

IN BRIEF

CRIME

Two on murder charges

POLICE have charged two men with murder after a Corio man was killed in Geelong early yesterday and his body left near a primary school. The body of Damien Everitt, 18, was found by a taxi driver about 12.35am on the footpath of Maryland Drive, near Corio South Primary School. He appeared to have received extensive facial injuries, police said. Joel Michael Hargraves, 21 and Douglas McIntosh, 22, have been charged with murder and remanded to face court on Monday.

FISH SCARE

Pollution ruled out

THE Environment Protection Authority has ruled out pollution as the cause of lesions detected in fish caught in Port Phillip Bay, revealed earlier this month. The EPA found flathead, flounder, puffer fish and cobbler with head lesions. Reports from the public also indicated other species were affected. The EPA said yesterday that it checked bay water quality, pollutants, toxic phytoplankton and other possible causes, and concluded that pollutants were not responsible.

KAYAKER

Search delay criticised

A CORONER has criticised the delay in launching a rescue for Australian kayaker Andrew McAuley after he issued a final distress call in February last year during his ill-fated voyage across the Tasman. New Zealand coroner Trevor Savage said a decision by rescuers not to play McAuley's wife Vicki a full recording of the distress call had reduced the chances of finding him. NZ rescue aircraft did not begin a search until four hours after his distress call was received.

INJURY

Girl hit by car

A SIX-YEAR-OLD girl was in a critical condition in hospital last night after she was hit by a car while crossing a road in Reservoir. The girl had been crossing the road with her father and another child shortly before 7pm. The three had reached the median strip on Spring Street when the girl went ahead on her own. She was then hit by a car driven by an 18-year-old woman.



STEVE KEEN
Associate professor school of Economics & Finance, University of Western Sydney

"It has to fall at least as far as the US market will, and probably a lot more."

Has the market reached tipping point?

It's actually several markets, and one of them — the working/lower middle-class suburbs of Melbourne and Sydney — is past tipping point and in decline.

Wealthy suburbs in Sydney and Melbourne may be on the verge, with the declines in the stockmarket bringing to an end the "turn it into bricks and mortar" approach to locking in share trading profits. There may be some major declines there, as people who are being crucified by margin calls are forced to liquidate.

Overall, the market has to be topping. Our bubble almost turned in 2004 — and if it hadn't been for Howard's doubling of the first home buyers grant and halving of the rate of capital gains tax (when owners sell an investment property), it probably would have. Those populist policies restarted the bubble as it began to falter. It might have another year left in it, by which time house prices would have tripled in less than 20 years — whereas the dreaded consumer price index (and wages!) has risen by just over 50 per cent.

When it does turn, what's in store?

It has to fall at least as far as the US market will, and probably a lot more. Some conservative pundits think US prices need to fall another 25 per cent to restore pre-bubble valuations, and they've already fallen 8%. That means a 33% decline from a peak that's 30% lower than ours. Given that our economy is in slightly better shape than

theirs, it still puts a minimum on the price decline needed of about 33%, and a maximum of 50% could apply if the China boom comes to an end.

Rates hit 17% under Keating. So 7% isn't nearly as bad — is it?

For mortgage stress to be the same today as it was in 1990, mortgage rates would need to be 3%! So 7% now — and 8-10% on mortgages themselves — is three times worse than 17% under Keating.

Is it time the Government bit the bullet on capital gains tax breaks/negative gearing?

Definitely. But the cautious approach of tinkering with rebates and subsidies is bound to win out over the hard policy of removing, once and for all, the incentives that have so distorted our housing market.

This would be predictable, timid, and ultimately useless policy. Almost every such trick simply boosts some sector of the market's demand capacity — when what we need to do is drive down the demand price.

Removing capital gains and negative gearing would slash demand, but the Government will hold off because many people who still anticipate real estate profits would scream blue murder. So to placate the winners, the losers will suffer.

We've heard a lot about "mortgage stress", but it's often associated with traditional "battler" locations. Is this going to change?

Yes. The stockmarket collapse and the margin calls that are part and parcel of it will cause the top end to tank — possibly more severely than the battler end. This market decline still has legs, and it will take the upper housing market with it.

What's in store for renters — won't higher rates fuel rent and thereby inflation?

Yes! This is the comical thing about trying to control inflation using interest rates. The three main contributors to the latest CPI figure in order were transportation (5.6%), financial and insurance services (4.9%), and housing (4.8%). With them

removed from the index, the rate might well be still within the RBA's target range.

Of course, at some point the rates will turn the screws so thoroughly that the economy will tank, and then distress sales will drive prices down.

Where to for rates?

Up for the next six months to a year, as the RBA pursues its inflation obsession, and then down like a brick in hot pursuit of a declining economy. This is where the US is now, and we are only time away from joining them.



MARK ARMSTRONG
Director Property Planning Australia

"Australia will follow European and US trends where many rent for life."

Has the market reached tipping point?

Interest rates rises will make some markets tip over, but others are likely to firm. If in a suburb such as Caroline Springs, around 8% of the real estate is owned by investors and more than 90% is owner occupied. Of the owner occupiers almost 70% are still paying a mortgage. This means most people in those areas feel a direct impact from an interest rate rise.

Compare this with a suburb like Prahran. In Prahran only 17% of people living there are paying off a mortgage. Investors won't feel the full force of an interest rate rise because as interest rates rise there is more pressure applied to rental demand and rents are forced up. In addition, up to 45% of any interest rate rise can be offset by negative gearing.

Other areas that are dominated by investors and as a result do not feel the impact of interest rate rises are likely to firm up and continue to grow. Demand for property in these areas will

increase as the sharemarket remains so unstable.

Many homebuyers with big debts have consoled themselves with phenomenal growth in some suburbs. But at what point should they be worried?

Demand in first-home buyer-dominated areas is softening as interest rates increase and more first home buyers continue to rent. At the same time, supply will increase as many are forced to sell due to affordability issues. The supply and demand curves are working against these homeowners.

Is it time the Government bit the bullet on capital gains tax breaks?

Should they or will they. The answer to the second option is no — Kevin Rudd will not touch negative gearing or capital gains tax breaks. He was voted in as an economic conservative and will not want to rock the boat too much.

Should he? It would be a very dangerous move. Keating did in the '80s and quickly saw the error of his ways. Although there are differing views on the impact it will have there is no doubt investors would leave the market in droves. Property prices would plummet in some areas and rents would increase due to a lack of supply of rental property.

What about renters?

Increasing rates will keep homeowners out of the market and encourage investors back in. We will see the percentage of home ownership in Melbourne decline as a result. Home ownership in Australia is at around 70%, but when it is broken down, we see that in many of the inner-city suburbs it is around 50%. South Yarra is already 60% investor owned. Rising interest rates puts pressure on rents. Ultimately, Australia will follow European and US trends where many people rent for life.

Where to for rates?

Who knows.

DOMAIN

► Your money or your mortgage