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### Home renovations keep pressure on prices

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ALAN KOHLER, PRESENTER: This week housing affordability hit a 23 year low as house prices continue their steady march upwards. Now, a significant part of the pressure on prices has come from home owners unable to trade up calling in the renovators. And while it keeps the tradies happy and wealthy, is it a great investment for their clients? Kathy Swan reports.

KATHY SWAN, REPORTER: Despite the dust, the cost and the inconvenience, almost half of all the construction activity in the residential building sector is going on in home renovations.

ANDREA HYETT, HOME OWNER: I never wanted to live through a renovation again.

KATHY SWAN: But when Andrea Hyett and her husband looked into getting a bigger home, they found the prices for what they wanted, where they wanted to live, out of reach.

ANDREA HYETT: It was actually quoted at just under... about \$950,000 and it went for \$1.25 million and we just weren't expecting it to go for that much.

KATHY SWAN: And that was for a house just a few doors down from the Hyetts' home of 10 years in a Melbourne bayside suburb.

ANDREA HYETT: What we're doing now, which is three internal rooms, kitchen, bathroom and knocking down an internal wall, and that's costing about \$80,000. The stamp duty if we'd bought the other house was going to be \$65,000.

CHRIS GREEN, BULIDER: (To Andrea Hyett) That's your dishwasher right there so the kicker runs straight through.

KATHY SWAN: Builder Chris Green specialises in renovating kitchens and bathrooms and plenty of home owners want work done.

CHRIS GREEN: Flat out. Have been for years. Noticed no real great downturn in it. The kitchens and bathrooms, people tend to spend their money in those areas instead of buying another house.

KATHY SWAN: The Housing Industry Association monitors renovation and new home building activity nationally, and it's finding that renovations are less cosmetic and more extensive, involving structural changes.

CAROLINE LAWREY, EXECUTIVE DIRECTOR, HIA VICTORIA: People are actually tending to commit to projects such as second floor in their home, major extensions for family rooms.

KATHY SWAN: In its wrap up of activity for the end of last year, Caroline Lawrey says the HIA found the average value of a renovation had gone up by 11 per cent to an average of \$96,000.

CAROLINE LAWREY: The average renovation, major renovation in Victoria in the December quarter was actually \$95,000 but if you compare that by the time you add stamp duty and removal costs and all the uncertainty and disruption, for \$95,000 you're probably doing reasonably well by renovating your home and getting an investment in something that you already know.

KATHY SWAN: Officially, the median house price went up 8 per cent last year, and just this week the HIA and Commonwealth Bank's housing affordability index made its fourth consecutive drop, prompting the HIA to call for government action to increase housing stocks. Increases in stamp duty are adding to the problem - but there's another

price push coming from the home renovations being done by people who can't buy what they want.

Property research head at Adviser Edge, Louis Christopher.

LOUIS CHRISTOPHER, ADVISER, EDGE INVESTMENT RESEARCH: Well I'd suggest it would be along the lines of about 1.5 percentage points to that 8 per cent quite easily.

KATHY SWAN: Rob Mellor, BIS Shrapnel's director of building and construction agrees that in simple terms the value of renovations is about 1 per cent, but a discount should be calculated, because you don't get a dollar back for every dollar spent.

ROB MELLOR, BIS SHRAPNEL BUILDING AND CONSTRUCTION DIRECTOR: That's why we come up with that number of somewhere around 0.5 to maybe about 0.8 per cent of the increase in the value of dwellings is coming from home improvements activity, and of course that will vary around the country.

KATHY SWAN: But a renovation does add to expectations when it comes to selling price.

LOUIS CHRISTOPHER: You expect to get a higher price for that particular property immediately after that renovation at least and assuming that you sell that property, out comes a higher price and that affects the median house prices quoted. Now the issue is, of course, is that did you actually make any money on that property.

ROB MELLOR: Looking at the returns from residential investment, it's important that when you look at the calculations that you discount back that that's not a real return because you've actually needed to spend so much per annum or over a course of five or 10 years some significant expenditure on upgrading the dwelling to get that sort of growth that the overall market's achieving.

KATHY SWAN: Home owners thinking of leaving it to the neighbours to lift the tone and financial rewards of their neighbourhood may find that just keeping their property tidy's not enough to bag a share of the overall market's growth.

LOUIS CHRISTOPHER: Assuming you don't do any renovation, that you just keep the house in order but you don't do any major improvement, your house compared to the local median house price will fall over time.

ROB MELLOR: Long term, you know, if you gain somewhere around five to six per cent per annum in terms of nominal growth which would probably be about three per cent in real growth, you need to remember that you're going to have to upgrade that dwelling over time to get that sort of growth.

KATHY SWAN: The trick of course is to not go too far and lose money by over capitalising.

LOUIS CHRISTOPHER: A general rule of thumb is that you certainly wouldn't want to do any more than, say, 50 per cent of its existing value on the home, and that also applies for people who intend to build new properties on vacant land. The cost of that building shouldn't be any more than 50 per cent of the value of the underlying vacant land.

KATHY SWAN: So as more home owners wrestle with how much to spend to get more space and more value.

ANDREA HYETT: Once we get through this one I would consider putting 2 bedrooms and a bathroom upstairs.

KATHY SWAN: House price movements around Australia are diverse, with varying trends within cities let alone state by state.

ROB MELLOR: You're still seeing a fairly flat and weak market in Sydney, more modest growth occurring in probably Melbourne and Adelaide. I think we can be pretty clear in saying now that the Perth market has peaked. I think the exception at the moment in terms of capital cities is probably Brisbane where you're still seeing price growth 5 or 6 per cent per annum.

KATHY SWAN: But for the legion of would be, if only they could afford to be, home owners, it's all wishful thinking until something's done about improving the supply of, as opposed to the demand for, homes.

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