

Expert claims property market not oversupplied, but employment to keep prices steady

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The Australian housing market is not experiencing a shortage and rising interest rates will keep a lid on any further price growth, one property expert has warned.

The comments come as this week's auctions results have showed the market is still recording fairly underwhelming results, with clearance rates at levels consistent with the past few months.

Institute of Actuaries Australia fellow Anthony Street says that while properties are overvalued, this is not because of a property shortage, as some experts have suggested. Rather, it is because of higher interest rates. "Right now the amount of people per dwelling on average is 2.5. So if you look at the population growth over the past 12 months, it's been at 350,000. For that you need 140,000 new dwellings, and there have been over 170,000 new dwellings started," he says. "This argument was started 18 months ago during when immigration really peaked, so you did have a short window of time when population growth was high and sort of outstripped supply."

Street believes the market right now is at an equilibrium – with the supply of properties neither too much or too little. "That having been said, I don't think there's an oversupply either. But you're not getting the massive pressure on rents than if there was."

This is the same opinion forwarded by SQM Research managing director Louis Christopher, who argues the sheer amount of stock on the market means while there may be shortages in some areas, this is not the overall trend.

So what is keeping Australian housing prices so high?

"It comes down to two things – interest rates and unemployment. We've had pretty low interest rates for the past 10 years, and banks are more willing to lend money to people to buy houses." "Look at the amount of debt households have now, it's obvious credit has been flowing. And also unemployment is historically low, and continues to fall. Everyone who wants a job, has a job, and can continue to pay more."

And yet, the housing market has basically been stopped in its tracks over the past year. Prices have remained flat, or fallen according to various research groups, and households – especially first home buyers – are finding it harder and harder to make their repayments.

"We've already seen it over the last 12 months – interest rates are around average, but the slowdown in the past six months has been due to increases in interest rates. And they aren't massive by any means." However, Street says that as unemployment continues to fall, buyers will continue to meet repayments, and the ongoing demand for housing will keep prices in line, or at least buffer any major reductions. "House prices are at a peak right now from an affordability perspective, because people haven't been able to withstand higher interest rates. Any more will keep a lid on price growth."

Meanwhile, the auctions market has performed in-line with the last few months of results, except in Sydney where clearance rates have increased to 60%.

According to the Real Estate Institute of Victoria, the clearance rate for Melbourne was 56% from 518 reported auctions. Chief executive Enzo Raimondo said in a statement the result shows "conditions have clearly shifted in buyers favour again".

Meanwhile, clearance results in Sydney rose to 60.1%, while Adelaide and Brisbane both recorded 36.4% and 20.8% respectively.

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