

SMART MONEY

WHY PROPERTY IS READY TO TURN

Much evidence suggests the heat at the bottom end of the market is spreading upwards, writes **Robert Harley**.

Australia's housing investors – more than 1 million of them – could be forgiven for feeling confused. One end of the market is going up and the other is going down.

Melbourne property adviser Monique Wakelin has never seen it so fragmented.

At the bottom of the market, the first-home owners boost and low mortgage rates have created an urgent surge in demand. Well over 60,000 buyers have taken up the grant since October and prices have jumped in many first-home buyer suburbs. In the bottom 10 per cent of the Sydney market, where the median is just \$250,000, prices rose more than 5 per cent in the year to March. RP Data reports.

No such fiscal stimulus applies at the top of the market, or in weekend retreat locations along the coast and through the hinterlands. Here the global financial crisis is biting hard. Wealth and incomes have

collapsed and the easy money that fuelled big price rises in 2007 has evaporated.

In Melbourne, the median value of the top 10 per cent of sales dropped more than 19 per cent in the year to March. RP Data reports.

And in the middle? Well, it depends a bit on the day. Rismark International managing director Christopher Joyo says prices in 80 per cent of Australia's suburbs have risen this year.

The question now is whether the housing pot will chill from the top or warm from the bottom.

Morgan Stanley economist Gerard Minack predicts further price falls. Minack, one of the first to tip the price collapse in luxury markets like Palm Beach, remains convinced that general prices will ultimately fall 20 to 30 per cent from their peak, driven down by the "reduced willingness and ability of households to leverage up" to buy housing.

The first test will come with the end of the first-home owners boost, now being tapered down to end on

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Macquarie Research

From previous page significant factor is that prices did not fall – even while unemployment rose.

Similar signs are emerging today. Affordability has jumped dramatically and mortgage stress has fallen. Auction clearance rates are higher (sure, that can be a sign of prices falling) and lending for housing is up. (Yes, this evidence is also mixed; lending to second-home and investment

buyers fell sharply in the year to March.)

But Macquarie Research. In a recent note to the group's private wealth clients, has no doubts.

"Housing has always been the sector that led Australia out of past recessions, with the trigger being large falls in mortgage rates. This time, it appears no different," it says.

"With clear signs of housing finance, house auction clearance

rates and dwelling approvals starting to recover, it appears that the housing cycle is recovering."

The Westpac-Melbourne Institute consumer confidence index for May found that more than 65 per cent of consumers expect house prices to stabilise or rise in the next 12 months.

The latest price numbers released on Friday by RP Data and Rismark International are unequivocal. Prices are certainly

December 31. Sales activity will undoubtedly pause at the time. But for Minack the bigger catalyst will be "broad-based job losses".

House prices in the United States and United Kingdom have already fallen more than 20 per cent. But what happens in Phoenix and Birmingham does not necessarily follow in Brisbane. Australia does not have the housing oversupply of the US and its banks, despite some recent tightening of lending standards, remain strong. Unlike their crippled counterparts in the

UK, they have been able to respond to the Reserve Bank's initiatives, cutting mortgage rates to record lows.

Those low mortgage rates are the key. Mortgage rates always fall in recessions, and in the early 1980s and early 1990s recessions, those new low rates were the stimulus for a big jump in housing activity.

The emphasis is on activity. New house building jumped while prices did not rise very much. The Continued next page

not falling. In the first four months of the year, the national home value index rose 2.8 per cent, with the Sydney number up 3.9 per cent and Melbourne up 4.5 per cent.

Long-time housing analyst Robert Mellor, managing director of BIS Shrapnel, is confident prices will level out this year, with slight price growth of just a per cent or two, led by Sydney, in 2009-10.

"It was critical for the market to see some stability and we have

seen that with the exception of the top end," he says. "With the first-home owners boost continuing, we have a longer time to create interest in the market (and) more time for upgraders to make a move, and I think that gives investors more time to feel comfortable about the market."

Which means the housing pot will warm, not chill. "Eventually, the optimists will overwhelm the pessimists," Mellor says.

