# Boom times fuelled by speculation

## The monitor

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Over the past three months, there have been a number of warnings on the future direction of the residential property market.

Based on the extent the property market has risen over the past five years, and in particular the past two years, they are largely justified.

The prices of units and houses have shown significant increases. In Sydney, Melbourne and Canberra there have been five-year price gains of 70 per cent and more.

However, unlike the last property boom of the late 1980s, the run that's occurred this time has been very broad-based – experienced to some degree in almost every major city and metropolitan region.

We believe the causes behind broad acceleration in home price growth rates are related to a number of macro factors including:

- ❑ Some of the lowest home lending rates in the last 30 years.
- ❑ Government policy initiatives such as the introduction of the first-home owners grant as well as capital gains tax breaks.
- ❑ Rising real incomes due to a low inflationary, high economic growth environment.
- ❑ A reduction in the required returns on both residential and commercial property due to low inflation and low interest rates.
- ❑ Population trends towards inner city living, explaining the equal movements in apartment median prices and house prices.
- ❑ Falling share prices (particularly in the last two years), which have projected property (rightly or wrongly) as a secure, higher performing asset class.

As with all booms and busts, this residential boom has not been without its excitement and hysteria.

Television programs such as *Hot Auctions* and *Auction Squad* have no doubt added to this by putting residential property firmly in the public attention and have most likely created a sense of "missing out on all the action" if one is not involved in the property market.

Recent data suggests that the boom has been fuelled by speculative activity just as much as by the desire to buy and occupy a home.

As the RBA pointed out in its July 2002 housing trends research paper, the prominence of investor activity in the housing market has grown exceptionally during the past 18 months.

Since the trough in loan approvals in October 2000, the total monthly value of housing loans approved has increased by $4.4 billion. Over the same period, the monthly value of approvals for investor housing loans has risen by $2.4 billion.

That is, loans to investors have accounted for more than half the pick-up in monthly loan approvals.

Clearly it's been a great run. However, the run in itself has created some issues, which in my opinion make present price levels very susceptible to a correction.

In many localities rental yields have fallen so low that in a number of cases investors are in negative cash flow after taking into account tax deductions.

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| | | 3 mths to Aug 31 '01 | 3 mths to May 31 '02 | 3 mths to Aug 31 '02 | 12th % change to Aug 31'02 |
|---|---|---|---|---|---|
| ACT | house | $220,000 | $260,000 | $271,000 | 23.2% |
| | unit | $170,000 | $185,000 | $192,250 | 13.1% |
| Sydney | house | $332,000 | $405,000 | $400,000 | 20.5% |
| | unit | $290,000 | $320,000 | $330,000 | 13.8% |
| Greater Brisbane | house | $162,500 | $184,000 | $185,000 | 13.8% |
| | unit | $162,000 | $164,000 | $160,000 | -1.2% |
| Brisbane LGA** | house | $196,000 | $240,000 | $241,500 | 23.2% |
| | unit | $175,000 | $180,000 | $178,000 | 1.7% |
| Gold Coast | house | $210,000 | $248,000 | $260,000 | 23.8% |
| | unit | $165,000 | $175,000 | $170,000 | 3.0% |
| Adelaide | house | $150,500 | $170,000 | $185,000 | 22.9% |
| | unit | $110,000 | $120,000 | $135,750 | 23.4% |
| Melbourne* | house | $320,000 | $351,000 | $351,000 | 9.7% |
| | unit | $240,000 | $265,000 | $265,000 | 10.4% |
| Perth | house | $170,000 | $189,000 | $186,000 | 9.4% |
| | unit | $125,000 | $145,000 | $155,000 | 24.0% |

*Note: Melbourne median prices based on auction results only **Brisbane LGA is defined by the Brisbane Local Government Area only. Source: www.homepriceguide.com.au


Vacancy rates – particularly for apartments – have risen to near record highs in many cities as "would have been" renters took advantage of the first-home owners grant and left the rental market in droves.

Housing affordability as measured by the HIA-CBA index has now fallen to new lows.

Recent building approvals data released by the ABS indicate that a dramatic increase in supply of new residential property, particularly apartments is taking place.

Unfortunately, based on the history of property and other investment markets, it is unlikely we will see the market self-stabilise.

It is my opinion the trigger to any correction will be if and when the Reserve Bank decides to take further action and lift interest rates to put the boom in check.

Until such time there is every chance the market will move higher.

That said, present leading indicators such as monthly auction clearance rates point to a possible slowdown in market activity for at least Brisbane, Melbourne and parts of Sydney.

On top of this, median prices in each of the above-mentioned cities for the three months to August 31 suggest some of the heat might be leaving the market but there is no evidence of any correction at this point.

It is always extremely difficult to predict the very top and bottom of market and the present property boom will be no exception.

Needless to say, no-one rings a bell at the top, nor sounds a trumpet at the bottom.

The present uncertainty surrounding just how far the property market has left to run provides all the more reason for home buyers, sellers and investors to research the market as much as possible and seek independent information before making any major decisions.

■ *Louis Christopher is the operations manager and head of research for Australian Property Monitors.*