

RISING INTEREST RATES = RISING PROPERTY VALUES



Scared of interest rates rising? Astute investors know that historically when interest rates rise, so too do property values.

Many people “believe” that as interest rates increase, property prices flatten, or even fall. This “belief” is at times justified due to the sentiment that property should drop when interest rates increase, coupled with a very short term drop in auction clearance rates.

But when we look at the fundamental reason why interest rates are increased by the Reserve Bank of Australia (RBA) and overlay this with business confidence and past property price performance, we come to a very different conclusion.

So why does the RBA increase the cash rate? The answer is increased spending. This increased spending is not only from business, but from the mums and dads spending more on holidays, clothes, cars, whitegoods and renovations.

When the economy picks up, inflation starts to kick in. Inflation means increases in the price of goods, services and assets. Yes, your clothes will cost more to buy, that hair cut will cost more next month, the holiday will cost more than last year’s, your shares will increase in value and the biggest asset that most Australians rely on for wealth accumulation (their home) increases in value.

Property prices typically don’t fall when interest rates increase. As we have seen in the past, property prices tend to begin an upward climb BEFORE interest rates start to rise. When the RBA says there are more increases to come, what do you think astute investors are doing? Ask the top 1% of wealthy retirees what they did many years ago ... THEY BOUGHT and HELD residential property!

The next 8 to 10 years could well be the last chance to make good capital growth through residential property for the aging baby boomers and the start of a property love affair for Gen X and Y.

If you study when interest rates started to increase and entered double digit figures in the mid 70’s, late 80’s and early 2000’s and compare what was happening with property prices at the same time, interest rate hikes coincided with residential property prices going through the roof.

Will history repeat itself? Only the future will tell.



Before you rush out and purchase another investment property (or even your first) please contact the office for more information on how investing in property may work for you. Every circumstance is different and needs to be looked at on an individual basis. We’d be delighted to investigate this with you.

*Disclaimer: This article is generic in nature. All investment decisions should be considered wisely and based on your personal and financial circumstances. Seek proper advice before committing to any course of investment action. This is not deemed as advice.