Victoria's housing shake-up risks dampening property price growth

Nila Sweeney *Reporter*

Sep 21, 2023 – 11.21am

Listen to this article
4 min

Victoria's plan to build 800,000 new homes over the next 10 years has the potential to flood some areas with housing supply that could dampen capital gains and investment returns over the long term, property experts say.

Geoff White, Melbourne-based real estate agent and branch manager of Barry Plant Yarra's Edge Docklands, said the housing target has the potential to alter the market dynamics in those areas where new supply will be built.

Capital gains and investment returns could face downward pressure as a result of the Victorian government's 800,000 housing target over the next 10 years.

"If supply is increased and the corresponding demand hasn't risen to the same level, the impact generally would be to see stabilisation in prices or price falls if there's a flood of new homes in an area," he said.

"So it could impact the market to that extent, but we don't know exactly where all these new properties are going to be built. But in theory, more supply and not corresponding demand will mean prices will be levelling off indefinitely."

The housing package [https://www.afr.com/property/residential/victoria-points-in-right-housing-direction-20230920-p5e66p] announced by Premier Daniel Andrews on Wednesday aims to build 800,000 new homes – 80,000 a year across the next 10 years and 2.24 million additional homes by 2051. There are 30 measures [https://www.afr.com/property/residential/airbnb-levy-and-no-permit-granny-flats-vic-housing-plan-explained-20230920-p5e67q] including the country's first statewide 7.5 per cent levy on short-stay rentals such as Airbnb and Stayz.

Victoria's new housing supply would help improve affordability for buyers and renters, but it would have the potential to dampen capital gains and investment returns for landlords, said Tim Lawless, CoreLogic research director.

"It's fair to say that supply is a good thing as it helps to keep a lid on house prices, which, I think, is positive for social good, but it probably will mean that upward pressure on prices will be more subdued if we're to see such a significant supply response over the next 10 years," he said, adding investors "banking on an undersupply" might be disappointed.

Mr Lawless predicted density would increase near public transport routes, in inner-city areas and in new suburbs.

Melbourne lagging recovery

The Melbourne housing market has further lagged the housing recovery, with prices increasing just 1.6 per cent in the past three months, just half of Sydney's 3.8 per cent gain.

Melbourne also underperformed during the recent boom where prices increased by just 10.7 per cent, compared with Sydney's 24.5 per cent growth and the national price increase of 26.2 per cent.

Inner-city apartment investors could be particularly vulnerable to new supply injections, Mr Lawless said.

"It only takes two or three high-rise developments going in at the same time to introduce a couple of thousands in dwellings into a precinct," he said.

The prospect of lower investment returns could further dissuade investors [https://www.afr.com/property/residential/worse-than-rate-rises-investors-selling-to-avoid-andrews-rent-plan-20230724-p5dqtk] from moving into the Melbourne market, which could create "a bit of a vicious cycle".

"If we do see less investment interests, then it makes it much harder for developers to achieve their pre-sales targets," Mr Lawless said.

Doubts on targets

But Miriam Sandkuhler, chief executive of Melbourne-based buyer's agency Property Mavens, said the potential for oversupply was highly unlikely in the short to medium term.

"With a history of not delivering adequate social or community housing over the last two decades, it's fair to assume the target is unlikely to be achieved," she said.

Cate Bakos, buyer's agent with Cate Bakos property said the bigger threat in the near term was the rapidly declining number of private investors.

"No amount of social housing and new builds will soak up the deficit of already existing private housing," she said.

"Our government is looking at all of this so wrong. Instead of adding new supply, they should be looking at how they can retain existing supply."

Jeremy Sheppard, research director at DSRdata said fiddling a free market often came with unintended consequences.

"Supply and demand usually rectify all by themselves in about five years – assuming governments don't muck with it," he said.

"Incentives to immediately bring developers and investors into the market could bring about a faster solution."

RELATED

Planning rules holding up affordable housing supply, industry says

https://www.afr.com/property/residential/planning-rules-holding-up-affordable-housing-supply-industry-says-20230911-p5e3nx

RELATED

Andrews seizes planning powers to build 2m homes

https://www.afr.com/property/residential/andrews-seizes-planning-powers-to-build-2m-new-homes-20230920-p5e67x

Nila Sweeney writes on property from our Sydney newsroom. *Email Nila at nila.sweeney@afr.com.au*