Welcome to CoreLogic’s update on the housing market for December 2018. Australian dwelling values continued to trend lower last month, with the CoreLogic hedonic home value index recording its weakest month-on-month change in dwelling values since the Global Financial Crisis. National dwelling values slipped 0.7% lower over the month, led by larger falls in Sydney and Melbourne where the pace of decline has accelerated. Nationally, dwelling values are down 4.2% since peaking in October last year, reducing back to levels last seen in December 2016.

The downwards pressure on national dwelling values is largely confined to Sydney and Melbourne which together, comprise approximately 55% of the value of Australia’s housing asset class.

Since peaking in July last year, Sydney’s housing market is down 9.5% which is on track to eclipse the previous record peak-to-trough decline set during the last recession when values fell 9.6% between 1989 and 1991. Melbourne dwelling values peaked four months later than Sydney, in November 2017, and have since fallen by 5.8% through to the end of November 2018.

Although the weaker housing market conditions in Sydney and Melbourne are under the spotlight, conditions across the Australian housing market are increasingly diverse. Dwelling values are trending higher across five of the eight capital cities, albeit at a relatively slow pace compared with the previous surge in Sydney and Melbourne. Hobart and Canberra continue to be the standouts for capital gain across the capital cities, with values up 9.3% and 4.0% over the past twelve months.

Across the regional markets, the highest rates of growth can be found across regional Tasmania and regional Victoria, while lifestyle markets are also continuing to rise in value, albeit at not quite the same pace as a year ago.

We can point to several factors that are influencing the downwards trend in Sydney and Melbourne, while other regions are recording growth or holding steady.

For starters, the tightening in finance conditions has been more pronounced across the investor segment of the market, where Sydney and Melbourne have recorded much higher concentrations of investment demand. As investor activity reduces, the fall away in overall housing demand is sharper in Sydney and Melbourne.

Additionally, housing affordability constraints are more pronounced in these markets and rental yields are substantially lower, indicating an imbalance between rental values and dwelling values.

Also, the ramp up in housing supply has been more pronounced in Sydney and Melbourne against a backdrop of slowing migration from both overseas and interstate. Additionally, Sydney and Melbourne have been more affected by the reduction in foreign buying activity.

As a consequence of less market activity, advertised listings have surged higher, providing buyers with ample choice which provides for a strong negotiation position on price. The rebalancing towards buyers over sellers in Sydney and Melbourne is clear across CoreLogic’s vendor metrics, with clearance rates tracking in the low 40% range while private treaty sales are showing substantially longer selling times and larger rates of discounting than they have over recent years.

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

Sydney housing market conditions continue to act as the primary drag on national housing values, with the market down 1.4% in November. This was the largest month on month fall since values fell by 1.5% in May 2004 and Sydney’s downturn looks like it will set a new record for the largest decline since CoreLogic started tracking values in 1980. The largest decline previously was the recorded between 1989 and 1991 and values fell by 9.6%. It’s not all bad news; dwelling values remain 36% higher than they were five years ago and the recent declines have provided an improvement to housing affordability.

Melbourne dwelling values were down 1% in November, taking the cumulative decline to 5.8% since the market peaked one year ago. The decline in dwelling values is concentrated across the most expensive end of the market, with dwelling values down 9.9% over the past twelve months across the top quartile of the market, while the most affordable quarter of the market has actually seen values post a rise of 1.7%. A similar trend can be seen across the sub-regions comprising Melbourne. The prestigious Inner East of the city has seen value drop 11.9% over the past twelve months while the slightest falls have been in the West and along the Mornington Peninsula.

Brisbane values have continued to hold reasonably firm, with dwelling values edging 0.1% higher over the month to be 0.3% higher over the year – essentially a flat market. The annual change in dwelling values has ranged from a 3.5% rise across the Western suburbs to a 1.4% decline at Ipswich. The surrounding coastal markets of the Gold Coast and Sunshine Coast have also seen values tick higher, with the Gold Coast up 0.1% over the year and Sunshine Coast values 2.3% higher. Rising interstate migration rates should help to support housing demand across the south east corner of Queensland, along with relatively healthy levels of housing affordability.

Adelaide dwelling values have continued to hold reasonably firm while the largest capital cities move through their down phase. Values were up 1.4% over the past twelve months, which was the third highest rate of growth amongst the capital cities after Hobart and Canberra. The median dwelling value across Adelaide is now the second lowest amongst the capitals, with Darwin the only city with a lower median value. This strong affordability position together with improving economic conditions is likely to be a key factor in supporting housing demand.

