National Media Release

Housing downturn losing steam as the pace of declining home values continues to reduce in May

The CoreLogic May 2019 home value index results out today showed national dwelling values were down 0.4% over the month; the smallest month-on-month fall in a year.

Although at a broad level dwelling values are still trending lower across the regions of Australia, the pace of declines eased further in May, continuing a trend that has been evident since the beginning of 2019. Nationally, dwelling values were down 0.4% in May, which was the smallest month-on-month decline since May 2018.

CoreLogic head of research Tim Lawless said, “This improvement is primarily being driven by a slower rate of decline in Sydney and Melbourne where housing values were previously falling at the fastest rate of any capital city. Sydney values were 0.5% lower over the month while Melbourne values were 0.3% lower; the smallest decline in values across both cities since March last year.

“In other cities, where housing market conditions have generally been more resilient to a downturn, the trend is opposite.”

Hobart values have tracked lower for two months running, taking the rolling quarterly rate of change into negative territory for the first time since early 2016, and with Canberra values 0.2% lower over the month, the quarterly rate of growth remains only slightly in positive territory (+0.2%).

While the pace of value falls eased across some cities, the Australian housing market remains in a geographically broad-based downturn. Adelaide (+0.2%) was the only city to avoid a slip in housing values over the month and in ‘rest-of-state’ areas, South Australia, Tasmania and Northern Territory were the only regions in which values rose in May. In fact, Regional Tasmania is the only broad region across the country where housing values remain at record highs.

The slower rate of decline is also visible in higher auction clearance rates through the month. The last week of May saw Sydney clearance rates break the 60% mark for the first time in a year, while Melbourne clearance rates have held around 60% over three of the past six weeks.

Tim Lawless said, “Although clearance rates remain low relative to several years ago when housing market conditions were much stronger, the improved performance at auction aligns with the easing rate of decline.”

Since peaking in October 2017, national dwelling values have reduced by 8.2%, with values across the combined capitals index down 10.1% while regional values have been more resilient, falling by 3.0% since peaking. Larger capital city falls have been recorded in Darwin (-29.5%) and Perth (-19.2%), as well as regional WA (-32.5%) where the mining downturn has led to persistently weak economic and demographic conditions. These regions now represent some of the most affordable housing markets around the country; a factor which explains the high proportion of first home buyer participation in these areas. The last time values were this low in Darwin was March 2017, in Perth values were previously this low in April 2006 and values haven’t been this low across regional WA since July 2005.

