CoreLogic®

Hedonic Home Value Index

1 July 2020

Housing values decline for a second consecutive month in June, as turnover recovers from the April low.

Following a 0.4% decline in May, the CoreLogic Home Value Index recorded a second consecutive month of falls, with the national index down 0.7% in June. Each of the five largest capital cities recorded a decline in home values over the month, ranging from a drop of 1.1% in Melbourne and Perth to 0.2% in Adelaide. The indices for Hobart, Canberra and Darwin each recorded a subtle rise in values over the month.

Despite values being down in June, estimates of market activity showed a further improvement from the April low. After a (revised) 21.5% surge in sales activity through May, CoreLogic's estimate of home sales in June was up a further 29.5%.

CoreLogic head of research, Tim Lawless, said "The downwards pressure on home values has remained mild to-date, with capital city dwelling values falling a cumulative 1.3% over the past two months. A variety of factors have helped to protect home values from more significant declines, including persistently low advertised stock levels and significant government stimulus. Additionally, low interest rates and forbearance policies from lenders have helped to keep urgent sales off the market, providing further insulation to housing values."

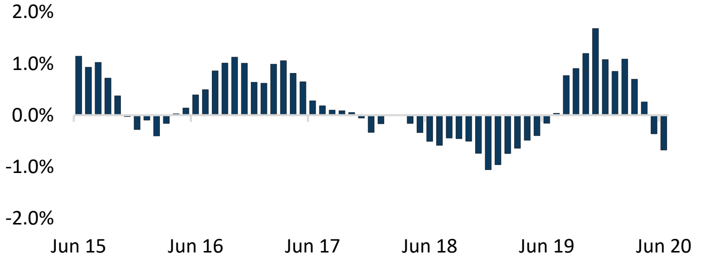
Recent value falls represent an interrupted upswing across most regions, reflected in high annual growth rates. "The twelve month change in home values remains in positive double digit territory across Sydney (13.3%) and Melbourne (10.2%). The only capitals where values show declines on an annual basis are Perth and Darwin, but even across these cities, home values were early into a recovery phase pre-COVID." Mr Lawless said.

Although the decline in home values has been fairly mild since April, the longer term outlook remains highly uncertain. "While it is encouraging to see lenders have recently hinted at an extension in their repayment leniency policies, the government stimulus will eventually taper and banks will require borrowers to repay their loans. The longer term outlook for the housing market is largely dependent on how well the economy is tracking when these support measures are removed," Mr Lawless said.

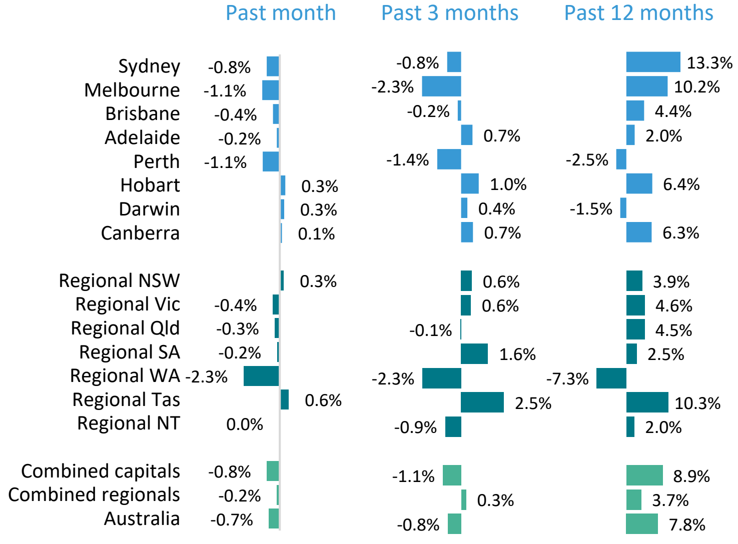
Index results as at June 30, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	-0.8%	-0.8%	13.3%	16.7%	$875,749
Melbourne	-1.1%	-2.3%	10.2%	13.8%	$683,529
Brisbane	-0.4%	-0.2%	4.4%	8.4%	$503,148
Adelaide	-0.2%	0.7%	2.0%	6.5%	$440,267
Perth	-1.1%	-1.4%	-2.5%	1.6%	$441,977
Hobart	0.3%	1.0%	6.4%	11.9%	$487,827
Darwin	0.3%	0.4%	-1.5%	5.7%	$387,914
Canberra	0.1%	0.7%	6.3%	11.2%	$639,965
Combined capitals	-0.8%	-1.1%	8.9%	12.5%	$641,671
Combined regional	-0.2%	0.3%	3.7%	8.5%	$394,570
National	-0.7%	-0.8%	7.8%	11.7%	$554,741

