**Housing Market Update: April 2020**

Welcome to CoreLogic’s housing market update for April 2020

It’s been a tumultuous few weeks and no doubt we are all still grappling with the ongoing COVID-19 pandemic and what it means for us, our families and our way of life. In bringing you our latest housing statistics for March, I trust you and your families are safe and well.

We are starting to see some impact from the virus on housing market conditions due to a drop in consumer confidence and weaker economic conditions. The trend in housing values actually remained positive through the month, with CoreLogic’s national index rising 0.7%, however, the second half of the month saw a weakening in the growth trend as confidence slumped and social distancing policies took effect. The result for March was actually the lowest monthly gain since the growth cycle commenced in July last year, and likely sets the tone for housing conditions over the coming months.

Although Australia’s housing markets are entering a period of disruption, they are doing so from a strong foundation. Last month, every capital city and rest of state housing market recorded a rise in housing values, apart from Hobart. Settled sales have been trending higher and most cities have staged a recovery from the previous housing market downturn.

The trends have generally been positive across each of the capital cities.

Sydney housing values continued to lead the pace of capital gains through March, rising 1.1% over the month to be up 13% over the year. Despite such strong gains since June last year, Sydney housing values remain 2.7% below their previous peak back in mid-2017. The deceleration in capital gains was evident prior to March, with the monthly growth trend moving through a recent peak in November last year when values rose by 2.7% in a month. The slowing conditions can be attributed to the impact of weaker economic conditions and lower confidence associated with coronavirus, but also rapidly worsening housing affordability through the upswing.

The pace of capital gains across the Melbourne market has been slowing since October last year when the monthly gain peaked at 2.3%. Since that time housing values have continued to rise, but at a slower pace. March marked a sharper reduction in the pace of capital gains, with the monthly rate slipping to just 0.4% which was the lowest rate of change since May last year. Slowing conditions are most evident across the premium end of the Melbourne market where the quarterly growth rate has more than halved, down from 8.1% late last year to 3.0% over the March quarter this year.

Brisbane housing values were up 0.6% in March, marking the 9th consecutive month where housing values increased on a monthly basis. The pace of capital gains has been far more sustainable relative to the larger cities which may be a reason why we haven’t seen a marked slowing in the pace of growth through March. The March quarter saw values rise by 1.6%, driven by a 2% gain in house values which helped to offset a 0.2% fall in unit values. Rental markets are slightly outperforming the national average, rising 1.5% over the year which has helped to support a higher than average yield profile as well at 4.4%.

Adelaide home values were up three tenths of a percent in March, taking the annual growth rate to 0.9%. Values have been consistently rising since October last year, with the pace of growth generally higher at the more affordable end of the market. The lower quartile of the market has recorded a rise of 2.3% over the past twelve months, while the upper quartile is down 0.6%. Overall, the pace of capital gains has been at a sustainable rate across Adelaide, with values rising at the annual pace of 2.2% over the past five years.

Perth notched up the fifth consecutive month where housing values haven’t fallen; a trend we haven’t seen since 2014. Growth has been a little stronger across the premium sector of Perth’s housing market, with upper quartile home values rising by 1% over the March quarter compared with a rise of 0.8% across the lower quartile of the market. Despite renewed growth, the median house value across Perth remains the lowest of any capital city, demonstrating an extremely affordable entry point to housing. The local rental market continues to show a stronger than average performance, with weekly rents rising 2% over the past year and rental yields also holding above average at 4.3%.

Hobart was the only capital city to record a drop in housing values over the month, with the market down 0.2%, breaking a pattern of strong growth. The monthly decline was driven by a sharp fall in the more volatile unit sector, which was down 3.3% in March compared with a 0.6% rise in house values. The past year has seen Hobart housing values rise by 4.2%, with houses once again the main driver of growth. Rental conditions remain the tightest of any capital, with Hobart rents up 3.4% over the past year, supporting one of the highest rental yields across the capitals at 5%.

Darwin housing values posted a rare rise in March, up 2% over the month. Such a high monthly growth rate is surprising considering the weak trend. The monthly jump is likely more a reflection of volatility rather than a true capital gain. Reading through the noise, it does look like the Darwin market was showing some tentative signs of improving prior to the coronavirus, with sales activity rising from a low base and the trend rate of decline showing signs of easing. The decline in housing values probably still has some way to go, with the local economy and demographic trends remaining weak.

Housing values across Canberra were up six tenths of a percent in March, continuing a trend of growth that has been running the last eight months. Housing values are pushing to new record highs each month with the typical house now worth $702,000 and units showing a median of $443,000. Home sales have been on a strong upwards trajectory, increasing by an estimated 19% year on year, albeit from a low base. No doubt this trend of growth will be interrupted over the coming months, however the foundations of the local market are looking quite strong.

Importantly, as we move into this period of unprecedented uncertainty, the recent trends in the market have suddenly become less relevant. We can take some guidance from previous economic shocks, which have typically shown housing values to be far less impacted than equity markets. In fact, housing values have generally held relatively firm during these periods before showing a strong upwards trajectory due to stimulus measures such as lower interest rates.

Transactional activity has been more affected, with annual sales falling 39% after the Black Monday stock market crash in 1987. The Asian financial crisis in 1997 saw housing sales fall 22%, and sales were down 34% following the Tech Wreck in 2001. More recently, the Global Financial Crisis saw market activity drop 23%.

This time around we aren’t expecting the housing market to be immune to a drop in sentiment and weaker economic conditions, however the extent of the impact on dwelling values remains highly uncertain. Capital growth trends will be contingent on how long it takes to contain the virus, and whether additional policy constraints are rolled out for businesses or personal activity.

From a transactional perspective, we are expecting the number of residential property sales to fall dramatically over the coming months – a consequence of tanking consumer confidence, a rising jobless rate, and more cautious lending practices. Restrictions on open homes and on-site auctions will add to the slowdown in buyer activity, although we are seeing the real estate sector broadly adopting digital enablement strategies to ensure homes can still be inspected, sold and settled remotely.

Considering the temporary nature of this crisis, along with unprecedented levels of government stimulus, leniency from lenders for distressed borrowers on their mortgage payments and record low interest rates, housing values are likely to more be insulated than sales activity. These factors should help to limit the number of distressed properties hitting the market and keep a more material decline in housing values in check.

The coming months will truly be testing for markets, for businesses, for families and the global economy overall, but it won’t last forever. As the virus is contained, economic conditions will improve and consumer spirits will lift. No doubt housing trends will follow. The wildcard is how long it will take.

CoreLogic will be providing updates on the housing market as frequently as possible during these challenging times.