



# The Week In Real Estate



## Optimism Returns With Election Result

The Federal Election result has created a wave of optimism in the housing market, with two of the major brakes on activity removed by the Liberal Party victory. Real estate consumers declined to make spending commitments in the lead-up to the election and the prospect of the Labor Party policy on negative gearing created additional uncertainty. Real estate experts now believe property markets can return to normal and consumers can make decisions in an atmosphere of political certainty.

Tyron Hyde, director of depreciation experts Washington Brown, expects to see a flurry of activity from people getting into the market in coming months.

He says the defeat of Labor and its policies will mean the current negative gearing provisions will remain in place for a long time. "I don't think we'll see those changes proposed again in my lifetime," Hyde says.

Mortgage broker Louise Lucas of The Property Education Company says it's now "full steam ahead" for property investors who were worried about the prospect of a Labor victory and changes to negative gearing.

## Quote of the Week

***"The election result is the stimulus that investors needed to get back into the market. This will be a major catalyst for this to be the bottom of the downturn for markets like Sydney. The slump in the big cities would have been a lot worse if Labor had won."***

**Tyron Hyde, director of depreciation experts Washington Brown**

## Positive Property 'Shock' Predicted

Expect a rebound in Australia's property markets - that's the view from economists and the industry following Labor's failure to win the election and implement changes to negative gearing.

Goldman Sachs economists are forecasting a "moderate positive shock to sentiment in the corporate sector and a more meaningful one in the housing sector". The housing markets in Sydney and Melbourne are expected to bottom out earlier than expected.

CoreLogic's Tim Lawless says the election outcome is "an overall net positive" for housing. "Certainty has been reintroduced, which will bring confidence and allow people to make high-commitment decisions," he says.

UBS economist George Tharenou says the Coalition's election win is likely to stabilise sentiment and reduce the risks in the housing market. This could lift consumer sentiment and consumption, which had been threatening to spill over into weakening economic growth. Property leaders have flagged restored confidence, with Ray White chairman Brian White calling the bottom of the market in the wake of the Coalition's election victory.





## APRA Move To Lift Lending

APRA has begun moves to ease its restrictions on how lenders assess mortgage applications, with likely positive consequences for residential real estate.

Under the current Australian Prudential Regulation Authority rules, lenders have to assess borrowers' ability to service loans assuming an interest rate above 7%, even though most can borrow at below 4%.

Now APRA says it will remove its guidance - instead, lenders will be permitted to set their own minimum interest rate floor for use in serviceability assessments. It has also proposed that serviceability assessments use an interest rate buffer of 2.5%.

Mortgage broker Louise Lucas says the changes will mean borrowers are assessed on interest rate levels closer to the ones they're actually paying.

RiskWise Property Research says APRA's scrapping of the 7% "stress test" buffer will effectively see a 9% increase in borrowing capacity for owner-occupiers which will rise to between 13% and 14% if the RBA undertakes two interest rate cuts before the year is out.

## NAB Tips RBA To Cut Twice

The Reserve Bank of Australia appears poised to slice official interest rates, with governor Philip Lowe this week saying it would be on the bank's agenda next month. In a speech to the Queensland branch of the Economic Society of Australia in Brisbane, Lowe said without a cut in interest rates it was unlikely the bank's forecasts for lower unemployment and a lift in inflation would be met.

Declaring that Australia could "do better" than have an unemployment rate around 5%, he said there were few options for the RBA but to consider a rate cut.

NAB has brought forward its forecast for a cash rate cut and now expects the Reserve Bank to act in both June and August, with a third 25 basis point movement to below 1% possible in early 2020.

The nation's fourth biggest lender says an unexpected uptick in the jobless rate provided further evidence the economy had softened more than the RBA expected.

Coupled with weak inflation for the March quarter, as well as subdued business and consumer sentiment, NAB says April's jobs figures would force the central bank to take action at its June 4 board meeting, and again in August.

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## Affordability Rise Continues

The HIA Affordability Index rose by 2.2% in the March 2019 Quarter to post the most significant improvement in affordability since September 2013, according to HIA chief economist Tim Reardon.

HIA's Affordability Index is calculated for each of the eight capital cities and regional areas on a quarterly basis and takes into account the latest dwelling prices, mortgage interest rates and wage movements.

"The improvement in housing affordability has been experienced across the country, with the exception of Tasmania and the ACT, where ongoing house price growth has seen affordability remain static," says Reardon.

"The boom in home building of the past five years is a key factor behind the improvement in housing affordability. Wage growth also contributed to the improvement in affordability."

Reardon says the improvement is most significant in east coast capital cities. Affordability in Sydney had deteriorated to an extent that in June 2017 it required two average Sydney incomes to be able to afford an average home. In just over a year this has improved to only requiring 1.8 standard incomes.



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