**February 2020 Housing Market Update**

Welcome to CoreLogic’s housing market update for February 2020. The rebound in Australian housing values continued into 2020 with CoreLogic’s national home value index up nine tenths of a percent over the first month of the year. The latest figures take the annual growth rate to 4.1%; the fastest pace of growth for a twelve month period since December 2017.

Housing values were higher in January across every capital city and rest-of-state region, apart from regional South Australia, where values held firm over the month. Such a wide-spread rise in home values shows the recovery trend is spreading away from Sydney and Melbourne to other areas of the country where housing is more affordable.

Across the capital cities, Sydney and Melbourne continued as the leaders for capital gains after recording more substantial declines during the recent downturn. Values increased by 1.1% and 1.2% over the month respectively, while Hobart (+0.9%) achieved a higher growth rate relative to most other regions. The remaining capital cities generally saw a mild rise in values over the month.

Across the rest-of-state markets, the strongest conditions were recorded in regional Tasmania, where values were up 1.3% over the month, followed by regional Western Australia at 0.9% then regional Victoria and regional Queensland, both eight tenths of a percent.

Although there is an apparent recovery across all of the capital city and rest of state regions of Australia, the speed of growth has lost some momentum over recent months. The national dwelling index slowed from a recent monthly peak of 1.7% in November, to 0.9% in January.

Seasonal effects provide some explanation for the slowdown, with our seasonally adjusted index implying the time of year shaves about 1 basis point of growth from the December reading and 2 basis points from the January reading.

Factoring in the seasonal affect still shows a reduction in the speed of growth across most markets, especially Sydney and Melbourne where affordability constraints are once again becoming more pressing. As advertised stock levels rise over the early part of the year, we could see further dampening of growth rates in these already unaffordable markets.

Nationally, housing values have recovered by 6.7% since finding a floor in June last year, however CoreLogic’s national index remains 2.2% below the October 2017 peak.

With housing values rising at the quarterly pace of 3.7%, we are likely to see a nominal recovery in the national home value measure within the next two-to-three months.

Four of Australia’s eight capital cities are already showing home values at new record highs: Brisbane, Adelaide, Hobart and Canberra. Sydney values need to recover a further 5.4% before posting a nominal recovery and Melbourne values need to see a further 1.2% lift. Perth and Darwin will take a much longer time to see values recover. Although the Perth market seems to be moving into a recovery, housing values remain 21.3% below their 2014 peak and Darwin values are 31.8% below their peak.

Let’s take a closer look at the housing market conditions across each of the capitals.

Since finding a floor in May last year, Sydney dwelling values have recovered by 11.2%, but remain 5.4% below their 2017 peak. The premium end of Sydney’s housing market continues to be the main driver of higher values, with the top quartile of the market up 6.9% over the past three months and 10% higher over the year, while values across the lower quartile were 3.2% higher over the rolling quarter and are only 3.4% higher over the year. With housing values rising so rapidly, affordability constraints are once again becoming pressing in this market. The median house value isn’t far off one million dollars and the median unit value has reached $750,000. As affordability worsens we expect the pace of value growth to slow and demand to trickle down to more affordable areas of the market.

Melbourne housing values have been consistently trending higher since June last year, recording a cumulative recovery of 11.2% since the market trough. The upper quartile of the market has been leading the growth trend, with the most expensive quarter of housing recording an 11.5% capital gain over the past year while lower quartile values are up less than half this amount, increasing by 5.6% over the same time frame. Overall, Melbourne dwelling values are now only 1.2% away from reaching a new record high. Although the pace of capital gains is slowing, it’s highly likely we will see Melbourne dwelling values staging a nominal recovery by March this year.

Brisbane housing values have been tracking higher since July last year, with the latest half a percent rise in January taking Brisbane dwelling values to a new record high. Brisbane houses have been showing a stronger performance than units, with house values up 1.4% over the past year compared with a 0.3% slip in unit values. In fact, Brisbane unit values remain 11.5% below the 2010 high. Local unit values have suffered due to high supply levels, however the oversupply in Brisbane units is now largely absorbed and we expect unit values to gradually recover. With migration rates into Queensland rising and housing remaining much more affordable relative to the larger cities, we are likely to continue to see values continuing to rise across Australia’s third largest city.

