

Melbourne overtakes Sydney in the next leg of the housing market race



It's not only the horses that are galloping in Melbourne. There's another white-knuckle game playing out in the Victorian capital, too: the spring housing market.



Auction action: Melbourne has an unprecedented 500 auctions scheduled for the Melbourne Cup long weekend Saturday this year, Domain Group says. **Graham Tidy**



by **Michael Bleby**

It's not only the horses that are galloping in Melbourne. The spring racing carnival that kicked off with Saturday's Caulfield Cup means three weeks of horse racing, but there's another white-knuckle game playing out in the Victorian capital, too: the spring housing market.

And in the next leg of the national housing race, Melbourne is tipped to overtake Sydney.

"We had Melbourne kick ahead of Sydney about six weeks ago in terms of clearance rates," says long-term market caller Andrew Wilson, Domain Group's senior economist. "By end of this December quarter . . . we will see prices growth in Melbourne taking over from Sydney."

There's a point in every property cycle where things turn and Sydney seems to be at that point.

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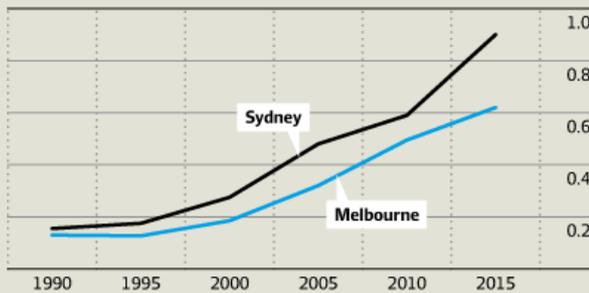


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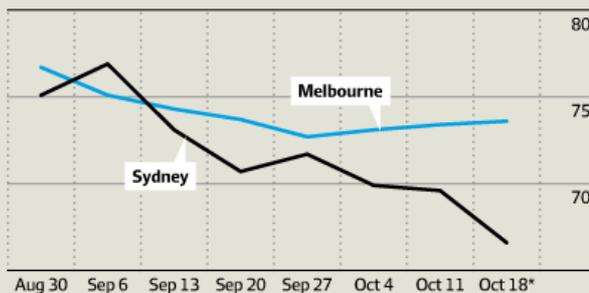
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The median house

Change in dwelling prices over 25 years, Aug 31 (\$m)



Auction clearance rates (%)



*Preliminary

SOURCE: CORELOGIC RP DATA, PROPERTY COUNCIL OF AUSTRALIA



This doesn't necessarily mean Sydney home values will fall. Macquarie Bank last week said slowing population growth and an oversupply of apartments [would prompt a 7.5 per cent fall](#) in prices nationally over the next two years. But others are more sanguine. [SQM Research](#), which predicts a Sydney slowdown, says prices will slow, rather than decline. Valuer [Propell last month called a moderation](#) in growth rates the two largest cities, but with continued growth, nonetheless.

Melbourne's outperformance was visible at the weekend, when the city posted a preliminary auction clearance rate of 73.6 per cent, well above Sydney's 66.6 per cent. Clearance rates aren't conclusive, particularly as there is no requirement for agents to report auction results. Nor, in fact, do auctions carry the same significance in each city. In Melbourne, auctions account for 35 per cent of all home sales, while in Sydney, the figure is a lower 25 per cent. Despite that, clearance rates are a rough indicator and they suggest Sydney's housing market is coming off the boil.

In Sydney's case, it comes down to two main reasons. High-level policy decisions designed to reign in the investor activity that accounts for 60 per cent of all housing purchases in the NSW capital are having an effect. And tougher lending criteria, such as maximum loan-to-value ratios of 80 per cent that require a 20 per cent deposit and higher lending costs for investors, are dampening activity.

In the investor-heavy western and south-eastern areas of Sydney, clearance rates are languishing in the mid-40s.



Edging ahead: Melbourne's spring racing season is unlikely to disturb a strong spring real estate market that will see the Victorian capital overtake Sydney for house-price growth. Getty Images

"The demand from new investors has fallen away," Wilson says.

