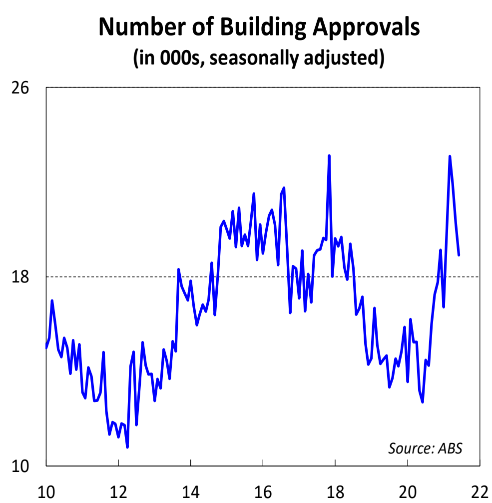
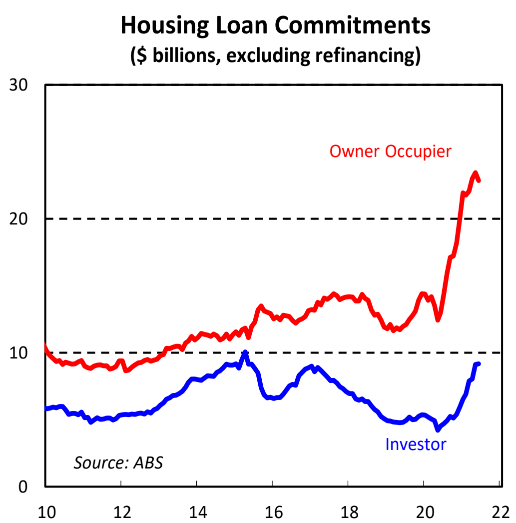
Tuesday, 3 August 2021

Housing – Prices, Finance and Approvals

Changing Gears

- **Dwelling prices posted another strong lift. CoreLogic data showed dwelling prices jumped 1.6% in July across Australia and surged 16.1% on a year ago – the fastest annual pace in 17 years.**
- **Low mortgage rates and low unemployment are driving up housing demand. Sales continue to outstrip listings, squeezing up prices. But there is some evidence of a shifting in gears, from 6th gear (super fast) to 5th gear (fast). The monthly growth rate in prices has slowed for the second straight month. Falling housing affordability and a shift in sentiment have moved the gears.**
- **Lending for housing remains elevated but fell in June following rapid growth in the second half of 2020 and earlier this year. The value of new loans, excluding refinancing, dropped 1.6% in June from the record high in May.**
- **The decline was led by fall in lending to owner occupiers, especially for construction, and first-home buyers. Investors continued to return to the housing market. Lending to investors lifted 0.7% in June. Regulators will be eyeing the return of investors carefully.**
- **Like housing finance, building approvals pulled back in June. Approvals have wound back further after the pull forward effect of the HomeBuilder scheme, after applications closed in April. Building approvals fell 6.7% in June after falling in the previous two months. Approvals have declined 18.1% from the three-year monthly peak struck in March.**
- **The decline in building approvals has been led by a fall in private-sector housing. This category shrunk 11.8% in June - the sharpest monthly decline in almost 21 years. Building approvals for private sector 'other' (i.e. multi-density developments) bucked the trend and rose 0.8% in June.**
- **We continue to expect dwelling prices will increase by up to 20% this year, followed by more modest growth in 2022.**





Dwelling Prices

There was another strong lift in dwelling prices in June. The latest CoreLogic data showed that dwelling prices rose 1.6% across the eight capital cities, increased 1.7% across regional Australia and 1.6% nationally. The annual rate of growth lifted to a 17-year high across capital cities (15.1%), regional Australia (19.6%) and nationally (16.1%).

Dwelling prices continue to be underpinned by low mortgage rates and low unemployment. These are important levers for house prices.

However, dwelling prices have risen very sharply in a short space of time. Nationally, dwelling prices have lifted almost 17% since hitting a pandemic trough in September 2020. Some regions and capital cities have out-paced this national rate – including Sydney, Hobart, Darwin, and Canberra.

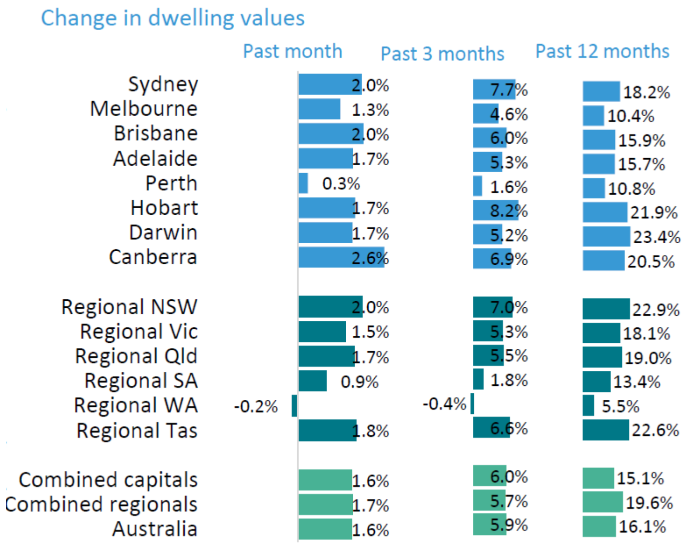
The sharp acceleration of prices has meant housing affordability has declined, especially in Sydney where the median dwelling prices is approaching 11 times household earnings.

