Welcome to CoreLogic’s update on housing market conditions for September 2017. This month we launched the new generation CoreLogic hedonic indices, which provide a further improvement on the market leading hedonic valuation model that CoreLogic has been using to measure housing market conditions since 2006.

The latest housing market results showed dwelling values held firm nationally, with capital city dwelling values nudging 0.1% higher over the month while regional values slipped 0.2% lower. The flat result provides further evidence that the housing market is losing steam and has likely moved through the peak phase of growth.

In fact, based on the rolling quarterly rate of growth, the housing market moved through its peak rate of growth in November last year when dwelling values were rising at the brisk quarterly pace of 3.7%. Since that time, the quarterly rate of growth has eased back to just 0.5% over the three months ending August 2017 which is the slowest rolling quarter of growth since June last year.

The slowdown in growth conditions is most visible in Sydney where housing values had previously been surging higher. Since values started rising in early 2012, the typical Sydney dwelling has seen its value rise by 75%, equating to an approximate dollar value gain of $521,000.

Sydney’s rolling quarterly rate of growth peaked over the three months ending October 2016 when values jumped 6.3% higher. Since that time, the rolling quarterly rate of appreciation has consistently eased, reaching the current rate of just 0.3%.

Growth conditions are also easing in Melbourne, however Australia’s second largest city appears to be more resilient to a slowdown. This is evident in our hedonic index results as well as auction clearance rates, which have consistently held above 70%, and inventory levels which remain close to historic lows across Melbourne.

A variety of other measures have softened in line with the easing in capital growth. Auction clearance rates have found a new floor around the high 60% mark, where they have held consistently since early June this year.

Average selling time is also starting to trend higher and inventory levels are rising, providing buyers with more options and reducing some of the urgency some buyers were feeling when stock levels were much lower and properties were selling faster.

Growth in investment lending appears to have peaked close to the same time as the rate of home value appreciation, in December last year when investor related credit was increased by 0.8% over the month. Since that time the monthly trend in investment related credit growth has halved, reducing back to 0.4% in July.

Now let’s take a look around the capital city housing markets.

Sydney’s housing market recorded no growth in August and the past three months has seen dwelling values rise by only 0.3%. The slowdown in capital appreciation shouldn’t come as a surprise, considering Sydney home values have been rising at a rapid pace for more than five years. Clearance rates are holding around the mid to high 60% range and homes are now taking an average of 41 days to sell, which is level with a year ago but substantially higher compared with earlier months of 2017. Advertised stock levels are now tracking 16% higher than a year ago which implies buyers are slowly getting some leverage back in what has been a very hot market.

The Melbourne housing market has seen the pace of capital gains slow from the highs of last year, however the market seems to be more resilient compared with Sydney to slower conditions. The peak rate of growth was in November last year when Melbourne dwelling values were rising at the quarterly pace of 3.4%. Since that time value growth has remained strong but eased back to 1.9% over the three months ending August 2017. Auction clearance rates continue to track above 70% across Melbourne and private treaty sales are taking just 31 days on average to sell, reflecting a strong seller’s market.

In Brisbane the pace of capital gains remained reasonably sedate in August with dwelling values rising 0.2% over the month to be 3.0% higher over the year. With jobs growth picking up across South East Queensland and migration rates gathering pace, particularly from interstate, the outlook for the Brisbane housing market remains very positive. Key areas within the inner city apartment market are worthy of some caution, considering the large amount of new apartment supply coming on line. The underperformance of the unit sector is very evident from the CoreLogic indices, with house values up 4.3% over the past twelve months while unit values are down 3.2%.

The Adelaide housing market held firm in August with dwelling values unchanged over the month and 5.2% higher over the past twelve months. While capital gains remain relatively sedate across Adelaide, compared with a year ago, housing market conditions have shown an improvement. The annual rate of capital gain has more the doubled, from 2.2% a year ago to 5.2% over the past twelve months. Homes are selling faster, averaging 49 days, and vendors are discounting their prices less which implies selling conditions have tightened.

The Perth housing market saw dwelling values slip a little further in August, with dwelling values reducing 0.8% over the month to be 2.8% lower over the year. In an encouraging sign that the market may be getting close to a floor, the rate of decline has lost some momentum; a year ago the annual decline was recorded at -4.9%. According to data from the Australian Bureau of Statistics, first time home buyers have become much more active across Western Australia and now comprise 25% of all owner occupier housing finance commitments, which is the highest proportion of any state.

While the trend in capital gains has eased across the largest capital cities, in Hobart the market has gathered momentum; the annual pace of capital gains, at 13.6%, is now the highest of any capital city. The annual growth rate for Hobart hasn’t been this high since 2004. The sheer affordability of housing is likely one of the key drivers for Hobart’s appreciation. With a median house value of just $403,174, Hobart houses are half the value of Melbourne and almost two thirds lower than Sydney house values. In addition to the strong capital gains, Hobart rental rates have also risen, providing a solid rental yield which has pushed the total return well beyond the other capital cities.

The Darwin housing market remains weak with dwelling values falling 2.2% over the month to be 4.2% lower over the year. Since peaking in early 2014 Darwin dwelling values have fallen by a cumulative 18.3%. The steep declines in the Darwin housing market are mostly attributable to soft unit values. Over the past twelve months Darwin unit values have fallen by 13.5% compared with a 1.2% rise in house values.

