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HD **GLOBAL INSIGHTS - Brought to you by ANZ; Regional housing market to hold up well**
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In the fourth of a six-part series on the outlook for various regions, Francis Kan reports on Asia-Pacific housing markets

The buoyant Asia-Pacific housing market could be buffeted by rising interest rates and a growth spurt in supply. However, barring a sharp economic downturn, **property** prices are unlikely to drift significantly lower, according to experts from ANZ Bank.

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"In general, we expect ongoing, albeit more moderate, gains in home prices in the years ahead," says ANZ's team of **property** analysts in the bank's regional outlook for the housing market.

The regional **residential** real **estate** market has been fairly resilient this year and, with a few exceptions, has managed to avoid the sharp drop in prices seen in Western markets such as the United States, Ireland and Spain.

"This has been largely due to stronger prudential supervision, more conservative lending practices, relatively robust economic conditions and supportive **property** market fundamentals," says the report, released earlier this year.

However, solid home price gains across the region in recent years have raised the spectre of a housing bubble. Housing affordability is likely to deteriorate as global interest rates rise over the coming years, potentially exposing vulnerable loans.

Individual markets in the region also face different challenges, with places such as Singapore, **Hong Kong** and Taiwan facing the risk of falling prices and rents in the years ahead.

Singapore **property** prices ended last year on a weaker note, falling by 0.9 per cent over the fourth quarter, interrupting 17 consecutive quarters of price gains.

The market's dip continued into this year, falling 1.3 per cent in the first quarter and 1.1 per cent in the three months ended June 30, according to data from the Urban Redevelopment Authority.

Moreover, a large pipeline of new construction coming onto the market over 2014-16 presents clear risks for rents and prices, according to ANZ.

Indeed, Singapore's Deputy Prime Minister Tharman Shanmugaratnam said earlier this month that further correction "would not be unexpected".

However, the ANZ report says that while demand growth may slow, it is unlikely to collapse. Still, the **property** market is likely to face twin headwinds of rising supply and rising interest rates.

"This suggests pressures on home prices are likely to be skewed to the downside over coming years," the report says.

China's **property** market turned around sharply last year after stagnating in the previous two years. **Property** prices gained more than 20 per cent in top-tier cities and the gain outpaced the second-tier and third-tier cities by a large margin.

Prices have eased this year, as the **Chinese** authorities sought to keep the market from overheating by promising to raise supply and restricting **purchases** of second and third homes, among other measures.

Despite the indicators pointing to a slowdown, ANZ does not think **China**'s housing market is about to collapse.

"In our view, **China**'s **property** market is experiencing a cyclical slowdown. **China**'s demand for **property** will continue to remain elevated as long as the urbanisation process continues.

"While **property** investment growth could slow significantly, total floor space under construction will continue to pick up in the next few years and peak around 2020," the bank said in a report on **China**'s economy in May.

The report noted that the country's large and listed developers will be able to withstand this slowdown, and are unlikely to cut their prices sharply to liquidate unsold housing stocks. Also, the housing price to household income ratio in **China** remains at a reasonable level.

In **Hong Kong**, the housing market stalled last year following the introduction of a **property** curb policy in late 2012.

With US interest rates set to rise, ANZ believes that city's home prices have limited upside. A government commitment to create 470,000 apartments over the next 10 years, if mistimed, could also result in an oversupply that could have a significant impact on the local real **estate** market.

The rapid rise in Australian housing prices, which has been driven by record-low interest rates, has led to fears of a bubble forming.

Last month, credit-rating **firm** Moody's Investor Service said that with house prices climbing at the fastest pace in almost four years in the first quarter, there was a growing risk that the real **estate** market may be overheating.

Prices have risen by about 10 per cent nationally. Among the major cities, Sydney has seen the quickest growth, at a rate of about 17 per cent.

However, ANZ believes Australian house prices are sustainable, as they are supported by improved loan affordability, solid economic fundamentals, a stable mortgage market, strong investor demand and a significant pent-up demand.

"Prices are likely to continue to rise strongly in 2014 before moderating thereafter and growing broadly in line with average household incomes in the medium term," it said in its regional **property** outlook report earlier this year.

Meanwhile, housing shortages in Auckland and Christchurch, rising immigration, an earthquake rebuild and historically low mortgage interest rates have boosted the New Zealand housing market in the past two years.

However, as rising interest rates bite into demand, the volume of house sales is dipping, and selling prices are also starting to succumb, says ANZ.

Business confidence in the country slid last month, due mainly to a series of interest rate hikes by the central bank.

A net 43 per cent of respondents in the ANZ Bank Business Outlook survey for June expected general business conditions to improve in the coming year, down from a net 54 per cent in the previous month's survey.

On the flip side, the **property** market has been buoyed by rising net immigration, an improving labour market backdrop and a low inventory.

"But times are a-changing, not least with a turnaround in interest rates, but there are also the first signs that the labour market may be cooling," the bank said in a report on the New Zealand economy released in June.

ART ANZ says housing shortages in Auckland and Christchurch, rising immigration, an earthquake rebuild and historically low mortgage interest rates have boosted the New Zealand housing market in the past two years. -- PHOTOS: BLOOMBERG

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