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Melbourne housing market conditions The macro-view

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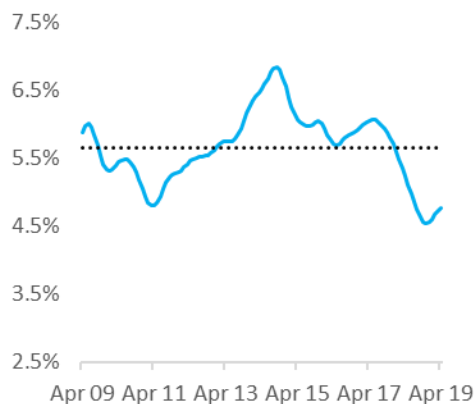




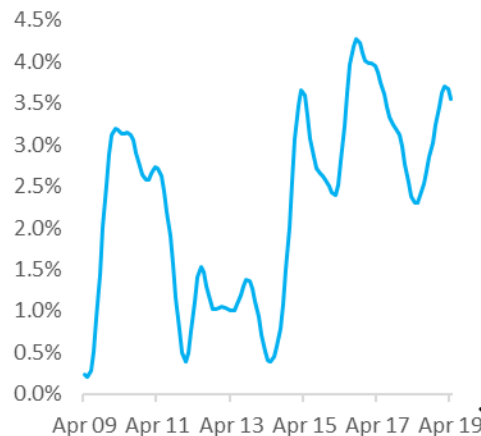
Macro-factors

Labour markets are tight, with unemployment below 5% and jobs growth leading the nation

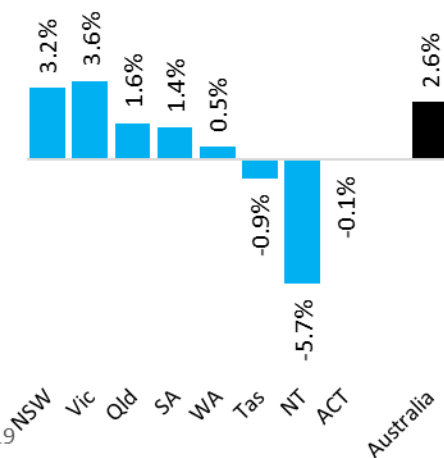
Unemployment rate
Vic (trend)



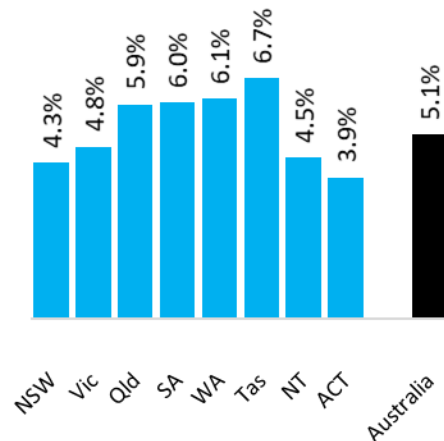
Annual jobs growth
Vic (trend)



