Welcome to CoreLogic’s housing market update for April 2019. This month we are covering off on housing market trends through to the end of March, which shows a moderation in the rate of value decline, but a broadening in the geographic scope of weaker conditions.

Although the CoreLogic national hedonic index series trended lower in March, the actual rate of decline has been easing over the past three months. National dwelling values were down 0.6% in March, which was the smallest of the month-on-month declines since values fell by 0.5% in October last year.

While the pace of falls has slowed in March, the scope of the downturn has become more geographically widespread. Dwelling values were down across six of the eight capital cities over the month, with Canberra values holding firm while Hobart values were 0.6% higher. Outside of the capital cities, most of the ‘rest of state’ regions also recorded a fall in values; the exceptions being regional Tasmania where values were half a percent higher and regional South Australia where values were up three tenths of a percent.

The quarterly trend in dwelling values is showing a similar pattern, with six of the eight capitals recording a fall in values over the March quarter, led by Darwin, which was down 3.9%, followed by Melbourne where the market was down 3.4% and Sydney which recorded a 3.2% drop in values.

National dwelling values have been trending lower for seventeen months and have fallen by a cumulative 7.4% since peaking in October 2017. Despite the broad based weakness, the national index remains 15.9% higher relative to five years ago, highlighting that most property owners remain in a strong equity position.

Markets where values peaked much earlier have shown a more substantial downturn. In Darwin and Perth, where weak housing market conditions were driven by weaker economic and demographic conditions post mining boom, dwelling values have fallen by a cumulative 27.5% and 18.1% respectively since peaking in 2014. The silver lining here is that housing is now very affordable and first home buyers are proportionally much more active relative to other areas of the country.

On the other hand, dwelling values remain at record highs across Hobart and regional Tasmania, and only marginally lower in Canberra, Adelaide and Brisbane, as well as regional Victoria. Although housing market conditions remain relatively healthy in these regions, conditions have noticeably softened over the past twelve month with values either slipping or the pace of growth slowing materially.

In Sydney, the monthly rate of decline eased a little in March, however with values down 0.9% over the month, it’s clear that conditions remain weak across Australia’s largest housing market. The Sydney market has recorded a cumulative decline of 13.9% since values peaked in July 2017, with a larger 15.2% recorded for detached housing relative to units where values are down 11.0% since peaking. With almost 28,500 properties advertised for sale at the end of March, overall listing numbers remain elevated, providing buyers with a great deal of choice and a strong negotiation position. Homes were taking on average of 74 days to sell over the March quarter, compared with 33 days a year ago.

The Melbourne housing market recorded a 3.4% reduction in dwelling values over the March quarter, taking the cumulative decline in dwelling values to 10.3%. House values are down substantially more than unit values, recording a peak to current decline of 13.0%, while unit values are down only 4.0%. The resilience across the unit sector, despite higher supply levels, probably comes back to a combination of affordability constraints in the market as well as more first home buyers supporting housing demand across the lower price points of the market. With almost 36,000 properties being advertised for sale at the end of March, buyers remain in the driver’s seat. The higher stock levels has seen the typical selling time extend from 28 days a year ago to 61 days over the March quarter.

In Brisbane, housing values have slipped 1.1% lower over the March quarter to be down 1.3% over the past twelve months. The Brisbane unit market has continued to underperform relative to detached houses, however the performance gap is now much less substantial that it has been over the past decade. Brisbane unit values remain 12.2% lower relative to their peak in 2010 and gross rental yields are amongst the highest of any capital city, which is likely to be an attractive combination for investors. With housing market conditions showing some weakness, typical selling times have extended relative to a year ago, with dwellings averaging 68 days to sell over the March quarter, compared with only 38 days a year ago.

Adelaide’s housing market has recently shown some weakness after a long run of steady and sustainable growth conditions. The March quarter saw dwelling values slide half a percent lower, however local values remain almost one percent higher over the year. The March data showed Adelaide as having the lowest median house value of any capital city, recorded at $460,600. Such an affordable entry price to the market, at least relative to other capital cities, together with improving population growth and reasonably healthy economic conditions should help to keep a floor under Adelaide housing values going forward. Home are taking an average of 54 days to sell, up only slightly relative to a year ago when the average selling time was tracking at 49 days.

