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The Week In Real Estate

Housing Slump Coming To An End

All signs point to an early bottoming out of the housing markets in the major cities, according to the Australian Financial Review (AFR).

Corelogic's data has shown a consistent easing in house price falls this year, suggesting the worst of the decline in Sydney and Melbourne is behind us, while prices are rising in the smaller capital cities. Vacancy rates are low and falling in most cities and there is solid rental growth in six of the eight capitals.

SQM Research's latest data shows annual price growth in Canberra, Hobart, Brisbane and Adelaide and improved figures (though still slightly negative) for Perth and Darwin. "When you add this to other crucial data points, such as historically low unemployment and historically low interest rates, it begs the question as to whether the economic outlook is skewed too far in the pessimists' favour," the AFR says. The cash rate is at a record low of 1.5% and banks have been making "out of cycle" reductions in mortgage rates. Unemployment is still low at 5% and there is enough employment growth to at least see wages increasing at 2.3%.

Labor Policy Will Boost Spruikers

Labor's proposal to restrict negative gearing to new property will flood the market with spruikers and endanger the financial lives of Australians, according to the Property Investment Professionals of Australia (PIPA).

PIPA chairman Peter Koulizos says the policy would encourage unscrupulous operators looking to take financial advantage of everyday investors.

"When you financially incentivize people to buy a product, spruikers are not far behind because they see an opportunity to make a lot of cash very quickly," he says. "PIPA was created to lobby for regulation in the property advice space to drive out crooks. However, there is currently no legislation to protect consumers from dodgy operators pretending to be property investment experts."

Koulizos says industry research shows that Labor's policy is based on incorrect modelling. On top of that, he says, financially bribing investors to buy new property will create the ideal conditions for spruikers to flood the market.

Quote of the Week

"It will be like the pink batts fiasco all over again, which was another terrible Labor policy. This time, it is an ill-conceived negative gearing proposal that is being rolled out too quickly and is likely to have financially catastrophic consequences for investors."

Property Investment Professionals of Australia chairman Peter Koulizos

Investor Surge Tipped If Labor Wins

Property experts are predicting a likely surge in investor activity if Labor wins the Federal Election. A Shorten Labor Government would restrict negative gearing to investors who buy newly-built dwellings and increase the capital gains tax, with the changes to start in January 2020.

Properties purchased before then will be grandfathered, with industry experts predicting investors will act before the end of 2019 to acquire properties that will retain the current concessions.

Award-winning buyers' agent Rich Harvey of propertybuyer says a Labor win on 18 May might create "a mini boom" with heightened investor activity.

"If Labor wins it will provide impetus for an uptick in the market – a mini boom perhaps – with increased inquiry for established property before the deadline for the removal of negative gearing benefits," Harvey says.

"That is likely to be combined with at least one cut in official interest rates. The biggest headwind at the moment is tight credit – and once that starts to flow more easily that will be a catalyst for recovery in the big city markets."

Time To Scrap 7.25% Buffer

ANZ boss Shayne Elliott says it's time for a rethink of APRA's 7.25% home serviceability restriction rate. The banks are now feeling the pinch from APRAs serviceability restrictions that say borrowers must be able to handle a 7.25% repayment interest rate and are campaigning for it be relaxed. "I think common sense says it should be relative to where the interest rate cycle is," Elliott says. "The lower interest rates get the less likely it is that rates are going to get to 7.25% any time soon."

He also notes that ANZ went too far in scrutinising its new loans under a stricter interpretations of responsible lending standards. It is now loosening its approach.

Mortgage broker Louise Lucas of The Property Education Company says the 7.25% benchmark is "ridiculous" given that most borrowers are getting interest rates below 4%.

"There's so much fat in the system it's insane," Lucas says. "If we thought interest rates were going to reach 7% in a hurry it might be reasonable but that's not happening for a long, long time. Rates are trending lower, not higher, so the current buffer is unreasonable."

RBA On Hold But Cut Looms

Despite speculation about a cash rate cut, the Reserve Bank this week held the cash rate at 1.5% – marking 30 consecutive months without change.

The RBA is forecasting a pick-up in wages growth and has ¬signalled there is no immediate case for a rate cut, as the rebounding resources sector and an ¬increase in infrastructure spending drive the economy.

"The strong employment growth over the past year or so has led to some pick-up in wages growth, which is a welcome development,'' RBA ¬governor Philip Lowe says. "Some further lift in wages growth is ¬expected, although this is likely to be a gradual process."

The RBA is pressuring the banks to do the heavy lifting on interest rates, pointing out that mortgage rates remain largely unchanged despite lower bank funding costs.

In the latest Finder Cash Rate Survey, 75% of economists correctly forecast a hold of the cash rate this week. But Graham Cooke, insights manager at Finder, says the rate will be eased soon. "At this stage, most of our experts are predicting at least one cut by August and many expect another drop after that – a cash rate of 1% is in sight," Cooke says.