

Index points to home derivatives

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A new house price index claims to have swept aside the competition, with a data series timely and accurate enough to support a derivatives market for the \$2.7 trillion of residential real estate assets in Australia.

RP Data and Rismark International, the creators of the series, say it has the potential to pave the way for new financial tools to release equity in the housing sector as ageing baby boomers reach retirement - and hedge risk by developers, financiers and mortgage insurers.

But house price data has a history of controversy. In 2004, the Reserve Bank of Australia launched a residential statistics war when it said that, considering the amount of wealth tied up in residential assets, the availability of quality and timely information on house prices was "hopeless". Predictably, the launch of the new RP Data-Rismark indices has not come without its critics.

A key claim of the new series is that it provides real-time results for about 40 per cent of all sales on a national basis - way above what it claims are those of its competitors.

It also claims it can break down results by hedonic data - or attributes of a residence - such as the number of bedrooms and bathrooms, whether it has a view and even what side of the street it is on, from city basis to postcode level.

Rismark managing director Christopher Joye said in January the new series showed prices on a national basis fell 0.59 per cent, with Sydney down 1.09 per cent and Melbourne down 2.67 per cent. But Perth was up 0.76 per cent, Brisbane 0.24 per cent and Adelaide 0.97 per cent.

Hedonic data was available back to 2002, he said, but would eventually be collated back to about 1935.

Jointly releasing the data series was global derivatives broker GFI Group. The group has signed an agreement with Rismark and RP Data to broker derivatives products on the

back of the index, which would initially support five key indices.

GFI's senior managing director Asia Pacific, Jurgen Breuer, said in the United Kingdom there were £3 billion (\$7.4 billion) of over the counter derivatives.

Products would initially be tailored to institutional and sophisticated investors, but there was potential for a financial institution such as a bank to package them for retail investors, perhaps to hedge a house deposit against potentially rising prices.

Moody's, which produced a report on the indices, said the series was a "significant improvement in the quality of housing price statistics available in Australia".

In 2004, RBA-generated controversy hinged on the time lag between sales and price data appearing on home price series indices - often several months later.

The managing director of index rival Australian Property Monitors, Michael McNamara, said although the index was welcome it was not new. APM had hedonic data going back further than the new series.

APM provided a range of sophisticated indices, such as a data series developed in conjunction with the RBA that was compositionally adjusted, for clients such as banks.

"The Reserve Bank's analysis of hedonic and stratified series comes to the conclusion that the compositionally adjusted series is the one that is less subject to volatility and revision," Mr McNamara said.

Deutsche Bank chief economist Tony Meer said the potential of more sophisticated indices was the "de-accumulation of residential assets off the household balance sheet" as baby boomers retired.

But he was sceptical about how big the market in Australia would be for derivatives.

KEY POINTS

*The data series claims to provide real-time results for about 40pc of sales on a national basis.

*It has the potential to pave the way for new financial tools to release equity in the housing sector.