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The Week In Real Estate



Borrowing Boosted By APRA Change

A major constraint on borrowing limits has been removed by the banking regulator APRA, allowing real estate buyers to borrow more. Comparison website RateCity suggests a household on an average income could borrow up to \$77,000 extra, while an average full-time worker could borrow \$66,000 more. APRA has officially confirmed what was revealed in May – that it would scrap a rule introduced in 2014, which meant borrowers were assessed on a 7.25% interest rate. APRA will now require banks to test if customers can manage repayments with rates 2.5 percentage points above a loan's current rate. Mortgage broker Louise Lucas of The Property Education Company says lender MyState has published a new assessment rate of 6.2%, while Westpac and St George will now assess at 6.5%. "This is enormously helpful for anyone trying to get a loan," Lucas says. "It will make a profound difference because loans will be assessed a lot more easily. It's an awesome change." UBS economist Carlos Cacho says households on an income of \$200,000 a year could boost their loans by an extra \$150,000 to \$1.25 million if they gained a leading market interest rate.

Quote of the Week

"We are now seeing assessment rates at 6.2% or 6.5%. This is enormously helpful for anyone trying to get a loan. It will make a profound difference because loans will be assessed a lot more easily."

Mortgage broker Louise Lucas of the Property Education Company, commenting on the impact of the APRA changes.



Market Recovery Gains Momentum

The housing recovery is gaining momentum as buyers, buoyed by better borrowing conditions, stake their claim in the market. SQM Research's Louis Christopher says the recovery is real, based on rising buyer demand in a low-volume market. The preliminary clearance rate for Sydney auctions last weekend was 78% from the 552 homes listed, according to CoreLogic figures. In Melbourne, the preliminary clearance rate hit 70% across 388 auctions. Nationally, there were fewer homes taken to auction because of school holidays in most states and mid-winter listings typically lower. The 945 auctions listed for capital city markets returned a preliminary clearance rate of 70%, the fourth week in a row that clearances exceeded 60%.

Christopher says most market recoveries he'd observed since 2001 had grown from a low volume market. "I'm not in the camp that thinks this a bogus recovery because it is based on low volumes so far," he says. "It is a real recovery. There are more buyers out there due to cuts in interest rates, the Coalition win in the Federal Election and the loosening of credit restrictions by APRA."





Maintain Payments To Make Savings

Home-owners will make the biggest savings from the interest rate cuts by maintaining their mortgage repayments at the pre-cut levels. Mortgage broker Louise Lucas of The Property Education Company says borrowers who do this can get ahead of their payments and save money long-term.

Following the two recent rate reductions, most variable rate home mortgage holders are set to save more than \$100 a month, says Sally Tindall of comparison site RateCity. "For many, it's money they can spend paying off the winter electricity bills, buying groceries or on extra mortgage repayments," she says.

But for those looking to make the most out of the recent cuts, it's an ideal time to pay down their loan faster, says Steve Mickenbecker of comparison site Canstar.

The average variable rate listed by Canstar of 4.13% will have monthly repayments of \$1,979 on a \$700,000 mortgage over 30 years, he says. Before the two interest rate cuts, the typical rate was 4.3%. Anyone who maintains their current repayments would save more \$13,383 in interest and pay off their loan 14 months sooner.

Post-Election Bounce In Market

The number of home building approvals across Australia increased in May, adding to evidence that housing markets are in the early stages of a recovery.

Shane Garrett, chief economist for Master Builders Australia, says ABS data shows that growth was driven by a 2.1% rise in approvals for new apartments.

"House price figures released earlier this week also support the view that we are at a turning point in the housing market," Garrett says. "The latest rate cut from the RBA will help further and the quick passage of the tax cuts in Parliament represents a big step forward."

Victoria saw the largest increase in new dwelling approvals (+14.4%) in May, followed by the ACT (+7.2%).

According to a monthly survey of home builders by the Housing Industry Association, new home sales in May bounced back to their highest monthly level in over a year. There were more than 5,000 new home sales across NSW, Victoria, Western Australia, Queensland and South Australia in May – the first time the index has surpassed this figure since June 2018.

Sentiment Surges: Survey

Confidence in Australia's property markets leapt in the wake of the federal election, as sentiment around credit availability surged and expectations for economic growth turned positive, according to the ANZ / Property Council Survey.

Results of the survey directly reflect the change in sentiment after the May 18 poll. The headline index of confidence made its second-biggest leap in the eight-year history of the survey.

Sentiment about whether debt finance would be easier or harder to secure over the next 12 months turned positive for the first time since 2015.

"We've seen a very positive pick-up in confidence around the election," Property Council chief executive Ken Morrison says. "It is around the jump in confidence in the economic environment and also a more positive view about what will be happening to credit levels."

The improving sentiment towards residential property is prompting developers to buy sites as they position for the next housing cycle. Savills director residential site sales Stuart Cox says there has been a "huge" increase in inquiry by developers since the Election.

