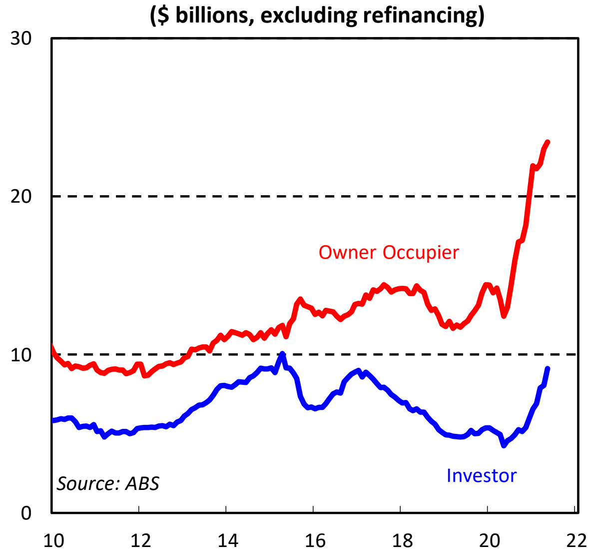
Friday, 2 July 2021

Housing Finance

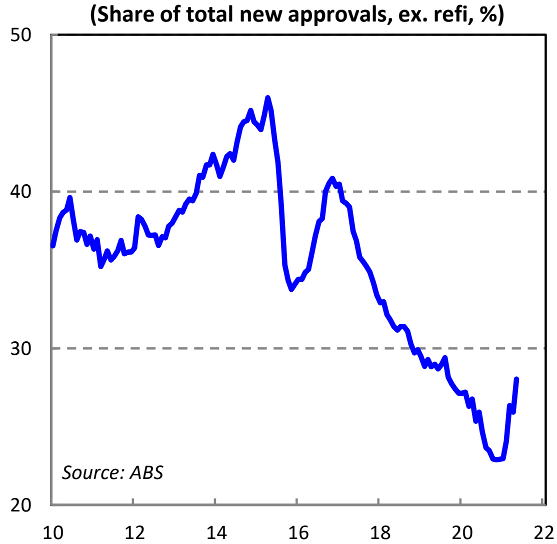
Investors Back with a Vengeance

- **The residential property boom continues to gather pace, and while it has been largely driven by owner-occupiers, lending to investors has rapidly accelerated. The value of new loans excluding refinancing increased by 4.9% in May, hitting a new record high of $32.6 billion.**
- **The increase in May was driven by a 13.3% surge in investor lending – the third highest monthly growth rate on record.**
- **Investors are charging back to the market, with annual growth of 116.0% to May, versus annual growth of 88.4% for owner-occupiers. Investor lending is now 75.4% higher than at the beginning of the pandemic, while lending to owner-occupiers is 68.4% higher.**
- **The record low cash rate has seen annual growth in new loan commitments hit historic highs in every state and territory, ranging from 65.3% in the ACT to 165.1% in the NT. In year-ended terms, investor loan commitments are also growing faster than owner occupier commitments in every state and territory.**
- **The outlook for housing finance remains solid. Low interest rates and ongoing jobs growth will continue to boost demand for new home loans. The coronavirus remains a risk but if lockdowns are relatively short, the impact on demand for new home loans is likely to be limited.**
- **A key uncertainty is whether policymakers will tighten macroprudential policy. A sharp rise in house prices can be associated with increases in riskier lending. Regulators are carefully monitoring developments but so far have underscored that lending standards remain sound.**

Housing Loan Commitments
($ billions, excluding refinancing)



Investor Loan Approvals
(Share of total new approvals, ex. refi, %)



The residential property boom continues to gather pace, and while it has been largely driven by owner-occupiers, lending to investors has rapidly accelerated. The value of new loans excluding refinancing increased by 4.9% in May, hitting a new record high of $32.6 billion, with data dating back to 2002.

The increase in May was driven by a 13.3% surge in investor lending – the third highest monthly growth rate on record. New lending to owner-occupiers rose by a much smaller 1.9% in the month, however, also hit a new record high of $23.4 billion.

Investors are charging back to the market, with annual growth of 116.0% to May, versus annual growth of 88.4% for owner-occupiers. Investor lending is now 75.4% higher than at the beginning of the pandemic, while lending to owner-occupiers is 68.4% higher.

Owner-occupiers led the housing upturn over late-2020 and early-2021. However, as investor loan approvals surge, investors are accounting for a growing share of new lending. Investors accounted for 28.0% of new lending in May.

Affordability pressures are continuing to impact first home buyers, with lending falling by 0.8%, the fourth consecutive month of falls. However, it should be noted that lending to this segment of the market remains high, particularly given government incentives such as HomeBuilder and various state government initiatives have ended.

Construction-related spending continued to decline, with a 2.3% fall in owner-occupier lending for the construction of new dwellings. This has continued to come off following the end of the government's HomeBuilder scheme. However, like lending to first home buyers, this segment of the market continues to remain robust, suggesting that low interest rates continue to be a major driver of growth.

Lending Standards

A key uncertainty over the outlook for housing finance is whether policymakers will tighten macroprudential policy. A sharp rise in house prices can be associated with increases in riskier forms of lending. Regulators are carefully monitoring developments but so far have underscored that lending standards remain sound. Macroprudential controls were previously introduced in Australia in 2015 and 2017.

While the share of lending to investors (excluding refinancing) has risen sharply from a recent low of 22.9% in November 2020 to 28.0% in May 2021, it remains well below the highs of around 45% seen in late-2014 and early-2015. Similarly, the share of loans with very high loan-to-valuation ratios has picked up but remains low relative to historical levels.

States and Territories

The record low cash rate has seen annual growth in new loan commitments hit historic highs in every state and territory. In year-ended terms, investor loan commitments are also growing faster than owner occupier commitments in every state and territory.

Annual growth was strongest in the NT (165.1%) although this partly reflects base effects with sharp declines following the onset of the pandemic. Annual growth was slowest in the ACT (65.3%) although this also still represents incredibly strong growth.

In May, the growth in lending was generally broad-based across the country. The largest jump in May was in the ACT (16.1%) followed by Tasmania (7.7%) and the Northern Territory (7.4%). New loan commitments also rose in NSW (6.3%), WA (6.1%) and Victoria (5.6%). There were modest declines in Queensland (3.0%) and South Australia (3.0%).

Outlook

The outlook for housing finance remains solid. Low interest rates and ongoing jobs growth will continue to boost demand for new home loans. The coronavirus remains a risk but if outbreaks are contained quickly and lockdowns are relatively short, the impact on demand for new home loans is likely to be limited.

The recent significant pick-up in investor lending may place some pressure on policymakers to implement macroprudential controls to manage financial stability risks. Perhaps reflecting some growing nervousness, the Australian Prudential Regulatory Authority recently wrote to large lenders to seek assurance that they are proactively managing risk in their housing market portfolios. We cannot rule out the possibility of tightening in macroprudential policy in 2022.

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