Australian housing values continue to drift lower, falling 0.6% in July as the COVID driven housing downturn moves through a third month of orderly decline.

Australian housing values racked up a third consecutive month of declines in July, with CoreLogic's home value index dropping 0.6% over the month, a slight improvement from June when the national series was down 0.7%.

Across the capital cities, only Canberra (+0.6%) and Adelaide (+0.1%) posted a rise in dwelling values over the month, while Melbourne (-1.2%) and Sydney (-0.9%) led the decline, recording the largest month-on-month falls in July.

Regional markets are generally showing more resilience to falling values. Across the combined regional areas, housing values were unchanged in July compared with a 0.8% fall across the combined capital cities index. Regional Victoria (-0.5%) and regional Western Australia (-3.2%) were the only non-capital city markets to record a fall in values over the month.

According to CoreLogic's head of research, Tim Lawless, housing markets have remained relatively resilient through the COVID period so far. "The impact from COVID-19 on housing values has been orderly to-date, with CoreLogic's national index falling only 1.6% since the recent high in April and housing turnover has recovered quickly after it's sharp fall in late March and April."

"Record low interest rates, government support and loan repayment holidays for distressed borrowers have helped to insulate the housing market from a more significant downturn. Advertised supply levels have remained tight, with the total number of properties for sale falling a further 4.3% in the 4 weeks to July 27th, sitting 15.2% below where they were this time last year. Additionally, increased demand driven by housing specific incentives from both federal and state governments, especially for first home buyers, have become more substantial."

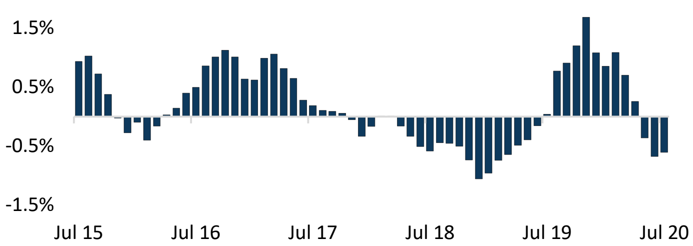
However, with fiscal support set to taper from October and repayment holidays expiring at the end of March next year, Mr Lawless believes the medium term outlook remains skewed to the downside.

"Urgent sales are likely to become more common as we approach these milestones, which will test the market's resilience. Similarly, the recent concerns of a second wave of the virus and the potential for renewed border closures and stricter social distancing polices are likely to further push consumer sentiment down. This is likely to weigh on both home buying *and* selling activity more broadly."

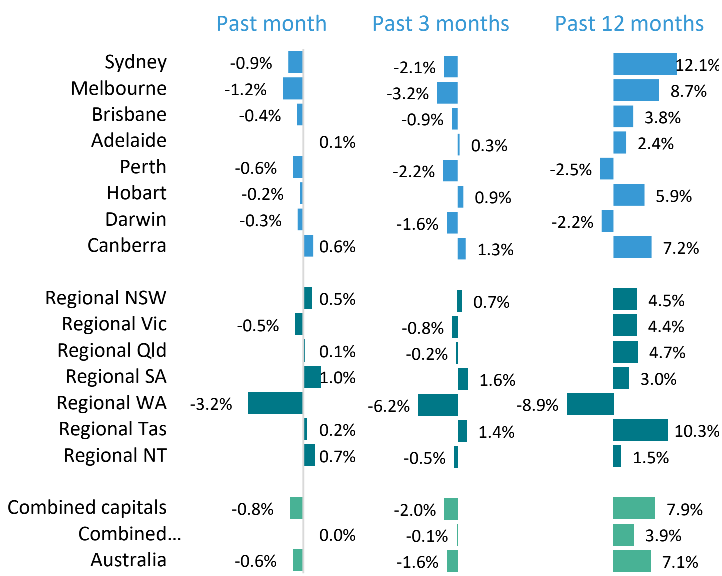
Index results as at July 31, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	-0.9%	-2.1%	12.1%	15.3%	$866,110
Melbourne	-1.2%	-3.2%	8.7%	12.3%	$678,334
Brisbane	-0.4%	-0.9%	3.8%	7.7%	$502,167
Adelaide	0.1%	0.3%	2.4%	6.8%	$441,826
Perth	-0.6%	-2.2%	-2.5%	1.6%	$439,092
Hobart	-0.2%	0.9%	5.9%	11.5%	$486,771
Darwin	-0.3%	-1.6%	-2.2%	4.5%	$384,533
Canberra	0.6%	1.3%	7.2%	12.2%	$641,360
Combined capitals	-0.8%	-2.0%	7.9%	11.5%	$637,270
Combined regional	0.0%	-0.1%	3.9%	8.7%	$395,129
National	-0.6%	-1.6%	7.1%	10.9%	$552,912

