National Media Release

Australian dwelling values continue to trend lower in June amidst tight credit conditions and less investment activity

According to CoreLogic's hedonic home value index Australian dwelling values fell for the ninth consecutive month in June, taking national dwelling values 1.3% below their September 2017 peak

CoreLogic today released its June Home Value Index results which revealed that Australian dwelling values tracked lower in June, down 0.2% over the month to be 0.8% lower over the year. June marks the ninth consecutive month-on-month fall in national home values, taking the cumulative decline to -1.3% since the housing market peaked in September last year.

According to CoreLogic research director Tim Lawless, despite recent and consistent monthly falls, national dwelling values remain 32.4% higher than five years ago. He said, "This highlights the wealth creation that many home owners have experienced over the recent growth phase, but also the fact that recent home buyers could be facing negative equity."

"Tighter finance conditions and less investment activity have been the primary drivers of weaker housing market conditions and we don't see either of these factors relaxing over the second half of 2018, despite APRA's 10 per cent investment speed limit being lifted this month."

The June quarter results saw national dwelling values fall by half a percent, driven by a 0.8% drop in values across the combined capital cities. The capital city decline was partially offset by a 0.6% rise in values across the combined regional markets. The largest decline amongst the capitals over the June quarter was in Melbourne, with dwelling values down 1.4%, followed by Sydney (-0.9%), Darwin (-0.8%) and Perth (-0.7%).

Hobart continues to show the strongest capital gain trend amongst the capital cities with dwelling values rising a further 2.3% over the past three months. Although housing market trends remain very positive across Hobart, the quarterly pace has eased relative to the March quarter when values were up 3.4%. Values also trended higher across Adelaide (+0.9%), Brisbane (+0.3%) and Canberra (+0.2%) over the second quarter of 2018.

Outside the capital cities, the combined rest of state regions recorded a 0.6% rise in dwelling values over the quarter, although values did show a moderate fall in regional Queensland (-0.2%) and regional Western Australia (-0.1%). The regional markets of Victoria have shown the highest rate of capital gain over the June quarter (+1.8%), closely followed by regional Tasmania (+1.7%).

Declines are more pronounced across the most expensive quarter of the market. Based on the CoreLogic stratified hedonic index, values across the most expensive quartile of capital city properties were down 1.5% over the past three months while the least expensive quartile saw values hold firm. Similarly, over the past twelve months, the most expensive end of the market recorded a decline of 3.6%, while the least expensive end of the market recorded a 1.4% gain.

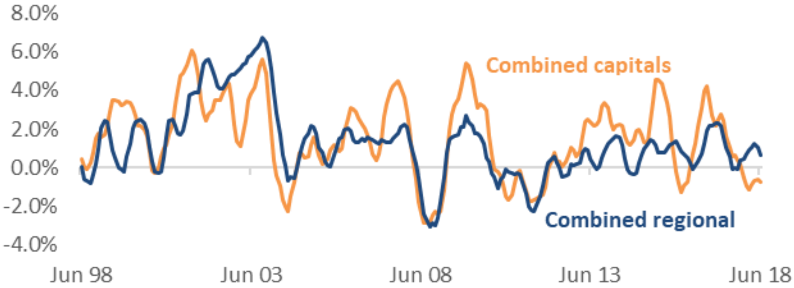
Declines across the most expensive sector of the capital city market is largely attributable to the declines in Sydney and Melbourne, where the upper quartile of property values fell by 7.3% and 2.5% respectively over the past twelve months. Mr Lawless said, "A surge in first home buyer activity has helped support demand across the more affordable price points in these cities."

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.3%	-0.9%	-4.5%	-1.6%	$870,554
Melbourne	-0.4%	-1.4%	1.0%	3.9%	$716,774
Brisbane	0.2%	0.3%	1.1%	5.1%	$495,242
Adelaide	0.3%	0.9%	1.1%	5.3%	$439,215
Perth	-0.5%	-0.7%	-2.1%	1.9%	$461,149
Hobart	0.3%	2.3%	12.7%	18.3%	$436,899
Darwin	-1.1%	-0.8%	-7.7%	-2.4%	$433,309
Canberra	-0.3%	0.2%	2.3%	6.9%	$587,867
Combined capitals	-0.3%	-0.8%	-1.6%	1.6%	$654,366
Combined regional	0.0%	0.6%	2.2%	7.3%	$367,135
National	-0.2%	-0.5%	-0.8%	2.7%	$556,384