Jobs growth
Past 12 months



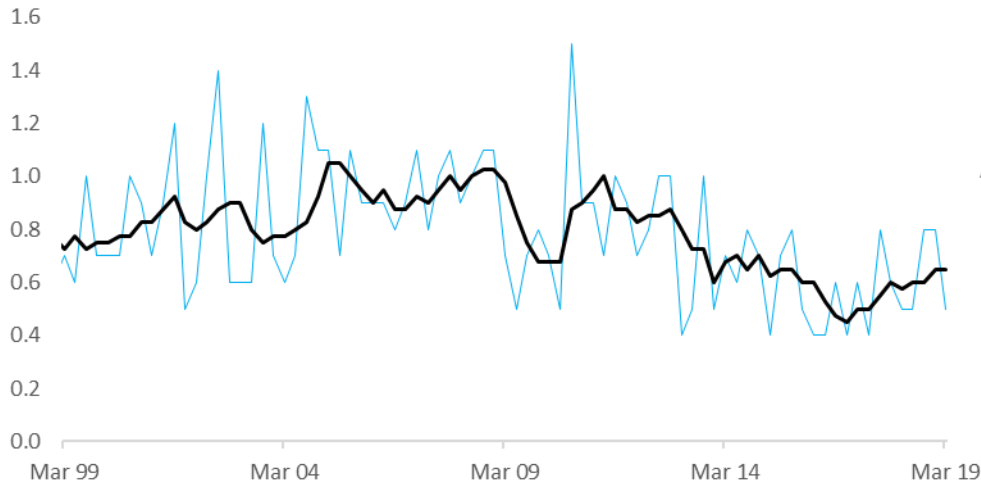
Trend unemployment rate



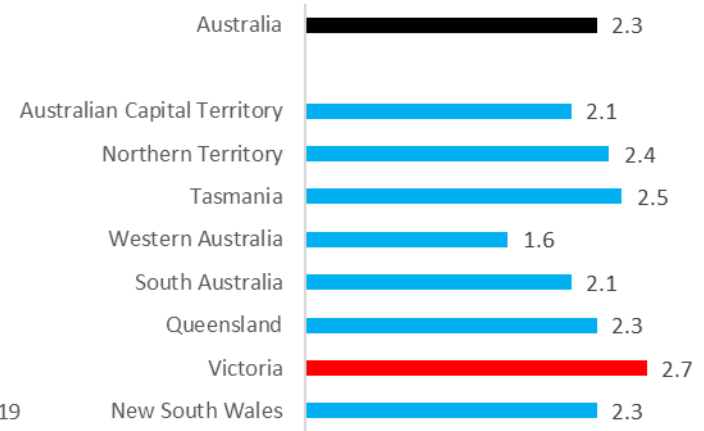
Source: CoreLogic, ABS

Tight labour markets are pushing wages higher (strongest growth of any state), although the rate of wages growth remains slower than average

Quarterly change in Wage price index, Vic

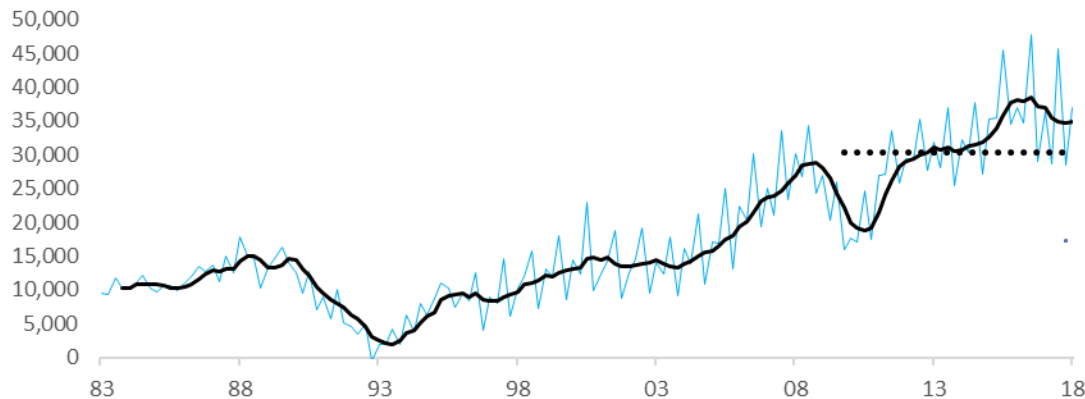


Annual change in Wage price index, Australian states and territories



Source: CoreLogic, ABS

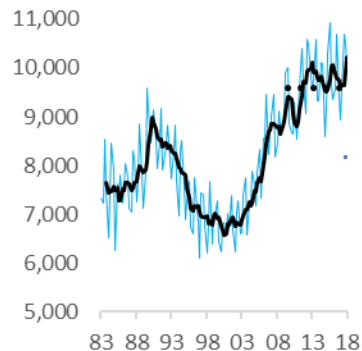
Quarterly change in population, Vic



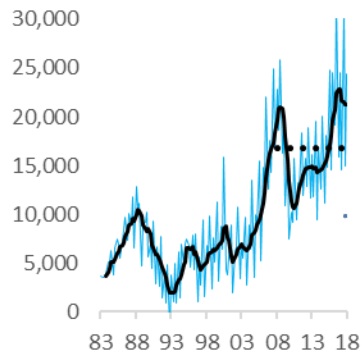
DEMAND

Migration rates have slipped a little but remain well above the decade average.

