FINANCIAL REVIEW

Opinion

Australia on verge of house price boom: economist

History suggests that once the RBA starts cutting, property fever hits quickly. One prominent expert says a 10 to 15 per cent price rise is coming.

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Michele Bullock is almost certain to cut the cash rate to 3.85 per cent on Tuesday, and if there's one thing Australia's housing market loves, it's cheaper money.

Financial markets aren't stopping at one. They're pricing in two more cuts by December [https://www.afr.com/markets/debt-markets/market-sticks-with-rate-cut-next-week-despite-job-surge-20250514-p5lyzx] – taking the cash rate to 3.35 per cent – and another by mid-2026.

History suggests that once rates start falling, property prices don't wait around. Bank of Queensland chief economist Peter Munckton has crunched four decades of data and says a 10 to 15 per cent price rise over the next two years is a reasonable bet – no matter how many cuts Bullock ends up delivering.

Change in house prices in the two years after the start of a rate cut cycle (%)

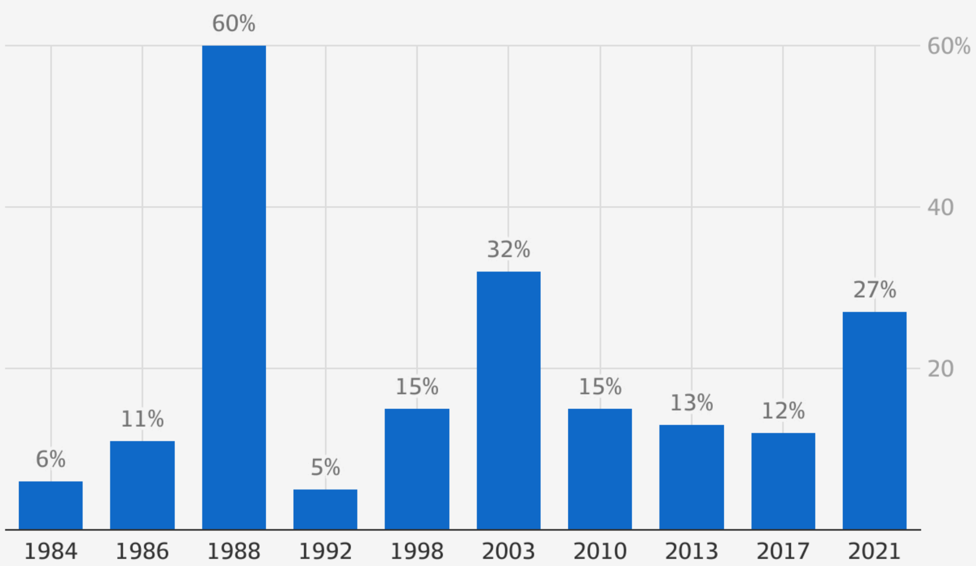

Chart: Michael Read, AFR • Source: Bank of Queensland chief economist Peter Munckton

“There were smaller price rises in both the early 1980s and 1990s. But on both those occasions, the unemployment rate was above 10 per cent. Currently, the unemployment rate is within touching distance of 50-year lows,” Munckton says.

On the flip side, Munckton says the extraordinary 20 per cent-plus gains seen in the ’80s, ’00s and during the pandemic also seem off the cards over the next couple of years.

“In the 1980s, house prices were boosted by the greater availability of credit from the deregulation of the financial sector,” he says. “In the 2000s, it was the improved affordability from lower interest rates and the boost to household income from the start of the mining boom.”

“And in 2021, it was the historically low level of interest rates, the substantial boost to households’ disposable incomes from government subsidies and the structural shift towards standalone housing caused by the shift to working from home.”

Supply pressures bite

Peter Tulip, a housing expert at the Centre for Independent Studies and former RBA boffin, says the forces pushing up house prices are stronger than those pushing them down, though he does not expect any dramatic price rises over the next couple of years.

