Ready for the picking

Is now the time to buy?

Investors are always looking for that magical moment when a market turns from a downturn into an upswing. **Michaela Ryan** investigates whether that time is right now.

TYPICALLY it's difficult to pinpoint exactly what stage of the property cycle we're in. Many people rely on the general media for this information – and therein lies the problem.

"What (the media) don't necessarily do, a lot of the time, is understand that statistics are bound by a particular time-frame and they are also historical," says Monique Wakelin, co-founder of Wakelin Property Advisory.

"There's often at least a three-month time lag – if not more – between what statistics say and what people are observing anecdotally."

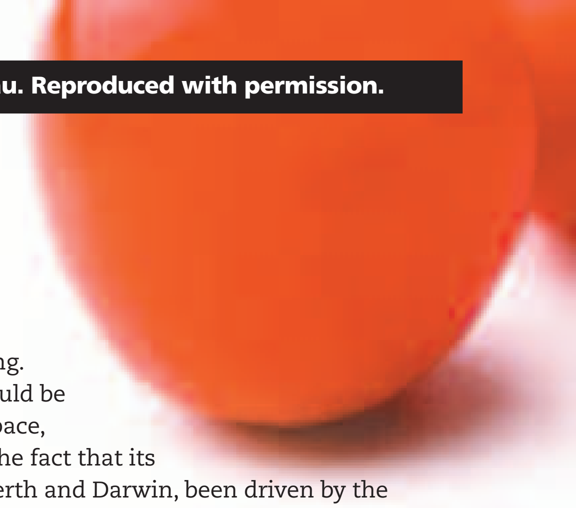
- So what, if anything, can we glean from the most recent statistics available?
- How do the stats compare to anecdotal evidence about what's happening in the market right now?
- Based on both statistical and anecdotal evidence, is now a good time to buy property?
- And finally, do investors need to be worried about superannuation, interest rates or affordability having a negative impact on the next upswing in the property market?

What do the stats say?

Statistics are historical but it's still very important to examine the trends that have been taking shape. This provides an informed context for considering any anecdotal evidence.

First and foremost, let's consider median prices. Graphs 1 to 7 show a long-term view of median price growth in

MASTERFILE



most of Australia's capital cities. The graphs (prepared by PRDnationwide Research) show that Perth and Darwin both had a surge in median prices from around 2003 right up until 2006.

During the same period, Adelaide and Hobart experienced moderate growth. Meanwhile, the market was flat in Sydney, Melbourne and Brisbane.

Although a graph wasn't available for Canberra, the Australian Bureau of Statistics' (ABS) established house price index shows that price movement also slowed right down in our capital city in 2004 and 2005.

So what's really interesting about all this data? Well, if you have a look at what was happening in 2006, you'll see evidence of prices picking up in the eastern capitals. (This was also true of Canberra, according to ABS data).

The Sydney graph indicates improved conditions in the property market in mid-2006. However, it's worth noting that ABS data for the December quarter 2006 (not included in the graph) indicated a 1 per cent fall in Sydney house prices.

So what can we make of these slight improvements in house prices in the east?

Residex chief executive John Edwards recently commented, "For approximately two years most of our housing markets have been adjusting. Even Brisbane should be slotted into this space, notwithstanding the fact that its market has, like Perth and Darwin, been driven by the resources boom.

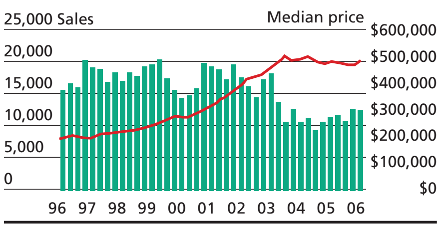
"The statistical data suggests that the adjustment phase is drawing to a close and most markets are going through the very early stages of a new growth cycle."

Tim Lawless, research director with PRDnationwide, agrees that Melbourne and Brisbane "have really come out of the bottom of the market. They're really starting to show quite normal growth now."

