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The Week In Real Estate

Low Rates A Chance To Build Buffer

The latest interest rate reduction by the Reserve Bank will save borrowers with an average mortgage size of $400,000 about $56 per month, or $675 a year, figures from comparison website RateCity show.

The rate cut has been passed on in full by most lenders to their variable-rate mortgage holders.

Sally Tindall, research director at RateCity, says those who took out a $400,000 variable rate mortgage in October 2011 – just before the start of the Reserve Bank cutting cycle – and kept their repayments the same would have already paid off an extra $61,493 on their home loan.

With the cash rate at 0.5%, the interest rate cycle is now near the bottom and by maintaining repayments, mortgage holders will have a buffer for when rates do eventually rise.

Borrowers who want to keep lower mortgage repayments and maintain a healthy cash flow for living expenses and emergencies can ask their lender to reduce their repayments if the payments have not been automatically lowered.

Vacancy Rates Down In All Cities

Vacancy rates are below 3% in all capital cities for the first time in years following recent drops in Sydney and Darwin. Vacancies are tight also in most regional centres across the nation. The national residential rental vacancy rate declined from 2.1% in January to 2.0% in February, shows the latest research from SQM Research.

Most states recorded declines with the exception of Hobart, which recorded an increase but still remains the city with the lowest vacancy rate (0.9%).

Sydney has the highest vacancy rate at 2.9%, followed by Darwin (2.7%), Brisbane (2.2%), Perth (2.0%) and Melbourne (1.9%), while Adelaide and Canberra are both 1.0%. The change shows a notable improvement in the last 12 months. As at February 2019, three cities had vacancy rates above the benchmark of 3%: a year ago Darwin was 3.7%, Sydney 3.2% and Perth 3.0%.

February marks the start of the new year in the property industry and provides a clear picture of the rental market. The decline in vacancy rates reflects an increase in rental demand, a decline in dwelling completions and the ongoing increase in population.

Quote of the Week

"Our forecast remains unchanged with house prices expected to rise 0.5% every month, reaching around 7.5% growth in Sydney and Melbourne. If the virus is still around by the end of the year then you will have an economic impact … but that's not our forecast."

NAB group chief economist Alan Oster

Market Resilient Against Virus Fears

The nation's housing market appears resilient in the face of coronavirus concerns, industry analysts say.

CoreLogic data shows auction markets remain strong, with a 71% clearance rate from 2,220 homes across the country's capital cities last weekend. The result was much higher than the 53% tally of the previous weekend (1,456) and higher than the 51% result from the same weekend in 2019.

"With uncertainty rising and confidence slipping as the coronavirus outbreak becomes more widespread, there is some downside risk that housing activity will reduce," says CoreLogic. "However, based on the latest auction results, the housing market has proven to be relatively resilient so far."

CoreLogic auction commentator Kevin Brogan says the results show the virus outbreak has not yet affected the current "seller's market".

"In that context, I think these are really strong results," says Brogan.

"We did see a little bit of a dip overall, but the clearance rate across capital cities on a preliminary basis is still sitting above 70%, which is quite strong."

Mortgage Lending on the Rise

New home loans, led by owner-occupiers, rose at their fastest pace in three years in January. Home loan values also increased.

"The average loan to buy an established dwelling is up 21.7% in the year to January – the fastest pace in the 16 years of available data," CommSec chief economist Craig James says.

New mortgage commitments rose 4.6% to $21 billion from December to January, the fastest month-on-month increase since September 2016, when total new lending rose 5%.

Over the month, the overall value of investor loans increased by 3.6% to $5.7 billion while first home buyer loans grew by 4.8%.

On a trend basis, investor loans grew 2.1% monthly and 11.3% annually, though the segment is still 40% below its market peak.

The latest increase in financing for houses has been the most robust monthly growth in the cycle thus far, says Tim Reardon, chief economist at the Housing Industry Association. Housing market conditions have significantly improved since their weakest point in May 2019, says Reardon.

FHB Activity Strongest in 10 years

First-home buyers have returned to the housing market at the fastest pace in 10 years, according to the ABS.

The value of new home loans granted to first-home buyers rose 46% from 2.9 billion in January 2019 to $4.2 billion in January 2020.

Some 9,945 first-home buyers took out loans in the month, up 26% from a year ago.

Since the May 2019 election, loans to first-home buyers are up 35% while other owner-occupiers are up 29%.

Domain economist Trent Wiltshire says the rebound has been driven by owner-occupier borrowers and first-time buyers in particular, although investors have bounced back too.

"The changes to bank lending rules, combined with lower rates, mean first-home buyers in particular can borrow more," he says.

"But the first-home buyer activity also has the effect of pushing up prices as well. In that sense, the First Home Loan Deposit Scheme is not well timed, as it will contribute to price rises at the lower end of the market."

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