



Australian Dwelling Prices: Going for Growth in 2012

January 2012

Looking back

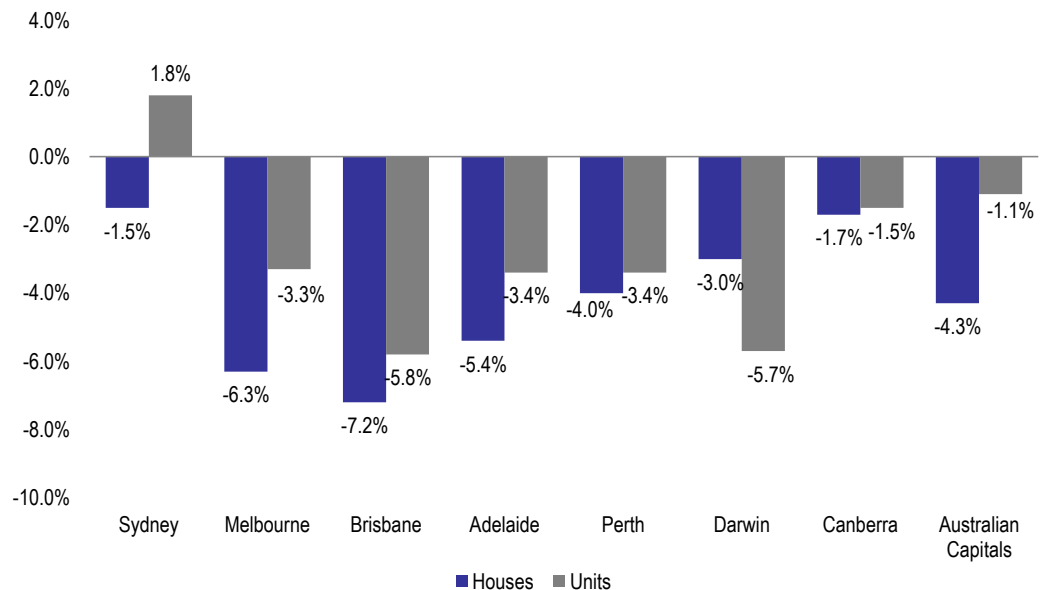
Another year has passed with portents of doom and gloom regarding residential property prices yet again proving incorrect.

The latest information available for 2011 – RP Data-Rismark’s seasonally adjusted hedonic price series for November last year – shows that median dwelling prices returned to growth. Price gains, albeit extremely modest ones, were posted for capital city home values (up by 0.1 per cent) and for regional home prices (up by 0.3 per cent) in the month. While one data point a trend does not make, it does represent the first increase in dwelling prices since December 2010.

As the November 2011 result follows a period of controlled price moderation that has been in place since the middle-part of 2010, it provides some hope that the worst of the residential property market slump may now be behind us. Over the year to November 2011 house prices in the capital cities declined by 4.3 per cent (year on year) and unit prices in the capital cities fell by 1.1 per cent.

Change in home values - year on year, November 2011

Source: RP Data, Rismark International



Similarly, national 'rest of state' house values fell by 2.5 per cent in the year to November 2011.

There was, predictably, no crash

Whichever way you slice and dice these outcomes, they are certainly not the bloodbath predicted with monotonous regularity by some commentators last year, following similar levels of bleating over many years before that.

