

# Housing activity plummets while housing values stabilise in April

According to the CoreLogic Home Value Index results out today, Australian housing values have not seen any evidence of a material decline in April, despite a sharp drop in market activity and a severe weakening in consumer sentiment. Although most regions recorded a rise in home values through April, the national monthly pace of growth more than halved, dropping from 0.7% in March to 0.3%. The April result was the smallest month on month movement since June last year, when the national index was down 0.2%.

CoreLogic head of research Tim Lawless said, “Although housing values were generally slightly positive over the month, the trend has clearly weakened since mid-to-late March, when social distancing policies were implemented and consumer sentiment started to plummet.”

The capital city markets generally showed a weaker performance relative to the regional markets, with the combined capital cities index up 0.2% in April compared with a 0.5% rise across the combined regional markets.

The sharpest reversal in growth conditions can be seen in Melbourne, where values nudged into negative territory through April, down 0.3%. Sydney values remained positive, rising 0.4% over the month. To provide some context, the six months prior to March saw both cities averaging a monthly growth rate around 1.7%.

According to Mr Lawless, Australia’s largest cities have a higher level of downside risk. “Sydney and Melbourne arguably show a higher risk profile relative to other markets due to their large exposure to overseas migration as a source of housing demand, along with greater exposure to the downturn in foreign students, stretched housing affordability and already low rental yields that are likely to reduce further on the back of rising vacancy rates and lower rents.”

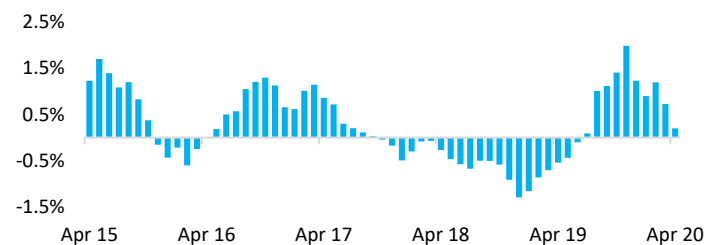
Hobart was the only other major region to record a decline in home values over the month, down 0.1%. Explaining the drop in Hobart values, Mr Lawless said, “Hobart has the most exposure of any capital city, at least proportionally, to the industry sectors most heavily impacted by COVID-19 in terms of employment, with 12.7% of the workforce employed within accommodation & food services, and arts & recreation services sectors.”

Despite the weakening in housing market conditions, some cities have outperformed the six-month average pace of change. Perth (+0.2%), Adelaide (+0.4%) and Darwin (+1.7%) outperformed their six month average pace of growth in April, demonstrating some resilience to weaker conditions.

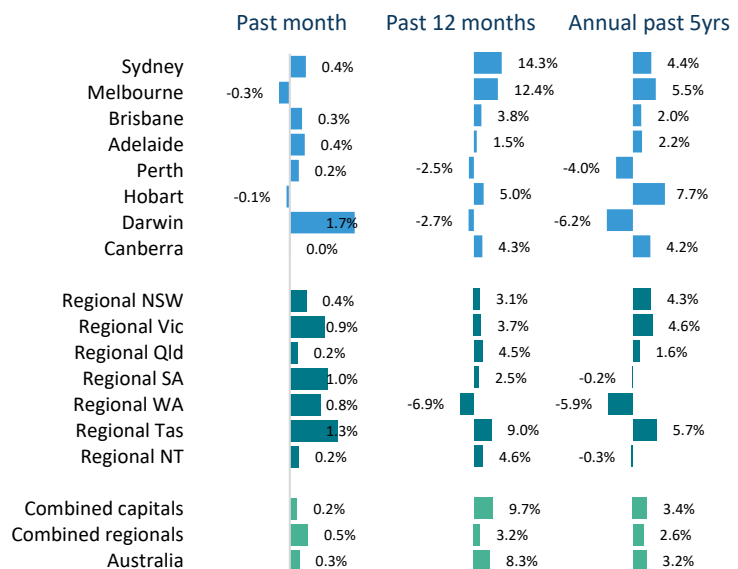
Index results as at April 30, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.4%	3.2%	14.3%	17.8%	\$889,992
Melbourne	-0.3%	1.4%	12.4%	16.0%	\$695,761
Brisbane	0.3%	1.5%	3.8%	8.0%	\$507,982
Adelaide	0.4%	0.8%	1.5%	6.0%	\$439,397
Perth	0.2%	1.0%	-2.5%	1.6%	\$448,355
Hobart	-0.1%	0.5%	5.0%	10.7%	\$484,645
Darwin	1.7%	2.3%	-2.7%	5.2%	\$402,225
Canberra	0.0%	1.4%	4.3%	9.3%	\$626,997
Combined capitals	0.2%	2.1%	9.7%	13.4%	\$647,414
Combined regional	0.5%	1.8%	3.2%	8.1%	\$396,070
National	0.3%	2.1%	8.3%	12.3%	\$557,739

