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Further rate rises to test the Sydney residential market

Sydney, NSW (17 February 2010)

Interest rate rises are yet to have any tangible effect on the Sydney housing market, with sales activity continuing to strengthen - particularly in the city's western suburbs mortgage belt - according to a new MarketView report from CB Richard Ellis.

However, further rises are likely to test the market as 2010 progresses, with NSW particularly susceptible to rate changes due to the state's high median house price.

CBRE Associate Director, Global Research and Consulting, Craig Godber said the residential market had ended the year very strongly in 2009 and this had flowed through into 2010.

However, the outlook for the market was mixed given forecasts that the official cash rate would return to between 5% and 5.75% by the end of 2010.

"With the Federal Government's First Home Owner's Grant having returned to its pre-boost levels and three consecutive interest rate rises in the December quarter, conditions have been set for a mixed and challenging 2010 for the residential sector," Mr Godber said.

While further rate rises are likely to test the market, CBRE Senior Director of Residential Mortgage Valuations in NSW, Ted Hoskin, said the undersupply of housing in NSW was likely to put continued upward pressure on both house prices and rental levels in the short term.

"Population growth is forecast to continue at relatively strong levels in the short to medium term and this is likely to intensify the competition among investors and tenants and put continued pressure on both prices and rents," Mr Hoskin said.

While first home buyers appeared to be leaving the market, Mr Hoskin said the slack had been picked up to some degree by investors, particularly in the medium price range.

"The 50% stamp duty cut for newly built homes worth less than \$600,000 has been extended to June 20, 2010 and this is likely to help sustain investment demand in the first half of 2010," Mr Hoskin said.

The MarketView report highlights that sales volumes for both houses and units increased significantly in Sydney during 2009. Interestingly, for the first time in a decade the annual sales volume for units (46,917 sales) exceeded that of houses (45,832 sales). The unit sales tally was 25.6% above the 2008 figure and represented the highest sales volume since 2003.

On a national basis, Sydney was by far the most active capital city market for unit transactions - accounting for 33% of all sales. In the housing sector, Sydney was the second most active market behind Melbourne, accounting for 13% of all sales nationally.

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