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Housing to stay on hold

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THE drop in Australian housing starts is not just a blip.

Rather, it is here to stay for the next few years as the threat of interest rate rises force many to delay buying a new home.

The latest predictions for the housing market by forecaster BIS Shrapnel has found that even high levels of overseas migration to Queensland will not improve the situation in the short term.

It will, in fact, put more pressure on the rental market.

The BIS Shrapnel building industry prospects report predicts national housing starts will fall by a further 5 per cent in 2006-07 to 142,500 dwellings.

Although there is "substantial" deficiency in new home starts in southeast Queensland, BIS Shrapnel senior project manager Jason Anderson believes high interest rates will still keep the affordability barrier too high for some.

Another interest rate rise is expected in November and the predictions are that could be followed by another increase next June.

As a result, Mr Anderson believes there will be further drops in resident building activities.

Predicted interest rate rises are not the only reason for the housing undersupply.

"BIS Shrapnel argue the

limitations on residential land supply and consequent upward pressure on prices, particularly Sydney and southeast Queensland, have also contributed to challenging affordability and the downturn in demand," the report said.

Overseas migration to Queensland is not expected to improve the situation much in the immediate future.

Mr Anderson said many people moving to Queensland were not choosing to buy straight away.

"They tend to go into the rental market first," he said. "People don't want to buy straight away or are not in a position to buy."

This could tighten the rental market and lead to potential rent increases. Mr Anderson said Australian rental vacancy levels were very low.

"With a supply of new dwelling decreasing rental markets are set to tighten even further in 2007 and 2008," he said.

A HIA/Commonwealth Bank affordability report released last week said average first-home buyers would have to commit 27.7 per cent of their income to servicing a mortgage if they were buying outside the Brisbane metropolitan area.

For Brisbane buyers that figure rose to 30.1 per cent.

It's a three-year low for affordability and the second-worst situation in the country outside Sydney.

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