Home prices surge over 2009

Monthly house prices

- **New data shows that home prices have surged in the first four months of 2009. The RP Data-Rismark Hedonic Australian Home Value Index – the largest property database in Australia – rose by 2.8 per cent in just the first four months of 2009.**
- **Darwin has led the way over the first four months of 2009, up 5.3 per cent with Melbourne home prices up 4.5 per cent, and Sydney prices up 3.9 per cent. Prices rose in all capital cities except Perth.**

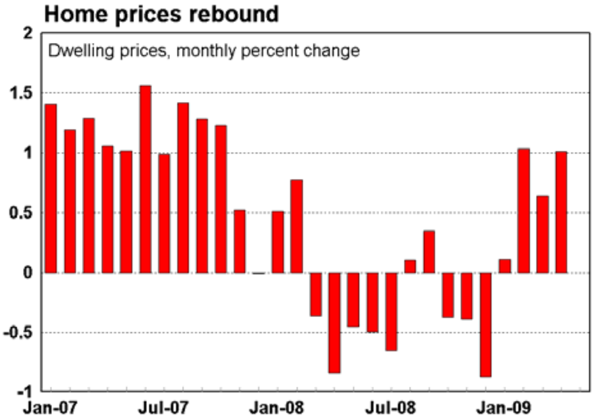
What does it all mean?

- Home prices are again rising across Australia – in fact they began rising in January and have been picking up steam ever since. A combination of generational-low interest rates, tight rental markets, the expanded first homebuyers grant and soggy sharemarkets have caused more buyers and investors to turn their attention to the property market.
- Australia has been called the 'wonder from down under' because our home prices are not falling at 20 per cent annual rates like in the US and UK. However the situation is far from remarkable. Population is rising at the fastest rate in 40 years, interest rates are super-low and we have a very tight rental market. It is simple demand and supply – demand is outstripping the supply of homes, putting upward pressure on prices.
- The result on home prices is heartening for the Reserve Bank, Federal Government and all Australians. Modest gains in home prices boost consumer confidence, wealth and spending levels. And if confidence and spending levels lift, this will in turn boost employment and ensure that the flat spot experienced by the economy proves brief.
- CommSec believes that the fears about future job losses have been overdone with businesses cutting hours and salaries rather than jobs. With unemployment likely to only creep higher, the rally in home prices won't be derailed. In fact the experience from the last recession shows that home prices can lift as unemployment rises.
- The RP Data-Rismark index has emerged as Australia's authoritative source on home price trends. The property database is Australia's largest and, unlike the Bureau of Statistics, all properties are counted, not just free-standing homes.

What do the figures show?

- **The RP Data-Rismark Hedonic Australian Home Value Index** rose by 1.0 per cent in April after lifting 0.6 per cent in March, 1.0 per cent in February and 0.1 per cent in January.
- Over the first four months of 2009 capital city home prices rose by 2.8 per cent. Over the year to April home prices were unchanged.
- Units have outperformed free-standing houses in the first four months of 2009. Unit values increased by 3.3 per cent in the period while house values rose by 2.7 per cent.
- The "final" March quarter RP Data-Rismark Hedonic Australian Home Value Index result was revised up

Home prices rebound



Source: RP Data-Rismark, CommSec

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from +1.6 per cent to +1.8 per cent.

- Darwin was the strongest of all capital cities with home prices up 5.3 per cent in the first four months of the year. Melbourne prices rose 4.5 per cent followed by Sydney (up 3.9 per cent), Brisbane (+1.6 per cent), Canberra (+1.1 per cent) and Adelaide (+0.7 per cent). Perth prices fell 0.8 per cent over the period after stellar gains in recent years.
- RP Data-Rismark calculates the median capital city house value across Australia at $489,748 with the median unit value being $398,599.

What is the importance of the economic data?

- The **RP Data-Rismark Hedonic Australian Home Value Index** is based on Australia's biggest property database covering 60,000 Unlike the ABS Index, which excludes terraces, semi-detached homes and apartments, the RP Data-Rismark Hedonic Index includes all properties
- The monthly RP Data-Rismark Hedonic Index compares month-to-month index results. Accordingly, the first quarter of 2009 index results compare the end of March index with the end of December index.
- Rising house prices serves to lift consumer confidence and wealth levels. However rapid increases in home prices decreases housing affordability.

What are the implications for interest rates and investors?

- The latest data on home prices confirms our view that interest rates have all but bottomed. While there is still an outside risk that the Reserve Bank will cut rates again, the chances of a rate cut are growing smaller as each day passes.
- The lift in home prices should encourage more investors to enter the property market, potentially restraining the rally on the sharemarket.
- The Reserve Bank will need to be mindful of the 1987 situation where investors and buyers directed their attentions away from the sharemarket to property, sending property prices soaring.
- The lift in home prices is positive for consumer spending, buoying prospects for retailers as well as builders and developers.

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