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Australian property market to avoid crash, but price growth moderate to 2014: BIS Shrapnel

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The Australian property market is not set to crash any time soon, a new report from BIS Shrapnel has found, with prices expected to remain steady in 2011 and grow moderately over the next two years.

The report pins Sydney, Perth and Brisbane as the cities likely to record the fastest residential property growth in the next three years. Melbourne is only forecast to record a 6% increase to 2014. And despite recent fears over the rising number of delinquencies – in particular, arrears among first-home buyers – BIS senior manager and study author Angie Zigomanis says current default rates are not yet worrying.

“Obviously the figures show they are rising. As to whether they are worrying or not, I think they are still very low compared to other countries. And it depends on how much they rise further to see if they are worrying,” he says. “Our view is they may not rise by a huge amount given we’re expecting economic conditions to accelerate, growth will rise, unemployment is set to drop even further.”

Zigomanis also says while prices will remain flat for the rest of the year, growth will be moderately higher over the next two years due in part to the ongoing chronic undersupply of dwellings. "There is an underlying deficiency in Melbourne, obviously not as pronounced as it was two or three years ago, and we’re building a lot more now. But there is still going to be upward pressure there.”

The BIS Residential Property Prospects to 2011-2014 report may relieve fears the current correction will lead to a crash, describing current downward pressure as temporary and tipping long-term growth.

The report claims the market was hit by “a perfect storm” of lower numbers of first-home buyers, higher interest rates and a weak economy, “all of which coincided to dampen purchaser demand”.

“The combination of weaker demand, a more uncertain economic outlook, weak consumer confidence and prospects of further interest rate rises has resulted in weaker house prices.”

But Zigomanis says stronger economic growth in 2011-13 will flow through to property, along with the falling unemployment rate, which is tipped to drop below 4% in 2013.

First-home buyer averages are also expected to return to normal, with Zigomanis saying higher interest rates will not necessarily keep them from buying a property – just not their first choice.

However, property experts have pointed to interest rate rises as one element that will keep potential buyers, particularly first-home buyers, away from the market. With the variable mortgage rate continuing to rise, many say buyers will not be willing to enter the market.

Zigomanis says interest rate rises will be the “key” to how the market reacts. At 4.75%, Australia’s interest rates are the highest in the developed world. They have been on hold since November last year.

While only moderate rises – perhaps one or two over the next year – would allow confidence to return, more aggressive movements to the cash rate such as three or four rises would weaken the residential market.

This would mean benefits from the strengthening economy wouldn't be passed on, either.

"In the short term, BIS Shrapnel's forecast is for the cash rate to increase by 50 basis points in 2011/12, which will take the variable rate to 8.2% by June 2012."

Throughout the rest of the year, affordability is expected to remain strained, putting a dampener on price rises. But over the next three years, Perth, Sydney and Brisbane are expected to see the biggest rises through 2014 due to new dwelling construction remaining under demand levels.

Growth outlook by region

Sydney: Median price forecast of $640,000 in June 2011. Prices to increase at 5.7% per year to 2014 due to low construction and vacancy rates.

Newcastle and Wollongong: Will benefit from migration from major cities due to unaffordability. Prices to increase in Newcastle by 18% by 2014, and by 16% in Wollongong.

Melbourne: Upward pressure falling as construction ramps up, and economic growth to flow through into wages. Price growth to be 6% in the next three years.

Brisbane: Median house price of $440,000 in June 2011 representing 4% decline over the year. State economic weakness, flooding and underlying demand weakened by migration all lead to downward pressure. Price gains to be at 4.7% over the next three years.

Gold Coast and Sunshine Coast: Prices moving along with Brisbane, but wide range of property and low flow of migrants mean prices are set to grow at just 3.7% over three years.

Townsville and Cairns: Economies impacted by low resources investment and weak tourism, but resources market to pick up in 2012-13. Price growth for Townsville to be 16% over three years, and 14% for Cairns.

Adelaide: Median house price of $410,000 to be static in 2010-11. Construction exceeding demand, leading to price growth of just 8% over next three years – in real terms, this is a decline of 2%. After a moderate rebound of 14 per cent in 2009/10, Adelaide's forecast median house price of $410,000 in June 2011 is estimated to remain static in 2010/11.

Perth: Housing prices in decline since 2007 due to rising economic conditions and strong construction. But stronger population growth will lead to deficiencies, with growth to be 19% to 2014.

Hobart: Growth to be supported by strong migration, although this will cease at some point in the next three years as mainland city price growth moderates. Growth to be just 5% over the next three years.

Canberra: High incomes to support house prices, with median to rise 7% over three years to 2014.

Darwin: Prices underpinned by resources sector, but affordability poor. Lack of resource investments in the future will reduce upward pressure. Prices to rise by just 7% in three years to June.