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The Week In Real Estate

Affordability Up Across The Nation

The Adelaide Bank/REIA Housing Affordability Report shows that every state and territory saw housing affordability improve in the September Quarter - except Queensland, where affordability remained stable.

NSW saw the greatest improvement, with the proportion of income required to meet loan repayments dropping 1.5 percentage points to 36.6%. Following this was Western Australia, with a decrease of 1.2 points to 22.7%, then the ACT's 0.9 percentage point drop to 20% of income.

Loan serviceability rates also improved 0.5 of a percentage point in both Victoria (33.8%) and the Northern Territory (21%). South Australia (26.7%) and Tasmania (25.1%) both improved by 0.3 of a percentage point.

Meanwhile, Queensland remained at 28.1%.

Rental affordability was in a similar position, with most states/ territories recording declines in the proportion of income needed to meet median rents. The exceptions were Victoria and Tasmania.

Cap On Interest-only Scrapped

APRA will remove its 30% limit on interest-only residential mortgage lending for banks and other lenders from 1 January. This cap was originally put in place in March 2017 in a bid to reinforce sound lending practices and has resulted in a cooling of the interest-only lending market. According to APRA, the introduction of the benchmark has led to a marked reduction in the proportion of new interest-only lending, which is now well below the 30% threshold.

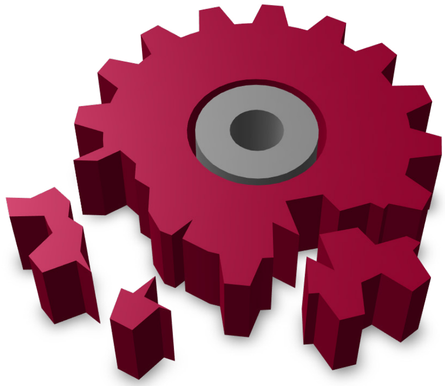
The move opens up opportunity and competition in the lending market for investors in 2019. "This enables us to have more conversations with clients about the choices they've got and the options for them with their properties," says Pink Finance owner Nicole Cannon.

"The cap restricted how many lenders we could use and some priced investment lending so that it's not competitive. In some cases, it's almost just as cheap to do principal-and-interest as it is to do interest-only". Cannon says the caps have "done their job" of educating investors about the pros and cons of interest-only loans.

Quote of the Week

"After a string of weaker months, it is pleasing to see new home sales finishing the year on a more positive note."

Geordan Murray, HIA Senior Economist, noting that sales of new homes recorded a 3.6% month-to-month rise in November, headed by 7% increases in Victoria and South Australia.



Banks Too Cautious, Says Regulators

Financial regulators say the major banks are being "overly cautious" in their lending decisions, after the royal commission created pressure to scrutinise customers more closely.

Amid concerns about the potential economic harm caused by tighter credit conditions, the Council of Financial Regulators (CFR) has reaffirmed the importance of banks continuing to lend money as they change their processes in response to the royal commission.

The CFR says some tightening in lending standards has been "appropriate" and has "strengthened the resilience of the system". However, it also signalled a concern about credit being tightened too much.

The CFR includes the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Reserve Bank of Australia and the Treasury. It is chaired by RBA governor Philip Lowe.

The banking sector is likely be spared tough constraints on its ability to lend as part of a Federal Government response to the royal commission. Treasurer Josh Frydenberg says he will do nothing to restrict the "free flow of credit".

Labor's Gearing Policy Splits Nation

Australians are unconvinced by the flagship Labor reform on negative gearing, with 44% against the policy change. A poll found 43% in favour of restricting the tax deductions on investment properties, while 13% said they were undecided.

The Ipsos poll also found that voters were against the mooted change on capital gains tax on investments, with 48% against and 43% in favour. Labor wants to halve the capital gains tax discount and restrict negative gearing to newly built homes, while "grandfathering" existing negative gearing arrangements. Opposition Leader Bill Shorten has admitted that the tax reforms are not "universally loved."

Meanwhile, Goldman Sachs has claimed fears around a home lending credit crunch, the ALP housing policy and excessive apartment overbuilding, won't be realised.

Its commentary comes in a report that concludes that Labor will likely struggle to implement its housing policies should they win government. Economists, Andrew Boak, Bill Zu and William Nixon questioned whether Labor would be able to pass the measures through the Senate.

Campaign Challenges Bank Dominance

Online mortgage marketplace HashChing has challenged the role that banks play in the home lending arena with its latest ad campaign.

The first billboard, situated on the highly-trafficked Winston Hill M2 motorway and Southern Cross Drive in Sydney, says: "Home loans are necessary, using banks is not".

The image of a frowning, bespectacled older gentleman makes the not-so-subtle implication that banks are an outdated concept.

The second billboard, in Melbourne's CBD, proclaims there are "Better home loan deals from top rated mortgage brokers", inviting customers of the big four banks to question their loyalties.

Developed by HashChing's in-house creative team, the campaign aims to convince Australians that banks are not necessarily the best option when it comes to home loans.

Mandeep Sodhi CEO of HashChing says that, given the heavy scrutiny banks are facing from the royal commission, the timing of these billboards couldn't be better.