Australian housing values record a fourth month of decline, down 0.4% in August, with trends beginning to diverge across the cities

Australian home values moved through a fourth month of COVID-induced falls, with the CoreLogic home value index recording a 0.4% fall in August. Although housing values continued to trend lower from their pre-COVID highs, at least from a macro perspective, the rate of decline has eased over the past two months and five of the eight capitals recorded steady or rising values through the month.

According to CoreLogic's head of research, Tim Lawless, the Melbourne housing market is the main drag on the headline results. "Following a similar decline in July, Melbourne home values fell by 1.2% in August, the largest fall recorded amongst the capital cities, demonstrating the impact of a worse viral outbreak relative to other cities, along with a larger demand side impact from stalled overseas migration. Through the COVID period to date, Melbourne home values have fallen by 4.6%."

Outside of Melbourne, the remaining capital cities all recorded slightly better conditions relative to July. The rate of decline eased across Sydney and Brisbane, while home values held firm or showed a subtle rise across the remaining capitals.

"The performance of housing markets are intrinsically linked with the extent of social distancing policies and border closures which also have a direct effect on labour market conditions and sentiment. It's not surprising to see Melbourne as the weakest housing market considering the extent of the virus outbreak, and subsequent restrictions, which have weakened the economic performance of Victoria," Mr Lawless said.

"Looking forward we are likely to see a diverse outcome for housing markets around Australia, depending on how well the virus is contained and the regions exposure to other factors such as its reliance on overseas migration as a source of housing demand."

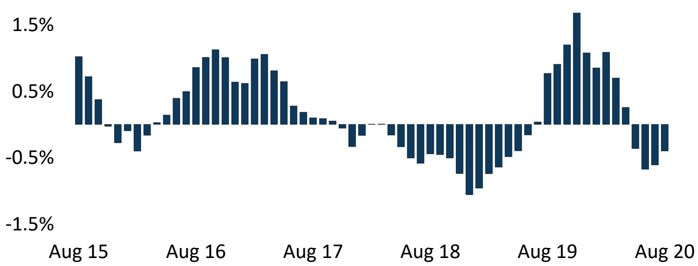
Regional markets have continued to outperform their capital city counterparts across the largest states. While CoreLogic's combined regionals index has lost momentum relative to the pre-COVID trend, the index has held virtually flat since May.

Mr Lawless says there are a variety of factors helping to support regional housing market conditions. "Unlike their capital city counterparts, which usually receive 85% of net overseas migration, most regional markets have avoided the drop in demand caused by the pause in migration. Regional markets may also be appealing for their relatively low density and lower price points. The normalisation of remote work through the pandemic could make proximity to major cities less of a factor in home purchasing decisions."

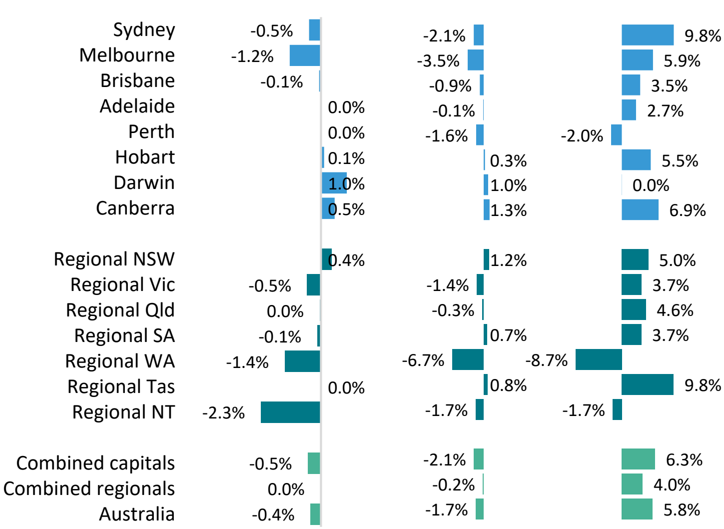
Index results as at August 31, 2020

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	-0.5%	-2.1%	9.8%	12.9%	$860,182
Melbourne	-1.2%	-3.5%	5.9%	9.5%	$667,520
Brisbane	-0.1%	-0.9%	3.5%	7.3%	$503,128
Adelaide	0.0%	-0.1%	2.7%	6.9%	$444,021
Perth	0.0%	-1.6%	-2.0%	2.1%	$443,777
Hobart	0.1%	0.3%	5.5%	11.0%	$490,743
Darwin	1.0%	1.0%	0.0%	6.7%	$393,386
Canberra	0.5%	1.3%	6.9%	12.0%	$636,324
Combined capitals	-0.5%	-2.1%	6.3%	9.8%	$633,745
Combined regional	0.0%	-0.2%	4.0%	8.8%	$395,761
National	-0.4%	-1.7%	5.8%	9.6%	$552,689

