CoreLogic Property Pulse

Released :Thursday 14 Mar 2019

Most capital cities have now seen values fall below their peak as the housing downturn becomes more widespread

With the housing market weakening over the past few years, most capital cities have experienced dwelling value falls with a more significant correction experienced in Sydney, Melbourne, Perth and Darwin.

Although the past few decades have been characterised by increasing property values, that doesn't mean there haven't been periods when property values have reversed; in fact that housing market is highly cyclical with upswings generally followed by a period of falling values. At a national level, since 1980 there have been eight separate housing market downturns (as highlighted in the first chart). The current downturn which commenced after October 2017, has seen values fall by -6.8%. Although that may not seem like a substantial downturn, since the early 80's there have only been two downturns which were larger, 2008-09 and 1982-83. National housing market downturns have also been generally fairly short-lived with the current downturn of 16 months already the second longest with the 2010-12 decline running two months longer than the current downturn.

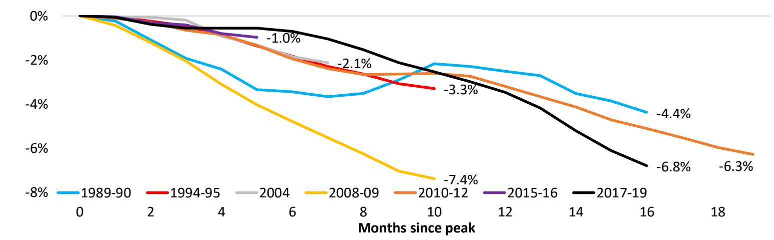
The decline in values throughout the current downturn has been larger across the combined capital cities, with values now -8.6% lower. By next month, assuming the falls continue, this will be the largest downturn in the combined capital city index any time since 1980. The current downturn is also closing in on being the longest. With values having peaked in September 2017, they have now been falling for 17 months with the previous longest period of decline coinciding with the last recession, running for 20 months between 1989 and 1991.

Since peaking in July 2017, Sydney dwelling values have fallen by -13.2% to February 2019. Not only is this now the deepest period of decline it is also one of the longest. With little sign that the falls will abate over the coming months, this current downturn may end up being the deepest and longest in modern times. This downturn is also very different to other downturns which have generally been driven by an economic contraction or higher interest rates. This downturn is more closely linked to a significant tightening of credit conditions at a time in which the economy continues to grow and interest rates are unchanged (despite some moderate increases for owner occupiers and larger rises for investors).

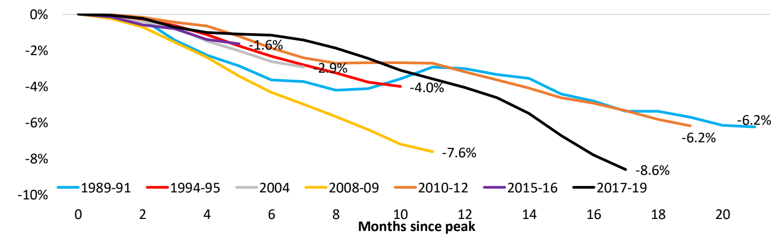
The housing market in Melbourne peaked in November 2017 and up until the end of February 2019 dwelling values across the city have fallen by -9.6%. Interestingly, comparing the downturn in Melbourne to Sydney, 15 months into Melbourne's downturn values have fallen -9.6% compared to a decline of -8.2% 15 months into Sydney's downturn. The downturn in Melbourne's housing market is closing in on its largest downturn of -10% between 1989 and 1992 while the downturn (so far) has been much shorter than the 36 month period in 1989-92.

While Sydney and Melbourne have recorded substantial increases in dwelling values over recent years and are now seeing large falls, Brisbane never saw anywhere near the magnitude of value growth during the upswing. Despite more moderate growth in recent years, values in Brisbane are now falling on an annual basis, albeit quite moderately. Brisbane dwelling values peaked in April 2018 and they have now declined by -1.0% to February 2019. To date the fall is moderate however, with housing market weakness entrenched values are expected to move slightly lower or, at best hold firm, over the coming months.

