House prices to surge in Australian capital cities, driven by 'aggressive' Government stimulus

By business reporter [David Chau](#)

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Perth property values are tipped to surge 8-12% next year.*(ABC News: Andrew Willesee)*

House prices, which are already are making a strong recovery from the COVID -19 recession are likely to inflate further in 2021.

Key points:

- Perth, Sydney and Adelaide are expected to see the biggest price rises next year

- Australian borrowed $22.7b in October to buy property (a record high)
- It was driven by first home owners and the HomeBuilder stimulus program

Australia's capital cities may see prices surge between 5-9 per cent, according to a new report by property analysts SQM Research.

It said interest rate cuts and aggressive government stimulous and the winding back of responsible lending laws will be the main factors driving these price rises.

These predictions coincide with the latest figures from the Bureau of Statistics (ABS), which suggest demand for property has reached fever pitch.

The data showed the value of new home loans climbed to a record high of $22.7 billion in October.

It was slightly higher (+0.7 per cent) than the previous month, but a huge jump (+23.3 per cent) compared to the same period last year, prior to COVID-19.

Capital cities to surge

Perth is expected to be the star performer, with gains of 8-12 per cent on the back of a recovering commodities market, and mining project investment.

Sydney is tipped to be experience the second-largest price gains, driven by proposed changes to NSW’S stamp duty and land tax laws.

This is how it expects the other capital cities will fare next year:

	Price rises in 2021 (base case)
Perth	8 — 12%
Sydney	7 — 11%
Adelaide	6 — 10%
Darwin	6 — 9%
Canberra	5 — 9pc

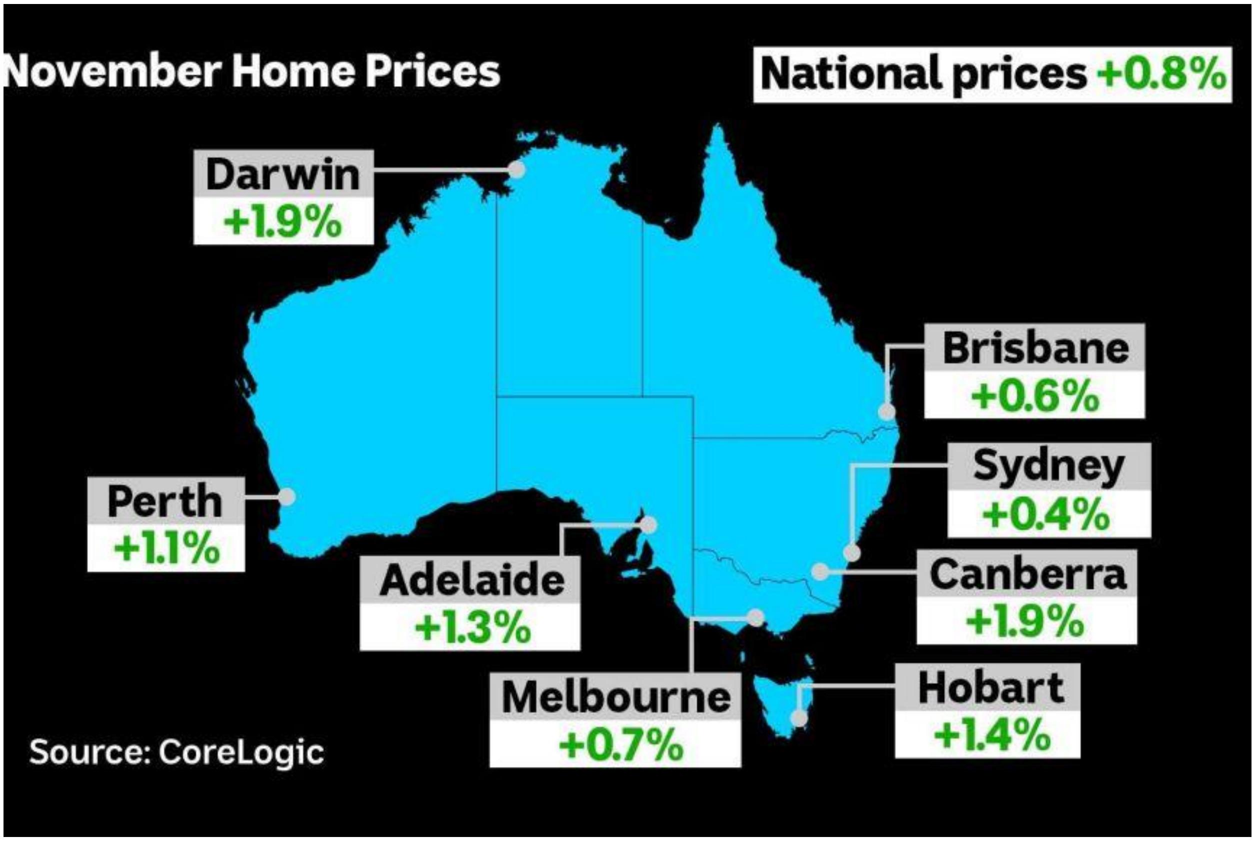
	Price rises in 2021 (base case)
Brisbane	4 — 8%
Hobart	3 — 7%
Melbourne	2 — 6%
Capital cities (weighted average)	5 — 9%