Perth has recorded a further reduction in dwelling values, with the market down 2.9% over the quarter, taking values 7.7% lower over the past twelve months and 18.1% lower since peaking in 2014. Looking at the difference in market conditions across the upper and lower quartile of dwelling values shown that the most affordable quarter of Perth’s housing market is recording weaker conditions relative to the expensive end of the market, with dwelling values down 8.2% over the past year across the lower quartile while upper quartile values were down a more moderate 7.2%. Buyers are still very much in the driver’s seat across Perth, with properties taking an average of 72 days to sell, relative to 56 days a year earlier.

Hobart’s housing market remains the single beacon of growth across the capital cities. Values were up 1.2% over the March quarter and 6.0% higher over the past twelve months. While growth conditions remain strong, the pace of capital gains has more than halved relative to the peak rate of growth recorded in mid-2017. Dwelling values have seen stronger conditions across the more affordable segments of the market, with the stratified hedonic index showing a 9.6% rise in values across the most affordable quarter of dwelling stock, while the top quartile of properties value saw values rise by a much lower 3.4% over the past year.

Darwin dwelling values have continued to trend lower, down 3.9% over the March quarter, to be 6.8% lower over the past twelve months and 27.5% lower since the market peaked. In a clear positive trend, the number of dwelling sales has been trending higher through the second half of 2018 and into 2019, with the number of settled sales climbing 9.7% higher year on year. Darwin is also the highest yielding market across the capital cities, with the typical gross rental yield recorded at 6.0%. With mortgage rates generally around the low 4% or high 3% mark, it looks like a large proportion of Darwin dwellings are likely to be providing a positive cash flow for investors.

Canberra dwelling values levelled out over the March quarter, with values rising 3.1% over the year. House values are continuing to outperform relative to units, rising 3.9% over the past twelve months, while unit values were virtually flat over the year. Although values are still rising, advertised stock levels are pushing higher, up 24% relative to the same time a year ago. Higher stock levels provide buyers with more choice and less urgency which seen the average selling time for a property extend from 36 days a year ago to 56 days over the March quarter.

Overall, the housing market has recently shown some tentative signs that the downturn in dwelling values is losing some steam. Although this is a positive development, the outlook for the housing market will continue to be affected by uncertainty related to the federal election, lending policies and more broadly, domestic economic conditions.

Federal elections generally cause some uncertainty, which is likely amplified more so this time around considering the potential for a change of government which will also involve significant changes to taxation policies related to investment.

No doubt, some prospective buyers and sellers are delaying their housing decisions until after the election, however, there is no guarantee that certainty will improve post-election, considering the impact of a wind back to negative gearing and halving of the capital gains tax concession is largely unknown. It seems a reasonable assumption that removing an incentive from the market would result in some downwards pressure on activity and prices for a period of time.

If elected, the Opposition have flagged that changes to the capital gains tax discount and negative gearing would take effect from January 2020.

Another key factor in relation to the housing market will be credit availability. CoreLogic data tracking the number of housing valuation events, which provides a timely proxy for mortgage activity, has remained around 14% below activity a year ago.

A similar trend is confirmed within the less timely ABS housing finance data which continued to show a reduction in both investor and owner occupier lending through to the end of January. While this trend in weaker housing finance commitments is very much entrenched for investment lending, the sharp downturn in owner occupier lending is more concerning.

The value of owner occupier lending is around 2.6 times the value of investor lending, so the substantial drop in owner occupier mortgage commitments perhaps explains why the housing downturn is becoming more widespread. The value of owner occupier housing finance commitments, excluding refinanced loans, was down 17.1% compared with January last year and investment credit was 24.6% lower.

While there are headwinds for the housing market, other factors are likely to help offset the weakness such as a high likelihood that the cash rate will be cut later this year, which may result in lower mortgage rates.

While any cuts to the cash rate may not be passed on in full, a lower cost of debt will provide some positive stimulus for the housing market. Arguably, this stimulus won’t be as effective as previous interest rate cuts due to the high serviceability buffer applied to borrowers, whereby lenders are still required to assess serviceability at a mortgage rate of at least 7% despite mortgage rates which are now available around the 4% mark or even lower.

While falling home values are a negative for home owners, improved housing affordability is the silver-lining to this downturn. As dwelling prices trend lower or level out, household incomes are edging higher and mortgage rates remain around the lowest level since the 1960’s. First home buyers are clearly taking advantage of the improved levels of affordability and less competition in the market.

