Housing market on cusp of resurgence

LONG-suffering property investors may soon be in for a little excitement, with recent indicators hinting at a revival.

Last week, the Housing Industry Association (HIA) released its new home sales figures for May, showing a 1.6 per cent rise in new home sales over the month.

This followed a 3.9 per cent lift in April, and takes new home sales over the year to their highest level in 18 months.

Granted, this may be coming off a pretty low base, but it is progress nonetheless.

The HIA figures are backed up by the latest numbers from property analysts RP Data-Rismark.

These showed a 1.9 per cent rise in the average dwelling price for Australia's eight capital cities over the month of June, reversing the 1.7 per cent fall over April and May.

For the quarter, that means capital growth came in at a meagre 0.2 per cent.

Not a great result, but it's moving in the right direction.

In an article published in *Eureka Report* this week, our own Adam Carr says it's just a matter of time before we see resurgence in the property market.

Carr takes a closer look at Sydney's market as an example, noting the rebound in prices over both the June quarter, which saw a 1.2 per cent rise, and the month, which saw a 2.7 per cent lift.

Meanwhile, auction clearance rates in Sydney are up about 77 per cent he says, faring better than the national average of 64 per cent.

In his assessment of the property market, Carr looks at the divergence between income growth and house price growth over the past few years to illustrate his argument.

"House prices in general, and apart from that spurt in 2009-10, haven't done much over the last four years or so.

"In fact, on average they've fallen a bit," he says. "For the decade you're looking at gains of only 3 per cent or so per year in Sydney, while the other cities have had gains varying from 8 to 17 per cent. Annual double-digit growth in Perth, Darwin and Hobart.

"For the larger cities that's actually quite subdued house price growth when you consider that disposable incomes over that period have doubled, or increased at an annual rate of about 10 per cent per year.

"Income growth has exceeded house price growth in nearly all the major cities except Hobart, Darwin and Perth."

It would seem therefore that there is great potential for house price growth to catch up with income growth in a number of the major cities.

Alongside this expectation, record low interest rates should also be playing their part.

But so far, that hasn't really happened.

The sector has, somewhat surprisingly, had a fairly subdued response to the spate of cash rate cuts since late 2011.

But it can take time for interest rate cuts to take effect.

According to Alvin Pontoh of TD Securities, approvals have risen just 15 per cent since this latest cycle of interest rate cuts began.

"In contrast, the last time the RBA eased 200 basis points in a normal easing cycle (i.e. no global crisis) was back in 2001, and this led to a 70 per cent jump in approvals," he says.

Pontoh also pinpoints a number of differences between now and then, including the absence of a "borrow and spend mentality" that was present in previous recoveries.

This speaks to the confidence issues facing the economy that, to a point, are stifling the housing sector's rebirth.

But rising demand, coupled with supply constraints in the market, could be the spark needed to ignite a recovery, which in turn would have a positive spill-over effect on confidence.

Cliona O'Dowd is chief reporter of Eureka Report. To read more by Cliona O'Dowd and other experts, visit www.eurekareport.com.au

Mortgage numbers on the rise

HOUSING

THE housing market is on the road to recovery as record-low interest rates encourage people to buy their own homes.

Mortgage numbers rose by 1.8 per cent in May, the month the Reserve Bank trimmed the cash rate to 2.75 per cent.

ANZ head of property research Paul Braddick said the figures showed lower interest rates were gaining traction in the housing market, with homebuyer sentiment remaining strong.

"It stands in pretty stark contrast to the weakness we've seen in a lot of the broader economic data over the last month," he said.

"Markedly better housing affordability, improved buyer sentiment and substantial pent-up homebuyer demand are supporting growth in home sales, prices and lending."

JP Morgan economist Ben Jarman said loan values to owner-occupiers, as opposed to investors, had grown almost 8 per cent over the last six months, its strongest pace since the expanded first homebuyer boom of 2009.

But Westpac senior economist Matthew Hassan said the recovery was happening slower than expected.

"The question is whether that recovery is strong enough, given the drag starting to come through from the mining sector," he said.