

What are you waiting for?

While first home buyers abound, wary property investors are taking a while to move back into the market, writes **David Potts**.

There was an advertisement on TV once where the traffic lights change and an impatient driver leans out the window and screams "it won't get any greener!" at what turns out to be a police car.

What happened next, not to mention what was being sold, are lost in the mists of time but it must be how real estate agents are feeling.

The lights have turned green and nobody is moving.

Except, would you believe, first home buyers. What is it with them? Talk about impatient.

High interest rates, property prices in many areas hovering around all-time highs, the banks tightening up, rising fuel, food and electricity prices... goodness, you wonder how on earth they can afford a place.

That's just it. Many of them can, although, as Mortgage Choice points out, while December had the most first home buyers in nine months, there are still about 900 fewer than the norm.

They can do it because they're earning higher wages, face a strong job market and the

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alternative is surging rents. Is that telling you anything?

OK, try this. The over-the-top interest rate rises in November, where borrowers got almost two hits in one as the banks went further than the Reserve Bank, have been seen as, well, over the top.

That's to say we've got them over and done with for a while and the Reserve Bank's governor, Glenn Stevens, as good as said so in his latest testimony to Parliament's economics committee. Asked where interest rates were going, as you do, he replied: "Market pricing at present has nothing much happening until quite late this year, which means they think nothing much is happening for some time."

And this: "I'm fairly content with where we are at the moment. We are in a good position. We are ahead of the game, which is where you want to be, and that's the thing that affords you periods of sitting, waiting and watching and sometimes they can be reasonably lengthy periods of time."

That's not a promise, mind you, but it's nice to know that he doesn't want to lift rates.

So there we have it. Rising rents, stable interest rates, growing wages and strong employment. Where, then, are property investors? Like first home buyers, they're putting a tentative foot back in the market at best.

Potential investors are spooked by recurring predictions of a crash in property prices.

With the global financial system likely to be jittery for years with its sovereign debt problems, and the shocking fallout on property prices in the US and Britain a lesson for us all, no wonder they're wary.

Each of the big banks has produced research reports debunking the likelihood of a crash or even a serious correction.

The latest is ANZ, which says it's this very perception that needs the correction.

In fact, there's a shortage of dwellings, most notably in Sydney, and the problem won't be rectified quickly.

It estimates dwelling starts will fall from 149,000 last financial year to 131,000. But at least 180,000 places need to be built just to keep the status quo, which is a shortage, anyway.

"The lagged effects of rising mortgage rates will maintain a reasonable headwind, inhibiting the much-needed recovery in dwelling construction over 2011 and into 2012," it says, predicting such vacancy rates will drop below 1 per cent in the second half of the year as a result.

That suggests the mother of all rental squeezes is approaching, especially in Sydney.

"Fundamental conditions in the Sydney housing market remain tight, with dwelling completions running at a meagre 26,000 (about half the levels of a decade earlier), well below underlying requirements," ANZ says, predicting rents will rise by "close to double digits".

A rent squeeze doesn't suggest collapsing property prices. About the worst that has been said for this year is that the market will be sluggish – and while there are likely to be price falls in some areas, they'll be small.

"We're in a rental market because of high interest rates," the managing director of buyers' agents PK Property, Peter Kelaher, says.

"The next three years will be sensational for investors."