Y OUTLOOK 2011

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Getty Images, Michele Mossop

Location, location, location, is still the key to success in the property market. The experts may disagree over how much house prices will rise in 2011, if at all, but they all agree that fortune will smile on those who get their positioning right.

Report: Lisa Allen

Unfortunately there is no one simple answer. Property experts remain as divided as ever in terms of how the market will perform next year.

Some of the best minds in real estate – from the chief economists at Westpac Banking Corporation and AMP, to millionaire agents and billionaire developers – say house prices will be flat in 2011. However, there are voices of dissent, with other commentators such as researcher BIS Shrapnel being more bullish and forecasting gains of up to 10 per cent

What is clear is that no one expects the big markets to move as one. Experts say the performance in any one city should not be taken as a bellwether for the rest of the country where certain markets are running out of steam.

AMP chief economist Shane Oliver does not foresee big falls in house prices but he's also not betting on big gains. "Housing prices will be pretty soft next year, on average they will be pretty flat," he says.

The reason for this, he says, is affordability, which is back to a record low owing to a combination of big gains in prices and rising interest rates.

Of all the capital cities, Oliver foreshadows Perth might be the strongest performer next year. The pricier Sydney and Melbourne markets will be constrained given they are more strongly affected by higher interest rates.

But not everyone is banking on a no-growth scenario next year.

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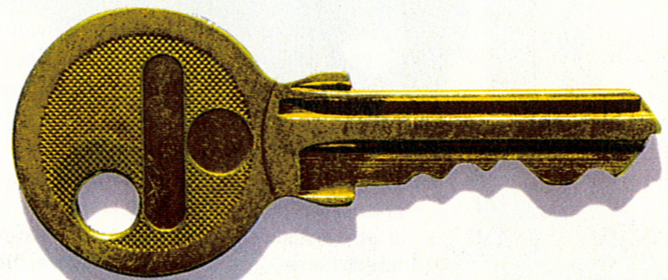
Melbourne moderating



In 2011, will the Melbourne property market be like Sydney's in 2004 or Perth's in 2007? Or will it be like, well, Melbourne's in 2010?

Property prices in Sydney, Perth and Brisbane dropped back in those years, after racing ahead of other capital cities. RP Data analysts now expect a similar trajectory for Melbourne house and unit prices, which surged 13.7 per cent and 13.2 per cent, respectively, over the previous 12 months.

"Since the start of 2007," RP Data says, "Melbourne home values are up 50 per cent and the median house price is now only 15 per cent lower than Sydney's – compared with 36 per cent lower five years ago. With such a high rate of growth over the two most recent cycles, it stands to reason that the Melbourne market is likely to underperform over the coming 12 months."

The director of JPP Buyer Advocates, Ian James, agrees that median house price-growth will fall below the 9.9 per cent averaged in the past five years to between 5 per cent and 6 per cent. But he insists this average figure will mask a tale of two very different cities.

One is the Melbourne of new housing estates. Fringe suburbs such as Caroline Springs, Tarneit, Melton and Pakenham are at the end of a building frenzy, sparked by a temporary boost to the first-home owner's grant. This will also bring to an end a run-up in the prices of homes already built, James warns. "The builders chucked their prices up, so all the established properties went up, too," he says.

However, the run-up will continue in the Melbourne suburbs with good transport links to the city.

For investors with $500,000 to spend, James suggests a two-bedroom unit in an inner suburb such as Richmond or St Kilda.

For those with $350,000 to $400,000, he advises looking south-east to Port Phillip Bay suburbs from Aspendale to Frankston, or north from Preston to Epping.

Investors willing to "get their hands dirty" can renovate their way to substantial capital gains, he says.

Anthony Sibillin