CoreLogic’s national Home Value Index held steady in October, confirming a cooling trend in housing market conditions. The easing in growth conditions is being led by a sharp slowdown across the Sydney market, where dwelling values fell for the second month in a row.

Both the combined capitals index and the combined regional markets index returned a flat reading over the month, however, regional dwelling values are down 0.1% over the most recent rolling quarter while capital city values were 0.4% higher.

The latest figures take the annual growth rate across the combined capital cities down to 7.0%; the lowest annual change since December 2016 when the first round of macro-prudential changes were still working their way through credit policies and interest rates had earlier been lowered by 50 basis points which subsequently led to a rebound in value growth in early 2017.

So why is the capital city trend losing steam? From a geographical perspective, it’s mostly due to the Sydney market moving through its cyclical peak in July. Since the CoreLogic index peaked in July of this year, Sydney values are down 0.6%, however the reduction comes after dwelling values surged 75% higher since the growth cycle kicked off back in early 2012.

The Melbourne housing market, where dwelling values are 58.0% higher over the cycle to date, has been more resilient to falling prices. Although capital gains remain positive across the Melbourne market, the pace of growth has clearly lost steam, falling from 4.4% on a rolling quarterly basis back in November last year to reach 1.9% over the three months ending October 2017.

Other markets, where growth conditions have been far less dramatic over the past five and a half years, are behaving very differently. Generally, the remaining capital cities don’t have a high peak to fall from. Conditions across Brisbane and Adelaide are holding reasonably steady, with values still edging higher. Hobart has been on a strong growth trajectory and remains the best performing city for capital gains however, quarterly data also points to a moderate slowing of growth in the city, while conditions across Darwin, and, to a lesser extent, Perth, remain subdued.

Importantly, the slowdown in housing market conditions is far from uniform, with a great deal of diversity across the regions and product types.

The capital city annual growth trend ranges from a 12.7% capital gain in Hobart over the past twelve months to a 5.7% fall in Darwin values.

Between the housing types, despite a large amount of new unit supply under construction, the past rolling quarter has seen unit values recording a stronger capital gain than houses.

Outside of the capital cities, the regional area of New South Wales is showing the strongest growth conditions. Growth has rippled away from the Sydney metro area as affordability challenges constrain demand. Buyers are attracted to the lower price points and lifestyle opportunities of the adjacent areas where commuting is still an option. Dwelling values across regional New South Wales are now outperforming Sydney, with values up 9.7% over the past twelve months.

The strong regional growth is being led by the Newcastle and Lake Macquarie region, where values are up 14.6% over the past twelve months and the Southern Highlands and Shoalhaven region which has recorded a 13.6% rise in dwelling values over the year. The combined regional markets of Tasmania recorded the second highest annual capital gain at 5.4% followed by Regional Victoria as 4.4%.

Regional areas linked to the resources sector are continuing to show soft conditions, however some of these regions have already bottomed out, while in other areas the rate of decline is clearly easing. Regional lifestyle markets are generally gathering some pace as the sea change and tree change trend picks up and demand for holiday homes improves, particularly in those areas adjacent to the major capitals.

Let’s take a look around each of the capital city housing markets.

Sydney has shown the sharpest turnaround in housing market conditions, with the trend looking very similar how the market responded to the first round of APRA changes in 2015 through to early 2016. The annual growth trend has more than halved since May earlier this year when Sydney dwelling values were up 18.8%. Over the twelve months to October 2017 the annual growth rate has reduced to 7.7%. Considering the recent negative movements month-on-month, we expect the annual trend will continue to reduce as the market moves into its down phase. While we expect values will fall across Sydney, there are several factors that should help to contain the downturn. Overseas migration rates remain strong, interest rates are likely to remain stimulatory and first home buyers are already offsetting some the easing in investment demand.

Melbourne housing market conditions have also lost some steam, with the annual rate of growth easing from a recent peak of 13.1% in July down to 11.0% in October. Despite the slowing, values are continuing to rise across both the detached housing sector and the unit market. In fact, the last three months has seen unit values edge slightly higher than house values, up 2.0% compared with a 1.9% rise in house values. There are few reasons for Melbourne’s resilience relative to Sydney. Population growth is substantially faster and migration rates are at record highs. Jobs growth is very strong and affordability constraints are not as pressing compared with the Sydney market.

