

House prices about to soar, says Reserve Bank official

Samantha Maiden, Online Political Editor | *September 29, 2009*

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AUSTRALIA'S housing market is about to take off, the RBA says, and rising prices and interest rates could hit affordability hard.



Picture: Cameron Richardson

The RBA's Tony Richards issued the warning at the Committee for Economic Development of Australia's housing forum today, and said that the nation was still not building enough houses to keep up with levels of demand that were driven by population growth. Mr Richards also warned policymakers in Canberra that governments needed to do more to stop "undesirably strong growth" in housing prices as the economy improved. "It is looking increasingly clear that Australia has avoided the large falls in housing prices seen in some other countries over the past two years or so," he said today. "This is a good thing, because of the macroeconomic difficulties that have accompanied those price-falls in some countries. But, looking forward, the risk is that we might move towards undesirably strong growth in Australian housing prices. This raises a number of concerns." Mr Richards, who heads the RBA's economic analysis section, also repeated recent warnings that interest rates in Australia could only go up. "Mortgage rates are particularly low at present and, as the bank has noted on a number of occasions, it is not reasonable to expect that interest rates will stay at the current low levels indefinitely," he said. "When they do rise towards more normal levels, discussions on housing affordability will again focus more on the level of housing prices relative to incomes." Mr Richards said incomes had grown, with per capita real GDP 9 per cent higher on average, compared with the preceding five years. "And there are many more of us," he

said. Average annual population growth has been 340,000 over the last five years, up from 240,000 over the prior five-year period, an increase of around 40 per cent.

“Yet the number of dwellings we have built has not risen. Commencements of new housing over the past five years have averaged around 150,000 dwellings, versus around 155,000 over the previous five-year period. It would not be surprising if this was one factor that had contributed to the increase in the cost of housing over the past decade.”

While praising an increase in the supply of public housing under the Rudd government after a long decline, he said improvements were still required. “Population growth and the demand for housing are strong. Furthermore, as the recovery picks up steam, labour shortages in the building industry may again emerge,” he said. “Looking ahead, we can be fairly confident that the housing market, like other markets, will clear. The task for public policies is to help ensure that this occurs with relatively higher construction volumes and lower growth in prices, rather than vice versa.”