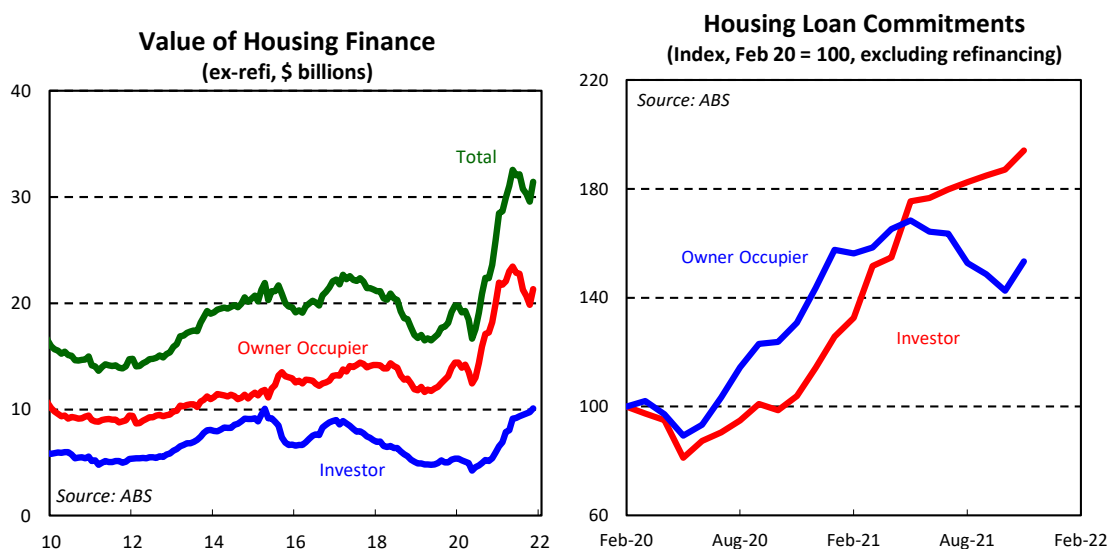


Friday, 14 January 2022

## Housing Finance

### Owner-Occupiers Jump as Lockdowns Lift

- Housing lending, excluding refinancing, rose 6.3% in November, following three months of declines related to the Delta lockdowns.
- The increase was led by lending to owner-occupiers, which rose 7.6% in November. This was the first increase in six months. The uptick coincided with the easing of restrictions. NSW and Victoria experienced the strongest owner-occupier lending growth amongst the states, rising 9.6% and 9.7% in November, respectively.
- The number of lending approvals for first home buyers also rose for the first time since January 2021, despite ongoing affordability constraints.
- Meanwhile, new lending to investors reached a new record high, climbing 3.8% in the month. This marks the fastest monthly growth since May and the 13th consecutive monthly increase.
- The macroprudential tightening announced in recent months came into effect in November. The measures do not appear to have significantly weighed on new lending, consistent with the guidance from regulators that the tightening was likely to only have a modest impact.
- New lending will be supported by low interest rates, robust housing demand and a recovering economy. However, affordability pressures and rising fixed interest rates are growing headwinds. We also cannot rule out a further tightening in macroprudential policy.
- As Omicron surges, there is elevated uncertainty around the near-term economic outlook. While there are no mandated lockdowns, many have self-selected to limit their movements, or have entered mandatory isolation due to skyrocketing case numbers. This adds to uncertainty regarding demand for housing credit over the start of 2022.



