

Derivatives for house prices
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The Australian

A NEW over-the-counter market will allow institutional and retail investors to punt on the direction of property prices using derivatives.

In a deal announced yesterday, real estate investment group Rismark International and property data company RP Data agreed to form a residential price derivatives market with global derivatives broker GFI Group.

"House price derivatives will be useful for investors who want to gain, diversify or hedge their exposure to residential property, without the complexities associated with transacting in the underlying physical market," GFI senior managing director for Asia Pacific Jurgen Breuer told the launch yesterday.

Underlying the market is a new set of RP Data-Rismark real estate market indexes, including a so-called "hedonic" index which will provide details such as the number of bedrooms and bathrooms, whether the property has a pool and its land size.

A Moody's report said it was the first time that regularly published hedonic indexes would be commercially available in Australia: "The suite of indexes represents a significant improvement in the quality of housing price statistics in Australia."

In particular, "the attributes data seems to be of considerably higher quality than that of competitors", such as Residex or Australian Property Monitors.

RP Data CEO Graham Mirabito said historically poor data on Australian residential property was due to tax being levied only on unimproved capital value. Also, valuer general data was up to three months out of date.

"Australians own some \$2.7 trillion to \$3 trillion worth of property and 60 to 70 per cent is in owner-occupied housing, yet the quality of information has been extremely poor," he said.

"Typically, in the US and New Zealand market, land is taxed on its improved value so the government has an incentive to know how many bathrooms you have. In Australia it is taxed on its unimproved value."

The hedonic index valued each property separately.

A close relationship between RP Data and real estate agents who provided data would improve speed, Moody's said.

A property derivatives market could attract investors who want to buy or sell regional residential return exposures (such as Sydney, Melbourne, Perth or Brisbane property); home owners wanting to insure against property price declines; big mortgage insurers seeking to reduce or eliminate their property price risk exposures; and builders and developers wanting to lock in property current property prices for a defined period.