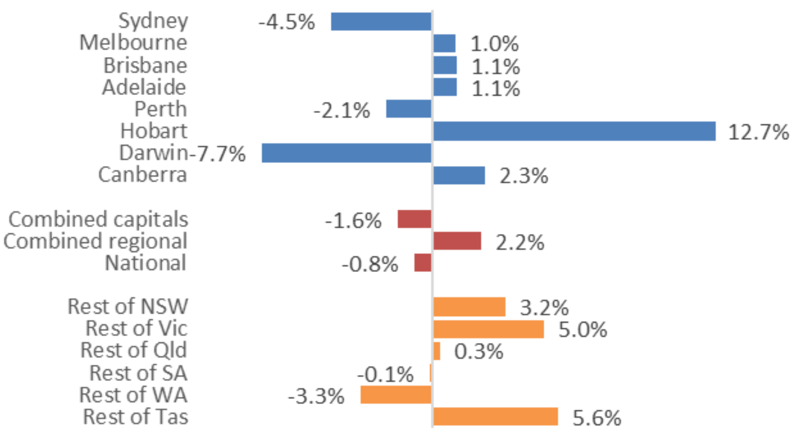
Highlights over the three months to June 2018

- Best performing capital city: **Hobart +2.3%**
- Weakest performing capital city: **Melbourne -1.4%**
- Highest rental yield: **Darwin 5.7%**
- Lowest rental yields: **Melbourne 3.0%**

Rolling quarterly change in dwelling values



Annual change in dwelling values



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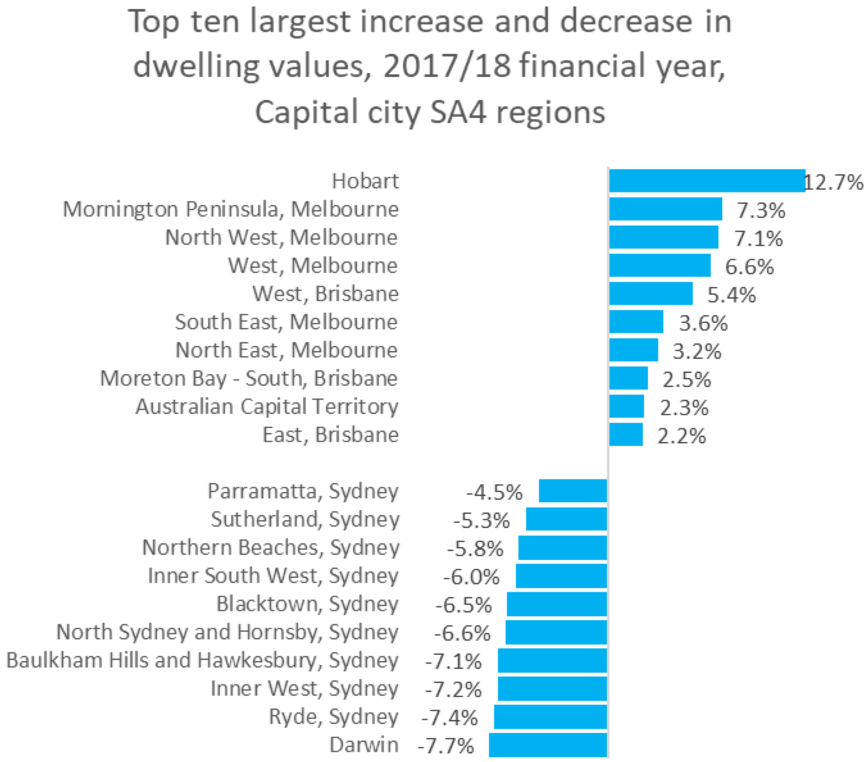
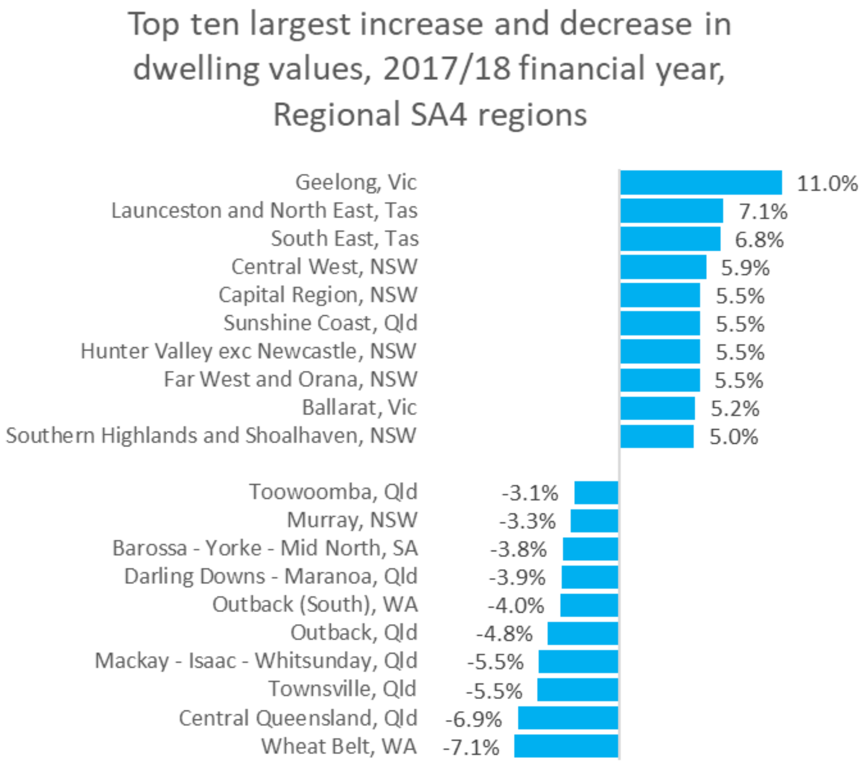
Across the sub-regions of the capital cities there have been a range of outcomes. Many of the most affordable regions of Melbourne remain in a strong growth position. Across the SA4 regions of the capital cities, five of the top ten best performing areas over the 2017-18 financial year were located across the outer areas of the Melbourne metropolitan area. Mornington Peninsula, where the median dwelling value is approximately $679,000, has shown the highest annual capital gain outside of Hobart, with values up 7.3%.