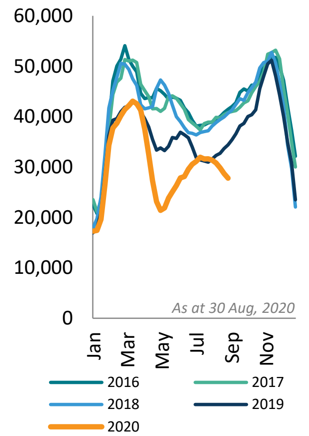
Month-on-month change in national dwelling values



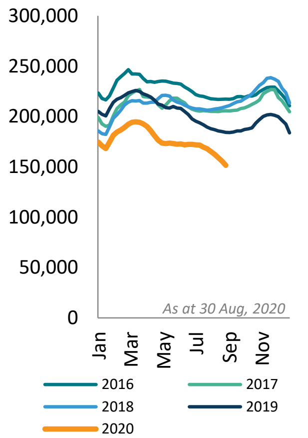
Change in dwelling values



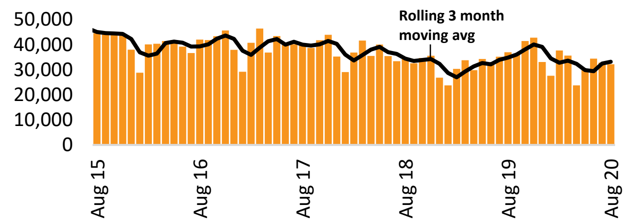
New listings, rolling 28 day count, national



Total listings, rolling 28 day count, national

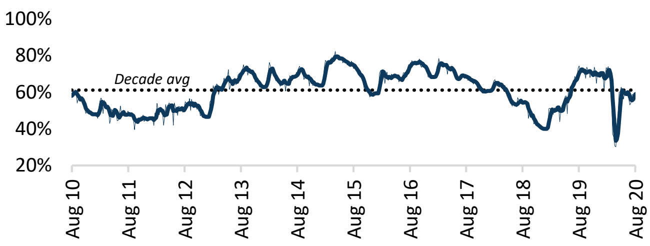


Volume of sales, national



Most recent months of sales volumes are estimates and will revise

Auction clearance rate, combined capitals



Lower quartile home values have continued to record a stronger trajectory than properties in the upper value quartile. Last month, across the combined capitals, lower quartile property values edged 0.1% higher while values across the upper quartile fell 0.9%. While this trend partly reflects weaker conditions within the most expensive cities, the same trend is evident across most capital cities as well.

In the worst hit market, Melbourne, lower quartile home values reduced by 0.6% in August, compared with a 1.9% drop across the upper quartile. Sydney saw a similar, but less exaggerated trend with lower quartile home values falling just 0.1% over the month, while upper quartile values fell by 0.6%. Through the COVID period to-date, Melbourne's upper quartile values are down 7.0% from their recent peak whereas Sydney's upper quartile is down 3.3% while the decline across the lower quartiles has been 2.0% and 0.7% respectively. Higher participation rates from first home buyers, induced by various government incentives, could be supporting lower end home values.

Additionally, this sector of the market recorded much lower growth rates during the past upswing in home values through the second half of last year and in early 2020. This suggests the relatively mild decline at the low end of the market could also be a function of cyclical patterns in the housing market.

Home sales and advertised stock levels have continued to follow consumer sentiment. After plunging through late March and April, consumer sentiment readings posted a partial recovery through May, June and July before falling again in August. The Westpac-Melbourne Institute index fell 9.5% in August, returning to similar levels seen amid the first lockdown in April. A new round of social distancing restrictions in Victoria, and concerns about a renewed spread of the virus has weighed heavily on purchasing decisions.