Record high prices in smaller capital cities

Earlier this week, another property research firm, CoreLogic, said the median property price in Australia has lifted 0.8% to $565,474 in November.

It also noted there was a major difference among the capitals. Prices in Brisbane ($515,267), Adelaide ($459,896), Hobart ($505,683) and Canberra ($672,866) jumped to record highs in November, despite the pandemic.

The firm also said Sydney and Melbourne's average prices have fallen back to where they were in early 2017 (at $860,967 and $672,172, respectively).



House prices continued to climb across the country over November.*(Alistair Kroie)*

Remarkably, Canberra's median ($672,866) had climbed higher than Melbourne's for the first time.

On the flip side, Perth and Darwin housing values had been plunging for years, before they started to recover recently.

CoreLogic said median prices in the WA and NT capitals were back to where they were around 2006 / 2007 (at $463,846 and $406,857, respectively).

Boosting property at any cost

However, SQM's "base case" assumes the nation may be plagued by a third wave of coronavirus infections, more lockdowns, and a "progressive roll out" of a COVID vaccine.

It also assumes the Reserve Bank and Federal Government would be forced to ramp up its stimulus programs.

In particular, SQM is expecting the RBA to keep interest rates near zero and pump even more cash into the economy, while the Government will be forced to extend the JobKeeper wage subsidies by an extra six months, to September 2021.

Even in its most pessimistic scenario, SQM predicts capital city prices will either remain flat, or rise 4 per cent at most.

The different assumptions in that scenario are that the Government phases out JobKeeper in March (as planned), unemployment benefits fall back to pre-COVID rates, and the RBA doesn't inject more cash into the system.

SQM's managing director Louis Christopher said he had "misgivings" about the long-term consequences of these stimulus measures.

"If housing is regarded as an asset class that is not allowed to fall, Australia could have some rather serious social issues surrounding home ownership rates over the long term.

"Many in the community are starting to think they cannot ever lose on housing. That the Government will always be there to step into the housing market, if need be. And that is a scary idea."

First home buyers driven by 'FOMO'

Earlier this week, Reserve Bank governor Philip Lowe told a parliamentary committee: "It's actually a good time, if you're a first home buyer, to buy the property you've wanted".

But first home buyers may already be one step ahead of him, according to the ABS lending figures.

In October, the number of first home owners (on occupier-occupier loans) increased by 13,481.

Stimulus-driven construction surge

Construction was also an area of high demand, according to the ABS's latest data on home lending.

The value of construction loans jumped 10.9 per cent in October, compared to the previous month. But since July, it had surged 65.6 per cent.

The ABS observed this coincided with the introduction of the Governments Home Builder Grant in June.

"Homebuilder and other construction grants led to a decade-high for growth in owner occupier lending for the construction of dwellings," ANZ economists Adelaide Timbrell and Felicity Emmett wrote in a research note.

They noted construction loans had skyrocketed by 86 per cent, compared to October 2019.

"This growth rivals the post-GFC spike in lending for construction."