Beyond falling interest rates, Tulip notes that rents are rising well above the rate of inflation [https://www.afr.com/policy/economy/inflation-slows-as-housing-market-cools-20250325-p5lmb3] and vacancy rates are still low.

“A tight rental market is symptomatic of demand for housing of all sorts being strong relative to the supply,” Tulip says. “We don’t have a lot of construction coming into the pipeline. Approvals and other measures of construction are relatively low.”

Just 180,000 dwellings were approved over the 12 months to March, according to the ABS.

While that is higher than the decade-low of 164,000 mid-last year, it is still well beneath the record 243,000 annual approvals recorded during the apartment construction boom in 2016 and not enough to meet the Albanese government’s goal of building 1.2 million new homes by 2029.

Number of residential dwellings approved over the prior 12 months

Chart: Michael Read, AFR • Source: Australian Bureau of Statistics

First home buyer boom?

Sticking to the time-honoured tradition of boosting demand rather than fixing supply, Prime Minister Anthony Albanese unveiled a dramatic expansion of first home buyer support [https://www.afr.com/policy/economy/albanese-offers-first-home-buyers-5pc-deposits-fuelling-demand-20250412-p5lr8u] ahead of the May 3 election.

From January 1, virtually all first home buyers will be able to enter the market with just a 5 per cent deposit, under an overhaul of the Morrison-era scheme that spares buyers from lenders mortgage insurance via a taxpayer-backed guarantee.

Albanese has promised to turbocharge the program by scrapping the $125,000 income cap, making it available to an unlimited number of applicants instead of just 35,000 per year, and dramatically raising property price thresholds.

A separate promise to build 100,000 new homes was also made – but that extra supply could take years to arrive, if it arrives at all.

Economists universally agree the dramatic expansion of the 5 per cent deposit program will raise house prices – the question is by how much.

Analysts who predict the effect will be modest say most of the applicants that take advantage of the expanded scheme probably would have bought a house anyway.

Tulip says the effect of the policy on price growth would be in the “low single digits”. But he predicts the effect may be more evident in areas where first home buyers tend to buy, such as on the outskirts of big cities.

Economists who think the price response will be large say the lure of a 5 per cent deposit could encourage first home buyers to borrow more than they otherwise would.

What we know for sure is the expanded scheme will be popular. About one in three first home buyers in 2023-24 accessed the guarantee, according to Housing Australia, and that was with income limits and program caps in place.

Where to watch

With more buyers set to flood in and not enough homes to meet them, the next question is where the pressure will hit hardest.

Since 2020, house prices have grown by 60 per cent – double the rate of apartments – as the rapid shift to orking from home boosted demand for larger standalone residences with spare rooms.

