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Real Estate

**Is Australia's Housing Boom (Finally) Coming to an End? A debate is raging about whether the residential sales-sector is heading for a soft landing**

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Corrections & Amplifications

The volume of outstanding residential mortgages in Australia was less than A$400 billion in 2000. An earlier version of this story incorrectly said the volume was A$400 million. (May 2, 2018)

Residential sales volume and values have started to fall in many areas of Australia, partly the result of efforts by lenders and government regulators to cool a sizzling pace of transactions.

But now a debate is raging among economists and market participants about whether the residential sector is heading for a soft landing.

In an April report, data firm CoreLogic noted that housing values held firm in March because the declines in prices in Sydney, Melbourne and Adelaide were offset by price increases in lower-cost regional markets.

Overall, the Australian housing market is "showing every sign of recording a soft landing after national dwelling values peaked in September last year," said Tim Lawless, CoreLogic's head of research in the report.

Other forecasters are less sanguine. "In contrast with others in the market who view the worst as [being] behind us, we expect prices to fall further throughout 2018, as credit availability is tightened further and a stretched consumer reassesses the property outlook," wrote Morgan Stanley in a report late last month.

A nervous Australian banking system is watching the market closely. The volume of outstanding residential mortgages crossed the $1.5 trillion Australian dollar mark (US$1.12 trillion) in December, 2015, compared with less than A$400 billion in 2000, according to Deloitte Australian Mortgage Report. In 2016, total new lending, including refinancing, was A$384 billion, the same as in 2015, the report said.

At the same time, the efforts by Australian authorities to regulate home values have lessons for other global markets struggling with issues of affordability and what appear to be untethered price hikes. All of Australia's five major housing markets are listed as "severely unaffordable" by research firm Demographia, which ranks Sydney as the world's second least affordable city, trailing only Hong Kong.

UBS investment bank said in a September report that Sydney was one of an increasing number of world cities facing "bubble risk." In those municipalities, prices have climbed by nearly 50% on average since 2011, compared with other financial centers, where the increase has been a more moderate 15%.

"This gap is grossly out of proportion to the differences in local economic growth and inflation rates," the UBS report said.

Australia's housing market has been driven by the country's strong population growth and an economy that hasn't been in recession for more than 25 years. Foreign buyers and Australians purchasing second and third homes as investments have stoked demand.

Some analysts and economists began warning of a possible bubble as early as 2009, even as much of the world was struggling with the aftermath of the global financial crisis. But the market has kept chugging, with prices rising in practically every quarter.

In Sydney, the median value of a house was $1,179,500 in December, while the median price of an apartment was $737,000, according to Knight Frank Research.

In an effort to cool the market in late 2014, the Australian Prudential Regulatory Authority told banks to cap the growth of loans to investors. Since then, regulators and banks have imposed new restrictions, including limits on interest-only mortgages.

Australian states in recent years also have tried to put the brakes on the housing market by increasing stamp duties on foreign buyers. The duties vary among states. In June, the government of New South Wales increased the stamp duty from 4% to 8%.

A surge in new supply also has helped. Between 2014 and 2017, about 170,000 new apartments were added to the five major cities' stock, according to Knight Frank.

The fall in home prices has hit most of Australia's housing markets. In the rural part of Outback Queensland, values are 10.2% lower than one year ago, according to CoreLogic's April report. In Sydney, the country's largest housing market, dwelling values were down 2.1% from a year ago and 1.7% in the first quarter of 2018, CoreLogic said.

Developers have slowed production. Knight Frank predicts that only 58,700 apartments will be delivered in 2018, an annual decline of 10.7%, and "the first time a decline in apartment completions has been registered in the past seven years."

At this point, many developers are taking the slowdown in stride.

"What the government is trying to do—and we agree with that—is moderate the market and so far it seems to be working well," said Stewart Upson, a managing partner and head of Asia at Brookfield Asset Management, whose property unit has A$10.3 billion of assets under management in Australia.

Stockland, one of Australia's largest property companies, has reacted to the changing housing market partly by focusing more on selling to first-time home buyers. Some state governments are offering incentives to this group, even as they are trying to cool the market by increasing taxes on foreign buyers.

Mark Steinert, Stockland's chief executive, said he's not concerned about the market softening because demand remains strong due to population growth and Australia's strong economy.

"While the cycle is certainly moderating, you don't typically see collapses when markets are structurally undersupplied," he said.

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