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Home prices dip as rates bite

Slowing economy wipes out big gains on property

By **ELI GREENBLAT**
PROPERTY EDITOR

MELBOURNE house prices have recorded their biggest quarterly fall in value since 1993 as interest rate rises and fears of a slowing economy dull buyers' appetites for homes.

The median price for a detached home in Melbourne in the March quarter was \$432,500, a slide of 8.4% from the December quarter median of \$472,250.

The sharp fall will raise the hopes of many people who have been locked out of the housing market in the nation's housing affordability crisis.

The National Australia Bank yesterday lifted its variable mortgage interest rates by 0.1 percentage points, raising its standard variable home loan rate to 9.46%. On Thursday, the ANZ bank decided to raise rates by 0.1 percentage points.

Real estate agents and property experts had tipped a cooler market this year after Melbourne's median price surged 23.4% in 2007 to \$485,000.

The Reserve Bank's decision to lift official interest rates four times since August, combined with higher petrol and food prices, has capped consumer spending power.

"There is some nervousness among consumers and many are waiting to see more stable conditions in terms of interest rates," said Chris Lamont, chief executive of policy at the Housing Industry Association of Australia.

"Certainly you are seeing properties and transactions not at 2007 or 2006 levels, and it's fair to say that with existing housing stock it's going to be a fairly cautious road for the next three to six months."

Melbourne's most popular suburbs, located in the inner-city, remained resilient despite the general price decline. Kensington's median price rose 5.5%, Toorak rose 8.2%, Prahran gained 9.3% and Port Melbourne was up 10.7%. Brighton was the odd one out, with its median price falling 4%.

Buyers' advocate Christopher Koren, of Morrell & Koren, said the property market was mirroring sharemarket downturns.

"There has always been an expectation that since the stockmarket had a severe correction, that based on past history, for example 1988, it was going to happen again in the property market in Melbourne," he said.

"It's a correction and it may even correct a little bit more."

Data from the Real Estate Institute of Victoria has revealed that all the gains made by Melbourne property since mid-2007 were wiped out by March this year. It was the largest fall in a three-month period since the third quarter of 1993 when house prices slid 10.9%.

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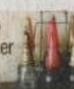

"The first three months of 2008 has seen the residential property market return to a stable and sustainable level," said REIV chief executive Enzo Raimondo. "I don't think we will see these reductions each quarter, but we will certainly see a much more stable property market." Apartments in metropolitan Melbourne were not spared, with the median price for a unit dropping to \$370,000 from \$385,000 in the December quarter, a fall of 3.9%.

Mr Raimondo said the March quarter typically recorded a fall in property prices due to the limited number of auctions caused by the Christmas-New Year holidays and a number of long weekends. However, that decline was traditionally capped at 2 to 3%.

Within the metropolitan area, Mr Raimondo said it appeared that the greatest impact was in the more expensive suburbs of Melbourne. "This is highlighted by the fact that most of the suburbs with the highest growth rates for the quarter are not in the inner city," he said.

Despite purchase prices falling, rents are still rising. CommSec chief equities economist Craig James said rents were increasing at the fastest pace in almost 18 years, boosting inflation and putting pressure on interest rates.

"The fundamental problem is a lack of investment, with investors still not moving into the property market despite the sharp falls seen in the sharemarket," he said.

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