National Media Release

Housing downturn gathers momentum in July, with national dwelling values falling at the fastest annual rate since 2012

The CoreLogic July home value results out today confirmed that national dwelling values continued their weak run, with both capital city and regional dwelling values trending lower over the past three months.

National dwelling values slipped 0.6% over the month to be down 0.9% over the rolling quarter and 1.6% lower over the past twelve months; the largest annual fall since August 2012.

Since peaking in September last year, the Australian housing market has recorded a cumulative 1.9% fall in value; a relatively mild downturn to date considering values remain 31% higher than they were five years ago. According to CoreLogic head of research Tim Lawless, the weakness in dwelling values is being driven by the long running declines in Perth and Darwin along with an acceleration in the rate of decline across Sydney and Melbourne and slowing growth rates across most of the remaining regions.

The month of July saw the housing downturn gather some momentum; on a national basis, the 0.6% month on month fall was the largest decline since September 2011 and the rolling quarterly change, at -0.9%, hasn't been this low since January 2012. Five of the eight capital cities saw values slip lower over the past three months and trends across the regional housing markets, where conditions have generally been more resilient to falls, have also turned negative.

Dwelling values were down 0.2% across the combined regionals index over the three months ending July, driven by falls across regional NSW (-0.2%), regional Qld (-0.6%) and regional WA (-3.5%). While three of the seven 'rest of state' regions saw a fall in values over the three month period, the pace of growth across the remaining regional areas has clearly decelerated, contributing to the overall softer result.

Across the capital cities, Melbourne has been leading the downturn, with the quarterly rate of decline outpacing Sydney since May this year. Melbourne dwelling values were down 1.8% over the past three months, followed by Perth (-1.5%) and Sydney (-1.1%). Melbourne's decline phase commenced five months later than Sydney's, with the market peaking in November last year. Since that time, Melbourne dwelling values have fallen by 2.9%, while in Sydney, where values peaked twelve months ago, the market is down 5.4%.

Those cities where values continue to trend higher have also seen a sharp reduction in their rate of capital gain. In Brisbane and Adelaide, where housing values were rising at a more sustainable pace over the past five years, the annual rate of capital gains has weakened. In Brisbane, the annual rate of growth has eased from 2.9% a year ago to 1.2% over the past twelve months and in Adelaide the annual growth rate has dropped from 5.4% a year ago to just 0.7% over the most recent twelve month period.

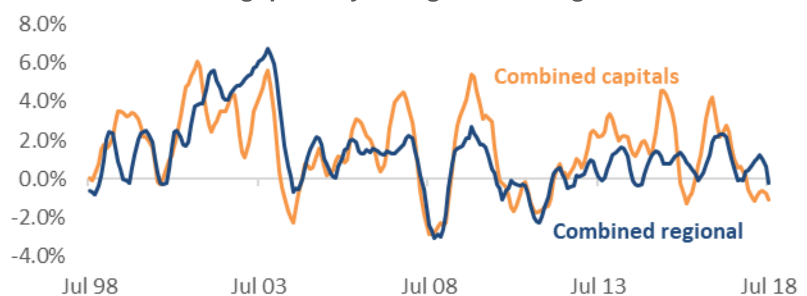
Even the Hobart market, where the annual pace of capital gains has held in double digit growth territory since January 2017, is starting to slow down. Dwelling values were steady over the month and the annual rate of growth slowed to 11.5%; still strong but the slowest annual growth rate since February 2017.

