

HOW RESILIENT IS THE PROPERTY MARKET?

When social distancing and restrictions were introduced in March to stop the spread of the Covid-19 virus, it was first thought that our financial and property markets would come crashing down. While many individuals have found themselves in financial difficulty, Australian property markets have fared relatively well.

Six months on since our country went into lockdown with many property markets forced to cancel 'open houses' and look for alternative methods of selling property, the overall market only experienced a modest decline in value. Surprisingly, a number of capital cities have experienced an appreciation in value with only Sydney, Melbourne and Perth experiencing a slight decline in value.

Regional areas

Not only have we seen price resiliency in most capital cities, the majority of regional areas throughout Australia have also not experienced a decline. The regional areas of Western Australia¹ and Northern Territory¹ have been the only locations experiencing a decline (as illustrated in Figure 1).

There are a number of factors contributing to this trend:

regional areas did not experience the same rates of growth pre-Covid experienced by capital cities, a transition of

Figure 1

	CHANGE IN DWELLING VALUES				
	Month	Quarter	Annual	Total Return	Median Value
Sydney	-0.3%	-1.6%	7.7%	10.6%	\$859,943
Melbourne	-0.9%	-3.3%	3.1%	6.7%	\$666,796
Brisbane	0.5%	0.0%	3.8%	7.8%	\$504,902
Adelaide	0.8%	0.9%	3.6%	7.8%	\$449,803
Perth	0.2%	-0.3%	-1.0%	3.3%	\$445,717
Hobart	0.4%	0.3%	6.4%	11.8%	\$489,059
Darwin	1.6%	2.3%	1.9%	9.2%	\$398,885
Canberra	0.4%	1.5%	6.3%	11.3%	\$644,581
Combined capitals	-0.2%	-1.5%	4.9%	8.3%	\$635,196
Combined regional	0.4%	0.5%	4.3%	9.1%	\$397,791
National	-0.1%	-1.1%	4.8%	8.5%	\$554,372

Source: Core Logic¹

demand away from capital cities towards major regional areas, particularly those adjacent to larger capital cities, and attractive lifestyle opportunities and lower density housing in remote areas.



Sydney and Melbourne

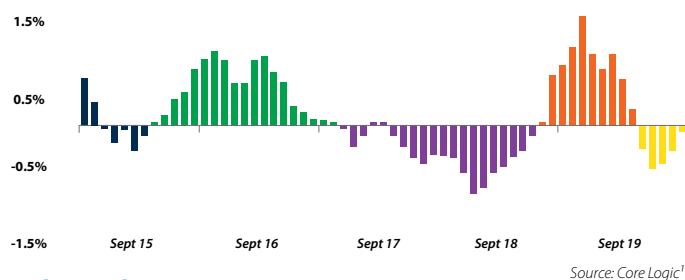
With Sydney and Melbourne making up approximately 55% of Australian housing stock by value their decline had the effect of dragging down the performance of the entire Australian property market.

While Sydney, Melbourne and Perth have experienced a decline in property values, the rate of decline is easing. In the past this slowing in decline has been indicative of an approaching 'bottom of the market'.

The previous property cycle (as illustrated in Figure 2) that saw the market peak in mid-2017 after a long period of consistent growth over several years resulted in a decline in the market over a two year period. This current cycle appears to be much shorter because of the impact of the pandemic. The growth cycle leading into the turn of the market was only approximately a year and therefore it would only be natural to assume that the decline in the market will also be shorter and statistics to date appear to be supporting such a view.

Figure 2

Month-on-month change in national dwelling values



Sales volumes

Sales volumes are significantly down in 2020 when compared to prior years (as illustrated in Figure 3). As property prices have been relatively resilient across the majority of the capital cities it appears that the decline in market activity is more a result of the social distancing and restrictions put in place rather than a negative sentiment associated with the market. This is reinforced by a correlation between a second decline in sales volume and the reintroduction of restrictions in Melbourne in August.

Sentiment

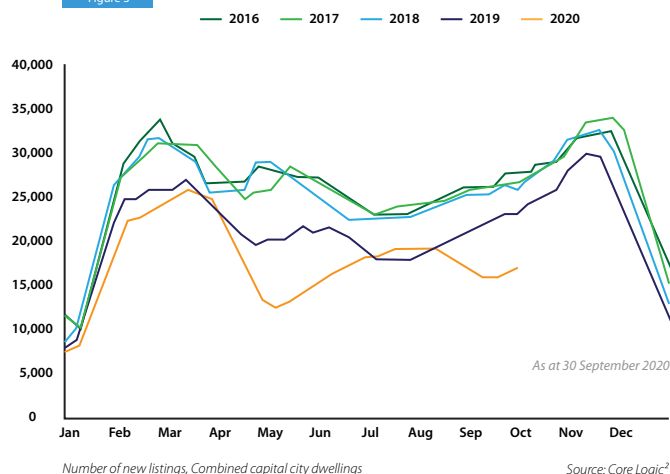
The natural conclusion is that the Covid-19 virus has affected property owners' sentiment around the potential timing of

buying and selling property, however it has not significantly impacted their perceived value of property. Assuming the decline in volumes has been closely linked to the restrictions in place, as these ease it will be interesting to see if sales volumes start to return to previous levels.

Astute property owners believe that not only is it time in the market that drives returns from property, these returns can also be enhanced by purchasing at the right time in the property cycle. Only time will tell whether this is the right time.

Your personal financial position will also determine the best time for you to enter the property market.

Figure 3



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1. www.corelogic.com.au/news/corelogic-hedonic-home-value-index-october-2020
2. www.corelogic.com.au/news/corelogic-sales-and-listings-numbers-reveal-unlikely-city-rebound