2019 – The year that was… and the year ahead

with CoreLogic, Head of Research, Tim Lawless

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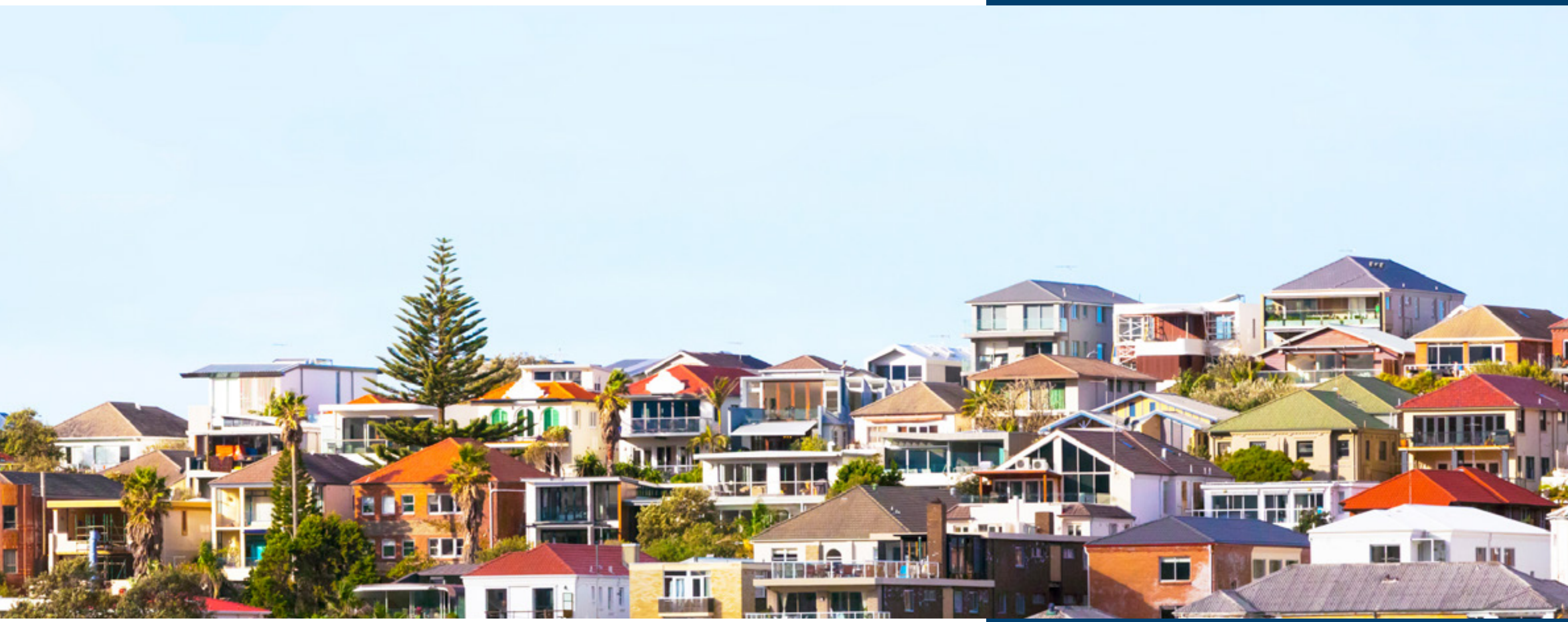

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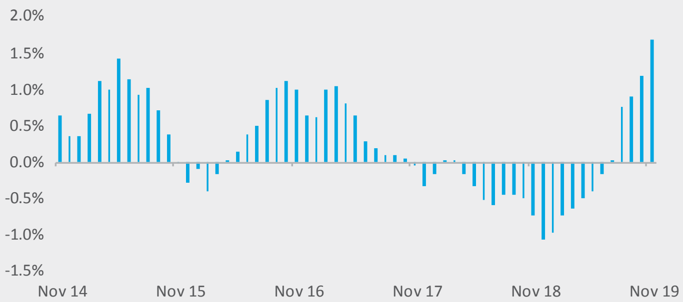
2019 - The year that was... and the year ahead

2019 will go down as the year when new records were set. For 2020, we're likely to see markets in recovery mode as housing prices catch up and then overtake their previous record highs, however we expect the rapid rate of capital gains seen over the second half of 2019 to lose steam as stock levels rise and affordability deteriorates.

2019 – The housing market moved through the largest and longest correction on record, followed by a fast-paced rebound in values through the second half of the year. Housing turnover fell to record lows in 2019, as did new advertised stock levels. Interest rates reduced to levels previously unseen, while the concentration of investors in the market also plumbed new depths.

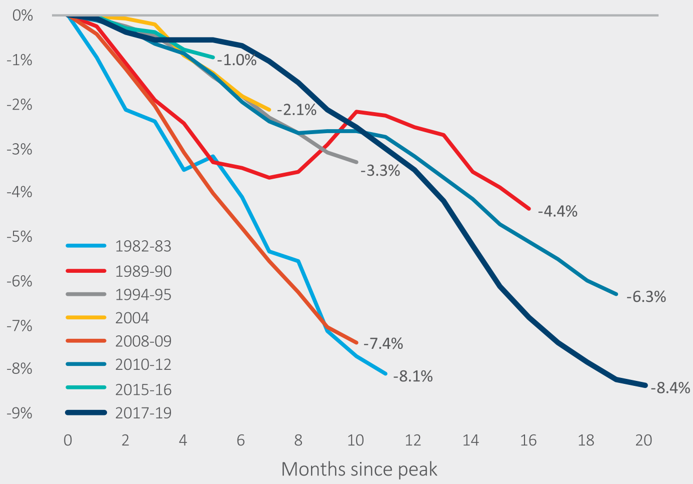
Month on month change in dwelling values, National Index



Source: CoreLogic

At a national level, housing values were trending lower through the first half of the year, continuing a downturn spiral that commenced in October 2017. June 2019 saw CoreLogic's national housing market index reach a floor after posting the longest and largest correction in housing values on record.

