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Tighter access hits new homes

Finance

Larry Schlesinger

New homes sales fell 4.4 per cent in May to be down 12.8 per cent from the peak in December, as buyers struggled to obtain financing from the major banks and migration slowed, according to the Housing Industry Association (HIA).

"The first half of 2018 has seen a renewed downward trend in new house sales," said Tim Reardon, HIA's principal economist.

"Access to finance has become the barrier to ongoing growth in home sales. The availability of credit has tightened over the past 12 months with banks responding to the decline in house prices and the banking royal commission by limiting lending to new home buyers," Mr Reardon said.

Alongside a decline in the sale of new homes, the housing market overall is slowing with Corelogic figures showing a 7.7 per cent decline in settlements over the year to May.

New house sales declined in all five markets covered by the *HIA New Home Sales Report*, which is based on a monthly survey of the largest volume home builders.

The largest reduction occurred in NSW (-6.8 per cent) followed by Queensland (-5.0 per cent), Victoria (-4.6 per cent), Western Australia (-2.4 per cent) and South Australia (-0.2 per cent).

Adding to the slowdown in home sales has been a decline in migration due to tighter visa restrictions with the HIA figures showing a fall in new home sales in Melbourne – the country's biggest housing lot market.

A slowdown in sales in Melbourne is also a factor in a recent surge in lot prices, which are up 27 per cent over the past 12 months, according to May figures from project marketers Red23, pushing the price of a new home to well over $500,000.

The latest Red23 report shows Melbourne's median land growth area land price fell 0.6 per cent in May to $350,500, the first fall since the beginning of 2017.

"Sales rates are tempering across the board – largely driven by retail supply with no municipality performing better than another. Stage releases are taking longer to sell down," said Red23 head of research Andrew Perkins.

Mr Reardon said the new home market in Melbourne had been "exceptionally strong over a number of years and we are now seeing a very modest slowdown in activity."

"While market conditions are slowing in Melbourne, building activity will continue to be solid given the very large volume of work still in the pipeline. The impact of the tighter constraints on finance will ease over the year," he said.

"In fact we are expecting detached house starts to rise slightly in 2018 following the 2.8 per cent decline that occurred in 2017.

"Beyond that temporary lift, we expect the downturn in detached house building to properly take root in 2019 – and house sales appear to be providing a very early indication of this occurring," Mr Reardon said.

Falling prices lift hopes of young home buyers

Upgrading

Duncan Hughes

Neda Tesic and Michael Raward are among young professionals whose plans to upgrade their home could be a saviour of the nation's slowing property market.

Neda and Michael, both 33, are plan- moving into a smaller place, and 600,000 upgraders and some 130,000 first-time buyers.

"There are twice as many wanting to sell as buy," he said. "If I was an upgrader I'd be happy to sit and wait."

For Neda and Michael falling property prices, low auction clearance rates, growing pessimism about the market outlook and rumours of forced sales are

Geelong and Coast offer easier gains

Affordability

Su-Lin Tan

Regional housing markets with strong infrastructure investment will be the next places to buy, with "low-hanging fruits" in major capital cities mostly gone, property experts say.

While homebuyers may be excited by rising prices in late-bloomer capital markets like Canberra and Hobart, they have already "missed the boat" on these markets just as they have with Sydney and Melbourne which are slowing down.

Instead, places like Geelong in Victoria or Nowra in NSW may offer some easier capital gains.

Private financier Development Finance Partners, which lends to many developers, draws a strong link between infrastructure spending and residential capital growth, and says the places to invest in are local government areas that will benefit most from the federal government's infrastructure spending as detailed in the May budget.

These are Nowra and Western Sydney in NSW; north-east Melbourne; Monash, Baxter and Geelong in Victoria; the Sunshine Coast, Moreton Bay and Ipswich in Queensland; and Bridgewater in Tasmania, said DFP principal Matthew Royal.

"The historical impact of infrastructure spending on property values is undeniable," Mr Royal said.

"High immigration levels drive popning to upgrade their two-bedroom apartment in Richmond, a fashionable inner suburb 3 kilometres south-east of Melbourne, into a nearby house.

Some market pundits claim demand from upgraders, who are property buyers looking for a bigger, better home, and first home buyers will replace investors squeezed out of the market by tougher lending conditions.

"First buyers and upgraders are offsetting the known weaker parts of the market, which are owner-occupiers who are trying to take on too much leverage, as well as investors," said Brendan Sproules, Citi's head of Australian bank research.

"At present, it appears these cohorts are relatively evenly balanced, but we still expect the market to continue to slow further over time."

However, Martin North, principal of Digital Finance Analytics, estimates there are about 1.2 million downsizers wanting to sell, or release equity by encouraging after years of price rises.

"We started looking in this area about a year ago when the market was highly competitive and prices rose about $300,000," said Neda, who works for an information technology company. "For us a slowing market means the outlook is improving. We feel there is less competition."

Citi said upgraders re-leveraging are expected to feature over the next two to three years, particularly if house prices continue to weaken.

First-time home buyers growth, encouraged by generous grants and concessions from anxious state governments, has jumped from about 8 per cent to around 13 per cent.

Owner-occupier refinance commitments began to take off in the second quarter last year and are growing around 8.6 per cent, Citi analysis shows. Lenders are competing for borrowers with steady incomes, big deposits and transparent expenses by offering lower

Michael Raward and Neda Tesic aim to upsize from an apartment. PHOTO: EDDIE JIM

interest rates, rebates and generous discounts, overseas trips and travel points.

But they are rejecting interest-only applicants with low deposits while tightening credit conditions on existing borrowers wanting drawdown lines of credit on home equity or switches to principal and interest.

Credit growth is about twice the rate compared to the last time residential prices slipped in 2012. Citi believes growth is unlikely to stop listed banks losing market share to competitors.

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ulation growth and this spills into the urbanisation of new land.

"It's infrastructure that enables access to property that, initially, is more affordable than houses and units in big cities.

"Affordability then acts as a magnet for further population growth which, in time, forces more infrastructure spending.

"There are many factors at work in property markets ... in every case, it is infrastructure investment that largely enables opportunities for change and development."

CoreLogic senior research analyst Cameron Kusher agrees that regional areas will outpace capital cities, albeit at a slower pace, and names Geelong, Bendigo, Ballarat and the Sunshine Coast as ones to watch.

As for Hobart and Canberra, which is tracking stronger than Sydney or Melbourne, the "horse has already bolted", Mr Kusher said.

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