

SQM Research Weekly Rents Index Methodology



Methodology

Why Asking Rents?

Timeliness - comprehensive data that does not need revision as the sample size is complete. Being able to assess where landlords sit with the market is also very useful. While discounting occurs in the rental market, it is often far less than what occurs when selling properties.

Base Methodology

SQM Research considered all various house price methodologies and believes using a stratified methodology based on geography for our new rent index would be most optimal for the required task. SQM Research declined to use a hedonic model as there was negligible additional accuracy provided compared to the stratified model, which accurately adjusts for compositional bias.

Similar to SQM Research's vendor sentiment index, all capital city regions and city wide rents were stratified based on splitting postcodes into decile brackets. The rental decile brackets were calculated based on the relative long term median sold price ranking of each postcode. SQM Research will monitor and update longer term pricing points and suburb rankings once a year and make revisions to the decile bands accordingly. Subsequent revision of the index is expected to be negligible.

All compilations of cities are based on the Statistical division of each capital city as measured by the Australian Bureau of Statistics.

Rural regions and postcodes indexes are calculated based on a median of listing rents for the period concerned. They are not able to be stratified due to the lack of consistent sample size.

Percentage of Listings That Have an Advertised Rent

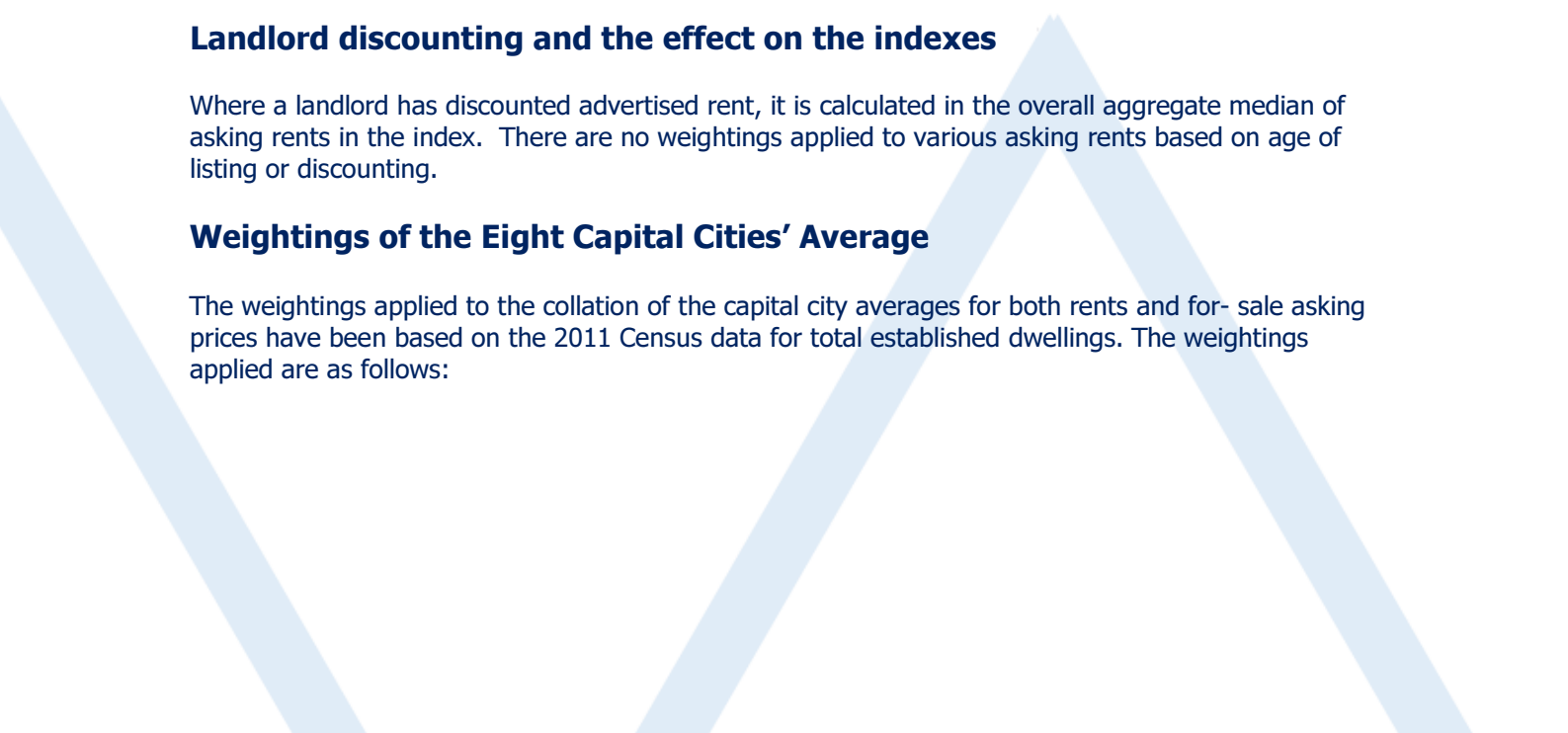
94% of all listings captured have an advertised rent.

