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Property Residential Property market

# How to navigate change in a choppy property market

*Sellers are rushing to beat new controls that could contribute to slower growth and tougher lending.*

Despite regulators finalising macroprudential controls that could slash next year's price growth, many home buyers and investors are rushing to complete loan applications. **Simon Letch**

**Duncan Hughes** *Reporter*

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next year's price growth by 65 per cent (from 20 per cent to 7 per cent),





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Another issue challenging the market is house price rises fuelling inflation, which could further destabilise government economic policy and force an even tougher regulatory response on lending. David Plank, head of Australian economics for ANZ, warns about the growing pressure to keep a lid on the growth in underlying inflation as short-term inflation rises to 4.7 per cent, its highest level since 2014.

Two Sydney households are making the most of record prices and buyer demand to escape the lockdown and move to a more relaxed lifestyle near the beach in Queensland.

Michael James, a director of operations for a retail drinks company, is bringing forward his house sale because of COVID-19, soaring local prices and his plans to become a sea-changer.

James is selling his two-storey, three-bedroom terrace home in Enmore, eight kilometres south-west of Sydney's central business district, for an apartment in Coolangatta on Queensland's Gold Coast, where he plans to semi-retire.

address.

He has brought forward his plans by two years because of the favourable selling conditions and to ensure a smooth transition to his next home.

Wayne Twomey and his partner Michael Ferrell have also decided to sell their whole-floor, two-bedroom, two-bathroom apartment in Sydney's inner-city Darlinghurst.



Twomey, a retired chief financial officer for a leading financial services company, and Ferrell, owner of a nearby homewares shop, are retiring to a property in Noosa on the Sunshine Coast, north of Brisbane.

Their plans for a six-month retirement holiday in Europe were cancelled after COVID-19 travel restrictions.







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Twomey switched from a private sale to auction after online advertising generated a "massive response" with more than 2500 online hits in two days.

"There's so much interest and such a dearth of property," he says. "I decided to go the full hog and hold an auction."

## Catch-up season

Property specialists claim a rush is on across the market as sellers are encouraged by agents to accelerate marketing campaigns to cash in on huge demand and record prices for quality properties.

"This is catch-up time," says Emma Bloom, a director of buyers' agent Morrell and Koren, about the delayed start to the nation's peak real estate selling season.

Spring sales traditionally start at the beginning of September and continue through to Christmas.

For the past two years, this has been delayed by COVID-19 lockdowns, particularly in Melbourne, until October and has continued into the new year.



This weekend, national auctions are up by more than 20 per cent and have more than doubled in Melbourne to about 780 compared with the

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Patrick Bright, a Sydney-based buyers' agent, says there has been a sharp turnaround in demand and supply of properties being offered for auction since the NSW state government signalled that some restrictions would be lifted in October.

## Regulatory threat

Economists, however, flag lower property price growth when the macroprudential tightening reduces lending and begins to squeeze the property market.

Shane Oliver, chief economist of AMP Capital, which has $190 billion under management, says: "We are assuming that national home price growth will slow to around 7 per cent next year from around 20 per cent this year as a result of deteriorating affordability weighing on first home buyer demand and the assumption that macroprudential controls will be introduced.

"If the latter does not happen, then we are likely to have to revise up our house price forecasts."

Brendan Coates, economist at the Grattan Institute, says the biggest threat to property buyers and sellers are the proposed curbs on lending. "That will have a bigger impact on prices because buyers won't immediately know how much they can borrow and sellers will be unsure about how much they can get. There's a chance it will cause a rush of buyers and sellers," Coates says.

The price growth is being driven by record-low mortgage rates, home buyer incentives, economic and jobs recovery, pent-up demand, activity associated with a desire to "escape from the city" and an element of FOMO (fear of missing out) at auctions, say economists.







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macroprudential controls in 2014, with more than 20 per cent of new loans going to borrowers with debt-to-income ratios above six times.