Historic periods of decline to trough, National

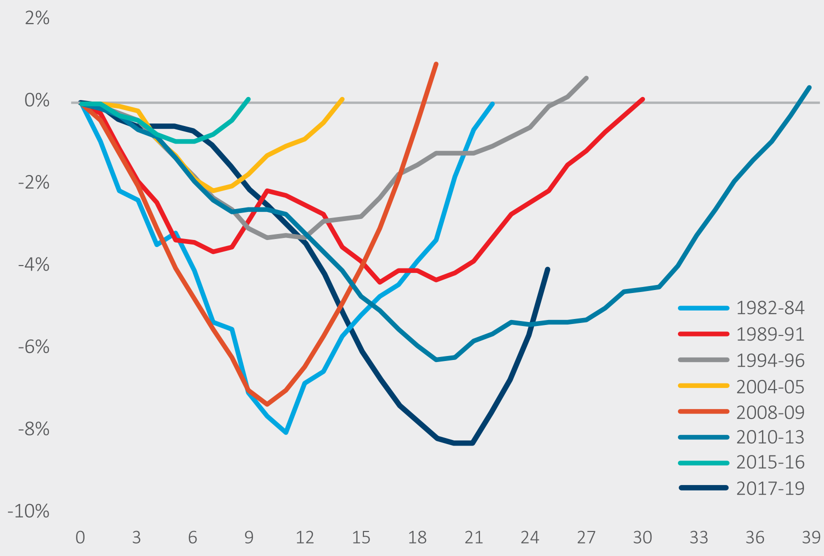


Source: CoreLogic

Between the market peak in October 2017, and the trough in June 2019, the national index fell by 8.4%. The previous record decline in national housing values was an 8.1% drop through the early 1980's as the economy moved through a recession and unemployment peaked slightly above 10%.

Larger peak-to-trough falls were recorded in Sydney (-14.9%) and Melbourne (-11.1%), where housing conditions had previously been the strongest. Of course not all the capitals found a floor in housing values through the year, with data through to the end of November showing that Darwin values were still trending lower, down a cumulative 31.5%, while Perth values posted a rare rise in November, but remained 21.6% below the 2014 peak.

Historic periods of decline to recovery, National



Source: CoreLogic

Since reaching a floor in June, CoreLogic's national index has rebounded by 4.7%, with the monthly growth rate in November the highest since 2003. Despite the recent recovery trend, housing values nationally remain 4.1% below their 2017 peak.

A variety of factors contributed to the housing values recovery over the second half of the year. Earlier in the year, a reduction in the rate of decline was supported by higher first home buyer activity and brought about by improvements in housing affordability and stamp duty exemptions in NSW and Victoria. However, the main contributors to a rebound in housing conditions were:

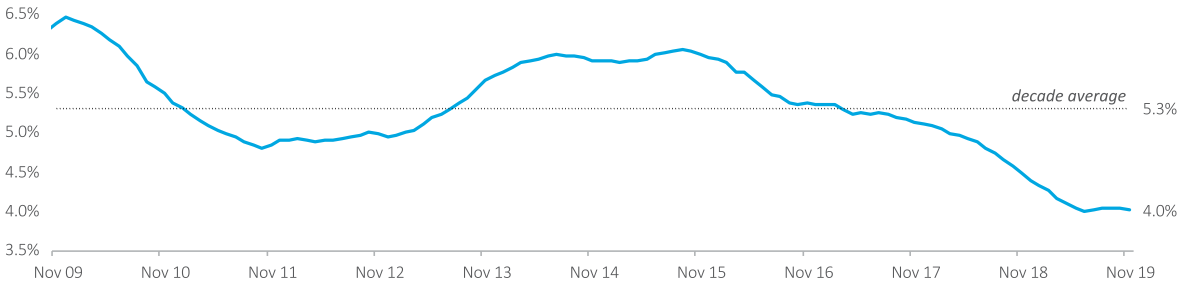
- The positive effect of the federal government retaining power at the May federal election which removed the uncertainty around tax reform relating to negative gearing and capital gains discounts.
- Cuts to the cash rate in June, July and October
- And an easing in lending policy as APRA adjusted its rules around minimum interest rate serviceability tests; a move which acknowledged interest rates were likely to remain low for an extended period of time.

Looking ahead: To deliver a fair assessment of the housing market trends over the coming year it's important to reflect on the key factors driving market performance, and more recently, how these factors are likely to change over the coming twelve months.

Tim Lawless
Research Director
Asia Pacific

Housing turnover hit record lows in 2019

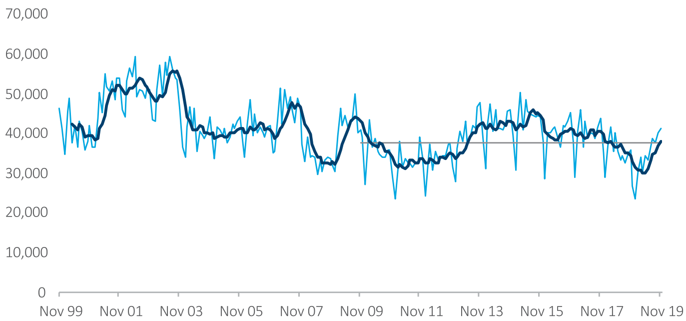
Housing turnover, Australia



Source: CoreLogic

Despite the rise in housing values and strong selling conditions, turnover in housing fell to record lows in 2019. Nationally, only 4% of Australian dwellings changed hands through the spring period of 2019 compared with the decade average of 5.3%. Factors contributing to low turnover include persistently low consumer sentiment, high transactional costs for those trading up or down, and overall low inventory levels which has kept sales activity low despite a lift in buyer demand. Turnover was the lowest across the Northern Territory, at just 3.3%, closely followed by WA (3.4%), Victoria (3.9%) and NSW (4.0%). Tasmania, where housing markets have generally been strong, showed the highest turnover rate at 5.1%.