The strong performance in these areas can be attributed to the relative affordability of these markets, coupled with an increase in first home buyer activity from July last year when stamp duty concessions became available. Even with strong growth, the median dwelling value on the Mornington Peninsula is still approximately 17% lower than the median dwelling value across the Melbourne metropolitan area. It should be noted that while annual figures show strong growth, the more recent trend points to a softening of growth across all regions of Melbourne.

At the other end of the spectrum, the largest falls over the financial year have largely been confined to Sydney. In fact, SA4 regions across Sydney comprise nine of the top ten regions based on the largest decline in dwelling values over the 2017-18 financial year.

The only SA4 region across Sydney to record a rise in dwelling values over the financial year has been the NSW Central Coast, where values are up 1.6% over the past twelve months.





Focusing on Australian regional markets, the top performing areas are distributed across four states, however regions of NSW comprise five of the ten best performing regional markets. Victoria's Geelong (+11.0%) tops the list and is the only regional market to record double digit growth over the 2017-18 financial year. Mr Lawless said, "Markets such as Geelong, the Capital Region and Ballarat, have each benefitted from a spillover of demand emanating from the more expensive and often more congested metropolitan areas of Melbourne and Canberra. Areas adjacent to Sydney have also seen market conditions benefit from this ripple of demand, however conditions are now generally easing."

Lifestyle markets continue to show strong demand as well, with capital flowing into holiday home markets and areas popular with retiring baby boomers. However, coastal lifestyle markets adjacent to Sydney have seen a slowdown in value growth over the past year.

Regional areas of Queensland and Western Australia comprise nine of the top ten regions recording the largest fall in dwelling values over the financial year. These areas are generally linked with the mining and resources sector where conditions have been challenging. That said, some regions are showing signs of levelling out or even seeing some capital gains based on short term trends.

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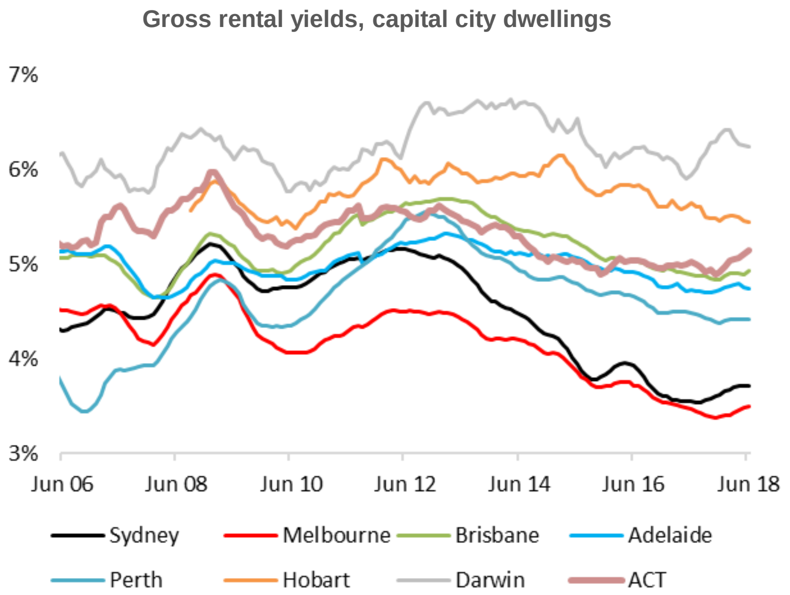
Rental yields continue to recover from a low base While capital city dwelling values have fallen by 1.6% over the financial year, rental rates have risen by 1.4%. Although rental growth is generally mild, with rents rising and dwelling values falling, gross rental yields are consistently trending higher; albeit from record lows in some cities.

