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The Week In Real Estate

Many Paying Too Much Interest

Some borrowers are paying interest rates of more than 6%, costing them tens of thousands of dollars extra every year – despite an official cash rate which is now below 1% following the RBA decision this week.

Mortgage brokers claim borrowers are unwittingly being left off banks' standard variable rates without realising. In worst-case scenarios, these rates could be more than double the cheapest rates available.

Canstar figures found that, for borrowers paying rates as high as 6.3%, if they switched to the lowest rate of 2.89% five years into a 30-year loan, they would save $163,000 over the remaining term.

Mortgage brokers say they regularly see customers with interest rates starting with a "6" seeking out cheaper deals. They recommend that borrowers should check their home loan rates annually.

Analysis by financial comparison website RateCity found 15 lenders including Westpac, Citi, HSBC, Suncorp and ME, reduced owner-occupier home loan rates in the past month for new customers, but not for existing borrowers. RateCity's spokeswoman Sally Tindall says there are constant interest rate movements and customers must pay attention.

City Prices Rise In September

The revival in property prices in the major cities continued in September, with movement in prices for both houses and apartments, according to the latest figures from CoreLogic.

The national Home Value Index posted its largest monthly gain since March 2017, adding to improvements seen in July and August.

Sydney, Melbourne, Brisbane, Canberra and Hobart all recorded significant growth in their house price indexes in the September Quarter, headed by a 3.6% quarterly rise in Sydney and a 3.4% increase in Melbourne.

But, in annual terms, house price growth is still being led by Hobart and Canberra.

The September data from CoreLogic also shows solid uplift in capital city apartment markets. All capital cities except Brisbane and Perth recorded monthly rises, while Sydney (up 3.3%), Melbourne (up 3.3%) and Brisbane (up 1%) all reported quarterly increases in their indexes for apartments. Nationally, the "combined capitals" index rose 1.2% for houses and 1.0% for apartments in September, with quarterly increases of 2.1% (houses) and 2.7% apartments.

Quote of the Week

"The turnaround has been sharper than we forecast just a few months ago. Auction clearance rates, prices and finance have all beaten our expectations."

ANZ chief economist *David Plank*

Rises Set Up Another Boom

All the ingredients for another house price boom are in place, economists say, after prices rose in August and again in September.

Economists participating in The Australian Financial Review's September Quarter survey were surprised by the pace of recovery in prices following the Federal Election, interest rate cuts and an easing of lending restrictions.

"The turnaround has been sharper than we forecast just a few months ago," ANZ chief economist David Plank says. "Auction clearance rates, prices and finance have all beaten our expectations."

Access to cheap money combined with house hunters competing over limited stock have helped drive prices higher, by 3.2% in Sydney and 3.4% in Melbourne in the last four months.

Macquarie senior economist Justin Fabo says "quite strong" house price rises, particularly in Sydney and Melbourne, are occurring "as interest rates decline and many households can borrow a lot more".

UBS has forecast a 5-10% rise in house prices year-on-year for the coming 12 months, an increase it describes as a "mini-boom".

Sellers Continue To Profit

Nine in 10 houses resold in the June Quarter made a profit for the seller, according to CoreLogic's latest Pain and Gain Report.

Nationally, 90% of houses resold for higher than their original purchase price, compared to 80% of apartments. The resales delivered a combined gross profit of $16.3 billion nationally.

In the three months to June, 13% of resales nationally were below the previous purchase price. This compares to 9.3% in June 2018 and 12% in the March 2019 Quarter.

CoreLogic head of research Tim Lawless says: "Despite a downward trend nationally, the vast majority of home owners continue to resell their properties for a profit."

For the first time since 2009, regional markets outperformed the capital city markets, with 88% of regional sales profitable compared to 86% in the cities.

In the capital cities, the greatest gains were in Hobart, where 98% of properties sold at a profit. The greatest pain was felt in Darwin, where 48% of properties sold at a loss.

Household Wealth Hits Record

Australia's household wealth has hit a record high, beating the previous highest ever recorded figure of $10,422 billion in September 2018.

Household wealth rose 1.6% in the June Quarter to $10,455.3 billion, following a 0.2% rise in the previous quarter, according to ABS figures.

The increase was partly driven by gains on financial assets in the share market, mainly in superannuation assets, offsetting short-term losses in residential property.

Household wealth per person increased to $411,492 in the June Quarter – a rise of $6,926 from the previous quarter.

The data shows an increase in households investing in property. Households invested $38.8 billion, an increase of $2.2 billion from the previous quarter.

While short-term residential real estate losses held back some growth in household wealth, the rate of decrease in the value of residential property slowed – and is expected to improve markedly in the September Quarter figures.

Even though the data reflects a lift in residential property investment, it also shows low growth in investor loans. Most of the increase in loans from banks were for owner-occupiers.

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