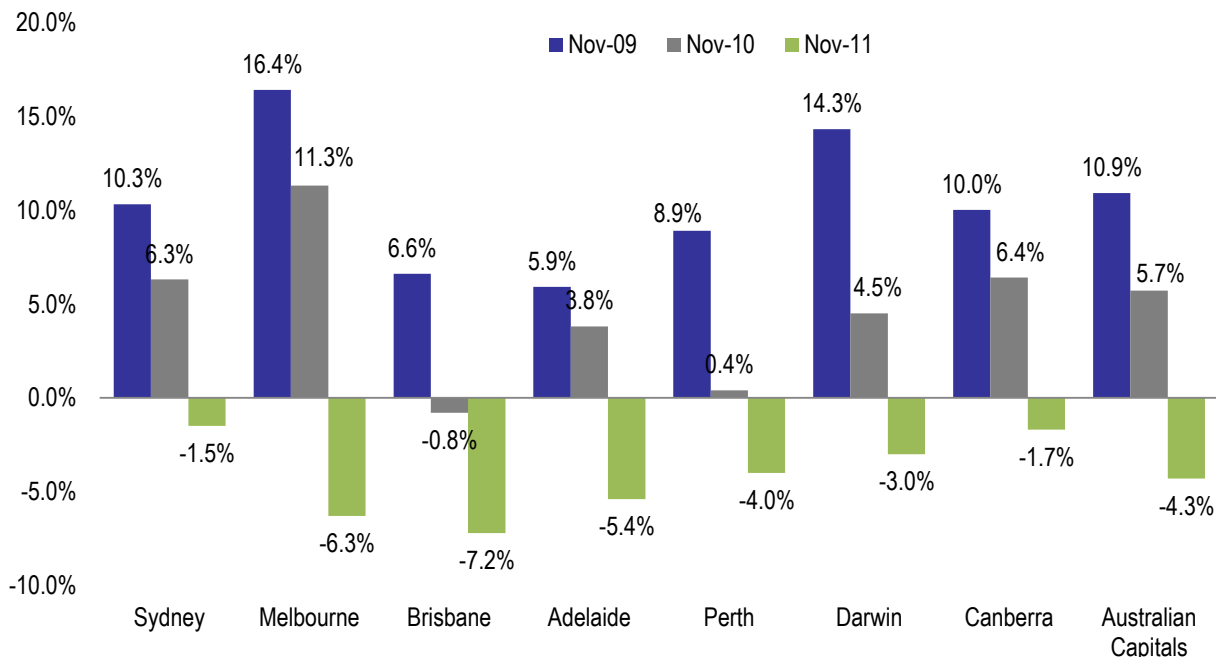
There are some important points to keep in mind when considering the softening (as opposed to crash) in prices which occurred over much of 2011:



- such a result was not unexpected in an environment of tightening interest rates, yacking by the RBA that more rate hikes were likely, the removal of fiscal stimulus, wide-spread concern over the carbon tax, the perceived instability of the Federal Government, increasing volatility in the world economy, and increasingly cautious consumers in the post-GFC environment;
- considering these factors the result was reasonable and, as we have already pointed out, considerably better than the predictions of many property doomsayers. In fact, the dwelling price outcomes in the face of such a tough period demonstrates the resilience of the Australian residential property market when compared with the sector in many other open-market economies;
- the results were mixed across the states and territories, and across regions, so we should be careful to not generalise too much. At present, dwelling prices are rising, steady, falling, and dropping quite sharply, depending on the local geographical market and dwelling type observed. There are certainly markets that have felt considerable pain from falling prices, such as the Gold Coast for example, but this has been the exception not the rule; and
- the softening in prices in the year to November 2011 is in stark contrast to the trend evident over the preceding year. According to RP Data-Rismark, capital city house values were up by 5.7 per cent, and units by 6.8 per cent, year on year as of November 2010. Furthermore, price growth in the year before that was even larger – a sizeable 10.9 per cent for capital city housing in the year to November 2009. Meanwhile, national rest of state house values were up by 2.8 per cent over the year to November 2010, and up by 6.4 per cent over the year to November 2009.

Change in home values - year on year

Source: RP Data, Rismark International



Prospects for 2012

The good news is that with back-to-back rate cuts in November and December 2011 there is every chance we may see a return to dwelling price growth at some stage in 2012. Of course, the variation across regions will continue to be marked – and what happens in Europe will matter – developments there have the prospect of being a game changer. The reality is that nobody can predict exactly how the European debt and deficit fiasco will pan out – there are simply too many variables.

