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House prices hotting up

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The price of your home is rising, and it's going to keep rising - by at least 5 per cent a year - for the next five years.

That's a forecast from ANZ Bank economist Paul Braddick, who this time 12 months ago did the bravest thing an economist can do: he broke with the pack.

As head of property research at ANZ, Braddick went around the country giving a presentation with a sensational slide show, called "The Mother of all Housing Booms", where he argued house prices could only go up.

This, I might remind you, was during the depths of the global financial crisis when his peers at NAB, Commonwealth Bank and Macquarie - not to mention some very vocal academics in universities - were pronouncing doom for house prices.

One commentator - Steve Keen, an associate professor at the University of Western Sydney - said house prices would drop 40 per cent and then went so far as to sell his Sydney residence to show the world he was not just trying to make the headlines.

Braddick, meanwhile, motored on, getting more ridicule than headlines. He told all who would listen that prices had "upward pressure" because - very simply - there were more people than dwellings.

It is now clear that Braddick was also facing opposing views "upstairs" at his own bank.

"We were getting it from all angles," he explains, "but I kept looking at the figures and they spoke for themselves - we did not have enough houses coming on stream; supply was not going to match demand."

It is now clear that Braddick and his few followers - mostly real estate agents desperate to hear his positive view - were right and the doomsayers were wrong.

Here are the facts. Australian average house prices have risen

here are the facts. Australian average house prices have risen 7.7 per cent in the year to date. (In Melbourne the figure rises to 11 per cent.)

In the statement from the RBA that accompanied the 0.25 percentage point rate rise, our central bankers drily opined: "Housing credit growth has been solid and house prices have risen appreciably over the last six months."

Freed from the rigours of "central bank speak", governor Glenn Stevens might have said: "Believe it or not, banks have been giving loans to home buyers and, blow me over with a feather, house prices have defied global trends and gone up ..."

Braddick, who can speak both central bank speak and English, is not surprised: "We had two key reasons for our position - we believed that Australia was completely different to America where there was this historic housing slump, and, crucially, we believed - and still believe - there is a housing shortage."

The first point now seems achingly obvious: we never had cheap housing loans, we never had loans where the borrower had no responsibility. We did not deserve a US-style slump. The number of people not paying their mortgages in the US at its worst reached 15 per cent - 10 times higher than our comparative figure.

But it's the second point that matters - and it's on this issue Braddick and a growing number of commentators are basing renewed optimism for house prices.

Braddick has always maintained that the lack of new home building in our bigger cities would ensure rents and house prices stay high.

Considering the size of our population, about 6500 more houses should be built each month.

And even if you assume the economic model behind this estimate is flawed - maybe the two-decade-long trend of fewer people per home has turned - it has not turned that much. If Braddick is even half right, we have 60,000 houses across the country that must be built in the next five years.

The problem now looming is that a lot of the home builders are fully occupied extending or rebuilding your local school as part of the Rudd stimulus package.

House prices are going back up again - it's not good news for everyone, but as an alternative to a GFC, I wouldn't swap it.