Other analysts are being slightly more conservative with their language. Both Rod Cornish, the head of property research at Macquarie Bank, and Michael McNamara of Australian Property Monitors, are saying that most capital cities are still in the stabilisation phase. That's when prices are level and predictable for a period of time before beginning to grow again.

Of course, what's taking place in Perth and Darwin is a different story from most other parts of the country. The strong growth experienced in these cities has started to

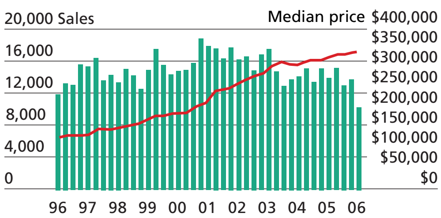
GRAPH 1: HOUSE MARKET SALES CYCLES: SYDNEY



Source: RP Data — Median sale price — Number of sales

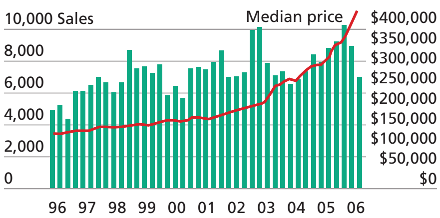
> The story they're yet to tell is the fact there are buyers scrambling over one another in certain suburbs. This is particularly the case in Melbourne, Brisbane and Sydney.

GRAPH 2: HOUSE MARKET SALES CYCLES: MELBOURNE



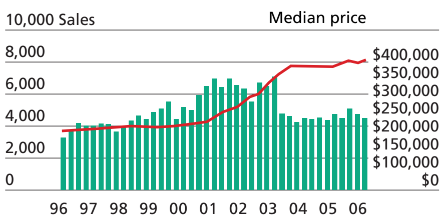
Source: RP Data — Median sale price — Number of sales

GRAPH 3: HOUSE MARKET SALES CYCLES: PERTH



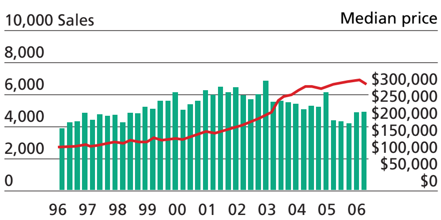
Source: RP Data — Median sale price — Number of sales

GRAPH 4: HOUSE MARKET SALES CYCLES: BRISBANE



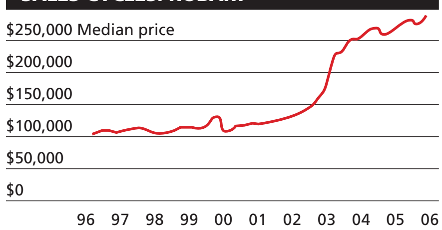
Source: RP Data — Median sale price — Number of sales

GRAPH 5: HOUSE MARKET SALES CYCLES: ADELAIDE



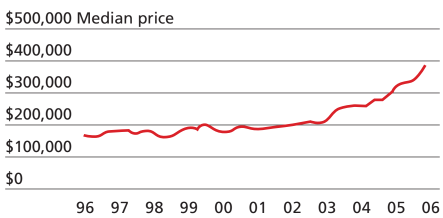
Source: RP Data — Median sale price — Number of sales

GRAPH 6: HOUSE MARKET SALES CYCLES: HOBART



Source: RP Data — Median sale price

GRAPH 7: HOUSE MARKET SALES CYCLES: DARWIN



Source: RP Data — Median sale price

GRAPHS PREPARED BY PRD NATIONWIDE

TABLE 1: Auction clearance rates (adjusted)

	2002	2003	2004	2005	2006*
Sydney	67%	60%	44%	45%	50%
Melbourne	72%	65%	51%	57%	62%
Brisbane	57%	56%	40%	38%	43%
Perth	43%	42%	33%	50%	57%
Adelaide	72%	71%	55%	52%	60%
Canberra	66%	55%	41%	44%	57%

Source: Australian Property Monitors.
*2006 figures don't take into account December results.
Darwin data not available.

peter off in recent times. So any talk of new growth phases is confined to the other capital cities.

