**Australian Housing Market Update June 2020**

Welcome to CoreLogic’s housing market update for June 2020. It’s great that, as a nation, we have flattened the virus curve back to virtually nothing over the past month and subsequently many of the social distancing policies that have impacted on housing market and economic activity have been either relaxed or lifted. Some states have opened up their borders, and, in most areas, the number of home sales has shown a substantial improvement relative to the sharp fall in April.

The downwards pressure on home values became more broad based in May. The national home value index was down 0.4% over the month, with five of the eight capital city regions recording a fall in values. Considering the weak economic conditions associated with the pandemic, a fall of less than half a percent in housing values over the month shows the market has so far remained resilient to a material correction.

With restrictive policies being progressively lifted or relaxed, and economic conditions showing some early signs of improving, the downwards trajectory of housing values could be milder than first expected.

Across the state capitals, Melbourne’s housing market has posted the largest falls over the month**,** down 0.9% in May, following a 0.3% reduction in April. Values were also down over the month in Perth, Sydney, Brisbane and Darwin, but rose in Adelaide, Hobart and Canberra. Regional markets have been more resilient to value falls, with the combined regional index holding firm through May.

Although housing values are currently slipping or stabilising, recent history implies most home owners have some level of buffer that will help protect against negative equity. National home values remain 8.3% higher than they were a year ago, with Perth and Darwin the only capital cities where values remain lower than at the same time last year.

The high annual capital gain is mostly attributable to the earlier growth trajectory of housing values across Sydney and Melbourne, with the remaining capitals showing a more sustainable history of price rises.

Despite the loss of momentum in housing value growth, buyer numbers have shown a solid rise in May. After housing market activity fell by around one third in April relative to March, sales activity bounced back by an estimated 18.5% in May.Housing market activity remains well below average, however the rise in sales through May coincides with a consistent rise in consumer sentiment and eased social distancing policies through the month.

With consumers feeling more confident, households are better equipped to make high commitment decisions such as buying or selling a home. A lift in housing market activity should also support broader economic activity, with housing turnover providing positive flow-on effects to other sectors including retail, construction and banking.

Improved confidence is also flowing through to a rise in new listing numbers. The number of fresh property advertisements bottomed out at historic lows in early May, with the rolling 28 day count up 22% compared with the end of April. Although new listings numbers are trending higher, the total listings count, which includes new listings as well as re-listed properties, has continued to trend down, implying a healthy rate of absorption as buyers become more active.

The relationship between new listing numbers and total listings will be a key trend to watch; if total stock levels become elevated, this indicates that supply levels are outweighing demand. Currently, this does not look to be the case.

Auction market indicators provide another confirmation point of improving conditions.The combined capital city clearance rate bounced back from a low of 30.2% in late April, to 62.7% in the week ending 24th of May. As policies preventing open homes and on-site auctions eased during May, there was a clear improvement across auction markets. We have seen a sharp reduction in the number of auctions being withdrawn, and more vendors are testing the market under auction conditions rather than accepting an offer prior to the auction.

As always, housing market conditions vary remarkably from region to region and across the product types.

Sydney home values recorded their first month on month decline in a year, with values down 0.4% in May. Weakness was mostly evident across the top quartile of the market where values were down 0.6% over the month compared with a 0.1% rise in lower quartile values. Softer conditions across the most expensive end of the market come after a solid over performance. The past twelve months has seen top quartile home values surge 16.5% higher while growth across the lower quartile was substantially lower at 9.6%. Despite the fall in values, there were some more positive signs that housing markets were responding to an easing in restrictions. Buyer activity was up 29% over the month, partially recovering a 41% drop in activity through April, and auction clearance rates had improved from the low 30% range in mid-April to the mid 60% range by late May.

Melbourne home values were 0.9% lower in May, following a slight fall in April, taking the cumulative drop in values across the city to 1.2% from the record high in March 2020. Similarly to Sydney, Melbourne’s weakest housing market conditions are confined to the most expensive quartile of the market where values were down 1.3% over the month and 2.1% lower over the past three months. Although values are falling faster at the most expensive end of the market, this is also the sector that has shown the strongest growth trajectory over the past year, with values still 14% higher than they were a year ago compared with a 9% lift in values across the most affordable quartile. Although values are trending lower across Melbourne, the number of home sales was up 13.5% in May as listing numbers rose and home buyers became more active.

Brisbane home values have lost their upwards momentum through 2020, but have held reasonably firm over the past few months. The monthly pace of growth has faded from a recent high of 0.8% late last year to slip into negative territory in May, down 0.1%. The local unit market continues to show a weaker trajectory for home values. The unit sector recorded a 0.6% drop in value last month while house values were steady. Similarly, the past twelve months has seen house values rise by 4.3% while unit values are up a smaller 1.6%. In a positive sign of buyer confidence and an easing or removal of some of the COVID related restrictions, sales activity jumped 22% in May.