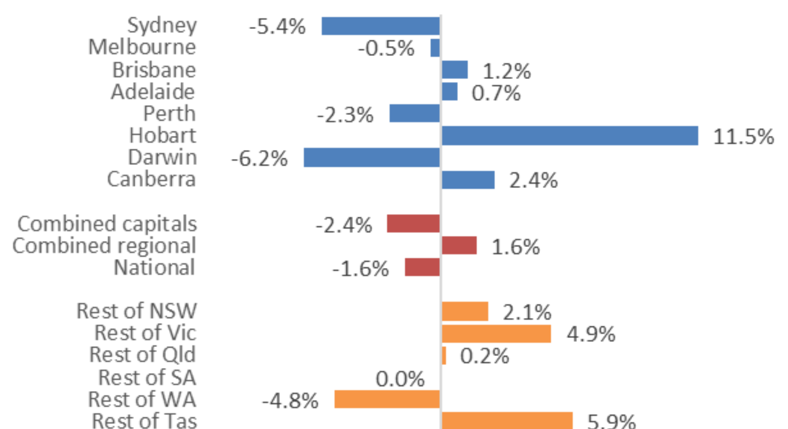
Index results as at July 31, 2018

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.6%	-1.1%	-5.4%	-2.5%	$863,769
Melbourne	-0.9%	-1.8%	-0.5%	2.4%	$709,568
Brisbane	0.1%	0.5%	1.2%	5.2%	$494,634
Adelaide	-0.1%	0.7%	0.7%	4.9%	$438,163
Perth	-0.8%	-1.5%	-2.3%	1.6%	$457,274
Hobart	0.0%	1.1%	11.5%	17.1%	$435,833
Darwin	0.4%	-1.0%	-6.2%	-0.8%	$439,596
Canberra	0.2%	-0.2%	2.4%	7.0%	$590,229
Combined capitals	-0.6%	-1.1%	-2.4%	0.8%	$650,165
Combined regional	-0.4%	-0.2%	1.6%	6.6%	$367,067
National	-0.6%	-0.9%	-1.6%	1.9%	$554,263

Highlights over the three months to July 2018

- Best performing capital city: **Hobart +1.1%**
- Weakest performing capital city: **Melbourne -1.8%**
- Highest rental yield: **Darwin 5.7%**
- Lowest rental yields: **Melbourne 3.0%**





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The premium end of the market has seen a more substantial decline

Digging below the surface, Mr Lawless said, "the growth trends vary remarkably across the broad valuation segments of each housing market, highlighting the diversity of conditions.

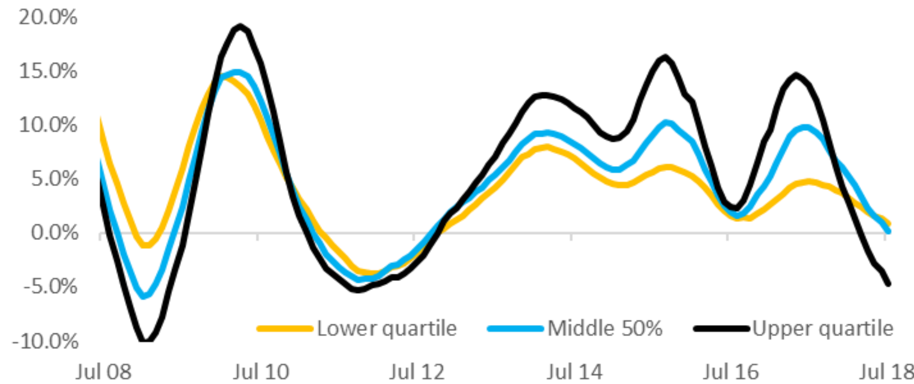
"The starkest annual performance differential is in Melbourne, where the top quartile has seen values fall 4.1% over the past twelve months while property values across the lower quartile are 7.5% higher. Similarly, in Sydney, dwelling values are down 8.0% across the most expensive quarter of the market, while the most affordable quarter of the market has seen values fall by a much lower 1.8% over the past twelve months."

The remaining capital cities have recorded substantially less variation between the broad valuation segments. According to Mr Lawless, "This dramatic performance differential in Sydney and Melbourne is attributable to a range of factors, however most importantly, the surge in first home buyers has supported demand and the lower end of the market and the tightening of credit has led to reduced borrowing capacity for many borrowers."

