

## Australian Property News

### Price growth to strengthen in 2011-12

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**Residential properties aren't overvalued and price growth is likely to strengthen in 2011 to 2012, according to a new report from major bank ANZ.**

It says traditional methods of evaluating affordability, including price-to-income ratios, don't take into account more complicated and less quantifiable factors including historic declines in interest rates and deregulation which has caused credit to become more widely available.

"...what happens is that people tend to look at main pricing measures, including house-to-income ratios, to determine the affordability of the market," says senior economist Ange Montalti.

"But those are only okay as a starting point and don't take into account bigger movements over long periods of time.

"In the late 1980s you had very high mortgage payments, which meant for any given dollar of debt you had to pay 15 cents in the dollar.

"Any dollar in debt today only costs you seven cents - you can sustain double the debt levels for the same burden."

How the market is performing now and where prices are moving is important for determining affordability, according to Montalti.

He points out that Australia has quite a low delinquency rate, which is evidence of a largely affordable market that's valued correctly.

"Critically, the persistence of very low housing loan delinquency rates over several decades (including through the most recent global financial crisis) is the greatest testament to the sustainability of debt levels and house prices in Australia," the report reads.

"That lenders continue to adhere to tough eligibility criteria minimises the probability that any event shock will emanate from 'over-provision' of credit."

The ability to service a loan is critical when it comes to assessing affordability and that on its own explains a big chunk of where prices are at the moment, says Montalti.

"For instance, if you only considered income, then prices would need to fall 48 per cent," he says. "That's a big number, but if you consider income, along with the decline in interest rates over the past 20 years, then prices only need to fall about 13 per cent. The same interest rates are what determines serviceability."

Then, he says, that remaining 13 per cent can be attributed to financial regulation and less-quantifiable examples including changes in tax conditions and "the overall impact of deregulation which moves from a system of rationed credit... to one that uses debt facilities to use credit".

Montalti says current short-term trends affecting house prices, including a decline in demand and the removal of a boost to first homebuyer stimulus, won't last for more than a year.

Consequently, he predicts there'll be stronger growth in prices in 2011 and 2012.

"We've had a few rate rises, but these are temporary reactions we believe and are not significant in the long term," he says.

"Our view is that with the housing market being quite tight, we should see some support for prices over the next 12 to 18 months."