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CoreLogic Hedonic Home Value Index, October 2018 Results
Released: Thursday, November 1, 2018 | www.corelogic.com.au/news

National Media Release

National dwelling values continue to trend lower, falling by half a percent in October

Dwelling values continued to fall across Sydney, Melbourne and Perth in October, pushing the CoreLogic national hedonic home value index further into negative territory – www.corelogic.com.au/news

Citing tighter credit conditions as a contributor to slower housing activity and lower dwelling values across Australia, CoreLogic head of research

Tim Lawless said, “the latest results take the annual decline across the national index to 3.5%, signaling the weakest macro-housing market conditions since February 2012, with our hedonic home value index reporting a 0.5% fall in dwelling values nationally in October.”

On a rolling quarterly basis, dwelling values are now trending lower across both the combined capital city regions (-1.6%) as well as the combined regional areas of Australia (-0.7%). Mr Lawless said, “With such broad-based weakness in housing market conditions, it’s clear that tighter credit availability is acting as a drag on housing demand and impacting adversely on the performance of housing values across most areas of the country.”

The weakest conditions continue to be felt across Australia’s two largest cities where investment buyers have been the most concentrated, supply additions have been the highest and where housing affordability is the most stretched.

Sydney values are down 7.4% over the past twelve months and Melbourne values are 4.7% lower over the same period. Values also declined in Perth and Darwin however, the downturn in these two cities has been ongoing since mid-2014, with values falling 3.3% and 2.9% respectively over the past twelve months. Although dwelling values are rising on an annual basis across the remaining cities, the pace of growth has eased.

The regional housing markets of Australia have also returned a diverse performance, with regional Tasmania standing out as the only broad region nationally where dwelling values are recording double digit growth (+11.4%). Both Hobart and regional Tasmania continue to record strong housing market conditions, driven by robust housing demand coupled with a shortage of supply.

Regional Victoria is also showing strong growth conditions as demand continues to ripple outwards from Melbourne towards the more affordable cities peripheral to the city’s metropolitan area.

Regional Western Australia continued to show challenging conditions with the annual pace of decline revealing some renewed momentum with values falling by 6.5% over the past twelve months.

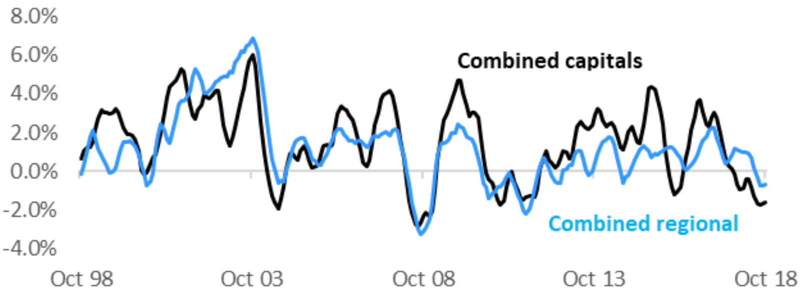
Index results as at October 31, 2018

	Change in dwelling values			Total	Median
	Month	Quarter	Annual	return	value
Sydney	-0.7%	-2.0%	-7.4%	-4.2%	$833,876
Melbourne	-0.7%	-2.1%	-4.7%	-1.4%	$665,044
Brisbane	0.0%	0.0%	0.4%	4.2%	$491,925
Adelaide	0.2%	0.2%	1.8%	6.3%	$431,554
Perth	-0.8%	-2.0%	-3.3%	0.5%	$451,148
Hobart	0.9%	1.2%	9.7%	15.2%	$445,655
Darwin	0.0%	-0.7%	-2.9%	2.5%	$433,818
Canberra	0.0%	1.5%	4.3%	9.0%	$589,415
Combined capitals	-0.6%	-1.6%	-4.6%	-1.2%	$625,215
Combined regional	-0.2%	-0.7%	0.8%	5.9%	$375,444
National	-0.5%	-1.4%	-3.5%	0.2%	$538,668