Landlord discounting and the effect on the indexes

Where a landlord has discounted advertised rent, it is calculated in the overall aggregate median of asking rents in the index. There are no weightings applied to various asking rents based on age of listing or discounting.

Weightings of the Eight Capital Cities' Average

The weightings applied to the collation of the capital city averages for both rents and for- sale asking prices have been based on the 2011 Census data for total established dwellings. The weightings applied are as follows:



City	Houses	Units
Sydney	0.268336442	0.469144271
Melbourne	0.288600013	0.262306916
Brisbane	0.153639766	0.102656098
Adelaide	0.10170878	0.059154363
Perth	0.135932046	0.06794258
Hobart	0.017546032	0.010397176
Canberra	0.027086044	0.019239264

Correlations at the City Level Between Asking Prices and the ABS Quarterly House Price Series

SQM Research's Weekly Rents Index versus ABS' CPI Index – Rents (National – Houses)

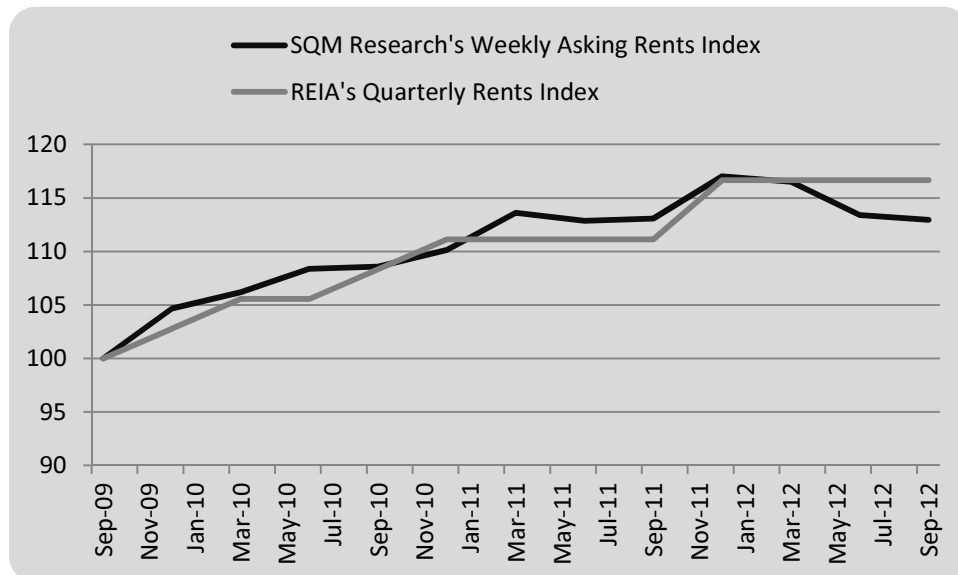


Source: SQM Research, ABS Cat No. 6401.0

The figure above charts the correlation between SQM Research's Weekly Asking Rents Index and the ABS' Consumer Price Index (Rents) at a national level. Taking the correlation into consideration, we believe SQM Research's Asking Rents Index to be a leading indicator of the rental movement in Australia. As at December 2012, the correlation between the two indices was recorded at 0.96 implying a high degree of correlation.

