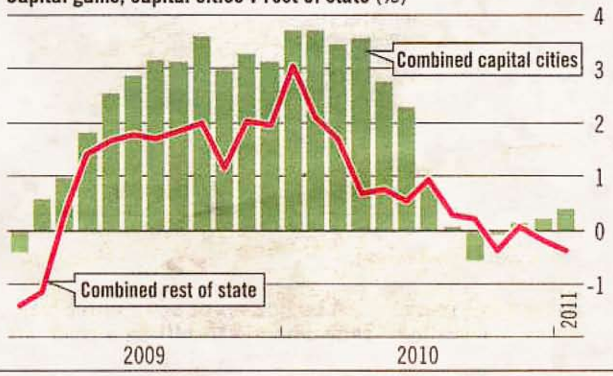
Off the boil

City dwelling values (3 months to Dec)

City	Change
Sydney	▲ 0.9%
Melbourne	▲ 1.1%
Brisbane	▼ 0.5%
Adelaide	▲ 0.4%
Perth	▼ 1.9%
Darwin	▼ 1.7%
Canberra	▼ 1.3%
Hobart	▼ 0.6%

Capital gains, capital cities v rest of state (%)



SOURCE: RISMARK INTERNATIONAL

Capital city house price growth slows

From page 1

couple of years; we have seen a lot of price adjustments."

RP Data director of research Tim Lawless doesn't see things getting better soon. He believes any further interest rate rises would snuff out price growth and could lead to falls.

"We're expecting one or two rate rises in the calendar year," he said. "If that does eventuate I think there will be very little price gains, probably less than CPI, which means in real terms falls in house prices."

Melbourne was the nation's most resilient capital, with a 1.1 per cent increase in house prices over the December quarter to a median price of \$505,000. Small rises were also recorded in Sydney and Adelaide.

Perth was the worst market with a 1.9 per cent drop in prices, followed closely by Darwin with a fall of 1.7 per cent. There were smaller falls in Brisbane, Canberra and Hobart.

The figures are a stark contrast to the first quarter of 2010, when national home price growth was running at an annual rate of 12.5 per cent, topping 18 per cent in Melbourne and Darwin.

Home price growth shuddered to a halt at the start of 2008 with the onset of the global financial crisis and amid fears that Australian asset prices would go the same way as those in many other countries. Home prices fell by 2.5 per cent in the 2008 calendar year. But by mid-2009 Australian home prices were rising again, with the annual growth rate peaking at 14.1 per cent in March 2010.

Market dynamics have changed markedly since. The Reserve Bank of Australia raised interest rates four times last year, with banks adding to the pressure on homeowners in November by raising their mortgage rates by more than the cash rate.

The return to normal interest rates caught many potential homebuyers off guard. With the aid of the First Home Owners Grant, first-time buyers had increased their average mortgage size by 25 per cent in the space of a year, and accounted for nearly 30 per cent of sales. They dropped off quickly as interest rates rose and now make up about 15 per cent of purchases, with little sign they will be a significant buying force soon.

Heated price growth in the first half spurred owners to list properties, but too late.

Sentiment was also hit by the European debt crisis and a roller-coaster stockmarket, and the spring selling season started late because of the drawn-out federal election.

Heated price growth in the first half of the year spurred many home owners to list their properties, but it proved too late. A large amount of stock sat unsold through winter and in the lead-up to Christmas there were almost 127,000 listed properties, compared with 89,000 homes for sale the previous year, according to RP Data. This presented buyers with a relatively large amount of choice and more room to bargain. Many sellers were unable to find a buyer.

AMP chief economist Shane Oliver said there was potential for short-term relief from interest rate rises as the Reserve Bank assesses the impact of the recent floods, but the long-term outlook is weak, with houses already over-priced and higher interest rates likely to lead to further falls in affordability.

"To get a sustainable rise in Australian house prices I think we really need to see some of the valuation excesses worked off," he said. "If we meander along with flat prices that could take several years."

He does not anticipate a US-style market crash, but said the key risks were Chinese authorities over-tightening their own monetary policy to bring inflation under control, or a sudden release of land supply from state governments.

UBS senior economist George Tharenou said high levels of debt and steep housing prices would make it hard for house prices to grow faster than household incomes for at least a year. "That's the new world we live in," he said. "I think while we're in a phase of rising interest rates or expectations of that, households are showing some caution in terms of credit and willingness to leverage up to get into the housing market."

But real estate agents said early listing activity indicated some confidence from buyers.

"There will be more turnover, but that doesn't mean the activity will drive up prices," Mr Shellabear said. "We've got stock to get through and once we get through that some old stock will come up and we will have to clear that."

Angus Raine, CEO of the Raine & Horne franchise, said properties priced under \$800,000 were getting strong interest. "Above that it flattens out; particularly over \$3 million, there is some price pressure there," he said.

While it was too early to assess stock levels in 2011, Mr Lawless said he believed many excess listings were withdrawn over Christmas.

"We probably won't see stock on the market get to the same level we saw before Christmas," he said. "I think some vendors will take the opportunity to withdraw their property from the market and try again when buying conditions get better."

CBA mortgage share falls, page 47