Welcome to CoreLogic’s October housing market update. This month we are providing an overview of how the housing market performed over the September quarter and reviewing some of the factors contributing to a slowdown in the rate of capital gains.

CoreLogic’s national home value index edged 0.2% higher over the month of September, with dwelling values across the capital cities up 0.3% compared with a 0.1% rise across the broad regional areas of the country. The latest figures take national dwelling values 0.5% higher over the September quarter, which is the slowest quarter on quarter pace of capital gains since June 2016.

Focusing on the capital cities, dwelling values were up 0.7% over the September quarter which is well below the recent peak rate of growth which was recorded over the three months ending November 2016. Back then, the quarterly rate of appreciation was tracking at 4.2%.

The slowing in the combined capital cities growth trend has been heavily influenced by conditions across the Sydney housing market where capital gains have stalled. Sydney dwelling values posted a month-on-month fall in September, down 0.1%, and the September quarter saw Sydney values edge only 0.2% higher; a far cry from the peak rate of growth recorded over the three months to October last year when Sydney dwelling values were rising at the quarterly pace of 6.4%.

While the Sydney region is looking increasingly like the market has moved through its peak, conditions across Melbourne have been more resilient. The pace of capital gains has slowed, but dwelling values were still 2.0% higher over the September quarter.

Hobart further cemented its position as the best performing housing market after a recent history of sluggish growth conditions. The past twelve months has seen Hobart dwelling values surge 14.3% higher; the cities highest annual growth rate since 2004.

The remaining capital cities have shown a diverse performance over recent months. Perth dwelling values look to be moving through the bottom of the cycle, with values edging 0.1% higher over the month, however values remain down over the quarter and year. For Darwin, the housing market isn’t showing the same signs of bottoming out with dwelling values slipping 0.7% lower over the month and 4% lower over the September quarter.

In Brisbane, the market has seen a growing divergence between the performances of houses compared with units; house values were 0.2% higher over the month to be 4.0% higher over the year, while unit values showed an increase over the month but remain 2.5% lower over the past year. Adelaide dwelling values held firm over the month but have shown a 5.0% rise over the year. Canberra dwelling values have increased by 7.8% over the past year with a fairly significant divergence between growth in house and unit values.

Across the regional areas of Australia, growth rates have generally been lower compared to capital cities performance. The combined regional housing markets saw dwelling values unchanged over the September quarter compared with a 0.7% rise in capital city dwelling values. Similarly, over the past twelve months regional values were 5.6% higher compared with an 8.5% rise in capital city values.

Despite the overall weaker performance, growth rates have been remarkably strong in some regional markets, particularly those adjacent to the Sydney metro area. The strongest regional performer was the Newcastle and Lake Macquarie region, where values were 15.3% higher over the past twelve months. Southern Highlands and Shoalhaven values were up 14.3% and Illawarra, where values were 13.5% higher, rounded out the top three regional markets based on the 12 month change in dwelling values. In Victoria, the strongest regional market was Geelong with growth of 11.4%, while in Queensland it was the Sunshine Coast with an annual gain of 6.6%.

Now let’s take a closer look at each of the capital city housing markets.

Across the Sydney housing market, it was the detached housing that pulled the monthly and quarterly growth rates lower. While unit values are also appreciating at a slower rate, detached housing values fell by 0.3% over the month and were 0.2% lower over the quarter while unit values actually recorded a subtle rise. The Sydney housing market doesn’t share the same concerns around unit oversupply that has affected the Brisbane unit sector, or to a lesser extent Melbourne’s. Potentially the affordability challenges facing Sydney buyers within the detached housing sector are pushing more demand towards the medium to high density sector, where, based on median values, houses are almost $300,000 more expensive than units.

In a demonstration of resilience, Melbourne dwelling values were almost 1% higher over the month and 2.0% higher over the September quarter. Although the quarterly trend in capital gains has more than halved from 4.4% over the three months ending November last year, Melbourne remains as one of the strongest capital city housing markets. A rapid rate of population growth, strong jobs growth and less affordability pressures than Sydney are some of the key reasons why Melbourne dwelling values continue to trend higher.

