MITCHELLS REALTY

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The Week In Real Estate

Affordability Best In 20yrs: HIA

Housing affordability is the best it's been in two decades with mortgage repayments now consuming the smallest proportion of earnings since 1999, the Housing Industry Association says.

Softer housing markets and a reduction in interest rates combined to improve affordability during the June Quarter, while average earnings have begun to improve modestly.

"For a home-buyer with an average income purchasing a median priced dwelling, assuming a 10% deposit, mortgage repayments will consume the smallest proportion of their earnings since 1999," says HIA senior economist Geordan Murray. "The main reason the HIA Affordability Index today is comparable with the level in 1999, despite house prices rising significantly faster than incomes, is that interest rates are 4.6% today compared with 6.7% in 1999."

Murray says average earnings have increased by 113% over the last 20 years, while the median home price has increased by 228%. But lower interest rates mean the cost of servicing a loan has remained the same.

'Heaps of Stimulus' Revs Economy

Pessimistic views on the economy are misguided because there was "heaps of stimulus" in the pipeline from the Federal Government's income tax cuts and the Reserve Bank's two interest rate cuts.

Deloitte Access Economics partner Chris Richardson says in his latest business outlook report that people had misinterpreted the RBA's interest rate cuts in June and July and the central bank could have done a better job at communicating the reasoning.

Rather than being worried about a sharp economic downturn, the RBA wanted to create more jobs and boost wage growth, the Canberra-based economist says.

Richardson says while there are challenges from a slowdown in consumer spending, low wage growth and global trade stalling, there is "heaps of stimulus and it's arriving fast" in Australia.

"The election result reduced policy uncertainty, there are big tax cuts hitting pockets in a few weeks, there's interest rate cuts, plus reduced pressures on bank funding costs, a loosening of the noose on lending for housing by the regulators, plus a modestly lower Australian dollar," he says.

Quote of the Week

"The reality is the conditions in the market are very attractive to those looking to buy their first home. Looking ahead, there appears to be light at the end of the tunnel for the property market as the ABS data supports other indicators that the housing market correction is stabilising."

Mortgage Choice Chief Executive Officer, Susan Mitchell

Big Banks Act On APRA Change

Westpac has moved its interest rate floor to 5.75%, down from 7.25%, in response to APRA changes to how banks can assess mortgage borrowers. This follows moves from ANZ, which has changed its interest rate floor to 5.5% from 7.25%.

These moves from the major lenders follow changes to the banking regulator's guidelines. APRA previously set interest rate floors, dictating that banks had to assess borrowers' ability to repay loans on a 7.25% interest rate, but is now permitting the lenders to self-assess.

These changes to loan serviceability guidelines, combined with APRA lifting its restrictions on interest-only lending earlier this year, will make finance easier to access for Australian investors than it has been in previous years.

ANZ Banking Group was the first lender to pass on the benefit of the loosened lending limits that are tipped to greatly increase purchasing power for home-buyers.

An ANZ spokesman said APRA's decision was sensible in the current low rate environment and the new rates would give more Australians the opportunity to buy a home or refinance their loans.

First Home Buyer Demand Spikes

Home loan demand fell slightly overall in May, according to new ABS data, but loans to first-home buyers rose 20% and finance for the construction and purchase of new homes grew 2.3%.

According to the ABS, 46,600 home loans to owner-occupiers were approved in May – a slight reduction (0.1%) on April and a 12.4% decrease year on year. The figures pre-date the impact of recent positive events for real estate, including the Federal Election result, two interest rates reductions and the newly-legislated tax cuts.

Mortgage Choice CEO Susan Mitchell says the May decline in home loans was unsurprising. "There was still a lot of uncertainty in the lead up to the Federal Election," she says.

Against the general trend, loans to FHBs increased almost 20% in May , as further evidence that sentiment is improving.

"The conditions in the market are very attractive to those looking to buy their first home," says Mitchell. "Looking ahead, there appears to be light at the end of the tunnel for the property market as the ABS data supports other indicators that the housing market correction is stabilising."

Big Wins Forecast For Cities

A major jump in house prices is forecast for Brisbane over the next three years, with other major Queensland cities close behind.

Latest analysis by BIS Oxford Economics has forecast 20% growth in house prices in Brisbane, with demand driven by its relative affordability compared to the larger capitals and a pick-up in positivity.

Its Residential Property Prospects 2019—2022 also predicts solid growth in Adelaide (11%) and Canberra (10%). In contrast, prices in Sydney and Melbourne were forecast to grow in single digits in terms of percentage growth over the next three years.

The latest Deloitte Access Economics Business Outlook has predicted Queensland will be among the biggest beneficiaries of a major shift in the economy, with stimulus coming out of rising coal prices pushed by Chinese demand, expectations that farmers have a better season coming up, and rising housing demand driven by interstate migration.

BIS Oxford Economics associate director Angie Zigomanis expects Brisbane to be a big winner, out-performing the slow recovery coming out of southern markets.

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