**December 2019 Housing Market Update**

Welcome to CoreLogic’s housing market update for December 2019. The housing market recovery has continued to gather some pace through the month, with our national index up 1.7% last month, delivering the fifth consecutive monthly rise coupled with the largest month-on-month gain since 2003. The latest update takes national dwelling values back into positive annual growth for the first time since April 2018.

Since finding its trough in June earlier this year, the national dwelling value index has recovered by 4.7%. Although values are recovering rapidly, at a national level home values remain 4.1% below their 2017 peak, tracking roughly at the same level as January 2017.

Sydney and Melbourne continued to drive the rapid recovery, with values up by 2.7% and 2.2% respectively over the month, while each of the remaining capital cities, apart from Darwin, recorded a rise in values in November.

In a significant turn of events for the Perth market, values edged higher in November; the first month-on-month rise in dwelling values since the downtrend took a pause in early 2018. Dwelling values have been trending lower since mid-2014, down a cumulative 21.3% through to the end of November. Over the past thirteen years, Perth has seen house values move from being among the most expensive across the capital cities to now be the lowest; great news for first home buyers, however Perth home owners have seen a material reduction in their wealth over the past five and a half years.

A variety of factors are supporting the strong gains in housing values. The synergy of a 75 basis points rate cut from the Reserve Bank, a loosening in loan serviceability policy from APRA, and the removal of uncertainty around taxation reform following the federal election outcome, are central to this recovery.

Additionally, we’re seeing advertised stock levels persistently low which is creating a sense of urgency in the market as buyer demand picks up. There’s also the prospect that interest rates are likely to fall further over the coming months and an improvement in housing affordability following the recent downturn are other factors supporting a lift in values.

While housing values trend higher, rents are sluggish. Across the combined capital cities, rents were unchanged in November and only 0.4% higher over the past twelve months. Softer rental conditions can be attributed to a range of factors including the recent history of rising rental supply, demonstrated by unprecedented levels of investment participation in the housing market between 2012 and 2017, as well as a significant increase in dwelling construction skewed towards rental accommodation in the high rise apartment sector. Additionally, a larger than normal number of renters have transitioned to first home buyers, thereby denting rental demand.

As always, the conditions vary across each of the capital cities.

Sydney housing values were up 2.7% over the month which was the largest monthly rise in many years, and since finding a floor in May this year, values are up 8.2%. Detached houses have led the recovery, rising 8.8% since bottoming out, while unit values are up 6.8%. Similarly, the upper quartile of the market is leading the recovery trend, with values up 9.7% since finding a floor compared with a 4.9% rise across properties in the lower quartile value range. Sydney listing numbers remain low, finishing November 23% lower than a year ago. Such low inventory levels against rising buyer demand is another factor placing some upwards pressure on prices.

Melbourne housing values were 2.2% higher over the month of November, taking values 8.3% higher since the market bottomed out in May earlier this year. Melbourne home values are now only 3.7% below their October 2017 peak. At the current rate of growth we are likely to see Melbourne home values reach a new record high over the first few months of next year. House values are rising faster than unit values across Melbourne, up 8.6% since bottoming out compared with an 8.1% rise in unit values across the city. Stronger capital gains are concentrated within the upper quartile of the market, where Melbourne’s most expensive 25% of properties have recorded a gain of 11% through the recovery phase to date, while values across the lower quartile are up a smaller 5.7%.

Brisbane’s housing market saw dwelling values rise by eight tenths of a percent in November, which is roughly equivalent to the monthly change in October. Since finding a floor in June, Brisbane dwellings are up 2.2% with little difference separating houses and units where the recovery is recorded at 2.2% and 2.1% respectively since June. The recovery trend has been slightly stronger across Brisbane’s premium market, with the top quartile recording a rise of 2.4% compared with a 1.5% lift across the lower quartile of the market.

Adelaide dwelling values posted a second consecutive monthly rise in November, up half a percent to be nine tenths of a percent higher over the quarter. Adelaide’s housing market has been underperforming relative to most of the other capitals, however the flipside is that housing remains very affordable; in fact it’s Adelaide’s most affordable quarter of the market where values have shown a stronger growth result. Dwelling values across the lower quartile are 2.0% higher over the past twelve months compared with a 2.6% drop in values across the upper quartile of the market. Local rents are up 1.7% over the past twelve months - although that is a soft result, Adelaide rental growth is tracking above the capital city average where rents were only 0.4% higher over the past year.

