Welcome to CoreLogic’s July housing market update. The past month has seen a further improvement in housing market activity from both a sales and listings perspective, but home values continued to drift lower across most capital cities.

Nationally, value declines have been mild to date, but the pace of the downturn is accelerating. Following a 0.4% decline in May, our national index fell for a second consecutive month in June, down 0.7%. Each of the five largest capital cities were down over the month, ranging from a drop of 1.1% in Melbourne and Perth, to 0.2% in Adelaide. The indices for Hobart, Canberra and Darwin each recorded a subtle rise in values over the month.

A variety of factors have helped to protect home values from more significant declines, including persistently low advertised stock levels and significant government stimulus. Additionally, low interest rates and forbearance policies from lenders have helped to keep urgent sales off the market, providing further insulation to housing values.

The recent value falls interrupted the pre-COVID upswing that was evident across most regions, reflected in high annual growth rates. The twelve month change in home values remains in positive double digit territory across Sydney, at 13.3% and Melbourne, at 10.2%. The only capitals where values have declined on an annual basis are Perth and Darwin, but even across these cities, the market was early into a recovery phase pre-COVID.

Despite values being down in June, estimates of market activity showed a further improvement from the April low. After a revised 22% surge in sales activity through May, CoreLogic’s estimate of home sales in June was up a further 30%.

A variety of peripheral housing market indicators have started to look more positive through June.

Real estate agent activity is now tracking higher than the same time last year. We measure activity based on the number the number of reports generated across CoreLogic's RP Data platform, which has more than three quarters of Australian real estate agents as subscribers. In the lead up to the Easter Long weekend, report volumes sunk to 60% below where they were at the previous year. By the end of June, the amount of reports generated tracked 5.4% higher than this time last year. This real estate agent activity is highly correlated with new listings activity, with a two week lead.

Subsequently, this rise in real estate agent activity is flowing through to more fresh real estate listings.The rolling 28 day count of new listings remained lower than a year ago, but was 42% higher relative to the recent low in early May. While *new* listings are ramping up, the *total* listing count has continued to trend lower, indicating a strong rate of absorption.

Additionally, auction markets have shown a partial recovery, with the combined capital city clearance rate averaging 60% through May and June. Clearance rates reached a record low of 30.2% through April as a result of the temporary ban of on-site auctions. This saw withdrawal rates peak at 56.0%, and more than 80% of successful auction sales were negotiated prior to the auction rather than under the hammer. Since late May, as the ban on auctions has lifted, withdrawal rates have normalized and the large majority of auctions are selling under the hammer rather than before or after the event.

Consumer sentiment readings provide a further signpost for improving housing market activity.After plunging in late March and early April, consumer sentiment readings have rebounded, demonstrating the ability of consumers to make high commitment decisions. Consumer sentiment readings show a high correlation with housing market activity. Although these readings remain well below the long run average, improved consumer sentiment helps to explain the rise in listing numbers, and a strong rate of absorption via a higher rate of turnover.

Across each of the capital cities, the housing market story is playing out a little bit differently.

Sydney home values slid for a second month in June, down a cumulative 1.2% since a recent peak in April. The largest falls are occurring across the top quartile of the market, where home values have dropped 1.3% over the June quarter while the least expensive quarter of the market has recorded a subtle rise, up two tenths of a percent over the same period. While home values are trending lower, rents have also declined, falling by 0.8% over the month to be 1% lower over the year. The weakest rental conditions are confined to the unit market, where rates are down 2.1% over the June quarter. From a more positive perspective, our estimate of sales activity is up by around 40% from the April low and auction clearance rates have averaged 61% through June. This implies an improvement in buyer demand and a better fit between buyer and seller pricing expectations.

Melbourne housing values recorded a third consecutive month of declines in June, resulting in a 2.3% drop in values over the quarter. Melbourne’s top quartile properties are recording the largest declines, down 3.7% over the second quarter. Lower quartile values fell by only half a percent. Previous phases of the housing market have shown a similar trend, with the most expensive segment of the market leading the growth phase as well as downswings. Melbourne rents were down six tenths of a percent in June, with the unit sector recording more substantial downwards pressure on rents than houses. Despite lower values, housing demand has gathered pace across Melbourne; after sales dropped by a third in April, our estimate of sales in June was almost 60% higher than the April low.