The trend in listings and housing turnover has followed a similar path. The number of new property listings halved between mid-March and the first week of May before rebounding 48% over the next three months. The recent trend has again seen new listing numbers decline, falling by 11.5% over the past four weeks.

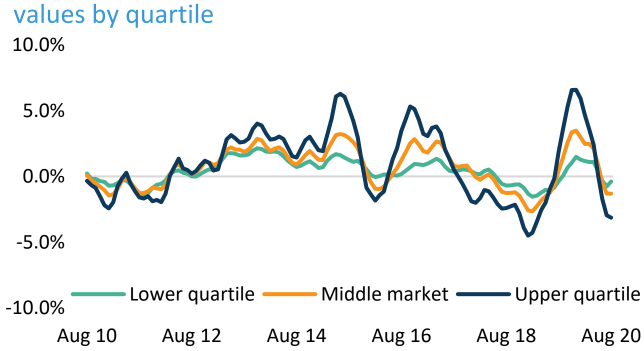
Home sales also fell sharply in April, down by a third between the end of March and end of April. The estimated volume of home sales bounced back by 49% by the end of June, but has since trended slightly lower as weaker sentiment and lower listing numbers again weigh on market activity.

According to Mr Lawless, the low level of total advertised inventory is another factor helping to insulate home values. "Through the COVID pandemic to-date, active listing numbers have remained extremely low, demonstrating both a lower than average amount of fresh stock being added to the market, and a strong rate of absorption. So far there has been no evidence of urgent or distressed listings starting to pile up."

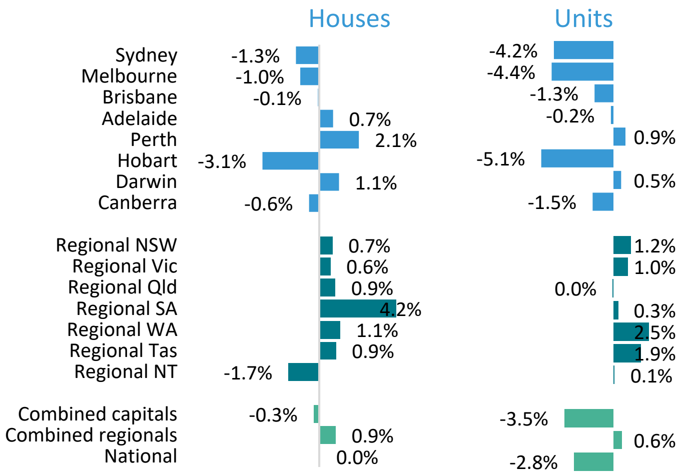
"This could potentially change however as fiscal support starts to taper at the end of September and distressed borrowers taking a repayment holiday reach their six month check-in period around the same time. The timing of these two events could be the catalyst for a gradual rise in distressed listings which will be an important trend to monitor," Mr Lawless continued. "If we do see active listing numbers rising to be higher than previous years, it could signal that vendors will need to offer up greater discounts in order to sell their home."

Auction results provide another signpost for the fit between buyer and seller pricing expectations. Through August, the combined capital city clearance rate held roughly in line with the decade average, averaging 59% over the first three weeks of the month. Although the overall trend in auction clearance rates remains firm, the two largest auction markets, Sydney and Melbourne, have recently diverged. Melbourne auction volumes have moved sharply lower, finishing the month at the lowest level since April. Meanwhile, the number of auctions held across Sydney consistently trended higher. Similarly, Sydney's clearance rates has generally held above 60% since mid-May, while Melbourne clearance rates have softened, averaging 54% in August.