Auction clearance rates

Recent auction clearance rates reflect a similar trend to the median price data (see Table 1). All of the capital cities, except Perth, had a quiet couple of years in terms of properties being sold under the hammer in 2004 and 2005. But there was a slight pick-up almost across the board in 2006. (NB. Data for Darwin wasn't available).

Rents

Rents for houses rose by 14.89 per cent in Hobart in the 12 months to October 2006, according to Residex. There were also strong rises in Brisbane (11.32 per cent), Perth and the ACT (both 11.11 per cent), Melbourne (7.84 per cent) and Sydney (5.63 per cent).

Adelaide's house rents dropped by 6.12 per cent and in Darwin there was a fall of 2.94 per cent. However the rent returns (i.e. annual rental income expressed as a percentage of the total value of the property) in both Adelaide and Darwin were strong when compared to most other cities. (Refer to Table 2 for a full list of rent returns).

"It is clear that investors are at last starting to see their returns return to more realistic levels," Edwards comments.

TABLE 2: Rent returns (%) December 2006

HOUSES	
ACT	4.81
Adelaide	4.40
Brisbane	4.31
Darwin	5.19
Hobart	4.49
Melbourne	3.73
Perth	2.83
Sydney	3.63
UNITS	
ACT	5.18
Adelaide	4.74
Brisbane	4.96
Darwin	5.89
Hobart	5.32
Melbourne	4.40
Perth	3.82
Sydney	4.61

Source: Residex

Housing finance

Graph 8 shows that there hasn't been a noticeable increase in the total value of investment housing finance in recent times, apart from a small increase of 4 per cent in the seasonally adjusted figures for December 2006.

Graph 9 is a bit more telling. The number of owner-occupiers seeking finance has been on the increase over the past couple of years. The total value of those loans has also been increasing. It seems the recent growth in median values is therefore being led by demand from owner-occupiers.

Michael Matusik, director of Matusik Property Insights, points out that since October 2002, owner-occupier housing demand has grown to record levels despite interest rates having risen eight times. The strongest owner-occupier demand has been at the top end of the market, where interest rates have less of an impact.

Matusik says there's a correlation between the performance of the share market and the increase in demand from owner-occupiers. He also suggests that many baby boomers have been using the equity in their homes to upgrade into bigger and better properties, which has also been driving demand.

Overall trends

What we're seeing in the statistical data is that demand in Perth and Darwin has started to wane. Meanwhile, demand for properties in the eastern capital cities seems to be picking up – especially from owner-occupiers.

We're also seeing an increase in rental returns, which suggests property investments are becoming easier to finance. Normally an improvement in rental returns (or rental yields) is like a green light to investors who are waiting to return to the property market. The statistics aren't yet telling us that investors are back in any significant way. But if we have a look at the anecdotal evidence, it's a slightly different story.

What's the word on the street?

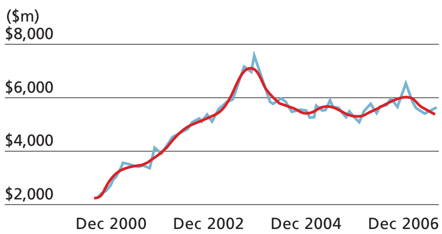
At the moment, the tabloid media loves running sensational stories about queues of people going to desperate measures to secure a lease on a property. The story they're yet to tell is the fact there are buyers scrambling over one another in certain suburbs. This is particularly the case in Melbourne, Brisbane and Sydney.

In Australia's three biggest cities, there are certain inner suburbs, as well as blue-chip areas, that are red hot. This is mainly due to demand from owner-occupiers. However, at the end of 2006, there was a surge in demand from investors as well, according to those 'on the ground'.