Canberra home values have continued a solid run of capital gains, with dwelling values rising 0.6% over the month to be 8.0% higher over the year. Both house and unit values are rising, however it is the detached housing market which is driving the strong headline growth rate. Over the past twelve months, Canberra house values are up 9.8% compared with a 2.8% rise in unit values.

Overall, slower growth conditions in Sydney, and to a lesser extent Melbourne, are likely to be a welcome evolution in the housing market’s performance by policy makers such as the RBA. So far the cooling trend has been gradual, implying that macroprudential policies are having a flow through effect on housing conditions.

The growth cycle in both cities has run for five and a half years, providing a substantial wealth boost for home owners but also creating much frustration for those who don’t own a home. Sydney and Melbourne dwelling values have increased by 75% and 56% respectively since the growth cycle commenced in early 2012, however growth rates have been far more moderate across the other capital cities.

The policy settings around investment credit growth and new interest only settlement targets have seen credit policies tighten and pushed mortgage rates higher for both investor and interest only loans. These disincentives are likely to continue to weigh down investment demand which will have a more pronounced effect in those markets where investors are most concentrated.

New South Wales has the heaviest bias towards investment with 58.5% of the value of all housing finance commitments being for investment purposes. Clearly, tighter credit policies and higher mortgage rates for investors are dampening the Sydney market more than others.

Another contributing factor to slower home value appreciation is the high price of housing relative to incomes, particularly in Sydney.

Affordability barriers are preventing some prospective buyers from participating in the market. The recent availability of stamp duty concessions in New South Wales and Victoria is likely to provide some support for first time buyers, however it’s not likely that a rise in first home buyer activity will completely offset the demand gap left by fewer investors.

Overall, the outlook for Australia’s housing market depends on a broad range of factors including local economic and demographic conditions as well as supply factors and credit policies. However, if the current trends continue, Sydney dwelling values could start to drift lower over coming months.

Historically, a negative shift in home values has followed every growth phase, so it’s reasonable to expect a period of moderate value falls following such a sustained period of strong capital gains.

With the Spring selling season kicking off in September, it will be interesting to monitor the impact of higher inventory levels on the Sydney and Melbourne market, especially given evidence of slowing growth conditions accompanied by stock levels that are already higher than they were a year ago.

If you would like to keep a close eye on housing market conditions, the best place to keep up to date is the CoreLogic web site at [www.corelogic.com.au](http://www.corelogic.com.au). You can also find detailed information about our recently upgraded hedonic index including methodological white papers and Q&A.

Short version:

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In fact, based on the rolling quarterly rate of growth, the housing market moved through its peak rate of growth in November last year when dwelling values were rising at the brisk quarterly pace of 3.7%. Since that time, the quarterly rate of growth has eased back to just 0.5% over the three months ending August 2017 which is the slowest rolling quarter of growth since June last year.

The slowdown in growth conditions is most visible in Sydney, where housing values had been growing strongly. Since values started rising in 2012, the typical Sydney dwelling has seen its value rise by 75%, equating to an approximate dollar value gain of $521,000 on the median dwelling valuation.

The quarterly growth rate peaked over the three months ending October 2016 when Sydney dwelling values jumped by 6.3%. Since that time, the rolling quarterly rate of appreciation in values has consistently eased, reaching the current rate of just 0.3%.

In Melbourne, the housing market has been more resilient to a slowdown. This is evident in the hedonic index results as well as auction clearance rates, which have consistently been above 70%. Inventory levels also remain exceptionally tight across the Melbourne market. Melbourne’s quarterly rate of growth has slowed since peaking at 4.4% in November last year, however the most recent three month period has seen dwelling values rise by 1.9%, which is substantially higher than Sydney’s pace of capital gains.

While the trend in capital gains has eased across the largest capital cities, in Hobart the market has gathered some momentum; the annual pace of capital gains, at 13.6%, is now the highest of any capital city. The annual growth rate for Hobart hasn’t been this high since 2004.

The sheer affordability of housing is likely one of the key drivers for Hobart’s value appreciation.”

With a median house value of just $403,174, Hobart houses are half the value of Melbourne and almost two thirds lower than Sydney house values. In addition to the strong capital gains, Hobart rental rates have also risen, providing a solid rental yield and pushing the total return well beyond the other capital cities.

In Perth and Darwin, housing values have continued to trend lower over the past month and rolling quarter. However, the annual trend highlights the rate of decline has been easing. Since peaking in 2014, Perth dwelling values have declined by a total of 10.8%, while the cumulative decline across Darwin has been more severe with values down 18.6% from the market peak.

A variety of other measures have softened in line with the easing in capital growth. Auction clearance rates have found a new floor around the high 60% mark where they have held consistently since early June this year.

Average selling time is starting to trend higher and inventory levels are also rising, providing buyers with more options and reducing some of the urgency some buyers were feeling when stock levels were much lower.

Additionally, growth in investment lending appears to have peaked close to the same time as the rate of home value appreciation, in December last year when investor related credit was increased by 0.8% over the month. Since that time the monthly trend in investment related credit growth has halved, reducing to 0.4% in July.

Overall, slower growth conditions in Sydney, and to a lesser extent Melbourne, are likely to be a welcome evolution in the housing markets performance by policy makers such as the RBA. So far the cooling trend has been gradual, implying that macroprudential policies are having a flow through effect on housing conditions.

The growth cycle in both cities has run for five and a half years, providing a substantial wealth boost for home owners but also creating much frustration for those who don’t own a home. Sydney and Melbourne dwelling values have increased by 75% and 56% respectively since the growth cycle commenced in early 2012, however growth rates have been far more moderate across the other capital cities.

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