



One of Australia's leading mortgage insurers, PMI Mortgage Insurance Ltd (PMI), recently released the mid-year PMI Residential

Property Overview, based on research conducted by key property forecaster BIS Shrapnel. The overview reported a slowing in the pace of house prices, with most capital cities expected to experience a levelling out in the 2004/2006 time period.

The findings were released at a PMI seminar held in Sydney for lenders and

securitisers in the mortgage industry. The overview suggests that despite reduced demand from investors and first home buyers, the market will continue to be underpinned by improving economic growth and employment prospects over the course of 2004/2005.

Managing Director of PMI, Ian Graham, said the report indicates that despite interest rate rises, home owners were generally in a position to maintain repayments on their dwellings – a trend supported by what PMI is currently seeing with low levels of mortgage default rates.

Graham added, "PMI's expectations are that the levelling out of house price growth will be supported by strong economic performance throughout 2004/05 and 2005/06 as outlined in the overview."

Rob Mellor, Director of Building Services and Construction for BIS Shrapnel presented the PMI Residential Property Overview and forecast an underlying demand in the market which will be supported by strong overseas migration at the national level. He said these were the key reasons that would prevent any 'bursting of the house price bubble' at least

in the short term (see details below for detailed state-by-state statistics).

The key findings of the research contained in the PMI Residential Property Overview were:

Queensland

The sharp rise in Queensland's net interstate migration inflow has driven substantial rises in the stock deficiency, and price growth of 93 per cent in Brisbane's median house price over the three years to March 2004. After an estimated 34 per cent growth in 2003/04, the stock deficiency will underpin an expected further price growth of 12 per cent over the year to June 2005 before rising interest rates and weaker economic conditions impact on price growth over the two years to June 2007. Total price growth of 17 per cent is forecast for the three years to June 2007, or 5 per cent in real terms.

New South Wales

Underlying demand in New South Wales has weakened as the net interstate

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migration outflow has increased. Consequently, the deficiency of dwelling stock is not sufficient to place great pressure on Sydney house prices, as evidenced by slowing price growth through 2003. After expected modest price growth of 2 per cent in the year to June 2005, rising housing interest rates exceeding 8 per cent in the second half of calendar 2005 will halt price growth in 2005/06. Zero total price growth is forecast over the three years to June 2007, or a 10 per cent decline in real terms.

Victoria

The Melbourne residential market has weakened in the first nine months of 2003/04. The March quarter 2004 median of \$368 000 was only 3 per cent

higher than the June 2003 median and a decline of 1 per cent from the previous quarter. This occurred after a seven year period of strong price growth (averaging 13 per cent per annum). A rising excess dwelling stock will develop as the recent net interstate migration inflow reverts to an outflow, resulting in an expected minimal price growth totalling 2 per cent over the next three years (a 9 per cent decline in real terms).

South Australia

Growth in Adelaide's median house price is forecast to slow as the current high level of dwelling construction activity is completed through 2003/04, adding to South Australia's modest dwelling stock. Price growth is expected to be limited to a total of 5 per cent over the next two years, before housing interest rates above 9 per cent in the second half of calendar 2006 may cause prices to decline by 2 per cent in 2006/07.

Western Australia

Underlying demand in Perth is forecast to improve from 2003/04 due to Western

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Australia's net interstate migration outflow reverting to an inflow as mining and infrastructure spending attracts higher employment. Growth in the median house price of 15 per cent (+4 per cent in real prices) is forecast over the three years to June 2007, although most of this growth will take place in 2004/05 (+11 per cent), before expected rises in housing interest rate slow price growth significantly in 2005/06 (+4 per cent) and 2006/07 (+0 per cent).

Tasmania

Hobart's median house price growth has been very strong over the past two years. Growth in Hobart's median house price of 39 per cent in 2002/03 was initially due to the additional demand created by the First Home Owner's Grant, and subsequently the complete reversal of the net interstate migration outflow in 2002/03. This has created a small stock deficiency by June 2004, which will stimulate limited further price growth. After an estimated 33 per cent rise in 2003/04, price growth of 6 per cent in 2004/05, and 3 per cent in 2005/06 is forecast. As rising interest rates impact on prices and economic growth, the movement of people into Tasmania



will be curtailed, resulting in zero price growth forecast for 2006/07.

ACT

Growth in Canberra's median house price has surged over the last five years, rising by an estimated 125 per cent to June 2004. However, rising excess stock is expected to dampen price growth to 3 per cent in 2004/05. Strong economic growth resulting in higher housing interest rates is forecasted in 2005/06 and will further slow the rise in the median house price from 2005/06. Prices are forecast to rise by a total of 3 per cent over the three years to June 2007, a decline of 7 per cent in

Northern Territory

Darwin house prices have been relatively weak over the past seven years to December 2003, with a net interstate migration outflow hampering growth. However, this is forecast to improve with the employment opportunities created by increased oil and gas infrastructure investment over the next two years resulting in a rising net interstate migration inflow. It is anticipated this will drive stronger underlying demand, and subsequent price growth of 22 per cent over the next three years to June 2007, or 9 per cent growth in real terms. **J**