Melbourne

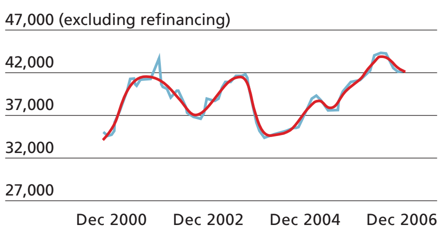
Wakelin says demand in Melbourne is primarily being

GRAPH 8: VALUE OF INVESTMENT HOUSING FINANCE



Source: RP Data — Trend — Seasonally adjusted

GRAPH 9: NUMBER OF DWELLINGS FINANCED



Source: RP Data — Trend — Seasonally adjusted

driven by owner-occupiers. "It's areas like Boroondara and Stonnington that are the key focus for the owner-occupier driven demand," she says.

Wakelin is referring to the two municipalities which are home to most of Melbourne's blue-chip suburbs such as Hawthorn, Camberwell, Toorak and Armadale.

"We've also got some very specific undervalued areas… areas like Brunswick, Northcote, North Melbourne, Thornbury, Kensington, Flemington and Ascot Vale… Those areas have a considerable amount of upside because of their proximity to the CBD. They're certainly firing (already) but they're not firing at the same sort of level that the Stonnington and Boroondara markets might be."

Wakelin points out that rental vacancy levels in suburbs within 4 to 10 km of the Melbourne CBD halved in the last three months of 2006. She says this is a symptom of the strong demand from buyers in these areas. In other words, there are many people who might be interested in buying in these inner suburbs, but because of the strong demand which is pushing prices up, they feel they're not able to. However, they're not willing to sacrifice their lifestyle by moving further afield. Therefore there has been an increase in rental demand and an increase in the number of people signing up for longer-term tenancies in these suburbs.

Wakelin says it's not just owner-occupiers who are behind the huge levels of demand in Melbourne. Investors are starting to come back, she says. In the closing stages of 2006 her business – in its capacity as a buyers agency – noticed an "enormous surge" of enquiry and demand from clients who were investors.

"When investors perceive that a market has levelled out… and the market becomes much more predictable… typically, investors re-enter the market quite quickly," she says.

Brisbane

Brisbane buyers agent Meighan Hetherington confirms that certain Brisbane suburbs have been red hot since November last year.

"The inner-city market is one of the hottest, probably within a five-kilometre radius of the CBD," she says.

"Paddington is one of the top performers. We've seen prices for entry-level homes go from high $400,000s to mid-$500,000s very quickly."

Properties in Ashgrove have received multiple offers at the first open house and gone on to sell for well above the asking price.

It's a similar story in Bardon.

According to Hetherington, the strongest demand is coming from cashed-up first homebuyers in their thirties.

"They're prepared to pay better than entry-level prices to get into (an entry-level home in) a trendy suburb that has a good name."

There has also been a resurgence in investor demand.

"Investors have come back really strongly this year. I think that's pushed on by the low vacancy rates with strong rental returns – pushing up in some areas up to 5 (per cent) and 5.5 per cent gross."

Sydney

Sydney's blue-chip suburbs have also been moving along in leaps and bounds.

"You look at Sydney as a whole and our top-line figures say that Sydney hasn't moved at all over the last 12 months," says APM's McNamara.

However, he points out that in 2006, premium suburbs including Palm Beach, Waverton, Bellevue Hill and Darling Point achieved double-digit growth.

According to Sydney buyers agent Patrick Bright, it's not just blue-chip suburbs that are in demand. The more affordable inner suburbs are also starting to see a lot of interest from buyers.

Bright says demand has been strong for quality real estate within 3 to 10 km of the CBD, as well as in the northern beach suburbs from Manly to Dee Why. He says this demand really started to heat up in mid-2006.

Just like in Melbourne and Brisbane, Bright says a lot of this demand is being driven by owner-occupiers. But he also says investors have seen the tide turning and have started to return to the market.

"They don't have a lot of confidence in the stock market – that's part of it. They're feeling that it's probably due for a correction... That's not my opinion. That's the feel I'm getting from buyers," Bright says. "The other thing is, they just feel (Sydney property) represents excellent value in this market. They see yields are coming back. Rental vacancy is well below 2 per cent. That is certainly pushing up rents."