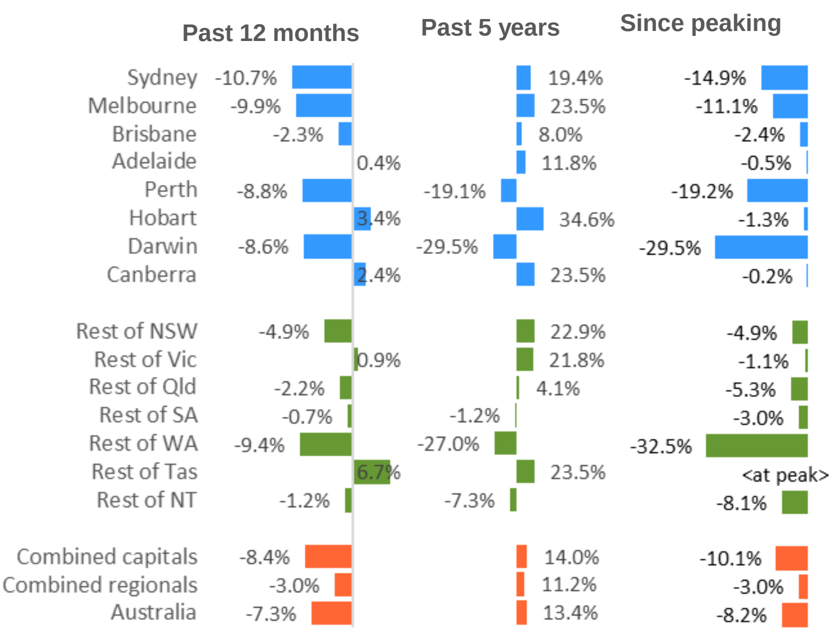
Index results as at May 31, 2019

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.5%	-2.0%	-10.7%	-7.5%	$776,135
Melbourne	-0.3%	-1.7%	-9.9%	-6.8%	$619,804
Brisbane	-0.5%	-1.4%	-2.3%	2.0%	$484,882
Adelaide	0.2%	-0.2%	0.4%	4.6%	$431,702
Perth	-1.0%	-1.8%	-8.8%	-5.0%	$436,090
Hobart	-0.4%	-0.7%	3.4%	8.5%	$445,235
Darwin	-1.6%	-3.3%	-8.6%	-2.5%	$393,298
Canberra	-0.2%	0.2%	2.4%	7.0%	$587,583
Combined capitals	-0.4%	-1.7%	-8.4%	-5.0%	$592,135
Combined regional	-0.2%	-1.0%	-3.0%	1.8%	$377,462
National	-0.4%	-1.5%	-7.3%	-3.6%	$519,537

Highlights over the three months to May 2019

- Best performing capital city: **Canberra +0.2%**
- Weakest performing capital city: **Darwin -3.3%**
- Highest rental yield: **Darwin 6.0%**
- Lowest rental yields: **Sydney 3.5%**

Change in dwelling values



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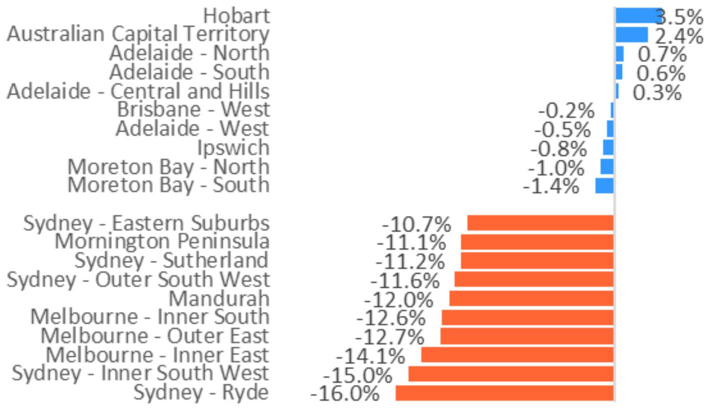
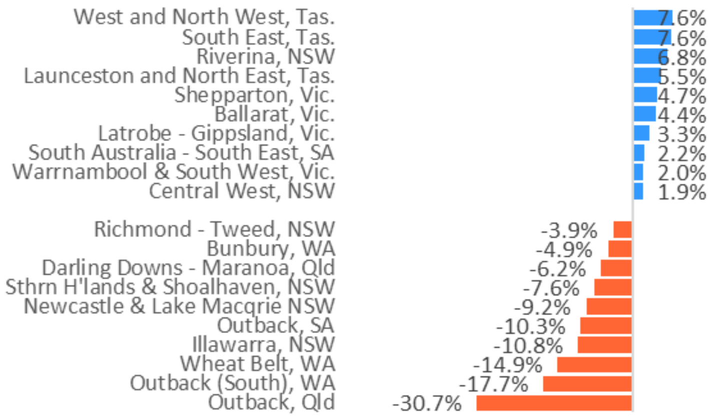
Top ten and bottom ten sub-regions for annual change in dwelling values, Capital city SA4 regions



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



Across the broader valuation cohorts, Tim Lawless confirmed that the most expensive quarter of the housing market is generally under-performing relative to the most affordable quarter of the market. "This trend is evident across both the combined capitals and combined regional areas of the country," he said.

The top quartile of properties in Melbourne (-13.3%) and Sydney (-11.6%) are continuing to record the largest annual declines, however the rate of decline is losing pace more rapidly relative the other broad value based sectors of the market. Since peaking, dwelling values have declined more significantly across the top quartile of the Sydney and Melbourne markets, however it's looking like this might be the sector of the market that could level out the earliest if the current trends persist.

