

Right call: individual factors influence price most

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Know the risks ... most people view shares as more of a gamble but home owners are also exposed to volatility.

It is often said investors would be much better off if they approached share investing in the same way they buy property.

Ridiculous? Think about it.

Both shares and property are so-called "growth" investments, which is what the experts call things that can rise (and fall) in value. Both carry significant tax concessions and both provide the opportunity to generate an income. Both have outperformed other investments over the longer term and, if you have a bent to do so, both can be geared to maximise those potential returns.

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But while most Australians buy property as a long-term venture and don't even consider the day-to-day fluctuations in value (yes, they do happen - we'll come to that in a moment) there's a tendency to regard the sharemarket as a casino.

We rush in with expectations of making a fast motza when times are good and run for the exit gates the moment things get bad.

We're so comfortable with property that we're prepared to gear to dangerous levels to get into the market. Some even borrow more than 100 per cent. But borrow to buy shares? That's only for the truly brave-hearted - even though most equity borrowings are geared to less than 50 per cent.

There are, of course, differences. Property is a "lumpy" investment, which takes time to buy and sell. Shares can be bought and sold at the click of a button.

Property is also a big investment, which is why most Australians have the bulk of their net worth tied up in one house or unit.

By contrast, individual shares can cost less than \$1 and, if you're prepared to pay the brokerage costs, you can put together a diversified portfolio for just a few thousand dollars.

If these traits applied to any other investment, we'd say property was illiquid and poorly diversified. That usually means riskier.

But it doesn't seem to matter with residential property.

The crux of it all, of course, is that individual properties are rarely traded. While the price of our bank shares is widely published each day - and every 1 percentage point movement of the market reported in breathless terms - we don't really know what our home is worth until we decide to sell it.

Attempts have been made to measure property price movements by tracking median sale prices but these are usually done on a quarterly basis (not daily) and can obscure the very real fluctuations that occur in individual properties.

A study by the Australian School of Business examined property price movements in Sydney between 1979 and 2011 and found residential property is a much riskier asset than most realise. The study's co-author, Michael Sherris, says while house prices were steadily trending upwards through most of the period and grew on average about 9 per cent a year, there was a lot of variation around that average. He says the variation was around half of what you'd see in the sharemarket - a finding that would surprise many property owners.

Another co-author, Katja Hanewald, says over the full 32 years, the standard deviation for different postcode areas was about 1.3 per cent, which can make a big difference to longer-term returns.

The study found postcodes in the CBD and harbour grew 10.6 per cent a year, though that higher long-term growth came with higher short-term volatility. In other areas, the returns were much lower.

The study found on a monthly basis price movements for different postcodes can deviate from the average up to 150 per cent, though this reduces over the longer term.

When you buy and sell can also make a difference, with the highest prices usually achieved in the second and fourth quarters (especially April) and lower prices achieved in the first quarter of the year. And while most commentary assumes house prices rise or fall depending on what the broader market is doing, Hanewald says only 40 per cent of growth can be explained by trends in the overall market. The all-important 60 per cent comes down to more individual factors such as location, the style of housing and the income and demographics of the area.

"People don't realise that even if the figures show Sydney house prices are going up, their own house could be performing quite differently," Sherris says. "When you look at the overall index, the correlation [of different areas with that index] is about 0.5 per cent. You don't get a one-for-one increase all the time."

Poor decisions can amplify the volatility. For those who believe you can't lose money in property, SQM Research regularly lists the most heavily discounted properties on the market. Last week these were 36 per cent to 42 per cent below original asking prices. One property, initially listed at \$590,000 and now asking \$340,000, had traded for \$590,000 in December 2007.

While property prices are still generally less volatile than shares (in part because it takes longer to sell property), Sherris says many people assume there is no volatility. He says for home owners with high levels of debt faced with negative equity, property can be even more of a rollercoaster ride than shares.

He says baby boomers looking to unlock home equity to fund their retirement may also be more exposed to a fall in the market than they realise.

Of course, to most home owners (and many investors) short-term volatility is irrelevant.

They are in for the long haul and prepared to ride out any market blips - if they're even aware of them. It's an attitude that could serve them well with other investments.