Although Bright witnessed a surge in demand from mid-2006, he says some investors were trickling back into the Sydney market even before that. Of those investors who were early to return to the market, there was a significant number of ex-pats living in countries such as Singapore, Hong Kong and Japan. They felt that Sydney represented very affordable buying compared to the countries in which they were residing.

Overall trends

Many blue-chip and inner areas – suburbs with a good degree of 'scarcity' factor (i.e. limited supply) – are already growing strongly in our major capital cities.

Cornish comments, "Always in a cycle, the areas closer to the city (CBD) tend to stabilise and start to moderately recover first, before the outer suburbs. The outer suburbs tend to grow strongly later in the cycle."

Is now the time to buy?

McNamara believes that all capital cities apart from Perth and Darwin are pretty much at the "bottom" of the cycle. So he believes it's a good time to buy.

"If you get in at the bottom of the market as rental yields are moving upwards, then as the property market starts to pick itself up out of this stabilisation phase, then you'll be in the box seat," McNamara says.

If you look at Graphs 1 to 7 on page 37 you might be wondering where the "bottom" of the market is. There's not exactly a huge trough marking this event on a long-term graph.

Melbourne-based Wakelin explains, "You're not buying in a classic downturn. You're buying in a market that's quieter and somewhat more level than it was in 2001 and 2002."

In the past it was easier to recognise the peaks and troughs of a cycle but they're less marked in the current economic climate.

Price growth

So when will we see some serious price growth?

"I personally don't think that it will happen this year," McNamara predicts.

"We may start to see positive signs come back into the market at the end of the year and possibly into 2008. However, just the fact that in many places we're at the bottom of the market, it is a good time to buy and there are a lot of bargains out there."

KPMG demographer Bernard Salt doesn't expect to see a boom in 2007.

"What I'm saying is that 2007 could well be the thin end of the wedge, that the market stops flat-lining," he suggests. "And that there's a clear and concerted rise – modest at first but which could be expected to gather momentum in 2008/2009, leading to boom conditions at the end of the decade."

Melbourne-based Wakelin says, "It is likely that prices will rise this year – very likely. But it's already happening – anecdotally – within some of the areas (in Melbourne) that we've been talking about. But we haven't seen it in the stats yet."

Wakelin predicts growth will be between 5 and 8 per cent, conservatively speaking, in the inner urban areas of Melbourne this year. Matusik is also predicting moderate growth for 2007. However, he predicts that in 2008 Sydney will lead the charge with 10 per cent growth, while Melbourne and Hobart both see 8 per cent growth, and Brisbane and Canberra see 5 per cent.

There seems to be a general consensus that things are about to take off in most capital cities – albeit slowly at first.

It's as important as ever to research the area you buy into, to make sure you actually see some of this anticipated growth.

"When investors perceive that a market has levelled out… and the market becomes much more predictable… typically, investors re-enter the market quite quickly."

Rental returns

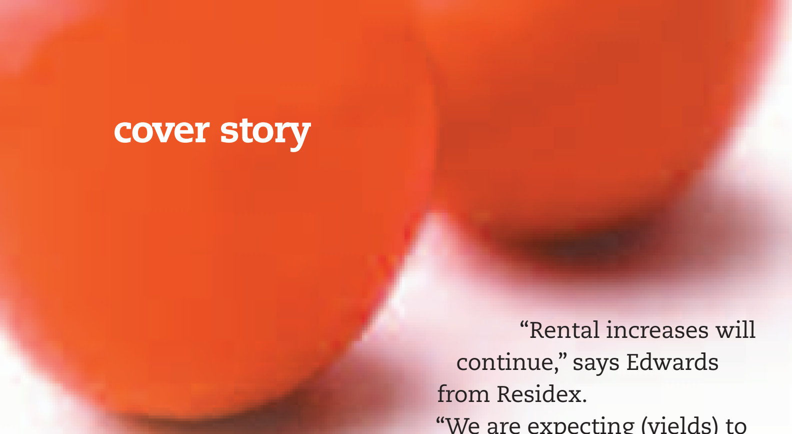
It's important to keep an eye on rent levels because improved rental returns might be one of the main drivers of the next upswing in the market.

