

The Week In Real Estate



Big Four Act in National Interest

For once the Big Four banks are acting with a social conscience, passing on the full RBA interest rate reduction. This follows the RBA's decision to drop the official interest rate 25 basis points to 0.5%.

Normally the major banks hold back at least five basis points, knowing that each basis point not passed on to borrowers will lift profits by about \$10 million a year, says the Australian Financial Review. This time the big four have all matched the RBA's cut for home loans.

AFR columnist Tony Boyd says: "In the past, the banks have argued they must balance the interests of all stakeholders when considering how to adjust their loan rates. They were willing to cop the political backlash in the expectation it would all blow over in a few days.

"But this time around, there was no wriggle room. Prime Minister Scott Morrison had gone out strongly talking up the national interest and Treasurer Josh Frydenberg had been on the phone to the big bank CEOs.

"The last thing the banks want is a solvency crisis in their loan books caused by any businesses short on cash flow. The banks are also concerned about community expectations."

Quote of the Week

"Historically rate cuts have always been followed by more investors coming into property. I expect it will be the same this time ... Mortgage rates for new customers are very, very low. It's very, very cheap money."

Economist Pete Wargent, co-founder of AllenWargent Property Buyers



Lowest Mortgage Rates in History

The Reserve Bank's historically low official interest rate of 0.5% could see investors returning to the housing market.

RateCity trackers show that mortgage rates dropped as low as 2.44% immediately after the RBA announcement with the Big Four banks – ANZ, CBA, Westpac and NAB – all passing on the rate cut in full, triggering falls across the entire loan spectrum.

RateCity research director Sally Tindall says Westpac and CBA have committed to variable rates under 3% while ANZ dropped its rate for investors by 0.35 percentage points, more than it did for owner occupiers (0.25 points). Fixed rates have also been impacted with ING rolling out a 3-year fixed rate of 2.49% – a record low – and BankVic offering owner-occupier principal and interest borrowers 2- and 3-year fixed deals at 2.5%. Tindall says: "With one more cash rate cut likely, we could see both fixed and variable rates fall even further, as banks jostle for home-owners' mortgages."

Media reports have suggested that housing demand "will hit red hot levels" as the cheapest mortgages in Australian history hit the market.





House Buyers Shrug Off Fears

Determined house hunters have continued to indulge in spirited bidding at auctions, resulting in strong clearance rates and showing property buyers are generally unconcerned about the coronavirus.

CoreLogic's national auction commentator Kevin Brogan says: "The strong clearance rates are clearly telling us that people are still actively participating in the market."

Sydney performed strongly, returning a clearance rate of 83% from 811 auctions. The previous week Sydney held a higher number of auctions (1,087) and returned a lower clearance rate of 77%.

Canberra had an 83% success rate against 24 properties sold at auction.

Brisbane's auction rate was low at 52%, though 1,005 properties were sold privately.

"Whenever there is stock market volatility or other things going on in the economy, people run back to real estate because they know money tends to be safe in good blue-chip real estate ... and with low interest rates, people can see money is cheap and readily available," says Upper North Shore agent David Walker.

Unit Completions Delayed by Virus

Completions of residential development projects could be delayed by up to six months as shipments of building materials from China are held up due to the coronavirus outbreak.

If there's delay in obtaining the materials from China, builders may have to source those materials somewhere else which will push back the completion dates. This would also postpone bank settlements.

Brian Seidler, executive director of Master Builders Association for NSW, says some members are already advising clients about the possible delays.

"Some of our members are telling their clients that the projects could be delayed because of unavoidable shipment issues from China," he says. "They are asking clients for extensions to complete the project."

Builders can re-specify materials to be sourced locally, providing local businesses are able to cope with the increase in demand.

The biggest issue is going to be windows – all glass and all windows come from China while 90% of ceramic tiles are also made in China.

Prices Growing In All Markets

Property prices continued to grow in seven of the eight capital cities in February, shows the CoreLogic RP Data Daily Home Value Index. In the past three months, house prices have risen in all eight cities and also in all the state regional markets.

Previous struggler Perth showed a turnaround during February, recording an uplift of 0.3% in its housing prices. This means Darwin was the only capital with falling dwelling prices in February - but it recorded a rise for the three months to 1 March.

Year-on-year, Sydney houses leads the growth at 12%, followed by Melbourne (11%) while Canberra and Hobart have both grown 5%.

Units prices in Sydney, Melbourne, Adelaide, Hobart, Canberra, Perth and Brisbane are all trending upwards, while there is also noticeable uplift in most of the regional unit markets.

Compared to a year ago, Melbourne unit prices are 10.5% higher, Sydney is up 7% and Hobart around 5%.

CoreLogic also found that Hobart remains Australia's tightest rental market. CoreLogic head of research Tim Lawless says Hobart has the strongest rental yields.