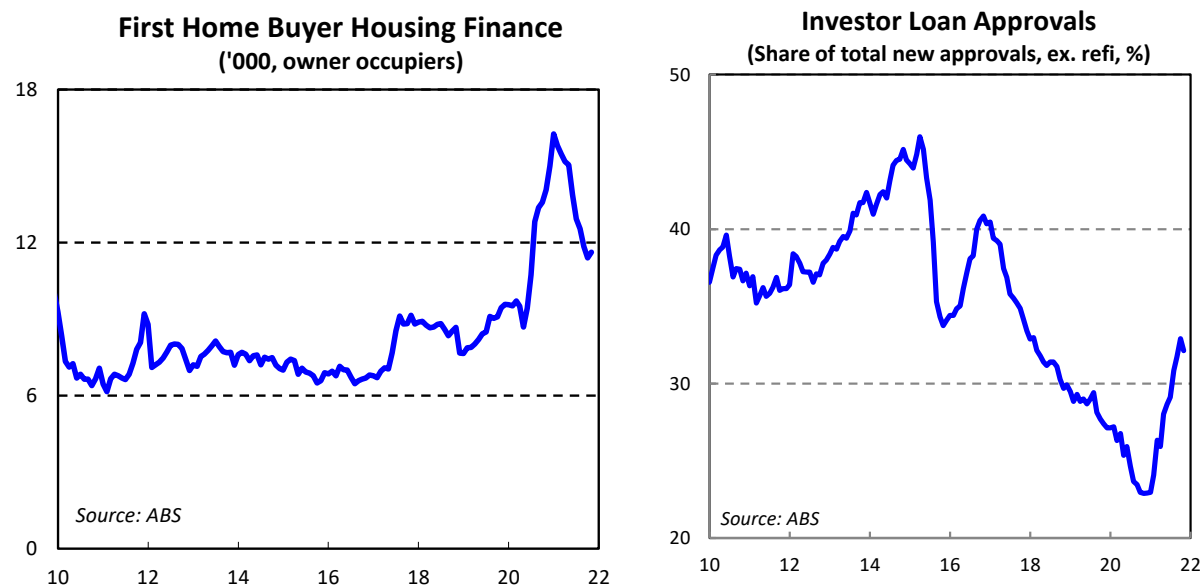
Housing lending, excluding refinancing, rose 6.3% in November, following three months of declines related to the Delta lockdowns.

The increase was led by lending to owner-occupiers, which rose 7.6% in November. This was the first increase in six months, and the fastest monthly growth since January 2021. The uptick coincided with the easing of restrictions. NSW and Victoria experienced the strongest owner-occupier lending growth amongst the states, rising 9.6% and 9.7% in November, respectively.

New lending to owner-occupiers had skyrocketed over the year to May 2021, notching up a record in the month. Since then, lending to owner-occupiers had consistently declined alongside mounting affordability pressures driven by the fastest growth in dwelling prices in more than three decades. However, while lending to owner-occupiers is 9.0% below its May peak, it remains over 50% above pre-pandemic levels.

The number of lending approvals for first home buyers also rose for the first time since January 2021, despite ongoing affordability constraints. Lending to first home buyers had been supported by low interest rates and Federal and state government incentive programs, such as HomeBuilder, over 2020 and early-2021.

Meanwhile, new lending to investors reached a new record high, climbing 3.8% in the month to be 86.9% higher over the year. This marks the fastest monthly growth since May and the 13<sup>th</sup> consecutive increase in investor lending. Investor loan approvals as a share of total approvals edged slightly lower, to 32.1%, remaining well below the 46.0% peak in 2015.



The Australian Prudential Regulation Authority (APRA) tightened macroprudential rules in recent months, increasing the loan serviceability buffer from 2.5 percentage points to 3.0 percentage points. This measure came into effect from November. The impact of the measure has been muddied by the easing of lockdown restrictions in NSW and Victoria, however it does not appear to have significantly weighed on lending in the month. This is consistent with APRA's guidance that the measure would only have a modest impact.

### States and Territories

Lending to owner-occupiers rose across most of the country in November. Outside of NSW and Victoria, lending also rose sharply in the NT (33%) and ACT (21.4%) although these series are volatile. Lending was also up in Queensland (5.4%), SA (4.0%) and WA (0.4%). Owner-occupier lending edged lower in Tasmania (-0.6%).

Investor lending increased across all of the states, led by NSW (7.8%) followed by Queensland (5.0%), Victoria (3.6%), SA (3.6%), Tasmania (2.5%) and WA (2.4%). Lending dropped off in the NT and ACT, although these series are choppy month to month.

### **Outlook**

Housing lending benefitted from a temporary boost in November as Delta lockdowns lifted across our largest states. New lending will continue to be supported by low interest rates, robust housing demand and a recovering economy. However, there are headwinds which will impact housing lending over the medium term. Notably, affordability pressures and rising fixed interest rates will weigh on demand for housing credit. We also cannot rule out the possibility of a further tightening in macroprudential policy.

As Omicron surges, there is elevated uncertainty around the near-term economic outlook. While there are no mandated lockdowns, many have self-selected to limit their movements, or have entered mandatory isolation due to skyrocketing case numbers. This adds to uncertainty regarding demand for housing credit over the start of 2022.

**Matthew Bunny, Economist**

Ph: (02) 8254 0023

## Contact Listing

### Chief Economist

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

### Economist

Matthew Bunny  
Matthew.bunny@banksa.com.au  
(02) 8254 1316

### Senior Economist

Jarek Kowcza  
Jarek.kowcza@banksa.com.au  
0481 476 436

### Associate Economist

Jameson Coombs  
jameson.coombs@banksa.com.au  
(02) 8254 0030

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