

Australian residential markets continue to record solid gains in July  
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## **RP Data – Rismark Home Value Index Release**

Over the first seven months of the year Australian home values increased across every capital city, rising by 5.9 percent nationally.

Based on Australia's largest property database, owned by rpdata.com which includes roughly 145,000 sales for the first seven months of 2009, Australia's housing recovery has continued in the month of July with solid across-the-board capital gains.

According to the market respected RP Data-Rismark Home Value Index, Australian home values rose by +0.9 percent in the month of July 2009. This brings total capital growth in the first seven months of 2009 to 5.9 percent.

Underpinned by historically low mortgage rates and only small rises in unemployment, Australian home values have now risen 1.8 percent past their February 2008 peak.

Rpdata.com national research director Tim Lawless, said, "Not only has Australia's residential property market outperformed the other major western markets, it has also provided superior returns compared to shares, commercial property, superannuation, hedge funds and private equities. Australia's residential market has been further supported by low mortgage default rates, at just 0.6 percent, compared with 5 percent in the US and 3 percent in the UK."

"Every mainland capital city has experienced solid growth during the

first seven months of the year. “ Mr Lawless said.

Melbourne and Sydney home values have led the charge in 2009, rising by 8.5 percent and 6.6 percent respectively. Darwin is the strongest of all the capital cities, with home values increasing by 10.8 percent. Brisbane (+3.8 percent), Canberra (+5.4 percent), Perth (+2.5 percent) and Adelaide (+1.9 percent) have also experienced gains. Perth is no longer the laggard of Australian housing having outperformed Adelaide in the year to date.

Continuing the trend observed in the second quarter of 2009, houses (+1.1 percent) have outperformed units (+0.5 percent) in the month of July. In the three months to end July, house values increased by 2.4 percent while unit values rose by 1.6 percent.

Rismark International managing Director Christopher Joye said, “Notwithstanding headwinds associated with the withdrawal of the first time buyers boost in December, a steepening yield curve that is gradually driving up the cost of fixed rate loans, and the RBA’s shift to a tightening bias, we believe the housing market will grind out further modest gains over the course of the next 12 months.”

Mr Joye said “Home values are now increasing steadily in all areas including Australia’s most expensive suburbs. This has eviscerated the popular myth that the recovery was being driven exclusively by first timers at the cheaper end of the market. While first time buyers did initially furnish the early momentum, upgraders and investors have now taken over the baton as we anticipated. This is reflected in the superior performance of houses compared with units since the first quarter of

2009.”

After a long delay, the ABS's house price data has finally fallen into line with the RP Data-Rismark findings. According to the ABS, detached houses experienced 4.2 percent growth in the second quarter of 2009. As expected, the ABS was also forced to make substantial upward revisions to its first quarter estimates as well. The ABS's 'compositional bias'— whereby record numbers of first timers buying cheaper homes gave the appearance of a big house price decline in the first quarter based on their stratified 'median price' index—reversed out in the second quarter with the large 4.2 percent (positive) correction.

In contrast, the RP Data-Rismark Index, which is reported by the RBA in its Statement on Monetary Policy and removes these compositional biases using a hedonic regression model, includes all property types (the ABS excludes apartments, semis and terraces, which are up to 30 percent of sales). Based on the RP Data-Rismark Index Australian dwelling values actually rose in the first quarter by 2.6 percent and by a lesser 2.3 percent in the second quarter of 2009.

Importantly, the RP Data-Rismark Index was the first to identify the recovery of Australia's housing market in February 2009. All other index providers have now fallen into line.

National rental yields have remained largely unchanged with the gross annualised rental yield for units being 5.2 percent while house rental yields are slightly lower at 4.4 percent.

While there has been some media reporting that the RBA was concerned about a house price bubble, Glenn Stevens, the Governor of

the RBA, poured cold water over these allegations in recent testimony to Parliament.

Following a series of questions about whether Australia was in the grip of a house price bubble, Governor Stevens responded, “I never used the word “bubble” [in his previous speech]...but I noticed it has been freely used by various other people who reported the speech.” Stevens continued: “Relative to mean income, [Australian] dwelling prices have actually declined since about the end of 2003...I thought that showed that you could have an adjustment here in a way that was not really disruptive – unlike some of other adjustments that we are seeing in other countries.”

