



SQM Research Media Release

Housing Market will Slow in 2016. **Melbourne to Outperform**

Monday, 19th October 2015

Australian dwelling prices are forecasted to rise in 2016 at the slowest pace recorded since 2012. SQM's release today of its 2016 *Housing Boom and Bust Report*, forecasts that average capital city dwelling prices will rise between 3% and 8% for the full calendar year. This is down from the current 9.8% recorded for the 12 months to June 2015. The slowdown will occur predominantly as a result of a slowing Sydney property market, which is forecasted to rise between 4% and 9%. Melbourne is forecasted to overtake Sydney and be the best outperforming capital city in 2016 with a forecast rise in dwelling prices of between 8% to 13%.

Other contributing factors to this slowdown include:

- An ongoing housing market correction in the resources exposed capital cities of Perth and Darwin.
- The APRA actions (announced mid-2015) of restricting credit growth.
- A slower Australian economy with nominal GDP forecasted to rise between 1.2% and 1.7%.
- The recent announcement by a leading major bank that they are lifting variable home loan rates out of sync to the current cash rate.

On the plus side, SQM Research believes it is highly unlikely that an across the board correction will occur next year, this is based on the following factors:

- The Australian dollar is likely to stay at current low levels and indeed may fall further, thereby providing a buffer to the economy and the housing market.
- An ongoing low interest rate environment and the possibility of a rate cut in early 2016.
- An ongoing robust Melbourne housing market which is forecasted to rise by 8% to 13%.

Nationally, the rental market is likely to see a continued flat market with expected rental changes of between 0% and 3%. Darwin is tipped to record another year of



significant declines in rents of -12% to -8%. While Hobart is tipped to record the fastest rental growth of all capital cities at +5% to +8%.

Speaking of the new forecasts for 2016, Louis Christopher, Managing Director of SQM Research said “We forecast the national residential housing market will slowdown in 2016 predominantly as a result of a slowing Sydney housing market. However we do not believe the market will record a fall in prices for the year. There might be one quarter perhaps where Sydney records a marginal decline. But that should be it. Perth and Darwin will record falls again next year however we believe by the end of the year, both those cities may reach the bottom of their four year downturn. We believe that Melbourne will be the outperformer of the year followed by the Gold Coast and Hobart. Each of these respective cities are benefiting from the lower Australian dollar.”

“One of the key risks to the housing market over the medium to long term is the looming threat of global deflation and this is quite a danger to our markets here given the level of debt in the housing market right now, which we note has risen again against incomes over the course of 2014/2015 to be at all-time highs. This threat became all too apparent this week when Westpac lifted their variable home loan lending rate. In a global deflationary environment the risk premiums banks would require on their lending book would most likely skyrocket due to the greater threat of defaults and falling asset prices. For 2016 we believe the RBA has some ammunition to offset this looming risk however we are concerned of their ability to handle the issue over the medium to long term.”

“This year, it has become quite apparent that rents have slowed, possibly as a result of the lower inflationary environment. We believe there is evidence that rents will slow further in 2016 with our average capital city forecast to be 0% to 3%. Perth and Darwin will experience the largest falls in rents however this is just part of an ongoing trend currently being recorded in these two cities. Hobart, Melbourne and the Gold Coast will likely record the strongest rental increases. We believe the threat of a massive oversupply in Melbourne has been overstated. Indeed our vacancy rates for that city have fallen for the year as population growth and housing formation have quickly absorbed the new stock being completed.”

Speaking of last year’s forecasts and how they fared, Christopher said “It is pleasing to see that once again we were accurate in our prediction for a rise in national dwelling prices of “7-12” assuming a rate cut, which did indeed happen. However I note we were a little under the Sydney forecast and a little over some other capital cities. But as far as I can see, no one came closer than us for this year, which I think is now the fourth year running in correctly picking the housing market.”



Capital City Forecasts

2016 dwelling Price Forecasts

City/Region	12 months to June 2015 Source: ABS Cat 6416	2016 Scenario 1 (base case) RBA CUTS rates 0.25% by March 2016 Economy steady AUD falls to US\$0.60 cents	2016 Scenario 2 A 0.50% cut in rates by 2 nd qtr 2016. Economy slowing AUD falls below US\$0.55 cents	2015F Scenario 3 No rate cut Turn around in economy AUD rises above US\$0.80 cents
Perth	-1.2%	-7% to -4%	-6% to -1%	+2% to +4%
Brisbane	+2.9%	+5% to +8%	+6% to +9%	+4% to +7%
Darwin	-1.8%	-6% to -2%	-3% to +1%	-4% to +1%
Melbourne	+7.8%	+8% to +13%	+10% to +15%	+4% to +7%
Sydney	+18.9%	+4% to +9%	+5% to +9%	+3% to +7%
Adelaide	+2.7%	+2% to +5%	+3% to +6%	+3% to +6%
Hobart	+1.5%	+4% to +7%	+6% to +10%	+3% to +6%
Canberra	+2.8%	+2% to +4%	+3% to +6%	+4% to +6%
Capital city Average (weighted)	+9.8%	+3% to +8%	+5% to +9%	+3% to +6%

Source: Christopher's Housing Boom and Bust Report 2016



2016 Dwelling Rents Forecasts

City/Region	Weekly rent snap shot Houses October 2015 (12-month change)	Rent snapshot Units October 2015 (12-month Change)	2016 Forecast
Perth	\$477 (-8.1%)	\$386 (-7.2%)	-8% to -4%
Brisbane	\$446 (+1.0%)	\$369 (+0.3%)	0% to +2%
Darwin	\$573 (-19.2%)	\$451 (-15.9%)	-12% to -8%
Melbourne	\$477 (+4.4%)	\$361 (+1.4%)	+4% to +7%
Sydney	\$688 (+2.7%)	\$489 (+2.7%)	0% to +3%
Adelaide	\$363 (+1.5%)	\$281 (+1.2%)	-1% to +2%
Hobart	\$331 (+6.1%)	\$285 (13.8%)	+5% to +8%
Canberra	\$475 (+0.7%)	\$374 (+0.3%)	+1% to +3%
Capital city Average (weighted)	\$533 (+1.7%)	\$418 (1.1%)	0% to +3%

Source: Christopher's Housing Boom and Bust Report 2016

Christopher's Housing Boom and Bust Report 2016 is being made available via the SQM Research official website through the one off introductory purchase of \$39.95. It is the company's intent that through providing this report for a modest expense that impartial, factual and comprehensive evidence and material on the property market from a reputable source will be easily accessed - not only by larger industry related syndicates but also regular consumers such as mums and dads.

For more information on the release and details of this report and direct commentary from Louis Christopher, please contact –

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About SQM Research

SQM Research is an independent property 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 fund manager ratings house specialising in ratings for structured products and property.

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