The acceleration of dwelling prices also means that consumer sentiment around now being a good time to buy a home has changed; indeed, the measure called 'time to buy a dwelling index' contained in the Melbourne Institute's consumer sentiment survey has fallen almost 27% since hitting a peak in November of last year. The index is historically sensitive to affordability constraints.

Whilst a lift in the cash rate is still more than 18 months away, macroprudential tightening around the middle of next year remains a threat to the outlook for dwelling prices.

Stretched affordability and a shift in sentiment has seen the housing market change gears – albeit from 6th gear (really fast) to 5th gear (still fast). The numbers support this change in gears. Nationally, the pace of monthly growth has eased for the second straight month – from 2.2% in May to 1.9% in June to 1.6% in July.

However, July was also a month characterised by lockdowns in New South Wales, Victoria, and South Australia, which contributed to a drop in sales. Nevertheless, demand remains robust. Demand is reflected by the gap between sales and listings. CoreLogic note that sales are 40% above the five-year average yet listings are 36% below. Listings cannot meet the pace of demand and that is leading to prices squeezing higher. Ideally, a lift in housing supply, including housing construction, is needed to address this mismatch.



The fastest pace of prices growth continued to be in the smaller capital cities. In July it was in Canberra (+2.6%) and on a year ago it was in Darwin (+23.4%).

The pace of growth in the regional areas is converging closer to the pace of growth across the capital cities after experiencing a divergence last year. In the first seven months of this year, regional prices grew 14.5% whilst capital cities grew 14.0% - a smidgen of a difference.

House prices are still outrunning the growth in unit prices by a notable margin – 1.8% vs 1.2% in the month and 18.4% vs 8.7% year to year.

Housing Finance

Lending for housing fell in June following rapid growth over the second half of 2020 and most of this year. The fall was led by a drop in lending to owner-occupiers, as the activity induced by the Federal government's HomeBuilder program and other state-based incentive schemes continues to unwind. There was also a drop off in lending to first-home buyers. Investors continued to return to the market, albeit growth in investor lending was much slower in June than in the prior month and was also slower than expected.

This month's release pre-dates the current lockdowns in NSW and Queensland and recent lockdowns across Victoria and SA. These lockdowns will impact the series over July and August. However, lending may have been impacted slightly by the lockdowns in Victoria in late May, early June, and the beginning of the current lockdown in NSW in late June.

The value of new loans, excluding refinancing, decreased by 1.6% in June to $32.0 billion. This is down on last month's record high of $32.6 billion and was below consensus expectations of 2.0% growth. While the value of new loans fell, momentum in the market remains strong and this is the second highest reading in the series, which dates back to 2002.

Lending to owner-occupiers fell by 2.5% to $22.9 billion. However, lending to owner-occupiers remains elevated. Over the year to June, lending grew by 75.9% and remains 64.2% above pre-pandemic levels in February 2020. The current value is also the third highest in the history of the series, which dates back to 1975.

Affordability pressures continue to affect first home buyers as house prices push higher. Lending to first home buyers fell by 7.8% in June to $13.9 billion. This is the fifth consecutive month of falls and is the largest monthly fall since May 2020. The unwinding of government support programs like HomeBuilder have also weighed on this segment in recent months. However, lending to first-home buyers remains elevated and is still above October 2020 levels.

Lending for the construction of new dwellings fell by 17.5% in the month. Like lending to owner-occupiers and first-home buyers, this reflects the continued unwinding of government policy. These impacts are likely to continue in coming months.

Investors continued to return to the market, with 0.7% growth in the month, to $9.2 billion. Growth was lower than in the previous month (13.3%) and below consensus expectations of 8.0%. Lending to investors was 102.0% higher over the year to June and is 76.6% above pre-pandemic levels. Regulators will be carefully eyeing the return of investors and the types of borrowing by investors.

Lending Standards

A key uncertainty we have mentioned previously is whether financial regulators will act to cool activity in the housing market. So far, regulators have remained broadly comfortable with the growth in housing lending and have noted that lending standards remain sound. In the past, regulators have acted when lending to investors was growing at rapid levels and various forms of higher-risk lending, such as interest-only lending, were increasing quickly.

