Welcome to CoreLogic's housing market update for September 2022

The housing downturn accelerated through August, as falling values became more widespread, taking CoreLogic's national Home Value Index into a fourth consecutive month of decline. The national index was down -1.6% over the month, which was the largest month-on-month decline since 1983.

Every capital city apart from Darwin is now in a housing downturn, with a similar scenario playing out across the rest-of-state regions, where only regional South Australia recorded an increase in housing values for the month.

Sydney continued to the lead the downswing, with values falling -2.3% over the month, however weaker conditions in Brisbane accelerated sharply through August, with values falling -1.8%.

After recording significantly stronger appreciation through the upswing, the fall in regional dwelling values is catching up with the capital cities. Regional home values were down -1.5% in August compared with a -1.6% fall in values across the combined capitals. Between March 2020 and January 2022 regional dwelling values surged more than 40% compared with a 25.5% rise for the combined capitals.

The largest falls in regional home values are emanating from the commutable lifestyle hubs where housing values had surged prior to the recent rate hikes. Over the past three months, values are down -8.0% across the Richmond-Tweed, -4.8% lower across the Southern Highlands-Shoalhaven market and down -4.5% across Queensland's Sunshine Coast, as a few examples.

Despite the recent weakness, housing values across most regions remain well above pre-COVID levels. Home values in all capital cities and rest-of-state regions, bar Melbourne, remain 15% or above the levels recorded in March 2020, implying most home owners have a significant equity buffer before their home is likely to be worth less than what they paid.

Rents are bucking the downwards trend, with our national rental index increasing a further 0.8% in August. The monthly rise has eased a little since peaking in May when rents rose by 1.0%, but the current rate of rental appreciation remains well above average. Annual rental growth reached double digits, at 10.0% over the twelve months to August, for the first time since at least 2006 when CoreLogic rental statistics commence.

With rents consistently rising while housing values broadly trend lower, gross rental yields are firmly in recovery mode. After capital city gross dwelling yields bottomed out at the record low of 2.96% in February this year, yields have consistently risen to reach 3.29% in August.

While capital city yields are still well below the pre-COVID decade average (4.0%), considering the outlook for lower housing values and higher rents, we could see rental yields returning to around average levels over the next year.

Let's take a look around the grounds.

Sydney continued to lead the housing downturn, with home values falling -2.3% in August. This was the seventh consecutive month of falls, taking the cumulative decline in Sydney home values to -7.4%, or roughly $85,000 in dollar terms. The drop comes after a 27.7% rise in housing values which added approximately $250,000 to the median dwelling value. With weaker market conditions, the volume of home sales across Sydney are now tracking about -23% below the previous five-year average. With less demand, advertised stock levels have also risen to above average levels, tracking

8.8% above the five-year average at the end of August. With higher stock levels and less demand, buyers are well and truly back in the driver's seat.

Melbourne housing values moved into a sixth month of decline through August, although the month-on-month fall, at -1.2%, decelerated from July's reading where values were down -1.5%. It might be too early to suggest Melbourne has moved through its peak rate of decline, this will be a trend to watch. Home sales were estimated to be -8.7% below the previous five-year average over the three months to August, while the flow of new listings coming onto the market was 21.8% above the five-year average for this time of year. With lower demand and a higher than normal level of new listings flowing into the market, total inventory levels started the spring season about 17% higher than average, providing more choice for prospective buyers.

Brisbane's housing market took a sharp negative turn through August, recording the second largest month-on-month fall in housing values across the capitals, down -1.8%. The sudden transition into downturn comes after Brisbane housing values surged 42.7% higher through the upswing, adding roughly $234,000 to the median value. The decline was most evident across the detached housing sector, where values are down -3.2% since peaking in May, while the unit sector has been more resilient, posting a smaller -0.2% decline since its July peak. Home sales are trending lower, but remained about 20% above the five-year average over the three months ending August.

Adelaide housing been more resilient to falls than most regions, but values are succumbing to the downwards pressure of higher interest rates, slipping -0.1% lower in August. Although the monthly reading was relatively flat, the trend is suggesting a further reduction in Adelaide home values is likely to be in store. Despite the flattening out in housing values, sales activity has been less affected. Over the three months ending August, CoreLogic's estimate of home sales was tracking 21% above levels a year ago and 45% above the five-year average, demonstrating ongoing demand for Adelaide's relatively affordable housing stock.

