Welcome to CoreLogic’s housing market update for August 2020. Last month we saw Australian housing values rack up a third consecutive month of declines, with CoreLogic’s home value index dropping 0.6% over the month. This was a slight improvement from June, when the national series was down 0.7%.

Across the capital cities, only Canberra (+0.6%) and Adelaide (+0.1%) posted a rise in dwelling values over the month, while Melbourne (-1.2%) and Sydney (-0.9%) led the decline, recording the largest month-on-month falls in July.

Regional markets are generally showing more resilience to falling values. Across the combined regional areas, housing values were unchanged in July compared with a 0.8% fall across the combined capital cities. Regional Victoria, where values were down half a percent, and regional Western Australia, down 3.2%, were the only non-capital city markets to record a fall in values over the month.

The impact from COVID-19 on housing values has been orderly to-date, with CoreLogic’s national index falling only 1.6% since the recent high in April and housing turnover has recovered quickly after it’s sharp fall in late March and April.

Record low interest rates, government support and loan repayment holidays for distressed borrowers have helped to insulate the housing market from a more significant downturn. Additionally, advertised supply levels have remained tight, with the total number of properties for sale falling a further 4.3% in the 4 weeks to July 27th, sitting 15% below where they were this time last year. Additionally, increased demand driven by housing specific incentives from both federal and state governments, especially for first home buyers, have become more substantial.

New listings numbers continued to rise through the month, up 46% from the recent lows of early May, to be slightly higher than a year ago. The rise in fresh listings implies home owners have become more willing to test the market. While new listings are ramping up, the total listing count remains 15% below last year’s level nationally and 12.5% lower across the combined capitals. The diverging trend between new and total listing numbers implies a strong rate of absorption where demand for established housing stock is outweighing advertised supply.

In line with the strong rate of absorption, sales activity has trended higher since May. After home sales plunged by about one third in April, sales activity has consistently improved. CoreLogic estimates for national sales over the past three months were tracking 2.9% higher than the same period in 2019. The rebound in CoreLogic estimates of sales activity is validated by the strong rate of listings absorption, a similar lift in purchase related valuations and improvements in consumer sentiment. However, the recent slump in sentiment amidst a new wave of the virus could interrupt the rise in home sales until restrictions are lifted and confidence returns.

Additionally, auction markets showed a temporary recovery through June and early July but have since weakened as Melbourne moved back into lockdown. Auction volumes have been tracking higher than a year ago since late June and auction clearance rates were hovering around the decade average (61%) since the second week of May. Since early July, clearance rates have trended lower due to a substantial rise in withdrawn auctions in Melbourne.

Conditions have varied across each of the capital cities.

Sydney’s downturn accelerated in July, with dwelling values down 0.9% over the month, following a 0.8% drop in June and 0.4% fall in May. Since peaking in April, Sydney home values are down a cumulative 2.1%, with larger falls across the upper quartile of the market. Despite the recent weakness, Sydney home values remain 12.1% higher than a year ago. Despite the drop in values, our estimate of sales activity over the past three months is only 4% lower than the same period a year ago. This is due to a rise in sales over the past three months following a sharp drop in April. Sydney rents are also trending lower as a shortage of demand drives up vacancy rates. House rents are down 1.1% since March and unit rents down a more substantial 3.2%.

Housing values in Melbourne moved through a fourth month of decline, racking up a cumulative 3.5% decline between the recent March peak and end of July. The decline in home values has been more significant across the top quartile of the market, where values are down 4.5% over the past three months alone. Housing market conditions have been weaker than other capitals, which can be attributed to the impact of the virus, but also Melbourne’s exposure to overseas migration and foreign students as a source of demand. Rents have fallen as well, down 1.8% since the end of March, with larger falls across the unit market. Despite the weak conditions, buyer activity has improved over the past three months, after sales fell by around 41% in April. Estimates of market activity show the number of sales over the past three months was 1.9% higher than the same period a year ago, but still 13% below the decade average.

