Welcome to the CoreLogic housing market update for September 2020. Australian home values moved through a fourth month of COVID-induced falls, with the CoreLogic home value index recording a 0.4% decline in August. Although housing values continued to trend lower from their pre-COVID highs, at least from a macro perspective, the rate of decline has eased over the past two months, and five of the eight capitals recorded steady or rising values through the month.

The Melbourne housing market is the main drag on the headline results. Following a similar decline in July, Melbourne home values fell by 1.2% in August. This was the largest fall recorded amongst the capital cities, demonstrating the impact of a worse viral outbreak relative to other cities, along with a larger demand side impact from stalled overseas migration. Through the COVID period to date, Melbourne home values have fallen by 4.6%.

Outside of Melbourne, the remaining capital cities all recorded slightly better conditions relative to July. The rate of decline eased across Sydney and Brisbane, while home values held firm or showed a subtle rise across the remaining capitals.

The performance of housing markets are intrinsically linked with the extent of social distancing policies and border closures which also have a direct effect on labour market conditions and sentiment. It’s not surprising to see Melbourne as the weakest housing market considering the extent of the virus outbreak, and subsequent restrictions, which have weakened the economic performance of Victoria.

Regional markets have continued to outperform their capital city counterparts across the largest states. While CoreLogic’s combined regionals index has lost momentum relative to the pre-COVID trend, the index has held virtually flat since May.

There are a variety of factors helping to support regional housing market conditions. Unlike their capital city counterparts, which last year received around 85% of net overseas migration, most regional markets have avoided the drop in demand caused by the pause in migration. Regional markets may also be appealing for their relatively low density and lower price points. Additionally, the normalisation of remote work through the pandemic could make proximity to major cities less of a factor in home purchasing decisions.

Home sales and advertised stock levels have continued to follow the lead of consumer sentiment. After plunging through late March and April, consumer sentiment readings posted a partial recovery through May, June and July before falling again in August due to the new round of social distancing restrictions in Victoria, and concerns about a renewed spread of the virus, which has weighed heavily on purchasing decisions.

The trend in listings and housing turnover has followed a similar path. The number of new property listings halved between mid-March and the first week of May before rebounding 48% over the next three months. The recent trend has again seen new listing numbers decline, falling by 11.5% over the past four weeks.

Home sales also fell sharply in April, down by a third from March. The estimated volume of home sales had bounced back 49% by the end of June, but has since trended slightly lower as weaker sentiment and lower listing numbers again weigh on market activity.

The low level of total advertised inventory is another factor helping to insulate home values. Through the COVID pandemic to-date, active listing numbers have remained extremely low, demonstrating both a lower than average amount of fresh stock being added to the market, and a strong rate of absorption. So far there has been no evidence of urgent or distressed listings starting to pile up.

This could potentially change however as fiscal support starts to taper at the end of September and distressed borrowers taking a repayment holiday reach their six month check-in period around the same time. The timing of these two events could be the catalyst for a gradual rise in distressed listings which will be an important trend to monitor. If we do see active listing numbers rising to be higher than previous years, it could signal that vendors will need to offer up greater discounts in order to sell their home.

Focusing on each of the capital cities in more detail highlights the diversity across the market.

The rate of decline in Sydney home values eased in August, with values down half a percent over the month compared with last month’s drop of 0.9% and a 0.8% fall in June. Clearly home values are still falling, just not as quickly as they were previously. Auction markets are also pointing towards stabilising market conditions, with the number of auctions held consistently rising since mid-May and clearance rates holding firm around the decade average at 63% through August. The most expensive quarter of Sydney’s housing market has continued to show weaker returns relative to lower value homes, with the top quartile of the market down 3% in value since the end of March while lower quartile values are only 0.2% lower.

Melbourne home values and market activity are being adversely affected by stage four lockdown conditions. Home values were down 1.2% in August following a similar result in July, taking the cumulative decline to 4.6% through the COVID period so far. Similarly, our estimate of home sales has fallen by 20% compared with June, demonstrating the impact from lower household confidence and social distancing policies that prevent inspections and on-site auctions. The upper quartile of Melbourne’s housing market is wearing the brunt of the downturn with values down 7% since March. Meanwhile, the lower quartile of the market has recorded a smaller 1.7% drop. Despite the weaker conditions, Melbourne housing values remain 5.9% higher than they were a year ago, demonstrating the strong capital gains that were present prior to COVID-19.

