Finance 4
+ Homes + Investments +
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Tel: (07) 3818 1144 Fax: (07) 3818 9944
Email: info@finance4.com.au
Web: www.finance4.com.au
Office: 2 Rawle Street, Camira Q 4300
Postal: PO Box 4227, Springfield Q 4300

A Good Time To Buy?

We are in an information age where there is an abundance of statistics.

In this article we take a look at some of the key indicators, and see if now is a good time to buy property.

Every week sees the announcement of another set of figures released by the government, an industry body, private research firm or newspaper.

With so much information it can be difficult to "see the wood for trees".

For many of us interested in property, we are really looking for the answer to the question "is now a good time to buy?"

Timing The Market

The first point to make is that trying to pick the right time to enter any market is difficult if not impossible. There are so many factors at play, some of which are just not predictable.

Secondly, if you're purchasing a home or an investment property then you would normally be purchasing for the medium to long term, in which case the principle of "time in the market" is more relevant. In others words, over the medium to long term we know that property will rise in value.

Having said that, it is still useful to look at the market and determine whether it may be a good time to buy, or whether to delay the decision. But on what basis can we make this judgement?

For the remainder of this article we will draw on statistics published by the Real Estate Institute of Australia ("REIA") in its latest property market review, the Real Estate Market Facts report for the March Quarter.

Price Trends

Whilst we are all aware of the resources boom driving property prices higher in parts of Western Australia and Queensland, in overall national terms the weighted average median house price has decreased by 0.6% over the quarter to just under $419,000. In the previous quarter there had been a rise of 2.3%, and over the 12 month period prices had risen by 6.2%.

This shows that house prices nationally are currently fairly flat, although still showing good growth over the 12 month period.

Rents

Rents continue to increase across the country. In the past 12 months the median rent for a three bedroom house has increased from 5.7% (Sydney) to 16.7% (Perth). Both Canberra and Darwin have also seen double digit increases with 10.5% and 13.3% respectively.

These increases are being partly driven by the lack of available property to rent.

Vacancy Rates

A good indicator of this imbalance between demand and supply is the reported vacancy rates figures. An industry benchmark is 3% vacancies. A rate lower than this indicates strong demand for rental accommodation.

Vacancy rates across all capital cities are sitting at well below this figure, with all cities except Hobart showing rates of under 1.8%, with the rate generally decreasing over the previous 12 months.

The current movement of investment funds out of property and into superannuation to take advantage of the 30th June deadline on tax-advantaged contributions has undoubtedly added to this trend.

However, the demand for property is also a function of population growth and trends in living. The population has grown by over 6% in the last five years, and the number of households has grown by nearly 9.5% in the same period as the number of couples without children and singles increases.

On the supply side, building approvals are below the long term average. The Reserve Bank of Australia ("RBA") reports that approximately 142,000 new dwellings were built in the last 12 months. This compares to an estimated "underlying demand" of up to 175,000 a year.

Interest Rates

There were three interest rate rises in 2007, and the last one in January 2008 by some of the major lenders. The current bank standard variable rate for a home loan is at 8.57%, although there are many products in the market with a much lower interest rate.

The outlook for interest rates is notoriously difficult to predict. Certainly the economy remains strong, with an annual growth in demand of over 4%. The RBA will watch this closely because if this trend continues then inflation could start to rise – triggering the RBA to increase rates again later in the year.

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However, many commentators believe that we are now close to the top of the cycle in interest rates, so an increase in the next few months could be the last one for some time, with the rate staying unchanged for a sustained period followed by a small downward trend. This will make home loans become more affordable.

What Does This All Mean?

Whilst it is impossible to predict the future with certainty, a few points can certainly be made:

- Property will continue to increase in price over the medium to long term, as demand continues to outstrip supply.
- Property prices are currently flat and even going slightly backwards, indicating we are close to the bottom of the price cycle.
- Rental properties are in short supply, and rents are increasing significantly. This will drive many renters to consider purchasing a property.
- Interest rates, whilst they may rise again later this year, are close to the top of the cycle.

In summary, if you a renter or a potential property investor, now is a good time to get into the market.

Sources

1. REIA Real Estate Market Facts Report – March 2007 Quarter.

2. Economic Conditions and Prospects - Glenn Stevens, Governor of the RBA – Brisbane June 2007

3. Infochoice Ratewatch – Historical Rate Movements.

Disclaimer

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