CoreLogic

NATIONAL MEDIA RELEASE
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Lower home values in Melbourne and Sydney continue to weigh down the national housing market while the remaining capitals record a lift through September

September marked a striking turn in housing market sentiment; consumer confidence increased, new listings rose, and six of the eight capital cities recorded a rise in home values over the month. However, falling values in Melbourne and Sydney, which make up approximately 40% of Australian's housing stock by number and 55% by value, pushed the national reading into a fifth straight month of decline.

CoreLogic's September home value index results showed a 0.1% fall in dwelling values nationally. This was comprised of a 0.2% drop in the combined capitals index and a 0.4% rise in the combined regionals index. Although the national index was down over the month, the 0.1% decline was the smallest since values started to reduce in May this year.

According to CoreLogic head of research, Tim Lawless, Melbourne remains the main drag on the headline results. "By far the weakest result across the capital cities, Melbourne housing values were down 0.9% in September. Since peaking in March, Melbourne values are down 5.5%. With restrictions starting to lift and private home inspections once again permitted, we expect to see activity lift in October."

The rate of decline across Sydney's market has been consistently easing since July, and the remaining capital cities have all returned to some level of growth.

Regional markets have continued to out-perform relative to the capital cities. At a broad level, the combined regionals index has slipped only 0.8% since March while capital city values have fallen by 2.6% over the same period. In September, every 'rest of state' region, except Western Australia, recorded a lift in housing values.

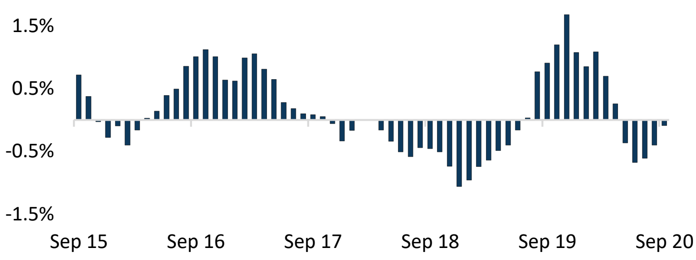
Mr Lawless believes the resilience in regional values can be attributed to a number of factors. "From a cyclical perspective, regional areas weren't recording the same growth conditions pre-COVID, so home values in these markets are often more affordable, and don't have a high base to fall from. Anecdotally we are also observing a transition of demand away from the cities towards the major regional centres, particularly those that are adjacent to the larger capitals where residents can commute back to the cities if required. Remote working arrangements are no doubt a factor in supporting demand in these markets, but lifestyle opportunities and a desire for lower density housing options are also playing a part."

The housing market outlook is subject to headwinds as fiscal support is reduced, labour markets remain weak and mortgage payment deferrals become less common. However, there are a number of factors that are supporting improved housing market conditions. "The aggregate effect of low mortgage rates, and the prospect that rates could fall further, low inventory levels, government incentives and improving consumer sentiment seems to be outweighing the negative economic shock brought about by the pandemic, " Mr Lawless said.

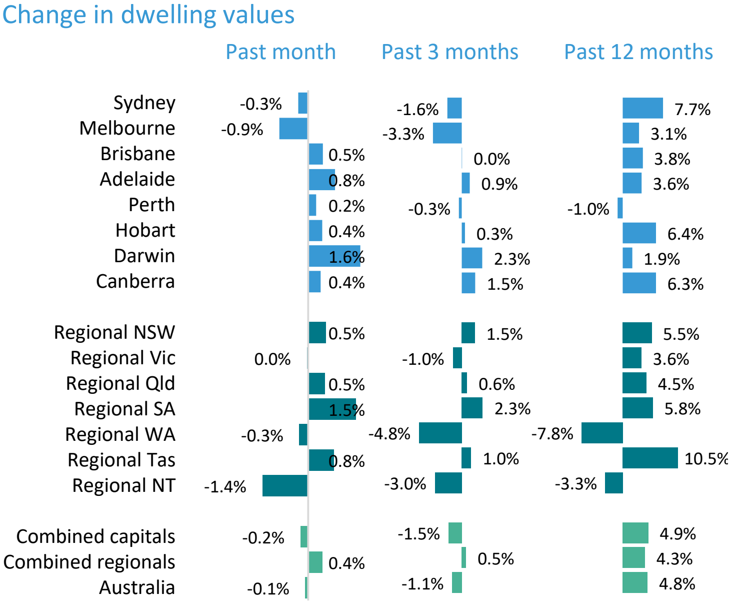
Index results as at September 30, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	-0.3%	-1.6%	7.7%	10.6%	$859,943
Melbourne	-0.9%	-3.3%	3.1%	6.7%	$666,796
Brisbane	0.5%	0.0%	3.8%	7.8%	$504,902
Adelaide	0.8%	0.9%	3.6%	7.8%	$449,803
Perth	0.2%	-0.3%	-1.0%	3.3%	$445,717
Hobart	0.4%	0.3%	6.4%	11.8%	$489,059
Darwin	1.6%	2.3%	1.9%	9.2%	$398,885
Canberra	0.4%	1.5%	6.3%	11.3%	$644,581
Combined capitals	-0.2%	-1.5%	4.9%	8.3%	$635,196
Combined regional	0.4%	0.5%	4.3%	9.1%	$397,791
National	-0.1%	-1.1%	4.8%	8.5%	$554,372