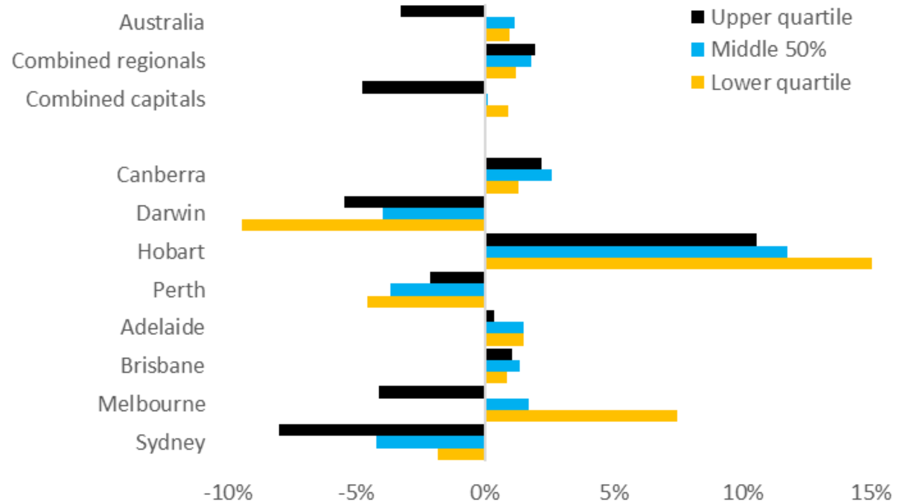
"The surge in first home buyer activity evident since stamp duty concessions were introduced across New South Wales and Victoria in July last year has propped up demand across the more affordable end of the housing market, while a new focus on borrowers with a high debt to income ratio is likely to be dampening the amount of funds available for purchasing expensive dwellings.

"The focus on high debt to income ratios will intuitively impact the Sydney and Melbourne housing markets more than other cities due to demonstrably high dwelling prices relative to household incomes." he said.

Rolling annual change in dwelling values across broad valuation segments, combined capitals



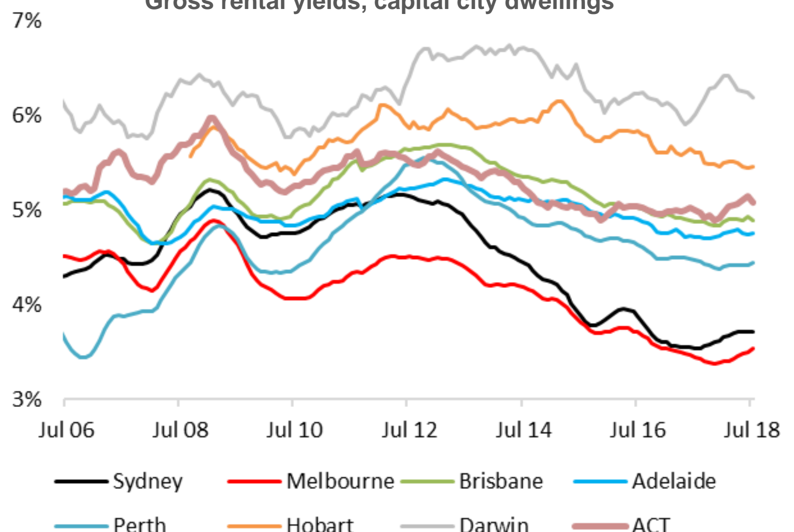
Change in dwelling values across broad valuation segments, 12 months to July 2018



Rental market conditions eased further in July, with national rents falling 0.2% over the month to be only 1.6% higher over the year. The weakest capital city rental markets are Darwin and Sydney where rents were 2.2% and 0.4% lower respectively over the past twelve months. At the other end of the spectrum was Hobart, where weekly rents have surged 10% higher over the year due to a severe shortage of rental stock coupled with rising migration rates. CoreLogic has tracked rents for over a decade and the 0.4% annual fall in Sydney rents is the largest decline on record.

Mr Lawless said, "With rental conditions generally remaining subdued nationally, the recovery in rental yields is likely to be drawn out."

