Still as safe as houses

A property crash is unlikely, writes **Anthony Keane**

PEOPLE who say our house prices will crash because they are more expensive than overseas may be waiting a very long time – it has been this way for six decades.

The latest Credit Suisse Global Yearbook says Australian housing, adjusted for inflation, has been stronger than nations such as Britain, the US and France since the migration boom in the 1950s. US house prices have had the weakest long-term growth, it says.

Economists say there are factors reinforcing our real estate that make a crash unlikely.

AMP Capital chief economist Shane Oliver says the US had both a price bubble and a building bubble before its recent crash, while Australia only had a price boom and it is estimated we still have a housing shortfall of 200,000 homes.

"Some people seem to be expecting a crash. The reason I don't think this will happen is because we have relatively strong population growth compared with other countries," Oliver says, adding that some blame negative gearing for our high house prices "but I think that's nonsense".

"In America you can write off the interest bill on your family home – you can't do that here," he says.

Oliver expects Australian house prices to pick up in spring and then grow in line with inflation for several years.

HSBC's chief economist for Australia and New Zealand, Paul Bloxham, says Aussie home prices are high by global comparisons but for good reasons – an undersupply of homes and an urban structure with most people living in big cities with few apartments.

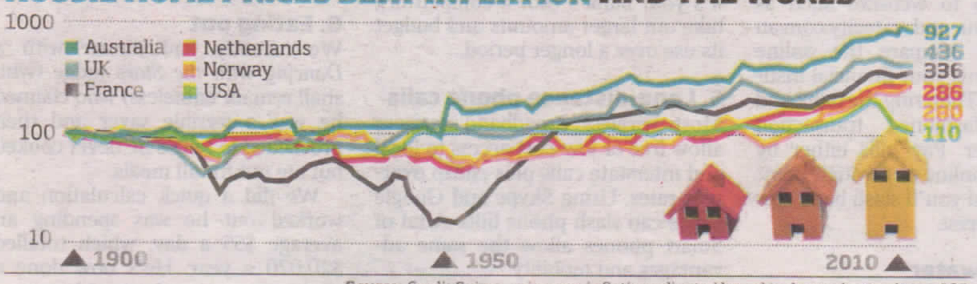
"If there was a risk, you would see house prices fall dramatically – you already would have seen it happen," Bloxham says.

"While you have seen house prices come down in the past 18 months, you haven't seen home loan arrears rise very much. If people have jobs and incomes, they can continue to repay mortgages."

Parker Asset Management portfolio manager Tim Riordan says high-end house prices have essentially crashed already, but our overall market has been sheltered by low unemployment and Asian growth.

"Should Asia – read China – stumble economically, it would be feasible to imagine that our unemployment may hit 10 per cent as it has done in other developed countries, which adds to default rates on home loans and ultimately house prices would suffer," he says.

AUSSIE HOME PRICES BEAT INFLATION AND THE WORLD



Source: Credit Suisse, prices are inflation adjusted based on log scale starting at 100

House prices to languish for years

Jeff Whalley

VICTORIAN house owners are being told to brace for a grim three years of property prices mired in one of the slowest growth rates in the nation.

Melbourne's median house prices dropped 5 per cent during this financial year. The June median will come in at $540,000.

As New South Wales and resource-rich Western Australia and Queensland show signs of recovery, Melbourne will languish, BIS Shrapnel's Residential Property Prospects 2012-2015 report says.

The finger of blame is being pointed at a flood of new construction teamed with Victoria's poorly performing Victorian economy.

"There will be little to support price growth in the city over the next three years and conditions will remain tough," BIS Shrapnel's Angie Zigomanis said. The report says median house price growth in Melbourne will crawl up by a total 3 per cent by 2015.

"After inflation, prices are forecast to actually fall by 6 per cent in real terms," he said.

BusinessDaily starts Page 44