Welcome to CoreLogic’s housing market update for October 2020. Last month we saw lower home values in Melbourne and Sydney continue to weigh down the national market while the remaining capitals recorded a lift in home values through September.

Despite the national index nudging one tenth of a percent lower, September marked a striking turn in housing market sentiment. Consumer confidence increased, new listings rose, and six of the eight capital cities recorded a rise in home values over the month. However, falling values in Melbourne and Sydney, which make up an approximately 40% of Australia’s housing stock by number and 55% by value, pushed the national reading into a fifth straight month of decline. But even where values still declined nationally, it was the smallest fall since values started to reduce in May this year.

Melbourne remains the main drag on the headline results, recording the weakest result across the capital cities. Values were down 0.9% in September, and since peaking in March, Melbourne values have reduced by 5.5%. With restrictions starting to lift, private home inspections re-commencing and on-site auctions to be permitted later this month, we expect to see activity lift in October.

The rate of decline across Sydney’s market has been consistently easing since July, and the remaining capital cities have all returned to some level of growth.

Regional markets have continued to out-perform relative to the capital cities. At a broad level, the combined regionals index is up 0.8% since March while capital city values have fallen by 2.6% over the same period.

The resilience in regional values can be attributed to a number of factors. From a cyclical perspective, regional areas weren’t recording the same strong growth conditions pre-COVID, so home values in these markets are often more affordable, and don’t have a high base to fall from. Anecdotally we are also observing a transition of demand away from the cities towards the major regional centres, particularly those that are adjacent to the larger capitals where residents can commute back to the cities if required. Remote working arrangements are no doubt a factor in supporting demand in these markets, but lifestyle opportunities, lower price points and a desire for lower density housing options are also playing a part.

Low advertised stock levels are another key factor supporting housing values. Nationally, new listing numbers remain 22% lower than a year ago, and 25% below the five year average. Similarly, total advertised stock levels were 19% below last year’s level, and 23% below the five year average.

Such tight inventory levels at a time when demand is recovering is creating some urgency in the market. We aren’t seeing any signs of a rise in distressed listings or stock starting to pile up in the market. In fact, the opposite seems to be true, where new listings are being absorbed by the market faster than the rate at which they are being added.

This trend will be important to monitor over coming months as fiscal support tapers and the financial situation of borrowers taking a repayment holiday is assessed by their lender. A rise in urgent or distressed listings would provide a further test for the resilience of housing values.

Auction markets have also shown some strength, with the capital city clearance rate holding around 64% through September, which is on par with the decade average. Melbourne’s auction market performance has been much weaker, with record low levels of activity and a high withdrawal rate. Due to the extremely low number of Melbourne auctions held, the impact on the combined capital cities reading has been negligible.

The performance of the rental market has diverged substantially between houses and units. Between the end of March and September, national house rents have risen by 0.4% while unit rents are down 3.3%. Every capital city has seen house rents hold up better than units rents, however, the biggest difference between the two property types can be seen in Sydney and Melbourne where unit rents are down 5.0% and 5.5% respectively while house rents have fallen by a much smaller 1.3% and 1.0%.

The significant difference in rental performance is due to a combination of supply and demand side factors. Investment grade apartment markets have seen significant supply additions over the past decade, with a large portion of new apartments built in Sydney and Melbourne. The supply side has been further impacted by short term rentals transitioning to long term rentals.

While supply has surged, COVID-19 brought about a significant demand shock from international and state border closures. Overseas migrants comprised a material component of tenant demand across inner Melbourne and Sydney, with many of these foreign students.

Add to this the fact that industry sectors such as food, accommodation services, the arts and recreational services have been hardest hit by job losses and lower working hours. Workers in these sectors are more likely to rent than in other industries, which has also negatively impacted rental demand.

With high supply and weak rental conditions likely to persist, at least until international borders re-open, inner city, investor-owned unit values are likely to remain under significant downside risk.

Focussing on the capital city trends in more detail, we can see there is growing disparity in housing market trends between the cities.

Sydney home values were down for a fifth consecutive month, however the rate of decline has been reducing since values fell nine tenths of a percent in July. The September result was down 0.3% which was the smallest drop in values since the pandemic induced downturn commenced. Since March, Sydney housing values have dropped by only 2.4%, demonstrating some resilience in the face of uncertainty. Based on the current trend, we may see the Sydney housing market stabilise or even move into positive growth territory over the coming months. Rental markets haven’t been as resilient, with Sydney rents down 2.8% since March, with most of the downwards pressure coming from the unit sector. Since March unit rents have dropped 5% compared with a 1.3% decline in house rents.

Melbourne housing market conditions remained subdued through September, with values down 0.9% over the month. Although this was by far the weakest result across the capitals, it’s a smaller decline relative to the previous three months where values were down more than 1% on a month to month basis. With the virus curve flattening earlier than expected, restrictions across Melbourne are being eased which is likely to see housing activity start to pick up through October. Early indications from CoreLogic platforms are already showing a rise in pre-listings activity as prospective vendors prepare to make the most of a late spring selling season. Rental markets have also weakened, with unit rents bearing the brunt of the downturn. Unit rents have fallen by 5.5% since March while house rents are only 1% lower.