Gross rental yields, capital city dwellings



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Nationally, gross rental yields reached a record low of 3.61% in late 2017; the result of rapid value growth while rents only inched higher. With rental conditions remaining soft, the implication for rental yields, which nationally are currently only 11 basis points higher than the historic low, is that they are likely to remain well below average for the foreseeable future.

Rental yields remain the lowest in Melbourne (3.04%) and Sydney (3.21%) which, along with dim prospects for capital gains and tougher credit conditions, is likely to act as a further disincentive to investors in these markets.

With the recent by-election results favouring the Labor party, the potential for changes to negative gearing and capital gains tax concessions following the next federal election would likely be playing on the minds of investors. While the outcome of Labor's proposed changes to negative gearing and capital gains tax rules are debatable, it's broadly accepted that these policies would have a further dampening effect on investor sentiment and overall housing market conditions.

Overall, Mr Lawless said, "We can't see any factors that may halt or reverse the housing markets trajectory of subtle declines over the second half of 2018. The availability of housing credit has been a significant factor contributing to this slowdown, however there are a variety of hurdles contributing to slower conditions."

"From a credit perspective, the latest credit aggregates from the Reserve Bank of Australia highlight that owner occupier lending has continued to grow at a relatively strong pace; up almost 8% over the twelve months to June. The same data highlights that the slowdown in credit growth is attributable almost entirely to less investment lending, where growth is tracking at a record low of 1.6% annually."

Sydney and Melbourne have recorded the most substantial concentration of investment activity, and despite the tighter lending conditions for this segment and weaker housing markets in Sydney and Melbourne, somewhat surprisingly, New South Wales and Victoria continue to show higher investment concentrations relative to other states.

Mr Lawless said, "Although the 10% speed limit on investor credit growth has been removed for eligible lenders, we aren't expecting a rebound in credit availability for investment purposes. Mortgage rate premiums for investment loans remain in place and the limits on interest only lending continue to disincentives investors." Additionally, he said market factors such as low rental yields and dim prospects for short to medium term capital gains are also likely to quell investment demand.

Higher housing supply is another factor that is likely to weigh on some sectors of the market. Unit construction remains well above average across most states, and is at record highs across Victoria and South Australia and only marginally below the record high in New South Wales. Coupled with high supply, key segments of demand, including domestic investors and foreign buyers, have thinned out which could see downwards pressure on prices in those areas where new 'investment grade' projects are numerous.

Migration trends have also changed which is likely to have both positive and negative impacts on housing demand. Although ABS demographic data is only current to December last year, it is clear that New South Wales is seeing a growing exodus of residents to other states, while interstate migration rates to Victoria appear to have peaked as well. The reduction in migration implies reduced housing demand in these locations. Queensland is the major beneficiary of cross border resident flows, which should help to support housing demand, especially across the South East corner of the state.

Despite the reduction in dwelling values in Sydney and Melbourne, housing affordability remains a pressing issue in these cities. The ratio of dwelling prices to incomes was tracking at 9.1 in Sydney and 8.1 in Melbourne at the end of June. Although these ratios are likely to improve as incomes edge higher and housing prices reduce, prices would need to fall a lot further to see this measure of affordability return to more adequate levels.

In conclusion, Mr Lawless said, "While dampening factors are at play, consistently low mortgage rates will continue to provide a support buffer which should help to keep a floor under housing demand.

"Owner occupiers continue to enjoy mortgage rates at the lowest level since the 1960's, and, although investors are paying around a 60 basis point premium on their home loans, interest rates remain low for this segment of the market as well.

"Higher funding costs could see mortgage rates edge higher, however we would need to see mortgage rates rise by more than 150 basis points before returning to the 20 year average of 6.8%."

"Considering the 30% limit on interest only loan originations and the stiff interest rate premiums for interest only loans, it's likely we will see owner occupiers gradually consume a greater share of market activity relative to investors going forward."

