Domain

# Rising But Not Rocketing

March 3, 2014 Carolyn Boyd

## PREDICTIONS HOUSES

### Best performing

| Suburb | YoY Change | This year's forecast |
|---|---|---|
| Glenorie | 25%+ | 7%+ |
| Waverton | 25%+ | 7%+ |
| Cobbitty | 25%+ | 5%+ |
| Harris Park | 25%+ | 7%+ |
| Birchgrove | 25%+ | 7%+ |
| Northwood | 25%+ | 7%+ |
| Sandringham | 25%+ | 7%+ |
| Double Bay | 25%+ | 7%+ |
| Ramsgate | 25%+ | 7%+ |
| Palm Beach | 25%+ | 7%+ |

### Worst performing

| Suburb | YoY Change | This year's forecast |
|---|---|---|
| Kurraba Point | -17.9% | 7%+ |
| Queenscliff | -15.4% | 5%+ |
| Kensington | -13.7% | 5%+ |
| Clontarf | -13.3% | 5%+ |
| Sandy Point | -9.1% | 3%+ |
| Prairiewood | -8.5% | 3%+ |
| Windsor | -8% | 5%+ |
| Silverdale | -7.3% | 3%+ |
| Taren Point | -7% | 7%+ |
| Catherine Field | -6.7% | 3%+ |

Source: Australian Property Monitors.

After interest rate cuts “jet-fuelled the market” in 2013 and contributed to house prices shooting up a stunning 15.1 per cent, the 2014 market has begun strongly with sellers rushing to take advantage of the good conditions.

The price growth has prompted a surge of auctions before Easter and there were 1630 Saturday auctions scheduled in February, 59 per cent more than February last year and 15 per cent higher than the previous peak of February 2011, according to figures from Australian Property Monitors.

Finders Keepers buyers agent Lisa Bradley says there’s still plenty of unsatisfied demand from buyers.

“The intense competition for properties will ease back a bit later in the year but prices will still be going up, so there’s no point in waiting it out if you want to buy this year,” she says.

“Throughout inner and middle-ring Sydney, the $750,000 to $1.4 million range will again be the most competitive.”

Nevertheless, sellers might be better to move in the first half of the year when sales are expected to be at their strongest.

Dr Andrew Wilson, the senior economist for Australian Property Monitors, says price growth in Sydney should be about half last year and the bulk of it will happen in the first six months. Just how well the market will fare from midwinter depends on “economic performance with pessimism currently outweighing optimism”, he says.

“We still have some dark clouds on the horizon in terms of the medium-term outlook for the Sydney housing market. “That’s the local economy and the national economy ... low wages growth and low profits growth.”

Angie Zigomanis, senior manager of residential at research house BIS Shrapnel, says while prices growth might slow this year it will continue. “There are enough pressures there in the market, there is enough optimism in the market and interest rates are low enough that buyers will still be wading in and purchasing,” he says.

Zigomanis predicts growth of 7 per cent to 8 per cent for 2014. “It’s not an overly comfortable level of growth but not enough to trigger any downturn in the market,” he says.

The post-Olympic price rises of the early 2000s are “still the high watermark of Sydney house prices”, Wilson says. “We won’t get near that but certainly it’s in a very solid second place at the moment.”

Interest rates are expected to remain steady. “The rate-cutting cycle may be over or close to over. However, most economists aren’t expecting official interest rates to rise during 2014,” says Tim Lawless, head of RP Data’s research and analytics team.

Perhaps the most bullish commentator is SQM Research’s managing director Louis Christopher. He’s predicting price rises in Sydney of 15 to 20 per cent and national increases of 7 to 11 per cent.

“On the supply side, there’s hardly anything coming on to the market now but we think in 2015, 2016, there will be,” Christopher says.

Laing+Simmons general manager Leanne Pilkington is more bearish. “I don’t necessarily expect prices to be doing anything radical but I still think that there is going to be a fair bit of activity,” she says.

St George Bank senior economist Hans Kunnen and McGrath Estate Agents chief John McGrath both anticipate rises of 5 to 10 per cent this year.

“I think we’re in for a three-year or four-year growth cycle,” McGrath says. “Cycles are not a 45-degree trajectory, there are always periods of a pause and then occasionally a slight correction. That is just the natural way a market moves.”

Rod Cornish, the head of real estate strategy at Macquarie Capital, says a lack of new detached housing could see developers searching even more keenly for infill sites. “We will see more of that and we’ll see some industrial areas change ... into residential areas to get that new housing,” he says.

