

# PM

WITH MARK COLVIN »

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**STEPHEN LONG:** Baby boomers have boosted the property market, but what's going to happen when they retire? According to some experts, we're likely to see home prices, and share prices, fall. That could hit the banks hard, but according to a leading investment firm, they've got some more immediate concerns.

UBS says the big four will be dragged down in coming months by slowing credit growth and a patchy economy.

David Taylor.

**DAVID TAYLOR:** The great Australian dream of a quarter-acre block is fast becoming a nightmare. Australians are struggling under the weight of higher interest rates, inflated prices for basic utilities, and increases in the price of fuel.

**HARLEY DALE:** I think there's little doubt that households are quite cautious and nervous about the future at the moment, and that nervousness isn't being helped by concern about the risk of higher interest rates.

**DAVID TAYLOR:** Harley Dale is the chief economist of the Housing Industry Association, or HIA. He says there are growing signs of a distressed housing market.

**HARLEY DALE:** So in these middle months of 2011 we continue to get indications that the volume of new home sales is tracking at levels considerably lower than their average over the last couple of decades.

**DAVID TAYLOR:** Figures released by the HIA today show sales of new homes fell by 2.4 per cent in May. And ongoing difficult conditions aren't helping.

HARLEY DALE: Land supply remains an issue. Planning delays remain an issue. And in the post-GFC it is considerably more difficult to access finance for residential development than was the case three or four years ago.

DAVID TAYLOR: Investment expert, Roger Montgomery, isn't encouraged by the comments from the Housing Industry.

ROGER MONTGOMERY: Well firstly let me say this: normally you don't ask a hairdresser whether you need a haircut because they're always going to say yes. So when you're asking a real estate person what the housing outlook looks like and they say it's going to be flat, that usually is pretty bad.

DAVID TAYLOR: It raises questions about Australia's big four banks given their exposure to the Australian housing market.

Investment firm UBS today downgraded the earnings forecast of Australia's big four banks. They say Australian households don't want to take on more debt.

The other risk facing the banks is an eventual property market sell-off.

BBY banking analyst, Brett Le Mesurier, says a significant fall in house prices would hurt the sector.

BRETT LE MESURIER: Yeah the issue is for banks, the asset quality should hold up alright as long as there's not a substantial fall in housing prices.

DAVID TAYLOR: Roger Montgomery believes that drop in house prices in on its way, as baby boomers look to retire.

ROGER MONTGOMERY: We've got two generations, two large demographic cohorts in Australia, the Baby Boomers and Generation X.

Now the Baby Boomers own all the property, but they're ageing and they'll have to fund their retirement and their healthcare. To do that, many of them don't have enough cash, so they'll have to sell their property, they won't just be able to bequeath it to their children, they'll literally have to sell it and get some cash. The generation below them is crying poor and saying they can't afford to buy property in Australia, property prices are too high.

So when you have one generation that needs to sell and another generation that can't afford to buy, well, there's only one solution and that is lower prices.

DAVID TAYLOR: But the banks are a resourceful bunch. Just this week we've seen mass redundancies by major international investment banks like Goldman Sachs, Lloyds, and HSBC. Westpac and the ANZ just this week decided to send 250 jobs offshore. Macquarie Bank has also cut stuff.

ROGER MONTGOMERY: After the global financial crisis ended, or bottomed, there was a massive upscaling in expectation of a lot more mergers and acquisitions activity. That hasn't eventuated and as a result the banks are letting go of the capacity that they took on.

STEPHEN LONG: Investment advisor, Roger Montgomery, ending David Taylor's report.