The lowest yields have consistently been in Sydney and Melbourne, where high capital gains relative to sluggish rises in rents had previously compressed rental yields to all-time lows. Melbourne yields bottomed out at 2.88% in November last year and have since risen to 3.0%; the highest reading since April 2017. Similarly, in Sydney, gross dwelling yields bottomed out at 3.04% in August last year and have since trended higher to reach 3.21%.

Despite the improvement, gross yields remain historically low, implying that most investors would be offsetting their cash flow losses against their taxable income. Mr Lawless said, “With the prospects for capital gains being muted, at least over the short to medium term, this negative gearing strategy is likely to be less appealing to many investors.”



While much of the housing market focus has been on the downturn in Sydney and Melbourne, most other cities and regions have also experienced a softening trend in market conditions, highlighting the broad-based impact of tighter credit policies.

Based on May housing credit data from the RBA, monthly **credit growth for housing purposes has not tracked this low since January 2013**. Additionally, growth for investment housing was absolutely flat in May; the weakest result since the first round of credit tightening, and the bottoming-out of investment lending growth in December 2015.

While most regions are experiencing either a slowdown in growth or falling values, **the cities with the highest concentration of investment activity, Sydney and Melbourne, are experiencing the most substantial decline in housing demand**. To some extent, Mr Lawless noted that this reduction in demand has been counterbalanced by a surge in first home buyer activity across New South Wales and Victoria, as first time buyers take advantage of stamp duty concessions. However, activity from this segment peaked in November last year, and has continued to wane.

While higher mortgage rates and more stringent lending criteria are having a clear effect on investor participation in the housing market, Mr Lawless highlights that **other barriers are also apparent.**

He said, “Despite the slippage in home values across Sydney, and to a lesser extent Melbourne, dwelling prices remain very high relative to other capital cities.”

“With lenders now focusing more on overall debt to income ratios and household living expenses, housing markets where prices are high relative to incomes could see less activity as prospective buyers find their borrowing capacity reduced.

“Additionally, with the federal election campaign imminent, we could see investor confidence impacted further if changes to taxation polices related to investment housing are debated.”

Although official interest rates are expected to remain on hold until at least late 2019, Mr Lawless said there is growing pressure on lenders to lift mortgage rates due to higher funding costs being experienced overseas. “Smaller banks and non-banks have more exposure to international funding costs, which has seen some of these lenders start to lift their mortgage rates.”

“Should widespread increases to the cost of debt occur, we would expect this could place additional downward pressure on housing market conditions. A weaker housing sector would likely show a flow on effect to economic conditions, creating some drag on consumer spending and dwelling construction and creating challenges for those industries that are at least partially reliant on housing turnover.”

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CoreLogic Home Value Index tables