SQM Research's index tracks the movement of advertised rents for houses, making the index a leading indicator of the direction in which rents are likely to move in the future.

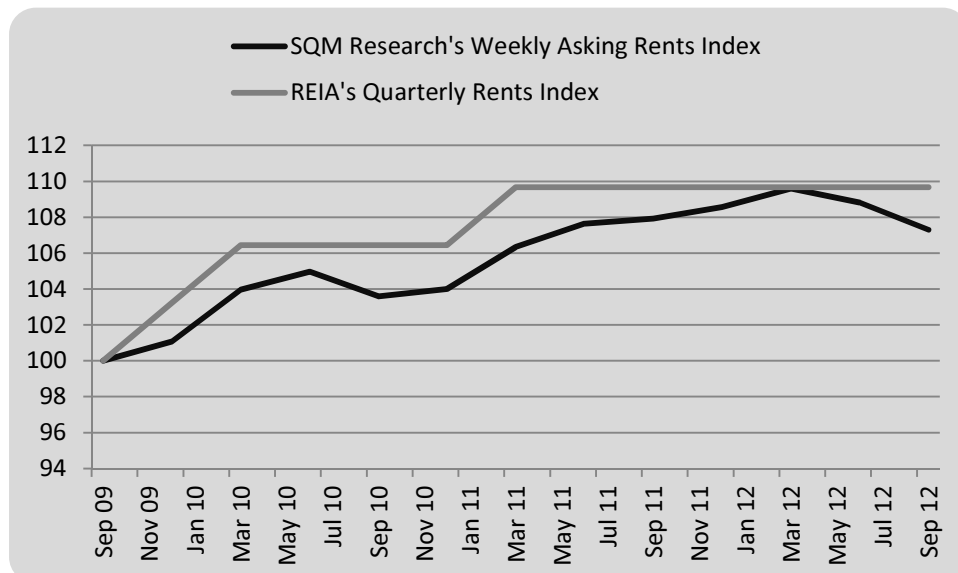
SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Sydney - 3-bedroom Houses)



Source: SQM Research, REIA

The coefficient of correlation noted between the two indices for Sydney between September 2009 and December 2012 was 0.93, implying a high degree of correlation.

SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Melbourne - 3-bedroom Houses)



Source: SQM Research, REIA

The coefficient of correlation noted between the two indices for Melbourne between September 2009 and December 2012 was 0.94, implying a high degree of correlation.

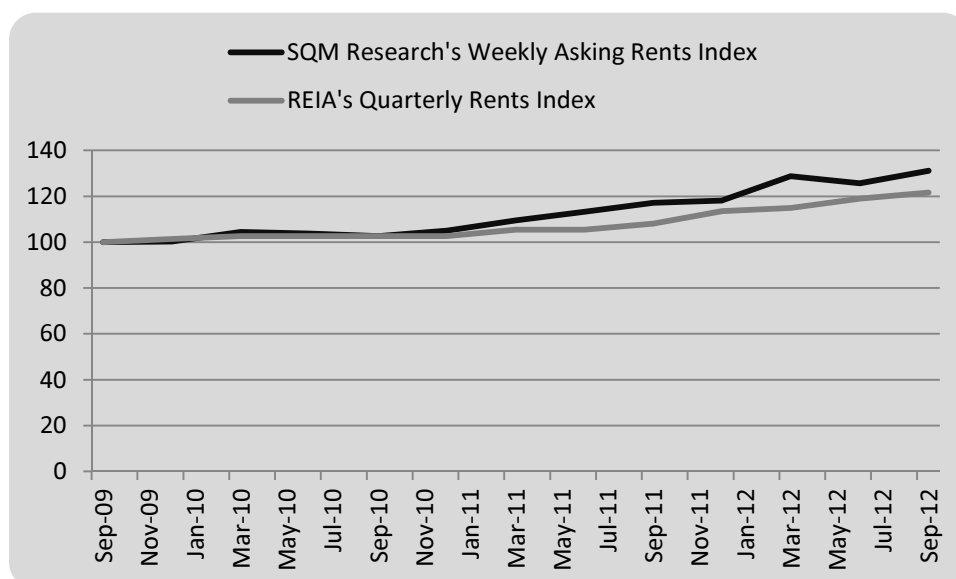
SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Brisbane - 3-bedroom Houses)



Source: SQM Research, REIA

The coefficient of correlation noted between the two indices for Brisbane between September 2009 and December 2012 was 0.69. Although, the correlation is lower than some of the other capital cities, it is nonetheless high.