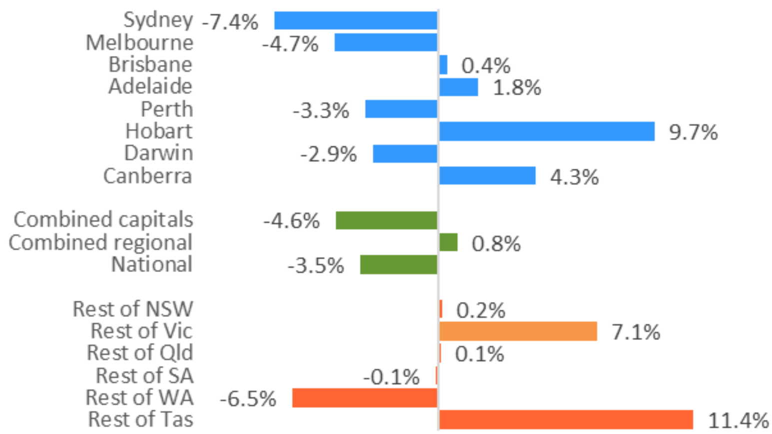
Highlights over the three months to October 2018

- Best performing capital city: **Canberra +1.5%**
- Weakest performing capital city: **Melbourne -2.1%**
- Highest rental yield: **Darwin 5.7%**
- Lowest rental yields: **Sydney 3.2%**

Rolling quarterly change in dwelling values



Annual change in dwelling values



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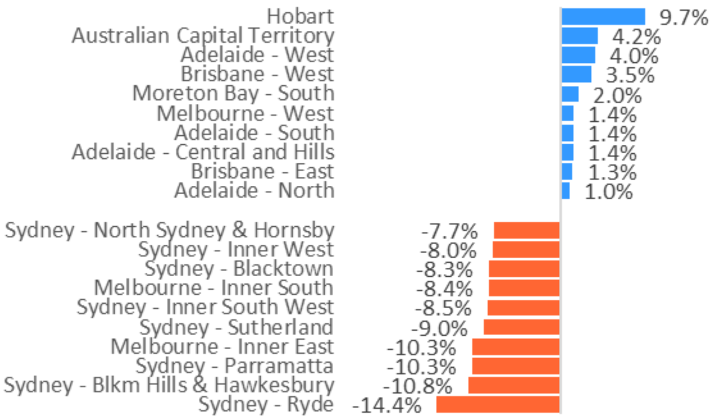
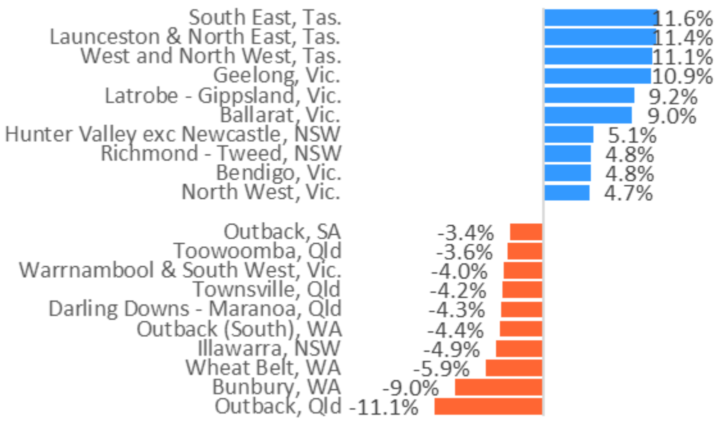
Top ten and bottom ten sub-regions for annual change in dwelling values, Capital city SA4 regions



Top ten and bottom ten sub-regions for annual change in dwelling values, Non capital city SA4 regions



Higher value housing markets continue to lead the market downturn. Nationally, the highest value quarter of the market has led the downturn, with values falling 6.6% across this segment over the past year while lower quartile values have recorded a 0.5% rise in values. At such as broad geographic level, the weakness in higher value markets is reflective of the weaker conditions across the capital cities, particularly Sydney and Melbourne.

