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The Week In Real Estate



Aussies Expect Prices To Rise

Australians expect house prices to rise and believe this is a good time to buy homes. House price expectations have risen 46% in the four months since May, a new study has found.

The latest Westpac-Melbourne Institute Index of Consumer Sentiment shows continued improvement in consumers' house price expectations. The national survey, conducted in the first week of September, shows a 4% increase from August in consumers' house price expectations, which contributes to an overall 46% increase in the past four months. All major cities recorded a bounce in price expectations. The data also shows that home-buying sentiment is 19% higher than a year ago and sits near a five-year high.

While sentiment for short-term economic conditions remains low, resulting in a 3% decrease in the "economy in the next 12 months" sub-index, consumers expect long-term economic growth.

The results showed a 2.1% increase in consumer sentiment on the economy over the next five years, with a result of 97.8, well above the long run average of 91.3.

Quote of the Week

"We expect home loans to lift 15% to 20% year-on-year over the next year, underpinning stronger house price growth of 5% to 10%."

UBS economist George Tharenou

Luxury Cars Follow House Prices

Luxury car sales have risen for the second month in a row, matching the recovery in big city housing markets and continuing a long-standing correlation between the two indicators.

Overall luxury car sales in the year to August were up 0.6%, following a 0.4% rise in the year to July (which was the first month it had risen in two years).

The two monthly increases mirror outcomes with prices in Melbourne and Sydney, which recorded price growth in July and August following almost two years of falls.

"Historically it has been a very good relationship," says Commsec chief economist Craig James. "Sometimes it leads house prices, sometimes it lags them. When luxury vehicle sales are in retreat you can bet that home prices aren't far behind. That has been the case since the early 1990s.

"I think the car sales data means we have probably hit the bottom now in terms of the economy. I don't think we will see another boom in house prices but with the election uncertainty over and the interest rate and tax cuts, I think the worst is behind us."





House Prices Could Grow 5-10%

Economists at UBS, who generally have a negative stance on real estate, have lifted their price expectations for housing markets. Having previously forecast a muted recovery with 3-5% price growth, their new projections suggest a 10% increase by next year.

The revision was partly due to the lending growth in July. ABS figures show that investor lending grew 4.7% to \$4.6 billion, its fastest pace since September 2016, while owner-occupier loans rose 5.3% to \$13.25 billion.

“We expect home loans to lift 15% to 20% year-on-year over the next year, underpinning stronger house price growth of 5% to 10%,” UBS economist George Tharenou says.

However, Tharenou says the growth in prices could pose a change in the outlook for the official cash rate, which is expected to fall further by next month.

Tharenou says the Reserve Bank is likely to reduce the official interest rate but tighten credit rules at the same time to prevent another house price boom.

Clearances Remain Over 70%

Auction clearance rates continued at their high levels last week, although slightly lower than the week before.

The high sales rates reflect the pick-up in real estate sentiment that has followed the Reserve Bank’s back-to-back rate cuts in June and July, the Federal Government’s tax deductions and changes to mortgage lending guidance.

Sydney and Melbourne both posted slightly lower preliminary clearance rates, bringing the national total to 75.7%, CoreLogic figures show.

That compares to the previous week’s preliminary rate of 77%, which was subsequently lowered to 72.3% (as usually happens after the results of more auctions are added in).

The past week has shown further improvements in housing markets. Official figures show mortgage lending commitments rose 5.1% in July - the biggest monthly gain in four years - and mortgage brokers and banks say demand for home loans has held strong over the past 6-7 weeks.

FHB Approvals Hit 10 Year High

The value of home loans approved for first-home buyers (FHBs) increased 21% in July, according to an analysis of the latest ABS data.

CoreLogic research analyst Cameron Kusher says the value of housing finance for owner-occupier FHBs totalled \$3.7 billion, the highest monthly value since November 2009.

On a state-by-state basis, the ACT recorded the sharpest month-on-month increase in FHB loan commitments (76%) in July, followed by NSW (33%), the Northern Territory (27%), Western Australia (17%), Queensland (17%) and Victoria (15%).

The spike in FHB loan approvals coincided with an increase in the total value of lending for non-FHB owner-occupiers and investors. Overall, the value of mortgages approved in July rose 5.1% to \$17.8 billion – the largest monthly increase since March 2015.

Kusher says the improvement in housing finance commitments has “mirrored the jump in auction clearance rates”, which have been trending above 70% over the past few months in the capital cities.