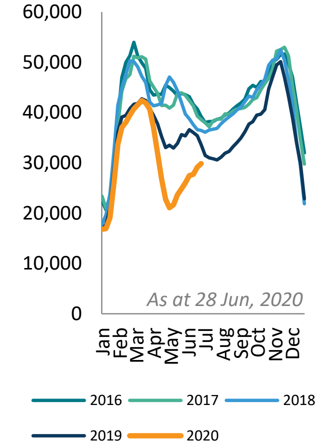
Month-on-month change in dwelling values Combined capitals



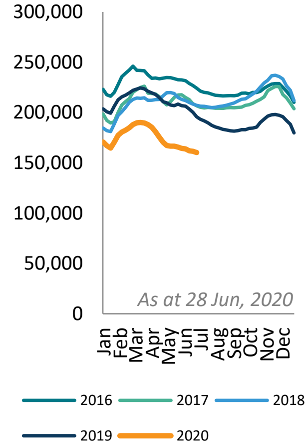
Change in dwelling values



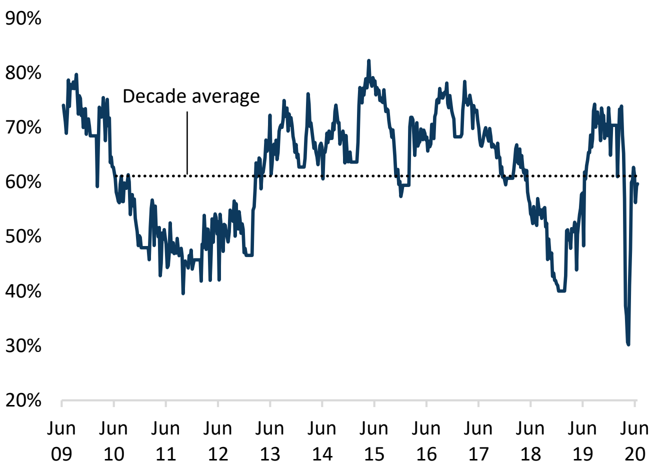
New listings, rolling 28 day count, national



Total listings, rolling 28 day count, national



Auction clearance rate, combined capitals



The most expensive quartile of housing is continuing to lead the downturn.

"Higher value markets tend to be more reactive to changes in the environment, having led both the upswing and the downturn over previous cycles. The past three months has seen this trend playing out, with upper quartile values down 1.7% across the combined capital city index over the past three months, while lower quartile values have fallen by only 0.3%," Mr Lawless said.

This capital city trend is driven mostly by Sydney and Melbourne, while the smaller cities have shown a mixed result across the valuation cohorts.

In Sydney the upper quartile is down 1.3% over the past three months, while lower quartile values are up 0.2%. Similarly, over the same period in Melbourne, upper quartile values are down 3.7% while lower quartile values have declined a more modest 0.5%. Importantly, the upper quartile also recorded the most significant run-up in values throughout the second half of last year.

A variety of peripheral housing market indicators have started to look more positive through June.

