

Blowing bubbles

Experts are loath to use the B-word to describe the action-packed property market, writes Karina Barrymore

BOOM, price surge, recovery, strong market, call it anything you like, just don't call it a housing bubble — not yet, anyway.

But one thing is sure, there's plenty of action in the property market and for some buyers it could be a case of getting in before prices rise even higher.

Yes, residential property prices are rising. Yes, households are willing to carry high debt levels and, yes, property prices are historically expensive.

But that's where the similarity between a bubble and the current market increases end.

According to the experts, most property markets are just in a typical bull-market phase, before an expected return to more modest price growth.

However, if you are a keen investor or want to get a first foothold in the market, now may be your best chance for a while. Bubble or just hot air, prices are heading up and are unlikely to fall.

"Next year house prices will go up a fairly solid rate — we're looking at about 5 to 10 per cent over the year ahead but after that price increases will settle back down to more modest gains," AMP chief economist Shane Oliver says. Investment bank UBS is of a similar mind, lifting its residential price rise forecast to 10 per cent this year and another 5 per cent next year.

For would-be first home buyers, a 10 per cent increase could mean scraping together an extra \$4000 to \$7000 to meet the deposit requirements just to buy the same type of house.

For investors, it will mean jacking up the rental income by at least half that amount each year just to achieve the same return.

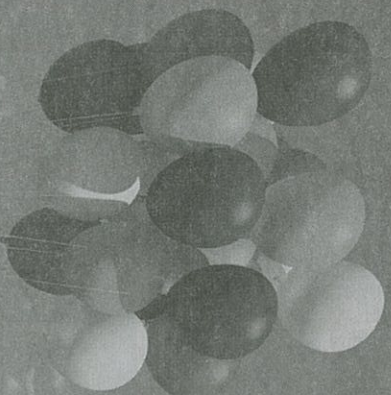
Either way — owner-occupier or investor — a 10 per cent jump, followed by another 5 per cent will mean an extra big mortgage burden, regardless of current low interest rates, compared with prices today.

According to Dr Oliver, house prices are already expensive in most markets, with the average cost now equal to six times annual net household income.

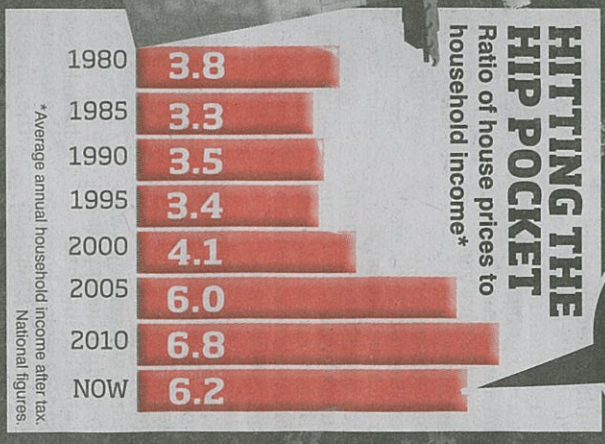
This compares with a traditional level of house prices at three times after-tax household income. But he says that doesn't mean the market is in a bubble.

"Yes, house prices are overvalued and prices are still rising but they are not rising at bubble pace," Dr Oliver says.

"In cities like Melbourne and Sydney, auction clearance rates are high but then we still don't have a high number of transactions. The volumes are still a bit low and nowhere near boom-time



TAKING OFF
How the numbers stack up in the house-price debate



The typical house costs 6.2 times the average household income in Australia



Sources: RP Data, AMP Capital Investors, ABS

Anyone talking of a bubble now is taking rubbish, they're delusional

DAVID MORRELL, director of buyers advocacy firm Morrell and Koren

Wholesale managing director Charlie Attkin says there is a fair degree of "fear of missing out" going on around the nation.

With cash deposits sitting at a record \$560 billion, investors and savers are starting to realise the pain from low interest rates.

This money is expected to come roaring out of term deposits and low-interest accounts in the year ahead and rolled in to higher risk assets.

"There is no country in the world where the man in the street gets greater POMO (fear of missing out) than Australia," Mr Attkin says.

"Keeping up with the Joneses is a national pastime and as it gets more and more reported in the mainstream press that risk asset prices are rising, the rotation from cash will become self-sustaining," Mr Attkin says. "We have seen the infancy of this great rotation from

cash starting, in the performance of high-income shares and rising residential auction clearance rates.

"However, analysis of total term deposit holdings and household savings rates suggests that rotation so far has been a 'trickle'.

"I believe in spring you are going to see all the anecdotal and hard data evidence of a genuine residential property boom being underway in east coast Australia.

"The supply-demand, funding and employment settings are right. The missing piece has been confidence."

HE election result is expected to be the main trigger for a surge in confidence, with the key to the outcome being a decisive result for one party and not a minority government.

David Morrell, director of buyers advocacy firm Morrell and Koren, also says the election is holding back momentum.

"Talk of a bubble pre-election is rubbish. Everyone is clearly cooling their jets at the moment. There are no runaway results or evidence of a bubble," Mr Morrell says.

"Most vendors, or would-be vendors, are waiting for the election to get some direction. And in my view there will be a window of confidence post-election but how long that's going to last is not known.

"However, we have seen evidence of investors and self-managed super funds shying away from equities and that's likely to cause a stir in the property markets.

"Obviously, if you're buying as an investor out of a super fund then you've got a bit more fire power than a young couple gearing themselves up. But anyone talking of a bubble now is

taking rubbish, they're delusional,"

Lisa Montgomery, chief executive of mortgage broker Rezi, is on the front line of the housing market and sees activity heating up.

But she believes these price rises are sustainable and not a bubble in danger of bursting.

"Recent activity suggests that we are on the edge of a residential property boom in some Australian markets. This is being supported by low interest rates and fuelled by investors and upgraders," Ms Montgomery says.

"In recent months we have seen properties selling for 10 to 20 per cent higher than expectation in Sydney and Melbourne and in some cases even more. This is because at the beginning of this financial year stock was low.

"As spring approaches, and more supply enters the market, there will be less competition for single properties and we should see prices even-out to a large degree."

Real Estate Institute of Australia president Peter Bushby also believes rising

prices do not point to a price bubble. "It's important to distinguish between a recovering housing market and an overheated market which is a precursor to a bubble," Mr Bushby says.

"Yes, some markets are performing well but this growth is not by any means Australia-wide.

"Hot spots like inner Sydney and Melbourne tell one type of story but try asking someone in Hobart if there's a property bubble — they'd laugh you out of the room."

Ganneron Kuser, a senior analyst at research house RP Data, agrees and questions if Australia has ever had a real property bubble.

"You can't say we are entering a housing bubble when home values are still below their previous peak," Mr Kuser says.

"I would describe a bubble as a 'phenomenon' in which home values become overvalued and ultimately burst.

"Outside of select coastal markets, it's difficult to say this has really occurred elsewhere in Australia over the recent past."