

House downturn to deepen

From: AAP

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May 03, 2006

THE Reserve Bank of Australia's decision to raise interest rates will deepen the housing downturn, with Sydney property expected to be the hardest hit, industry observers said today.

The central bank today lifted the official cash rate by 25 basis points to 5.75 per cent, the first time it has raised interest rates since March 2005. The rise took official rates to a five-year high.

"The decision to raise interest rates will further hit the interest rate sensitive residential market, deepening and extending the downturn," Master Builders Australia chief economist Peter Jones said.

"The increased cost of home ownership and rising fuel prices will combine to hit families very hard."

House prices are expected to fall hardest in Sydney, where the property downturn has been felt the most, but also in other cities.

"Sydney will be impacted the most by the rate rise, while Perth will be impacted the least," said Louis Christopher, head of research at Australian Property Monitor.

"For Sydney, our assessment is that any modest recovery that had been occurring will now stall - and it is now likely that house prices will fall by up to another five per cent for 2006.

"In other words, we expect the market to repeat the same conditions experienced in 2005," Mr Christopher said.

"Sydney has the lowest affordability rating in the nation and while affordability has improved, it still means would-be buyers are very sensitive to rate movements."

In Brisbane and south-east Queensland, the property market has been flat for sometime, Mr Christopher said. "Given that the area is heavily dependent upon investment property spending, I suspect we may now see a modest fall in residential property prices in 2006 of somewhere between minus 1 to minus 3 per cent," he said.

"Like Brisbane, Melbourne has experienced a flat housing market for some two years now. This latest rate hike will dampen any potential of a recovery this year. Overall, Melbourne residents and investors should expect a flat market in 2006."

"Perth is one market where I believe the latest rate hike will have minimal impact. The global commodities boom story is still intact and while this is the case, Perth residential property prices will continue to rise robustly," Mr Christopher said.

The MBA's Mr Jones said the rate increase would also act to further deter property investors, increasing the gap in available rental stock, leading to a subsequent hike in rents.

"The housing market is particularly vulnerable at this point in time and the Reserve Bank must now hold back and monitor developments very closely over coming months before contemplating further rate rises," Mr Jones said.

"The RBA's high risk strategy will not only inflict pain on home owners and the building industry but also the wider economy."

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