**March 2020 Housing Market Update**

Welcome to CoreLogic’s housing market update for March 2020. Our latest results showed that nationally, housing values surged by 1.1% last month, with values across five of Australia’s eight capital cities reaching a record-high in February.

The strongest capital gains are continuing to emanate from Sydney where values were up +1.7% and Melbourne with a +1.2% over the month, while the remaining capital cities recorded a more modest rise. Darwin was the only exception, where home values were down 1.4% in February.

On an annual basis, both Sydney and Melbourne moved back into double-digit annual growth rates, with values up 10.9% and 10.7% respectively over the twelve months ending February.

The latest results continue the recovery trend that has been running since June last year, following a peak-to-trough decline of 8.4% in the national index, with larger falls in Sydney, which was down -14.9% and Melbourne where values fell -11.1%.

While there is a large amount of variability in capital growth from region to region and across the product types, every capital city excluding Darwin, is showing an upwards trajectory in housing values, demonstrating a geographic broadening in the recovery as low mortgage rates and better access to housing credit fuel buyer demand.

Since finding a trough last year, the national index finished February only 1.2% below its 2017 peak. At the current run rate of growth, the national index is likely to reach a new nominal high over the next two months. Melbourne was the most recent city to stage a nominal recovery with housing values surpassing their September 2017 peak last month. Melbourne has joined with Brisbane, Canberra, Hobart and Adelaide where housing values are also tracking at record highs.

Further evidence that the long-running downturn is over for the Perth housing market was revealed, with dwelling values increasing by 0.3% in February, marking four consecutive months where dwelling values have avoided a fall; a trend not seen since the market peaked in mid-2014. Although Perth values are now trending higher, the recovery period is likely to be a long one, with Perth housing values remaining 21.0% below their peak.

Regional markets are generally lagging behind the capital cities, with housing values only 1.4% higher over the past twelve months compared with a 7.3% rise across the combined capital city markets. The diversity across regional Australia is extreme, with drought affected areas impacting the regional index. Meanwhile, the regional centres adjacent to the largest capitals, as well as coastal lifestyle markets, are showing a stronger performance.

In line with the improved housing market conditions we have also seen a surge in housing credit and a substantial lift in buyer activity. The value of new housing credit commitments surged 23% higher through the second half of 2019 and the value of investor commitments was up 15.5%.

Similarly, CoreLogic’s estimate of settled sales activity has lifted from the recent lows, up 26% over the second half of the year compared with the first half, demonstrating increased buyer demand on the back of easier access to credit and low mortgage rates.

While housing values are generally rising, rents are travelling at a more sluggish pace, rising by only 1.4% nationally over the past twelve months. With housing values rising more rapidly than rental rates, gross rental yields are swiftly compressing. Across the combined capital cities the gross yield was tracking at 3.48% in February; the lowest yield reading since February 2018. The current gross rental yield is only nine basis points away from record lows.

Gross rental yields in Sydney are tracking to new record lows each month, falling to just 2.99% in February. Despite overall weak housing market conditions, Darwin gross rental yields are the highest of any capital city at 5.9%. However, this is a reflection of housing values falling faster than rental rates, rather than growth in rental values.

The strongest yield dynamic is in Hobart where overall tight housing conditions have pushed gross rental yields to 5.0%, providing a total return of 10.5%. The total return factors in the gross yield plus annual capital gains.

Housing market conditions vary considerably across the capital cities.

Since finding a floor in May last year, Sydney housing values have risen by 13.1%. Despite posting the most rapid recovery trend amongst the capitals, Sydney housing values remain 3.7% below the 2017 peak. Based on the rate of growth over the past three months, Sydney housing values could stage a nominal recovery by the end of May this year. House values have been rising at a faster rate than units, up 12.4% over the past twelve months compared with a 7.4% rise in unit values. The weaker performance across the unit sector is likely related to the influx of new high rise unit supply across specific areas the city. The surge in housing values has been accompanied by higher volumes, with our estimate of Sydney sales up 21% year on year.

Melbourne’s housing market has continued to record a strong upwards trajectory in both values and volumes, with local values recovering to a new record high in February. The pace of capital gains is very similar between houses and units, with house values up 10.8% over the past twelve months while unit values are 10.5% higher. Across the broad valuation segments of the market there is more diversity, with Melbourne’s upper quartile home values surging 14.2% higher over the year, while lower quartile values are rising at roughly half that pace, up 7.6% over the year. Market activity has been rising through the upswing, with our estimate of transactional activity rising 9% year on year. The market remains skewed towards sellers, with homes selling in just 35 days on average and discounting rates tracking around the mid 3% range, reflecting limited opportunities for buyers to negotiate.