Matusik says, "Most housing recoveries in the last 50 years in Australia have been driven by declining interest rates, with the exception of the 1960s where an undersupply of existing stock coupled with rising demand from overseas migration saw new housing starts rise.

"We envisage a 1960s-styled housing recovery this time around, as interest rates are likely to remain steady over the next decade or so.

"We are certainly more likely to see a rental-led recovery that an interest rate one."

So what is the outlook for rents?



"Rental increases will continue," says Edwards from Residex. "We are expecting (yields) to generally return to levels of something better than 5.5 (per cent)."

The media has enjoyed speculating on the potential for huge rent increases this year.

Cornish says, "If you look at past cycles when vacancies have decreased to the level they have now, apartment rents have typically risen about 8 per cent. It's about the same (for houses).

"They'll rise probably most in Sydney and possibly Perth," says Cornish. "That's where there's a shortage of property, and probably there's the strongest potential for tenants to pay more rent."

Cornish says you could see these rental increases coming a while back.

"It's really to do with investors leaving the market in mid-2003. And developers haven't been able to get projects up and running to a great degree, particularly on that investment side, in that time."

While there hasn't been a great deal of supply coming on to the market in the past three and a half years, there's been a migration turnaround and demand for rental properties has increased. There have also been would-be first homebuyers staying in the rental market because of affordability issues. All of these factors have placed upward pressure on rents.

Is it better to wait?

Let's assume there's only moderate growth on the cards in 2007 and that really significant momentum won't hit the property market for another year or two in most capital cities. If that's the case, why wouldn't you just wait a bit?

Bright says, "Most of the investors I've been acting for in the last 12 months (already) own between one and five properties. They're not beginners. They're not sheep. They're getting ahead of the curve.

"I think most people wait too late. And that's where a lot of people got stung (in the last property cycle). They waited until everybody else had done it and the market had shown a couple of years of 10 and 20 per cent growth. And then they got on the bandwagon and it was all a little bit too late."

Wakelin says, "If you can afford to get into the market now, particularly in the inner urban areas, and you're willing to do it with a reasonable amount of rational compromise, then get on with it."

This idea of "rational compromise" refers to the fact that many buyers will need to adjust their expectations in light of the strong demand and increasing prices in popular areas of our biggest cities.

"There's no point waiting and fiddling around," Wakelin adds. "The whole issue of financial independence has to do with building and controlling equity. The sooner you can get on with doing that, the more financially independent you can become, and the sooner it happens."

Many successful investors buy counter-cyclically. On that basis, now is as good a time as any to buy property in most of our capital cities.

However, if you can't afford an investment in a well-located area, perhaps there's no need to rush into an investment just yet?

"We believe that interest rate rises will have some knock-on effects in 2007," says McNamara, "especially for lower to middle-income earners. And we believe that the mortgage belts of most of the capital cities will probably see some weakening in their property prices in 2007."

It remains to be seen when outer areas will complete their adjustment phase and start to see price increases. This might cause some buyers to be cautious for the time being. However, some investors might see things differently. They might see this as an opportunity to swoop in and pick up a 'bargain'.

There seems to be a general consensus that things are about to take off in most capital cities – albeit slowly at first.

McNamara says there have been an increasing number of mortgagee sales in Sydney's west and southwest as a result of interest rate rises.

"Sydney's western suburbs have nearly doubled in the amount of auctions that they've seen (last year). It's not that western agents have decided to sell properties differently. It's more a factor that the banks prefer to send properties via auction where there's the mortgagee in possession. So in Sydney's western suburbs, mortgage holders are going to the wall," McNamara suggests.

"Whilst those prices (in outer suburbs) aren't exactly performing strongly, there are some good buying opportunities there. What you do look at as an investor, if you're taking a contrary position, is to look at areas where they're experiencing a bit of price softness."

