

RP Data – Rismark Home Value Index Release

National property values jumped by almost 2 per cent in August in the largest monthly movement since the RP Data-Rismark Home Value Indices began in January 2005.

Using the rpdata.com (ASX: RPX) property database, which is Australia's largest and includes over 170,000 sales during the first eight months of 2009, Australia's housing recovery solidified during the month of August with strong capital gains registered across the country despite evidence of fading first home buyer numbers.

According to the "market-leading" RP Data-Rismark National Home Value Index (see Background on p4), home values in Australia rose by an exceptional 1.9 per cent during the month of August. This brings cumulative capital growth in the first eight months of 2009 to a better than expected 7.9 per cent. This is also the single highest monthly index result since the RP Data-Rismark National Home Value Index began in January 2005.

According to rpdata.com research director, Tim Lawless, the August results surprised on the upside and are indicative of very high levels of buyer confidence combined with low levels of listings.

"These buoyant conditions sit in striking contrast to the same time last year when values were falling, less than half of the auctions held cleared and sales volumes were at rock bottom. We are now seeing home values rising at a solid rate, almost 80 per cent of auctions are clearing, and sales volumes have bounced back significantly", Mr Lawless said.

Rismark International managing director, Christopher Joye, added, "Australia's housing market is being underpinned by the strongest population growth since 1971, record housing shortages, historically low mortgage rates, better than expected employment outcomes, and one of the world's most profitable banking systems."

Australian home values have now risen 3.8 per cent past their February 2008 peak. This rebound followed peak-to-trough falls in national home values of just 3.8 per cent in 2008, which compares exceptionally well with the 15 per cent and 30 per cent house price declines seen in the UK and US, respectively.

Dispelling concerns that the recovery is limited to first home buyers Mr Joye commented, "In

contrast to claims that this is a first time buyer bubble, the cheapest 20 per cent of suburbs in Australia have actually underperformed both the mid-priced market and Australia's 20 per cent most expensive suburbs since the housing market bottomed in December 2008."

"As recently noted by the RBA, all major lenders now require a minimum 10 per cent deposit and are applying the strictest credit standards we've seen in over a decade. Australian housing credit growth has also been running at levels that are extremely low by historical standards and noticeably less than the growth experienced in the 1991 recession," Mr Joye said.

Rpdata.com's Tim Lawless concurred with Mr Joye and said that over the last three months the premium residential market increased in value by 4.5 per cent compared with a 3.4 per cent gain in the middle market and a 2.8 per cent improvement at the cheapest end. (Note: numbers in chart to right show changes since December 2008 in the cheap, middle market, and expensive suburbs.)

"Despite the strong gains, the bounce in the premium sector has not been enough to offset the peak to trough fall of 9.9 per cent between February 2008 and January 2009. Prices in Australia's most expensive markets are still 1.1 per cent lower than at their peak."

Mr Joye added, "While the resounding recovery in Australia's housing market confirms our forecasts, we expect medium term growth rates to be more measured as mortgage rates normalise back to between 7-8 per cent. This would bring the cost of housing finance back in line with its 2000-01 levels, which is notably well below the searing 9.6% highs endured by borrowers in August 2008 care of the RBA."

In closing Tim Lawless said that the upward momentum in Australian house prices is a critical economic signal from the market to builders and developers to encourage them to reinvest in producing new housing supply. This was a message reinforced by the RBA's Dr Anthony Richards in a speech to CEDA yesterday: policymakers need to facilitate significant new investment in housing supply to alleviate Australia's growing housing shortage, which ANZ and Westpac estimate has risen to around 200,000 homes.

"This price growth will also go a long way to comforting risk-averse lenders to start providing credit again to developers, which has been one of the main bottlenecks on the supply-side. And it will stimulate the reallocation of resources away from other sectors of the economy into much-needed housing investment." Mr Lawless said.

Other key findings from the August RP Data-Rismark Index results:

Unit values (+2.1 per cent) have marginally outperformed house values (+1.8 per cent) in the month of August. Over the course of 2009, units (+8.5 per cent) have also generated slightly higher capital growth than houses (+7.7 per cent).

Most capital cities recorded robust gains in the month of August with every single city experiencing rises in home values during the first eight months of 2009.

After several years of subdued growth following the end of Australia's last housing boom in 2003, which saw Australia's "house price-to-income ratio" fall by nearly 20 per cent through to December 2008, home values in the two major capital cities, Melbourne and Sydney, have led the recovery in 2009 with total capital gains of 11.6 per cent and 8.6 per cent, respectively.

Following Melbourne, Darwin has been the next best performing capital city with growth of 9.7 per cent in 2009. Interestingly, Darwin also continues to deliver the highest rental yields, implying that the market may have room for further growth.

Home values in Canberra (+6.7 per cent), Brisbane (+5.2 per cent), Perth (+4.1 per cent) and Adelaide (+3.1 per cent) have also realised sustained gains in 2009.

As RP Data-Rismark correctly anticipated, residential real estate in Perth has experienced a recovery in 2009 after a period of falling prices since September 2007. While Perth dwellings have recorded 4.1 per cent growth in the first eight months of the year they still remain 3.6 per cent below their September 2007 peak.

National rental yields have softened slightly given the strong capital growth with the gross annualised rental yield for units being 5.1 per cent while house rental yields are slightly lower at 4.3 per cent.