

Analysis of Inter-Country Price Trends

<u>House Price Increases between June quarter 1998 and June quarter 2003</u>			
Australian Established Houses	ABS Price Index June quarter 1998	ABS Price Index June quarter 2003	Change (%) between June quarters in 1998 and 2003
Sydney	134.3	247.1	84.4
Melbourne	120.2	226.9	88.8
Brisbane	141.1	232.6	64.8
Adelaide	113.7	199.1	75.1
Perth	114.4	176.0	53.8
Hobart	124.8	167.9	34.5
Darwin	193.8	223.8	15.5
Canberra	126.4	225.4	78.3
<i>Weighted Ave 8 capital cities</i>	<i>126.9</i>	<i>223.8</i>	<i>76.4</i>
USA Single Family Housing			
<i>National average</i>			Growth (%) <i>37.9</i>
State average range			11.2 to 81.4
<i>Note: US data obtained from Office of Federal Housing Enterprise Oversight. Based on repeat sales of single family homes (selected – refer to OFHEO web-site). Also refer to comments below.</i>			
UK Detached Residential Property			
	Ave Price June quarter 1998	Ave Price June quarter 2003	Growth (%)
Nationwide Building Society Data:			
<i>United Kingdom (old & new)</i>	<i>£101,858</i>	<i>£184,172</i>	<i>80.8</i>
HM Land Registry Data:			
<i>Detached houses only:</i>			
England & Wales (old)	£126,832	£238,793	88.3
England & Wales (old & new)	£125,433	£235,614	87.8
Greater London (old & new)	£243,295	£515,720	112.0
<i>All housing (e.g. inc flats):</i>			
England & Wales (old)	£81,127	£146,761	80.9
England & Wales (old & new)	£83,299	£149,935	80.0
<i>Note: UK data obtained from Nationwide Building Society and HM Land Registry. Refer to respective web-sites for the basis of collection of data.</i>			

It should be noted that comparisons of housing price changes should ideally be inflation adjusted, to determine relative real growth in prices.

Australia

Growth in Australian housing prices since 1997-98 appears to have come off a relatively high base. A Reserve Bank research paper published in October 2001 found that the ratio of Australia's housing wealth to household income in 1998 was much higher than the

ratio recorded in the other advanced countries studied, with the exception of Japan (which had a ratio only marginally higher than Australia's at the time).

The ABS data is limited to the eight capital cities. Growth in average national prices may be lower (with price growth outside capital cities appearing to be lower, at least compared to the major capital cities).

In Australia, growth in prices for established houses varied between State capitals in the five years to 2002-03. Price growth tended to be higher where incomes are highest, where city populations are relatively large (and growing) and where economic activity is strongest. Perth, however, has experienced low price growth.

The growth in prices for established houses in the five years to 2002-03 principally reflects an increase in land prices. Building costs did not grow appreciably. For example, the producer price index for construction materials increased by only 11 per cent in this five year period. The producer price index for construction output increased by 18 per cent overall.

A high proportion of the total investment in housing is in the residential land component. Part of this is due to the relatively large average size of residential blocks for established homes in Australia. However, the level and value of investment in residential land also needs to be put into the context of a relatively small population and a vast supply of land in this country.

Nevertheless, there has been a decline in the average area of land per dwelling in Australia. This, in addition to slow growth in construction costs, may mean that the average price of residential land per square metre was high, relative to growth in established house prices. The decline in the average area of land per dwelling in Australia (coming off a high base) may have exceeded similar declines in some other countries.

On the other hand, there has been an increase in the building size of new separate dwellings in recent years. Also, expenditures on housing renovations have been relatively high (this spending tends to increase values). However, buildings depreciate so that a high investment in buildings and fixtures may have an adverse effect on household "wealth" over the longer term.

Moreover, demographic and social factors are combining to cause a decline in the average number of occupants per dwelling. In the longer term this may adversely affect demand for large homes.

