CoreLogic®

Hedonic Home Value Index

1 June 2020

Housing values edge lower in May, while transaction activity partially recovers from a sharp drop in April

According to the CoreLogic Home Value Index results for May, Australian dwelling values posted their first month-on-month decline since June last year. The national index was down 0.4% over the month, with five of the eight capital city regions recording a fall in values.

The reduction in values through May comes as transaction activity in the market shows more positive signs. The CoreLogic estimate of sales activity bounced back by 18.5% in May after a (revised) drop of 33% in April.

CoreLogic head of research, Tim Lawless, said "Considering the weak economic conditions associated with the pandemic, a fall of less than half a percent in housing values over the month shows the market has remained resilient to a material correction. With restrictive policies being progressively lifted or relaxed, the downwards trajectory of housing values could be milder than first expected."

Across the state capitals, Melbourne's housing market has posted the largest falls over the month, down 0.9% in May, following a 0.3% reduction in April. Values were also down over the month in Perth (-0.6%), Sydney (-0.4%), Brisbane (-0.1%) and Darwin (-1.6%), but rose in Adelaide (+0.4%), Hobart (+0.8%) and Canberra (+0.5%).

Regional markets have been more resilient to value falls, with the combined regional index holding firm through May.

Although some areas have avoided a reduction in values since March, every region has lost momentum and the longer term outlook remains uncertain. "Eventually government stimulus will wind back and borrower repayment holidays will expire. In the absence of these policies, housing values could come under some additional downwards pressure if economic conditions haven't picked up towards the end of the year," said Mr Lawless.

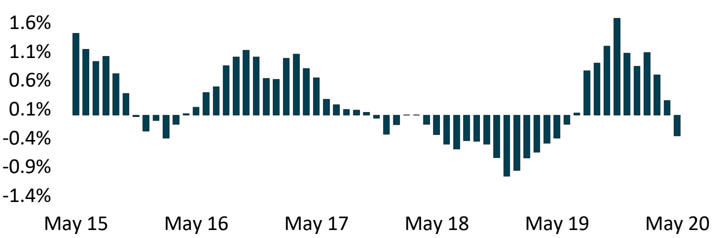
Although housing values are currently slipping or stabilising, recent history implies most home owners have some level of buffer that will help protect against negative equity. National home values remain 8.3% higher than they were a year ago, with Perth (-2.1%) and Darwin (-2.6%) the only capital cities where values remain lower than at the same time last year.

The high annual capital gain is mostly attributable to the earlier growth trajectory of housing values across Sydney (+14.3%) and Melbourne (+11.7%), with the remaining capitals showing a more sustainable history of price rises.

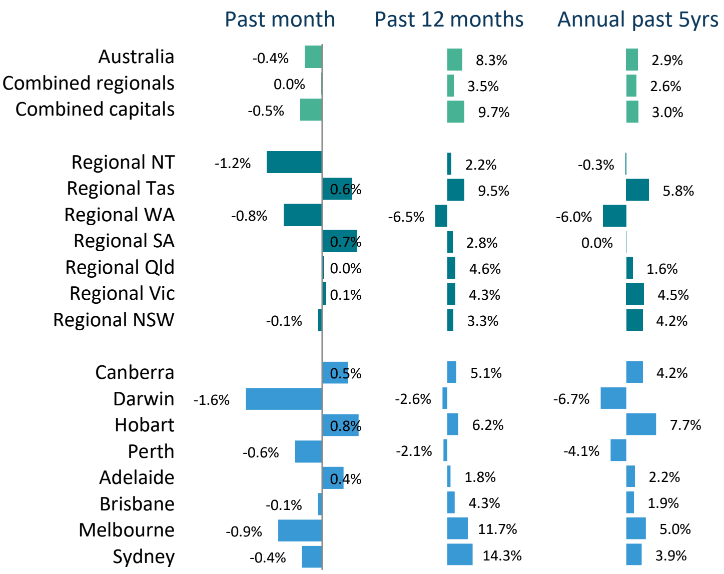
Index results as at May 31, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	-0.4%	1.1%	14.3%	17.8%	$885,159
Melbourne	-0.9%	-0.8%	11.7%	15.3%	$686,798
Brisbane	-0.1%	0.8%	4.3%	8.4%	$508,386
Adelaide	0.4%	1.1%	1.8%	6.4%	$441,184
Perth	-0.6%	0.1%	-2.1%	2.0%	$443,669
Hobart	0.8%	0.5%	6.2%	11.8%	$486,056
Darwin	-1.6%	2.1%	-2.6%	4.7%	$393,939
Canberra	0.5%	1.2%	5.1%	10.2%	$637,279
Combined capitals	-0.5%	0.5%	9.7%	13.4%	$645,511
Combined regional	0.0%	1.1%	3.5%	8.3%	$397,388
National	-0.4%	0.6%	8.3%	12.3%	$557,818