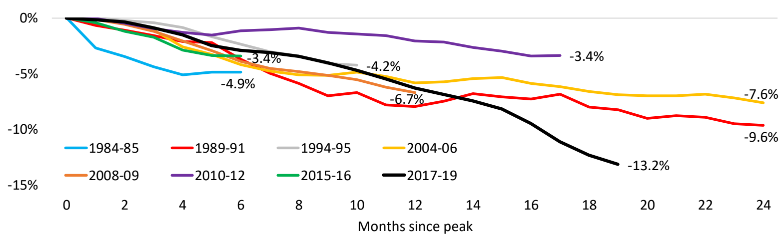
Periods of value falls, National, as at Feb-19



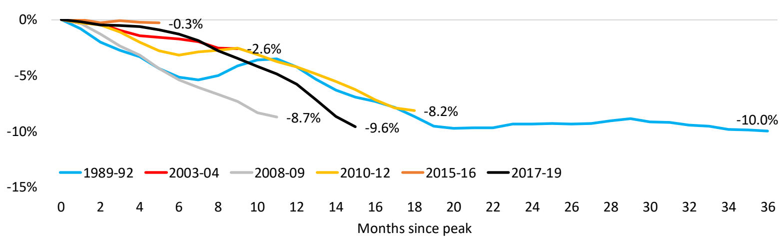
Periods of value falls, combined capital cities, as at Feb-19



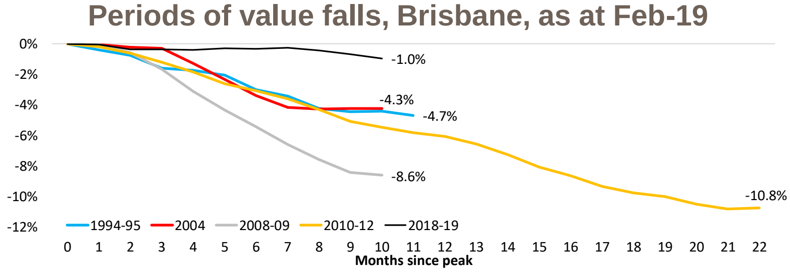
Periods of value falls, Sydney, as at Feb-19



Periods of value falls, Melbourne, as at Feb-19



Periods of value falls, Brisbane, as at Feb-19



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Much like Brisbane, value growth in Adelaide has been moderate over recent years however, that has not stopped values from starting to decline over recent months. Values peaked in December of 2018 and have fallen over each of the past two months to be -0.3% lower at the end of February 2019. While there have been previous periods of value falls in Adelaide, they have tended to be more moderate than those recorded across the other capital cities. To-date the decline has been short and moderate and it will be interesting to see over the coming months whether values continue to fall.

The Perth housing market has been in an extended downturn over recent years with values having now fallen by -17.8% since their June 2014 peak. The current downturn has run substantially longer than previous downturns and it is also a much deeper value fall than recorded across previous downturns. In late 2017/early 2018 it was looking as if the falls were coming to an end however, the market has weakened further in line with weaker labour market and economic conditions as well as tighter credit conditions.

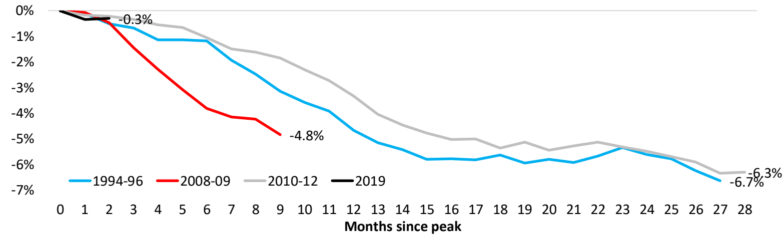
Hobart is the only capital city in which dwelling values are continuing to rise. Although they are still rising, the annual rate of growth in February 2019 was recorded at 7.2% which was its slowest rate of growth since October 2016. Housing affordability has been a big driver of growth over recent years however, housing affordability has been eroded and there is a likelihood that the rate of growth will continue to ease over coming months..

