THE WALL STREET JOURNAL.
U.S. EDITION

International Property Report: Australia: Australia's Boom In Housing Falters

By Peter Grant
565 words
2 May 2018
The Wall Street Journal
J
B6
English

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$1.124 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 increases. 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 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 also have tried to put the brakes on the housing market by increasing stamp duties on foreign buyers.

Document J000000020180502ee5200010