Australia-wide standalone house prices relative to units

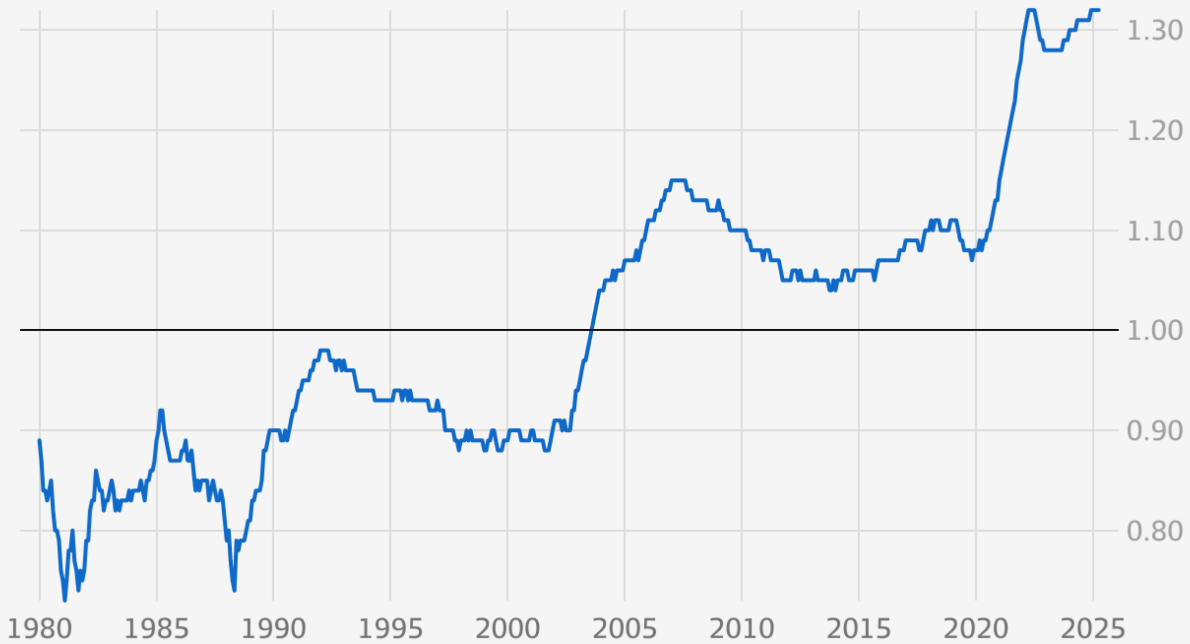

Chart: Michael Read, AFR • Source: Bank of Queensland chief economist Peter Munckton

But with houses now about 30 per cent more expensive than units, Munckton thinks it is unlikely the price of standalone homes can sustainably outperform apartments and townhouses, short of a large decline in interest rates or a big jump in household disposable incomes.

Affordability constraints mean capital cities could once again outperform regions. Since the pandemic, regional prices have soared 74 per cent, outstripping capital cities, where values rose 44 per cent.

The strong growth means capital city property prices have gone from being about 60 per cent more expensive than the regions to just 35 per cent – close to a 15-year low.

Australia-wide capital city dwelling prices relative to the regions

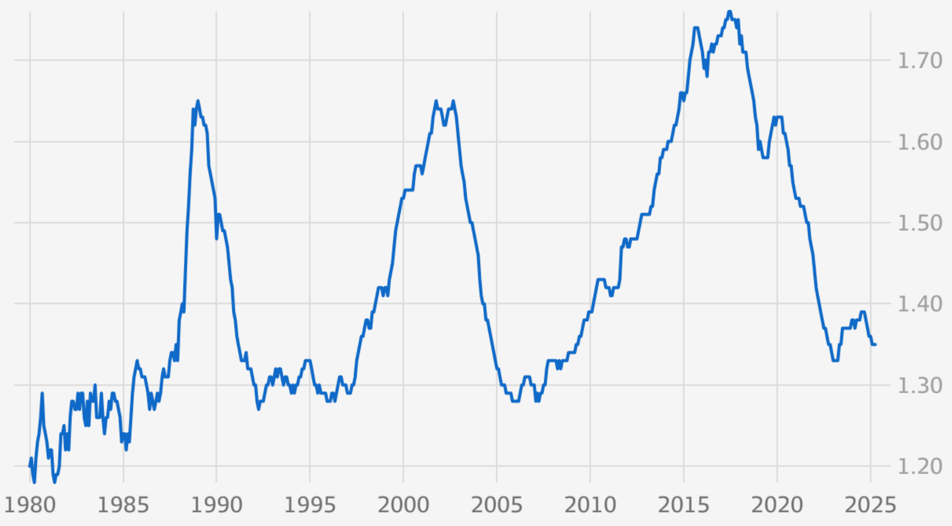

Chart: Bank of Queensland chief economist Peter Munckton • Source: Michael Read, AFR

Munckton expects growth over the next couple of years to be strongest in Hobart, Darwin, Melbourne and Canberra – the cities where values are historically low compared to their long-run relationship with Sydney house prices.

Rate cuts are coming, demand is rising, and supply is lagging – in other words, the more things change, the more Australia's housing market stays the same.

Leading Indicators is a regular column on trends in the Australian economy.

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