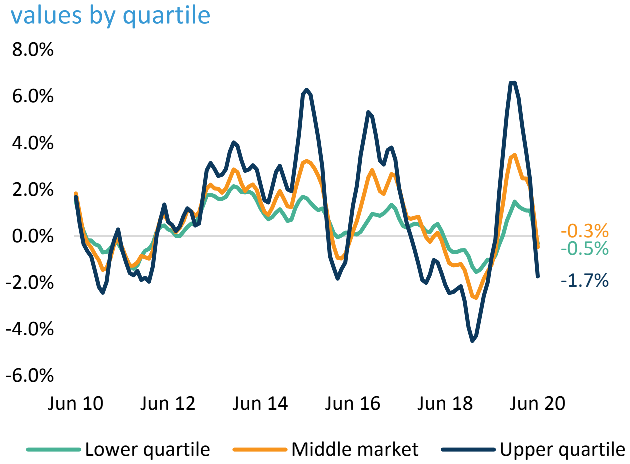
Real estate agent activity is now tracking higher than the same time last year. The number of comparative market analysis (CMA) reports generated across CoreLogic's RP Data platform, which has more than three quarters of Australian real estate agents as subscribers, was tracking 6% higher than this time last year. CMA activity is highly correlated with new listings activity, with a two week lead.

With real estate agent activity bouncing back, the number of fresh real estate listings has been ramping up since early May. The rolling 28 day count of new listings remained lower than a year ago, but was 42% higher relative to the recent low in early May. While *new* listings are ramping up, the *total* listing count has continued to trend lower, indicating a strong rate of absorption.

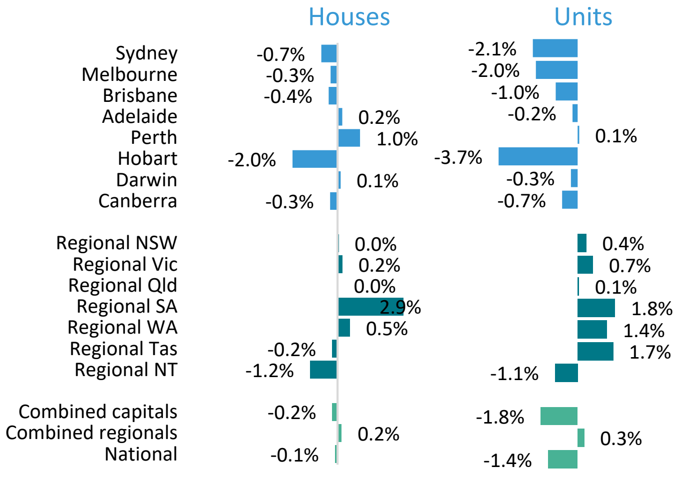
Auction markets have shown a partial recovery, with the combined capital city clearance rate averaging 59.9% since mid-May. Clearance rates reached a record low of 30.2% through April as a result of the temporary ban of on-site auctions. This saw withdrawal rates peak at 56.0%, and more than 80% of successful auction sales were negotiated prior to the auction rather than under the hammer. Since late May, as the ban on auctions has lifted, withdrawal rates have tracked around the 10% with the large majority of auctions selling under the hammer rather than before or after the event.

Consumer sentiment readings provide a further signpost for improving housing market activity. After plunging in April, the monthly Westpac/MI consumer sentiment reading improved by 16.5% in May followed by a further 6.4% rise through June. Similarly, as of the 28th of June, the weekly ANZ/Roy Morgan consumer confidence series has recorded a 42% lift since the end of March. Consumer sentiment readings show a high correlation with housing market activity. Although these readings remain well below the long run average, improved consumer sentiment helps to explain the rise in listing numbers, and a strong rate of absorption via a higher rate of turnover.

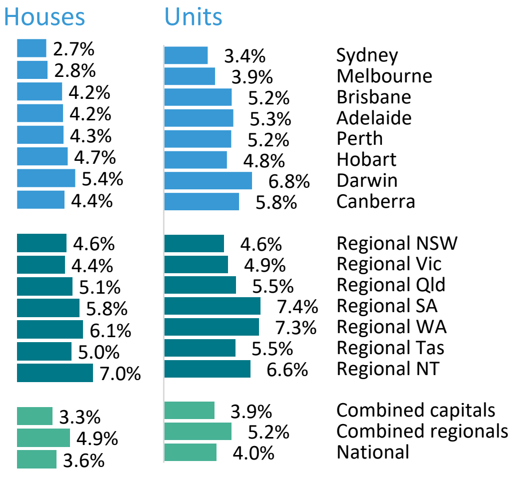
Rolling three month change in capital city dwelling values by quartile



Change in rents, March 31 to June 30



Gross rental yields, June 2020



Rental rates have continued to trend lower through June, with weaker conditions across the unit sector. Since March, capital city house rents have dropped by only 0.2% while over the same period unit rents are down a more substantial 1.8%. Hobart stands out as recording the largest decreases, with rents for houses down 2.0% and units down 3.7% since March.

