Welcome to CoreLogic RP Data's update on housing market conditions for February 2016, brought to you on behalf of National Australia Bank

Welcome to the first CoreLogic RP Data housing market update for 2016. With the festive period now well and truly behind us we are getting the first signs about what to expect across the housing market in the New Year.

After our combined capital city index recorded no change in dwelling values in December, the January figures showed a 0.9% rise in home values driven by strong conditions in Melbourne where values were 2.5% higher, as well as Hobart and Canberra where values were 4.7% and 2.8% higher over the month. Sydney values also moved half a percent higher over the month.

The stronger than anticipated monthly movements come after dwelling values were absolutely flat across the combined capitals in December and down 1.5% in November. The January figures weren't high enough to take the rolling quarterly rate of growth back into positive territory though, with capital city dwelling values remaining 0.6% lower over the three months through to the end of January.

Looking at the trends in the value movements suggests there may be a further slowdown in housing market conditions as we move through 2016. The annual pace of growth has reduced from a recent high of 11.1% in July last year down to 7.4% across the combined capitals index. Sydney's housing market has seen the annual pace of capital gains reduced from 18.4% in July last year to 10.5% over the 12 months to the end of January. That's a 29 month low and for the first time since 2011, Melbourne is now showing a higher annual growth rate than Sydney at 11% per annum. If the pace of growth across Sydney and Melbourne continues to moderate, as we expect, there will be a further drag on the overall combined capital cities average rate of capital growth.

The slowdown in home value growth isn't unique to Sydney and Melbourne. Darwin's housing market was the first to reach a peak with values sliding since May 2014 and Perth's market peaked in December 2014. While it may be too early to call the peak in the Sydney cycle, values are down across Australia's largest capital city by 2.0% since a recent high achieved in October last year.

The slowdown was foreshadowed by falling auction clearance rates over the second half of 2015, with Sydney's auction clearance rate falling as low as 52.9% in December while clearance rates in Melbourne were more resilient, hitting a December low of 63.3%.

The number of homes available for sale across the capital cities is higher than a year ago which is pushing average selling times higher and forcing vendors to discount their price expectations. There are approximately 9% more homes currently advertised for sale compared with the same time last year, with every capital city except Hobart recording a rise in the number for sale. More listings translates to more choice for buyers and less leverage for sellers, so we would expect the average selling time and rate of vendor discounting to rise as more data flows through for 2016.

Transaction numbers have also shown some softness over recent months. CoreLogic estimates that sales volumes over the three months to the end of January were down 10.5% compared with the same period a year ago. The slowdown in buyer demand can probably be attributed to factors such as fewer investors and affordability constraints as well as higher mortgage rates as a result of higher capital requirements imposed on the banking sector by APRA last year. The slower rate of absorption is likely another reason why the number of homes available for sale has pushed higher over recent months.

Let’s have a look at housing market conditions around the capital cities.

Sydney handed the title of fastest growing home values back to Melbourne last month with the annual rate of capital gain slipping to the slowest pace in 29 months. Dwelling values were still 10.5% higher over the past 12 months across Sydney, however the past three months has seen Sydney dwelling values slip by 2.1% placing Sydney at the bottom of the quarterly growth tables. The slowdown in Sydney’s housing market comes after a very strong growth cycle where dwelling values have risen by a cumulative 44.2% since the market started rising back in mid-2012. Less than one percentage point separates the capital gain in houses compared with apartments over the past twelve months, with house values rising 10.7% compared with a 9.6% lift in unit values over the year.

Melbourne is once again Australia’s fastest growing city, at least in terms of the annual change in dwelling values. Over the twelve months to the end of January, Melbourne dwelling values have risen by 11.0% which is half a percentage point more than Sydney. Melbourne hasn’t show a faster growth rate than Sydney since early 2011. Demonstrating the long run of capital gains, Melbourne is the only capital city where the value of dwellings has more than doubled over the past decade. Since January 2006 Melbourne dwelling values have increased by 100.9%. Despite the strong trend conditions, the fast pace of capital gains is cooling in Melbourne, with dwelling values falling slightly over the most recent three months period.

Brisbane’s housing market is struggling to maintain a consistent pace of capital gain, with dwelling values showing a slight fall in January to be 0.8% higher over the past three months. The rate of capital gain across Brisbane has been moderate compared with Sydney and Melbourne, with home values up by only 2.8% over the past twelve months. Despite the softer performance, Brisbane’s housing market fundamentals are arguably healthier than the larger cities, with affordability much less of an issue, relatively high rental yields and improving economic conditions. In fact Brisbane’s apartment market is showing the second highest yields of any capital city and house yields are third highest amongst the capitals.

Adelaide home values have slipped by almost 1% over the past three months taking the annual capital gain to a modest 1.1% over the year. The peak rate of growth across Adelaide was recorded over the year ending August 2014 when dwelling values were increasing at the annual rate of 5.9% per annum. The detached housing market has performed better than apartments across Adelaide with house values posting a 1.5% increase over the past 12 months while unit values were down 3.9%. Local rental markets have been relatively soft across Adelaide, with weekly rents falling by 0.4% over past year for houses while unit rents are down 0.3% over the past year.