Monthly sales with six month moving average, National



Source: CoreLogic

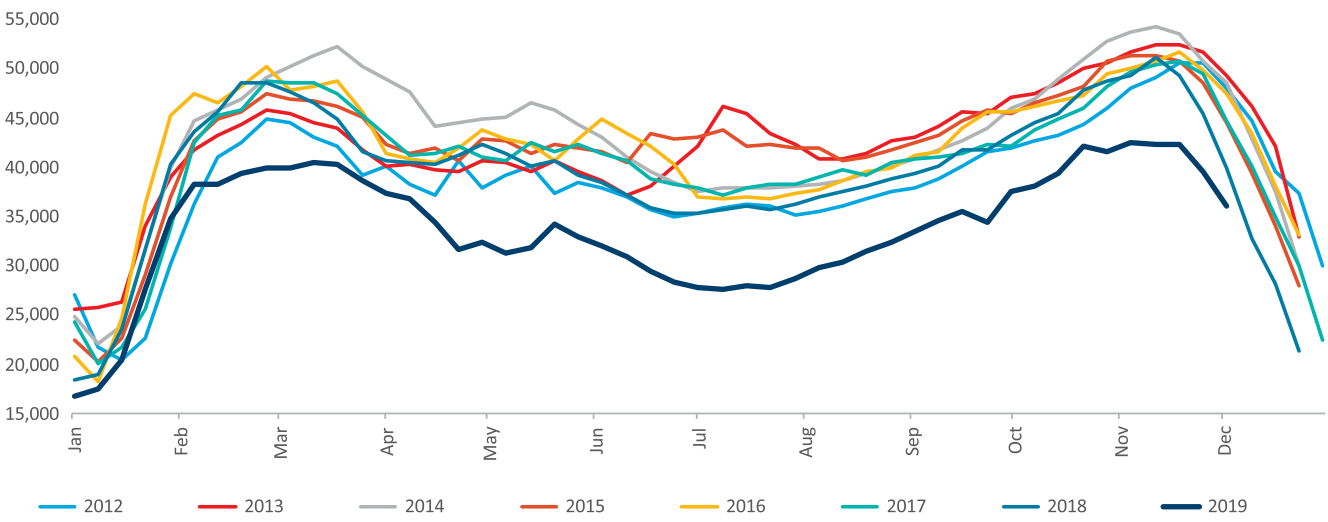
Although turnover remained low through most of 2019, activity was trending higher through the second half of the year with CoreLogic estimates of monthly settled sales tracking above the decade average during spring.

With interest rates remaining low and advertised housing stock likely to rise, we expect the number of dwelling sales to increase further in 2020, however the volume of sales isn't likely to exceed the highs of 2015 due to worsening affordability headwinds and tighter credit conditions relative to credit availability through the previous growth cycle.

A rise in housing sales should provide a positive multiplier effect on the broader economy, with housing transactions delivering a boost to industry and state government revenues as well as flowing through to retail items such as home furnishings, appliances and white goods. Gradually, a rise in dwelling sales and values should also flow through to a turnaround in dwelling approvals, which have been trending lower through 2019, supporting an improvement in the residential construction sector.

Advertised stock levels remain low but likely to rise next year

Rolling 28-day new listing count by calendar year, Australia



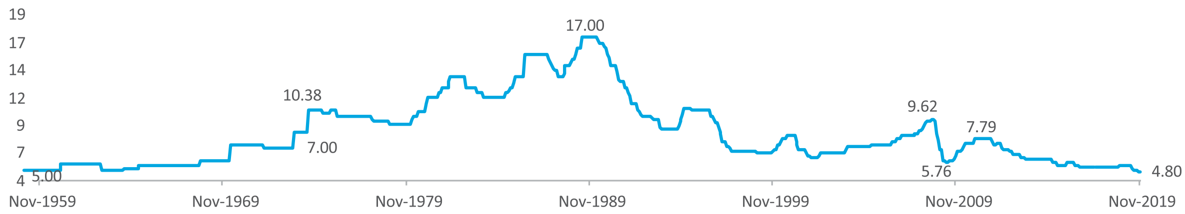
Source: CoreLogic

Record-low advertised stock additions have kept a lid on housing activity and added a sense of urgency to the market as buyer demand rises. New listings numbers were consistently tracking at record lows throughout 2019. Even during the spring listing season, new stock additions remained seasonally low. As buyer demand started to track higher around the middle of the year, active buyers were competing for a relatively small pool of available properties which has added some urgency to the market and supported upwards pressure on prices. At the end of the first week of December, new listings remained 10% lower than a year ago nationally, with Sydney (+5.6%) the only city to see new listings trend higher relative to the same period one year ago.

Considering the strong selling conditions (as evidenced by consistently high auction clearance rates as well as a contraction in selling times and discounting rates) and pent-up demand from home owners looking to sell, we expect new listing numbers to increase early in 2020. Higher stock levels will test the depth of buyer demand and likely help to ease some of the urgency felt by active buyers and dampen the pace of capital gains.