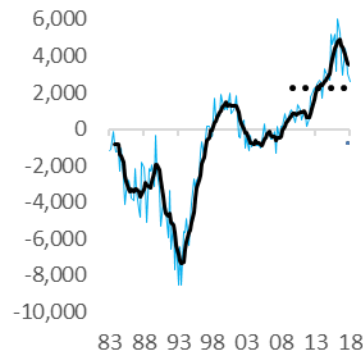
Natural increase,
Vic



Overseas
migration, Vic



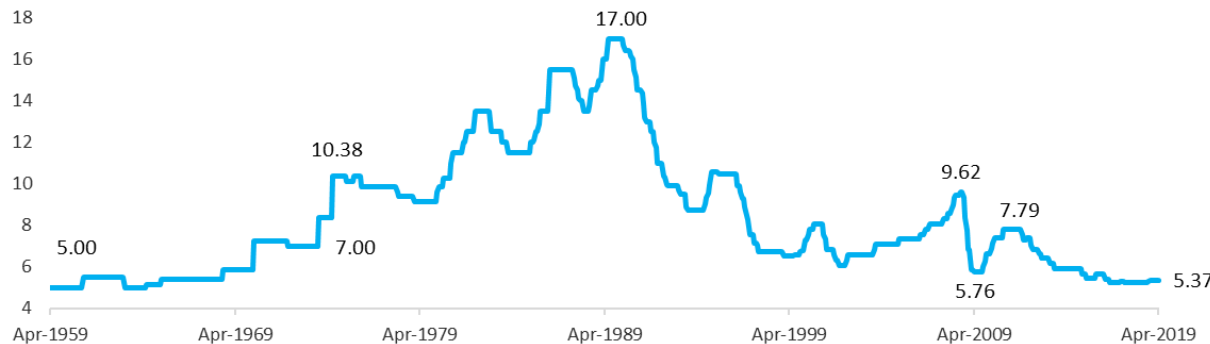
Interstate
migration, Vic



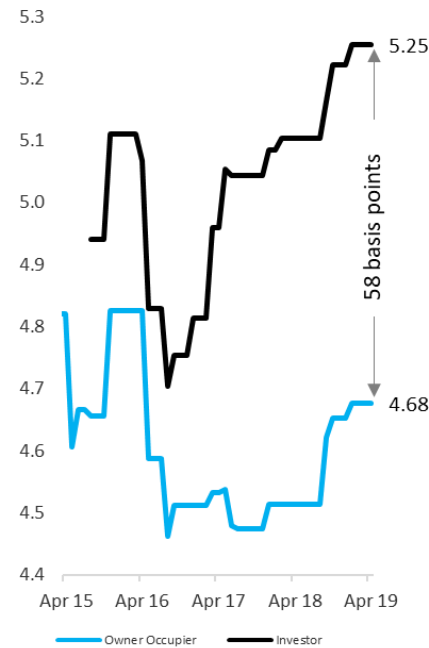
Source: CoreLogic, ABS

Mortgage rates are set to remain around the lowest level since the 1960's – potentially tracking lower later this year

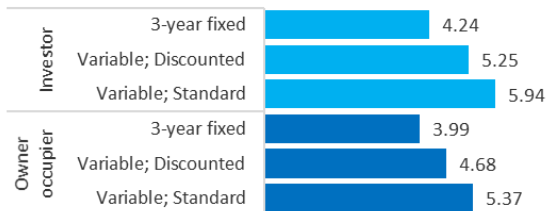
Standard variable mortgage rates over time



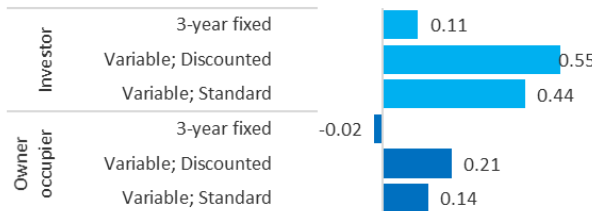
Investor mortgage rate premium



Avg mortgage rate by product type, April 2018 (%)

