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Examining current trends in global house prices

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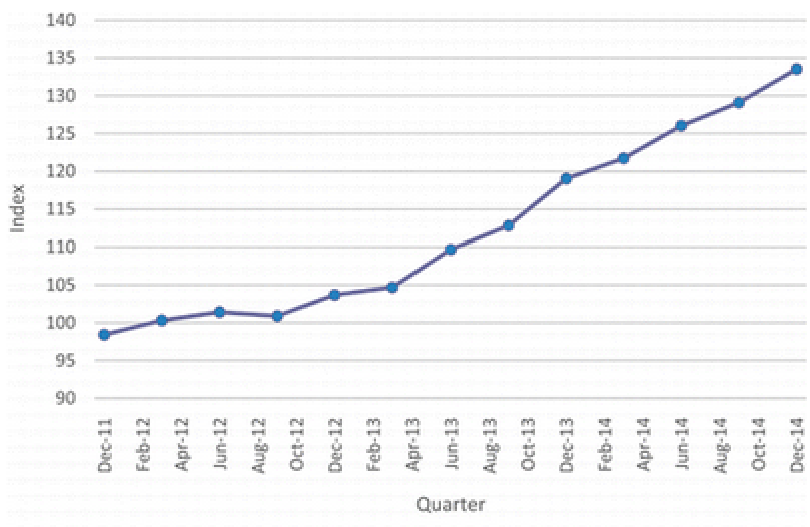
This examination of recent trends in house prices in developed markets enables a comparison in the post-global financial crisis (GFC) recovery era. As expected, certain markets have recovered well following widespread incentive schemes, which have incorporated sustained record of low interest rates. The concern for some markets (e.g. Sydney) is the formation of a housing bubble and the creation of a boom-bust scenario. The focus is placed on global cities of Sydney, London and Paris, as well as the aggregate US market. Most importantly, the data is up-to-date, and it will allow a broad comparison between each market and where they are in the current market cycle.

The Sydney housing market is the starting point, as this market is extremely buoyant with demand far outstripping supply, resulting is a sharp increase in house prices. According to ABS (2015) the level of house prices rose 3.4 per cent in the December quarter of 2014, following a 2.5 per cent rise in the September quarter of 2014 and a 3.5 per cent rise in the June quarter of 2014. Overall, this equated to a 12.2 per cent increase in house prices for the year to December 2015, where multi-level apartments or condominiums contributed the most to the increase. A slightly longer upward trend can be observed in Figure 1 which commenced in December 2011. The mortgage lending rate has been the lowest for 40 years, although a record number of foreign investors have also entered the Sydney market. The period of the upward trajectory in house prices requires further research.

Figure 1.

House price index – Sydney

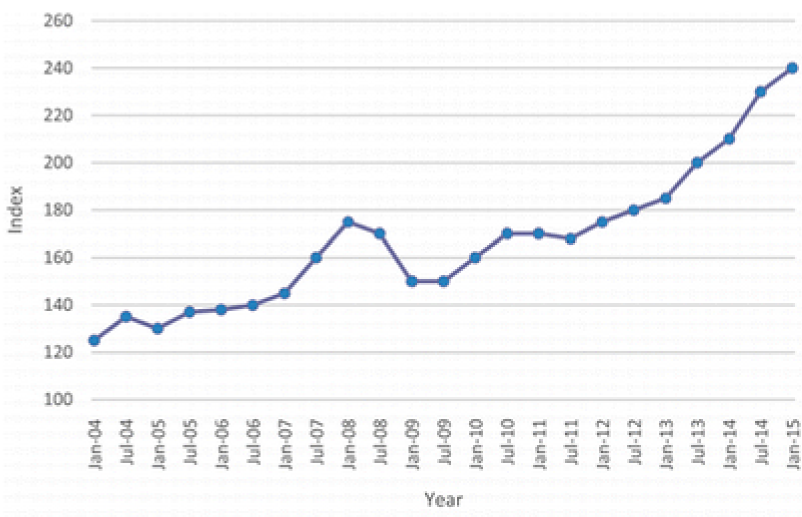


Source: Australian Bureau of Statistics (2015)

The house price index (HPI) for London (Figure 2) can be divided into three periods. The first period (2004-2008) indicates gradual growth in house values occurred, followed by a sharp increase in values during 2007. The second period follows GFC in 2007 and the lagged decrease in values during 2008, commonly referred to as the property bubble bursting or a property crash. The third and final period occurred in the post-GFC era from 2009 until early 2015, with house values rose sharply, especially since 2011. Reference should be made to the same period (2011-2015) in Figure 1 where there appears to be a correlation between Sydney and London house prices over this period.

