

Price softness creates opportunities...

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December Quarter ABS House Price data

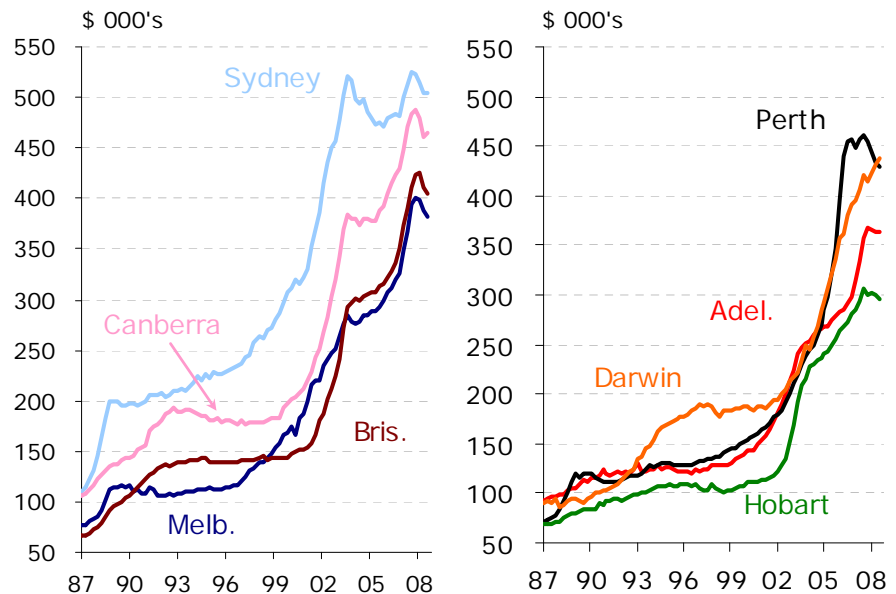
- Australian established house prices (median) eased 0.8% in the December quarter. Softer prices were experienced across most capital cities in the quarter as follows: Melbourne (-1.7%), Brisbane (-1.2%), Hobart (-1.0%) Sydney (-0.3%) and Perth (-0.9%). Increases in prices occurred in Adelaide (+0.3%), Darwin (+1.6%) and Canberra (+0.7%). September quarter prices were revised down to a 2.4% fall (from -1.8%).
- Prices were weaker in the quarter as buyer and investor sentiment reached news lows as stock markets plummeted. Economic uncertainty began to rise as the financial crisis continued to bite and developed country economies slipped into recession. As a result, property market activity slowed, interest rates were cut in the quarter but only really began to improve market activity in December. Prices are down 3.3% for 2008, yet this should be viewed in the context of a 13% rise in 2007.

Key Figures

| | Dec quarter (%) | Year to Dec quarter (%) | Median (\$000)* |
|------------------|-----------------|-------------------------|-----------------|
| Sydney | -0.3 | -4.1 | 503.8 |
| Melbourne | -1.7 | -3.2 | 381.3 |
| Brisbane | -1.2 | -1.4 | 405.2 |
| Adelaide | 0.3 | 2.0 | 364.0 |
| Perth | -0.9 | -6.7 | 430.1 |
| Hobart | -1.0 | -3.1 | 296.1 |
| Darwin | 1.6 | 3.8 | 437.5 |
| Canberra | 0.7 | -4.1 | 464.4 |
| Australia | -0.8 | -3.3 | 428.4 |

Source: ABS * Calculated from ABS price transfers data

Figure 1: Australia median house prices



Source: ABS

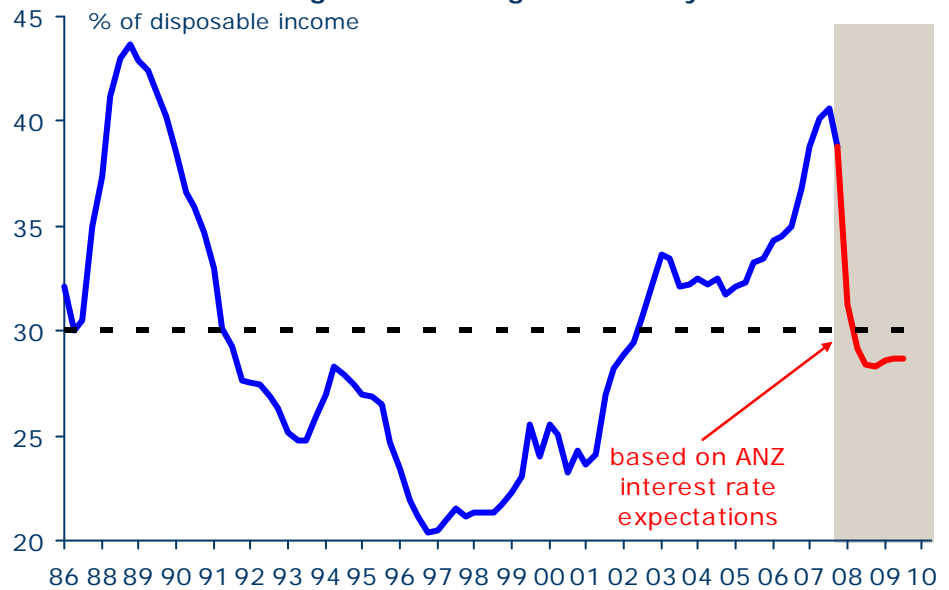
House prices soft, but should consolidate

House prices eased for the third straight quarter – yet we maintain this is not the beginning of the end. Ongoing commentary that suggests that softer prices in Australia will end up in as a US style collapse remain unfounded. It is becoming a tired point, but the differences between the Australian and US economies are stark and even more so are the differences in property markets. On the first point, proactive policy from both the Federal government and the RBA should see the downturn in the local economy be less severe than what is being seen in the US and elsewhere.

The second point is much more important - the (undisputed) fact that there is a shortage of housing in Australia that has seen a huge increase in pent up underlying demand. That is to say there is large numbers of potential homebuyers that will enter the market as conditions improve. This ready demand will support prices as buyers enter the market as opportunities arise. In contrast, the US has an oversupply of housing, weak demand and therefore falling prices.

With interest rates being slashed 300bps to date and the market pricing in 100bps cuts at tomorrow's meeting affordability has improved significantly, in combination with what are softer prices. This is potentially an opportunity for buyers to enter the market, especially as further interest rate cuts appear likely. This pickup in demand, that we have already begun to see in December, should stem any further significant price falls.

Figure 2: Housing Affordability



Source: ABS, ANZ

As such we expect house prices to consolidate over the next 12-18 months, perhaps with one or two more quarters of softness before grinding higher. Mixed results will occur across states, capital cities and suburbs. Expect Perth and Brisbane to be the most vulnerable.

This outlook is not without its risks. Economic uncertainty, especially that prompted by fear of unemployment could see the improvement in market sentiment evaporate deterring buyers from entering the market. The unemployment rate is tipped to rise and it remains to be seen how the speed, composition and size of this increase impacts on forced sales and serves to sales subdue activity. Further risks to the property markets are from the lingering impact of the credit crisis which may inhibit lending. Any limitations on the supply of credit would also put downward pressure on house prices.



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