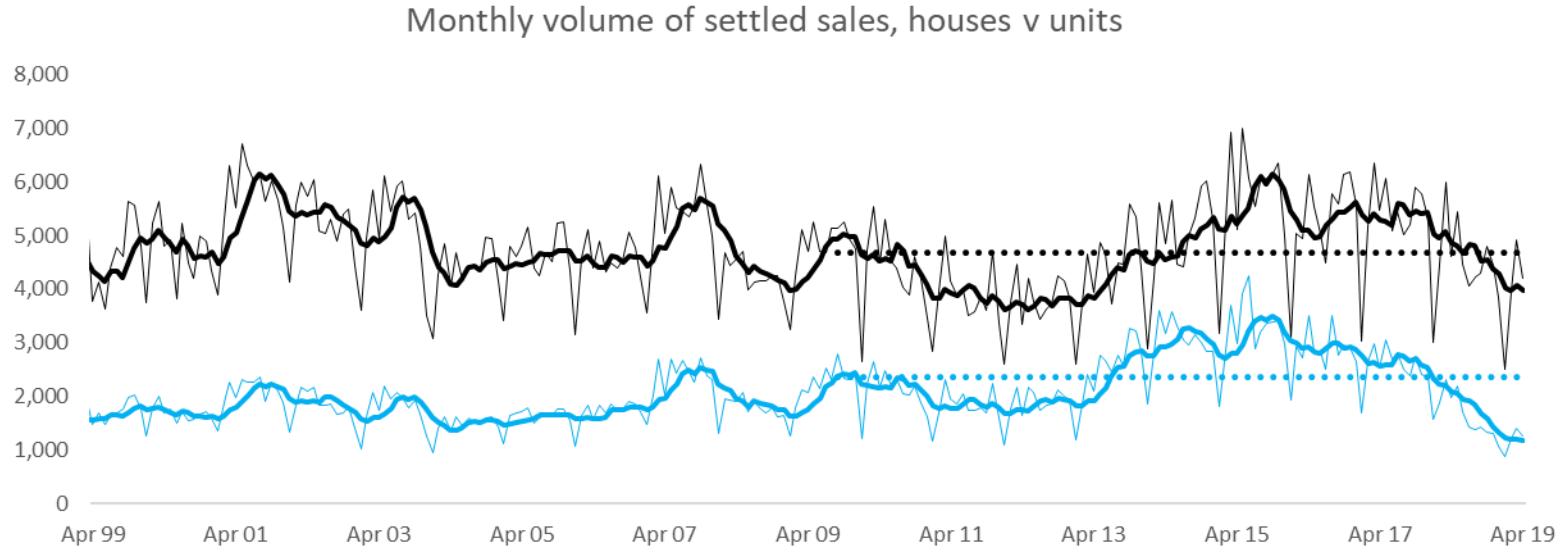


Basis point change in avg rate since recent trough to April 2019



Source: CoreLogic, RBA (based on discounted variable rates)

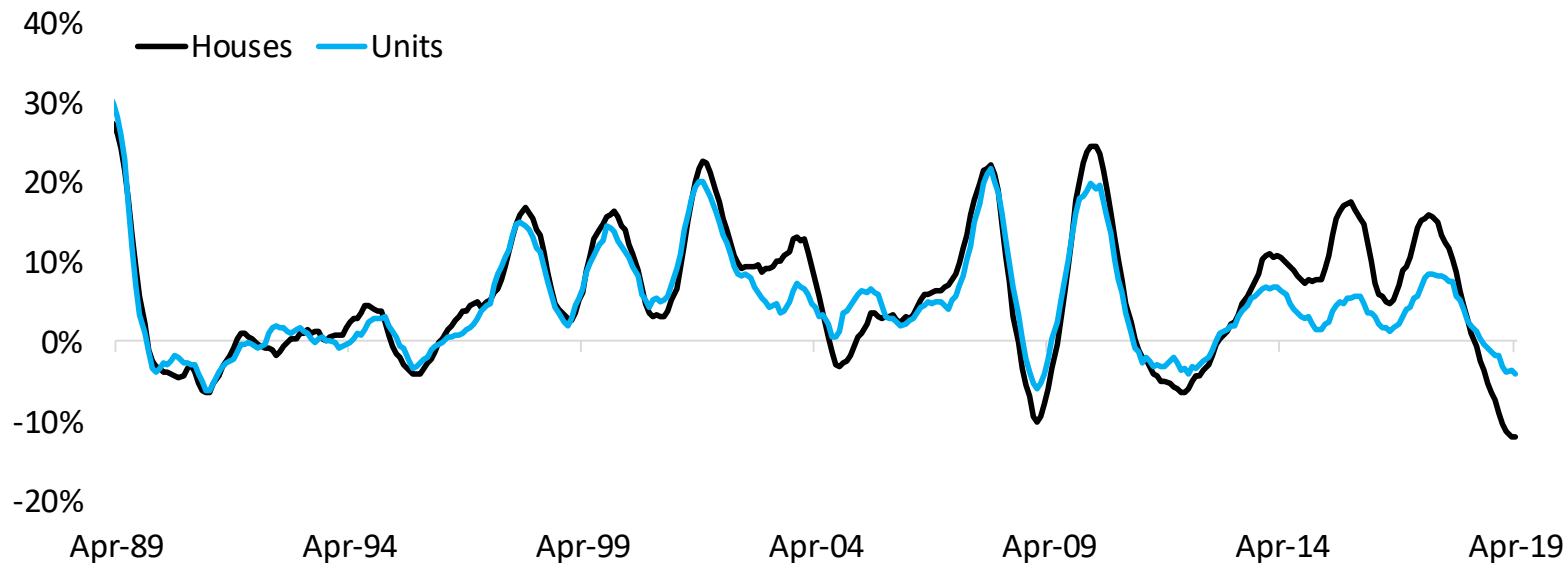
Despite strong economic and demographic fundamentals, sales activity has been trending lower in line with changes to credit policy



Source: CoreLogic. Note sales volumes are modelled based on historic levels of revision and include settled sales only. Unsettled sales (ie off the plan purchases) are counted at contract date upon settlement.

Housing values continue to fall with house values -12.1% lower over the past year and unit values down -4.2%

