MITCHELLS REALTY

27th July 2019

The Week In Real Estate

10% Price Rises Predicted

Price rises as high as 10% have been predicted for major city markets following a resurgence in sentiment and activity in the wake of a series of positive events.

Auction clearance rates in Sydney and Melbourne have had another strong showing and recovery in price levels appears to be under way, while market activity elsewhere continues to respond positively to improving consumer confidence.

AMP chief economist Shane Oliver says we can expect to see as much as a 10% rise in house prices as a result. The worst appears to be over for the Sydney and Melbourne property markets after yet another strong weekend of sales. Last weekend, 78% of Sydney properties sold and 74% of Melbourne's sold, according to real estate platform Domain. While the final figures will be slightly lower, that puts both markets on course for their best results in two years, Oliver says. It marks the sixth consecutive weekend that both capitals have trended above the 60% level and the second-straight week that Sydney has broken the 70% mark, according to Domain.

More Aussies Expect Value Rises

Australians are feeling more positive about property price growth, a national survey of first-home buyers, owner-occupiers and investors shows.

ME Bank's quarterly Property Sentiment Report for the June quarter shows that the number of people expecting house prices to increase has risen across the country, with 38% expecting house prices to rise over the next 12 months (up from 32% in the March Quarter). Just 17% of people now expect property prices to fall in the next 12 months, a significant reduction from 28% of those surveyed in April. There continue to be large numbers of people who are uncertain which way prices will go. The survey showed that while overall sentiment was improving in Australia, some states were still holding negative outlooks when it came to property values, which reflects the reality that there are different market scenarios occurring in different parts of the nation. ME group executive customer banking Craig Ralston says the improved sentiment from buyers is unsurprising given the recent interest rate reductions, relaxation of lending criteria for mortgages and the certainty over negative gearing options since the federal election.

Quote of the Week

"We weren't surprised to see an improvement in consumer sentiment this quarter given what's happened. Positivity among sellers and owner-occupiers suggests these groups see the recent market trends as a sign their homes are retaining or regaining value."

ME group executive customer banking Craig Ralston, commenting on a survey showing more Australians expect house prices to rise.

Big 4 Ease Lending Rules

NAB is the last of the Big Four banks to lower its interest rate floor in response to the banking regulator APRA relaxing it guidelines for loan serviceability. This will make it easier for consumers to borrow to buy real estate and will allow many applicants to borrow more.

NAB has lowered its interest rate floor to 5.5% and increased its interest rate buffer to 2.5%, effective for all new home loan applications from 5 August. This means it has matched ANZ's rate floor of 5.5% and undercut CBA and Westpac, which both dropped their interest floor rates to 5.75%.

"Now is the right time to change the approach to how the affordability rate floor is determined, given the continuing low interest rate environment," says NAB's chief customer officer of consumer banking Mike Baird.

The Commonwealth Bank has relaxed its mortgage lending rules starting July 22. CBA, the country's biggest lender, says it will introduce a new 5.75% floor rate and 2.50% interest rate buffer, in line with the APRA's instructions. CBA's rates are currently at 7.25% and 2.25%, respectively.

Borrowers Go Variable As Rates Fall

With interest rates falling, demand for fixed-rate home loans fell in June, accounting for 21% of all home loans written. According to new data from Mortgage Choice, this is the lowest level in almost eight years. The decrease in demand for fixed loans is not surprising, with interest rate reductions following two cash rate cuts from the Reserve Bank. A snapshot of recent loan approval data suggests borrower preference for variable loans is growing.

Mortgage Choice Chief Executive Officer Susan Mitchell says: "We can see a clear shift towards variable rate loans. In fact, this type of loan product accounted for 86.5% of home loan applications and only 13.5% of customers chose to fix."

Mortgage broker Louise Lucas of The Property Education Company says that while interest rates are trending lower, there's still a case to be made for fixing, particularly for investors.

"We are getting really good interest rates for fixed loans, sometimes 30 or 40 basis points lower than the variable rates on offer," Lucas says. "You can get below 3.5% interest-only fixed for two years. When you have a fixed-rate, you have some certainty and you know what your repayments will be."

FHBs Almost 30% Of Market

First-home buyers are becoming increasingly active in the market, accounting for close to 30% of owner-occupier home loans in May, according to new figures. It's their highest market share in seven years. With falling interest rates, an easing of lending rules and a new federal assistance scheme now in the mix, FHBs have increasing opportunities to crack the market.

CoreLogic data shows the proportion of FHBs signing up to owner-occupier loans reached just under 29% in May — the highest since 2012 and compared to a low of 19.5% in 2015.

Aussie Home Loans chief executive officer James Symond says FHBs are "on the move again", spurred on by competitive property prices and government incentive schemes.

He says FHBs who have been diligently saving should understand what price range they can afford before they go on the hunt for a home.

"Search areas where you want to buy and the prices being paid for homes," he says. "The best rule of thumb is that you can usually borrow about three times your gross annual salary, on top of the deposit you arrange through savings."