Even if the Reserve Bank of Australia cuts the cash rate again next month, it will do little more than offset the higher rates lenders such as Westpac have already made, says Wilson, whose Domain Group is owned by Fairfax Media, publisher of *The Australian Financial Review*.

Melbourne more affordable

The other main reason is affordability. Sydney house prices have risen 52.5 per cent over the past five years – more than double the 25.3 per cent increase of Melbourne – giving the NSW capital a median \$900,000 house price and the Victorian a more affordable figure of \$620,000, according to CoreLogic RP Data.

The Sydney increase in housing prices has outstripped wages, leaving people unable to buy and looking elsewhere for alternatives – like southeast Queensland, but also Melbourne.

Paul Osborne is a Melbourne buyer's agent. He says inquiries from Sydney-based buyers – particularly investors – increased back in December, but have accelerated recently.

"In the last three months it's intensified," Osborne says.

Most of his Sydney clients are IT, banking or law professionals in their early to mid-30s who would ideally buy in inner-Sydney suburbs like Surry Hills or Redfern but are finding themselves priced out and looking to buy in Melbourne equivalents such as Fitzroy, west Melbourne and South Melbourne.

"What we've picked up is a few terraces," Osborne says. "To be able to get a terrace for \$1 million within 10 kilometres of the city – that's something that's really valuable to them."

He also takes calls from expatriates who have ties to neither NSW nor Victoria but who are looking to buy and who opt for Melbourne because it is more affordable than Sydney.

Home values rose 18.6 per cent in Sydney over the 12 months to September and in Melbourne they were up 11.5 per cent over the same period, Propell says.

The lower prices of Melbourne are also drawing a wider pool of investors than the professionals looking to spend \$1 million, Propell's head of research Linda Phillips says.

"If you want something below \$600,000 you've really got to go out to Blacktown or beyond, whereas you can still buy in the eastern and outer suburbs in Melbourne," [Phillips said last month](#).

"It's looking good value for money at the moment. If you're getting priced out of Sydney, particularly for investors, Melbourne looks equally as attractive."

Not everyone thinks Melbourne will overtake Sydney in the price-growth race. Phillips thinks prices of detached houses will rise at a 5 per cent clip in both cities over the next 12 months, while apartments in Melbourne – [hit by a glut](#) – will rise at a 2 per cent rate, compared with the 5 per cent increase that Sydney units will enjoy.

[As many as 20 per cent](#) of homes sold in the June quarter in the Melbourne CBD – where apartment supply growth has been concentrated – sold at a loss, CoreLogic RP Data figures show.

While there may be a slowdown in activity, rising population means that in the long term, both Sydney and Melbourne will need to build more homes. Melbourne, with more land available, is creating them faster than Sydney. Victoria reached [a new record of 65,235 housing starts in the year to June](#), more than the 52,346 that NSW clocked up over the same period. In the longer term, it suggests the capital is in for a period of sustained market growth with few supply bottlenecks of the sort that plague Sydney and push up prices sharply.

"Although we expect Melbourne's growth will be quite modest in coming months off the back of unusually strong spring and early summer supply, there does seem to be enough energy in the market to suggest Melbourne will replace struggling Sydney as the 'growth' capital for the next few months," says Paul Nugent, a director of Melbourne-based Wakelin Property Advisory.

In the short run, however, Melbourne is gearing up for a big run. Melburnians will briefly put their property guides down and pick up form guides as the Melbourne Cup approaches, as they did over [the AFL Grand Final earlier this month](#), but even so, they appear to be less distracted by the horses this year than in previous ones.

Melburnians have already scheduled over 500 auctions on Saturday 31 October, a "completely unprecedented" number for the long weekend that ends with the Tuesday Melbourne Cup, Domain's Wilson says. On the same weekend last year there were 132 auctions and a year earlier just 118.

And then Melbourne gets back to the race that really matters. The spring racing carnival ends with Stakes Day on Saturday, November 7. There are already 1000 auctions scheduled that day, Wilson says.



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