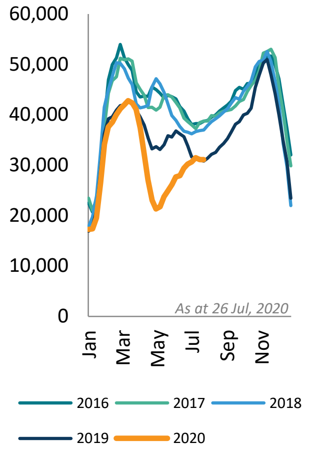
Month-on-month change in dwelling values Combined capitals



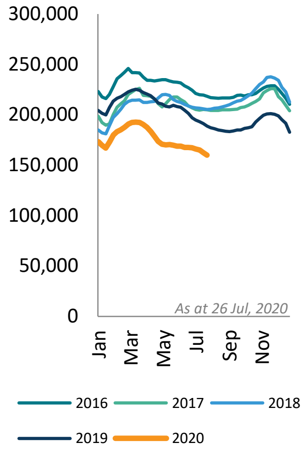
Change in dwelling values



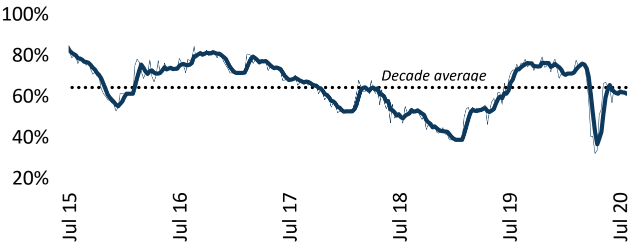
New listings, rolling 28 day count, national



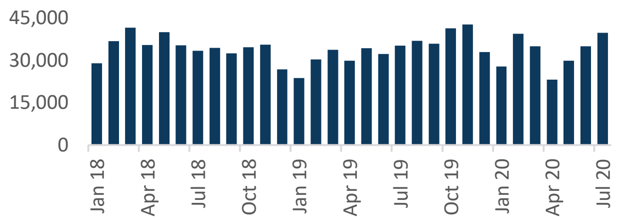
Total listings, rolling 28 day count, national



Auction clearance rate, combined capitals



Volume of sales, national



Most recent months of sales volumes are estimates and will revise

The most expensive quartile of housing continues to lead the downturn.

“Higher value markets tend to be more reactive to changes in the economic environment, having led both the upswing and the downturn over previous cycles. The COVID related downturn has seen this trend playing out again, with upper quartile values down 2.9% across the combined capital city index since the end of March, while lower quartile values have fallen by only 0.5%,” Mr Lawless said.

This capital city trend is driven mostly by Sydney and Melbourne, while the smaller cities have shown a mixed result across value segments.

In Sydney, upper quartile values are down 2.5% over the past four months, while lower quartile values are virtually flat at -0.1%. Similarly, over the same period in Melbourne, upper quartile values are down 5.2% while lower quartile values have declined a more modest 1.2%. Importantly, the upper quartile of these markets also recorded the most significant run-up in values throughout the second half of last year and into early 2020.

Real estate agent activity has recovered to the same levels as a year ago. After plummeting by around 60% between mid-March and Easter, real estate agent activity across CoreLogic platforms is now tracking at similar levels compared with 2019. Real estate agent activity is highly correlated with the number of new listings coming on the market, with a two week lead.