Eliza Owen, CoreLogic's head of research, says sales of Sydney dwellings in the year to August increased by an "extraordinary" 42 per cent on the previous year. House prices have increased by more than 18 per cent in the past 12 months.

New housing loans granted on a debt-to-income ratio of six times or more stood at about 22 per cent in the June quarter, up from 19 per cent in the previous quarter and 16 per cent from the same time last year, according to CoreLogic.

Vanessa Rader, Ray White's head of research, says lenders approved loans totalling more than $32 billion during July, which is double the lending for May last year and about $10 billion higher than the previous peak during the 2017 property boom.

Lenders are offering headline rates below 2 per cent and other incentives to encourage borrowers, a Canstar analysis of top rates and deals reveals.

Some lenders, such as Westpac, are sharpening their deals by extending the offer period for $3000 refinance cashbacks and cutting 20 basis points off some residential investment, interest-only loans.

## Impact on prices

Mortgage broker Chris Foster-Ramsay, principal of Foster Ramsay Finance, says borrowers will rush to have their loans approved to beat the deadline for the regulatory crackdown.

Expected controls are intended to manage financial stability risks and typically involve limiting debt and tightening lending standards. APRA is

AMP's Oliver adds: "This time around, investors are playing a lesser role in the property boom so macroprudential controls should be aimed at owner occupiers."

Economists say the measures being considered include:

- Introducing lower loan-to-value (LVR) ratios for loan applicants. "That means you need a bigger deposit," says Foster-Ramsay. "It means you might have to save more. Alternatively, buyers can tap the Bank of Mum and Dad for support, or seek a family guarantee loan," he says. Those considering family funds should seek legal and financial advice to prevent the possibility of disputes. LVRs are usually higher for high-cost dwellings and lower for riskier postcodes, such as mining towns and some inner-city suburbs.
- Imposing a bigger interest rate buffer when assessing new loan serviceability. This is based on an applicant's disposable income. Two buyers on the same income could be assessed differently based on their weekly, monthly, annual commitments, such as school fees and personal loans. It will also depend on whether someone is seeking lower repayment interest-only or principal-and-interest loans. "You might need to revise spending and lifestyle," warns Foster-Ramsay. More lenders will be targeting "liar loans" issued on exaggerated income and understated expenses that can undermine underwriting standards and increase borrower vulnerability to sharp economic corrections. Many lenders are also expected to replace generic declarations of basic expenses with specific and itemised tracking.







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Woollahra mansion, recently sold in an off-market deal for $45 million, which agents claim was a benchmark price for a Sydney trophy home with no view of the harbour.

## Seller spike

Data from Ray White Real Estate, the nation's largest real estate company, reveals a spike in the number of prospective sellers who have signed up with an agent as lockdown conditions ease.

The number of sellers ready to sell nationally with the agent during the past month compared with the same period last year has increased by more than 13 per cent to about 6000.

Activity in Victoria/Tasmania has increased by about 50 per cent and NSW and the ACT are up by about 6 per cent, according to Ray White analysis. Other states and territories are at the same levels as last year.

"There's strong demand for family homes," says Karen Firth, a real estate agent for Bourkes in Perth. "But there are a lot of apartments for sale and you can negotiate."



Paul Moran, principal of Moran Partners Financial Planning, believes short-term supply chain bottlenecks caused by COVID-19 lockdowns are forcing up prices of goods and services, and that the broader economy is

AMP's Oliver adds: "In normal times, higher interest rates would be warranted to help slow the property market but this is not possible given the weakness and uncertainty hanging over the rest of the economy."

Some sorts of properties, such as family homes, are considered good hedges against inflation, assuming rising interest rates don't cause repayment problems, say economists.

But other types – including offices, retail buildings and other commercial properties – can fall in value if owners can't increase rents to match rising interest rates.



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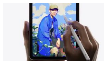

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