Mixed market Moderate rises forecast for Melbourne amid concerns for Canberra

Sydney house prices tipped to soar

Rebecca Thistleton

Sydney's housing market is becoming a "beast unto itself", says one researcher who has tipped the city's price growth will rise above 20 per cent in 2014.

In a bullish assessment of the city's market, SQM Research managing director **Louis Christopher** said Sydney house prices could rise to problematic heights for the Reserve Bank of Australia, especially if the economy was still running at below-average growth.

Property analysts believe in Sydney's potential for price growth.

However, some doubt that values would be allowed to run away before the fiscal levers pulled prices back in line.

Depending on different economic scenarios, Sydney's prices could rise from 15 per cent to 30 per cent.

Growth in other capital cities will be more moderate.

Mr Christopher expects national price rises of 7 per cent to 11 per cent.

The RBA would then have to balance interest rate decisions between Sydney's price rises, unemployment levels and cities with under-performing property prices, such as Canberra, Adelaide and Hobart, he said.

Propell National Valuers economist Linda Phillips said rapid growth in Sydney was possible but she doubted prices would have the chance to get out of hand.

"If Sydney house prices were to increase 20 per cent, it is unlikely that the RBA would stand by, and interest rates would rise in an effort to curtail the growth," she said.

While Sydney has the highest prices in the country, their values are low relative to the other capital cities.

"A decade of low economic growth in NSW had its impact but with the state now resuming growth, there is room for house prices to rise relative to other cities, with growth in the 5 per cent to 10 per cent range over the next year," she said.

ANZ senior analyst David Cannington said high price growth was possible for Sydney.

Credit growth has risen slightly over the past three months but not at the levels needed to back the heady price hikes forecast by Mr Christopher.

"In trend terms, Sydney's growth is at 7.5 per cent. I would expect that to double in the next six to eight months," he said.

"Weakness in the labour market is also expected next year; there will still be concern for job security."

Auction clearance rates have been tracking at record highs above 80 per cent and agents have reported competition between buyers, strong interest at house inspections and runaway auction bidding.

The sub-million-dollar market has been the best-performing segment.

Across the capital cities, prices are expected to rise in 2014.

Mr Christopher's prediction accounts for an interest rate rise between mid and late-2014.

Interest rates are expected to remain low for the next year at least, and combined with a buoyant attitude towards property, will further drive buyer interest.

Nationally, Ms Phillips said while a honeymoon period is expected in the 2013 final quarter, economic conditions could toughen in early 2014.

The incoming federal government may push back the mid-year budget review until late January to avoid a knock to consumer confidence ahead of the Christmas shopping season; the subtext being that potential spending cuts and tax hikes would hit consumer confidence and curb price growth.

Mr Christopher said Melbourne would record only moderate price gains of 4 per cent to 7 per cent.

The city faces different circumstances to the other capitals because of an oversupply of housing stock.

Perth house price growth is expected to slow over the next 18 months to 24 months as unemployment rises, unless there is a surge in commodity prices.

Canberra prices are likely to fall after federal budget cuts to the public service.

Housing boom and bust

2014 price forecasts

City/region	2013 to date	2013 estimate	2014f Scenario 1 (base case) No more than another 0.25 cut in rates. Possible rate rise after mid-2014	2014f Scenario 2 Strong economic recovery. Rate rises mid 2014 or earlier	2014f Scenario 3 Terms of trade crash. RBA cuts by 100bp or more. Dollar falls below $US0.80
Perth	+6.0%	+8% to +11%	+4% to +8%	+7% to +15%	-6% to -1%
Brisbane	+1.6%	+3% to +5%	+4% to +7%	+8% to +12%	+1% to +5%
Darwin	+3.7%	+5% to +8%	+3% to +6%	+6% to +12%	-3% to +1%
Melbourne	+2.5%	+3% to +6%	+4% to +7%	+7% to +11%	+2% to +5%
Sydney	+3.9%	+9% to +12%	+15% to +20%	+20% to +30%	+12% to +15%
Adelaide	0%	+1% to +3%	+3% to +6%	+5% to +9%	0% to +4%
Hobart	+1.1%	+1% to 3%	+3% to +6%	6% to +9%	+4% to +7%
Canberra	-1.4%	-3% to -6%	-1% to -4%	0% to +3%	-5% to -8%
Capital city avg (weighted)	**+3.2%**	**+6% to +9%**	**+7% to +11%**	**+11% to +18%**	**+4% to +7%**

Areas expecting rises of >15%*
Nearly all of Sydney, East & South East Brisbane, inner ring of Melbourne**

Areas expecting falls of -1% to -4%*
Most of Canberra

*In 2014 **Excluding South Bank and Docklands

The housing recovery that commenced in the 3Q of 2012 for most capital cities is now about to enter into a more accelerated phase from what has generally been modest price rises to date.

Louis Christopher, SQM Research

SOURCE: SQM RESEARCH

Emerald City in world top 10 for housing investment

Exclusive

Rebecca Thistleton

Sydney is among the best cities in the world for residential investment, according to global agency **Savills**.

Sydney, which is in the midst of an investor-led housing upswing, was sixth on the agency's list of the top 10 cities for residential investment.

The head of Savills residential in Sydney, **Shayne Harris**, said the city was one of the few to record a moderate uptick in both prices and rents.

In most international cities, rents have been growing more than capital values.

Rent values show demand, while capital values show investor activity, which has risen in Sydney because of low interest rates and improved buyer sentiment.

"In the last four or five months, we've started to see price growth, which has probably increased about 10 to 15 per cent," Mr Harris said. "The rental market has remained tight, but we have only seen a moderate, not dramatic, rise in rents."

Besides a rise in local investment this year, Mr Harris said international activity was consistent from Asian investors.

Sydney was the only Australian location to make the top-10 list.

Tokyo was named the best city for investors, thanks to its income potential. Double-digit growth is forecast by 2013. New York, ranked second, offered the strongest rental yields, at 6.2 per cent, against US government bonds at 3.4 per cent.

Internationally, residential rental growth outperformed office rents in the first half of 2013.

Savills' global reporting also assessed accommodation costs across the world, comparing business and residential rents.

Sydney was found to offer some of the best value for money internationally, along with Shanghai and Mumbai.

Pick of the cities

Residential investment ranking

City	Gross rental yield (%)	Residential rental growth 1H 2013 (%)
• New York	6.2	+2.0
• Moscow	5.8	+3.3
• Paris	4.9	+0.5
• Sydney	4.8	+0.8
• Tokyo	4.7	0.0
• London	4.7	+0.50
• Singapore	3.8	+0.10
• Mumbai	3.4	-4.3
• Hong Kong	2.8	+1.80
• Shanghai	2.4	+2.10

SOURCE: SAVILLS WORLD RESEARCH