

Long term house price outlook negative: Westpac

Current low interest rates are likely to sustain house price growth in the near term, but rising rates from 2020 onwards will trigger a fall in the market, economists at Westpac have warned.

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Westpac chief economist Dominick Stephens, writing in the bank's monthly Home Truths report, said the short term outlook on prices was broadly positive, but added the long term picture was decidedly less rosy.

Stephens predicted interest rates would rise rapidly in the early part of the next decade: "We remain convinced that mortgage rates will eventually rise significantly. At that point, we expect the housing market to be severely impacted. But with the Reserve Bank looking very keen to keep the OCR low for some time, this is more a story for the 2020s than the current decade. We are forecasting falling house prices in the early 2020s," he said.

For now, Stephens expects continued growth as rates are slashed to record lows. October REINZ data showed a 9.3% lift in volumes, seasonally adjusted by Westpac.

Stephens added: "Looking at the three month averages, it is clear that the rate of house price inflation has lifted recently. The acceleration is coming from Auckland and Canterbury, which have shifted from slightly falling to slightly rising house prices, and from Otago and Southland, where house prices are rising fast and accelerating."

Aside from concerns over inevitable rate rises, Stephens said government measures to dampen investor activity would have a considerable negative impact in the long run. Stephens said the recent REINZ data showed "no evidence" of the foreign buyer ban having an immediate impact, but said it "will have a bearing on house prices eventually".

Stephens warned further government policy measures, such as the introduction of a capital gains tax, would cause prices to fall in the long-term: "Next year the market will be impacted by changes to the rules around tax deductions for property investors. And if a capital gains tax is introduced, the impact on house prices will be large."