Figure 2.

House price index – London

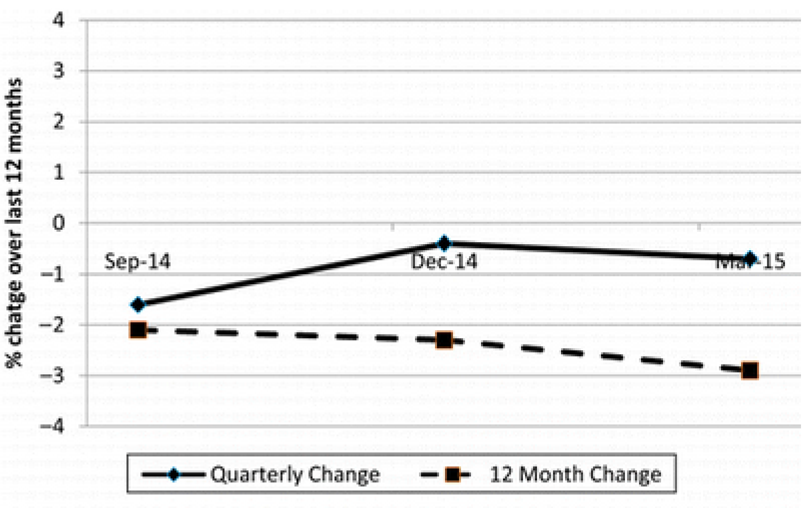


Source: Office of National Statistics (2015)

In Figure 3 for the Paris HPI, the emphasis is placed on the recent house price trends for Paris twelve month periods and also covering consecutive quarters. The longer-term trend confirms a decrease of 2-3 per cent commencing in September 2013 until March 2015, although the shorter quarterly trend suggests the decrease in house values is less in 2015 in comparison to observations in 2014.

Figure 3.

House price index – Paris

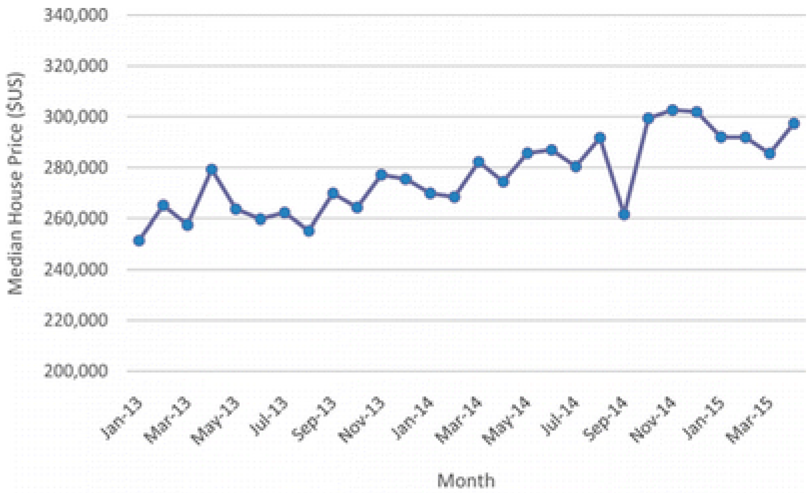


Source: National Institute of Statistics and Economic Studies (2015)

The trend for median values for the USA are shown in Figure 4 for the period from January 2013 until early 2015. An overall observation is the sustained gradual upward trend with minor exceptions noted. The regularity of the smaller cycles can be noted, including a sharp dip in September 2014; however, the recovery from each dip was immediate. This type of aggregate data is difficult to examine and identify influencing factors. Nevertheless, when omitting the sudden post-GFC downturn, it could be incorrectly interpreted that the market will continue to increase. A longer timeframe for the analysis is essential to understand the timing of the longer-term property cycles.

Figure 4.

Median house price – USA



Source: USA Census (2015)

The four graphs were selected to provide a snapshot of recent trends in housing markets and also to highlight challenges with interpreting house prices. For example, the data for the Paris house market (Figure 3) is up-to-date and provides an insight into current changes; however, it does not permit a longer-term view as per Sydney (Figure 1) and London (Figure 2). An alternative is to aggregate individual markets (Figure 4) into a nation-wide perspective; however, the trend does not permit a detailed investigation. Conclusions from this discussion include the observation that house price trends appear to be aligned in certain markets (e.g. Sydney, Paris). It is also noted that the recovery of GFC was relatively positive, especially for the US market, where long-term house values appear to increase. The timing of the purchase and sell decision is critical as per all investments; however, investment in housing could be an asset for a pension or superannuation fund during periods of volatility.

References

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