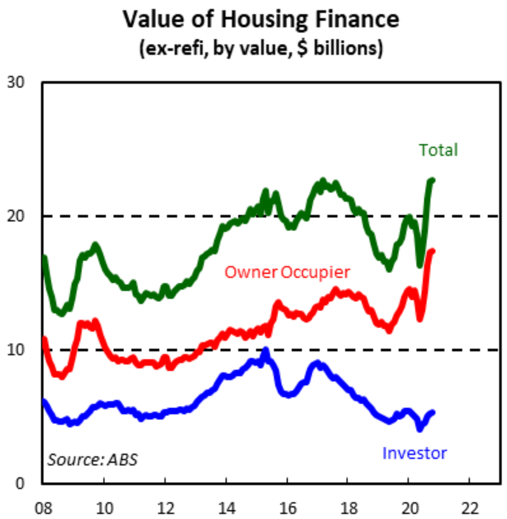
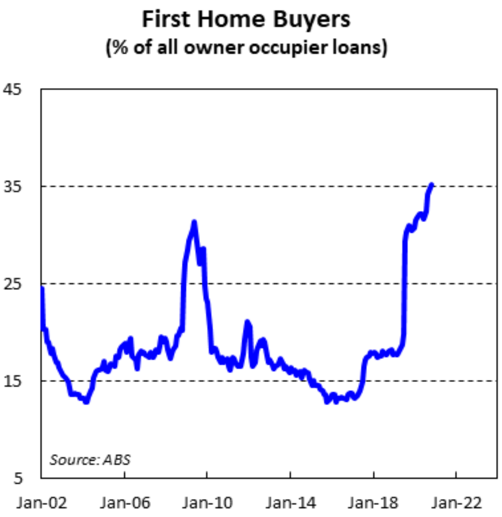
Thursday, 3 December 2020

Housing Finance

Value of Lending Hits a Record High

- **New housing lending excluding refinancing rose by 0.7% in October to a new record high. The monthly growth rate, however, has slowed from the pace of recent months.**
- **The value of new loans is up 15.1% from the pre-pandemic level in February, suggesting a solid recovery in housing lending is underway. Moreover, the value of new loans is up 23.3% on a year earlier, which is the fourth consecutive month of double-digit annual growth.**
- **The recovery in housing lending has been broad based but there has been a stronger surge in demand from owner occupiers. Investor-housing finance rose 0.3% in the month while owner-occupier lending rose 0.8%. Since the trough this year in May, owner-occupier lending has risen by 42.0% whilst investor lending has lifted 29.5%.**
- **First-home buyers are returning to the housing market in droves. Financing for first-home buyers rose 3.4% in October, a much faster pace than lending to all owner-occupiers. First-home buyers represented 35.3% of all lending to owner-occupiers in October, the highest proportion in the history of the series, dating back to July 1991.**
- **Lending for homes (ex-refinancing) rose in most States and Territories in October. Victoria, which was still in lockdown during October, was an exception with new loans down 11.1% in the month following a 7.2% decline in September.**
- **We still see downside risks to the housing market from slow population growth and job uncertainty. However, these risks appear to be fading as the economy moves out of recession and the recovery gains momentum. The growth in housing lending suggests the upturn in dwelling prices will deepen in the months ahead.**





Value of Housing Finance

New housing lending excluding refinancing rose by 0.7% in October to a new record high. The monthly growth rate, however, has slowed from the pace of recent months.

The value of new loans is up 15.1% from pre-pandemic levels in February, suggesting a strong recovery in housing lending is underway. The value of new loans is also up 23.3% on a year earlier, which is the fourth consecutive month of double-digit growth.

The recovery in housing lending has been broad based but there has been a stronger surge in demand from owner occupiers. Since the trough this year in May, owner-occupier lending has risen by 42.0% whilst investor lending has lifted 29.5%.

In October, investor housing finance excluding refinancing rose 0.3%, the weakest pace since May, while financing to owner-occupiers went up 0.8%, also the weakest pace since May.

Owner-occupier lending for the construction of new homes was the only sector to record growth in October, rising 10.9%. Lending for the purchase of new dwellings remained unchanged in October while the value of lending to established dwellings declined 1.4%.

