

Abbott will trigger a housing boom

Robert Gottlieb - Election 2013

The looming Coalition landslide win on Saturday is now virtually certain to trigger a series of housing booms in Australia. In some areas the boom is not waiting for September 7.

The money markets are expecting another two rate reductions in the coming year. I no longer think that is likely. Indeed the chaos in Canberra appears to have thwarted the Reserve Bank's attempts to stimulate the economy via interest rate reductions. Not realising what was happening; Reserve Bank Governor Glenn Stevens may have gone too far.

You will remember last month I alerted Australia to the likelihood of a post-election boom in housing caused by the unprecedented low interest rates coinciding with a change of government (**Beware the mother of all housing booms August 13**).

At the time a lot of people scoffed at the idea. But at the weekend I was in the company of one of our larger outer-suburban homebuilders with operations in Brisbane, Sydney and Melbourne. In the last few weeks they have seen a level of inquiry rarely matched in their history. But unusually, the levels of inquiry did not see the normal level of agreements signed, even though the buyers were clearly ready to go. They just wanted to make sure that the current government really is going to be convincingly removed on September 7. The builder is then expecting an unprecedented avalanche of orders.

And over the weekend there were plenty of anecdotal signs that the uncorking of the residential building industry in Australia is happening. There was active demand for outer-suburban land in Sydney and Melbourne at the weekend and the demand for inner-suburban dwellings continues to be very strong. There is keen competition between buyers at auctions.

In Melbourne there is a large supply of apartments but in Sydney the supply is much more restricted. Sydney's largest apartment owner and developer, Harry Triguboff, is frightened of a price explosion and is selling some of his investment apartments onto the market. He is stepping up the purchase of apartment land (Putting a lid on property exuberance, August 21).

Once the current stock is exhausted, the price rises could accelerate in some areas because the banks are squeezing the supply of dwellings by making it hard for developers to get finance. This combines with myriad regulations and planning bodies to further restrict the supply. At the same time, the banks are generous in their lending to consumers so are fanning demand for the restricted supply. Given the level of interest rates, this is very dangerous.

Right now, all around Australia, home builders are struggling. My advice to them is to hang in there, because better times are just around the corner.

But many will be caught with low-price fixed tenders that were made to keep their operations going. The demand surge will lift prices and make those fixed price contracts high risk.

Those buying apartments off the plan may find that the developers cannot build at the prices which have been offered.

It is rare in Australia for a looming election outcome to trigger so much activity in one industry. It will spread later into other areas.