ARC CENTRE OF EXCELLENCE IN POPULATION AGEING RESEARCH

MEDIA RELEASE

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LATEST DROP IN HOUSE PRICES IS A WARNING TO RETIREES

Retirement plans for people relying on rising property prices could be at risk following the latest drop in house prices and ongoing volatility in the housing market.

Figures released this week by the Australian Bureau of Statistics revealed the average price of established houses in the capital cities fell by 4.5 per cent compared to the previous year. The 1.1 per cent fall in the March quarter was the fifth in a row.

The ABS figures confirm that house prices in Australia have been relatively high for a while based on a number of indicators. The prospect of attractive growth rates in Australian house prices is no longer what it was.

Chief Investigator with the ARC Centre of Excellence in Population Ageing Research (CEPAR), Professor Michael Sherris, believes people who rely on property to help pay for their retirement incorrectly assume that it will continue to appreciate.

“When planning for retirement, it is important that people take into account the volatility of house prices and don’t assume the value of their home will consistently rise,” Professor Sherris said.

“Many people approaching retirement with less superannuation as a result of the GFC will now find their house is worth less than they expected. It’s a double whammy,” Professor Sherris said.

The University of New South Wales based ARC Centre of Excellence in Population Ageing Research (CEPAR) is a unique collaboration bringing together academia, government and industry to produce world-class research on one of the major social challenges of the 21st Century.

Professor Sherris, along with Dr Katja Hanewald, authored a recent study analysing the volatility of housing prices across Sydney. The study is one of the most comprehensive of the Sydney housing market. Based on data provided by Sydney-based company Residex, the study analysed Sydney house prices by postcode from 1979 to 2011.

“We found that Sydney house prices have had strong growth but at the same time the volatility has been much higher than most individuals and commentators would imagine. Also, the growth rates have varied significantly across postcode areas in the Sydney area and over time,” Professor Sherris said.

“The fall in house prices in the last year is well within the uncertainty in house price growth rates that the CEPAR models would suggest, based on historical Sydney house price data. This highlights how, although house price changes can be slow moving, they can also be relatively substantial and adverse. They may not be noticed by individuals until they decide to or need to sell their property,” Dr Hanewald said.

The recent Productivity Commission report on aged care highlights the importance of residential property to retired individuals and how this may have a role in financing of health care costs and needs in the future through equity release products either in the private sector or through a government scheme.

For pensioners who wish to generate additional retirement income using the equity in their home, products that unlock the equity in houses for asset rich and income poor retirees are available. Reverse mortgages, shared appreciation or home reversion schemes provide income or lump sums based on the value of the house.

As for all leveraged investments, when borrowing against equity in a house, the volatility in the house price can be a significant risk especially for reverse mortgage and similar loan arrangements where the loan accumulates and is repaid from the proceeds of the sale of the house. The longer the loan has been outstanding the less the equity in the house.

Falls in house prices can also have adverse consequences for individuals who may be much older and less able to manage their financial affairs.

The CEPAR research highlights the factors that influence house price volatility based on postcode level data. Individual houses are also influenced by factors such as number of bedrooms, number of bathrooms, location and a host of other factors. Current research is investigating these issues in more detail and assessing the risks for both individuals and lenders of these equity release products.

Very little is understood about the importance of the residential house in financing retirement needs, particularly aged care. CEPAR is currently conducting further research in this area because we need to better understand the importance of residential housing as a retirement funding source in order to design more appropriate financial and insurance products to meet the needs of an ageing population with a significant amount of wealth in housing.

READ THE FULL STUDY >

To interview Professor Sherris or Dr Hanewald contact Kate Miranda on 0478 474 074.