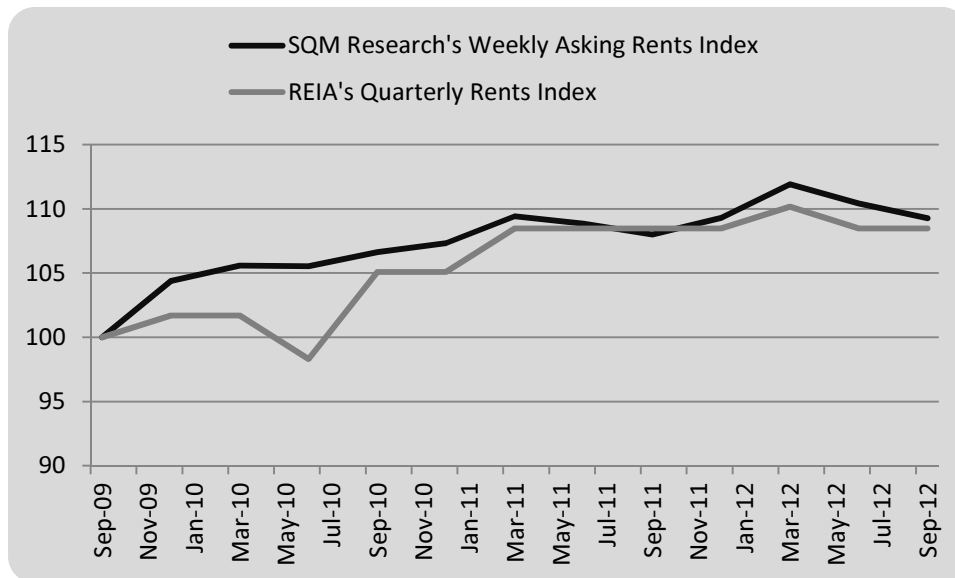
SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Perth - 3-bedroom Houses)



Source: SQM Research, REIA

The coefficient of correlation noted between the two indices for Perth between September 2009 and December 2012 was 0.96, implying a high degree of correlation. Perth recorded the highest correlation coefficient amongst all capital cities.

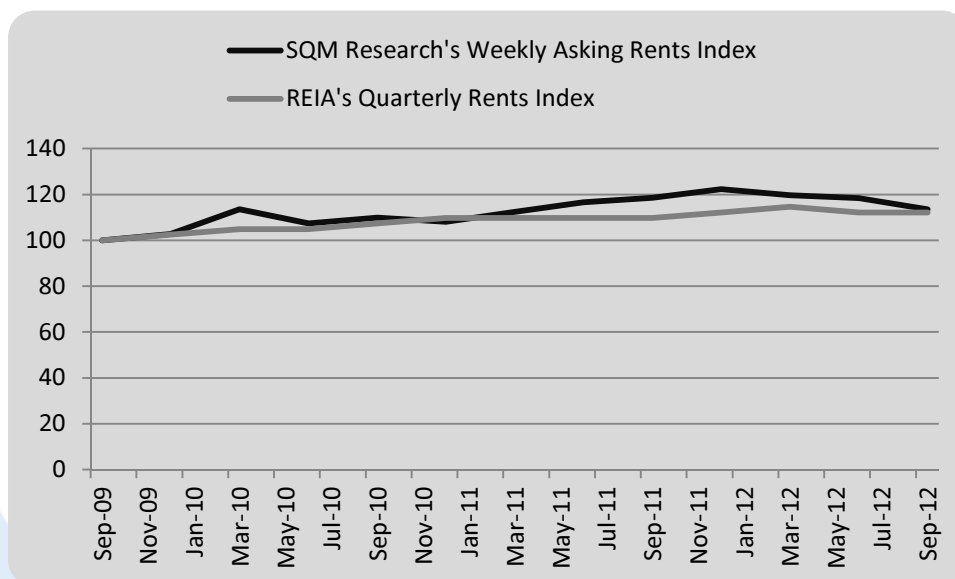
SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Adelaide - 3-bedroom Houses)



Source: SQM Research, REIA

The coefficient of correlation noted between the two indices for Adelaide between September 2009 and December 2012 was 0.87, implying a high degree of correlation.

