Welcome to CoreLogic’s housing market update for August 2017. CoreLogic’s combined capitals index recorded another rise in July, taking dwelling values 1.5% higher over the month to be 10.5% higher over the past twelve months.

The strong month on month result was largely attributable to a 3.1% increase across Melbourne which is now recording the highest annual growth reading with values 15.9% higher. Canberra also showed a substantial gain in values over the month, with the index up 2.4%. In fact Canberra is now showing the second highest annual rate of capital gain after Melbourne, pushing Sydney to third place on the capital gains leagues table with an annual growth rate of 12.4%.

While growth rates remain high in these cities, there has been some moderation in the trend rate of growth since the first quarter of 2017, especially in the Sydney housing market. Sydney’s quarterly growth trend has eased from 5% over the March quarter to 2.2% at the end of July. Melbourne and Canberra conditions have been more resilient to a slowdown, with the rolling quarterly growth rate holding reasonably firm around 5% in Canberra and 4% in Melbourne.

Other capital cities aren’t showing the same level of exuberance though. Dwelling values continued to slip lower in Perth and Darwin, and were also down in Brisbane during July.

The silver lining around weak housing market conditions in these areas is that housing affordability is far less problematic relative to the larger cities. Better housing affordability can be seen in the first home buyer trends, with activity across this segment of the market proportionally higher than other states and trending upwards.

While capital gain conditions remain diverse, so too does housing turnover. Broadly, the number of transactions across the combined capitals has reduced by 4.3% over the past twelve months and annual transaction numbers are 16% lower compared with their cycle peak which was back in mid-2014.

The largest year on year fall in settled sales has been in Brisbane and Melbourne, with sales down 9.7% and 7.6% respectively. At the other end of the spectrum, Hobart and Darwin have both seen a lift in turnover of about 11% over the year.

Housing turnover is being affected by a range of factors, including inventory shortages, tighter credit policies, higher mortgage rates and lower consumer sentiment, however many of these factors vary substantially from region to region.

Another facet of the housing market is that houses are substantially outperforming units. The combined capital city index shows that over the year, house values have risen by 10.9% while unit values have increased by 7.3%. The performance differential is most significant in Melbourne and Brisbane which are also the two markets where concerns around an oversupply of unit construction are most pronounced.

According to the CoreLogic hedonic index, house values in Melbourne are 17.2% higher over the year compared with a 4.6% rise in unit values, while in Brisbane, house values are 2.6% higher while unit values have reduced by 1.4% over the past twelve months.

The weaker performance can probably be attributed to both higher unit supply levels around the inner city regions which has led to tighter credit policies from lenders and heightened caution from investors in these areas.

Let’s take a looking at housing market conditions across each of the capital cities.

The Sydney housing market saw dwelling values rise by 1.4% in July. While the pace of capital gains remains strong, the trend rate of growth has clearly slowed. The March quarter saw Sydney dwelling values rise by 5% and since that time growth has eased to 2.2% over the three months ending July. Other evidence of the market losing steam can be seen in auction clearance rates which have been tracking below 70% over the past two months, higher inventory levels and longer private treaty selling times. Although the Sydney market has lost some steam, conditions remain strong; just not quite as strong as earlier in the year.

The Melbourne housing market has been quite resilient to a slowdown, despite higher mortgage rates and tighter credit policies. Melbourne dwelling values were up 3.1% over the month of July and have increased 15.9% over the past twelve months; that’s the highest annual growth rate of any capital city. While the headline figure for Melbourne is certainly strong, the figure hides a significant performance gap between houses and units. While house values are 17.2% higher over the year, unit values have growth at a significantly slow pace of 4.6%.

Brisbane’s housing market has continued along a surprisingly weak trajectory, with dwelling values slipping 0.6% lower over the month and rising by only 2.2% over the past year. With annual growth only slightly higher than inflation and wages growth, Brisbane housing remains affordable relative to the larger capital cities and rental yields are substantially higher than what is being achieved in Sydney and Melbourne. With interstate migration now ramping up and the labour market improving, we may see the Brisbane housing market experience an improved rate of capital gain over the second half of 2017.

Adelaide’s housing market has continued to trend steadily higher with dwelling values 1.1% higher over the month to be 2.5% higher over the year to date. Dwelling values are rising only slightly faster than inflation and wages, which has provided for very affordable home prices, but not a great deal of wealth creation compared with markets like Sydney and Melbourne. In a positive sign, the average selling time has reduced compared with a year ago indicating strengthening selling conditions which could support some additional price pressures in the market.