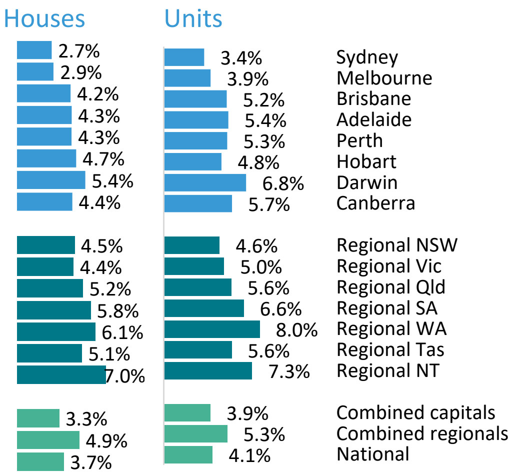
Rolling three month change in capital city dwelling values by quartile



Change in rents, March 31 to August 31



Gross rental yields, August 2020



Nationally, capital city rents have held up better than housing values. Since the end of March, capital city dwelling rents are down 1.4% compared with the 2.3% drop in dwelling values. Despite the apparent resilience, a more substantial performance gap is opening up between houses and units across the rental sector. Since the end of March, capital city house rents are down by a modest 0.3%, while unit rents have fallen a more substantial 3.5% with rents underperforming relative to house rents across every capital city.

The difference is most significant in Melbourne and Sydney where there is approximately a 3 percentage point variance between the fall in house rents compared to unit rents. Hobart has also recorded a significant drop in unit rents through the COVID period, falling 5.1%.

According to Mr Lawless, weaker rental conditions across the unit sector can be attributed to a combination of high supply and low demand.

"Supply levels for rental grade units have surged over recent years, especially in Sydney and Melbourne, where high-rise unit supply across key inner city markets has remained substantially above average. At the end of March there remained around 51,000 units under construction across NSW (+19% on the ten year average), and about 45,000 units were under construction across Victoria (+24% above the decade average)."

"On the demand side, rental demand for inner city apartments has been significantly impacted by stalled overseas migration, including foreign students, as well as less demand from domestic students who are generally studying from home. Rental demand has also been impacted by weak labour market conditions across industry sectors common with renters, including the food, accommodation, arts and recreational services sectors."

CoreLogic rental listings data shows advertised rental supply in select inner city areas has more than doubled between mid-March and early August. With high supply and weak rental conditions likely to persist, at least until international borders re-open, inner city investment unit values are likely to remain under significant downside risk.

In summary, housing markets are showing greater diversity relative to earlier in the pandemic. The early phase of COVID-19 saw housing markets react similarly, with both listings and home sales falling sharply and home values starting a modest downward trend. As the virus curve was brought under control, restrictive policies lifted, state borders opened and conditions bounced back to resemble almost 'normal' levels of activity.

More recently we have seen a clear divergence between regions where the virus curve has steepened, and where the virus remains well contained. This highlights the broad economic impact of renewed social distancing policies, border closures and weaker consumer sentiment.

The spring selling season is likely to be less active than normal this year. Spring is a period where the housing market typically becomes more active, from both a sales and listings perspective. Heading into spring, the trend in advertised listing numbers and home sales is trending in the opposite direction; new and total listing numbers are reducing and sales activity slipped by an estimated 1.9% in August.

So far there has been no evidence that large numbers of distressed properties are coming on the market, however this could change towards the end of the year and into next year as fiscal support tapers and lenders become less lenient on distressed borrowers. Considering fiscal stimulus polices are set to reduce at the end of this month and lenders will be conducting six month check-ins with borrowers taking a repayment holiday, the downside risk to home values remains high.

The Federal Budget, to be announced on October 6th, should help to provide further guidance on the direction of housing markets. Additional policy measures aimed at stimulating housing activity could help to support Australia's economic recovery.