Interest rates likely to fall further in 2020

Standard variable mortgage rates over time



Source: CoreLogic, RBA

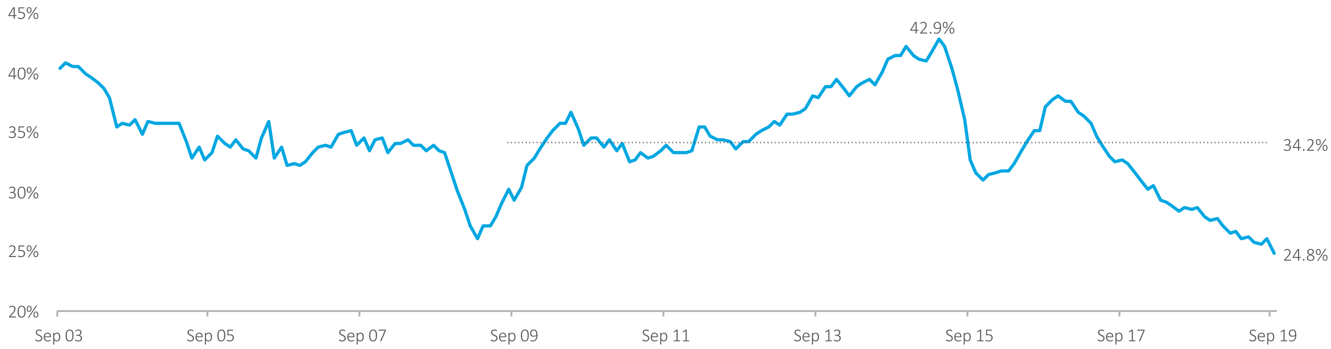
With the cash rate dropping to new record lows between June and October, mortgage rates fell to the lowest level since at least the 1950's. The RBA slashed the cash rate by 75 basis points over three twenty-five basis point cuts, however a smaller 60 basis points (on average) flowed through to mortgage rates, with more for fixed rates but less for variable rates. The sharp drop in rates, along with an easing in rules for interest rate serviceability tests from APRA, were the primary factors driving a rebound in housing values over the second half of 2019.

In all likelihood, the cash rate will drop by a further fifty basis points over the first half of 2020, taking official interest rates down to 0.25%. While the entirety of any rate cuts won't be passed on in full by lenders, due to already squeezed net interest margins and to ensure depositors remain incentivised, mortgage rates are likely to reduce even further from their current record lows.

Lower mortgage rates are likely to support a modest rise in buyer demand, however, there is a chance cutting rates to such low levels could have the opposite effect; denting confidence and spooking households into a more conservative approach of savings and deleveraging.

Investors reached a record low proportion of participation in the housing market during 2019, however the concentration of investors is likely to rise in 2020

New investor lending share of total new lending (ex-refinances)



Source: CoreLogic, ABS

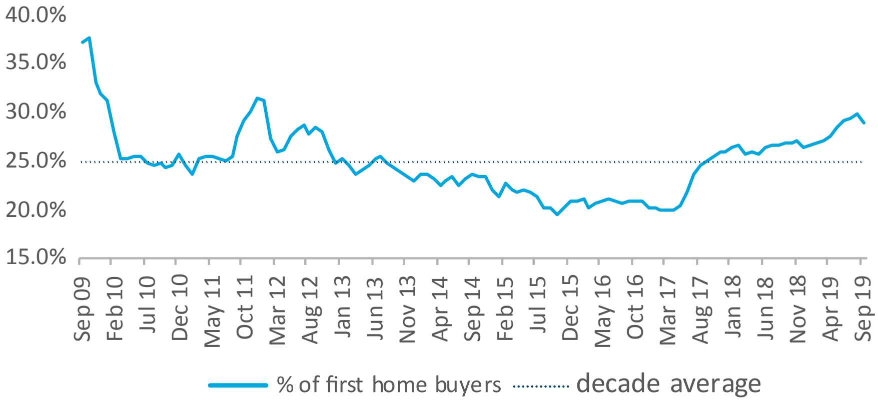
Investors made up the smallest proportion of market activity on record in 2019, comprising of only 24.8% of mortgage demand. The reduction in investor activity prior to the federal election was understandable, considering the uncertainty associated with tax reform under a change of government. Post-election, the value of investor loan commitments has increased, however, owner occupier lending increased even more which has pushed the proportion of investor lending lower.

Both the level and proportion of investor activity is likely to rise in 2020. Investors are likely to be motivated by prospects for capital gain, as well as the fact that gross rental yields, although generally low, are likely to be higher than the cost of debt. Opportunities for positively geared properties should be more abundant as mortgage rates move lower.

If investor activity trends materially beyond the long-term average (investors averaged approximately one third of mortgage demand over the past decade), this could be a trigger for another round of macro-prudential intervention from APRA aimed at curbing speculative activity in the housing market. The previous round of credit tightening specific to investors occurred when investors comprised more than 40% of mortgage demand, triggering a macro-prudential response from APRA which limited banks from growing their investment loan books by less than 10% per annum.

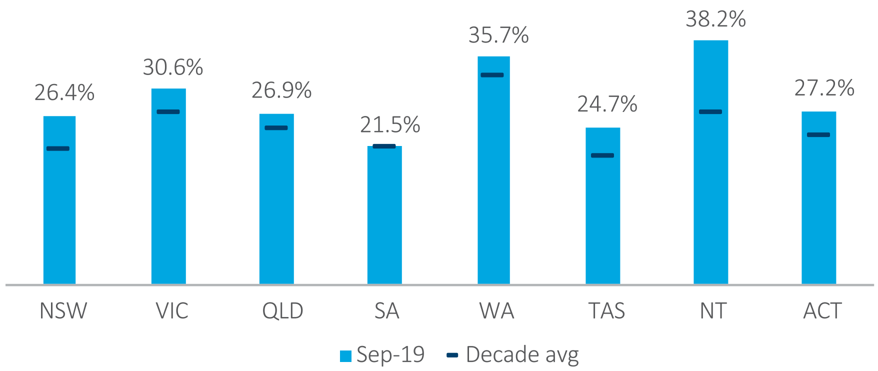
First home buyers took advantage of improved housing affordability, stamp duty exemptions in some states and less competition with investors to step up their presence in the market in 2019

