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The Week In Real Estate

Rates Won't Hurt Values

The latest interest rate rise has done little to dampen enthusiasm in the property market with CoreLogic figures showing auction clearance rates are actually on the rise.

Nationally the clearance rate hit 75.1% on the weekend, the highest level since mid-February 2022. There were 1750 properties taken to auction last weekend across the capital cities compared with 1739 properties the previous week.

Melbourne performed well with a clearance rate of 76%, which was the fourth consecutive week it achieved a clearance rate above 70% and its best result since October 2021.

Adelaide was the best performer in the smaller capital cities with a clearance rate of 72.1% followed by Brisbane, 68.2%, and Canberra, 66.2%.

In Perth, two of the six results reported sold under the hammer.

While clearance rates are rising so too are property prices according to Domain. It says combined capital city values are up 1.8% in the past quarter, with Sydney leading the charge with a 3.4% increase.

Mortgage War Surrender

After months of fighting for market share through cash backs and reduced rate offers, banks are taking a step back from the mortgage wars.

In April Ubank ceased its cash back offer, which at one point was $6000, and the Commonwealth Bank will stop its $2000 cashback offer to new borrowers from June 1.

Instead of offering sweeteners to attract new customers, Westpac says it has been focusing on offering deep discounts to retain existing customers.

Westpac Chief Executive, Peter King, says as a result it has retained 84% of its borrowers who have been coming off fixed-term rates.

Milford Asset Management portfolio manager Jason Kururangi says a stop to cash back offers will be a "welcome relief to bank shareholders".

"It's a really good outcome for the market structure more broadly because it's clear that some of the new business that banks are writing is uneconomic," he says.

"Some of them have been bleeding market share."

Quote Of The Week

"The lift in interest rates could act to dampen some of the recent housing exuberance, although a range of other factors are likely to support the continued stabilisation in home values, including low available supply, extremely tight rental conditions and higher demand via net overseas migration."

Tim Lawless - CoreLogic Research Director

Housing Approvals Take A Dive

New housing approvals have fallen to their lowest levels in more than two years.

Australian Bureau of Statistics figures show dwelling approvals dropped by 15% in the 12 months to March – the weakest yearly result since October 2020.

BIS Oxford Economics senior economist Maree Kilroy says soaring costs, lower borrowing capacity, and growing cost-of-living pressures means many are unwilling to commit to a new home.

"The start of 2023 has been poor," she says.

"A protracted downturn for dwelling approvals is forecast that extends through 2023 and into 2024. We believe the probability of government intervention to support housing supply is increasing."

The figures show approval for standalone homes fell every month in the past year and are down 17.3% on this time last year.

Units, apartment and townhouse approvals rose 5.7% in March but are 11.1% below the same time last year and at their weakest levels since April 2021.

The value of renovations approved also dropped by 7.4%.

Budget Relief Could Be A Curse

Economists are warning Federal Government measures to ease cost-of-living pressures could have the reverse effect and drive up prices.

The Government has committed to a $14.6 billion cost-of-living package in the Budget which it hopes will ease inflation, but economists fear any subsidies offered will effectively boost disposable income and drive up demand and inflation over the medium term.

Economist, Chris Richardson, says even though the measures would be offered as things like energy subsidies to reduce household bills and not cash payments, it will still increase household spending.

"It doesn't matter the point at which you've saved money. The key point is you've saved money, and you then spend it," he says.

Australia's inflation rate sits at 7% and is not expected to return to the favoured 2% or 3% until mid-2025.

EY Oceania chief economist Cherelle Murphy says fiscal policy is already too stimulatory.

"Adding additional net spending just makes that worse, whatever its form," she says.

Economists Flip Predictions

The recent rate rise is not expected to affect Australian house prices.

CoreLogic research director Tim Lawless says other factors will keep them steady.

"The lift in interest rates could act to dampen some of the recent housing exuberance, although a range of other factors are likely to support the continued stabilisation in home values, including low available supply, extremely tight rental conditions and higher demand via net overseas migration," Lawless says.

Many economists have now flipped their predictions of price drops this year to predict price rises.

Although Morgan Stanley analysts expect further drops this year as a result of higher interest rates and weaker employment conditions.

National Australia Bank's chief executive Ross McEwan says prices have bottomed.

"I think you're seeing more and more prices going sideways as opposed to down," McEwan says.