Perth’s housing market recorded a rare monthly lift in values in November, up four tenths of a percent over the month and the first month-on-month gain since the downturn paused in early 2018. Calling a bottom in the market after one month of gains is premature however the trend has been towards an easing in the rate of decline amidst tighter rental conditions and improving labour markets and demographic trends. Perth continues to show the lowest median house value of any capital city, highlighting the affordability of housing across Australia’s fourth largest city. The recent monthly gain was driven by the top quartile of the market where values were up nine tenths of a percent over the month.

Hobart returned the second highest month-on-month gain in housing values through November, up 2.3% to be 4.2% higher over the past twelve months, which was the highest annual capital gain of any capital city. The past year has seen house values rising at a faster pace than unit values, up 4.7% compared with a 2.1% rise in unit values. Across the broad valuation cohorts, it’s the most affordable end of Hobart’s housing market that is driving the growth, with dwelling values 8.2% higher across the lower quartile over the past twelve months compared with a 2.1% gain across the upper quartile.

Darwin’s housing market continued a long trend of falling home values, with the market down 1.2% over the month and 10.9% lower over the year. The latest figures take Darwin’s cumulative decline to 31.5% down from the 2014 peak. Rents weren’t down as much, falling 2.5% over the past twelve months. The smaller falls in Darwin rents relative to home values is pushing the gross rental yield higher, with the typical Darwin dwelling now providing a gross yield of 5.9%, however total returns, which factor in the change in value as well as the gross yield remain negative.

Canberra home values were up 1.6% in November, taking the market 3.0% higher over the past twelve months. Gains have been centered within the detached housing market where values are 3.9% higher compared with a half a percent fall in unit values over the year. After Hobart, Canberra is showing the second highest total returns of any capital city with the combination of annual capital gains and gross rental yield providing a total return of 7.6%

The Australian housing market is now five months into an unexpectedly strong period of recovery. The question is, how long can such a high pace of capital gains be sustained?

Annualising the growth rate over the past three months implies the national index is already tracking well above double digit annual growth, while Sydney and Melbourne dwellings are tracking around the mid-twenty percent range for annualised capital gains based on the most recent three month trend.

Considering wages and household income growth remains low, economic conditions are losing momentum and housing affordability is once again worsening, from an already high base in the largest cities, there are likely to be some headwinds in maintaining such a fast recovery.

Additionally, the market is yet to be tested on higher supply levels. Advertised listing numbers have remained seasonally low throughout spring due to low new listing numbers and an increased rate of absorption as buyer demand lifts.

With selling conditions looking very strong, there is a high probability that listing numbers will show a material lift through the first quarter of 2020 which will test the depth of the market, and potentially ease some of the urgency that is contributing to higher prices.

Smaller cities are starting to show a stronger growth trajectory in the housing market, including Perth, where housing values have been trending lower since mid-2014. As housing affordability becomes more pressing, jobs growth fades and unemployment ticks higher across New South Wales and Victoria, the smaller capital cities may be beneficiaries of increased demand. Based on data to June from the Australian Bureau of Statistics, there is a clear trend towards stronger interstate migration rates into Queensland as well as a reduction in the interstate outflow from South Australia and Western Australia.

More affordable housing options across the smaller cities is likely to be attractive to interstate residents, however jobs growth and the employment rate is generally weaker relative to the larger cities which remains a barrier to higher housing demand.

With interest rates likely to track lower in 2020, we could see additional stimulus counteracting some of these headwinds. Mortgage rates are already at their lowest level since at least the 1950’s which is one of main factors supporting increasing market activity. If rates do move lower, no doubt policy makers will be watchful for any triggers that could provoke a policy response limiting housing credit. Previous rounds of macro-prudential have had an immediate slowing effect on market activity.

As the housing market quietens through the festive season, we expect activity to ramp up into February. You can stay up to date with all the housing market news at [www.corelogic.com.au](http://www.corelogic.com.au). No doubt the New Year will provide just as many twists and turns in housing market conditions as 2019. Until then, have a save Christmas and happy New Year.

Short version

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