First home buyers as a proportion of all owner occupier loans, National



Source: CoreLogic, ABS

First home buyers as a proportion of all owner occupier loans by state



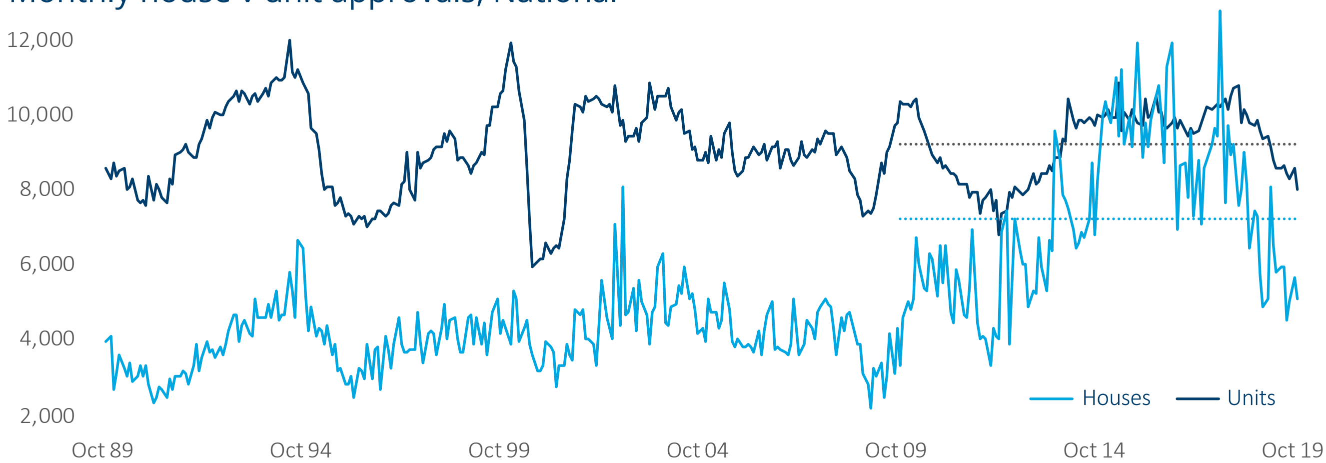
Source: CoreLogic, ABS

First home buyers comprised almost 30% of owner occupier mortgage demand in September, up from just 20% four years ago. First home buyers are typically price sensitive, therefore, the housing downturn has been good news for this sector of the market. Stamp duty exemptions for properties under specific price points in New South Wales and Victoria, record low interest rates and less competition with investors are other factors encouraging a larger presence of first time buyers into the market.

Although interest rates are likely to move lower next year, worsening housing affordability and increased competition with investors is likely to have a negative impact on first home buyer activity in the market.

Approved housing supply trended lower through 2019, falling to levels well below the decade average

Monthly house v unit approvals, National



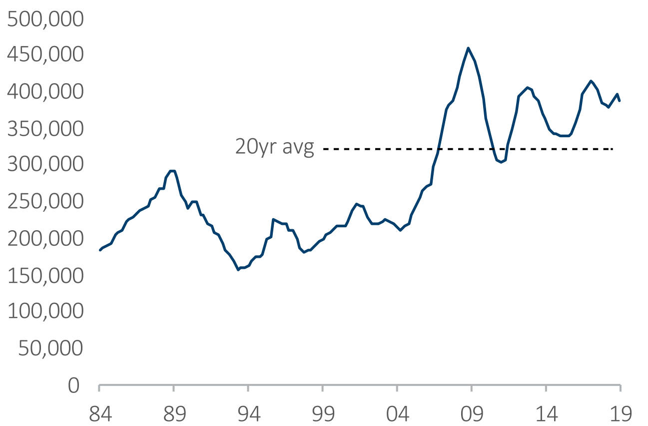
Source: CoreLogic, ABS

Nationally, dwelling approvals were down 44% from their 2017 peak through to the end of October 2019, reflecting a combination of concerns around a previous oversupply and weak developer confidence as market conditions deteriorated, compounded by tighter credit conditions. Anecdotally, consumer confidence has been dented in the high-rise sector following high profile construction faults and remediation costs associated with combustible cladding. Based on the data to the end of October, there has been no sign of a pick-up in new dwelling approvals despite the improved housing market conditions.

With buyer numbers and housing values expected to rise further next year, it is highly likely that approved housing supply will start to trend higher, however, considering the lag between approvals rising and construction work completing, 2020 is likely to see the new housing sector undersupplied relative to the rate of population growth.

Housing demand looks to remain strong, with overseas migration the primary driver of national population growth

Annual population growth, Australia



Source: CoreLogic, ABS

Unfortunately demographic updates from the Australian Bureau of Statistics (ABS) are lagged by around six months, however the trend in population growth into early 2019 remained strong. Australia's population increased by almost 390,000 over the year to March 19, which was 21% above the twenty year average. With population growth set to remain high through 2020 and housing supply additions remaining low, there is likely to be a gradual imbalance towards an undersupply of housing relative to demand.

So... what does this mean for housing markets?

Housing prices are likely to trend higher through the year. At a broad level, we expect dwelling values to trend higher in 2020, however at a reduced pace of growth relative to the second half of 2019.

Factors that will propel values higher include the stimulatory effect of lower interest rates, a lift in investment activity and an undersupply of new housing.

The headwinds will be seen in worsening housing affordability, higher advertised supply levels and potentially a worsening in consumer sentiment as households look to deleverage as they become more concerned around the economic outlook.

A slowdown in growth will most likely emanate from Sydney and Melbourne where the current pace of growth has been rapid, while smaller cities such as Brisbane and Perth, where demographic trends are improving and housing is much more affordable could see an acceleration in value growth over the next year.

Outside of the capital cities we are likely to see diverse conditions.
The satellite cities adjacent to the largest capitals, such as Newcastle, Wollongong and Geelong are likely to benefit from an overflow of demand as buyer seek out affordable housing options in areas with a diverse economy as well as commuting options into the major cities.

Lifestyle markets along the eastern seaboard and hinterland locations, especially areas adjacent to the major capitals, are likely to continue to experience strong demand from a variety of market segments. Post the recent housing boom, cashed up buyers from Sydney and Melbourne have utilised their improved wealth position to purchase investment properties and holiday homes, while baby boomers approaching retirement are also positioning themselves in these lifestyle markets. Anecdotally, professionals are also taking advantage of high-speed internet services, a greater acceptance of remote working by employers and tolerable commuting times to base themselves in a regional location adjacent to the major capital cities.

Mining regions have started what is likely to be a drawn out recovery, following a dramatic decline in values post-mining/infrastructure boom, however agricultural regions that are drought-affected are likely to continue to see weaker conditions until climatic conditions improve.