Interestingly, the value of refinancing has declined 6.9% in October, despite very low interest rates. It is possible that a large portion of refinancing was done after the Reserve Bank delivered its first stimulus package in early March. In April and May, refinancing soared 13.7% and 27.4%, respectively, indicating that borrowers took advantage of lower rates over this time. Since then, refinancing, both in value and number of loans, has mostly declined.

The Reserve Bank (RBA) has lowered the cash rate further and implemented additional support measures at its last meeting on November 3, suggesting refinancing might partially pick up in the months ahead.

Value of Owner-occupier Housing Loans by State

Lending for homes (ex-refinancing) rose in most States and Territories in October. Victoria, which was still in lockdown during October, was an exception with new loans down 11.1% in the month following a 7.2% decline in September. Given that Victoria emerged from lockdown in late-October, we would expect there to be a solid pick-up in Victorian lending activity in future months, along the lines seen in other states.

South Australia continues to excel in terms of new home lending. New lending rose 7.8% in October, its fifth consecutive month of solid growth. Over the past five months, South Australia has seen firm growth in lending to both owner-occupiers and investors.

There was growth in lending in the other States. Tasmania reported growth of 6.7%, NSW 5.1%, Queensland 3.0% and Western Australia 0.1%.

The Northern Territory reported 20.1% growth in new lending in October while in the ACT it fell 9.0%. The Northern Territory has recorded five consecutive months of new lending growth with particularly strong growth in investor lending. The decline in new home lending in the ACT follows two months of extremely strong growth and likely represents a pause for breath in a growing market.

In all States and Territories, bar Victoria, lending is well above that of a year earlier.

Historically low interest rates combined with State and Federal government programs have seen lending rise well above its pre-COVID-19 levels.

Number of Loans to Owner-Occupiers

Home lending continued to increase in October but at a much slower pace. The number of home loans to owner-occupiers (excluding refinancing) rose a timid 0.2% in October, after robust increases in September (7.8%) and August (10.8%).

Strong growth in loans for the construction of new dwelling in the month (11.5%) underpinned the result. Lending in other categories fell. Lending for new dwellings fell by 1.0% and lending for established dwellings declined 2.5%. The HomeBuilder program and the extension of First Home Loan Deposit Scheme announced in the 2020-21 Federal Budget likely contributed to the strong growth in lending for the construction of new dwellings. Very low mortgage rates are also a primary factor driving higher lending.

First-home Buyers

First-home buyers continued to return to the housing market in droves. Financing for the purchase of a first home rose 3.4% in October, a much faster pace than the 0.8% for all owner occupiers. First-home buyers represented 35.3% of all lending to owner occupiers in October, the highest proportion in the history of the series, dating back to July 1991. The share of lending to first-home buyers was particularly high in NT and WA at above 40%.

Very low interest rates, upbeat sentiment in the housing market and government support measures have urged first-home buyers. Notably, the extension of the First Home Loan Deposit Scheme, which provided an additional 10,000 places for first-home buyers to purchase houses or build new ones with deposits as little as 5%, has helped drive growth.

There are challenges ahead for first-home buyers. House prices have picked up again in the last couple of months, potentially deteriorating affordability in the months ahead.

Outlook

The Reserve Bank reduced its cash rate and its target rate for 3-year government bonds to 0.10% in November. It has also indicated that it will not lift the cash rate for at least three years. These are very strong stimulus measures for the housing market.

The Federal Budget, in October, saw an extension of the First Home Loan Deposit Scheme by providing an additional 10,000 places to first-home buyers to buy a new home. This will allow first-home buyers to secure a loan to build a new home or purchase a newly built home with a deposit of as little as 5%, with the Government guaranteeing up to 15% of a loan.

The $25k HomeBuilder grants were not extended in the Budget and will be phased out in December.

We still see risks to the housing market from slow population growth and job uncertainty. However, these risks appear to be fading as the economy moves out of recession and the recovery gains momentum.

State borders are opening, social-distancing restrictions are being eased and a COVID-19 vaccine seems to be within reach next year. Combined with low interest rates, these factors could ignite the housing market next year.

Hans Kunnen, Senior Economist & Felipe Pelaio, Economist

Ph: 02-8254-1316 & 02-8254-0646

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist
Hans Kunnen
hans.kunnen@bankofmelbourne.com.au
(02) 8254 1316

Economist
Felipe Pelaio
felipe.pelaio@bankofmelbourne.com.au
(02) 8254 0646