

Housing market trends

Our Insights. Your Story.

May 2020



Residential Real Estate Underpins Australia's Wealth



RESIDENTIAL REAL ESTATE

\$7.2 Trillion



AUSTRALIAN SUPERANNUATION

\$3.0 Trillion



AUSTRALIAN LISTED STOCKS

\$2.0 Trillion



COMMERCIAL REAL ESTATE

\$1.0 Trillion

Data as at May 2020



10.4 million
Number of dwellings

\$1.83 trillion
Outstanding mortgage debt

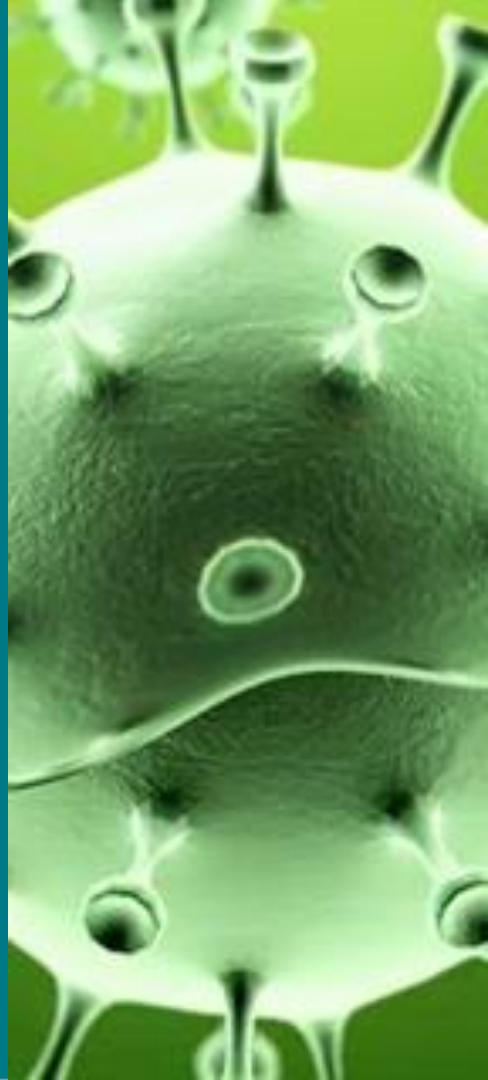
52.4%
Household wealth held in housing

421,977
Total sales p.a.

\$278.3 billion
Gross value of sales p.a.

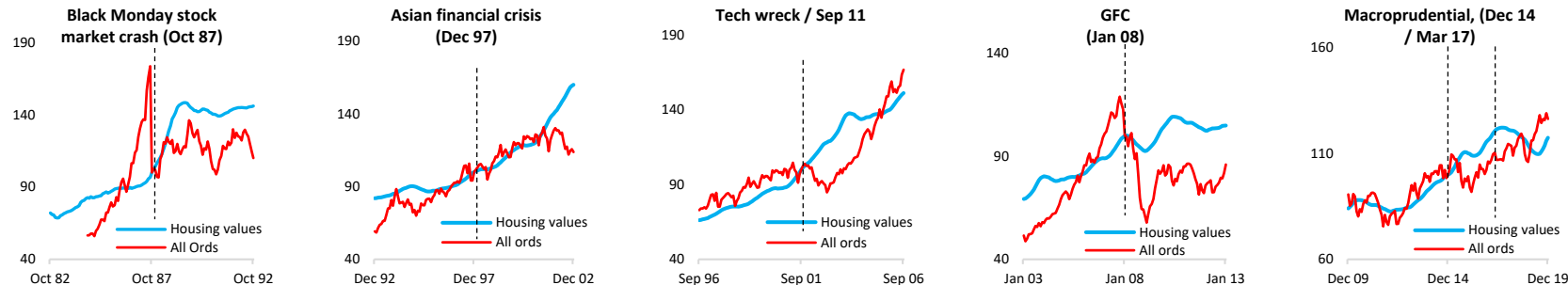
The impact on the housing market from coronavirus remains highly uncertain...

Previous economic shocks have seen housing values relatively insulated, while volumes are more susceptible to volatility.

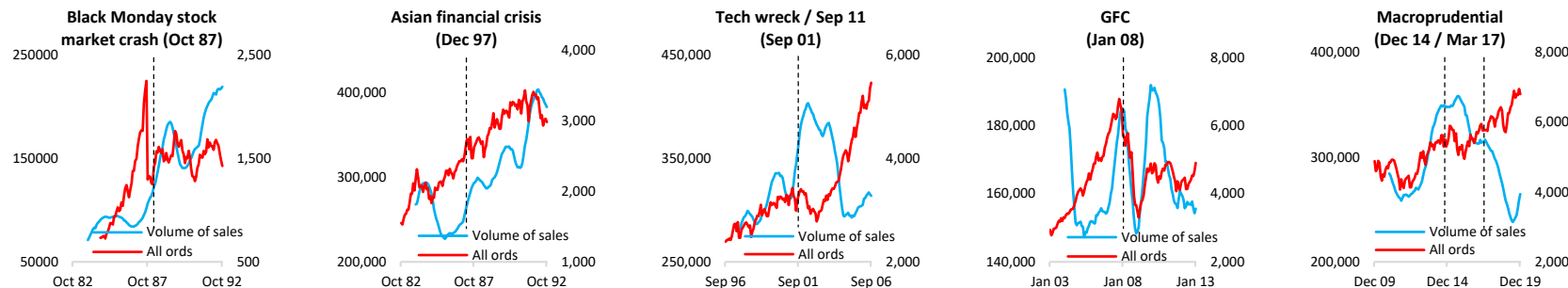


Housing values have generally been insulated from financial shocks historically but have been more reactive to credit tightening events

Housing indices v All Ordinaries index across previous shocks (5yrs either side of event)



Housing volume v All Ordinaries index across previous shocks (5yrs either side of event)



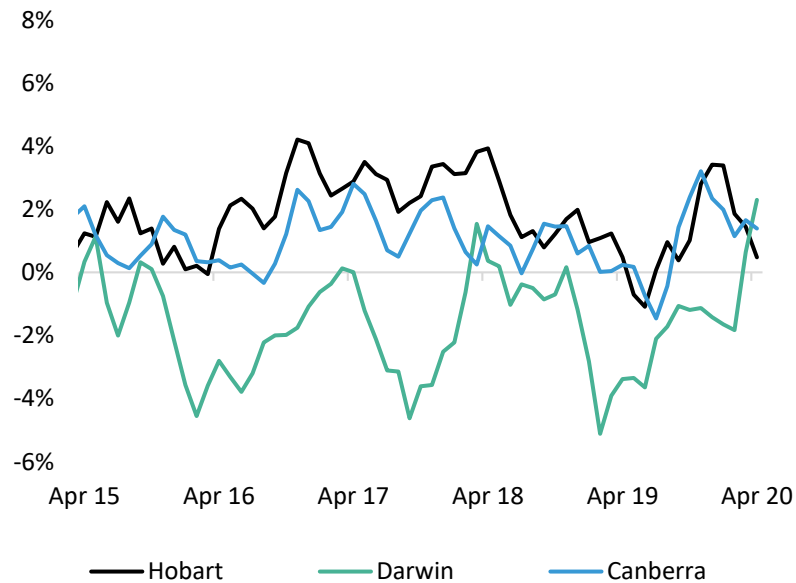
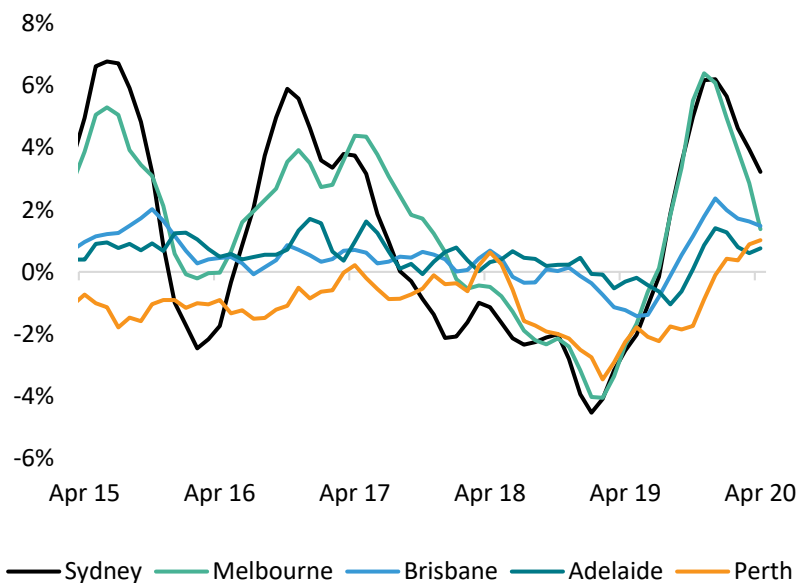
Housing values and volumes are based on combined capitals region

Australian home values have been in an upswing since mid-2019, however the short-term outlook is for extreme uncertainty and downside risk followed by a rebound as economic conditions recover.

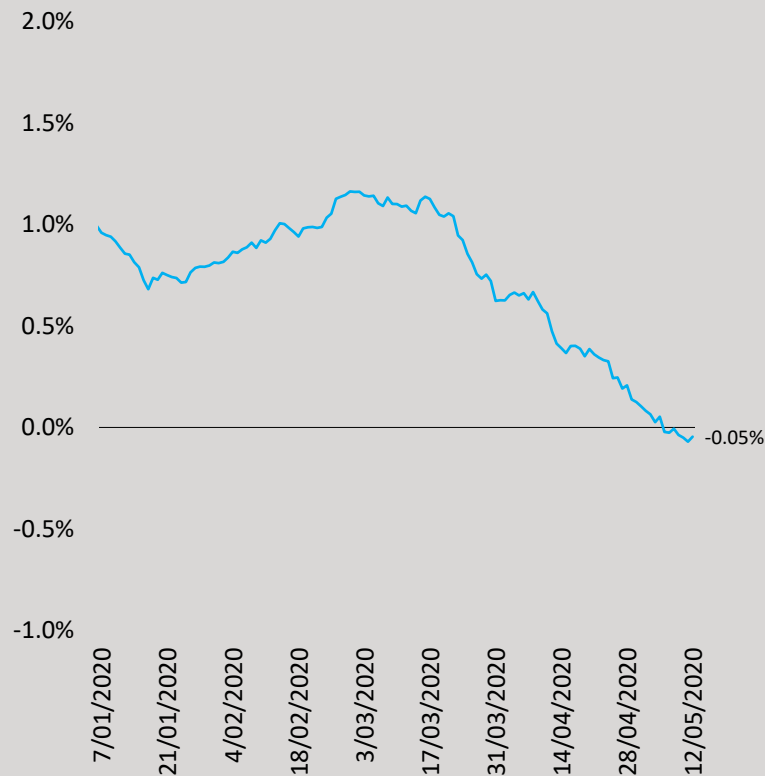


The quarterly trend in value growth shows the market moved through 'peak' growth late last year