New South Wales

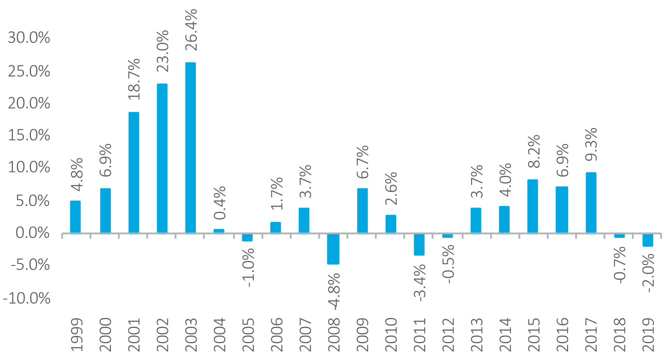
After leading the nation for capital gains during the previous growth cycle, Sydney's housing market moved through the largest downturn on record, with dwelling values down 14.9% from their July 17 peak. Since bottoming out in May 2019, Sydney dwelling values have rebounded by 8.2%, with a larger gain for houses (+8.8%) relative to units (+6.8%). As values increase, market activity is also rising, with our estimate of settled sales 7.1% higher year on year across Sydney, but still 18.5% below the decade average.

It's hard to imagine such a rapid rebound in housing values being sustained far into 2020. At the current trend rate of growth, Sydney dwelling values will reach a new record high in March next year, implying the improvements in housing affordability will have largely evaporated early next year. Apart from affordability challenges, other factors that could slow the pace of growth in Sydney housing values include slowing population growth, as more residents move interstate, weakening labour market conditions and the likelihood of higher advertised stock levels that could remove some urgency from the market.

Annual change in dwelling values, Sydney

Source: CoreLogic

Annual change in dwelling values, Regional NSW



Source: CoreLogic

Across the broader regional areas of the state, dwelling values have been trending higher since September 2019, however conditions remain diverse.

Newcastle and Illawarra were the major drivers of a rebound in regional NSW housing values through late 2019, and this is likely to continue as buyers are attracted to the more affordable home prices, and lifestyle options in these areas.

The regional coastal markets are benefitting from the capital flowing out of Sydney and Melbourne as well as favourable demographic trends. We expect housing values to continue rising as lifestyle buyers remain active and baby boomers shift their focus to retirement options.

The agricultural markets are likely to see a continuation of weaker conditions as housing demand is weighed down by the persistent drought conditions, however the major service centres across rural NSW, where the economy is supported by a variety of service industries are expected to show a stronger result.

Victoria

Melbourne housing values found a floor in May 2019 after posting an 11.1% correction from the November 2017 peak. Since values bottomed out, the Melbourne housing market has posted a rise of 8.3% to the end of November and housing values are only 3.7% below the recent record high in 2017. Based on the current trend rate of growth, Melbourne home values are likely to reach a new record high in January next year. The recovery trend has been led by houses, up 8.6% since bottoming out, while unit values are up 8.1%.

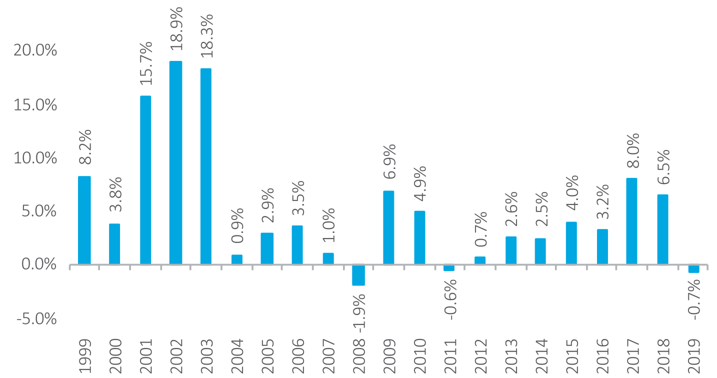
The recovery has been taking place on relatively thin volumes, with year on year sales activity down 5.4% across Melbourne and annual sales tracking 12% below the decade average. Despite the annual decline in sales, the more recent trend has seen a sharp rise in home sales as buyer demand lifts.

Considering the strong economic and demographic fundamentals, we could see the Melbourne housing market outperform Sydney's in 2020. Although we don't expect the rapid pace of capital gains that was evident over the second half of 2019 to be sustained, the high rate of population growth, low rate of unemployment and lower housing prices relative to Sydney should help to support further growth in home values next year.

Annual change in dwelling values, Melbourne

Source: CoreLogic

Annual change in dwelling values, Regional VIC



Source: CoreLogic

The recent trend across the regional areas of Victoria has seen the coastal markets around Warrnambool as well as Latrobe/Gippsland leading the recovery, with values up slightly more than 2% over the three months ending November, closely followed by Shepparton, Bendigo, Geelong and Ballarat.

Moving into 2020, the major centres, including Geelong, Ballarat and Bendigo have the best prospects for capital gains, supported by the spill over of demand out of Melbourne, cheaper housing prices and relatively diverse economic conditions, while lifestyle markets within an easy driving distance from Melbourne or the major centres are also well positioned for growth.

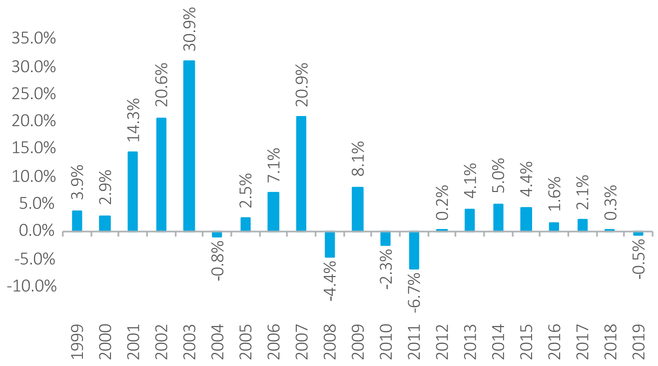
Queensland

Brisbane's housing cycle has been mild relative to Sydney and Melbourne, with values rising roughly in line with inflation over the past five years and down only 2.9% from their April 2018 peak. Brisbane home values bottomed out in June 2019, and rebounded by 2.2% through to the end of November. Values were only 0.8% below their recent peak at the end of November, suggesting dwelling values are likely to reach a new record over the first few months of 2020 based on the current trend in growth.

