



TIPS

The Investment Property Strategists

Is property too expensive?

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RP Data's, Tim Lawless said he believed concerns in some quarters about a big market correction taking place are overstated.

"The market's underlying fundamentals are such that any material fall in home values is unlikely. Housing supply remains very low at a time when housing demand is healthy, interest rates appear to be on hold for the foreseeable future, and the Australian economy is performing well compared to all other developed countries", he said.

Consistent with the moderation in housing market conditions, Rismark's latest estimate of Australia's "dwelling price-to-income ratio" remained steady at 4.6 times. This is in line with Rismark's estimate of the average national dwelling-price-to-income ratio since the end of 2003 of 4.4 times.

In a recent speech, the Deputy Governor of the RBA Ric Battellino confirmed this analysis, which is the first to compare all-regions dwelling prices with all-regions incomes, commenting; "People feel that house prices in Australia are quite high, and that's quite often because the ratio of house prices to income that are published for Australia tend to focus mainly on prices in the cities, and they are quite elevated.

But, if you look across the whole country, the ratio of house prices to income is not that different from most other countries...

The house prices in cities aren't high relative to the income in the cities because most of the figures you see published on house prices to income – what they do is they measure house prices in the city and express it as a proportion of income of the whole country.

But, if you do house prices relative to the incomes of the people living in those areas, then the prices in the cities also are quite reasonable."

Other leading indicators suggest that the Australian market remains relatively healthy:

- The total number of properties available for sale is about the same as last year, with RP Data currently tracking 207,664 properties being advertised for sale – almost identical to the figure from 12 months ago (207,788 homes).
- The average selling time is now about 39 days for houses and 31 days for units.
- The average level of vendor discounting remains at about 5.5 per cent suggesting vendors are not having to cut prices dramatically to sell a property.

RP Data's Tim Lawless said, "If we were seeing the number of properties available for sale increasing dramatically, the average selling time blowing out, or vendors providing large discounts on their asking prices it would set off a few alarm bells.

This, however, is not currently the case."

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