Welcome to CoreLogic’s update on the housing market for March 2019. Last month’s housing market results showed an easing in the rate of decline relative to the previous two months, however our national home value index was down a further 0.7% in February, taking the total decline in national dwelling values to 6.8% since the market peaked in October 2017. National dwelling values have returned to levels last seen in September 2016, and values have fallen over fourteen of the last sixteen months.

Although home values have been falling for almost a year and a half, nationally dwelling values remain 18% higher than they were five years ago highlighting that most home owners remain in a strong equity position despite the persistently weak conditions.

Despite the reduced rate of decline, the February results remain overall weak, with the geographic scope of negative conditions becoming more widespread over recent months.

Hobart was the only capital city to record a rise in values over the past three months, while Canberra values were flat and the remaining capital cities recorded lower values over the rolling quarter.

The fact that we are seeing weakening housing market conditions across regions where home values were previously tracking at a sustainable pace and economic conditions are relatively healthy is a sign that tighter credit conditions are having a broad dampening effect on buyer activity.

Credit aggregates from the Reserve Bank and housing finance data from the Australian Bureau of Statistics have continued to show a consistent reduction in credit flows and mortgage activity, with a more pronounced downturn in owner occupier credit flows visible through the second half of 2018 and now into 2019.

While a slowdown in investment was a key driver of slowing housing markets since 2015, the recent decline in owner occupier lending is far more significant considering owner occupier lending is more than twice the value of investment lending.

Of course this slowdown isn’t completely attributable to the tighter lending environment. Other factors are at play such as relatively neutral levels of consumer confidence, higher supply in some markets and a reduction of demand from foreign buyers as well as domestic investors. These factors vary considerably from city to city.

In Sydney we saw dwelling values fall by 4.1% over the past three months, with the rate of decline easing to 1% in February. The annual pace of falls is now measured in double digits, with dwelling values down 10.4% over the year. Values are generally falling across the entire metro region, however detached housing has seen larger falls relative to units and the most expensive quarter of the market is recording a larger downturn in values relative to the lower value quarter of the market. The difference between property types and valuation cohorts can probably be explained by affordability factors as well as a surge in first home buyer activity which is supporting demand across the more affordable end of the market.

The Melbourne housing market recorded a 1% fall in values over the month, taking the annual decline to -9.1% and total decline since the market peaked to -9.6%. Values are generally trending lower across all of Melbourne’s sub-regions, however detached houses are showing weaker conditions relative to units, with values down 11.5% and 3.7% respectively over the past twelve months. Similarly, higher valued properties are showing weaker conditions than affordable properties. Values were down 13.1% over the past twelve months across the highest value quarter of the market while the lower quartile recorded a decline of just 2.1%. The resilience at the lower end of the market can be explained by less challenging affordability constraints and a surge in first home buyers helping to support demand across lower priced dwellings.

Brisbane housing values have held reasonably firm over the past few years, however recently market conditions have softened a bit and the annual change in values has turned negative for the first time since 2012. The twelve months ending February saw values dip half a percent, with the fall reflected across both houses and units. The weaker conditions may be surprising considering the ramp up in population growth and relatively affordable housing prices, however labour markets remain relatively loose and credit availability is tighter than it used to be. Although values have trended lower over the past year, we aren’t expecting the Brisbane market to move through a substantial correction considering underlying demand remains strong and housing affordability is relatively healthy.

The Adelaide housing market is living up to its steady reputation with values holding firm over the month and increasing by 1% over the past twelve months. While this may seem like a weak result, compared to other capital cities, Adelaide has been one of the best performing markets while most other cities are generally recording declines. Settled sales activity is tracking slightly above the decade average and homes are taking roughly the same number of days to sell as they were a year ago. Why is the Adelaide market holding firm while most others weaken – generally it comes back to affordable housing prices, a healthy balance between demand and supply and mildly positive economic conditions.

Housing market conditions remain challenging across Perth, with the market remaining in an entrenched downturn since mid-2014. Since peaking, Perth dwelling values are down almost 18%, with conditions weakening further over the second half of 2018 and into 2019. Local labour markets are continuing to show plenty of spare capacity and migration trends remain subdued, although the latest data shows interstate migration rates have improved. The median house value across Perth is now the lowest of any capital city and housing affordability is the best it has been in a long time. First home buyers remain an active component of the market, incentivised by affordable housing prices as well as rising rents and low mortgage rates. Overall, despite a strong affordability advantage, it seems that a mix of tight credit and relatively soft economic conditions are continuing to keep a housing market recovery at bay.