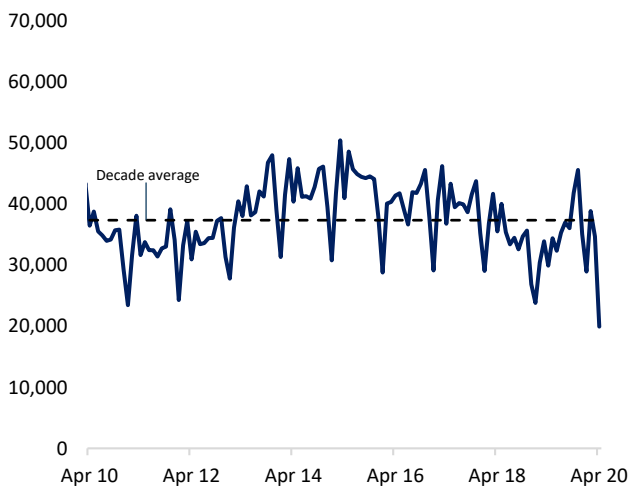
Month-on-month change in dwelling values  
Combined capitals



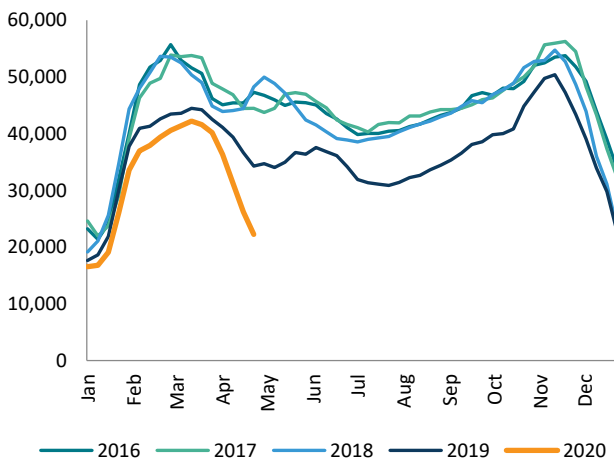
Change in dwelling values



## Estimate of monthly settled sales, national



## Number of new listings, rolling 28 day count, national



**Other indicators of housing market conditions have not been so resilient.** CoreLogic estimates of settled sales plunged by around 40% in April as buyers retreated to the sidelines and listing numbers dried up.

“The most recent months are harder to provide an accurate estimate of sales activity due to the lag in receiving the full complement of sales records from each state government, as well as the impact from Easter, however the substantial drop in sales activity is supported by a similar fall in the number of mortgage related valuation events across CoreLogic valuation platforms, which account for around 85% of lender valuation instructions,” said Mr Lawless.

**Activity across CoreLogic’s ‘RP Data’ platform, where the large majority of Australian real estate agents undertake their research to prepare a property for sale, was down by around 60% prior to Easter,** providing a firm signal that industry activity has been hit hard by the drop in active buyers and sellers as well as policies preventing open homes and on-site auctions.

**The decline in real estate agent activity is also showing up in the number of new listings being added to the market which was tracking 35% lower at the end of April relative to the same time a year ago and 43% below the five year average.** According to Lawless, lower advertised supply levels may have a silver lining for housing values. “The reduction in advertised stock levels at a time of low demand is another factor that should help to insulate housing values from a more material downturn.”