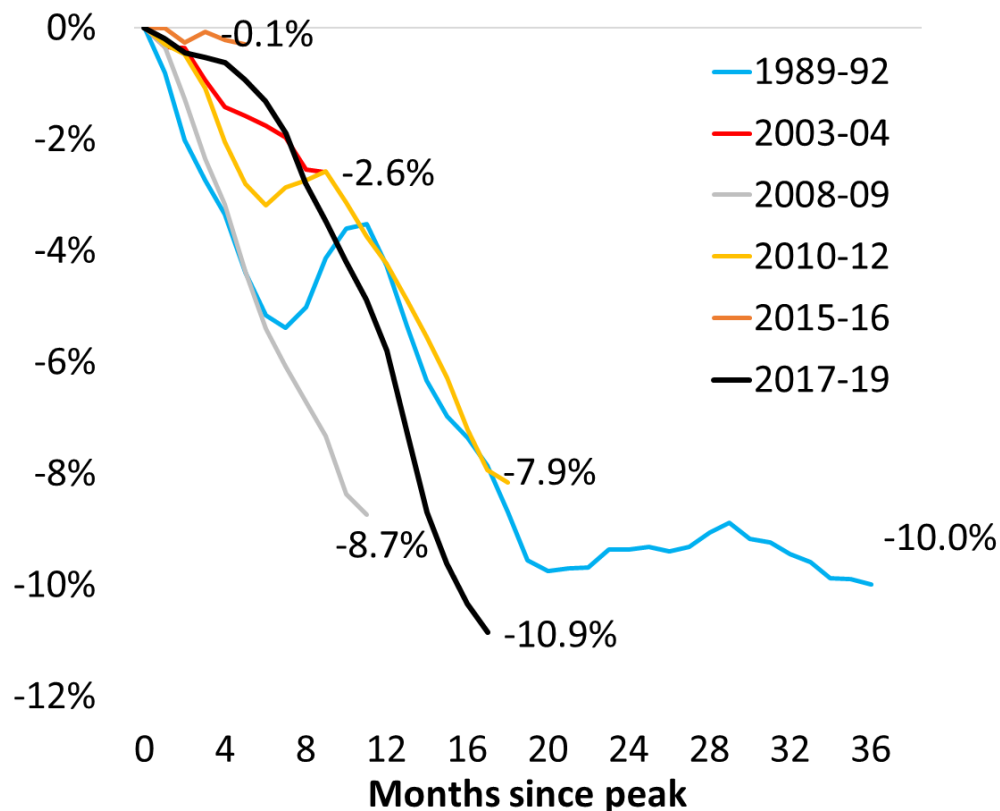
Annual change in house and unit values, Melbourne



Source: CoreLogic

With dwelling values down 10.9% since peaking, the decline in Melbourne is now the largest since at least the 1980's

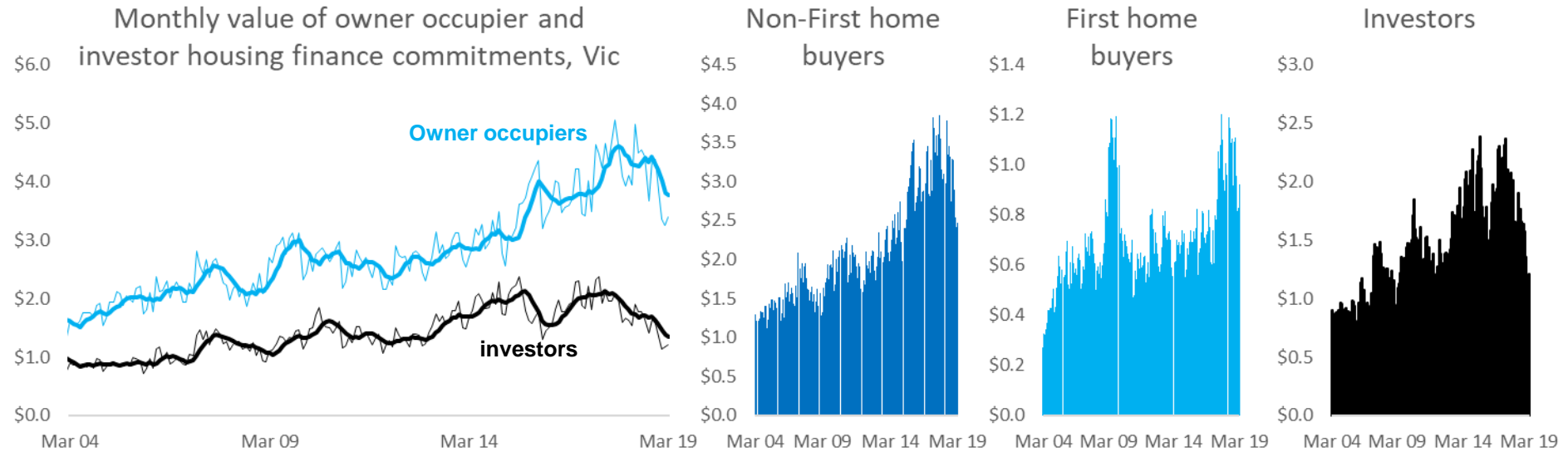
Historic periods of peak to trough decline, Melbourne





If the fundamentals are so strong....
Why is the market so weak?