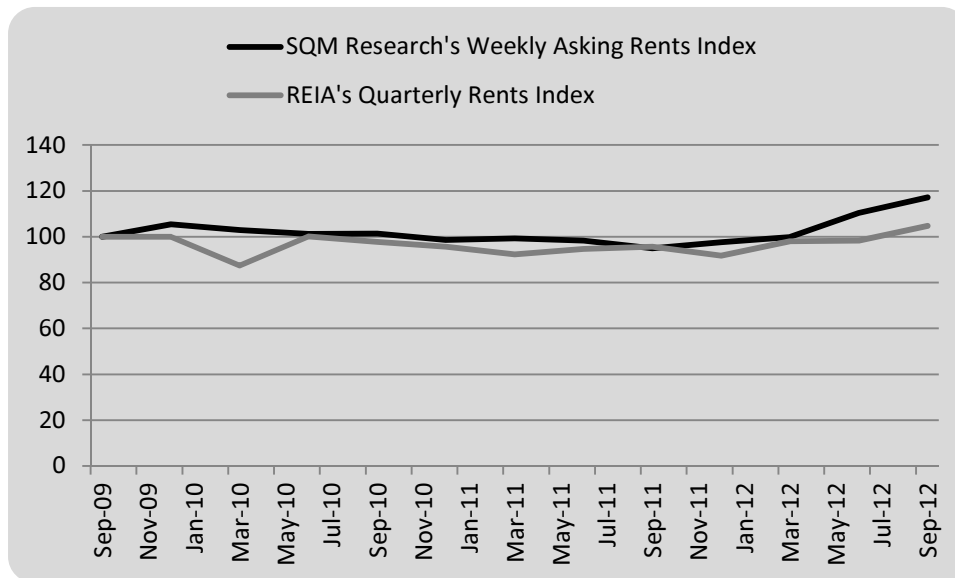
SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Canberra - 3-bedroom Houses)



Source: SQM Research, REIA

The coefficient of correlation noted between the two indices for Canberra between September 2009 and December 2012 was 0.85, implying a high degree of correlation.

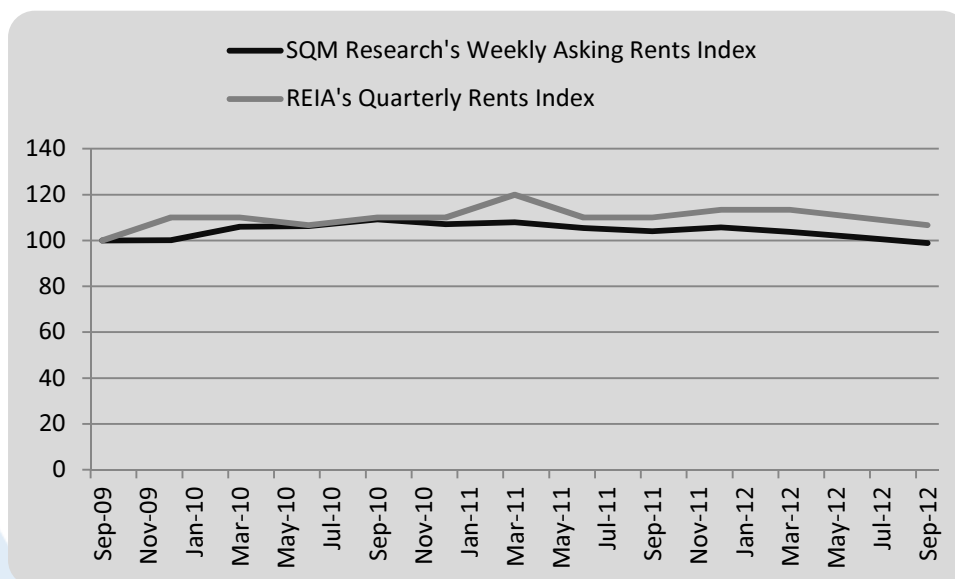
SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Darwin - 3-bedroom Houses)



Source: SQM Research, REIA

The coefficient of correlation noted between the two indices for Darwin between September 2009 and December 2012 was 0.56.