Adelaide was one of the few housing markets to record a rise in housing values through May. Over the month the Adelaide market recorded a rise of 0.4%, with both house and unit values recording a similar lift. The strongest conditions over the month have come from the Western suburbs where values were 1.1% higher in May, while the more affordable northern suburbs was the only sub-region to record a drop in home values, down 0.2% in May. Overall, the Adelaide housing market looks to be tracking with relative stability, following a period of moderate gains through late 2019 and early 2020. Historically, the Adelaide dwelling market has been far less volatile than the larger, more expensive capital city housing markets. This stability in asset growth, coupled with relatively strong yields, are a drawcard for this dwelling market. However, headwinds for this market include weak labour force conditions, with South Australia presenting the highest rate of seasonally adjusted unemployment in April at 7.2%.

Perth home values were down 0.6% in May, breaking a six month streak where housing values avoided a fall. Each of Perth’s sub-regions recorded a fall in home values over the month, ranging from a 1.7% drop in Mandurah to a virtually flat 0.1% fall across the most expensive Inner region of the city. While housing values slipped lower over the month, activity recorded a solid rise, entirely recovering the April fall. Improving commodity prices, low advertised stock levels and a trend towards rising interstate migration should help to support Perth housing prices over the medium to long term. Rents bucked the weakening trend, rising 0.4% in May, pushing Perth’s gross rental yield to the highest level since October last year.

Hobart housing values were up 0.8% in May, more than reversing the earlier 0.3% drop across March and April. The rise in values was across both houses and units, however the longer term trend has seen stronger growth conditions for detached homes where values are up 6.7% over the past year compared with a 4.4% lift in unit values. May marked the third consecutive month of rental value declines, where rents are now down a cumulative 1.9% from March. About 13% of the Hobart workforce is concentrated in arts and recreation and accommodation and food services, which are sectors that have seen some of the largest job losses in the past few months as a result of COVID-19. Workers in this industry tend to be young, on lower incomes and are more likely to rent, which explains some of the weakening in rental markets.

Darwin housing values reversed some of the gains seen earlier this year, with housing values falling 1.6% in May, but remaining 2.1% higher over the past three months. Darwin was showing some early signs of recovery after values has been consistently trending lower since mid-2014, however the market and local economy remain in a fragile state. Rental rates are still trending lower, down a further 0.2% in May to be 1.3% lower than a year ago. Despite the weak rental conditions, Darwin’s rental sector continues to show rental yields well above the other capital cities, with house yields averaging 5.3% gross and units 6.8% gross.

Canberra housing market conditions have remained amongst the most resilient across the capitals. Housing values have continued to trend higher, rising half a percent in May to be 1.2% higher over the rolling quarter and 5.1% higher over the year. House values have seen a much stronger growth trajectory relative to unit values. House values are up 6.3% over the past twelve months while unit values are up just 0.9%. Rental conditions look to have lost some steam though. Canberra rents were up 0.4% in May but that wasn’t enough to reverse the 0.7% drop in rents through April.

Overall, the broad theme we are seeing in much of the housing data is a mixture of resilience and recovery. In the context of weak economic conditions and the broader COVID-19 related disruption, housing values have been relatively resilient through May. If history is anything to go by, housing values have generally weathered periods of extreme uncertainty quite well, and the trend to date looks very similar. Buying and selling activity was heavily impacted in April, but the month of May saw this trend reverse in line with a flattening of the virus curve, eased social distancing measures, and improving consumer sentiment. As more vendors have tested the market, listings figures suggest more buyers are also coming to the market, indicated by the strong absorption of new stock.

While downside risk remains, the trajectory of the housing market is looking more positive than what we were expecting a bit over a month ago.

While the immediate indicators are showing resilience or improvements, the longer term view of housing market conditions is much less certain.Once stimulus measures start to taper and repayment holidays expire, this is where we could see a rise in mortgage arrears, and the potential for a lift in distressed sales.

Despite the recent recovery in certain indicators from very low levels, it is hard to ignore job losses of almost 600,000 across the economy over April. With the cash rate at its effective lower bound, improved employment conditions will be a factor in steadying purchasing capacity for housing, and the servicing of mortgage debt.

Central to the outlook for distressed sales will be what shape the Australian economy is in late this year.Encouragingly, the RBA governor recently noted in his evidence to the Senate Select Committee on COVID-19, that the economic downturn may not be as severe as earlier thought, with the current economic trajectory somewhere between the RBA’s best case and base case scenarios.

No doubt the coming months will provide more guidance on how the housing market and economic conditions are playing out. The implications of grants and stimulus for new housing construction and renovations should also become clearer as more details are released through June. Keep up to date with all this news and more at the research pages of the CoreLogic web site. www.corelogic.com.au