Brisbane home values have recorded only a modest decline through the COVID period, with dwelling values down 0.9% since peaking in April. Unit values have fallen at a faster rate than houses, down 1.8% since a recent peak, while house values have fallen by less than half that rate, down 0.7% from their recent peak. While home values have drifted lower, sales activity has shown a solid recovery since dropping sharply through March and April. Estimates for the past three months show Brisbane home sales are tracking 16% higher than the same period in 2019 to be roughly equivalent with the decade average. Brisbane rents recorded a subtle rise in July, up 0.1%, but have trended slightly lower since March, mostly due to a 1% fall in unit rents.

Adelaide home values have held reasonably firm through the COVID period to-date, up slightly over the month to be 0.3% higher over the rolling quarter, with a similar steady trend evident across both houses and units. The lower quartile of the market has recorded a slightly weaker result, with values edging 0.1% lower over the past three months, while value across the upper quartile rose by 0.3%. Although home values are generally steady, the estimated number of home sales over the past three months is down 7% compared with the same time last year. The reduction in sales activity can be attributed to both low stock levels as well as less buyer activity. Adelaide remains one of the few capital city rental markets to record a rise in rents, with rental prices trending slightly higher since March, rising 0.4%.

Perth’s rate of decline eased in July, with values down 0.6% over the month following a 1.1% drop in June. The reduced rate of decline comes as sales activity rebounds from the recent April low. There is very little difference between the performance of house and unit values, with houses down 2.2% over the rolling quarter while unit values were down 2.1%. The past three months have seen our estimate of sales activity recover to levels that are slightly higher than the same period a year ago, but still below the long run average. Total listing numbers remain 26% lower than last year, despite new listings tracking almost 13% higher than last year. The shortage of advertised supply is another factor keeping a lid on turnover. Rental markets have also tightened, with CoreLogic’s rental index rising 1.3% since March. This is the strongest growth in rent values of the capital city markets since the onset of the pandemic.

Hobart’s housing market has performed reasonably steadily through the COVID period, with housing values only 0.2% lower than last month’s record high. The rental markets haven’t been as resilient, with house rents falling 2.5% since March. This is the largest drop in rents amongst the capital cities. The recent rental weakness comes after a sustained run-up in rents. The past five years has recorded a 31% lift in rents, which is substantially higher than any other capital city. Housing turnover was heavily impacted through April, with CoreLogic’s estimate of sales activity halving over the month. Turnover has partially recovered over the past three months to be only 1% lower relative to the same period a year ago.

Darwin’s housing market has been on a roller coaster ride over the past decade, recording significant capital gains between 2003 and 2014 before values plummeted by close to one third in value. Prior to COVID it looked like Darwin home values were on a path to a slow recovery. More recently home values have again been drifting lower, falling 1.6% over the past three months. The unit sector continues to underperform relative to houses, with unit values down 3.5% over the rolling quarter while house values were only 0.7% lower. Home sales have trended slightly higher over recent months but remain 23% below the decade average.

Canberra is the only housing market where dwelling values remained at a record high through July. Values were 0.6% higher over the month and 1.3% higher over the rolling quarter. The resilience to falling home values can probably be attributed to the stronger labour market conditions across the ACT, along with extremely low numbers of coronavirus cases. Rental markets haven’t been as resilient, with unit rents down 1% since March while house rents have edged 0.4% lower. Despite the resilience to lower home values, CoreLogic’s estimate of turnover over the past three months is tracking almost 12% lower than the same time a year ago.

In summary, housing markets have weathered the COVID storm much better than originally anticipated. So far, the decline in home values has been orderly, with only modest reductions in most areas. Turnover has recovered quickly and is tracking higher than a year ago at a national level, although that is a relatively low benchmark, where this time last year was around the trough of the previous cycle. However, demand is evident, as advertised stock levels are being absorbed faster than fresh stock is being added to the market.

The unprecedented level of fiscal support from the federal and state governments, distressed borrower repayment holidays and record low interest rates are the key factors supporting demand and insulating home values.

While interest rates are set to remain at their current lows for the foreseeable future, the government’s fiscal response will start to taper in October and repayment holidays are set to expire at the end of March next year.

The removal of this support will test the market’s resilience. As stimulus measures wind down and mortgage repayment holidays can no longer be extended, it’s logical to expect a rise in distressed properties coming onto the market. The extent to which this causes additional downwards pressure on home prices depends on how the Australian economy is travelling at that time. Further virus outbreaks present a clear and present danger to the depth and length of the recession, and the performance of the housing market.

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