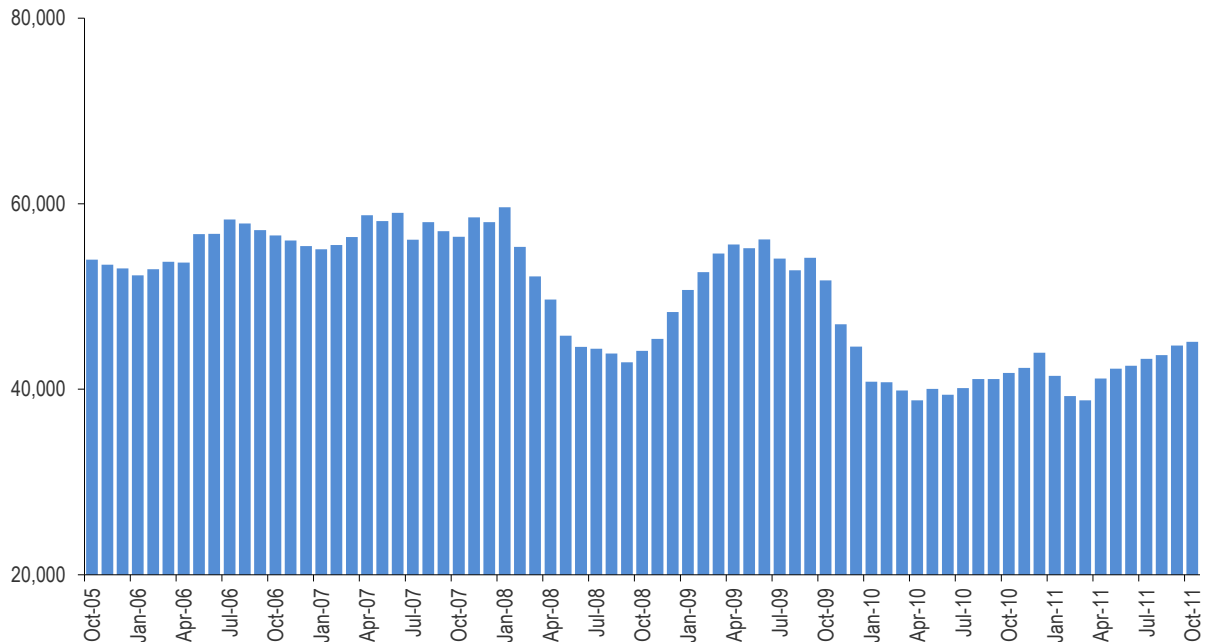
In our last note on dwelling prices (August 2011), at a time when the Reserve Bank had just come within a whisker of raising interest rates, HIA outlined its long-held view for a flat to modest downward trajectory in dwelling prices and noted that based on fundamentals Australian dwelling values in aggregate were unlikely to decline by any more than 5 per cent. Since our August note, we've seen a negligible softening in prices in August, September and October, followed by the modest improvement in November.

In light of the two interest rate cuts, and the potential for more cuts in the pipeline, HIA believes that there is now the prospect of a return to house price growth at some stage in 2012. The favourable movement in interest rates combines with other factors that ensure the Australian housing market is underpinned by strong fundamentals:

- Australia possesses a large housing shortage, despite ill-informed claims to the contrary. HIA's *Housing to 2020* report estimates that the national dwelling shortage stood at 229,500 dwellings as at June 2011, a figure broadly in-line with research by a large number of institutions;
- Australian borrowers remain highly able to meet home-loan repayments and consumers have been saving at high rates (up to around 10 per cent of their income compared to negative 2 per cent of their income prior to the GFC). This means that many potential home buyers would now have access to considerable savings which could be used as a home deposit should they wish;
- Despite difficulties posed by the multi-speed economy, Australia has a healthy mining sector and business investment will remain an important driver of growth. With these factors underpinning the economy we will likely retain a relatively healthy labour market and continued earnings growth;
- Although new home lending has been disappointing, lending for existing properties has been trending upwards which augers well for buyer activity over the next nine or so months; and