The Brisbane housing market continued the trend of modest appreciation, with dwelling values up half a percent over the September quarter. Value appreciation remains largely confined to the detached housing sector, although unit values also saw a subtle level of growth at 0.1% over the September quarter. Brisbane house values, with a median of $528,000, are now less than half the price of Sydney’s, highlighting the affordability advantages of Australia’s third largest city. With population growth now ramping up and jobs growth improving, the outlook for the Brisbane housing market may have some upside.

Adelaide house and unit values held firm in September, while the quarterly and annual trends continue to show a consistent and sustainable pace of capital gains across the detached housing sector but a weaker performance across the unit market where values slipped lower over the quarter and are up only 1.3% over the past twelve months. The average time it takes to sell a property and vendor discounting rates have reduced over the past year suggesting that sellers are in an improved position relative to a year ago.

The Perth housing market is showing plenty of signs that it could be moving through the bottom of its downturn. Since 2014 dwelling values across Perth have fallen by almost 11%, but last month values edged slightly higher. Additionally, advertised stock levels are 13% lower than a year ago, properties are selling faster and vendors aren’t offering as much discount from their asking prices. Additionally, year on year settled sales are up 1.4% as buyer demand starts to lift from a low base.

Hobart’s housing performance stepped up a notch in September with dwelling values pushing 1.7% higher over the month and up 3.4% over the quarter. Hobart stands out from the other capital cities in several ways. The annual growth trend is highest of any capital and accelerating rather than softening. Additionally, rents are rising at the fastest pace of any capital city, gross rental yields remain above 5% and settled sales numbers are 7.4% higher year on year.

The Darwin housing market recorded a further drop in values, with CoreLogic’s index down by 0.7% in September to be 4% lower over the quarter and down 4.7% over the past twelve months. While conditions remain depressed across the Darwin real estate market, buyer demand appears to have lifted, with year on year sales up 1.5%.

The Canberra housing market continues to show a high rate of capital gain, with dwelling values up 0.6% over the past month to be 7.8% higher over the year. Most of the capital gains are confined to the detached housing sector where annual capital gains is tracking at 9.3% compared with a 3.2% rise in unit values.

The slowing in housing market conditions shouldn’t come as a surprise, considering the recent history of dramatic capital gains across the Sydney and Melbourne markets. Since dwelling values started rising in 2012, Sydney values have surged 75% higher while Melbourne values are up 57%.

Macroprudential measures introduced by APRA at the end of 2014 and more recently in March this year have played a key role in curbing the pace of appreciation, particularly in Sydney where investment has been most concentrated.

On the back of changed regulations, investors and interest only borrowers now face a premium on their mortgage rates. Based on the data to the end of August, variable rate investment loans were typically attracting a 60 basis point premium.

While we expect growth rates to continue moderating, at least from a macro perspective, driven by Sydney and, to a lesser extent, Melbourne, there are other factors that are likely to keep a floor under housing values.

Housing demand, fueled by strong migration, has risen during 2017, with the Australian Bureau of Statistics reporting the third highest net overseas migration result on record over the March quarter of 2017. Australia added more than 86,000 new residents from overseas over the quarter, most of which will contribute to demand for Australian housing. Almost 75% of these migrants arrived in New South Wales or Victoria.

While investors are likely to scale back due to disincentives such as higher mortgage rates and low rental yields, first home buyers are a rising presence in the housing market. Based on July data, first time buyers reached their highest level since 2013. Stamp duty concessions that became available in July for first home buyers in New South Wales and Victoria helped to push the number higher, but other states where incentives were unchanged also saw higher proportions of first home buyer activity.

Additionally, mortgage rates are likely to remain close to historic lows. Although the cash rate may rise in 2018, the likelihood of a substantial lift in mortgage rates remains low, considering household debt levels are at record highs.

Overall we are expecting that growth rates will continue to moderate across the combined capital cities, however the slowdown will likely continue to be influenced by weaker conditions in Sydney and, to a lesser extent, Melbourne. We will be tracking the movements in housing market conditions along with other key economic and demographic trends at [www.corelogic.com.au](http://www.corelogic.com.au)

Short version

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