



The Week In Real Estate



Market “Bottomed Already”: Kohler

Financial writer and ABC News commentator Alan Kohler says there’s “a decent chance” that the housing market has bottomed already. “If not already, then soon,” he says.

Writing in *The Australian*, Kohler says: “That’s because auction clearance rates have been rising strongly for a few weeks and housing finance bounced in February. With affordability having improved, first-home buyers are back. And supply is tightening as well.”

Referring to prices in Sydney and Melbourne, Kohler says the depth of the cycle is “about normal so far” and says a turnaround about now would also be normal.

Kohler there may be reasons for thinking this is not a normal cycle, namely the level of household debt. “But even that won’t, on its own, lead to a price crash unless a recession reduces incomes and forces fire-selling,” he says.

Kohler says “the managed decline in house prices over the past couple of years” will be seen as a triumph for APRA and its regulation of major lenders.

Quote of the Week

“The home loan market is fiercely competitive and lenders are actively trying to entice borrowers with attractive interest rates. Those looking to fix could enjoy great rates right now. Major lenders and smaller lenders are attempting to lure borrowers to their fixed rate products by announcing reductions of as much as 55 basis points.”

Mortgage Choice chief executive officer Susan Mitchell

Melbourne Dominates Building Hotspots

Melbourne has again dominated the HIA Hotspots Report, with 12 of Australia’s Top 20 building growth areas located around Victoria’s capital.

The Housing Industry Association has revealed Australia’s strongest markets for home building in the 2019 edition of the HIA Population & Residential Building Hotspots Report. “Most of the growth is in the fringe of Melbourne as the city expands, although inner city suburbs such as Southbank and Docklands are also enjoying strong growth as they change to accommodate higher-density living,” says HIA’s chief economist Tim Reardon.

The Rockbank-Mt Cottrell area, located in Melbourne’s west near Melton, is Australia’s No.1 hotspot, with population growth of 59.4% during FY2018 and \$224.2 million in building approvals. Last year’s No.1, Mickleham-Yuroke (north of Melbourne’s Tullamarine airport), has slipped to second place and Pimpama in Queensland’s Gold Coast region dropped into third place. The remainder of the top 20 are located in Queensland and NSW, predominantly in areas near Sydney and Brisbane.





Affordability Improves In Most Cities

Housing affordability for new mortgage borrowers in Australia, which improved over the year to March 2019, will continue to improve over the next 12 months, according to Moody's Investor Service.

Its latest report noted the proportion of household income needed to meet repayments on new Australian mortgages improved to an average 26.5% in March 2019, from 28.7% a year earlier.

Affordability improved because housing prices declined in the biggest cities, while average incomes also increased modestly. Average headline mortgage interest rates increased slightly to 5.4% in March 2019 from 5.2% a year earlier, but this was outweighed by the outcomes with prices and incomes.

Moody's says affordability improved over the year in most cities, including Sydney, Melbourne, Brisbane and Perth, but deteriorated in Adelaide. The biggest improvement in housing affordability was in Sydney.

In Perth, now the most affordable capital city for housing in Australia, the proportion of income needed for mortgage repayments improved to 19.4% in March 2019, from 19.7% a year earlier.

RBA's Housing Concerns Abated

Tighter mortgage underwriting standards have eased the Reserve Bank's financial stability concerns associated with housing market conditions.

In its semi-annual Financial Stability Review, the RBA has reported that tighter lending standards imposed off the back of scrutiny from both regulators and the Banking Royal Commission have helped alleviate the threat posed by weakening housing market conditions in the major cities.

"Improvements in the quality of banks' mortgage lending have mitigated the risks that weaker housing market conditions might otherwise pose to household and bank balance sheets," the RBA says.

"This is especially true for new borrowers ... Changes in lending practices over the past few years mean that new borrowers will, on average, have less risky loans and be in a better financial position than previous cohorts." The RBA noted that as a result of such measures, loans with an LVR over 90% remain less than 7% of housing loan approvals, while new interest-only lending has fallen to around 16% of total loan approvals and 7% of owner-occupier loan approvals.

Fixed Rate Demand Falls

Demand for fixed rate home loans fell in March, reveals new data from Mortgage Choice, prompting many lenders to reduce their interest rates for fixed-rate loans.

According to its latest national home loan approval data, demand for fixed-rate home loans fell in March, accounting for 21% of all home loans written – a reduction of 1.38% from the previous month.

Mortgage Choice chief executive officer Susan Mitchell says it's not surprising to see borrowers taking a tentative approach towards fixing their interest rate.

"There is a great deal of uncertainty surrounding the housing market at present, which could be weighing against borrowers' decisions to commit to a fixed term," she says, pointing to the upcoming Federal Election and increasing speculation that the RBA will cut the official cash rate soon.

"That being said, lenders would be acutely aware of borrowers' reluctance to fix, and have in the last few weeks responded by cutting rates on some of their fixed rate products. Those looking to fix could enjoy great rates right now."