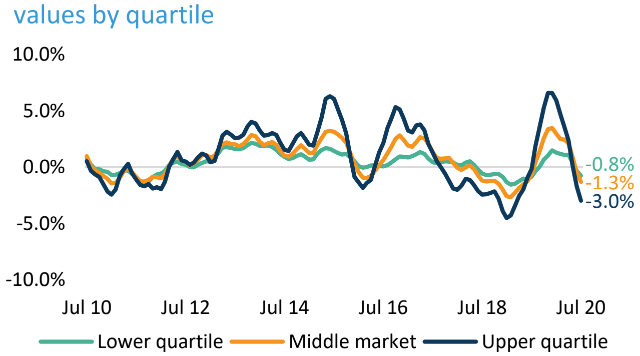
The number of newly advertised properties is up 46% from the recent lows of early May. Nationally, the rolling 28 day count of new listings was 1% higher than a year ago, with new capital city listings tracking 8.9% above levels recorded this time last year. The recovery in new listing numbers aligns with higher consumer sentiment readings; although measures of consumer sentiment have recently trended lower, consumer spirits remain well above the recent April lows. The rise in fresh listings implies home owners have become more willing to test the market. While *new* listings are ramping up, the *total* listing count remains 15.2% below last year’s level nationally and 12.5% lower across the combined capitals. The diverging trend between *new* and *total* listing numbers implies a strong rate of absorption where demand for established housing stock is outweighing advertised supply.

Auction markets showed a temporary recovery through June and early July but have since weakened as Melbourne moved back into lockdown. Auction volumes have been tracking higher than a year ago since late June and auction clearance rates had been hovering around the decade average (61%) since the second week of May. Since early July, clearance rates have trended lower due to a substantial rise in withdrawn auctions in Melbourne.

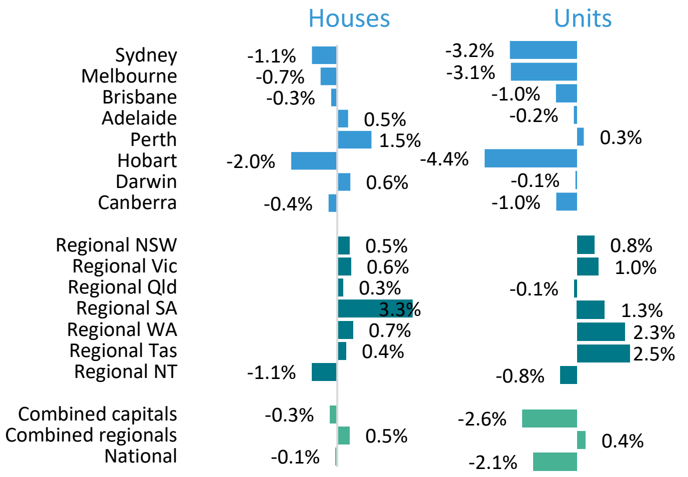
Consumer sentiment readings weakened through July signposting a reduction in housing market activity. After recovering from recessionary lows in April, consumer sentiment is again weakening due to concerns associated with the second wave of the virus in Melbourne, and growing case numbers nationally and internationally. Consumer sentiment readings show a high correlation with housing market activity, so the recent downward trend implies home buyers and sellers may once again retreat to the sidelines.

Sales activity has trended higher since May. After home sales plunged by about one third in April, sales activity has consistently improved. CoreLogic estimates for national sales over the past three months were tracking 2.9% higher than the same period in 2019. The rebound in CoreLogic estimates of sales activity is validated by the strong rate of listings absorption, a similar lift in purchase related valuations and improvements in consumer sentiment. However, the recent slump in sentiment amidst a new wave of the virus could interrupt the rise in home sales until restrictions are lifted and confidence returns.

