

# Dragging the **property** anchor

Dragging an anchor tends to unsettle even a seasoned sailor. There is a similar sensation when house prices are sliding in the local neighbourhood. The value of our home is usually the foundation of our personal wealth.

But its impact goes far beyond the actual dollar value of a person's house – it contributes significantly to the overall confidence level about spending and investing and financial security generally.

In the US there has been a national decline in house prices – according to the S&P/Case-Schiller national index, house prices in the US fell a further 4.2 percent in the first three months of this year. That puts US house values back to where they were in 2002.

So it is not surprising there is an increasing focus on the impact that such a dramatic fall in house prices is having on households. Articles and research studies abound on the emerging stress impacts on families of being trapped in houses with negative equity.

Back home, the way we sell houses varies across the country. But if you are a Melbourne resident the auction system is both popular and public. In many ways it is free street theatre. Auctioneers always seems to have voices that would be comfortable on stage – even if the language content could stand some literary improvement – and when prices break through the reserve everyone goes home happy.

Recently, more by chance than design, I found myself an interested spectator at two auctions in different parts of town but with one stunning common factor – not one genuine bid was proffered.



Now that is hardly a representative sample but it prompted further inquiry and the latest quarterly median price survey by the Real Estate Institute of Victoria showed a 6 percent drop in Melbourne's median value from \$601,000 to \$565,000.

Nationally the figures are also down but not so much – capital city prices fell by 1.2 percent in the three months to April according to the RP Data Rismark Home Value Index.

Now given the strong growth in Australian house prices and the subsequent decline in affordability particularly for those looking to get their first home, some drop in house prices is almost a welcome breather – unless you are a seller.

The situation in the US is much grimmer in no small part because in the US people fell into the trap of regarding their house as an ATM and lending standards on sub-prime mortgages – we can now see with the benefit of hindsight - fell to unsustainable levels.

While in Australia we have been spared the sub-prime loan excesses the recent downturn in house prices is a useful reminder of two key points: property prices, like every other asset class, move in cycles. And you don't want to be – as so many in the US are today – a distressed seller.