House and unit values have recorded a similar recovery trajectory, with house values up 2.2% and unit values up 1.1% since finding a floor. With the previous oversupply in new units now largely absorbed, Brisbane's unit sector is once again contributing to positive growth conditions.

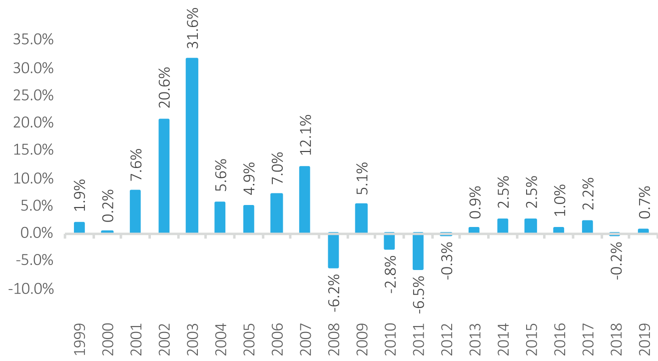
Market activity trended higher over the second half of the year, however the annual number of sales remains 7.8% lower relative to the same 12 month period a year earlier, and annual sales remain 13% below the decade average.

Annual change in dwelling values, Brisbane



Source: CoreLogic

Annual change in dwelling values, Regional QLD



Source: CoreLogic

The relatively sedate history of growth in housing prices means Brisbane is much more affordable relative to the larger capital cities, and this, together with a rapid rate of population growth should support an improvement in market conditions through 2020.

Outside of Brisbane, it's the coastal markets that are showing the strongest growth trajectory heading into 2020, particularly the Sunshine Coast and Gold Coast regions situated to the north and south of Brisbane. Demand for lifestyle properties, especially those with some depth to the local economy, within easy commuting distance to Brisbane and close to a major airport, are likely to increase in popularity.

Other Queensland lifestyle and tourism markets are also showing some upside for 2020, with housing values across Cairns, Mackay/Whitsundays and Wide Bay trending higher through late 2019.

South Australia

Adelaide's housing market moved through a mild correction in September 2019 after values fell by 1.6% from the market peak. The past five years has seen Adelaide home values tracking higher at a sustainable average of 2.1% per annum. The two months ending November 2019 saw Adelaide house values rise by 1.0% while unit values were up 0.8%. At the end of November, Adelaide dwelling values remained only 0.7% below their record high.

Market activity has been trending higher through the second half of 2019, however annual sales remain 4.8% below the twelve months prior and were tracking 3.0% below the decade average.

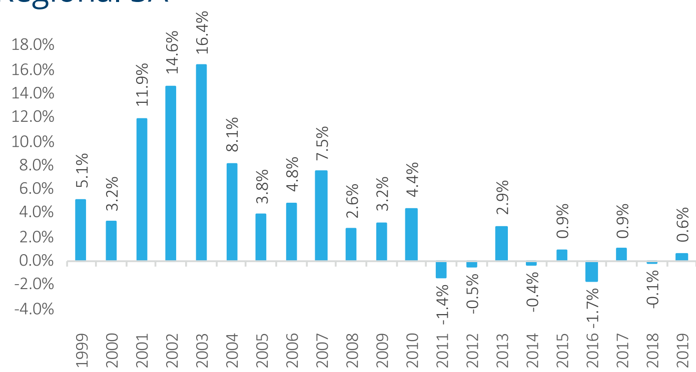
We expect a relatively similar trend across Adelaide in 2020, with housing values continuing to rise at a modest pace, supported by rising migration rates and affordable housing options, but tempered by relatively soft economic conditions.

Conditions across South Australia's regional markets haven't been quite as healthy as those for Adelaide. The last five years has seen values rise at the annual pace of just 0.3%, although the past twelve months has seen values rise at double the five year average, up 0.6%.

Annual change in dwelling values, Adelaide

Source: CoreLogic

Annual change in dwelling values, Regional SA



Source: CoreLogic

The stronger growth conditions are currently confined to the South East of the state, where values were up 1.6% over the three months ending November. Considering improvements to commodity prices, low Australian dollar and planned infrastructure spend, we are likely to see more positive housing market conditions spread to other areas of regional South Australia.

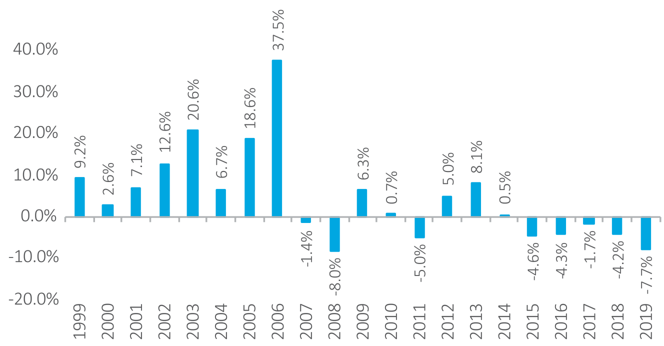
Western Australia

Perth's rate of decline consistently improved through 2019, culminating in a rare rise in home values for the month of November (+0.4%). While it's too early to call the bottom of the market on one month of data, the consistently improving trend suggest the Perth market is most likely moving through the trough of a very long downturn. Since the market peaked in mid-2014, Perth home values have fallen by 21.6%. As conditions improve, activity has been trending higher, but annual sales remain 3.2% lower than a year ago and 19% below the decade average.

The silver lining to the long running Perth downturn is that housing affordability is amongst the healthiest of any capital city, and first home buyers comprise more than one third of housing demand.