SQM Research's Weekly Rents Index versus REIA's Quarterly Rents Index (Hobart - 3-bedroom Houses)



Source: SQM Research, REIA



The coefficient of correlation noted between the two indices for Hobart between September 2009 and December 2012 was 0.52. Hobart recorded the lowest correlation coefficient amongst all capital cities.

Two Bedroom Unit, 3 Bedroom House Focus

SQM Research has published not just the median for all houses and units, but specifically three bedroom houses and two bedroom units. SQM Research has published this right from the national level down to the postcode level on a consistent basis. We chose these two property types over others (such as 1 bedroom units, etc) due to the consistent and deep sample size of the data. Data on other bedroom counts is available, however the sampling size is smaller and hence the data is regarded as being too volatile for public use.

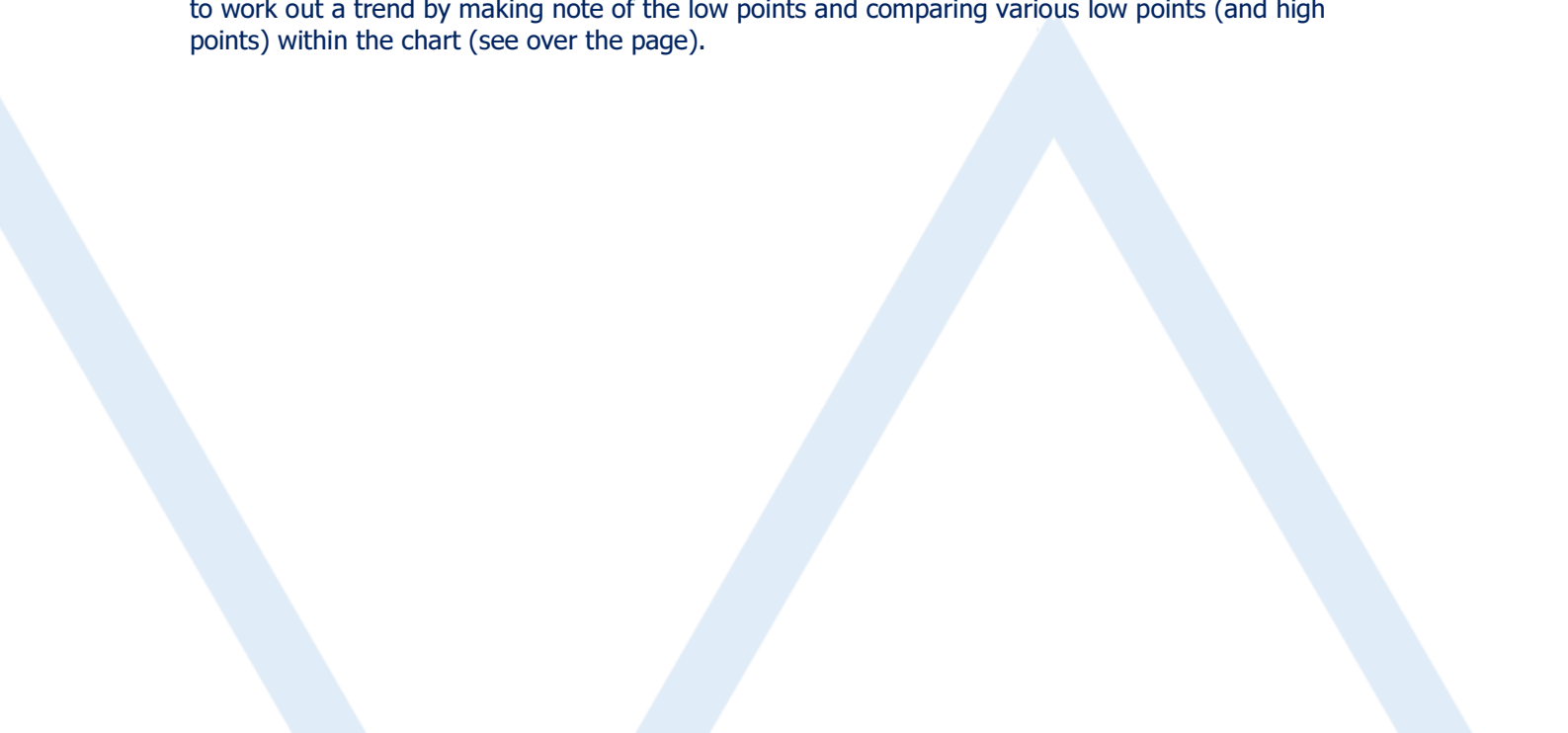
Comparing the overall rent against the bedroom rent is also useful in terms of confirming a new trend in the market. Generally, having both the 3 bedroom rental house index and the overall rental house index move in the same direction is of value before confirming a new trend is in effect for a local market.