The Hobart housing market remains the only capital city to record any material rate of capital gains, with dwelling values pushing 0.8% higher over the month to be 7.2% higher over the past year. Although home values continue to track consistently higher, the trend rate of growth has eased from 12.4% a year ago. The local market remains undersupplied, however the surge in values has created a pricing barrier for many buyers which is likely contributing to the reduction in capital gains and prompting more buyers to seek out properties outside of Hobart where housing prices are more affordable.

Dwelling values across Darwin continued to trend lower in February, down 1.7% over the month, taking values 27% below their 2014 peak. The weak conditions are mostly confined to the unit sector, where values are down 14.4% over the past year, while house values have flattened out, in fact rising 0.2% over the past twelve months. Weak levels of demand following the completion of major infrastructure projects are contributing to the housing market weakness unemployment is trending higher and jobs growth remains negative, suggesting the Darwin housing market is still lacking any real growth drivers.

The Canberra housing market saw dwelling values slip by 0.2% in February, however the recent trend has been more positive with values holding firm over the rolling quarter and rising 3.4% over the past twelve months. Houses are showing a stronger growth profile relative to units, with house values up 4.1% over the year while unit values are 1.1% higher. Market conditions are strongest across the middle of the market where values were 4.5% higher, followed by the most affordable quartile with a 3.3% rise in dwelling values. Rental conditions are relatively buoyant with weekly rents up 4.7% over the year which is the largest annual rise in rents across the capitals.

Overall, the February housing market results marked a subtle improvement in the rate of decline, however the housing market downturn is now more widespread geographically and we aren’t seeing any indicators pointing to the market bottoming out just yet.

The long-running reduction in investment lending has understandably impacted the Sydney and Melbourne housing markets more than others, considering investment activity was heavily concentrated in these cities, however the reduction in owner occupier credit explains a lot about the broader softening in housing market conditions more recently.

Stricter lending standards are a logical outcome following the royal commission and we are likely in the early phases of a ‘new normal’ for mortgage lending where borrowers will face closer scrutiny around their expenses and ability to service a loan and conversion rates on loan applications are likely to remain lower than they have been over prior years.

While credit availability seems to be the key driver of slowing conditions, other factors are also at play.

Supply levels are elevated in some areas, especially in the high rise unit sector. Although construction activity has recently moved through unprecedented peaks, concerns remain around specific high-density precincts, and to a lesser extent, some greenfield detached housing markets.

Advertised stock levels are also elevated in many cities. The number of properties advertised for sale has been consistently rising due to fewer buyers and longer selling times. Despite the surge in inventory, ‘fresh’ stock being added to the market was down 19% relative to last year, highlighting that vendor confidence is low. Buyers are firmly in the driver’s seat and in a good position to take advantage of the strong buying position.

From a demand perspective, foreign buyers are a much smaller component of housing activity. FIRB data shows residential dwelling approvals for foreign buyers are down more than 70% since moving through the highs of 2015/16. The reduction in foreign buying activity is likely to have a greater impact within the high-rise apartment sector where activity was previously most concentrated. Not to mention the fact that new developments can now only sell 50% of units offshore whereas previously 100% could be sold offshore

Another factor working to dampen housing market conditions is the consumer mindset. The consumer sentiment survey from Westpac and the Melbourne Institute has consistently highlighted a pessimistic view from consumers around their expectations for house prices, which is likely to be another factor reducing market demand. The federal election and the potential for changes to taxation policy is probably also weighing on consumer attitudes.

Helping to offset these headwinds are mortgage rates which are still tracking around the lowest level since the 1960’s. Further cuts to the cash rate are looking like a growing possibility, however its uncertain how much stimulus lower rates may provide to the housing sector considering the tight servicing criteria and higher funding costs from lenders which would likely prevent any cuts being passed on in full.

With dwelling values expected to fall further, the attention now turns to what impact this could have on future household consumption which accounts for around 60% of the economy. If households reduce their spending as the wealth effect moves into to reverse, then interest rate cuts or other policy intervention could become more likely.