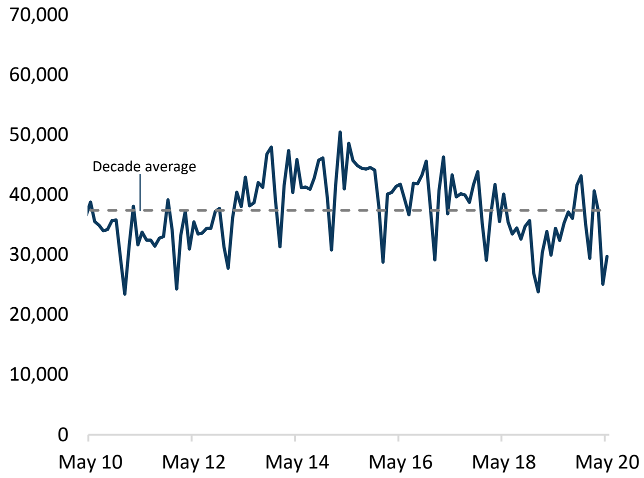
Month-on-month change in dwelling values Combined capitals



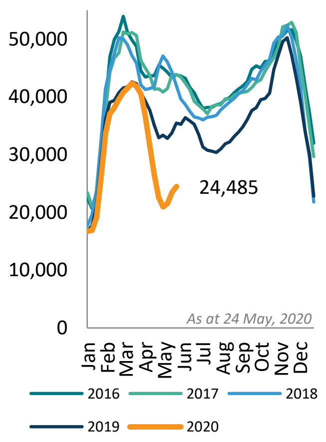
Change in dwelling values



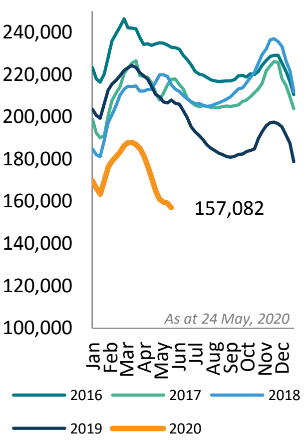
Estimate of monthly settled sales, national



New listings, rolling 28 day count, national



Total listings, rolling 28 day count, national



After housing market activity fell by around one third in April relative to March, the estimate of sales activity bounced back by 18.5% in May. Housing market activity remains well below average, however the rise in sales through May coincides with a consistent rise in consumer sentiment and eased social distancing policies through the month.

Historically there has been a strong correlation between consumer sentiment and housing market activity. According to Mr Lawless, "Measures of consumer sentiment have shown attitudes to be consistently improving since early April, after dropping sharply as the virus curve worsened and severe social distancing policies and border closures were implemented." The weekly ANZ Roy Morgan index has risen consecutively for the past 8 weeks, with the index 42% higher than when it bottomed out in late March. The Westpac MI consumer sentiment index also rebounded 16.4% from April to May, recovering around three quarters of the April drop. While consumer sentiment is still at relatively low levels, real estate transaction volumes are likely to benefit from this partial improvement.

"With consumers feeling more confident, households are better equipped to make high commitment decisions such as buying or selling a home. A lift in housing market activity should also support broader economic activity, with housing turnover providing positive flow-on effects to other sectors including retail, construction and banking," Mr Lawless said.