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
Dwellings																		
All Dwellings																		
Month	-0.5%	-1.2%	-0.1%	0.0%	0.0%	0.1%	1.0%	0.5%	0.4%	-0.5%	0.0%	-0.1%	-1.4%	0.0%	na	-0.5%	0.0%	-0.4%
Quarter	-2.1%	-3.5%	-0.9%	-0.1%	-1.6%	0.3%	1.0%	1.3%	1.2%	-1.4%	-0.3%	0.7%	-6.7%	0.8%	na	-2.1%	-0.2%	-1.7%
YTD	1.7%	-1.9%	1.0%	1.3%	-1.1%	2.4%	1.7%	3.5%	3.3%	1.9%	2.2%	3.8%	-5.7%	6.4%	na	0.4%	2.3%	0.8%
Annual	9.8%	5.9%	3.5%	2.7%	-2.0%	5.5%	0.0%	6.9%	5.0%	3.7%	4.6%	3.7%	-8.7%	9.8%	na	6.3%	4.0%	5.8%
Total return	12.9%	9.5%	7.3%	6.9%	2.1%	11.0%	6.7%	12.0%	9.3%	8.6%	9.7%	9.9%	-2.4%	15.7%	n a	9.8%	8.8%	9.6%
Gross yield	2.9%	3.2%	4.4%	4.5%	4.4%	4.7%	5.9%	4.6%	4.5%	4.5%	5.3%	5.8%	6.2%	5.2%	na	3.5%	5.0%	3.8%
Median value	$860,182	$667,520	$503,128	$444,021	$443,777	$490,743	$393,386	$636,324	$472,011	$393,569	$383,077	$244,950	$302,473	$325,534	na	$633,745	$395,761	$552,689
Houses																		
Month	-0.5%	-1.4%	0.0%	0.0%	0.0%	0.3%	1.1%	0.5%	0.4%	-0.5%	0.2%	-0.4%	-1.6%	0.3%	-1.1%	-0.5%	0.1%	-0.4%
Quarter	-2.4%	-4.0%	-0.7%	-0.1%	-1.6%	0.4%	1.4%	1.3%	1.3%	-1.5%	-0.1%	0.9%	-6.6%	1.1%	0.0%	-2.2%	-0.1%	-1.7%
YTD	1.7%	-2.5%	1.6%	1.1%	-1.1%	3.3%	4.5%	4.1%	3.4%	1.9%	2.4%	3.4%	-5.9%	6.3%	-1.7%	0.4%	2.3%	0.8%
Annual	11.0%	6.0%	4.3%	2.7%	-2.0%	5.8%	2.5%	7.9%	5.4%	3.5%	5.1%	3.1%	-9.3%	9.4%	-3.3%	6.6%	4.1%	6.0%
Total return	13.9%	9.2%	8.0%	6.7%	2.1%	11.4%	8.4%	12.6%	9.7%	8.3%	10.0%	9.6%	-3.2%	15.2%	4.8%	9.8%	8.7%	9.6%
Gross yield	2.7%	2.9%	4.2%	4.3%	4.3%	4.7%	5.4%	4.4%	4.5%	4.4%	5.2%	5.8%	6.1%	5.1%	7.0%	3.3%	4.9%	3.7%
Median value	$985,723	$781,888	$557,969	$480,972	$461,891	$517,877	$476,143	$716,400	$486,888	$417,273	$392,358	$253,302	$313,781	$338,964	$398,396	$669,867	$407,963	$568,833
Units																		
Month	-0.3%	-0.8%	-0.3%	0.3%	-0.1%	-0.7%	0.7%	0.5%	0.1%	-0.6%	-0.8%	3.8%	1.6%	-2.5%	na	-0.4%	-0.4%	-0.4%
Quarter	-1.6%	-2.2%	-1.6%	-0.1%	-2.2%	-0.1%	0.1%	1.0%	0.6%	-0.8%	-0.8%	-4.5%	-8.0%	-1.7%	na	-1.7%	-0.5%	-1.5%
YTD	1.7%	-0.6%	-1.8%	2.5%	-1.3%	-1.3%	-3.5%	1.3%	2.8%	2.1%	1.4%	10.3%	-3.3%	7.0%	na	0.6%	2.1%	0.8%
Annual	7.2%	5.7%	-0.2%	2.8%	-2.0%	4.4%	-4.6%	3.6%	2.5%	5.0%	3.0%	15.8%	1.0%	13.9%	na	5.4%	3.3%	5.1%
Total return	11.0%	9.9%	4.9%	8.2%	2.7%	9.6%	3.4%	9.8%	7.5%	10.8%	9.0%	10.9%	11.0%	19.0%	na	9.7%	9.0%	9.6%
Gross yield	3.4%	3.9%	5.2%	5.4%	5.3%	4.8%	6.8%	5.7%	4.6%	5.0%	5.6%	6.6%	8.0%	5.6%	na	3.9%	5.3%	4.1%
Median value	$745,168	$562,780	$387,672	$331,334	$350,394	$400,578	$277,551	$450,757	$410,044	$289,248	$359,808	$188,893	$184,996	$261,212	na	$566,034	$348,027	$513,795

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.*