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Market of contrasts

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Thursday, 26 February 2009 | Ainslie Chandler

The residential real estate market may seem mired in misery but property specialists say now could be the right time to buy for those investing for the long haul.

Low interest rates, lower dwelling prices and fewer buyers in the market mean buying conditions are the best they have been for some time, RP Data research director Tim Lawless says.

"I really think there are some good buying opportunities," he says. "In the grander scheme of things, even though we do expect property

values to go backwards modestly during the first half of the year, you've got to keep in mind that that's only 1 or 2 per cent.

"And when you are holding a property on average for at least five years, that really pales into insignificance. So the buying conditions now probably are some of the best the market has seen."

Investors getting into the market should be looking to hold their assets for several years, Knight Frank national research director Matt Whitby says. "If you can hold on and your horizon for returns is five to 10 years, then buying now is a good time," he says.

"If you're a short-term horizon buyer, then it's probably not a good time. But the long-term players, for people with equity, there's going to be some real opportunities."

Nationally, dwelling values softened by 1.1 per cent during the December quarter and 2.6 per cent for the whole of last year, the RP Data-Rismark International's national property indices report says. And they are expected to fall further in 2009.

Housing construction levels are also down, despite the federal and state governments' higher incentives for first-home buyers building new homes and interest rates falling significantly since September.

In December, the number of dwelling construction approvals fell by 2.9 per cent from November and were down by almost a third from the previous year, seasonally adjusted figures from the Australian Bureau of Statistics show.

Finance for housing is also down, falling by 0.9 per cent between October and November as more first-home buyers entered the market but fewer investors bought in.

On the positive side for home owners and would-be buyers, there remains an undersupply of housing in the market, compounded by the low construction levels which should put a floor under how far house prices fall.

Lawless says there are not many buyers in the market and there is a build-up of stock for sale, which means purchasers have the upper hand.

Hotspotting.com.au's Terry Ryder says there will be further big price falls in the prestige property market (see 'Faded beauty', page 48). So investors should be focusing on the cheaper end of the market where activity will be stimulated by lower interest rates and government incentives for first-home buyers.

"Smart property investors should follow that activity," he says. "All the research I've done shows it's the cheaper areas that [have] the best growth, over the past 10 years, anyway ... and I'm expecting this year for that to be even more so."

BIS Shrapnel senior manager Jason Anderson is also optimistic about the housing market. "I think we're not travelling too badly."

There is little evidence to back up the negativity regarding house prices being felt in the market, he says. "There's definitely a sense

in the minds of the public and in ... some parts of the media that property prices have been in a trend decline for a while and this is a substantial fall that's happened.

"Well the evidence doesn't back that up. We had some definite response to the peak in rates in June and July last year, as you'd expect, but it hasn't been very deep."

Anderson says rental growth is the strongest it has been in 20 years, having hit 8 per cent in 2008. Rents are expected to rise another 8 per cent this year.

Higher rents, combined with lower interest rates, will have some owner-occupiers and investors exploring their options, he says. The impact of the anticipated rise in unemployment on the housing market is not likely to be as big as expected. Every 1 per cent fall in interest rates puts \$8 billion into household budgets, and every 1 per cent rise in unemployment takes \$6 billion out.

"Unless unemployment rises and sits above 11 per cent over the next two years, we think that there's enough liquidity injection into the market in terms of interest rates - and potentially from other sources as well, in terms of tax cuts - that will offset the liquidity that comes out of the market as people lose wage income."

So when can price growth be expected to return? Anderson forecasts that housing construction will recover in 2010 and there will be stability in house prices despite a substantial rise in unemployment.

The head of property at Adviser Edge and managing director of SQM Research, Louis Christopher, says that once there are clear signs that the economy has fallen as far as it will go, the property market should bounce back.

"I think that there will be a recovery in the overall national housing market once would-be home buyers and investors find that the economy has bottomed out, that things are no longer getting any worse," he says.

One of the big factors in the recovery will be how easy it is for would-be buyers to get credit.

Credit rationing by banks is limiting the number of people who can buy property, Christopher says. Many have dropped the loan-to-value ratio on their products, cutting out those who cannot save a deposit for a property.

"I think the whole market is really susceptible to credit rationing by the banking sector."

In the meantime, he says, dwelling prices are not expected to fall as far as in overseas markets such as the United States and United Kingdom.

Knight Frank's managing director for Australia, David Woolford, says those who invest now should be rewarded in the long term because of the undersupply of housing in the national market, which should prevent the steep declines in value seen overseas.