In Brisbane, the performance of housing values across the upper quartile has weakened, with values down 2.0% over the past three months, while the most affordable quarter of properties recorded a 0.7% decline.

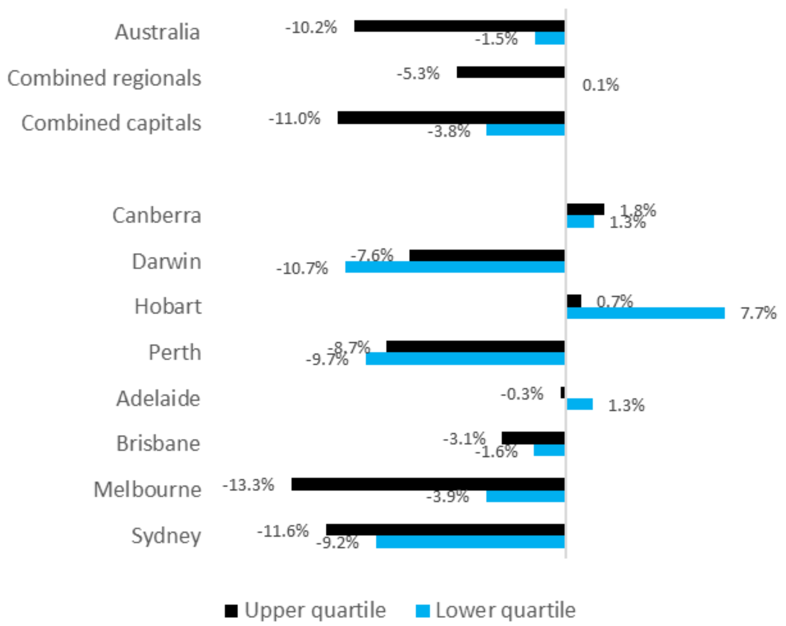
Across the 46 capital city SA4 sub-regions, only five areas have avoided an annual fall in dwelling values. The best conditions can now be found across Hobart and Canberra, as well as regions of Adelaide and Brisbane. Tim Lawless said, "The fact that half of the top ten best performing capital city sub-regions are actually reporting a negative annual result for housing value movements highlights the broad-based nature of this housing downturn."

The weakest capital city sub-regions were generally confined to areas of Sydney and Melbourne, with Perth's Mandurah also featured in the list of the weakest performing capital city areas. The Sydney regions of Ryde (-16.0%) and the Inner South West (-15.0%) have taken over from Melbourne's prestigious Inner East (-14.1%) as the weakest capital city sub-regions over the past twelve months.

Across the 42 regional SA4's of Australia, 14 regions are recording positive annual growth in dwelling values, demonstrating slightly healthier conditions relative to the capital cities. Areas of regional Tasmania are showing the strongest growth conditions over the past twelve months, with the North West and South East SA4 regions up 7.6% over the past twelve months. The next strongest growth was in the Riverina region of NSW (+6.8%), as well as areas of regional Victoria, led by Shepparton, where values are 4.7% higher over the year. Despite a greater number of regions recording annual growth relative to the capital cities, over recent months most of these regions have lost some momentum.

The weakest regional sub-regions are confined to the broader outback areas of Queensland and Western Australia as well as the Wheat Belt of Western Australia where weaker agricultural conditions are likely having a negative impact on housing values. The regions adjacent to Sydney, including Illawarra, Newcastle & Lake Macquarie and the Southern Highlands & Shoalhaven have also recorded substantial falls in value over the past twelve months, following a similar downwards trajectory to the Sydney market.