Quarterly change in dwelling values



Rolling 28-day change in daily home value index, combined capitals

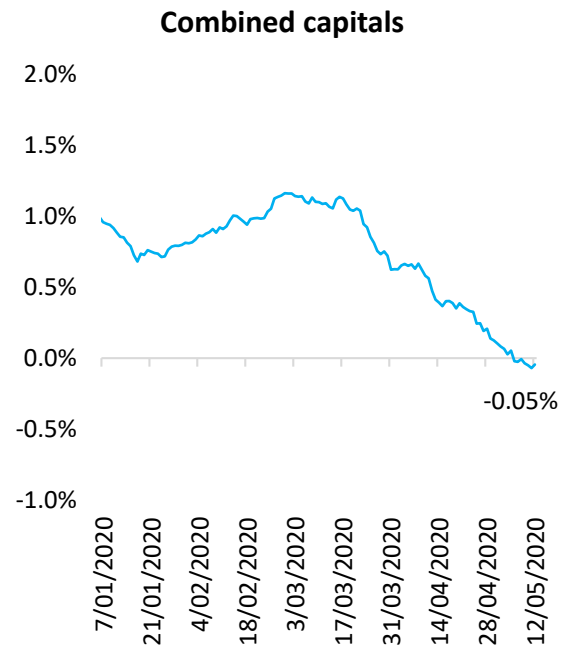
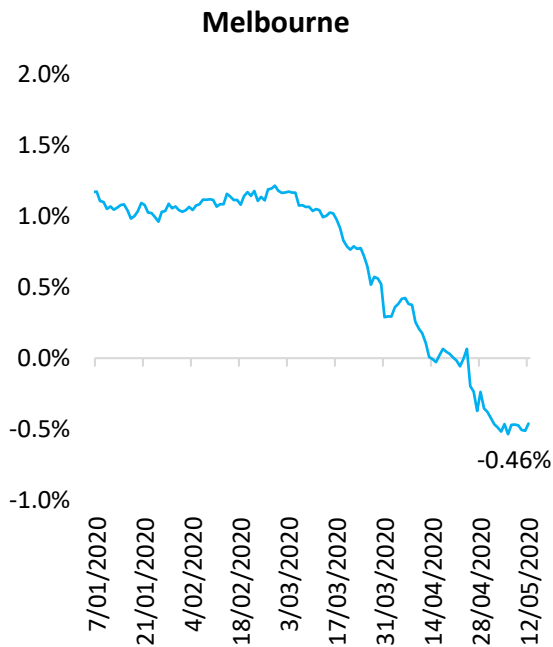
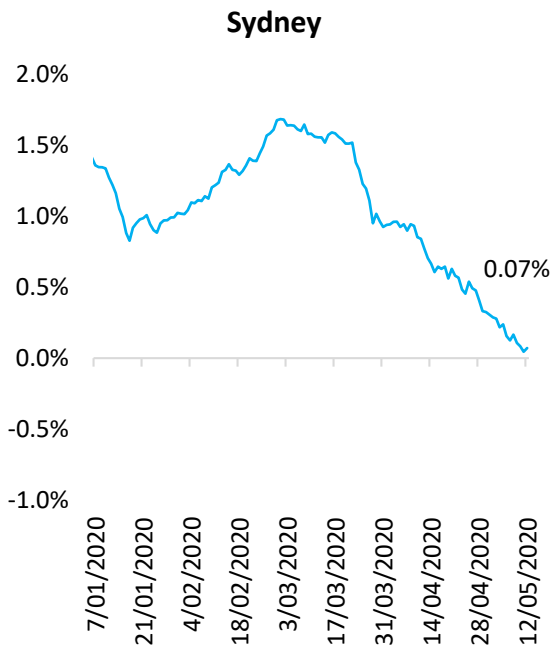


The CoreLogic *daily* home value index showed a change of pace halfway through March.

Data over the first two weeks of May shows the combined capital cities index is nudging into month-on-month value declines.

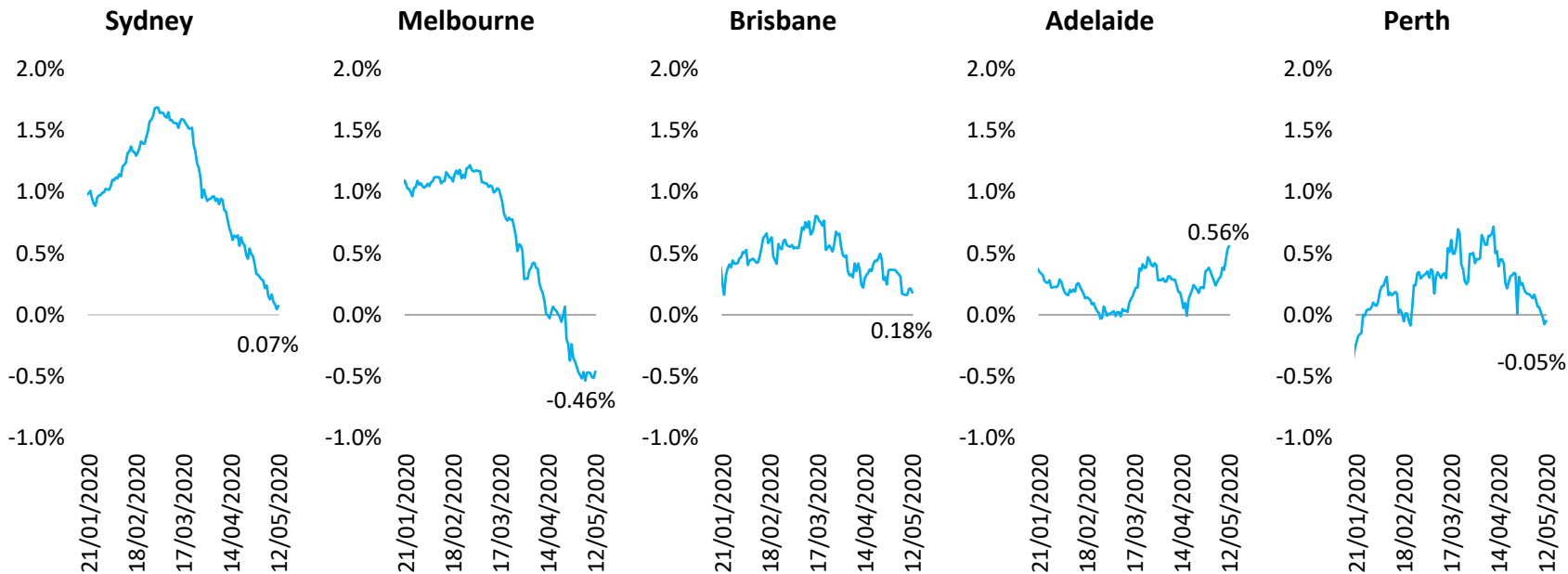
The monthly trend in the daily hedonic is weakening, driven by Melbourne and (to a lesser extent) Sydney

Daily CoreLogic home value index – rolling 28-day change

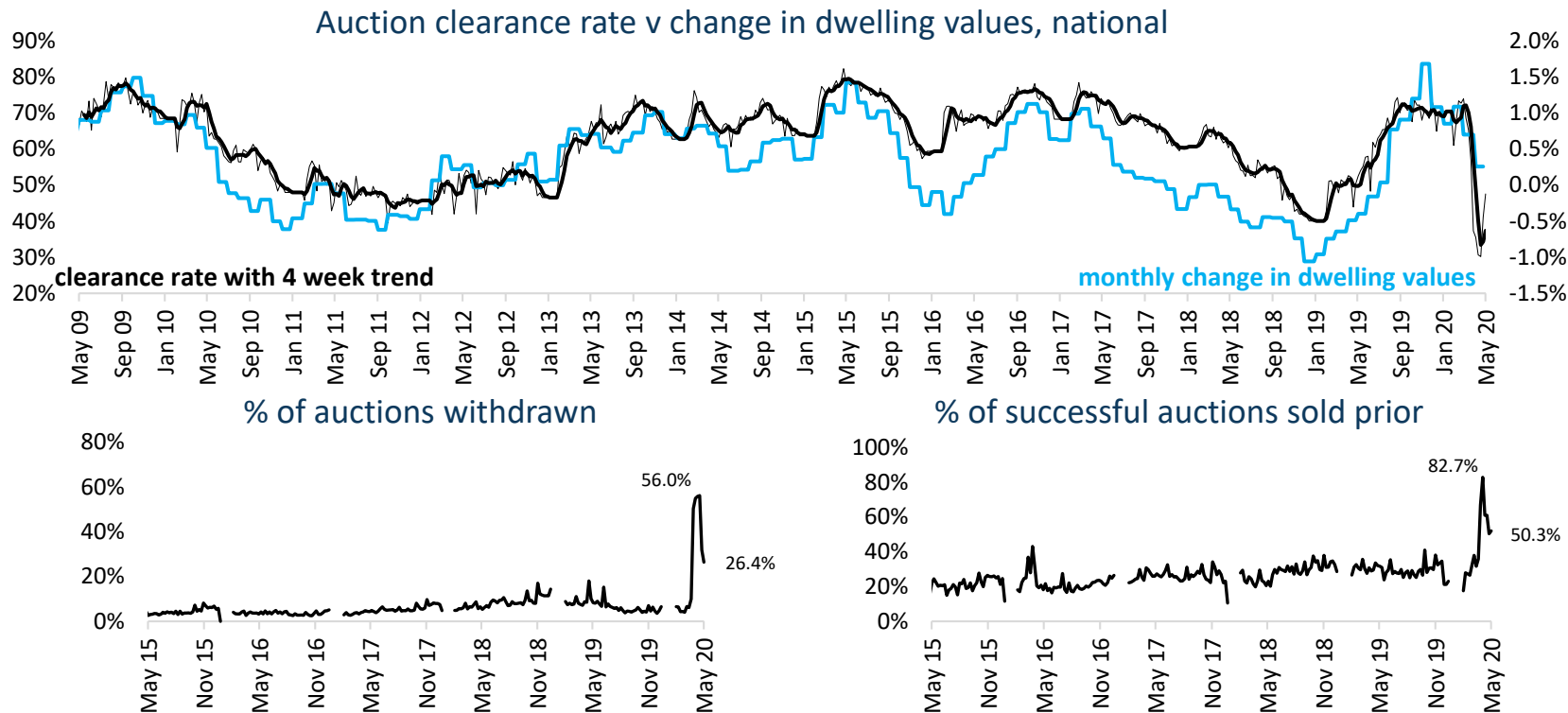


Smaller cities are also generally losing momentum (apart from Adelaide), with Perth slipping into negative month-on-month change while Brisbane growth continues to lose momentum.

