

1 October 2014

## Dwelling Prices – September 2014

- RP Data-Rismark report that Australian dwelling prices rose by a small 0.1% over September. Annual growth eased to 9.3%.
- Dwelling prices growth has been strongest in Australia's two largest capital cities, Sydney and Melbourne, over the past year. Prices in Sydney rose by 0.8% in September while they fell by 0.8% in Melbourne.
- The RBA has become increasingly concerned around increased leverage on house price speculation.
- The RBA will welcome the cooling in house price growth over September. But strong house price appreciation in Sydney on fervent investor demand remains cause for concern.

Australian dwelling prices took a breather in September after posting solid rises over the previous three months. The small 0.1% increase means that prices are now 18.8% above the May 2012 trough and exceed the previous peak in October 2010 by 10.0%. Annual growth has eased from a peak of 11.5% in April 2014.

Australia's two largest cities, Sydney and Melbourne, have been driving the lift in national house prices. Dwelling prices in Sydney rose by 0.8% in September while they fell by the same amount in Melbourne. Prices rises in Sydney have shown no sign of slowing and are being fuelled largely by investor interest. In Melbourne, however, dwelling price momentum has cooled largely in response to a lift in supply. The forward looking indicators suggest that a lift in supply is forthcoming in Sydney.

Low interest rates and the expectation of future capital gains mean that investors in Australia are currently the major driver of the property market. Lending to investors has risen substantially over the past year. One consequence is that rental growth is likely to be weak as the proportion of dwellings available for lease lifts.

Policy makers have been showing increasing signs of concern at the investor driven property price surge. Last week, the RBA published its semi-annual Financial Stability Review (FSR) which echoed concerns in the September Board minutes around increased leverage on house price speculation. The Bank has revealed it is in discussion with APRA and others about what steps "might be taken to reinforce sound lending practices". The debate about macroprudential policy has taken off as a result.

The RBA will front the Senate's economics committee tomorrow for a special hearing on Thursday to explain the risks associated with the housing boom and the potential for macroprudential policy to be introduced. We will be watching that space closely.

From a rates perspective, the rhetoric from the RBA around house prices has taken any further cuts right off the table and together with other factors will ultimately put rate hikes onto the agenda.

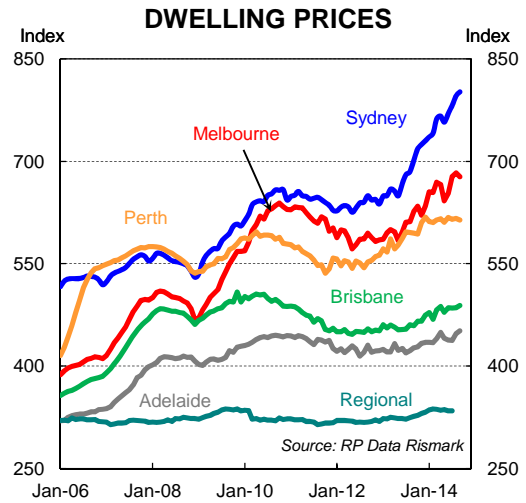
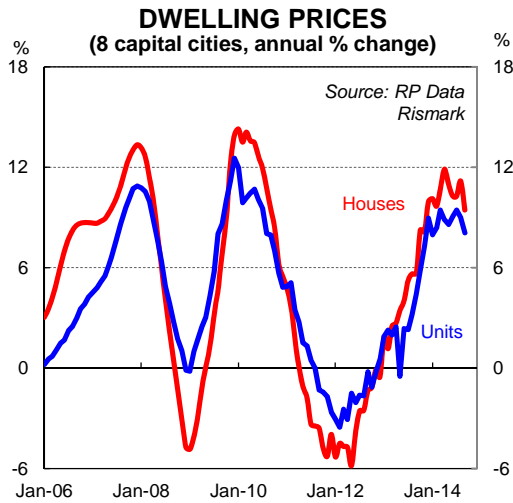
Table 1: RP Data-Rismark Dwelling\* Prices, September 2014

	monthly%ch	qtrly %ch	annual %ch	Median Dwelling Price (\$000s)
Sydney	0.8	4.1	14.4	655
Melbourne	-0.8	3.7	8.1	535
Brisbane	0.7	0.6	6.4	440
Adelaide	0.9	3.1	5.8	390
Perth	-0.4	-0.6	3.2	515
Hobart	-0.3	-1.0	4.6	300
Darwin	-1.0	1.4	7.1	545
Canberra	-0.4	1.4	1.7	500
<b>Australia 8 capital city aggregate</b>	<b>0.1</b>	<b>2.9</b>	<b>9.3</b>	<b>530</b>
<b>Rest of State (non-capitals)**</b>	<b>0.0</b>	<b>-0.6</b>	<b>3.3</b>	<b>345</b>