Dwelling values across Perth dipped again in July, falling 1.3% over the month to be 2.1% lower over the year. Although values edged lower over the month, the trend rate of decline has eased during 2017 as the market approaches a floor. The unit market appears to have already started a recovery across Perth with values now 3% higher over the past twelve months and settled unit sales also rising relative to a year ago. Conditions still favour buyers, however advertised stock levels are now reducing which should support some rebalancing between buyers and sellers.

The Hobart housing market remains in a strong position and is now the fourth best performing capital city over the past twelve months. Dwelling values are 6.5% higher over the past twelve months and settled sales are 11% higher over the same period. In a further sign of the Hobart markets strength, listing numbers have reduced substantially, discounting rates are now the lowest of any capital city at just 3.7% and the average selling time has more than halved compared with a year ago with dwellings selling in just 35 days on average.

Housing market conditions in Darwin remain cool with dwelling values falling 1.2% over the month to be 2.1% lower over the year. In a grim sign for vendors, advertised stock levels remain close to record highs, discounting rates are still close to 10% on average and homes are selling in 79 days. While the figures remain weak, buyer demand has picked up over the past year with settled sales rising by 11% year on year.

The Canberra housing market recorded a solid gain in July with dwelling values up 2.4% over the month to be 12.9% higher over the year which is the second highest annual growth rate across the capitals. Growth has been relatively even between the house and unit sector over the past twelve months, with house values up 13.2% compare with a 10.0% rise in unit values. Selling conditions remain strong, with discounting rates tracking well below the levels of last year at just 4.0% and homes selling in an average of 50 days.

Slower growth conditions, at least at a macro level are being brought about by several factors.

Firstly, it is clear that investment in the housing market is now tapering. Growth in investment related credit peaked in November last year and since that time the pace of lending for investment purposes has been moderating.

Considering investor activity is heavily skewed towards the Sydney housing market, less activity across this segment is likely to have more impact compared with other capital cities.

Investor appetite is being dampened by higher mortgage rates as well as tighter credit policies and low rental yields.

Since bottoming out in November last year, discounted variable mortgage rates for investment purposes have risen by 35 basis points and are 60 basis points higher than the same product for owner occupiers.

Mortgage rates for interest only terms have also moved higher in response to the March announcement from APRA that Australian lenders should limit interest only lending to 30% of new settlements.

These two factors have created a substantial disincentive for real estate investors. Add to this the fact that rental yields slipped to a new record low in Sydney and Melbourne during July and it becomes clear why investment credit growth is trending down.

While these factors are working to slow the housing market, there are other factors that are stoking housing demand.

Population growth has rebounded higher, creating more demand for housing. Based on data for the 2016 calendar year, the number of net overseas migrants to Australia was up 16.5% with 76% of these overseas migrants arriving in New South Wales and Victoria.

Interstate migration flows are also changing which is impacting on housing demand. The net outflow of residents from New South Wales is now gathering some pace, while net migration into Queensland is the highest in ten years. The rise in interstate migration is likely to be a key driver of housing demand, particularly across the south east corner of Queensland, while the outflow from New South Wales is probably a another reason that market conditions are slowing.

Labour market conditions have also tightened during 2017. The past five years saw 75% of Australian jobs created in Victoria and New South Wales, which has supported the high population growth in these regions. More recently, jobs growth has become more broadly spread, picking up across most states and territories.

Another factor to consider in New South Wales and Victoria is the effect of new first home buyer stamp duty concessions. As of July first, first home buyers in NSW were exempt from stamp duty when purchasing a home under $650,000 and stamp duty is discounted up to $800,000. In Victoria, stamp duty exemptions became available for properties purchased with a price tag of less than $600,000 with concessions on stamp duty up to $750,000. While it’s still too early to gauge the extent of a first home buyer reaction, historically first home buyers have been very responsive to these types of incentives.

Overall, growth in residential property values remains healthy, but at a combined capital city level it is not quite as strong as it was earlier in the year. Although it is anticipated that the market will continue to see values rise, it is expected that the rate of growth will continue to slow throughout the remainder of 2017.

Of course, the latest research and updates on the housing market can always be found at the CoreLogic web site, located at www.corelogic.com.au