With the federal budget handed down this month, the federal election to be held next month and the likelihood of lower interest rates later this year, there is a lot happening that could affect the housing dynamic. If you would like to stay up to date on all the news and latest housing market research, make sure you are on our news feed at [www.corelogic.com.au](http://www.corelogic.com.au)

**Short version**

Welcome to CoreLogic’s housing market update for April 2019. This month we are covering off on housing market trends through to the end of March, which shows a moderation in the rate of value decline, but a broadening in the geographic scope of weaker conditions.

Although the CoreLogic national hedonic index series trended lower in March, the actual rate of decline has been easing over the past three months. National dwelling values were down 0.6% in March, which was the smallest of the month-on-month declines since values fell by 0.5% in October last year.

While the pace of falls has slowed in March, the scope of the downturn has become more geographically widespread. Dwelling values were down across six of the eight capital cities over the month, with Canberra values holding firm while Hobart values were 0.6% higher. Outside of the capital cities, most of the ‘rest of state’ regions also recorded a fall in values; the exceptions being regional Tasmania where values were half a percent higher and regional South Australia where values were up three tenths of a percent.

The quarterly trend in dwelling values is showing a similar pattern, with six of the eight capitals recording a fall in values over the March quarter, led by Darwin, which was down 3.9%, followed by Melbourne where the market was down 3.4% and Sydney which recorded a 3.2% drop in values.

Markets where values peaked much earlier have shown a more substantial downturn. In Darwin and Perth, where weak housing market conditions were driven by weaker economic and demographic conditions post mining boom, dwelling values have fallen by a cumulative 27.5% and 18.1% respectively since peaking in 2014. The silver lining here is that housing is now very affordable and first home buyers are proportionally much more active relative to other areas of the country.

On the other hand, dwelling values remain at record highs across Hobart and regional Tasmania, and only marginally lower in Canberra, Adelaide and Brisbane, as well as regional Victoria. Although housing market conditions remain relatively healthy in these regions, conditions have noticeably softened over the past twelve month with values either slipping or the pace of growth slowing materially.

Overall, the housing market has recently shown some tentative signs that the downturn in dwelling values is losing some steam. Although this is a positive development, the outlook for the housing market will continue to be affected by uncertainty related to the federal election, lending policies and more broadly, domestic economic conditions.

No doubt, some prospective buyers and sellers are delaying their housing decisions until after the election, however, there is no guarantee that certainty will improve post-election, considering the impact of a wind back to negative gearing and halving of the capital gains tax concession is largely unknown. It seems a reasonable assumption that removing an incentive from the market would result in some downwards pressure on activity and prices for a period of time.

Another key factor in relation to the housing market will be credit availability. CoreLogic data tracking the number of housing valuation events, which provides a timely proxy for mortgage activity, has remained around 14% below activity a year ago.

A similar trend is confirmed within the less timely ABS housing finance data which continued to show a reduction in both investor and owner occupier lending through to the end of January. While this trend in weaker housing finance commitments is very much entrenched for investment lending, the sharp downturn in owner occupier lending is more concerning.

The value of owner occupier lending is around 2.6 times the value of investor lending, so the substantial drop in owner occupier mortgage commitments perhaps explains why the housing downturn is becoming more widespread. The value of owner occupier housing finance commitments, excluding refinanced loans, was down 17.1% compared with January last year and investment credit was 24.6% lower.

While there are headwinds for the housing market, other factors are likely to help offset the weakness such as a high likelihood that the cash rate will be cut later this year, which may result in lower mortgage rates.

While any cuts to the cash rate may not be passed on in full, a lower cost of debt will provide some positive stimulus for the housing market. Arguably, this stimulus won’t be as effective as previous interest rate cuts due to the high serviceability buffer applied to borrowers, whereby lenders are still required to assess serviceability at a mortgage rate of at least 7% despite mortgage rates which are now available around the 4% mark or even lower.

While falling home values are a negative for home owners, improved housing affordability is the silver-lining to this downturn. As dwelling prices trend lower or level out, household incomes are edging higher and mortgage rates remain around the lowest level since the 1960’s. First home buyers are clearly taking advantage of the improved levels of affordability and less competition in the market.

With the federal budget handed down this month, the federal election to be held next month and the likelihood of lower interest rates later this year, there is a lot happening that could affect the housing dynamic. If you would like to stay up to date on all the news and latest housing market research, make sure you are on our news feed at [www.corelogic.com.au](http://www.corelogic.com.au)