United States

It could be argued that the US housing market has more similarities to the Australian market, compared to many other markets (e.g. the UK market). This is due to similarities in home ownership rates, trends in average house size and lot size and, of course, the relative availability of land.

For the US, data was obtained from Office of Federal Housing Enterprise Oversight on price growth for single family housing in the US. This data is based on a selective collection in that it excludes high value houses. This may mean (or may not mean) that published growth data does not reflect fully growth in average prices for all properties.

Nevertheless, growth in average housing prices appears to have been very low in the United States (at least compared to Australia and the UK). In the US, price growth for single family housing varied significantly across State jurisdictions between the June quarter 1998 and the June quarter 2003 (ranging from 11.2% in Utah to 81.4% in District of Columbia). Price growth appears highest in areas which have high populations, high population densities (such as with the presence of large cities), high incomes and relatively strong local economies.

The United Kingdom

The comparability of data for UK detached housing prices and Australian established house prices is problematic for a number of reasons. For example, in the UK, detached housing is a relatively small market and accounted for only 21.2% per cent of all sales in England and Wales in the June quarter of 2003 (semi-detached 28%, terraces 34.2% and flat/maisonette 26.6%). Detached housing in the UK is significantly more expensive on average compared to other housing.

There are other problems of comparability. In the UK, public and social housing (around 3.5 million – 4 million units) plays a significant role in providing housing accommodation. Moreover, the private rental market plays a relatively small role. In 2000, only 10% of households rented privately in Britain (The Economist, April 6, 2000).

In a city the size of London, private housing costs can be relatively high, but so can incomes. Young people are more likely to share accommodation where housing costs are high.

A large increase in property prices in London has had a positive effect on the average national price for housing. On the other hand, lower growth in prices in Northern Ireland and Scotland dragged down the increase in the national average price.

Higher prices in London have probably also caused prices in other cities and areas in the UK to rise. Growth in prices in the United Kingdom since 1997-98 is believed to have come off a low base, after a significant contraction in housing prices in the early 1990s. Concerns have been expressed that another contraction in UK housing prices could occur.

An Analysis over a Longer Period

The following table goes back to when the ABS series on capital city price index began in the June quarter of 1986.

House Price Increases between June quarter 1986 and June quarter 2003			
Australian Established Homes	ABS Price Index June quarter 1986	ABS Price Index June quarter 2003	Change (%) between June quarters in 1998 and 2003
Sydney	53.5	247.1	361.9
Melbourne	63.4	226.9	257.9
Brisbane	64.6	232.6	260.1
Adelaide	83.3	199.1	139.0
Perth	56.7	176.0	210.0
Hobart	80.5	167.9	108.6
Darwin	100.0	223.8	123.8
Canberra	79.5	225.4	183.5
Weighted Ave 8 capital cities	61.3	223.8	265.1
USA Single Family Housing			
National average			Growth (%)
			112.9
<i>Note: US data obtained from Office of Federal Housing Enterprise Oversight. Based on repeat sales of single family homes. Growth has been calculated by reference to house price appreciation from same quarter one year earlier since the June quarter of 1986.</i>			
UK Residential Property			
	Ave Price June quarter 1986	Ave Price June quarter 2003	Growth (%)
Data from Nationwide:			
Modern Properties			
United Kingdom	£36,681	£126,292	244.3
London	£52,254	£180,073	244.6
Old Properties			
United Kingdom	£32,682	£122,520	274.9
London	£61,829	£225,696	265.0
<i>Note: Data obtained from Nationwide Building Society web-site. Note that this data appears to include all residential property types (e.g. semi-detached, terrace houses and flats). Refer to respective web-sites for the basis of collection of data.</i>			

Compared to the United States, Australia has experienced high nominal growth in housing prices since the June quarter of 1986. It would appear the nominal growth in prices in Australia may have also exceeded growth prices in the United Kingdom. Growth in Sydney prices appears to have been stellar (at least in nominal terms).

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