**October Housing Market Update**

Welcome to CoreLogic’s housing market update for October 2019. The housing market made further progress towards a recovery in September, with CoreLogic’s national home value index recording the third consecutive month of gains, lifting the national value of housing by a cumulative 1.7% since the market found a floor in May 2019. The month-on-month lift of 0.9% in national housing values was the largest monthly gain since March 2017.

Although housing values are now consistently tracking higher, at least at a macro-level, the national index remains 6.8% below the October 2017 peak, indicating that buyers still have some time to take advantage of improved housing affordability before values return to record highs.

The September gains were once again driven by stronger conditions emanating from Sydney and Melbourne where dwelling values increased by 1.7% over the month; Australia’s two largest cities have seen a rapid bounce-back in home values over the past two months, with Sydney up a cumulative 3.3% and Melbourne up 3.2% in August and September alone. Housing values remain almost 12% below their July 2017 peak in Sydney and about 8% below Melbourne’s November 2017 peak.

Brisbane and Canberra were the only other capital cities to record a rise in dwelling values over the month, while conditions held firm in Adelaide. Values were down slightly in Hobart and continued their long run of losses in Perth and Darwin.

Most of the regional markets recorded a rise in September, with regional South Australia and regional Western Australia the only ‘rest of state’ areas to record a drop in values.

While all regions are benefitting from low mortgage rates and improved access to credit, strong economic and demographic conditions in Sydney and Melbourne help to explain the over performance in these markets despite housing affordability challenges in these areas.

Another factor driving the strength in Sydney and Melbourne property markets could be higher levels of investor participation. The latest housing finance data from the ABS shows investors comprised 32% of mortgage demand across New South Wales and 26% of Victorian mortgage demand which is higher relative to any of the states or territories.

Nationally, investors comprise around a quarter of mortgage demand, well down from the recent record highs of 43% set in 2015 and below the long term average which shows investors typically comprise around one third of mortgage demand. With capital gains picking up and the narrowest spread on record between yields and mortgage rates, we will likely see investor activity rising.

Let’s take a closer look at each of the capital city housing markets

Sydney home values surged by 1.7% in September, following a 1.6% lift in August and a more modest gain in June and July. The last two months have clearly seen the pace of capital gains step up several notches, with growth in September the highest since 2016. As the market gathers pace, houses are once again starting to outperform the unit sector, with a gain of 3.6% over the September quarter compared with a 3.3% rise in unit values over the quarter. Although Sydney home values are once again rising, the market still needs to recover a further 11.9% before values surpass the 2017 peak.

Melbourne housing values recorded a 1.7% rise in September, the largest monthly gain in values since 2015. This was the fourth month in a row where Melbourne housing values have trended higher, posting a cumulative 3.6% recovery since values found a floor in May earlier this year. Melbourne housing values remain 7.9% below their 2017 peak, indicating buyers still have some time before values reach new record highs. Melbourne’s Inner East and Inner South are leading the recovery, with values rising 5.9% and 4.7% over the September quarter.

Brisbane housing values trended higher for the third consecutive month, taking values half a percent higher since finding a floor in June. The previously weak unit sector is showing a slightly stronger growth trend relative to houses, with Brisbane unit values up 1% over the September quarter compared with a 0.4% rise in house values. Despite the improved conditions across the unit market, values across this sector remain 12.5% below their 2010 peak, highlighting a history of falling values as supply concerns weighed on market conditions. With unit supply mostly absorbed and buyer demand picking up along with an attractive yield profile, the local unit sector is starting to attract some interest.

Adelaide housing values held firm in September as the market stabilises following a soft patch where values slipped lower over six of the past nine months. Values are down 0.6% over the September quarter and 1.1% lower over the past twelve months. Steady values are being accompanied by a rise in buyer activity amidst relatively low listing numbers. With buyers more active and a 7% reduction in new stock being added to the market compared with the same time last year, buyers are likely to be facing some competition which is likely to support a gradual rise in Adelaide housing values.

The Perth housing market continued to face weak conditions through September with dwelling values falling a further 0.8% over the month. Weakness in the local economy is continuing to override the stimulus of low interest rates and improved access to credit, however unemployment is now trending lower, jobs growth higher and migration rates are improving from a low base. With housing prices extremely affordable, the Perth housing market is well positioned to improve if economic and demographic conditions gather some momentum.

Home values slipped 0.4% across Hobart in September, however the quarterly and annual rate of growth remain positive. Values are 2.5% higher over the past twelve months, which is the highest growth rate of any city. Although dwelling values are still trending higher, market conditions have been losing steam since late 2016 as credit conditions tightened and housing affordability worsened. Although values look to be levelling, Hobart rents were up 6.2% over the past year which was by far the strongest rental gain across the capitals.

The Darwin housing market saw a further fall in values in September, down 0.2% over the month. Local values have been trending lower following the completion of major infrastructure projects that have resulted in weak labour market and demographic conditions. Since peaking in 2014 Darwin housing values are down 31% which is by far the largest drop of any capital city. With local economic conditions remaining soft, we are expecting to see further falls in Darwin home values and rents through 2019.

Canberra housing values were up 1% in September to be 1.4% higher over the quarter and 1.3% higher over the year. Upwards pressure on housing prices is confined to the detached housing sector where values are 2.1% higher over the past year while unit values have tracked 1.5% lower over the year. The downwards pressure on unit prices is likely related to relatively high supply levels that have weighed on market conditions.

The September housing market results provide further confirmation the housing market recovery is in full swing across Sydney and Melbourne while the remaining capital cities and regional areas are showing a mixed result. Low mortgage rates, and the expectation that they will move lower, along with better affordability, a loosening in credit rules and improved housing sentiment, are all factors contributing to the rebound.

A variety of other indicators outside of our hedonic index are pointing towards further strength in the housing market, including auction clearance rates which are continuing to track around the mid-to-high 70% range, with the results remaining high on larger volumes. The correlation between the auction success rate and housing values is holding true, with the strength in auction markets providing a timely insight into the fit between buyer and seller pricing expectations.

Amidst a rise in buyer activity advertised stock levels are lower which is creating some urgency amongst buyers. The number of listings across the capital cities is 10% lower than a year ago, and fresh listings being added to the market are 15% lower than a year ago. As buyer activity rises, the lack of available stock could see a renewed sense of FOMO supporting further price growth.

Clearly, mortgage demand is rising with the most recent housing finance data reporting a substantial lift in both owner occupier and investor housing finance commitments. Although ABS data is only current to July, the number of mortgage related valuation events across CoreLogic platforms has been trending consistently higher, implying a further lift in housing credit through August and September.

Policy makers and regulators appear to be comfortable with the housing rebound to date. Potentially improved housing values and activity will help to boost consumer attitudes and fuel spending as well as ease the downturn in residential construction activity. However, household debt levels reached new record highs relative to their incomes over the June quarter, suggesting the sector is vulnerable to a shock or change in household circumstances.

With official interest rates falling to new record lows in October and mortgage rates continuing to reduce, we are likely to see further upwards pressure on housing prices over the coming months. If you would like to explore the trends further you can find a lot more research on housing market conditions at [www.corelogic.com.au](http://www.corelogic.com.au)