Annual change in dwelling values across upper and lower value quartiles



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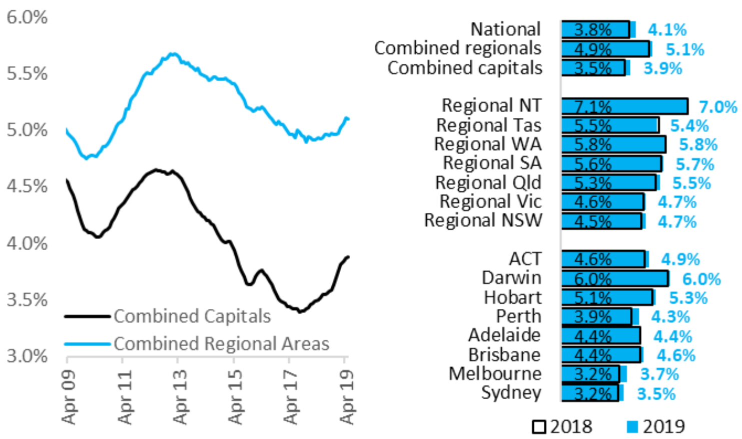
CoreLogic's national hedonic rental index held firm in May and was up 0.4% over the past twelve months. The Darwin and Sydney rental markets remain as the largest drag on national rental growth, with rental rates falling 5.2% and 2.9% respectively over the past twelve months.

Hobart rents are rising the fastest amongst the capitals, up 4.9% over the past twelve months due to strong demand coupled with low rental supply.

Although rental markets are generally sluggish, gross rental yields are continuing to recover from their recent record lows. Nationally, the gross rental yield is recorded at 4.13%, the highest gross yield since May 2015, but still 14 basis points below the decade average of 4.27%.

Gross rental yields



Each of the capital cities and broad regional rental markets, apart from Regional Tasmania and Regional Northern Territory, have recorded either a steady or higher gross yield profile relative to the same time a year ago; a reflection of the change in rental rates being greater than the change in dwelling values.

Since the federal election, Tim Lawless said, "we have seen a variety of outcomes and announcements that are likely to have a positive effect on housing market conditions."

"The federal election outcome has removed the uncertainty surrounding taxation reform which should see an improved level of confidence amongst home owners and prospective buyers, particularly investors.

"We now have some certainty around the initiatives announced in the federal budget, a consistent commission structure for mortgage brokers (who comprise around 60% of mortgage originations), and the eventual stimulus for first home buyers in the form of a federal government deposit guarantee, which although limited to 10,000 participants with at least a 5% deposit, will kick off in January next year."

Additionally, he said we are likely to see the serviceability assessments used to qualify borrowers for a home loan reduced sometime in late June.

By dropping the interest rate serviceability test from the current level of 7.25% to a 2.5% buffer above the going mortgage rate Tim Lawless believes it will help to improve access to credit and enable some borrowers to obtain a larger loan. "One of the factors contributing to less activity in the housing market has been the challenges involved with accessing credit. While there are a variety of other policies that will continue to keep a lid on housing credit, a more practical assessment of borrower servicing capacity is certainly a positive for housing market demand," he said.

Another factor that should support housing market conditions is lower mortgage rates; most analysts are predicting a rate cut in June as an almost certain outcome. Mortgage rates are already around the lowest level since the 1960's, and there is a high likelihood that lenders will pass any cash rate cuts in full on to mortgage rates. Lower interest rates have typically shown a positive influence on housing demand.

Tim Lawless said, "Lower interest rates may not provide the same level of stimulus as what we have seen in the past, due to tighter credit policies, but no doubt, lower rates will still provide some positive influence over the housing market."

While the outlook for the housing market is looking more positive now than it was pre-federal election, Tim Lawless believes that a variety of headwinds are still at play, especially in the credit space. He said, "Although interest rates and serviceability tests are set to reduce, lenders are continuing to scrutinize incomes and expenses much more intensely. Comprehensive credit reporting is providing lenders with greater visibility around borrower finances and overall debt levels, and progressively lenders are reducing their exposure to borrowers with high debt levels relative to their income."