\*All dwellings, median price.\*\*Values are for houses only up to August

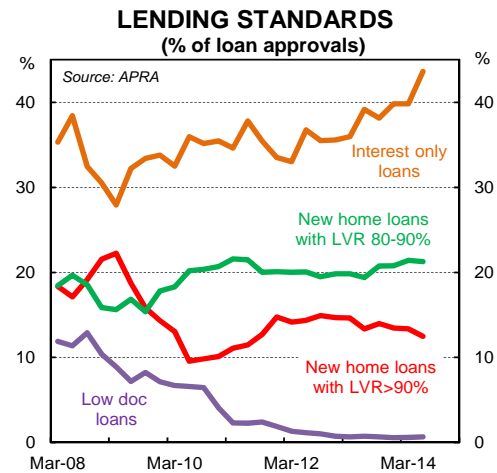
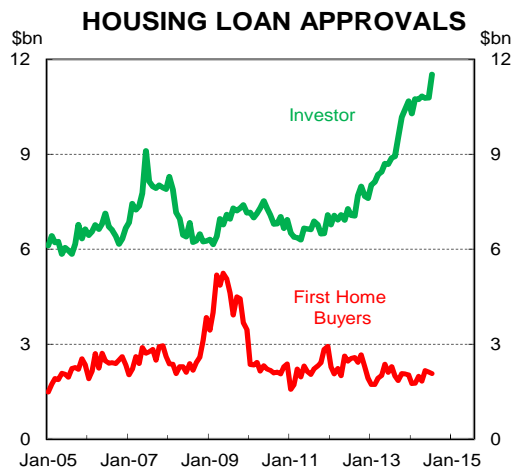
Dwelling prices took a breather over September and annual growth eased.

Dwelling prices have surged in Sydney and are up 28.2% on their May 2012 trough.



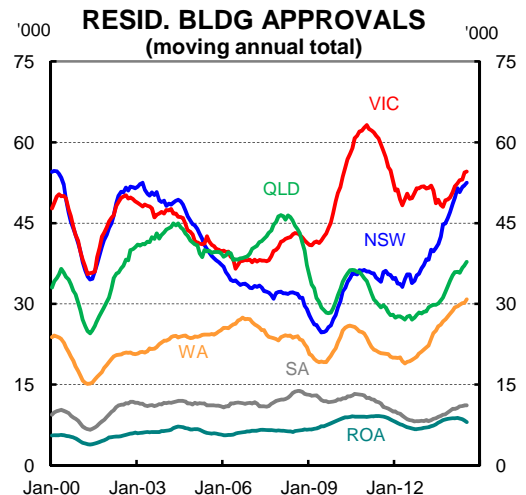
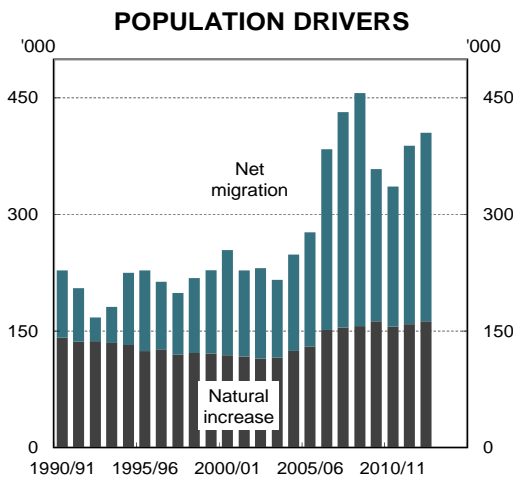
Investors are currently the major driver of the property market .....

..... the majority of whom take out interest only loans. Lending standards remain prudent overall.



Strong population growth in Australia, fuelled by net overseas migration, has been a major drive of property price growth.

Approvals activity has picked up significantly across the nation, particularly in NSW. Vic is at an elevated level.



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## Research

Commodities		Telephone	Email Address
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au
Vivek Dhar	Mining & Energy Commodities	+613 9675 6183	vivek.dhar@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
Gareth Aird	Economist	+612 9118 1100	gareth.aird@cba.com.au
Diana Mousina	Economist	+612 9118 6394	diana.mousina@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Fixed Income Strategy	+612 9118 1095	adam.donaldson@cba.com.au
Scott Rundell	Chief Credit Strategist	+612 9303 1577	scott.rundell@cba.com.au
Philip Brown	Senior Fixed Income Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Fixed Income Strategist	+44 20 7710 6994	alex.stanley@cba.com.au
Tariq Chotani	Credit Strategist	+612 9280 8058	tariq.chotani@cba.com.au
Tally Dewan	Securitisations Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Quantitative Analyst	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange, Interest Rates and International Economics		Telephone	Email Address
Richard Grace	Chief Currency & Rates Strategist, Head of International Economics	+612 9117 0080	richard.grace@cba.com.au
Jarrold Kerr	Senior Interest Rate Strategist	+612 9303 1766	jarrod.kerr@cba.com.au
Elias Haddad	Senior Currency Strategist	+612 9118 1107	elias.haddad@cba.com.au
Joseph Capurso	Senior Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Peter Dragicevich	Senior Currency & Rates Strategist	+44 20 7710 5603	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
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New Zealand		Telephone	Email Address
Nick Tuffley	ASB Chief Economist	+649 301 5659	nick.tuffley@asb.co.nz
Nathan Penny	Rural Economist	+649 448 8778	nathan.penny@asb.co.nz
Christina Leung	Economist	+649 301 5661	christina.leung@asb.co.nz
Chris Tennent-Brown	Senior Economist	+649 301 5660	chris.tennent-brown@asb.co.nz

## Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
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