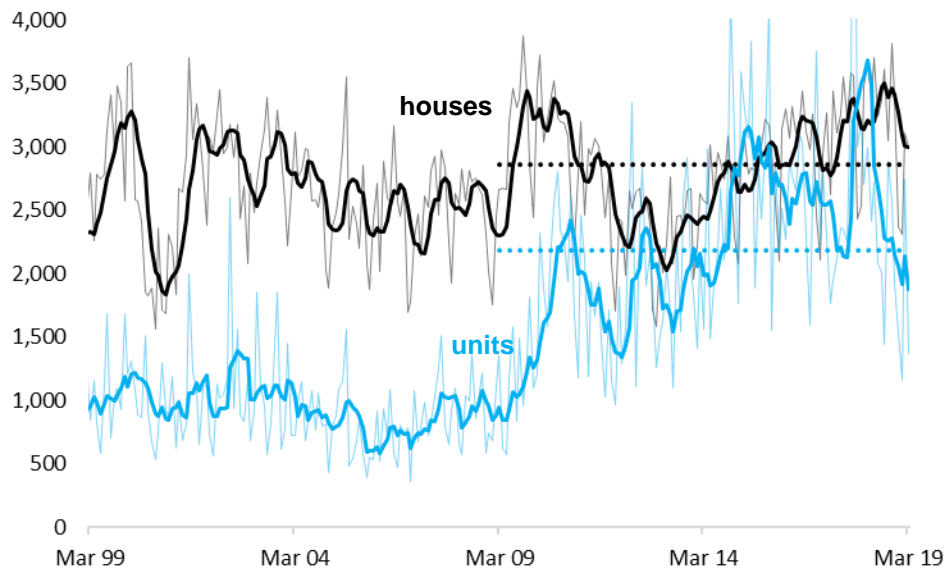
Credit Credit tightening has been phased, with macro-prudential policies initially impacting investors and (more recently) stricter credit policies following the royal commission have impacted owner occupiers as well



Source: CoreLogic, ABS

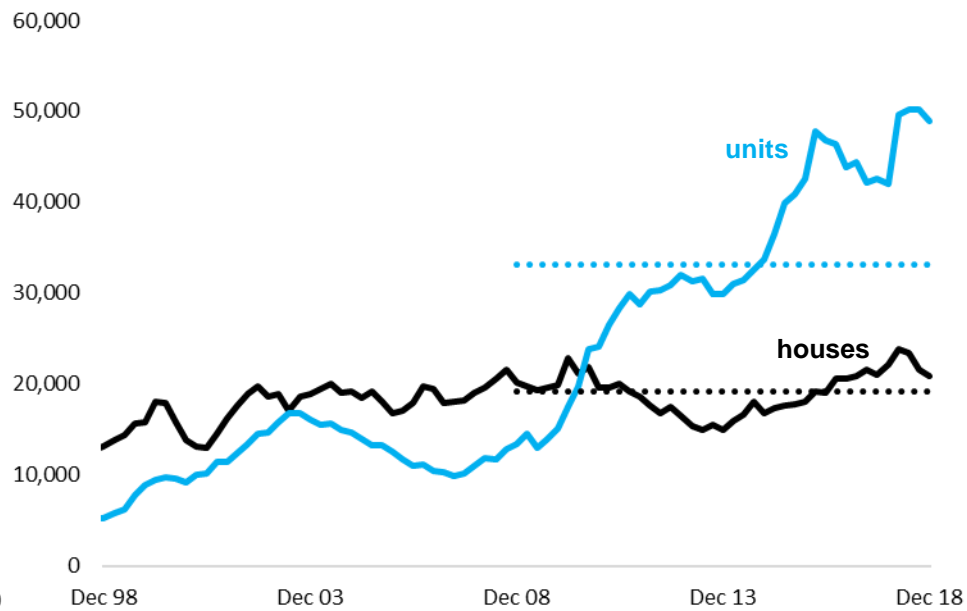
Supply Pipeline supply remains above average, especially across the unit sector, but approvals are trending lower rapidly, implying the ‘hangover’ will be short-lived

