2.3%	-6.9%	-3.3%	$524,149

Highlights over the three months to March 2019

- Best performing capital city: **Hobart +1.2%**
- Weakest performing capital city: **Darwin -3.9%**
- Highest rental yield: **Darwin 6.0%**
- Lowest rental yields: **Sydney 3.5%**

Change in dwelling values



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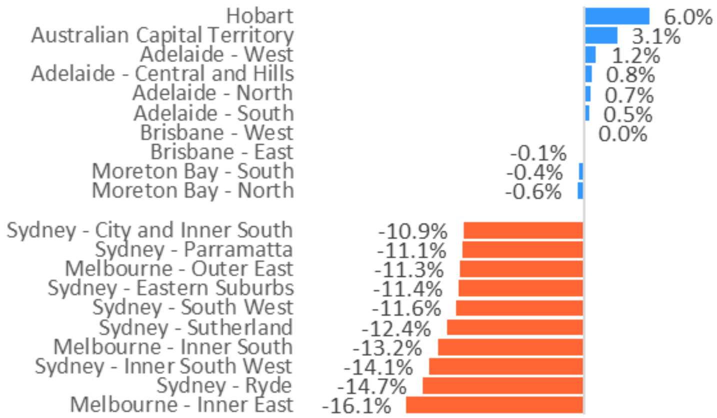
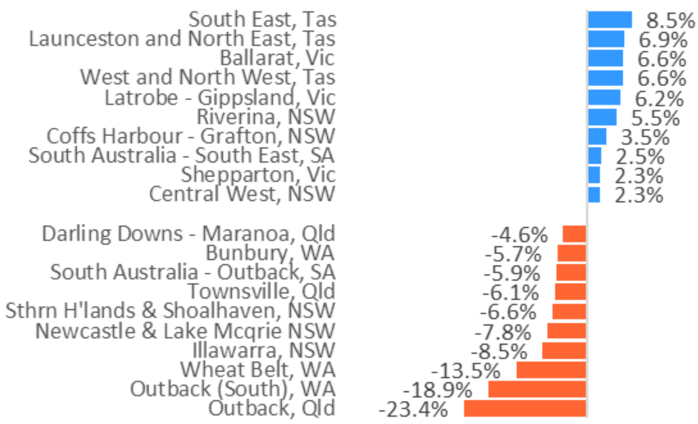
Top ten and bottom ten sub-regions for annual change in dwelling values, Capital city SA4 regions



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



Across the broad valuation cohorts, we are continuing to see the most expensive quarter of the housing market in Melbourne (-13.9%) and Sydney (-11.9%) record the largest annual declines, while most other cities are recording less variance between the upper and lower quartiles of the market.

According to Mr Lawless, the difference in performance across Sydney and Melbourne's high and low quartiles is likely related to several factors including affordability challenges and a surge in first home buyers funneling demand towards the more affordable range of properties, as well as more cautious lending policies for borrowers with high debt levels relative to incomes. He said, "Despite Sydney and Melbourne housing values falling, overall dwelling values relative to household incomes remain substantially higher than other cities, which could be another factor in skewing credit availability towards the middle to lower end of the market."

With housing affordability becoming more challenging for Hobart, the lower quartile is showing a substantially stronger performance while cities such as Perth and Darwin, where the ratio of incomes to dwelling values is generally low, are showing a stronger performance across the top quartile of the market.

Across the 46 capital city SA4 sub-regions, only seven areas have avoided a fall in dwelling values over the past twelve months. These positive growth areas include the metro areas of Hobart and Canberra, as well as regions of Brisbane and Adelaide. According to Mr Lawless, the smaller number of capital city regions recording any level of growth in dwelling values highlights the broader geographical scope of this downturn. At the same time a year ago there were thirty SA4 capital city sub-regions recording annual growth.

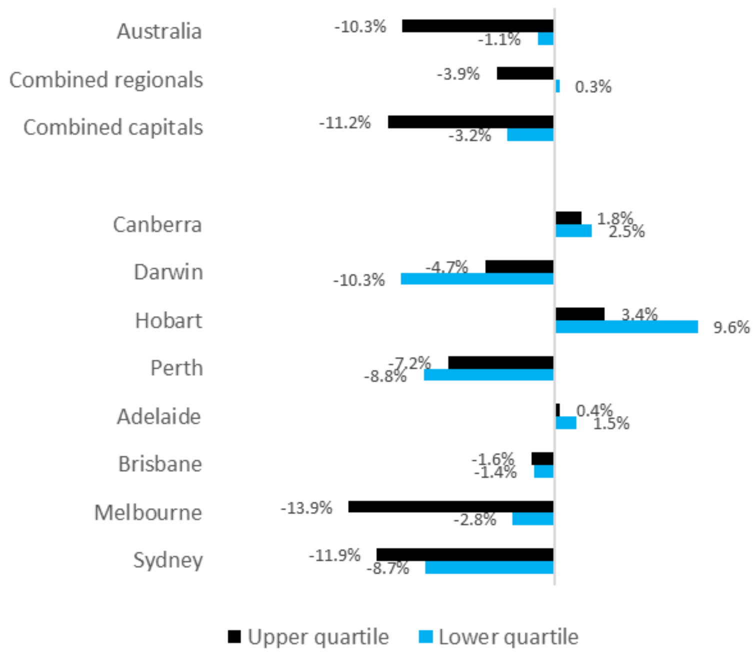
The weakest areas of the capital cities are now confined to Sydney and Melbourne, with some bias toward the more expensive areas of the cities. Melbourne's prestigious Inner East has recorded the largest decline in values over the past twelve months (-16.1%) followed by Sydney's Ryde (-14.7%) and Sydney's Inner South West (-14.1%).