Is it better to invest in another asset class?

While there's a general consensus among property analysts that now might be a reasonable time to buy property, each investor needs to consider which asset class is likely to deliver them the best results now and in coming years.

It's beyond the scope of this article to analyse the stock market and how its potential returns compare to those of the property market. At the start of 2007, some financial analysts were reported as saying that other asset classes, including shares, had the potential to outperform property this year. They were predicting a moderate outlook for the share market. However, these predictions might be readjusted in light of the instability of global share markets in March.

Growth in property prices may only be modest in the short-term, yet it seems that stalwart property investors have already started to return to residential real estate. Will you be joining them now, or keeping a hand in other markets for a little longer? It really depends on your individual circumstances and preferences.

Unfortunately there's no expert who can wave a magic wand and guarantee you strong returns in any asset class. However, if you're unsure which direction to take, it's still worth seeking professional advice, researching the various options and then making as informed a decision as possible.

Will the focus on super dampen the property market?

There has been some speculation in the media about the pulling power of superannuation and how it might draw demand away from the property market in this next cycle. This could obviously dampen the strength of the market's upswing.

In particular, there's been hype about the government's undertaking to allow after-tax contributions of up to $1 million to superannuation funds, provided those contributions are made by July 1 this year. (NB. At the time of writing the legislation to facilitate this had not yet been enacted). This opportunity allows for contributions of up to $1 million on which no tax will need to be paid now, nor in the future. (Historically, earnings in relation to such amounts have commonly been subject to at least 15 per cent tax). In the future, after-tax contributions will be capped at a much lower amount.

Some analysts have suggested that baby boomers on the cusp of retirement might start selling up their property in droves in order to put together a sizeable super contribution by this deadline.

Is it possible there might be a small selling frenzy in the property market?

Rod Cornish says, "There will obviously be some that (sell to take advantage of this deadline). Baby boomers are 45 to 60. Some have got a long time to go before retirement. But a lot of those baby boomers that made (property) purchases are in for the long term."

However, Cornish concedes that the overall attractiveness of superannuation could delay the return of significant numbers of investors to the property market.

While baby boomer investors might be slow to return to the property market, there are plenty of cashed up Gen-Xers who might lead the way.

Salt says, "I do see the next boom as quite a significant changing of the guard. The boomers have been through two booms. They cannot be significant players in a third. It's time for them to fade off into the background and let others have their turn. With Xers now in their 30s and well into their 40s, it's time for them to make their mark. And I think

that the resources boom is their opportunity to create and crystallise wealth in terms of private housing."

For many in Generation X, the idea of locking away a significant amount of equity in superannuation is out of the question. So it will be interesting to see how much of a force Gen X becomes this time around.

What if interest rates go up?

How would a further increase in interest rates affect the next stage of the property cycle? To answer this question, it's worth looking at the effect of the three rate rises of 2006.

Edwards says, "It was certainly nowhere near the disaster that was predicted."

Last year's rate increases may have slowed down or even ended the growth cycles in Perth and Darwin. However, they didn't seem to dampen price growth for the other capital cities.

Salt suggests: "I don't see (interest rates) as a major issue. Others do. But I still think in the big picture, long-term perspective of the world, interest rates are still at a relatively low level. And who's to say interest rates will go up again anyway? They might actually drop. There is a vested interest in many property journalists in hyping up and overstating the impact of interest rate movements. It makes for a more dramatic story," Salt says.

Cornish has a slightly different opinion. He says, "Our economists' view is that the case for a rate rise isn't that strong. Their view is that they believe rates should be on hold this year. But there is a risk that rates could be increased early this year and that would obviously delay things, because then it would be four rate rises over the course of 12 months."

Keep in mind that outer areas tend to be more affected by interest rate increases than the premium suburbs. So any dampening effect caused by rate rises would be more likely to show up in the 'mortgage belt' areas.

How will affordability affect the equation?

Matusik says, "There is a small brake on things – and that's affordability. I think the market would be a lot stronger if it wasn't for that."