The disparity of performance between the upper and lower quartiles is clear at lower geographic aggregations as well. In Melbourne, the top 25% of the market by value has seen values fall by almost 9% over the past twelve months; a slightly weaker performance than Sydney's upper quartile market where values are down by 8.6%. At the same time, more affordable housing markets have seen a 2.9% rise in values across Melbourne over the past year, while Sydney's lower quartile has recorded a fall that is almost half that of the upper quartile.

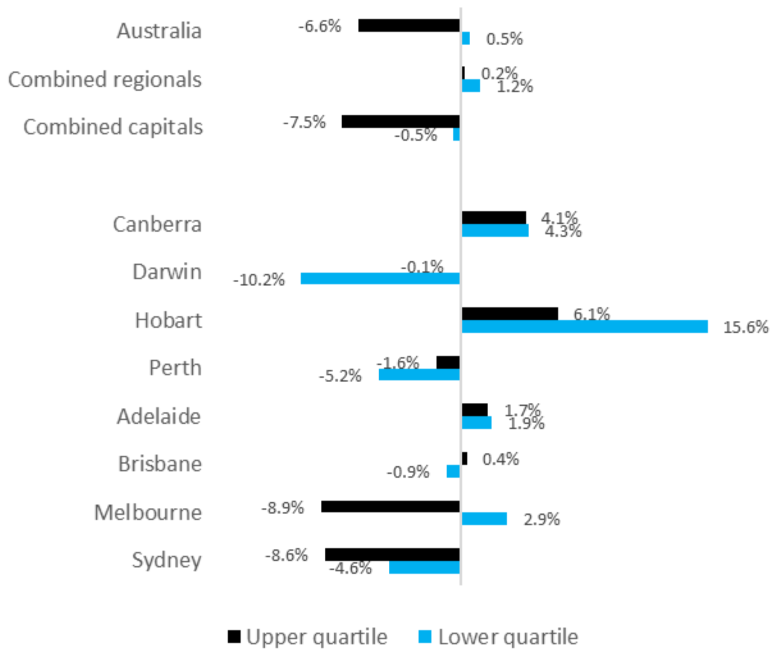
Across the capital cities, the top performing regions for annual capital gains generally showing growth of less than 5%. The exception is the Hobart SA4 region where values are up by almost 10% over the year. Seven of the top ten performing SA4 sub-regions are located across Brisbane and Adelaide metro areas, demonstrating the resilience to falling values in these two cities. Melbourne's West, where dwelling values are up 1.4% over the past twelve months, is a notable exception, bucking the broader trend of falling values across Greater Melbourne.

The weakest capital city sub-regions are largely confined to the Sydney metropolitan area which comprise eight of the ten weakest capital city sub-markets. Three of Sydney's sub-regions are now recording double digit annual dwelling value declines, while Melbourne's prestigious Inner East is also seeing home values fall by more than 10% over the past twelve months.

Across regional Australia, the top performing areas are concentrated in Tasmania where each of the SA4 sub-regions has recorded growth of at least 11% over the past twelve months. Regional areas of Victoria are also showing strong growth conditions, comprising five of the top ten regional growth markets. Many of these high value growth regional areas are being driven by a mix of high rates of population growth, more affordable housing options and often lifestyle factors as well.

The weakest regional markets include a broad mix of locations, however we are now seeing fewer mining related areas featuring on the worst performing leagues tables. Agricultural areas are now featuring more predominantly across the worst performing housing markets lists, as well as the previously strong Illawarra market, where values are now down almost 5% over the past twelve months.