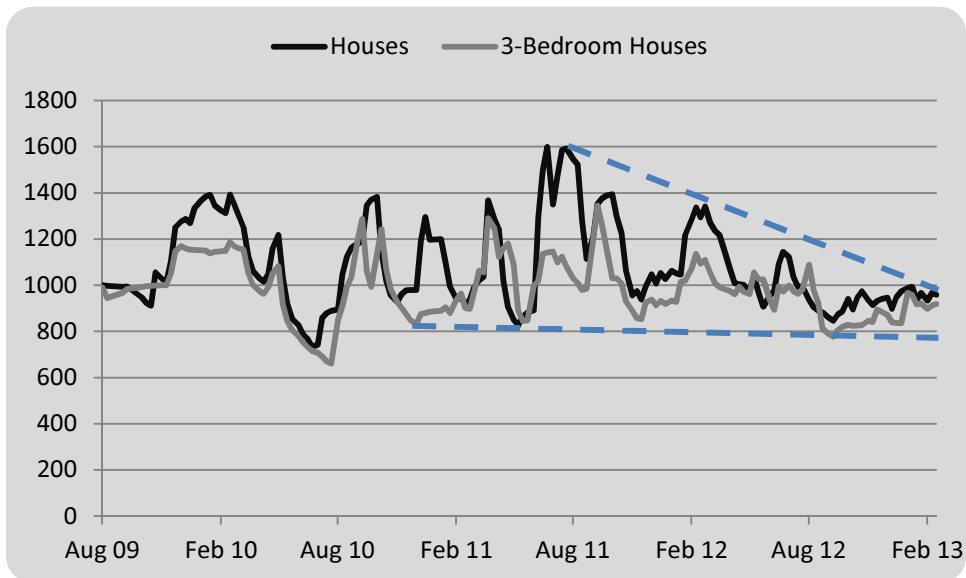
Sources

SQM Research conducts ongoing monitoring of a number of real estate listings websites. Through this monitoring, SQM Research believe it captures over 97% of all real estate listings, making this index as well as its stock on market and vacancy rates index the most comprehensive dataset available.

Tips and tricks

There are some suburbs where the rent chart is quite volatile. This normally occurs in locations where there are fewer rental listings and/or there is considerable variation between the top end of the rental market and the bottom end. Indeed, even on less volatile charts you will still find some oscillation at the postcode level. At this micro level it is impossible to properly stratify and so the postcodes can be skewed on a shorter term basis. However as SQM Research has a provided back series it is possible to work out a trend by making note of the low points and comparing various low points (and high points) within the chart (see over the page).





Source: SQM Research

It is also useful to compare this data to the vacancy rates data SQM Research also provides for each postcode, region and city. It is possible to calculate an approximate gross rental yield by comparing the vendor asking prices versus the asking rents that SQM Research has also provided with this data release.