Housing values were virtually steady across Brisbane in August, down by one tenth of a percent over the month while the estimated number of home sales was up 0.3%. Brisbane home values have been resilient to major falls. Since moving through a recent peak in April, home values have fallen by 0.9%, with larger falls across the unit market where values are down 2.1% compared with a 0.7% fall in house values. Similar to other cities, Brisbane’s upper quartile housing market is recording larger falls, with values down 2.2% across the upper quartile since March while lower quartile home values have held firm over the same period and the broad middle of the market has recorded a 0.6% lift in housing values.

Housing values across Adelaide were unchanged in August. Through the COVID period to-date, values across the capital have slipped by only one tenth of a percent. Houses and units have returned the same result over the past three months, with both sectors of the market down 0.1% in value. Lower value properties have shown slightly better performance relative to other sectors of the market. Lower quartile property values are up 1.3% since March compared with a 0.6% lift in upper quartile property values. Geographically the quarterly growth rate across Adelaide’s sub-regions ranges from a 1.3% lift in values at Unley and Adelaide Hills to a 3.2% drop in values in the CBD.

Perth’s housing market has staged a turnaround since the early months of coronavirus. Home values fell 1.6% between May and June, with the rate of decline more than halving through July and values holding firm in August. The levelling out in the rate of decline was accompanied by a lift in the estimated number of sales, in fact home sales over the past three months are tracking about 10% higher than a year ago across Perth. Perth is also showing the tightest rental market conditions of any capital city with rents up 2% since the end of March. Perth housing values remain the lowest of any capital city, with a median house value slightly less than $462,000. No doubt the healthy levels of affordability, together with low interest rates and a generous mix of federal and state incentives are helping to buoy demand.

Hobart home values have risen over three of the past four months and dwelling values are only 0.1% off record highs. Most of the strength is apparent in the detached housing sector where values are up 0.4% over the past three months, while unit values have slipped 0.1% lower over the same period and are tracking 1.3% lower over the year to date. Rental market conditions haven’t been as resilient, with Hobart rents falling the most of any capital city through the COVID period to-date. House rents are down 3.1% since March while unit rents are down a larger 5.1%. The weak rental conditions together with relatively stable home values has caused gross rental yields to compress, declining from a 2019 high of 5.3% to 4.7% in August.

Darwin home values posted an impressive 1% rise in August following a 0.3% dip in July. The value indices for Darwin show higher volatility than other cities due to the smaller population of dwellings and relatively low number of observations, so the trend results provide a more intuitive read on the market. The past three months has seen Darwin home values rise by 1%, demonstrating an improving trend following a sustained downturn over previous years. Houses continue to be the main driver of growth, with the unit sector is showing persistently weaker conditions. Over the year to date, Darwin house values have posted a 4.5% rise while unit values are down 3.5%.

Canberra home values remained at a record high in August, defying the broader downturn that has been evident across most other capitals. Housing values have consistently trended higher through the COVID period, reflecting some resilience in housing demand despite wavering confidence nationally. Estimated sales activity over the past three months are tracking 5% higher than a year ago, providing further evidence of Canberra’s resilience. Rental markets haven’t been quite as strong, with Canberra rents down 0.8% since March, with a larger 1.5% drop in unit rents recorded.

In summary, housing markets are showing greater diversity relative to earlier stages of the pandemic. The early phase of COVID-19 saw housing markets react similarly, with both listings and home sales falling sharply and home values starting a modest downward trend. As the virus curve was brought under control, restrictive policies lifted, state borders opened and conditions bounced back to resemble almost ‘normal’ levels of activity.

More recently we have seen a clear divergence between regions where the virus curve has steepened, and where the virus remains well contained. This highlights the broad economic impact of renewed social distancing policies, border closures and weaker consumer sentiment.

As we move into the first month of spring, the market is likely to be less active than normal this year. Spring is a period where transaction activity rises, from both a sales and listings perspective. Heading into spring, the trend in advertised listing numbers and home sales is trending in the opposite direction; new and total listing numbers are reducing and sales activity slipped by an estimated 1.9% in August.

So far there has been no evidence that large numbers of distressed properties are coming on the market, however this could change towards the end of the year and into next year as fiscal support tapers and lenders become less lenient on distressed borrowers. Considering fiscal stimulus polices are set to reduce at the end of this month and lenders will be conducting six month check-ins with borrowers taking a repayment holiday, the downside risk to home values remains high.

The Federal Budget, to be announced on October 6th, should help to provide further guidance on the direction of housing markets. Additional policy measures aimed at stimulating housing activity could help to support Australia’s economic recovery.

Looking forward we are likely to see a diverse outcome for housing markets around Australia, depending on how well the virus is contained and the regions exposure to other factors such as its reliance on overseas migration as a source of housing demand.

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