# Media Release

## SQM's 2018 Housing Price Forecasts Revised Downwards

For Immediate Release 7 May 2018

SQM Research today has revised down its forecasts for 2018, following recent market evidence that dwelling prices have been falling in Sydney and to a lesser extent in, Melbourne so far this year. Leading indicators such as auction clearance rates, total aggregated property listings and asking prices suggest further deterioration in market conditions in recent weeks.

As a result, SQM Research has had to revise down its initial forecasts on five capital cities released back in October 2017 via its annual Housing Boom and Bust report.

| City | Estimated dwelling price changes from 1 Jan-2018 through to 30 Apr-2018 | Old forecast released October 2017 | 2018 Revised Forecast | Revision Direction |
|---|---|---|---|---|
| Perth | -0.3% | +1% to +4% | +1% to +4% | UNCHANGED |
| Brisbane | +0.1% | +3% to +7% | 0% to +3% | DOWNGRADE |
| Darwin | -3.0% | +1% to +4% | -5% to 0% | DOWNGRADE |
| Melbourne | -0.5% | +7% to +12% | -3% to +1% | DOWNGRADE |
| Sydney | -1.8% | +4% to +8% | -4% to 0% | DOWNGRADE |
| Adelaide | Unchanged | 0% to +4% | 0% to +4% | UNCHANGED |
| Hobart | +3% | +8% to +13% | +8% to +13% | UNCHANGED |
| Canberra | +1.0% | +5% to +9% | +1% to +4% | DOWNGRADE |
| **Capital City Average (weighted)** | **-0.7%** | **+4% to +8%** | **-2% to +2%** | **DOWNGRADE** |

### Assumptions/Notes

- No further APRA action taken in 2018.
- Cash rate remains on hold at 1.5%.
- The recent APRA announcement of lifting the 10% investment credit growth limit (26 April 2018) is likely to have an initial muted impact upon the market.
- June quarter – seasonally the strongest quarter in the year, is likely to record a fall in dwelling prices.

### Sydney

SQM Research believes the Sydney housing market may now record price declines for the year or at best, very small price gains, assuming property investor do come back to the market at a slow rate following the recent APRA announcement. The base case forecast has been downgraded to -4% to 0% dwelling price changes for 2018.

**Recent auction results** suggest that market activity has further deteriorated during April. Actual auction clearance rates have ranged in the low to mid 50% range with the last weekend of April suggesting that the clearance rate may have dropped further to below 50%. These are levels which, historical, have translated into price falls.

Sydney's Inner West, Lower North Shore and Eastern suburbs are recording higher clearance rates (average between 60-64%) suggesting the top end of Sydney's residential housing market ($2.5m+) is holding.

**Total Sydney listings** year on year have now risen by over 34% and are now at similar levels recorded in 2011 - a point in time when Sydney dwelling prices fell 3% for the year. SQM Research expects listings to rise further in the current month of May.

**Days on market** for existing listings has increased to 118 days in April 2018 from 107 days recorded in April 2017. This data is backed by agents on the ground whom are reporting in unison that many properties are not moving.

**Asking prices** for April fell 1.1% for houses and 0.6% for units – this suggests a degree of capitulation by property sellers which will likely mean a negative pricing result for the June Quarter.

Given the loosening of investment property credit growth restriction, there may be a response from Sydney investors. However, given other housing credit restrictions it is unlikely that the response will be significant.

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

## Melbourne

Melbourne is likely to record a flat market with risks on the downside that prices could fall for the year. The base case forecast has been downgraded to -3% to 1% dwelling price changes for 2018.

Like Sydney, recent **auction results** have indicated a deterioration in the strength of the Melbourne housing market. Auction clearance rates have ranged in the low 60% to high 50% range, which, while a little stronger than Sydney, nevertheless signals somewhat weaker conditions.

The inner regions of Melbourne appear to be recording softer auction clearance rates - high to mid 50% range. While the eastern suburbs (South East and North East are recording clearance rates in the mid 60% range.

**Total property listings** remain at low levels however there has been a recent trend upwards in recent months to the point where listings are 6% higher than 12 months ago (April 2017).

**Asking prices**, after rising at year on year levels of up to 22%, have slowed in pace to an annualised rate of 5-7%. SQM Research expect vendors to adjust to the market further in coming months as days on market for listed properties is increasing.

It should be noted that on a nominal aggregate incomes to dwelling prices measure, the Melbourne market is approximately 49% overvalued. SQM Research expects this overvaluation to wind down somewhat over an extended period of time.

## Brisbane

The base case forecast has been downgraded to 0% to +3% dwelling price changes for 2018.

**Recent auction activity** has been weak with stated clearance rates well below 50% and on some weekends, below 40%. Unreported rates have been very high suggesting real auction clearance rates could be even lower than these published levels. It should be noted that relatively few properties go to auction in Brisbane with private treaty campaigns being the preferred method of sale.

After a slight downward trend recorded in 2016, **property listings** have been trending up again in recent month. This rise has been predominantly driven by units in the inner city rather than houses.

**Building approvals** are falling and this will eventually help absorption levels of existing surplus stock. However given the very slow investor take up, it will take many months before the market returns back to equilibrium.

## Darwin

Darwin has been recording rises in **vacancy rates** during the March Quarter – a time when, seasonally, vacancies fall. This was an unexpected event and reduces our confidence that the bottom is in place for the Darwin housing market, which has experienced a four year housing downturn.

**Rents fell in April** by another 1% for houses and 0.5% for units. Rents for houses have now fallen 31% from their peak, while units have fallen by 45%.

**Total property listings** remain at very high levels (2,089 properties), which is more than double the lows recorded before the downturn.

SQM Research now believes that the probabilities of another price decline have now increased and that the Darwin housing market has not reached the bottom, hence the reason for the downgrade to an expected decline in dwelling prices for 2018.

## Canberra

After the strong market conditions of 2017, total property listings have been rising again back to levels recorded during the downturn of 2012. It seems sellers have recognised this fact and have not lifted **asking prices** so far this year.

The rental market on the other hand remains very tight with **rental vacancy rates** at just 0.6%. Rents have accelerated with 12 month increases in excess of 7%. This is the case for houses and units.

The expectation now is Canberra's housing market will slow down from the rates of growth recorded last year to between 1%-4% price rises for 2018.

## Overall National

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

Given the downgrades mentioned above, our base case forecast is for the housing market to record flat dwelling price changes in 2018 with our forecast downgraded to -2% to +2%.

**It should also be noted that sales turnover has significantly slowed so far in 2018 and this will have negative ramifications for stamp duty receipts, particularly in NSW and Victoria.**

**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. The national economy is overall, healthy. Unemployment is relatively low and stable. Population growth is very strong. Oversupply of new real estate is only occurring in pockets.**

Moreover the correction now experienced in Sydney will likely be restricted to single digit percentage price declines (from peak to trough). However, there may well be a period of extended stagnation in the market unless authorities take action to stimulate the market.

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.

## About SQM Research

SQM Research is an independent investment research house which specialises in providing accurate property related research and data to financial institutions, property professional, real estate investors and the media.

It is owned and operated by one of the country's leading property analysts, Louis Christopher.

For six years Louis was Head of Research and then General Manager of Australian Property Monitors before leaving the firm to launch SQM Research, a leading residential property data researcher fund manager ratings house specialising in ratings for property related funds.

For further information please contact Louis Christopher - Louis@sqmresearch.com.au

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