Who will nail house price growth?

Matthew Cranston

With talk of an interest rate rise on Melbourne Cup day house price pundits are getting nervous about their calls on house price growth.

Goldman Sachs puts the chance of a rate hike in November at 60 per cent. That would be the first Reserve Bank of Australia interest rate increase since 2010 and given the sensitivity of interest rates rises on property (there have already been plenty of out of cycle rate rises by banks) there could be some very sudden changes in pricing for homes in Sydney.

More than half of Australians would be under mortgage stress if rates rose 2 percentage points, according to a Galaxy poll commissioned by CoreLogic in May while Riskwise Property Review's financial modelling has predicted it would only take a rise of 50 basis points – the equivalent of two Reserve Bank rate increases – to trigger an exodus of property investors from the Sydney housing market.

SQM's Louis Christopher, who has long been one of the most accurate forecasters, says the combination of house and unit growth nationally will be 6-10 per cent in 2017. In Sydney he forecasts dwelling prices will rise between 11 to 16 per cent for the 2017 calendar year.

"The biggest risk to affect the base case forecast would likely be further aggressive APRA action plus RBA cash rate rise," Mr Christopher said. "Both would have to happen this current quarter but if it happens in say November, then our 2017 forecasts remain safe.

"The biggest blindside shock would be a new global financial crisis event driven by China where global credit markets freeze up again."

HSBC's Paul Bloxham also has some pretty positive views, expecting national house price growth between 8 per cent to 10 per cent this year but only 3 per cent to 6 per cent next year.

Mr Bloxham expects Sydney house prices to rise between 14 per cent to 16 per cent in 2017 before halving to between 7 and 9 per cent in 2018.

Domain chief economist Andrew Wilson is also on the positive side, forecasting Sydney house prices to rise 6 per cent this year and just 3 per cent next year, while Melbourne will hit 11 per cent this year and 5 per cent next.

"My house price forecasts are based on a neutral outlook for interest rates and we see a year or more of neutral outlooks," Mr Wilson said.

There are more bearish forecasts.

BIS Oxford Economic's Angie Zigomanis gives a specific forecast for housing, not units.

For Sydney houses alone BIS Oxford Economics expects there to be only 3 per cent growth in 2017, while in 2018 Sydney house prices will lose 4 per cent. In Melbourne house price growth will be 5 per cent this year while next year they will only be 1 per cent higher.

Nationally BIS Oxford Economics expects house price growth of 3 per cent this year, dropping 1 per cent next year.

CoreLogic Moody's forecasts detached housing values across the capitals to rise 5.6 per cent in 2017. In Sydney that will be 7.2 per cent in 2017 and in Melbourne only 7 per cent.

Investment bank UBS called the top of the market in March and has overall national dwelling growth to slow to about 7 per cent in 2017 and between 0 per cent and 3 per cent in 2018.

"We 'called' the 13 per cent year on year growth in March as the peak of growth, and still see slowing amid record supply and poor affordability," UBS analysts said.

"Macroprudential policy tightening, including caps on credit growth and interest only loans, is likely to lead to some ongoing tightening of credit conditions and higher mortgage rates that will weigh on housing demand ahead."

"It still seems likely that interest rates will remain the dominant driver of the cycle."

Among the big four, National Australia Bank lowered its forecasts for 2017, with house price growth to hit 5 per cent from 7.2 per cent.

Next year it sees 4.3 per cent growth.

In the biggest single housing market, Sydney, NAB expects house prices to rise 6.7 per cent this year before rising 4.9 per cent in 2018. In Melbourne it expects 7.5 per cent growth this year and 5.5 per cent next year.

NAB chief economist Alan Oster said regulatory rules would play a big part in the direction of the house price market. "Clearly, tougher measures on banks announced by regulators to rein in investor lending are being felt in this segment of the market" said Mr Oster.

Even JPMorgan has chipped in with a view, expecting house prices to rise 6 per cent for 2017, and 2 per cent for 2018. "Given that investor lending was a key marginal driver of the most recent upswing in Sydney and Melbourne prices, we expect that, absent a significant pickup in owner-occupier mortgage growth, capital city house price growth will continue to moderate this year."

The contenders

What they say about residential price forecasts

"The biggest risk to affect the base-case forecast would likely be further aggressive APRA action plus RBA cash rate rise.

Louis Christopher, SQM

In Sydney I forecast dwelling prices will rise **11-16%** for 2017

"Just because prices and housing debt have risen does not necessarily mean that there is a bubble.

Paul Bloxham, HSBC

National house price growth between **8-10%** this year

"My house price forecasts are based on a neutral outlook for interest rates and we see a year or more of neutral outlooks.

Andrew Wilson, Domain chief economist

Sydney house prices to rise **6%** this year and just **3%** next year

"Clearly, tougher measures on banks announced by regulators to rein in investor lending are being felt in this segment of the market.

Alan Oster, NAB chief economist

National house price growth to hit **5%** from **7.2%**

SOURCE: FINANCIAL REVIEW

Ray White posts 4pc rise in home sales

Su-Lin Tan

The Ray White Group has posted $44.7 billion in sales for the 2016-17 financial year, up 4 per cent on the previous year.

The group's share of residential sales in Australia and New Zealand has risen to 10.3 per cent, up 0.15 per cent.

"Obviously, Sydney was a standout market, but the same can be said for Melbourne and Auckland." chairman Brian White said. "The Gold Coast is also pumping. There has been some exceptional growth in that market over the last year, which may surprise some people. And our network in regional NSW has had a great year too."

While profit numbers have not been finalised, Ray White Group director Dan White said the final results would replicate the performance of last year (2015-16), which was a 10 per cent profit from a 12 per cent rise in revenue.

"While we are happy about our record trading result, what was most pleasing was the overall improvement in profitability for the majority of our individual business owners," he said.

Despite the tight listings that dominated a lot of 2016 and early 2017, the market picked up in the second quarter, contributing to Ray White's strong performance.

The number of new house listings in Sydney rose to 17,662 in May, after a lull of 15,149 at the same time last year, according to Domain's Australian Property Monitors.

House listings fell in Melbourne, but new unit listings rose to 6389 in May, after a low of 5811 last year.

Sydney's new apartment listings also rose, to 8891 in May, compared with 7533 last year.

Ray White chairman Brian White.

DomaCom beefs up its crowdfunding options

Nick Lenaghan

Listed crowdfunder DomaCom is spreading its investment wings, launching a fund to invest in a retirement housing estate in regional Victoria and another to back a biomass energy facility in NSW.

The first fund aims to raise $6 million – with $1.4 million already pledged – to invest in the creation of a housing estate in northern Victoria, opposite the RACV Cobram Resort. The community, aimed at budget retirees, will be based on the land lease model, where residents own their home and pay weekly rental for their site in the estate.

The DomaCom raising to back the 147-home Akuna residential estate will be used to buy the land, complete development approvals and build the community facilities.

The project is aiming for a 15 per cent annualised return on the completed project, with an ongoing net rental income of 8 per cent annually.

A second $4.3 million fund has been launched to invest in the Utilitas biohub project at Casino in NSW.

Utilitas already has one privately held plant running in Queensland, treating animal waste, which generates enough energy to power 235 homes.

The Casino facility would source organic waste from the surrounding cattle industry to generate electricity.

The DomaCom platform allows investment in fractions of real property through collective investment schemes and crowdfunding.

Its offerings typically target self-managed super funds.