



## AUSTRALIA – January 2021

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### ***Australian house prices confound Covid fears***

*Home values rise 3% on ultra-low interest rates, stimulus and adept handling of pandemic*

*Property values in Sydney increased 2.7% in 2020, while regional home values outside Australia's eight biggest cities rose 6.9%*

Australian house prices rose 3 per cent last year, defying economists' dire forecasts that housing could lose up to a fifth of its value because of the coronavirus pandemic.

Analysts credited ultra-low interest rates, government stimulus and the government's adept handling of Covid-19 for boosting confidence in the housing sector.

As the virus spread across Australia in March and April, residential property sales fell 40 per cent, causing prices to dip 2.1 per cent by September. But a surge in buying activity in the fourth quarter bolstered a rebound, particularly outside Australia's eight largest cities, with regional home values rising 6.9 per cent in the 12 months to end December.

House values increased 2.7 per cent in Sydney but fell 1.3 per cent in Melbourne, which endured a 112-day lockdown to blunt a Covid-19 outbreak. Apartment values also rose 0.2, compared with a 2.6 per cent increase in house values across Australia's main cities, reflecting a shift towards lower density housing, according to data published on Monday by Corelogic, a research group.

"Record-low interest rates played a key role in supporting housing market activity, along with a spectacular rise in consumer confidence as Covid-related restrictions were lifted and forecasts for economic conditions turned out to be overly pessimistic," said Tim Lawless, Corelogic research director. "Containing the spread of the virus has been critical to Australia's economic and housing market resilience," he added.

The strength of Australia's property prices has been mirrored across other developed economies, with UK house prices rising 7 per cent in 2020 and New Zealand enjoying even faster growth in home values. Analysts said the trajectory of prices was critically important for Australia's economy, with the rate of household debt to income above 200 per cent.

### **International Property Tax Institute**

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Economists warned in March the damage caused by nationwide lockdowns risked falls of up to 20 per cent in Australian house prices, inflicting heavy losses on the country's banks. But decisions by the Reserve Bank of Australia to slash interest rates to a record low of 0.1 per cent and the government to unleash more than A\$250bn (\$192.5bn) in stimulus have boosted the economy, limiting unemployment to 6.8 per cent.

Australia's decision early in the pandemic to close its international borders and impose strict lockdowns has been praised by health experts for limiting the number of deaths and successfully suppressing the spread of coronavirus. This in turn enabled life to return to normal in many Australian states, although a recent outbreak in New South Wales and Victoria remains a cause for concern for authorities.

Shane Oliver, an economist at AMP Capital who in March forecast house prices could fall by up to 20 per cent, said the property market had performed far stronger than initially expected when the pandemic first struck. He said that average prices will rise 5 per cent in 2021. However, Mr Oliver warned that the outlook was widely divergent across Australia's cities, within cities and between apartments and houses. Renewed Covid-19 lockdowns and a collapse in immigration because of border restrictions posed important risks to home values, he added.

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