Adelaide housing values were up 0.2% in January, continuing a trend of modest growth that has been evident since October last year. The latest month of growth has seen Adelaide home values reach a new record high, after recovering the 1.6% decline recorded between late 2018 and mid 2019. Local unit values have been showing a slightly stronger trend than houses, with values up 1% over the past year compared with a 0.3% rise in house values. Similarly, properties within the lower quartile have recorded a stronger trend with values up 2.6% over the past year compared with a 1.6% fall in upper quartile home values.

For Perth home owners, the latest results deliver positive news. Housing values are slowly emerging from a slump that lasted five-and-a-half years. Dwelling values edged 0.1% higher over the month and Perth dwelling values posted their first rise over a rolling quarter since May 2018. Improving conditions are most evident across the more expensive areas of Perth, with the upper quartile recording a 0.8% rise in values over the past three months compared with a 0.4% lift across the lower quartile. Improving conditions can also be seen in shorter selling times and smaller discounting rates from vendors.

Hobart’s housing market is continuing its strong run of growth, with housing values again pushing to new record highs in January, up almost 1% over the month to be 3.4% higher over the rolling quarter and 5% higher over the year. Rental conditions are the tightest of any capital city, with rates up 5.8% over the past year and rental yields remaining well above the capital city average at 5.0%. Although housing values look set to continue rising over the short to medium term, affordability barriers are becoming progressively higher, especially for first time buyers who don’t have the benefit of equity generated from prior home ownership.

Darwin, where dwelling values have been consistently falling to be almost 32% below their 2014 peak, also recorded a subtle rise in January, with values up one tenth of a percent. The monthly rise is encouraging, however we will need to see a more consistent pattern of improving conditions before we can suggest the Darwin market is moving through the bottom of the cycle. Rents are still falling across Darwin, down 1.9% over the past year and transactional activity continues to track below the decade average.

Canberra’s housing market saw a continuation in the growth trend, with dwelling values rising three tenths of a percent over the month to be 3.1% higher over the year. The unit market remains sluggish, although Canberra unit values showed a subtle rise in January, they remain steady relative to a year ago while house values are up 4%. Homes are selling faster than a year ago, reflecting a sellers market and transactional activity is around 6% higher year on year as buyer demand improves.

Overall, the January results show a continuation in the recovery cycle, and confirms that many of the smaller capital cities have already seen housing values recover from the recent downturn to reach new record highs.

Of course, January can be a hard month to read the housing market. Seasonal factors deliver a reduction in sales activity, auction markets become quieter and listing numbers drop sharply. Through February we will receive a much better feel for housing market trends as activity returns to normal.

Despite the seasonality, there is evidence to suggest that housing value growth rates are tapering in Sydney and Melbourne, although with values rising at more than 1% month-on-month, this pace is still unsustainable considering household income growth is sluggish and housing affordability challenges are worsening.

The ratio of housing values to household incomes, based on data to September last year, has risen to 8.5 in Sydney and 7.4 in Melbourne – that’s up from a recent low in the June quarter of 8.2 and 7.2 respectively. Since September, the ratio of dwelling values to household incomes is likely to have increased further considering the low rate of income growth together with higher housing values. Housing remains more affordable relative to the highs of 2017, however it’s clear that affordability is once again becoming a formidable barrier to higher buyer participation in Australia’s largest cities.

Smaller cities, including key affordable regional markets where economic and demographic trends are healthy, may offer some insulation from these affordability constraints.

Looking ahead, interest rates are expected to see further reductions, which, along with consistently strong population growth, is likely to continue to support housing demand. From a supply perspective, new housing construction remains in decline, despite the uplift in dwelling approvals over the past few months. This may lead to undersupply pressures across the new housing sector later this year, providing support for housing prices through the year.

A big test for the market will be advertised supply levels. As the market moves out of the festive season slow down, we are expecting more home owners to take advantage of the strong selling conditions and recovery in housing prices.

Advertised listing numbers remained below average through most of 2019. We’re expecting the number of homes available for sale to also rise in 2020, which may result in a wider range of choice. The knock-on effect could dampen the sense of urgency to purchase housing, and could mitigate more rapid growth.

If you interested in staying in tune with housing market trends and economic factors affecting the market, you can visit the research pages at [www.corelogic.com.au](http://www.corelogic.com.au).