Mr Lawless states the drop in housing turnover has implications for a wide variety of industries that are either directly or indirectly reliant on property sales.

“Real estate agents will be among the most impacted by the decline in transactions. A significant reduction in housing activity will also have an impact on the banking and finance sector, due to reduced mortgage-related activity, less valuation work and conveyancing. There will also be fewer building and pest inspections and a drop in removalist services,” he said.

“While construction of dwellings is still progressing amid COVID-19, the building sector is facing challenges to productivity as sites are adapted to ensure the health and safety of workers. A slowdown in approvals will have a lagged impact on available projects for construction companies down the line.”

Additionally, state governments will experience a budgetary hole from less stamp duty as transactions decline, and some retail items such as home furnishings, appliances and white goods may see a decline, with sales likely to suffer until housing market activity starts to recover. However retail trade data suggests losses in this space may be partially offset by increases in hardware, building and gardening supplies, as people that can afford to, use the current slowdown for home improvement.

**The most expensive housing markets are slowing the fastest.** The CoreLogic stratified hedonic index shows the top quartile of the housing market has weakened the most substantially. Quarterly gains across the top quartile reduced from 6.6% late last year to 2.4% over the three months ending April.

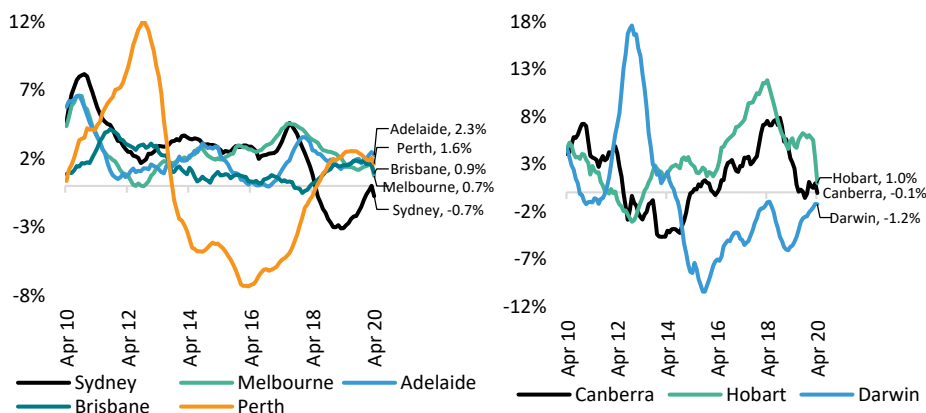
On a monthly basis, the top quartile of capital city housing markets recorded a 0.1% lift in home values compared with a 0.3% rise across the broad ‘middle’ of the market and a 0.2% increase across the lower quartile.

**Melbourne’s upper quartile market was the biggest drag on the aggregate measures, with dwelling values down 0.8% in April while the lower quartile and middle of the market continued to record a subtle rise in values over the month.**

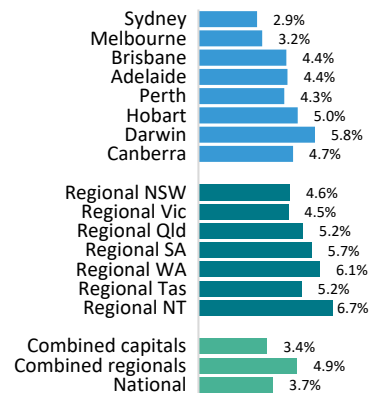
The difference between value based strata across Sydney was not as extreme. However the top quartile, which was previously leading the pace of growth, had the lowest monthly rise at 0.3%. The broad middle of Sydney’s housing market, recorded a stronger 0.6% lift in value.

The trends were more even across the value based strata of the smaller capitals, reflecting a more sustainable history of capital gains. Premium housing markets have previously been more reactive to changes in the economic environment, and this trend is once again becoming apparent.

### Annual change in rents



### Gross rental yields



**Rental markets have shown a broad based weakening through April as the combined pressures of higher supply and lower demand flow through to lower rents.** Rents were down over the month across seven of the eight capital cities, with the largest falls in Hobart (-1.1%), Sydney (-0.7%), Canberra (-0.7%) and Melbourne (-0.5%).