Growth in lending activity during this boom has largely been driven by owner-occupiers. However, in recent months lending to investors has accelerated. While this trend has slowed, it has continued in this month. This has led to the share of lending to investors (excluding refinancing) to rise to 28.7% in May after steadily increasing from a low of 22.9% in November 2020. However, this remains well below the highs of around 45% in late 2014, early 2015, when macroprudential measures were introduced.

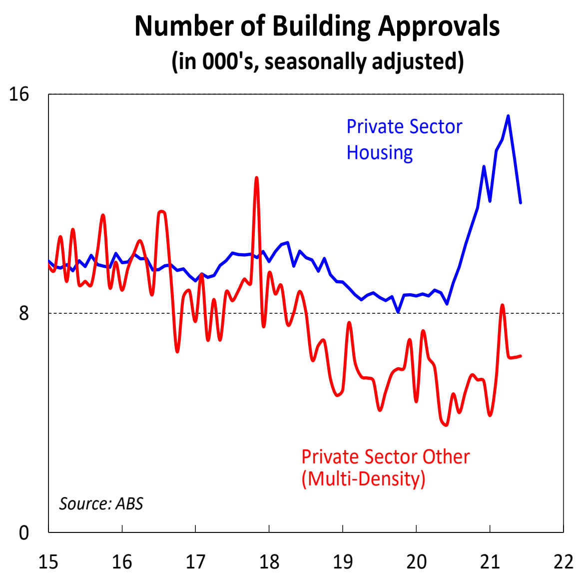
Nevertheless, given the remarkable run up in prices, and the pick-up in lending to investors, we cannot rule out a tightening in macroprudential policy in 2022.

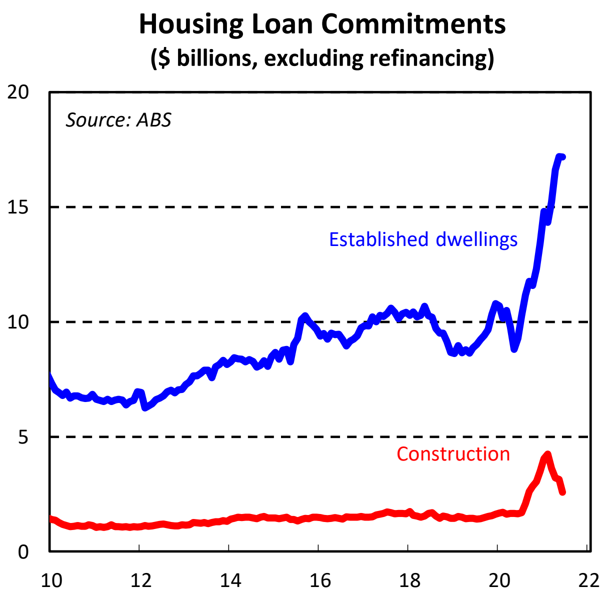
States and Territories

The trend varied across states and territories in the month.

Lending to owner-occupiers was strongest in the ACT (7.4%) and Queensland (1.8%), while other states and territories saw lending contract. The NT saw the biggest fall (-14.9%), followed by WA (-6.9%) and Victoria (-5.8%). Lending remains strong on an annual basis, with WA (104.2%), NT (79.2%) and Victoria (78.9%) seeing the largest annual growth. All states and territories saw annual growth of over 40%.

The continued pick-up in investor lending was also varied across states and territories. The ACT (27.8%) saw the largest increase in the month, followed by SA (11.6%). The NT saw the largest fall (-8.9%), followed by Victoria (-3.7%). On an annual basis, lending to investors is more than 80% higher than a year ago across all states and territories.





Building approvals

Building approvals have unwound further after the pull forward effect of the HomeBuilder scheme, after applications closed in April. Building approvals fell 6.7% in June after falling by 7.6% in May and 5.0% in April. From the 3-year monthly peak of 23,099 registered in March, building approvals have retreated 18.1%.

The decline in building approvals has been led by a fall in private-sector housing. This category shrunk 11.8% in June, which is the sharpest monthly decline in almost 21 years. Building approvals for private sector 'other' (i.e. multi-density developments such as apartments) bucked the trend and rose 0.8% in June. Public sector approvals posted strong gains, but make up a small share of overall approvals and are volatile from month to month.

On a year ago, building approvals are up 48.9%, reflecting some of the base effects from last June when building approvals were weak.

The strong uplift in building approvals that began in the September quarter of last year has helped build a pipeline of residential construction projects that will help support economic activity and jobs growth. The acceleration of dwelling prices over almost one year now should also help underpin development activity and contribute to the upturn in residential construction activity once the unwinding of HomeBuilder is complete.

Across the states, the biggest declines in the month occurred in WA and Queensland, down 30.5% and 18.4%, respectively. Building approvals fell 12.7% in the same time period in NSW. Negating some of the falls in these states were rises in Victoria and SA of 12.8% and 8.6%, respectively.

In year-on-year terms, growth varied from 38.5% in Queensland up to 74.4% in WA.

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