Month-on-month change in national dwelling values



Change in dwelling values



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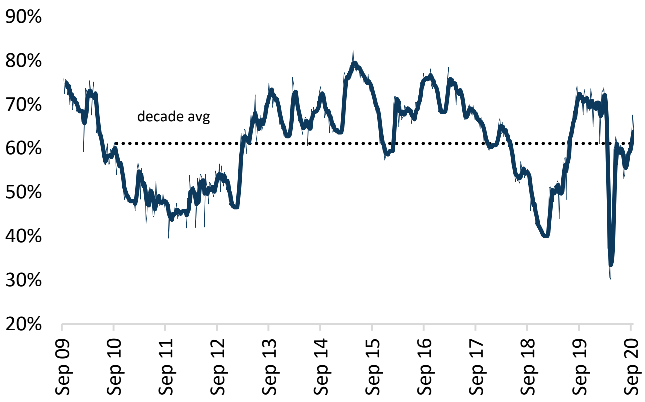
Low advertised stock levels are a key factor supporting housing values. Nationally, new listing numbers remain 22% lower than a year ago, and 25% below the five year average. Similarly, total advertised stock levels were 14% below last year's level, and 17% below the five year average.

According to Mr Lawless, such tight inventory levels at a time when demand is recovering is creating some urgency in the market. "While the number of advertised homes is 14% lower than a year ago, our estimate of home sales through the September quarter was 2.8% higher than the same time last year. The imbalance between available supply and housing demand is one of the reasons why housing values have hardly fallen through the COVID period so far, and helps to explain the recent upwards trend in values across some cities."

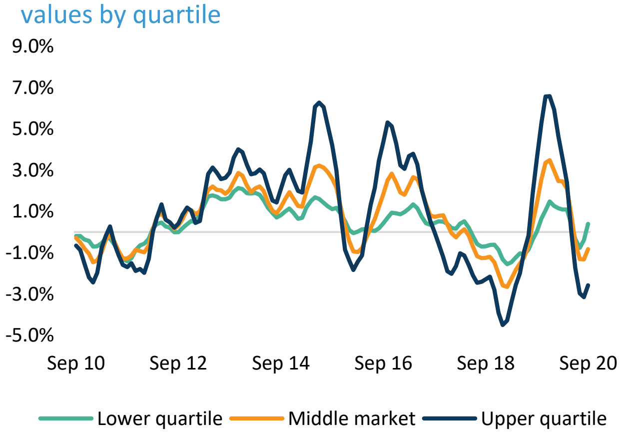
"We aren't seeing any signs of a rise in distressed listings or stock starting to pile up in the market. In fact, the opposite seems to be true, where new listings are being absorbed by the market faster than the rate at which they are being added. This trend will be important to monitor over coming months as fiscal support tapers and the financial situation of borrowers taking a repayment holiday is assessed by their lender. A rise in urgent or distressed listings would provide a further test for the resilience of housing values," Mr Lawless said.

Estimates of sales activity have recently edged lower since rebounding between May and July. This is largely a consequence of restrictions across the Victorian market but also fragile sentiment in other regions, low advertised supply levels and seasonal factors.