Annual change in dwelling values across upper and lower value quartiles



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National Media Release

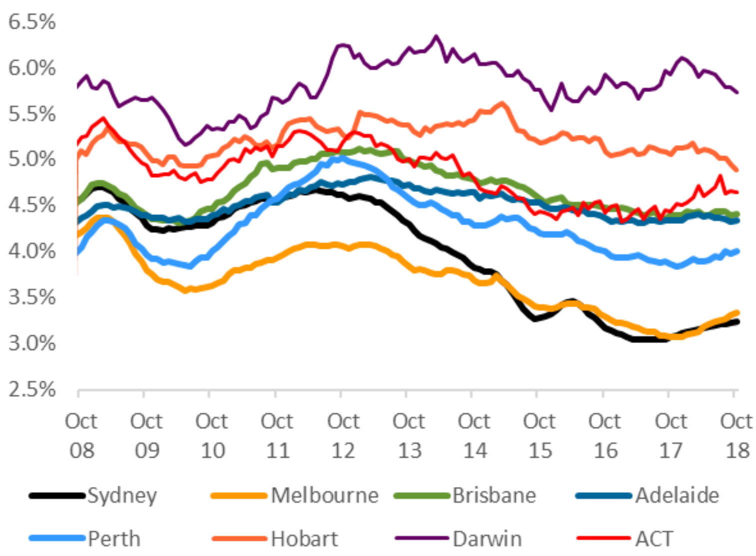
Gross rental yields are slowly recovering as dwelling values trend lower and rents edge higher. Nationally, gross rental yields are picking up from previous record lows, rising from 3.71% in October last year to reach 3.87% in October 2018. Despite the subtle rise, gross rental yields remain well below their decade average of 4.31%.

A recovery in rental yields back to average levels is likely to take some time, considering national rents have remained relatively flat over the year to date and are only 0.8% higher over the past twelve months.

Rental yields reached record lows in late 2017 due to values consistently rising at a much faster pace than rents through the growth phase. Rental yields were compressed more significantly in Sydney and Melbourne, reaching record low readings of 3.04% and 3.07% respectively in 2017. These cities are still recording the lowest yield profiles at 3.24% and 3.34% at the end of October 2018.

Rental yields are the highest in Darwin at 5.7% and Hobart at 4.9%, however both cities are seeing rental yields trend lower as dwelling value movements outpace rental movements.

Gross rental yields, capital city dwellings



The downturn in housing market conditions has been relatively mild to date, with the 3.5% fall in dwellings values over the past twelve months coming on the back of a 34% rise in national dwelling values over the growth cycle. With credit availability remaining tight and rising inventory levels, we are expecting there will be further downwards pressure on housing values as we move through spring and into summer and the New Year.

Advertised stock levels are tracking 10.5% higher relative to the same time last year, with total listing numbers almost 20% higher across Sydney and Melbourne.

With total listing numbers likely to push higher over the final quarter of the year, buyers are becoming more empowered and will increasingly find themselves in a stronger position when it comes to negotiating on price.

While stock levels are higher, transactional activity has reduced. CoreLogic estimates that year-on-year, settled sales activity is down 11.5%, leading to a slower rate of absorption through the spring listing season.

A key driver of lower housing market participation is related to credit availability. Annual growth in housing credit slipped to 5.2% in September; the lowest reading in almost five years. While investment credit growth has been trending lower for several years, credit for owner occupiers has more recently contracted as lenders seek out borrowers with more substantial deposits and lift their serviceability criteria.

Although housing credit originations remain well below the formal APRA targets for investment lending and interest only lending, it's clear that lenders are also focusing more on loan serviceability and reducing their exposure to borrowers with high debt levels relative to their incomes. These measures can help to explain the underperformance of more expensive housing markets where borrowers may find it more challenging to secure finance.

While there are plenty of headwinds for housing markets, we are also seeing other factors helping to support housing demand. In fact, the triggers for a more substantial deterioration in housing values remain absent from the market.

Labour markets have tightened over the year, with unemployment at 5.0%, jobs growth outpacing growth in the labour force, and a skew towards full times job creation rather than part time. Tighter conditions across the labour markets should gradually support a further improvement in wages growth which would provide an additional boost to housing affordability and support a reduction in household debt levels.

As housing values trend lower and household incomes inch higher, we are seeing improvements in housing affordability which is likely to support further improvements in first home buyer numbers. First home buyers have surged higher across the New South Wales and Victorian markets where stamp duty concessions are available, and the further improvements in housing affordability is likely a welcome development from this sector of the market.