According to Mr Lawless, the weakness across the Hobart rental market comes after a period of rapid rental appreciation. "The past five years has seen a 31% lift in Hobart rental rates; by far the largest increase of any capital city. Anecdotally, a significant contribution to the previous tightening in Hobart rental conditions was the transition of permanent rentals to short-term and casual rentals such as Airbnb. More recently it seems this trend has reversed, adding to rental supply at a time of lower demand. However, when interstate travel restrictions ease, stock that was not successfully converted to a long-term tenancy may be reverted to Airbnb once again."

Perth and Adelaide are showing the strongest rental conditions amongst the capital cities. These cities have also generally seen lower levels of investor participation and less 'investment grade' construction over recent years which has kept rental supply reasonably tight.

With rents slipping more than home values across some regions, rental yields are under some downwards pressure. Sydney gross dwelling yields fell to a record low in June of 2.92% and Melbourne gross yields are only thirteen basis points off their record lows at 3.2%. The remaining capital cities are all showing a stronger gross rental yield profile, with yields typically above 4%.

Tim Lawless notes that rental market conditions are highly fragmented, with the weakest conditions centered around inner city apartment markets. "The past few months have seen rental listings across Inner Melbourne and Inner Sydney rise by more than 40%. This indicates a surge in available rentals at a time when demand has significantly diminished. Foreign students simply haven't arrived, domestic students are studying from home and overseas migration has temporarily stalled. Compounding weak rental demand is the fact that the hardest hit industry sectors for job losses and under-employment are those that are typically aligned with renters rather than home owners." he said.

So far, the impact from COVID-19 on housing markets has been milder than initially anticipated. Home values are drifting lower, but not crashing, and transactional activity has shown a remarkable recovery after plummeting in April.

Part of this resilience in values and improved market activity can be attributed to the massive amount of government stimulus and to the mortgage repayment holidays on offer, but other market driven factors are also at work.

A scarcity of advertised supply is one factor helping to insulate home values, with CoreLogic estimating the sales to listing ratio is tracking around 1.3, meaning for every additional new listing added to the market there are 1.3 sales.

Another factor is the improving economic environment. Social distancing measures have been relaxed or removed earlier than anticipated, supporting a lift in economic activity. According to the RBA governor, the trajectory of the Australian economy is somewhere between the best case scenario and the central case scenario. A shallower recession and early return to growth should see consumer confidence record a further improvement.

Lawless concludes "Despite the early signs of improved economic activity and a lift in housing turnover, the downside risk remains significant. The recent rise of active virus cases in Victoria are a reminder that the potential risk of a second wave remains a stark reality. If we see the virus curve steepening rather than flattening, a return to restrictive policies is highly likely.

"Another key risk relates to the eventual removal of stimulus measures and borrower repayment holidays. Eventually the economy and borrowers will need to abide by market forces. This is when we could see a rise in mortgage arrears and the potential for a lift in urgent or forced sales."