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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	-0.6%	-0.9%	0.1%	-0.1%	-0.8%	0.0%	0.4%	0.2%	-0.6%	-0.4%	-0.6%
	Quarter	-1.1%	-1.8%	0.5%	0.7%	-1.5%	1.1%	-1.0%	-0.2%	-1.1%	-0.2%	-0.9%
	YTD	-3.2%	-2.7%	0.4%	0.4%	-1.7%	5.8%	-0.5%	0.2%	-2.3%	1.2%	-1.6%
	Annual	-5.4%	-0.5%	1.2%	0.7%	-2.3%	11.5%	-6.2%	2.4%	-2.4%	1.6%	-1.6%
	Total return	-2.5%	2.4%	5.2%	4.9%	1.6%	17.1%	-0.8%	7.0%	0.8%	6.6%	1.9%
	Gross yield	3.2%	3.0%	4.4%	4.3%	3.9%	5.0%	5.7%	4.6%	3.4%	4.9%	3.7%
	Median value	$863,769	$709,568	$494,634	$438,163	$457,274	$435,833	$439,596	$590,229	$650,165	$367,067	$554,263
Houses	Month	-0.7%	-1.0%	0.1%	-0.1%	-0.8%	-0.2%	1.5%	0.3%	-0.6%	-0.5%	-0.6%
	Quarter	-1.3%	-2.1%	0.4%	0.7%	-1.1%	1.1%	2.2%	-0.1%	-1.2%	-0.2%	-0.9%
	YTD	-3.9%	-3.3%	0.3%	0.3%	-0.9%	6.0%	5.5%	0.7%	-2.5%	1.3%	-1.7%
	Annual	-7.0%	-1.4%	1.3%	0.7%	-1.8%	12.4%	-2.2%	3.5%	-3.1%	1.8%	-2.0%
	Total return	-4.4%	1.2%	5.0%	4.8%	2.2%	17.9%	3.3%	7.8%	-0.2%	6.7%	1.3%
	Gross yield	3.0%	2.7%	4.2%	4.1%	3.8%	4.9%	5.3%	4.3%	3.2%	4.8%	3.6%
	Median value	$998,270	$813,064	$538,693	$465,992	$481,612	$456,868	$507,480	$676,109	$690,512	$373,486	$571,124
Units	Month	-0.4%	-0.7%	-0.1%	0.0%	-0.7%	1.1%	-2.1%	-0.3%	-0.5%	-0.2%	-0.5%
	Quarter	-0.8%	-1.1%	1.0%	0.8%	-3.0%	1.2%	-7.4%	-0.8%	-0.9%	-0.4%	-0.9%
	YTD	-1.6%	-0.9%	1.1%	1.0%	-5.1%	4.5%	-12.0%	-1.1%	-1.5%	1.0%	-1.1%
	Annual	-1.6%	2.3%	0.8%	1.1%	-4.6%	7.4%	-14.3%	-1.1%	-0.5%	0.7%	-0.3%
	Total return	2.0%	6.3%	6.3%	6.1%	-1.0%	12.9%	-9.0%	4.2%	3.5%	6.0%	3.8%
	Gross yield	3.8%	4.0%	5.3%	5.1%	4.5%	5.2%	6.6%	5.6%	4.1%	5.2%	4.2%
	Median value	$746,431	$569,141	$382,454	$328,234	$394,880	$361,175	$310,573	$441,154	$571,618	$342,662	$515,663

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.

Recent upgrade to the CoreLogic Hedonic Home Value Index – September 2017

As a result of the continued expansion of CoreLogic data assets, changing market dynamics and the availability of enhanced infrastructure, CoreLogic has undertaken an extensive exercise to overhaul its Hedonic Home Value Index. This change introduces numerous improvements to the methodology and its implementation to ensure it aligns with leading global best practice as endorsed by the International Monetary Fund and Bank for International Settlements. The full details of changes can be found at https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/. This change is part of CoreLogic's continued to endeavour to expand its data assets and identify opportunities to optimise its analytics in order to provide the market the most timely and accurate read on property market conditions. The changes are applied across the history of the series, providing a consistent methodology from the commencement through to the most recent values.

* 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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