Improved confidence is also flowing through to a rise in new listing numbers. The number of fresh property advertisements bottomed out at historic lows in early May, with the rolling 28 day count up 8.1% compared with the end of April.

Importantly, total stock levels remain extremely low. Although new listings numbers are trending higher, the total listing count, which includes new listings as well as re-listed properties, has continued to trend down, implying a healthy rate of absorption as buyers become more active as well.

According to Lawless "The relationship between new listing numbers and total listings will be a key trend to watch; if total stock levels become elevated, this indicates that supply levels are outweighing demand. Currently, this does not look to be the case."

Auction market indicators provide another confirmation point of improving conditions. The combined capital city clearance rate bounced back from a low of 30.2% in late April, to 62.7% in the week ending 24th of May.

As policies preventing open homes and on-site auctions eased during May, there was a clear improvement across auction markets. Lawless said "We have seen a sharp reduction in the number of auctions being withdrawn, and more vendors are testing the market under auction conditions rather than accepting an offer prior to the auction."

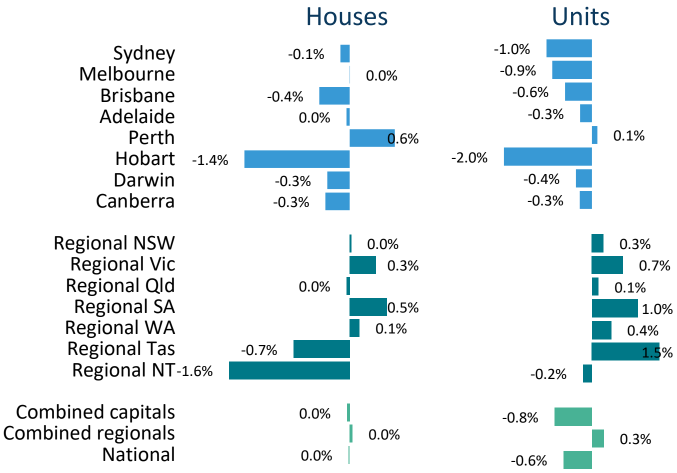
Along with a rise in buyer and seller activity, CoreLogic is also reporting a rise in industry related activity. Real estate agent activity has shown a remarkable increase across the RP Data platform during May, with the number of reports generated across the platform rising by around 45% since the end of April.

"Prior to Easter, real estate agent activity was tracking 60% lower than at the same time a year ago. By the end of May, agent activity was only 8% below a year ago. Real estate agent activity on the RP Data platform is highly correlated with the number of new property listings coming on the market with a two week lead, suggesting new listing numbers are set to rise further as we enter winter." Mr Lawless said.

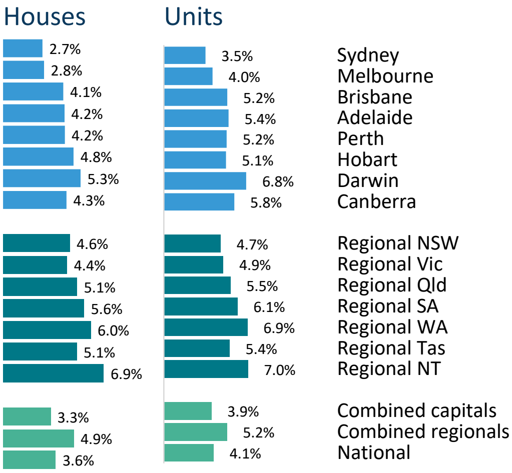
The most rapid decline in housing values is across the top quartile of the Melbourne and Sydney markets. Melbourne's most expensive quartile of the market recorded a 1.3% drop in values over the month, compared with a 0.6% fall across the broad 'middle' of the market and a 0.3% fall across the most affordable quartile. Similarly, in Sydney, the top quartile was down 0.6% while the lower quartile posted a 0.1% increase in values.

According to Mr Lawless, these were also the sectors of the market recording the most significant rise in values during the most recent growth phase. "Melbourne's top quartile values are still 13.9% higher than they were a year ago, while Sydney's top quartile is up 16.5% over the year."