"We should also keep in mind the reasons why interest rates are likely to move lower. Policy makers are becoming increasingly concerned about prospects for economic growth and stubbornly low inflation. The labour market is seeing some cracks emerge and global trade tensions remain high. If the economy continues to lose momentum, we could see further weakening in labour markets and a continuation of weak wages growth."

In closing Tim Lawless said, "no doubt, policy makers and regulators will be keeping a close eye on the housing market. If we see housing values surging higher on the back increased stimulus measures, we may see macro-prudential or other policy levers being pulled in an effort to provide house price stability while at the same time supporting an improvement in economic 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	-0.5%	-0.3%	-0.5%	0.2%	-1.0%	-0.4%	-1.6%	-0.2%	-0.4%	-0.2%	-0.4%
	Quarter	-2.0%	-1.7%	-1.4%	-0.2%	-1.8%	-0.7%	-3.3%	0.2%	-1.7%	-1.0%	-1.5%
	YTD	-4.3%	-4.2%	-2.0%	-0.5%	-4.2%	0.0%	-6.6%	0.2%	-3.7%	-1.5%	-3.2%
	Annual	-10.7%	-9.9%	-2.3%	0.4%	-8.8%	3.4%	-8.6%	2.4%	-8.4%	-3.0%	-7.3%
	Total return	-7.5%	-6.8%	2.0%	4.6%	-5.0%	8.5%	-2.5%	7.0%	-5.0%	1.8%	-3.6%
	Gross yield	3.5%	3.7%	4.6%	4.4%	4.3%	5.3%	6.0%	4.9%	3.9%	5.1%	4.1%
	Median value	$776,135	$619,804	$484,882	$431,702	$436,090	$445,235	$393,298	$587,583	$592,135	$377,462	$519,537
Houses	Month	-0.4%	-0.6%	-0.6%	0.0%	-0.9%	0.2%	-3.2%	-0.3%	-0.5%	-0.2%	-0.4%
	Quarter	-1.9%	-2.3%	-1.5%	-0.3%	-1.8%	-0.4%	-4.7%	0.3%	-1.8%	-0.8%	-1.5%
	YTD	-4.3%	-5.2%	-2.0%	-0.7%	-4.2%	0.4%	-6.8%	0.5%	-3.8%	-1.4%	-3.2%
	Annual	-11.6%	-12.6%	-2.3%	0.2%	-8.7%	3.8%	-6.4%	3.4%	-9.1%	-3.1%	-7.7%
	Total return	-8.6%	-10.1%	1.6%	4.3%	-5.1%	8.9%	-1.1%	7.8%	-6.0%	1.6%	-4.3%
	Gross yield	3.2%	3.3%	4.4%	4.3%	4.2%	5.2%	5.7%	4.6%	3.6%	5.0%	4.0%
	Median value	$869,579	$708,523	$531,047	$465,625	$459,823	$478,485	$462,984	$658,407	$628,361	$388,614	$535,214
Units	Month	-0.6%	0.2%	0.1%	1.0%	-1.2%	-2.7%	1.4%	0.1%	-0.3%	-0.7%	-0.3%
	Quarter	-2.3%	-0.2%	-1.0%	0.4%	-1.9%	-2.0%	-0.7%	-0.3%	-1.4%	-1.7%	-1.5%
	YTD	-4.2%	-2.1%	-1.7%	1.0%	-4.6%	-1.6%	-6.0%	-0.6%	-3.2%	-2.2%	-3.0%
	Annual	-8.8%	-4.0%	-2.4%	1.3%	-9.5%	2.1%	-12.5%	-1.1%	-6.4%	-2.9%	-5.9%
	Total return	-5.4%	-0.2%	3.3%	6.3%	-4.7%	7.2%	-5.0%	4.6%	-2.6%	2.4%	-1.9%
	Gross yield	4.1%	4.4%	5.4%	5.3%	5.1%	5.5%	6.6%	5.9%	4.4%	5.5%	4.6%
	Median value	$678,199	$528,406	$375,475	$326,831	$355,048	$367,134	$290,724	$435,392	$526,148	$339,016	$481,446

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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