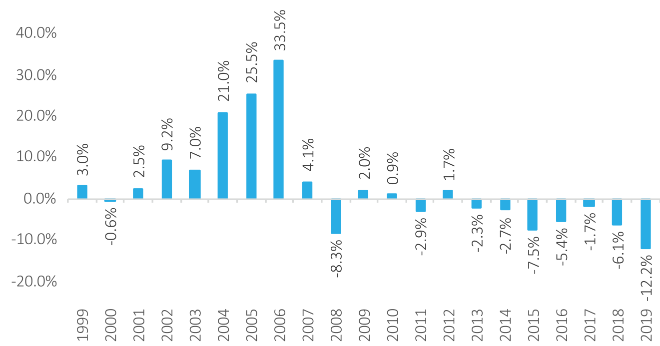
The Western Australia economy is seeing an improvement in jobs growth, lower unemployment and an improving resources sector, with each of these indicators rising from levels that are well below average. Overseas and interstate migration has turned a corner, taking overall population growth back to decade average levels, indicating an improvement in housing demand, which should help to support a further recovery in housing prices in 2020.

Annual change in dwelling values, Perth



Source: CoreLogic

Annual change in dwelling values, Regional WA



Source: CoreLogic

The regional areas of the state have seen substantially weaker conditions than Perth. Dwelling values across the regional northern area of the state remain approximately 59% lower than they were in 2012 and the broad southern area of regional WA is recording values that are 47% below their 2008 peak. Areas connected with the mining sector and tourism based markets are likely to continue along their recovery trajectory in 2020, however drought affected agricultural markets are likely to remain challenging until climatic conditions improve.

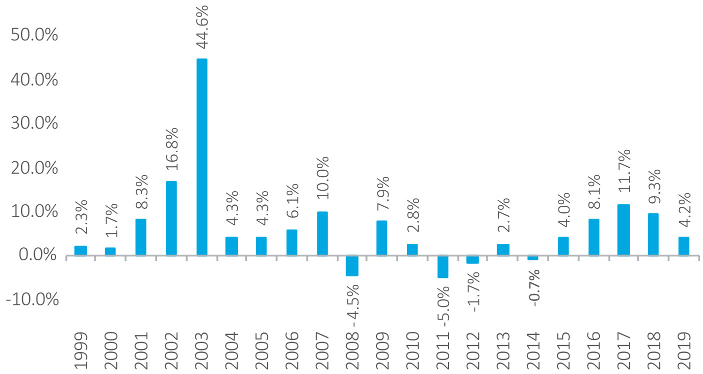
Tasmania

Both Hobart and regional Tasmania stood out amongst the rest of the country as recording the highest rates of capital gain over the past couple of years, although the pace of growth has been cooling across Hobart over the past two years. Despite the slowdown and several months of falling values through the year, Hobart values were 4.2% higher over the 12 months to November, while regional Tasmania saw values rise by a higher 4.9%.

Such strong conditions were fuelled by a combination of rising migration rates, insufficient housing supply, improving economic conditions, healthy housing affordability and strong rental market conditions. Some of these factors are now easing, especially housing affordability which has worsened substantially since the surge in housing values commenced in mid-2015.

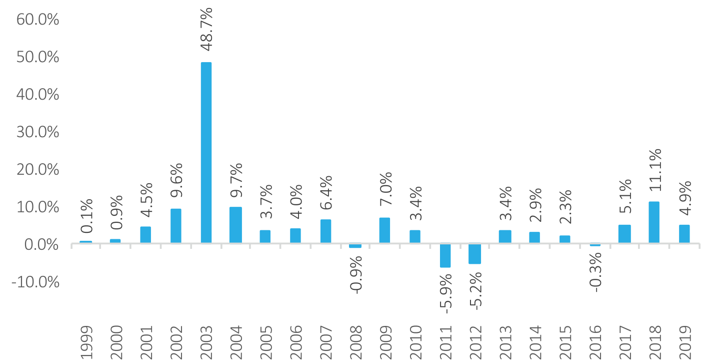
As affordability constraints become deeper seated, it's likely the rate of growth will soften across both Hobart and the regional areas of the state in 2020, however with migration remaining high against an undersupply of dwellings, there is a strong likelihood that Tasmania's housing markets will continue to be one of the best performers next year.

Annual change in dwelling values, Hobart



Source: CoreLogic

Annual change in dwelling values, Regional TAS



Source: CoreLogic

Northern Territory

The Darwin housing market continued to trend lower through 2019, following a trend that has been evident since mid-2014. Since the market peak through to November 2019, Darwin housing values are down 31.5%.

Darwin is now the most affordable capital city housing market, both on a raw median value measure and relative to household incomes. It's also the capital city showing the highest gross rental yields. The combination of a low entry point and strong cash flow, with the potential for medium to long-term capital gains could start to lure more investor interest into this market in 2020.

On the flipside, migration rates remain weak and with no sign of large-scale infrastructure projects on the horizon to aid in kick-starting economic conditions and jobs growth. With uncertain economic conditions ahead, it's difficult to determine where the growth drivers will come from, however with housing now very affordable and new supply levels remaining low, we expect to see the Darwin market levelling out in 2020.

Annual change in dwelling values, Darwin

Source: CoreLogic

Annual change in dwelling values, Regional NT

Source: CoreLogic

Australian Capital Territory

Canberra's housing market remained relatively resilient to falling prices through 2019, with the market down only 1.5% for a brief period between April and July. Since then, Canberra housing values have bounced back by 4.0% to reach a new record high in November. Market activity has also picked up over the second half of the year, however annual sales remain 3.0% lower than a year ago and 11% below the decade average.

Despite dwelling values rising at the average annual pace of 4.6%, housing affordability is still relatively healthy relative to household incomes. Jobs growth is the fastest of any state or territory and unemployment is the lowest amongst the states and territories.

Annual change in dwelling values, Canberra

Source: CoreLogic

Considering the strong backdrop of economic and demographic conditions, we are expecting dwelling values in Canberra to continue trending higher in 2020, likely at a similar pace to what we have seen in 2019.

corelogic.com.au