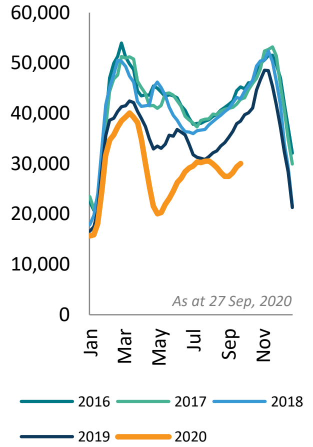
Auction clearance rate, combined capitals



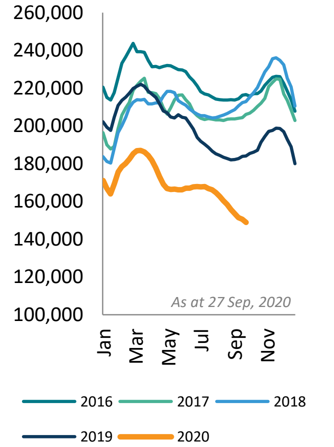
Rolling three month change in capital city dwelling values by quartile



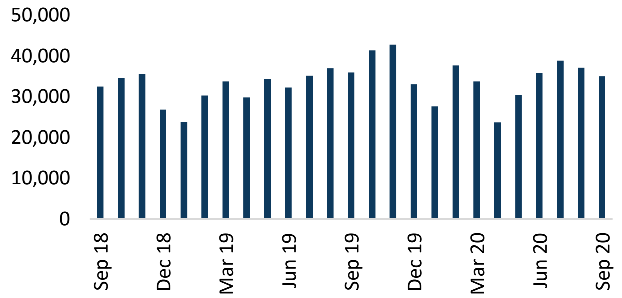
New listings, rolling 28 day count, national



Total listings, rolling 28 day count, national



Volume of sales, national



Most recent months of sales volumes are estimates and will revise

Auction markets have also shown some strength, with the capital city clearance rate holding around the mid 60% range through September, relative to the decade average of 64%. Melbourne's auction market performance has been much weaker, with record low levels of activity and high withdrawal rates. Due to the extremely low number of Melbourne auctions held, the impact on the combined capital cities reading has been negligible.

Lower quartile home values have pushed into positive growth territory over the September quarter. The combined capitals stratified hedonic index recorded a 0.4% lift in lower quartile values over the September quarter. Conversely, there was a 2.6% drop in upper quartile values.

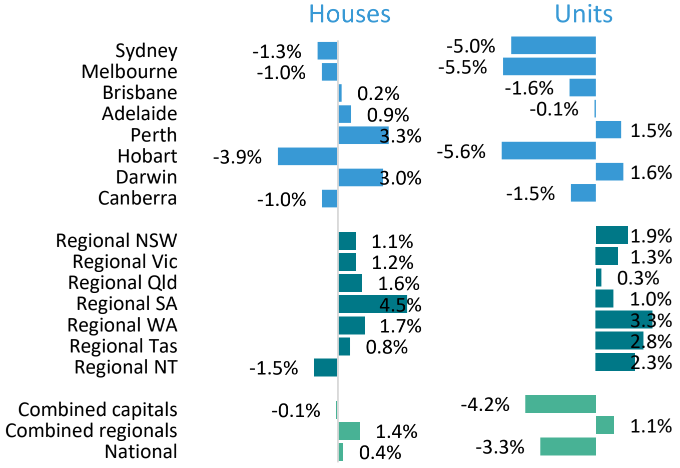
The weaker performance across the larger cities, where housing values are typically higher, helps to explain the underperformance of the upper quartile, however it is clear that lower value cohorts of the market are performing better in Sydney and Melbourne as well.

Housing values across Sydney's lower quartile were down 0.4% over the September quarter while upper quartile values fell by 2.1%. The trend is amplified in Melbourne where lower quartile values were down 1.9% over the September quarter while upper quartile values fell by 4.6%.

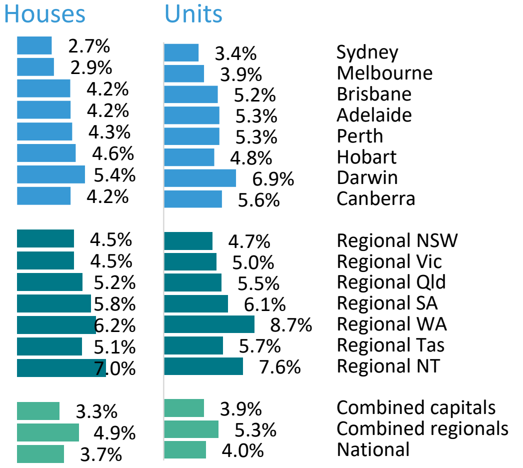
While less extreme, this trend is holding true across every other capital city.