Daily CoreLogic home value index – rolling 28-day change



Clearance rates plunged following the announcement of policies restricting on-site auctions, but have improved over recent weeks as the number of withdrawn auctions eases and restrictions are relaxed

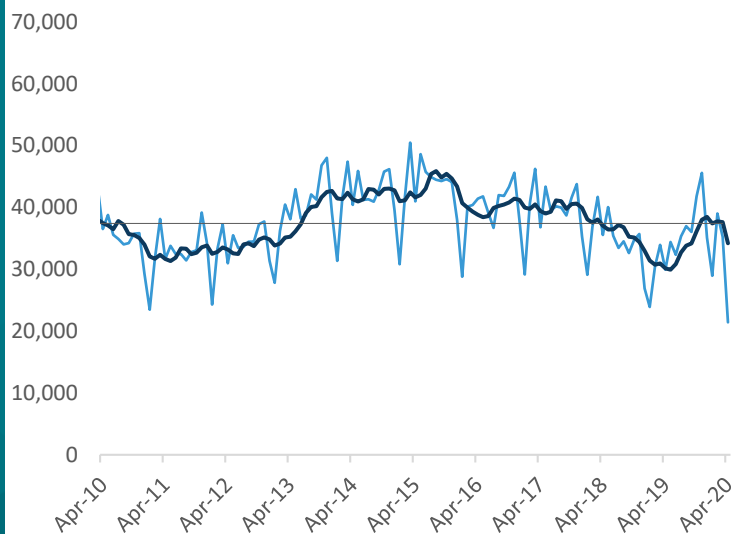


* As a % of all auction results

* As a % of all 'sold' auction results

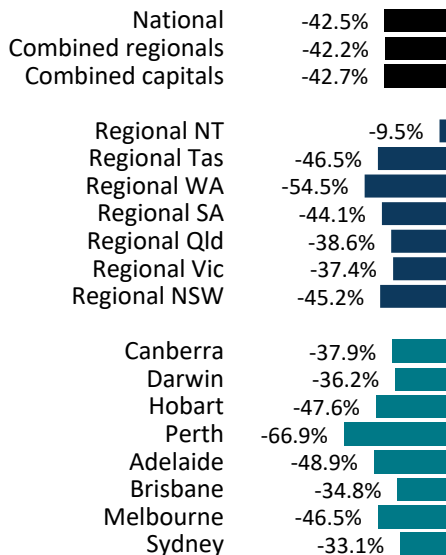
CoreLogic estimates of settled sales fell by around 40% in April as buyers and sellers retreated to the sidelines

Monthly sales with six month moving average, National

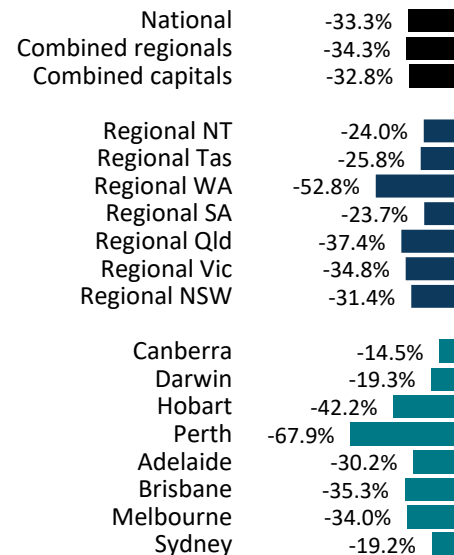


Note: recent months are modelled estimates, and are therefore subject to revision.

% change March to April 2020

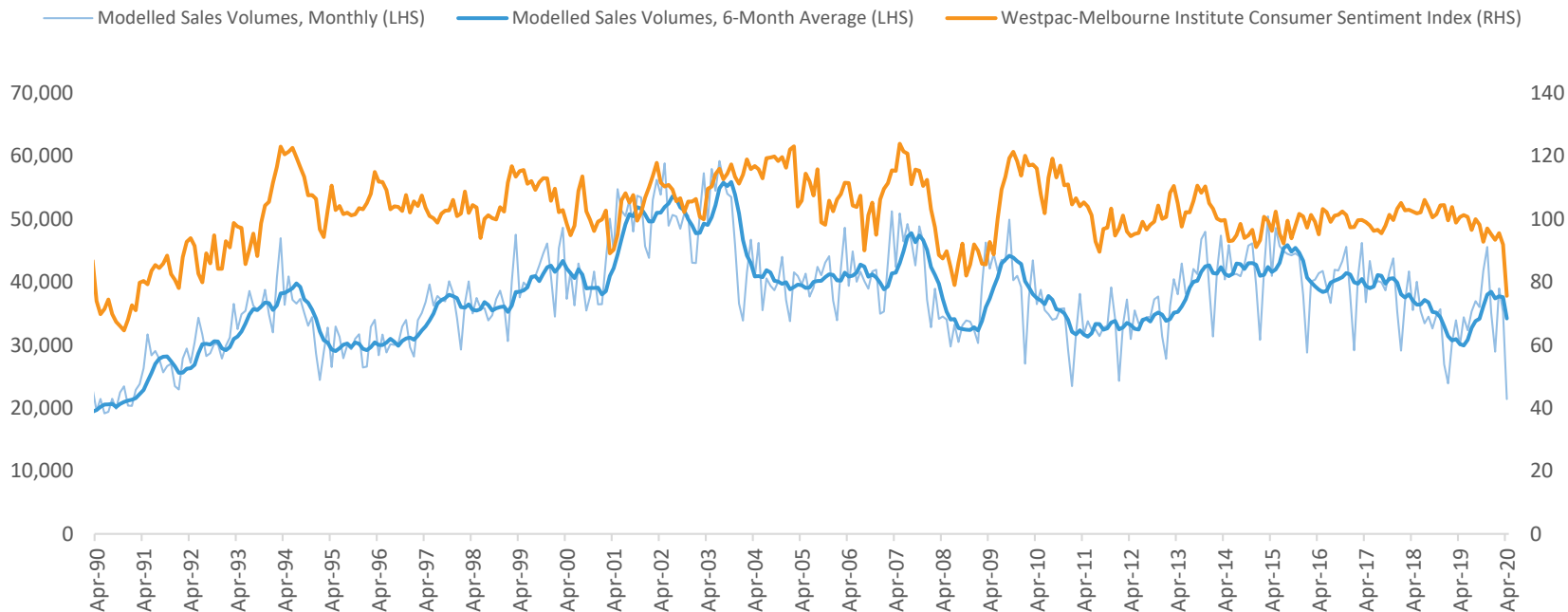


% change April 2019 to April 2020



Sales volumes are declining significantly as consumer confidence reaches its lowest levels since the early 90's recession

Monthly sales volumes and Westpac-MI consumer sentiment index



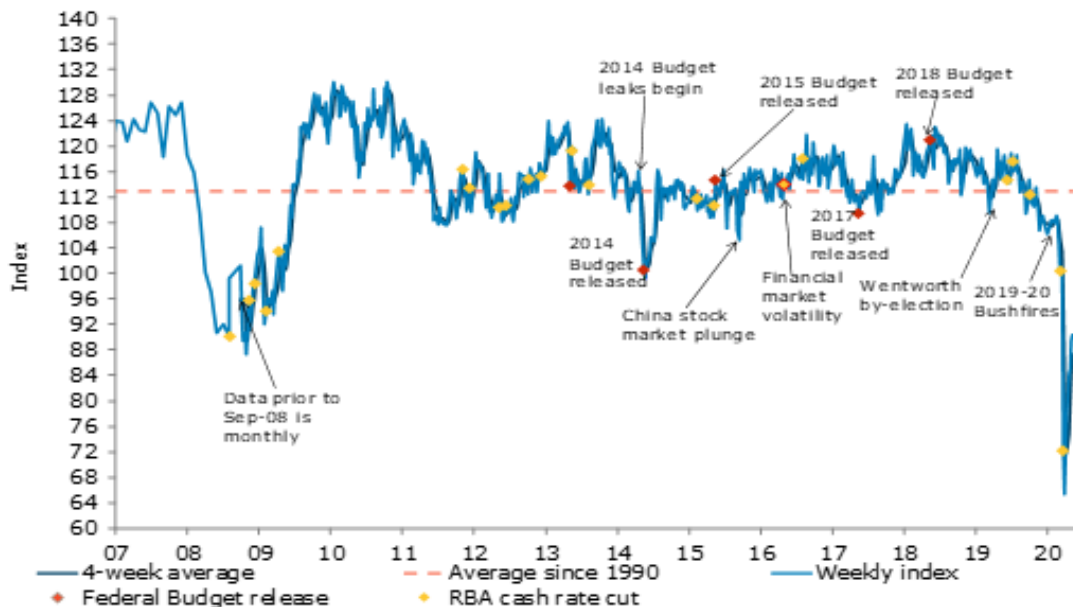
Note: recent months on sales volume are modelled estimates, and are therefore subject to revision

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Source: CoreLogic, Westpac/Melbourne Institute 12

The ANZ/Roy Morgan *weekly* reading on consumer sentiment has fallen dramatically since social distancing policies were implemented, but the indicator has recovered almost 70% of the decline over the past six weeks

Confidence up a notch



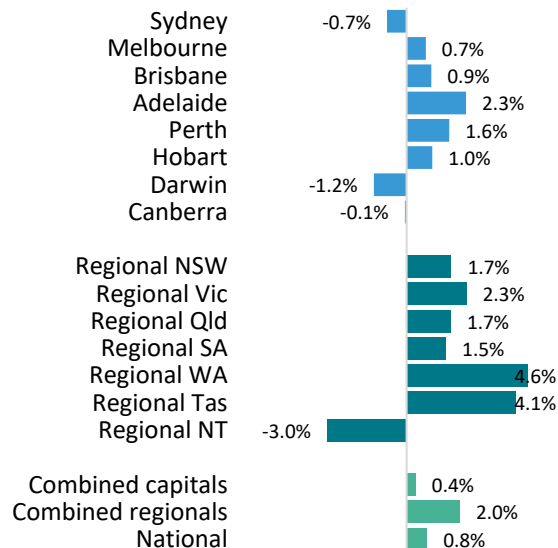
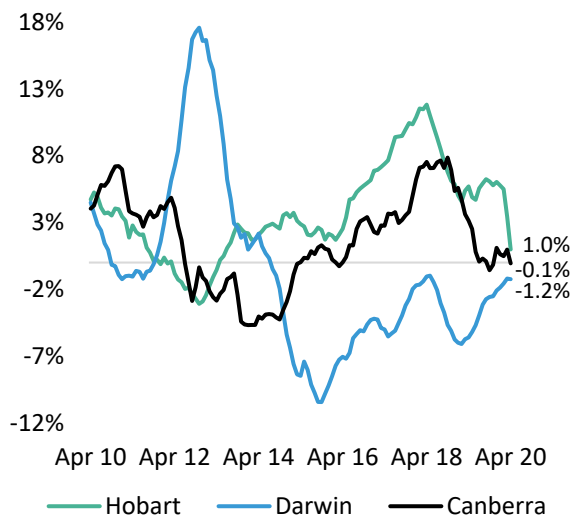
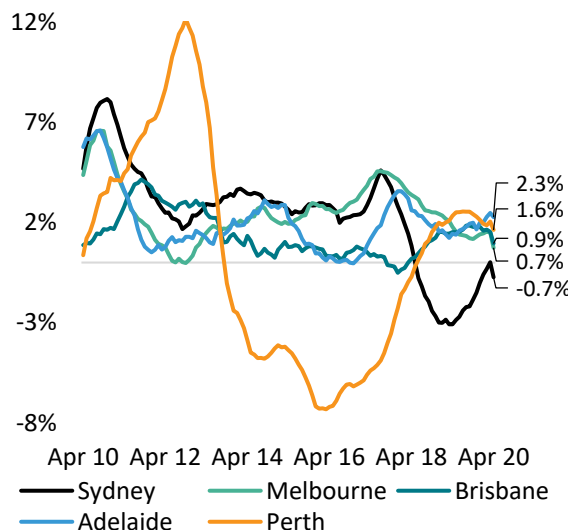
Source: ANZ-Roy Morgan, ANZ Research

Rental markets are likely to see larger declines than housing values due to higher supply at a time of lower demand.