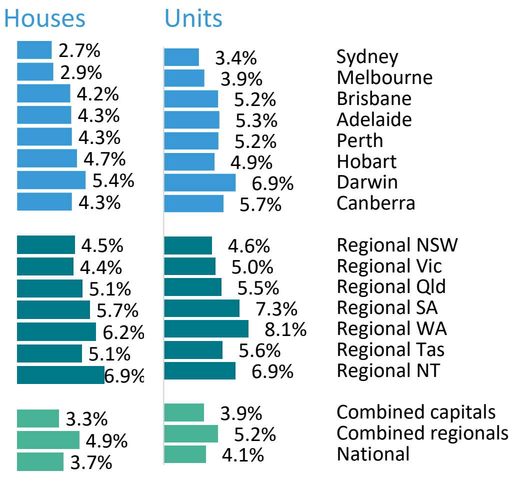
Rolling three month change in capital city dwelling values by quartile



Change in rents, March 31 to July 31



Gross rental yields, July 2020



Rental rates have continued to trend lower through July, with the weakest rental conditions emanating from Hobart, Sydney and Melbourne, and the unit sector driving the largest falls. Since March, capital city house rents have dropped by only 0.3% while over the same period unit rents are down a more substantial 2.6%. Hobart stands out as recording the largest decreases, with rents for houses down 2.0%, and units down 4.4% since March.

According to Mr Lawless, weaker rental conditions are most evident in those markets where rental demand has been impacted by border closures and supply additions. “Some inner city areas of Melbourne and Sydney have seen rental listings more than double since March due to the combined effect of temporary migrants departing, and overseas arrivals, including foreign students, stalling. Compounding this weak demand position is the surge in construction activity and investment over previous years, which has added to inner city rental supply. “

Mr Lawless notes other factors are also impacting rental markets. “Anecdotally, the transition of short-term accommodation, namely Airbnb, to permanent rentals is temporarily adding to supply. Additionally, the significant employment decline across food and accommodation services, arts and recreation services is compounding the weak rental demand as these sectors workers are more likely to rent. To date these sectors have seen the largest number of job losses and impact to wages. With the second wave of social distancing policies and border closures, these workers are once again facing hardship” he said.

Perth and Adelaide are showing the strongest rental conditions amongst the capital cities. These markets have also generally seen lower levels of investor participation, and less ‘investment grade’ construction over recent years, which has kept rental supply reasonably tight.

In summary, housing markets have weathered the COVID storm much better than originally anticipated. The decline in home values has been orderly, with only modest reductions in most areas. Turnover has recovered quickly and is tracking higher than a year ago - although that is a relatively low benchmark, where this time last year was around the trough of the previous cycle. However, demand is evident, as advertised stock levels are being absorbed faster than fresh stock is being added to the market.

The unprecedented level of fiscal support from the federal and state governments, distressed borrower repayment holidays and record low interest rates are the key factors supporting demand and insulating home values.

While interest rates are set to remain at their current lows for the foreseeable future, the government’s fiscal response will start to taper in October and repayment holidays are set to expire at the end of March next year.

According to Mr Lawless, the removal of this support will test the market’s resilience.

“As stimulus measures wind down and borrowers taking a repayment holiday face up to their debt, its logical to expect a rise in distressed properties coming onto the market. The extent to which this causes additional downwards pressure on home prices depends on how the Australian economy is travelling at that time. Further virus outbreaks present a clear and present danger to the depth and length of the recession, and the performance of the housing market.”

