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PRESS RELEASE

For immediate release
5 December, 2017

Property trends 2018: Sluggish growth, apartment oversupply and ‘renovesting’

- The Reserve Bank of Australia left the cash rate at 1.5% today
- Slow property growth, apartment oversupply and “renovesting” identified as 2018 trends
- Experts maintain good infrastructure and transport can increase prices by 11% on average

5 December 2017, Sydney, Australia – When asked to envision property trends for 2018, experts identified single-digit growth, apartment oversupply and ‘renovesting’ as themes we’re likely to see next year, according to finder.com.au, the site that compares virtually everything.

All 33 experts from the monthly finder.com.au RBA panel also correctly predicted the cash rate would hold at 1.5% this afternoon, in the central bank’s final meeting of 2017.

Graham Cooke, Insights Manager at finder.com.au, says the official interest rate is likely to stay static for a while longer.

“While the RBA won’t meet again until February next year, sentiment remains the rate will stay at its current level until the second half of 2018.

“With market onlookers hinting that the next move will be up, now could be a good chance for mortgage holders to fix their rate,” he says.

Panellists were asked to identify key property market trends for 2018, and many are expecting further price increases in eastern capital cities, but at a slower pace compared to growth rates we’ve seen in recent years.

“While growth in Sydney is expected to slow, experts are tipping stronger growth in Melbourne and Hobart,” Mr Cooke says.

Michael Yardney from Metropole predicted 4-6% growth in Sydney, 6-10% in Melbourne, 3-6% in Brisbane, 6-10% in Hobart, 4-7% in Canberra and 0-4% in Adelaide, with both Darwin and Perth remaining relatively flat.

Renovating is another theme likely to surface next year, according to the experts and economists, including Jessica Darnbrough from Mortgage Choice.

“With the property ladder becoming increasingly difficult to climb, we may see more ‘renovesting’ in 2018; adding value to current properties through renovations,” Mr Cooke says.

Interestingly, five economists indicated apartment price rises may struggle to keep up with houses, mainly due to oversupply.

Most respondents believe apartment prices will bottom-out next year, as a glut of new builds hit the market, with John Hewson from ANU stating; *“[We expect] consolidation and collapse of [the] apartment market.”*

When asked about the extent to which transport and infrastructure projects can increase property prices, respondents estimated these projects could boost values by 11% on average.

For a property in Newtown (NSW), good transport and infrastructure could be adding over $170,000 to the value of a house or $110,000 to a house in Kensington (VIC).

“Planned infrastructure projects can be instrumental to property price growth. Whether it’s upgrading the domestic airport, improving roads, or creating better rail options, they fuel economic growth by creating new jobs and drawing people to the area.

“Road or rail upgrades play a vital role in driving up property values, as they make the precinct more accessible and attractive for residents,” Mr Cooke says.

Here’s what our experts had to say:

Jordan Eliseo, ABC Bullion (Hold): "The RBA will be happy to sit tight as we approach Christmas, and monitor incoming data. With housing starting to roll over, retailers facing a tough holiday period, and a stubbornly high Australian dollar, we remain confident that the next move will be a cut, but this will take time to play out. "

Shane Oliver, AMP (Hold): "Strong business conditions, strong employment and the RBA's own expectations for stronger growth point to an eventual rate hike but low inflation, record low wages growth, the slowing housing cycle, uncertainty around consumer spending and the still too high $A argue for flat or even lower rates. So the outcome is likely to be on hold for the 16th month in a row."

Alison Booth, ANU (Hold): "The fundamentals don't justify any change for the moment."

John Hewson, ANU (Hold): "Insufficient data"

Darryl Gobbett, Baillieu Holst Ltd (Hold): "RBA comments suggest even more uncertainty about the inflation forecasts, when falling wages growth will stabilise and the very high and rising levels of household debt, which might justify ending the very low cash rate, but this being offset by the concerns at what a rise may do to the $A and household consumption. So hold off."

Paul Dales, Capital Economics (Hold): "The RBA doesn't want to cut interest rates for fear of inducing households to take on more debt, but equally economic growth and inflation aren't strong enough to prompt it to raise interest rates. "

Saul Eslake, Corinna Economic Advisors (Hold): "RBA has again made it clear it has no appetite for cutting rates further, but nor will it start raising them until there is a more solid basis than presently exists for confidence that inflation will return to within the target band, that economic growth will return to trend, and that spare capacity in the labour market is being steadily absorbed."