Dwelling approvals, Vic



Source: CoreLogic, ABS

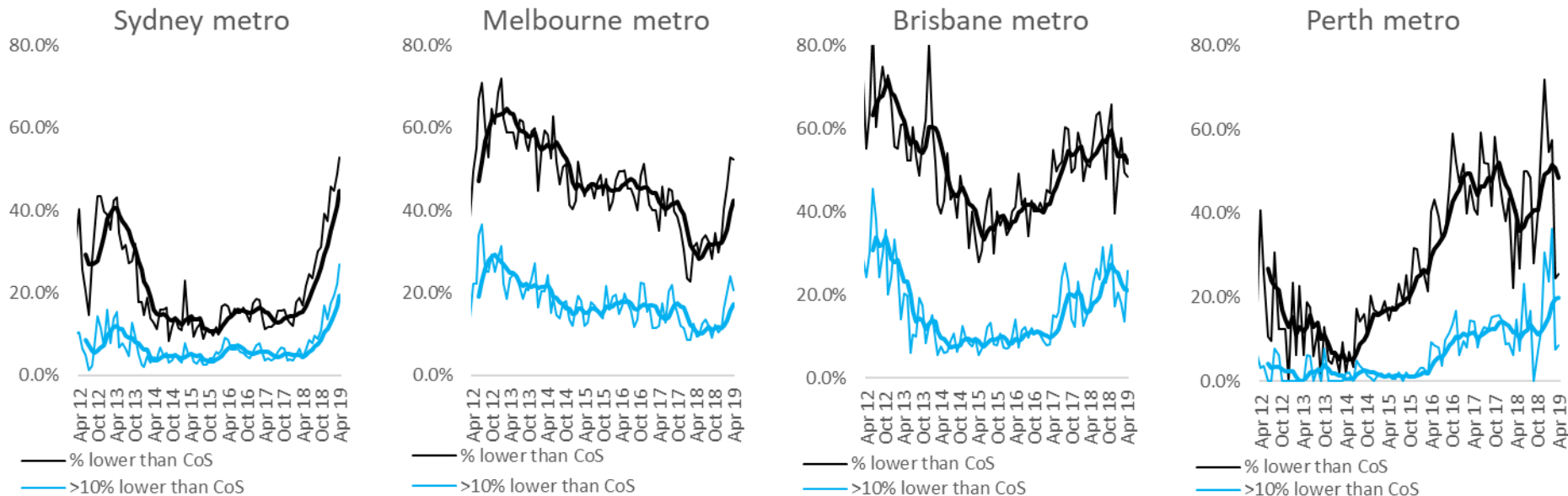
Dwellings under construction, Vic



Cracks are appearing in the off-the-plan unit sector as a higher proportion of settlement valuations come in below the contract price

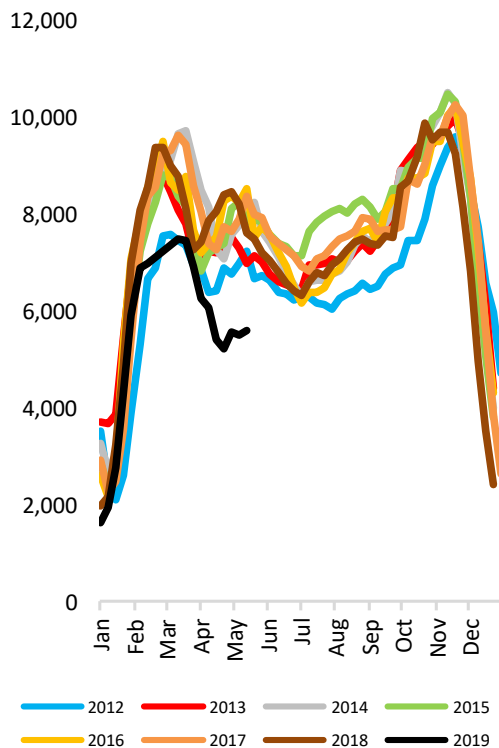
Proportion of Off the Plan settlement valuations

where the valuation was lower than the contract price and at least 10% lower than the contract price