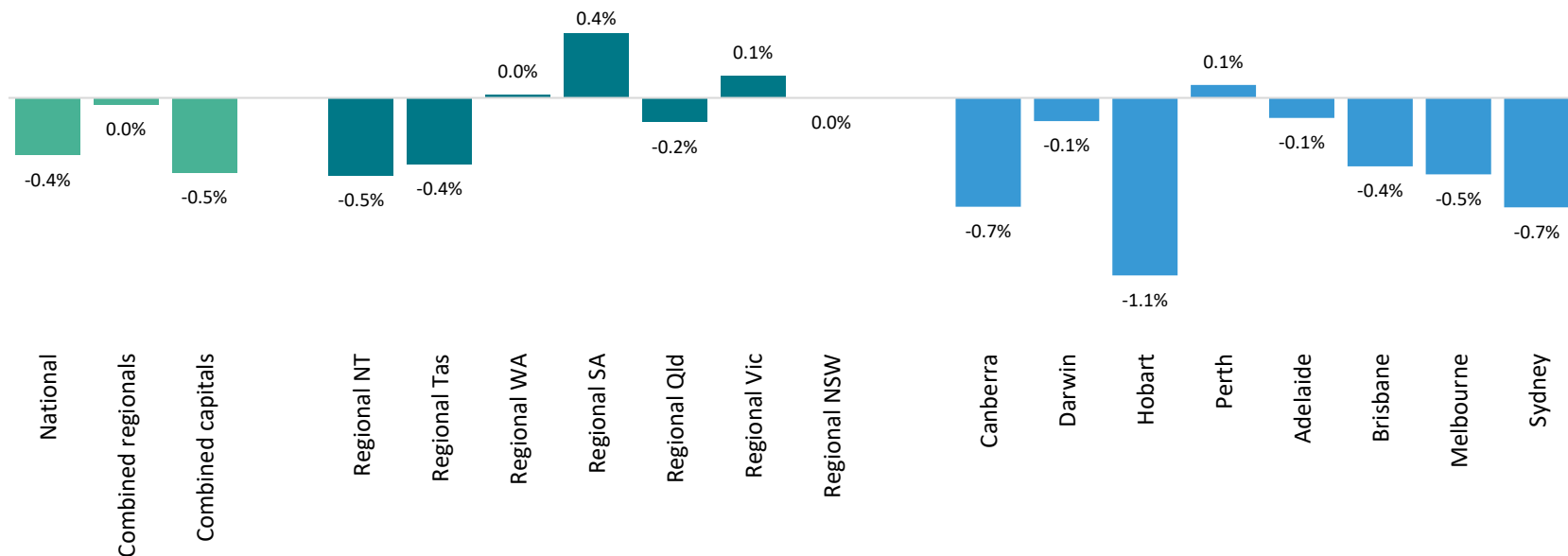
Rents have generally shown a softer trajectory than housing values, with early signs of weakness through April

Annual change in rents



7 of the 8 capital cities recorded a fall in rents through April, led by Hobart, down 1.1%. Perth was the only capital city to record a rise in rents in April

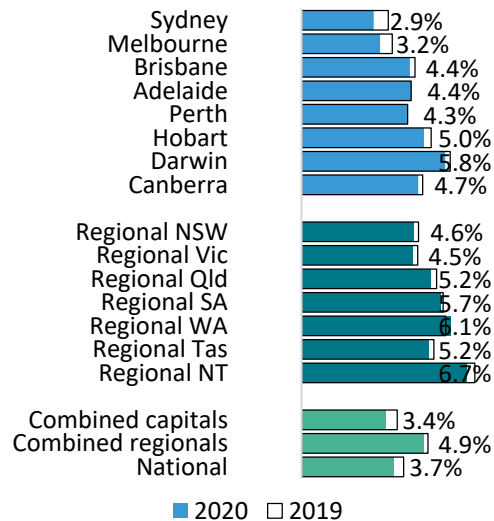
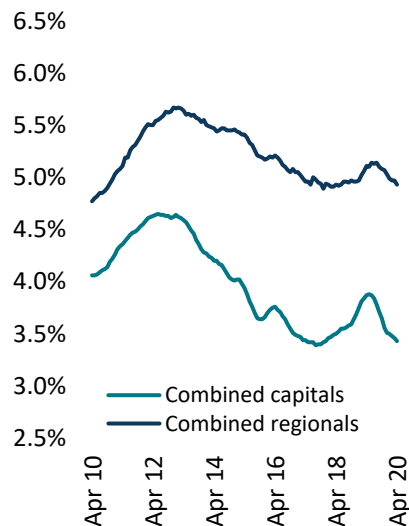
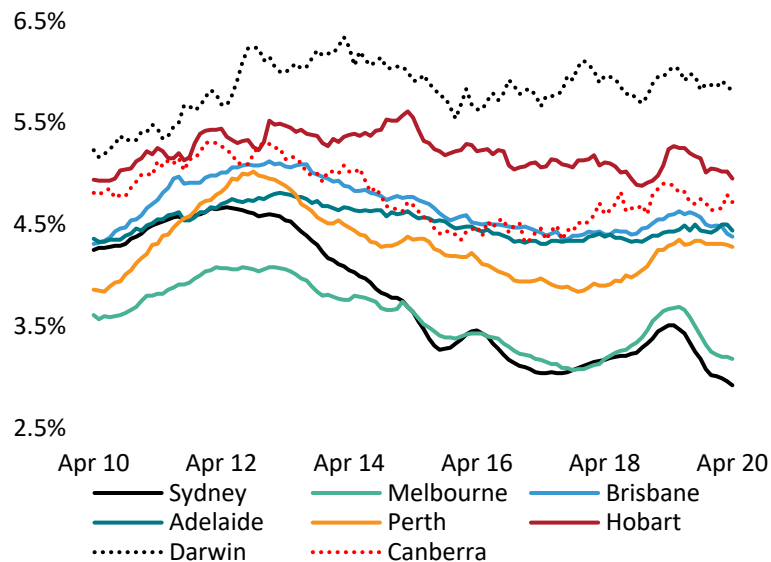
Month on month change in rents



Rental yields are likely to be under some downwards pressure as rents fall more than home values

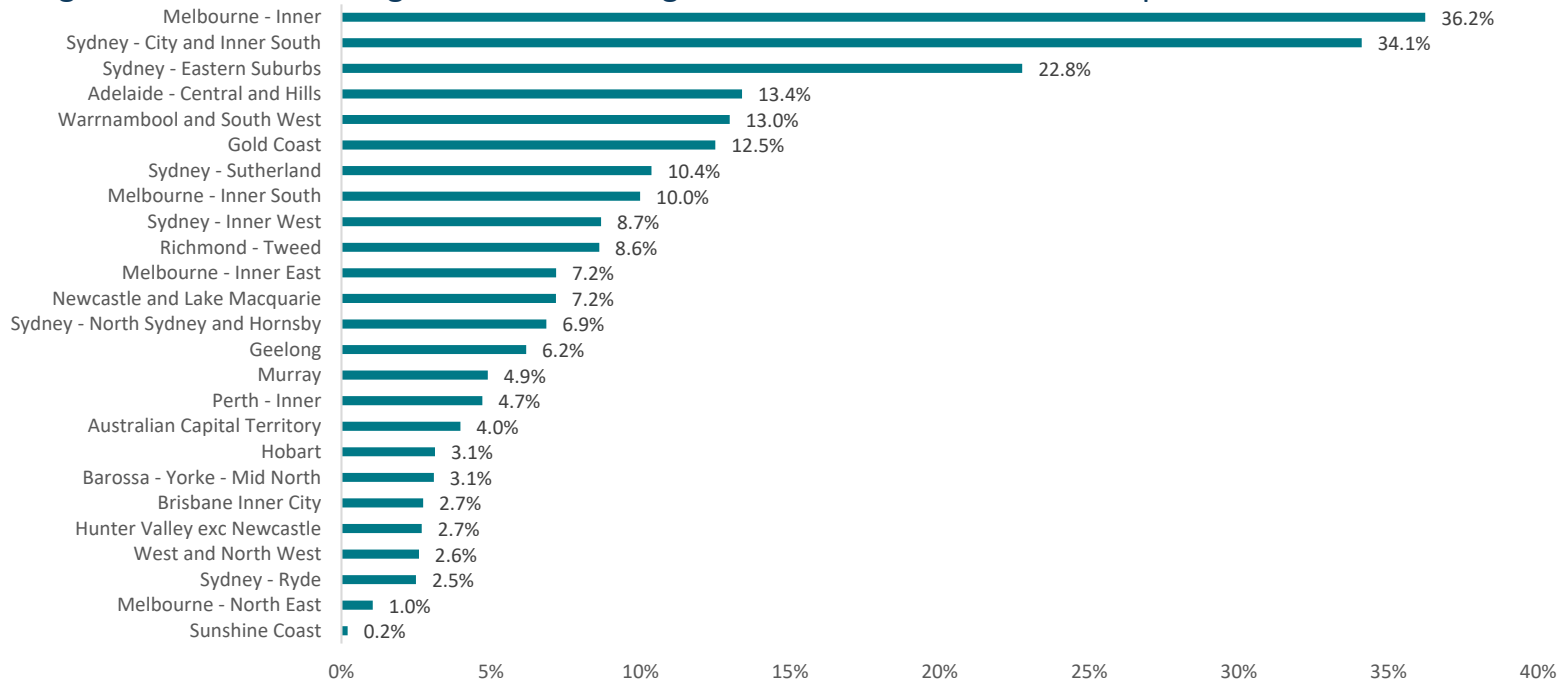
Sydney yields are already at record lows (2.9%) and Melbourne yields aren't far from a record low.

Gross rental yields



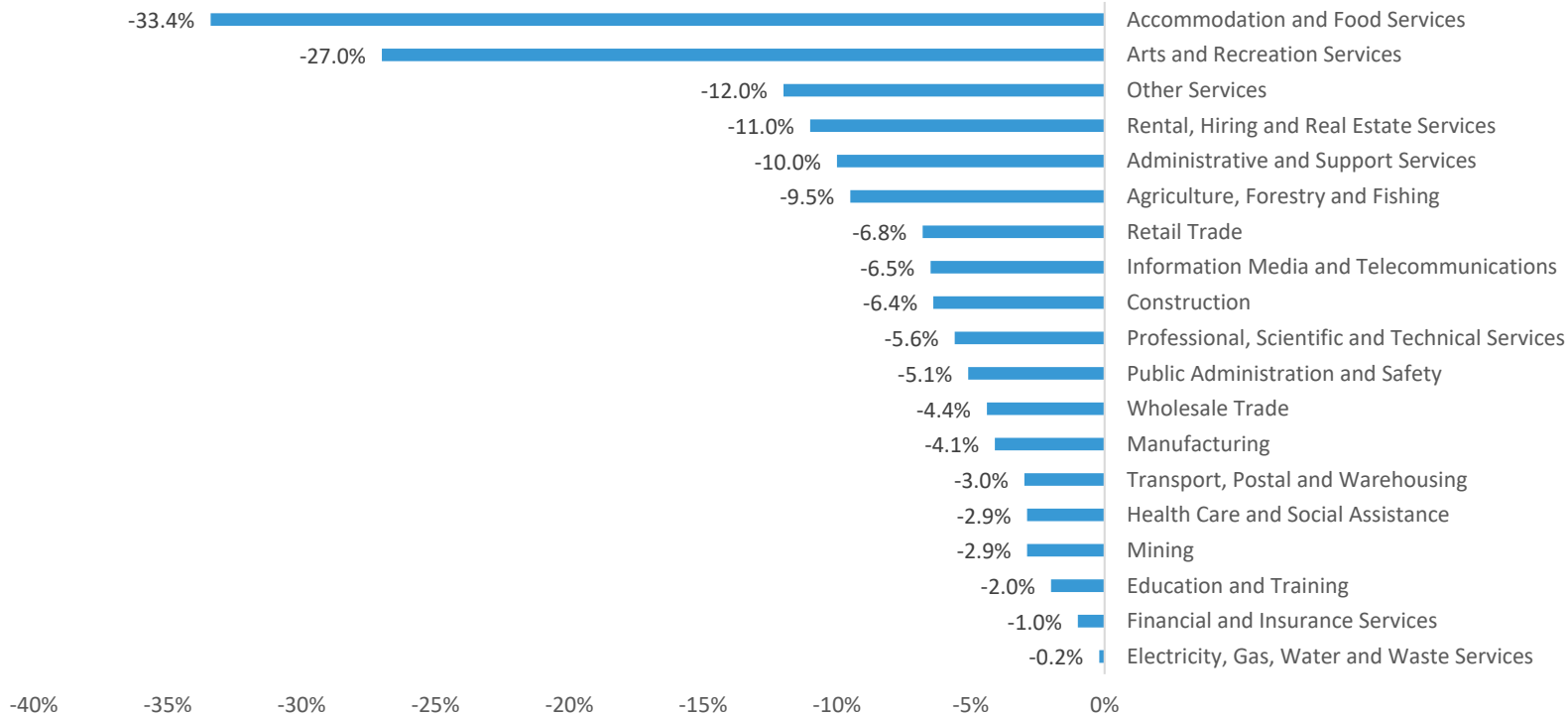
Already some rental markets have seen a significant uplift in rent listings off the back of falling demand, and increased supply, amid COVID-19