Brisbane’s housing market has been holding up better than the larger cities, with home values recording less downwards pressure. Despite the relative resilience, dwelling values have slipped by two tenths of a percent over the June quarter. Unit values were down a larger 0.8%, while detached house values held firmer, down 0.1%. Brisbane rents have also recorded a mild downturn, falling by 0.6% over the June quarter. However local rental yields remain well above the combined capital city average, tracking at a gross 4.2% for houses and 5.2% for units. In a positive sign for housing demand, sales activity has shown a sharp rise over the past two months, up by an estimated 74% since activity plunged in April.

Adelaide remains one of the most stable capital city housing markets. Dwelling values were down by 0.2% in June, which was the first month on month fall since the market bottomed out from a mild downturn in August last year. Adelaide rents have continued to rise through the COVID period, up one tenth of a percent over the June quarter. The detail in the data shows unit rents have recorded a 0.2% decline over the quarter while house rents were up by 0.2%. Across the broad valuation cohorts, Adelaide’s more expensive properties have recorded a slightly higher growth reading than lower value properties. The upper quartile values rose 0.9% over the June quarter, while lower quartiles were up a smaller 0.7%. A similar trend can be seen across Adelaide’s sub-regions, with the Western suburbs recording a 2.1% rise in values over the quarter, while at the other extreme, values across the Southern region of Adelaide are down -0.1% over the same period.

Perth’s long awaited recovery has been interrupted by COVID-19, with values falling over both May and June to be 1.4% lower over the quarter. Prior to COVID, Perth home values has avoided a fall for six months straight. Although home values have dropped a bit, housing activity has shown a sharp rise over the past two months, with our estimate of sales more than doubling from the low base set in April. Rents have continued to rise through the June quarter as well, up almost 1% to be one of the few capital cities where rents continue to rise.

Hobart housing values have firmed over the past two months, rising by 1.1% to a new record high after falling in March and April. There is little difference between the performance of houses and units, with both product types up around 1% in value over the quarter. While home values seem to be tracking slightly higher, Hobart rents have been under downwards pressure, down 2.3% over the quarter. Buyer demand has shown a solid improvement after diving almost 40% in April, with our estimate of sales in June rising to pre-COVID levels.

Darwin remains a thinly transacted market with sales activity showing a subtle upwards trend, but holding well below the long run average. The city has averaged around 145 dwelling sales per month over the past six months. Monthly returns have been volatile, however the trend has seen housing values rise over four of the past six months, suggesting local conditions have shown a subtle improvement from recent years where values were consistently falling on a monthly basis. Darwin rents have been trending lower since 2014, however recent months have seen rental markets start to stabilise with dwelling rents virtually flat, with a 0.1% fall over the quarter.

Canberra has been the best performing capital city market over the first half of 2020, with values rising 2.4% over the first six months of the year. House values have shown a stronger performance relative to units, with values up 2.8% and 0.6% respectively over the year to date. Rental markets haven’t been as strong, with the June quarter showing a 0.4% decline in rents. The downturn in rents is a bit steeper across the unit market where rents are 0.7% lower over the June quarter while house rents are down a smaller 0.3%.

So far, the impact from COVID-19 on housing markets has been milder than initially anticipated.Home values are drifting lower, but not crashing, and transactional activity has shown a remarkable recovery after plummeting in April.

Part of this resilience in values and improved market activity can be attributed to the massive amount of government stimulus and to the mortgage repayment holidays on offer, but other market driven factors are also at work.

A scarcity of advertised supply is one factor helping to insulate home values, with CoreLogic estimating the sales to listing ratio is tracking around 1.3, meaning for every additional new listing added to the market there are 1.3 sales.

Another factor is the improving economic environment. Social distancing measures have been relaxed or removed earlier than anticipated, supporting a lift in economic activity. According to the RBA governor, the trajectory of the Australian economy is somewhere between the best case scenario and the central case scenario. A shallower recession and early return to growth should see consumer confidence record a further improvement.

Despite the early signs of improved economic activity and a lift in housing turnover, the downside risk remains significant.The recent rise of active virus cases in Victoria are a reminder that the potential risk of a second wave remains a stark reality. If we see the virus curve steepening rather than flattening, a return to restrictive policies is highly likely.

Another key risk relates to the eventual removal of stimulus measures and borrower repayment holidays. Eventually, banks will be working to ensure customers can repay their loans, and the government will wind back fiscal policies. This is when we could see a rise in mortgage arrears and the potential for a lift in urgent or forced sales.

The longer term outlook for the housing market remains largely dependent on how well the economy is tracking when these support measures are removed. The good news is that the economy seems to be on a better than expected trajectory to recovery at the moment.

We will be updating our monthly summary at the same time in August, but in the meantime you can keep up to data on all our housing market research at www.corelogic.com.au