CoreLogic

CoreLogic Home Value Index tables

	Capitals								Rest of state regions							Aggregate indices		
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Regional NSW	Regional Vic	Regional Qld	Regional SA	Regional WA	Regional Tas	Regional NT	Combined capitals	Combined regional	National
All Dwellings (Dwellings)																		
Month	-0.9%	-1.2%	-0.4%	0.1%	-0.6%	-0.2%	-0.3%	0.6%	0.5%	-0.5%	0.1%	1.0%	-3.2%	0.2%	na	-0.8%	0.0%	-0.6%
Quarter	-2.1%	-3.2%	-0.9%	0.3%	-2.2%	0.9%	-1.6%	1.3%	0.7%	-0.8%	-0.2%	1.6%	-6.2%	1.4%	na	-2.0%	-0.1%	-1.6%
YTD	2.2%	-0.7%	1.1%	1.3%	-1.1%	2.3%	0.7%	3.0%	2.9%	2.4%	2.2%	4.0%	-4.4%	6.4%	na	0.9%	2.3%	1.2%
Annual	12.1%	8.7%	3.8%	2.4%	-2.5%	5.9%	-2.2%	7.2%	4.5%	4.4%	4.7%	3.0%	-8.9%	10.3%	na	7.9%	3.9%	7.1%
Total return	15.3%	12.3%	7.7%	6.8%	1.6%	11.5%	4.5%	12.2%	8.9%	9.2%	9.8%	9.2%	-2.9%	16.4%	n a	11.5%	8.7%	10.9%
Gross yield	2.9%	3.2%	4.4%	4.4%	4.4%	4.8%	5.9%	4.6%	4.5%	4.5%	5.2%	5.8%	6.3%	5.2%	na	3.5%	4.9%	3.8%
Median value	$866,110	$678,334	$502,167	$441,826	$439,092	$486,771	$384,533	$641,360	$468,220	$391,716	$382,408	$245,527	$299,938	$328,165	na	$637,270	$395,129	$552,912
Houses (Houses)																		
Month	-1.0%	-1.4%	-0.3%	0.1%	-0.6%	-0.4%	-0.2%	0.7%	0.5%	-0.5%	0.1%	0.9%	-3.0%	0.2%	1.3%	-0.8%	0.0%	-0.6%
Quarter	-2.4%	-3.8%	-0.7%	0.3%	-2.2%	0.8%	-0.7%	1.5%	0.6%	-1.0%	-0.3%	2.0%	-5.9%	1.5%	3.0%	-2.2%	-0.2%	-1.8%
YTD	2.2%	-1.1%	1.6%	1.2%	-1.1%	3.0%	3.3%	3.6%	2.9%	2.4%	2.2%	3.8%	-4.4%	6.0%	-0.6%	0.9%	2.3%	1.2%
Annual	13.2%	8.9%	4.3%	2.4%	-2.6%	6.4%	-0.3%	8.5%	4.8%	3.9%	4.9%	2.6%	-9.0%	9.3%	-1.0%	8.1%	3.9%	7.1%
Total return	16.3%	12.2%	8.0%	6.5%	1.4%	12.0%	6.1%	13.1%	9.2%	8.6%	9.9%	9.4%	-3.2%	15.0%	7.2%	11.4%	8.5%	10.7%
Gross yield	2.7%	2.9%	4.2%	4.3%	4.3%	4.7%	5.4%	4.3%	4.5%	4.4%	5.1%	5.7%	6.2%	5.1%	6.9%	3.3%	4.9%	3.7%
Median value	$1,002,107	$793,548	$555,284	$478,175	$455,813	$514,392	$466,959	$718,443	$481,513	$414,896	$389,341	$254,037	$312,720	$340,890	$399,925	$673,072	$406,286	$567,875
Units (Units)																		
Month	-0.7%	-0.7%	-0.5%	-0.1%	-0.8%	0.6%	-0.7%	0.1%	0.5%	-0.1%	0.0%	3.3%	-6.6%	0.3%	na	-0.6%	0.1%	-0.5%
Quarter	-1.4%	-1.9%	-1.8%	0.1%	-2.1%	1.2%	-3.5%	0.5%	0.8%	0.4%	0.3%	-8.4%	-10.0%	0.6%	na	-1.5%	0.2%	-1.3%
YTD	2.1%	0.2%	-1.4%	2.2%	-1.3%	-0.6%	-4.2%	0.8%	2.6%	2.7%	2.2%	6.2%	-4.9%	9.8%	na	1.0%	2.5%	1.2%
Annual	9.5%	8.2%	1.3%	2.9%	-2.0%	4.1%	-5.8%	2.7%	2.5%	7.9%	3.7%	10.2%	-6.1%	19.9%	na	7.5%	4.0%	7.0%
Total return	13.4%	12.4%	6.5%	8.1%	2.6%	9.5%	1.6%	9.0%	7.4%	13.3%	9.6%	3.5%	2.6%	25.4%	n a	11.8%	9.4%	11.4%
Gross yield	3.4%	3.9%	5.2%	5.3%	5.2%	4.9%	6.9%	5.7%	4.6%	5.0%	5.5%	7.3%	8.1%	5.6%	na	3.9%	5.2%	4.1%
Median value	$747,238	$572,848	$384,681	$332,975	$352,959	$398,833	$267,948	$444,167	$410,023	$290,342	$366,017	$183,726	$178,316	$268,649	na	$570,862	$352,866	$517,399

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

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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