Sydney prices up 45 per cent, correction next: BIS Shrapnel

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Date June 29, 2015 **Jennifer Duke, Christina Zhou**

Property price falls are on the way, Bis Shrapnel said on Monday.

Speculation is growing that Sydney's long-running property boom is running out of steam, with a new report suggesting two years of falling prices.

However researcher BIS Shrapnel - noting soaring house prices of 45 per cent over the past three years - isn't expecting the price falls to hit until 2017 after an interest rate rise next year.

"Interest rates are expected to enter a tightening phase towards the end of 2016," said BIS Shrapnel analyst Angie Zigomanis in *Residential Property Prospects 2015 to 2018.*

The prediction of price falls follows other experts warning of challenges ahead for the Sydney property market.

CoreLogic RP Data senior research analyst Cameron Kusher was reported as saying falling rental returns suggested "the boom has got to be getting close to its end" and AMP chief economist Shane Oliver saying it was a "warning sign".

Investors were still out in force at auctions on Saturday, with Domain Group putting the clearance rate at 82 per cent. There were 672 auctions. a higher number than the same day last year. Despite being a strong result, clearances have fallen each weekend for a month.

Mr Zigomanis said the 45 per cent price growth in three years had been due to strong population growth, reasonably positive NSW economic conditions, an undersupply of homes and low interest rates.

Over 2015/2016 house prices are expected to increase 7 per cent, with these factors continuing to drive the market.

But beyond that, the combination of rising rates and increasing apartment supply were "expected to discourage both owner occupiers and investors, particularly as pent up demand pressures are beginning to ease", he said.

Struggling first home buyers, though, hoping for huge price drops, will be disappointed.

BIS Shrapnel is tipping house price falls of 4 per cent in total over 2016/2017 and 2017/2018, with the price growth over the three years to June 2018 totalling 2 per cent. This would be a real house price drop of 6 per cent, a sluggish result but not a freefall.

The increase in supply will also take apartment prices off the boil.

In June 2018, unit prices are expected to be below that of June 2015 – by 1 per cent.

"There will start a few less pressures on rents and the owners of new dwellings might have to compete a little bit harder for tenants as new projects continue to be completed," Mr Zigomanis said.

However, rates won't rise by too much, which will protect the city from a severe correction.

"It'll more just be enough to make the purchasers have second thoughts about trying to bid up prices further," he said.

The Domain Group senior economist, Andrew Wilson, said he had no expectations for price drops and he believes investor activity will continue, but at a slower pace.

"It will be a much flatter cycle going forward as there isn't the income growth to sustain price growth," Dr Wilson said.

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