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
All Dwellings (Dwellings)																		
Month	-0.8%	-1.1%	-0.4%	-0.2%	-1.1%	0.3%	0.3%	0.1%	0.3%	-0.4%	-0.3%	-0.2%	-2.3%	0.6%	na	-0.8%	-0.2%	-0.7%
Quarter	-0.8%	-2.3%	-0.2%	0.7%	-1.4%	1.0%	0.4%	0.7%	0.6%	0.6%	-0.1%	1.6%	-2.3%	2.5%	na	-1.1%	0.3%	-0.8%
YTD	3.1%	0.5%	1.4%	1.3%	-0.5%	2.5%	1.0%	2.4%	2.4%	2.9%	2.1%	2.9%	-1.2%	6.1%	na	1.7%	2.3%	1.9%
Annual	13.3%	10.2%	4.4%	2.0%	-2.5%	6.4%	-1.5%	6.3%	3.9%	4.6%	4.5%	2.5%	-7.3%	10.3%	na	8.9%	3.7%	7.8%
Total return	16.7%	13.8%	8.4%	6.5%	1.6%	11.9%	5.7%	11.2%	8.3%	9.4%	9.7%	8.5%	-1.3%	16.5%	n a	12.5%	8.5%	11.7%
Gross yield	2.9%	3.2%	4.4%	4.4%	4.4%	4.7%	5.9%	4.7%	4.6%	4.5%	5.2%	5.8%	6.2%	5.1%	na	3.4%	4.9%	3.7%
Median value	$875,749	$683,529	$503,148	$440,267	$441,977	$487,827	$387,914	$639,965	$467,571	$392,030	$379,942	$241,605	$307,888	$329,368	na	$641,671	$394,570	$554,741
Houses (Houses)																		
Month	-0.9%	-1.3%	-0.4%	-0.2%	-1.1%	0.4%	0.4%	0.1%	0.3%	-0.5%	-0.4%	0.4%	-2.2%	0.6%	-0.2%	-0.9%	-0.2%	-0.7%
Quarter	-1.1%	-2.8%	-0.1%	0.6%	-1.4%	1.0%	0.5%	0.9%	0.6%	0.4%	-0.3%	1.8%	-2.3%	2.4%	0.9%	-1.3%	0.2%	-0.9%
YTD	3.2%	0.3%	1.9%	1.1%	-0.5%	3.4%	3.5%	2.8%	2.4%	2.9%	2.1%	2.9%	-1.4%	5.7%	-1.8%	1.8%	2.2%	1.9%
Annual	14.5%	10.6%	4.9%	2.0%	-2.5%	7.1%	0.4%	7.4%	4.2%	3.9%	4.7%	2.6%	-7.6%	9.4%	-1.7%	9.1%	3.6%	7.8%
Total return	17.7%	13.8%	8.8%	6.3%	1.5%	12.7%	7.3%	12.1%	8.5%	8.7%	9.6%	9.2%	-1.8%	15.2%	6.3%	12.4%	8.3%	11.4%
Gross yield	2.7%	2.8%	4.2%	4.2%	4.3%	4.7%	5.4%	4.4%	4.6%	4.4%	5.1%	5.8%	6.1%	5.0%	7.0%	3.3%	4.9%	3.6%
Median value	$1,010,426	$802,551	$557,265	$476,639	$459,376	$516,600	$470,136	$716,150	$480,437	$414,448	$386,454	$249,035	$318,371	$342,829	$398,733	$677,194	$405,626	$568,730
Units (Units)																		
Month	-0.6%	-0.7%	-0.8%	-0.3%	-1.3%	0.0%	0.1%	0.3%	0.0%	0.0%	0.0%	-10.9%	-3.1%	0.6%	na	-0.6%	-0.2%	-0.6%
Quarter	-0.1%	-1.2%	-0.8%	0.9%	-1.5%	1.1%	0.1%	-0.1%	1.0%	1.9%	0.9%	-3.8%	-2.4%	3.1%	na	-0.5%	0.9%	-0.3%
YTD	2.8%	0.9%	-1.0%	2.3%	-0.4%	-1.2%	-3.6%	0.6%	2.2%	2.8%	2.2%	2.9%	1.9%	9.5%	na	1.7%	2.5%	1.8%
Annual	10.6%	9.3%	1.8%	2.2%	-2.3%	3.8%	-5.0%	2.1%	2.2%	8.2%	3.7%	1.3%	-2.4%	19.4%	na	8.4%	3.9%	7.7%
Total return	14.7%	13.6%	7.1%	7.7%	2.4%	9.1%	2.7%	8.2%	7.2%	13.9%	9.6%	-4.5%	6.1%	24.8%	n a	12.8%	9.4%	12.3%
Gross yield	3.4%	3.9%	5.2%	5.3%	5.2%	4.8%	6.8%	5.8%	4.6%	4.9%	5.5%	7.4%	7.3%	5.5%	na	3.9%	5.2%	4.0%
Median value	$761,792	$575,009	$387,420	$332,016	$357,379	$399,404	$271,757	$444,181	$408,115	$290,133	$363,549	$167,179	$202,839	$268,471	na	$576,058	$351,840	$521,020

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.*