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Author: Chris Vedelago

More bleak times ahead for housing

THE property market forecast for the next 12 months differs greatly depending on which side of the auctioneer's gavel you are standing on.

While home owners should brace themselves for another rocky ride as hopes for a recovery falter in the face of a weakening Victorian economy, the outlook is brighter for home buyers, with some analysts predicting the weak conditions should further improve housing affordability.

Despite recent interest rate cuts, house prices are tipped to flatline or fall as the Melbourne market struggles with its worst downturn in a generation.

Opinion is divided on how long and how tough conditions will be, but most analysts say a rebound in 2012 is unlikely.

"The Melbourne housing market will struggle for most of the next year," said Dr Andrew Wilson, senior economist with Fairfax-owned Australian Property Monitors. "I think we're headed for more of the same."

The city's median house price fell 6.3 per cent in the year to November, the worst decline recorded since the recession of the early 1990s, according to the latest figures from RP Data-Rismark.

Many forecasters expect prices to rise by no more than 3 per cent in 2012, matching inflation but not gaining much of the ground lost. The most optimistic outlook pegs growth at 4 per cent to 6 per cent.

But more bearish estimates say prices will ultimately fall 12 per cent from their peak in late 2010 before the market bottoms out.

Home owners are being warned not to expect any real improvement in prices at least until the middle of the year.

"The market is probably in better shape than if those [interest rate] cuts hadn't been made, but I don't think it's a reason to get out the champagne from a vendor's perspective," said Robert Papaleo, research director for Charter Keck Cramer. "The bad news is going to override the good news."

The unemployment rate rose for the fourth month in a row in November, hitting a 13-month high of 5.5 per cent. After a construction boom in 2009-10, building activity has since plunged and the industry is calling for "urgent" stimulus spending.

The Baillieu government's recent decision to cut 3600 public sector jobs and demand the faster payment of stamp duty are also signs of an economy under pressure, analysts say.

However, most mainstream experts believe it would take a severe shock, such as the collapse of the European Union, to put the city's property market at risk of a crash.

Some estate agents and buyers' advocates believe conditions are being aggravated by negative media coverage, which is mistaking a "normal" correction in the property cycle for a serious slump.

"The economic fundamentals of the property market are sound and yet through 2011, purely off the back of a lack of confidence in the general economy, [we] saw prices adjusting throughout the year," said Nigel O'Neil, chief executive of agency network Hocking Stuart.

"It's almost like the adjustment we had to have because the market has been so strong for almost a decade. That run was unsustainable."

Robert Larocca, spokesman for the Real Estate Institute of Victoria, says the sharp price falls in many of Melbourne's pricier suburbs are "sowing the seeds" for their rebound.

Buyers stand to gain the most if the downturn continues, particularly because sellers face the prospect of competing in a market already swamped with unsold homes.

Nearly 53,000 properties were for sale in Melbourne in November, up 47 per cent on the same time last year, according to SQM Research.