Dwelling values across Perth fell a further 1% in January, however the 2.7% rise in Perth values over November and December saw local dwelling values stage a 1.7% increase over the rolling quarter. The trend in home values across Perth still appears to be a downwards one though, with home values 4.1% lower over the past 12 months. Higher listing numbers and a slowdown in buyer demand helps to explain the slowdown in Perth's housing market. Listing numbers have shown a sharp rise across the Perth metro area, with the number of homes advertised for sale approximately 13% higher than at the same time last year. At the same time, our estimate of transaction numbers has reduced by approximately 11% over the past six months compared with the same time a year ago.

Hobart made a rare appearance in the best performing capital city space in January with the CoreLogic index for Hobart leaping 4.7% over the month to be 3.0% higher over the rolling quarter. Hobart's housing market has consistently underperformed the combined capitals average since 2007 apart from a short lived run of capital gain during 2009. Housing market conditions have been gradually improving across Hobart which is now showing the highest gross yields of any capital city for apartments at 5.3% while the average gross yield on Hobart houses is second highest amongst the capitals at 5.1%. With lifestyle buyers coming back into the market as well as high yields and relatively little in the way of affordability pressures, buyer demand is likely to continue rising across Hobart during 2016.

Darwin's housing market has continued along a downwards trajectory, with dwelling values falling a further 0.1% in January to be 1.4% lower over the rolling quarter and 2.5% lower overt the past 12 months. Rental markets are even weaker with weekly rents across Darwin down by almost 14% for houses over the past year and just over 12% lower for unit rents. The weak rental scenario is slowly dragging the Darwin yield profile lower, however gross rental yields in Darwin continue to amongst the highest across the capital cities. With rents falling so sharply it's unlikely such as healthy yield scenario can be maintained.

Canberra's housing market has continued to stage an improving growth trend to the extent that the nation's capital is now the third best performing capital city with dwelling values 6.0% higher over the past 12 months. The capital gains are taking place entirely across the detached housing market where house values are 6.7% higher over the year compared with a 3.3% fall in unit values over the past twelve months.   Higher levels of confidence have pushed transaction numbers higher across Canberra which seen the high supply levels gradually absorbed across the market.

Overall, the early indicators about how the housing market is travelling in 2016 have been relatively positive. Dwelling values across the combined capital cities were up 0.9% in January, however it's important to note that data flows don't really return to normal until early February. Late December through to late January is characterized a seasonally slow period for transaction numbers which makes it harder to accurately gauge the performance of the housing market until activity starts to lift.

Despite interest rates remaining on hold in February, there is the potential that the cash rate may move lower over the first half of the year. Inflation is tracking at the bottom of the Reserve Bank's target range which provides plenty of scope for the RBA to cut the cash rate if they see a requirement to do so.

Previously, with housing market conditions running hot, a cut to the cash rate risked stoking the pace of capital gains even higher. Now, with much of the housing market heat dissipating, the RBA may be less concerned about over stimulating home values and investor demand while attempting to provide stimulus to broader economic conditions.

The ASX cash rate futures indicates that financial markets have fully priced a 25 basis point cut to the cash rate by September this year. If the cash rate does fall further during the year, there is no guarantee the full rate cut will be passed onto mortgage rates given the increased capital requirements and higher funding costs faced by the Australian banking sector.

Our view remains that the rate of capital gain across the combined capitals in 2016 is likely to be less than the 7.8% experienced in 2015, driven by a slowdown in Sydney and Melbourne and continued softness in the Perth and Darwin markets. As housing market activity continues to move out of its seasonally slow festive period, we are likely to have a much better gauge on how the overall housing market is performing in the New Year.

Until then, thanks for tuning into CoreLogic's monthly housing market update.   If you want to stay up to date with your local housing market conditions, make sure you visit the research tab at www.corelogic.com.au

Short version

The capital city housing markets started the year off on a positive note with dwelling values rising by 0.9% in January. The month on month lift in dwelling values wasn't enough to offset the weaker readings in December and November which dragged the rolling quarterly rate of capital gain down 0.6%. The slowdown in growth conditions has been most evident in Sydney and to a lesser extent, Melbourne, where the pace of capital gain was previously exceptionally strong.

Dwelling values are down over the past three months across both these cities, with a 2.1% fall in Sydney while Melbourne dwelling values are down a moderate 0.1% over the rolling quarter. The latest index figures have propelled Melbourne's housing market into the number one position for annual capital gains for the first time since 2011. The last twelve months have seen Melbourne dwelling values increase by 11% compared with a 10.5% gain in Sydney values.

Perth and Darwin have continued to move through the downside after dwelling values peaked during 2014. Perth values were down 4.1% over the past twelve months while Darwin, where the market peaked earlier, saw values drop by 2.5% over the past 12 months. These were the only two capital cities to record a fall in dwelling values over the past 12 months.

Brisbane's housing market recorded a 2.8% increase in dwelling values over the past year, Adelaide values were 1.1% higher and Hobart values were 2.3% higher thanks to a strong jump in conditions over the past three months which saw Hobart dwelling values rise by 3.0%.

Housing market conditions in Canberra have continued a healthy upwards trend, with values up 6.0% over the past 12 months, the third highest annual growth rate amongst the capitals.

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