



Sydney and Melbourne to continue price slide. Hobart to be best city performer for 3rd year running

Christopher's Housing Boom and Bust Report

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Australia's housing market will likely record further dwelling price falls, driven by a deepening housing downturn in Sydney and Melbourne.

SQM's base case forecast is for dwelling prices to fall between -6% to -3%, which is a continuation of the current falls of 4.5% over the past 12 months.

Sydney and Melbourne will drive the falls. Other cities will record mixed results with Hobart expected to have a third year of strong price rises of 5% to 9%.

	ACTUALS	2019 Scenario 1 (base case)	2019 Scenario 2	2019 Scenario 3	2019 Scenario 4
City / Region	<ul style="list-style-type: none">12 months to 31 October 2018All Dwellings Source: Corelogic	<ul style="list-style-type: none">Cash rate unchanged/ cuts in late 2019Economy slowingAUD ranges between US\$0.65-US\$0.75Labor Government (May 2019)	<ul style="list-style-type: none">0.20% interest rate rise by the banks outside RBA by 2nd QtrCash rate unchanged/ cuts in late 2019AUD ranges between US\$0.65-US\$0.75Labor Government (May 2019)	<ul style="list-style-type: none">0.50% rate cut starting 2nd Qtr. Banks pass on 25 to 35bp netAUD ranges between US\$0.65-US\$0.75Labor Government (May 2019)	<ul style="list-style-type: none">Scenario 1 PLUSLiberals hold Government
Perth	-3.3%	-1% to +3%	-2% to +2%	0% to +4%	-1% to +3%
Brisbane	+0.4%	-2% to +2%	-2% to +2%	+1% to +5%	-1% to +3%
Darwin	-2.9%	-8% to -4%	-8% to -4%	-8% to -4%	-8% to -4%
Melbourne	-4.7%	-9% to -6%	-11% to -6%	-3% to 0%	-7% to -4%
Sydney	-7.4%	-9% to -6%	-11% to -6%	-3% to 0%	-6% to -3%
Adelaide	+1.8%	-1% to +3%	-2% to +2%	0% to +3%	-1% to +3%
Hobart	+9.7%	+5% to +9%	+4% to +7%	+5% to +9%	+7% to +10%
Canberra	+4.3%	+2% to +5%	+1% to +4%	+3% to +5%	+3% to +7%
Capital City Average (weighted)	-4.5%	-6% to -3%	-7% to -3%	-2% to +2%	-4% to -1%

Source: Christopher's Housing Boom and Bust Report 2019

The base case forecasts assume no changes in interest rates, a Labor win at the next Federal Election with Negative Gearing repeal and CGT changes coming into effect 1 July 2020.

If SQM Research is correct on the Sydney and Melbourne forecasts, it will mean by the end of 2019, the peak to trough declines will be at least in the order of 12% to 17% for these two cities.



SQM Research believes that, presuming the RBA does not intervene in the market, 2020 could also record price declines due in part to the repeal of Negative Gearing which is a firmly stated Labor party objective. As such there is a risk that the total peak to trough declines could be in the order of 20% to 30% for our two largest capital cities.

The range is dependent on:

- When, if and how the RBA responds to the downturn;
- How the economy responds to the downturn;
- Will the banks be required to lift rates out of cycle;
- Will negative gearing and capital gains tax concessions be repealed as per the Labor Party's policy.

Louis Christopher, Managing Director of SQM Research said, "If the RBA does not respond and/or the major banks lift interest rates again in 2019, it is possible the peak to trough falls in Sydney and Melbourne could be even more than this negative range. But we do take the view that the downturn in Sydney and Melbourne will be a significant negative for the overall economy, and so the central bank will eventually respond at some point and cut interest rates."

"The looming changes of Negative Gearing and Capital Gains Tax are increasingly weighing on investor sentiment. Quite frankly implementing these changes during a housing downtown is very risky and may trip the economy into a recession," said Christopher

Elsewhere, SQM Research expects Hobart to be the best performing city for 2019 in what will be the 2nd year in a row of robust price and rental gains.

SQM Research also anticipates a recovery in the Brisbane and Perth rental markets in 2019 with Canberra to also record solid rental increases. However Darwin will continue to record steep declines in both rents and prices as the local Northern Territory economy enters recession.

Christopher's Housing Boom and Bust Report this year also has a full breakdown of every postcode in the country covering current market statistics and its postcode investor ratings. The full report can be found on www.sqmresearch.com.au for \$59.95.

About SQM Research

SQM Research Pty Ltd is a respected Australian investment research house, specialising in providing ratings and data across all major asset classes.

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