Welcome to CoreLogic’s housing market update for June 2019.

We saw a variety of outcomes and announcements through the second half of May and early June that are likely to bode well for the housing market, including stability in the federal government, an announcement from APRA that borrower serviceability assessments were likely to improve by late June and the RBA cut interest rates to a new record low on June 3rd.

All this good news wasn’t enough to stave off a further decline in dwelling values in May, however market sentiment does seem to have improved over the second half of the month.

Although dwelling values fell in May, the pace of decline continued to ease; a trend that has been evident since the beginning of 2019. Nationally, dwelling values were down 0.4% in May, which was the smallest month-on-month decline since May 2018.

This improvement is primarily being driven by a slower rate of decline in Sydney and Melbourne where housing values were previously falling at the fastest rate of any capital city. Sydney values were 0.5% lower over the month while Melbourne values were 0.3% lower; the smallest decline in values across both cities since March last year.

In other cities, where housing market conditions have generally been more resilient to a downturn, the trend is opposite. Hobart values have tracked lower for two months running, taking the rolling quarterly rate of change into negative territory for the first time since early 2016, and with Canberra values 0.2% lower over the month, the quarterly rate of growth remains only slightly in positive territory (+0.2%).

While the pace of value falls eased across some cities, the Australian housing market remains in a geographically broad-based downturn. Adelaide was the only city to avoid a slip in housing values over the month and in ‘rest-of-state’ areas, South Australia, Tasmania and Northern Territory were the only regions where values rose in May. In fact, Regional Tasmania is the only broad region across the country where housing values remain at record highs.

The slower rate of decline is also visible in higher auction clearance rates through the month. The last week of May saw Sydney clearance rates break the 60% mark for the first time in a year, while Melbourne clearance rates have held around 60% over three of the past six weeks.

Although clearance rates remain low relative to several years ago when housing market conditions were much stronger, the improved performance at auction aligns with the easing rate of decline.

Since peaking in October 2017, national dwelling values have reduced by 8.2%, with values across the combined capitals index down 10.1% while regional values have been more resilient, falling by 3.0% since peaking. Larger capital city falls have been recorded in Darwin, which is down nearly 30%, and Perth which is down by around 19%, as well as regional WA where the mining downturn has led to persistently weak economic and demographic conditions that have weighed heavily on home values.

These regions now represent some of the most affordable housing markets around the country; a factor which explains the high proportion of first home buyer participation in these areas. The last time values were this low in Darwin was March 2007, in Perth values were previously this low in April 2006 and values haven’t been this low across regional WA since July 2005.

Now let’s take a look at the trends across each capital city in more detail.

Sydney dwelling values continued to trend lower in May, down a further 0.5% over the month to be 14.9% lower relative to the market peak back in July 2017. The good news for home owners is that this was the smallest month on month decline since March last year. Dwelling values are still falling, but nowhere near as fast as they were falling late last year. Auction clearance rates have bounced higher, holding above 60% over the last week of May and first week of June, providing another indication that housing prices are closer to finding a floor. Another evolving trend is that unit values are now falling at a faster pace than house values. The past three months has seen house values fall 1.9% while unit values are down a larger 2.3%. Potentially we are starting to see some weakness in the unit market as the unprecedented amount of new units settled and moves into the resale market.

Melbourne dwelling values continued to trend lower in May, down 0.3% over the month to be 11.1% lower since peaking in November 2017. Although values are still falling, this was the smallest month on month decline since March last year, and continues a trend of diminishing declines that has been evident since February earlier this year. Despite the ongoing falls, Melbourne dwelling values remain almost 24% higher than they were five years ago, highlighting that most home owners still hold a substantial amount of equity in their homes. While dwelling values trend lower, rental rates are rising, albeit relatively slowly. Rents were only 1.5% higher over the past twelve months, however with dwelling values down almost 10% over the year, gross rental yields have risen sharply, up from 3.2% a year ago to 3.7% in May 2019.

Brisbane housing values were down half a percent in May, with falls confined to the detached housing sector. Unit values actually rose 0.1% over the month, breaking a long running trend of falling values. The oversupply that has weighted down the Brisbane unit market has mostly been absorbed due to the combined factors of less construction activity together with rising population growth, however Brisbane unit values remain 12.5% below their 2010 peak. With migration rates lifting, supply under control and generally healthy levels of housing affordability, the Brisbane housing market fundamentals are looking healthier compared to most other capital cities.

Adelaide was the only capital city to avoid a fall in housing values through May, with the CoreLogic index rising 0.2% over the month to be 0.4% higher over the past twelve months. Housing values and transactional activity are generally holding firm across Adelaide. Compared with most of the other capital cities, this is actually a reasonably strong result. The median selling time has also held reasonably firm at 43 days, however vendors have been discounting their prices expectations in order to make a sale, with vendor discounting rates rising from 4.9% a year ago to 5.3% in May.

