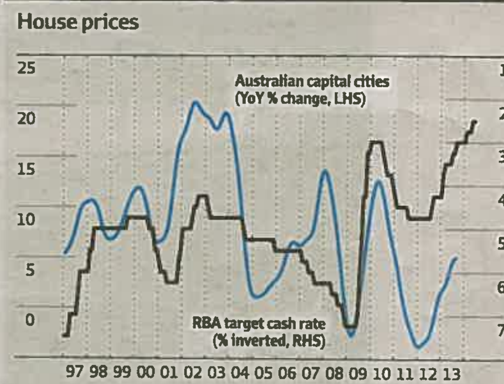
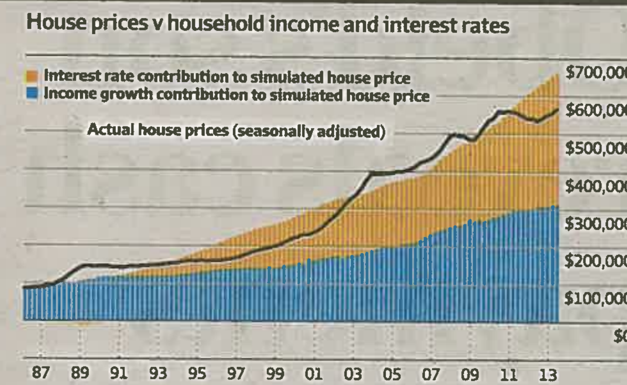
Property ANZ says market to grow 20pc

House prices tipped to soar six times wages

Cash stimulus





SOURCE: ANZ

Jacob Greber
Economics correspondent

Australian property prices will surge more than six times average wages between now and the end of 2015, according to a bullish forecast by the nation's third-largest lender that reinforces concern record-low interest rates could fuel a risky asset bubble.

A day after Reserve Bank of Australia governor **Glenn Stevens** put banks and home buyers on notice to be "realistic" about future prices growth, ANZ property analysts said the market would rise by as much as 20 per cent.

Unlike previous house price booms, the coming gains may not repeat the past by translating into rapid construction growth, according to the analysts.

Both the Reserve Bank and Treasury are counting on a robust rebound in home building to help fuel economic growth, as the resources investment boom tapers in coming years, and keep a lid on unemployment.

"Despite an unprecedented shortage of physical housing stock ... and an expected 15 to 20 per cent lift in home prices over the next 2½ years, we are likely to experience the most modest cyclical upturn in housing construction in the past 30 years," ANZ analysts led by David Cannington said.

They blame rising vacancy rates and "growing valuation risks in some markets" for the likely slowing in the apartment growth.

"In addition, the issues that have plagued the industry in recent years largely remain in place," they said, listing approvals red tape, excessive developer costs, and shortages of land, infrastructure and tradespeople.

The forecasts came as economists at CommSec published what it half-jokingly described as a "housing bubble index", which measures the number of times the terms "housing" and "bubble" appeared in newspapers, wire services and ABC radio transcripts.

The index peaked in September at a decade high 194 mentions, they said.

CommSec economist Craig James said the result highlights the "chicken or the egg" nature of the debate.

"Is it the discussion of housing bubbles that causes people to become more hesitant on home purchases or does that discussion merely emerge late in housing cycles?" Mr James said.

The resurgent property market – with prices up more than 8 per cent in Sydney over the year – has received prominent media attention in recent weeks, including last weekend's record auctions in Sydney and Melbourne.

Mr Stevens is being forced to balance the need to maintain downward pressure on the rebounding Australian dollar against the risk of spurring housing through further rate cuts.

"I don't think they'd be all that comfortable cutting rates much more, given they're so far from neutral," said ANZ property expert Paul Braddick.

Modelling by ANZ suggests wages account for less than half the growth of house prices over the last 30 years – with the lion's share generated by falling interest rates, which have allowed and prompted borrowers to take out larger mortgages relative to their incomes.

More recently, the research shows the official cash rate at 2.5 per cent has fuelled much of the recent price gains.

Financial markets put the chance of an interest rate cut next week at close to zero. They also imply no change in the cash rate in the next 12 months, according to a Credit Suisse interest rate futures index – a bet that could be confounded if Mr Stevens's future decisions match the patterns of his past.

The governor has either cut or raised the cash rate on average once a quarter since taking office seven years ago (a total of 26 moves), making him an "activist" central banker with more in common with counterparts in resource-rich developing nations like Brazil than in wealthy Europe and the US, according to Bloomberg research.