Across the 42 regional SA4 sub-regions, 18 regions are recording positive annual growth in dwelling values, demonstrating healthier conditions relative to the capital cities. Areas of regional Tasmania topped the list of best performers, with the strongest housing market conditions rippling away from Hobart towards the major regional centres of the state where housing values are generally more affordable.

Regional areas adjacent to Melbourne are also continuing to show healthy market conditions, with Ballarat values 6.6% higher over the year and Latrobe-Gippsland values rising 6.2%. Lifestyle markets are generally still seeing positive growth conditions as well.

The weakest performers across the regional markets tend to be a combination of agricultural regions, as well as the areas adjacent to the Sydney metropolitan region where market conditions are showing a similar trend to Sydney's downturn, albeit with a slight lag.

Annual change in dwelling values across upper and lower value quartiles



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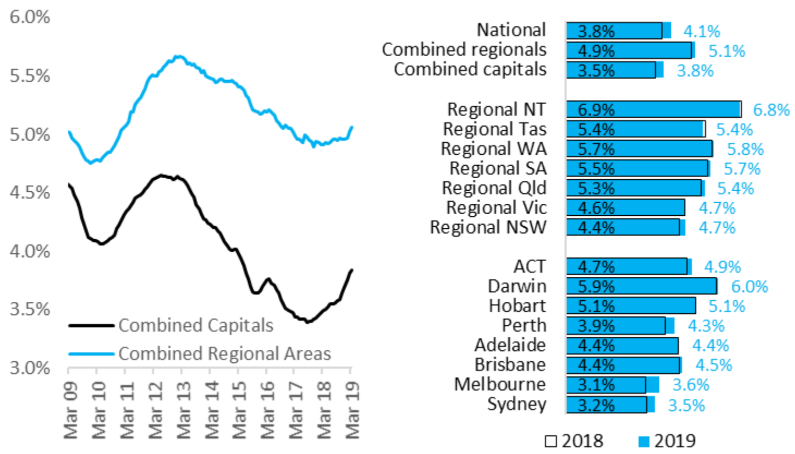
Capital city rents slipped 0.1% lower over the twelve months ending March 2019; the first negative reading since at least May 2005 (which is the commencement date of the CoreLogic rental series). The negative change in annual rental activity was heavily influenced by the Sydney market, where weekly rents were down 3.1% over the year. Every other capital city apart from Darwin has recorded a modest rise in weekly rents over the year.

Mr Lawless said, "Sluggish rental conditions are likely the result of higher rental supply coupled with a reduction in rental demand. Higher supply can be attributed to the surge in investment activity over recent years, while the reduction in demand is the result of more renters converting to first home buyers."

Despite sluggish rental conditions, gross rental yields are generally trending higher as rental rates outperform dwelling values.

Gross rental yields



Gross rental yields have moved off their record lows in Sydney and Melbourne, however, these cities are still recording the lowest gross rental yields amongst the capital cities at 3.5% and 3.6% respectively. Most other capital cities are recording gross rental yields around the mid 4% range, with Darwin and Hobart showing a higher yield profile. Regional markets are generally showing a higher gross rental yield relative to the capital cities which is a long standing trend.

Overall, Mr Lawless said that the housing market has recently shown some tentative signs that the downturn in dwelling values is losing some steam.

"Although this is a positive development, the outlook for the housing market will continue to be affected by uncertainty related to the federal election, lending policies and more broadly, domestic economic conditions.

"Federal elections generally cause some uncertainty, which is likely amplified more so this time around considering the potential for a change of government which will also involve significant changes to taxation policies related to investment."

"No doubt, some prospective buyers and sellers are delaying their housing decisions until after the election, however, there is no guarantee that certainty will improve post-election, considering the impact of a wind back to negative gearing and halving of the capital gains tax concession is largely unknown. It seems a reasonable assumption that removing an incentive from the market would result in some downwards pressure on activity and prices for a period of time."

"If elected, the Opposition have flagged that changes to the capital gains tax discount and negative gearing would take effect from January 2020."

Another key factor cited by CoreLogic and one to watch in relation to the housing market will be credit availability. CoreLogic data tracking the number of housing valuation events, which provides a timely proxy for mortgage activity, has remained around 14% below activity a year ago.