		Capitals								Aggregate indices		
		Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Combined capitals	Combined regional	National
Dwellings	Month	-0.3%	-0.4%	0.2%	0.3%	-0.5%	0.3%	-1.1%	-0.3%	-0.3%	0.0%	-0.2%
	Quarter	-0.9%	-1.4%	0.3%	0.9%	-0.7%	2.3%	-0.8%	0.2%	-0.8%	0.6%	-0.5%
	YTD	-2.6%	-1.8%	0.3%	0.4%	-1.0%	5.8%	-0.9%	0.1%	-1.7%	1.7%	-1.0%
	Annual	-4.5%	1.0%	1.1%	1.1%	-2.1%	12.7%	-7.7%	2.3%	-1.6%	2.2%	-0.8%
	Total return	-1.6%	3.9%	5.1%	5.3%	1.9%	18.3%	-2.4%	6.9%	1.6%	7.3%	2.7%
	Yield	3.2%	3.0%	4.4%	4.2%	3.9%	4.9%	5.7%	4.6%	3.4%	4.9%	3.7%
	Median value	$870,554	$716,774	$495,242	$439,215	$461,149	$436,899	$433,309	$587,867	$654,366	$367,135	$556,384
Houses	Month	-0.5%	-0.5%	0.1%	0.3%	-0.5%	0.4%	0.8%	-0.4%	-0.3%	0.0%	-0.3%
	Quarter	-1.2%	-1.7%	0.1%	0.9%	-0.3%	2.8%	2.1%	0.4%	-0.9%	0.7%	-0.6%
	YTD	-3.3%	-2.3%	0.1%	0.4%	-0.1%	6.3%	4.0%	0.4%	-1.9%	1.8%	-1.1%
	Annual	-6.2%	0.2%	1.2%	1.2%	-1.7%	13.8%	-4.9%	3.3%	-2.2%	2.3%	-1.2%
	Total return	-3.6%	2.7%	4.9%	5.3%	2.4%	19.5%	0.4%	7.7%	0.7%	7.4%	2.1%
	Yield	3.0%	2.7%	4.2%	4.1%	3.8%	4.9%	5.4%	4.3%	3.2%	4.8%	3.5%
	Median value	$1,012,368	$821,463	$537,647	$466,569	$485,296	$460,609	$494,716	$673,988	$694,764	$373,586	$573,216
Units	Month	0.0%	-0.3%	0.5%	0.0%	-0.9%	-0.5%	-5.0%	0.0%	-0.2%	-0.1%	-0.2%
	Quarter	-0.3%	-0.3%	1.7%	0.5%	-2.3%	-0.3%	-6.5%	-0.1%	-0.3%	0.1%	-0.2%
	YTD	-1.2%	-0.3%	1.2%	0.9%	-4.4%	3.3%	-10.1%	-0.8%	-1.0%	1.2%	-0.7%
	Annual	-0.7%	3.7%	0.7%	0.3%	-3.8%	7.2%	-13.4%	-0.8%	0.4%	1.4%	0.6%
	Total return	3.0%	7.8%	5.9%	5.4%	-0.2%	12.7%	-8.1%	4.5%	4.4%	6.7%	4.7%
	Yield	3.8%	4.0%	5.3%	5.1%	4.4%	5.2%	6.4%	5.7%	4.1%	5.2%	4.2%
	Median value	$752,625	$574,304	$386,685	$328,842	$400,762	$355,554	$322,988	$437,596	$575,685	$343,536	$517,988

Methodology: The CoreLogic Hedonic Home Value Index is calculated using a hedonic regression methodology that addresses the issue of compositional bias associated with median price and other measures. In simple terms, the index is calculated using recent sales data combined with information about the attributes of individual properties such as the number of bedrooms and bathrooms, land area and geographical context of the dwelling. By separating each property into its various formational and locational attributes, observed sales values for each property can be distinguished between those attributed to the property's attributes and those resulting from changes in the underlying residential property market. Additionally, by understanding the value associated with each attribute of a given property, this methodology can be used to estimate the value of dwellings with known characteristics for which there is no recent sales price by observing the characteristics and sales prices of other dwellings which have recently transacted. It then follows that changes in the market value of the entire residential property stock can be accurately tracked through time. The detailed methodological information can be found at:

https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/

CoreLogic is able to produce a consistently accurate and robust Hedonic Index due to its extensive property related database, which includes transaction data for every home sale within every state and territory. CoreLogic augments this data with recent sales advice from real estate industry professionals, listings information and attribute data collected from a variety of sources.

Recent upgrade to the CoreLogic Hedonic Home Value Index – September 2017

As a result of the continued expansion of CoreLogic data assets, changing market dynamics and the availability of enhanced infrastructure, CoreLogic has undertaken an extensive exercise to overhaul its Hedonic Home Value Index. This change introduces numerous improvements to the methodology and its implementation to ensure it aligns with leading global best practice as endorsed by the International Monetary Fund and Bank for International Settlements. The full details of changes can be found at https://www.corelogic.com.au/research/rp-data-corelogic-home-value-index-methodology/. This change is part of CoreLogic's continued to endeavour to expand its data assets and identify opportunities to optimise its analytics in order to provide the market the most timely and accurate read on property market conditions. The changes are applied across the history of the series, providing a consistent methodology from the commencement through to the most recent values.

* The median value is the middle estimated value of all residential properties derived through the hedonic regression methodology that underlies the CoreLogic Hedonic Home Value Index.

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