



The Week In Real Estate



House Prices Rebound Strongly

House prices have rebounded stronger than expected, says the latest ANZ Australian Housing Update. It has found that auction clearance rates bottomed in December and have been rising since. But the improvement in markets became much more marked from May onwards (when the Federal Election was decided), while the change in sentiment was driven by a combination of easier access to credit, lower interest rates and increased certainty around housing taxation.

The ANZ report says the recovery in prices has been driven by Sydney and Melbourne. Prices in the two biggest cities stabilised in June after a period of decline. Prices are up 3% in both cities in the past three months, with more price rises predicted.

In Brisbane and Adelaide prices appear to be stabilising after a period of modest weakness. Hobart prices now look to be stabilising after big jump since early 2016 where prices have risen a cumulative 34%. The report says to expect prices to continue to rise nationwide through the December Quarter, with growth averaging 6% forecast for 2020 and 4% in 2021.

Quote of the Week

“The change in sentiment has been driven by the combination of lower interest rates, easier access to credit and increased certainty around housing taxation. Together, these factors have helped to shift sentiment from one of pervasive negativity to broad optimism.”

ANZ senior economist Felicity Emmett



Housing Shortage Will Lift Prices

An impending housing shortage, caused by the construction downturn, will force up property prices, say market analysts.

Residential construction activity for both apartments and houses has been falling faster than expected by the Reserve Bank, with the central bank forecasting a further 7% fall in dwelling investment over the next year.

“Given the large size of the pipeline, we had expected construction activity to remain at a pretty high level for most of this year, but it turned down sooner and by more than we had expected,” says RBA deputy governor Guy Debelle.

Major developer Stockland is stepping up the pace of development to meet a housing shortage it says will become apparent next year, as a result of stronger investor and retirement living markets that are overlapping with a fall in new housing starts.

According to Stockland, signs of a shortage are becoming apparent in Sydney and Brisbane.





Double-digit Growth in 2020 Tipped

Sydney and Melbourne property prices will be up by 3% by the end of this year - and by mid-2020 they will be growing at annual rates of 12% and 13% respectively, according to ANZ economists.

By the end of 2020, a combination of tighter credit and improved supply will mean price growth will come back a little but will still be 7% in Sydney and 9% in Melbourne, it says.

Improved auction results in the two cities have been accompanied by a change in sentiment which has the potential to offset the recent price falls, says ANZ senior economist Felicity Emmett.

Sydney's auction clearance rate is sitting above 80% for the second time in two months. Research by ANZ and CoreLogic shows this is the strongest Sydney's clearance rates have been for two years.

Emmett says public sentiment has moved from one of pervasive negativity to broad optimism in recent months.

AMP chief economist Shane Oliver says the market was being buoyed by more buyers and fewer auctions. He expects the results will flatten out as more vendors return to the market.

Interest-only Loans Become Easier

Westpac will allow property investors to take out interest-only loans with smaller deposits than it previously demanded under tightened regulations.

Westpac is raising the maximum loan-to-valuation ratio for interest-only loans to property investors from 80% to 90%, joining ANZ which implemented a similar change earlier this year.

When interest-only lending surged to almost 40% of all outstanding housing credit in 2015, the Australian Prudential Regulation Authority (APRA) intervened by placing lending restrictions on the banks.

Concerned about lending standards being eroded, APRA capped the proportion of new interest-only lending in early 2017, prompting banks to raise interest rates and introduce tougher credit policies.

Then, as house prices fell, APRA relaxed its policies and now the banks are following suit.

In other good news for investors, banks have also cut their interest rates for interest-only customers by more than rates on other types of mortgages.

Home Loan Arrears Improve

Home loan arrears improved in August, with Standard & Poor's Performance Index for Australian mortgages showing a decline to 1.41% from 1.49% in July.

Arrears (borrowers who are late with their mortgage repayments) fell in all states and territories nationwide, with Western Australia recording the largest decline, slipping to 2.75% in August from 2.91% in July.

Mortgage arrears levels improved for all lenders, with regional banks recording the largest improvement, falling 29 basis points to 2.18% in August.

The improvement can be attributed to the recent interest rate cuts which have been successful in supporting Australia's economy and housing market, RBA governor Philip Lowe says.

He says the housing market has now turned around, which in turn will support consumption and the labour market, inducing further growth.

S&P Global experts expect arrears to continue to trend lower in the short term as the most recent rate cuts start to filter through.

