Welcome to CoreLogic’s housing market update for November 2018. The housing market continued to lose steam last month, with national dwelling values slipping half a percent, taking national dwelling values 3.5% below their recent peak. National dwelling values haven’t fallen this much over a single year since February 2012.

On a rolling quarterly basis, dwelling values are now trending lower across both the combined capital city regions, where they were 1.6% lower, as well as across the combined regional areas of Australia where values were almost 1% lower. With such broad-based weakness in housing market conditions, it’s clear that tighter credit availability is acting as a drag on housing demand and impacting adversely on the performance of housing values across most areas of the country.

The weakest conditions continue to be felt across Australia’s two largest cities where investment buyers have been the most concentrated, where supply additions have been the highest and where housing affordability is the most stretched.

Sydney values are down 7.4% over the past twelve months and Melbourne values are 4.7% lower over the same period. Values also declined in Perth and Darwin however, the downturn in these two cities has been ongoing since mid-2014, with values falling 3.3% and 2.9% respectively over the past twelve months. Although dwelling values are rising on an annual basis across the remaining cities, the pace of growth has eased relative to a year ago.

The regional housing markets of Australia have also returned a diverse performance, with regional Tasmania standing out as the only broad region nationally where dwelling values are recording double digit growth, up 11.4%. Both Hobart and regional Tasmania continue to record strong housing market conditions, driven by robust housing demand coupled with a shortage of supply.

Regional Victoria is also showing strong growth conditions as demand continues to ripple outwards from Melbourne towards the more affordable cities peripheral to the city’s metropolitan area.

Regional Western Australia continued to show challenging conditions with the annual pace of decline revealing some renewed momentum with values falling by 6.5% over the past twelve months.

Nationally, the highest value quarter of the market has led the downturn, with values falling 6.6% across this segment over the past year while lower quartile values have recorded a 0.5% rise in values. At such a broad geographic level, the weakness in higher value markets is reflective of the weaker conditions across the capital cities, particularly Sydney and Melbourne.

The disparity of performance between the upper and lower quartiles is clear across the individual cities as well. In Melbourne, the top 25% of the market by value has seen values fall by almost 9% over the past twelve months; a slightly weaker performance than Sydney’s upper quartile market where values are down by 8.6%. At the same time, more affordable housing markets have seen a 2.9% rise in values across Melbourne over the past year, while Sydney’s lower quartile has recorded a fall that is almost half that of the upper quartile.

Gross rental yields are slowly recovering as dwelling values trend lower and rents edge higher. Nationally, gross rental yields are picking up from previous record lows, rising from 3.7% in October last year to reach 3.8% in October 2018. Despite the subtle rise, gross rental yields remain well below their decade average of 4.3%.

A recovery in rental yields back to average levels is likely to take some time, considering national rents have remained relatively flat over the year to date and are only 0.8% higher over the past twelve months.

Rental yields reached record lows in late 2017 due to values consistently rising at a much faster pace than rents through the growth phase. Rental yields were compressed more significantly in Sydney and Melbourne, reaching record low readings of 3.0% and 3.1% respectively in 2017. These cities are still recording the lowest yield profiles at 3.24% and 3.34% at the end of October 2018.

Rental yields are the highest in Darwin at 5.7% and Hobart at 4.9%, however both cities are seeing rental yields trend lower as dwelling value movements are more positive relative to rental movements.

The Sydney housing market is now recording its weakest conditions since 1990 – that was the last time the annual decline in dwelling values was at least 7.4%. Sydney’s unit market has been more resilient to weaker conditions, however unit values were down slightly more than house values last month which may be the first cracks appearing as a record number of new units move from construction into the settlement phase. With first home buyers still relatively active across the Sydney market, we have seen relatively stronger housing market conditions across the lower quarter of Sydney housing values as demand shifts towards the more affordable price points.

Melbourne’s housing market was the weakest performing capital city over the past three months, with dwelling values falling 2.1%. The upper quarter of Melbourne’s housing market, which includes those dwellings valued over $920,000, has felt the brunt of the downturn. Top quartile properties have recorded a decline of 8.9% over the past twelve months while the most affordable quarter of the market has actually recorded a 2.9% rise in values. As Melbourne dwelling values trend lower, rental rates are recording a modest rise, which is supporting a gradual improvement in gross rental yields. Despite the improved rental return, yields still need to rise a long way before they are close to their long term average of 3.75%.

Brisbane’s housing market is holding reasonably firm, with dwelling values unchanged over the month and only 0.3% higher over year to date. House values are the primary driver of the steady conditions, helping to offset an improving but still negative annual change across the unit market. Brisbane unit values remain 11.2% below their previous record high recorded back in 2010, however with high supply levels moving back towards balance and rising demand, we may start to see this sector showing a consistent improvement. Housing values in Brisbane remain $342,000 lower relative to Sydney and $173,000 lower relative to Melbourne. This comparative affordability is likely to be a key factor attracting more migrants into the Brisbane region.