The Perth housing market downturn eased off a little in May, however dwelling values are still trending lower, down 1% over the month and 8.8% lower over the past twelve months. The ongoing weakness in the housing market can be attributed to a mix of weak economic and demographic conditions overlaid with a tight credit environment. Perth housing values are now amongst the most affordable amongst the capital cities with a median dwelling value of $436,000, which is only $4,500 higher than Adelaide’s median dwelling value. As infrastructure spending picks up and commodity prices remain high, we could see local economic conditions start to improve which is the key missing ingredient to a housing market recovery.

Hobart’s housing market has recorded its second month in a row of falling values. Hobart housing values were down 0.4% in May, taking the quarterly result into negative territory for the first time since early 2016. Tighter credit policies together with affordability constraints are the key factors slowing what has been strongest performing market over recent years. Despite the recent slippage in values, Hobart dwelling values remain 35% higher than they were five years ago, highlighting that home owners have seen a substantial wealth boost, but prospective property buyers have struggled with worsening affordability.

Darwin housing values slipped another 1.6% in May, taking the cumulative decline in values to 29.5% since the market peaked in May 2014. In a positive sign, settled sales activity has levelled out, with the number of dwelling sales lifting 0.4% year on year, and gross rental yields are substantially higher than any other city at 5.7% for houses and 6.6% for units. The high rental yields are a bi-product of values falling at a faster rate than units; the past year has seen Darwin dwelling values fall by 8.6% while weekly rents are down a smaller 5.2%

Canberra values posted a rare decline in May, slipping 0.2% over the month but remaining 0.2% higher over the rolling quarter and 2.4% higher over the past twelve months. Although both house and unit values were down slightly over the month, houses have generally shown a stronger performance relative to units, which is likely a reflection of higher medium to high density supply across the market. Vendors remain in a strong position across Canberra, with the median selling time tracking at 44 days and discounting rates the lowest of any capital city at 3.0%.

Since the federal election we have seen a variety of outcomes and announcements that are likely to have a positive effect on housing market conditions.

The federal election outcome has removed the uncertainty surrounding taxation reform which should see an improved level of confidence amongst home owners and prospective buyers, particularly investors. Additionally, we now have some certainty around the initiatives announced in the federal budget, a consistent commission structure for mortgage brokers, who comprise around 60% of mortgage originations, and the eventual stimulus for first home buyers in the form of a federal government deposit guarantee, which although limited to 10,000 participants with at least a 5% deposit, will kick off in January next year.

Another positive announcement came from APRA late last month, where we are likely to see the serviceability assessments used to qualify borrowers for a home loan reduced sometime in late June.

Dropping the interest rate serviceability test from the current level of 7.25% to a 2.5% buffer above the going mortgage rate will help to improve access to credit and enable some borrowers to obtain a larger loan. One of the factors contributing to less activity in the housing market has been the challenges involved with accessing credit. While there are a variety of other policies that will continue to keep a lid on housing credit, a more practical assessment of borrower servicing capacity is certainly a positive for housing market demand.

Another factor that should support housing market conditions is lower mortgage rates. The RBA cut the cash rate by 25 basis points in June. Mortgage rates are already around the lowest level since the 1960’s, and we are seeing lenders passing on most, if not all of the rate cuts through to home loan mortgage rates. Lower interest rates have typically shown a positive influence on housing demand.

Importantly, lower interest rates may not provide the same level of stimulus as what we have seen in the past, due to tighter credit policies, but no doubt, lower rates together with lower serviceability assessments and a removal of the uncertainty surrounding the federal election will provide some positive influence over the housing market.

While the outlook for the housing market is looking more positive now than it was pre-federal election, a variety of headwinds are still at play, especially in the credit space. Although interest rates and serviceability tests are set to reduce, lenders are continuing to scrutinize incomes and expenses much more intensely. Comprehensive credit reporting is providing lenders with greater visibility around borrower finances and overall debt levels, and progressively lenders are reducing their exposure to borrowers with high debt levels relative to their income.

We should also keep in mind the reasons why interest rates are heading south. Policy makers are becoming increasingly concerned about the slippage in economic growth, stubbornly low inflation and sluggish wages growth. Economic growth over the first quarter of 2019 was the lowest since the Global Financial crisis. The labour market is seeing some cracks emerge and global trade tensions remain high. If the economy continues to lose momentum, we could see further weakening in labour markets and a continuation of weak wages growth which will continue to restrain household consumption, which is the most significant contribution to the Australian economy.

In closing there is no doubt, policy makers and regulators will be keeping a close eye on the housing market. If we see housing values surging higher on the back increased stimulus measures, we may see macro-prudential or other policy levers being pulled in an effort to provide house price stability while at the same time supporting an improvement in economic activity. However, the more likely scenario is an earlier levelling in housing market conditions than we previously expected, followed by relatively steady conditions, at least at a macro level.

With the housing market changing so rapidly, make sure you stay up to date with the timeliest updates on market conditions at www.corelogic.com.au

SHORT VERSION

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