Change in total rental listings of select SA4 regions - 22nd of March to 26th April



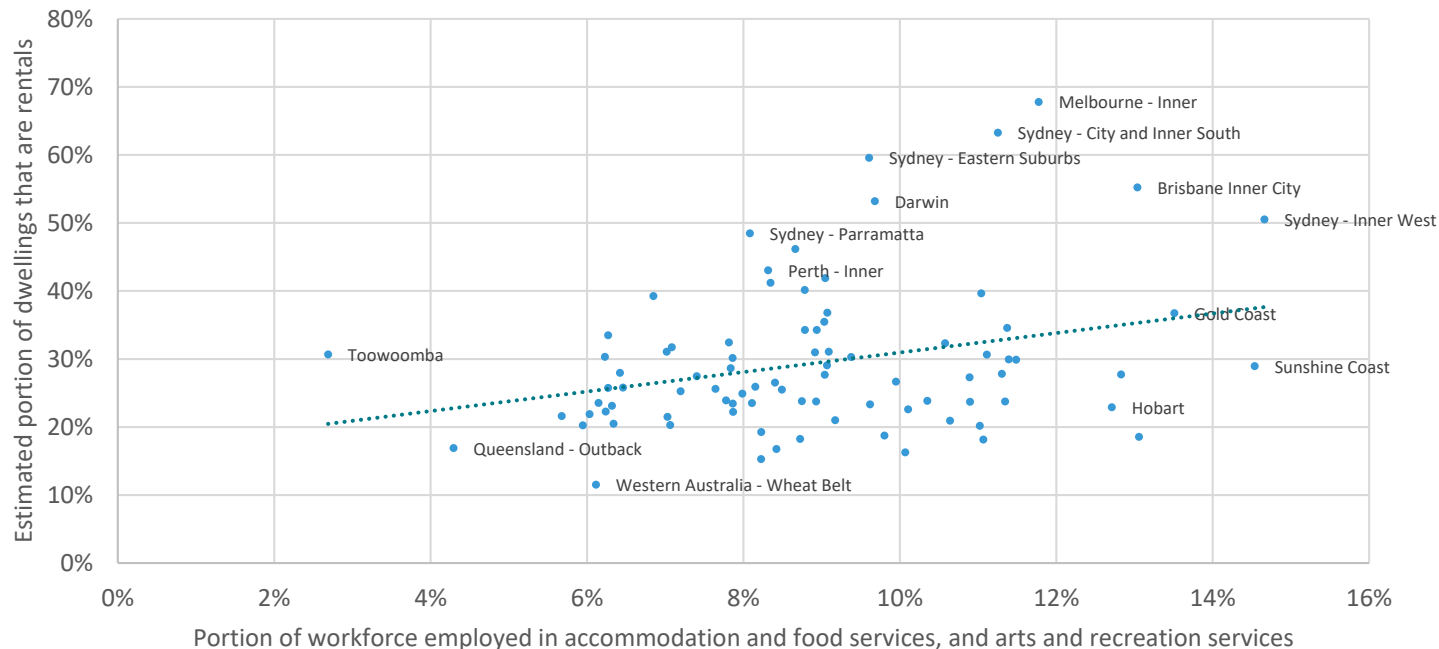
Across all industries, jobs have declined 6.0%, but the effect is more acute in some parts of the economy

Changes in employee jobs by industry between 14th March and 18th April



Regions with high concentrations of vulnerable workforces generally have a higher incidence of renting households

Concentration of workforce in industries highly impacted by COVID-19, and portion of renting households - SA4 Regions, Australia



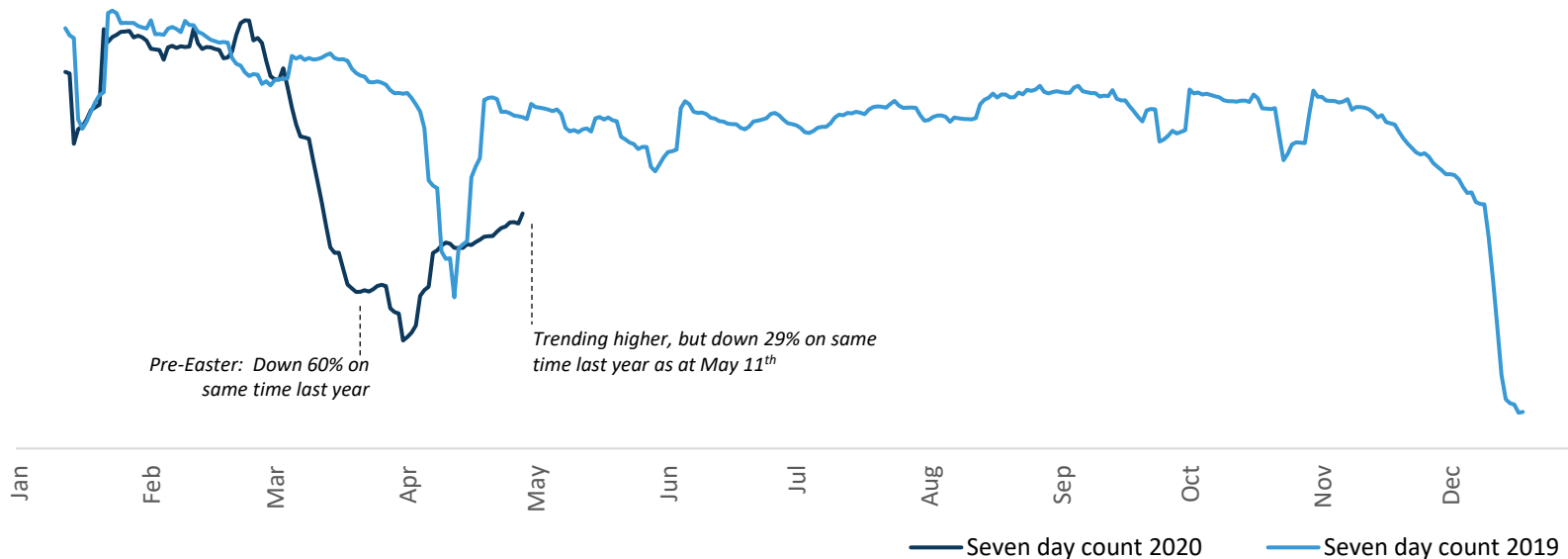
Source: ABS catalogue 6291. Note employment data of the portion of the workforce in arts and tourism is derived from the four quarter average to February 2020

Industry activity is showing signs
of stabilising or even improving...
albeit from low levels



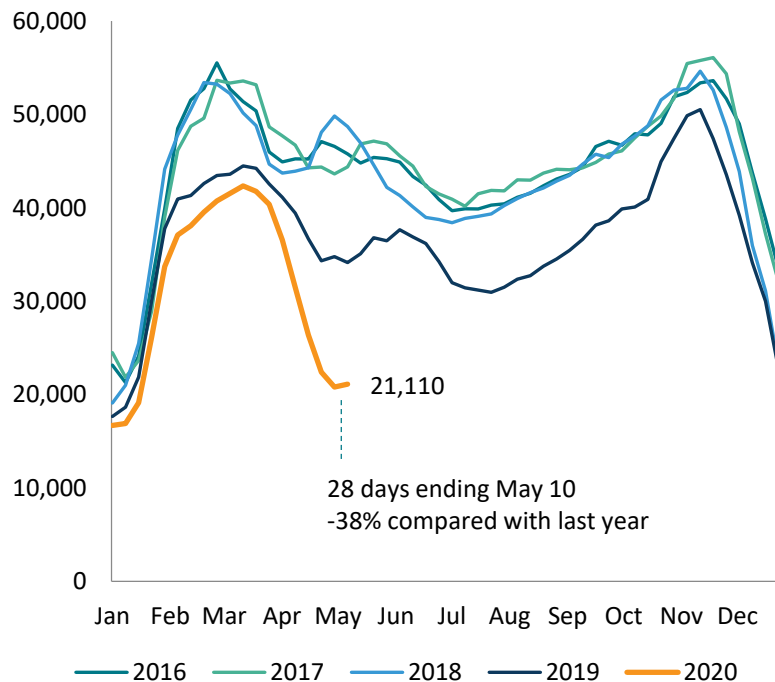
Real estate agents have seen a significant drop in activity, although activity has bounced back post Easter and continues to trend higher

Rolling 7-day count of CMA activity, Australia
2019 v 2020

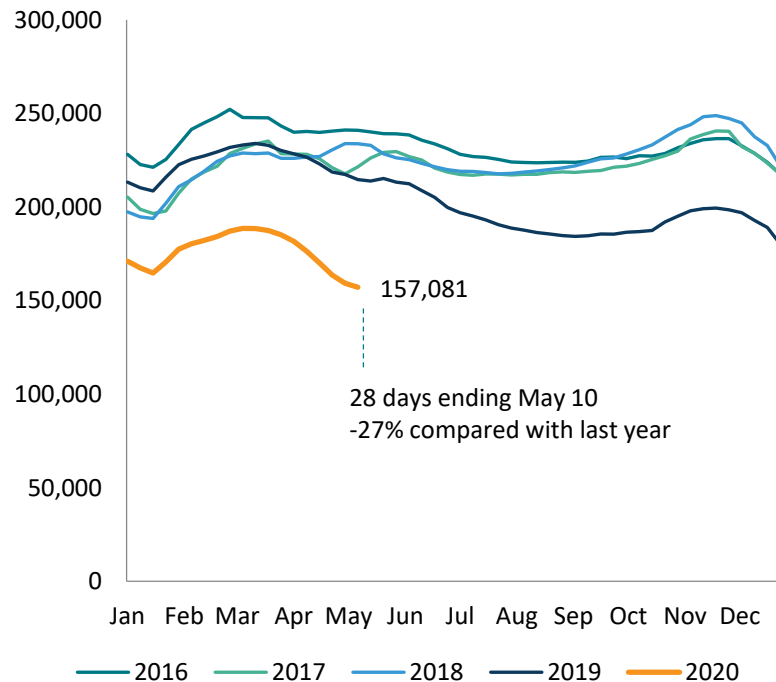


New listing numbers have fallen sharply and could fall further over the coming months

