Welcome to the CoreLogic overview of Australian housing market conditions for June 2016. Following the 1.7% rise in capital city dwelling values in April, the May numbers were almost as strong, with our Hedonic Home Value index rising a further 1.6% over the month. The latest results take the combined capital cities index 5% higher over the first five months of the year, which is a stark contrast to the final five months of 2015 where capital city home values actually fell by 0.2%.

The recent rebound in capital gains is once again being driven by strong conditions across the Sydney and Melbourne market, however we have also recorded year to date growth of more than 5% in Hobart and Canberra. The only city where values have moved lower during 2016 is Perth where we have recorded a 3.1% fall in values over the first five months of the year.

The annual rate of capital gains is once again accelerating on the back of these recently stronger housing market conditions. Capital city dwelling values are now 10% higher over the past twelve months.

Sydney and Melbourne have continued to see the strongest annual increases in home values, up 13.1% and 13.9% respectively. There is also evidence that value growth is starting to spread to other capital cities with home values 7.1% higher over the year in Brisbane, 6.1% higher in Hobart and 5.7% higher in Canberra. Values have continued to rise in Adelaide, although the rate of growth has been moderate at just 3.9% over the past year. Home values have continued to fall in Perth and Darwin on an annual basis, down -4.2% and -3.5% respectively.

The strength in the CoreLogic indices is backed up by several other indicators. Auction clearance rates in Sydney have held in the mid 70% range since the last week of April and weekly clearance rates in Melbourne have been higher than 70% almost every week during 2016. In comparison, clearance rates in December last year were consistently less than 60% in Sydney while Melbourne clearance rates were tracking in the mid 60% range.

Additionally, the number of events across CoreLogic's valuation platforms, which account for more than 95% of all bank valuation instructions, are up almost 7% over May which is the highest level of activity since March last year.

The extent to which investors are fueling the latest surge in home values is hard to quantify without recent data, however housing finance data to March shows investors as a proportion of all new mortgage commitments have been trending higher since reaching a recent trough in November last year at 42.9%. The March data shows investors now comprise 47.6% of all new mortgage commitments, the highest proportional reading since August last year.

Anecdotal evidence suggests investor numbers may have increased further from this time, with some lenders loosening their lending policies for investment purposes as growth in investor related credit tracks well under the APRA speed limit of 10% per annum.

Lower mortgage rates are also likely having a positive effect on consumer confidence and housing market conditions, with the standard variable mortgage rate now at its lowest level since 1968.

Although home values are continuing to rise, it is a different story across the capital city rental markets. Across the combined capital cities, rental rates have fallen by -0.3% over the past year setting a new benchmark for the weakest annual rental change on record. While rental rates are falling, home values are continuing to rise and subsequently gross rental yields are continuing to trend lower. Gross rental yields across the combined capitals dwelling index are currently recorded at 3.4%, having fallen from 3.7% 12 months ago.

Now let's take a look at housing market conditions across each of the capital city housing markets.

Home values in Sydney have increased by 7.7% over the first five months of 2016 and are 13.1% higher over the past 12 months. The annual rate of home value growth has slowed significantly from its peak growth of 18.4% in July of last year but, has accelerated from a recent low of 7.4% in March earlier this year. Auction clearance rates in Sydney have held well above the 70% mark through May, however the average selling time remains higher than a year ago, with the typical Sydney dwelling now selling in 39 days on average compared with 28 days a year ago. Discounting rates remain low at 5.1%, however with the number of residential properties available for sale now 26% higher than a year ago, we may see the Sydney housing market shift more in favour or buyers over sellers as the year progresses.

Melbourne home values have increased by 5.0% over the first five months of 2016 and are 13.9% higher over the past 12 months. The annual change in Melbourne home values is greater than any other capital city however, growth remains slightly below the recent peak of 14.2% in September last year. Houses have recorded a much greater increase in values over the past year than units, recorded at 14.6% and 7.9% respectively. With the number of homes available for sale across Melbourne roughly the same as a year ago, Melbourne homes are still selling relatively quickly, averaging 36 days which is slightly faster than a year ago. Vendor discounting has also reduced over the year, suggesting that market conditions are still ripe for selling a home.