Purchase of Established Dwellings - Number of Monthly Loans

Source: ABS Housing Finance

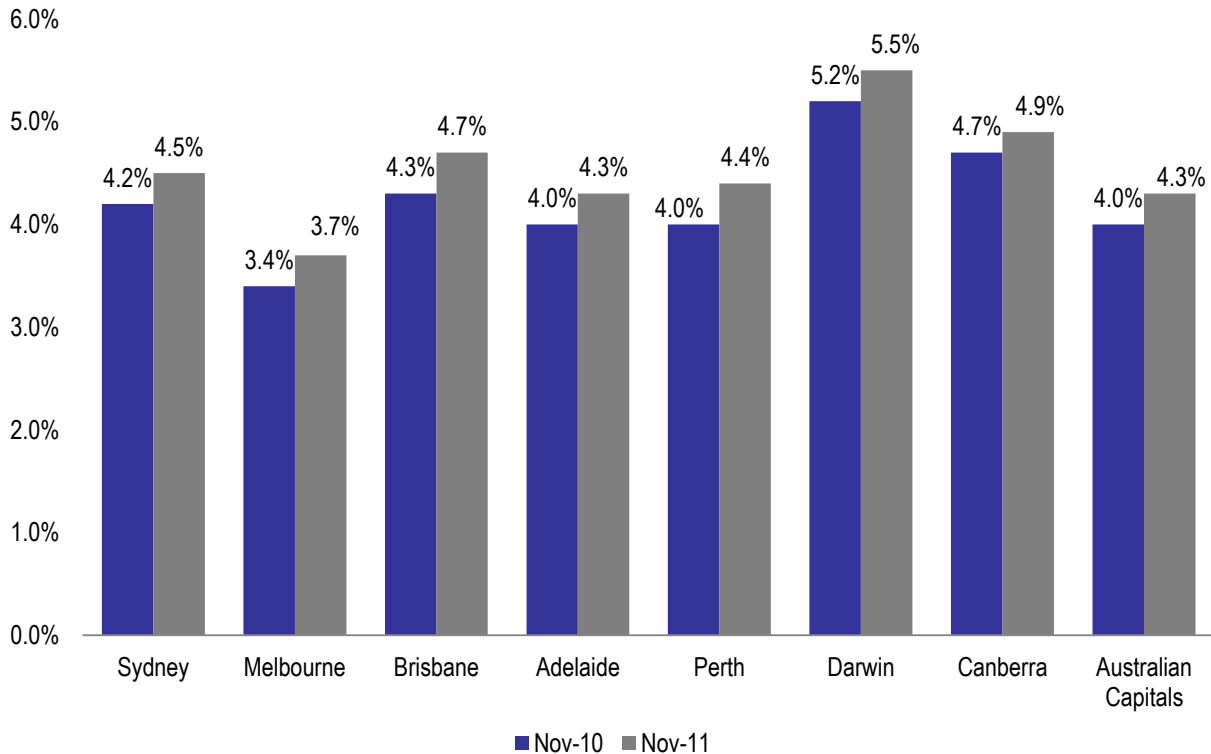


- Vacancy rates remain low in all the capital cities, with Perth, Canberra, Darwin and Sydney incredibly tight, causing the growth in rents to outstrip general inflation. Accordingly, rental yields continue to grow and with interest rates on the way down this means that the attractiveness of purchasing a property, either to get out of the rental market, or as an investment, is on the rise.

The bottom line is that a lack of rental properties, cheaper borrowing costs and relatively healthy employment levels are likely to combine to push up housing demand, rents and dwelling prices in 2012.

Rental yields - houses

Source: RP Data, Rismark International



Of course, the fact that we have had even a moderate softening in dwelling prices provides a catalyst for the property “doomsayers” to chase headlines of an imminent housing crash with renewed zeal. The collapse of the housing market in the United States, and in some other developed economies, is often cited as evidence that the Australian housing market will follow the same path. However, these viewpoints ignore a host of important differences between the Australian housing market and those markets overseas, as HIA has outlined before.

The differences include, for example, that: Australian mortgages are “full recourse”; Australian banks have maintained very tight lending standards; mortgage arrears remain low in Australia; more than 70 per cent of Australian households are owner occupiers (roughly half of whom own their home outright); and the list goes on. The dissimilarities between the Australian housing market and many overseas markets have been discussed at length in the past, simply cannot be ignored in any rational analysis of the Australian market, and mean that we should not be tarred with the same brush.

Few issues seem to elicit more emotive responses than do dwelling prices and their likely trajectory. And the current divide between those analysts that think the Australian housing market is in prime health and those predicting a collapse is wide and the debate vigorous. The reality is that the recent softening in dwelling prices was simply a mild correction and explained by the economic and political factors that have been at work.

Although the rapid dwelling price growth experienced over the last decade is unlikely to be repeated, it is simply not the case that we are standing on the abyss of a looming housing market crash. Those that continue to peddle the story of an imminent crash in home prices should take the time to reflect on Australia’s inherently sound housing market fundamentals, and the differences between Australian and overseas housing markets (as outlined above). And despite the fact that the doomsayers’ careers seemingly revolve around achieving sensationalist headlines they should at least think about avoiding exaggeration at a time of some fragility in global economic confidence.

Finally we note, as we have in the past, that Australia does not exist in a policy vacuum – we have ample room to move on both monetary and fiscal policy should it be needed. Indeed, the RBA understands that we need to tap into this policy capacity now – and hopefully the Federal Government will soon be on board also.

On balance, the HIA Economics Group's view is that there is now a decent prospect of a return to dwelling price growth at some stage in 2012. Barring a complete melt-down in Europe, as interest rates retreat further prospective investors are likely to increasingly favour housing over term-deposits or shaky equity markets. Meanwhile, as the cost of repayments start to align more closely with rent payments, current tenants are also likely to look at making the leap into home-ownership.