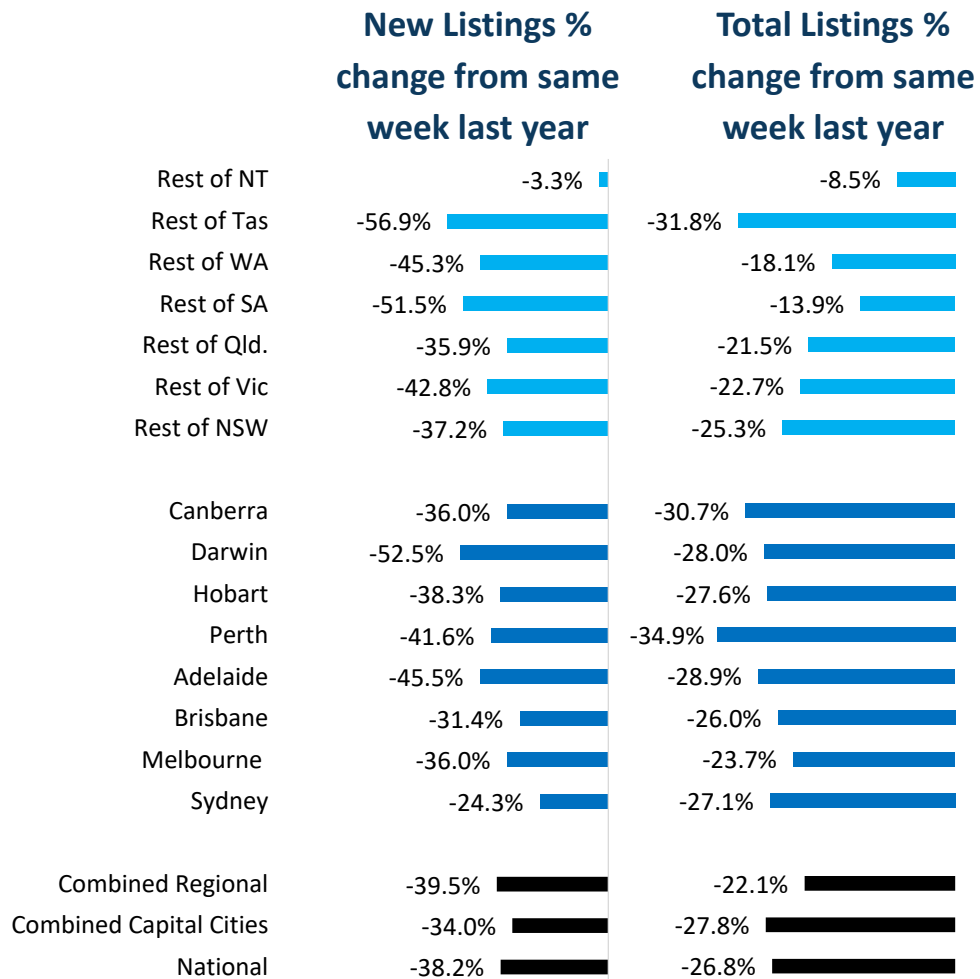
New Listings, rolling 28-day count, national



Total Listings, rolling 28-day count, national

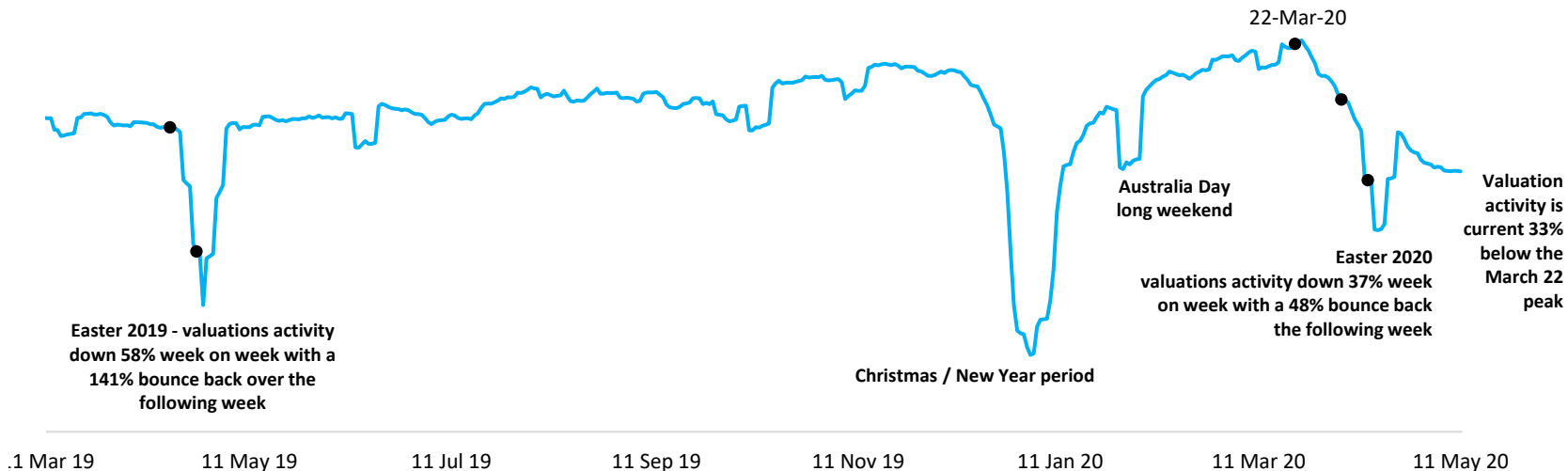


Every region has recorded a sharp decline in new listing numbers relative to a year ago



Valuations activity was tracking lower from late March, with activity only partially bouncing back post-Easter. The most recent trend looks to be stabilising.

Number of valuation events, rolling 7-day count, Australia

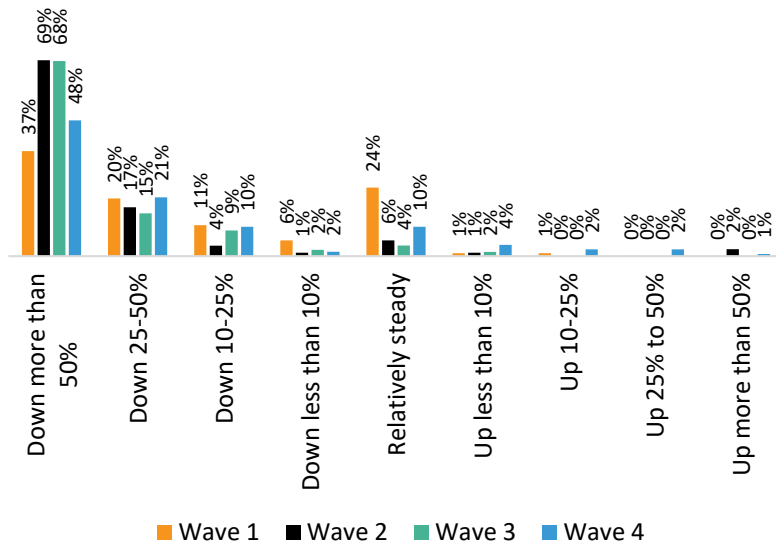


What are real estate agents thinking?

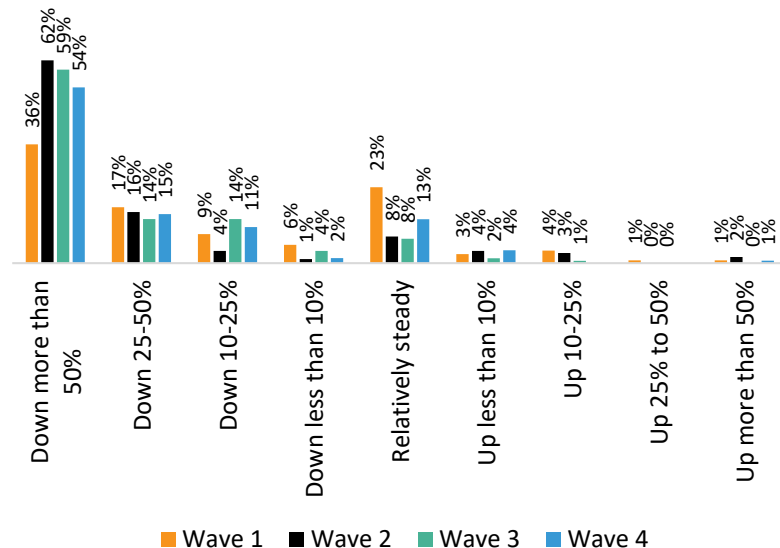
Summary of responses from real estate agents utilising the RP Data platform

The first three weeks of lockdown saw real estate agents reporting that buyer and seller enquiry levels had more than halved. The most recent survey shows enquiry levels may be stabilising

Have you noticed a change in the number of buyer enquiries over the past week?



Have you noticed a change in the number of seller enquiries over the past week?

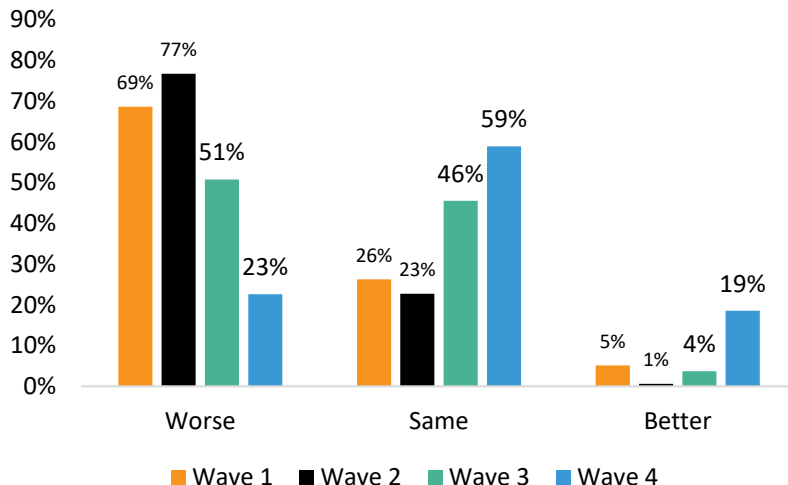


What are real estate agents thinking?

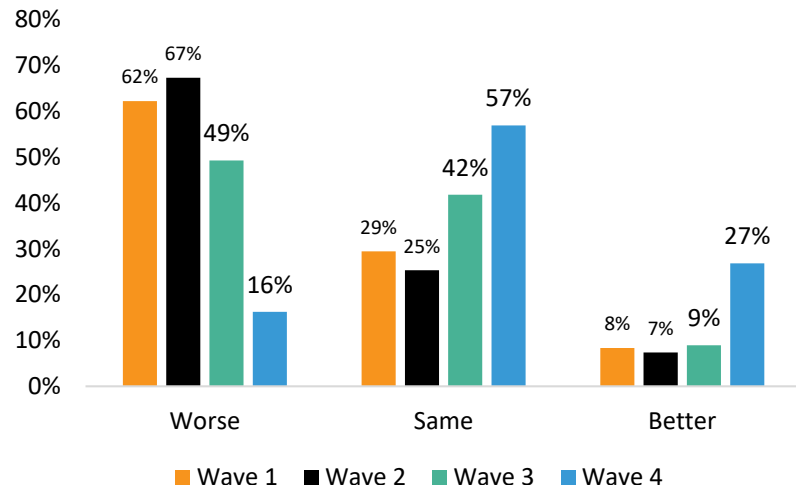
Summary of responses from real estate agents utilising the RP Data platform

Expectations around buyer and seller activity look to stabilising

What is your expectation for buyer activity over the next week?