Over the past year, Brisbane home values have increased by 7.1% with values 2.2% higher over the first five months of 2016. Brisbane home values have now increased at their fastest annual pace since January 2010. House values have increased by 7.6% over the past year compared to a 2.4% rise in unit values. The lower pace of growth in the unit market may reflect higher supply levels and consequently less confidence in this segment of the market from buyers. With home values rising and rental rates falling by almost 1% over the past twelve months, gross rental yields have eased but they are still some of the strongest amongst the capital cities. The gross rental yield for a house is currently recorded at 4.2% down from 4.5% a year ago. Unit rental yields are recorded at 5.2% down from 5.4% a year ago.

Home values in Adelaide have increased by 3.9% over the past 12 months however, growth over the first five months of 2016 has been stronger with values up 4.6%. Adelaide has continued to see only moderate increases in home values over recent years and is not yet showing signs of an acceleration in value growth like Brisbane, Hobart and Canberra. Rental rates in Adelaide are falling with both house and unit rents almost 1% lower over the past year which has placed some downwards pressure on rental yields. Homes are selling over an average of 47 days in Adelaide which is similar to a year ago, however vendors are starting to apply heavier discounts in order to sell their homes.

Perth was the only capital city housing market to record a fall in dwelling values over the first five months of the year so far, with the typical Perth home down 3.1% in value over the year to date. Since Perth home values peaked in December 2014, they have fallen by a cumulative 6.7%. Rental rates have fallen faster than dwelling values over the past year which has placed further downwards pressure on gross rental yields. With homes selling in just over two months on average and large discounts being applied in order to make a sale, Perth remains a buyer’s market.

Home values across Hobart have increased by 6.6% over the first five months of 2016 and are 6.1% higher over the past 12 months. The number of homes advertised for sale across Hobart has fallen by almost 30% over the past twelve months as stock is absorbed by the stronger housing market conditions. Lower stock levels has reduced the rate of sale as well, with the typical Hobart dwelling selling in 50 days on average which is about a week faster than a year ago. Despite gross yields easing recently, rental yields in Hobart are the highest of any capital city for both houses and units.

Darwin home values have lifted by 1.4% over the first five months of this year but they are -3.5% lower over the past 12 months. House values have fallen by -2.2% compared to a much greater -9.2% fall in unit values. While home values have fallen over the year, rental rates have recorded much greater falls, dragging gross rental yields lower. Gross rental yields for houses have shifted from 5.6% 12 months ago to 4.9% currently. Rental yields for units are currently recorded at 4.5% down from 5.8% a year ago. The typical Darwin dwelling is taking 96 days to sell with discounting rates approaching 10%.

The Canberra housing market is starting to show some acceleration in market conditions, with values across Canberra increasing by 5.6% over the first five months of 2016. Growth has been driven exclusively by houses which are up 6.2% over the past year compared to a -3.5% fall in unit values.

The ongoing diversity in the housing market highlights the different growth drivers that are evident from region to region. The economies of Sydney and Melbourne remain relatively sheltered from the downturn in the resources sector and have benefited from a very healthy services sector and positive population inflows while the mining states and territories are experiencing softer economic conditions and a sharp wind down in population growth, particularly from overseas migration.

Although housing market conditions appear to have picked up over recent months I would be surprised if such a strong pace can be sustained.

Affordability constraints in the largest cities are likely to be one factor standing in the way of further gains. Sydney dwelling values have increased by 58% over the past four years and are 86% higher since the beginning of 2009. Although affordability factors aren't as pressing in Melbourne as they are in Sydney, dwelling values have increased by 71% since January 2009 and are 39% higher over the current growth cycle to date.

Additionally, lending policies are now tighter than they were a year ago, with most banks requiring higher deposits and becoming more risk adverse, particularly within specific new unit markets and in areas that have seen rapid appreciation of values.

The low rental yield profile may add further disincentive to investors who remain a substantial component of housing demand. Yields have compressed across most of the capital cities, however gross rental yields in Melbourne and Sydney have fallen to new record lows over recent months as capital gain substantially outweighs rental gains.

In saying that, investment in housing is likely to remain a popular investment option despite the low yield profile, as long as capital gains remain strong. Relatively safe asset classes like cash and bonds continue offer up little in the way of returns and the volatility in equities has likely shaken the confidence of some investors. Some lenders have recently relaxed previous restrictions on loans for investment purposes which could result in a rebound in demand from this segment over coming months.

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Short version

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