Scott Morgan, Greater Bank (Hold): "Data does not support a move at this stage."

Mark Brimble , Griffith University (Hold): "While the economy could do with support and the lead into the holiday season could be a great time to generate consumer confidence, the RBA is likely to not move due to ongoing concerns in housing and credit markets."

Shane Garrett, Housing Industry Association (Hold): "Australia needs interest rates to stay low at the moment. General inflationary pressures are well under control - but several components of demand are below par and need a supportive interest rate backdrop."

Paul Bloxham, HSBC (Hold): "Inflation remains below target, but growth is lifting"

Alex Joiner, IFM Investors (Hold): "No economic justification for a rate rise. As house price growth decelerates pressure on the RBA to raise rates dissipates. Its outlook for inflation does not warrant any move or indeed even any more of a hawkish stance"

Robert Montgomery, Infrastructure Partnerships Australia (Hold): "There has been little change in economic indicators, so the cash rate will continue to remain on hold."
Michael Witts, ING (Hold): "The economy continues to perform in line with the RBA's expectations, so there is no need for RBA action at this time."

Leanne Pilkington, Laing+Simmons (Hold): “The OECD has recently signalled that the winds of change in the Australian economy may be preparing to blow, and that a rate rise may come sooner than previously thought. Even so, this would be 12 months away. In our view, with the heat gone from the housing market, and with wages, unemployment and inflation steady, there’s no impetus for the RBA to tinker with interest rates in the near term."

Nicholas Gruen, Lateral Economics (Hold): "They've signalled they will."

Mathew Tiller, LJ Hooker (Hold): "The soft outlook for GDP, inflation and wages growth, combined with the moderation in property price growth, should keep the cash rate on hold over the short term."

Stephen Koukoulas, Market Economics (Hold): "The RBA continues to ignore the signals that point to the need for an interest rate cut - low wages growth and inflation, weak consumer spending and moderate growth."

Michael Yardney, Metropole (Hold): "The official RBA interest rate is likely to remain at 1.5% throughout 2018. Australia's economy is still operating below its potential with economic growth not strong enough to justify an interest rate increase. The positive signs of jobs creation, falling unemployment and rises in full-time employment are being offset by slow wages growth, sluggish retail sales and a benign inflationary environment. Fortunately, the RBA will be pleased our property markets are cooling and will not feel the need to use rising rates to slow the market."

Mark Crosby, Monash University (Hold): "The RBA has signalled no increases in rates for the foreseeable future. Whether or not this is wise doesn't matter, the RBA will sit on their hands for the next 6 months at least."

Jessica Darnbrough, Mortgage Choice (Hold): "Anaemic inflation, combined with a drop in consumer sentiment, and non-existent property price growth over the last month, will encourage the Reserve Bank to leave the cash rate on hold once again."

Alan Oster, Nab (Hold): "Still watching wages and house prices."

Jonathan Chancellor, Property Observer (Hold): "The bank doesn't move unless it has to, and there's no reason now to."

Matthew Peter, QIC (Hold): "The economy still contains sufficient slack to keep underlying inflation at low levels. The RBA will need to keep rates on hold well into 2018 to support our export and import competing sectors, which are currently the drivers of growth."

Noel Whittaker, QUT (Hold): "House prices flattening - wages growth slow - why raise?"

Nerida Conisbee, REA Group (Hold): "Economy is still too weak to increase and I would say the RBA is waiting to see what the data says early next year. "

Christine Williams, Smarter Property Investing (Hold): "Overall the economy has not changed in the last month Retail is still quite slow leading up to the festive seasons spending."

Janu Chan, St. George Bank (Hold): "Low inflation and ongoing spare capacity will keep the rba from raising rates despite a more upbeat outlook for business investment and the labour market."

Brian Parker, Sunsuper (Hold): "The data flow over the last month won't have significantly changed their view on the outlook for inflation or growth."

Clement Tisdell, UQ-School of Economics (Hold): "No reasons to expect a change."

Nicki Hutley, Urbis (Hold): "modest demand and inflation outcomes present no risk or need to raise rates."

Tim Nelson (Hold): "Inflation and wage growth remain low. Both are expected to increase only gradually over time. Further progress is expected on reducing spare capacity in the economy and current rate settings appear consistent with sustainable growth and achieving the medium-term inflation target."

Other participants: **Bill Evans, Westpac (Hold)**

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