**Perth, where rental conditions have been tightening for several years, was the only capital city to see a lift in rents over the month (+0.1%).** Mr Lawless said, “Rental markets were already soft leading into COVID-19, with annual growth of just 1.0% across the combined capital cities over the twelve months ending March. The latest data for April has dragged the annual change in capital city rents to just 0.4%.”

He said, “Rental markets are likely to show much weaker conditions over the coming months due to higher supply levels. The conversion of short term rentals to permanent arrangements, and the large number of off-the-plan units that have recently completed or still under construction are adding to rental supply.”

“On the demand side, occupancy rates are being negatively impacted by a stalling in overseas student numbers, as well as many domestic students studying remotely, and a stalling in international migration. Demand has been further impacted by the weak labour market conditions associated with sectors that are also synonymous with renters: casual employees, accommodation & food service workers and arts & recreation workers.”

**Unsurprisingly, unit markets have shown a weaker rental performance, with capital city unit rents down 0.9% in April compared with a 0.3% drop in house rents.**

With rents falling while housing values hold relatively firm, rental yields have slipped over the month, reaching a new record low of 2.92% in Sydney.

**In the context of rapidly weakening economic conditions and the broader COVID-19 related disruption, the April housing market result looks remarkably resilient.**

Tim Lawless said, “The Australian version of this global health and economic crisis is only a month-and-a-half old, and it looks inevitable that there will be some downwards pressure on housing values over the coming months. The magnitude of housing value falls depends on a broad range of factors with most hinging on the timing and extent of social distancing policies being lifted.”

“The good news is that Australia has managed to flatten the spread of the virus more effectively and efficiently than expected and we are already seeing a subtle easing of social distancing policies in some states. An early return of economic activity should support a lift in consumer spirits which in turn should see housing market activity sparking back to life.”

**Plenty of downside risk remains for housing values, however, there are a variety of factors that will help to insulate home values from a material downturn.**

A key factor is the leniency provided to distressed borrowers affected by COVID-19 by Australian banks. Eligible borrowers can take advantage of payment holidays over a six month

window, by which time the economy will hopefully be in better shape. This policy is central to limiting the flow of distressed properties onto the market, which could have otherwise been a source of more significant downwards pressure on home values.

Lawless noted, that the high rate of unemployment is likely to be most impactful on areas of the workforce that have lower rates of home ownership. The potential for stronger labour market conditions amongst workers that have a higher rate of home ownership is another factor that should help to keep the number of distressed properties to a minimum.

There is also the unprecedented level of stimulus to consider, which will help to keep businesses afloat and workers in a paying job. A sharp reduction in advertised supply levels is another factor helping to safeguard home values amidst a fall in buyer demand.

Tim Lawless concludes on today’s results, “No doubt the coming month will provide more clarity about the direction of housing markets. One of the most important indicators to follow will be measures of consumer sentiment. If consumer spirits start to bounce back to more normal levels, this is when we should start to see housing activity lift from their current low levels.”