A similar trend is confirmed within the less timely ABS housing finance data which continued to show a reduction in both investor and owner occupier lending through to the end of January. While this trend in weaker housing finance commitments is very much entrenched for investment lending, of concern to Mr Lawless is the sharp downturn in owner occupier lending.

He said, "The value of owner occupier lending is around 2.6 times the value of investor lending, so the substantial drop in owner occupier mortgage commitments perhaps explains why the housing downturn is becoming more widespread. The value of owner occupier housing finance commitments (excluding refi) was down 17.1% compared with January last year and investment credit was 24.6% lower."

While there are headwinds for the housing market, Mr Lawless cites other factors likely to help offset the weakness such as a high likelihood that the cash rate will be cut later this year, which may result in lower mortgage rates.

He said, "While any cuts to the cash rate may not be passed on in full, a lower cost of debt will provide some positive stimulus for the housing market. Arguably, this stimulus won't be as effective as previous interest rate cuts due to the high serviceability buffer applied to borrowers, whereby lenders are still required to assess serviceability at a mortgage rate of at least 7% despite mortgage rates which are now available around the 4% mark or even lower."

Mr Lawless believes improving housing affordability could be the silver-lining to this downturn. He said, "As dwelling prices trend lower or level out, household incomes are edging higher and mortgage rates remain around the lowest level since the 1960's. First home buyers are clearly taking advantage of the improved levels of affordability and less competition in the market."

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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	-0.9%	-0.8%	-0.6%	-0.2%	-0.4%	0.6%	-0.6%	0.0%	-0.7%	-0.4%	-0.6%
	Quarter	-3.2%	-3.4%	-1.1%	-0.5%	-2.9%	1.2%	-3.9%	0.0%	-2.7%	-1.0%	-2.3%
	YTD	-3.2%	-3.4%	-1.1%	-0.5%	-2.9%	1.2%	-3.9%	0.0%	-2.7%	-1.0%	-2.3%
	Annual	-10.9%	-9.8%	-1.3%	0.8%	-7.7%	6.0%	-6.8%	3.1%	-8.2%	-2.1%	-6.9%
	Total return	-7.8%	-6.6%	2.7%	5.1%	-4.0%	11.2%	-1.3%	7.8%	-4.8%	2.7%	-3.3%
	Gross yield	3.5%	3.6%	4.5%	4.4%	4.3%	5.1%	6.0%	4.9%	3.8%	5.1%	4.1%
	Median value	$782,473	$624,425	$489,832	$426,990	$442,716	$464,168	$400,316	$595,212	$597,860	$376,728	$524,149
Houses	Month	-0.7%	-1.1%	-0.6%	-0.3%	-0.4%	0.6%	-1.0%	0.1%	-0.7%	-0.4%	-0.6%
	Quarter	-3.2%	-4.0%	-1.1%	-0.7%	-2.9%	1.4%	-3.2%	0.3%	-2.8%	-1.0%	-2.4%
	YTD	-3.2%	-4.0%	-1.1%	-0.7%	-2.9%	1.4%	-3.2%	0.3%	-2.8%	-1.0%	-2.4%
	Annual	-11.8%	-12.4%	-1.3%	0.7%	-7.6%	5.7%	-3.2%	3.9%	-8.9%	-2.3%	-7.4%
	Total return	-9.0%	-9.8%	2.4%	4.9%	-4.1%	11.0%	2.0%	8.4%	-5.8%	2.4%	-4.0%
	Gross yield	3.2%	3.2%	4.3%	4.3%	4.1%	5.1%	5.5%	4.6%	3.6%	5.0%	3.9%
	Median value	$880,594	$718,443	$538,544	$460,673	$467,783	$493,237	$478,191	$669,911	$634,024	$387,485	$540,676
Units	Month	-1.2%	0.0%	-0.7%	0.0%	-0.3%	0.3%	0.2%	-0.4%	-0.7%	-0.6%	-0.7%
	Quarter	-3.1%	-1.9%	-1.4%	0.6%	-3.0%	0.7%	-5.1%	-0.8%	-2.4%	-1.1%	-2.2%
	YTD	-3.1%	-1.9%	-1.4%	0.6%	-3.0%	0.7%	-5.1%	-0.8%	-2.4%	-1.1%	-2.2%
	Annual	-8.9%	-3.8%	-1.7%	1.2%	-8.1%	6.9%	-13.0%	0.2%	-6.3%	-1.4%	-5.6%
	Total return	-5.5%	-0.1%	3.9%	6.2%	-3.4%	12.2%	-6.8%	6.0%	-2.5%	3.8%	-1.6%
	Gross yield	4.0%	4.4%	5.4%	5.3%	5.0%	5.1%	6.8%	5.9%	4.4%	5.4%	4.5%
	Median value	$687,327	$528,993	$374,896	$325,628	$356,706	$385,319	$290,283	$434,091	$529,643	$340,824	$484,552

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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