What is your expectation for seller activity over the next week?



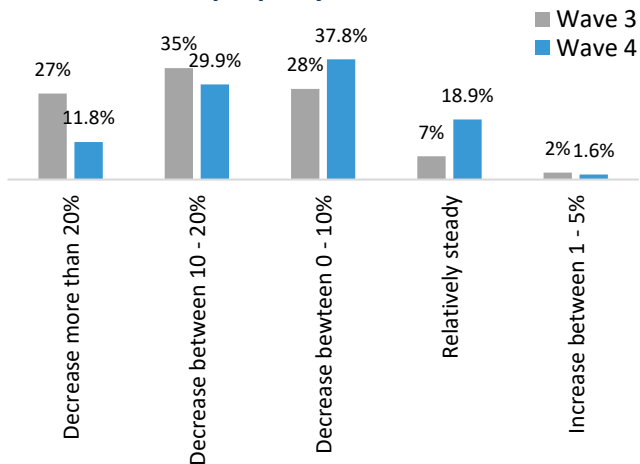
Wave 1: March 20-23 | Wave 2: March 27-30 | Wave 3: April 3-6 | Wave 4 Apr 27-Apr 29

What are real estate agents thinking?

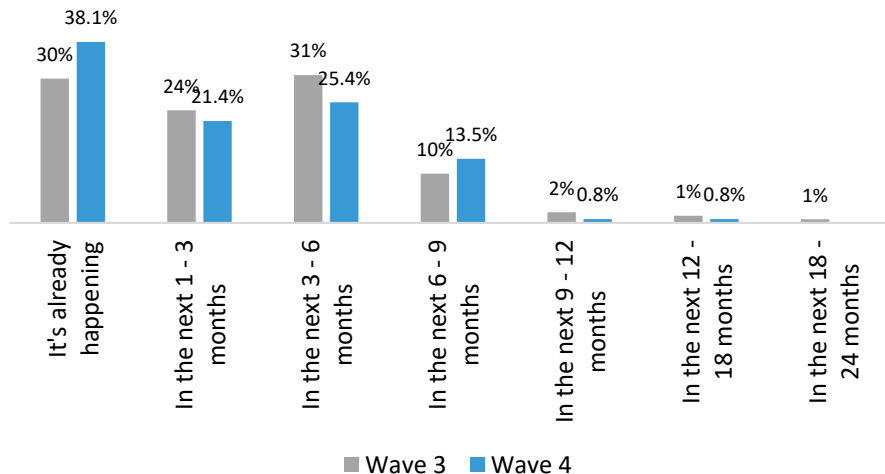
Summary of responses from real estate agents utilising the RP Data platform

Less gloomy: fewer real estate agents expect housing values to fall more than 10% and the large majority think the decline in home values will be confined within a six month time frame

To what extent do you expect this pandemic will affect residential property values?



Over what time frame do you expect this percentage change to take place?



What are real estate agents thinking?

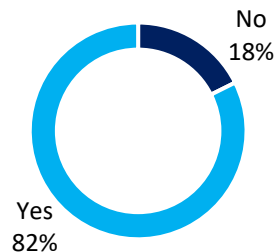
Summary of responses from real estate agents utilising the RP Data platform

Almost half of the property managers surveyed have seen an increase in lease termination requests, while the large majority are experiencing a rise in rent postponement requests or rental rate reduction requests

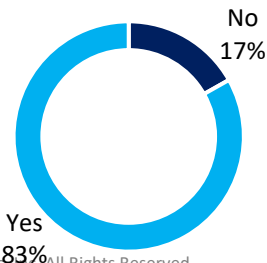
Over the last two weeks, have you noticed an increase in early lease termination requests?



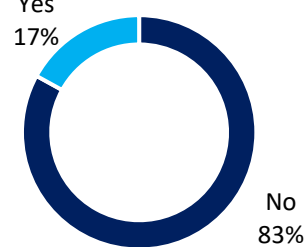
Over the last two weeks, have you noticed an increase in payment postponement requests?



Over the last two weeks, have you noticed an increase in rent reduction requests?



Over the last two weeks, have you noticed an increase in evictions?

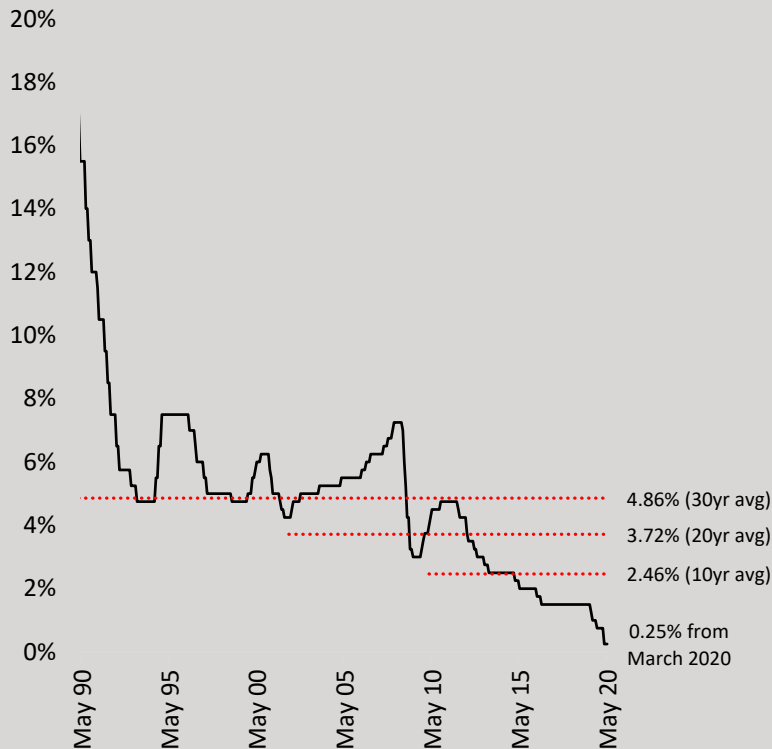


The next few months present an unprecedented shock to an economy with otherwise strong fundamentals.

The institutional response is about 'building a bridge' to the recovery phase, with stimulus totaling about **16.5%** of GDP



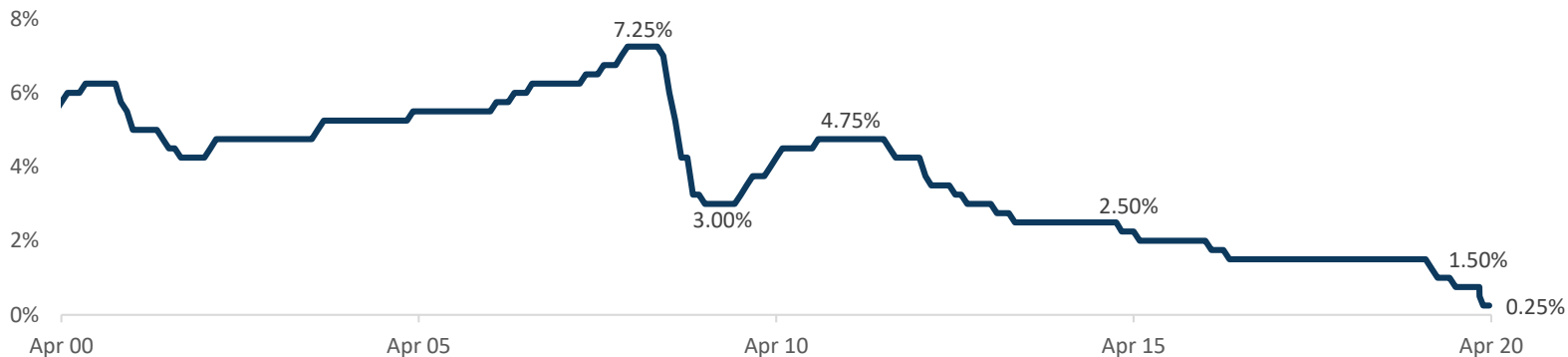
RBA cash rate



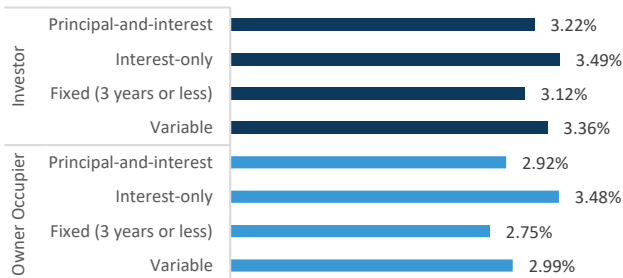
The RBA has lowered the cash rate to the *effective lower bound*, with official interest rates likely to hold at this level until at least late 2023

Average owner occupier mortgage rates came down 25 basis points over the month of March, while average investor rates fell 26 basis points

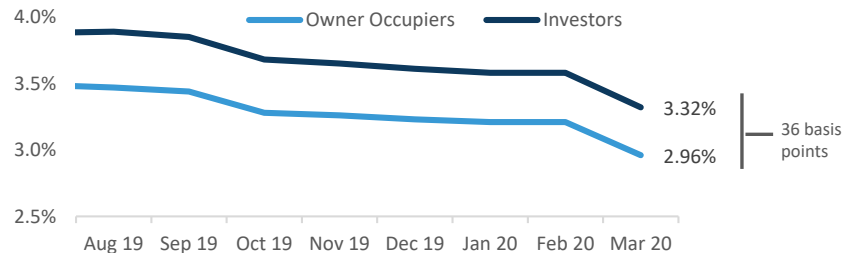
RBA Cash Rate



Avg Mortgage rate type by product, March 2020



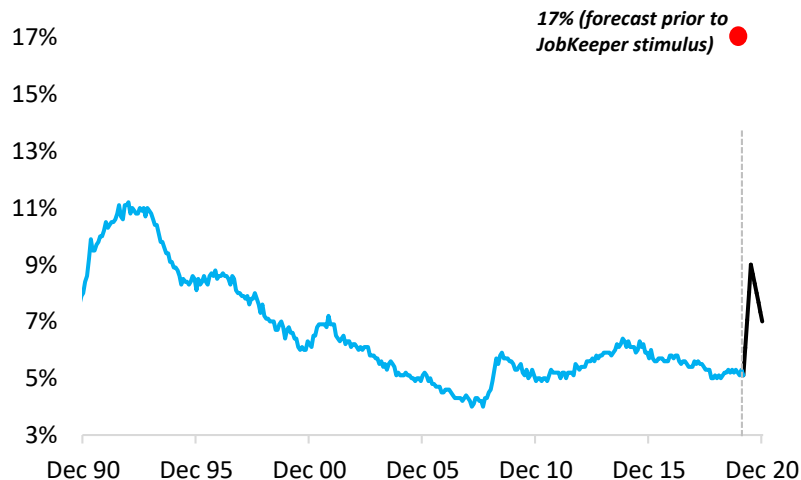
Investor premium based on monthly average of new loans



Note: Data reported in the rate by product and borrower tables are based on the new RBA 'Housing Lending Rates' publication, based on Economic and Financial Statistics (EFS) collection.