Historically the more expensive end of the housing market has led both the upswing and the downturn cycles, however this trend could be disrupted due to the over representation of first home buyers in the market who tend to focus on properties around the middle to lower end of the value spectrum.

Change in rents, March 31 to September 30



Gross rental yields, September 2020



The performance of the rental market has diverged substantially between house and unit rents. Between the end of March and September, national house rents have risen by 0.4% while unit rents are down 3.3%. Every capital city has seen house rents hold up better than units rents, however, the biggest difference between the two property types can be seen in Sydney and Melbourne where unit rents are down 5.0% and 5.5% respectively while house rents have fallen by a much smaller 1.3% and 1.0%.

According to Mr Lawless, the significant difference in rental performance is a combination of supply and demand side factors. “Investment grade apartment markets have seen significant supply additions over the past decade, with a large portion of new apartments built in Sydney and Melbourne. The supply side has been further impacted by short term rentals transitioning to long term rentals. While supply has surged, COVID-19 brought about a significant demand shock from international and state border closures. Overseas migrants comprised a material component of tenant demand across inner Melbourne and Sydney, with many of these foreign students.”

“Add to this the fact that industry sectors such as food, accommodation services, the arts and recreational services have been hardest hit by job losses and lower working hours. Workers in these sectors are more likely to rent than in other industries, which has also negatively impacted rental demand,” Mr Lawless continued.

Regional rent markets have held much firmer, with rents rising for both houses (1.4%) and units (1.1%) across the combined regional markets over the past six months. This is further evidence of the relative resilience of regional Australia throughout the pandemic.

With unit rents falling faster than unit values, the yield profile for Australia’s unit sector has deteriorated. Across the combined capitals, the gross rental yield for units is tracking at a record low of 3.85%, down from 4.23% a year ago. The lowest gross yields are in Sydney (3.4%) and Melbourne (3.9%), despite their low reading, however, gross yields for units remain higher than the yield for houses across every city.

With high supply and weak rental conditions likely to persist, at least until international borders re-open, inner city, investor-owned unit values are likely to remain under significant downside risk.

In summary, apart from Melbourne, the performance of the housing market is consistently improving. Most of the capitals and regional areas of Australia are recording rising home values, or in Sydney’s case a reduced rate of decline. The improved performance comes after only mild value falls, with capital city home values down only 2.6% since March.

To-date the support of low interest rates, scarce inventory, fiscal policy initiatives and government incentives, together with relatively successful virus containment, have insulated the housing market from larger falls in value and activity. Unsurprisingly, the markets where the virus has been well contained and economic activity is less restricted are faring the best. At the other end of the spectrum, the considerably weaker conditions across Melbourne provide an example of the impact of severe restrictions related to a virus breakout.

Looking forward, the market will be contending with a mixture of headwinds and tailwinds.

Headwinds will be evident as fiscal support winds down and distressed borrowers come to terms with their repayment commitments. It is logical to assume there will be a rise in urgent or distressed listings over the coming months, however so far we have seen new listings rapidly absorbed by the market.

The expectation for persistently weak labour market conditions, low rates of overseas migration and minimal wage growth are other factors adding to downside risk. As businesses become more embracing of technology, and less-labour intensive practices, lingering unemployment could constrain housing demand.

On the upside, we are expecting a new round of government spending initiatives and stimulus measures to be announced on budget night next week. These policies are likely to be aimed at supporting jobs growth and consumption, incentivising business investment and productivity improvements. Some potential initiatives may include a substantial lift in infrastructure spending, bringing forward income tax cuts, extending incentives for residential construction and more funding for social and community housing.

Additionally, the treasurer recently announced a plan to relax lending laws. If enacted we could see credit flows become more streamlined and available by early March next year. Credit availability has historically shown a close relationship with activity in the housing sector.

The prospect of lower interest rates later this year also presents some upside for housing market conditions.

