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New Home Sales Slump

Update New homes sales dropped in September, in a result likely to aggravate the country's housing affordability problems report shows today.

Nationwide homes sales sank 4.5 per cent in September, following a 11.4 per cent jump in August, according to data from the Housing Industry Association.

"The current level of new home sales points to a shallow recovery in residential building which will lag the underlying requirement for new dwellings," said HIA chief economist Harley Dale.

"Indeed there is a very real risk that costly delays in planning approvals and land shortages will combine to blunt the housing recovery, reversing the recent gains in housing affordability."

Economists say a healthy pace of new home sales is needed in order to spur the building of new housing stock, which in turn will relieve the shortage and boost affordability overall.

Fresh data out today from the Australian Property Monitors showed national home prices increased 3.7 per cent in the third quarter, as investors crowded back into the market ahead of the reduction of the First Home Owner Grant boost.

August's increase was the highest in the survey's three-year history.

State by state

The Housing Industry Association and Commonwealth Bank first-home buyer affordability index, released last week, dropped 3.3 per cent in the September quarter, following a 5 per cent slide in the June quarter.

The volume of new home sales in New South Wales dropped 8.9 per cent, while in Victoria they dropped 12.7 per cent, HIA said.

In Queensland they increased by 1.1 per cent but fell by the same amount - 1.1 per cent - in South Australia.

In Western Australia, they plunged by 11.1 per cent, HIA said.

Quarterly gain

Although new home sales dropped in September, they were up by 4 per cent over the September quarter, the report shows, 24 per cent higher than the comparable period in 2008.

"The relatively healthy quarterly result confirms that there will be life in first-home buyer-induced construction activity into 2010," said Mr Dale. "The key now is to see further evidence of a recovery in trade-up buyer owner occupier interest in new homes in its own right, together with a turnaround in alarmingly low levels of investor activity."

"Without this situation, a further upward trend in new home sales over late 2009 and into 2010 will prove difficult to achieve," Mr Dale said.

Charter Keck Cramer senior economist George Bougias said measures of monthly sales are "oscillating wildly" because of the effects of the First Home Owners Grant being slowly withdrawn while investors have begun to move in.

"But the underlying fundamentals are we've got the shortages reflecting in the prices."

Mr Bougias said the real issue for affordability is to increase the pace of construction in the years ahead, lauding Prime Minister Kevin Rudd's recently announced plans for the Commonwealth to take a more active hand in planning and development of cities.

He said Australia is experiencing record population growth at time of a housing shortage, which will only get worse under these conditions.

Charter Keck Cramer is an independent real estate consultancy that counts developers and banks among its clientele.