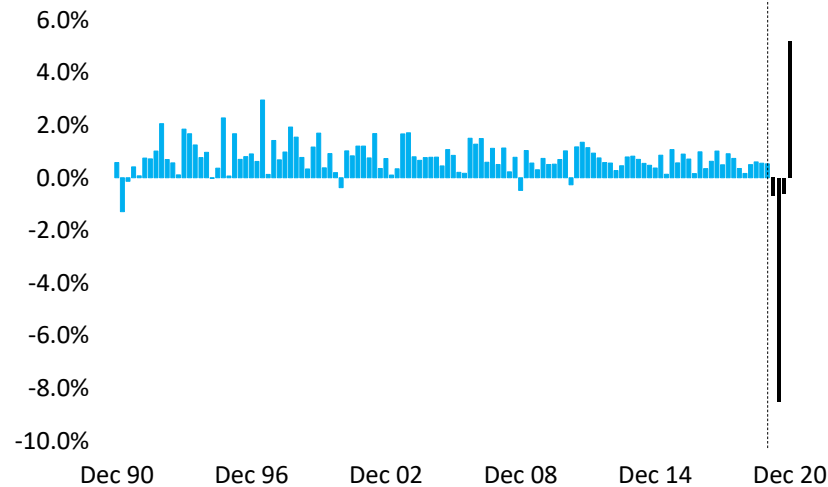
The federal stimulus has
seen the forecast for
unemployment reduce
from 17% by June to
around 9%

Unemployment rate, Australia



However GDP is still forecast
to drop by 8.5% over the Jun
quarter and 0.6% through
the Sep quarter before
surging 5.2% over Q4

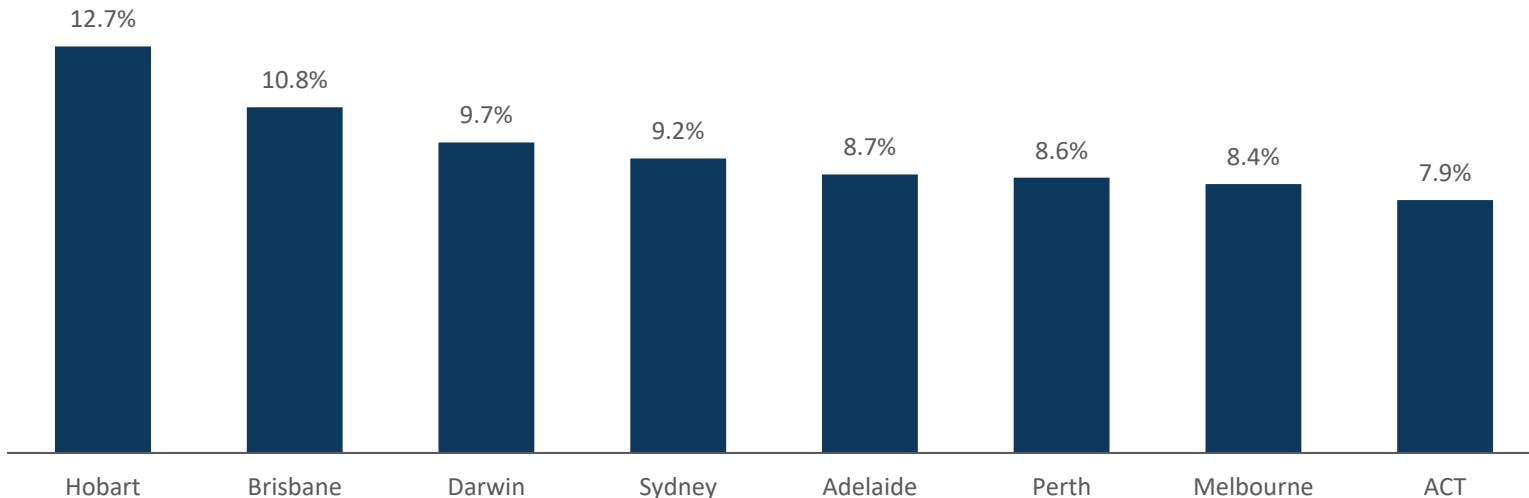
Quarterly change in GDP



Employment fundamentals will be another important determinant of the extent that housing demand is impacted

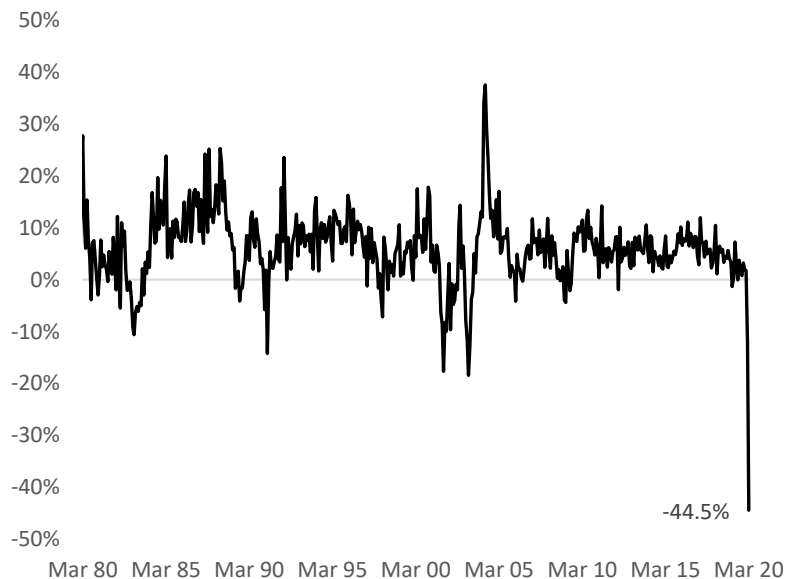
Portion of workforce employed in most impacted sectors

By Capital City

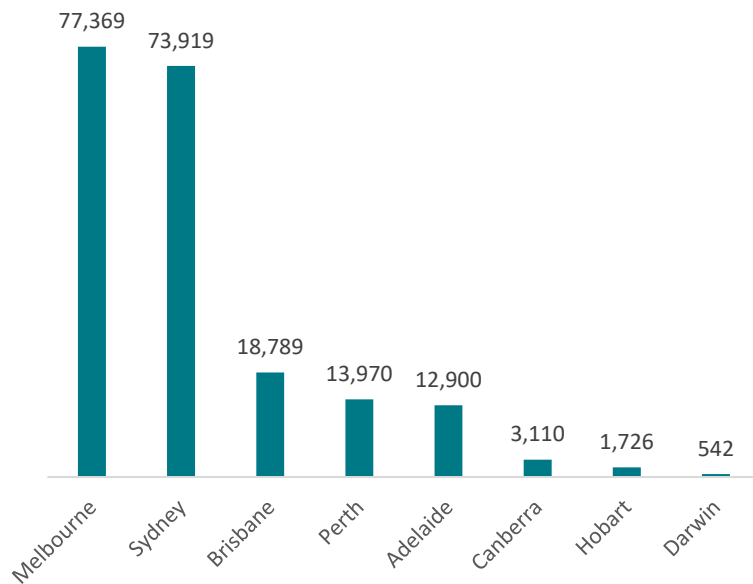


Housing demand will be materially impacted by a stalling in overseas migration

Annual change in number of overseas arrivals

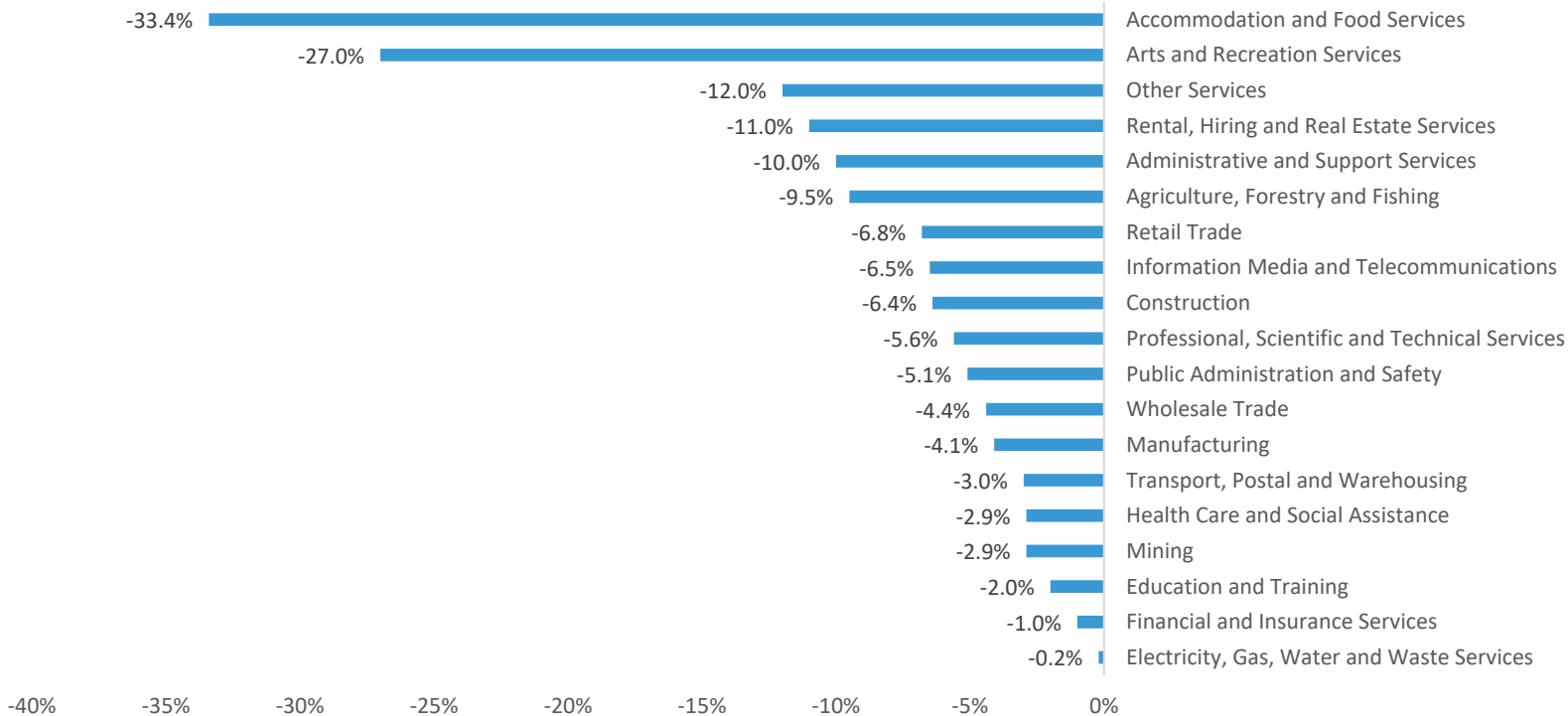


Net overseas migration by capital city 2018/19



Across all industries, jobs have declined 6.0%, but the effect is more acute in some parts of the economy

Changes in employee jobs by industry between 14th March and 18th April



Summary

- Most Australian housing markets were generally into the next upswing phase of the cycle before the onset of COVID-19.
- Property is less volatile and slower to respond to market shocks than equities, and values will be susceptible to the state of the labour market and the flow of distressed properties onto the market in the medium-to-long term.
- Housing values are provided some support via leniency policies for distressed borrowers, low advertised stock levels, low mortgage rates and significant stimulus measures.
- But clear downside risk is attributable to high rates of unemployment, coupled with a fragile household sector and the potential for higher mortgage arrears after repayment holidays are over. Additionally, stalling migration will detract from housing demand.
- Transaction activity has been significantly impacted by low consumer confidence and social distancing measures. Australians are likely to put high commitment decisions on hold until confidence returns to levels closer to 'normal'.
- With the virus curve flattened much more quickly and effectively than expected, some restrictive policies are already being lifted which could see housing sentiment lift earlier than expected.

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