

House prices go to market

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Investors will be able to trade in listed derivatives based on the \$3.2 trillion residential property market under a scheme unveiled yesterday by RP Data and Rismark International.

The companies announced they had done a deal with the Australian Securities Exchange to develop residential property index derivatives using their hedonic indices for measuring house-price changes over time.

"A residential property derivatives market has the potential to allow individuals and institutions to cost-effectively access index-linked exposures to the \$3.2 trillion residential property asset-class," said Rismark's managing director, Christopher Joye.

Mr Joye said the high transaction costs associated with residential property investment had made it difficult to access the asset class on a diversified basis.

ASX corporate relations manager Matthew Gibbs said property derivatives could be used, for example, by a first-home buyer saving for a house deposit, to profit from an increase in property prices while saving.

Property derivatives could also provide a hedging mechanism for property owners.

"For instance, a property owner could hedge against a possible fall in the value of residential property prices by taking a derivatives position that profits from a fall in prices," he said in a statement.

RP Data's chief executive Graham Mirabito said property derivatives markets had begun to boom all around the world. "In the UK, the world's largest property derivatives market, there are currently over £7 billion [\$15.3 billion] worth of over-the-counter commercial and residential property derivatives outstanding," he said.

Rismark's executive director, Ben Skilbeck, said the structure of derivatives offerings had not yet been decided by the ASX, but could be contracts for difference, options or futures.

DTZ national research director David Green-Morgan predicted investors would embrace derivatives.

"If the United Kingdom is any example, it will be very popular," he said. "Investors want more liquidity and derivatives provide that for them even over REITs [real estate investment trusts] or unlisted trusts; derivatives really give them that fully balanced portfolio outlook."

In Britain, the commercial property derivatives market was much larger than its residential counterpart, and Mr Green-Morgan predicted a commercial derivatives market would come to Australia.