Financial Review -

May 7 2018 at 12:23 PM
Updated May 7 2018 at 4:29 PM

Sydney and Melbourne house prices could fall as much as 4 per cent, says SQM

by **Su-Lin Tan**

The days of double digit growth in house prices for Sydney and Melbourne are over as the two big cities head for a house price tumble, new forecast from SQM Research confirms.

Property research group SQM Research, led by Louis Christopher who has successfully forecast house prices, has revised its prediction that Sydney prices will fall as much as 4 per cent in 2018. The best case scenario is a flat zero growth in prices for Sydney home owners.

The group's previous prediction for Sydney made in its *Housing Boom and Bust* report last October was a 4 to 8 per cent rise in prices for the full year.

SQM also says Melbourne's house prices are expected to fall as much as 3 per cent for the year, with a 1 per cent growth in prices at best. This was revised from an earlier forecast of a 7 to 12 per cent growth.

Brisbane and Canberra also had expectations of prices rises downgraded.

Canberra price movements will land somewhere between 1 and 4 per cent, from previous predictions of 5 to 9 per cent, and Brisbane has been downgraded to 0 to 3 per cent from 3 to 7 per cent.

The culmination of deteriorating auction clearance rates in recent weeks, more listings with falling asking prices and worsening numbers of the days on market for properties trading outside of auctions, suggest Australia's overvalued markets are headed for an "unwinding".

"Leading indicators such as auction clearance rates, total aggreggated property listings and asking prices suggest further deterioration in market conditions in recent weeks," SQM said.

'Markets are 45 per cent overvalued'

"It should be noted that on a nominal aggregate incomes to dwelling prices measure, the Sydney market is approximately 45 per cent overvalued. SQM Research expects this over valuation to wind down somewhat over an extended period of time."

SQM is of the view that APRA's move to lift the brakes on investment lending growth will not rouse up new investor interest, given the softening conditions.

Macroprudential policies to curb house price inflation had worked on the national housing market, but a crash was not imminent, SQM said.

"The evidence now suggests that action to reduce borrowing risks is now affecting the national housing market as a whole," SQM said. "This action, predominantly targeted at property investors, has triggered a decline in demand for residential property.

"However it is stressed that SQM Research does not expect a general housing price crash to occur this year. The conditions required to create such a downturn are not in the housing market at present.

"If there is a more pronounced downturn, SQM Research believes that monetary authorities as well as federal and state governments may intervene to stabilise the market."

Low unemployment and population growth will put a floor on prices "crashing", SQM added.

SQM's forecasts assumes APRA does act further in 2018 and the cash rate remains unchanged.

But the impending fall in prices may not strip the "45 per cent" overvaluation at the same pace as it has risen, other experts say.

Capital Economics' Paul Dales says by late 2021, prices for the combined capital cities will only be about 10 per cent below their peak.

In a note two weeks ago, using a new ratio, "sales to new listings", Mr Dales said house prices were likely to fall in the next 6 months Sydney and Melbourne bearing the brunt of the fall.

"While prices may only edge lower this year and next, higher interest rates will probably mean they fall more sharply in 2020 and 2021. Units look much more vulnerable than single-dwellings, while Melbourne appears to be the most exposed of the eight capital cities," Mr Dales said in his last note two weeks ago," he said.

In 2018, he predicts apartment prices will fall faster than detached houses, as much as 4 per cent in Sydney, 7 per cent in Brisbane and 8 per cent in Melbourne.

The fallout from the banking Royal Commission could also lead to tighter credit conditions and along with impending interest rate rises, put more downward pressure on house prices.

"The risk is that the resulting weakening in demand relative to supply causes prices to fall faster in 2020 and 2021," Mr Dales said.

These forecasts may come as relief to potential home owners but not enough to solve housing affordability quickly.

Ahead of the Federal Budget release on Tuesday, community groups such as "Everybody's Home" are calling for more changes to ease high house prices including winding back capital gains tax and increasing the Commonwealth Rent Assistance to struggling renters.