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
Dwellings																		
All Dwellings																		
Month	-0.3%	-0.9%	0.5%	0.8%	0.2%	0.4%	1.6%	0.4%	0.5%	0.0%	0.5%	1.5%	-0.3%	0.8%	na	-0.2%	0.4%	-0.1%
Quarter	-1.6%	-3.3%	0.0%	0.9%	-0.3%	0.3%	2.3%	1.5%	1.5%	-1.0%	0.6%	2.3%	-4.8%	1.0%	na	-1.5%	0.5%	-1.1%
YTD	1.4%	-2.8%	1.4%	2.2%	-0.9%	2.8%	3.3%	3.9%	3.8%	1.9%	2.7%	5.3%	-6.0%	7.2%	na	0.2%	2.7%	0.7%
Annual	7.7%	3.1%	3.8%	3.6%	-1.0%	6.4%	1.9%	6.3%	5.5%	3.6%	4.5%	5.8%	-7.8%	10.5%	na	4.9%	4.3%	4.8%
Total return	10.6%	6.7%	7.8%	7.8%	3.3%	11.8%	9.2%	11.3%	9.9%	8.5%	9.7%	11.4%	-1.1%	15.8%	n a	8.3%	9.1%	8.5%
Gross yield	2.9%	3.3%	4.4%	4.4%	4.4%	4.7%	5.9%	4.5%	4.5%	4.6%	5.3%	5.8%	6.3%	5.2%	na	3.5%	4.9%	3.8%
Median value	$859,943	$666,796	$504,902	$449,803	$445,717	$489,059	$398,885	$644,581	$475,921	$387,870	$387,816	$244,849	$301,771	$327,791	na	$635,196	$397,791	$554,372
Houses																		
Houses																		
Month	-0.2%	-0.9%	0.4%	0.8%	0.3%	0.6%	2.0%	0.2%	0.7%	-0.1%	0.5%	1.2%	-0.2%	0.8%	-0.5%	-0.2%	0.5%	0.0%
Quarter	-1.7%	-3.7%	0.0%	0.8%	-0.3%	0.5%	3.0%	1.4%	1.6%	-1.1%	0.8%	1.7%	-4.7%	1.3%	-0.3%	-1.5%	0.6%	-1.0%
YTD	1.5%	-3.4%	2.0%	1.9%	-0.8%	4.0%	6.6%	4.3%	4.0%	1.8%	2.9%	4.6%	-6.0%	7.1%	-2.1%	0.2%	2.8%	0.8%
Annual	8.7%	3.0%	4.5%	3.5%	-0.9%	7.0%	5.1%	7.0%	6.0%	3.5%	5.0%	5.0%	-8.1%	10.2%	-3.2%	5.2%	4.5%	5.1%
Total return	11.3%	6.2%	8.3%	7.5%	3.3%	12.5%	11.8%	11.7%	10.3%	8.2%	9.9%	11.0%	-1.6%	15.5%	4.8%	8.4%	9.1%	8.5%
Gross yield	2.7%	2.9%	4.2%	4.2%	4.3%	4.6%	5.4%	4.2%	4.5%	4.5%	5.2%	5.8%	6.2%	5.1%	7.0%	3.3%	4.9%	3.7%
Median value	$983,262	$780,836	$559,646	$486,943	$463,634	$519,092	$485,085	$723,634	$490,842	$411,295	$397,182	$250,943	$314,016	$341,270	$404,111	$672,873	$409,797	$571,395
Units																		
Units																		
Month	-0.5%	-0.8%	0.7%	1.1%	0.2%	-0.2%	0.9%	1.1%	-0.1%	0.4%	0.5%	7.0%	-2.0%	0.9%	na	-0.4%	0.3%	-0.3%
Quarter	-1.5%	-2.3%	-0.1%	1.3%	-0.8%	-0.3%	0.9%	1.8%	0.5%	-0.3%	-0.3%	14.7%	-7.0%	-1.4%	na	-1.5%	-0.1%	-1.3%
YTD	1.2%	-1.4%	-1.1%	3.7%	-1.2%	-1.5%	-2.7%	2.5%	2.7%	2.5%	1.9%	18.0%	-5.3%	8.0%	na	0.2%	2.4%	0.5%
Annual	5.4%	3.4%	0.7%	4.0%	-1.6%	4.0%	-4.2%	4.2%	2.7%	4.5%	3.1%	19.4%	-2.8%	12.2%	na	4.0%	3.3%	3.9%
Total return	9.2%	7.6%	5.8%	9.3%	3.2%	9.2%	4.3%	10.3%	7.6%	10.3%	9.0%	14.7%	7.1%	17.3%	na	8.2%	8.9%	8.2%
Gross yield	3.4%	3.9%	5.2%	5.3%	5.3%	4.8%	6.9%	5.6%	4.7%	5.0%	5.5%	6.1%	8.7%	5.7%	na	3.9%	5.3%	4.0%
Median value	$743,288	$558,952	$388,505	$332,287	$348,398	$397,993	$272,244	$458,498	$411,748	$293,069	$363,816	$202,320	$185,777	$264,222	na	$564,648	$351,221	$513,584

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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