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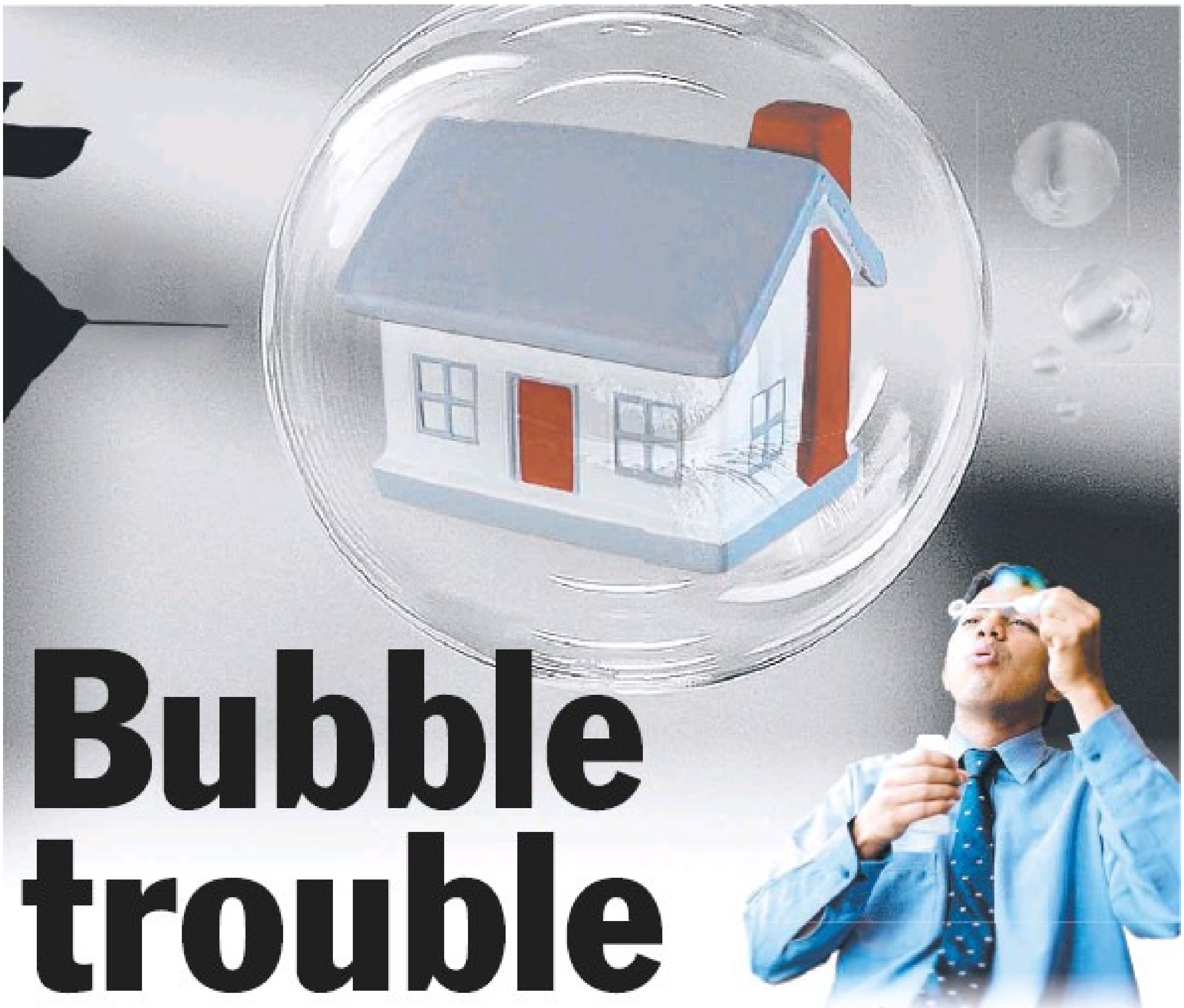
'Unsustainable' growth sparks predictions of a market fall

NEWS of a further quarter of astronomical property price growth will send shivers down the spine of anyone yet to set foot on the real estate ladder.



Key editor

The latest Real Estate Institute of Victoria report shows the cost of a middle-ofthe-road Melbourne house rose 8.5 per cent to $559,000 in the three months to June 30.

While the figures appear to be a new nail in the coffin of affordability for first-home buyers, a growing number of property economists said they were further evidence of a price bubble inflated to bursting point.

Gavin Putland, a director of Melbourne-based Land Values Research Group, was even willing to give the impending crash a time-line.

''Prices will plateau before the end of this year and start to fall within six months of that,'' he said.

Central to his argument is the premise that recent growth is unsustainable and once first-home buyers are squeezed out of the market and investors are deterred by flattening growth, a price tumble will follow.

On the flipside of the debate, real estate industry figures are adamant that a supply shortage, low rental vacancies and a rising population will conspire to provide property investors with continued capital growth over the short, medium and long terms.

Their cause is not helped by talk of a cooling market fuelled by auction clearance rates, which have dipped below 70 per cent in recent weeks.

But it is hard to ignore a 15-year trend of continual growth.

THE CYNIC

In less than 30 years, the median Melbourne house price has jumped from three to eight times the median household income.

The figures suggest the market is moving close to the point where a median household income is not enough to sustain the mortgage on a median house.

Mr Putland said the situation foreshadowed a dip in home lending that would snowball into a price crash.

''The finance figures are available for up to May and there's no indication yet of a crash, but I am expecting it before the end of this year simply because price-toincome ratios are beyond what can be supported by rental income ratios alone,'' he said.

''If we see a downturn in borrowing, and I expect that to happen before the end of this year, then history indicates a fall in prices will follow within six months.''

He said the depth of the price plunge would be dictated by the strength of government interventions.

''The way to prevent a large fall in prices is to increase people's after-tax spending power,'' he said.

THE OPTIMIST

REIV spokesman Robert Larocca is among a chorus of real estate industry types economic circumstances and a systemic undersupply of housing.''

Catherine Cashmore, of JPP Buyer Advocates, said Australia's loan arrears rate of 0.7 — one of the lowest in the developed world — was further proof of the market's health.

''It certainly speaks opposite to reports in the headlines, spruiking horror stories about repossessions and unsustainable debt,'' Ms Cashmore said.

''Melbourne's real estate has foothold or step out altogether.

An unseasonal glut of properties going under the hammer has been blamed for the recent fall in auction clearance rates, possibly an indicator that many feel it is time to get out.

Preston accountant Rajat Singh described himself as a typical ''mum and dad-type investor'' whose choices were guided by ''historics not hysterics''.

Those talking of an impending crash fell squarely into the latter category, he said.

Having gained a handle on the family's primary mortgage, the 29-year-old this month went further into debt to negatively gear an investment apartment in Glenhuntly.

''Property has proved to be a good long-term investment and that's all I'm looking at,'' he said.

THE INVESTOR

Barefoot Investor Scott Pape's advice for anyone trying to make sense of the competing arguments is simple: ''Don't listen to any of them.''

He said the only thing that matters was that ''you can safely afford the home, even if two incomes become one and interest rates go up beyond 10 per cent''.

''If you factor in those things and you can still afford the house, that's fine. Buy the house,'' he said.