Darwin housing data commences from 1999 and over that time there have only been two downturns. The current downturn which commenced from May 2014 has now seen values in Darwin fall by -27.0%. The downturn is significantly longer and deeper than the previous downturn and the deepest downturn recorded for any capital city over recent decades. With weak labour market and economic conditions persisting, there is a high likelihood of further declines this year.

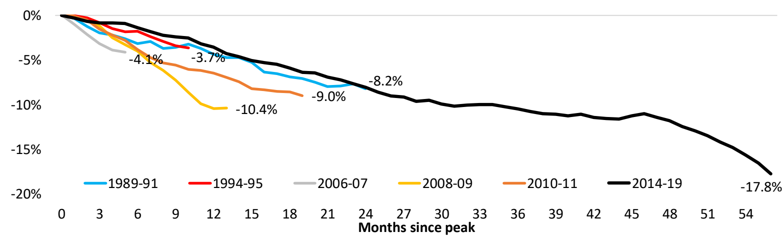
Canberra dwelling values fell by -0.2% in February 2019. Although there is no evidence of a negative trend, the rate of annual growth has been consistently slowing and it is clear that some heat has exited the Canberra housing market. Although values may edge lower, the outlook for Canberra's housing market is likely to be relatively steady conditions.

With values now falling across most capital cities the question of course becomes when do the falls stop. No one really knows the answer to that question, our models show, at least for the short-term, that values are likely to continue trending lower, with the rate of decline easing later this year and into 2020. The other main question is once markets reach a trough, how quickly will the market recover? Historically, market recoveries from their trough have generally been fairly rapid however, the recoveries have generally been driven by lower interest rates or a mix of stimulus such as the first home buyers grant boost. Although there is an expectation that interest rates may move lower, we probably won't see the entire rates cuts passed through to mortgage rates and the much tighter credit conditions are likely to limit any rebound in the housing market, particularly given borrowers are being assessed on their ability to repay a mortgage at a much higher rate (above 7%).

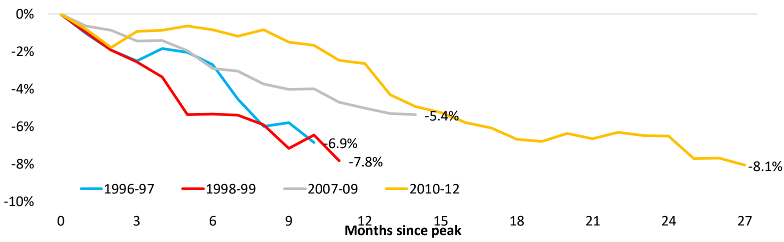
Periods of value falls, Adelaide, as at Feb-19



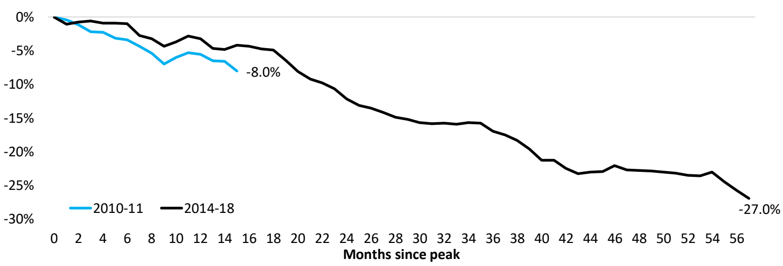
Periods of value falls, Perth, as at Feb-19



Periods of value falls, Hobart, as at Feb-19



Periods of value falls, Darwin, as at Feb-19



Periods of value falls, Canberra, as at Feb-19