Housing market conditions across Brisbane continue to tick along at a sustainable rate, with dwelling values up 0.2% in October to be 2.7% higher over the year. Dwelling values are rising only slightly faster than inflation and incomes. While this hasn’t boosted the wealth of home owners to anywhere near the same extent as Sydney or Melbourne, housing affordability is far less challenging and rental yields remain substantially higher for investors, averaging a gross rate of 4.2% for houses and 5.2% for units. The outlook for the Brisbane housing market remains positive, with the migration rate to Queensland picking up and jobs growth now tracking well above the national average.

The Adelaide housing market held steady in October, with a 0.1% fall in house values offsetting a 0.8% rise in unit values. The annual growth rate across Adelaide has held roughly between 3% and 5% since late 2013. The steady growth conditions provide for a reasonably affordable entry point to the market and the number of settled sales is up 2.1% year on year, suggesting buyer demand has improved across Adelaide.

The Perth housing market has now posted two months in a row where dwelling values haven’t fallen and the annual trend has seen the rate of decline more than halved from -4.9% mid last year to -2.5% over the most recent 12 month period. The improving trend is evident across both the detached housing sector and the unit sector, however the unit market is showing a better performance. Unit values edged 0.7% higher over the past three months and are down only 1.2% over the past year, while house values remained in negative growth territory over the quarter and have shown a larger 2.9% annual fall. Higher levels of detached housing supply in the outskirts of the Perth metro area are likely part of the reason for the softer performance in houses relative to units.

Hobart has continued to lead the capital cities for growth in dwelling values over the month, quarter and past twelve months. The improved market conditions are relatively recent phenomenon; a little over two years ago, Hobart dwelling values were still declining on an annual basis. The annual growth trend has been holding higher than 10% throughout 2017. With migration rates picking up, the labour market improving and housing remaining very affordable, the outlook for Hobart is likely to remain positive.

Conditions across the Darwin housing market have weakened over the second half of 2017. Prior to June the downwards trend had levelled out and it seemed that conditions were starting to recover, however, further credit tightening and higher mortgage rates for investors has seen values once again trend lower. Since peaking in early 2014, Darwin dwelling values are down a bit more than 20%. The silver lining to Darwin’s downturn is a dramatic improvement in housing affordability and rental yields are the highest of any capital city due to dwelling values falling more materially than rental rates.

The Canberra housing market appears to have lost some steam over recent months, with dwelling values recording a subtle fall in October and the annual growth rate reducing to 6.4% after reaching a recent peak of 8.8% in May earlier this year. The slowing trend is mostly evident across the detached housing sector, where values were rising at just over 10% per annum earlier this year, whereas the unit values have consistently been tracking at a much lower rate, around 2.5% to 3.5% since mid-2016.

A variety of factors are causing housing conditions to slow down, however the primary dampener is likely to be a new round of macro prudential measures from the prudential regulator, APRA. In response, lenders have tightened their servicing tests and reduced their appetite for riskier loans, including those on higher loan to valuation ratios or higher loan to income multiples.

Additionally, interest only borrowers and investors are facing premiums on their mortgage rates which are likely to act as a disincentive, especially for investors who are generally facing low rental yields on investment properties.

The peak rate of growth in dwelling values lines up closely with the peak growth rate for investment lending in late 2016. We saw the housing market respond in a similar fashion through 2015, and the first half of 2016 as investors faced tighter credit conditions following the announcement from APRA that lenders couldn’t surpass a 10% speed limit on investment lending. At that time, the pace of capital gains slowed sharply and went negative for a short period of time.

Of course, the housing market rebounded in mid-2016 when the APRA imposed investment credit limits were comprehensively achieved, and the cash rate was lowered by 50 basis points. This time around we aren’t expecting a lower cash rate to re-stimulate the market and it’s likely that credit policies will be closely monitored by the prudential regulator to ensure there isn’t a material rebound in investment activity.

On the positive side, there are several factors that are likely to support a soft landing for the housing market.

Financial markets have pushed expectations for a cash rate hike out to early 2019, which, implies that mortgage rates aren’t likely to rise materially over the foreseeable future. With household debt at record highs, higher mortgage rates would test already stretched household balance sheets.

Labour markets have strengthened and population growth is underpinning housing demand, set against a backdrop of limited detached and semi-attached housing supply.

Overall, Australia’s housing market performance remains as diverse as ever. Historically, sustained growth cycles have generally been followed by a period of negative growth, so a further reduction in dwelling values should not come as a surprise.

If you would like to keep a closer eye on the housing market, check out the CoreLogic web site where we are updating our perspectives on the market on a daily basis. [www.corelogic.com.au](http://www.corelogic.com.au)

SHORT VERSION

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