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The Week In Real Estate

Housing Shortage Looms: ANZ

A supply shortage is set to put pressure on house prices in 2020. ANZ Bank says that, as the lag between interest rate cuts and building approvals grows longer, residential construction activity is set to fall further, adding to the prospect of a housing shortage.

According to senior economist Felicity Emmett, the current trend with dwelling approvals suggests that construction will continue falling in the first half of the year and will not pick up until mid-2020.

The latest figures from SQM Research show that most major markets across Australia already have vacancy rates below 2.5%. Emmett says vacancy rates will fall further in 2020 and 2021, with Sydney the only major market with areas of over-supply.

"We expect the vacancy rate to tighten further, with this putting upward pressure on rents and eventually prompting a bigger price and supply response," she says.

Population growth is driving further demand as supply declines, the ANZ analysis says, but there is little sign as yet that higher prices for established homes are driving a pick-up in construction.

Survey Finds Positive 2020 Outlook

Housing markets look promising for growth in 2020, with 52% of experts expecting house prices to rise to above their pre-decline levels, according to the latest survey by comparison website Finder. Only 12% of experts expect house prices to fall.

Another positive aspect that home-buyers can look forward to is the possibility of further interest rate decreases.

The Reserve Bank will reassess the economic outlook at its first meeting of 2020, leaving some market economists to conclude that it may cut interest rates as soon as February.

The Finder survey also indicates that mortgage defaults (currently, mortgage delinquencies remain low around 1.6%, according to Moody's) should remain steady. Three-quarters of the experts surveyed say it is unlikely Australia will see a rise in defaults in 2020.

Most of the economists surveyed also said the most promising locations to buy property in 2020 included Brisbane and Melbourne.

Quote of the Week

"Based on recent results on building approvals, house prices and lending, it does seem that people are optimistic about the prospects for the housing market in 2020. Activity is going to get a further boost in January with the activation of the First Home Loan Deposit Scheme."

Shane Garrett, chief economist, Master Builders Australia

Bank Tips Price Rises In 2020

Westpac predicts house prices will keep rising in 2020, although at a slower pace than during the second half of 2019.

The bank's chief economist Bill Evans believes it will provide a "wealth-associated boost" to the Australian economy through the second half of 2020.

Evans says the knock-on effect of this will be a lift in consumer spending. He is forecasting that consumer spending growth will lift from a 1.5% annualised rate in the first half of 2020 to 2% in the second half.

Westpac is also tipping two cash rate cuts in 2020.

Evans says Australia's economic growth prospects are likely to be impacted by a difficult global environment and that business investment growth is likely to remain subdued.

As a result, he expects the Reserve Bank to take monetary policy to new levels over the next 12 months.

The official cash rate is currently 0.75%, following three RBA reductions in the second half of 2019.

Mortgage Lending on the Rise

Mortgage lending has risen for four consecutive months, according to data from the Reserve Bank, driven by rising demand from owner-occupiers including first-home buyers.

Driven by increased demand for housing, new mortgage lending rose by 4.3% in July, 3.8% in August, 1.1% in September and 2% in October.

Housing commitments to owner-occupiers rose 2.2% in October – the fifth consecutive monthly increase.

Maree Kilroy, economist at BIS Oxford Economics, says owner-occupier loans for the construction of new homes grew by 6% in October, the strongest month-on-month growth since July 2018 - and have grown by 5.7% over the past 12 months.

By comparison, the value of investor lending commitments rose by 1.4% during the month but fell by 9.7% on an annualised basis.

The October figures also included, for the first time, information about first-time buyers who buy an investment property rather than a home to live in. It shows that 5.7% of all first-time buyer commitments were for an investment property.

First Home Scheme Launches

The Federal Government's new First Home Buyer Scheme officially launched on 1 January, making it easier for young buyers to get finance for their first home.

Under the scheme, the Federal Government will go guarantor on 10,000 loans to first-time buyers each financial year. Those with deposits between 5% and 20% of the purchase price will avoid paying the cost of lender's mortgage insurance, usually worth about $10,000.

Sally Tindall, research director at RateCity.com.au, says first-home buyers need to "weigh up the pros and cons" so it doesn't cost them more in the long run.

For example, a person buying a $500,000 property with a 5% deposit instead of a 20% deposit would need $75,000 less initially, but with a larger loan, their monthly mortgage repayments would be $329 extra a month and they would pay $43,546 extra in interest over 30 years.

This is based on a CBA's basic principle and interest home loan at a rate of 3.32% for an owner-occupier.

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