Welcome to CoreLogic’s update on the housing market for September 2018. The last month of winter saw the housing market correction deepen, with dwelling values falling across five of Australia’s eight capital cities. CoreLogic’s national index was down three tenths of a percent over the month taking the cumulative decline since values peaked in September last year to 2.2%.

Over the year to date, national dwelling values are down 1.9%, however, the weakest performing cities have been Sydney and Melbourne where dwelling values were previously rising the fastest, but have now fallen 3.5% and 3.3% respectively over the first eight months of the year. Considering the sheer size of the cities; Sydney and Melbourne comprise approximately 60% of Australia’s housing market by value, and 40% by number, the weaker performance in these cities has a significant drag down effect on the combined capitals and national reading of the market.

Hobart stands out as showing the highest rate of capital gain so far this year with dwelling values up 5.6%. Values have trended higher in Brisbane, Adelaide and Canberra over the year to date but are lower in Perth and Darwin as well as Sydney and Melbourne.

The overall housing market weakness is heavily concentrated across the premium sector of the market. CoreLogic recorded a 5.4% fall in values across the upper quartile of the combined capitals over the past twelve months, while the broad middle of the market is down 0.5% over the year and the most inexpensive quartile has recorded a 0.6% rise in values.

This trend towards weaker premium housing market conditions is largely attributable to larger falls across Sydney and Melbourne’s most expensive quarter of properties where values are down 8.1% and 5.2% over the past twelve months.

Melbourne is showing the most significant variation across the broad valuation segments, with the most affordable quarter of the market recording a 6.0% rise in values over the past year, while the most expensive quarter is down 5.2%.

The trend towards more robust housing market conditions for affordable properties can be seen geographically as well, with the top ten capital city sub-regions, based on an annual capital gain, generally located in more affordable areas such as Hobart, the outskirts of Melbourne and parts of Brisbane and Adelaide. On the other hand, the weakest performing sub-regions are primarily located across Sydney as well as Melbourne’s prestigious Inner East.

Stronger market conditions across Australia’s more affordable areas are likely attributable to a rise of first home buyers in the market as well as changing credit policies focused on reducing exposure to high debt-to-income ratios.

In the higher value cities like Sydney and Melbourne, we’re seeing typical dwelling prices remain more than 8 times higher than median household incomes, suggesting tighter credit conditions for borrowers with a high debt-to-income ratio will likely impact on demand more in these cities over others.

The regional markets have also continued to weaken, with values slipping lower for the second consecutive month across the combined rest of state index to be down 0.2% over the month and 0.6% lower over the rolling quarter. Regional areas of the mining states continue to deliver the most significant drag on the headline growth rates, with values down 3.5% over the past three months across regional WA and 1.0% lower across regional Queensland.

Drilling down across the capital cities shows a diverse performance

Sydney dwelling values have been falling since July last year and are now down a cumulative 5.6%. Despite the fall, the vast majority of home owners remain in a strong equity position, considering residential property values remain 49% higher than they were five years ago and 83% higher relative to ten years ago. As the market slows, advertised stock levels have shown a substantial rise and are now tracking almost 23% higher than a year ago. Such high stock levels has removed the urgency from the market and given buyers a lot more leverage at the negotiation table.

The Melbourne housing market recorded the largest property value decline of any capital city over the three months ending August. Values were down 2.0% over the rolling quarter; the weakest quarterly result since 2012. Although Melbourne dwelling values have fallen by 3.5% since peaking late last year, most home owners have seen a substantial wealth boost with values remaining 43% higher than they were five years ago and 77% higher relative to ten years ago. As the market continues to slow, stock levels are rising. There are 14%, or approximately 3,900 more properties available for sale now compared with the same time last year.

The Brisbane housing market has remained relatively steady amidst the broader national downturn. Dwelling values were virtually unchanged at 0.1% growth over the past three months and they are up three tenths of a percent over the first eight months of the year. Housing values remain much more affordable relative to Sydney and Melbourne, however with values falling across the larger markets while they hold firm in Brisbane, this affordability advantage is likely to narrow going forward. The Brisbane unit market has been the focus of much negative attention due to excessive supply levels, however recently Brisbane unit values have started to edge a bit higher, which may be a signal this sector of the market has bottomed out.