## CoreLogic Home Value Index tables

	Capitals								Rest of state regions							Aggregate indices		
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Regional NT	Combined capitals	Combined regional	National
<b>All Dwellings</b>																		
Month	0.4%	-0.3%	0.3%	0.4%	0.2%	-0.1%	1.7%	0.0%	0.4%	0.9%	0.2%	1.0%	0.8%	1.3%	na	0.2%	0.5%	0.3%
Quarter	3.2%	1.4%	1.5%	0.8%	1.0%	0.5%	2.3%	1.4%	1.7%	2.4%	1.6%	2.4%	0.9%	3.5%	na	2.1%	1.8%	2.1%
YTD	4.4%	2.6%	1.9%	1.0%	1.1%	1.4%	2.4%	1.7%	2.2%	3.3%	2.4%	2.4%	1.9%	4.9%	na	3.0%	2.5%	2.9%
Annual	14.3%	12.4%	3.8%	1.5%	-2.5%	5.0%	-2.7%	4.3%	3.1%	3.7%	4.5%	2.5%	-6.9%	9.0%	na	9.7%	3.2%	8.3%
Total return	17.8%	16.0%	8.0%	6.0%	1.6%	10.7%	5.2%	9.3%	7.7%	8.7%	9.5%	8.6%	-1.2%	15.5%	na	13.4%	8.1%	12.3%
Gross yield	2.9%	3.2%	4.4%	4.4%	4.3%	5.0%	5.8%	4.7%	4.6%	4.5%	5.2%	5.7%	6.1%	5.2%	na	3.4%	4.9%	3.7%
Median value	\$889,992	\$695,761	\$507,982	\$439,397	\$448,355	\$484,645	\$402,225	\$626,997	\$469,250	\$392,268	\$381,255	\$243,518	\$314,014	\$325,938	na	\$647,414	\$396,070	\$557,739
<b>Houses</b>																		
Month	0.3%	-0.4%	0.3%	0.4%	0.3%	-0.2%	1.1%	0.1%	0.4%	0.8%	0.1%	0.6%	0.8%	1.1%	-0.8%	0.1%	0.4%	0.2%
Quarter	3.2%	1.3%	1.6%	0.6%	1.1%	1.2%	3.4%	1.7%	1.8%	2.7%	1.7%	2.0%	0.8%	3.0%	-4.3%	2.1%	1.8%	2.0%
YTD	4.8%	2.7%	2.3%	0.8%	1.2%	2.2%	4.1%	2.1%	2.2%	3.4%	2.5%	1.7%	1.6%	4.4%	-3.5%	3.2%	2.5%	3.0%
Annual	15.8%	12.8%	4.2%	1.3%	-2.5%	6.1%	-3.8%	5.3%	3.5%	3.1%	5.2%	2.0%	-7.6%	7.7%	-0.7%	9.8%	3.3%	8.3%
Total return	19.2%	16.1%	8.0%	5.6%	1.6%	11.9%	3.6%	10.0%	8.1%	8.0%	10.0%	8.7%	-1.9%	13.9%	7.6%	13.3%	8.1%	12.1%
Gross yield	2.7%	2.8%	4.2%	4.3%	4.2%	4.9%	5.4%	4.2%	4.6%	4.4%	5.1%	5.7%	6.0%	5.1%	6.9%	3.2%	4.9%	3.6%
Median value	\$1,026,418	\$818,806	\$558,372	\$476,249	\$465,521	\$512,688	\$473,984	\$702,861	\$482,387	\$414,759	\$388,368	\$247,944	\$326,111	\$337,809	\$392,600	\$680,536	\$407,749	\$570,394
<b>Units</b>																		
Month	0.6%	0.1%	0.5%	0.7%	-0.2%	0.5%	3.1%	-0.4%	0.6%	1.4%	0.7%	8.4%	1.4%	2.8%	na	0.4%	0.8%	0.4%
Quarter	3.2%	1.5%	1.0%	1.5%	0.6%	-2.5%	0.3%	0.2%	1.4%	1.0%	1.3%	9.4%	4.1%	7.5%	na	2.2%	1.5%	2.1%
YTD	3.5%	2.2%	0.4%	2.1%	0.9%	-1.8%	-0.7%	0.3%	1.8%	2.3%	2.0%	16.0%	5.8%	9.2%	na	2.6%	2.3%	2.6%
Annual	11.0%	11.5%	2.3%	2.5%	-3.0%	1.0%	-0.3%	0.9%	0.7%	7.0%	2.2%	14.9%	5.1%	20.9%	na	9.2%	2.8%	8.3%
Total return	15.2%	15.8%	7.7%	8.1%	1.4%	6.1%	7.9%	6.9%	5.7%	13.2%	8.0%	10.9%	11.0%	26.6%	na	13.7%	8.2%	12.9%
Gross yield	3.4%	4.0%	5.2%	5.4%	5.2%	5.1%	6.6%	5.8%	4.6%	4.9%	5.5%	5.7%	7.3%	5.4%	na	3.9%	5.2%	4.1%
Median value	\$777,940	\$588,204	\$388,729	\$334,240	\$359,306	\$404,021	\$286,248	\$445,169	\$406,396	\$293,947	\$363,875	\$203,561	\$212,640	\$267,688	na	\$585,719	\$352,933	\$525,771

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

### 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.