Brisbane housing values remain on an upwards trajectory, however the pace of capital gains has been substantially slower relative to the larger capital cities. The local market found a floor in June last year and since that time housing values are up 4.0%, with house values recording a larger gain relative to unit values. Brisbane’s unit market has previously been weak, however concerns around an apartment oversupply have dissipated and unit values are now trending higher from a low base, up half a percent over the past twelve months compared with a 2.2% rise in house values. Selling conditions have tightened a little, with discounting rates narrowing relative to the same time a year ago and transactional activity is trending higher as demand is supported by a high rate of population growth, relatively healthy housing affordability and low interest rates.

Housing values across Adelaide are showing a consistent but mild upwards trend, with values rising four tenths of a percent over the past twelve months. Sales activity has been trending roughly in line with the decade average and selling conditions have shown a subtle tightening compared with a year ago, with homes selling slightly faster at 48 days on average and vendors offering up less discount on their asking prices. Interestingly, the highest capital gains over the past twelve months have been across the lower quartile value range which is up 2.4% compared with a 1.4% fall values across the upper quartile. Geographically, the Adelaide sub-region with highest annual growth rate has been Gawler, with a 5.3% gain in housing values over the past twelve months.

Perth’s housing market recorded its fourth straight month where values didn’t fall, which was the longest period of flat to rising values since the market peaked in mid-2014. The latest results provide further evidence the market has stabilised after five and half years where values were consistently trending lower. The past three months has seen values rise by four tenths of a percent, so early indications are that this will be a gradual recovery trend. Other factors pointing to a recovery including rising population growth against diminishing supply levels, tightening rental conditions and improving labour market indicators. At $458,000, Perth’s median house value is the lowest of any capital city, providing an extremely affordable entry point to the market.

Hobart dwelling values were up 0.8% in February, taking the annual growth rate to half a percent. The most affordable quarter of properties is driving the growth trend across Hobart, with the lower quartile of the market up 10.2% in value over the past twelve months while the upper quartile has seen a much lower 1.4% rise in value. The stronger performance across the more affordable end of the market comes as affordability constraints become more pressing which is likely pushing more demand towards the lower priced sector of the market. Selling conditions remain extremely tight across Hobart, with the typical home selling in less than a month and discount rates holding below 3%.

Darwin housing values were down a further 1.4% in February, with the drop confined to the unit sector where the long running downturn has been hardest felt. Darwin house values have actually recorded a positive movement over the most recent three month period, up 0.9% while unit values fell 6.8% over the same period of time. The silver-lining around Darwin’s housing market downturn is that housing affordability is far healthier than any other capital city. Considering how low housing values are relative to local incomes, it’s no surprise that the Northern Territory has the highest proportion of first home buyers across the state and territories.

Canberra housing values rose a further eight tenths of a percent in February, taking the annual growth rate to 4.1%. Following a relatively shallow correction, where housing values fell by 1.5%, the Canberra market has already staged a full recovery and home values are pushing to new record highs each month. Houses are showing a stronger result than units, which can probably be attributed to a supply overhang which is weighing on unit values. The market remains skewed towards sellers, with the typical private treaty sale taking 36 days, compared with 56 days at the same time last year, as well as very low rates of vendor discounting.

The primary factors driving this rebound remain in place and include an extremely low cost of debt and improved borrowing capacity. However, considering the sluggish pace of household income growth, housing affordability is eroding rapidly which is likely to see some parts of the market become less active.

In Sydney, Melbourne and, to a lesser extent, Hobart, affordability constraints are likely to gradually push demand towards the middle and outer ring suburbs, or towards cheaper price points in the medium to high density sector. Major regional centres with links to the major capitals should also benefit as demand spills over from the capital city metro regions. These more affordable segments of the market have generally seen lower rates of capital gain over the cycle to date and offer lower barriers to entry, as well as higher rental yields for investors.

Affordability pressures are less pressing across the remaining capital cities. In regions such as South East Queensland and Perth, housing is very affordable relative to Sydney and Melbourne, jobs growth is trending higher and unemployment is reducing. These could be the markets to watch for a stronger performance later this year.

There are some early signs that the rate of growth may have already peaked late last yearacross Sydney and Melbourne, as affordability constraints dampen participation in the market and advertised supply levels increase.

Although affordability is becoming more challenging, home loan serviceability is the best it has been in many years thanks to such low mortgage rates. The Reserve Bank cut the cash rate by another twenty-five basis points in March, with lenders generally passing on the full rate cut to mortgages.

Looking ahead, a more significant downturn in consumer sentiment related to the coronavirus outbreak could become a determining factor that impacts the market over coming months.

While housing demand is now relatively insulated from a downturn in foreign buyers and record low mortgage rates should help to support demand, the economic impact on key export sectors such as education, tourism and commodities is likely to result in weaker economic conditions and lower consumer sentiment. Consumer sentiment readings are already low, and a further deterioration could see housing market activity start to slow.

Monitoring the spread of coronavirus and the impacts on the Australian economy and consumer attitudes will be a key part of understanding the housing markets performance over coming months.

As always, you can stay in touch with the latest trends across the housing market by regularly checking the research pages of CoreLogic’s website. [www.corelogic.com.au](http://www.corelogic.com.au)