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HD **Russian buyers storm east coast**

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Overseas interest will continue to prop up a slowing **residential** market this year

BOOM conditions are unlikely to materialise in Australia's **residential** market this year, with analysts warning unemployment and affordability could lead to a moderating of growth after a strong recovery in 2013.

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``There will be growth, but slowing growth,'' says BIS Shrapnel's senior manager of **residential property**, Angie Zigomanis. ``They (housing markets) can't defy gravity at the same rate, so there should be a slowing of growth.''

The moderation of growth is one of the key trends analysts expect will define **property** this year, including the return of the Brisbane and Gold Coast market; price acceleration in the prestige market; the continuation of strong international interest, including the surprise emergence of Russian buyers; and the ongoing power of investors to drive markets.

House price growth to moderate: Last year saw a strong recovery in the nation's **residential** market.

According to the RP Data-Rismark Daily Home Value Index, national dwelling prices surged 9.87 per cent last year. But performance was patchy with Sydney leading, with a 14.5 per cent rise in prices; Perth (9.95 per cent) and Melbourne (8.5 per cent) were also strong; but other markets such as Canberra (3.5 per cent), Hobart (2.2 per cent), Adelaide (2.84 per cent) and Darwin (3.34 per cent) lagged; Brisbane's growth was a relatively modest 5.13 per cent.

RP Data's senior research analyst Cameron Kusher expects price growth to continue, but at a lower level of about 5 per cent. He says the wild card is unemployment, which is forecast to rise to 6.25 per cent.

Zigomanis also expects a moderating of growth next year to between 5 and 7 per cent, weighted towards Sydney, with economic uncertainty keeping a lid on prices. ``With the exception possibly of Brisbane, we don't see other capital cities doing better than 5 per cent,'' he says.

SQM's Louis Christopher believes concerns over the impact of growing unemployment are overstated. ``We're simply not seeing an impact at this stage except for Canberra,'' he says. Christopher cites Perth, which has had relatively strong demand in the existing home market despite a rise in unemployment. He says a lull in activity in late November-December is seasonal and not a sign the market is cooling off.

Christopher expects another strong year, with dwelling prices rising between 7 and 11 per cent.

Sydney to remain strong: McGrath **Estate** Agents chief executive John McGrath says Sydney has the best **residential** market under $2 million that he has seen in 20 years, boosted by a perfect storm of three to four years of no growth, improving economic confidence, record low interest rates and international interest, particularly from **China**. He thinks Sydney will remain strong, but growth will be about 5 to 8 per cent this year. ``We just don't think we will see the same intensity through 2014,'' he says.

Christopher is more optimistic and says this year will be another bumper one for Sydney, with prices to surge by 15 to 20 per cent driven by ongoing low interest rates, strong population growth, shortage of stock and rental vacancies of just 1.5 per cent.

Return of the banker to boost prestige market: McGrath expects the upper end of the market from $3m to $10m will start to accelerate. ``The stronger market will cascade up from the bottom,'' he says. McGrath says bankers are back, with a strong stockmarket seeing a return of bonuses, which are flowing back into the **residential** market. ``We are (seeing them more active),'' he says. ``So many of the properties traded at the upper end are owned, **sold** and bought by people in the financial services industries.''

Adam Ross, sales associate at Savills **Residential**, agrees the prestige $3m-plus market will strengthen. ``Provided supply and demand levels balance quite well, I think the prestige market is going to go really well,'' he says. Ross also sees more finance interest: movers and shakers who had gone quiet since 2006-07 have reappeared.

The traditional home of the banker, Sydney's Mosman, is a bellwether. ``About 24 months ago Mosman started to move, and it's now moving along quite nicely,'' Ross says.

China and Russia interest to spur top-end activity: **Chinese** buyers emerged as a force last year, but interest hasn't just been from the **Chinese**.

Ross says recent Russian interest has also been strong, which is surprising because Australia has not been a magnet for Russians in the past, although they have previously targeted the Gold Coast **apartment** market. ``It's an unusual amount of inquiry for all different types of **property**; not just prestige **residential**, but substantial **commercial** holdings as well,'' he says.

Apart from the Gold Coast, Russian buyers have discovered Sydney and are looking for **residential property**, **hotel** sites, and **commercial** buildings in the Sydney CBD and city fringe.

``It's only just started to happen. In five-six years of work with Savills I have never had an inquiry from our Russia desk,'' Ross says.

Agents say wealthy Australian expatriates are also looking to **buy** before prices rise further.

Investors to keep dominating the market, but concerns emerging: A major trend last year was an investor-driven market, which analysts expect to continue into the new year.

McGrath notes that AFG (Australian Finance **Group**) in the July-September quarter said close to 50 per cent of its loans went to investors. ``That would normally sit around 20 to 30 per cent.'' .

McGrath believes the strength of investors is a sustained trend, driven by buying from self-managed super funds. ``Most baby boomers have had a pretty good experience of, and feel safe with, bricks and mortar.''

Christopher agrees investors' activity is likely to continue, but that brings risk.

``It does make it a little more volatile, a little more momentum-driven and more speculative than one driven by first-home buyers,'' he says. It also highlights the risk that rising interest rates pose to the market. ``There is no way the market would have the ability to handle 7 per cent lending rates like in 2012. It would have a significant correction.''

Brisbane and Gold Coast to begin catch up: One area investors might target is southeast Queensland and Brisbane, with many analysts expecting an acceleration this year. McGrath says southeast Queensland has the best prospects of capital growth around the country for the next three years. He notes that markets there, including Brisbane and the Gold Coast, are still below pre-GFC levels while Sydney is 9 to 10 per cent above.

That price differential will start attracting buyers. McGrath says he often compares the Paddingtons in Sydney and Brisbane, both affluent inner-city areas. He says a house in Paddington, Brisbane, is half that of Paddington, Sydney.

``That differential feels too great to me,'' he says. ``I don't see the Sydney market coming back; I see the Brisbane and SEQ markets catching up.''

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According to RP Data, median prices in Sydney of $640,000 are significantly higher than Brisbane's $430,000. Kusher agrees that gap is too wide and Brisbane and to a lesser extent Adelaide might start to pick up after relatively lacklustre growth in 2013.

``The cost of housing is now significantly lower than in Sydney, Melbourne and Perth,'' he says. ``That's always been a driver of demand in the Brisbane market.''

The Gold Coast market and other tourism towns could also benefit from a falling Australian dollar. Kusher says there are signs of a recovery in the Gold Coast, Sunshine Coast and Cairns, though not in units.

Christopher says that Brisbane prices will accelerate to about 4 to 7 per cent this year, but he's not expecting double-digit growth. He says there are elevated stock levels and elevated vacancy rates in CBD apartments, which doesn't bode well for the housing market.

As with last year, the new year will likely see a continuation of the **residential** recovery, though rising unemployment means no boom. But there will be winners with Sydney and southeast Queensland starting its much-awaited catch-up to Sydney and Melbourne.

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