Change in rents, March 31 to May 31



Gross rental yields, May 2020



Rents were generally steady in May. The national rental index rose 0.2% over the month, following a 0.4% decline in April. The May rise was not enough to reverse a weakening trend, with every capital city except Perth recording a fall in rents over the past two months.

Unit markets are looking weaker than house markets over the past two months, with unit rents falling 0.8% since March across the combined capital cities while house rents were steady.

Inner city apartment rents are looking precarious due to an imbalance between demand and supply. "With a large amount of new inner city, high-rise apartment projects recently completed, and stalled migration and foreign student arrivals, inner city unit rents are likely to fall more substantially than other sectors of the market. The weakness in rental demand is likely to be compounded by significant job losses and income reductions across the hospitality, tourism and arts sectors, in which a larger portion of workers typically rent," said Mr Lawless

Hobart stands out with a more significant drop in both house and unit rental rates. The reduction in rents comes after a period of rapid rental appreciation across Hobart. Anecdotally, a large number of short term rental properties have recently transitioned to permanent rentals, which has contributed to higher supply at a time when demand has slackened.

According to Mr Lawless, there is a strong chance that rental rates will fall more than housing values, placing downwards pressure on rental yields. "The double whammy of higher supply and less rental demand, especially across unit markets, is likely to place further downwards pressure on yields. In Sydney gross rental yields are already around record lows and Melbourne isn't far behind."

In the context of weak economic conditions and the broader COVID-19 related disruption, housing values have been relatively resilient and through May we have seen the first signs of a recovery in activity.

Tim Lawless said, "While downside risk remains, the trajectory of the housing market is looking healthier than what we were expecting a bit over a month ago. The virus curve has been flattened more quickly and effectively than even the best case scenario forecasts, meaning some of the most restrictive policy settings have been either lifted or relaxed. Consumer spirits have lifted, vendors are starting to test the market and buyer numbers have risen."

In closing Mr Lawless said, the broad theme we are seeing in much of the housing data is a mixture of resilience and recovery.

"Housing values have been remarkably resilient to date. If history is anything to go by, housing values have generally weathered periods of extreme uncertainty quite well, and the trend to date looks very similar. Although home values haven't materially fallen, buying and selling activity has been significantly impacted. In May, the sharp falls in both listing numbers and buyer activity are starting to reverse in line with improving consumer sentiment."

While the immediate indicators are showing resilience or improvements, the longer term view of housing market conditions is much less certain. "Once stimulus measures start to taper and repayment holidays expire, this is where we could see a rise in mortgage arrears, and the potential for a lift in distressed sales.

Despite the recent recovery in certain indicators from very low levels, it is hard to ignore job losses of almost 600,000 across the economy over April. With the cash rate at its effective lower bound, improved employment conditions will be a factor in steadying purchasing capacity for housing, and the servicing of mortgage debt". Mr Lawless said.

Central to the outlook for distressed sales will be what shape the Australian economy is in late this year. Encouragingly, the RBA governor recently noted in his evidence to the Senate Select Committee on COVID-19, that the economic downturn may not be as severe as earlier thought, with the current economic trajectory somewhere between the RBA's best case and base case scenarios.