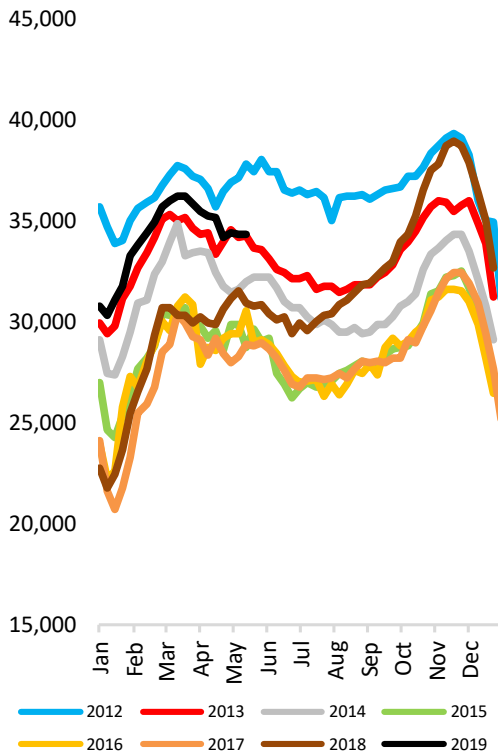


Source: CoreLogic

New listings, Melbourne



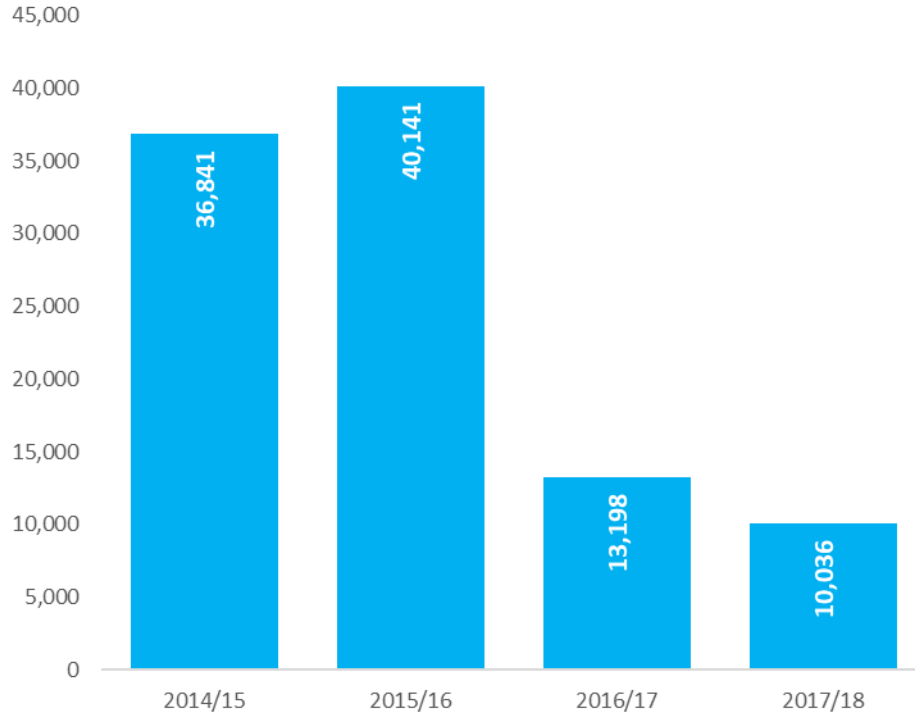
Total listings, Melbourne



The number of new properties advertised for sale in Melbourne is significantly lower than it has been over recent years however, the tougher sales conditions have resulted in total stock mounting to its highest levels since 2013.

Source: CoreLogic

Number of foreign investment real estate approvals

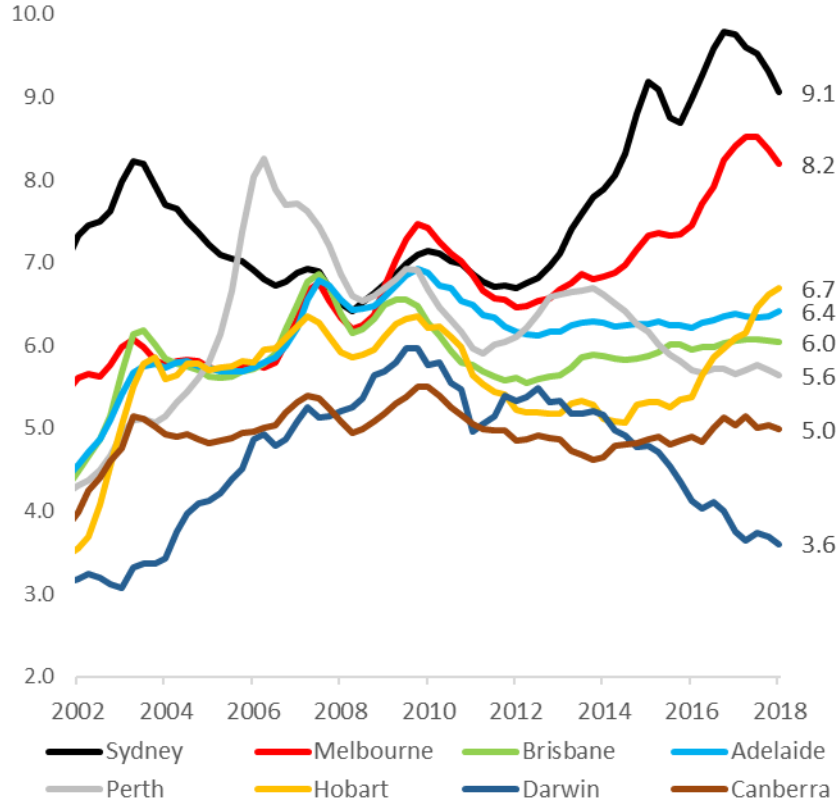


Foreign buying activity has fallen off a cliff

- Higher taxes & fees
- More scrutiny on the rules
- Less opportunity for capital gain
- Restrictions of capital flows away from China

Source: CoreLogic, FIRB

Dwelling value to income ratios



Housing affordability

Although housing affordability is improving, expensive markets like Melbourne are still showing a high entry point relative to incomes

Source: CoreLogic

Where to now?

Much has changed in a few weeks

- Stable federal government
- Rates set to move lower
- Improved serviceability assessments (likely)

But there are still headwinds

- Credit policies remain much tighter despite the likely improvements to servicing calcs
- Supply will remain high across the high density sector for at least another year
- Economic conditions are less certain

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