Raine & Horne chief executive Angus Raine is forecasting growth of 5 to 7 per cent. “There’ll be pockets across the metropolitan area that outperform the average, such as the robust lower north shore, inner west and eastern suburbs markets,” says Raine.

“I’d be keeping a close eye on the city’s inner west in 2014, with commuter suburbs such as Petersham, Stanmore, Dulwich Hill and Summer Hill among the picks,” says Horne. “There will be opportunities too in middle-ring suburbs with the relatively affordable St George region expected to draw interest from first time buyers.”

In the west, Raine & Horne St Marys is tipping the values of Mount Druitt houses to grow by 10 per cent, thanks to low interest rates and healthy investment returns.

In the north west, Raine says values in Bella Vista, Rouse Hill and Castle Hill stand to profit from construction of the North West Rail Link. In outer Sydney, Australand’s Nigel Edgar says there have been strong land sales for the past four years.

**First-time buyers**

Without government grants for established property (there is still a $15,000 grant if you buy new or off-the-plan), first-home buyers appear to have struggled to get into the housing market. Opinion about whether first- home buyers could enter the housing market in greater numbers in 2014 is varied.

RP Data’s Lawless is not expecting the situation to change this year. “First-home buyers are at historically low levels, and we don’t see a material improvement in first- home buyer penetration in the housing market over 2014 unless there are changes to grant eligibility or state-level concessions,” he says.

However, APM’s Wilson says first-home buyers are starting to “trickle back into the marketplace”. After high levels of first-home buyers in 2011 and 2012, it was natural to expect a pause in activity, he says.

**Upgraders / Downsizers**

The surge in the prices and auction clearance rates should give upgraders and downsizers who have been “sitting on their hands” the confidence to take their existing properties to market, says BIS Shrapnel’s Zigomanis.

"Because the Sydney market has been in the doldrums for quite some time, a lot of upgraders have been ... waiting for a better environment to sell their existing home," he says.

Now that the market has picked up, Zigomanis is expecting to see more movement. In particular, "there is a level of pent-up upgrader demand", he says.

**Prestige property**

After struggling in 2013, the prestige market is tipped for more action this year and sellers have stepped up to the plate with a rush of higher priced homes being put up for sale in February.

Signs of movement began emerging in the lead-up to Christmas in some spots. "By the end of last year we were starting to see more activity in the $3 million and above price range, particularly on the lower north shore and in the eastern suburbs," says APM's Wilson.

"Sales are still typically below where they were three or four years ago but certainly there was increased confidence and buying activity."

Wilson says "confidence is catching".

Cornish is also expecting increased sales at the upper end but says prestige prices aren't likely to improve much this year.

**Investors**

A surge in investor activity was a significant factor in prices growth in 2013, particularly in the western suburbs.

"We had unprecedented levels of investors in the Sydney market," says Wilson. "We're still seeing very high numbers of investors entering the market."

Generally, most experts predict investor activity will remain strong this year although perhaps not at the heights seen in 2013.

RP Data's Lawless says the typical gross rental yield for a Sydney house is now 3.9 per cent. "Yields this low are likely to act as a disincentive for investors, particularly considering the previous high rate of capital gain and the prospect that future capital gains may be lower over the medium term," he says.

And if Christopher's predictions of 15 to 20 per cent price rises for Sydney housing come to fruition, he says "existing investors are going to have a good time".

"It's definitely a seller's market and it's going to remain that way unless we see some kind of multiple increase in interest rates, which if you look at the interest rates, it is not on the forecast at all," Christopher says.

**A sellers' market convinces couple**

With an active toddler and plans to expand their family, Andrew and Alice Wilson are looking to upgrade into a larger home in the inner west.

The young professional couple bought their two-bedroom workers cottage in Rozelle five years ago. Andrew, a management consultant, and Alice, a risk analyst, found the property easy to rent when they lived in London for two years and since returning to Sydney have loved the convenience of being close to city buses and the Bay Run around the shore of Iron Cove Bay.

But now they need more space. "It turns out babies come with a lot of stuff. We just want a third bedroom," says Andrew.

With the market performing well, it seemed the right time to sell. "The market is in such a great state for sellers so, it kind of made a lot of sense," says Andrew.

On the flipside, that could mean they will face tougher competition for their next property.

The Wilsons' two-bedroom cottage at 3 Prosper Street, has a contemporary bathroom and kitchen but offers scope for further renovation. The Wilsons are auctioning it on March 15 through Belle Property Balmain's Lindsey Kemp.

The family is looking for a three or four-bedroom home on 300 square metres-plus in Rozelle, Balmain, Lilyfield or Drummoyne.