

## Melbourne property prices to fall further, RBA says

March 27, 2013

Melbourne's housing market is heading for further price falls and "softer" conditions, according to the Reserve Bank of Australia.

The unusually frank assessment is likely to dampen growing speculation the two-year old downturn has come to an end as a result of improving confidence and rising auction clearance rates.

The RBA's semi-annual [Financial Stability Review](#) counts Melbourne as one of the weakest markets in the country, citing a "potential" oversupply in the inner city apartment market and new homes market on the city's fringe.

"Although housing loan arrears rates are currently low across most parts of Victoria, the outlook for the Melbourne property market appears to be softer than for other large cities."

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"The increase in the stock of housing is consistent with Melbourne dwelling prices declining further and recovering less of their earlier decline than prices in most other capital cities have done."

Bank of America Merrill Lynch chief economist Saul Eslake said it was "unusual" for the RBA to release such a specific forecast.

"I suspect they are singling Melbourne out because it is actually different (to other markets)," he said.

But MacroBusiness economist Leith van Onselen said the assessment was not surprising in light of the state's well-known supply issues and weakening economy, which has now experienced three quarters of negative growth.

"Despite recent price growth, outer-Melbourne land supply remains highly elevated at a time when new house sales are tracking near 16-year lows. The apartment market also appears to be in oversupply, with the recent spate of approvals by the Victorian planning minister, Matthew Guy, likely to add to this glut," he said.

Fairfax Media [reported](#) last week that construction of about 25,500 apartments around the city was due to be completed in the next two years, placing increasing pressure on transport, infrastructure and services.

This does not include many of the 20 high-rise projects approved by Planning Minister Matthew Guy in the past 28 months or plans for 17 towers in the new inner-city suburb of Montague.

But Mr Eslake said it was important to remember that softer market conditions would continue to improve affordability.

"The willingness of Melbourne's planning authorities to allow growth both in the inner city and on the urban fringe is one of the reasons Melbourne's housing is much more affordable than Sydney's. We shouldn't always look at the housing market from the perspective of sellers."

The RBA's forecast stands in stark comparison with the recent performance of Melbourne's auction market, which has experienced moderately strong clearance rates in the face of a rising number of homes for sale.

Industry lobby group the Real Estate Institute of Victoria said it was likely the Melbourne market was in the middle of a "mild recovery".

Analysts RP Data-Rismark report that Melbourne dwelling values rose 1.5 per cent in February and 2.2 per cent in the last quarter.