Brisbane home values edged back into positive growth in September, following four straight months of decline. Values were up half a percent over the month, with both house and unit values lifting. Brisbane housing values are only half a percent lower than their pre-COVID high, although the historical underperformance in the unit sector means unit values remain almost 12% lower than they were in early 2010. Rental conditions have seen some divergence between houses and units, with house rents rising 0.2% over the past six months while unit rents are down 1.6%. The trend towards weaker unit rents can be seen across the other capital cities and can be attributed to both higher supply levels and a demand shock from less migration.

Adelaide home values have remained relatively resilient to falls through the COVID period so far. Although conditions have lost some steam relative to the pre-COVID trend, we have seen only one of the past six monthly results post a decline in values. Between March and the end of September, Adelaide home values have risen 1.6%. Adelaide’s resilience to lower values can be attributed to the low number of virus cases, but also some insulation from overseas migration as a source of housing demand as well as very affordable housing prices. Houses are seeing some modest upwards pressure on rents, rising almost 1% over the past six months, while the unit sector has seen rents holding reasonably firm, slipping only one tenth of a percent over the same period.

Perth housing markets moved back into recovery mode. After values reduced between May and July, the market stabilised in August and values pushed 0.2% higher in September. Preliminary volumes estimates show sales activity was tracking 11% higher over the September quarter compared with the same period a year ago and 19% higher than the June quarter. Perth rental conditions are also bucking the national trend of soft to falling rents, with house rents rising 3.3% over the past six months while unit rents are 1.5% higher. Perth house values remain the lowest of any capital city, with a median value of $463,600. No doubt this relatively healthy affordability position, along with low interest rates and large amounts of federal and state government stimulus is helping to attract buyers to the market.

Hobart home values posted a 0.4% rise in September, pushing local values to a new record high. Market conditions have remained reasonably firm through the COVID period to date. Although conditions have lost momentum relative to the pre-COVID trend, the past six months has seen housing values rise by 1.4%. The rental market has been less resilient, with Hobart rents posting the largest falls of any capital city. House rents are down 3.9% over the past six months while unit rents have fallen by a larger 5.6%. Weaker rental conditions come after a multi-year surge. The past five years has seen Hobart rents rise by close to 30% which is more than four times the national average rate of rental growth.

Darwin’s housing market is showing a positive trajectory, with values rising over four of the past six months to be 2.7% higher through the COVID period to-date. The improving conditions come after the Northern Territory has kept virus cases to a minimum, helping to support economic conditions and market activity. Housing remains extremely affordable, at least relative to other cities, with a median house value of $485,000 and a median unit value of $272,000. Rental conditions have also tightened with both house and unit rents trending higher over the past six months.

Canberra home values have managed to avoid a decline through the COVID period so far, rising 2.2% over the past six months. The relatively strong market conditions come amidst low virus case numbers and a resilient full time jobs market. The latest rise takes house values to a new record high, while unit values remain 2% lower than their previous record high way back in 2010. Rental markets haven’t been as resilient, with Canberra house rents falling 1% over the past six months while unit rents are down 1.5%. The two tiered performance between dwelling purchasing values and rent values come from varied performance in different parts of the labour force. ABS payroll data suggests jobs in food and accommodation services have fallen 25% across the ACT since the pandemic, which is an industry with a higher proportion of renters. But in the financial and insurance services industry for example, where workers are more likely to buy a house or have a mortgage, payroll job numbers have actually risen 2%.

In summary, apart from Melbourne, the performance of the housing market is consistently improving. Most of the capitals and regional areas of Australia are recording rising home values, or in Sydney’s case a reduced rate of decline. The improved performance comes after only mild value falls, with capital city home values down only 2.6% since March.

To-date the support of low interest rates, scarce inventory, fiscal policy initiatives and government incentives, together with relatively successful virus containment, have insulated the housing market from larger falls in value and activity. Unsurprisingly, the markets where the virus has been well contained and economic activity is less restricted are faring the best. At the other end of the spectrum, the considerably weaker conditions across Melbourne provide an example of the impact of severe restrictions related to a virus breakout.

Looking forward, the market will be contending with a mixture of headwinds and tailwinds.

Headwinds will be evident as fiscal support winds down and distressed borrowers come to terms with their repayment commitments. It is logical to assume there will be a rise in urgent or distressed listings over the coming months, however so far we have seen new listings rapidly absorbed by the market.

The expectation for persistently weak labour market conditions, low rates of overseas migration and minimal wage growth are other factors adding to downside risk. As businesses become more embracing of technology, and less-labour intensive practices, lingering unemployment could constrain housing demand.

On the upside, we are expecting a new round of government spending initiatives and stimulus measures to be announced on budget night next week. These policies are likely to be aimed at supporting jobs growth and consumption, incentivising business investment and productivity improvements. Some potential initiatives may include a substantial lift in infrastructure spending, bringing forward income tax cuts, extending incentives for residential construction and more funding for social and community housing.

Additionally, the treasurer recently announced a plan to relax lending laws. If enacted we could see credit flows become more streamlined and available by early March next year. Credit availability has historically shown a close relationship with activity in the housing sector.

The prospect of lower interest rates later this year also presents some upside for housing market conditions.

With the federal budget announced this month, along with a wind down of JobKeeper and potentially lower interest rates, there is a lot happening in the economy and housing sector. Make sure you stay up to date on the latest property market trends at www.corelogic.com.au