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																		
Month	-0.4%	-0.9%	-0.1%	0.4%	-0.6%	0.8%	-1.6%	0.5%	-0.1%	0.1%	0.0%	0.7%	-0.8%	0.6%	na	-0.5%	0.0%	-0.4%
Quarter	1.1%	-0.8%	0.8%	1.1%	0.1%	0.5%	2.1%	1.2%	0.8%	1.7%	1.1%	1.8%	0.2%	3.0%	na	0.5%	1.1%	0.6%
YTD	3.9%	1.6%	1.9%	1.5%	0.6%	2.1%	0.7%	2.2%	2.1%	3.4%	2.4%	3.1%	1.0%	5.5%	na	2.6%	2.4%	2.6%
Annual	14.3%	11.7%	4.3%	1.8%	-2.1%	6.2%	-2.6%	5.1%	3.3%	4.3%	4.6%	2.8%	-6.5%	9.5%	na	9.7%	3.5%	8.3%
Total return	17.8%	15.3%	8.4%	6.4%	2.0%	11.8%	4.7%	10.2%	7.8%	9.2%	9.7%	8.7%	-0.8%	15.8%	n a	13.4%	8.3%	12.3%
Gross yield	3.0%	3.2%	4.4%	4.4%	4.3%	4.9%	5.8%	4.7%	4.6%	4.5%	5.2%	5.6%	6.1%	5.1%	na	3.5%	4.9%	3.8%
Median value	$885,159	$686,798	$508,386	$441,184	$443,669	$486,056	$393,939	$637,279	$467,308	$393,600	$384,977	$244,061	$315,908	$329,357	na	$645,511	$397,388	$557,818
Houses																		
Month	-0.6%	-1.1%	0.0%	0.4%	-0.6%	0.8%	-0.9%	0.7%	-0.2%	0.0%	0.0%	0.8%	-0.8%	0.7%	1.9%	-0.5%	-0.1%	-0.4%
Quarter	0.8%	-1.1%	1.0%	1.0%	0.2%	1.1%	2.0%	1.6%	0.8%	1.7%	0.9%	1.5%	0.3%	2.8%	-0.7%	0.3%	1.0%	0.5%
YTD	4.2%	1.6%	2.3%	1.3%	0.5%	3.0%	3.1%	2.8%	2.1%	3.5%	2.5%	2.5%	0.8%	5.1%	-1.7%	2.7%	2.4%	2.6%
Annual	15.6%	12.2%	4.8%	1.7%	-2.1%	6.7%	-1.6%	6.3%	3.6%	3.7%	5.1%	2.3%	-7.4%	8.3%	-0.1%	9.8%	3.4%	8.3%
Total return	18.9%	15.4%	8.7%	6.1%	1.9%	12.4%	5.6%	11.1%	8.0%	8.5%	9.9%	8.8%	-1.7%	14.3%	8.1%	13.2%	8.1%	12.0%
Gross yield	2.7%	2.8%	4.1%	4.2%	4.2%	4.8%	5.3%	4.3%	4.6%	4.4%	5.1%	5.6%	6.0%	5.1%	6.9%	3.3%	4.9%	3.6%
Median value	$1,016,726	$809,274	$559,975	$478,294	$461,366	$514,496	$473,861	$716,663	$479,956	$416,528	$392,383	$249,959	$327,506	$342,044	$403,100	$680,577	$408,842	$571,999
Units																		
Month	-0.1%	-0.6%	-0.6%	0.5%	-0.1%	0.6%	-2.9%	0.1%	0.4%	0.5%	0.3%	-0.5%	-0.7%	-0.2%	na	-0.3%	0.3%	-0.2%
Quarter	1.5%	-0.1%	0.1%	1.9%	-0.5%	-2.1%	2.2%	-0.2%	1.3%	1.5%	1.5%	8.1%	-0.4%	4.7%	na	0.8%	1.5%	0.9%
YTD	3.4%	1.7%	-0.2%	2.6%	0.9%	-1.2%	-3.6%	0.3%	2.2%	2.9%	2.2%	15.5%	5.1%	8.9%	na	2.3%	2.6%	2.4%
Annual	11.6%	10.6%	1.6%	2.1%	-1.9%	4.4%	-4.5%	0.9%	1.9%	7.9%	3.0%	15.5%	7.6%	20.7%	na	9.3%	3.7%	8.4%
Total return	15.8%	15.0%	7.0%	7.6%	2.6%	9.7%	2.8%	7.1%	6.8%	13.7%	8.9%	9.9%	14.0%	26.6%	n a	13.7%	9.1%	13.1%
Gross yield	3.5%	4.0%	5.2%	5.4%	5.2%	5.1%	6.8%	5.8%	4.7%	4.9%	5.5%	6.1%	6.9%	5.4%	na	3.9%	5.2%	4.1%
Median value	$772,204	$580,009	$388,894	$335,052	$355,576	$403,382	$272,648	$444,292	$407,733	$291,396	$367,222	$195,897	$212,286	$270,786	na	$580,239	$354,444	$523,326

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.*

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