Adelaide is one of the few housing markets to record a subtle rise in values in August. The resilient conditions saw local values trend half a percent higher over the rolling quarter to be 1% higher over the past twelve months – nothing to get excited about, but a strong performance relative to most other markets. Advertised stock levels are approximately 5% lower than a year ago and the number of settled sales is roughly level with a year ago, suggesting buyers and sellers are reasonably evenly balanced.

For a brief period earlier in the year, Perth’s housing market was showing some positive month on month improvements in housing values, however values have ticked lower over each of the past four months to be down 2.3% over the first eight months of the year. The local unit market has recorded weaker conditions relative to houses, with unit values down 5.5% over the year to date while house values are down a lower 1.5%. Vendors are understandably reluctant to sell their property with conditions remaining soft; in fact new listing numbers are tracking at a six year low and we are yet to see the normal seasonal ramp up in listing numbers in line with spring.

The Hobart housing market has stood out from the other capitals for an exceptionally high rate of capital gain, however the past two months have seen Hobart dwelling values edge a little bit lower, dragging the rolling quarterly growth rate down to just 0.1% - the softest reading since the three months ending January 2016. The unit market has held up firmer than houses, with values rising 0.7% over the past three months while house values were flat over the same period.

Darwin dwelling values posted a rare month on month rise in August, up 0.1%. While this is a positive sign, we will need to see some consistent month-on-month rises before we can suggest the Darwin housing market has moved through the bottom of what has been a long and large downturn. Dwelling values have been falling since mid-2014 and are down a cumulative 21.8%.

The Canberra housing market was one of only three capital cities to post a rise in values over the month of August. In fact, Canberra is one of the few capital cities where dwelling values remain at record highs. Growth conditions have moderated over recent years, however values are still generally rising, especially within the detached housing sector where house values are 3.4% higher over the year while unit values have fallen by 1.1% over the past year.

Weaker housing market conditions can be tied back to a variety of factors, foremost of which is the tighter credit environment which has slowed market activity, especially amongst investors. Fewer active buyers has led to higher inventory levels and reduced competition in the market. Collectively, these factors have been compounded by affordability challenges, reduced foreign investment and a rise in housing supply.

The ongoing credit reform and focus on reducing household debt exposure implies that credit availability will remain tight for the foreseeable future. Lenders are likely to remain competitive for high quality borrowers, however premiums on interest only loans and investment loans look set to stay for the time being which will continue to quell market activity.

The latest credit data from the Reserve Bank shows housing credit growth tracking at just 5.5% which is the slowest rate of housing credit growth since Dec 2013. The slowdown is most evident across the investment sector where credit growth fell to 1.5% which is the slowest pace of annual growth on record.

The tightening of credit has coincided with an ongoing reduction in buying activity. Nationally, settled sales are down almost ten percent year on year with more substantial falls recorded in Sydney and Melbourne where annual sales are 18% and 15% lower.

As buyer activity has slowed, advertised inventory levels have accumulated. Capital city listings are now 9% higher than a year ago; that’s despite fresh stock being added to the market tracking 4% lower than a year. The rise in advertised stock levels is simply due to a slower rate of absorption as homes take longer to sell and fewer properties sell at auction.

The median selling time for private treaty sales has extended out to 52 days across the combined capitals. A year ago homes were selling in 43 days. Additionally vendors are having to discount their prices by a larger amount in order to make a sale, with the median vendor discount rising from 5.9% a year ago to 6.5%. Similarly, auction markets have weakened, with clearance rates generally tracking around the mid-to-low 50% range across the major auction markets.

Higher stock levels, less competition amongst buyers, longer selling times and lower clearance rates clearly points to conditions favouring the buyer over the seller. As the market moves into spring, we expect to see advertised stock levels rise but we aren’t likely to see a commensurate rise in buyer numbers, implying tough selling conditions through spring.

Add to this the additional uncertainty around mortgage rates pushing a little higher due to increased funding costs, increased political uncertainty due to the recent leadership spill and approaching election and it becomes even more likely the remainder of the year will see housing values trend lower.

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Short version

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