There's no denying that affordability is a big issue. The December quarter 2006 HIA/Commonwealth Bank housing affordability index was at its lowest since the index was established in 1984. It showed that the average first homebuyer needs in excess of 30 per cent of disposable income to service minimum monthly payments on a new mortgage. So how might this impact on the property cycle this time around?

Lawless says, "I really think that affordability is going to be one of the main issues that holds back the general marketplace.

"That's why the top end is moving quite well – it's not impacted by affordability. But just the fact that so many people are being held out of the marketplace, due to the fact they can't actually buy into it, is really going to be a stifler of demand over the coming six to twelve months.

"And I really can't see any improvements in affordability," Lawless adds.

"I really think there needs to be a paradigm shift in the way people think about their property purchase decisions and how they'd like to live; more people probably choosing medium or high-density options or more people choosing suburbs that are further out of the city.

"I think the Australian dream is still there and people still want to live in their own property. But a lot of the traditional style properties that people have in their mind are out of reach now."

Wakelin agrees that people will need to change the way they think about property. In order to get into the Melbourne market, she says, people either need to be reasonably affluent or they need to be willing to compromise. She echoes Lawless' view that some people might need to compromise by living in a suburb which is further out from the CBD. Or the compromise might be buying an investment property in an affordable area while continuing to rent in a more popular inner area.

"I think most people wait too late. And that's where a lot of people got stung (in the last property cycle)."

"It's easy to see why (people are opting to rent in popular inner areas). If you're renting a property you're effectively paying 4 per cent of the capital value in rent, versus 7 per cent – or a squeak over that – to repay the mortgage," Wakelin explains.

Matusik also believes attitudes will need to change in order for the affordability question to be properly addressed.

"Today, first homebuyers appear unwilling to accept the concept of a 'housing ladder' and aspire to purchase something much more grand than the traditional first homebuyer's dwelling," he says.

These days, first homebuyers often target the areas where the affordability issue is most acute, Matusik says. This means that "an opportunity exists for developers to offer a more basic product in terms of floor area, level of specification/finish, and number of rooms to the first homebuyers' market and more importantly to residential property investors".

Until this change in attitude, or housing product, comes to fruition, affordability does have the potential to hold back price growth in some sectors of the property market.

However, Matusik believes there's a more significant problem which would need to be addressed in order for affordability to improve.

"Extraordinary price growth, resulting from competition for housing, can only occur when there's a constraint on the long-term supply of dwellings," he argues.

Matusik believes there isn't a problem with respect to the supply of apartments. Rents and prices for units have risen in line with inflation, on average, since the late 1980s. This is because there has been an adequate supply of new apartments in this time.

On the other hand, the cost of established houses (including land) increased by 325 per cent between 1986 and 2006. Consumer prices only rose by 104 per cent in the same period.

When you compare this to the increase in the price of project homes excluding land (148 per cent) and the increase in the cost of building materials (91 per cent), you can see that it's land which has been driving the cost of housing upwards.

Land prices have been increasing by about 11 per cent per annum over the past decade, according to Matusik.

This is a reflection of the constraint on supply, and the high taxes and tariffs on the provision of land for residential development. He says the GST has also significantly pushed costs up.

"Limitations of land supply, either directly through quantitative limits or indirectly through taxes and charges, result in higher land costs, and ultimately more expensive housing," he argues.

Decision time

In the premium locations of most capital cities there are signs of growth. However, outer suburbs and the general marketplace are still in the stabilisation phase and there's a question mark about when prices will start to grow again in these areas.

Affordability is something which has the potential to hold back this growth.

But if you're looking for signs that the market has risen from the dead, there are plenty of those around. And the early investors are already coming back.

However, those considering investments in Perth and Darwin need to exercise caution, Edwards suggests. The days of extraordinary growth in these two cities seem to have drawn to a close. ■

Now that we've looked at the economic side of the picture, you might want to consider the psychological side. How can you feel comfortable buying property before the 'crowd' catches on? For more, turn to page 86.