The Perth housing market has recorded another slide in dwelling values in November, down 0.7% over the month to be 4.2% lower over the year. The housing market weakness is most pronounced at across lower value properties, with dwelling values down 6.0% across the lower quartile of the market over the past twelve months while the upper quartile has seen a more moderate decline, down 2.5%. The Perth rental market has been much stronger relative to dwelling values, with weekly rents up 3.9% over the past year for houses and 4.7% higher for units. The rise in rental rates is providing some upwards pressure on rental yields, which have risen from a recent low 3.8% to 4.1% as rental rates outpace dwelling values.

The Hobart market continues to fire, with values up 0.7% in November to be 9.3% higher over the past year. Hobart stands out as the only capital city to be recording capital gains close to double digits, however some momentum is leaving the market, with the annual rate of growth sliding from 13.2% earlier this year to the 9.3% over the twelve months ending November. The regional areas of Tasmania are now outperforming the capital, with values up 12.1% over the past year in Launceston, 11.2% across the South East of the state and 9.1% higher in the West and North West.

Darwin posted a rare positive result in November, with values up 0.7%. The latest results have nudged the year to date result for Darwin to +0.3%, hinting that the top end market may be moving through the bottom of what has been a long and deep downturn. Since values peaked back in May 2014 they have declined by a bit more than 23%. Darwin is now boasting the most affordable housing prices of any capital city, at around $426,000 and is also showing the highest rental yield at 5.7% gross. The improved conditions are mainly evident across the detached housing market where values are up 5.1% compared with a year ago.

The Canberra housing market continues to show a solid performance with dwelling values rising 4% over the past twelve months, the second strongest result across the capital cities after Hobart. Factoring in above average yields, the total return, which includes the annual capital gain plus the gross annualized rental yield is tracking at 8.8% over the past twelve months. Overseas population growth has continued to trend higher across the ACT and although interstate migration has dipped, new residents from other parts of Australia are contributing to the strong demand for housing across the ACT.

The weaker November housing reading comes amidst tightening credit conditions which are now spreading to the owner occupier segment of the market, coupled with a deterioration in consumer sentiment relating to housing market conditions.

The annual pace of credit growth slowed to 5.1% in October, according to the latest data from the Reserve Bank of Australia, which is the slowest rate of annual credit growth since October 2013. While annual credit growth for investment purposes has trended down to new record lows for some time, owner occupier credit is now rising at the slowest annual rate since November 2015.

Credit growth has been winding down since early 2015 in in with macro prudential policies, however, the recent trends have gathered some momentum after mortgage rates for owner occupiers stepped 15 basis points higher through September and October with investor rates up 10 basis points. The disincentive of higher mortgage rates has been compounded by tighter credit policies and increased scrutiny of borrower overall debt levels, incomes and expenses.

Weaker consumer sentiment towards housing is also a factor in slowing the level of participation in the housing market. Westpac’s House Price Expectations Index tracked to an equal record low over the past three months. Such a weak level of sentiment is likely to be weighing on the decision making process for high commitment purchases such as purchasing a residential property.

Investor sentiment may be being weighed down by the potential for changes to taxation policies related to housing should there be a change of government. A negative gearing rollback looking to exclude established dwellings could diminish demand across the resale market with less investment demand for properties with low rental yields. The halving of capital gains tax concessions would likely provide further disincentive to investment, on top of weak prospects for capital gains, premiums on investment mortgage rates, low rental yields and fewer depreciation benefits.

Typically, the catalyst for a turn in the housing market is a result of changes in interest rates or economic conditions. This time around however, the market has been most affected by credit policies and availability of finance, despite very low mortgage rates and relatively strong economic conditions. Despite the recent out-of-cycle 15 basis points rise in owner occupier mortgage rates, the cost of debt remains at the lowest level since the 1960’s.

From an economic perspective there are plenty of factors that should support housing demand and help to offset some of the headwinds. GDP growth is tracking above expectations, unemployment is tracking well below average and at the lowest level since 2012, population growth remains strong (albeit showing signs of slowing) and wages growth is slowly lifting from a low base. These factors should help to support housing demand and offset a more material decline in dwelling values.”

We expect headwinds from tighter credit will continue for the foreseeable future and will continue to temper housing market activity. This will be especially the case for those markets where investment demand is most concentrated, and where housing costs are high relative to incomes, such as Sydney and Melbourne.

With such a diverse housing dynamic across Australia’s regions it’s all the more important to stay up to date on the trends. Check out your one stop shop for housing market research. [www.corelogic.com.au](http://www.corelogic.com.au)

Short version

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**Welcome to CoreLogic’s update on housing market conditions for December 2018, brought to you on behalf of National Australia Bank**