Adelaide dwelling values edged 0.2% higher over the month to be 1.8% higher over the past twelve months. While the rate of capital gains is relatively low, it’s the third highest amongst the capital cities. Based on the median value, Adelaide housing now has the lowest entry point of any capital city which is likely to be an important factor keeping capital gains in positive territory. There isn’t a great deal of difference between the performances of Adelaide houses relative to the unit sector, with both property types recording a rise of 1.7% to 1.8% over the past twelve months.

The downturn that has been long-running across the Perth housing market seems to have caught a second wind, with values down 2% over the past three months to be 3.3% lower over the year. The weakening conditions are concentrated across at the more affordable end of the Perth market, with the lower quartile of dwelling values falling 5.2% over the past twelve months compared with a 1.6% decline across the upper quartile. Since peaking in mid-2104 Perth dwelling values have fallen by a cumulative 14.2%.

Hobart’s housing market has recorded a 9.7% rise in dwelling values over the past twelve months and values were 1.2% higher over the most recent three month period. Although the rate of capital gains is substantially higher than any other capital city, the market has clearly started losing some momentum. The annual pace of capital gains peaked at 13.2% in March earlier this year and has been winding down since that time. With migration remaining strong and housing undersupplied, we expect values will continue to show a modest upwards trajectory over the remainder of the year.

Darwin’s housing market is finally showing some signs of moving through its trough. After values declined by almost 24% from their peak, the past six months has seen the market hold reasonably firm. In fact house values are up 3.3% over the past twelve months, helping to offset a weak unit market where values are down almost 13% over the same period of time. Although values remain sluggish, rental yields are the highest of any capital city, which is likely to start catching the eye of investors aiming to pick the bottom of the market.

Canberra has remained one of the most consistently performed capital city housing markets, with dwelling values up 1.5% over the past three months and 4.3% higher over the past year. Settled sales are tracking roughly 9% higher year on year – a stark contrast to most other cities where sales activity has been trending lower. The rise in activity demonstrates strong buyer demand in the face of tighter credit conditions.

The downturn in housing market conditions has been relatively mild to date, with the 3.5% fall in dwellings values over the past twelve months coming on the back of a 34% rise in national dwelling values over the growth cycle. With credit availability remaining tight as well as rising inventory levels, we are expecting there will be further downwards pressure on housing values as we move through spring and into summer and the New Year.

Advertised stock levels are tracking 10.5% higher relative to the same time last year, with total listing numbers almost 20% higher across Sydney and Melbourne.

With total listing numbers likely to push higher over the final quarter of the year, buyers are becoming more empowered and will increasingly find themselves in a stronger position when it comes to negotiating on price.

While stock levels are higher, transactional activity has reduced. CoreLogic estimates that year-on-year, settled sales activity is down 11.5%, leading to a slower rate of absorption through the spring listing season.

A key driver of lower housing market participation is related to credit availability. Annual growth in housing credit slipped to 5.2% in September; the lowest reading in almost five years. While investment credit growth has been trending lower for several years, credit for owner occupiers has more recently contracted as lenders seek out borrowers with more substantial deposits and lift their serviceability criteria.

Although housing credit originations remain well below the formal APRA targets for investment lending and interest only lending, it’s clear that lenders are also focusing more on loan serviceability and reducing their exposure to borrowers with high debt levels relative to their incomes. These measures can help to explain the underperformance of more expensive housing markets where borrowers may find it more challenging to secure finance.

While there are plenty of headwinds for housing markets, we are also seeing other factors helping to support housing demand. In fact, the triggers for a more substantial deterioration in housing values remain absent from the market.

Labour markets have tightened over the year, with unemployment at 5.0%, jobs growth outpacing growth in the labour force, and a skew towards full times job creation rather than part time. Tighter conditions across the labour markets should gradually support a further improvement in wages growth which would provide an additional boost to housing affordability and support a reduction in household debt levels.

As housing values trend lower and household incomes inch higher, we are seeing improvements in housing affordability which is likely to support further improvements in first home buyer numbers. First home buyers have surged higher across the New South Wales and Victorian markets where stamp duty concessions are available, and the further improvements in housing affordability is likely a welcome development from this sector of the market.

Recent data from Standard & Poor’s tracking mortgage arrears showed loans more than 90 days past due were trending higher but continue to track well below 1%. Improving labour market conditions and ongoing low mortgage rates will help to keep arrears rates low.

With so much going on in the housing market and many of the fundamental drivers moving in different directions, as more important than ever to stay abreast of conditions. CoreLogic is your one stop shop for all things related to housing market research. Visit our web site at [www.corelogic.com.au](http://www.corelogic.com.au)

Short version

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