Recent data from Standard & Poor's tracking mortgage arrears showed loans more than 90 days past due were trending higher but continue to track well below 1%. Improving labour market conditions and ongoing low mortgage rates will help to keep arrears rates low.

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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	-0.7%	-0.7%	0.0%	0.2%	-0.8%	0.9%	0.0%	0.0%	-0.6%	-0.2%	-0.5%
	Quarter	-2.0%	-2.1%	0.0%	0.2%	-2.0%	1.2%	-0.7%	1.5%	-1.6%	-0.7%	-1.4%
	YTD	-5.8%	-4.7%	0.3%	1.1%	-3.1%	7.5%	-0.4%	2.6%	-4.0%	0.1%	-3.1%
	Annual	-7.4%	-4.7%	0.4%	1.8%	-3.3%	9.7%	-2.9%	4.3%	-4.6%	0.8%	-3.5%
	Total return	-4.2%	-1.4%	4.2%	6.3%	0.5%	15.2%	2.5%	9.0%	-1.2%	5.9%	0.2%
	Gross yield	3.2%	3.3%	4.4%	4.3%	4.0%	4.9%	5.7%	4.7%	3.6%	5.0%	3.9%
	Median value	$833,876	$665,044	$491,925	$431,554	$451,148	$445,655	$433,818	$589,415	$625,215	$375,444	$538,668
Houses	Month	-0.7%	-1.0%	0.0%	0.2%	-0.8%	1.3%	-0.6%	-0.1%	-0.6%	-0.2%	-0.5%
	Quarter	-2.4%	-2.9%	0.1%	0.2%	-1.9%	1.4%	-0.5%	1.9%	-1.9%	-0.7%	-1.6%
	YTD	-6.8%	-6.2%	0.6%	1.0%	-2.7%	7.3%	4.7%	2.8%	-4.5%	0.2%	-3.4%
	Annual	-8.4%	-6.3%	0.8%	1.8%	-2.9%	9.7%	3.3%	5.1%	-5.1%	0.9%	-3.7%
	Total return	-5.7%	-3.5%	4.3%	6.3%	0.7%	15.3%	8.1%	9.6%	-1.9%	6.0%	-0.2%
	Gross yield	3.0%	2.9%	4.2%	4.2%	3.8%	4.9%	5.4%	4.4%	3.4%	4.9%	3.7%
	Median value	$956,094	$780,130	$542,601	$466,969	$478,065	$475,568	$509,154	$662,229	$666,096	$386,008	$557,976
Units	Month	-0.8%	0.0%	-0.1%	0.2%	-1.0%	-0.7%	1.2%	0.2%	-0.5%	-0.1%	-0.4%
	Quarter	-1.1%	-0.4%	-0.2%	0.3%	-2.2%	0.7%	-0.9%	0.0%	-0.8%	-0.7%	-0.8%
	YTD	-3.7%	-1.3%	-0.9%	1.7%	-4.9%	8.3%	-9.0%	1.9%	-2.6%	0.0%	-2.2%
	Annual	-4.9%	-1.0%	-1.5%	1.7%	-5.2%	9.8%	-12.9%	1.5%	-3.2%	0.4%	-2.7%
	Total return	-1.3%	2.7%	3.9%	6.2%	-0.7%	15.2%	-5.7%	7.3%	0.6%	5.8%	1.4%
	Gross yield	3.7%	4.1%	5.2%	5.2%	4.7%	5.0%	6.4%	5.7%	4.1%	5.4%	4.3%
	Median value	$729,798	$553,979	$384,178	$327,531	$375,288	$374,261	$312,104	$437,930	$550,884	$342,149	$495,249

CoreLogic is the largest independent provider of property information, analytics and property-related risk management services in Australia and New Zealand.

Note: As at November 1st, 2018, CoreLogic has revised the historical hedonic home value index series. The revisions reflect improvements to the underlying data following a major investment in additional data sources and improvements in the overall scope of CoreLogic data assets.

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.

* 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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