There is so much happening in the housing market at the moment and conditions have rarely been this uncertain or diverse. If you’d like to stay up to date with all the latest news, check out the research pages at our website. [www.corelogic.com.au](http://www.corelogic.com.au)

**Short version**

Welcome to CoreLogic’s update on the housing market for March 2019. Last month’s housing market results showed an easing in the rate of decline relative to the previous two months, however our national home value index was down a further 0.7% in February, taking the total decline in national dwelling values to 6.8% since the market peaked in October 2017. National dwelling values have returned to levels last seen in September 2016, and values have fallen over fourteen of the last sixteen months.

Although home values have been falling for almost a year and a half, nationally dwelling values remain 18% higher than they were five years ago highlighting that most home owners remain in a strong equity position despite the persistently weak conditions.

Despite the reduced rate of decline, the February results remain overall weak, with the geographic scope of negative conditions becoming more widespread over recent months.

On an annual basis, only three of Australia’s eight capitals have recorded a rise in values, led by Hobart where values were up 7.2%. Brisbane, with values down half a percent, is showing the first negative annual change since 2012 and Sydney’s housing market moved into double digit annual declines for the first time since the early 1980’s. If Melbourne’s downturn continues at a similar pace we are likely to see the annual decline move into double digit falls over the coming months as well, with values currently 9.1% lower over the year.

Both Perth and Darwin appear to have caught a second wind in the market downturn with the annual pace of decline previously improving but now worsening. This renewed downwards pressure on home values coincides with a softening in labour market conditions, with weaker housing market results likely compounded by credit scarcity.

Regional housing market values are generally holding firmer than capital city markets, with dwelling values down 1.4% over the past twelve months compared with a 7.6% fall in capital city dwelling values.

The fact that we are seeing weakening housing market conditions across regions where home values were previously tracking at a sustainable pace and economic conditions are relatively healthy is a sign that tighter credit conditions are having a broad dampening effect on buyer activity.

Credit aggregates from the Reserve Bank and housing finance data from the Australian Bureau of Statistics have continued to show a consistent reduction in credit flows and mortgage activity, with a more pronounced downturn in owner occupier credit flows visible through the second half of 2018 and now into 2019.

While a slowdown in investment was a key driver of slowing housing markets since 2015, the recent decline in owner occupier lending is far more significant considering owner occupier lending is more than twice the value of investment lending.

The long-running reduction in investment lending has understandably impacted the Sydney and Melbourne housing markets more than others, considering investment activity was heavily concentrated in these cities, however the reduction in owner occupier credit explains a lot about the broader softening in housing market conditions more recently.

While credit availability seems to be the key driver of slowing conditions, other factors are also at play.

Supply levels are elevated in some areas, especially in the high rise unit sector. Although construction activity has recently moved through unprecedented peaks, concerns remain around specific high-density precincts, and to a lesser extent, some greenfield detached housing markets.

Advertised stock levels are also elevated in many cities. The number of properties advertised for sale has been consistently rising due to fewer buyers and longer selling times. Despite the surge in inventory, ‘fresh’ stock being added to the market was down 19% relative to last year, highlighting that vendor confidence is low. Buyers are firmly in the driver’s seat and in a good position to take advantage of the strong buying position.

From a demand perspective, foreign buyers are a much smaller component of housing activity. FIRB data shows residential dwelling approvals for foreign buyers are down more than 70% since moving through the highs of 2015/16. The reduction in foreign buying activity is likely to have a greater impact within the high-rise apartment sector where activity was previously most concentrated. Not to mention the fact that new developments can now only sell 50% of units offshore whereas previously 100% could be sold offshore

Another factor working to dampen housing market conditions is the consumer mindset. The consumer sentiment survey from Westpac and the Melbourne Institute has consistently highlighted a pessimistic view from consumers around their expectations for house prices, which is likely to be another factor reducing market demand. The federal election and the potential for changes to taxation policy is probably also weighing on consumer attitudes.

Helping to offset these headwinds are mortgage rates which are still tracking around the lowest level since the 1960’s. Further cuts to the cash rate are looking like a growing possibility, however its uncertain how much stimulus lower rates may provide to the housing sector considering the tight servicing criteria and higher funding costs from lenders which would likely prevent any cuts being passed on in full.

With dwelling values expected to fall further, the attention now turns to what impact this could have on future household consumption which accounts for around 60% of the economy. If households reduce their spending as the wealth effect moves into to reverse, then interest rate cuts or other policy intervention could become more likely.

There is so much happening in the housing market at the moment and conditions have rarely been this uncertain or diverse. If you’d like to stay up to date with all the latest news, check out the research pages at our website. [www.corelogic.com.au](http://www.corelogic.com.au)