Perth dwelling values nudged -0.2% lower in August, the first month-on-month decline since a brief fall in October last year. The August decline was confined to upper quartile for houses, where values were down half a per cent in August, and the broad middle of the market for houses where values were down -0.1%. Unit value and the lower quartile of the detached housing sector continued to record a rise in values. Although values have nudged lower across some sectors of the market, demand for housing has remained strong across Perth, with CoreLogic's estimate of settled sales tracking 3.6% higher than a year ago and 42% above the five-year average for this time of the year.

Hobart dwelling values were down again in August, following a decline in values over three of the past four months. Since peaking in May, values are down -3.3%, taking roughly $25,000 off the median value to date. The unit market has shown a weaker trajectory relative to houses, with unit values down -4.5% compared with a -3.4% drop in house values. The weaker conditions across the unit market follow a larger upswing, where unit values rose 40% through the upswing compared with a 37.87% rise for houses. Demand across Hobart has eased, with home sales over the three months ending August estimated to be 1.2% lower than a year ago and 15.2% below the five-year average.

Darwin was the only capital city to avoid a fall in housing values through August, with house values gaining 1.1% over the month while unit values were up 0.6%. Housing values have jumped 31% higher through the cycle to date, but despite such growth, the market remains -10.1% below the 2014 peak in values; a stark reminder of the long running downturn between 2014 and 2020. At 6.2%, gross rental yields remain by far the highest of any capital city, a factor that, together with

relatively low housing prices, could start to attract more investment demand. Demand for housing is looking resilient as well, with home sales over the past three months estimated to be 5.2% higher than a year ago and well above the five-year average.

Canberra housing values have fallen in three of the past four months, taking the market -2.9% below its recent peak. The recent drop in values comes after a 38.3% surge which added approximately $259,000 to the median value. As conditions ease we are also seeing a slowdown in home sales, with estimates for the three months ending August down -19% on the same time last year. Lower demand has also led to an accumulation of advertised stock, which was roughly in line with the five-year average at the end of August, but more than 40% higher relative to levels at the same time last year.

The outlook for the housing market remains intertwined with the trajectory of interest rates. Forecasts for the terminal cash rate generally range from the mid-2% to the mid-3% range, although financial markets are pricing in a peak cash rate around 4% by August next year. The range of forecasts for the cash rate highlights the sheer uncertainty associated with inflation, wages growth and monetary policy.

As borrowing power is eroded by higher interest rates and rising household expenses due to inflation, it's reasonable to expect a further decline in consumer confidence and lower housing demand.

The silver lining to lower housing prices is an improvement in some measures of housing affordability measures. The time needed to save a 20% deposit is trending lower for the first time in almost two years across the capital cities, while the dwelling value to income ratio has also started to reduce. As housing values trend lower and incomes rise, we expect to see a further reduction in these barriers to entering the housing market.

However, on the downside for prospective home buyers, mortgage costs and rents are rising, and household budgets are stretched. The portion of annual household income required to service a new mortgage nationally increased to 44.0% in June, up from 40.4% over the March 2022 quarter, offsetting some of the improvements in other measures of housing affordability.

The wash up is that lower housing prices and higher incomes should make home ownership more achievable for non-home owners, but headwinds remain in being able to save for a deposit and demonstrate the ability to service a loan amid such a high cost of living.

With spring upon us, advertised stock levels are expected to rise. Inventory was already higher than average across Sydney, Melbourne and Hobart at the end of winter and, although the flow of new listings may not be as high as previous years, we could see advertised supply accumulating through spring due to a lack of housing demand.

Amid higher advertised stock levels, vendors will be competing across a larger pool of available supply for fewer buyers. While this is positive news for buyers, sellers will need to be realistic in their pricing expectations and ensure they have a quality marketing campaign in place.

With labour markets so tight, demonstrated by a 3.4% unemployment rate in July, and some momentum gathering in income growth, we are not likely to see a material increase in the number of distressed listings or forced sales, despite the higher interest rate environment. While labour

markets could loosen to some extent under a contractionary interest rate setting, a substantial rise in unemployment or under employment seems an unlikely outcome.

The risk of housing stress is further minimised by serviceability buffers applied to borrowers as part of the loan approval assessment.

As a closing remark, the context of the recent upswing is important to remember as the market navigates a downturn. Although housing values are on track to record a significant drop, the risk of widespread negative equity remains low, considering the substantial rise in housing values between September 2020 and April 2022. Nationally home values rose by 28.6%; so even a 20% decline in housing values would result in housing values remaining above their pre-COVID levels.

No doubt we will continue to see a great deal of interest in housing trends as we move through spring. You can stay in touch with all our research at corelogic.com.au