Dr Malcolm Edey, Assistant Governor of the RBA, reinforced these remarks in a subsequent speech, commenting: “Australia experienced its last major housing boom in the 2002–2003 period. For a number of years after that, the market went through a period of correction, when house prices were mostly either falling or were rising more slowly than incomes. This was also a period when construction of new housing was fairly subdued. Hence, the twin problems of overpriced housing and overbuilding that occurred in the United States in the run-up to the crisis were avoided in Australia.”

*\*TECHNICAL NOTE: Readers should be aware of three technical points. First, the monthly RP Data-Rismark Hedonic Index compares month-to-month index results. For example, the first quarter of 2009 index results compare the end of March index with the end of December index. Another way to measure index returns is to combine all the months together in a quarter and compare them to the previous quarter's pooled index. So you would combine all sales in January, February and March and compute an index value. You would then compare this to the pooled October, November, and December index value. The problem here is that because many home sales are reported by the Valuer Generals offices with a 1-3 month delay, the sample sizes in the more recent months are smaller than the earlier month. So in the first quarter of 2009, January's sales will dominate because there are more January sales than February and March. In practice, however, there will in the end be a much higher number of sales in February and March. This is the approach used by the ABS. To overcome this problem, RP Data-Rismark treats each month separately. The other issue is that the ABS uses a stratified median price index. If more lower valued homes are selling because of an increase in, say, first time buyer activity, median*

*price indices can report lower returns when in fact house prices be rising. RP Data-Rismark's hedonic regression method overcomes this problem. Finally, unlike the ABS Index, which excludes terraces, semi-detached homes and apartments, the RP Data-Rismark Hedonic Index includes all properties.*

## **City by City Summary**

**Sydney** Sydney home values increased by 6.6 percent over the first seven months of 2009 – the third strongest performance of any mainland capital. House values rose by 7.2 percent over this period compared with unit values rising 5.4 percent. Gross rental yields in Sydney are outperforming the national average with houses returning 4.5 percent (national 4.4 percent) and units returning 5.6 percent (national 5.2 percent).

**Melbourne** Melbourne is the second best performing capital city market with home values up 8.5 percent over the first seven months of 2009. House values are up 8.7 percent and unit values are up 8.1 percent. Melbourne's median house value is 19 percent, or \$112,000 lower than Sydney house values, reflecting a significant value differential. This may be one of the reasons why Melbourne's housing market performance has been so strong. Melbourne's rental market hasn't kept pace with capital growth however, with rental yields now the lowest of any capital city. Melbourne houses are returning a gross yield of 4.2 percent and Melbourne units are returning a gross yield of 4.8 percent.

**Brisbane** Despite the fact that South East Queensland remains the population growth epicentre of Australia and the city is home to some of the largest infrastructure projects in the nation, growth in home prices has been relatively subdued. Home values are up just 3.8 percent over the first seven months of '09 compared to the national increase of 5.9 percent. Market conditions are improving, however, with houses and units taking just 29 days and 26 days respectively to sell. Brisbane's unit values, at \$349,666, are the most affordable of any mainland capital city providing a very strong value proposition to potential buyers.

**Adelaide** Adelaide home values have been relatively flat over 2009, recording growth of just 1.9 percent to July. In 2007 Adelaide was one of the best performing cities with growth in housing prices peaking at 24 percent for the 12 months ending December 2007. The Adelaide unit market has well and truly outperformed houses, with unit values up by 4.5 percent over the first seven months of 2009 (compared with a 1.3 percent increase in house values).

**Perth** Perth housing values are finally improving, recording a 2.5 percent increase over the first seven months of 2009. Perth values still have some way to go before recovering, with

home values about \$25,000 lower than the 2007 peak. Market conditions have improved, however, with houses and units selling much quicker than they were a year ago. Over the June quarter houses averaged 32 days to sell (compared with 59 days last year) and units averaged just 25 days to sell (46 days last year).

**Darwin** The northern capital continues to show strong growth with the market seemingly unaffected by the Global Financial Crisis. Values are up 21.3 percent over the last year and over the last five years value growth has averaged 15.4 percent per annum. The rental market has kept pace with housing values and Darwin is still providing the highest rental yields of any capital city.

**Canberra** Canberra home values have increased by 5.4 percent over the first seven months of 2009 which is just slightly lower than the national average. Houses are outperforming units with house values up 5.8 percent over the last seven months and unit values up by just 3.7 percent. The Canberra rental market is still very strong with rental yields the second highest of any capital city after Darwin. Canberra houses are providing a gross rental return of 5.1 percent and units are returning a gross yield of 5.7 percent.